



INSTITUTE OF
CHARTERED
SHIPBROKERS

MAY 2023 EXAMINATION SESSION
THURSDAY 18th MAY 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) Explain the differences between senior debt and mezzanine financing from the perspectives of lenders and shipowners. Advantages and disadvantages of each form of financing should be discussed.
 - b) Describe the characteristics of the following types of loan, relating the suitability of each to the different phases of the shipping cycle:
 - i. Back ended loan
 - ii. Moratorium loan
 - iii. Bullet repayment loan
 - c) Identify **FOUR** covenants which are included in a standard loan to a shipowner intending to expand a fleet with new tonnage.
2. Explain the main forms of security, other than a mortgage, which may be taken by a bank from a shipowning company in its corporate capacity, and its owners in their personal capacities, in respect of a loan to the business. In the case of each, discuss the applicable procedure, and the risks to lenders and the continuing obligations, if any, of the borrower.
3. Answer **BOTH** parts of the questions.
 - a) Briefly explain the factors considered by a lender when appraising a second-hand vessel for its suitability as collateral for a loan.
 - b) Identify the issues which a lender will take into account when appraising a new customer's suitability for a loan to purchase a vessel to be traded in a niche shipping sector (such as chemicals, dangerous substances).

PLEASE TURN OVER

4. Answer **BOTH** parts of the question.
- a) Describe the characteristics of a typical convertible bond and explain why it may be suitable for a cyclically driven sector such as shipping.
 - b) Discuss the advantages and disadvantages of convertible bonds for both issuers and investors.
5. The Chief Executive Officer (CEO) of a general shipping company is looking to raise fresh capital via an issue of shares but is concerned about the possible reaction of prospective and existing shareholders. Share prices across the sector have declined in recent months, but the general view is that these should improve within the year. The CEO is also confident that a series of new charterparties will result in an increase in profits over the next five years, enabling a significant increase in dividend payments to shareholders. The CEO has asked you, as the Chief Finance Officer (CFO), to advise on an equity-raising strategy for the company. The CEO is interested in the types of shares he could offer to existing investors, bearing in mind anticipated changes in general market conditions as well as the company's short-term trading performance. He asks you to explain the factors, positive and negative, which should be included in a marketing strategy for a series of 'road shows' for institutional investors.

Prepare a briefing report to the CEO, addressing his objectives and concerns. Explain whether he should consider listing the company's shares on several international stock exchanges.

6. Answer **BOTH** parts of the question.
- a) Which factors are considered by a borrower when deciding which of several competing banks should be awarded the mandate to lead a syndicated issue?
 - b) Identify the principal participants in a syndicated loan, and the functions of each. Use a diagram to support your answer.
7. With reference to guiding principles, discuss **THREE** specific instruments found in Islamic finance which may be suitable for the shipping sector.
8. Critically evaluate **ONE** of the following statements.
- i. 'A shipowner which maintains a rigid capital structure will never be prepared at the peak and trough of the shipping cycle'.
 - ii. 'As Loan Evaluation Officer at a niche ship finance bank, I rarely look at a prospective borrower's balance sheet: it is open to creative accounting and deliberate lack of transparency through the use of one-ship-companies, depreciation policy, and off-balance sheet (leasing) transactions.'