



INSTITUTE OF
CHARTERED
SHIPBROKERS

MAY 2025 EXAMINATION SESSION
TUESDAY 20TH MAY 2025 – AFTERNOON

SHIPPING FINANCE

Time allowed – three hours

Answer any FIVE questions – all questions carry equal marks

Please read the questions carefully before answering

1. Discuss the type of loan or loans which may be suitable, the typical covenants, and the risks to lenders, in ALL of the following situations. You should also briefly mention how provision of each type of loan will affect a bank's capital adequacy ratio in terms of the Basel Committee's risk weighting requirements.
 - i. A shipowner is trading in a market which is in recession. Asset values are low and revenues barely sufficient to meet operating expenses, but a short-term improvement is expected.
 - ii. A shipowner is trading in a market which has reached its peak, but it is expected that revenues will start to decline in the short term as the market cools and moves into a recession.
 - iii. A shipowner already has a high level of debt but, due to a downturn in the market, is now no longer able to meet loan repayments. Asset values on which loans have been secured have declined significantly, triggering loan to value covenants.
2. Discuss the ways in which the balance sheet of a ship owning group comprising multiple one ship subsidiaries can be manipulated to present a favourable image to potential investors. You should also consider the extent to which leasing may be used in such manipulation.

PLEASE TURN OVER

3. "Ethics, morality, and stewardship of the natural environment are concepts which are not compatible with the traditional notion of a shipowning company as a profit and shareholder wealth maximising enterprise". Discuss.
4. Answer ALL parts of the question.
 - a) Explain the factors which are considered by a shipowner borrower when deciding between competing financial institutions as to which one of them it will award a mandate to lead-manage a syndicated bond issue.
 - b) Identify the usual costs to a borrower when raising finance through a syndicated bond issue.
 - c) Outline but do not explain **FOUR** typical covenants included in a syndicated loan arrangement.
 - d) Provide a diagram of a typical syndicated bond issue.
5. A general shipping company which is publicly listed on the New York Stock Exchange owns several bulk cargo carriers. In recent years the trading environment has been in recession, with low freight rates: the company has been struggling to meet operational expenses and has defaulted on some payments on its outstanding debts. The Chief Executive Officer (CEO) intends expanding the fleet but, since it is already highly indebted, wants to raise finance through equity instead. Within the next year he anticipates that he will be awarded a lucrative charterparty of three years duration by a commodities company, and this will significantly increase the overall profitability of the business. The market also anticipates rising freight rates after a further three-year period of retrenchment and market pessimism. The owner has considerable private wealth which he is willing to invest in the business to help it expand, at least in the short term following which he will want repayment. He asks you, as Chief Finance Officer, to prepare a briefing report setting out the equity financing options which may be available to him personally, and also to the company. He has informed you that he would like to keep the charterparty with the commodities company 'secret', and that he is also reluctant by nature to allow shareholders, or 'outsiders' as he calls them, 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, private equity, rules governing public equity (particularly bearing in mind the CEO's secretive nature), and the types of shares which could be issued, bearing in mind the future prospects for the company and the wider market in which it operates. You should also consider the advantages and disadvantages of the company raising equity through a private placement.

6. A UK-based oil carrier owner has a series of medium term charterparties with several producers in the Middle East. It also trades some of its vessels in the spot market: these earnings are volatile but can be considerable during boom periods. The company has previously taken out a bank loan which is secured against one of several medium term charterparties, and one of its vessels is subject to a mortgage. The company owns shares in a publicly quoted bunkers company which are of considerable value. It also owns all the shares in a separate one-ship company which has significant cash reserves.

The company needs to raise capital for expansion of the fleet, and as the Chief Finance Officer, the Chief Executive Officer has asked you to prepare a report discussing the suitability of **securitisation** as a technique for raising the cash needed. In your report you should discuss the following issues:

- i. Requirements of cashflows before they can be securitised, and which of the company's cash flows can be used for this.
- ii. The methods by which the basis point spread of the bonds which will be issued can be reduced, bearing in mind the assets held by the company.
- iii. The legal status and location of the special purpose vehicle, bearing in mind that as a UK-based company, any bond payments may be subject to withholding tax.
- iv. The nature of the bonds which would be issued under the arrangement, and the benchmark to which the coupon could be referenced.
- v. How a sinking fund may be established and funded to meet principal repayments on maturity.

The CEO has requested a diagram to be included in your report.

PLEASE TURN OVER

7. Answer ALL parts of the question.

a) Explain the main principles applicable to Islamic finance.

b) Describe the characteristics of ALL the following forms of Islamic finance:

- i. Ijara Leasing.
- ii. Mudarabah.
- iii. Musharaka.

c) Outline but do not explain the main advantages and disadvantages of Islamic Finance in shipping compared to traditional finance.

8. A private (not publicly quoted) owner of a small fleet of aging bulk carriers is the cash-rich parent of several one-ship subsidiaries. It also owns a minority shareholding in an oil carrier owner registered on the New York Stock Exchange. One of its subsidiaries has recently signed a ten-year time charterparty with a large grain house. The vessel held by the subsidiary is insured but mechanical defects and breakdowns were not disclosed to the broker prior to its recent renewal. The parent company now wants to expand the subsidiary's fleet, 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 forms of security which the company will be able to offer to potential lenders to finance the subsidiary's fleet expansion plan.