



FEBRUARY 11, 2003

CIRCULAR NO. 5/03

TO MEMBERS OF THE ASSOCIATION

Dear Member:

WAR AND TERRORIST RISKS

Reference is made to Circular No. 2/03 of January 30, 2003. The purpose of this Circular is to recapitulate the extent of cover for war and terrorist risks available from the Club for the forthcoming policy year.

As mentioned in the earlier Circular, this cover has been granted in accordance with the Proviso to Rule 3.1.1. of the new Class I Rules. Its elements are as follows.

Risks covered

The risks covered are those set out in Rule 2 of Class I of the Club's Rules in accordance with each individual Member's terms of entry as set out in the relevant Certificate of Entry and any endorsement thereto.

Excess point

The special cover is subject to an excess of either:

- the "proper value" of an insured vessel (to be determined by the Board of Directors) which for this purpose will be deemed not to exceed US \$100 million; or
- the amount recoverable in respect of the claim under any other policy of insurance, whether of war risks or otherwise;

whichever is the greater, and subject always to a minimum deductible of \$50,000 any one accident or occurrence, any one vessel or craft.

Limit of cover

As mentioned in Circular No. 2/03 of January 30, 2003, the limit of cover is \$400 million in excess of a vessel's "proper value" as defined above.

However, where a Member and another party or other parties interested in the operation of a vessel are insured under more than one owner's and/or charterer's entry with the Club, or with the Club and any other club(s) which participate(s) in the Pooling Agreement and the General Excess Loss Reinsurance Contract, the aggregate of claims brought against the Club and such

other club(s) in respect of losses, liabilities, costs and expenses covered under this war risk P&I cover will be limited to US \$400 million any one accident or occurrence each vessel. If such claims exceed this limit, the liability of the Club in respect of each Certificate of Entry will be limited to that proportion of that limit that claims recoverable from the Club under that Certificate of Entry bear to the aggregate of the said claims recoverable from the Club and from such other club(s), if any.

It should be emphasized that the special war risks P&I cover is an excess cover only. It is not intended to be a substitute for a Member's primary P&I war risks cover, whether arranged with his hull and machinery insurer or with another insurer. A Member should effect such cover with a minimum limit of the proper value of the insured vessel. If a Member has effected P&I war risks cover in excess of the proper value of the ship, either by opting for a higher limit on his primary cover or by purchasing additional cover, the special war risks P&I cover will apply only in excess of the amounts recoverable under all of the other P&I war risks insurances.

Exclusions

The special cover is subject to the following market Chemical, Bio-chemical, Electromagnetic Weapons and Cyber Attack Clause wording:

This clause shall be paramount and shall override anything contained in this insurance inconsistent therewith:

1. *In no case shall this insurance cover loss damage liability or expense directly or indirectly caused by or contributed to by or arising from*
 - 1.1 *any chemical, bio-chemical or electromagnetic weapon.*
 - 1.2 *the use or operation, as a means for inflicting harm, of any computer virus.*

Trading areas: cesser of cover

At any time or times before, or at the commencement of, or during the currency of any policy year, the Directors may, in their discretion, determine that any ports, places, countries, zones or areas (whether of land or sea) should be excluded from the insurance provided by this special cover.

Unless otherwise provided by the Directors, the special cover will cease in respect of such ports, places, countries, zones or areas at midnight on the seventh day following the issue to Members of notice of such determination. Except to the extent that the Directors in their discretion otherwise decide, there will be no recovery under this special cover in respect of any claim howsoever arising out of any event, accident or occurrence within the said area after such date.

Automatic cancellation

Whether or not notice has been given in the circumstances described in the previous section, the special cover will terminate automatically:

- (i) upon the outbreak of war (whether there be a declaration of war or not) between any of the following countries:

United States of America, United Kingdom, France, the Russian Federation, the People's Republic of China and the insurance excludes loss, damage, liability or expense arising from such outbreak of war;

- (ii) in respect of any ship, in connection with which cover is granted hereunder, in the event of such ship being requisitioned either for title or use and the insurance excludes loss, damage, liability or expense arising from such requisition.

Notice

Notwithstanding any other term or condition of the special cover, the Directors may, in their discretion, cancel it giving seven days' notice to Members (such cancellation becoming effective on the expiry of seven days from midnight of the day on which notice of cancellation is issued by the Club) and the Directors may, at any time after the issue of notice of such cancellation, resolve to reinstate special cover pursuant to the Proviso to Rule 3.1.1. of the new Class I Rules on such terms and conditions and subject to such limit as they, in their discretion, may determine.

It is hoped that the foregoing, taken in conjunction with the earlier Circular, clarifies the position going forward. However, if any further explanation or assistance is required, the Managers will be pleased to help.

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