

# STRUCTURED FINANCE DEAL OF THE YEAR: NSCSA

**B**NP Paribas has been constantly reaffirming its commitment to shipping over the past years, and not just in terms of volume. The bank has been at the forefront designing unique structures to cater to the unique needs of their clients worldwide. And while last year it was BNP's work for conational CMA-CGM, this year the bank has garnered two awards for working with Middle Eastern companies proving its capability to perform across cultural barriers.

Earning BNP this year's Structured Finance Deal of the Year Award is a \$438 million syndicated Islamic shipping facility arranged in June 2007 for the National Shipping Company of Saudi Arabia (NSCSA) to finance the acquisition of six VLCC newbuildings under construction at a Hyundai shipyard to be delivered in 2008

and 2009. While we always enjoy insight into the structuring of Shariah-compliant shipping facilities, this one was particularly fascinating in that it involved the creation of a unique structure in order to meet both NSCSA's wish for Islamic financing and the wish of the three investors in the project to avoid incurring any direct maritime liability.

The facility complies with Shariah law through the concept of Commodity-Murabaha. Under this structure the investors purchase commodities, in this case traded on the London Stock Exchange market, from brokers and sell them to NSCSA on a deferred payment basis to allow NSCSA to finance the cost of its newbuilding acquisitions through the reselling of the commodities to brokers. This complies with the law of Islam

because the investors take title to the asset, which in this case is the commodities, by purchasing them on the LSE market even if they instantaneously resell the asset at the same price to NSCSA.

For their part, rather than owning the vessels the investors own the commodities, while NSCSA retains ownership of the vessels. The investors do however benefit from first priority mortgages over the vessels. The facility is granted by the investors, as sellers of the commodities, directly to NSCSA, as purchaser of the commodities, and is split into six tranches corresponding to each financed vessel.

This transaction constitutes the first syndicated Islamic shipping facility in the Kingdom of Saudi Arabia, and it differs from straight Murabaha

financing. It is tied to the drawdown schedule for the six VLCC newbuildings, with an innovative mechanism that consolidates the drawdown amounts under the facility. The structure allows investors to avoid maritime liability while benefiting from first priority mortgages as if it were a classic ship mortgaging facility.

We applaud BNP Paribas' creative approach in a non-traditional arena and hope the transaction serves to encourage other secular banks to be more active in the Islamic finance market. The Shariah finance segment is a strong growth sector, with sukuk issuance up by 73% to \$47.1 billion in 2007. Activities tend to be focused in the Middle East and in Malaysia, both areas of great importance to the shipping industry.



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