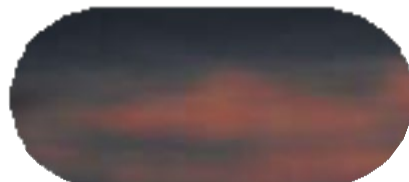
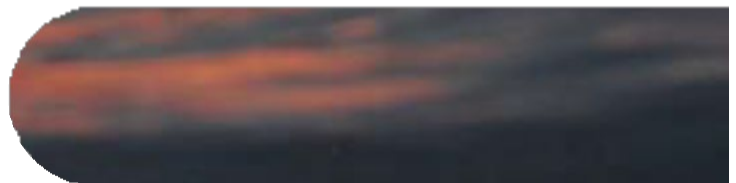
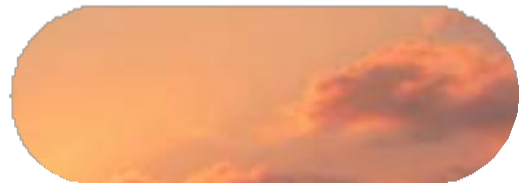
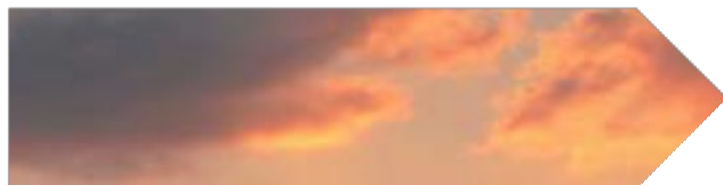




Solvency and Financial Condition Report

UKDC 2026



Solvency and Financial Condition Report

The United Kingdom Freight Demurrage and Defence Association Limited

For the year ended 20 February 2026

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The United Kingdom Freight Demurrage and Defence Association Limited

Summary

This report covers the Business and Performance of The United Kingdom Freight Demurrage and Defence Association Limited (“UKFD&D” or “the Association” (solo)). Collectively, the consolidated position is referred to as “the Club”. It also covers the System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management under the requirements of the Solvency 2 regime.

The ultimate Administrative Body that has the responsibility for all of these matters is the Group’s Board of Directors, with the help of various governance and control functions that it has put in place to monitor and manage the business.

The financial year runs to 20 February each year and it reports its results in Pounds Sterling.

For solvency purposes the Club uses the standard formula to calculate its Solvency Capital Requirement (“SCR”) and as a mutual insurer of the marine legal expense risks of its Members, the Group’s insurance business is classified as legal expenses insurance for Solvency 2 purposes. All business is underwritten from the United Kingdom and Cyprus, however Members are dispersed internationally.

During the year under review the Club has shown a profit for the year of £3.93 million (2025: £4.59 million) under UK GAAP valuation principles. The profit for the year was mainly the result of a favourable investment return. The profit for the year resulted in a free reserve of £42.83 million (2025: £40.82 million) which is further increased by £1.34 million (2025: £0.20 million) as a result of unmatured forward currency contracts that are included in the Club’s hedging reserve and forms part of the Club’s capital reserves.

This is the eleventh year that the Club has returned premium to its Membership by way of a continuity credit scheme.

During the year under review the Club has seen an increase in premium levels driven by a very good 2025 renewal.

For solvency purposes the Club’s total own funds stood at £56.77 million (2025: £57.38 million) which are supported by and include ancillary own funds, as approved by the Club’s regulator and represent the capital benefit associated with UKFDD’s ability to make a contingency call on its mutual Members. This resulted in eligible own funds of £56.77 million (2025: £57.38 million) against an SCR of £13.19 million (2025: £12.70 million) resulting in 431% coverage (2025: 452%) and eligible own funds of £50.18 million (2025: £51.03 million) against an Minimum Consolidated Group Solvency Capital Requirement of £7.66 million (2025: £7.43 million) resulting in 655% coverage (2025: 686%).

Summary (continued)

For SCR purposes UKFDD (solo basis) eligible own funds stood at £12.70 million (2025: 11.8 million) to cover the SCR standing at £4.37 million (2025: £5.43 million) resulting in a capital adequacy ratio of 291% (2025: 218%). In terms of UKFDD (Solo basis) MCR, eligible own funds stood at £10.51 million (2024: £9.1 million) against an MCR requirement of £2.4 million (2025: £2.4 million) resulting in coverage of the MCR of 438% (2025: 380%).

A. Business and Performance

1. Business

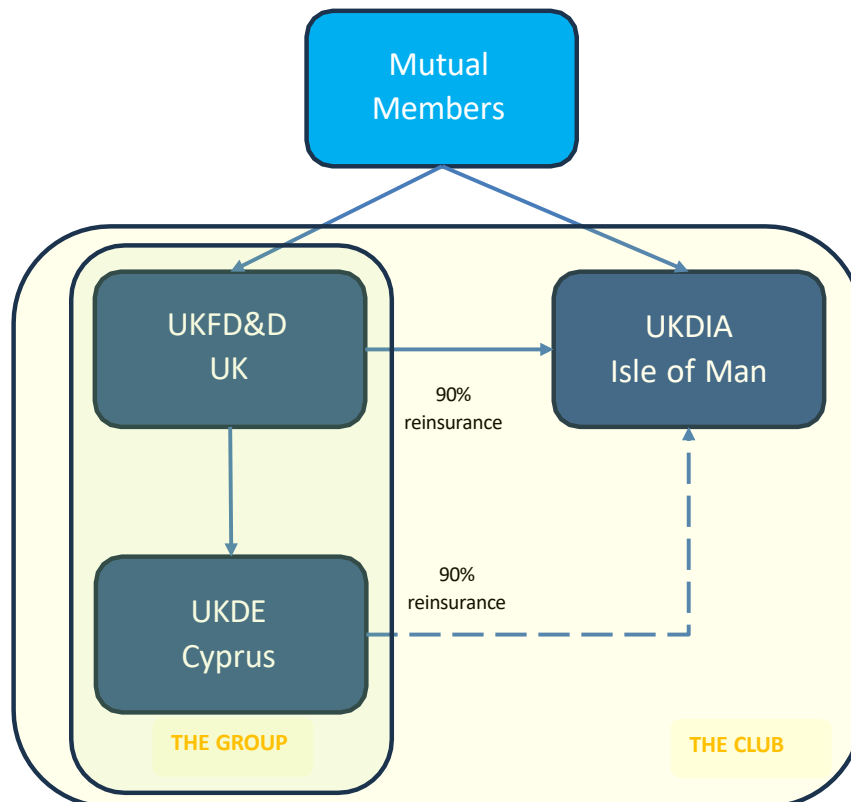
Corporate information

UKFD&D is incorporated in the United Kingdom as a company limited by guarantee without share capital. In the event of the company's liquidation the net assets of UKFD&D are to be distributed in proportion to the amount of contributions paid by Members during the preceding six years.

Structure

UKFD&D is owned by its Members. UKFD&D owns 100% of the share capital of The United Kingdom Freight Demurrage and Defence Insurance (Europe) Limited (“UKDE”). Collectively the results of UKFD&D and UKDE is referred to as the Group which is the basis upon which annual financial statements are reported.

The Club writes legal cost insurance on behalf of its Members and policyholders. Both UKFD&D and UKDE reinsure 90% of its risks to the United Kingdom Defence Insurance Association (Isle of Man) Limited (“UKDIA”) under a 90% quota share reinsurance contract. UKDIA has the same Membership as UKFD&D as further detailed in the table below:



A. Business and Performance (continued)

Given that UKFD&D and UKDIA have the same Membership and the link created between the two mutuals by the 90% quota share reinsurance contracts, the results of UKDIA are included in the consolidated results from a regulatory perspective on request of the Group regulator. The overall position is referred to as the Club. The Club position represents the overall Membership interest, although it should be noted that UKDIA operates independently from UKFD&D.

Comparative figures presented in this SFCR has been restated to reflect this approach.

Regulation

The Group's regulators are:

- Prudential Regulation Authority ("PRA"): 20 Moorgate, London, EC2R 6DA, United Kingdom
- Financial Conduct Authority ("FCA"): 25 the North Colonnade, London, E14 5HS, United Kingdom.

UKDE is regulated by the Superintendent of Insurance in Cyprus located at Michael Karaoli & Gregori Afxentiou, 1439, Nicosia, Cyprus.

UKDIA is regulated by the Isle of Man Financial Services Authority (IOMFSA) located at Finch Hill House, Bucks Road, Douglas, Isle of Man, IM99 1DT.

External auditors

The Group's external auditors are BDO LLP: 55 Baker Street, London W1U 7EU. It should however be noted that, for the year end, the Solvency II results of the Group has not been subject to external audit under the exemption granted by the PRA to smaller insurance firms.

Overview

The Club carries on the business of mutual insurance of its Members and policyholders against legal costs and expenses as defined in the Rules of the Association.

For Solvency 2 purposes the Club business is classified as legal expense insurance.

The number of ships entered in the Club at the year-end on 20 February 2026 was 4,413 (3,608 owned and 805 chartered), compared with 4,146 (3,271 owned and 875 chartered) on 20 February 2025. In terms of tonnage, the Association insured 264.4 million tonnes at 20 February 2026 compared to 246.3 million tonnes at 20 February 2025.

A. Business and Performance (continued)

A.2. Underwriting Performance

All of the Club's business is underwritten from the UK and Cyprus, although Members are internationally dispersed. The Club writes the insurance of legal expenses. Because the Club covers movable risk, geographical analysis of location of risk is not feasible. For information on underwriting performance by material geographical area refer to Quantitative Reporting Template ("QRT") IR.05.02.01 which shows a geographical analysis by Member location and forms part of the Group's annual regulatory reporting requirement.

For the year ended 20 February 2025, the Club produced an underwriting loss of £0.60 million (2025: loss of £0.12 million) as detailed further in the table below which is a summary of the Club's technical account under a UK GAAP valuation basis.

Summary of the technical account as at 20 February 2026:

	2026	2025
	£000s	£000s
Income and expenditure		
Net earned premium	19,868	19,011
Claims incurred, net of reinsurance	(14,441)	(13,618)
Net operating expenses	(6,324)	(5,516)
Balance on the technical account	<u>(896)</u>	<u>(124)</u>

The underwriting loss stems from an increase in the Club's claims cost and operating expenses and is shown before any continuity credits.

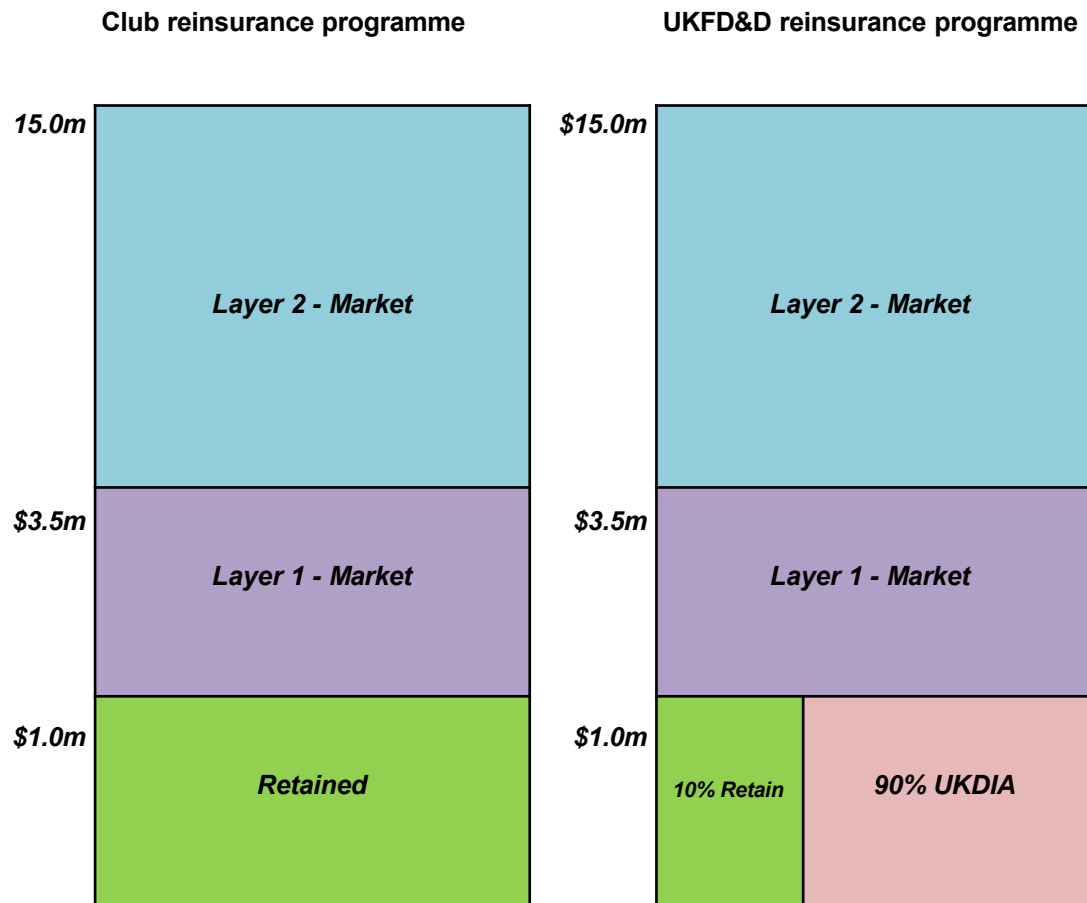
Risk mitigation

The Club writes policies with a maximum policy limit of \$15 million. The first \$1.0 million of claims is retained by the Group after which claims of \$14.0 million excess of the \$1.0 million retention are reinsured on an excess of loss basis.

UKFD&D and UKDE each further cedes 90% of its retained claims to UKDIA on a 90% quota share basis. This arrangement is consistent with the prior year.

The below table illustrates the reinsurance programme of the Club and UKFD&D:

A. Business and Performance (continued)



Exposure to reinsurance counterparties within layers 1 and 2 is mitigated by the Club placing its external reinsurances with counterparties rated A- or better.

On its 90% reinsurance programme, the UKFD&D has the benefit of a legal charge in the form of a fixed charge debenture over UKDIA's assets which mitigate UKFD&D's exposure to Reinsurers' share of technical provisions.

In addition, and as further discussed in the risk management section, the Club has continued the practice of hedging its future premium income received in USD against fluctuations in the GBP / USD exchange rate. Counterparties on hedging contracts are reputable banking institutions as further disclosed in the risk management section.

Other than the above, there have been no material changes to the Club's underwriting risk mitigation programme during the current year.

A. Business and Performance (continued)

A.3. Investment Performance

In accordance with the investment policy, the investment mandate is updated on a regular basis. The table below shows the Club's invested assets split by asset class:

Invested assets split by asset class as at 20 February 2026:

Asset class	2026 £000s	2025 £000s
Collective investment undertakings	26,665	24,357
Fixed income securities	34,031	36,887
Cash and cash equivalents	8,904	6,625
Derivative financial instruments	1,463	306
	71,063	68,175

The following table details the Club's investment income by asset class:

Investment return split by asset class as at 20 February 2026:

Asset class	2026 £000s	2025 £000s
Bank deposits	86	133
Collective investment undertakings	2,809	2,512
Fixed income securities	2,203	1,843
Short term deposit funds	297	381
	5,394	4,869

As previously mentioned, the Club uses forward currency contracts to hedge the foreign exchange risks that it is exposed to as a result of future income being received in US Dollars. Future premium income is regarded as a highly probable forecast transaction and is designated as a hedged item. Forward currency contracts in relation to the hedged item are designated as a hedging instrument.

A. Business and Performance (continued)

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges of a highly probable forecast transaction is recognised directly within equity as other comprehensive income in the Group UK GAAP financial statements. The gain or loss relating to any ineffective portion is recognised immediately in the consolidated income and expenditure account.

A.5. Any other Information

Overall the Club produced an accounting profit of £3.93 million (2025: £4.59 million) for the year resulting in an accumulated surplus of £42.81 million (2025: £40.82 million) after distributions to Members. Additionally there is a positive cash flow hedging reserve of £1.34 million (2025: £0.20 million) on balance sheet which is the value attributed to derivatives designated as cash flow hedges.

Inwards reinsurance business

Starting 20 February 2025, UKFD&D no longer accepts inwards reinsurance business from UKDE who will instead reinsure its risks directly to UKDIA rather than through UKFD&D. Given that UKFD&D reinsured 100% of UKDE's inwards risks to UKDIA, this change is not expected to have a material impact on the capital adequacy of either UKFDD or the Club.

Operational restructure

The Board and Members have approved a restructure of the overall operations of the Membership interest in the Association and its parallel reinsurer, UKDIA. This will see the overall Club operations reduced from three legal entities down to two. Practically, the counterparty to the Association's 90% reinsurance contract will become a newly established mutual in Cyprus in addition to the Association's subsidiary being closed down. It is expected that this change in operational structure will come into effect following in advance of the 20 February, 2027 year end. This change is not expected to impact the Association's assumption around going concern.

Acquisition of Thomas Miller

In March, 2026 the The United Kingdom Mutual Steam Ship Assurance Association Limited ("UK P&I") and Through Transport Mutual Insurance Association Limited ("TT") announced that a non-binding proposal was made to acquire the entire issued share capital of the Association's Manager, the Thomas Miller Group of Companies. Both UK P&I and TT are managed by Thomas Miller. In addition, in November, 2025 the UK P&I also announced that it had entered merger discussions with the TT. At present both sets of discussions remain ongoing and the Board of the Association is considering the potential impact and opportunities that may arise as a result of these proposals.

A. Business and Performance (continued)

Geopolitical Conflict

Subsequent to the year end, armed conflict has escalated in the Middle East. While this conflict commenced after the Association's financial year end and therefore does not give rise to any adjusting events in the financial statements, it has resulted in increased claims activity. Given the evolving nature of the conflict, the ultimate number and quantum of claims arising from this event remain uncertain however the Directors do not consider that the conflict impacts the Association's ability to operate as a going concern.

B. System of Governance

1. General Information on the System of Governance

The Board of Directors

Ultimate responsibility for the governance of the Association rests with the Board of Directors. The Directors are generally drawn from senior individuals within the Membership. In practice the Board of Directors comprises individuals who are figures of standing within the shipping industry, are equity principals or main board directors of the organisations which they represent which in turn are Members of the Association. The Directors meet four times a year although ad-hoc meetings occur from time to time.

The Board of Directors may delegate any of its powers, duties or discretions to committees consisting of such Directors as it sees fit. The Board of Directors is informed of the main issues discussed as all minutes of the meetings of the committees are distributed to the Board of Directors.

Committees

The following committees aid the Board of Directors in its duties:

Audit, Regulatory & Risk Committee

The Audit, Regulatory & Risk Committee (“AR&R”) considers various issues relating to the sound and prudent management of the Group.

Management Fee Committee

The Management Fee Committee meets periodically and its main role is to negotiate with the Managers the management fee arrangements of the Group on behalf of the Board of Directors.

Strategy Committee

The Strategy Committee considers the Group’s future strategy.

Nominations Committee

The Nominations Committee considers the composition of the Board and its Committees.

B. System of Governance (continued)

Key functions

The Managers

The Group has no employees and as such the Board of Directors relies on the Managers for the day-to-day management duties of the Group. The Management function is performed by the Thomas Miller Group of Companies. The functions and responsibilities of the Managers are set out in the Management Agreement between the Managers and the Group.

The Board of Directors may delegate a wide range of powers, duties and discretions to the Managers on such terms as it sees fit. Under the Articles of Association the Managers are entitled to attend all meetings of the Board of Directors and of committees of the Board of Directors and all general meetings of the Group and have a representative on the Board of Directors.

The Investment Managers

Investment of the Group's funds is conducted by the Investment Managers in accordance with the Board of Directors' Investment Policy and is subject to internal compliance procedures.

The functions and responsibilities of the Investment Managers are set out in the Management Agreement between the Investment Managers and the Group.

Governance Map

The Association maintains a governance map that details the key Senior Manager Functions and Key Functions. The following functions are maintained through the governance map with a prescribed set of responsibilities:

- Chair (Board)
- Chief Executive Officer (Board / Managers)
- Chief Operations (Managers)
- Chief Financial Officer (Managers)
- Chief Risk Officer (Managers)
- Head of Internal Audit (Managers)
- Chair of Audit, Regulatory and Risk Committee (Board)
- Chair of Nominations Committee (Board)
- Chief Actuary (Managers)
- Chief Underwriting Officer (Managers)
- Claims Function (Managers)
- Investment Manager (Managers)
- Compliance Oversight (Managers)
- Money Laundering Officer (Managers)

B. System of Governance (continued)

Remuneration

Directors receive an attendance fee for each meeting and an annual fee. Directors' fees are not subject to pension or early retirement schemes and there are no variable components to the Directors' remuneration.

The Group has no internal executive function and its management is wholly performed by companies within the Thomas Miller Holdings Ltd group of companies. The Managers are responsible for recruitment in line with the Thomas Miller Group Recruitment Policy and performance management, ensuring that all staff have and maintain the relevant skills, knowledge and expertise necessary to perform their roles and responsibilities.

Related party transactions

The Group has no share capital and is controlled by the Members who are also the insureds. The subsequent insurance transactions are consequently deemed to be between related parties, but these are the only transactions between the Group and the Members.

Most of the Directors of the Association are current representatives of Member companies and other than the insurance, which is arranged on an arm's length basis, and Member interests of these companies, the Directors have no financial interests in the Group.

The Association and its subsidiary reinsures with UKDIA on a 90% quota share basis. All Members of the Association are also Members of UKDIA. However, none of the Directors of the Association are Directors of UKDIA. Additionally, UKDIA operates under a separate governance and operational structure, has its own rulebook, and is therefore not considered to be a related party of the Association.

The Chief Executive Officer of the Association, who also is a Director, is employed by the Managers.

B.2. Fit and Proper Requirements

The Association has in place a Fit & Proper policy that sets out its approach to the fitness and propriety of the persons responsible for running the Association, including executive senior management and key function holders.

B. System of Governance (continued)

They must be of good repute and demonstrate in their personal behaviour and business conduct character, integrity and honesty. As part of the assessment consideration will be given to potential conflicts of interest and financial soundness. The level of fitness must be appropriate and proportionate to each person's role, tasks and responsibilities.

The Board of Directors must be composed in a way to ensure that its members collectively possess sufficient knowledge, competence and experience to direct and oversee the Association's affairs effectively.

2. *Fit and Proper Requirements*

The Fit and Proper policy applies to:

- All Directors of the Association;
- All employees of the Managers who are members of the Thomas Miller's senior management; and
- Persons within the Managers responsible for key functions, being function holders for Risk Management, Regulatory Compliance, Actuarial and Internal Audit.

All persons within the scope of the policy are assessed against the requirements of the Senior Managers Certification Regime ("SMCR"). Fitness will include an assessment of the person's management and/or technical competencies required for the role based on qualifications, knowledge, experience and the demonstration of due skill, care, diligence and compliance with relevant standards (as applicable). Propriety will include an assessment of the person's reputation and past conduct.

Fit and proper assessments are carried out by the Chair, the Group Manager or the Compliance Officer. No person is permitted to undertake their own assessment.

B. System of Governance (continued)

3. Risk Management System

Overview

The Association uses a Risk Management Framework to design an effective risk management system with an integrated approach to risk management and the application of the three lines of defence:

- 1st line of defence: business units, process and risk owners
- 2nd line of defence: risk management and compliance functions
- 3rd line of defence: internal and external audit

The risk management system includes:

- a clearly defined and well-documented risk management strategy;
- appropriate processes and procedures;
- appropriate reporting procedures;
- reports on the material risks faced by the Group and on the effectiveness of the risk management system;
- policies or frameworks; and
- a suitable Own Risk and Solvency Assessment (“ORSA”) process.

The risk management system has a coherent focus on data and IT infrastructure governance and appropriate policies and standards to outline the framework within which responsibilities will be exercised. It is supported by a robust internal control system and is designed to manage significant risks to the achievement of the Association’s business objectives. The core elements of the risk management framework are as follows:

Risk Management Strategy

The objectives of the risk management strategy are to identify, measure, monitor, manage, and report in a consistent, continuous and timely fashion, on the basis of the risk appetite as set by the Board of Directors.

Forecasts and long-term projections of how the business needs to develop and which internal and/or external factors might affect or impede such development are considered when carrying out business strategy reviews. Risk related to initiatives and objectives adopted in the business plan are added to the Business Risk Log.

Business Risk Log:

Risks to the business that could inhibit the Association achieving its business plan objectives are described in the Business Risk Log, together with the consequences should the risk materialise. The risks are categorised and assessed and monitored on an ongoing basis.

B. System of Governance (continued)

Each risk in the Business Risk Log is assigned a Risk Owner and an accountable person. Risk Owners are required to report on their owned risks as part of a twice-yearly reporting process. Key themes are reported to the Audit, Regulatory & Risk Committee. The reporting process also includes potential emerging risks identified during the reporting period which are recorded in an Emerging Risk Log, and loss and near miss events.

A rating for each risk is determined by assessing its probability and impact. The assessment of each risk is on the basis of Inherent Risk and Residual Risk which is the risk that remains after taking into account the strength of current risk management procedures that are in place.

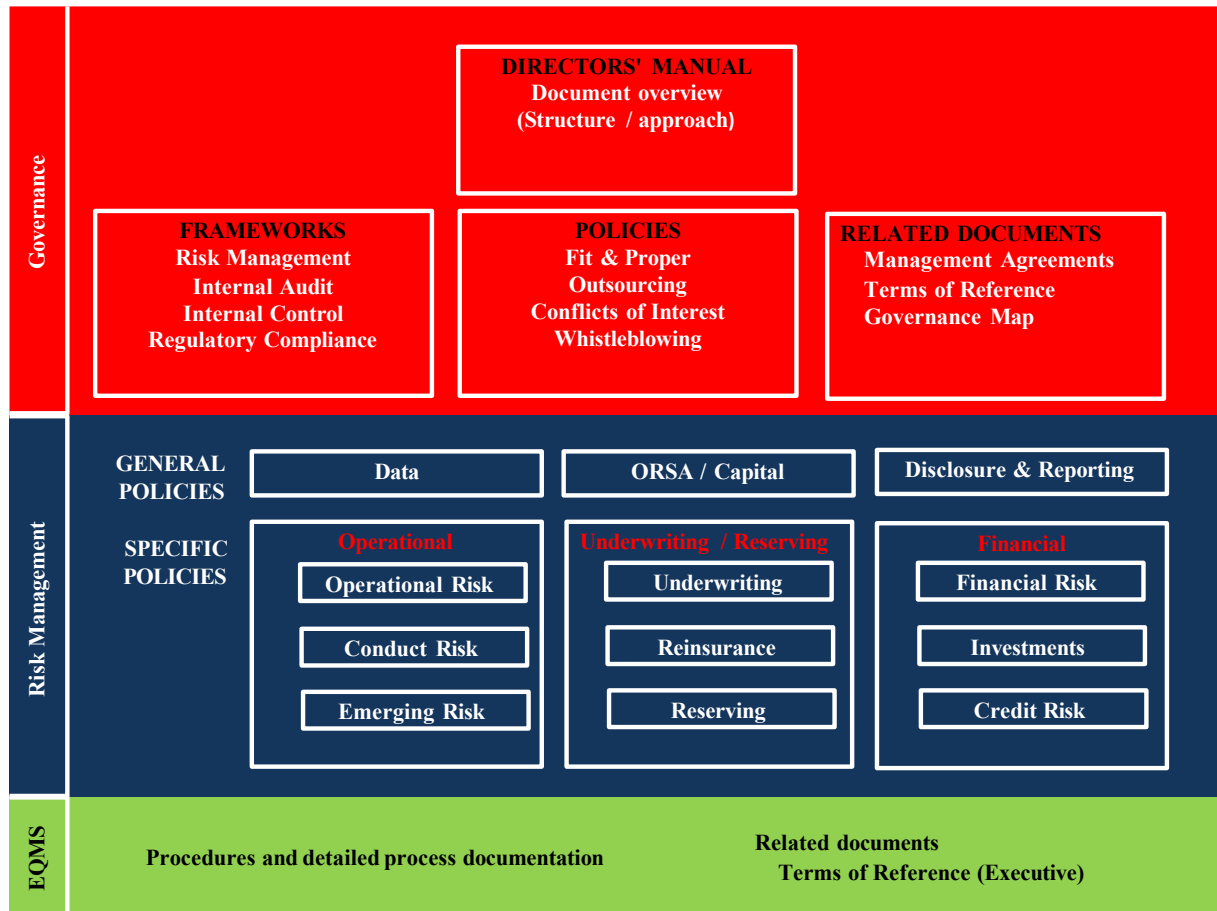
Risk Policies and Procedures

The strategy is specified in more detail through its policies and business plan which underpin its day-to-day business. Policies define the Association's approach to risk management overall and more specifically the risk for which the policy has been written. The policies establish the controls, procedures, limits and escalation to ensure that the risks are managed in line with risk appetite. Specific procedures, where appropriate, have been developed to provide full understanding of the means by which the first and second lines of defence will implement the strategy.

The policies include appropriate reporting procedures to ensure that information relating to the component elements of the risk management is routinely reported to the Audit, Regulatory & Risk Committee and to the Board of Directors.

B. System of Governance (continued)

The governance and risk documentation includes the following:



Risk Appetite

The Association's Risk Appetite is articulated in the statement of risk appetite, which is a document owned by the Board of Directors and reviewed on a regular basis as new risks emerge, or at least annually. The Association's business strategy is aligned to the Corporate Plan and focuses on three critical areas:

- Strong independent financial position
- Sound underwriting and claim management
- Enhanced market share

The Board of Directors determines the appropriate risk appetite and sets the Association's risk strategy. It has developed high-level risk appetites that are used by the Board of Directors to monitor the implementation of the risk strategy.

B. System of Governance (continued)

The Board of Directors bears ultimate responsibility for the management of risk and for maintaining a sound system of internal control that supports the achievement of the business strategy, policies, aims and objectives of the Association. The Audit, Regulatory & Risk Committee supports the Board of Directors by providing oversight of the Risk Management Function.

Key risks

A list of key risks has been compiled by the Association's Board of Directors and senior management of the Association based on their experience and expert judgement in running the business. This list provides a high-level overview of the principal risks faced by the business which, individually or in combination, may have a significant, substantial or catastrophic impact on the Association. The key risks affecting the Association are agreed by the Audit, Regulatory & Risk Committee each year.

Own Risk and Solvency Assessment ("ORSA")

Every year, and on an ad hoc basis, if circumstances materially change, the Group prepares an ORSA overview report. The ORSA is the process used by the Group to manage its financial and solvency position over the period of its Corporate Plan and the ORSA overview report is the culmination of this process into a report reviewed by the Board of Directors. As such, it is an intrinsic part of the Group's Corporate Planning Process.

The key elements of the ORSA process are:

- An analysis of recent performance
- Assessment of the risk profile
- Consideration of business planning and stress scenarios

The Audit, Regulatory and Risk Committee reviews the ORSA and recommends it for approval and use by the Board of Directors.

The Board of Directors reviews the ORSA and considers appropriate action for the Group such as:

- Capital related decisions
- General Increase considerations
- Reassessment of risk profile and risk appetite
- Additional risk mitigating actions

The Assessments to date indicate that the Group is adequately capitalised.

B. System of Governance (continued)

Risk Controls

The Association's Risk Management Framework has been developed to manage risks across the business, using internal control policies, procedures and processes to control risks.

Whereas ultimate control for each risk rests with the Board of Directors, day-to-day control is exercised by the Risk Owners unless otherwise stated, as set out in the Business Risk Log. Further information on the Group's Internal Control Framework may be found in B.4 – Internal Control System.

Risk Reporting Procedures

Risk Owners identify operational risk loss or near miss events which are reviewed by the Managers' Management Board and then recorded on the operational risk database with remedial actions identified for which a completion date is set.

Implementation of the Risk Management system

The Risk Management Function is fulfilled by the Association's Risk Officer who oversees risk management; provides independent challenge; and has direct access to the Chair of the Audit, Regulatory & Risk Committee. The Risk Management Function maintains an aggregated view of the risk profile of the Association, including monitoring risk tolerances against appetite, and advising on how risks might impact the business singly and in combination.

The integration of risk management processes with business activities is performed through the requirement for business function heads who are also risk owners on the Business Risk Log to focus on risk management on an ongoing basis whilst ensuring that the risks for which they are responsible remain within risk tolerance. This demonstrates the proactive application of risk management techniques to support the business processes and decision-making for which they are also responsible in their day-to-day insurance business activities.

B.4. Internal Control System

Internal control is defined as a continually operating process effected by the Association's Board of Directors, its Audit, Regulatory & Risk Committee, the Managers, all staff and systems and designed to support the Association in achieving its business plan objectives through efficient and effective operations and to protect its resources. Each Risk Owner, as named in the Business Risk Log, is responsible for the application of the Internal Control Framework and the design, development, implementation, documentation and maintenance of effective internal control processes in their area and reporting thereon.

B. System of Governance (continued)

The Managers are responsible for establishing and maintaining an effective control environment throughout the organisation. In furtherance of that, there is a culture which values the highest levels of integrity in the staff, together with openness and honesty in relation to the conduct and reporting of all activities. Policies, procedures and processes are designed to define and support effective, efficient and appropriate activities at every level of the business.

Control activities

These activities are embedded into plans, policies, procedures, systems and business processes. Their effectiveness relies on the level of compliance by management and staff.

The nature of the controls implemented and the level of control exercised are based on the assessment of frequency and impact of the risk, risk appetite and the cost of implementing controls relative to the significance of the risk.

The Internal Control Framework as a whole and internal control processes individually are monitored on an ongoing basis through the following mechanisms:

- Performance indicators
- External data
- Analyses and reconciliations
- Regulatory compliance monitoring audits
- Internal audits
- Procedure monitoring audits

The Risk Function is authorised to: investigate and challenge any actions or concerns without influence from the business; be independent of operational business functions and without undue influence from the Board of Directors or other functions/management; have unfettered and direct access to all activities in its area of responsibility, including all documentation, systems, staff, Management, executive and non-executive Board members; and have direct access to the Chair of the Audit, Regulatory & Risk Committee.

The Risk Management Framework encompasses a number of elements that together facilitate an effective and efficient operation, enabling the Group to respond to a variety of risks.

Compliance function

The Group takes a risk-based approach to regulatory compliance, focussing on preventing breaches to regulatory principles and other rules and informing the relevant regulators of any that are material, or must be reported to regulators on a mandatory basis.

B. System of Governance (continued)

In all cases of a regulatory breach, the Compliance Function investigates the cause and effect of breach and recommends remedies to the Managers' Management Board for approval.

The Board of Directors bears ultimate responsibility for Regulatory Compliance, and is supported by the Audit, Regulatory & Risk Committee.

The Compliance Function advises on and promotes compliance with applicable laws, regulatory requirements and administrative provisions and coordinates and monitors implementation of policies, processes and procedures to achieve compliance across the business, and manages regulatory compliance risk.

B.5. Internal Audit Function

The internal audit relationship is regulated by an Internal Audit Framework. Internal Audit is the "third line of defence" in the Group's internal control framework, established to provide independent assurance that the systems of internal control established by management ("first line") and the monitoring and oversight provided by the Risk Management and Compliance Functions ("second line") are fit for purpose and operating effectively.

The objectives of the Internal Audit Function are to provide independent assurance that business risks are identified and are being well managed and controlled by effective systems of internal control.

The Internal Audit function is provided by the Managers who employ an independent Head of Internal Audit ("HIA") who in turn reports to the Chair of the Audit, Regulatory and Risk Committee. The HIA may engage third parties to conduct some Audits under his/her management if it is felt that specific technical skills are required or where insufficient general audit resource is available.

Independence

The Internal Audit Function is independent from the organisational activities audited and free to exercise its assignments without impairment and on its own initiative in all areas. It is not authorised to carry out any operational work on behalf of any area of any business. The Head of Internal Audit reports directly to the Chair of the Audit, Regulatory and Risk Committee.

Development of plans

Audit Plans are developed by the Internal Audit Function on a rolling three year basis, subject to annual review and approval by the Audit, Regulatory and Risk Committee. The plan is designed to provide for all significant areas of the business to be audited during each three year period.

B. System of Governance (continued)

Planning

The Internal Audit Function will prepare an Audit Planning Memorandum (“APM”) for each audit, which describes the scope of the Audit and the key risks to be addressed. There will be a formal opening meeting at which the appointed audit team will meet relevant line management to discuss the planned audit and agree the scope of work.

The finalised APM will be sent to relevant line management and copied to appropriate business executives who have an interest in the outcome of the Audit.

Execution

The audit team is responsible for conducting the fieldwork including performing whatever control evaluation, substantive and compliance testing is deemed necessary. The Internal Auditor leading the assignment will discuss any findings as they arise with appropriate management to ensure that any misunderstandings or queries are dealt with as soon as possible.

An ‘end of fieldwork’ meeting will be held to confirm the factual accuracy of any control weaknesses identified during the course of the fieldwork and the recommended remedial action will be discussed at this meeting.

Reporting

A comprehensive Internal Audit report will be produced following completion of every Audit engagement. This report will include a description of any control deficiencies identified as well as the actions that have been agreed will be implemented to remedy these.

The report will include the names of the individuals responsible for remedial action and the date by which such actions will be completed.

All Internal Audit reports will be given an overall control rating which will be based on the severity of any individual control deficiencies identified.

The method of determining an overall control rating for Audit reports and for individual control weaknesses is described in the ‘TMIA Framework’ which is the methodology used by the Internal Audit function.

B.6. Actuarial Function

The Board of Directors are ultimately responsible for ensuring an effective Actuarial Function. This function is performed by the TM Actuarial Team, led by its Chief Actuary.

B. System of Governance (continued)

The Actuarial Function is independent of the management team and therefore able to undertake its duties in an objective, fair and independent manner. However, for operational purposes, the Actuarial Function is integrated into the internal control system through its role on the Managers' committees and attendance at Board meetings.

The Actuarial Function undertakes all responsibilities as required by Solvency 2, including:

- coordinating and overseeing the calculation of technical provisions;
- ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- informing the Board of Directors of the reliability and adequacy of the calculation of technical provisions;
- expressing an opinion on the overall underwriting policy;
- expressing an opinion on the adequacy of reinsurance arrangements; and
- contributing to the effective implementation of the risk management system including capital requirements and the ORSA process.

B.7. Outsourcing

The Association has in place an outsourcing policy which is directed at services or activities which are particularly important or critical to the Group's business (material business activities).

Material business activities include the key functions of the Association's system of governance such as Risk Management, Compliance, Actuarial and Internal Audit as applicable, and all functions or activities that are fundamental to enable it to carry out its core business, including underwriting, claims handling and investments.

Management outsourcing

The Group has no internal executive function and its management is wholly outsourced to the Managers under a management agreement. In order to comply with its regulatory obligations, the Board of Directors has developed monitoring and reporting procedures and has delegated to the Audit, Regulatory and Risk Committee the monitoring of internal controls and risk. The risk control and reporting procedures to be followed by the Managers form part of their obligations under the Management Agreement. The Committee reports to the Board of Directors.

Investment management outsourcing

Management of the Group's investments is outsourced to Thomas Miller Investment Limited, part of the Thomas Miller group of companies, under an investment Management Agreement.

B. System of Governance (continued)

The performance of the investment managers is monitored and supervised by the Board of Directors.

Internal audit outsourcing

The Group's internal audit function is outsourced to Thomas Miller Internal Audit. Internal Audit is supervised by the Audit, Regulatory and Risk Committee and the Board of Directors.

Oversight

The Board of Directors bears ultimate responsibility for outsourced functions, services, or activities and related governance. The Board of Directors is supported by the Management Fee Committee which reviews outsourcing arrangements and the Managers' Management Board which monitors the activities of the Group, including outsourcing.

C. Risk Profile

The Group has set out a number of risk appetite statements which guide the implementation of its business plan. Currently the Group is operating in line with its risk appetite.

The following sections consider each of the Group's risk categories. The key risks are Underwriting Risk and Market Risk.

1. *Underwriting Risk*

The Group is a mono-line insurer, underwriting only legal expense insurance for ship owners or operators.

Underwriting risk is the risk that the Group's net insurance obligations (i.e. claims less premiums) are different to expectations. The Group considers the risk of existing obligations (Reserve Risk) separately to the risk of future obligations (Premium Risk).

Reserve risk is managed by the Group's reserving policy. The Group establishes provisions for unpaid claims, both reported and unreported, and related expenses to cover its expected ultimate liability. These provisions are established through the application of actuarial techniques and assumptions. In order to minimise the risk of understating these provisions the assumptions made and actuarial techniques employed are reviewed in detail by management.

Premium risk is managed by an underwriting policy which establishes rigorous underwriting practices in order to meet business needs and satisfy regulatory control. These are supplemented with a robust forecasting approach undertaken as part of the ORSA process.

Underwriting Risk is mitigated via the Group's reinsurance programme which covers claims in excess of \$1.0 million. Of the \$1.0 million per claim retained by the Group, 90% of the risk is covered by the Group's quota share reinsurer, UKDIA.

Underwriting Risk is most sensitive to an increase in expected claims costs. For example, a 5% increase in the Group's gross loss ratio will reduce the gross accounting surplus for the Group by £1.05 million on a gross basis.

C. Risk Profile (continued)

2. *Market Risk*

Market risk arises through fluctuations in interest rates, corporate bond spreads and foreign currency exchange rates (the Group does not hold equities). Such movements will affect not only the Group's investments, but also the value of other assets and liabilities such as premium income, claims payments and reinsurance recoveries.

The Group has an investment policy in place to manage exposure to its investments, and this is monitored by regular reports from the investment managers. Further discussion of this arrangement is provided below under the "prudent person principle".

Currency risk is a key risk for the Club as it primarily receives its premium income in US Dollars, but much of its outgoings are in Sterling or Euros. The Group uses forward contracts to mitigate this risk. In addition, the Group utilises an investment mandate that matches the currency of its assets and liabilities.

In addition the Club uses an Asset-Liability-Management programme which ensure that the currency exposure for assets and liabilities are matched thus eliminating any material currency exposure.

The prudent person principle

Under the Group's investment policy, all of the Group's investments are invested and managed in accordance with the 'prudent person principle', meaning that duties of the Investment Managers are discharged with the care, skill, prudence and diligence that a prudent person acting in a like capacity would use in the conduct of an enterprise of like character and aims. More specifically:

- to invest in assets and instruments whose risk can properly be identified, measured, monitored, managed, controlled and reported;
- to ensure the security, quality and liquidity of the portfolio as a whole;
- appropriate to the nature and duration of the Group's insurance liabilities;
- derivative instruments are possible if they contribute to a reduction of risks or efficient portfolio management;
- unlisted investments and assets are kept to prudent levels; and
- properly diversified to avoid excessive reliance on any asset, issuer or group, or geographical area.

The Group's funds are invested by the Investment Managers in accordance with parameters set by an Investment Mandate. The Investment Mandate provides a framework to the Investment Managers for the management and stewardship of the Group's investment assets in conformity with the business and investment objectives and sets the parameters within which the Group's basis and ad hoc as required and is subject to the Group's Investment Policy. The Investment Managers report to the Board of Directors at each meeting.

C. Risk Profile (continued)

3. *Credit Risk*

Credit risk is the risk of loss in the value of the above financial assets due to counterparties failing to meet all or part of their obligations.

The Club is exposed to credit risk from a counterparty failing to comply with their obligations under a contract of reinsurance. In order to manage this risk the Boards consider the credit ratings of significant counterparties on a regular basis.

Exposure to other reinsurance counterparties is mitigated by the Group placing such reinsurances with counterparties rated A- or better.

Exposure to debtors is mainly in respect of calls and premium contributions. This is spread over a large number of Members and counterparties, which mitigates the risk. In addition, the Group carries out financial checks on existing and potential Members. Exposure to bank balances, however, is more concentrated, with two main counterparties and the risk is mitigated by placing funds surplus to normal operational requirements in money market funds and other investments.

4. *Liquidity Risk*

Liquidity risk is the risk that the Group is unable to make payments as they become due. This is managed by the use of liquid investments

The Group has adopted an investment policy which requires the maintenance of significant holdings in short term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand. Short term cash needs are monitored to ensure the most efficient investment of cash balances.

5. *Operational Risk*

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. In order to mitigate such risks the Group has engaged Thomas Miller as managers to document all key processes and controls in a document management system. This system is embedded into the organisation and available to all staff. Compliance with the procedures and controls documented within the system is audited on a regular basis through quality control checks and the internal audit function which is directed and reviewed by the Audit, Regulatory & Risk Committee.

C. Risk Profile (continued)

6. *Other Material Risks*

There are no other material risks that the Club considers relevant for reporting.

7. *Stress and scenario testing*

The Club carries out stress and scenario testing as part of its risk management and ORSA process. For management purposes stress and scenario testing are carried out including the results of UKDIA.

The base case business plan forecast for the next 3 years is used as the starting point for scenarios testing. The impacts of adverse scenarios are then evaluated. The following scenarios are included in the Club's latest ORSA and assessed against the Club's risk corridor:

1. Weaker than- and stronger than forecast GBP relative to USD
2. Below- and above forecast investment return
3. Adverse and favourable claims inflation
4. Premium not increasing in line with expectations
5. Impact of a cyber-security breach.
6. Significant adverse claims development as a result of a large number consecutive insolvencies
7. Impact of green technologies and climate change on sustainability of Membership
8. Major currency movements

Scenarios 1 to 4 highlighted that the Club would not move outside of its risk corridor in any of these scenarios. Scenario's 5 to 8 represents alternative scenarios, which are regarded as reverse stress tests. Whilst some of these scenarios caused the Club to break out of the bottom of its risk corridor over the planning horizon, none of these scenarios caused the Club's capital resources to fall below its 1-in-200 capital requirement over the planning horizon.

D. Valuation for Solvency Purposes

1. Assets

A basic principle of Solvency 2 is that assets and liabilities are valued on the basis of their economic value. This is the price which an independent party would pay or receive for acquiring the assets or liabilities. The value of the assets less the value of the liabilities is then taken as the starting point for determining the available own funds.

Materially all of the valuation differences between the Solvency 2 balance sheet and the current accounting balance sheet relate to the valuation of insurance liabilities (“technical provisions”) which is further discussed in D.2 – Technical Provisions. The Group prepares its financial statements under UK GAAP and FRS 102 and 103.

Given that this is the first year that Solvency 2 figures are presented on a Club basis, comparatives have been restated to reflect this approach.

The Solvency 2 balance sheet is presented in IR.02.01.02. A summary of assets is shown in the table below.

Valuation of the Club’s assets as at 20 February 2026:

	2026*		2025 *	
	Solvency 2 £000s	UK GAAP £000s	Solvency 2 £000s	UK GAAP £000s
Deferred acquisition costs	-	37	-	25
Investments	60,696	60,696	61,276	61,276
Derivatives	1,463	1,463	306	359
Reinsurance share of technical provisions	618	907	351	776
Insurance receivables	164	541	68	128
Receivables, trade not insurance	25	25	232	232
Cash and cash equivalents	9,000	9,000	6,625	6,625
Any other assets not elsewhere shown	45	45	57	57
	72,010	72,712	68,915	69,479

* Amounts unaudited

The above table presents amounts at Solvency 2 and UK GAAP valuation bases respectively. For classification purposes the Solvency 2 classification of amounts has been used. Most notably, certain amounts recognised as investments under Solvency 2 would be recognised as cash and cash equivalents under UK GAAP.

The Club’s assets are valued using the following principles:

D. Valuation for Solvency Purposes (continued)

Investments

Investments are carried at market value. Market value is calculated using the bid price at the close of business on the balance sheet date. The market value of foreign currency investments is translated at the rate of exchange ruling at the balance sheet date.

Fair values of investments traded in active markets are measured at bid price. Where there is no active market, fair value is measured by reference to other factors such as independent valuation reports.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

There are no material differences between the valuation used for Solvency purposes and the valuation used in the Group's financial statements.

Derivatives – forward currency contracts

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of foreign exchange forward contracts is based on current forward exchange rates.

The Club currently has a number of forward currency contracts that relate to hedging the currency exposure on future premiums that are not recognised on the GAAP balance sheet. These are recognised on the Solvency 2 balance sheet.

There are no material differences between the valuation used for solvency purposes and the valuation used in the Club's financial statements.

Reinsurer's share of technical provisions

Reinsurer's share of technical provisions is treated consistently to gross technical provisions. Technical provisions is further discussed in D.2.

Deposits other than Cash equivalents

These amounts represent foreign exchange security deposits and are carried at market value in accordance with the valuation methodology of investments noted above.

There are no material differences between the valuation used for solvency purposes and the valuation used in the Club's financial statements.

D. Valuation for Solvency Purposes (continued)

Receivables, trade not insurance

This balance includes sundry, short term receivable balances the value and settlement of which contains little to no uncertainty. Due to the short-term nature of these items, the carrying amount is considered to be a suitable proxy for its fair value.

There are no material differences between the valuation used for Solvency purposes and the valuation used in the Club's financial statements.

Insurance receivables

These represent balances that are due for existing insurance contracts. Due to the short term nature of these balances, the carrying amount is considered to be a suitable proxy for its fair value. These amounts are reviewed annually for impairment.

When these amounts are not yet due, they are included as a future cash flow in the calculation of technical provisions for Solvency 2 purposes as further detailed in D.2. This is materially different to statutory account requirements which require these balances to be presented separately on the face of the balance sheet whether they are due or not yet due.

Cash and cash equivalents

Cash and cash equivalents include cash at bank or in hand, deposits held at call with banks and other short term highly liquid investments. The carrying value of these balances is considered to be a suitable proxy for fair value.

There are no material differences between the valuation used for solvency purposes and the valuation used in the Club's financial statements.

Any other assets not elsewhere shown

These balances comprise sundry, short term receivables which are classified as sundry receivables in the statutory financial statements.

Due to the short term nature of these balances, their carrying amount is considered to be a reasonable approximation for fair value.

There are no material differences between the valuation used for Solvency purposes and the valuation used in the Club's financial statements.

D. Valuation for Solvency Purposes (continued)

D.2. Technical Provisions

Net technical provisions as at 20 February 2026:

	2026*	2025 *
	£000s	£000s
Gross best estimate	20,547	16,966
Risk margin	513	355
Reinsurance best estimate	<u>(618)</u>	<u>(351)</u>
Net technical provisions	<u>20,443</u>	<u>16,970</u>

*Amounts unaudited.

The Clubs technical provisions are valued using the following principles:

Bases, methods and main assumptions

The technical provisions are valued using the methodology prescribed by the Solvency 2 Directive and associated regulations. They consist of a “best estimate” of future cash flows (claims, premiums and expenses), which are discounted in line with risk-free interest rates to give the “present value” of those cash flows. Finally, a (market value) “risk margin” is added to take the total to a notional market value (i.e. equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the insurance and reinsurance obligations).

Claims

As the Club only covers legal expenses, all claims are analysed together in one risk group. Standard actuarial techniques are used to project these cash flows including chain ladder and Bornhuetter-Ferguson methods. The key assumptions related to the initial expected claims cost for each policy year and the projected notified claims development pattern. These methods are considered appropriate given the longevity and stability of the Group and its claims handling processes.

Allowance is made for claims on contracts bound, but for which coverage has not yet incepted (corresponding to the premium provision). These are valued using an inflation assumption applied to the previous year ultimate.

The future claims cash flows are the most uncertain element of the technical provisions. The uncertainty involved was further discussed in Section C1 on Underwriting Risk.

D. Valuation for Solvency Purposes (continued)

Premiums

The premium cash flows in the technical provisions cover (i) the outstanding instalments of premium on expired business that are payable but not yet due on the valuation date (corresponding to the provision for claims outstanding); and (ii) the premium payable but not yet due on bound but not incepted business (corresponding to the premium provision).

Expenses

The Technical Provisions includes expense cash flows incurred in servicing insurance obligations. This includes both direct and overhead expenses, as well as investment management expenses. The provision is calculated directly in respect of the provision for claims outstanding (for expired business) and a corresponding amount is derived in respect of the premium provision (for bound but not incepted and unexpired business).

Risk margin

The risk margin is calculated based on the requirement to hold capital to meet the SCR until all claims liabilities are settled and a prescribed cost-of-capital rate of 4% per annum in the UK. This calculation is based on the assumption that a “reference undertaking” takes on the insurance obligations (and associated reinsurance arrangements). The SCR in this context is made up of Underwriting Risk, Counterparty Default Risk and Operational Risk only; assets are assumed to be invested in such a way that Market Risk will be zero and the referencing undertaking does not take on any new insurance obligations. The SCRs in future time periods have been assumed to be directly proportional to the best estimate claims liabilities net of reinsurance recoverables at those points in time.

Sources of uncertainty

The estimation of the ultimate liability arising from claims made under insurance contracts is the Club’s most critical estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Club will ultimately pay for such claims. Estimates are made for the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Club uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments.

D. Valuation for Solvency Purposes (continued)

In particular the following represents the main sources of uncertainty that may impact the outcome of the Club's technical provisions:

- Certain claims may turn out to be significantly longer, or shorter tailed than the whole book leading to an over- / underestimation of claims reserves. There is also a uncertainty around numbers and average cost of these claims.
- There is potential for IBNER to deteriorate to a greater extent than allowed for in the projections.
- New and unexpected claims types could impact the reserving methodology. This is partly allowed for in the Club's provision for Events not in Data ("ENID").
- Uncertainty surrounding the development and cash flow patterns may impact the outcome of the Club's technical provisions.
- Currency and exchange rates are inherently uncertain and may impact the outcome of the final technical provisions amount.

Differences between GAAP and Solvency 2 technical provisions

A reconciliation of UK GAAP technical provisions to Solvency 2 technical provisions is shown in the table below:

	<i>Notes</i>	Gross £000s	Reinsurance £000s	Net £000s
GAAP technical provisions		27,778	907	26,871
Eliminate contingency margin	1	(5,002)	0	(5,002)
Eliminate unearned premium	1	(475)	0	(475)
Reallocation of amounts not yet due	2	(377)	0	(377)
Adjustment to expense management reserve	3	372	335	37
Provision for contracts bound but not incepted	4	(144)	(584)	440
Reinsurance counterparty default adjustment	5	0	(0)	0
ENID adjustment	6	332	18	314
Effects of discounting	7	(1,938)	(59)	(1,879)
Solvency II technical provisions before risk margin		20,547	618	19,930
Risk Margin	1	513	0	513
Total Solvency II technical provisions		21,060	618	20,443

Notes

1. Contingency margin and Solvency 2 risk margin and unearned premium

Since the Solvency 2 technical provisions figure is a best estimate, margins for prudence are removed under the Solvency 2 valuation methodology. The Solvency 2 risk margin is intended to represent a notional market value adjustment as discussed above.

D. Valuation for Solvency Purposes (continued)

In addition, any unearned premium is eliminated from the Solvency II balance sheet. All unexpired risks are included in the premium provision.

2. Reallocation of premiums not yet due

Under Solvency 2 valuation methodologies, all future cash flows are included in the calculation of technical provisions. More specifically, any amount not yet due shall be included as a future cash inflow under the calculation of Solvency 2 technical provisions. As a result, any amounts not yet due on the UK GAAP balance sheet is reallocated from receivable premium to technical provisions on the Solvency 2 balance sheet.

3. Adjustment to expense management reserve

Unlike UK GAAP, Solvency 2 recognises all expense cash flows incurred in servicing insurance obligations. This includes both direct and overhead expenses, as well as investment management expenses. As such, an adjustment is necessary.

4. Provision for contracts bound but not incepted

Solvency 2 valuation methodology requires contracts to be recognised when the insurer becomes party to the insurance contract. Usually, an undertaking becomes a party of the contract when the contract between undertaking and policyholder is legally formalised.

Nearly all of the Club's policies are coterminous with its financial year. The consequence is that nearly a full year's worth of business is recognised as Bound But Not Incepted ("BBNI") business. A provision on the Solvency 2 balance sheet, known as the "premium provision", is thus made for future premiums, claims and expenses that relate to BBNI business.

5. Reinsurance counterparty default adjustment

For the Solvency 2 balance sheet, amounts recoverable from reinsurance counterparties must be adjusted for the expected losses due to counterparty default. This adjustment approximates the expected present value of the losses in the event of default, weighted by the probability of default for each counterparty. Under current accounting bases a provision for bad debts is only made where there is objective evidence that a counterparty may default on its obligation.

6. Events not in data

Solvency 2 requires that all possible outcomes are allowed for when setting the technical provisions. Therefore, an additional provision needs to be made for "events not in data", i.e. potential adverse claims outcomes that have not been observed to date and hence are not taken into account in assessing the claims provisions.

D. Valuation for Solvency Purposes (continued)

7. Effects of discounting

Since Solvency 2 technical provisions take into account the time value of money, an adjustment is made for the discounting of all future cash flows, based on risk-free interest rates.

D.3. Other Liabilities

Valuation of the Club's liabilities as at 20 February 2026:

	2026*		2025 *	
	Solvency 2 £000s	UK GAAP £000s	Solvency 2 £000s	UK GAAP £000s
Derivatives	22	22	-	-
Technical provisions	21,060	27,778	17,321	27,848
Insurance & intermediaries payables	285	285	22	22
Reinsurance payables	- 0 -	0	- 0 -	0
Payables, trade not insurance	461	461	541	541
Any other liabilities, not elsewhere shown	3	3	0	0
	21,831	28,550	17,884	28,411

*Amounts unaudited.

The above table presents amounts at Solvency 2 and UK GAAP valuation bases respectively. For classification purposes the Solvency 2 classification of amounts has been used.

The Club's liabilities are valued using the following principles:

Derivatives

Further detail on the Group's valuation policy for derivatives may be found in D.1.

Technical provisions

Further detail on the Group's valuation policy for technical provisions may be found in D.2.

Reinsurance payables

These represent balances that are due to be paid for existing reinsurance contracts. When these amounts are not yet due to be paid, they are included as a future cash flow in the calculation of reinsurance technical provisions.

D. Valuation for Solvency Purposes (continued)

Under statutory accounting requirements, these balances are presented separately on the face of the balance sheet whether they are due or not yet due.

Insurance & Intermediaries payables

These represent balances payable on insurance contracts. Due to the short term nature of these balances, its carrying amount is considered a suitable proxy for fair value. There is no difference between the valuation for Solvency purposes and the valuation used in the Club's financial statements

Payables, trade not insurance

These balances include sundry, short term payable balances the value and settlement of which contains little to no uncertainty. Due to the short-term nature of these items, the carrying amount is considered to be a suitable proxy for its fair value.

There are no material differences between the valuation used for Solvency purposes and the valuation used in the Club's financial statements.

Any other liabilities not elsewhere shown

These balances represent sundry short term payables the carrying amount of which is considered a suitable proxy for fair value. There are no material differences between the valuation used for solvency purposes and the valuation used in the Clubs financial statements.

4. Alternative Methods of Valuation

The Club does not utilise any material alternative methods of valuation.

5. Any Other Information

The Club has not identified any other information that it considers material to be disclosed.

E. Capital Management

1. Own funds

All amounts are in thousands of pounds unless otherwise stated

	2026*	2025 *
SCR ratio	431%	452%
SCR	13,186	12,704
Eligible own funds	<u>56,773</u>	<u>57,383</u>
Excess	43,586	44,679
Minimum Consolidated Group SCR ratio	655%	666%
Minimum Consolidated Group SCR	7,664	7,664
Eligible own funds	<u>50,179</u>	<u>51,031</u>
Excess	42,516	43,367
Tier 1 basic own funds	50,179	51,031
Tier 2 ancillary own funds	<u>6,593</u>	<u>6,352</u>

*Amounts unaudited.

As a mutual insurer with no share capital the Club's capital structure consists of two types of own funds:

1. Accumulated income and expenditure account reserve and reconciliation reserve, which falls under Tier 1 and counts as Basic Own Funds ("BOF"). These funds may be fully utilised to meet both the Solvency Capital Requirement ("SCR") and the Minimum Capital Requirement ("MCR").

Tier 1 BOF are shown net of the Club's cash flow hedging reserve and contains no significant restrictions affecting the availability and transferability of these own funds.

2. The PRA has granted an approval for a method of calculation of ancillary own funds ("AOF") to UKFDD, by way of contingency calls. The method which results in AOFs of £6.6 million has been approved for a period of 4 years.

Under the Solvency 2 regulations, up to 50% of the SCR may be covered by these funds.

E. Capital Management (continued)

Information, objectives, policies and processes for managing own funds

The Club's objective is that capital resources should exceed the Club's regulatory and own capital requirements. The Club forecasts its capital over a 3 year planning horizon.

Material differences between equity as shown in the financial statements and the excess of assets over liabilities

The below table represents a reconciliation of UK GAAP reserves to Solvency 2 own funds.

	2026 £000s
UK GAAP reserves	44,169
Solvency II gross technical provisions adjustment	6,718
Of which amounts reallocated from UK GAAP balance sheet	(377)
Solvency II RI technical provisions adjustment	(289)
Eliminate Deferred Acquisition costs	(37)
Total Solvency II basic own funds	<u>50,184</u>

The most material adjustment to reserves is as a result of the differences in valuation of technical provisions which has been further discussed in D.2.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

SCR

The below table summarises the capital requirements for the current period. Further details can be found in appendices IR.25.04.22

	2026* £000s	2025 * £000s
SCR	13,186	12,704
<i>Made up of</i>		
Market risk	9,146	8,332
Underwriting & reserving risk	6,117	6,571
Counterparty default risk	767	586
Operational risk	624	596
Diversification benefit	(3,467)	(3,381)

*Amounts unaudited.

E. Capital Management (continued)

The SCR has been calculated using the Solvency 2 Standard Formula and is subject to supervisory assessment. The Group does not use any simplifications or undertaking specific parameters to calculate the SCR.

The main risk that drives the SCR are market risk and underwriting and reserving risk. Market risk arise mainly as a result of the Club's hedging programme on premium in future years where the hedge has been entered into, but no corresponding premium entry exist at present and on equity holdings. Underwriting risk stems from the insurance risk that the Club assumes through the course of its normal business activities and is increased by lapse risk associated with future business. The Club SCR has increased by £0.5 million mainly as a result of an increase in symmetric adjustment under the equity risk module which has in turn increased market risk.

The Club's Minimum Consolidated Group SCR stands at £7.7 million and represents the sum of the individual Minimum Capital Requirements of the entities within the Club.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Club has fully complied with the SCR and MCR requirement during the period under review.

Directors' Statement

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency 2 Regulations.

We are satisfied that:

- a) throughout the financial year in question, the Club and UKFDD has complied in all material respects with the requirements of the PRA Rules and the Solvency 2 Regulations as applicable to the insurer; and
- b) it is reasonable to believe that the Club and UKFDD has continued to comply subsequently and will continue to comply in future.

B.D.R. MacLehose

For and on behalf of The United Kingdom Freight Demurrage and Defence Association
Limited
18 June 2026

Appendix – UKFDD Solo information

The Club has received a waiver from the PRA to present a single Group SFCR that incorporates the result of both the Club and UKFDD on a solo basis. The main part of this SFCR presents the Club results, unless otherwise stated. The results of UKFDD on a solo basis are detailed in this appendix.

UKFDD Solo valuation for Solvency Purposes

1. Solo Assets

	2026*		2025 *	
	Solvency 2 £000s	UK GAAP £000s	Solvency 2 £000s	UK GAAP £000s
Deferred acquisition costs	-	32	-	21
Investments	4,599	4,277	4,570	4,224
Derivatives	1,431	1,431	359	359
Reinsurance share of technical provisions	20,638	22,999	18,809	25,118
Insurance receivables	197	537	11	68
Receivables, trade not insurance	43	43	249	249
Cash and cash equivalents	5,546	5,546	5,859	5,859
Any other assets not elsewhere shown	27	27	31	31
	32,481	34,891	29,888	35,929

*Amounts unaudited.

The above table presents the amounts at Solvency II and FRS valuation bases respectively. For classification purposes, an aggregated Solvency II classification of amounts has been used in order to best demonstrate any valuation differences between the two bases.

Refer to UKFDD appendix IR.02.01.02 for a full Solvency II balance sheet.

UKFDD's assets are valued in accordance with the Group's valuation principles further detailed in D.1.

In terms of UKFDD's investment in its subsidiary, UKDE, under FRS this investment is valued at cost less provision for any impairment, whereas on a Solvency II basis, the value of the investment is determined on a look-through valuation basis which considers the underlying Solvency II balance sheet of UKDE.

Appendix – UKFDD Solo information (continued)

UKFDD Technical provisions

	2026*	2025 *
	£000s	£000s
Gross best estimate	19,448	17,877
Risk margin	101	67
Reinsurance best estimate	<u>(20,638)</u>	<u>(18,809)</u>
Net technical provisions	<u>(1,089)</u>	<u>(865)</u>

*Amounts unaudited.

Refer to UKE QRTs IR.17.01.02 and IR.19.01.21 in the appendices for further details on technical provisions.

UKFDD's technical provisions are valued in accordance with the Club valuation principles further detailed in D.2.

Differences between FRS and Solvency II technical provisions

A reconciliation of FRS technical provisions to Solvency II technical provisions is provided below.

	Notes	Gross £000s	Reinsurance £000s	Net £000s
GAAP technical provisions		25,494	22,999	2,495
Eliminate contingency margin	1	(4,561)	(4,104)	(457)
Eliminate unearned premium	2	(426)	(355)	(71)
Reallocation of amounts not yet due	2	(339)	(305)	(34)
Adjustment to expense management reserve	3	256	230	26
Provision for contracts bound but not inception	4	494	3,414	(2,920)
Reinsurance counterparty default adjustment	5	0	(0)	0
ENID adjustment	6	296	269	27
Effects of discounting	7	(1,765)	(1,509)	(256)
Solvency II technical provisions before risk margin		19,448	20,639	(1,191)
Risk Margin	1	101	0	101
Total Solvency II technical provisions		19,549	20,639	(1,090)

1. Contingency margin and Solvency 2 risk margin

Since the Solvency 2 technical provisions figure is a best estimate, margins for prudence are removed under the Solvency 2 valuation methodology. The Solvency 2 risk margin is intended to represent a notional market value adjustment as discussed above.

Appendix – UKFDD Solo information (continued)

2. Reallocation of premiums not yet due

Under Solvency 2 valuation methodologies, all future cash flows are included in the calculation of technical provisions. More specifically, any amount not yet due shall be included as a future cash inflow under the calculation of Solvency 2 technical provisions. As a result, any amounts not yet due on the UK GAAP balance sheet is reallocated from receivable premium to technical provisions on the Solvency 2 balance sheet.

3. Adjustment to expense management reserve

Unlike UK GAAP, Solvency 2 recognises all expense cash flows incurred in servicing insurance obligations. This includes both direct and overhead expenses, as well as investment management expenses. As such, an adjustment is necessary.

4. Provision for contracts bound but not incepted

Solvency 2 valuation methodology requires contracts to be recognised when the insurer becomes party to the insurance contract. Usually, an undertaking becomes a party of the contract when the contract between undertaking and policyholder is legally formalised.

Nearly all of UKFDD's policies are coterminous with its financial year. The consequence is that nearly a full year's worth of business is recognised as Bound But Not Incepted ("BBNI") business. A provision on the Solvency 2 balance sheet, known as the "premium provision", is thus made for future premiums, claims and expenses that relate to BBNI business.

5. Reinsurance counterparty default adjustment

For the Solvency 2 balance sheet, amounts recoverable from reinsurance counterparties must be adjusted for the expected losses due to counterparty default. This adjustment approximates the expected present value of the losses in the event of default, weighted by the probability of default for each counterparty. Under current accounting bases a provision for bad debts is only made where there is objective evidence that a counterparty may default on its obligation.

There is no expected reinsurance default in respect of the amounts recoverable from the Group's quota share reinsurer, UKDIA, due to debentures which UKFDD has over UKDIA's assets.

6. Events not in data

Solvency 2 requires that all possible outcomes are allowed for when setting the technical provisions. Therefore, an additional provision needs to be made for "events not in data", i.e. potential adverse claims outcomes that have not been observed to date and hence are not taken into account in assessing the claims provisions.

Appendix – UKFDD Solo information (continued)

7. Effects of discounting

Since Solvency 2 technical provisions take into account the time value of money, an adjustment is made for the discounting of all future cash flows, based on risk-free interest rates.

UKFDD Other liabilities

	2026*		2025 *	
	Solvency 2 £000s	UK GAAP £000s	Solvency 2 £000s	UK GAAP £000s
Derivatives	-	-	129	129
Technical provisions	19,549	25,494	17,944	27,641
Insurance & intermediaries payables	233	233	23	23
Reinsurance payables	1,893	2,199	2,319	2,374
Payables, trade not insurance	291	291	345	345
Any other liabilities, not elsewhere shown	2	2	0	0
	<u>21,968</u>	<u>28,218</u>	<u>20,761</u>	<u>30,513</u>

*Amounts unaudited.

The above table presents amounts using Solvency II and FRS valuation bases respectively. For classification purposes amounts have been aggregated using Solvency II classification methodologies.

UKFDD's other liabilities are valued in accordance with the Group's valuation principles further detailed in D.3.

UKFDD Capital Management

	2026*	2025 *
SCR ratio	291%	218%
SCR	4,365	5,427
Eligible own funds	<u>12,695</u>	<u>11,840</u>
Excess	8,330	6,413
MCR ratio	438%	380%
MCR	2,400	2,400
Eligible own funds	<u>10,513</u>	<u>9,127</u>
Excess	8,113	6,727
Tier 1 basic own funds	10,513	9,127
Tier 2 ancillary own funds	<u>2,182</u>	<u>2,713</u>

* Amounts unaudited.

Appendix – UKFDD Solo information (continued)

UKFDD’s principles for capital management are in accordance with the Club’s capital management principles further detailed in section E.

The PRA has granted an approval for a method of calculation of ancillary own funds (“AOF”) to UKFDD. The method results in eligible AOFs of £2.2 million.

Material differences between equity shown in the financial statements and the excess of assets over liabilities

The table below provides a reconciliation of the capital reported within the financial statements to that within the Solvency II balance sheet.

	2026 £000s
UK GAAP reserves	6,683
Solvency II gross technical provisions adjustment	5,946
Of which amounts reallocated from UK GAAP balance sheet	(34)
Solvency II RI technical provisions adjustment	(2,361)
Eliminate deferred acquisition costs	(32)
Solvency II valuation adjustment of investment in subsidiary	322
Total Solvency II basic own funds	10,524

The most material adjustment to reserves is as a result of the differences in valuation of technical provisions which has been further discussed above.

In addition, a Solvency II revaluation relating UKFDD’s investment in its subsidiary is shown, which is further discussed in the section on valuation of investments above.

Appendix – UKFDD Solo information (continued)

UKFDD Solvency Capital Requirement and Minimum Capital Requirement

	2026*	2025 *
	£000s	£000s
SCR	4,366	5,428
<i>Made up of</i>		
Market risk	2,813	4,150
Underwriting & reserving risk	1,432	1,270
Counterparty default risk	663	513
Operational risk	583	584
Diversification benefit	(1,127)	(1,091)
MCR	2,400	2,400
<i>MCR inputs</i>		
Net written premium	<u>12,102</u>	<u>10,720</u>

* Amounts unaudited.

The SCR has reduced by £1.0 million mainly as a result of a decrease in the amount of open forward foreign exchange contracts as at the year-end which has in turn reduced market risk.

In terms of UKFDD's MCR, it has remained stable when compared to the prior year. Net written premium has seen an increase when compared to prior year which is mainly as a result of an increase in rates and a reduction in quota share reinsurance premium.

Appendix – Quantitative Reporting Templates

The United Kingdom
Freight Demurrage
and Defence
Association Limited

Solvency and Financial
Condition Report

SOLO Disclosures

20 February

2026

(Monetary amounts in GBP thousands)

General information - SOLO

Entity name	The United Kingdom Freight Demurrage and Defence Association Limited
Entity identification code and type of code	LEI/2138003OSX6Y4JS3YP47
Type of undertaking	Non-life undertakings
Country of incorporation	GB
Language of reporting	en
Reporting reference date	20 February 2026
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

-
- IR.02.01.02 - Balance sheet
- IR.05.02.01 - Premiums, claims and expenses by country: Non-life obligations
- IR.05.04.02 - Non-life income and expenditure : reporting period
- IR.17.01.02 - Non-Life Technical Provisions
- IR.19.01.21 - Non-Life insurance claims
- IR.23.01.01 - Own Funds
- IR.25.04.21 - Solvency Capital Requirement
- IR.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

IR.02.01.02

Balance sheet - SOLO

		Solvency II value
		C0010
Assets		
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	6,030
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	3,982
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	0
R0140	<i>Government Bonds</i>	0
R0150	<i>Corporate Bonds</i>	0
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	617
R0190	<i>Derivatives</i>	1,431
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	20,638
R0280	<i>Non-life and health similar to non-life</i>	20,638
R0315	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	197
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	43
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	5,546
R0420	Any other assets, not elsewhere shown	27
R0500	Total assets	32,481

		Solvency II value
		C0010
Liabilities		
R0505	Technical provisions - total	19,549
R0510	<i>Technical provisions - non-life</i>	19,549
R0515	<i>Technical provisions - life</i>	0
R0542	Best estimate - total	19,448
R0544	<i>Best estimate - non-life</i>	19,448
R0546	<i>Best estimate - life</i>	
R0552	Risk margin - total	101
R0554	<i>Risk margin - non-life</i>	101
R0556	<i>Risk margin - life</i>	
R0565	Transitional (TMTP) - life	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	0
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	233
R0830	Reinsurance payables	1,893
R0840	Payables (trade, not insurance)	291
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in Basic Own Funds</i>	
R0870	<i>Subordinated liabilities in Basic Own Funds</i>	0
R0880	Any other liabilities, not elsewhere shown	2
R0900	Total liabilities	21,968
R1000	Excess of assets over liabilities	10,513

IR.05.02.01

Premiums, claims and expenses by country: Non-life obligations - SOLO

	C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Home Country	Top 5 countries (by amount of gross premiums written)					Total Top 5 and home country
		MH	LR	HK	SG	CN	
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written							
R0110 Gross - Direct Business	243	5,305	2,892	778	1,767	1,833	12,819
R0120 Gross - Proportional reinsurance accepted							0
R0130 Gross - Non-proportional reinsurance accepted							0
R0140 Reinsurers' share	82	1,786	974	262	595	617	4,315
R0200 Net	161	3,519	1,919	516	1,172	1,216	8,503
Premiums earned							
R0210 Gross - Direct Business	243	5,305	2,892	778	1,767	1,833	12,819
R0220 Gross - Proportional reinsurance accepted							0
R0230 Gross - Non-proportional reinsurance accepted							0
R0240 Reinsurers' share	82	1,786	974	262	595	617	4,315
R0300 Net	161	3,519	1,919	516	1,172	1,216	8,503
Claims incurred							
R0310 Gross - Direct Business	427	1,806	1,021	464	559	494	4,772
R0320 Gross - Proportional reinsurance accepted							0
R0330 Gross - Non-proportional reinsurance accepted							0
R0340 Reinsurers' share	372	1,574	890	404	487	431	4,158
R0400 Net	55	232	131	60	72	64	614
R0550 Net expenses incurred	154	3,372	1,839	495	1,123	1,165	8,149

IR.05.04.02

Non-life income and expenditure : reporting period - SOLO

All business (including annuities stemming from accepted non-life insurance and reinsurance contracts)	All non-life business (ie excluding annuities stemming from accepted insurance and reinsurance contracts)	Non-life insurance and accepted proportional reinsurance obligations			
		Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
C0010	C0015	C0230	C0240	C0250	C0260

Income

Premiums written

R0110	Gross written premiums	18,244		18,244	
R0111	Gross written premiums - insurance (direct)	18,244		18,244	
R0113	Gross written premiums - accepted reinsurance	0		0	
R0160	Net written premiums	12,102		12,102	

Premiums earned and provision for unearned

R0210	Gross earned premiums	18,145		18,145	
R0220	Net earned premiums	12,079		12,079	

Expenditure

Claims incurred

R0610	Gross (undiscounted) claims incurred	5,798		5,798	
R0611	Gross (undiscounted) direct business	5,996		5,996	
R0612	Gross (undiscounted) reinsurance accepted	0		0	
R0690	Net (undiscounted) claims incurred	772		772	

R0730	Net (discounted) claims incurred	772	772		
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Analysis of expenses incurred

R0910	Technical expenses incurred net of reinsurance ceded	11,563			
R0985	Acquisition costs, commissions, claims management costs	6,175	6,175	6,175	

Other expenditure

R1140	Other expenses	682			
R1310	Total expenditure	13,052			

IR.17.01.02

Non-Life Technical Provisions

Direct business and accepted proportional reinsurance					Total Non-Life obligation
Medical expense insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	
C0020	C0100	C0110	C0120	C0130	C0180
Best estimate					
Premium provisions					
R0060	Gross		-178		-178
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		2,894		2,894
R0150	Net Best Estimate of Premium Provisions		-3,072		-3,072
Claims provisions					
R0160	Gross		19,626		19,626
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		17,744		17,744
R0250	Net Best Estimate of Claims Provisions		1,882		1,882
R0260	Total best estimate - gross		19,448		19,448
R0270	Total best estimate - net		-1,190		-1,190
R0280	Risk margin		101		101
R0320	Technical provisions - total		19,549		19,549
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total		20,638		20,638
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total		-1,089		-1,089

IR.19.01.21
Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year

Gross Claims Paid (non-cumulative)														
(absolute amount)														
Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180	
	0	1	2	3	Development year					10 & +	In Current year	Sum of years (cumulative)		
R0100	Prior										237	237	237	
R0160	-9	1,976	2,379	1,225	461	316	60	70	104	61	-141	-141	6,510	
R0170	-8	1,415	2,123	1,218	984	426	218	139	81	56		56	6,660	
R0180	-7	2,123	3,261	1,248	1,164	395	-118	314	194			194	8,580	
R0190	-6	1,447	2,943	1,468	793	300	220	131				131	7,301	
R0200	-5	2,345	2,446	1,482	1,149	721	302					302	8,445	
R0210	-4	1,559	2,320	1,254	909	1,016						1,016	7,059	
R0220	-3	2,299	3,446	2,092	946							946	8,783	
R0230	-2	1,060	2,297	1,221								1,221	4,579	
R0240	-1	1,577	2,465									2,465	4,042	
R0250	0	1,815										1,815	1,815	
R0260												Total	8,243	64,011

Gross Undiscounted Best Estimate Claims Provisions														
(absolute amount)														
Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360		
	0	1	2	3	Development year					10 & +	Year end (discounted data)			
R0100	Prior											197	194	
R0160	-9	11,232	5,034	2,772	1,565	990	726	507	214	121	52		50	
R0170	-8	10,162	6,013	3,407	1,465	1,138	639	324	226	125			119	
R0180	-7	10,135	5,972	3,037	1,901	868	921	634	599				580	
R0190	-6	9,058	5,402	3,059	1,418	649	476	220					208	
R0200	-5	9,169	4,806	2,790	2,028	1,244	954						902	
R0210	-4	9,603	5,961	3,085	1,815	1,272							1,196	
R0220	-3	10,478	6,853	4,275	1,845								1,748	
R0230	-2	9,160	4,531	2,581									2,450	
R0240	-1	9,215	4,336										4,104	
R0250	0	8,539											8,075	
R0260													Total	19,626

Gross premium			
	C0570	C0580	
	Gross earned premium at reporting reference date	Estimate of future gross earned premium	
R0160	N-9	18,519	0
R0170	N-8	20,992	0
R0180	N-7	16,702	0
R0190	N-6	16,785	0
R0200	N-5	19,235	0
R0210	N-4	14,819	0
R0220	N-3	16,174	0
R0230	N-2	17,523	0
R0240	N-1	17,383	0
R0250	N	16,926	0

IR.23.01.01
Own Funds

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds
R0290	Total basic own funds
	Ancillary own funds
R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees
R0350	Letters of credit and guarantees other
R0360	Supplementary members calls
R0370	Supplementary members calls - other
R0390	Other ancillary own funds
R0400	Total ancillary own funds
	Available and eligible own funds
R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR
R0580	SCR
R0600	MCR
R0620	Ratio of Eligible own funds to SCR
R0640	Ratio of Eligible own funds to MCR
	Reconciliation reserve
R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0725	Deductions for participations in financial and credit institutions
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
0	0		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
10,513	10,513			
0		0	0	0
0				0
0	0	0	0	0
0				
0				
2,182			2,182	
0				
0				
2,182			2,182	0
12,695	10,513	0	2,182	0
10,513	10,513	0	0	
12,695	10,513	0	2,182	0
10,513	10,513	0	0	
4,365				
2,400				
290.85%				
438.04%				
C0060				
10,513				
0				
0				
0				
10,513				

IR.25.04.21

Solvency Capital Requirement

Net of loss absorbing capacity of technical provisions

	C0010
Market risk	
R0070 Interest rate risk	53
R0080 Equity risk	876
R0090 Property risk	0
R0100 Spread risk	9
R0110 Concentration risk	7
R0120 Currency risk	2,437
R0125 Other market risk	
R0130 Diversification within market risk	-569
R0140 Total Market risk	2,813
Counterparty default risk	
R0150 Type 1 exposures	494
R0160 Type 2 exposures	206
R0165 Other counterparty risk	
R0170 Diversification within counterparty default risk	-37
R0180 Total Counterparty default risk	663
Life underwriting risk	
R0190 Mortality risk	
R0200 Longevity risk	
R0210 Disability-Morbidity risk	
R0220 Life-expense risk	
R0230 Revision risk	
R0240 Lapse risk	
R0250 Life catastrophe risk	
R0255 Other life underwriting risk	
R0260 Diversification within life underwriting risk	
R0270 Total Life underwriting risk	0
Health underwriting risk	
R0280 Health SLT risk	
R0290 Health non SLT risk	
R0300 Health catastrophe risk	
R0305 Other health underwriting risk	
R0310 Diversification within health underwriting risk	
R0320 Total Health underwriting risk	0
Non-life underwriting risk	
R0330 Non-life premium and reserve risk (ex catastrophe risk)	705
R0340 Non-life catastrophe risk	0
R0350 Lapse risk	1,246
R0355 Other non-life underwriting risk	
R0360 Diversification within non-life underwriting risk	-519
R0370 Non-life underwriting risk	1,432
R0400 Intangible asset risk	
Operational and other risks	
R0422 Operational risk	583
R0424 Other risks	
R0430 Total Operational and other risks	583
R0432 Total before all diversification	6,617
R0434 Total before diversification between risk modules	5,492
R0436 Diversification between risk modules	-1,127
R0438 Total after diversification	4,365
R0440 Loss absorbing capacity of technical provisions	
R0450 Loss absorbing capacity of deferred tax	
R0455 Other adjustments	
R0460 Solvency capital requirement including undisclosed capital add-on	4,365
R0472 Disclosed capital add-on - excluding residual model limitation	
R0474 Disclosed capital add-on - residual model limitation	
R0480 Solvency capital requirement including capital add-on	4,365
R0490 Biting interest rate scenario	decrease
R0495 Biting life lapse scenario	mass

IR.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

R0010 MCR_{NL} Result

C0010

799

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
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- R0020 Medical expense insurance and proportional reinsurance
- R0030 Income protection insurance and proportional reinsurance
- R0040 Workers' compensation insurance and proportional reinsurance
- R0050 Motor vehicle liability insurance and proportional reinsurance
- R0060 Other motor insurance and proportional reinsurance
- R0070 Marine, aviation and transport insurance and proportional reinsurance
- R0080 Fire and other damage to property insurance and proportional reinsurance
- R0090 General liability insurance and proportional reinsurance
- R0100 Credit and suretyship insurance and proportional reinsurance
- R0110 Legal expenses insurance and proportional reinsurance
- R0120 Assistance and proportional reinsurance
- R0130 Miscellaneous financial loss insurance and proportional reinsurance
- R0140 Non-proportional health reinsurance
- R0150 Non-proportional casualty reinsurance
- R0160 Non-proportional marine, aviation and transport reinsurance
- R0170 Non-proportional property reinsurance

C0020

C0030

C0020	C0030
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	12,102
0	
0	
0	
0	
0	
0	

Linear formula component for life insurance and reinsurance obligations

R0200 MCR_L Result

C0040

0

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
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C0050

C0060

- R0210 Obligations with profit participation - guaranteed benefits
- R0220 Obligations with profit participation - future discretionary benefits
- R0230 Index-linked and unit-linked insurance obligations
- R0240 Other life (re)insurance and health (re)insurance obligations
- R0250 Total capital at risk for all life (re)insurance obligations

C0050	C0060

Overall MCR calculation

- R0300 Linear MCR
- R0310 SCR
- R0320 MCR cap
- R0330 MCR floor
- R0340 Combined MCR
- R0350 Absolute floor of the MCR
- R0400 **Minimum Capital Requirement**

C0070

799
4,365
1,964
1,091
1,091
2,400
2,400

The United Kingdom
Freight Demurrage
and Defence
Association Limited

Solvency and Financial
Condition Report

CLUB Disclosures

20 February

2026

(Monetary amounts in GBP thousands)

General information - CLUB

Entity name	The United Kingdom Freight Demurrage and Defence Association Limited
Entity identification code and type of code	LEI/2138003OSX6Y4JS3YP47
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	20 February 2026
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the group SCR	Standard formula
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

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- IR.02.01.02 - Balance sheet
- IR.05.02.01 - Premiums, claims and expenses by country: Non-life obligations
- IR.05.04.02 - Non-life income and expenditure : reporting period
- IR.23.01.04 - Own Funds
- IR.25.04.22 - Solvency Capital Requirement
- IR.32.01.22 - Undertakings in the scope of the group

IR.02.01.02

Balance sheet - CLUB

		Solvency II value
		C0010
Assets		
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	62,159
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	34,031
R0140	<i>Government Bonds</i>	31,301
R0150	<i>Corporate Bonds</i>	2,730
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	26,665
R0190	<i>Derivatives</i>	1,463
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	618
R0280	<i>Non-life and health similar to non-life</i>	618
R0315	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	164
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	25
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	9,000
R0420	Any other assets, not elsewhere shown	45
R0500	Total assets	72,010

		Solvency II value
		C0010
Liabilities		
R0505	Technical provisions - total	21,060
R0510	<i>Technical provisions - non-life</i>	21,060
R0515	<i>Technical provisions - life</i>	0
R0542	Best estimate - total	20,547
R0544	<i>Best estimate - non-life</i>	20,547
R0546	<i>Best estimate - life</i>	
R0552	Risk margin - total	513
R0554	<i>Risk margin - non-life</i>	513
R0556	<i>Risk margin - life</i>	
R0565	Transitional (TMTP) - life	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	22
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	285
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	461
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in Basic Own Funds</i>	
R0870	<i>Subordinated liabilities in Basic Own Funds</i>	0
R0880	Any other liabilities, not elsewhere shown	3
R0900	Total liabilities	21,831
R1000	Excess of assets over liabilities	50,179

IR.05.02.01

Premiums, claims and expenses by country: Non-life obligations - CLUB

	C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Home Country	Top 5 countries (by amount of gross premiums written)					Total Top 5 and home country
		MH	LR	HK	SG	CN	
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written							
R0110 Gross - Direct Business	243	5,309	2,898	778	1,767	1,833	12,828
R0120 Gross - Proportional reinsurance accepted							0
R0130 Gross - Non-proportional reinsurance accepted							0
R0140 Reinsurers' share	6	128	70	19	43	44	309
R0200 Net	237	5,181	2,828	760	1,725	1,789	12,519
Premiums earned							
R0210 Gross - Direct Business	243	5,309	2,898	778	1,767	1,833	12,828
R0220 Gross - Proportional reinsurance accepted							0
R0230 Gross - Non-proportional reinsurance accepted							0
R0240 Reinsurers' share	6	128	70	19	43	44	309
R0300 Net	237	5,181	2,828	760	1,725	1,789	12,519
Claims incurred							
R0310 Gross - Direct Business	427	1,806	1,021	464	559	494	4,772
R0320 Gross - Proportional reinsurance accepted							0
R0330 Gross - Non-proportional reinsurance accepted							0
R0340 Reinsurers' share	6	26	15	7	8	7	69
R0400 Net	421	1,780	1,006	457	551	487	4,703
R0550 Net expenses incurred	149	3,255	1,777	477	1,083	1,124	7,865

IR.05.04.02

Non-life income and expenditure : reporting period - CLUB

	All business (including annuities stemming from accepted non-life insurance and reinsurance contracts)	Non-life insurance and accepted proportional reinsurance obligations			
		Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0230	C0240	C0250	C0260

Income

Premiums written

R0110	Gross written premiums	20,930		20,930	
R0111	Gross written premiums - insurance (direct)	20,930		20,930	
R0113	Gross written premiums - accepted reinsurance	0			
R0160	Net written premiums	20,425		20,425	

Premiums earned and provision for unearned

R0210	Gross earned premiums	20,676		20,676	
R0220	Net earned premiums	20,285		20,285	

Expenditure

Claims incurred

R0610	Gross (undiscounted) claims incurred	9,043		9,043	
R0611	Gross (undiscounted) direct business	9,043		9,043	
R0612	Gross (undiscounted) reinsurance accepted	0			
R0690	Net (undiscounted) claims incurred	8,912		8,912	

R0730	Net (discounted) claims incurred	8,912	8,912		
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Analysis of expenses incurred

R0910	Technical expenses incurred net of reinsurance ceded	11,770			
R0985	Acquisition costs, commissions, claims management costs	1,062	1,062	1,062	

Other expenditure

R1140	Other expenses	917			
R1310	Total expenditure	22,661			

IR.25.04.22

Solvency Capital Requirement - CLUB

Net of loss absorbing capacity of technical provisions

	C0010
Market risk	
R0070 Interest rate risk	517
R0080 Equity risk	7,665
R0090 Property risk	
R0100 Spread risk	522
R0110 Concentration risk	0
R0120 Currency risk	2,629
R0125 Other market risk	
R0130 Diversification within market risk	-2,188
R0140 Total Market risk	9,146
Counterparty default risk	
R0150 Type 1 exposures	601
R0160 Type 2 exposures	205
R0165 Other counterparty risk	
R0170 Diversification within counterparty default risk	-39
R0180 Total Counterparty default risk	767
Life underwriting risk	
R0190 Mortality risk	
R0200 Longevity risk	
R0210 Disability-Morbidity risk	
R0220 Life-expense risk	
R0230 Revision risk	
R0240 Lapse risk	
R0250 Life catastrophe risk	
R0255 Other life underwriting risk	
R0260 Diversification within life underwriting risk	
R0270 Total Life underwriting risk	0
Health underwriting risk	
R0280 Health SLT risk	
R0290 Health non SLT risk	
R0300 Health catastrophe risk	
R0305 Other health underwriting risk	
R0310 Diversification within health underwriting risk	
R0320 Total Health underwriting risk	0
Non-life underwriting risk	
R0330 Non-life premium and reserve risk (ex catastrophe risk)	6,087
R0340 Non-life catastrophe risk	
R0350 Lapse risk	602
R0355 Other non-life underwriting risk	
R0360 Diversification within non-life underwriting risk	-572
R0370 Total Non-life underwriting risk	6,117
R0400 Intangible asset risk	
Operational and other risks	
R0422 Operational risk	624
R0424 Other risks	
R0430 Total Operational and other risks	624
R0432 Total before all diversification	19,452
R0434 Total before diversification between risk modules	16,653
R0436 Diversification between risk modules	-3,467
R0438 Total after diversification	13,186
R0440 Loss absorbing capacity of technical provisions	
R0450 Loss absorbing capacity of deferred tax	
R0455 Other adjustments	
R0460 Solvency capital requirement including undisclosed capital add-on	13,186
R0472 Disclosed capital add-on - excluding residual model limitation	
R0474 Disclosed capital add-on - residual model limitation	
R0480 Solvency capital requirement including capital add-on	13,186
R0490 Biting interest rate scenario	increase
R0495 Biting life lapse scenario	mass
Information on other entities	
R0500 Capital requirement for other financial sectors (Non-insurance capital requirements)	0
R0510 <i>Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies</i>	
R0520 <i>Institutions for occupational retirement provisions</i>	
R0530 <i>Capital requirement for non-regulated entities carrying out financial activities</i>	
R0540 Capital requirement for non-controlled participation requirements	
R0550 Capital requirement for residual undertakings	
Overall SCR	
R0555 Solvency capital requirement (consolidation method)	13,186
R0560 SCR for undertakings included via D and A	
R0565 SCR for sub-groups included via D and A	
R0570 Solvency capital requirement	13,186

IR.32.01.22

Undertakings in the scope of the group - CLUB

Country	Identification code and type of code of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	
Row	C0010	C0020	C0040	C0050	C0060	C0070	C0080
1	GB	LEI/213800305X6Y4J53YP47	The United Kingdom Freight Demurrage and Defence Association Limited	Non life insurance undertaking	Mutual limited by guarantee	Mutual	PRA / FCA
2	CY	LEI/213800USL6J47FESOC07	The United Kingdom Freight Demurrage and Defence Insurance (Europe) Limited	Non life insurance undertaking	Private Company limited by shares	Non-mutual	Cyprus Ministry of Finance
3	IM	SC/UKDIA	The United Kingdom Defence Insurance Association (Isle of Man) Limited	Reinsurance undertaking	Mutual limited by guarantee	Mutual	Isle of Man FSA

IR.32.01.22

Undertakings in the scope of the group - CLUB

Country	Identification code and type of code of the undertaking	Legal Name of the undertaking	Type of undertaking	Criteria of influence						
				% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	
	C0010	C0020	C0040	C0050	C0180	C0190	C0200	C0210	C0220	C0230
1	GB	LEI/Z138003OSX6Y4JS3YP47	The United Kingdom Freight Demurrage and Defence Association Limited	Non life insurance undertaking					Dominant	
2	CY	LEI/Z13800USL6J47FESOC07	The United Kingdom Freight Demurrage and Defence Insurance (Europe) Limited	Non life insurance undertaking	100.00%		100.00%		Dominant	100.00%
3	IM	SC/UKDIA	The United Kingdom Defence Insurance Association (Isle of Man) Limited	Reinsurance undertaking		0.00%	0.00%	Included in group on the basis of mutual-type group and on	Significant	100.00%

IR.32.01.22

Undertakings in the scope of the group - CLUB

Country	Identification code and type of code of the undertaking	Legal Name of the undertaking	Type of undertaking	Inclusion in the scope of Group supervision		Group solvency calculation	
				Yes/No	Date of decision if excluded	Method used and under method 1, treatment of the undertaking	
Row	C0010	C0020	C0040	C0050	C0240	C0250	C0260
1	GB	LEI/213800305X6Y4JS3YP47	The United Kingdom Freight Demurrage and Defence Association Limited	Non life insurance undertaking	Included in the scope		Method 1: Full consolidation
2	CY	LEI/213800USL6J47FEESOC07	The United Kingdom Freight Demurrage and Defence Insurance (Europe) Limited	Non life insurance undertaking	Included in the scope		Method 1: Full consolidation
3	IM	SC/UKDIA	The United Kingdom Defence Insurance Association (Isle of Man) Limited	Reinsurance undertaking	Included in the scope		Method 1: Full consolidation