Bank Of Zambia

Financial System Supervision

ANNUAL REPORT 2014

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Governor's Statement

The Zambian economy remained strong in 2014 as reflected by the growth in real gross domestic product (GDP). Over the past three years, the economy has grown by an annual average rate of 6.5%. Preliminary estimates indicate a real GDP growth of 6.0% in 2014 against a target of 7.0%. This growth was, however, a decline from the 6.7% recorded in 2013. The slower growth in the year under review could be attributed to the turbulence experienced in the first half of the year when the Kwacha depreciated sharply against the US Dollar and other currencies thereby putting pressure on inflation. The 6.0% growth in GDP was mainly driven by the maize bumper harvest, rapid expansion in the construction industry, reinforced somewhat by public investment in roads, growth in the energy, transport and communications, wholesale and retail trade, financial sector, and the mining sector which has been a significant source of foreign direct investment even though its contribution to GDP declined in 2014. Anchored on the strong economic performance, the overall financial performance and condition of the financial sector under the ambit of the Bank of Zambia (BoZ) continued to be satisfactory during 2014. As at 31 December 2014, the banking sector comprised 19 banks while the Non-Bank Financial Institutions (NBFIs) sector comprised 116 institutions.

Despite the challenges emanating from the macroeconomic environment such as the volatility of the exchange rate which culminated into strained liquidity conditions as BoZ implemented measures to forestall the rapid depreciation of the kwacha, the banking sector exhibited resilience and remained strong in terms of capital adequacy. Further, earnings performance remained strong and also contributed to the sector's capital base through retained earnings. Similarly, asset quality continued to be satisfactory while liquidity position was fair. In terms of balance sheet growth, the banking sector recorded a 15.8% growth in total assets to close the year at K48,591.2 million from K41,953.0 million as at end-December 2013. Of the total assets, net loans and advances constituted the largest share of total assets at 42.5%, and increased by 15.5% to K20,653.5 million from K17,884.4 million as at end-December 2013, compared to a growth of 14.5% in the previous year. The growth in assets was largely funded by deposits which accounted for 71.9% of total asset funding.

Further, the NBFIs sector's overall financial performance and condition was satisfactory in the year under review. The sector's regulatory capital, asset quality and profitability were all satisfactory. The aggregate assets of the sector increased by 27.1% to K5,008.2 million from K3,941.5 million as at end-December 2013. The increase in total assets was mainly noticeable in net loans which increased by 32.2% to K3,514.6 million as at end-December 2014 from K2,659.4 million as at end-December 2013.

In the year under review, the BoZ authorised the opening of an additional 19 branch and agency locations for banks in different parts of the country to bring the total to 364 as at end-December 2014 from 345 as at end-December 2013. In addition, nine new NBFIs licences were issued while seven were revoked to bring the total number of licensed NBFIs to 116. With regard to branches, 16 new locations were authorised to bring the total to 323 from 307 as at end-December 2013.

In the year 2014, the BoZ recorded commendable progress towards the implementation of Basel II and continued to nurture an environment that promotes information sharing and capacity building. The BoZ further developed and issued guidelines on the provision of Islamic financial services in Zambia. The introduction of Islamic finance is aimed at expanding financial inclusiveness by meeting the demand for Islamic banking products by the previously excluded sector of society, thereby contributing to financial inclusion which remains a key policy priority for the BoZ. The BoZ is committed to promoting the development of the financial sector and maintaining financial system stability. In this regard, the BoZ will continue to monitor developments in the international markets and provide appropriate guidance to the sector.

Denny H Kalyalya (Dr.)

GOVERNOR

The Directors' Review on the Financial Performance and Condition

The Financial System Supervision Report is prepared in accordance with **Section 126 (1)** of the Banking and Financial Services Act (BFSA). The purpose of this report is to present an analysis of the performance and condition of banks and non-bank financial institutions (NBFIs) under the mandate of the BoZ and an overview of the activities undertaken during the period 1 January 2014 to 31 December 2014.

In the year under review, the Bank Supervision Department (BSD) and the Non-Bank Financial Institutions Supervision Department (NBFISD) continued to fulfill the BoZ mandate to licence, regulate and supervise the activities of financial service providers so as to promote the safe, sound and efficient operations and development of the financial system.

With regard to the banking sector, the overall financial performance and condition was rated satisfactory on account of strong aggregate capital adequacy position, satisfactory asset quality, earnings performance and fair liquidity condition. Out of the 19 banks, 11 banks which accounted for 90.1% and 89.7% of the sector's total assets and deposits, respectively, were rated satisfactory. On the other hand, six banks were rated fair, one was rated marginal while another was rated unsatisfactory.

The banking sector's aggregate primary and total regulatory capital increased by 18.1% and 17.9% to K6,681.0 million and K7,313.5 million, respectively. Consequently, the capital adequacy ratios increased to 24.6% for the primary regulatory capital and 27.0% for the total regulatory capital from 24.5% and 26.8% as at end-December 2013, respectively. The increase in regulatory capital was mainly on account of new capital injections as well as retained earnings as banks continued to boost their capital positions to meet the new minimum capital requirements which became effective on 2 January 2014. With regard to asset quality, which is largely reflected by the quality of the loan book, the sector recorded an improvement in the level of non-performing loans (NPLs). As at end-December 2014 the NPL ratio stood at 6.1% which was considered satisfactory and an improvement from the previous year's ratio of 7.0%. Similarly, the NPL coverage ratio remained satisfactory at 76.5% despite declining from 83.7% the previous year. The decline in the NPL coverage ratio was as a result of the bad debt write offs in the year under review. The sector's profitability as measured by the return on assets (RoA) and Return on Equity (RoE) remained satisfactory at 3.9% and 18.3% respectively (December 2013: 3.4% and 18.2%, respectively). The banking sector's liquidity position continued to be satisfactory despite the tight liquidity conditions that prevailed in the first half of the year. The liquidity ratio decreased to 45.7% as at end-December 2014 from 49.3% as at end-December 2013. Equally, the liquid asset ratio decreased to 35.8% from 38.9% over the same period.

With regard to the NBFIs sector, the overall financial performance and condition was also satisfactory in the year under review. The sector's regulatory capital and asset quality were satisfactory while profitability was fair. In particular, the leasing finance institutions and consumer-lending microfinance institutions (MFIs), accounting for 62.3% of sector total assets, reported satisfactory regulatory capital, asset quality, earnings performance and liquidity position. On the other hand, the building societies reported satisfactory regulatory capital, fair asset quality and liquidity while the earnings performance was marginal. The enterprise-lending MFIs also reported satisfactory regulatory capital, fair asset quality and marginal earnings performance.

However, five institutions, accounting for 6.9% of the NBFIs sector's total assets, had regulatory capital deficiencies as at end-December 2014 and were under close monitoring by the BoZ. Eight institutions accounted for 36.2% of the sector's total assets and were rated strong, while 26 which accounted for 28.1% were rated satisfactory. Further, 43 institutions and 23 institutions were rated fair and marginal, respectively. The remaining five which accounted for 6.9% were rated unsatisfactory on account of regulatory capital deficiency.

In the year under review, both the BSD and NBFISD continued to execute their mandate of promoting a safe and sound financial system by conducting both off-site and on-site monitoring of the Financial Service Providers (FSPs) and taking appropriate supervisory action as necessary. Further, the BoZ continued to review regulatory policies and implemented new measures aimed at strengthening its oversight over institutions under its domain. In the year under review, the BoZ conducted a self-assessment on compliance with the Basel Core Principles, based on the 2012 version, and devised an action plan to ensure full compliance. In addition, the BoZ continued the phased implementation of Basel II, specifically Pillar II and commenced the enhancement process of its risk-based supervision (RBS) framework. In the revised RBS framework, the BoZ expects closer collaboration with the FSPs, going forward.

The BoZ has opted for the simpler approaches to Basel II due to the challenges of inadequate data and Information, Communication & Technology (ICT) systems in banks. Notwithstanding these challenges, remarkable progress was recorded in the implementation of Basel II in the year under review. Migration to advanced approaches will be gradual as banks improve their ICT systems and build up time series of relevant data.

Gladys C. Mposha
Director – BSD

Visscher Bbuku
Director - NBFISD

ORGANIZATIONAL STRUCTURE OF THE FINANCIAL SYSTEM SUPERVISION

1.1 Introduction

The BoZ is mandated by Section 4(2)a of the Bank of Zambia Act of 1996 as amended to licence, supervise and regulate the activities of banks and NBFIs so as to promote the safe, sound and efficient operations and development of the financial system.

The Banking and Financial Services Act (BFSA) of 1994 as amended, supports the Bank of Zambia Act of 1996 as amended, by amplifying the legal and regulatory framework of licensing, supervising and regulating financial service providers (FSPs) in Zambia. The overriding objective of the BFSA is to create a comprehensive and robust regulatory and supervisory framework for conducting financial service business in Zambia. The BFSA outlines the licensing requirements of financial service providers; their organisation and administration; their operations; their financial accountability; their supervision and regulation; insolvency, dissolution and liquidation; appeals; and other miscellaneous matters.

1.2 Governance Structure

The Supervisory Policy Committee (SPC) and the Licensing Committee are responsible for providing oversight for the supervision of the FSPs.

1.2.1 Supervisory Policy Committee

The SPC, which is chaired by the Governor, is the policy-making organ of the BoZ in the execution of its financial stability mandate. The responsibility of the SPC is to review and sanction financial sector supervisory policy issues. The SPC is also responsible for the oversight of FSPs in liquidation.

1.2.2 Licensing Committee

The Licensing Committee is responsible for the evaluation of licence applications for banks and non-bank financial institutions; reviewing and evaluation of applications relating to corporate restructuring, voluntary winding up and the sale of shares in FSPs.

1.3 Supervisory Structure

The BSD is responsible for the regulation and supervision of commercial banks while the NBFISD is responsible for the regulation and supervision of all non-bank Financial Service Providers specifically microfinance institutions, building societies, development finance institutions, savings and credit institutions, leasing finance institutions, bureaux de change and the credit reference bureau. The NBFISD also provides secretarial services to the Financial Sector Development Plan (FSDP). The BSD and the NBFISD are each organized into two main functional areas as follows (see also Appendix 1 and Appendix 1A).

- Examinations & Surveillance; this function is divided into two portfolios and is each responsible for the off-site monitoring of the performance of financial service providers through the evaluation of periodic prudential returns and conducting on-site examinations;
- Regulatory Policy, Licensing and Liquidation Division; this function is subdivided into Consumer Protection & Market Conduct, Research and Regulatory Policy, Licensing, Compliance and Enforcement and Liquidations and is responsible for reviewing the adequacy of the regulatory framework for financial service providers. In addition the responsibility of assessing licence applications and initiating the orderly exit of failed financial service providers from the financial sector lies within this function. Further, this function is responsible for promoting consumer protection by assisting to resolve customer complaints and ensuring fair treatment of customers with regard to the way banks conduct themselves.

1.4 Structure of the Financial System under Bank of Zambia

As at 31 December 2014, the banking sector comprised 19 banks while the non-bank sector comprised 116 institutions. During the year, nine licences for NBFIs were granted, while seven were revoked. The licences issued comprised four bureaux de change, three microfinance institutions (MFIs) and two financial businesses, while the revoked licences comprised five MFIs, and two bureaux de change.

Table 1.1: Structure of the Financial System as at 31st December, 2014

Type of Institution	Number of Institutions		
	2012	2013	2014
Commercial Banks	19	19	19
Non Bank Financial Institutions			
Leasing Finance Institutions	8	7	7
Building Societies	4	4	4
Bureaux de Change	57	64	66
Savings and Credit Institutions	1	1	1
Microfinance Institutions	35	35	33
Development Finance Institutions	1	1	1
Financial Businesses	0	1	3
Credit Reference Bureau	1	1	1
Sub-Total	107	114	116
Grand Total	126	133	135

Source: Bank of Zambia

1.5 Compliance to Key International Regulatory Frameworks

The implementation of Basel II remains a strategic objective for the BoZ for the period 2012-2015. In the year 2014, the BoZ made significant progress towards the phased implementation of the Basel II Framework. Notable progress was recorded in the implementation of Pillar II. During the year under review, the Bank reviewed and provided feedback to the first set of Internal Capital Adequacy Assessment Process (ICAAP) Documents and the Pillar III (Disclosure Requirements) submitted by the banks. The Bank is optimistic that full migration to the Basel II Capital Accord will be achieved in the year 2015 once the relevant Statutory Instrument is signed.

Further, in a quest to comply with key international regulatory frameworks and standards, the BoZ, conducted a self-assessment on compliance with the 2012 version of the Basel Core Principles for Effective Banking Supervision. The principles provide a benchmark against which supervisory authorities measure the effectiveness of their supervisory practices.

The results of the self-assessment indicated that the BoZ was compliant with 14 of the 29 core principles, largely compliant with eight, materially non-compliant with five, and non-compliant with two. The BoZ has formulated an action plan to ensure full compliance with the principles.

1.6 Regional and International Co-operation Activities

During the year under review, the BoZ continued to play an active role in both international and regional supervisory initiatives on a number of supervisory issues as outlined below;

1.6.1 Anti-Money Laundering/Combating of Financing of Terrorism

The BoZ was represented at the meetings of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) in the year under review and also participated in the mutual evaluation training of assessors. The BoZ continues to review and update regulations relating to anti-money laundering to ensure that the country complies with the international standards in response to regional and global developments.

1.6.2 SADC Law

In the year under review, the BoZ continued to participate in the activities of the Southern African Development Community (SADC) Sub-committee of Banking Supervisors (SSBS). The BoZ is an active member of the SSBS Steering Committee Working Group constituted to spearhead the development of the Model Banking Law whose objective is the harmonisation of banking regulatory and supervisory practices across the SADC region.

1.6.3 Foreign Account Tax Compliance Act (FATCA)

The BoZ completed the consultative process with the Government of the Republic of Zambia and various stakeholders regarding the signing of the FATCA agreement. In this regard, the Government resolved to adopt Model 2 of the Inter-governmental Agreement (Model 2 IGA) and made necessary arrangements with US authorities for the finalization and execution of the agreement for purposes of implementing the FATCA by Zambian financial institutions.

Under the FATCA, foreign financial institutions were required to register with the United States Internal Revenue Services (IRS) and obtain a Global Intermediary Identification Number by 25 April 2014. As part of the preparatory work towards the implementation of FATCA, the BoZ directed commercial banks to register with the IRS before 1 July 2014 and all the commercial banks had complied with the requirements by the said deadline.

1.7 Capacity Building and Skills Development

In 2014, the BoZ continued to expose staff to various training programmes in order to enhance the supervisory capacity of its staff and ensure the effective execution of its oversight mandate. Some of the programmes attended are listed in Table 1.2 below.

Table 1.2: Training Activities and Meetings Attended by Staff

Course/Meeting	Venue and Date
1. Regional training on Agency Banking	Kampala, Uganda , 26-28 November, 2014
2. MEMFI Intermediate Bank Supervision Workshop	Blantyre, Malawi, 24-28 February, 2014
3. MEMFI in-country training on Risk Based Supervision	Lusaka, Zambia, 13-19 July, 2014
4. Consolidated Supervision Workshop	Arusha, Tanzania, 28 July -1 August 2014
5. International Program in Bank Financial Management with a focus on Risk Management & Basel II and III Accord	Pune, India 14-26 July, 2014
6. Seminar on On-site Banking Supervision	Berlin, Germany, 24-28 February, 2014
7. Annual meeting of the CCBG Sub-committee of Banking Supervisors	Maputo, Mozambique, 26-28, May 2014
8. Anti-Money Laundering Course with CCBG sub-committee on banking supervision	Pretoria, South Africa, 17-20 June 2014
9. Market Conduct Supervision training.	Financial Institute Supervision Authority, Windhoek, Namibia, 3-7 February 2014
10. United Bank for Africa (UBA) Supervisory College	Abuja, Nigeria, 18-19 June 2014
11. Barclays Africa Group Supervisory College	Pretoria, South Africa 24-26 November 2014
12. African Banking Corporation (Z) Limited Supervisory College	Harare, Zimbabwe, 17-18 November 2014
13. Risk Management Workshop	Zambia Institute of Bankers, Lusaka, Zambia 17-19 Sep, 2014
14. Basel II, Basel III and Macro prudential Approach to Supervision	Pretoria, South Africa, 3-8 November 2014
15. Risk management in Finance/Banking	Nairobi, Kenya 5-8 October 2014
16. Banking supervision within the framework of Basel II and Basel III	Deutsche Bundesbank, Frankfurt, Germany from 24-28 March 2014
17. Annual Alliance for Financial Inclusion Global Policy Forum and Working Group meetings	Port of Spain, in Trinidad and Tobago from 8 – 11 Sep 2014
18. World Bank/ESAAMLG Workshop on balancing financial inclusion and financial integrity in policy formulation	Pretoria, South Africa from 29 July 2014 - 2 August 2014
19. ESAAMLG second round of Mutual Evaluation training of Assessors	Windhoek, Namibia from 27 - 31 January 2014
20. IMF Financial Soundness Indicators workshop	Accra, Ghana from 17 - 21 February 2014
21. Bank Analysis and Examination School course	Washington, DC., USA, 21 – 25 July 2014
22. Examination Management School	Washington, DC., USA, 16 – 25 July 2014
23. CCBG/ MEFMI. Seminar for financial sector supervisors	Harare, Zimbabwe from 6 to 10 October 2014.
24. Toronto Centre- in country training on ICAAP	Lusaka, Zambia, 25-29 August 2014

THE BANKING SECTOR PERFORMANCE AND CONDITION

2.1 Introduction

The overall financial performance and condition of the banking sector for the year ended 31 December 2014 was rated satisfactory (see Table 2.1, 2.2 and 2.3).

As at end-December 2014, the capital adequacy ratios increased marginally to 24.6% for the primary regulatory capital (minimum requirement: 5%) and 27.0% for the total regulatory capital (minimum requirement: 10%) from 24.5% and 26.8% as at end-December 2013, respectively. The higher capital adequacy ratios in 2014 were on account of a significant increase in regulatory capital following tier 1 capital injections in the year amounting to K631 million and an increase in retained earnings of K318 million. Additionally, the increase in capital was proportionately higher than the growth in risk weighted assets (RWA).

In the year under review, earnings performance of the banking sector was rated satisfactory. The sector's profit before tax and profit after tax of K1,817 million and K1,189 million were higher by 40.6% and 36.3% when compared with K1,292 million and K872 million recorded in 2013, respectively. The improvement in profitability was largely attributable to a proportionately higher increase in net operating income by 19.8% to K5,278 million in 2014 compared to operating expenses by 14.4% to K3,560 million in 2014. Further, the overall profitability of the banking sector in terms of the RoA and ROE improved to 3.9% and 18.3% from 3.4% and 18.2%, respectively, as at end-December 2013.

The asset quality, as reflected by the quality of the loan book improved. The gross non-performing loans (NPLs) ratio, a key indicator of asset quality, improved to 6.1% as at end-December 2014 from 7.0% as at end-December 2013, while the net NPLs to net loans ratio on the other hand modestly deteriorated to 1.5% as at end-December 2014 from 1.2% as at end-December 2013. The deterioration in the net NPL ratio was mainly on account of a reduction in the allowance for loan losses.

During the period under review, the banking sector's liquidity position remained satisfactory despite the tight liquidity conditions during the year 2014. The liquidity ratio (proportion of liquid assets to deposits and short-term liabilities) decreased to 45.7% as at end-December 2014 from 49.3% as at end-December 2013. Further, the liquid asset ratio (proportion of liquid assets to total assets) decreased to 35.8% from 38.9% over the same period.

Table 2.1: Composite Ratings of the Banking Sector Financial Performance and Condition

Rating	Number of Banks		% of Total Assets		% of Total Deposits	
	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14
Satisfactory	11	11	86.0	90.1	85.7	89.7
Fair	7	6	13.2	6.1	13.5	5.6
Marginal	0	1	0.8	3.2	0.0	4.0
Unsatisfactory	1	1	0.0	0.6	0.8	0.7
Total	**19**	**19**	**100.0**	**100.0**	**100.0**	**100.0**

Table 2.2: Component Ratings of the Banking Sector Financial Performance and Condition

Rating[1]	Capital Adequacy		Asset Quality		Earnings		Liquidity	
	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14
Satisfactory	18	15	12	12	10	8	9	7
Fair	0	0	4	3	2	4	8	10
Marginal	0	0	2	3	4	4	1	1
Unsatisfactory	1	4	1	1	3	3	1	1
Total	**19**	**19**	**19**	**19**	**19**	**19**	**19**	**19**

[1]In the Bank of Zambia Early Warning Rating System, the financial condition and performance of banks and NBFIs is assessed based on several ratios on four main components; which are Capital Adequacy, Asset quality, Earnings performance and Liquidity position (CAEL). There are five component and composite ratings as follows:-
Strong- Excellent performance and sound in every respect, no supervisory response required, Satisfactory- Above average performance and fundamentally sound with modest correctable weakness, Fair-Average performance with a combination of weaknesses if not corrected will become severe, Marginal-below average performance, immoderate weaknesses unless properly addressed could impair future viability of the bank. Unsatisfactory- Poor performance in most parameters, high risk of failure in the near term. The bank is under constant supervision and BOZ possession is most likely.

Table 2.3: Financial Performance Indicators of the Banking Sector

Indicator (%)	Dec-12	Dec-13	Dec-14
Primary capital adequacy ratio	19.4	24.5	24.6
Total regulatory capital adequacy ratio	21.3	26.8	27.0
Net non-performing loans to regulatory capital	8.7	3.5	4.3
Gross non-performing loans to total loans	8.1	7.0	6.1
Net non-performing loans to total loans	2.1	1.1	1.4
Net non-performing loans to net loans	2.3	1.2	1.5
Provisions to non-performing loans	73.5	83.2	76.5
Earning assets to total assets	77.7	82.1	74.3
Net operating income to total assets	11.2	10.5	10.9
Non-interest expense to total assets	7.3	6.9	7.0
Provision for loan losses to total assets	0.4	0.5	0.4
Net interest income to total assets	6.1	6.1	10.5
Return on assets	3.9	3.4	3.9
Return on equity	20.8	18.2	18.3
Efficiency ratio	65.5	65.6	64.2
Liquid assets to total assets	36.0	38.9	35.8
Liquid assets to deposits and short-term liabilities	44.4	49.3	45.7

2.2 Structure of the Banking Sector

As at 31 December 2014, the banking sector comprised 19 commercial banks, and of these, eight were subsidiaries of foreign banks[2], nine were locally owned banks, while two were partly owned by the Government of the Republic of Zambia. Subsidiaries of foreign banks reduced to eight from 13 in the previous year as five of the banks opted to convert to locally owned banks in order to comply with the new minimum capital requirement that became effective on 2 January 2014.

2.3 Banking Sector Balance Sheet Composition

2.3.1 Banking Sector Assets

In the year under review, the total assets of the banking sector increased by 15.8% to K48,591 million as at end-December 2014 from K41,953 million as at end-December 2013, compared to a 22.4% growth recorded in the previous year. The increase in total assets was mainly on account of an increase in net loans and advances, balances with Bank of Zambia and balances with financial institutions abroad which went up by 15.5% (K2,769 million), 41.5% (K2,145 million) and 15.8% (K732 million), respectively. The notable increase in balances with Bank of Zambia was largely attributed to the upward adjustment in the statutory reserve ratio on both the Kwacha and foreign currency deposit liabilities by 6 percentage points to 14.0% from 8.0% in the first quarter of the year. Furthermore, in the second quarter of 2014, the BoZ issued a directive to all banks to include Government deposits and Vostro account deposits in the computation of statutory reserves. Overall, the banking sector's total assets continued to depict a positive growth trend over the past 3 years to 31 December 2014. This growth was made possible, largely by the growth in total deposits (see Chart 2.1).

As at end-December 2014, the banking sector's asset structure largely remained unchanged when compared to end-December 2013. The net loans and advances continued to account for the largest portion of the sector's total assets followed by investments in Government securities. Net loans and advances which stood at K20,653 million accounted for 42.5% of total assets whilst investments in Government securities stood at K9,245 million or 19.0% of total assets (December 2013: 42.6% or K17,884 million and 22.5% or K9,438 million, respectively).

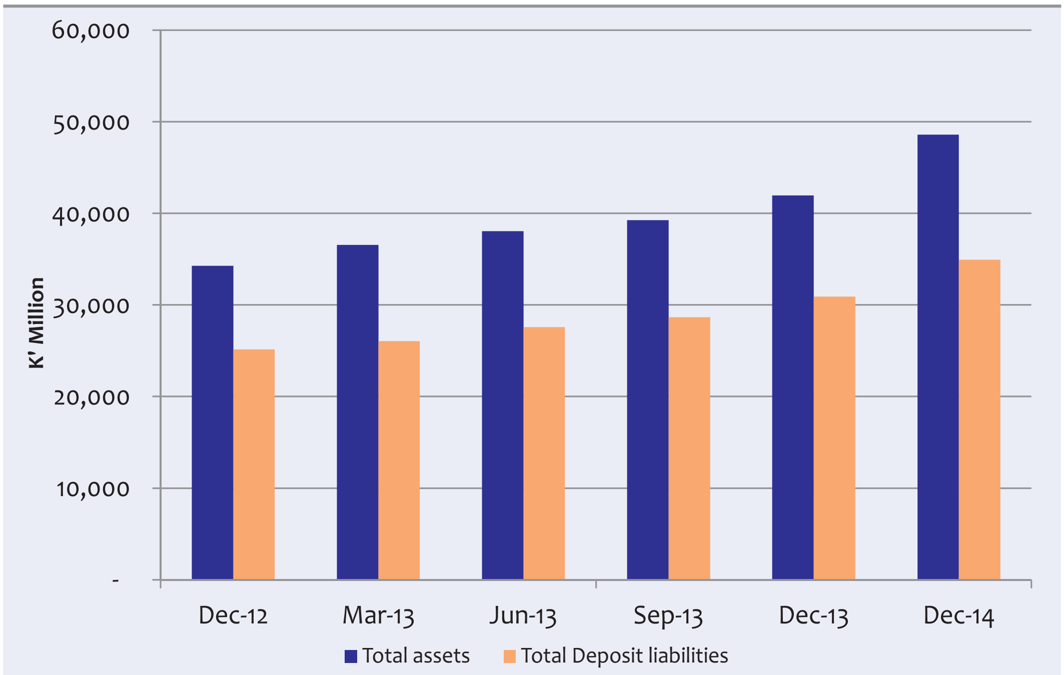
2.3.2 Banking Sector Liabilities

In the year under review, the banking sector's total liabilities increased by 14.6% to K41,317 million as at end-December 2014 from K36,051 million as at end-December 2013. The increase was mainly on account of a 13.1% rise in total deposits to K34,942 million (December 2013: K30,907 million). This increase was mainly driven by time and demand deposits, which increased by 33.0% and 9.2%, respectively.

Banks continued to rely on customer deposits as the primary source of their funding and these constituted 84.6% of the sector's total liabilities (December 2013: 85.7%). Demand deposits accounted for the largest share of the banking sector's total deposits at K20,624 million or 59.0% (December 2013: K18,891 million or 61.1%). Time deposits followed at K10,266 million or 29.4% (December 2013: K7,718 million or 25.0%), and savings deposits at K4,052 million or 11.6% (December 2013: K4,298 million or 13.9%). The predominance of demand deposits, which accounts for the largest share of the core deposits, was an indication of a stable deposit base.

[2]These are locally incorporated subsidiaries of foreign banks.

CHART 2.1: TOTAL ASSETS AND LIABILITIES OF THE BANKING SECTOR (2012-2014)



2.4 Capital Adequacy

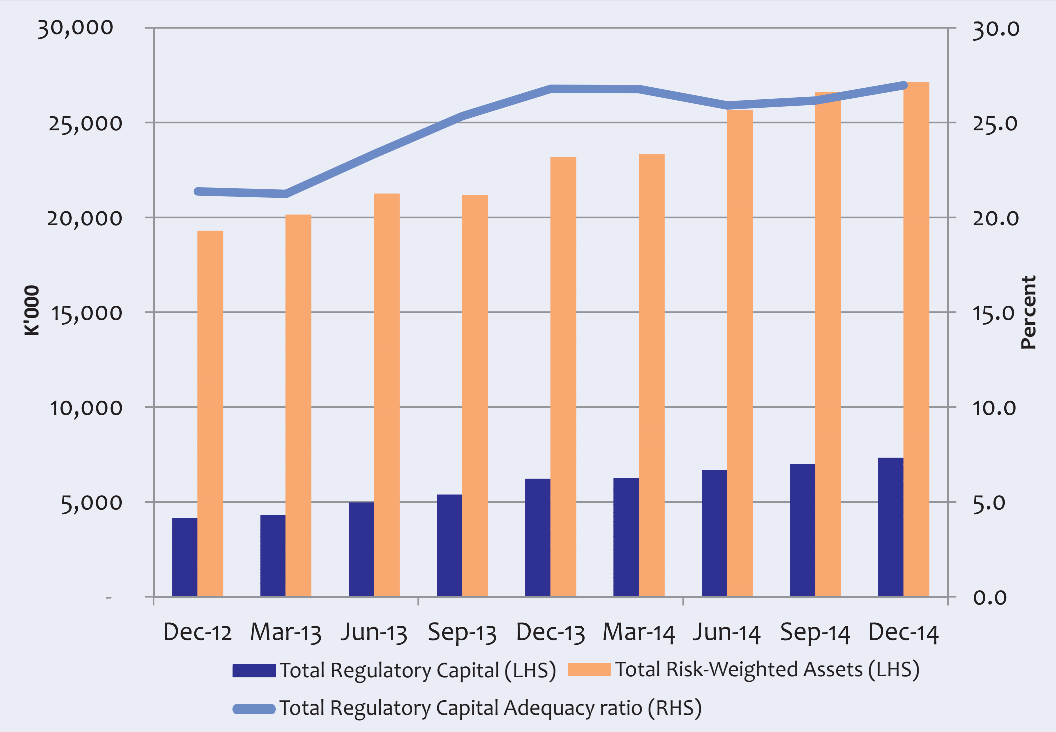
As at end-December 2014, the aggregate capital adequacy position of the banking sector was rated satisfactory as reflected by the high capital adequacy ratios which were way above the minimum required ratios. The ratios stood at 24.6% for the primary regulatory capital and 27.0% for the total regulatory capital compared to 24.5% and 26.8% at end-December 2013, respectively. Despite an increase of 18.1% in primary regulatory capital to K6,681 million from K5,657 million at end-December 2013 (mainly on account of an increase in paid-up common shares and retained earnings), the capital adequacy ratios only increased modestly because of a 17.3% increase in RWA.

Paid-up common shares, which accounted for 58.8% of primary regulatory capital increased by 14.7% to K4,122 million as at end-December 2014 from K3,595 million at end-December 2013. Similarly, retained earnings increased by 40.9% to K1,613 million from K1,144 million during the same period.

The increase in regulatory primary capital was largely driven by some banks injecting capital to meet the new minimum capital adequacy requirements which became effective on 2 January 2014. The BoZ adjusted upwards the minimum nominal primary capital from K12 million to K104.0 million and K520.0 million for locally owned and foreign owned banks, respectively, of which at least 80% must be in form of paid-up common shares. Further, total regulatory capital increased by 17.9% to K7,314 million as at end-December 2014 from K6,201 million at end-December 2013, largely as a result of the increase in primary capital noted above and also due to an increase in the Kwacha value of foreign currency denominated secondary capital instruments as a result of the depreciation of the Kwacha.

During the same period, the banking sector's total RWA increased by 17.3% to K27,115 million from K23,114 million at end-December 2013, mainly on account of an increase in net loans and advances and off-balance sheet items. All banks, except four, met the minimum capital requirements. In this regard, the BoZ agreed to extend the deadlines for the four banks after taking into consideration their individual circumstances.

CHART 2.2: REGULATORY CAPITAL, RWA AND CAPITAL ADEQUACY RATIO (2012-2014)



Additionally, the ratio of net NPLs to total regulatory capital, a measure of the potential impact of NPL related losses on bank capital, remained satisfactory at 4.3% despite the 0.8 percentage points increase from 3.5% as at end-December 2013. At a ratio of 4.3%, the banking sector had sufficient absorption capacity for unexpected loan losses. However, the risk profile of the banking sector, as indicated by the ratio of RWA to total assets, slightly increased to 55.8% from 55.1% at end-December 2013 (see Table 2.4).

Table 2.4: Asset Risk Profile

Asset Type and Risk-weight Categories	2012	2013	2014
20 percent risk-weight (% of RWA)	**6.7**	**6.8**	**6.2**
Balances with banks	54.5	64.5	70.3
Investments in Government bonds	40.6	33.8	28.0
Inter-bank loans and advances	4.8	1.4	1.7
Assets in transit	0.1	0.2	0.0
Sub-total	100.0	100	100
50 percent risk-weight (% of RWA)	6.1	7.8	6.6
Loans and advances	99.5	97.9	97.8
Assets in transit	0.5	2.1	2.2
Sub-total	100.0	100	100
100 percent risk-weight (% of RWA)	78.6	72.3	74.4
Loans and advances	82.5	83.2	82.4
Inter-bank loans and advances	0.0	0.0	1.0
All other assets	21.4	16.8	16.6
Sub-total	100.0	100	100
Off-balance sheet items (% of RWA)	8.3	13.1	12.8
20 percent risk-weight	6.6	6.8	8.4
50 percent risk-weight	17.5	10.3	17.9
100 percent risk-weight	75.9	82.9	73.7
Sub-total	100.0	100.0	100
Total risk-weighted assets (RWA)	100.0	100.0	100
Total risk-weighted assets to total assets	53.2	55.1	55.8

2.5 Earnings Performance and Profitability

In the year under review, earnings performance was rated satisfactory as the sector posted net operating income (NOI) of K5,314.6 million, which was 20.6% higher than K4,405.0 million recorded in the year ended 31 December 2013. The growth in NOI was mainly attributed to net interest income which was higher than the prior year's figure by 19.6% (K497.3 million) due to a rise in interest income from both loans and government securities. Interest income from loans increased on account of a 14.1% growth in the loan book coupled with an increase in average lending rates to 20.4% at the end of December 2014 from 16.4% at the end of December 2013.

Furthermore, despite the investments in Government securities dropping by 2.0%, the decrease in volume was more than compensated for by a rise in the yield rates which resulted in a 35.7% increase in interest income earned on Government securities. At the end of December 2014, yield rates on a 364-days Treasury bill and a 5-year Government bond stood at 20.4% and 22.4% respectively, compared to 15.7% and 16.5% at the end of December 2013. Additionally, earnings performance was boosted by an increase in non-interest income which was greater than the previous year's figure by 21.0% (K391.7 million).

On the other hand, total interest expenses also went up by 68.1% (K575.7 million). The rise in interest expenses was largely attributed to higher interest expenses incurred on time deposits for the corporates which increased by 72.9% (K367.9 million) over the period under review. This was mainly as a result of the tight liquidity conditions experienced in the second half of the year which pushed up the rates.

Overall, the sector recorded a profit before tax (PBT) of K1,817.5 million, representing an increase of 40.7% from the PBT of K1,292.0 million recorded in 2013 while profit after tax (PAT) of K1,189.4 million was 36.5% higher than K871.6 million recorded the previous year. Consequently, the RoA and RoE increased modestly to 3.9% and 18.3% for the year 2014 from 3.4% and 18.2%, respectively for the year 2013.

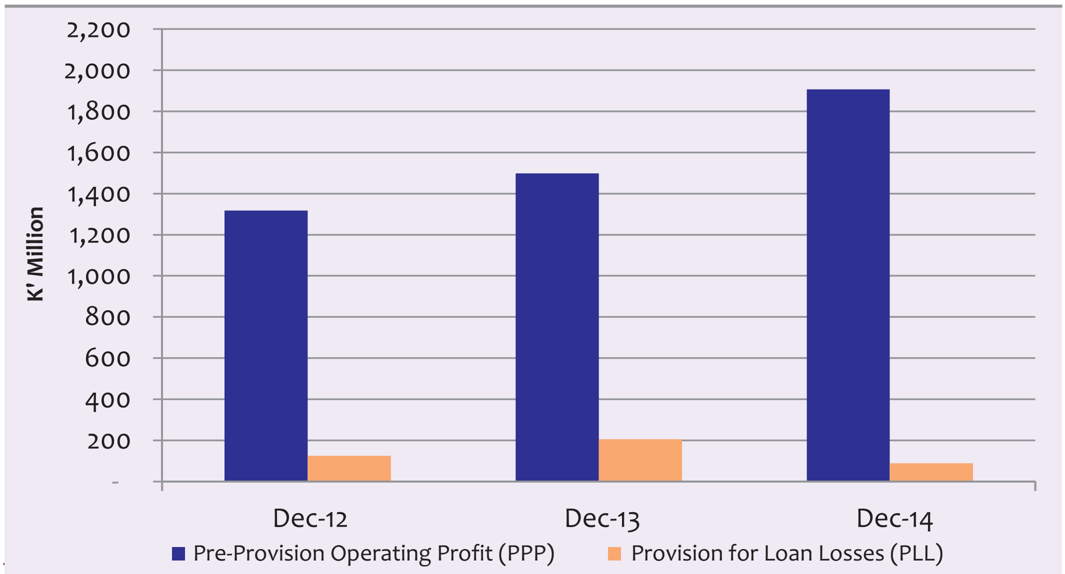
The loan loss-absorbing capacity as reflected by the pre-provision operating profit (PPP) also increased. The PPP at K1,906.0 million was 27.2% higher than K1,498.0 million generated in the preceding year (see Table 2.5 and Chart 2.3).

Table 2.5: Summarized Income Statement

Particulars	2012	2013	2014
	K' million	K' million	K' million
Interest Income	2,724	3,387	4,457
Interest Expenses	(619)	(845)	(1,417)
Net Interest Income	2,104	2,543	3,040
Non-Interest Income	1,718	1,862	2,274
Net Operating Income	3,822	4,405	5,314
Non-Interest Expenses	(2,505)	(2,907)	(3,408)
Pre-Provision Operating Profit (PPP)	1,317	1,498	1,906
Loan Loss Provisions	(126)	(206)	(89)
Profit Before Taxation	1,191	1,292	1,817
Taxation	(491)	(420)	(628)
Net Profit	700	872	1,189

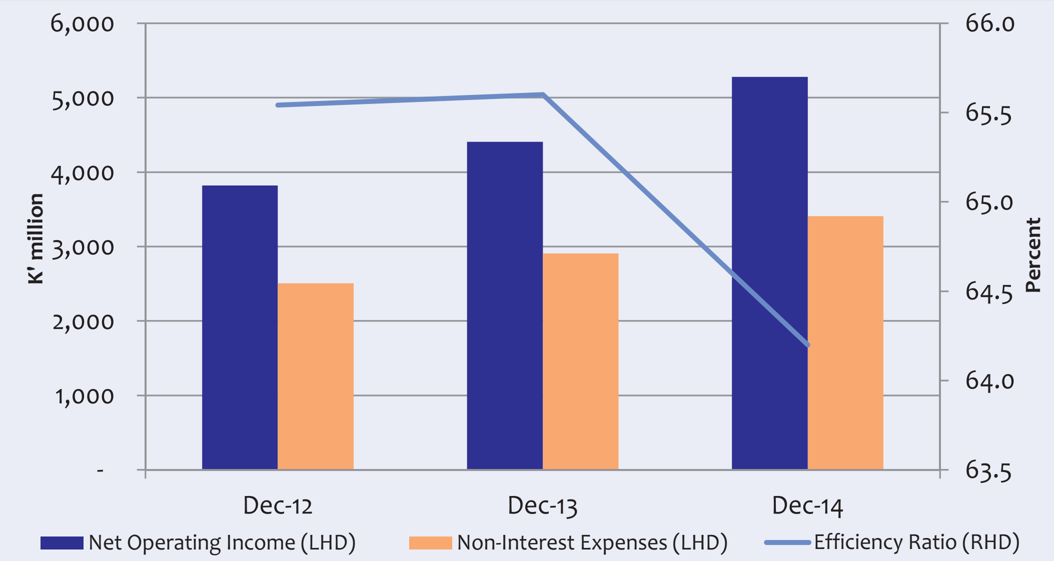
Source: Bank of Zambia

CHART 2.3: OPERATING PROFIT BEFORE PROVISIONS AND PROVISION FOR LOAN LOSS EXPENSES



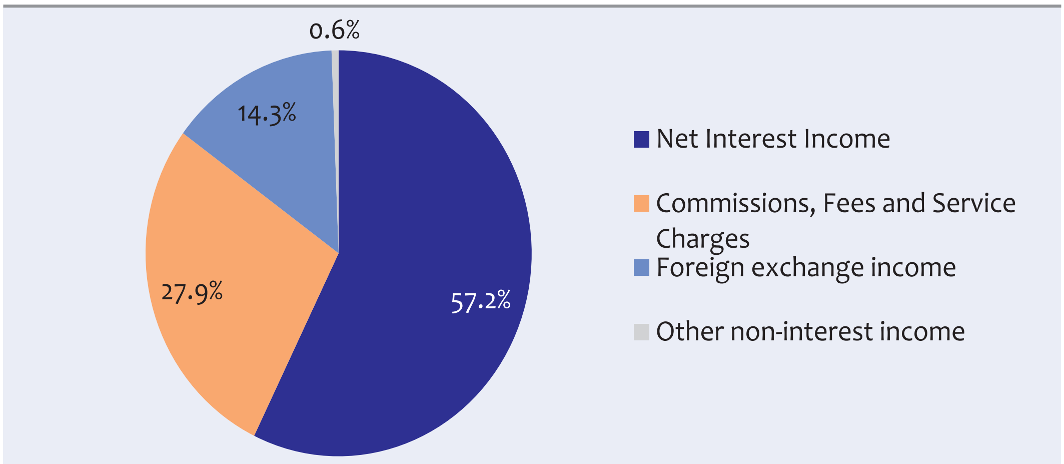
The banking sector's operational efficiency marginally improved to 64.2% in 2014 from 65.5% in 2013 (see Chart 2.3) as a result of a proportionately higher increase in net operating income of 20.6% compared to the increase in non-interest expenses of 17.2%. Non-interest expenses increased largely on account of salaries and employee benefits which were higher than the previous year's figure by 15.2% and accounted for 50.9% of total non-interest expenses.

2.4: NET OPERATING INCOME, NON-INTEREST EXPENSES AND EFFICIENCY RATIO (2012-2014)



The composition of net operating income for the banking sector in 2014 remained largely unchanged. The principal sources of income were net interest income which accounted for 57.2% of total net operating income, commissions, fees and service charges at 27.9%, foreign exchange income at 14.3% and other non-interest income at 0.6% compared with 57.7%, 26.9%, 13.0% and 2.4% in 2013, respectively (see Chart 2.5).

CHART 2.5: COMPOSITION OF NET OPERATING INCOME FOR THE BANKING SECTOR (2014)



2.6 Asset Quality

2.6.1 Level of Non-Performing Loans

Asset quality was satisfactory, as reflected by the decrease in the ratio of gross NPLs to gross loans to 6.1% at end-December 2014 from 7.0% at end-December 2013. The decrease was as a result of the relatively higher increase in gross loans and advances compared to the rise in NPLs. In addition, the 'net NPL ratio'[3] (NPLs less of provisions to net loans) increased slightly to 1.5% from 1.2% at end-December 2013.

[3]The NPL ratio does not take into account NPLs that have been fully provisioned and have no potential to negatively impact the overall quality of the loan book.

The sector's gross loans and advances increased by K2,685 million (14.1%) to K21,665 million at end-December 2014 from K18,980 million at end-December 2013. On the other hand, the gross NPLs in the banking sector, increased by K1.7 million (0.1%) to K1,322 million from K1,321 million (see Table 2.6). Further, the gross NPLs to total assets improved to 2.7% from 3.1% at end-December 2013.

Table 2.6: Gross Loans and Non-Performing Loans

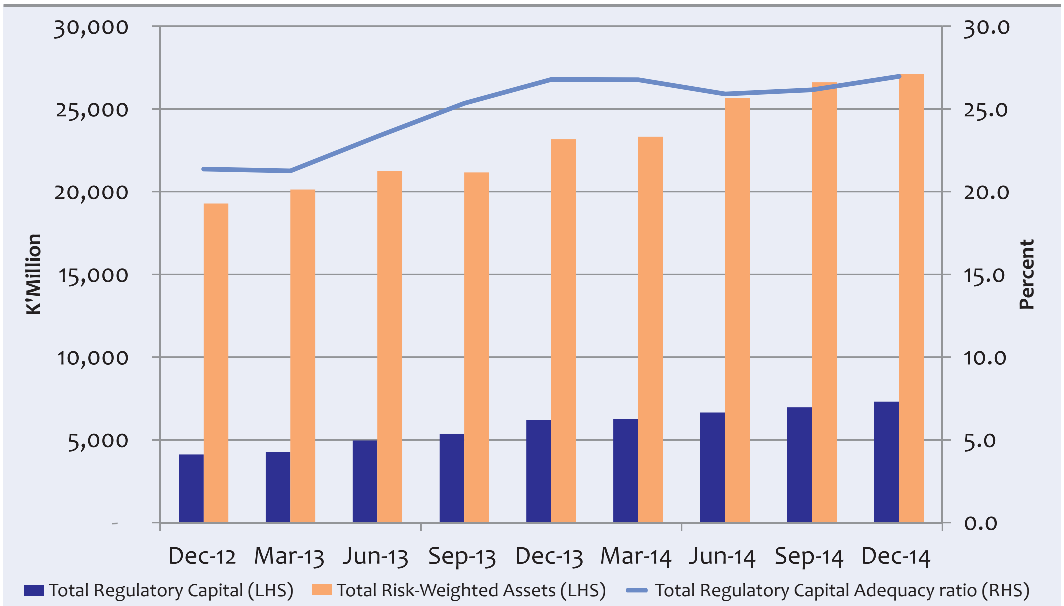
Item/year	2012	2013	2014
Gross loans (K' million)	16,617	18,980	21,665
NPLs (K' million)	1,350	1,321	1,322
Substandard	123	104	177
Doubtful	120	106	119
Loss	1,107	1,111	1,026
NPL ratio (%)	8.1	7.0	6.1
Substandard	0.7	0.5	0.8
Doubtful	0.7	0.6	0.6
Loss	6.7	5.9	4.7

Source: Bank of Zambia

2.6.2 Loss-Absorbing Capacity

The allowance for loan losses (ALL) decreased by 8.0% to K1,011 million at end-December 2014 from K1,099 million at end-December 2013. As a result of a decline in the ALL coupled with the marginal increase in gross NPLs, the NPL coverage ratio[4] decreased by 6.7 percentage points to close the year at 76.5% from 83.2% at end-December 2013. This reduction implied a deterioration in the banking sector's reserve for expected loan losses[5] (see Chart 2.6). The minimum regulatory allowance for loan losses also declined to 90.2% from 92.5% at end-December 2013.

CHART 2.6: NON-PERFORMING LOANS, PROVISIONS AND NPL COVERAGE RATIO (2012-2014)



2.6.3 Sectoral Distribution of Loans

In terms of credit concentration by sector, 'personal loans' continued to account for the largest share of total loans and advances at 35.4% compared to 33.2% at end-December 2013. This was followed by the agriculture, forestry, fishing and hunting sectors at 16.6% (December 2013: 20.2%), manufacturing sector at 11.5% (December 2013: 9.5%) and wholesale and retail trade sector at 7.8% (December 2013: 9.1%), (see Table 2.7).

[4]NPL Coverage ratio is the proportion of the gross NPLs covered by the allowance for loan losses (ALL) [i.e., PLL/NPLs]. A ratio of 100% or more implies full compliance with the minimum provisioning requirements. However, since banks may take into account qualifying security as provided for in the regulations; (i.e. exemption from provisioning requirements), this ratio may not always be at 100% or more).

[5]Regulatory provisions are the minimum provisioning requirement for all NPLs as per Regulation 18 of SI No. 142 of 1996 [i.e., 20% provision for the sub-standard loans (90-119 days past due), 50% provisions for the doubtful loans (120-179 days past due) and 100% for the loss loan category (180 days and above past due]. However, for a crude monitoring purpose, the computation of this ratio does not take into account the provisioning exemptions in Regulation 18(2) and CB Circular 4/98 and hence not necessarily 100% of the requirements.

With regard to the sectoral distribution of NPLs, personal loans accounted for the largest proportion of the NPLs at 23.3% (December 2013: 21.4%), followed by the agricultural, forestry, fishing and hunting at 22.0% (December 2013: 10.8%) and restaurants and hotels at 13.1% (December 2013: 7.5%), see Table 2.8.

The restaurant and hotels and the construction sectors were the banking sector's worst performing sectors with the highest intra-sector[6] NPL ratios of 53.5% and 12.5%, respectively. For the restaurant and hotels sector, this was a deterioration from 33.7% at end-December 2013 while on the other hand the construction sector recorded an improvement from 37.1% at end-December 2013. All other sectors had intra-sector NPLs ratios below 10% and were considered low risk sectors. For the two outlier sectors noted above, despite the intra sector NPL ratios being high, their contribution to total loans and advances at end-December 2014 were insignificant at 1.5% for hotels and restaurant sector and 3.4% for the construction sector (see Table 2.9).

Table 2.7: Banking Sector Sectoral Distribution of Loans (2012-2014)

Sector	2012	2013	2014
Agriculture, forestry, fishing and hunting	23.2	20.2	16.6
Mining and quarrying	5.8	6.6	5.0
Manufacturing	11.6	9.5	11.5
Electricity, gas, water and energy	2.1	1.7	2.2
Construction	3.8	3.5	3.4
Wholesale and retail trade	6.8	9.1	7.8
Restaurants and hotels	2.0	1.6	1.5
Transport, storage and communication	4.7	4.5	5.6
Financial services	1.9	2.1	2.5
Personal loans	34.4	33.2	35.4
Other sectors	3.7	8.0	8.5
Total	100.0	100.0	100.0

Source: Bank of Zambia

Table 2.8: Banking Sector Sectoral Distribution of NPLs (2012 – 2014)

Sector	2012	2013	2014
	%	%	%
Agriculture, forestry, fishing and hunting	12.9	10.8	22.0
Mining and quarrying	5.9	5.3	4.4
Manufacturing	12.5	6.3	5.3
Electricity, gas, water and energy	0.2	0.3	1.2
Construction	18.5	18.4	7.0
Wholesale and retail trade	6.7	9.8	7.7
Restaurants and hotels	4.0	7.5	13.1
Transport, storage and communication	9.0	8.7	5.3
Financial services	1.9	1.2	1.2
Personal loans	14.8	21.4	23.3
Other sectors	13.6	10.3	9.5
Total	100.0	100.0	100.0

Source: Bank of Zambia

Table 2.9: Intra-sector NPL Ratio (2012-2014)

Sector	2012	2013	2014
	%	%	%
Agriculture, forestry, fishing and hunting	4.6	3.8	8.1
Mining and quarrying	8.4	5.7	5.4
Manufacturing	9.0	4.8	2.8
Electricity, gas, water and energy	1.0	1.2	3.3
Construction	40.3	37.1	12.5
Wholesale and retail trade	8.2	7.7	6.1
Restaurants and hotels	16.9	33.7	53.5
Transport, storage and communication	16.1	13.9	5.8
Financial services	8.5	4.2	2.9
Personal loans	4.6	5.3	4.5

Source: Bank of Zambia

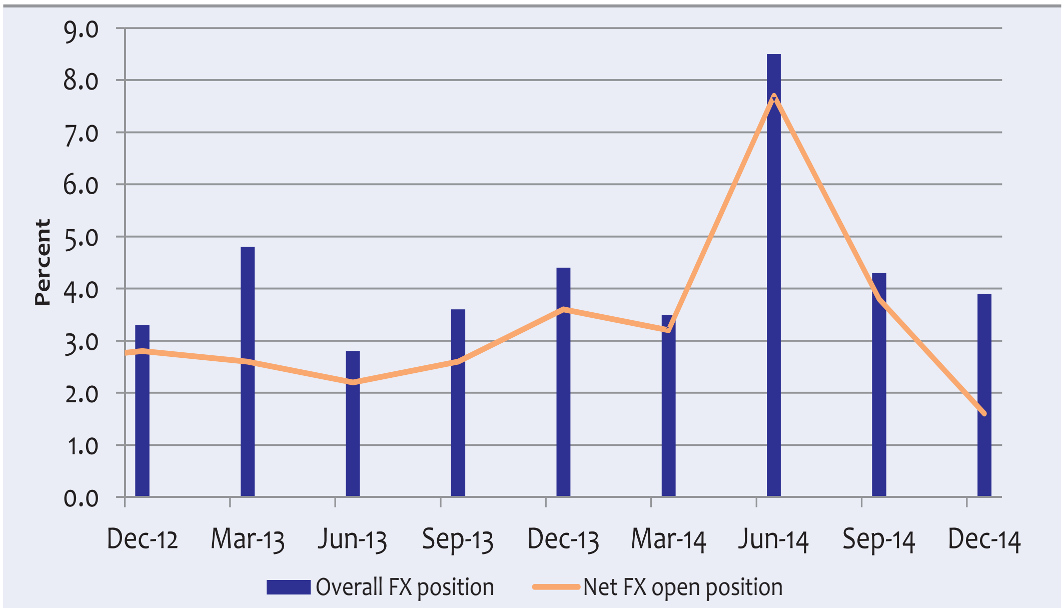
2.7 Sensitivity to Market Risk

The sector's exposure to movements in foreign exchange rates remained low in 2014. The net foreign exchange position to total regulatory capital, improved to 1.6% as at end-December 2014 from 3.6% as

[6] Intra-sector NPLs refer to the loans within the sector that are not performing.

at end-December 2013, indicating a decrease in foreign exchange risk. In addition, the overall foreign currency exposure reduced to 3.9% from 4.4% over the same period. The ratio of overall foreign exchange exposure to regulatory capital remained well below the regulatory limit of 15.0% (see Chart 2.7). The sector's low exposure to foreign exchange risk was attributed to the strong capital position.

CHART 2.7: NET FOREIGN EXCHANGE POSITION AND OVERALL FOREIGN CURRENCY EXPOSURE TO CAPITAL



2.8 Funding and Liquidity Risk

The banking sector's growth was mainly funded by customer deposits which accounted for 84.6% of total liabilities (December 2013: 85.7%). Of the total deposits, demand deposits constituted 59.0%. However, funding from both local and foreign financial institutions plus other borrowed funds remained low at 7.8% (see Table 2.10 below).

The banking sector's liquidity position was satisfactory at end-December 2014 although the sector experienced some challenges following the tight monetary policy stance that the BoZ took during the year. The 'liquidity ratio'[7] modestly decreased to 45.7% from 49.3% at end-December 2013. The decrease in the ratio was on account of a proportionately higher increase in total deposits and short-term liabilities of 15.0% compared to an increase in liquid assets of 7.1%. Further, the 'liquid assets ratio'[8] declined to 35.8% from 38.7% over the same period (Chart 2.8 below). The sector's liquid assets mainly comprised investments in Treasury bills and balances with foreign institutions. In addition, current account balances rose by 158.6% to K2,251 million as at end-December 2014 from K871 million as at end-December 2013 while OMO deposits reduced by 100% to nil from K1,680 million over the same period at end-December 2013 (see Table 2.11 below).

Further, there was a marginal increase of 0.6 percentage points in the loan-to-deposit ratio to close the year at 62.0% from 61.4% as at end-December 2013. At 62.0%, the banking sector still had capacity to grow the loan book from stable and relatively low cost deposit liabilities, (see Chart 2.9 below).

Table 2.10: Banking Sector Funding of Assets (percentage of total assets)

	Dec-2012	Dec-2013	Dec-2014
	%	%	%
Deposits	73.4	73.7	71.9
Borrowings	9.5	6.9	7.8
Capital	11.6	14.1	15.0

Source: Bank of Zambia

[7] The liquidity ratio is the proportion of liquid assets to deposits and other short-term liabilities and is intended to capture the liquidity mismatch of assets and liabilities, and provides an indication of the extent to which banks could meet a short-term withdrawal of funds without facing liquidity problems. In addition, the loan-to-deposit ratio is used to determine how much of loans are funded by deposits rather than the interbank or other borrowings (purchased liquidity) which tend to be volatile and expensive. A smaller ratio, less than 100%, is better as it implies that loans are funded by deposits which are generally low cost and quite stable.

[8] The liquid asset ratio is the proportion of liquid assets to total assets and provides an indication of the liquidity available to meet expected and unexpected demands for cash.

CHART 2.8: BANKING SECTOR LIQUIDITY CONDITION

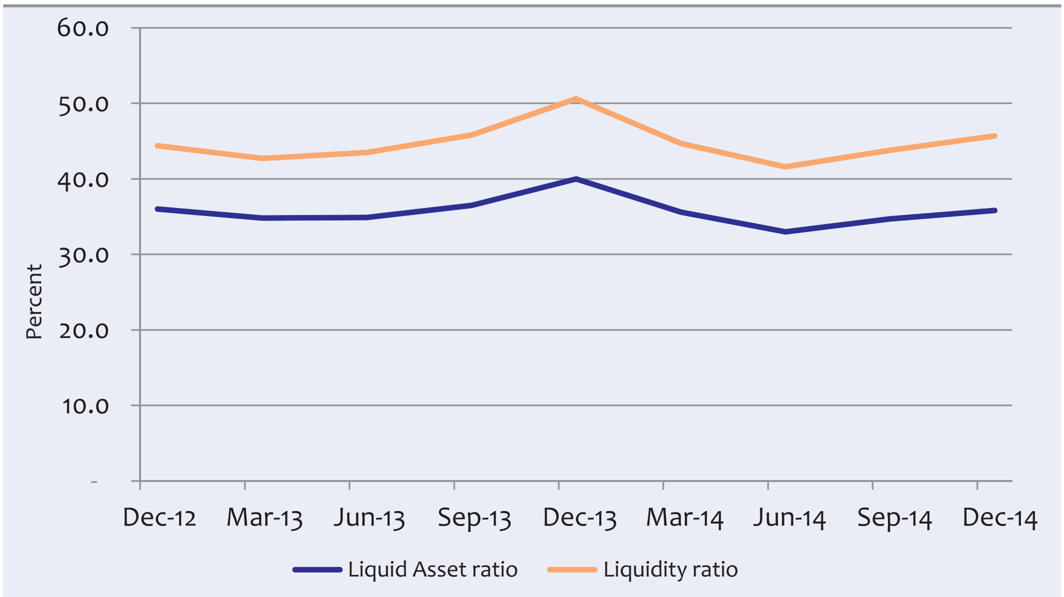


CHART 2.9: DEPOSITS, LOANS AND LOAN-TO-DEPOSIT RATIO

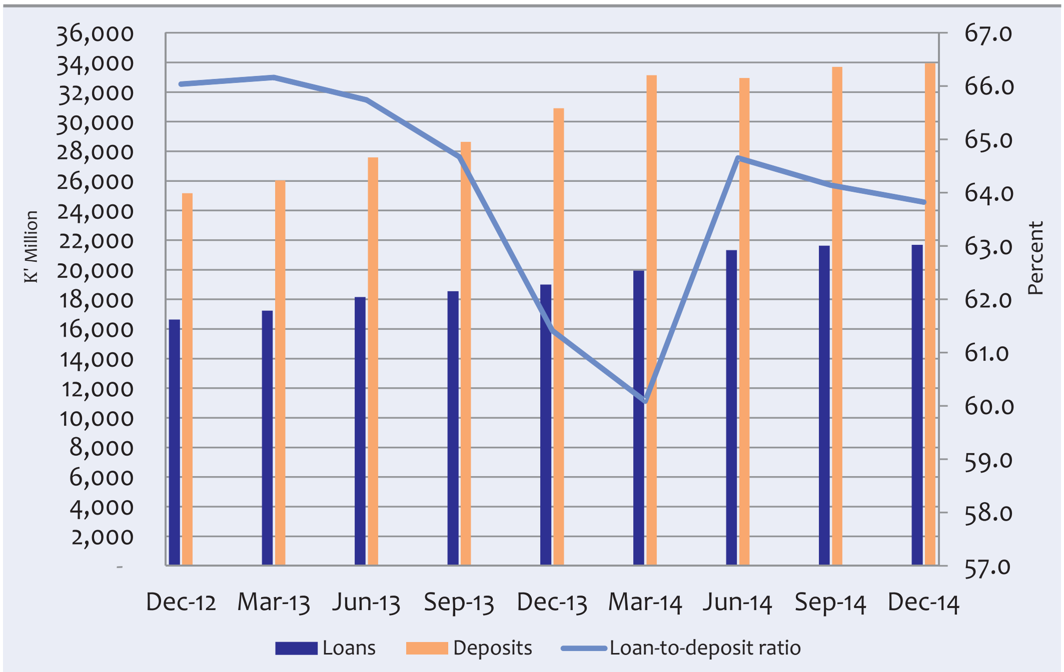


Table 2.11: Composition of Liquid Assets (K' million)

	Dec-2012	Dec-2013	Dec-2014
Cash and balances with domestic banks	3,974	2,846	4,741
Balances with foreign institutions	3,477	4,647	5,379
BOZ securities (OMO)	0	1,680	0
Treasury bills	4,603	6,724	6,825
Government bonds (6 months to maturity)	304	358	469
Total liquid assets	12,357	16,255	17,414

Source: Bank of Zambia

2.9 Market Share

2.9.1 Market Share and Performance Indicators Bank by Bank

Based on the proportion of total assets, total loans and deposits held, Zambia National Commercial Bank (Zanaco), Stanbic Bank, Standard Chartered Bank and Barclays Bank dominated the banking sector's market share. In terms of asset and deposit size, these four banks accounted for the largest market share collectively and accounted for 58.2% and 66.4% of the banking sector's totals (December 2013: 58.0% and 60.3%). The banks that accounted for the largest portion of the industry's total PBT in order of significance were Standard Chartered Bank (K376.4m), Stanbic Bank (K275.1m), Zanaco (K259.4m), Finance Bank (K258.4m), Barclays (K222.4m) and Citibank (K209.9m) as indicated in Table 2.12 below.

Table 2.12:Commercial Banks' Market Share and Performance Indicators as at 31 December 2014

Bank	Percentage of assets %	Percentage of deposits %	Percentage of loans %	Profit before tax (K' m)	Return on Assets %	Return on Equity %	Total Regulatory Capital Ratio %
Zanaco	13.6	14.4	16.9	259.4	2.9		20.5
Stanbic	14.2	14.2	16.3	275.1	4.4	15.8	23.5
StanChart	13.7	14.8	14.9	376.4	5.0	23.7	18.7
Barclays	13.9	14.7	14.7	222.4	3.7	30.3	14.7
BOC	6.7	7.2	7.2	76.7	1.8	17.9	90.3
Finance Bank	6.7	7.1	6.7	258.4	-0.3	2.0	36.4
Citibank	4.7	3.5	2.0	209.9	-3.5	22.7	49.9
First National	6.7	6.4	8.8	77.1	3.1	17.2	43.3
Indo-Zambia	4.9	4.7	3.8	71.6	4.0	9.5	60.6
BancABC	4.0	2.2	4.3	10.7	-3.5	10.2	40.0
Investrust	3.2	4.0	2.8	0.7	0.5	-16.7	12.0
Ecobank	1.9	1.7	1.7	8.9	1.4	7.8	33.6
Cavmont	1.5	1.6	2.0	2.9	-3.6	5.8	19.6
United Bank	0.7	0.6	0.2	0.7	4.3	-16.7	59.7
First Alliance	1.0	0.8	1.2	19.4	-0.3	11.3	36.4
Access Bank	1.2	1.2	0.5	(18.2)	-6.2	-3.2	27.6
Intermarket	0.6	0.7	0.6	(5.1)	2.8	-28.3	13.2
First Capital	0.6	0.4	0.8	(7.8)	-7.1	18.9	45.5
AB Bank	0.2	0.1	0.2	(22.2)	-22.73	-20.5	18.8
Total/Weighted average	100	100	100	1,817	3.7	128.5	27.0

2.9.2 Market share: Assets, Loans, Deposits and Profits by Ownership Type

In terms of ownership, subsidiaries of foreign banks (eight) continued to dominate the banking sector's market share in terms of assets, loans and deposits. These were followed by banks partly owned by Government (two) and then lastly locally owned banks (nine). Similarly, the distribution of 'profit before tax' by type of ownership indicated that subsidiaries of foreign banks accounted for the largest share of the sector's total profit before tax and was followed by banks partly owned by Government (see Table 2.13 below).

Table 2.13: Distribution of the Banking Sector's Assets, Net Loans and Deposits by Ownership Type

	2012				2013				2014			
	Assets	Loans	Deposits	PBT	Assets	Loans	Deposits	PBT	Assets	Loans	Deposits	PBT
Subsidiaries of foreign banks	66.7	65.4	65.8	64.1	67.9	67.6	66.2	71.3	65.8	66.5	64.6	69.2
Banks with Government stake	21.8	21.6	21.8	24.1	21	21.1	22	21.5	18.6	18.5	19.1	18.2
Local private banks	11.5	13	12.5	11.8	11	11.4	11.8	7.3	15.7	15.0	16.3	12.6
Total	100	100	100	100	100	100	100	100	100	100	100	100

2.10 Delivery Channels: Bank Branches, Agencies and Automated Teller Machines

In the year under review, there was an increase in the banking sector's physical delivery channels (i.e., bank branches, agencies and automated teller machines (ATMs)). The number of branch and agency locations increased to 364 as at end-December 2014 from 345 as at end-December 2013, while the number of ATMs rose to 873 from 724 over the same period.

Three banks, namely, Zanaco, Barclays Bank Zambia Plc and Finance Bank Zambia Plc, accounted for the largest share of the banking sector branch network at 66, 56 and 54 as at end-December 2014 compared to 66, 54, and 53 as at end-December 2013, respectively (see Table 2.14 below). In terms of the geographical dispersion of the branch network, Lusaka Province had the highest number of branches followed by the Copperbelt Province (see Appendix 3).

Table 2.14: Banking Sector Physical Delivery Channels (2012-2014)

	Branch and Agency Network			ATMs		
Bank	**2012**	**2013**	**2014**	**2012**	**2013**	**2014**
AB Bank Zambia	3	4	5	0	0	0
Access Bank Zambia	5	5	5	7	4	7
BancABC Zambia	11	15	17	0	15	20
Bank of China Zambia	2	2	2	0	0	0
Barclays Bank Zambia	54	54	54	150	148	134
Cavmont Bank	15	15	18	0	0	39
Citibank	2	2	2	0	0	0
Ecobank Zambia	5	8	9	16	32	45
Finance Bank	51	53	56	66	88	121
First Alliance Bank	4	4	4	0	0	0
First Capital Bank	2	3	3	2	3	4
First National Bank	9	12	17	43	61	79
Indo Zambia Bank	18	25	27	27	33	40
Intermarket Bank	7	7	7	6	8	8
Investrust Bank	19	23	25	33	47	58
Stanbic Bank Zambia	19	22	22	63	66	82
Standard Chartered Bank	21	21	21	45	45	47
United Bank for Africa	4	4	4	4	4	4
Zanaco	63	66	66	167	170	185
Total	314	345	364	629	724	873

2.11 The Banking Sector Outlook

The overall financial performance and condition of the banking sector in 2015 is expected to remain satisfactory. Capital adequacy is likely to remain strong on account of retained earnings and fresh capital injections at the banks that are expected to meet the new minimum capital requirements. Asset quality is likely to continue on a satisfactory trajectory with an NPL ratio of less than 10.0% as banks continue being cautious in their lending activities. Earnings performance is expected to be stable as banks continue to leverage on strong capital base to increase their investments in other earning assets in order to realize their shareholders' expected rates of return. Liquidity on the other hand, is expected to remain fair.

THE NON-BANK FINANCIAL INSTITUTIONS SECTOR (NBFIs)

3.1 Overview of the Financial Performance and Condition of the NBFIs

The overall financial performance and condition of the NBFIs sector was satisfactory in the year under review (see Table 3.1 and 3.2).

The sector's regulatory capital and asset quality were satisfactory while profitability was fair. In particular, the leasing finance institutions and consumer-lending microfinance institutions (MFIs), accounting for 62.3% of the sector's total assets, reported satisfactory regulatory capital, asset quality, earnings performance and liquidity position. On the other hand, the building societies sub-sector accounting for 15.7% of the sector's total assets, reported satisfactory regulatory capital, fair asset quality and liquidity while the earnings performance was marginal. The enterprise-lending MFIs at 0.8% of the sector's total assets also reported satisfactory regulatory capital, fair asset quality and marginal earnings performance.

Eight institutions accounted for 36.2% of the sector's total assets and were rated strong, while 26 which accounted for 28.1% were rated satisfactory. Further, 43 institutions and 23 institutions were rated fair and marginal, respectively. The remaining five which accounted for 6.9% were rated unsatisfactory on account of regulatory capital deficiency (see Table 3.1).

Table 3.1: Performance and Financial Condition of the NBFIs Sector, 2012 - 2014

Performance Rating	Licence Type	Number of Institutions			% of Total Assets for 2014
		2012	2013	2014	
Strong	Deposit-taking	2	2	1	2.8%
	Non-Deposit-taking	7	6	7	33.4%
Satisfactory	Deposit-taking	3	3	2	5.9%
	Non-Deposit-taking	29	29	24	22.2%
Fair	Deposit-taking	6	5	4	5.1%
	Non-Deposit-taking	26	32	39	20.5%
Marginal	Deposit-taking	1	2	1	3.0%
	Non-Deposit-taking	6	19	22	0.2%
Unsatisfactory	Deposit-taking	1	5	4	6.4%
	Non-Deposit-taking	3	1	1	0.5%
Total		84	103	105[10]	100%

Table 3.2 Financial Performance Indicators of the NBFI Sector, 2012-2014

Indicator (%)	Dec-12	Dec-13	Dec-14
Primary capital adequacy ratio	46.2	23.2	27.1
Total regulatory capital adequacy ratio	48.6	23.6	31.9
Net NPLs to regulatory capital	1.2	3.2	2.7
Gross non-performing loans to total loans	7.6	7.2	7.4
Net non-performing loans to total loans	0.6	1.1	1.3
Net non-performing loans to net loans	0.7	1.2	1.4
Provisions to non-performing loans	91.7	84.8	81.9
Earning assets to total assets	78.7	78.4	80.7
Net operating income to total assets	18.5	21.0	17.1
Non-interest expense to total assets	13.9	18.9	14.7
Provision for loan losses to total assets	4.3	5.1	4.4
Net interest income to total assets	17.1	15.9	11.7
Return on assets	5.1	2.1	2.7
Return on equity	16	7	8.9
Efficiency ratio	75.0	89.6	89.0
Liquid assets to total assets	23.2	16.5	15.1
Liquid assets to deposits and short-term liabilities	35.3	47.0	32.4

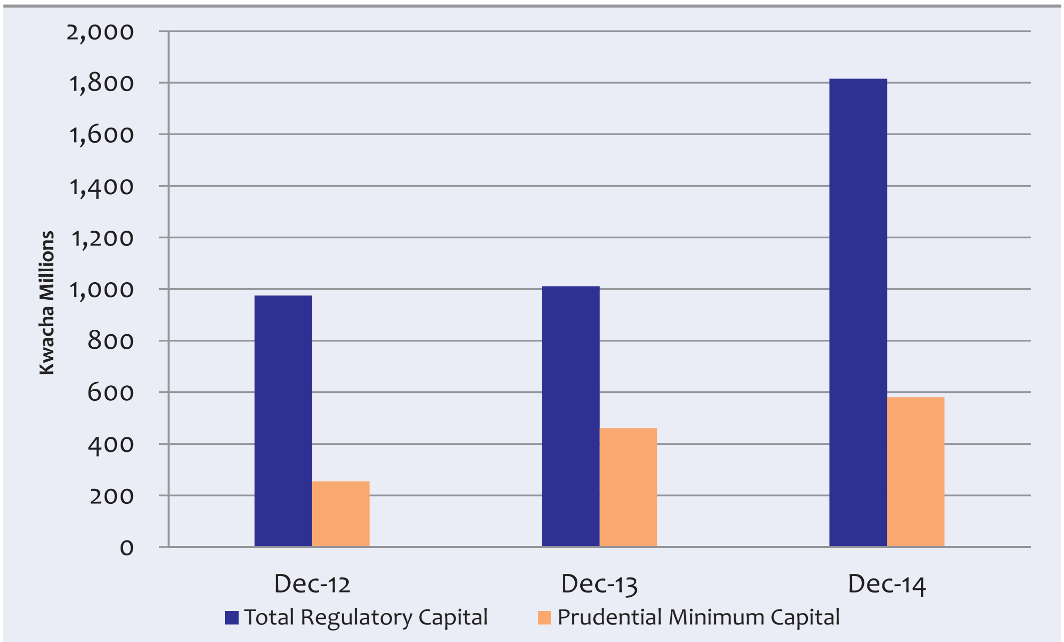
[12]The total number of licensed NBFIs was 116. Out of the 116, 8 newly licenced institutions, 3 had not yet started operations as at the reporting date while the other institution is a credit reference bureau that is not required to submit prudential returns.

3.1.1 Capital Adequacy

The sector was adequately capitalized as at end-December 2014. The total regulatory capital adequacy ratio improved to 31.9% from 23.6% at end-December 2013 due to an increase in regulatory capital of 79.6% to K1,816.0 million from K1,011.1 million at end-December 2013 (see Chart 3.1). The increase arose from the profit after tax of K76.6 million coupled with capital injections, largely by the Government of Zambia as it recapitalized state-owned financial institutions during the year under review. The total regulatory capital adequacy ratio was above the minimum prudential limit of 10.0%.

In addition, the capital at risk from non-performing loans which were not provided for (as measured by the ratio of net non-performing loans to regulatory capital) was low at 2.7%. Therefore, the sector was in a position to absorb potential losses that might crystallize from credit risk, which represented the predominant source of risk for the sector.

CHART 3.1: TREND IN TOTAL REGULATORY CAPITAL OF THE NON-BANK FINANCIAL INSTITUTIONS

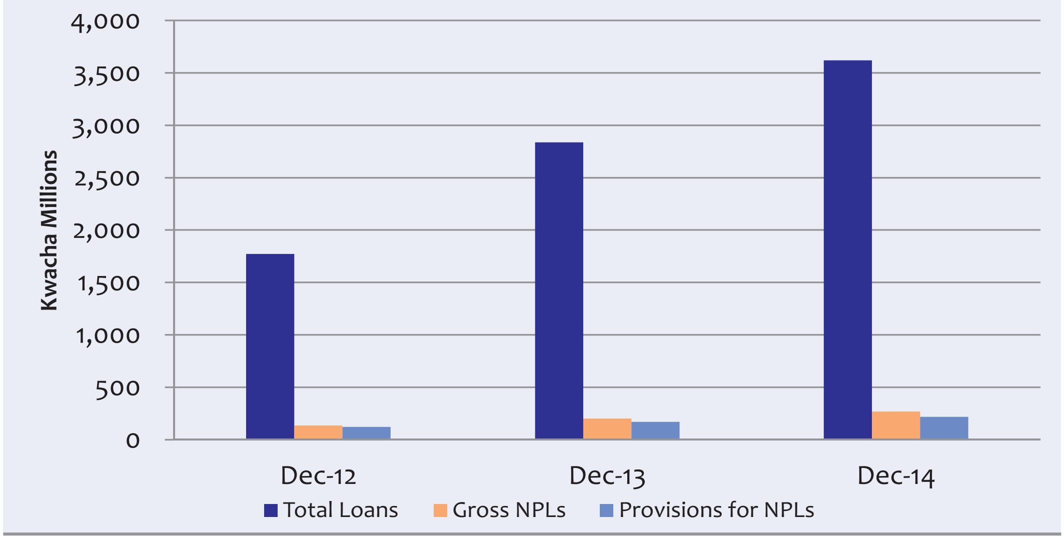


3.1.2 Asset Quality

Asset quality was satisfactory at end-December 2014 as the NPLs ratio at 7.4% was below the prudential limit of 10.0% in spite of an increase from 7.2% at the end of December 2013. Further, the NPLs coverage ratio was satisfactory despite a decline to 81.7% at the end of the review period from 84.6% at the close of the preceding period. The ratio of net NPLs to gross loans marginally increased to 1.3% from 1.2%, although it remained very low.

Net earning assets grew by 53.2% to K4,041.9 million from K2,639.0 million at end-December 2013 largely due to growth in the loan book during the year under review (see Chart 3.2). Out of the gross loans at the end of the review period, 52.1% were personal loans compared to 49.1% at the end of 2013. However, credit risk was considered minimal because more than 90% of the loans were salary-backed loans to civil servants which are characterised by a very low default risk.

CHART 3.2: TREND IN TOTAL LOANS AND NON-PERFORMING LOANS OF THE NON-BANK FINANCIAL INSTITUTIONS



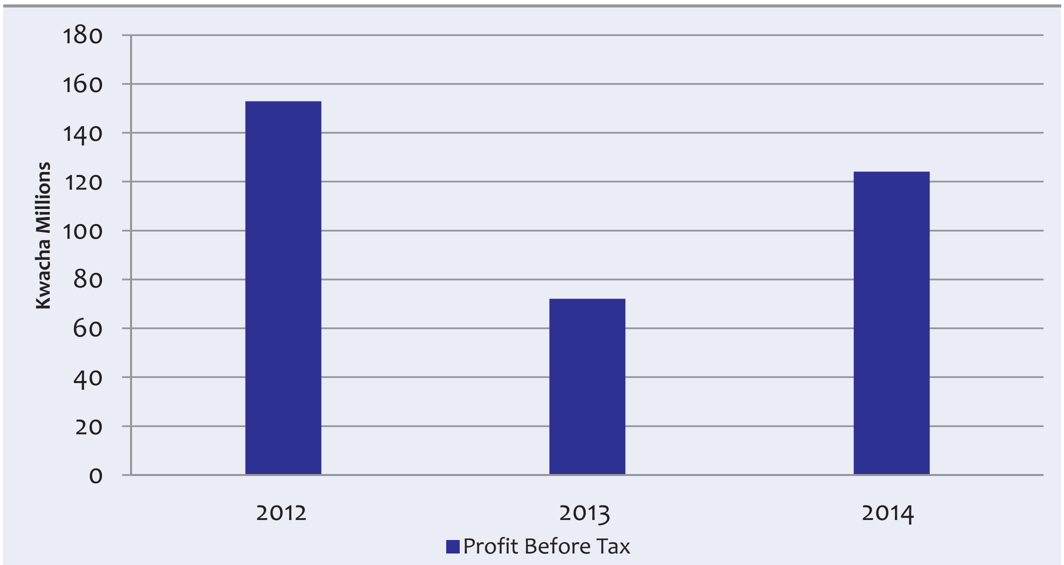
Net loans and advances amounted to K3,398.9 million and accounted for 67.9% of total assets compared to K2,628.4 million (66.8%) as at end-December 2013.

3.1.3 Earnings

The earnings performance of the NBFIs sector during the period under review was satisfactory. The sector recorded a PBT of K124.1 million, which represented an improvement of 72.1% compared to the profit of K72.1 million for 2013 (see Chart 3.3). The growth in PBT was attributed to an increase in interest income of 35.4% to K963.9 million compared to K709.9 million for the previous year. The increase in interest income was supported by an increase in earning assets. Net earning assets grew by 53.2% to K4,041.9 million from K2,639.0 million at end-December 2013 largely due to growth in the loan book during the year under review. The operational efficiency ratio also improved to 87.2% from 89.9% in the previous period.

Profitability as measured by the RoA improved to 3.1% from 1.7% in 2013, reflecting strong earnings performance. The improvement was largely on account of higher interest income which resulted from a growth in the loan book.

CHART 3.3: TREND IN EARNINGS OF THE NON-BANK FINANCIAL INSTITUTIONS



3.1.4 Liquidity

The NBFI sector had adequate liquidity during the review period. Overall, the liquidity position as measured by the ratio of liquid assets to total deposits and short-term liabilities was 32.4% at end-December 2014. However, the above ratio represented a decline of 14.6 percentage points from 47.0% largely due to a 19.9% drop in balances with financial institutions in Zambia as the NBFIs shifted the funds to finance the increase in the volume of loans.

3.1.5 Sensitivity to Market Risk

Sensitivity to market risk was rated low due to the sector's low net open foreign exchange position. The foreign exchange exposure decreased to 15.3% as at end-December 2014 compared to 44.1% at end of the previous year. The decrease in the sector's net foreign exchange exposure was as a result of improved capital and foreign exchange exposure management measures taken by some NBFIs to match their foreign currency denominated assets and liabilities.

3.2 Performance of the Leasing Sector

The overall financial performance and condition of the leasing finance sub-sector in 2014 was rated satisfactory. The sub-sector was adequately capitalised, while asset quality, earnings performance and liquidity position were all satisfactory.

Out of the six leasing finance companies, one institution accounting for 1.0% of the sub-sector's total assets was rated unsatisfactory due to regulatory capital deficiency. In this regard, the BoZ put in place measures to compel shareholders of the institution to address the capital deficiency. Table 3.3 shows the year-end composite and performance ratings for the leasing sub-sector.

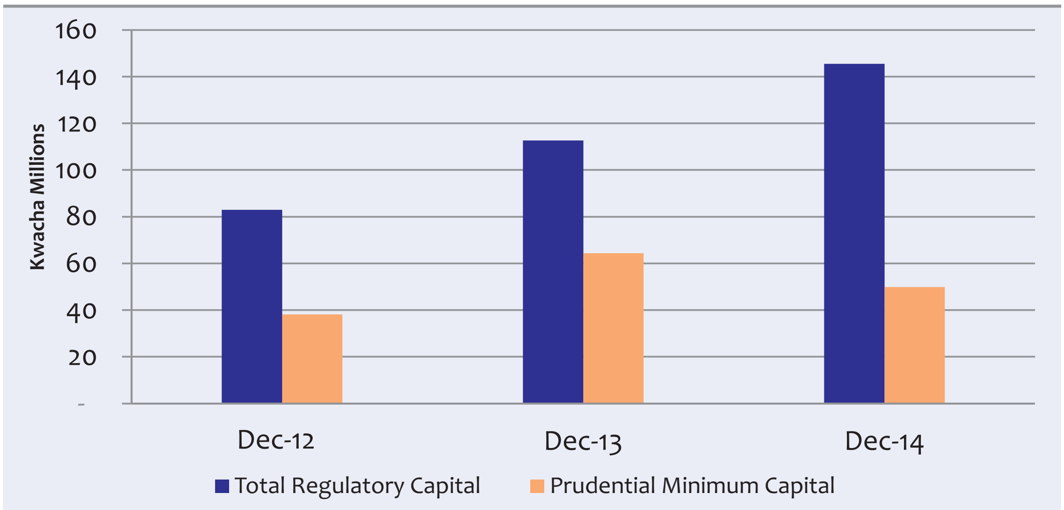
Table 3.3: Year-End Composite Rating for the Leasing Finance Subsector, 2012-2014

Performance	Composite	Number of Leasing companies			Proportion of Industry Assets (%)		
Category	Rating Scale	2012	2013	2014	2012	2013	2014
Strong	1.0 - 1.5	1	2	2	39	63	45
Satisfactory	1.6 - 2.4	1	2	1	5	35	28
Fair	2.5 - 3.4	4	0	0	55	0	0
Marginal	3.5 - 4.4	0	1	2	0	1	26
Unsatisfactory	4.5 - 5.0	2	2	1	1	1	1
Total		8	7	6	100	100	100

3.2.1 Capital Adequacy

The leasing finance sub-sector was adequately capitalised as at 31 December 2014. The regulatory capital ratio improved to 31.0% from 23.4% at end-December 2013 and was above the minimum prudential limit of 10.0%. The improvement was due to an increase in regulatory capital by 29.1% to K145.5 million from K112.7 million as end-December 2013 (see Chart 3.4). The increase in total regulatory capital arose from a profit after tax of K30.9 million, coupled with a K9.9 million capital injection during the period under review. In this regard, the sub-sector was in a stronger position to absorb potential loan losses that might crystallise.

CHART 3.4: TREND IN REGULATORY CAPITAL OF LEASING SUBSECTOR, DECEMBER 2012 – DEC 2014



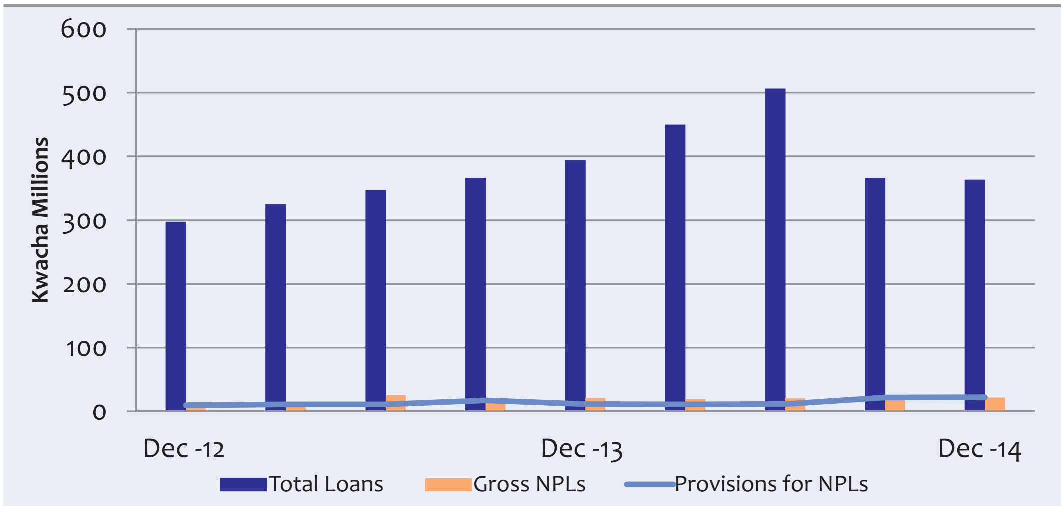
3.2.2 Asset Quality

The asset quality of the sub-sector was satisfactory as at end-December 2014. Despite an increase in the ratio of gross NPLs to total loans to 6.1% from 5.4% as at end-December 2013, the ratio remained below the prudential limit of 10%. The rise in the ratio was due to an increase in gross NPLs of 4.2%. In the period under review, the NPLs coverage ratio increased to 97.9% from 53.4% at end-December 2013 on account of an increase in the allowance for loan and lease losses by 94% to K22.0 million from K11.4 million, over the same period. NPLs were therefore, adequately provided for and did not present a risk to capital adequacy of the sub-sector.

Meanwhile, gross loans decreased by 7.9% to K362.9 million at end-December 2014 from K393.9

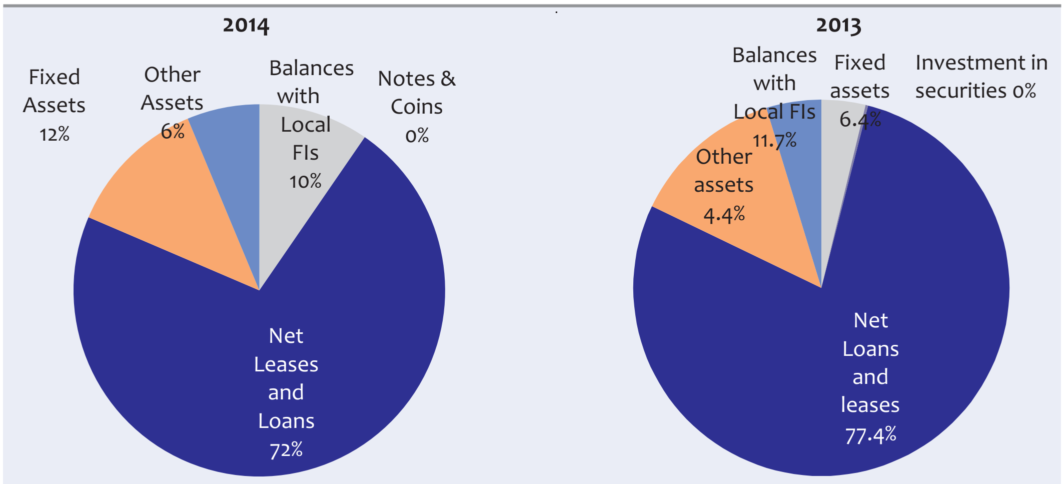
million at end-December 2013 (see Chart 3.5). The decline was attributed to one leasing company, which sold part of its lease portfolio to a commercial bank.

Chart 3.5: Leasing Subsector Total Loans and Provisions, December 2012 – December 2014



Total assets declined by 3.2% to K478.1 million from K494.1 million at end-December 2013, largely due to a 10.9% decrease in net loans and advances. However, net loans and advances still constituted the largest proportion of total assets at 72.4% compared to 77.4% as at end-December 2013 (see Chart 3.6).

CHART 3.6: LEASING SUB-SECTOR ASSETS



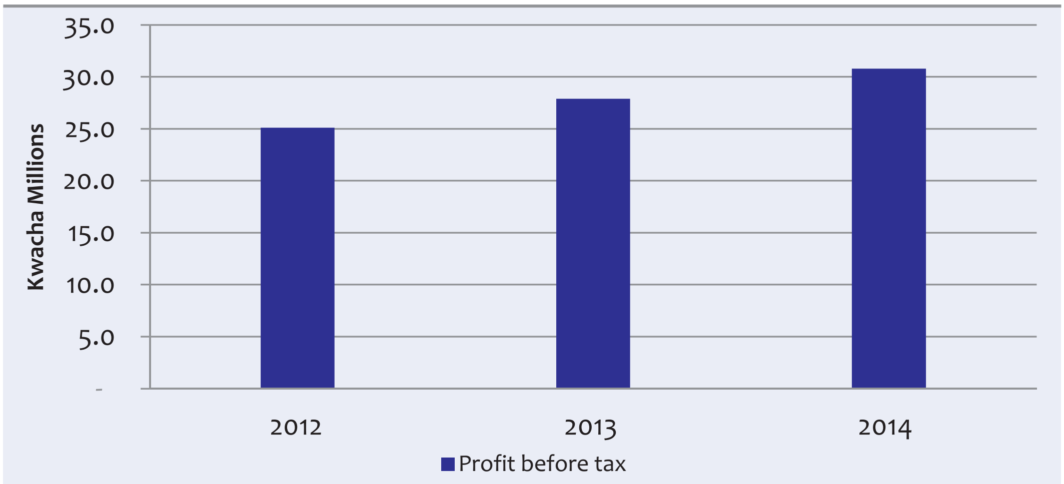
3.2.3 Earnings

The earnings performance of the leasing finance sub-sector was satisfactory during the period under review. The profitability, as measured by the RoA ratio improved to 11.4% compared to 5.6% in the previous year, largely due to an increase in profit before tax by 82.4% to K50.9 million from K27.9 million (see Table 3.3 and Chart 3.7). The rise in profit before tax was largely due to an increase in interest income to K130.7 million from K78.8 million in the previous year. In addition, both the net interest margin and operational efficiency (as measured by the ratio of non-interest expenses to net operating income) improved to 76.5% and 51.7% from 68.4% and 57.6%, respectively.

Table 3.4: Earnings Performance, 2012 – 2014 (K'000)

K'000	2012	2013	2014
Interest income	56,082	78,827	130,667
Interest expenses	14,105	23,950	44,455
Net interest income	41,977	53,820	88,212
Provisions/(Provisions reversals)	8,291	5,683	14,942
Net interest income after provisions	33,686	49,194	71,270
Non-interest income	20,951	16,811	33,933
Total net income	54,637	66,004	105203
Non-interest expenses	29,523	38,037	54,353
Profit before tax	25,112	27,968	50,850
Tax	8,980	9,068	19,968
Profit after tax	16,132	18,900	30,882

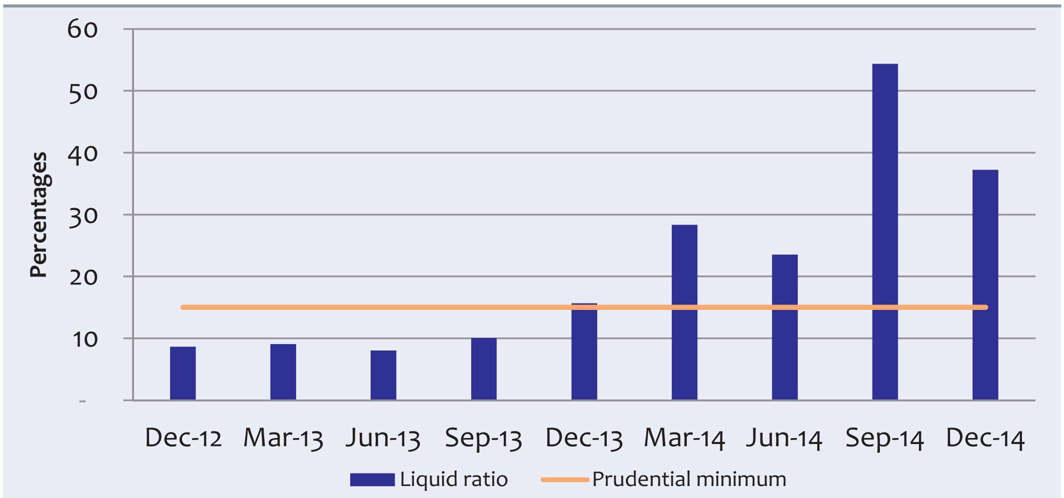
CHART 3.7: LEASING SUBSECTOR PROFIT BEFORE TAX, 2012 – 2014



3.2.4 Liquidity

The liquidity position of the leasing finance sub-sector was satisfactory as at 31 December 2014. The ratio of liquid assets to total deposits and short-term liabilities averaged 37.2% compared to 15.4% in 2013 (see Chart 3.8). The improvement in the liquidity ratio was attributed to a proportionately higher increase in liquid assets (43.3%) compared to the increase in total deposits and short-term liabilities (3.6%).

CHART 3.8: LEASING SUB-SECTOR LIQUIDITY TREND 2012-2014



3.2.5 Foreign Exchange Exposure

The foreign exchange exposure of the leasing finance sub-sector was rated satisfactory as it improved to 16.3% from 39.3% as at end-December 2013. The foreign exchange exposure was, therefore, below the maximum statutory limit of 25%. The improvement in the foreign exchange exposure was largely as a result of the sale of foreign currency denominated assets, coupled with an increase in the regulatory capital.

3.3 Performance of the Building Societies Sector

The overall financial performance and condition of the building societies sub-sector was fair for the period under review (see Table 3.4). The regulatory capital and liquidity were satisfactory, while asset quality and earnings performance were unsatisfactory.

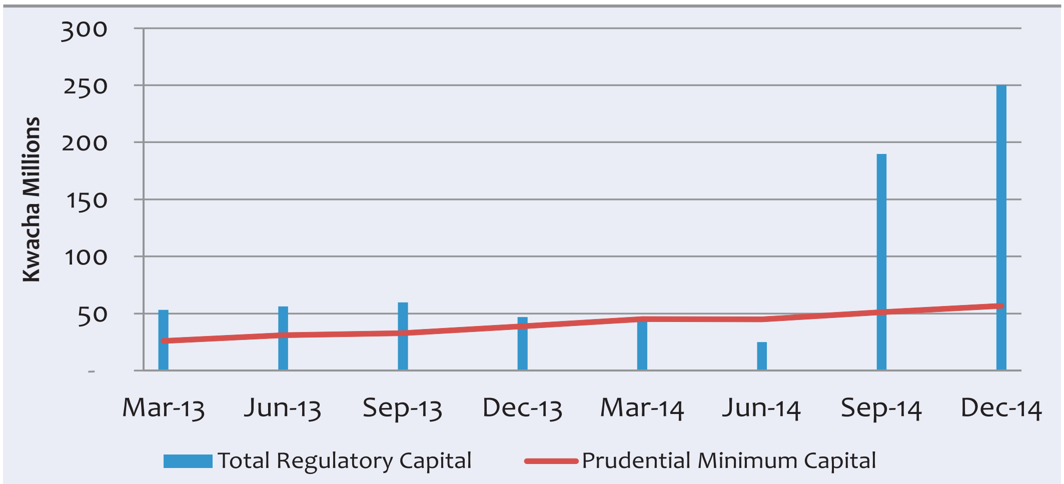
Table 3.5: Year-End Composite Rating for the Building Society Sub-sector, 2012-2014

Performance Category	Composite Rating Scale	Number of Building Societies			Proportion of Industry Assets (%)		
		2012	2013	2014	2012	2013	2014
Strong	1.0 - 1.5	0	0	0	0	0	0
Satisfactory	1.6 - 2.4	1	1	0	68	71	0
Fair	2.5 - 3.4	1	1	1	17	29	73
Marginal	3.5 - 4.4	0	1	1	0	0	20
Unsatisfactory	4.5 - 5.0	1	0	1	15	0	7
Total		**3**	**3**	**3**	**100**	**100**	**100**

3.3.1 Capital Adequacy

The total regulatory capital position of the sub-sector was satisfactory as at 31 December 2014. The total regulatory capital ratio improved to 44.0% from 12.0% at end-December 2013 and was above the minimum regulatory requirement of 10.0%. This was due to an increase in total regulatory capital to K250.2 million from K46.7 million as at end-December 2013 on account of capital injections amounting to K205.3 million (see Chart 3.9).

CHART 3.9: BUILDING SOCIETIES SUBSECTOR REGULATORY CAPITAL TREND, 2012-2014



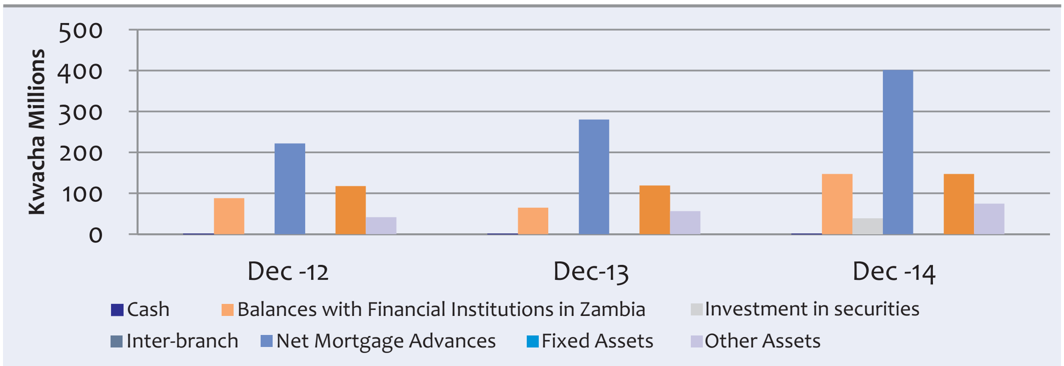
3.3.2 Asset Quality

As at end-December 2014, the asset quality of the sub-sector was satisfactory largely on account of an improvement in the ratio of gross NPLs to total loans to 10.1% from 10.3% at end-December 2013. The marginal improvement in the asset quality indicator was due to a proportionately higher increase in in gross loans of 47.8% compared to a 42.2% increase in gross NPLs during the period under review.

However, the NPL coverage ratio declined to 66.4% from 66.8% as at end-December 2013 due to a decline in the provision for loan losses. The ratio indicated that NPLs were not adequately provided for and might adversely impact on capital adequacy.

On the other hand, the total assets of the sub-sector increased by 55.1% to K808.5 million from K521.4 million as at end-December 2013 (see chart 3.10). The increase in total assets was mainly observed in loans and mortgages, and the balances held with domestic institutions which increased to K429.3 million and K146.8 million as at end-December 2014 from K301.8 million to K65.1 million as at end-December 2013, respectively. The increases were financed by capital injection in the sub-sector during the year under review.

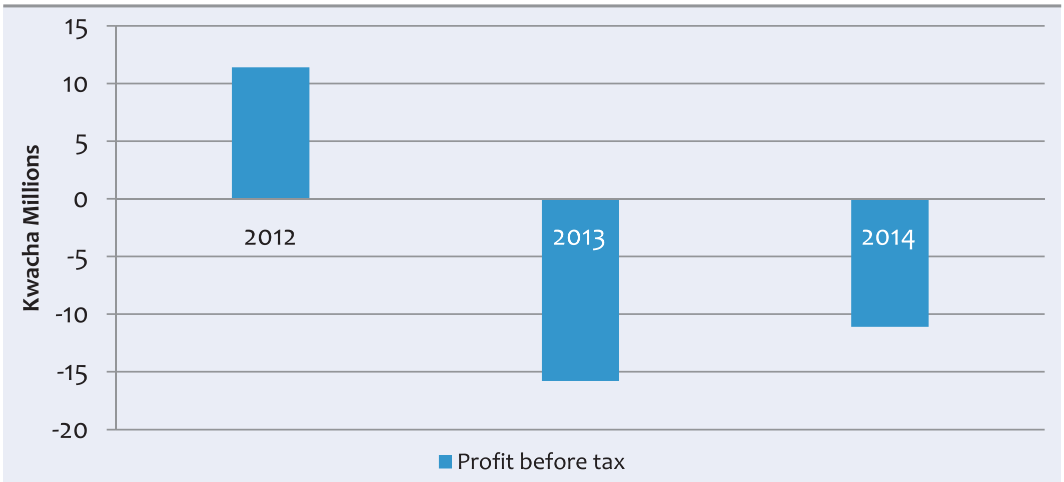
CHART 3.10: BUILDING SOCIETIES ASSET COMPOSITION 2012-2014



3.3.3 Earnings Performance

The earnings performance of the building societies sub-sector was unsatisfactory in the year under review. The sub-sector recorded a loss before tax of K11.1 million compared to a loss before tax of K15.7 million in the previous year (see Chart 3.11). The reduction in the loss was largely attributed to the increase in interest income by 40.9% to K91.3 million from K64.8 million in the previous year arising from the improvement in the volume of earning assets. However, the impact of the improved volume of interest income on profitability was reduced by the deterioration in the operational efficiency of the sub-sector to 116.1% from 107.8% in 2013.

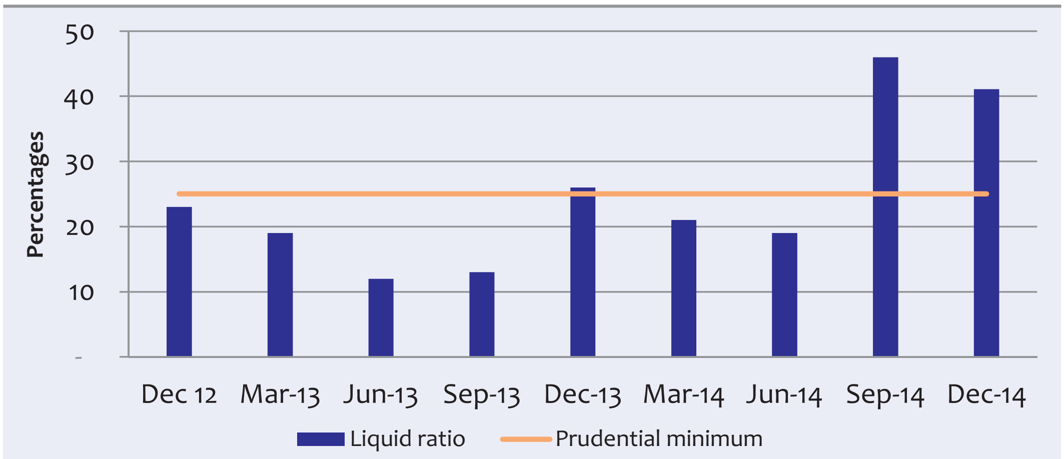
CHART 3.11: TREND IN THE EARNINGS PERFORMANCE OF THE BUILDING SOCIETIES SUB-SECTOR, 2012 – 2014



3.3.4. Liquidity

The liquidity position in the building societies sub-sector was satisfactory as at end-December 2014. The ratio of liquid assets to total deposits and short-term liabilities increased to 41.4% from 25.7% at end-2013 and was above the prudential minimum ratio of 25.0% (see Chart 3.12). The improvement in the ratio largely occurred following receipt of recapitalisation funds for the state-owned building society during the period under review (see Chart 3.13).

CHART 3.12: TREND IN LIQUIDITY POSITIONS OF THE BUILDING SOCIETY SUBSECTOR, 2012 – 2014



3.4 Performance of the Microfinance Sub-sector

The MFI sub-sector is categorised into enterprise-lending and consumer-lending MFIs. The distinction of the two categories allows the BoZ to target appropriate policy interventions for each of the MFI type. Accordingly, where 80% or more of an MFI's total loans are to micro-enterprises, such an MFI is categorised as enterprise-lending MFI.

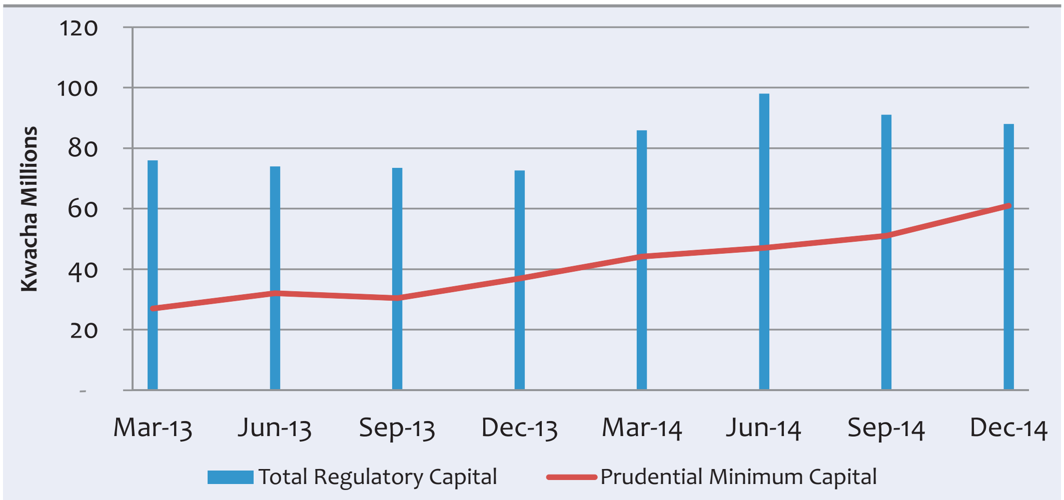
3.4.1 Enterprise-Lending Microfinance Institutions

In the period under review, the overall financial condition and performance of the enterprise-lending MFIs[11] sub-sector was fair. The sub-sector was adequately capitalised and its asset quality was satisfactory. However, its earnings performance was unsatisfactory.

3.4.1.1 Capital Adequacy

The total regulatory capital of the sub-sector was satisfactory as at 31 December 2014. The total regulatory capital adequacy ratio improved to 26.1% from 19.6% at end-December 2013 and was above the required minimum capital adequacy ratio of 15.0%. The improvement was mainly due to a 22.0% growth in total regulatory capital to K88.6 million from K72.6 million arising from equity injections during the period under review (see Chart 3.13).

CHART 3.13: TREND IN THE REGULATORY CAPITAL POSITIONS, 2012 – 2014



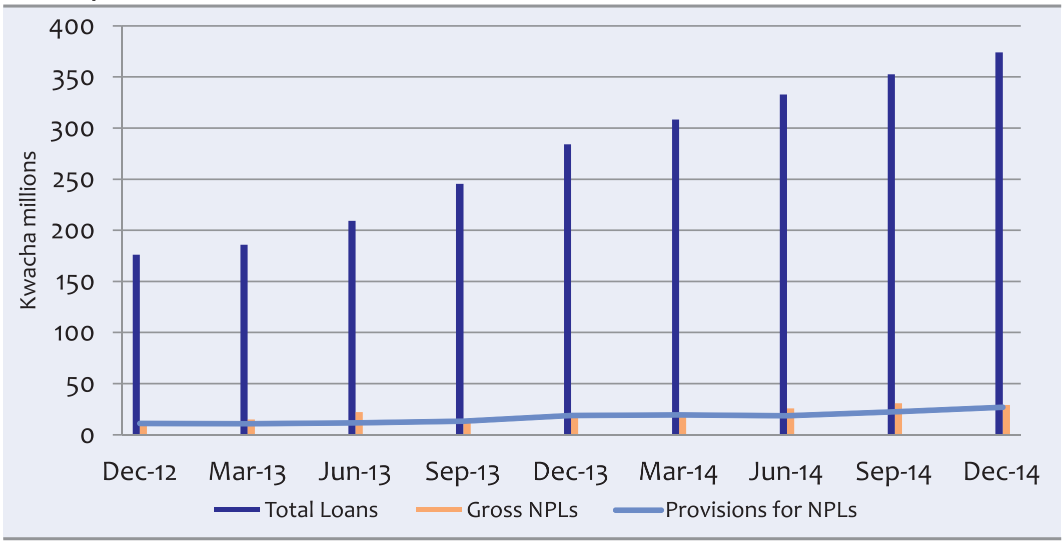
3.4.1.2 Asset Quality

The asset quality of the sub-sector was satisfactory at end-December 2014. Despite an increase in the gross NPL ratio to 8.5% from 7.4% as at end-December 2013, the ratio remained below the maximum prudential level of 10.0%. In addition, the NPL coverage ratio improved to 93.0% from 73.3% at end-December 2013 indicating that NPLs were adequately provided for.

Meanwhile, gross loans increased by 26.6% to K359.9 million as at end-December 2014 from K284.3 million as at end-December 2013 (see Chart 3.14).

[11] MFIs whose exposure to micro-enterprises constitutes at least 80% of total loans

CHART 3.14: AGGREGATE TOTAL LOANS, GROSS NON-PERFORMING LOANS AND PROVISION FOR NON-PERFORMING LOANS, 2012-2014



3.4.1.3 Earnings Performance

The earnings performance of the sub-sector was unsatisfactory in the period under review. The sub-sector recorded a loss before tax of K2.7 million which was, however, lower than the loss before tax of K5.8 million recorded in 2013 (see Chart 3.15). The reduction in the loss was largely attributed to an increase in interest income.

CHART 3.15: PROFITS BEFORE TAX, 2012-2014

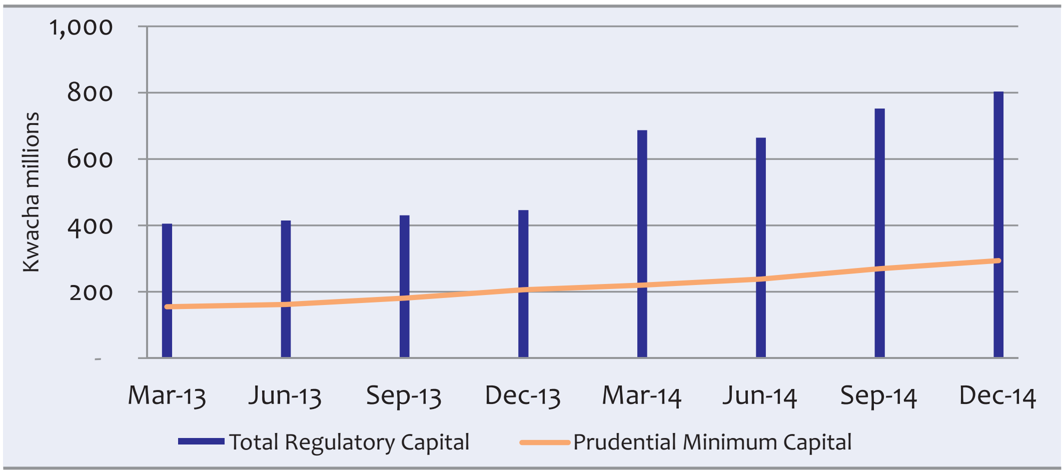
3.4.2 Consumer-Lending Microfinance Institutions

The overall financial performance and condition of the consumer-lending MFIs sub-sector was satisfactory as at 31 December 2014. This category of MFIs had strong regulatory capital, satisfactory asset quality and earnings performance during the year under review.

3.4.2.1 Capital Adequacy

The total regulatory capital of the sub-sector was strong at end-December 2014. The total regulatory capital adequacy ratio improved to 40.9% from 29.9% at end-December 2013 and was way above the minimum prudential limit of 15%. The improvement in the capital adequacy ratio was largely due to a 68.4% increase in total regulatory capital to K803.1 million from K477.0 million at end-December 2013, largely as a result of an increase in qualifying secondary capital at one of the MFIs

CHART 3.16: REGULATORY CAPITAL; 2012-2014

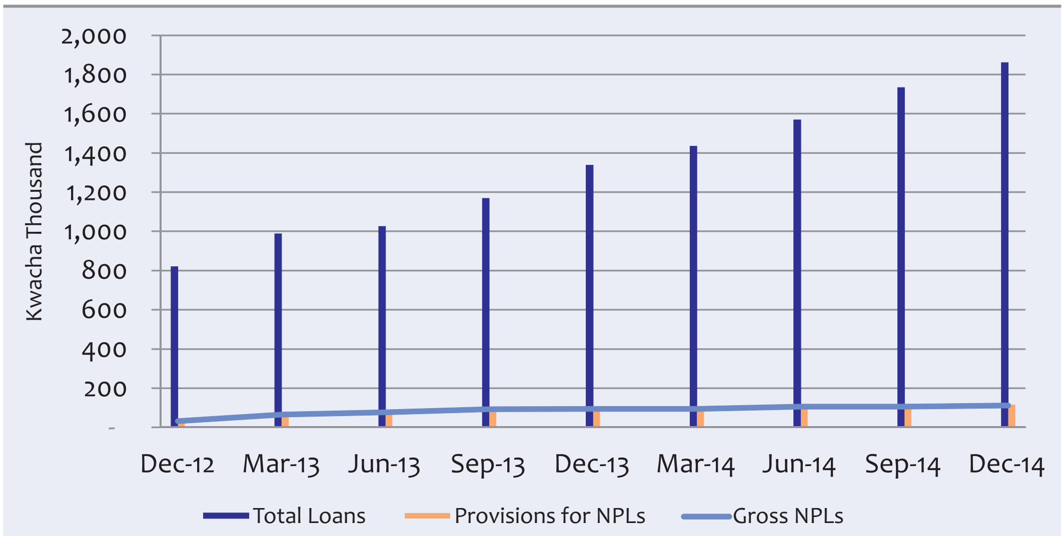


3.4.2.2 Asset Quality

The asset quality of the sub-sector was satisfactory at end-December 2014. The ratio of gross NPLs to gross loans declined to 6.0% as at end-December 2014 from 6.9% as at end-December 2013 and was below the maximum prudential limit of 10.0%. The improvement was on account of a proportionately higher increase in total loans compared to the increase in gross NPLs. In addition, the NPL coverage ratio increased to 104.2% from 92.3% as at end-December 2013 indicating that the allowance for loan losses exceeded the level of NPLs (see Chart 3.17).

The total assets of the sub-sector increased by 33.2% to K2,093.0 million from K1,570.8 million as at end-December 2013 with the loans and advances (the core earning assets) accounting for 90.7%. The rise in total assets was mainly driven by an increase in net loans of 40.4% to K1,744.3 million at end-December 2014 from K1,242.3 million as at end-December 2013.

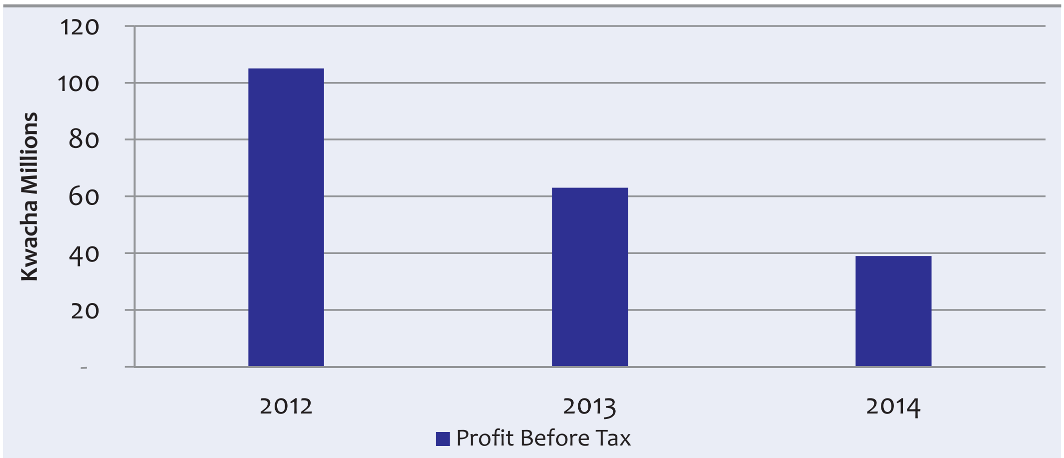
CHART 3.17: TOTAL LOANS, GROSS NON-PERFORMING LOANS AND PROVISION FOR NON-PERFORMING LOANS, 2012-2014



3.4.2.3 Earnings Performance

The earnings performance of the sub-sector was satisfactory in the period under review, despite the decline in the RoA to 2.0% from 4.0% in the previous year. The reduction in the RoA was on account of a lower PBT of K38.5 million compared to K62.5 million recorded in the previous year (see Chart 3.18). The decline in PBT was largely attributed to foreign exchange losses of K83.4 million due to the depreciation of the Kwacha on the sub-sector's net short foreign exchange position. In addition, the average net-interest margin declined to 55.3% from 70.4% in 2013 while the operational efficiency ratio deteriorated to 86.0% during the period under review from 79.6% in the previous year.

CHART 3.18: PROFIT BEFORE TAX OF THE CONSUMER-LENDING MICROFINANCE, 2012-2014

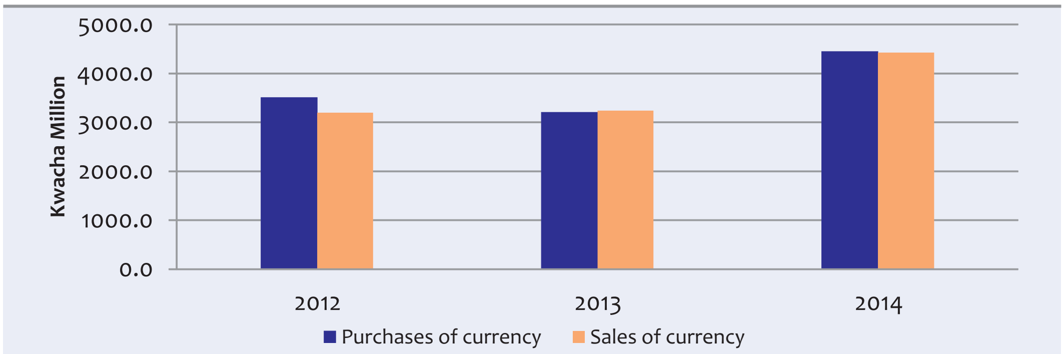


3.5 Bureaux de Change

The bureaux de change sub-sector was adequately capitalised as at end-December 2014. All bureaux de change met their minimum paid-up capital requirement of K40,000. Their aggregate capital and reserves increased by 26.3% to K46.2 million at end-December 2014 from K39.1 million at end-2013. The increase was mainly due to capital injections, coupled with profit after tax of K1.8 million during the period under review.

The volume of purchases and sales of foreign currency increased by 38.7% and 36.5% to K4,444.4 million and K4,424.7 million in 2014 from K3,204.9 million and K3,242.2 million, respectively in 2013.The average buying and selling exchange rates were K6.1245 and K6.1255, respectively during the period under review compared to K5.3423 and K5.5329, respectively in the previous year (see Chart 3.19).

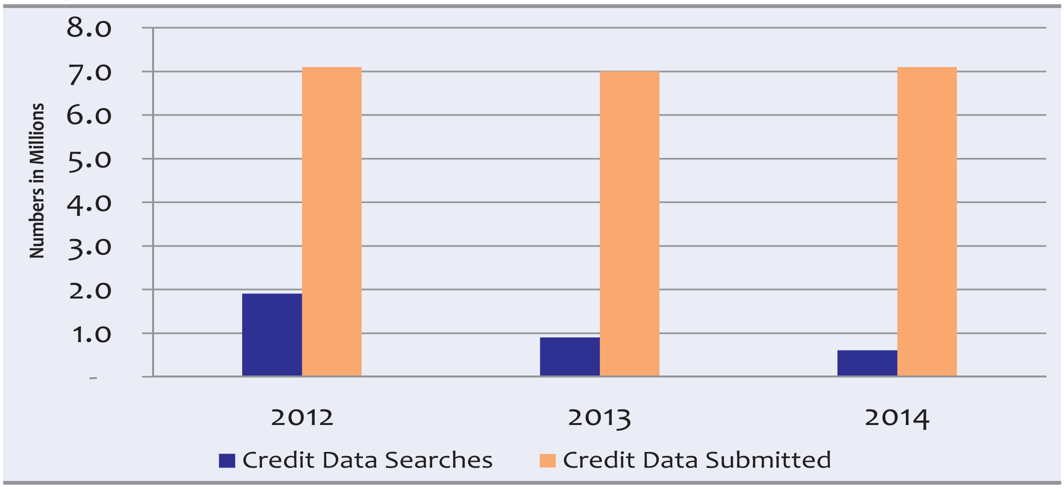
CHART 3.19: BUREAU DE CHANGE VOLUMES OF TRANSACTIONS, 2012 –2014



3.6 Operations of Credit Reference Bureau Africa Limited

In the year under review, the total number of credit files submitted, marginally increased by 0.4% to 7,059,176 from 7,028,007 the previous year. However, the total number of credit reports searched declined by 32.3% to 579,324 in 2014 from 855,548 during 2013 on account of reduced lending activities (see Chart 3.20).

CHART 3.20: TREND OF USE OF CREDIT REFERENCE SYSTEM BY FINANCIAL SERVICE PROVIDERS IN 2014



3.7 The NBFIs Sector Outlook

The NBFI sector is expected to remain stable in 2015 with key financial soundness indicators remaining generally positive. This positive outlook is on the backdrop of measures being implemented by NBFIs to improve operational efficiency in the wake of reduced margins arising from interest rate caps.

Inspite of the sector's significant exposure to salaried individuals, the sector's overall vulnerability to potential job losses was considered low. This assessment is premised on the fact that more than 90% of the exposures to personal loans were salary-backed loans to civil servants.

However, the marginal earnings of the enterprise-lending MFIs make them more vulnerable to financial risks given their inability to generate adequate reserves. These institutions largely pursue social objectives of delivering credit to a large number of micro-enterprises in rural and peri-urban areas which inevitably entails high operating costs with consequent thin profit margins.

PRUDENTIAL SUPERVISION

4.1 On-Site Examinations of Banks

4.1.1 Full Scope Examinations

In 2014, the BoZ maintained their role of supervising and regulating the activities of banks in line with the BFSA, through on-site examinations and off-site surveillance. The objectives of the examinations included the determination and validation of the financial condition, risk profile, and the quality of risk management systems of the banks. In addition, the examinations made assessments of the banks' level of compliance with laws and regulations. Areas of focus in the year under review were credit and liquidity risks. Deficiencies noted during on-site and off-site surveillance monitoring were brought to the attention of the Board and management of the affected banks and appropriate supervisory actions were taken where necessary.

4.1.2 Examinations of New Bank Branches

The BoZ conducted examinations of all the 19 new branch and agency locations opened during the year prior to official opening in order to ensure that minimum required standards were adhered to. These standards included workplace health and safety standards, adequate security arrangements for both employees and bank customers, display of vital information in a conspicuous manner, and business continuity management best practices. By and large, the banks met these minimum requirements.

4.2 Examinations of NBFIs

The BoZ continued to employ on-site examinations as a means of verifying prudential information submitted by NBFIs, evaluating their financial condition and performance, and assessing the risk management and corporate governance practices in these institutions. The BoZ focused on the examination of those institutions posing the greatest risk to the stability of the financial sector in line with the risk based supervision approach.

In 2014, the BoZ conducted 4 on-site examinations of NBFIs and investigated a number of customer complaints. Salient findings from the examinations included the following:

i. Insolvency at one of the financial institutions;

ii. Undercapitalisation at one financial institution;

iii. Poor board oversight at one institution;

iv. Unsatisfactory credit underwriting and poor loan administration practices in all institutions examined;

v. Non adherence to internal policies; and

vi. Non-compliance with a number of statutory provisions in the Banking and Financial Services Act.

Customer complaints against NBFIs emanated from credit reference bureau delinquency reports, high interest rates and wrong deductions. The BoZ instituted appropriate supervisory directives and recommendations in order to ensure that the concerned FSPs addressed these issues.

THE REGULATORY DEVELOPMENTS

In the period under review, the BoZ continued to review the regulatory policies underpinning the regulation and supervision of the financial sector in Zambia and to implement new measures aimed at strengthening the BoZ's oversight over the institutions under its supervisory ambit. Some of the initiatives undertaken included the measures outlined below.

5.1 Recapitalization of Commercial Banks

The BoZ revised the minimum capital requirements for commercial banks which became effective on 2 January 2014. During the year, the BoZ continued to monitor progress of the banks in meeting their recapitalization targets. The benefit of increasing the minimum paid-up capital requirements was evident as banks became more adaptive and resilient to both internal and external shocks in the economy. As at end-December 2014, 15 out of 19 banks met the minimum primary capital requirements. With regard to the four banks that did not meet the capital requirements, the BoZ agreed to extend their deadlines after taking into consideration their individual circumstances.

5.2 New Capital Adequacy Framework for NBFIs

The BoZ through NBFI Circular 01/2014 reviewed the capital adequacy framework for the NBFIs. Table 5.1 shows the revised minimum capital for different sub-sectors of NBFIs.

Table 5.1: Revised Minimum Paid-Up Capital Requirements for NBFIs

Category	Previous (K)	Revised (K)
Financial Institutions		
Housing Finance Institutions	2,000,000	50,000,000
Savings and Credit Institutions	2,000,000	50,000,000
Leasing Companies	1,500,000	50,000,000
Micro Finance Institutions	250,000	2,500,000
Other Financial Institutions	-	50,000,000
Financial Businesses		
Development Finance Institutions	7,500,000	750,000,000
Leasing Companies	500,000	5,000,000
Microfinance Institutions	25,000	100,000
Bureaux de Change	40,000	250,000
Credit Reference Bureaux	1,000,000	1,500,000
Other Financial Businesses	-	500,000

The revision was designed to ensure that NBFIs hold higher amounts of high-quality regulatory capital that is available to absorb losses. NBFIs are required to progressively build up their required minimum paid-up capital according to the schedule below:

- Meet at least 30 percent of the revised minimum paid-up capital by 31 December 2014;
- Meet at least 60 percent of the revised minimum paid-up capital by 30 June 2015; and
- Meet the full revised minimum paid-up capital by 31 December 2016.

As at 31 December 2014, except for 3 leasing companies, one deposit-taking MFI and 3 bureaux de change, all the NBFIs had adequate paid-up capital to meet their December 2014 target recapitalization levels.

The BoZ directed the NBFIs that did not meet the December 2014 deadline to develop recapitalization plans acceptable to the BoZ.

5.3 Development of Outsourcing Guidelines

On 5 December 2014, the guidelines on outsourcing of services by FSPs were gazzeted. The guidelines are available on the BoZ website: www.boz.zm.

5.4 Islamic Finance Guidelines

Following consultation with stakeholders which began in 2012, the Islamic Finance Guidelines were finalized during the year under review. These guidelines are aimed at facilitating the provision of Islamic financial services in Zambia. The guidelines were gazzeted on 5 December 2014 and are available on the BoZ website: www.boz.zm.

5.5 Foreign Account Tax Compliance Act (FATCA)

The BoZ completed the consultative process with the Government and the various stakeholders regarding the signing of the Foreign Account Tax Compliance Act (FATCA) agreement. Under the FATCA, foreign financial institutions were required to register with the United States Internal Revenue Services (IRS) and obtain a Global Intermediary Identification Number by 25 April 2014. In this regard, the Government made necessary arrangements with US authorities for the finalization and execution of the agreement. As part of the preparatory work towards the implementation of FATCA, the commercial banks completed the registration process with IRS.

5.6 Review of Statutory Instruments

In the year under review, the BoZ embarked on the process of reviewing Statutory Instruments (SIs) issued under the BFSA in order to bring them in line with developments in the financial sector and international best practice. In this regard, the BoZ identified the SIs in Table 5.2 for immediate review.

Two revised SIs were submitted to the Minister of Finance for issuance while the rest were at various stages of the review process. It is envisaged that during 2015, the review process for all the listed SIs will be finalized.

Table 5.2: Statutory Instruments Identified For Review

No	Statutory Instrument
1.0	No.142 of 1996: Classification and Provisioning of Loans
2.0	No.182 of 1995: Reserve Account Regulations
3.0	No.184 of 1995: Capital Adequacy Regulations
4.0	No.180 of 1995: Payment of Fees Regulations
5.0	No.181 of 1995: Return of Unclaimed Funds Regulations
6.0	No.179 of 1995: Cost of Borrowing Regulations
7.0	No.183 of 1995:Disclosure of Deposit Charges & Interest Regulations
8.0	No.185 of 1995: Fixed Asset Investments
9.0	No.96 of 1996: Large Loan Exposures Regulations
10.0	No.57 of 1996: Foreign Exchange Risk Management and Exposure
11.0	No.44 of 1998: Money Circulation Pyramid Schemes
12.0	No.97 of 1996:Insider Lending Regulations

5.7 Developments Related to Financial Sector Legislation

5.7.1 Credit Reporting Bill

In the year under review, the BoZ submitted the Credit Reporting Bill to the Ministry of Finance to facilitate enactment into law. The Bill seeks to contribute to the enhancement of efficiency, stability and safety of personal credit data by establishing a sound legal basis for credit reporting services in Zambia. The Bill recognizes the complexity and dynamism of credit reporting services and accordingly provides international best practice provisions.

5.7.2 Personal Property Security Interest Bill

The BoZ drafted a Personal Property Security Interest Bill which seeks to promote access to finance through expanding the scope of assets acceptable to financial service providers as collateral.

5.8 Licensed Institutions

During the year, nine licences for NBFIs were granted, while seven were revoked. The licences issued comprised four bureaux de change, three MFIs and two financial businesses, while the revoked licences comprised five MFIs, and two bureaux de change (see Tables 5.3).

The Registrar revoked the licences for MFIs and bureaux following surrender of the licences by the institutions concerned. The licence for Gobena Microfinance Limited was revoked because the company failed to commence business operations within one year from the date of the issuance of the licence, as required by law. Further, Blue Cash Express Limited surrendered the licence after its merger with Blue Financial Services Limited.

Table 5.3: Bureau de Change Licences issued in 2013

Institution Licenced			
Name of Bureau de Change	**Date Licenced**	**Institution Closed**	**Date Revoked**
1. Manna Comfort Bureau de Change Limited	12 June 2014	Name of Bureau de Change	5 March 2014
2. Zamica Bureau de Change Limited	20 Aug. 2014	1. Metalco Bureau de Change Limited	20 June 2014
3. Excel Bureau de Change Limited	20 Aug. 2014	2. Atics Bureau de Change Limited	
4. KCool Care Bureau de Change Limited	4 Dec. 2014		
Name of Microfinance Institution	**Date Licensed**	**Name of Microfinance Institution**	**Date Revoked**
1. Direct Finance Services Limited	4 Dec. 2014	1. Faroncredit Limited	11 March 2014
2. Easy Cash Financial Services Limied		2. Kungoma Financial Services Ltd	11 March 2014
3. Zambou Financial Services Limited		3. Gobena Microfinance Limited	5 Match 2014
		4. Blue Cash Express Limited	10 June 2014
Name of Financial Business	**Date Licensed**	**Name of Financial Business**	**Date Revoked**
1. Business Partners International		1. Stechas Financial Services Ltd	29 Jan. 2014
2. African Finance Business Zambia			

The branch network of NBFIs increased to 323 in 2014 from 307 in 2013 on account of the new branches approved. The new branches comprised eight bureau de change branches and 8 MFIs branches (see Tables 5.4 and 5.5).

Table 5.4: Approved Bureau de Change Branches in 2014

Name of Institution	No. of Branches	Date Approved
Zampost Bureau de change Limited, - Luanshya, Mfuwe, Kapiri Mposhi, Mufulira and Shang"ombo	5	21/02/2014
Struts Bureau de Change Limited – East Park Mall, usaka	1	02/08/2014
Megabyte Bureau de Change – Nakonde	1	08/07/2014
Quantum F X Bureau de Change Limited- East Park Mall, Lusaka	1	12/09/2014
Total	8	

Table 5.5: NBFIs Branches Approved in 2014

Name of Institution	No. of Branches	Date Opened
Pulse Financial Services Limited - Kalingalinga	1	31 March 2014
Madison Finance Company Limited	6	7 April 2014
• Chilenje		15 April 2014
• Choma		16 April 2014
• Livingstone		30 April 2014
• Kasama		30 April 2014
• Mansa		28 April 2014
• Mufulira		24 June 2014
FINZA Zambia Limited - Choma	1	
Total	**8**	

5.9 Financial Sector Development Plan

The Financial Sector Development Plan (FSDP) project was due to come to an end on 31st December 2014. However, the tenure of the project was extended to 30 June 2015 in order to allow completion of outstanding programmes.

5.9.1 Implementation of the National Strategy on Financial Education

In the year under review, the BoZ in partnership with the Pensions and Insurance Authority, the Securities and Exchange Commission and other financial education stakeholders continued to implement the National Strategy on Financial Education. Among the numerous financial awareness activities carried out was the commemoration of the second Financial Literacy Week under the theme 'Saving' with the slogan 'A better life through Saving'. As a progression from the first Financial Literacy Week observed in 2013 in two provinces (Lusaka and the Copperbelt), the 2014 Financial Literacy Week was observed in all the 10 provinces of Zambia. An estimated 20,000 people were reached directly while a further 5 million was reached through the print and electronic media with financial education messages.

As a result of the exceptional performance during the Financial Literacy Week, Zambia received the Child and Youth Finance International (CYFI) Global Money Week award for Africa at the United Nations Capital Development Fund (UNCDF) summit held in New York in May 2014. In addition to the Financial Literacy Week, the Financial Education Coordination Unit continued to spread financial literacy messages through the Zambia Trade Fair, Agricultural and Commercial Show of Zambia and the Provincial Agricultural and Commercial Shows.

5.9.2 Law Review

In 2014, the first batch of laws comprising the Banking and Financial Services Bill, Pension Scheme Regulation Bill, Insurance Bill; Securities Bill and Credit Reporting Bill progressed to the legal drafting stage at Ministry of Justice. The review of the second batch of laws comprising Building Societies Act, National Payment Systems Act, Bills of Exchange Act and the Cheques Act commenced in 2014.

INSTITUTIONS IN LIQUIDATION

6.1 Banks in Liquidation

In the year under review, the BoZ continued to oversee and manage the liquidation processes of seven banks in liquidation (see Table 6.1). The BoZ continued to monitor their activities and to pursue the debtors of the closed banks by way of court processes and internal debt recovery processes. The BoZ, in its capacity as liquidator, concentrated its efforts on conducting detailed reviews of the outstanding cases in each of the banks so as to inform decision making regarding the winding up of the liquidations for some of the banks.

Table 6.1: Banks in Liquidation as at 31 December 2014

Name of Bank in Liquidation	Receivership Date	Liquidation Date
African Commercial Bank Zambia Limited (ACB)	13 November 1995	21 February 1996
Commerce Bank Zambia Limited (CBL)	30 March 2000	14 December 2000
Credit Africa Bank Zambia Limited (CAB)	28 November 1997	6 March 1998
First Merchant Bank Zambia Limited (FMB)	2 February 1998	16 March 1998
Meridien BIAO Bank Zambia Limited (MBBZ)	15 February 1995	16 August 1995
The United Bank of Zambia Limited (TUBZ)	9 July 2002	24 May 2006
Union Bank Zambia Limited (UBL)	13 February 2001	29 March 2001

6.2 NBFIs in Liquidation

At the end of December 2014, the total number of institutions under liquidation remained at 3 as in the previous year. These were Commercial Capital Corporation Limited (CCCL), Access Financial Services Limited (AFSL) and Access Leasing Limited (ALL).

6.2.1 Commercial Capital Corporation Limited

The termination of the liquidation process of CCCL was mainly held back because of a court case involving one of the shareholders who sued CCCL. At the time of the report the matter was still in the Supreme Court.

6.2.2 Access Financial Services Limited and Access Leasing Limited

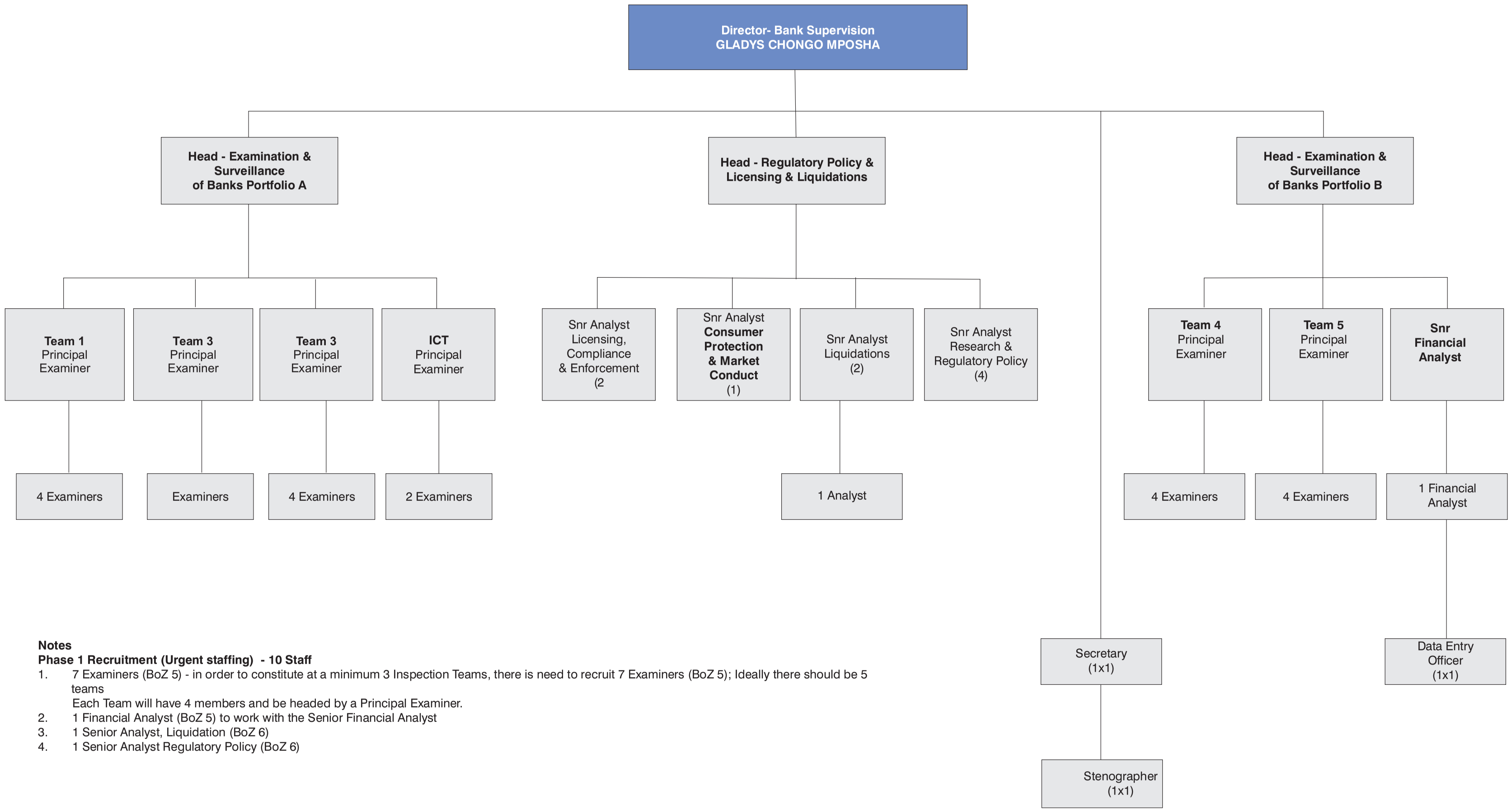
In the year under review the liquidation process of AFSL was held back by an objection that was filed by the former directors of the institution. At the time of the report, the matter had not yet been disposed of by the court.

APPENDICES

BANK SUPERVISION ORGANISATIONAL CHART - MARCH 2014

BANK OF ZAMBIA
DEPT: BANK SUPERVISION

GRADE	NO
BOZ 8	1
Actual	1
Vacancy	0
BOZ 7	3
Actual	1
Vacancy	2
BOZ 6	16
Actual	11
Vacancy	5
BOZ 5	24
Actual	6
Vacancy	18
BOZ 4	2
Actual	2
Vacancy	0
BOZ 3	1
Actual	1
Vacancy	0



Notes

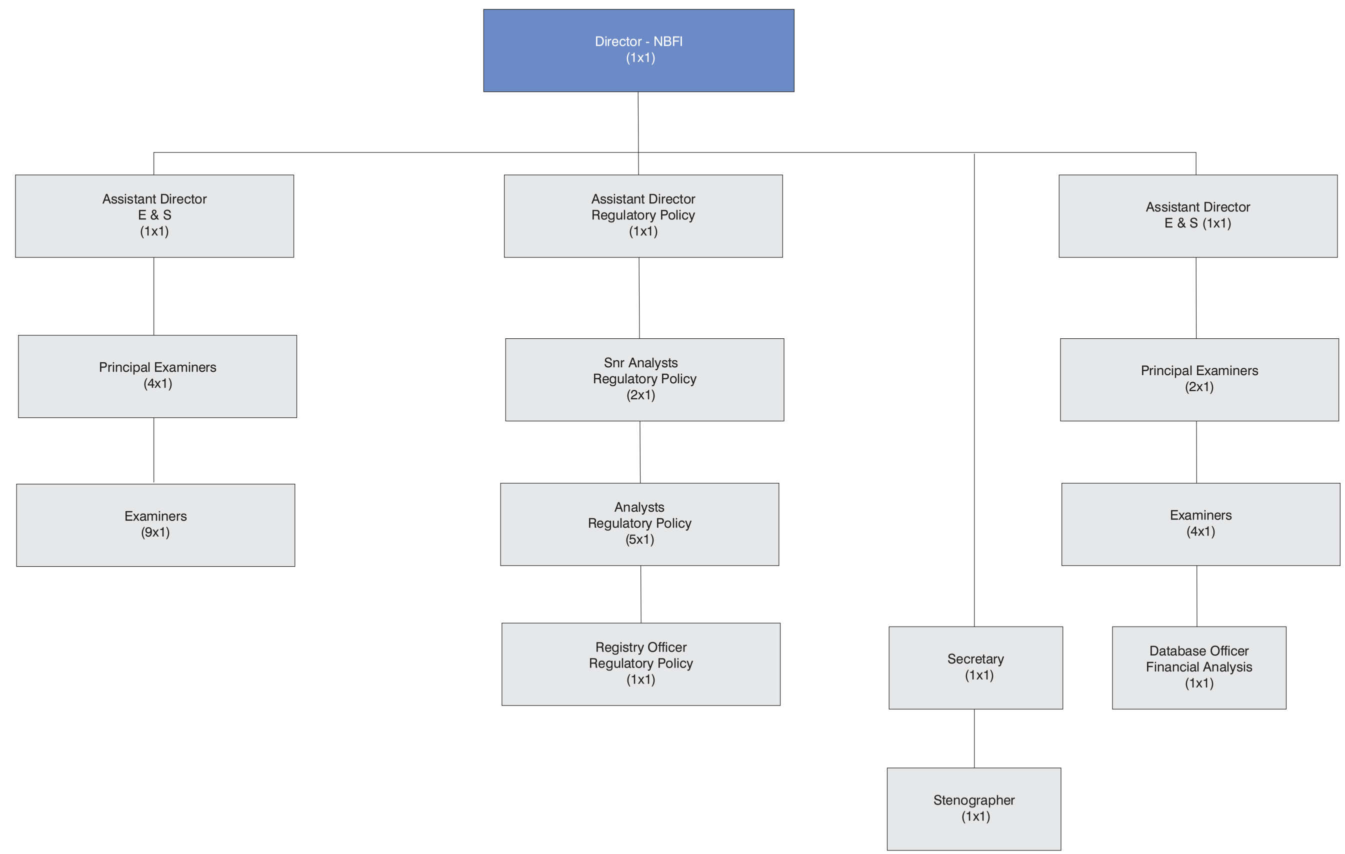
Phase 1 Recruitment (Urgent staffing) - 10 Staff

1. 7 Examiners (BoZ 5) - in order to constitute at a minimum 3 Inspection Teams, there is need to recruit 7 Examiners (BoZ 5); Ideally there should be 5 teams
   Each Team will have 4 members and be headed by a Principal Examiner.
2. 1 Financial Analyst (BoZ 5) to work with the Senior Financial Analyst
3. 1 Senior Analyst, Liquidation (BoZ 6)
4. 1 Senior Analyst Regulatory Policy (BoZ 6)

Grade	BOZ 8	BOZ 7	BOZ 6	BOZ 5	BOZ 4	BOZ 3	Total
Structure:	1	3	16	24	2	1	47
Actaul Numbers:	1	1	11	6	2	1	22
Vacancies	0	2	5	18	0	0	25

BANK OF ZAMBIAAPPENDIX 1A
NON-BANK FINANCIAL INSTIOTUTIONS SUPERVISION
ORGANISATION STRUCTURE AS AT 31 DECEMBER 2014

GRADE	No
BOZ 8	1
BOZ 7	3
BOZ 6	8
BOZ 5	18
BOZ 4	3
BOZ 3	1
Total	**34**



KEY
E & S - Examination & Surveillance

APPENDIX 2

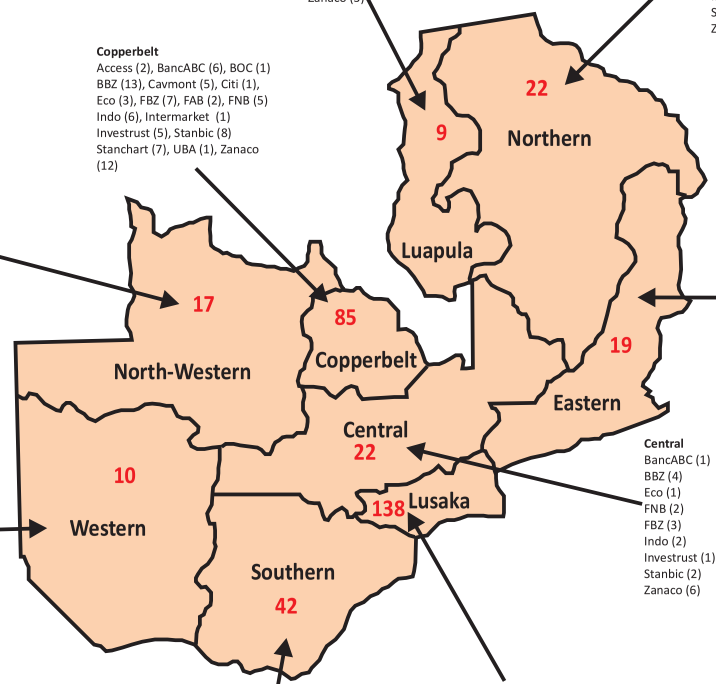
BANKING INSTITUTIONS IN ZAMBIA AS AT 31 DECEMBER 2014

NO.	Name of Bank	Tel No:	Head Office address
1	**AB BANK ZAMBIA LIMITED** Managing Director Mr Armando Sirolla	220830/34	Stand No. 7399/2nd Floor Chainda Place, Cairo Road, Lusaka
2	**ACCESS BANK ZAMBIA LIMITED** Managing Director Mr Babatunde Balogun	227941	Plot 682 (formerly ERZ Building) Cairo Road, P O Box 35273, Lusaka
3	**AFRICAN BANKING CORPORATION ZAMBIA LIMITED** Managing Director Mr Clergy Simatyaba	257969/257970-76	ABC Pyramid Plaza, Plot 746B Corner Church/Nasser Roads. P O Box 39501, Lusaka
4	**BANK OF CHINA ZAMBIA LIMITED** General Manager Mr Jianjun Zhou	238711	Plot Number 2339 Kabelenga Road P O Box 34550, Lusaka
5	**BARCLAYS BANK ZAMBIA PLC** Managing Director Mr Saviour Chibiya	366150	Plot 4644 Elunda Park Addis Abba Round About P O Box 31936, Lusaka
6	**CAVMONT BANK ZAMBIA LIMITED** Managing Director Mr Charles H de B Carey	360056/59/61/68	PwC Place Stand No.2374 Thabo Mbeki Road P. O Box 38474, Lusaka
7	**CITIBANK ZAMBIA LIMITED** Chief Executive Officer Ms Martin Mugambi	229025-8	Stand Number 4646, Elunda 3 Addis Abba Round About P o BOX 30037, Lusaka
8	**ECOBANK ZAMBIA LIMITED** Chief Executive Officer Mr Kola Adeleki	250056-7	Stand No. 22768 Corner Great East Thabo Mbeki Road P O Box 30705, LUSAKA
9	**FINANCE BANK ZAMBIA LIMITED** Chief Executive Officer Mr Barkat Ali	229733/42	Finance House, Heroes House P O Box 37102, Lusaka
10	**FIRST ALLIANCE BANK ZAMBIA LIMITED** Managing Director Cyril Patro	229304-6	Alliance House Cairo Road P O Box 33959, Lusaka
11	**FIRST NATIONAL BANK ZAMBIA LIMITED** Chief Executive Officer Mr Johanness Petrus Maree	253057	Stand No. 22767 Corner Great East Thabo Mbeki Road P O Box 36187, LUSAKA
12	INDO-ZAMBIA BANK LIMITED Managing Director Mr Shankardas Gupta	224653	Plot 6907 Cairo Road P O Box 35411, Lusaka
13	FIRST CAPITAL BANK ZAMBIA LIMITED Managing Director Mr Sachin Nigam	368700/368704	Plot 4302 Corner Great North Road/Washama Road PO Box 32678, Lusaka
14	**INTERMARKET BANKING CORPORATION ZAMBIA LIMITED** Managing Director Mr Robert Nkous	227227-8/220927-9	2nd Floor Farmer's House, Cairo Road P O Box 35832, Lusaka
15	**INVESTRUST BANK ZAMBIA PLC** Chief Executive Officer Mr Friday C Ndhlovu	238733-5/235284	Managing Director Investrust Bank Limited, Odys Park Plot 19028, Great East Road, P O Box 32344
16	**STANBIC BANK ZAMBIA LIMITED** Managing Director Mr Charles Wanyara Mudiwa	229285-6/229071-3	Stanbic House Addis Ababa Road P O Box 31955, Lusaka
17	**STANDARD CHARTERED BANK PLC** Managing Director Mr Andrew Okai	229242-59	Standard House Cairo Road, P O Box 32238, Lusaka
18	**ZAMBIA NATIONAL COMMERCIAL BANK PLC** Managing Director Mr Bruce Dick	221355/221380/221418	Head office Cairo road P O Box 33611, Lusaka
19	**UNITED BANK FOR AFRICA ZAMBIA LIMITED** Chief Executive Officer Mr Stanley Ugwueze		Head office Stand No. 22768 Corner Great East/ Thabo Mbeki Road Lusaka

Map 1: Bank Branch Distribution by Province as at 31st December 2014

ABBREVIATIONS

1. AB - AB Bank Zambia Ltd
2. Access - Access Bank (Z) Ltd
3. BBZ - Barclays Bank Zambia Plc
4. BancABC - African Banking Corporation (Z) Ltd
5. BOC - Bank of China (Z) Ltd
6. Cavmont - Cavmont Bank Ltd
7. Citi - Citi Bank (Z) Ltd
8. Eco - Ecobank Zambia Ltd
9. FBZ - Finance Bank Zambia Ltd
10. FAB - First Alliance Bank (Z) Ltd
11. FNB - First National Bank (Z) Ltd
12. Indo - Indo-Zambia Bank Ltd
13. Intermarket - Intermarket Banking Co. (Z) Ltd
14. ICB - International Commercial Bank (Z) Ltd
15. Investrust - Investrust Bank Plc
16. Stanbic - Stanbic Bank (Z) Ltd
17. Stanchart - Standard Chartered Bank (Z) Plc
18. UBA - United Bank for Africa (Z) Ltd
19. Zanaco - Zambia National Commercial Bank Plc



Source: Commercial Banks

APPENDIX 4

BANKING SECTOR - CONSOLIDATED BALANCE SHEET

	2012	%	2013	%	2014	%
ASSETS	**K' 000**		**K' 000**		**K' 000**	
Notes and Coins	977,494	2.9	1,420,175	3.4	1,899,918	3.9
Balances with Bank of Zambia	4,241,194	12.4	5,174,830	12.3	7,319,816	15.1
Balances with Financial Institutions in Zambia	290,960	0.8	555,160	1.3	590,189	1.2
Balances with Financial Institutions Abroad	3,476,517	10.1	4,646,966	11.1	5,379,282	11.1
Investment in Government Securities	7,226,796	21.1	9,427,037	22.5	9,187,148	18.9
Investment in Other Securities	8,374	0.0	11,388	0.0	58,406	0.1
Loans and Advances	16,616,545		18,980,385		21,664,979	
Less: Allowances for loan losses	992,347		1,096,021		1,011,453	
Net Loans and leases	15,624,198	45.6	17,884,364	42.6	20,653,526	42.5
Bills of Exchange	8,052	0.0	0.0	0.0	9,349	0.0
Inter-branch	9,300	0.0	17,629	0.0	6,570	0.0
Fixed Assets	923,548	2.7	1,033,308	2.5	1,211,580	2.5
Other Assets	1,489,497	4.3	1,782,161	4.2	2,275,383	4.7
TOTAL ASSETS	34,275,930	100.0	41,953,018	100.0	48,591,168	100.0
LIABILITIES AND SHAREHOLDERS' FUNDS						
Demand Deposits	15,933,986	46.5	18,890,833	45.0	20,623,657	42.4
Savings Deposits	3,421,553	10.0	4,298,438	10.2	4,052,786	8.3
Time Deposits	5,806,117	16.9	7,717,652	18.4	10,266,035	21.1
Total Deposits	25,161,656	73.4	30,906,923	73.7	34,942,478	71.9
Balances Due to Bank of Zambia	24,969	0.1	56,165	0.1	0.0	0.0
Balances Due to Financial Institutions in Zambia	306,688	0.9	393,574	0.9	595,625	1.2
Balances Due to Financial Institutions Abroad	2,030,187	5.9	1,485,716	3.5	1,997,682	4.1
Bills of Exchange	496	0.0	1,143	0.0	10,527	0.0
Inter-branch	156	0.0	388	0.0	240	0.0
Other Liabilites	1,857,314	5.4	2,200,092	5.2	2,594,755	5.3
Other Borrowed Funds	929,678	2.7	1,007,400	2.4	1,175,964	2.4
Total Liabilities	30,311,144	88.4	36,051,401	85.9	41,317,272	85.0
SHAREHOLDERS' FUNDS						
Paid Share Capital	2,693,186	7.9	3,626,868	8.6	4,343,770	8.9
Share premium	233,525	0.7	649,747	1.5	679,868	1.4
Retained Earnings	(27,689)	-0.1	308,672	0.7	1,745,066	3.6
Current year Profit	700,144	2.0	871,581	2.1	0.0	0.0
Fixed assets revaluation reserves	151,092	0.4	112,136	0.3	162,172	0.3
Statutory reserves	96,447	0.3	171,522	0.4	203,690	0.4
Other Reserves	118,081	0.3	161,091	0.4	139,330	0.3
Total Reserves	1,038,075	3.0	1,625,002	3.9	2,250,259	4.6
SHAREHOLDERS' FUNDS	3,964,786	11.6	5,901,617	14.1	7,273,896	15.0
SHAREHOLDERS' FUNDS & LIABILITIES	34,275,930	100.0	41,953,018	100.0	48,591,168	100.0
Off balance sheet	3,032,125		5,719,802		7,274,032	
Gross Non-performing Loans	1,349,629		1,320,724		1,322,499	
Provision	992,347		1,098,847		1,011,453	
Net	357,282		221,877		311,046	

APPENDIX 5

BANKING SECTOR - CONSOLIDATED INCOME STATEMENT

	2012	2013	2014
	K ' 000	K ' 000	K ' 000
INTEREST INCOME	2,723,942	3,387,958	4,457,488
Loans and advances	1,657,613	2,238,393	2,953,835
From banks and financial institutions	142,989	121,091	123,219
Total Securities	854,273	941,800	1,277,714
Treasury Bills	484,239	569,105	869,757
Government Bonds	341,850	336,312	370,341
Money market instruments	4,904	6,708	1,867
Other securities	23,280	29,675	35,749
Leasing	63,631	74,713	89,193
All other	5,436	7,333	12,972
INTEREST EXPENSES	619,416	844,882	1,417,086
Deposits	452,703	680,031	1,110,972
Demand	82,318	86,447	145,718
Savings	58,724	83,404	87,143
Time	311,661	510,180	878,112
Paid to banks and other financial institutions	101,965	116,403	221,376
Loans	64,948	82,053	141,970
Deposits	37,017	34,350	79,407
Subordinated debt and shareholders' loans	34,899	44,149	77,325
All other	29,849	4,299	7,412
NET INTEREST INCOME	2,104,526	2,543,076	3,040,402
PROVISION FOR LOAN LOSSES	126,306	206,002	89,922
NET INTEREST INCOME AFTER PROVISION	1,978,220	2,337,074	2,950,480
NON-INTEREST INCOME	1,717,512	1,862,186	2,274,232
Commissions, fees and service charges	1,077,032	1,183,251	1,481,257
Foreign Exchange	535,090	574,712	762,174
Fees from foreign exchange transactions	82,563	74,014	2,694,839
Realised trading gains	297,273	409,715	(1,960,537)
Unrealised trading gains from forex holdings	155,253	90,983	27,872
All other	105,390	104,223	30,801
TOTAL NET INCOME	3,695,732	4,199,260	5,224,713
NON-INTEREST EXPENSES	2,504,716	2,907,273	3,407,205
Salaries and employee benefits	1,294,059	1,504,273	1,732,813
Occupancy Expenses	131,351	156,324	184,278
Equipment Expenses	104,939	130,066	148,471
Depreciation	174,143	187,496	198,775
Education and Training	18,036	21,234	21,340
Audit, legal & professional fees	76,022	72,394	93,774
Insurance	24,258	27,547	27,095
Frauds and forgeries	4,914	10,808	8,156
All other	676,994	797,130	992,505
PROFIT BEFORE TAX	1,191,016	1,291,987	1,817,508
TAXATION	490,872	420,405	628,053
PROFIT AFTER TAX	700,144	871,582	1,189,455

APPENDIX 6

BANKING SECTOR - CONSOLIDATED CAPITAL POSITION

I. PRIMARY (TIER 1) CAPITAL	2012 K'000	2013 K'000	2014 K' 000
Paid-up common shares	2,672,962	3,595,417	4,122,320
Eligible preferred shares	21,594	21,451	221,451
Share premium	249,466	667,059	697,180
Retained earnings	588,219	1,144,103	1,612,561
General reserves	180,763	134,816	149,732
Statutory reserves	96,447	171,522	203,690
Sub total (A)	3,809,451	5,734,368	7,006,934
Less Regulatory Adjustments:			
Goodwill and other intangible assets	36,699	34,094	30,160
Investments in unconsolidated subsidiaries and associates	1,297	30,797	246,505
Net unrealised gains/(losses) on available for sale securities	(9,587)	(11,329)	29,457
Assets of little or no realisable value	7,065	13,528	13,162
Other adjustments	12,771	10,382	6,614
Sub total (B)	48,245	77,472	325,897
TOTAL PRIMARY REGULATORY CAPITAL (A - B)	3,761,206	5,656,896	6,681,037
II. SECONDARY (TIER 2) CAPITAL			0
Eligible subordinated term debt	296,499	486,777	536,408
Eligible loan stock/capital	4,756	5,048	4,686
Revaluation reserves	57,733	52,230	91,408
TOTAL SECONDARY CAPITAL	358,988	544,055	632,502
ELIGIBLE SECONDARY CAPITAL	358,988	544,055	632,502
TOTAL REGULATORY CAPITAL	4,120,194	6,200,951	7,313,539
MINIMUM REGULATORY CAPITAL REQUIREMENT	1,950,987	2,310,191	4,461,689
EXCESS OVER MINIMUM REQUIREMENT	2,169,207	3,890,760	2,851,850
TOTAL RISK WEIGHTED ASSETS	19,363,487	23,114,223	27,114,737

APPENDIX 7

BANKING SECTOR - KEY PERFORMANCE INDICATORS

	Dec 12	Dec 13	Dec 14
CAPITAL ADEQUACY	%	%	%
Primary (Tier 1) Capital to Risk-Weighted Assets	19.4	24.5	24.6
Total Regulatory Capital to Risk-Weighted Assets	21.3	26.8	27.0
Total Regulatory Capital to Total Assets and Off-Balance Sheet Items	11.0	13.0	13.1
ASSET QUALITY			
Gross Non-Performing Loans to Total Gross Loans (Gross NPL ratio)	8.1	7.0	6.1
Net Non-Performing Loans to Net Loans (Net NPL ratio)	2.3	1.2	1.5
Gross Non-Performing Loans to Total Assets	3.9	3.1	2.7
Allowance for Loan Losses to Gross Non-Performing Loans	73.5	83.2	76.5
Allowance for Loan Losses to Total Loans	6.0	5.8	4.7
EARNINGS			
Return on Assets	3.9	3.4	3.9
Return on Equity	20.8	18.2	18.3
Net Interest Margin	8.4	8.3	8.5
Efficiency Ratio	65.5	66.0	76.0
Earning Assets to Total Assets	77.7	82.1	74.3
LIQUIDITY AND FUNDS MANAGEMENT			
Liquid Assets to Total Deposits and Short-Term Liabilities (Liquidity Ratio)	44.4	49.3	45.7
Liquid Assets to Total Assets	36.0	38.9	35.8
Deposit Concentration (20 Largest Deposits to Total Deposits)	40.2	43.0	42.2
Loan to Deposit Ratio	66.0	61.4	62.0

APPENDIX 8

NON-BANK FINANCIAL INSTITUTIONS SECTORS

BALANCE SHEET (FIGURES IN K' MILLION)

ITEMS	LEASING		BUILDING SOCIETIES		Ent-MFIs		Con-MFIs		DFIs		Savings		BUREAUX DE CHANGE		TOTAL	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
NOTES AND COIN	66	77	477	585	2,635	2,678	6,362	636	95	121	20,423	23,058	12,062	39,048	42,120	66,203
Domestic Currency	66	77	477	585	2,635	2,678	6,362	636	95	121	20,382	22,980	0	32,541	30,017	59,618
Notes	66	77	477	585	2,635	2,678	6,362	636	95	121	20,382	22,980	0	0	30,017	27,077
Coins	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Foreign Currency Notes And Coins	0	0	0	0	0	0	0	0	0	0	41	78	12,062	6,507	12,103	6,585
BALANCES WITH DOMESTIC INSTITUTIONS	57,866	49,509	65,133	146,773	32,199	31,987	105,076	125,059	102,082	34,102	56,955	135,735	37,939	3,913	457,250	527,079
Banks	53,318	33,611	49,717	64,873	32,199	31,987	101,998	123,353	102,082	34,102	52,425	135,735	37,939	3,913	429,678	427,575
Other Financial Institutions	4,548	15,898	15,416	81,900	0	0	3,078	1,701	0	0	4,530	0	0	0	27,572	99,499
Items in Transit	0	0	0	0	0	0	0	5	0	0	0	0	0	0	0	5
BALANCES WITH FOREIGN INSTITUTIONS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Investments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Working Balances	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
INVESTMENTS IN SECURITIES	0	0	0	38,409	15,757	14,697	29	0	40,952	66,692	5,000	5,000	0	0	61,738	124,798
Issued or guaranteed by the Government	0	0	0	0	5,757	600	0	0	0	0	5,000	5,000	0	0	10,757	5,600
Treasury Bills	0	0	0	0	5,757	600	0	0	0	0	5,000	5,000	0	0	10,757	5,600
Government Bonds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Bonds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other securities	0	0	0	38,409	10,000	14,097	29	0	40,952	66,692	0	0	0	0	50,981	119,198
NET MORTGAGES AND LOANS	382,498	340,874	280,542	400,637	265,369	347,142	1,242,270	1,744,335	253,152	411,740	235,537	269,857	0	0	2,659,369	3,514,584
Gross Mortgages and Loans	393,851	362,900	301,788	429,322	284,105	374,034	1,338,177	1,860,548	258,496	426,422	255,053	292,102	0	0	2,831,471	3,745,327
Mortgages and Loans from Re-Finance Credit	6,381	18,066	101,037	144,739	7,161	0	0	760	0	426,422	0	0	0	0	114,579	589,987
Mortgages and Loans from Normal Deposits	387,470	344,834	200,751	284,583	276,944	374,034	1,338,177	1,859,788	0	0	255,053	292,102	0	0	2,458,396	3,155,340
Allowance for Lease and Loan Losses	11,353	22,026	21,246	28,685	18,736	26,892	95,907	116,213	5,344	14,682	19,516	22,245	0	0	172,102	230,743
BILLS OF EXCHANGE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
INTERBRANCH	0	0	0	0	0	0	0	0	0	0	3,504	0	0	0	3,504	0
FIXED ASSETS	31,787	58,242	118,876	146,822	25,214	30,077	48,391	48,659	27,429	30,181	25,486	44,525	70	12,584	277,253	371,091
OTHER ASSETS	21,881	29,901	56,341	75,229	25,932	36,602	159,703	174,325	79,993	86,619	83,267	128,409	6,575	6,548	433,691	537,633
Accrued interest receivable	4,093	1,305	11,617	7,482	12,725	10,769	-4,377	4,601	17,839	21,523	5,095	9,837	0	0	46,992	55,517
Derivatives	0	0	0	0	0	0	186	-5,005	0	0	0	0	0	0	186	-5,005
Prepaid and deferred charges	1,031	1,057	998	204	2,603	5,638	26,915	33,944	0	0	16,886	19,686	0	0	48,433	60,529
Goodwill and other intangibles	0	0	7,604	7,604	34	1,021	634	0	0	0	0	0	0	0	8,272	8,625
Taxes	4,146	3,737	2,149	0	3,440	15,460	12,315	25,317	10,826	5,592	937	937	0	0	33,812	51,044
GRZ Accounts Recoverable	0	0	0	0	0	0	0	0	3,520	3,109	0	0	0	0	3,520	3,109
Repurchase agreement receivable	0	0	0	0	0	0	0	0		0	0	0	0	0	0	0
Other	12,611	23,802	33,973	59,939	7,130	3,715	124,030	115,467	47,808	56,395	60,349	97,949	6,575	6,548	292,475	363,814
TOTAL ASSETS	494,098	478,604	521,369	808,456	367,107	463,182	1,561,832	2,093,008	503,703	629,454	430,172	606,584	63,221	68,641	3,941,501	5,147,930
DEPOSITS	26,161	30,016	237,782	276,734	70,936	95,063	0	1,702	0	0	379,068	404,887	0	0	713,947	808,402

APPENDIX: CONT' 8

NON-BANK FINANCIAL INSTITUTIONS SECTORS

BALANCE SHEET (FIGURES IN K' MILLION)

ITEMS	LEASING		BUILDING SOCIETIES		Ent-MFIs		Con-MFIs		DFIs		Savings		BUREAUX DE CHANGE		TOTAL	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Demand	0	0	0	0	3,087	1,237	0	0	0	0	0	0	0	0	3,087	1,237
Savings	0	0	150,521	153,474	16,530	27,341	0	0	0	0	309,470	324,177	0	0	476,521	504,992
Time	26,161	30,016	87,261	123,260	44,128	63,829	0	1,702	0	0	69,598	80,710	0	0	227,148	299,517
BALANCES DUE TO BANK OF ZAMBIA	0	0	1,997	0	7,192	2,657	0	0	0	0	0	0	0	0	9,189	2,657
Re-financing credit	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	1,997	0	0	0	0	0	0	0	0	0	0	0	1,997	0
BALANCES DUE TO DOMESTIC INSTITUTIONS	12,050	8,125	45,716	63,938	0	76,613	0	0	104,511	121,799	0	14,626	0	0	162,277	285,101
Banks	10,231	6,125	8,835	6,771	38,441	74,648	166,561	177,395	0	0	0	14,626	0	0	224,068	279,565
Other financial institutions	1,819	2,000	36,881	57,167	30,694	1,965	155,778	145,462	104,511	121,799	0	0	0	0	329,683	328,393
Items in transit	0	0	0	0	7,747	0	10,783	31,828	0	0	0	0	0	0	18,530	31,828
BALANCES DUE TO FOREIGN INSTITUTIONS	81,646	86,726	45,545	46,513	0	143,522	0	105	18,400	10,642	0	11,618	0	0	145,591	299,126
Loans and Advances	81,646	86,726	34,198	37,037	114,449	0	27,767	51,100	0	0	0	0	0	0	258,060	174,863
Others	0	0	11,347	9,476	76,915	143,522	0	0	18,400	10,642	0	0	0	0	106,662	163,640
BILLS OF EXCHANGE	0	0	0	0	37,534	0	27,767	51,100	0	0	0	0	0	0	65,301	51,100
INTERBRANCH	0	0	0	0	0	0	0	0	0	0	0	11,618	0	0	0	11,618
OTHER LIABILITIES	35,649	70,358	121,590	139,422	58,099	45,710	182,597	147,649	30,155	50,917	49,983	47,067	24,116	22,423	502,190	523,546
Accrued interest payable	324	1,392	1,475	2,720	8,708	11,240	23,120	10,199	1,061	13,945	2,189	2,721	0	0	36,877	42,216
Derivatives	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Taxes	26,906	24,076	10,985	11,557	1,167	6,122	44,530	32,122	0	14,255	1,062	2,087	0	0	84,651	90,220
Deferred income	0	0	0	615	3,288	2,423	16,897	33,465	0	2,806	0	0	0	0	20,185	39,309
Dividends payable	0	0	0	0	0	0	400	400	0	0	0	0	0	0	400	400
Repurchase agreement payable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	8,420	44,891	109,130	124,530	44,936	25,924	97,652	71,463	29,094	19,911	46,732	42,259	24,116	22,423	360,079	351,401
OTHER BORROWED FUNDS	221,006	133,184	1,949	9,060	10,098	6,796	793,826	1,252,277	430	313	0	0	0	0	1,027,309	1,401,630
Maturing in less than one year	66,308	30,203	0	0	36	0	39,994	186,579	0	0	0	0	0	0	106,338	216,782
Maturing in one year or more	153,620	114,454	0	0	1,015	0	145,745	439,172	0	0	0	0	0	0	300,379	553,626
Subordinated debt	133	53	0	5,714	441	0	106,270	28,011	0	0	0	0	0	0	106,844	33,778
Shareholders' loans	946	-11,526	0	0	8,056	6,223	477,991	590,792	0	0	0	0	0	0	486,993	585,488
Other	0	0	1,949	3,346	550	573	23,826	7,723	430	313	0	0	0	0	26,755	11,956
SHAREHOLDERS' EQUITY	117,583	150,199	66,789	272,790	75,084	95,479	391,080	462,885	350,207	445,782	1,121	128,386	39,105	46,218	1,040,969	1,601,739
Preferred shares	8,949	8,949	4,113	4,113	24,085	27,747	0	40	0	0	0	0			37,147	40,849
Ordinary shares	28,635	38,530	84,036	289,325	57,030	85,592	77,509	92,645	290,986	364,186	28,383	138,383	16,016	21,787	582,595	1,030,448
Share premium	19,823	17,069	0	0	4,975	6,696	10,000	11,713	0	0	0	0	1,781	2,321	36,578	37,799
Retained Earnings	53,197	78,672	-45,007	-48,845	-18,157	-34,329	222,128	270,645	34,996	41,902	-38,337	-32,605	11,625	16,104	220,446	291,545
Fair Value reserves	0	0	0	0	-818	0	0	5,207	8,829	20,128	0	0			8,011	25,335
Revaluation reserves	1,405	1,405	20,674	19,802	2,836	3,214	0	0	15,106	14,518	11,075	22,608			51,096	61,546
Other Reserves	5,574	5,574	2,973	8,395	5,133	6,558	80,442	82,635	290	5,048	0	0	9,683	6,006	104,095	114,216
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	494,096	478,608	521,369	808,456	367,107	463,183	1,561,832	2,093,008	503,703	629,454	430,172	606,584	63,221	68,641	3,941,500	5,147,935

APPENDIX 9

NON-BANK FINANCIAL INSTITUTIONS SECTORS (EXCEPT BUREAUX DE CHANGE)

INCOME STATEMENT (Figures in K ' 000)

ITEMS	LEASING		BUILDING SOCIETIES		ENT-MFIs		Con-MFIs		DFIs		Savings		TOTAL	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Mortgages and loans from normal deposits, credit lines or shareholders funds	52,604	83,429	33,789	44,568	72,163	99,789	409,649	528,542	15,879	35,890	49,532	80,941	633,615	873,160
Local currency mortgages/ loans (Retail)	7,871	5,661	18,179	27,349	64,111	81,978	406,133	513,407	0	0	0	87,256	496,294	715,651
Local currency mortgages/ loans (Corporates)	28,235	67,922	6,602	17,219	8,052	17,811	3,515	15,135	0	24,926	0	0	46,404	143,013
Foreign currency mortgages/ loans (Retail)	7,024	1,517	0	0	0	0	0	2,136	0	957	0	0	7,024	4,610
Foreign currency mortgages/ loans (Corporates)	9,474	8,329	9,008	0	0	0	0	1,830	0	7,568	0	0	18,482	17,727
Mortgages and loans from re-finance credit	0	0	458	0	103	153	0	3,649	0	1,724	0	0	561	5,526
Local currency mortgages and loans	0	0	458	0	103	153	0	3,649	0	0	0	0	561	3,802
Foreign currency mortgages and loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0
From banks and other financial institutions	12	0	1,755	11,529	630	948	553	0	9,727	2,035	63	1,561	12,741	16,073
Domestic institutions	12	0	1,755	11,529	42	517	688	0	9,727	2,035	63	1,561	12,287	15,641
Foreign institutions	0	0	0	0	0	0	0	0	0	81	0	0	0	81
Securities:	0	0	0	0	630	299	6	0	0	442	3,681	7,419	4,317	8,159
Treasury bills (investments)	0	0	0	0	42	132	0	0	0	193	1,477	1,378	1,519	1,703
Government bonds (investments)	0	0	0	0	0	0	0	0	0	520	0	0	0	520
Money market instruments (investments)	0	0	0	0	437	0	6	0	0	520	2,204	6,041	2,647	6,561
Other securities (investments)	0	0	0	0	151	0	0	0	0	0	0	0	151	0
Trading securities (all classes as above)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Leasing Income	0	0	0	0	0	0	0	0	1,126	1,144	0	0	1,126	1,144
Mortgages Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit cards	0	0	17	0	0	0	0	0	0	0	0	0	17	0
Apex Finance	0	0	0	0	0	0	0	0	0	0	0	0	0	0
All other	24,484	47,238	28,766	35,166	237	1,307	1,570	943	551	1,426	360	22	55,969	86,102
TOTAL INTEREST INCOME (excluding dividends)	78,827	130,667	64,785	91,263	73,133	102,196	412,217	535,270	27,283	34,903	53,636	89,943	709,881	984,243
Deposits:	3,378	5,581	9,940	19,170	4,412	7,339	0	121	0	0	7,902	13,256	25,632	45,467
Demand (Retail)	607	0	2,270	4,606	545	189	0	0	0	0	2,837	0	6,259	4,795
Demand (Corporates)	2,673	4,876	4,595	4,955	0	0	0	0	0	0	2,632	0	9,900	9,831
Savings (Retail)	522	0	603	3,660	27	251	0	0	0	163	0	3,398	1,152	7,472
Savings (Corporates)	75	0	782	868	0	0	0	0	0	6,452	0	2,174	857	9,493
Time:	630	705	3,627	7,006	4,109	6,900	0	121	0	0	2,433	7,684	10,799	22,416
Certificates of deposits (Retail)	85	0	3,067	5,524	2,551	3,566	0	0	0	0	0	3,922	5,703	13,012
Certificates of deposits (Corporates)	0	0	1,465	1,469	2,005	3,304	0	121	0	0	0	3,762	3,469	8,656
Other	630	705	751	13	91	29	0	0	0	0	0	0	1,472	747
Interest paid to banks and financial institutions:	6,091	6,583	3,143	8,769	13,098	27,599	36,516	99,394	736	562	0	3,387	59,584	146,295
Loans/ Mortgages	7,016	6,583	2,500	8,769	13,822	27,570	36,380	99,133	518	562	0	3,135	60,236	145,752
Foreign currency loans/ mortgages	5,079	5,811	1,022	660	6,300	3,144	4,589	8,253	218	562	0	0	17,208	18,430
Local currency loans/ mortgages	2,452	772	1,608	8,109	8,246	24,426	23,821	90,567	0	0	0	3,135	36,127	127,010
Deposits	496	0	265	0	0	29	137	261	0	34	0	252	897	576
Foreign currency deposits	0	0	0	0	0	0	0	0	0	34	0	0	0	34
Local currency deposits	0	0	50	0	0	29	137	261	0	34	0	252	187	576
Subordinated debt	0	116	0	0	0	0	12,504	0	0	0	651	0	13,155	116
Shareholders loans	579	598	0	0	0	0	28,335	685	0	0	0	0	28,914	1,283
All other	11,700	31,576	267	0	365	720	30,038	110,726	22	6,703	0	0	42,392	149,725
TOTAL INTEREST EXPENSE	23,950	44,455	14,387	28,901	67	72	112,549	28,071	758	7,265	8,553	16,643	160,263	125,407
NET INTEREST INCOME	53,820	86,212	50,399	62,362	18,934	35,731	316,844	238,998	26,525	27,551	45,083	73,300	511,606	524,153
General	112	2,522	1,073	-3,497	54,199	66,466	52,187	296,272	0	4,006	0	2,729	107,571	368,499
Specific	5,572	12,419	3,791	11,399	4,625	5,620	3,158	20,793	173	5,975	0	0	17,318	56,206
TOTAL PROVISION FOR MORTGAGE LOSSES	5,683	14,942	4,864	7,903	-501	117	55,345	19,204	173	10,015	0	2,729	65,565	54,910
NET INTEREST INCOME AFTER PROVISION FOR MORTGAGE LOSSES	49,194	71,270	45,545	54,459	3,979	5,808	261,499	39,997	26,352	23,987	45,083	70,571	431,653	266,093
Commissions, fees and service charges (local currency transactions)	9,694	16,481	40,232	49,562	49,567	60,662	31,035	256,277	2,205	6,937	49,430	43,267	182,163	433,185
Foreign exchange:	556	-138	-117	-5,081	28,617	55,045	-13,497	68,035	6,648	26,534	24	57	22,231	144,452

APPENDIX: CONT' 9

NON-BANK FINANCIAL INSTITUTIONS SECTORS (EXCEPT BUREAUX DE CHANGE)

INCOME STATEMENT (Figures in K ' 000)

ITEMS	LEASING		BUILDING SOCIETIES		ENT-MFIs		Con-MFIs		DFIs		Savings		TOTAL	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Fees from f/x transactions	0	0	0	0	3,218	597	0	-85,950	689	-2	0	0	3,218	-85,356
Realised trading gains/ (losses)	964	-865	0	0	181	681	-5,193	-2,555	5,959	15,086	0	0	-3,359	12,347
Unrealised gains/ (losses) from foreign exchange holdings	-185	-809	-117	-5,081	-298	-85	-8,304	-83,395		17,916	24	57	-2,921	-71,398
Treasury Management	0	0	22	0	0	0	0	0	1,515	-21	0	0	22	-21
Dividend income	1,145	0	0	0	204	0	0	0	783	420	0	0	2,864	420
All other	4,535	17,590	10,018	42,429	4,277	2,814	27,900	36,603	11,151	28	700	841	48,213	100,305
TOTAL NON-INTEREST INCOME	16,811	33,933	50,994	86,910	37,038	58,455	45,437	18,686	37,676	33,906	50,154	44,165	211,585	276,055
NET INTEREST AND OTHER INCOME	66,004	105,203	96,529	141,369	87,250	119,183	306,935	274,963	22,733	52,156	95,237	114,736	689,631	807,611
Salaries and Employees Benefits	13,385	18,027	71,202	91,089	47,859	61,760	77,768	88,665	607	22,819	54,907	69,625	287,854	351,985
Occupancy	2,147	2,089	1,488	1,653	6,467	8,795	7,876	10,637	0	1,223	6,548	8,203	25,133	32,600
Equipment	717	1,029	913	938	1,902	1,195	334	1,075	518	1,537	2,833	3,356	6,699	9,130
Depreciation	1,083	4,114	11,167	16,967	4,704	5,993	11,144	12,422	460	8,780	4,107	3,983	32,723	52,258
Education and Training	285	339	1,466	1,051	1,240	1,717	692	403	2,155	3,564	948	1,337	5,091	8,411
Audit, Legal and Professional Fees	1,199	2,035	2,263	2,229	2,736	4,758	7,256	8,127	0	1,100	939	2,228	16,548	20,478
Director Fees	0	0	0	0	478	0	0	0	213	964	0	0	478	964
Insurance	711	1,443	472	719	478	589	3,757	4,565	0	331	602	0	6,232	7,647
Frauds and Forgeries	0	0	0	0	0	0	0	82	0	28	0	20	0	130
Management Fees	4,921	5,898	0	0	7,470	11,933	10,509	19,559	0	-266	0	0	22,900	37,125
Donations	143	119	1	19	493	12	798	705	13,049	27	1,182	247	2,617	1,130
Others	13,446	19,259	23,110	37,763	19,701	25,157	124,288	90,200	39,735	3,818	20,460	19,004	214,054	195,201
TOTAL NON-INTEREST EXPENSES	38,037	54,353	112,082	152,428	93,050	121,910	244,421	236,438	-2,059	31,062	92,526	108,003	619,850	704,194
INCOME /(LOSS) BEFORE TAXES	27,968	50,850	-15,553	-11,059	-5,800	-2,726	62,519	38,526	0	21,094	2,711	6,733	69,786	123,417
Taxation	9,068	19,968	198	0	1,350	-769	14,576	22,927	-2,059	852	0	0	25,193	42,977
INCOME/ (LOSS) AFTER TAXES	18,900	30,882	-15,751	-11,059	-7,151	-1,957	47,943	15,600		20,588	2,711	6,742	44,593	60,796

APPENDIX 10

NON-BANK FINANCIAL INSTITUTIONS SECTORS

NON-BANK FINANCIAL INSTITUTIONS CAPITAL POSITION

ITEMS	LEASING		BUILDING SOCIETIES		Ent-MFIs		Con-MFIs		DFIs		Savings		BUREAUX DE CHANGE		TOTAL	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
(a) Paid-up common shares	28,635	38,530	84,020	289,311	57,030	85,592	81,769	93,094	290,986	364,186	28,383	138,383	16,016	21,787	586,839	1,030,884
(b) Eligible preferred shares	4,990	4,990	4,113	4,113	2,500	2,500	10,032	10,040	0	0	0	0	0	0	21,635	21,643
(c) Capital Grants	0	0	0	0	21,585	25,247	2,803	0	0	0	0	0	0	0	24,388	25,247
(d) Contributed surplus	19,729	17,069	0	0	4,938	6,696	10,000	11,499	0	41,902	-38,337	0	1,781	2,321	-1,890	79,487
(e) Retained earnings (note 1)	53,200	78,672	-45,007	-48,845	-18,157	-34,329	233,534	307,754	34,996	25,176	0	-32,605	11,625	16,104	270,191	311,927
(f) General reserves	250	250	2,973	8,395	3,671	6,103	78,672	75,279	9,119	0	0	0	9,683	6,006	104,368	96,033
(g) Minority interests (common shareholders' equity)	5,324	5,324	0	0	0	0	0	0		0	0	0			5,324	5,324
(h) Sub-total	112,128	144,835	46,099	252,974	71,568	91,810	421,570	497,666	335,101	431,265	-9,954	105,778	39,105	46,218	1,015,616	1,570,546
(i) Goodwill and other intangible assets	1,692	1,550	7,498	7,604	34	2,810	647	4,111	5,410	66,692	0	0	0	0	15,281	82,768
(j) Investments in unconsolidated subsidiaries and associates	0	0	0	0	0	0	0	0	40,952	0	0	0	0	0	40,952	0
(k) Lending of a capital nature to subsidiaries and associates	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(l) Holding of other banks' or financial institutions' capital instruments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(m) Assets pledged to secure liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(n) Net unrealized gains (losses) on available-for-sale securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(if a gain, report as a positive value; if a loss, report as a negative value)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(o) Accumulated net gains (losses) on cash flow hedges	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(if a gain, report as a positive value; if a loss, report as a negative value)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(p) Defined benefit plan actuarial gain	0	0	0	0	0	0	0	0		0	0	0	0	0	0	0
Sub-total (A) (items i to m)	1,692	1,550	7,498	7,604	34	2,810	647	4,111	46,362	66,692	0	0	0	0	56,233	82,768
Provisions (note 2)	0	0	0	0	0	0	0	0		0	0	0	0	0	0	0
Assets of little or no realizable value (note 3) - specify details or use separate list if necessary:	0	0	0	0	764	1,568	227	2,338	0	0	0	0	0	0	991	3,906
Other adjustments (specify)	0	0	0	8,783	0	0	0	0		0	0	0	0	0	0	8,783
Sub-total (Other adjustments)	0	0	0	8,783	764	1,568	227	2,338	0	66,692	0	0	0	0	991	79,381
(q) Total Subtractions (B) : (Sub-total A above + Other adjustments)	1,692	1,550	7,498	16,387	798	4,378	874	6,449	46,362	0	0	0	0	0	57,224	28,765
(r) TOTAL PRIMARY CAPITAL (h - n)	110,436	137,285	38,601	236,586	70,770	87,432	415,936	491,217	288,739	364,572	-9,954	105,778	39,105	46,218	953,632	1,469,088
(a) Eligible preferred shares	0	0	0	0	0	0	0	31,548	0	0	0	0	0	0	0	31,548
(b) Eligible subordinated term debt	1,688	1,688	0	5,714	1,553	0	106,270	612,548	0	5,807	0	0	0	0	109,511	625,757
(c) Eligible loan stock / capital	0	0	0	0	1,015	0	50	0	0	0	0	0	0	0	1,065	0
(d) Eligible general provisions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(e) Revaluation reserves. Maximum is 40% of revaluation res.	562	562	8,270	7,921	0	1,000	0	0	6,042	5,807	4,430	9,043	0	0	19,304	24,333
(f) Other. Specify	0	0	0	0	2,986	1,169	0	0		0	0	0	0	0	2,986	1,169
(f) Total secondary capital	2,250	2,250	8,270	13,635	5,201	2,169	106,320	644,096	6,042	5,807	4,430	9,043	0	0	132,512	677,000
III ELIGIBLE SECONDARY CAPITAL	2,250	2,250	8,270	13,635	1,498	1,169	29,865	311,855	6,042	5,807	0	9,043	0	0	47,924	343,759
IV MINIMUM TOTAL CAPITAL REQUIREMENT:	48,269	46,906	38,792	56,847	36,924	60,634	206,443	294,267	43,694	60,205	35,919	46,994	0	0	410,041	565,853
V EXCESS (DEFICIENCY) (I + III - IV)	64,417	98,629	8,079	193,374	35,696	27,967	234,622	508,805	251,087	370,380	-45,873	67,827	0	0	548,028	1,266,981
VI TOTAL REGULATORY CAPITAL	112,686	145,535	46,871	250,221	72,620	88,601	445,800	803,072	294,781	367,592	-9,954	114,821	39,105	46,218	1,001,909	1,816,060

APPENDIX 11

PROFITABILITY INDICATORS OF THE NON-BANK FINANCIAL INSTITUTIONS SECTOR - FIGURES (EXCLUDING RATIOS) ARE IN K'MILLIONS

	PROFIT BEFORE TAX		RETURN ON ASSETS (ROA)				RETURN ON EQUITY (ROE)			
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
LEASING COMPANIES										
Sub Total	27,968	50,850	494,096	478,608	5.7	10.6	117,583	150,199	23.8	33.9

	PROFIT BEFORE TAX		RETURN ON ASSETS (ROA)				RETURN ON EQUITY (ROE)			
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
BUILDING SOCIETIES										
Sub Total	(15,553)	(11,059)	521,369	808,456	(3.0)	(1.4)	66,789	272,790	(23.3)	(4.1)

	PROFIT BEFORE TAX		RETURN ON ASSETS (ROA)				RETURN ON EQUITY (ROE)			
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
SAVINGS AND CREDIT										
Sub Total	2,711	6,733	430,172	606,584	0.6	1.1	1,121	128,386	241.8	5.2

	PROFIT BEFORE TAX		RETURN ON ASSETS (ROA)				RETURN ON EQUITY (ROE)			
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
SAVINGS AND CREDIT										
Sub Total	(2,059)	21,094	503,703	629,454	(0.4)	3.4	350,207	445,782	(0.6)	4.7

	PROFIT BEFORE TAX		RETURN ON ASSETS (ROA)				RETURN ON EQUITY (ROE)			
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
ENTERPRISE-LENDING MFIs										
Sub Total	(5,800)	(2,726)	367,107	463,183	(1.6)	(0.6)	75,084	95,479	(7.7)	(2.9)

	PROFIT BEFORE TAX		RETURN ON ASSETS (ROA)				RETURN ON EQUITY (ROE)			
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
CONSUMER-LENDING MFIs										
Sub Total	62,519	38,526	1,561,832	2,093,008	4.0	1.8	391,080	462,885	16.0	8.3

BUREAUX DE CHANGE	PROFIT BEFORE TAX		RETURN ON ASSETS (ROA)				RETURN ON EQUITY (ROE)			
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Sub-sector total	2,313	1,838	63,221	68,641	3.7	2.7	39,105	46,218	5.9	4.0
Grand Total for the NBFI Sector	72,099	105,255	3,941,500	5,147,935	1.8	3.1	1,040,969	1,601,739	6.9	6.6

APPENDIX 12

KEY PERFORMANCE INDICATORS OF THE NON-BANK FINANCIAL INSTITUTIONS SECTOR (EXCLUDING BUREAUX DE CHANGE)

FIGURES (EXCLUDING RATIOS) ARE IN K'000

LEASING FINANCE COMPANIES	TOTAL CAPITAL		TOTAL RISK WEIGHTED ASSETS		CORE-CAPITAL TO RWA		TOTAL CAPITAL TO RWA	
	2013	2014	2013	2014	2013	2014	2013	2014
Sub Total	112,686	145,535	482,685	469,056	23.2	30.9	23.3	31.0

BUILDING SOCIETIES	TOTAL CAPITAL		TOTAL RISK WEIGHTED ASSETS		CORE-CAPITAL TO RWA		TOTAL CAPITAL TO RWA	
	2013	2014	2013	2014	2013	2014	2013	2014
Sub Total	46,871	250,221	387,921	568,473	11.9	44.5	12.1	44.0

SAVINGS AND CREDIT INSTITUTIONS	TOTAL CAPITAL		TOTAL RISK WEIGHTED ASSETS		CORE-CAPITAL TO RWA		TOTAL CAPITAL TO RWA	
	2013	2014	2013	2014	2013	2014	2013	2014
Sub Total	(9,954)	114,821	359,185	469,938	(2.8)	22.5	(2.8)	24.4

DEVELOPMENT INSTITUTIONS	TOTAL CAPITAL		TOTAL RISK WEIGHTED ASSETS		CORE-CAPITAL TO RWA		TOTAL CAPITAL TO RWA	
	2013	2014	2013	2014	2013	2014	2013	2014
Sub Total	294,781	367,592	436,940	602,050	76.7	71.6	67.5	61.1

ENTERPRISE-LENDING MFIs	TOTAL CAPITAL		TOTAL RISK WEIGHTED ASSETS		CORE-CAPITAL TO RWA		TOTAL CAPITAL TO RWA	
	2013	2014	2013	2014	2013	2014	2013	2014
Sub Total	72,620	88,601	246,163	404,229	29.1	22.7	29.5	21.9

CONSUMER-LENDING MFIs	TOTAL CAPITAL		TOTAL RISK WEIGHTED ASSETS		CORE-CAPITAL TO RWA		TOTAL CAPITAL TO RWA	
	2013	2014	2013	2014	2013	2014	2013	2014
Sub Total	445,800	803,072	1,376,289	1,961,778	30.6	25.4	32.4	40.9
Grand Industry Total	962,804.01	1,769,842	3,289,184	4,475,525	29.3	20.6	23.6	31.9

APPENDIX 13

NON-BANK FINANCIAL INSTITUTIONS SECTOR - KEY ASSET QUALITY RATIOS (EXCLUDING BUREAUX DE CHANGE)

FIGURES (EXCLUDING RATIOS) ARE IN K'000

LEASING FINANCE COMPANIES	TOTAL LOANS		TOTAL NPLs		ALLLs		NPLs TO TOTAL LOANS		ALLLs TO NPLs	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Sub Total	393,851	362,900	21,199	22,026	11,353	22,026	5.4	6.1	53.6	100.0

BUILDING SOCIETIES	TOTAL LOANS		TOTAL NPLs		ALLLs		NPLs TO TOTAL LOANS		ALLLs TO NPLs	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Sub Total	301,788	429,322	31,215	43,182	21,246	28,685	10.3	10.1	68.1	66.4

SAVINGS AND CREDIT INSTITUTIONS	TOTAL LOANS		TOTAL NPLs		ALLLs		NPLs TO TOTAL LOANS		ALLLs TO NPLs	
	2013	2013	2013	2014	2013	2014	2013	2014	2013	2014
Sub Total	255,053	255,053	31,656	48,030	19,516	22,245	12	16	62	46

DEVELOPMENT INSTITUTIONS	TOTAL LOANS		TOTAL NPLs		ALLLs		NPLs TO TOTAL LOANS		ALLLs TO NPLs	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Sub Total	258,496	426,422	4,538	14,682	5,344	14,682	1.8	3.4	117.8	100.0

ENTERPRISE-LENDING MFIs	TOTAL LOANS		TOTAL NPLs		ALLLs		NPLs TO TOTAL LOANS		ALLLs TO NPLs	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Sub Total	284,105	374,034	20,419	28,957	18,736	26,892	7.2	7.7	91.8	92.9

CONSUMER-LENDING MFIs	TOTAL LOANS		TOTAL NPLs		ALLLs		NPLs TO TOTAL LOANS		ALLLs TO NPLs	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Sub Total	1,338,177	1,860,548	94,007	111,512	95,907	116,213	7.0	6.0	102.0	104.2
Grand Industry Total	2,831,471.20	3,745,327	203,034	268,389	172,102	230,743	7.2	7.2	84.8	81.7

APPENDIX 14

NON-BANK FINANCIAL INSTITUTIONS

BUREAU DE CHANGE CONSOLIDATED INCOME STATEMENT (K'000)

		Year to date 2014		Year to date 2012	
A.	**INCOME**				
1	Sales of Currency		4,272,606		3,724,611
a	Sales to the Public	4,272,606		3,724,611	
b	Sales to other Bureaux de Change	-		-	
c	Sales to Commercial Banks	-		-	
2	Foreign Exchange Revaluation (Gain)		60		219
3	Interest		14		41
4	Other Income (see note below)		837		1,371
5	**Total Income**		4,273,517		3,726,242
B.	**EXPENSES**				
6	Cost of Sales of Currency		4,238,163		3,689,033
a	Purchases from the Public				
b	Purchases from other Bureaux De Change	1,963,633		1,229,313	
c	Purchases from Commercial Banks				
7	Foreign Exchange Revaluation (Loss)	2,274,530	234	2,459,720	
8	Interest on borrowing		1,233		258
9	Occupancy		5,465		1,097
10	Director's Emoluments		1,723		8,391
11	Salaries and Wages		9,396		6,525
12	Other Expenses (see note below)		15,465		7,827
13	**Total Expenses**		4,271,679		10,798
14	**Profit/ (Loss) Before Tax**		1,838		3,723,929
15	**Tax**				2,313
16	**Profit After Tax**		1,838		2,313

VISION

To be a dynamic and credible central bank that adds value to the economic development of Zambia

MISSION STATEMENT

The principal purpose of the Bank of Zambia is to achieve and maintain price and financial system stability for balanced macroeconomic development

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