

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL FOUR

INTEGRATION OF KNOWLEDGE – PAPER 16

COMPREHENSIVE CASE STUDY

MORNING SESSION MATERIAL

THURSDAY, 18 JUNE 2009

INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **6 hours**.
9.00 a.m. – 11.30 a.m. (2 hours 30 minutes): Planning.
11.30 a.m. – 12.30 noon. (1 hour): Break.
12.30 noon – 4.00 p.m. (3 hours 30 minutes): Writing.
2. The following pages contain case study material.
3. The case study questions are contained in a separate paper marked Afternoon Session Material.
4. The completed answers and any working papers, clearly labelled working papers must be handed in at the end of the afternoon session. Where working papers form part of your answer, ensure that they are appropriately cross-referenced.
5. It is in your interest that you hand in all written material prepared during the examination.
6. Tables are provided on page 17 - 18.
7. Please read further instructions on the answer book.

ROYAL CROWN BANK LTD

Royal Crown Bank Ltd (RCB) is a commercial bank, incorporated and operating in Zamunda Republic (ZR) since July 1997. The Bank has a network of 18 fully-fledged branches, and over 10 sub-branches, and employs over 470 permanent employees. The bank has been listed on the Zamunda Securities Exchange (ZSE) for the last five years, and is the third largest among the listed financial institutions, with market capitalization standing at Zamunda Rupees (ZRu) 349.9 billion at the recent trading on the TSE on 10 June, 2009. Over this period the bank has enjoyed an above average price earnings ratio (PER), in part due to its dynamic and focused leadership, and partly because the bank is perceived to be responsive to the needs of the communities in which it operates.

RCB is also well known in the financial services sector circles for its moderate appetite for risk, alongside vigorous risk management systems. This combination has allowed the bank's management to introduce varied demand-driven and non-traditional banking services/products, which have further endeared the bank to the communities, and helped the bank to sustain high growth rates over the years. The bank, however, failed to meet its profitability targets for the financial year ended 31 March 2009, a factor that has left many market analysts wondering what could have gone wrong. Extracts from the bank's financial statements for the last three years have been attached as **Appendix 1**.

RCB has also experienced different issues with different stakeholders of recent, from within and without. The bank is experiencing challenges from the general financial, economic and political environment prevailing in the country, and the impact although not yet quantified, seems to be potentially significant. There is also some discomfort within the management team about the direction the bank is taking. Some stakeholders are of about the issues surrounding the bank's operations and have already initiated measures to address them, but others have not. Some of the key issues are documented in the paragraphs that follow.

THE EXTERNAL ENVIRONMENT

The Economy

The Zamunda Republic where RCB is domiciled is a land-locked emerging economy, and has only had a stable government over the last 6 years. The country is trying to increase the rate of economic growth from the current average of 4.2% to at least 8% in the next 5 years. Some political leaders have always trumpeted the increasing foreign aid-supported developments as evidence of the 'strength and robustness' of the country's economy, and suggest that the growth rate is enough. In a recent development, the ZR's geographical neighbours recently refused it entry into a regional economic block, claiming that

her economic and political instability could destabilize theirs too! Again, not all politicians consider this development as a big issue, and suggest that “government business will continue anyway”. But key technocrats in the key sectors maintain that “regional cooperation in trade is no longer an option for Zamunda, but a means of survival”.

The country's Minister for Planning, Hon Jean Kikuvi (MP), has indicated she will ignore their neighbours bad gesture, and the government shall be able to achieve the targeted growth rate figures in the next 5 years. One of her strategies remains attraction of up to 400 million US dollars (USD) in foreign direct investment (FDI) and budget support per annum, which she believes shall significantly boost infrastructure development, the much needed industrialization, and the subsequent creation of employment opportunities. She suggests that a significant part of these resources will go to the development of the country's tourism industry.

The minister also believes a lot has to be done in “further stabilizing the country's macro-economic factors”. She has isolated interest rates as key among the factors her colleague in the ministry of finance should initially target and sort out. The treasury-bills interest rates are in the range of 15.5% and 21% for the 91-day and 364-day respectively. There is information, however, that some technocrats in the finance ministry do not support her idea of government's involvement in ‘fixing interest rates’ or even being bothered about the rates, their main argument being that Zamunda is purely a free market economy.

In the meantime, cabinet has directed the minister to keep them up-to-date on consumer spending which has recently been dampened by talk of an imminent global recession. The cabinet explained, “... because consumer spending accounts for more than 75% of economic activity in Zamunda. We shall also keep our eyes on the growth prospects of the housing market, because it affects nearly the entire economy, from the construction industry to the sale of appliances and furniture, and as you are aware, housing was at the root of the global financial crisis”.

The Ailing Financial Services Sector

Government considers the financial services sector's growth as one of the influential factors behind economic development in ZR. However, of all the sectors in the Zamunda economy, the financial services sector and more particularly the banking industry has been facing significant declining profitability over the last two years. Some analysts attribute the trend to the biting global financial crisis, but others attribute it to poor innovation and the increasing risk-averseness of major banks in the country.

In the quarter to 31 March 2009, at least two banks reported profits for the quarter after close to five quarters of continuous losses. Financial analysts, however, quickly reported that the two banks had used creative accounting to help them return to profitability. In one of the leading financial magazines, one analyst was quoted as having said, in reference to the two banks' profits, that "it is junk income. They are making more money from being in a lousy credit rating regime than from providing loans to good credits". He described the accounting policies adopted as 'great whitewash', but without explaining the policies.

The minister for finance of ZR, who had initially used the reported profits of the two major banks as evidence of the country's "total insulation" from the effects of what he described as the 'western world's self-created financial crisis', was rather concerned about the talk of creative accounting. He has ordered for an investigation into the reports, and tasked the investigations commission to specifically establish what the two banks could have done either illegally or legally that could have inflated the reported profits. He hopes to use the report to clear the air and avoid embarrassments in future.

Government's Views on the Financial Services Sector

The Zamunda government officials quoting cabinet sources, recently hinted at a quasi-nationalization of the major banks in the country, a measure they suggest will only be temporary until the financial services sector is stable again. The few but influential left-wing cabinet members say government control will provide a better shield to the economy than complete reliance on market mechanisms. To them, the government should have a hand in controlling excesses in the banking sector, where executives are said to reward themselves heftily regardless of the financial results. They are concerned that financial institutions are overburdened with millions of losses, but remuneration levels to their executives remain static. They also cite examples of what happened prior to the current global economic crisis.

The nationalization move seems to be part of wider-stretching strategies, aimed at creating government's capacity to set and implement an upper limit to the remuneration of executives in the private sector, much as other government bodies are pushing for the setting of a minimum wage and also introduce unemployment benefits open to the general population. Savings generated from the 'efficient control' of the financial services sector should be channeled to the provision of the unemployment benefits. Coupled with other strategic initiatives, the government will achieve a more equitable distribution of resources than is currently the case. "This will require tough decisions, but I am convinced that they will be fair decisions", concludes a white paper presented by the minister for planning.

Many stakeholders in the financial services sector, however, think that the government is over-reacting and misdirecting their efforts. On his part, the chairperson of the Zamunda Capital Markets Authority (ZCMA) is confident that recovery is at hand. He said recently,...“even in the wake of this financial turmoil with share prices dropping, and the ZSE share-price index dropping by over 40% over the last one year, we are still very positive”. He has indicated that with the government's focus on investment and proper management of economic variables that influence foreign exchange and interest rates, the sky shall be the limit for the return to profitability by the financial services sector. “We do not need these socialistic tendencies and drastic actions at this time”, he said. While waving a copy of the *ZSE Trading Report*, an extract of which is attached as **Appendix 2**, the chairperson emphasized that, ““Success is never final. Failure is never fatal. Courage is what counts”¹, and this courage we have!”

The Opposition's View of the Economy

The government has been regularly reminded by the opposition that, “the claimed strength and robustness does not reconcile with the consistent depreciation of the rupee; declining export volumes and revenues; declining tourism revenues; FDI below initial targets and expectations; and the ever-increasing inflation rate”. They also cite the increase in the cost of living in the country, and lack of effective government programs to exploit the agricultural potential in the country, as major weaknesses of the government. The opposition activists claim, “these factors have affected the growth in all sectors in the economy, and any robustness and growth only exists in the minds of the government or those few benefiting from its patronage”.

Admittedly, government's internal revenue collections are increasing at a dismal 2% per annum, which is far below the GDP growth rate the ruling party politicians are always talking about. In any case, the said gross domestic product (GDP) growth rate is also not impressive given the experience of the neighbouring economies. The level of interest rates has also stifled any meaningful economic activities, and the government is clearly not doing anything to encourage more domestic savings. They also cite the planned 300% growth in Zamunda's domestic debt over the next three years, as ‘the last nail in the coffin’ of hopes of meaningful economic growth in Zamunda.

It is claimed that it was the announcement about the public debt projections that made the rupee fall against major currencies in the region by over 35% in the last three months. But ever since the onset of the global financial crisis a couple

¹ He was quoting the words of Sir Winston Churchill.

of months ago, the rupee has fluctuated between ZRu 230 to 290 /1 USD. The USA remains the biggest trading partner of ZR by far, with imports amounting to over USD 191.2 million a year. The exchange rate fluctuation has had a significant negative effect on the country's trade results, affecting both the imports and the exports, and therefore the ZR balance of payments.

"We still believe the Zamunda Reserve Bank should be able to fix these exchange rate fluctuations with ease if they have the will, otherwise our business people will be thrown off the bar sooner than later", opposition economists conclude.

Other Three Dangers Facing the Economy:

Corruption in the Public Sector

The Zamunda local press is frequently full of news that show the corruption vice has reached all sections of society; it is feared that it could reverse the development gains made in recent years if not stemmed out soon. It is currently estimated that the government and public enterprises lose a minimum of ZRu 16 billion in shoddy contracts annually.

Outbreak of a Deadly Contagious Disease Similar To Swine Flu

It was recently reported in the local press that a recent cabinet meeting was briefed on the dangers that an outbreak of the infectious swine flu in Mexico posed to the Zamunda economy. This was even more important given the new stance to do more trade with the Americas, following rejection by regional neighbours. In his address to cabinet, the minister for planning said, "... the economy faces yet another huge challenge in the form of this flu that has quickly spread to other countries, with high potential to disrupt trade and investment. The risk here is if swine flu becomes more lethal than SARS², the impact could be prolonged and more profound". The minister was justifying the planned diversion of up to ZRu 1.2 billion to sensitize the public and more especially business people on the disease preparedness and restocking of drugs.

Economic Management and Benefits from Foreign Direct Investment

Still angered by the regional economic body's refusal to admit ZR, the minister for planning consoled her colleagues saying that in the long-run, '... their action hurts them more than it hurts us, because they could miss our big and growing market. Our country consumes between 10 to 15% of the exports of each of the

² SARS refers to the severe acute respiratory syndrome that broke out in 2003 and killed hundreds, halted travel, and sent economies reeling.

four countries in the economic block. She says, “all we have to do is to improve our economic management, our investment climate, attract more private capital flows, and further streamline our governance. We shall in the process be able to retain as much funds as possible in this country and get maximum benefits from all these multinationals associated with the FDIs”.

She said; “actually we are beginning to notice that economic benefits of foreign investments may not reach the people it is intended to, unless mitigating measures are put in place at the time of investments. Of course our citizens must significantly sacrifice and increase their saving rates, and be more active participants than spectators in the capital formation of this country. Our fairly efficient capital markets should enable this process. We have observed that most jobs seem to be going to foreigners, and our department responsible for migration seems unable to contain the inflow of illegal migrants. We are not going to allow citizens to take a back seat as foreigners take charge of the economy”.

The minister was, however, frequently interrupted by a colleague kept reminding her that Zamunda pursues a free economy strategy, and factors of production are allowed to flow with little or no government intervention.

Strategic Government Programs and Their Funding

Making Zamunda a Regional Trade Hub

The minister for trade has in the meantime instructed his personal assistant to document alternative sources of finance that his ministry could utilize to raise money to finance a conference aimed at brainstorming on the key five pillars of making Zamunda a “regional trade hub”. The initial documents about the proposed 3-day conference indicate that it could attract at least 1,200 high-profile local and international participants, and should cost no more than ZRu 500 million.

The minister has ‘borrowed’ some monies from within the ministry, to start mobilization of participants, and has invited press for a presentation at the conference. It has also been concluded that in future such strategic activities should be included in the ministry’s budget due to the increased strategic importance of the Ministry of Trade.

Tackling Climate Change

The minister for planning has also started lobbying his colleagues regarding strategic initiatives on tackling climate change and its effects. He has always said “climate change is here; it is real and has to be dealt with urgently”. Quoting a

recent report released by the Global Humanitarian Forum, the minister said; “climate change is responsible for the deaths of 300,000 people every year and costs USD 125 billion a year. It has also been established that it is the 325 million people of the poorest who suffer most. Whereas the developing countries account for 99% of the climate change casualties, they contribute less than 1% of the carbon emissions”.

The minister’s message is; ...“we need to play our part in combating global climate change – because the alternative is mass starvation, mass migration, mass sickness and mass death”. He also used the words: ‘do what you can, with what you have, where you are’³, as he is aware that a country like his can hardly make a significant impact on what they contribute least to. He is, however, yet to come up with the steps that he thinks government should take to contribute to what some activists have termed ‘the greatest emerging humanitarian challenge of our time’.

Likely Priorities in the 2009/10 Budget

With the budget day coming in the next two weeks, the public is keen to hear what the government will do differently in the coming year to put the economy back on track. The key focus is on how external negative pressures to the economy and the downturn the key sectors are experiencing are to be tamed. Many professional bodies and private sector associations have made suggestions to the National Budget Committee, but many have been told their submissions were self-centred, and many have indeed been rejected.

The local media is full of debate on the likely key budget policies, and one of the many articles in the local media is attached as **Appendix 3**. The previous budgets were full of statements reflecting the numerous benefits expected from trade with regional neighbours, but the coming one is expected to shift from this talk. A lobby group is expected to be financed in the coming budget that will re-open the issue of economic cooperation with regional governments.

THE INTERNAL ENVIRONMENT

External Auditors

The external auditors of RCB, Kili & Kili Auditors, recently issued their audit report on the financial statements of the bank. They have been auditors of RCB for the last eight years, and are perceived to be very knowledgeable on the affairs of the bank. This experience has actually enabled the firm to quote very

³ Quoting Theodore Roosevelt’s words

reasonable fees for any other additional consultancy services that the bank has required them to do from time to time over their tenure as external auditors. This has endeared the firm to management and the board who see the arrangement as an avenue for cost and time savings. Kili & Kili Auditors have also offered themselves for re-appointment at the bank's coming annual general meeting (AGM).

The auditors' report was, however, delayed by over a week after the statutory deadline for submission to the Zamunda Reserve Bank, who immediately slapped a ZRu 1 million fine on RCB for non-compliance. The cause of the delay was a discovery of an unsupported petty-cash payment that the audit manager responsible for the job had discovered in the final week of the audit, but for which the finance director seemed dodgy in providing additional documentation and explanations. The issue had dragged in the director of operations at RCB, who has also been a long-time friend of the engagement partner, and they also go to the same golf club.

Kili & Kili Auditors are, however, embroiled in another case with a local flower exporting firm, which is currently under liquidation, Zamunda Floweriest Ltd, also a debtor to RCB. The liquidators have sued the external auditor for what they claim was a misleading or at least an inappropriate audit opinion. The details of the case have only been seen in the local print media, with the key allegations being that the firm allowed the borrower to use inappropriate accounting, and consequently understated provisions (for impairment of assets) needed to cover bad debts. The article, "*Kili & Kili Auditors sued for ZRu 1.2 billion*" has left the board and management equally puzzled.

Outsourcing of Services

A recently undertaken exercise of job evaluation and performance enhancement recommended that most of the bank's services be outsourced. The aim is to improve operating efficiency and effectiveness in service delivery. At the time of the recommendation, the consultants estimated that the associated cost savings would amount to 14% of the current total operating costs. Management are, however, of the view that the consultants ignored the confidentiality risk factor associated with the financial services sector when making their recommendation.

Foreign Exchange Commitments and Risk Management

In response to increased demand for medium term finance, the bank recently borrowed US\$ 20 billion from a strategic partner in Uganda. The lender is a regulated financial institution in the East African Community. The reference rate on the loan is the Zamunda inter-bank offer rate (ZILOR) plus 250 basis points as a risk premium over its 8-year loan period. Management of RCB are currently concerned that the finance department did not implement any hedging mechanisms for the risks associated with this loan.

Potential to Expand beyond the Country's Borders

Over the past two years, the Zamunda economy witnessed an increased presence of multinational and regional banks. The board of directors of RCB has discussed a paper to the effect that RCB should also increase its presence on the continent, focusing initially on opening up at least one branch in the capital cities of each of the neighbouring countries. The proponents of this idea argue that the move would help RCB diversify from the increasingly over-banked Zamunda economy, promote its public image, and also gain from the more stable and growing economies of the neighbouring countries. This expansion issue seems not to be getting anywhere to a conclusion, and no feasibility study reports have been given to stakeholders.

Focus on Variance Analyses and Need for New Technical Staff

Other senior managers are complaining that they are not being given sufficient detail on the nature and causes of variances regarding their various operating units. The head of budgets is, however, not addressing this issue, and instead is seeking a promotion, given that he has not got a promotion in 3 years. He feels his performance has been up to standard. He blames colleagues in management for his fate, saying they have clashed on social issues outside office, and that they are making him pay for "his prowess in social life". But on their part, senior managers insist he must merit a promotion before it can be given. They have frequently said; "you cannot just expect promotions on mere passage of time".

The remunerations committee has, however, recommended that his issues be given attention, noting that “a mind troubled by doubt cannot focus on the course to victory” (Arthur Golden); and yet planning and budgeting are more crucial at this time. They also recommended that a management accountant be recruited to boost the operations of the budget section. They have given the head of budgets two weeks to conclude this task, as any further delays could mean the department fails to deliver on their expected outputs.

Relationship with the Community

Management at RCB has always desired the bank to be and appear to be a community-caring bank. They actually always call press conferences even for a small contribution of say ZRu 100,000 to a heart patient’s treatment. On the other hand, many directors say the bank is running a very expensive corporate social responsibility programme – but they admit, it remains a necessary evil. One of the non-executive directors believes money spent on such publicity events is a waste of resources. She often quotes the Bible Mathew 6:3 that says; “but when you give to the needy, do not let your left hand know what your right hand is doing”. She reasons that in the worst circumstances, the cost of putting the event in the local newspapers should be added to the donation.

The head of community liaison, however, does not want even to hear the director’s reasoning. Her argument is that RCB is not a human being to be governed by the Bible principles and, as an artificial person, does not need any blessings that come with being less boastful.

The Planned Annual General Meeting (AGM)

Shareholders of RCB have remained concerned about the manner in which the bank’s affairs are handled, and are furious that the Board is not acting in good faith and professionally, and that decision-making appears not to be well-informed. Their consolation is that they shall soon have an opportunity to air their views at the bank’s AGM planned for 26 June 2009. The AGM is expected to be as explosive an encounter as has not been seen in AGMs of listed companies before. What seems to fuel the anger is that the bank’s share prices have been at unprecedented low levels over the last 2 years. In spite of all this poor share performance, management has continued to pay themselves hefty bonuses and refused the coming in of a core investor to boost their capital levels.

Another cause of anger is that the board chairperson, who recently approved some direct investors into RCB, effectively blocking pre-emptive rights that have governed the shareholders since the listing of the bank 5 years ago. The chairperson has since said that he believed he acted in the best interests of the shareholders, and that had he not acted fast and raised that investment, the

bank may have faced irreparable damage. Actually, some institutional shareholders are happy with the chairperson's action, and believe that after that investment, RCB shall pay even higher dividends in the future.

The board has recommended approval of a ZRu 4.9 dividend per share for the year ended 31 March 2009 (year 2008: ZRu 5.7). In the chairperson's remarks, he indicated that their strength was partly a robust pricing system that enables the bank recover all costs and appropriate margins at all times. He also indicates that their bank was fully insulated 'from the fangs of the global financial crisis', as evidenced by the bank's continued payment of dividends – 'when others have suspended this much deserved reward to shareholders'.

Planned Sale of Ordinary Shares

RCB is also presenting to the AGM a proposal already approved by the board of directors to allow the issue of 3,500,000 million shares and use part of the proceeds to pay off debt and the balance for general corporate purposes. The debt constitutes corporate bonds trading at a bank loan at Zamunda inter-bank offer rate plus 5.5% from a development bank. The bank has also taken on underwriters for the planned share issue, and trading is expected to start on 1 July 2009.

The chairperson of the board of directors of RCB (who was recently elected on a three-year term) is confident the issue shall be highly successful, and is expected to issue a statement at the AGM saying; "the equity offering is another example of the fast, decisive action we are taking as we build momentum for the five years ahead, including further progress in improving our statement of financial position (balance sheet)".

Some members of the board, however, remain opposed to the planned issue. They are concerned that the planned application of the proceeds is not strategic enough to positively influence the company's share price, and this would negatively undermine the whole essence of and purpose of the issue.

Planned Introduction of Agricultural Loans

The bank has not advanced any funds to the agricultural sector in the past, for fear of 'the glaring risks in the sector, and no practical risk mitigation mechanisms', and the fact that the government itself does not consider it as a first priority sector. The product development group of the bank is, however, reconsidering that loan product, but they are yet to agree on any attributes of the product.

The proponents of the loan product argue that given the changing trade dynamics between the first world and the third world, the changing prices of food stuffs, and the increased use of chemicals in the farming systems in the more developed countries, agriculture shall emerge as a strategic sector in this tropical country. With the limited commercial farming in the country, they believe the potential for growth is enormous. They have also cited the changing government's focus, as evidenced by the recent announcement about guaranteeing agricultural loans that appeared in the *Zamunda Times* recently. They conclude that the bank needs to have developed an edge before everybody sets foot into it, given the fact that RCB "is always a leader, not a follower".

Those opposing the product have even stronger views and reservations on the sector and its prospects. They argue that assessing agricultural borrowers is very problematic because eligibility issues are either complicated or limited. They further contend that with the ever increasing scarcity of funds for lending, RCB should not take on unnecessary risk, and the bank should focus on supporting 'financially stable and viable enterprises' and leave this kind of risk taking to government agencies. They say that from research, many commercial banks in the region suffered from partnerships with government while intervening in the sector, leading to their near collapse. Their conclusion: "leave the agricultural interventions to development banks".

The tentatively agreed upon position of the product development committee is that a survey/research should be conducted into the viability of such a loan product. The finalization of the agricultural loan attributes, its product-testing and eventual launch shall depend on the results and recommendations of the research.

Appendix 1: Extracts from financial statements of Royal Crown Bank Ltd**Consolidated Statement of Comprehensive Income**

	2007	2008	2009	Budget 2009
	ZRu'000	ZRu'000	ZRu'000	ZRu'000
Interest:				
Interest income	61,429	82,635	92,128	95,887
Interest expense	(12,560)	(16,889)	(23,598)	(19,672)
Net interest income	48,869	65,746	68,530	76,215
Net fees and commission income	16,856	22,063	26,248	29,262
Other operating income	12,716	12,716	19,212	19,212
Operating income	78,441	100,525	113,990	124,689
Operating expenses	(45,120)	(54,894)	(114,166)	(89,670)
Impairment losses: loans & advances	(15,534)	(26,750)	(14,899)	(9,855)
Profit/loss before income tax	17,787	18,881	(15,075)	25,164
Income tax (expense) / refund	(5,612)	(4,653)	2,953	(6,483)
Profit after tax	12,175	14,228	(12,122)	18,681

**Consolidated Statement of
Financial Position**

	2007	2008	2009	Forecast 2009
	ZRu'000	ZRu'000	ZRu'000	ZRu'000
Assets:				
Cash and balances with Zamunda Reserve Bank	66,082	58,736	114,582	93,977
Amounts due from group companies	47,027	66,027	91,807	89,200
Investment securities	75,501	93,905	113,215	117,168
Loans and advances to customers	357,112	412,998	535,375	508,580
Tax recoverable	2,090	500	5,643	-
Property, plant and equipment	64,301	62,346	67,836	69,500
Intangibles	41,802	46,302	42,350	45,300
Interest receivable and other assets	8,379	9,839	11,299	13,839
Total assets	662,294	750,653	982,107	937,564
Liabilities:				
Customer deposits	450,997	523,871	635,812	645,980
Balances due to banking institutions	56,690	58,433	56,440	50,400
Loans due to Zamunda Reserve Bank	12,000	13,500	85,908	17,500
Other long-term debt	8,800	10,200	27,950	34,000
Interest payable and other liabilities	10,650	10,412	12,341	11,405
Total liabilities	539,137	616,416	818,451	759,285
Shareholders' equity:				
Ordinary share capital	54,300	54,300	75,600	85,000
Preference share capital	12,500	12,500	34,500	12,500
Revaluation reserve - PPE	9,784	9,546	9,307	9,307
Regulatory credit risk reserve	14,546	18,750	17,230	22,990
Retained profit	32,027	39,141	27,019	48,482
Total shareholders' equity	123,157	134,237	163,656	178,279
Total equity and liabilities	662,294	750,653	982,107	937,564

Appendix 2: ZSE Trading Report – 09 June, 2009

Security	Shares traded	Turnover ZRu	Session price			Outstanding bids	Outstanding offers	PE Ratio	Market cap ZRu (billion)
			Current	Low	High				
BBT		-	570				25,000	8.62	162.60
TCL	120,000	48,600,000	405	400	425		123,000	17.00	2,730.50
RCB	15,400	5,313,000	345	345	400	730,000		22.00	349.88
JHL		-	3,209					13.50	98.00
TCB	32,000	25,280,000	790	780	795	500,000	34,100	29.00	1,236.00
TVL		-	1,220					18.50	580.00
SBT	<u>30,000</u>	<u>4,140,000</u>	138	135	138			2.30	<u>180.95</u>
Totals	<u>197,400</u>	<u>83,333,000</u>							<u>5,337.93</u>

Appendix 3: Extracts From a Newspaper Article on ZR Budget Day

The Zamunda Republic is due to read its budget on the 25 June in line with the constitution. With elections due to be held in the next one year, the government is keen to deliver on its manifesto promises made four years ago. Many government officials also believe growth targets for the current year will hardly be achieved, mainly as a result of not doing as much trade as it planned with its regional neighbours. But the ministry of finance and planning officials are adamant that Zamunda has withstood pressure of the global downturn, and that growth rate figures are on target.

Some analysts have already dismissed the coming budget as a piece that “is all about balancing political ambition with economic reality of a developing country”. Their view is supported by the fact that insiders believe the budget is focusing on only five objectives, yet the country faces even bigger problems. The expected key objectives are:

- A boost to the housing market – with a focus on reducing stamp duty by half, and incentives for first-time home owners who would get tax credit for interest on home purchase loans, coupled with reduction of VAT on residential housing by 3% to 7%;
- Keeping people at work – planned to involve provision of support to companies that are encouraging consumption, and thereby boosting demand.
- Getting people back to work – with the main focus on funding practical training courses, aimed at the newly unemployed;
- Tax raises – the budget technical group is expected to be focusing on raising VAT by at least 1.5%, from the current level of 14.5%. Some analysts predict VAT could go up to 18% in the next two years, to match rates in other countries in the region. Additionally, strictly implement all penal taxes⁴; and
- Crackdown on tax evasion – with the budget expected to put aside resources to improve tax monitoring, a bigger staff structure at the Zamunda Revenue Authority, and incentives for voluntary tax registration.

The country's leaders however insist that theirs is “... a focus, at all times, on transforming the lives of our people. This vision shall see the country investment focus in the social sectors, including education, health care, public works particularly marketing infrastructure, and more on cottage industries as opposed to large-scale industrialization”. Some of these sentiments are also expected to receive some prominence in some sections of the budget.

‘Let us keep hoping for the best’, the analysts concluded.

⁴ It has been established that ZR's Income tax law is very identical to the Uganda's income tax Act, cap 340.

Present value interest factor of \$1 per period at i% for n periods, PVIFA (i,n).												
Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.856	0.840	0.823	0.807	0.791
3	0.971	0.942	0.915	0.888	0.862	0.837	0.812	0.788	0.764	0.741	0.718	0.695
4	0.962	0.923	0.887	0.852	0.818	0.785	0.753	0.722	0.692	0.663	0.635	0.607
5	0.952	0.903	0.868	0.834	0.792	0.752	0.713	0.675	0.638	0.602	0.567	0.533
6	0.943	0.884	0.850	0.817	0.776	0.737	0.699	0.662	0.626	0.591	0.557	0.524
7	0.935	0.876	0.843	0.811	0.771	0.733	0.696	0.660	0.625	0.591	0.558	0.525
8	0.926	0.867	0.835	0.803	0.764	0.727	0.691	0.656	0.622	0.589	0.556	0.524
9	0.917	0.858	0.827	0.795	0.757	0.721	0.686	0.652	0.619	0.587	0.555	0.523
10	0.909	0.849	0.819	0.787	0.750	0.715	0.681	0.648	0.616	0.585	0.553	0.521
11	0.893	0.833	0.804	0.772	0.736	0.702	0.669	0.637	0.606	0.575	0.544	0.512
12	0.884	0.824	0.795	0.763	0.728	0.695	0.663	0.632	0.601	0.571	0.540	0.509
13	0.876	0.816	0.787	0.755	0.720	0.688	0.656	0.626	0.595	0.566	0.535	0.504
14	0.867	0.807	0.778	0.746	0.712	0.680	0.649	0.619	0.589	0.560	0.529	0.498
15	0.860	0.799	0.770	0.738	0.704	0.672	0.642	0.612	0.582	0.553	0.522	0.491

	13%	14%	15%	16%	17%	18%	19%	20%	21%	22%	23%	24%
1	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833	0.826	0.820	0.813	0.806
2	0.783	0.769	0.756	0.743	0.731	0.719	0.707	0.695	0.683	0.672	0.661	0.650
3	0.693	0.675	0.658	0.642	0.626	0.610	0.595	0.579	0.564	0.550	0.535	0.521
4	0.613	0.592	0.573	0.555	0.537	0.519	0.499	0.481	0.463	0.446	0.429	0.412
5	0.543	0.519	0.497	0.476	0.455	0.434	0.413	0.392	0.372	0.353	0.334	0.315
6	0.483	0.456	0.433	0.411	0.390	0.369	0.348	0.327	0.307	0.287	0.267	0.247

	0	6	2	0	0	0	2	5	9	3	9	5
7	0.42 5	0.40 0	0.37 6	0.35 4	0.33 3	0.31 4	0.29 6	0.27 9	0.26 3	0.24 9	0.23 5	0.22 2
8	0.37 6	0.35 1	0.32 7	0.30 5	0.28 5	0.26 6	0.24 9	0.23 3	0.21 8	0.20 4	0.19 1	0.17 9
9	0.33 3	0.30 8	0.28 4	0.26 3	0.24 3	0.22 5	0.20 9	0.19 4	0.18 0	0.16 7	0.15 5	0.14 4
10	0.29 5	0.27 0	0.24 7	0.22 7	0.20 8	0.19 1	0.17 6	0.16 2	0.14 9	0.13 7	0.12 6	0.11 6
11	0.26 1	0.23 7	0.21 5	0.19 5	0.17 8	0.16 2	0.14 8	0.13 5	0.12 3	0.11 2	0.10 3	0.09 4
12	0.23 1	0.20 8	0.18 7	0.16 8	0.15 2	0.13 7	0.12 4	0.11 2	0.10 2	0.09 2	0.08 3	0.07 6
13	0.20 4	0.18 2	0.16 3	0.14 5	0.13 0	0.11 6	0.10 4	0.09 3	0.08 4	0.07 5	0.06 8	0.06 1
14	0.18 1	0.16 0	0.14 1	0.12 5	0.11 1	0.09 9	0.08 8	0.07 8	0.06 9	0.06 2	0.05 5	0.04 9
15	0.16 0	0.14 0	0.12 3	0.10 8	0.09 5	0.08 4	0.07 4	0.06 5	0.05 7	0.05 1	0.04 5	0.04 0

Present value interest factor of an (ordinary) annuity of \$1 per period at i% for n periods, PVIFA (in).

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606
16	14.718	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022
18	16.398	14.992	13.754	12.659	11.690	10.828	10.059	9.372	8.756	8.201
19	17.226	15.678	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365
20	18.046	16.351	14.877	13.590	12.462	11.470	10.594	9.818	9.129	8.514

Period	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528
3	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106
4	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589
5	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991
6	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326
7	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605
8	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837
9	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031
10	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192
11	6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327
12	6.492	6.194	5.918	5.660	5.421	5.197	4.988	4.793	4.611	4.439
13	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533
14	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611
15	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675
16	7.379	6.974	6.604	6.265	5.954	5.668	5.405	5.162	4.938	4.730
17	7.549	7.120	6.729	6.373	6.047	5.749	5.475	5.222	4.990	4.775
18	7.702	7.250	6.840	6.467	6.128	5.818	5.534	5.273	5.033	4.812
19	7.839	7.366	6.938	6.550	6.198	5.877	5.584	5.316	5.070	4.843
20	7.963	7.469	7.025	6.623	6.259	5.929	5.628	5.353	5.101	4.870