DORINCO REINSURANCE COMPANY

NAIC GROUP CODE 0000 — NAIC COMPANY CODE 33499

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - 2024

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, 2024. Information presented in this discussion supplements the financial statements, schedules, and exhibits in the 2024 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 2024 with a positive investment income and realized capital gains during 2024.

Overall, Dorinco’s admitted assets increased from $1.935 billion at year-end 2023 to $2.202 billion at year-end 2024, driven primarily by an increase in 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 2024	2023
ADMITTED ASSETS		
Bonds	1,390.0	1,305.0
Equity	0.6	0.6
Other Invested Assets	164.4	151.2
Cash/Short Term Investments	295.7	218.3
Premium Balances	278.0	204.7
Funds Held	30.9	19.6
Reinsurance Recoverable on Loss/LAE Payments	16.8	11.8
Net Deferred Taxes	9.7	9.2
Other Assets	15.4	14.1
TOTAL ASSETS	2,201.5	1,934.5
LIABILITIES		
Unpaid Losses/LAE/IBNR	1,210.5	1,059.3
Unearned Premiums	169.3	148.7
Current Federal Income Taxes Payable	26.2	11.8
Ceded Reinsurance Premium Payable	59.5	39.0
Funds Held Under Reinsurance Treaties	8.6	5.2
Provision for Reinsurance	5.1	5.4
Other Liabilities	8.5	7.0
TOTAL LIABILITIES	1,487.7	1,276.4
TOTAL POLICYHOLDER'S SURPLUS	713.8	658.1
LIABILITIES & SURPLUS	2,201.5	1,934.5

IA. ASSETS

Dorinco's year-end 2024 admitted assets increased $267.0 million as compared with year-end 2023, increasing 13.8% during the year. Cash and invested assets increased by $175.3 million, or an increase of 10.5% versus year-end 2023, primarily due to an increase in short term investments.

Premium receivables and reinsurance recoverables increased by a combined $89.6 million in 2024 versus 2023 largely due to an increase in premiums written, combined with an increase in reinsurance recoverables. Premium receivable balances are gross of ceded reinsurance premiums payables of $59.5 million in 2024 and $39.0 million in 2023.

Cash and short-term investments increased by $77.4 million, other invested assets increased by $13.2 million, and bonds increased by $85.0 million in 2024, primarily due to bonds maturity schedules in 2024.

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 assets 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 2024 with an investment portfolio allocated among domestic and international fixed income assets (78%), other invested assets (9%) and cash and short term investments (13%). The other invested assets portfolio included an allocation to alternative assets (8%) and a loan receivable from the parent (1%). A portion (20%) 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: Domestic and international fixed income investments represented 75% of the portfolio assets, cash and short term investments comprised 16%, other invested assets were 9%, alternative assets were 7%, and the loan receivable from the parent comprised 3%. The portion of the domestic and international fixed income assets invested in higher yield instruments was 20% at the end of 2024.

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, 2024 and 2023, is set forth in the following table:

	$MILLION			
	2024		2023	
NAIC Designation	Carrying Value	% of Total Carrying Value	Carrying Value	% of Total Carrying Value
1	827.6	59.6%	690.3	52.9%
2	290.7	20.9%	350.8	26.9%
Investment Grade	1,118.3	80.5%	1,041.1	79.8%
3	102.2	7.4%	84.3	6.5%
4	54.4	3.9%	61.3	4.7%
5	112.8	8.1%	109.6	8.4%
6	2.0	0.1%	8.7	0.7%
Below Investment Grade	271.4	19.5%	263.9	20.2%
Total	1,389.7	100.0%	1,305.0	100.0%

The Company had non-investment grade investments included in its fixed income portfolio totaling $271.4 million and $236.9 million in 2024 and 2023, 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 and reach return targets. Doing so with an emphasis on investment grade fixed income allows for fairly stable and predictable cash flow even when the value of the underlying bonds – which are highly interest-rate sensitive assets – varies with changes in yields.

To help mute the volatility of the portfolios, other less liquid and low correlation alternative assets are held, representing approximately 7% 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 in the year. There were no equity derivatives traded in 2024.

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 (26% of the portfolio) up 2.5% (up 6.1% in 2023), Emerging Market Debt (24%) up 5.9% (up 10.6% in 2023), Long Government/Credit (24%) up 0.33% (up 6.6% in 2023), and Convertible Debt (9%) up 7.4% (up 7.7% in 2023). In addition to fixed income, the portfolio includes alternative assets, including private equity, comprising approximately 7% of the portfolio, an allocation which finished the year up 8.32% (down 1.0% in 2023). The balance of the portfolio was held in cash, which returned 5.9%.

Since 2016, rolling 10-year returns have ranged between 3.0% 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 the 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 should the need arise. Additionally, the company has immediate access to $150 million 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.

It is notable that even though a natural disaster – for example, 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 the Emerging Market Bonds and Convertible Bonds asset classes, which together comprise the fourth liquidity layer, is 40-45% of the aggregate portfolio, providing the opportunity to generate liquidity in the range of $600 to $700 million. 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 7% 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 $449.5 million of recoverables from affiliates Dorintal Reinsurance Limited and Diamond Reinsurance Company Inc. These balances are fully collateralized by a reinsurance trust. The remaining recoverables are either 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 on 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 stated. 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	
	2024	2023
Unpaid Losses and Loss Expense at Beginning of Year	1,059.3	1,021.4
Loss and Loss Expenses Incurred for Current Year	397.6	268.0
Increase (Decrease) in Estimates for Prior Loss Years	23.1	(27.2)
Loss and LAE Payments Made in Current Year	(269.5)	(202.9)
Unpaid Losses and Loss Expenses at End of Year	1,210.5	1,059.3

During 2024, 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 $148.7 million in 2023 to $169.3 million in 2024, 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 2024 or in 2023.

Policyholder's surplus increased from $658.1 million at December 31, 2023, to $713.8 million at December 31, 2024. During 2024, the Company generated a profit after tax of $47.4 million from operations. This was combined with a $0.1 million decrease in deferred taxes, a $5.9 million increase in unrealized gains, a $2.2 million increase in non-admitted assets and a $0.3 million increase as a result of changes in provision for reinsurance, contributing to an overall increase in policyholder's surplus of $55.7 million, or 8.5%, during 2024.

II. RESULTS FROM OPERATIONS

Dorinco produced net income of $47.4 million for the year. Earned premiums in 2024 were $529.8 million, as compared with $344.8 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 2025.

The underwriting results for 2024 produced a loss of $16.3 million. This loss was offset by net investment income of $74.9 million, which included $14.0 million of net realized capital gains. The Company carried $5.9 million of unrealized capital gains (net of taxes) in a portfolio consisting of $1.9 billion of invested assets. The investment portfolio was split approximately 75.1% to fixed income, 8.9% to other investments, and 16.0% to cash and short term investments at year end 2024.

Cash flow from operations was $150.4 million, increasing from $43.7 million in 2023, primarily due to an increase of $191.5 million in premiums collected, an $11.2 million increase in investment and other income, and a decrease of $8.0 million in income taxes paid. These cash flow increases were partially offset by a $60.5 million increase in benefit and loss related payments, combined with a $43.6 million increase in commissions and other expenses paid (also see Cash Flow section below).

The Company continues to add value for policyholders in the related captive segment of its business, which made up approximately 17% of 2024 earned premiums. The unrelated business, making up the remaining balance of 2024 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 Company 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. The Company contracts for actuarial services from Oliver Wyman. The actuary 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 Liana Finance Committee and presented to the Liana and Dorinco Boards 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 Liana Finance Committee and Liana and Dorinco Boards 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	
	2024	2023
Underwriting Results:		
Gross premiums written	877.2	630.8
Net premiums written	550.4	395.3
Net premiums earned	529.8	344.8
Loss and loss adjustment expense ratio	79.4%	69.8%
Underwriting expense ratio	22.5%	21.4%
Combined ratio	101.9%	91.2%

Gross premiums written increased to $877.2 million in 2024, from $630.8 million in 2023, primarily due to an increase in assumed business from the unrelated business segment of the Company's business during 2024 in the Company's primary regional target. Net premiums written for 2024 included a $10.5 million increase in the related business segment and a $144.6 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 2024 amounted to 101.9%, an increase from 91.2% in 2023. 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 2024 and 2023 are summarized below:

	$MILLION	
	2024	2023
Cash Provided by Operations	150.4	43.7
Cash From Investment Activities	(76.7)	57.1
Other Cash Provided	3.6	2.6
Net Change in Cash and Short-Term Investments	77.3	103.4

Operating cash flow in 2024 was $106.7 million higher than in 2023, primarily due to an increase of $191.5 million in premiums collected, an $11.2 million increase in investment and other income, and a decrease of $8.0 million in income taxes paid. This increase in cash was partially offset by a $60.5 million increase in benefit and loss related payments and a $43.6 million increase in commissions and other expenses paid.

Net cash from investment activities was $133.8 million lower in 2024 as compared to 2023, mainly due to selling $68.6 million less bonds than acquired during 2024, when compared with 2023 when $67.4 million more bonds were sold than acquired. Other invested assets included a use of cash of $11.1 million in 2024, compared with a use of cash of $2.6 million in 2023. Miscellaneous investment activity was a source of cash of $3.0 million in 2024, compared with a use of cash of $7.7 million in 2023.

Dorinco made no significant capital expenditures and issued no stockholder's dividend payments in 2024. See also Notes 10B and 13D to the 2024 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 2024 and 2023, Dorinco met its cash needs from internally generated funds. Dorinco does not anticipate any difficulties in meeting its future cash needs.