AUDITED FINANCIAL STATEMENTS

CVS Caremark Indemnity Ltd.
Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

CVS Caremark Indemnity Ltd.

Audited Financial Statements

Years Ended December 31, 2020 and 2019

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Report of Independent Auditors

The Board of Directors
CVS Caremark Indemnity Ltd.

We have audited the accompanying financial statements of CVS Caremark Indemnity Ltd., which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CVS Caremark Indemnity Ltd. at December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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 cumulative paid claims and paid allocated claim adjustment expenses, on pages 16 through 23 and the average annual percentage payout of incurred claims by age, net of reinsurance on page 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.

April 30, 2021

CVS CAREMARK INDEMNITY LTD.
(Incorporated in Bermuda)

BALANCE SHEETS

As of DECEMBER 31, 2020 AND 2019
(expressed in United States dollars)

	2020	2019
ASSETS		
Cash and cash equivalents (Notes 5 and 6)	$ 114,456,495	$ 622,558,195
Restricted cash (Note 7)	276,276,264	271,807,929
Insurance and reinsurance balances receivable (Note 9)	48,728,260	35,068,535
Marketable securities (Note 8)	163,685,346	-
Intercompany loan receivable (Note 9)	700,000,000	500,000,000
Funds withheld (Note 3)	207,118	195,118
Accrued interest receivable	808,703	2,384,384
Prepaid expenses	74,169	73,669
Deferred tax asset, net (Note 11)	12,084,891	12,983,793
	$ 1,316,321,246	$ 1,445,071,623
LIABILITIES		
Losses and loss expenses (Note 4)	$ 605,713,023	$ 605,969,853
Insurance and reinsurance balances payable	37,704	219,498,288
Accounts payable and accrued liabilities	320,876	456,179
Investments Payable	2,000,000	-
Income tax payable (Note 11)	19,762,015	5,384,745
	627,833,618	831,309,065
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)	590,012,874	520,422,558
Accumulated Other Comprehensive Income, net of $1,420,900 tax	5,134,754	-
	688,487,628	613,762,558
	$ 1,316,321,246	$ 1,445,071,623

See accompanying notes

CVS CAREMARK INDEMNITY LTD.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(expressed in United States dollars)

	2020	2019
Underwriting income		
Gross premiums written	588,629,762	660,064,186
Change in unearned premiums	-	398,312,877
Net premiums earned	$ 588,629,762	$ 1,058,377,063
Underwriting expenses		
Losses and loss expenses incurred (Note 4)	(450,115,614)	(905,516,336)
Commission expense (Note 9)	(68,070,917)	(64,245,085)
	(518,186,531)	(969,761,421)
Net underwriting income	70,443,231	88,615,642
Other income (expenses)		
Net investment income (Note 12)	19,620,339	39,662,841
Realized capital losses	(150,490)	-
General and administrative expenses	(708,323)	(735,473)
Net other income	18,761,526	38,927,368
Net income before tax	89,204,757	127,543,010
Income tax (Note 11)		
Current income tax (expense)	(20,136,439)	(5,240,003)
Deferred income tax benefit / (expense)	521,998	(22,484,130)
Net income tax expense	(19,614,441)	(27,724,133)
Net income	$ 69,590,316	$ 99,818,877
Other comprehensive income, net of tax:		
Net unrealized investment gains ($1,420,900 tax)	5,134,754	-
Comprehensive income	$ 74,725,070	99,818,877

See accompanying notes

CVS CAREMARK INDEMNITY LTD.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

DECEMBER 31, 2020 AND 2019

(expressed in United States dollars)

	Share Capital	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2019	$ 850,000	$ 92,490,000	$ 420,603,681	$ -	$ 513,943,681
Net income	-	-	99,818,877	-	99,818,877
Balance at December 31, 2019	$ 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	$ 850,000	$ 92,490,000	590,012,874	5,134,754	$ 688,487,628

See accompanying notes

CVS CAREMARK INDEMNITY LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(expressed in United States dollars)

	2020	2019
Operating activities:		
Net income	$ 69,590,316	$ 99,818,877
Adjustments to reconcile net income to net cash used in operating activities:		
Restricted cash	-	-
Insurance and reinsurance balances receivable	(13,659,725)	(2,855,714)
Funds witheld	(12,000)	-
Accrued interest receivable	1,575,681	717,185
Prepaid expenses	(500)	(14,708)
Deferred tax asset	898,902	22,484,130
Losses and loss expenses	(256,830)	(245,774,752)
Insurance and reinsurance balances payable	(219,460,584)	219,449,613
Unearned premiums	-	(398,312,877)
Accounts payable and accrued liabilities	(135,303)	(184,359)
Premiums received in advance	-	(14,585,878)
Investments payable	2,000,000	-
Income tax payable	14,377,270	(19,842,441)
Net cash used in operating activities	(145,082,773)	(339,100,924)
Investing activities:		
Advances to ultimate parent and affiliates	(200,000,000)	-
Proceeds from sales and maturities of investments	51,571,594	-
Purchases of investments	(210,122,186)	-
Net cash used in investing activities	(358,550,592)	-
Net increase in cash and cash equivalents and restricted cash	(503,633,365)	(339,100,924)
Cash and cash equivalents and restricted cash , beginning of year	894,366,124	1,233,467,048
Cash and cash equivalents and restricted cash, end of year	$ 390,732,759	$ 894,366,124
Supplemental disclosure of cash flow information:		
Cash paid during the year for income taxes	$ (5,759,169)	$ (25,082,444)
Reconciliation of cash and cash equivalents and restricted cash:		
Cash and cash equivalents	$ 114,456,495	$ 622,558,195
Restricted cash	276,276,264	271,807,929
Total cash and cash equivalents and restricted cash	$ 390,732,759	$ 894,366,124

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.

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"). Certain prior year comparative figures have been reclassified to conform to current year presentation.

(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 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.

2. Significant accounting policies, cont'd.

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.

(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 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.

2. Significant accounting policies, cont'd.

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

2. Significant accounting policies, cont'd.

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.

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 $10,962,415 (2019: $Nil) which are included in marketable securities on the balance sheet.

(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, 2020 and 2019 relating to the R-Pool are as follows:

	2020	2019
Funds held by ceding reinsurers	$ 207,118	$ 195,118
Insurance balances payables	(37,704)	(26,618)
Loss and loss expenses provisions	198,228	211,917
Net premiums earned	(1,332)	16,916
Net losses incurred and net loss expense	(33,745)	(29,566)

(expressed in United States dollars)

4. Losses and loss expenses

	2020	2019
Balance at beginning of year	$ 605,969,853	$ 851,744,605
Incurred related to:		
Current year	482,147,376	915,371,363
Prior years	(32,031,762)	(9,855,027)
Total incurred	450,115,614	905,516,336
Paid losses related to:		
Current year	(325,096,453)	(760,077,493)
Prior years	(125,275,991)	(391,213,595)
Total paid	(450,372,444)	(1,151,291,088)
Balance at end of year	$ 605,713,023	$ 605,969,853

The loss development in 2020 relating to prior years reserves of $32,031,762 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 2019 relating to prior years reserves of $9,885,027 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, 2020, the provision for total outstanding losses for all policy years, including the current year, on an expected undiscounted basis, is $605,913,970 (2019: $605,656,180).

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, 2020, 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, 2020. 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 expected paid and incurred emergence methods for accident year 2020 and projected losses for 2021. 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, 2020.

The total loss and loss adjustment expenses reserves displayed on the balance sheet as of December 31, 2020 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

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — **As of December 31, 2020**

	For the Years Ended December 31, (Unaudited)										As of December 31, 2020	
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2011	$ 1,755	$ 1,372	$ 1,238	$ 890	$ 866	$ 852	$ 855	$ 853	$ 853	$ 852	$ -	338
2012		2,195	1,781	1,666	1,708	1,646	1,633	1,630	1,628	1,625	2	276
2013			2,083	2,269	3,267	3,310	3,419	3,401	3,393	3,387	7	251
2014				1,056	820	973	1,294	1,617	1,721	1,710	13	208
2015					1,279	959	879	779	677	666	11	167
2016						1,816	2,015	1,733	1,643	1,608	55	206
2017							1,552	1,269	1,471	1,317	267	386
2018								2,045	2,649	2,797	336	268
2019									3,101	1,886	773	250
2020										1,516	980	180
									Total	$ 17,363		

CVS Caremark Indemnity, Ltd.
Auto Liability
in thousands

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

	For the Years Ended December 31, (Unaudited)									
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	$ 361	$ 646	$ 801	$ 852	$ 852	$ 852	$ 852	$ 852	$ 852	$ 852
2012		321	678	837	1,542	1,621	1,623	1,623	1,623	1,623
2013			407	712	2,881	3,033	3,268	3,380	3,380	3,380
2014				206	333	714	878	1,030	1,697	1,697
2015					215	444	557	653	655	655
2016						505	900	1,429	1,457	1,548
2017							203	400	1,046	1,044
2018								298	1,062	1,170
2019									380	621
2020										289
									Total	12,879
							All outstanding liabilities before 2011, net of reinsurance			$ -
							Liabilities for claims and claim adjustment expenses, net of reinsurance			$ 4,484

4. Losses and loss expenses, cont'd.

CVS Caremark Indemnity, Ltd.
General Liablity
in thousands

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited) — As of December 31, 2020

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2011	$ 33,105	$ 32,265	$ 29,323	$ 28,942	$ 27,523	$ 28,697	$ 27,810	$ 28,526	$ 28,206	$ 28,121	$ 212	9,056
2012		33,021	32,643	31,663	31,889	31,099	31,985	31,930	35,182	34,699	440	9,168
2013			34,266	33,993	32,349	32,813	32,411	33,086	32,504	31,907	942	8,744
2014				37,634	33,237	34,172	34,021	31,751	34,315	33,809	1,683	9,041
2015					27,813	24,694	28,534	29,328	29,814	29,246	2,644	9,025
2016						28,251	28,412	27,858	31,150	29,681	3,894	8,597
2017							31,693	32,269	35,715	33,879	6,566	8,673
2018								32,861	33,325	31,428	11,395	8,593
2019									35,542	40,694	22,300	7,764
2020										41,576	32,473	6,682
									Total	$ 335,040		

CVS Caremark Indemnity, Ltd.
General Liablity
in thousands

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

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	$ 1,548	$ 7,434	$ 13,897	$ 20,033	$ 21,264	$ 25,559	$ 26,273	$ 27,138	$ 27,760	$ 27,763
2012		1,853	8,174	14,509	19,142	24,592	26,322	30,033	30,417	30,774
2013			1,931	7,828	11,922	22,233	27,020	28,603	30,388	30,466
2014				2,388	5,689	13,467	20,622	24,680	26,003	26,759
2015					853	5,183	13,005	18,603	23,191	24,999
2016						1,161	5,226	10,492	19,804	23,849
2017							1,049	5,815	13,765	22,276
2018								1,234	5,962	12,804
2019									1,611	9,416
2020										1,985
									Total	211,092
						All outstanding liabilities before 2011, net of reinsurance				813
						Liabilities for claims and claim adjustment expenses, net of reinsurance				$ 124,761

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 — **As of December 31, 2020**

	For the Years Ended December 31, (Unaudited)										As of December 31, 2020	
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2011	$ 30,286	$ 31,096	$ 30,535	$ 32,549	$ 31,965	$ 30,700	$ 32,707	$ 37,821	$ 35,232	$ 35,005	$ 134	2,523
2012		35,919	33,641	37,560	41,314	50,022	50,156	48,973	47,978	47,525	310	3,053
2013			37,823	33,021	29,044	28,133	27,845	26,937	27,309	26,412	697	3,115
2014				41,116	41,880	46,446	48,239	48,531	47,012	46,430	1,474	3,121
2015					31,922	35,272	41,480	42,169	44,629	41,374	2,759	2,632
2016						36,857	35,549	36,785	41,948	39,353	5,470	2,391
2017							37,987	35,789	34,777	31,293	7,796	2,349
2018								37,183	39,035	40,268	14,717	2,360
2019									33,433	34,366	20,509	1,872
2020										35,236	27,998	1,224
									Total	$ 377,262		

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	$ 2,684	$ 9,972	$ 16,450	$ 25,568	$ 27,264	$ 28,476	$ 28,901	$ 29,569	$ 34,736	$ 34,745
2012		3,592	10,626	22,958	30,191	41,933	45,465	46,898	46,922	47,012
2013			2,825	8,953	14,403	18,905	21,356	22,982	24,736	25,119
2014				2,410	13,858	25,389	31,484	40,039	41,599	42,037
2015					1,662	14,541	21,333	25,537	35,532	38,181
2016						2,586	7,840	17,428	24,703	28,152
2017							2,443	8,668	17,026	19,705
2018								1,888	6,264	17,099
2019									1,540	5,461
2020										1,803
									Total	259,314
					All outstanding liabilities before 2011, net of reinsurance					276
					Liabilities for claims and claim adjustment expenses, net of reinsurance					$ 118,224

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, 2020	
	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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
2011	$ 1,595	$ 1,627	$ 3,545	$ 2,913	$ 2,826	$ 2,565	$ 3,068	$ 3,020	$ 3,014	$ 3,008	$ 9	45
2012		1,374	1,369	535	1,031	840	818	670	666	665	3	80
2013			2,241	699	1,197	1,483	2,270	2,253	2,213	2,206	11	1,029
2014				2,317	1,660	1,257	1,083	1,031	873	865	6	2,959
2015					1,845	1,271	1,079	1,263	986	1,230	26	2,962
2016						1,896	1,699	1,729	772	982	90	3,029
2017							2,302	2,666	1,812	1,361	268	2,723
2018								3,110	2,695	2,010	542	3,371
2019									2,644	1,656	1,189	4,108
2020										1,818	1,712	2,772
									Total	$ 15,800		

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	$ 55	$ 137	$ 347	$ 763	$ 1,607	$ 1,905	$ 2,999	$ 2,999	$ 2,999	$ 2,999
2012		72	158	385	376	473	659	662	662	662
2013			64	181	199	1,237	2,193	2,195	2,195	2,195
2014				87	145	448	567	713	859	859
2015					62	130	268	712	752	1,073
2016						87	145	271	448	619
2017							65	344	1,032	1,045
2018								114	724	902
2019									57	142
2020										90
									Total	10,585
					All outstanding liabilities before 2011, net of reinsurance					1
					Liabilities for claims and claim adjustment expenses, net of reinsurance					$ 5,216

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

	For the Years Ended December 31, (Unaudited)										As of December 31, 2020	
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2011	$ 92,648	$ 90,231	$ 89,977	$ 90,820	$ 89,250	$ 89,995	$ 88,623	$ 87,929	$ 86,022	$ 84,830	$ 7,011	6,224
2012		100,771	92,686	92,416	92,337	88,904	87,590	87,404	86,112	83,729	8,060	5,808
2013			107,960	98,434	94,412	90,397	87,534	86,351	84,930	82,769	9,640	5,982
2014				109,670	99,049	89,594	86,393	84,872	83,847	82,225	11,444	6,236
2015					102,719	98,081	95,350	90,583	89,654	88,626	14,192	6,215
2016						107,322	95,535	90,401	87,002	84,661	17,298	6,010
2017							99,686	95,464	90,978	86,623	21,940	6,348
2018								98,901	94,223	89,804	28,399	6,358
2019									101,234	102,304	42,119	6,491
2020										95,693	62,208	5,273
									Total	$ 881,265		

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

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

	For the Years Ended December 31, (Unaudited)									
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	$ 15,061	$ 35,248	$ 48,301	$ 57,108	$ 62,786	$ 67,912	$ 70,008	$ 72,755	$ 74,300	$ 75,465
2012		13,453	34,603	48,760	58,652	64,423	67,144	69,643	71,229	73,289
2013			15,193	34,656	47,715	54,971	60,257	64,769	68,547	70,161
2014				13,009	32,198	44,910	53,261	58,473	63,372	65,549
2015					13,103	33,731	48,047	58,090	63,951	68,584
2016						14,366	32,221	46,636	55,872	61,625
2017							14,420	34,387	48,283	55,856
2018								16,167	36,272	48,525
2019									18,180	41,387
2020										14,734
									Total	575,175
						All outstanding liabilities before 2011, net of reinsurance				43,283
						Liabilities for claims and claim adjustment expenses, net of reinsurance				$ 349,373

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

Accident Year	For the Years Ended December 31, (Unaudited) 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	As of December 31, 2020: Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2011	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	0
2012		-	-	-	-	-	-	-	-	-	-	0
2013			-	-	-	-	-	-	-	-	-	0
2014				-	-	-	-	-	-	-	-	0
2015					-	-	-	-	-	-	-	0
2016						-	-	-	-	-	-	0
2017							11,200	11,632	11,632	11,632	-	0
2018								303,296	303,791	303,791	-	0
2019									305,119	305,119	-	0
2020										-	-	0
									Total	$ 620,542		

CVS Caremark Indemnity, Ltd.
Health (Excluding Medicare Part D Exposures)
in thousands

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

Accident Year	For the Years Ended December 31, (Unaudited) 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2012		-	-	-	-	-	-	-	-	-
2013			-	-	-	-	-	-	-	-
2014				-	-	-	-	-	-	-
2015					-	-	-	-	-	-
2016						-	-	-	-	-
2017							-	5,155	11,632	11,632
2018								129,236	303,791	303,791
2019									305,119	305,119
2020										-
									Total	620,542
					All outstanding liabilities before 2011, 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, 2020	
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2011	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	0
2012		-	-	-	-	-	-	-	-	-	-	0
2013			-	-	-	-	-	-	-	-	-	0
2014				-	-	-	-	-	-	-	-	0
2015					-	-	-	-	-	-	-	0
2016						-	-	-	-	-	-	0
2017							3,013	5,601	5,601	5,601	-	0
2018								143,028	142,499	142,499	-	0
2019									52,179	52,179	-	0
2020										-	-	0
									Total	$ 200,279		

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2012		-	-	-	-	-	-	-	-	-
2013			-	-	-	-	-	-	-	-
2014				-	-	-	-	-	-	-
2015					-	-	-	-	-	-
2016						-	-	-	-	-
2017							-	3,079	5,601	5,601
2018								77,196	142,499	142,499
2019									52,179	52,179
2020										-
									Total	200,279
						All outstanding liabilities before 2011, 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, 2020	
	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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
2011	$ 159,390	$ 156,592	$ 154,618	$ 156,114	$ 152,430	$ 152,809	$ 153,062	$ 158,149	$ 153,327	$ 151,815	$ 7,366	18,186
2012		173,281	162,119	163,840	168,279	172,510	172,183	170,607	171,567	168,244	8,814	18,385
2013			184,373	168,416	160,268	156,136	153,478	152,028	150,349	146,680	11,297	19,121
2014				191,793	176,645	172,443	171,031	167,803	167,767	165,039	14,620	21,565
2015					165,579	160,278	167,323	164,122	165,760	161,143	19,632	21,001
2016						176,143	163,209	158,505	162,515	156,285	26,807	20,233
2017							187,432	184,690	181,985	171,704	36,836	20,479
2018								620,425	618,218	612,597	55,389	20,950
2019									533,252	538,205	86,889	20,485
2020										175,839	125,371	16,131
									Total	$ 2,447,551		

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	$ 19,709	$ 53,436	$ 79,797	$ 104,324	$ 113,773	$ 124,703	$ 129,033	$ 133,312	$ 140,645	$ 141,823
2012		19,291	54,239	87,449	109,904	133,041	141,213	148,860	150,853	153,361
2013			20,420	52,330	77,119	100,379	114,094	121,930	129,245	131,321
2014				18,101	52,224	84,927	106,812	124,935	133,530	136,901
2015					15,895	54,029	83,209	103,595	124,081	133,493
2016						18,704	46,333	76,257	102,284	115,792
2017							18,178	57,848	98,383	117,158
2018								226,133	496,573	526,790
2019									379,066	414,326
2020										18,901
									Total	1,889,866
									All outstanding liabilities before 2011, net of reinsurance	44,373
									Liabilities for claims and claim adjustment expenses, net of reinsurance	$ 602,058

(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, 2020:

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

	2020
Net outstanding liabilities	
Auto Liability	$ 4,484
General Liability	124,761
Druggist Liability	118,224
Healthcare Professional Liability	5,216
Worker's Compensation	349,373
Health	-
Property (Inventory Shrink)	$ -
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	602,058
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	3,655
Total gross liability for unpaid claims and claim adjustment expense	$ 605,713

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	21.5%	20.7%	27.1%	11.4%	4.4%	8.5%	0.0%	0.0%	0.0%	0.0%
General Liablity	4.7%	16.0%	20.9%	23.5%	12.7%	7.1%	5.3%	1.5%	1.6%	0.0%
Druggist Liability	6.4%	18.9%	23.0%	15.5%	15.0%	5.4%	3.0%	1.1%	7.5%	0.0%
Healthcare Professional Liability	5.8%	10.6%	20.0%	18.4%	20.6%	16.2%	9.2%	0.0%	0.0%	0.0%
Workers Compensation	16.8%	23.2%	15.8%	10.3%	6.6%	5.2%	3.2%	2.4%	2.1%	1.4%
Health	71.3%	50.9%	27.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property (Inventory Shrinkage)	77.1%	50.4%	22.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
All Coverages Excl. Medicare Part D	20.0%	22.3%	17.5%	14.1%	10.3%	5.7%	3.6%	1.8%	3.2%	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 and funds withheld. As of December 31, 2020 and 2019, 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 $483,509 (2019 - $483,509) in favor of ceding insurance companies. At December 31, 2020, the letters of credit were collateralized by cash and cash equivalents of $304,768 (2019 - $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, 2020, the Company had $276,276,264 (2019 - $271,807,929) 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, 2020 were as follows:

		2020
Debt securities available for sale	$	152,722,931
Hedge funds		10,962,415
Total	**$**	**163,685,346**

(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, 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**

Debt securities

Debt securities available for sale at December 31, 2020 were as follows:

	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	9,013,397	56,531	(3,578)	9,066,350
Total	**$ 146,167,277**	**6,563,171**	**(7,517)**	**152,722,931**

(expressed in United States dollars)

8. Marketable securities, cont’d

The Company reviewed individual securities with the total unrealized loss position of $7,519 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.

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, 2020 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, 2020 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	-	-
One year through five years	$ 25,514,459	25,702,154
After five years through ten years	21,666,024	22,095,698
Greater than ten years	98,986,794	104,925,079
Total	**$ 146,167,277**	**152,722,931**

(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, 2020, the Company was owed $33,882,924 (2019 - $35,068,535 from Silverscript Insurance Company. During the year, the Company paid a commission expense of $68,070,917 (2019 - $64,245,085) 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, 2020, the applicable interest rate on the loan was 2.4695% until April 2020, decreasing to 1.3095% in May 2020 and increasing to 3.25% in October 2020. Interest is payable on the last day of the applicable interest period. As at December 31, 2020, $62,329 of interest was accrued on the loan.

10. Share capital

	2020	2019
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 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, 2020 AND 2019
(expressed in United States dollars)

11. Taxes, cont'd.

Income taxes attributable to continuing operations for the year ended December 31, 2020 and 2019 consist of the following:

	2020	2019
Current tax (expense)	$ (20,136,439)	$ (5,240,003)
Deferred tax (expense)/benefit	521,998	(22,484,130)
Income tax (expense)	$ (19,614,441)	$ (22,724,133)

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 Company's effective tax rate differs from the statutory rate of 21% as a result of state income taxes for the years ended December 31, 2020 and 2019

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

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

	2020	2019
Deferred tax asset:		
Discount on loss and loss adjustment expenses	$ 16,207,637	$ 16,222,027
Total deferred tax assets	16,207,637	16,222,027
Loss reserve transition adjustment	(2,701,846)	(3,238,234)
Unrealized gain /loss	(1,420,900)	-
Total deferred tax liabilities	(4,122,746)	(3,238,234)
Net Deferred tax asset	$ 12,084,891	$ 12,983,793

(expressed in United States dollars)

11. Taxes, cont'd.

There was no valuation allowance for deferred tax assets as of December 31, 2020 and 2019 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.

12. Investment Income

The components of net investment income for the years ended December 31, 2020 and 2019 is as follows:

		2020	**2019**
Interest income	$	6,845,653	23,990,167
Interest on intercompany loan		11,812,271	15,672,674
Equity earnings on hedge fund investments		962,415	-
Total	**$**	**19,620,339**	**39,662,841**

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, 2020 was $688,413,459 (2019: $613,688,889) and the amount required to be maintained by the Company was $90,856,953 (2019: $99,309,628). This requirement was met at December 31, 2020 and December 31, 2019.

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.

13. Statutory requirements, cont'd

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, 2021, the date the financial statements were available to be issued. No events have occurred subsequently to December 31, 2020 requiring adjustments or disclosure in these financial statements.