

Balance Sheet

(as at 31 March 2014)

(Unit : JPY)

Subject	Amount	Subject	Amount
Assets		Liabilities	
Cash and deposits at banks	16,047,119,386	Technical provisions	52,453,602,304
Cash	1,592,972	Outstanding claims	28,124,679,578
Deposits at banks	16,045,526,414	Underwriting reserve	24,328,922,726
Money held in trusts	1,323,428,012	Other liabilities	2,197,954,211
Securities	34,705,140,073	Foreign reinsurance payable	1,204,174,931
Government bonds	717,784,974	Accounts payable	110,260,051
Local government bonds	3,275,304,936	Corporate and other taxes payable	268,367,641
Corporate bonds	8,885,814,011	Suspense payable	607,907,478
Stocks	10,000,000	Lease liability	7,244,110
Foreign securities	17,714,225,494	Reserve for bonus	84,702,375
Other securities	4,102,010,658	Reserve for director retirement benefits	103,800,001
Property, plant and equipment	1,118,610,078	Reserve for losses of reinsurance	608,821,798
Land	989,506,872		
Buildings	73,538,737	Total liabilities	55,448,880,689
Lease assets	7,244,110	Net assets	
Others	48,320,359	Capital contribution fund	130,140,000
Intangible assets	186,137,949	Retaining earnings	1,764,359,129
Software	182,131,662	Reserve for offsetting losses	(175,277,000)
Other intangible assets	4,006,287	Other retaining earnings	(1,589,082,129)
Other assets	1,636,766,300	Special reserve	(670,000,000)
Premiums receivable	682,342,482	Unappropriated surplus	(919,082,129)
Foreign reinsurance recoveries	562,689,816	Total capital contribution fund and retaining earnings	1,894,499,129
Accounts receivable	40,961,074	Net unrealized gain on securities	461,278,942
Accrued revenue	169,813,210	Total valuation and translation adjustments	461,278,942
Advance deposits	93,524,562		
Suspense payments	36,425,269		
Others	51,009,887		
Deferred tax assets	2,863,004,069		
Reserve for bad debts	△75,547,107	Total net assets	2,355,778,071
Total assets	57,804,658,760	Total liabilities and net assets	57,804,658,760

(Notes)

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

- ① Shares of subsidiaries are stated at cost pursuant to the moving average method.
 - ② Securities held to maturity are stated at amortized cost (straight line method) pursuant to the moving average method.
 - ③ Marketable securities held as available for sale are stated at market price as of the balance sheet date. The unrealized gains/losses on the marketable securities are recognized directly within “Net assets” and the cost of securities sold is pursuant to the moving average method.
 - ④ Non-marketable securities held as available for sale are stated at cost or amortized cost (straight line method) pursuant to the moving average method where the fair value is extremely difficult to determine.
- (2) Money held in trusts held for trading purposes are stated at the fair value.
- (3) Depreciation of property, plant and equipment is calculated using the declining–balance method.
- (4) 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.
- (5) 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 in trusts, Japanese government bonds, Local government bonds, Corporate bonds and Foreign securities. Holding these financial instruments exposes the Association to credit risk, foreign 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 exchange fluctuations. As such, the Association manages its exposure to fluctuations in foreign exchange rates by controlling 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 Account to be remote. Regarding premiums receivable, 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.

②Fair value of financial instruments

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

(Unit : JPY millions)

	Amounts of Balance sheet	Fair value	Difference
(1) Cash and deposits at banks	16,047	16,047	—
(2) Money held in trusts	1,323	3,098	—
(3) Securities			
Securities held to maturity	10,722	10,766	44
Marketable securities held as available for sale	22,771	22,771	—
(4) Premiums receivables	682		
Reserve for bad debts	△75		
	606	606	—
Total assets	51,471	51,515	44
(1) Foreign reinsurance payable	1,204	1,204	—
Total liabilities	1,204	1,204	—

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

(Note 1)

Assets

(1)Cash and deposits at banks, (4) Premiums receivables

Cash and deposits at banks and premiums receivables are stated at the carrying amount as these are settled in the short term and those fair values are approximately equal to the carrying amount.

(2)Money held in trusts

The fair value of money held in trusts individually managed primarily for investments in securities are stated at the price provided by the trustee bank.

(3)Securities

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

Liabilities

(1)Foreign reinsurance payables

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

(Note 2)

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

(6) The translation of foreign currencies into Japanese yen is carried out pursuant to the Accounting Standards for Foreign Currency Transactions.

(7) The reserve for bad debts is stated on the basis of past experience.

- (8) The reserve for bonuses is provided for at the amount estimated at the balance sheet date for future payments.
- (9) The reserve for retirement benefits is recorded at the amount estimated based on the liabilities to be paid should all of the staff employment contracts be voluntarily terminated at the balance sheet date after deducting the fair value of the funded plan assets and the unamortized net transition liabilities. At the end of this financial year, prepaid pension cost of ¥51million is included in "Other assets".
- (10) The reserve for directors' retirement benefit is stated at the amount which has been incurred at the balance sheet date based on the bylaws of the Association.
- (11) To provide for future losses arising from providing support to Hydra Insurance Company Ltd., which is a reinsurance company in Bermuda jointly established by the International Group of P&I Clubs, the reserve for losses of reinsurance is stated at the amount equivalent to cumulative losses of the reinsurance company attributable to the Association.
- (12) Financial Leases, except for those in which ownership is considered to be transferred, for which the commencement date of the lease transaction falls in the financial years that began before 1 April 2008, are accounted for using a method similar to that for ordinary operating lease contracts.
- (13) Consumption taxes are accounted for under the "tax inclusive" method.
- (14) Accumulated depreciation for property, plant and equipment amounts to ¥340 million and advanced depreciation amounts to ¥415 million.
- (15) The total of deferred tax assets amounts to ¥3,652 million and the total of deferred tax liabilities amounts to ¥226 million. The figure deducted from deferred tax assets as a valuation reserve amounts to ¥562 million.
- The breakdown of deferred tax assets by main cause of occurrence is as follows:
- Underwriting reserve ¥2,627 million
 - Reserve for outstanding claims ¥200 million
 - Reserve for losses of reinsurance ¥170 million
 - Reserve for directors' retirement benefits ¥28 million
- The breakdown of deferred tax liabilities by main cause of occurrence is as follows:
- Unrealized gains on "Marketable securities held as available for sale" ¥212million
- (16) "Act on Partial Amendment to the income tax law"(Act No.10, 2014) was promulgated on March 31 2014 and the special corporation tax law has been repealed from the fiscal year beginning on or after 1 April 2014.
- Accordingly, the effective statutory income tax rate used to calculate deferred tax assets and deferred tax liabilities on the temporary differences which are expected to reverse in the fiscal year beginning on 1 April 2014 changes from the 29.70% used previously, to 27.93%.
- As a result of this change in the corporate income tax rate, deferred tax assets (net of deferred tax liabilities) decreased by ¥16 million, net unrealized gains on securities decreased by ¥0 million and surplus after income taxes decreased by ¥17 million.
- (17) In addition to the property, plant and equipment recorded on the balance sheet, lease contracts are in place for electronic computers.
- (18) Investment in subsidiaries amounts to ¥11 million.
- (19) ① Outstanding claims with respect to reinsurance stipulated in Article 51 of the

Enforcement Regulations of the Ship Owners' Mutual Insurance Association Law of Japan (the "Regulations") which is referred in Article 53.2 of the Regulations amounts to ¥12,207 million.

② There is no underwriting reserve with respect to reinsurance stipulated in Article 51 of the Regulations.

③ There is no amount deducted relating to the distribution of surplus stipulated in Article 28 of the Regulations.

(20) Underwriting reserve consists of ordinary underwriting reserve ¥10,627 million and catastrophe reserve ¥13,700 million.

(21) Footnote amounts not shown as a single currency unit have been appropriately rounded down for presentation purposes.