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Operating leases	25.1	5.8	5.2	4.2	3.8	2.3	3.8
Purchase obligations (2)	167.0	144.1	13.2	8.8	0.3	0.3	0.3
Claim liabilities (3)	377.9	284.6	61.5	7.3	8.3	5.8	10.4
Estimated obligation for future policy benefits (4)	301.8	54.0	52.5	51.3	49.8	48.1	46.1
	$1,031.7	$524.8	$151.5	$101.9	$67.0	$61.3	$125.2

(1) As of December 31, 2012, our long-term borrowings consist of our 6.6% senior unsecured notes payable, our 6.7% senior unsecured notes payable, a $25.0 million arrangement to sell securities under repurchase agreements which requires quarterly interest payments at 1.96%, and loans payable to a commercial bank. Total contractual obligations for long-term borrowings include the current maturities of long term debt. For the 6.6% and 6.7% senior unsecured notes and the arrangement to sell securities under repurchase agreements, scheduled interest payments were included in the total contractual obligations for long-term borrowings until the maturity dates of the notes in 2020, 2021, and 2015 respectively. We may redeem the senior unsecured notes starting five years after issuance; however no redemption is considered in this schedule. The interest payments related to our loan payable were estimated using the interest rate applicable as of December 31, 2012. The actual amount of interest payments of the loan payable will differ from the amount included in this schedule due to the loan's variable interest rate structure. See the "Financing and Financing Capacity" section for additional information regarding our long-term borrowings.

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(2) Purchase obligations represent payments required by us under material agreements to purchase goods or services that are enforceable and legally binding and where all significant terms are specified, including: quantities to be purchased, price provisions and the timing of the transaction. Other purchase orders made in the ordinary course of business for which we are not liable are excluded from the table above. Estimated pension plan contributions amounting to $7.0 million were included within the total purchase obligations. However, this amount is an estimate which may be subject to change in view of the fact that contribution decisions are affected by various factors such as market performance, regulatory and legal requirements and plan funding policy.

(3) Claim liabilities represent the amount of our claims processed and incomplete as well as an estimate of the amount of incurred but not reported claims and loss-adjustment expenses. This amount does not include an estimate of claims to be incurred subsequent to December 31, 2012. The expected claims payments are an estimate and may differ materially from the actual claims payments made by us in the future. Also, claim liabilities are presented gross, and thus do not reflect the effects of reinsurance under which $39.1 million of reserves had been ceded at December 31, 2012.

(4) Our life insurance segment establishes, and carries as liabilities, actuarially determined amounts that are calculated to meet its policy obligations when a policy matures or surrenders, an insured dies or becomes disabled or upon the occurrence of other covered events. A significant portion of the estimated obligation for future policy benefits to be paid included in this table considers contracts under which we are currently not making payments and will not make payments until the occurrence of an insurable event not under our control, such as death, illness, or the surrender of a policy. We have estimated the timing of the cash flows related to these contracts based on historical experience as well as expectations of future payment patterns. The amounts presented in the table above represent the estimated cash payments for benefits under such contracts based on assumptions related to the receipt of future premiums and assumptions related to mortality, morbidity, policy lapses, renewals, retirements, disability incidence and other contingent events as appropriate for the respective product type. All estimated cash payments included in this table are not discounted to present value nor do they take into account estimated future premiums on policies in-force as of December 31, 2012 and are gross of any reinsurance recoverable. The $301.8 million total estimated cash flows for all years in the table is different from the liability of future policy benefits of $276.6 million included in our audited consolidated financial statements principally due to the time value of money. Actual cash payments to policyholders could differ significantly from the estimated cash payments as presented in this table due to differences between actual experience and the assumptions used in the estimation of these payments.

Off-Balance Sheet Arrangements

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

Restriction on Certain Payments by the Corporation's Subsidiaries

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

Since 2009, local insurers and health organizations are required by the Insurance Code to submit to the Commissioner of Insurance Puerto Rico RBC reports following the NAIC's RBC Model Act and accordingly are subject to the relevant measures and actions as required based on their capital levels in relation to the determined risk based capital.

In February 2010 Insurance Regulation No. 92 ("Rule 92") entered into effect establishing guidelines to implement the RBC requirements. Rule 92 provides for a gradual compliance and a five-year transition period, including dividend payment restriction and exemption to comply with requirements.

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As of December 31, 2012, our insurance subsidiaries were in compliance with such minimum capital requirements.

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

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

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

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Solvency Regulation

To monitor the solvency of the operations, the BCBSA requires us and TSS to comply with certain specified levels of RBC. RBC is designed to identify weakly capitalized companies by comparing each company's adjusted surplus to its required surplus (RBC ratio). The RBC ratio reflects the risk profile of insurance companies. At December 31, 2012, both TSM and TSS estimated RBC ratio was above the minimum BCBSA RBC requirement of 200% and the 375% of RBC level required by the BCBSA to avoid monitoring. Effective January 1, 2013 AH began offering BCBSA branded products, as a smaller controlled affiliate AH is in compliance with the minimum BCBSA requirement of 100% RBC.

Other Contingencies

Legal Proceedings

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

Based on the information currently known by our management, in its opinion, the outcomes of such pending investigations and legal proceedings are not likely to have a material adverse effect on our financial position, results of operations and cash flows. However, given the inherent unpredictability of these matters, it is possible that an adverse outcome in certain matters could, from time to time, have an adverse effect on our operating results and/or cash flows. See "Item 3. Legal Proceedings."

Guarantee Associations

To operate in Puerto Rico, insurance companies, such as our insurance subsidiaries, are required to participate in guarantee associations, which are organized to pay policyholders contractual benefits on behalf of insurers declared to be insolvent. These associations levy assessments, up to prescribed limits, on a proportional basis, to all member insurers in the line of business in which the insolvent insurer was engaged. During the years ended December 31, 2012, 2011 and 2010, no assessment or payment was made in connection with insurance companies declared insolvent. It is the opinion of management that any possible future guarantee association assessments will not have a material effect on our operating results and/or cash flows, although there is no ceiling on these payment obligations.

Pursuant to the Puerto Rico Insurance Code, our property and casualty insurance subsidiary is a member of Sindicato de Aseguradores para la Suscripción Conjunta de Seguros de Responsabilidad Profesional Médico-Hospitalaria (SIMED). The syndicate was organized for the purpose of underwriting medical-hospital professional liability insurance. As a member, the property and casualty insurance segment shares risks with other member companies and, accordingly, is contingently liable in the event the syndicate cannot meet their obligations. During 2012, 2011 and 2010, no assessment or payment was made for this contingency. It is the opinion of management that any possible future syndicate assessments will not have a material effect on our operating results and/or cash flows, although there is no ceiling on these payment obligations.

In addition, pursuant to Article 12 of Rule LXIX of the Insurance Code, our property and casualty insurance subsidiary is a member of the Compulsory Vehicle Liability Insurance Joint Underwriting Association (the Association). The Association was organized in 1997 to underwrite insurance coverage of motor vehicle property damage liability risks effective January 1, 1998. As a participant, the segment shares the risk proportionally with other members based on a formula established by the Insurance Code. During the years 2012, 2011 and 2010, the

Association distributed the Company a dividend based on the good experience of the business amounting to $1.2 million in 2012 and $1.3 million in 2011 and 2010.

V. Critical Accounting Estimates

Our consolidated financial statements and accompanying notes included in this Annual Report on Form 10-K have been prepared in accordance with GAAP applied on a consistent basis. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We continually evaluate the accounting policies and estimates we use to prepare our consolidated financial statements. In general, management's estimates are based on historical experience and various other assumptions it believes to be reasonable under the circumstances. The following is an explanation of our accounting policies considered most significant by management. These accounting policies require us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information is known. Actual results could differ materially from those estimates.

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

Claim Liabilities

Claim liabilities by segment as of December 31, 2012 were as follows:

(Dollar amounts in millions)

Managed care	$284.4
Property and casualty insurance	87.9
Life insurance	44.6
Consolidated	$416.9

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

We recognize claim liabilities as follows:

Managed Care Segment

At December 31, 2012, claim liabilities for the managed care segment amounted to $284.4 million and represented 68.2% of our total consolidated claim liabilities and 21.9% of our total consolidated liabilities.

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

unpaid claims, historical completion factors and payment patterns are applied to incurred and paid claims for the most recent twelve months and compared to the prior twelve month period. Incurred claims for the most recent twelve months also take into account recent claims expense levels and health care trend levels (trend factors). Using all of the above methodologies, our actuaries determine based on the different circumstances the unpaid claims as of the end of period.

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

Circumstances to be considered in developing our best estimate of reserves include changes in enrollment, utilization levels, unit costs, mix of business, benefit plan designs, provider reimbursement levels, processing system conversions and changes, claim inventory levels, regulatory and legislative requirements, claim processing patterns, and claim submission patterns. A comparison or prior period liabilities to re-estimated claim liabilities based on subsequent claims development is also considered in making the liability determination. In the actuarial process, the methods and assumptions are not changed as reserves are recalculated, but rather the availability of additional paid claims information drives our changes in the re-estimate of the unpaid claim liability. Changes in such development are recorded as a change to current period benefit expense. The re-estimates or recasts are done monthly for the previous four calendar quarters. On average, about 91% of the claims are paid within three months after the last day of the month in which they were incurred and about 4% are within the next three months, for a total of 95% paid within six months after the last day of the month in which they were incurred.

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

As described above, completion factors and claims trend factors can have a significant impact on determination of our claim liabilities. The following example provides the estimated impact on our December 31, 2012 claim liabilities, assuming the indicated hypothetical changes in completion and trend factors:

(Dollar amounts in millions)

Completion Factor 1 (Decrease) Increase		Claims Trend Factor 2 (Decrease) Increase	
In completion factor	In unpaid claim liabilities	In claims trend factor	In unpaid claim liabilities
-0.6%	$10.5	0.75%	$10.8
-0.4%	$7.0	0.50%	$7.3
-0.2%	$3.5	0.25%	$3.6
0.2%	($3.5)	-0.25%	($3.6)
0.4%	($6.9)	-0.50%	($7.3)
0.6%	($10.4)	-0.75%	($10.8)

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

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

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

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

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

(Dollar amounts in millions)	2011	2010	2009
Years ended December 31,			
Total incurred claims:			
As reported (1)	$1,612.1	$1,503.3	$1,512.1
On a retrospective basis	1,607.5	1,495.6	1,506.5
Variance	$4.6	$7.7	$5.6
Variance to total incurred claims as reported	0.3 %	0.5 %	0.4 %

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

Management expects that substantially all of the development of the 2012 estimate of medical claims payable will be known during 2013 and that the variance of the total incurred claims on a retrospective basis when compared to reported incurred claims will be similar to the prior years.

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

Through the management of our cash flows and investment portfolio.

In the Commercial business we have the ability to increase the premium rates throughout the year in the monthly renewal process, when renegotiating the premiums for the following contract year of each group as they become due. We consider the actual claims trend of each group when determining the premium rates for the following contract year.

We have available short-term borrowing facilities that from time to time address differences between cash receipts and disbursements.

For additional information on our credit facilities, see section “Financing and Financing Capacity” of this Item.

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Life Insurance Segment

At December 31, 2012, claim liabilities for the life insurance segment amounted to $44.6 million and represented 10.7% of total consolidated claim liabilities and 3.4% of our total consolidated liabilities.

The claim liabilities related to the life insurance segment are based on methods and underlying assumptions in accordance with GAAP. The estimate of claim liabilities for this segment is based on the amount of benefits contractually determined for reported claims, and on estimates based on past experience modified for current trends, for unreported claims. This estimate relies on observations of ultimate loss experience for similar historical events.

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

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

Property and Casualty Insurance Segment

At December 31, 2012, claim liabilities for the property and casualty insurance segment amounted to $87.9 million and represented 21.1% of the total consolidated claim liabilities and 6.8% of our total consolidated liabilities.

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

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

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

Key assumptions are based on the consideration that past emergence of paid losses and case reserves is credible and likely indicative of future emergence and ultimate losses. A key assumption is the expected loss ratio for the current accident year. This expected loss ratio is generally determined through a review of the loss ratios of prior accident

years and expected changes to earned pricing, loss costs, mix of business, and other factors that are expected to impact the loss ratio for the current accident year. Another key assumption is the development patterns for paid and reported losses (also referred to as the loss emergence and settlement patterns). The reserves for unreported claims for each year are determined after reviewing the indications produced by each actuarial projection method, which, in turn, rely on the expected paid and reported development patterns and the expected loss ratio for that year.

At December 31, 2012, the actuarial reserve range determined by the actuaries was from $87 million to $97 million. Management reviews the results of the reserve estimates in order to determine any appropriate adjustments in the recording of reserves. Adjustments to reserve estimates are made after management's consideration of numerous factors, including but not limited to the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indications in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, changes are made more quickly to more mature accident years and less volatile lines of business. Varying the net expected loss ratio by +/-1% in all lines of business for the six most recent accident years would increase/decrease the claims incurred by approximately $5.8 million.

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Liability for Future Policy Benefits

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

Liabilities for future policy benefits for whole life and term insurance products and active life reserves for accident and health products are computed by the net level premium method, using interest assumptions ranging from 4.90% to 5.75% and withdrawal, mortality, morbidity and maintenance expense assumptions appropriate at the time the policies were issued (or when a block of business was purchased, as applicable). Accident and health unpaid claim reserves are stated at amounts determined by estimates on individual claims and estimates of unreported claims based on past experience. Liabilities for universal life policies are stated at policyholder account values before surrender charges. Deferred annuity reserves are carried at the account value.

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

Deferred Policy Acquisition Costs and Value of Business Acquired

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

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

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

date of each contract's issued (or purchase, in the case of VOBA). These schedules are based upon several actuarial assumptions that are uncertain, are reviewed annually and are modified if necessary. The most significant of these assumptions are anticipated universal life claims, investment yield rates and contract persistency. Based upon the most recent actuarial reviews of all of the assumptions, we do not currently anticipate material changes to the level of these amortization schedules.

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

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Impairment of Investments

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

Our process for identifying and reviewing invested assets for other-than temporary impairments during any quarter includes the following:

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

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

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

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

Management continues to review the investment portfolios under our impairment review policy. Given the current market conditions and the significant judgments involved, there is a continuing risk that further declines in fair value may occur and additional material other-than-temporary impairments may be recorded in future periods.

During the year ended December 31, 2012, there were no realized losses associated with other-than-temporary impairments, as compared to the $0.3 million and $3.0 million recognized in 2011 and 2010, respectively, on fixed income, equity securities and perpetual preferred stocks classified as available for sale. As of December 31, 2012, the

investment in securities of $1.3 billion is classified as either available-for-sale or held-to-maturity and consists of high-quality investments. Of this amount, $934.9 million, or 73.4%, are securities in obligations of U.S. government-sponsored enterprises, U.S. Treasury securities, obligations of the Commonwealth of Puerto Rico, municipal securities, obligations of U.S. states and its political subdivisions, mortgage backed and collateralized mortgage obligations that are U.S. agency-backed. The remaining $339.6 million, or 26.6%, are corporate fixed income securities, equity securities and mutual funds. The gross unrealized gains and losses as of December 31, 2012 of the available-for-sale and held-to-maturity portfolios amounted to $121.3 million and $0.4 million, respectively.

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The impairment analysis as of December 31, 2012 indicated that none of the securities whose carrying amount exceeded its estimated fair value was considered other-than-temporarily impaired as of that date; however, several factors are beyond management's control, such as the following: financial condition of the issuer, movement of interest rates, specific situations within corporations, among others. Over time, the economic and market environment may provide additional insight regarding the estimated fair value of certain securities, which could change management's judgment regarding impairment. This could result in realized losses related to other-than-temporary declines being charged against future income.

Our fixed maturity securities are sensitive to interest rate and credit risk fluctuations, which impact the fair value of individual securities. Our equity securities are sensitive to equity price risks, for which potential losses could arise from adverse changes in the value of equity securities. For additional information on the sensitivity of our investments, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in this Annual Report on Form 10-K.

A detail of the gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2012 and 2011 is included in note 3 to the audited consolidated financial statements.

Allowance for Doubtful Receivables

We estimate the amount of uncollectible receivables in each period and establish an allowance for doubtful receivables. The allowance for doubtful receivables amounted to $24.4 million and $23.9 million as of December 31, 2012 and 2011, respectively. The amount of the allowance is based on the age of unpaid accounts, information about the customer's creditworthiness and other relevant information. The estimates of uncollectible accounts are revised each period, and changes are recorded in the period they become known. In determining the allowance, we use predetermined percentages applied to aged account balances, as well as individual analysis of large accounts. These percentages are based on our collection experience and are periodically evaluated. A significant change in the level of uncollectible accounts would have a material effect on our results of operations.

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

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

Goodwill and Other Intangible Assets

Our consolidated goodwill and other intangible assets at December 31, 2012 were $27.8 million and $22.9 million, respectively. At December 31, 2011 the consolidated goodwill and other intangible assets were $25.4 million and $33.3 million, respectively. The goodwill and other intangible assets balance for both years were primarily related to AH. At December 31, 2012 the AH goodwill and other intangible assets were $25.0 millin and $18.9 million, respectively. At December 31, 2011 the AH goodwill and other intangible assets were $25.0 million and $26.0 million, respectively.

We follow FASB guidance for business combinations and goodwill and other intangible assets, which specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill. Under

the guidance, goodwill is not amortized but is tested for impairment at least annually. Furthermore, goodwill is allocated to reporting units for purposes of the annual impairment test. Our impairment tests require us to make assumptions and judgments regarding the estimated fair value of our reporting units, which include goodwill and other intangible assets.

As required by FASB guidance, we completed our annual impairment tests of existing goodwill during the fourth quarter of 2012 and 2011. These tests involve the use of estimates related to the fair value of the reporting unit and require a significant degree of management judgment and the use of subjective assumptions. Certain interim impairment tests are also performed when potential impairment indicators exist or other changes in our business occur. The result of the impairment test performed in 2012 indicated that the fair value of the goodwill reporting unit exceeded its carrying value by approximately 6%.

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

The income approach is developed using assumptions about future premiums, expected claims, MLR, operating expenses and net income derived from our internal planning process and historical trends. These estimated future cash flows are then discounted. Our assumed discount rate is based on our industry's weighted average cost of capital. Market valuations are based on observed multiples of certain measures including membership, revenue and EBITDA (earnings before interest, taxes, depreciation and amortization) and include market comparisons to publicly traded companies in our industry. It assumes the effective implementation of measures to contain the utilization and cost trends. Events or changes in circumstances, including a decrease in membership, an increase in MLR and/or operating expenses, could result in goodwill impairment.

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

Other Significant Accounting Policies

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

VI. Recently Issued Accounting Standards

In October 2010 the FASB issued guidance to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This guidance specifies that the following costs incurred in the acquisition of new and renewal contracts should be capitalized: (1) Incremental direct costs of contract acquisition. Incremental direct costs are those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. (2) Certain costs related directly to the following acquisition activities performed by the insurer for the contract: a. Underwriting, b. Policy issuance and processing, c. Medical and inspection, and d. Sales force contract selling. Advertising costs should be included in deferred acquisition costs only if the capitalization criteria in the direct-response advertising guidance in Subtopic 340-20, Other Assets and Deferred Costs— Capitalized Advertising Costs, are met. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. The Corporation adopted this guidance in January 1, 2012; there was no significant impact on our financial position or results of operations as a result of the adoption.

In June 2011, the FASB issued guidance to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. The FASB required reclassification adjustments from

accumulated other comprehensive income to be measured and presented by income statement line item in net income and also in other comprehensive income on the face of the financial statement. The Corporation adopted this guidance in January 1, 2012 electing to present the components of comprehensive income in two separate but consecutive financial statements.

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In May 2011, the FASB issued guidance that changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements that result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards (“IFRS”). For many of the requirements, FASB does not intend the amendments in this guidance to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB’s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The Corporation adopted this guidance in January 1, 2012, with no significant impact on our financial position or results of operations as a result of the adoption. However, we have added disclosure requirements related to fair value measurements in Note 7, "Fair Value Measurements".

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

In August 27, 2012 and October 1, 2012, the FASB issued guidance to make generally non-substantive technical corrections to certain codification topics, remove inconsistencies and outdated provisions, clarify the FASB’s intent and amend or delete various Securities and Exchange Commission (“SEC”) paragraphs. In particular, the updates consist of:

Technical corrections and amendments as part of the FASB’s standing agenda to review and improve the Accounting Standards Codification,

Conforming amendments related to fair value measurements, in accordance with Topic 820,

Reflect the issuance of the SEC’s Staff Accounting Bulletin No. 114, Revisions and Rescissions of Portions of the Interpretative Guidance Included in the Codification of Staff Accounting Bulletins, and

Reflect the issuance of the SEC Final Rulemaking Release No. 33-9250, Technical Amendments to Commission Rules and Forms Related to the FASB's Accounting Standards Codification.

This guidance is effective for fiscal periods beginning after December 15, 2012. The adoption of this guidance is not expected to have an impact on the Corporation’s financial position or results of operations.

In February 5, 2013 the FASB issued guidance to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. In particular, the guidance requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This guidance applies to all entities that issue financial statements that are presented in conformity with GAAP and that report items of other comprehensive income. The guidance is effective prospectively

for reporting periods beginning after December 15, 2012. The adoption of this guidance is not expected to have an impact on our financial position or results of operations.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks that are inherent in our financial instruments, which arise from transactions entered into in the normal course of business. We are also subject to additional market risk with respect to certain of our financial instruments. We must effectively manage, measure, and monitor the market risk associated with our invested assets and interest rate sensitive liabilities. We have established and implemented comprehensive policies and procedures to minimize the effects of potential market volatility.

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Market Risk Exposure

We have exposure to market risk mostly in our investment activities. For purposes of this disclosure, “market risk” is defined as the risk of loss resulting from changes in interest rates and equity prices. Analytical tools and monitoring systems are in place to assess each one of the elements of market risks.

Our investment portfolio consists mainly of investment grade fixed income and a smaller portion is held in equity securities. The investment portfolio is conservative, diversified across and within asset classes, and has the following objectives, in order of importance: capital preservation, liquidity, income generation and capital appreciation. The interest rate risk of both our investments and liabilities and regularly evaluated.

The investment portfolio is centrally managed by investment professionals and decisions are taken based on the guidelines and limitations described in the Statement of Investment Policy and Guidelines (SIPG) and the Puerto Rico Insurance Code. The SIPG is established by the Investment and Financing Committee of the Board of Directors (the “Investment and Financing Committee”). The Investment and Financing Committee establishes guidelines to ensure the SIPG is adhered to and any exception must be reported to the Investment and Financing Committee.

Our investment portfolio is predominantly comprised of obligations of U.S. government-sponsored enterprises, U.S. Treasury securities, obligations of state and political subdivisions, obligations of the Commonwealth of Puerto Rico, municipal securities and obligations of U.S. states and its political subdivisions and obligations from U.S. and Puerto Rican government instrumentalities. These investments comprised approximately 73.3% of the total portfolio value as of December 31, 2012, of which 18.5% consisted of U. S. agency-backed mortgage backed securities and collateralized mortgage obligations. The remaining balance of the investment portfolio consists of mutual funds and investments in corporate bonds.

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

- the market risk information is limited by the assumptions and parameters established in creating the related sensitivity analysis, including the impact of prepayment rates on mortgages; and

- the model assumes that the composition of assets and liabilities remains unchanged throughout the year.

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

Interest Rate Risk

Our exposure to interest rate changes results from our significant holdings of fixed maturity securities. We are also exposed to interest rate risk from our variable interest secured term loan and from our policyholder deposits.

Equity Price Risk

Our investments in equity securities expose us to equity price risks, for which potential losses could arise from adverse changes in the value of equity securities.

Risk Measurement

Our available-for-sale and held-to-maturity securities are a source of market risk. As of December 31, 2012 approximately 83.5% and 100.0% of our investments in available-for-sale and held-to-maturity securities, respectively, consisted of fixed income securities. The remaining balance of the available-for-sale portfolio is comprised of equity securities. Available-for-sale securities are recorded at fair value and changes in the fair value of these securities, net of the related tax effect, are excluded from operations and are reported as a separate component of other comprehensive income (loss) until realized. Held-to-maturity securities are recorded at amortized cost and adjusted for the amortization or accretion of premiums or discounts. The fair value of the investments in our available-for-sale and held-to-maturity portfolios is exposed to both interest rate risk and equity price risk.

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Interest Rate Risk

We have evaluated the net impact to the fair value of our fixed income investments of a significant one-time change in interest rate risk using a combination of both statistical and fundamental methodologies. From these shocked values a resultant market price appreciation/depreciation can be determined after portfolio cash flows are modeled and evaluated over instantaneous 100, 200 and 300 basis point rate shifts. Techniques used in the evaluation of cash flows include Monte Carlo simulation through a series of probability distributions over 200 interest rate paths. Necessary prepayment speeds are compiled using Salomon Brothers Yield Book, which sources numerous factors in deriving speeds, including but not limited to: historical speeds, economic indicators, street consensus speeds, etc. Securities evaluated by us under these scenarios include mortgage pass-through certificates and collateralized mortgage obligations of U.S. agencies, and private label structures, provided that cash flows information is available. The following table sets forth the result of this analysis for the years ended December 31, 2012 and 2011.

(Dollar amounts in millions)

Change in Interest Rates	Expected Fair Value	Amount of Decrease	% Change
December 31, 2012:			
Base Scenario	$ 1,065.1		
+100bp	1,007.4	(57.7)	(5.4)%
+200bp	954.2	(110.9)	(10.4)%
+300bp	901.3	(163.8)	(15.4)%
December 31, 2011:			
Base Scenario	$ 1,004.0		
+100bp	950.4	(53.6)	(5.3)%
+200bp	897.7	(106.3)	(10.6)%
+300bp	844.5	(159.5)	(15.9)%

We believe that an interest rate shift in a 12-month period of 100 basis points represents a moderately adverse outcome, while a 200 basis point shift is significantly adverse and a 300 basis point shift is unlikely given historical precedents. Although we classify 99.5% of our fixed income securities as available-for-sale, our cash flows and the intermediate duration of our investment portfolio should allow us to hold securities until maturity, thereby avoiding the recognition of losses, should interest rates rise significantly.

Equity Price Risk

Our equity securities in the available-for-sale portfolio are comprised of mutual funds whose underlying assets are comprised of domestic equity securities, international equity securities and higher risk fixed income instruments. The fixed income mutual funds invest in loan participations, high yield debt and emerging market debt The fixed income funds invest primarily in debt securities issued or guaranteed by corporations, financial institutions and governmental entities that are either unrated or have non-investment grade ratings from either Standard & Poor’s or Moody’s.

Our investments in mutual funds exposes us to equity price risk and, because of the underlying assets included in these mutual funds, result in an indirect exposure to credit risk. We manage this indirect exposure to credit risk by closely monitoring the performance of these mutual funds.

Assuming an immediate decrease of 10% in the market value of our equity securities as of December 31, 2012 and 2011, the hypothetical loss in the fair value of these investments would have been approximately $21.0 million and $14.4 million, respectively.

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Other Risk Measurement

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

Item 8. Financial Statements and Supplementary Data

Financial Statements

For our audited consolidated financial statements as of December 31, 2012 and 2011 and for each of the three years ended December 31, 2012 see Index to financial statements in "Item 15. Exhibits and Financial Statements Schedules" to this Annual Report on Form 10-K.

Selected Quarterly Financial Data

	2012				
	March 31	June 30	September 30	December 31	Total
Revenues					
Premiums earned, net	$547,304	$582,246	$ 565,607	$ 558,197	$2,253,354
Administrative service fees	27,524	27,768	27,181	27,637	110,110
Net investment income	11,192	11,562	11,595	12,441	46,790
Other operating revenues	1,047	1,105	1,206	998	4,356
Total operating revenues	587,067	622,681	605,589	599,273	2,414,610
Net realized investment gains	1,678	458	21	3,040	5,197
Other (loss) income, net	1,070	(154)	598	682	2,196
Total revenues	589,815	622,985	606,208	602,995	2,422,003
Benefits and expenses					
Claims incurred	475,644	496,249	485,495	462,471	1,919,859
Operating expenses	102,506	102,268	104,604	115,795	425,173
Total operating costs	578,150	598,517	590,099	578,266	2,345,032
Interest expense	2,558	2,667	2,956	2,418	10,599
Total benefits and expenses	580,708	601,184	593,055	580,684	2,355,631
Income before taxes	9,107	21,801	13,153	22,311	66,372
Income tax expense (benefit)					
Current	3,028	3,744	1,344	5,278	13,394
Deferred	(1,421)	1,041	126	(668)	(922)
Total income taxes	1,607	4,785	1,470	4,610	12,472
Net income	7,500	17,016	11,683	17,701	53,900
Less: Net loss attributable to	14	19	32	67	132
non-controlling interest	$7,514	$17,035	$ 11,715	$ 17,768	$54,032
Basic net income per share	$0.27	$0.60	$ 0.41	$ 0.63	$1.91
Diluted net income per share	$0.26	$0.60	$ 0.41	$ 0.63	$1.90

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	2011				
	March 31	June 30	September 30	December 31	Total
Revenues					
Premiums earned, net	$485,271	$509,843	$ 525,371	$ 533,983	$2,054,468
Administrative service fees	6,595	6,962	5,210	19,692	38,459
Net investment income	11,798	12,654	12,061	11,713	48,226
Total operating revenues	503,664	529,459	542,642	565,388	2,141,153
Net realized investment gains	5,893	6,995	5,569	140	18,597
Net unrealized investment losseson trading securities	(1,141)	(119)	(6,007)	-	(7,267)
Other (loss) income, net	14	466	(169)	405	716
Total revenues	508,430	536,801	542,035	565,933	2,153,199
Benefits and expenses					
Claims incurred	402,573	427,941	442,399	443,341	1,716,254
Operating expenses	82,711	85,882	83,623	95,374	347,590
Total operating costs	485,284	513,823	526,022	538,715	2,063,844
Interest expense	3,127	2,957	2,499	2,272	10,855
Total benefits and expenses	488,411	516,780	528,521	540,987	2,074,699
Income before taxes	20,019	20,021	13,514	24,946	78,500
Income tax expense (benefit)					
Current	(153)	2,147	1,161	3,439	6,594
Deferred	9,802	788	740	2,540	13,870
Total income taxes	9,649	2,935	1,901	5,979	20,464
Net income	$10,370	$17,086	$ 11,613	$ 18,967	$58,036
Basic net income per share	$0.36	$0.59	$ 0.40	$ 0.67	$2.02
Diluted net income per share	$0.36	$0.59	$ 0.40	$ 0.67	$2.01

During the three months ended December 31, 2011, we recorded certain out-of-period adjustments that affected our consolidated results of operations of each of the previous three quarters as well as those of our Managed Care segment, related to the distribution of premium revenue within our businesses, the accounting of pharmacy rebates and the effect of considering certain claims paid data in the estimation of claim liabilities. The effect of these out-of-period adjustments in previous periods were the following:

The consolidated and Managed Care premiums would have increased by $0.4 million and $1.6 million during the three months ended March 31, 2011 and June 30, 2011, respectively.

The consolidated and Managed Care claims incurred would have increased by $2.4 million during the three months ended March 31, 2011 and decreased by $0.7 and $1.8 million during the three months ended June 30, 2011 and September 30, 2011, respectively.

As a result of these out-of-period adjustments the consolidated income before tax was overstated by $2.0 million during the three months ended March 31, 2011 and understated by $2.3 million and $1.8 million during the three months ended June 30, 2011 and September 30, 2011, respectively.

We assessed the impact of the adjustments needed to account for these errors in their appropriate periods and concluded that recording these adjustment in the consolidated results of operations in the three months ended December 31, 2011, rather than restating the quarters affected, was quantitatively and qualitatively not material to the

results of operations, financial position, or cash flows corresponding to each of the quarters that comprise the year ended December 31, 2011. These out-of-period adjustments involve only reported quarterly results and, because they were corrected during the last quarter of the year, have no effect on the results of operations, financial position and cash flows for the year ended December 31, 2011.

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

There have been no changes in or disagreements with our independent registered public accounting firm on accounting or financial disclosures.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this Annual Report on Form 10-K, management, under the supervision and with the participation of the chief executive officer and the chief financial officer, conducted an evaluation of the effectiveness of our "disclosure controls and procedures" as of the end of this period (as such term is defined under Exchange Act Rule 13a-15(e)) of the Corporation and its subsidiaries, except for the health clinic company in which we acquired a controlling interest in January 2012. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the issuer in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to management, including the chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility that judgments in decision-making can be faulty, and breakdowns as a result of simple errors or mistake. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on this evaluation, our chief executive officer and chief financial officer have concluded that as of December 31, 2012, which is the end of the period covered by this Annual Report on Form 10-K, our disclosure controls and procedures are effective to a reasonable level of assurance.

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

Management's Report on Internal Control Over Financial Reporting

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

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the Company are being made only in accordance

with authorizations of management and directors of the Company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the consolidated financial statements.

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

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Management, under the supervision and with the participation of the chief executive officer and chief financial officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012 based on criteria described in the "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that assessment and those criteria, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2012 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with GAAP.

Management has excluded from its assessment of internal control over financial reporting as of December 31, 2012 a Puerto Rico health clinic because it was acquired by the Company in a purchase business combination during 2012. This health clinic is a majority owned subsidiary whose total assets and total revenues represent 0.9% and 0.2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2012.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

No changes in our internal control over financial reporting (as such term is defined in the Exchange Act Rule 13a-15(f)) occurred during the fiscal quarter ended December 31, 2012 that materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The Board has established a code of business conduct and ethics that applies to our employees, agents, independent contractors, consultants, officers and directors. The complete text of the Code of Business Conduct and Ethics is available at the Corporation's website at www.triplesmanagement.com.

The information required by this Item is incorporated herein by reference from our definitive Proxy Statement for our 2013 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference from our definitive Proxy Statement for our 2013 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

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

The information required by this Item is incorporated herein by reference from our definitive Proxy Statement for our 2013 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days

after the end of our last fiscal year.

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Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference from our definitive Proxy Statement for our 2013 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference from our definitive Proxy Statement for our 2013 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

Item 15. Exhibits and Financial Statements Schedules

Financial Statements and Schedules

Financial Statements	Description
F-1	Report of Independent Registered Public Accounting Firm
F-2	Consolidated Balance Sheets as of December 31, 2012 and 2011
F-3	Consolidated Statements of Earnings for the years ended December 31, 2012, 2011 and 2010
F-4	Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010
F-5	Consolidated Statements of Stockholders' Equity for the years ended December 31, 2012, 2011 and 2010
F-6	Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010
F-7	Notes to Consolidated Financial Statements – December 31, 2012, 2011 and 2010

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

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

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Exhibits

Exhibits	Description
3(i)(a)	Amended and Restated Articles of Incorporation (incorporated herein by reference to Exhibit 3(i)(d) to TSM's Annual Report on Form 10-K for the Year Ended December 31, 2007 (File No. 001-33865).
3(i)(b)	Amendment to Article Tenth of the Amended and Restated Articles of Incorporation of Triple-S Management Corporation, incorporated by reference to Exhibit 3(i)(b) to TSM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33865).
3(i)(c)	Articles of Incorporation of Triple-S Management Corporation, as currently in effect, incorporated by reference to Exhibit 3(i)(c) to TSM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33865).
3(ii)	Amended and Restated Bylaws of Triple-S Management Corporation (incorporated herein by reference to Exhibit 3.1 to TSM's Current Report on Form 8-K filed on June 11, 2010 (File No. 001-33865)).
10.1	Agreement between the Puerto Rico Health Insurance Administration and TSS to administer the provision of the physical health component of the miSalud program in designated service regions (incorporated herein by reference to Exhibit 10.1 to TSM's Current Report on Form 8-K filed on October 24, 2012 (File No. 001-33865)).
10.2	Amendment to the Medicare Platino Contract (Medicare Wraparound) between the Puerto Rico Health Insurance Administration and TSS for the provision of wraparound coverage to health insurance dual-eligible population until December 31, 2011 (incorporated herein by reference to Exhibit 10.4 to TSM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (File No. 001-33865)).
10.3	Federal Employees Health Benefits Contract (incorporated herein by reference to Exhibit 10.5 to TSM's General Form of Registration of Securities on Form 10 (File No. 001-33865)).
10.4	Credit Agreement with FirstBank Puerto Rico in the amount of $41,000,000 (incorporated herein by reference to Exhibit 10.6 to TSM's General Form of Registration of Securities on Form 10 (File No. 001-33865)).
10.5	Credit Agreement with FirstBank Puerto Rico in the amount of $20,000,000 (incorporated herein by reference to Exhibit 10.7 to TSM's General Form of Registration of Securities on Form 10 (File No. 001-33865)).
10.6	Non-Contributory Retirement Program (incorporated herein by reference to Exhibit 10.8 to TSM's General Form of Registration of Securities on Form 10 (File No. 001-33865)).
10.7	Blue Shield License Agreement by and between BCBSA and TSM, including revisions, if any, adopted by Member Plans through the November 19, 2009 meeting (incorporated herein by reference to Exhibit 10.11 to TSM's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-33865)).

10.8	Blue Shield Controlled Affiliate License Agreement by and among BCBSA, TSS and TSM, including revisions, if any, adopted by Member Plans through the November 19, 2009 meeting (incorporated herein by reference to Exhibit 10.12 to TSM's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-33865)).
10.9	Blue Cross License Agreements by and between BCBSA and TSM, including revisions, if any, adopted by Member Plans through the November 19, 2009 meeting (incorporated herein by reference to Exhibit 10.13 to TSM's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-33865)).

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Exhibits	Description
10.10	Blue Cross Controlled Affiliate License Agreement by and among BCBSA, TSS and TSM, including revisions, if any, adopted by Member Plans through the November 19, 2009 meeting (incorporated herein by reference to Exhibit 10.14 to TSM’s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-33865)).
10.11	6.30% Senior Unsecured Notes Due September 2019 Note Purchase Agreement, dated September 30, 2004, between Triple-S Management Corporation, Triple-S, Inc. and various institutional accredited investors (incorporated herein by reference to Exhibit 10.15 to TSM’s Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-33865)).
10.12	6.60% Senior Unsecured Notes Due December 2020 Note Purchase Agreement, dated December 15, 2005, between Triple-S Management Corporation and various institutional accredited investors (incorporated herein by reference to Exhibit 10.16 to TSM’s Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-33865)).
10.13	6.70% Senior Unsecured Notes Due December 2021 Note Purchase Agreement, dated January 23, 2006, between Triple-S Management Corporation and various institutional accredited investors (incorporated herein by reference to Exhibit 10.1 to TSM’s Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2006 (File No. 001-33865)).
10.14	TSM 2007 Incentive Plan, dated October 16, 2007 (incorporated herein by reference to Exhibit C to TSM’s 2007 Proxy Statement (File No. 001-33865)).
10.15	Software License and Maintenance Agreement between Quality Care Solutions, Inc, and TSS dated August 16, 2007 (incorporated herein by reference to Exhibit 10.15 to TSM’s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33865)).
10.16	Addendum Number One to the Software License and Maintenance Agreement between Quality Care Solutions, Inc, and TSS (incorporated herein by reference to Exhibit 10.15(a) to TSM’s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33865)).
10.17	Addendum Number Two to the Software License and Maintenance Agreement between Quality Care Solutions, Inc, and TSS (incorporated herein by reference to Exhibit 10.15(b) to TSM’s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33865)).
10.18	Addendum Number Three to the Software License and Maintenance Agreement between Quality Care Solutions, Inc, and TSS (incorporated herein by reference to Exhibit 10.15(c) to TSM’s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33865)).
10.19	Work Order Agreement between Quality Care Solutions, Inc. and TSS (incorporated herein by reference to Exhibit 10.16 to TSM’s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33865)).
10.20	Employment Contract between Ramón M. Ruiz Comas and TSM (incorporated herein by reference to Exhibit 10.1 to TSM’s Current Report on Form 8-K filed on November 5, 2012 (File No. 001-33865)).
11.1	

Statement re computation of per share earnings; an exhibit describing the computation of the earnings per share 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 II of this Annual Report on Form 10-K.

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Exhibits	Description
21	List of Subsidiaries of TSM (incorporated herein by reference to Exhibit 21 to TSM's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-33865)).
23.1*	Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP).
31.1*	Certification of the President and Chief Executive Officer required by Rule 13a-14(a)/15d-14(a).
31.2*	Certification of the Vice President of Finance and Chief Financial Officer required by Rule 13a-14(a)/15d-14(a).
32.1*	Certification of the President and Chief Executive Officer required pursuant to 18 U.S. Section 1350.
32.2*	Certification of the Vice President of Finance and Chief Financial Officer required pursuant to 18 U.S. Section 1350.
99.1	Incentive Compensation Recoupment Policy.

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

* Filed herein.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities 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

By: /s/ Ramón M. Ruiz-Comas Ramón M. Ruiz-Comas President and Chief Executive Officer	Date:	March 14, 2013
By: /s/ Amílcar Jordán-Pérez Amílcar Jordán-Pérez Vice President of Finance and Chief Financial Officer	Date:	March 14, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Luis A. Clavell-Rodríguez Luis A. Clavell-Rodríguez Director and Chairman of the Board	Date:	March 14, 2013
By: /s/ Adamina Soto-Martínez Adamina Soto-Martínez Director and Vice-Chairman of the Board	Date:	March 14, 2013
By: /s/ Jesús R. Sánchez-Colón Jesús R. Sánchez-Colón Director and Assistant Secretary of the Board	Date:	March 14, 2013
By: /s/ Carmen Ana Culpeper-Ramírez Carmen Ana Culpeper-Ramírez Director	Date:	March 14, 2013
By: /s/ Jorge L. Fuentes-Benejam Jorge L. Fuentes-Benejam Director	Date:	March 14, 2013

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By:	/s/ Antonio F. Faría-Soto Antonio F. Faría-Soto Director	Date:	March 14, 2013
By:	/s/ Manuel Figueroa-Collazo Manuel Figueroa-Collazo Director	Date:	March 14, 2013
By:	/s/ Cari M. Domínguez Cari M. Domínguez Director	Date:	March 14, 2013
By:	/s/ Juan E. Rodríguez-Díaz Juan E. Rodríguez-Díaz Director	Date:	March 14, 2013
By:	/s/ Francisco J. Toñarely-Barreto Francisco J. Toñarely-Barreto Director	Date:	March 14, 2013

Triple-S Management Corporation
Consolidated Financial Statements
December 31, 2012, 2011, and 2010

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 15 present fairly, in all material respects, the financial position of Triple-S Management Corporation and its subsidiaries (the Company) at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

PricewaterhouseCoopers LLP, 254 Muñoz Rivera, Oriental Center, Suite 900, San Juan, PR 00918
T:(787) 754 9090, F:(787) 766 1094, www.pwc.com/us

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

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded from its assessment of internal control over financial reporting as of December 31, 2012 a Puerto Rico health clinic because it was acquired by the Company in a purchase business combination during 2012. We have also excluded this health clinic from our audit of internal control over financial reporting. This health clinic is a majority owned subsidiary whose total assets and total revenues represent 0.9% and 0.2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2012.

/s/ PricewaterhouseCoopers LLP

San Juan, Puerto Rico
March 12, 2013

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec. 1, 2013
Stamp E48074 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

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Triple-S Management Corporation
Consolidated Balance Sheets
December 31, 2012 and 2011
(dollar amounts in thousands, except per share data)

Assets	2012	2011
Investments and cash		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost of $963,463 in 2012 and $913,555 in 2011)	$1,059,761	$988,894
Equity securities (cost of $185,514 in 2012 and $138,167 in 2011)	209,722	144,408
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value of $5,377 in 2012 and $14,252 in 2011)	5,000	13,684
Policy loans	6,161	6,307
Cash and cash equivalents	89,564	71,834
Total investments and cash	1,370,208	1,225,127
Premium and other receivables, net	292,197	287,184
Deferred policy acquisition costs and value of business acquired	168,657	155,788
Property and equipment, net	92,423	81,872
Deferred tax asset	33,548	28,707
Goodwill	27,766	25,397
Other assets	74,545	76,502
Total assets	$2,059,344	$1,880,577
Liabilities and Stockholders' Equity		
Claim liabilities	416,918	391,259
Liability for future policy benefits	276,570	254,194
Unearned premiums	95,860	94,772
Policyholder deposits	111,692	76,753
Liability to Federal Employees' Health Benefits Program	21,353	19,051
Accounts payable and accrued liabilities	128,580	151,052
Deferred tax liability	32,934	24,603
Short term borrowings	30,000	-
Long term borrowings	101,271	114,387
Liability for pension benefits	82,019	77,547
Total liabilities	1,297,197	1,203,618
Commitments and contingencies		
Stockholders' equity		
Triple-S Management Corporation stockholders' equity		
Common stock Class A, $1 par value. Authorized 100,000,000 shares; issued and outstanding 9,042,809 at December 31, 2012 and 2011	9,043	9,043
Common stock Class B, $1 par value. Authorized 100,000,000 shares; issued and outstanding 19,321,944 and 19,321,524 shares at December 31, 2012 and 2011, respectively	19,322	19,322
Additional paid-in capital	144,677	144,302
Retained earnings	539,761	485,729
Accumulated other comprehensive income, net	49,104	18,563
Total Triple-S Management Corporation stockholders' equity	761,907	676,959

Non-controlling interest in consolidated subsididary	240	-
Total stockholders' equity	762,147	676,959
Total liabilities and stockholders’ equity	$2,059,344	$1,880,577

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

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Triple-S Management Corporation
Consolidated Statements of Earnings
December 31, 2012, 2011 and 2010
(dollar amounts in thousands, except per share data)

	2012	2011	2010
Revenues:			
Premiums earned, net	$2,253,354	$2,054,468	$1,901,100
Administrative service fees	110,110	38,459	39,546
Net investment income	46,790	48,226	49,145
Other operating revenues	4,356	-	-
Total operating revenues	2,414,610	2,141,153	1,989,791
Net realized investment gains (losses):			
Total other-than-temporary impairment losses on securities	-	(257)	(2,997)
Net realized gains, excluding other-than-temporary impairment losses on securities	5,197	18,854	5,529
Total net realized investment gains	5,197	18,597	2,532
Net unrealized investment gains (losses) on trading securities	-	(7,267)	5,433
Other income, net	2,196	716	889
Total revenues	2,422,003	2,153,199	1,998,645
Benefits and expenses:			
Claims incurred	1,919,859	1,716,254	1,596,789
Operating expenses	425,173	347,590	304,995
Total operating costs	2,345,032	2,063,844	1,901,784
Interest expense	10,599	10,855	12,658
Total benefits and expenses	2,355,631	2,074,699	1,914,442
Income before taxes	66,372	78,500	84,203
Income tax expense (benefit):			
Current	13,394	6,594	14,348
Deferred	(922)	13,870	3,054
Total income taxes	12,472	20,464	17,402
Net income	53,900	58,036	66,801
Less: Net loss attributable to non-controlling interest	132	-	-
Net income attributable to Triple-S Management Corporation	$54,032	$58,036	$66,801
Earnings per share attributable to Triple-S Management Corporation			
Basic net income per share	$1.91	$2.02	$2.30
Diluted net income per share	$1.90	$2.01	$2.28

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

Triple-S Management Corporation
Consolidated Statements of Comprehensive Income
December 31, 2012, 2011 and 2010
(dollar amounts in thousands, except per share data)

	2012	2011	2010
Net income	$53,900	$58,036	$66,801
Other comprehensive income (loss), net of tax:			
Net unrealized change in fair value of available for sale securities, net of taxes	34,378	35,394	23,602
Defined benefit pension plan:			
Actuarial loss, net	(3,531)	(21,991)	(6,297)
Prior service credit, net	(306)	(304)	(265)
Total other comprehensive income, net of tax	30,541	13,099	17,040
Comprehensive income	84,441	71,135	83,841
Comprehensive loss attributable to non-controlling interest	132	-	-
Comprehensive income attributable to Triple-S Management Corporation	$84,573	$71,135	$83,841

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

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Triple-S Management Corporation
Consolidated Statements of Stockholders' Equity
December 31, 2012, 2011 and 2010
(dollar amounts in thousands, except per share data)

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Triple-S Management Corporation Stockholders' Equity	Non-controlling Interest in Consolidated Subsidiary	Total Stockholders' Equity
Balance, December 31, 2009	$ 9,043	$ 20,110	$ 159,303	$ 360,892	$ (11,576)	$ 537,772	$ -	$ 537,772
Share-based compensation	-	-	1,878	-	-	1,878	-	1,878
Grant of restricted Class B common stock	-	16	-	-	-	16	-	16
Repurchase and retirement of common stock	-	(353)	(5,882)	-	-	(6,235)	-	(6,235)
Net change in comprehensive income	-	-	-	66,801	17,040	83,841	-	83,841
Balance, December 31, 2010	9,043	19,773	155,299	427,693	5,464	617,272	-	617,272
Share-based compensation	-	173	1,899	-	-	2,072	-	2,072
Cash settlement of options under share-based compensation plan	-	-	(2,420)	-	-	(2,420)	-	(2,420)
Stock issued upon exercise of stock options	-	88	1,191			1,279	-	1,279
Repurchase and retirement of common stock	-	(712)	(11,667)	-	-	(12,379)	-	(12,379)
Net change in comprehensive income	-	-	-	58,036	13,099	71,135	-	71,135
Balance, December 31, 2011	9,043	19,322	144,302	485,729	18,563	676,959	-	676,959
Non-controlling interest related to acquisition of consolidated subsidiary	-	-	-	-	-	-	372	372
Share-based compensation	-	71	2,555	-	-	2,626	-	2,626
Stock issued upon exercise of stock options	-	207	2,794	-	-	3,001	-	3,001
Repurchase and retirement of common stock	-	(278)	(4,974)	-	-	(5,252)	-	(5,252)
Net change in comprehensive income (loss)	-	-	-	54,032	30,541	84,573	(132)	84,441
Balance, December 31, 2012	$ 9,043	$ 19,322	$ 144,677	$ 539,761	$ 49,104	$ 761,907	$ 240	$ 762,147

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

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Triple-S Management Corporation
Consolidated Statements of Cash Flows
December 31, 2012, 2011 and 2010
(dollar amounts in thousands, except per share data)

	2012	2011	2010
Cash flows from operating activities			
Net income	$53,900	$58,036	$66,801
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	24,242	22,229	15,500
Net amortization of investments	6,425	3,912	4,511
Provision (reversal of provision) for doubtful receivables	563	7,837	(5,200)
Deferred tax expense (benefit)	(922)	13,870	3,054
Net realized investment gains	(5,197)	(18,597)	(2,532)
Net unrealized (gains) losses on trading securities	-	7,267	(5,433)
Share-based compensation	2,626	2,072	1,894
Proceeds from trading securities sold			
Equity securities	-	53,066	4,871
Acquisition of securities in trading portfolio			
Equity securities	-	(2,764)	(6,506)
Gain (loss) on sale of property and equipment	17	(13)	6
(Increase) decrease in assets			
Premium and other receivables, net	(4,410)	54,622	(47,648)
Deferred policy acquisition costs and value of business acquired	(12,869)	(9,702)	(6,169)
Deferred taxes	(967)	71	6,658
Other assets	(1,617)	(18,245)	5,223
Increase (decrease) in liabilities			
Claim liabilities	25,659	(11,998)	(236)
Liability for future policy benefits	22,376	17,671	13,904
Unearned premiums	1,088	(4,288)	(10,001)
Policyholder deposits	2,289	1,554	733
Liability to FEHBP	2,302	4,033	2,016
Accounts payable and accrued liabilities	(5,785)	(18,106)	(3,790)
Net cash provided by operating activities	109,720	162,527	37,656

Triple-S Management Corporation
Consolidated Statements of Cash Flows
December 31, 2012, 2011 and 2010
(dollar amounts in thousands, except per share data)

	2012	2011	2010
Cash flows from investing activities			
Proceeds from investments sold or matured			
Securities available for sale			
Fixed maturities sold	$116,718	$240,034	$121,968
Fixed maturities matured	141,266	104,728	175,483
Equity securities sold	53,120	38,022	41,802
Securities held to maturity			
Fixed maturities matured	11,635	1,941	2,587
Acquisition of investments			
Securities available for sale			
Fixed maturities	(313,188)	(265,356)	(337,569)
Equity securities	(98,095)	(129,328)	(21,957)
Securities held to maturity			
Fixed maturities	(2,494)	(755)	(1,050)
Other investments	(206)	(2,500)	(5,000)
Net repayment (disbursements) for policy loans	146	(420)	53
Acquisition of business, net of cash acquired of $816 and $30,070 in the year ended December 31, 2012 and 2011, respectively	(2,685)	(54,680)	-
Net capital expenditures	(12,078)	(16,337)	(19,222)
Net cash used in investing activities	(105,861)	(84,651)	(42,905)
Cash flows from financing activities			
Repurchase and retirement of common stock	(2,299)	(11,289)	(6,235)
Cash settlement of stock options	-	(2,420)	-
Proceeds from exercise of stock options	316	189	-
Change in outstanding checks in excess of bank balances	(19,841)	4,409	281
Repayments of long-term borrowings	(26,955)	(51,640)	(26,367)
Net change in short-term borrowings	30,000	(15,575)	15,575
Proceeds from long-term borrowings	-	-	25,000
Proceeds from annuity contracts	39,709	31,809	10,691
Surrenders of annuity contracts	(7,059)	(6,546)	(9,051)
Net cash provided by (used in) financing activities	13,871	(51,063)	9,894
Net increase in cash and cash equivalents	17,730	26,813	4,645
Cash and cash equivalents			
Beginning of year	71,834	45,021	40,376
End of year	$89,564	$71,834	$45,021

Triple-S Management Corporation
Notes to Consolidated Financial Statements
December 31, 2012, 2011 and 2010
(dollar amounts in thousands, except per share data)

1.Nature of Business

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

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

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

In January 2012, we acquired a controlling interest in a health clinic in Puerto Rico, which we expect to provide additional opportunities to our Managed Care segment.

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

The Company also has two other wholly owned subsidiaries, Interactive Systems, Inc. (ISI) and Triple-C, Inc. (TC). ISI is mainly engaged in providing data processing services to the Company and its subsidiaries. TC was engaged as a third-party administrator for TSS in the administration of the Medicaid business.

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

2.Significant Accounting Policies

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

Basis of Presentation

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

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

Use of Estimates

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

Reclassifications

Certain amounts in the 2011 consolidated financial statements were reclassified to conform to the 2012 presentation.

Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash equivalents of $23,311 and $13,003 at December 31, 2012 and 2011, respectively, consist principally of obligations of government-sponsored enterprises and certificates of deposit with an initial term of less than three months.

Investments

Investment in securities at December 31, 2012 and 2011 consists mainly of obligations of government-sponsored enterprises, U.S. Treasury securities and obligations of U.S. government instrumentalities, obligations of the Commonwealth of Puerto Rico and its instrumentalities, municipal securities, obligations of states of the United States and political subdivisions of the states, corporate bonds, mortgage-backed securities, collateralized mortgage obligations, and equity securities. The Company classifies its debt and equity securities in one of three categories: trading, available for sale, or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Securities classified as held to maturity are those securities in which the Company has the ability and intent to hold the security until maturity. All other securities not included in trading or held to maturity are classified as available for sale.

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

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

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

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

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

A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is

other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, market conditions, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

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

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

Revenue Recognition

a.Managed Care

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

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

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

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

b.Life and Accident and Health Insurance

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

c.Property and Casualty Insurance

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

Allowance for Doubtful Receivables

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

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

In the life and accident and health business deferred acquisition costs consist of commissions and certain expenses related to the production of life, annuity, accident and health, and credit business. In the event that future premiums, in combination with policyholder reserves and anticipated investment income, could not provide for all future maintenance and settlement expenses, the amount of deferred policy acquisition costs would be reduced to provide for such amount. The related amortization is provided over the anticipated premium-paying period of the related policies in proportion to the ratio of annual premium revenue to expected total premium revenue to be received over the life of the policies. Interest is considered in the amortization of deferred policy acquisition cost and value of business acquired. For these contracts interest is considered at a level rate at the time of issue of each contract, 4.90% for 2012, 5.4% to 5.65% for 2011 and 5.4% for 2010, and, in the case of the value of business acquired, at the time of any acquisition. For certain other long-duration contracts, deferred amounts are amortized at historical and forecasted credited interest rates. Expected premium revenue is estimated by using the same mortality and withdrawal assumptions used in computing liabilities for future policy benefits. The method followed in computing deferred policy acquisition costs limits the amount of such deferred costs to their estimated net realizable value. In determining estimated net realizable value, the computations give effect to the premiums to be earned, related investment income, losses and loss-adjustment expenses, and certain other costs expected to be incurred as the premium is earned. Costs deferred on universal life and interest sensitive products are amortized as a level percentage of the present value of anticipated gross profits from investment yields, mortality, expenses and surrender charges. Estimates used are based on the Company's experience as adjusted to provide for possible adverse deviations. These estimates are periodically reviewed and compared with actual experience. When it is determined that future expected experience differs significantly from that assumed, the estimates are revised for current and future issues.

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

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

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

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

Software Development Costs
Costs related to software developed or obtained for internal use that is incurred in the preliminary project stage are expensed as incurred. Once capitalization criteria are met, directly attributable development costs are capitalized and amortized over the expected useful life of the software. Upgrade and maintenance costs are expensed as incurred. During the year ended December 31, 2012 and 2011 the Company capitalized approximately $2,184 and $7,633 associated with the implementation of new software.

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

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

The 2012 annual goodwill impairment test was performed and based on the results of the test no impairment was recorded.

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

The Company contracts with various independent practice associations (IPAs) for certain medical care services provided to some policies subscribers. The IPAs are compensated on a capitation basis. In the Medicaid business and certain MA policies, a portion of the capitation payments is retained to provide for incurred but not reported losses. At December 31, 2012 and 2011, total withholdings and capitation payable amounted to $32,900 and $21,595, respectively, which are recorded as part of the claim liabilities in the accompanying consolidated balance sheets.

Claim liabilities include unpaid claims and loss-adjustment expenses of the life and accident and health business based on a case-basis estimate for reported claims, and on estimates, based on experience, for unreported claims and loss-adjustment expenses. The liability for policy and contract claims and claims expenses has been established to cover the estimated net cost of insured claims.

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

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

Future Policy Benefits
The liability for future policy benefits has been computed using the level-premium method based on estimated future investment yield, mortality, morbidity and withdrawal experience. The interest rate assumption ranges between 4.90% and 5.75% for all years in issue. Mortality has been calculated principally on select and ultimate tables in common usage in the industry. Withdrawals have been estimated principally based on industry tables, modified by Company's experience.

Policyholder Deposits
Amounts received for annuity contracts are considered deposits and recorded as a liability along with the accrued interest and reduced for charges and withdrawals. Interest incurred on such deposits, which amounted to $2,894, $2,003, and $1,688, during the years ended December 31, 2012, 2011, and 2010, respectively, is recorded as interest expense in the accompanying consolidated statements of earnings.

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

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

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

Income Taxes
Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of earnings in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount, that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

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

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

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

assessment is recoverable through either premium taxes or policy surcharges.

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Commitments and Contingencies
Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Recoveries of costs from third parties, which are probable of realization, are separately recorded as assets, and are not offset against the related liability.

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

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

Recently Issued Accounting Standards

In October 2010 the FASB issued guidance to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This guidance specifies that the following costs incurred in the acquisition of new and renewal contracts should be capitalized: (1) Incremental direct costs of contract acquisition. Incremental direct costs are those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. (2) Certain costs related directly to the following acquisition activities performed by the insurer for the contract: a. Underwriting, b. Policy issuance and processing, c. Medical and inspection, and d. Sales force contract selling. Advertising costs should be included in deferred acquisition costs only if the capitalization criteria in the direct-response advertising guidance in Subtopic 340-20, Other Assets and Deferred Costs— Capitalized Advertising Costs, are met. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. The Corporation adopted this guidance in January 1, 2012; there was no significant impact on our financial position or results of operations as a result of the adoption.

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

those fiscal years, beginning on or after December 15, 2011. The FASB required reclassification adjustments from accumulated other comprehensive income to be measured and presented by income statement line item in net income and also in other comprehensive income on the face of the financial statement. The Corporation adopted this guidance in January 1, 2012 electing to present the components of comprehensive income in two separate but consecutive financial statements.

In May 2011, the FASB issued guidance that changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements that result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards (“IFRS”). For many of the requirements, FASB does not intend the amendments in this guidance to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB’s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The Corporation adopted this guidance in January 1, 2012, with no significant impact on our financial position or results of operations as a result of the adoption. However, we have added disclosure requirements related to fair value measurements in Note 9, "Fair Value Measurements".

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

In August 27, 2012 and October 1, 2012, the FASB issued guidance to make generally non-substantive technical corrections to certain codification topics, remove inconsistencies and outdated provisions, clarify the FASB’s intent and amend or delete various Securities and Exchange Commission (“SEC”) paragraphs. In particular, the updates consist of:

- Technical corrections and amendments as part of the FASB’s standing agenda to review and improve the Accounting Standards Codification,
- Conforming amendments related to fair value measurements, in accordance with Topic 820,
- Reflect the issuance of the SEC’s Staff Accounting Bulletin No. 114, Revisions and Rescissions of Portions of the Interpretative Guidance Included in the Codification of Staff Accounting Bulletins, and
- Reflect the issuance of the SEC Final Rulemaking Release No. 33-9250, Technical Amendments to Commission Rules and Forms Related to the FASB's Accounting Standards Codification.

This guidance is effective for fiscal periods beginning after December 15, 2012. The adoption of this guidance is not expected to have an impact on the Corporation’s financial position or results of operations.

In February 5, 2013 the FASB issued guidance to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. In particular, the guidance requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This guidance applies to all entities that issue financial statements that are presented in conformity with GAAP and that report items of other comprehensive income. The guidance is effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this guidance is not expected to have an impact on our financial position or results of operations.

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

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3.Investment in Securities

The amortized cost for debt and equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for available-for-sale, and held-to-maturity securities by major security type and class of security at December 31, 2012 and 2011 were as follows:

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale				
Fixed maturities				
Obligations of government-sponsored enterprises	$ 56,758	$ 4,876	$ -	$ 61,634
U.S. Treasury securities and obligations of U.S. government instrumentalities	39,365	1,848	-	41,213
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	63,470	2,277	(2)	65,745
Municipal securities	529,822	59,106	(165)	588,763
Corporate bonds	106,968	22,899	-	129,867
Residential mortgage-backed securities	20,009	551	(52)	20,508
Collateralized mortgage obligations	147,071	5,129	(169)	152,031
Total fixed maturities	963,463	96,686	(388)	1,059,761
Equity securities				
Common stock	16	993	-	1,009
Mutual funds	185,498	23,256	(41)	208,713
Total equity securities	185,514	24,249	(41)	209,722
Total	$ 1,148,977	$ 120,935	$ (429)	$ 1,269,483

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

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities held to maturity				
Obligations of government-sponsored enterprises	$ 1,793	$ 115	$ -	$ 1,908
U.S. Treasury securities and obligations of U.S. government instrumentalties	623	225	-	848
Residential mortgage-backed securities	450	37	-	487
Certificates of deposits	2,134	-	-	2,134
	$ 5,000	$ 377	$ -	$ 5,377

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

Gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2012 and 2011 were as follows:

	2012								
	Less than 12 months			12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securites available for sale									
Fixed maturities									
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	$ 5,770	$ (2)	1	$ -	$ -	-	$ 5,770	$ (2)	1
Municipal securities	27,426	(165)	10	-	-	-	27,426	(165)	10
Residential mortgage-backed securities	5,892	(52)	2	-	-	-	5,892	(52)	2
Collateralized mortgage obligations	20,894	(169)	6	-	-	-	20,894	(169)	6
Total fixed maturities	59,982	(388)	19	-	-	-	59,982	(388)	19

Equity securities									
Mutual funds	-	-	-	2,708	(41)	1	2,708	(41)	1
Total equity securities	-	-	-	2,708	(41)	1	2,708	(41)	1
Total for securities available for sale	$ 59,982	$ (388)	19	$ 2,708	$ (41)	1	$ 62,690	$ (429)	20

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

The Company regularly monitors and evaluates the difference between the cost and estimated fair value of investments. For investments with a fair value below cost, the process includes evaluating: (1) the length of time and the extent to which the estimated fair value has been less than amortized cost for fixed maturity securities, or cost for equity securities, (2) the financial condition, near-term and long-term prospects for the issuer, including relevant industry conditions and trends, and implications of rating agency actions, (3) the Company's intent to sell or the likelihood of a required sale prior to recovery, (4) the recoverability of principal and interest for fixed maturity securities, or cost for equity securities, and (5) other factors, as applicable. This process is not exact and further requires consideration of risks such as credit and interest rate risks. Consequently, if an investment's cost exceeds its estimated fair value solely due to changes in interest rates, other-than temporary impairment may not be appropriate. Due to the subjective nature of the Company's analysis, along with the judgment that must be applied in the analysis, it is possible that the Company could reach a different conclusion whether or not to record an impairment to a security if it had access to additional information about the investee. Additionally, it is possible that the investee's ability to meet future contractual obligations may be different than what the Company determined during its analysis, which may lead to a different impairment conclusion in future periods. If after monitoring and analyzing impaired securities, the Company determines that a decline in the estimated fair value of any available-for-sale or

held-to-maturity security below cost is other-than-temporary, the carrying amount of the security is reduced to its fair value in accordance with current accounting guidance. The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been purchased on the measurement date of the impairment. For debt securities, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

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

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

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

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

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

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

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

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

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Residential mortgage-backed securities and Collateralized mortgage obligations: The unrealized losses on investments in residential mortgage-backed securities and collateralized mortgage obligations ("CMOs") were mostly caused by fluctuations in interest rates and credit spreads. The contractual cash flows of these securities, other than private CMOs, are guaranteed by a U.S. government-sponsored enterprise. Any loss in these securities is determined according to the seniority level of each tranche, with the least senior (or most junior), typically the unrated residual tranche, taking any initial loss. The investment grade credit rating of our securities reflects the seniority of the securities that the Corporation owns. The Corporation does not consider these investments other-than-temporarily impaired because the decline in fair value is attributable to changes in interest rates and not credit quality, the Corporation does not intend to sell the investments and it is more likely than not that the Corporation will not be required to sell the investments before recovery of their amortized cost basis, which may be maturity, and because the Corporation expects to collect all contractual cash flows. The Company also has investments in private CMOs with amortized cost amounting to $32,648 and $12,234 in 2012 and 2011, respectively (fair value of $35,362 and $12,768, respectively).

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

Mutual Funds: The security that has been in an unrealized loss position more than twelve months has experienced an improvement in fair value during 2012. All other funds have been in an unrealized loss position for less than twelve months. These positions are not considered other-than-temporarily impaired because the Company does not have the intent to sell these investments, and the Company has the ability to hold the investments until a market price recovery.

Maturities of investment securities classified as available for sale and held to maturity were as follows at December 31, 2012:

	Amortized Cost	Estimated Fair Value
Securities available for sale		
Due in one year or less	$ 19,765	$ 20,015
Due after one year through five years	180,732	189,542
Due after five years through ten years	169,881	188,538
Due after ten years	426,005	489,128
Residential mortgage-backed securities	20,009	20,508
Collateralized mortgage obligations	147,071	152,030
	$ 963,463	$ 1,059,761
Securities held to maturity		
Due in one year or less	$ 2,134	$ 2,134
Due after five years through ten years	1,793	1,908
Due after ten years	624	849
Residential mortgage-backed securities	449	486

	$ 5,000	$ 5,377

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

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Investments with an amortized cost of $3,857 and $3,977 (fair value of $4,053 and $4,057) at December 31, 2012 and 2011, respectively, were deposited with the Commissioner of Insurance to comply with the deposit requirements of the Insurance Code of the Commonwealth of Puerto Rico (the Insurance Code). An instrument with an amortized cost of $565 as of December 31, 2010 (estimated fair value of $575 at December 31, 2010) that matured during the fiscal year 2011 was held by the Commissioner of Insurance and in process of reinvestment as of December 31, 2011. Investment with an amortized cost of $500 (fair value of $500) at December 31, 2012 and 2011, was deposited with the USVI Division of Banking and Insurance.

Information regarding realized and unrealized gains and losses from investments for the years ended December 31, 2012, 2011, and 2010 is as follows:

	2012	2011	2010
Realized gains (losses)			
Fixed maturity securities			
Securities available for sale			
Gross gains from sales	$ 1,988	$ 11,190	$ 1,947
Gross losses from sales	(460)	(258)	(505)
Gross losses from other-than-temporary impairments	-	-	(95)
Total fixed maturity securities	1,528	10,932	1,347
Equity securities			
Trading securities:			
Gross gains from sales	-	11,757	1,083
Gross losses from sales	-	(5,286)	(961)
	-	6,471	122
Securities available for sale			
Gross gains from sales	4,905	3,730	5,051
Gross losses from sales	(1,236)	(2,279)	(1,086)
Gross losses from other-than-temporary impairments	-	(257)	(2,902)
	3,669	1,194	1,063
Total equity securities	3,669	7,665	1,185
Net realized gains on securities	$ 5,197	$ 18,597	$ 2,532

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

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	2012	2011	2010
Changes in unrealized gains (losses)			
Recognized in income			
Equity securities – trading	$ -	$ (7,267)	$ 5,433
Recognized in accumulated other comprehensive income (loss)			
Fixed maturities – available for sale	20,959	45,710	22,014
Equity securities – available for sale	17,967	(2,516)	5,599
	$ 38,926	$ 43,194	$ 27,613
Not recognized in the consolidated financial statements			
Fixed maturities – held to maturity	$ (191)	$ (241)	$ 113

The deferred tax liability on unrealized gains recognized in accumulated other comprehensive income during the years 2012, 2011, and 2010 increased by $(4,548), $(7,800), and $(4,243), respectively.

As of December 31, 2012 and 2011 no individual investment in securities exceeded 10% of stockholders' equity.

4.Net Investment Income

Components of net investment income were as follows:

	Years ended December 31		
	2012	2011	2010
Fixed maturities	$ 38,623	$ 43,388	$ 44,371
Equity securities	6,831	3,238	3,452
Policy loans	466	450	441
Cash equivalents and interest-bearing deposits	115	399	197
Other	755	751	684
Total	$ 46,790	$ 48,226	$ 49,145

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5.Premium and Other Receivables, Net

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

	2012	2011
Premium	$113,537	$105,177
Self-funded group receivables	64,359	64,053
FEHBP	11,707	11,062
Agent balances	34,261	37,421
Accrued interest	11,409	10,788
Reinsurance recoverable	52,063	48,828
Other	29,290	33,721
	316,626	311,050
Less allowance for doubtful receivables:		
Premium	14,416	14,299
Others	10,013	9,567
	24,429	23,866
Premium and other receivables, net	$292,197	$287,184

6.Deferred Policy Acquisition Costs and Value of Business Acquired

The movement of deferred policy acquisition costs (DPAC) and value of business acquired (VOBA) for the years ended December 31, 2012, 2011, and 2010 is summarized as follows:

	DPAC	VOBA	Total
Balance, December 31, 2009	$88,952	$50,965	$139,917
Additions	54,247	-	54,247
VOBA interest at an average rate of 5.24%	-	2,752	2,752
Amortization	(42,324)	(8,506)	(50,830)
Net change	11,923	(5,754)	6,169
Balance, December 31, 2010	100,875	45,211	146,086
Additions	53,843	-	53,843
VOBA interest at an average rate of 5.4%	-	2,441	2,441
Amortization	(39,378)	(7,204)	(46,582)
Net change	14,465	(4,763)	9,702
Balance, December 31, 2011	115,340	40,448	155,788
Additions	55,928	-	55,928
VOBA interest at an average rate of 5.24%	-	2,184	2,184
Amortization	(38,739)	(6,504)	(45,243)
Net change	17,189	(4,320)	12,869
Balance, December 31, 2012	$132,529	$36,128	$168,657

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

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

Year ending December 31:	
2013	$ 6,655
2014	5,207
2015	4,595
2016	4,082
2017	3,600

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7.Property and Equipment, Net

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

	2012	2011
Land	$ 10,265	$ 7,309
Buildings and leasehold improvements	58,168	48,715
Office furniture and equipment	19,057	16,115
Computer equipment and software	106,842	101,277
Automobiles	505	731
	194,837	174,147
Less accumulated depreciation and amortization	102,414	92,275
Property and equipment, net	$ 92,423	$ 81,872

8. Intangible Asset

Intangible assets, included within other assets, at December 31, 2012 and 2011 consist of:

	2012	2011
Trade name	$ 5,529	$ 5,491
Membership base	41,188	41,188
Provider networks	2,808	1,681
Other	3,509	484
	53,034	48,844
Accumulated amortization	26,103	15,513
Intangible assets, net	$ 26,931	$ 33,331

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

Amortization expense recorded for the years ended December 31, 2012, 2011, and 2010 amounted to $10,443, $9,251, and $4,040, respectively.

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

Year ending December 31:	
2013	$ 8,210
2014	6,863
2015	3,434
2016	2,292

2017	1,757

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9.Fair Value Measurements

Assets recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are as follows:

Level Input Definition:

Level 1	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level 2	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.
Level 3	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

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

The fair value of investment securities is estimated based on quoted market prices for those or similar investments. Additional information pertinent to the estimated fair value of investment in securities is included in note 3.

The following table summarizes fair value measurements by level at December 31, 2012 and 2011 for assets measured at fair value on a recurring basis:

	2012			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
Fixed maturity securities				
Obligations of government-sponsored enterprises	$ -	$ 61,634	$ -	$ 61,634
U.S. Treasury securities and obligations of U.S. government instrumentalities	41,213	-	-	41,213
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	65,745	-	65,745
Municipal securities	-	588,763	-	588,763
Corporate Bonds	-	129,867	-	129,867
Residential agency mortgage-backed securities	-	20,508	-	20,508
Collaterized mortgage obligations	-	152,031	-	152,031
Total fixed maturities	41,213	1,018,548	-	1,059,761
Equity securities				
Common stocks	1,009	-	-	1,009
Mutual funds	134,398	61,493	12,822	208,713
Total equity securities	135,407	61,493	12,822	209,722
	$ 176,620	$ 1,080,041	$ 12,822	$ 1,269,483

	2011			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
Fixed maturity securities				
Obligations of government-sponsored enterprises	$ -	$ 80,821	$ -	$ 80,821
U.S. Treasury securities and obligations of U.S. government instrumentalities	41,855	-	-	41,855
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	86,259	-	86,259
Municipal securities	-	434,179	-	434,179
Corporate Bonds	-	129,144	-	129,144
Residential agency mortgage-backed securities	-	9,115	-	9,115
Collaterized mortgage obligations	-	207,521	-	207,521
Total fixed maturities	41,855	947,039	-	988,894
Equity securities				
Common stocks	3,323	-	-	3,323
Perpetual preferred stocks	899	-	-	899

Mutual funds		120,651		12,441		7,094		140,186
Total equity securities		124,873		12,441		7,094		144,408
Derivatives (reported within other assets in the consolidated balance sheets)		-		7		-		7
	$	166,728	$	959,487	$	7,094	$	1,133,309

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The fair value of fixed maturity and equity securities included in the Level 2 category were based on market values obtained from independent pricing services, which utilize evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available loan performance data. Because many fixed income securities do not trade on a daily basis, the models used by independent pricing service providers to prepare evaluations apply available information, such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. For certain equity securities, quoted market prices for the identical security are not always available and the fair value is estimated by reference to similar securities for which quoted prices are available. The independent pricing service providers monitor market indicators, industry and economic events, and for broker-quoted only securities, obtain quotes from market makers or broker-dealers that they recognize to be market participants.

Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company’s best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. Transfers between levels, if any, are recorded as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers between Levels 1 and 2 during the year ended December 31, 2012 and 2011.

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2012 and 2011 is as follows:

	Level 3
Ending balance December 31, 2010	$ 1,044
Unrealized in other accumulated comprehensive income	13
Purchases	6,037
Begining balance December 31, 2011	$ 7,094
Unrealized in other accumulated comprehensive income	1,974
Purchases	4,824
Transfers in and/or out of Level 3	(1,070)
Ending balance December 31, 2012	$ 12,822

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

Non-financial instruments such as property and equipment, other assets, deferred income taxes and intangible assets, and certain financial instruments such as claim liabilities are excluded from the fair value disclosures. Therefore, the fair value amounts cannot be aggregated to determine our underlying economic value.

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, receivables, accounts payable and accrued liabilities, and short-term borrowings approximate fair value because of the short term nature of these items. These assets and liabilities are not listed in the table below.

The following methods, assumptions and inputs were used to estimate the fair value of each class of financial instrument:

(i) Policy Loans

Policy loans have no stated maturity dates and are part of the related insurance contract. The carrying amount of policy loans approximates fair value because their interest rate is reset periodically in accordance with current market rates.

(ii) Policyholder Deposits

The fair value of policyholder deposits is the amount payable on demand at the reporting date, and accordingly, the carrying value amount approximates fair value.

(iii) Long-term Borrowings

The carrying amount of the loans payable to bank – variable approximates fair value due to its floating interest-rate structure. The fair value of the loans payable to bank – fixed and senior unsecured notes payable was determined using broker quotations.

(iv) Repurchase Agreement

The value of the repurchase agreement with a long term maturity is based on the discontinued value of the contractual cash flows using current estimated market discount rates for instruments with similar terms.

A summary of the carrying value and fair value by level of financial instruments not recorded at fair value on our consolidated balance sheet at December 31, 2012 and 2011 are as follows:

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			2012		
	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
Assets:					
Policy loans	$6,161	$-	$6,161	$-	$6,161
Liabilities:					
Policyholder deposits	$111,692	$-	$111,692	$-	$111,692
Long-term borrowings:					
Loans payable to bank - variable	17,747	-	17,747	-	17,747
Loans payable to bank - fixed	13,524	-	13,524	-	13,524
6.6% senior unsecured notes payable	35,000	-	34,213	-	34,213
6.7% senior unsecured notes payable	10,000	-	9,950	-	9,950
Repurchase agreement	25,000	-	25,937	-	25,937
Total long-term borrowings	101,271	-	101,371	-	101,371
Total liabilities	$212,963	$-	$213,063	$-	$213,063

			2011		
	Carrying amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Assets:					
Policy loans	$6,307	$-	$6,307	$-	$6,307
Liabilities:					
Policyholder deposits	$76,753	$-	$76,753	$-	$76,753
Long-term borrowings:					
Loans payable to bank - variable	19,387	-	19,387	-	19,387
6.6% senior unsecured notes payable	35,000	-	34,475	-	34,475
6.7% senior unsecured notes payable	35,000	-	34,650	-	34,650
Repurchase agreement	25,000	-	25,739	-	25,739
Total long-term borrowings	114,387	-	114,251	-	114,251
Total liabilities	$191,140	$-	$191,004	$-	$191,004

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10.Claim Liabilities

The activity in claim liabilities during 2012, 2011, and 2010 is as follows:

	2012	2011	2010
Claim liabilities at beginning of year	$ 391,259	$ 360,210	$ 360,446
Reinsurance recoverable on claim liabilities	(37,234)	(31,449)	(30,712)
Net claim liabilities at beginning of year	354,025	328,761	329,734
Claim liabilities acquired from American Health	-	43,047	-
Claims incurred			
Current period insured events	1,900,053	1,703,194	1,594,977
Prior period insured events	(2,978)	(2,507)	(10,067)
Total	1,897,075	1,700,687	1,584,910
Payments of losses and loss-adjustment expenses			
Current period insured events	1,579,970	1,360,806	1,316,321
Prior period insured events	293,263	357,664	269,562
Total	1,873,233	1,718,470	1,585,883
Net claim liabilities at end of year	377,867	354,025	328,761
Reinsurance recoverable on claim liabilities	39,051	37,234	31,449
Claim liabilities at end of year	$ 416,918	$ 391,259	$ 360,210

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

The credits in the claims incurred and loss-adjustment expenses for prior period insured events for 2012, 2011 and 2010 are due primarily to better than expected utilization trends. Reinsurance recoverable on unpaid claims is reported as premium and other receivables, net in the accompanying consolidated financial statements.

The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits amounting to $22,784, $15,567, and $11,879 that is included within the consolidated claims incurred during the years ended December 31, 2012, 2011 and 2010, respectively.

11.Federal Employees' Health Benefits Program (FEHBP)

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

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

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

The contract with OPM allows for the payment to the Company of service fees as negotiated between TSS and OPM. Service fees, which are included within the other income, net in the accompanying consolidated statements of earnings, for each of the years in the three-year period ended December 31, 2012 amounted to $1,117, $1,038, and $998, respectively.

The Company also has funds available related to the FEHBP amounting to $41,723 and $45,640 as of December 31, 2012 and 2011, respectively and are included within the cash and cash equivalents in the accompanying consolidated balance sheets. Such funds must only be used to cover health benefits charges, administrative expenses and service charges required by the FEHBP.

A contingency reserve is maintained by the OPM at the U.S. Treasury, and is available to the Company under certain conditions as specified in government regulations. Accordingly, such reserve is not reflected in the consolidated balance sheets. The balance of such reserve as of December 31, 2012 and 2011 was $25,826 and $22,432, respectively. The Company received $3,463, $5,305, and $5,161, of payments made from the contingency reserve fund of OPM during 2012, 2011, and 2010, respectively.

The claim payments and operating expenses charged to the FEHBP are subject to audit by the U.S. government. Management is of the opinion that an adjustment, if any, resulting from such audits will not have a

significant effect on the accompanying financial statements. The claim payments and operating expenses reimbursed in connection with the FEHBP have been audited through 2011 by OPM.

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12.Short-Term Borrowings

Short-term borrowings of $30,000 at December 31, 2012 represent securities sold under agreements to repurchase. The agreements outstanding at December 31, 2012 amounting to $30,000 matured in January 2, 2013 and accrued interest at fixed rate between 0.45% and 0.60%. There were no outstanding short-term borrowings at December 31, 2011. The average outstanding short-term borrowings for the years ended December 31, 2012, 2011 and 2010 amounted to $12,199, $11,634 and $12,346, respectively. The weighted average interest rate for short-term borrowings for the years ended December 31, 2012, 2011 and 2010 amounted to 0.47%, 0.36% and 0.38%, respectively.

The investment securities underlying such agreements were delivered to the dealers with whom the agreements were transacted. The dealers may have sold, loaned, or otherwise disposed of such securities in the normal course of business operations, but have agreed to resell to the Company substantially the same securities on the maturity dates of the agreements. We maintain effective control over the investment securities pledged as collateral and accordingly, such securities continue to be carried on the accompanying consolidated balance sheets.

At December 31, 2012 investment securities available for sale with fair value of $31,424 (face value of $28,635) were pledged as collateral under these agreements.

13.Long-Term Borrowings

A summary of the borrowings entered by the Company at December 31, 2012 and 2011 is as follows:

	2012	2011
Senior unsecured notes payable of $60,000 issued on December 2005; due December 2020. Interest is payable monthly at a fixed rate of 6.60%.	$ 35,000	$ 35,000
Senior unsecured notes payable of $35,000 issued on January 2006; due January 2021. Interest is payable monthly at a fixed rate of 6.70%.	10,000	35,000
Secured loan payable of $41,000, payable in monthly installments of $137 through July 1, 2024, plus interest at a rate reset periodically of 100 basis points over selected LIBOR maturity (which was 1.36% and 1.37% at December 31, 2012, and 2011, respectively).	17,747	19,387
Repurchase agreement of $25.0 million entered on November 2010, due November 2015. Interest is payable quarterly at a fixed rate of 1.96%.	25,000	25,000
Secured loan payable of $14,138, payable in 35 monthly installments of $81 of principal and interest at a fixed rate of 4.75% and a last payment of $12,931 due on December 2014	13,524	-
Total borrowings	$ 101,271	$ 114,387

Aggregate maturities of the Company's borrowings as of December 31, 2012 are summarized as follows:

Year ending December 31	
2013	$ 1,969
2014	14,835
2015	26,640
2016	1,640
2017	1,640
Thereafter	54,547
	$ 101,271

All of the Company's senior notes may be prepaid at par, in total or partially, five years after issuance as determined by the Company. The Company's senior unsecured notes contain certain non- financial covenants with which TSS and the Company have complied with at December 31, 2012. During 2012 we repaid $25.0 million of the principal of the 6.70% senior unsecured note. During 2011, we repaid $50.0 million of the principal of the 6.30% senior unsecured note.

Debt issuance costs related to each of the Company's senior unsecured notes were deferred and are being amortized over the term of its respective senior note. Unamortized debt issuance costs related to these senior unsecured notes as of December 31, 2012 and 2011 amounted to $225 and $388, respectively and are included within other assets in the accompanying consolidated balance sheets.

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

The repurchase agreement has pledged as collateral investment securities available for sale with fair value of $28,051 (face value of $27,835). The investment securities underlying such agreements were delivered to the financial institution with whom the agreement was transacted. The dealers may have loaned, or used as collateral securities in the normal course of business operations. We maintain effective control over the investment securities pledged as collateral and accordingly, such securities continue to be carried on the accompanying consolidated balance sheets.

Interest expense on the above borrowings amounted to $5,554, $7,078, and $9,210, for the years ended December 31, 2012, 2011, and 2010, respectively.

14.Agency Contract and Expense Reimbursement

On March 1, 2009, the Centers for Medicare and Medicaid Services (CMS) awarded to First Coast Service Options (FCSO), a non-affiliated third party organization based in Jacksonville, Florida, the Medicare Administrative Contract (MAC) for Jurisdiction 9 (Florida, Puerto Rico and the U.S. Virgin Islands). FCSO proposed TSS as a subcontractor in MAC Jurisdiction 9 to perform certain provider customer service functions, subject to terms and conditions

negotiated between FSCO and TSS. Pursuant to this, TSS billed reimbursements of expenses of $2,982, $3,008 and $2,829 for performing the customer service functions during the years ended December 31, 2012, 2011 and 2010, respectively.

The operating expense reimbursements in connection with processing Medicare claims have been audited through 2007 by federal government representatives. Management is of the opinion that no significant adjustments will be made affecting cost reimbursements through December 31, 2012.

15.Reinsurance Activity

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

	Premiums Earned			Claims Incurred(1)		
	2012	2011	2010	2012	2011	2010
Gross	$ 2,335,942	$ 2,135,417	$ 1,981,700	$ 1,928,191	$ 1,729,192	$ 1,611,289
Ceded	(82,588)	(80,949)	(80,600)	(31,116)	(28,505)	(26,379)
Net	$ 2,253,354	$ 2,054,468	$ 1,901,100	$ 1,897,075	$ 1,700,687	$ 1,584,910

(1) The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits amounting to $22,784, $15,567, and $11,879 that is included within the consolidated claims incurred during the years ended December 31, 2012, 2011 and 2010, respectively.

TSS, TSP and TSV, in accordance with general industry practices, annually purchase reinsurance to protect them from the impact of large unforeseen losses and prevent sudden and unpredictable changes in net income and stockholders' equity of the Company. Reinsurance contracts do not relieve any of the subsidiaries from their obligations to policyholders. In the event that all or any of the reinsuring companies might be unable to meet their obligations under existing reinsurance agreements, the subsidiaries would be liable for such defaulted amounts. During 2012, 2011 and 2010 TSP placed 11.47%, 11.02%, and 14.37% of its reinsurance business with one reinsurance company.

TSS has two excess of loss reinsurance treaties whereby it cedes a portion of its premiums to third parties. Reinsurance contracts are primarily for periods of one year, and are subject to modifications and negotiations in each renewal date. Premiums ceded under these contracts amounted to $11,119, $12,103, and $11,206 in 2012, 2011 and 2010, respectively. Claims ceded amounted to $8,303, $9,004, and $9,519 in 2012, 2011 and 2010, respectively. Principal reinsurance agreements are as follows:

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

- Routine medical care excess of loss treaty covering 75% of claims from the amount of $100 and up to a maximum of $900 per covered person, per contract year.

TSP has a number of pro rata and excess of loss reinsurance treaties whereby the subsidiary retains for its own account all loss payments for each occurrence that does not exceed the stated amount in the agreements and a catastrophe cover, whereby it protects itself from a loss or disaster of a catastrophic nature. Under these treaties, TSP ceded premiums of $63,515, $63,013, and $63,746, in 2012, 2011, and 2010, respectively.

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

- Property quota share treaty covering for a maximum of $20,000 for any one risk. Under this treaty 37% of the risk is ceded to reinsurers. The remaining exposure is covered by a property per risk excess of loss treaty that provides reinsurance in excess of $500 up to a maximum of $10,000, or the remaining 63% for any one risk. In addition, TSP has an additional property catastrophe excess of loss contract that provides protection for losses in excess of $8,000 resulting from any catastrophe, subject to a maximum loss of $15,000.

- Personal property catastrophe excess of loss. This treaty provides protection for losses in excess of $5,000 resulting from any catastrophe, subject to a maximum loss of $60,000.

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

- Property catastrophe excess of loss. This treaty provides protection in excess of $60,000 and $140,000 with respect to personal and commercial lines, respectively, resulting from any catastrophe, subject to a maximum loss of $170,000 in respect of the ceded portion of the Commercial Lines Quota Share.

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

- Reinstatement premium protection. This treaty provides a maximum limit of approximately $3,300 for personal lines and $11,000 in commercial lines to cover the necessity of reinstating the catastrophe program in the event it is activated.

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

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

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

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

per miscellaneous surety bond.

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

The ceded unearned reinsurance premiums on TSP arising from these reinsurance transactions amounted to $15,224 and $16,135 at December 31, 2012 and 2011, respectively, and are reported as other assets in the accompanying consolidated balance sheets.

TSV also cedes insurance with various reinsurance companies under a number of pro rata, excess of loss and catastrophe treaties. Under these treaties, TSV ceded premiums of $7,954, $5,833, and $5,648, in 2012, 2011, and 2010, respectively. Principal reinsurance agreements are as follows:

- Group life insurance facultative agreement, reinsuring risk in excess of $25 of certain group life policies and a combined pro rata and excess of loss agreement effective July 1, 2008, reinsuring 50% of the risk up to $200 and ceding the excess.
- Facultative pro rata agreements for the long-term disability insurance, reinsuring 65% of the risk.
- Accidental death catastrophic reinsurance covering each and every accident arising out of one event or occurrence resulting in the death or dismemberment of five or more persons. The retention for each event is $250 with a maximum of $1,000 for each event and $2,000 per year.
- Several reinsurance agreements, mostly on an excess of loss basis up to a maximum retention of $50. For certain new life products that have been issued after 1999, the retention limit is $175.

16.Income Taxes

Under Puerto Rico income tax law, the Company is not allowed to file consolidated tax returns with its subsidiaries. The Company and its subsidiaries are subject to Puerto Rico income taxes. The Company’s insurance subsidiaries are also subject to U.S. federal income taxes for foreign source dividend income. As of December 31, 2012, tax years 2008 through 2012 of the Company and its subsidiaries are subject to examination by Puerto Rico taxing authorities.

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

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

Federal income taxes recognized by the Company’s insurance subsidiaries amounted to approximately $820, $120, and $97, in 2012, 2011, and 2010, respectively.

All other corporations within the group are subject to Puerto Rico income taxes as a regular corporation, as defined in the P.R. Internal Revenue Code, as amended. The holding company within the AH group of companies is a U.S.-based corporation and is subject to U.S. federal income taxes. This U.S-based corporation within our group has not provided U.S. deferred taxes on an outside basis difference created as a result of the business combination of AH and cumulative earnings of its Puerto Rico-based subsidiaries that are considered to be indefinitely reinvested. The total outside basis difference at December 31, 2012 and 2011 is estimated at $48,000 and $57,000, respectively. We do not intend to repatriate earnings to fund U.S. and Puerto Rico operations nor do any transaction that would cause a reversal of that outside basis difference. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. federal income tax liability if such outside basis difference was reversed.

On July 10, 2009 the Governor of Puerto Rico signed into law Puerto Rico's Act No. 37, which requires certain corporations to pay a 5% additional special tax over the tax obligation through December 31, 2011. The effective tax rate includes the additional special tax, as enacted.

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

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

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	2012	2011	2010
Income before taxes	$ 66,372	$ 78,500	$ 84,203
Statutory tax rate	30.00 %	30.00 %	40.95 %
Income tax expense at statutory rate	19,912	23,550	34,481
Increase (decrease) in taxes resulting from			
Exempt interest income	(6,079)	(7,468)	(11,955)
Effect of taxing life insurance operations as a qualified domestic life insurance company instead of as a regular corporation	(3,155)	(4,592)	(5,336)
Effect of using earnings under statutory accounting principles instead of GAAP for TSS and TSP	417	(37)	(1,430)
Effect of taxing capital gains at a preferential rate	(224)	(483)	907
Effect of using the 1994 tax code instead of the 2011 tax code	380	1,409	-
Dividends received deduction	(3)	(68)	(221)
Adjustment to deferred tax assets and liabilities for changes in effective tax rates	-	6,450	-
Other adjustments to deferred tax assets and liabilities	286	(264)	(132)
Tax credit benefit	(1,445)	(865)	(1,569)
Other permanent disallowances, net:			
Disallowance of expenses related to exempt interest income	228	474	1,115
Disallowed dividend received deduction	1,028	1,298	-
Disallowed interest expense	118	193	597
Other	658	(66)	423
Total other permanent differences	2,032	1,899	2,135
Other adjustments	351	933	522
Total Income Tax Expense	$ 12,472	$ 20,464	$ 17,402

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Deferred income taxes reflect the tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. The net deferred tax asset at December 31, 2012 and 2011 of the Company and its subsidiaries is composed of the following:

	2012	2011
Deferred tax assets		
Allowance for doubtful receivables	$ 6,669	$ 6,433
Liability for pension benefits	24,616	22,973
Employee benefits plan	816	1,122
Postretirement benefits	962	925
Deferred compensation	1,288	1,247
Accumulated depreciation	594	-
Impairment loss on investments	363	887
Contingency reserves	156	156
Share-based compensation	1,055	464
Unrealized loss on derivative instruments	-	249
Alternative minimum income tax credit	1,725	1,619
Purchased tax credits	883	42
Net operating loss	5,306	3,340
Other	-	1,389
Gross deferred tax assets	44,433	40,846
Deferred tax liabilities		
Deferred policy acquisition costs	(5,315)	(5,402)
Catastrophe loss reserve trust fund	(6,782)	(6,616)
Unrealized gain upon acquisition	(174)	(211)
Unrealized gain on securities available for sale	(17,006)	(12,458)
Unamortized bond issue costs	(54)	(61)
Intangible asset	(6,667)	(7,813)
Accumulated depreciation	(7,568)	(4,053)
Other	(253)	(128)
Gross deferred tax liabilities	(43,819)	(36,742)
Net deferred tax asset	$ 614	$ 4,104

The net deferred tax asset shown in the table above at December 31, 2012 and 2011 is reflected in the consolidated balance sheets as $33,548 and $28,707, respectively, in deferred tax assets and $32,934 and $24,603, in deferred tax liabilities, respectively, reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Company.

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

deductible differences.

At December 31, 2012, the Company has operating loss carry-forwards for income tax purposes of approximately $17,562, which were mostly acquired with AH and that are available to offset future taxable income for up to December 2022.

17.Pension Plans

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

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status as of December 31, 2012 and 2011, accordingly:

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	2012	2011
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 152,561	$ 113,912
Service cost	5,525	5,781
Interest cost	7,543	6,681
Benefit payments	(6,525)	(3,869)
Actuarial losses	18,230	30,056
Projected benefit obligation at end of year	$ 177,334	$ 152,561
Accumulated benefit obligation at end of year	$ 139,675	$ 118,607
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$ 81,505	$ 67,530
Actual return on assets (net of expenses)	12,539	1,344
Employer contributions	14,235	16,500
Benefit payments	(6,525)	(3,869)
Fair value of plan assets at end of year	$ 101,754	$ 81,505
Funded status at end of year	$ (75,580)	$ (71,056)
Amounts in accumulated other comprehensive income not yet recognized as a component of net periodic pension cost		
Development of prior service credit		
Balance at beginning of year	$ (4,023)	$ (4,473)
Amortization	450	450
Net prior service credit	(3,573)	(4,023)
Development of actuarial loss		
Balance at beginning of year	78,433	47,825
Amortization	(6,135)	(3,326)
(Gain)/Loss arising during the year	11,987	33,934
Actuarial net loss	84,285	78,433
Sum of deferrals	$ 80,712	$ 74,410
Net amount recognized	$ 5,132	$ 3,354

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The following assumptions were used on a weighted average basis to determine benefits obligations of the plan as of December 31, 2012 and 2011.

	2012	2011
Discount rate	4.5 %	5.0 %
Rate of compensation increase	Graded; 3.50%	Graded; 3.50%
	to 8.0%	to 8.00%

The assumed discount rate of 4.5% at December 31, 2012 reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants on that date. The Company determined the discount rate based on a range of factors, including a yield curve comprised of the rates of return on high-quality, fixed-income corporate bonds available at the measurement date and the related expected duration for the obligations.

The amounts recognized in the balance sheets as of December 31, 2012 and 2011 consist of the following:

	2012	2011
Pension liability	$ 75,580	$ 71,056
Accumulated other comprehensive loss, net of a deferred tax of $24,214 and $18,421 in 2012 and 2011, respectively	56,498	48,185

The components of net periodic benefit cost for 2012, 2011, and 2010 were as follows:

	2012	2011	2010
Components of net periodic benefit cost			
Service cost	$ 5,525	$ 5,781	$ 4,976
Interest cost	7,543	6,681	6,033
Expected return on assets	(6,298)	(5,221)	(4,262)
Amortization of prior service (benefit) cost	(450)	(450)	(450)
Amortization of actuarial loss	6,135	3,326	2,400
Net periodic benefit cost	$ 12,455	$ 10,117	$ 8,697

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

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

Prior service cost	$(450)

Actuarial loss	7,130

50

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The following assumptions were used on a weighted average basis in computing the periodic benefit cost for the years ended December 31, 2012, 2011, and 2010:

	2012	2011	2010
Discount rate	5.00 %	6.00 %	6.75 %
Expected return on plan assets	7.25 %	7.75 %	7.75 %
Rate of compensation increase	Graded; 3.50% to 8.00%	Graded; 3.50% to 8.00%	Graded; 3.50% to 8.00%

The basis of the overall expected long-term rate of return on assets assumption is a forward-looking approach based on the current long-term capital market outlook assumptions of the assets categories the trust invests in and the trust's target asset allocation. At December 31, 2012, the assumed target asset allocation for the program is: 44%-56% equity securities, 35%-45% debt securities, and 6%-14% other securities. Using a mean-variance model to project returns over a 30-year horizon under the target asset allocation, the 35% to 65% percentile range of annual rates of return is 6.2%-7.8%. The Company selected a rate from within this range of 7.25% and 7.75% for 2012 and 2011, respectively, which reflects the Company's best estimate for this assumption based on the data described above, information on the historical returns on assets invested in the pension trust, and expected future conditions. This rate is net of both investment related expenses and a 0.10% reduction for other administrative expenses charged to the trust.

Plan Assets

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

The following table summarizes fair value measurements by level at December 31, 2012 for assets measured at fair value on a recurring basis.

	Level 1	Level 2	Level 3	Total
Government obligations	$1,791	$2,724	$69	$4,584
Corporate obligations	-	4,394	-	4,394
Partnership/Joint venture	-	947	1,430	2,377
Limited Liability Corporations	-	2,622	-	2,622
Real estate	-	-	3,954	3,954
Registered investments	14,205	18,647	-	32,852
Common/Collective trusts	-	39,732	-	39,732
Hedge funds	-	1,926	1,874	3,800
Common stocks	6,620	-	-	6,620
Preferred stocks	207	39	-	246
Interest-bearing cash	414	-	-	414
Options	-	(2)	-	(2)
	$23,237	$71,029	$7,327	$101,593

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2012 is as follows:

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	Government Obligations	Corporate Obligations	Partnership/ Joint Venture	Real Estate	Hedge Funds	Total
Beginning Balance at December 31, 2011	$ 297	$ 204	$ 1,134	$ 2,961	$ 1,455	$ 6,051
Actual return on program assets:						
Relating to assets still held at the reporting date	24	5	73	377	293	772
Relating to assets sold during the period	19	(7)	-	(1)	-	11
Purchases, issuances, and settlements	(141)	(101)	224	616	126	724
Transfer in and/or out	(130)	(101)	-	-	-	(231)
Ending balance at December 31, 2012	$ 69	$ 0	$ 1,431	$ 3,953	$ 1,874	$ 7,327

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

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

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

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

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

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

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

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

- To ensure assets are available to meet current and future obligations of the participating programs when due.
- To invest assets with consideration of the liability characteristics in order to better align assets and liabilities.
- To earn the maximum return that can be realistically achieved in the markets over the long-term at a specified and controlled level of risk in order to minimize future contributions.
- To invest the assets with the care, skill, and diligence that a prudent person acting in a like capacity would undertake. In the process, the Administration of the Trust has the objective of controlling the costs involved with administering and managing the investments of the National Retirement Trust.

Cash Flows
The Company expects to contribute $7,000 to its pension program in 2013.

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

Year ending December 31	
2013	$ 7,956
2014	7,961
2015	8,293
2016	9,580
2017	10,213
2018 – 2022	63,656

Noncontributory Supplemental Pension Plan
In addition, the Company sponsors a noncontributory supplemental pension plan. This plan covers employees with qualified defined benefit retirement plan benefits limited by the U.S. Internal Revenue Code maximum compensation and benefit limits. At December 31, 2012 and 2011, the Company has recorded a pension liability of $6,439 and $6,491, respectively. The charge to accumulated other comprehensive loss related to the noncontributory pension plan at December 31, 2012 and 2011 amounted to $939 and $1,391, respectively, net of a deferred tax asset of $402 and $526, respectively.

18.Catastrophe Loss Reserve and Trust Fund

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

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

The interest earning assets in this fund, which amounted to $39,059 and $37,635 as of December 31, 2012 and 2011, respectively, are to be used solely and exclusively to pay catastrophe losses covered under policies written in Puerto Rico.

TSP is required to contribute to the trust fund, if any, on or before January 31 of the following year. Contributions are determined by a rate imposed by the Commissioner of Insurance for the catastrophe policies written in that year. No contribution was required for 2012 since the level of the catastrophe reserve exceeds 8% of the catastrophe

exposure. Additions in 2011, amounting to $720, were determined by applying a rate of 1% to catastrophe premiums written.

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

Retained earnings are restricted in the accompanying consolidated balance sheets by the total catastrophe loss reserve balance, which as of December 31, 2012 and 2011 amounted to $38,649 and $37,830, respectively.

19.Stockholders' Equity

a.Common Stock

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

For a period of five years after the completion of the IPO on December 7, 2007, subject to the extension or shortening under certain circumstances, each holder of Class B common stock will benefit from anti-dilution protections provided in the Company's amended and restated certificate of incorporation. On March 6, 2013, the Company announced its intention to convert 7 million of the 9 million outstanding Class A shares into Class B shares and to concurrently conduct a marketed secondary public offering for all or a substantial majority of the converted shares. The Company also announced its intention to repurchase up to $30,000 of Class B shares as a purchaser in the offering.

b.Stock Repurchase Program

On September 2010, the Company's Board approved another repurchase program of its common stock amounting to $30,000. Repurchases were conducted through open-market purchases of Class B shares only, in accordance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. During 2012, the Company repurchased and retired 136,222 shares at an average per share price of $16.88, for an aggregate cost of $2,299. During 2011, the Company repurchased and retired 653,399 shares at an average per share price of $17.28, for an aggregate cost of $11,289. During 2010, the Company repurchased and retired 352,791 shares at an average per share price of $17.67, for an aggregate cost of $6,235.

c.Preferred Stock

Authorized capital stock includes 100,000,000 of preferred stock with a par value of $1.00 per share. As of December 31, 2012 and 2011, there are no issued and outstanding preferred shares.

d.Liquidity Requirements

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

e.Dividends

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

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

The Company's ability to pay dividends is dependent, among other factors, on its ability to collect cash dividends from its subsidiaries, which are subject to regulatory requirements, which may restrict their ability to declare and pay dividends or distributions. In addition, an outstanding secured term loan restricts our ability to pay dividends in the event of default (see note 13).

The accumulated earnings of TSS, AH, TSV, and TSP are restricted as to the payment of dividends by statutory limitations applicable to domestic insurance companies. Under Puerto Rico insurance regulations, the regulated subsidiaries are permitted, without requesting prior regulatory approval, to pay dividends as long as the aggregated amount of all such dividends in any calendar year does not exceed the lesser of: (i) 10% of its surplus as of the end of the immediately preceding calendar year; or (ii) its statutory net gain from operations for the immediately preceding calendar year (excluding realized capital gains). Regulated subsidiaries will be permitted to pay dividends in excess of the lesser of such two amounts only if notice of its intent to declare such a dividend and the amount thereof is filed with the Commissioner of Insurance and such dividend is not disapproved within 30 days of its filing. As of December 31, 2012, the dividends permitted to be distributed in 2013 by the regulated subsidiaries without prior regulatory approval from the Commissioner of Insurance amounted to $25.4 million. This amount excludes any dividend from AH because as stated in note 16, we do not intend to repatriate earnings from this subsidiary nor do any transaction that cause a reversal on an outside basis difference created as a result of the business combination of AH and cumulative earnings of its Puerto Rico-based subsidiaries that are considered to be indefinitely reinvested.

The Company has not declared any dividends subsequent to its IPO on December 7, 2007.

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20.Comprehensive Income

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

	Unrealized Gains on securities	Liability for Pension Benefits	Accumulated Other Comprehensive Income
Beginning balance at December 31, 2011	$ 68,137	$ (49,574)	$ 18,563
Net current period change	37,504	(8,114)	29,390
Reclassification adjustments for gains and losses reclassified in income	(3,126)	4,277	1,151
Ending balance at December 31, 2012	$ 102,515	$ (53,411)	$ 49,104

The related deferred tax effects allocated to each component of other comprehensive income in the accompanying consolidated statements of stockholders' equity and comprehensive income in 2012, 2011 and 2010 are as follows:

		2012	
	Before-Tax Amount	Deferred Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized holding gains on securities arising during the period	$ 44,123	$ (6,619)	$ 37,504
Less reclassification adjustment for gains and losses realized in income	(5,197)	2,071	(3,126)
Net change in unrealized gain	38,926	(4,548)	34,378
Liability for pension benefits:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	6,112	(1,835)	4,277
Net change arising from assumptions and plan changes and experience	(11,592)	3,478	(8,114)
Net change in liability for pension benefits	(5,480)	1,643	(3,837)
Net current period change	$ 33,446	$ (2,905)	$ 30,541

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

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

21.Share-Based Compensation

In December 2007 the Company adopted the 2007 Incentive Plan (the Plan), which permits the Board the grant of stock options, restricted stock awards and performance awards to eligible officers, directors and key employees. The Plan authorizes grants to issue up to 4,700,000 of Class B common shares of authorized but unissued stock. At December 31, 2012, there were 2,919,770 shares available for the Company to grant under the Plan. Stock options can be granted with an exercise price at least equal the stock's fair market value at the date of grant. The stock option awards vest in equal annual installments over 3 years and its expiration date cannot exceed 7 years. The restricted stock and performance awards are issued at the fair value of the stock on the grant date with vesting periods ranging from one to three years. Restricted stock awards vest in installments, as stipulated in each restricted stock agreement. Performance awards vest on the last day of the performance period, provided that at least minimum performance

standards were achieved.

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

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

	2012*	2011*	2010	
Expected dividend yield	N/A	N/A	—	
Expected volatility (per year)	N/A	N/A	43.00	%
Expected term (in years)	N/A	N/A	4.50	
Risk-free interest rate	N/A	N/A	1.12	%

*No stock options were granted in 2012 and 2011.

Stock option activity during the year ended December 31, 2012 is as follows:

	Number of Shares		Weighted Average Exercise Price	Weighted Average Contractual Term (Years)		Aggregate Intrinsic Value
Outstanding balance at January 1, 2012	466,699	$	14.46			
Exercised during the year	(206,896)	$	14.50			
Outstanding balance at December 31, 2012	259,803	$	14.43	2.03	$	1,048,716
Exercisable at December 31, 2012	258,459	$	14.42	2.02	$	1,046,539

No options were granted in 2012 and 2011. The weighted average grant date fair value of options granted during 2010 was $6.20. There were 206,896, 88,172 and 21,982 exercised options during 2012, 2011 and 2010, respectively. During the years ended December 31, 2012 and 2011, cash received from stock options exercises was $316 and $189, respectively, and is presented within the cash flows from financing activities in the accompanying consolidated statement of cash flows. During the years ended December 31, 2012, 2011 and 2010, 140,666, 51,639 and 21,982 shares, respectively, were repurchased and retired as a result of non-cash exercise of stock options. Also, during the year ended December 31, 2011, 432,567 options were cash-settled for $2,420 at its fair value at time of settlement.

A summary of the status of the Company's nonvested restricted and performance shares as of December 31, 2012, and changes during the year ended December 31, 2012, are presented below:

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	Restricted Awards		Performance Awards	
	Number of Shares	Weighted Average Fair Value	Number of Shares	Weighted Average Exercise Price
Outstanding balance at January 1, 2012	52,520	$ 20.50	96,981	$ 20.62
Granted	68,250	21.98	121,217	23.08
Lapsed	(38,399)	20.83	(60)	23.24
Forfeited (due to performance payout less than 100%)	—	—	(681)	16.29
Outstanding balance at December 31, 2012	82,371	$ 21.57	217,457	$ 22.00

The weighted average grant date fair value of restricted shares granted during the year 2012, 2011 and 2010 were $21.98, $20.70, and $19.26, respectively. Total fair value of restricted stock vested during the year ended December 31, 2012, 2011 and 2010 was $685, $375 and $1,480, respectively.

At December 31, 2012 there was $3,182 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 0.97 years. The Company currently uses authorized and unissued Class B common shares to satisfy share award exercises.

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

The following table sets forth the computation of basic and diluted earnings per share for the three-year period ended December 31, 2012.

	2012	2011	2010
Numerator for earnings per share			
Net income attributable to TSM available to stockholders	$ 54,032	$ 58,036	$ 66,801
Denominator for basic earnings per share –			
Weighted average of common shares	28,340,122	28,665,045	29,034,442
Effect of dilutive securities	115,459	166,964	207,911
Denominator for diluted earnings per share	$ 28,455,581	$ 28,832,009	$ 29,242,353
Basic net income per share attributable to TSM	$ 1.91	$ 2.02	$ 2.30
Diluted net income per share attributable to TSM	$ 1.90	$ 2.01	$ 2.28

There were no anti-dilutive stock options during the year ended December 31, 2012. During the years ended December 31, 2011 and 2010, the weighted average of all stock option shares of 4,032, and 1,027, respectively, were

excluded from the denominator for diluted earnings per share because the stock options were anti-dilutive.

23.Commitments

The Company leases its regional offices, certain equipment, and warehouse facilities under non-cancelable operating leases. Minimum annual rental commitments at December 31, 2012 under existing agreements are summarized as follows:

Year ending December 31		
2013	$	5,827
2014		5,149
2015		4,237
2016		3,830
2017		2,301
Thereafter		3,781
Total	$	25,125

Rental expense for 2012, 2011, and 2010 was $12,517, $8,352, and $4,546, respectively, after deducting the amount of $117, $130, and $112, respectively, reimbursed by CMS for the administration of the Medicare Part B Program (see note 14).

24.Contingencies

Legal Proceedings

As of December 31, 2012, the Corporation is a defendant in various lawsuits arising in the ordinary course of business. We are also defendants in various other claims and proceedings, some of which are described below. Furthermore, the Commissioner of Insurance, as well as other Federal and Puerto Rico government authorities, regularly make inquiries and conduct audits concerning the Corporation's compliance with applicable insurance and other laws and regulations.

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

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

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

On April 24, 2002, Octavio Jordán, Agripino Lugo, Ramón Vidal, and others filed a suit against the Corporation, the Corporation's subsidiary Triple-S Salud, Inc. ("TSS") and others in the Court of First Instance for San Juan, Superior Section (the "Court of First Instance"), alleging, among other things, violations by the defendants of provisions of the Puerto Rico Insurance Code, antitrust violations, unfair business practices, RICO violations, breach of contract with providers, and damages in the amount of $12 million. Following years of complaint amendments, motions practice and interim appeals up to the level of the Puerto Rico Supreme Court, the plaintiffs amended their complaint on June 20, 2008 to allege with particularity the same claims initially asserted but on behalf of a more limited group of plaintiffs, and increase their claim for damages to approximately $207 million. Plaintiffs amended their complaint for the third time in December 2010 and dropped all claims predicated on violations of the antitrust and RICO laws and the Puerto Rico Insurance Code. In addition, the plaintiffs voluntarily dismissed with prejudice any and all claims against officers of the Corporation and TSS. Two of the original plaintiffs were also eliminated from the Third Amended Complaint ("TAC"). The TAC alleges breach of six Share Acquisition Agreements, breach of the provider contract by way of discriminatory audits and improper payment of services rendered. Plaintiffs also allege a claim for libel and slander against a former president of the Corporation. In January 2011, we filed our response and a counterclaim for malicious prosecution and abuse of process. Discovery has been substantially completed. On April 13, 2012 the Corporation filed a motion to dismiss and for summary judgment, seeking the dismissal of the TAC, which the plaintiffs opposed. The Court set oral argument on the dispositive motion for April 24, 2013. The Corporation is vigorously defending this claim.

Dentists Association Litigation

On February 11, 2009, the Puerto Rico Dentists Association (Colegio de Cirujanos Dentistas de Puerto Rico) filed a complaint in the Court of First Instance against 24 health plans operating in Puerto Rico that offer dental health coverage. The Corporation and two of its subsidiaries, TSS and Triple-C, Inc. ("TCI"), were included as defendants. This litigation purports to be a class action filed on behalf of Puerto Rico dentists who are similarly situated.

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

Two codefendant plans, whose main operations are outside Puerto Rico, removed the case to federal court in Florida, which the plaintiffs and the other codefendants, including the Corporation, opposed. Following months of jurisdictional proceedings in the federal court system, the federal district court in Puerto Rico decided to retain jurisdiction on February 8, 2011. The defendants filed a joint motion to dismiss the case on the merits, because the complaint fails to state a claim upon which relief can be granted. On August 31, 2011, the District Court dismissed all

of plaintiffs' claims except for its breach of contract claim, and ordered the parties to brief the issue of whether the court still has federal jurisdiction under the Class Action Fairness Act of 2005. Plaintiffs moved the court to reconsider its August 31, 2011 decision and the defendants did the same, arguing that the breach of contract claim failed to state a claim upon which relief can be granted. On May 2, 2012, the court denied the plaintiffs' motion. On May 31, 2012, plaintiffs appealed the District Court's dismissal of their complaint and the denial of plaintiffs' motion for reconsideration. The Court of Appeals for the First Circuit dismissed the appeal for lack of jurisdiction. On September 25, 2012 the District Court denied without prejudice the defendants' motion for reconsideration. On October 10, 2012 the parties filed their briefs with respect to class certification and are waiting for the court's decision.

Claims by Heirs of Former Shareholders

The Corporation and TSS are defending four individual lawsuits, all filed in state court, from persons who claim to have inherited a total of 69 shares of the Corporation or one of its predecessors or affiliates (before giving effect to the 3,000-for-one stock split). While each case presents unique facts and allegations, the lawsuits generally allege that the redemption of the shares by the Corporation pursuant to transfer and ownership restrictions contained in the Corporation's (or its predecessors' or affiliates') articles of incorporation and bylaws was improper.

In one of these cases, the plaintiffs argued that the redemption of shares was fraudulent and was not subject to the two-year statute of limitations contained in the local securities law. The Court of First Instance determined that the plaintiffs' claims are time barred under the local securities law. The plaintiffs appealed, and in January 2012, the Puerto Rico Court of Appeals upheld the dismissal, holding that even if the plaintiffs could have survived the securities law's two-year statute of limitations, their complaint was time-barred under the Civil Code's four-year statute of limitations on claims of fraud. On March 28, 2012 the plaintiffs filed a petition for writ of certiorari before the Puerto Rico Supreme Court that was granted on May 31, 2012. We filed our respondent's brief on October 5, 2012. The parties are waiting for the Supreme Court's decision.

In the second case, the Puerto Rico Court of First Instance granted our motion to dismiss on grounds that the complaint was time-barred under the two-year statute of limitations contained in the securities law, and the Puerto Rico Court of Appeals confirmed. Plaintiffs filed a petition for certiorari before the Puerto Rico Supreme Court that was granted on January 20, 2012. On January 8, 2013, the Supreme Court ruled that the statute of limitations applicable is the fifteen-year contained in the Puerto Rico Civil Code on personal claims and not the two-year statute under the local securities law. On January 28, 2013, we filed a motion to reconsider. On February 22, 2013, the Supreme Court denied our motion to reconsider. The case is again before the Court of First Instance.

In the third case, the court of First Instance denied our motion for summary judgment based on its determination that there are material issues of fact in controversy. In response to our appeal, the Puerto Rico Court of Appeals confirmed the decision of the Court of First Instance. Our request for reconsideration was denied in December 2011. The case is again before the Court of First Instance, which held a pretrial hearing on September 27. 2012. The court set another pretrial hearing for February 28, 2013.

The fourth case was filed in November 2011. On August 9, 2012, plaintiffs filed a petition to amend their allegation, which included an amended complaint; the petition was granted. On October 15, 2012, we filed a motion to dismiss on the grounds that the claim is time barred under the local securities law's two-year statute of limitations. On January 24, 2013, the court denied our motion to dismiss. Consequently, we are preparing our answer to the complaint.

Management believes all these claims are time barred under one or more statutes of limitations and is vigorously defending the claims on these and other grounds.

Intrusions into Triple-C, Inc. Internet IPA Database

On September 21, 2010, the Corporation learned from a competitor that a specific internet database managed by its subsidiary TCI containing information pertaining to individuals previously insured by TSS under the Government of Puerto Rico's Health Insurance Plan ("HIP") and to independent practice associations ("IPAs") that provided services to those individuals, had been accessed without authorization by certain of its competitor's employees from September 9 to September 15, 2010. TCI served as a third-party administrator for TSS in the administration of its HIP contracts until September 30, 2010.

The Corporation conducted an investigation of these events with the assistance of external resources and identified the information that was accessed and downloaded into the competitor's network. The September 2010 intrusions may have potentially compromised protected health information of approximately 398,000 beneficiaries in the North and Metro-North regions of the HIP. The investigation also revealed that protected health information of additional beneficiaries and IPA data from all three HIP regions previously serviced by TSS was accessed separate intrusions into the TCI IPA database from October 2008 to August 2010.

The Corporation gave public notice of the intrusions and sent written notices to all identifiable beneficiaries potentially affected by the intrusions. It also established a toll-free call center to address inquiries and complaints from the individuals notified. The call center received approximately 1,530 inquiries. However, to date, the Corporation has not received complaints from potentially affected individuals.

The Corporation reported these events to the appropriate Puerto Rico and federal government agencies. It then received and complied with requests for information from the Puerto Rico Health Insurance Administration ("ASES", by its acronym in Spanish) and the Office for Civil Rights ("OCR") of the U.S. Department of Health and Human Services, which entities are conducting reviews of these data breaches and TSS' and TCI's compliance with applicable security and privacy rules. ASES levied a fine of $100,000 on TSS in connection incidents, but following the Corporation's request for reconsideration, ASES withdrew the fine pending the outcome of the review by OCR. The Corporation at this time cannot reasonably assess the impact of these proceedings on the Corporation.

The Corporation has conducted an assessment of its system-wide data and facility security and has taken measures to strengthen its systems' security and credential management procedures to prevent future intrusions.

On February 11, 2011, the Corporation filed an action before the Puerto Rico Court of First Instance against certain individuals believed to have participated in the intrusions. The complaint was later amended to include additional defendants, including the Corporation's competitor. After being removed to the federal District Court for Puerto Rico, this case was recently remanded back to state court and is in its initial pleadings stage.

Joint Underwriting Association Litigations

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

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

Plaintiffs seek the reimbursement of funds for the class amounting to $406.6 million, treble damages under RICO, and equitable relief, including a permanent injunction and declaratory judgment barring defendants from their alleged conduct and practices, along with costs and attorneys' fees.

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

On February 17, 2012, plaintiffs filed their opposition. On April 4, 2012, TSP filed a reply in support of our motion to dismiss. The court denied our motion to dismiss. On October 2, 2012, the court issued an order certifying the class. On October 12, 2012, several defendants, including TSP, filed an appeal before the U.S. Court of Appeals for the First District, requesting the court to vacate the District Court's certification order. The First Circuit denied the authorization to file the writ of appeals. The case is again before the court, pending further proceedings.

A similar case entitled Maria Margarita Collazo Burgos, et al. v. La Asociación de Suscripcion Conjunta del Seguro de Responsabilidad Obligatorio ("JUA"), et al., was filed against JUA and its members, including TSP, in the Puerto Rico Court of First Instance, San Juan Part on January 28, 2010. This litigation is a putative class action lawsuit brought on behalf of motor vehicle owners in Puerto Rico. Plaintiffs in this lawsuit allege that each of the defendants engaged in similar activities and conduct as those alleged in the Torres Ronda litigation and claim the recovery of

$225 million for the class pertaining to the acquisition and administration costs of the CLI, allegedly charged in violation of the Puerto Rico Insurance Code's provisions prohibiting the illegal traffic of premiums. TSP is vigorously contesting this action.

Given the early stage of these cases, the Corporation cannot assess the probability of an adverse outcome, or the reasonable financial impact that any such outcome may have on the Corporation. The Corporation intends to vigorously defend these lawsuits.

In re Blue Cross Blue Shield Antitrust Litigation

TSS is a co-defendant with multiple Blue Plans and the BCBSA in a multi-district class action litigation that alleges that the exclusive service area (ESA) requirements of the Primary License Agreements with Plans violate antitrust law, and the plaintiffs in these suits seek monetary awards and in some instances, injunctive relief barring ESAs. Those cases have been centralized in the United States District Court for the Northern District of Alabama. Prior to centralization, motions have been filed to dismiss some of the cases. Discovery has not yet commenced. The Corporation has joined BCBSA in vigorously contesting these claims.

25.Statutory Accounting

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

Prescribed statutory accounting practices in Puerto Rico allow TSP to disregard a deferred tax liability resulting from additions to the catastrophe loss reserve trust fund that would otherwise be required under NAIC SAP. Also, as of December 31, 2012, AH was permitted by the Commissioner of Insurance to present as an admitted asset certain receivables that remained uncollected for a period exceeding 90 days. The use of prescribed and permitted accounting practices, both individually and in the aggregate, did not change significantly the combined statutory capital and surplus that would have been reported following NAIC SAP, which as of December 31, 2012 is approximately 1.3% lower than the combined reported statutory capital and surplus.

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

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

The Commissioner of Insurance adopted in 2009 an RBC policy that requires that the regulated entities maintain statutory reserves at or above the "Company Action Level," which is currently equal to 200% of their RBC, in order to avoid regulatory monitoring and intervention. In addition, at the time of adoption the Commissioner of Insurance established five-year gradual compliance provisions for those entities whose RBC was below the 200% requirement. As of December 31, 2012 all regulated subsidiaries comply with minimum statutory reserve requirements.

The following table sets forth the combined net admitted assets, capital and surplus, RBC requirement, which is our statutory capital and surplus requirement, and net income for the regulated subsidiaries at December 31, 2012, 2011 and 2010:

(dollar amounts in millions)	2012	2011	2010
Net admitted assets	$ 1,592	$ 1,470	$ 1,347
Capital and surplus	563	529	458
RBC requirement	187	151	120
Net income	44	73	58

As more fully described in note 18, a portion of the accumulated earnings and admitted assets of TSP are restricted by the catastrophe loss reserve and the trust fund balance as required by the Insurance Code. The total catastrophe loss reserve and trust fund amounted to $38,649 and $39,059 as of December 31, 2012, respectively. The catastrophe loss reserve and trust fund balances were $37,830 and $37,635 as of December 31, 2011, respectively. In addition, the admitted assets of the regulated subsidiaries are restricted by the investments deposited with the Commissioner of Insurance to comply with requirements of the Insurance Code (see note 3). Investments with an amortized cost of $3,857 and $3,977 (fair value of $4,053 and $4,057) at December 31, 2012 and 2011, respectively, were deposited with the Commissioner of Insurance. Investment with an amortized cost of $500 (fair value of $500) at December 31, 2012 and 2011, was deposited with the USVI Division of Banking and Insurance. As a result, the combined restricted assets for our regulated subsidiaries were $43,416 and $42,112 as of December 31, 2012 and 2011, respectively.

Triple-S Management Corporation
Notes to Consolidated Financial Statements
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(dollar amounts in thousands, except per share data)

26.Supplementary Information on Cash Flow Activities

	2012	2011	2010
Supplementary information			
Noncash transactions affecting cash flows activities			
Change in net unrealized (gain) loss on securities available for sale, including deferred income tax (asset)/liability of $4,548, $7,800, and $4,243 in 2012, 2011, and 2010, respectively	$ (34,378)	$ (35,394)	$ (23,602)
Change in liability for pension benefits, and deferred income tax (asset)/liability of $(1,643), $(9,555), $(4,282), in 2012, 2011, and 2010, respectively	$ 3,837	$ 22,295	$ 6,562
Repurchase and retirement of common stock	$ (2,953)	$ (1,090)	$ -
Exercise of stock options	$ 2,685	$ 1,090	$ -
Other			
Income taxes paid	$ 16,678	$ 19,664	$ 3,187
Interest paid	$ 8,310	$ 9,301	$ 11,925

27.Business Combination

2012 Acquisition

On January 18, 2012, TSM completed the acquisition of 90.8% of the outstanding capital stock of a health clinic in Puerto Rico. The cost of this acquisition was approximately $3,501, funded with unrestricted cash. The following table summarizes the net assets acquired as a result of this acquisition:

Cash	$816
Accounts receivable	1,466
Property and equipment	12,289
Intangible asset	2,730
Other assets	296
Accounts payable and accrued liabilities	(2,233)
Loans payable	(13,838)
Total net assets	1,526
Fair value of noncontrolling interest	(372)
Total net assets	$1,154

The acquisition is being accounted for under the purchase method of accounting and the health clinic is included in the Company's consolidated financial statements from the January 18, 2012 acquisition date. The preliminary allocation of purchase price to the fair value of the acquired assets less the liabilities assumed indicated goodwill of approximately $2.3 million. Goodwill will not be deductible for tax purposes and is attributable to synergies and economies of scale expected from the acquisition.

Triple-S Management Corporation
Notes to Consolidated Financial Statements
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2011 Acquisition

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

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

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

At January 31, 2011, we recognized intangible assets of $33,660 which are included within the consolidated other assets. During the years ended December 31, 2012 and 2011, we recognized amortization expense related to the intangible assets resulting from the AH transaction of $7,181 and $7,623, respectively.

The consolidated statement of earnings for year ended December 31, 2011 includes $433,112 and $1,154 related to AH operating revenues and net income, respectively. The following unaudited pro forma financial information presents the combined results of operations of the Company and AH as if the acquisition had occurred at the beginning of 2010. The unaudited pro forma financial information is not intended to represent or be indicative of the Company's consolidated results of operations that would have been reported had the acquisition been completed as of the beginning of the periods presented and should not be taken as indicative of the Company's future consolidated

results of operations.

(unaudited)		2011		2010
Operating revenues	$	2,181,390	$	2,373,261
Net Income	$	61,611	$	77,285
Basic net income per share	$	2.15	$	2.66
Diluted net income per share	$	2.14	$	2.64

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

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

- Interest expense – represents the interest expense related to the short-term reverse repurchase agreements amounting to $55.0 million to finance the first payment of the acquisition. This agreement was paid during the quarter of the acquisition. Total interest expense related to these reverse repurchase agreements was approximately $42.

- Net investment income - For year ended December 31, 2011, an additional bond discount amortization of approximately $11 was recorded.

- Current income tax expense – we recognized the tax effect of the other unaudited pro forma adjustments done to the statement of earnings. During the 2010 period the Company and AH were subject to Puerto Rico income taxes as regular corporations at the then enacted tax rate of 39% plus a temporary surtax of 5%. The enacted tax rate for the 2011 period was 30%.

28.Segment Information

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

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

- The segment is a qualified contractor to provide health coverage to federal government employees within Puerto Rico. Earned premiums revenue related to this contract amounted to $143,287, $138,004, and $130,803 for the three-year period ended December 31, 2012, 2011, and 2010, respectively (see note 11).

Under its commercial business, the segment also provides health coverage to certain employees of the Commonwealth of Puerto Rico and its instrumentalities. Earned premium revenue related to such health plans amounted to $46,969, $54,238, and $63,353 for the three-year period ended December 31, 2012, 2011, and 2010, respectively.

- The segment provides services through its Medicare health plans pursuant to a limited number of contracts with CMS. Earned premium revenue related to the Medicare business amounted to $1,073,454, $896,613, and $468,401 for the three-year period ended December 31, 2012, 2011, and 2010, respectively.

- The segment also participates in the Medicaid program to provide health coverage to medically indigent citizens in Puerto Rico, as defined by the laws of the government of Puerto Rico. Up to September 30, 2010, the segment provided managed care services to Medicaid members in the North and Southwest regions on a fully-insured basis and in the Metro-North region on an Administrative Service Only (ASO) basis. Effective November 1st, 2011, after signing a new contract with the government of Puerto Rico, the segment resumed the administration of the physical health component of the miSalud program (similar to Medicaid) in designated service regions in the Commonwealth of Puerto Rico on an ASO basis, in which it receives a monthly per-member, per-month administrative fee for its services and does not bear the insurance risk of the program. Earned premium revenue related to this business amounted to $50, $2,728, and $284,815 for each of the year in the three-year period ended December 31, 2012, 2011, and 2010, respectively. Administrative service fee for each of the year in the three-year period ended December 31, 2012, 2011, and 2010 amounted to $86,565, $14,180, and $12,535, respectively.

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

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

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

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

The following tables summarize the operations by operating segment for each of the years in the three-year period ended December 31, 2012, 2011, and 2010.

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Triple-S Management Corporation
Notes to Consolidated Financial Statements
December 31, 2012, 2011 and 2010
(dollar amounts in thousands, except per share data)

	2012	2011	2010
Operating revenues			
Managed care			
Premiums earned, net	$2,031,983	$1,844,723	$1,697,083
Fee revenue	110,110	38,459	39,546
Intersegment premiums/fee revenue	6,251	6,193	6,852
Net investment income	16,349	17,543	19,799
Total managed care	2,164,693	1,906,918	1,763,280
Life			
Premiums earned, net	124,279	112,704	105,437
Intersegment premiums	408	345	382
Net investment income	20,857	18,521	17,130
Total life	145,544	131,570	122,949
Property and casualty			
Premiums earned, net	97,092	97,041	98,580
Intersegment premiums	613	613	613
Net investment income	8,851	9,472	10,132
Total property and casualty	106,556	107,126	109,325
Other segments*			
Intersegment service revenues	15,080	16,079	45,852
Operating revenues from external sources	4,360	1,452	2
Total other segments	19,440	17,531	45,854
Total business segments	2,436,233	2,163,145	2,041,408
TSM operating revenues from external sources	729	1,238	2,082
Elimination of intersegment premiums	(7,272)	(7,151)	(7,847)
Elimination of intersegment service revenue	(15,080)	(16,079)	(45,852)
Consolidated operating revenues	$2,414,610	$2,141,153	$1,989,791

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

Triple-S Management Corporation
Notes to Consolidated Financial Statements
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	2012	2011	2010
Operating income			
Managed care	$47,025	$53,006	$63,798
Life	16,712	17,744	17,334
Property and casualty	6,760	4,544	3,579
Other segments*	(134)	671	1,161
Total business segments	70,363	75,965	85,872
TSM operating revenues from external sources	588	1,452	2,082
TSM unallocated operating expenses	(10,440)	(10,790)	(9,566)
Elimination of TSM charges	9,067	10,682	9,619
Consolidated operating income	69,578	77,309	88,007
Consolidated net realized investment gains (losses)	5,197	18,597	2,532
Consolidated net unrealized gain (loss) on trading securities	-	(7,267)	5,433
Consolidated interest expense	(10,599)	(10,855)	(12,658)
Consolidated other income (expense), net	2,196	716	889
Consolidated income before taxes	$66,372	$78,500	$84,203

	2012	2011	2010
Depreciation and amortization expense			
Managed care	$21,082	$19,467	$12,282
Life	746	649	674
Property and casualty	568	1,311	1,680
Other segments*	992	-	-
Total business segments	23,388	21,427	14,636
TSM depreciation expense	854	802	864
Consolidated depreciation and amortization expense	$24,242	$22,229	$15,500

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

Triple-S Management Corporation
Notes to Consolidated Financial Statements
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(dollar amounts in thousands, except per share data)

	2012	2011
Assets		
Managed care	$916,712	$832,850
Life	691,425	610,118
Property and casualty	356,161	348,480
Other segments*	31,480	15,846
Total business segments	1,995,778	1,807,294
Unallocated amounts related to TSM		
Cash, cash equivalents, and investments	41,334	53,172
Property and equipment, net	21,430	22,269
Other assets	29,858	27,794
	92,622	103,235
Elimination entries – intersegment receivables and others	(29,056)	(29,952)
Consolidated total assets	$2,059,344	$1,880,577

	2012	2011
Significant noncash items		
Net change in unrealized gain (loss) on securities available for sale		
Managed care	$11,750	$12,449
Life	15,189	21,698
Property and casualty	6,268	7,169
Other segments*	(194)	(50)
Total business segments	33,013	41,266
Amount related to TSM	1,365	(5,872)
Consolidated net change in unrealized gain on securities available for sale	$34,378	$35,394

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

29.Subsequent Events

Subsequent events are events and transactions that occur after the balance sheet date but before the financial statements are issued. The effects of subsequent events and transactions are recognized in the financial statements when they provide additional evidence about conditions that existed at the balance sheet date. The Corporation has evaluated events and transactions occurring subsequent to December 31, 2012.

On March 6, 2013, the Company announced its intention to convert 7 million of the 9 million outstanding Class A shares into Class B shares and to concurrently conduct a marketed secondary public offering for all or a substantial majority of the converted shares. The Company also announced its intention to repurchase up to $30,000 of Class B shares as a purchaser in the offering.

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

	As of December 31,	
	2012	2011
Assets:		
Cash and cash equivalents	$1,100	$6,676
Securities available for sale, at fair value:		
Fixed maturities (amortized cost of $38,526 in 2012 and $40,835 in 2011)	40,234	42,335
Equity Securities (cost of $3,950 in 2011)	-	4,161
Investment in subsidiaries	815,878	744,860
Notes receivable and accrued interest from subsidiaries	58,190	41,111
Due from subsidiaries	2,560	2,937
Deferred tax assets	26,831	24,834
Other assets	24,783	25,555
Total assets	$969,576	$892,469
Liabilities:		
Notes payable and accrued interest to subsidiaries	15,008	-
Due to subsidiary	5,865	14,927
Short-term borrowings	10,000	-
Long-term borrowings	87,747	114,387
Liability for pension benefits	82,019	77,547
Other liabilities	7,030	8,649
Total liabilities	207,669	215,510
Stockholders' equity:		
Common stock, class A	9,043	9,043
Common stock, class B	19,322	19,322
Additional paid-in-capital	144,677	144,302
Retained earnings	539,761	485,729
Accumulated other comprehensive income, net	49,104	18,563
Total stockholders' equity	761,907	676,959
Total liabilities and stockholders' equity	$969,576	$892,469

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

Triple-S Management Corporation
Schedule II
Condensed Financial Information of Triple-S Management Corporation
Triple-S Management Corporation
Statements of Earnings
(in thousands)

	2012	2011	2010
Investment income	$588	$3,416	$4,588
Other revenues	11,337	8,423	11,385
Total revenues	11,925	11,839	15,973
Operating expenses:			
General and administrative expenses	10,440	10,790	9,566
Interest expense	4,910	5,376	6,038
Total operating expenses	15,350	16,166	15,604
Income (loss) before income taxes	(3,425)	(4,327)	369
Income tax (benefit) expense	(321)	3,639	529
Income (loss) of parent company	(3,104)	(7,966)	(160)
Equity in net income of subsidiaries	57,136	66,002	66,961
Net income	$54,032	$58,036	$66,801

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

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

	2012	2011	2010
Net income	$54,032	$58,036	$66,801
Adjustment to reconcile net income to net cash provided by operating activities:			
Equity in net income of subsidiaries	(57,136)	(66,002)	(66,961)
Depreciation and amortization	854	802	865
Shared- based compensation	2,626	2,072	1,894
Deferred income tax (benefit) expense	(354)	3,660	392
Dividends received from subsidiaries	24,000	16,000	15,000
Other	(254)	1,315	(314)
Changes in assets and liabilities:			
Accrued interest from subsidiaries, net	2,929	3,029	2,214
Due from subsidiaries	377	(3,089)	2,552
Other assets	(67)	(859)	148
Due to subsidiaries	(9,062)	10,745	(153)
Other liabilities	(2,895)	(3,597)	(768)
Net cash provided by operating activities	15,050	22,112	21,670
Cash flows from investing activities:			
Acquisition of investment in securities classified as available for sale	-	(41,870)	(95,346)
Proceeds from sale and maturities of investment in securities classified as available for sale	6,513	58,351	71,782
Proceeds from maturities of investment in securities classified as held to maturity	-	1,010	-
Capitalization of subsidiary	-	-	(6,000)
Collection of note receivable from subsidiary	5,000	-	-
Issuance of note receivable to subsidiary	(25,000)	-	-
Acquisition of business	(3,501)	-	-
Net (acquisition) retirement of property and equipment	(15)	(2,359)	-
Net cash (used in) provided by investing activities	(17,003)	15,132	(29,564)
Cash flow from financing activities:			
Repayments of short-term borrowings	-	(15,575)	-
Repayments of long-term borrowings	(26,640)	(1,640)	(26,640)
Proceeds from short-term borrowings	10,000	-	15,575
Proceeds from long-term borrowings	-	-	25,000
Note payable to subsidiary	15,000	-	-
Repurchase of common stock	(2,299)	(11,289)	(6,235)
Cash settlement of stock options	-	(2,420)	-
Proceeds from exercise of stock options	316	189	-
Net cash provided by (used in) financing activities	(3,623)	(30,735)	7,700
Net increase (decrease) in cash and cash equivalents	(5,576)	6,509	(194)
Cash and cash equivalents, beginning of year	6,676	167	361
Cash and cash equivalents, end of year	$1,100	$6,676	$167

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

Triple-S Management Corporation
(Parent Company Only)
Notes to Condensed Financial Statements
December 31, 2012, 2011 and 2010
(dollar amounts in thousands)

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

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

(2) Significant Accounting Policies

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

(3) Long-Term Borrowings

A summary of the long-term borrowings entered into by the Company at December 31, 2012 and 2011 follows:

	2012	2011
Senior unsecured notes payable of $60,000 issued on December 2005; due December 2020. Interest is payable monthly at a fixed rate of 6.60%.	$35,000	$35,000
Senior unsecured notes payable of $35,000 issued on January 2006; due January 2021. Interest is payable monthly at a fixed rate of 6.70%.	10,000	35,000
Secured loan payable of $41,000, payable in monthly installments of $137 through July 1, 2024, plus interest at a rate reset periodically of 100 basis points over selected LIBOR maturity (which was 1.36% and 1.37% at December 31, 2012, and 2011, respectively).	17,747	19,387
Repurchase agreement of $25.0 million entered on November 2010, due November 2015. Interest is payable quarterly at a fixed rate of 1.96%.	25,000	25,000
Total borrowings	$87,747	$114,387

Triple-S Management Corporation
(Parent Company Only)
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December 31, 2012, 2011 and 2010
(dollar amounts in thousands)

Aggregate maturities of the Company's long term borrowings as of December 31, 2012 are summarized as follows:

Year ending December 31		
2013	$	1,640
2014		1,640
2015		26,640
2016		1,640
2017		1,640
Thereafter		54,547
	$	87,747

All of the Company's senior notes may be prepaid at par, in total or partially, five years after issuance as determined by the Company.

Debt issuance costs related to each of the Company's senior unsecured notes were deferred and are being amortized over the term of its respective senior note. Unamortized debt issuance costs related to these senior unsecured notes as of December 31, 2012 and 2011 amounted to $225 and $388, respectively and are included within other assets in the accompanying condensed balance sheets.

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

The repurchase agreement has pledged as collateral investment securities available for sale with fair value of $28,051 (face value of $27,835). The investment securities underlying such agreements were delivered to the financial institution with whom the agreement was transacted. The dealers may have loaned, or used as collateral securities in the normal course of business operations. We maintain effective control over the investment securities pledged as collateral and accordingly, such securities continue to be carried on the accompanying condensed balance sheets.

(4) Transactions with Related Parties

The following are the significant related parties transactions made for the three-year period ended December 31, 2012, 2011 and 2010:

		2012		2011		2010
Rent charges to subsidiaries	$	6,848	$	7,169	$	7,468
Interest charged to subsidiaries on notes receivable		1,996		1,971		2,786
Transfers in due to investments purchased		-		-		83,502
Transfers out due to investments sold		-		-		59,911

Triple-S Management Corporation
(Parent Company Only)
Notes to Condensed Financial Statements
December 31, 2012, 2011 and 2010
(dollar amounts in thousands)

As of December 31, 2012 the Company has three notes receivable from subsidiaries amounting to $57,000 pursuant to the provisions of Article 29.30 of the Puerto Rico Insurance Code. The notes receivable from subsidiaries are due on demand; however, pursuant to the requirements established by the Commissioner of Insurance, the parties agreed that no payment of the total principal nor the interest due on the loans will be made without first obtaining written authorization from the Commissioner of Insurance within at least 60 days prior to the proposed payment date. These notes bear interest at 4.7% at December 31, 2012 and 2011. Accrued interest at December 31, 2012 and 2011 amounted to $1,190 and $4,111, respectively.

As of December 31, 2012 the Company has a note payable to a subsidiary amounting to $15,000. The note is due on December 31, 2014 and bears interest at 4.7% at December 31, 2012. Accrued interest at December 31, 2012 amounted to $8.

Triple-S Management Corporation and Subsidiaries
Schedule III - Supplementary Insurance Information
For the years ended December 31, 2012, 2011 and 2010

(Dollar amounts in thousands) Segment	Deferred Policy Acquisition Costs and Value of Business Acquired	Claim Liabilities	Liability for Future Policy Benefits	Unearned Premiums	Other Policy Claims and Benefits Payable	Premium Revenue	Net Investment Income	Claims Incurred	Amortiza of Deferre Policy Acquisit Costs and Value of Busine Acquir
2012									
Managed care	$-	$284,832	$-	$5,772	$-	$2,033,503	$16,349	$1,806,395	$-
Life insurance	147,398	44,623	276,570	4,354	-	124,687	20,857	66,442	17,11
Property and casualty insurance	21,259	87,925	-	85,734	-	97,705	8,851	49,282	28,12
Other non-reportable segments, parent company operations and net consolidating entries.	-	(462)	-	-	-	(2,541)	733	(2,260)	-
Total	$168,657	$416,918	$276,570	$95,860	$-	$2,253,354	$46,790	$1,919,859	$45,24
2011									
Managed care	$-	$262,235	$-	$5,645	$-	$1,847,528	$17,543	$1,610,546	$-
Life insurance	134,178	43,386	254,194	3,947	-	113,049	18,521	57,546	17,10
Property and casualty insurance	21,610	85,638	-	85,180	-	97,654	9,472	48,162	29,47
Other non-reportable segments, parent company operations and net consolidating entries.	-	-	-	-	-	(3,763)	2,690	-	-
Total	$155,788	$391,259	$254,194	$94,772	$-	$2,054,468	$48,226	$1,716,254	$46,58
2010									
Managed care	$-	$236,170	$-	$4,600	$-	$1,700,252	$19,799	$1,497,756	$-
Life insurance	121,555	41,179	236,523	3,724	-	105,819	17,130	49,804	17,92
Property and casualty insurance	24,531	82,861	-	90,017	-	99,193	10,132	49,229	32,91
Other non-reportable segments, parent company operations and net consolidating entries.	-	-	-	-	-	(4,164)	2,084	-	-

Total	$146,086	$360,210	$236,523	$98,341	$-	$1,901,100	$49,145	$1,596,789	$50,83

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

Triple-S Management Corporation and Subsidiaries
Schedule IV - Reinsurance
For the years ended December 31, 2012, 2011 and 2010

(Dollar amounts in thousands)

	Gross Amount (1)	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
2012					
Life insurance in force	$9,579,944	$3,269,199	$-	$6,310,745	0.0 %
Premiums:					
Life insurance	$132,234	$7,955	$-	$124,279	0.0 %
Accident and health insurance	2,043,102	11,119	-	2,031,983	0.0 %
Property and casualty insurance	161,519	64,427	-	97,092	0.0 %
Total premiums	$2,336,855	$83,501	$-	$2,253,354	0.0 %
2011					
Life insurance in force	$9,163,854	$2,716,873	$-	$6,446,981	0.0 %
Premiums:					
Life insurance	$118,537	$5,833	$-	$112,704	0.0 %
Accident and health insurance	1,856,826	12,103	-	1,844,723	0.0 %
Property and casualty insurance	160,054	63,013	-	97,041	0.0 %
Total premiums	$2,135,417	$80,949	$-	$2,054,468	0.0 %
2010					
Life insurance in force	$8,926,668	$2,987,054	$-	$5,939,614	0.0 %
Premiums:					
Life insurance	$111,085	$5,648	$-	$105,437	0.0 %
Accident and health insurance	1,708,289	11,206	-	1,697,083	0.0 %
Property and casualty insurance	162,326	63,746	-	98,580	0.0 %
Total premiums	$1,981,700	$80,600	$-	$1,901,100	0.0 %

(1) Gross premiums amount is presented net of intercompany eliminations of $3,906, $3,763 and $4,164 for the years ended December 31, 2012, 2011 and 2010, respectively.

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

Triple-S Management Corporation and Subsidiaries
Schedule V - Valuation and Qualifying Accounts
For the years ended December 31, 2012, 2011 and 2010

(Dollar amounts in thousands)

		Additions			
	Balance at Beginning of Period	Charged to Costs and Expenses	Charged (Reversal) To Other Accounts - Describe (1)	Deductions - Describe (2)	Balance at End of Period
2012					
Allowance for doubtful receivables	$ 23,866	3,236	1,225	(3,898)	$24,429
2011					
Allowance for doubtful receivables	$ 20,034	7,657	(2,002)	(1,823)	$23,866
2010					
Allowance for doubtful receivables	$ 25,234	7,118	(9,967)	(2,351)	$20,034

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

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

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

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