



BANK OF ZAMBIA

OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS

August 24, 2006

CB Circular No: 07/2006

TO : All Commercial Banks

PENALTY ON LATE SETTLEMENT OF FOREIGN EXCHANGE DEALS

Notice is hereby given that with immediate effect, the Bank of Zambia has revised the basis for computing the penalty on delayed settlement of foreign exchange deals entered into with commercial banks.

Currently, the Bank of Zambia penalty is based on the interest that would have been earned had the funds been received on the settlement date and deposited at the Bank for International Settlement in the USD 2 Day Notice Account. Commercial banks, however, compute their penalty rate by using the London Inter-Bank Offer Rate (LIBOR) plus a margin. In order to be consistent with commercial practice, Bank of Zambia will also use LIBOR plus a margin of 3%.

The revision recognises that apart from recovering the opportunity lost in interest income had the funds been invested elsewhere, the penalty should also cover costs incurred in making follow-ups and act as a deterrent to late settlements.

A handwritten signature in black ink, appearing to read 'D. H. Kalyalya'.

Denny H Kalyalya (Dr)
DEPUTY GOVERNOR - OPERATIONS

cc: Governor