

GOVERNMENT OF ZAMBIA

Statutory Instrument No.xx of 2025

The Banking and Financial Services Act

The Banking and Financial Services (Large Exposures) Rules, 2025

In EXERCISE of the powers contained in Sections 82 and 168 of the Banking and Financial Services Act, the following Rules are hereby made:

1. These Rules may be cited as the Banking and Financial Services (Large Exposures) Rules, 2025.

Title

2. In these Rules, unless the context otherwise requires-

Interpretation

“advance” has the meaning assigned to the word in the Banking and Financial Services Act;

“associated person” has the meaning assigned to the word in the Banking and Financial Services Act;

“common enterprise” has the meaning assigned to the word in the Banking and Financial Services Act;

“control” has the meaning assigned to the word in the Banking and Financial Services Act;

“credit facility” has the meaning assigned to the word in the Banking and Financial Services Act;

“economic interdependence” means interconnectedness across counterparties which may potentially transmit risks and result in financial distress from one counterparty to the other;

“exposure” means an advance or a credit facility as defined in the Banking and Financial Services Act;

“lien” means a security interest or legal right acquired in

one's property by a creditor and stays in effect until the underlying obligation to the creditor is satisfied. If the underlying obligation is not satisfied, the creditor may be able to take possession of the property involved;

"large exposure" means an exposure of a bank or financial institution to a person or common enterprise which is equal to or above ten percent of the bank or financial institution's regulatory capital;

"regulatory capital" has the meaning assigned to the word in the Banking and Financial Services Act; and

"segregated deposit" means an account whose funds a bank or financial institution is allowed to mark a lien on, as collateral for an exposure.

3. These Rules shall apply to banks and financial institutions, and any other financial b as the Bank may determine.

Application

4. (1) A bank or financial institution shall not, without the prior written approval of the board of directors or a committee of the board of the bank or financial institution, grant a large exposure.

Board approval of large exposures

(2) Where a person or common enterprise has an existing large exposure, any additional exposure shall require the prior written approval of the board of directors or a committee of the board of the bank or financial institution.

(3) All large exposures submitted to the board or committee of the board for approval shall be supported by necessary documentation, including a full credit appraisal report, at a minimum.

5. A bank or financial institution shall identify possible connected counterparties on the basis of economic interdependence in all cases where the sum of all exposures to one individual counterparty exceeds five percent of total regulatory capital.

Economic interdependence

6. (1) A bank or financial institution shall compute a large exposure as the gross value of specific provisions and value adjustments.

Application of credit risk mitigation

(2) A bank or financial institution may use credit risk mitigation techniques in line with the provisions of the Banking and Financial Services (Computation of Credit Risk Weighted Assets) Directives 2025.

(3) One or more of the following shall qualify for credit risk mitigation:

- (a) fully secured by cash or cash equivalents;
- (b) fully secured by a segregated deposit in a bank or financial institution;
- (c) fully secured by a debt security or guarantee issued by the Government of the Republic of Zambia, where the security is:
 - (i) denominated in Kwacha, up to one hundred percent of the total value of the exposure; or
 - (ii) denominated in a foreign currency, covering at least twenty-five percent more than the total value of the exposure;
- (d) debt security issued by a government or a central bank of a country with a current “consensus country risk classification” of 1 or 2, as published by the Organisation for Economic Co-operation and Development (OECD) for Export Credit Agencies participating in its Arrangement on Guidelines for Officially Supported Export Credits;
- (e) secured by an intra group guarantee, where the guaranteeing entity is a bank or financial institution, with a rating of not lower than an investment grade by a rating agency recognised by the Bank; and
- (f) guaranteed by a multilateral development bank recognised by the Bank.

7. A bank or financial institution shall not incur an exposure to any single person, common enterprise or associated persons in an amount which, in the aggregate, exceeds twenty-five percent of the bank or financial institution's regulatory capital after application of credit risk mitigation.

Limit on exposures to a single person or common enterprise or associated persons

8. A bank or financial institution shall apply the applicable risk weight under the higher risk categories for exposures in excess of regulatory limits in accordance with the provisions of the Banking and Financial Services (Computation of Credit Risk Weighted Assets) Directives 2025.

Risk weight for exposures exceeding limit

9. Despite the limit imposed in Rule 7, a bank or financial institution's large exposures shall not exceed, in the aggregate, six hundred percent of the bank's or financial institution's regulatory capital.

Limit on the aggregate of large exposures

10. (1) The Government of the Republic of Zambia shall be exempt from limits on large exposures.

Exemptions from large exposure limits

(2) Despite Rule 7 a limit of fifty percent of a banks or financial institution's regulatory capital shall apply to exposures for the following:

(a) a foreign government, its agencies and instrumentalities; and

(b) other official entities and multilateral development banks as listed in the **First Schedule**.

(3) The limit referred to in Sub-Rule 2, shall apply to the aggregate of the exposures in paragraph (a) or to the aggregate of each of the counterparties in paragraph (b).

11. (1) The following limits shall apply on exposures in the inter-bank market:

Inter-bank exposures

(a) there shall be no limit where the inter-bank exposure is fully secured by Government securities with a residual maturity of less than one year;

(b) seventy-five percent of the face value of Government securities with a residual maturity of between one year and up to five years;

(c) fifty percent of a bank's regulatory capital in respect of unsecured exposures; and

(d) exposures referred to in (a), (b) and (c) shall be repaid within five working days.

(2) Intra-day interbank exposures are exempted from the application of the large exposure limits and reporting requirements.

(3) For purposes of this Rule, limits in the interbank market shall not apply to foreign correspondent banks and financial institutions.

12. Where a bank or financial institution participates in a syndicated loan, only that portion of the syndicated loan which was advanced by the bank or financial institution and representing its pro rata share of the syndicated loan, shall be subject to the loan limits imposed under Rule 7.

Loan syndications

13. The limit imposed under Rule 7 shall not apply to any portion of an exposure that represents accrued or discounted interest, unless such interest has been capitalised or is, in any other manner, converted to principal balance.

Interest or discount on loans

14. The Bank shall combine exposures of a single person, common enterprise or associated persons to those of another single person, common enterprise or associated persons, if the Bank determines that there exists control or economic interdependence.

Combining of exposures

15. A bank or financial institution shall-

Submission of reports

- (a) submit a report of its large exposures to the Bank in the format and frequency determined by the Bank; and
- (b) on request by the Bank, submit further information on all or any other exposures that may be necessary for the assessment of a large exposure.

16 (1) Every loan, advance or extension of credit which is outstanding on the coming into force of these Rules and which would violate these Rules shall be reported to the Bank of Zambia not later than twenty-one days following the coming into force of these Rules.

Transitional arrangements

(2) Subject to sub-rule (3), the report referred to in sub-rules (1) shall set out the details of the loan, advance or extension of credit and a period, not exceeding one year or such other period as may be provided for in the original loan agreement, within which to progressively bring the

loan, advance or extension of credit within the limits of these Rules.

(3) Notwithstanding sub-rule (2), any renewal of a loan, advance or extension of credit done on or after the effective date of these Rules shall be made only on such terms as shall bring the renewal of a loan, advance or extension of credit into compliance with the limits of these Rules.

17. (1) The Bank may, in respect of an offence committed under these Rules, impose an administrative penalty not exceeding two hundred thousand penalty units for every day that the contravention continues and, every director, and any person concerned in the management of the bank or financial institution may be personally liable to the same fine.

Administrative sanctions

(2) Any director or any person referred to in sub-regulation (1) shall, in addition to the penalties prescribed in that sub-regulation, be liable for removal from office and barred from holding office in the banking and financial sector.

(3) Any other supervisory action as provided for in the Banking and Financial Services Act.

18. The Banking and Financial Services (Large Loans Exposures) Regulations, 1996, are hereby revoked.

Revocation of SI No.96 of 1996

Date:

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Francis Chipimo (PhD)
DEPUTY GOVERNOR

FIRST SCHEDULE: OFFICIAL ENTITIES AND MULTILATERAL DEVELOPMENT BANKS

1.	Bank for International Settlements (BIS)
2.	International Monetary Fund (IMF)
3.	European Central Bank (ECB)
4.	European Community (EC)
5.	The World Bank Group (WBG)
6.	Asian Development Bank (ADB)
7.	African Development Bank (AfDB)
8.	European Bank for Reconstruction and Development
9.	Inter-American Development Bank (IADB)
10.	European Investment Bank (EIB)
11.	European Investment Fund (EIF)
12.	Nordic Investment Bank (NIB)
13.	Caribbean Development Bank (CDB)
14.	Islamic Development Bank (IDB)
15.	Council of European Development Bank (CEDB)
16.	Netherlands Development Finance Company/Dutch Development Bank (FMO)
17.	Kreditanstalt für Wiederaufbau (KfW)
18.	PROPARCO
19.	United States International Development Finance Corporation (DFC)
20.	The New Development Bank (BRICS Development Bank)
21.	The Export-Import Bank of China
22.	China Development Bank (CDB)
23.	African Export-Import Bank (Afrexim Bank)
24.	Trade and Development Bank (TDB) – Former PTA