



**NOVEMBER 2025 EXAMINATION SESSION
THURSDAY 20th NOVEMBER 2025 – 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) Explain the characteristics of convertible bonds, providing examples of variants from the traditional plain vanilla.
 - b) Given the cyclical nature of the shipping business, and the lag between it and the wider economic cycle, identify and explain the factors you would consider as an investor regarding the best time to buy or alternatively to sell a convertible bond issued by a publicly quoted shipowner.
 - c) Identify but do not explain the advantages and disadvantages of convertibles, and the risks they present, to issuers and investors when compared to plain vanilla bonds.

2. Describe the information provided by **EACH** of the following organisations, and its relevance to a financial institution's decision whether or not to make a loan to a shipowner:
 - i. Marine insurance companies
 - ii. Classification societies
 - iii. Port state authorities
 - iv. International Transport Workers Federation

3. To what extent, if at all, is the debt-equity ratio in the capital structure of a publicly quoted shipping company 'irrelevant' across the phases of the shipping cycle?

PLEASE TURN OVER.

4. Answer **BOTH** parts of the question.
- a) 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. With the aid of a **diagram**, discuss the functions of all participants in a syndicated bond issue.
 - b) Describe the typical factors a ratings agency will consider when assigning a rating to the bond which will be issued
5. A general shipping company listed on the New York Stock Exchange owns several bulk cargo carriers. In recent years the trading environment has been difficult, with falling asset values and low freight rates: the company has struggled to meet its operational expenses. The Chief Executive Officer (CEO) wants to expand the business but, since it is already highly indebted, hopes to raise finance through equity instead. Within the next year they anticipate that the company will be awarded a lucrative charterparty by an international commodities conglomerate, and this will significantly increase the overall profitability of the business.

The market also anticipates rising freight rates after a further short period of recession. The CEO has considerable private wealth which they are willing to invest in the business. they ask you, as Chief Finance Officer, to prepare a briefing report setting out the equity financing options which may be available to the company. They have also informed you that they would like to keep the company's winning of the charterparty 'secret': they are reluctant by nature to allow 'outsiders' to ask questions about the company's future business strategy or year-on-year performance.

In your report you may wish to discuss, but without being restricted to, the issues of owner equity, rules governing public equity (particularly bearing in mind the owner's personal nature), and the types of shares which could be issued, bearing in mind the future prospects for both the company and the wider market in which it operates.

As an alternative to raising equity through a public listing, discuss the feasibility, advantages and disadvantages of pursuing a private placement.

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

- a) Discuss the characteristics of a legal mortgage and an equitable mortgage, and the implications of the difference following a shipowner's insolvency which has raised debt from different banks, secured by both types.
- b) Explain the purposes of **FOUR** covenants in a typical ship mortgage.
- c) Discuss the main differences between an action in personam and an action in rem in terms of right of arrest of a vessel in respect of a loan on which there has been a default.

7. Answer **BOTH** 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 charterers in diverse sectors including grain, coal, chemicals.

- a) 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, identifying the functions of all participants.
- b) Identify the ways in which the basis point spread on a bond issued by a shipping company which is owned by a cash-rich parent and which itself in turn owns shares in several subsidiaries, can be narrowed or reduced. In this context you should also explain how a sinking fund is funded and administered.

8. Describe the characteristics of **FOUR** of the following types of loans, briefly explaining the **risks** unique to each of them and the typical **covenants** which will be required by lenders before making any of them available to a borrower. Your answers should relate the relevance of each type of loan to the specific phases of the shipping cycle.

- i. Back-ended loan
- ii. Moratorium loan
- iii. Front ended loan
- iv. Bullet loan
- v. Revolving credit facility.
- vi. Covenants