AUDITED FINANCIAL STATEMENTS

CVS Caremark Indemnity Ltd.
Years Ended December 31, 2022 and 2021
With Report of Independent Auditors

# CVS Caremark Indemnity Ltd.

## Audited Financial Statements

Years Ended December 31, 2022 and 2021

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# Report of Independent Auditors

The Board of Directors
CVS Caremark Indemnity Ltd.

## Opinion

We have audited the  financial statements of CVS Caremark Indemnity Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2022and 2021, and the related  statements of comprehensive income , changes in shareholder's equity and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America, 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, 2022 and 2021, 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.



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**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.



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**Required Supplementary Information**

Accounting principles generally accepted in the United States require that the incurred claims and allocated claim adjustment expenses, net of reinsurance and the cumulative paid claims and paid allocated claim adjustment expenses, net of reinsurance for the years ending 2022 and prior and the average annual percentage payout of incurred claims by age, net of reinsurance disclosed on pages 16 through 24 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 30, 2023



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CVS CAREMARK INDEMNITY LTD.
(Incorporated in Bermuda)

BALANCE SHEETS

As of DECEMBER 31, 2022 AND 2021
(expressed in United States dollars)

| | 2022 | 2021 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents (Notes 5 and 6) | $ 149,064,269 | $ 89,497,994 |
| Restricted cash (Note 7) | 217,621,650 | 217,777,607 |
| Insurance and reinsurance balances receivable (Note 9) | 46,987,468 | 50,858,788 |
| Marketable securities (Note 8) | 307,056,584 | 354,619,496 |
| Intercompany receivable (Note 9) | 7,411,584 | - |
| Intercompany loan receivable (Note 9) | 700,000,000 | 700,000,000 |
| Funds withheld (Note 3) | 180,340 | 204,657 |
| Accrued interest receivable | 2,763,375 | 1,560,234 |
| Prepaid expenses | 54,069 | 74,169 |
| Investment receivable | 7,633 | - |
| Deferred tax asset, net (Note 11) | 14,055,654 | 14,786,121 |
| | $ 1,445,202,626 | $ 1,429,379,066 |
| **LIABILITIES** | | |
| Losses and loss expenses (Note 3 & 4) | $ 628,096,057 | $ 648,209,473 |
| Insurance and reinsurance balances payable | 84,503 | (33,614) |
| Accounts payable and accrued liabilities (Note 3) | 777,537 | 425,425 |
| Investments payable | 12,162,646 | 27,727,470 |
| Unearned premiums | - | 47,578 |
| Income tax payable (Note 11) | 26,250,269 | 16,113,861 |
| | 667,371,012 | 692,490,193 |
| **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) | 740,443,597 | 643,903,038 |
| Accumulated Other Comprehensive (Loss) / Income | (55,951,983) | (354,165) |
| | 777,831,614 | 736,888,873 |
| | $ 1,445,202,626 | $ 1,429,379,066 |

See accompanying notes

CVS CAREMARK INDEMNITY LTD.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(expressed in United States dollars)

| | 2022 | 2021 |
|---|---|---|
| Underwriting income | | |
| Gross premiums written | 477,007,677 | 491,942,737 |
| Change in unearned premiums | 47,578 | (47,578) |
| Net premiums earned (Note 3) | $ 477,055,255 | $ 491,895,159 |
| Underwriting expenses | | |
| Losses and loss expenses incurred (Note 3 & 4) | (331,125,424) | (389,633,619) |
| Commission expense (Note 9) | (61,356,501) | (61,428,650) |
| | (392,481,925) | (451,062,269) |
| Net underwriting income | 84,573,330 | 40,832,890 |
| Other income (expenses) | | |
| Net investment income (Note 9 & 12) | 51,828,935 | 30,098,616 |
| Realized capital losses | (12,199,293) | (1,118,801) |
| General and administrative expenses | (757,941) | (720,376) |
| Net other income | 38,871,701 | 28,259,439 |
| Net income before tax | 123,445,031 | 69,092,329 |
| Income tax (Note 11) | | |
| Current income tax (expense) | (26,272,593) | (16,383,907) |
| Deferred income tax benefit / (expense) | (631,879) | 1,181,742 |
| Net income tax expense | (26,904,472) | (15,202,165) |
| Net income | $ 96,540,559 | $ 53,890,164 |
| Other comprehensive income, net of tax of -$98,588 (2021: $1,519,488) | | |
| Net unrealized investment losses | (55,597,818) | (5,488,919) |
| Comprehensive income | $ 40,942,741 | $ 48,401,245 |

See accompanying notes

CVS CAREMARK INDEMNITY LTD.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

DECEMBER 31, 2022, AND 2021

(Expressed in United States dollars)

| | Share Capital | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|
| Balance on January 1, 2021, | $ 850,000 | $ 92,490,000 | 590,012,874 | 5,134,754 | $ 688,487,628 |
| Net income | - | - | 53,890,164 | - | 53,890,164 |
| Other comprehensive loss, net | - | - | - | (5,488,919) | (5,488,919) |
| Balance at December 31, 2021 | $ 850,000 | $ 92,490,000 | 643,903,038 | (354,165) | $ 736,888,873 |
| Net income | - | - | 96,540,559 | - | 96,540,559 |
| Other comprehensive loss, net | - | - | - | (55,597,818) | (55,597,818) |
| Balance at December 31, 2022 | $ 850,000 | $ 92,490,000 | 740,443,597 | (55,951,983) | $ 777,831,614 |

See accompanying notes

CVS CAREMARK INDEMNITY LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(expressed in United States dollars)

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Operating activities: | | | | |
| Net income | $ | 96,540,559 | $ | 53,890,164 |
| Adjustments to reconcile net income to net cash provided by/ (used in) operating activities: | | | | |
| Insurance and reinsurance balances receivable | | 12,583,835 | | (2,130,528) |
| Funds withheld | | 24,317 | | 2,461 |
| Accrued interest receivable | | (1,203,141) | | (751,531) |
| Prepaid expenses | | 20,100 | | - |
| Deferred tax asset | | (11,459,603) | | (2,701,230) |
| Investment receivable | | (7,633) | | - |
| Losses and loss expenses | | (20,113,416) | | 42,496,450 |
| Insurance and reinsurance balances payable | | 7,529,701 | | (71,318) |
| Unearned premiums | | (47,578) | | 47,578 |
| Accounts payable and accrued liabilities | | 352,112 | | 104,549 |
| Investments payable | | (15,564,824) | | 25,727,470 |
| Income tax payable | | 10,136,408 | | (3,648,154) |
| Net cash provided by operating activities | | 78,790,837 | | 112,965,911 |
| Investing activities: | | | | |
| Proceeds from sales and maturities of investments | | 112,387,531 | | 47,985,702 |
| Purchases of investments | | (131,768,050) | | (244,408,771) |
| Net cash provided by/(used in) investing activities | | (19,380,519) | | (196,423,069) |
| Net decrease in cash and cash equivalents and restricted cash | | 59,410,318 | | (83,457,158) |
| Cash and cash equivalents and restricted cash, beginning of year | | 307,275,601 | | 390,732,759 |
| Cash and cash equivalents and restricted cash, end of year | $ | 366,685,919 | $ | 307,275,601 |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid during the year for income taxes | $ | (16,136,185) | $ | (20,032,060) |
| Supplemental disclosure of non-cash flow information: | | | | |
| Medicare Part D reinsurance adjustment | $ | (8,712,515) | $ | - |
| Intercompany payable adjustment | | (7,411,584) | | - |
| Reconciliation of cash and cash equivalents and restricted cash: | | | | |
| Cash and cash equivalents | $ | 149,064,269 | $ | 89,497,994 |
| Restricted cash | | 217,621,650 | | 217,777,607 |
| Total cash and cash equivalents and restricted cash | $ | 366,685,919 | $ | 307,275,601 |

See accompanying notes

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.

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, 2022 with a $1 million limit on each claim and $5 million aggregate. This policy has a retroactive coverage date of December 1, 2022.

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) Restricted cash

Restricted cash comprise of cash held to satisfy collateral requirement.

(d) 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 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

2. Significant accounting policies, cont'd.

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 that 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.

(e) 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.

(f) 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

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.

(g) 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.

(h) 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.

(i) 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

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.

(j) 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 $14,747,924 (2021: $13,220,236) which are included in marketable securities on the balance sheet.

(expressed in United States dollars)

2. Significant accounting policies, cont'd.

(k) 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.

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, 2022 and 2021 relating to the R-Pool are as follows:

| | 2022 | 2021 |
|---|---|---|
| Funds held by ceding reinsurers | $ 180,340 | $ 204,657 |
| Insurance balances receivable/(payable) | (84,503) | 33,614 |
| Loss and loss expenses provisions | 103,982 | 90.249 |
| Net premiums earned | (23,654) | (1,332) |
| Net losses incurred and net loss expense | (14,697) | (33,745) |

(expressed in United States dollars)

4. Losses and loss expenses

| | 2022 | 2021 |
|---|---|---|
| Balance at beginning of year | $ 648,209,473 | $ 605,713,023 |
| Incurred related to: | | |
| Current year | 389,175,262 | 394,702,299 |
| Prior years | (58,049,838) | (5,068,680) |
| Total incurred | 331,125,424 | 389,633,619 |
| Paid losses related to: | | |
| Current year | (238,038,949) | (234,953,136) |
| Prior years | (113,199,891) | (112,184,033) |
| Total paid | (351,238,840) | (347,137,169) |
| Balance at end of year | $ 628,096,057 | $ 648,209,473 |

The loss development in 2022 relating to prior years reserves of -$58,049,838 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 2021 relating to prior years reserves of $5,068,680 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, 2022, the provision for total outstanding losses for all policy years, including the current year, on an expected undiscounted basis, is $581,775,747 (2021: $601,992,666).

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, 2022, 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, 2022. 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.

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 paid and incurred Bornhuetter-Ferguson methods for accident year 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 policy limit 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, 2022.

The total loss and loss adjustment expenses reserves displayed on the balance sheet as of December 31, 2022 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.

4. Losses and loss expenses, cont'd.

**CVS Caremark Indemnity, Ltd.**
**Auto Liability**
*in thousands*

| Accident Year | Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited) 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | As of December 31, 2022 — Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | $ 2,083 | $ 2,269 | $ 3,267 | $ 3,310 | $ 3,419 | $ 3,401 | $ 3,393 | $ 3,387 | 3,383 | $ 3,433 | $ 54 | 251 |
| 2014 | | 1,056 | 820 | 973 | 1,294 | 1,617 | 1,721 | 1,710 | 1,703 | 1,726 | 29 | 208 |
| 2015 | | | 1,279 | 959 | 879 | 779 | 677 | 666 | 660 | 668 | 13 | 167 |
| 2016 | | | | 1,816 | 2,015 | 1,733 | 1,643 | 1,608 | 1,579 | 1,589 | 37 | 206 |
| 2017 | | | | | 1,552 | 1,269 | 1,471 | 1,317 | 1,102 | 1,083 | 32 | 386 |
| 2018 | | | | | | 2,045 | 2,649 | 2,797 | 2,589 | 2,897 | 143 | 268 |
| 2019 | | | | | | | 3,101 | 1,886 | 1,608 | 1,521 | 249 | 255 |
| 2020 | | | | | | | | 1,516 | 1,329 | 1,236 | 278 | 203 |
| 2021 | | | | | | | | | 1,964 | 1,998 | 583 | 255 |
| 2022 | | | | | | | | | | 3,037 | 2,347 | 355 |
| | | | | | | | | | Total | $ 19,187 | | |

**CVS Caremark Indemnity, Ltd.**
**Auto Liability**
*in thousands*

Cumulative Paid Claims and Paid Allocated Claim Adjustment Expenses, Net of Reinsurance

| Accident Year | For the Years Ended December 31, (Unaudited) 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | $ 407 | $ 712 | $ 2,881 | $ 3,033 | $ 3,268 | $ 3,380 | $ 3,380 | $ 3,380 | $ 3,380 | $ 3,380 |
| 2014 | | 206 | 333 | 714 | 878 | 1,030 | 1,697 | 1,697 | 1,697 | 1,697 |
| 2015 | | | 215 | 444 | 557 | 653 | 655 | 655 | 655 | 655 |
| 2016 | | | | 505 | 900 | 1,429 | 1,457 | 1,548 | 1,552 | 1,552 |
| 2017 | | | | | 203 | 400 | 1,046 | 1,044 | 1,051 | 1,051 |
| 2018 | | | | | | 298 | 1,062 | 1,170 | 1,807 | 1,923 |
| 2019 | | | | | | | 380 | 621 | 1,153 | 1,169 |
| 2020 | | | | | | | | 289 | 550 | 806 |
| 2021 | | | | | | | | | 170 | 734 |
| 2022 | | | | | | | | | | 406 |
| | | | | | | | | | Total | 13,372 |
| | | | | | | | | | All outstanding liabilities before 2013, net of reinsurance | $ (330) |
| | | | | | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | $ 5,485 |

## 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 — For the Years Ended December 31, (Unaudited) — As of December 31, 2022

| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | $ 34,266 | $ 33,993 | $ 32,349 | $ 32,813 | $ 32,411 | $ 33,086 | $ 32,504 | $ 31,907 | $ 31,277 | $ 31,486 | $ 661 | 8,748 |
| 2014 | | 37,634 | 33,237 | 34,172 | 34,021 | 31,751 | 34,315 | 33,809 | 33,155 | 32,882 | 892 | 9,048 |
| 2015 | | | 27,813 | 24,694 | 28,534 | 29,328 | 29,814 | 29,246 | 28,027 | 27,655 | 1,220 | 9,031 |
| 2016 | | | | 28,251 | 28,412 | 27,858 | 31,150 | 29,681 | 28,211 | 27,646 | 1,719 | 8,614 |
| 2017 | | | | | 31,693 | 32,269 | 35,715 | 33,879 | 32,866 | 31,480 | 2,937 | 8,693 |
| 2018 | | | | | | 32,861 | 33,325 | 31,428 | 29,905 | 28,035 | 3,652 | 8,717 |
| 2019 | | | | | | | 35,542 | 40,694 | 41,514 | 37,599 | 6,475 | 7,845 |
| 2020 | | | | | | | | 41,576 | 47,436 | 50,120 | 12,806 | 6,874 |
| 2021 | | | | | | | | | 41,590 | 35,240 | 20,494 | 6,555 |
| 2022 | | | | | | | | | | 38,970 | 32,915 | 6,474 |
| | | | | | | | | | Total | $ 341,113 | | |

**CVS Caremark Indemnity, Ltd.**
**General Liability**
*in thousands*

Cumulative Paid Claims and Paid Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited)

| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 31,959 |
| 2015 | | | 853 | 5,183 | 13,005 | 18,603 | 23,191 | 24,999 | 25,252 | 25,939 |
| 2016 | | | | 1,161 | 5,226 | 10,492 | 19,804 | 23,849 | 24,740 | 24,870 |
| 2017 | | | | | 1,049 | 5,815 | 13,765 | 22,276 | 25,889 | 26,991 |
| 2018 | | | | | | 1,234 | 5,962 | 12,804 | 17,718 | 20,730 |
| 2019 | | | | | | | 1,611 | 9,416 | 16,687 | 23,376 |
| 2020 | | | | | | | | 1,985 | 9,181 | 24,959 |
| 2021 | | | | | | | | | 1,135 | 5,848 |
| 2022 | | | | | | | | | | 1,145 |
| | | | | | | | | | Total | 216,639 |
| | | | | | | | | | All outstanding liabilities before 2013, net of reinsurance | 8,250 |
| | | | | | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | $ 132,724 |

4. Losses and loss expenses, cont'd.

**CVS Caremark Indemnity, Ltd.**
**Druggist Liability**
*in thousands*

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited) — As of December 31, 2022

| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | $ 37,823 | $ 33,021 | $ 29,044 | $ 28,133 | $ 27,845 | $ 26,937 | $ 27,309 | $ 26,412 | $ 26,111 | $ 26,252 | $ 494 | 3,120 |
| 2014 | | 41,116 | 41,880 | 46,446 | 48,239 | 48,531 | 47,012 | 46,430 | 45,927 | 48,233 | -178 | 3,125 |
| 2015 | | | 31,922 | 35,272 | 41,480 | 42,169 | 44,629 | 41,374 | 40,197 | 39,771 | 892 | 2,642 |
| 2016 | | | | 36,857 | 35,549 | 36,785 | 41,948 | 39,353 | 37,140 | 35,084 | 2,052 | 2,404 |
| 2017 | | | | | 37,987 | 35,789 | 34,777 | 31,293 | 27,893 | 26,030 | 1,648 | 2,366 |
| 2018 | | | | | | 37,183 | 39,035 | 40,268 | 33,717 | 29,560 | 4,083 | 2,389 |
| 2019 | | | | | | | 33,433 | 34,366 | 30,211 | 25,325 | 2,187 | 1,921 |
| 2020 | | | | | | | | 35,236 | 27,392 | 17,917 | 7,281 | 1,446 |
| 2021 | | | | | | | | | 28,772 | 18,815 | 11,718 | 1,600 |
| 2022 | | | | | | | | | | 22,517 | 19,494 | 1,184 |
| | | | | | | | | | Total | $ 289,505 | | |

**CVS Caremark Indemnity, Ltd.**
**Druggist Liability**
*in thousands*

Cumulative Paid Claims and Paid Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited)

| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | $ 2,825 | $ 8,953 | $ 14,403 | $ 18,905 | $ 21,356 | $ 22,982 | $ 24,736 | $ 25,119 | $ 25,150 | $ 25,267 |
| 2014 | | 2,410 | 13,858 | 25,389 | 31,484 | 40,039 | 41,599 | 42,037 | 42,353 | 42,759 |
| 2015 | | | 1,662 | 14,541 | 21,333 | 25,537 | 35,532 | 38,181 | 38,272 | 38,700 |
| 2016 | | | | 2,586 | 7,840 | 17,428 | 24,703 | 28,152 | 31,444 | 32,243 |
| 2017 | | | | | 2,443 | 8,668 | 17,026 | 19,705 | 21,484 | 22,619 |
| 2018 | | | | | | 1,888 | 6,264 | 17,099 | 20,168 | 21,907 |
| 2019 | | | | | | | 1,540 | 5,461 | 10,803 | 14,941 |
| 2020 | | | | | | | | 1,803 | 6,148 | 7,965 |
| 2021 | | | | | | | | | 785 | 3,371 |
| 2022 | | | | | | | | | | 1,194 |
| | | | | | | | | | Total | 210,966 |
| | | | | | | All outstanding liabilities before 2013, net of reinsurance | | | | 5,934 |
| | | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | | | | $ 84,474 |

## 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, 2022 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | For the Years Ended December 31, (Unaudited) | | | | | | | | | | | |
| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
| 2013 | $ 2,241 | $ 699 | $ 1,197 | $ 1,483 | $ 2,270 | $ 2,253 | $ 2,213 | $ 2,206 | $ 2,198 | $ 2,230 | $ (46) | 1,029 |
| 2014 | | 2,317 | 1,660 | 1,257 | 1,083 | 1,031 | 873 | 865 | 862 | 873 | 14 | 2,959 |
| 2015 | | | 1,845 | 1,271 | 1,079 | 1,263 | 986 | 1,230 | 1,170 | 1,182 | 22 | 2,962 |
| 2016 | | | | 1,896 | 1,699 | 1,729 | 772 | 982 | 940 | 1,313 | 369 | 3,032 |
| 2017 | | | | | 2,302 | 2,666 | 1,812 | 1,361 | 1,150 | 1,427 | 102 | 2,723 |
| 2018 | | | | | | 3,110 | 2,695 | 2,010 | 2,185 | 2,598 | 742 | 3,374 |
| 2019 | | | | | | | 2,644 | 1,656 | 1,221 | 1,249 | 503 | 4,118 |
| 2020 | | | | | | | | 1,818 | 1,628 | 1,284 | 856 | 3,310 |
| 2021 | | | | | | | | | 2,818 | 2,739 | 2,122 | 3,749 |
| 2022 | | | | | | | | | | 2,728 | 2,453 | 1,096 |
| | | | | | | | | | Total | $ 17,623 | | |

**CVS Caremark Indemnity, Ltd.**
**Healthcare Professional Liability**
*in thousands*

| | Cumulative Paid Claims and Paid Allocated Claim Adjustment Expenses, Net of Reinsurance | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | For the Years Ended December 31, (Unaudited) | | | | | | | | | |
| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| 2013 | $ 64 | $ 181 | $ 199 | $ 1,237 | $ 2,193 | $ 2,195 | $ 2,195 | $ 2,195 | $ 2,195 | $ 2,276 |
| 2014 | | 87 | 145 | 448 | 567 | 713 | 859 | 859 | 859 | 859 |
| 2015 | | | 62 | 130 | 268 | 712 | 752 | 1,073 | 1,103 | 1,130 |
| 2016 | | | | 87 | 145 | 271 | 448 | 619 | 691 | 735 |
| 2017 | | | | | 65 | 344 | 1,032 | 1,045 | 1,047 | 1,295 |
| 2018 | | | | | | 114 | 724 | 902 | 1,672 | 1,737 |
| 2019 | | | | | | | 57 | 142 | 378 | 654 |
| 2020 | | | | | | | | 90 | 153 | 230 |
| 2021 | | | | | | | | | 63 | 117 |
| 2022 | | | | | | | | | | 45 |
| | | | | | | | | | Total | 9,078 |
| | | | | | | All outstanding liabilities before 2013, net of reinsurance | | | | 71 |
| | | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | | | | $ 8,616 |

## 4. Losses and loss expenses, cont'd.

**CVS Caremark Indemnity, Ltd.**
**Worker's Compensation**
*in thousands*

| Accident Year | Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited) 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | As of December 31, 2022 — Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | $ 107,960 | $ 98,434 | $ 94,412 | $ 90,397 | $ 87,534 | $ 86,351 | $ 84,930 | $ 82,769 | $ 83,166 | $ 83,108 | $ 8,977 | 6,168 |
| 2014 | | 109,670 | 99,049 | 89,594 | 86,393 | 84,872 | 83,847 | 82,225 | 83,648 | 83,598 | 10,291 | 6,410 |
| 2015 | | | 102,719 | 98,081 | 95,350 | 90,583 | 89,654 | 88,626 | 90,421 | 89,568 | 11,901 | 6,413 |
| 2016 | | | | 107,322 | 95,535 | 90,401 | 87,002 | 84,661 | 84,258 | 83,099 | 13,151 | 6,381 |
| 2017 | | | | | 99,686 | 95,464 | 90,978 | 86,623 | 86,886 | 84,575 | 16,229 | 6,790 |
| 2018 | | | | | | 98,901 | 94,223 | 89,804 | 90,553 | 87,357 | 18,653 | 6,792 |
| 2019 | | | | | | | 101,234 | 102,304 | 105,052 | 100,022 | 24,369 | 6,903 |
| 2020 | | | | | | | | 95,693 | 98,925 | 92,046 | 26,887 | 5,794 |
| 2021 | | | | | | | | | 114,918 | 105,972 | 44,627 | 6,988 |
| 2022 | | | | | | | | | | 106,201 | 67,142 | 6,107 |
| | | | | | | | | | Total | $ 915,547 | | |

**CVS Caremark Indemnity, Ltd.**
**Worker's Compensation**
*in thousands*

| Accident Year | Cumulative Paid Claims and Paid Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited) 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | $ 15,193 | $ 34,656 | $ 47,715 | $ 54,971 | $ 60,257 | $ 64,769 | $ 68,547 | $ 70,161 | $ 71,239 | $ 72,307 |
| 2014 | | 13,009 | 32,198 | 44,910 | 53,261 | 58,473 | 63,372 | 65,549 | 67,610 | 69,784 |
| 2015 | | | 13,103 | 33,731 | 48,047 | 58,090 | 63,951 | 68,584 | 72,089 | 73,680 |
| 2016 | | | | 14,366 | 32,221 | 46,636 | 55,872 | 61,625 | 64,762 | 66,577 |
| 2017 | | | | | 14,420 | 34,387 | 48,283 | 55,856 | 60,903 | 64,436 |
| 2018 | | | | | | 16,167 | 36,272 | 48,525 | 57,399 | 61,472 |
| 2019 | | | | | | | 18,180 | 41,387 | 56,974 | 65,949 |
| 2020 | | | | | | | | 14,734 | 35,561 | 50,224 |
| 2021 | | | | | | | | | 17,141 | 42,535 |
| 2022 | | | | | | | | | | 19,577 |
| | | | | | | | | | Total | 586,540 |
| | | | | | | All outstanding liabilities before 2013, net of reinsurance | | | | 63,913 |
| | | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | | | | $ 392,921 |

CVS CAREMARK INDEMNITY LTD.

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

DECEMBER 31, 2022 AND 2021
(expressed in United States dollars)

## 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 — For the Years Ended December 31, (Unaudited) — As of December 31, 2022

| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | 0 |
| 2014 | | - | - | - | - | - | - | - | - | - | - | 0 |
| 2015 | | | - | - | - | - | - | - | - | - | - | 0 |
| 2016 | | | | - | - | - | - | - | - | - | - | 0 |
| 2017 | | | | | 11,200 | 11,632 | 11,632 | 11,632 | 11,632 | 11,632 | - | 0 |
| 2018 | | | | | | 303,296 | 303,791 | 303,791 | 303,791 | 304,896 | - | 0 |
| 2019 | | | | | | | 305,119 | 305,119 | 305,119 | 332,825 | - | 0 |
| 2020 | | | | | | | | - | - | - | - | 0 |
| 2021 | | | | | | | | | - | - | - | 0 |
| 2022 | | | | | | | | | | - | - | 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 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 2014 | | - | - | - | - | - | - | - | - | - |
| 2015 | | | - | - | - | - | - | - | - | - |
| 2016 | | | | - | - | - | - | - | - | - |
| 2017 | | | | | - | 5,155 | 11,632 | 11,632 | 11,632 | 11,632 |
| 2018 | | | | | | 129,236 | 303,791 | 303,791 | 304,896 | 304,896 |
| 2019 | | | | | | | 305,119 | 305,119 | 332,825 | 332,825 |
| 2020 | | | | | | | | - | - | - |
| 2021 | | | | | | | | | - | - |
| 2022 | | | | | | | | | | - |
| | | | | | | | | | Total | 649,354 |
| | | | | | | | All outstanding liabilities before 2013, net of reinsurance | | | $ - |
| | | | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | | | $ - |

4. Losses and loss expenses, cont'd.

**CVS Caremark Indemnity, Ltd.**
**Property (Inventory Shrink)**
*in thousands*

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited) — As of December 31, 2022

| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | 0 |
| 2014 | | - | - | - | - | - | - | - | - | - | - | 0 |
| 2015 | | | - | - | - | - | - | - | - | - | - | 0 |
| 2016 | | | | - | - | - | - | - | - | - | - | 0 |
| 2017 | | | | | 3,013 | 5,601 | 5,601 | 5,601 | 5,601 | 5,601 | - | 0 |
| 2018 | | | | | | 143,028 | 142,499 | 142,499 | 142,499 | 143,030 | - | 0 |
| 2019 | | | | | | | 52,179 | 52,179 | 52,179 | 65,488 | - | 0 |
| 2020 | | | | | | | | - | - | - | - | 0 |
| 2021 | | | | | | | | | - | - | - | 0 |
| 2022 | | | | | | | | | | - | - | 0 |
| | | | | | | | | | Total | $ 214,119 | | |

**CVS Caremark Indemnity, Ltd.**
**Property (Inventory Shrink)**
*in thousands*

Cumulative Paid Claims and Paid Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited)

| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 2014 | | - | - | - | - | - | - | - | - | - |
| 2015 | | | - | - | - | - | - | - | - | - |
| 2016 | | | | - | - | - | - | - | - | - |
| 2017 | | | | | - | 3,079 | 5,601 | 5,601 | 5,601 | 5,601 |
| 2018 | | | | | | 77,196 | 142,499 | 142,499 | 143,030 | 143,030 |
| 2019 | | | | | | | 52,179 | 52,179 | 65,488 | 65,488 |
| 2020 | | | | | | | | - | - | - |
| 2021 | | | | | | | | | - | - |
| 2022 | | | | | | | | | | - |
| | | | | | | | | | Total | 214,119 |
| | | | | | | | | | All outstanding liabilities before 2013, net of reinsurance | $ - |
| | | | | | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | $ - |

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, 2022 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | | |
| 2013 | $ 184,373 | $ 168,416 | $ 160,268 | $ 156,136 | $ 153,478 | $ 152,028 | $ 150,349 | $ 146,680 | $ 146,135 | $ 146,510 | $ 10,140 | 19,316 |
| 2014 | | 191,793 | 176,645 | 172,443 | 171,031 | 167,803 | 167,767 | 165,039 | 165,295 | 167,312 | 11,048 | 21,750 |
| 2015 | | | 165,579 | 160,278 | 167,323 | 164,122 | 165,760 | 161,143 | 160,475 | 158,845 | 14,047 | 21,215 |
| 2016 | | | | 176,143 | 163,209 | 158,505 | 162,515 | 156,285 | 152,128 | 148,730 | 17,327 | 20,637 |
| 2017 | | | | | 187,432 | 184,690 | 181,985 | 171,704 | 167,129 | 161,829 | 20,949 | 20,958 |
| 2018 | | | | | | 620,425 | 618,218 | 612,597 | 605,239 | 598,374 | 27,273 | 21,540 |
| 2019 | | | | | | | 533,252 | 538,205 | 536,905 | 564,029 | 33,783 | 21,042 |
| 2020 | | | | | | | | 175,839 | 176,710 | 162,603 | 48,107 | 17,627 |
| 2021 | | | | | | | | | 190,062 | 164,764 | 79,546 | 19,147 |
| 2022 | | | | | | | | | | 173,454 | 124,351 | 15,216 |
| | | | | | | | | | Total | $ 2,446,448 | | |

**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 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | For the Years Ended December 31, (Unaudited) | | | | | | | | | |
| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| 2013 | $ 20,420 | $ 52,330 | $ 77,119 | $ 100,379 | $ 114,094 | $ 121,930 | $ 129,245 | $ 131,321 | $ 132,787 | $ 134,052 |
| 2014 | | 18,101 | 52,224 | 84,927 | 106,812 | 124,935 | 133,530 | 136,901 | 140,588 | 147,057 |
| 2015 | | | 15,895 | 54,029 | 83,209 | 103,595 | 124,081 | 133,493 | 137,371 | 140,104 |
| 2016 | | | | 18,704 | 46,333 | 76,257 | 102,284 | 115,792 | 123,188 | 125,977 |
| 2017 | | | | | 18,178 | 57,848 | 98,383 | 117,158 | 127,606 | 133,624 |
| 2018 | | | | | | 226,133 | 496,573 | 526,790 | 545,054 | 554,060 |
| 2019 | | | | | | | 379,066 | 414,326 | 443,294 | 463,388 |
| 2020 | | | | | | | | 18,901 | 51,593 | 84,183 |
| 2021 | | | | | | | | | 19,294 | 52,604 |
| 2022 | | | | | | | | | | 22,367 |
| | | | | | | | | | Total | 1,857,416 |
| | | | | | | | | | All outstanding liabilities before 2013, net of reinsurance | 77,838 |
| | | | | | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | $ 666,870 |

(expressed in United States dollars)

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, 2022:

**Reconciliation of the Disclosure of Incurred and Paid Claims Development to the Liability for Unpaid Claims and Claim Adjustment Expenses**

| | 2022 |
|---|---|
| *Net outstanding liabilities* | |
| Auto Liability | $ 5,485 |
| General Liability | 132,724 |
| Druggist Liability | 84,474 |
| Healthcare Professional Liability | 8,616 |
| Worker's Compensation | 392,921 |
| Health | - |
| Property (Inventory Shrink) | $ - |
| Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance | 624,220 |
| *Reinsurance recoverable on unpaid claims* | |
| Auto Liability | $ - |
| Workers Compensation | $ - |
| *Total reinsurance recoverable on unpaid claims* | $ - |
| Unallocated claims adjustment expenses | $ - |
| Impact of discounting | $ - |
| | $ - |
| Other lines of business excluded from above | 3,876 |
| *Total gross liability for unpaid claims and claim adjustment expense* | $ 628,096 |

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

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

| 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% | 20.5% | 32.3% | 7.6% | 4.4% | 8.6% | 0.0% | 0.0% | 0.0% | 0.0% |
| General Liablity | 4.3% | 15.5% | 23.2% | 24.7% | 13.7% | 4.5% | 2.4% | 2.3% | 6.6% | 0.0% |
| Druggist Liability | 6.7% | 20.5% | 23.5% | 13.9% | 12.6% | 6.0% | 2.7% | 0.8% | 0.5% | 0.2% |
| Healthcare Professional Liability | 6.5% | 11.5% | 21.1% | 23.4% | 14.2% | 10.4% | 1.8% | 0.8% | 0.0% | 0.0% |
| Workers Compensation | 16.8% | 22.9% | 15.7% | 9.9% | 6.1% | 4.9% | 3.3% | 2.1% | 2.0% | 1.3% |
| Health | 47.5% | 33.9% | 18.6% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Property (Inventory Shrinkage) | 51.4% | 33.6% | 15.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **All Coverages Excl. Medicare Part D** | **20.4%** | **22.4%** | **16.4%** | **11.2%** | **8.4%** | **5.0%** | **2.9%** | **1.7%** | **2.4%** | **0.8%** |

(expressed in United States dollars)

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, funds withheld and intercompany loan. As of December 31, 2022 and 2021, all cash and cash equivalents, restricted cash, and funds withheld are held with two financial institutions while intercompany loan issued is with the ultimate parent.

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 (2021 - $304,768) in favor of ceding insurance companies. At December 31, 2022, the letters of credit were collateralized by cash and cash equivalents of $304,768 (2021 - $304,768).

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, 2022, the Company had $217,621,650 (2021 - $217,777,607) 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, 2022 and December 31, 2021 were as follows:

| | **2022** | **2021** |
|---|---|---|
| Debt securities available for sale | $292,308,660 | $341,399,260 |
| Hedge funds | 14,747,924 | 13,220,236 |
| **Total** | **307,056,584** | **$354,619,496** |

(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, 2022:

**2022**

| | Level 1<br>$ | Level 2<br>$ | Level 3<br>$ | Total<br>$ |
|---|---|---|---|---|
| U.S. government bonds | 35,425,313 | - | - | 35,425,313 |
| International government bonds | - | 65,502,913 | - | 65,502,913 |
| Corporate bonds | - | 91,972,453 | 2,797,955 | 94,770,408 |
| Commercial mortgage-backed securities | - | 71,939,629 | - | 71,939,629 |
| Asset-backed securities | - | 24,670,397 | - | 24,670,397 |
| Hedge funds | - | - | 14,747,924 | 14,747,924 |
| **Total** | **35,425,313** | **254,085,392** | **17,545,879** | **307,056,584** |

**2021**

| | Level 1<br>$ | Level 2<br>$ | Level 3<br>$ | Total<br>$ |
|---|---|---|---|---|
| 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** |

(expressed in United States dollars)

8. Marketable securities, cont'd

The following table is a reconciliation for all level 3 financial instruments measured at fair value on a recurring basis. There were no transfers between levels for the year ended December 31, 2022 (2021 – no transfers).

| | December 31, 2022 $ | December 31, 2021 $ |
|---|---|---|
| Balance, beginning of year | 13,220,236 | 10,962,415 |
| Unrealized gains/(losses) included in OCI | 831,792 | 2,257,821 |
| Purchases (Sales) | 3,493,851 | - |
| Balance, end of year | 17,545,879 | 13,220,236 |
| Change in unrealized gains/(losses) included in OCI relating to instruments held at the end of the year | (1,426,029) | 2,257,821 |

Debt securities

Debt securities available for sale at December 31, 2022 and 2021 were as follows:

**2022**

| | **Amortized cost** | **Gross Unrealized Gain** | **Gross Unrealized Loss** | **Fair Value** |
|---|---|---|---|---|
| U.S. government bonds | 41,011,747 | - | (5,586,434) | 35,425,313 |
| International government bonds | 80,252,355 | 460,901 | (15,210,343) | 65,502,913 |
| Corporate bonds | 115,938,202 | 426,026 | (21,593,820) | 94,770,408 |
| Commercial mortgage-backed securities | 85,558,340 | - | (13,618,711) | 71,939,629 |
| Asset-backed securities | 25,500,000 | - | (829,603) | 24,670,397 |
| **Total** | **348,260,644** | **886,927** | **(56,838,911)** | **292,308,660** |

(expressed in United States dollars)

8. Marketable securities, cont'd

**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 | 51,478,602 | 28,485 | (83,732) | 51,423,355 |
| **Total** | **341,852,013** | **2,382,490** | **(2,835,243)** | **341,399,260** |

Gross proceeds from sales on the debt securities for the year ended 31 December 2022 amounted to $112,387,531 (2021: $47,985,702) and gross purchases amounted to $131,768,050 (2021: $244,408,771)

(expressed in United States dollars)

Marketable securities, cont'd

The Company reviewed 177 (2021: 78) individual securities with the total unrealized loss position of $56,838,911 (2021: $2,835,243) 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, any other than temporary impairment has not been recognized for these securities.

**December 31, 2022**

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value $ | Gross Unrealized losses $ | Fair Value $ | Gross Unrealized losses $ | Fair Value $ | Gross Unrealized Losses $ |
| U.S. government bonds | | | 35,425,313 | (5,586,434) | **35,425,313** | (5,586,434) |
| International government bonds | 20,238,049 | (3,598,593) | 37,947,596 | (11,611,750) | 58,185,645 | (15,210,343) |
| Corporate bonds | 53,812,593 | (9,287,108) | 35,133,376 | (12,306,712) | 88,945,969 | (21,593,820) |
| Commercial mortgage-backed securities | 5,675,828 | (423,518) | 66,263,801 | (13,195,193) | 71,939,629 | (13,618,711) |
| Asset-backed securities | 24,670,397 | (829,603) | - | - | 24,670,397 | (829,603) |
| **Total** | **104,396,867** | **(14,138,822)** | **174,770,086** | **(42,700,089)** | **279,166,953** | **(56,838,911)** |

**December 31, 2021**

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Gross Unrealized losses | Fair Value | Gross Unrealized losses | Fair Value | Gross Unrealized 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)** |

(expressed in United States dollars)

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, 2022 was $2,960,878.

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

The amortized cost and fair value of debt securities at December 31, 2022 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 | $ 4,102,411 | $ 4,081,817 |
| One year through five years | 54,547,509 | 49,489,132 |
| After five years through ten years | 140,938,982 | 120,764,491 |
| Greater than ten years | 148,671,742 | 117,973,220 |
| **Total** | **$ 348,260,644** | **$ 292,308,660** |

(expressed in United States dollars)

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, 2022, the Company was owed $42,028,677 (2021 - $35,002,003) from Silverscript Insurance Company. During the year, the Company paid a commission expense of $61,356,501 (2021 - $61,428,650) to Silverscript Insurance Company in respect of the above agreement.

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, 2022, the applicable interest rate on the loan ranges from 3.25% to 7.50%. Interest is payable on the last day of the applicable interest period. As at December 31, 2022, $143,836 (2021: $62,329) of interest was accrued on the loan. Interest receivable at year-end was $2,763,375 (2021: $1,560,234). Interest income on the intercompany loan at December 31, 2022 was $34,036,301 (2021: $22,750,000).

The Company recorded an intercompany receivable amounting to $7.4 million from the parent to recover payments made as a result of an error in the cost center used.

10. Share capital

| | **2022** | **2021** |
|---|---|---|
| Authorized, issued and fully paid: | | |
| 850,000 voting common shares of $1 par value each | $ 850,000 | $ 850,000 |

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 differences that give rise to the deferred tax assets relates to discounted loss reserves and unrealized losses.

(expressed in United States dollars)

11. Taxes, cont'd.

Income taxes attributable to continuing operations for the year ended December 31, 2022 and 2021 consist of the following:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Current tax (expense) | $ | (26,272,593) | $ | (16,383,907) |
| Deferred tax (expense)/benefit | | (631,879) | | 1,181,742 |
| **Income tax (expense)** | **$** | **(26,904,472)** | **$** | **(15,202,165)** |

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. The IRS has not examined tax years 2020 or 2021. State income tax audits are ongoing.

(expressed in United States dollars)

11. Taxes, cont'd.

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

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Deferred tax asset: | | | | |
| Discount on loss and loss adjustment expenses | $ | 15,685,157 | $ | 16,856,991 |
| Advance premiums | | - | | 2,072 |
| Unrealized gain/loss | | 12,190,070 | | 98,588 |
| Valuation Allowance | | (12,190,070) | | - |
| Total deferred tax assets | | 15,685,157 | | 16,957,651 |
| Loss reserve transition adjustment | | (1,629,503) | | (2,171,530) |
| Total deferred tax liabilities | | (1,629,503) | | (2,171,530) |
| **Net Deferred tax asset** | **$** | **14,055,654** | **$** | **14,786,121** |

When evaluating the realizability of deferred tax assets, the Company considers all available positive and negative evidence, including future reversals of existing taxable differences, projected future taxable income, tax planning strategies and the Company's recent operating results. The Company established a valuation allowance of $12 million as of December 31, 2022, because it does not consider it more likely than not that the Unrealized Capital Loss will be recovered.

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.

(expressed in United States dollars)

12. Investment Income

The components of net investment income for the years ended December 31, 2022 and 2021 is as follows:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Interest income | $ | 16,264,947 | $ | 5,090,795 |
| Interest on intercompany loan | | 34,036,301 | | 22,750,000 |
| Equity earnings on hedge fund investments | | 1,527,687 | | 2,257,821 |
| **Total** | **$** | **51,828,935** | **$** | **30,098,616** |

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, 2022 was $777,778,545 (2021: $736,815,704) and the amount required to be maintained by the Company was $94,214,409 (2021: $97,231,421). This requirement was met at December 31, 2022 and December 31, 2022.

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.

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 30, 2023, the date the financial statements were available to be issued. No events have occurred subsequent to December 31, 2022 requiring adjustments or disclosure in these financial statements.