

JAPAN P&I CLUB
Annual Report
2014



The Japan Ship Owners' Mutual Protection & Indemnity Association

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Koichi Muto,
Chairman

Following the Ordinary General Meeting of Members of the Association and the Meeting of the Board of Directors held on 14 July 2014, I was elected Chairman of the Association. It is my great pleasure to take the opportunity given by the publication of our Annual Report to deliver my message of greetings to you.

Turning to recent economic circumstances, economies in developed countries have improved due to positive monetary easing measures. Also, the economies of developing countries maintained moderate growth although there was a slowdown in China. Improvement in Japan's economy was due to a weakening yen and high stock prices, both affected by the government's "Abenomics" economic policies and the Bank of Japan's easing of monetary policy. In addition, the climate to revitalise the Japanese economy further is being developed with planned steps such as corporate tax cuts, a relaxation of regulations, and developments in infrastructure in preparation for the Tokyo Olympic Games in 2020.

In the meantime, the business environment of the shipping industry has begun to show promising signs, despite commentators pointing to excess capacity in the industry due to the high number of ships on order and the increase in size of ships. Although economic conditions have been challenging, cargo movements for both ocean-going vessels and Japanese coastal vessels (Naiko Class, fixed premium entries) are showing positive signs. Moving on to the P&I insurance market, the cost of claims continues its rising tendency and remains at a high level. This is attributable to the enormous amount of wreck removal costs incurred when casualties occur such as the groundings of the passenger vessel "COSTA CONCORDIA" and container vessel "RENA", and to the unprecedented serious damage caused to port facilities and in collision cases when these incidents involve ships of such a growing size. As the business of maritime industry develops more globally, risks will be increased and countermeasures will be required. Accordingly, the Association plays a significant role in dealing with Maritime Conventions and Regulations, and providing the insurance services to cover these huge amounts of damages and loss by participating in the International Group of P&I Clubs' (IG) Pool and reinsurance programme.

The Association was founded in 1950 as the sole P&I Club in Japan, and commemorates the 64th anniversary of our foundation in 2014. The Association is an organisation of shipowners and operators who mutually compensate for their liabilities arising out of the operation of their ships, and has been growing along with the Japanese maritime industry and Members who support the industry. At the time of its foundation, the Association had 132 members, 630 vessels and 1.9 million tons. Over the last 64 years, the figures have increased to 3,283 members, 4,553 vessels and 92.8 million tons (as of 31 March 2014).

Recent market liberalization for non-Japanese P&I Clubs who operate in Japan has made the P&I insurance business here more competitive. In these circumstances, the Association aims to improve the prompt and close insurance service we seek to provide for our Members by utilising our long accumulated experience and expertise, and by enhancing our loss prevention initiatives. As such, the Association has strengthened its financial position by increasing good entries and improving the loss record, all with the aim of being a P&I Club in which our Members can have their fullest confidence.

I also wish to note here the opening of our Singapore Branch in October 2013. We can now provide a good service to Members in the Asia-Pacific Region too, and will make our utmost efforts to be "the credible, highly-acknowledged, networking, glocalized, experts" who assist Members in discharging their primary responsibility for the safe navigation of their vessels.

My colleagues and I will be working with all our strength for the further development of the Association, and I would sincerely ask our Members for their continued support.

14 July 2014

Koichi Muto, Chairman

Entered Tonnage

92.8M
GT

Reserve

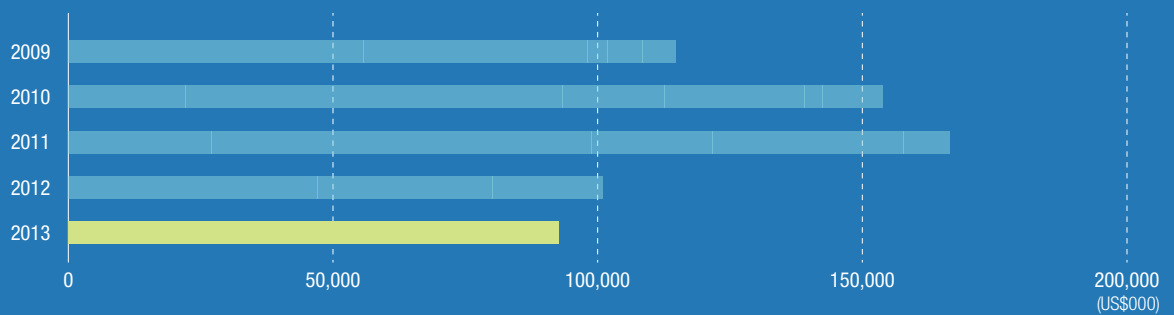
¥16,000M

Average
Expense Ratio
(AER)

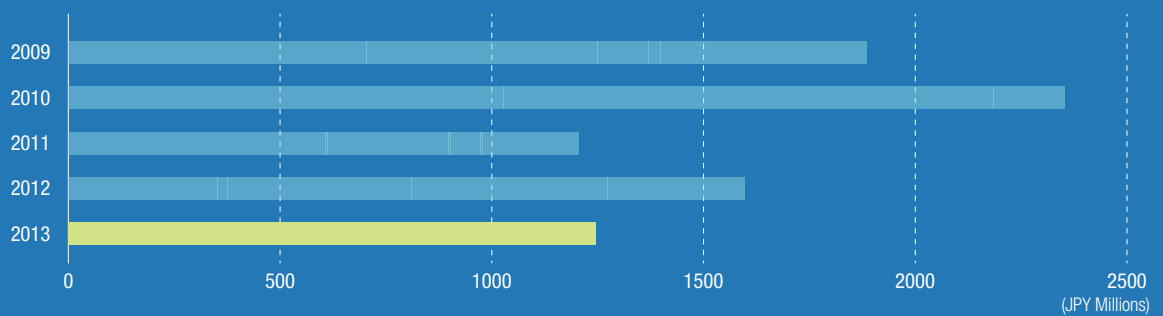
5.73%

Paid plus outstanding of insurance money within our retention

Ocean-going vessels



Coastal vessels



Launch of
Singapore Branch
on 28th Oct. 2013

Enhancement of
Loss Prevention activities

S&P Rating

BBB+

Outlook Stable

(as of July 2014)



Yoshikazu Minagawa,
Director General

I took on the responsibilities of Director General of the Association at the 64th Ordinary General Meeting of the Members of the Association and the 586th Meeting of the Board of Directors on 14 July 2014. First of all, I would like to show my gratitude to our Members for their good cooperation with and understanding of the Association. I will devote my utmost efforts to serve the Members, sincerely abiding by the Association's founding philosophy. I am delighted that the issuing of our Annual Report 2014 gives me the opportunity of delivering my first statement as Director General.

The 2013 financial year (hereafter, "this year") was the second year of a new Medium-Term Operational Plan, entitled "JPI's CHANGE," which the former Director General Mr. Kenichi Yonetani and our colleagues have strenuously promoted. Our accomplishments this year may be summarised in four main areas : first, claims costs have been reduced by strengthening our loss prevention activities; secondly, we have increased our investment returns; thirdly, the development of our new financial strategy; and, finally, the opening of our Singapore Branch.

In terms of claims in the P&I Insurance market this year, there were no very large claims such as the grounding casualties of passenger vessel "COSTA CONCORDIA," and the container vessel "RENA," which caused an increase in reinsurance costs. However, the number of Pool Claims (i.e. those claims exceeding the Club's retention of USD 9 million) remained at a high level. In contrast, however, the Association experienced a more positive trend than felt by the P&I Insurance market in general. The loss record has remained at a good level throughout this year, and claims costs have been reduced (without regard to exchange rate fluctuations). First, this is thanks to the great efforts of our members for their vessels' safe navigation. I would like to take this opportunity to pass on my sincere thanks to the Members. A major part of the Association's loss prevention activities is the seminars given by our experienced master mariner at home and abroad. We increased the number of seminars we held this year. The aim of the seminars is to assist our Members in increasing the safe navigation of our entered vessels, and we are happy to say that the seminars receive a favourable reception from our Members. Also, the Association issued several loss prevention bulletins covering various topics and distributed them to the Members and our entered vessels. I believe that these loss prevention initiatives and the support and cooperation of the Members have definitely enabled us to reduce the cost of claims.

Moving on to the insurance premiums rate for the past two renewals, the Association considered the Members' challenging business environment and was able to minimise the general increase for ocean-going vessels to the lowest level among the IG Clubs for two consecutive years. For the renewal for the 2014 Policy Year, however, our central consideration was strengthening our financial position. As such, there was a 7.5 % general increase for ocean-going vessels and TCL and FD&D entries, although for Naiko Class vessels there was a nil general increase. As for the investment income earned this year, the Association gained higher than expected returns by purchasing additional fund assets and investment bonds.

The Association's financial situation for this year is summarised as follows. "Ordinary income" has increased by JPY1,744 million from last year to a total of JPY24,210 million, and "Ordinary expenses" have increased by JPY717 million to JPY22,873 million. The "Ordinary Surplus" was JPY1,337 million this year, and the "Net Surplus after income taxes" was JPY910 million, an increase of JPY700 million from last year. This good result is mainly due to our success in reducing claims costs and an increase in investment returns.

This year the Association reviewed the new financial strategy to secure the financial position, and promoted the plan to maintain the proper level of insurance premium. As the Yen kept

weakening during the year, the Association revised the overall reserve target to JPY18,200 million and a single-year reserve target to JPY850 million, by adjusting a prerequisite for the exchange rate from JPY79 to JPY90 to the dollar. Accordingly, the single-year reserve was JPY1,240 million, exceeding the revised single-year target of JPY850 million by JPY390 million, and the overall reserves climbed to JPY16,057 million in total. As a result of good progress being made with the new financial strategy, Standard & Poor's upgraded the Association's credit rating to BBB+ with a stable outlook. In this respect too, I would like to thank the Members sincerely for their good understanding and cooperation with the Association's financial grounds.

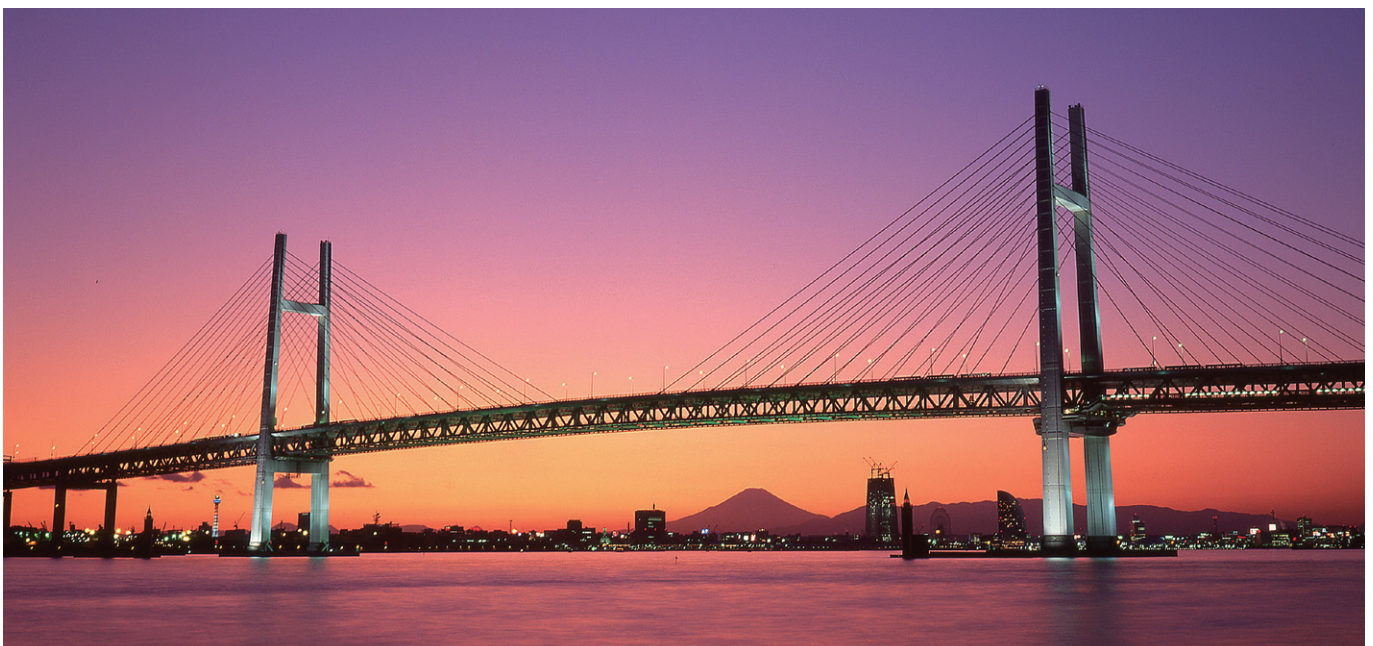
The opening of our Singapore Branch was noteworthy this year. Aiming to increase our entries in the Asia-Pacific region, the Association developed the plan to set up an office in Singapore. Singapore Branch was opened and commenced its operations on 28 October 2013 upon receipt of the license of the authorities in Singapore and Japan. As Singapore Branch has both underwriting and claims handling functions, we are geared up to be at our Members' disposal for insurance services in the region. We aim to provide a continuous and close service to our existing Members, and to be more proactive with potential Members in order to obtain new entries.

In the 2014 financial year, the Association will be vigorously engaged in strengthening our competitiveness by aiming for our JPI's CHANGE goal. Even more than at home, we shall use the base of our Singapore Branch in order to promote our business in the Asia-Pacific region, increase the number of entries, and strengthen our financial position. We shall make the utmost effort to continue to be a P&I Club in which our Members can have their fullest confidence.

To conclude my statement, I would ask Members to ensure that they operate their vessels with loss prevention firmly in mind, and to support the Association continuously in our development.

14 July 2014

Yoshikazu Minagawa, Director General



(1) Report of the General Meeting of Members/the Board of Directors

General Meeting of Members

The 64th Ordinary General Meeting of Members was held on 14 July 2014. The main proposals approved were as follows:

- ① The accounts for the 2013 financial year
- ② The election of the Directors and Auditors of the Association

- As the terms of all the Directors and the Auditors had expired, 28 Directors and 3 Auditors were elected.

The Board of Directors

Since the 582nd meeting on 22 July 2013, there have been four Meetings of the Board of Directors. The main proposals approved were as follows:

583rd Meeting on 25 November 2013

- ① Calls/Premiums at the renewal for the 2014 Policy Year
- For details, please see Calls/Premiums
- ② Extension of cover for repatriation expenses under the Maritime Labour Convention (MLC)
- ③ Alternations to the Rules of the Association
- Rule 19 , Rule 20

584th Meeting on 17 February 2014

Issuance of the Blue Card under the 2007 Wreck Removal Convention

585th Meeting on 9 June 2014

- ① Agreement for holding the 64th Ordinary General Meeting of Members on 14 July 2014
- ② Approval of the Agenda of the 64th Ordinary General Meeting of Members
- ③ Approval of the Association's business plan and budget for the 2014 financial year

586th Meeting on 14 July 2014

The election of Directors representing the Association (Chairman, Vice Chairmen, Director General, and representing directors)

(2) Review of the Year

Calls / Premiums

Renewal at 20 February 2014

The Board decided to levy a 7.5% increase in advance calls for the 2014 policy year, having focused on enhancing the Association's financial soundness and the increase in reinsurance costs. 2013 policy year's loss record for ocean-going vessels (mutual entries) was stable following the 2012 policy year. However, the increased tendency of Pool Claims across the whole International Group of Clubs has continued. The estimated supplementary call for 2014 was set at 40%.

For coastal vessels (fixed premium entries), the Board decided to leave the basic premium rates unchanged. The loss record of the 2013 policy year was moderate following the 2012 policy year.

Policy Years

After reviewing each policy year in respect of ocean-going vessels, the Board made the following decisions:-

2010 Policy Year

As originally estimated, a supplementary call of 40 % was levied, 10% in March 2011 and 30% in January 2012. 10% of the unbudgeted supplementary call for the 2010 policy year was also levied in March 2012. In November 2013 the Board decided to close the 2010 policy year without levying a further supplementary call.

Change in General Increase / Supplementary Calls over the last 10 years

Policy Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	
General Increase	Mutual Entries	0	0	10	20	12.5	12.5	10	3	5	7.5
	Fixed Premium Entries	0	0	0	0	10	0	20	0	0	0
Supplementary Call		30	30	30	30	40	40	40	40	40	40
	Mutual Entries Only	30 closed	60 closed	30 closed	30 closed	40 closed	50 closed	40 0	40 0	40 40	40 40

Notes for Supplementary Call

Upper Line: Original Estimate

Middle Line: Amount Called

Lower Line: Current Estimate

2011 Policy Year

As originally estimated, a supplementary call of 40 % was levied in January 2013. The 2011 policy year remains open with a nil estimate, which will be reviewed this autumn.

2012 Policy Year

As originally estimated, a supplementary call of 40 % was levied in January 2014. The 2012 policy year remains open with a nil estimate, which will be reviewed this autumn.

2013 Policy Year

The originally estimated supplementary call of 40% remains unchanged. This will be reviewed this autumn.

Entered Tonnage

In respect of ocean-going vessels, the number of vessels and the volume of tonnage entered with the Association has decreased slightly due to severe competition from other P&I Clubs. The entered tonnage of Japanese coastal vessels has also decreased as part of a trend in spite of the Japanese domestic economy's slight recovery.

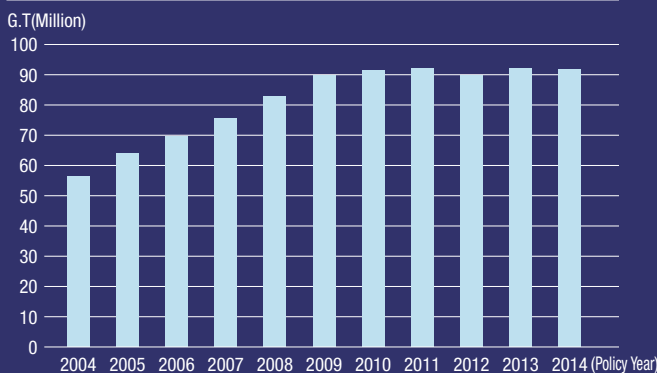
At the 2014 policy year renewal (20 February 2014), the total entered tonnage amounted to 91.84 million gross tons, comprising 89.31 million gross tons for ocean-going vessels and 2.53 million gross tons for coastal vessels. This represents a decrease of 0.11 million gross tons compared with the figure at the same time for the 2013 policy year renewal (20 February 2013).

The total amount of Charterers' entered tonnage decreased by 1.36 million tons to 11.36 million when compared with the figure at the time of the 2013 policy year renewal.

At the end of the 2013 financial year (31 March 2014), there were 4,553 Owners' entries comprised of 2,374 ocean-going vessels and 2,179 coastal vessels. The total amount of entered tonnage was 92.77 million gross tons, consisting of 90.22 million gross tons of ocean-going vessels and 2.55 million gross tons of coastal vessels.

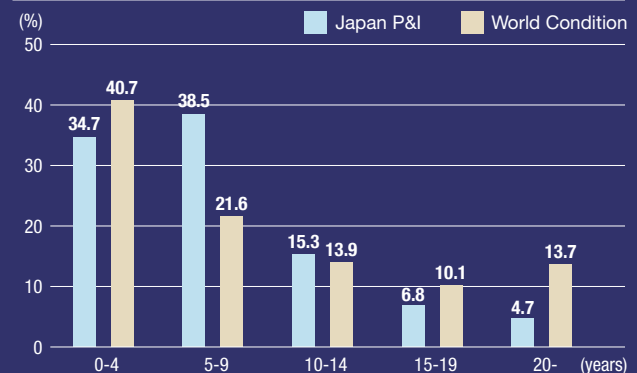
Entered Tonnage

(as of commencement of each policy year)



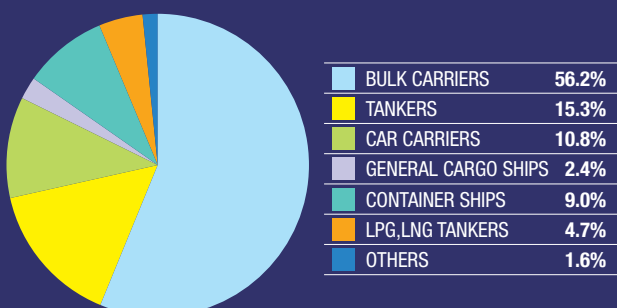
Entered Tonnage by Age

-contrast with world conditions (as of commencement of the 2014 policy year)



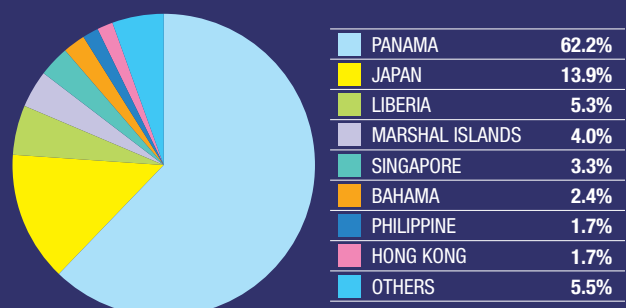
Entered Tonnage by Type

(as of commencement of the 2014 Policy Year)



Entered Tonnage by Ship's Registry

(as of commencement of the 2014 Policy Year)



Reinsurance

Reinsurance takes a key role in reducing the insurance risk exposure which the Association faces in carrying out insurance business, and in providing the insurance cover necessary for Members at a stable and reasonable cost. As to Ocean-going Vessels, the Association, as a member of the International Group of the P&I Clubs (IG), participates in the Group's Pool and reinsurance programme, whereby all Group Clubs share each other's claims in excess of the Club Retention (USD9 million for 2014 policy year) and collectively purchased reinsurance through the market for claims exceeding the Pool. On the other hand, the Association has arranged our own reinsurance programme for Coastal Vessels, Charterers, FD&D and claims within the Club Retention, etc. in order to achieve and maintain stable risk management.

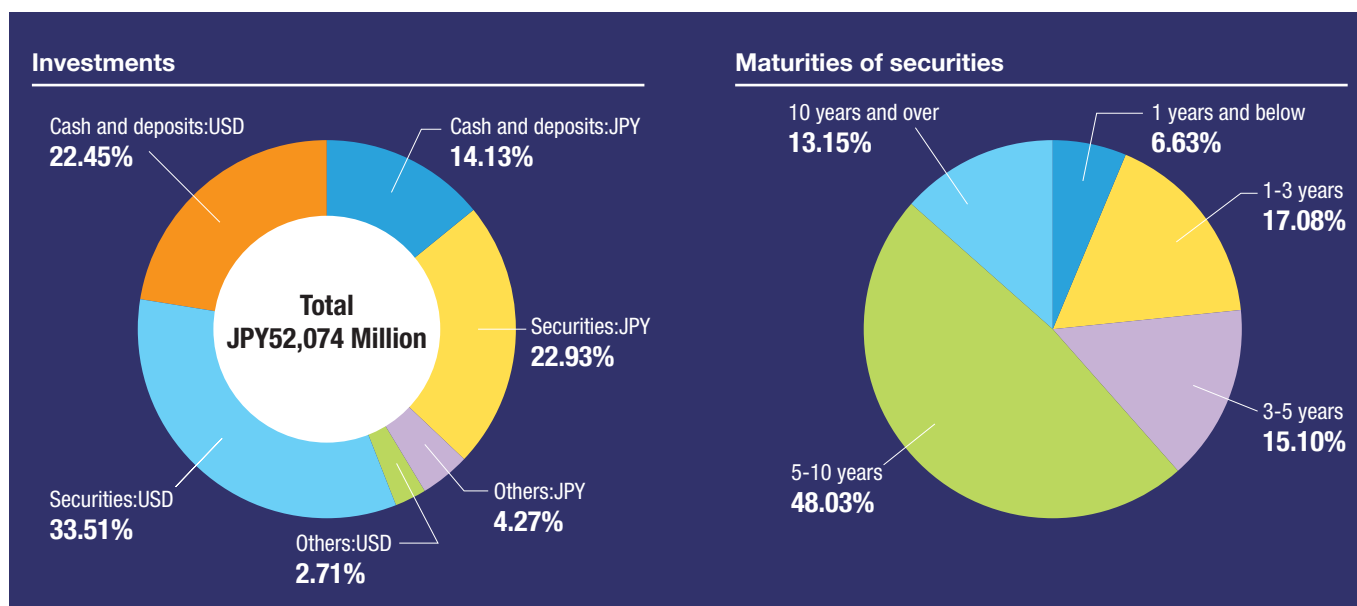
The Group's negotiations with market reinsurers for the renewal of the Group reinsurance programme were very hard. This was mainly because the programme continues to suffer significantly from the impact of large claims including the "RENA" and "COSTA CONCORDIA", which both occurred in the 2011 policy year. In order to mitigate the effect of the increase in reinsurance costs, the Group decided to increase the pool limit from USD70 million to USD80 million, with the additional USD10 million retained within the Group Pool and reinsured by the Hydra Insurance Company, which is owned and administrated by all the Group Clubs. Furthermore, the Group introduced as part of the Group reinsurance programme a proportion of market reinsurance cover on a multi-year, fixed placement basis.

Aside from the Group Pool and reinsurance programme, very few new claims have been made on the Association's own reinsurances in recent years. We were therefore able to renew the overall reinsurance programme on a slightly improved or an as expiry basis, despite the loss records for some elements of the reinsurance programme still not having fully recovered from recent claims years.

Investments

The Japanese economy made a continued recovery due to the policies of "Abenomics", though the upward trend slowed down in comparison with last year. In 2013 the increasing value of the Japanese Yen (JPY) eased, leading to a positive stock market reaction. The benchmark Nikkei Stock Average, which was JPY 12,000 at the beginning of the financial year, rose to JPY 16,000 in December, although by the end of the financial year it had fallen to JPY 14,000. The monetary quantitative easing policies pursued in Japan and the United States meant that long term interest rates in those countries remained low for the financial year, ending it at 0.6% and 2.6% respectively.

The Association's investments are managed in accordance with the Plan of Business Operations as approved by the Japanese Financial Services Agency. As regards asset management, the regulations require that priority is given to sound investments. As a consequence, most of the Association's investments, other than liquid deposits, are fixed-rate bonds. These include Japanese government bonds and corporate and foreign bonds generally rated "A"



or higher. The Plan helps reduce the Association's risks to a minimum.

There was no change in the basic plan for low risk investments during the 2013 financial year. However the Association increased the amount of investment trusts including equities, with the aim of diversifying our investments. As a result, the upward movement of the stock market translated into a raising of the value of the Association's investment trusts.

The long term interest rates of JPY and U.S. dollar remained low during the year, and the bond investment environment was severe. The Association partly made up for a drop in interest income by selling bonds and buying super-long-term bonds.

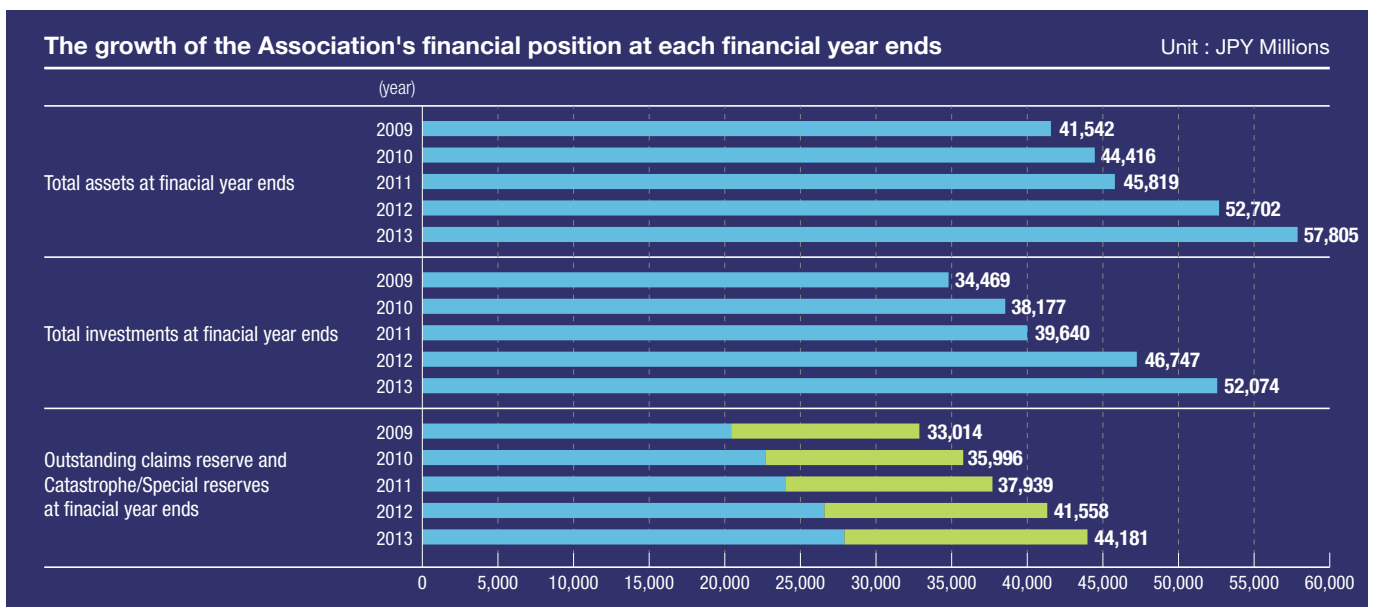
The return on investments improved to 2.60%, higher than the previous year. Interest and dividends received during the year increased by JPY 223 million to JPY 1,097 million.

The total amount of financial investments held by the Association has increased by 11.4% and JPY 5,329 million to JPY 52,074 million. In addition, as a proportion of total assets, the level of investments has increased by 1.4% to 90.1%.

There is a risk that the Association's liabilities in foreign currencies may deteriorate as a result of currency fluctuations. As a consequence, the Association holds funds in U.S. Dollars to meet such liabilities and assist in the minimisation of any future adverse currency variations.

Average Expense Ratio

The Association's average expense ratio for the five years ended 20 February 2014 was 5.73%. The ratio has been calculated in accordance with the Schedule and the guideline issued by the International Group and is consistent with the relevant Financial Statements.



Trend of Claims

The graphs show the number of claims received and the net insurance money paid (total of paid plus outstanding insurance money within our retention) in respect of ocean-going vessels and coastal vessels for the past 5 years. Both the number of claims and the net insurance money paid relate to claims which have been reported and do not include IBNR's (claims which have been incurred but not reported).

The graphs "Number of claims received" and "Paid plus outstanding of insurance money within our retention" for Ocean-going vessels show the total number of claims received and the total net insurance money paid in respect of vessels engaged in international navigation, categories of claim including "ocean-going vessels (mutual entries)", "special cover for charterers", "special cover for Freight, Demurrage and Defence (FD&D)" and others. The graphs "Number of claims received" and "Paid plus outstanding of insurance money within our retention" for Coastal vessels

show those numbers and the total net insurance money paid for "coastal vessels (fixed premium entries)" which navigate waters, lakes and rivers in Japan.

Ocean-going vessels

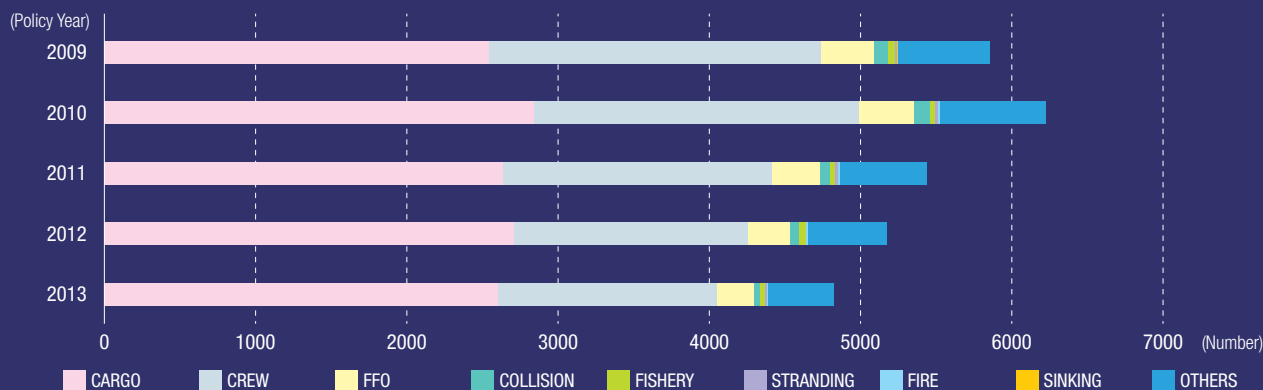
The number of claims has been decreasing since the 2010 Policy Year. That year the number of claims received hit a peak of over 6,000. During the 2013 Policy Year, the number decreased to less than 5,000 claims. The most frequently occurring types of claim have remained consistent for the past 5 years, with the largest number being "Cargo", followed by "Crew" and then "FFO" (Fixed & Floating Objects). Cargo claims accounted for 40% of all claims received during the 2009 Policy Year, however, the proportion has increased to more than 50% since then. On the other hand, crew claims accounted for almost 40% during the 2009 Policy Year, but have now decreased to less than 30%.

The net insurance money paid shows a tendency to decrease in proportion to the number of claims. During the 2013 Policy Year, the claims record was as good

Ocean-going vessels

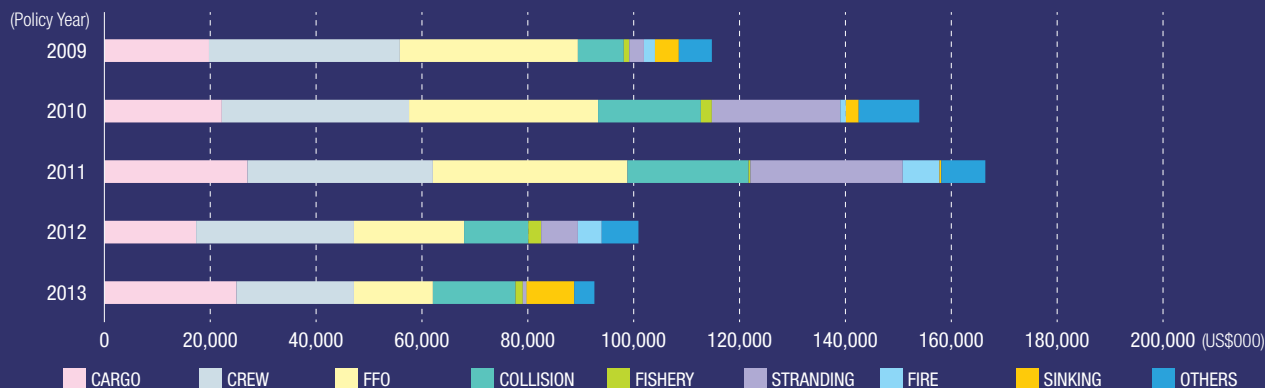
Number of claims received

(as of March 2014)



Paid plus outstanding of insurance money within our retention

(as of March 2014)



record as the previous Policy Year. Though two pool claims occurred, the total of net insurance money paid was under US\$100,000,000.

In the most recent 5 years, the number of medium or small claims (under US\$500,000) account for more than 99% of all claims received and the net insurance money paid has remained quite constant for this portion. On the other hand, although the number of large claims (over US\$500,000) account for less than 1%, the total of net insurance money paid for this portion fluctuates largely affecting to loss record.

Coastal vessels

The number of claims has been decreasing, as with ocean-going vessels, since the 2010 Policy Year. That year was at its peak in claims, with more than 400 received. During the 2013 Policy Year, the number decreased even further to less than 300 claims. The most frequently occurring types of claim have remained consistent for the past 5 years, the largest number being "FFO" (Fixed

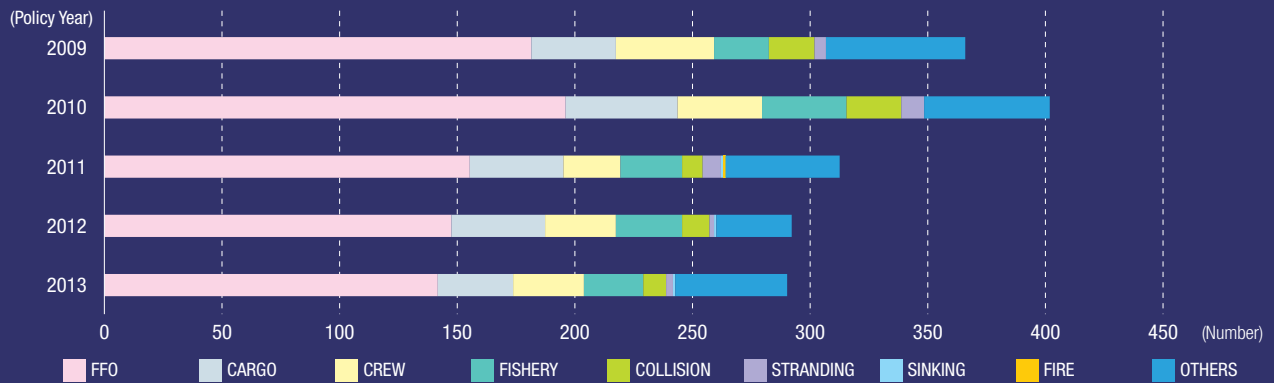
& Floating Objects), followed by "Cargo", "Crew" and "Fishery". "FFO" claims account for more than 50% received in every Policy Year.

The amount of net insurance money paid shows a tendency to decrease in proportion to the number of claims received. For recent 5 years, the number of medium and small claims (under JPY50,000,000) accounts for more or less 98% of the total received. The amount of net insurance money paid has been decreasing since the peak reached in the 2009 Policy Year, when over JPY1,000,000,000 were incurred. On the other hand, although the number of large claims (over JPY50,000,000) account for 1~2% of total claims, this portion significantly affects the loss record. As a feature of coastal vessels over the most recent 5 years, it could be said that net insurance money paid for this 1-2% portion varies each year depending on the number of large claims such as stranding, sinking, collision and pollution.

Coastal vessels

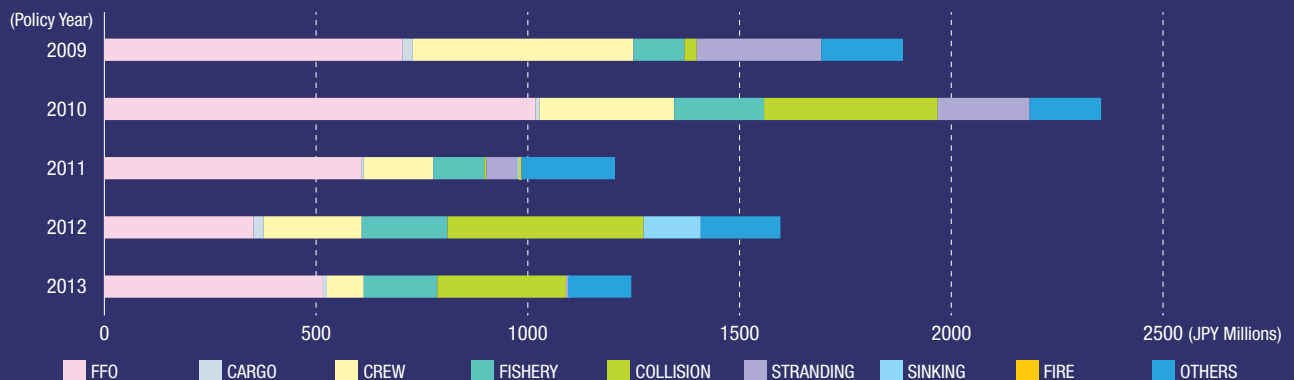
Number of claims received

(as of March 2014)



Paid plus outstanding of insurance money within our retention

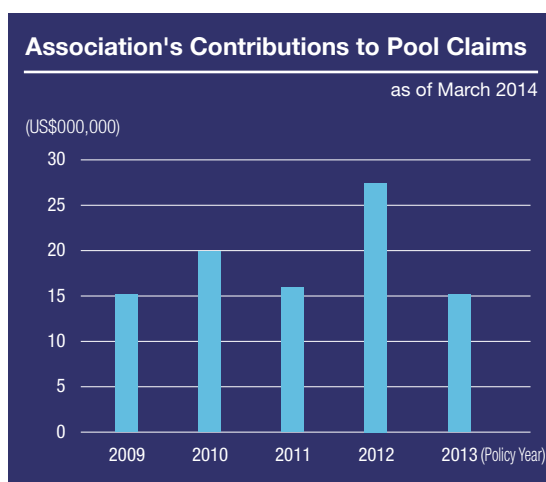
(as of March 2014)



Trend of Pool Claims

The loss record for the 2012 Policy Year as at the end of Policy Year 2013 was as high as that for the 2011 Policy Year, in which a couple of exceptionally large claims occurred. In the 2013 Policy Year, despite some large claims, the number and amount of claims so far reported is less than in the 2011 and 2012 Policy Years. It is not possible to predict how the figures for the 2013 Policy Year will develop. There has been no change in the recent trend showing that the amount per claim is increasing.

As shown in the graph, the Association's contributions to Pool Claims exceeded US\$15,000,000 in the 2009 Policy Year and thereafter. The Association's Pool Claims contributions reached their peak in the 2012 Policy Year. So far, the figures for 2013 are relatively low.



Loss Prevention

We are enhancing our loss prevention activities to contribute to the prevention of accidents and alleviation of any damage caused. We would like to introduce here some of the major activities we promote.

Loss Prevention Seminars

We have presented several seminars by an experienced master mariner. To our delight, there has been a large turnout at every seminar we have held in Japan so far.

We also held various seminars in other Asian countries and are proceeding with further expansion of the area for more of our members to be able to attend our seminars. In the 2013 Policy year we held seminars in South Korea and Singapore, and in the 2014 Policy year, in Hong Kong

and Taiwan in addition to South Korea and Singapore. During the 2013 Policy year, the total number of seminars we held in Japan and aboard was 35, roughly a threefold increase on the previous year. We have selected several topics that would interest and provide beneficial information for our members and crew. We are also happy to consider requests for other subjects and comments we receive at each seminar.

The topics we looked at during the 2013 Policy year are given below. As can be seen, the contents of seminars apply to ocean-going vessels and to Japanese coastal vessels.

Seminar topics during the 2013 Policy year:

- “Preventing an anchor from dragging”
- “Preventing collisions, strandings and anchor related accidents – Bridge Resource Management for one-man operation of Japanese coastal vessels –”
- “Preventing damage to harbour facilities, and ship handling in harbours”
- “Safety management system for Japanese coastal vessels and emergency response”

Many of the seminar participants have first-hand experience of marine business, and for us as well, the seminars are valuable opportunities to develop a good understanding of the opinions and interests of crew and shore workers on the front line of marine business. We shall continue to attempt further refinement of our seminars and to increase such opportunities.

Loss Prevention Bulletins

We have published several articles in our Loss Prevention Bulletins, Japan P&I News and Special Circulars on loss prevention and damage mitigation. We are currently concentrating especially on our Loss Prevention Bulletins, to focus on issues that are of utmost concern in recent years as well as on those we have examined at our seminars.

We attempt to provide information relevant not only to our members working on the shore side but also to ship personnel on-board as useful measures for loss prevention. We should be much obliged if our bulletins could be read by all crew members and hope they will be of assistance during daily operations.

Visiting Ships Campaign

We regularly visit our members' vessels and campaign for loss prevention.

On board, we discuss the vessels' claim records and distinctive trends, if any, with the Master. The campaign is important to us also as a way of obtaining valuable feedbacks directly from Masters. We are grateful for our Members' and crews' kind cooperation for the campaign, and we aim to continue working together with them for greater loss prevention.

Condition Surveys

We carry out Condition Surveys for both entered and pre-entry vessels in order to check the vessels' seaworthiness, weather-tightness and the overall management status.

When defects are found during Condition Surveys, we ask the Member to rectify them. Sometimes we receive inquiries from our Members why we sometimes point out defects that have not actually been pointed out at a Class inspection. We do this because the focus of Condition Surveys is checking the condition of entered or pre-entry vessels from various aspects, to see if there are any risks of future accidents. This applies not only in terms of their facilities but also their management condition. Therefore, in some situations we recommend rectification for areas that are not of concern of Class, which are focusing solely on the vessels' seaworthiness. We believe that by making steady efforts to check one by one even defects which may be perceived as being very minor, but could lead to P&I claims or impact on safe voyages, we are helping our Members towards the prevention of future accidents. We hope our Condition Surveys contribute to supporting Members as a means of loss prevention.

Large Claim Analysis

Presently, we are carrying out an analysis of large claims in order to prevent the occurrences of accidents due to similar causes. We intend to provide information on the causes, certain characteristics and trends we find in the claim records.

We acknowledge the importance of loss prevention measures in order to reduce the number of claims, and we continue promoting and enhancing our activities. Meanwhile, we hope to work together with our Members to further strengthen such loss prevention measures. Our members' kind understanding and cooperation would be highly appreciated.

International Group's Topics

Sanctions

Under the Joint Plan of Action agreed between Iran and the P5+1 (US, UK, France, China, Russia and Germany) nations, a programme of limited sanctions relief was put in place, effective for 6 months, from 20 January 2014. However, the relevant regulations implementing the sanctions relief were ambiguous, in particular, on the extent to which Clubs will be able to make payments after the relief period relating to claims which occurred during the six months, and on the extent to which US reinsurers will be able to contribute to the payment of claims. Although the Group had lengthy discussions with the relevant EU and US authorities, it has not been possible to resolve the concerns on these issues. As a result, the Clubs had to inform Members that the Clubs may not be able to provide effective cover for claims even if the incidents occurred during the relief period.

The Group will continue to engage with the EU and US authorities and try to mitigate the impact of further sanctions measures targeted at the provision of insurance cover. We shall stress that the purpose of P&I cover is to compensate the victims of incidents, rather than benefit the targets of sanctions, and the restriction / prohibition of insurance cover may have adverse effects on compensation due to the victims.

The Maritime Labour Convention 2006

The Maritime Labour Convention 2006 (MLC) entered into force on 20 August 2013. The MLC requires shipowners to have financial security in place for, amongst other things, (a) repatriation in case of shipowners' insolvency and (b) compensation in the event of death or long term disability of seafarers. In order to respond to the requirements introduced by the MLC, the Clubs amended their rules to cover the liabilities of (a) above, which previously had not been covered by the Clubs. This allowed Members to meet the requirements of the MLC without arranging any additional insurances.

Further amendments to the MLC were agreed at the annual meeting of the International Labour Organisation (ILO) in early June 2014. The amendments introduce the requirement for financial security to cover outstanding unpaid wages up to 4 months and for evidence of financial security to be provided in a form similar to that under IMO liability conventions such as CLC and Bunker

Convention, etc. The amendments are likely to enter into force by early 2017 and Clubs will refer to the decision of Club boards at the appropriate time on whether the Clubs should provide the additional cover required under the amendments to the MLC.

Solid Bulk Cargo Liquefaction

There is a risk that some types of solid bulk cargo, including iron ore fines and nickel ore, may liquefy during transportation when cargoes are shipped with excessive moisture content. The liquefaction of iron ore fines or nickel ore can result in the capsizing of vessels. In order to address the concerns arising from the carriage of iron ore fines by sea, the Group took a key role in introducing a new iron ore fines schedule into the IMSBC Code which governs the safe carriage of such cargo by sea. An

amended iron ore fines schedule was agreed at the IMO DSC meeting in September 2013. The new schedule will be mandatory in all SOLAS States Parties from 1 January 2017, but both Australia and Brazil have now given early effect to it. As a result, certain iron ore fine cargoes exported from these two jurisdictions are now reclassified as cargoes which may liquefy if shipped with excessive moisture content.

In addition, the IG continues to engage in discussions with Indonesian authorities in order to reduce risks associated with the export of nickel ore from Indonesia. The Group has continued to issue guidance on carrying such cargoes, emphasizing the importance of ensuring that shippers comply with the requirements of the IMSBC Code.



(1) Report of the Independent Auditors



Independent Auditor's Report

To Mr. Yoshikazu Minagawa
Director General, Representing Director
The Japan Ship Owners' Mutual Protection
& Indemnity Association

We have audited the accompanying financial statements of The Japan Ship Owners' Mutual Protection & Indemnity Association ("the Association"), which comprise the balance sheet as at 31 March 2014 and 2013, and the related income and expenditure accounts, statements of cash flows for the fiscal years then ended, and notes to the financial statements. The financial statements have been prepared by management of the Association in accordance with the basis set out in the Notes 1 and 2 to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the basis set out in the Notes 1 and 2 to the financial statements, for determining that the basis of preparation is acceptable in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above are prepared, in all material respects, in accordance with the basis set out in the Notes 1 and 2 to the financial statements.

Basis of accounting

Without modifying our opinion, we draw attention to Notes 1 and 2 to the financial statements, which describes the basis of accounting. The financial statements are intended to be used for parties related to the Association. As a result, the financial statements may not be suitable for another purpose.

Convenience translation

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended 31 March 2014 are presented solely for convenience. Our audits also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1-(2) to the financial statements.

PricewaterhouseCoopers Aarata

16 July 2014

Notice to Readers:

The presentation of "Note 3 Other Notes to Financial Statements" is not required by accounting principles generally accepted in Japan, and has not been audited by the independent auditor.

PricewaterhouseCoopers Aarata

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(2) Income and Expenditure Accounts

for the years ended 31 March 2014 and 2013

	Notes	Unit : JPY Millions		Unit : US\$000s
		2014	2013	2014 Note 1-(2)
Operating income				
Calls and premiums written	2-(3),3-(1)	¥26,641	¥23,007	\$258,851
Reinsurance premiums ceded	2-(3),3-(2)	5,791	4,189	56,264
Net premiums written	2-(3)	20,850	18,818	202,587
Change in unearned premium reserve	2-(3)	(2,173)	(1,982)	(21,113)
Exchange (Losses) gains from underwriting activities		(36)	14	(349)
Interest and dividends income	2-(3),3-(3)	705	596	6,847
Gains on money trusts	2-(3),3-(4)	226	199	2,195
Profit on sales of securities	3-(5)	167	79	1,622
Foreign currency exchange gains from investing activities		2,012	2,472	19,553
Other ordinary income	3-(6)	43	36	422
Total operating income		21,794	20,232	211,764
Operating costs and expenses				
Claims paid	2-(3),3-(7)	19,311	18,825	187,628
Reinsurance claims recovered	2-(3),3-(8)	3,348	4,805	32,531
Net claims paid	2-(3)	15,963	14,020	155,097
Change in reserve for outstanding claims	2-(3)	1,384	2,523	13,451
Change in catastrophe reserve		628	566	6,101
Operating expenses	2-(3),3-(9)	2,344	2,123	22,775
Other ordinary expenses	3-(10)	138	690	1,347
Total operating costs and expenses		20,457	19,922	198,771
Ordinary surplus		1,337	310	12,993
Special losses				
Other special losses		0	2	3
Surplus before income taxes		1,337	308	12,990
Current income taxes	2-(4)	379	387	3,684
Deferred income taxes	2-(22),(23)	48	(284)	463
Total income taxes		427	103	4,147
Surplus after income taxes		910	205	8,843
Unappropriated surplus, beginning balance	2-(5)	9	4	87
Unappropriated surplus, ending balance		¥919	¥209	\$8,930

¥102.92=US\$1.00

The accompanying notes are an integral part of these financial statements.

(3) Balance Sheets

as of 31 March 2014 and 2013

	Notes	Unit : JPY Millions		Unit : US\$000s
		2014	2013	2014 Note 1-(2)
Assets				
Cash and deposits at banks	2-(10),3-(11)	¥16,047	¥10,030	\$155,918
Money trusts	2-(7),(10),3-(12)	1,323	3,099	12,859
Securities	2-(6),(10),(25),3-(13)	34,705	33,618	337,205
Property, plant and equipment	2-(8),(18),(20),(21),3-(14)	1,119	1,134	10,869
Intangible assets	2-(9),3-(15)	186	175	1,809
Other assets	2-(10),(14),3-(16)	1,637	1,903	15,903
Deferred tax assets	2-(22),(23)	2,863	2,823	27,818
Reserve for bad debts	2-(10),(12)	(75)	(80)	(734)
Total assets		57,805	52,702	561,647
Liabilities				
Technical provisions				
Reserve for outstanding claims	2-(26),3-(17)	28,124	26,740	273,267
Unearned premium reserve	2-(26),3-(18)	10,628	8,455	103,265
Catastrophe reserve	2-(17)	13,701	13,073	133,122
Other liabilities				
Reserve for bonuses	2-(10),(18),3-(19)	2,198	1,977	21,356
Reserve for directors' retirement benefits	2-(13)	85	78	823
Reserve for losses of reinsurance	2-(15)	104	79	1,009
Reserve for losses of reinsurance	2-(16)	609	556	5,915
Total liabilities		55,449	50,958	538,757
Net assets				
Capital contribution fund	3-(20)	130	138	1,265
Retaining earnings	3-(21)	1,764	854	17,143
Net unrealized gains on securities	3-(22)	462	752	4,482
Total net assets		2,356	1,744	22,890
Total liabilities and net assets		¥57,805	¥52,702	\$561,647

¥102.92=US\$1.00

The accompanying notes are an integral part of these financial statements.

(4) Statements of Cash Flows

for the years ended 31 March 2014 and 2013

	Unit : JPY Millions		Unit : US\$000s
	2014	2013	2014
Notes			Note 1-(2)
Cash flows from operating activities			
Surplus before income taxes	¥1,337	¥308	\$12,990
Depreciation	92	54	890
Increase in reserve for outstanding claims	1,384	2,523	13,451
Increase in unearned premium reserve	2,173	1,982	21,113
Increase in catastrophe reserve	628	566	6,101
Decrease in reserve for bad debts	(5)	(69)	(48)
Increase (decrease) in reserve for bonuses	7	(17)	68
Decrease in reserve for retirement benefits	-	(8)	-
Increase in reserve for directors' retirement benefits	25	10	247
Increase in reserve for losses of reinsurance	53	556	511
Interest and dividend income	(705)	(596)	(6,847)
Foreign currency exchange gains	(2,012)	(2,472)	(19,553)
Gains on specified money trust	(225)	(199)	(2,183)
Gains on securities	(167)	(79)	(1,622)
Losses on property, plant and equipment	0	0	3
Decrease in other assets	270	669	2,616
Increase in other liabilities	348	363	3,382
Sub-total	3,203	3,591	31,119
Interest and dividends received	736	617	7,153
Income taxes paid	(498)	(1)	(4,840)
Net cash provided by operating activities	3,441	4,207	33,432
Cash flows from investing activities			
Purchases of property, plant and equipment	(33)	(60)	(319)
Purchases of intangible assets	(62)	(145)	(599)
Purchases of time deposits	(2,988)	(278)	(29,031)
Proceeds from maturity of time deposits	2,063	-	20,042
Purchases of specified money trust	(200)	(700)	(1,943)
Purchases of securities	(6,814)	(6,414)	(66,214)
Proceeds from sales or maturity of securities	6,930	6,281	67,329
Net cash used in investing activities	(1,104)	(1,316)	(10,735)
Cash flows from financing activities			
Proceeds from members of capital contribution fund	5	4	46
Refund to members of capital contribution fund	(14)	(23)	(131)
Net cash used in financing activities	(9)	(19)	(85)
Effect of foreign currency exchange rate changes on cash and cash equivalents	1,075	373	10,450
Net increase in cash and cash equivalents	3,403	3,245	33,062
Cash and cash equivalents at beginning of year	14,322	11,077	139,159
Cash and cash equivalents at end of year	¥17,725	¥14,322	\$172,221
			¥102.92=US\$1.00

The accompanying notes are an integral part of these financial statements.

(5) Notes to the Financial Statements

1. Basis of Presentation

(1) In accordance with the Insurance Business Act, the financial year for an insurance company in Japan is from 1 April to 31 March. The financial year of the Japan Ship Owners' Mutual Protection & Indemnity Association (the "Association") conforms with this requirement. The accompanying financial statements have been prepared from the financial statements disclosed for domestic reporting purposes by the Association in accordance with the provisions of Japanese Companies Act, the Ship Owners' Mutual Insurance Association Law of Japan, and related regulations which are different in certain respects with regards to application and disclosure requirements of International Financial Reporting Standards. The supplementary schedules required by the above-mentioned laws in Japan are omitted. However, the statement of cash flows, though not required, is voluntarily disclosed to provide information to readers. The statement of cash flows has been prepared based on "Standard of preparing the Consolidated Statement of Cash Flows, etc. (Japanese Business Accounting Council statement, 13 March 1998)" and "Practical Guideline in Preparing the Statement of Cash Flows for the Consolidated Financial Statements, etc. (Accounting Practice Committee No.8, 12 January 2011)". For the convenience of readers outside of Japan, certain reclassifications have been made in the accompanying financial statements. Amounts of less than one million yen and one thousand dollars are rounded.

(2) Translation to U.S. Dollars

The accompanying financial statements are expressed in Japanese Yen and, solely for the convenience of readers, the statements for the year ended 31 March 2014 have been translated into U.S. Dollars at the rate of ¥102.92 = U.S.\$1, the middle rate prevailing on the Tokyo foreign exchange market on 31 March 2014. The functional currency of the Association is Japanese Yen, and the translation to the US Dollars is only for the convenience of readers.

2. Notes prescribed by the laws and regulations

(1) For foreign currency bonds, the Association records unrealized foreign exchange gains and losses with respect to the amortized cost denominated in foreign currency to the income and expenditure account in each respective period.

(2) For the years ended 31 March 2014 and 2013, the aggregate revenue of business transacted with the subsidiary companies amounted to ¥30 million (\$296 thousand) and ¥25 million, respectively, and the aggregate expenses amounted to ¥38 million (\$373 thousand) and ¥32 million, respectively.

(3) 1. Net premiums written consist of the following:

	Unit : JPY Millions		Unit : US\$000s
	2014	2013	2014
			Note 1-(2)
Calls and premiums written	¥26,641	¥23,007	\$258,851
Reinsurance premiums ceded	5,791	4,189	56,264
Net premiums written	¥20,850	¥18,818	\$202,587

2. Net claims paid consist of the following:

	Unit : JPY Millions		Unit : US\$000s
	2014	2013	2014
			Note 1-(2)
Claims paid	¥19,311	¥18,825	\$187,628
Reinsurance claims recovered			
Net claims paid	3,348	4,805	32,531
	¥15,963	¥14,020	\$155,097

3. Change in reserve for outstanding claims consists of the following:

	Unit : JPY Millions		Unit : US\$000s
	2014	2013	2014
			Note 1-(2)
Change in reserve for outstanding claims, gross of reinsurance	¥5,728	¥3,753	\$55,661
Change in reserve for ceded outstanding claims	4,344	1,230	42,210
Change in reserve for outstanding claims	¥1,384	¥2,523	\$13,451

4. Change in unearned premium reserve consists of the following:

	Unit : JPY Millions		Unit : US\$000s
	2014	2013	2014
			Note 1-(2)
Change in unearned premium reserve, gross of reinsurance	¥2,173	¥1,982	\$21,113
Change in ceded unearned premium reserve	—	—	—
Change in unearned premium reserve	¥2,173	¥1,982	\$21,113

5. Operating expenses consist of the following:

	Unit : JPY Millions		Unit : US\$000s
	2014	2013	2014
			Note 1-(2)
Personnel expenditure	¥1,482	¥1,421	\$14,398
Cost of supplies	640	525	6,215
Brokerage	330	280	3,211
Reinsurance commission	(200)	(157)	(1,939)
Depreciation	92	54	890
Total	¥2,344	¥2,123	\$22,775

6. Interest and dividends income consist of the following:

	Unit : JPY Millions		Unit : US\$000s
	2014	2013	2014
			Note 1-(2)
Interest on deposits and savings	¥43	¥24	\$413
Interest on securities	662	572	6,434
Total	¥705	¥596	\$6,847

7. For the years ended 31 March 2014 and 2013, Valuation gains of ¥225 million(\$2,183 thousand) and ¥198million are included in "Gains on money trusts", respectively.

(4) A reconciliation between the effective statutory tax rate and the actual effective tax rate after application of deferred tax accounting for the year ended 31 March 2014 is as follows:

Effective statutory tax rate	29.70%
Entertainment and other expenses not deductible for tax purposes	0.60%
Taxation on per capita basis	0.11%
Reduction of deferred tax assets at the balance sheet date caused by change in income taxes rate	1.28%
Others	0.23%
Actual effective tax rate	31.92%

A reconciliation between the effective statutory tax rate and the actual effective tax rate after application of deferred tax accounting for the year ended 31 March 2013 is as follows:

Effective statutory tax rate	29.70%
Entertainment and other expenses not deductible for tax purposes	2.42%
Taxation on per capita basis	1.14%
Actual effective tax rate	33.26%

(5)For the years ended 31 March 2014 and 2013, the beginning unappropriated surplus balance available for dividend distribution after transferring ¥200 million (\$1,943 thousand) and ¥10 million, respectively, to special reserves from the previous year's ending unappropriated surplus balance of ¥209 million (\$2,030 thousand) and ¥14 million, respectively are ¥9 million (\$87 thousand) and ¥4 million, respectively.

The amount of ¥910 million (\$8,842 thousand) out of ¥919 million (\$8,930 thousand) of unappropriated surplus as of 31 March 2014 has been transferred to special reserves during July 2014.

(6)The standards for valuation of securities are as follows:

1. Shares of subsidiaries are stated at cost pursuant to the moving average method.
2. Securities held to maturity are stated at amortized cost (straight line method) pursuant to the moving average method.
3. Marketable securities held as available for sale are stated at market price as of the balance sheet date. The unrealized

gains/losses on the marketable securities are recognized directly within Net assets" and the cost of securities sold is pursuant to the moving average method.

4. Non-marketable securities held as available for sale are stated at cost or amortized cost (straight line method) pursuant to the moving average method where the fair value is extremely difficult to determine.

(7) Money trusts held for trading purposes are stated at the fair value.

(8) Depreciation of property, plant and equipment is calculated using the declining-balance method.

(9) The Association records software for internal use as an intangible asset. Depreciation on such assets is calculated using the straight line method based on an estimated useful life of 5 years.

(10) Conditions of financial instruments and fair values are as follows:

① Conditions of financial instruments

The Association's investments policy is in accordance with its Business Operations Plan, as approved by the Financial Service Agency, and gives higher priority to investments which are considered stable. Financial instruments the Association holds are mainly cash and deposits at banks, money trusts, Japanese government bonds, Japanese local government bonds, corporate bonds and foreign securities. Holding these financial instruments exposes the Association to credit risk, foreign currency exchange risk, liquidity risk and other market risk factors. As for exposure to credit risk, investments in corporate bonds (including foreign securities) are limited to those with ratings of "A" or higher in principle. If an investment's rating is downgraded below "A", the Association would likely sell the investment after timely research of the issuer's financial condition.

The Association's exposure to foreign exchange risk exists mainly in holding foreign currency denominated bonds. Some foreign currency cash deposits are also held by the Association. Conversely, certain outstanding claim liabilities are denominated in foreign currencies which are also impacted by foreign currency exchange fluctuations. As such, the Association manages its exposure to fluctuations in foreign currency exchange rates by actively managing the proportion of the amounts of foreign assets and liabilities that it holds. As to liquidity risk, the Association considers its exposure to be low as most securities held would be expected to be readily sold in the open market when necessary. Regarding other market risk factors, as the Association mainly invests in bonds with high credit ratings and generally holds them until their maturity date, the Association considers the possibility that other market risks would have a significant impact on the Income and Expenditure Accounts to be remote.

Regarding premiums receivables, although there is a risk of uncollectible accounts, the Association's Underwriting Department strives to collect outstanding premiums in a timely manner and the section in charge in the head office continuously monitors the status of outstanding premiums receivable.

② Fair value of financial instruments

The amounts recorded in the balance sheet, fair value and the difference as of 31 March 2014 are as follows:

Unit : JPY Millions			
	Amounts of Balance sheet	Fair value	Difference
(1) Cash and deposits at banks	¥16,047	¥16,047	¥-
(2) Money trusts	1,323	1,323	-
(3) Securities			
Securities held to maturity	10,722	10,766	44
Marketable securities held as available for sale	22,772	22,772	-
(4) Premiums receivables	682		
Reserve for bad debts(*1)	△75		
	607	607	-
Total financial assets	¥51,471	¥51,515	¥44
(1) Foreign reinsurance payable	¥1,204	¥1,204	¥-
Total financial liabilities	¥1,204	¥1,204	¥-

Unit : US\$000s			
	Amounts of Balance sheet	Fair value	Difference
(1) Cash and deposits at banks	\$155,918	\$155,918	\$-
(2) Money trusts	12,859	12,859	-
(3) Securities			
Securities held to maturity	104,180	104,609	429
Marketable securities held as available for sale	221,254	221,254	-
(4) Premiums receivables	6,630		
Reserve for bad debts(*1)	△734		
	5,896	5,896	-
Total financial assets	\$500,107	\$500,536	\$429
(1) Foreign reinsurance payable	\$11,700	\$11,700	\$-
Total financial liabilities	\$11,700	\$11,700	\$-

(*1) Net of general and individual reserve for bad debts on premium receivables

(Note 1)

Assets

- (1) Cash and deposits at banks, (4) Premiums receivables
Cash and deposits at banks and premiums receivables are stated at the carrying amount as these are settled in the short term and those fair values are approximately equal to the carrying amount.
- (2) Money trusts
The fair value of money trusts individually managed primarily for investments in securities are stated at the price provided by the trustee bank.

(3) Securities

Bonds and investment funds are mainly stated at the price presented by the financial institution. Certificate of deposit is stated at the carrying amount as this is settled in the short term and its fair value is considered to approximate the carrying amount.

Liabilities

(1) Foreign reinsurance payables

Foreign reinsurance payables are stated at the carrying amount as these are settled in the short term and their fair values are approximately equal to the carrying amount.

(Note 2)

Unlisted stocks of ¥1,211 million (\$11,771 thousand) are excluded from (3)"Marketable securities held as available for sale" as no market prices exist and future cash flows are not estimable and therefore it is extremely difficult to determine the fair value.

The amounts recorded in the balance sheet, fair value and the difference as of 31 March 2013 are as follows:

Unit : JPY Millions			
	Amounts of Balance sheet	Fair value	Difference
(1) Cash and deposits at banks	¥10,030	¥10,030	¥-
(2) Money trusts	3,099	3,099	-
(3) Securities			
Securities held to maturity	6,259	6,495	236
Marketable securities held as available for sale	26,847	26,847	-
(4) Premiums receivables	601	601	-

(Note 1)

- (1) Cash and deposits at banks, (4) Premiums receivables
Cash and deposits at banks and premiums receivables are stated at the carrying amount as these are settled in the short term and those fair values are approximately equal to the carrying amount.
- (2) Money trusts
The fair value of money trusts individually managed primarily for investments in securities are stated at the price provided by the trustee bank. On the other hand, commingled money trust are stated at the carrying amount as fair value is considered to approximate the carrying amount.
- (3) Securities
Bonds and investment funds are mainly stated at the price presented by the financial institution. MMF are stated at the carrying amount as these are settled in the short term and fair value is considered to approximate the carrying amount.

- (Note 2)
Unlisted stocks of ¥511 million are excluded from (3) Marketable securities held as available for sale"" as no market prices exist and future cash flows are not estimable and therefore it is extremely difficult to determine the fair value.
- (11) The translation of foreign currencies to Japanese yen is carried out pursuant to the Accounting Standards for Foreign Currency Transactions.
- (12) The reserve for bad debts is estimated on the basis of past experience.
- (13) The reserve for bonuses is provided for at the amount estimated at the balance sheet date for future payments.
- (14) The reserve for retirement benefits is stated at the amount which would become liable to be paid should all of the staff employment contracts be voluntarily terminated at the balance sheet date after deduction of the fair value of the funded plan assets and the unamortized net transition liabilities. At 31 March 2014 and 2013, prepaid pension cost of ¥51 million (\$496 thousand) and ¥17 million are included in Other assets, respectively.
- (15) The reserve for directors' retirement benefit is stated at the amount which has been incurred at the balance sheet date based on the bylaws of the Association.
- (16) To provide for future losses arising from providing support to Hydra Insurance Company Ltd., which is a reinsurance company in Bermuda jointly established by the International Group of P&I Clubs, the reserve for losses of reinsurance is stated at the amount equivalent to cumulative losses of the reinsurance company attributable to the Association.
- (17) A catastrophe reserve is established to ensure the continued solvency of the insurer in case of catastrophic losses beyond the scope of the insurer's general reserve assumptions and is accumulated over time based on the premiums written for each year. If the gross claims paid for a year exceed 80 percent of net premiums written of the year, the insurer may reverse a portion of the catastrophe reserve equal to the excess amount.
- (18) Financial Leases, except for those in which ownership is considered to be transferred, for which the commencement date of the lease transaction falls in the financial years that began before 1 April 2008, are accounted for using a method similar to that for ordinary operating lease contracts.
- (19) Consumption taxes are accounted for under the "tax inclusive" method.
- (20) Pursuant to revisions made to Corporation Tax Law, the method of depreciating property, plant and equipment acquired on or after 1 April 2012 is changed to those based on the revised Corporation Tax Law. For the year ended 31 March 2013, the effect of these changes on ordinary surplus and surplus before income taxes is immaterial.
- (21) Accumulated depreciation for property, plant and equipment amounts to ¥340 million (\$3,307 thousand) and ¥304 million at 31 March 2014 and 2013, respectively. Advanced depreciation amounts to ¥415 million (\$4,033 thousand) and ¥417 million at 31 March 2014 and 2013, respectively.
- (22) At 31 March 2014, the total of deferred tax assets amounts to ¥3,652 million (\$35,485 thousand) and the total of deferred tax liabilities amounts to ¥227 million (\$2,205 thousand). The figure deducted from deferred tax assets as a valuation reserve amounts to ¥562 million (\$5,462 thousand).
The components of deferred tax assets by main cause of occurrence are as follows:
Underwriting reserve; ¥2,628 million (\$25,532 thousand)
Reserve for outstanding claims; ¥200 million (\$1,943 thousand)
Reserve for losses of reinsurance; ¥170 million (\$1,652 thousand)
Reserve for directors' retirement benefits; ¥29 million (\$282 thousand)
- The components of deferred tax liabilities by main cause of occurrence are as follows:
Unrealized gains on "Marketable securities held as available for sale"; ¥213 million (\$2,067 thousand)
- At 31 March 2013, the total of deferred tax assets amounts to ¥3,690 million and the total of deferred tax liabilities amounts to ¥324 million. The figure deducted from deferred tax assets as a valuation reserve amounts to ¥543 million.
The components of deferred tax assets by main cause of occurrence are as follows:
Underwriting reserve; ¥2,628 million
Reserve for outstanding claims; ¥259 million
Reserve for losses of reinsurance; ¥163 million
Reserve for bonuses; ¥23 million
- The components of deferred tax liabilities by main cause of occurrence are as follows:
Unrealized gains on "Marketable securities held as available for sale"; ¥302 million
- (23) Act on Partial Amendment to the income tax law"" (Act No.10, 2014) was promulgated on 31 March 2014 and the special corporation tax law for restoration has been repealed from the fiscal year beginning on or after 1 April 2014.
As a result of this change in applicable tax law, the effective statutory income tax rate used to calculate deferred tax assets and deferred tax liabilities on the temporary differences which are expected to reverse in the fiscal year beginning on 1 April 2014 changes from the 29.70%, used previously, to 27.93%.
As a result of this change in the corporate income tax rate, deferred tax assets (net of deferred tax liabilities) decreased by ¥16 million (\$164 thousand), net unrealized gains on securities increased by ¥0 million (\$3 thousand) and surplus after income taxes decreased by ¥17 million (\$167 thousand).

(24) In addition to the property, plant and equipment recorded on the balance sheet, lease contracts are in place for electronic computers.

(25) Investment in subsidiaries amounts to ¥12 million (\$112 thousand) and ¥12 million at 31 March 2014 and 2013, respectively.

(26) 1. Reserve for outstanding claims with respect to reinsurance stipulated in Article 51 of the Enforcement Regulations of the Ship Owners' Mutual Insurance Association Law of Japan (the "Regulations") which is referred in Article 53.2 of the Regulations amounts to ¥12,208 million (\$118,612 thousand) and ¥7,863 million at 31 March 2014 and 2013, respectively.

2. There is no unearned premium reserve with respect to reinsurance stipulated in Article 51 of the Regulations at 31 March 2014 and 2013, respectively.

3. There is no amount deducted relating to the distribution of surplus stipulated in Article 28 of the Regulations at 31 March 2014 and 2013.

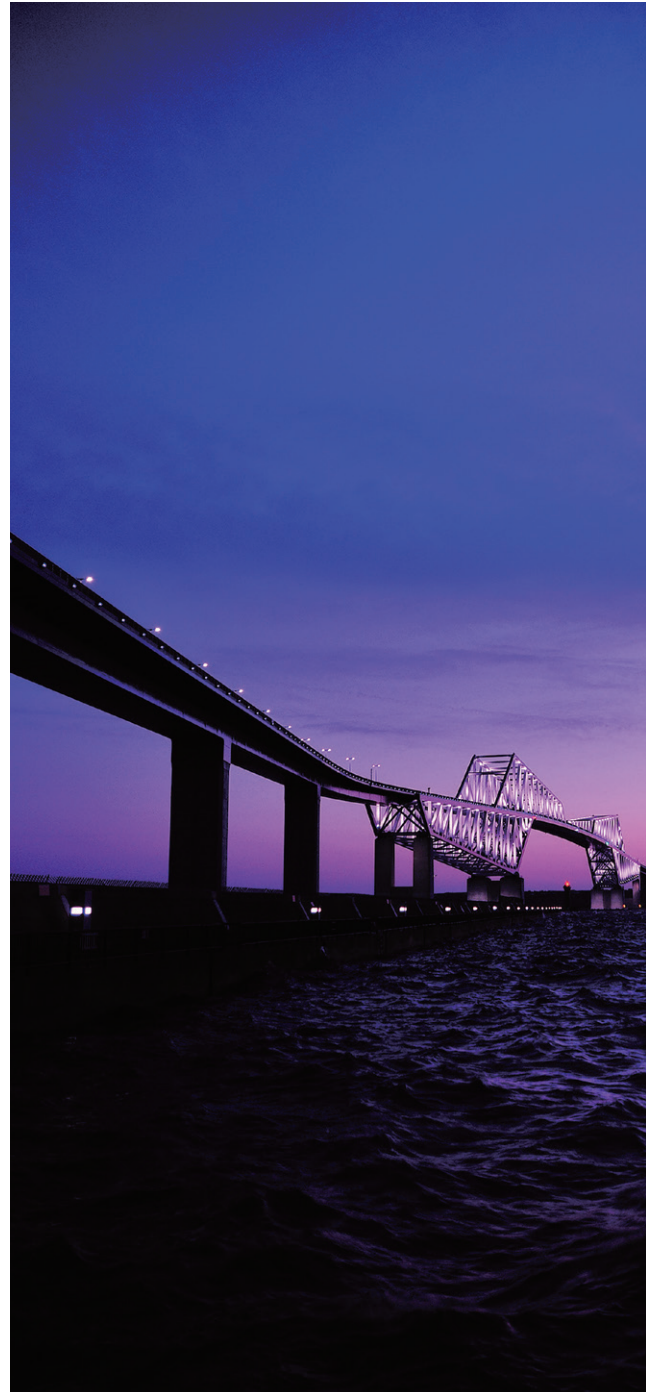
(27) Cash equivalents in the statement of cash flows are cash in hand, deposits at banks which can be withdrawn at any time and highly liquid short-term investments with an original maturity of three months or less, and are subject to insignificant risk of changes in value.

The reconciliation of cash and cash equivalents on the statement of cash flows to cash and deposits at banks on the balance sheet is as follows:

	Unit : JPY Millions		Unit : US\$000s
	2014	2013	2014
Cash and deposits at banks	¥16,047	¥10,030	\$155,918
Money trusts	—	2,200	—
MMF, Short-term government bonds and Certificate of deposit included in securities	3,000	2,374	29,149
Deposits at banks of which contract term is more than 3 months	(1,322)	(282)	(12,846)
Cash and cash equivalents	¥17,725	¥14,322	\$172,221

There were no significant non-cash transactions entered into by the Association during the years ended 31 March 2014 and 2013.

Cash flows from investing activities include cash flows arising from asset management relating to the insurance business during the years ended 31 March 2014 and 2013.



3. Other Notes to Financial Statements

	Unit : JPY Millions		Unit : US\$000s
	2014	2013	2014
(1) Calls and premiums written			
Mutual			
Mutual premiums	¥17,007	¥14,181	\$165,242
Supplementary calls charged	6,031	5,183	58,600
Release calls	363	380	3,528
FD&D	168	132	1,629
Sub-total	23,569	19,876	228,999
Fixed premiums			
Coastal vessels entries	2,249	2,430	21,852
Charterers' entries	684	586	6,648
US oil pollution premiums	2	2	22
Others	137	113	1,330
Sub-total	3,072	3,131	29,852
Total	¥26,641	¥23,007	\$258,851
(2) Reinsurance premiums ceded			
Group excess of loss	¥2,579	¥1,927	\$25,053
Others	3,212	2,262	31,211
	¥5,791	¥4,189	\$56,264
(3) Interest and dividends			
Bank deposits	¥43	¥24	\$413
Securities	662	572	6,434
	¥705	¥596	\$6,847
(4) Gains on money trusts			
	¥226	¥199	\$2,195
(5) Profit on sales of securities			
	¥167	¥79	\$1,622
(6) Other ordinary income			
Miscellaneous income	¥43	¥36	\$422
(7) Claims paid			
P & I	¥15,759	¥15,652	\$153,119
<i>Mutual</i>	13,524	13,468	131,401
<i>Coastal vessels entries</i>	1,556	1,736	15,122
<i>Charterers' entries</i>	585	376	5,687
<i>Others</i>	94	72	909
Other Associations' pool claims	3,373	3,116	32,768
FD & D	179	57	1,741
	¥19,311	¥18,825	\$187,628

	Unit : JPY Millions		Unit : US\$000s
	2014	2013	2014
(8) Reinsurance claims recovered			
Group's pooling agreement	¥2,773	¥3,811	\$26,946
Group's excess loss reinsurance	0	34	1
Other reinsurers	575	960	5,584
	¥3,348	¥4,805	\$32,531
(9) Operating expenses			
Personnel expenditure	¥1,482	¥1,420	\$14,398
Cost of supplies	640	526	6,215
Brokerage	330	280	3,211
Reinsurance commission	(200)	(157)	(1,939)
Depreciation	92	54	890
	¥2,344	¥2,123	\$22,775
(10) Other ordinary expenses			
Provision for reserves	¥123	¥550	\$1,198
Others	15	140	149
	¥138	¥690	\$1,347
(11) Cash and deposits at banks			
Cash	¥2	¥3	\$15
Deposits at banks	16,045	10,027	155,903
	¥16,047	¥10,030	\$155,918
(12) Money trusts	¥1,323	¥3,099	\$12,859
(13) Securities			
Japanese government bonds	¥718	¥720	\$6,974
Japanese local government bonds	3,275	3,262	31,824
Corporate bonds	8,886	8,982	86,337
Stocks	10	10	97
Foreign securities	17,714	17,716	172,117
Other securities	4,102	2,928	39,856
	¥34,705	¥33,618	\$337,205
(14) Property, plant and equipment			
Estate on book	¥990	¥989	\$9,614
Buildings	74	79	715
Lease assets	7	14	70
Equipment and others	48	52	470
	¥1,119	¥1,134	\$10,869
(15) Intangible assets			
Software	¥182	¥171	\$1,770
Other intangible assets	4	4	39
	¥186	¥175	\$1,809

	Unit : JPY Millions		Unit : US\$000s
	2014	2013	2014
(16) Other assets			
Premiums receivables	¥682	¥601	\$6,630
Foreign reinsurance recoveries	563	877	5,467
<i>Pool recoveries</i>	281	501	2,731
<i>Recoveries from other reinsurers</i>	282	376	2,736
Accounts receivable	41	30	398
Accrued revenue	170	172	1,650
Advance deposits	94	92	909
Suspense payments	87	131	849
	¥1,637	¥1,903	\$15,903
(17) Reserve for outstanding claims			
Gross reserve for outstanding claims	¥40,331	¥34,603	\$391,879
<i>Members' claims</i>	34,693	29,144	337,101
<i>Other Associations' pool claims</i>	5,638	5,459	54,778
Reinsurers' share	12,207	7,863	118,612
<i>Pool recoveries</i>	11,187	6,491	108,703
<i>Excess loss R/I recoveries</i>	–	–	–
<i>Recoveries from other reinsurers</i>	1,020	1,372	9,909
Net reserve for outstanding claims	¥28,124	¥26,740	\$273,267
<i>IBNR amounts are included in the above figure</i>	¥4,927	¥4,694	\$47,875
<i>IBNR amounts</i>			
(18) Unearned premium reserve			
Gross unearned premium reserve	¥10,628	¥8,455	\$103,265
Reinsurers' share	–	–	–
Net unearned premium reserve	¥10,628	¥8,455	\$103,265
(19) Other liabilities			
Foreign reinsurance payable	¥1,204	¥843	\$11,700
Accounts payable	110	194	1,071
Unpaid tax	269	387	2,608
Suspense payable	608	539	5,907
Lease liability	7	14	70
	¥2,198	¥1,977	\$21,356

(20) Capital contribution fund

This represents the total amount of the capital contribution fund paid by members in accordance with the Articles of the Association.

(21) Retaining earnings

Reserve for offsetting losses

Other retaining earnings

Special reserve

Unappropriated surplus

(22) Net unrealized gains on securities

Unrealized gains on securities is net of deferred tax caused by the valuation of securities.

(23) Hydra

The International Group established a joint reinsurance company in Bermuda named "Hydra Insurance Company Ltd." (Hydra) which commenced underwriting from 20 February 2005. Hydra reinsures the Group's Pool claims of US\$30 million excess of US\$30 million(US\$40 million after 20 February 2013, US\$50 million after 20 February 2014) and also part of the layer US\$500 million excess of US\$60 million(US\$70 million after 20 February 2013, US\$80 million after 20 February 2014).

(6)Reserves

Catastrophe reserve

Reserve for offsetting losses

Other retaining earnings

Sub-total

Capital contribution fund

Net unrealized gains on securities

Total

Unit : JPY Millions		Unit : US\$000s
2014	2013	2014
¥130	¥138	\$1,265
¥175	¥175	\$1,703
1,589	679	15,440
670	470	6,510
919	209	8,930
¥1,764	¥854	\$17,143
¥462	¥752	\$4,482

Unit : JPY Millions		Unit : US\$000s
2014	2013	2014
¥13,701	¥13,073	\$133,122
175	175	1,703
1,589	679	15,440
15,465	13,927	150,265
130	138	1,265
462	752	4,482
¥16,057	¥14,817	\$156,012

The "Sub-total" represents the reserves that have been built up out of surpluses in open and closed years. Please see the "Policy Year Statement" described in pages 28 and 29.



(7)Policy Year Statement

as at 31 March 2014

	2014/15		2013/14		2012/13	
	(2014/2/20-2014/3/31)		(2013/2/20-2014/2/20)		(2012/2/20-2013/2/20)	
	JPY Millions	US\$000s	JPY Millions	US\$000s	JPY Millions	US\$000s
Calls and premiums written						
Prior years	¥–	\$–	¥2,193	\$21,304	¥15,398	\$149,609
During year	2,340	22,735	15,993	155,389	153	1,489
Supplementary calls	–	–	–	–	6,031	58,600
	2,340	22,735	18,186	176,693	21,582	209,698
Reinsurance premiums ceded	(677)	(6,582)	(5,624)	(54,640)	(4,086)	(39,702)
	1,663	16,153	12,562	122,053	17,496	169,996
Claims paid						
Gross claims paid	–	–	(3,932)	(38,200)	(8,960)	(87,055)
Reinsurance claims recovered	–	–	1	5	477	4,639
[Pool recoveries]	[–]	[–]	[–]	[–]	[477]	[4,636]
[Excess loss R/I recoveries]	[–]	[–]	[–]	[–]	[–]	[–]
[Other reinsurance recoveries]	[–]	[–]	[1]	[5]	[–]	[3]
Net claims paid	0	0	(3,931)	(38,195)	(8,483)	(82,416)
[Other Associations' pool claims]	[–]	[–]	[254]	[2,465]	[1,095]	[10,644]
Investment income	44	426	1,292	12,554	723	7,021
Operating expenses	(212)	(2,059)	(2,302)	(22,362)	(2,024)	(19,667)
Others	(167)	(1,626)	(62)	(600)	1,114	10,820
Balance available for estimated outstanding claims	¥1,328	\$12,894	¥7,559	\$73,450	¥8,826	\$85,754
Estimated outstanding claims						
Gross estimated outstanding claims	¥(1,505)	\$(14,627)	¥(16,681)	\$(162,081)	¥(10,288)	\$(99,959)
Reinsurers' share	–	–	5,940	57,713	4,095	39,790
[Pool recoveries]	[–]	[–]	[5,830]	[56,642]	[4,095]	[39,790]
[Excess loss R/I recoveries]	[–]	[–]	[–]	[–]	[–]	[–]
[Other reinsurance recoveries]	[–]	[–]	[110]	[1,071]	[0]	[0]
Net estimated outstanding claims	(1,505)	(14,627)	(10,741)	(104,368)	(6,193)	(60,169)
[Other Associations' pool claims]	[191]	[1,858]	[1,266]	[12,297]	[1,576]	[15,316]
Surplus/(deficit)	(¥177)	(\$1,733)	¥(3,182)	\$(30,918)	¥2,633	\$25,585
Estimated product of 10% supplementary calls	–	–	1,571	15,262	1,454	14,129

1. The estimated outstanding claims includes provision for incurred but not reported claims (IBNR's).

2. Calls and premiums written, claims paid and estimated outstanding claims are allocated to the policy years to which they relate.

All other amounts, such as "Investment income" and "Operating expenses" are allocated to policy years in a systematic and reasonable manner.

3. For the 2014/15 policy year which is covered the period from 20 February 2014 to 31 March 2014, calls and premiums are stated on an earned basis to 31 March 2014.

4. The translation rate in this Policy Year Statement is ¥102.92 = US\$1, the middle rate prevailing on the Tokyo foreign exchange market as of 31 March 2014.

2011/12 (2011/2/20-2012/2/20)		Closed years		Total	
JPY Millions	US\$000s	JPY Millions	US\$000s	JPY Millions	US\$000s
¥17,027	\$165,443				
24	236				
5,183	50,356				
22,234	216,035				
(4,039)	(39,241)				
18,195	176,794				
(17,234)	(167,450)				
3,580	34,786				
[2,821]	[27,411]				
[-]	[-]				
[759]	[7,375]				
(13,654)	(132,664)				
[1,007]	[9,782]				
545	5,291				
(2,185)	(21,228)				
(22)	(211)				
¥2,879	\$27,982	¥22,997	\$223,453	¥43,589	\$423,533
¥(3,288)	\$(31,947)	¥(8,570)	\$(83,266)	¥(40,332)	\$(391,880)
323	3,137	1,850	17,972	12,208	118,612
[131]	[1,277]	[1,131]	[10,993]	[11,187]	[108,702]
[-]	[-]	[0]	[-]	[0]	[0]
[191]	[1,859]	[718]	[6,979]	[1,019]	[9,909]
(2,965)	(28,810)	(6,720)	(65,294)	(28,124)	(273,268)
[373]	[3,620]	[2,232]	[21,686]	[5,638]	[54,777]
¥(86)	\$(828)	¥16,277	\$158,159	¥15,465	\$150,265
1,459	14,177				

(8) Auditors' Report

We as the auditors of the Association have examined the accompanying financial documents and the related supplementary schedule as of March 31, 2014. The method and the result are described below.

In accordance with the Article 22 of the Association, the range of our audit is limited and we do not have the right to audit the business report.

1. The method and the contents of our audit

We conducted our audits hearing from the directors about the state of conditions regarding the execution of their duty in respect of account and required their explanation concerning material approval documents, financial documents and the related supplementary schedule. An audit

included examining the financial statements (balance sheet, inventory, income & expenditure account and proposal for appropriations of surplus) and the related supplementary schedule regarding the said financial year.

2. The result of our audit

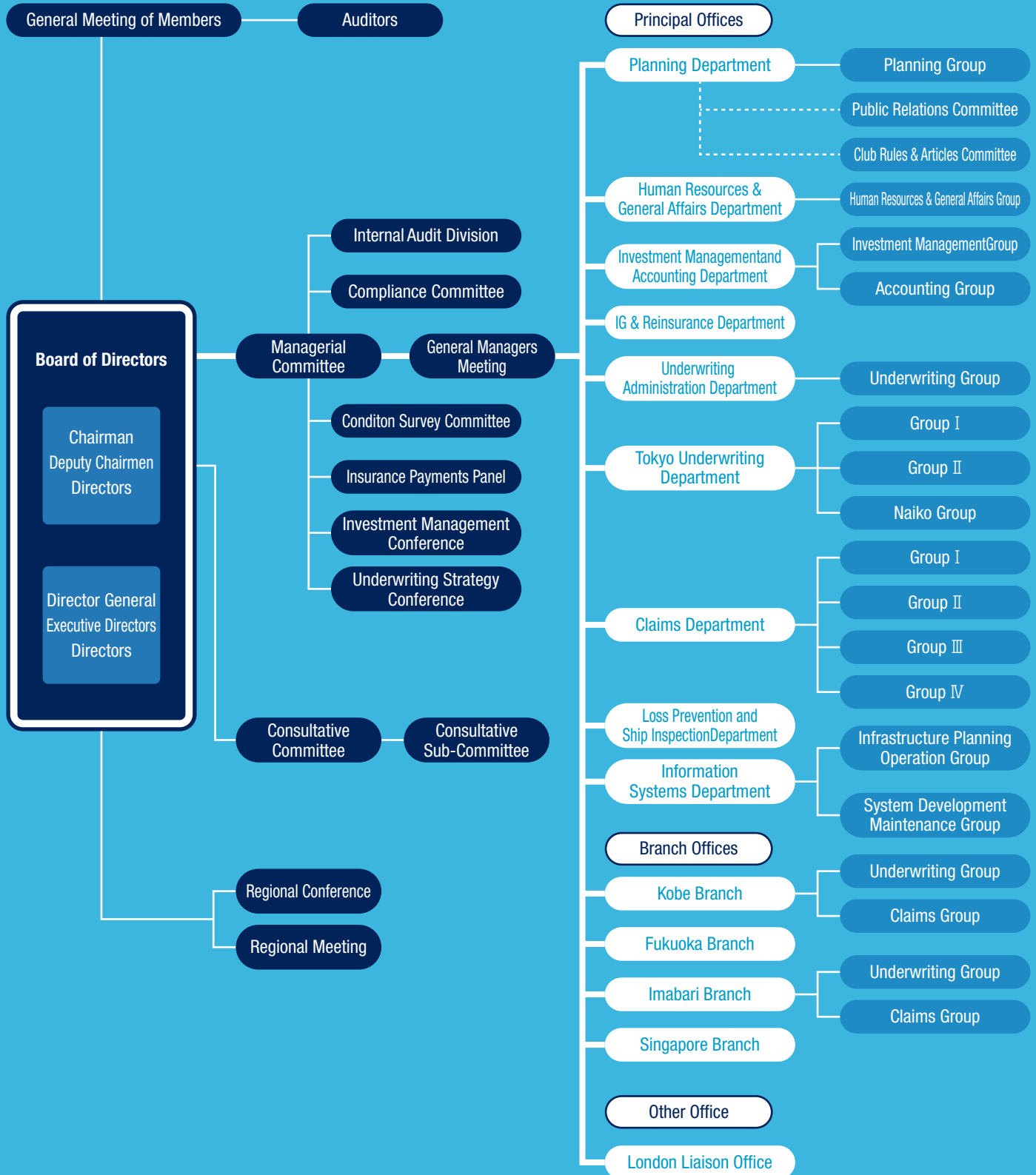
In our opinion, the financial statements and the related supplementary schedule referred to above present fairly, in all material respects of The Japan Ship Owners' Mutual Protection & Indemnity Association.

Auditors of the Association

Shigenori Ishii / Hiroki Kasai / Shunsuke Tsurumaru
9 June 2014

Directors			
Chairman, Representing Director	Koichi Muto	President	Mitsui O.S.K. Lines, Ltd.
Deputy Chairman, Representing Director	Yasumi Kudo	President	Nippon Yusen Kabushiki Kaisha
Deputy Chairman, Representing Director	Jiro Asakura	President	Kawasaki Kisen Kaisha, Ltd.
Directors	Masakazu Yakushiji	President	Daiichi Chuo Kisen Kaisha
	Akihito Okimura	President	Ferry Sunflower Limited
	Takeshi Matsunaga	President	Hachiuma Steamship Co., Ltd.
	Shuhei Ohshima	President	Idemitsu Tanker Co., Ltd.
	Tomoyuki Sekine	President	Iino Kaiun Kaisha, Ltd.
	Takashi Inui	President	Inui Steamship Co., Ltd.
	Michiyasu Kobayashi	President	JX Ocean Co., Ltd.
	Kazuo Hayashida	President	Kyoei Tanker Co., Ltd.
	Takao Ito	President	Mitsubishi Ore Transport Co., Ltd.
	Toru Obata	President	NS United Kaiun Kaisha, Ltd.
	Yoichiro Seno	President	Seno Kisen Co., Ltd.
	Yukito Higaki	President	Shoei Kisen Kaisha, Ltd.
	Shiro Adachi	President	Mitsui O.S.K. Kinkai, Ltd.
	Norio Tabuchi	President	Tabuchi Kaiun Co., Ltd.
	Hisashi Yasui	President	Taiyo Nippon Kisen Co., Ltd.
	Nobuo Sano	President	Tamai Steamship Co., Ltd.
	Yoichi Aoki	Managing Director	Tokyo Marine Asia Pte Ltd
Takashi Uyeno	President & CEO	Uyeno Transtech Ltd.	
In-House Directors			
Director General, Representing Director:	Yoshikazu Minagawa		
Executive Directors, Representing Directors:	Akihisa Kobayashi		
	Nakaji Ohsumi		
	Tsutomu Kawakami		
Directors	Masaru Ogawa		
	Nobuo Sato		
	Hiroaki Sawabe		
Auditors			
	Shigenori Ishii	President	Kawasaki Kinkai Kisen Kaisha, Ltd.
	Hiroki Kasai	President	MOL Ocean Expert Co., Ltd.
	Shunsuke Tsurumaru	President	Tsurumaru Shipping Co., Ltd.

(Note: Names listed above are as at 14 July 2014)



General Managers

PRINCIPAL OFFICE

Planning Department	Tsutomu Kawakami , General Manager
Human Resources & General Affairs Department	Nobuo Sato , General Manager
Investment Management and Accounting Department	Hiroaki Akasaka , General Manager
IG & Reinsurance Department	Royston Deitch , General Manager
Underwriting Administration Department	Shigeru Yamada , General Manager
Tokyo Underwriting Department	Naoyuki Moriya , General Manager
Claims Department	Hiroaki Sawabe , General Manager
Loss Prevention and Ship Inspection Department	Takuzo Okada , General Manager
Information Systems Department	Tetsuo Ishii , General Manager
Internal Audit Division	Toshiya Habu , Chief of Division



Standing left to right : N. Moriya, N. Take, S. Yamada, H. Akasaka, N. Sato, H. Sawabe, T. Habu, T. Ishii
Seated left to right : T. Kawakami, A. Kobayashi, N. Ohsumi, M. Ogawa



Royston Deitch



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(Claim contact point in UK)

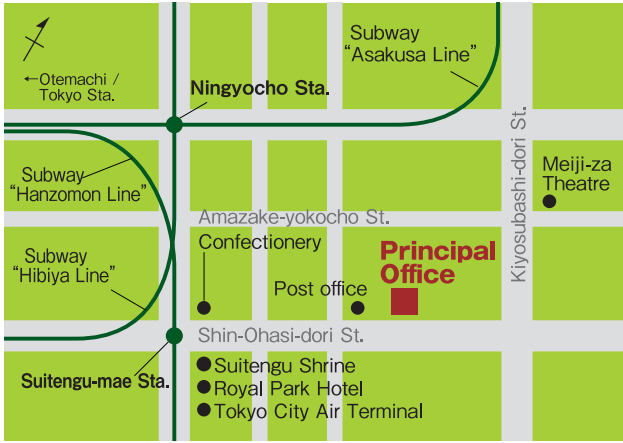
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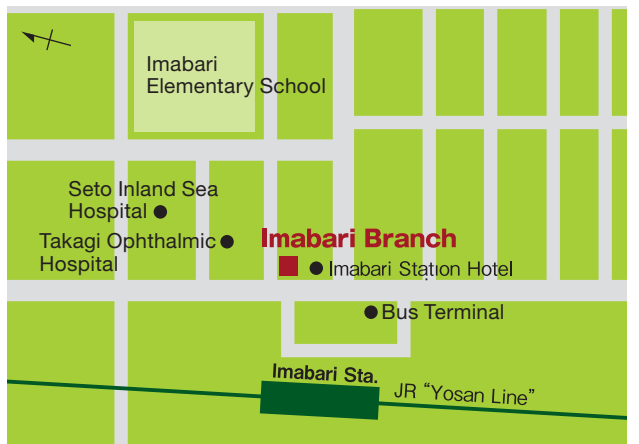
Kobe Branch



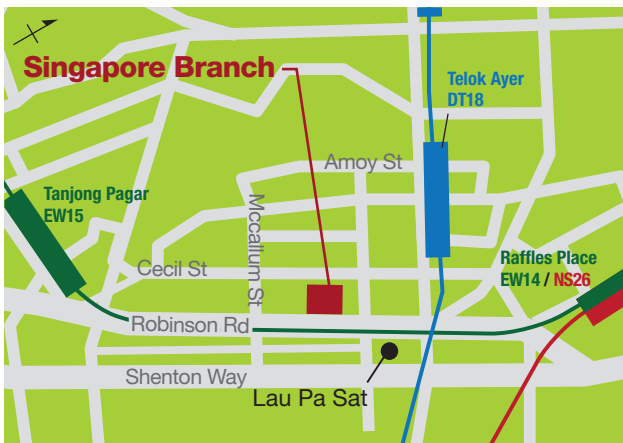
Fukuoka Branch



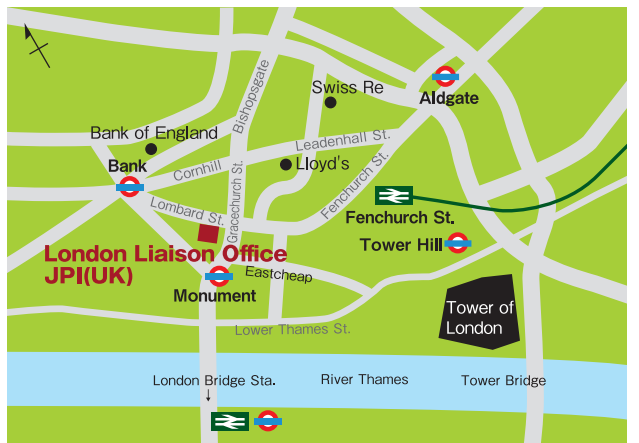
Imabari Branch



Singapore Branch



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The Japan Ship Owners' Mutual Protection & Indemnity Association