

JAPAN P&I CLUB

ANNUAL REPORT 2022

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STATEMENT OF DIRECTOR GENERAL



We are delighted to present the Annual Report 2022. We would like to take this opportunity to express our sincere appreciation to all the Members for their support and cooperation.

The business year 2021 was greatly affected by the continued COVID-19 pandemic and the situation in Ukraine. While the P&I industry saw some large accidents, the Association worked on to strengthen the financial base to achieve a stable surplus and to increase the reserve.

In terms of premium income, we applied a 10% increase in the premiums for Naiko Class entries (Japanese coastal vessels) and ocean-going owners' entries, Charterers' entries, and FD&D (5% for Naiko Class harbour tugs) at the 2022 renewal. We also improved the contract terms and adjusted the premiums for individual Members according to their loss records. As a result, although the registered tonnage decreased, we succeeded in increasing premium income. The most of the lost contracts at renewal were the vessels having constantly bad loss records and they were not renewed because we asked for higher premiums. Therefore, we expect less claims payments from now on.

On the other hand, we had an accident that caused the highest claims payments in the Association's Naiko Class history, and that also incurred additional payments towards reinsurance. As for ocean-going owners' entries, the claims payments related to the COVID-19 pandemic increased significantly, and the additional costs also considerably increased from the previous year because of the depreciation of the yen mainly caused by the widened interest rates gap between Japan and the United States.

As a result, the increase in additional costs for claims payments exceeded the increase in premium income, and the deficit after income taxes of JPY410 million was recorded

in the business year 2021. The reserve also decreased from the previous year to JPY22.11 billion as a result of a large withdrawal of the catastrophe reserve due to the deterioration in loss ratios. The credit rating of the Association has been downgraded to "BBB (Outlook: Stable)" by the S&P Global Ratings.

Although the account settlement for 2021 recorded a deficit due to the influence of some large accidents and the increase of the claims related to COVID-19, we expect the claims payments in 2022 to return to the average level because the number of COVID-19-related claims reduced rapidly in the second half of 2021.

We will continue to work on to achieve stable profitability in 2022 and to raise the credit rating by increasing the registered tonnage and enhancing the financial base as well as promoting the measures including digitalisation for the medium and long term growth of the Association. The Association shall "contribute to the protection of the interests of the Members and the sound development of the Association, as well as improving the management stability of the shipping and maritime industry through the provision of shipowners' liability insurance" as declared in the management philosophy. Compliance and promotion of sustainable business operations with SDGs in mind are our important policies.

We thank you for your continued support and cooperation, and sincerely wish our Members' safety for their vessels and continued business prosperity.

21 July 2022

Shizuo Takahashi, Director General

BUSINESS REPORT

HIGHLIGHTS

SUMMARY OF FINANCIAL STATEMENTS

ENTERED TONNAGE

REINSURANCE

TREND OF CLAIMS

TREND OF POOL CLAIMS

INTERNATIONAL GROUP'S TOPICS

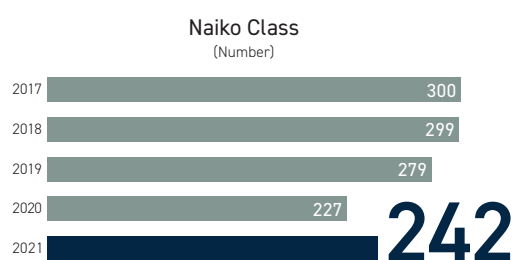
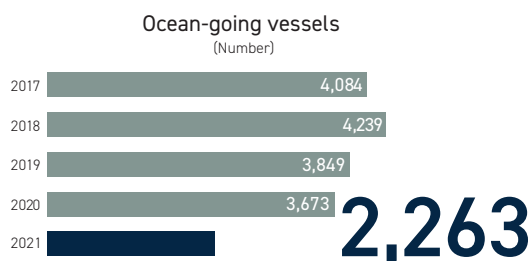
LOSS PREVENTION

INVESTMENTS

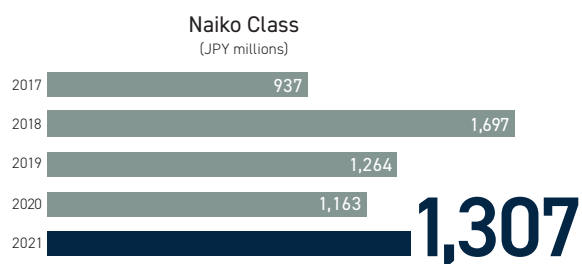
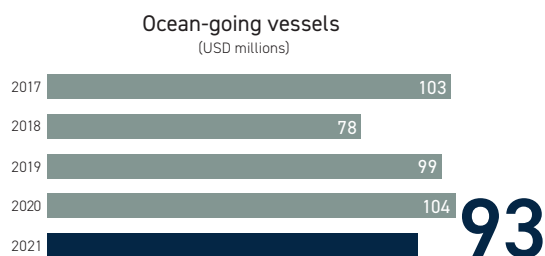
SUSTAINABILITY INITIATIVES

HIGHLIGHTS

Number of claims received (Policy Year)



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



S&P Rating

BBB

Outlook : Stable

Reserve

JPY **22.11**
billion

Entered Tonnage

93.1 million gt

Entered Vessels

3,860
vessels

Combined Ratio

Year ended 31 March	2018	2019	2020	2021	2022	Average
Including currency movements in claim reserves	89.8%	95.0%	107.5%	111.9%	157.3%	112.3%
Excluding currency movements in claim reserves	100.5%	85.7%	113.3%	107.5%	133.6%	108.1%

S&P rating is published in July 2022. The Reserves, the Entered Tonnage/Vessels, the Number of claims received, and the Paid claims and reserve funds within our retention are as of 31 March 2022.

SUMMARY OF FINANCIAL STATEMENTS

<Premium income>

The premium income for new vessels has been decreased due to the fierce market competition, and the International Group of P&I Clubs (IG) have had large claims more in recent years. For these reasons we had a 10% increase in insurance premiums for Naiko Class entries and ocean-going owners' entries, Charterers' entries, and FD&D (5% for Naiko Class harbour tugs) at the 2022 renewal. We also adjusted the premiums for each Member according to their loss records.

As a result, "net premiums written" for the financial year 2021 increased by JPY1.84 billion from the previous year to JPY16.81 billion.

<Investment income>

As investment fund returns fell sharply under the influence of the situation in Ukraine, "the Gains on money trusts" decreased by JPY1.74 billion from the previous year. However, the depreciation of the yen increased a foreign exchange gain to JPY2.28 billion and overall investment income increased by JPY70 million from the previous year to JPY3.39 billion.

<Claims payments>

Since we had an accident that caused the highest claims payments in the Naiko Class history of the Association and the additional contribution to the reinsurance was incurred, JPY480 million was recorded as claims reserve for the fiscal year 2021. As for ocean-going owners' entries, the claims payments increased significantly due to the COVID-19 pandemic, and so did the loss reserves because of the depreciation of the yen.

As a result, "net claims paid" in 2021 increased by JPY4.39 billion from the previous year to JPY17.64 billion.

In addition, as the loss ratios deteriorated, the catastrophe reserve was significantly withdrawn, and "the reversal of underwriting reserve" of JPY2.31 billion was recorded.

<Result>

"Ordinary surplus" was JPY600 million in the 2021 settlement of accounts. Since we are not able to expect the recovery of a part of the deferred tax asset, the amount of deferred income taxes was JPY1.01 billion and the "deficit after income taxes" of JPY410 million was recorded.

The reserve amount, which is an indicator of financial soundness, decreased by JPY4.87 billion from the previous year to JPY22.11 billion due to the large decrease in the catastrophe reserve.

The combined ratio was 133.6% ignoring fluctuations in exchange rates within the claims reserve, and the five-year average from 2018 was 108.1%.

Our average expense ratio for the five years ending 20th February 2022 was 8.29%. The average expense ratio is the average of the percentage of operating expenses (total operating expenses after deducting claims management expenses) of revenue. This figure was calculated in accordance with the Schedule and the guidelines issued by the IG and is consistent with the relevant Financial Statements.

ENTERED TONNAGE

During the course of the 2021 policy year, the Association gained new entries of 4.7 million gt for ocean-going owners' entries, and 80,000 gt for Naiko Class entries (Japanese coastal vessels).

The unfavourable claims trend of the 2020 policy year continued into 2021. The loss records for both ocean-going owners' entries and Naiko Class entries worsened significantly. This was due to the impact of the largest claim ever for Naiko Class entries, two large claims exceeding USD10 million for ocean-going owners' entries, and the increase in COVID-19 related claims. In addition, the adverse trend of International Group Pool claims of 2020 continued into 2021, and the estimated cost for these claims is at the highest level ever recorded.

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 both ocean-going

owners' entries and Naiko Class Members for a 10% general increase in premiums (5% for Naiko Class harbour tugs) for the 2022 policy year.

At the conclusion of the 2022 renewal, the Association's entered tonnage amounted to 90.4 million gt for ocean-going owners' entries and 2.6 million gt for Naiko Class entries. The Association is grateful for the support of Members for this result.

As to the entered tonnage by type, bulk carriers have constituted the majority of our entries for many years, and there has been virtually no change in the proportions of the entered tonnage by type.

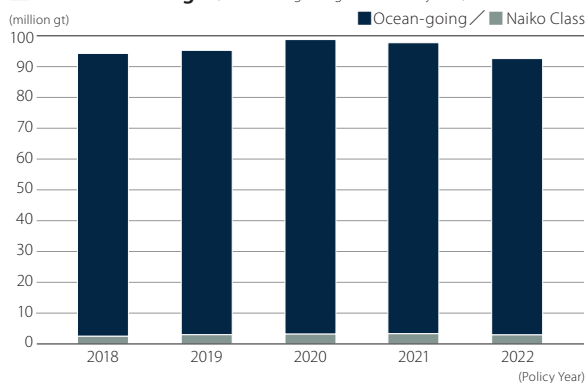
At the end of the 2021 financial year (31 March 2022), there were 3,860 vessels entered, comprised of 2,076 for owners' entries and 1,784 for Naiko Class entries. The total amount of entered tonnage was 93.1 million gt, consisting of 90.5 million gt for owners' entries and 2.6 million gt for Naiko Class entries.

General Increases and Supplementary Calls (%)

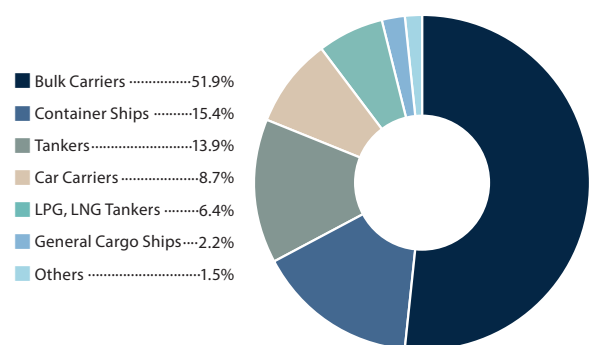
Policy Year		2018 /19	2019 /20	2020 /21	2021 /22	2022 /23
General Increase	Mutual Entries	0	0	7.5	10	10
	Naiko Class	0	0	0	0	10*
Supplementary Call Mutual Entries Only	Original Estimate	40	40	40	40	40
	Amount Called	40	40	40	Open	Open
	Current Estimate	Closed	0	0	40	40

*5% for Naiko Class harbour tugs

Entered Tonnage (as of the beginning of each Policy Year)



Entered Tonnage by Type (as of commencement of the 2022 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.

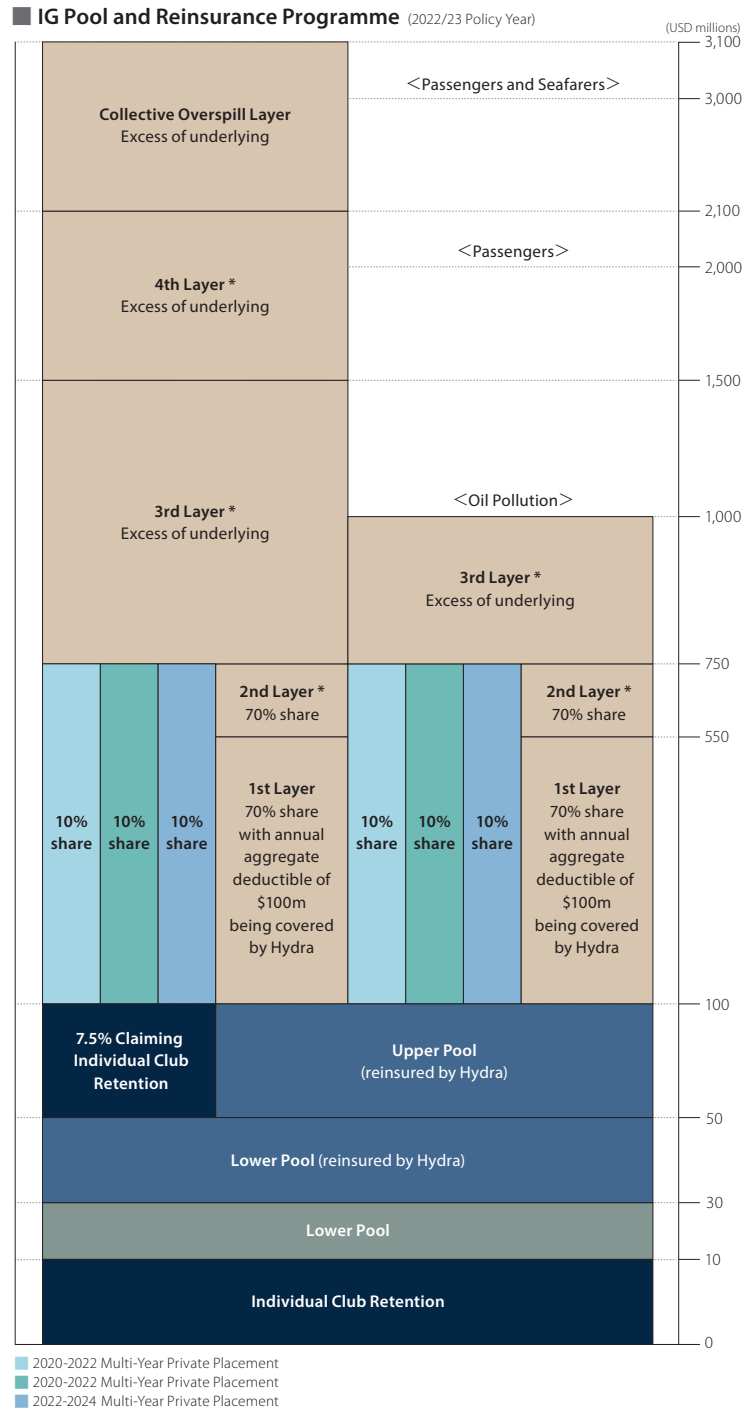
IG Pool and Reinsurance Programme

Commercial reinsurance cover of just over USD3,000 million is provided to the Members of all Clubs in the IG.

The global pandemic of COVID-19 and several natural disasters, combined with deteriorating claim records across the IG, all affected commercial reinsurance market conditions, with P&I rates increasing by an average of 33% year-on-year at the latest renewal. The IG's reinsurance captive Hydra continues to support the IG clubs as a primary layer of the reinsurance structure. The trend of pool claims is on page 8.

The Association's own reinsurance arrangements

In order to stabilise our business results, we arrange our own reinsurance for claims from Naiko Class, Charters' liability risks, and our club retention for ocean going owners' entries. The hardening of the reinsurance market due to the COVID-19 pandemic and the increasing natural disasters, as well as the impact of large claim losses, has led to a significant increase in reinsurance premiums across all lines for the 2022 policy year.



* Losses arising from Malicious Cyber, COVID-19 and other new Pandemics are subject to an annual aggregate limit totaling USD2,150 million.

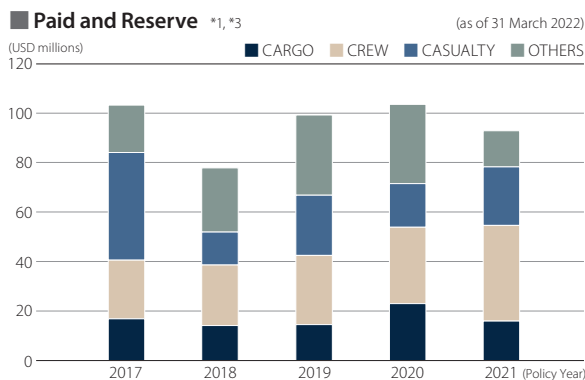
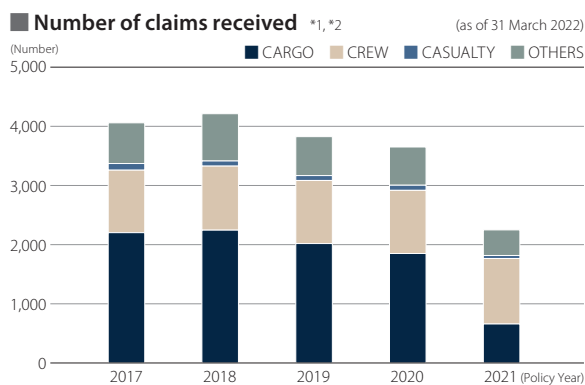
Reinsurance for oil pollution claims is purchased as a separate cover with a limit of USD1,000 million. Reinsurance for passenger and seafarer claims is subject to a limit of USD2,000 million for liability to passengers, or USD3,000 million for passenger and seafarer claims combined.

TREND OF CLAIMS

The number of claims received has been decreasing in recent years, and 2,500 claims were received for combined ocean-going and Naiko Class in the 2021 policy year. However, paid and reserve funds within our retention (Paid and Reserve) indicate an increasing trend in recent years towards higher per case Paid and Reserve figures. The Paid and Reserve total amounted to USD93 million for ocean-going vessels and JPY1,300 million for Naiko Class. In the 2020 policy year, the Association had three incidents involving ocean-going vessels, including a large grounding case with pollution, which led to claims exceeding USD10 million and thus being shared with the Pool. There was, however, no large claim, meaning exceeding JPY300 million, for Naiko Class. On the other hand, for the 2021 policy year, there were two incidents exceeding USD10 million for ocean-going vessels. For Naiko Class, there was one incident exceeding JPY300 million.

Ocean-going vessels

The number of claims received has been decreasing over the past five years. Claims for cargo damage provided the highest proportion of the total number of claims during that period, accounting for 50% of claims, although recent years show a decreasing trend. The next most frequent category was crew claims, which accounted for 30% and the number is increasing. 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 26% of the total Paid and Reserve for the five years. Most of the claims exceeding USD10 million are related to casualty claims, a factor which significantly affected the loss record. Additionally, crew claims related to COVID-19 began to demonstrate an increasing trend from the 2020 policy year. The number of COVID-19 claims received and the linked Paid and Reserve increased in the 2021 policy year.



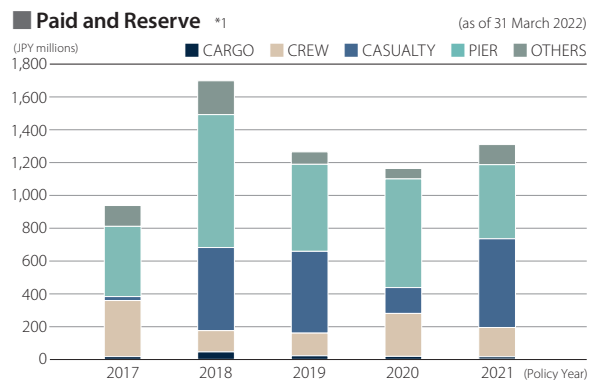
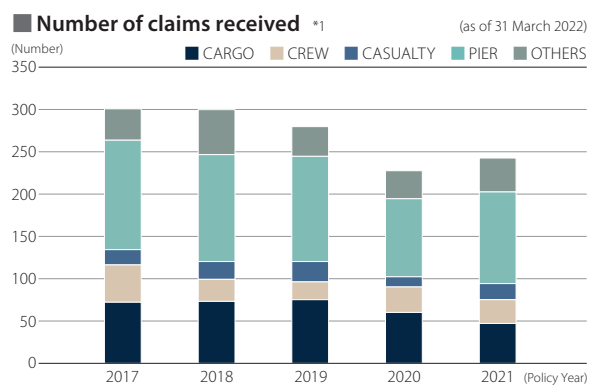
*1: Data for "Number of claims received" and "Paid and Reserve" concern incurred and reported claims only and do not include incurred but not reported (IBNR) claims.

*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.

Naiko Class

Although there have been no significant differences in the number of Naiko Class claims received in recent years, the number of claims has decreased since the 2019 policy year. With respect to claims by category, pier claims were the most frequent, accounting for 43% of the total claims during the past five years. The annual average number of casualty claims was 19, or as low as 7% of the total claims of that period. However, these accounted for 27% of the total Paid and Reserve. Similar to the trend of ocean-going vessels, once such an incident occurs, it will significantly affect the whole loss record.



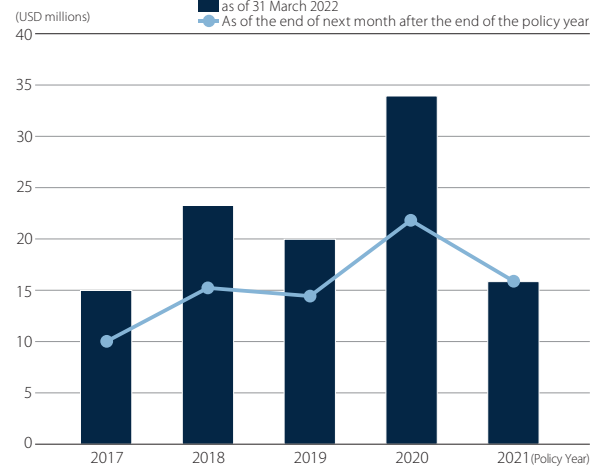
TREND OF POOL CLAIMS

The number of pool claims of the International Group of P&I Clubs for the 2020 policy year shows no significant difference compared to the 2019 policy year. However, due to several significant incidents, the contribution to the pool by the Association in policy year 2020 was nearly USD34 million, which was the highest it has ever been.

As for the 2021 policy year, although it did not see many pool claims, each claim amount tended to be larger, and 38% of the claims exceeded USD50 million. As a result, the contribution to the pool by the Association in 2021 policy year was nearly USD16 million, close to the average contribution for the same period from 2017 to 2020 policy years (USD15 million).

The leading cause of significant incidents in the 2020 policy year was the stranding of bulk carriers with accompanying oil pollution. Other significant claims included damage to port facilities, and collapse of stow and containers lost overboard from mega container ships. As for the 2021 policy year, major cases included container ship casualties involving fire and stranding, and tanker casualties with oil pollution.

■ The Association's Contributions to Pool Claims



INTERNATIONAL GROUP'S TOPICS

Brand and Communications Committee

The International Group of P&I Clubs (IG) is made up of 13 not-for-profit mutual insurance associations from around the world, including us. IG Clubs provide liability cover for over 90% of world ocean-going tonnage. The claims sharing agreement between the 13 clubs, and the IG's collective purchase of reinsurance from the world's reinsurance market, allow for each club to provide the highest level of insurance cover to shipowners. The IG also provides a forum for sharing information on matters of concern or respective experience and expertise. On behalf of clubs and their members, it engages with governments, legislators and maritime regulators on matters relating to shipowners' liabilities.

In recent years, the IG has increased its public relations activities in order to make its role known to as many people as possible. The Brand and Communications Committee is leading this process.

As part of this process, videos highlighting different aspects of the IG's work have been posted on the IG's website. These include a 2021 conversation between Nick Shaw (IG CEO) and Paul Jennings (IG Chair) about pool claim trends, the role of P&I clubs, and future challenges, and, in 2022, a discussion between Ben Harris (Salvage Committee Chair) and Sam Kendall-Marsden (Large Casualty Committee Chair) on large casualty response, particularly salvage and wreck removal. The videos can be viewed at <https://www.igpandi.org/>.

LOSS PREVENTION

With the increase in the size of vessels in recent years, once a marine accident occurs, the impact on society and the environment can be huge and the damages incurred enormous. Through our loss prevention activities, we provide information in order to contribute to the reduction of such marine accidents.

Parametric Rolling

During the winter season of 2020-2021 there was a series of accidents involving exceptional container losses. In response to this, the International Group of P&I Clubs (IG) became a member of The Joint Industry Project TopTier run by Maritime Research Institute Netherlands (MARIN) to find measures to avoid similar accidents in the future. It has been reported that parametric rolling in following seas is especially dangerous indeed; we have provided information on this in our circular No.21-017 dated 7 February 2022 (<https://www.piclub.or.jp/en/news/34873>).

The decrease in stability caused by parametric rolling occurs in head seas as well. In this case, however, because the wave encounter period is short, it does not cause a problem. In following seas on the other hand, the wave encounter period is longer, and so the risk increases.

In our P&I Loss Prevention Bulletin vol. 45 "Marine Weather

– Ship Handling in Rough Sea" issued in April 2019, we explained that parametric rolling phenomena can occur not only in rough weather but in calm oceanographic conditions as well, when a vessel may be approached by a huge swell from a stern and the wave encounter period is one half of the natural rolling period of vessel. We also introduced countermeasures against parametric rolling.

In our online seminar "Ship Handling in Following Seas (Part 1 of 2)" - in Japanese title "追い波航法 (前編)" - posted on our website, we explained ship handling in rough seas, once again including the phenomena of parametric rolling.

P&I Loss Prevention Bulletin:
<https://www.piclub.or.jp/en/lossprevention/guide>
 Video Seminars:
<https://www.piclub.or.jp/en/seminar/videos>

Large Vessels – Things to know regarding maneuvering

We held a loss prevention online seminar, called "Large Vessels: Things to know regarding maneuvering" in June 2021. The seminar was held online to accommodate remote working patterns amid difficulties in organising in-person seminars due to COVID-19. Taking losses occurring during the year 2020-21, we looked at the causes of allisions between large container vessels and gantry cranes, and damage caused to port facilities, as well as countermeasures to take to try and avoid such accidents.

We used illustrations and diagrams to clarify differences in maneuvering depending on the size of the vessel. With the cooperation of our Members, we asked Masters and officers of coastal vessels about maneuvering and other

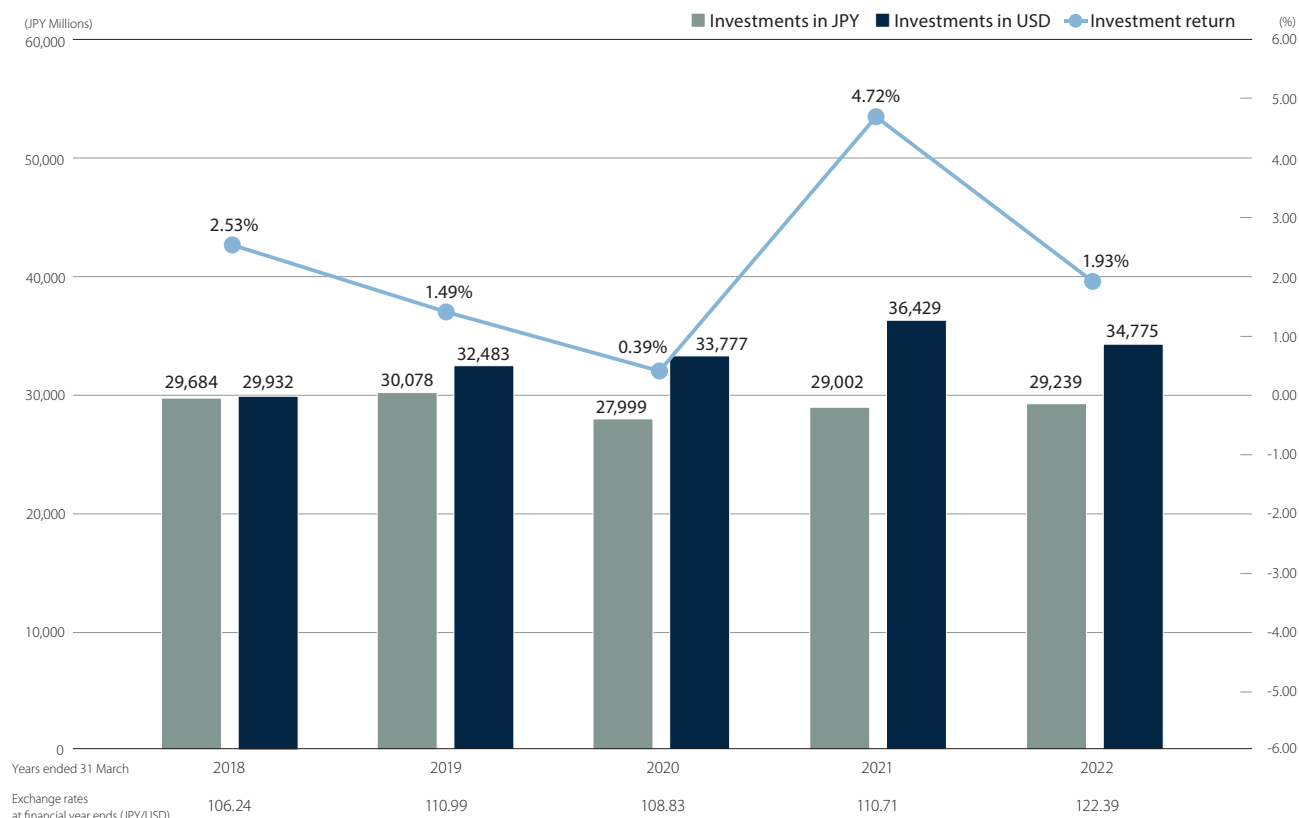
matters such as radar range and avoidance distance. We introduced the result of our enquiries during the web seminar, which we believe was beneficial for both our Members and for ourselves.

Thankfully, more than 900 people participated in the seminar in two days. The response from participants was so great that the seminar was available on-demand for some time after the event.

Since online seminars can be held regardless of time and place, we plan to continue holding them as part of our new and enhanced Loss Prevention activities.

INVESTMENTS

Investments and Investment return



Investments

Investment income and profit received during the year decreased by JPY1,544 million to JPY1,117 million. Return on our overall investment portfolio also decreased by 2.79% to 1.93%.

In particular, overall income decreased because of a drop in investment income from equity funds and bond funds, although both these had performed well in the previous year.

Investment income from equity funds was JPY442 million, decreasing by JPY723 million from the previous year. The situation in Ukraine from February 2022 caused turmoil in financial markets, a rise in resource prices due to stagnant logistics, and inflation concerns. As a result, stock prices declined, which was a factor in the decrease in the equity funds income.

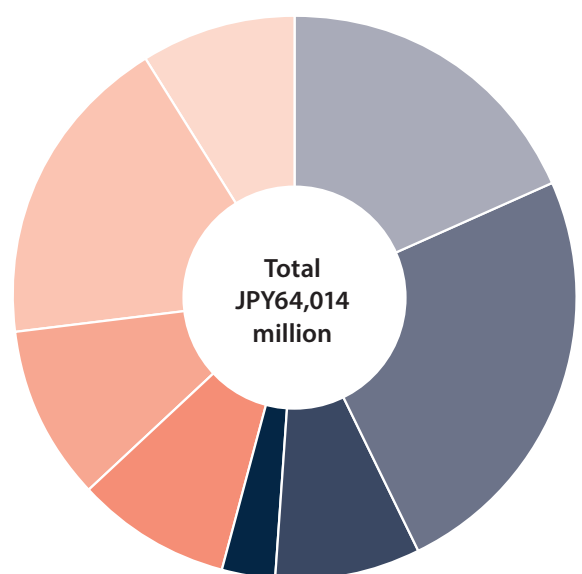
Investment income from bond funds was JPY105 million, falling JPY790 million from the previous year. In March 2022, the Federal Reserve (Fed) decided to raise its policy interest rate. Subsequently, market interest rates rose rapidly and bond prices fell, which resulted in a decrease in bond funds' income.

The total value of investments held by the Association decreased by JPY1,417 million to JPY64,014 million.

Insurance claims payments during the year were higher than in previous years, leading to a decrease in assets under management. By category of assets, deposits decreased by JPY586 million and bonds decreased by JPY1,959 million because much of the redemption proceeds were used to replenish funds, which led to the decrease in total assets.

By currency, dollar assets decreased by USD43.8 million, but the decrease in yen assets was limited to JPY1,654

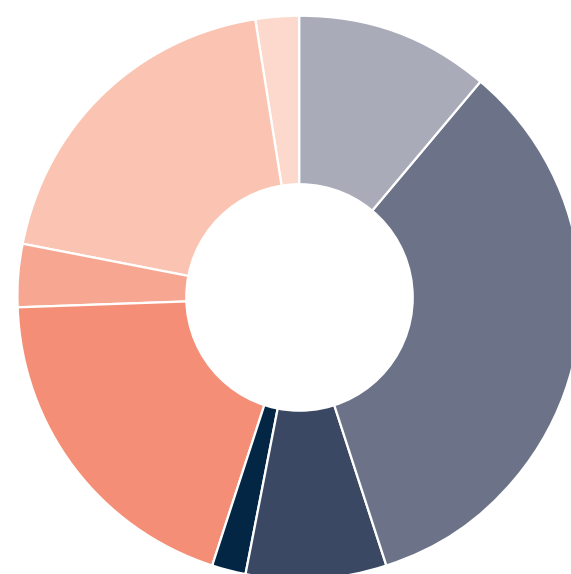
■ Investments (as of 31 March 2022)



■ Cash and deposits : JPY.....8.66% (6.36%)	■ Cash and deposits : USD18.43% (21.03%)
■ Bonds : JPY.....18.23% (19.40%)	■ Bonds : USD24.38% (25.28%)
■ Bond Funds : JPY.....10.02% (9.86%)	■ Bond Funds : USD8.47% (6.36%)
■ Equity Funds8.76% (including REIT, etc.): JPY (8.70%)	■ Equity Funds : USD3.05% (3.00%)

*(The same period last year)

■ Maturities of bonds (as of 31 March 2022)



■ 0-1 years in JPY.....2.31% (2.87%)	■ 0-1 years in USD11.26% (5.99%)
■ 1-5 years in JPY.....19.39% (14.44%)	■ 1-5 years in USD33.91% (27.80%)
■ 5-10 years in JPY.....3.85% (9.02%)	■ 5-10 years in USD8.04% (16.35%)
■ 10 years over in JPY19.19% (18.94%)	■ 10 years over in USD2.04% (4.60%)

*(The same period last year)

million. Yen assets benefitted from foreign exchange fluctuations of JPY3,205 million, due to the change in the year-end exchange rate from JPY110.71/USD in the previous year to JPY122.39/USD.

Our current mid-to long-term challenge, as set in our financial year 2018, is to adjust the asset allocation so that the expected rate of return will increase to 2.4%. The adjustment is brought about by restraining the risk and improving the Sharpe Ratio. While the return on our overall investment portfolio was 1.93% due to a series of decreasing factors, the expected rate of return has already reached 2.3%, which is almost equal to the target level.

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.

Our policy includes the following:

Credit risk: The target of fixed-rate bonds is restricted to Japanese government and corporate and foreign bonds rated "A" or higher.

Interest rate risk: A proportion of bonds is held as held-to-maturity bonds to mitigate a loss in case of a decline in market value when interest rates rise.

Exchange risk: We hold funds in USD to assist the minimisation of liabilities arising from any future adverse currency variations.

The Association conducts regular monitoring in order to check whether the amount of risk carried by our total assets is within the appropriate range.

SUSTAINABILITY INITIATIVES

1. Our Mission

The mission of the Association is threefold:

to protect the interests of our Members,

to promote the sound development of the Association, and

to contribute to a more secure and stable management of the shipping and related maritime industry by providing shipowners' liability insurance to our Members.

In order to achieve our mission, we will ensure regulatory compliance and promote sustainable business operations which are in line with the Sustainable Development Goals (SDGs) developed by the United Nations (UN).

2. Our Approach to Sustainability

- We recognise the gravity and the significance of global environmental issues in our journey towards sustainability.
- Where possible, we support the decarbonisation efforts of the shipping industry during the transition to greener fuels.
- We aim for fair organisational management and to build strong relationships with both local and international communities, while strengthening our operational governance, in the hope for world peace, justice, and security.

3. Prioritised Goals

All SDGs are inextricably linked and integrated: an action in one area will affect the outcome in others. It is therefore crucial to enhance all three elements of sustainability – environmental, economic, and social – in a balanced manner. We have discussed and considered the goals that we should especially work on, based on the short- and long-term impact of the ESG/SDGs agenda.

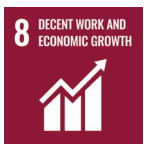
All 17 SDGs are relevant to the global marine industry, but we have identified the following 10 SDGs as key goals that we will prioritise achieving.



We value everyone at the Association. We care for not only our employees and their families, but also for every individual involved in the operation of vessels, such as our Members and crews.



We will further promote diversity and inclusion with the goal of becoming an organisation where employees and executives from diverse backgrounds can prosper and take on active roles.



Together with all the other members of the International Group of P&I Clubs (IG), we will work on more sustainable development for the whole shipping industry.



We recognise that climate change is an urgent issue that we as a member of society are partly responsible for, and we support the efforts toward decarbonisation.



Our operations thrive on the marine environment, and we will do our best to prevent pollution by responding swiftly to marine accidents.



We believe that protection of life on land and below water are equally essential, and we aspire to conserve the planet's environment from all dimensions.



Legal compliance plays a critical role for a sustainable business operation, and we will thoroughly enforce reliable corporate governance, and operate with transparency and equity.



As a member of the IG, we share many loss prevention and safety-related initiatives with the other Clubs, joining together for the common benefit under the banner of "Collectively Stronger".

4. Sustainable Actions

Loss Prevention Activities

Marine accidents affect the marine environment. We put considerable effort into our Loss Prevention activities as we seek to prevent accidents involving our insured vessels. Not only do we regularly hold Loss Prevention seminars, we also provide information through P&I Loss Prevention Bulletins and Japan P&I News to support our Members' efforts to prevent accidents. We also conduct entry surveys and condition surveys to maintain and improve the quality of Member vessels.

Claims Handling

In the event of a marine accident, appropriate claims handling is required to minimise the damage. We appoint experts with specialised knowledge and abundant experience to deal with oil spills and strandings, and the removal of shipwrecks, in order to minimise the potential impact on the environment, society, and economy. In the event of a severe accident, we dispatch staff members to the site, and set up a disaster countermeasure office to support people in the affected areas.

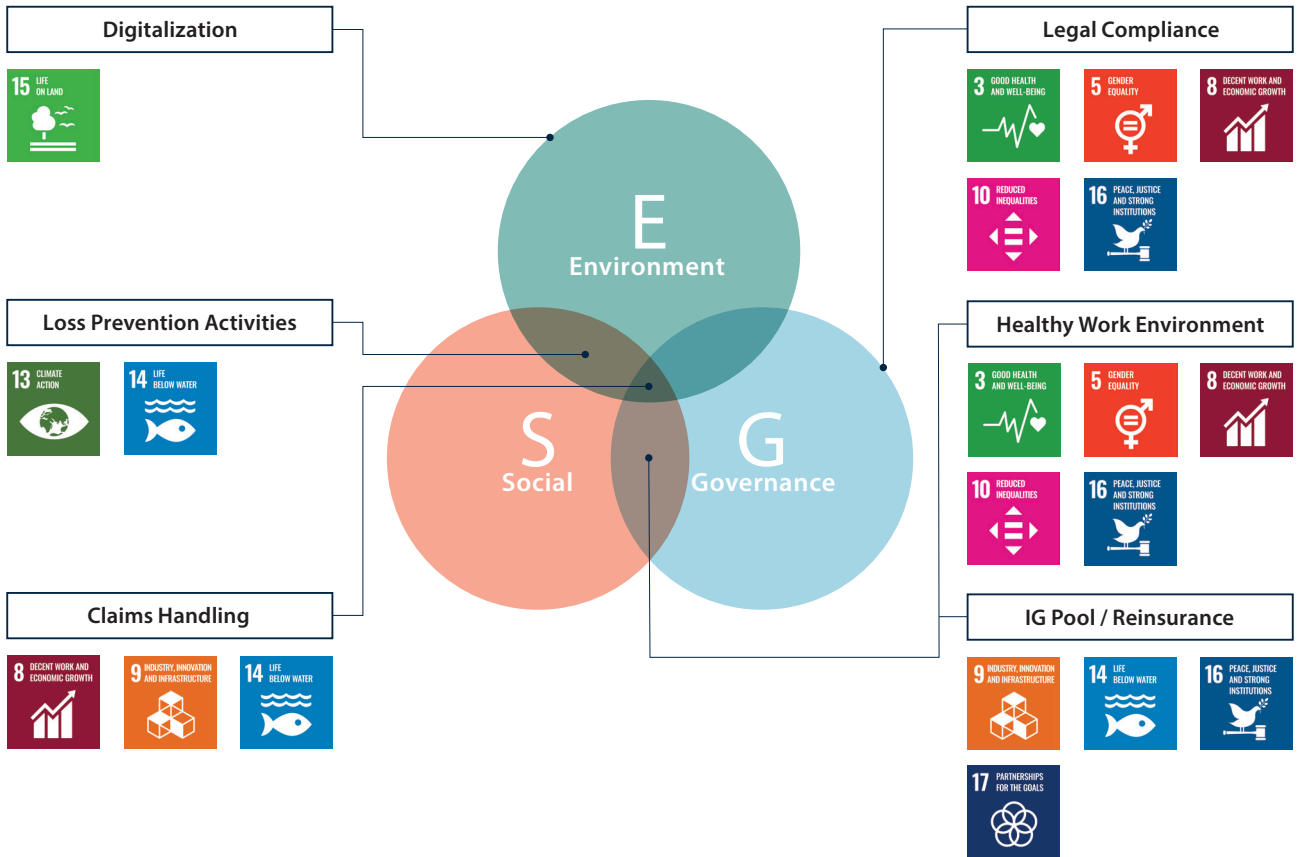
Healthy Work Environment

We aim to create a comfortable working environment for all our employees. We operate mainly in Japan; however, the environment is culturally diverse, with executives and employees from seven different nationalities. We respect basic human rights and do not tolerate discrimination or infringement of human rights on the grounds of gender, age, occupation, nationality, race, belief, religion, or social status, etc. In order to promote mental health care, all our employees are given a stress check, and we arrange occupational health physicians for those who seek consultations for physical and mental health reasons. Furthermore, to provide a secure working environment for working parents, we encourage our employees to take childcare leave, provide the option of shorter working hours, and offer pre- and postpartum leave. In recognition of these efforts, in 2021 we received a certification called *Kurumin* which is awarded to companies that support working parents.

Legal Compliance

We regard thorough legal compliance as the most vital matter in the operation of the Association. We have set up a Compliance Committee to prevent violations such as workplace bullying and sexual harassment, and for early detection and response. We have established a compliance consultation desk to enforce the whistleblowing system.

SUSTAINABILITY INITIATIVES



We regard sustainability as our responsibility and challenge, and as a member of the IG, we will contribute to sustainable operations with IG and promote various sustainable initiatives at the Association.

REPORT OF THE INDEPENDENT AUDITORS



INDEPENDENT AUDITOR'S REPORT

To Mr. Shizuo Takahashi
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 2022 and 2021, and Income and Expenditure Accounts and 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 of presentation and accounting policies described 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. Our opinion is not modified in respect to this matter.

Other Information

The other information comprises the Annual report excluding the rating information (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the rating information, which is expected to be made available to us after that date. Management is responsible for the other information. In addition, those charged with governance are responsible for overseeing the Association's reporting process of the other information.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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REPORT OF THE INDEPENDENT AUDITORS



If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 of presentation and accounting policies described 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:

- 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 of presentation and accounting policies described in the Notes A and B to the financial statements.

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 2022 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.

DocuSigned by:
Masahiko Nara
F1FCD21957FE410...

Masahiko Nara

Designated Engagement Partner
Certified Public Accountant

19 July 2022

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 2022 and 2021

	Notes	Unit:JPY Millions		Unit:US\$000s
		2022	2021	2022
				Note A-2
Operating income				
Calls and premiums written	B-3, C-1	¥22,141	¥19,864	\$180,904
Reinsurance premiums ceded	B-3, C-2	5,328	4,888	43,531
Net premiums written	B-3	16,813	14,976	137,373
Change in unearned premium reserve	B-3	(1,862)	(219)	(15,210)
Exchange gains from underwriting activities		105	69	857
Interest and dividends income	B-3, C-3	690	710	5,640
Gains on money trusts	B-3	213	1,951	1,743
Profit on sales of securities		214	-	1,750
Redemption gains on securities		0	0	0
Foreign currency exchange gains from investing activities		2,276	661	18,594
Other ordinary income		68	59	552
Total operating income		18,517	18,207	151,299
Operating costs and expenses				
Claims paid	B-3, C-4	28,001	23,326	228,781
Reinsurance claims recovered	B-3, C-5	10,365	10,084	84,687
Net claims paid	B-3	17,636	13,242	144,094
Change in reserve for outstanding claims	B-3	1,298	87	10,608
Change in catastrophe reserve		(4,170)	(1,804)	(34,068)
Operating expenses	B-3	2,848	2,685	23,270
Other ordinary expenses		304	261	2,484
Total operating costs and expenses		17,916	14,471	146,388
Ordinary surplus		601	3,736	4,911
Special losses				
Other special losses		0	0	0
Surplus before income taxes		601	3,736	4,911
Current income taxes		1	2	12
Deferred income taxes	B-21	1,007	1,043	8,226
Total income taxes	B-4	1,008	1,045	8,238
Surplus (deficit) after income taxes		(407)	2,691	(3,327)
Surplus balance after appropriation	B-5	3	2	28
Unappropriated surplus (deficit), ending balance		¥(404)	¥2,693	\$(3,299)

¥122.39=US\$1.00

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

BALANCE SHEETS

as of 31 March 2022 and 2021

	Notes	Unit:JPY Millions		Unit:US\$000s
		2022	2021	2022
				Note A-2
Assets				
Cash and deposits at banks	B-19, C-6	¥17,383	¥17,972	\$142,026
Money trusts	B-7, 19, C-7	14,515	12,503	118,596
Securities	B-6, 19, 23, C-8	32,158	35,002	262,754
Property, plant and equipment	B-8, 20, C-9	1,016	1,041	8,303
Intangible assets	B-9, C-10	5	4	38
Other assets	B-13, 19, C-11	2,859	2,548	23,362
Deferred tax assets	B-17, 21	4,579	5,473	37,414
Reserve for bad debts	B-11, 19	(6)	(29)	(51)
Total assets		72,509	74,514	592,442
Liabilities				
Technical provisions				
Reserve for outstanding claims	B-17, 24, C-12	37,532	36,234	306,659
Unearned premium reserve	B-24, C-13	10,224	8,363	83,539
Catastrophe reserve	B-15	10,088	14,258	82,426
Other liabilities	B-19, C-14	2,389	2,730	19,518
Reserve for bonuses	B-12	120	108	980
Reserve for directors' retirement benefits	B-14	130	102	1,060
Total liabilities		60,483	61,795	494,182
Net assets				
Capital contribution fund		101	106	824
Retaining earnings	B-3	11,361	11,769	92,830
Net unrealized gains on securities	C-15	564	844	4,606
Total net assets		12,026	12,719	98,260
Total liabilities and net assets		¥72,509	¥74,514	\$592,442

¥122.39=US\$1.00

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

STATEMENTS OF CASH FLOWS

for the years ended 31 March 2022 and 2021

	Note	Unit:JPY Millions		Unit:US\$000s
		2022	2021	2022
				Note A-2
Cash flows from operating activities				
Surplus before income taxes		¥601	¥3,736	\$4,911
Depreciation		39	42	316
Increase in reserve for outstanding claims		1,298	87	10,608
Increase in unearned premium reserve		1,862	218	15,210
Decrease in catastrophe reserve		(4,170)	(1,804)	(34,068)
Decrease (increase) in reserve for bad debts		(23)	6	(189)
Increase (decrease) in reserve for bonuses		11	(14)	93
Increase in reserve for directors' retirement benefits		27	12	224
Interest and dividend income		(690)	(710)	(5,641)
Foreign currency exchange losses		(2,276)	(661)	(18,594)
Losses on specified money trust		(241)	(1,976)	(1,970)
Gains on securities		(214)	0	(1,750)
Losses (gains) on property, plant and equipment		0	0	0
Increase in other assets		(319)	(297)	(2,605)
Decrease (increase) in other liabilities		(344)	1,134	(2,808)
Sub-total		(4,439)	(227)	(36,263)
Interest and dividends received		691	736	5,648
Income taxes paid		(1)	(2)	(12)
Net cash provided by operating activities		(3,749)	507	(30,627)
Cash flows from investing activities				
Purchases of property, plant and equipment		(13)	(55)	(107)
Purchases of intangible assets		(1)	0	(6)
Purchases of time deposits		(6,579)	(6,111)	(53,755)
Proceeds from maturity of time deposits		5,514	4,067	45,055
Purchases of specified money trust		(1,771)	(1,350)	(14,471)
Purchases of securities		(1,040)	(2,156)	(8,498)
Proceeds from sales or maturity of securities		4,500	2,896	36,766
Net cash used in investing activities		610	(2,709)	4,984
Cash flows from financing activities				
Proceeds of capital contribution fund from members		3	3	23
Refund of capital contribution fund to members		(6)	(6)	(52)
Net cash used in financing activities		(3)	(3)	(29)
Effect of foreign currency exchange rate changes on cash and cash equivalents		1,139	743	9,306
Net decrease in cash and cash equivalents		(2,003)	(1,462)	(16,366)
Cash and cash equivalents at beginning of year		14,774	16,235	120,712
Cash and cash equivalents at end of year	B-25	¥12,771	¥14,773	\$104,346

¥122.39=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 2022 have been translated into U.S. Dollars at the rate of ¥122.39 = U.S.\$1, the middle rate prevailing on the Tokyo foreign exchange market on 31 March 2022. 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 2022 and 2021, the aggregate revenue of business transacted with the subsidiary companies amounted to ¥49 million (\$396 thousand) and ¥44 million, respectively, and the aggregate expenses amounted to ¥61 million (\$498 thousand) and ¥56 million, respectively.

3: ① Net premiums written consist of the following:

	Unit:JPY Millions		Unit:US\$000s
	2022	2021	2022
			Note A-2
Calls and premiums written	¥22,141	¥19,864	\$180,904
Reinsurance premiums ceded	5,328	4,888	43,531
Net premiums written	¥16,813	¥14,976	\$137,373

The year ended 31 March 2022 includes 40% Supplementary Call for Policy Year 2020 in the amount of ¥4,740 million (\$38,730 thousand). The year ended 31 March 2021 includes 40% Supplementary Call for Policy Year 2019 in the amount of ¥4,312 million.

② Net claims paid consist of the following:

	Unit:JPY Millions		Unit:US\$000s
	2022	2021	2022
			Note A-2
Claims paid	¥28,001	¥23,326	\$228,781
Reinsurance claims recovered	10,365	10,084	84,687
Net claims paid	¥17,636	¥13,242	\$144,094

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

	Unit:JPY Millions		Unit:US\$000s
	2022	2021	2022
			Note A-2
Change in reserve for outstanding claims, gross of reinsurance	¥19,875	¥14,636	\$162,396
Change in reserve for ceded outstanding claims	18,577	14,549	151,788
Change in reserve for outstanding claims	¥1,298	¥87	\$10,608

NOTES TO THE FINANCIAL STATEMENTS

④ Change in unearned premium reserve consists of the following:

	Unit:JPY Millions		Unit:US\$000s
	2022	2021	2022
			Note A-2
Change in unearned premium reserve, gross of reinsurance	(¥1,862)	(¥219)	(\$15,210)
Change in ceded unearned premium reserve	-	-	-
Change in unearned premium reserve	(¥1,862)	(¥219)	(\$15,210)

⑤ Operating expenses consist of the following:

	Unit:JPY Millions		Unit:US\$000s
	2022	2021	2022
			Note A-2
Personnel expenditure	¥1,833	¥1,744	\$14,980
Cost of supplies	815	720	6,664
Brokerage	277	311	2,260
Reinsurance commission	(116)	(132)	(950)
Depreciation	39	42	316
Total	¥2,848	¥2,685	\$23,270

⑥ Interest and dividends income consist of the following:

	Unit:JPY Millions		Unit:US\$000s
	2022	2021	2022
			Note A-2
Interest on deposits and savings	¥12	¥17	\$98
Interest on securities	678	693	5,542
Total	¥690	¥710	\$5,640

⑦ For the years ended 31 March 2022 and 2021 valuation gains of ¥241 million(\$1,970 thousand) and ¥1,975 million are included in "Gains on money trusts", respectively.

⑧ Retaining earnings consist of the following:

	Unit:JPY Millions		Unit:US\$000s
	2022	2021	2022
			Note A-2
Reserve for offsetting losses	¥175	¥175	\$1,432
Other retaining earnings	11,186	11,594	91,398
Special Reserve	11,590	8,900	94,697
Unappropriated surplus (deficit)	(404)	2,694	(3,299)
Total	¥11,361	¥11,769	\$92,830

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 2022 and 2021 are as follows:

	2022	2021
Effective statutory tax rate	27.92%	27.92%
Entertainment and other expenses not deductible for tax purposes	0.38%	0.05%
Change amount of valuation reserve	139.05%	0.08%
Taxation on per capita basis	0.25%	0.04%
Others	0.15%	△0.11%
Actual effective tax rate	167.75%	27.98%

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

	Unit:JPY Millions		Unit:US\$000s
	2022	2021	2022
			Note A-2
Beginning unappropriated surplus (deficit) balance	¥2,693	(¥1,228)	\$22,007
Transferred to special reserves	(2,690)	1,230	(21,979)
Surplus balance after appropriation	3	2	28
Surplus (deficit) after income taxes	(407)	2,691	(3,327)
Ending unappropriated surplus (deficit) balance	(¥404)	¥2,693	(\$3,299)

On July 21 2022, the amount of ¥410 million (\$3,350 thousand) will be transferred from special reserves to compensate the amount of ending unappropriated deficit balance ¥404 million (\$3,299 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 : The translation of foreign currencies to Japanese yen is carried out pursuant to the Accounting Standards for Foreign Currency Transactions.
- 11 : A reserve for bad debts is estimated on the basis of past experience.
- 12 : A reserve for bonuses is provided for at the amount estimated at the balance sheet date for future payments.
- 13 : 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 2022 and 2021, prepaid pension cost of ¥108 million (\$886 thousand) and ¥163 million are included in Other assets, respectively.
- 14 : 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.
- 15 : 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.
- 16 : Consumption taxes are accounted for under the "tax inclusive" method.
- 17 : Items for which the amount was recorded in the financial statements for the current fiscal year due to accounting estimates, which may have a material impact on the financial statements for the following fiscal year, are as follows:
1. Deferred tax assets
 - ① Amount recorded in the financial statements for the fiscal year
See "B. Notes prescribed by the laws and regulations 21"
 - ② Other information that contributes to the understanding of financial statement users regarding the content of accounting estimates
- [1] Calculation method
The recognition of deferred tax assets is estimated by the timing and amount of taxable income based on future business plans.

NOTES TO THE FINANCIAL STATEMENTS

[2] Key assumptions

Estimates of future taxable income are based on future business plans, where key assumptions are primarily premiums and other revenues generated from insurance contracts, including those expected to be earned in the future, as well as insurance and other payments that are projected to be made in the future from historical payment experience.

[3] Impact on the financial statements for the following fiscal year

The amount of deferred tax assets could be materially affected in the financial statements for the following fiscal year if the timing and amount of actual taxable income incurred differ from the estimates, which may be affected by changes in circumstances in the future of each event.

2. Reserves for outstanding claims

The Association estimates the amount of insurance claims incurred or deemed to have been incurred that have not yet been paid under insurance contracts and reserves for outstanding claims. The Reserve for Payment consists of the outstanding claims (the amount of insurance claims, etc. for which the obligation to pay has arisen under the insurance contract, but which have not yet been paid; hereinafter referred to as "Ordinary Reserve for Payment") and the outstanding claims for payment (the amount of claims for which the cause of payment has not yet been reported but for which the cause of payment is deemed to have arisen under the insurance contract; hereinafter referred to as "IBNR Reserve").

① Amount recorded in the financial statements for the current fiscal year

Reserves for outstanding claims ¥37,531,985,592

② Other information that contributes to the understanding of financial statement users regarding the content of accounting estimates

[1] Calculation method

With respect to ordinary reserves for outstanding claims, future payments are estimated and recorded by means of assessments and other methods based on information available at the end of the fiscal year for insurance contracts for which payment obligations have been incurred.

With respect to IBNR reserves, the Association estimates the reserve requirement by calculating the ultimate loss for policies that have not yet been reported, primarily using the statistical estimation method (such as the Chain ladder method), as it is deemed that a payment obligation has been incurred.

[2] Key assumptions

Ordinary reserves are estimated for future payments based on insurance contract coverage and the results of damage assessments.

In assessing damages, the Association estimates the amount of future payments by considering historical payment trends, as well as legislative changes and historical case studies.

Key assumptions for IBNR reserves include historical claims and other payment trends, forecasts of internal and external environmental changes, and the selection of estimation methods based on these assumptions.

[3] Impact on the financial statements for the following fiscal year

Future changes in the circumstances of each event may cause the amount of claims and reserve for outstanding claims to change from the original estimate.

18: The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, 4 July 2019, hereinafter referred to as the "Accounting Standard for Fair Value Measurement") and other standards has been applied from the beginning of the current fiscal year, and in accordance with the interim treatment stipulated in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, 4 July 2019), the new accounting policy stipulated by the Accounting Standard for Fair Value Measurement will be applied into the future. The adoption had no impact on the Association's financial statements.

19: 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 Plan of Business Operation, as approved by the Financial Services 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 on the balance sheet, fair value and the difference as of 31 March 2022 and 2021 are as follows:

	Unit:JPY Millions						Unit:US\$000s		
	2022			2021			2022		
	Balance Sheet amounts	Fair value	Difference	Balance Sheet amounts	Fair value	Difference	Balance Sheet amounts	Fair value	Difference
(a) Cash and deposits at banks	¥17,383	¥17,383	¥-	¥17,972	¥17,972	¥-	\$142,026	\$142,026	\$-
(b) Money trusts	14,515	14,515	-	12,503	12,503	-	118,596	118,596	-
(c) Securities									
Securities held to maturity	15,810	16,086	276	16,372	17,171	799	129,181	131,429	2,248
Marketable securities held as available for sale	15,137	15,137	-	17,418	17,418	-	123,675	123,675	-
(d) Premiums receivables	243			360			1,983		
Reserve for bad debts (*1)	△6			△29			△51		
	237	237	-	331	331	-	1,932	1,932	-
Total financial assets	¥63,082	¥63,358	¥276	¥64,596	¥65,395	¥799	\$515,410	\$517,658	\$2,248
(a) Foreign reinsurance payable	¥1,249	¥1,249	¥-	¥774	¥774	¥-	\$10,202	\$10,202	\$-
Total financial liabilities	¥1,249	¥1,249	¥-	¥774	¥774	¥-	\$10,202	\$10,202	\$-

(*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 (\$9,898 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.

③ Breakdown of the fair value of financial instruments by appropriate classification

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs to the determination of fair value:

Level 1 Fair Value : Fair values measured using inputs for determining fair values that are determined by quoted prices for the assets or liabilities subject to such fair values that are formed in active markets that are observable

Level 2 Fair Value : Fair values measured using inputs for determining fair value other than Level 1 inputs that are observable

Level 3 Fair Value : Fair values measured using inputs for determining fair values that are unobservable

If the Association uses multiple inputs that are important to the determination of fair value, the Association categorizes fair value into the level with the lowest priority within the inputs used to determine fair value.

Pursuant to paragraph 26 of ASBJ Guidance No. 31,

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No.31, 4 July 2019, hereinafter referred to as the "Implementation Guidance on Fair Value Measurement"), investment trusts and stocks without market prices are not included in the table below (See Remark 2).

[1] Financial assets measured at fair value on the balance sheet

Division	Unit:JPY Millions				Unit:US\$000s			
	2022				2022			
	Fair value				Fair value			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Money Trusts								
(Trading securities)	-	¥14,515	-	¥14,515	-	\$118,596	-	\$118,596
Securities								
(Marketable securities held as available for sale)								
Japanese government bonds	-	314	-	314	-	2,562	-	2,562
Japanese local government bonds								
Corporate bonds	-	4,848	-	4,848	-	39,615	-	39,615
Foreign securities	-	5,091	-	5,091	-	41,595	-	41,595
Total assets	-	¥24,768	-	¥24,768	-	\$202,368	-	\$202,368

*Investment trust for which transitional provisions have been applied in accordance with paragraph 26 of the Implementation Guidance on Fair Value Measurement are not included in the above table. The amount of the investment trust in question on the balance sheet is ¥4,884 million (\$39,903 thousand).

[2] Financial assets not measured at fair value on the balance sheet

Cash and deposits at banks are excluded because these are settled in the short term and those fair values are approximately equal to the carrying amount.

Division	Unit:JPY Millions				Unit:US\$000s			
	2022				2022			
	Fair value				Fair value			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Money Trusts								
(Trading securities)	-	-	-	-	-	-	-	-
Securities								
(Marketable securities held as available for sale)								
Japanese government bonds	-	¥2,722	-	¥2,722	-	\$22,242	-	\$22,242
Japanese local government bonds								
Corporate bonds	-	6,028	-	6,028	-	49,257	-	49,257
Foreign securities	-	7,060	-	7,060	-	57,682	-	57,682
Total assets	-	¥15,810	-	¥15,810	-	\$129,181	-	\$129,181

(Remark 1) Description of valuation techniques and inputs used to determine fair value

Money trusts The fair value of securities constituting trust assets is evaluated and classified using the same method as "Securities."

Securities Securities for which quoted prices in active markets are available are classified as Level 1 fair values. If quoted prices are used but the market is not active, they are classified as Level 2 fair values.

When quoted prices are not available, the fair value is determined by valuation methods such as the discounted present value method. Inputs such as yield curves and credit spreads are used for valuation.

If the Association does not use unobservable inputs or their impact is immaterial, they are classified as Level 2 fair values.

(Remark 2) Balance Sheet Amount of Stocks, etc. without Market Price

The balance sheet amount of stocks, etc. without market price is ¥1,211 million (\$9,898 thousand). Stocks without quoted market prices include unlisted stocks, etc. and are not subject to fair value disclosure in accordance with paragraph 5 of the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, 4 July, 2019).

NOTES TO THE FINANCIAL STATEMENTS

20: Accumulated depreciation for property, plant and equipment amounts to ¥378 million (\$3,091 thousand) and ¥386 million at 31 March 2022 and 2021, respectively. Advanced depreciation amounts to ¥301 million (\$2,466 thousand) and ¥302 million at 31 March 2022 and 2021, respectively.

21: The total amounts of deferred tax assets and liabilities at 31 March 2022 and 2021 are as follows:

	Unit:JPY Millions		Unit:US\$000s
	2022	2021	2022
			Note A-2
Deferred tax assets	¥6,239	¥6,415	\$50,979
Breakdown for major items			
Underwriting reserve	¥2,675	¥2,955	\$21,860
Reserve for outstanding claims	1,556	1,833	12,710
Tax loss carried forward	1,375	1,006	11,235
Reserve for directors' retirement benefits	36	29	296
Deducted valuation reserve	(¥1,387)	(¥552)	(\$11,336)
Deferred tax liabilities	¥273	¥390	\$2,230
Breakdown for major items			
Unrealized gains on Marketable securities held as available for sale	¥243	¥345	\$1,982

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

23: Investment in subsidiaries amounts to ¥12 million (\$94 thousand) and ¥12 million at 31 March 2022 and 2021, respectively.

24: 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 ¥47,972 million (\$391,964 thousand) and ¥29,395 million at 31 March 2022 and 2021, respectively.

②There is no unearned premium reserve with respect to reinsurance stipulated in Article 51 of the Regulations at 31 March 2022 and 2021.

③There is no amount deducted relating to the distribution of surplus stipulated in Article 28 of the Regulations at 31 March 2022 and 2021.

25: 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
	2022	2021	2022
			Note A-2
Cash and deposits at banks	¥17,383	¥17,972	\$142,026
MMF, Short-term government bonds and Certificate of deposit included in securities	-	-	-
Deposits at banks of which contract is more than 3 months	(4,612)	(3,199)	(37,681)
Cash and cash equivalents	¥12,771	¥14,773	\$104,345

There is no significant non-cash transaction entered into by the Association during the years ended 31 March 2022 and 2021.

Cash flows from investing activities include cash flows arising from asset management relating to the insurance business during the years ended 31 March 2022 and 2021.

NOTES TO THE FINANCIAL STATEMENTS

C. Other Notes to Financial Statements

	Unit:JPY Millions		Unit:US\$000s
	2022	2021	2022
1 Calls and premiums written			
Mutual			
Mutual premiums	¥13,825	¥12,133	\$112,961
Supplementary calls charged	4,740	4,312	38,730
Release calls	290	299	2,365
FD&D	196	187	1,603
Sub-total	19,051	16,931	155,659
Fixed premiums			
Coastal vessels entries	2,557	2,215	20,889
Charterers' entries	263	320	2,146
Others	270	398	2,210
Sub-total	3,090	2,933	25,245
Total	¥22,141	¥19,864	\$180,904
2 Reinsurance premiums ceded			
Group excess of loss	¥2,226	¥2,060	\$18,190
Others	3,102	2,828	25,341
	¥5,328	¥4,888	\$43,531
3 Interest and dividends			
Bank deposits	¥12	¥17	\$98
Japanese bonds	216	225	1,764
Foreign securities	336	360	2,745
Other securities	126	108	1,033
	¥690	¥710	\$5,640
4 Claims paid			
P&I	¥23,733	¥20,703	\$193,911
<i>Mutual</i>	21,609	19,101	176,561
<i>Coastal vessels entries</i>	1,878	1,152	15,341
<i>Charterers' entries</i>	182	366	1,483
<i>Others</i>	64	84	526
Other Associations' pool claims	4,118	2,528	33,644
FD&D	150	95	1,226
	¥28,001	¥23,326	\$228,781
5 Reinsurance claims recovered			
Group's pooling agreement	¥9,081	¥10,172	\$74,198
Group's excess loss reinsurance	935	-	7,636
Other reinsurers	349	(88)	2,853
	¥10,365	¥10,084	\$84,687

	Unit: JPY Millions		Unit: US\$000s
	2022	2021	2022
6 Cash and deposits at banks			
Cash	¥1	¥1	\$8
Deposits at banks	17,382	17,971	142,018
	¥17,383	¥17,972	\$142,026
7 Money trusts			
Funds of domestic stock	¥2,261	¥2,225	\$18,476
Funds of foreign security	12,254	10,278	100,120
	¥14,515	¥12,503	\$118,596
8 Securities			
Japanese government bonds	¥601	¥604	\$4,909
Japanese local government bonds	2,435	2,639	19,895
Corporate bonds	10,877	11,546	88,872
Stocks	10	10	82
Foreign securities	13,352	14,434	109,093
Other securities	4,883	5,769	39,903
	¥32,158	¥35,002	\$262,754
9 Property, plant and equipment			
Estate on book	¥905	¥905	\$7,393
Buildings	53	54	431
Lease assets	42	61	347
Equipment and others	16	21	132
	¥1,016	¥1,041	\$8,303
10 Intangible assets			
Software	¥1	¥1	\$6
Other intangible assets	4	3	32
	¥5	¥4	\$38
11 Other assets			
Premiums receivables	¥243	¥361	\$1,983
Foreign reinsurance recoveries	2,063	1,639	16,854
<i>Pool recoveries</i>	1,733	1,626	14,157
<i>Recoveries from the Group Excess Loss insurance</i>	322	0	2,629
<i>Recoveries from other reinsurers</i>	8	13	68
Accounts receivable	142	158	1,161
Accrued revenue	100	109	822
Advance deposits	79	73	644
Suspense payments	124	45	1,012
Prepaid pension cost	108	163	886
	¥2,859	¥2,548	\$23,362

NOTES TO THE FINANCIAL STATEMENTS

	Unit:JPY Millions		Unit:US\$000s
	2022	2021	2022
12 Reserve for outstanding claims			
Gross reserve for outstanding claims	¥82,214	¥65,629	\$671,742
<i>Members' claims</i>	74,032	58,297	604,886
<i>Other Associations' pool claims</i>	8,182	7,332	66,856
Reinsurers' share	44,682	29,395	365,083
<i>Pool recoveries</i>	33,415	26,865	273,023
<i>Excess loss R/I recoveries</i>	2,153	2,053	17,595
<i>Recoveries from other reinsurers</i>	9,114	477	74,465
Net reserve for outstanding claims	¥37,532	¥36,234	\$306,659
<i>IBNR amounts are included in the above figure</i>			
<i>IBNR amounts</i>	¥8,865	¥8,998	\$72,432
13 Unearned premium reserve			
Gross unearned premium reserve	¥10,224	¥8,363	\$83,539
Reinsurers' share	-	-	-
Net unearned premium reserve	¥10,224	¥8,363	\$83,539
14 Other liabilities			
Foreign reinsurance payable	¥1,249	¥773	\$10,202
Accounts payable	192	208	1,569
Unpaid tax	-	-	-
Suspense payable	906	1,688	7,401
Lease liability	42	61	346
	¥2,389	¥2,730	\$19,518
15 Net unrealized gains on securities			
Unrealized gains on securities is net of deferred tax caused by the valuation of securities.	¥564	¥844	\$4,606

RESERVES

	Unit:JPY Millions		Unit:US\$000s
	2022	2021	2022
Catastrophe reserve	¥10,088	¥14,258	\$82,426
Reserve for offsetting losses	175	175	1,432
Other retaining earnings	11,186	11,594	91,398
Sub-total	21,449	26,027	175,256
Capital contribution fund	101	106	824
Net unrealized gains on securities	564	844	4,606
Total	¥22,114	¥26,977	\$180,686

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 37 and 38.

POLICY YEAR STATEMENTS

as of 31 March 2022

	2022/23		2021/22		2020/21	
	(2022/2/20-2022/3/31)		(2021/2/20-2022/2/20)		(2020/2/20-2021/2/20)	
	JPY Millions	US\$000s	JPY Millions	US\$000s	JPY Millions	US\$000s
Calls and premiums written						
Prior years	¥ -	\$ -	¥1,488	\$12,155	¥15,343	\$125,362
During year	1,720	14,051	13,510	110,387	277	2,261
Supplementary calls	-	-	-	-	4,739	38,724
	1,720	14,051	14,998	122,542	20,359	166,347
Reinsurance premiums ceded	(780)	(6,375)	(5,154)	(42,109)	(4,832)	(39,479)
	940	7,676	9,844	80,433	15,527	126,868
Claims paid						
Gross claims paid	(14)	(114)	(7,291)	(59,572)	(23,422)	(191,369)
Reinsurance claims recovered	-	-	881	7,197	13,802	112,770
[Pool recoveries]	[-]	[-]	[881]	[7,197]	[12,867]	[105,133]
[Excess loss R/I recoveries]	[-]	[-]	[-]	[-]	[935]	[7,637]
[Other reinsurance recoveries]	[-]	[-]	[-]	[-]	[-]	[0]
Net claims paid	(14)	(114)	(6,410)	(52,375)	(9,620)	(78,599)
[Other Associations' pool claims]	[-]	[-]	[926]	[7,565]	[612]	[5,003]
Investment income	320	2,613	1,332	10,885	1,255	10,257
Operating expenses	(171)	(1,396)	(2,836)	(23,171)	(2,738)	(22,371)
Others	(200)	(1,636)	(325)	(2,652)	(192)	(1,571)
Balance available for estimated outstanding claims	¥875	\$7,143	¥1,605	\$13,120	¥4,232	\$34,584
Estimated outstanding claims						
Gross estimated outstanding claims	(¥1,776)	(\$14,508)	(¥30,051)	(\$245,533)	(¥28,074)	(\$229,381)
Reinsurers' share	-	-	17,807	145,497	19,162	156,568
[Pool recoveries]	[-]	[-]	[8,778]	[71,725]	[16,977]	[138,710]
[Excess loss R/I recoveries]	[-]	[-]	[-]	[-]	[2,153]	[17,595]
[Other reinsurance recoveries]	[-]	[-]	[9,029]	[73,772]	[32]	[263]
Net estimated outstanding claims	(1,776)	(14,508)	(12,244)	(100,036)	(8,912)	(72,813)
[Other Associations' pool claims]	[236]	[1,928]	[1,436]	[11,735]	[2,309]	[18,870]
Surplus/(deficit)	(¥901)	(\$7,365)	(¥10,639)	(\$86,916)	(¥4,680)	(\$38,229)
Estimated product of 10% supplementary calls	-	-	1,316	10,756	1,185	9,681

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 2022/23 policy year which is covered the period from 20 February 2022 to 31 March 2022, calls and premiums are stated on an earned basis to 31 March 2022.

4. The translation rate in this Policy Year Statement is ¥122.39 = US\$1, the middle rate prevailing on the Tokyo foreign exchange market as of 31 March 2022.

2019/20		Closed years		Total	
(2019/2/20-2020/2/20)					
JPY Millions	US\$000s	JPY Millions	US\$000s	JPY Millions	US\$000s
¥14,947	\$122,127				
22	179				
4,312	35,234				
19,281	157,540				
(4,923)	(40,227)				
14,358	117,313				
(11,163)	(91,207)				
1,633	13,344				
[1,629]	[13,307]				
[-]	[-]				
[4]	[37]				
(9,530)	(77,863)				
[1,103]	[9,012]				
1,495	12,215				
(2,835)	(23,161)				
605	4,946				
¥4,093	\$33,450	¥48,176	\$393,619	¥58,981	\$481,916
(¥9,112)	(\$74,454)	(¥13,201)	(\$107,866)	(¥82,214)	(\$671,742)
3,343	27,314	4,370	35,704	44,682	365,083
[3,339]	[27,281]	[4,321]	[35,308]	[33,415]	[273,024]
[-]	[-]	[-]	[-]	[2,153]	[17,595]
[4]	[33]	[49]	[395]	[9,114]	[74,463]
(5,769)	(47,140)	(8,831)	(72,162)	(37,532)	(306,659)
[1,116]	[9,116]	[3,085]	[25,206]	[8,182]	[66,855]
(¥1,676)	(\$13,690)	¥39,345	\$321,457	¥21,449	\$175,257
1,078	8,809				

DIRECTORS AND AUDITORS

■ Directors

Chairman, Representing Director

Tadaaki Naito Chairman Nippon Yusen Kabushiki Kaisha

Deputy Chairman, Representing Director

Yukikazu Myochin President Kawasaki Kisen Kaisha, Ltd.

Deputy Chairman, Representing Director

Takeshi Hashimoto President Mitsui O.S.K. Lines, Ltd.

Directors

Takashi Hirose President ENEOS Ocean Corporation

Mitsujiro Akasaka President Ferry Sunflower Limited

Takashi Sakai President Hachiuma Steamship Co., Ltd.

Ichiro Matsuo President Idemitsu Tanker Co., Ltd.

Hiromi Toshi President Iino Kaiun Kaisha, Ltd.

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

Koji Kondo President Kyoei Tanker Co., Ltd.

Kazuo Ogasawara President Mitsubishi Ore Transport Co., Ltd.

Akira Sasa 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.

Kazuhiko Kikuchi President MOL Drybulk Ltd.

Norio Tabuchi President Tabuchi Kaiun Co., Ltd.

Nobuo Sano President Tamai Steamship Co., Ltd.

Gen Uyeno President Uyeno Transtech Ltd.

■ In-House Directors

Director General, Representing Director

Shizuo Takahashi

Executive Directors, Representing Directors

Hiroaki Sawabe

Takaaki Irikiin

Keisuke Kobayashi

Directors

Shunsei Miyake

Minoru Naito

Hiroshi Kikegawa

Yuichi Tanaka

■ Auditors

Yutaka Kuge President Kawasaki Kinkai Kisen Kaisha, Ltd.

Shunsuke Tsurumaru Chairman Tsurumaru Shipping Co., Ltd.

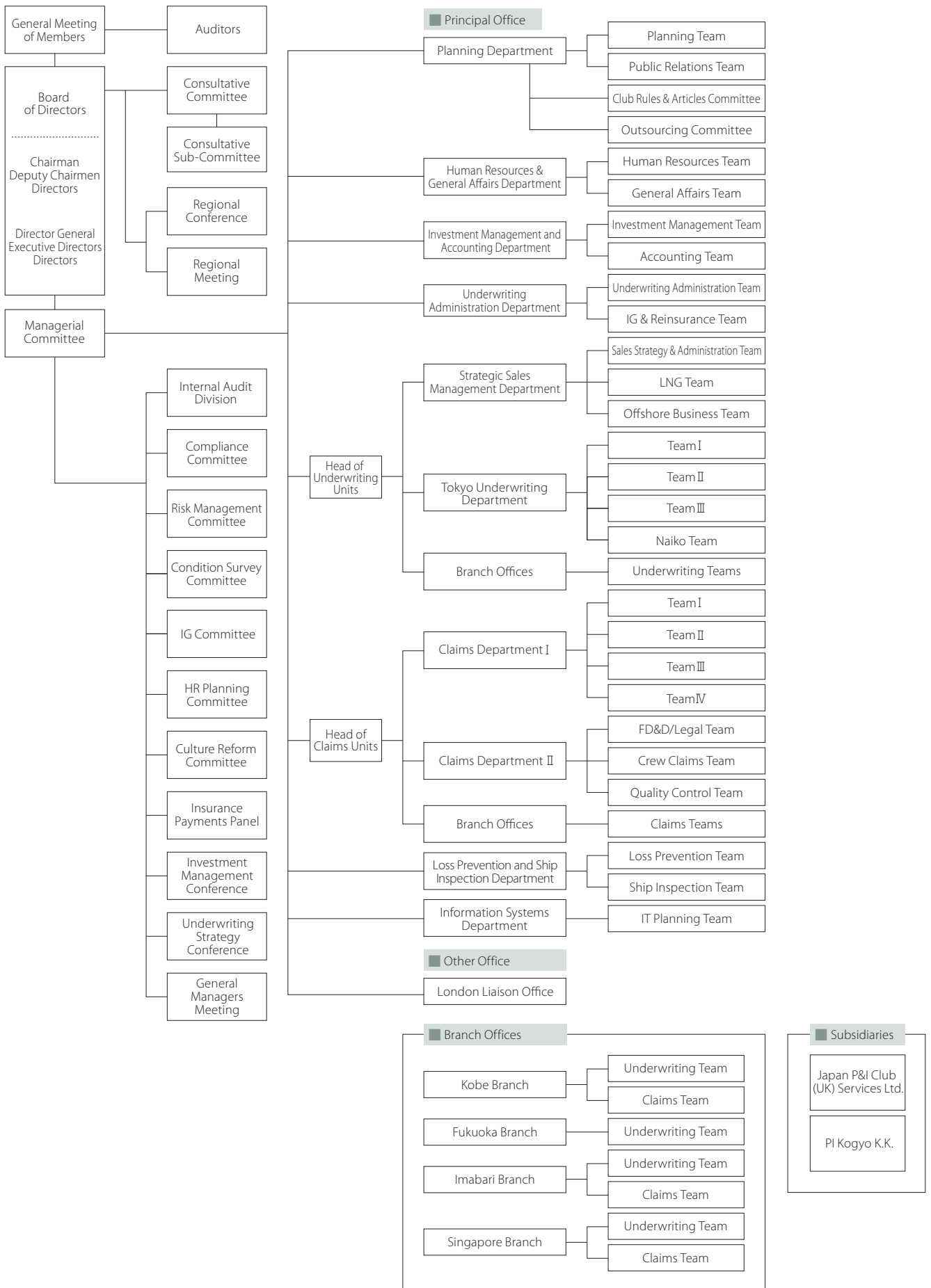
(as of 21 July 2022)

SECRETARIAT

Minoru Naito	General Manager of Planning Dept.	Toru Asai	General Manager of Loss Prevention and Ship Inspection Dept.
Yoji Tanaka	Assistant General Manager of Planning Dept.	Kenji Noda	General Manager of Information Systems Dept.
Tetsuro Haramo	General Manager of Human Resources & General Affairs Dept.	Yasuyuki Nakamura	General Manager of Kobe Branch
Hiroki Ikeda	General Manager of Investment Management and Accounting Dept.	Shunsei Miyake	General Manager of Fukuoka Branch
Riki Yamamoto	General Manager of Underwriting Administration Dept.	Naoyuki Moriya	General Manager of Imabari Branch
Royston Deitch	Executive Representative, Head of IG Matters / General Manager of Underwriting Administration Dept.	Shigeru Yamada	Chief Executive of Singapore Branch
Hiroaki Sawabe	Head of Underwriting Units	Yusuke Nakahama	General Manager of London Liaison Office
Hiroshi Kikegawa	Deputy Head of Underwriting Units / General Manager of Tokyo Underwriting Dept.	Hiroaki Akasaka	Chief of Internal Audit Div.
Keiji Kubota	General Manager of Strategic Sales Management Dept.		
Keisuke Kobayashi	Head of Claims Units		
Tetsu Morita	Deputy Head of Claims Units / General Manager of Claims Dept. I		
Nobuko Genda	Deputy Head of Claims Units / General Manager of Claims Dept. II		
Tetsu Kato	Deputy Head of Claims Units / Assistant General Manager of Claims Dept. I		
Masatoshi Fukushima	Assistant General Manager of Claims Dept. II		

(as of 21 July 2022)

ORGANISATION



(as of 21 July 2022)

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The Japan Ship Owners' Mutual Protection & Indemnity Association

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