

JAPAN P & I CLUB  
ANNUAL REPORT  
2018



# LEAP FORWARD 2023

Your First Club, Our Best Service

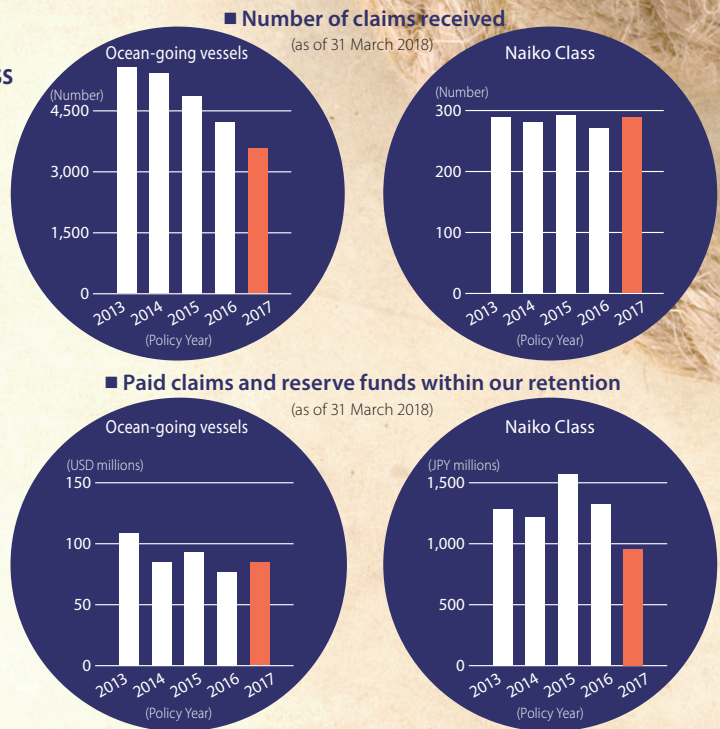
## ANNUAL REPORT 2018 CONTENTS

Highlights .....	01
Statement of Director General .....	02
Business Report .....	04
Financial Statements .....	16
Directors and Auditors .....	32
Secretariat .....	33
Organisation .....	34
Offices .....	35

# Highlights

## Trends of claims : continued decrease for ocean-going vessels and stability for Naiko Class

For ocean-going vessels, the number of claims received decreased slightly over the 5 years to 2017 policy year, and there was 1 incident exceeding USD10 million in 2017 policy year. For Naiko Class, there was no significant difference in the number of claims received annually over the 5 years to 2017 policy year, and the total for paid claims and reserve funds in the 2017 policy year was the lowest for 5 years.



## 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 2018 policy year has also remained at about the same level as for the 2017 policy year.



## The reserve amount increased by 2.9% compared with the 2016 financial year

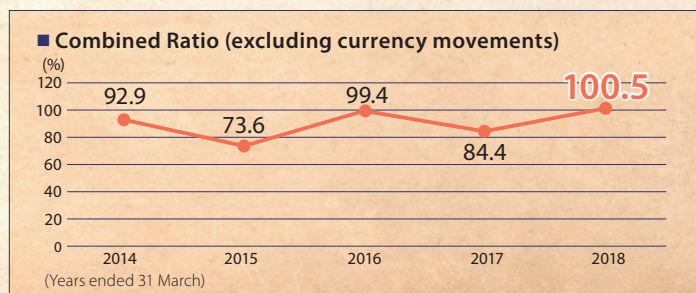
The Association faces many risks, and keeping an appropriate reserve amount enables us to charge a stable and competitive premium and maintain our insurance service level.

For the 2017 financial year, the Association reduced the percentage of the supplementary call payable for the 2016 policy year to 30% from the scheduled 40%. This represents a refund of JPY1,500 million to Members. In spite of such a reduction, the reserve amount increased by 2.9%, or JPY24,070 million.



## Balanced finances

A Combined Ratio of 100.5% shows that the Association keeps a good balance between incurred losses/expenses and earned premiums.

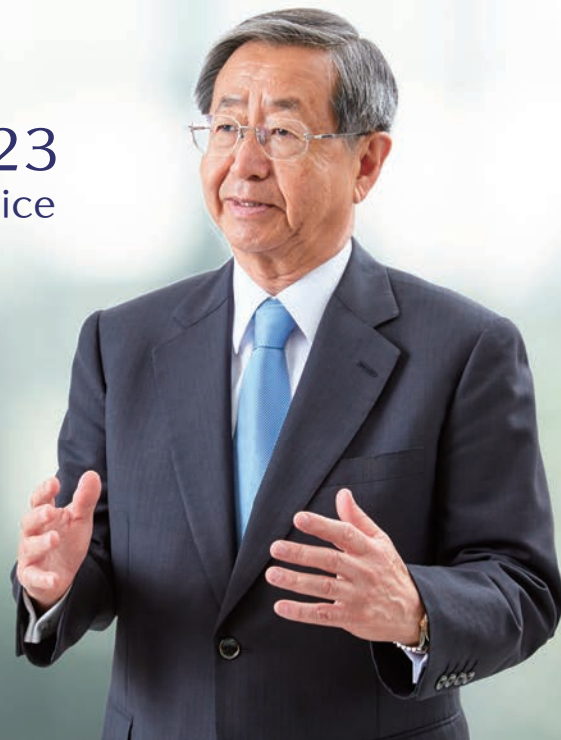


# Statement of Director General

## LEAP FORWARD 2023 Your First Club, Our Best Service

Hiroshi Sugiura, Director General

杉浦 哲



I am delighted to introduce the Association's Annual Report 2018.

Looking back at the 2017 business year (from 1 April 2017 to 31 March 2018), the global economy experienced steady growth. The U.S. economy continued to recover well; Europe's economy was on a moderate recovery trend; and the pace of China's economic growth picked up. The Japanese economy also saw a moderate recovery, with continued improvement of employment and income conditions.

With regard to the shipping industry, although the overall balance between vessel supply and demand did not significantly improve, the container and dry bulk sectors showed recovery trends in reaction to the steady

growth of the global economy and the increase in transport demand. As for Japanese coastal vessels, the overall transport volume increased from the previous year, especially as regards the carriage of steel and automobiles.

In recent years the P&I insurance market has seen a benign claims environment. However, the 2017 business year was less favourable than the previous year. This was due to an increase in the number of pool claims (claims in excess of each Club's retention of USD10 million) among the International Group of P&I Clubs (IG), and close attention should be paid to the further development of these claims. While there was uncertainty in the global insurance and reinsurance markets following natural catastrophe events, the renewal of the IG reinsurance

programme for the 2018 policy year resulted in a further year of rate reductions across all vessel categories as the loss experience of the programme remained acceptable to reinsurers.

Turning to the Association's business activities during the 2017 business year, although the year saw some signs of decline in the positive claims trend of recent years, we applied a nil general increase to all classes of entry at the 2018 renewal. We arrived at this decision having taken into consideration the fact that Members were still having to cope with tough business conditions. Moreover, a supplementary call of 30% for the 2016 policy year was levied against the original estimated 40% for ocean-going vessels, in effect returning the balance 10% (equivalent to JPY1,550 million) to Members with owner's entries in this class.

The 2017 business year was also the third and final year of the Medium-term Operation Plan (2015 - 2017). In order to stop the decreasing trend in the number of entered vessels, and increase quality membership, we stepped up our ongoing efforts to provide more competitive insurance products and quality services to meet Members' needs and to increase Members' trust in us. We also enhanced our Enterprise Risk Management.

The Association's financial situation for the 2017 business year is summarised as follows. While investment income increased, prompted by favourable Japanese stock market conditions, net premiums written decreased. This was because older, higher-rated, vessels were replaced by lower-rated new buildings. Total ordinary income decreased by JPY360 million from last year to JPY19,730 million. Total ordinary expenses increased by JPY660 million from last year to JPY18,060 million as net claims paid increased, coupled with a foreign exchange loss due to a stronger yen at the end of the year. Consequently, the Association's ordinary surplus decreased by JPY1,030 million from last year to JPY1,670 million, and the net surplus amounted to JPY1,190 million. The amount of reserves climbed to JPY24,070 million in total, JPY680 million up from last year, and the Association maintained a BBB+ credit rating with a stable outlook as earned from

S&P Global Inc. last year.

At the end of the 2017 business year, we had 3,238 Members, the number of vessels entered with the Association was 4,281, and the total amount of entered tonnage was 93.75 million gt. We are grateful to Members entered in the Association amid the increasingly competitive P&I Insurance market.

In order to expand our business base further and ensure the stable management of the Association, we have launched a thorough review of our operation, organisation, and insurance products. In addition, in the 2018 business year, we have developed fresh Medium-term Business Objectives and the First Action Plan entitled "LEAP FORWARD 2023 – Your First Club, Our Best Service". Under these Objectives and Plan we will implement the reform of the Association and make a leap forward to provide Members with higher quality and more reliable services, to meet Members' needs and expectations.

In 2020 the Association will mark the 70th anniversary of its foundation. Approaching this milestone spurs us on to work hard together to earn absolute trust and support from Members.

We would ask Members please to ensure that they operate their vessels with loss prevention firmly in mind, and to continue to co-operate with and support the Association.

17 July 2018

Hiroshi Sugiura, Director General



## Business Report

Entered Tonnage

Calls / Premiums

Trend of Claims

Trend of Pool Claims

Reinsurance

Loss Prevention

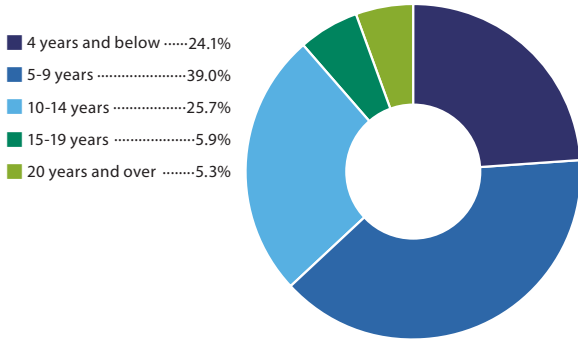
Investments

Enterprise Risk Management

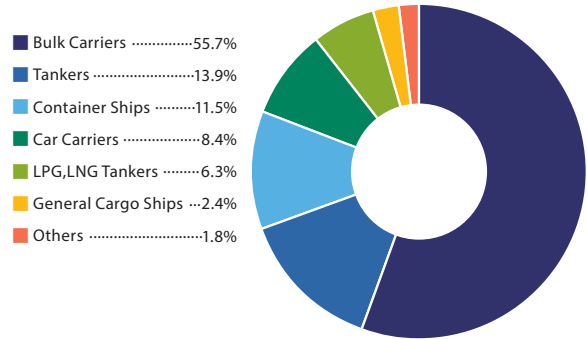
International Group Topics

# Entered Tonnage

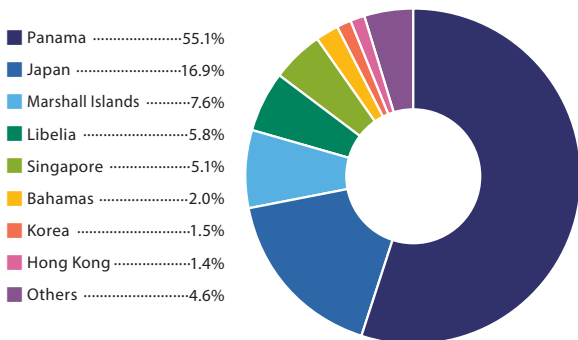
■ Entered Tonnage by Age (as of commencement of the 2018 policy year)



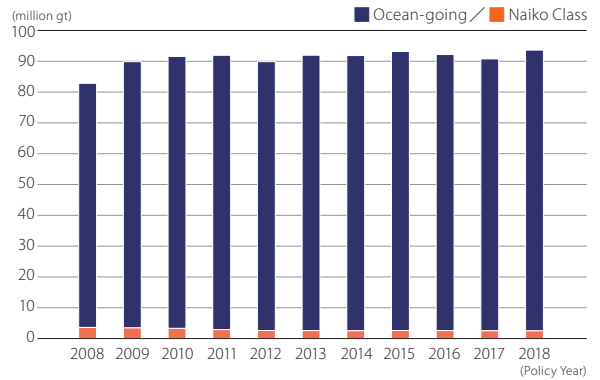
■ Entered Tonnage by Type (as of commencement of the 2018 policy year)



■ Entered Tonnage by Ship's Registry (as of commencement of the 2018 policy year)



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



During the course of the 2017 policy year, with the shipping industry showing a gradual recovery, the Association had new entries of 249 vessels / 10.7 million gt for owners' entries and 101 vessels / approximately 0.2 million gt of Naiko Class entries (Japanese coastal vessels). The new entries were contributed mainly by existing Members, who took delivery of new buildings and purchased second-hand vessels.

At renewal on 20 February 2018, the Association's entered tonnage amounted to approximately 91.1 million gt for owners' entries and 2.5 million gt for Naiko Class entries, a similar volume of tonnage compared to last year. Chartered tonnage reduced slightly by 0.1 million gt to 12.1 million gt. The Association is grateful for the support of Members in Japan and other Asian countries for this result, and appreciates that business conditions members have to face are still not easy.

As to the composition of the Association's entered tonnage by age, around 63% is less than 9 years old. In the light of 60% of the world fleet being less than 9 years, it can be said that the Association keeps benefitting from having comparatively younger vessels entered. As to the entered tonnage by type, bulk carriers accounted for the highest proportion, with nearly 56% of all tonnage, followed by tankers and container ships. Though bulk carriers have constituted the majority of our entries for many years, the percentages of other types of vessel are gradually increasing.

At the end of the 2017 business year (31 March 2018), there were 4,281 vessels entered, comprised of 2,327 for owners' entries and 1,954 for Naiko Class entries. The total amount of entered tonnage was 93.7 million gt, consisting of 91.2 million gt for owners' entries and 2.5 million gt for Naiko Class entries.

# Calls / Premiums

## Renewal at 20 February 2018

At the 2018 renewal, reflecting the stable claims trend of recent years and having considered various factors such as the Members' difficult business environment, and the need to ensure the soundness of the Association's income and expenditure, the Association decided to apply a nil general increase in all classes of entries, ie., owners' entries, charterers' entries, Naiko Class entries and FD&D cover.

Furthermore, for owners' entries, the supplementary call for the 2016 policy year was reduced to 30% from the scheduled 40%, which means returning the balance of 10% (equivalent to JPY1,550 million) to the Members.

In addition, the reinsurance costs of the International Group of P&I Clubs (IG) decreased, mainly due to very few claims exceeding the IG's pool limit in 2017. Please also refer to the section of "Reinsurance" (page 9) for further information about the IG reinsurance programme.

### ■ Change in General Increase / Supplementary Calls over the last 10 years (%)

Policy Year		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
General Increase	Mutual Entries	12.5	12.5	10	3	5	7.5	3	3	0	0
	Naiko Class	10	0	20	0	0	0	0	0	0	0
Supplementary Call	Original Estimate	40	40	40	40	40	40	40	40	40	40
	Amount Called	40	50	40	40	40	20	30	30		
	Current Estimate	closed	closed	closed	closed	closed	closed	0	10		

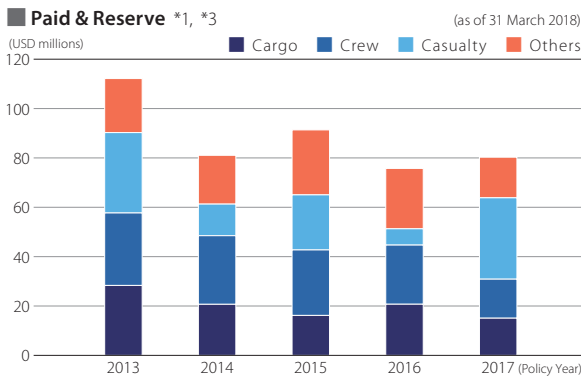
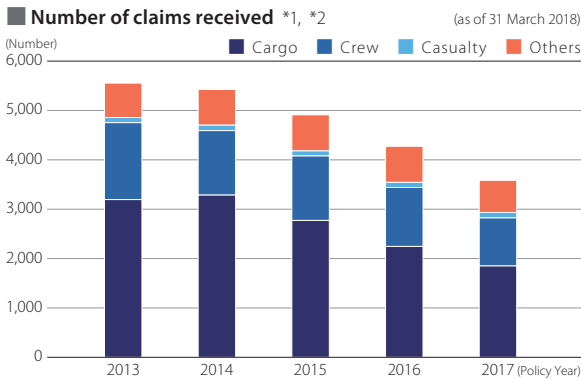


# Trend of Claims

Both the number of claims received and paid claims and reserve funds within our retention (Paid & Reserve) have been decreasing in recent years. In the 2017 policy year, only approximately 3,900 claims were received for ocean-going and Naiko Class combined. The Paid & Reserve amounted to approximately USD80 million for ocean-going vessels and approximately JPY900 million for Naiko Class. In the 2016 policy year, there was one ocean-going vessel incident which led to a claim exceeding USD10 million and thus being shared by the Pool, whereas there was no large claim, meaning exceeding JPY300 million, for Naiko Class. Similarly, in the 2017 policy year, there was one incident exceeding USD10 million for ocean-going vessels, and no large claims (exceeding JPY300 million) for Naiko Class.

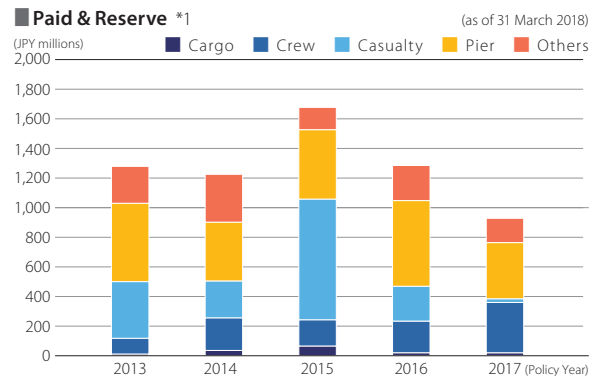
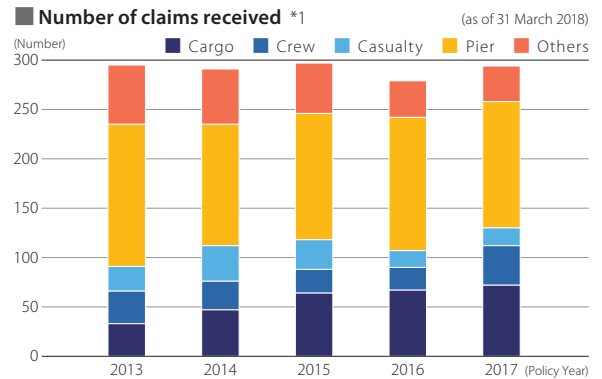
## Ocean-going vessels

The number of claims received has been slightly decreasing over the past 5 years. Cargo damage claims provided the highest proportion of the total number of annual claims during that period, accounting for between 52% and 61% of claims. The next most frequent category was crew claims, which accounted for between 24% and 28% each year. Casualties such as collision, stranding, sinking, fire, and oil pollution accounted for between 2% and 3% a year (the annual average of 107 claims for the past 5 years). Although the proportion of the number of casualty claims was small, the insurance money for each case was high and accounted for between 9% and 41% of the Paid & Reserve funds for each year.



## Naiko Class

There have been no significant differences in the number of claims received for Naiko Class over the past 5 years. FFO (damage to Fixed & Floating Objects) claims were the most frequent, accounting for between 42% and 49% of the claims each year. Although the annual average number of casualty claims was 25, which accounted for as few as between 6% and 12% of the total claims, some turned out to be expensive. Once such an incident happens, it has a significant impact on the whole loss record. In the 2017 policy year, the Paid & Reserve for casualties were the smallest for the past five years, and the total for paid claims and reserve funds was approximately JPY900 million.



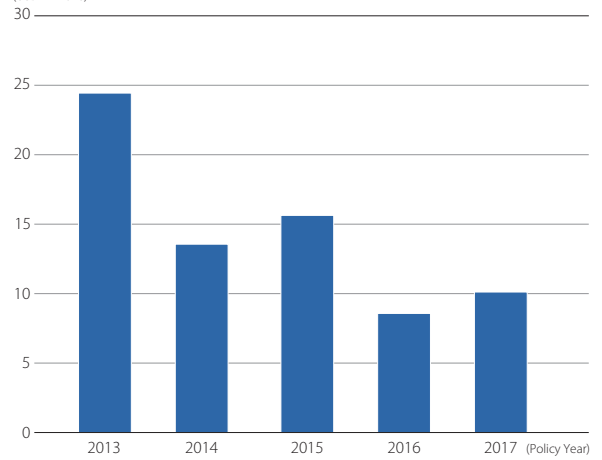
\*1 : Data for numbers of claims received and "paid claims and reserve funds within our retention" concern incurred and reported claims only and do not include incurred but not reported (IBNR) claims.  
 \*2 : "Number of claims received for ocean-going vessels" means the total number of claims for owners' entries, charterers' entries and FD&D.  
 \*3 : "The Paid & Reserve for ocean-going vessels" means the total Paid & Reserve for owners' entries, charterers' entries and FD&D.

# Trend of Pool Claims

The pool claims performance of the International Group of P&I Clubs in the 2016 policy year was the best in recent years, and the contribution to the pool by the Association in that year reduced to USD8.6 million.

As for the 2017 policy year, although it did not see many pool claims, there were some claims exceeding USD80 million, and the year's performance was similar to the 2013 policy year which had a bad record. The contribution to the pool by the Association for 2017 remained at approximately USD10 million due to the low pooling percentage applicable to our contributions. However, the Association's contribution was significantly higher than the same period in the 2016 policy year (approximately USD5.1 million).

■ The Association's Contributions to Pool Claims (as of 31 March, 2018)  
(USD millions)



# Reinsurance

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 is part of the International Group of P&I Clubs (IG) Pool and Reinsurance Programme and also has its own reinsurane arrangements.

## IG Pool and Reinsurance Programme

The 2017 policy year was not a benign claims year in terms of either number of losses or amount of claims. However, there was only limited impact on the marine liability sector of the reinsurance market as a result of the hurricanes which hit North America and the Caribbean in 2017. There were also continuing injections of capital into that market, which thereby stayed “flat”. As a result, reductions in reinsurance rates for all kinds of vessels were obtained.

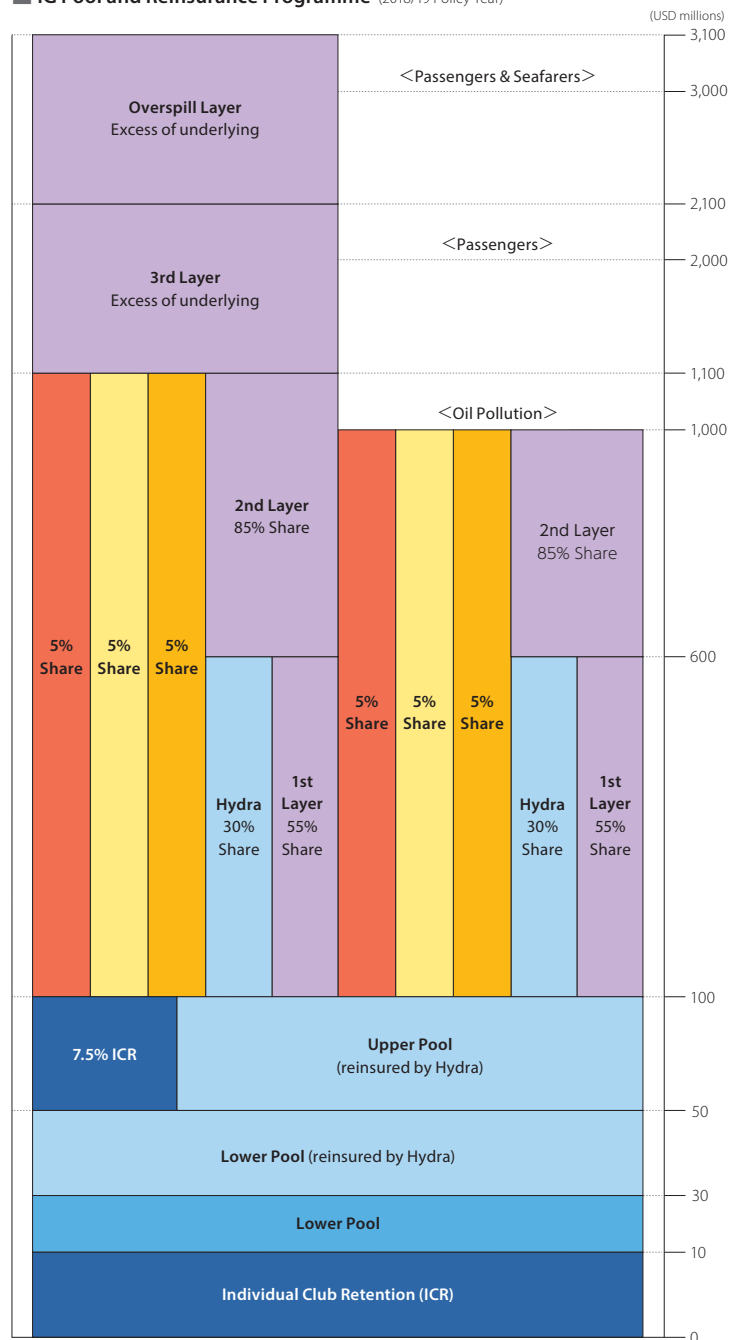
### General Structure

Commercial reinsurance cover of just over USD3 billion is provided to the Members of all Clubs in the IG.

## The Association's own reinsurance arrangements

The Association arranges its own reinsurance programmes for Naiko Class, charterers, FD&D and claims within the club retention of USD10 million. We do this in order to achieve and maintain stable risk management. Over the last few years, including the 2017 policy year, very few new claims have been made on the Association's own reinsurance. This and the “flat” reinsurance market resulted in us being able to renew the overall programmes on improved terms with a reduction in premium.

IG Pool and Reinsurance Programme (2018/19 Policy Year)



- 2016-18 Multi-Year Private Placement
- 2015-19 Multi-Year Private Placement
- 2017-19 Multi-Year Private Placement

Reinsurance for oil pollution claims is purchased as a separate cover with a limit of USD1,000 million. Reinsurance for passenger and seafarer claims is subject to a limit of USD2,000 million for liability to passengers, or USD3,000 million for passenger and seafarer claims combined.

# Loss Prevention

Hand in hand with an increase in the size of vessels has come much more expensive claims when accidents occur. Environmental damage claims have grown more and more serious when these large-scale accidents occur, with a corresponding increase in pressure for change from society at large. 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. The staff of the Association includes those with excellent experience as master mariner or chief engineer, who provide lots of valuable safe voyage information.

We would like to introduce the following loss prevention activities.

1. Loss Prevention Seminars
2. Condition Surveys to confirm the current status of Members' vessels
3. Loss Prevention Bulletins reflecting the concerns of our Members

## 1. Loss Prevention Seminars

In the Association, an experienced master mariner and colleagues conduct Loss Prevention Seminars in Japan and in other Asian countries. Thanks to regular favorable responses from Members, the Association held the seminar about 110 times in 2017. There are two types of seminar. One is an "open seminar" which is advertised to the public by way of our website. The other is a "special seminar", tailored according to Members' requests.

In Japan we have held open seminars in Hakodate, Nagoya, Onomichi, Kure, Tokuyama, Tokushima, Takamatsu, Kochi, Hakatajima, Yawatahama, Saiki and Okinawa, as we are not limited to Tokyo, Kobe, Fukuoka and Imabari where the headquarters and branches of our Association are located.

We have also held open seminars in Korea (Seoul, Busan), Taiwan (Taipei, Kaohsiung), and Hong Kong, as well as in Singapore where we have a branch office. Fortunately, we have heard high evaluations for both.

Also, in order to make our seminars more useful, the Association actively incorporates into the seminar discussions of recent trends in the topic and requests from participants.

For special seminars, the Association will meet Members' needs by following their requests flexibly on matters such as theme/time/place and so on. Recently, some Members have used those special seminars as internal study meetings and/or safety meetings. We will

seek to continue to improve our seminars by listening to our Members' feedback on them.



## 2. Condition Surveys

The Association conducts condition survey on vessels which meet certain criteria.

In condition surveys, the surveyors are sent from survey firms commissioned by the Association to examine not only the seaworthiness and cargo-worthiness of the vessel, but certificates on board, the maintenance status of each department, life-saving/firefighting appliances, safety equipment and so on. We conduct condition surveys using the common inspection form of the IG.

The Association instructs Members to take necessary corrective action if any defects are found during the survey. The survey is aimed at preventing accidents and so should lead to reduced insurance payments.

In order to prevent future accidents, the Association may recommend action to Members even if a defect has not been pointed out by previous Class or other industry inspections.

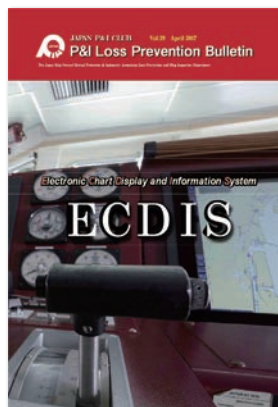
Through condition surveys, it is possible to assess the state of the ship, and the ship inspection know-how can

be shared. The Association would ask Members to think of the condition survey as “a tool” to assist their superintendent and ship management company in their daily business, and to recognise how useful it is in assisting safe navigation and preventing accidents.



## 3. Loss Prevention Bulletins

We regularly ask Members what information they need and are always on the lookout ourselves for topics we think would interest and assist them. What we discuss in our Loss Prevention Bulletins (LPB) is the result of these enquiries. In particular, all Members are interested in preventing accidents. In recent years, our LPB have dealt with environmental subjects, new equipment, and safe navigation. With respect to LPB No.39, which covered “ECDIS”, we received many inquiries not only from the shipping industry but from government agencies and educational institutions as well. The Association is keen to issue Bulletins on topical subjects, so please let us know if there is anything in particular you would like us to deal with.



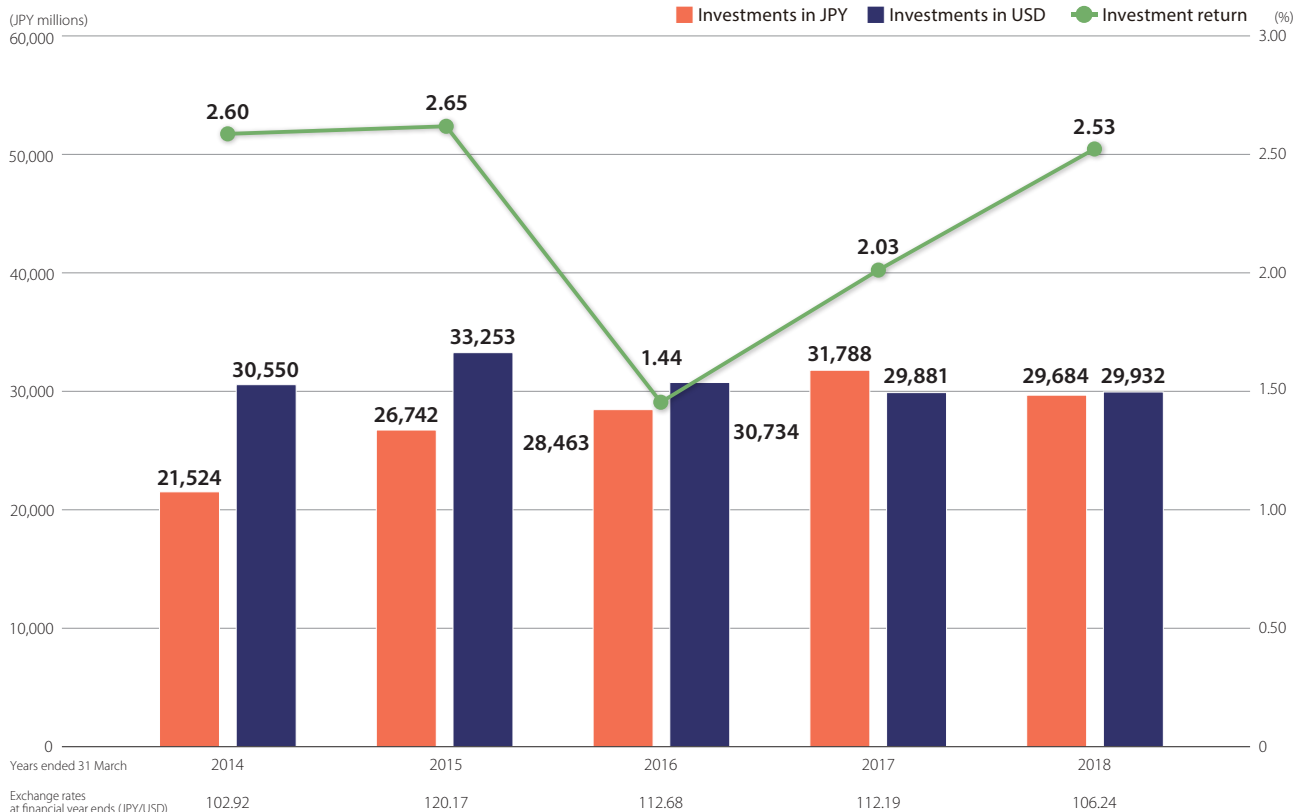
In addition, the Association sends Members printed versions of our Bulletins, which can be distributed to Members’ vessels. The Bulletins can also be downloaded from our website. The Association is grateful to Members for reading our Bulletins, however they do so.

Recent back numbers are as follows.

LPB	Theme	Issued
No.40	CASE STUDY “Collision”, “Engine Trouble” and “Oil Spill Accident”	Sep 2017
No.41	Ventilation	Dec 2017
Coastal Vessel No.4	Prevention of damage to harbour facilities and related cases	Mar 2018
No.42	Cyber risk and Cyber security countermeasures	May 2018
No.43	Dragging anchor –Case studies and Preventive Measures	Jul 2018

# Investments

## Investments and Investment return



## Investments

The Japanese economy is expanding moderately, supported by an increasing trend in exports and capital investment. The Nikkei 225 Stock Average, which was JPY18,988 at the beginning of the financial year (which means the year ended 31 March 2018; hereinafter “the FY”), reached JPY24,129 in January 2018 but dropped to JPY20,347 during the 2 months right after that. The fall was triggered by surging US Treasury Yields. The Average finally ended the FY at JPY21,454.

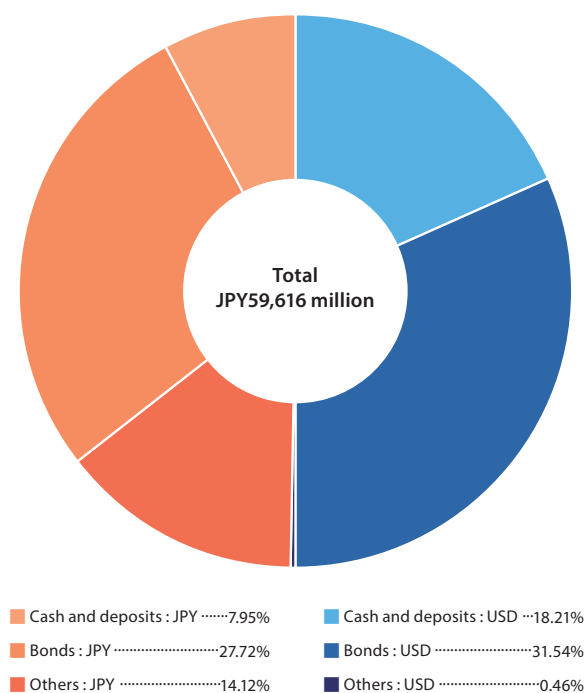
Japanese long term interest rates began the year at 0.07% and ended 0.04%. These rates stayed between 0% and 0.1% through the FY due to the “Yield Curve Control”, the policy for controlling long and short-term interest rates introduced by the Bank of Japan in the previous FY. Long term interest rates in the US declined from 2.35% at the beginning of the year to 2.05% in September 2017, but surged to 2.94% during the following 6 months and finished the FY at 2.74%.

Interest and dividends received during the year increased by JPY315 million to JPY1,409 million. The investment return increased to 2.53%, which is 0.5% higher than that of the previous FY.

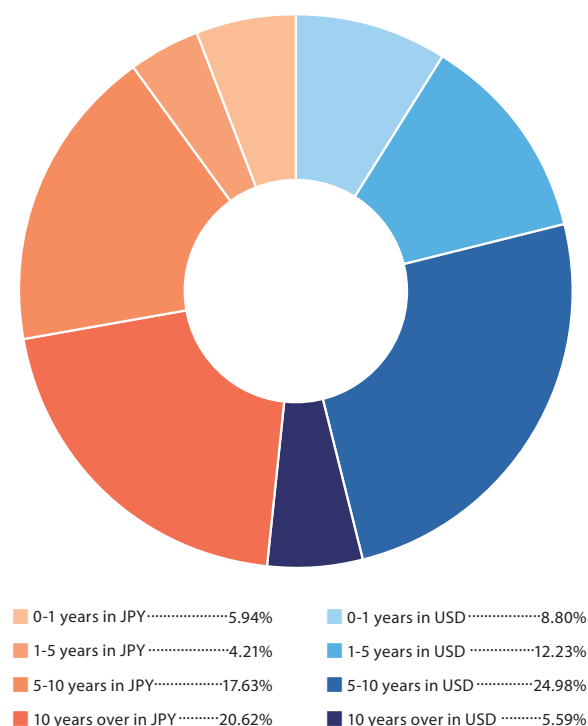
Bonds form the main proportion of our investments. The average yield of bonds in JPY has decreased as Japanese long term interest rates maintained the low level mentioned above. On the other hand, the yield of USD bonds has been maintained at a similar level to the previous FY, though short-term bond yields were increased to lessen the risk of price fluctuation in the trend of rising interest rates. In another investment area, the favorable market in Japan became a tailwind for investment trusts including domestic equities. As a result, a large profit in the FY was generated, which contributed to the improvement of asset management results overall.

The total value of investments held by the Association decreased by JPY2,053 million or 3.3% to JPY59,616 million. The proportion of investments to total assets

## Investments (as of 31 March 2018)



## Maturities of bonds (as of 31 March 2018)



decreased by 0.7 percentage points to 87.0%. The increase in USD investments was JPY51 million, or, more accurately, USD15 million, a lower increase due to a fall in the exchange rate from JPY112.19/USD to JPY106.24/USD. JPY investments decreased by JPY2,104 million.

Additional investment in investment trusts since 2012 lifted up the level of investment income in the FY. The portion of investment trusts as of 31 March was 14.58% (14.12% in JPY, 0.46% in USD).

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.

Safety-friendly operations in accordance with the Plan of Business Operations approved by the Japanese Financial Services Agency are maintained in the Association's Investments. 26.16% (7.95% in JPY, 18.21% in USD) of the total value of investments are in cash and deposits and

59.26% (27.72% in JPY, 31.54% in USD) of that are fixed-rate bonds, which include Japanese government and corporate and foreign bonds rated "A" or higher. The above operation 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 USD 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 5 years ended 20 February 2018 was 6.21%. The ratio has been calculated in accordance with the Schedule and the guideline issued by the International Group of P&I Clubs and is consistent with the relevant Financial Statements.

# Enterprise Risk Management

Enterprise Risk Management (ERM) is a system used by financial institutions, including insurance companies, to control the impact of risk on the business. It works by checking the financial sufficiency of the insurer against the entire amount of risk to which the company is exposed. Depending on the result of the process, the insurer responds by taking measures such as risk mitigation. ERM is an essential system for an insurer to provide stable and continuous insurance services to its customers.

The Association not only monitors the balance of risk and capital on a regular basis, but takes the following steps to measure risk with more accuracy and so calculate the company's risk tolerance :

## Internal Model Construction

The Association used our own statistical data of premiums and reserves for outstanding claims for the past 20 years to build a mathematical model for the calculation of insurance risk. The model allows us to gain more precise knowledge of the unique risk of P&I insurance.

## Stress test

For recognising risks which we cannot foresee from historical data, we had a trial calculation of the impact on our business or financial stability of a risk event which had never occurred in the past but could possibly do in the future.

In recent years, insurers across the world have been trying to make ERM more sophisticated, more tailored to the company's needs, and thus more accurate. An important element of risk management within the EU is the Solvency II regime, which came into force in 2016.

This Directive set out new requirements for EU insurers on matters such as financial resources, governance and accountability, risk assessment and management, and reporting. The Japanese regulatory authority is studying the operation of Solvency II in the EU and considering the enforcement of the regime in Japan in the near future.

The Association shall continue to improve its use of ERM step by step in order to offer our insurance services to the Members on a firmer financial basis.



## An Introduction to The Brand and Communications Working Group

The Japan P&I Club is a member of the International Group of P&I Clubs (IG) and is represented on the Brand and Communications Working Group of the IG. The Working Group is tasked with finding ways of improving the communication of the message of the IG to the outside world.

The IG is made up of 13 independent and competing mutual insurance associations which cover 90% of the world's ocean going tonnage. The Clubs insure ship owners' liabilities to third parties across the world. Within this very competitive framework, the Clubs join together in the IG to provide their Members such benefits as the claims pooling system, the broadest and highest level of reinsurance available. The IG, however, does not exist in a vacuum, but plays an active and positive rôle in an ever more connected and interdependent world. Part of the message to the outside world therefore is that the IG is a global authority on P&I, and a source of knowledge and expertise for many stakeholders across the Globe to draw on.

With the assistance of specialist maritime communications consultants, the Brand and Communications Working Group set out various key objectives. These included educating stakeholders on the IG's purpose and activities, positioning the IG as an open, transparent and global organisation, and the promotion of mutual P&I insurance and the positive impact it has on those affected by maritime accidents.

The brief to the Working Group includes the consideration of vision statements, mission statements and "straplines" for the IG. These are all public corporate statements of the IG's aspirations and purpose for being. The message has to go to many diverse stakeholders around the world, including Governments, regulators, brokers, ports and terminals, the peoples of coastal states, and, of course, to our Members themselves. Well-written statements will help promote the message.

The aim of the Brand and Communications Working Group of the IG is to help increase global knowledge of and trust in the IG. With this, if a maritime accident involving an IG ship occurs anywhere in the world, everyone will know there is a large reservoir of claims handling expertise and technical knowledge ready to deal with it and assist with the compensation involved. This is how the IG gains from the collective strength of its otherwise competing members. The collective strength of the Clubs is the key to the message the Working Group is helping to put across to the world.



## 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. Hiroshi Sugiura  
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 Balance Sheets as at 31 March 2018 and 2017, and Income and Expenditure Accounts and 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 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 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 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 prepared 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 2018 are presented solely for convenience. Our audit 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 LLC*

13 July 2018

### *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*

Otemachi Park Building, 1-1-1 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan  
T: +81 (3) 6212 6800, F: +81 (3) 6212 6801, www.pwc.com/jp/assurance

# Income and Expenditure Accounts

for the years ended 31 March 2018 and 2017

	Notes	Unit:JPY millions		Unit:US\$000s
		2018	2017	2018
				Note A-2
<b>Operating income</b>				
Calls and premiums written	B-3,C-1	¥21,409	¥23,461	\$201,515
Reinsurance premiums ceded	B-3,C-2	5,384	5,512	50,681
Net premiums written	B-3	16,025	17,949	150,834
Change in unearned premium reserve	B-3	1,352	1,348	12,726
Exchange losses from underwriting activities		(45)	(26)	(424)
Interest and dividends income	B-3,C-3	902	824	8,496
Gains on money trusts	B-3	516	262	4,856
Profit (losses) on sales of securities		(9)	8	(85)
Foreign currency exchange losses from investing activities		(1,592)	(565)	(14,988)
Other ordinary income		46	52	439
<b>Total operating income</b>		<b>17,195</b>	<b>19,852</b>	<b>161,854</b>
<b>Operating costs and expenses</b>				
Claims paid	B-3,C-4	15,172	13,691	142,809
Reinsurance claims recovered	B-3,C-5	1,900	1,464	17,882
Net claims paid	B-3	13,272	12,227	124,927
Change in reserve for outstanding claims	B-3	(361)	1,528	(3,394)
Change in catastrophe reserve		(349)	542	(3,285)
Operating expenses	B-3	2,819	2,708	26,536
Other ordinary expenses		141	147	1,327
<b>Total operating costs and expenses</b>		<b>15,522</b>	<b>17,152</b>	<b>146,111</b>
<b>Ordinary surplus</b>		<b>1,673</b>	<b>2,700</b>	<b>15,743</b>
<b>Special losses</b>				
Other special losses		1	2	5
<b>Surplus before income taxes</b>		<b>1,672</b>	<b>2,698</b>	<b>15,738</b>
Current income taxes		1,446	2,171	13,611
Deferred income taxes	B-19	(964)	(1,418)	(9,075)
<b>Total income taxes</b>	B-4	<b>482</b>	<b>753</b>	<b>4,536</b>
<b>Surplus after income taxes</b>		<b>1,190</b>	<b>1,945</b>	<b>11,202</b>
Surplus balance after appropriation	B-5	1	6	11
<b>Unappropriated surplus, ending balance</b>		<b>¥1,191</b>	<b>¥1,951</b>	<b>\$11,213</b>

¥106.24=US\$1.00

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

# Balance Sheets

as of 31 March 2018 and 2017

Notes	Unit:JPY millions		Unit:US\$000s	
	2018	2017	2018	
			Note A-2	
<b>Assets</b>				
Cash and deposits at banks	B-10,C-6	¥15,611	¥16,132	\$146,941
Money trusts	B-7,10,C-7	5,230	4,599	49,231
Securities	B-6,10,21,C-8	38,790	40,954	365,118
Property, plant and equipment	B-8,18,C-9	1,095	1,091	10,301
Intangible assets	B-9,C-10	88	155	824
Other assets	B-10,14,C-11	2,117	2,784	19,927
Deferred tax assets	B-19	5,691	4,687	53,567
Reserve for bad debts	B-10,12	(80)	(77)	(749)
<b>Total assets</b>		<b>68,542</b>	<b>70,325</b>	<b>645,160</b>
<b>Liabilities</b>				
Technical provisions				
Reserve for outstanding claims	B-22,C-12	32,544	32,904	306,324
Unearned premium reserve	B-22,C-13	8,538	9,891	80,369
Catastrophe reserve	B-16	15,122	15,471	142,338
Other liabilities	B-10,C-14	3,196	3,939	30,083
Reserve for bonuses	B-13	108	93	1,019
Reserve for directors' retirement benefits	B-15	90	115	841
<b>Total liabilities</b>		<b>59,598</b>	<b>62,413</b>	<b>560,974</b>
<b>Net assets</b>				
Capital contribution fund		115	119	1,084
Retaining earnings	B-3	8,527	7,336	80,258
Net unrealized gains on securities	C-15	302	457	2,844
<b>Total net assets</b>		<b>8,944</b>	<b>7,912</b>	<b>84,186</b>
<b>Total liabilities and net assets</b>		<b>¥68,542</b>	<b>¥70,325</b>	<b>\$645,160</b>

¥106.24=US\$1.00

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

# Statements of Cash Flows

for the years ended 31 March 2018 and 2017

	Unit:JPY millions		Unit:US\$000s
	2018	2017	2018
Notes			Note A-2
<b>Cash flows from operating activities</b>			
Surplus before income taxes	¥1,672	¥2,698	\$15,738
Depreciation	94	104	884
(Decrease) increase in reserve for outstanding claims	(361)	1,528	(3,394)
Decrease in unearned premium reserve	(1,352)	(1,348)	(12,726)
(Decrease) increase in catastrophe reserve	(349)	542	(3,285)
Increase in reserve for bad debts	2	39	21
Increase (decrease) in reserve for bonuses	15	(8)	145
(Decrease) increase in reserve for directors' retirement benefits	(25)	3	(237)
Interest and dividend income	(903)	(824)	(8,496)
Foreign currency exchange losses	1,592	565	14,988
Gains on specified money trust	(531)	(264)	(5,001)
Losses (gains) on securities	8	(8)	73
Losses on property, plant and equipment	1	2	5
Decrease (increase) in other assets	653	(747)	6,147
Increase in other liabilities	4	51	40
Sub-total	520	2,333	4,902
Interest and dividends received	925	846	8,710
Income taxes paid	(2,196)	(205)	(20,666)
<b>Net cash provided by operating activities</b>	<b>(751)</b>	<b>2,974</b>	<b>(7,054)</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	(30)	(22)	(283)
Purchases of intangible assets	-	(5)	-
Purchases of time deposits	(3,176)	(5,528)	(29,895)
Proceeds from maturity of time deposits	4,135	5,251	38,926
Purchases of specified money trust	(100)	(1,300)	(941)
Purchases of securities	(1,656)	(8,267)	(15,589)
Proceeds from sales or maturity of securities	2,306	2,187	21,705
<b>Net cash used in investing activities</b>	<b>1,479</b>	<b>(7,684)</b>	<b>13,923</b>
<b>Cash flows from financing activities</b>			
Proceeds of capital contribution fund from members	5	4	43
Refund of capital contribution fund to members	(6)	(7)	(61)
<b>Net cash used in financing activities</b>	<b>(1)</b>	<b>(3)</b>	<b>(18)</b>
Effect of foreign currency exchange rate changes on cash and cash equivalents	(202)	(212)	(1,911)
Net increase (decrease) in cash and cash equivalents	525	(4,925)	4,940
Cash and cash equivalents at beginning of year	14,842	19,767	139,701
<b>Cash and cash equivalents at end of year</b>	<b>¥15,367</b>	<b>¥14,842</b>	<b>\$144,641</b>

¥106.24=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, 28 November 2014)". 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 2018 have been translated into U.S. Dollars at the rate of ¥106.24 = U.S.\$1, the middle rate prevailing on the Tokyo foreign exchange market on 31 March 2018. 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 2018 and 2017, the aggregate revenue of business transacted with the subsidiary companies amounted to ¥35 million (\$333 thousand) and ¥28 million, respectively, and the aggregate expenses amounted to ¥43 million (\$405 thousand) and ¥36 million, respectively.

### 3 : ① Net premiums written consist of the following:

	Unit:JPY millions		Unit:US\$000s
	2018	2017	2018
			Note A-2
<b>Calls and premiums written</b>	¥21,409	¥23,461	\$201,515
<b>Reinsurance premiums ceded</b>	5,384	5,512	50,681
<b>Net premiums written</b>	¥16,025	¥17,949	\$150,834

The year ended 31 March 2018 includes 30% Supplementary Call for Policy Year 2016 in the amount of ¥4,586 million (\$43,164 thousand). The year ended 31 March 2017 includes 30% Supplementary Call for Policy Year 2015 in the amount of ¥5,157 million.

### ② Net claims paid consist of the following:

	Unit:JPY millions		Unit:US\$000s
	2018	2017	2018
			Note A-2
<b>Claims paid</b>	¥15,172	¥13,691	\$142,809
<b>Reinsurance claims recovered</b>	1,900	1,464	17,882
<b>Net claims paid</b>	¥13,272	¥12,227	\$124,927

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

	Unit:JPY millions		Unit:US\$000s
	2018	2017	2018
			Note A-2
<b>Change in reserve for outstanding claims, gross of reinsurance</b>	¥1,059	(¥619)	\$9,974
<b>Change in reserve for ceded outstanding claims</b>	1,420	(2,147)	13,368
<b>Change in reserve for outstanding claims</b>	(¥361)	¥1,528	(\$3,394)

# Notes to the Financial Statements

④ Change in unearned premium reserve consists of the following:

	Unit:JPY millions		Unit:US\$000s
	2018	2017	2018
			Note A-2
Change in unearned premium reserve, gross of reinsurance	¥1,352	¥1,348	\$12,726
Change in ceded unearned premium reserve	-	-	-
Change in unearned premium reserve	¥1,352	¥1,348	\$12,726

⑤ Operating expenses consist of the following:

	Unit:JPY millions		Unit:US\$000s
	2018	2017	2018
			Note A-2
Personnel expenditure	¥1,689	¥1,623	\$15,902
Cost of supplies	844	833	7,942
Brokerage	365	342	3,432
Reinsurance commission	(173)	(194)	(1,624)
Depreciation	94	104	884
Total	¥2,819	¥2,708	\$26,536

⑥ Interest and dividends income consist of the following:

	Unit:JPY millions		Unit:US\$000s
	2018	2017	2018
			Note A-2
Interest on deposits and savings	¥78	¥84	\$739
Interest on securities	824	740	7,757
Total	¥902	¥824	\$8,496

⑦ For the years ended 31 March 2018 and 2017 valuation gains of ¥537 million (\$5,052 thousand) and ¥264 million are included in "Gains on money trusts", respectively.

⑧ Retaining earnings consist of the following:

	Unit:JPY millions		Unit:US\$000s
	2018	2017	2018
			Note A-2
Reserve for offsetting losses	¥175	¥175	\$1,650
Other retaining earnings	8,352	7,161	78,608
Special Reserve	7,161	5,210	67,395
Unappropriated surplus	1,191	1,951	11,213
Total	¥8,527	¥7,336	\$80,258

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 2018 and 2017 are as follows:

	2018	2017
Effective statutory tax rate	27.92%	27.92%
Increase of deferred tax assets at the balance sheet date caused by change in effective statutory tax rate	—	△0.07%
Entertainment and other expenses not deductible for tax purposes	0.45%	0.26%
Taxation on per capita basis	0.09%	0.06%
Others	0.36%	△0.25%
Actual effective tax rate	28.82%	27.92%

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

	Unit:JPY millions		Unit:US\$000s
	2018	2017	2018
			Note A-2
Beginning unappropriated (deficit) surplus balance	¥1,951	(¥123)	\$18,366
Transferred to special reserves	(1,950)	130	(18,355)
Surplus balance after appropriation	1	6	11
Surplus after income taxes	1,190	1,945	11,202
Ending unappropriated surplus balance	¥1,191	¥1,951	\$11,213

On July 17 2018, the amount of ¥1,190 million (\$11,201 thousand) out of ¥1,191 million (\$11,213 thousand) of unappropriated surplus as of 31 March 2018 will be transferred to special reserves.



- 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 using 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. Fixtures attached to buildings and structures acquired on or after 1 April 2016 are calculated using the straight-line 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.

# Notes to the Financial Statements

## ②Fair value of financial instruments

The amounts recorded in the balance sheet, fair value and the difference as of 31 March 2018 and 2017 are as follows:

	Unit:JPY millions						Unit:US\$000s		
	2018			2017			2018		
	Balance Sheet amounts	Fair value	Difference	Balance Sheet amounts	Fair value	Difference	Balance Sheet amounts	Fair value	Difference
(a)Cash and deposits at banks	¥15,611	¥15,611	¥-	¥16,132	¥16,132	¥-	\$146,941	\$146,941	\$-
(b)Money trusts	5,230	5,230	-	4,599	4,599	-	49,231	49,231	-
(c)Securities									
Securities held to maturity	15,668	16,132	464	15,851	16,369	518	147,476	151,844	4,368
Marketable securities held as available for sale	21,911	21,911	-	23,891	23,891	-	206,239	206,239	-
(d)Premiums receivables	1,226			1,747			11,537		
Reserve for bad debts (*1)	△80			△77			△749		
	1,146	1,146	-	1,670	1,670	-	10,788	10,788	-
<b>Total financial assets</b>	<b>¥59,566</b>	<b>¥60,030</b>	<b>¥464</b>	<b>¥62,143</b>	<b>¥62,661</b>	<b>¥518</b>	<b>\$560,675</b>	<b>\$565,043</b>	<b>\$4,368</b>
(a)Foreign reinsurance payable	¥912	¥912	¥-	¥774	¥774	¥-	\$8,584	\$8,584	\$-
<b>Total financial liabilities</b>	<b>¥912</b>	<b>¥912</b>	<b>¥-</b>	<b>¥774</b>	<b>¥774</b>	<b>¥-</b>	<b>\$8,584</b>	<b>\$8,584</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.  
 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 (\$11,403 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. At 31 March 2018 and 2017, prepaid pension cost of ¥125 million (\$1,176 thousand) and ¥109 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 ¥395 million (\$3,714 thousand) and ¥373 million at 31 March 2018 and 2017, respectively. Advanced depreciation amounts to ¥417 million (\$3,925 thousand) and ¥417 million at 31 March 2018 and 2017, respectively.

19: The total amounts of deferred tax assets and liabilities at 31 March 2018 and 2017 are as follows:

	Unit:JPY millions		Unit:US\$000s
	2018	2017	2018
<b>Deferred tax assets</b>	¥6,490	¥5,496	\$61,092
<b>Breakdown for major items</b>			
<b>Reserve for outstanding claims</b>	¥2,979	¥1,960	\$28,036
<b>Underwriting reserve</b>	2,747	2,747	25,861
<b>Business tax</b>	65	99	612
<b>Reserve for bonuses</b>	31	26	288
<b>Deducted valuation reserve</b>	(¥579)	(¥565)	(\$5,451)
<b>Deferred tax liabilities</b>	¥219	¥245	\$2,062
<b>Breakdown for major items</b>			
<b>Unrealized gains on Marketable securities held as available for sale</b>	¥184	¥214	\$1,734

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

21: Investment in subsidiaries amounts to ¥12 million (\$109 thousand) and ¥12 million at 31 March 2018 and 2017, respectively.

22: ①Reserve 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 ¥9,746 million (\$91,734 thousand) and ¥8,326 million at 31 March 2018 and 2017, respectively.

②There is no unearned premium reserve with respect to reinsurance stipulated in Article 51 of the Regulations at 31 March 2018 and 2017.

③There is no amount deducted relating to the distribution of surplus stipulated in Article 28 of the Regulations at 31 March 2018 and 2017.

23: 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
	2018	2017	2018
			Note A-2
<b>Cash and deposits at banks</b>	¥15,611	¥16,132	\$146,941
MMF, Short-term government bonds and Certificate of deposit included in securities	0	0	0
<b>Deposits at banks of which contract is more than 3 months</b>	(244)	(1,290)	(2,300)
<b>Cash and cash equivalents</b>	¥15,367	¥14,842	\$144,641

There is no significant non-cash transaction entered into by the Association during the years ended 31 March 2018 and 2017.

Cash flows from investing activities include cash flows arising from asset management relating to the insurance business during the years ended 31 March 2018 and 2017.

# Notes to the Financial Statements

## C. Other Notes to Financial Statements

	Unit:JPY millions		Unit:US\$000s
	2018	2017	2018
<b>1 Calls and premiums written</b>			
Mutual			
Mutual premiums	¥13,491	¥14,832	\$126,993
Supplementary calls charged	4,586	5,157	43,164
Release calls	298	196	2,805
FD&D	181	174	1,703
Sub-total	18,556	20,359	174,665
Fixed premiums			
Coastal vessels entries	2,049	2,123	19,288
Charterers' entries	441	783	4,149
Others	363	196	3,413
Sub-total	2,853	3,102	26,850
<b>Total</b>	<b>¥21,409</b>	<b>¥23,461</b>	<b>\$201,515</b>
<b>2 Reinsurance premiums ceded</b>			
Group excess of loss	¥2,349	¥2,465	\$22,110
Others	3,035	3,047	28,571
	<b>¥5,384</b>	<b>¥5,512</b>	<b>\$50,681</b>
<b>3 Interest and dividends</b>			
Bank deposits	¥78	¥84	\$739
Japanese bonds	257	242	2,424
Foreign securities	465	433	4,375
Other securities	102	65	958
	<b>¥902</b>	<b>¥824</b>	<b>\$8,496</b>
<b>4 Claims paid</b>			
P&I	¥12,987	¥11,036	\$122,244
<i>Mutual</i>	11,257	8,886	105,959
<i>Coastal vessels entries</i>	1,170	1,373	11,010
<i>Charterers' entries</i>	548	573	5,162
<i>Others</i>	12	204	113
Other Associations' pool claims	2,126	2,507	20,010
FD&D	59	148	555
	<b>¥15,172</b>	<b>¥13,691</b>	<b>\$142,809</b>
<b>5 Reinsurance claims recovered</b>			
Group's pooling agreement	¥1,876	¥1,275	\$17,653
Group's excess loss reinsurance	-	-	-
Other reinsurers	24	189	229
	<b>¥1,900</b>	<b>¥1,464</b>	<b>\$17,882</b>

	Unit:JPY millions		Unit:US\$000s
	2018	2017	2018
<b>6 Cash and deposits at banks</b>			
Cash	¥1	¥1	\$14
Deposits at banks	15,610	16,131	146,927
	<b>¥15,611</b>	<b>¥16,132</b>	<b>\$146,941</b>
<b>7 Money trusts</b>			
Funds of domestic stock	¥2,469	¥1,970	\$23,239
Funds of foreign security	2,761	2,629	25,992
	<b>¥5,230</b>	<b>¥4,599</b>	<b>\$49,231</b>
<b>8 Securities</b>			
Japanese government bonds	¥713	¥718	\$6,717
Japanese local government bonds	3,161	3,372	29,750
Corporate bonds	13,975	14,490	131,538
Stocks	10	10	94
Foreign securities	17,469	19,014	164,432
Other securities	3,462	3,350	32,587
	<b>¥38,790</b>	<b>¥40,954</b>	<b>\$365,118</b>
<b>9 Property, plant and equipment</b>			
Estate on book	¥990	¥990	\$9,314
Buildings	62	64	581
Lease assets	21	9	202
Equipment and others	22	28	204
	<b>¥1,095</b>	<b>¥1,091</b>	<b>\$10,301</b>
<b>10 Intangible assets</b>			
Software	¥84	¥151	\$787
Other intangible assets	4	4	37
	<b>¥88</b>	<b>¥155</b>	<b>\$824</b>
<b>11 Other assets</b>			
Premiums receivables	¥1,226	¥1,747	\$11,537
Foreign reinsurance recoveries	484	518	4,558
<i>Pool recoveries</i>	436	412	4,101
<i>Recoveries from other reinsurers</i>	48	106	457
Accounts receivable	41	47	391
Accrued revenue	162	174	1,525
Advance deposits	69	98	648
Suspense payments	10	92	92
Prepaid pension cost	125	108	1,176
	<b>¥2,117</b>	<b>¥2,784</b>	<b>\$19,927</b>

# Notes to the Financial Statements

	Unit:JPY millions		Unit:US\$000s
	2018	2017	2018
<b>12 Reserve for outstanding claims</b>			
Gross reserve for outstanding claims	¥42,290	¥41,230	\$398,057
<i>Members' claims</i>	36,225	34,656	340,973
<i>Other Associations' pool claims</i>	6,065	6,574	57,084
Reinsurers' share	9,746	8,326	91,733
<i>Pool recoveries</i>	8,895	7,442	83,721
<i>Excess loss R/I recoveries</i>	-	-	-
<i>Recoveries from other reinsurers</i>	851	884	8,012
Net reserve for outstanding claims	¥32,544	¥32,904	\$306,324
<i>IBNR amounts are included in the above figure</i>			
<i>IBNR amounts</i>	¥12,407	¥10,549	\$116,783
<b>13 Unearned premium reserve</b>			
Gross unearned premium reserve	¥8,538	¥9,891	\$80,369
Reinsurers' share	-	-	-
Net unearned premium reserve	¥8,538	¥9,891	\$80,369
<b>14 Other liabilities</b>			
Foreign reinsurance payable	¥912	¥774	\$8,584
Accounts payable	178	244	1,674
Unpaid tax	1,313	2,063	12,361
Suspense payable	772	849	7,262
Lease liability	21	9	202
	¥3,196	¥3,939	\$30,083
<b>15 Net unrealized gains on securities</b>			
Unrealized gains on securities is net of deferred tax caused by the valuation of securities.	¥302	¥457	\$2,844

# Reserves

	Unit:JPY millions		Unit:US\$000s
	2018	2017	2018
Catastrophe reserve	¥15,122	¥15,471	\$142,338
Reserve for offsetting losses	175	175	1,650
Other retaining earnings	8,352	7,161	78,608
Sub-total	23,649	22,807	222,596
Capital contribution fund	115	118	1,084
Net unrealized gains on securities	302	457	2,844
Total	¥24,066	¥23,382	\$226,524

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 2018

	2018/19		2017/18		2016/17	
	(2018/2/20-2018/3/31)		(2017/2/20-2018/2/20)		(2016/2/20-2017/2/20)	
	JPY millions	US\$000s	JPY millions	US\$000s	JPY millions	US\$000s
<b>Calls and premiums written</b>						
Prior years	¥ -	\$ -	¥1,922	\$18,088	¥19,815	\$186,515
During year	1,692	15,926	16,142	151,943	178	1,671
Supplementary calls	-	-	-	-	4,586	43,164
	1,692	15,926	18,064	170,031	24,579	231,350
Reinsurance premiums ceded	(532)	(5,003)	(5,333)	(50,197)	(5,633)	(53,023)
	1,160	10,923	12,731	119,834	18,946	178,327
<b>Claims paid</b>						
Gross claims paid	(3)	(25)	(6,116)	(57,572)	(7,790)	(73,328)
Reinsurance claims recovered	-	-	1,450	13,649	73	686
[Pool recoveries]	[ - ]	[ - ]	[1,447]	[13,622]	[71]	[669]
[Excess loss R/I recoveries]	[ - ]	[ - ]	[ - ]	[ - ]	[ - ]	[ - ]
[Other reinsurance recoveries]	[ - ]	[ - ]	[3]	[27]	[2]	[17]
Net claims paid	(3)	(25)	(4,666)	(43,923)	(7,717)	(72,642)
[Other Ass' pool claims]	[ - ]	[ - ]	[228]	[2,149]	[356]	[3,353]
<b>Investment income</b>	120	1,133	1,610	15,156	757	7,128
<b>Operating expenses</b>	(215)	(2,027)	(2,908)	(27,368)	(2,801)	(26,361)
<b>Others</b>	(378)	(3,560)	(1,220)	(11,481)	(1,572)	(14,801)
<b>Balance available for estimated outstanding claims</b>	<b>¥684</b>	<b>\$6,444</b>	<b>¥5,547</b>	<b>\$52,218</b>	<b>¥7,613</b>	<b>\$71,651</b>
<b>Estimated outstanding claims</b>						
Gross estimated outstanding claims	(¥2,049)	(\$19,283)	(¥11,287)	(\$106,238)	(¥5,752)	(\$54,145)
Reinsurers' share	5	49	949	8,935	191	1,795
[Pool recoveries]	[ - ]	[ - ]	[907]	[8,535]	[191]	[1,795]
[Excess loss R/I recoveries]	[ - ]	[ - ]	[ - ]	[ - ]	[ - ]	[ - ]
[Other reinsurance recoveries]	[5]	[49]	[42]	[400]	[ - ]	[ - ]
Net estimated outstanding claims	(2,044)	(19,234)	(10,338)	(97,303)	(5,561)	(52,350)
[Other Associations' pool claims]	[155]	[1,459]	[467]	[4,396]	[1,506]	[14,175]
<b>Surplus/(deficit)</b>	<b>(¥1,360)</b>	<b>(\$12,790)</b>	<b>(¥4,791)</b>	<b>(\$45,085)</b>	<b>¥2,052</b>	<b>\$19,301</b>
<b>Estimated product of 10% supplementary calls</b>	-	-	1,381	12,996	1,529	14,388

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 2018/19 policy year which is covered the period from 20 February 2018 to 31 March 2018, calls and premiums are stated on an earned basis to 31 March 2018.
4. The translation rate in this Policy Year Statement is ¥106.24 = US\$1, the middle rate prevailing on the Tokyo foreign exchange market as of 31 March 2018.



2015/16		Closed years		Total	
(2015/2/20-2016/2/20)					
JPY millions	US\$000s	JPY millions	US\$000s	JPY millions	US\$000s
¥21,876	\$205,908				
90	850				
5,157	48,539				
27,123	255,297				
(6,624)	(62,345)				
20,499	192,952				
(10,337)	(97,300)				
1,395	13,134				
[1,275]	[12,007]				
[ - ]	[ - ]				
[120]	[1,127]				
(8,942)	(84,166)				
[976]	[9,183]				
1,018	9,582				
(2,510)	(23,630)				
(549)	(5,165)				
<b>¥9,516</b>	<b>\$89,573</b>	<b>¥32,834</b>	<b>\$309,034</b>	<b>¥56,194</b>	<b>\$528,920</b>
(¥8,099)	(\$76,233)	(¥15,103)	(\$142,158)	(¥42,290)	(\$398,057)
2,525	23,769	6,075	57,185	9,745	91,733
[1,960]	[18,454]	[3,143]	[29,589]	[6,201]	[58,373]
[ - ]	[ - ]	[2,693]	[25,349]	[2,693]	[25,349]
[565]	[5,315]	[239]	[2,247]	[851]	[8,011]
(5,574)	(52,464)	(9,028)	(84,973)	(32,545)	(306,324)
[707]	[6,653]	[3,230]	[30,401]	[6,065]	[57,084]
<b>¥3,942</b>	<b>\$37,109</b>	<b>¥23,806</b>	<b>\$224,061</b>	<b>¥23,649</b>	<b>\$222,596</b>
1,719	16,180				

# Directors and Auditors

## ■ Directors

### Chairman, Representing Director

Eizo Murakami    President    Kawasaki Kisen Kaisha, Ltd.

### Deputy Chairmen, Representing Directors

Junichiro Ikeda    President    Mitsui O.S.K. Lines, Ltd.

Tadaaki Naito    President    Nippon Yusen Kabushiki Kaisha

### Directors

Atsushi Igaki    President    Ferry Sunflower Limited

Takashi Sakai    President    Hachiuma Steamship Co., Ltd.

Tadashi Terauchi    President    Idemitsu Tanker Co., Ltd.

Hiromi Tosha    President    Iino Kaiun Kaisha, Ltd.

Shinji Inaba    President    JX Ocean Co., Ltd.

Shunichi Arisaka    President    "K" Line RoRo Bulk Ship Management Co., Ltd.

Yasushi Takada    President    Kyoei Tanker Co., Ltd.

Kazuyuki Suzuki    President    Mitsubishi Ore Transport Co., Ltd.

Tsuneo Watanabe    Managing Director    MOL Chemical Tankers Pte. Ltd.

Kazuo Tanimizu    President    NS United Kaiun Kaisha, Ltd.

Yoichiro Seno    President    Seno Kisen Co., Ltd.

Yukito Higaki    President    Shoei Kisen Kaisha, Ltd.

Kenichi Nagata    President    Mitsui O.S.K. Kinkai, Ltd.

Norio Tabuchi    President    Tabuchi Kaiun Co., Ltd.

Nobuo Sano    President    Tamai Steamship Co., Ltd.

Takashi Uyeno    Chairman & President    Uyeno Transtech Ltd.

## ■ In-House Directors

### Director General, Representing Director

Hiroshi Sugiura

### Executive Directors, Representing Directors

Tsutomu Kawakami

Hiroaki Sawabe

Takaaki Irikiin

### Directors

Shunsei Miyake

Keisuke Kobayashi

Minoru Naito

## ■ Auditors

Hiroshi Akanuma    President    Kawasaki Kinkai Kisen Kaisha, Ltd.

Masaaki Nemoto    President    MOL Ocean Expert Co., Ltd.

Shunsuke Tsurumaru    President    Tsurumaru Shipping Co., Ltd.

(as of 17 July, 2018)

# Secretariat

## General Managers, Chiefs of Division and Chief Executive

Minoru Naito	Planning Dept. / Public Relations Div.	Takuzo Okada	Loss Prevention and Ship Inspection Dept.
Tetsu Kato	Human Resources & General Affairs Dept.	Junya Ogawa	Loss Prevention and Ship Inspection Dept.
Hiroki Ikeda	Investment Management and Accounting Dept.	Tetsuo Ishii	Information Systems Dept.
Yuichi Tanaka	Underwriting Administration Dept.	Shigeru Yamada	Kobe Branch
Royston Deitch	Underwriting Administration Dept.	Riki Yamamoto	Fukuoka Branch
Keisuke Kobayashi	Tokyo Underwriting Dept.	Naoyuki Moriya	Imabari Branch
Yasuyuki Nakamura	Tokyo Underwriting Dept.	Yoji Tanaka	Singapore Branch
Noriyuki Take	Tokyo Underwriting Dept.	Masatoshi Fukushima	London Liaison Office
Hiroshi Kikegawa	Claims Dept. I	Shu Sato	Internal Audit Div.
Nobuko Genda	Claims Dept. II		
Norihiro Matsui	Claims Dept. II		

(as of 1 August, 2018)



Left to right :  
M. Naito, S. Miyake, H. Sawabe,  
T. Kawakami, T. Irikiin, K. Kobayashi



Standing left to right : R. Yamamoto, S. Yamada, Yoji Tanaka, N. Moriya, Y. Nakamura, H. Kikegawa, H. Ikeda, J. Ogawa, Yuichi Tanaka  
Seated left to right : T. Kato, S. Sato, T. Okada, T. Ishii, N. Take, N. Genda, N. Matsui

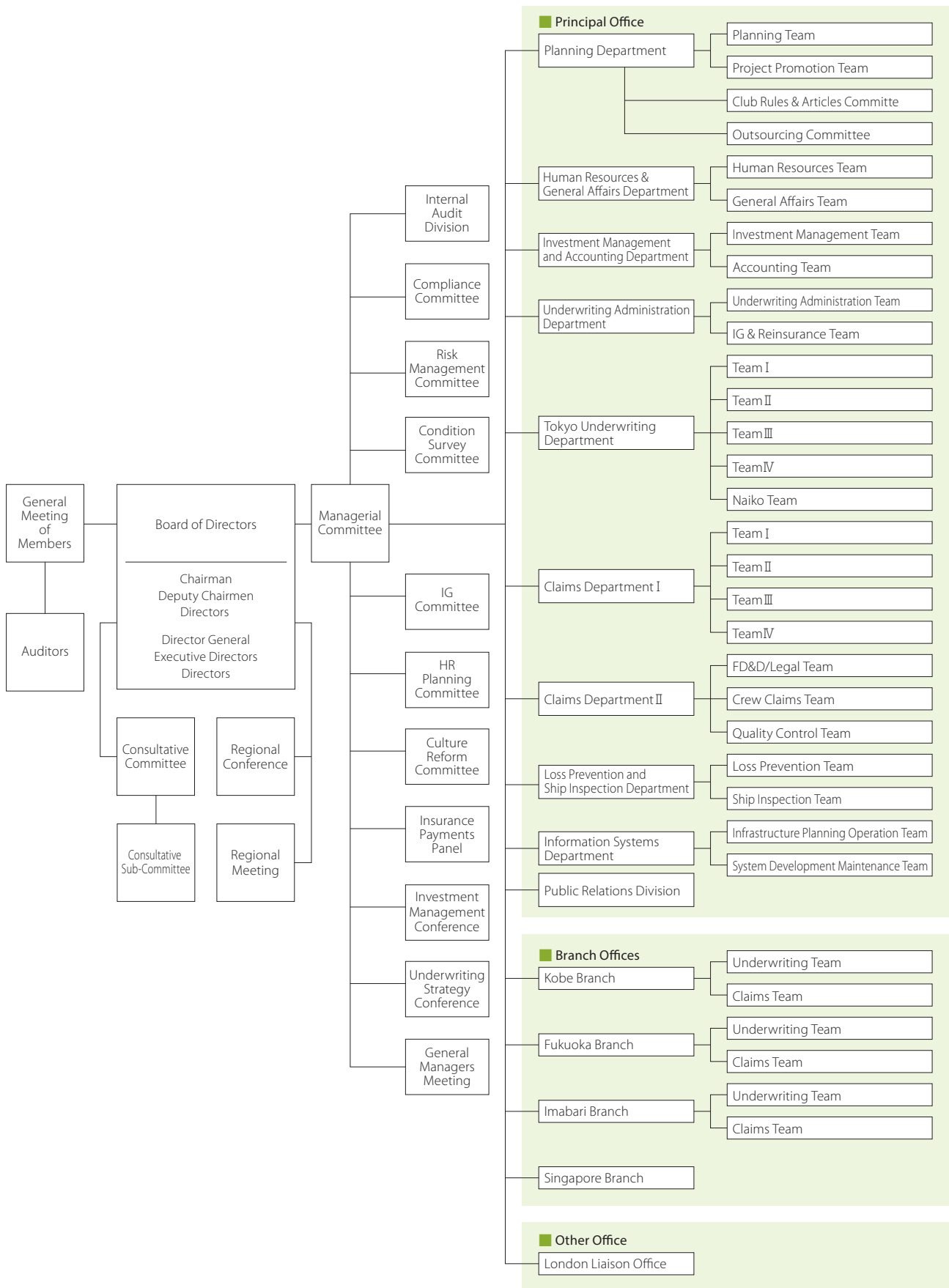


Royston Deitch



M. Fukushima

# Organisation



(as of 1 July, 2018)

# Offices

## Principal Office 2-15-14, Nihonbashi-Ningyocho, Chuoh-ku, Tokyo 103-0013, Japan

		Phone	Facsimile	Email
<b>Underwriting Administration Dept.</b>	Underwriting Administration Team	+81 3 3662 7213	+81 3 3662 7107	underwrite-dpt@piclub.or.jp
	IG & Reinsurance Team	+81 3 3662 7214	+81 3 3662 7107	ri-dpt@piclub.or.jp
<b>Tokyo Underwriting Dept.</b>	Team I	+81 3 3662 6649	+81 3 3662 7400	ocean-sect@piclub.or.jp
	Team II	+81 3 3662 7211	+81 3 3662 7225	
	Team III	+81 3 3662 7211	+81 3 3662 7225	
	Team IV	+81 3 3662 7211	+81 3 3662 7225	
	Naiko Team	+81 3 3662 7212	+81 3 3662 7225	naiko-keiyaku@piclub.or.jp
<b>Claims Dept. I</b>	Team I	+81 3 3662 7221	+81 3 3662 7400	g1claims@piclub.or.jp
	Team II	+81 3 3662 7222	+81 3 3662 7225	g2claims@piclub.or.jp
	Team III	+81 3 3662 7226	+81 3 3662 7225	g3claims@piclub.or.jp
	Team IV	+81 3 3662 6668	+81 3 3662 7400	g4claims@piclub.or.jp
<b>Claims Dept. II</b>	FD&D/Legal Team	+81 3 3662 7222	+81 3 3662 7225	gfddlegal@piclub.or.jp
	Crew Claims Team	+81 3 3662 6660	+81 3 3662 7400	gcrew@piclub.or.jp
	Quality Control Team	+81 3 3662 6675	+81 3 3662 7400	gquality@piclub.or.jp
<b>Loss Prevention and Ship Inspection Dept.</b>	Loss Prevention Team	+81 3 3662 7229	+81 3 3662 7107	lossprevention-dpt@piclub.or.jp
	Ship Inspection Team	+81 3 3662 7229	+81 3 3662 7107	
<b>Public Relations Div.</b>		+81 3 3662 7272	+81 3 3662 7107	public-relations@piclub.or.jp

## Kobe Branch 6th Floor Shosen-Mitsui Building 5, Kaigandori Chuoh-ku, Kobe, Hyogo 650-0024, Japan

Phone	Facsimile	Email
+81 78 321 6886	+81 78 332 6519	kobe@piclub.or.jp

## Fukuoka Branch 6th Floor Meiji-Dori Business Center 1-1, Shimokawabata-machi, Hakata-ku, Fukuoka 812-0027, Japan

Phone	Facsimile	Email
+81 92 272 1215	+81 92 281 3317	fukuoka@piclub.or.jp

## Imabari Branch 2-2-1, Kitahorai-cho, Imabari, Ehime 794-0028, Japan

Phone	Facsimile	Email
+81 898 33 1117	+81 898 33 1251	imabari@piclub.or.jp

## Singapore Branch 80 Robinson Road #14-01, Singapore 068898

Phone	Facsimile	Email
+65 6224 6451	+65 6224 1476	singapore@piclub.or.jp

## London Liaison Office 5th Floor, 38 Lombard Street, London, U.K., EC3V 9BS

Phone	Facsimile	Email
+44 20 7929 4844	+44 20 7929 7557	llo@japia.co.uk

## Japan P&I Club (UK) Services Ltd. (Claim contact point in UK) 5th Floor, 38 Lombard Street, London, U.K., EC3V 9BS

Phone	Facsimile	Email
+44 20 7929 3633	+44 20 7929 7557	ukservices@piclub.com



**THE JAPAN SHIP OWNERS' MUTUAL PROTECTION & INDEMNITY ASSOCIATION**

<https://www.piclub.or.jp>