Financial Stability Report December, 2025

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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

Financial stability risks within The Bahamas financial sector remained well contained, during 2025 as well as in the outlook for 2026. Nevertheless, the protracted geopolitical conflicts in Eastern Europe and the Middle East, coupled with ongoing global trade policy uncertainty have dampened the global economic outlook, underscoring slightly elevated risks over the near-term.

The stability within the domestic financial system remains buttressed by strong capital and liquidity buffers among systemically important institutions, improving balance sheet strength, and strengthening coordination mechanisms among key Bahamian financial sector regulators and through the Bahamas Financial Stability Council (BFSC)[1]. In its first full year of proceedings, the BFSC agreed to pursue near-term priorities, which included strengthening the analytical framework for financial stability, particularly around interconnectedness across key sectors, assessment of climate and cybersecurity related risks, and improving data coverage. Against this backdrop, the Central Bank, in collaboration with Council Members, continue to monitor trends in the financial system, with the aim of identifying any emerging risks—both domestic and external—to stability.

In 2025, commercial banks maintained robust capital buffers and satisfactory provisioning levels, which resulted in no new concerns arising regarding stability in the banking sector. The consolidated stress tests results—inclusive of credit, liquidity and interest rate risks—underscored resilience with capital ratios, under simulated shocks staying above the regulatory minimum of 17.0%, given a baseline average capital to risk-weighted assets ratio which fluctuated between 35.0% and 38.5%. However, the Bank Stability Index (BSI) ebbed slightly in 2025, as compared to 2024. Similarly, the Aggregate Financial Stability Index (AFSI) softened, relative to the previous year, reflecting the rise in global economic uncertainties.

As to the level of interconnectedness in the banking system, network analysis, revealed that despite some interconnectedness between domestic banks, the high capital and liquidity ratios mitigate any related systemic risk. In addition, contagion risks remained low, as a result of banks' small exposures relative to capital levels.

The credit union sector continued to perform strongly, with improved credit quality and overall balance sheet indicators. Nevertheless, profitability was marginally reduced, and average liquidity slightly moderated. Nevertheless, capital adequacy levels continued to exceed the international PEARLS benchmark.

Performance indicators in the insurance sector maintained an upward trajectory, with both life and non-life profitability strengthening over the review period. In addition, although the sector's financial stability indicators showed some moderation, key ratios remained well above international standards.

The domestic payments and settlement system is also systemically important to financial stability. In this space, growth in the use of digital financial services continued in 2025, supported by the Central Bank's continued efforts to modernize the domestic payments landscape. Work also continued toward the

[1] The BFSC is comprised of a senior executive from the Central Bank, the Securities Commission, the Insurance Commission, the Ministry of Finance and the Deposit Insurance Corporation.

development of a Fast Payment System (FPS), which would enhance payments efficiency by reducing transactions' settlement time and cost.

In the securities industry, no material risk to financial stability appeared over 2025. With most activities concentrated outside of the domestic space, interconnectedness with the domestic banking and insurance sectors remained low. Asset quality indicators continued to maintain adequacy, despite a marginal decline in assets under administration for investment fund administrators and the regulatory capital surplus for firms under the Securities Industry Act. However, profitability indicators improved for fund administrators in 2024—the latest period for which data is available.

Against this backdrop, the Central Bank will continue its surveillance of financial institutions to ensure financial stability over the medium-term. Given the moderated economic outlook, which has implications for domestic economic activity, the Bank will continue to pursue policies that promote sustained improvements in credit quality, while addressing an orderly medium-term moderation in excess liquidity within the sector. Further, through the BFSC, the Bank will continue to bolster coordinating mechanisms to improve financial stability oversight.

STRUCTURE OF THE REPORT

Chapter 1 presents an overview of the domestic and international economic landscape, which impact financial stability. Following, Chapters 2 to 5 examine stability indicators in the banking, credit union, insurance and securities sectors, respectively. These Chapters focus exclusively on the domestic sector, as a distinct separation is maintained between the balance sheets of the domestic and international sectors due to exchange control regulations. Chapter 6 summarises selected policy and regulatory developments that impact the financial stability oversight framework. In Chapter 7, a summary of the overall assessment of risks and outlook is presented, followed by the conclusion in Chapter 8. Appendix 1 discusses the overall structure of the financial sector, with emphasis on banks, credit unions and the insurance sector. Further, capital market developments are also summarized in the Appendix as an important aspect of the financial system, though they do not pose any systemic concerns for financial stability.

CHAPTER 1: MACROECONOMIC ENVIRONMENT

1.1. The Global Environment

The performance of the Bahamian economy remained largely impacted by global economic developments. In 2025, the International Monetary Fund (IMF) estimated that global economic growth remained steady at 3.4%, following a similar rise in 2024, as economies continued to be affected by geopolitical tensions in Eastern Europe and the Middle East. In addition, trade policy uncertainties and heightened geopolitical unrest are expected to impede growth prospects in the near-term. Against this backdrop, global economic growth is anticipated to slow to 3.1% in 2026.

In the United States, the growth in real GDP moderated to an annualised rate of 2.1% in 2025, relative to 2.8% in 2024, explained by a reduction in government spending and exports, which outstripped gains in consumer spending and investments. (see Table 1). Further, inflation reduced to 2.7%, from 3.0% in 2024. In contrast, the unemployment rate rose to 4.3% from 4.0%. In this environment, the Federal Reserve, through several interventions, decreased its target range for the Federal Funds rate to 3.50%-3.75% from 4.25%-4.50%, balancing cautious unwinding of its stance against prior periods' inflation pressure with efforts to stimulate growth.

With regard to other major economies, growth trends were largely positive during 2025. Specifically, real GDP in Japan advanced to 1.2% in 2025, after contracting by 0.2% in the prior year. Similarly, real output in the euro area grew by 1.4%, following an expansion of 0.9% in the previous year. Further, real GDP growth in the United Kingdom extended to 1.3%, from 1.1% in 2024. Meanwhile, China's real output remained unchanged at 5.0%, year over year.

During the year, several of the major economies' central banks further relaxed their monetary policy stance consistent with balancing the lower inflationary outlook with more fragile growth prospects. Of note, global inflation slowed to 4.1% in 2025, from 5.8% in 2024, although remaining above pre-pandemic levels. In light of this, all of the major central banks decreased their interest rates during the review period and continued to unwind their quantitative easing measures.

1.2. Regional Environment

In 2025, most of the Caribbean economies maintained their positive, albeit moderated, rate of expansion, with growth indicators continuing to revert to trend in the aftermath of the COVID-19 pandemic. Notably, in most economies, inflation and unemployment rates declined, reflective of a slowdown in global inflationary pressures and improvements in labour markets. For tourism-based economies, risks remained elevated, given their exposure to economic headwinds in key source markets. In addition, commodity-based economies were impacted by volatility in international prices. Overall, average real GDP growth for the region moderated to 4.1%, from 8.4% in the prior year (see Table 2). Underlying this development, real GDP growth in Guyana slowed to 19.3% in 2025, from 43.6% in 2024, but continued to be bolstered by growth in the oil and non-oil sectors. Likewise, real economic output for The Bahamas narrowed to 3.8% from 4.2%; for the Eastern Caribbean, to 2.5% from 3.9%; for Belize, to 2.7% from 4.0%; and Suriname, to 2.7% from 3.0% in the prior year. Further, real economic output in Barbados and Trinidad and Tobago slowed to 2.5% and 0.8%, respectively, from 4.0% and 1.4% in the preceding year. Meanwhile, real GDP in Jamaica contracted by 1.5% in 2025, exceeding the 0.8% reduction in 2024, largely reflecting the impact of Hurricane Melissa.

TABLE 1

Selected Indicators for Developed Economies (%)	2019	2020	2021	2022	2023	2024	2025
GDP Growth Rates							
United States	2.6	(2.1)	6.2	2.5	2.9	2.8	2.1
Euro Area	1.6	(6.0)	6.4	3.6	0.4	0.9	1.4
United Kingdom	1.3	(10.0)	8.5	5.1	0.3	1.1	1.3
China	6.1	2.3	8.6	3.1	5.4	5.0	5.0
Japan	(0.3)	(4.3)	3.6	1.3	0.7	(0.2)	1.2
Unemployment Rates							
United States	3.7	8.1	5.4	3.7	3.6	4.0	4.3
Euro Area	7.6	7.9	7.7	6.7	6.5	6.4	6.3
United Kingdom	3.8	4.6	4.6	3.8	4.1	4.3	4.9
China	5.2	5.6	5.1	5.6	5.2	5.1	5.1
Japan	2.4	2.8	2.8	2.6	2.6	2.5	2.5
Inflation Rates							
United States	1.8	1.3	4.7	8.0	4.1	3.0	2.7
Euro Area	1.2	0.3	2.6	8.4	5.4	2.4	2.1
United Kingdom	1.8	0.9	2.6	9.1	7.3	2.5	3.4
China	2.9	2.5	0.9	2.0	0.2	0.2	0.0
Japan	0.5	0.0	(0.2)	2.5	3.3	2.7	3.2

Sources: IMF, International Statistical Bureaus

TABLE 2

Selected Caribbean Countries' GDP Growth Rates (%)

	2019	2020	2021	2022	2023	2024	2025
Bahamas	(0.7)	(23.5)	17.0	14.4	3.0	4.2	3.8
Barbados	(0.1)	(17.6)	1.4	13.8	4.4	4.0	2.5
Belize	0.3	(14.1)	9.8	8.7	4.7	8.2	2.7
Eastern Caribbean	2.8	(14.0)	3.9	8.9	4.8	3.9	2.5
Guyana	4.7	43.4	19.9	62.3	33.0	43.6	19.3
Jamaica	1.0	(10.2)	4.4	5.2	2.2	(0.8)	(1.5)
Suriname	2.3	(13.5)	(3.5)	2.4	2.1	3.0	2.7
Trinidad & Tobago	0.0	(7.8)	(1.0)	1.5	2.1	1.4	0.8
Average	**1.3**	**(7.2)**	**6.5**	**14.6**	**7.0**	**8.4**	**4.1**

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

1.3. The Domestic Environment

The Bahamian economy's positive growth momentum in 2025, supported further reductions in non-performing loans (NPLs) and improvements in commercial banks' balance sheets. In the review year, while still healthy, real GDP growth moderated to an estimated 3.8% from 4.2% in the preceding year, as economic indicators converged closer to their expected medium-term potential. Contributing, tourism remained buoyant, with pricing improvements underscoring the constrained increase in the dominant key stopover earnings component, while healthy headcount gains produced further strengthening in cruise receipts. In particular, total visitor arrivals advanced to 12.5 million in 2025, from 11.2 million in 2024. Underlying this outturn, sea arrivals expanded by 13.8% to 10.8 million. In contrast, air traffic fell by 1.6% to 1.7 million. As it relates to the vacation rental market, positive trends were noted, as total room nights sold grew by 5.1% in the review year, marginally lower than the 5.9% rise in the previous year.

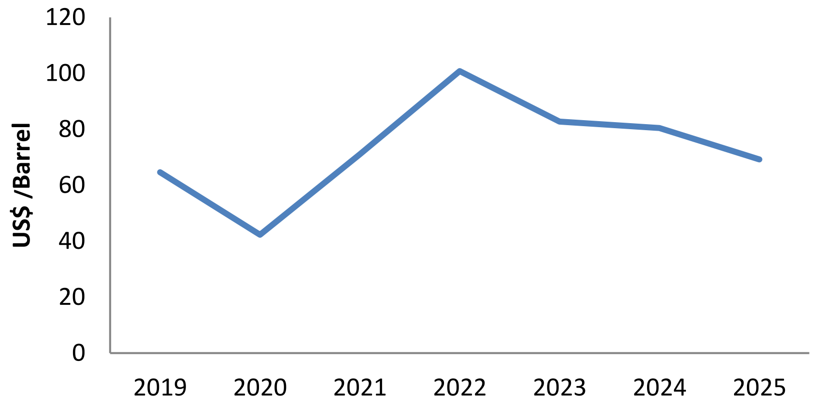
Average domestic consumer price inflation—as measured by changes in the average Retail Price Index for The Bahamas—rose to 1.1% in 2025, from 0.4% in 2024, owing primarily to advancements in several of the index's components. However, global oil prices trended downward.

During FY2024/2025, the government's fiscal deficit reduced to $78.9 million, from $194.0 million in the previous fiscal year. Contributing to this development, total revenue increased by $326.9 million (10.7%) to $3,396.0 million, overshadowing the $211.8 million (6.5%) rise in total expenditure to $3,474.9 million. For the calendar year, the overall budget deficit reduced to $83.2 million, from $194.0 million in the prior year. Underlying this outcome, aggregate revenue expanded by $333.0 million (10.9%) to $3,402.1 million, outpacing the $222.2 million (6.8%) advancement in total expenditure to $3,485.3 million.

In 2025, monetary trends in the domestic environment were marked by a decline in banking sector liquidity, despite the build-up in the deposit base outpacing the expansion in domestic credit. However, external reserves increased during the review period, supported by net foreign currency inflows from real sector activities, and the receipt of proceeds from the government's external borrowings. In addition, domestic banks' credit quality indicators improved during the review period, owing to continued growth in the domestic economy. Further, banks' profitability rose in 2025 in response to higher commission and foreign exchange fee receipts, a rise in interest income, and lower bad debt expenses. Meanwhile, the weighted average interest rate spread widened, as the average lending and deposit rates increased.

At end-2025, external reserves stood at $2.8 billion, equivalent to an estimated 29.4 weeks of total merchandise imports, from 27.6 weeks in 2024. Further, usable reserves or balances after statutory provisions for 50.0% of the Central Bank's demand liabilities, advanced by $141.2 million (11.9%) to $1,325.4 million in 2025. In addition, the Central Bank's balance sheet experienced an increase, as the end-of-year external reserves to demand liabilities ratio advanced to 94.3%, from 90.3% in December 2024.

Chart 1
Oil Prices (Brent Crude Oil Index)



Source: Bloomberg

TABLE 3
The Bahamas: Macroeconomic Indicators

	2019	2020	2021	2022	2023	2024	2025
B$/US$: Exchange Rate	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Nominal GDP Growth Rate (%)	3.8	(22.3)	16.5	15.3	10.6	4.3	7.3
Real GDP Growth Rate (%)	0.1	(21.1)	16.7	13.2	5.1	4.2	3.8
Inflation Rate (Average chg in RPI)	2.5	0.0	2.9	5.6	3.1	0.4	1.1
Unemployment Rate*	9.5	26.2	17.6	10.8	9.9	9.0	8.7
Overall Fiscal Balance (B$M)	(251.7)	(1,365.9)	(881.8)	(718.2)	(515.5)	(303.0)	(58.4)
% of GDP	(1.9)	(13.2)	(7.3)	(5.2)	(3.4)	(1.9)	(0.3)
Private Sector Credit (B$000)	5,891.6	5,766.1	5,680.7	5,661.6	5,859.1	6,250.6	6,562.6
Weighted Average Lending Rate (%)	10.5	10.4	10.0	11.0	11.0	11.2	11.2
Weighted Average Deposit Rate (%)	0.6	0.5	0.5	0.5	0.5	0.5	0.6
Treasury Bill Rate (%)	1.8	1.9	2.9	2.9	2.9	2.9	3.3
Gross Int'l Reserves (B$M)	1,758.1	2,382.2	2,432.8	2,611.0	2,517.4	2,632.9	2,814.4
Import Cover Ratio (Tot. Merch. (CIF) in week	28.3	56.8	36.1	32.7	29.9	27.6	29.4
Current Balance (B$M)	(281.1)	(2,279.5)	(2,434.0)	(1,232.6)	(1,069.1)	(1,299.7)	(1,424.4)
as % of GDP	(2.1)	(22.0)	(20.2)	(8.9)	(6.9)	(8.1)	(8.3)
Total Public Sector Debt (B$M)	9,437.2	10,813.5	11,637.4	12,622.6	13,014.2	13,353.5	14,052.4
of which: External	3,123.1	4,478.0	4,760.8	5,225.0	5,372.7	5,411.0	5,735.9
Internal	6,314.1	6,335.4	6,876.7	7,397.6	7,641.5	7,942.6	8,316.4
Total Arrivals ('000s)	7,249.5	1,794.5	2,100.6	7,000.7	9,654.8	11,217.0	12,499.9
Tourist Expenditure (B$M)	4,125.5	967.3	2,321.7	4,221.8	N/A	N/A	N/A
Construction Number of Permits Issued	1,552.0	1,278.0	1,578.0	1,584.0	1,519.0	1,600.0	N/A
Value of Starts (B$M)	102.9	154.6	313.7	340.2	212.1	332.7	N/A
Value of Completions (B$M)	213.0	200.0	307.3	435.5	391.5	464.6	N/A
Average Oil Prices (Brent Crude Oil Index)	64.7	42.3	71.0	100.8	82.8	80.5	69.2

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

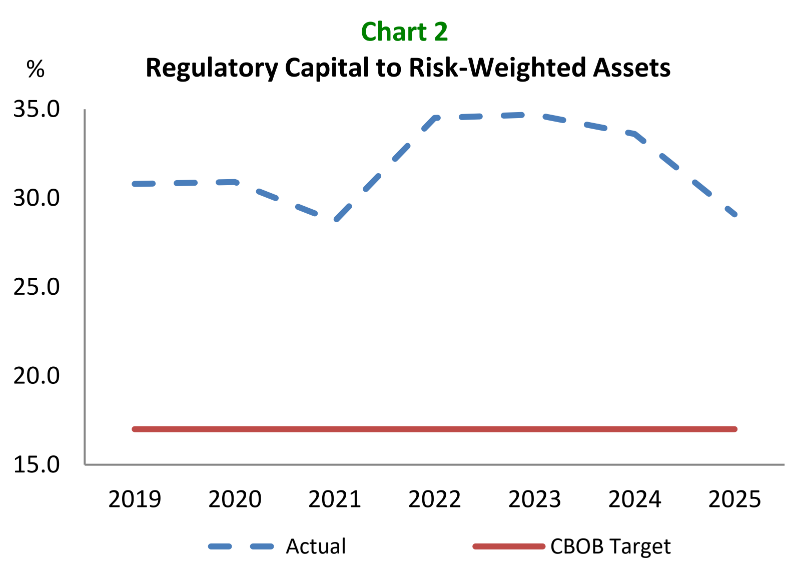
In The Bahamas, owing to exchange control restrictions, banks are limited from undertaking domestic business activities other than through assets funded with domestic liabilities. Consequently, this prevents any direct connection or balance sheet flows from direct international to domestic banking operations. Accordingly, the focus of this chapter is the stability of the domestic banking sector.

2.1 Asset Trends

Total domestic assets of the banking system rose further by 4.6% to $12.7 billion in 2025, after a 3.6% growth in the previous year. As to asset composition, growth in loans and advances slowed to 3.9% from 4.5% in the prior year, whereas the expansion in holdings of securities firmed to 11.0% from 8.2% last year. Further, banks' claims on the Central Bank decreased further by 1.3%, after the year earlier 0.9% falloff. As a share of the total asset portfolio, loans and advances comprised the largest segment at 56.0%, followed by securities (22.7%), and claims on the Central Bank, in the form of cash and balances (15.9%).

2.2 Capital Adequacy

Although domestic banks remained well capitalized during the year, the ratio of average capital to risk weighted assets declined by 4.6 percentage points to 29.1% at end-December 2025, but remained above the Central Bank's required ratio of 17.0% of risk-weighted assets and the international benchmark of 8.0%[2].



Source: Central Bank of The Bahamas

2.3 Asset Quality

Domestic banks' credit quality indicators continued to improve, undergirded by sustained economic growth and ongoing loan write-offs. Total private sector loan arrears fell by $7.7 million (1.6%) to $461.8 million, although a slowdown from the $92.2 million (16.4%) contraction in 2024. The moderation was attributed to the reduction in mortgage arrears, outweighing the increases in commercial and consumer delinquencies. As a result, the ratio of arrears to total private sector loans narrowed by 51 basis points to 7.6%, compared to the 2.2 percentage point falloff in 2024. A breakdown by average age of arrears indicated that the non-performing loan (NPL) segment decreased by $14.7 million (4.6%) to $303.0 million, trailing the $43.8 million

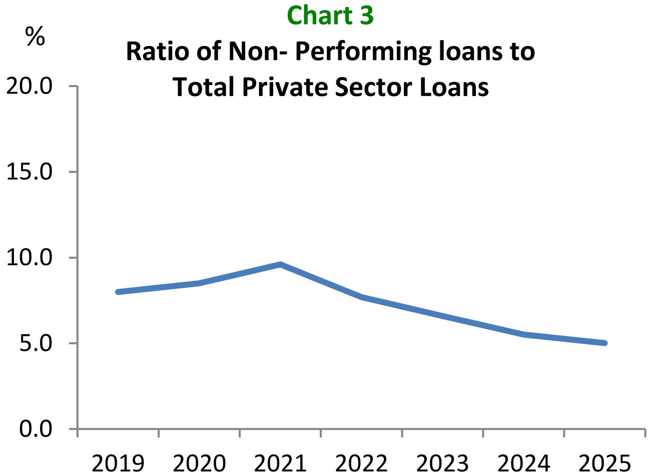
[2] The Central Bank imposes a minimum regulatory required ratio of 17.0%, below which licensees would be required to implement measures to either reduce risk exposures or supplement their capital.

(12.1%) retrenchment in the prior year. Reflecting this outturn, mortgage and consumer NPLs declined by $27.9 million (13.5%) and $0.5 million (0.6%), respectively. However, commercial NPLs grew by $13.8 million (51.7%).

Further, short-term arrears (31–90 days) increased by $6.9 million (4.6%) to $158.8 million, a reversal from a $48.3 million (24.2%) reduction in 2024. Contributing to this outcome, the commercial portion rose by $4.2 million (72.5%) and consumer arrears by $3.1 million (7.2%). In contrast, mortgage arrears edged down by $0.4 million (0.4%). As a result, the ratio of NPLs to total private sector loans declined by 50 basis points to 5.0%, while the ratio for short-term arrears remained unchanged at 2.6%.

Chart 3

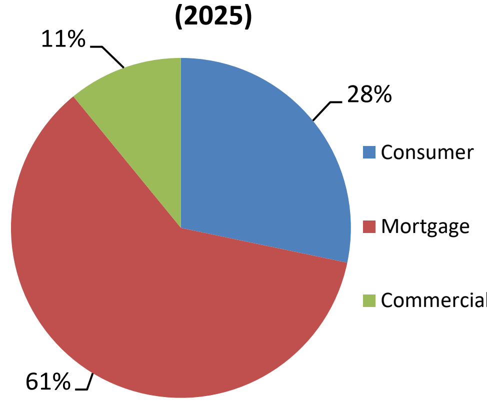
Ratio of Non- Performing loans to Total Private Sector Loans



Source: Central Bank of The Bahamas

Chart 4

Composition of Private Loan Arrears (2025)



Source: Central Bank of The Bahamas

2.4 Profitability

Domestic banks' net income strengthened in 2025, by $49.1 million (9.7%) to $553.6 million, after a $102.2 million (25.4%) expansion in 2024. As a result, the ratio of net income to equity (ROE) rose to 26.4% from 23.0% in 2024, while the ratio of net income to average monthly assets (ROA) firmed to 4.36% from 4.16% in the prior year.

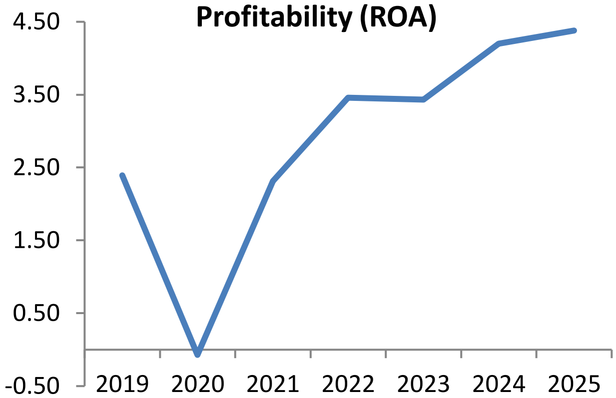
By components, the ratio of net interest income to average assets eased to 4.82% from to 5.02%, while the ratio of commission and foreign exchange income to average assets firmed by 57 basis points to 1.45%. This resulted in a slightly strengthened gross earnings margin, by 4 basis points to 6.40%. Meanwhile, as the operating costs ratio moved higher by 10 basis points to 4.36%, the net earnings margin gained only 30 basis points to 1.90%. Improved credit quality trends enhanced the net income performance to a lesser extent than in 2024, as banks reduced total provisions for bad debt by approximately two-thirds less. This outcome, alongside other, mainly fee-based income growth and steadied depreciation costs, supported a lessened contribution from other net earnings in the ROA of 2.43% as compared to 2.55% the previous year.

2.5 Liquidity

In 2025, banking sector liquidity grew, albeit at a moderate pace, reflective of a rise in commercial banks' lending to the private sector. Banks' holdings of liquid assets as a proportion of total assets, firmed by 0.4 percentage points to 38.2%, relative to a 0.1 percentage point uptick in 2024. However, the ratio of liquid assets to short-term liabilities fell by 1.5 percentage points to 48.2%, a switch from the prior year's 0.4 percentage point gain.

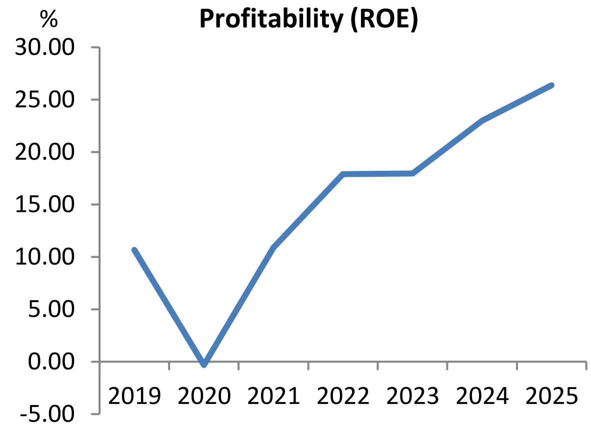
Correlated with liquidity trends, the ratio of deposits to total loans advanced further by 7.0 percentage points to 141.2%. Similarly, the ratio of demand deposits to total deposits grew further by 3.4 percentage points to 54.2% (see Table 4).

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

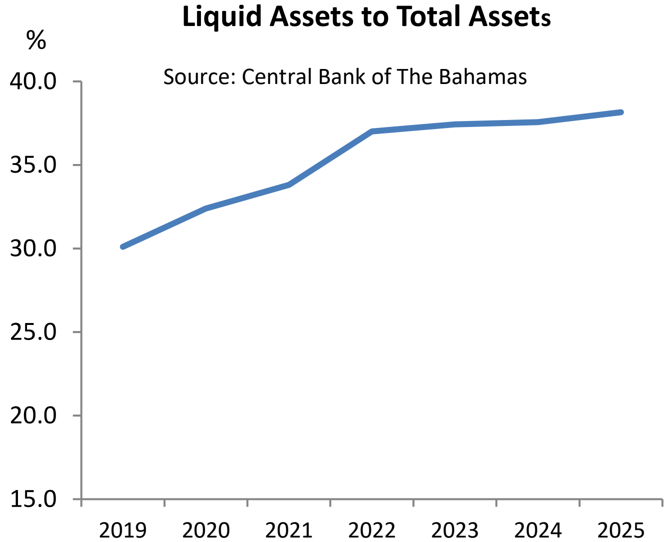


TABLE 4

Key Domestic Banks Financial Stability Indicators (%)	2019	2020	2021	2022	2023	2024	2025
Liquidity Indicators							
Loan to Deposit Ratio	87.5	87.2	81.8	74.8	73.4	74.5	70.8
Deposits to Loan Ratio	114.3	114.7	122.2	133.8	136.2	134.2	141.2
Demand Deposits to Total deposits	45.2	45.1	47.6	50.7	50.2	50.8	54.2
Liquid Assets to Total Assets	30.1	32.4	33.8	37.0	37.4	37.6	38.1
Liquid Assets to Short-Term Liabilities	41.6	45.7	46.7	48.7	49.2	49.7	48.2
Credit Risk Indicators							
NPL to Total Private Sector Loans	8.0	8.5	9.6	7.7	6.6	5.5	5.0
Total Assets Growth rate	7.4	2.0	1.1	4.2	2.2	3.6	4.6
Loans & Advances Growth rate	1.4	(0.3)	(3.2)	(0.1)	0.4	4.5	3.9
Capital Adequacy							
Regulatory capital to risk-weighted assets (avg)	30.8	30.9	28.7	34.5	34.7	33.64	29.08
Trigger Ratio	14.0	14.0	14.0	17.0	17.0	17.0	17.0
Target Ratio	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Profitability Indicators							
ROAA (annualized)	2.4	(0.1)	2.3	3.5	3.4	4.2	4.4
ROAE (annualized)	10.7	(0.3)	10.9	17.9	18.0	23.0	26.4
Net interest income to average earning assets (annualized)	5.0	4.8	4.6	4.5	4.9	5.0	4.8
Net interest income to gross income	67.4	70.1	64.9	60.1	61.0	58.5	53.5
Non interest expenses to gross income	50.5	62.9	52.7	51.3	51.9	52.6	50.6
Personnel expenses to non interest expenses	39.0	32.7	38.1	36.0	32.5	33.2	32.6
Trading and fee income to total income	4.7	5.4	6.3	9.7	8.7	10.3	16.1
Effective Interest Rate Spread	6.8	7.0	6.9	6.9	7.41	7.36	7.12

Source: Central Bank of The Bahamas

2.6 Interlinkages among Commercial Banks

Network analysis, using cross balance sheet exposure data for December 2025 (see Figure 1), identified limited, non-systemic levels of interbank dependencies, with high capital and liquidity ratios offering significant buffers. Such relationships are typically represented as a network, with nodes representing entities or sectors, directional lines showing 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.

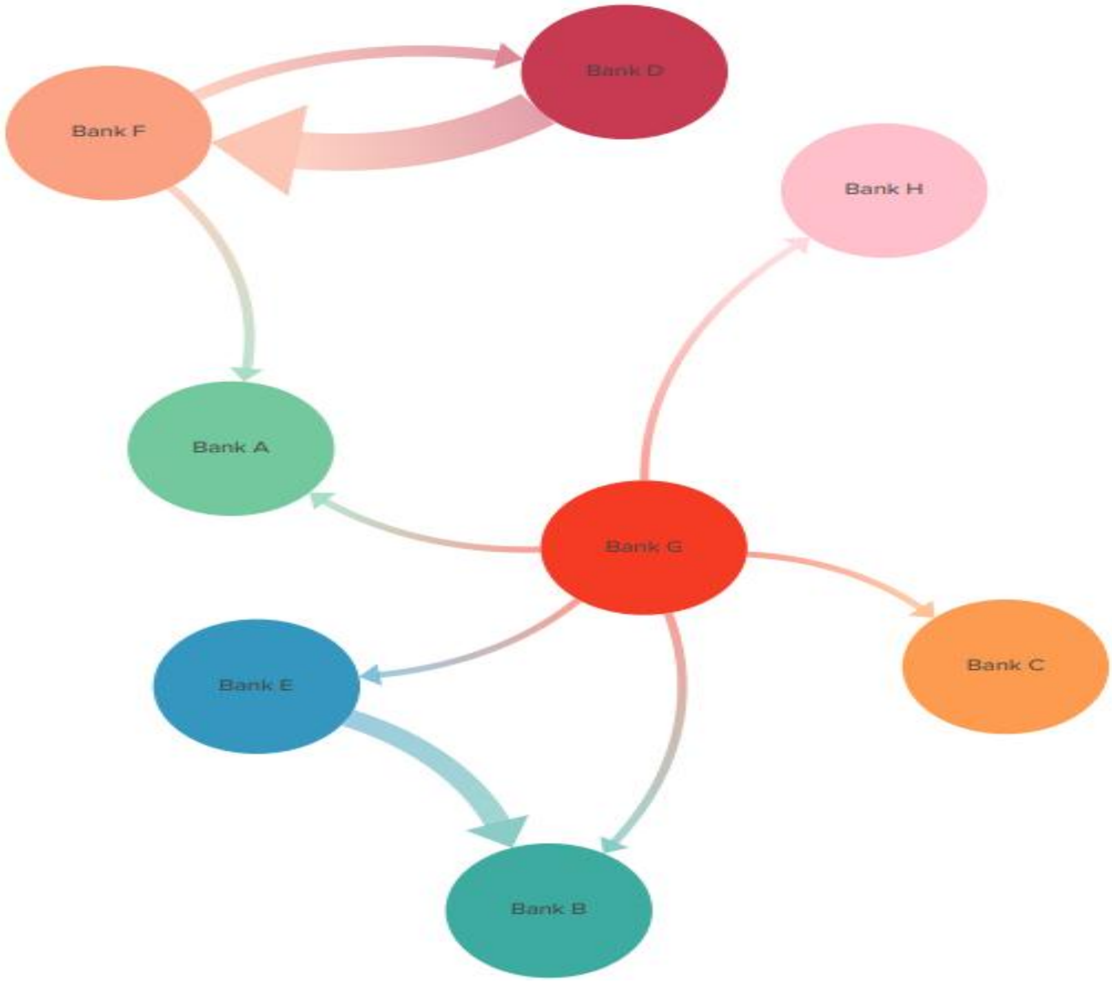


Figure 1.0 Network of gross credit exposures within Commercial Banks at end-December, 2025

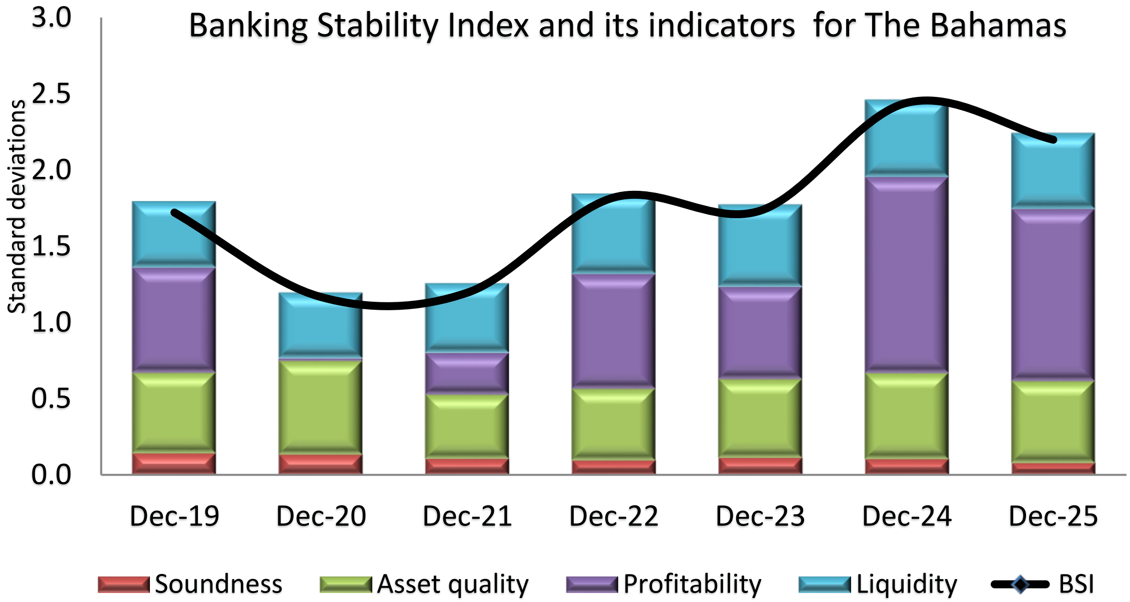
As depicted in Figure 1, the inter-bank funding network displayed interconnections between eight commercial banks, denoted Bank A to Bank H. The exposures mainly comprised demand/call, fixed and borrowings/loans. Notably, Banks A and B are important creditors, with small lender-based roles across multiple institutions. Meanwhile, Bank G had the highest number of credit exposures, positioning as the largest borrower within the network. In addition, a notable reciprocal lending relationship exists between Bank D and Bank F, with the largest interbank loan of $320.0 million. In contrast, the smallest interbank flow, between Bank G and Bank H, was less than $0.5 million.

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), largely 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 2025, the BSI stood at 2.24 compared to 2.46 in 2024, notwithstanding, the risk to the sector staying low. Specifically, the normalized profitability indicator narrowed to 1.13 from 1.28 in the preceding year, as the average return on equity and assets ratios declined. Further, the normalized asset quality indicator edged down to 0.54 from 0.56 in the year prior. In addition, almost unchanged, the liquidity indicator measured 0.50 in 2025 vis-à-vis 0.51 in 2024, with the banking sector liquidity ratio slightly lowered, given a more recovered post-pandemic pace of commercial bank lending to the private sector. Meanwhile, the capital adequacy indicator narrowed to 0.08 from 0.11 and interest rate indicators stabilized at 0.04, as risks remained low. Overall, the BSI stabilized on a standard deviation of 1.3 in December 2025, suggesting that liquidity levels within the sector remained robust, despite moderation as a share of total assets.

Chart 8

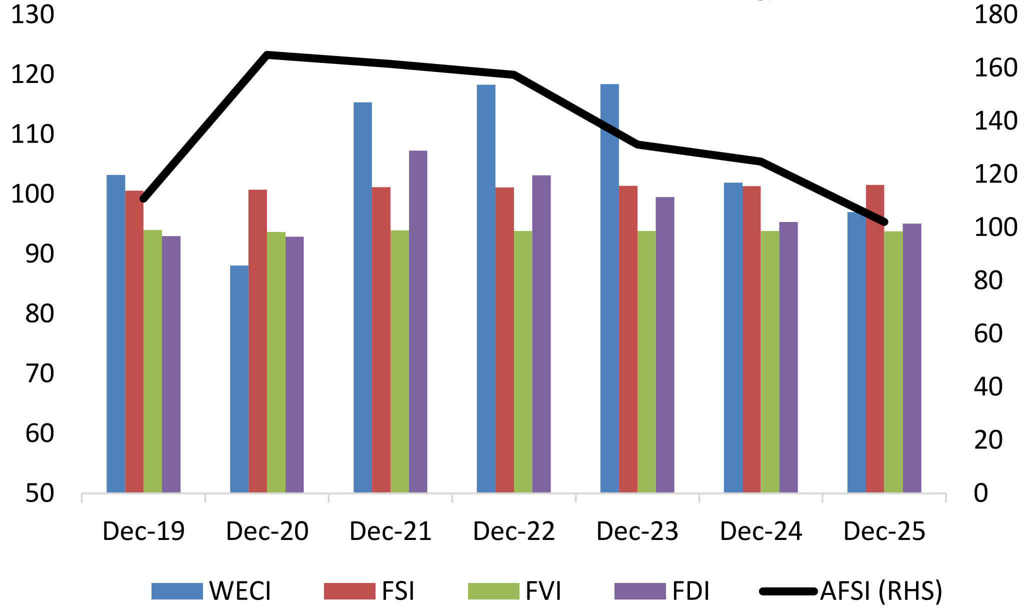


2.7.2. Aggregate Financial Stability Index

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 less elevated threats to the financial sector, while a lower value suggests relatively increased risks.

An analysis of the AFSI revealed that the overall index normalised, at 95.4 in 2025, compared to 105.5 in 2024, attributed to a rise in global economic uncertainties. A breakdown of the components showed that the world economic climate sub-index eased to 67.8 from 105.8 in the previous year, as growth in the global economy moderated. In addition, the financial development index edged down to 99.7 in 2025 from 101.4 in 2023, despite an increase in the stock market capitalization to GDP ratio. The financial vulnerability sub-index also narrowed to 97.7 in 2025 vis-à-vis 98.6% in 2024, reflective of a firming in domestic inflation, which offset gains from the narrowing in the fiscal balance to GDP ratio. Conversely, the financial soundness index rose incementally higher to 116.2 from 116.0 in the preceding year, underpinned by a reduction in non-performing loans, while the liquid assets to total assets ratio was relatively stable.

Chart 12
Aggregate Financial Stability Index for The Bahamas
(Conference Board Methodology)



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 used 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 12.1 and 4.8 percentage points for the segment's capital adeaquacy ratio. Notwithstanding, as residual caiptal consistently remained above the established regulartory target ratio of 17.0% for all shock scenarios, the result did not trigger any required capital injection.

Interest and Liquidity Shocks

Stress test results revealed that commercial banks are even less vulnerable to interest rate risks than to credit risks, as exposure to assets with price sensitivity to interest changes remained 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, attributed to the existing high levels of suplus liquidity across the banking system.

CHAPTER 3: CREDIT UNIONS

Credit unions remained the second largest group of deposit taking and loan granting institutions. In 2025, the sector functioned with capital buffers below that of banks, with exposures mainly concentrated in the tourism industry. Nevertheless, the average liquidity ratio remained well above the minimum statutory thresholds. The sector continued to receive heightened protection from enrolment in the Deposit Insurance Scheme, and remained under improved prudential oversight. During the review period, the total number of credit unions held steady at 8.

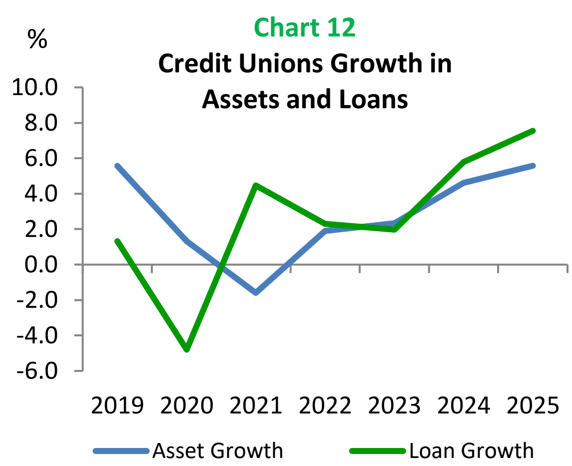
3.1. Assets and Liabilities

Total assets within credit unions grew by 5.6% ($28.9 million) to $546.7 million in 2025, exceeding the 4.6% growth in 2024. In the underlying developments, deposits held with the league rose by 4.2% ($4.7 million) to $115.8 million, following an increase of 4.3% in the prior year. Likewise, loans to members, which represented a dominant 51.2% of total assets, grew by 7.5% ($19.7 million) to $280.1 million, higher than the 5.8% gain in the previous year. A disaggregation by loan portfolio revealed that consumer loans remained the main form of credit, at 55.4% of total loans, followed by mortgages, at 44.1%, while revolving lines of credit (0.1%), other lines of credit (0.1%), and SME development (0.1%) accounted for the remainder.

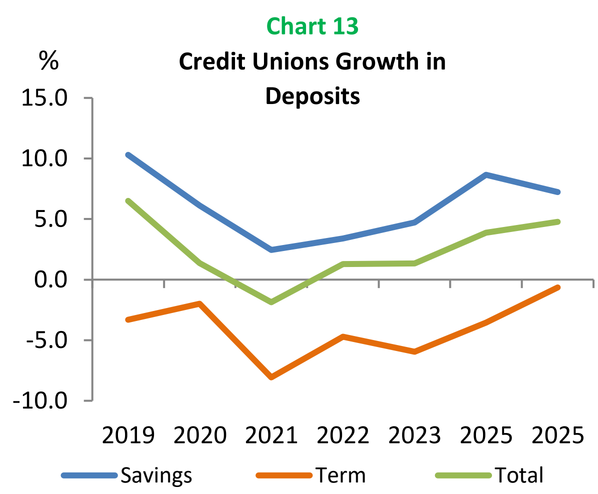
Total deposits within credit unions grew by 4.8% ($20.8 million) to $456.9 million, surpassing the 3.9% buildup in the previous year. Specifically, savings deposits—which accounted for 69.2% of the total—advanced by 7.2% ($21.3 million) to $316.0 million, compared to an 8.7% accumulation in the prior year. In contrast, term deposits—at 23.6% of the total—fell by 0.6% ($0.7 million) to $108.0 million, but were lower than the 3.6% reduction in the previous year.

3.2. Capital Adequacy

During the review year, credit unions' capital remained above the 10.0% international PEARLS benchmark, at 12.9%. The aggregate capital & surplus resources—held to cover unexpected losses—rose by 1.2% ($0.3 million) to $20.7 million, after a 7.7% expansion a year earlier. In like manner, the relevant ratio of total equity to total assets (the gearing ratio) firmed to 12.9% in 2025 from 12.8% in 2024.



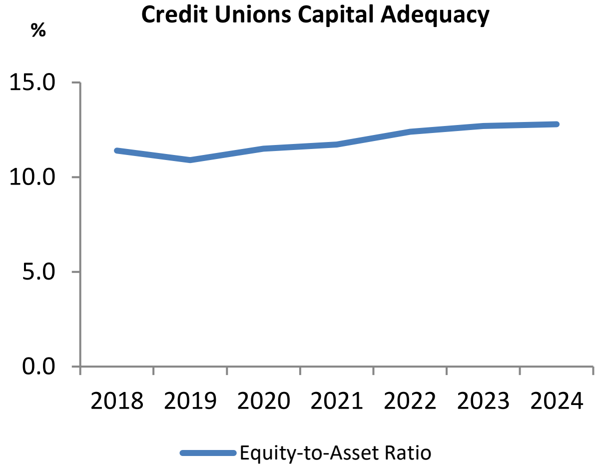
Source: Central Bank of The Bahamas



Source: Central Bank of The Bahamas

Chart 14

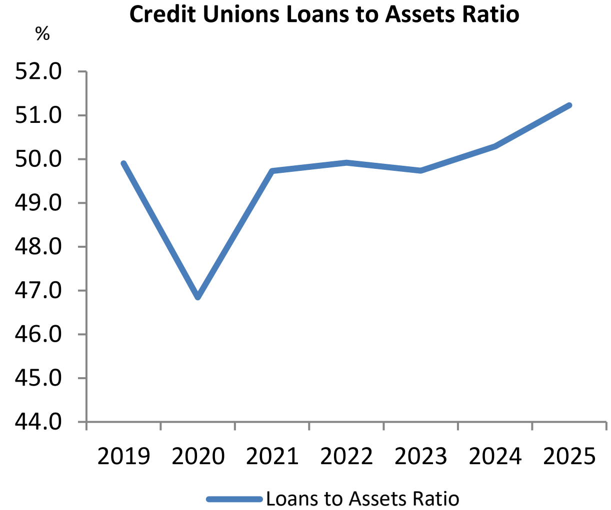
Credit Unions Capital Adequacy



Source: Central Bank of The Bahamas

Chart 15

Credit Unions Loans to Assets Ratio



Source: Central Bank of The Bahamas

3.3. Asset Quality

Credit unions' total impaired loans reduced by 8.7% ($2.3 million) to approximately $23.7 million in 2025, extending the 13.6% decline of the prior year. As a result, the ratio of delinquencies to total loans narrowed to 8.7% from 10.2% in 2024. By average age of delinquencies, non-performing loans (NPLs)—which accounted for 78.2% of total arrears—contracted by 5.7% ($1.1 million) to $18.5 million during 2025. Similarly, short-term arrears (31-90 days) decreased by 17.9% ($1.1 million) to $5.2 million, following a 12.6% reduction the year earlier.

Alongside a reduction in loan delinquencies, the collateral value of impaired facilities declined by 14.2% ($2.2 million) to $13.4 million in 2025. Meanwhile, the value of uncollateralized exposures was unchanged at $10.3 million. Further, credit unions' total provisions for loan losses fell by 19.5% million ($0.6 million) to $2.3 million, vis-à-vis a nearly two-fold expansion in the previous year. Consequently, the ratio of provisions to total gross loans narrowed to 0.8% from 1.1% a year earlier, 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—declined by 2.2% ($0.9 million) to $42.5 million, following a 9.3% rise in the previous year. As a result, the relevant ratio of non-earning assets to total assets declined by 0.6 percentage points to 7.8%, a switch from a 0.4 percentage points firming in the preceding year.

3.4. Profitability

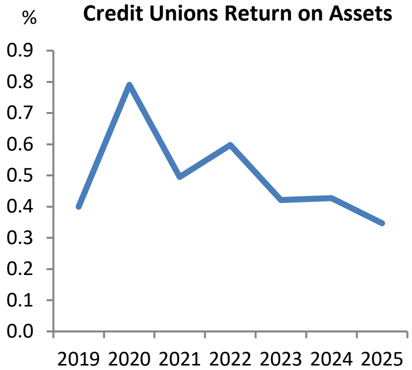
During the review year, credit unions' overall profits declined by $0.3 million (14.4%) to $1.9 million, relative to the previous year. As a result, the ROA decreased by 8 basis points to 0.3%, and the ROE, by 66 basis points to 2.7%.

3.5. Liquidity

Credit unions' liquidity remained healthy in 2025, underpinned by an increase in financial investments (13.8%), which offset the falloff in cash balances (9.1%) and liquid investments (2.3%). However, the ratio of liquid assets to total assets narrowed by 1.1 percentage points to 40.6%, relative to the prior year. Similarly, the alternative indicator—the ratio of liquid assets net of short-term payables to total deposits—decreased by 1.0 percentage point to 48.4% at end-2025. Nevertheless, both ratios significantly exceeded the minimum prudential standard of 15.0%, demonstrating that credit unions maintained healthy levels of liquidity.

Chart 16

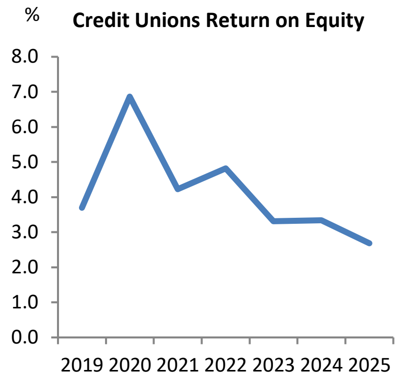
Credit Unions Return on Assets



Source: Central Bank of The Bahamas

Chart 17

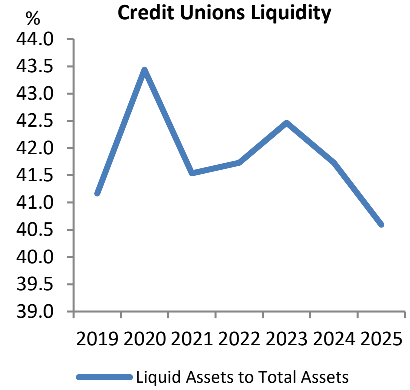
Credit Unions Return on Equity



Source: Central Bank of The Bahamas

Chart 18

Credit Unions Liquidity



Source: Central Bank of The Bahamas

TABLE 5

Selected Financials for Credit Unions (B$M)

	2019	2020	2021	2022	2023	2024	2025
Total Assets	476.0	482.3	474.6	483.6	495.0	517.8	546.7
Total Gross Loans	237.3	225.9	236.0	241.4	246.2	260.4	280.1
Total Deposits	411.3	416.9	409.1	414.4	419.9	436.2	456.9
Liquid Assets	195.9	209.5	197.1	201.8	210.2	216.1	221.9
Savings	230.4	244.5	250.5	259.0	271.2	294.7	316.0
Term Deposits	139.6	136.8	125.8	119.9	112.7	108.7	108.0
Total Members' Equity	52.1	55.6	55.6	60.0	62.9	66.2	70.6
Non-Earning Assets	50.2	39.9	36.8	43.0	39.7	43.4	42.5
Allowance (Provisions)	8.0	7.2	8.2	9.0	8.7	5.4	5.4
Short-Term (ST) Payables	1.0	1.1	1.2	0.9	1.1	0.6	0.6
Capital & Surplus	16.4	16.0	14.3	19.5	19.0	20.4	20.7
Provision Expense	3.4	3.7	2.6	1.5	1.5	2.8	2.3
Net Income	1.9	3.8	2.3	2.9	2.1	2.2	1.9
Institutional Capital	7.8	7.2	5.2	9.9	8.3	9.0	8.6
# of Credit Unions	10	10	10	8	8	8	8
Financial Ratios (%)							
Equity-to-Asset Ratio	10.9	11.5	11.7	12.4	12.7	12.8	12.9
Return on Assets	0.4	0.8	0.5	0.6	0.4	0.4	0.3
Return on Equity	3.7	6.9	4.2	4.8	3.3	3.3	2.7
Provisions to Loans	1.4	1.6	1.1	0.6	0.6	1.1	0.8
Total Gross Loans to Total Assets	49.9	46.8	49.7	49.9	49.7	50.3	51.2
Liquid Assets to Total Assets	41.2	43.4	41.5	41.7	42.5	41.7	40.6
Non-Earning Assets/Total Assets	10.5	8.3	7.8	8.9	8.0	8.4	7.8
(Liquid Assets-ST Payables)/Total Deposits	47.4	50.0	47.9	48.5	49.8	49.4	48.4

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

CHAPTER 4: THE INSURANCE SECTOR

The domestic insurance industry remains a key component in the stability and soundness of the financial services sector. Given increased climate risk exposure, the industry is critical in its efforts to secure and hedge against losses as a result of natural disasters. In 2025, the sector maintained its conservative positioning, preferring long-term stable investments, such as government bonds. In this environment, the sector maintained a relatively sound financial assessment.

Information from the Insurance Commission of The Bahamas (ICB) revealed that in 2025, the number of domestic insurers decreased by 1 to 29, consisting of 11 life and health insurers, offering whole life, term life, as well as universal life; 17 non-life insurers, providing, *inter alia*, coverage for automobiles, fire, liability and property; and 1 in the Association of Underwriters. The sector continued to be dominated by a few large firms, as the top five general insurers accounted for 75.9% of gross premiums written, whereas in the long-term insurance component, the top five firms accounted for 98.3% of gross premiums written.

The external insurance sector, which is registered under the External Insurance Act, primarily offers self-insurance coverage for non-resident entities. In 2025, the sector consisted of 18 entities, 10 of which were non-captive cells, 7 captive cells and one segregated account. These insurers' main impact on the domestic economy continued to be through employment and the fees charged by local service providers. As external operations do not impact the local financial sector, the financial stability analysis focuses only on the domestic operations.

Analysis of key indicators[3] revealed that in 2025, the domestic insurance sector maintained its growth momentum. The outturn was supported by expansion in the life insurance component—the dominant segment. Profitability also improved, by 7.4% for life insurers and by 12.1%for non-life entities. Further, the insurance penetration ratio (revenue from contracts to GDP) remained stable at 2.9% in 2025, vis-à-vis 2024.

4.1 Life Insurance

During the review year, life insurers retained 69.4% of total assets, remaining the dominant segment of the market. Based on preliminary data, life insurers' total assets grew by 6.5% ($87.8 million) to $1.4 billion, as investments—accounting for 71.6% of total assets—rose by 9.2% ($86.4 million) to $1,028.4 million. Further, re-insurance recoveries strengthened by 7.2% ($3.5 million) to $51.9 million. In addition, fixed assets and intangibles both grew by 0.6% each to $42.4 million and $13.6 million, respectively. Conversely, receivables reduced by 5.1% ($0.2 million) to $4.5 million, while other assets moved lower by 1.0% ($1.2 million) to $126.3 million. Likewise, cash & deposits—the most liquid asset category—fell by 0.3% ($0.3 million, to $98.4 million.

In terms of funding, life insurers' total liabilities grew by 5.2% ($48.3 million) to $968.9 million, owing to increased insurance contract liabilities—which finance policyholders' claims and future benefits—by $40.0 million (4.9%) and "other liabilities" by $0.7 million (8.9%). Meanwhile, aggregate equity levels rose by $39.5 million (9.2%) to $468.1 million, explained by gains in retained earnings (11.4%), which outstripped the rise in other 'miscellaneous' reserves (4.2%). In addition, share capital stabilized at $18.9 million in 2025.

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

Table 6 Life Insurance: Financial Soundness Indicators (%)				
	2022	2023	2024	2025
Capital Adequacy				
Capital/Total Assets	31.2%	32.1%	31.8%	32.6%
Capital/Contractual Service Margin (CSM)	54.3%	53.8%	52.8%	54.9%
Insurance Service Result/Capital	6.9%	7.8%	13.4%	14.2%
Asset Quality				
(Real Estate + unquoted equities + receivables)/Total Assets	6.2%	5.7%	5.7%	5.4%
Real Estates/Total Assets	4.9%	5.2%	5.1%	4.8%
Earnings & Profitability				
Expense Ratio (expense+general operating expenses/insurance revenue	91.5%	88.7%	84.0%	83.6%
Investment Yield (net investment income/average investment assets)	3.5%	3.4%	3.4%	2.5%
Return on Equity (ROE)	6.5%	10.6%	16.5%	16.2%
Return on Assets (ROA)	2.0%	3.4%	5.2%	5.3%

** Compiled using the IFRS 17 standards*

Source: Insurance Commission of The Bahamas & Central Bank of The Bahamas

As it pertains to earnings, domestic insurers' net income strengthened by $5.2 million (7.4%) to $75.9 million, vis-à-vis the previous year. Leading this outcome, revenue from contracts expanded by $32.9 million (7.9%) to $451.3 million. Further, net investment income, expanded by $4.7 million (13.1%), to $41.1 million, and other income, by $1.2 million (7.0%), to $18.3 million. Providing some offset, total expenses rose by $9.0 million (15.6%) to $66.6 million. Consequently, the return on equity (ROE) ratio moderated to 16.2% from 16.5% last year, while the return on assets (ROA) ratio firmed to 5.3% from 5.2% in 2024. Moreover, the expense ratio narrowed to 83.6% from 84.0% a year earlier. Similarly, the investment yield ratio declined to 2.5% from 3.4%, when compared to the preceding year.

Financial soundness indicators for the life insurance industry recorded mixed movements in 2025, although key ratios remained above international benchmarks. A breakdown by asset categories indicated that the real estate-to-total assets ratio narrowed to 5.4% from 5.7% last year. Meanwhile, the real estate plus unquoted equities and receivables to total assets ratio—a measure of the liquidity of insurance companies—tapered to 4.8% from 5.1% in 2024. With reference to capital ratios, the insurance service results-to-capital ratio firmed to 14.2% from 13.4% the year prior, and the capital to total assets ratio rose, to 32.6% from 31.8% in the previous year. In addition, the capital-to-contractual service margin ratio increased to 54.9% from 52.8% in the preceding year (see Table 6).

4.2. Non-Life Insurance

In 2025, non-life insurance firms' assets rose by 7.4% ($43.5 million) to $633.7 million, with the investment component boosted by $28.9 million (21.3%) to $164.5 million. Further, cash and deposits grew by $14.7 million (9.7%) to $165.9 million, while reinsurance recoveries expanded by $7.7 million (5.8%) to $140.5 million, vis-à-vis the 2024 period. In addition, fixed assets and receivables increased by $1.7 million (6.7%) to $26.3 million and by $0.1 million (7.7%), to $1.4 million, respectively. In contrast, other miscellaneous assets reduced by $11.8 million (17.2%) to $57.0 million, while intangibles stabilized at $2.7 million.

In 2025, the sector's total liabilities rose by $3.0 million (1.0%) to $314.4 million, owing to an increase in insurance contract liabilities, by $4.9 million (1.8%) to $279.5 million. Meanwhile, reinsurance contract liabilities advanced by $0.9 million (12.8%) to $7.6 million, while "other" liabilities fell by $2.8 million (9.2%) to $27.2 million.

In this context, balance sheet equity improved by $40.5 million (14.5%) to $319.3 million, supported by gains in other "miscellaneous" reserves, by $26.0 million (32.4%), retained earnings, by $8.9 million (7.5%) and other comprehensive income, by $8.6 million (46.0%). In an offset, shared capital reduced by $3.1 million (5.1%).

Concerning earnings, estimated net profits for non-life insurers in 2025 grew by $2.4 million (12.3%) to $22.3 million, following a more than two-fold increase in 2024. The outturn was supported by gains in income from contracts, by $76.9 million (13.4%) to $650.6 million. However, total insurance service expenses expanded by $65.5 million (37.7%) to $239.3 million, while "other' income was relatively unchanged at $3.2 million.

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

	2022	2023	2024	2025
Asset Quality				
(Real Estate + unquoted equities + receivables)/Total Assets	8.6%	6.6%	11.9%	11.6%
Reinsurance and Technical Reserves				
Risk Retention Ratio (insurance service results /revenue from contracts)	5.1%	3.8%	5.0%	4.9%
Insurance Contract Liabilities/Net Claims	448.9%	257.7%	387.0%	218.6%
Contract Service Margin (CSM)/Insurance Service Results	9.6%	12.6%	9.5%	8.8%
Earnings & Profitability				
Expense Ratio (expense/insurance service results	6.4%	10.4%	6.0%	7.5%
Loss Ratio (net claims/insurance service results)	192.1%	407.1%	236.1%	445.3%
Investment Yield (investment income/investment assets)	2.8%	3.0%	2.6%	2.1%
Investment income/insurance service results	33.1%	41.1%	25.1%	20.3%
Return on Equity (ROE)	6.7%	3.3%	7.1%	7.0%
Return on Assets (ROA)	3.3%	1.6%	3.4%	3.5%

** Compiled using the IFRS 17 standards*

Source: Insurance Commission of The Bahamas & Central Bank of The Bahamas

Financial soundness indicators for the non-life insurance sector showed mixed trends during the review year. Disaggregated by components, the expense ratio moved higher to 7.5% from 6.0% in the previous year and the loss ratio—measuring whether net claims paid-out exceeded insurance services—rose to 445.3% from 236.1% in the previous year (see Table 7). Meanwhile, the risk retention ratio edged down to 4.9% from 5.0%, while the investment yield ratio declined to 2.1% from 2.6%. Against this backdrop, the ROE ratio narrowed to 7.0%, from 7.1% in 2024. Conversely, the ROA ratio edged up to 3.5% from 3.4% last year.

CHAPTER 5: SECURITIES INDUSTRY

Data from the Securities Commission of The Bahamas (SCB) indicated that there was no material risk to financial stability from the activities of the sector. In particular, in the domestic securities markets, primarily debt and equity instruments continued to be traded in a very illiquid or low-turnover environment. Further, in terms of contagion, the markets have limited connectivity to the banking sector, with involvement largely in low-volume shifts in liquidity during periods of initial public offerings of securities.

Most of the securities market activities remain in the external sector. In 2025, the SCB reported that the asset value of investment funds, largely external, decreased by a modest $1.2 million (2.5%) to $45.6 billion, notably lower than the 12.1% reduction in 2024, with the number of fund administrators decreasing by 2 to 41.

Table 8
Securities Financial Soundness Indicators

	2021	2022	2023	2024	2025
Asset Quality					
Assets Under Administration (Bahamas-based Funds) - Investment Fund Administrators (IFA) B$ Billions	50.9	50.3	53.2	46.8	45.6
Securities Industry Act (SIA) Firms Regulatory Capital Surplus (B$ Millions)	n/a	n/a	464.5	465.8	464.5
Earnings & Profitability (%)					
Return on Assets (IFA)	17.8	1.8	6.4	7.5	n/a
Return on Equity (IFA)	22.2	2.3	8.4	9.6	n/a
Return on Assets (SIA)	2.6	1.9	3.3	4.5	n/a
Return on Equity (SIA)	11.9	9.7	17	20.3	n/a

Source: Securities Commission of The Bahamas

CHAPTER 6: SUPERVISORY AND POLICY DEVELOPMENTS

With regard to selected policy developments with financial stabilty oversight impact, there continued to be significant scope to enhance the financial stabilty assessment framework for The Bahamas, though improved data coverage of the non-bank sectors, strengthened measurements of the interconnectedness between banks and non-banks, and more explicit modeling of climate risk (for both the baking and insurance sectors). These emphases are expected to gain traction within the coordinating framework of the Bahamas Financial Stability Council (BFSC).

The Central Banks' continuing emphasis on effective management of AML/CFT/CPF risks also aligns with strengthened financial stabilty oversight frameworks. The outcomes against international assessments, help maintain the jurisdiction's vital access to international payments settlement (though the correspondent banking network), and to attracting international capital that support economic growth. Significant progress was achieved during the year, particularly through the implementation of the Central Bank's automated AML/CFT Risk Assessment Tool, which more efficiently analyses SFIs' reported data, delivers quicker risk assessments for each licensee, and provides an overall industry-level evaluation of money laundering risks. Progress was also underscored through the Sanctions Thematic Review of SFIs, which found that SFIs with the highest sanctions exposure achieved a 95.0% effectiveness rating in both client and transaction screening, an improvement from the previous year, and in line with global levels of effectiveness. These advances, including ongoing guidance to the sector, alongside collaboration within the Group of Financial Services Regulators (GFSR), and national efforts coordinated thought he Attorney General Office, help to support The Bahamas preparations for the 2026 CFATF Mutual Evaluation on AML effectiveness, slated for the fall of 2026.

Supervisory effectiveness was also enhanced during the year, in terms of the increased rate at which financial SFIs achieved closure against outstanding directives and regulatory requirements issued by the Central Bank. These trends suggest stronger governance and more effective remediation efforts within the sector, often addressing matters that impact prudential risks within such operations.

In the meantime, the Central Bank advanced public consultation on an extensive range of legislative reform proposals to strengthen the supervisory framework. Proposed amendments addressing crisis management, depositor protection, payment systems oversight, Basel III implementation, and supervisory powers are expected to further enhance the financial stability oversight frameworks once enacted. These proposed reforms would amend four specific Acts, namely, The Central Bank of The Bahamas Act, 2020, The Banks and Trust Companies Regulation Act, 2020, the Protection of Depositors (Amendment) Act, 2020 and The Payment Systems Act, 2012. These reforms aim to improve the resolution framework for systemically important financial institutions, transition money transmission providers to a comprehensive payments framework, expand oversight and consumer protection in payment systems, strengthen depositor protection via backstop funding arrangements for the Deposit Insurance Corporation, and support governance and digital currency reforms.

CHAPTER 7: ASSESSMENT OF RISKS

Given the analysis of the domestic banking sector where the systemic concerns are most concentrated and directly supervised by the Central Bank, the Bahamian financial stability risk remain significantly contained, with no significant escalation expected over the medium-term. For commercial banks significant capital and liquidity buffers, underscore their ability to withstand severe credit, liquidity and interest rate shocks without the need for additional capital support. For banks and credit unions diminishing credit risk indicators continued to underscore improving assessment, while for both banks and insurers strengthened profitability indictors also support improved assessments. Though not arising to the level of systemic importance, the financial soundness of credit unions remains more vulnerable to stress, albeit within the risk-based buffer of the Central Bank's supervisory oversight, and deposit insurance safety net. In the meantime, while the domestic capital markets continue to develop, the depth of the market and interconnectedness to other regulated intermediaries remains at a relatively low, emergent state.

However, while significantly contained, outlook risks have become more elevated as a result of increased global economic headwinds. These relate mainly to the protracted geopolitical tensions from the wars in the Middle East and Eastern Europe, and relatively recent and persistent trade policy uncertainty. These pose a conflict between monetary policies, which on the restrictive side must contain inflation pressures, but on an expansionary basis must nurture more fragile growth prospects. For The Bahamas, these also transmit into potentially more constrained economic performance, which could weigh on the financial soundness indicators of regulated intermediaries.

As the Central Bank positions itself to address new emerging risks to financial stability, it will maintain its medium-term objective to gradually reduce the structural overhang of liquidity, and with it some attendant moderation in capital buffers. The liquidity overhang (particularly in excess balances held at the Central Bank) identifies underutilized resources which do not currently generate returns to commercial bank capital. It adds pressures to generate returns outside of credit intermediation, with a heavy emphasis on transaction fees. In addition, liquidity is a potential source of future accelerated credit expansion that could undermine asset quality. The Central Bank's medium-term strategy includes stimulating increased non-bank participation in the government debt market, concurrent with diminished Central Bank holdings of such assets. In addition, the Central Bank has committed to accommodating increased payouts of banks' retained earnings, including through the repatriation of profit outside of The Bahamas. This targeted drawdown in liquidity would also moderate or reduce the net accumulation of external reserves, within more than adequate buffers needed to protect the fixed exchange rate system. The liquidity drawdown is also expected to accommodate prudently elevated private sector credit growth.

The other emerging financial stability risks receiving heightened emphasis relate to financial technology /cybersecurity risks, alongside climate change risks.

While the adoption of digital payment platforms and other financial technologies can improve financial inclusion and efficiency in the Bahamian banking sector, they also underscore new risks that will require enhanced supervisory oversight. Cybersecurity risks pose mounting threats as the growing digital landscape increases vulnerability to cyber threats and disruptions, phishing, and data breaches. The Bank continues to strengthen its regulatory framework in this regards, particularly as it relates to business continuity and technology risk management practices within SFIs, and the domestic payments infrastructure.

Alongside the economic transmission channels to credit quality and balance sheet health, climate-related exogenous shocks could also be disruptive and physically destructive to the payments and banking sectors infrastructures. The Central Bank is committed to updating its stress testing frameworks to explicitly model the economic passthrough of climate shocks to SFI's balance sheet. The Central Bank will also enhance SFI reporting templates to capture potential exposure to climate change and climate related shocks at the micro-level on SFIs' balance sheets in both assets and liabilities. In the meantime, infrastructure resilience remains a critical component in strengthening the banking and payment systems' ability to withstand and recover from severe damages.

Collectively, these emerging risks underscore the Central Bank of The Bahamas' increasing emphasis towards a more forward-looking, risk-based supervisory framework that is adaptive to technological innovation, evolving international standards, and an increasingly interconnected global financial system. Supervisory priorities include strengthening cyber resilience, enhancing third-party risk oversight, deepening cross-border supervisory cooperation, and ensuring institutions remain resilient to macroeconomic, geopolitical and weather-related shocks.

CHAPTER 8: CONCLUSION

The Bahamas' domestic financial system maintained its soundness and stability in 2025, albeit with risks that continued to be managed. In terms of the outlook, indications are that the financial system will sustain its soundness, although continued efforts to mitigate existing and potential risks will be required. Therefore, the Central Bank will remain focused on pursuing policies and reforms that mitigate any potential risks to the quality of surveillance, and improvements in the oversight of supervised financial institutions and the strengthening of the regulatory environment. Against this backdrop, the Bank will maintain efforts to advance the Basel core principles on banking supervision, increase the quality of oversight of credit unions, and improve the resilience of the domestic payments system. The Bank will also place heightened emphasis on emerging risks from cybersecurity and climate change. More broadly, through the Bahamas Financial Stability Council (BFSC), the Bank will continue to collaborate with other supervisory and regulatory bodies to ensure a holistic approach is taken to safeguarding financial stability.

APPENDICES

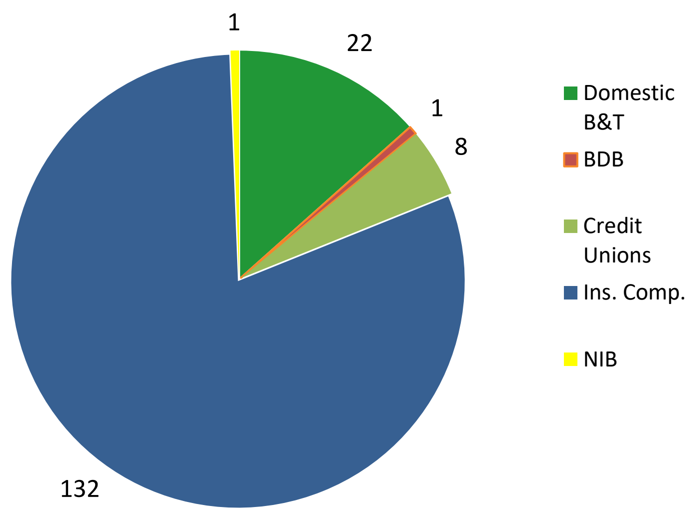
Appendix 1

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-25)



At the end of 2025, there were 184 banks and trust companies operating in The Bahamas (see Table 1, Appendix), employing approximately 3,639 persons. The largest concentration of employment was within the 21 local domestic banks and trust companies, which accounted for 2,352 employees. The financial sector also comprised 5 money transmission businesses (MTBs), 3 payment service institutions, 8 local credit unions, 158 insurance companies, 306 financial and corporate service providers, and 41 investment fund administrators. Of the banks and trust companies, 10 operated either wholly or partially within the domestic market, while 26 insurance companies also served the domestic sector. In addition, the government-owned public financial institutions include the Bahamas Development Bank (BDB), the National Insurance Board (NIB), and the Bahamas Mortgage Corporation (BMC). The Bahamas International Securities Exchange (BISX) is another important component of the domestic financial system, although it is characterized by relatively low trading volumes and the absence of complex derivatives or other sophisticated financial instruments.

TABLE 1							
Structure of the Financial System							
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Banks &Trusts							
International	199	195	193	182	177	172	163
Domestic	22	22	21	20	20	21	21
Total	**221**	**217**	**214**	**202**	**197**	**193**	**184**
Non-Bank Financial Institutions							
Investment Funds	742	712	677	682	659	545	517
Credit Unions	10	10	10	8	8	8	8
Insurance companies	160	159	152	158	157	162	158
Domestic Companies & Agents	127	127	122	128	124	136	132
External Insurers	33	32	30	30	31	26	26

r - revised

Source: Central Bank of The Bahamas

Banking Sector

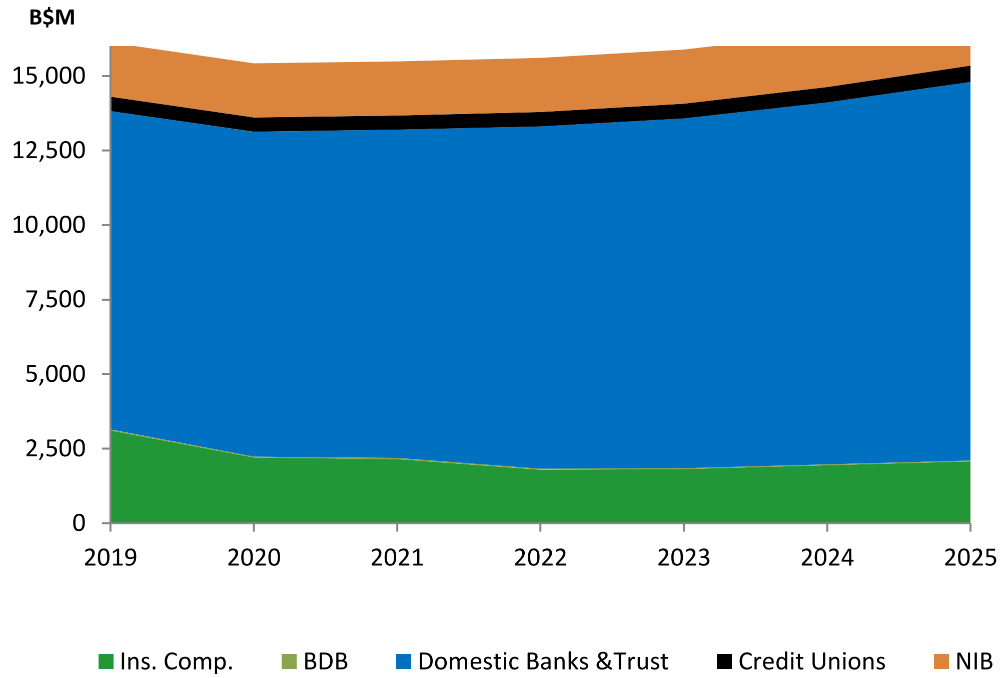
At end-2025, the banking sector's balance sheet was valued at $123.5 billion, of which international exposures dominated, accounting for $103.0 billion (83.4%) of the total. Domestic licensees (10 commercial banks and 10 mostly trust entities) held the remaining $20.5 billion (16.5%) of assets—which rose by 7.3% in 2025—divided between domestic ($12.7 billion) and foreign ($7.8 billion) assets. Deposits served as banks' most significant source of funds, while the majority share of domestic assets (51.1%) 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 20.4% and 2.6%. The majority of the sector's assets—in excess of two-thirds—were concentrated in the three (3) largest banks.

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 provides financing for small and medium-sized enterprises.

Chart 2

Estimated Assets of Domestic Financial Institutions



Credit Unions

Apart from commercial banks, credit unions are the only other deposit taking and loan granting institutions, with an asset base of $546.7million as at December 2025. At end-2025, the total membership of these cooperatives increased by 4.7% to an estimated 53,040 individuals. In 2025, the number of active credit unions—inclusive of the Co-operative League—remained 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%.

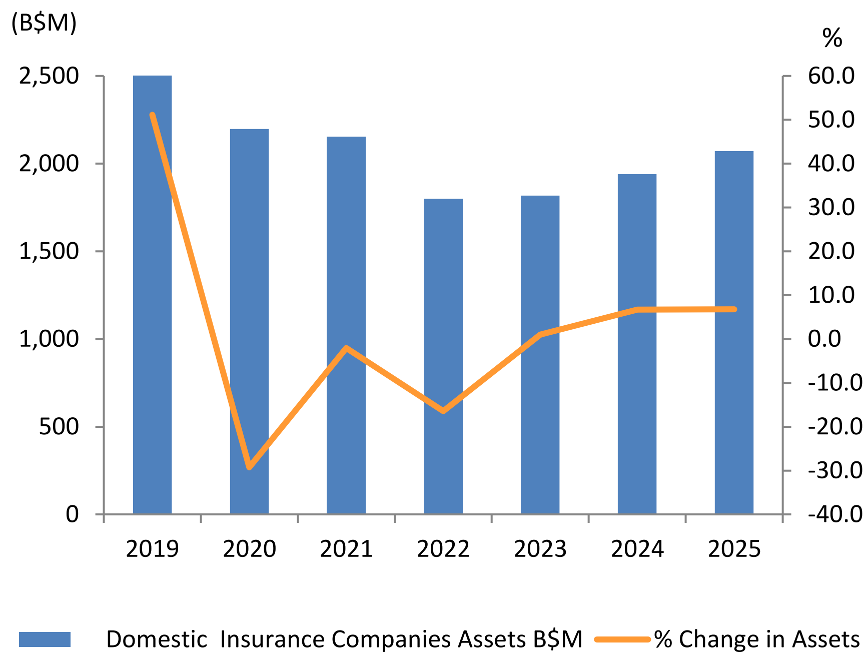
Insurance Companies

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 17 non-life insurers, providing, *inter alia*, insurance for automobiles, fire, liability and property inclusive of 1 in the Association of Underwriters. 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 75.9% of total gross premiums written and the majority of insurance coverage as at December 2025. The external insurance sector, which is registered under the External Insurance Act[4], mainly provides self-insurance coverage for non-resident entities in other countries. In 2025, the sector consisted of 18 entities, 10 of which were non-captive cells, 7

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

captive cells and one segregated account. The total asset base of the sector grew by $174.8 million (6.9%) to $2.7 billion at the end of 2025.

Chart 3
Domestic Insurance Companies' Assets



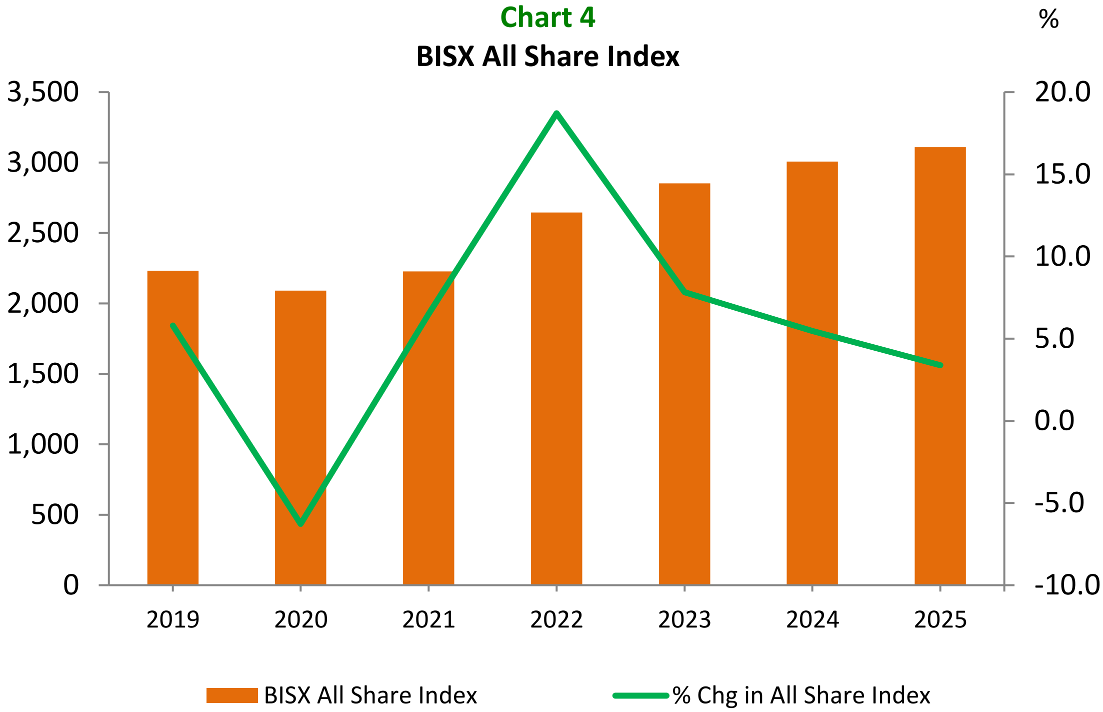
Source: Insurance Commision of The Bahamas

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.

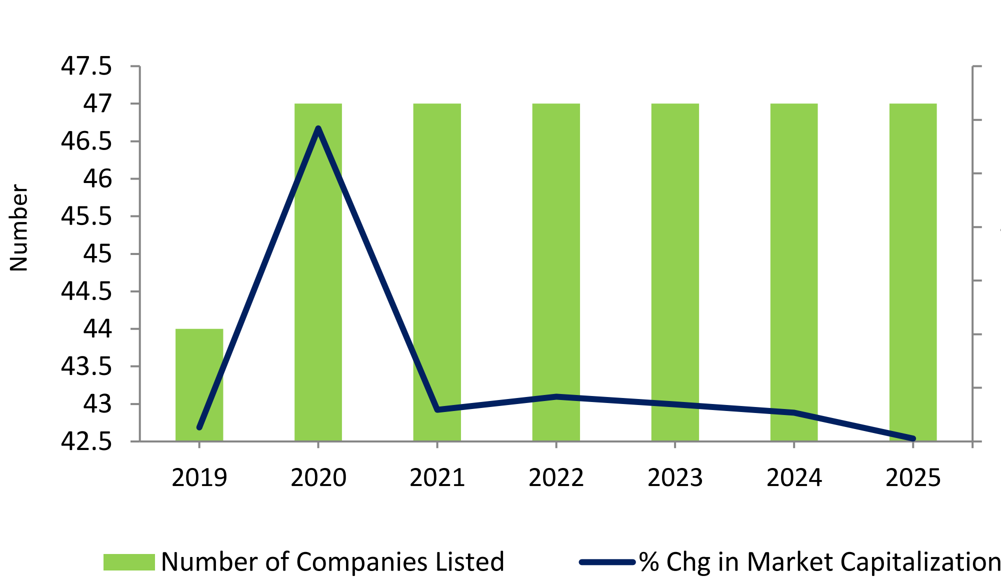
During the review year, performance indicators for the local equity market were positive, reflecting the ongoing strengthening in the domestic economy. The BISX All-Share Price Index increased by 3.4% to 3,109.5 points, but was lower than last year's 5.5% gain (see Chart 4). Meanwhile, the volume of shares traded on BISX contracted by 62.1% to 6.1 million, following a four-fold increase to 16.1 million in the prior year. Correspondingly, the total value of shares traded reduced by 48.4% to $61.6 million, a reversal from a 53.2% expansion in 2024. The index's market capitalization edged up by 0.5% to $11.4 million, following a 5.4% growth 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 the domestic payment settlement infrastructure, the Real Time Gross Settlement System (RTGS), owned and operated by the Central Bank, facilitates the settlement of high-value transactions exceeding $150,000. Additionally, the Bahamas Automated Clearing House Association (BACH), which is owned by the clearing banks, is responsible for processing lower-value transactions. In 2025, domestic electronic payment transaction volumes increased, reflecting sustained efforts by financial institutions to promote digital payment adoption among consumers and businesses. The total value of transactions processed through the RTGS system rose by 1.2% to $31.3 billion compared to the previous year. Similarly, the value of retail payments processed through the BACH expanded by 9.9% to $11.4 billion.

Although cash usage remained prevalent, the transition toward digital payment methods continued throughout the year, contributing to increased use of debit cards, credit cards, and automated banking services. With respect to electronic payment instruments, credit card access expanded by 5.6% during the review year, with the total number of credit cards issued or renewed by commercial banks reaching 116,701. Concurrently, the associated value of outstanding debt increased by 7.1% to $272.4 million. Similarly, the volume of debit card transactions increased by 19.7% to 34.3 million transactions; however, the corresponding value declined by 13.4% to $3.6 billion in 2025. These trends reflected growing consumer confidence in card-based payments, while also indicating increased use of debit cards for smaller-value transactions and greater reliance on credit cards for certain retail purchases. Regarding ATM activity, transaction volumes contracted by 3.2% to 10.3 million transactions, although the corresponding value increased by 2.0% to $3.1 billion during the review year.

Technology continues to serve as a central driver of activity within The Bahamas' domestic payments landscape. The sustained growth in electronic payment usage during the review period reflects the concerted efforts of commercial banks, payment service providers, and the Digital Currency Adoption Unit to encourage the adoption of digital payment channels among consumers and merchants. These initiatives were further reinforced by the nationwide "Live Fast, Pay Digital" campaign, supported by educational outreach initiatives and town hall meetings conducted across the archipelago to enhance financial inclusion and increase public awareness of digital and contactless payment solutions. In parallel, work continues toward the development of a Fast Payment System (FPS) in The Bahamas, which is expected to further enhance the efficiency, accessibility, and resilience 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 (DTI) 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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