

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

FRIDAY, 22 JUNE 2012

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 p.m. (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 18.
7. Please read further instructions on the answer book, before attempting any question.

HAYBRO BANK ZIRAM LIMITED

Overview

Haybro Bank Ziram Limited (HBZL) is a financial institution operating in the republic of Ziram. Although it initially operated as a savings and credit cooperative, HBZL is now a fully fledged commercial bank with a network of over 60 branches located mainly in major towns across Ziram. The bank's head office is located in Mende, the capital city of the Ziram where most of the administrative functions are performed.

The bank's majority owner is the Church of Ziram (75%), with institutional investors and a few high net worth individuals owning the remaining 25%. These other investors include the Ziram workers pension fund, Kikompola Bazilio a business tycoon in Mende among others.

Although declining for the past few years, the bank's customer base at the end of 2011 was well above 500,000, with total assets of Ziram shillings (ZShs) 180 billion. Most of HBZL's customers are the business community and traders in major towns across the country, as well as farmers in the major agricultural regions of Ziram.

History

HBZL started as a church oriented savings club through which Christians mobilized savings and invested the funds as a pool. Church leaders all over Ziram played a key role in mobilizing their flock to join the then savings club. With the government encouraging private sector growth, Ziram Savings and Credit Cooperative Society (ZSACCO), as it was then called was at the forefront of capital mobilization. ZSACCO grew so fast that it became a point of reference for politicians and scholars alike. It operated a unique marketing technique – word of mouth which enabled it to expand across the Ziram. Of course this was largely aided by the massive religious network. By 1998, ZSACCO was among the largest indigenous firms in Ziram, at least by branch network. It was the pride of the church and the government of Ziram whose vision was a private sector-led growth. With the government convinced about the empowerment of the citizens of Ziram in business management, there were not any better companies to demonstrate this philosophy than the ZSACCO success story.

In early 2000, ZSACCO decided that it was time to leap a step higher. It changed status into a limited company and its name to Haybro Bank Ziram Limited, and also applied for a commercial banking license. This meant that the company would now accept deposits from the public and participate in the interbank market. It also meant that the company was now operating under the watchful

eye of the Central Bank of Ziram. Later that year, it also applied for a listing on the Ziram stock exchange (ZSE).

The bank's core banking operations were initially very successful with customer numbers going up to 600,000 by 2005, and deposits growing at an annual average of 30% between 2003 – 2005. Given this good performance and positive reviews by business analysts and politicians alike, the share price grew at an annual average of 15% between 2000 and 2006, rising from ZShs 130 at the time of the initial public offering (IPO) to peak at ZShs 300 in mid 2006.

At its peak, the bank had pioneered the trading in complex financial instruments such as futures and options. It had also diversified its operations by opening a brokerage arm to transact at the ZSE (Haybro Investments Limited - HIL). Unfortunately, this success was short-lived as the bank's operations started dwindling in the financial year 2009.

Management Philosophy

Over the years, HBZL has developed a unique culture famous for quick decision making and open communication. There is a very flat organogram supported by non bureaucratic policies. For example meetings do not exceed thirty minutes, and many of them are held while standing. These are things that new staff normally find strange, but quickly get assimilated into.

Most of the employees are graduates from the prestigious University of Ziram, but it is not just any graduate, only the best graduates. The philosophy at HBZL is that brilliant people cannot fail to deliver at the workplace, for as long as they are given basic training. This thinking has created a culture of competition, which has in spurred off constant innovation and creativity. All what matters are results, and no one cares about the means to achieve the results. In the words of Ms Zoe Zuen the head of administration, "At HBZL, the end always justifies the means. If you hire skilled people, it does not matter whether they have experience or not, and neither is it necessary for them to have stayed long in a job."

At HBZL, speed is of essence so jobs always change depending on the bank's needs. It is not surprising for an employee to work in the finance department for a month, and then move to credit the following month. Many employees do not last in one job for a year!

Zuen adds "...our internal environment moves so fast that there is no point in long-range planning. Other banks set employee goals for a year, but the market

moves so fast that at HBZL we don't know what someone may do in five months time. It is this flexibility that has kept us at the top."

Performance Management

The bank has developed a performance management system where innovation and creativity are handsomely rewarded. In the treasury department for example, dealers are rewarded for the number of deals struck. Similarly relationship managers¹ get immediate cash rewards for loans extended as well as deposits received. This reward scheme together with the competition noted above has created a practice of 'winner takes it all', on which many personalities at the bank seem to thrive. It has also bred a bit of animosity across departments with some departments holding themselves in higher esteem than others. It is not uncommon for a relationship manager to refer to an accountant as a time wasting bean counter or a risk management officer as a bureaucratic pessimist. Ironically, this view is not discredited by management since competition among staff and departments is encouraged from the very top.

Senior executives on the other hand have also been rewarded handsomely with cash bonuses and stock options. Their rewards are largely pegged on the profit and share performance of HBZL.

Middle level managers and the lower level staff who do not have profit-based rewards are a little jealous of the reward scheme. One anonymous employee circulated an email with an article on why executive compensation schemes should be reviewed. This article is reproduced as appendix 1.

According to the head of administration, it is largely because of this innovation culture and reward scheme that the bank was able to exponentially grow its business. She adds thus. "At HBZL we reward performance as indicated by the profit and share growth. If an employee's contribution to the two can not be seen, then they have no business asking for performance bonuses. May be their status as employees of HBZL needs review as well."

Governance and Risk Management

HBZL has a board of directors comprising of 4 people although the Ziram Financial Institutions Act provides for a maximum of 9 members, and no minimum. The chairperson of the board is a retired reverend, who in the past was instrumental in setting up ZSACCO. He has a degree in agricultural business management and is also a very successful farmer in western Ziram. He is known

¹ These are staff who manage client relations. They process loans on behalf of clients, and also look for depositors.

to be a personal friend to the governor of the central bank of Ziram. The other members of the board are also active members in the church, with academic, political and religious backgrounds.

The managing director (MD), Mr James Ibala, is a widely exposed banker having worked with global brands such as the defunct Lehman Brothers and Citi Group in Europe and Asia respectively. James is the most recognized face of HBZL. He is often quoted in the media issuing profit forecasts and announcing quarterly results. Incidentally, the results usually exceed the forecasts. This has done a lot in ensuring the annual growth of the share price, and of course meant more bonuses for the senior management team whose performance is largely determined by the share price performance. To the media, James has always made it clear in no uncertain terms that HBZL cannot fail to deliver on its profit forecasts. Shareholders, journalists and business analysts always look forward to the results announcements.

On any working day, the management committee begins the day with a review of the previous day's stock price performance, and regular briefs on the price movement are sent to the MD throughout the day. There is a dedicated staff referred to as the stock performance analyst in the MD's office. According to a former employee, this obsession with the stock performance forced the operational teams into continuous innovation and creativity. He adds that a decline in the stock price performance would never be tolerated at HBZL.

In spite of the fact that HBZL is an indigenous bank, it has created a media perception that HBZL, and its employees were better than everyone else in the industry. This feeling has permeated through all levels of employees at the bank. At press conferences, James would openly sneer at competitors. The older banks, he would say, were destined for extinction. He was no kinder to smaller competitors either. So arrogant was he that when announcing the 2009 annual results for example, he said " HBZL is going to bury the competitors alive." All this was said in spite of the fact that for the first time, the bank had failed to deliver on its quarterly profit forecast.

Mr Peter Kikolo is the head of finance. An MBA graduate from the University of Ziram, he is the key architect of HBZL's reward schemes. He believes that people should be rewarded for innovation and excellence. He has a lot of expertise in financial modeling and was a useful resource during HBZL's rapid expansion. He designed complex finance structures that enabled the company to quickly raise additional capital when needed, while at the same time dealing with financial

risk. This was done through special purpose vehicles² (SPVs), which were incorporated in jurisdictions outside Ziram, often with the knowledge of the managing director.

Among such SPVs is Xcom Limited, a company incorporated in Mauritius. Xcom Limited just like a few other similar companies has been a great asset to HBZL. Between 2009 and 2011, the company lent HBZL over USD 5 million. In what Peter later referred to as a reciprocal business arrangement, HBZL also lent Pcom (a sister company to Xcom) USD 2.5 million in 2010. Xcom is also a major trading and hedging counter party to HBZL.

Commenting on the importance of HBZL's finance partners, Peter philosophically says, "...the value we derive from our finance partners such as Xcom is invaluable. They are always at hand to enable us meet our finance needs at short notice. It is such an invaluable special relationship ..."

What he did not say though was that he owned a majority stake in Xcom, a fact that not even the Board was aware of. Neither did he state that the interest paid on the USD loan from Xcom was 18% pa. Whereas there had been significant increases in interest rates in Ziram over the period 2010-2011, this rate was generally considered above market averages, atleast within the HBZL finance department. Rumour had it that some of this money was later lent out by HBZL to Pcom at 10%.

On whether there was any potential conflict of interest, Peter had sought exemption from the company code of ethics regarding his relationship with Xcom. He had convinced the board that despite his ownership of a stake in Xcom limited, he was not involved in the management affairs at Xcom and neither was this "small private investment" going to affect his commitment to HBZL interests. He also stressed the fact that all transactions after all required the sign-off of the managing director. Unknown to the board, Peter was the "chief architect" and majority shareholder of Xcom, and he made nearly all decisions. He effectively runs Xcom at his desk at the HBZL's premises. At the board meeting where his exemption was discussed, the board had requested management to present the documents defining HBZL's relationship with Xcom but this was never done. The matter was never followed up by the board, although it was minuted.

² Defined by Wikipedia as a legal entity (usually a limited company of some type or, sometimes, a limited partnership) created to fulfill narrow, specific or temporary objectives.

Other SPVs were used to reflect loans on the statement of financial position even when no money had indeed been lent out by HBZL. It is unclear whether Peter owned a stakes in these as well, but what is known is that the vehicles were very useful in HBZL's attempt to show excellent performance. The matter had been variously raised by the risk management team, but the general consensus within HBZL management is that the risk management people impede quick customer service. They are looked at as an unnecessary bureaucracy. In the absence of a legal /regulatory backup, the risk management team decided to keep it at that. After all, the department had always reported to the managing director.

A previous head of risk at the bank wrote a lengthy memo to the board on how risk management needed to be taken seriously at HBZL, but this memo never left the MD's desk. He had argued in the memo that following the famous global financial crisis of the year 2008 - 2009, there was an urgent need to review the risk management practices of HBZL. He noted that the internal competition culture at the bank had led to all caution being thrown out to the wind.

Quoting Reuters, he even cited the example of the rogue trader at (the Union bank of Switzerland (UBS), a leading Swiss bank which shocked investors in September 2011 when it made public an unauthorized trading incident. Mr Kweku Adobali, a 31 year old director at the bank was involved in the execution of unauthorized speculative deals that led to losses of over USD 2 billion. All subsequent investigations pointed towards inadequate risk management in trading practices at UBS, yet the banking industry thrives on risk taking.

The former head of risk concluded his memo by noting that it was not wise to put people under too much pressure to perform, for when it goes wrong, the natural instinct would be to hide the losses from the peers and supervisors. With a veiled reference to Peter, he added that it did not matter whether one was a CPA, an MBA and a head of finance at a fast growing bank. Risk management processes needed to be given due regard. He audaciously recommended that the board members should read about Nick Leeson & the Barings Bank Plc as well as Jerome Kerviel & Société Générale.

Although this memo never made it to the board, rumour has it that the sudden departure of the head of risk in March 2012 directly arose from the memo.

Prior to joining HBZL, Peter worked with Vuyo & Co CPAs, the largest accountancy and consultancy firm in Ziram. He believes that there is no better person to recruit in his department than a former HBZL external auditor. He has always been instrumental in negotiations with external auditors, a fact he is proud of. In the past, he convinced the auditors to give the all clear to the

revised loan impairment policy. In the new loan provisions guidelines, no provision is made until the client has defaulted for at least one year.

In another recent example, he made the auditors to accept a misstatement of the comparatives issued by HBZL in its half year earnings press release as at 30 June 2011, as well as a restatement of the statement of cash flows. The figures reflected as comparatives were the year end results for the immediately preceding period (31 December 2010), and this applied to the statement of comprehensive income, statement of financial position, statement of changes in equity and the statement of cash flows.

In addition, cash proceeds from the sale of a five storey building at which the bank head office had been for over five years were reported as operating cash flows. In the press release, James the MD noted thus “We are continuing to serve our clients with the best financial solutions in the region. Our decision to sell off the building is part of our strategic initiatives that will enable us focus on critical value creating activities. Besides it will also offer us more low cost finances to grow our lending portfolio.” What he did not say however was the fact that most of the said cash flow was used to pay off outstanding obligations. Auditors stated that the interim financial statements issued by HBZL were in compliance with IAS 34, Interim Financial Reporting. Following the press release, the share price gained 2% rising from ZShs 220 to ZShs 225.

Peter Kikolo was also in charge of the hedging operations at the bank. All options and swap deals were handled directly by Peter. Fortunately, they were not many since the products were new on the Ziram market. However, they presented him with yet another opportunity to make more money from HBZL through the SPVs. There was a debate within HBZL that the scope of the risk management unit be expanded to cover hedging products as well. This was however shelved following Peter’s convincing presentation to the board. He argued that since the external auditors were represented at the company on a full time basis, there was no need to waste the company’s limited time and financial resources on involving risk management staff in hedging transactions. He added that they were an unnecessary impediment to quick customer service. He even blamed the risk department for having delayed several lending decisions leading to loss of business³.

³ The risk management department was required to sign-off on all loans prior to disbursement.

The Bank's Auditors

HBZL's auditors (Vuyo & Co., Certified Public Accountants) have been in office for eight years providing audit, tax and other management advisory services. Currently, there is no legal or regulatory requirement for auditor rotation or limitations on other services that can be offered. As agreed between the Audit Partner in charge of the HBZL and Peter, three staff from the firm are permanently stationed at the bank to enable HBZL derive more business value from their audit fees. The three staff are referred to as the transaction support team who guide HBZL accounting staff on any technical accounting matters. They are also required to sign-off on all major finance deals entered into. It was this continued presence of the external auditors that led to the phasing out of the internal audit unit at the bank. In a paper presented to the board, Peter and James had argued that with the external audit team offering continuous audit services, there was no need to waste the bank's resources on internal auditors. They argued that it made more business and technical sense to have the external auditors "earn" their money by offering other value adding services to HBZL such as limited internal audit activities.

It is estimated that over the last eight years, Vuyo & Co. have earned about 68% of their gross fee income from HBZL. This does not mean that they are their only client; the firm serves a few other financial institutions, general manufacturing entities and not-for-profit organisations.

The audit engagement team fully appreciate the good relationship they have established with HBZL. Indeed, all team members have consistently scored very highly on the client retention scale during their performance appraisal. It is also understood by the engagement team that a good share price for HBZL also implies that Vuyo & Co. have done a good job. This ultimately means more business for the firm both from HBZL and from other companies. According to one former staff at the firm, the above philosophy fit in well with the firm's motto which states, "simply the best".

It is understood that staff who are evaluated as simply the best are those who kept their clients happy, especially the handful of clients Vuyo & Co considered the "crown jewels." HBZL was one such client.

The firm also offers tax consultancy to HBZL. According to the Tax Partner in charge of the bank, the firm takes pride in having given tax planning advice that led to tax savings of over ZShs 3.5 billion between 2003 - 2006. This was through tax planning schemes to reduce tax payable on management fees paid to expatriates. The Ziram Revenue Services Authority initially picked interest in

the matter, which it then referred to as tax avoidance practices at HBZL, but it is unclear how the issue was finally resolved. Subsequent media reports have since indicated that an out-of-court settlement was agreed between the parties.

The person who best symbolizes the closeness between HBZL and their Auditors is David Kiwoko an audit manager at Vuyo & Co in charge of the HBZL engagement. He is a very close friend to Peter Kikolo, having shared their MBA class at the University of Ziram. They often have lunch together, go out for evenings together and even go to the same church. Although this did not bother anyone at HBZL, it rattled a few feathers in the junior ranks at Vuyo & Co. His bosses however viewed him as a star who did exactly what he was supposed to do; that is generate 10 – 20% more revenue for the firm each year, and keep the client happy. He has always been rated; " simply the best."

According to one junior auditor at the firm, the problem is not that David often hangs out with Peter, but rather that he sees things the way Peter wants him to see them, therefore giving assent to accounting treatments that have little relationship to economic reality. This same junior auditor had earlier argued that HBZL should be classified as a high risk client and therefore rescreened for continuity as an audit client. The argument was dismissed.

Financial Operations

The biggest financial challenge faced by HBZL relates to availability of funds. Given the company's generous reward schemes and aggressive lending over the years, the company has faced constraints in financing. Things got worse in the second half of 2011 when the increase in the central bank rate⁴ (CBR) began to bite. The central bank of Ziram had consistently increased the CBR for five consecutive months as it attempted to reign in on runaway inflation. This meant that there was limited liquidity in the market, yet the depositors were also hard to come by. To worsen matters, HBZL had several financing obligations due in the period 2010 – 2012, including the loan from Xcom. There were also cries by HBZL's borrowers over the high interest rates, with several groups of traders even threatening to boycott commercial banks including HBZL. The bank however had a fairly well diversified portfolio of investments, with 20% in the Ziram economy, 30% in emerging economies in Latin America and Eastern Asia and 50% in Europe. These foreign investments were mainly in equities and government debt. Faced with increased financial pressures, declining deposits,

⁴ Refers to the central bank rate, a benchmark rate introduced in 2011 by the Central bank of Ziram to guide inflation targeting as a monetary policy framework.

increasing default by clients as well as the increasing negative media attention, HBZL got concerned. A decision was therefore made to review its operations and capital structure before the central bank got involved. The exercise would involve closure of some branches with the aim of reducing operating costs and to consolidate gains made over the years. Early redemption of some debt instruments was also considered, but it would come with its own challenges some of which are not measurable. The bank's financial extracts are provided in appendix 2.

Market Reactions and Management Response

Amidst the above challenges, HIL received a warning letter from the ZSE. According to the letter dated 3 January 2012, ZSE issued HIL with a 14 day recapitalization ultimatum or face suspension from the operations at the ZSE. This letter generated a lot of interest in the operations of not only HIL but HBZL as well. It also sparked off a downward spiral of the bank's share price. Analysts started questioning the bank's business model and the transactions with unknown offshore entities. One such article appeared in the Mende Business daily. A copy is reproduced in appendix 3.

In response to the suspension, HBZL quickly issued a press release reassuring the public that the operations of HIL did not in any way impact on HBZL. They reassured their customers that HBZL remained a liquid financial institution and that the huge debt faced by the subsidiary is a matter that the shareholders are already dealing with. They stressed the fact that HBZL remained a profitable venture whose share price was even under valued. They assured the public that the bank was growing, would meet its profit forecasts and that there was no need to worry. They also referred to the fact that the bank had continued to comply with all regulatory guidelines issued by the Central Bank of Ziram. They even quoted sections of a recent inspection report that had been issued to them by the central bank which indeed did not highlight any major concerns.

This statement served in reducing the slide in the share price, which stabilized at ZShs 120, ten shillings below the IPO price.

Although the HBZL image is not so badly tarnished on the outside, internally management is in panic. They know that the company is in trouble. It has loans due for repayment, and the shareholders are unwilling to commit any additional equity to HBZL. Heavy borrowing on the interbank market is also out of the question since the bank is already heavily indebted to other banks. Further borrowing is also likely to trigger default clauses on some borrowings. Besides, the rates are now prohibitive following the increase in the CBR to 23%. Internal

panic was compounded by increased reports about the worsening Euro Zone debt crisis. It had just been reported that member states of the European Union (EU) had requested banks to accept a 50% write off of Greek debt, and that Italian, French and Spanish debt instruments were being downgraded by Standard & Poor⁵. This was part of the efforts by the EU to avert a total collapse of the Euro currency, which if it occurred would trigger a global economic meltdown. A few months earlier, Ireland, Portugal and Greece had received massive bailout loans from the European Central Bank to prevent the countries from defaulting on their bond repayments. The irony is that with more borrowing, the risk of default may be presumed to rise, which in turn increases the interest rates on the bonds leading to a potential further downgrade in the credit rating. Although management is putting on a brave face, it is a known fact that they are faced with a liquidity crisis. Something needs to be done urgently, otherwise word will go round and this will lead to a run on the bank, and eventual takeover by the central bank. With the share price sliding further and closing at ZShs 105 last week, it is understood that at least three executives placed orders to their stock brokers, for the sale of their HBZL shares.

Following the press release, an emergency board meeting was called to discuss management's proposals on the urgent priorities, as well as things to consider in the short to medium term. The board was concerned that if HBZL did not act quickly to restore public confidence, a run on the bank was imminent and it was just a matter of time before the central bank took over HBZL. It is understood that the management proposals to the board have so far highlighted finance and accounting issues, audit and governance matters.

⁵ **Standard & Poor's (S&P)** is a United States-based financial services company. It is one of the big three credit rating agencies, the others being Moody's investor service and Fitch Ratings.

Appendix 1:

Executive compensation; Are bonuses driven by greed?

Bonuses were supposed to reward exceptional performance, but as the culture has spread how much damage have they caused?

It seems obviously most "fair" to a lot of people if everyone shares equally in the world's wealth. But in a modern industrial society, fairness is more complicated. Some people make more, invent more, score more goals, give more pleasure, and enable more people to be employed than others. Isn't it fair that their creativity, effort, leadership and hard work be rewarded? That is certainly one of the tenets of capitalism. And it is - of course - where bonuses come in. Bonuses started off, in business anyway, as recognition for success in the previous year; a bottle of wine at christmas and maybe an extra week's pay.

But the bonus world has grown at ferocious speed. Today bonus promises define the way people are hired and motivated to take daily risks with other people's money. The effect begins to work its magic as comparisons are made and overtopped by new offers. Bonuses have become multiples of basic pay, they are nearly guaranteed and no longer necessarily rewards for performance. No company's remuneration committee wants its chief executive to be anywhere but in the top quartile of pay. Some directors sit on each other's remuneration committees. Top people are hired on iron-clad contracts that give them huge rewards for early dismissal! A reward for failure! The only people who miss out are the people in the production line, the very people originally motivated by bonus thinking.

Once you have created a culture which gives so much tangible reward to so many people in power, it is difficult to limit it, control it, or reduce its influence. Whether or not it actually makes most top people work harder, or better, is not known at this time. But bankers are certainly rewarded for taking big risks with other people's money. And when they get into trouble, the depositors suffer. Bank failures arising from the mortgage crisis and credit crunch are well documented.

Is it still fair to reward failure generously just because of the bonus culture? Maybe the most effective way to tackle bulging bonuses would be to somehow usher in an era of voluntary restraint, inducing an aura of shame to conspicuous rewards. But whose responsibility is this? The very people earning bonuses!

Source: *Adapted from www.bbc.co.uk*

Appendix 2: Extracts From HBZL's Financial Statements

	2007	2008	2009	2010	2011
	ZShs Billion	ZShs Billion	ZShs Billion	ZShs Billion	ZShs Billion
Interest income	25.7	27.1	26.7	25.4	23.8
Other income	2.2	2.2	2.0	2.0	2.1
Interest expense	19.9	21.0	22.9	24.6	22.1
 Total assets	 195.0	 190.0	 184.0	 178.0	 174.0
Total deposits	80.5	78.5	76.0	75.1	74.3
Due to other Banks	17.2	18.2	19.9	21.3	31.9
Term borrowings	57.3	60.8	66.2	70.9	106.3
 Share price*	 278.0	 245.0	 227.0	 215.0	 180.0
No of depositors	567,171	552,440	520,170	526,017	519,539

*Price quoted at the Ziram Stock Exchange at the end of financial year

Appendix 3: Press report about Haybro Investments Limited. Ziram Securities Exchange issues ultimatum to Haybro Investments Limited.

Haybro Investments Limited (HIL), one of Ziram's "know-it-all" brokerage house and investment advisors, is in trouble. The firm, which had cultivated a near demi-god status in Ziram's capital markets industry, has failed to meet the minimum amount of capital such firms should hold.

The Ziram Stock Exchange is reported to have issued a 14 day ultimatum to have the company recapitalized or else its license be cancelled. It is unclear what the shareholders are up to but given that the sister company is a big lender, the warning says a lot about the financial matters at both Haybro companies. According to Ziram Stock Exchange rules, a license can be cancelled if a player's capital falls below ZShs 100 million for 14 consecutive days or if its net capital falls below Z Shs 30 million or if the debt exceeds the equity by 600%. It is feared that if a reputable company like HIL can fail to raise a mere ZShs 100 million, there could be bigger financial implications for the parent company - Haybro Bank Ziram Limited. The officials at the Central Bank of Ziram declined to comment on the capital adequacy of, the parent company, fueling speculation that the entire group of companies may be facing financial pressures. The irony here is that the central bank is normally quick to deal with any speculation about the perceived "poor health" of any financial institution. Since this has not happened this time, the questions will remain, and answers will be needed.

Unfortunately the scenario hurts Ziram's nascent capital markets industry and the financial sector at large. For a decade, HIL was at the centre of investment and brokerage services in Ziram, having been the choice advisors and lead brokers for nearly all IPOs at the Ziram Securities Exchange. They have also been involved in bond issuances and are rumored to have earned big sums of money. Where all this money is remains a mystery.

Source: *Mende Business Daily*