

AUDITED FINANCIAL STATEMENTS

CVS Caremark Indemnity Ltd.
Years Ended December 31, 2021 and 2020
With Report of Independent Auditors

CVS Caremark Indemnity Ltd.

Audited Financial Statements

Years Ended December 31, 2021 and 2020



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Report of Independent Auditors

The Board of Directors
CVS Caremark Indemnity Ltd.

Opinion

We have audited the accompanying financial statements of CVS Caremark Indemnity Ltd., which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the incurred claims and allocated claims adjustment expenses, net of reinsurance and the cumulative paid claims and paid allocated claim adjustment expenses, net of reinsurance for the years ending 2021 and prior and the average annual percentage payout of incurred claims by age, net of reinsurance disclosed on page 17 through 25 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young Ltd.

Hamilton, Bermuda
April 29, 2022

CVS CAREMARK INDEMNITY LTD.
(Incorporated in Bermuda)

BALANCE SHEETS

As of DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents (Notes 5 and 6)	\$ 89,497,994	\$ 114,456,495
Restricted cash (Note 7)	217,777,607	276,276,264
Insurance and reinsurance balances receivable (Note 9)	50,858,788	48,728,260
Marketable securities (Note 8)	354,619,496	163,685,346
Intercompany loan receivable (Note 9)	700,000,000	700,000,000
Funds withheld (Note 3)	204,657	207,118
Accrued interest receivable	1,560,234	808,703
Prepaid expenses	74,169	74,169
Deferred tax asset, net (Note 11)	<u>14,786,121</u>	<u>12,084,891</u>
	<u>\$ 1,429,379,066</u>	<u>\$ 1,316,321,246</u>
LIABILITIES		
Losses and loss expenses (Note 4)	\$ 648,209,473	\$ 605,713,023
Insurance and reinsurance balances payable	(33,614)	37,704
Accounts payable and accrued liabilities (Note 3)	425,425	320,876
Investments Payable	27,727,470	2,000,000
Unearned Premiums	47,578	-
Income tax payable (Note 11)	<u>16,113,861</u>	<u>19,762,015</u>
	<u>692,490,193</u>	<u>627,833,618</u>
SHAREHOLDER'S EQUITY		
Share capital (Note 10)		
Authorized, issued and fully paid		
850,000 shares with a par value of \$1 each	850,000	850,000
Additional paid-in capital	92,490,000	92,490,000
Retained earnings (Note 13)	643,903,038	590,012,874
Accumulated Other Comprehensive (Loss) / Income	<u>(354,165)</u>	<u>5,134,754</u>
	<u>736,888,873</u>	<u>688,487,628</u>
	<u>\$ 1,429,379,066</u>	<u>\$ 1,316,321,246</u>

See accompanying notes

CVS CAREMARK INDEMNITY LTD.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

	<u>2021</u>	<u>2020</u>
Underwriting income		
Gross premiums written	491,942,737	588,629,762
Change in unearned premiums	<u>(47,578)</u>	<u>-</u>
Net premiums earned	\$ <u>491,895,159</u>	\$ <u>588,629,762</u>
Underwriting expenses		
Losses and loss expenses incurred (Note 4)	(389,633,619)	(450,115,614)
Commission expense (Note 9)	<u>(61,428,650)</u>	<u>(68,070,917)</u>
	<u>(451,062,269)</u>	<u>(518,186,531)</u>
Net underwriting income	40,832,890	70,443,231
Other income (expenses)		
Net investment income (Note 12)	30,098,616	19,620,339
Realized capital losses	(1,118,801)	(150,490)
General and administrative expenses	<u>(720,376)</u>	<u>(708,323)</u>
Net other income	<u>28,259,439</u>	<u>18,761,526</u>
Net income before tax	69,092,329	89,204,757
Income tax (Note 11)		
Current income tax (expense)	(16,383,907)	(20,136,439)
Deferred income tax benefit / (expense)	<u>1,181,742</u>	<u>521,998</u>
Net income tax expense	<u>(15,202,165)</u>	<u>(19,614,441)</u>
Net income	\$ <u><u>53,890,164</u></u>	\$ <u><u>69,590,316</u></u>
Other comprehensive income, net of tax:		
Net unrealized investment gains	<u>(5,488,919)</u>	<u>5,134,754</u>
Comprehensive income	\$ <u><u>48,401,245</u></u>	<u><u>74,725,070</u></u>

See accompanying notes
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CVS CAREMARK INDEMNITY LTD.
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
DECEMBER 31, 2021 AND 2020
(expresses in United States dollars)

	<u>Share Capital</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive (Loss) / Income</u>	<u>Total</u>
Balance at January 1, 2020	\$ 850,000	\$ 92,490,000	520,422,558	-	\$ 613,762,558
Net income	-	-	69,590,316	-	69,590,316
Other comprehensive income, net	-	-	-	5,134,754	5,134,754
Balance at December 31, 2020	<u>\$ 850,000</u>	<u>\$ 92,490,000</u>	<u>590,012,874</u>	<u>5,134,754</u>	<u>\$ 688,487,628</u>
Net income	-	-	53,890,164	-	53,890,164
Other comprehensive loss, net	-	-	-	(5,488,919)	(5,488,919)
Balance at December 31, 2021	<u>\$ 850,000</u>	<u>\$ 92,490,000</u>	<u>643,903,038</u>	<u>(354,165)</u>	<u>\$ 736,888,873</u>

See accompanying notes

CVS CAREMARK INDEMNITY LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

	<u>2021</u>	<u>2020</u>
Operating activities:		
Net income	\$ 53,890,164	\$ 69,590,316
Adjustments to reconcile net income to net cash provided by/ (used in) operating activities:		
Restricted cash	-	-
Insurance and reinsurance balances receivable	(2,130,528)	(13,659,725)
Funds withheld	2,461	(12,000)
Accrued interest receivable	(751,531)	1,575,681
Prepaid expenses	-	(500)
Deferred tax asset	(2,701,230)	898,902
Losses and loss expenses	42,496,450	(256,830)
Insurance and reinsurance balances payable	(71,318)	(219,460,584)
Unearned premiums	47,578	-
Accounts payable and accrued liabilities	104,549	(135,303)
Premiums received in advance	-	-
Investments payable	25,727,470	2,000,000
Income tax payable	<u>(3,648,154)</u>	<u>14,377,270</u>
Net cash provided by/(used in) operating activities	<u>112,965,911</u>	<u>(145,082,773)</u>
Investing activities:		
Advances to ultimate parent and affiliates	-	(200,000,000)
Proceeds from sales and maturities of investments	47,985,702	51,571,594
Purchases of investments	<u>(244,408,771)</u>	<u>(210,122,186)</u>
Net cash used in investing activities	<u>(196,423,069)</u>	<u>(358,550,592)</u>
Net decrease in cash and cash equivalents and restricted cash	(83,457,158)	(503,633,365)
Cash and cash equivalents and restricted cash , beginning of year	<u>390,732,759</u>	<u>894,366,124</u>
Cash and cash equivalents and restricted cash, end of year	\$ <u><u>307,275,601</u></u>	\$ <u><u>390,732,759</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for income taxes	\$ <u><u>(20,032,060)</u></u>	\$ <u><u>(5,759,169)</u></u>
Reconciliation of cash and cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 89,497,994	\$ 114,456,495
Restricted cash	217,777,607	276,276,264
Total cash and cash equivalents and restricted cash	<u><u>\$ 307,275,601</u></u>	<u><u>\$ 390,732,759</u></u>

See accompanying notes

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

1. Operations

CVS Caremark Indemnity Ltd. ("The Company"), formerly known as Twinsurance Limited, was incorporated in Bermuda on March 27, 1980, and is a wholly owned subsidiary of CVS Foreign, Inc. (the "Parent"), a United States of America corporation. The Company was licensed as a Class 2 reinsurer under the Insurance Act, 1978 of Bermuda and the related regulations up to March 28, 2011 and as a Class 3A insurer effective March 29, 2011. The ultimate parent company is CVS Health Corporation, an SEC registrant, incorporated in the United States of America.

Effective October 31, 2008, Twinsurance Limited and Caremark Indemnity Ltd., an affiliate, amalgamated pursuant to the provisions of the Companies Act, 1981 of Bermuda. The amalgamated Company continued under the name CVS Caremark Indemnity Ltd.

Prior to 1988, the Company participated in a reinsurance pool and various quota share reinsurance treaties with unrelated parties. As of May 31, 1998, participation in the pool and treaties were either canceled or commuted. As of August 1, 1998, the Company commenced providing the Parent and affiliates coverage for general liability, auto liability and workers compensation risks with limits of up to \$4,000,000 per occurrence and no annual aggregate. The Company also entered into a Pharmacy Provider Indemnity Policy, which insured the risks of unrelated third parties. The Pharmacy Provider Indemnity Policy was cancelled effective May 7, 1999. All other policies remain in effect with the same limits per occurrence.

Caremark Indemnity Ltd., formerly MP Indemnity Ltd., was incorporated in Bermuda on November 28, 1994, under the provisions of the Companies Act 1981. Prior to the amalgamation, it was a wholly owned subsidiary of Caremark International L.L.C., a company incorporated in the United States of America, and its ultimate parent was CVS Health Corporation. The Company's principal activity was to reinsure excess layers of pharmaceutical plans offered by its Parent. The policies written are no longer active, and no known or estimated liabilities exist.

As of January 1, 2011, the Company entered into quota share reinsurance agreements reinsuring Medicare Part D prescription drug coverage with Accendo Insurance Company and Silverscript Insurance Company, both wholly owned subsidiaries of CVS Health Corporation. Under the terms of the reinsurance agreement the Company participates in a 15% quota share on a funds withheld basis.

On January 1, 2014, the Company has not renewed its quota share reinsurance agreement with Accendo Insurance Company.

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

1. Operations, cont'd.

The Company's underwriting year for direct policies runs from January 1st to December 31st each calendar year. Additionally, the Company issued a medical stop loss policy and an inventory shrink stop loss policy to CVS Pharmacy, Inc. (a subsidiary of the CVS Health Corporation) for two policy years effective December 18, 2017. The medical stop loss policy covered reimbursement for medical benefit claims paid by the insured in excess of an annual aggregate deductible of \$385 million with an applicable annual aggregate limit of \$1.5 billion. The inventory shrink stop loss policy covered inventory loss claims for the insured up to an annual aggregate limit of \$1 billion and the annual aggregate deductible was \$250 million. The stop loss policies were not renewed upon the December 18, 2019 expiry date.

The Company issued a Clinical Trials Liability SIR Indemnification policy effective December 15, 2021 with a \$1 million limit on each claim and \$5 million aggregate. This policy has a retroactive coverage date of December 1, 2020.

2. Significant accounting policies

(a) Basis of preparation

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

(b) Cash and cash equivalents

The Company considers all highly liquid instruments that are readily convertible to known amounts of cash or purchased with a maturity of three months or less to be cash equivalents.

(c) Debt Securities

Debt securities consist primarily of U.S. Treasury and agency securities, mortgage-backed securities, corporate and foreign bonds and other debt securities. Debt securities are classified as either current or long-term investments based on their contractual maturities unless the Company intends to sell an investment within the next twelve months, in which case it is classified as current on the balance sheet. Debt securities are classified as available for sale and are carried at fair value with the difference between fair value and amortized cost reported as a separate component of shareholder's equity within accumulated other comprehensive income.

Investment income from debt securities is recorded when earned and is comprised of interest and amortization of the discount on debt securities recorded using the effective interest method. Realized gains and losses on sales of debt securities are included in income on the average cost basis and include adjustments to the cost basis of

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

2. Significant accounting policies, cont'd.

investments for declines in values that are considered to be other than temporary. A security is impaired when its fair value is below its costs or amortized cost. The Company regularly reviews its investment portfolio on an individual security basis for potential other than temporary impairment based on criteria including issuer specific circumstances, credit rating actions and general macro-economic conditions.

A decline in the fair value of a security below its cost that is deemed other than temporary is also included in investment income, resulting in the establishment of a new cost basis for the securities. An other than temporary impairment on an available for sale investment is recognized when there is no objective evidence to support recovery in a value of a security, and if the market value was less than the amortized cost and the Company did not have the ability and intent to hold the investment until a market price recovery.

Purchases and sales of debt securities and alternative investments are reflected on the trade date.

(d) Alternative investments

Alternative investments consist primarily of Private equity and hedge fund limited partnerships, which are accounted for using the equity method of accounting. Under this method, the carrying value of the investment is based on the value of the Company's equity ownership of the underlying investment funds provided by the general partner or manager of the investments, the financial statements of which generally are audited.

As a result of the timing of the receipt of the valuation information provided by the fund managers, these investments are generally reported on up to a three month lag. The Company reviews investments for impairment at least quarterly and monitors their performance throughout the year through discussions with the administrators, managers and/or general partners. If the Company becomes aware of an impairment of a limited partnership's investments through its review or prior to receiving the limited partnership's financial statements at the financial statement date, an impairment will be recognized by recording a reduction in the carrying value of the limited partnership with a corresponding charge to net investment income.

(e) Premiums and acquisition costs

Premiums written and acquisition costs are reported as earned on the accrual basis and are included in income on a pro-rated basis over the term of the policies. The policies are co-terminus with the Company's year-end and accordingly, there are no unearned premiums and deferred acquisition costs at the balance sheet date. Certain of the quota

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

2. Significant accounting policies, cont'd.

share reinsurance treaties have retrospectively rated premium provisions, whereby additional/return premium assessments are made as a result of loss activity. The Company records such premium assessments as premiums assumed, when reported by the ceding insurance companies.

(f) Losses and loss expenses

Losses and loss expenses are recorded when advised by the ceding insurance company. Reserve for losses and loss expenses comprise estimates of the amount of reported losses and loss expenses received from the ceding insurance company plus a provision for losses incurred but not reported based on the recommendations of an independent actuary. The selected loss development patterns are based on a blend of actual Company experience and the benchmark loss development patterns.

Inherent in the estimates of ultimate losses are expected trends in claim severity and frequency and other factors which could vary significantly as claims are settled. Accordingly, ultimate losses may vary materially from the amounts provided in the financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are reflected in results of operations in the period in which they become known and are accounted for as changes in estimates.

(g) Income taxes

The Company reports its liability and expense for income taxes under the requirements of Accounting Standards Codification ("ASC") No. 740, *Income Taxes*. Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax purposes, measured by applying currently enacted tax laws. A valuation allowance against a deferred tax asset is provided for if and when the Company believes that a portion or all of the deferred tax asset may not be realized in the near term.

In addition, the Company is required to recognize the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained, assuming examination by tax authorities. The Company has not recognized any liabilities for unrecognized tax benefits as a result of this guidance. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next twelve months and classifies all income tax associated with interest and penalties as income tax expense.

(h) Fair value measurement

The carrying values of the financial assets and liabilities, which consist of cash and cash equivalents, restricted cash, insurance and reinsurance balances receivable, intercompany loan receivable, accrued interest receivable, funds withheld, income tax payable, investments payable, insurance and reinsurance balances payable and accounts payable

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

2. Significant accounting policies, cont'd.

and accrued liabilities approximate their fair values due to the immediate or short-term maturity.

The Company's long-term investments are measured at fair value on the balance sheets. The fair values of these instruments are based on valuations that include inputs that can be classified within one of three levels of a hierarchy established by GAAP. The following are the levels of the hierarchy and a brief description of the type of valuation information ("valuation inputs") that qualifies a financial asset or liability for each level:

- Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 – Valuation inputs other than Level 1 that are based on observable market data. These include: quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets, valuation inputs that are observable that are not prices (such as interest rates and credit risks) and valuation inputs that are derived from or corroborated by observable markets.
- Level 3 – Developed from unobservable data, reflecting the Company's assumptions.

(i) Variable Interest Entities

The Company has investments in certain hedge fund investments that are considered Variable Interest Entities (VIEs). The Company does not have a future obligation to fund losses or debts on behalf of these investments; however, it may voluntarily contribute funds. In evaluating whether the Company is the primary beneficiary of a VIE, the Company considers several factors, including whether the Company has (a) the power to direct the activities that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses and the right to receive benefits that could potentially be significant to the VIE.

The Company invests in hedge funds in order to generate investment returns for its investment portfolio supporting its insurance business and has determined that it is not the primary beneficiary. The Company is not the primary beneficiary of these VIEs because the nature of the Company's involvement with the activities of these VIEs does not give the Company the power to direct the activities that most significantly impact their economic performance. The Company records the amount of its investment in these VIEs as marketable securities on the balance sheet and recognizes its share of each VIE's income or losses in net income (loss). The Company's maximum exposure to loss from these VIEs is limited to its investment balances of \$13,220,236 (2020: \$10,962,415) which are included in marketable securities on the balance sheet.

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

2. Significant accounting policies, cont'd.

(j) Use of estimates

The preparation of financial statements in conformity with U.S GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company's results and operations have been and may continue to be impacted by the COVID -19 pandemic and the recent economic environment. The effects include but are not limited to significant volatility in equity markets, decline in interest rates, increase in credit risk, strain on alternative long duration asset prices and disruption of business operations. The breadth and depth of these events and their duration contribute additional uncertainty around estimates used in determining the carrying value of certain assets and liabilities included in these Financial Statements. Management has considered the effect of COVID-19 to the extent possible in its estimates and assumptions.

3. Reinsurance Pool business

The Company participates in a reinsurance pool, the R-Pool, which is managed by United Insurance Company. The R-Pool provides reinsurance to the Company's parent and other companies domiciled in the United States. The Company records the R-Pool activity reported by the treaty manager. The policies in the R-Pool are subject to retrospective premium adjustments. A provision for premium adjustments has been included in the accompanying financial statements.

Amounts included in the accompanying financial statements as at December 31, 2021 and 2020 relating to the R-Pool are as follows:

	<u>2021</u>		<u>2020</u>
Funds held by ceding reinsurers	\$ 204,657	\$	207,118
Insurance balances receivable/(payable)	33,614		(37,704)
Loss and loss expenses provisions	90,249		198,228
Net premiums earned	(1,332)		(1,332)
Net losses incurred and net loss expense	(33,745)		(33,745)

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

4. Losses and loss expenses

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 605,713,023	\$ 605,969,853
Incurred related to:		
Current year	394,702,299	482,147,376
Prior years	<u>(5,068,680)</u>	<u>(32,031,762)</u>
Total incurred	<u>389,633,619</u>	<u>450,115,614</u>
Paid losses related to:		
Current year	(234,953,136)	(325,096,453)
Prior years	<u>(112,184,033)</u>	<u>(125,275,991)</u>
Total paid	<u>(347,137,169)</u>	<u>(450,372,444)</u>
Balance at end of year	\$ <u>648,209,473</u>	\$ <u>605,713,023</u>

The loss development in 2021 relating to prior years reserves of \$5,068,680 is predominantly related to favorable movements on the Worker's Compensation, General Liability and Pharmacy Liability lines of business as a result of lower claims activity. The loss development in 2020 relating to prior years reserves of \$32,031,762 is predominantly related to favorable movements on the Workers' Compensation, General Liability and Pharmacy Liability lines of business as result of lower claims activity.

CVS Caremark Indemnity, Ltd. ("the Company") determines its provision for reported losses on the basis of losses reported by the third party claims administrator engaged by CVS Health. The Company's provision for loss development is based on the advice of independent consulting actuaries. Please note that the following information is supplemental and unaudited.

In their report, the consulting actuaries estimated that at December 31, 2021, the provision for total outstanding losses for all policy years, including the current year, on an expected undiscounted basis, is \$601,992,666 (2020: \$605,913,970).

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

4. Losses and loss expenses, cont'd.

Ultimate loss and allocated loss adjustment expenses (herein referred to as “loss”) were estimated on a combined basis by accident year, by business segment, and by coverage, based on the list of estimation techniques used: Paid and Incurred Loss Development methods; Paid and Incurred Bornhuetter-Ferguson methods; Generalized Cape Cod method; and the Loss Rate method. Incurred but not reported (“IBNR”) reserves include amounts for expected development on known claims and pure IBNR reserves. Since December 31, 2021, there have been no significant changes to the methodologies or assumptions used.

A brief description of each method is as follows:

- a. Paid Loss Development - A loss development factor (“LDF”) is applied to cumulative paid loss as of December 31, 2021. The LDFs are selected based on a review of historical Company loss payment patterns (data triangles) and industry information. Development beyond the maturity of the historical data triangles is estimated by selecting a “tail” LDF.
- b. Incurred Loss Development - This method is similar to the Paid Loss Development method except incurred loss (paid loss plus case reserves) are used in place of paid loss. The LDFs used in this method estimate future loss payments on unreported and reopened claims, as well as changes in the incurred loss values on reported claims.
- c. Paid (Incurred) Bornhuetter-Ferguson – This method estimates ultimate loss as the sum of two components: actual paid (incurred) loss plus expected losses unpaid (IBNR reserves). This method requires paid (incurred) LDFs and an initial expectation of the ultimate loss amount. The payment (reporting) patterns associated with the LDFs imply that a specific percentage of the ultimate loss will be paid (reported) after the evaluation date. The amount of unpaid (unreported) loss is estimated by applying this percentage to the expected ultimate loss. The initial expected ultimate loss amount is selected based on a review of charged premium (excluding premium relating to underwriting expenses) and the prior estimated ultimate loss amount.
- d. Generalized Cape Cod – The Generalized Cape Cod method is a variant of the Expected Emergence method that includes a systematic approach for calculating the prior expected loss. This method calculates expected loss rates based on the relationship between the exposures, the losses that have emerged as of the evaluation date, and the loss emergence pattern indicated by the selected LDFs. The method relies on a selected “decay rate” that governs the extent to which the expected loss rate for any given year is influenced by the data for other years. In our analysis, we used a version of the Generalized Cape Cod method that utilizes ultimate claim counts in place of exposures and expected average claim severities in place of expected loss rates.

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

4. Losses and loss expenses, cont'd.

- e. Loss Rate – In the Loss Rate method, the ultimate losses are estimated by multiplying the exposures by a selected ultimate loss rate. The Loss Rate method was used to estimate expected losses for the expected paid and incurred emergence methods for accident year 2021 and projected losses for 2022. The selected ultimate loss rates were selected based on a review of ultimate loss rates for prior years, adjusted for loss and exposure trend and benefit level changes and premium level changes where appropriate.

After reviewing the results of each method, weights are assigned to each, resulting in a selected ultimate loss amount. IBNR reserves are then calculated as the difference between the selected ultimate loss amount and incurred loss as of December 31, 2021.

The total loss and loss adjustment expenses reserves displayed on the balance sheet as of December 31, 2021 are not discounted for the time value of money.

Reported claims used in the Actuary's analysis are aggregated on an occurrence basis (e.g. a claim with multiple claimants is considered to be one claim/occurrence) and include both claims closed with and without payments. Re-opened claims are not considered to be a newly reported claim.

For determining claim frequency, the chain ladder approach is used. Year over year frequency (estimated ultimate claims per exposure unit) are compared as a check of reasonableness. There have been no changes in the methodologies used.

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

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4. Losses and loss expenses, cont'd.

CVS Caremark Indemnity, Ltd. Auto Liability in thousands											As of December 31, 2021	
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance												
Accident Year	For the Years Ended December 31, (Unaudited)										Total of Incurred- but- Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ 2,195	\$ 1,781	\$ 1,666	\$ 1,708	\$ 1,646	\$ 1,633	\$ 1,630	\$ 1,628	\$ 1,625	\$ 1,647	\$ 24	276
2013		2,083	2,269	3,267	3,310	3,419	3,401	3,393	3,387	3,432	53	251
2014			1,056	820	973	1,294	1,617	1,721	1,710	1,728	31	208
2015				1,279	959	879	779	677	666	670	15	167
2016					1,816	2,015	1,733	1,643	1,608	1,604	52	206
2017						1,552	1,269	1,471	1,317	1,120	69	386
2018							2,045	2,649	2,797	2,587	237	268
2019								3,101	1,886	1,623	355	255
2020									1,516	1,375	714	199
2021										2,115	1,522	227
									Total	\$ 17,901		

CVS Caremark Indemnity, Ltd. Auto Liability in thousands											As of December 31, 2021	
Cumulative Paid Claims and Paid Allocated Claim Adjustment Expenses, Net of Reinsurance												
Accident Year	For the Years Ended December 31, (Unaudited)										Total	Cumulative Number of Reported Claims
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ 321	\$ 678	\$ 837	\$ 1,542	\$ 1,621	\$ 1,623	\$ 1,623	\$ 1,623	\$ 1,623	\$ 1,623	\$ 1,623	276
2013		407	712	2,881	3,033	3,268	3,380	3,380	3,380	3,380	3,380	251
2014			206	333	714	878	1,030	1,697	1,697	1,697	1,697	208
2015				215	444	557	653	655	655	655	655	167
2016					505	900	1,429	1,457	1,548	1,548	1,548	206
2017						203	400	1,046	1,044	1,044	1,044	386
2018							298	1,062	1,170	1,170	1,170	268
2019								380	621	621	621	255
2020									289	289	289	199
2021										170	170	227
									Total	\$ 13,638		
									All outstanding liabilities before 2012, net of reinsurance	\$ (372)		
									Liabilities for claims and claim adjustment expenses, net of reinsurance	\$ 3,891		

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

4. Losses and loss expenses, cont'd.

CVS Caremark Indemnity, Ltd. General Liability in thousands												
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance											As of December 31, 2021	
Accident Year	For the Years Ended December 31, (Unaudited)										Total of Incurred- but- Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ 33,021	\$ 32,643	\$ 31,663	\$ 31,889	\$ 31,099	\$ 31,985	\$ 31,930	\$ 35,182	\$ 34,699	\$ 34,976	\$ (2,871)	9,177
2013		34,266	33,993	32,349	32,813	32,411	33,086	32,504	31,907	31,700	865	8,746
2014			37,634	33,237	34,172	34,021	31,751	34,315	33,809	33,517	1,537	9,043
2015				27,813	24,694	28,534	29,328	29,814	29,246	28,611	2,202	9,029
2016					28,251	28,412	27,858	31,150	29,681	28,743	2,994	8,608
2017						31,693	32,269	35,715	33,879	33,459	5,148	8,688
2018							32,861	33,325	31,428	29,856	6,992	8,725
2019								35,542	40,694	40,490	13,483	7,821
2020									41,576	45,457	23,593	6,843
2021										39,073	33,543	6,371
									Total	\$ 345,882		

CVS Caremark Indemnity, Ltd. General Liability in thousands											
Cumulative Paid Claims and Paid Allocated Claim Adjustment Expenses, Net of Reinsurance											
Accident Year	For the Years Ended December 31, (Unaudited)										Total
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
2012	\$ 1,853	\$ 8,174	\$ 14,509	\$ 19,142	\$ 24,592	\$ 26,322	\$ 30,033	\$ 30,417	\$ 30,774	\$ 30,778	\$ 30,778
2013		1,931	7,828	11,922	22,233	27,020	28,603	30,388	30,466	30,824	30,824
2014			2,388	5,689	13,467	20,622	24,680	26,003	26,759	28,069	28,069
2015				853	5,183	13,005	18,603	23,191	24,999	25,252	25,252
2016					1,161	5,226	10,492	19,804	23,849	24,740	24,740
2017						1,049	5,815	13,765	22,276	25,889	25,889
2018							1,234	5,962	12,804	17,718	17,718
2019								1,611	9,416	16,687	16,687
2020									1,985	9,181	9,181
2021										1,134	1,134
									Total	210,272	210,272
									All outstanding liabilities before 2012, net of reinsurance	4,058	4,058
									Liabilities for claims and claim adjustment expenses, net of reinsurance	\$ 139,668	\$ 139,668

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
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4. Losses and loss expenses, cont'd.

CVS Caremark Indemnity, Ltd. Druggist Liability in thousands											As of December 31, 2021	
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance												
Accident Year	For the Years Ended December 31, (Unaudited)										Total of Incurred- but- Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ 35,919	\$ 33,641	\$ 37,560	\$ 41,314	\$ 50,022	\$ 50,156	\$ 48,973	\$ 47,978	\$ 47,525	\$ 47,868	\$ 840	3,053
2013		37,823	33,021	29,044	28,133	27,845	26,937	27,309	26,412	26,470	709	3,115
2014			41,116	41,880	46,446	48,239	48,531	47,012	46,430	46,428	1,553	3,121
2015				31,922	35,272	41,480	42,169	44,629	41,374	40,784	1,798	2,632
2016					36,857	35,549	36,785	41,948	39,353	37,448	4,132	2,392
2017						37,987	35,789	34,777	31,293	27,971	4,843	2,350
2018							37,183	39,035	40,268	33,319	8,165	2,364
2019								33,433	34,366	30,562	11,823	1,897
2020									35,236	24,929	17,278	1,421
2021										27,349	24,692	1,361
									Total	\$ 343,128		

CVS Caremark Indemnity, Ltd. Druggist Liability in thousands										
Cumulative Paid Claims and Paid Allocated Claim Adjustment Expenses, Net of Reinsurance										
Accident Year	For the Years Ended December 31, (Unaudited)									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	\$ 3,592	\$ 10,626	\$ 22,958	\$ 30,191	\$ 41,933	\$ 45,465	\$ 46,898	\$ 46,922	\$ 47,012	\$ 47,028
2013		2,825	8,953	14,403	18,905	21,356	22,982	24,736	25,119	25,226
2014			2,410	13,858	25,389	31,484	40,039	41,599	42,037	42,360
2015				1,662	14,541	21,333	25,537	35,532	38,181	38,640
2016					2,586	7,840	17,428	24,703	28,152	31,233
2017						2,443	8,668	17,026	19,705	21,474
2018							1,888	6,264	17,099	19,925
2019								1,540	5,461	10,718
2020									1,803	5,793
2021										773
									Total	\$ 243,170
									All outstanding liabilities before 2012, net of reinsurance	4,930
									Liabilities for claims and claim adjustment expenses, net of reinsurance	\$ 104,888

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

4. Losses and loss expenses, cont'd.

CVS Caremark Indemnity, Ltd. Healthcare Professional Liability in thousands												
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance											As of December 31, 2021	
Accident Year	For the Years Ended December 31, (Unaudited)										Total of Incurred- but- Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ 1,374	\$ 1,369	\$ 535	\$ 1,031	\$ 840	\$ 818	\$ 670	\$ 666	\$ 665	\$ 672	10	80
2013		2,241	699	1,197	1,483	2,270	2,253	2,213	2,206	2,232	(44)	1,029
2014			2,317	1,660	1,257	1,083	1,031	873	865	875	16	2,959
2015				1,845	1,271	1,079	1,263	986	1,230	1,185	26	2,962
2016					1,896	1,699	1,729	772	982	1,290	398	3,032
2017						2,302	2,666	1,812	1,361	1,569	362	2,723
2018							3,110	2,695	2,010	2,838	1,052	3,372
2019								2,644	1,656	1,700	1,028	4,118
2020									1,818	2,505	2,221	3,301
2021										3,659	3,244	3,601
									Total	\$ 18,525		

CVS Caremark Indemnity, Ltd. Healthcare Professional Liability in thousands												
Cumulative Paid Claims and Paid Allocated Claim Adjustment Expenses, Net of Reinsurance												
Accident Year	For the Years Ended December 31, (Unaudited)										Total	
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ 72	\$ 158	\$ 385	\$ 376	\$ 473	\$ 659	\$ 662	\$ 662	\$ 662	\$ 662	\$ 662	662
2013		64	181	199	1,237	2,193	2,195	2,195	2,195	2,195	2,195	2,276
2014			87	145	448	567	713	859	859	859	859	859
2015				62	130	268	712	752	1,073	1,073	1,073	1,103
2016					87	145	271	448	619	619	619	691
2017						65	344	1,032	1,045	1,045	1,045	1,125
2018							114	724	902	902	902	1,672
2019								57	142	142	142	597
2020									90	90	90	153
2021												63
									Total			9,201
									All outstanding liabilities before 2012, net of reinsurance			56
									Liabilities for claims and claim adjustment expenses, net of reinsurance			\$ 9,380

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

4. Losses and loss expenses, cont'd.

CVS Caremark Indemnity, Ltd. Worker's Compensation in thousands												
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance											As of December 31, 2021	
Accident Year	For the Years Ended December 31, (Unaudited)										Total of Incurred- but- Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ 100,771	\$ 92,686	\$ 92,416	\$ 92,337	\$ 88,904	\$ 87,590	\$ 87,404	\$ 86,112	\$ 83,729	\$ 83,773	\$ 8,044	5,810
2013		107,960	98,434	94,412	90,397	87,534	86,351	84,930	82,769	82,903	9,211	5,983
2014			109,670	99,049	89,594	86,393	84,872	83,847	82,225	83,270	10,724	6,237
2015				102,719	98,081	95,350	90,583	89,654	88,626	90,098	13,142	6,217
2016					107,322	95,535	90,401	87,002	84,661	84,057	15,424	6,014
2017						99,686	95,464	90,978	86,623	86,719	19,111	6,352
2018							98,901	94,223	89,804	90,089	24,158	6,368
2019								101,234	102,304	103,263	31,926	6,511
2020									95,693	96,399	41,778	5,523
2021										106,834	71,144	6,444
									Total	\$ 907,405		

CVS Caremark Indemnity, Ltd. Worker's Compensation in thousands											
Cumulative Paid Claims and Paid Allocated Claim Adjustment Expenses, Net of Reinsurance											
Accident Year	For the Years Ended December 31, (Unaudited)										Total
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
2012	\$ 13,453	\$ 34,603	\$ 48,760	\$ 58,652	\$ 64,423	\$ 67,144	\$ 69,643	\$ 71,229	\$ 73,289	\$ 74,232	74,232
2013		15,193	34,656	47,715	54,971	60,257	64,769	68,547	70,161	71,244	71,244
2014			13,009	32,198	44,910	53,261	58,473	63,372	65,549	67,610	67,610
2015				13,103	33,731	48,047	58,090	63,951	68,584	72,089	72,089
2016					14,366	32,221	46,636	55,872	61,625	64,762	64,762
2017						14,420	34,387	48,283	55,856	60,904	60,904
2018							16,167	36,272	48,525	57,399	57,399
2019								18,180	41,387	56,974	56,974
2020									14,734	35,561	35,561
2021										17,141	17,141
									Total	577,916	577,916
									All outstanding liabilities before 2012, net of reinsurance	57,083	57,083
									Liabilities for claims and claim adjustment expenses, net of reinsurance	\$ 386,572	\$ 386,572

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

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4. Losses and loss expenses, cont'd.

CVS Caremark Indemnity, Ltd. Health (Excluding Medicare Part D Exposures) in thousands												
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance												
As of December 31, 2021												
Accident Year	For the Years Ended December 31, (Unaudited)										Total of Incurred- but- Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
	2012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
2013	-	-	-	-	-	-	-	-	-	-	-	0
2014	-	-	-	-	-	-	-	-	-	-	-	0
2015	-	-	-	-	-	-	-	-	-	-	-	0
2016	-	-	-	-	-	-	-	-	-	-	-	0
2017	-	-	-	-	-	11,200	11,632	11,632	11,632	11,632	-	0
2018	-	-	-	-	-	-	303,296	303,791	303,791	304,896	-	0
2019	-	-	-	-	-	-	-	305,119	305,119	332,825	-	0
2020	-	-	-	-	-	-	-	-	-	-	-	0
2021	-	-	-	-	-	-	-	-	-	-	-	0
										Total	\$ 649,354	

CVS Caremark Indemnity, Ltd. Health (Excluding Medicare Part D Exposures) in thousands										
Cumulative Paid Claims and Paid Allocated Claim Adjustment Expenses, Net of Reinsurance										
For the Years Ended December 31, (Unaudited)										
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2013	-	-	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	5,155	11,632	11,632	11,632
2018	-	-	-	-	-	-	129,236	303,791	303,791	304,896
2019	-	-	-	-	-	-	-	305,119	305,119	332,825
2020	-	-	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-	-	-
									Total	649,354
									All outstanding liabilities before 2012, net of reinsurance	\$ -
									Liabilities for claims and claim adjustment expenses, net of reinsurance	\$ -

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

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4. Losses and loss expenses, cont'd.

CVS Caremark Indemnity, Ltd. Property (Inventory Shrink) in thousands											As of December 31, 2021	
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance												
Accident Year	For the Years Ended December 31, (Unaudited)										Total of Incurred- but- Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0
2013	-	-	-	-	-	-	-	-	-	-	-	0
2014	-	-	-	-	-	-	-	-	-	-	-	0
2015	-	-	-	-	-	-	-	-	-	-	-	0
2016	-	-	-	-	-	-	-	-	-	-	-	0
2017	-	-	-	-	-	3,013	5,601	5,601	5,601	5,601	-	0
2018	-	-	-	-	-	-	143,028	142,499	142,499	143,030	-	0
2019	-	-	-	-	-	-	-	52,179	52,179	65,488	-	0
2020	-	-	-	-	-	-	-	-	-	-	-	0
2021	-	-	-	-	-	-	-	-	-	-	-	0
									Total	\$ 214,119		

CVS Caremark Indemnity, Ltd. Property (Inventory Shrink) in thousands											As of December 31, 2021		
Cumulative Paid Claims and Paid Allocated Claim Adjustment Expenses, Net of Reinsurance													
Accident Year	For the Years Ended December 31, (Unaudited)										Total	All outstanding liabilities before 2012, net of reinsurance	Liabilities for claims and claim adjustment expenses, net of reinsurance
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021			
2012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2013	-	-	-	-	-	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	3,079	5,601	5,601	5,601	5,601	5,601	5,601
2018	-	-	-	-	-	-	77,196	142,499	142,499	142,499	143,030	143,030	143,030
2019	-	-	-	-	-	-	-	52,179	52,179	52,179	65,488	65,488	65,488
2020	-	-	-	-	-	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-	-	-	-	-	-
									Total	\$ 214,119			
									All outstanding liabilities before 2012, net of reinsurance	\$ -			
									Liabilities for claims and claim adjustment expenses, net of reinsurance	\$ -			

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

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(expressed in United States dollars)

4. Losses and loss expenses, cont'd.

CVS Caremark Indemnity, Ltd. All Coverages Combined (Excluding Medicare Part D Exposures, Reinsurance Pool Reserves, and Corridor Deductible Losses) in thousands												
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance											As of December 31, 2021	
Accident Year	For the Years Ended December 31, (Unaudited)										Total of Incurred- but- Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ 173,281	\$ 162,119	\$ 163,840	\$ 168,279	\$ 172,510	\$ 172,183	\$ 170,607	\$ 171,567	\$ 168,244	\$ 168,937	\$ 6,047	18,396
2013		184,373	168,416	160,268	156,136	153,478	152,028	150,349	146,680	146,738	10,794	19,124
2014			191,793	176,645	172,443	171,031	167,803	167,767	165,039	165,817	13,861	21,568
2015				165,579	160,278	167,323	164,122	165,760	161,143	161,348	17,183	21,007
2016					176,143	163,209	158,505	162,515	156,285	153,142	23,000	20,252
2017						187,432	184,690	181,985	171,704	168,071	29,533	20,499
2018							620,425	618,218	612,597	606,615	40,604	21,097
2019								533,252	538,205	575,952	58,615	20,602
2020									175,839	170,664	85,584	17,287
2021										179,030	134,145	18,004
									Total	\$ 2,496,313		

CVS Caremark Indemnity, Ltd. All Coverages Combined (Excluding Medicare Part D Exposures, Reinsurance Pool Reserves, and Corridor Deductible Losses) in thousands											
Cumulative Paid Claims and Paid Allocated Claim Adjustment Expenses, Net of Reinsurance											
Accident Year	For the Years Ended December 31, (Unaudited)										Total
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
2012	\$ 19,291	\$ 54,239	\$ 87,449	\$ 109,904	\$ 133,041	\$ 141,213	\$ 148,860	\$ 150,853	\$ 153,361	\$ 154,323	
2013		20,420	52,330	77,119	100,379	114,094	121,930	129,245	131,321	132,950	
2014			18,101	52,224	84,927	106,812	124,935	133,530	136,901	140,595	
2015				15,895	54,029	83,209	103,595	124,081	133,493	137,740	
2016					18,704	46,333	76,257	102,284	115,792	122,978	
2017						18,178	57,848	98,383	117,158	127,675	
2018							226,133	496,573	526,790	546,447	
2019								379,066	414,326	484,442	
2020									18,901	51,238	
2021										19,281	
									Total	1,917,669	
									All outstanding liabilities before 2012, net of reinsurance	65,755	
									Liabilities for claims and claim adjustment expenses, net of reinsurance	\$ 644,399	

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
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4. Losses and loss expenses, cont'd.

The following reconciles the above cumulative incurred and paid data to the liability for unpaid losses and loss adjustment expenses as of December 31, 2021:

Reconciliation of the Disclosure of Incurred and Paid Claims Development to the Liability for Unpaid Claims and Claim Adjustment Expenses	
	2021 (000's)
<i>Net outstanding liabilities</i>	
Auto Liability	\$ 3,891
General Liability	139,668
Druggist Liability	104,888
Healthcare Professional Liability	9,380
Worker's Compensation	386,572
Health	-
Property (Inventory Shrink)	\$ -
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	<u>644,399</u>
<i>Reinsurance recoverable on unpaid claims</i>	
Auto Liability	\$ -
Workers Compensation	\$ -
<i>Total reinsurance recoverable on unpaid claims</i>	<u>\$ -</u>
Unallocated claims adjustment expenses	\$ -
Impact of discounting	\$ -
	<u>\$ -</u>
Other lines of business excluded from above	<u>3,810</u>
<i>Total gross liability for unpaid claims and claim adjustment expense</i>	<u>\$ 648,209</u>

The following summarizes the unaudited average annual percentage payout of incurred claims by age:

2021 - Unaudited										
<u>Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance</u>										
Years	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year	9th Year	10th Year
Auto Liability	18.9%	19.8%	29.9%	13.9%	4.5%	8.5%	0.0%	0.0%	0.0%	0.0%
General Liability	4.4%	15.7%	20.6%	23.0%	13.9%	4.7%	4.8%	1.8%	1.1%	0.0%
Druggist Liability	6.4%	19.1%	24.1%	13.3%	15.4%	6.3%	2.9%	0.7%	0.3%	0.0%
Healthcare Professional Liability	5.2%	9.1%	20.9%	19.7%	15.9%	15.4%	0.8%	0.0%	1.8%	0.0%
Workers Compensation	16.5%	22.8%	15.7%	10.2%	6.4%	4.7%	3.5%	2.1%	1.9%	1.1%
Health	67.0%	50.8%	27.8%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property (Inventory Shrinkage)	66.8%	50.3%	22.5%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
All Coverages Excl. Medicare Part D	19.4%	22.0%	16.9%	12.3%	10.3%	5.2%	3.5%	1.6%	1.3%	0.6%

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

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5. Concentrations of credit risk

The Company is party to financial instruments with concentration of credit risk. These financial instruments include cash and cash equivalents, restricted cash, insurance and reinsurance balances receivable, marketable securities and funds withheld. As of December 31, 2021 and 2020, all cash and cash equivalents, restricted cash, and funds withheld are held with two financial institutions.

Credit risk arises from the failure of the counter-party to perform according to the terms of a contract. Except as disclosed in Note 6, the Company does not require collateral or other security to support financial instruments with credit risk.

6. Letters of credit

In the normal course of reinsurance operations, the Company has issued letters of credit in the amount of \$304,768 (2020 - \$483,509) in favor of ceding insurance companies. At December 31, 2021, the letters of credit were collateralized by cash and cash equivalents of \$304,768 (2020 - \$483,509).

7. Restricted Cash

On June 24, 2010, the Company entered into an assignment agreement with National Union Fire Insurance Company (NUFIC) to assign its deductible reimbursement policies to NUFIC. NUFIC requires collateral for the Workers' Compensation Large Deductible policies issued in the US. A trust agreement is being used to satisfy a portion of these collateral requirements.

At December 31, 2021, the Company had \$217,777,607 (2020 - \$276,276,264) in trust with the Bank of New York to satisfy the collateral requirements. Prior to June 24, 2010, the collateral was provided by the parent company.

8. Marketable securities

Total investments at December 31, 2021 were as follows:

	2021	2020
Debt securities available for sale	\$341,399,260	\$152,722,931
Hedge funds	13,220,236	10,962,415
Total	\$354,619,496	\$163,685,346

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

8. Marketable securities, cont'd

The Company fair values debt securities utilizing Level 1 and Level 2 inputs and hedge funds classified in Level 3 because the Company prices these securities through an internal analysis of each investment's financial statements and cash flow projections. Significant unobservable Level 3 inputs consist of earnings and revenue multiples, discount for lack of marketability and comparability adjustments. An increase or decrease in any of these unobservable inputs would have resulted in a change in the fair value measurement. The fair values of the Company's Level 2 debt securities are obtained using models, such as matrix pricing, which use quoted market prices of debt securities with similar characteristics or discounted cash flows to estimate fair value. The Company reviews these prices to ensure they are based on observable market inputs that include quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets and inputs that are observable that are not prices (such as interest rates and credit risks).

The following summary presents an analysis of the Company's investments by level of input for determining fair value measurements as at December 31, 2021:

2021

	Level 1	Level 2	Level 3	Total
U.S. government bonds	\$ 83,518,044	-	-	83,518,044
International				
government bonds	-	66,611,761	-	66,611,761
Corporate bonds	-	36,012,897	-	36,012,897
Commercial Mortgage	-		-	
Backed securities		103,833,203		103,833,203
Asset-Backed securities	-	51,423,355	-	51,423,355
Hedge funds	-	-	13,220,236	13,220,236
Total	\$ 83,518,044	257,881,216	13,220,236	354,619,496

2020

	Level 1	Level 2	Level 3	Total
U.S. government bonds	\$ 35,808,603	-	-	35,808,603
International				
government bonds	-	35,384,218	-	35,384,218
Corporate bonds	-	5,091,042	-	5,091,042
Commercial Mortgage				
Backed securities	-	67,372,718	-	67,372,718
Asset-Backed securities	-	9,066,350	-	9,066,350
Hedge funds	-	-	10,962,415	10,962,415
Total	\$ 35,808,603	116,914,328	10,962,415	163,685,346

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

8. Marketable securities, cont'd

Debt securities

Debt securities available for sale at December 31, 2021 were as follows:

2021

	Amortized cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
U.S. government bonds	\$ 83,284,536	237,485	(3,977)	83,518,044
International government bonds	66,095,072	1,781,641	(1,264,952)	66,611,761
Corporate bonds	36,115,291	28,075	(130,469)	36,012,897
Commercial Mortgage Backed Securities	104,878,512	306,804	(1,352,113)	103,833,203
Asset-Backed securities	<u>51,478,602</u>	<u>28,485</u>	<u>(83,732)</u>	<u>51,423,355</u>
Total	<u>\$ 341,852,013</u>	<u>2,382,490</u>	<u>(2,835,243)</u>	<u>341,399,260</u>

2020

	Amortized cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
U.S. government bonds	\$ 35,790,901	17,704	(2)	35,808,603
International government bonds	31,387,760	3,996,458	-	35,384,218
Corporate bonds	4,641,589	449,453	-	5,091,042
Commercial Mortgage Backed securities	65,333,630	2,043,025	(3,937)	67,372,718
Asset-Backed securities	<u>9,013,397</u>	<u>56,531</u>	<u>(3,578)</u>	<u>9,066,350</u>
Total	<u>\$ 146,167,277</u>	<u>6,563,171</u>	<u>(7,517)</u>	<u>152,722,931</u>

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
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Marketable securities, cont'd

The Company reviewed individual securities with the total unrealized loss position of \$2,835,243 (2020: \$7,517) and concluded that the unrealized losses are within the 0 to 12 months category and these are performing assets, where it is more likely than not that the Company would not be required to sell these securities prior to the anticipated recovery of their amortized cost basis. Resultantly, an other than temporary impairment has not been recognized for these securities.

December 31, 2021

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross unrealized	Fair Value	Gross unrealized	Fair Value	Gross unrealized
		losses		losses		losses
	\$	\$	\$	\$	\$	\$
U.S. government bonds	13,874,375	(3,977)	-	-	13,874,375	(3,977)
International government bonds	27,950,133	(1,264,952)	-	-	27,950,133	(1,264,952)
Corporate bonds	21,334,653	(130,469)	-	-	21,334,653	(130,469)
Commercial Mortgage						
Backed securities	65,251,903	(1,352,113)	-	-	65,251,903	(1,352,113)
Asset-Backed securities	41,404,450	(83,732)	-	-	41,404,450	(83,732)
Total	169,815,514	(2,835,243)	-	-	169,815,514	(2,835,243)

December 31, 2020

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross unrealized	Fair Value	Gross unrealized	Fair Value	Gross unrealized
		losses		losses		losses
	\$	\$	\$	\$	\$	\$
U.S. government bonds	2,998,125	(2)	-	-	2,998,125	(2)
International government bonds						
Corporate bonds						
Commercial Mortgage						
Backed securities	2,106,050	(3,937)	-	-	2,106,050	(3,937)
Asset-Backed securities	1,995,557	(3,578)	-	-	1,995,557	(3,578)
Total	7,099,732	(7,517)	-	-	7,099,732	(7,517)

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
(expressed in United States dollars)

Marketable securities, cont'd

A security is potentially impaired when its fair value is below its cost or amortized cost. The Company analyses its available for sale income portfolios on an individual security basis for potential other than temporary impairment based on criteria including issuer-specific circumstances, changes in credit ratings to below investment grade and general macro-economic conditions. The other than temporary impairment expense for the 12 months ended December 31, 2021 was \$Nil.

Credit ratings for the debt securities in the Company's investment portfolio range from AAA to BB as set out by Standards & Poor's.

The amortized cost and fair value of debt securities at December 31, 2021 are shown below by contractual maturity. Actual maturities may differ from contractual maturities because securities may be restructured, called or prepaid, or the Company intends to sell a security prior to maturity.

	Amortized cost	Fair value
Due to mature:		
Less than one year	\$ 4,015,127	4,015,066
One year through five years	60,292,354	60,365,256
After five years through ten years	178,340,702	177,205,263
Greater than ten years	99,203,830	99,813,675
Total	\$ 341,852,013	341,399,260

9. Related party transactions

Premiums written and losses paid are all with related parties.

The Company assumes risks associated with premiums, claims and expenses under a 15% quota share reinsurance agreement with Silverscript Insurance Company. Silverscript Insurance Company is a wholly owned subsidiary of CVS Health Corporation, which is also the ultimate parent of the Company. Under the agreement, the Company nets off amounts recoverable and amounts payable. As at December 31, 2021, the Company was owed \$35,002,003 (2020 - \$33,882,924) from Silverscript Insurance Company. During the year, the Company paid a commission expense of \$61,428,650 (2020 - \$68,070,917) to Silverscript Insurance Company in respect of the above agreement.

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

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9. Related party transactions, cont'd

On October 30, 2015, the Company issued a \$500,000,000 loan to the Ultimate Parent initially payable upon demand or until October 20, 2020. Effective October 20, 2020, the Board approved an increase in the loan from the existing \$500,000,000 to \$700,000,000 and the loan matures on October 30, 2025. During the year ended December 31, 2021, the applicable interest rate on the loan was 3.25%. Interest is payable on the last day of the applicable interest period. As at December 31, 2021, \$62,329 (2020: \$62,329) of interest was accrued on the loan. Interest receivable at year-end was \$Nil (2020: \$Nil). Interest income on the intercompany loan at December 31, 2021 was \$22,750,000 (2020: \$11,812,271).

10. Share capital

	<u>2021</u>	<u>2020</u>
Authorized, issued and fully paid: 850,000 voting common shares of \$1 par value each	\$ <u>850,000</u>	\$ <u>850,000</u>

11. Taxes

Under current Bermuda Law, the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2035. However, the Company has made an irrevocable election under Section 953(d) of the Internal Revenue Code of 1986, as amended, to be taxed as a US domestic corporation. As a result of this "domestic election", the Company is subject to U.S. taxation on its worldwide income as if it was a U.S. corporation. The Company accounts for income taxes under the provision of ASC 740.

The deferred tax asset reflects the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes multiplied by the enacted tax rate when the temporary differences are expected to reverse. The significant temporary difference that gives rise to the deferred tax assets relate to the discounted loss reserves.

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
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11. Taxes, cont'd.

Income taxes attributable to continuing operations for the year ended December 31, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Current tax (expense)	\$ (16,383,907)	\$ (20,136,439)
Deferred tax (expense)/benefit	<u>1,181,742</u>	<u>521,998</u>
Income tax (expense)	\$ <u>(15,202,165)</u>	\$ <u>(19,614,441)</u>

For federal income tax purposes, the Company joins in a consolidated income tax return filing with its ultimate parent company, CVS Health Corporation, and other affiliated companies ("CVS"). For state income tax purposes, the Company is included in the Parent's unitary filings on multiple state jurisdictions. The method of allocation between the companies is subject to a written tax allocation agreement. The provision for income taxes is recorded in the amounts that would have been provided had the Company filed separate federal and state income tax returns. Intercompany income tax balances are settled between the Company and its ultimate parent on a timely basis after income tax returns have been filed with the Internal Revenue Service and appropriate state jurisdictions.

The IRS has completed its examinations of the CVS consolidated U.S. federal income tax returns through tax year 2013, 2018 and 2019. The IRS has substantially completed its examinations of the CVS consolidated U.S. federal income tax returns for tax years 2014 through 2017. State income tax audits are ongoing.

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
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11. Taxes, cont'd.

The tax effects of temporary differences that give rise to significant portions of the deferred tax provision are as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax asset:		
Discount on loss and loss adjustment expenses	\$ 16,856,991	\$ 16,207,637
Advance premiums	2,072	-
Unrealized gain/loss	98,588	-
Total deferred tax assets	<u>16,957,651</u>	<u>16,207,637</u>
Loss reserve transition adjustment	<u>(2,171,530)</u>	<u>(2,701,846)</u>
Unrealized gain /loss	-	(1,420,900)
Total deferred tax liabilities	<u>(2,171,530)</u>	<u>(4,122,746)</u>
Net Deferred tax asset	\$ <u>14,786,121</u>	\$ <u>12,084,891</u>

There was no valuation allowance for deferred tax assets as of December 31, 2021 and 2020 as management believes that it is more likely than not that the deferred tax assets will be realized. However, the amount of the deferred tax asset could be reduced in the near term if estimates of future taxable income are reduced.

On December 22, 2017, the Tax Cuts and Jobs Act (“the Act”) was signed into law. The Act lowered the corporate tax rate from 35% to 21% beginning in 2018, among other changes.

The Company has completed its analysis of the impact of the Act; however this analysis is subject to change as authoritative guidance is issued by regulatory authorities, including Treasury and the IRS. The Act modified the provisions applicable to the determination of the tax basis of unpaid loss reserves. These modifications impact the payment pattern, applicable interest rate, and ability to elect to use company payment data. In 2019, the US Treasury issued proposed and revised discount factors and other guidance necessary to determine the required loss reserve transition adjustment to be included in taxable income over a period of 8 years beginning in 2018. The loss reserve transition adjustment deferred tax liability reflected in the table above represents the remaining transition adjustment to be amortized into income as of December 31, 2019.

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

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12. Investment Income

The components of net investment income for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Interest income	\$ 5,090,795	6,845,653
Interest on intercompany loan	22,750,000	11,812,271
Equity earnings on hedge fund investments	2,257,821	962,415
Total	\$ 30,098,616	19,620,339

13. Statutory requirements

The Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 (the “Legislation”) requires the Company to meet a minimum solvency margin. Statutory capital and surplus at December 31, 2021 was \$736,815,704 (2020: \$688,413,459) and the amount required to be maintained by the Company was \$97,231,421 (2020: \$90,856,953). This requirement was met at December 31, 2021 and December 31, 2020.

In this regard, the declaration of dividends from retained earnings and returns of additional paid-in capital are limited to the extent that the above requirements are met.

Further, under the Insurance Act, the Company must maintain capital at a level equal to its enhanced capital requirement (“ECR”) which is established by reference to the Bermuda Solvency Capital Requirement (“BSCR”) model. The BSCR is a standard mathematical model designed to give the Bermuda Monetary Authority (“BMA”) more advanced methods for determining an insurer’s capital adequacy. Underlying the BSCR is the belief that all insurers should operate on an ongoing basis with a view to maintaining their capital at a prudent level in excess of the minimum solvency margin otherwise prescribed under the Insurance Act. Alternatively, under the Insurance Act, insurers may, subject to the terms of the Insurance Act and to the BMA’s oversight, elect to utilize an approved internal capital model to determine regulatory capital. In either case, the ECR shall at all times equal or exceed the respective Class 3A insurer’s Minimum Solvency Margin and may be adjusted in circumstances where the BMA concludes that the insurer’s risk profile deviates significantly from the assumptions underlying its ECR or the insurer’s assessment of its risk management policies and practices used to calculate the ECR applicable to it. While not specifically referred to in the Insurance Act, the BMA has also established a target capital level (“TCL”) for each Class 3A insurer equal to 120% of its respective ECR.

While a Class 3A insurer is not currently required to maintain its statutory capital and surplus at this level, the TCL serves as an underlying warning toll for the BMA and failure to maintain statutory capital at least equal to the TCL will likely result in increased BMA regulatory oversight.

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2021 AND 2020
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14. Indemnifications and warranties

In the ordinary course of business, the Company may enter into contracts or agreements that contain indemnifications or warranties. Future events could occur that lead to the execution of these provisions against the Company. Based on past experience, management currently believes that the likelihood of such event is remote.

15. Subsequent events

Subsequent events were evaluated to April 29, 2022, the date the financial statements were available to be issued. No events have occurred subsequent to December 31, 2021 requiring adjustments or disclosure in these financial statements.