DORINCO REINSURANCE COMPANY

NAIC GROUP CODE 0000 — NAIC COMPANY CODE 33499

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - 2023

1. Overview

This discussion provides an assessment by management of the current financial position, results of operations, cash flow and liquidity for Dorinco Reinsurance Company (Dorinco, the Company) for the year ended December 31, 2023. Information presented in this discussion supplements the financial statements, schedules, and exhibits in the 2023 Annual Statement.

Dorinco is a wholly owned subsidiary of Liana Limited which is ultimately a wholly owned subsidiary of Dow Inc. (Dow). Dorinco issues direct property and liability insurance policies to Dow and certain related companies and participates in property and casualty reinsurance treaties covering Dow or unrelated parties with other insurance companies.

I.1. General

Dorinco maintained its strong financial results in 2023 with a positive underwriting result combined with investment income and realized capital gains during 2023.

Overall, Dorinco’s admitted assets increased from $1.747 billion at year-end 2022 to $1.935 billion at year-end 2023, driven by increases in treaty business and short term investments during the year.

Dorinco’s main focus is to provide an efficient vehicle to Dow to manage its risks and to complement it with top quality profitable unrelated business.

No preliminary merger or acquisition negotiations have taken place during the year.

DORINCO REINSURANCE COMPANY, 33499

I. FINANCIAL POSITION

Dorinco's financial position at December 31 was as follows:

	$MILLION 2023	2022
ADMITTED ASSETS		
Bonds	1,305.0	1,354.6
Equity	0.6	0.6
Other Invested Assets	151.2	148.9
Cash/Short Term Investments	218.3	115.0
Premium Balances	204.7	91.6
Funds Held	19.6	9.5
Reinsurance Recoverable on Loss/LAE Payments	11.8	6.9
Net Deferred Taxes	9.2	6.9
Other Assets	14.1	13.1
TOTAL ASSETS	1,934.5	1,747.1
LIABILITIES		
Unpaid Losses/LAE/IBNR	1,059.3	1,021.4
Unearned Premiums	148.7	98.2
Current Federal Income Taxes Payable	11.8	4.6
Ceded Reinsurance Premium Payable	39.0	15.0
Funds Held Under Reinsurance Treaties	5.2	2.5
Provision for Reinsurance	5.4	12.3
Other Liabilities	7.0	6.8
TOTAL LIABILITIES	1,276.4	1,160.8
TOTAL POLICYHOLDER'S SURPLUS	658.1	586.3
LIABILITIES & SURPLUS	1,934.5	1,747.1

IA. ASSETS

Dorinco's year-end 2023 admitted assets increased $187.4 million as compared with year-end 2022, increasing 10.7% during the year. Cash and invested assets increased by $56.0 million or an increase of 3.5% versus year-end 2022, primarily due to increase in short term investments.

Premium receivables and reinsurance recoverables increased by a combined $128.1 million in 2023 versus 2022 largely due to the increase of premiums written between the years combined with an increase in reinsurance recoverables at year end. Premium receivable balances are gross of ceded reinsurance premiums payables of $39.0 million in 2023 and $15.0 million in 2022.

Cash and short-term investments increased by $103.3 million, other invested assets increased by $2.3 million and bonds decreased by $49.6 million in 2023, primarily due to bonds maturity schedules in 2023.

The goal of Dorinco's investment policy is to maximize its long-term rate of return. Dorinco, via a service contract, utilizes the portfolio management services of Dow's Portfolio Investment group and engages outside investment managers to accomplish the above stated goal. A diversified investment portfolio consisting of fixed income, equities, and alternative investments has traditionally been maintained. In addition, the Company uses currency and interest rate derivatives for income generation and enters into various future contracts with the objective of adjusting fixed income portfolio duration. The investments in derivatives are limited and the positions expire within the quarter of investment. The results are recorded in the Income Statement and are reported in Schedule DB. Dorinco has no off-balance sheet arrangements.

The Company began 2023 with an investment portfolio allocated between domestic and international fixed income assets (84%), other invested assets (9%) and cash and short term investments (7%). The other invested assets portfolio included an allocation to alternative investments (8%) and a loan receivable from the parent (1%). A portion (17%) of the domestic and international fixed assets was invested in higher yield instruments which may carry lower non-investment grade ratings in exchange.

The investment portfolio ended the year with the following allocations. The allocation to cash and short term investments increased to 13%. Domestic and international fixed income represented 78% of the portfolio assets while other invested assets maintained at 9%, with alternative investments at an allocation of 8% and the loan receivable from the parent at 1% in 2023. The portion of the domestic and international fixed income assets invested in higher yield instruments increased slightly to 20% at the end of 2023.

An analysis of the credit quality, as determined by National Association of Insurance Commissioners ("NAIC") designation, of the total fixed income portfolio at December 31, 2023 and 2022, is set forth in the following table:

	$MILLION			
	2023		2022	
NAIC Designation	Carrying Value	% of Total Carrying Value	Carrying Value	% of Total Carrying Value
1	690.3	52.9%	740.2	54.6%
2	350.8	26.9%	380.3	28.1%
Investment Grade	1,041.1	79.8%	1,120.5	82.7%
3	84.3	6.5%	79.0	5.8%
4	61.3	4.7%	76.4	5.6%
5	109.6	8.4%	71.2	5.3%
6	8.7	0.7%	7.5	0.6%
Below Investment Grade	263.9	20.2%	234.1	17.3%
Total	1,305.0	100.0%	1,354.6	100.0%

The Company has non investment grade investments included in its fixed income portfolio totaling $263.9 million and $234.1 million in 2023 and 2022, respectively. The Company applies the same prudent principles in managing its high yield portfolio, emphasizing diversification standards (such as limits on issuer, industry and geographic locations to minimize concentration risks), credit quality and liquidity and manages its aggregate risk exposure to investment risks against an approved strategic risk allocation and other internal limits and guidelines.

Many factors shape our strategy and portfolio construction. The company needs to generate enough income – coupon income from the bonds held generates cash flow – to fund operations, reach return targets and ultimately build reserves. Doing so with emphasis on investment grade fixed income allows fairly stable and predictable cash flow even when value of the underlying bonds – which are highly interest-rate sensitive assets – vary with changes in yields.

To help mute the volatility of the portfolios, other less liquid and low correlation alternative assets are held, representing approximately 8% of the portfolio. Alternative assets are cash generative and are underwritten with the expectation that high single-digit or low double-digit internal rates of return are achievable. This helps augment long-term growth of assets without adversely affecting the overall liquidity profile of the portfolio in a material way. Risk-based capital considerations are also prominent in limiting the upper limit of the target allocation.

The equity derivative overlay was used in only the first quarter of 2023 and lost $2.7 million dollars in the year. In 2022, the equity overlay generated gains of $2.2 million dollars.

The fixed income portfolio remains well diversified across asset classes, credit quality and duration with the different allocations each contributing to the portfolio performance (in decreasing order of asset allocation): Aggregate credit (25% of the portfolio) up 6.1% (down 11.9% in 2022), Emerging Market Debt (25%) up 10.6% (down 16.8% in 2022), Long Government/Credit (21%) up 6.6% (down 17.1% in 2022), and Convertible Debt (19%) up 7.7% (down 6.9% in 2022). In addition to fixed income, the portfolio includes roughly 8%

of alternative assets, including private equity, an allocation which finished the year down 1.0% (down 3.7% in 2022). The balance of the portfolio was held in cash, which returned 5.0%.

Since 2016, rolling 10-year returns have ranged between 3.1% and 5.6%. The size of the portfolio over that period has averaged just a bit less than $1.5 billion.

When we construct the portfolios, we deliberately consider five tiers of liquidity:

- First, cash generation from the portfolio from coupon payments and natural bond maturities is robust and predictable.
- Second, if those resources are insufficient to meet short-term liquidity needs, the most flexible and lowest cost source of funds is to draw on the intercompany loan facility arranged with the parent company, which has a capacity of $150 million.
- If needed, a short- to medium-term source of liquidity utilized as a third layer is the liquidation of investment grade bonds. We maintain positions across the term structure aligned with Aggregate Bond Index and the Long/Gov Credit Index to offer ample choice as to where we might source liquidity through bond sales, if needed.
- A longer-term source of liquidity is layer number four and considers the liquidation of convertible bonds or, if necessary, emerging market debt. In both cases, bonds would be selected for sale on an as needed basis.
- Finally, a fifth layer – though less predictable than other cash generated by the portfolio – is cash generated by the illiquid alternative assets. Though extremely unlikely, in cases of extreme need, the alternative assets themselves could be marketed in a secondary sale.

Assuming a large casualty or natural disaster occurs, the bond portfolio - a well-diversified portfolio of high-quality and liquid investment-grade fixed income instruments - comprises roughly 45-50% of all assets. Invested asset values as of December 31st totaled approximately $1.7 billion, enabling the company to raise between $650 and $750 million dollars should the need arise. Additionally, the company has immediate access to $150 million dollars of additional liquidity via an intercompany loan facility from the parent, which offers flexibility. Before additional sources of liquidity are utilized, an event of loss would need to exceed $800 to $900 million dollars.

It is notable that even though a natural disaster – be it a freeze, hurricane, fire or other peril – may prompt a sizable insurance claim to be filed, the chronology of establishing the amount for which the company is liable develops over several months. The pace at which liquidity must be raised from the investments allows execution of bond and asset sales to be completed with some prudence and patience. This enables the management team – if the need arises – to evaluate trade-offs prior to liquidating other income generating assets invested in Emerging Market bonds as well as Convertible Bonds.

The amount of assets allocated to these two asset classes which comprise the fourth liquidity layer are 40-45% of the aggregate portfolio, providing the opportunity to generate liquidity in the range of $600 to $700 million dollars. Because assets in these market sectors typically offer higher returns than investment grade bonds, and often are more volatile when markets are in duress, these assets may be more compelling to retain than to liquidate. But over the long-term, if an unexpected cash need was large enough to necessitate it, these assets can be monetized.

To help mute the volatility of the portfolios, other less liquid and low correlation alternative assets are held, amounting to approximately 8% of the portfolio. Alternative assets are cash generative and are underwritten with the expectation that high single-digit or low double-digit internal rates of return are achievable. This helps augment long-term growth of assets without adversely affecting the overall liquidity profile of the portfolio in a material way. Risk-based capital considerations are more prominent in driving the upper limit of the allocation size.

IB. LIABILITIES

Loss and loss expense reserves are stated at Dorinco's estimate of the ultimate loss, net of ceded reinsurance recoverables. Included as a reduction to unpaid loss reserves are $506.4 million of recoverables from affiliates Dorintal Reinsurance Limited and Diamond Reinsurance Inc. These balances are fully collateralized by a reinsurance trust. The remaining recoverables are with companies rated A or better by a reputable insurance rating agency or are not material.

The amount of reserves related to reported claims for direct business is based upon a case-by-case estimate determined by the claims professionals employed by Dorinco. Other reserves on other business assumed are based on statements received from ceding companies. Loss and loss expense reserves are not discounted.

The estimate of losses arising from claims which have not yet been reported (IBNR) to Dorinco is based upon management's best judgment; however, the ultimate liability may be in excess of or less than the amounts provided. All unpaid reserves reported and IBNR are certified annually by a qualified independent actuary.

Activity with respect to loss and loss expense reserves for the last two years is detailed below:

	$MILLION	
	2023	2022
Unpaid Losses and Loss Expense at Beginning of Year	1,021.4	1,042.4
Loss and Loss Expenses Incurred for Current Year	268.0	211.3
Increase (Decrease) in Estimates for Prior Loss Years	(27.2)	(25.3)
Loss and LAE Payments Made in Current Year	(202.9)	(207.0)
Unpaid Losses and Loss Expenses at End of Year	1,059.3	1,021.4

During 2023, Dorinco continued its review of outstanding reserves and, based on loss history, trends, claim reporting activity and analysis of existing claims, it was determined the total reserves were adequate.

Unearned premiums increased from $98.2 million in 2022 to $148.7 million in 2023, primarily driven by an increase in gross written premiums for the Company’s policy renewals.

IC. CAPITAL AND SURPLUS ACCOUNTS

There has been no change to the capital stock or paid in and contributed surplus for the last two years.

There were no dividends declared or paid in 2023 or in 2022.

Policyholder's surplus increased from $586.3 million at December 31, 2022, to $658.1 million at December 31, 2023. During 2023, the Company generated a profit after tax of $61.2 million from operations. This was combined with a $1.4 million increase in deferred taxes, $1.2 million increase in unrealized gains, $1.1 million increase in non-admitted assets and a $6.9 million increase as a result of changes in provision for reinsurance contributing to an overall increase in policyholder's surplus of $71.8 million, or 12.3%, during 2023.

II. RESULTS FROM OPERATIONS

Dorinco produced net income of $61.2 million for the year. Earned premiums in 2023 were $344.8 million, as compared with $247.2 million in the previous year. The increase in earned premiums was due mainly to increased reinsurance business written during the year which is expected to continue through 2024.

The underwriting results for 2023 produced a gain of $16.2 million. This gain was increased by net investment income of $55.6 million, which included $14.6 million of net realized capital gains. The Company carried $1.2 million of unrealized capital gains (net of taxes) in a portfolio consisting of $1.7 billion of invested assets. The investment portfolio was split approximately 77.9% fixed income, 9.0% other investments, and 13.0% cash and short term investments at year end 2023.

Cash flow from operations was $43.7 million, increasing from $19.9 million in 2022, primarily due to a $7.4 million decrease in benefit and loss related payments combined, a decrease of $12.8 million in income taxes paid and an increase of $44 million in premiums collected. These increases in cash were partially offset by with a $40.2 million increase in commissions and other expenses paid and a $0.2 million decrease in investment and other income (see also Cash Flow section below).

The Company continues to add value for policyholders in the related captive segment of its business, which made up approximately 26% of 2023 earned premiums. The unrelated business, making up the remaining balance of 2023 premiums, continues to present opportunities in niche markets in which the Company participates. Dorinco has solidified its position as a niche market for assumed reinsurance, specializing in less volatile lines of business offering predictable and consistent results. The company is well-positioned for the current market cycle. Regional U.S. insurance companies continue to be the Company's targeted clients.

REINSURANCE PROGRAM

Dorinco participates in an intra group reinsurance plan that utilizes the capacity of each company within the group. Sister companies Dorintal Reinsurance Limited and Diamond Reinsurance Inc. participate as reinsurers (all reserve balances are secured). Separate reinsurance arrangements with commercial insurers and reinsurers exist for the coverage provided to the ultimate parent.

ORGANIZATIONAL PROCESS

The Company utilizes a quantitative pricing model and has taken a 'hands on' approach to management of its reserving practices. Effective November 1, 2022, the Company contracted actuarial services from Oliver Wyman replacing the previous arrangement of contracting such services from Marsh. Oliver Wyman will interface with the independent consulting actuary appointed by the Board of Directors.

RISK MANAGEMENT OF CATASTROPHE EXPOSURES

Guidelines are established for assumed contracts with catastrophe exposure to include a cap to the limit of liability. Maximum exposure by contract is monitored on a geographic basis. This information is used in establishing underwriting direction and the purchasing of reinsurance. With the reduction in the assumed reinsurance portfolio subject to catastrophe loss, the Company currently relies less on catastrophe modeling of probable maximum loss and more on the monitoring of its exposures on a gross limits exposed basis.

ENTERPRISE RISK MANAGEMENT

The Company utilizes several models, metrics and evaluation methodologies in effectuating enterprise risk management. Insurance risk management techniques include: underwriting, catastrophe management, and reserve adequacy management. Dorinco looks for non-correlation of Dow and third-party risks. Third party risks are mainly U.S.-only exposed, primarily short-tail non-standard auto risks. Geographic exposure accumulation is described under "Risk Management of Catastrophe Exposures." Reserves are established internally by claim, line of business, and/or policy. Reserves are reviewed internally on a quarterly basis and annually by external actuaries. Methodologies used in reserve analysis include: Company loss development, industry loss development, adjusted loss development and Bornheutter Ferguson.

Investment risk management includes setting parameters for asset allocation, volatility appetite, and investment policy. These investment measures are monitored by the Finance Committee and presented to the Board of Directors.

There is a Board-approved delegation of authority for policy underwriting, based upon business type, premium level, and exposure limits. There is an established delegation of authority for claim payments, with larger payments requiring formal review prior to authorization.

Optimization of capital structure is reviewed quarterly. Maximum policy limits and investment risk are monitored at that time. The Finance Committee and Board of Directors meet quarterly; the management team meets monthly, at a minimum. Dorinco leverages its formal disaster recovery program from its ultimate parent.

UNDERWRITING RESULTS

	$MILLION 2023	2022
Underwriting Results:		
Gross premiums written	630.8	449.8
Net premiums written	395.3	279.4
Net premiums earned	344.8	247.2
Loss and loss adjustment expense ratio	69.8%	75.3%
Underwriting expense ratio	21.4%	19.4%
Combined ratio	91.2%	94.7%

Gross premiums written increased to $630.8 million in 2023, from $449.8 million in 2022, primarily due to an increase in assumed business from the unrelated business segment of the Company's business during 2023 in the Company's primary regional target. Net premiums written were impacted by the increase in written premiums which were net of a $33.9 million decrease in the related business segment for 2023 offset by a $149.8 million increase in assumed business from the unrelated business segment of the Company's business. Net premiums earned increased primarily in the unrelated business segment of the Company's business.

Dorinco's combined ratio as reported in the Annual Statement for 2023 amounted to 91.2%, a decrease from 94.7% in 2022. Refer to 1B Liabilities.

Dorinco is a part of Dow's consolidated federal income tax return. Dorinco and Dow have entered into a tax allocation agreement whereby Dorinco computes and pays its tax obligation as if separate returns were being filed.

III. CASH FLOW AND LIQUIDITY

CASH FLOW

Primary sources of cash for the Company include cash provided from premiums collected, dividend and interest income, and proceeds from the sale or maturities of invested assets. The cash flows for Dorinco for 2023 and 2022 are summarized below:

	$MILLION	
	2023	2022
Cash Provided by Operations	43.7	19.9
Cash From Investment Activities	57.1	(25.6)
Other Cash Used	2.6	0.7
Net Change in Cash and Short-Term Investments	103.4	(5.0)

Operating cash flow in 2023 was $23.8 million higher than in 2022, primarily due to an increase of $44 million in premiums collected combined with $7.4 million decrease in benefit and loss related payments and a decrease of $12.8 million in income taxes paid. These increases in cash were partially offset by with a $40.2 million increase in commissions and other expenses paid and a $0.2 million decrease in investment and other income.

Net cash from investment activities was $82.7 million higher in 2023 mainly due to selling $67.4 million more bonds than acquired during 2023, when compared to 2022 when $48.3 million more bonds were acquired than sold. Other invested assets and miscellaneous investment activity was a use of cash of $2.6 million and $7.7 million investing cash flow in 2023 when compared to 2022 when a source of cash of $21.1 million and $1.6 million was recorded, respectively.

Dorinco made no significant capital expenditures and no stockholder's dividend payments in 2023. See also Note 10B and 13D to the 2023 Annual Statement.

LIQUIDITY

Dorinco collects and invests premiums written in advance of payments for associated claims. Funds available for investment which exceed the amount required to satisfy liabilities are primarily invested in fixed income, equities and short-term securities.

For 2023 and 2022, Dorinco met its cash needs from internally generated funds. Dorinco does not anticipate any difficulties in meeting its future cash needs.