

JAPAN P&I CLUB

ANNUAL REPORT 2020



LEAP FORWARD 2023

Your First Club, Our Best Service

C O N T E N T S

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Highlights

Entered Tonnage
99.3 million gt



Entered Vessels
4,198 vessels



S&P Rating
BBB+
Outlook : Positive



Reserve Amount
JPY 25,700 million



Combined Ratio
107.5%

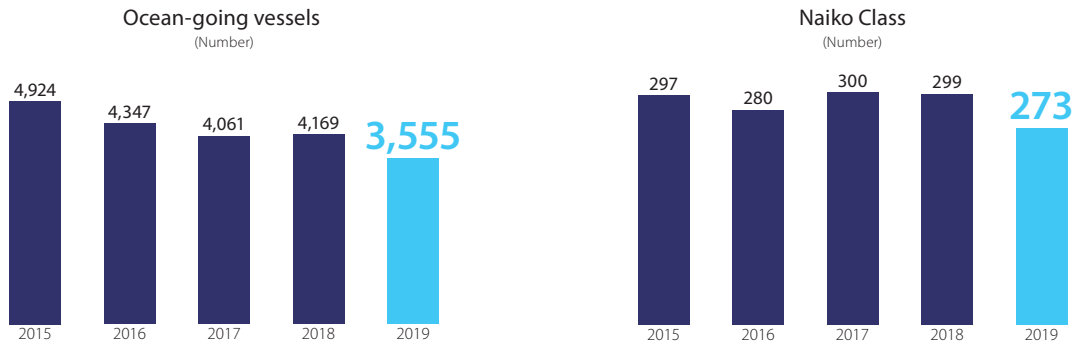
Including currency movements
in claim reserves



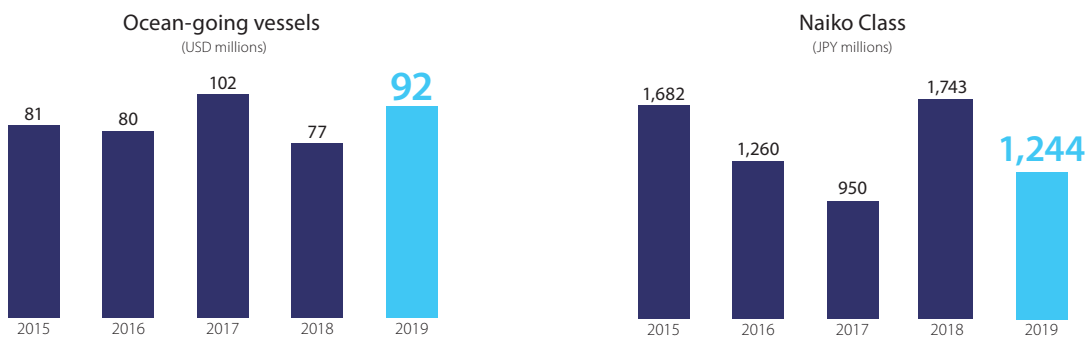
Combined Ratio
113.3%

Excluding currency movements
in claim reserves

Number of claims received (Policy Year)



Paid claims and reserve funds within our retention (Policy Year)



S&P rating is published in July 2020. The Entered Tonnage/Number, the Reserve amount, the Combined ratio, the Number of claims received, and the Paid claims and reserve funds within our retention are as of 31 March 2020.

Statement of Chairman



First of all, I express my deepest sympathy to those affected by COVID-19 and hope for their speedy recovery. I sincerely hope this pandemic will end as soon as possible.

I was newly elected as Chairman at the 70th Ordinary General Meeting of Members and the 604th Board of Directors Meeting on 27 July. I am now delighted to present the Annual Report 2020.

The global economy in business year 2019 saw stagnation while the US-China trade war created uncertainty about the future and trading and investment activities decreased. Furthermore, as COVID-19 was spreading globally, demand fell worldwide and the global economy was seriously damaged in the fourth quarter.

It is feared that the Japanese economy could go into recession as a result of the first consumption tax increase for over five years and the COVID-19 pandemic. Lack of demand caused by the anti-infection restrictions on people leaving their homes could suppress national economic activities.

In the shipping industry, the impact of the US-China conflict is gradually easing, and the oil sector has been improving since the second half due to the increase in demand for offshore floating storage vessels. However, dry bulk and containership businesses remain sluggish, and we need to keep an eye on this. In addition, stricter environmental regulations for ship fuels were imposed in January 2020. Concerns about stable fuel supply and market trends remain, and planning for the medium to long term is required.

As for the P&I insurance sector, the International Group of P&I Clubs (IG) appointed a new CEO in July 2019 and has continued to develop the "Collectively Stronger" approach to inter-club cooperation. The IG has also been working to further Members' interests generally, including by optimising the data gathered by the IG and engaging in P&I outreach activities throughout the world to promote an understanding of the benefits of mutual insurance for the

global economy and environment. Sustainability of the marine environment and ESG (environment, society and governance) are significant areas of activity for the IG. As a member of the IG, the Association also actively participates in its various subcommittees.

In July 2018, the Association developed the Medium-Term Business Objectives (LEAP FOWARD 2023 – Your First Club, Our Best Service). We have started to review all aspects of the insurance services we provide and our organisational structures under the slogans: "From the Members' viewpoint", "Improve the quality of services", "Regain trust and support" and "Overseas strategy and sales development." After the First Action Plan, which ran until the end of business year 2019, we began the Second Action plan. This covers business years 2020 to 2023 and aims to recover our share of the domestic market and obtain good quality contracts in overseas markets. Achieving these goals will assist us in becoming the Association of Members' choice in the highly competitive P&I insurance industry. In order to achieve the aims, we will be revising our insurance schemes, improving our claims handling quality, enhancing our consulting services and provision of information, as well as further expanding our loss prevention activities.

The Association was founded in 1950 and will celebrate its 70th anniversary on 2 October 2020. In the P&I insurance market where competition is intensifying year by year, we are truly grateful for the support and cooperation of all our Members in our position as the only IG Club head-quartered in Asia.

We will continue to strive to improve our services with new determination, so that we will become the Association of choice supported by Members for a long time to come.

Finally, we would like to express our sincere gratitude for your continued support and encouragement.

27 July 2020

Tadaaki Naito, Chairman

Statement of Director General



First of all, I express my deepest sympathy to the Members whose lives and businesses have been affected by the COVID-19 pandemic.

The pandemic has had a great impact on the global economy. The shipping industry is facing unprecedented challenges nationally and globally.

In this extremely difficult business environment, I was elected as Director General at the 70th Ordinary General Meeting of Members and then the 604th Board of Directors Meeting on 27 July.

At this challenging time, our Association contributes to the stable development of the shipping industry and the business of our Members by providing the P&I insurance cover essential to manage the liabilities and risks inherent in the operation of ships. We would appreciate your guidance and encouragement.

Business year 2019 was the second year of the Medium-Term Business Objectives (LEAP FOWARD 2023 – Your First Club, Our Best Service) which the former Director General Hiroshi Sugiura was working on. It was also the final year of the First Action Plan to achieve the Business Objectives. The aim of our Medium-Term Business Objectives is to recover a significant share of the domestic market and obtain high quality contracts in the overseas market by the end of 2023. Entered tonnage did not increase as much as hoped for in 2019 and the number of claims started to increase. In response, we are reviewing the insurance products and services we offer, as well as our organisational structure, and shall implement the necessary reforms.

For the next three years, I will further proceed in the direction of reform pursued by former Director General Sugiura, and aim to show solid results to our Members.

Next, I would like to present the Association's business results for business year 2019.

In the profit and loss account for business year 2019, total operating income decreased by JPY4.58 billion from the previous year to JPY14.55 billion. Total operating costs and expenses decreased by JPY400 million to JPY16.25 billion. The ordinary surplus decreased by JPY4.18 billion from the previous year to a deficit of JPY1.70 billion. The surplus after income tax became a deficit of JPY1.23 billion. The reserve amount was JPY25.68 billion after a drawing down of JPY730 million. However, the Association maintains a rating of "BBB+" from S&P Global Ratings.

With regard to claims, all Clubs who are members of the International Group of P&I Clubs (IG) share, or pool, claims which exceed a retention of USD10 million. The number of these Pool Claims has been increasing throughout the IG.

There has also been an increase in the number of medium and large sized claims received by the Association. While the numbers of claims are on the rise, insurance premium income has been decreasing. One reason for this is a drop in average insurance premiums for newly entered vessels. These factors led us to the step we would never take lightly of introducing a 7.5% general increase in ocean-going vessels insurance for 2020 renewal. By doing this we wished to ensure the balance of revenue and expenditure for the Association, and thus our financial soundness.

The Association will celebrate its 70th anniversary in 2020. Back in 1950 when the Association was established, it had only 132 Members, 630 entered ships and a total tonnage of 1.9 million dwt. At the end of March 2020, we had as many as 3,158 Members, 4,198 entered vessels and a total tonnage of 99.3 million gt. We would like to take this opportunity to thank our Members for their continued support and cooperation.

We would like to make this year of the 70th anniversary a year to lay the foundation for further development and improvement, so that we can continue to be the Association of Members' first choice. We will continue to provide meticulous and helpful services, and to develop further insurance schemes and services from business operators' perspective to meet Members' needs, and respond to their requests appropriately and swiftly. We will also work to improve the Association's management. We would appreciate our Members' continued support and cooperation.

Finally, we sincerely wish our Members' safety for their vessels and continued business prosperity.

27 July 2020

Shizuo Takahashi, Director General

Trusted partner, Japan P&I Club 70 years of history and to the future

Anticipate your needs to further improve our service
as a member of maritime cluster

1950 Founded Japan P&I Club in Kobe
 630 vessels
 1.9 million dwt

1968 Established Principal Office in Tokyo
 Changed Kobe office to branch status

1973 Started underwriting of foreign flagged vessels

1974 Opened Fukuoka Office

1975 Opened Matsuyama Office

1978 Started FD&D service

1985 Opened Imabari Office (By merging with Matsuyama Office, Imabari Office was subsequently changed to branch status)
 Opened London Liaison Office

1987 Founded the building of Principal Office in Tokyo

1989 Full membership of the Pooling Agreement of IG P&I Clubs

1991 Started Condition Survey as a loss prevention

2000 50th anniversary

2004 Introduced independent auditors




2008 Started financial strengthening fitting for EU Directive as a member of IG P&I Clubs

2009 Opened Japan P&I Club (UK) Services Ltd. in London to provide claim handling services without being impeded by time differences as a base in Europe

2012 Commenced increasing the Reserve

2013 Opened Singapore Branch with English lawyers to strengthen our legal services by connecting Tokyo, London and Singapore

2020 70th Anniversary
 4,198 vessels
 99.3 million gt
 JPY25,700 million

 Number of Entered Vessels
 Entered Tonnage
 Reserve Amount

Business Report

Entered Tonnage

Reinsurance

Trend of Claims

Trend of Pool Claims

International Group's Topics

Loss Prevention

Investments

Combined Ratio

Entered Tonnage

During the course of the 2019 policy year, the Association had new entries of 213 vessels, or 9.5 million gt in owner's ocean-going entries, and 110 vessels, or 150,000 gt in 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.

In the 2019 policy year, the Association received more large claims than usual for ocean-going vessels and the loss record worsened significantly. The loss record for Naiko Class was not good either, although better than the previous policy year.

Given the claims trend as described above and having considered the various factors essential for the management of the Association, such as its Members' business environment and ensuring the soundness of its income and expenditure, the Association asked ocean-going vessel Members for a 7.5% general increase in premiums for the 2020 policy year. There was no general

increase in premiums for Naiko Class entries for the 2020 policy year.

At the conclusion of the 2020 renewal, the Association's entered tonnage amounted to 96.2 million gt in owners' ocean-going entries and 2.6 million gt in Naiko Class entries, an increase of 3.4 million gt and 30,000 gt respectively compared to last year. The Association is grateful for the support of Members for this result.

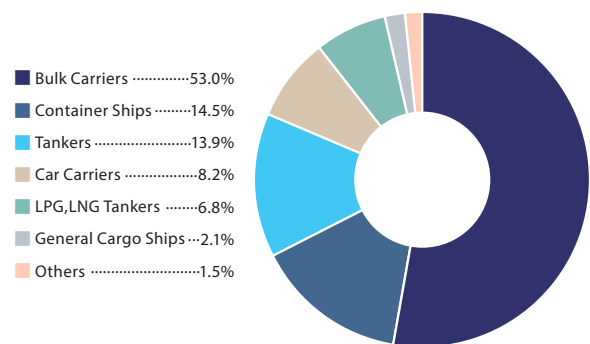
As to the entered tonnage by type, while bulk carriers have constituted the majority of our entries for many years, the percentages of container vessels and LPG/LNG tankers are gradually increasing.

At the end of the 2019 business year (31 March 2020), there were 4,198 vessels entered, comprised of 2,310 in owners' ocean-going entries and 1,888 in Naiko Class entries. The total amount of entered tonnage was 99.3 million gt, consisting of 96.6 million gt in owners' ocean-going entries and 2.6 million gt in Naiko Class entries.

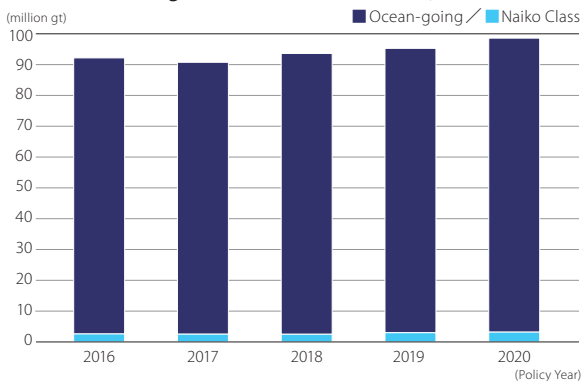
■ Change in General Increase / Supplementary Call (%)

| Policy Year | | 2016 /17 | 2017 /18 | 2018 /19 | 2019 /20 | 2020 /21 |
|--------------------|-------------------|----------|----------|----------|----------|----------|
| General Increase | Mutual Entries | 3 | 0 | 0 | 0 | 7.5 |
| | Naiko Class | 0 | 0 | 0 | 0 | 0 |
| Supplementary Call | Original Estimate | 40 | 40 | 40 | 40 | 40 |
| | Amount Called | 30 | 40 | 40 | Open | Open |
| | Current Estimate | Closed | 0 | 0 | 40 | 40 |

■ Entered Tonnage by Type (as of commencement of the 2020 Policy Year)



■ Entered Tonnage (as of commencement of each Policy Year)



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's reinsurance arrangements consist of the International Group of P&I Clubs (IG) Pool and Reinsurance Programme and the Association's own reinsurance programmes.

IG Pool and Reinsurance Programme

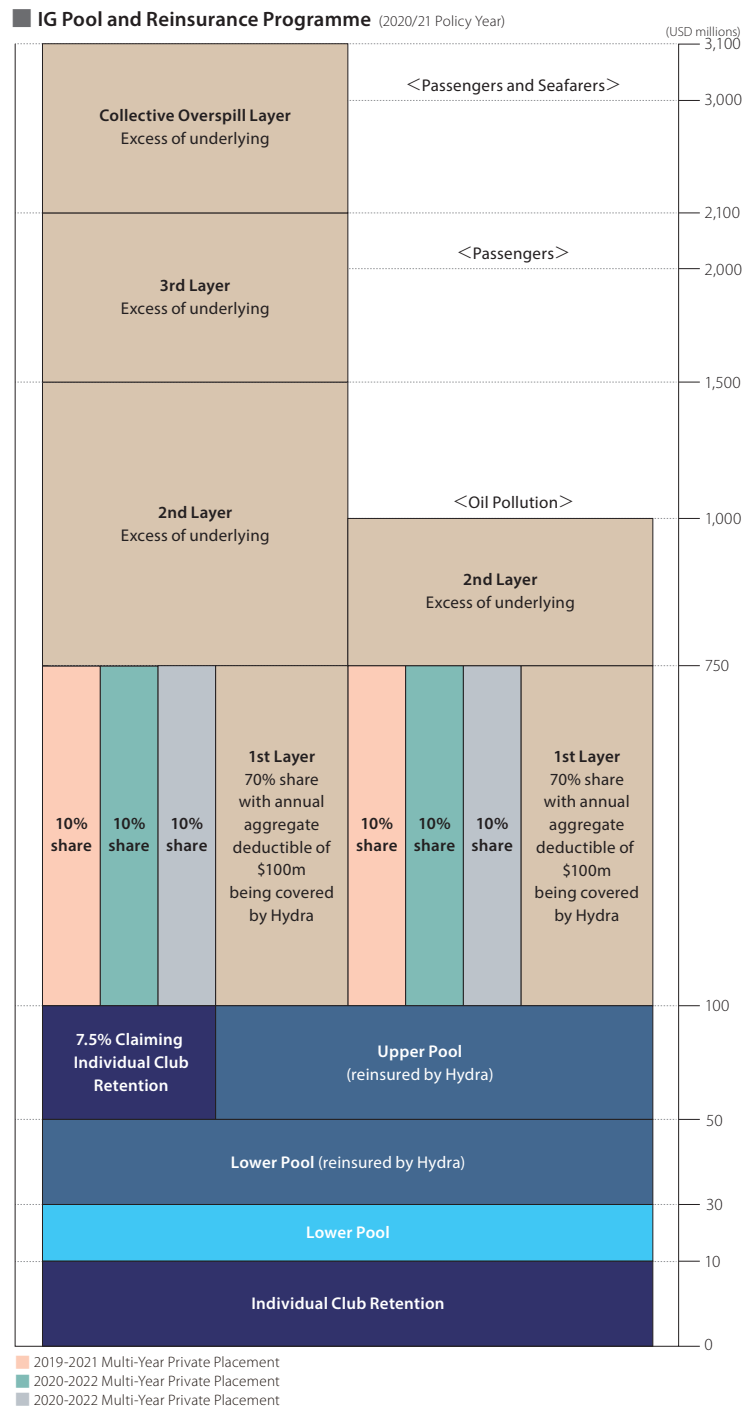
The loss experience of the reinsurance programme in the 2012 to 2019 policy years remains acceptable to reinsurers. The trend of pool claims is on page ten. This factor, combined with the consistently positive financial development of the IG Hydra captive and the effective use of multi-year private placements, has enabled the IG to achieve another satisfactory reinsurance renewal result, with rates for shipowners remaining flat across all vessel categories.

General Structure

Commercial reinsurance cover of just over USD3,000 million 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 and claims within the club retention of USD10 million, in order to achieve and maintain stable risk management. Commercial reinsurance market conditions have continued to be unfavourable, with rates hardening. This has led to the premium for some reinsurance protection being increased. Nevertheless, because of the Association's good loss record and the review of the existing reinsurance scheme, we were able to renew the programme on improved terms or a reduction in premium as a whole.



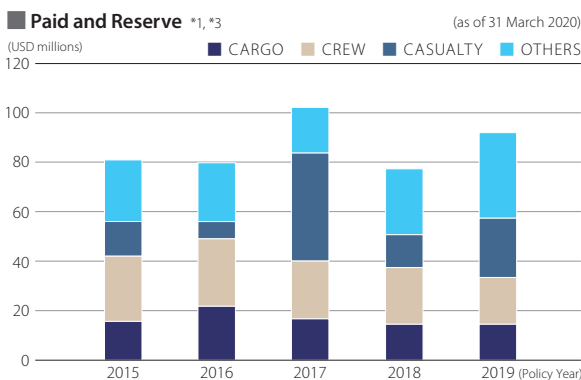
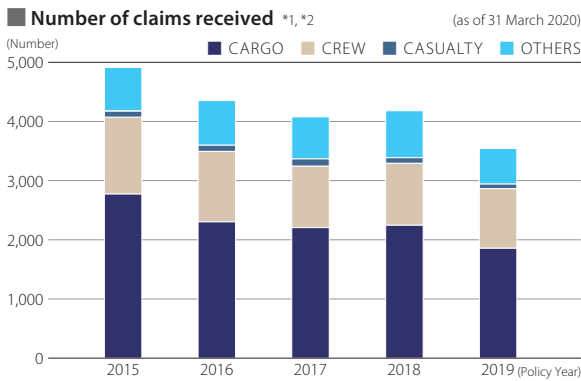
Reinsurance for oil pollution claims is purchased as a separate cover with a limit of USD1,000 million. Reinsurance for passenger and seafarer claims is subject to a limit of USD2,000 million for liability to passengers, or USD3,000 million for passenger and seafarer claims combined.

Trend of Claims

The number of claims received have been decreasing in recent years, and only approximately 3,800 claims were received for ocean-going and Naiko Class combined in the 2019 policy year. However, paid and reserve within our retention (Paid and Reserve) have been increasing in the 2019 policy year. The Paid and Reserve amounted to approximately USD92 million for ocean-going vessels and approximately JPY1,200 million for Naiko Class. In the 2018 policy year, there was one ocean-going vessel incident which led to claims exceeding USD10 million and thus being shared by the Pool, whereas there was no large claim, meaning exceeding JPY300 million, for Naiko Class. In the 2019 policy year, there were two incidents exceeding USD10 million for ocean-going vessels. Moreover, the number of incidents exceeding USD1 million have been increasing. As a result, Paid and Reserve have been increasing despite of the decreasing trend of the number of claims received. For Naiko Class, there were no large claims (exceeding JPY300 million), and Paid and Reserve have been decreasing compared with the 2018 policy year in which Paid and Reserve increased significantly.

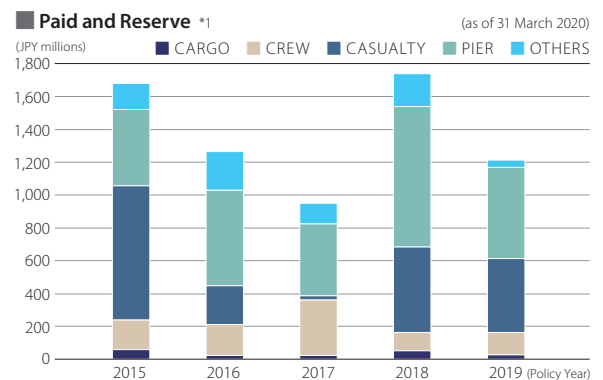
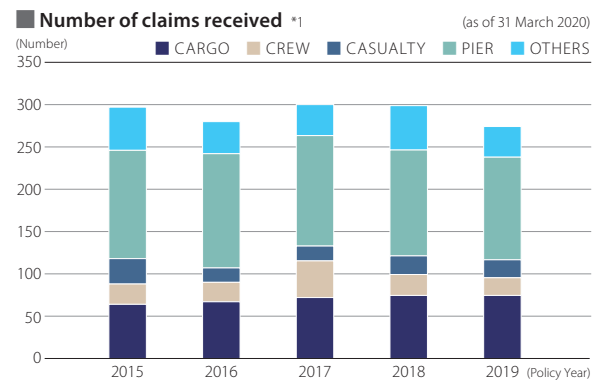
Ocean-going vessels

The number of claims received has been decreasing over the past five years. Cargo damage claims provided the highest proportion of the total number of claims during that period, accounting for 54% of claims. The next most frequent category was crew claims, which accounted for 27%. Casualties such as collision, stranding, sinking, fire, and oil pollution accounted for 2%. Although the proportion of the number of casualty claims was small, the insurance money for each case was high and accounted for 23% of the total of Paid and Reserve of the five years. In the 2019 policy year, there were two large casualty claims, such as fire and oil pollution, exceeding USD10 million. They are one of the factors which greatly affected the loss record of the 2019 policy year.



Naiko Class

There have been no significant differences in the number of claims received for Naiko Class over the past five years. FFO (damage to Fixed and Floating Objects) claims were the most frequent, accounting for 44% of the total claims during that period. The annual average number of casualty claims was 21, or as low as 7% of the total claims of the past five years. However, these accounted for 30% of the total of Paid and Reserve. Similar to Ocean-going vessels, once such an incident occurs, it greatly affects the whole loss record.



*1 : Data for "Number of claims received" and "Paid and Reserve" 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 : "Paid and Reserve" for ocean-going vessels means the total Paid and Reserve for owners' entries, charterers' entries and FD&D.

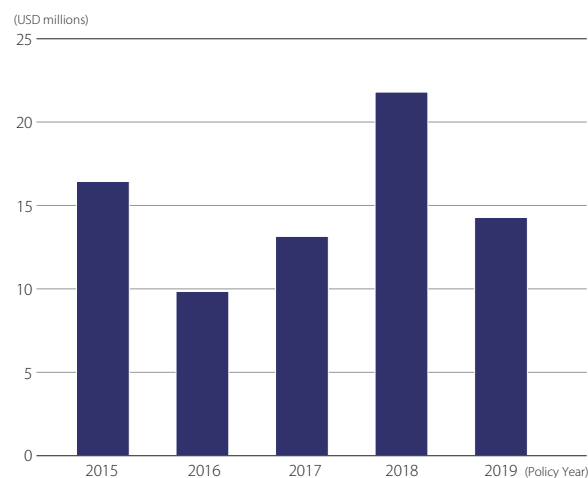
Trend of Pool Claims

The number of pool claims of the International Group of P&I Clubs for the 2018 policy year was 1.4 times higher than the 2017 policy year. There was a tendency for claims to become more expensive, with 40% of the claims exceeding USD20 million and some claims exceeding USD50 million. Also, the contribution to the pool by the Association for 2018 policy year was USD22 million, which was significantly higher than the average contribution by the Association for the same period of the 2015, 2016 and 2017 policy years (USD12 million).

The number of pool claims for the 2019 policy year was higher than the average for the same period of the 2015, 2016, 2017 and 2018 policy years, and similar to the trend of the 2018 policy year where 40% of the claims exceeded USD20 million, and the individual claim amount became expensive higher. However, in 2019 policy year the contribution to the pool by the Association remained at USD14 million due to a decrease in the pooling percentage applicable to our contributions.

In the 2018 and 2019 policy years, major incidents included fires on a mega container vessel and grounding of a car carrier.

■ The Association's Contributions to Pool Claims (as of 31 March 2020)



International Group's Topics

Publication of COVID-19 Online tracker

The COVID-19 has spread all over the world and become a global pandemic, leading to restrictions on travel or even leaving home. The IG has published an online tracker (<https://www.igpandi.org/covid-19>) on its website to provide country and port specific information for shipowners, charterers, operators and other parties in the maritime industry. The tracker shows up-to-date

information such as the number of the infected people, the present status of operation in each port and the measures/restrictions being put in place there. The information is provided by the International Maritime Organization (IMO), World Health Organization (WHO) and correspondents around the world.

IG video on pooling and reinsurance

The 13 Clubs in the International Group operate a claims sharing agreement between them regulated by the "Pooling Agreement". Losses below USD10 million are retained by each club, and losses from USD30 million up to USD100 million are reinsured by the Group's captive reinsurer, the Hydra Insurance Company Ltd. For losses above USD 100 million, the Group collectively purchases reinsurance from about 80 reinsurers in the commercial

market, in what is called the General Excess of Loss (GXL) reinsurance programme. The GXL programme enables the clubs to provide reinsurance for losses up to USD3,100 million. A new video explaining this Pooling Agreement and reinsurance programme, both of which support the operations of shipowners around the world, has been released on the IG's website (<https://www.igpandi.org/reinsurance>).

The 2020 Global Sulphur Cap

The 2008 amendments to Annex VI of the IMO's International Convention for the Prevention of Pollution from Ships 1973 (as modified by the Protocol of 1978) (MARPOL) came into force on 1 January 2020. The MARPOL permitted limit for sulphur content in ships' bunker fuel oil was thereby reduced from 3.50% mass by mass (m/m) to 0.50% m/m. The limit of 0.10% m/m in Emission Control Areas (ECA) designated in MARPOL still applies, as do any applicable local regulations.

Furthermore, the carriage of non-compliant bunker fuel has been prohibited since 1 March 2020, with the exception of ships with scrubbers.

The maritime industry is making an effort to contribute to a better future with this significant reduction in sulphur emissions from ships, and the consequent reduction in danger to the environment and public health.

Loss Prevention

In recent years, Shipping developed to meet the diversifying needs of society, including mega-ships, technological advancements and environmental measures. In such circumstances, a growing trend can be observed of single accidents leading to huge financial losses, as well as causing deterioration in corporate image and having enormous social impact.

The Association is enhancing its loss prevention activities to contribute to the prevention not only of P&I casualties but all sorts of maritime accidents. The staff of the Association, which includes master mariners and chief engineers with excellent experience, provides lots of valuable information on how to prosecute a safe voyage.

Loss Prevention Seminars

The Association hosts Loss Prevention Seminars with experienced captains as speakers not only in Japan but also across Asia. We held nearly 100 seminars in 2019. There are two types of seminar. One is an “open seminar” for both Members and non-members, which is advertised to the public on our website. The other is a bespoke “special seminar”, the contents tailored according to Members’ request.

In 2019, we held two open seminars at places from Hakodate to Okinawa in Japan, including Tokyo, Kobe, Imabari and Fukuoka, where our offices are located. The open seminars were also held overseas in Singapore. We are planning to host a seminar in Manila, the Philippines subject to COVID-19 situation, and in future the Association will decide venues at Member’s request.

In addition, the themes of open seminars are based on requests from Members and seminar participants, as well

as the latest trends. In our spring domestic seminar 2019, our guest lecturer, who is an ex-Port State Control Officer with a deep understanding of psychology, delivered a presentation entitled “A Psychological Approach to Safety Behaviour”. The large number of participants found the presentation very interesting. We will continue to strive to provide attendees with helpful and valuable information at our open seminars.

In special seminars, the theme, timing, venue, and so on are all decided according to the wishes of Members. We are also flexible in responding to Members’ suggestions on how to improve the seminars. Special seminars, which can be used as internal study meetings and/or safety meetings, are conducted not only in Japan but overseas as well. We shall be pleased to develop a tailor-made seminar concept for a Member in line with the Member’s requirements. If you have any requests or questions, please feel free to contact us.

Condition Surveys

The Association conducts condition surveys 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 vessels, but any certificates on board, the maintenance status of each department, life-saving/firefighting appliances, safety equipment and so on. We conduct condition surveys by using the common inspection form of the International Group of P&I Clubs.

The Association may instruct Members to take necessary corrective action if any defects are found during the survey. The survey is aimed at preventing accidents and should

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

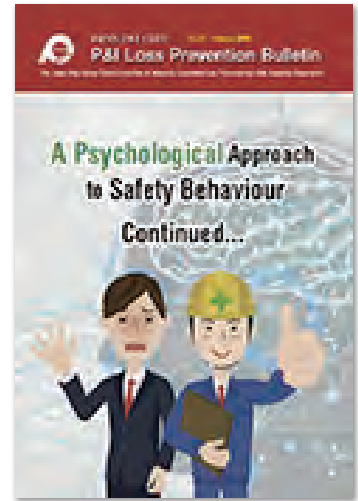
Through condition surveys, it is possible to assess the state of the vessel, and the vessel inspection know-how can be shared. The Association would ask Members to think of the condition survey as “a tool” to assist their superintendent and ship management company in their daily business, and to recognise how useful it is in assisting safe navigation and preventing accidents. Every Spring, we publish a circular “Report on P&I Condition Surveys” for each policy year on our website. Members can use this to check the implementation results and aggregation.

Loss Prevention Bulletins

The Association publishes about four issues of our Loss Prevention Bulletin (LPB) a year, based on Members’ concerns. These include the prevention and mitigation of accidents, information about new equipment, environmental matters, safe navigation and so on. We seek to ensure that the contents of our LPBs are made up of valuable and up-to-date information for Members, information drawn from our experience and contacts around the world.

The latest LPB was No.47, and covered the “A Psychological Approach to Safety Behaviour” presentation discussed above. In response to positive feedback on the theme, we published No.47 as a sequel to No.46. We are making continued efforts to ensure that our LPBs deal with timely themes, so Members’ frank comments and requests are greatly appreciated.

In addition, we have two versions of the LPB: one is a printed version to be distributed to vessels, and the other is an electronic version which can be downloaded from our website. Please review our LPBs at your convenience.



■ The latest back number

| | Theme | Issued |
|-------|--|-----------|
| No.45 | Marine Weather - Ship Handling in Rough Sea | Apr. 2019 |
| No.46 | A Psychological Approach to Safety Behaviour | Nov. 2019 |
| No.47 | A Psychological Approach to Safety Behaviour Continued... | Mar. 2020 |
| No.48 | Cyber risk and Cyber security countermeasures – supplement | May 2020 |

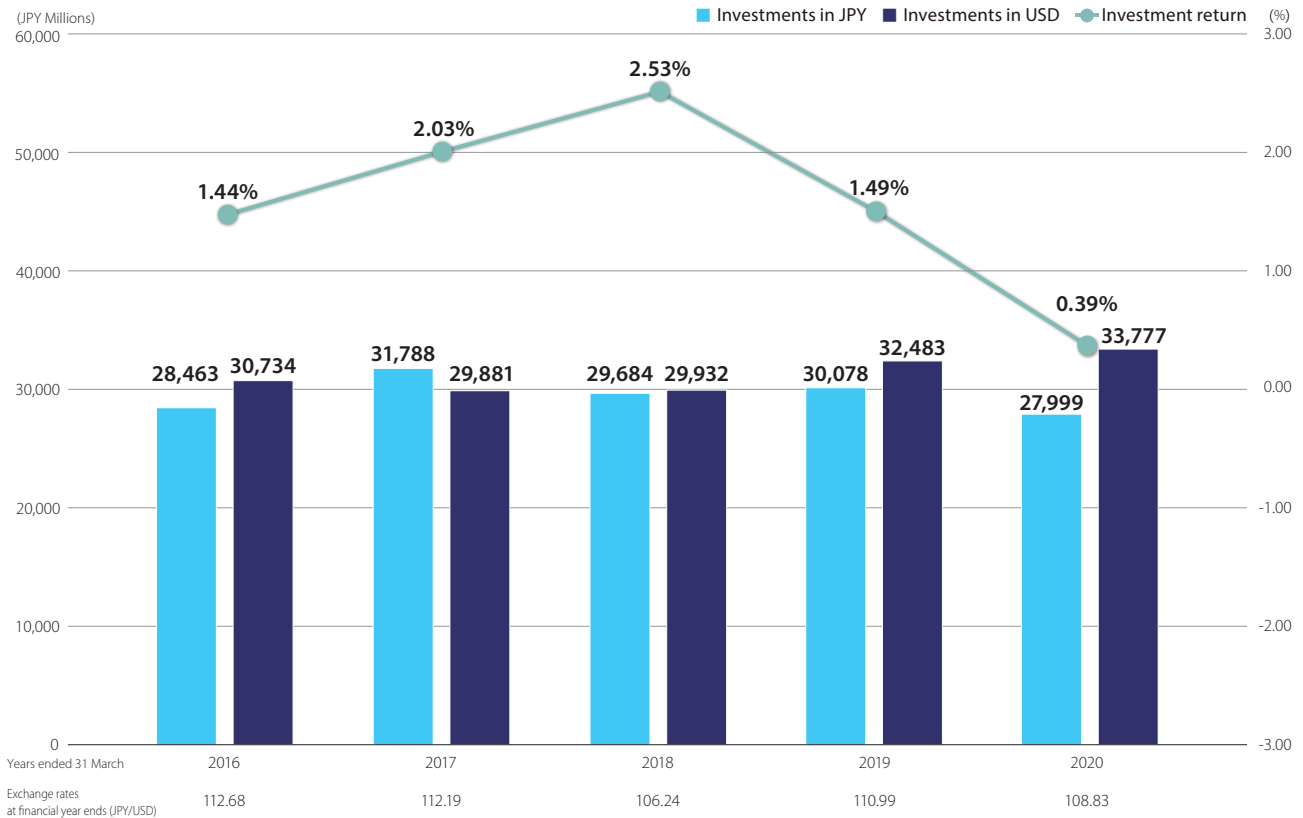
Loss Prevention posters

Based on Members’ requests, we made Loss Prevention posters in 2018 that are available on our website. Having received a favorable reception, we are working to create the electronic version of the sequels to those posters at the moment. We would be very grateful if you would hang the posters up on vessels after downloading and printing.



Investments

Investments and Investment return



Investments

The Japanese economy was expanding moderately until January 2020, but then turned around and suffered severely due to the spread of COVID-19. The Nikkei 225 Stock Average, which was JPY21,509 at the beginning of the financial year (which means the year ended 31 March 2020; hereinafter “the FY”), reached JPY24,084 in January 2020 but dropped to and ended this FY at JPY18,917.

Japanese long-term interest rates crawled along at about 0% through the FY due to “Yield Curve Control”, the policy for controlling long and short-term interest rates introduced by the Bank of Japan in 2016. The rate began the year at minus 0.07% and ended at 0.03%.

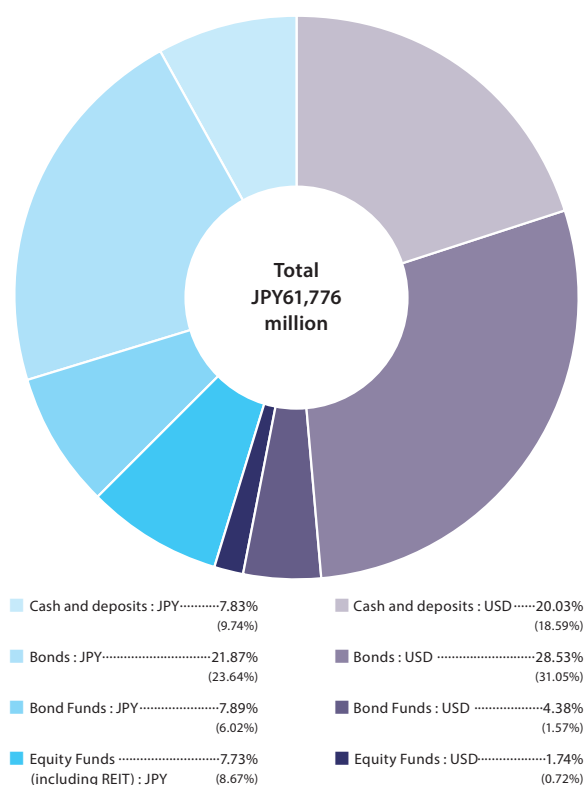
Long-term interest rates in the US dropped from 2.5% at the beginning of the year to 1.5% due to the triple rate cut by the Federal Reserve between July and October 2019 against a background of the weakening economy in the US. While the interest rate moved moderately after that, it declined and ended at 0.7% as a result of the Federal

Reserve’s double emergency rate cut in March to prop up the US economy in the face of concerns about the worldwide economic slowdown due to COVID-19 crisis.

Interest and dividends received during the year decreased by JPY628 million to JPY217 million. The individual elements of this were JPY137 million accrued from deposits and JPY663 million from bonds, and a loss of JPY583 million from investment trusts. While the performance of the investment trusts was good until January 2020, it worsened toward the end of the FY due to COVID-19’s negative impact on the market.

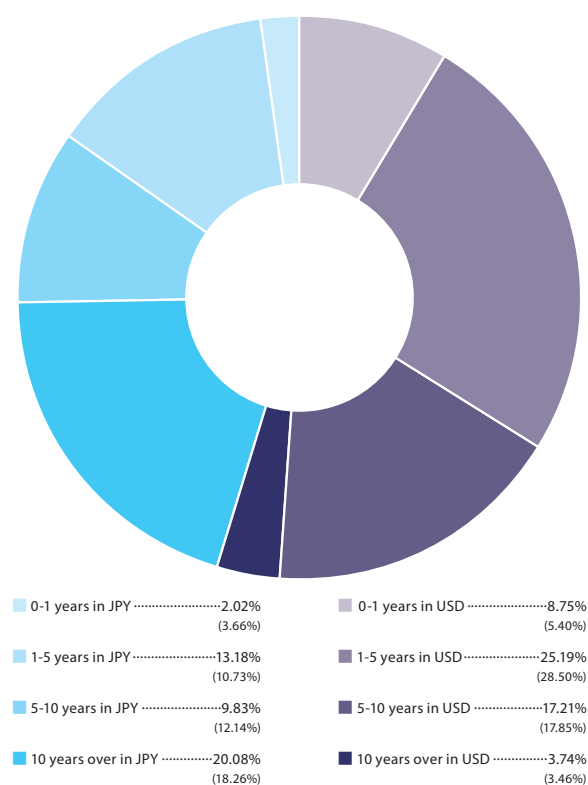
The total value of investments held by the Association decreased by JPY785 million to JPY61,776 million. The proportion of investments to total assets decreased by 1.5 percent points to 86.1%. The value of our USD investments ended the year at USD310.5million as a result of an increase of USD17.5 million, or more accurately, JPY1,294 million. The increase excluding the impact of currency translation JPY1,926 million due to a decline in the exchange rate from JPY110.99/USD to JPY108.83/USD.

Investments (as of 31 March 2020)



*(The same period last year)

Maturities of bonds (as of 31 March 2020)



*(The same period last year)

Our investment activities are in line with the challenge set in 2018FY, being an improvement in the Sharpe Ratio by adjusting the asset allocation.

Bonds in proportion decreased by 4.29 percent points to 50.40% due to our policy of waiting for maturity without buying. The interest rate risk declined as a result of the shortened average maturity of the JPY bonds and USD bonds. The yield of USD bonds has been maintained at a similar level, and on the other hand, that of JPY bonds slightly declined due to the maturity of high yield bonds.

Investment trusts investing in Domestic equities and REIT were sold to decrease the proportion of such investments within our portfolio, and, on the other hand, those investing in Bonds and Global equities were bought to increase. Total investment trusts increased by 4.76 percent points to 21.74% as we carried out more purchases, especially for bond funds, than sales in the FY.

We maintain a safety-friendly operation in our Investment

Policy in accordance with the Plan of Business Operations approved by the Japanese Financial Services Agency. 27.86% (JPY : 7.83%, USD : 20.03%) of the total value of investments are cash and deposits and 50.40% (JPY : 21.87%, USD : 28.53%) of that are fixed-rate bonds which include Japanese government and corporate and foreign bonds rated "A" or higher.

The Association conducts regular monitoring in order to check whether the amount of risk carried by our total assets is within the appropriate range. Simultaneously, funds in USD to meet such liabilities are reserved, which assists the minimisation of any future adverse currency variations.

Average Expense Ratio

The Association's average expense ratio for the five years ended 20 February 2020 was 7.42%. 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.

Combined Ratio

The average combined ratio posted in the past five years indicates a good balance.

■ Combined Ratio

| Years ended 31 March | 2016 | 2017 | 2018 | 2019 | 2020 | Average |
|--|-------|-------|--------|-------|--------|---------|
| Including currency movements in claim reserves | 87.8% | 83.7% | 89.8% | 95.0% | 107.5% | 92.8% |
| Excluding currency movements in claim reserves | 99.4% | 84.4% | 100.5% | 85.7% | 113.3% | 96.7% |

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

Opinion

We have audited the financial statements of The Japan Ship Owners' Mutual Protection & Indemnity Association ("the Association"), which comprise Balance Sheets as at 31 March 2020 and 2019, and Income and Expenditure Accounts, Statements of Cash Flows for the fiscal years then ended, and Notes to the Financial Statements.

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 for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of accounting

We draw attention to the 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.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern and disclosing, as applicable, matters related to going concern.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statement audit is not to express an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures of the financial statements are in accordance with the basis set out in the Notes A and B to the financial statements, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Convenience translation

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended 31 March 2020 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 the Note A-2 to the financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Association which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



Designated Engagement Partner
Certified Public Accountant

20 July 2020

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.

Income and Expenditure Accounts

for the years ended 31 March 2020 and 2019

| | Notes | Unit:JPY Millions | | Unit:US\$000s |
|---|----------|-------------------|---------------|-------------------|
| | | 2020 | 2019 | 2020 |
| | | | | Note A-2 |
| Operating income | | | | |
| Calls and premiums written | B-3, C-1 | ¥19,961 | ¥21,070 | \$183,414 |
| Reinsurance premiums ceded | B-3, C-2 | 5,025 | 4,701 | 46,174 |
| Net premiums written | B-3 | 14,936 | 16,369 | 137,240 |
| Change in unearned premium reserve | B-3 | (38) | 432 | (351) |
| Exchange gains from underwriting activities | | 2 | 73 | 15 |
| Interest and dividends income | B-3, C-3 | 907 | 987 | 8,338 |
| Losses on money trusts | B-3 | (778) | (238) | (7,150) |
| Profit on sales of securities | | 92 | 95 | 850 |
| Redemption losses on securities | | (6) | - | (49) |
| Other investment income | | - | 1 | - |
| Foreign currency exchange gains(losses) from investing activities | | (612) | 1,340 | (5,622) |
| Other ordinary income | | 50 | 69 | 458 |
| Total operating income | | 14,553 | 19,128 | 133,729 |
| Operating costs and expenses | | | | |
| Claims paid | B-3, C-4 | 15,437 | 13,147 | 141,846 |
| Reinsurance claims recovered | B-3, C-5 | 4,723 | 1,404 | 43,395 |
| Net claims paid | B-3 | 10,714 | 11,743 | 98,451 |
| Change in reserve for outstanding claims | B-3 | 2,168 | 1,435 | 19,919 |
| Change in catastrophe reserve | | 451 | 489 | 4,143 |
| Operating expenses | B-3 | 2,798 | 2,857 | 25,710 |
| Other ordinary expenses | | 119 | 124 | 1,098 |
| Total operating costs and expenses | | 16,250 | 16,648 | 149,321 |
| Ordinary surplus (deficit) | | (1,697) | 2,480 | (15,592) |
| Special gains and losses | | | | |
| Other special gains | | 0 | 2 | 0 |
| Other special losses | | 0 | 1 | 2 |
| Surplus (deficit) before income taxes | | (1,697) | 2,481 | (15,594) |
| Current income taxes | | 2 | 1,228 | 19 |
| Deferred income taxes | B-19 | (466) | (531) | (4,286) |
| Total income taxes | B-4 | (464) | 697 | (4,267) |
| Surplus (deficit) after income taxes | | (1,233) | 1,784 | (11,327) |
| Surplus balance after appropriation | B-5 | 5 | 1 | 48 |
| Unappropriated surplus (deficit), ending balance | | ¥(1,228) | ¥1,785 | \$(11,279) |

¥108.83=US\$1.00

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

Balance Sheets

as of 31 March 2020 and 2019

| | Notes | Unit:JPY Millions | | Unit:US\$000s |
|--|------------------|-------------------|----------------|------------------|
| | | 2020 | 2019 | 2020 |
| | | | | Note A-2 |
| Assets | | | | |
| Cash and deposits at banks | B-10, C-6 | ¥17,241 | ¥17,747 | \$158,424 |
| Money trusts | B-7, 10, C-7 | 9,177 | 6,967 | 84,327 |
| Securities | B-6, 10, 21, C-8 | 35,385 | 37,870 | 325,137 |
| Property, plant and equipment | B-8, 18, C-9 | 1,021 | 1,022 | 9,382 |
| Intangible assets | B-9, C-10 | 12 | 47 | 110 |
| Other assets | B-10,14, C-11 | 2,282 | 1,588 | 20,970 |
| Deferred tax assets | B-19 | 6,683 | 6,224 | 61,402 |
| Reserve for bad debts | B-10, 12 | (24) | (35) | (219) |
| Total assets | | 71,777 | 71,430 | 659,533 |
| Liabilities | | | | |
| Technical provisions | | | | |
| Reserve for outstanding claims | B-22, C-12 | 36,147 | 33,979 | 332,143 |
| Unearned premium reserve | B-22, C-13 | 8,144 | 8,106 | 74,835 |
| Catastrophe reserve | B-16 | 16,062 | 15,611 | 147,587 |
| Other liabilities | B-10, C-14 | 1,595 | 2,749 | 14,658 |
| Reserve for bonuses | B-13 | 123 | 107 | 1,129 |
| Reserve for directors' retirement benefits | B-15 | 91 | 87 | 833 |
| Total liabilities | | 62,162 | 60,639 | 571,185 |
| Net assets | | | | |
| Capital contribution fund | | 109 | 112 | 1,002 |
| Retaining earnings | B-3 | 9,078 | 10,310 | 83,412 |
| Net unrealized gains on securities | C-15 | 428 | 369 | 3,934 |
| Total net assets | | 9,615 | 10,791 | 88,348 |
| Total liabilities and net assets | | ¥71,777 | ¥71,430 | \$659,533 |

¥108.83=US\$1.00

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

Statements of Cash Flows

for the years ended 31 March 2020 and 2019

| | Note | Unit:JPY Millions | | Unit:US\$000s |
|---|------|-------------------|----------------|------------------|
| | | 2020 | 2019 | 2020 |
| | | | | Note A-2 |
| Cash flows from operating activities | | | | |
| (Deficit) surplus before income taxes | | ¥(1,697) | ¥2,481 | \$(15,594) |
| Depreciation | | 68 | 72 | 627 |
| Increase in reserve for outstanding claims | | 2,168 | 1,435 | 19,919 |
| Increase (decrease) in unearned premium reserve | | 38 | (432) | 351 |
| Increase in catastrophe reserve | | 451 | 489 | 4,142 |
| Decrease in reserve for bad debts | | (11) | (45) | (102) |
| Increase (decrease) in reserve for bonuses | | 16 | (2) | 151 |
| Increase (decrease) in reserve for directors' retirement benefits | | 3 | (2) | 31 |
| Interest and dividend income | | (907) | (987) | (8,338) |
| Foreign currency exchange losses (gains) | | 612 | (1,340) | 5,622 |
| Losses on specified money trust | | 755 | 217 | 6,934 |
| Gains on securities | | (87) | (96) | (801) |
| Losses (gains) on property, plant and equipment | | 0 | (2) | 2 |
| Losses on intangible assets | | 0 | 1 | 0 |
| (Increase) decrease in other assets | | (722) | 533 | (6,632) |
| Decrease in other liabilities | | (62) | (224) | (569) |
| Sub-total | | 625 | 2,098 | 5,743 |
| Interest and dividends received | | 933 | 993 | 8,576 |
| Income taxes paid | | (1,093) | (1,450) | (10,047) |
| Net cash provided by operating activities | | 465 | 1,641 | 4,272 |
| Cash flows from investing activities | | | | |
| Purchases of property, plant and equipment | | (33) | (58) | (302) |
| Proceeds from property, plant and equipment | | 0 | 100 | 0 |
| Purchases of time deposits | | (6,680) | (3,462) | (61,381) |
| Proceeds from maturity of time deposits | | 6,684 | 2,637 | 61,420 |
| Purchases of specified money trust | | (2,965) | (1,954) | (27,244) |
| Purchases of securities | | (965) | (1,826) | (8,870) |
| Proceeds from sales or maturity of securities | | 2,981 | 3,393 | 27,390 |
| Net cash used in investing activities | | (978) | (1,170) | (8,987) |
| Cash flows from financing activities | | | | |
| Proceeds of capital contribution fund from members | | 3 | 3 | 31 |
| Refund of capital contribution fund to members | | (6) | (8) | (55) |
| Net cash used in financing activities | | (3) | (5) | (24) |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | | 57 | 859 | 528 |
| Net (decrease) increase in cash and cash equivalents | | (459) | 1,325 | (4,211) |
| Cash and cash equivalents at beginning of year | | 16,693 | 15,368 | 153,386 |
| Cash and cash equivalents at end of year | B-23 | ¥16,234 | ¥16,693 | \$149,175 |

¥108.83=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 2020 have been translated into U.S. Dollars at the rate of ¥108.83 = U.S.\$1, the middle rate prevailing on the Tokyo foreign exchange market on 31 March 2020. 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 2020 and 2019, the aggregate revenue of business transacted with the subsidiary companies amounted to ¥35 million (\$323 thousand) and ¥34 million, respectively, and the aggregate expenses amounted to ¥46 million (\$419 thousand) and ¥47 million, respectively.

3 : ① Net premiums written consist of the following:

| | Unit:JPY Millions | | Unit:US\$000s |
|-----------------------------------|-------------------|---------|---------------|
| | 2020 | 2019 | 2020 |
| | | | Note A-2 |
| Calls and premiums written | ¥19,961 | ¥21,070 | \$183,414 |
| Reinsurance premiums ceded | 5,025 | 4,701 | 46,174 |
| Net premiums written | ¥14,936 | ¥16,369 | \$137,240 |

The year ended 31 March 2020 includes 40% Supplementary Call for Policy Year 2018 in the amount of ¥4,930 million (\$45,299 thousand). The year ended 31 March 2019 includes 40% Supplementary Call for Policy Year 2017 in the amount of ¥5,476 million.

② Net claims paid consist of the following:

| | Unit:JPY Millions | | Unit:US\$000s |
|-------------------------------------|-------------------|---------|---------------|
| | 2020 | 2019 | 2020 |
| | | | Note A-2 |
| Claims paid | ¥15,437 | ¥13,147 | \$141,846 |
| Reinsurance claims recovered | 4,723 | 1,404 | 43,395 |
| Net claims paid | ¥10,714 | ¥11,743 | \$98,451 |

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

| | Unit:JPY Millions | | Unit:US\$000s |
|---|-------------------|--------|---------------|
| | 2020 | 2019 | 2020 |
| | | | Note A-2 |
| Change in reserve for outstanding claims, gross of reinsurance | ¥2,619 | ¥6,084 | \$24,063 |
| Change in reserve for ceded outstanding claims | 451 | 4,649 | 4,144 |
| Change in reserve for outstanding claims | ¥2,168 | ¥1,435 | \$19,919 |

Notes to the Financial Statements

④ Change in unearned premium reserve consists of the following:

| | Unit:JPY Millions | | Unit:US\$000s |
|--|-------------------|------|---------------|
| | 2020 | 2019 | 2020 |
| | | | Note A-2 |
| Change in unearned premium reserve, gross of reinsurance | (¥38) | ¥432 | (\$351) |
| Change in ceded unearned premium reserve | - | - | - |
| Change in unearned premium reserve | (¥38) | ¥432 | (\$351) |

⑤ Operating expenses consist of the following:

| | Unit:JPY Millions | | Unit:US\$000s |
|------------------------|-------------------|--------|---------------|
| | 2020 | 2019 | 2020 |
| | | | Note A-2 |
| Personnel expenditure | ¥1,731 | ¥1,760 | \$15,902 |
| Cost of supplies | 881 | 836 | 8,092 |
| Brokerage | 276 | 346 | 2,537 |
| Reinsurance commission | (158) | (157) | (1,448) |
| Depreciation | 68 | 72 | 627 |
| Total | ¥2,798 | ¥2,857 | \$25,710 |

⑥ Interest and dividends income consist of the following:

| | Unit:JPY Millions | | Unit:US\$000s |
|----------------------------------|-------------------|------|---------------|
| | 2020 | 2019 | 2020 |
| | | | Note A-2 |
| Interest on deposits and savings | ¥137 | ¥156 | \$1,259 |
| Interest on securities | 770 | 831 | 7,079 |
| Total | ¥907 | ¥987 | \$8,338 |

⑦ For the years ended 31 March 2020 and 2019 valuation losses of ¥754 million (\$6,934 thousand) and ¥217 ¥million are included in Losses on money trusts, respectively.

⑧ Retaining earnings consist of the following:

| | Unit:JPY Millions | | Unit:US\$000s |
|-------------------------------|-------------------|---------|---------------|
| | 2020 | 2019 | 2020 |
| | | | Note A-2 |
| Reserve for offsetting losses | ¥175 | ¥175 | \$1,611 |
| Other retaining earnings | 8,903 | 10,135 | 81,801 |
| Special Reserve | 10,130 | 8,350 | 93,081 |
| Unappropriated surplus | (1,228) | 1,785 | (11,279) |
| Total | ¥9,078 | ¥10,310 | \$83,412 |

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 2020 and 2019 are as follows:

| | 2020 | 2019 |
|--|--------|--------|
| Effective statutory tax rate | 27.92% | 27.92% |
| Entertainment and other expenses not deductible for tax purposes | △0.34% | 0.27% |
| Taxation on per capita basis | △0.09% | 0.06% |
| Others | △0.13% | △0.16% |
| Actual effective tax rate | 27.36% | 28.09% |

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

| | Unit:JPY Millions | | Unit:US\$000s |
|---|-------------------|---------|---------------|
| | 2020 | 2019 | 2020 |
| | | | Note A-2 |
| Beginning unappropriated surplus balance | ¥1,785 | ¥1,191 | \$16,403 |
| Transferred to special reserves | (1,780) | (1,190) | (16,355) |
| Surplus balance after appropriation | 5 | 1 | 48 |
| Surplus (deficit) after income taxes | (1,233) | 1,784 | (11,327) |
| Ending unappropriated surplus (deficit) balance | (¥1,228) | ¥1,785 | (\$11,279) |

On July 27 2020, the amount of ¥1,230 million (\$11,302 thousand) will be transferred from special reserves to compensate the amount of ending unappropriated deficit balance ¥1,228 million (\$11,279 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 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

② Fair value of financial instruments

The amounts recorded in the balance sheet, fair value and the difference as of 31 March 2020 and 2019 are as follows:

| | Unit:JPY Millions | | | | | | Unit:US\$000s | | |
|--|-----------------------|----------------|-------------|-----------------------|----------------|-------------|-----------------------|------------------|----------------|
| | 2020 | | | 2019 | | | 2020 | | |
| | Balance Sheet amounts | Fair value | Difference | Balance Sheet amounts | Fair value | Difference | Balance Sheet amounts | Fair value | Difference |
| (a) Cash and deposits at banks | ¥17,241 | ¥17,241 | ¥- | ¥17,747 | ¥17,747 | ¥- | \$158,424 | \$158,424 | \$- |
| (b) Money trusts | 9,177 | 9,177 | - | 6,967 | 6,967 | - | 84,327 | 84,327 | - |
| (c) Securities | | | | | | | | | |
| Securities held to maturity | 16,159 | 17,055 | 896 | 16,629 | 17,339 | 710 | 148,482 | 156,712 | 8,230 |
| Marketable securities held as available for sale | 18,014 | 18,014 | - | 20,029 | 20,029 | - | 165,523 | 165,523 | - |
| (d) Premiums receivables | 352 | | | 474 | | | 3,238 | | |
| Reserve for bad debts (*1) | △24 | | | △35 | | | △219 | | |
| | 329 | 329 | - | 439 | 439 | - | 3,019 | 3,019 | - |
| Total financial assets | ¥60,920 | ¥61,816 | ¥896 | ¥61,811 | ¥62,521 | ¥710 | \$559,775 | \$568,005 | \$8,230 |
| (a) Foreign reinsurance payable | ¥776 | ¥776 | ¥- | ¥695 | ¥695 | ¥- | \$7,128 | \$7,128 | \$- |
| Total financial liabilities | ¥776 | ¥776 | ¥- | ¥695 | ¥695 | ¥- | \$7,128 | \$7,128 | \$- |

(*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 (\$1,132 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 2020 and 2019, prepaid pension cost of ¥174 million (\$1,602 thousand) and ¥140 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 ¥360 million (\$3,306 thousand) and ¥339 million at 31 March 2020 and 2019, respectively. Advanced depreciation amounts to ¥302 million (\$2,774 thousand) and ¥302 million at 31 March 2020 and 2019, respectively.

19: The total amounts of deferred tax assets and liabilities at 31 March 2020 and 2019 are as follows:

| | Unit:JPY Millions | | Unit:US\$000s |
|---|-------------------|--------|---------------|
| | 2020 | 2019 | 2020 |
| | | | Note A-2 |
| Deferred tax assets | ¥7,467 | ¥6,998 | \$68,609 |
| Breakdown for major items | | | |
| Underwriting reserve | ¥2,955 | ¥2,809 | \$27,155 |
| Reserve for outstanding claims | 2,731 | 3,480 | 25,093 |
| Tax loss carried forward | 1,157 | - | 10,630 |
| Reserve for bonuses | 35 | 30 | 319 |
| | | | |
| Deducted valuation reserve | (¥549) | (¥559) | (\$5,041) |
| | | | |
| Deferred tax liabilities | ¥235 | ¥213 | \$2,158 |
| Breakdown for major items | | | |
| Unrealized gains on Marketable securities held as available for sale | ¥186 | ¥174 | \$1,711 |

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 (\$106 thousand) and ¥12 million at 31 March 2020 and 2019, respectively.

22: 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 ¥14,846 million (\$136,413 thousand) and ¥14,395 million at 31 March 2020 and 2019, respectively.

② There is no unearned premium reserve with respect to reinsurance stipulated in Article 51 of the Regulations at 31 March 2020 and 2019.

③ There is no amount deducted relating to the distribution of surplus stipulated in Article 28 of the Regulations at 31 March 2020 and 2019.

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 |
|--|-------------------|---------|---------------|
| | 2020 | 2019 | 2020 |
| | | | Note A-2 |
| Cash and deposits at banks | ¥17,241 | ¥17,747 | \$158,424 |
| MMF, Short-term government bonds and Certificate of deposit included in securities | - | - | - |
| Deposits at banks of which contract is more than 3 months | (1,006) | (1,054) | (9,250) |
| Cash and cash equivalents | ¥16,235 | ¥16,693 | \$149,174 |

There is no significant non-cash transaction entered into by the Association during the years ended 31 March 2020 and 2019.

Cash flows from investing activities include cash flows arising from asset management relating to the insurance business during the years ended 31 March 2020 and 2019.

Notes to the Financial Statements

C. Other Notes to Financial Statements

| | Unit:JPY Millions | | Unit:US\$000s |
|---------------------------------------|-------------------|----------------|------------------|
| | 2020 | 2019 | 2020 |
| 1 Calls and premiums written | | | |
| Mutual | | | |
| Mutual premiums | ¥12,048 | ¥12,375 | \$110,708 |
| Supplementary calls charged | 4,930 | 5,476 | 45,299 |
| Release calls | 215 | 237 | 1,980 |
| FD&D | 90 | 192 | 824 |
| Sub-total | 17,283 | 18,280 | 158,811 |
| Fixed premiums | | | |
| Coastal vessels entries | 1,949 | 2,008 | 17,909 |
| Charterers' entries | 499 | 424 | 4,580 |
| Others | 230 | 358 | 2,114 |
| Sub-total | 2,678 | 2,790 | 24,603 |
| Total | ¥19,961 | ¥21,070 | \$183,414 |
| 2 Reinsurance premiums ceded | | | |
| Group excess of loss | ¥2,226 | ¥1,992 | \$20,453 |
| Others | 2,799 | 2,709 | 25,721 |
| | ¥5,025 | ¥4,701 | \$46,174 |
| 3 Interest and dividends | | | |
| Bank deposits | ¥137 | ¥156 | \$1,259 |
| Japanese bonds | 239 | 258 | 2,198 |
| Foreign securities | 424 | 474 | 3,896 |
| Other securities | 107 | 99 | 985 |
| | ¥907 | ¥987 | \$8,338 |
| 4 Claims paid | | | |
| P&I | ¥11,776 | ¥10,544 | \$108,206 |
| <i>Mutual</i> | 9,968 | 8,785 | 91,593 |
| <i>Coastal vessels entries</i> | 1,321 | 906 | 12,135 |
| <i>Charterers' entries</i> | 458 | 823 | 4,213 |
| <i>Others</i> | 29 | 30 | 265 |
| Other Associations' pool claims | 3,568 | 2,506 | 32,789 |
| FD&D | 93 | 97 | 851 |
| | ¥15,437 | ¥13,147 | \$141,846 |
| 5 Reinsurance claims recovered | | | |
| Group's pooling agreement | ¥4,429 | ¥1,190 | \$40,698 |
| Group's excess loss reinsurance | - | - | - |
| Other reinsurers | 294 | 214 | 2,697 |
| | ¥4,723 | ¥1,404 | \$43,395 |

| | Unit:JPY Millions | | Unit:US\$000s |
|---|-------------------|----------------|------------------|
| | 2020 | 2019 | 2020 |
| 6 Cash and deposits at banks | | | |
| Cash | ¥1 | ¥1 | \$9 |
| Deposits at banks | 17,240 | 17,746 | 158,415 |
| | ¥17,241 | ¥17,747 | \$158,424 |
| 7 Money trusts | | | |
| Funds of domestic stock | ¥6,666 | ¥2,334 | \$61,252 |
| Funds of foreign security | 2,511 | 4,633 | 23,075 |
| | ¥9,177 | ¥6,967 | \$84,327 |
| 8 Securities | | | |
| Japanese government bonds | ¥607 | ¥611 | \$5,577 |
| Japanese local government bonds | 2,844 | 3,051 | 26,130 |
| Corporate bonds | 11,788 | 13,023 | 108,313 |
| Stocks | 10 | 10 | 92 |
| Foreign securities | 15,887 | 17,517 | 145,983 |
| Other securities | 4,249 | 3,658 | 39,042 |
| | ¥35,385 | ¥37,870 | \$325,137 |
| 9 Property, plant and equipment | | | |
| Estate on book | ¥905 | ¥905 | \$8,314 |
| Buildings | 60 | 44 | 553 |
| Lease assets | 39 | 58 | 363 |
| Equipment and others | 17 | 15 | 152 |
| | ¥1,021 | ¥1,022 | \$9,382 |
| 10 Intangible assets | | | |
| Software | ¥8 | ¥43 | \$74 |
| Other intangible assets | 4 | 4 | 36 |
| | ¥12 | ¥47 | \$110 |
| 11 Other assets | | | |
| Premiums receivables | ¥352 | ¥474 | \$3,238 |
| Foreign reinsurance recoveries | 1,351 | 686 | 12,411 |
| <i>Pool recoveries</i> | 1,345 | 648 | 12,359 |
| <i>Recoveries from other reinsurers</i> | 6 | 38 | 52 |
| Accounts receivable | 158 | 38 | 1,456 |
| Accrued revenue | 141 | 166 | 1,290 |
| Advance deposits | 73 | 72 | 666 |
| Suspense payments | 33 | 12 | 307 |
| Prepaid pension cost | 174 | 140 | 1,602 |
| | ¥2,282 | ¥1,588 | \$20,970 |

Notes to the Financial Statements

| | Unit:JPY Millions | | Unit:US\$000s |
|--|-------------------|----------------|------------------|
| | 2020 | 2019 | 2020 |
| 12 Reserve for outstanding claims | | | |
| Gross reserve for outstanding claims | ¥50,993 | ¥48,374 | \$468,556 |
| <i>Members' claims</i> | 44,722 | 41,344 | 410,938 |
| <i>Other Associations' pool claims</i> | 6,271 | 7,030 | 57,618 |
| Reinsurers' share | 14,846 | 14,395 | 136,413 |
| <i>Pool recoveries</i> | 14,440 | 13,638 | 132,686 |
| <i>Excess loss R/I recoveries</i> | - | - | - |
| <i>Recoveries from other reinsurers</i> | 406 | 757 | 3,727 |
| Net reserve for outstanding claims | ¥36,147 | ¥33,979 | \$332,143 |
| <i>IBNR amounts are included in the above figure</i> | | | |
| <i>IBNR amounts</i> | ¥11,524 | ¥13,861 | \$105,890 |
| 13 Unearned premium reserve | | | |
| Gross unearned premium reserve | ¥8,144 | ¥8,106 | \$74,835 |
| Reinsurers' share | - | - | - |
| Net unearned premium reserve | ¥8,144 | ¥8,106 | \$74,835 |
| 14 Other liabilities | | | |
| Foreign reinsurance payable | ¥776 | ¥695 | \$7,128 |
| Accounts payable | 105 | 136 | 965 |
| Unpaid tax | - | 1,091 | - |
| Suspense payable | 675 | 769 | 6,203 |
| Lease liability | 39 | 58 | 362 |
| | ¥1,595 | ¥2,749 | \$14,658 |
| 15 Net unrealized gains on securities | | | |
| Unrealized gains on securities is net of deferred tax caused by the valuation of securities. | ¥428 | ¥369 | \$3,934 |

Reserves

| | Unit:JPY Millions | | Unit:US\$000s |
|------------------------------------|-------------------|----------------|------------------|
| | 2020 | 2019 | 2020 |
| Catastrophe reserve | ¥16,062 | ¥15,611 | \$147,587 |
| Reserve for offsetting losses | 175 | 175 | 1,611 |
| Other retaining earnings | 8,903 | 10,135 | 81,801 |
| Sub-total | 25,140 | 25,921 | 230,999 |
| Capital contribution fund | 109 | 112 | 1,002 |
| Net unrealized gains on securities | 428 | 369 | 3,934 |
| Total | ¥25,677 | ¥26,402 | \$235,935 |

The "Sub-total" represents the reserves that have been built up out of surpluses in open and closed years. Please see the "Policy Year Statements" described in pages 32 and 33.

Policy Year Statements

as of 31 March 2020

| | 2020/21 | | 2019/20 | | 2018/19 | |
|---|-----------------------|-------------------|-----------------------|-------------------|-----------------------|-------------------|
| | (2020/2/20-2020/3/31) | | (2019/2/20-2020/2/20) | | (2018/2/20-2019/2/20) | |
| | JPY Millions | US\$000s | JPY Millions | US\$000s | JPY Millions | US\$000s |
| Calls and premiums written | | | | | | |
| Prior years | ¥ - | \$ - | ¥1,557 | \$14,307 | ¥16,014 | \$147,148 |
| During year | 1,558 | 14,319 | 13,362 | 122,776 | 46 | 423 |
| Supplementary calls | - | - | - | - | 4,930 | 45,299 |
| | 1,558 | 14,319 | 14,919 | 137,083 | 20,990 | 192,870 |
| Reinsurance premiums ceded | (538) | (4,945) | (4,939) | (45,387) | (5,069) | (46,575) |
| | 1,020 | 9,374 | 9,980 | 91,696 | 15,921 | 146,295 |
| Claims paid | | | | | | |
| Gross claims paid | (54) | (500) | (3,499) | (32,154) | (10,999) | (101,068) |
| Reinsurance claims recovered | - | - | 572 | 5,254 | 3,390 | 31,154 |
| [Pool recoveries] | [-] | [-] | [572] | [5,251] | [2,496] | [22,943] |
| [Excess loss R/I recoveries] | [-] | [-] | [-] | [-] | [880] | [8,084] |
| [Other reinsurance recoveries] | [-] | [-] | [-] | [3] | [14] | [127] |
| Net claims paid | (54) | (500) | (2,927) | (26,900) | (7,609) | (69,914) |
| | | | | | | |
| [Other Associations' pool claims] | [-] | [-] | [468] | [4,305] | [981] | [9,018] |
| | | | | | | |
| Investment income | (871) | (8,005) | 1,495 | 13,737 | 558 | 5,131 |
| Operating expenses | (212) | (1,949) | (2,835) | (26,047) | (2,823) | (25,944) |
| Others | (90) | (823) | 163 | 1,498 | (556) | (5,112) |
| | | | | | | |
| Balance available for estimated outstanding claims | (¥207) | (\$1,903) | ¥5,876 | \$53,984 | ¥5,491 | \$50,456 |
| Estimated outstanding claims | | | | | | |
| Gross estimated outstanding claims | (¥1,553) | (\$14,267) | (¥18,472) | (\$169,730) | (¥9,014) | (\$82,824) |
| Reinsurers' share | - | - | 4,470 | 41,071 | 1,758 | 16,154 |
| [Pool recoveries] | [-] | [-] | [4,467] | [41,044] | [1,728] | [15,875] |
| [Excess loss R/I recoveries] | [-] | [-] | [-] | [-] | [-] | [-] |
| [Other reinsurance recoveries] | [-] | [-] | [3] | [27] | [30] | [279] |
| Net estimated outstanding claims | (1,553) | (14,267) | (14,002) | (128,659) | (7,256) | (66,670) |
| | | | | | | |
| [Other Associations' pool claims] | [172] | [1,580] | [1,439] | [13,222] | [1,588] | [14,592] |
| | | | | | | |
| Surplus/(deficit) | (¥1,760) | (\$16,170) | (¥8,126) | (\$74,675) | (¥1,765) | (\$16,214) |
| | | | | | | |
| Estimated product of 10% supplementary calls | - | - | 1,149 | 10,560 | 1,232 | 11,325 |

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 2020/21 policy year which is covered the period from 20 February 2020 to 31 March 2020, calls and premiums are stated on an earned basis to 31 March 2020.

4. The translation rate in this Policy Year Statement is ¥108.83 = US\$1, the middle rate prevailing on the Tokyo foreign exchange market as of 31 March 2020.

| 2017/18 (2017/2/20-2018/2/20) | | Closed years | | Total | |
|----------------------------------|-----------------|----------------|------------------|----------------|------------------|
| JPY Millions | US\$000s | JPY Millions | US\$000s | JPY Millions | US\$000s |
| ¥18,167 | \$166,930 | | | | |
| 18 | 169 | | | | |
| 5,476 | 50,315 | | | | |
| 23,661 | 217,414 | | | | |
| (5,247) | (48,211) | | | | |
| 18,414 | 169,203 | | | | |
| | | | | | |
| | | | | | |
| (11,701) | (107,512) | | | | |
| 2,024 | 18,596 | | | | |
| [1,976] | [18,158] | | | | |
| [-] | [-] | | | | |
| [48] | [438] | | | | |
| (9,677) | (88,916) | | | | |
| | | | | | |
| [760] | [6,982] | | | | |
| | | | | | |
| 1,610 | 14,795 | | | | |
| (2,908) | (26,716) | | | | |
| (1,059) | (9,731) | | | | |
| | | | | | |
| | | | | | |
| ¥6,380 | \$58,635 | ¥43,747 | \$401,969 | ¥61,287 | \$563,141 |
| | | | | | |
| (¥5,942) | (\$54,601) | (¥16,012) | (\$147,133) | (¥50,993) | (\$468,555) |
| 1,195 | 10,980 | 7,423 | 68,208 | 14,846 | 136,413 |
| [1,185] | [10,890] | [7,060] | [64,877] | [14,440] | [132,686] |
| [-] | [-] | [-] | [-] | [0] | [0] |
| [10] | [90] | [363] | [3,331] | [406] | [3,727] |
| (4,747) | (43,621) | (8,589) | (78,925) | (36,147) | (332,142) |
| | | | | | |
| [660] | [6,065] | [2,412] | [22,157] | [6,271] | [57,616] |
| | | | | | |
| ¥1,633 | \$15,014 | ¥35,158 | \$323,044 | ¥25,140 | \$230,999 |
| | | | | | |
| 1,369 | 12,579 | | | | |

Directors and Auditors

■ Directors

Chairman, Representing Director

Tadaaki Naito Chairman Nippon Yusen Kabushiki Kaisha

Deputy Chairmen, Representing Directors

Yukikazu Myochin President Kawasaki Kisen Kaisha, Ltd.

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

Directors

Mitsujiro Akasaka 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.

Takashi Hirose President JX Ocean Co., Ltd.

Eiji Kadono President "K" Line RoRo Bulk Ship Management Co., Ltd.

Yasushi Takada President Kyoei Tanker Co., Ltd.

Kazuyuki Suzuki President Mitsubishi Ore Transport Co., Ltd.

Akio Mitsuta 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

Shizuo Takahashi

Executive Directors, Representing Directors

Hiroaki Sawabe

Takaaki Irikiin

Directors

Shunsei Miyake

Keisuke Kobayashi

Minoru Naito

Hiroshi Kikegawa

■ Auditors

Yutaka Kuge President Kawasaki Kinkai Kisen Kaisha, Ltd.

Masaaki Nemoto President MOL Ocean Expert Co., Ltd.

Shunsuke Tsurumaru President Tsurumaru Shipping Co., Ltd.

(as of 27 July 2020)

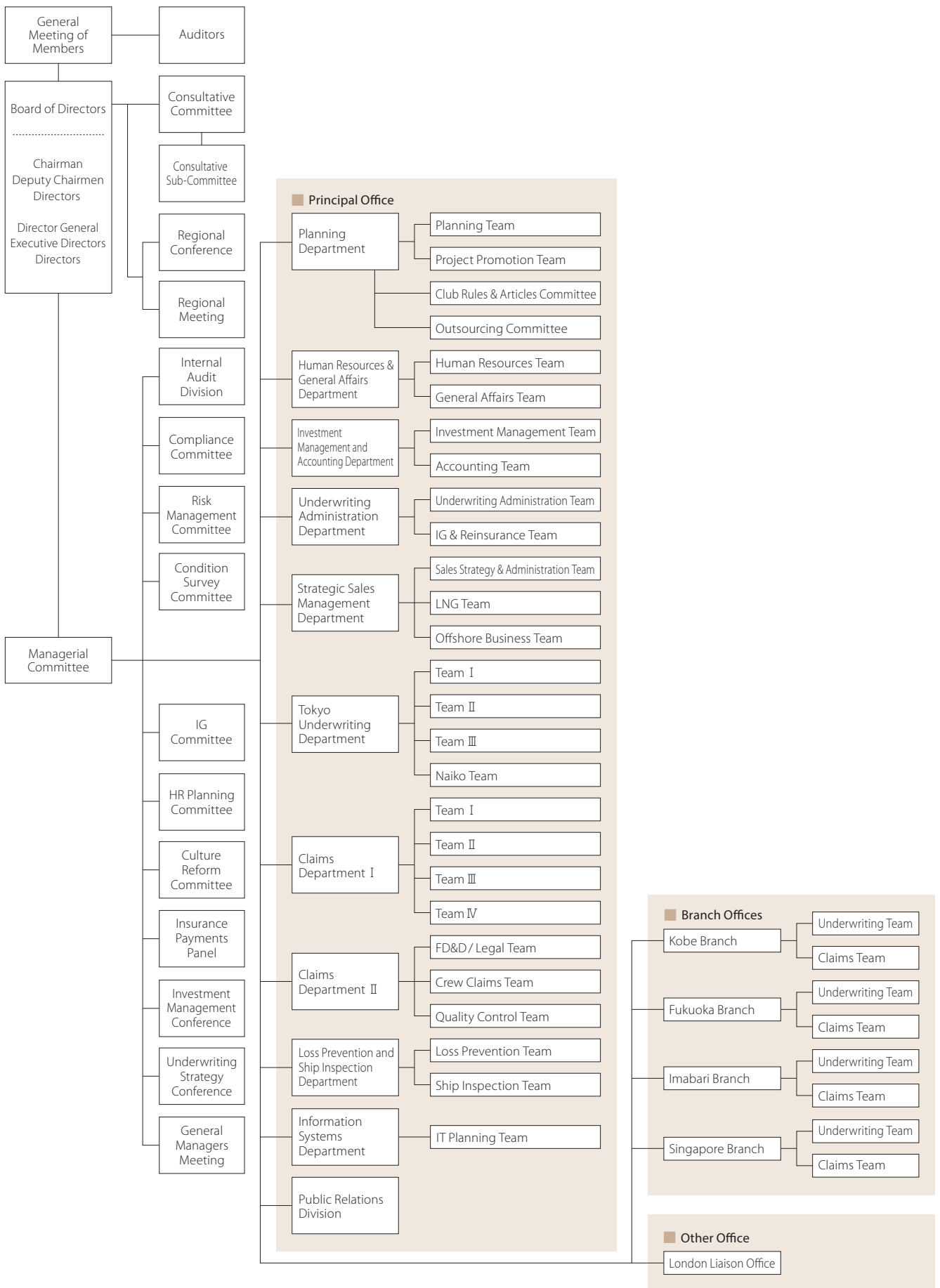
Secretariat

■ General Managers, Chiefs of Division and Chief Executive

| | | | |
|-------------------|---|-------------------|---|
| Minoru Naito | Planning Dept. / Public Relations Div. | Toru Asai | Loss Prevention and Ship Inspection Dept. |
| Tetsuro Haramo | Human Resources & General Affairs Dept. | Takuzo Okada | Loss Prevention and Ship Inspection Dept. |
| Hiroki Ikeda | Investment Management and Accounting Dept. | Kenji Noda | Information Systems Dept. |
| Yuichi Tanaka | Underwriting Administration Dept. | Yasuyuki Nakamura | Kobe Branch |
| Royston Deitch | Underwriting Administration Dept. | Yoji Tanaka | Fukuoka Branch |
| Keiji Kubota | Underwriting Administration Dept. | Naoyuki Moriya | Imabari Branch |
| Hiroshi Kikegawa | Strategic Sales Management Dept. / Tokyo Underwriting Dept. | Shigeru Yamada | Singapore Branch |
| Keisuke Kobayashi | Claims Dept. I | Yusuke Nakahama | London Liaison Office |
| Tetsu Kato | Claims Dept. I | Shu Sato | Internal Audit Div. |
| Nobuko Genda | Claims Dept. II | | |

(as of 1 August 2020)

Organisation



(as of 27 July 2020)

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