



**NOVEMBER 2023 EXAMINATION SESSION
THURSDAY 30th NOVEMBER 2023 – MORNING**

SHIPPING FINANCE

Time allowed – three hours

Answer any FIVE questions – all questions carry equal marks

Please read the questions carefully before answering

1. Answer **ALL** parts of the question.

A shipping company has the following sources of earnings for its vessels:

- A long term charterparty with a Middle Eastern producer for the transportation of oil to a refinery in Europe. The company took out a loan with a bank a few years ago which was secured against revenues from this charterparty.
- Earnings arising from employment of some of its vessels in the spot market.
- Earnings arising under a series of short term charterparties with shippers in diverse sectors including grain, coal, chemicals.

Discuss the extent to which, if at all, securitisation can be used to raise finance, taking into consideration the company's range of cashflows. In your answer you should discuss the requirements for cashflows to be securitised, and the characteristics of the bonds issued.

Draw a diagram and discuss the functions of all participants.

2. Answer **BOTH** parts of the question.

- a) Identify the main components in a shipping company's balance sheet to which a lender should pay particular attention when deciding whether to make a loan. In your answer you should identify weak points and where possible, how these may be reduced or managed.
- b) Discuss how a bank will approach a loan to a shipping company in the context of the bank's balance sheet. You may wish to discuss the Basel capital adequacy rules and the notion of RISK WEIGHTING. Case studies where banks have failed because of weak capital allocation to ship finance risk may also form part of your answer.

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3. A privately-owned shipowner is the cash-rich parent of several one-ship subsidiaries. It owns a minority shareholding in a general transportation company registered on the New York Stock Exchange. One of its subsidiaries, an oil tanker owner, has recently signed a fifteen-year time charterparty with a Middle Eastern state oil company. The vessel held by the subsidiary is insured but was recently arrested by a port authority for being unseaworthy. It was subsequently released but work which was ordered by the authority has not yet been commenced. The parent company now wants to expand the subsidiary's fleet to win further contracts with other state oil companies in the region, and to do this it needs to raise finance for further vessel purchases.

With full discussion of the risks to lenders, and relevant procedures, discuss the various forms of security which the company will be able to offer to potential lenders to finance the subsidiary's fleet expansion plan.

4. Answer **BOTH** parts of the questions.

You are the Marketing Director for an Islamic bank looking to develop its client base in the shipping sector.

- a) Prepare a 'marketing pitch' to a Middle Eastern-based tanker owner, explaining the principles underpinning your business, and the specific instruments which may be suitable for its line of business. You should explain the advantages the company may achieve from doing business with you compared with a non-Islamic bank.
- b) What are the jurisdictional and legal reasons why, first a non-Islamic bank and second, a privately held shipping company, may be reluctant to borrow from an Islamic bank?

5. Answer **ALL** parts of the question.

- a) Discuss the factors which you will consider when making a vessel analysis for loan security purposes.
- b) Identify but do not explain **THREE** covenants found in a typical ship finance loan agreement.
- c) Identify but do not explain the factors which will be considered when evaluating a prospective borrower.

6. Answer **BOTH** parts of the questions.

A privately held shipping company headquartered in Poland is exploring the feasibility of listing on the New York Stock Exchange. It has several long term charterparties with a local agricultural company, but most of its vessels are otherwise employed in local spot markets in Eastern Europe, including Georgia, the Baltic States, and Hungary. The shares are owned by one family, and the board is dominated by relatives of the company's founder. The company has several longstanding high interest-loans, and made a seven year bond issue five years earlier. Apart from a few recent acquisitions of newbuilds, the fleet is old, and repair and maintenance costs have been escalating.

- a) Prepare a briefing report for the founder, identifying the risks and opportunities which would need to be disclosed in a prospectus if the company implements its plan for an initial public offering on the New York Stock Exchange.
- b) Briefly discuss the legal framework (the statute or law) which applies to all such quotations, and the liabilities of officers.

7. Answer **ALL** parts of the question.

- a) Discuss the reasons why shipowners choose to hold vessels in one-ship companies.
- b) Why are lenders reluctant to make loans to a corporate group which comprises one ship companies?
- c) What changes do they usually demand before making a loan to such an organisation?
- d) Why are shareholders reluctant to invest in one ship companies?

8. Answer **BOTH** parts of the question.

You are the Chief Finance Officer to a shipping company which intends making a syndicated bond issue. The company already has a high level of debt, and most of its vessels are old.

- a) With the aid of a diagram, discuss the functions of all participants in a syndicated bond issue.
- b) Describe the factors a ratings agency will consider when assigning a rating to the bond which will be issued.

