



Japan P&I Club  
**Annual Report 2016**



# The Association always wants Members to think of us as their “neighbour” P&I Club.

## Reliability

Thanks to the safe navigation practices employed by Members, the number of claims has remained relatively low for the past 4 years. The Association aims to help this continue by providing further Loss Prevention programs to Members.

## Competitiveness

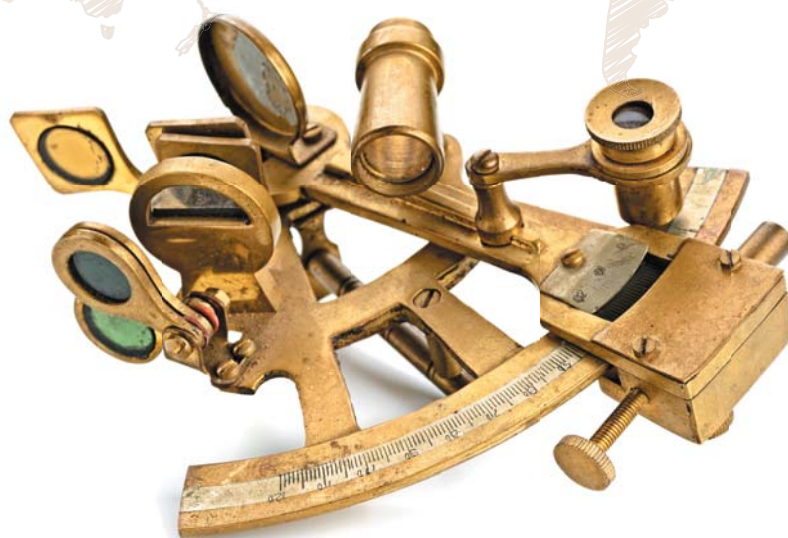
As a result of our sound operation, the Association was able to reduce the percentage of the supplementary call payable for 2014 policy year to 20% from the scheduled 40%. This represents a refund of approximately JPY3,670 million to Members with owners' entries of ocean-going vessels.

## Soundness

Establishing a preliminary framework for an Enterprise Risk Management System, the Association has increased the reserve amount to JPY21,100 million.

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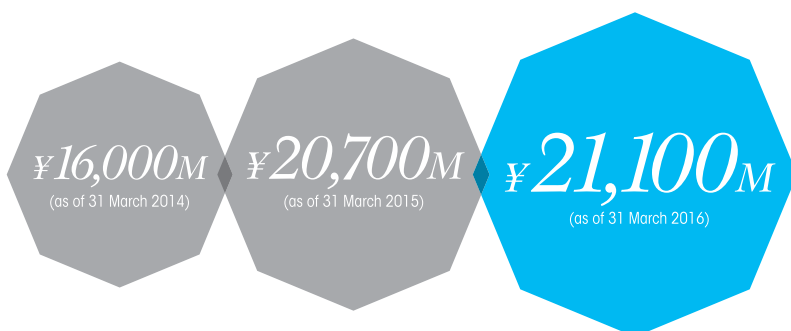
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# Highlights

High Light  
**No.1**

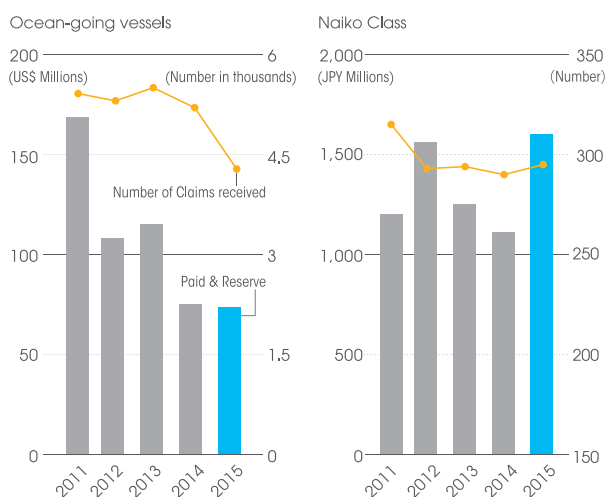
The Reserve amount increased by 1.8 % compared with the 2014 financial year.



The Association faces many risks, and keeping an appropriate Reserve amount enables us to maintain our insurance services at a stable and competitive premium level. For the 2015 financial year, the Association has reduced the percentage of the supplementary call payable for the 2014 policy year to 20% from the scheduled 40%. This represents a refund of approximately JPY3,670 million to Members. In spite of such reduction, the Reserve amount increased by 1.8 %, or JPY 380 million, and reached a total of JPY 21,086 million.

High Light  
**No.2**

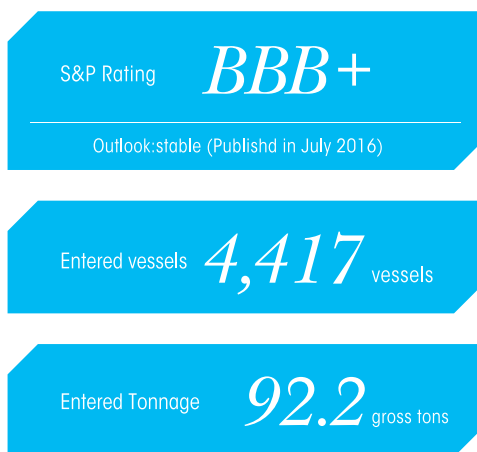
Trends of claims for ocean-going vessels gradually decreasing.



The number of claims has gradually decreased for ocean-going vessels, along with the Paid & Reserve amount. However, for Naiko Class, although the number of claims has been stable, a few serious casualties have resulted in the Paid & Reserve amount considerably increasing in the 2015 policy year compared with the 2014 policy year.

High Light  
**No.3**

Rating and Entered Tonnage keep firm.



The credit rating for the Association given by S&P is maintained at "BBB+ (Outlook: Stable)." Entered tonnage for the 2016 policy year has also remained at about the same level as the beginning of the 2015 policy year.

### The Association aims to create a superior and attractive Insurance Service, by being a “Reliable,” “Sound,” and “Competitive” Association.

First of all, we would like to express our deepest condolences to all those who were affected by the Kumamoto earthquake in April which deprived many people of their precious lives. We sincerely wish that those areas which were affected have a speedy recovery.

#### The start of the new Medium-Term Operational Plan

During the 2015 business year, growing uncertainty prevailed due to an economic slowdown in developing countries such as China and a fall in the price of raw materials. Although Japan managed to exit a period of deflation, the country could not achieve a full-scale economic recovery.

In these circumstances, the business environment for the shipping industry in the 2015 business year continued to be challenging. For ocean-going vessels, the market in the dry bulk and container sectors has remained stagnant throughout the year, because of a downturn in cargo movements and subsequent oversupply of vessels. As regards Japanese coastal vessels (Naiko Class, fixed premium entries), the volume of cargo transported remained restrained due to an ailing economy in Japan.

In such severe business conditions, the Association started the new Medium-Term Operational Plan, entitled “JPI’s CHANGE Phase II”, under which we set out three management strategies, being “Reliability”, “Soundness” and “Competitiveness”. In accordance with these strategies, the Association worked intensively toward becoming the Club of choice for shipowners and operators, by providing a quality insurance service at a competitive price. I would like to take this opportunity to talk briefly about what we have done in respect of these mentioned strategies this year.

#### The benefits of “Reliability,” “Competitiveness,” and “Soundness”

In terms of “Reliability”, the Association enhanced its loss prevention activities and the provision of information useful to Members. In recent years, losses have become larger and more expensive due in part to the increasing size of vessels and growing concerns about the risk of environmental damage. The Association has assisted Members with the increased safe navigation of their vessels by enthusiastically committing to a program of loss prevention seminars given by our experienced master mariner and chief engineer at home and abroad,

and actively providing through a variety of publications information useful for safe navigation. Although the loss record for Naiko Class vessels was unfavourable this year due to some large claims in which a recovery from reinsurance is expected, the loss record for ocean-going vessels was relatively positive. With our loss prevention activities and provision of information, the Association shall continue to support Members in the safe operation of their vessels. We would also ask Members to continue with their safe navigation practices and their support for the Association.

As regards “Soundness”, the Association established a preliminary framework for an Enterprise Risk Management (ERM) system, which aims to ensure the Association’s financial soundness as well as its business operational appropriateness, and to provide Members with insurance premiums charged at a competitive and stable level. The establishment of the ERM system was approved at the 587th Meeting of the Board of Directors on 3rd December 2014, and the Association put in place an internal framework for further operation of the system this year. We shall proceed to improve and develop our ERM system in 2016, and this will result in a more detailed analysis and control of risk being available to the Association.

Further, as to “Competitiveness”, the Association reduced the percentage of the supplementary call payable for the 2014 policy year to 20% from the scheduled 40%. This represents a refund of approximately JPY3,670 million to Members with owners’ entries of ocean-going vessels. For the 2016 renewal, the Association asked Members for a 3% general increase for ocean-going vessels and TCL, although there is a nil general increase for Naiko Class vessels and FD&D entries. We shall endeavour to continue to provide our insurance services at a stable and competitive premium level.

#### Outline of the financial situation of the Association

The Association’s financial situation for this year is summarised as follows. In the 2015 business year, “Ordinary income” decreased by JPY8,683 million from last year to a total of JPY19,690 million. This was mainly due to the decrease in the amount of “Net premium written”, which was caused by the reduction in the supplementary call mentioned above. “Ordinary Expenses” also decreased, by JPY3,279 million to JPY19,867 million, due to a reduction in “Net claims paid” and the “Provision for underwriting reserve”. Consequently, the

“Ordinary surplus” reduced by JPY5,404 million over the last year and fell into deficit of JPY177 million. “Net loss after income taxes” was JPY133 million this year. Despite a small net loss, the level of reserves, which may be used as a barometer of the financial strength of the Association, climbed to JPY21,086 million in total, JPY372 million up from last year. The Association maintained a BBB+ credit rating with a stable outlook, as earned from Standard & Poor’s last year.

### Building a basis for stable and competitive premiums

Business conditions for the Association are expected to be challenging for the next year as the number of vessels scrapped or sold abroad is increasing. However, the Association will steadily move towards further developing our operational plan, JPI’s CHANGE Phase II.

As regards “Reliability”, the Association will further enhance our loss prevention activities in conjunction with Members, so that we can meet their requests, and will strengthen the services we provide Members, including the provision of essential information.

Regarding “Soundness”, the Association shall build a basis for providing stable and competitive premiums through further improvement of the ERM, in which we use a solvency margin ratio as an index to assess the financial soundness of the Association.

The Association will ensure “Competitiveness” with the establishment of a new underwriting scheme suitable for new business areas entered into by Members, and by expanding our activities in the Asian market.

I am confident that through carrying out the above-mentioned activities we can provide high quality insurance services at a competitive and stable premium, and be the P&I Club chosen by Members and trusted for our reliability. All staff will make the utmost efforts to achieve these goals.

I would also ask Members please to ensure that they operate their vessels with loss prevention firmly in mind, and to support us continuously in our further growth. I deeply appreciate the continued support and co-operation shown by Members.

11 July 2016

**Yoshikazu Minagawa,**  
Director General



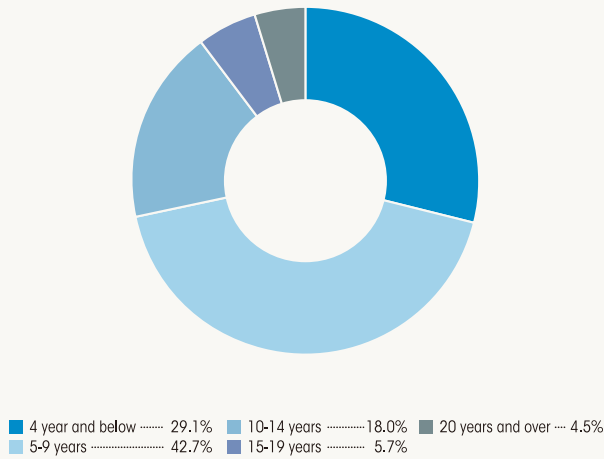


# Business Report

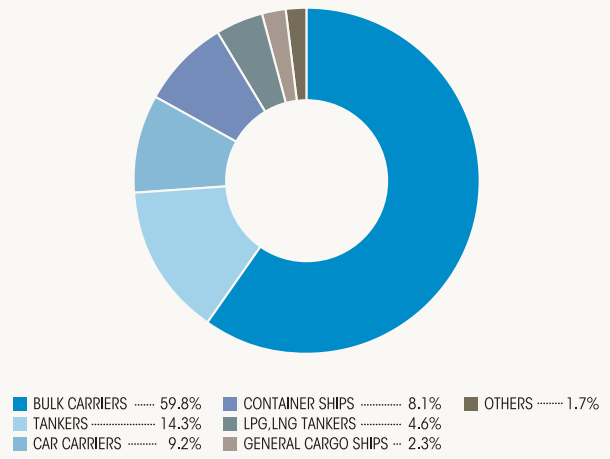
- Entered Tonnage
- Calls / Premiums
- Trend of Claims
- Trend of Pool Claims
- Reinsurance
- Loss Prevention
- Investments
- International Group's (IG's) Topics
- An Enterprise Risk Management System

# Entered Tonnage

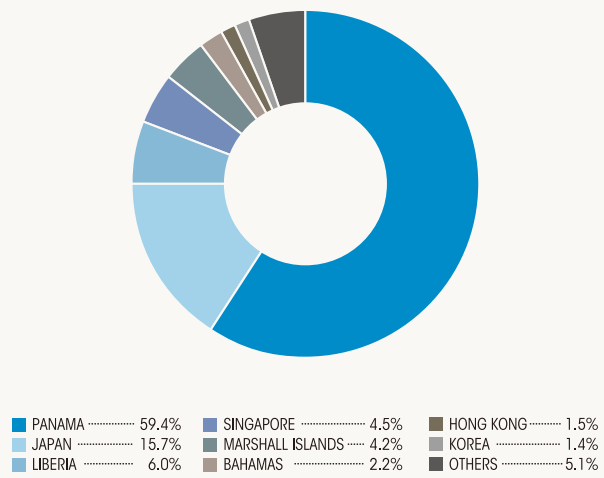
■ Entered Tonnage by Age (as of commencement of the 2016 policy year)



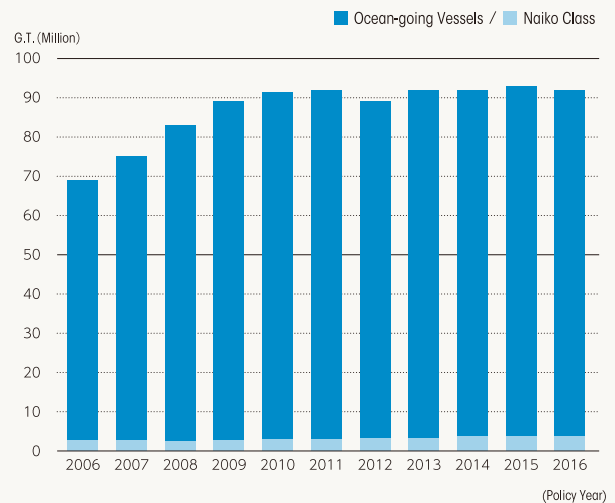
■ Entered Tonnage by Type (as of commencement of the 2016 policy year)



■ Entered Tonnage by Ship's Registry (as of commencement of the 2016 policy year)



■ Entered Tonnage (as of commencement of each policy year)



As of 20 February 2016, in respect of ocean-going vessels, the entered tonnage decreased by 0.9 million gross tons to 89.6 million gross tons. This was in the face of a large number of cancellations due to vessel selling and scrapping during the 2015 policy year. The entered tonnage of Japanese coastal vessels was 2.6 million, almost the same volume as the previous year's, while the number of vessels has slightly decreased. The total entered tonnage has thus decreased by 0.9 million gross tons to 92.2 million gross tons.

The total amount of Charterers' entered tonnage increased by 0.7 million tons to 12.5 million tons compared to the figure at the 2015 policy year renewal.

As to the composition of the Association's entered tonnage by age, more than 70% is less than 10 years old, the same as the previous

policy year. Since 60% of the world fleet is less than 10 years old, it can be said that our Association keeps benefitting from having younger vessels entered. As to the entered tonnage by type, bulk carriers accounted for the most, at more than 60%, followed by tankers and car carriers. Though the top three types have not changed for many years, it is only recently that bulk carriers have come to be the majority type entered.

At the end of the 2015 financial year (31 March 2016), there were 4,417 Owners' entries, comprised of 2,329 ocean-going vessels and 2,088 coastal vessels. The total amount of entered tonnage was 92.2 million gross tons, consisting of 89.6 million gross tons of ocean-going vessels and 2.6 million gross tons of coastal vessels.

## Calls / Premiums

### Renewal at 20 February 2016

For ocean-going vessels (mutual entries), the loss record of the 2014 and 2015 policy years was favourable, with a decreasing trend of claims. The Board, however, decided to levy a 3% increase in advance calls for the 2016 policy year, having focused on the need to maintain the soundness of the Association's income and expenditure, our financial stability, and so on. On the other hand, the International Group's (IG's) reinsurance costs decreased mainly as a result of there being only a very limited number of large claims in excess of the IG's pool limit. The estimated supplementary call for 2015 was set at 40%.

For coastal vessels (fixed premium entries), while some large claims exceeding the Association's retention did occur in the 2015 policy year, the Board decided to leave the basic premium rates unchanged in consideration of the regularly good loss record enjoyed until the 2014 policy year.

### Policy Years

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

#### 2012 Policy Year

As originally estimated, a supplementary call of 40% was levied in January 2014. The Board decided to close the year without levying a further supplementary call as the loss record is presumed not to change in the future.

#### 2013 Policy Year

As originally estimated, a supplementary call of 40% was levied in January 2015. The 2013 policy year remains open with a nil estimate, which will be reviewed this autumn.

#### 2014 Policy Year

A supplementary call of 20% was levied in January 2016 against the original estimated figure of 40% in the light of the year's most favourable loss record in the past 10 years. The further estimated supplementary call rate was reduced to 20%, which will be reviewed this autumn.

#### 2015 Policy Year

The original supplementary call estimate of 40% remains unchanged. This will be reviewed this autumn. The good loss record has been maintained following the 2014 policy year at the moment.

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

Policy Year		2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12	2012 / 13	2013 / 14	2014 / 15	2015 / 16	2016 / 17
General Increase	Mutual Entries	10	20	12.5	12.5	10	3	5	7.5	3	3
	Fixed Premium Entries	0	0	10	0	20	0	0	0	0	0
Supplementary Call Mutual Entries Only	Original Estimate	30	30	40	40	40	40	40	40	40	40
	Amount Called	30	30	40	50	40	40	40	20		
	Current Estimate	Closed	Closed	Closed	Closed	Closed	Closed	Closed	0	20	40

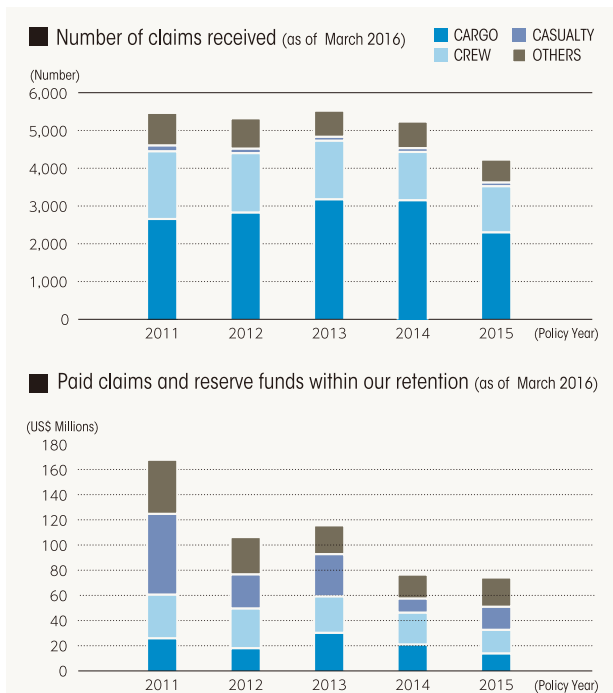


# Trend of Claims

The number of claims has decreased in the past several years, along with the total amount of paid claims and reserve funds within our retention (Paid & Reserve). The total number of claims for ocean-going vessels and Naiko Class for the 2015 policy year was about 4,600. Paid & Reserve was about US\$74 million for ocean-going vessels and JPY1,600 million for Naiko Class. In the 2015 policy year, the Association experienced 2 cases costing more than US\$9 million for ocean-going vessels and 2 cases costing more than JPY300 million for Naiko Class. By contrast, such major incidents did not occur in the previous policy year.

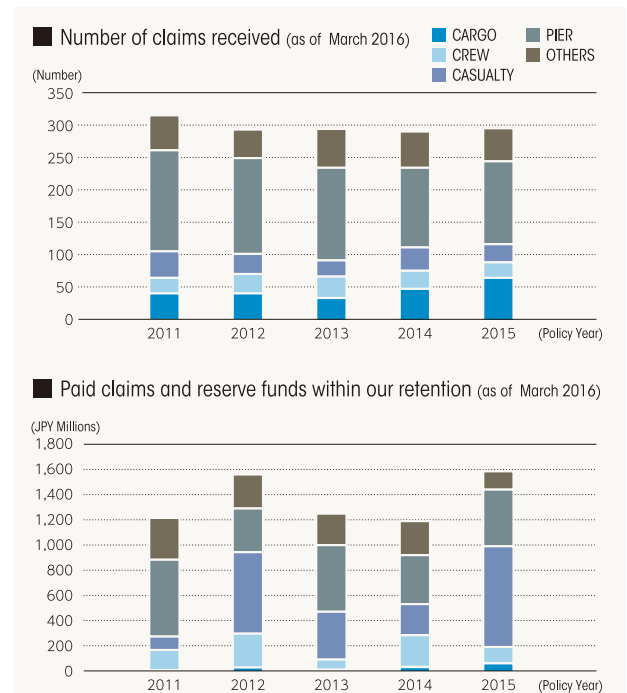
## Ocean-going Vessels

The number of claims has gradually decreased in the past 5 years. The most frequently occurring types of claim have been "Cargo" followed by "Crew". Cargo matters accounted for between 49% and 60% of claims for the past 5 years, although the number varies each year. Crew claims accounted for between 25% and 33%, their number gradually decreasing in the last 5 years. The average number of "Marine Casualties" (collision, sinking, fire, stranding, oil pollution) was about 120 per annum, about 2% of total claims. Although the number of marine casualties is limited, the Paid & Reserve per case can be substantial. Marine casualties significantly affect the loss record, and account for between 15% and 38% of the total Paid & Reserve.



## Naiko Class

The number of claims has been stable for the past 5 years. The most frequently occurring types have been "FFO" (damage to Fixed & Floating Objects), which accounted for between 42% and 51% for the past 5 years. Although the average number of "Marine Casualties" was 32 per annum, or about 11% of total claims, a serious marine casualty has a significant effect on the loss record. In the 2015 policy year, the Association experienced 2 cases costing more than JPY 300 million each and the Paid & Reserve for marine casualties accounted for over 50% of total amount of all Naiko class payments.



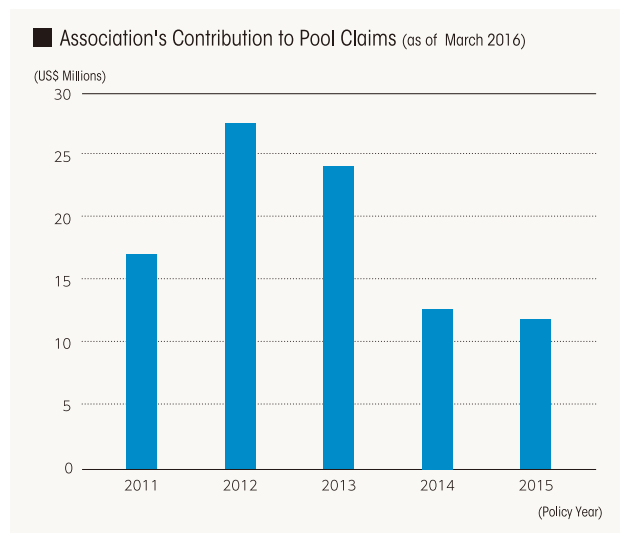
\* "Ocean-going vessels" are entries for vessels engaged in international navigation including "Ocean-going vessels (mutual entries)," "special cover for charterers," "special cover for Freight, Demurrage and Defense (FD&D)" and others. "Naiko Class" consists of entries for vessels which navigate waters, lakes and rivers in Japan (fixed premium entries)."

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## Trend of Pool Claims

The loss record for the 2014 Policy Year was the most benign in recent years. The Association's contribution in the said policy year as of March 2016 is about US\$12.8 million, which is approximately half the amount in the 2013 Policy Year.

While the number of claims notified to the IG Clubs for the 2015 Policy Year was not as high as that for recent years, one claim exceeds the pool limit of US\$80 million. The Association's contribution in the said policy year as of March 2016 is about US\$12.1 million, which is slightly higher than that for the 2014 Policy Year as of March 2015 (about US\$10.9 million).



# Reinsurance

In recent years, ship owners' liabilities, as covered by the P&I Clubs, have continued to increase under International Maritime Conventions and regional and national legislation and regulations. In addition, with vessel sizes becoming larger, once an accident happens, losses become greater and more expensive. Effective reinsurance arrangements play a key role in stabilising the insurance risk exposure which the Association may face as a result of huge losses and in providing the insurance cover necessary for Members at a fair and reasonable cost.

The Association's reinsurance arrangements consist of the Association's own reinsurance programme and a share in the International Group Pool and Reinsurance programme.

## Group Pool and Reinsurance Programme

The 2015 policy year was a benign claims year in terms of both number and amount. In particular, as of 20 February 2016, only one claim had reached the Group's market reinsurance (general excess loss) attachment point of USD 80 million. This, combined with increased market capacity, resulted in reductions in reinsurance rates for all kinds of vessels.

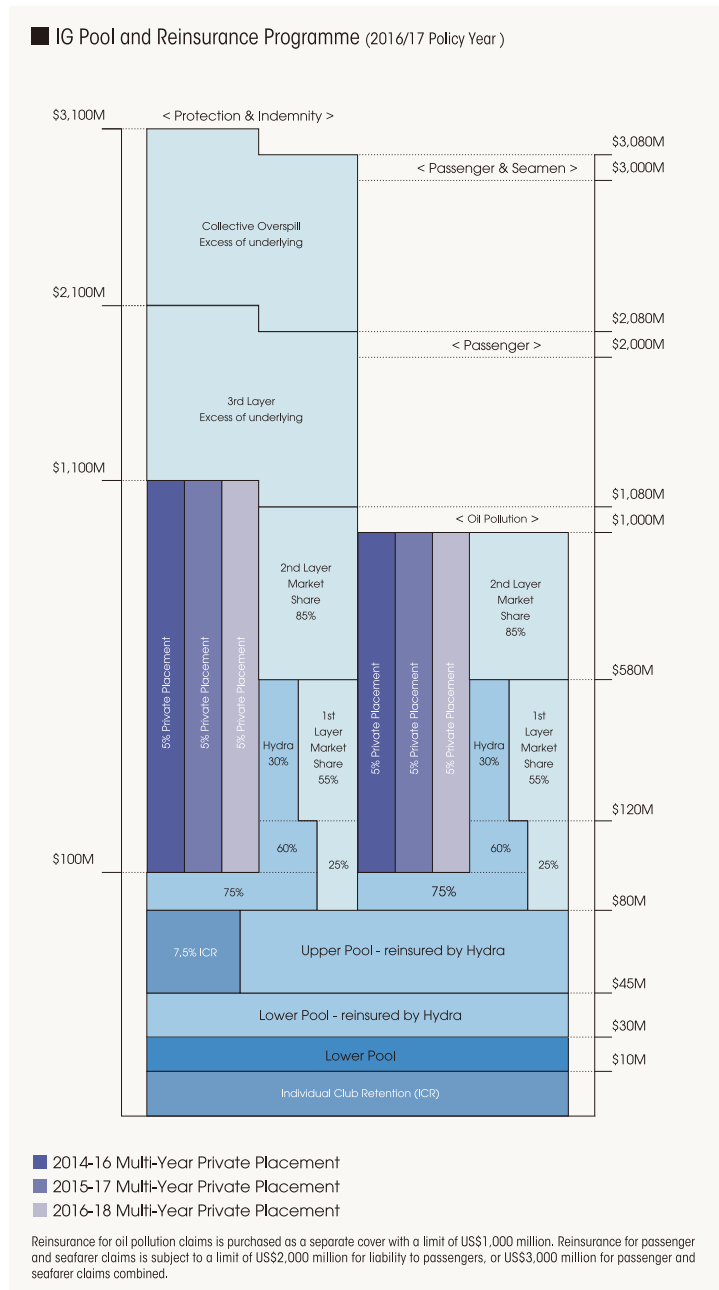
### General Structure

Commercial reinsurance cover of just over USD 3 billion is provided to the Members of all Clubs in the International Group.

Please see the diagram on the right for further details of the programme.

## The Association's Own Reinsurance Arrangements

The Association has arranged our own reinsurance programme for Coastal Vessels, Charterers, FD&D and claims within the Club Retention of USD10 million in order to achieve and maintain stable risk management. Since over the last few years including the 2015 policy year, very few new claims have been made on the Association's own reinsurance, and as a result of the soft reinsurance market, we were able to renew the overall programme on improved terms. The loss records for some reinsurance products have still not fully recovered from previous claims years and some accidents significant enough to lead to a recovery from reinsurers have happened. Nonetheless, we were able to achieve the current renewal conditions, thanks to longstanding relationships with our reinsurance partners.



## Loss Prevention (Preventing Accidents and Improving Safety Measures)

Because of the increase in the size of vessels, once an accident occurs, the claim amount tends to be more expensive. There is also a growing awareness of environmental damage, so that when a significant accident occurs, not only does the claim amount become expensive, but the Member's business is very likely to be adversely affected.

The Association is enhancing its loss prevention activities to contribute to the prevention not only of P&I losses but of any sort of maritime accidents. Our Loss Prevention Dept. staff can draw on the excellent experience gained as master mariners or chief engineers to provide valuable information to our Members for the safe voyages of their ships.

Our 4 major activities are;

1. Loss Prevention Seminars : to raise safety awareness amongst our Members;
2. Claims Analysis : to try and get the full picture of what causes maritime accidents by analysing situations surrounding maritime accidents today;
3. Publication of Loss Prevention Bulletins : to provide and publish useful information to our Members;
4. Condition Surveys : to check the condition of vessels, at a time and place agreed with Members.

### Loss Prevention Seminars (Raising safety awareness)

The Association has focused on the presentation of Loss Prevention Seminars by an experienced master mariner. So far in Japan, seminars have been held not only at our main and branch offices, i.e. Tokyo, Kobe, Fukuoka, and Imabari, but in Hakodate, Nagoya, Tokuyama, Takamatsu, Hakatajima, Saiki, and Okinawa as well. The activities have also been expanded abroad and seminars have been held in Korea, Hong Kong, Taiwan, Singapore and the Philippines.

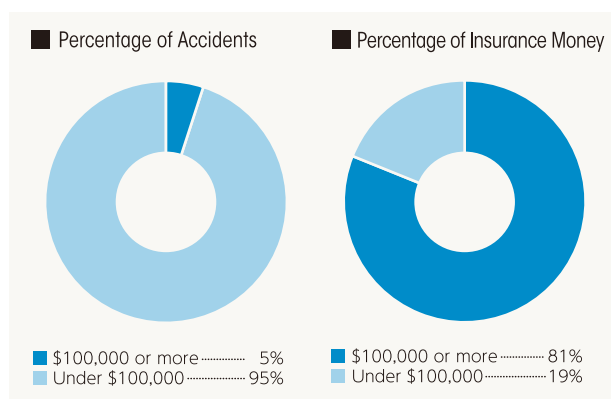
In Japan	Thinking Safety (Bridge Resource Management and Engine-room Resource Management) Preventing Cargo Shortage
Abroad	Large Claim Analysis and Trends =Reducing the Number of Large Claims= Thinking Safety

There has been an increasingly large turnout at every seminar so far, and in the 2015 Policy year the total number of participants exceeded 1,100. The Association shall continue to attempt further refinement of our seminars and, moreover, offer special seminars upon our Members' request, at occasions such as workshops or safety meetings. Please feel free to contact us with your requests. We are now planning to hold a seminar on "Thinking Prevention of Engine Trouble" in the 2016 Policy year.

In addition, since the 2014 Policy year, the Association has provided an "analysis of claims of each Member". Upon request, the Association provides Members with a report on claim tendencies for the past few years and a comparison of the result with overall trends. By this, the strength and the areas to be reviewed for each Member can be identified, and the Association can assist loss prevention measures in a more targeted fashion.

### Claim Analysis (Analysing situations surrounding maritime accidents today)

The Association published Loss Prevention Bulletin Vol. 33 (Large Claim Analysis and Trends ~Reducing the Number of Large Claims~) in January 2015, and in this bulletin the Association analysed the trends and causes of claims handled by the Association over the past 7 years. The Association continues this analysis, as it has led to the formulation of countermeasures used to reduce the incidence of these accidents. One interesting trend was that whilst the number of claims worth \$100,000 or more accounted for roughly 5% of the total claims, the insurance money paid for claims worth \$100,000 or more accounted for more than 80% of the total. This fact reinforces the importance of preventing such claims. The Association will continue to strive to provide Members with useful information on matters such as maritime safety, environmental protection, and control of cargo damage etc. by data analysis.





#### Loss Prevention Bulletins (Providing useful information)

Loss Prevention Bulletins focus on issues that are of the utmost concern in recent years and are a way of preventing accidents or mitigating any damage caused. During the 2015 Policy year, the Association published Bulletins on 3 topics.

Vol.34	Bridge Watchkeeping and Collision Avoidance
Vol.35	Thinking Safety =Bridge Resource Management and Engine Room Resource Management=
Vol.36	Cranes, Their Operation and Reasons For Failures

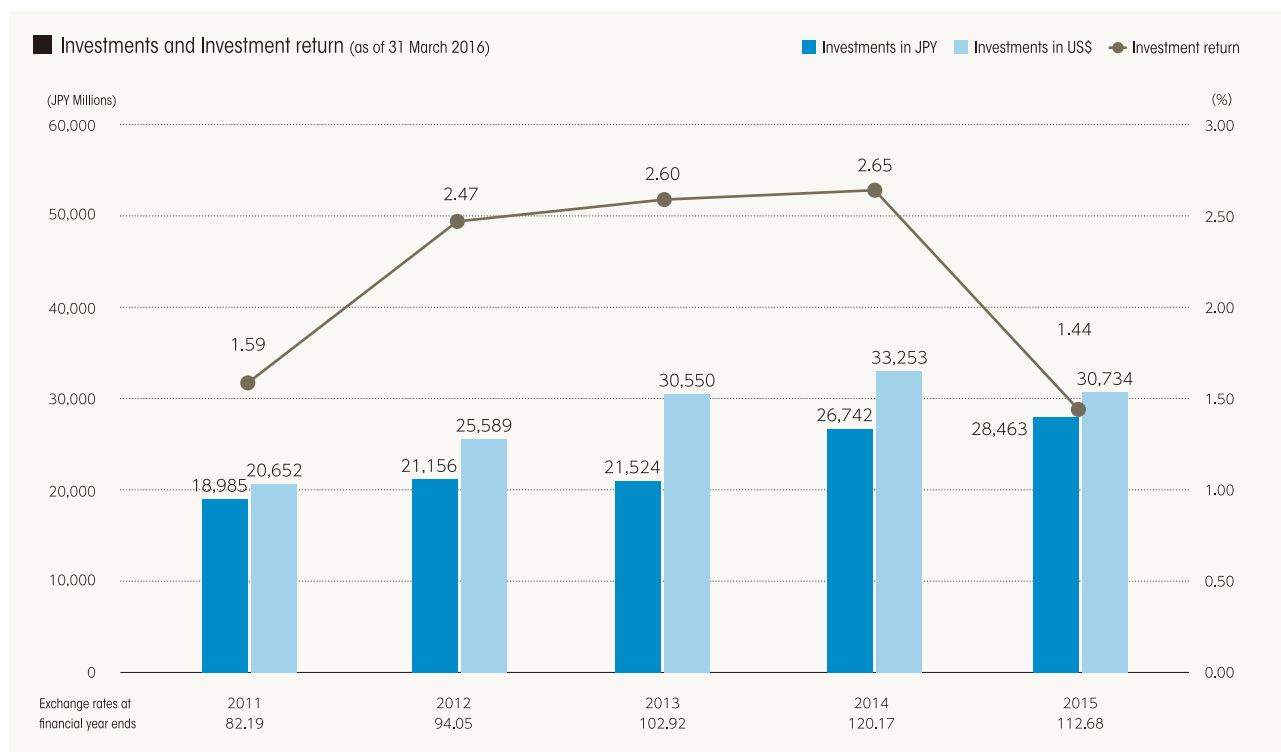
The Bulletins are useful measures for loss prevention and thus relevant not only to our Members working on the shore side but to ship personnel on-board. The Association should be much obliged if Members would send the bulletins to vessels and apply the contents to reduce the numbers of incidents on daily basis. Electronic bulletins are also available on our website to browse and to download. And the Association encourages Members to access the bulletins by whichever digital device they prefer.

#### Condition Surveys (Checking the condition of vessels on site)

The Association believes that Condition Surveys are an important means of checking the seaworthiness, management system and cargoworthiness of entered vessels in order to prevent accidents and alleviate damages caused by accidents. Condition Surveys are carried out using survey forms developed with the International Group of P&I Clubs to check various aspects of the ship. They cover not only seaworthiness but look at identifying risks which could lead to P&I Claims as well. Included therefore is an inspection of software used, for example in the management system, and of hardware, to prevent cargo damage. The Association's Condition Surveys can be used as a convenient tool for superintendents and management companies, busy with the enormous amount of daily business with the enhancement of loss prevention measures and provide independent over-sight of the condition of the ship.

With the aim of prevention and mitigation of further accidents, The Association is very keen on promoting loss prevention activities to our Members. Our Members' kind understanding would be highly appreciated.

# Investments



## Investments

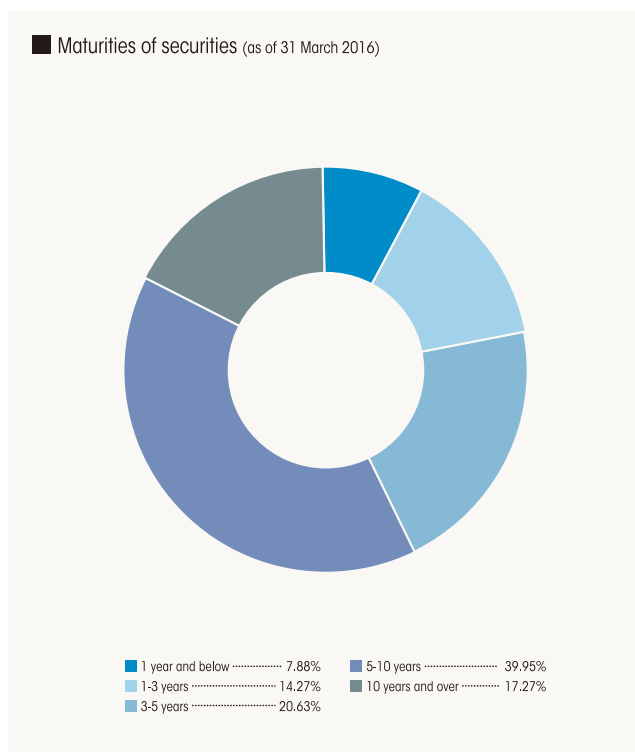
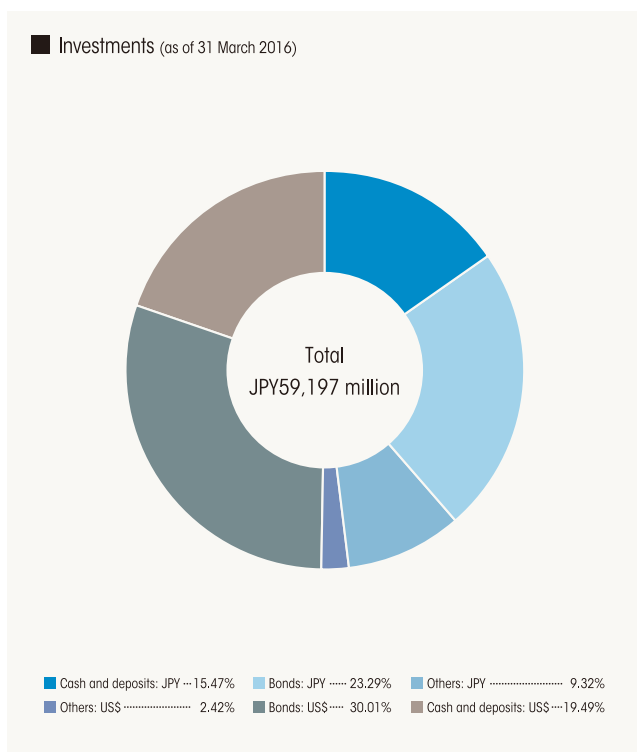
The Japanese economy continued its moderate recovery trend against a background of a steady improvement in the employment and income figures, and corporate profits showing a moderately increasing trend. Exports and production have been sluggish, however, due mainly to the effects of the slowdown in emerging economies. The Nikkei 225 Stock Average, which was JPY19,000 at the beginning of the financial year (which runs 1 April 2015 to 31 March 2016; hereinafter "the FY"), fell in the second half of August, this being triggered by the devaluation of Chinese Yuan. The Average had reached over JPY20,000 in the summer of 2015. The Stock Average hit a low in October, but then rose in a positive response to the increase in US interest rates till December. The Average finally ended the FY at a high of JPY16,000. The rise was also helped by a significant appreciation in the value of the JPY and the fall in the oil price. Japanese long term interest rates rose from a high of 0.3% at the beginning of the FY to 0.5% in July 2015. However, the rates decreased to ▲0.05% at the end of the FY in line with the negative interest rate policy driven by the Bank of Japan. Long term interest rates in the US rose to 2.5% in June 2015 from 1.8% at the start of

the FY but bowed out at the end of the year at 1.7%.

Interest and dividends received during the year decreased by JPY492 million to JPY783 million. The investment return declined to 1.44%, lower than the previous financial year.

The bond investment environment stayed severe, with long term JPY and US\$ interest rates falling to lower levels. Large profits generated in the previous financial year by investment trusts, including domestic equities, turned to losses. These factors are the main reason why asset management results excluding bonds showed a loss of JPY4 million.

The total value of investments held by the Association decreased by JPY798 million or 1.3% to JPY59,197 million. In addition, as a proportion of total assets, the level of investments increased by 0.3% to 89.9%. However, the decrease in US Dollar investments was JPY2,047 million due to a fall in the exchange rate from JPY120.17/US\$ to JPY112.68/US\$, which actually means increase of the JPY1,249 million.



There was no change in the basic plan for low risk investments during the FY. However, the proportion of assets other than bonds increased. This was due mainly to additional investment in investment trusts insulated from the influence of stock market prices.

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

There is a risk that the Association's liabilities in foreign currencies may deteriorate as a result of currency fluctuations. The Association holds funds in US\$ 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 2016 was 5.18%.

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.

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## International Group's (IG's) Topics

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### Lifting of Certain Sanctions against Iran under the Joint Comprehensive Plan of Action (JCPOA)

Following IAEA's confirmation that Iran had implemented the key nuclear-related measures described in the JCPOA, 'Implementation Day' was announced on 16 January 2016. This triggered the general lifting of EU sanctions. There are exceptions, such as where there are prior authorisation requirements in respect of certain materials. The measures targeted amongst other things maritime trade with Iran, including the insurance of vessels engaged in such trade and the provision of insurance and reinsurance cover to Iranian vessels and entities.

At the same time there has been a partial lifting of U.S. sanctions and prohibitions i.e. measures and prohibitions on non-U.S. persons and entities, or secondary sanctions. Secondary sanctions will, however, continue to apply to non-U.S. persons where, for example, they knowingly facilitate financial transactions with or provide material or certain other support to those Iranian or Iran-related persons that remain or are placed on the SDN list.

However, the U.S. Administration has not repealed or relaxed primary U.S. prohibitions on U.S. entities engaging with Iranian businesses and persons. Primary sanction prohibitions on U.S. financial institutions, U.S. Dollar transactions, and the provision of insurance by U.S. insurers and reinsurers will remain in place. U.S. persons will continue to be generally prohibited from exporting goods, services, or technology

directly or indirectly to Iran, including extending insurance cover to, or paying claims involving, Iran. For example, it will not be possible for Members to engage in Iran trades or with Iranian entities in U.S. dollars, and many banks and financial institutions with U.S. interests will either be unable to engage with Iran at all or to a limited extent only. In case of trading with Iran, it is necessary to check the Specially Designated Nationals List (SDN List) and EU Consolidated List through the website of the U.S. Treasury's Office of Foreign Assets Control (OFAC) and EU respectively.

Further, the continuation of U.S. primary sanctions against Iran will continue to impact on the ability of U.S. insurers and reinsurers to provide cover to Iranian entities and to pay claims involving Iranian entities or Iran trade. There are considerable numbers of U.S. reinsurer participants on the Group General Excess of Loss programme. International Group Club rules provide that the risk of shortfalls in recoveries within the pool or under collective International Group reinsurances remain with the Member. However, the International Group has made arrangements for "fall back reinsurance", which provides cover for a shortfall in reinsurance occurring due to an Iranian interest in the claim. Members should note that "Fall back reinsurance" is limited in scope and not a long-term solution for Members seeking to trade to Iran.

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### Increase in Limits of Liability under LLMC 96

In April 2012, the Legal Committee of the International Maritime Organisation (IMO) adopted amendments to the 1996 Protocol (Protocol) to the 1976 Convention on Limitation of Liability for Maritime Claims (LLMC), to increase the limits of liability by 51%. The amendments entered into force in June 2015.



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### The Maritime Labour Convention

The Maritime Labour Convention (MLC) entered into force on 20 August 2013 and has been ratified by more than 60 States. Amendments to the Convention were adopted in 2014 and will enter into force on 18 January 2017.

The amendments include an extension of financial security requirements in respect of the payment of 4-months' unpaid wages and repatriation expenses following the abandonment of seafarers, as well as financial security requirements for death and/or long-term disability as a result of occupational injury and illness. The amendments provide that certificates evidencing compliance with the financial security requirements of the Convention shall be displayed on board vessels.

All International Group Clubs agreed to the extension of Club cover to meet the requirements imposed by the amended MLC which enter into force in 18 January 2017. The International Group is in the process of considering the wording of templates for the certificates of financial security to be shown on board, and of arranging reinsurance.



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## An Enterprise Risk Management System

In some maritime casualties, losses covered by a P&I Club may become very expensive. This is because such casualties can occur anywhere in the world vessels trade, and the expenses and liabilities covered by P&I Clubs can vary greatly in different jurisdictions. The operation of our P&I business involves several kinds of risk, and it is important for the Association to control such risks in an appropriate manner in order to ensure the stable management of the Association.

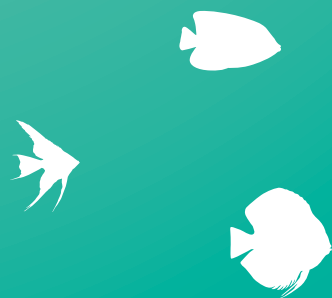
An Enterprise Risk Management (ERM) system aims to ensure the Association's financial soundness as well as its business operational appropriateness through controlling the Association's entire business risks in comparison with its equity capital (reserve), and keeping the reserve amount to the level allowing the Association to continue the business faced with a variety of risks.

The ERM enables us to calculate the level of the reserve amount which the Association needs for continuous and stable business operations, and also assists by measuring the level of risk to consider whether the Association should enter into new business areas.

The ERM system, which the Association shall proceed to improve and develop further in 2016, contributes to ensure the Association's financial soundness and to provide Members with insurance premiums charged at a competitive and stable level.

# Financial Statements

- Report of the Independent Auditors
- Income and Expenditure Accounts
- Balance Sheets
- Statements of Cash Flows
- Notes to the Financial Statements
- Reserves
- Policy Year Statements



# 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 2016 and 2015, 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 A and B 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 A and B 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 auditing 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 A and B to the financial statements.

### *Basis of accounting*

Without modifying our opinion, we draw attention to Notes A and B 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 2016 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 A-2 to the financial statements.

*PricewaterhouseCoopers Aarata L.L.C.*

14 July 2016

### *Notice to Readers:*

The presentation of "Note C 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 LLC*

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## Income and Expenditure Accounts (for the years ended 31 March 2016 and 2015)

	Notes	Unit:JPY Millions		Unit:US\$000s
		2016	2015	2016 Note A-2
<b>Operating income</b>				
Calls and premiums written	B-3,C-1	¥25,198	¥28,919	\$223,623
Reinsurance premiums ceded	B-3,C-2	6,674	6,640	59,229
Net premiums written	B-3	18,524	22,279	164,394
Change in unearned premium reserve	B-3	299	(909)	2,657
Exchange losses from underwriting activities		(228)	(59)	(2,022)
Interest and dividends income	B-3,C-3	827	799	7,341
Gains (losses) on money trusts	B-3	(48)	459	(429)
Profit on sales of securities		4	17	34
Foreign currency exchange gains (losses) from investing activities		(2,110)	3,944	(18,728)
Other ordinary income		124	653	1,101
<b>Total operating income</b>		<b>17,392</b>	<b>27,183</b>	<b>154,348</b>
<b>Operating costs and expenses</b>				
Claims paid	B-3,C-4	18,451	22,543	163,741
Reinsurance claims recovered	B-3,C-5	4,940	6,471	43,839
Net claims paid	B-3	13,511	16,072	119,902
Change in reserve for outstanding claims	B-3	621	2,631	5,514
Change in catastrophe reserve		557	671	4,948
Operating expenses	B-3	2,737	2,439	24,290
Other ordinary expenses		143	143	1,266
<b>Total operating costs and expenses</b>		<b>17,569</b>	<b>21,956</b>	<b>155,920</b>
<b>Ordinary surplus (deficit)</b>		<b>(177)</b>	<b>5,227</b>	<b>(1,572)</b>
<b>Special losses</b>				
Other special losses		0	0	0
<b>Surplus (deficit) before income taxes</b>		<b>(177)</b>	<b>5,227</b>	<b>(1,572)</b>
Current income taxes		233	1,597	2,068
Deferred income taxes	B-19,20	(277)	(131)	(2,459)
<b>Total income taxes</b>	B-4	<b>(44)</b>	<b>1,466</b>	<b>(391)</b>
<b>Surplus (deficit) after income taxes</b>		<b>(133)</b>	<b>3,761</b>	<b>(1,181)</b>
Surplus (deficit) balance after appropriation	B-5	10	9	87
<b>Unappropriated surplus (deficit), ending balance</b>		<b>¥(123)</b>	<b>¥3,770</b>	<b>\$(1,094)</b>
				¥112.68=US\$1.00

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

## Balance Sheets (as of 31 March 2016 and 2015)

Notes	Unit:JPY Millions		Unit:US\$000s	
	2016	2015	2016 Note A-2	
<b>Assets</b>				
Cash and deposits at banks	B-10,C-6	¥20,781	¥17,900	\$184,425
Money trusts	B-7,10,C-7	3,035	2,782	26,938
Securities	B-6,10,22,C-8	35,467	39,314	314,755
Property, plant and equipment	B-8,18,C-9	1,097	1,094	9,734
Intangible assets	B-9,C-10	229	136	2,032
Other assets	B-10,14,C-11	2,039	2,943	18,093
Deferred tax assets	B-19,20	3,227	2,919	28,642
Reserve for bad debts	B-10,12	(39)	(112)	(343)
<b>Total assets</b>		<b>65,836</b>	<b>66,976</b>	<b>584,276</b>
<b>Liabilities</b>				
Technical provisions				
Reserve for outstanding claims	B-23,C-12	31,377	30,755	278,459
Unearned premium reserve	B-23,C-13	11,238	11,537	99,732
Catastrophe reserve	B-16	14,929	14,372	132,494
Other liabilities				
Reserve for bonuses	B-10,C-14	1,923	3,796	17,069
Reserve for directors' retirement benefits	B-13	101	95	894
	B-15	112	79	992
<b>Total liabilities</b>		<b>59,680</b>	<b>60,634</b>	<b>529,640</b>
<b>Net assets</b>				
Capital contribution fund		121	125	1,075
Retaining earnings	C-15	5,392	5,525	47,852
Net unrealized gains on securities	C-16	643	692	5,709
<b>Total net assets</b>		<b>6,156</b>	<b>6,342</b>	<b>54,636</b>
<b>Total liabilities and net assets</b>		<b>¥65,836</b>	<b>¥66,976</b>	<b>\$584,276</b>
				¥112.68=US\$1.00

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

## Statements of Cash Flows (for the years ended 31 March 2016 and 2015)

	Unit:JPY Millions		Unit:US\$000s
	2016	2015	2016
Note			Note A-2
<b>Cash flows from operating activities</b>			
Surplus before income taxes	¥(177)	¥5,227	\$(1,572)
Depreciation	110	85	975
Increase in reserve for outstanding claims	621	2,631	5,514
(Decrease) increase in unearned premium reserve	(299)	909	(2,657)
Increase in catastrophe reserve	558	671	4,948
(Decrease) increase in reserve for bad debts	(74)	37	(658)
Increase in reserve for bonuses	6	10	53
Increase (decrease) in reserve for directors' retirement benefits	32	(24)	288
Decrease in reserve for losses of reinsurance	-	(609)	-
Interest and dividend income	(827)	(799)	(7,341)
Foreign currency exchange losses (gains)	2,110	(3,944)	18,727
Losses (gains) on specified money trust	47	(459)	418
Gains on securities	(4)	(17)	(34)
Losses on property, plant and equipment	0	0	0
Decrease (increase) in other assets	885	(1,281)	7,850
(Decrease) increase in other liabilities	(531)	430	(4,711)
Sub-total	2,457	2,867	21,800
Interest and dividends received	851	797	7,555
Income taxes paid	(1,574)	(427)	(13,969)
Net cash provided by operating activities	<b>1,734</b>	<b>3,237</b>	<b>15,386</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	(33)	(7)	(293)
Purchases of intangible assets	(173)	(4)	(1,531)
Purchases of time deposits	(2,440)	(3,210)	(21,656)
Proceeds from maturity of time deposits	2,948	3,223	26,164
Purchases of specified money trust	(300)	(1,000)	(2,662)
Purchases of securities	(5,886)	(2,515)	(52,232)
Proceeds from sales or maturity of securities	2,616	3,066	23,212
Net cash used in investing activities	<b>(3,268)</b>	<b>(447)</b>	<b>(28,998)</b>
<b>Cash flows from financing activities</b>			
Proceeds from members of capital contribution fund	4	4	31
Refund to members of capital contribution fund	(8)	(12)	(68)
Net cash used in financing activities	<b>(4)</b>	<b>(8)</b>	<b>(37)</b>
Effect of foreign currency exchange rate changes on cash and cash equivalents	(564)	1,362	(5,010)
Net increase in cash and cash equivalents	(2,102)	4,144	(18,659)
Cash and cash equivalents at beginning of year	21,869	17,725	194,083
Cash and cash equivalents at end of year	<b>¥19,767</b>	<b>¥21,869</b>	<b>\$175,424</b>
			¥112.68=US\$1.00

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

# Notes to the Financial Statements

## A. 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 2016 have been translated into U.S. Dollars at the rate of  $\text{¥}112.68 = \text{U.S.}\$1$ , the middle rate prevailing on the Tokyo foreign exchange market on 31 March 2016. The functional currency of the Association is Japanese Yen, and the translation to the US Dollars is only for the convenience of readers.

## B. 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 2016 and 2015, the aggregate revenue of business transacted with the subsidiary companies amounted to  $\text{¥}37$  million ( $\$329$  thousand) and  $\text{¥}36$  million, respectively, and the aggregate expenses amounted to  $\text{¥}45$  million ( $\$402$  thousand) and  $\text{¥}46$  million, respectively.

3 : ① Net premiums written consist of the following:

	Unit:JPY Millions		Unit:US\$000s
	2016	2015	2016
			Note A-2
Calls and premiums written	¥25,198	¥28,919	\$223,623
Reinsurance premiums ceded	6,674	6,640	59,229
Net premiums written	¥18,524	¥22,279	\$164,394

The year ended 31 March 2016 includes 20% Supplementary Call for Policy Year 2014 in the amount of  $\text{¥}3,669$  million ( $\$32,560$  thousand). The year ended 31 March 2015 includes 40% Supplementary Call for Policy Year 2013 in the amount of  $\text{¥}7,227$  million.

② Net claims paid consist of the following:

	Unit:JPY Millions		Unit:US\$000s
	2016	2015	2016
			Note A-2
Claims paid	¥18,451	¥22,543	\$163,741
Reinsurance claims recovered	4,940	6,471	43,839
Net claims paid	¥13,511	¥16,072	\$119,902

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

	Unit:JPY Millions		Unit:US\$000s
	2016	2015	2016
			Note A-2
Change in reserve for outstanding claims, gross of reinsurance	¥124	¥1,393	\$1,099
Change in reserve for ceded outstanding claims	(497)	(1,238)	(4,415)
Change in reserve for outstanding claims	¥621	¥2,631	\$5,514

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

④ Change in reserve for outstanding claims consists of the following:

	Unit:JPY Millions		Unit:US\$000s
	2016	2015	2016
			Note A-2
Change in unearned premium reserve, gross of reinsurance	(¥299)	¥909	(\$2,657)
Change in ceded unearned premium reserve	-	-	-
Change in unearned premium reserve	(¥299)	¥909	(\$2,657)

⑤ Operating expenses consist of the following:

	Unit:JPY Millions		Unit:US\$000s
	2016	2015	2016
			Note A-2
Personnel expenditure	¥1,610	¥1,507	\$14,289
Cost of supplies	828	678	7,351
Brokerage	400	391	3,549
Reinsurance commission	(211)	(222)	(1,874)
Depreciation	110	85	975
Total	¥2,737	¥2,439	\$24,290

⑥ Interest and dividends income consist of the following:

	Unit:JPY Millions		Unit:US\$000s
	2016	2015	2016
			Note A-2
Interest on deposits and savings	¥72	¥54	\$641
Interest on securities	755	745	6,700
Total	¥827	¥799	\$7,341

⑦ For the years ended 31 March 2016 and 2015 valuation gains/(losses) of (¥47 million)(\$418 thousand) and \$459million are included in "Gains on money trusts", respectively.

4 : Reconciliations between the effective statutory tax rate and the actual effective tax rate after application of deferred tax accounting for the year ended 31 March 2016 and 2015 are as follows:

	2016	2015
Effective statutory tax rate	27.92%	27.93%
Increase of deferred tax assets at the balance sheet date caused by change in effective statutory tax rate	0.56%	-
Entertainment and other expenses not deductible for tax purposes	△2.72%	0.12%
Taxation on per capita basis	△0.84%	0.03%
Others	△0.05%	△0.03%
Actual effective tax rate	24.86%	28.05%

5 : Movement of unappropriated surplus (deficit) consists of the following:

	Unit:JPY Millions		Unit:US\$000s
	2016	2015	2016
			Note A-2
Beginning unappropriated surplus balance	¥3,770	¥919	\$33,456
Transferred to special reserves	(3,760)	(910)	(33,369)
Surplus balance after appropriation	10	9	87
Surplus (deficit) after income taxes	(133)	3,761	(1,181)
Ending unappropriated surplus (deficit) balance	(¥123)	¥3,770	(\$1,094)

On July 11 2016, the amount of ¥130 million (\$1,154 thousand) will be transferred from special reserves to compensate the amount of ending unappropriated deficit balance \$123 million (\$1,094 thousand).



**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 2016 and 2015 are as follows:

	Unit:JPY Millions						Unit:US\$000s		
	2016			2015			2016		
	Balance Sheet amounts	Fair value	Difference	Balance Sheet amounts	Fair value	Difference	Balance Sheet amounts	Fair value	Difference
(a) Cash and deposits at banks	¥20,781	¥20,781	¥-	¥17,900	¥17,900	¥-	\$184,425	\$184,425	\$-
(b) Money trusts	3,035	3,035	-	2,782	2,782	-	26,938	26,938	-
(c) Securities									
Securities held to maturity	13,532	14,439	907	11,872	12,509	637	120,093	128,139	8,046
Marketable securities held as available for sale	20,723	20,723	-	26,231	26,231	-	183,910	183,910	-
(d) Premiums receivables	958			1,142			8,503		
Reserve for bad debts(*1)	△ 39			△ 112			△ 343		
	919	919	-	1,030	1,030	-	8,160	8,160	-
<b>Total financial assets</b>	<b>¥58,990</b>	<b>¥59,897</b>	<b>¥907</b>	<b>¥59,815</b>	<b>¥60,452</b>	<b>¥637</b>	<b>\$523,526</b>	<b>\$531,572</b>	<b>\$8,046</b>
(a) Foreign reinsurance payable	¥978	¥978	¥-	¥1,179	¥1,179	¥-	\$8,680	\$8,680	\$-
<b>Total financial liabilities</b>	<b>¥978</b>	<b>¥978</b>	<b>¥-</b>	<b>¥1,179</b>	<b>¥1,179</b>	<b>¥-</b>	<b>\$8,680</b>	<b>\$8,680</b>	<b>\$-</b>

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

(Remark 1) [ Assets ] (a) **Cash and deposits at banks**, (d) **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.

(b) **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.

(c) **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](a) **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.

(Remark 2) Unlisted stocks of ¥1,211 million (\$10,751 thousand) are excluded from (c) "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** : A reserve for bad debts is estimated on the basis of past experience.

**13** : A reserve for bonuses is provided for at the amount estimated at the balance sheet date for future payments.

**14** : A 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 2016 and 2015, prepaid pension cost of ¥83 million

(\$733 thousand) and ¥88 million are included in Other assets, respectively.

**15** : A 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** : 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.

**17** : Consumption taxes are accounted for under the "tax inclusive" method.

**18** : Accumulated depreciation for property, plant and equipment amounts to ¥374 million (\$3,323 thousand) and ¥358 million at 31 March 2016 and 2015, respectively. Advanced depreciation amounts to ¥417 million (\$3,701 thousand) and ¥417 million at 31 March 2016 and 2015, respectively.

**19** : The total amounts of deferred tax assets and liabilities at 31 March 2016 and 2015 are as follows:

	Unit:JPY Millions		Unit:US\$000s
	2016	2015	2016
Deferred tax assets	¥4,048	¥3,780	\$35,924
Breakdown for major items			Note A-2
Underwriting reserve	¥2,747	¥2,639	\$24,383
Reserve for outstanding claims	669	428	\$5,935
Reserve for directors' retirement benefits	31	22	\$277
Reserve for bonuses	28	26	\$250
Business tax	11	57	\$93
Special local corporation tax	4	43	\$38
Deducted valuation reserve	(¥543)	(¥552)	(\$4,818)
Deferred tax liabilities	¥278	¥310	\$2,463
Breakdown for major items			
Unrealized gains on Marketable securities held as available for sale	¥255	¥285	\$2,259

**20** : Pursuant to the "Act on Partial Amendment to the Local Tax Act, etc." (Act No.13, 2016) enacted in the Diet session on 29 March 2016, the effective statutory tax rate was increased from 27.92% to 27.93% for the fiscal year ended 31 March 2018 and thereafter. The impact of this change in the effective statutory tax rate on deferred tax assets (net of deferred tax liabilities), net unrealized gain on securities, deferred income taxes and surplus after income taxes was immaterial.

**21** : In addition to the property, plant and equipment recorded on the balance sheet, lease contracts are in place for copying machines.

**22** : Investment in subsidiaries amounts to ¥12 million (\$102 thousand) and ¥12 million at 31 March 2016 and 2015, respectively.

**23** : 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 ¥10,472 million (\$92,936 thousand) and ¥10,970 million at 31 March 2016 and 2015, respectively.

② There is no unearned premium reserve with respect to reinsurance stipulated in Article 51 of the Regulations at 31 March 2016 and 2015.

③ There is no amount deducted relating to the distribution of surplus stipulated in Article 28 of the Regulations at 31 March 2016 and 2015.

**24** : 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
	2016	2015	2016
Cash and deposits at banks	¥20,781	¥17,900	\$184,424
MMF, Short-term government bonds and Certificate of deposit included in securities	0	5,500	0
Deposits at banks of which contract is more than 3 months	(1,014)	(1,531)	(9,000)
Cash and cash equivalents	¥19,767	¥21,869	\$175,424

There is no significant non-cash transaction entered into by the Association during the years ended 31 March 2016 and 2015.

Cash flows from investing activities include cash flows arising from asset management relating to the insurance business during the years ended 31 March 2016 and 2015.

## C. Other Notes to Financial Statements

	Unit:JPY Millions		Unit:US\$000s
	2016	2015	2016
<b>1 : Calls and premiums written</b>			
Mutual			
Mutual premiums	¥17,829	¥17,791	\$158,222
Supplementary calls charged	3,669	7,227	32,560
Release calls	229	468	2,036
FD&D	198	180	1,759
Sub-total	21,925	25,666	194,577
Fixed premiums			
Coastal vessels entries	2,216	2,207	19,669
Charterers' entries	892	888	7,910
Others	165	158	1,467
Sub-total	3,273	3,253	29,046
<b>Total</b>	<b>¥25,198</b>	<b>¥28,919</b>	<b>\$223,623</b>
<b>2 : Reinsurance premiums ceded</b>			
Group excess of loss	¥2,880	¥3,220	\$25,557
Others	3,794	3,420	33,672
	<b>¥6,674</b>	<b>¥6,640</b>	<b>\$59,229</b>
<b>3 : Interest and dividends</b>			
Bank deposits	¥72	¥54	\$641
Japanese bonds	238	232	2,110
Foreign securities	475	485	4,221
Other securities	42	28	369
	<b>¥827</b>	<b>¥799</b>	<b>\$7,341</b>
<b>4 : Claims paid</b>			
P & I	¥15,438	¥18,993	\$137,004
<i>Mutual</i>	<i>13,505</i>	<i>16,412</i>	<i>119,849</i>
<i>Coastal vessels entries</i>	<i>1,257</i>	<i>1,859</i>	<i>11,153</i>
<i>Charterers' entries</i>	<i>627</i>	<i>714</i>	<i>5,564</i>
<i>Others</i>	<i>49</i>	<i>8</i>	<i>438</i>
Other Associations' pool claims	2,914	3,428	25,856
FD & D	99	122	881
	<b>¥18,451</b>	<b>¥22,543</b>	<b>\$163,741</b>
<b>5 : Reinsurance claims recovered</b>			
Group's pooling agreement	¥4,725	¥6,161	\$41,931
Group's excess loss reinsurance	-	-	-
Other reinsurers	215	310	1,908
	<b>¥4,940</b>	<b>¥6,471</b>	<b>\$43,839</b>

	Unit:JPY Millions		Unit:US\$000s
	2016	2015	2016
<b>6 : Cash and deposits at banks</b>			
Cash	¥2	¥1	\$15
Deposits at banks	20,779	17,899	184,410
	<b>¥20,781</b>	<b>¥17,900</b>	<b>\$184,425</b>
<b>7 : Money trusts</b>			
Funds of domestic stock	¥1,754	¥1,769	\$15,571
Funds of foreign security	1,281	1,013	11,367
	<b>¥3,035</b>	<b>¥2,782</b>	<b>\$26,938</b>
<b>8 : Securities</b>			
Japanese government bonds	¥724	¥720	\$6,422
Japanese local government bonds	3,169	3,166	28,128
Corporate bonds	11,063	9,379	98,181
Stocks	10	10	89
Foreign securities	17,796	19,141	157,933
Other securities	2,705	6,898	24,002
	<b>¥35,467</b>	<b>¥39,314</b>	<b>\$314,755</b>
<b>9 : Property, plant and equipment</b>			
Estate on book	¥990	¥990	\$8,782
Buildings	65	67	580
Lease assets	2	5	21
Equipment and others	40	32	351
	<b>¥1,097</b>	<b>¥1,094</b>	<b>\$9,734</b>
<b>10 : Intangible assets</b>			
Software	¥225	¥132	\$1,997
Other intangible assets	4	4	35
	<b>¥229</b>	<b>¥136</b>	<b>\$2,032</b>
<b>11 : Other assets</b>			
Premiums receivables	¥958	¥1,142	\$8,503
Foreign reinsurance recoveries	683	1,281	6,065
<i>Pool recoveries</i>	<i>359</i>	<i>942</i>	<i>3,185</i>
<i>Recoveries from other reinsurers</i>	<i>324</i>	<i>339</i>	<i>2,880</i>
Accounts receivable	34	41	298
Accrued revenue	176	186	1,565
Advance deposits	98	103	865
Suspense payments	7	102	65
Prepaid pension cost	83	88	732
	<b>¥2,039</b>	<b>¥2,943</b>	<b>\$18,093</b>

	Unit:JPY Millions		Unit:US\$000s
	2016	2015	2016
<b>12 : Reserve for outstanding claims</b>			
Gross reserve for outstanding claims	¥41,849	¥41,725	\$371,395
<i>Members' claims</i>	35,473	35,019	314,815
<i>Other Associations' pool claims</i>	6,376	6,706	56,580
Reinsurers' share	10,472	10,970	92,936
<i>Pool recoveries</i>	9,366	9,833	83,120
<i>Excess loss R/I recoveries</i>	-	-	-
<i>Recoveries from other reinsurers</i>	1,106	1,137	9,816
Net reserve for outstanding claims	<b>¥31,377</b>	<b>¥30,755</b>	<b>\$278,459</b>
<i>IBNR amounts are included in the above figure</i>			
<i>IBNR amounts</i>	¥7,411	¥7,640	\$65,770
<b>13 : Unearned premium reserve</b>			
Gross unearned premium reserve	¥11,238	¥11,537	\$99,732
Reinsurers' share	-	-	-
Net unearned premium reserve	<b>¥11,238</b>	<b>¥11,537</b>	<b>\$99,732</b>
<b>14 : Other liabilities</b>			
Foreign reinsurance payable	¥978	¥1,180	\$8,680
Accounts payable	197	191	1,750
Unpaid tax	97	1,438	861
Suspense payable	649	982	5,757
Lease liability	2	5	21
	<b>¥1,923</b>	<b>¥3,796</b>	<b>\$17,069</b>
<b>15 : Retaining earnings</b>			
Reserve for offsetting losses	¥175	¥175	\$1,555
Other retaining earnings	5,217	5,350	46,297
<i>Special reserve</i>	5,340	1,580	47,391
<i>Unappropriated surplus(deficit)</i>	(123)	3,770	(1,094)
	<b>¥5,392</b>	<b>¥5,525</b>	<b>\$47,852</b>
<b>16 : Net unrealized gains on securities</b>			
Unrealized gains on securities is net of deferred tax caused by the valuation of securities.	<b>¥643</b>	<b>¥692</b>	<b>\$5,760</b>

## Reserves

	Unit:JPY Millions		Unit:US\$000s
	2016	2015	2016
Catastrophe reserve	¥14,929	¥14,372	\$132,494
Reserve for offsetting losses	175	175	1,555
Other retaining earnings	5,217	5,350	46,297
Sub-total	20,321	19,897	180,346
Capital contribution fund	121	125	1,075
Net unrealized gains on securities	643	692	5,709
<b>Total</b>	<b>¥21,085</b>	<b>¥20,714</b>	<b>\$187,130</b>

\*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 30 and 31.

## Policy Year Statements (as of 31 March 2016)

	2016/17		2015/16		2014/15	
	(2016/2/20-2016/3/31)		(2015/2/20-2016/2/20)		(2014/2/20-2015/2/20)	
	JPY Millions	US\$000s	JPY Millions	US\$000s	JPY Millions	US\$000s
<b>Calls and premiums written</b>						
Prior years	¥ -	\$ -	¥2,320	\$20,585	¥20,133	\$178,674
During year	2,192	19,455	19,493	172,991	117	1,036
Supplementary calls	-	-	-	-	3,669	32,560
	2,192	19,455	21,813	193,576	23,919	212,270
Reinsurance premiums ceded	(660)	(5,858)	(6,587)	(58,458)	(6,467)	(57,389)
	1,532	13,597	15,226	135,118	17,452	154,881
<b>Claims paid</b>						
Gross claims paid	(5)	(45)	(3,708)	(32,909)	(8,185)	(72,644)
Reinsurance claims recovered	-	-	35	311	591	5,247
[Pool recoveries]	[-]	[-]	[-]	[-]	[579]	[5,138]
[Excess loss R/I recoveries]	[-]	[-]	[-]	[-]	[-]	[-]
[Other reinsurance recoveries]	[-]	[-]	[35]	[311]	[12]	[109]
Net claims paid	(5)	(45)	(3,673)	(32,598)	(7,594)	(67,397)
[Other Associations' pool claims]	[-]	[-]	[322]	[2,854]	[832]	[7,381]
<b>Investment income</b>	(16)	(142)	1,018	9,035	1,100	9,759
<b>Operating expenses</b>	(397)	(3,520)	(2,510)	(22,280)	(2,481)	(22,016)
<b>Others</b>	(635)	(5,637)	(117)	(1,042)	(562)	(4,987)
<b>Balance available for estimated outstanding claims</b>	<b>¥479</b>	<b>\$4,253</b>	<b>¥9,944</b>	<b>\$88,233</b>	<b>¥7,915</b>	<b>\$70,240</b>
<b>Estimated outstanding claims</b>						
Gross estimated outstanding claims	¥(2,976)	\$(26,410)	¥(15,210)	\$(134,982)	¥(5,219)	\$(46,321)
Reinsurers' share	75	669	4,015	35,629	274	2,433
[Pool recoveries]	[75]	[666]	[3,328]	[29,531]	[72]	[638]
[Excess loss R/I recoveries]	[-]	[-]	[-]	[-]	[-]	[-]
[Other reinsurance recoveries]	[-]	[3]	[687]	[6,099]	[202]	[1,795]
Net estimated outstanding claims	(2,901)	(25,741)	(11,195)	(99,353)	(4,945)	(43,888)
[Other Associations' pool claims]	[220]	[1,952]	[1,423]	[12,633]	[882]	[7,829]
<b>Surplus/(deficit)</b>	<b>(¥2,422)</b>	<b>\$(21,488)</b>	<b>¥(1,251)</b>	<b>\$ (11,120)</b>	<b>¥2,970</b>	<b>\$26,352</b>
<b>Estimated product of 10% supplementary calls</b>	-	-	1,682	14,930	1,714	15,209

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 2016/17 policy year which is covered the period from 20 February 2016 to 31 March 2016, calls and premiums are stated on an earned basis to 31 March 2016.

4. The translation rate in this Policy Year Statement is ¥112.68 = US\$1, the middle rate prevailing on the Tokyo foreign exchange market as of 31 March 2016.



2013/14 (2013/2/20-2014/2/20)		Closed years		Total	
JPY Millions	US\$000s	JPY Millions	US\$000s	JPY Millions	US\$000s
¥18,296	\$162,374				
16	143				
7,227	64,139				
25,539	226,656				
(5,725)	(50,808)				
19,814	175,848				
(16,483)	(146,280)				
3,614	32,073				
[2,900]	[25,733]				
[606]	[5,379]				
[108]	[961]				
(12,869)	(114,207)				
[1,776]	[15,759]				
1,292	11,467				
(2,302)	(20,425)				
691	6,129				
<b>¥6,626</b>	<b>\$58,812</b>	<b>¥26,734</b>	<b>\$237,267</b>	<b>¥51,698</b>	<b>\$458,805</b>
¥(10,120)	\$(89,808)	¥(8,324)	\$(73,874)	¥(41,849)	\$(371,395)
5,338	47,370	770	6,835	10,472	92,936
[2,742]	[24,335]	[569]	[5,046]	[6,786]	[60,216]
[2,551]	[22,643]	[29]	[261]	[2,580]	[22,904]
[44]	[392]	[172]	[1,528]	[1,105]	[9,817]
(4,782)	(42,438)	(7,554)	(67,039)	(31,377)	(278,459)
[948]	[8,416]	[2,902]	[25,750]	[6,375]	[56,580]
<b>¥1,844</b>	<b>\$16,374</b>	<b>¥19,180</b>	<b>\$170,228</b>	<b>¥20,321</b>	<b>\$180,346</b>
1,654	14,675				

## Directors and Auditors

Directors			
Chairman, Representing Director	Junichiro Ikeda	President	Mitsui O.S.K. Lines, Ltd.
Deputy Chairman, Representing Director	Tadaaki Naito	President	Nippon Yusen Kabushiki Kaisha
Deputy Chairman, Representing Director	Eizo Murakami	President	Kawasaki Kisen Kaisha, Ltd.
Directors	Atsushi Igaki	President	Ferry Sunflower Limited
	Takao Ito	President	Hachiuma Steamship Co., Ltd.
	Masaru Iijima	President	Idemitsu Tanker Co., Ltd.
	Hiroshi Toshi	President	Iino Kaiun Kaisha, Ltd.
	Michiyasu Kobayashi	President	JX Ocean Co., Ltd.
	Kazuo Hayashida	President	Kyoei Tanker Co., Ltd.
	Hiroyuki Nakamura	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.
	Shunichi Arisaka	President	Taiyo Nippon Kisen Co., Ltd.
	Nobuo Sano	President	Tamai Steamship Co., Ltd.
	Tsuneo Watanabe	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	Nakaji Ohsumi		
	Tsutomu Kawakami		
	Masaru Ogawa		
Directors	Nobuo Sato		
	Hiroaki Sawabe		
	Takaaki Irikiin		
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 of 11 July 2016)

## General Managers and Chiefs of Division in Principal Office

General Managers			
Planning Dept.	Takaaki Irii	Tokyo Underwriting Dept.	Hiroaki Sawabe
Human Resources & General Affairs Dept.	Tetsu Kato		Noriyuki Take
Investment Management and Accounting Dept.	Hiroaki Akasaka	Claims Dept.	Hiroshi Kikegawa
	Eiji Tomioka	Loss Prevention and Ship Inspection Dept.	Takuzo Okada
Underwriting Administration Dept.	Masaru Ogawa	Information Systems Dept.	Tetsuo Ishii
	Royston Deitch		

Chiefs of Division			
Public Relations Division	Yuichi Tanaka	Internal Audit Division	Shu Sato



Standing left to right : H. Akasaka, T. Okada, N. Take, E. Tomioka, T. Kato, H. Kikegawa, Y. Tanaka  
Seated left to right : T. Irii, N. Sato, T. Kawakami, N. Ohsumi, M. Ogawa, H. Sawabe



R. Deitch

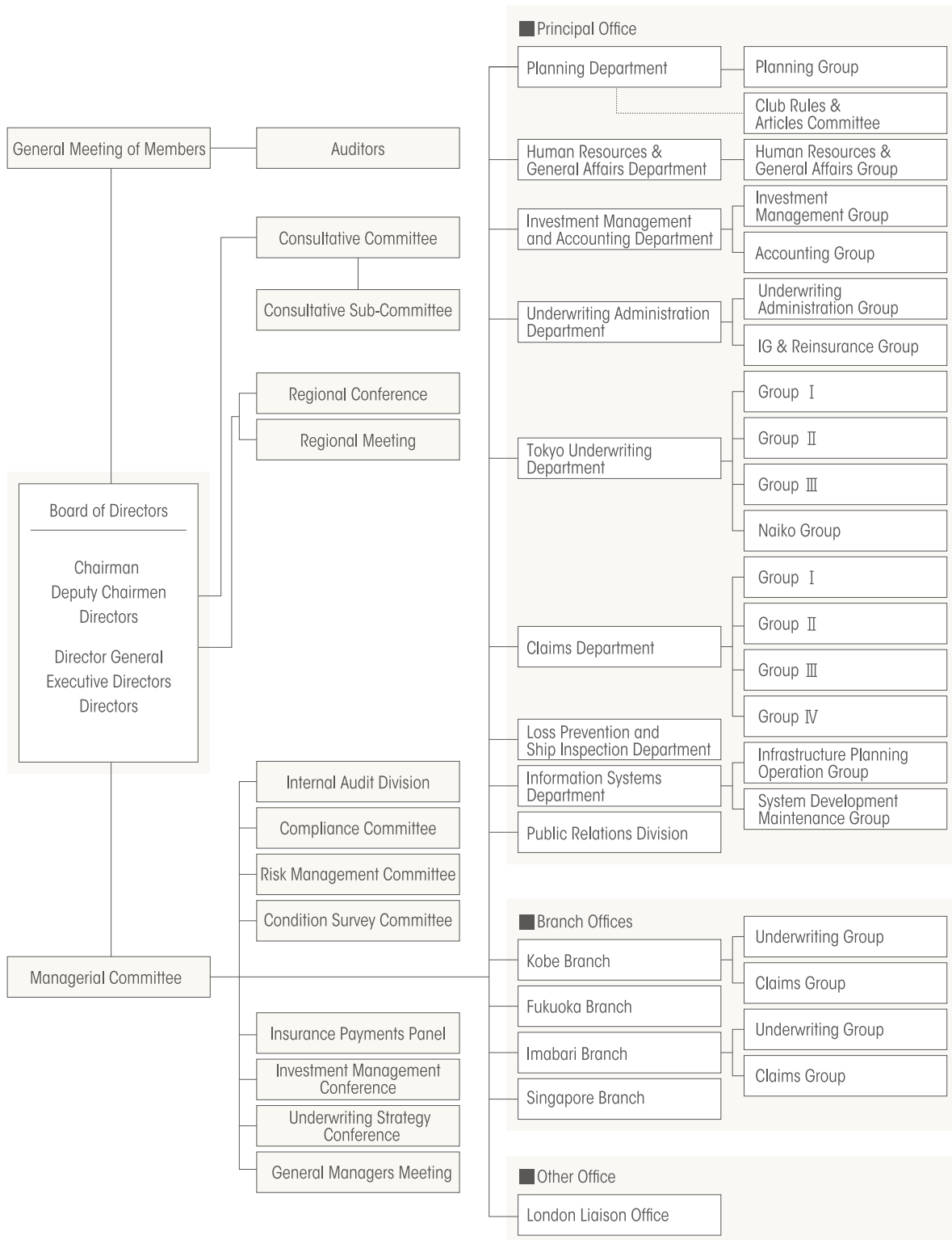


T. Ishii



S. Sato

# Organisation of the Association (as of 1 April, 2016)



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