PwC Zambia

Banking Industry Survey Report

Ninth Edition

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Foreword

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Welcome to the PwC 2025 Banking Survey

This year's report offers a comprehensive overview of the challenges and opportunities facing the banking sector, with a spotlight on emerging risks. We remain optimistic about the sector's resilience and its potential to drive meaningful societal impact.

We would like to extend our gratitude to the Bankers Association of Zambia and all its members for their full participation in this year's report. There was a 100% response rate to both our CEO and general surveys this year, reflecting the banking sector's commitment to the process and the sector's recognition of the value this report delivers. Now in its ninth year, this report would not be possible without the consistent support and engagement of Zambia's commercial banks.

We would also like to extend our gratitude to Dr Denny Kalyalya, Governor of the Bank of Zambia (BoZ), and his team for their availability and ongoing engagement.

Thank you also to the PwC team for their continued efforts to ensure the delivery of this report.

We look forward to continued collaboration with all stakeholders as we prepare to mark a milestone with our 10th edition in 2026.

01 Introduction

The PwC 2025 Banking Survey offers a comprehensive analysis of Zambia's banking sector based on responses from all licenced commercial banks operating in the country. This year's edition captures the sector's shifting priorities, persistent challenges and emerging opportunities within a rapidly evolving economic, technological and regulatory landscape.

Cybersecurity has emerged as the most pressing concern for Zambian banks in 2025. The increasing digitisation of financial services, accelerated by mobile and online banking adoption, has exposed institutions to a broader spectrum of cyber threats.

Notably, insider threats where compromised employees collude with external actors have become a significant risk, prompting banks to reassess internal controls and staff vetting procedures. Compounding this challenge is the rise of intelligent and borderless financial crime, where tech-enabled syndicates leverage artificial intelligence (AI)-generated synthetic identities, deepfake executives and fraud-as-a-service platforms to exploit cross-border compliance gaps and orchestrate systemic attacks.

The Bank of Zambia (BoZ) has responded to these risks by refining its supervisory framework and launching initiatives aimed at strengthening cyber resilience across the financial sector. These include the establishment of the Financial Cyber Incident Response Team (FINCIRT) and the integration of Supervisory Technology (SupTech) tools to enhance real-time monitoring and risk mitigation.

While the state of the local economy remains a critical factor influencing banking activities it ranked second in priority in the survey the

sector has noted improvement thanks to macroeconomic stabilisation efforts. Ongoing challenges such as inflation, load shedding and global geopolitical tensions continue to affect credit demand, loan quality and liquidity.

Nevertheless, Zambia's economy is projected to grow robustly in 2025, with key sectors like mining driving expansion despite energy shortages. The report further explores these economic conditions and their implications in Section 3.

Digital transformation and innovation have become strategic imperatives in the banking sector and this year make their debut among the top five banking priorities. Banks are focusing on leveraging innovative technologies, including AI, to improve operational efficiency, enhance customer experience and respond to competitive pressures from both traditional and non-traditional players in the financial ecosystem.

Improving revenue growth has gained prominence as a strategic focus, highlighting banks' efforts to diversify and strengthen income streams in a challenging economic and technological landscape. Sustained revenue growth is seen as essential not only for financial performance but also for long-term sustainability and continued investment in innovation.

Liquidity risk concerns, while still relevant, have declined significantly in 2025 compared to the previous year, reflecting improved liquidity management despite tighter monetary policies, which include increases in the statutory reserve ratio (SRR) and monetary policy rate (MPR). Banks have adopted a variety of strategies including deposit mobilisation and interbank borrowing to navigate the liquidity environment, as further detailed in Section 3.

This report presents an in-depth examination of the five areas most affecting banks in 2025 cybersecurity, economic stability, digital innovation, revenue growth, and liquidity management in order to provide stakeholders with an informed understanding of the current state and future direction of Zambia's banking sector.

Report methodology

To gather insights for this report, PwC Zambia conducted a survey targeting all sixteen banks operational in Zambia. Our survey questionnaire covered broad areas including the current state of the sector, cybersecurity, technology and the future of banking.

With respect to the most pressing issues during the year, respondents were requested to rank issues in order of significance, with 10 being the most and one being the least significant. In analysing the responses, PwC Zambia used a weighted average to identify the most significant issues at both a combined and disaggregated level.

We spoke to key industry stakeholders including the BoZ and Bankers Associate of Zambia (BAZ) as part of the process. We obtained and analysed industry performance statistics as compiled from the quarterly prudential returns that financial institutions submit to the BoZ and publish periodically. These insights provided valuable context to support and interpret the survey results.

02 Survey findings

Our survey results highlight the main areas of focus and concern for the banking sector in 2025. The survey was distributed to all commercial banks, achieving a 100% response rate. The 2025 survey asked participants to identify the major challenges facing the banking sector from August 2024 to June 2025.

The top five issues identified are listed below, differentiated between the six largest banks by total assets and all banks in general. As shown in Figures 1, 2 and 3, the top five issues for banks remain consistent and are ranked with similar importance in 2025 compared to the previous year. The top five issues in 2025 are:

1. Cybersecurity
2. State of the local economy
3. Digital transformation and innovation
4. Improving revenue growth
5. Liquidity risk

Figure 1: Top five issues for banks from 2023 to 2025

	2023		2024		2025
Cybersecurity	8.6	State of the local economy	8.6	Cybersecurity	8.5
State of the local economy	8.3	Liquidity risk	7.5	State of the local economy	5.7
USD liquidity	5.9	Cyber security	6.3	Digital transformation and innovation	5.7
Digital transformation	4.9	Increased credit risk and NPLs	4.3	Improving revenue growth	4.4
Increased competition from non-traditional players	4.5	Increased regulatory compliance	4.3	Liquidity risk	3.9

Figure 2: Top five issues: six largest banks

	2023		2024		2025
State of the local economy	9.2	State of the local economy	10.0	Cyber security	7.8
Cybersecurity	8.5	Liquidity risk	7.2	State of the local economy	6.8
USD liquidity	6.7	Cyber security	5.8	Digital transformation and innovation	6.3
Digital transformation	5.2	Climate change	5.4	Improving revenue growth	3.7
Increased Competition from non-traditional players	4.0	Cost containment	5.4	Liquidity risk	3.0

Figure 3: Top five issues: other banks

	2023		2024		2025
Cybersecurity	8.7	Liquidity risk	7.7	Cyber security	9.0
State of the local economy	7.8	State of the local economy	7.6	State of the Local economy	5.0
USD liquidity	5.4	Cyber security	6.7	Digital transformation and innovation	5.3
Increased competition from non-traditional players	4.9	Increased credit risk and NPLs	6.0	Improving revenue growth	4.9
Inequity of regulation and digital financial services	4.9	Managing interest rate risk	4.6	Liquidity risk	4.6

Cybersecurity

Cybersecurity has risen to the top of the list of priorities for Zambian banks in 2025, up from third place in 2024. This shift reflects the sector's increasing reliance on digital platforms and the growing complexity of its operational ecosystem. The digitisation of banking operations remains a top imperative priority, with banks deepening integration with external players such as mobile network operators (MNOs), payment gateway providers and utility service providers. While this enhances service delivery and customer experience, it also introduces new vulnerabilities.

A particularly concerning development is the rise of insider threats, which have become one of the most prominent cybersecurity risks in Zambia. Banks are increasingly reporting cases where compromised employees collude with external threat actors to facilitate cyberattacks. This trend has prompted institutions to strengthen internal controls, enhance employee vetting and invest in behavioral monitoring systems.

To address the growing cyber risk landscape, the Zambian government enacted the Cyber Security Act and Cyber Crimes Act in April 2025. These laws aim to protect individuals and critical infrastructure, regulate digital activities and introduce punitive measures for cyber offences. In parallel, the BoZ has intensified efforts to promote cybersecurity awareness and resilience across the financial sector, including capacity-building initiatives and sector-wide collaboration on threat intelligence sharing.

State of the local economy

The state of the local economy continues to be a top concern for the banking sector in 2025 although it has fallen from first place in 2024 to joint second place in 2025. The drop this year is attributed to visible signs of economic improvement and various measures implemented to restore economic stability. These include the completion of the Article IV Consultation and fifth review of Zambia's 38-month Extended Credit Facility (ECF) arrangement, which was approved in July 2025. The ECF has allowed the immediate disbursement of US$184 million to entrench macroeconomic stability, restore debt and fiscal sustainability, enhance public governance, and foster inclusive growth in order to improve the livelihoods of Zambians.

The state of the local economy also impacts loan quality, credit demand and interest rate fluctuations. Factors such as inflationary pressures, geopolitical tensions and shifts in government policy create uncertainty that can affect asset valuations and borrowers' repayment capacity, increasing the risk of non-performing loans and credit losses. That said, judging from the financial performance of the sector, credit has remained resilient and this risk has not crystalised.

Inflation in Zambia remains high due to various factors, including the effects of climate change, which has resulted in higher food and energy prices. However, in 2025, inflation has fallen from a high of 16.8% in February to 12.6% in August. This downward trend is expected to continue through to the end of the year thanks in part to a bumper harvest in the 2024/2025 farming season. This stands in sharp contrast to the 2023/2024 farming season. A severe drought significantly reduced agricultural output, which susequently increased food prices in 2024. However, load shedding continues to be a challenge.

According to the International Monetary Fund (IMF), Zambia's real GDP is projected to grow 6.6% in 2025, up from 4% in 2024, driven by sectors like mining, agriculture and energy, despite a significant electricity deficit affecting power production. Section 3 of the report delves further into the state of the local economy.

Digital transformation and innovation

Digital transformation and innovation was the second most pressing issue for banks in 2025 alongside the state of the local economy. The shift towards increased digitisation and efficiency, and the need to provide customers with innovative solutions through new technologies means digital transformation is increasingly important for banks.

Banks are facing growing pressure to meet customer expectations for digital services. At the same time, shareholders are encouraging banks to adopt more efficient ways of working that use technology to lower costs and improve profitability.

AI is playing a crucial role in modernising Zambia's banking sector by driving efficiency, enhancing customer experiences, improving security and fostering a culture of continuous innovation. As AI technology continues to evolve, the technology will offer new opportunities for banks to enhance their competitive edge in a rapidly changing digital landscape.

Improving revenue growth

This is a new priority for banks in 2025, indicating a strategic shift towards enhancing income streams. Banks are focused on enhancing revenue growth since it is vital for their financial performance, long-term strategic planning, sustainability, and competitiveness in the market. Higher revenue enables banks to invest in technology, elevate customer service, broaden their range of offerings and strengthen their overall proposition.

At its core, revenue growth goes beyond the goal of maximising profits for banks. It is about securing their long-term sustainability and improving their capacity to serve customers, which, in turn, positively impacts the broader economy.

Liquidity risk

Liquidity risk was less of a concern for banks in 2025 compared to 2024. Its rating fell from 7.5 in 2024 to 3.9 in 2025, suggesting improved liquidity management and financial conditions. In 2024, the BoZ increased the SRR from 17% to 26%, and raised the MPR by 3.5% between January 2024 and February 2025.

These steps aimed to curb inflation but resulted in short-term liquidity challenges for banks. Financial institutions also faced increased liquidity constraints due to mandated government deposit repatriations, leading to heightened borrowing costs and rising default risks. As a result, a significant number of banks saw substantial rises in interest expenses.

Banks adopted diverse strategies to mitigate liquidity tightening impacts. A quarter, 25%, focused on boosting deposits, while others turned to interbank borrowing, central bank facilities and asset liquidation. These strategies reveal varied responses from banks as they navigate the tighter financial landscape. Section 3 of the report further dives into liquidity risks.

03 Cybersecurity

Cybersecurity in the Zambian banking sector

In the 2025 banking survey, cybersecurity emerged as the most pressing issue. This marks a significant increase in concern among banks regarding the risks and impacts that cybersecurity poses to their operations.

Phishing and social engineering: the predominant threat

A concerning 31% of Zambian banks have identified phishing and social engineering attacks as the greatest threat to their operations. These types of attacks are considered a major concern due to their ability to exploit human vulnerabilities.

Other cybersecurity threats, such as ransomware and malware attacks, follow closely and were cited by 22% of banks. These attacks can significantly impact operations and often target critical infrastructure. Insider threats, such as staff collusion or data leaks, also rank high among security concerns, with 20% of banks recognising them as one of the top three security concerns.

31%

of Zambian banks have identified phishing and social engineering attacks as the greatest threat to their operations

Our findings are consistent with the Interpol African Cyberthreat Assessment Report released in 2024. This report identified malware, including ransomware and banking trojans, as prominent threats across the continent. Phishing and online scams, such as business email compromise, were also highlighted. Check Point research suggested that on average one in every 15 organisations in Africa faced a ransomware attempt weekly during the first quarter of 2023, while Sophos IT Security Company reported that 78% of South African companies were victims of ransomware attacks in 2023. The report stresses that all sectors, including banking, government, retail, technology and healthcare, are vulnerable to ransomware and that no sector is immune.

Evolving threat actor strategies

Threat actors are rapidly adapting their strategies, incorporating advanced social engineering techniques, social media utilisation and AI. Zambian banks in the survey expressed increasing concern over these emerging tactics, further underscoring the importance of addressing human vulnerabilities.

The survey also depicts a shift from the era of basic fraud and sophisticated digital attacks to an era of intelligent and borderless financial crime. The major tactics employed by fraud perpetrators in this era include but are not limited to:

- Synthetic identity fraud – the use of fake or AI-generated IDs to open accounts or to secure loans
- Fraud-as-a-service – selling or renting online cybercrime tools such as phishing kits, scripts and fake apps
- AI-powered social engineering – the use of deepfakes, voice cloning and chatbots to impersonate leaders
- Cross-border mule accounts and cryptocurrency – funds laundered via multiple mobile wallets, fintechs, cryptocurrency wallets or dormant accounts across borders.

It is key to note that basic and sophisticated cyber fraud era typologies are still active and used by threat actors, including but not limited to loan stacking via digital platforms, business email compromise and SIM swap fraud, as presented in the cyber threat ranking below in Figure 10.

Figure 4: Zambian banks' ranking of cyber threats

16%

of banks highlighted third-party vendors and partners as another area prone to cyberattacks

Ransomware and malware attacks, being the second most prevalent threat to Zambian banks, often target critical IT infrastructure, encrypting data and disrupting operations until a ransom is paid.

Malware variants are increasingly sophisticated, capable of evading traditional antivirus tools and exploiting system vulnerabilities to gain unauthorised access. The financial and reputational damage from such incidents can be severe, especially when customer data is compromised.

Meanwhile, insider threats, including staff collusion and data leaks, are particularly disruptive as they originate from individuals with legitimate access to systems and sensitive data, making detection more complex and delayed.

Collusion between employees or staff and external actors can lead to unauthorised transactions, manipulation of records or the deliberate disabling of security controls. Similarly, data leaks, whether intentional or accidental, can expose customer information, compromise regulatory compliance and damage institutional reputation.

This trend of threats underscores the urgent need for enhanced security measures and strategies to tackle the evolving cyber threats facing the Zambian banking sector. However, findings from PwC's 2025 Global Digital Trust Insights report indicate that only 2% of the 4,042 surveyed businesses and tech executives from 77 countries have fully implemented cyber resilience actions across all areas surveyed. These results reveal significant gaps in the implementation of cyber resilience strategies.

Banking operations vulnerable to cyberattacks

In the survey, 41% of Zambian banks identified customer service and frontline channels, such as call centres, mobile and Unstructured Supplementary Service Data (USSD) platforms, and internet banking portals, as the most vulnerable to cyberattacks.

This is followed by IT infrastructure, including servers and networks, which was cited by 22% of banks. Additionally, 16% of banks highlighted third-party vendors and partners as another area prone to cyberattacks. Third-party risk encompasses the multifaceted threats and vulnerabilities that arise when institutions engage external vendors, service providers or partners in their operations.

The high vulnerability of customer service and frontline channels suggests that banks must prioritise securing these touchpoints to protect customer data and maintain trust. As more customers rely on digital platforms, ensuring their security becomes crucial.

The vulnerability of IT infrastructure indicates the need for robust systems and continuous monitoring to thwart potential cyber threats. Increasingly, threat actors are exploiting gaps in system integrations and poorly secured Application Programming Interfaces (APIs) to bypass traditional security layers, and access sensitive data or perform unauthorised transactions. These weak links in interconnected platforms can serve as entry points for coordinated attacks, especially in environments with legacy systems or fragmented vendor ecosystems.

79%

of the Zambian banks survey cited AI adoption as their primary cybersecurity challenge for the next five years

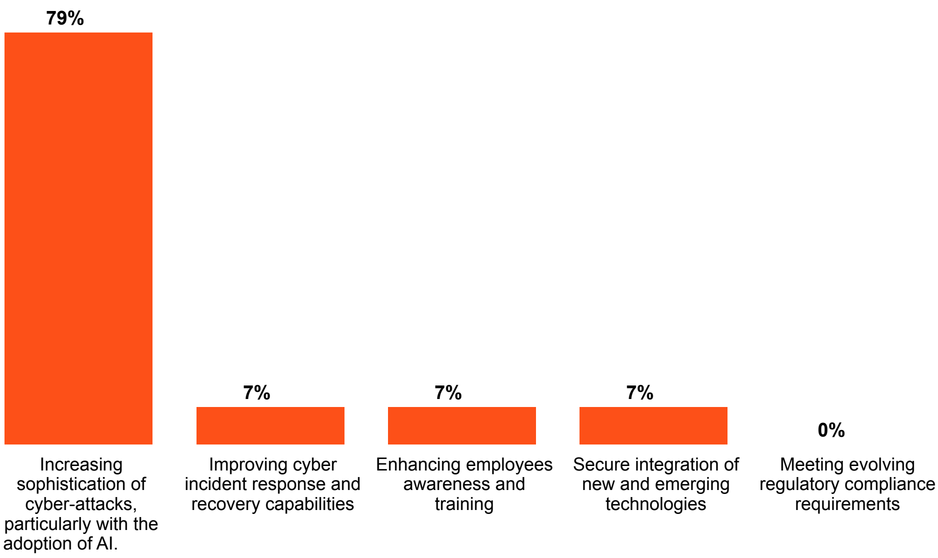
The risk associated with third-party vendors underscores the importance of thorough vetting and management of external partnerships. Based on recent digital forensic investigations across the region, we have observed that third-party vendors are increasingly becoming the preferred attack vector for sophisticated cybercriminals.

The risks associated with these third parties include data breaches, reputational risk, insider threats from third parties, performance risk, contractual risk and concentration risk, among others. Banks in Zambia need to ensure that their vendors adhere to their adopted cybersecurity frameworks and continuously assess their cyber control environment to ensure all key controls operate as expected.

Zambian banks are increasingly concerned about the growing sophistication of cyber-attacks, especially with the integration of AI

Over three quarters, or 79%, of the Zambian banks survey cited AI adoption as their primary cybersecurity challenge for the next five years. As organisations adopt Generative AI (GenAI) and other emerging technologies, management should navigate more complex and unpredictable attack vectors, integration challenges and the dual-edged nature of GenAI in both cyber defence and offence.

Figure 5: AI adoption likely to increase sophistication of cyber attacks



25%

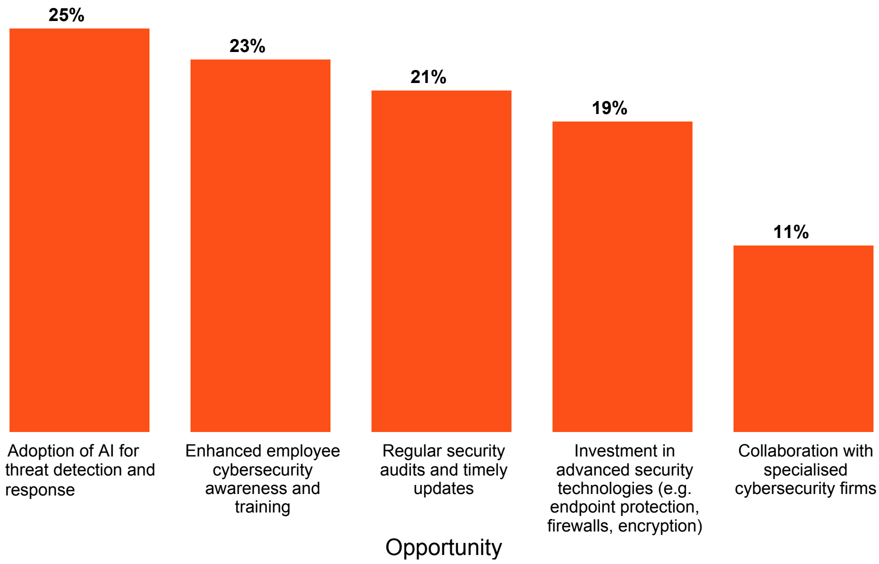
of survey respondents identifying the adoption of AI for threat detection as the biggest opportunity for enhancing cybersecurity

To address this risk, Zambian banks should consider investing in AI-powered cyber defense solutions capable of detecting, responding to and mitigating sophisticated threats in real-time. A significant portion of the banking community recognises this potential, with 25% of survey respondents identifying the adoption of AI for threat detection as the biggest opportunity for enhancing cybersecurity.

Meanwhile, 23% of respondents emphasized the importance of enhanced employee cybersecurity awareness and training, while 21% said regular security audits and timely updates presented opportunities for improving cybersecurity in their banks. See Figure 9 below for more details.

However, findings from PwC's 2025 Global Digital Trust Insights report show that organisations encounter several challenges when incorporating GenAI into their cyber defense strategies, despite its potential benefits. Notably, 39% of survey respondents reported difficulties in integrating GenAI with existing systems and processes, while another 39% expressed concerns over a lack of trust in GenAI among internal stakeholders.

Figure 6: Opportunities for improving cybersecurity



In addition to the above opportunities, it is crucial for banks to develop and consistently update comprehensive incident response plans with specific protocols for managing AI-enhanced threats. Furthermore, Zambian banks should collaborate and share information with each other and regulatory authorities about emerging threats and best practises. The BoZ promotes this through initiatives like the establishment of the Financial Sector Cyber Response Team, development of Cyber & Information Risk Management Guidelines, and collaboration on a centralised e-KYC platform.

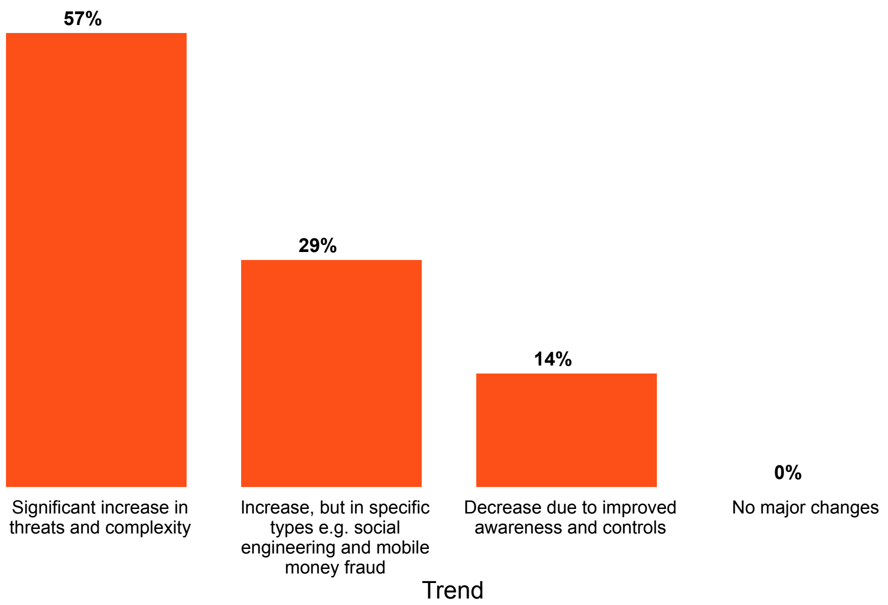
57%

of Zambian banks anticipate a significant rise in cybercrime over the next two years

Banks in Zambia expect a significant increase in cybercrime and complexity in the next two years

Survey results indicate that 57% of Zambian banks anticipate a significant rise in cybercrime over the next two years. Additionally, 29% of respondents expect an increase in specific types of cybercrime, such as social engineering and mobile money fraud. See Figure 10 below.

Figure 7: Cybercrime trends in the next two years



29%

of respondents expect an increase in specific types of cybercrime, such as social engineering and mobile money fraud

Considering these concerns, Zambian banks should take measures to strengthen their cybersecurity position. Key recommendations include enhancing cyber response plans, strengthening cyber controls, increasing the frequency and depth of security audits, and elevating employee awareness through targeted training.

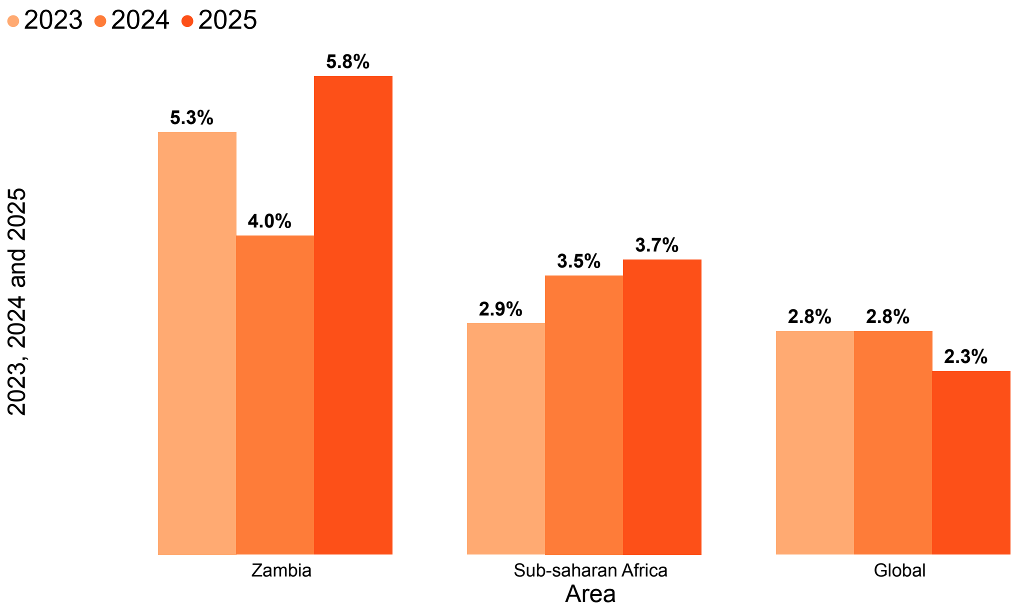
To stay ahead of evolving threats, banks should implement emerging technologies in their cybersecurity frameworks, such as advanced AI-enabled fraud detection systems, real-time transaction monitoring, digital identity verification, and predictive analytics to identify and neutralise threats before they escalate.

Additionally, performing regular digital fraud risk assessments can help institutions uncover hidden vulnerabilities across customer-facing platforms, IT infrastructure and third-party integrations. Collaboration with regulatory bodies and industry peers will also be essential to harmonise standards, share threat intelligence and build sector-wide resilience.

04 State of the economy

The state of the economy was rated as the second most significant issue in 2025, falling from first place in 2024. This decline in significance in 2025 is attributed to improved macroeconomic conditions. Zambia's economy has continued to recover in the last year, with GDP growth expected to reach 5.8% in 2025, according to the IMF. Likewise, stronger performance is expected to persist throughout 2026 and 2027, with projected growth rates of 6.4% and 6.5% respectively.

Figure 8: GDP growth: Zambia, Sub-Sahara and Global



Source: World Bank and MOFNP

Global growth is expected to slow to 2.3% in 2025 after holding steady at 2.8% in 2024. The expected slowdown in global GDP growth is due to persistent inflation and increased trade barriers leading to policy uncertainty, among other factors. As for sub-Saharan Africa, growth is projected to increase from 3.5% in 2024 to 3.7% in 2025. Investment in the region is expected to increase and inflation to ease in some parts of the region. While the outlook offers potential for poverty reduction and inclusive development, progress will depend on sustained reforms and resilience to external shocks.Fragility among energy and metal prices is expected to pose some challenges for several commodity exporting nations[1].

[1]https://www.worldbank.org/en/publication/global-economic-prospects

Zambian economy

The domestic economy is expected to experience recovery in 2025, with GDP growth projected at 5.8%, from 4% recorded in 2024 (5.3% in 2023).Slow growth in 2024 was attributed to the severe drought during the 2023/2024 rainy season, which significantly decreased agriculture and power production levels. Meanwhile, drivers of growth have included mining, construction, information and communications technology, accommodation and food services, and the financial and insurance sectors[2].

The electricity crisis has also had a big impact on domestic demand and production. As of 2024, estimates indicated that the country had a deficit of 1381megawatts (MW) or 57.5%[3]. To mitigate this, the government has commissioned various renewable energy projects, including the 100 MW Chisamba solar PV project. Although some projects are ongoing, most are scheduled for completion later this year.

Inflation and the exchange rate

In 2024, inflation averaged 15% well above the 6%-8% target band set by the BoZ. The 2023/2024 drought contributed significantly to a reduced supply of maize and hydropower generation, which in turn increased food and electricity imports, introducing exchange rate pressures.

According to BoZ forecasts, inflation is expected to revert to the 6%-8% target range, as it is expected to average 13.3% in 2025, and 7.7% for both 2026 and 2027. These projections are based on falling maize and crude oil prices, which have been key drivers of inflation. The 2024/2025 farming season recorded a bumper maize harvest, which is predicted to reduce the prices of maize and its products[4].

During the first quarter of 2025, demand for foreign exchange was met with a shortfall in supply, as demand was mainly driven by the energy sector's importation of fuel and electricity. Copper prices remain the largest contributor to foreign exchange. Besides this, the BoZ has also provided market support and, as a result, improved supply has moderated depreciation.

In the second quarter of 2025, the kwacha appreciated 14%, driven by improved supply from the mining sector, growing investor confidence and a weak US dollar. As volatility eased, BoZ market support moderated from US$234 million to USD$171 million.

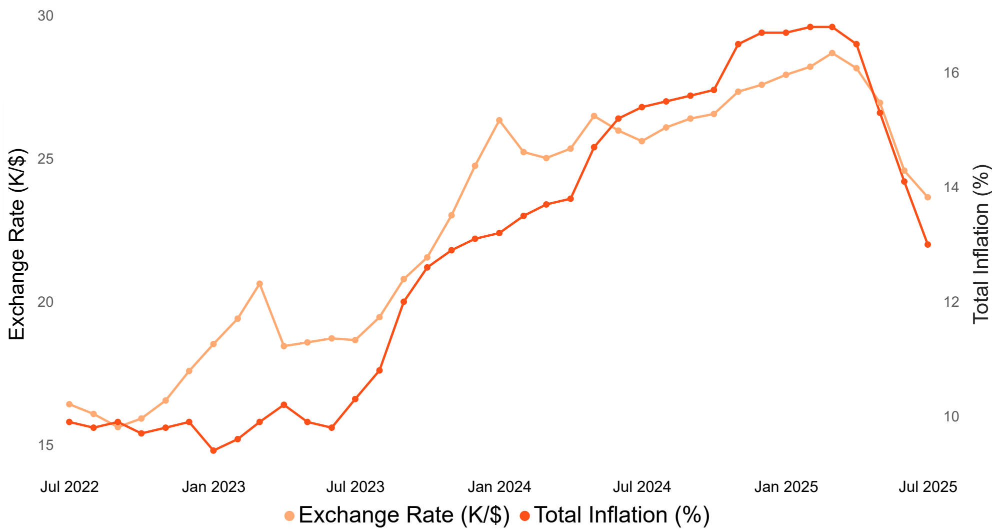
[2]Ministry of Finance and National Planning 2024 Annual Economic Report: https://www.mofnp.gov.zm/?wpdmpro=2024-annual-economic-report

[3]https://www.boz.zm/FinancialStabilityReportOctober2024.pdf

[4]https://www.boz.zm/Governors_Media_Presentation_May_2025.pdf

Since March 2025, exchange and inflation rates have fallen, as shown in the graph below.

Figure 9: Annual inflation and exchange rate



Source: BoZ

IMF programme

Since 2022, Zambia has undertaken a series of macroeconomic reforms under an IMF programme, with financial disbursements triggered upon the achievement of key performance targets. In June 2025, the IMF extended the Fund to US$1.7 billion from the previously agreed US$1.3 billion. More recently, in July 2025, the IMF concluded its fifth review, which was followed by a disbursement of US$184 million, bringing the total disbursements to US$1.5 billion of the total US$1.7 billion[5].

Figure 10: Zambia IMF programme 2022-2025

Period	Key action/milestone
August 2022	The IMF approves a **US$1.3 billion** ECF as part of government efforts to address Zambia's debt deficit. The approval was accompanied by an immediate disbursement **US$185 million.**
July 2023	The first tranche of **US$189 million** is approved after the first review of IMF reform benchmarks.
December 2023	The IMF approves the second tranche after the second review, disbursing U**S$187 million.**
June 2024	The IMF disburses a third tranche of **US$569.6 millio**n to Zambia.
June 2024	ECF programme support is increased from the initial approved **US$1.3 billion** to **US$1.7 billion,** indicating the IMF's confidence in Zambia's reform agenda.
December 2024	The IMF disburses a fourth tranche of **US$184 million** to Zambia under the ECF arrangement, reflecting Zambia's progress in meeting reform benchmarks.
July 2025	A fifth visit by the IMF is completed and is followed by a fifth disbursement of **US$184 million.** Total IMF financing as of June 2025 is **US$1.5 billion** of the total **US$1.7 billion.**

[5]https://www.imf.org/en/News/Articles/2025/07/25/pr-25268-zambia-imf-concludes-2025-aiv-consult-and-completes-5th-rev-under-the-ecf#:~:text=Real%20GDP%20growth%20in%202025,11%20percent%20by%20end%2D2025.

Debt restructuring

49.6% of debt successfully restructured

Between 2024 and September 2025, the Zambian Government have successfully restructured US$ 6.7 billion (49.6%) of their external debt. The 49.6% restructured comprises debt owed to various creditor categories, including Official Creditors, Bondholders, and Other Commercial Creditors[6].

a. All the Debt to Bond Holders US$ 3.8 billion (100%) has been restructured. In May 2024, Zambia received approval from the Eurobond holders' steering committee to restructure its three outstanding bonds. By June, Zambia had successfully completed the exchange, replacing them with two newly issued instruments Bonds A and B worth US$ 3.8 billion.

b. As of September 2025, only US$ 2.8 billion of (44%) owed to the Official Creditors and US$ 67.4 million (2%) Debt to other private Creditors has been fully restructured. Efforts remain to finalise agreements and arrangements with the rest of the Creditors.

Agreement In Principle (AIP) secured on 92% of debt

Agreement in Principle (AIP) has been reached on US$12.4 billion out of the US$13.5 billion that was intended for restructuring. Agreement in Principle (AIP) represents a preliminary consensus between parties on key elements such as price, terms, and conditions, and signifies a mutual commitment to proceed with the restructuring process. A formal agreement takes effect once all documentation is finalized and the new repayment terms are legally enacted.

Total Debt stock at US$ 15.78 billion

Overall, the country's total external debt stock excluding publicly guaranteed debt now stands at US$15.78 billion, a 2.3% increase from US$15.43 billion as at December 2024. This increase was mainly attributed to disbursements from multilateral and plurilateral creditors. Meanwhile, publicly guaranteed external debt remained relatively stable at US$1.36 billion[7].

Figure 11: Zambia external debt by creditor type

Creditor type	Total Debt (in million)	Fully Agreed in Principle (AIP) (in million)	% AIP reached of the total Debt % AIP reached of the total Debt	Fully Restructured (in million)	% Restructured of the Total Debt
Official Creditors Committee	6,262	6,262	100%	2,784	44%
Eurobond Holders	3,840	3,840	100%	3,840	100%
Other Private Creditors	3,399	2,344	69%	67.4	2%
Total	**13,501**	**12,446**	**92%**	**6,691**	**49.6%**

Source: Ministry of Finance and National planning

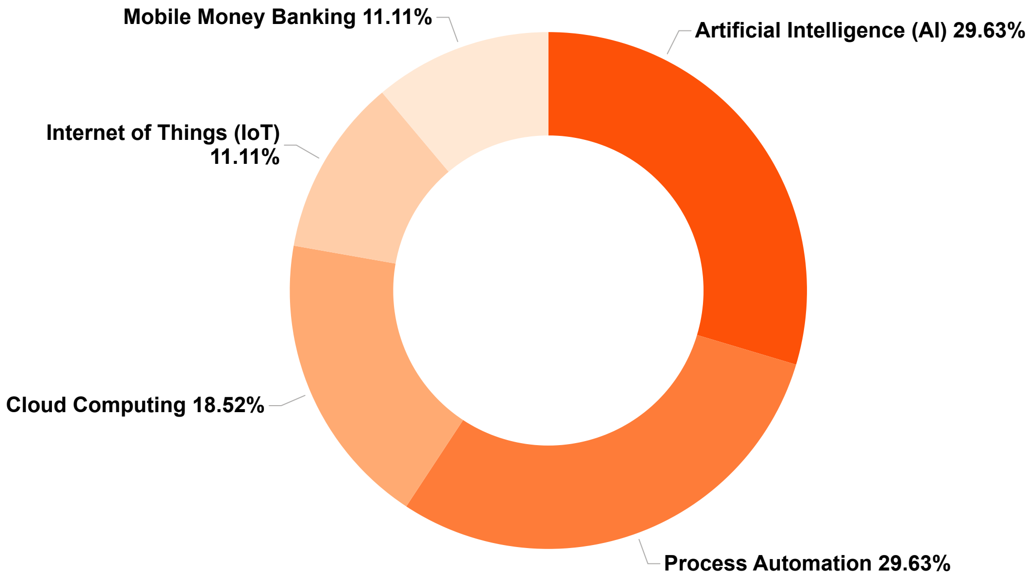
[6]Townhall forum on the First Half of 2025 Budget Performance and Economic Developments by Felix Nkulukusa Secretary to the Treasury, July 2025

[7]file:///C:/Users/cmusonda004/Downloads/2026%20Budget%20Speech%20(1).pdf

05 Digital transformation and innovation

Zambian banks are increasingly leveraging technology to enhance their operations and drive efficiency. Our survey results show that 30% of respondents have adopted AI in the past year, with a notable trend among banks with group structures rather than local banks. Additionally, 30% of banks reported focusing on process automation over the past year, while 21% highlighted their adoption of cloud computing recently. Figure 12 below provides more details.

Figure 12: New technologies adopted in the past year



Given the rise in cyber threats enabled by AI and used by malicious actors, banks that have not yet integrated AI into their operations should consider doing so. This integration not only enhances operational efficiencies but also strengthens their ability to manage sophisticated cyber threats more effectively. When asked about the effectiveness of the adopted technologies, 43% of banks reported finding them very effective, while 57% deemed them effective.

30%

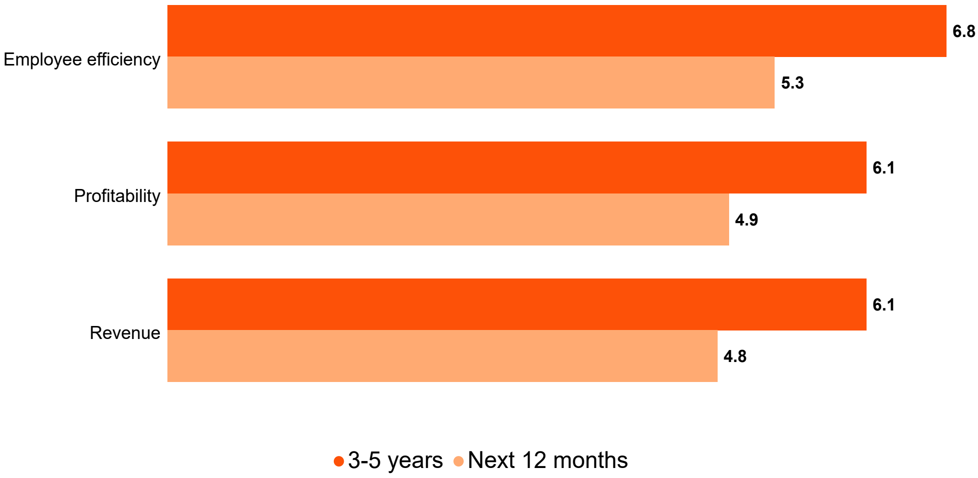
of banks in Zambia cite AI as the most significant source of competitive pressure

Artificial intelligence, FinTechs and mobile money as the main sources of competition

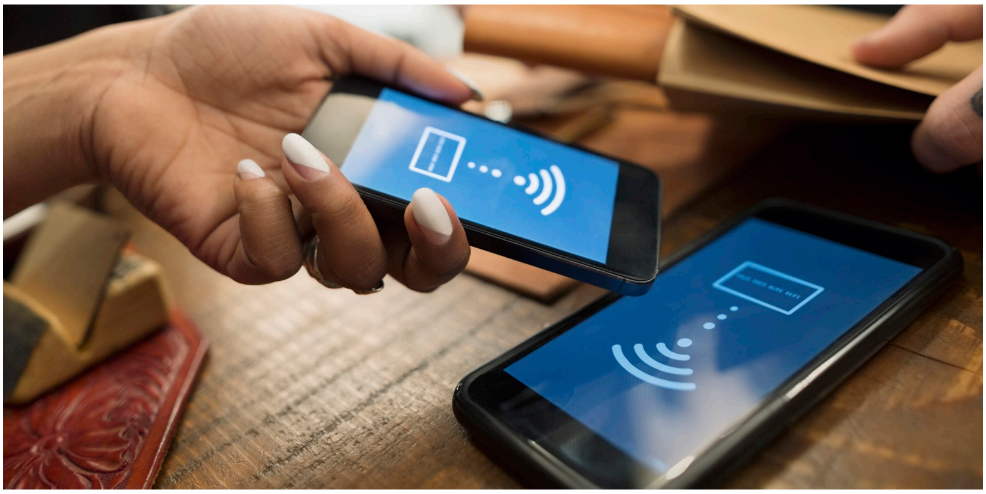
Our survey results reveal that 65% of banks in Zambia identify fintechs and mobile money services as their primary sources of competition, while 30% cite Artificial Intelligence (AI) as the most significant source of competitive pressure. These trends underscore the urgent need for banks to strengthen collaboration with fintechs and mobile money operators, while also accelerating the integration of AI into their operations.

Banks in Zambia increasingly recognise that AI adoption can significantly enhance employee productivity within the next three to five years. This, in turn, is expected to drive revenue growth and improve profitability. Figure 13 below is providing more details.

Figure 13: Perceived impact of adopting AI (Scale of 1-7)

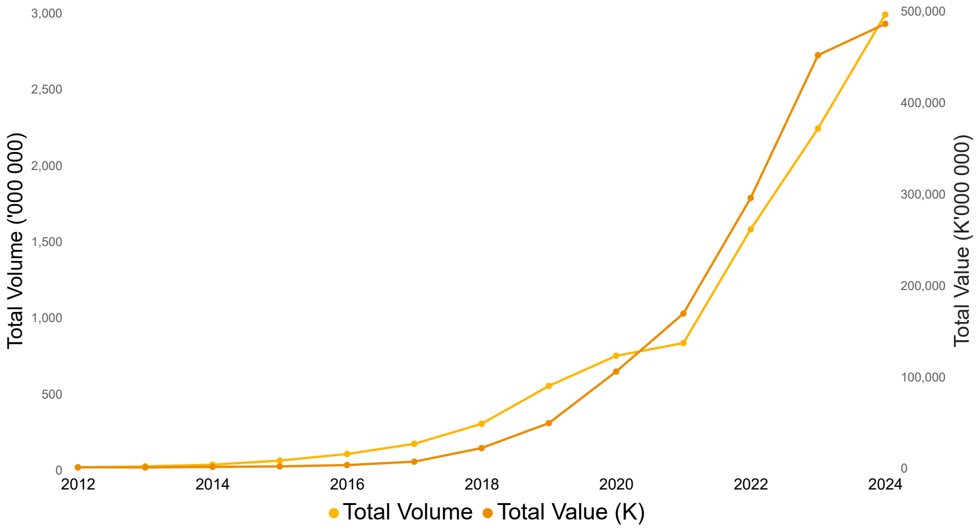


These findings highlight a clear message: banks that have not yet embraced AI risk falling behind. Early adoption will enable them to unlock the full spectrum of benefits AI offers, from automation to advanced analytics.



According to the BoZ, the rise of fintechs and mobile money platforms has transformed the financial services landscape, creating new opportunities for strategic partnerships. Telecommunication companies have played a pivotal role in expanding mobile money services, intensifying competition but also opening doors for synergies with traditional banks. Figure 14 below shows the growth in usage of mobile money in the past 12 years.

Figure 14: Mobile Money usage trends in the past 12 years



To remain competitive and relevant, Zambian banks should consider focusing on:

- Digital transformation: Streamlining operations, improving customer experience, and boosting efficiency.
- Customer-centric innovation: Meeting evolving expectations for seamless, fast, and personalised services.
- Cost optimisation: Leveraging automation to reduce manual processes and human error.
- Data-driven decision-making: Using analytics for better risk management and strategic planning.

In today's fast-evolving financial environment, agility and adaptability are no longer optional—they are essential. A shift in organisational mindset towards innovation, flexibility, and collaboration will be key to navigating future challenges and seizing emerging opportunities.

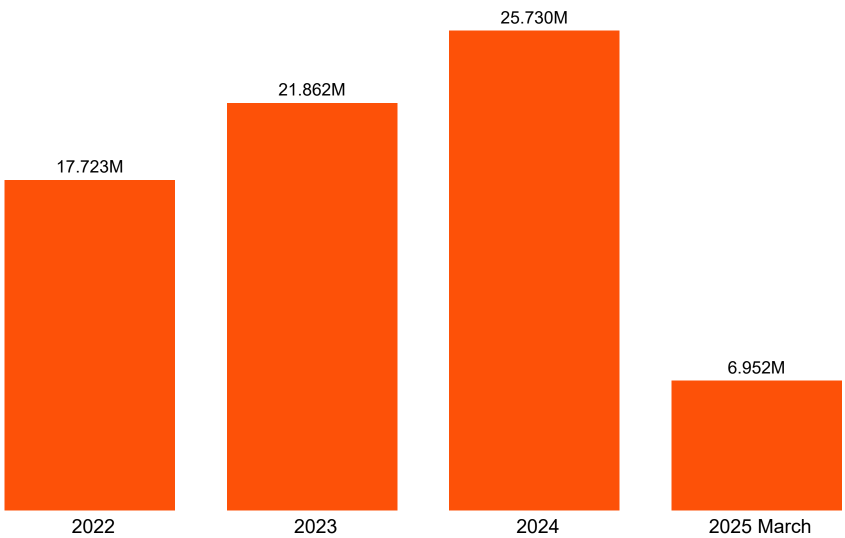
06 Improving revenue growth

In today's dynamic financial landscape, achieving revenue growth involves much more than simply expanding product lines, it necessitates a comprehensive transformation encompassing operations, customer engagement, cost structures, and organisational mindset. For the banking sector, this transformation is not merely strategic but pivotal for resilience, relevance, and long-term success.

While the banking sector had a record financial performance in 2024 and into 2025, the period also presented significant liquidity challenges following the pronouncements around the statutory reserve ratio, mobilisation of government deposits and changes in the policy rates.

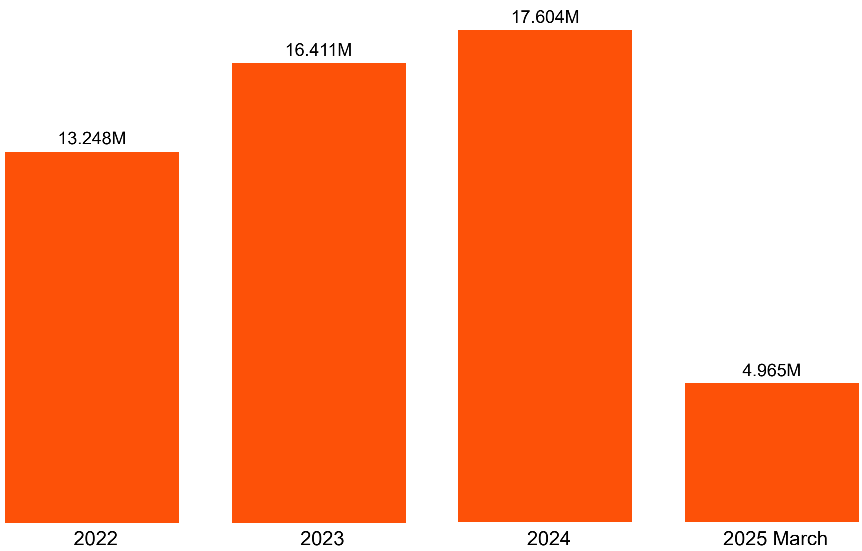
In overcoming the increased cost of doing business, the sector has continued to be proactive in terms of driving its revenue growth through strategic imperatives such as digitisation of operations, meeting customer expectations, employing more cost optimisation initiatives and being more deliberate about making the business more resilient to economic shocks despite the challenges faced from a funding side. The figure below shows how the sector has performed over the years from a net interest and total income.

Figure 15: Interest Income



Source: Quarterly performance competitor analysis

Figure 16: Net Interest Income



Source: Quarterly performance competitor analysis

Over the past few years, the financial sector demonstrated remarkable growth in its net interest income, reflecting a robust improvement in revenue generation from interest-bearing assets. In 2022, the sector's net interest income reached K 13.2 billion, marking a solid foundation for future prosperity. Moving into 2023, this income surged significantly to K 16.4 billion, highlighting effective strategies in handling interest assets and a keen adaptation to prevailing economic conditions.

The upward trajectory persisted into 2024, where net interest income further increased to K 17.6 billion. Such growth underscores the sector's successful navigation of market dynamics and continuous efforts to optimise returns on investments.

As shown in figure 26 year on year profit after tax (PAT) considering all these factors has grown from K8.3 billion in December 2023 to K8.9 billion in December 2024. The 2025 financial year shows a lot of potential with PAT year to date in June reported as K4.98 billion.

Overall, the period marked an era of financial resilience and prowess, with the sector continually enhancing its strategic alignments to optimise financial outcomes amid varying economic landscapes. The narrative speaks of a sector poised to achieve sustained growth while fortifying its financial foothold in a challenged economy.

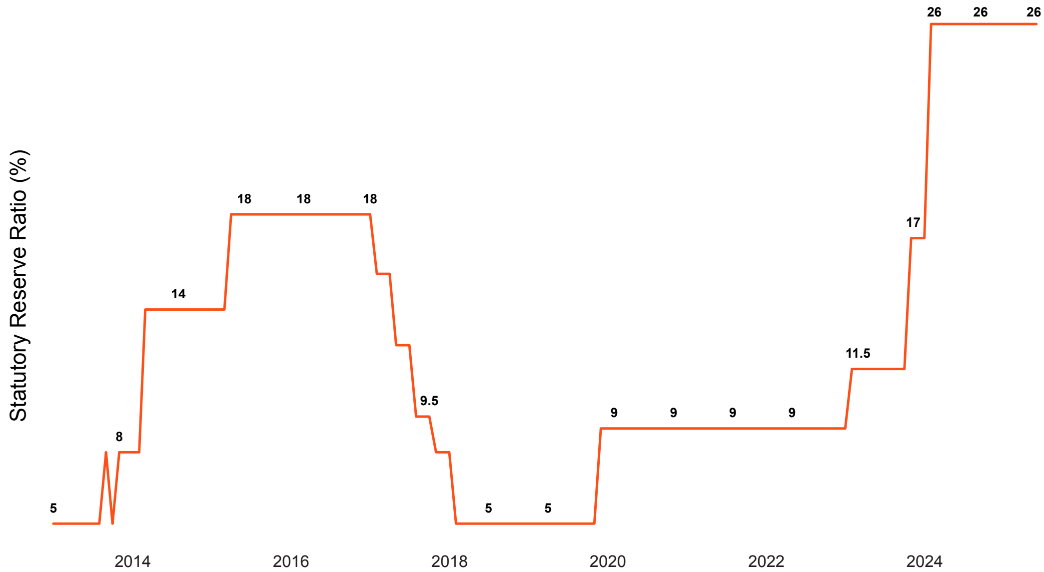
More opportunities exist for continued growth by expanding on existing strategies to increase capital from organic business growth and reach the mass population in a more seamless manner, thereby reducing costs and enhancing overall top-line growth.

07 Banking sector and liquidity

In 2024, the BoZ raised the SRR by 9%, increasing it from 17% to 26%. Likewise, the MPR saw a notable increase, rising 3.5% from 11% in January 2024 to 14.5% in February 2025.

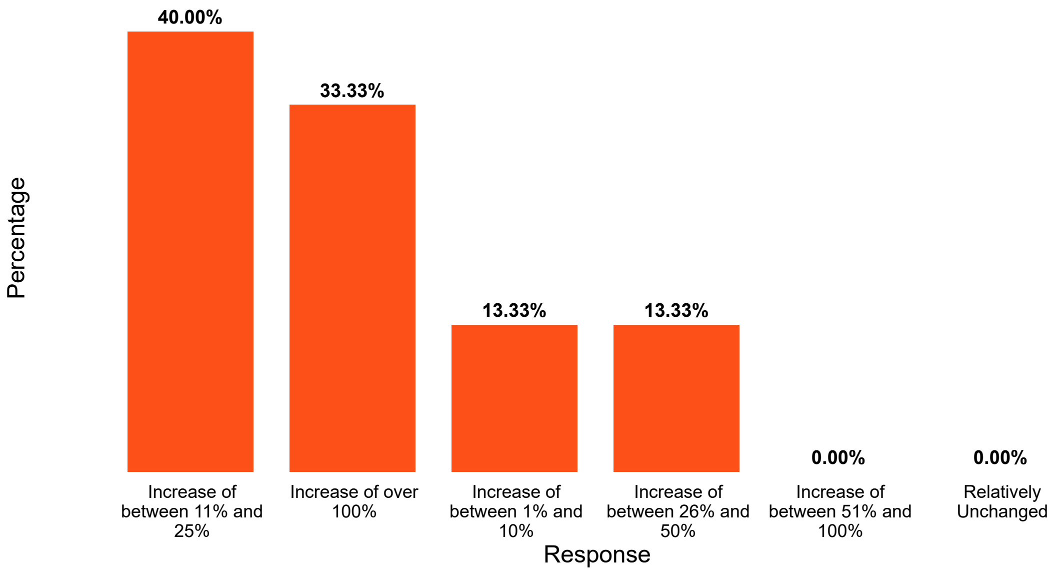
These adjustments to the MPR and SRR were implemented to guide inflation back to the target range and stabilise inflation expectations. As a result of the increase in the SRR, banks encountered short-term liquidity challenges, prompting them to manage their balance sheets by allowing investments to mature without reinvestment in order to maintain liquidity levels.

Figure 17: Statutory reserve ratio % 2025



Source: 2025 Banking Survey Responses

Figure 18: Impact of liquidity tightening



Source: 2025 Banking Survey Responses

In addition, the government directive mandating the repatriation of government deposits from commercial banks in 2024 contributed to heightened liquidity constraints. These constraints have increased the demand for external funding sources. This situation has been compounded by heightened borrowing costs and default rates, along with the ongoing depreciation of the kwacha between August 2023 and March 2024.

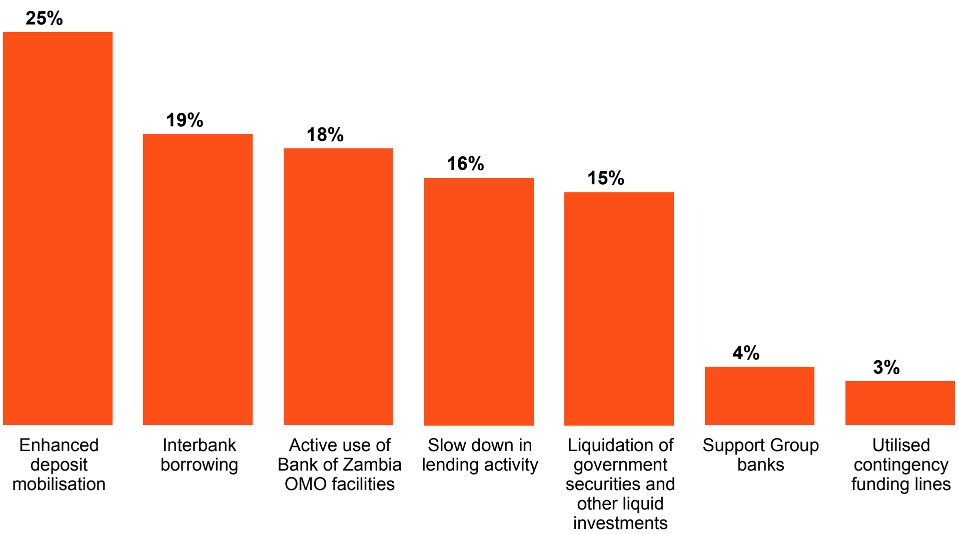
The impact of liquidity tightening, driven by SRR adjustments and government liquidity mop-ups, significantly affected the interest expenses for banks in 2024. The results indicate a diverse range of impacts on interest expense among banks as shown in Figure 14 above.

A third of banks, or 33%, reported an increase in interest expenses of over 100%, highlighting the severe impact of liquidity tightening on a significant segment of banks. This suggests that these institutions faced considerable challenges in managing their funding costs under tighter liquidity conditions.

No banks reported an increase in interest expenses of between 51% and 100%, indicating that the impact of liquidity tightening was either very significant or relatively moderate.

Thirteen percent of banks experienced an increase in interest-rate expenses of between 26% and 50%. Similarly, 13% observed an increase ranging between 1% and 10%. The largest segment, 40%, reported an increase in interest expenses of between 11% and 25%. Overall, these findings reflect the varied impact of liquidity constraints on banks' interest expenses. While some banks faced dramatic increases, others were able to contain their costs more effectively, indicating differing capacities to navigate the challenging environment.

Figure 19: Actions taken to mitigate the impact of liquidity tightening



Source: 2025 Banking Survey Responses

In response to the liquidity tightening resulting from SRR adjustments and government liquidity mop-ups, banks implemented a variety of strategies to mitigate the impact. The most common approach, adopted by 25% of the respondents, was enhanced deposit mobilisation. This strategy reflects banks' efforts to increase their deposits to secure more stable funding sources.

Interbank borrowing was the second most utilised strategy, with 19% of banks opting for this approach. This indicates a reliance on borrowing from other banks to meet short-term liquidity needs. Meanwhile, 18% of banks made active use of the BoZ's Open Market Operations facilities, highlighting the importance of central bank interventions in providing liquidity in times of need.

Additionally, 16% of banks experienced a slowdown in lending activity, which may have been a strategic decision to conserve liquidity or a consequence of tighter financial conditions. Meanwhile, 15% of banks opted for the liquidation of government securities and other liquid investments, suggesting a move to quickly convert assets to cash to improve liquidity positions.

At the more conservative end of the spectrum, 4% of banks received support from group banks, indicating intra-group financial assistance as a strategy. Lastly, a small fraction, 3%, utilised contingency funding lines. Overall, the results demonstrate a broad spectrum of actions taken by banks to mitigate liquidity risks, ranging from enhancing deposits to liquidating investments, underscoring the varied nature of responses to the tightening financial landscape.

08 Credit risk and non-performing loans

Effective credit risk management is a cornerstone of financial stability and long-term profitability for any banking institution. It ensures that credit exposures are properly assessed, monitored, and mitigated, thereby safeguarding the bank's capital and maintaining investor and customer confidence.

In an environment marked by economic uncertainty, regulatory scrutiny, and evolving borrower behavior, the ability to manage credit risk effectively is not just a regulatory requirement—it is a strategic imperative. On this premise, it comes as no surprise that whilst the issue did not make one of the top five risk narratives in this year's survey, it remains of paramount importance to the resilience and sustainability of the banking sector.

Overall, from 2022 to 2024, non-performing loan (NPL) ratios across all banks has remained generally low and steady, with a slight decrease in the industry average from 4.2% in 2023 to 4.1% in 20248. Despite this relative stability, the strategic relevance of credit risk is underscored by the survey findings, which for some entities has revealed concerns around asset quality.

Notably, 53% of respondents indicated an increase in NPLs in 2024 compared to 2023, with 33% reporting that the rise exceeded 25%. Survey responses from these banks indicated that the rise in NPLs experienced in 2024 was driven by a convergence of macroeconomic and operational challenges. The most frequently cited factors included the ongoing drought, which has disrupted agricultural output and energy supply, and the depreciation of the Kwacha, which has increased the burden of foreign currency-denominated debt.

Other key drivers included high inflation, tight market liquidity, delayed payments to contractors, and broader economic hardships that have strained both household and business

53%

of respondents indicated an increase in non-performing loans (NPLs) in 2024 compared to 2023

cash flows. These challenges have manifested most prominently in sectors such as construction and agriculture, which were the most frequently cited contributors to NPLs across institutions.

Other stressed sectors included transport, real estate, manufacturing, and energy, reflecting the widespread impact of economic and operational disruptions. These insights underscore the multifaceted nature of credit risk in the current environment.

Over the last few years, the Zambian financial services sector has made notable strides in improving credit risk management, and this progress may be partly attributed to the implementation of the IFRS 9 reporting standard.

Introduced on January 1, 2018, under the leadership of the BoZ, the shift from IAS 39 to IFRS 9 represented a major advancement in financial reporting, aimed at enhancing transparency, accuracy, and responsiveness across the sector. However, nearly seven years later, questions remain as to whether the full potential of this globally recognised standard has been realised within the Zambian market.

The BoZ issued a comprehensive guidance note to support financial service providers (FSPs) during the transition. BoZ also emphasized the need for robust internal controls, governance structures, and risk management systems to support the new standard. Institutions were expected to invest in data infrastructure and modelling capabilities to comply with the forward-looking nature of expected credit loss (ECL) provisioning. Unlike the previous incurred loss model under IAS 39, which delayed the recognition of credit losses until there was objective evidence of impairment, IFRS 9 requires entities to recognize credit losses based on expectations of future defaults even if no actual loss event has occurred yet.

This shift was designed to enhance the transparency and responsiveness of financial reporting, particularly during periods of economic stress, by ensuring that credit risks are reflected in financial statements as early as possible. As a result, stakeholders were to gain a more accurate and proactive view of an entity's credit risk exposure.

Market Realisation: Progress and Challenges

1. Improved Risk Awareness and Provisioning

Overall, Zambian banks have become more proactive in managing credit risk. The ECL model has encouraged earlier recognition of potential defaults, especially during economic shocks such as the COVID-19 pandemic[9] where many banks were observed to have loaded their provisions with Covid-related overlays.

2. Enhanced Risk management and Financial Reporting

Marrying the business model approach under IFRS 9 with the ECL mpairment framework has brought substantial benefits not only for banks' risk management but also for financial reporting quality. By aligning the

[8]7th Edition: The Zambian Banking Sector Competitive Landscape Review 2024, ALC Business Consulting Ltd

[9]https://www.zica.co.zm/wp-content/uploads/2020/04/Technical-Bulletin-number-001_2020-on-IFRS-9-VIS-A-VIS-COVID-19.pdf

classification and measurement of financial assets with how they are managed and their associated cash flow characteristics, banks have been able to more accurately reflect the economic reality of their lending activities. This alignment ensures that credit risk is assessed in the context of the bank's strategic objectives and risk appetite, leading to more meaningful and timely recognition of credit losses.

3. Operational and Modelling Challenges

Despite these gains, many institutions have faced challenges in developing reliable ECL models. The need for high-quality data and forward-looking macroeconomic indicators has proven difficult in a market with limited historical data and economic volatility. Traditional models that rely heavily on historical data and stable economic patterns become less reliable in volatile markets such as ours, as past trends may not predict future outcomes.

The lack of high-quality, granular, and timely data makes it difficult to calibrate models accurately, leading to increased uncertainty in credit risk assessments. Volatility also introduces rapid shifts in borrower behavior and macroeconomic indicators, which models may not be agile enough to capture. This can result in either underestimating or overestimating credit losses, affecting both risk management and financial reporting. Moreover, the pressure to make forward-looking estimates under IFRS 9 further complicates the modelling process, as institutions must incorporate macroeconomic forecasts and scenario analysis without a solid empirical foundation. These challenges underscore the need for robust model governance, expert judgment, and the integration of alternative data sources to enhance model resilience in uncertain environments.

4. Lack of integration with credit scoring and risk rating models

In the Zambian banking sector, many institutions either lack well-designed statistical models for credit scoring and risk rating or have not successfully integrated these models with their IFRS 9 ECL provisioning frameworks. This disconnect limits their ability to fully leverage the predictive and forward-looking nature of the IFRS 9 standard. Institutions that fail to align internal risk assessments with ECL provisioning often rely on fragmented or outdated data, resulting in less accurate loss estimates and missed opportunities for proactive credit risk management. Without this integration, the full benefits of IFRS 9—such as timely recognition of credit deterioration, improved portfolio monitoring, and enhanced strategic decision-making—are not fully realised, weakening the effectiveness of the standard as a tool for maintaining asset quality.

09 Sustainability and banking: sustainable finance and sustainability reporting

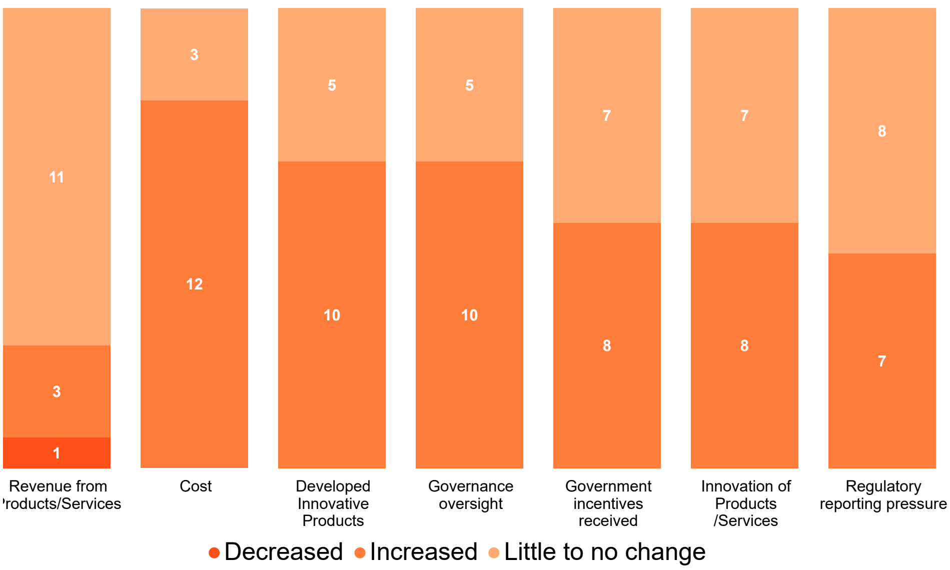
Banks in Zambia face heightened exposure to climate and environmental risks. However, none of the banks surveyed identified sustainability as a top five issue. Instead, sustainability fell just outside the top ten issues. Droughts, floods and erratic weather can trigger loan defaults in agriculture and infrastructure, putting asset quality under stress. Zambia's current energy crisis is also putting strain on the telecommunications sector through increased operating costs caused by power outages and load shedding. Integrating sustainability helps banks:

- Identify and mitigate climate-related credit, market and operational risks
- Diversify portfolios toward climate-resilient sectors
- Strengthen stress-testing frameworks with environmental scenarios

The 2025 banking survey reveals that environmental and climate-related issues are increasingly influencing banking operations, particularly through the challenges they face. A significant number of banks reported higher operating costs due to their exposure to these risks. In response, many institutions are shifting towards innovation, developing new products and services to address climate concerns.

Regulatory pressures and government oversight are also intensifying, although the impact varies across the sector. While some banks benefit from government incentives, others have seen limited effects. Revenue impacts being low indicate that although climate-related innovation is happening, its financial benefits are not yet fully realised. All things considered, the data shows that the industry is adjusting to climate change by investing, innovating and pursuing compliance. Figure 19 below illustrates the results of the survey regarding exposure of climate/nature risks to bank operations:

Figure 20: Impact of climate/nature-based risks on banking operations



92%

of Zambian banks reported an increase in operational costs as a direct result of exposure to climate and environmental risks

According to the 2025 banking survey, 92% of Zambian banks reported an increase in operational costs as a direct result of exposure to climate and environmental risks. This is expected due to the pressures of the drought on bank portfolios with heavy investment in the energy and agricultural sectors, or other climate-impacted sectors. Following the UNDP's "Study on Nature -Related Financial Risks in Zambia" 2025, operational costs caused by such risks can be mitigated through the strengthening of climate risk management by identifying climate risks at preliminary stages of the risk management framework.

Roughly 8% of banks reported having little to no change in operational cost. This is due to two main factors: first, some of these banks have made investments in sectors that are less susceptible to climate-related disasters; second, they have already made investments in risk management or climate-resilient infrastructure, which eliminates the need for further expenditure. There is a trend towards innovation in the banking sector, with many institutions developing new products and services in response to climate-related challenges.

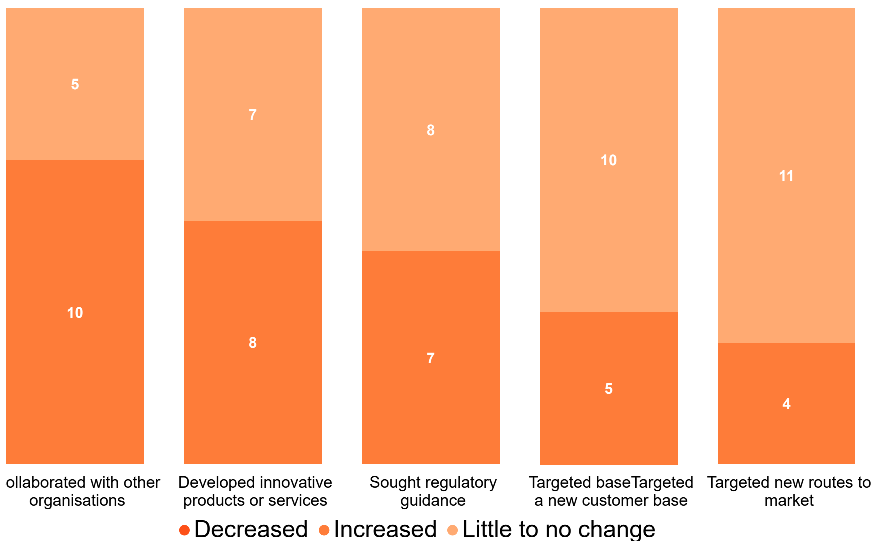
Regulatory pressures and government oversight are also increasing, although the extent of these changes varies across the industry. In Zambia, efforts are underway to lay the groundwork for a sustainable finance framework. While initiatives such as the Capital Markets Master Plan and the Green Loans Guidelines show strong potential, the financial sector is still in a transitional phase. Most banks remain in the early stages of aligning with global sustainability standards, and the adoption of financial products focused on climate adaptation or mitigation remains relatively limited as the industry continues to evolve.

The survey findings indicate that banks in Zambia are adapting their operations in response to climate and nature-related risks, with a notable emphasis on collaboration and innovation. Approximately 71% of banks reported increased cooperation with other organizations, which is aimed at sharing knowledge and resources to better address environmental challenges. Many institutions are also shifting their strategies toward sustainability by developing new, climate-resilient products and services. These changes reflect a growing recognition of the need to adapt business models to meet evolving regulatory and environmental demands. Figure 20 below presents the survey results on the exposure of bank operations to climate and nature-related risks:

71%

of banks reported increased cooperation with other organizations, which is aimed at sharing knowledge and resources to better address environmental challenges

Figure 21: Extent to which the business and organisational value chain has evolved

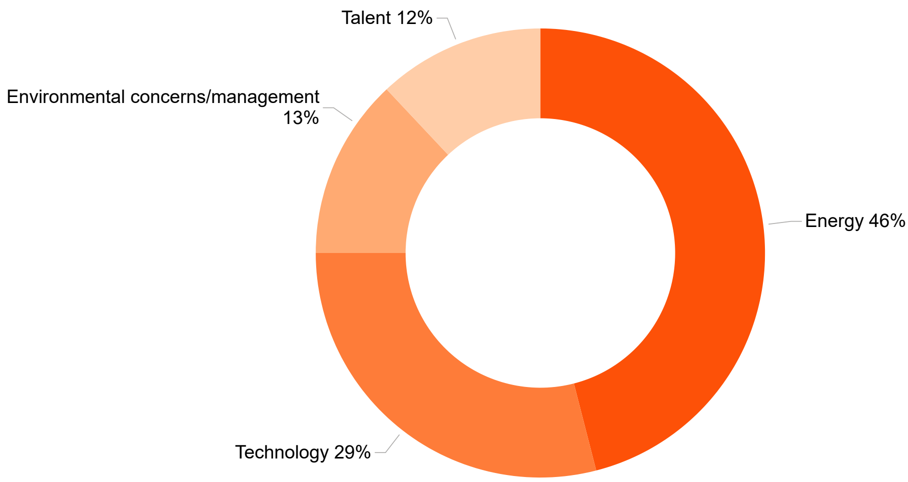


The analysis further reveals that many banks have revised their marketing strategies, such as targeting new customer segments or exploring alternative channels to reach consumers. This cautious approach reflects Zambia's early-stage adoption of green financing, limited institutional capacity, or prevailing market uncertainties. The survey also highlights varying levels of engagement with evolving climate-related policies.

For instance, the equal split among banks seeking regulatory guidance suggests that while some are proactively navigating the regulatory landscape, others may be waiting for clearer frameworks or are still building internal capabilities. Overall, the financial sector is gradually adapting, with each institution progressing at its own pace and scale.

The environmental, social and governance (ESG) factors that have impacted the ability of banks to deliver services and products today are illustrated in Figure 21 below:

Figure 22: Significant ESG factors impacting the delivery of services/products



The survey indicates that energy is the most pressing ESG factor affecting banks' ability to deliver products and services, with 46% of banks identifying it as a key concern. This most likely reflects issues such as an unstable power supply, expensive energy bills and the increasing need for renewable energy sources. Technology also emerged as a significant factor, with 29% of banks pointing to issues like digital infrastructure, cybersecurity and the need for advanced tools to manage ESG data and reporting. These results suggest that issues with operational infrastructure and the environment are having a direct effect on service delivery.

Sustainable finance in the Zambian banking system

Understanding the current regulatory framework

In 2023, the BoZ issued the Banking and Financial Services (Green Loans) Guidelines under Gazette Notice No. 1349 of 2023 to steer commercial banks towards lending for climate-friendly projects. These guidelines define eligibility criteria, monitoring requirements and reporting duties for green loans specifically.

Zambia has also launched a National Green Growth Strategy 2024-2030 and the Nationally Determined Contribution Implementation Framework 2023–2030, which establish macro-level objectives for private-sector financing of renewable energy, climate-smart agriculture and natural-capital preservation. Banks align their credit portfolios with these national targets to tap concessional and blended-finance windows. There are a variety of instruments that can bring greater focus to specific areas and risk/opportunity profiles.

Efforts are underway to lay the groundwork for a sustainable finance framework. While initiatives such as the Capital Markets Master Plan and the Green Loans Guidelines show strong potential, the financial sector is still in a transitional phase. Most banks remain in the early stages of aligning with global sustainability standards, and the adoption of financial products focused on climate adaptation or mitigation remains relatively limited as the industry continues to evolve.

Key instruments include:

Instrument	Issuer	Focus Area	Notable Feature
Green loans	Commercial banks	Renewable energy, forestry	Preferred rates; mandatory impact reporting
Climate bonds	Ministry of Finance and the BoZ	Infrastructure, water treatment	Tax incentives for bondholders
Blended finance	Development partners and banks	MSME development, agri-value chains	First-loss tranches reduce risk
Resilience and Stability Fund	BoZ	Drought relief, food security	K5 billion facility for agriculture sectors sectors

The above key instruments should not be the limit to what is available in a market like Zambia. In speaking to a few banks, there are various initiatives many have embarked on over the last few years to promote sustainability in the banking system.

In 2025, the United Nations Development Programme's BIOFIN Zambia, in collaboration with the Government of Zambia and the Green Finance Mainstreaming Working Group, hosted a stakeholder validation workshop to finalise the Zambia Green Finance Taxonomy. This will help the banking sector to:

- Define green investments with commonality of classification. This will provide a clear classification system for what qualifies as a green or sustainable investment in Zambia.
- Identify and prioritise environmentally sustainable projects.
- Align with global standards. These standards will be tailored to Zambia's context but aligned with international best practises (e.g., EU taxonomy, ISSB standards).
- Support reporting and tagging. This includes a tagging and reporting system to track green finance flows and outcomes.

Regulatory drivers

The Zambia Institute of Chartered Accountants (ZiCA) has mandated the adoption of the ISSB's IFRS S1 (general sustainability disclosures) and IFRS S2 (climate-related disclosures) for reporting periods beginning on or after 1 January 2025. We now know that this reporting period has been extended to start from 1 January 2026. This ensures uniformity and comparability of ESG data across listed and large unlisted firms.

There are also national policy frameworks — particularly the Eighth National Development Plan's emphasis on green growth — that compel large corporates to integrate sustainability reporting into strategic planning. These requirements flow from the Environmental Management Act No. 12 of 2011 and the Forest Act No. 4 of 2015, which embed community and biodiversity safeguards into corporate governance. There are therefore several current or imminent reporting frameworks to which companies and banks included will need to comply. These include:

Figure 23: Regulatory frameworks

Framework	Scope	Applicability	Effective Date
IFRS S1 & S2	Comprehensive ESG and climate	ZiCA-regulated entities	1 Jan 2025
NDC Implementation Metrics	GHG emissions and adaptation plans	All sectors	2023–2030
Global Reporting Initiative (GRI)	ESG performance indicators	Voluntary, high-impact firms	Ongoing
BoZ Green Loans Reporting	Project-level impact targets	Green-loan beneficiaries	2023 onwards

Emerging trends

- **Enhanced assurance:** ESG-assurance services are actively pushed to verify sustainability data, boosting investor confidence.
- **FinTech solutions:** blockchain pilots for transparent green-loan tracking may begin to scale nationally by 2026.
- **Regional alignment:** under AfCFTA,(African Continental Free Trade Area) Zambian banks will begin harmonising their sustainability standards with neighbouring markets to facilitate cross-border green finance.
- **SME engagement:** blended-finance windows will target MSMEs more aggressively, addressing the 70% employment segment with tailored green-credit products.

As Zambia deepens its commitment to sustainable finance and robust ESG disclosures, the banking sector stands at the forefront of channeling capital toward a low-carbon, inclusive economy.

10 Taxation: the tax environment and banks

Banking sector taxation in Zambia: a comprehensive review of key issues, prevalence and strategic responses

The tax landscape for banks is constantly evolving, demanding an active and hands-on approach to manage risks and maintain full compliance. Given the integrated nature of banking operations and the sector's vital role in the economy, the industry has long been classified as high-risk for tax compliance purposes. As a result, astute and prudent tax management is essential.

Managing these obligations effectively requires more than basic compliance. It demands a strategic approach supported by adequate resources and systems. Without this, banks risk operational disruptions, financial penalties and reputational damage.

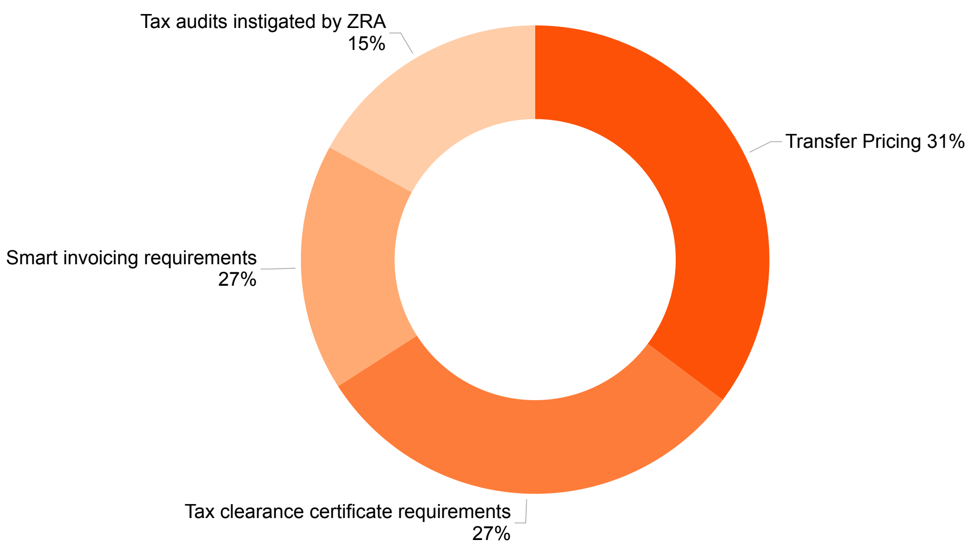
The Zambia Revenue Authority (ZRA) has also stepped up its efforts to improve tax compliance, using digital tools and regulatory reforms to boost revenue collection and reduce tax leakages. As key players in the financial system, banks are central to this transformation. They are not only expected to meet their own tax obligations but also play a critical role in supporting compliance among their clients. This dual responsibility adds to the complexity and operational pressure within the sector.

These themes have emerged prominently in the insights from the survey results.

Summary of the key tax issues impacting banks

Based on the survey results, the key tax issues currently affecting the banking sector are outlined below:

Figure 24: Key tax issues



In-depth analysis of key tax issues

Transfer pricing regulations

Transfer pricing was flagged by 31% of respondents as a key concern, reflecting growing awareness of its compliance and operational implications.

Zambia's transfer pricing regulations and requirements have seen several developments in the last few years, from detailed rules on the transfer pricing documentation required to demonstrate compliance, to additional reporting obligations for qualifying multinational enterprises.

Taxpayers, including banks, are now required to demonstrate annual transfer pricing compliance via a three-tier framework: master file, local file, and country-by-country reporting, to provide evidence of arm's length pricing for their related party transactions and in-depth information about the operations of their corporate groups.

These developments have affected banks significantly given the integrated nature of their group operations across various territories and the high level of related party interactions this entails.

Furthermore, increased transfer pricing audit activity by the ZRA has heightened scrutiny and risk. Given that transfer pricing is inherently subjective and constantly evolving in terms of best practise, this creates uncertainty in interpretation and application. This raises the risk of unintentional non-compliance and potential penalties.

To manage these risks, banks are investing in tax expertise, strengthening internal controls and enhancing documentation processes. Despite these efforts, the cost and complexity of transfer pricing compliance remain a concern.

Tax clearance certificate requirements

Tax clearance certificate requirements have also emerged as a pressing challenge for banks, with 27% of respondents identifying this as a significant operational hurdle. A tax clearance certificate, which is issued by ZRA, confirms that a taxpayer is compliant with their tax obligations.

A valid tax clearance certificate is now required for various transactions, including the following:

- Property transfers
- Vehicle registration or changes
- Issuance of various licences and permits
- Transactions with various entities
- Membership registration and renewal with professional bodies

In addition, effective 1 January 2025, individuals remitting funds from Zambia in amounts exceeding US$2,000 (or the equivalent in other currencies) are required to present a valid tax clearance certificate.

In the absence of a valid tax clearance certificate, a 15% advance income tax (AIT) must be withheld and remitted to the ZRA on such cross-border payments.

Banks are responsible for deducting this tax at the point of initiating the transfer. This requirement is part of broader efforts to curb illicit financial flows and enhance domestic revenue collection.

The implementation of this measure has introduced significant operational and customer service challenges. Banks must verify the validity of tax clearance certificates and process AIT deductions in real time, which places considerable pressure on internal systems. Although the 15% AIT is refundable upon proof of tax compliance, the process can be cumbersome for customers and banks alike.

To manage these demands, banks have strengthened internal controls, integrated tax clearance certificate verification into their systems and increased engagement with clients to ensure compliance. Despite these efforts, non-compliance can still result in transaction delays, increased administrative costs and potential regulatory penalties.

Smart invoicing

Survey data indicates that approximately 27% of banks identify smart invoicing as a major challenge.

Smart invoicing is a digital compliance initiative by the ZRA aimed at modernising tax administration through real-time electronic reporting of transactions. It requires businesses, including banks, to integrate their invoicing systems with ZRA's digital platform to enhance transparency, reduce tax leakages and improve monitoring.

For banks, the adoption of smart invoicing has brought about significant operational and compliance challenges. The integration process demands that banks ensure their internal systems are fully compatible with the ZRA's digital requirements. This includes the automation of tax clearance checks and the seamless sharing of transaction data with the tax authority. However, the transition has not been straightforward. Banks have faced persistent technical integration issues, with system downtimes and failures disrupting daily operations.

The financial impact of smart invoicing on banks has also been considerable. The need to upgrade technology, invest in new systems and provide comprehensive staff training has led to increased compliance costs. In some cases, banks have had to hire external consultants to navigate the complexities of integration and regulatory interpretation.

In response to these challenges, banks are taking a proactive approach. They are investing in advanced technologies, enhancing staff training programmes and strengthening internal controls to better manage compliance risks. Many banks are also engaging directly with the ZRA to clarify regulatory requirements and resolve integration issues as they arise.

While the transition to smart invoicing has been demanding, banks remain committed to adapting their operations to meet the new digital compliance standards and to support the broader objectives of Zambia's tax digitisation **agenda.**

Tax audits by ZRA

There has been a continued trend of tax audits targeting the banking sector. This is noted as a concern among 15% of the banks participating in this survey.

Banks are uniquely positioned in the financial ecosystem — they process payroll, supplier payments and cross-border transactions — making them key targets for audits. ZRA views banks not only as taxpayers but also as critical third-party data sources for verifying the tax compliance of other entities.

Accordingly, heightened tax audit activity in the sector is not surprising. Furthermore, with the ZRA's adoption of data analytics and electronic monitoring tools, which enable real-time cross-referencing of taxpayer declarations against banking and transactional data, we will continue to see significant audit activity in the sector.

This increased audit activity aligns with ZRA's broader strategy to recover outstanding tax liabilities, enhance revenue collection and promote transparency. For banks, however, these audits can be resource-intensive and disruptive, with the potential for substantial financial exposure if non-compliance is identified.

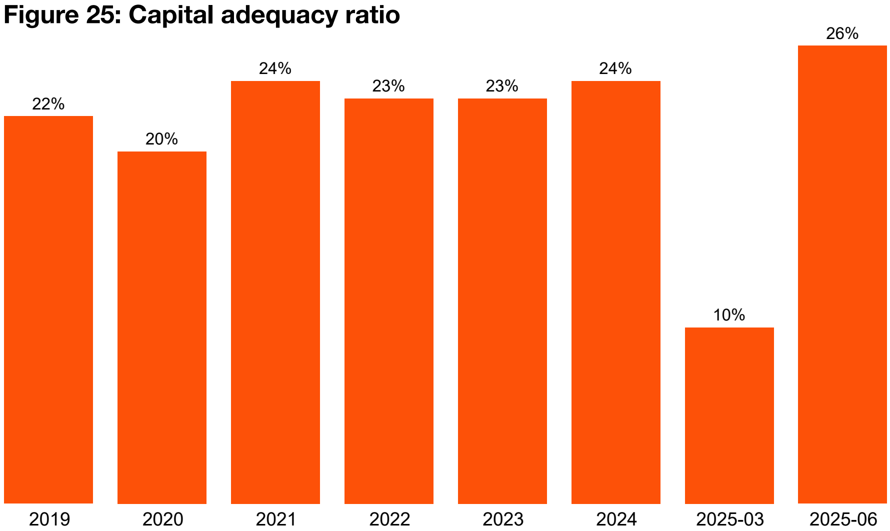
In response, banks have taken proactive steps to mitigate risk. These include strengthening internal controls, conducting regular compliance health checks and engaging external tax advisors. The evolving enforcement landscape underscores the importance of robust tax governance, accurate documentation and ongoing engagement with regulatory authorities.

11 Financial performance and analysis

Capital adequacy ratio

Banking sector

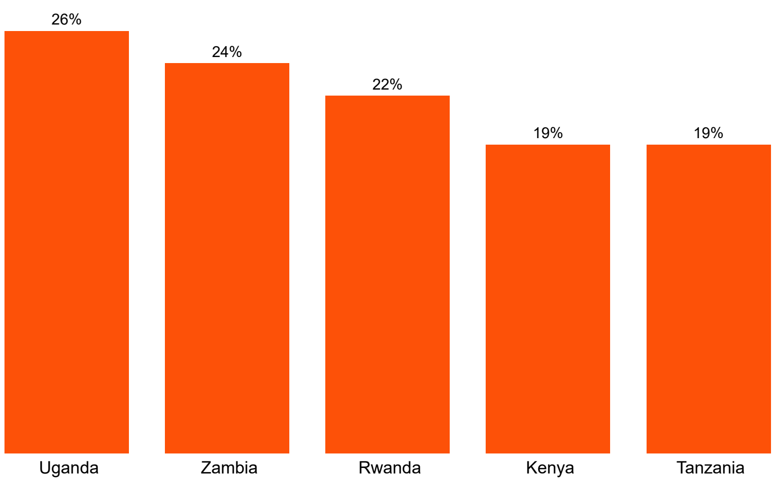
Figure 25: Capital adequacy ratio



The banking sector's resilience is often gauged by its capital adequacy ratio (CAR), a critical measure of financial stability and an indicator of the sector's ability to withstand economic shocks. In 2024, the sector witnessed an increase in its CAR, rising from 23% in the previous year to 24%. This upward trend continued into the first half of 2024, with the ratio reaching 26%, primarily due to an uptick in retained earnings. It is important to note that the industry's average CAR comfortably surpasses the BoZ's regulatory minimum of 10%, underscoring the sector's robust capitalisation.

Regional analysis

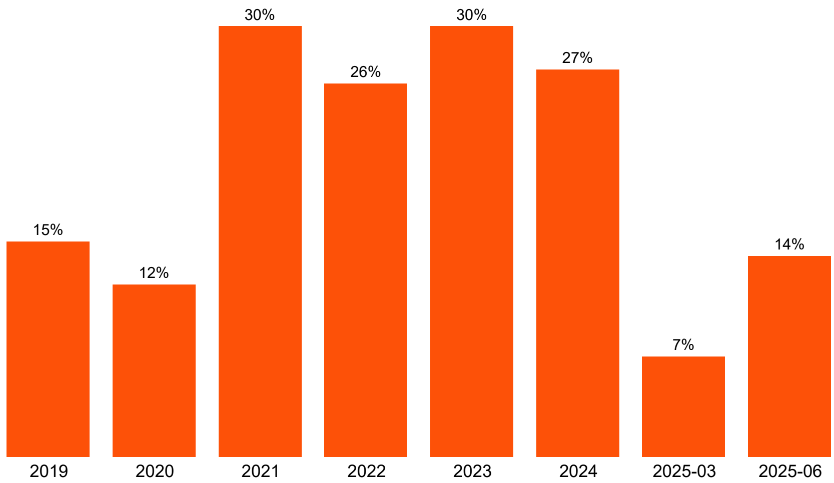
Figure 26: Capital adequacy ratio for selected African countries.



In comparison to the regional landscape, the analysis reveals a varied picture. Uganda leads with a CAR of 26%, a reflection of its banks' enhanced net after-tax profits and an augmentation in permanent shareholders' equity. Zambia follows closely with a CAR of 24% as of December 2024 and then Rwanda with 22%. Both Kenya and Tanzania share a CAR of 19%. However, it is pertinent to mention that the regional CAR figures are based on data available as of 30 June 2024 and thus may not fairly reflect the most recent status.

Banking sector

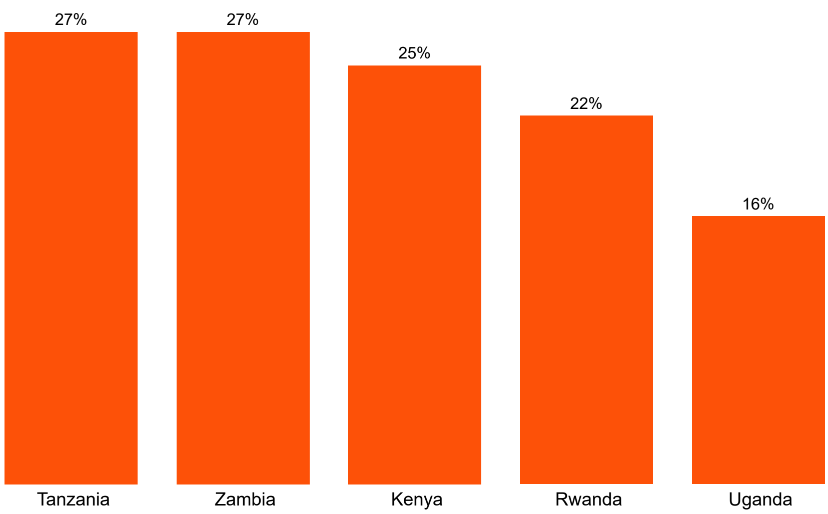
Figure 27: Return on equity



Another key performance metric is Return on Equity (ROE), which provides insight into the profitability and efficiency with which shareholder equity is employed. The Zambian banking sector's ROE experienced a decrease to 27% in 2024, down from 30% in the preceding year, and well above the BoZ's benchmark of 20%. However, the first half of 2024 saw a reduction in ROE to 14%.

Regional comparison

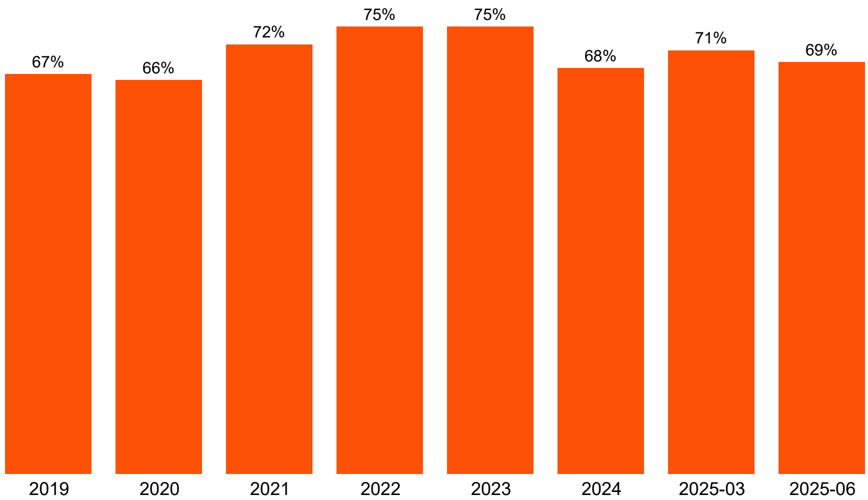
Figure 28: Return on equity for selected African countries



In comparison with its regional counterparts, Zambia and Tanzania's banking industry achieved the highest ROE at 27%. This is indicative of the strong earnings recorded during the year. Kenya's banking sector followed with a ROE of 25%, while Rwanda posted 22%. Uganda, with a ROE of 16%, recorded the lowest among the selected countries.

Banking sector

Figure 29: Net interest margin



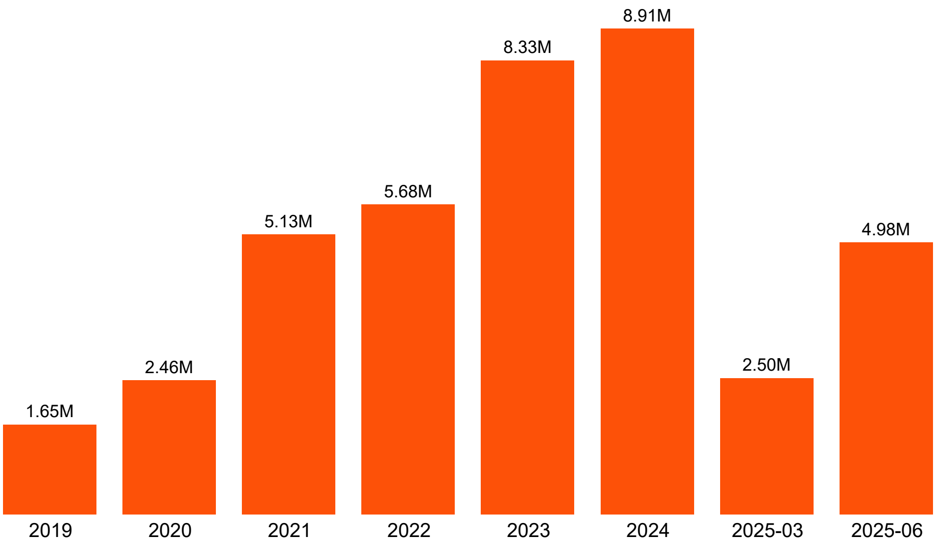
In Zambia's banking sector, the net interest margin (NIM) serves as a critical barometer for financial health and profitability. Our analysis shows that in 2024, the industry's NIM decreased to 68% from 75% in 2023. This is attributable to a confluence of factors, including a marked decrease in interest earned from government securities counterbalanced by an uptick in interest accrued from loans and advances.

The NIM, particularly among the six largest banks, is noteworthy. These institutions have collectively maintained a NIM of 68%, mirroring the figures reported in the industry. This uniformity suggests a strategic alignment in the management of assets and liabilities, reflecting a cautious yet optimistic outlook in the face of economic headwinds.

Year-on-year profit after tax

Banking sector

Figure 30: Year-on-year profit after tax



The profitability of banks has been on an upward trajectory. Figure 26 shows a substantial year-on-year growth in profits for commercial banks. Specifically, there has been a 6% increase from K8.3 billion in 2023 to K8.9 billion in 2024. This remarkable growth in profitability underscores the sector's resilience and adaptability in the face of challenges. The increase in profits can be attributed to an increase in net interest income and a reduction in impairment charges.

In the first half of 2024, banks reported a profit after tax of K4 billion compared to K3.9 billion in the same period in 2023. If this run-rate is maintained, the profitability trend is likely to continue if current conditions persist.

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