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 **TRIPLE-S** MANAGEMENT

Financial & Shareholder **Information**



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Special Note Regarding Forward-Looking Statements

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

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

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

- Trends in health care costs and utilization rates;
- Ability to secure sufficient premium rate increases;
- Competitor pricing below market trends of increasing costs;
- Re-estimates of our policy and contract liabilities;
- Changes in government laws and regulations of managed care, life insurance or property and casualty insurance;
- Significant acquisitions or divestitures by major competitors;
- Introduction and use of new prescription drugs and technologies;
- A downgrade in our financial strength ratings;
- Litigation or legislation targeted at managed care, life insurance or property and casualty insurance companies;
- Ability to contract with providers and government agencies consistent with past practice;
- Ability to successfully implement our disease management and utilization management programs;
- Ability to maintain Federal Employees, Medicare, and Medicaid contracts;
- Volatility in the securities markets and investment losses and defaults; and
- General economic downturns, major disasters, epidemics and pandemics.

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

2020 Financial Information

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Management's Discussion and Analysis of Financial Condition and Results of Operations

This financial discussion contains an analysis of our consolidated financial position and financial performance as of December 31, 2020 and 2019, and consolidated results of operations for 2020, 2019 and 2018. References to the terms "we," "our" or "us" used throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), refer to Triple-S Management Corporation (Triple-S, TSM, the Company, the Corporation, we, us or our) and unless the context otherwise requires, its direct and indirect subsidiaries. This analysis should be read in its entirety and in conjunction with the Consolidated Financial Statements, notes and tables included elsewhere in this Annual Report.

Executive Summary

Key developments in our business during 2020 are described below:

- Net income for the year was \$67.2 million, a decrease from a net income of \$92.9 million for the prior year. The decrease in net income primarily reflects the recognition of a \$32 million contingency reserve related to a legal proceeding in our Managed Care segment (see Note 25, *Contingencies*, of the Notes to Consolidated Financial Statements, in this Annual Report) and the impact of lower net unrealized gains on equity investments.
- Consolidated premiums earned, net increased 10.8% year over year, to \$3.6 billion, primarily reflecting an increase in membership and higher average premium rates within the Managed Care segment.
- Consolidated claims incurred for the year were \$2.9 billion, up 10.5% over last year, mostly reflecting higher claims incurred in the Managed Care segment by \$279.1 million mostly driven by higher enrollment. The consolidated loss ratio decreased 30 basis points, to 81.7%. The Managed Care segment's MLR was to 84.5%, down 10 basis points year over year.

Consolidated operating expenses for the year were \$655.9 million and the operating expense ratio was 18.1%, 60 basis points higher than last year mostly driven by the return of the HIP fee.

Overview Details

Triple-S is a health services company and one of the top players in the Puerto Rico health care industry. With more than 60 years of experience, we are the premier health care brand and serve more people through the most attractive provider networks on the island. We have the exclusive right to use the BCBS name and mark throughout Puerto Rico, the U.S. Virgin Islands (USVI), Costa Rica, the British Virgin Islands (BVI), and Anguilla, and we offer a broad portfolio of managed care and related products in the Commercial, Medicare Advantage and Medicaid markets. In the Commercial market, we offer products to corporate accounts, U.S. federal government employees, local government employees, individual accounts and Medicare Supplement. We also participate in the Government of Puerto Rico Health Insurance Plan, a government of Puerto Rico and U.S. federal government funded managed care program for the medically indigent that is similar to the Medicaid program in the U.S. (Medicaid or the Government health plan).

Our commitment to our valued customers and provider partners – backed by our heritage of excellent care, access and service – has positioned Triple-S for continued growth in the health care arena. Our progressive use of technology and clinical data, partnerships with care providers and initial investments in ambulatory and primary care assets are a strong foundation for differentiation and growth through the development of an integrated delivery system over the next several years. We believe continued investment and focus on delivering an excellent health care experience and great service, coupled with health management programs that improve outcomes and quality of life while reducing the total cost of care, will separate Triple-S from our competition and strengthen the financial performance of our business well into the future.

We participate in the managed care market through our subsidiaries, Triple-S Salud, Inc. (TSS); Triple-S Advantage, Inc. (TSA), and Triple-S Blue, Inc. I.I. (TSB). TSS, TSA and TSB are BCBS licensees. As of December 31, 2020, we served approximately 979,000 managed care members across all regions of Puerto Rico.

Triple-S is also a well-known brand in the life insurance and property and casualty insurance markets, with a significant share in each. We participate in the life insurance market through our subsidiary, Triple-S Vida, Inc. (TSV), and in the property and casualty insurance market through our subsidiary, Triple-S Propiedad, Inc. (TSP).

The Commissioner of Insurance of the Government of Puerto recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Puerto Rico insurance laws, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Commissioner of Insurance of Puerto Rico to financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) in making such determinations. See Note 26, *Statutory Accounting* of the Notes to Consolidated Financial Statements, in this Annual Report.

Intersegment revenues and expenses are reported on a gross basis in each of the operating segments but eliminated in the consolidated results. Except as otherwise indicated, the numbers presented in this Annual Report on Form 10-K do not reflect intersegment eliminations. These intersegment revenues and expenses affect the amounts reported on the financial statement line items for each segment, but are eliminated in consolidation and do not change net income. The following table shows Premiums Earned, Net and Administrative Service Fees and Operating Income for each segment, as well as the intersegment premiums earned, service revenues and other intersegment transactions, which are eliminated in the consolidated results:

<i>(Dollar amounts in millions)</i>	Years ended December 31,		
	2020	2019	2018
Premiums earned, net:			
Managed care	\$3,322.3	\$2,987.5	\$2,689.1
Life insurance	196.0	182.2	168.6
Property and casualty insurance	92.0	87.7	83.5
Intersegment premiums earned	(4.8)	(4.5)	(2.6)
Consolidated premiums earned, net	\$3,605.5	\$3,252.9	\$2,938.6
Administrative service fees:			
Managed care	\$ 13.0	\$ 14.3	\$ 19.1
Intersegment administrative service fees	(0.4)	(4.4)	(4.4)
Consolidated administrative service fees	\$ 12.6	\$ 9.9	\$ 14.7
Operating income (loss):			
Managed care	\$ 38.3	\$ 61.9	\$ 26.5
Life insurance	27.8	21.9	19.9
Property and casualty insurance	19.8	14.5	(110.1)
Intersegment and other	(4.0)	(0.6)	2.4
Consolidated operating income (loss)	\$ 81.9	\$ 97.7	\$ (61.3)

Revenue

General. Our revenue consists primarily of (i) premium revenue generated from our Managed Care segment, (ii) administrative service fees received for Managed Care services provided to self-insured employers, (iii) premiums we generate from our Life Insurance and Property and Casualty segments and (iv) investment income.

Premium Revenue. Our revenue primarily consists of premiums earned from the sale of managed care products to the Commercial, Medicare Advantage and Medicaid sectors. We receive a monthly payment from or on behalf of each member enrolled in our managed care plans (excluding ASO). We recognize all premium revenue in our Managed Care segment during the month in which we are obligated to provide services to an enrolled member. Premiums we receive in advance of that date are recorded as unearned premiums. See Note 2, *Significant Accounting Policies – Revenue Recognition* – of the Notes to Consolidated Financial Statements in this Annual Report.

Administrative Service Fees. Administrative service fees include amounts paid to us for administrative services provided to self-insured contracts. We provide a range of customer services pursuant to our ASO contracts, including claims administration, billing, access to our provider networks and membership services. Administrative service fees are recognized in the month in which services are provided.

Investment Income. Investment income consists of interest and dividend income from investment securities. See Note 5, *Net Investment Income* of the Notes to Consolidated Financial Statements in this Annual Report.

Other Operating Revenues. Other operating revenues primarily consist of revenues generated by the health clinics reporting unit.

Expenses

Claims Incurred. Our largest expense is the Managed Care segment's medical claims incurred, or the cost of medical services we arrange for our members. Medical claims incurred include the payment of benefits and losses, mostly to physicians, hospitals, pharmacies and other service providers, and to policyholders. We generally pay our providers on one of three forms: (1) fee-for-service contracts based on negotiated fee schedules; (2) capitation arrangements, generally on a fixed PMPM payment basis, whereby the provider generally assumes some of the medical expense risk; and (3) risk-sharing arrangements, whereby we advance a PMPM payment and share the risk of certain medical costs of our members with the provider based on actual experience as measured against pre-determined sharing ratios. Claims incurred also include claims incurred in our Life Insurance and Property and Casualty segments. Each segment's results of operations depend to a significant extent on our ability to accurately predict and effectively manage claims and losses. A portion of the claims incurred for each period consists of claims reported but not paid during the period, as well as a management and actuarial estimate of claims incurred but not reported during the period.

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

Operating Expenses. Operating expenses include commissions to external brokers, general and administrative expenses, cost containment expenses such as case and disease management programs,

and depreciation and amortization. The operating expense ratio is calculated by dividing Operating Expenses by Premiums Earned, Net, plus administrative service fees. A significant portion of our operating expenses are fixed costs. Accordingly, it is important that we maintain a certain level of business volume in order to compensate for the fixed costs. Significant changes in our volume of business will affect our operating expense ratio and results of operations. We also have variable costs, which vary in proportion to changes in business volume.

Membership

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

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

	As of December 31,		
	2020	2019	2018
Commercial ⁽¹⁾	419,658	440,669	449,047
Medicare	137,092	127,789	108,605
Medicaid	422,023	355,465	318,616
Total	978,773	923,923	876,268

- (1) Commercial membership includes corporate accounts, self-funded employers, individual accounts, Medicare Supplement, federal government employees and local government employees.

Results of Operations

Consolidated Operating Results

The following table sets forth our consolidated operating results for the years ended December 31, 2020, 2019, and 2018. Further details of the results of operations of each reportable segment are included in the analysis of operating results for the respective segments.

<i>(Dollar amounts in millions)</i>	2020	2019	2018
<i>Years ended December 31,</i>			
Revenues:			
Premiums earned, net	\$ 3,605.5	\$ 3,252.9	\$ 2,938.6
Administrative service fees	12.6	9.9	14.7
Net investment income	57.5	62.0	61.9
Other operating revenues	9.0	8.6	5.8
Total operating revenues	3,684.6	3,333.4	3,021.0
Net realized investment gains	0.6	5.8	0.3
Net unrealized investment gains (losses) on equity investments	7.6	32.2	(36.5)
Other income, net	9.6	4.2	11.3
Total revenues	3,702.4	3,375.6	2,996.1
Benefits and expenses:			
Claims incurred	2,946.8	2,666.3	2,527.6
Operating expenses	655.9	569.4	554.7
Total operating costs	3,602.7	3,235.7	3,082.3
Interest expense	8.0	7.6	6.9
Total benefits and expenses	3,610.7	3,243.3	3,089.2
Income (loss) before taxes	91.7	132.3	(93.1)
Income tax expense (benefit)	24.5	39.4	(29.8)
Net income (loss) attributable to TSM	\$ 67.2	\$ 92.9	\$ (63.3)

Year Ended December 31, 2020 Compared With the Year Ended December 31, 2019

Premiums Earned, Net

Consolidated premiums earned, net increased by \$352.6 million, or 10.8%, to \$3.6 billion during the year ended December 31, 2020. This increase primarily reflects higher premiums earned, net in the Managed Care segment by \$334.8 million due to higher average premium rates and fully insured member months across all Managed Care businesses.

Net Unrealized Investment Gains on Equity Investments

The \$7.6 million in consolidated net unrealized investment gains on equity investments reflect the impact of changes in equity markets.

Claims Incurred

Consolidated claims incurred increased by \$280.5 million, or 10.5%, to \$2.9 billion, during the year ended December 31, 2020 mostly due to the increase in membership. The consolidated loss ratio decreased 30 basis points, to 81.7%, from the prior year, mostly reflecting lower Managed Care utilization of services since mid-March as the result of the government-enforced lockdown during the COVID-19 pandemic and the effect on the MLR of the reinstatement of the HIP fee pass-through in 2020. These decreases were partially offset by the increased benefits in our 2020 Medicare product offering, unfavorable prior-period reserve development in the Managed Care segment and \$5.0 million of earthquake losses recorded by the Property and Casualty segment.

Following the government-enforced lockdown related to the COVID-19 pandemic in mid-March, we saw a decrease in utilization of Managed Care services as members and providers deferred non-emergent or elective health services. While this trend has caused, and may continue to cause, a short-term decrease in our claim costs, we experienced an increase in these costs during the second half of the year, that affected our medical cost trends as the demand for deferred non-emergent or elective health services resumed. The access to and demand for care was most constrained from mid-March through April, and began to recover in late May, gradually increasing to expected levels in the fourth quarter.

Operating Expenses

Consolidated operating expenses increased by \$86.5 million, or 15.2%, to \$655.9 billion. The increase in operating expenses mostly resulted from the reinstatement of the HIP fee in 2020 of \$55.5 million, the recognition of a \$32.0 million contingency reserve related to a legal proceeding in our Managed Care segment (see Note 25, *Contingencies* of the Notes to Consolidated Financial Statements in Item 8. *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K), higher amortization of deferred acquisition costs and higher business promotion expenses, mainly related to COVID-19 relief efforts. These increases were partially offset by lower professional fees and provision for doubtful accounts. The consolidated operating expense ratio increased 60 basis points, to 18.1%.

Income Taxes

Consolidated income tax expense for the year ended December 31, 2020 decreased by \$14.9 million, to \$24.5 million, primarily reflecting a lower taxable income in all segments in 2020.

Year Ended December 31, 2019 Compared With the Year Ended December 31, 2018

Premiums Earned, Net

Premiums earned, net increased by \$314.3 million, or 10.7%, to \$3.3 billion. This increase primarily reflects higher premiums in the Managed Care segment by \$298.4 million. The growth in managed care premiums reflects higher average premium rates across all lines of business and an increase in Medicare and Commercial fully insured membership. The increase was partially offset by lower Medicaid membership.

Net Unrealized Investment Gains on Equity Investments

The \$32.2 million in consolidated net unrealized investment gains on equity investments reflects the impact of changes in equity markets.

Claims Incurred

Consolidated claims incurred increased by \$138.7 million, or 5.5%, to \$2.7 billion, mostly driven by an increase in the claims incurred in the Managed Care segment of \$254.2 million, partially offset by lower claims incurred in the Property and Casualty segment of \$128.7 million. The increase in Managed Care claims primarily reflects higher Medicare and Commercial fully insured enrollment, offset in part by the decrease in Medicaid membership. The decrease in claims incurred in the Property and Casualty segment was due to prior year losses related to hurricane Maria. The consolidated loss ratio decreased by 400 basis points to 82.0%.

Operating Expenses

Consolidated operating expenses increased by \$14.7 million, or 2.7%, to \$569.4 million. The higher operating expenses are mostly the result of higher personnel costs, provision for bad debts, and commission expense; partially offset by the waiver of the 2019 HIP Fee. The consolidated expense ratio decreased 130 basis points to 17.5%.

Income taxes

Consolidated income tax expense for the year ended December 31, 2019 was \$39.4 million, compared to a benefit of \$29.8 million in 2018. The year over year change in income taxes primarily reflects higher taxable income in all segments and the 2018 loss before taxes in the Property and Casualty segment.

Managed Care Segment Operating Results

We offer our products in the Managed Care segment to three distinct market sectors in Puerto Rico: Commercial, Medicare Advantage and Medicaid. For the year ended December 31, 2020, the Commercial, Medicare and Medicaid sectors represented 22.6%, 43.1%, and 26.4% of our consolidated premiums earned, net, respectively.

<i>(Dollar amounts in millions)</i>	2020	2019	2018
Operating revenues:			
Medical premiums earned, net:			
Commercial	\$ 815.6	\$ 801.2	\$ 782.8
Medicare	1,553.5	1,408.0	1,130.3
Medicaid	953.2	778.3	776.0
Medical premiums earned, net	3,322.3	2,987.5	2,689.1
Administrative service fees	13.0	14.3	19.1
Net investment income	20.8	23.5	23.8
Total operating revenues	3,356.1	3,025.3	2,732.0
Medical operating costs:			
Medical claims incurred	2,805.7	2,526.7	2,272.5
Medical operating expenses	512.1	436.7	433.0
Total medical operating costs	3,317.8	2,963.4	2,705.5
Medical operating income	\$ 38.3	\$ 61.9	\$ 26.5
Additional data:			
Member months enrollment:			
Commercial:			
Fully insured	3,882,185	3,844,106	3,775,441
Self-funded	1,285,366	1,426,353	1,732,219
Total Commercial member months	5,167,551	5,270,459	5,507,660
Medicare member months	1,631,059	1,540,476	1,337,061
Medicaid member months	4,515,196	4,257,181	4,555,702
Total member months	11,313,806	11,068,116	11,400,423
Medical loss ratio	84.5%	84.6%	84.5%
Operating expense ratio	15.4%	14.5%	16.0%

Year Ended December 31, 2020 Compared With the Year Ended December 31, 2019

Medical Premiums Earned, Net

Medical premiums earned increased by \$334.8 million, or 11.2%, to \$3.3 billion. This increase is principally the result of the following:

- Premiums generated by the Medicare business increased by \$145.5 million, or 10.3%, to \$1.6 billion, mostly due to higher average premium rates, reflecting an increase in the CMS benchmark, and higher member months enrollment by approximately 91,000.
- Premiums generated by the Medicaid business increased by \$174.9 million, or 22.5%, to \$953.2 million, primarily reflecting higher average premium rates following the premium rates increases

that became effective on November 1, 2019, May 1, 2020 and July 1, 2020, an increase in enrollment of approximately 258,000 member months, the reinstatement of the HIP fee pass-through in 2020, and a profit-sharing accrual recorded in 2019.

- Premiums generated by the Commercial business increased by \$14.4 million, or 1.8%, to \$815.6 million. This fluctuation primarily reflects higher fully insured enrollment during the year by approximately 38,000 member months and higher average premium rates, mostly due to the reinstatement of the HIP fee pass-through in 2020.

Medical Claims Incurred

Managed Care claims incurred increased by \$279.0 million, or 11.0%, to \$2.8 billion when compared to the year ended December 31, 2019. The MLR of the segment decreased 10 basis points during 2020, to 84.5%. This fluctuation is primarily attributed to the net effect of the following:

- Claims incurred in the Medicare business increased by \$132.2 million, or 11.8%, during the 2020 period and its MLR increased 110 basis points, to 80.9%. The increase in claims incurred is due to higher member months, improved benefits in product offerings, and unfavorable prior-period reserve development, partially offset by lower utilization of services as the result of the government-enforced lockdown during the COVID-19 pandemic.
- Claims incurred in the Medicaid business increased by \$162.0 million, or 21.8%, during 2020 and its MLR decreased 50 basis points, to 94.9%. The increase in claim cost is due to higher member months, and unfavorable prior-period reserve development in the 2020 period. Lower MLR, reflected higher premium rates and the reinstatement of the HIP fee pass-through in 2020. In addition, the 2020 MLR reflects lower utilization of services as the result of the government-enforced lockdown during the COVID-19 pandemic.
- Claims incurred in the Commercial business decreased by \$15.1 million, or 2.3%, during 2020 and its MLR decreased 330 basis points, to 79.1%. These decreases mostly result from lower utilization related to the COVID-19 lockdown, partially offset by the higher fully insured enrollment and an unfavorable change in prior-period reserve developments when compared to the 2019 period. In addition, the lower MLR was impacted by the reinstatement of the HIP fee pass-through in 2020.

Medical Operating Expenses

Managed Care operating expenses increased by \$75.4 million, or 17.3%, to \$512.1 million. The operating expense ratio increased 90 basis points, to 15.4% in 2020. The higher operating expenses mostly resulted from the reinstatement in 2020 of the HIP fee of \$55.5 million, the recognition of \$32.0 million as a contingency reserve related to a legal proceeding (see Note 25, *Contingencies* of the Notes to Consolidated Financial Statements in this Annual Report), and expenses related to providing much-needed assistance to seniors to help them manage through the COVID-19 pandemic, offset in part by a decrease in the provision for doubtful accounts and professional fees.

Year Ended December 31, 2019 Compared With the Year Ended December 31, 2018

Medical Premiums Earned, Net

Medical premiums earned increased by \$298.4 million, or 11.1%, to \$3.0 billion. This increase is principally the result of the following:

- Medical premiums generated by the Medicare business increased by \$277.7 million, or 24.6%, to \$1,408.0 million, primarily reflecting an increase in enrollment of approximately 203,000 member months and higher average premium rates, mainly reflecting higher membership risk score in 2019 and an increase in reimbursement rates.
- Medical premiums generated by the Commercial business increased by \$18.4 million, or 2.4%, to \$801.2 million. This fluctuation primarily reflects higher fully insured member months during the year by approximately 69,000 member months and higher average premium rates, offset in part by \$12.1 million related to the suspension of the HIP fee pass-through in 2019.
- Medical premiums generated by the Medicaid business increased by \$2.3 million, or 0.3%, to \$778.3 million. This increase primarily reflects higher premiums rates, offset by a decrease of \$14.5 million related to the suspension of the HIP fee pass-through in 2019 and lower enrollment by approximately 299,000 member months. The decrease in membership follows the lower membership assigned to us by ASES when implementing the current Medicaid contract, which was effective November 1, 2018.

Medical Claims Incurred

Medical claims incurred increased by \$254.2 million, or 11.2%, to \$2.5 billion. The MLR of the segment increased 10 basis points during the 2019 period, to 84.6%. This fluctuation is primarily attributed to the net effect of the following:

- The medical claims incurred of the Medicare business increased by \$183.1 million, or 19.5%, during the 2019 period mostly driven by higher enrollment. The MLR at 79.8% was 340 basis points lower than the same period last year, driven by favorable prior period reserve developments in 2019 and the impact of cost containment initiatives. These decreases were partially offset by improved benefits in the 2019 product offerings.
- The medical claims incurred of the Medicaid business increased by \$55.5 million, or 8.1%, during the 2019 period. The MLR at 95.4% was 690 basis points higher than the same period last year. The increased MLR reflects the higher required target MLR of the current Medicaid contract, the impact of the elimination of the HIP fee pass-through in 2019, and a timing difference in the recognition of member acuity in premiums. The current Medicaid contract requires a minimum MLR of 92%, including allocation of health care quality improvements expenses.
- The medical claims incurred of the Commercial business increased by \$15.6 million, or 2.4%, during the 2019 period and its MLR, remained steady at 82.4% despite impact of the elimination of the HIP fee pass-through in 2019. The HIP Fee pass-through lowered the 2018 MLR by approximately 130 basis points.

Medical Operating Expenses

Medical operating expenses increased by \$3.7 million, or 0.9%, to \$436.7 million. The higher operating expenses are mainly due to an increase in personnel costs, provision for bad debts, and commission expense, partially offset by the waiver of the 2019 HIP fee. The operating expense ratio decreased 150 basis points, to 14.5%, in 2019.

Life Insurance Segment Operating Results

<i>(Dollar amounts in millions)</i>	2020	2019	2018
<i>Years ended December 31,</i>			
Operating revenues:			
Premiums earned, net:			
Premiums earned	\$ 205.9	\$ 188.4	\$ 175.3
Assumed earned premiums	0.1	2.1	2.1
Ceded premiums earned	(10.0)	(8.3)	(8.8)
Premiums earned, net	196.0	182.2	168.6
Net investment income	27.3	27.3	25.6
Total operating revenues	223.3	209.5	194.2
Operating costs:			
Policy benefits and claims incurred	107.2	105.9	99.0
Underwriting and other expenses	88.3	81.7	75.3
Total operating costs	195.5	187.6	174.3
Operating income	\$ 27.8	\$ 21.9	\$ 19.9
Additional data:			
Loss ratio	54.7%	58.1%	58.7%
Expense ratio	45.1%	44.8%	44.7%

Year Ended December 31, 2020 Compared With the Year Ended December 31, 2019

Operating Revenues

Premiums earned, net increased by \$13.8 million, or 7.6%, to \$196.0 million, mainly as the result of higher sales across all lines of business, mainly in the Individual Life, Cancer and Group lines of business, and the acquisition of an insurance portfolio during the second quarter of 2020.

Policy Benefits and Claims Incurred

Policy benefits and claims incurred increased by \$1.3 million, or 1.2%, to \$107.2 million, mostly as the result of higher actuarial reserves following portfolio growth offset in part by a slowdown in claim trends in the Cancer and Accidental Death lines of business due to the COVID-19 lockdown. The segment's loss ratio decreased 340 basis points, to 54.7%.

Underwriting and Other Expenses

Underwriting and other expenses increased \$6.6 million, or 8.1%, to \$88.3 million, mostly reflecting higher amortization of deferred acquisition costs as a result of higher lapses during the COVID-19 lockdown. The segment's operating expense ratio increased 30 basis points to 45.1%.

Year Ended December 31, 2019 Compared With the Year Ended December 31, 2018

Operating Revenues

Premiums earned, net increased by \$13.6 million, or 8.1% to \$182.2 million, mainly as the result of higher sales and improved policy retention in the Individual Life and Cancer lines of business.

Policy Benefits and Claims Incurred

Policy benefits and claims incurred increased by \$6.9 million, or 7.0%, to \$105.9 million, mostly resulting from higher volume of sales and actuarial reserves following improved portfolio persistency during 2019. The segment's loss ratio decreased 60 basis points, to 58.1%.

Underwriting and Other Expenses

Underwriting and other expenses increased by \$6.4 million, or 8.5%, to \$81.7 million mostly resulting from higher commission expense reflecting the segment's higher volume of business and improved portfolio persistency. As a result, the segment's operating expense ratio increased 10 basis points, to 44.8%.

Property and Casualty Segment Operating Results

<i>(Dollar amounts in millions)</i>	2020	2019	2018
<i>Years ended December 31,</i>			
Operating revenues:			
Premiums earned, net:			
Premiums written	\$ 157.9	\$ 150.5	\$ 139.8
Premiums ceded	(61.1)	(52.3)	(60.4)
Change in unearned premiums	(4.8)	(10.5)	4.1
Premiums earned, net	92.0	87.7	83.5
Net investment income	9.0	9.8	10.8
Total operating revenues	101.0	97.5	94.3
Operating costs:			
Claims incurred	35.1	39.6	159.9
Underwriting and other operating expenses	46.0	43.4	44.5
Total operating costs	81.1	83.0	204.4
Operating income (loss)	\$ 19.9	\$ 14.5	\$ (110.1)
Additional data:			
Loss ratio	38.2%	45.2%	191.5%
Expense ratio	50.0%	49.5%	53.3%

Year Ended December 31, 2020 Compared With the Year Ended December 31, 2019

Operating Revenues

Total premiums written increased by \$7.4 million, or 4.9%, to \$157.9 million, mostly driven by higher premiums, particularly in Commercial Auto, Commercial Package and Personal Package products.

The premiums ceded to reinsurers increased by \$8.8 million, or 16.8%, mostly due to approximately \$3.0 million of reinsurance reinstatement premiums following losses recorded after the earthquakes in the southwest region of Puerto Rico in January 2020, as well as higher premiums written.

The lower change in unearned premiums had a favorable impact on premiums earned of \$5.7 million when compared to prior year, mostly reflecting higher premiums written and the effect of changes in the current year's reinsurance program.

Claims Incurred

Claims incurred decreased by \$4.5 million, or 11.4%, to \$35.1 million because of better loss experience in the segment's on-going business from the effects of the COVID-19 measures and lockdown, partially offset by the recognition of \$5.0 million of earthquake losses after the January 2020 events. As a result, the loss ratio decreased by 700 basis points, to 38.2% during this period.

Underwriting and Other Expenses

Underwriting and other operating expenses increased by \$2.6 million, or 6.0%, to \$46.0 million, mostly because of higher net commission expense following the increase in net premiums earned. Current year net commission expense is affected by a lower capitalization of deferred acquisition costs. The operating expense ratio was 50.0%, 50 basis points higher than prior year.

Year Ended December 31, 2019 Compared With the Year Ended December 31, 2018

Operating Revenues

Total premiums written increased by \$10.7 million, or 7.7%, to \$150.5 million, driven by higher volume of Commercial and Personal Package, Commercial Auto and Commercial Liability products. This increase in volume was offset by lower sales of Commercial Property products, mostly resulting from the selective and disciplined underwriting of Commercial risks.

The premiums ceded to reinsurers decreased by \$8.1 million, or 13.4%, mostly reflecting a decrease in cessions in the Commercial quota share agreement from 35% in 2017 to 25% since April 2019, as well as the impact of the related incoming portfolio transfer. These decreases were offset in part by higher non-proportional reinsurance costs, mostly in property catastrophe reinsurance.

The \$14.6 million decrease in the change in unearned premiums reflects the segments higher premiums written in 2019.

Claims Incurred

Claims incurred decreased by \$120.3 million, or 75.2%, to \$39.6 million driven by a \$128.7 million unfavorable prior period reserve development in claims in prior year related to Hurricane Maria. As a result, the segment's loss ratio decreased to 45.2%.

Underwriting and Other Expenses

Underwriting and other operating expenses decreased by \$1.1 million, or 2.5%, to \$43.4 million mostly due to lower net commission expense. The segment's operating expense ratio decreased by 380 basis points, to 49.5%.

Liquidity and Capital Resources

Cash Flows

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

(Dollar amounts in millions)

	2020	2019	2018
Sources (uses) of cash:			
Cash provided by (used in) operating activities	\$ 257.8	\$ (16.8)	\$ 7.5
Net purchases of investment securities	(186.4)	(4.7)	(12.6)
Net capital expenditures	(57.9)	(20.8)	(19.8)
Capital contribution to equity method investees	(8.2)	(11.4)	-
Proceeds from long-term borrowings	30.8	-	-
Payments of long-term borrowings	(3.9)	(3.2)	(3.2)
Proceeds from policyholder deposits	25.7	28.9	18.5
Surrenders of policyholder deposits	(15.1)	(19.9)	(26.7)
Repurchase and retirement of common stock	(15.0)	(10.0)	(22.4)
Net change in short-term borrowings	(24.0)	54.0	-
Other	(2.6)	(3.8)	(22.7)
Net increase (decrease) in cash and cash equivalents	\$ 1.2	\$ (7.7)	\$ (81.4)

Year Ended December 31, 2020 Compared With the Year Ended December 31, 2019

The increase of approximately \$274.6 million in net cash provided by operating activities is mostly the result of higher premium collections due to the growth in volume of business, a reduction in account receivable and an increase in accounts payable, partially offset by higher claims paid, due to increased volume of business, cash paid to suppliers, employees and income taxes.

Net purchases from investment securities are part of our asset/liability management strategy.

On June 19, 2020, TSM entered into a \$31.4 million Credit Agreement (the Loan) with a commercial bank in Puerto Rico. The proceeds of the Loan were used by the Company to partially finance the acquisition of a building (the Building), which is included in Capital Expenditures in the Statement of Cash Flows. For further details, see Note 13, *Borrowing* of the Notes to Consolidated Financial Statements, in this Annual Report.

The increase in capital contribution reflects capital contributions in exchange for a participation in equity method investees.

The net change in short-term borrowings represents the repayment of short-term facilities available to address timing differences between cash receipts and disbursements.

In August 2017, the Company's Board of Directors authorized a \$30.0 million repurchase program of its Class B common stock and in February 2018 the Company's Board of Directors authorized a \$25.0 million expansion of this program. In October 2019, the Company's Board of Directors authorized an additional expansion to this program increasing its remaining balance up to a total of \$25.0 million, effective November 2019. 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 the year ended December 31, 2020, the Company repurchased and retired under this program 952,820 shares at an average per share price of \$15.72, for an aggregate cost of \$15.0 million, completing the amount available for repurchases under this program.

Year Ended December 31, 2019 Compared With the Year Ended December 31, 2018

Cash flows from operating activities decreased by \$24.3 million during the year ended December 31, 2019, mostly due to higher claims paid by \$296.6 million partially offset by an increase in premium collections of \$223.6 million; both fluctuations reflected the increased volume in 2019. In addition, cash paid to suppliers and employees decreased by \$45.5 million when compared to the prior year.

Decrease in net purchases of investments in securities are part of our asset/liability management strategy.

Increase in capital contribution reflects capital contributions in exchange for fifty percent participation in equity method investees.

In August 2017, the Company's Board of Directors authorized a \$30.0 million repurchase program of its Class B common stock (2017 Repurchase Program). In February 2018 the Company's Board of Directors authorized a \$25.0 million expansion of this program. In October 2019 the Company's Board of Directors authorized an additional expansion to this program increasing its remaining balance up to a total of \$25.0 million, effective November 2019. 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 the year 2019, the Company repurchased and retired 527,881 shares of our Class B Common Stock shares at an average per share price of \$18.92, for an aggregate cost of \$10.0 million.

The net change in short-term borrowings represents the outstanding balance of short-term facilities available to address timing differences between cash receipts and disbursements.

Decrease in other uses of cash reflects the change in outstanding checks in excess of bank balances.

Stock Repurchase Program

The Company repurchases shares through open market transactions, in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended, under repurchase programs authorized by the Board of Directors. Shares purchased under share repurchase programs are retired and returned to authorized and unissued status. See Note 19, *Stock Repurchase Program* of the Notes to Consolidated Financial Statements in this Annual Report.

Financing and Financing Capacity

Long-Term Borrowings

TSM has a \$35.5 million credit agreement with a commercial bank in Puerto Rico. The agreement consists of three term loans: (i) Term Loan A in the principal amount of \$11.2 million, (ii) Term Loan B in the principal amount of \$20.2 million, and (iii) Term Loan C in the principal amount of \$4.1 million. Term Loan A matures in October 2023, while Term Loans B and C mature in January 2024. Term Loan A was used to refinance a previous \$41.0 million secured loan payable with the same commercial bank. Pursuant to the credit agreement, interest is payable on the outstanding balance of the Loan at the following annual rate: (i) 100 basis points over LIBOR for Term Loan A, (ii) 275 basis points over LIBOR for Term Loan B, and, (iii) 325 basis points over LIBOR for Term Loan C. The loan includes certain financial and non-financial covenants, which are customary for this type of facility, including negative covenants imposing certain restrictions on the Company's business. Failure to meet these covenants may trigger the accelerated payment of the outstanding balance. The Company was in compliance with these covenants as of December 31, 2020.

As detailed above the three term loans under our credit agreement with a commercial bank in Puerto Rico bear interest rates in relation to 1-month and 3-month LIBOR, a widely used interest rate benchmark.

In July 2017, the Financial Conduct Authority (FCA) in the United Kingdom, which regulates LIBOR, announced that it would phase out this benchmark by the end of 2021. In response, the U.S. Federal Reserve convened the Alternative Reference Rates Committee (ARRC), a working group comprised of private market participants, to ensure a transition to a new reference rate.

The ARRC has recommended the use of the Secured Overnight Financing Rate (SOFR), which is an index based on the cost of borrowing overnight cash collateralized by U.S. Treasury securities. Currently, there is no definitive information regarding the future use of SOFR as a widely accepted benchmark or any other replacement rate.

If LIBOR rates are no longer available, we are subject to an alternative benchmark rate, as defined in the credit agreement of our long-term bank loan. At this time we cannot assess the impact, if any, on the interest paid on this loan. Alternatively, the loan could be refinanced by us without prepayment penalties.

We will closely follow any new developments regarding the LIBOR phase out.

On June 19, 2020, TSM entered into a \$31.4 million Credit Agreement with a commercial bank in Puerto Rico. The proceeds were used by the Company to partially finance the acquisition of the Building. The Credit Agreement is guaranteed by a mortgage over the Building, a pledge of all collateral related to the Building and an assignment of the rents collected for the lease of office space in the Building. Approximately 64.25% of the acquired Building is currently leased to third parties. The Company expects to move within the next year some of its offices currently leased to third parties to the new Building and together with the leased space to fully occupy the new facilities. Pursuant to the Credit Agreement, interest is payable on the outstanding principal balance of the Loan at an annual rate equal to the Prime Rate. Monthly interest payments commenced on July 1, 2020, and will continue to be paid each month until the principal of the Loan has been paid in full.

The Company may, at its option and at any time, upon notice as specified in the Credit Agreement, prepay prior to maturity, all or any part of the Loan upon the payment of a penalty fee of the outstanding principal amount at the time of the prepayment of 3% during the first year, 2% during the second year, 1% during the third year and thereafter at par.

The Credit Agreement includes certain customary financial and non-financial covenants, including negative covenants imposing certain restrictions on the Corporation's business. The Company was in compliance with these covenants as of December 31, 2020.

For further details, see Note 13, *Borrowings* of the Notes to Consolidated Financial Statements in this Annual Report.

Short-Term Facilities

We have several short-term facilities available to address timing differences between cash receipts and disbursements, consisting of collateralized advances from the Federal Home Loan Bank of New York (FHLBNY), repurchase agreements, and a revolving credit facility.

- In August 2019, TSS and TSV became members of the FHLBNY, which provides access to collateralized advances. The borrowing capacity of TSS and TSV is up to 30% of their admitted assets as disclosed in the most recent filing with the Commissioner of Insurance but is constrained by the amount of collateral held at the FHLBNY. See Note 3, *Investment in Securities* of the Notes to Consolidated Financial Statements, in this Annual Report. As of December 31, 2020 and 2019, the borrowing capacity was approximately \$200.3 million and \$131.1 million, respectively. The outstanding balance as of December 31, 2020 and 2019 was \$30.0 million and \$54.0 million, respectively. The average interest rate of the outstanding balances was 0.33% and 1.79% as of December 31, 2020 and 2019, respectively.
- As of December 31, 2020, TSS has \$35.0 million of available credit under repurchase agreements with broker-dealers, which are short-term borrowing facilities using securities as collateral. There were no outstanding short-term borrowings under these facilities as of December 31, 2020.
- TSA has a \$10.0 million revolving loan agreement with a commercial bank in Puerto Rico. This line of credit has an interest rate of 30-day LIBOR plus 250 basis points and contains certain financial and non-financial covenants that are customary for this type of facility. This line of credit matures on June 30, 2021 and had no outstanding balance as of December 31, 2020.

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

Contractual Obligations

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

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

- Alternative investments – The Company has \$52.6 million of unfunded capital commitments related to alternative investments. These commitments were excluded from this disclosure due to the undetermined timing of their cash flows.
- Unearned premiums – This amount accounts for the premiums collected prior to the end of coverage period and does not represent a future cash outflow. As of December 31, 2020, we had \$97.5 million in unearned premiums.
- Policyholder deposits – The cash outflows related to these instruments are not included because they do not have defined maturities, such that the timing of payments and withdrawals is uncertain. There are currently no significant policyholder deposits in paying status. As of December 31, 2020, our policyholder deposits had a carrying amount of \$206.1 million.
- Other long-term liabilities – Due to the indeterminate nature of their cash outflows, \$199.8 million of other long-term liabilities are not reflected in the following table, consisting of \$139.6 million of liability for pension benefits, \$45.1 million in liabilities to the Federal Employees' Health Benefits Plan Program and \$15.1 million in deferred tax liabilities.

Contractual obligations by year							
(Dollar amounts in millions)	Total	2021	2022	2023	2024	2025	Thereafter
Borrowings (1)	\$ 90.5	\$ 36.3	\$ 6.1	\$ 6.5	\$ 15.4	\$ 26.2	\$ -
Operating leases	15.1	4.0	3.4	2.3	1.9	0.7	2.8
Purchase obligations (2)	300.4	291.8	5.1	2.7	0.6	0.1	0.1
Claim liabilities (3)	640.9	520.3	87.2	14.6	7.2	3.7	7.9
Estimated obligation for future policy benefits (4)	759.3	149.9	134.2	126.6	119.6	112.8	116.2
	\$ 1,806.2	\$ 1,002.3	\$ 236.0	\$ 152.7	\$ 144.7	\$ 143.5	\$ 127.0

- (1) As of December 31, 2020, our long-term borrowings consist of credit agreements with commercial banks in Puerto Rico. Short-term borrowings represent the outstanding balance of short-term facilities available to address timing differences between cash receipts and disbursements. See the "Financing and Financing Capacity" section for additional information regarding our borrowings
- (2) Purchase obligations represent payments required by us under material agreements to purchase goods or services that are enforceable and legally binding and where all significant terms are specified, including: quantities to be purchased, price provisions and the timing of the transaction. Other purchase orders made in the ordinary course of business for which we are not liable are excluded from the table above. Estimated pension plan contributions amounting to \$10.0 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, 2020. 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 \$344.0 million of reserves had been ceded at December 31, 2020.

- (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, 2020 and are gross of any reinsurance recoverable. The \$759.3 million total estimated cash flows for all years in the table is different from the Liability of Future Policy Benefits of \$415.0 million included in our 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. These regulations, among other things, require insurance companies to maintain certain levels of capital, thereby restricting the amount of earnings that can be distributed by the insurance subsidiaries to TSM. As of December 31, 2020, our insurance subsidiaries were in compliance with such minimum capital requirements.

These regulations are not directly applicable to TSM, as a holding company, since it is not an insurance company.

The \$35.5 million credit agreement limits the amount of dividends or other distributions (including share repurchases) payable by the Corporation to \$50.0 million per year.

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

Solvency Regulation

To monitor the solvency of the operations, the BCBSA requires us, TSS, TSA, and TSB 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, 2020, TSM, TSS and TSA comply with minimum BCBSA RBC requirement to avoid monitoring. BCBSA's primary licensees could be subject to monitoring if, over a 6 or 12 month period, its RBC ratio declines by 80 or more points and which results in a level that is below 500%. A larger controlled affiliate or smaller controlled affiliate with RBC levels lower than required, could avoid monitoring if the primary licensee has an RBC higher than 500%.

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, Puerto Rico, and Costa Rica government authorities, regularly make inquiries and conduct audits concerning our compliance with applicable insurance and other laws and regulations.

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. For a description of our legal proceedings, see Note 25, *Contingencies*, of the Notes to Consolidated Financial Statements, in this Annual Report.

Guarantee Associations and Other Regulatory Commitments

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 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. In 2019, two local property and casualty insurance companies entered a liquidation process; accordingly, the property and casualty guarantee fund initiated the process to settle unpaid claims and return unearned premiums of the insolvent insurers. In December 2019, the guarantee fund determined and imposed an assessment to cover claims and return premiums, payable in two installments during 2020 based on premiums written in 2018. TSP's share in this assessment was \$912 thousand. Annual assessments are limited to 2% of direct premiums written, as defined. TSP accrued \$716 thousand to cover its estimate of assessments based in premiums written in 2019 and loss data made available by the guaranty fund. In accordance with insurance laws and regulations, assessments are recoverable through policy surcharges upon the approval by the Commissioner of Insurance. During 2018, no assessment or payment was made for this contingency. 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 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 segment shares risks with other member companies and, accordingly, is contingently liable in the event the syndicate cannot meet their obligations. During 2020, 2019, and 2018, 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 December 2018, SIMED declared a distribution to its members; the TSP's share of this distribution was \$2.9 million, which is presented with Other Income in the accompanying Consolidated Statement of Earnings.

In addition, 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 2020, 2019 and 2018, the Association distributed to the Company \$0.2 million each year, respectively, based on the good experience of the business. In June 2017, the Association declared a special dividend of \$70.0 million as authorized by a recent amendment to the Act creating the Association. The distribution was subject to a unique and special tax rate of 50%. The dividend was paid net of its related tax in December 2018. The share of the Property and Casualty segment in this distribution was \$2.4 million.

The Property and Casualty segment is also member of the Puerto Rico Fire and Allied Lines Underwriting Association and the Puerto Rico Auto Assign Plan. These entities periodically impose assessments to cover operations and other charges. The assessments recorded from these entities were \$1 thousand, \$10 thousand, and \$9 thousand in 2020, 2019 and 2018, respectively.

Critical Accounting Estimates

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

The policies discussed below are considered by management to be critical to an understanding of our consolidated 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, 2020 were as follows:

(Dollar amounts in millions)

Managed care	\$	444.4
Property and casualty insurance		292.8
Life insurance		49.9
Consolidated	\$	787.1

Management continually evaluates the potential impact of changes in the factors considered for 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 Life Insurance and Property and Casualty segments. 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 including those caused by epidemic conditions, health care 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, 2020, claim liabilities for the Managed Care segment amounted to \$444.4 million and represented 56.5% of our total consolidated claim liabilities and 21.0% 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 consolidated financial statement date to estimate the ultimate claim expense incurred for the current period. Actuarial estimates of claim liabilities are then determined by subtracting the actual paid claims from the estimate of the total expected claims incurred. The majority of unpaid claims, both reported and unreported, for any period, are those claims which are incurred in the final months of the period. Since the percentage of claims paid during the period with respect to claims incurred in those months is generally very low, the above-described completion factor methodology is less reliable for such months. In order to complement the analysis to determine the unpaid claims, historical completion factors and payment patterns are applied to incurred and paid claims for the most recent twelve months and compared to the prior twelve month period. Incurred claims for the most recent twelve months also take into account recent claims expense levels and health care trend levels (trend factors). Using all of the above methodologies, our actuaries determine based on the different circumstances the unpaid claims as of the end of period.

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

Managed Care claim liabilities also include a provision for adverse deviation, which is an estimate for known environmental factors that are reasonably likely to affect the required level of reserves. This provision for adverse deviation is intended to capture the potential adverse development from known environmental factors such as our entry into new geographical markets, changes in our geographic or product mix, the introduction of new customer populations, variation in benefit utilization, disease outbreaks, changes in provider reimbursement, fluctuations in medical cost trend, variation in claim submission patterns and variation in claims processing speed and payment patterns, changes in technology that provide faster access to claims data or change the speed of adjudication and settlement of claims, variability in claim inventory levels, non-standard claim development and/or exceptional situations that require judgmental adjustments in setting the reserves for claims.

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 of prior period liabilities to re-estimated claim liabilities based on subsequent claims development is also considered in making the liability determination. In the actuarial process, the methods and assumptions are not changed as reserves are recalculated, but rather the availability of additional paid claims information drives our changes in the re-estimate of the unpaid claim liability. 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 93% 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 97% 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 Consolidated Statement of Earnings and Balance Sheets could be affected 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 the determination of our claim liabilities. The following example provides the estimated impact on our December 31, 2020 claim liabilities, assuming the indicated hypothetical changes in completion and trend factors:

(Dollar amounts in millions)

Completion Factor ¹		Claims Trend Factor ²	
(Decrease) Increase		(Decrease) Increase	
In completion factor	In unpaid claim liabilities	In claims trend factor	In unpaid claim liabilities
-1.2%	\$20.4	1.5%	\$22.5
-0.8%	13.5	1.0%	15.0
-0.4%	6.7	0.5%	7.5
0.4%	(6.7)	-0.5%	(7.5)
0.8%	(13.3)	-1.0%	(15.0)
1.2%	(19.8)	-1.5%	(22.5)

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

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

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

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately settled. Liabilities at any year-end are continually reviewed and re-estimated as information regarding actual claims payments or run-out becomes known. This information is compared to the originally established year-end liability. Negative amounts reported for incurred claims related to prior years result from claims being settled for amounts less than originally estimated. The reverse is true of reserve shortfalls. Medical claim liabilities are usually described as having a "short tail", which means that they are generally paid within several months of the member receiving service from the provider. Accordingly, the majority, or approximately 93%, of any redundancy or shortfall relates to claims incurred in the previous calendar year-end, with the remaining 7% 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 11, *Claim Liabilities and Claim Adjustment Expenses* of the Notes to Consolidated Financial Statements, in this Annual Report. This table shows that the segments' estimates of this liability have approximated the actual development.

(Dollar amounts in millions)

	2019	2018	2017
Years ended December 31,			
Total incurred claims:			
As reported (1)	\$ 2,556.0	\$ 2,308.5	\$ 2,231.1
On a retrospective basis	2,590.7	2,279.2	2,195.1
Variance	\$ (34.7)	\$ 29.3	\$ 36.0
Variance to total incurred claims as reported	-1.4%	1.3%	1.6%

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

Management expects that substantially all of the development of the 2020 estimate of medical claims payable will be known during 2021.

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 to address differences between cash receipts and disbursements.

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

Life Insurance Segment

At December 31, 2020, claim liabilities for the Life Insurance segment amounted to \$49.9 million and represented 6.3% of total consolidated claim liabilities and 2.4% 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, for unreported claims, on estimates based on past experience modified for current trends. 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 about 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 Segment

At December 31, 2020, claim liabilities for the Property and Casualty segment amounted to \$292.8 million and represented 37.2% of the total consolidated claim liabilities and 13.8% of our total consolidated liabilities. Claims liabilities related to losses caused by catastrophe events amounted to approximately \$216.1 million.

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. Hurricane losses initially include the use of models from industry recognized firms having data, historical and current information about the events to estimate ultimate losses. These estimates are supplemented by internal estimates of other costs deemed necessary to develop the ultimate losses. As loss information emerges, claims are separated between those with solid estimates and those for which we cannot make a reasonable estimate of ultimate cost of claim. Additional reserves are provided based on paid loss experience for unreported, potential development, and loss expenses.

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 a 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, including the severity and frequency of such claims, 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, 2020, the claim liabilities of the Property and Casualty segment fall within the actuarial reserve range determined by the actuaries. 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 \$5.2 million.

Liability for Future Policy Benefits

Our Life Insurance segment establishes, and carries as liabilities, actuarially determined amounts that are calculated to meet its policy obligations when a policy matures or surrenders, an insured die, 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 of 3.90% in 2020, 4.40% in 2019 and ranging from 3.90% to 5.75% in 2018, 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. Deferred annuity reserves are carried at the account value.

For deferred annuities and universal life products, the liability for future policy benefits is equal to total policy account values. The liabilities for all other products 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. Policy portfolio valuations are performed 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 deferred annuities and universal life products, 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 incurred for acquiring life and property and casualty insurance business are deferred. Acquisition costs related to the Managed Care segment are expensed as incurred.

The costs of acquiring new life business, principally commissions, and certain variable underwriting and policy issue expenses of our Life Insurance segment, have been deferred. These costs, including value of business acquired (VOBA) recorded upon our acquisitions of TSV and TSB, 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 (DPAC or DAC) of revisions to estimated gross profits (unlock adjustment) is reported in earnings in the period such estimated gross profits are revised.

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

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

Impairment of Investments

An investment is considered to be impaired when the estimated fair value is below the amortized cost of the security and it is more likely than not the Company will have to sell the fixed-maturity security before the recovery of its amortized cost basis. Management regularly monitors and evaluates the difference between the amortized cost and estimated fair value of fixed-maturity investments and other invested assets. For fixed-maturity securities with a fair value below amortized cost, the process includes evaluating:

(1) the extent to which the estimated fair value has been less than amortized cost, (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, and (5) other factors, as applicable. 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 estimated fair value solely due to changes in interest rates, an allowance for credit losses is not recorded.

Because of the subjective nature of the Company's analysis and the judgment that must be applied in it, the Company could reach a different conclusion about whether to impair a security if it had access to additional information about the investee. Additionally, it is possible that the investee's ability to meet future contractual obligations may be different than what the Company determined during its analysis, which may lead to a different impairment conclusion in future periods.

If a fixed-maturity security is in an unrealized loss position and the Company has the intent to sell the 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 Company will write off any previously recognized allowance for credit losses and will decrease the amortized cost basis of the security. If the allowance has been fully written off and the fair value is less than its amortized cost basis, the amortized cost basis is written down and an impairment loss is recognized in the Company's Consolidated Statements of Earnings.

The credit component of the 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. If there is an increase in the projected future cash flows of the fixed-maturity security in subsequent periods, all or part of the allowance for credit losses may be reversed.

In addition, the Company considers the following factors when evaluating whether or not a credit loss exists: the reasons for the impairment, the severity of the impairment, market conditions, changes in the security's rating, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry in which the investee operates.

Management reviews the available-for-sale and other invested assets portfolios under the Company's impairment review policy. Given market conditions and the significant judgments involved, there is a continuing risk that declines in fair value may occur and material allowances for credit losses may be recorded in future periods. The Company from time to time may sell investments as part of its asset/liability management process or to reposition its investment portfolio based on current and expected market conditions.

During the years ended December 31, 2020, 2019 and 2018, we were not required to recognize a credit-related impairment. The impairment analysis indicated that none of the securities whose carrying amount exceeded its estimated fair value was considered credit impaired as of that date; however, several factors are beyond management's control, such as the following: financial condition of the issuers, 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 the recognition of realized losses because of credit-related impairments that are charged against future income.

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

A detail of the gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2020 and 2019 is included in Note 3, *Investment in Securities* of the Notes to Consolidated Financial Statements in this Annual Report.

Allowance for Doubtful Receivables

We estimate the amount of uncollectible receivables in each period and establish an allowance for doubtful receivables considering, among other things, the continued deterioration of the local economy, the exposure to government accounts and the challenging business environment in the Island. The allowance for doubtful receivables amounted to \$50.7 million and \$56.5 million as of December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the Company had premiums and other receivables of 52.5 million and \$49.2 million, respectively, from the Government of Puerto Rico, including its agencies, municipalities, and public corporations. The related allowance for doubtful receivables as of December 31, 2020 and 2019 was \$21.5 million and \$22.1 million, respectively. The amount of the allowance is based on the aging 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, 2020 were \$28.6 million and \$1.4 million, respectively. At December 31, 2019 the consolidated goodwill and other intangible assets were \$28.6 million and \$1.9 million, respectively. The goodwill and other intangible assets balance for both years were primarily related to the acquisition of TSA in 2011. As of December 31, 2020 and 2019, the goodwill related to TSA was \$25.0 million. As of December 31, 2020 and 2019 other intangible assets related to the TSA acquisition were \$1.4 million and \$1.9 million, respectively.

We account for goodwill and intangible assets with indefinite lives in accordance with Accounting Standard Codification (ASC) No. 350, *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 this guidance, goodwill is not amortized but is tested for impairment at least annually and 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.

Our impairment 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. The Company may perform a qualitative analysis or perform a quantitative analysis. In the qualitative analysis, the Company determines if it is more likely than not that the fair value of a reporting unit is less than its carrying amount by assessing current events and circumstances. If there are factors present indicating potential impairment, the Company would proceed to the quantitative analysis. The quantitative analysis is used to identify potential goodwill impairment and measure the amount (if any) of a goodwill impairment loss to be recognized. The goodwill impairment is determined by comparing the fair value of a reporting unit to its carrying amount and recognizing an impairment charge for the difference by which the carrying amount exceeds the reporting unit's fair value, up to the carrying amount of the goodwill.

Our goodwill impairment test uses the income and market approach to estimate a reporting unit's fair value. Use of the income and market approach for our goodwill impairment test reflects our view that valuation methodology provides 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. 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. The market approach is developed based upon the valuation multiples of various financial or operational measures calculated using the market value of minority interest in publicly traded guideline companies. These multiples are then applied to the relevant financial or operational metrics of the interest and used to develop an estimate of value.

We completed our annual impairment tests of existing goodwill during the fourth quarter of 2020 and 2019. Limited interim impairment tests are also performed when potential impairment indicators exist or other changes in our business occur. If we do not achieve our earnings objectives or the cost of capital rises significantly, the assumptions and estimates underlying these impairment evaluations could be adversely affected and result in future impairment charges that would negatively impact our operating results. The result of the impairment test performed in 2020 and 2019 indicated that the fair value of the TSA unit exceeded its carrying value by approximately 25% and 35%, respectively.

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 Consolidated Financial Statements. See Note 2, *Significant Accounting Policies* of the Notes to Consolidated Financial Statements in this Annual Report.

Recently Issued Accounting Standards

For a description of our recently issued accounting standards, see Note 2, *Significant Accounting Policies* of the Notes to Consolidated Financial Statements in this Annual Report.

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

Market Risk Exposure

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

Our investment portfolio consists mainly of investment grade fixed-maturity securities and a smaller portion is held in equity securities and alternative investments. 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 is regularly evaluated.

The investment portfolio is centrally managed by investment professionals and decisions are taken based on the guidelines and limitations described in our Investment Policy and the Puerto Rico Insurance Code. The Investment Policy is approved by the Board of Directors following the recommendation of 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 Investment Policy is adhered to and any exception must be reported to the Investment and Financing Committee.

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 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 price risks, for which potential losses could arise from adverse changes in the value of these investments.

Risk Measurement

Our investment securities are a source of market risk. As of December 31, 2020, approximately 72% of our investment portfolio consisted of fixed-maturity securities. The remaining balance is comprised of equity securities and alternative investments. Our fixed-maturity securities classified as available-for-sale and alternative investments 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. Fixed-maturity securities classified as held-to-maturity are recorded at amortized cost and adjusted for the amortization or accretion of premiums or discounts. Equity securities are recorded at fair value and changes in fair value are included in earnings. 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.

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 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, if cash flows information is available. The following table sets forth the result of this analysis for the years ended December 31, 2020 and 2019. The analysis does not consider any action that management can take to mitigate the impact of changes in market rates.

(Dollar amounts in millions)

Change in Interest Rates	Expected Fair Value	Amount of Decrease	% Change
December 31, 2020:			
Base Scenario	\$ 1,343.5		
+100 bp	1,288.6	(54.9)	(4.1)%
+200 bp	1,232.9	(110.6)	(8.2)%
+300 bp	1,178.8	(164.7)	(12.3)%
December 31, 2019:			
Base Scenario	\$ 1,244.9		
+100 bp	1,187.4	(57.5)	(4.3)%
+200 bp	1,130.8	(114.1)	(8.5)%
+300 bp	1,077.0	(167.9)	(12.5)%

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 less likely given historical precedents. Although we classify 99.9% of our fixed-maturity 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 are composed of mutual funds whose underlying assets are comprised of domestic equity securities, domestic preferred equity securities, international equity securities and higher risk fixed-income instruments. The fixed income mutual funds invest mainly in loan participations and high yield debt. The securities in these funds are issued 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 credit risk. We manage these exposures 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, 2020 and 2019, the hypothetical loss in the fair value of these investments would have been approximately \$40.3 million and \$28.8 million, respectively.

Alternative Price Risk

Our alternative investments in the available-for-sale portfolio are comprised of commitments to limited liability partnerships. These private funds call capital over time and invest in various asset classes such as traditional private equity, infrastructure equity, real estate debt and corporate debt. These investments are unrated, illiquid and expose us to a variety of underlying risks. We manage these exposures by closely monitoring the performance of these funds. The fair value of alternative investments is estimated using the net asset value of the Company's ownership interest in the partnerships as a practical expedient to determining an independent fair value.

Assuming an immediate decrease of 10% in the market value of our alternative investments as of December 31, 2020 and 2019, the hypothetical loss in the fair value of these investments would have been approximately \$13.4 million and \$10.1 million, respectively.

Other Risk Measurement

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

Triple-S Management Corporation and Subsidiaries

**Consolidated Financial Statements
December 31, 2020, 2019, and 2018**

To Our Stockholders

Management's Report on Internal Control Over Financial Reporting

The management of Triple-S Management Corporation (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of "internal control over financial reporting," as defined under Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Company's President and Chief Executive Officer and Executive Vice President 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.

Management, under the supervision and with the participation of the President and Chief Financial Officer and the Executive Vice President and Chief Executive Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, based on criteria described in the "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on May 14, 2013. 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, 2020 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.

The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which appears herein.



Roberto García-Rodríguez
President & CEO



Juan J. Román-Jiménez
Executive Vice President & CFO

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Triple-S Management Corporation and subsidiaries (the "Company") as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 26, 2021 expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

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.



San Juan, Puerto Rico
February 26, 2021

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Triple-S Management Corporation and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2021 expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Goodwill – Medicare Advantage Reporting Unit — Refer to Notes 2 and 9 the financial statements

Critical Audit Matter Description

The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. The Company determines the fair value of the reporting unit using the income approach and the market approach. The determination of fair value using the income approach requires management to make significant estimates and assumptions related to future premiums, medical loss ratio, operating expenses and net income and discount rate based on industry's weighted average cost of capital. The market approach is developed upon the valuation multiples of various financial or operational measures calculated using the market value of minority interest in publicly traded guideline companies.

Changes in these assumptions could have a significant impact on either the fair value, the amount of any goodwill impairment charge, or both. The fair value of the Medicare Advantage reporting unit exceeded the carrying value as of the measurement date and, therefore, no impairment was recognized.

We identified goodwill as a critical audit matter because of the significant judgments made by management to estimate the fair value of the reporting unit. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists, when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions of the income approach related to the selection of the discount rate and forecasts of future premiums, medical loss ratio, operating expenses and net income.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures to evaluate the reasonableness of management's estimates and assumptions of the income approach related to the discount rate and forecast of future premiums, medical loss ratio, operating expenses and net income ("forecasts") for the Medicare Advantage reporting unit included the following among others:

- We tested the effectiveness of controls over management's goodwill impairment evaluation, including those over the forecasts and the selection of the discount rates.
- We evaluated management's ability to accurately forecast by comparing actual results to management's historical forecasts.
- We evaluated the reasonableness of management's forecasts by comparing forecasts to (1) historical results, (2) internal communications to management and the Board of Directors, and (3) forecasted information included in press releases, analyst and industry reports of the Company and companies in its peer group.
- We considered the impact of changes in the regulatory environment on management's forecasts.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the (1) valuation methodology, including testing the mathematical accuracy of the calculation and (2) discount rate and company specific risks by:
 - Testing the source information underlying the determination of the discount rate and the mathematical accuracy of the calculation
 - Developing a range of independent discount rate estimates and comparing to those selected by management.

Claims Liabilities —Managed Care Segment —Refer to Notes 2 and 11 to the financial statements

Critical Audit Matter Description

The Company determines its managed care liabilities for unpaid claims using an actuarial process that entails using both historical claim payment patterns as well as medical cost trends to project a best estimate of incurred but not yet paid claims. Because the methodology is based upon historical information, actuarial adjustments are made for known or suspected operational and environmental changes to estimate emerging impacts of benefit costs and payment speed including an estimated provision for adverse deviation for known environmental factors that are reasonably likely to affect the required level of reserves. The most significant assumptions used in the development of managed care claim liabilities included current payment experience, trend factors and completion factors.

We identified the managed care claim liabilities as a critical audit matter because of the significant assumptions made by management in estimating the liability. This required a high degree of auditor judgment as well as increased effort, including the involvement of actuarial specialists in performing procedures to evaluate the reasonableness of management's judgement in estimating the liability.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the estimate of the liability for medical costs incurred but not yet paid included the following, among others:

- We tested the effectiveness of controls related to managed care claim liabilities, including those over the assumptions used to estimate the medical costs incurred but not yet paid.
- We evaluated the methods and assumptions used by management to estimate the medical costs incurred but not yet paid by:

- o Testing the underlying data that served as the basis for the actuarial analysis, including historical paid claims, to test that the inputs to the actuarial estimate were reasonable.
- o Comparing management prior-year assumptions of payment experience, trend factors and completion factors to actuals incurred during the current year.
- With the assistance of our actuarial specialists, we developed an independent estimate of medical costs incurred but not yet paid and compared our estimate to management's estimate.

Claims Liabilities —Property and Casualty Segment —Refer to Notes 2 and 11 to the financial statements

Critical Audit Matter Description

Property and casualty claim liabilities represent individual case estimates for reported claims and estimates for unreported losses. These liabilities include amounts for claims related to Hurricane Maria. These reserves require management to make significant assumptions about the frequency and severity of claims. The projected settlement values of these claims are estimated based on the Company's historical claims experience and are established using actuarial methods followed in the insurance industry.

We identified property and casualty claims liabilities as a critical audit matter because of the significant assumptions of frequency and severity of claims made by management in estimating the liabilities. This required a high degree of auditor judgment as well as increased effort, including the involvement of actuarial specialists in performing procedures to evaluate the reasonableness of management's judgments in estimating the liabilities.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the property and casualty claims liabilities included the following, among others:

- We tested the effectiveness of controls related to property and casualty claims liabilities, including those over the assumptions about the frequency and severity of claim in projecting the settlement value of reported and unreported claims.
- We tested the underlying data that served as the basis for the estimate, including historical claims, to test that the inputs to the actuarial estimate were reasonable.
- With the assistance of our actuarial specialists, we tested the mathematical accuracy of the calculation and evaluated the methods and assumptions used by management to estimate the liabilities.

Deloitte & Touche LLP

San Juan, Puerto Rico
February 26, 2021

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We have served as the Company's auditor since 2015.

Triple-S Management Corporation and Subsidiaries

Consolidated Balance Sheets

December 31, 2020 and 2019

(dollar in thousands, except share information)

Assets	2020	2019
Investments and cash		
Fixed-maturities available-for-sale, at fair value (amortized cost of \$1,227,422 in 2020 and \$1,173,043 in 2019)	\$ 1,342,465	\$ 1,242,883
Fixed-maturities held-to-maturity, at amortized cost (fair value of \$2,085 in 2020 and \$2,019 in 2019)	1,867	1,860
Equity investments, at fair value (amortized cost of \$351,233 in 2020 and \$242,069 in 2019)	404,328	287,525
Other invested assets, at net asset value (amortized cost of \$112,171 in 2020 and \$97,575 in 2019)	114,905	100,508
Policy loans	10,459	10,861
Cash and cash equivalents	110,989	109,837
Total investments and cash	1,985,013	1,753,474
Premium and other receivables, net	488,840	567,692
Deferred policy acquisition costs and value of business acquired	248,325	234,885
Property and equipment, net	131,974	88,588
Deferred tax asset	119,534	77,294
Goodwill	28,614	28,599
Other assets	86,118	68,294
Total assets	\$ 3,088,418	\$ 2,818,826
Liabilities and Stockholders' Equity		
Claim liabilities	\$ 787,102	\$ 709,258
Liability for future policy benefits	414,997	386,017
Unearned premiums	97,481	93,301
Policyholder deposits	206,109	189,120
Liability to Federal Employees' Health Benefits and Federal Employees' Programs	45,109	47,781
Accounts payable and accrued liabilities	332,699	325,761
Deferred tax liability	15,046	10,257
Short-term borrowings	30,000	54,000
Long-term borrowings	52,751	25,694
Liability for pension benefits	139,611	34,465
Total liabilities	2,120,905	1,875,654
Commitments and contingencies		
Stockholders' equity		
Triple-S Management Corporation stockholders' equity		
Common stock Class B, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 23,430,292 and 23,799,633 shares at December 31, 2020 and 2019, respectively	23,430	23,800
Additional paid-in capital	57,399	60,504
Retained earnings	897,221	830,198
Accumulated other comprehensive income, net	(9,820)	29,363
Total Triple-S Management Corporation stockholders' equity	968,230	943,865
Non-controlling interest in consolidated subsidiary	(717)	(693)
Total stockholders' equity	967,513	943,172
Total liabilities and stockholders' equity	\$ 3,088,418	\$ 2,818,826

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

Triple-S Management Corporation and Subsidiaries

Consolidated Statement of Earnings

December 31, 2020, 2019 and 2018

(dollar in thousands, except per share information)

	2020	2019	2018
Revenues:			
Premiums, net	\$ 3,605,450	\$ 3,252,880	\$ 2,938,591
Administrative service fees	12,585	9,946	14,701
Net investment income	57,547	62,007	61,909
Other operating revenues	8,991	8,553	5,794
Total operating revenues	3,684,573	3,333,386	3,020,995
Net realized investment gains	641	5,843	298
Net unrealized investment gains (losses) on equity investments	7,639	32,151	(36,546)
Other income, net	9,585	4,206	11,312
Total revenues	3,702,438	3,375,586	2,996,059
Benefits and expenses:			
Claims incurred, net of reinsurance	2,946,820	2,666,256	2,527,613
Operating expenses	655,899	569,406	554,715
Total operating costs	3,602,719	3,235,662	3,082,328
Interest expense	7,986	7,672	6,903
Total benefits and expenses	3,610,705	3,243,334	3,089,231
Income (loss) before taxes	91,733	132,252	(93,172)
Income tax expense (benefit)	24,568	39,375	(29,866)
Net income (loss)	67,165	92,877	(63,306)
Less: Net loss attributable to non-controlling interest	24	17	4
Net income (loss) attributable to Triple-S Management Corporation	\$ 67,189	\$ 92,894	\$ (63,302)
Earnings per share attributable to Triple-S Management Corporation			
Basic net income (loss) per share	\$ 2.90	\$ 3.98	\$ (2.76)
Diluted net income (loss) per share	\$ 2.88	\$ 3.97	\$ (2.76)

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

Triple-S Management Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
December 31, 2020, 2019, and 2018

(dollar in thousands)

	2020	2019	2018
Net income (loss)	\$ 67,165	\$ 92,877	\$ (63,306)
Other comprehensive income (loss), net of tax:			
Net unrealized change in fair value of available-for-sale-securities, net of taxes	33,859	30,522	(9,048)
Defined benefit pension plan:			
Actuarial (loss) gain, net	(73,042)	(4,221)	738
Total other comprehensive (loss) income, net of tax	(39,183)	26,301	(8,310)
Comprehensive income (loss)	27,982	119,178	(71,616)
Comprehensive loss attributable to non-controlling interest	24	17	4
Comprehensive income (loss) attributable to Triple-S Management Corporation	\$ 28,006	\$ 119,195	\$ (71,612)

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

Triple-S Management Corporation and Subsidiaries

Consolidated Statements of Stockholders' Equity

December 31, 2020, 2019, and 2018

(dollar in thousands)

	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, 2017	\$ 951	\$ 22,627	\$ 53,142	\$ 785,390	\$ 51,254	\$ 913,364	\$ (682)	\$ 912,682
Share-based compensation	-	287	3,070	-	-	3,357	-	3,357
Repurchase and retirement of common stock	-	(934)	(22,191)	-	-	(23,125)	-	(23,125)
Comprehensive (loss) income	-	-	-	(63,302)	(8,310)	(71,612)	6	(71,606)
Cumulative effect adjustment due to implementation of ASU 2016-01	-	-	-	39,882	(39,882)	-	-	-
Balance, December 31, 2018	\$ 951	\$ 21,980	\$ 34,021	\$ 761,970	\$ 3,062	\$ 821,984	\$ (676)	\$ 821,308
Share-based compensation	-	222	11,383	-	-	11,605	-	11,605
Repurchase and retirement of common stock	-	(534)	(9,573)	-	-	(10,107)	-	(10,107)
Issuance of Common Stock	48	-	1,151	-	-	1,199	-	1,199
Stock dividend	-	1,133	23,522	(24,655)	-	-	-	-
Dividend	-	-	-	(11)	-	(11)	-	(11)
Common Stock Class A conversion to Class B	(999)	999	-	-	-	-	-	-
Comprehensive income (loss)	-	-	-	92,894	26,301	119,195	(17)	119,178
Balance, December 31, 2019	\$ -	\$ 23,800	\$ 60,504	\$ 830,198	\$ 29,363	\$ 943,865	\$ (693)	\$ 943,172
Share-based compensation	-	604	11,285	-	-	11,889	-	11,889
Repurchase and retirement of common stock	-	(974)	(14,390)	-	-	(15,364)	-	(15,364)
Comprehensive income (loss)	-	-	-	67,189	(39,183)	28,006	(24)	27,982
Cummulative effect adjustment due to implementation of ASU 2016-13	-	-	-	(166)	-	(166)	-	(166)
Balance, December 31, 2020	\$ -	\$ 23,430	\$ 57,399	\$ 897,221	\$ (9,820)	\$ 968,230	\$ (717)	\$ 967,513

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

Triple-S Management Corporation and Subsidiaries

Consolidated Statements of Cash Flows

December 31, 2020, 2019, and 2018

(dollar in thousands)

	2020	2019	2018
Cash flows from operating activities			
Net income (loss)	\$ 67,165	\$ 92,877	\$ (63,306)
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	14,403	14,600	13,535
Net amortization of investments	3,342	2,326	3,976
Provision for doubtful receivables	3,556	18,899	11,321
Deferred tax (benefit) expense	(2,285)	3,661	(32,078)
Net realized investment gains on sale of securities	(641)	(5,843)	(298)
Net unrealized (gains) losses on equity investments	(7,639)	(32,151)	36,546
Interest credited to policyholder deposits	6,383	5,978	5,722
Share-based compensation	11,889	11,605	3,357
Gain on sale of property and equipment	154	-	-
(Increase) decrease in assets			
Premium and other receivables, net	83,344	41,853	259,561
Deferred policy acquisition costs and value of business acquired	(15,905)	(21,746)	(12,258)
Deferred taxes	(7)	(226)	946
Other assets	2,827	1,385	(1,470)
Increase (decrease) in liabilities			
Claim liabilities	77,844	(227,531)	(170,087)
Liability for future policy benefits	28,980	24,522	21,988
Unearned premiums	4,180	10,311	(3,359)
Liability to FEHBP	(2,672)	2,855	(7,361)
Accounts payable and accrued liabilities	(17,073)	39,799	(59,276)
Net cash provided by (used in) operating activities	257,845	(16,826)	7,459

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

Triple-S Management Corporation and Subsidiaries

Consolidated Statements of Cash Flows

December 31, 2020, 2019, and 2018

(dollar in thousands)

	2020	2019	2018
Cash flows from investing activities			
Proceeds from investments sold or matured			
Securities available-for-sale:			
Fixed-maturities sold	\$ 149,265	\$ 424,239	\$ 1,302,810
Fixed-maturities matured	84,416	21,258	24,945
Securities held-to-maturity:			
Fixed-maturities matured	1,079	1,708	8,182
Equity investments sold	134,926	169,153	203,841
Other invested assets sold	17,013	4,554	3,714
Acquisition of investments			
Securities available-for-sale			
Fixed-maturities	(287,998)	(449,043)	(1,343,346)
Securities held-to-maturity			
Fixed-maturities	(1,088)	(1,078)	(8,356)
Equity investments	(248,123)	(143,972)	(156,486)
Other invested assets	(30,178)	(28,501)	(47,221)
Other investments	(5,683)	(2,981)	(705)
Net change in policy loans	402	(1,392)	(392)
Net capital expenditures	(57,873)	(20,820)	(19,840)
Capital contribution to equity method investees	(8,184)	(11,418)	-
Net cash used in investing activities	(252,026)	(38,293)	(32,854)
Cash flows from financing activities			
Change in outstanding checks in excess of bank balances	(3,249)	(2,384)	(22,243)
Net (repayments) proceeds from short-term borrowings	(24,000)	54,000	-
Proceeds of long-term borrowings	30,841	-	-
Repayments of long-term borrowings	(3,883)	(3,236)	(3,236)
Repurchase and retirement of common stock	(14,982)	(9,989)	(22,377)
Dividends paid	-	(11)	-
Proceeds from policyholder deposits	25,740	28,879	18,531
Surrenders of policyholder deposits	(15,134)	(19,847)	(26,677)
Net cash (used in) provided by financing activities	(4,667)	47,412	(56,002)
Net increase (decrease) in cash and cash equivalents	1,152	(7,707)	(81,397)
Cash and cash equivalents			
Beginning of year	109,837	117,544	198,941
End of year	\$ 110,989	\$ 109,837	\$ 117,544

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

Triple-S Management Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020, 2019, and 2018

(dollar in thousands, except per share and share information)

1. Nature of Business

Triple-S Management Corporation (the Corporation, the Company, Triple-S, 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. Triple-S is a health services company and one of the top players in the Puerto Rico health care industry. We have the exclusive right to use the Blue Cross Blue Shield (BCBS) name and mark throughout Puerto Rico, the U.S. Virgin Islands (USVI), Costa Rica, the British Virgin Islands (BVI) and Anguilla, and we offer a broad portfolio of managed care and related products in the Commercial, Medicare Advantage and Medicaid markets. Triple-S is also a well-known brand in the life insurance and property and casualty insurance markets, with a significant share in each.

The Company 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:

- Triple-S Salud, Inc. (TSS) and Triple-S Advantage, Inc. (TSA), which are managed care organizations that provide health benefits services to subscribers through contracts with hospitals, physicians, dentists, laboratories, and other organizations
- Triple-S Vida, Inc. (TSV) and Triple-S Blue, Inc. (TSB), which are engaged in the underwriting of life and accident and health insurance policies and the administration of annuity contracts
- Triple-S Propiedad, Inc. (TSP), which is engaged in the underwriting of property and casualty insurance policies.

The Company, TSS, TSA and TSB are members of the Blue Cross and Blue Shield Association (BCBSA). The Company and the above mentioned subsidiaries are subject directly or indirectly to the regulations of the Commissioner of Insurance of the Commonwealth of Puerto Rico (the Commissioner of Insurance), the General Superintendence of Insurance of Costa Rica, the Office of the Commissioner of Insurance of the government of the U.S. Virgin Islands (USVI), the British Virgin Islands (BVI) Financial Services Commission, and the Anguilla Financial Services Commission.

The Company has begun a program to achieve sustained growth as a leading health services company providing holistic and affordable health care. The Company owns a controlling interest in a health clinic in Puerto Rico, as part of our strategic initiatives, and besides its current operations, this health clinic owns controlling interests in other health clinics throughout the island.

Through our subsidiary TSS, we provide services to participants of the Commonwealth of Puerto Rico Health Insurance Plan (similar to Medicaid) (Medicaid). On September 21, 2018, TSS entered into a contract with the Puerto Rico Health Insurance Administration (ASES by its Spanish acronym) to offer health care services to Medicaid and Child Health Insurance subscribers for the government of Puerto Rico's revised Medicaid health insurance program. The contract is effective from November 1, 2018 to September 30, 2021, which term may be extended an additional year at ASES's option. The revised delivery model requires managed care organizations (MCOs) to serve subscribers in an island-wide basis, rather than through the assignment of specific regions within the Island. Under the new agreement, TSS is responsible for the provision of medical, mental, pharmacy, and dental healthcare services on an at-risk basis to subscribers who enroll with TSS. ASES pays TSS a per member per month rate that varies depending on the clinical condition or category of the subscriber. Prior to the effective date of the new contract, TSS provided medical,

Triple-S Management Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020, 2019, and 2018

(dollar in thousands, except per share and share information)

mental, pharmacy and dental healthcare services to Medicaid subscribers in the Metro-North and West regions of the government of Puerto Rico's health insurance program on an at-risk basis.

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. 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, 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.

Cash Equivalents

The Company considers all highly liquid debt instruments with maturities of three months or less at the date of acquisition to be cash equivalents. Cash and cash equivalents are recorded at cost, which approximates fair value. Cash equivalents of \$43,032 and \$25,060 at December 31, 2020 and 2019, respectively, consist principally of money market funds and certificates of deposit with original maturities of three months or less.

Investments

Fixed-maturities

Investment in debt securities at December 31, 2020 and 2019 consisted mainly of obligations of government-sponsored enterprises, U.S. Treasury securities and obligations of U.S. government instrumentalities, municipal securities, corporate bonds, residential mortgage-backed securities, and collateralized mortgage obligations. The Company classifies its debt securities into one of two categories: available-for-sale or held-to-maturity. Securities classified as held-to-maturity are those securities in which the Company has the ability and intent to hold until maturity. All other securities not included in held-to-maturity are classified as available-for-sale.

Available-for-sale securities are recorded at fair value. The fair values of debt securities (both available-for-sale and held-to-maturity investments) 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. For available-for-sale securities, unrealized holding gains or losses, net of the related tax effect, are excluded from earnings, and are reported as a separate component of Other Comprehensive Income.

Triple-S Management Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020, 2019, and 2018

(dollar in thousands, except per share and share information)

Realized gains and losses from the sale of available-for-sale securities are included in earnings and determined on a specific-identification basis.

Transfers of securities between categories are recorded at fair value at the date of transfer. 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. These 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 does not intend to sell the security, or it is more likely than not that the Company will not have to sell the fixed-maturity security before recovery of its amortized cost basis, the credit component of the impairment, if any, is recorded as an allowance for credit losses with an offsetting entry in the Company's Consolidated Statements of Earnings. The non-credit component of the impairment is recognized in Other Comprehensive Income. Furthermore, unrealized losses caused entirely by non-credit-related factors associated with fixed-maturity securities for which the Company expects to fully recover the amortized cost basis continue to be recognized in Accumulated Other Comprehensive Income.

If a fixed-maturity security is in an unrealized loss position and the Company has the intent to sell the 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 Company will write off any previously recognized allowance for credit losses and will decrease the amortized cost basis of the security. If the allowance has been fully written off and the fair value is less than its amortized cost basis, the amortized cost basis is written down and an impairment loss is recognized in the Company's Consolidated Statements of Earnings. As of December 31, 2020, no allowance for credit losses was recorded in the consolidated financial statements.

The credit component of the 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. If there is an increase in the projected future cash flows of the fixed-maturity security in subsequent periods, all or part of the allowance for credit losses may be reversed.

In addition, the Company considers the following factors when evaluating whether or not a credit loss exists: the reasons for the impairment, the severity of the impairment, market conditions, changes in the security's rating, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry in which the investee operates.

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

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speeds may differ from original estimates and may result in material adjustments to amortization or accretion recorded in future periods.

Equity investments

Investment in equity securities at December 31, 2020 and 2019 consisted of mutual funds whose underlying assets are comprised of domestic equity securities, international equity securities and higher risk fixed income instruments. Equity investments are recorded at fair value. The fair values of equity investments are mainly based on quoted market prices for those or similar investments at the reporting date. For a specific equity investment, the fair value is estimated using the net asset value (NAV) of the Company's ownership interest in the partnership. Following the implementation on January 1, 2018 of Accounting Standards Update (ASU) 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, unrealized holding gains and losses on equity investments are included in earnings. Realized gains and losses from the sale of equity investments are included in earnings and are determined on a specific-identification basis.

Other invested assets

Other invested assets at December 31, 2020 and 2019 consisted mainly of alternative investments in partnerships that invest in several private debt and private equity funds. Portfolios are diversified by vintage year, stage, geography, business sectors and number of investments. These investments are not redeemable with the funds. Distributions from each fund are received as the underlying investments of the fund is liquidated. It is estimated that the underlying assets of the funds will be liquidated in the next 5 to 12 years. The fair value of the investments in this class have been estimated using the net asset value (NAV) of the Company's ownership interest in the partnerships. Total unfunded capital commitments for these positions was \$52,557 as of December 31, 2020. The remaining average commitments period is approximately three years.

Revenue Recognition

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 cancelled at the end of the grace period at the option of the Company.

Premiums for the Medicaid business are based on a bid contract with ASES and billed in advance of coverage period. The Medicaid contract that became effective November 1, 2018 includes a minimum medical loss ratio (MLR) provision that mandates that the Company remit to ASES the excess of the target MLR of 92% over the actual MLR for any given contract year and be reflected as an adjustment to premium revenue in current operations. The target established in the contract follows regulation requirements of the Centers for Medicare and Medicaid Services (CMS) for Medicaid managed care contracts codified in 42 CFR part 438. As of December 31, 2020, and 2019, there was no accrued amount due to ASES related to this provision.

Under the risk-based Medicaid contract that expired on October 31, 2018, an excess profit agreement stipulates that the profit of TSS for a specified period within the contract term shall not

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exceed two and a half percentage (2.5%) of the fixed amount paid by ASES for each member. In the event that the profit exceeds this amount, TSS and ASES shall share the excess profit in proportions of fifty percent (50%), subject to the compliance by TSS with certain quality metrics. ASES retains the right to determine the outcome of the excess profit agreement based on audited financial statements of the contracted services submitted annually by TSS and the validation of the incurred-but-not-reported reserve by ASES's actuary. We report any estimated net amounts due to ASES within Accounts Payable and Accrued Liabilities in the Consolidated Balance Sheets. As of December 31, 2020 and 2019, the Company had accrued an estimated profit sharing of \$1,948, respectively.

We reassess the profitability on existing medical insurance contracts when current operating results or forecasts indicate probable future losses. We establish a premium deficiency reserve in current operations to the extent that the sum of expected future costs, claim adjustment expenses, and maintenance costs exceeds related future premiums under contracts without consideration of investment income. For purposes of determining premium deficiencies, contracts are grouped in a manner consistent with our method of acquiring, servicing, and measuring the profitability of such contracts. Losses recognized as a premium deficiency result in a beneficial effect in subsequent periods as operating losses under these contracts are charged to the liability previously established. As of December 31, 2020, the Company established a premium deficiency reserve amounting to \$9,900 which is included within Accounts Payable and Accrued Liabilities in the Consolidated Balance Sheets.

Premiums for the Medicare Advantage (MA) business are based on a bid contract with CMS and billed in advance of the coverage period. We recognize premium revenue in the period in which we are obligated to provide services to our members. We record premiums earned but not received as premiums receivable and record premiums received in advance of the period of service as unearned premiums in the Consolidated Balance Sheets. Unearned premiums are recognized as revenue throughout the related coverage period. MA contracts are renewed annually and 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. We recognize periodic changes to risk-adjusted premiums as revenue when the amounts are determinable and collection is reasonably assured, which is possible as additional diagnosis code information is reported to CMS, when the ultimate settlements are received from CMS, or when we receive notification of such settlement amounts. The data provided to CMS to determine members' risk scores is subject to audit by CMS even after the annual settlements occur, which may result in the refund of premiums to CMS. The recorded estimate is revised and reflected in operating results in the period in which additional information becomes available.

Prescription drug coverage is offered to Medicare eligible beneficiaries as part of MA plans (MA-PD). Premiums are based on a bid contract with CMS that considers the estimated costs of providing prescription drug benefits to enrolled participants. MA-PD 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 on actual prescription drug

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costs for each reporting period as if the annual contract were to expire at the end of each reporting period.

Administrative service fees include revenue from certain groups that have managed care contracts that provide for the group to be at risk for all or a portion of their claims experience. For these groups, the Company is not at risk and only handles the administration of 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. Claims paid under self-funded arrangements are excluded from the Claims Incurred, Net of Reinsurance in the accompanying Consolidated Statement of Earnings. 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 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.

Life 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. Revenues for limited payment contracts are recognized over the period that benefits are provided rather than on collection of premiums.

Property and Casualty Insurance

Premiums on property and casualty contracts are billed in advance of their respective coverage period and 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 that deserve current recognition, including the continued deterioration of the local economy, the exposure to government accounts and the challenging business environment in the island. This evaluation is performed individually on larger accounts and includes the use of all available information such as the customer's credit worthiness and other

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relevant information. Actual losses could differ from these estimates. Receivables are charged-off against their respective allowance accounts when deemed to be uncollectible.

Deferred Policy Acquisition Costs and Value of Business Acquired

Certain direct costs of acquiring business in the Life Insurance, and Property and Casualty segments are deferred by the Company. Substantially all acquisition costs related to the Managed Care segment are expensed as incurred.

In the Life Insurance segment, deferred policy acquisition costs (DPAC) consist of commissions and certain expenses related to the successful acquisition of 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 benefits and maintenance and settlement expenses, the amount of DPAC 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 DPAC and value of business acquired (VOBA). For these contracts interest is considered at a level rate at the time of issue of each contract, of 3.90% for 2020, 4.40% for 2019 and from 3.90% to 5.75% for 2018, 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 estimated gross profits from investment yields, mortality, expenses and surrender charges. Estimates 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 updated for current and future issues which may result in a change or release of deferred policy acquisition costs amortization through the Consolidated Statements of Earnings.

The VOBA assigned to the life insurance in-force at the date of the acquisition is amortized using methods similar to those used to amortize the DPAC of the life and accident and health segment.

In the Property and Casualty segment, acquisition costs consist primarily of commissions and other cost 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

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and amortized straight-line over their estimated useful lives. The following is a summary of the estimated useful lives of the Company's property and equipment:

Asset Category	Estimated Useful Life
Buildings	35 years
Building improvements	5 years
Leasehold improvements	Lesser of lease term or 10 years
Office furniture	7 years
Computer software	3 to 10 years
Computer equipment, equipment, and automobiles	3 to 5 years

Long-Lived Assets, including Goodwill

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, we recognize an impairment charge equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset. 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. During 2020, 2019, and 2018 impairment tests on intangible assets were performed, and based on the results of the tests no impairment was recorded.

Goodwill and Intangible Assets that have indefinite useful lives are tested at least annually for impairment, and are tested for impairment more frequently if events or 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. The Company may perform a qualitative analysis or perform a quantitative analysis. In the qualitative analysis, the Company determines if it is more likely than not that the fair value of a reporting unit is less than its carrying amount by assessing current events and circumstances. If there are factors present indicating potential impairment, the Company would proceed to the quantitative analysis. The quantitative analysis is used to identify potential goodwill impairment and measure the amount (if any) of a goodwill impairment loss to be recognized. The goodwill impairment is determined by comparing the fair value of a reporting unit to its carrying amount and recognizing an impairment charge for the difference by which the carrying amount exceeds the reporting unit's fair value, up to the carrying amount of the goodwill.

The annual impairment test is based on an evaluation of estimated future discounted cash flows. The Company also uses the market approach as part of their impairment analysis. The estimated discounted cash flows are based on the best information available, including supportable assumptions and projections we believe are reasonable. Our discounted cash flow estimates use discount rates that correspond to a weighted-average cost of capital consistent with a market-participant view. The discount rates are consistent with those used for investment decisions and take into account the operating plans and strategies of our operating segments. Other key assumptions, including changes in membership, premium, health care costs, operating expenses, fees,

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assessments and taxes and effective tax rates, are based on estimates consistent with those used in our annual budgeting and planning process that we believe are reasonable. However, if we do not achieve the results reflected in the assumptions and estimates, our goodwill impairment evaluations could be adversely affected, and we may impair a portion of our goodwill, which would adversely affect our operating results in the period of impairment. Impairments, if any, are classified as an operating expense.

Claim Liabilities

Managed Care claim liabilities mostly represent the Company's estimate of medical costs incurred but not yet 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. Claim liabilities are the most significant estimate included in our consolidated financial statements. Such estimate is developed consistently using standard actuarial methodologies based upon key assumptions, which vary by business segment. The most significant assumptions used in the development of managed care claim liabilities include current payment experience, trend factors and completion factors. Managed care trend factors in our standard actuarial methodologies include contractual requirements, historic utilization trends, the interval between the date services are rendered and the date claims are paid, denied claims activity, disputed claims activity, benefit changes, expected health care cost inflation, seasonality patterns, maturity of lines of business, changes in membership and other factors.

Managed care claim liabilities also include a provision for adverse deviation, which is an estimate for known environmental factors that are reasonably likely to affect the required level of reserves. This provision for adverse deviation is intended to capture the potential adverse development from known environmental factors such as our entry into new geographical markets, changes in our geographic or product mix, the introduction of new customer populations, variation in benefit utilization, disease outbreaks, changes in provider reimbursement, fluctuations in medical cost trend, variation in claim submission patterns and variation in claims processing speed and payment patterns, changes in technology that provide faster access to claims data or change the speed of adjudication and settlement of claims, variability in claim inventory levels, non-standard claim development, and/or exceptional situations that require judgmental adjustments in setting the reserves for claims.

The Company contracts with various independent practice associations (IPAs) for certain medical care services provided to certain policies subscribers. The IPAs are compensated on a capitation basis, and capitation payables are included within claim liabilities. Capitation is amounts paid to IPAs on a fixed-fee per-member per-month basis.

Claim liabilities also include unpaid claims and loss-adjustment expenses of the Life Insurance segment 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 claim liabilities is the liability for losses and loss-adjustment expenses for the Property and Casualty segment, 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

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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. Mortality has been calculated on select and ultimate tables in common usage in the industry, modified by the Company's experience. Morbidity has been calculated based on industry tables, modified by the Company's experience; as well as, withdrawals that have been estimated principally based on industry tables, modified by Company's experience. Assumptions are established at the time the policy is issued and are generally not changed during the life of the policy. The Company periodically reviews the adequacy of reserves for these policies on an aggregate basis using actual experience. If actual experience is significantly adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DPAC balance would be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required. The interest rate assumption was 3.90% for 2020, 4.40% for 2019 and ranged from 3.90% to 5.75% for 2018.

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 \$2,946, \$2,639, and \$2,615, during the years ended December 31, 2020, 2019, and 2018, respectively, is included in Interest Expense in the accompanying Consolidated Statements of Earnings.

Policyholder account balances for universal life and interest-sensitive products are equal to policy account values. The policy account primarily comprises cumulative deposits received and interest credited to the policyholder less cumulative contract benefits, surrenders, withdrawals, maturities and contract charges for mortality or administrative expenses. Interest rates credited to policyholder account balances during 2020 was approximately 3.7% for interest-sensitive life products and 2.92% for annuities, while for 2019 they ranged from 2.0% to 4.5% for universal life and interest-sensitive products. The universal life and interest-sensitive products represented \$101,310 and \$91,694 of the Policyholder Deposits balance on the Consolidated Balance Sheets as of December 31, 2020 and 2019, respectively.

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.

Prospective 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 under prospective reinsurance treaties have been reported as a reduction of premiums earned and losses and loss-adjustment expenses incurred, respectively. Property and casualty commission and expense

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allowances received in connection with reinsurance ceded are 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 and are presented within Premium and Other Receivables, Net in the accompanying Consolidated Balance Sheets.

Retroactive reinsurance reimburses a ceding company for liabilities incurred as a result of past insurable events covered under contracts subject to the reinsurance. In certain instances, reinsurance contracts cover losses both on a prospective basis and on a retroactive basis and where practical the Company bifurcates the prospective and retrospective elements of these reinsurance contracts and accounts for each element separately. Initial gains in connection with retroactive reinsurance contracts are deferred and amortized into income over the settlement period, while losses are recognized immediately. When changes in the estimated amount recoverable from the reinsurer or in the timing of receipts related to that amount occur, a cumulative amortization adjustment is recognized in earnings in the period of the change so that the deferred gain reflects the balance that would have existed had the revised estimate been available at the inception of the reinsurance transaction. The Company uses the recovery method to amortize any deferred gain, which is included in Claims Incurred in the accompanying Consolidated Statements of Earnings. The recovery method provides an amortization in proportion to the estimated recoveries made as of each reporting date as a percentage of total estimated recoveries. No deferred gain was amortized into operations during the years ended December 31, 2020, 2019 and 2018.

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 circumstances occurs.

The Company records any interest and penalties related to unrecognized tax benefits within Operating Expenses in the Consolidated Statement of Earnings.

Health Insurance Providers Fee

The Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act mandates an annual Health Insurance Providers Fee (HIP Fee). The annual HIP Fee becomes payable to the U.S. Treasury once the entity provides health insurance for any U.S. health risk in each applicable calendar year. The initial estimated annual fee is accrued as of January 1, with a corresponding deferred cost amortized over 12 months on a straight-line basis. The fee payment is due on September 30 of each year. The Company incurred approximately \$55,500 and \$50,100 of such fee in 2020 and 2018, respectively, which is presented within Operating Expenses in the accompanying Consolidated Statements of Earnings. The HIP Fee was waived for all health insurance providers during the year ended December 31, 2019. The Taxpayer Certainty and Disaster Tax Relief Act of 2019 and the Further Consolidated Appropriations Act, 2020, signed into

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law on December 20, 2019, repealed the HIP Fee effective for calendar years beginning after December 31, 2020.

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 consolidated 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 consolidated 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. The Company had accrued \$722 and \$1,629 within Accounts Payable and Accrued Liabilities in the Consolidated Balance Sheets as of December 31, 2020 and 2019, respectively.

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 consolidated financial statements over the vesting period.

Earnings per Share

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number 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 Adopted Accounting Standards

On June 16, 2016, the Financial Accounting Standards Board (FASB) issued guidance to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. In addition, on April 25, 2019, the FASB issued Accounting Standard Update (ASU) 2019-04: Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. The amendments in this update represent changes to clarify, correct errors in or improve the codification. Such amendments should make the codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. Within the clarifications was the FASB's intent to include all reinsurance recoverables within the scope of ASU 2016-13 (Topic 326). For public companies, the improvements related to ASU 2016-13 (Topic 326) and ASU

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2016-01 (Topic 825) are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted the standard effective January 1, 2020 and recognized \$166, net of deferred tax asset, as a cumulative effect adjustment to the opening balance of retained earnings on the adoption date.

On January 26, 2017, the FASB issued guidance to simplify the manner in which an entity is required to evaluate goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in this guidance, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, this guidance removes the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails such qualitative test, to perform Step 2 of the goodwill impairment test. For public companies, these amendments, which should be applied on a prospective basis, are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Upon adoption of this standard, if the carrying amount of any of the reporting units exceeds its fair value, the Company will be required to record an impairment charge for the difference up to the amount of the goodwill. The Company adopted the standard effective January 1, 2020. The adoption of this guidance did not have a material impact on the results of the Company's consolidated financial statements.

On August 27, 2018, the FASB issued guidance for Fair Value Measurement – Disclosure Framework – Changes to the Disclosure Requirement for Fair Value Measurement. This update focuses on improving the effectiveness of disclosures in the notes to the financial statements by facilitating clear communication of the information required by U.S. GAAP that is most important to users of each entity's financial statements. Specifically, certain disclosure requirements are removed (the amount of, and reasons for, transfer between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; the valuation processes for Level 3 fair value measurements), while certain other disclosures are modified and added (changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period, and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements). The amendments regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent period in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The Company adopted the standard effective January 1, 2020. The adoption of this guidance did not have a material impact on the presentation and disclosures of the Company's consolidated financial statements.

On August 29, 2018, the FASB issued guidance for Intangibles – Goodwill and Other – Internal-Use Software. Guidance addresses customers' accounting for implemented costs incurred in a cloud computing arrangement that is a service contract and aims to reduce complexity in the accounting for costs of implementing a cloud computing service arrangement. The amendments require a customer in a hosting arrangement that is a service contract to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. Additionally, it requires the customer to expense the capitalized implementation costs over the term of the hosting arrangement. The Company adopted the standard effective January 1, 2020. The

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adoption of this guidance did not have a material impact on the results of the Company's consolidated financial statements.

Future Adoptions of Accounting Standards

On August 15, 2018, the FASB issued ASU 2018-12: Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts – which provides meaningful improvements to the existing revenue recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. The amendments improve the timeliness of recognizing changes in the liability for future policy benefits and modify rate used to discount future cash flows, simplify and improve the accounting for certain market-based options or guarantees associated with deposit contracts, simplify the amortization of deferred acquisition costs, and improves the effectiveness of the required disclosures. Specifically, this guidance requires an insurance entity to review and update, if needed, the assumptions used to measure cash flows and discount rate at each reporting date; measure all market risk benefits associated with deposit; and disclose liability rollforwards and information about significant inputs, judgments, assumptions, and methods used in measurement, including changes thereto and the effect of those changes on measurement. Additionally, the amendment simplifies the amortization of deferred acquisition costs and other balances amortized in proportion to premiums, gross profits or gross margins, and requires that those balances be amortized on a constant level basis over the expected term of the related contracts. On November 5, 2020, the FASB issued ASU 2020-11: Financial Services – Insurance (Topic 944): Effective Date and Early Application – which defer the effective date of ASU 2018-12 by one year for all insurance entities. For public companies, these amendments will be applied for fiscal years beginning after December 15, 2022. We are currently evaluating the impact the adoption of this guidance may have on the Company's consolidated financial statements.

On August 28, 2018, the FASB issued guidance for Compensation – Retirement Benefits – Defined Benefit Plans – General which addresses changes to the disclosure requirement for defined benefit plans. The amendments in this guidance modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Specifically, the guidance removes certain disclosure requirements, including the amounts of accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year, related-party disclosures concerning the amount of future annual benefits covered by an insurance and annuity contracts and significant transactions between the employer and related-parties and the plan, and adds other disclosures including the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates, and an explanation for the reasons for significant gains and losses related to changes in the benefit obligation for the period. For public companies, these amendments, will be applied for fiscal years beginning after December 15, 2020. The adoption of this guidance will not have a material impact on the presentation and disclosures of the Company's consolidated financial statements.

On December 18, 2019, the FASB issued ASU 2019-12: Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. Also, the amendments simplify the accounting for income taxes by requiring the following: (1) that an entity recognize a franchise tax that is partially based on income in accordance with Topic 740 and account for any incremental amount incurred as a non-income-based tax; (2) that an entity evaluate when a step-up in the tax basis of Goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should instead be considered a separate transaction; and (3) that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that included the enactment date. For public companies,

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these amendments are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The adoption of this guidance will not have a material impact on the results of the Company's consolidated financial statements.

On January 16, 2020, the FASB issued guidance to clarify the interaction between the accounting standards on recognition and measurement of financial instruments in Topic 321: Investments – Equity Securities, the one on equity method investments in Topic 323: Investments – Equity Method and Joint Ventures, and forward contracts and purchased options in Topic 815: Derivatives and Hedging. The amendments clarify that upon an increase or decrease in level of ownership or degree of influence, a company should remeasure the interest held in the investee to take into account observable transactions immediately before applying or discontinuing the equity method of accounting under Topic 323. The guidance also clarifies that an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchase option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option. For public companies, these amendments are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The adoption of this guidance will not have a material impact on the results of the Company's consolidated financial statements.

On March 12, 2020, the FASB issued ASU 2020-04: Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The ASU was issued to provide optional guidance, for a limited time, to ease the potential burden in accounting for or recognizing the effects of reference rate reform on financial reporting. The amendments, which are elective and apply to all entities, provide expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate that is expected to be discontinued as a result of reference rate reform. Because the guidance is intended to assist stakeholders during the global market-wide reference rate transition period, it is in effect for a limited time, from March 12, 2020 through December 31, 2022. The Company is currently in the process of identifying its LIBOR-based contracts that will be affected by the phase-out of LIBOR and expects to use the optional expedients provided in this ASU.

On January 7, 2021, the FASB issued ASU 2021-01: Reference Rate Reform (Topic 848): Scope Refinement – to clarify the scope of the recent reference reform guidance in Topic 848. This ASU refines the scope of Topic 848 and clarifies that certain optional expedients and exceptions therein for contract modifications and hedge accounting apply to contracts that are affected by the discounting transition. Specifically, modifications related to reference rate reform would not be considered an event that requires reassessment of previous accounting conclusions. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. The amendments in the ASU are effective immediately for all entities. The Company is currently in the process of identifying its LIBOR-based contracts that will be affected by the phase-out of LIBOR and expects to use the optional expedients provided in this ASU.

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

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3. Investment in Securities

The amortized cost for debt securities and alternative investments, gross unrealized gains and losses, and estimated fair value for the Company's investments in securities by major security type and class of security as of December 31, were as follows:

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed-maturities available-for-sale				
Obligations of government-sponsored enterprises	\$ 24,496	\$ 665	\$ (9)	\$ 25,152
U.S. Treasury securities and obligations of U.S.-government instrumentalities	103,694	7,993	-	111,687
Municipal securities	646,961	54,067	-	701,028
Corporate bonds	189,516	30,280	-	219,796
Residential mortgage-backed securities	249,801	21,487	(57)	271,231
Collateralized mortgage obligations	12,954	638	(21)	13,571
Total fixed-maturities available-for-sale	\$ 1,227,422	\$ 115,130	\$ (87)	\$ 1,342,465
	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed-maturities available-for-sale				
Obligations of government-sponsored enterprises	\$ 17,209	\$ 477	\$ -	\$ 17,686
U.S. Treasury securities and obligations of U.S.-government instrumentalities	102,230	4,779	-	107,009
Municipal securities	595,051	34,735	(22)	629,764
Corporate bonds	187,096	21,721	(74)	208,743
Residential mortgage-backed securities	262,783	8,073	(320)	270,536
Collateralized mortgage obligations	8,674	471	-	9,145
Total fixed-maturities available-for-sale	\$ 1,173,043	\$ 70,256	\$ (416)	\$ 1,242,883

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	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed-maturities held-to-maturity				
U.S. Treasury securities and obligations of U.S.- government instrumentalities	\$ 614	\$ 201	\$ -	\$ 815
Residential mortgage-backed securities	164	17	-	181
Certificates of deposits	1,089	-	-	1,089
Total fixed-maturities held-to-maturity	<u>\$ 1,867</u>	<u>\$ 218</u>	<u>\$ -</u>	<u>\$ 2,085</u>

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities held-to-maturity				
U.S. Treasury securities and obligations of U.S.- government instrumentalities	\$ 615	\$ 158	\$ -	\$ 773
Residential mortgage-backed securities	165	1	-	166
Certificates of deposits	1,080	-	-	1,080
Total fixed-maturities held-to-maturity	<u>\$ 1,860</u>	<u>\$ 159</u>	<u>\$ -</u>	<u>\$ 2,019</u>

	2020			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Other invested assets - Alternative investments	<u>\$ 112,171</u>	<u>\$ 6,119</u>	<u>\$ (3,385)</u>	<u>\$ 114,905</u>

	2019			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Other invested assets - Alternative investments	<u>\$ 97,575</u>	<u>\$ 3,721</u>	<u>\$ (788)</u>	<u>\$ 100,508</u>

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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, were as follows:

	2020								
	Less than 12 months			12 months or longer			Total		
	Gross			Gross			Gross		
	Estimated Fair Value	Unrealized Loss	Number of Securities	Estimated Fair Value	Unrealized Loss	Number of Securities	Estimated Fair Value	Unrealized Loss	Number of Securities
Fixed-maturities available-for-sale									
Obligations of government-sponsored enterprises	\$ 1,539	\$ (9)	1	\$ -	\$ -	-	\$ 1,539	\$ (9)	1
Residential mortgage-backed securities	3,624	(57)	1	-	-	-	3,624	(57)	1
Collateralized mortgage obligations	6,060	(21)	2	-	-	-	6,060	(21)	2
Total fixed-maturities available-for-sale	\$ 11,223	\$ (87)	4	\$ -	\$ -	-	\$ 11,223	\$ (87)	4
Other invested assets - Alternative investments	\$ 12,584	\$ (808)	4	\$ 16,396	\$ (2,577)	6	\$ 28,980	\$ (3,385)	10

	2019								
	Less than 12 months			12 months or longer			Total		
	Gross			Gross			Gross		
	Estimated Fair Value	Unrealized Loss	Number of Securities	Estimated Fair Value	Unrealized Loss	Number of Securities	Estimated Fair Value	Unrealized Loss	Number of Securities
Fixed-maturities available-for-sale									
Municipal securities	\$ 10,656	\$ (22)	3	\$ -	\$ -	-	\$ 10,656	\$ (22)	3
Corporate bonds	5,047	(74)	1	-	-	-	5,047	(74)	1
Residential mortgage-backed securities	79,902	(320)	16	-	-	-	79,902	(320)	16
Total fixed-maturities available-for-sale	\$ 95,605	\$ (416)	20	\$ -	\$ -	-	\$ 95,605	\$ (416)	20
Other invested assets - Alternative investments	\$ 24,437	\$ (605)	8	\$ 10,580	\$ (183)	1	\$ 35,017	\$ (788)	9

The Company regularly monitors and evaluates the difference between the amortized cost and estimated fair value of fixed-maturity securities. For fixed-maturity securities with a fair value below amortized cost, the process includes evaluating: (1) the extent to which the estimated fair value has been less than amortized cost, (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, and (5) other factors, as applicable. 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 estimated fair value solely due to changes in interest rates, an allowance for credit losses is not recorded.

Because of the subjective nature of the Company's analysis and the judgment that must be applied in it, the Company could reach a different conclusion about whether to impair a security if it had access to additional information about the investee. Additionally, it is possible that the investee's ability to meet future contractual obligations may be different than what the Company determined during its analysis, which may lead to a different impairment conclusion in future periods.

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

- Identification and evaluation of securities that have possible indications of impairment, which includes an analysis of all investments with gross unrealized investment losses that represent 20% or more of their cost and all investments with an unrealized loss greater than \$100;
- For any securities with a gross unrealized investment loss we might review and evaluate 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;
- Consideration of evidential matter, including an evaluation of factors or triggers that may or may not cause individual investments to qualify as having a credit-related impairment; and
- Determination of the status of each analyzed security as credit-impaired or not, with documentation of the rationale for the decision.

The Company reviews the available-for-sale and other invested assets portfolios under the Company's impairment review policy. Given market conditions and the significant judgments involved, there is a continuing risk that declines in fair value may occur and material allowances for credit losses may be recorded in future periods. The Company from time to time may sell investments as part of its asset/liability management process or to reposition its investment portfolio based on current and expected market conditions.

- Obligations of government-sponsored enterprises: The unrealized losses of these securities were mainly caused by fluctuations in interest rates 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, they have investment-grade ratings. The Company does not consider these investments to be credit-impaired because of several factors: the decline in fair value is attributable to changes in interest rates and not credit quality; the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity; and because the Company expects to collect all contractual cash flows.
- Residential mortgage-backed securities and Collateralized mortgage obligations: The unrealized losses on these investments were mostly caused by fluctuations in interest rates and credit spreads. The contractual cash flows of these securities 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, typically the unrated residual tranche, taking any initial loss. The investment grade credit rating of our securities reflects the seniority of the securities that the Company owns. The Company does not consider these investments to be credit-impaired because of several factors: the decline in fair value is attributable to changes in interest rates and not credit quality; the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost basis, which may be at maturity; and because the Company expects to collect all contractual cash flows.
- Alternative Investments: As of December 31, 2020, alternative investments with unrealized losses were not considered credit-impaired based on market conditions.

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Maturities of investment securities classified as available-for-sale and held-to-maturity at December 31, 2020 were as follows:

	Amortized Cost	Estimated Fair Value
Securities available-for-sale		
Due in one year or less	\$ 36,645	\$ 36,935
Due after one year through five years	583,264	628,468
Due after five years through ten years	194,778	209,096
Due after ten years	149,980	183,164
Residential mortgage-backed securities	249,801	271,231
Collateralized mortgage obligations	12,954	13,571
	<u>\$ 1,227,422</u>	<u>\$ 1,342,465</u>
Securities held-to-maturity		
Due in one year or less	\$ 1,089	\$ 1,089
Due after five years through ten years	614	815
Residential mortgage-backed securities	164	181
	<u>\$ 1,867</u>	<u>\$ 2,085</u>

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

Investments with an amortized cost of \$6,884 and \$6,940 (fair value of \$7,526 and \$7,274) at December 31, 2020 and 2019, 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).

Investments with an amortized cost of \$227,890 and \$145,981 (fair value of \$250,088 and \$152,916) at December 31, 2020 and 2019, respectively, were pledged with the Federal Home Loan Bank of New York (FHLBNY) to secure short-term borrowings.

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4. Realized and Unrealized Gains

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

	2020	2019	2018
Realized gains (losses)			
Fixed-maturity securities:			
Securities available-for-sale			
Gross gains	\$ 3,943	\$ 3,844	\$ 3,730
Gross losses	(488)	(387)	(18,627)
Total fixed-maturity securities	3,455	3,457	(14,897)
Equity investments:			
Gross gains	1,852	3,056	16,045
Gross losses	(5,074)	(1,669)	(2,290)
Gross losses from impaired securities	(678)	-	-
Total equity investments	(3,900)	1,387	13,755
Other invested assets:			
Gross gains	1,086	1,055	1,492
Gross losses	-	(56)	(52)
Total other invested assets	1,086	999	1,440
Net realized gains on securities	\$ 641	\$ 5,843	\$ 298

The gross losses from impaired securities during the year ended December 31, 2020 are related to an equity method investment held by the Company.

	2020	2019	2018
Changes in unrealized gains (losses)			
Recognized in accumulated other comprehensive income (loss)			
Fixed-maturities – available-for-sale	\$ 45,203	\$ 38,807	\$ (14,104)
Other invested assets	(199)	1,545	1,073
Not recognized in the consolidated financial statements			
Fixed-maturities – held-to-maturity	\$ 59	\$ 32	\$ (29)

The change in deferred tax asset (liability) on unrealized gains (losses) recognized in Accumulated Other Comprehensive Income during the years 2020, 2019, and 2018 was \$(9,160), \$(8,206), and \$2,292, respectively.

As of December 31, 2020 and 2019 no individual investment in securities exceeded 10% of stockholders' equity.

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5. Net Investment Income

Interest and/or dividend income for the years ended December 31 were are as follows:

	2020	2019	2018
Fixed-maturities	\$ 38,919	\$ 42,005	\$ 43,873
Equity securities	13,158	12,453	12,261
Other invested assets	3,545	3,436	1,679
Policy loans	809	761	754
Cash equivalents and interest-bearing deposits	483	1,602	1,407
Other	633	1,750	1,935
Total	\$ 57,547	\$ 62,007	\$ 61,909

6. Premium and Other Receivables, Net

Premium and Other Receivables, Net as of December 31 were as follows:

	2020	2019
Premium	\$ 106,322	\$ 188,861
Self-funded group receivables	26,412	28,672
FEHBP	12,830	13,894
Agent balances	31,509	30,784
Accrued interest	10,418	11,307
Reinsurance recoverable	216,314	239,767
Other	135,774	110,952
	539,579	624,237
Less allowance for doubtful receivables:		
Premium	37,231	36,622
Other	13,508	19,923
	50,739	56,545
Premium and other receivables, net	\$ 488,840	\$ 567,692

As of December 31, 2020 and 2019, the Company had premiums and other receivables of \$53,397 and \$49,176, respectively, from the Government of Puerto Rico, including its agencies, municipalities and public corporations. The related allowance for doubtful receivables as of December 31, 2020 and 2019 were \$23,752 and \$22,091, respectively.

Reinsurance recoverable as of December 31, 2020 and 2019 includes \$172,021 and \$189,621 related to catastrophe losses covered by the Property and Casualty segment's reinsurance program.

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7. Deferred Policy Acquisition Costs and Value of Business Acquired

The change in deferred policy acquisition costs and value of business acquired for the years ended December 31 is summarized as follows:

	DPAC	VOBA	Total
Balance, December 31, 2017	177,721	23,067	200,788
Additions	51,144	-	51,144
VOBA interest at an average rate of 5.11%	-	1,120	1,120
Amortization	(35,005)	(2,888)	(37,893)
Net change	16,139	(1,768)	14,371
Balance, December 31, 2018	193,860	21,299	215,159
Additions	59,399	-	59,399
VOBA interest at an average rate of 4.53%	-	1,031	1,031
Amortization	(37,496)	(3,208)	(40,704)
Net change	21,903	(2,177)	19,726
Balance, December 31, 2019	\$ 215,763	\$ 19,122	\$ 234,885
Additions	57,458	3,700	61,158
VOBA interest at an average rate of 4.47%	-	923	923
Amortization	(45,687)	(2,954)	(48,641)
Net change	11,771	1,669	13,440
Balance, December 31, 2020	\$ 227,534	\$ 20,791	\$ 248,325

A portion of the amortization of the DPAC and VOBA is recorded as an amortization expense and included within the operating expenses in the accompanying Consolidated Statements of Earnings. The remaining portion of the DPAC and VOBA amortization includes the unrealized investment gains and losses that would have been amortized if such gains and losses had been realized, which for the years ended December 31, 2020 and 2019 was \$(2,478) and \$(2,028), respectively, and is included within the unrealized gains on securities component of other comprehensive income.

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:	
2021	\$ 2,683
2022	1,810
2023	1,608
2024	1,430
2025	1,280

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8. Property and Equipment, Net

Property and Equipment, Net as of December 31 is composed of the following:

	2020	2019
Land	\$ 15,867	\$ 10,976
Buildings and leasehold improvements	128,629	92,752
Office furniture and equipment	32,547	27,878
Computer equipment and software	136,801	133,922
Automobiles	667	761
	<u>314,511</u>	<u>266,289</u>
Less accumulated depreciation and amortization	<u>182,537</u>	<u>177,701</u>
Property and equipment, net	<u>\$ 131,974</u>	<u>\$ 88,588</u>

The Company recognized depreciation expense on property and equipment of \$13,866, \$13,880 and \$12,583 for the years ended December 31, 2020, 2019, and 2018, respectively.

On June 19, 2020, the Company acquired a nine-story office building (the Building), located at 1451 F.D. Roosevelt Avenue, in San Juan, Puerto Rico, as well as the adjoining multi-level parking structure and a parking lot. See Note 13 for further information on the credit agreement obtained to partially finance the acquisition of the Building.

9. Goodwill

Certain business combination transactions have resulted in goodwill, which represents the excess of the acquisition cost over the fair value of net assets acquired and is assigned to reporting units. Goodwill recorded as of December 31, 2020 and 2019 was \$28,614 and \$28,599, respectively, which mostly all is attributable to the Medicare Advantage reporting unit within the Managed Care segment.

In an effort to expand the health clinics reporting unit, the Company purchased on April 1, 2019 various health clinics across different municipalities in Puerto Rico, resulting in a recognition of goodwill of \$3,217.

As required by accounting guidance, annual goodwill impairment tests were performed and based on the results of the tests no impairment charge was required during the years ended December 31, 2020, 2019, and 2018. If the Company does not achieve its earnings objectives or the cost of capital rises significantly, the assumptions and estimates underlying these impairment tests could be adversely affected and result in future impairment charges that would negatively impact its operating results. Cumulative goodwill impairment charges were \$2,369 as of December 31, 2020 and 2019, all related to the health clinics reporting unit.

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10. Fair Value Measurements

Assets recorded at fair value in the Consolidated Balance Sheets are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by current accounting guidance for fair value measurements and disclosures, are as follows:

- 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 on quoted market prices when available. 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.

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 years ended December 31, 2020 and 2019.

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 is as follows:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	2020	2019
Balance as of January 1,	\$ 5,209	\$ 3,805
Unrealized gain in other accumulated comprehensive income	(107)	154
Purchases	-	1,250
Balance as of December 31,	\$ 5,102	\$ 5,209

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.

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

	2020			
	Level 1	Level 2	Level 3	Total
Fixed-maturity securities available-for-sale				
Obligations of government-sponsored enterprises	\$ -	\$ 25,152	\$ -	\$ 25,152
U.S. Treasury securities and obligations of U.S.-government instrumentalities	111,687	-	-	111,687
Municipal securities	-	701,028	-	701,028
Corporate bonds	-	219,796	-	219,796
Residential agency mortgage-backed securities	-	271,231	-	271,231
Collateralized mortgage obligations	-	13,571	-	13,571
Total fixed-maturities	\$ 111,687	\$ 1,230,778	\$ -	\$ 1,342,465
Equity investments	\$ 220,118	\$ 179,108	\$ 5,102	\$ 404,328
	2019			
	Level 1	Level 2	Level 3	Total
Securities available-for-sale				
Fixed-maturity securities				
Obligations of government-sponsored enterprises	\$ -	\$ 17,686	\$ -	\$ 17,686
U.S. Treasury securities and obligations of U.S.-government instrumentalities	107,009	-	-	107,009
Municipal securities	-	629,764	-	629,764
Corporate bonds	-	208,743	-	208,743
Residential agency mortgage-backed securities	-	270,536	-	270,536
Collateralized mortgage obligations	-	9,145	-	9,145
Total fixed-maturities	\$ 107,009	\$ 1,135,874	\$ -	\$ 1,242,883
Equity securities	\$ 177,136	\$ 105,180	\$ 5,209	\$ 287,525

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 use previously evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. For structured securities, cash flow and loan performance data, when available, is also used. 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. The fair value of an equity security included in level 3 was based using the NAV of the Company's ownership interest in the partnership.

In addition to the preceding disclosures on assets recorded at fair value in the Consolidated Balance Sheets, accounting guidance also requires the disclosure of fair values for certain other financial

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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.

To estimate the fair value of each class of these Level 2 financial instruments, the following methods, assumptions and inputs are used:

- Policy loans – these financial instruments 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.
- 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.
- Long-term borrowings – the carrying amount of the loans payable to bank approximates fair value due to its floating interest-rate structure.

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11. Claim Liabilities and Claim Adjustment Expenses

The tables below present a reconciliation of the beginning and ending balances of Claim Liabilities in 2020, 2019 and 2018:

	2020		
	Managed Care	Other Business Segments *	Consolidated
Claim liabilities at beginning of year	\$ 341,277	\$ 367,981	\$ 709,258
Reinsurance recoverable on claim liabilities	-	(137,017)	(137,017)
Net claim liabilities at beginning of year	341,277	230,964	572,241
Claims incurred			
Current period insured events	2,772,084	112,296	2,884,380
Prior period insured events	33,654	(9,765)	23,889
Total	2,805,738	102,531	2,908,269
Payments of losses and loss-adjustment expenses			
Current period insured events	2,408,173	65,414	2,473,587
Prior period insured events	293,187	65,450	358,637
Total	2,701,360	130,864	2,832,224
Net claim liabilities at end of year	445,655	202,631	648,286
Reinsurance recoverable on claim liabilities		138,816	138,816
Claim liabilities at end of year	\$ 445,655	\$ 341,447	\$ 787,102

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	2019		
	Managed Care	Other Business Segments *	Consolidated
Claim liabilities at beginning of year	\$ 394,226	\$ 542,563	\$ 936,789
Reinsurance recoverable on claim liabilities	-	(315,543)	(315,543)
Net claim liabilities at beginning of year	394,226	227,020	621,246
Claims incurred			
Current period insured events	2,556,027	110,513	2,666,540
Prior period insured events	(29,344)	(5,191)	(34,535)
Total	2,526,683	105,322	2,632,005
Payments of losses and loss-adjustment expenses			
Current period insured events	2,293,251	61,966	2,355,217
Prior period insured events	286,381	39,412	325,793
Total	2,579,632	101,378	2,681,010
Net claim liabilities at end of year	341,277	230,964	572,241
Reinsurance recoverable on claim liabilities	-	137,017	137,017
Claim liabilities at end of year	\$ 341,277	\$ 367,981	\$ 709,258
	2018		
	Managed Care	Other Business Segments *	Consolidated
Claim liabilities at beginning of year	\$ 367,357	\$ 739,519	\$ 1,106,876
Reinsurance recoverable on claim liabilities	-	(633,099)	(633,099)
Net claim liabilities at beginning of year	367,357	106,420	473,777
Claims incurred			
Current period insured events	2,308,516	103,368	2,411,884
Prior period insured events	(36,015)	120,961	84,946
Total	2,272,501	224,329	2,496,830
Payments of losses and loss-adjustment expenses			
Current period insured events	1,982,372	57,260	2,039,632
Prior period insured events	263,260	46,469	309,729
Total	2,245,632	103,729	2,349,361
Net claim liabilities at end of year	394,226	227,020	621,246
Reinsurance recoverable on claim liabilities	-	315,543	315,543
Claim liabilities at end of year	\$ 394,226	\$ 542,563	\$ 936,789

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The actual amounts of claims incurred in connection with insured events occurring in a prior period typically differ from estimates of such claims made in the prior-period. Amounts included as incurred claims for prior-period insured events reflect the aggregate net amount of these differences.

The unfavorable development in the claims incurred and loss-adjustment expenses for prior-period insured events for 2020 are primarily due to higher than expected utilization trends in the Managed Care segment. The favorable development in the claims incurred and loss-adjustment expenses for prior-period insured events for 2019 are primarily due to better than expected utilization trends in the Managed Care segment. The unfavorable developments in the claims incurred and loss-adjustment expenses for prior period insured events in 2018 is driven by an adverse development of approximately \$128,678 in the Property and Casualty segment losses related to Hurricane Maria, partially offset by better than expected utilization trends in the Managed Care segment. Reinsurance recoverable on unpaid claims is reported within the 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 \$38,551, \$34,251, and \$30,783 that is included within the consolidated claims incurred during the years ended December 31, 2020, 2019 and 2018, respectively.

The following is information about incurred and paid claims development, net of reinsurance, as of December 31, 2020, as well as cumulative claim frequency. Additional information presented includes total incurred-but-not-reported liabilities plus expected development on reported claims which is included within the net incurred claims amounts.

The information about incurred and paid claims development for the year ended December 31, 2015 and previous years are presented as supplementary information and are unaudited where indicated.

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Managed Care

The Company estimates its liabilities for unpaid claims 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. This process includes comparing the historical claims incurred dates to the actual dates on claims payment. Completion factors are applied to claims paid through the consolidated financial statements date to estimate the claim expense incurred for the current period. The liability for claim adjustment expenses consists of adjustments made by our actuaries based on their knowledge and their estimate of emerging impacts to benefit costs and payment speed.

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			As of December 31, 2020	
Incurred Year	(unaudited)		Total of IBNR Liabilities Plus Expected Development on Reported Claims	(in thousands)
	2019	2020		Cumulative Number of Reported Claims
2019	\$ 2,556,027	\$ 2,568,474	\$ 10,523	37,971
2020		2,772,084	363,911	35,822
		Total		
		\$ 5,340,558		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			
Incurred Year	(unaudited)		
	2019	2020	
2019	\$ 2,293,251	\$ 2,557,951	
2020		2,408,173	
		Total	
		\$ 4,966,124	
	All outstanding liabilities before 2019, net of reinsurance		71,221
	Liabilities for claims and claim adjustment expenses, net of reinsurance		\$ 445,655

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Property and Casualty

Claims liability for Property and Casualty 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 expense for investigating and setting claims.

All Lines

in thousands

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance											As of December 31, 2020	
Incurred Year	Incurred amount										Total of IBNR Plus Expected Development on Reported Claims	Cumulative Number of reported claims
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)		
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
2011	\$ 51,315	\$ 50,287	\$ 51,105	\$ 50,776	\$ 51,895	\$ 52,099	\$ 51,729	\$ 51,684	\$ 51,771	\$ 51,807	\$ 74	20,780
2012		49,040	49,856	48,900	49,817	48,945	48,186	47,731	47,725	47,340	94	21,243
2013			52,343	51,030	49,606	49,168	48,229	47,550	47,104	46,777	173	20,909
2014				48,430	45,410	43,707	42,547	41,457	41,147	40,702	275	19,110
2015					45,067	40,175	37,271	35,505	34,889	34,149	332	18,047
2016						48,127	44,294	41,168	39,488	38,418	443	20,874
2017							60,694	187,376	189,162	195,376	2,406	39,466
2018								40,619	37,603	34,306	1,296	16,381
2019									43,589	34,373	4,107	10,311
2020										44,455	18,511	7,595
										<u>Total</u>	\$ 567,703	

Cumulative Paid claims and Allocated Claim Adjustment Expenses, Net of Reinsurance												
Incurred Year	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)		
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
2011	\$ 24,534	\$ 34,835	\$ 41,606	\$ 44,996	\$ 47,908	\$ 49,598	\$ 50,457	\$ 50,761	\$ 51,127	\$ 51,209		
2012		22,677	33,620	40,406	43,663	45,607	46,094	46,441	46,625	46,724		
2013			21,376	33,249	38,979	42,840	44,252	45,234	45,502	45,621		
2014				18,752	28,657	33,809	36,875	37,857	38,773	39,214		
2015					17,063	24,935	28,040	30,729	32,188	32,554		
2016						20,099	28,996	32,820	34,546	35,395		
2017							28,414	41,855	48,574	83,613		
2018								16,555	24,402	26,997		
2019									16,305	22,379		
2020										19,431		
											\$ 403,137	
											2,001	
												\$ 166,567

The table below includes the average annual percentage payout of incurred claims by age, net of reinsurance, for the Property and Casualty segment, presented as required supplementary information as of December 31, 2020:

	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Average	44.3%	20.7%	10.3%	8.5%	3.6%	1.9%	1.0%	0.4%	0.5%	0.2%

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The reconciliation of the net incurred and paid claims development tables, by segment, to the liability for claims and claim adjustment expenses in the Consolidated Balance Sheets is as follows:

	As of December 31, 2020
Net outstanding liabilities	
Managed Care	\$ 445,655
Property and Casualty	166,567
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	<u>612,222</u>
Reinsurance recoverable on unpaid claims - Property and Casualty	<u>126,268</u>
Insurance lines other than short-duration	49,932
Intersegment elimination	<u>(1,320)</u>
Total gross liability for unpaid claims and claim adjustment expense	<u>\$ 787,102</u>

Claim Liabilities as of December 31, 2020 and 2019 include approximately \$183,023 and \$241,663, respectively, of gross losses related to the impact of Hurricanes Irma and Maria, which made landfall in Puerto Rico in September 2017.

12. Federal Employees' Health Benefits (FEHBP) and Federal Employees' (FEP) Programs

FEHBP

In prior years, TSS entered in 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 USVI, 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

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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.

The Company also has funds available related to the FEHBP amounting to \$58,290 and \$65,309 as of December 31, 2020 and 2019, respectively, and are included within Cash and Cash Equivalents in the accompanying Consolidated Balance Sheets. Such funds are 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, 2020 and 2019 was \$99,005 and \$76,380, respectively. The Company did not receive contingency reserve payments during 2020, 2019 and 2018. During the year ended December 31, 2020, 2019 and 2018, the Company returned excess reserves of \$13,959, \$6,006 and 23,030 to the contingency reserve fund, 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 consolidated financial statements. The claim payments and operating expenses reimbursed in connection with the FEHBP have been audited through 2011 by OPM.

FEP

In prior years, TSS entered in a contract with the BCBSA as per Contract No. C.S. 1039 with OPM to provide health benefits under one Government-wide Service Benefit Plan as contemplated in Title 5, Chapter 89, United States Code. The FEP covers employees and annuitants residing in the Commonwealth of Puerto Rico and the USVI, as well as eligible dependents. The FEP is financed through a negotiated contribution made by the federal government and employees' payroll deductions. The accounting methodology and operations of the FEP are similar to those of the FEHBP as described above.

The claims payments and operating expenses charged to the FEP are subject to audit by the BCBSA. Management is of the opinion that the adjustments, if any, resulting from such audits will not have a significant effect in the accompanying consolidated financial statements. Operating expenses reimbursed in connection with the FEP have been audited through January 2020 by BCBSA.

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13. Borrowings

Long-Term Borrowings

A summary of the borrowings entered by the Company as of December 31 is as follows:

	2020	2019
Secured loan payable of \$11,187, payable in monthly installments of \$137 through October 1, 2023, plus interest at a rate reset periodically of 100 basis points over selected LIBOR maturity (which was 1.15% at December 31, 2020).	\$ 4,627	\$ 6,267
Secured loan payable of \$20,150, payable in monthly installments of \$84 through January 1, 2024, plus interest at a rate reset periodically of 275 basis points over selected LIBOR maturity (which was 2.98% at December 31, 2020).	16,204	17,211
Secured loan payable of \$4,116, payable in monthly installments of \$49 through January 1, 2024, plus interest at a rate reset periodically of 325 basis points over selected LIBOR maturity (which was 3.48% at December 31, 2020).	1,813	2,401
Secured loan payable of \$31,350, payable in monthly installments of \$105 through May 1, 2025, plus interest at prime rate (which was 3.25% at December 31, 2020).		
Last payment of \$25,185 due on June 19, 2025.	30,723	-
Total borrowings	53,367	25,879
Less: unamortized debt issuance costs	616	185
	<u>\$ 52,751</u>	<u>\$ 25,694</u>

The secured loans payable maturing on 2023 and 2024 are guaranteed by a first mortgage 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.

On June 19, 2020, TSM entered into a \$31,350 Credit Agreement (the Loan) with a commercial bank in Puerto Rico. The Company used the proceeds of the Loan to partially finance the acquisition of the Building (see Note 8).

The Loan is guaranteed by a mortgage over the Building, a pledge of all collateral related to the Building and an assignment of the rents collected for the lease of office space in the Building. Pursuant to the credit agreement, interest is payable on the outstanding principal balance of the Loan at an annual rate equal to the Prime Rate. Monthly interest payments commenced on July 1, 2020, and will continue to be paid each month until the principal of the Loan has been paid in full.

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Aggregate maturities of the Company's borrowings as of December 31, 2020 are:

Year ending December 31

2021	\$ 4,490
2022	4,490
2023	4,196
2024	14,484
2025	25,707
	<u>\$ 53,367</u>

The Company may, at its option and at any time, upon written notice as specified in the credit agreement, prepay prior to maturity all or any part of the Loan upon the payment of a penalty fee of the outstanding principal amount at the time of the prepayment of 3% during the first year, 2% during the second year, 1% during the third year and thereafter at par.

The four term loans under credit agreements with commercial banks in Puerto Rico include certain customary financial and non-financial covenants, including negative covenants imposing certain restrictions on the Company's business. The Company was in compliance with all these covenants as of December 31, 2020.

Interest expense on the above borrowings amounted to \$1,362, \$1,320, and \$1,375, for the years ended December 31, 2020, 2019, and 2018, respectively.

Short-Term Borrowings

The Company has several short-term facilities available to address timing differences between cash receipts and disbursements, consisting of collateralized advances from the FHLBNY and a revolving credit facility.

- In August 2019, TSS and TSV became members of the FHLBNY, which provides access to collateralized advances. The borrowing capacity of TSS and TSV is up to 30% of their admitted assets as disclosed in the most recent filing with the Commissioner of Insurance but is constrained by the amount of collateral held at the FHLBNY (see Note 3). As of December 31, 2020 and 2019, the borrowing capacity was approximately \$200,338 and \$131,100, respectively. The outstanding balance as of December 31, 2020 and 2019 was \$30,000 and \$54,000, respectively. The average interest rate of the outstanding balances was 0.33% and 1.79% as of December 31, 2020 and 2019, respectively.
- As of December 31, 2020, TSS has \$35,000 of available credit under repurchase agreements with broker-dealers, which are short-term borrowing facilities using securities as collateral. There are no outstanding short-term borrowings under these facilities as of December 31, 2020.
- TSA has a \$10,000 revolving loan agreement with a commercial bank in Puerto Rico. This line of credit has an interest rate of 30-day LIBOR plus 250 basis points and contains certain financial and non-financial covenants that are customary for this type of facility. This line of credit matures on June 30, 2021 and had no outstanding balance as of December 31, 2020.

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14. Reinsurance Activity

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

	Premiums Earned			Claims Incurred ⁽¹⁾		
	2020	2019	2018	2020	2019	2018
Gross	\$ 3,681,830	\$ 3,316,802	\$ 3,009,830	\$ 2,967,719	\$ 2,645,599	\$ 2,657,639
Ceded	(76,809)	(66,320)	(73,591)	(60,702)	(15,924)	(163,898)
Assumed	429	2,398	2,352	1,252	2,330	3,089
Net	\$ 3,605,450	\$ 3,252,880	\$ 2,938,591	\$ 2,908,269	\$ 2,632,005	\$ 2,496,830

(1) The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits amounting to \$38,551, \$34,251 and \$30,783 that is included within the consolidated claims incurred during the years ended December 31, 2020, 2019 and 2018, respectively.

TSS, TSA, 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 2020, 2019, and 2018 TSP placed 19.36%, 21.50%, and 16.45%, respectively of its reinsurance business with one reinsurance company.

TSS has 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 at each renewal date. Premiums ceded under these contracts amounted to \$1,291, \$1,446, and \$1,524 in 2020, 2019 and 2018, respectively. Claims ceded amounted to \$453, \$1,215, and \$320, in 2020, 2019, and 2018, respectively. Principal reinsurance agreements include an organ transplant excess of loss treaty, which covers:

- For group policies, 80% of the claims up to a maximum of \$800 (80% of \$1,000), per person, per life. For other group policies with other options, the agreement covers 80% of the claims up to a maximum of \$400 (80% of \$500), per person, per life.
- For policies provided to the active and retired employees of the Commonwealth of Puerto Rico and its instrumentalities, the treaty covers 100% of the claims up to a maximum of \$1,000 per person, per life with major medical coverage, only if the covered person uses providers that are members of TSS network.
- For policies provided to the municipalities of Puerto Rico, the treaty covers 100% of the claims up to a maximum of \$250, per person, per life, and all other plans with lifetime covers 100% of the claims up to a maximum of \$1,000, per person, per life.

TSA has an excess of loss reinsurance treaty whereby it cedes a portion of its premiums to a third party. This reinsurance contract is for a period of one year and is subject to modifications and negotiations in each renewal date. Premiums ceded under this contract amounted to \$3,050, \$2,850, and \$2,300 in 2020, 2019, and 2018 respectively. Claims ceded amounted to \$3,862, \$3,186, and

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\$1,804 in 2020, 2019, and 2018, respectively. This reinsurance agreement includes an excess of loss reinsurance coverage for certain hospital inpatient, hospital outpatient, ambulance, and physician services as well as pharmaceutical drugs. This agreement covers a maximum of \$2,000 per person, in excess of the Specific Deductible and Reimbursement Percentage, per agreement term.

TSP utilized facultative reinsurance, pro rata, and excess of loss reinsurance treaties to manage its exposure to losses, including those from catastrophe events. TSP has geographic exposure to catastrophe losses from hurricanes and earthquakes. The incidence and severity of catastrophes are inherently unpredictable. Under these treaties, TSP ceded premiums written were \$61,145, \$52,355, and \$60,354, in 2020, 2019, and 2018, respectively. TSP ceded (refunded) claims incurred were \$50,295, (\$3,368) and \$152,704, in 2020, 2019 and 2018, respectively.

During 2018, as part of the catastrophe program, TSP signed a multiyear reinsurance contract providing for retroactive and prospective reinsurance coverage. The retroactive coverage resulted in a deferred gain on retroactive reinsurance of \$25,000, which is presented within the Accounts Payable and Accrued Liabilities in the accompanying Consolidated Balance Sheets as of December 31, 2020 and 2019. The deferred gain on the retroactive reinsurance will be amortized using the recovery method. The recovery method provides for the amortization in proportion to the estimated recoveries made as of the reporting date as a percentage of total estimated recoveries.

Ceded unearned reinsurance premiums arising from TSP reinsurance transactions amounted to \$9,101 and \$10,427 as of December 31, 2020 and 2019, respectively, and are reported as Other Assets in the accompanying Consolidated Balance Sheets.

Most principal reinsurance contracts are for a period of one year and are subject to modifications and negotiations in each renewal. Current property and catastrophe reinsurance program was renewed effective April 1, 2020 for the twelve-month period ending March 31, 2021. Other contracts were renewed as expiring on January 1, 2021.

Principal reinsurance agreements are as follows:

- Casualty excess of loss treaty provides reinsurance for losses up to \$20,000, subject to a retention of \$225.
- Medical malpractice excess of loss treaty provides reinsurance for losses up to \$3,000, subject to a retention of \$150.
- Property reinsurance treaty includes proportional cessions and a per risk excess of loss contract limiting losses to \$400 in \$30,000 risks.
- Catastrophe protection limits losses to \$5,000 per event with losses up to approximately \$809,000 in a \$814,000 event.

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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 \$9,997, \$8,337, and \$8,780, in 2020, 2019, and 2018, 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.
- For certain policies, all personal accident and certain woman related cancer claims, the treaty covers 100% of the risk and for other cancer claims it covers 65% of the risk.
- Several reinsurance agreements, mostly on an excess of loss basis up to a maximum retention of \$200.
- Excess of loss agreement for the major medical business in Costa Rica reinsuring 100% of all claims over \$35 for claims incurred up to May 31, 2020 and claims over \$50 for claims incurred on or after June 1, 2020.

15. Income Taxes

The Company and its subsidiaries are subject to Puerto Rico income taxes. Under Puerto Rico income tax law, the Company is not allowed to file consolidated tax returns with its subsidiaries. The Company's insurance subsidiaries are also subject to U.S. federal income taxes for foreign source investment income. The Company is potentially subject to income tax audits in the Commonwealth of Puerto Rico for the taxable year 2016 and after, until the applicable statute of limitations expires. Tax audits by their nature are often complex and can require several years to complete.

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. The corporations are also 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 up to a limit of 25% of the excess.

The Company, through one of its Managed Care corporations, has a branch in the USVI that is subject to a 5% premium tax on policies underwritten therein. As a qualified foreign insurance company, the Company is subject to income taxes in the USVI, which has implemented a mirror tax law based on the U.S. Internal Revenue Code. The branch operations in the USVI had certain net operating losses for USVI tax purposes for which a valuation allowance has been recorded.

Companies within our Life Insurance segment operate as qualified domestic life insurance companies and are subject to the alternative minimum tax and taxes on its capital gains.

On December 22, 2017, U.S Government enacted the Tax Cut and Jobs Act (TCJA). The TCJA incorporates a series of changes in tax rates at the federal level applicable for taxable years

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beginning after December 31, 2017 and before January 1, 2026. The U.S. federal maximum corporate income tax rate is reduced from 35% to a 21% flat rate. This change did not have a significant impact for the Company and its insurance subsidiaries since they are only taxed in that jurisdiction for passive income earned on investments, which continue to be subject to withholding at source at its gross level. In addition, the TCJA incorporates restrictions on insurance business exception to passive foreign investment company (PFIC) rules, that were taxed under the PFIC's earnings, subject to an exception for certain income derived in the active conduct of an insurance business. At the moment, no significant impact for the Company has been identified. We annually test our compliance with the new guidelines for Section 1297 PFIC test, at the insurance subsidiary level.

On December 10, 2018, the Puerto Rico Government signed into Law Act 257 of 2018, better known as the Puerto Rico Tax Reform. With this Law, additional amendments are incorporated to the Puerto Rico Internal Revenue Code. Approved changes include: (i) a decrease in the maximum corporate tax rate from 39% to 37.5%; (ii) an increase from 80% to a 90% in the amount of net operating loss carryover deduction available to be claimed against current year net income for regular tax purposes; (iii) an increase in the withholding at source for services rendered from 7% to 10% ; (iv) a limitation in the amounts of net operating losses generated by a corporate shareholder allowed to be netted against net income distributed from a flow-through investment, not permitted for taxable years beginning after December 31, 2019; and (v) a revised large taxpayer definition to include flow-through entities and extend the determination of audited financial statement requirements at the group level. The Puerto Rico Tax Reform also adds requirements for the deductibility of certain expenses as well as disclosure requirements related to any uncertain tax position (UTP) recorded following GAAP. All of these changes are effective for taxable years beginning January 1, 2019.

On April 16, 2020, was signed into Law by the Government of Puerto Rico Act 40 of 2020, which incorporates additional amendments to the Puerto Rico Internal Revenue Code for a New Puerto Rico, as amended. Amendments focused on changes to the audited financial statement threshold requirements; corrects wording on Net Operating Losses to clarify that these will not consider the dividend receipt deduction; and states that for Capital Losses Carryover, they shall only be carried forward as a short term gains up to 90% of net capital gains for the year. In addition, it introduces changes to the filing due date of income tax returns of non-for-profits, exempt (grant) corporations, and insurance companies to June 15, for calendar year entities.

Federal income taxes recognized by the Company's insurance subsidiaries amounted to approximately \$1,981, \$2,209, and \$1,147, in 2020, 2019, and 2018, respectively.

All other corporations within the group are subject to Puerto Rico income taxes as regular corporations, as defined in the P.R. Internal Revenue Code, as amended.

The components of income tax expense (benefit) consisted of the following:

	2020	2019	2018
Current income tax expense	\$ 26,853	\$ 35,714	\$ 2,212
Deferred income tax (benefit) expense	(2,285)	3,661	(32,078)
Total income tax expense (benefit)	\$ 24,568	\$ 39,375	\$ (29,866)

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The income tax expense (benefit) 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:

	2020	2019	2018
Income (loss) before taxes	\$ 91,733	\$ 132,252	\$ (93,172)
Statutory tax rate	37.50%	37.50%	39.00%
Income tax expense (benefit) at statutory rate	34,400	49,595	(36,337)
(Decrease) increase in taxes resulting from:			
Exempt income, net	(10,510)	-	(2,330)
Effect of taxing life insurance operations as a qualified domestic life insurance company instead of as a regular corporation	(3,379)	(4,823)	(3,445)
Effect of taxing capital gains at a preferential rate	1	(743)	194
Adjustment to deferred tax assets and liabilities for changes in statutory tax rates	-	-	9,217
Other adjustments to deferred tax assets and liabilities	736	(469)	(43)
Unrealized gains or losses included in earnings	1,338	(5,627)	4,625
Effect of extraordinary dividend distribution from the JUA Association - reported net of taxes in other income	-	(55)	-
Effect of net operating loss limitations	2,369	1,239	-
Tax credit benefit	(1,190)	(62)	(306)
Tax returns to provision true up	922	36	(798)
Subtotal	(9,713)	(10,504)	7,114
Other permanent disallowances, net:			
Other	(46)	37	(229)
Other adjustments	(73)	247	(414)
Total income tax expense (benefit)	\$ 24,568	\$ 39,375	\$ (29,866)

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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 composition of the net deferred tax asset at December 31, 2020 and 2019 of the Company and its subsidiaries is as follows:

	2020	2019
Deferred tax assets		
Allowance for doubtful receivables	\$ 16,542	\$ 18,882
Liability for pension benefits	59,205	15,378
Postretirement benefits	280	415
Deferred compensation	2,106	2,187
Accumulated depreciation	193	920
Impairment loss on investments	648	522
Contingency reserves	10,430	4,063
Share-based compensation	6,880	8,086
Alternative minimum income tax credit	3,998	3,432
Purchased tax credits	286	458
Net operating loss	56,930	51,246
Reinsurance agreement	9,375	9,375
Accrued liabilities	7,069	5,599
Difference in tax basis of investments portfolio	-	77
Other	2,137	1,349
Gross deferred tax assets	176,079	121,989
Less: valuation allowance	(7,765)	(6,705)
Deferred tax assets	168,314	115,284
Deferred tax liabilities		
Deferred policy acquisition costs	(9,608)	(8,413)
Catastrophe loss reserve	(11,693)	(13,014)
Unrealized gain on securities available for sale	(23,843)	(14,965)
Unrealized gain on equity investments	(10,740)	(9,091)
Difference in tax basis of investments portfolio	(306)	-
Unamortized debt issue costs	(231)	(69)
Intangible asset	(492)	(669)
Employee benefits plan	(6,913)	(2,026)
Gross deferred tax liabilities	(63,826)	(48,247)
Net deferred tax asset	\$ 104,488	\$ 67,037

The net deferred tax asset shown in the table above at December 31, 2020 and 2019 is reflected in the Consolidated Balance Sheets as \$119,534 and \$77,294, respectively, in Deferred Tax Assets and \$15,046 and \$10,257, in Deferred Tax Liabilities, respectively, reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Company.

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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. The valuation allowance is mostly related to the net operating losses generated by the Company's USVI operations and the health clinic's operations which based on the available evidence are not considered to be realizable at the reporting dates.

At December 31, 2020, the Company and its subsidiaries have net operating loss carry-forwards for Puerto Rico income tax purposes of approximately \$168,800, which are available to offset future taxable income for up to December 2030. The carryforwards generally expire in 2026 through 2030. Except for the valuation allowance described in the previous paragraph, the Company concluded that as of December 31, 2020, it is more likely than not that the entities that have these net operating loss carry-forwards will generate sufficient taxable income within the applicable net operating loss carry-forward periods to realize its deferred tax asset. This conclusion is based on the historical results of each entity, adjusted to exclude non-recurring conditions, and the forecast of future profitability. Management will continue to evaluate on a quarterly basis if there are any significant events that will affect the Company's ability to utilize these deferred tax assets.

16. Pension Plans

Non-contributory Defined Benefit Pension Plan

The Company sponsors a non-contributory defined-benefit pension plan for its employees and for the employees of certain 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 for the pension plan is December 31.

In December 2016, the Company announced that effective January 31, 2017, it would freeze the pay and service amounts used to calculate pension benefits for active employees who participated in the pension plan. Therefore, as of the effective date, active employees in the pension plan do not accrue additional benefits for future service and eligible compensation received.

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The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status as of December 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 190,555	\$ 159,477
Interest cost	6,073	6,992
Benefit payments	(9,176)	(9,672)
Actuarial loss	17,241	33,758
Benefit obligation at end of year	<u>\$ 204,693</u>	<u>\$ 190,555</u>
Accumulated benefit obligation at end of year	\$ 204,693	\$ 190,555
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	\$ 163,558	\$ 134,957
Actual return on assets	(91,542)	36,273
Employer contributions	10,000	2,000
Benefit payments	(9,176)	(9,672)
Fair value of plan assets at end of year	<u>\$ 72,840</u>	<u>\$ 163,558</u>
Funded status at end of year	\$ (131,853)	\$ (26,997)

The amounts recognized in the Consolidated Balance Sheets as of December 31, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Pension liability	\$ 131,853	\$ 26,997
Net actuarial loss recognized in accumulated other comprehensive loss, net of a deferred tax of \$55,848 and \$12,692 in 2020 and 2019, respectively	100,685	27,907

The following assumptions were used on a weighted average basis to determine benefits obligations of the plan as of December 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Discount rate	2.75%	3.25%
Expected return on plan assets	5.75%	6.25%
Rate of compensation increase	N/A	N/A

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The components of net periodic benefit cost and other amounts recognized in Other Comprehensive Income were as follows:

	2020	2019	2018
Components of net periodic benefit cost			
Interest cost	\$ 6,073	\$ 6,992	\$ 6,853
Expected return on plan assets	(8,840)	(8,835)	(9,020)
Actuarial loss	1,178	392	961
Settlement loss	-	-	2,110
Net periodic benefit (income) cost	\$ (1,589)	\$ (1,451)	\$ 904

Net periodic benefit (income) cost includes 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 actuarial loss that will be amortized from Accumulated Other Comprehensive Loss into net periodic pension benefits cost during the next twelve months is \$3,893.

The following assumptions were used on a weighted average basis in computing the periodic benefit cost for the years ended December 31, 2020, 2019, and 2018:

	2020	2019	2018
Discount rate	3.25%	4.50%	3.75%
Expected return on plan assets	6.25%	6.50%	6.50%
Rate of compensation increase	N/A	N/A	N/A

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 in which the trust invests and the trust's target asset allocation. At December 31, 2020, the assumed target asset allocation for the program is: 45% to 55% in equity securities, 40% to 48% in debt securities, and 2% to 10% in 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 5.1% to 6.6%. The Company selected a rate from within this range of 6.25% for 2020 and 6.50% for 2019, 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 0.15% reduction for other administrative expenses charged to the trust.

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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 10.

The tables below summarize fair value measurements by level at December 31, 2020 and 2019 for assets measured at fair value on a recurring basis:

	2020				
	Level 1	Level 2	Level 3	Total	NAV
Government obligations	\$ -	\$ 4,127	\$ -	\$ 4,127	\$ -
Non-agency backed securities	-	157	-	157	-
Corporate obligations	-	13,134	-	13,134	-
Real estate	-	-	-	-	6,033
Registered investments	1,183	1,886	-	3,069	-
Common/Collective trusts	-	46,006	-	46,006	-
Common stocks	1,196	-	-	1,196	-
Interest-bearing cash	371	-	-	371	-
Derivatives	-	2	-	2	-
	\$ 2,750	\$ 65,312	\$ -	\$ 68,062	\$ 6,033

	2019				
	Level 1	Level 2	Level 3	Total	NAV
Government obligations	\$ -	\$ 6,782	\$ -	\$ 6,782	\$ -
Non-agency backed securities	-	656	-	656	-
Corporate obligations	-	9,353	-	9,353	-
Limited Liability Corporations	-	-	-	-	126,989
Real estate	-	-	-	-	6,720
Registered investments	3,754	382	-	4,136	-
Common/Collective trusts	-	7,527	-	7,527	-
Common stocks	1,885	-	-	1,885	-
Preferred stocks	-	14	-	14	-
Interest-bearing cash	300	-	-	300	-
	\$ 5,939	\$ 24,714	\$ -	\$ 30,653	\$ 133,709

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.

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- 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 of 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 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 assets with consideration of the liability characteristics in order to better align assets and liabilities.
- 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 \$10,000 to its pension program in 2021.

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

Year ending December 31

2021	\$ 11,805
2022	10,378
2023	10,611
2024	10,664
2025	10,656
2026 - 2029	56,709

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Non-contributory Supplemental Pension Plan

In addition, the Company sponsors a non-contributory 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, 2020 and 2019, the Company had recorded a pension liability of \$7,758 and \$7,468, respectively. The charge to accumulated other comprehensive loss related to the non-contributory pension plan at December 31, 2020 and 2019 amounted to \$828 and \$562, respectively, net of a deferred tax asset of \$519 and \$359, respectively.

17. 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 (losses) on investment transactions are part of the trust fund and are recorded as income (expense) of the Company. An amount equal to the investment return is recorded as an addition to the trust fund.

During the year ended December 31, 2018, TSP received the approval of the Commissioner of Insurance and withdrew \$10,000 from the catastrophe fund following the payment for catastrophe losses related to the impact of Hurricane Maria in September 2017.

In December 2020, TSP received the approval of the Commissioner of Insurance to withdraw \$5,000 from the catastrophe fund following the payment of catastrophe losses of the earthquake that hit the southwest part of Puerto Rico in January 2020. During January 2021, TSP withdrew the \$5,000 from the catastrophe fund. Also, TSP presented a petition for approval to the Commissioner of Insurance to withdraw an additional \$5,300 from the catastrophe fund covering losses related to Hurricane Irma, which is still under evaluation.

The interest-earning assets in this fund, which amounted to \$43,124 and \$41,047 as of December 31, 2020 and 2019, 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 needed or necessary, on or before January 31 of the following year. Contributions are determined by a rate determined or established by the Commissioner of Insurance for the catastrophe policies written in that year. No contribution was required for 2020 and 2019 since the level of the catastrophe reserve exceeded 8% of the catastrophe exposure.

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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.

TSP retained earnings are restricted in the accompanying Consolidated Balance Sheets by the total catastrophe loss reserve balance, which as of December 31, 2020 and 2019 amounted to \$35,904 and \$39,425, respectively.

18. Stockholders' Equity

Common Stock

On July 29, 2019, the Company issued 48,602 Class A shares to the heirs of a former shareholder, as a result of a litigation settlement. During July 2019, the Board of Directors authorized and approved the conversion (Conversion) of the Company's remaining issued and outstanding Class A common shares into Class B common shares. Effective on August 7, 2019, all Class A holders of record received one Class B share for each Class A share held. Upon the Conversion, all remaining outstanding Class A shares were automatically cancelled and extinguished, and the Company now maintains a single class of common shares.

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, 2020 and 2019, there are no issued and outstanding preferred shares.

Liquidity Requirements

As members of the BCBSA, the Company, TSS, and TSA are required by membership standards of this association to maintain liquidity as defined by BCBSA. That is, to maintain total adjusted capital at or above 375% of Health Risk-Based Capital (HRBC) Authorized Control Level (ACL) as defined by the National Association of Insurance Commissioners (NAIC) for the for Primary Licensee (TSM) and Larger BCBS Controlled Affiliate (TSS) and 100% HRBC ACL for the Smaller BCBS Controlled Affiliate (TSA).

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, TSA, TSV, TSB, and TSP are restricted as to the payment of dividends by statutory limitations applicable to domestic insurance companies. Under Puerto Rico

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insurance regulations, the regulated subsidiaries are permitted, without requesting prior regulatory approval, to pay dividends as long as the aggregate 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, 2020, the dividends permitted to be distributed in 2021 by the regulated subsidiaries without prior regulatory approval from the Commissioner of Insurance amounted to approximately \$25,619.

The issuance of 48,602 Class A shares entitled all Class B shareholders to certain anti-dilution rights; therefore, all holders of Class B shares at the close of business on July 26, 2019 (Record Date) received a share dividend of 0.051107 Class B shares for every Class B share they owned as of that time. On August 6, 2019, the Company paid the Class B share dividend which amounted to \$24,655; cash of \$11 was paid in lieu of fractional shares so that shareholders receive a whole number of shares of common stock.

19. Stock Repurchase Programs

The Company repurchases shares through open market transactions, in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended, under repurchase programs authorized by the Board of Directors. Shares purchased under share repurchase programs are retired and returned to authorized and unissued status.

In August 2017 the Company's Board of Directors authorized a \$30,000 repurchase program (2017 \$30,000 program) of its Class B common stock. In February 2018 the Company's Board of Directors authorized a \$25,000 expansion of this program. In October 2019 the Company's Board of Directors authorized an expansion to this repurchase program increasing its remaining balance up to a total of \$25,000, effective November 2019. This program was completed in May 2020.

The stock repurchase activity under active stock repurchase programs for the years ended December 31 was:

			2020			2019			2018		
			Shares Repurchased	Average Share Price	Amount Repurchased	Shares Repurchased	Average Share Price	Amount Repurchased	Shares Repurchased	Average Share Price	Amount Repurchased
2017	\$30,000 program		952,820	\$ 15.72	\$ 14,982	527,881	\$ 18.92	\$ 9,989	903,888	\$ 24.76	\$ 22,390

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20. Comprehensive Income

The accumulated balances for each classification of Other Comprehensive Income are:

	Unrealized Gains on Securities	Liability for Pension Benefits	Accumulated Other Comprehensive Income
Beginning balance at December 31, 2019	\$ 57,830	\$ (28,467)	\$ 29,363
Net current period change	37,654	(73,807)	(36,153)
Reclassification adjustments for gains and losses reclassified in income	(3,795)	765	(3,030)
Ending balance at December 31, 2020	<u>\$ 91,689</u>	<u>\$ (101,509)</u>	<u>\$ (9,820)</u>

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 2020, 2019 and 2018 are:

	2020		
	Before-Tax Amount	Deferred Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized holding gains on securities arising during the period	\$ 47,067	\$ (9,413)	\$ 37,654
Less reclassification adjustment for gains and losses realized in income	(4,541)	746	(3,795)
Net change in unrealized gain	<u>42,526</u>	<u>(8,667)</u>	<u>33,859</u>
Liability for pension benefits:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	1,224	(459)	765
Net change arising from assumptions and plan changes and experience	<u>(118,092)</u>	<u>44,285</u>	<u>(73,807)</u>
Net change in liability for pension benefits	<u>(116,868)</u>	<u>43,826</u>	<u>(73,042)</u>
Net current period change	<u>\$ (74,342)</u>	<u>\$ 35,159</u>	<u>\$ (39,183)</u>

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	2019		
	Before-Tax Amount	Deferred Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized holding gains on securities arising during the period	\$ 42,780	\$ (8,556)	\$ 34,224
Less reclassification adjustment for gains and losses realized in income	(4,456)	754	(3,702)
Net change in unrealized gain	38,324	(7,802)	30,522
Liability for pension benefits:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	396	(149)	247
Net change arising from assumptions and plan changes and experience	(7,149)	2,681	(4,468)
Net change in liability for pension benefits	(6,753)	2,532	(4,221)
Net current period change	\$ 31,571	\$ (5,270)	\$ 26,301
	2018		
	Before-Tax Amount	Deferred Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized holding gains on securities arising during the period	\$ (24,375)	\$ 4,875	\$ (19,500)
Less reclassification adjustment for gains and losses realized in income	13,457	(3,005)	10,452
Net change in unrealized gain	(10,918)	1,870	(9,048)
Liability for pension benefits:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	(995)	373	(622)
Net change arising from assumptions and plan changes and experience	2,190	(830)	1,360
Net change in liability for pension benefits	1,195	(457)	738
Net current period change	\$ (9,723)	\$ 1,413	\$ (8,310)

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21. Share-Based Compensation

In December 2007, the Company adopted the 2007 Incentive Plan (the 2007 plan), which permits the Board to grant stock options, restricted stock awards and performance awards to eligible officers, directors and employees. The 2007 plan authorized the granting of up to 4,700,000 of Class B common shares of authorized but unissued stock. The 2007 plan was terminated in April 2017, when the 2017 Incentive Plan (the 2017 plan) was adopted. The 2017 plan permits the Board to grant stock options, stock appreciation rights (SARs), restricted stock, restricted stock units, performance awards, and other stock-based awards, to our officers and employees. In addition, the 2017 plan authorizes the grant of equity-based compensation incentives to our directors and to any independent contractor and consultants. The 2017 plan originally authorized the granting of up to 1,700,000 of Class B common shares plus the number of shares that were subject to any outstanding awards under the 2007 plan that are forfeited, cancelled, expire, terminate or otherwise lapse, in whole or in part, without the delivery of the shares. In October 2020 an additional 1,100,000 of Class B common shares were authorized under the 2017 plan. At December 31, 2020, there were 1,133,224 shares available for the Company to grant under the 2017 Plan.

Stock options and SARs can be granted with an exercise price, which shall not be less than the stock's fair market value at the grant date. The term of stock options and SARs shall be fixed by the Board of Directors but shall not exceed 10 years from the date of grant. The restricted stock, restricted stock units and performance awards are issued at the fair value of the stock on the grant date. Restricted stock awards and restricted stock units 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 are achieved.

There was no stock option activity during the years ended December 31, 2020, 2019 and 2018. No options were granted during the three years ended December 31, 2020, 2019 and 2018. No cash was received from stock options exercises during the years ended December 31, 2020, 2019 and 2018. During the years ended December 31, 2020, 2019, and 2018, 21,368, 6,124 and 29,779 shares, respectively, were repurchased and retired as the result of non-cash tax withholding upon vesting of shares.

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A summary of the status of the Company's non-vested restricted and performance shares as of December 31, 2020, and changes during the year ended December 31, 2020, are presented below:

	Restricted Awards		Performance Awards	
	Number of Shares	Weighted Average Fair Value	Number of Shares	Weighted Average Exercise Price
Outstanding balance at January 1, 2020	308,387	\$ 24.16	515,688	\$ 25.60
Granted	228,157	14.89	521,357	14.44
Lapsed	(167,701)	23.23	(200,801)	26.50
Forfeited (due to termination)	(5,671)	19.03	(29,882)	22.19
Quantity adjusted (due to performance payout more than 100%), net of forfeited	-	-	(32,008)	26.50
Outstanding balance at December 31, 2020	363,172	\$ 18.87	774,354	\$ 18.05

The weighted average grant date fair value of restricted shares granted during the year 2020, 2019 and 2018 were \$14.89, \$24.53, and \$28.49, respectively. Total fair value of restricted stock vested during the year ended December 31, 2020, 2019 and 2018 was \$3,896, \$2,861 and \$2,390, respectively.

At December 31, 2020, there was \$11,200 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 0.95 years. The Company currently uses authorized and unissued Class B common shares to satisfy share award exercises.

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

The table below sets forth the computation of basic and diluted earnings per share for the three-year period ended December 31:

	2020	2019	2018
Numerator for earnings per share			
Net income (loss) attributable to TSM available to stockholders	\$ 67,189	\$ 92,894	\$ (63,302)
Denominator for basic earnings per share –			
Weighted average of common shares	23,179,544	23,318,742	22,975,385
Effect of dilutive securities	130,198	66,551	-
Denominator for diluted earnings per share	23,309,742	23,385,293	22,975,385
Basic net income (loss) per share attributable to TSM	\$ 2.90	\$ 3.98	\$ (2.76)
Diluted net income (loss) per share attributable to TSM	\$ 2.88	\$ 3.97	\$ (2.76)

The Company excluded the effect of dilutive securities during the year ended December 31, 2018 because their effect would have been anti-dilutive given the net loss attributable to stockholders during this year. If the Company had generated income from continuing operations during the year ended December 31, 2018, the effect of the restricted stock awards on the diluted shares calculation would have been an increase in shares of 81,023 shares.

23. Leases

The Company's subsidiaries lease their regional offices, certain equipment and warehouse facilities under non-cancelable operating leases. These contracts generally do not include purchase options or residual value guarantees. The remaining lease terms ranges from 0.2 to 13.9 years. The Company identifies leases when it has both the right to obtain substantially all economic benefits from the use of the asset and the right to direct the use of the asset.

The Company recognizes the right-of-use assets and lease liabilities related to operating leases in its Consolidated Balance Sheets within Other Assets and Accounts Payables and Accrued Liabilities, respectively. As of December 31, 2020, the right-of-use asset and lease liabilities balance was \$12,957 and \$13,191, respectively. As of December 31, 2019, the right-of-use asset and lease liabilities balance was \$10,438 and \$10,586, respectively. The weighted-average remaining lease term was 5.9 years and 5.8 years as of December 31, 2020 and 2019, respectively.

The Company uses the incremental borrowing rate for purposes of discounting lease payments for our operating leases since our lease agreements do not provide a readily determinable implicit rate. We estimate our incremental borrowing rate using an interest rate index to which we add a credit spread based on financing transactions with a similar credit risk profile. The weighted-average discount rate of our operating leases was 4.6% and 5.3% as of December 31, 2020 and 2019, respectively.

The Company adopted the following two accounting policies as a result of the adoption of the ASU 2016-02: Leases (Topic 842): (1) to not separate lease components from non-lease components and (2) to not apply the recognition requirements of ASC 842 to short-term leases.

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Undiscounted cash flows of operating leases are shown below:

Year ending December 31

2021	\$	3,961
2022		3,366
2023		2,330
2024		1,856
2025		709
Thereafter		2,888
Total lease payments		<u>15,110</u>
Less: imputed interest		<u>(1,919)</u>
Total	\$	<u>13,191</u>

The following presents the lease cost recognized by the Company:

For the years ended December 31,

	2020	2019
Operating lease cost	\$ 4,600	\$ 4,900
Short-term lease cost	977	509
	<u>\$ 5,577</u>	<u>\$ 5,409</u>

The Company leases certain floors of one of its buildings and generates rental income. Maturity analysis of lease payments to be received from its lessees as of December 31, 2020, is summarized as follows:

Year ending December 31,

2021	1,909
2022	1,947
2023	1,986
2024	2,026
2025	1,177
Thereafter	1,448
	<u>\$ 10,493</u>

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24. Commitments

Pursuant to the provisions of the Puerto Rico Insurance Code and Regulations, TSP is a member of the Compulsory Vehicle Liability Insurance Joint Underwriting Association (JUA). As a participant, TSP shares the risk, proportionately with other members, based on a formula established by the Puerto Rico Insurance Code, of the results and financial condition of the JUA, and accordingly, may be subject to assessments to cover obligations of the JUA or may receive refund distributions for good experience. The Company received \$212, \$172 and \$215 in 2020, 2019 and 2018, respectively, as an ordinary dividend.

25. Contingencies

The Company's business is subject to numerous laws and regulations promulgated by Federal, Puerto Rico, USVI, Costa Rica, BVI, and Anguilla governmental authorities. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. The Commissioner of Insurance of Puerto Rico, as well as other Federal, Puerto Rico, USVI, Costa Rica, BVI, and Anguilla government authorities, regularly make inquiries and conduct audits concerning the Company's compliance with such laws and regulations. Penalties associated with violations of these laws and regulations may include significant fines and exclusion from participating in certain publicly funded programs and may require the Company to comply with corrective action plans or changes in our practices.

As of December 31, 2020, the Company is involved in various legal actions arising in the ordinary course of business. The Company is also defendant in various other litigations and proceedings, some of which are described below. Where the Company believes that a loss is both probable and estimable, such amounts have been recorded. Although the Company believes the estimates of such losses are reasonable, these estimates could change as a result of further developments in these matters. In other cases, it is at least reasonably possible that the Company may incur a loss related to one or more of the mentioned pending lawsuits or investigations, but the Company is unable to estimate the range of possible loss which may be ultimately realized, either individually or in the aggregate, upon their resolution. However, there are legal proceedings where a loss is reasonably possible, and for which it is possible to reasonably estimate the amount of the possible loss or range of losses, we currently believe that the range of possible losses in excess of established reserves is, in the aggregate, from \$0 to approximately \$10,000 at December 31, 2020. The outcome of legal proceedings is inherently uncertain, and pending matters for which accruals have not been established have not progressed sufficiently to enable us to estimate a range of possible loss, if any. Given the inherent unpredictability of these matters, it is possible that an adverse outcome in one or more of these matters could have a material effect on the consolidated financial condition, operating results and/or cash flows of the Company.

Joint Underwriting Association Litigation

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 JUA and 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.

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In this lawsuit, entitled Noemí Torres Ronda, et al v. JUA 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 in 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 \$406,600 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.

Since 2011, TSP has been defending this claim and, jointly with other defendants, has filed several pleas in connection with the certification of the class and the dismissal of the claim. On October 7, 2019, defendants' petition for summary judgment was granted. On December 18, 2019 plaintiffs filed an appeal to contest the Court's judgment dismissing their complaint.

In re Blue Cross Blue Shield Antitrust Litigation

TSS is a co-defendant with multiple Blue Plans and the Blue Cross Blue Shield Association in a multi-district class action litigation filed by a group of providers and subscribers on July 24, 2012 and October 1, 2012, respectively, that has since been consolidated by the United States District Court for the Northern District of Alabama, Southern Division, in the case captioned *In re Blue Cross Blue Shield Association Antitrust Litigation*. Essentially, provider plaintiffs allege that the exclusive service area requirements of the Primary License Agreements with the Blue Plans constitute an illegal horizontal market allocation under federal antitrust laws. As per provider plaintiffs, the *quid pro quo* for said "market allocation" is a horizontal price fixing and boycott conspiracy implemented through BCBSA and whose benefits are allegedly derived through the BCBSA's BlueCard/National Accounts Program. Among the remedies sought, provider plaintiffs seek increased compensation rates and operational changes. In turn, subscriber plaintiffs allege that the alleged conspiracy to allocate markets have prevented subscribers from being offered competitive prices and resulted in higher premiums for Blue Plan subscribers. Subscribers seek damages for the amounts that the Blue Plan premiums allegedly have been artificially inflated as a result of the alleged antitrust violations. Both actions seek injunctive relief.

Prior to consolidation, motions to dismiss were filed by several plans, including TSS, whose request was ultimately denied by the court without prejudice. On April 6, 2015, plaintiffs filed suit in the United States District Court of Puerto Rico against TSS. Said complaint, nonetheless, is believed not to preclude TSS' jurisdictional arguments. Since inception, the Company has joined BCBSA and other Blue Plans in vigorously contesting these claims. On April 5, 2018, the United States District Court for the Northern District of Alabama, Southern Division, issued its ruling on the parties' respective motions for partial summary judgment on the standard of review applicable to plaintiffs' claims under Section 1 of the Sherman Act and subscriber plaintiffs' motion for partial summary judgment on the Blue Plan's single entity defense. After considering the "undisputed" facts (for summary judgment purposes only) and evidence currently on record in the light most favorable to defendants, the court essentially found that: (a) the combination of Exclusive Service Areas and the National Best Efforts Rule are subject to the Per Se standard of review; (b) there remain genuine issues of material fact as to whether defendants' conduct can be shielded by the "single entity" defense; and (c) claims concerning the BlueCard Program and uncoupling rules are due to be analyzed under the Rule of Reason standard.

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On April 16, 2018 Defendants moved the Federal District Court for the Northern District of Alabama to certify for immediate interlocutory appeal the Court's April 5, 2018 Standard of Review Ruling. On June 12, 2018 Hon. Judge Proctor agreed to grant Defendant's motion for certification pursuant to 28 U.S.C. §1292(b). Defendants filed their Notice of Appeal on July 12, 2018. On December 12, 2018, the Court of Appeals for the Eleventh Circuit denied Defendants' petition to appeal the District Court's Standard of Review Ruling. The parties re-commenced mediation with subscribers in April 2019 and with providers in September 2019. On July 29, 2020, the Defendants reached a settlement agreement with subscribers, which was subject to approval by the BCBSA and Member Plans boards, as well as from the Federal District Court for the Northern District of Alabama. Following the BCBSA Board of Directors and Members Plans' August 14, 2020 approval, on September 30, 2020, the Company's Board of Directors voted to approve the Settlement Agreement. On November 30, 2020, the Federal District Court for the Northern District of Alabama issued its Memorandum Opinion and Preliminary Order approving settlement terms. The Settlement Agreement requires a monetary settlement payment from defendants. The Company's portion of the monetary settlement payment is estimated at \$32,000, which was accrued during the year ended December 31, 2020 and is presented within Accounts Payable and Accrued Liabilities in the Consolidated Balance Sheets.

26. Statutory Accounting

TSS, TSA, TSV, TSP and TSB (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 uses 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. 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, 2020 and 2019 is approximately 1.5% and 1.7%, respectively, 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.

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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," in order to avoid regulatory monitoring and intervention. The Company Action Level is currently set at 200% of the RBC for TSA, since it is organized as a health service organization, and 300% of the RBC for TSS, TSV, and TSB. The RBC requirement for TSP is 300%, but compliance with certain trend analysis can lower this requirement to 200%. As of December 31, 2020 and 2019, 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 (loss) for the regulated subsidiaries at December 31, 2020, 2019 and 2018:

(dollar amounts in millions)	2020	2019	2018
Net admitted assets	\$ 2,473	\$ 2,394	\$ 2,089
Capital and surplus	771	767	602
RBC requirement	641	546	312
Net income (loss)	53	68	(32)

As more fully described in Note 17, 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 \$35,904 and \$43,124 as of December 31, 2020, respectively. The total catastrophe loss reserve and trust fund amounted to \$39,425 and \$41,047 as of December 31, 2019, 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 \$6,884 and \$6,940 (fair value of \$7,526 and \$7,274) at December 31, 2020 and 2019, respectively, were deposited with the Commissioner of Insurance. As a result, the combined restricted assets for our regulated subsidiaries were \$50,008 and \$47,987 as of December 31, 2020 and 2019, respectively.

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27. Supplementary Information on Cash Flow Activities

	2020	2019	2018
Supplementary information			
Non-cash transactions affecting cash flow activities			
Change in net unrealized (gain) loss on securities available for sale, including deferred income tax liability (asset) of \$8,667, \$7,802, and (\$1,870) in 2020, 2019, and 2018 respectively	\$ (33,859)	\$ (30,522)	\$ 9,048
Change in liability for pension benefits, and deferred income tax (asset) liability of (\$43,826), (\$2,532), \$457, in 2020, 2019, and 2018, respectively	73,042	4,221	(738)
Repurchase and retirement of common stock	(382)	(119)	(748)
Stock dividend	-	(24,655)	-
Issuance of common stocks	-	1,200	-
Capitalization of lease right of use asset	8,014	10,438	-
Other			
Income taxes paid	40,658	3,147	8,978
Interest paid	7,986	7,672	6,903

28. Segment Information

The operations of the Company are conducted principally through three reportable business segments: Managed Care, Life Insurance, and Property and Casualty Insurance. Reportable business segments were identified according to the type of insurance products offered and are 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 Medicare, Commercial, 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 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 \$1,553,455, \$1,408,039, and \$1,130,226 for the years ended December 31, 2020, 2019, and 2018, respectively.
- Under its Commercial business, the segment also provides health coverage to certain employees of the Commonwealth of Puerto Rico and its instrumentalities. Earned premium

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revenue related to such health plans amounted to \$13,349, \$16,805, and \$24,186 for years ended December 31, 2020, 2019, and 2018, respectively.

- The segment is a qualified contractor to provide health coverage to federal government employees within Puerto Rico and the USVI. Earned premiums revenue related to this contract amounted to \$159,588, \$161,716, and \$150,232 for the years ended December 31, 2020, 2019, and 2018, respectively (see Note 12).
- 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. Earned premium revenue related to this business amounted to \$953,208, \$778,263, and \$776,038 for the years ended December 31, 2020, 2019, and 2018, 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 products of this segment are commercial package, commercial auto, and personal package. 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 generally 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 assets used by each segment. Certain expenses are not allocated to the segments and are kept within TSM's operations.

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The following tables summarize the operations by operating segment for each of the years in the three-year period ended December 31:

	2020	2019	2018
Operating revenues			
Managed care			
Premiums earned, net	\$ 3,320,181	\$ 2,985,600	\$ 2,687,773
Fee revenue	12,585	9,946	14,701
Intersegment premiums/fee revenue	2,525	6,269	5,690
Net investment income	20,783	23,468	23,827
Total managed care	3,356,074	3,025,283	2,731,991
Life			
Premiums earned, net	193,889	180,204	167,888
Intersegment premiums	2,066	1,987	668
Net investment income	27,317	27,323	25,658
Total life	223,272	209,514	194,214
Property and casualty			
Premiums earned, net	91,380	87,076	82,930
Intersegment premiums	613	613	613
Net investment income	8,974	9,773	10,800
Total property and casualty	100,967	97,462	94,343
Other segments*			
Intersegment service revenues	10,630	8,836	283
Operating revenues from external sources	8,991	8,553	5,794
Total other segments	19,621	17,389	6,077
Total business segments	3,699,934	3,349,648	3,026,625
TSM operating revenues from external sources	473	1,443	1,624
Elimination of intersegment premiums	(5,204)	(8,869)	(6,971)
Elimination of intersegment service revenue	(10,630)	(8,836)	(283)
Consolidated operating revenues	\$ 3,684,573	\$ 3,333,386	\$ 3,020,995

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

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	2020	2019	2018
Operating income (loss)			
Managed care	\$ 38,301	\$ 61,907	\$ 26,468
Life	27,796	21,912	19,901
Property and casualty	19,829	14,492	(110,119)
Other segments*	(6,217)	(3,054)	8
Total business segments	79,709	95,257	(63,742)
TSM operating revenues from external sources	473	1,443	1,624
TSM unallocated operating expenses	(7,940)	(8,588)	(8,815)
Elimination of TSM charges	9,612	9,612	9,600
Consolidated operating income (loss)	81,854	97,724	(61,333)
Consolidated net realized investment gains	641	5,843	298
Consolidated net unrealized investment gains (losses) on equity securities	7,639	32,151	(36,546)
Consolidated interest expense	(7,986)	(7,672)	(6,903)
Consolidated other income, net	9,585	4,206	11,312
Consolidated income (loss) before taxes	\$ 91,733	\$ 132,252	\$ (93,172)
Depreciation and amortization expense			
Managed care	\$ 10,478	\$ 11,527	\$ 10,525
Life	1,226	1,081	1,134
Property and casualty	381	385	384
Other segments*	1,261	910	705
Total business segments	13,346	13,903	12,748
TSM depreciation expense	1,057	697	787
Consolidated depreciation and amortization expense	\$ 14,403	\$ 14,600	\$ 13,535

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

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	2020	2019	2018
Assets			
Managed care	\$ 1,319,389	\$ 1,190,538	\$ 1,078,262
Life	1,051,819	981,370	863,470
Property and casualty	583,404	592,758	747,583
Other segments*	34,020	28,346	20,705
Total business segments	2,988,632	2,793,012	2,710,020
Unallocated amounts related to TSM			
Cash, cash equivalents, and investments	16,489	28,167	57,818
Property and equipment, net	68,678	25,623	21,733
Other assets	88,684	37,176	22,521
	173,851	90,966	102,072
Elimination entries – intersegment receivables and others	(74,065)	(65,152)	(51,844)
Consolidated total assets	\$ 3,088,418	\$ 2,818,826	\$ 2,760,248
	2020	2019	2018
Significant noncash items			
Net change in unrealized gain (loss) on securities available for sale			
Managed care	\$ 12,504	\$ 9,687	\$ 2,585
Life	18,336	17,442	(11,285)
Property and casualty	3,503	3,023	(583)
Other segments*	-	-	-
Total business segments	34,343	30,152	(9,283)
Amount related to TSM	(484)	370	235
Consolidated net change in unrealized (loss) gain on securities available for sale	\$ 33,859	\$ 30,522	\$ (9,048)

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

29. Subsequent Events

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

Shareholder **Information**

Corporate Headquarters

Triple-S Management Corporation
1441 F. D. Roosevelt Avenue
San Juan, PR 00920
787.749.4949
www.triplesmanagement.com

Form 10-K

The Company has filed an Annual Report on Form 10-K for the year ended December 31, 2020, with the Securities and Exchange Commission (SEC).

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

Investor Relations

Garrett Edson
ICR
787.792.6488
investorrelations@ssspr.com

At the Company:

Juan J. Román-Jiménez
Executive Vice President and
Chief Financial Officer (CFO)
787.749.4949
jjroman@ssspr.com

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held virtually on April 30, 2021 at 9:00 a.m. AST

Independent Registered Public Accounting Firm

Deloitte & Touche LLP
350 Chardón Avenue
Suite 700
San Juan, PR 00918-2140

Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
All Shareholder Inquiries: 800.937.5449
Shareholder Services: 718.921.8124
TTY: 718.921.8386 or 866.703.9077
www.amstock.com

Class B Common Stock

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

Annual Certifications

Our President and Chief Executive Officer (CEO) has submitted to the NYSE the Domestic Company Section 303A Annual CEO Certification regarding our compliance with the corporate governance listing standards of the NYSE. In addition, we have filed with the SEC, as exhibits to our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, the Sarbanes-Oxley Act Section 302 Certifications of both our President and CEO and our Executive Vice President and CFO regarding the quality of our public disclosures.

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 **TRIPLE-S** MANAGEMENT