CENTRAL BANK OF THE BAHAMAS

Financial Stability Report December, 2024

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PREFACE

As part of its statutory mandate, the Central Bank of The Bahamas is required *"to ensure the stability of the financial system".* This report analyses key financial sector developments and assesses the underlying risks to financial stability in the domestic economy. It considers the financial system's ability to withstand shocks and function well enough to contribute to the healthy performance of the economy.

This Financial Stability Report (FSR) relies on data from the key regulators of the domestic financial system, which include the Central Bank, as the supervisor of banks, credit unions, money transmission businesses and payment service providers; the Securities Commission, the regulator for the securities industry; and the Insurance Commission, with responsibility for the insurance industry. It summarises the macroeconomic environment, provides an overview of key developments within the financial sector and assesses potential risks to the health of the system.

The first FSR was published in 2013 and the report is currently an annual publication.

EXECUTIVE SUMMARY

Risks within the financial sector remained well contained during 2024, as the Central Bank maintained its risk-based oversight of supervised financial institution (SFIs). Nevertheless, the increased trade policy uncertainties, which have moderated the global economic outlook could present slightly elevated risks in the near-term, while emerging threats from climate change and cybersecurity underscore additional focuses where financial sector capacity needs are increasing. In this environment, the Bank continues to augment its efforts to enforce international risk-based supervisory standards for financial institutions, with a pronounced focus on its resolution approach and legislative reforms aimed at strengthening crisis management.

During 2024, no new financial stability concerns arose within the banking system, as commercial banks continued to maintain robust capital buffers and satisfactory provisioning levels. The results of the consolidated stress tests—which comprised credit, liquidity and interest rate risks—revealed that Domestic Systemically Important Banks (DSIBs) remained buoyant to sudden shocks, with banks' capital ratios exceeding the regulatory minimum of 17.0%. In particular, the banking sector's average capital to risk-weighted assets ratio fluctuated between 29.4% and 38.5%. Further, the Bank Stability Index (BSI) showed that financial sector stability strengthened in 2024, as compared to 2023. Meanwhile, the Aggregate Financial Stability Index (AFSI) revealed that overall financial stability continued to normalize, in line with the improvement in the domestic economy.

Furthermore, the results of the network analysis showed that direct interconnectedness remained between domestic licensees in 2024. Nevertheless, systemic risk stemming from direct bilateral interlinkages in the system diminished as a result of elevated capital and liquidity ratios held by commercial banks. Further, given the relatively small exposures compared to capital levels, the risks of contagion remained low.

The supervision of credit unions continued to focus on inherent risk areas and practices within the sector, with emphasis on risks related to money laundering, credit and corporate governance. Further, during the year, the sector's credit quality showed considerable improvements. In addition, credit unions' profitability indicators increased marginally in 2024, as asset quality and liquidity levels strengthened. In line with this, capital adequacy levels continued to exceed international benchmarks.

In the insurance sector, performance indicators for both life and non-life portfolios showed improvements during the year, remaining in line with international benchmarks. Specifically, the sector's profitability improved in 2024, as compared to the previous year, while their financial stability ratios remained sound.

With regard to payments, efforts in this space continued to support the shift toward more digital forms of payments, which has been primarily driven by market demand. Specifically, the sustained efforts of commercial banks, payment service providers and the Bank's SandDollar Adoption Unit, have undergirded gains in the usage of electronic payments over the year, which were further enhanced by the Live Fast, Pay Digital campaign, and the public outreach initiated by the Bahamas Cheque Reduction Steering Committee to increase the use of digital financial services. In addition, the Bank progressed toward a Fast Payment System (FPS) for The Bahamas, to enhance payment efficiency.

The securities industry is not featured heavily in the financial stability assessment, due to data availability constraints. However, from a financial stability perspective, the sector does not pose any material risk, given the fairly narrow liquidity in the securities market and the absence of sophisticated products offered. Further, the non-bank money lenders are supervised by the Securities Commission, and there is no evidence to suggest that this segment is a significant source of risk.

Over the medium-term, the Central Bank will continue to effectively supervise financial institutions, in an effort to safeguard financial stability. In addition, as the economy continues to register improvement, the Bank will continue to pursue policies geared toward liquidity management, so as to alleviate any impact on external reserves from the associated heightened demand for credit. Furthermore, with the establishment of the Financial Stability Council, which convenes heads of the Central Bank, Ministry of Finance, the Insurance Commission of The Bahamas, the Securities

Commission of The Bahamas, and the Deposit Insurance Corporation (DIC), the Bank will work with industry partners and the Government in taking a wholistic approach to financial stability.

STRUCTURE OF THE REPORT

To the extent that domestic and international economic conditions that affect financial stability, these are highlighted in Chapter 1 of this report. Chapters 2 to 4 assess stability indicators in the banking, credit union and insurance sectors, respectively. This focus is confined to the domestic sector, as a distinct separation is maintained between the balance sheets of the domestic and international sectors, owing to exchange control regulations. Chapter 5 then briefly describes the securities and non-bank money lenders sector. A summary of the overall assessment of risks to financial stability is presented in Chapter 6, followed by the conclusion in Chapter 7. In Appendix 1, the overall structure of the financial sector is discussed, with emphasis on banks, credit unions and the insurance sector. Further, although not posing any systemic concerns for financial stability, capital market developments are summarized in the appendix, being an important aspect of the financial system.

CHAPTER 1: MACROECONOMIC ENVIRONMENT

1.1. The Global Environment

The Bahamian economy remained largely reliant on global economic developments. In 2024, the International Monetary Fund (IMF) estimated that global economic growth lowered slightly to 3.3% from 3.5% in 2023, as economies continued to face headwinds from the protracted geopolitical tensions in Eastern Europe and the Middle East. Meanwhile, further, changes in US trade policy, and heightened geopolitical unrest are expected to impede prospects in the near-term, with real gains projected to slow to 2.8% in 2025.

In the United States, real GDP rose by an annualized rate of 2.8% in 2024, slightly below the 2.9% increase in the previous year, due to a reduction in investment and exports (See Table 1). Further, inflation slowed to 3.0%, from 4.1% last year. However, the unemployment rate advanced to 4.0%, relative to 3.6% in 2023. Given these developments, the Federal Reserve lowered its target range for the federal funds rate to 4.25%-4.50% in 2024, from 5.25%-5.50% in the preceding year, in an effort to curb inflation and stimulate economic growth.

With regard to other major economies, growth trends varied over the review year. Specifically, the United Kingdom's real GDP growth rate expanded to 1.1%, an extension of the 0.4% rise in the prior year. Similarly, real economic growth in the euro area rose to 0.9%, surpassing the 0.4% gain in the preceding year. However, China's real output tapered to 5.0%, from 5.4% in 2023. Likewise, in Japan, real output gains moderated to 0.1% in 2024, from 1.5% last year.

During the year, almost all of the major economies central banks also relaxed their monetary policy stance in line with the lower inflationary trends. Specifically, global inflation moderated to 5.7% in 2024 from 6.6% in 2023, although remaining above the pre-pandemic levels. In light of this, nearly all of the major central banks decreased interest rates during the review year and continued to unwind their quantitative easing measures.

1.2. Regional Environment

In 2024, most of the Caribbean economies sustained their positive, albeit moderated, pace of growth, as economic indicators revert to trend. In particular, labour market conditions improved, while inflationary pressures eased, reflective of the pass-through effects of lower global oil and other commodity prices. However, for tourism-based economies, risks heightened owing to their exposure to the volatile conditions in key source markets, while commodity-based economies could be impacted by movements in international prices. Average real GDP for the region increased to 8.2% in 2024 from 7.2% in 2023 (see Table 2). Contributing to this development, real GDP growth in Guyana strengthened to 43.6% from 33.0% in the previous year, owing largely to higher output from the oil and gas sectors. Similarly, real economic output for Belize advanced to 8.2% from 4.7%, Suriname to 3.0% from 3.0%, The Bahamas to 3.4% from 3.0% in the preceding year. However, real GDP in Barbados moderated to 4.0% from 4.4%, Eastern Caribbean, to 3.9% from 4.8%, and Trinidad & Tobago, to 1.4% from 2.1% in 2023. In addition, real output in Jamaica contracted to 0.8%, after registering a growth of 2.2% in the previous year, reflecting the impact of Hurricane Beryl and other adverse weather events on economic output.

TABLE 1

Selected Indicators for Developed Economies (%)	2018	2019	2020	2021	2022	2023	2024
GDP Growth Rates							
United States	3.0	2.6	(2.2)	6.1	2.5	2.9	2.8
Euro Area	1.8	1.6	(6.0)	6.3	3.5	0.4	0.9
United Kingdom	1.4	1.6	(10.3)	8.6	4.8	0.4	1.1
China	6.8	6.1	2.3	8.6	3.1	5.4	5.0
Japan	0.6	(0.4)	(4.2)	2.7	0.9	1.5	0.1
Unemployment Rates							
United States	3.9	3.7	8.1	5.4	3.6	3.6	4.0
Euro Area	8.2	7.6	8.0	7.8	6.7	6.6	6.4
United Kingdom	4.1	3.8	4.6	4.6	3.8	4.1	4.3
China	4.9	5.2	5.6	5.1	5.6	5.2	5.1
Japan	2.4	2.4	2.8	2.8	2.6	2.6	2.6
Inflation Rates							
United States	2.4	1.8	1.3	4.7	8.0	4.1	3.0
Euro Area	1.8	1.2	0.3	2.6	8.4	5.4	2.4
United Kingdom	2.5	1.8	0.9	2.6	9.1	7.3	2.5
China	2.1	2.9	2.5	0.9	2.0	0.2	0.2
Japan	1.0	0.5	0.0	(0.2)	2.5	3.3	2.7

Sources: IMF, International Statistical Bureaus

TABLE 2

Selected Caribbean Countries' GDP Growth Rates (%)	2018	2019	2020	2021	2022	2023	2024
Bahamas	2.9	(0.7)	(23.5)	17.0	14.4	3.0	3.4
Barbados	(0.5)	(0.1)	(17.6)	1.4	13.8	4.4	4.0
Belize	3.0	0.3	(14.1)	9.8	8.7	4.7	8.2
Eastern Caribbean	3.0	2.8	(14.0)	3.9	8.9	4.8	3.9
Guyana	3.4	4.7	43.4	19.9	62.3	33.0	43.6
Jamaica	1.4	1.0	(10.2)	4.4	5.2	2.2	(0.8)
Suriname	2.0	2.3	(13.5)	(3.5)	2.4	2.1	3.0
Trinidad & Tobago	0.3	0.0	(7.8)	(1.0)	1.5	2.1	1.4
Average	**1.8**	**1.3**	**(6.0)**	**6.3**	**14.6**	**7.0**	**8.3**

Sources: IMF, International Statistical Bureaus, Regional Central Banks, Bloomberg

1.3. The Domestic Environment

The expansion in the domestic economy was sustained at healthy pace in 2024, contributing to a decline in non-performing loans (NPLs) and improvements in the balance sheets of commercial banks. In the review year, real GDP grew by 3.4%, extending the 3.0% rise in the previous year, with economic indicators trending closer to their expected medium-term potential. The gains in tourist receipts were driven by healthy expansion in cruise earnings, albeit, returns from the high-value added air segment remained constrained by limited accommodations capacity. Of note, total visitor arrivals expanded to 11.2 million in 2024, from 9.7 million in 2023. Underlying this development, sea passengers rose by 19.7% to 9.5 million. This contrasted with a 0.2% decline in air traffic to 1.7 million in 2024, with earnings bolstered by appreciated average daily room rates. As it relates to the vacation rental market, positive trends were noted, as total room nights sold increased by 8.5%, albeit lower than the 18.6% expansion in 2023.

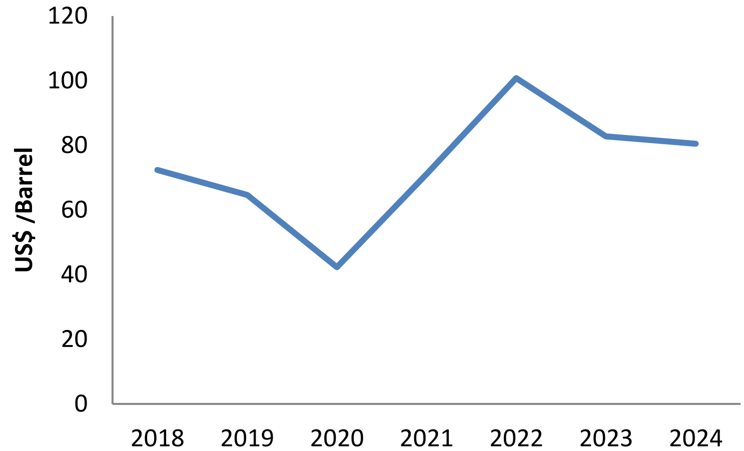
Consistent with the reduction in price pressures for imported fuel and other goods and services, domestic inflation declined during the review year. In particular, consumer price inflation slowed to 0.4% in 2024, from 3.1% in 2023, reflective of average cost decreases for most of the index's components.

During the FY2023/2024, the budget deficit reduced significantly to $194.0 million, from $534.6 million in FY2022/2023. Underlying this outturn was VAT-led growth in aggregate revenue, by $213.7 million (7.5%) to $3,069.1 million, combined with a $126.9 million (3.7%) decrease in total expenditure, to $3,263.1 million, relative to the previous fiscal year. For the calendar year, the overall budget deficit reduced to $339.4 million, from $515.5 million in 2023. Leading this development, aggregate revenue rose by $308.8 million (10.6%), to $3,208.0 million, overshadowing the $132.7 million (3.9%) rise in total expenditure to $3,547.4 million.

In monetary developments, in 2024, banking liquidity contracted, as the expansion in domestic credit outpaced the rise in the deposit base. However, external reserves grew during the review period, undergirded by net foreign currency inflows from real sector activities and the receipt of proceeds from Government's external borrowings. Further, banks' credit quality indicators improved during the review year, largely supported by the sustained improvement in the domestic economy. In addition, underpinned by an increase in non-interest income, along with a decrease in provisions for bad debt, banks' net profits rose in 2024. Meanwhile, the weighted average interest rate spread widened, as the average lending rate increased, while the mean deposit rate was relatively unchanged.

At end-2024, external reserves stood at $2.6 billion, equivalent to an estimated 27.3 weeks of the current year's total merchandise imports, relative to 29.9 weeks in 2023. Usable reserves, or balances after statutory provisions for 50.0% of the Central Bank's demand liabilities, increased by $47.7 million (4.2%) to $1,184.3 million in 2024. In addition, the Central Bank's balance sheet experienced an increase, as the end of year external reserves to demand liabilities ratio moved higher to 90.3% in December 2024 from 79.1% in 2023.

Chart 1
Oil Prices (Brent Crude Oil Index)



Source: Bloomberg

TABLE 3
The Bahamas: Macroeconomic Indicators

	2018	2019	2020	2021	2022	2023	2024
B$/US$: Exchange Rate	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Nominal GDP Growth Rate (%)	3.0	3.6	(21.9)	16.2	15.5	9.9	3.7
Real GDP Growth Rate (%)	2.4	(0.8)	(20.1)	17.6	10.9	3.0	3.4
Inflation Rate (Average chg in RPI)	2.3	2.5	0.0	2.9	5.6	3.1	0.4
Unemployment Rate (May)*	10.0	9.5	26.2	17.6	10.8	8.8	n.a.
Overall Fiscal Balance (B$M)	(337.4)	(251.7)	(1,365.9)	(881.8)	(718.2)	(515.5)	(339.4)
% of GDP	(2.6)	(1.9)	(13.2)	(7.3)	(5.2)	(3.4)	(2.1)
Private Sector Credit (B$000)	5,886.2	5,891.6	5,766.1	5,680.7	5,661.6	5,859.1	6,250.6
Weighted Average Lending Rate (%)	11.3	10.5	10.4	10.0	10.9	11.0	11.2
Weighted Average Deposit Rate (%)	0.8	0.6	0.5	0.5	0.5	0.5	0.5
Treasury Bill Rate (%)	1.7	1.8	1.9	2.9	2.9	2.9	2.9
Gross Int'l Reserves (B$M)	1,196.3	1,758.1	2,382.2	2,432.8	2,611.0	2,517.4	2,633.3
Import Cover Ratio (Tot. Merch. (CIF) in week	17.4	28.3	56.8	36.1	32.7	29.9	27.7
Current Balance (B$M)	(1,199.3)	(281.1)	(2,279.5)	(2,434.0)	(1,232.6)	(1,069.1)	(1,191.3)
as % of GDP	(9.4)	(2.1)	(22.0)	(20.2)	(8.9)	(7.0)	(7.5)
Total Public Sector Debt (B$M)	9,249.5	9,437.2	10,813.5	11,637.4	12,455.3	12,837.2	13,164.2
of which: External	3,171.8	3,123.1	4,478.0	4,760.8	5,225.0	5,372.7	5,400.9
Internal	6,077.7	6,314.1	6,335.4	6,876.7	7,230.3	7,464.4	7,763.3
Total Arrivals ('000s)	6,622.0	7,249.5	1,794.5	2,100.6	7,000.7	9,654.8	11,217.0
Tourist Expenditure (B$M)	3,727.6	4,125.5	967.3	2,321.7	4,221.8	N/A	N/A
Construction Number of Permits Issued	1,504.0	1,553.0	1,278.0	1,578.0	1,584.0	1,519.0	N/A
Value of Starts (B$M)	118.2	102.9	154.6	313.7	340.2	N/A	N/A
Value of Completions (B$M)	333.8	213.0	200.0	307.3	435.5	N/A	N/A
Average Oil Prices (Brent Crude Oil Index)	72.4	64.7	42.3	71.0	100.8	82.8	80.5

Source: Central Bank of The Bahamas, Bahamas National Statistical Institute, Bloomberg

*2020, 2021 & 2022 rates represent WEO estimates

N/A - Not Available

CHAPTER 2: BANKING SECTOR

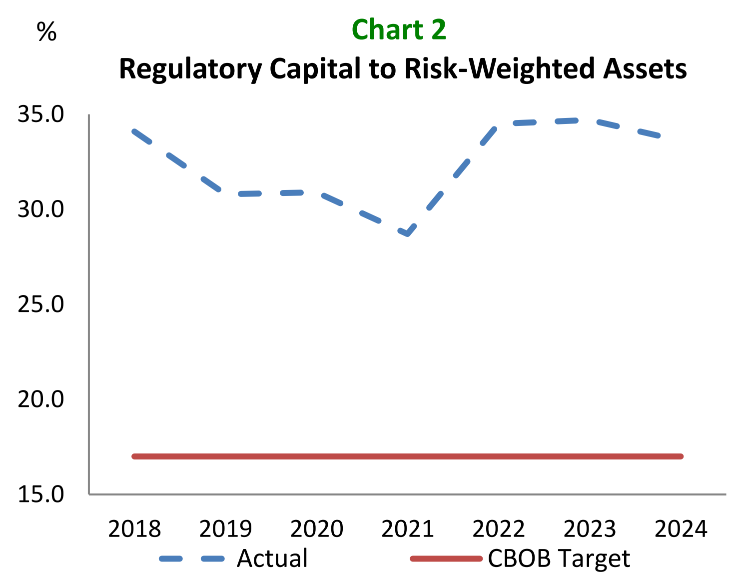
As a result of the Bahamas' exchange control restrictions, banks are prevented from undertaking domestic business activities, other than through assets funded with domestic liabilities. Subsequently, this prevents any direct connection or balance sheet flows from direct international to domestic banking operations. Accordingly, the focus of this chapter is on the stability of the domestic banking sector.

2.1 Asset Trends

Total domestic assets of the banking system increased by 3.6% to $12.1 billion in 2024, exceeding the 2.2% growth in the previous year, as loans and advances grew by 4.5%, extending the 0.4% uptick in the preceding year. In addition, the buildup in the banks' holdings of securities widened to 8.2% from 7.6% in 2023. Conversely, banks' claims on the Central Bank declined by 0.9%, following the prior year's 0.8% falloff. As a share of the total asset portfolio, loans and advances comprised the largest segment at 56.4%, followed by securities (21.4%), and claims on the Central Bank, that is cash and balances (18.4%).

2.2 Capital Adequacy

Domestic banks remained well capitalized during the year, although the ratio of average capital to risk weighted assets decreased by 1.1 percentage points to 33.6%, at end-December 2024, remaining above the Central Bank's targeted ratio of 17.0% of risk-weighted assets and the international benchmark of 8.0%[1].



Source: Central Bank of The Bahamas

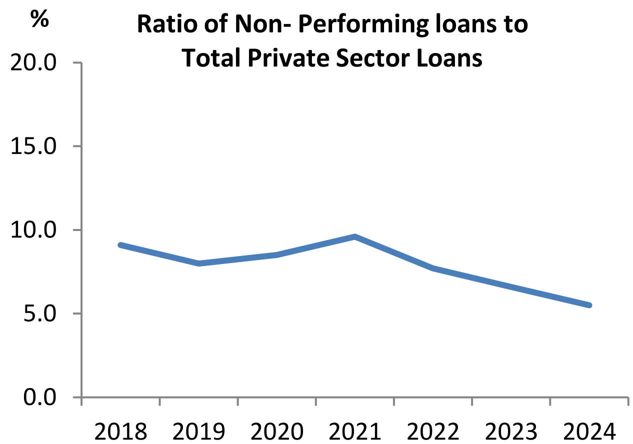
2.3 Asset Quality

Domestic banks' credit quality indicators continued to improve during the review year, reflecting the sustained recovery in the domestic economy. Specifically, total private sector loan arrears contracted by $92.2 million (16.4%) to $469.5 million, further to the $48.5 million decrease in 2023. The decline was led by the reductions in mortgage, commercial and consumer arrears. Correspondingly, the ratio of arrears to total private sector loans narrowed by 2.2 percentage points to 8.2%, relative to the 1.0 percentage point falloff in 2023.

[1] The Central Bank imposes a minimum regulatory required ratio of 17.0%, below which licensees would be required to implement measures to either reduce risk exposures or supplement their capital.

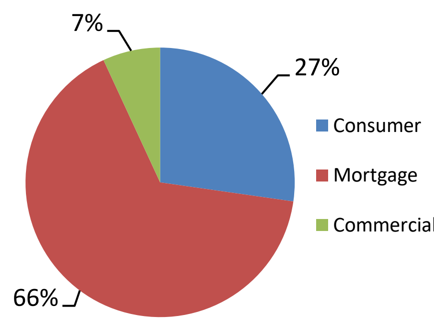
A disaggregation by average age of arrears indicated that the non-performing loan (NPL) segment reduced by $43.8 million (12.2%) to $317.7 million, although a slowdown from the $53.5 million (12.9%) decrease in the previous year. Underpinning this outturn, commercial NPLs declined by $19.2 million (41.9%); mortgages, by $13.5 million (6.1%) and consumer arrears, by $11.2 million (11.6%). Similarly, short-term delinquencies fell by $48.3 million (24.2%) to $151.9 million, a switch from the $5.0 million (2.6%) increase in the preceding year. Contributing to this outcome, the mortgages portion fell by $27.4 million (21.1%); commercial arrears, by $11.0 million (65.4%) and consumer arrears, by $9.9 million (18.6%). Consequently, the ratio NPL against total private sector loans decreased by 1.1 percentage points to 5.5%; while the ratio of past due loans to total private sector loans tapered by 1.0 percentage point to 2.6%.

Chart 3
Ratio of Non- Performing loans to Total Private Sector Loans



Source: Central Bank of The Bahamas

Chart 4
Composition of Private Loan Arrears (2024)



Source: Central Bank of The Bahamas

2.4 Profitability

Domestic banks' profitability strengthened in 2024, amid an increase in non-interest income and a reduction in bad debt expenses. In particular, net profits expanded by $107.5 million (26.7%) to $509.9 million, significantly boosting the year earlier $5.4 million (1.4%) rise. As a result, the ratio of net income to equity (ROE) rose to 23.2% from 18.0% in 2023, while the ratio of net income to average monthly assets (ROA) increased to 4.2% from 3.4% in the prior year.

Total provisions for bad debts fell by $28.2 million (8.6%) to $301.8 million, albeit lower than the previous year's $41.8 million (11.2%) decline. Consequently, the associated ratio to average assets narrowed by 56 basis points to 0.39%. Meanwhile, the rise in depreciation costs moderated to 5.2% in 2024 from 6.2% last year, although the attendant ratio edged up by 1 basis point to 0.21%. Also, the ratio of net interest income to average assets firmed to 5.0% from 4.9%, while the ratio of commission and foreign exchange income to average assets rose by 17 basis points to 0.88%. Further, total operating costs increased by 9.6%, but trailed the 12.4% rise in the previous year, with the corresponding ratio higher by 24 basis points at 4.25%.

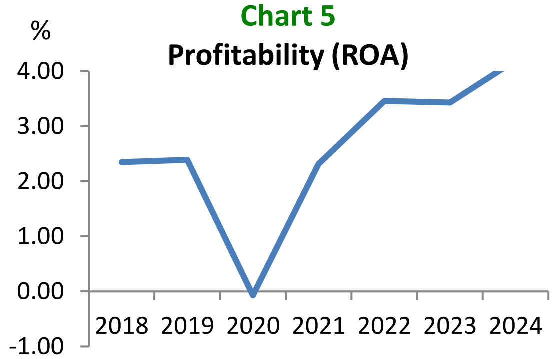
2.5 Liquidity

The growth in banking sector liquidity moderated in 2024, reflective of the increase in commercial banks' lending to the private sector. Banks' holdings of liquid assets as a proportion of total assets, firmed by 10 basis points to 37.6%, but was a slowdown from the 40 basis points gain in 2023. In addition, the ratio of liquid assets to short-term liabilities rose by 40 basis points to 49.7%, lower than the prior year's 50 basis points uptick.

Correlated with liquidity trends, the ratio of deposits to total loans fell by 2.0 percentage points to 134.2%, a reversal from the 2.4 percentage point increase in the preceding year. Contrastingly, the ratio of demand deposits to total deposits rose by 60 basis points to 50.8%, vis-à-vis a decrease of the same magnitude in 2023 (see Table 4).

Chart 5

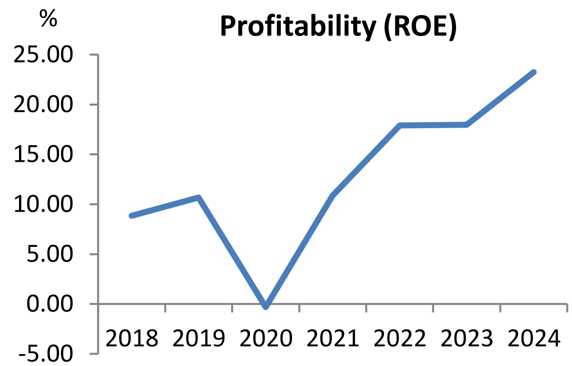
Profitability (ROA)



Source: Central Bank of The Bahamas

Chart 6

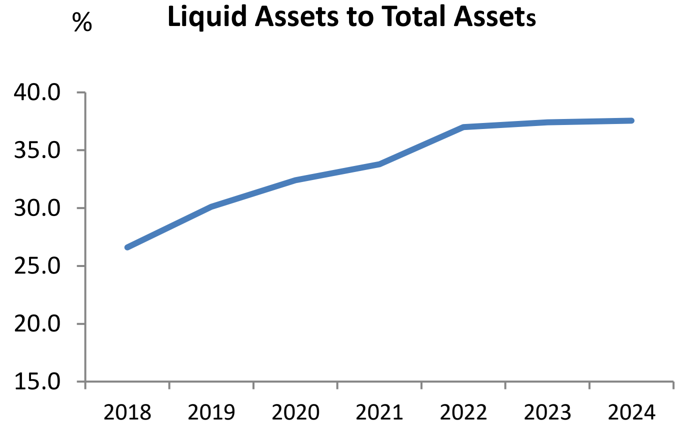
Profitability (ROE)



Source: Central Bank of The Bahamas

Chart 7

Liquid Assets to Total Assets



Source: Central Bank of The Bahamas

TABLE 4

Key Domestic Banks Financial Stability Indicators (%)	2018	2019	2020	2021	2022	2023	2024
Liquidity Indicators							
Loan to Deposit Ratio	96.4	87.5	87.2	81.8	74.8	73.4	74.5
Deposits to Loan Ratio	103.7	114.3	114.7	122.2	133.8	136.2	134.2
Demand Deposits to Total deposits	40.7	45.2	45.1	47.6	50.7	50.2	50.8
Liquid Assets to Total Assets	26.6	30.1	32.4	33.8	37.0	37.4	37.6
Liquid Assets to Short-Term Liabilities	38.3	41.6	45.7	46.7	48.7	49.2	49.7
Credit Risk Indicators							
NPL to Total Private Sector Loans	9.1	8.0	8.5	9.6	7.7	6.6	5.5
Total Assets Growth rate	(2.4)	7.4	2.0	1.1	4.2	2.2	3.6
Loans & Advances Growth rate	0.9	1.4	(0.3)	(3.2)	(0.1)	0.4	4.5
Capital Adequacy							
Regulatory capital to risk-weighted assets (avg)	34.1	30.8	30.9	28.7	34.5	34.7	33.64
Target Ratio	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Profitability Indicators							
ROAA (annualized)	2.3	2.4	(0.1)	2.3	3.5	3.4	4.2
ROAE (annualized)	8.8	10.7	(0.3)	10.9	17.9	18.0	23.2
Net interest income to average earning assets (annualized)	5.1	5.0	4.8	4.6	4.5	4.9	5.0
Net interest income to gross income	68.5	67.4	70.1	65.0	60.4	61.0	58.5
Non interest expenses to gross income	49.7	50.5	62.9	52.7	51.5	51.9	52.1
Personnel expenses to non interest expenses	41.2	39.0	32.7	38.1	36.0	32.5	33.5
Trading and fee income to total income	3.8	4.7	5.4	6.2	9.8	8.7	10.3
Effective Interest Rate Spread	7.1	6.8	7.0	6.9	6.9	7.4	7.4

Source: Central Bank of The Bahamas

2.6 Interlinkages in the Financial System – Commercial Banks

A network analysis for commercial banks in The Bahamas was conducted using inter-financial data for December 2024 (See Figure 1), examining inter-connected relationships, whether banks, credit unions, or other intermediaries. The relationships are typically represented, graphically as a network, nodes representing entities or sectors, directional lines representing the connections or relationships between them, and the thickness of the lines denoting the relative magnitude of the exposures. These connections can take various forms, such as interbank funding, capital, exposure to common assets, or other financial relationships. Such analysis supports systemic risk assessment, particularly where liquidity difficulties or losses in one sector or entity can spread to others, or trigger a cascading impact across the entire financial system.

As depicted in Figure 1, the inter-bank funding network displayed notable direct counterparty exposures between the eight banks, which for confidentiality reasons, were assigned labels Bank A to Bank H.

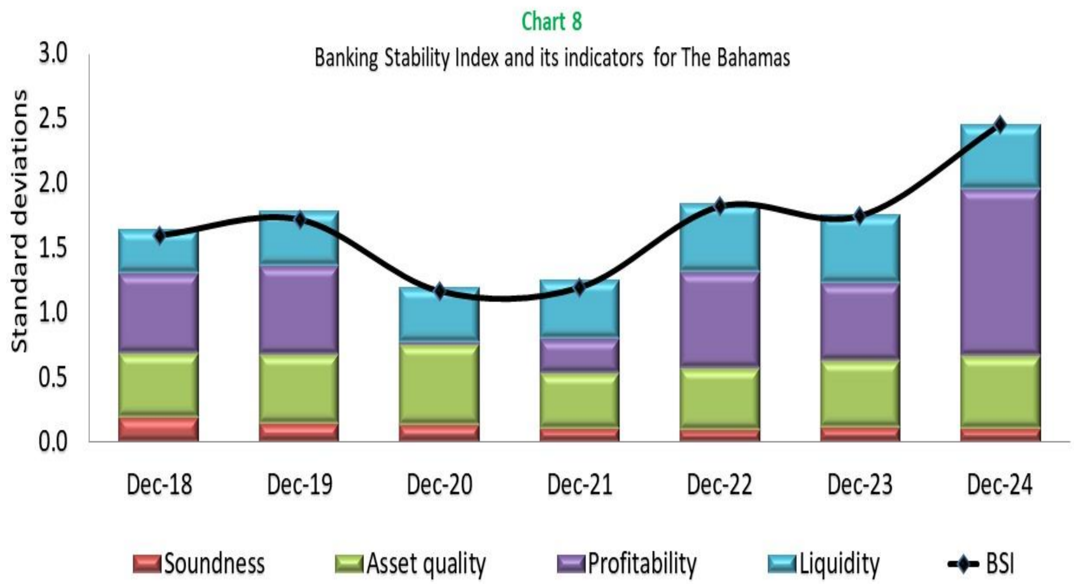
Figure 1.1 Network of gross credit exposures within Commercial Banks at end-December, 2024

Contagion risks between banks appear to be low, owing to the relatively small exposures relative to capital levels. Further, high capital and liquidity ratios reduce systemic risks arising from these direct bilateral linkages. Specifically, credit exposures largely consisted of demand/call, fixed and borrowings/loans, including Bahamian dollars and foreign currency transactions. Notably, Bank A was an important creditor, with lender-based role stemming across multiple institutions. Meanwhile, Bank G had the highest number of credit exposures, positioning them as the largest borrower within the network. In addition, a notable reciprocal lending relationship existed between Bank D and Bank F, with the largest interbank credit flow of $168.0 million. In contrast, the smallest credit flow, between Bank A and Bank E, was less than $1.0 million. Bank H was isolated in the network, having no inter-bank exposures with others in the network.

2.7 An Assessment of the Stability of the Banking Sector

2.7.1 The Banking Stability Index

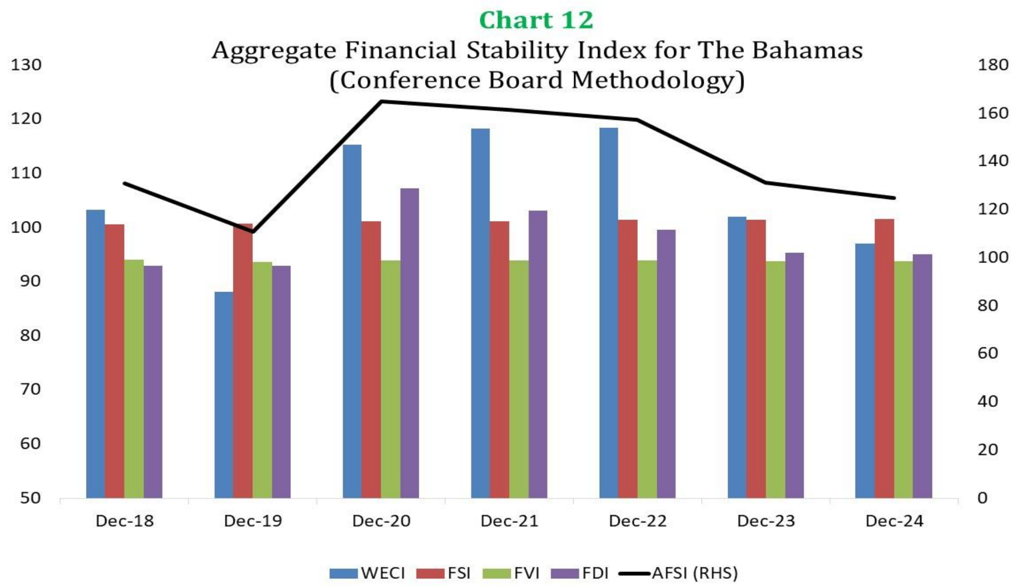
The Banking Stability Index (BSI) is an aggregate indicator of the soundness of the deposit-taking institutions (DTI), primarily domestic banks, calculated as a normalized weighted average of the indicators for capital adequacy, asset quality, profitability and liquidity. Each variable was normalized using statistical standardization, which allows for the different variables to be on the same scale. In 2024, the BSI continued to strengthen, undergirded by the ongoing expansion in the domestic economy. Specifically, the index increased to 2.45 in 2024 from 1.75 in 2023, implying that risk to the sector remained low. In particular, the normalized profitability indicator rose to 1.28 from 0.60 in the year prior, as the average return on equity and assets ratios grew. Further, the normalized asset quality indicator firmed to 0.56 from 0.52 in the previous year. In addition, the capital adequacy and interest rate indicators stabilized at 0.11 and 0.04, respectively, and risk stayed low. Meanwhile, the liquidity indicator decreased to 0.50 in 2024 from 0.53 in 2023, as banking sector liquidity decline given the rise in commercial banks' lending to the private sector. Overall, the BSI moved higher on a standard deviation of 1.3 in December 2024, from 1.1 in 2023, signaling that liquidity levels within the sector remained at healthy levels, as the share of liquid assets to total assets expanded.



2.7.2. Aggregate Financial Stability Index

The Aggregate Financial Stability Index (AFSI) produces a single measure of financial stability from microeconomic, macroeconomic and international factors. It combines sub-components, such as the financial development index, the financial soundness index, the financial vulnerability index and the world economic climate index. A higher AFSI value suggests increased financial sector stability, while a lower value suggest a decrease in stability.

An analysis of the AFSI indicated that the overall index normalised, at 105.5 in 2024, relative to 108.3 in 2023, with softening reflecting the increased global economic uncertainties. An analysis of the components showed that the world economic climate sub-index declined to 105.8 from 116.9 in the year prior, as growth in the global economy slowed. Further, the financial development index also narrowed to 101.4 in 2024 from 102.1 in 2023, as the stock of market capitalization to GDP decreased in the review year. Conversely, the financial soundness index rose to 116.1 from 115.6 in the preceding year, underpinned by a decline in non-performing loans, while the liquid assets to total assets ratio was relatively stable. Meanwhile, the financial vulnerability sub-index was relatively unchanged at 98.6 in 2024 vis-à-vis 2023, underpinned by an improvement in the total fiscal balance to GDP ratio and moderation in inflation.



2.7.3. Stress Testing

The primary tool used to assess the resilience of the banking system is stress testing, including capital adequacy or credit loss absorbing capacity. Credit risk assessments consider varying levels of non-performing loans (NPLs), which could be triggered by economic or financial shocks. In addition, interest rate shocks consider loss absorbing capacity from market rate shifts, while liquidity shocks examine failure risks from potential surges in deposit withdrawals.

Given the relatively high capital and liquidity positions of banks, stress test results also continue to reflect a resilient system. There are no immediate financial stability concerns, owing to the commercial banks' high capital buffers and satisfactory provisioning levels.

Credit Risk Stress Tests

The credit risk stress test uses extreme, but plausible, stress scenarios to assess whether the domestic systemically important banks (DSIBs) have satisfactory capital or total loss-absorbing capacity to withstand various levels of shocks to NPLs, which may be precipitated by a probable economic or financial crisis. With shocks to NPLs varied at 100%, 150% and 200%, the consolidated results, produced simulated reductions in banks' capital levels of up to 7.9%; but consistently yielded no capital injection requirement. At all levels of shocks, capital stayed well above the established regulartory target ratio of 17.0%. More specifically, the banking sector's average capital-to-risk-weighted assets ratio fluctuated between 29.4% and 38.5%.

Interest and Liquidity Shocks

Stress test results revealed that commercial banks are less vulnerable to interest rate risks, as exposure to assets with price sensitivity to interest changes is low. Specifically, interest rate shocks did not yield any intolerable impact on capital and simulations further indicated that the risk of near-term depletion of liquidity was negligible, underpinned by the existing high levels of suplus liquidity across the banking system.

CHAPTER 3: CREDIT UNIONS

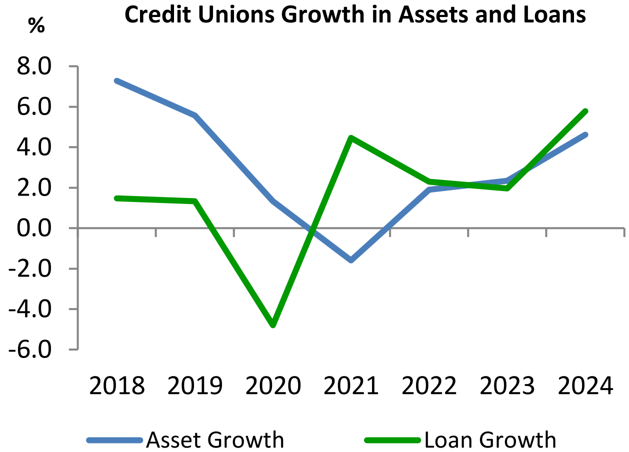
Following commercial banks, credit unions remained the second largest group of deposit taking and loan granting institutions. As such, the sector is under the supervision of the Central Bank, with a risk-based approach also used to regulate these entities. In 2024, the sector functioned with capital buffers below that of banks, with exposures mainly concentrated in the tourism industry. Nonetheless, the average liquidity ratio remained well above the minimum statutory thresholds. The sector continued to receive protection from enrolment in the deposit insurance scheme, and remained under improved prudential oversight. During the year, the total number of credit union was unchanged 8.

3.1. Assets and Liabilities

Total assets within credit unions expanded by 4.6% ($22.9 million) to $517.8 million in 2024, exceeding the 2.3% growth in 2023. Contributing to this development, deposits held with the league rose by 4.3% ($4.6 million) to $111.1 million, extending the 3.4% accumulation in the prior year. Likewise, loans to members, which represented a dominant 50.3% of total assets, grew by 5.9% ($14.2 million) to $260.4 million, higher than the 2.0% increase in the previous year. A breakdown by loan portfolio revealed that consumer loans remained the main form of credit, at 55.9% of total loans, followed by mortgages, at 43.8%, and lines of credit (0.3%) accounting for the remainder.

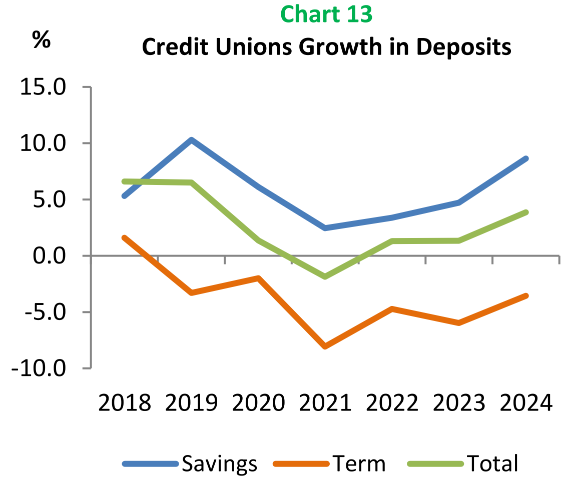
Total deposits within credit unions grew by 3.9% ($16.2 million) to $436.2 million, exceeding the 1.3% rise in 2023. Specifically, savings deposits—which accounted for 67.6% of the total—advanced by 8.7% ($23.5 million) to $294.7 million, surpassing the 4.7% accumulation in the prior year. In contrast, term deposits—at 24.9% of the total—fell by 3.6% ($4.0 million) to $108.7 million, although lower than the 6.0% reduction in the previous year.

Chart 12
Credit Unions Growth in Assets and Loans



Source: Central Bank of The Bahamas

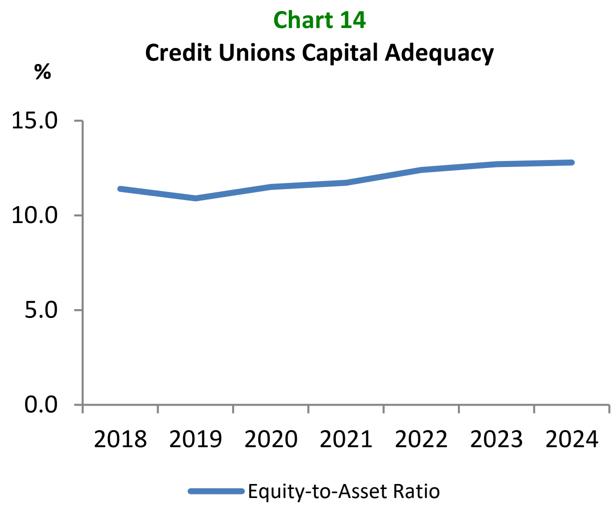
Chart 13
Credit Unions Growth in Deposits



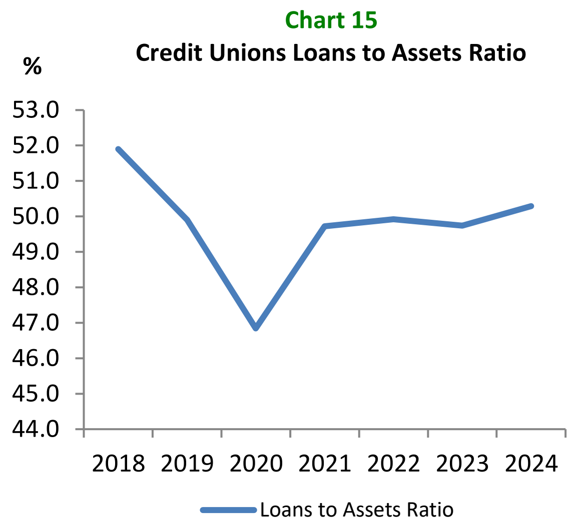
Source: Central Bank of The Bahamas

3.2. Capital Adequacy

In 2024, credit unions' capital ratio stayed above the 10.0% international PEARLS benchmark, at 12.8%. The aggregate capital & surplus resources—held to cover unexpected losses—increased by 7.7% ($1.5 million) to $20.4 million, a turnaround from a 2.8% contraction a year earlier. In like manner, the relevant ratio of total equity to total assets (the gearing ratio) firmed to 12.8% from 12.7% in 2023.



Source: Central Bank of The Bahamas



Source: Central Bank of The Bahamas

3.3. Asset Quality

Credit unions' total impaired loans reduced by 13.6% ($4.1 million) to approximately $26.0 million in 2024, extending the 10.3% decline in the prior year. Correspondingly, the ratio of delinquencies to total loans narrowed to 10.2% from 12.2% in the preceding year. An analysis by the average age of delinquency showed that non-performing loans (NPLs)—which accounted for 75.8% of total delinquencies—fell by 13.9% ($3.2 million) to $19.7 million during the review period. Similarly, short-term delinquencies (31-90 days) decreased by 12.6% ($0.9 million) to $6.3 million, a reversal from a 32.5% expansion a year earlier.

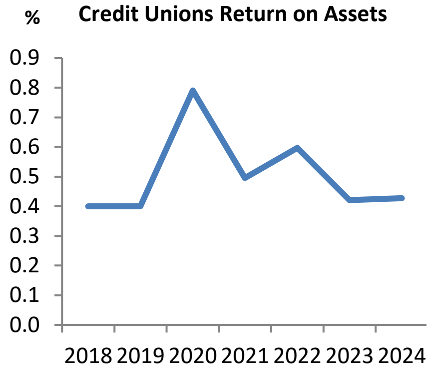
Given the reduction in NPLs, the collateral value of impaired facilities contracted by 3.1% ($0.5 million) to $15.6 million in 2024. Further, the value of uncollateralized exposures declined by $3.6 million (25.8%) to $10.3 million. In contrast, credit unions' total provisions for loan losses rose by $1.4 million (95.2%) to $2.8 million, vis-à-vis a 2.9% reduction in the previous year. Consequently, the ratio of provisions to total gross loans narrowed to 2.1% from 3.5% in 2023, while the coverage ratio for short-term arrears was unchanged at 35.0% and for NPLs, at 100%.

The value of non-earning assets—inclusive of land, buildings, vehicles, furniture and cash—increased by 9.3% ($3.7 million) to $43.4 million, a switch from a 7.6% decrease in 2023. As a result, the relevant ratio of non-earning assets to total assets rose by 40 basis points to 8.4%, a switch from a 0.9 percentage point falloff in the preceding year.

3.4. Profitability

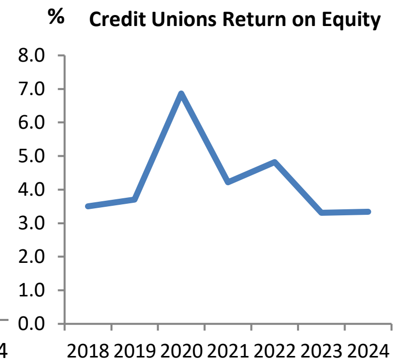
During the review year, credit unions' overall profits edged up by $0.1 million (6.3%) to $2.2 million, relative to the previous year. As a result, ROA and ROE stabilized at 0.4% and 3.3%, respectively.

Chart 16
Credit Unions Return on Assets



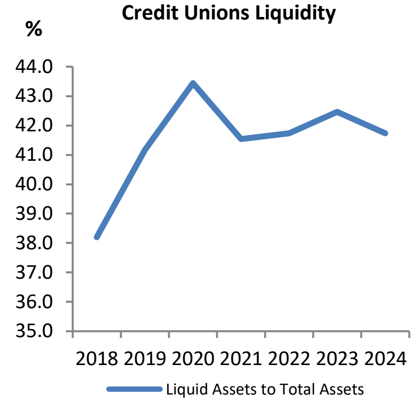
Source: Central Bank of The Bahamas

Chart 17
Credit Unions Return on Equity



Source: Central Bank of The Bahamas

Chart 18
Credit Unions Liquidity



Source: Central Bank of The Bahamas

3.5. Liquidity

Credit unions' liquidity remained healthy in 2024, underpinned by an increase in liquid investments (15.0%) and cash balances (16.8%), which offset the reduction in financial investments (18.3%). The ratio of liquid assets to total assets moved slightly lower by 70 basis points to 41.7%, relative to the prior year. Similarly, the alternative indicator—the ratio of liquid assets net of short-term payables to total deposits—decreased by 0.4 percentage points to 49.4% at end-2024. Nevertheless, both ratios significantly exceeded the minimum prudential standard of 15.0%.

TABLE 5

Selected Financials for Credit Unions (B$M)

	2018	2019	2020	2021	2022	2023	2024
Total Assets	450.9	476.0	482.3	474.6	483.6	495.0	517.8
Total Gross Loans	234.2	237.3	225.9	236.0	241.4	246.2	260.4
Total Deposits	386.2	411.3	416.9	409.1	414.4	419.9	436.2
Liquid Assets	172.3	195.9	209.5	197.1	201.8	210.2	216.1
Savings	208.9	230.4	244.5	250.5	259.0	271.2	294.7
Term Deposits	144.3	139.6	136.8	125.8	119.9	112.7	108.7
Total Members' Equity	51.3	52.1	55.6	55.6	60.0	62.9	66.2
Non-Earning Assets	37.1	50.2	39.9	36.8	43.0	39.7	43.4
Allowance (Provisions)	7.5	8.0	7.2	8.2	9.0	8.7	5.4
Short-Term (ST) Payables	0.7	1.0	1.1	1.2	0.9	1.1	0.6
Capital & Surplus	19.7	16.4	16.0	14.3	19.5	19.0	20.4
Provision Expense	3.5	3.4	3.7	2.6	1.5	1.5	2.8
Net Income	1.8	1.9	3.8	2.3	2.9	2.1	2.2
Institutional Capital	9.4	7.8	7.2	5.2	9.9	8.3	9.0
# of Credit Unions	10	10	10	10	8	8	8
Financial Ratios (%)							
Equity-to-Asset Ratio	11.4	10.9	11.5	11.7	12.4	12.7	12.8
Return on Assets	0.4	0.4	0.8	0.5	0.6	0.4	0.4
Return on Equity	3.5	3.7	6.9	4.2	4.8	3.3	3.3
Provisions to Loans	1.5	1.4	1.6	1.1	0.6	0.6	1.1
Total Gross Loans to Total Assets	51.9	49.9	46.8	49.7	49.9	49.7	50.3
Liquid Assets to Total Assets	38.2	41.2	43.4	41.5	41.7	42.5	41.7
Non-Earning Assets/Total Assets	8.2	10.5	8.3	7.8	8.9	8.0	8.4
(Liquid Assets-ST Payables)/Total Deposits	44.4	47.4	50.0	47.9	48.5	49.8	49.4

Source: Department of Cooperative Development & Central Bank of The Bahamas

CHAPTER 4: THE INSURANCE SECTOR

Domestic insurance industry remained pivotal in ensuring a sound financial services sector, particularly in light of ongoing climate risk exposures, underwriting the potential loss exposures on deposit taking institutions' credit portfolios. During 2024, the domestic insurance sector sustained its conservative balance sheet stance, with its preference to long-term stable investments, such as Government bonds. Against this backdrop, the sector retained its reputation of stability.

Information from the Insurance Commission of The Bahamas (ICB) showed that in 2024, the number of domestic insurers remained at 30, consisting of 11 life and health insurers, offering whole life, term life, as well as universal life, and 19 non-life insurers, providing, inter alia, coverage for automobiles, fire, liability and property. The sector continued to be dominated by a few large firms—five life insurers and six non-life insurers—which represented a combined market share of approximately 63.2% of total gross premiums written, and the majority of insurance coverage, as at end-December 2024.

The external insurance sector, which is registered under the External Insurance Act, primarily offers self-insurance coverage for non-resident entities. In 2024, the sector consisted of 53 entities, 22 of which were insurance companies and one was a captive cell. These insurers' main impact on the domestic economy continued to be through employment and the fees charged by local service providers. The financial stability analysis focuses only on the domestic operations, given that external operations do not impact the local financial sector.

In 2024, based on key indicators[2], the domestic insurance sector showed an improved growth trend. In particular, the life insurance component—the dominant segment—recorded a profit of $74.6 million, surpassing the $43.8 million posted in 2023. Similarly, the non-life sector registered an increase in operating profit, to $17.9 million from $7.4 million last year. Moreover, the penetration ratio (revenue from contracts to GDP) edged up by 10 basis points to 3.0% in 2024, vis-à-vis 2023. As a result, the sector remained financially sound, evidenced by the adequacy of its financial stability ratios.

4.1 Life Insurance

The life insurers held 70.9% of total assets, representing the dominant segment of the market. According to preliminary data, life insurers' total assets grew by 7.8% ($99.7 million) to $1.4 billion in 2024, explained by a 28.5% ($21.8 million) increase in the cash & deposits segment—the most liquid asset category—to $98.4 million. Further, other assets rose by 19.9% ($21.1 million) to $127.6 million, while receivables grew by 16.0% ($0.6 million) to $4.7 million. During 2024, re-insurance recoveries were also higher by 11.5% ($4.7 million) at $45.6 million and the dominant investments category—comprising 71.0% of total assets—strengthened by 5.3% ($48.9 million) to $978.1 million. Moreover, fixed assets and intangibles grew by 2.8% and 1.6%, respectively.

[2] Key indicators are computed using the IFRS 17 accounting standards.

Table 6 Life Insurance: Financial Soundness Indicators (%)			
	2022	**2023**	**2024**
Capital Adequacy			
Capital/Total Assets	31.2%	32.1%	34.1%
Capital/Contractual Service Margin (CSM)	54.3%	53.9%	58.6%
Insurance Service Result/Capital	6.9%	7.8%	12.5%
Asset Quality			
(Real Estate + unquoted equities + receivables)/Total Assets	5.7%	5.7%	5.4%
Real Estates/Total Assets	4.9%	5.2%	5.0%
Earnings & Profitability			
Expense Ratio (expense+general operating expenses/insurance	97.4%	98.4%	91.4%
Investment Yield (net investment income/average investment assets)	3.5%	3.4%	3.4%
Return on Equity (ROE)	6.5%	10.6%	15.8%
Return on Assets (ROA)	2.0%	3.4%	5.4%

** Compiled using the IFRS 17 standards*

With regard to funding, life insurers' total liabilities rose by 4.6% ($40.3 million) to $914.1 million, explained by a $39.7 million (5.2%) growth in insurance contract liabilities—which finances policyholders' claims and future benefits. Further, "other liabilities" increased by $0.9 million (1.1%) to $80.0 million. As it pertains to equity, aggregate levels expanded by $59.4 million (14.4%) to $473.1 million, owing to gains in retained earnings (18.4%), which exceeded the rise in other 'miscellaneous' reserves (1.4%). Further, share capital stabilized at $13.9 million.

In terms of earnings, domestic insurers' net income improved by $30.9 million (70.6%) to $74.6 million, when compared to the prior year. Underpinning this outcome, revenue from contracts expanded by $35.7 million (9.5%) to $412.4 million, while other income posted gains of $1.7 million (10.9%) to $16.9 million. In addition, net investment income rose 3.6% ($1.3 million) to $37.7 million. However, total expenses increased by $26.8 million (84.0%) to $58.9 million in 2024. In light of these developments, the return on equity (ROE) ratio firmed to 15.8% from 10.6%, and the return on assets (ROA) to 5.4% from 3.4% a year earlier. Further, the expense ratio eased to 91.4% from 98.4% in 2023. Meanwhile, the investment yield ratio outturn remained negligible vis-à-vis the preceding year.

During 2024, key financial soundness indicators for the life insurance industry showed some moderation, although remaining above international benchmarks. Specifically, the real estate-to-total assets ratio declined to 5.0% from 5.2% in the previous year. Meanwhile, as a measure of liquidity, the real estate plus unquoted equities and receivables to total assets ratio moderated to 5.4% from 5.7% last year.

Concerning capital ratios, the insurance service results-to-capital ratio rose to 12.5% from 7.8% in 2023, while the capital to total assets ratio improved to 34.2% from 32.1%. Further, the capital-to-contractual service margin ratio moved higher to 58.6% from 53.9% in 2023 (see Table 6).

4.2. Non-Life Insurance

Similar to the life insurance component, non-life insurance assets grew by 9.9% ($51.3 million) to $569.6 million in 2024, as reinsurance recoveries—which includes hurricane claims settlements—rose by $34.1 million (24.6%) to $172.6 million, vis-à-vis 2023. In addition, cash and deposits expanded by $10.2 million

(6.9%) to $158.5 million and investments grew by $19.1 million (18.6%) to $121.3 million. In an offset, other miscellaneous assets and fixed assets contracted by $7.4 million (15.2%) to $41.6 million and by $4.0 million (13.9%) to $24.6 million, respectively. In addition, intangibles reduced by $0.7 million (21.7%) to $2.7 million and receivables by $0.1 million (5.4%) to $1.2 million.

In 2024, the sector's total liabilities advanced by $42.3 million (16.0%) to $306.4 million, on account of a rise in insurance contract liabilities, by $33.3 million (14.1%) to $268.8 million, and "other" liabilities, by $12.4 million (66.5%) to $30.9 million, which outweighed the $3.3 million (33.0%) falloff in reinsurance contract liabilities.

In this environment, balance sheet equity rose by $9.0 million (3.5%) to $263.2 million, owing to a rise in retained earnings, by $0.5 million (0.5%), other comprehensive income, by $14.4 million (20.7%) and shared capital, by $0.8 million (1.4%). Providing some offset, other "miscellaneous" reserves reduced by $6.7 million (41.4%).

In terms of earnings, non-life insurance companies posted estimated net profits of $17.9 million in 2024, exceeding the $7.4 million gain last year. Contributing to this outturn, income from contracts advanced to $563.0 million from $495.2 million in 2023. Meanwhile, total insurance service expenses contracted by $31.4 million (16.1%) to $163.2 million in the review year. However, net expenses from reinsurance contracts and general & operating expenses increased by $88.1 million (31.2%) and $0.8 million (3.7%), respectively.

Table 7
Non-Life Insurance: Financial Soundness Indicators (%)

	2022	2023	2024
Asset Quality			
(Real Estate + unquoted equities + receivables)/Total Assets	8.2%	6.5%	7.6%
Reinsurance and Technical Reserves			
Risk Retention Ratio (insurance service results /revenue from	5.1%	3.7%	5.2%
Insurance Contract Liabilities/Net Claims	448.9%	251.8%	437.2%
Contract Service Margin (CSM)/Insurance Service Results	9.6%	9.8%	
Earnings & Profitability			
Expense Ratio (expense/insurance service results	36.4%	43.5%	32.9%
Loss Ratio (net claims/insurance service results)	15.6%	15.1%	14.4%
Investment Yield (investment income/investment assets)	3.5%	3.0%	2.7%
Investment income/insurance service results	40.1%	42.7%	25.4%
Return on Equity (ROE)	6.7%	2.9%	6.8%
Return on Assets (ROA)	3.3%	1.4%	3.1%

** Compiled using the IFRS 17 standards*

Financial soundness indicators continued to improve for the non-life insurance sector in the review year. A breakdown by asset components revealed that the expense ratio decreased to 32.9% from 43.5% in 2023 and the loss ratio—which measures whether net claims paid-out exceeded insurance services—fell to 14.4% from 15.1% in the previous year (see Table 7). Meanwhile, the risk retention ratio rose to 5.2% from 3.7%, while the investment yield ratio narrowed to 2.7% from 3.0%. Against this backdrop, the ROE ratio increased to 6.8%, from 2.9% in 2023. Likewise, the ROA ratio moved higher to 3.1% from 1.4% the year prior.

CHAPTER 5: SECURITIES AND NON-BANK MONEY LENDERS

The Central Bank sustained its efforts to increase the data coverage of the securities industry and non-bank money lenders. However, no material risk to financial stability is anticipated from the activities of these sectors. More specifically, in the domestic securities markets, market capitalisation as a share of GDP is 74.7%, and primarily debt and equity instruments are traded in a very illiquid or low-turnover environment. Meanwhile, from a contagion perspective, the markets have limited connectivity to the banking sector, with involvement mainly in low-volume shifts in liquidity during periods of initial public offerings of securities. In terms of the non-bank moneylenders, they are a growing sector, expected to be notably smaller in size than the consolidated balance sheet of credit unions. Moreover, with the credit bureau reporting regime, more enhanced market-imposed discipline and overall monitoring of domestic credit risk are now available to those regulated entities who are enrolled.

In 2024, the Securities Commission of the Bahamas (SCB) also passed the DARE Act, 2024, which introduces new reforms geared towards addressing new developments in the digital assets and cryptocurrency markets. In addition, The DARE Act, 2024, includes a broad range of digital asset activities, enhanced requirements for the exchange of digital assets, a more robust custody framework, and a comprehensive stablecoin framework. The Act also introduces for the first time a disclosure regime for risking digital assets that belong to clients. These measures were all in an effort to support stability of the sector.

CHAPTER 6: ASSESSMENT OF RISKS

During the review year, financial stability risks remained within manageable limits for The Bahamas, with no immediate or heightened medium-term concerns to the stability of the system. Notably, the Central Bank's stress testing results, continued to underscore the resiliency of the domestic banking sector to detrimental macro-financial shocks, specifically related to credit and liquidity risks. The credit risk stress test used extreme, but plausible, scenarios to assess whether the domestic systemically important banks (DSIBs) have sufficient capital or total loss-absorbing capacity to withstand various levels of shocks to NPLs, which may be precipitated by an economic or financial crisis. The consolidated results produced simulated declines in banks' capital levels, nonetheless, consistently yielded no capital injection requirement. At all levels of shocks, capital remained well above the established regulatory targets. Similarly, shocks to interest rates did not yield any intolerable impact on capital, and simulations indicated that the risk of near-term depletion of liquidity was negligible, given the existing high levels of surplus liquidity across the banking system.

To ensure that the lending environment continued its healthy and sustainable recovery, The Bank consistently monitors credit risk management trends in the domestic banking sector, as an input to capital adequacy assessments. As a result of these efforts, the sector's credit quality measures improved further, with a decline in the non-performing loan (NPL) rate to 5.5% during 2024 from an estimated 6.6% at end-2023.

The Bahamas' ability to effectively satisfy its international obligations on tax transparency and the integrity financial transactions also impacts the viability of financial firms and stability prospects. Key among these is preserving essential correspondent banking relationships and access to reinsurance markets. In this regard, Central Bank continued to strengthen its oversight of Supervised Financial Institutions (SFIs) risk management, related to countering money laundering (AML), terrorist financing (CTF) and proliferation financing (CPF). The Bank also held periodic meetings with directors, senior officials, money-laundering reporting officers and compliance officers, which reaffirmed the Bank's understanding of the sector and institution-specific risk profiles. Further, the Bank commissioned an independent assessment of the effectiveness and efficiency of sanctions screening solutions used by SFIs. An effectiveness rating of 87.7% was achieved for client screening (against the global benchmark of 96.4%) and 89.9% for transactions screening (versus global benchmark of 96.0%).

The Central Bank also progressed several recovery initiatives aimed at strengthening its resolution approach, in line with recommendations from the International Monetary Fund (IMF). These included the establishment of a dedicated Crises Management and Resolution Unit within the supervisory operations. In addition, the Bank finalized the memorandum of understanding (MoU) to establish the Bahamas Financial Stability Council (BFSC). The BFSC convenes the heads of Central Bank, Ministry of Finance (Financial Secretary), Insurance Commission, Securities Commission, and an independent representative of the Deposit Insurance Corporation. It is intended to provide a more coordinated, national approach to financial stability oversight and crisis response. Further, progress continued with the implementation of the Basel I and III prudential standards, with the Dividend Regulations, Liquidity Risk Regulations and Guidelines, and Large Exposure Regulations and Guidelines, which incorporates Basel III updates and elements from The Bahamas Capital Regulations, 2022.

Moreover, there was steady progress on proposed legislative reforms to crisis management, including a foreshadowed amendment in 2025 to the suite of legislation impacting the operations of the Deposit Insurance Cooperation (DIC), credit unions and domestic banks. In the case of deposit insurance, the provisions would clarify backstop funding arrangements that the Government and the Central Bank would provide in the case of a resolution of DIC member, and further align the liquidation framework for credit unions with that of member banks of the DIC, especially regarding the preferred creditor status of the corporation. Additionally, following industry consultation, the Bank released its revised guidelines for Assessing the Fitness and Propriety for Applicants of Regulated Functions. The revised guidelines, along with the enhancements to the Confidential Statement for Regulated Functions, outline the criteria that the Bank will consider in assessing the applications for individuals seeking to perform regulated functions. In addition, in 2024 the Bank released, for consultation, draft Regulatory Sandbox Guidelines outlining a framework to strengthen the Bank’s supervisory capacity and support financial technology innovations. The proposed framework would allow participants to test innovations under regulated oversight, ensuring consumer protection, financial stability and the ability of the Bank to mitigate any risks that may occur.

These initiatives, along with the collaboration and oversight across domestic financial sector regulators, will serve to further enhance and strengthen the micro and macro-prudential framework in place to ensure the continued stability of the financial sector.

Nevertheless, potential risks to financial stability are linked to three main areas:

(i) Climate Risk

Climate risk poses a growing threat to the Bahamian banking sector, with physical risks representing the most immediate and severe concern. The country’s geographic vulnerability to hurricanes, flooding, and sea-level rise increases the likelihood of infrastructure damage, which can lead to widespread loan defaults by affected households and businesses, resulting in increased non-performing loans. Liquidity buffers may also be eroded as impacted households and corporates withdraw deposits or draw on credit lines to finance recovery efforts and meet urgent cash flow needs. At the same time, transition risks are becoming increasingly relevant as financial regulators, investors, and consumers respond to climate-related concerns. Changes in environmental regulations, shifts in market preferences, and reduced insurance availability can all affect asset values and credit quality, further challenging the sector's resilience.

Together, these risks underscore the need for robust climate risk assessment and strategic adaptation within the Bahamian financial system. In this context, in 2024 a Climate Resilience Survey was undertaken by the Bank, to assess the current status and activities of SFIs, related to climate risk adaptation and resilience. The survey queried SFIs' planning processes, policies, and other related activities, intended to supplement the Central Bank's initiatives to formalize a climate-related financial risk framework. The results of the survey revealed that most of the SFIs are in the planning phase of incorporating climate risk initiatives in their operations.

(ii) Cybersecurity Risk

The importance of cybersecurity resilience is increasingly critical for the Bahamian banking sector, as financial institutions become more reliant on digital infrastructure and online service delivery. The growing use of electronic banking, mobile platforms, and cloud-based systems exposes banks to threats, such as data breaches, ransomware attacks, and system outages. These incidents can undermine customer trust, disrupt operations, and result in significant financial and reputational losses. Strengthening cybersecurity frameworks, enhancing incident response capabilities, and promoting sector-wide coordination are essential to safeguarding financial stability and maintaining public confidence. As such, in 2024, the Bank surveyed SFIs to gauge the overall maturity of technology risk management practices. The results underscored, among other factors, areas for improvement in related governance systems arrangements, and are informing enhancements to the Central Banks' risk-based approach to addressing sector vulnerabilities.

(iii) Exogenous shocks

Given the open nature of the Bahamian economy, external events can also present risks to the financial sector. In particular, given global trade policy uncertainties, with the potential for increased inflations spillover effects, which dampen overall economic activity, could weaken banks' credit quality indicators. This includes moderated tourism sector performance, tighter financing conditions for foreign direct investment activities, and more protracted than expected elevated cost on public sector foreign currency debt.

CHAPTER 7: CONCLUSION

The Bahamas' domestic financial system remained sound, stable and robust in 2024 for both the current assessment and the projected outlook. That said, the Central Bank will continue to concentrate on policies and reforms aimed at mitigating any potential risks to the quality of surveillance, while enhancing the oversight of supervised financial institutions and strengthening the regulatory environment. This included sustained efforts to advance the Basel core principles on banking supervision, increasing the quality of oversight of credit unions, bolstering the performance and resilience of the domestic payments system. While continuing to address risks related to money laundering, terrorism financing, proliferation and other financial crimes, the Bank will also place heightened emphasis on emerging risks from climate change and cybersecurity. In this regard, the enhanced collaboration through the newly established Bahamas Financial Stability Council will further bolster the institutional arrangement for safeguarding the stability of the domestic sector.

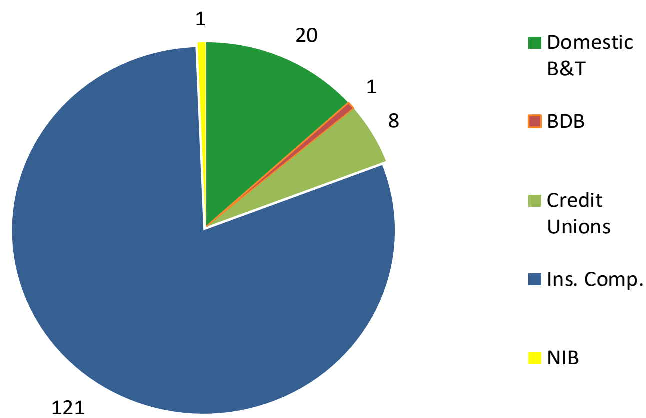
APPENDICES

Appendix 1

Structure of the Bahamian Financial System –Selected Highlights

The Bahamas' financial system comprises operations under three key regulators, whose mandate is to ensure a stable financial system. These are the Central Bank, which supervises the banks & trust companies, credit unions, money transmission businesses (MTBs) and payment services firms; the Securities Commission of The Bahamas, with responsibility for investment funds, non-deposit taking lenders, investment fund administrators and capital markets; and the Insurance Commission of The Bahamas, for insurance companies. Only the domestic side of these supervised operations matter for financial stability, and current systemic operations are mostly confined to banks, credit unions and the payments system infrastructure.

Chart 1
Domestic Banks & Non-banks (Dec-24)



At end-2024, there were 192 banks and trust companies (see Table 1, Appendix), which employed approximately 3,646 persons, with the largest single concentration in the 20 local domestic banks and trust companies[3] (2,952 persons). Other entities within the sector included 5 money transmission businesses (MTBs), 3 payment service providers, 8 local credit unions, 147 insurance companies, 292 financial & corporate service providers[4] and 43 investment fund administrators. Within these operations, 10 of the banks and trust corporations operate either fully or in part within the domestic space, as well as 30 insurance companies. In addition, the Government controlled public sector financial entities include: the Bahamas Development Bank (BDB), the National Insurance Board (NIB) and the Bahamas Mortgage Corporation (BMC). The Bahamas International Securities Exchange (BISX) is also an important component of the domestic financial sector; but with relatively small trading volumes and the absence of complex derivatives or other sophisticated instruments.

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[3] There were 10 commercial banks in this total, representing the majority of the domestic assets.

[4] As at December 2023.

TABLE 1							
Structure of the Financial System							
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Banks & Trusts							
International	211	199	195	193	182	177	172
Domestic	20	22	22	21	20	20	20
Total	**231**	**221**	**217**	**214**	**202**	**197**	**192**
Non-Bank Financial Institutions							
Investment Funds	748	742	712	677	682	659	545
Credit Unions	10	10	10	10	8	8	8
Insurance companies	151	160	159	152	158	157	147
Domestic Companies & Agents	118	127	127	122	128	126	121
External Insurers	33	33	32	30	30	31	26

r - revised

Source: Central Bank of The Bahamas

Banking Sector

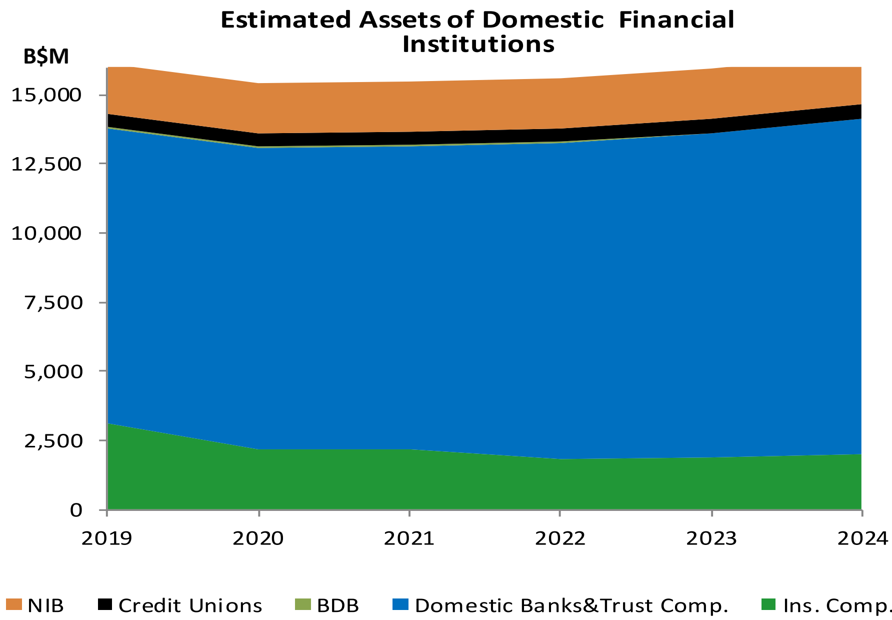
At end-2024, the banking sector's balance sheet was valued at $127.1 billion, of which international exposures dominated, accounting for $108.0 billion (85.0%) of the total. Domestic licensees (10 commercial banks and 10 mostly trust entities) held the remaining $19.1 billion (15.0%) of assets—which grew slightly by 0.1% in 2024—divided between domestic ($12.1 billion) and foreign ($7.0 billion) assets. Deposits served as banks' most significant source of funds, while the majority share of domestic assets (50.2%) comprised of credit to the private sector in the form of commercial, consumer and residential mortgages. In addition, holdings of Government and public sector debt securities accounted for respective shares of 28.7% and 3.0%. The majority of the sector's assets—in excess of two-thirds—were concentrated in the three (3) largest banks.

Fiduciary assets under the care of trust companies declined by 2.5% to an estimated $289.3 billion in 2024 and were almost exclusively held by international financial firms.

State Owned Enterprises

Key state-owned enterprises in the financial system include: the National Insurance Board (NIB or The Board), the Bahamas Mortgage Corporation (BMC) and the Bahamas Development Bank (BDB). NIB is considered systemically important for financial institutions' liquidity management practices. Meanwhile, neither BDB nor BMC attract deposit funding for their lending operations and they do not represent a systemically important source of credit expansion. BDB—which provides financing for small and medium-sized enterprises—registered a 0.5% decrease in its assets base, to $33.6 million as at end-September, 2024.

Chart 2



Credit Unions

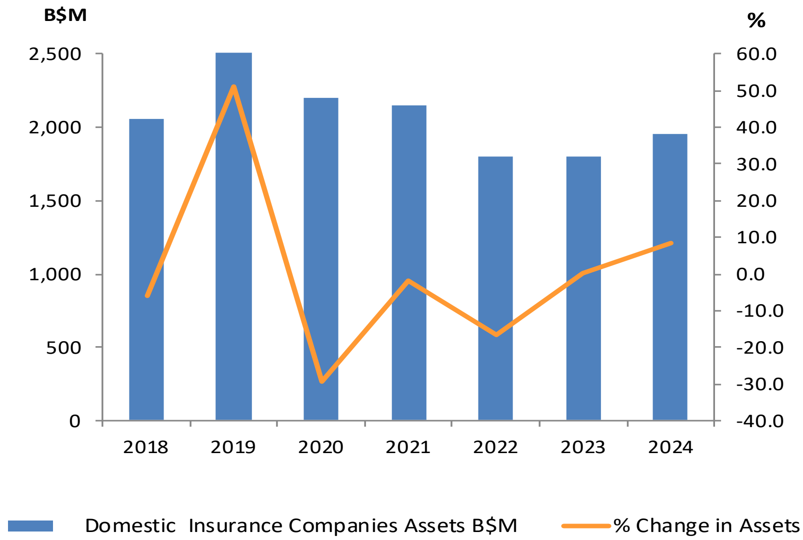
Apart from commercial banks, credit unions are the only other deposit taking and loan granting institutions, with an asset base of $517.8 million as at December, 2024. At end-2024, the total membership of these cooperatives decreased by 1.8% to an estimated 50,603 individuals. In 2024, the number of active credit unions—inclusive of the Co-operative League—held steady at 8. The market continued to be dominated by one institution, which represented approximately 42.1% of the sector's total assets, while smaller entities comprised more modest market shares, ranging from 0.2% to 14.8%.

Insurance Companies

The Insurance Commission of The Bahamas (ICB) reported that operators within the sector consisted of 11 life and health insurers, offering whole life, term life and universal life; and 19 non-life insurers, providing, *inter alia*, insurance for automobiles, fire, liability and property. The sector continued to be dominated by a few large firms—5 life insurers and 6 non-life insurers—which represent a combined market share of approximately 63.2% of total gross premiums written and the majority of insurance coverage as at December, 2024. The external insurance sector, which is registered under the External Insurance Act[5], mainly provides self-insurance coverage for non-resident entities in other countries. In 2024, it comprised 53 entities, of which 22 were insurance companies and one was a captive cell. The total asset base of the sector grew by $151.1 million (8.4%) to $2.0 billion at the end of 2024.

[5] See website: http://www.ibc.gov.bs/home

Chart 3
Domestic Insurance Companies' Assets



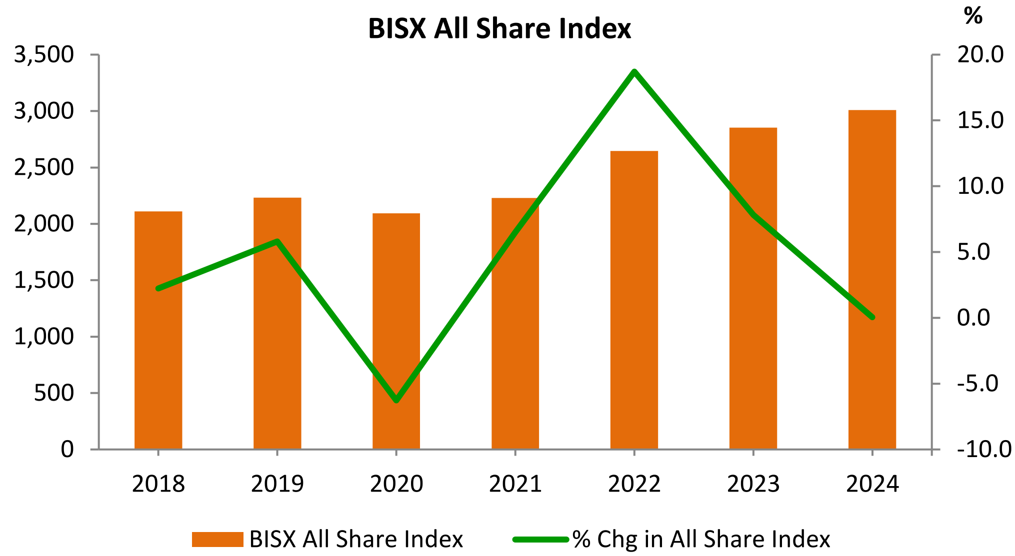
Source: Insurance Commision of The Bahamas

Capital Markets

The domestic capital market forms a small, but vital, part of the financial landscape of the country, primarily representing local public companies, with Governments domestic bonds, on The Bahamas International Securities Exchange (BISX). Currently, there are no financial stability concerns associated with the domestic capital market.

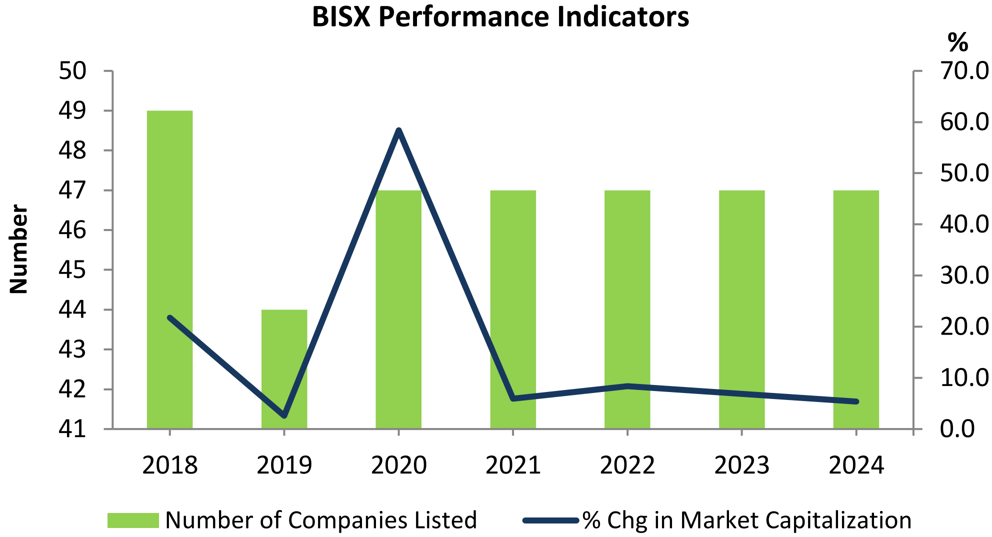
During the review year, performance indicators for the local equity market were positive, reflecting the ongoing strengthening in the domestic economy. The BISX All-Share Price Index grew by 5.5% to 3008.22 points, but was lower than last year's 7.8% increase (see Chart 4). Similarly, the volume of shares traded on BISX more than tripled in 2024, reaching $16.1 million, compared to $4.9 million in 2023. Further, the total value of shares traded accelerated to $119.4 million (53.2%), from $77.9 million in the previous year. The index's market capitalization rose by 5.4% to $11.3 million, following a 6.9% expansion in the prior year, while the number of companies listed remained unchanged at 47 (see Chart 5).

Chart 4
BISX All Share Index



Source: Central Bank of The Bahamas & BISX

Chart 5
BISX Performance Indicators



Source: Central Bank of The Bahamas & BISX

Payments System

With respect to domestic payment settlement infrastructure, the Real Time Gross Settlement System (RTGS), which is owned and operated by the Central Bank, facilitates the settlement of high-value transactions exceeding $150,000. In addition, the Bahamas Automated Clearing House Association (BACH), owned by the clearing banks, is responsible for processing lower-value transactions. In 2024, domestic electronic payment transaction volumes declined, notwithstanding continued enhancements to the ACH and RTGS infrastructures and sustained efforts by financial institutions to promote digital payment adoption among clients. The total value of transactions processed within the RTGS system declined by 21.8% to $30.9

billion vis-à-vis the year prior. Conversely, the value of retail payments processed through the BACH rose by 14.5% to $10.4 billion.

Although cash usage still exists, the shift to more digital forms of payments persisted throughout the year, contributing to a rise in the use of debit cards, credit cards, and automated banking services. With regard to other electronic-based payment instruments, the value of debit card transactions grew by 50.1% to $4.2 billion in 2024. Similarly, during the review year, banks reported a 28.5% expansion in credit card usage to $1.8 billion. Concerning ATM transactions, the volume rose by 6.1% to 10.6 million, and the corresponding value by 15.2% to $3.1 billion, during the year. Technology remains a central driver of activity within The Bahamas' domestic payments landscape. The sustained growth in electronic payments usage observed in 2024, reflects the concerted efforts of commercial banks, payment service providers, and the SandDollar Adoption Unit, to encourage the adoption of digital payment channels. These initiatives have been further supported by a nationwide “Live Fast, Pay Digital” campaign, reinforced by a series of town hall meetings held across the archipelago to enhance financial inclusion and increase public awareness of digital and contactless payment solutions. In parallel, work is ongoing to develop a Fast Payment System (FPS) in The Bahamas, which is expected to enhance the overall efficiency and accessibility of financial services throughout the country.

Appendix 2

The Banking Stability Index

The Banking Stability Index (BSI) is an aggregate indicator of the soundness of the Deposit-Taking Institution sector. It was calculated as a normalized weighted average of key performance indicators, namely capital adequacy, asset quality, profitability and liquidity. Each variable was normalized using statistical standardization, which allows for the different variables to be on the same scale. The normalized range of values are from 0.0 to 1.0. An increase in the index value shows greater stability. The BSI is measured in standard deviations from the 4-year average.

The Aggregate Financial Stability Index

The Aggregate Financial Stability Index (AFSI) was calculated using four indicators (sub-indices): world climate index, financial development index, financial vulnerability index and financial soundness index. The methodology consists of weighted averages used across the sub-indices, along with the normalization of each indicator for comparability among the variables. The AFSI is therefore the summation of the product of the normalized sub-indices and their associated weights.

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