TRIPLE-S MANAGEMENT CORP
Form 10-Q
August 05, 2009

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

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from __________ to __________

COMMISSION FILE NUMBER: 001-33865

Triple-S Management Corporation

(Exact name of registrant as specified in its charter)

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

(787) 749-4949

(Registrant s telephone number, including area code)

Not applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

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

Title of each class	Outstanding at July 31, 2009
Common Stock Class A, $1.00 par value	9,042,809
Common Stock Class B, $1.00 par value	20,361,063

Triple-S Management Corporation
FORM 10-Q
For the Quarter Ended June 30, 2009
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Part I Financial Information
Item 1. Financial Statements

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)
(Dollar amounts in thousands, except per share data)

	June 30, 2009	December 31, 2008
Assets		
Investments and cash:		
Equity securities held for trading, at fair value	$ 35,173	32,184
Securities available for sale, at fair value:		
Fixed maturities	910,813	887,684
Equity securities	63,889	68,629
Securities held to maturity, at amortized cost:		
Fixed maturities	19,006	21,753
Policy loans	5,521	5,451
Cash and cash equivalents	42,699	46,095
Total investments and cash	1,077,101	1,061,796
Premiums and other receivables, net	249,393	237,158
Deferred policy acquisition costs and value of business acquired	131,311	126,347
Property and equipment, net	63,105	58,448
Net deferred tax asset	29,169	25,195
Other assets	27,223	39,515
Total assets	$1,577,302	1,548,459
Liabilities and Stockholders Equity		
Claim liabilities:		
Claims processed and incomplete	$ 194,055	156,137
Unreported losses	150,792	150,079
Unpaid loss-adjustment expenses	19,067	17,494
Total claim liabilities	363,914	323,710
Liability for future policy benefits	215,226	207,545
Unearned premiums	96,780	110,141
Policyholder deposits	48,072	48,684
Liability to Federal Employees Health Benefits Program (FEHBP)	8,399	11,157
Accounts payable and accrued liabilities	142,242	148,713
Income tax payable	3,733	
Long-term borrowings	168,487	169,307
Liability for pension benefits	42,512	44,103

Total liabilities	**1,089,365**	1,063,360
Stockholders equity:		
Common stock Class A, $1 par value. Authorized 100,000,000 shares; issued and outstanding 9,042,809 at June 30, 2009 and December 31, 2008	**9,043**	9,043
Common stock Class B, $1 par value. Authorized 100,000,000 shares; issued and outstanding 20,361,063 and 22,104,989 shares at June 30, 2009 and December 31, 2008, respectively	**20,361**	22,105
Additional paid-in capital	**161,693**	179,504
Retained earnings	**314,704**	292,112
Accumulated other comprehensive loss	**(17,864)**	(17,665)
Total stockholders equity	**487,937**	485,099
Total liabilities and stockholders equity	**$1,577,302**	1,548,459

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings (Unaudited)
For the three months and six months ended June 30, 2009 and 2008
(Dollar amounts in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2009	**2008**	**2009**	**2008**
Revenues:				
Premiums earned, net	**$466,221**	419,157	**$918,705**	823,556
Administrative service fees	**11,319**	3,920	**20,185**	7,633
Net investment income	**13,360**	14,302	**25,901**	27,734
Total operating revenues	**490,900**	437,379	**964,791**	858,923
Net realized investment losses:				
Total other-than-temporary impairment losses on securities	**(3,052)**	(2,383)	**(5,713)**	(2,383)
Net realized gains, excluding other-than-temporary impairment losses on securities	**1,427**	642	**2,361**	1,251
Total net realized investment losses	**(1,625)**	(1,741)	**(3,352)**	(1,132)
Net unrealized investment gain (loss) on trading securities	**5,652**	(951)	**3,176**	(7,201)
Other income (expense), net	**704**	1,360	**325**	(161)
Total revenues	**495,631**	436,047	**964,940**	850,429
Benefits and expenses:				
Claims incurred	**398,420**	354,780	**792,952**	704,987
Operating expenses	**68,603**	61,399	**136,855**	121,430
Total operating costs	**467,023**	416,179	**929,807**	826,417
Interest expense	**3,357**	3,926	**6,621**	7,599
Total benefits and expenses	**470,380**	420,105	**936,428**	834,016
Income before taxes	**25,251**	15,942	**28,512**	16,413
Income tax expense (benefit):				
Current	**9,090**	4,291	**9,541**	4,107
Deferred	**(2,499)**	(486)	**(3,621)**	(1,033)
Total income taxes	**6,591**	3,805	**5,920**	3,074

Net income	**$ 18,660**	12,137	**$ 22,592**	13,339
Basic net income per share	**$ 0.64**	0.38	**$ 0.76**	0.41
Diluted net income per share	**$ 0.63**	0.38	**$ 0.76**	0.41

See accompanying notes to unaudited consolidated financial statements.

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity and Comprehensive Income (Loss) (Unaudited)
For the six months
ended June 30, 2009 and 2008
(Dollar amounts in thousands, except per share data)

	2009	2008
Balance at January 1	**$485,099**	482,538
Share-based compensation	**2,452**	1,530
Grant of restricted Class B common stock	**27**	20
Repurchase and retirement of common stock	**(22,034)**	
Other		(14)
Comprehensive income (loss):		
Net income	**22,592**	13,339
Net unrealized change in fair value of available for sale securities, net of taxes	**(733)**	(14,012)
Defined benefit pension plan:		
Actuarial loss, net	**664**	587
Prior service credit, net	**(130)**	(147)
Net change in fair value of cash flow hedges		(56)
Total comprehensive (loss) income	**22,393**	(289)
Balance at June 30	**$487,937**	483,785

See accompanying notes to unaudited consolidated financial statements.

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARES

Consolidated Statements of Cash Flows (Unaudited)
For the six months ended June 30, 2009 and 2008
(Dollar amounts in thousands, except per share data)

	Six months ended June 30,	
	2009	**2008**
Cash flows from operating activities:		
Net income	**$ 22,592**	13,339
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**4,219**	3,572
Net amortization of investments	**367**	377
Provision for doubtful receivables	**7,012**	176
Deferred tax benefit	**(4,192)**	(1,033)
Net loss on sale of securities	**3,352**	1,132
Net unrealized (gain) loss on trading securities	**(3,176)**	7,201
Share-based compensation	**2,479**	1,530
Proceeds from trading securities sold:		
Equity securities	**2,419**	22,094
Acquisition of securities in trading portfolio:		
Equity securities	**(2,609)**	(7,766)
Loss on sale of property and equipment		11
(Increase) decrease in assets:		
Premiums receivable	**(30,829)**	(43,157)
Agents balances	**5,728**	670
Accrued interest receivable	**947**	(3,720)
Other receivables	**4,313**	268
Reinsurance recoverable on paid losses	**826**	10,204
Deferred policy acquisition costs and value of business acquired	**(4,964)**	(4,214)
Prepaid income tax	**6,510**	(6,796)
Other assets	**5,782**	4,849
Increase (decrease) in liabilities:		
Claims processed and incomplete	**37,918**	(4,371)
Unreported losses	**713**	8,902
Unpaid loss-adjustment expenses	**1,573**	1,134
Liability for future policy benefits	**7,681**	6,488
Unearned premiums	**(13,361)**	(30,933)
Policyholder deposits	**457**	943
Liability to FEHBP	**(2,758)**	(5,357)
Accounts payable and accrued liabilities	**(7,604)**	(732)
Income tax payable	**3,733**	

Net cash provided by (used in) operating activities	**$ 49,128**	(25,189)

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the six months ended June 30, 2009 and 2008
(Dollar amounts in thousands, except per share data)

	Six months ended June 30, 2009	Six months ended June 30, 2008
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	**$ 114,876**	153,393
Fixed maturities matured/called	**123,995**	54,166
Equity securities	**1,629**	2,019
Securities held to maturity:		
Fixed maturities matured	**2,915**	19,526
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	**(250,641)**	(428,476)
Equity securities	**(2,286)**	(16,717)
Net (outflows) proceeds for policy loans	**(70)**	104
Net capital expenditures	**(8,876)**	(7,119)
Net cash used in investing activities	**(18,458)**	(223,104)
Cash flows from financing activities:		
Change in outstanding checks in excess of bank balances	**(10,143)**	15,649
Change in short-term borrowings		32,075
Repayments of long-term borrowings	**(820)**	(819)
Repurchase and retirement of common stock	**(22,034)**	
Proceeds from policyholder deposits	**2,547**	5,895
Surrenders of policyholder deposits	**(3,616)**	(3,383)
Other		6
Net cash (used in) provided by financing activities	**(34,066)**	49,423
Net decrease in cash and cash equivalents	**(3,396)**	(198,870)
Cash and cash equivalents at beginning of the period	**46,095**	240,153
Cash and cash equivalents at end of the period	**$ 42,699**	41,283

See accompanying notes to unaudited consolidated financial statements.

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
June 30, 2009
(Dollar amounts in thousands, except per share data)
(Unaudited)

(1) Basis of Presentation

The accompanying consolidated interim financial statements prepared by Triple-S Management Corporation and its subsidiaries are unaudited. In this filing, the Corporation , TSM , we , us and our refer to Triple-S Management Corporation and its subsidiaries. The consolidated interim financial statements do not include all of the information and the footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2008.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such consolidated interim financial statements have been included. The results of operations for the three months and six months ended June 30, 2009 are not necessarily indicative of the results for the full year.

(2) Recent Accounting Standards

In April 2009, the Financial Accounting Standards Board (FASB) issued the FASB Staff Position (FSP) 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*. This FSP amends and clarifies FASB Statement No. 141 (revised 2007), *Business Combinations*, to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of the FSP did not have impact on the Corporation s consolidated financial statements.

In April 2009, the FASB issued the FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The FSP is effective for interim and annual periods ending after June 15, 2009. The adoption of FSP 115-2 and FAS 124-2 did not have a material impact on the consolidated financial position and results of operations. See note 4, Investment in Securities, to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q for the required new disclosures as the result of the adoption of this FSP.

In April 2009, the FASB issued the FSP No. FAS 107-1 and APB 28-1, *Interim Disclosure about Fair Value of Financial Instruments*. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. The FSP is effective for interim and annual periods ending after June 15, 2009. The adoption of FSP 107-1 and APB 28-1 did not have an impact on the consolidated financial position and results of operations. See note 7, Fair Value Measurement, to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q for the required new disclosure as the result of the adoption of this FSP.

In April 2009, the FASB issued the FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FASB Staff Position (FSP) provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
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June 30, 2009
(Dollar amounts in thousands, except per share data)
(Unaudited)

significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. The FSP is effective for interim and annual periods ending after June 15, 2009. The adoption of FSP 157-4 had no impact on the consolidated financial position and results of operations.

In May 2009, the FASB issued the Statement of Financial Accounting Standard (SFAS) No. 165, *Subsequent Events (as amended).* This Statement establishes the general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This SFAS requires disclosure of the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. This Statement is effective for interim or annual financial periods ending after June 15, 2009. The adoption of the SFAS did not have impact on the Corporation s consolidated financial statements.

Other than the accounting pronouncements disclosed above, there were no other new accounting pronouncements issued during the six months ended June 30, 2009 that could have a material impact on the Corporation s financial position, operating results or financials statement disclosures.

(3) Segment Information

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

The following tables summarize the operations by major operating segment for the three months and six months ended June 30, 2009 and 2008:

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(Dollar amounts in thousands, except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009	**2008**	**2009**	**2008**
Operating revenues:				
Managed Care:				
Premiums earned, net	**$417,226**	$373,439	**$820,897**	$732,550
Administrative service fees	**11,319**	3,920	**20,185**	7,633
Intersegment premiums /service fees	**1,495**	1,660	**2,948**	3,310
Net investment income	**5,376**	6,075	**10,518**	11,677
Total managed care	**435,416**	385,094	**854,548**	755,170
Life Insurance:				
Premiums earned, net	**25,148**	22,783	**49,553**	44,912
Intersegment premiums	**94**	93	**185**	185
Net investment income	**4,383**	4,057	**8,387**	7,991
Total life insurance	**29,625**	26,933	**58,125**	53,088
Property and Casualty Insurance:				
Premiums earned, net	**23,846**	22,935	**48,254**	46,094
Intersegment premiums	**154**	152	**307**	306
Net investment income	**2,984**	3,059	**5,785**	6,023
Total property and casualty insurance	**26,984**	26,146	**54,346**	52,423
Other segments intersegment service revenues *	**13,210**	11,205	**25,114**	22,273
Total business segments	**505,235**	449,378	**992,133**	882,954
TSM operating revenues from external sources	**618**	1,111	**1,212**	2,043
Elimination of intersegment premiums	**(1,743)**	(1,905)	**(3,440)**	(3,801)
Elimination of intersegment service fees	**(13,210)**	(11,205)	**(25,114)**	(22,273)
Consolidated operating revenues	**$490,900**	$437,379	**$964,791**	858,923

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

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

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(Dollar amounts in thousands, except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009	**2008**	**2009**	**2008**
Operating income:				
Managed care	**$16,207**	13,970	**$21,982**	19,302
Life insurance	**3,912**	3,200	**6,946**	5,705
Property and casualty insurance	**2,802**	2,271	**4,149**	4,368
Other segments *	**235**	179	**362**	288
Total business segments	**23,156**	19,620	**33,439**	29,663
TSM operating revenues from external sources	**618**	1,111	**1,212**	2,043
TSM unallocated operating expenses	**(2,166)**	(2,016)	**(4,470)**	(4,156)
Elimination of TSM intersegment charges	**2,269**	2,485	**4,803**	4,956
Consolidated operating income	**23,877**	21,200	**34,984**	32,506
Consolidated net realized investment losses	**(1,625)**	(1,741)	**(3,352)**	(1,132)
Consolidated net unrealized gain (loss) on trading securities	**5,652**	(951)	**3,176**	(7,201)
Consolidated interest expense	**(3,357)**	(3,926)	**(6,621)**	(7,599)
Consolidated other income (expense), net	**704**	1,360	**325**	(161)
Consolidated income before taxes	**$25,251**	15,942	**$28,512**	16,413
Depreciation expense:				
Managed care	**$ 1,413**	1,008	**$ 2,728**	1,992
Life insurance	**165**	167	**310**	349
Property and casualty insurance	**378**	367	**750**	739
Total business segments	**1,956**	1,542	**3,788**	3,080
TSM depreciation expense	**216**	230	**431**	492
Consolidated depreciation expense	**$ 2,172**	1,772	**$ 4,219**	3,572

	June 30, 2009	December 31, 2008
Assets:		
Managed care	**$ 724,179**	678,889
Life insurance	**469,010**	460,109
Property and casualty insurance	**330,841**	337,869

Other segments *	**12,482**	12,620
Total business segments	**1,536,512**	1,489,487
Unallocated amounts related to TSM:		
Cash, cash equivalents, and investments	**34,557**	58,480
Property and equipment,net	**21,231**	21,648
Other assets	**4,329**	4,079
	60,117	84,207
Elimination entries-intersegment receivables and others	**(19,327)**	(25,235)
Consolidated total assets	**$1,577,302**	1,548,459

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

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
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(Dollar amounts in thousands, except per share data)
(Unaudited)

(4) Investment in Securities

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. Effective April 1, 2009, the Corporation adopted FSP 115-2 and 124-2. This interpretation significantly changed the Corporation s accounting policy regarding the timing and amount of other-than temporary impairments for available-for-sale debt securities. This guidance indicates that an other-than-temporary impairment must be recognized in earnings for a debt security in an unrealized loss position when an entity either (a) has the intent to sell the debt security or (b) more likely than not will be required to sell the debt security before its anticipated recovery. Prior to the adoption of this guidance the Corporation was required to record an other-than-temporary impairment for a debt security unless it could assert that it had both the intent and ability to hold the security for a period of time sufficient to allow for a recovery in its fair value to its amortized cost basis.

For all debt securities in unrealized loss positions that do not meet either of these two criteria, FSP FAS 115-2 and FAS 124-2 requires the Corporation to analyze its ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. The net present value is calculated by discounting the Corporation s best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment.

Under FSP FAS 115-2 and FAS 124-2, when an other-than-temporary impairment of a debt security has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Corporation intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the debt security meets either of these two criteria, the other-than temporary impairment recognized in earnings is equal to the entire difference between the security s amortized cost basis and its fair value at the impairment measurement date. For other-than-temporary impairments of debt securities that do not meet these two criteria, the net amount recognized in earnings is equal to the difference between the amortized cost of the debt security and the present value of the cash flow expected to be collected. Any difference between the fair value and the net present value of the debt security at the impairment measurement date is recorded in other comprehensive income (loss). Unrealized gains or losses on securities for which an other-than-temporary impairment has been recognized in earnings is tracked as a separate component of accumulated other comprehensive income (loss). Prior to the adoption of FSP FAS 115-2 and FAS 124-2, an other-than-temporary impairment recognized in earnings for debt securities was equal to the total difference between amortized cost and fair value at the time of impairment.

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

The amortized cost for debt securities and equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for trading, available-for-sale and held-to-maturity securities by major security type and class of security at June 30, 2009 and December 31, 2008, were as follows:

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
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June 30, 2009
(Dollar amounts in thousands, except per share data)
(Unaudited)

	June 30, 2009			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Trading securities:				
Equity securities	$40,660	3,152	(8,639)	35,173

	December 31, 2008			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Trading securities:				
Equity securities	$40,817	2,781	(11,444)	32,184

	June 30, 2009			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Securities available for sale:				
Obligations of government- sponsored enterprises	$378,841	4,317	(2,527)	380,631
U.S. Treasury securities and obligations of U.S. government instrumentalities	48,558	3,596		52,154
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	186,918	3,047	(4,159)	185,806
Municipal securities	52,617	1,326	(145)	53,798
Obligations of states of the United States and political subdivisions of the states	4,004	127		4,131
Corporate bonds	103,391	2,313	(3,161)	102,543
Residential agency mortgage-backed securities	18,553	526	(2)	19,077
Collateralized mortgage obligations	110,259	4,707	(2,293)	112,673
Total fixed maturities	903,141	19,959	(12,287)	910,813
Equity securities	65,829	3,510	(5,450)	63,889

Total	$968,970	23,469	(17,737)	974,702

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Notes to Consolidated Financial Statements
June 30, 2009
(Dollar amounts in thousands, except per share data)
(Unaudited)

	December 31, 2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Obligations of government-sponsored enterprises	$422,038	7,991	(220)	429,809
U.S. Treasury securities and obligations of U.S. government instrumentalities	78,024	11,961		89,985
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	121,934	448	(6,077)	116,305
Municipal securities	31,415	390	(6)	31,799
Obligations of states of the United States and political subdivisions of the states	4,196	36	(110)	4,122
Corporate bonds	100,745	1,625	(7,399)	94,971
Residential agency mortgage-backed securities	17,420	425	(3)	17,842
Collateralized mortgage obligations	103,891	1,287	(2,327)	102,851
Total fixed maturities	879,663	24,163	(16,142)	887,684
Equity securities	70,060	1,752	(3,183)	68,629
Total	$949,723	25,915	(19,325)	956,313

	June 30, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
Obligations of government-sponsored enterprises	$ 6,518	101		6,619
Residential agency mortgage-backed securities	1,385	9	(2)	1,392
U.S. Treasury securities and obligations of U.S. government instrumentalities	1,486	151		1,637
Corporate bonds	8,878	520		9,398
Certificates of deposit	739			739
Total	$19,006	781	(2)	19,785

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	December 31, 2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
Obligations of government-sponsored enterprises	$ 9,082	240		9,322
Residential agency mortgage-backed securities	1,749		(7)	1,742
U.S. Treasury securities and obligations of U.S. government instrumentalities	1,488	379		1,867
Corporate bonds	8,698	698		9,396
Certificates of deposit	736			736
Total	$21,753	1,317	(7)	23,063

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 June 30, 2009 were as follows:

	June 30, 2009					
	Less than 12 months		12 months or longer		Total	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
Securities available for sale:						
Obligations of government- sponsored enterprises	$107,836	(2,165)	24,753	(362)	132,589	(2,527)
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	71,954	(2,719)	22,350	(1,440)	94,304	(4,159)
Municipal securities	4,181	(145)			4,181	(145)
Corporate bonds	6,660	(496)	24,890	(2,665)	31,550	(3,161)
Residential agency mortgage-backed securities	179	(1)	36	(1)	215	(2)
Collateralized mortgage obligations	8,355	(1,247)	4,286	(1,046)	12,641	(2,293)

Total fixed maturities	199,165	(6,773)	76,315	(5,514)	275,480	(12,287)
Equity securities	26,387	(4,160)	13,798	(1,290)	40,185	(5,450)
Total for securities available for sale	$225,552	(10,933)	90,113	(6,804)	315,665	(17,737)
Securities held to maturity:						
Residential mortgage-backed securities	$		54	(2)	54	(2)

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	December 31, 2008					
	Less than 12 months		12 months or longer		Total	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
Securities available for sale:						
Obligations of government-sponsored enterprises	$ 16,550	(191)	2,956	(29)	19,506	(220)
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	79,045	(5,230)	8,932	(847)	87,977	(6,077)
Municipal securities			1,276	(6)	1,276	(6)
Obligations of states of the United States and political subdivisions of the states	2,223	(75)	183	(35)	2,406	(110)
Corporate bonds	31,324	(2,688)	29,044	(4,711)	60,368	(7,399)
Residential agency mortgage-backed securities	1,374	(2)	36	(1)	1,410	(3)
Collateralized mortgage obligations	5,797	(2,327)			5,797	(2,327)
Total fixed maturities	136,313	(10,513)	42,427	(5,629)	178,740	(16,142)
Equity securities	18,571	(2,190)	9,651	(993)	28,222	(3,183)
Total for securities available for sale	$154,884	(12,703)	52,078	(6,622)	206,962	(19,325)
Securities held to maturity:						
Residential mortgage-backed securities	$		1,741	(7)	1,741	(7)

The Corporation regularly monitors the difference between the cost and estimated fair value of investments. For investments with a fair value below cost, the process includes evaluating the length of time and the extent to which cost exceeds fair value, the prospects and financial condition of the issuer, whether the Corporation (a) has the intent to sell the debt security or (b) more likely than not will be required to sell the debt security before its anticipated recovery, and the probability to recuperate the unrealized loss, among other factors. This process is not exact and requires further consideration of risks such as credit and interest rate risks. Consequently, if an investment s cost exceeds its fair value solely due to changes in interest rates, impairment may not be appropriate. If after monitoring and analyzing, the Corporation determines that a decline in the estimated fair value of any available-for-sale or held-to-maturity security below cost is other than temporary, the carrying amount of the security is reduced to its fair value, as described above.

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

Obligations of Government-sponsored Enterprises, U.S. Treasury Securities and Obligations of U.S. Government Instrumentalities, Obligations of States of the United States and Political Subdivisions of the States, and Obligations of the Commonwealth of Puerto Rico and its Instrumentalities: The unrealized losses on the Corporation s investments in obligations of government-sponsored enterprises, U.S. Treasury securities and obligations of U.S. government instrumentalities, 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. Because the decline in fair value is attributable to changes in interest rates and not credit quality, the Corporation does not intend to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, and because the Corporation expects to collect all contractual cash flows, these investments are not considered other-than-temporarily impaired.

Corporate Bonds: Unrealized losses of these bonds were principally caused by fluctuations in interest rate increases and general market conditions. The fair value of these corporate bonds has improved during the six months ended June 30, 2009. Also, in addition, most of these corporate bonds have investment grade ratings. Because the decline in fair value is principally attributable to changes in interest rates, the Corporation does not intent to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, and because the Corporation expects to collect all contractual cash flows, these investments are not considered other-than-temporarily impaired.

Mortgage-Backed Securities and Collateralized Mortgage Obligations: The unrealized losses on investments in mortgage-backed securities and collateralized mortgage obligations (CMO) were caused by fluctuations in interest rate increases. The contractual cash flows of these securities are guaranteed by a U.S. government-sponsored enterprise.

The Corporation also has investments in private CMOs. Any loss in these securities is determined according to the seniority level of each tranche, with the least senior (or most junior), typically the unrated residual tranche, taking the initial loss. The investment grade credit rating of our securities reflects the seniority of the securities that we own. Because the decline in fair value is attributable to changes in interest rates and not credit quality, the Corporation does not intent to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, and because the Corporation expects to collect all contractual cash flows, these investments are not considered other-than-temporarily impaired.

Equity Securities: The Corporation s investment in equity securities classified as available for sale consist mainly of investments in common and preferred stock of domestic banking institutions and investments in several mutual funds. The unrealized loss experienced in the investment in common stocks of domestic banking institutions is mainly due to the general economic conditions in the past three years. The unrealized loss related to the Corporation s investments in preferred stock of domestic banking institutions and in investments in several mutual funds investing in fixed income securities is mainly caused by interest rate increases. Because the unrealized losses on equity securities were mainly caused by general economic conditions and because the Corporation has the ability and intent to hold these investments until a market price recovery, these investments are not considered other-than-temporarily impaired.

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Information regarding realized and unrealized gains and losses from investments for the three months and six months ended June 30, 2009 and 2008 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2009	**2008**	**2009**	**2008**
Realized gains (losses):				
Fixed maturity securities:				
Securities available for sale:				
Gross gains from sales	$ **1,814**	525	**3,057**	925
Gross losses from sales	**(3)**	(109)	**(3)**	(118)
Gross losses from other-than-temporary impairments		(2,355)	**(1,152)**	(2,355)
Total debt securities	**1,811**	(1,939)	**1,902**	(1,548)
Equity securities:				
Trading securities:				
Gross gains from sales	**102**	446	**320**	2,854
Gross losses from sales	**(452)**	(199)	**(730)**	(2,507)
Gross losses from other-than-temporary impairments		(28)		(28)
	(350)	219	**(410)**	319
Securities available for sale:				
Gross gains from sales				118
Gross losses from sales	**(34)**	(21)	**(283)**	(21)
Gross losses from other-than-temporary impairments	**(3,052)**		**(4,561)**	
	(3,086)	(21)	**(4,844)**	97
Total equity securities	**(3,436)**	198	**(5,254)**	416
Net realized gains (losses) on securities	$ **(1,625)**	(1,741)	**(3,352)**	(1,132)

During the three months and six months ended June 30, 2009, the Corporation recognized other-than-temporary impairments amounting to $3.1 and $5.7 million, respectively. During the three months and six months ended June 30, 2008, the Corporation recognized other-than-temporary impairments amounting to $2.4 million, each. The other-than-temporary impairment of $1.1 million for the six months ended June 30, 2009 on its fixed maturities securities is attributable to credit losses. The other-than-temporary impairment of $2.3 million for the three months and six months ended June 30, 2008 on its fixed maturities is attributable to credit losses.

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Contractual maturities of investment securities classified as available for sale and held to maturity were as follows at June 30, 2009:

	Amortized cost	Estimated fair value
Securities available for sale:		
Due in one year or less	$ 8,542	8,617
Due after one year through five years	94,214	93,731
Due after five years through ten years	251,022	256,098
Due after ten years	420,551	420,617
Collateralized mortgage obligations	110,259	112,673
Residential mortgage-backed securities	18,553	19,077
	$ 903,141	910,813
Securities held to maturity:		
Due in one year or less	$ 1,664	1,687
Due after one year through five years	8,878	9,398
Due after five years through ten years	3,800	3,851
Due after ten years	3,279	3,457
Residential mortgage-backed securities	1,385	1,392
	$ 19,006	19,785

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.

	Three months ended June 30,		Six months ended June 30,	
	2009	**2008**	**2009**	**2008**
Changes in net unrealized gains (losses):				
Recognized in income:				
Equity securities trading	$ **5,652**	(951)	**3,176**	(7,201)
Recognized in accumulated other comprehensive loss:				
Fixed maturities available for sale	$ **4,405**	(21,545)	**(349)**	(9,992)
Equity securities available for sale	**7,205**	(6,284)	**(509)**	(6,652)
	$ **11,610**	(27,829)	**(858)**	(16,644)

Not recognized in the consolidated financial statements:				
Fixed maturities held to maturity	$ **(369)**	(659)	**(531)**	(57)

The deferred tax liability on unrealized gains and losses recognized in accumulated other comprehensive income during the six months ended June 30, 2009 and 2008 aggregated $125 and $2,634, respectively.

As of June 30, 2009 and December 31, 2008, no investment in equity securities and no investments in obligations that are payable from and secured by the same source of revenue or taxing authority, other than investment instruments of the U.S. and the Commonwealth of Puerto Rico governments, exceeded 10% of stockholders equity.

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Components of net investment income were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2009	**2008**	**2009**	**2008**
Fixed maturities	$**11,745**	12,399	**22,869**	23,628
Equity securities	**1,165**	1,322	**2,093**	2,318
Policy loans	**99**	97	**197**	190
Cash equivalents and interest-bearing deposits	**152**	159	**359**	886
Other	**199**	325	**383**	712
Total	$**13,360**	14,302	**25,901**	27,734

(5) Premiums and Other Receivables

Premiums and other receivables as of June 30, 2009 and December 31, 2008 were as follows:

	June 30, 2009	**December 31, 2008**
Premiums	$**109,455**	90,315
Self-funded group receivables	**46,975**	35,749
FEHBP	**10,063**	9,600
Agents balances	**32,763**	38,491
Accrued interest	**10,855**	11,802
Reinsurance recoverable	**41,355**	42,181
Other	**19,684**	23,765
	271,150	251,903
Less allowance for doubtful receivables:		
Premiums	**17,121**	10,467
Other	**4,636**	4,278
	21,757	14,745
Total premiums and other receivables	$**249,393**	237,158

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(6) Claim Liabilities

The activity in the total claim liabilities for the three months and six months ended June 30, 2009 and 2008 is as follows:

	Three months ended	Six months ended