



JANUARY 30, 2003

CIRCULAR NO. 2/03

TO MEMBERS OF THE ASSOCIATION

Dear Member:

U.S. TERRORISM INSURANCE LEGISLATION

Reference is made to Circular No. 23/02 of November 22, 2002, and to the notice which was issued by the Club later that month offering an additional premium for the extra cover provided under the U.S. Terrorism Risk Insurance Act 2002 (TRIA).

A large number of Members replied to the Club's notice confirming that they did not require the cover set out in it. Moreover, no Member paid the required additional premium for the coverage within the 30 days required.

In the interim, there have been further developments. Specifically, your Board has considered the basis on which special War Risks P&I cover might be made available to Members in accordance with the Proviso to Rule 3.1.1 of the new Class I Rules to take effect as of February 20, 2003. A copy of the new Rule is attached for Members' ready reference.

Following the receipt of legal advice here in the United States, as well as reinsurance quotations, your Board has resolved that cover be provided to Members under the Proviso mentioned above for the 2003 policy year and that this should include cover arising from acts of terrorism as defined in TRIA.

The cover, therefore, will be on similar terms as those which obtained for the 2002 policy year except that the limit will be increased to \$400 million (in excess of a vessel's proper value) and a premium of \$0.0225 per gross ton will form part of the general charge for International Group reinsurance cover of which \$0.0025 per gross ton will be deemed to be attributable to risks emanating from the United States in accordance with the terms of TRIA.

Members are asked to note their records accordingly. As usual, the Managers will also be pleased to respond to any inquiries Members may have on the subject.

Yours faithfully,
Joseph E.M. Hughes, Chairman & CEO
Shipowners Claims Bureau, Inc., Managers for
THE AMERICAN CLUB

CLASS I**RULE 3 RISKS AND LOSSES EXCLUDED****RULES - CLASS I****Section 1****RISKS EXCLUDED**

Notwithstanding anything to the contrary contained in these Rules of Class I, there shall be no right of recovery from the Association in respect of any liabilities, costs or expenses, whether or not a contributory cause of their being incurred was any neglect on the part of a Member, Co-assured or Affiliate or any of their servants or agents, when the incident giving rise to the liability, cost or expense was caused by the following:

War Risks

- 1 i War, civil war, revolution, rebellion, insurrection or civil strife arising therefrom, or any hostile act by or against a belligerent power or any act of terrorism;
- ii Capture, seizure, arrest, restraint or detainment (barratry and piracy excepted) and the consequences thereof or any attempt thereat;
- iii Mines, torpedoes, bombs, rockets, shells, explosives or similar weapons of war, provided that this exclusion shall not apply to any liabilities, costs or expenses which arise solely by reason of
 - a the transport of any such weapons whether on board the insured vessel or not, or
 - b the use of any such weapons, either as a result of government order or through compliance with a written direction given by the Association where the reason for such use was the avoidance or mitigation of liabilities, costs or expenses which would otherwise have fallen within the cover given by the Association.

AND PROVIDED ALWAYS THAT:

The Directors may resolve that special cover be provided to Members against any or all of the risks set out in Rule 2 of these Rules of Class I, notwithstanding that the liabilities, costs or expenses arising from such risks would otherwise be excluded by this Rule 3.1.1. Such special cover where provided may be limited to such sum or sums and be subject to such terms and conditions as the Directors may from time to time in their absolute discretion determine.