FINANCIAL STABILITY REPORT

2025

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Preface

The Central Bank of Barbados (the Bank), the Financial Services Commission (FSC), and the Barbados Deposit Insurance Corporation (BDIC) share oversight of the financial system through the Financial Oversight Management Committee (FOMC). The Bank regulates commercial banks, finance companies, trusts and merchant banks, money value transfer services, and payment service providers, and oversees the national payment system. The FSC supervises credit unions, insurance companies, mutual funds, occupational pension plans, and the securities and capital markets. The BDIC provides a safety net for depositors at commercial banks and finance companies, and work is advancing to extend that coverage to credit unions. The FOMC's mandate is to maintain financial stability by monitoring systemic developments, identifying and assessing vulnerabilities, and prescribing policies to enhance the system's resilience against potential adverse events.

Financial stability refers to the condition in which a country's financial system operates effectively, efficiently, and resiliently: facilitating economic processes, mitigating risks, and absorbing shocks. This stability is characterised by solvent, well-capitalised, and prudently managed financial institutions, efficient and transparent financial markets, and a robust and secure financial infrastructure. Promoting financial stability is essential for cultivating confidence among consumers, investors, and market participants, and for underpinning long-term economic growth and development. Central banks and other financial regulators play a critical role in preserving financial stability through targeted policies, prudent regulation, and proactive supervisory practices.

The Central Bank of Barbados Act, 2020-30 (the "Act"), passed in December 2020, explicitly recognises financial stability as a core mandate of the Bank and affirms the need for macroprudential considerations in policy formulation. The Act (Section 48: "Macro-prudential powers") states: "*Where there is a perceived threat to the financial system, the Bank shall have the power to manage and control that risk by taking any steps that it deems suitable.*"

This fifteenth edition of Barbados' Financial Stability Report (FSR) represents a collaborative effort between the Bank and the FSC. It provides a comprehensive assessment of the risk exposures of key financial institutions, including domestic deposit-taking institutions (commercial banks, finance companies, and credit unions), insurance companies, securities market intermediaries, self-regulatory organisations, mutual funds, and pension funds. The FSR remains a key instrument for promoting transparency and accountability in financial sector oversight.

Financial and institutional data are reported primarily through 31 December 2025. The assessment of risks, regulatory developments, and payment system developments reflects information available through 20 July 2026, including the launch of BiMPay, the Barbados Instant Payments System, on 12 June 2026.

This edition is accompanied by three thematic articles: The Emergence of Artificial Intelligence: Threat or Benefit to Financial Sector Stability in Barbados, Assessing Direct Balance Sheet Linkages Between Bank and Non-bank Financial Institutions in Barbados, and IFRS 17 – A New Accounting Standard for Insurance Companies in Barbados.

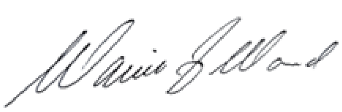
List of Acronyms

ACH	Automated Clearing House
AFSI	Aggregate Financial Stability Index
AI	Artificial Intelligence
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
BDIC	Barbados Deposit Insurance Corporation
BiMPay	Barbados Instant Payments System
BSE	Barbados Stock Exchange
BSI	Banking Stability Index
CAPSS	CARICOM Payment and Settlement System
CAR	Capital Adequacy Ratio
CARICOM	Caribbean Community
CBB	Central Bank of Barbados
CFATF	Caribbean Financial Action Task Force
CRE	Commercial Real Estate
DB	Defined Benefit
DC	Defined Contribution
D-SIFI	Domestic Non-Bank Systemically Important Financial Institution
DSR	Debt Service Ratio
DTI	Deposit-Taking Institution
FATF	Financial Action Task Force
FD	Financial Development
FOMC	Financial Oversight Management Committee
FS	Financial Soundness
FSC	Financial Services Commission
FSI	Financial Soundness Indicators
FSR	Financial Stability Report
FV	Financial Vulnerability
FX	Foreign Exchange
GDP	Gross Domestic Product
GFSR	Global Financial Stability Report
IAIS	International Association of Insurance Supervisors
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
LTV	Loan-to-Value
MMoU	Multilateral Memorandum of Understanding
NAUM	Net Assets Under Management
NBFI	Non-Bank Financial Institution
NFC	Non-Financial Corporation
NGFS	Network for Greening the Financial System
NOP	Net Open Position
NPL	Non-Performing Loan
PAPSS	Pan-African Payment and Settlement System
PSP	Payment Service Provider
ROAA	Return on Average Assets
ROE	Return on Equity
RRE	Residential Real Estate
RTGS	Real-Time Gross Settlement
RTP	Real-Time Payments
RWA	Risk-Weighted Assets
SBLC	Survey of Bank Lending Conditions
TCRM	Technology and Cyber Risk Management
VASP	Virtual Asset Service Provider
WEC	World Economic Climate
WEO	World Economic Outlook
y-o-y	Year-on-Year

Foreword

by the Governor of the Central Bank of Barbados and Chief Executive Officer of the Financial Services Commission

Dr. The Most Honourable Kevin Greenidge, F.B.
Governor
Central Bank of Barbados



Mr. Warrick Ward
Chief Executive Officer
Financial Services Commission

The 2025 Financial Stability Report is published at a time when the global financial system continues to adjust to an environment shaped by elevated uncertainty, shifting financial conditions, and changing patterns of risk transmission. During 2025 and through mid-2026, global financial markets appeared broadly resilient, but underlying vulnerabilities remained a concern. These included persistent geopolitical tensions, trade policy uncertainty, sensitivity to global interest rate movements, pressure in major sovereign bond markets reflected in higher long-term yields and fiscal sustainability concerns, and the continued expansion of non-bank financial intermediation. For Barbados, these developments underscore the importance of preserving strong financial buffers, maintaining effective oversight, and strengthening the system's capacity to absorb shocks.

Barbados' financial system remained stable in 2025. Deposit-taking institutions were profitable, asset quality improved across every major borrower segment, and capital and liquidity buffers remained adequate in aggregate. Commercial banks' non-performing loan ratio fell to its lowest level in more than a decade. That assessment should not be read as an untroubled one. Over the course of the year credit grew faster than deposits, commercial banks' capital adequacy ratio declined from 21.2 percent to 19.0 percent, provisioning coverage eased, and credit union profitability weakened. Our stress testing identified pressure at a small number of individual institutions rather than across the system as a whole. These developments do not point to system-wide distress. They are, however, a reminder that buffers are built in good conditions and drawn down in adverse ones, and that 2025 was, on balance, a year of favourable domestic conditions.

The domestic financial system also operated in a more demanding risk environment. Global interest rate developments continued to influence funding conditions, investment valuations, and balance sheet risks. Closer linkages between banks and non-bank financial institutions reinforced the need to monitor concentration, liquidity, and contagion channels across the wider financial system. At the domestic level, household indebtedness, climate-related risks, anti-money laundering and countering the financing of terrorism (AML/CFT) issues, cyber threats, and operational resilience remained critical areas of supervisory attention.

This year's report therefore places emphasis not only on the condition of individual sectors, but also on the ways in which risks may transmit across the financial system. It examines credit developments, capital adequacy, liquidity conditions, real estate exposures, sovereign and cross-border linkages, bank and non-bank interconnectedness, payment system developments, and the evolving cyber and climate risk landscape. The analysis shows a financial system that remains sound in aggregate, but one in which the margin for error narrowed over the year. That combination argues for preserving aggregate buffers and rebuilding institution-specific headroom where it weakened, while concentrating supervisory attention on the institutions identified by our testing.

Important progress was also made in strengthening the financial stability framework. The modernisation of Barbados' payments infrastructure advanced with the launch of BiMPay, the Barbados Instant Payments System, on 12 June 2026. This represents a significant milestone towards faster, more efficient, and more accessible retail payments. While these developments are intended to support financial inclusion and improve the efficiency of domestic transactions, they also reinforce the need for strong operational resilience, effective risk management, and continued oversight of critical payment infrastructure.

Regulatory reform also remained central to the financial stability agenda. The Bank strengthened the oversight of payment service providers, revised its technology and cyber risk requirements, and established a dedicated payments oversight function. The Financial Services Commission continued to advance reforms across insurance, pensions, securities, capital markets, and credit unions, including the phased introduction of risk-based capital and solvency requirements for insurers. Further measures remain proposed or under consultation, and Chapter 2 sets out the status of each. These developments matter because the supervisory framework must keep pace with institutional complexity, evolving business models, market conduct risks, and emerging vulnerabilities across the financial system.

As we look ahead, the Central Bank of Barbados and the Financial Services Commission remain committed to safeguarding financial stability through prudent regulation, timely risk assessment, and close coordination. Financial stability is not only a measure of institutional strength, but also a foundation for confidence, sustainable economic growth, and the long-term resilience of our economy.

We extend sincere appreciation to the teams at the Central Bank of Barbados and the Financial Services Commission for their dedication in preparing this Report. Their hard work continues to support a deeper understanding of financial stability risks and the policy actions required to protect Barbados' financial system.

Executive Summary

Barbados' financial system remained stable in 2025, supported by improving asset quality, positive earnings among deposit-taking institutions, and capital and liquidity buffers that remained adequate at the aggregate level. The direction of risk, however, became less favourable. Deposit growth slowed while credit continued to expand, commercial banks' capital adequacy and leverage declined, real estate and large-borrower concentrations remained material, credit union profitability weakened, and stress tests exposed capital, liquidity, interest-rate, and concentration vulnerabilities at a small number of institutions. These developments do not indicate system-wide distress, but they have narrowed the margin for error and require stronger institution-specific supervision, preservation of capital and liquidity buffers, and closer monitoring of interconnectedness, climate, cyber, and market risks.

The financial system continued to grow, with non-bank institutions expanding faster than banks. Total financial system assets rose by 3.9 percent to an estimated 180.2 percent of GDP. Deposit-taking institution assets grew by 3.7 percent, moderating from 6.5 percent in 2024, as commercial bank and finance company balance sheets expanded by 3.3 percent and 6.8 percent, respectively, and credit unions grew by 4.9 percent. Mutual funds recorded the strongest growth at 8.0 percent. The continued expansion of non-bank financial institutions reinforces the importance of monitoring their interconnections with banks, which is examined in a thematic article accompanying this report.

Credit growth strengthened while deposit growth slowed. Commercial bank credit expanded by 6.3 percent, the strongest pace in over a decade, driven mainly by lending to the real estate and hotels and restaurants sectors. System-wide deposits grew by 2.9 percent, against 8.4 percent in the previous year. The loan-to-deposit ratio for deposit-taking institutions rose to 61.7 percent while the liquid assets ratio held at 27.5 percent. Aggregate liquidity remained adequate, although these developments coincided with reduced prudential headroom in several indicators.

Asset quality improved across every major borrower segment. The commercial bank non-performing loan ratio declined to 3.6 percent, its lowest level in over a decade. Corporate non-performing loans fell to 3.4 percent, an eleven-year low, with the modest increase in the stock of non-performing loans concentrated in a single manufacturing borrower rather than reflecting sectoral weakness. Household non-performing loans declined across all major categories, with the non-performing share of credit card balances falling from 3.5 percent to 2.9 percent. Provisioning coverage nonetheless eased over the year, and commercial banks' provisions as a share of non-performing loans declined to 45.0 percent from 46.5 percent.

Borrower exposures remained concentrated in households and in real estate. Corporate credit balances rose by 8.4 percent, with corporate debt service remaining modest relative to GDP. Household lending remained the largest single source of credit exposure, accounting for 54 percent of deposit-taking institution loans. Mortgages accounted for close to half of deposit-taking institution loan portfolios: new mortgage issuance to households increased by 14.7 percent, and outstanding residential and commercial mortgage balances rose by 2.1 percent and 5.1 percent, respectively. Within the credit union sector, rapid mortgage expansion since 2021 has produced the highest concentration of mortgage exposure among domestic financial institutions, held against comparatively thinner capital buffers. Lending standards remained stable, with loan-to-value ratios between 80 and 100 percent and debt service ratios between 40 and 45 percent.

Capital buffers remained above regulatory minimums but declined for commercial banks. The commercial bank capital adequacy ratio fell from 21.2 percent to 19.0 percent, reflecting a $606.2 million increase in risk-weighted assets, with two institutions accounting for two-thirds of that growth, alongside an $88.4 million decline in regulatory capital. The leverage ratio declined from 12.0 percent to 10.9 percent. Finance companies moved in the opposite direction, with the capital adequacy ratio rising from 19.5 percent to 20.0 percent. Credit unions' capital-to-assets ratio eased from 11.2 percent to 10.9 percent as balance sheet growth outpaced capital accumulation.

Profitability was positive but uneven across sectors. Commercial banks recorded a 6.4 percent increase in pre-tax profit, although higher tax expense reduced after-tax profit and return on average assets eased to 1.1 percent. Finance company returns improved. Credit union profitability weakened materially, with return on average assets falling from 0.6 percent to 0.4 percent as both non-interest and net interest income declined. Sustained weakness in credit union earnings would constrain the sector's capacity to generate capital internally, which is significant given its mortgage concentration.

Stress testing confirmed aggregate resilience while identifying vulnerabilities at a small number of institutions. Under the baseline scenario, the aggregate capital adequacy ratio for commercial banks and finance companies rises from 19.1 percent at end-2025 to 21.5 percent by end-2028. Under the moderate and severe scenarios, it declines to 18.7 percent and 15.3 percent, respectively, remaining above the regulatory minimum throughout. Institution-level results are less uniform. One small institution is projected to reach the 8 percent minimum by the end of the baseline horizon, absent management action. Two institutions fall below the minimum under the moderate scenario, and three, together representing less than 10 percent of sector assets, fall below it under the severe scenario, requiring recapitalisation equivalent to 0.6 percent of GDP. This compares with four institutions and 1.2 percent of GDP in the previous exercise. In the credit union sector, no institution falls below the 4 percent hurdle under the moderate scenario, while two do so under the severe scenario, with cumulative capital needs of approximately 0.24 percent of GDP by 2028.

Liquidity and interest-rate resilience weakened relative to the previous year. Under a 5 percent daily deposit run, one bank required liquidity support by the fifth day, where none did in 2024, and nine credit unions required support under prolonged 10 percent and 15 percent scenarios, against eight previously. Finance companies remained the most immediately exposed. On interest-rate sensitivity, the most vulnerable bank would breach the 8 percent capital adequacy threshold at a shock of approximately 1,100 basis points, compared with 1,400 basis points a year earlier.

Investment portfolios exposed institutions to sovereign concentration and international market risk. Net credit to government declined to 20.7 percent of commercial bank assets but remained above pre-pandemic levels, with debt swaps guaranteed by multilateral agencies reducing direct exposure to Government by 5.2 percentage points to 16.6 percent of assets. Mutual fund net assets under management increased by 8.1 percent, with valuations sensitive to international equity and fixed-income markets. The three largest domestic funds accounted for approximately 52 percent of sector assets, creating a transmission channel to occupational pension portfolios. Domestic securities market activity remained constrained by structural illiquidity, with regular market trading volume falling by 76 percent and the number of bond trades declining from 42 to seven.

Insurance and pension sector risks remained shaped by climate exposure, structural pressures, and concentration. General insurers maintained relatively liquid balance sheets while remaining dependent on external reinsurance to absorb catastrophe losses, with elevated reinsurance costs contributing to underinsurance among households and businesses. In the life sector, assets relative to GDP declined to 20.5 percent, continuing a multi-year fall, and related-party exposures remained material. In the occupational pension sector, plan numbers and membership declined further, with defined contribution arrangements now accounting for 58.3 percent of plans. The transition to IFRS 17 delayed statutory insurance filings, and the assessment of the sector in this report is accordingly based on provisional data.

Payment system modernisation advanced significantly. Electronic payment activity continued to expand and cheque usage declined further. BiMPay, the Barbados Instant Payments System, was launched on 12 June 2026, supporting continuous retail payments and extending access to individuals without traditional bank accounts. Currency held outside deposit-taking institutions remained stable at 2.4 percent of GDP, indicating that cash and digital payments continue to coexist. These developments increase the importance of operational resilience, cyber controls, fraud monitoring, and oversight of payment service providers.

Regulatory reform continued across both authorities. Measures advanced during the period covered by this report span insurance capital and solvency requirements, reporting standards, credit union supervision, the licensing and oversight of payment service providers, technology and cyber risk management, and the regulation of virtual assets. Chapter 2 sets out each measure and its current status. Their effectiveness will depend on timely implementation, adequate supervisory capacity, and proportionate engagement with regulated institutions.

The outlook remains shaped by external shocks, concentration, climate risk, and cyber risk. A downturn in tourism, higher global funding costs, commodity price shocks, or disruption to trade and travel could affect borrowers and institutions through income, credit, liquidity, and profitability channels. Climate risk remains a structural vulnerability given Barbados' exposure to severe weather and the consequences for households, firms, insurers, collateral values, and financial institutions. The immediate priority is to preserve capital and liquidity buffers, maintain prudent lending standards, strengthen risk management, and improve data collection across credit unions, pensions, insurance, real estate, and interconnected exposures.

1. Key Risks to Financial Stability

1.1 Overview of the Risk Environment

Barbados' financial system remained stable in 2025, but the direction of risk became less favourable over the year. Domestic conditions remained supportive, underpinned by sustained tourism activity, moderate inflation, and continued improvement in macroeconomic fundamentals. Asset quality strengthened across all major loan categories and deposit-taking institutions remained profitable. At the same time, credit expanded faster than deposits, commercial banks' capital adequacy and leverage ratios declined, and stress testing identified vulnerabilities concentrated at a small number of institutions rather than distributed across the system. These developments have narrowed the margin for error, which matters more in a period when the external environment is itself becoming less predictable.

The external environment has become more volatile and increasingly characterised by overlapping global and structural shocks. The International Monetary Fund's July 2026 World Economic Outlook Update and its April 2026 Global Financial Stability Report describe a more fragile global landscape, with the risk of abrupt shifts in financial conditions driven by geopolitical developments, market repricing, and changes in investor sentiment.

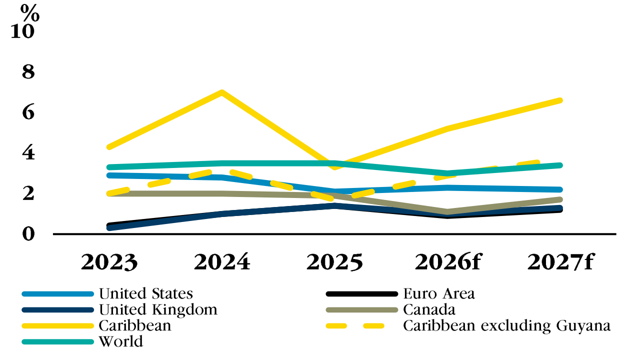
Barbados is a small, highly open and import-dependent economy, and external shocks transmit rapidly through trade, tourism, and financial channels, with consequences for liquidity, credit quality, and balance sheet resilience. Against this backdrop, this report assesses three broad risk families as most relevant to financial stability: geopolitical and global macro-financial uncertainty, climate risk, and cyber and artificial intelligence (AI) risk. These differ in nature and time horizon, but each has the potential to affect domestic balance sheets, liquidity conditions, and credit demand. In the risk dashboard at Figure 6, climate risk is presented separately in its physical and transition components.

1.2 Global Risk Landscape

Global risks have intensified, increasing the likelihood of adverse spillovers to the domestic economy. The July 2026 World Economic Outlook Update projects global growth of 3.0 percent in 2026, marginally below the April projection, before strengthening to 3.4 percent in 2027, with risks tilted to the downside (Figure 1). Continued geopolitical tensions, particularly in the Middle East, have increased uncertainty, heightened commodity price volatility, and disrupted global supply chains. Higher energy and transport costs are expected to raise inflationary pressures, especially in commodity-importing economies (Figure 2).

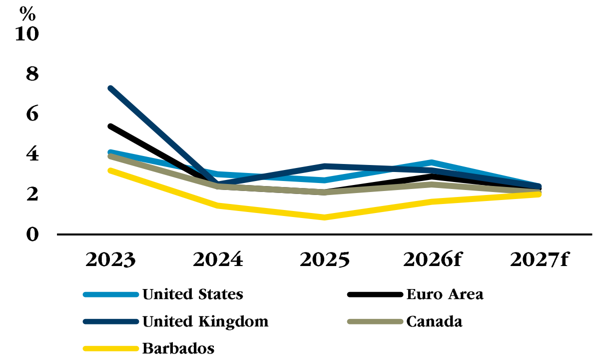
Financial conditions remain sensitive to shifts in investor sentiment, increasing the risk of sudden asset price corrections and capital flow volatility. The Global Financial Stability Report notes that geopolitical shocks can tighten financial conditions through exchange rate pressures, higher sovereign yields, and reduced access to external financing. Growing interconnections across financial markets further increase the potential for cross-border spillovers, including to jurisdictions with limited direct exposure to the originating shock.

Figure 1: Real GDP Growth Rates of Barbados' Main Tourist Markets[1]



Sources: International Monetary Fund (World Economic Outlook Update, July 2026) and World Bank (Global Economic Prospects, January 2026)

Figure 2: Inflation Rates for Advanced Economies and Barbados



Sources: International Monetary Fund (World Economic Outlook, April 2026; World Economic Outlook Update, July 2026), Barbados Statistical Service, and Central Bank of Barbados

1.3 Domestic Vulnerabilities

Barbados' economic structure amplifies the transmission of external shocks into financial sector vulnerabilities. The principal features are a strong reliance on tourism and external demand, high import dependence for essential goods, and the concentration of economic activity and credit exposure in coastal areas. Increasing digitalisation and the growing interconnectedness of financial infrastructure, including payment and settlement systems, heighten exposure to operational risk. The expanding role of non-bank financial institutions creates additional cross-sector transmission channels, while linkages between the sovereign and the financial system can transmit macroeconomic stress directly into financial sector balance sheets. These structural features are not risks in themselves. They determine how shocks propagate and whether they evolve into broader financial stability concerns.

Balance sheet developments during 2025 reduced the headroom available to absorb such shocks in parts of the system. Credit expanded at its fastest pace in over a decade while deposit growth slowed to 2.9 percent, commercial banks' capital adequacy ratio declined from 21.2 percent to 19.0 percent and the leverage ratio from 12.0 percent to 10.9 percent, and provisioning coverage of non-performing loans eased. Concentration risk remained material, with mortgages accounting for close to half of deposit-taking institution loan portfolios and large-borrower exposures continuing to test capital under stress. Credit union profitability weakened. Other indicators moved in the opposite direction: credit quality strengthened across every major borrower segment, aggregate liquidity remained adequate, finance company capital improved, and the recapitalisation need identified under the severe stress scenario fell relative to the previous exercise. Taken together, these developments left aggregate resilience adequate but reduced headroom in parts of the system, particularly among commercial banks and selected credit unions.

[1] The Caribbean aggregate is shown both with and without Guyana, whose growth has been dominated by offshore oil production since 2020 and would otherwise obscure regional trends.

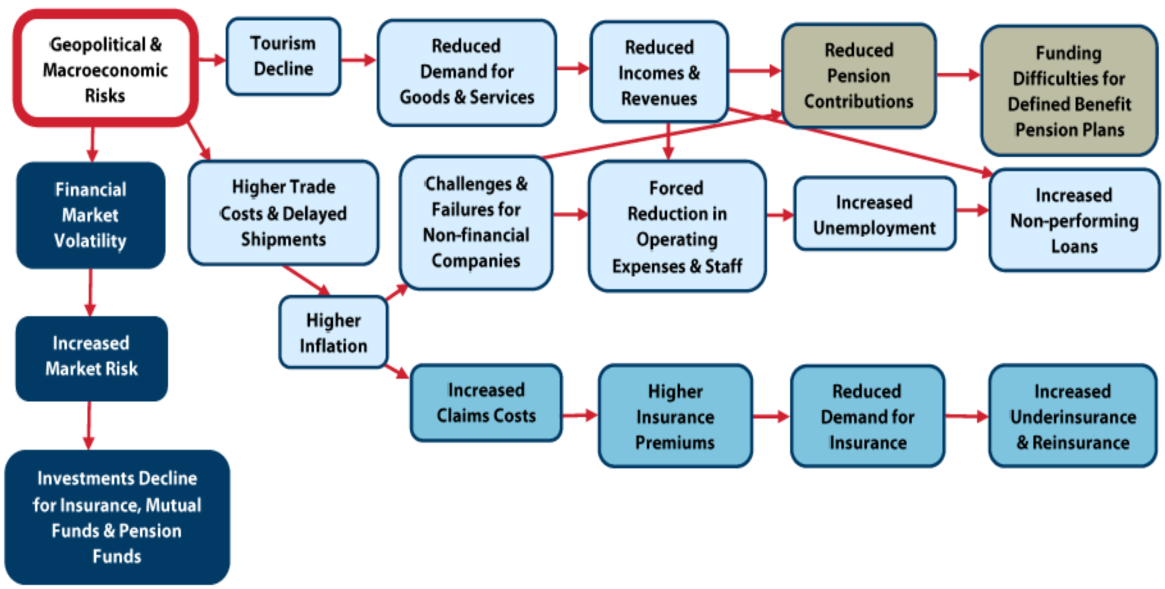
1.4 Transmission Channels

1.4.1 Geopolitical Uncertainty

Geopolitical uncertainty remains the most immediate external risk to Barbados, transmitting through higher energy prices, weaker tourism demand, and disruption in global financial markets. Escalating tensions can raise oil prices, increase shipping and insurance costs, and disrupt trade routes. These effects raise domestic inflation, increase the import bill, and compress business margins. Barbados' reliance on imported fuel, food, and construction materials amplifies the impact, particularly where supply chain disruption affects the availability and timing of imports.

Weaker growth in key tourism source markets would reduce visitor arrivals and foreign exchange inflows, affecting income across tourism-related sectors. These real-sector effects transmit to the financial system through reduced repayment capacity, deteriorating credit quality, and weaker investment activity. Heightened uncertainty also increases financial market volatility, affecting asset valuations held by banks, insurers, and pension funds (Figure 3).

Figure 3: Geopolitical Risk to Financial Stability



Sources: Central Bank of Barbados and Financial Services Commission

1.4.2 Climate Risk

Climate risk remains the most significant long-term threat to financial stability, given Barbados' exposure to physical hazards and the concentration of activity in climate-sensitive sectors. Water scarcity and coastal exposure heighten vulnerability to acute risks such as hurricanes and storm surges, and to chronic pressures including rising temperatures and coastal erosion.[2]

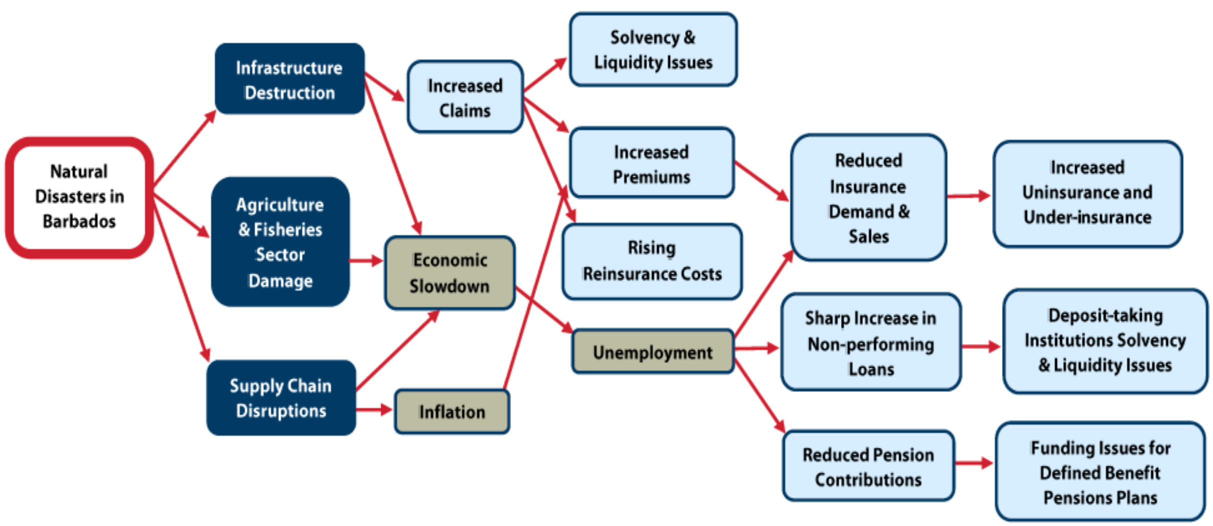
[2] Detailed climate risk assessments for deposit-taking institutions and insurance companies are provided in the thematic articles of the 2023 and 2024 Financial Stability Reports.

The concentration of economic activity and credit exposure in coastal areas, particularly within tourism and real estate, magnifies the potential impact of physical climate shocks. Climate events directly affect asset values, disrupt economic activity, and reduce borrower repayment capacity. These effects transmit to the financial system through declines in collateral values, increased insurance claims, higher reinsurance costs, and rising non-performing loans. Broader macroeconomic consequences, including slower growth, higher unemployment, and fiscal pressure, can further weaken financial sector resilience. Chronic risks such as water scarcity constrain tourism and agricultural activity, reinforcing longer-term vulnerabilities (Figure 4).

The insurance and pension sectors are among the most exposed. Transmission occurs through higher claims, rising reinsurance costs, widening protection gaps where households and businesses reduce or forgo coverage, lower investment returns, and funding pressure on defined benefit arrangements.

Transition risks associated with the global shift towards a low-carbon economy are currently less pronounced for Barbados, but may become more relevant over time, particularly for sectors exposed to changing regulatory or technological conditions.[3]

Figure 4: Climate & Natural Disaster Risks to Financial Stability



Sources: Central Bank of Barbados and Financial Services Commission

1.4.3 Cyber and Artificial Intelligence Risk

Cyber and AI risks are increasingly relevant to financial stability, reflecting growing reliance on digital and interconnected financial infrastructure. Instant payment capability improves efficiency and supports financial inclusion, while also increasing the system's dependence on digital platforms. Disruption to critical infrastructure, whether from cyber incidents, operational failure, or third-party vulnerabilities, can interrupt payment flows, delay

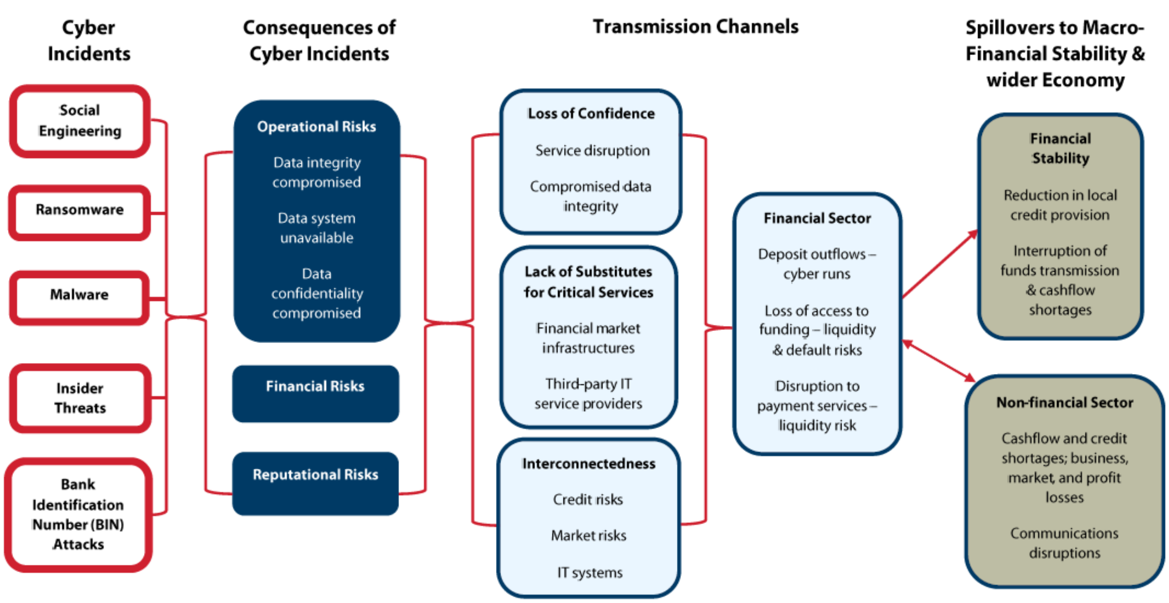
[3] See 2024 Financial Stability Report thematic article, *Tailoring Climate Transition Risk Assessments: Insights from Barbados*, for further analysis.

settlement, and generate liquidity pressure. Such disruption affects household and business cash flows and can weaken confidence in the financial system.

Cyber incidents, including ransomware attacks and data breaches, generate operational, financial, and reputational risks. These transmit through service disruption, loss of confidence, liquidity pressure, and direct financial loss. Interconnected systems amplify these effects, allowing disruption to spread across institutions and sectors (Figure 5). Reliance on third-party providers, including cloud and payment platforms, is often prudent for smaller institutions that could not otherwise access comparable capability. It nonetheless introduces vulnerability where provision is concentrated among few providers. Weaknesses in governance, incident reporting, third-party oversight, or business continuity arrangements can therefore produce operational disruption, reputational damage, data-integrity concerns, and erosion of confidence across the sector.[4]

The increasing use of AI introduces further risk dimensions. These include model risk and error in automated decision-making, greater exposure to fraud and AI-enabled financial crime, concentration risk among third-party technology providers, and the amplification of operational and cybersecurity failures at scale. AI systems may also identify and exploit system vulnerabilities faster than institutions can detect and respond to them. AI can strengthen efficiency and risk management, but inadequate governance or oversight may increase systemic vulnerability, particularly where these systems are embedded in core financial operations.[5]

Figure 5: Cyber Risks to Financial Stability



Sources: Central Bank of Barbados and Financial Services Commission. Adapted from the IMF Global Financial Stability Report, 2024

[4] See 2024 Financial Stability Report thematic article, *Quantifying Cyber Risk: A Cy-VaR Assessment of BIN Attacks on the Barbadian Banking Sector*, for further analysis.
[5] See 2025 Financial Stability Report thematic article, *The Emergence of Artificial Intelligence: Threat or Benefit to Financial Sector Stability in Barbados*, for further analysis.

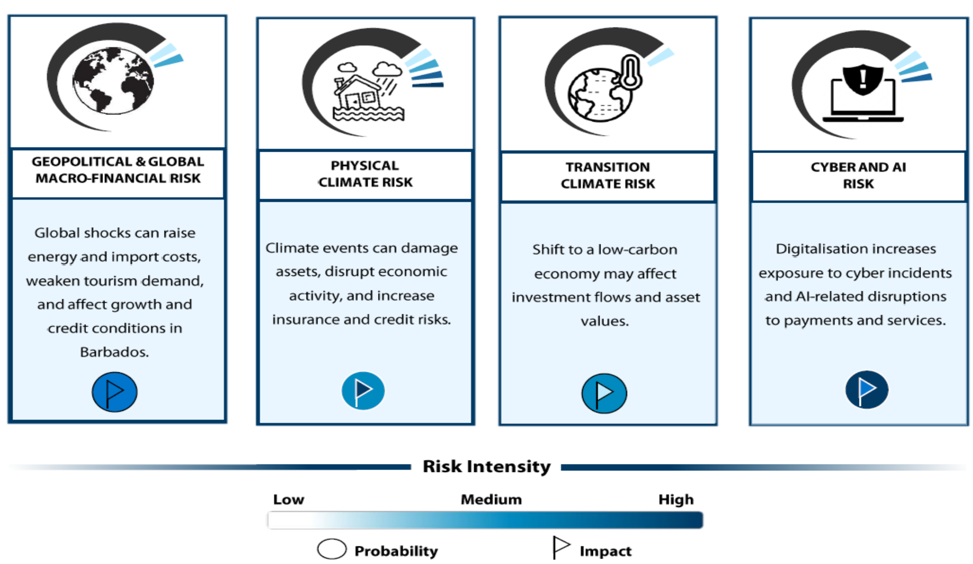
1.5 Systemic Risk Assessment

The three risks differ in transmission and time horizon, but each can generate system-wide effects through its interaction with domestic vulnerabilities. In a small and interconnected financial system, shifts in confidence amplify shocks, affecting deposit behaviour, credit conditions, and investment decisions. Geopolitical uncertainty is the most immediate external risk, affecting inflation, the external balance, and credit conditions. Climate risk is structural, with long-term implications for asset values and economic activity. Cyber and AI risk is primarily operational, but can generate system-wide effects through disruption to critical infrastructure.

Barbados' profile of systemic risks carries varying levels of likelihood and impact (Figure 6). Geopolitical and global macro-financial risk is assessed as having a medium to high likelihood and impact in the near term. Physical climate risk is assessed as having a medium to high likelihood and a high potential impact over the medium term. Transition climate risk is assessed as having a medium likelihood and a medium to low impact. Cyber and AI risk is assessed as having a high likelihood and a medium to high potential impact, depending on the scale of disruption. These assessments are qualitative judgements made by staff of the Bank and the Commission, based on prevailing conditions, the time horizon indicated, and the transmission channels described in this chapter. They are structured supervisory judgements rather than model-generated probabilities.

The significance of these assessments depends on the buffers available to absorb the risks should they materialise. Section 1.3 notes that aggregate buffers remained adequate, although headroom narrowed in parts of the system during 2025. The combination of a less predictable external environment and reduced headroom in parts of the system is the principal reason this report places greater emphasis than its predecessor on preserving capital and liquidity, and on institution-specific supervision.

Figure 6: Key Risks Dashboard



Source: Central Bank of Barbados

1.6 Policy Considerations

Maintaining financial stability in this environment requires continued attention to resilience, risk monitoring, and the strengthening of institutional and regulatory frameworks. For geopolitical risk, this means maintaining adequate macroeconomic buffers, monitoring sectoral exposures, and preserving policy flexibility. For climate risk, it means further integrating climate considerations into supervisory frameworks, stress testing, and data collection, alongside broader efforts to strengthen physical and financial resilience. For cyber and AI risk, it means strengthening operational resilience, enhancing cyber risk management frameworks, and improving oversight of third-party service providers and emerging technologies.

The reduction in headroom described in Section 1.3 argues for rebuilding capacity while conditions remain favourable. Buffers are accumulated in good conditions and drawn down in adverse ones. The supervisory implication is twofold: attention should concentrate on the institutions that stress testing identifies as vulnerable, while the system as a whole preserves aggregate buffers and rebuilds institution-specific headroom where it has weakened.

Continued coordination between regulators, financial institutions, and other stakeholders will be important to ensure that risks are identified early and managed effectively. The priorities are to strengthen sector-specific and cross-sector surveillance, and to improve data collection on credit union concentration and liquidity risk, insurer catastrophe and reinsurance exposures, pension funding and contribution risk, investment fund liquidity and valuation risk, cyber incidents, outsourcing arrangements, and the interconnections between banks and non-bank financial institutions.

2. Regulatory Developments and Forward Agenda

Regulatory developments continued to support the strengthening of financial stability by enhancing prudential oversight, supervisory data, payments modernisation, and preparedness for emerging risks. During 2025 and through 20 July 2026, the reform agenda centred on four areas: insurance solvency reform, regulatory reporting and stress testing, payments modernisation, and the expansion of the regulatory perimeter to address digital finance, cyber, climate, and investment fund risks. These developments are expected to improve supervisory responsiveness and institutional resilience, provided implementation remains timely, proportionate, and aligned with sector-specific risks (Figure 7).

Figure 7: Key Regulatory Reforms and Financial Stability Relevance (Barbados: Selected Developments in 2025 and to 20 July 2026)

Reform Area	Responsible Entity	Stage	Main Risk Channel	Stability Relevance
Insurance solvency reform	Financial Services Commission	Enacted; standards in development	Capital adequacy and solvency risk	Strengthens insurers' shock-absorption capacity
IFRS reporting for insurers	Financial Services Commission	Issued	Data quality and supervisory visibility	Improves comparability and monitoring of liabilities and performance
Insurance stress-testing directive	Financial Services Commission	In force	Underwriting, capital, and reinsurance risk	Supports forward-looking solvency assessment
Credit union reporting reform	Financial Services Commission	In Implementation	Concentration, liquidity, and capital monitoring	Improves surveillance of systemically important credit unions
PSP licensing and supervision	Central Bank of Barbados	Issued	Operational, settlement, and conduct risk	Strengthens oversight of new payment service providers
Safeguarding customer funds	Central Bank of Barbados	Issued	Customer fund protection and PSP failure risk	Reduces contagion and confidence risks
Technology and cyber risk guideline	Central Bank of Barbados	Issued	Cyber and operational resilience	Supports resilience of digital financial services
Securities reform	Financial Services Commission	Proposed	Market integrity, conduct, and regulatory perimeter risk	Reduces blind spots and supports investor protection
Mutual/ Investment funds reform	Financial Services Commission	Under Review	Market integrity, conduct, and regulatory perimeter risk	Reduces blind spots and supports investor protection

Sources: Central Bank of Barbados; Financial Services Commission; staff compilation

2.1 Prudential and Solvency Reform

Prudential reform in 2025 focused on strengthening loss-absorption capacity and closing legislative gaps across the insurance sector. The Insurance (Amendment) Act, 2025 was enacted on 17 June 2025, establishing the legislative basis for the future implementation of risk-based capital and solvency standards for domestic and international insurers. Once implemented, the new prudential standards are expected to improve insurers' capacity to absorb losses, reduce policyholder protection risks, and limit the potential transmission of insurer distress to households, firms, counterparties, and the wider financial system.[6,7]

Since publishing the 2024 FSR, wider sectoral reforms have sought to improve proportionality, market integrity, and supervisory coverage across FSC-regulated financial institutions. Amendments to the pension legislation have been proposed and are intended to strengthen the legislative framework and support a more risk-based pension supervision regime. A legislative gap analysis and benchmarking exercise is underway with external technical assistance and is scheduled to conclude in September 2026. A proposed investment funds framework remains under review and is intended to replace the Mutual Funds Act Cap 320B as the primary legislation governing investment funds and related operators in Barbados. If enacted, a more comprehensive framework would improve transparency, support investor protection, and reduce regulatory blind spots across pooled investment vehicles.[8,9]

Securities sector reforms are intended to strengthen the legislative framework governing Barbados' capital market and enhance international regulatory cooperation. The proposed replacement of the Securities Act Cap 318A, alongside proposed amendments to the Financial Services Commission Act, 2010-21, for which draft legislation is with the Chief Parliamentary Counsel, would support a more resilient and credible market framework. If enacted, this would support the FSC's ability to meet the legislative prerequisites required to become a full Appendix A signatory to the International Organization of Securities Commissions (IOSCO) MMoU, collectively reducing industry exposure to cross-border contagion risks and enabling coordinated supervisory responses with regulators from other jurisdictions. Initial consultation on the securities framework has been completed and drafting instructions are being finalised ahead of Board and Cabinet approval.[10]

Governance and conduct guidelines issued in 2024 continued to support the 2025 supervisory framework. The Bank's Market Conduct Guideline and the Commission's Material Changes Disclosure and Fitness and Propriety Guidelines remained in force through 2025, strengthening expectations around fair treatment of customers, transparency, reporting of material operational or financial changes, and fit-and-proper assessments.[11]

[6] Financial Services Commission, *Information Bulletin SR 03/2025: Insurance (Amendment) Act, 2025*, September 2025. The bulletin states that the Act enhances statutory fund requirements and provides for the phased introduction and adoption of risk-based capital and solvency requirements for domestic and international insurers.

[7] Based on the legislative minimum capital requirements of the Barbados Insurance Act Cap 310 Section 9 and Revised Statutory Reporting Guideline No. 6.

[8] Financial Services Commission, *Pensions Consultation Paper*, April 2026. The consultation paper outlines proposals to reform Barbados' pensions legislative framework and establishes a risk-based regime for pension supervision.

[9] Financial Services Commission, *Investment Funds Consultation Paper*, April 2026. The consultation paper proposes to repeal and replace the Mutual Funds Act with a modern investment funds framework and remains subject to consultation.

[10] IOSCO MMoU Appendix A signatories hold full cooperative status, enabling them to share supervisory information and take coordinated enforcement action with securities regulators in over 130 jurisdictions.

[11] Central Bank of Barbados, *Market Conduct Guideline*, July 2024; Financial Services Commission, *Material Changes Disclosure Guideline*, November 2024; and Financial Services Commission, *Fitness and Propriety Guideline*, December 2024.

2.2 Supervisory Reporting and Risk Monitoring

Supervisory reforms have strengthened the quality, granularity, and forward-looking use of regulatory data. In insurance, the Revised Statutory Reporting Guideline No. 6 was issued, enhancing reporting requirements for Class 1 and Class 2 insurers, including arrangements for reporting under IFRS 17 or IFRS for SMEs. More consistent recognition, measurement, and disclosure of insurance liabilities should improve comparability across insurers and strengthen the Commission's ability to assess underwriting performance, claims development, contract liabilities, and capital adequacy.[12][13]

Bottom-up stress-testing requirements were introduced in January 2026 under the Insurance Stress Testing Directive, 2026. The first supervisory exercise has been completed, with insurers required to submit results by 30 June 2026, and those results were under review at the reporting cut-off. The directive moves insurance supervision towards a more forward-looking assessment of capital, reinsurance, and management-action capacity under adverse conditions. The results of these exercises will enhance the Commission's ability to assess whether capital buffers, reinsurance arrangements, and management actions remain adequate in adverse circumstances. This is particularly important for Barbados, where climate-related physical risks, reinsurance costs, and concentrated domestic exposures can affect insurers' balance sheets and claims-paying capacity.[14]

Enhanced credit union reporting requirements were issued in April 2026, and should strengthen systemic-risk monitoring by improving the assessment of asset quality, liquidity, capital, and concentration risks across the credit union sector. These enhancements are expected to strengthen system-wide surveillance, facilitate peer comparisons, and support early identification of emerging vulnerabilities, while providing additional supervisory insight into the larger credit unions given their systemic importance. Work towards a dedicated Credit Union Act remains at the position-paper stage, reflecting ongoing efforts to strengthen the legislative framework in line with the sector's growing role in household finance and domestic financial intermediation.

The Commission's Domestic Non-Bank Systemically Important Financial Institutions (D-SIFI) guideline was issued on 1 December 2024, and strengthens macroprudential oversight by applying enhanced expectations to FSC-regulated institutions whose distress could have wider systemic implications. The guideline includes enhanced expectations for capital, liquidity, governance, business continuity, recovery planning, disclosure, and reporting.[15] Two institutions have been designated as SIFIs.

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[12] Section 3A(1) of the Insurance Act, Cap. 310 classifies insurers according to the nature of the business underwritten. Class 1 insurers primarily underwrite related-party business, generally including captive insurance arrangements, while Class 2 insurers underwrite third-party risks.

[13] Financial Services Commission, *Revised Statutory Reporting Guideline No. 6*, April 2025. The guideline replaces the 2013 version of Statutory Guideline No. 6, outlines reporting obligations for Class 1 and Class 2 insurers, and includes updated requirements related to IFRS 17.

[14] Financial Services Commission, *Insurance Supervisory Directive on Submission of Stress Testing Results*, January 2026. The directive requires Class 2 insurers with domestic exposure to submit prescribed bottom-up stress-testing results.

[15] Financial Services Commission, *Domestic Non-Bank Systemically Important Financial Institutions Guideline*, December 2024. The guideline outlines the criteria for identifying domestic non-bank

2.3 Payments, Digital Finance, and Cyber Resilience

Payments modernisation increases the importance of operational resilience, settlement safeguards, customer-fund protection, and effective oversight of payment service providers. BiMPay, the Barbados Instant Payments System, enables fully interoperable payments between individuals, businesses, and Government on a continuous basis. From a financial stability perspective, instant payments improve efficiency, inclusion, and cash-flow management, but they also increase the importance of operational resilience, cyber controls, liquidity management, settlement safeguards, fraud monitoring, and effective oversight of new service providers.[16]

The Bank enhanced the payment service provider (PSP) regulatory framework by establishing stronger legal and supervisory requirements for licensing, oversight, and conduct in the payments ecosystem. This initiative led to the publication of three key regulatory documents in September 2025: an Oversight Policy Framework, a Licensing and Authorisation Framework, and a Supervisory Framework.[17] These documents are intended to strengthen oversight of the national payment system, provide regulatory clarity for PSPs, and support consumer protection and system integrity. The National Payment System Regulations, S.I. 2026 No. 46, issued in February 2026, provide a further regulatory basis for payment services and PSPs.[18]

Customer-fund safeguards have become more important as payment activity expands beyond traditional deposit-taking institutions. The Bank issued the Guideline for Safeguarding Customer Funds in September 2025, applicable to all PSPs. The Guideline requires that funds received in exchange for electronic money be segregated from the entity's own funds and safeguarded through arrangements such as trust or custodian accounts, insurance, or comparable guarantees. These safeguards reduce the risk that PSP distress or failure undermines customer confidence or creates wider contagion risks.[19]

Regional payments integration also advanced through the CARICOM Payment and Settlement System (CAPSS) pilot.[20] In collaboration with Afreximbank and the Pan-African Payment and Settlement System (PAPSS), the CARICOM Governors' Technical Working Group on Intra-Regional Payments conducted a successful pilot test of the CAPSS.[21] This underscores

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systemically important financial institutions, the standards applicable to such institutions, and measures to mitigate risks posed to the financial system and broader economy.

[16] Central Bank of Barbados, *About BiMPay*. The Central Bank states that BiMPay will facilitate payments between individuals, businesses, and Government on a 24/7/365 basis and will be fully interoperable.

[17] Central Bank of Barbados, *Barbados National Payment System Oversight Policy Framework,* September 2025; Central Bank of Barbados, *Licensing and Authorisation Framework for Payment Service Providers,* September 2025; and Central Bank of Barbados, *Supervisory Framework for Payment Service Providers*, September 2025. Together, these documents form the Central Bank's regulatory framework for PSP oversight, licensing and authorisation, and supervision.

[18] Central Bank of Barbados, *National Payment System Regulations, S.I. 2026 No. 46*, issued on 12 February 2026.

[19] Central Bank of Barbados, *Guideline for Safeguarding Customer Funds*, September 2025. The guideline contains advisory and mandatory requirements for safeguarding customer funds held by payment service providers.

[20] Barbados Today, *Barbados, Bahamas Pilot Instant Cross-Border Payment System*, 29 May 2025.

[21] This test was conducted in conjunction with the Central Bank of The Bahamas.

the growing importance of cross-border settlement efficiency, interoperability, and operational resilience, as domestic payment systems modernise.

Cyber resilience remains a core stability priority as financial services become more digital, interconnected, and reliant on third-party technology arrangements. The Bank issued a revised Technology and Cyber Risk Management (TCRM) Guideline in March 2026, incorporating best practice cyber security standards for payment infrastructures and supporting stronger technology and cyber-risk governance across regulated financial institutions. The Guideline applies to all entities falling under the Financial Institutions Act, Cap. 324A and the National Payment System Act, 2021. It remains principles-based, and the Bank expects entities to design and implement a technology and cyber risk management framework commensurate with the nature, scale, complexity and risk of their business. The Guideline's key objectives are to ensure:[22]

1) The establishment of a sound and robust technology and cyber risk management framework;
2) The protection of customer data, transactions, and systems; and
3) The consistent enhancement of system security, reliability, and resilience.

This is especially relevant following the launch of BiMPay on 12 June 2026, as digital payments, online banking, cloud services, outsourcing, and data-driven financial services become more embedded in Barbados' financial system.

2.4 Digital Assets, AML/CFT, and Market Integrity

The expansion of digital finance has increased the importance of addressing regulatory gaps related to virtual assets and virtual asset service providers (VASPs). Following the Commission's public consultation on virtual assets and VASPs, which concluded on 21 May 2026, stakeholder submissions were reviewed and a proposed approach to a comprehensive regulatory framework was refined. For Barbados, the principal financial stability considerations are the prevention of regulatory blind spots, the safeguarding of client assets, investor protection, and the management of contagion risk as digital finance grows.[23]

The proposed domestic framework is consistent with international efforts to ensure that digital-asset activities are regulated according to the risks they pose. The International Organization of Securities Commissions (IOSCO) crypto and digital asset recommendations are based on the principle of "same activity, same risk, same regulatory outcome," while the Financial Stability Board's stablecoin recommendations seek to promote consistent and effective regulation, supervision, and oversight of global stablecoin arrangements across jurisdictions.[24] These international standards are relevant because digital assets and stablecoins can create

[22] Central Bank of Barbados, *Technology and Cyber Risk Management Guideline*, revised 31 March 2026.
[23] Financial Services Commission, *Development of a Virtual Assets and Virtual Asset Service Provider Framework Consultation Paper*, April 2026. The consultation paper sets out the FSC's proposed approach to developing a comprehensive regulatory framework for virtual assets and virtual asset service providers.
[24] International Organization of Securities Commissions, *Umbrella Note and Policy Recommendations for Crypto and Digital Asset Markets*, 2023; Financial Stability Board, *High-Level Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements*, July 2023.

cross-border risks, custody risks, market-integrity concerns, and potential channels for regulatory arbitrage.

The effectiveness of AML/CFT remains important for preserving jurisdictional credibility as digital payments, cross-border transactions, and virtual assets expand. Barbados was removed from the Financial Action Task Force's (FATF) Grey List in February 2024, following an onsite visit in January 2024.[25] Continued vigilance will help preserve the credibility of the jurisdiction while ensuring that risk-based controls do not unnecessarily constrain legitimate financial access.

Barbados' financial integrity framework will also remain a key area of focus as the jurisdiction prepares for the next Caribbean Financial Action Task Force (CFATF) mutual evaluation cycle. Following its removal from the FATF list of jurisdictions under increased monitoring and the completion of the fourth-round mutual evaluation process, continued work will be required to strengthen AML/CFT supervision, improve data readiness, maintain effective inter-agency coordination, and demonstrate sustained implementation of the FATF standards. These efforts are important not only for regulatory compliance, but also for preserving market confidence, correspondent banking relationships, and the integrity of cross-border financial activity.

2.5 Climate Risk and Supervisory Preparedness

Climate risk remained a supervisory priority because physical risks can affect insurer claims, reinsurance availability, asset values, and business continuity. The integration of climate-risk assessment into supervision should help authorities assess these transmission channels in a more structured and forward-looking manner. The Network for Greening the Financial System (NGFS) 2025 guide on climate scenario analysis provides a useful reference point for developing proportional approaches to climate-risk assessment in small, climate-exposed jurisdictions.[26]

International supervisory priorities reinforce the need for Barbados to build proportional approaches to climate-risk assessment, catastrophe-risk monitoring, and insurance-sector resilience. The International Association of Insurance Supervisors (IAIS) Roadmap 2026-2027 highlights monitoring and responding to key risks and trends in the global insurance sector, maintaining supervisory standards, supporting capacity building, and promoting consistent implementation of global standards.[27] These themes are directly relevant to Barbados given its exposure to natural hazards, the importance of insurance and reinsurance to household and business resilience, and the growing digitalisation of financial services.

Supervisory capacity-building also supported the reform agenda through regional engagement on cyber risk, parametric insurance, and supervisory technology. These areas are relevant to Barbados' financial stability framework because they strengthen preparedness

[25] Central Bank of Barbados, *Barbados No Longer Under Increased Monitoring by the FATF*, February 2024.
[26] Network for Greening the Financial System, *Guide to Climate Scenario Analysis for Central Banks and Supervisors: 2025 Version*, November 2025.
[27] International Association of Insurance Supervisors, *Roadmap 2026-2027*. The roadmap outlines the IAIS' work programme for 2026-2027, including activities related to monitoring key risks and trends, supporting global standards, capacity building, and implementation.

for climate-related insurance shocks, improve operational resilience, and support more data-driven and forward-looking supervision.

2.6 Forward Agenda

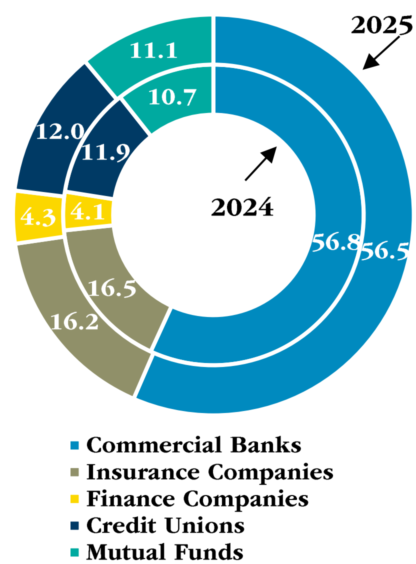
Regulatory developments during 2025 and through 20 July 2026 support financial stability, but implementation capacity will determine how effectively reforms translate into stronger supervisory outcomes. The reform agenda is becoming more risk-based, data-driven, and aligned with international standards. The most important implementation priorities are to complete the transition towards stronger insurance solvency standards, improve credit union and insurance reporting, operationalise PSP licensing and supervision, maintain cyber resilience, and develop proportionate frameworks for climate and digital-asset risks. Implementation will require careful sequencing, adequate supervisory capacity, and continued engagement with regulated institutions to avoid disproportionate compliance burdens, particularly for smaller entities. Continued coordination between the Bank, the Commission, regulated institutions, and regional and international standard setters will be essential to ensure that regulatory reforms translate into stronger supervisory outcomes and greater resilience across the Barbadian financial system.

3. Analysis of the Financial System

3.1 Structure of the Financial System

Barbados' financial system remained sizeable relative to the economy in 2025, buoyed by continued asset growth across banks and non-bank financial institutions (NBFIs). Total financial system assets increased by 3.9 percent over the year to an estimated 180.2 percent of GDP.[28] Commercial banks continued to dominate the system, with balance sheets expanding by 3.3 percent. The NBFI sector grew at a slightly faster pace of 4.7 percent, led by mutual funds, which recorded the strongest increase of 8 percent. Finance companies and credit unions also experienced robust gains, with growth of 6.8 percent and 4.9 percent, respectively. The continued expansion of NBFIs reinforces the importance of monitoring their interconnections with banks, given their systemic relevance.[29] Overall, this pattern of growth left the asset distribution largely unchanged from previous years (Figure 9).

Figure 8: Distribution of Assets



Sources: Central Bank of Barbados and Financial Services Commission

Barbados' financial system remained resilient in 2025, supported by continued credit growth and stable asset quality. Summary indicators pointed to modest softening in financial stability conditions, as the Banking Stability Index (BSI) declined marginally and the Aggregate

[28] This excludes the occupational pensions sector, as estimates for the sector were unavailable.
[29] See the 2025 Financial Stability Report thematic article, *Assessing Direct Balance Sheet Linkages Between Bank and Non-bank Financial Institutions in Barbados*, for further analysis.

Financial Stability Index (AFSI) edged down slightly on an annual-average basis (see Appendix, Figures A1 and A2). This moderation reflected some easing in prudential and external conditions, although both indicators remained favourable and consistent with a sound and resilient financial sector.

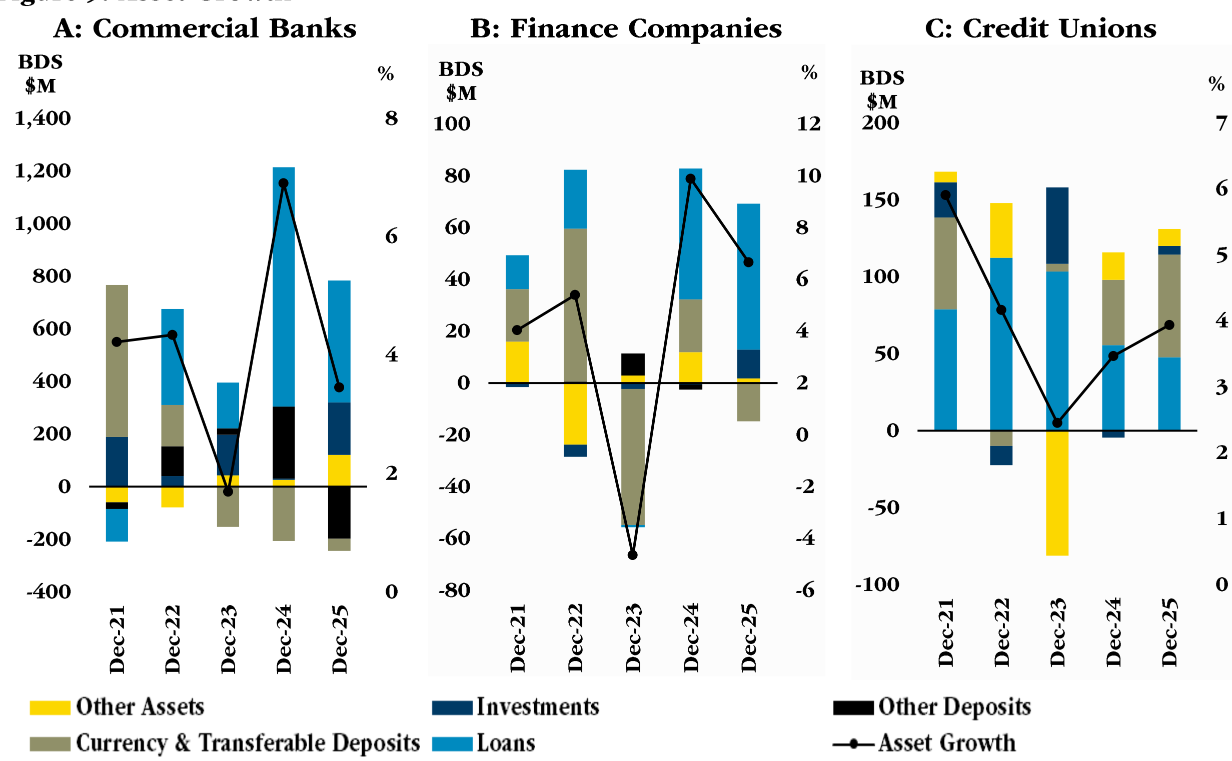
3.2 Deposit-Taking Institutions

3.2.1 Asset Trends

DTIs' balance sheets continued to expand in 2025, driven by renewed credit growth and investment activity, though exposure concentrated in loan portfolios. Total assets grew by 3.7 percent, moderating from 6.5 percent in 2024. Lending growth remained concentrated within the hotels and restaurants sector across both commercial banks and finance companies, consistent with continued strength in tourism-related activity.

DTIs maintained robust liquidity buffers in 2025 and are expected to continue shifting towards lower-risk assets, amid heightened global economic uncertainty. Investments in fixed income securities increased for banks and finance companies, contributing to income generation while preserving liquidity.[30] At the same time, credit unions experienced an increase in cash holdings (Figure 9).

Figure 9: Asset Growth



Sources: Central Bank of Barbados and Financial Services Commission

[30] See Investments section.

3.2.2 Credit Conditions

CREDIT CONDITIONS DASHBOARD				
	2024	**2025**	**2024**	**2025**
Credit-to-GDP (%) …	67.6	67.2		
Credit-to-GDP Gap (%) …			-3.0	-2.4

	Non-Financial Corporations		***Households***	
	2024	***2025***	***2024***	***2025***
Debt Stock (BDS$M)	2,520	2,731	6,406	6,645
Debt Service as a % of GDP	0.76	0.82	2.17	2.06
NPL Ratio (%)	3.65	3.39	7.91	7.18
Debt-to-GDP (%)	16.59	17.03	42.16	41.45

Sources: Central Bank of Barbados and Financial Services Commission

Notes: Debt service is defined in this report as interest paid on loans and advances (excluding loans under repurchase agreements) by private non-financial corporations and households. Debt service is expressed as a percentage of nominal GDP where indicated. The household debt service ratio shown in Figure 13B measures household interest payments as a share of annual gross earnings (8.0 percent) and should not be confused with the household debt service-to-GDP ratio (2.06 percent) presented in the Credit Conditions Dashboard, which expresses the same household interest payments as a share of nominal GDP. Household debt-to-income is defined as total household debt relative to annual gross earnings. Historical GDP-denominated credit indicators have been revised relative to the 2024 Financial Stability Report following the Barbados Statistical Service's rebasing of the national accounts, which updated the GDP base year from 2016 to 2023.

Favourable credit conditions underpinned robust loan growth in 2025, while keeping system-wide risks contained. Strong economic activity contributed to lower delinquency rates and sustained credit demand. As a result, the credit-to-GDP gap[31] narrowed towards its long-term trend, indicating that credit expansion remained broadly aligned with underlying economic activity (Figure D2).

Corporate Sector

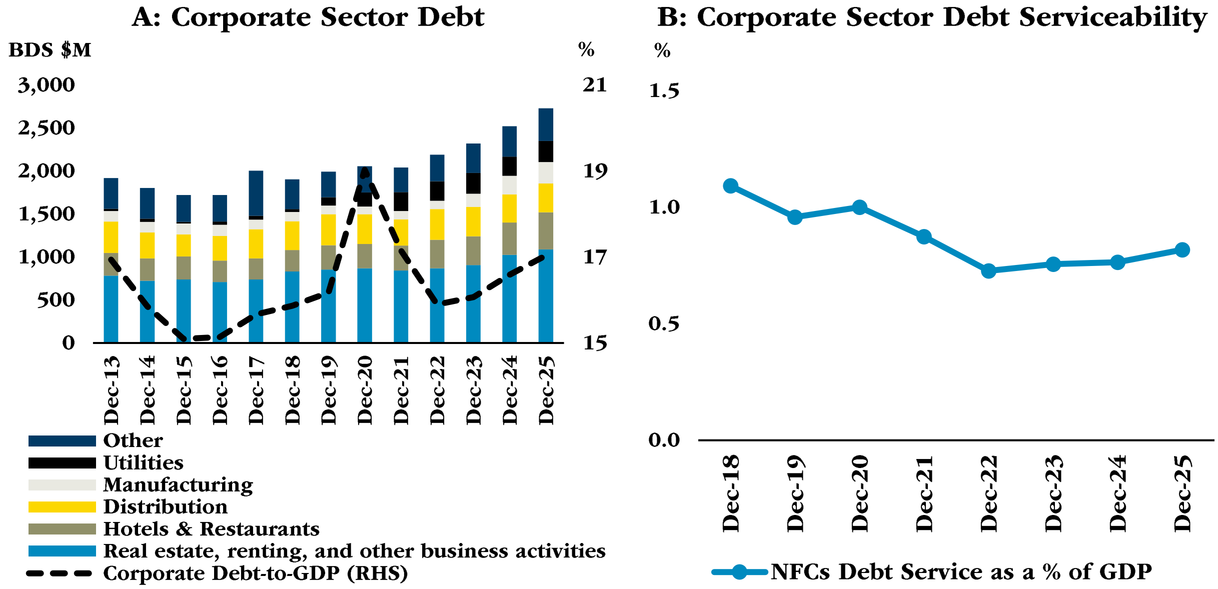
Credit to non-financial corporations (NFCs) expanded strongly in 2025, with broad-based sectoral growth and a modest increase in exposure within DTI loan portfolios. NFC credit balances grew by 8.4 percent, extending the upward trend since 2022. Growth was concentrated in the real estate, renting and other business activities, and hotels and restaurants sectors. Corporate debt rose marginally from 12.6 percent to 13.1 percent of total DTI assets, while its share of total DTI loans increased to 33 percent (up 1.2 percentage points), indicating slightly higher NFC exposure within loan portfolios.

The corporate sector remained resilient in 2025, with stable debt metrics despite continued credit expansion. While corporate debt rose relative to 2024, the debt-to-GDP ratio remained largely unchanged, indicating that credit continued to expand in line with overall economic growth (Figure 10A). The debt service burden increased marginally by 0.1 percentage points to 0.8 percent (Figure 10B). The increase stemmed primarily from higher loans and advances from commercial banks, consistent with expanding loan portfolios. Despite this

[31] The credit-to-GDP gap measures the deviation of the credit-to-GDP ratio from its long-term trend. It is calculated by applying the standard one-sided Hodrick-Prescott filter with the smoothing parameter (lambda) set at 400,000 to quarterly observations from March 1999 to December 2025.

uptick, the ratio remains within its historic range, underscoring continued corporate sector debt sustainability.[32]

Figure 10: Corporate Sector Indebtedness Indicators



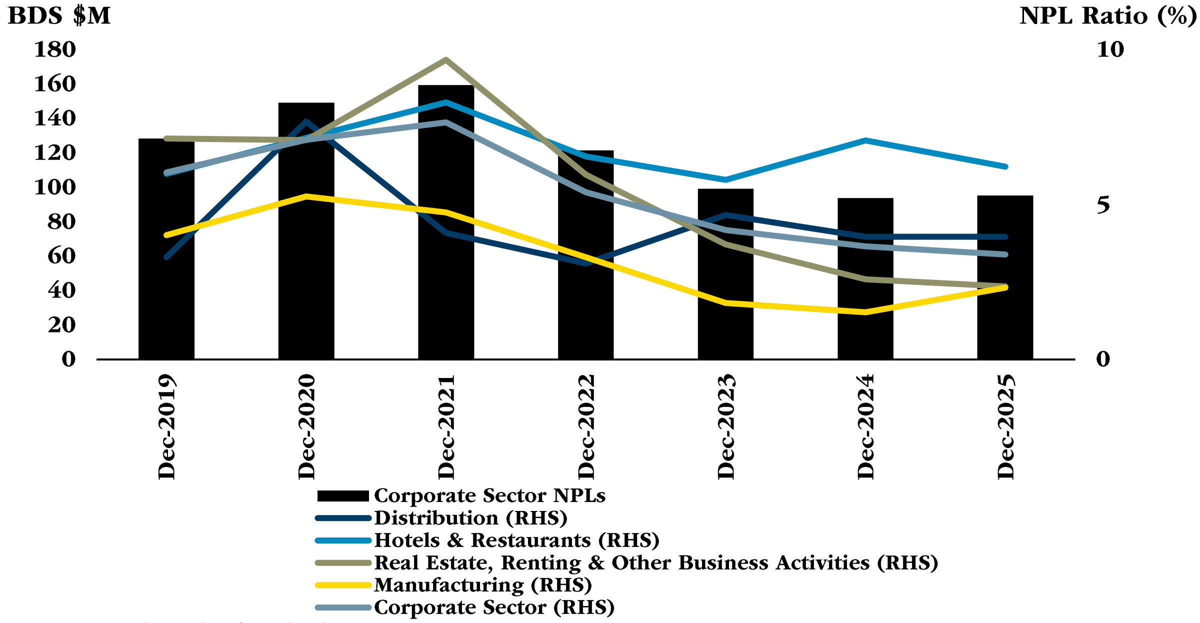
Sources: Central Bank of Barbados and Barbados Statistical Service

Corporate credit quality improved in 2025, with the NPL ratio declining to a record low, despite a marginal increase in NPL stock. Stronger tourism activity and an improved domestic labour market supported NFC performance across sectors. As a result, the NPL ratio fell by 0.3 percentage points to an 11-year low of 3.4 percent (Figure 11), even as the stock of NPLs increased by 1.5 percent. The rise in NPLs was concentrated in the manufacturing sector and largely reflects a single borrower's loan turning non-performing, rather than broad-based sectoral weakness.

While corporate balance sheets remain sound, downside risks from weaker growth and persistent inflation could pressure firm performance. Firms are expected to remain resilient in the near term; however, persistent price pressures and softer economic growth could compress margins and weaken financial positions. The Barbados Chamber of Commerce identifies high operating costs and supply chain frictions as key risks to profitability.[33] A slowdown in domestic demand, alongside elevated input costs, could reduce firm revenues, particularly in tourism-related and real estate sectors. In turn, weaker earnings may lead to higher NPLs, with implications for credit quality and bank profitability through increased provisioning and lower interest income.

[32] The debt service burden, measured as interest payments relative to GDP, reflects interest payments on debt held with DTIs only and does not account for debt obligations to informal lenders or external creditors.
[33] Barbados Chamber of Commerce & Industry, Annual Report 2025.

Figure 11: Corporate Credit Quality



Source: Central Bank of Barbados

Geopolitical, climate, and cyber-related shocks pose downside risks to corporate sector resilience.[34] Heightened geopolitical uncertainty could weigh on firm performance through weaker tourism demand, trade disruptions, higher input costs, and financial channels. Climate risks remain material; for example, a 1-in-100-year storm surge is estimated to cause approximately $3.6 billion in commercial property damage, with potential losses for asset values and firm balance sheets.[35] At the same time, cyber threats and increasing reliance on AI introduce operational vulnerabilities, including business disruption and third-party concentration risk. If these risks materialise, shocks could weaken firm earnings and increase NPLs, with spillovers to asset quality and bank profitability. A fuller assessment of AI-related vulnerabilities is presented in the thematic article on "The Emergence of Artificial Intelligence".

Provisioning and regulatory reserves remained above applicable requirements across deposit-taking institutions, although coverage eased. The credit outlook is stable, with non-performing loans expected to remain low over the medium term, supported by steady economic growth and continued strength in labour market conditions, despite a projected rise in inflation during 2026. Supervisory data indicate that provisions and regulatory reserves remained above applicable requirements across deposit-taking institutions. However, commercial banks' provisions-to-NPLs ratio declined from 46.5 percent to 45.0 percent, reducing the coverage available against further deterioration in asset quality.

Household Sector

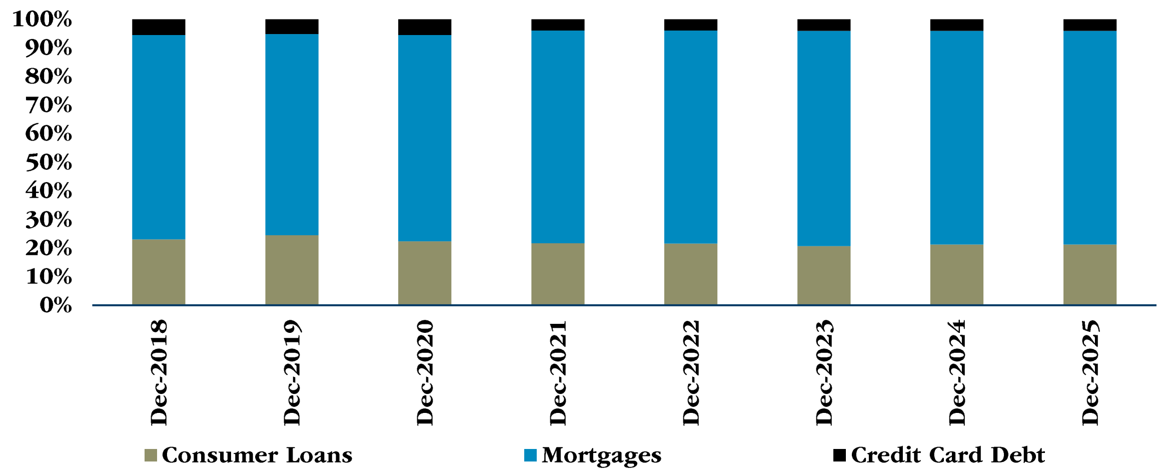
Household lending remained the largest source of credit exposure in 2025, with risks contained but concentrated within this segment. Loans to households accounted for approximately 54 percent of DTIs' loan portfolios and grew modestly, driven by mortgages and

[34] See Key Risks Chapter.
[35] Damage estimates were provided by the Coastal Zone Management Unit. For further details see thematic article "A Climate Risk Assessment of the Barbadian Deposit-taking Financial Sector" in FSR 2023 (pages 58-68).

consumer credit (Figure 12). Despite rising debt levels, key indicators of indebtedness and debt serviceability remained stable, supported by favourable lending conditions (Figure 13). However, the high concentration of credit in the household sector leaves the system exposed to shifts in labour market conditions or external shocks, which could weaken repayment capacity and affect asset quality.

The composition of household debt remained relatively unchanged in 2025, with mortgages continuing to dominate and consumer lending strengthening. Mortgage balances grew by 2.1 percent alongside improved credit quality. Consumer loan growth was driven by higher demand for auto-financing, while credit card balances increased modestly by 0.6 percent (Figure 12). Credit quality improved significantly, with the share of non-performing credit card loans declining from 3.5 percent in 2024 to 2.9 percent in 2025, suggesting improved repayment capacity.

Figure 12: Composition of Household Debt

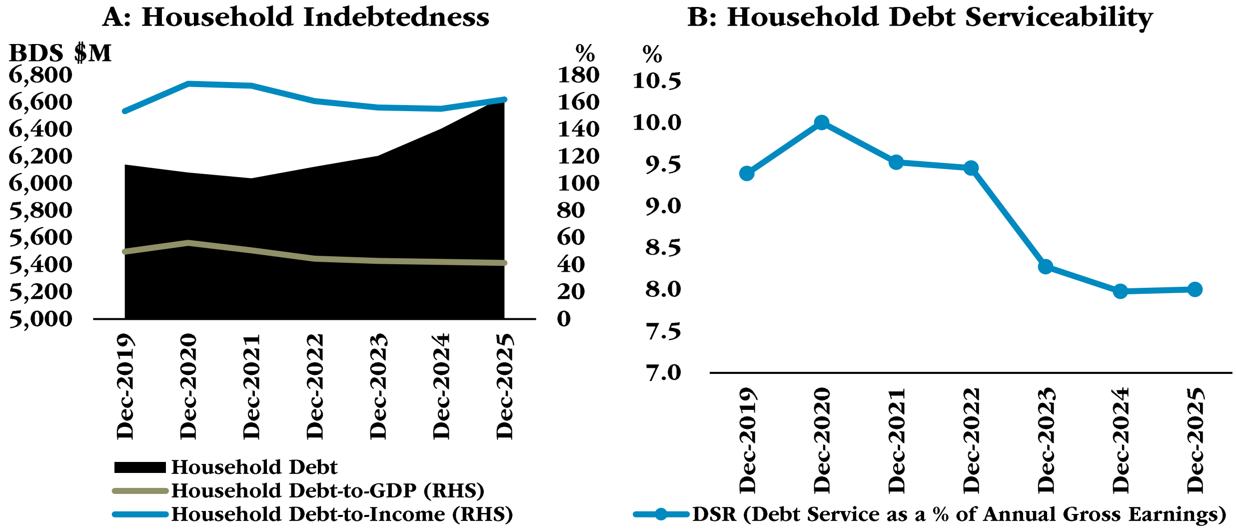


Sources: Central Bank of Barbados and Financial Services Commission

Household indebtedness rose in 2025, reversing several years of gradual improvement, while debt servicing capacity held steady. The debt-to-income ratio increased by approximately 7 percentage points to 162 percent, its first material rise since 2020 and above the pre-pandemic level of 154 percent (Figure 13A). The debt-to-GDP ratio declined, as economic growth outpaced household credit expansion. The debt service ratio (DSR) was unchanged at 8 percent, indicating that affordability was maintained despite the higher debt stock (Figure 13B). The divergence between the two measures warrants monitoring: households are carrying more debt relative to income, and the stability of the debt service ratio depends on lending rates remaining at current levels.[36]

[36] Calculated as households' debt service obligations (principal and interest payments) as a share of household income over the same period.

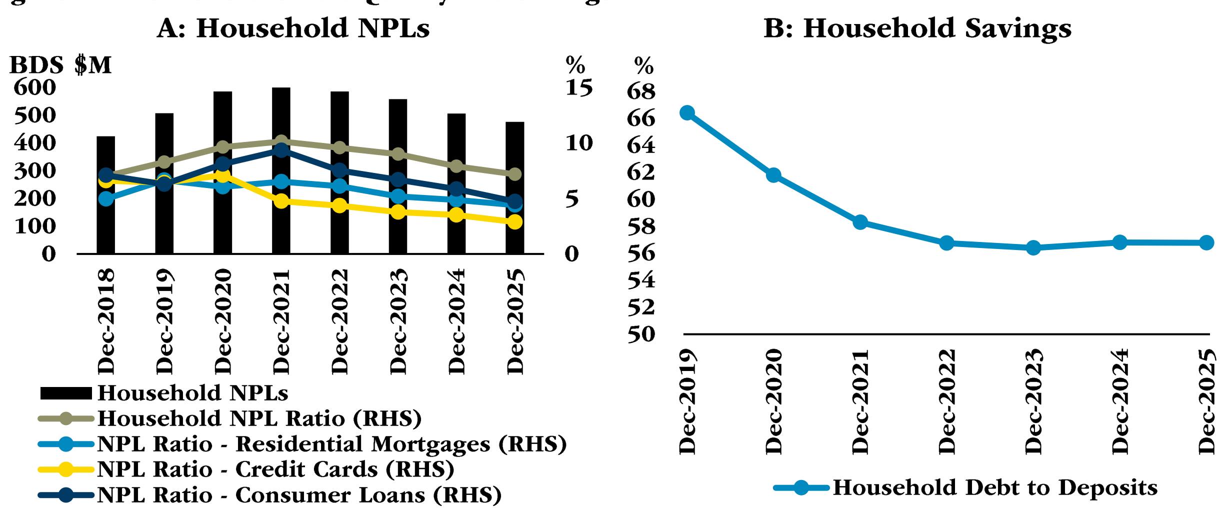
Figure 13: Household Indebtedness Indicators



Sources: Central Bank of Barbados, Financial Services Commission, Barbados Revenue Authority, Barbados Statistical Service and Central Bank of Barbados' Staff calculations

Household credit quality improved further in 2025, driven by stronger repayment capacity and, in part, balance sheet adjustments. The household NPL ratio declined across all major loan categories (Figure 14A), reflecting increased repayments alongside loan write-offs by banks. As a result, household NPLs stayed in line with pre-pandemic levels.

Figure 14: Household Credit Quality and Savings



*NPLs by category is not available for Credit Unions
Sources: Central Bank of Barbados and Financial Services Commission

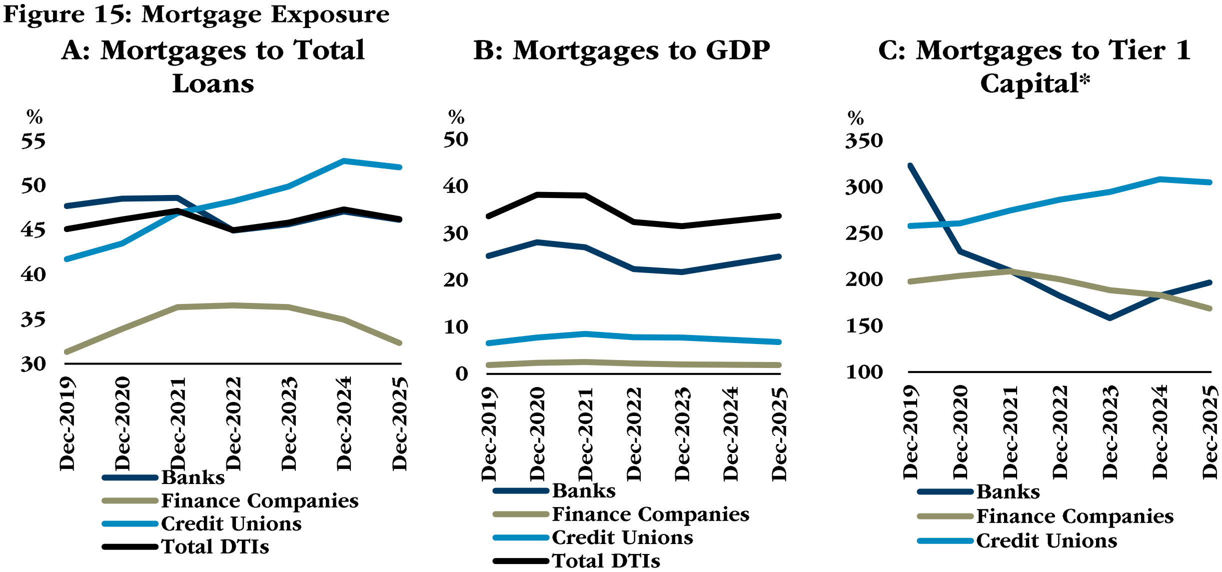
Household balance sheet risks remained contained in 2025, supported by stable financial buffers. Deposits grew by 3.8 percent, slightly outpacing debt growth of 3.7 percent and leaving the debt-to-deposits ratio unchanged (Figure 14B). Continued savings accumulation built resilience to income shocks. However, rising borrowing costs or a deterioration in labour market conditions could strain more vulnerable households with limited financial buffers, underscoring the need for close monitoring of household vulnerabilities. While unemployment remains at historically low levels, a macroeconomic slowdown in Barbados or its key tourism source markets could weaken repayment capacity over the medium term, with negative implications for credit quality.

3.2.3 Real Estate Sector

Real estate remained the largest sectoral exposure for DTIs in 2025. Mortgages accounted for nearly half of total DTI loan portfolios, with credit unions maintaining the highest concentration of mortgage lending (Figure 15A). Banks continued to expand mortgage lending and loans to the broader real estate sector; however, the share of real estate lending remained stable at approximately 46 percent, as credit growth across other loan categories also strengthened. Given Barbados' sustained economic growth momentum and historically low unemployment, the domestic macroeconomic environment bolstered stable mortgage performance by supporting household income and repayment capacity.

While mortgage exposures do not pose an immediate threat to financial stability, they remain a key structural vulnerability given their size and concentration within balance sheets. Banks extended 14.7 percent more new mortgages to households than in 2024, and 16.6 percent more to non-financial corporations, reflecting continued expansion in both the commercial real estate (CRE) and residential real estate (RRE) markets (Figure 16). Outstanding commercial mortgages grew by 5.1 percent, while residential mortgages increased by 2.1 percent. Mortgage depth[37] increased modestly in 2025 (1.1 percentage points), reflecting continued expansion in real estate lending relative to economic activity (Figure 15B). In addition, the ratio of mortgages to Tier 1 capital rose for banks, signalling heightened sensitivity to a potential real estate market correction, though the ratio remains below pre-pandemic levels (Figure 15C). Following the rapid expansion of mortgage lending within the credit union sector since 2021, credit unions now exhibit the highest concentration of mortgage loans relative to total loans among domestic financial institutions, while maintaining comparatively lower capital buffers than other financial intermediaries.

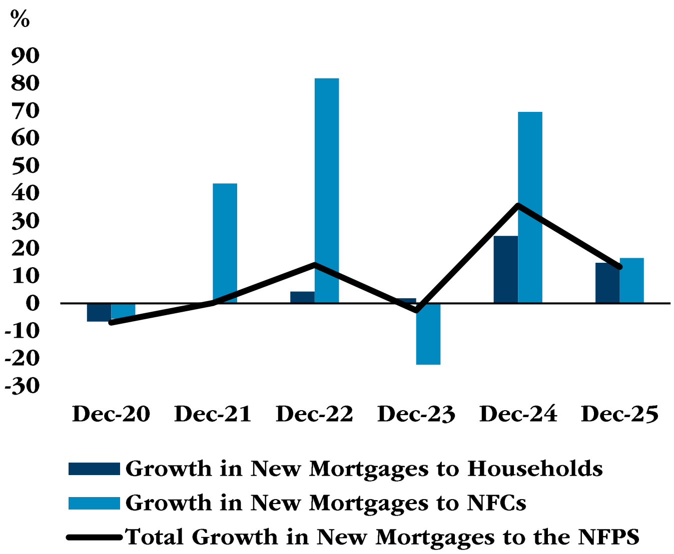
Figure 15: Mortgage Exposure



*Mortgages to Total Capital for credit unions
Sources: Central Bank of Barbados, Financial Services Commission, and Barbados Statistical Service

[37] Mortgage depth refers to the size or significance of mortgage lending relative to the overall economy, typically measured as the ratio of total mortgage debt outstanding to Gross Domestic Product (GDP).

Figure 16: Growth in the Number of New Mortgages



Source: Central Bank of Barbados

Lower borrowing costs and robust credit demand supported mortgage activity in 2025, although growth moderated from the prior year's levels. Mortgage growth remained positive despite slower expansion across both household and NFC lending categories (Figure 16). The weighted average mortgage lending rates for banks and finance companies declined by 10 and 14 basis points, respectively (Appendix, Figure D3), remaining lower than their ten-year averages. According to the Survey of Bank Lending Conditions (SBLC),[38] residential mortgage demand remained resilient, while favourable macroeconomic conditions boosted activity in the commercial real estate market.

Elevated construction costs continue to constrain mortgage affordability and housing supply, posing downside risks to the housing market outlook. Although the building materials index remained flat in 2025 (Appendix, Figure D4), costs remain significantly above pre-pandemic levels. Persistently high construction costs could weaken mortgage demand and slow credit expansion within the real estate market. Under adverse scenarios, supply chain disruptions, rising oil prices, and inflationary pressures could further increase costs, reducing affordability, raising household indebtedness, and dampening demand for new mortgages.

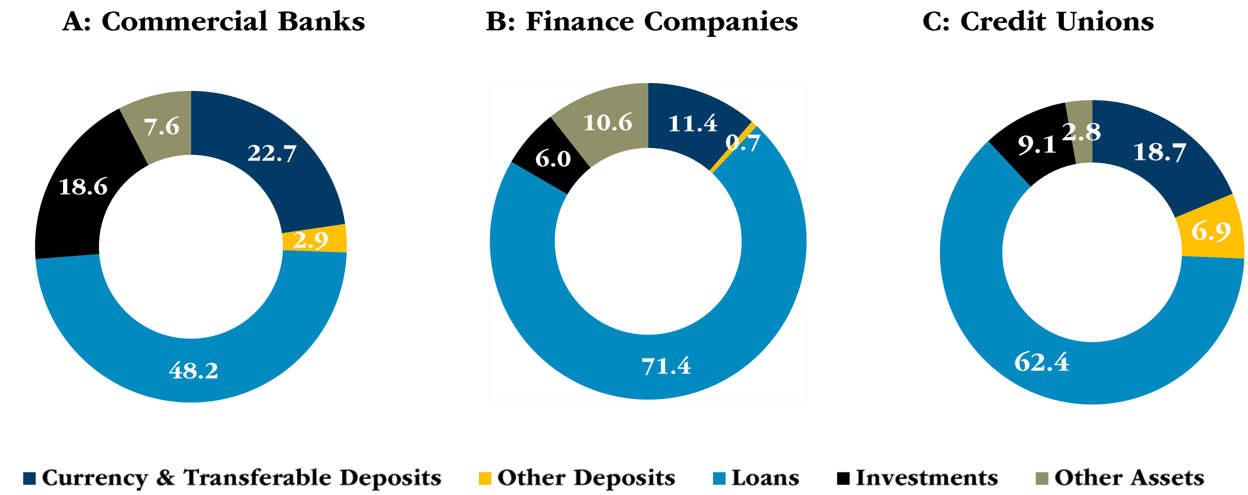
Formal bank lending standards remained stable in 2025. Banks maintained loan-to-value (LTV) ratios between 80 and 100 percent, debt service ratios (DSRs) between 40 and 45 percent, and debt service coverage ratios around 1.25 times.

3.2.4 Investments

Government securities remained the largest investment exposure within the banking sector in 2025, reinforcing the sector's continued concentration in sovereign assets. Commercial banks maintained a strong preference for treasury bills (**Figure 17** & Figure 18), while credit unions only modestly increased their holdings of government securities (1.3 percent). In contrast, finance companies expanded investments in non-government fixed income securities by 10 percent, bringing these assets to approximately half of their investment portfolios.

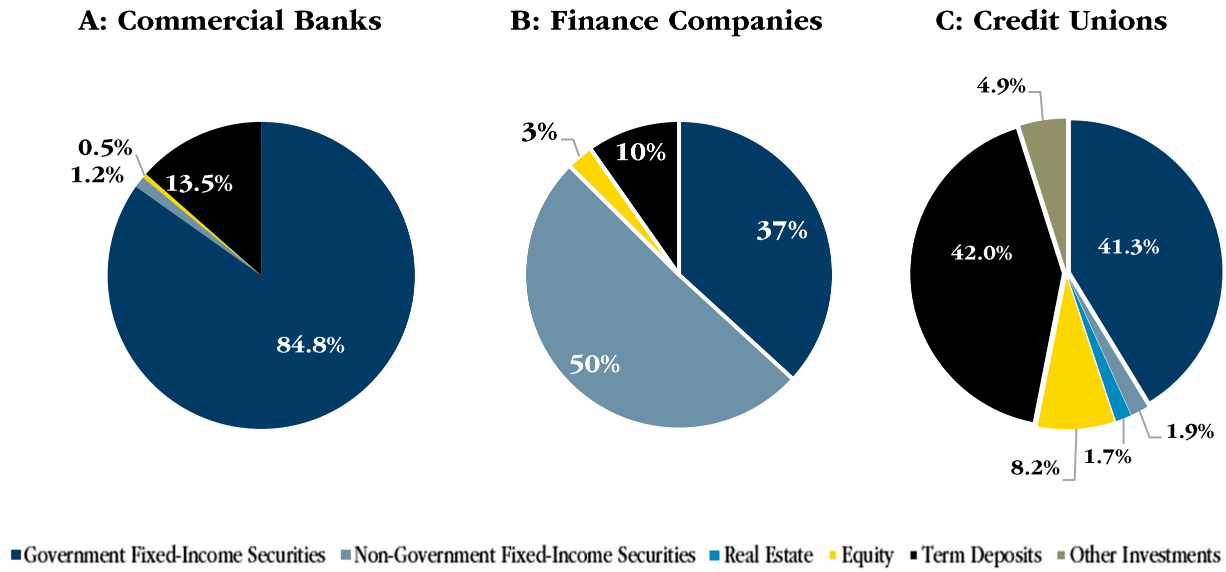
[38] The Bank issues the SBLC on a quarterly basis to obtain industry insights on trends in the credit market for mortgages, consumer loans, and business loans.

Figure 17: Asset Composition



Sources: Central Bank of Barbados and Financial Services Commission

Figure 18: Investment Portfolio



Sources: Central Bank of Barbados and Financial Services Commission

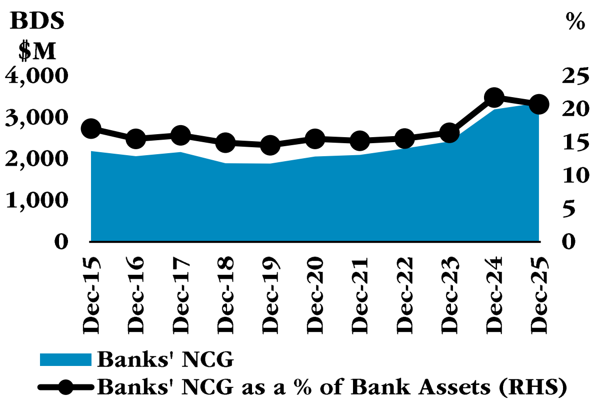
Sovereign exposure remained elevated within the banking sector in 2025, despite moderating slightly from the previous year. Banks' net credit to government (NCG) declined by 1.1 percentage points to 20.7 percent of total assets, but remained above pre-pandemic levels (Figure 19). The 2024 comparator has been restated and differs from the ratio published in the 2024 Financial Stability Report.[39]**Error! Reference source not found.** Near-term sovereign risk appears contained, supported by improved macroeconomic conditions and upgrades to Barbados' sovereign credit ratings in 2025.[40] In addition, debt swaps guaranteed by multilateral agencies reduced banks' direct exposure to Government by 5.2 percentage points to 16.6

[39] Net credit to government for December 2024 was restated from 20.4 percent, as reported in the 2024 FSR, to 21.8 percent.

[40] During 2025, Barbados received sovereign credit rating upgrades from Moody's (B3 to B2) and S&P (B to B+), while Fitch maintained its B+ ratings.

percent of total assets. Nevertheless, the banking sector remains exposed to developments in the domestic fiscal environment given the prolonged concentration of government-related assets within balance sheets.

Figure 19: Sovereign Exposure of Banks



Source: Central Bank of Barbados

Cross-border exposures to the United States remained limited in 2025, with domestic investments accounting for the majority of DTIs' portfolios. U.S. investments edged higher following declines in previous years, primarily through foreign deposits and debt securities (Appendix, Figure D5). In late 2025, the Federal Open Market Committee lowered its policy target range to 3.5–3.75 percent and maintained this range during early 2026. Lower U.S. interest rates could exert some pressure on net interest margins in the near term, particularly where mismatches exist between U.S. dollar-denominated assets and liabilities.

Balance sheet positions varied across institutions, as commercial banks generally maintained a positive U.S. dollar maturity gap while finance companies exhibited negative maturity gaps. These positions imply differing sensitivities to changes in U.S. interest rates, though the scale of exposures remains modest (Appendix Figure D6). Over the medium term, lower funding costs could provide some support to margins for institutions with negative maturity gaps as liabilities reprice downward.

3.2.5 Foreign-Currency Exposure

Exchange rate risk remained limited in 2025 despite modest increases in foreign-currency exposure. The Net Open Position (NOP) remained concentrated in U.S. dollars (Appendix Figure D7), consistent with Barbados' fixed exchange rate regime and the dominance of U.S. dollar transactions within the financial system. Foreign-currency assets as a share of total assets increased by 0.8 percentage points for commercial banks and 1 percentage point for finance companies. Meanwhile, foreign-currency liabilities rose by 1 percentage point for commercial banks and declined by 1 percentage point for finance companies (Appendix Figure D8). Overall, balance sheet positions suggest that foreign-currency exposures remained manageable across DTIs.

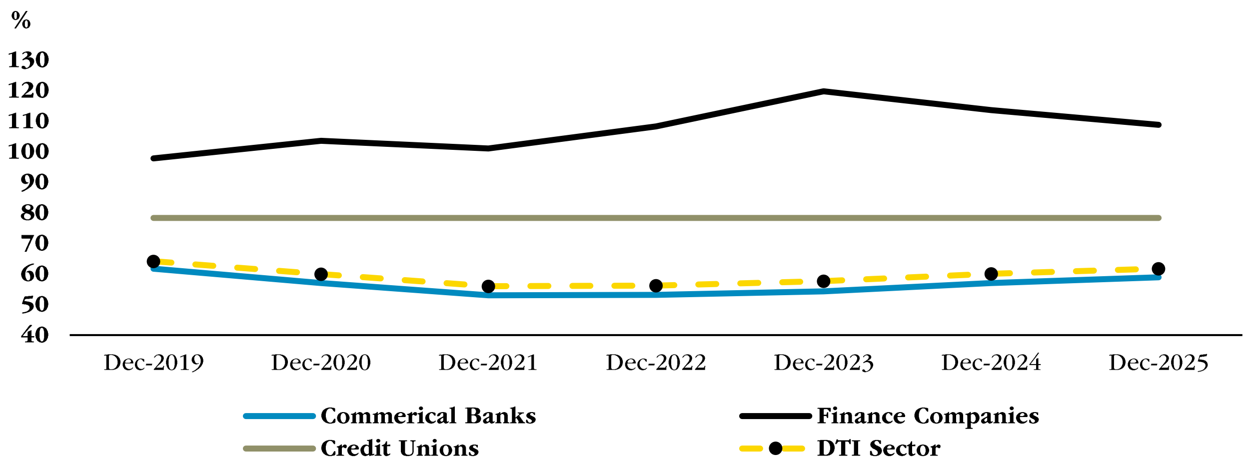
3.2.6 Liquidity

Stable liquid asset holdings and continued deposit growth sustained favourable liquidity conditions in 2025. The liquid assets ratio remained unchanged at 27.5 percent, while institutions continued to increase holdings of treasury bills amid moderating cash balance growth (Appendix Figure D9). Although lower interest rates potentially reduce returns on liquid assets over time, liquidity buffers across DTIs remained adequate.

Deposits continued to provide a stable funding base, despite slower growth relative to 2024. Total customer deposits grew by 2.9 percent, compared to the 8.4 percent recorded in 2024 (Appendix Figure D10). Growth in domestic currency deposits moderated, while foreign currency deposits expanded more strongly, supported by tourism activity and foreign-financed projects. Although higher foreign-currency balances may increase sensitivity to external funding conditions, foreign-currency liquidity risks remained subdued.

Credit intermediation moderated despite ample funding conditions. The DTI loan-to-deposit ratio increased marginally to 61.7 percent, reflecting persistently modest credit absorption (Figure 20). Finance companies remained the most exposed to tighter funding conditions given loan-to-deposit ratios above 100 percent; however, vulnerabilities are mitigated through fixed-term deposits and highly collateralised loan portfolios. Meanwhile, the deposit insurance fund administered by the Barbados Deposit Insurance Corporation (BDIC) continued to expand in 2025, supporting confidence in the financial safety net framework (Appendix Figure D11).

Figure 20: Loan-to-Deposit Ratios



Sources: Central Bank of Barbados and Financial Services Commission

Deposit insurance arrangements continued to strengthen in 2025, with ongoing efforts to broaden depositor protection and reinforce the financial safety net. Barbados' Deposit Insurance Fund continued to grow, reaching an estimated $119.9 million, equivalent to 1 percent of eligible deposits (Appendix Figure D11). Reforms to extend coverage to credit unions progressed during the year, reflecting the BDIC's commitment to providing credit union members with protection comparable to that available to depositors in banks and other BDIC member institutions. This included advancements in legislative, regulatory, and operational arrangements, alongside continued stakeholder engagement, and the BDIC expects to begin onboarding credit unions before year-end.

3.2.7 Profitability

Commercial banks maintained positive earnings in 2025, although after-tax profitability softened despite stronger pre-tax performance. Commercial bank credit to both Barbados residents and non-residents expanded at its fastest pace since 2013 (6.3 percent), while asset quality continued to improve. Profit before tax increased by 6.4 percent to $215.7 million, up from $202.8 million in the prior year. However, the improvement in pre-tax profitability did not translate into higher after-tax earnings, as tax expenses increased during the year. Consequently, retained profit after tax declined by 3.7 percent to $175.2 million, compared with $181.9 million in the previous year. Return on average assets (ROAA) edged down from 1.2 percent in 2024 to 1.1 percent in 2025, while return on equity (ROE) declined from 12 percent to 10.7 percent (Figure 21A).

Net interest income drove commercial banks' earnings. Total interest income increased by 3.7 percent to $503.8 million (based on an adjusted 2024 total interest income of $485.8 million), supported by higher interest earnings from loans to private non-financial corporations and other financial institutions. Although total interest expense remained low relative to interest income, it increased by 47.4 percent to $11.2 million, up from $7.6 million in 2024. Higher interest expenses on non-resident time deposits and loans from head offices and affiliates drove the increase. Consequently, net interest income increased by approximately 3 percent to $492.6 million.

Non-interest income provided a modest contribution to overall profitability. Non-interest income increased by approximately 1.2 percent to $257.2 million. Fee income declined slightly, while foreign exchange dealing profits increased by 16.4 percent to $74.1 million. Other operating income remained relatively unchanged. Non-interest expenses, though broadly stable, declined marginally by 0.7 percent to $526.1 million, from $529.6 million in 2024. Provision write-backs increased to $36.9 million, compared with $28.8 million in 2024, further supporting pre-tax profitability.

Finance companies recorded a modest improvement in profitability in 2025. Retained profit after tax increased by 8.2 percent to $13.2 million, up from $12.2 million in 2024. The ROE rose from 7.3 percent to 8.5 percent, while the ROAA remained unchanged at 1.1 percent (Figure 21B). The improvement occurred alongside a 7 percent increase in loans, mainly to private individuals, and improved credit quality.

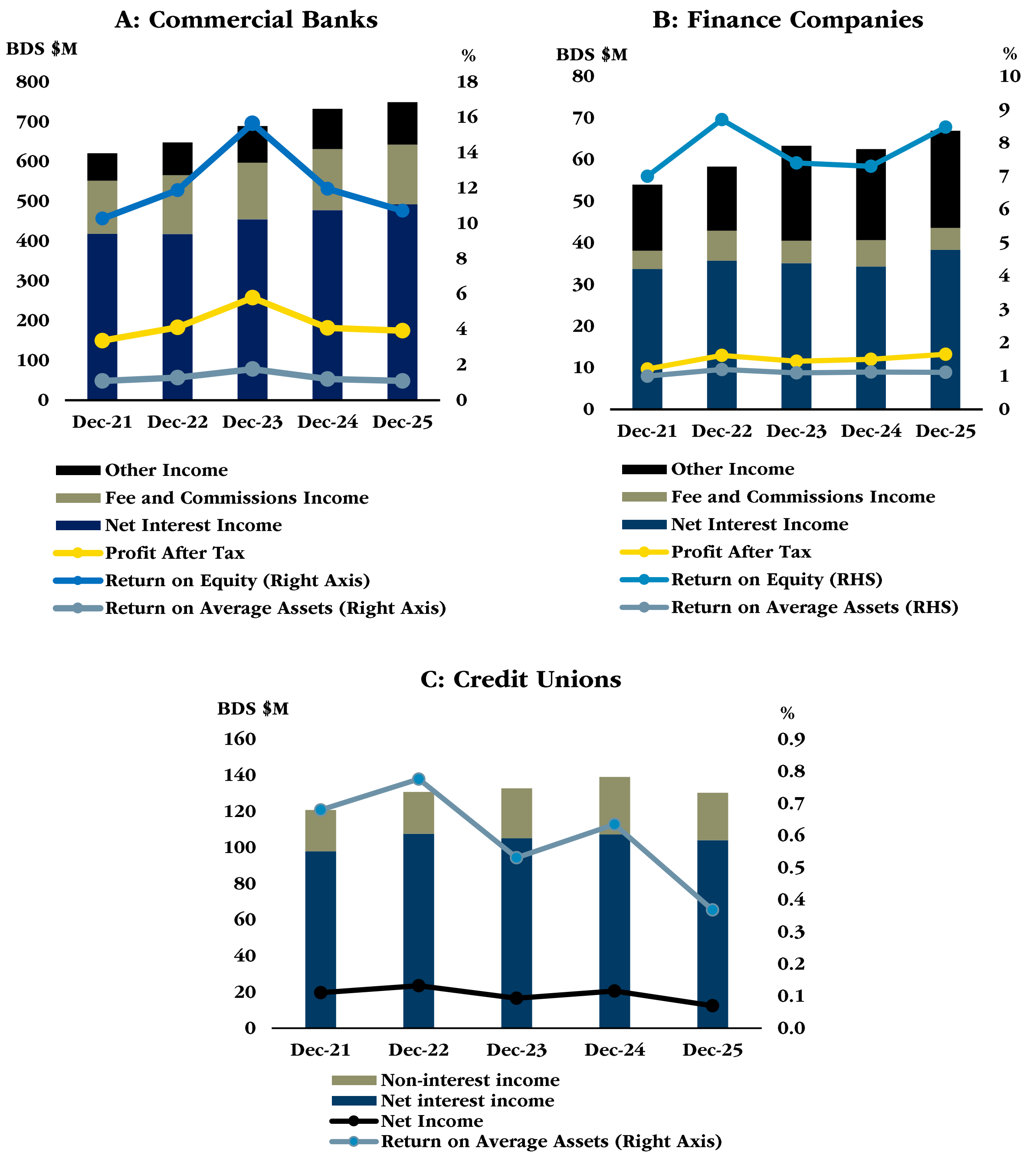
Stronger net interest income primarily supported finance companies' earnings. Net interest income increased by 11.6 percent to $38.3 million. This reflected higher interest income on loans and advances, which rose by 3.4 percent, outpacing the 1.6 percent increase in total interest expense. Non-interest income remained broadly flat at $28.6 million, while non-interest expenses increased by approximately 10.3 percent to $53.4 million. Provisions declined by 17.9 percent to $2.3 million, compared with $2.8 million in 2024, consistent with the improvement in non-performing loans.

Credit union profitability weakened in 2025, reflecting declines in both non-interest income and net interest income. Non-interest income fell by 16.9 percent, while net interest income declined by 3.3 percent, reducing the sector's main income streams (Figure 21C). These declines outweighed the benefits from lower interest paid on deposits and improved asset quality, resulting in a fall in net income.

Lower lending rates continued to place pressure on earnings. The implicit loan interest rate declined further in 2025, continuing the downward trend observed over the past decade (Appendix Figure D15). This weighed on net interest income, particularly where loan yields declined faster than funding and operating costs could adjust. Profitability pressures manifested across the sector, with both large and small credit unions recording weaker net income. Consistent with these developments, the sector's ROAA declined from 0.6 percent in 2024 to

0.4 percent in 2025. If sustained, weaker profitability could constrain the sector's capacity to generate capital internally and absorb future credit, macroeconomic, or operational shocks.

Figure 21: Contribution to Profit by Source



Sources: Central Bank of Barbados and Financial Services Commission

3.2.8 Capital Adequacy

The DTIs remained well capitalised in 2025, although capital adequacy metrics moved unevenly across institutional segments. Commercial banks and finance companies continued to report capital adequacy ratios well above the minimum regulatory requirement, while credit unions maintained positive capital buffers despite a decline in their capital-to-assets ratio.

Commercial banks' capital adequacy declined as risk-weighted assets increased while regulatory capital fell. The capital adequacy ratio declined from 21.2 percent in 2024 to 19.0 percent in 2025, although it remained well above the regulatory benchmark of 8 percent. The decline reflected a $606.2 million increase in risk-weighted assets, with two entities accounting for two-thirds of the growth, alongside an $88.4 million decline in regulatory capital (Figure 22A). The decline in capital was concentrated in two banks and reflected dividend distributions, a reduction in stated capital, and movements in fixed asset revaluation and loss reserves. It therefore represented a distribution of capital rather than a deterioration in underlying earnings, but it nonetheless contributed to the moderation in the capital adequacy ratio.**Figure 24**

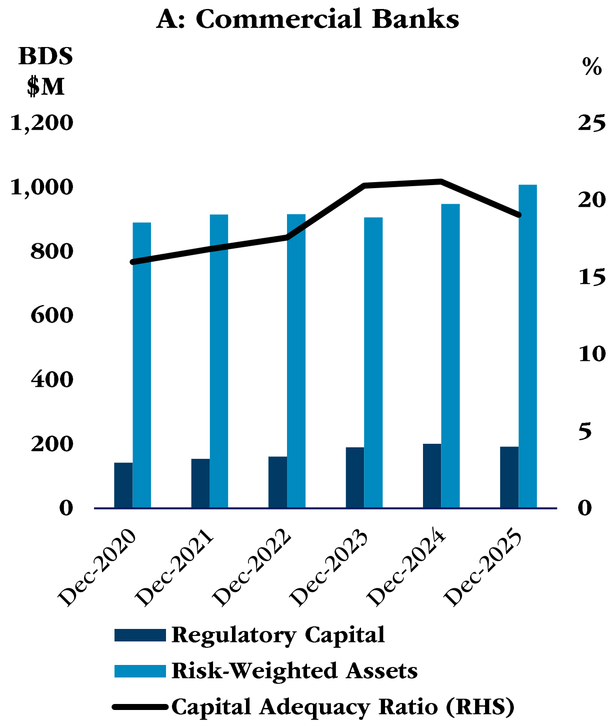
Finance companies recorded a modest strengthening in capital adequacy. Their capital adequacy ratio increased from 19.5 percent in the prior year to 20 percent in 2025, supported by an $8.8 million increase in regulatory capital. Risk-weighted assets also rose by $24.6 million, but the rise in capital sufficiently improved the sector's overall capital position (Figure 24B). The sector therefore remained well capitalised and comfortably above the minimum regulatory requirement.

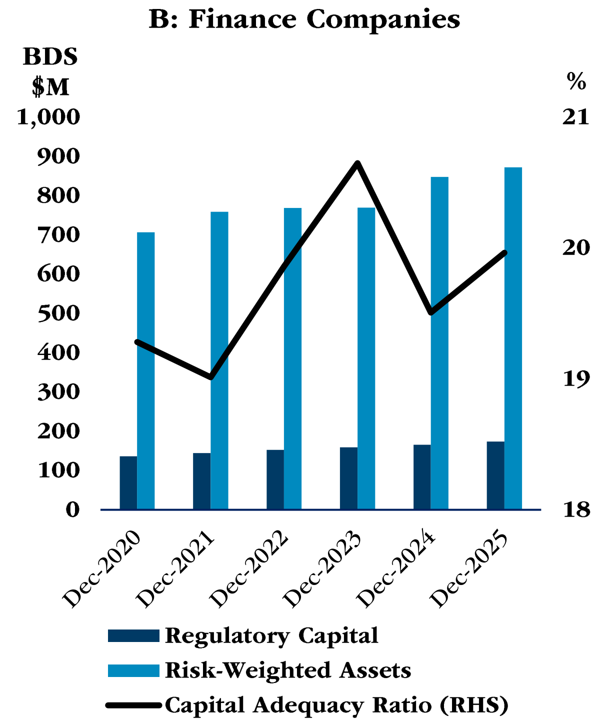
Credit unions maintained positive capital buffers, although balance sheet growth placed some pressure on the capital-to-assets ratio. Capital increased by 2 percent to $373.5 million in 2025, while assets grew by 4.9 percent to $3.4 billion. As asset growth outpaced capital accumulation, the capital-to-assets ratio declined from 11.2 percent in 2024 to 10.9 percent in 2025 (Figure 24C). Despite this moderation, the ratio remained broadly consistent with recent historical levels and continued to support the sector's loss-absorption capacity.

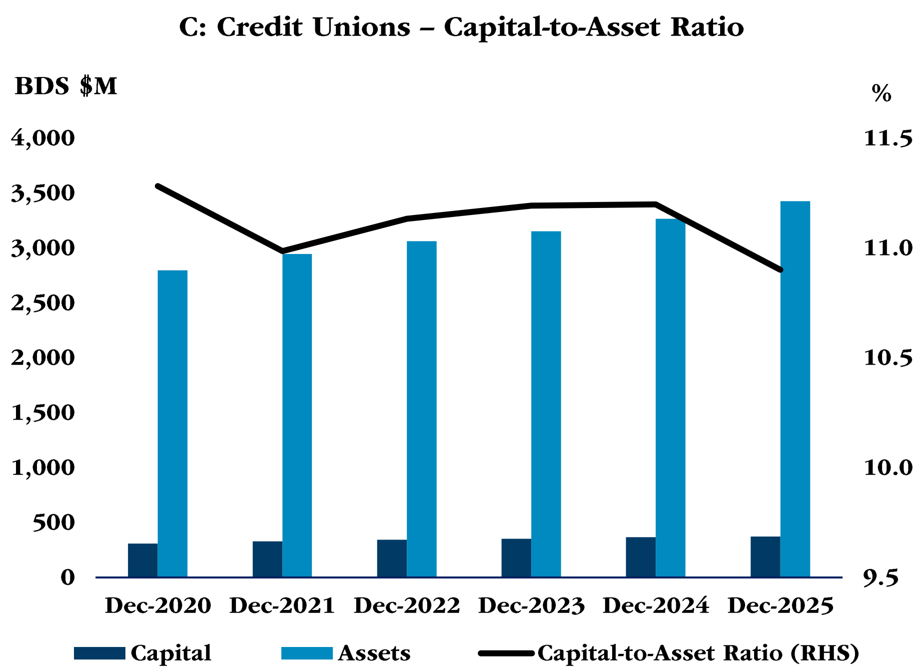
Aggregate capital ratios remained above the applicable thresholds under the stress scenarios, but institution-level results identified capital shortfalls at a small number of banks, finance companies, and credit unions.[41]

[41] See Section 5 on Financial Sector Risk Assessment using Stress Testing.

Figure 22: Capital Adequacy Ratios







Sources: Central Bank of Barbados and Financial Services Commission

3.3 Insurance Sector[42]

3.3.1 General Insurance Industry

Climate-related risks and reinsurance dependence remained key vulnerabilities for the general insurance industry in 2025. Barbados remains exposed to storm surges, coastal flooding, heavy rainfall, and other severe weather-related events, leaving domestic insurers dependent on external reinsurance arrangements to absorb catastrophe-related losses. While global reinsurance market conditions showed some signs of stabilisation during 2025 following the hard market[43] conditions experienced during 2022–2024, the sector remains vulnerable to future increases in catastrophe-related losses and tightening underwriting conditions.

Elevated reinsurance costs (relative to pre-2022 conditions) and higher underwriting requirements placed upward pressure on domestic insurance premiums.[44] In a relatively small insurance market like Barbados, with demographic pressures and a declining population, these conditions reduce insurance affordability and contribute to increased levels of underinsurance among households and businesses. As a result, climate-related shocks could widen existing protection gaps[45] and increase the economic impact of severe weather events. This exposure is particularly relevant for Barbados, given the concentration of tourism-related and coastal property assets vulnerable to severe weather events.

Limited market size, industry consolidation, and greater penetration from regional insurers continued to constrain the expansion of the domestic insurance industry. Increased regional competition, modest growth in insurable risks, and changing market conditions constrained profitability and business expansion within the sector. At the same time, insurers face ongoing pressure to strengthen underwriting standards and maintain prudent liquidity positions, amid evolving climate and market risks. The relatively small scale of the domestic market limits insurers' ability to diversify catastrophe-related risks locally.

Available supervisory information suggests that insurers maintained relatively liquid balance sheets. Holdings of cash, deposits, and fixed-income securities supported liquidity and short-term shock absorption (Figure 23). Reinsurance remained a central risk-mitigation mechanism, with a significant share of gross written premiums ceded to reinsurers.[46]

[42] In 2025, the insurance sector transitioned its accounting standard from IFRS 4 to IFRS 17 resulting in statutory filing submission delays. Estimates are based on available 2025 quarterly submissions. Completed 2025 audited submissions for the full insurance sector are currently unavailable.

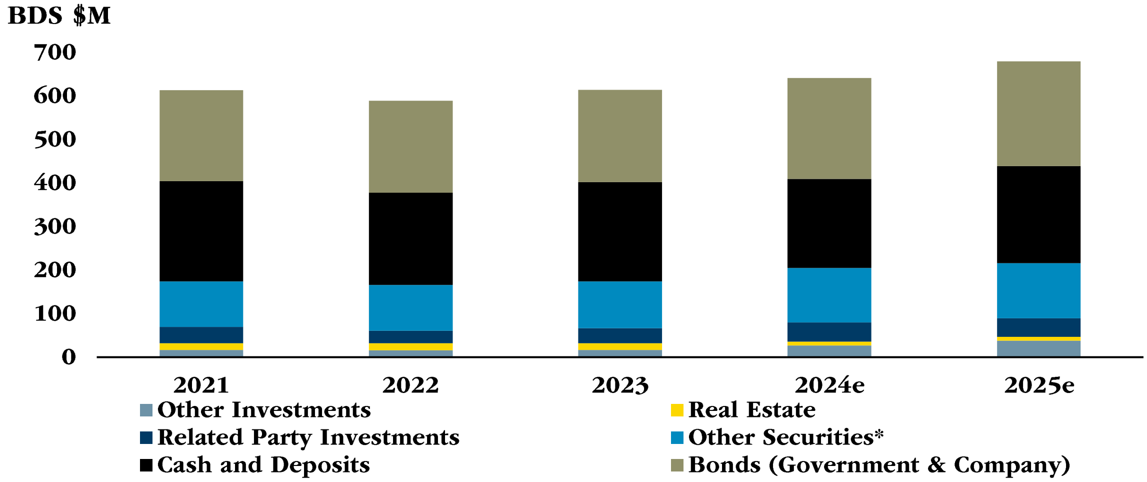
[43] A "hard reinsurance market" refers to a period where reinsurance becomes more costly and difficult for insurance companies to obtain. After large losses, reinsurers may increase premiums, reduce coverage they are willing to provide, impose increasingly strict terms and conditions, and/or become more selective about the risks they will cover.

[44] Janne Hukka and Jonas Nauerz, "Property Insurance Challenges in the ECCU" (International Monetary Fund Selected Issues Paper 2025)

[45] The protection gap refers to the difference between total economic losses and insured losses arising from adverse events.

[46] Reinsurance ceded refers to the portion of risk that an insurance company (the ceding company) transfers to a reinsurance company. This process involves the ceding company purchasing reinsurance to protect itself from significant losses by spreading the risk. In return, the reinsurer receives a portion of the premiums paid by the policyholders of the ceding company.

Figure 23: General Insurance Classes of Investments



* Mutual Funds, Shares, Unit Trusts
e Figures were estimated based on preliminary data

Source: Financial Services Commission

3.3.2 Life Insurance Industry

Structural pressures continued to weigh on the life insurance industry in 2025, as the sector remained exposed to changing investment conditions, evolving consumer preferences, and a declining scale relative to the broader economy. Life insurance assets relative to GDP declined further to 20.5 percent in 2025 from 22.4 percent in the prior year, extending the post-pandemic downward trend (Figure 24). This suggests ongoing affordability pressures and possible shifts in demand for traditional life insurance products.

Related-party concentration remained a key vulnerability within the sector. Life insurers continued to maintain significant related party exposures[47] (Figure 25). While these group-level structures reflect broader corporate finance strategies, they also increase cross-border contagion and intragroup exposure risks. Financial stress affecting affiliated entities or parent companies could therefore transmit to domestic insurers through valuation losses, weaker investment income, or reduced capital support. These linkages underscore the importance of monitoring intragroup exposures within the sector's risk framework. The FSC continues its programme of enhanced monitoring of insurance groups and intragroup exposures while regularly co-ordinating with regulatory counterparts.

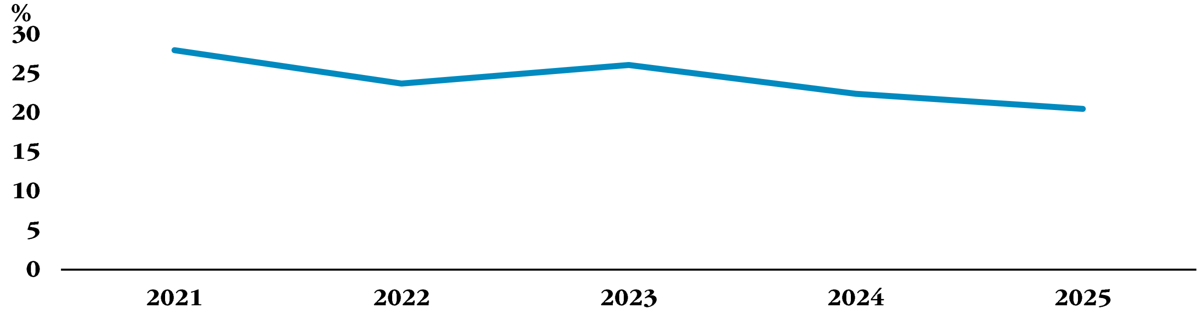
Life insurers increased allocations to more defensive, liquid asset classes. Increased holdings of government securities, cash, and deposits supported liquidity and capital preservation amid heightened global market uncertainty. However, a sustained shift towards lower-risk assets could constrain investment returns in the medium term, particularly given the long-duration nature of life insurance liabilities.

Despite these pressures, the life insurance sector remained stable and adequately capitalised. Nevertheless, continued monitoring remains warranted given the sector's declining

[47] Related party exposures include domestic regional subsidiaries, parent companies and affiliated companies within the same corporate group. These may arise via intercompany lending, investment guarantees, operational support arrangements and other financial and business relationships.

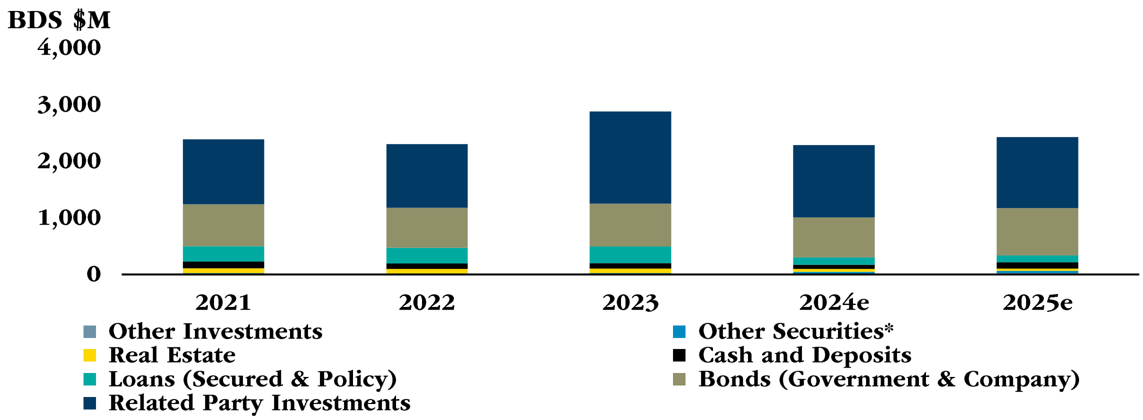
scale relative to the economy, concentrated investment exposures, and sensitivity to changes in financial market conditions.

Figure 24: Life Insurance Assets Relative to GDP



Source: Financial Services Commission

Figure 25: Life Insurance Classes of Investments



* Mutual Funds, Shares, Unit Trusts
e Figures were estimated based on preliminary data

Source: Financial Services Commission

3.3.3 *International Insurance Business*[48]

The international insurance sector remained externally oriented in 2025, with business activity primarily linked to parent companies, affiliated entities, and risks located outside Barbados. As a result, the sector's direct linkages with the domestic financial system remained limited compared to domestic insurance companies. However, the sector's dependence on international capital markets, reinsurance networks, and parent group dynamics introduces external channels through which global shocks may be transmitted indirectly into the Barbadian financial system.

The international insurance sector remains economically important despite its limited direct linkages with the domestic financial system. International insurance companies contribute to the domestic tax base, foreign exchange earnings, higher-paying professional services, and employment. Consequently, any prolonged stagnation or contraction within the

[48] Class 1 & Class 2 insurance companies without domestic exposure.

sub-sector could adversely affect economic activity and fiscal revenues, even though direct spillovers to the domestic financial system are likely to remain limited.

Nevertheless, the sector continued to expose Barbados to cross-border supervisory, compliance, and reputational risks given its integration with global financial markets. In this regard, maintaining alignment with international regulatory and supervisory standards is important to preserving confidence in Barbados as a jurisdiction for international insurance business. Continued monitoring of intragroup exposures, reinsurance market developments, and external financial conditions therefore remains warranted. The FSC continues to enhance its supervisory framework to ensure alignment with international standards, which remain critical to mitigating these imported risks**.**

3.4 Securities and Capital Market Sector

3.4.1 Securities Market Activity

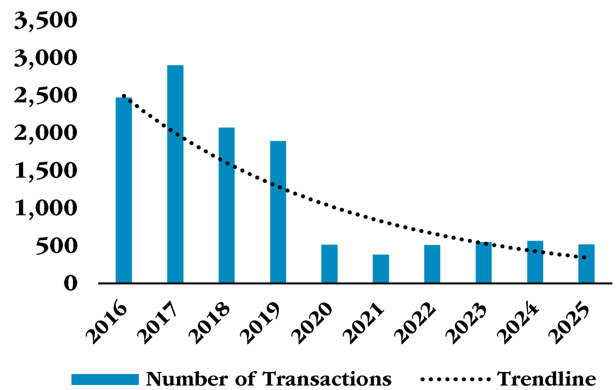
Persistently low trading activity continued to constrain the development and depth of Barbados' domestic capital market. Reduced transaction volumes may limit fee income for market participants and infrastructure providers, potentially affecting incentives for market development, product innovation, and investment in operational capabilities. Over time, these pressures could further weaken market liquidity and price discovery, reducing the attractiveness of the domestic securities market to issuers and investors.

Securities market activity remained subdued in 2025, reflecting persistent structural illiquidity within domestic capital markets. Trading volumes declined sharply over the review period, extending the multi-year trend of limited secondary market activity and weak market engagement (Figure 26A). Total trading volume on the regular market fell 76 percent from the prior year, extending the long-term decline in trading activity. Bond market activity also declined, with the number of trades falling from 42 to 7 and total trading volume decreasing from 6.5 million shares to 0.6 million shares, reflecting reduced secondary market liquidity for domestic fixed-income securities (Appendix D16).

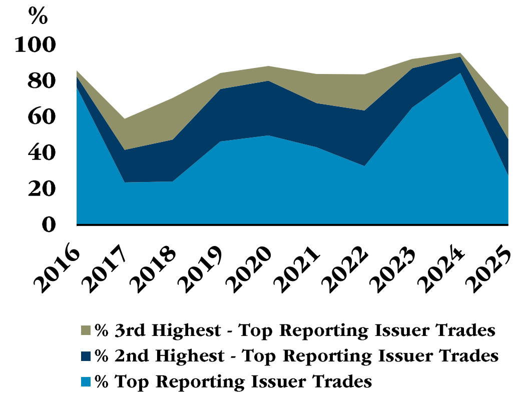
Trading activity remained highly concentrated among a small number of issuers, increasing concentration risk within the domestic securities market. The top three reporting issuers accounted for a substantial share of total trading volume throughout the review period, indicating that overall market activity remains heavily dependent on a limited number of securities (Figure 26B). As a result, adverse developments affecting a major issuer could have a disproportionate effect on trading activity, market liquidity, and investor sentiment. Persistent concentration may also constrain market depth and reduce opportunities for portfolio diversification within the domestic market.

Figure 26: Trading Activity on the Barbados Stock Exchange (BSE)

A: Number of Transactions on the BSE



B: Top 3 Reporting Issuers as a Percentage of Total Trade Volume



Source: Barbados Stock Exchange

3.4.2 Mutual Funds

International investment exposures, amplified by elevated geopolitical tensions and shifting global trade conditions, remained the primary source of risk for the mutual fund sector in 2025. The sector maintained substantial holdings of international equity and fixed-income assets, leaving fund valuations sensitive to shifts in global investor sentiment and international financial market volatility. Net assets under management (NAUM) increased by 8.1 percent during the review period compared to 2 percent growth in 2024. This performance occurred against the backdrop of significant tariff-based market volatility during the year, which underscores the sector's resilience but also its ongoing exposure to external shocks (Figure 27A).

Market risk exposures remained concentrated in equities and fixed-income securities. Growth funds continued to account for the largest share of sector assets (Figure 27C), while exposures to the U.S. and Canada remained significant (Figure 27D). Consequently, sharp corrections in international equity markets or heightened volatility in global bond markets could adversely affect fund valuations and investment performance. Higher sovereign bond yields and changing global interest rate expectations also contributed to valuation pressures across fixed-income portfolios.

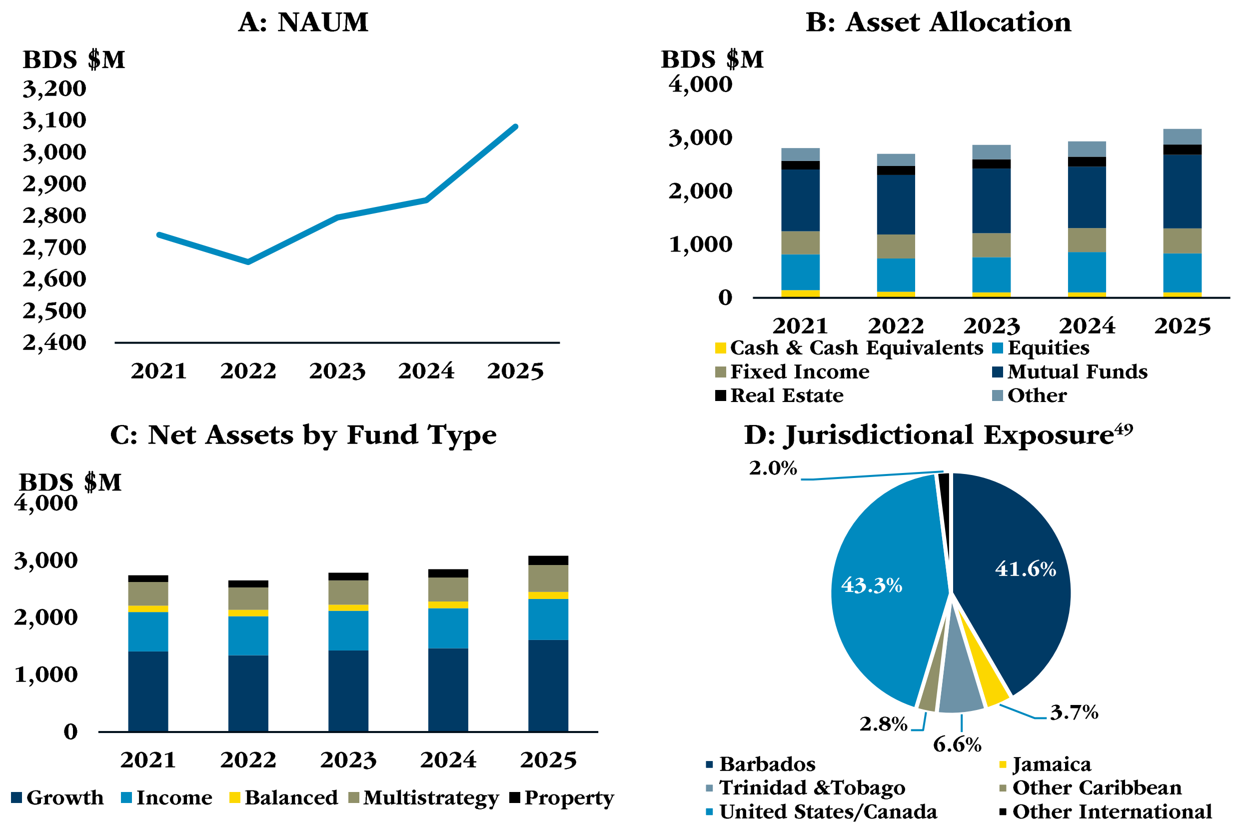
Regional fixed-income exposures also presented valuation risks for mutual funds with regional bond allocations. Higher public debt levels, weaker growth prospects, and recent sovereign ratings developments in some tourism-dependent regional economies could increase yield volatility and place downward pressure on the value of regional bond holdings. While these exposures appear less significant than international equity holdings, they remain relevant for funds with regional fixed-income allocations.

Investment concentration within the mutual fund sector continued to represent a potential transmission channel to occupational pension portfolios. The three largest domestic funds accounted for approximately 52 percent of total sector assets in 2025, increasing the sensitivity of pension investments to equity and interest rate movements. As a result, adverse financial market developments could weaken pension asset values and negatively affect household wealth.

Liquidity conditions within the mutual fund sector remained stable during the review period. Cash and other liquid asset holdings supported redemption activity and mitigated short-term liquidity pressures (Figure 27B). While open-ended fund structures may increase redemption risk during periods of market stress, available supervisory information suggests that liquid asset buffers remained adequate relative to investor withdrawal patterns.

Overall, the mutual fund sector remained stable in 2025, supported by continued growth in NAUM. However, growth and multi-strategy funds, which maintain significant equity and fixed-income exposures, drove the expansion. As a result, equity price volatility and international interest rate movements remained the main risks to fund valuations and performance. Vulnerabilities related to international market exposures, concentrated fund holdings, and interconnected investment portfolios warrant continued monitoring.

Figure 27: Mutual Funds Assets and Jurisdictional Exposure



Source: Financial Services Commission

3.5 Occupational Pension Sector

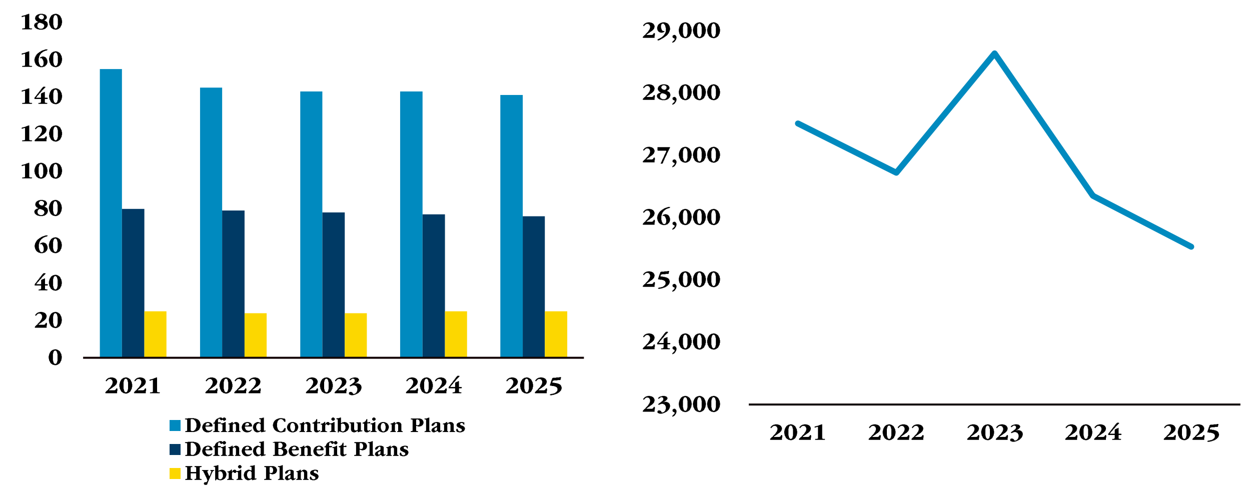
Declining plan membership and ongoing shifts towards defined contribution structures remained key trends in the occupational pension sector in 2025. The number of registered pension plans declined further in 2025, extending the contraction observed over recent years as plan terminations continued to outpace new registrations (Figure 28). Consequently, overall pension plan membership also declined by 3.1 percent over the period. Rising administrative

[49] Jurisdictional exposure is based on the statutory reports from regulated mutual funds however the location of underlying investments may differ from reported. The FSC continues to conduct research on the true location and jurisdictional exposure of investment instruments held by mutual funds.

and compliance costs, company closures, reduced participation, and changing employer preferences, particularly among smaller employers, continued to contribute to the gradual shift away from defined benefit (DB) pension arrangements[50] towards defined contribution (DC) structures.[51] Defined contribution (DC) plans accounted for approximately 58.3 percent of total plans as of the end of 2025, while DB and hybrid plans[52] accounted for 31.4 percent and 10.3 percent, respectively.

Figure 28: Plan Numbers by Type and Membership Data

A: Number of Pension Plans by Type **B: Number of Plan Members**



Source: Financial Services Commission

Defined benefit pension plans remained financially important given their sizeable share of total pension sector assets and long-term liability structures. DB plans remained inherently exposed to funding risks,[53] as adverse market conditions could simultaneously weaken investment performance and increase the present value of liabilities. Consequently, macro-financial shocks could deteriorate funding positions and increase solvency pressures within the sector. Moreover, sustained deterioration in pension funding positions could weaken long-term household financial resilience and retirement adequacy.

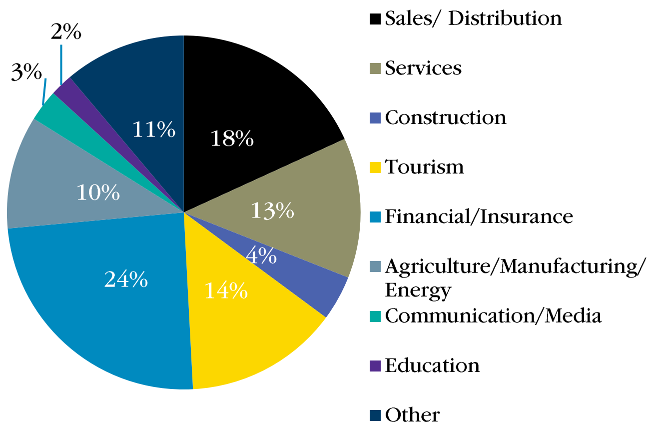
[50] Defined benefit (DB) plans provide members with a predetermined retirement benefit, typically based on factors such as years of service, salary, and age at retirement, regardless of the plan's investment performance.

[51] Defined contribution (DC) plans are pension plans in which retirement benefits are determined by accumulated contributions and investment returns earned on those contributions. Contributions may be made by employers, employees, or both.

[52] A hybrid benefit pension plan is a retirement arrangement that combines features of both traditional defined DB pensions and DC plans. Instead of placing all financial risk on the employer or the employee, these plans share investment risk while offering both lifetime guaranteed income and portable savings.

[53] The funded ratio measures the extent to which a pension plan's liabilities are covered by its assets and serves as an indicator of the plan's funding adequacy. A funded ratio of 100 percent indicates that plan assets fully cover projected liabilities.

Figure 29: Distribution of Pension Plans by Economic Sector



Source: Financial Services Commission

Sectoral concentration also continued to represent a structural vulnerability. Occupational pension plans remained closely linked to sectors such as finance and insurance, sales and distribution, and tourism, which are sensitive to changes in domestic and external economic conditions (Figure 29). A prolonged weakening in economic activity within these sectors could negatively affect employer contributions, increase sponsor stress, and contribute to additional plan wind-ups over time. Recent trends suggest that sectors more sensitive to changes in domestic and external economic conditions accounted for most plan wind-ups between 2020 and 2024.

Investment exposures emerged as an additional source of vulnerability for the sector. Occupational pension plans continued to maintain significant holdings in mutual funds and other market-based investment instruments, increasing sensitivity to movements in international equity and fixed-income markets. Consequently, adverse financial market conditions could weaken pension asset values and exacerbate existing funding pressures, particularly within DB plans with fixed benefit obligations.

Demographic trends also continued to pose medium-term challenges for pension sustainability. Population aging and rising life expectancy continued to place upward pressure on future pension liabilities, particularly for DB plan arrangements with guaranteed benefit structures. These structural pressures, combined with macroeconomic headwinds, may further accelerate the ongoing shift towards DC plans, where investment and longevity risks are increasingly borne by plan members.

Overall, the occupational pension sector remained stable, although structural vulnerabilities associated with funding risks, demographic pressures, sectoral concentration, and investment market exposures remain important areas for ongoing monitoring. Supervisory efforts are focused on strengthening monitoring of funding positions, actuarial assumptions, and investment strategies across pension plans.

4. Payments Systems Developments

Barbados' payment systems continued to operate effectively in 2025, supported by further enhancements to the domestic payments infrastructure and improvements in digital payment channels. In addition to the significant progress made during 2025 in preparing BiMPay, the Barbados Instant Payments System, retail transaction activity increased during the year, while business credit card activity moderated slightly. The Real-Time Gross Settlement (RTGS) system continued to operate effectively, supporting liquidity management and the orderly settlement of large-value financial transactions.

Electronic payments further expanded in 2025, reflecting sustained economic activity and the ongoing digitisation of financial services. Growth was supported by increased use of electronic payment channels by households and businesses, alongside the continued adoption of real-time payment capabilities introduced through the Automated Clearing House (ACH)[54] in 2023. These developments contributed to a gradual shift away from traditional payment instruments towards faster and more efficient digital settlement methods.

The RTGS platform continued to play a critical role in facilitating large-value payment transactions in 2025. Transaction volumes increased by 7.8 percent, while the total value processed declined by 8.9 percent, indicating a lower average value per transaction during the year (Figure 30A).[55]

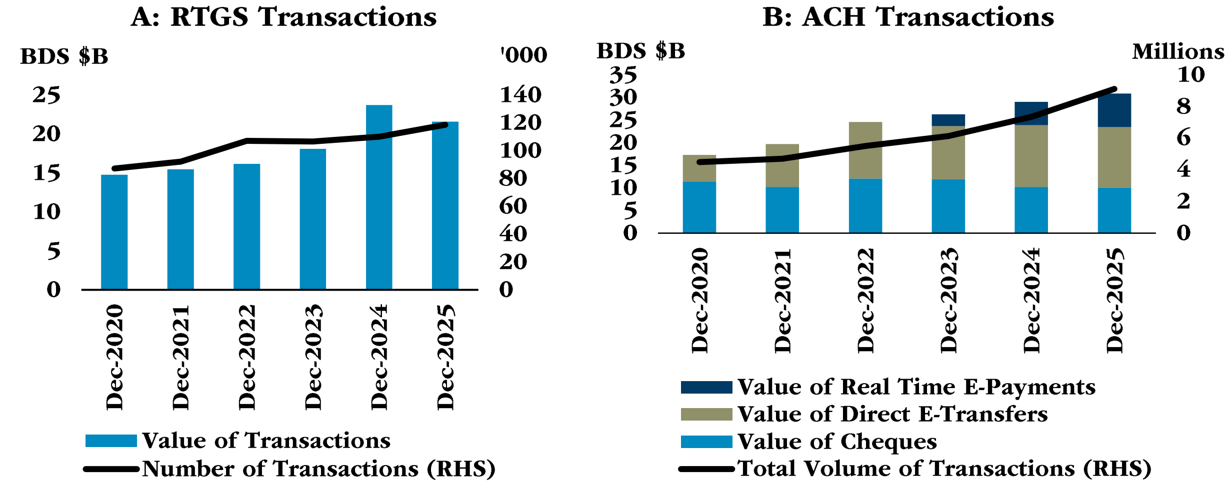
Transaction volumes processed through the ACH increased by 1.8 million in 2025, above the 1.2 million gain recorded in 2024. The value of real-time payments rose by $2.3 billion, while the combined value of cheque and direct-payment transactions declined by $441 million (Figure 30B). Cheque usage continued to decline, although more slowly than in recent years. The increasing use of real-time payment channels points to evolving payment preferences among households and businesses, supporting improvements in settlement efficiency and transaction speed.

With the migration towards more electronic means of payment, credit card transaction activity continued to increase in 2025, driven primarily by household spending. The value of personal credit card transactions rose by 1.4 percent; however, business sector transactions declined by 1.8 percent, marking the first contraction in this category since 2020 (Figure 31A). The moderation in business credit card activity may reflect some normalisation in spending patterns, as well as an increased use of alternative payment channels, including debit cards and real-time transfers.

Cash remained an important medium for facilitating transactions, as demand for cash increased modestly during the year. Currency held outside deposit-taking institutions rose by 3.9 percent in 2025, while remaining broadly stable at 2.4 percent of GDP (Figure 31B). The continued demand for cash suggests that, despite the expansion of digital payment options, cash remains an important payment and store-of-value instrument within the domestic economy, particularly for small-value and informal transactions. This is consistent with recent domestic research which finds that electronic payment activity and cash demand have continued to coexist alongside ongoing payment system modernisation.[56]

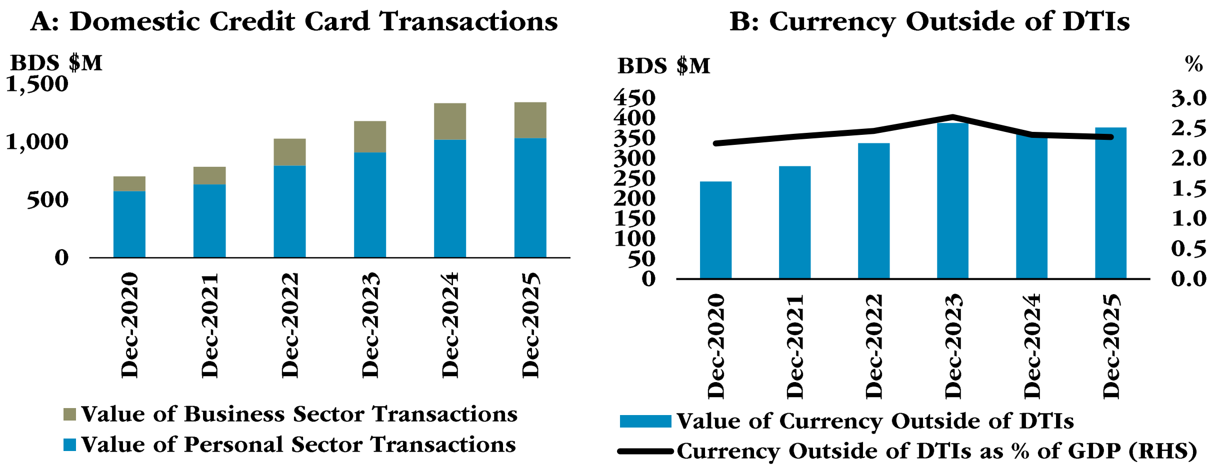
[54] The ACH facilitated the clearing of cheques, direct payments, and daily bank settlements. It was decommissioned on 12 June 2026, when BiMPay replaced it.
[55] RTGS processes large value and/or time sensitive payments between the domestic banking system and the Bank.
[56] Roopnarine, K. A. and A. Belgrave (2025), *The Resilience of Cash in the Digital Age: An Analysis of Banknote Demand in Barbados*, working paper presented at the 56th Annual Monetary Studies Conference (AMSC) in November 2025.

Figure 30: RTGS and ACH Transactions



Source: Central Bank of Barbados

Figure 31: Domestic Credit Card Transactions and Currency Outside of DTIs



Source: Central Bank of Barbados

The modernisation of Barbados' payments infrastructure advanced with the introduction of BiMPay, the Barbados Instant Payments System. Launched on 12 June 2026, BiMPay facilitates real-time retail payments on a 24-hour, seven-day basis across participating financial institutions, replacing the ACH platform. BiMPay includes wallet functionality, which is intended to broaden access to digital payment services, including for individuals without traditional bank accounts. By improving interoperability and speeding payment processing, BiMPay is expected to support a more efficient and more inclusive domestic payments ecosystem. International experience with instant payments systems suggests that such platforms can also strengthen competition and reduce frictions in digital and merchant payments, although it is too early to assess outcomes in Barbados given the recency of the launch.[57]

[57] See Bank for International Settlements (2022), "Central banks, the monetary system and public payment infrastructures: lessons from Brazil's Pix," *BIS Bulletin*, No. 52; and Bank for International Settlements (2024), "The organisation of digital payments in India: lessons from the Unified Payments Interface (UPI)," in *Faster Digital Payments: Global and Regional Perspectives*, *BIS Papers*, No. 152.

Notwithstanding these developments, the continued expansion of digital payments and real-time payment infrastructure also increases exposure to operational and cybersecurity risks. The growing reliance on electronic payment systems heightens the importance of maintaining robust operational resilience, effective risk management frameworks, and strong cybersecurity safeguards. Continued monitoring and regulatory oversight therefore remain critical to ensuring that ongoing payment system developments continue to support financial stability while mitigating potential operational disruptions.

The Bank strengthened its supervisory framework through the establishment of a dedicated Payments Oversight function for the National Payment System. As a separate and independent unit, it aligns with international best practice in supporting a safe, resilient, and efficient National Payment System. The legislative and regulatory basis for this mandate, together with the guidelines and frameworks issued for payment service providers, are set out in Chapter 2.

5. Financial Sector Risk Assessment using Stress Testing

Using end-2025 balance-sheet data, the Central Bank of Barbados and the Financial Services Commission conducted forward-looking stress tests over the 2026-2028 horizon. Aggregate capital remained above the applicable thresholds under the baseline and adverse scenarios, although vulnerabilities emerged at a small number of institutions, including under the baseline. The exercises assessed the effects of macroeconomic, large-exposure, liquidity, and interest-rate shocks on deposit-taking institutions, examining credit quality, profitability, and capital adequacy. The quantitative exercises reported in this chapter cover commercial banks, finance companies, and credit unions. The results provide a basis for macroprudential policy formulation and supervisory focus.[58]

5.1 Macroeconomic Stress Testing Assumptions

The macro stress testing exercise is based on three forward-looking scenarios over the period 2026-2028: a baseline and two adverse scenarios, moderate and severe. The baseline scenario reflects the Bank's macroeconomic outlook, characterised by steady economic expansion, moderating inflation following a temporary uptick in 2026 and early 2027, and broadly stable labour market conditions.[59]

The adverse scenarios are designed to capture the potential impact of a deterioration in global economic conditions as of April 2026. The scenario calibration remains based on the WEO April 2026 forecast vintage to preserve consistency with the stress-test calculations. The modelled impact included below-trend growth in Barbados' major tourism source markets, tighter global financial conditions, and elevated geopolitical uncertainty. These developments are assumed to transmit to the domestic economy through weaker tourism activity, reduced foreign exchange inflows, softer income and employment growth, and tighter credit conditions.

[58] Stress tests are hypothetical exercises based on standardised assumptions and do not constitute forecasts. For the methodology, see the Macroeconomic Stress Testing Methodology and the thematic article Navigating Credit Risk Uncertainty: A Framework for Financial Stability Stress Testing in the 2023 Financial Stability Report.
[59] Forecasts prepared in April 2026.

Under the moderate scenario, economic activity slows but remains positive throughout the forecast horizon. Real GDP growth falls below baseline by approximately 1 to 3 percentage points during 2026, reflecting weaker external demand and softer domestic activity. The gap narrows in 2027 to approximately 1.1 to 2.2 percentage points as conditions begin to stabilise, with growth gradually converging towards baseline levels by 2028. This profile reflects a cyclical slowdown rather than a recession.

Inflation under the moderate scenario rises modestly above baseline, reflecting temporary imported cost pressures. The divergence is most pronounced in 2026 and early 2027, before narrowing as external price pressures ease and domestic demand softens. Inflation converges relatively quickly towards baseline, with only marginal differences remaining by 2028. This reflects a temporary and contained cost-push shock.

Labour market conditions also deteriorate in the moderate scenario, with the unemployment rate rising above baseline and peaking at around 9.3 percent in late 2027. The gap relative to the baseline narrows thereafter, with conditions improving gradually through 2028 as economic activity strengthens.

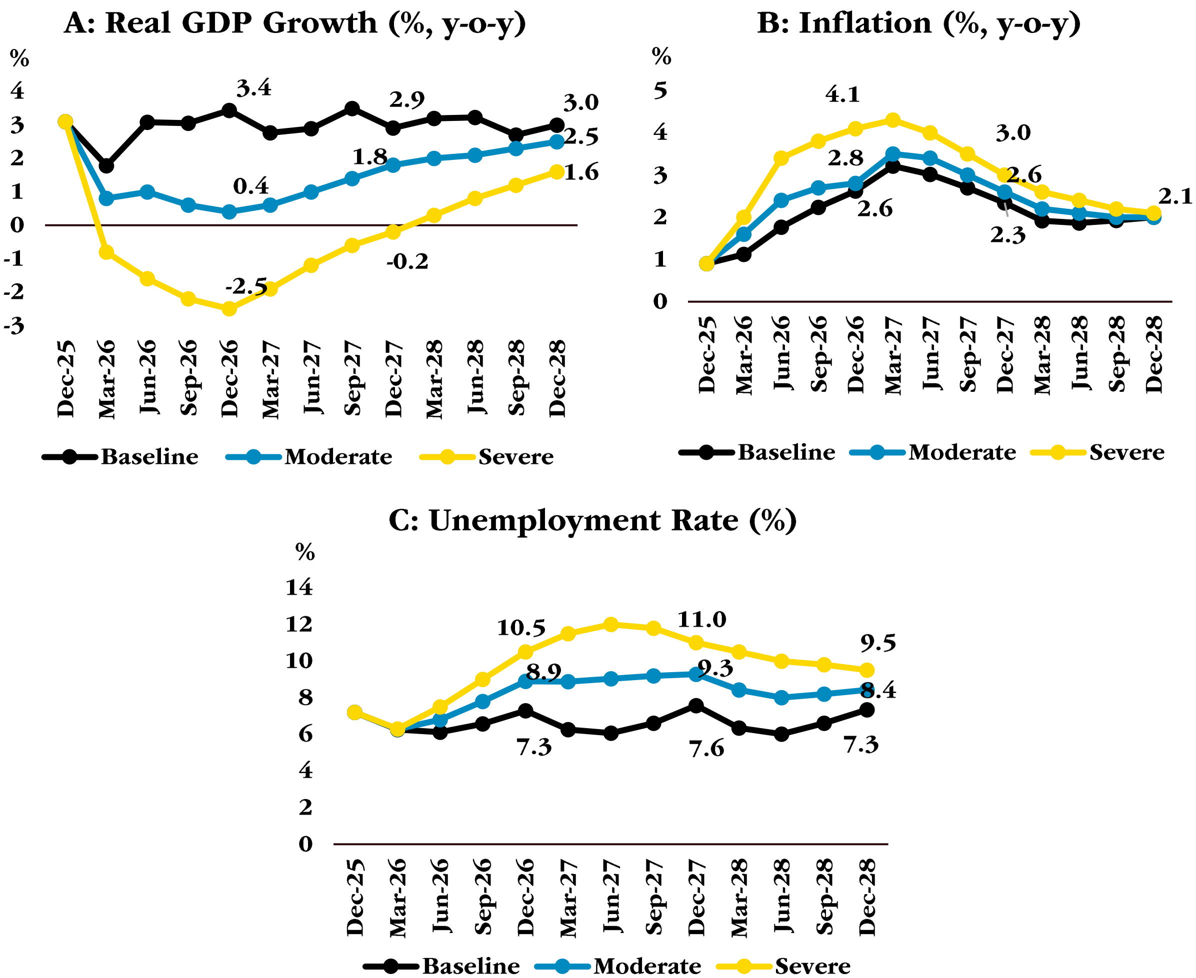
Under the severe scenario, the economy experiences a more pronounced and prolonged external shock. Real GDP contracts from early 2026 and continues to contract through 2027, with growth falling below baseline by approximately 2.6 to 5.9 percentage points in 2026 and by 3.1 to 4.7 percentage points in 2027. The largest deviations occur in late 2026, reflecting the full transmission of weaker external demand and tighter financial conditions. Growth returns to positive territory in early 2028 but remains below baseline throughout the projection horizon.

Inflation rises more sharply under the severe scenario, exceeding baseline levels by approximately 0.9 to 1.6 percentage points throughout 2026 and remaining elevated into early 2027. This reflects higher imported energy, food, and transportation costs associated with elevated global uncertainty and supply-side disruptions. Inflation moderates thereafter, as domestic demand weakens and external price pressures gradually ease. By 2028, inflation converges towards baseline levels, consistent with the dissipation of the initial cost-push shock.

Labour market conditions deteriorate significantly under the severe scenario, with unemployment rising with a lag relative to the contraction in economic activity. The unemployment rate peaks at approximately 12 percent in mid-2027, compared with a baseline peak of around 7.6 percent, before declining gradually to approximately 9.5 percent by end-2028 as economic activity begins to recover.

Overall, the moderate and severe scenarios represent increasingly adverse but plausible paths for the Barbados economy. The moderate scenario reflects a temporary slowdown, while the severe scenario captures a prolonged external shock. The scenarios reflect Barbados' high dependence on external demand and imported price dynamics and are designed to generate differentiated impacts on credit quality, profitability, and capital buffers within financial institutions. These scenarios provide a robust foundation to assess the resilience of the financial system under varying degrees of macroeconomic stress.

Figure 32: Key Macroeconomic Variables[60]



Sources: Central Bank of Barbados' calculations and Barbados Statistical Service

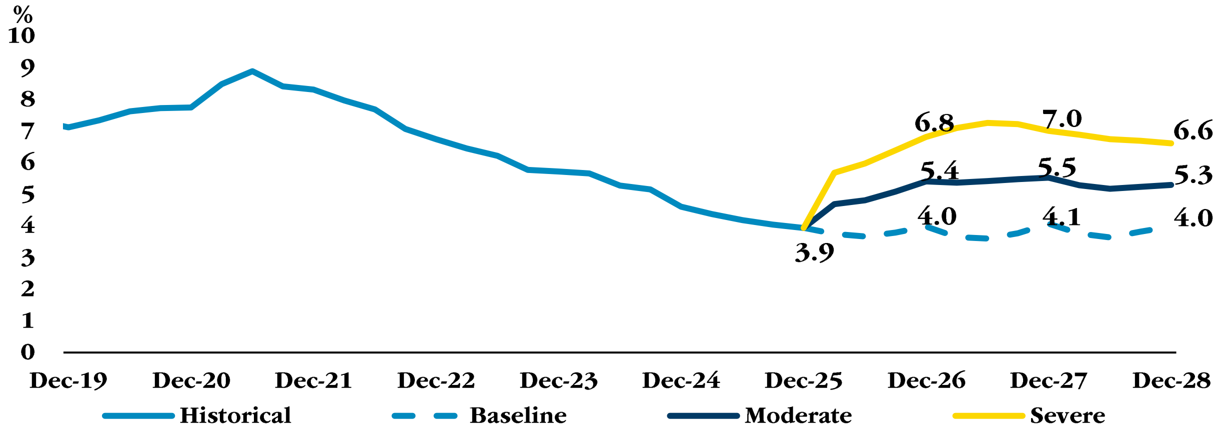
5.2 Macroeconomic Stress Testing Results

Commercial Banks and Finance Companies

Credit quality remains stable under the baseline but weakens as macroeconomic conditions deteriorate. Under the baseline, the NPL ratio remains broadly contained, fluctuating between approximately 3.6 percent and 4.1 percent over the forecast horizon. Under the moderate scenario, softer economic activity and weaker labour market conditions raise the NPL ratio to around 5.5 percent by late 2027. Under the severe scenario, the NPL ratio rises more sharply, peaking at approximately 7.3 percent in mid-2027 as weaker income growth, higher living and operating costs, and rising unemployment weigh on borrower repayment capacity (Figure 33).

[60] Forecasts were prepared in April 2026.

Figure 33: NPL Ratio Stress Testing Results – Commercial Banks and Finance Companies



Source: Central Bank of Barbados' staff calculations

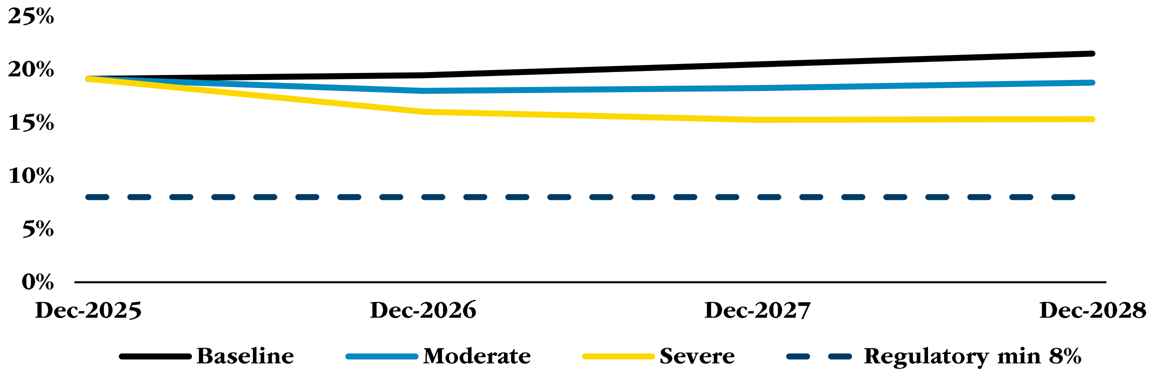
Credit losses increase under the adverse scenarios, as macroeconomic conditions deteriorate, placing pressure on earnings. Under the baseline, credit losses remain contained, supported by steady economic activity and favourable labour market conditions. In the adverse scenarios, weaker growth and higher unemployment reduce repayment capacity, leading to higher loan losses and a sharp rise in provisioning requirements. The average credit loss rate rises from 1.0 percent under the baseline to 1.8 percent under the moderate scenario and 3.0 percent under the severe scenario over the forecast horizon.

Stress conditions place pressure on profitability, although earnings remain an important source of loss absorption. Continued credit growth and income generation support profitability under the baseline, as higher net interest and non-interest income offset moderate increases in operating costs arising from higher inflation. Under the adverse scenarios, weaker credit demand, rising NPLs, and higher provisioning expenses weigh on earnings and lead to aggregate losses. Profitability recovers more quickly under the moderate scenario as economic conditions stabilise, while earnings remain under greater pressure for longer under the severe scenario. Losses are concentrated among a small number of institutions over the projection period.

Aggregate capital adequacy remains above the regulatory minimum under all scenarios, although capital pressures emerge at several smaller institutions. Under the baseline, the aggregate CAR for commercial banks and finance companies rises from 19.1 percent in December 2025 to 21.5 percent by end-2028, supported by continued profitability and retained earnings. Under the moderate scenario, the CAR declines modestly to 18.7 percent by end-2028. Under the severe scenario, it declines to 15.3 percent, 3.8 percentage points below its starting level, reflecting higher credit losses and weaker earnings (Figure 34).

Although the aggregate CAR remains above the regulatory minimum, institution-level vulnerabilities become more evident under adverse conditions. One small institution is projected to reach the 8 percent regulatory minimum by the end of the baseline horizon, absent management action. Under the moderate scenario, two small institutions fall below the minimum capital threshold. Under the severe scenario, three institutions representing less than 10 percent of sector assets fall below the threshold and would require recapitalisation equivalent to 0.6 percent of GDP, measured as the cumulative amount required over the forecast horizon to restore each affected institution to the 8 percent minimum. The Tier 1 capital ratio follows a similar pattern, with a small number of institutions breaching the 4 percent Tier 1 minimum and requiring capital support estimated at between 0.1 percent and 0.4 percent of GDP under the adverse scenarios. These Tier 1 amounts represent an alternative measure of the capital need at the same institutions and are not additional to the 0.6 percent of GDP reported above.

Figure 34: Average Capital Ratios in the Stress Test – Commercial Banks and Finance Companies



Source: Central Bank of Barbados' staff calculations

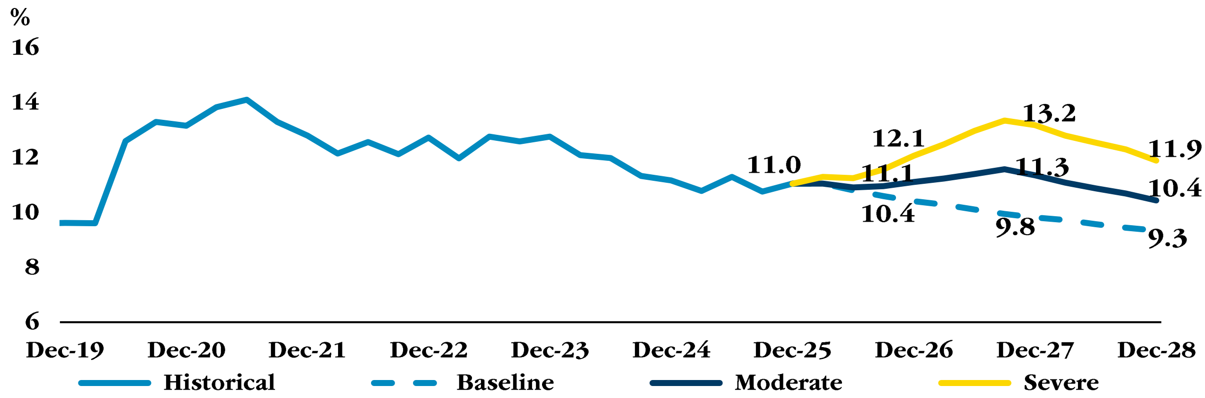
The results indicate that the financial system remains broadly resilient to macroeconomic stress in aggregate, supported by capital buffers that stay above the regulatory minimum under every scenario. Vulnerability is concentrated rather than system-wide: one small institution reaches the minimum even under the baseline, and the adverse scenarios expose further pockets of weakness among smaller institutions. This pattern underscores the importance of institution-specific supervision alongside continued credit risk monitoring, prudent provisioning, and capital planning.

Credit Unions

Credit risk remains the main vulnerability facing the credit union sector, although aggregate stress test results point to broad sectoral resilience. The sector's non-performing loan ratio eased slightly in 2025 but remained above pre-2020 levels (Figure 35). Asset-quality pressures also remained concentrated in a small number of larger credit unions, which accounted for a material share of the sector's total NPLs and projected loan-loss provisions. This concentration remains relevant to financial stability within the sector, as deterioration in these institutions could have a disproportionate effect on aggregate sector performance.

Stress test results indicate that weaker macroeconomic conditions would affect the credit union sector primarily through higher credit losses. Under the baseline scenario, the aggregate NPL ratio is projected to decline modestly over the stress horizon. Under the moderate and severe scenarios, asset-quality pressures persist, with the severe scenario generating a temporary increase in the NPL ratio before partial moderation by 2028. Consistent with this deterioration, cumulative loan-losses are projected to rise to approximately 2.3 times baseline levels under the moderate scenario and 3.5 times baseline levels under the severe scenario over the stress horizon (Appendix Figure D1B). The projected increase reflects the assumed deterioration in borrower repayment capacity under weaker macroeconomic conditions and the resulting impact on asset quality.

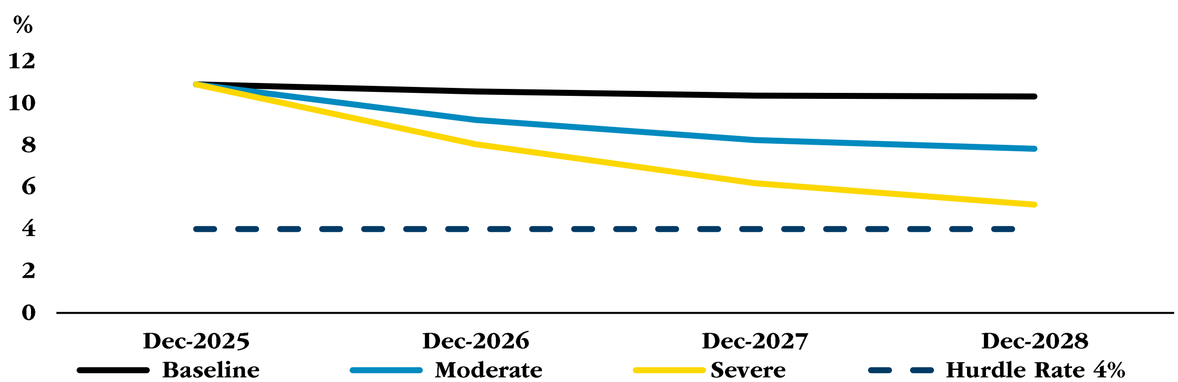
Figure 35: NPL Ratio Stress Testing Results – Credit Unions



Source: Financial Services Commission's staff calculations

Despite higher projected credit losses, the sector's aggregate capital ratio remains above the 4 percent hurdle across all scenarios (Figure 36; Appendix Figure D1B). Under the moderate scenario, no credit union falls below the 4 percent hurdle. Under the severe scenario, however, one credit union would fall below the hurdle from 2026 onward, and a second credit union would fall below the hurdle from 2027 onward. The affected institutions would require incremental annual capital support equivalent to approximately 0.03 percent of GDP in 2026, 0.09 percent of GDP in 2027, and 0.12 percent of GDP in 2028 to restore the capital ratio to the 4 percent hurdle. On a cumulative basis, capital needs would reach approximately 0.24 percent of GDP by 2028.[61]

Figure 36: Average Capital Ratios in the Stress Test – Credit Unions



Source: Financial Services Commission's staff calculations

The results underscore the need for continued monitoring of credit risk, capital adequacy, provisioning, and profitability in the sector. While the stress test does not point to a broad sector-wide capital shortfall, it suggests that adverse macroeconomic shocks could expose vulnerabilities at specific institutions, particularly those with elevated NPL ratios, weaker capital buffers, and greater sensitivity to borrower repayment conditions.

[61] Capital adequacy in the credit union stress test is assessed using a 4 percent capital-to-assets hurdle.

5.3 Large Exposure Stress Test

The 2025 large exposure stress test points to uneven capital resilience across deposit-taking institutions under concentrated borrower default shocks. The assessment simulated the sequential default of each institution's five largest borrowers under 10 percent, 50 percent, and 100 percent provisioning assumptions (Table 1). The results were assessed against two measures: the 8 percent capital adequacy ratio (CAR), which is the regulatory minimum for banks and finance companies, and a 4 percent capital-to-assets hurdle applied for analytical purposes to banks, finance companies, and credit unions.

Banks and finance companies generally showed improved resilience under mild and moderate provisioning assumptions when assessed against the CAR threshold. No bank or finance company fell below the 8 percent CAR threshold under the 10 percent provisioning scenario, compared with one finance company breaching the threshold from the second round in 2024. Under the 50 percent provisioning scenario, one bank and one finance company breached the CAR threshold from the second round. This again represented some improvement relative to 2024, when one bank and one finance company breached from the first round, and a second bank breached by the fifth round.

Severe provisioning assumptions continued to expose borrower concentration risk among banks. Under the 100 percent provisioning scenario, one bank and one finance company fell below the 8 percent CAR minimum from the first round, consistent with the previous year. However, the number of banks falling below the minimum increased to four by the third round in 2025, compared with two by the third round and three by the fourth round in 2024. Finance companies' CAR results were broadly unchanged under the severe scenario, with one institution below the minimum across all rounds.

Table 1: Results of Large Exposure Shocks

Scenario	10% Provisioning			50% Provisioning			100% Provisioning		
	Banks	Finance Companies	Credit Unions	Banks	Finance Companies	Credit Unions	Banks	Finance Companies	Credit Unions
	Capital Adequacy Ratio < 8%								
Round 1	0	0	N/A	0	0	N/A	1	1	N/A
Round 2	0	0	N/A	1	1	N/A	1	1	N/A
Round 3	0	0	N/A	1	1	N/A	4	1	N/A
Round 4	0	0	N/A	1	1	N/A	4	1	N/A
Round 5	0	0	N/A	1	1	N/A	4	1	N/A
	Capital-to-Assets Ratio < 4%								
Round 1	1	0	1	2	0	1	2	0	1
Round 2	1	0	1	2	0	1	2	0	1
Round 3	1	0	1	2	0	1	4	0	1
Round 4	1	0	1	2	0	1	5	0	1
Round 5	1	0	1	2	0	1	5	0	2

Source: Central Bank of Barbados' staff calculations

N/A not applicable

Note: Figures show the number of institutions. The 8 percent capital adequacy ratio is the regulatory minimum for banks and finance companies. The 4 percent capital-to-assets measure is an analytical hurdle applied solely for comparative purposes in this exercise and is not used in the regulation of banks and finance companies. One bank was below the 4 percent hurdle at the start of the exercise, so its appearance from the first round reflects its starting position rather than the effect of the assumed borrower defaults.

Capital-to-assets results showed weaker resilience for banks but improved results for finance companies. One bank entered the exercise below the 4 percent capital-to-assets hurdle, so its inclusion from the first round reflects its starting position rather than the impact of the assumed borrower default. Under the 50 percent scenario, two banks fell below the hurdle across all rounds, compared with one bank from the first round and two banks from the fifth round in 2024. Under the 100 percent scenario, two banks fell below the hurdle from the first round, rising to four by the third round and five by the fourth round. This was weaker than the previous year, when one bank fell below from the first round and four banks by the fifth round. In contrast, no finance company fell below the capital-to-assets hurdle in 2025 under any scenario, an improvement from 2024.

Credit union results were broadly stable under mild and moderate shocks and improved under the severe scenario. One credit union fell below the 4 percent capital-to-assets hurdle under the 10 percent and 50 percent provisioning scenarios, unchanged from the previous year. Under the 100 percent scenario, one credit union fell below the hurdle through the fourth round and two by the fifth round, compared with three credit unions by the fourth and fifth rounds in 2024.

Overall, the results suggest a modest deterioration in banks' resilience to concentrated credit shocks, particularly under severe provisioning assumptions, while finance companies improved and credit unions remained broadly stable. This assessment holds after excluding the bank that entered the exercise below the capital-to-assets hurdle. These findings reinforce the need for continued monitoring of large exposures, especially among institutions with elevated borrower concentration risk and thinner capital buffers.

5.4 Liquidity Risk

Liquidity stress test results pointed to uneven resilience across DTIs in 2025, with banks maintaining stronger aggregate liquidity positions while finance companies and credit unions remained more exposed to deposit outflow pressures. The liquidity stress test simulated consecutive daily deposit withdrawals at 5 percent, 10 percent, and 15 percent, assuming that 95 percent of liquid assets and 1 percent of non-liquid assets could be readily converted to cash. For credit unions, member shares were also assumed to be 95 percent convertible to cash, reflecting their withdrawal-on-demand nature (Table 2**: Results of Deposit Runs2**).

Banks remained more resilient than other DTIs under mild deposit run assumptions, although weakening emerged at both ends of the stress range. Under the 5 percent daily deposit run, no bank required liquidity support through the first four days, while one bank required support by Day 5. This represented a slight deterioration relative to 2024, when no bank required support under the 5 percent scenario. Under the 10 percent scenario, one bank required liquidity support by Day 2 and three banks by Day 3, compared with no banks by Day 2 and three banks by Day 3 in 2024. By Day 5, four banks required support, unchanged from the previous year. Under the 15 percent scenario, one bank required support from Day 1, where none did in 2024, rising to four banks by Day 3 and five by Day 5, the latter unchanged from the previous year.

Finance companies continued to show greater sensitivity to deposit run shocks than banks, although some early-stage results improved relative to 2024. Under the 5 percent scenario, one finance company required support from Day 1 and four required support by Day 4, compared with one from Day 1 and four by Day 3 in 2024. Under the 10 percent scenario, three finance companies required support from Day 1 and all four required support from Day 2 onward. Under the 15 percent scenario, all four finance companies required support from Day 1, consistent with the previous year. These results suggest that finance companies remained more immediately exposed to liquidity stress, although they showed some improvement under the 5 percent daily deposit run scenario relative to 2024.

Credit unions were more mixed, with improved resilience under mild shocks but greater vulnerability under prolonged higher withdrawal rates. Under the 5 percent scenario, two credit unions required support by Day 4 and four by Day 5, compared with three by Day 4 and five by Day 5 in 2024. Under the 10 percent scenario, credit unions performed better through the early rounds, with four requiring support by Day 2, and five by Day 3, compared with five and six, respectively, in 2024. However, by Day 5, nine credit unions required support, compared with eight in the previous year. Under the 15 percent scenario, credit unions also showed stronger results in the first two days, but nine required support from Day 3 onward, compared with eight in 2024.

Table 2: Results of Deposit Runs2

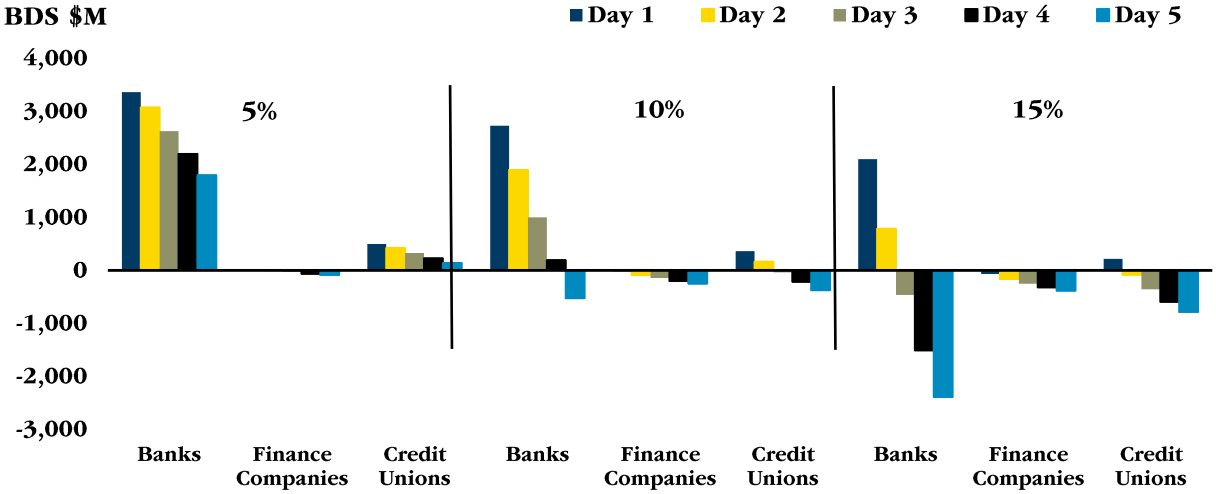
Scenarios	At 5%			At 10%			At 15%		
	Banks	Finance Companies	Credit Unions	Banks	Finance Companies	Credit Unions	Banks	Finance Companies	Credit Unions
Day 1	0	1	0	0	3	0	1	4	2
Day 2	0	2	0	1	4	4	3	4	5
Day 3	0	2	0	3	4	5	4	4	9
Day 4	0	4	2	4	4	8	4	4	9
Day 5	1	4	4	4	4	9	5	4	9

Source: Central Bank of Barbados' staff calculations
Note: Figures show the number of institutions requiring liquidity support.

Net cash flow dynamics confirmed that liquidity pressures intensified as withdrawal rates increased. Banks maintained positive cash flows under the 5 percent scenario and showed stronger aggregate liquidity positions than finance companies and credit unions. However, net cash flows weakened materially under the 10 percent and 15 percent scenarios. Finance companies experienced persistent liquidity deficits across all stress scenarios, while credit unions' net cash flows deteriorated as withdrawal rates increased and the deposit runs extended over time (Figure 37).

Overall, banks retained stronger aggregate liquidity positions, but liquidity pressures increased across all DTI segments as deposit withdrawals intensified. Finance companies remained the most immediately exposed to liquidity stress, while credit union results were more mixed, improving under mild shocks but weakening under prolonged higher withdrawal scenarios. These findings reinforce the importance of maintaining adequate liquidity buffers and robust contingency funding arrangements across the sector.

Figure 37: Results of Deposit Runs (Net Cash Flow)



Source: Central Bank of Barbados' staff calculations

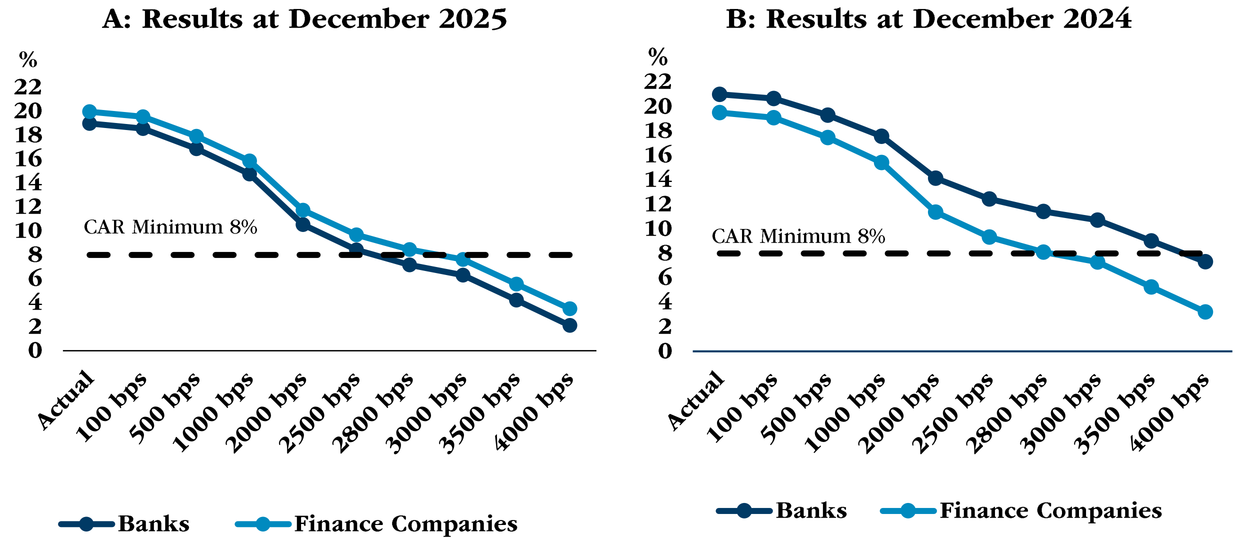
5.5 Interest Rate and Funding Cost Risk

Capital resilience to interest rate shocks remained sound in 2025, although banks showed weaker shock-absorption capacity than in the previous year. The exercise estimates the effect of progressively higher funding costs on net interest income and capital adequacy, holding other balance-sheet factors constant. As at December 2025, banks' aggregate CAR declined to 19.0 percent, from 21.2 percent in 2024, reflecting a significant increase in risk-weighted assets and a decline in regulatory capital. In contrast, finance companies' CAR increased to 20.0 percent, up from 19.5 percent in the previous year, as regulatory capital growth outpaced the increase in risk-weighted assets.

Sector level results indicate that capital buffers remained adequate under sizeable interest rate shocks, although banks' resilience weakened relative to the previous year. Banks remained above the 8 percent CAR minimum at a shock of 2,500 basis points but fell below it at 2,800 basis points (Figure 38A). Finance companies showed slightly stronger resilience, remaining above the minimum at 2,800 basis points and falling below it at 3,000 basis points. This represents weaker sector-level resilience among banks relative to 2024, when the aggregate banking sector remained above the minimum through 3,500 basis points and fell below it at 4,000 basis points (Figure 38B). Finance companies' sector-level results were broadly comparable to the previous year. At higher shock levels, rising funding costs would compress net interest income and reduce capital buffers.

Institutional-level results showed greater sensitivity among the most vulnerable banks and finance companies. The weakest bank would fall below the 8 percent CAR minimum at an interest rate shock of approximately 1,100 basis points, compared with 1,400 basis points in 2024. The weakest finance company would fall below it at approximately 1,800 basis points, compared with 1,700 basis points in the previous year. This indicates that the most vulnerable bank became less resilient, while the most vulnerable finance company showed a marginal improvement. These results reinforce the need for institution-specific monitoring of funding cost exposures.

Figure 38: Interest Rate Impact on CAR



Source: Central Bank of Barbados' staff calculations

6. Conclusion

Barbados' financial system remained stable in 2025, but the direction of several key indicators warrants attention. Deposit-taking institutions maintained adequate capital and liquidity, asset quality improved across every major borrower segment, and earnings remained positive. Over the same period, credit expanded faster than deposits, commercial banks' capital adequacy and leverage ratios declined, provisioning coverage eased, and credit union profitability weakened. Composite indicators moved consistently with this assessment, with both the Banking Stability Index and the Aggregate Financial Stability Index easing while remaining at levels consistent with a sound financial sector.

Stress testing identified vulnerabilities at a small number of institutions rather than across the system. Aggregate capital remains above regulatory minimums under all scenarios, and the recapitalisation need under the severe scenario has halved relative to the previous exercise. Institution-level results are less reassuring in three respects: one institution is projected to reach the 8 percent minimum under the baseline, liquidity resilience weakened at both banks and credit unions, and the most vulnerable bank's tolerance to interest-rate shocks declined. These findings do not point to system-wide distress, but they warrant targeted supervisory action.

The supervisory implication follows directly. Attention should concentrate on the institutions that stress testing identifies, while the system as a whole preserves aggregate buffers and rebuilds institution-specific headroom where it weakened. Buffers are accumulated in good conditions and spent in adverse ones, and 2025 was a year of good conditions. Continued monitoring is warranted of credit, liquidity, interest-rate and concentration risks, including exposures to sovereign securities, real estate, large borrowers, and interconnected financial institutions. Outside the deposit-taking sector, the principal vulnerabilities are the climate and reinsurance exposures of general insurers, related-party concentration among life insurers, the sensitivity of mutual funds to international market conditions, and pension funding and contribution risk.

The 2026 policy agenda of both authorities supports this objective. The launch of BiMPay, the Barbados Instant Payments System, advanced the modernisation of the payments ecosystem, while implementation of the licensing, authorisation and supervisory frameworks for payment service providers will strengthen oversight of payment activity. Continued work on depositor protection, including the extension of coverage to credit unions, and on anti-money laundering and countering the financing of terrorism readiness ahead of the next mutual evaluation cycle, will support institutional resilience and confidence. The Financial Services Commission's reform agenda across insurance supervision, pension regulation, investment funds, reporting standards, stress testing, cyber resilience, and the oversight of systemically important non-bank institutions will strengthen resilience across the wider non-bank sector. In particular, the proposed legislative framework for virtual assets and virtual asset service providers would, if enacted, close a gap in the regulatory perimeter and reduce the risks to client assets, investor protection, and contagion that accompany the growth of digital finance.

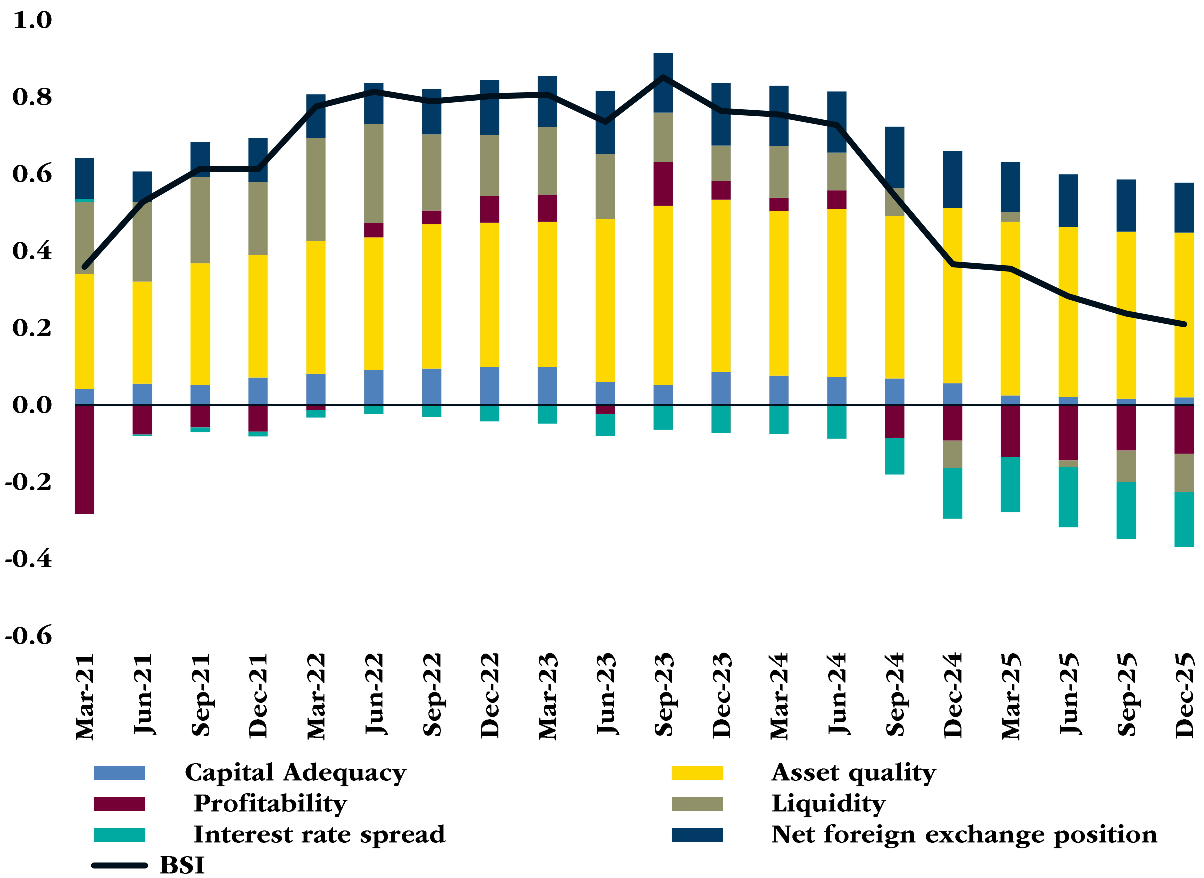
Continued close coordination among the regulatory and supervisory authorities will therefore remain essential to preserving financial stability while supporting innovation, inclusion, and sustainable financial sector development.

Appendix A: Macroprudential Indicators

Banking Stability Index (BSI)[62]

The Banking Stability Index (BSI) weakened in 2025, reflecting broad-based moderation across key prudential indicators (Figure A1). Lower contributions from capital adequacy, asset quality, profitability, liquidity, interest rate spread, and net foreign exchange position indicators contributed to the easing in the index over the review period. Despite this moderation, the BSI remained positive throughout 2025, suggesting that banking sector conditions continued to perform above long-term averages and remained consistent with overall financial system resilience.

Figure A1: Banking Stability Index



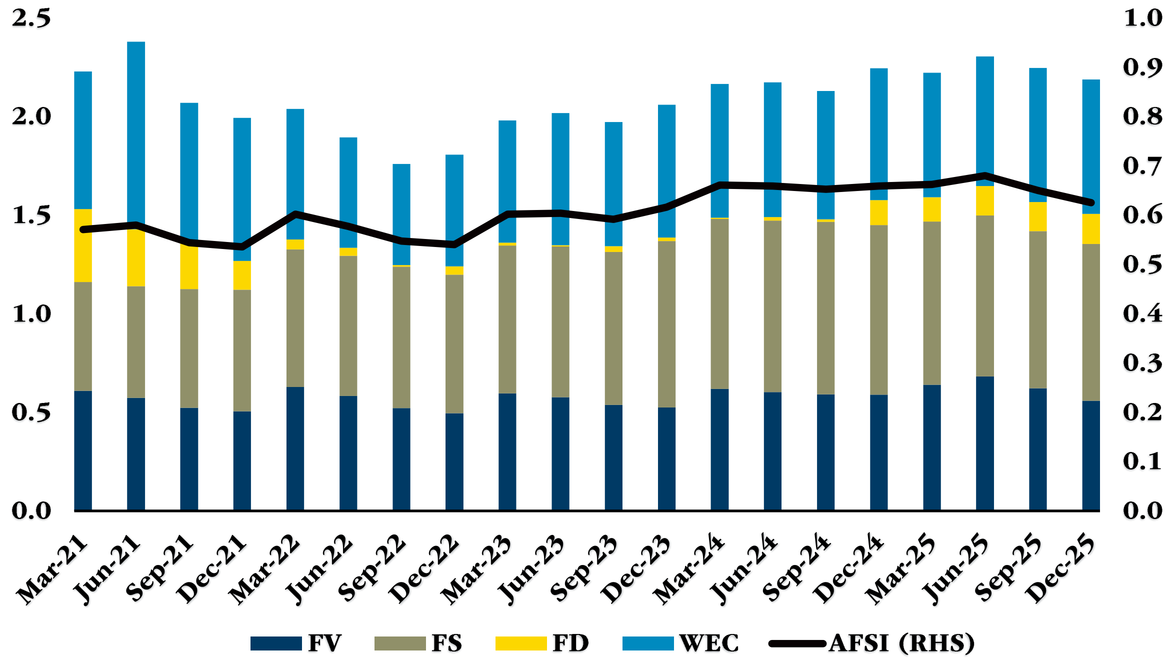
Source: Central Bank of Barbados' staff calculations

[62] The Banking Stability Index (BSI) is a composite measure of banking sector conditions constructed using weighted and standardised prudential indicators, including capital adequacy, asset quality, profitability, liquidity, and market risk exposures. The index measures deviations from long-term averages, where positive values indicate conditions above historical norms and negative values indicate weaker-than-average banking sector conditions.

Aggregate Financial Stability Index (AFSI)[63]

The Aggregate Financial Stability Index (AFSI) moderated in 2025, reflecting mixed movements across the underlying sub-indices (Figure A2). The Financial Development (FD) and Financial Vulnerability (FV) sub-indices strengthened over the review period, supported by continued credit expansion, favourable domestic macroeconomic conditions, and improvements in selected monetary and external vulnerability indicators. In contrast, the Financial Soundness (FS) and World Economic Climate (WEC) sub-indices weakened relative to 2024. The decline in the FS sub-index reflected weaker capital adequacy and liquidity conditions amid strong credit growth and rising risk-weighted assets, despite continued improvement in non-performing loan ratios. Meanwhile, the moderation in the WEC sub-index reflected a less supportive external environment amid heightened geopolitical uncertainty. Overall, the AFSI remained above levels observed during 2021–2023, suggesting that conditions within the commercial banking sector remained resilient despite some easing relative to 2024.

Figure A2: Aggregate Financial Stability Index



Source: Central Bank of Barbados' staff calculations

[63] The Aggregate Financial Stability Index (AFSI) is a composite measure of financial stability within the commercial banking sector. The index is constructed using weighted and normalised macroeconomic and financial indicators grouped into four sub-indices: financial development (FD), financial vulnerability (FV), financial soundness (FS), and the global economic climate (WEC). Variables associated with weaker financial stability conditions are directionally transformed prior to normalisation so that higher index values across all sub-indices consistently indicate stronger financial stability conditions. The sub-indices are equally weighted in the construction of the overall index.

Appendix B: Financial Development Indicators

Table B1: Key Indicators of the Structure of the Financial System

	2019	2020	2021	2022	2023	2024	2025
Number of:							
Total DTIs	43	42	41	38	37	35	35
Commercial Banks	5	5	5	5	6	6	6
Finance Companies	5	5	4	4	4	4	4
Credit Unions	33	32	32	29	27	25	25
Insurance Companies	22	22	20	20	20	20	21
Life	7	6	6	6	6	6	7
Non-Life	15	16	14	14	14	14	14
Pension Plans	260	261	251	248	245	245	242
Mutual Funds	16	16	18	19	19	19	19
Assets to Total Financial System Assets (%)[1]							
Total DTIs	65.4	65.5	64.7	66.7	65.0	72.8	72.7
Commercial Banks	51.2	51.0	50.2	51.8	50.5	56.8	56.5
Finance Companies	3.9	3.8	3.8	3.9	3.6	4.1	4.3
Credit Unions	10.3	10.8	10.7	11.0	10.9	11.9	12.0
Insurance Companies	14.4	14.5	13.9	13.6	15.4	16.5	16.2
Life	10.3	10.6	10.1	9.9	11.5	12.4	11.4
Non-Life	4.1	4.0	3.8	3.7	3.9	4.1	4.8
Pension Plans	10.5	10.3	11.2	10.1	9.7	N/A	N/A
Mutual Funds	9.6	9.6	10.2	9.7	9.9	10.7	11.1
Assets to GDP (%)							
Total DTIs	134.2	157.7	149.3	135.1	130.4	132.1	131.1
Commercial Banks	105.0	122.6	115.9	105.0	101.4	103.1	101.8
Finance Companies	8.1	9.2	8.7	7.9	7.2	7.5	7.7
Credit Unions	21.1	25.9	24.8	22.2	21.8	21.5	21.6
Insurance Companies	29.6	35.0	32.1	27.6	30.9	29.9	29.2
Life	21.1	25.4	23.3	20.1	23.1	22.4	20.5
Non-Life	8.5	9.5	8.8	7.4	7.8	7.5	8.7
Pension Plans	21.5	24.9	25.9	20.4	19.6	N/A	N/A
Mutual Funds	19.8	23.1	23.6	19.6	19.9	19.3	20.0
Memo:							
Credit Union Membership (000's)	216	222	228	235	240	248	250
Pension Plans Membership (000's)	26	24	28	27	29	26	26

Sources: Central Bank of Barbados and Financial Services Commission

Notes: [1] Financial system indicators for 2024 and 2025 exclude the occupational pensions sector, as estimates were not available. As a result, these years are not strictly comparable with earlier periods.

Table B2: Key Indicators of the Payments System

$ Millions	2019	2020	2021	2022	2023	2024	2025
RTGS Transactions	11,668	14,771	15,488	16,163	18,092	23,698	21,598
ACH and Real-Time Payments	19,293	17,268	19,710	24,566	26,274	29,045	30,888
Cheques	15,573	11,412	10,198	12,079	11,911	10,217	10,099
Direct E-Transfers	3,719	5,855	9,512	12,487	11,715	13,675	13,352
Real Time E-Payments	0	0	0	0	2,648	5,153	7,437
Debit Card Transactions	1,324	1,223	658	N/A	N/A	N/A	N/A
ATM Transactions	698	611	329	N/A	N/A	N/A	N/A
Debit Card POS Transactions	626	612	328	N/A	N/A	N/A	N/A
Credit Card Transactions	795	703	786	1,027	1,178	1,335	1,344
Personal Sector	660	577	634	798	909	1,019	1,033
Business Sector	135	126	152	230	270	316	310
Currency in Circulation Outside of Commercial Banks and Finance Companies	291	243	280	338	388	363	377

Source: Central Bank of Barbados
N/A – Not Available

Table B3: Total Assets of the Financial System (BDS $M)

	2019	2020	2021	2022	2023	2024	2025
Commercial Banks	12,946	13,253	13,787	14,460	14,642	15,664	16,179
Insurance Companies	3,647	3,780	3,817	3,795	4,464	4,548	4,632
Finance Companies	996	991	1,031	1,089	1,040	1,140	1,217
Credit Unions	2,606	2,797	2,946	3,063	3,152	3,266	3,427
Mutual Funds	2,437	2,494	2,811	2,702	2,871	2,936	3,171
Pension Funds	2,654	2,690	3,085	2,814	2,825	N/A	N/A
Total[1]	**25,287**	**26,005**	**27,477**	**27,922**	**28,993**	**27,554**	**28,625**

Sources: Central Bank of Barbados and Financial Services Commission
Notes: [1] Total Financial System Assets for 2024 and 2025 exclude the occupational pensions sector, as estimates were not available. As a result, totals for these years are not strictly comparable with earlier periods.

Appendix C: Financial Soundness Indicators

Table C1: Financial Soundness Indicators – Commercial Banks

	2019	2020	2021	2022	2023	2024	2025
Solvency Indicators (%)							
Capital adequacy ratio (CAR)	13.5	16.0	16.8	17.6	20.9	21.2	19.0
Leverage ratio	7.0	9.5	9.9	10.5	12.6	12.0	10.9
Non-performing loans net of provisions to capital	13.4	12.9	13.4	10.7	8.5	9.7	9.0
Liquidity Indicators (%)							
Loan-to-deposit ratio	61.7	57.1	53	53.1	54.3	57.0	58.9
Transferable deposits to total deposits	94.8	95.9	96.3	97.0	97.2	97.0	96.1
Transferable deposits to total deposits (Domestic currency)	94.9	95.9	96.4	96.9	97.3	97.0	97.1
Liquid assets to total assets	26.0	27.4	31.1	31.7	30.4	28.6	28.9
Liquid assets to total assets (Domestic currency)	21.8	25.4	28.8	28.9	27.6	26.1	25.7
Liquid assets to transferable deposits	35.5	36.1	40.2	40.4	39.5	36.0	31.9
Credit Risk Indicators (%)							
Total loans (y-o-y change)[1]	-0.6	-2.1	-2.1	6.2	2.7	14.2	4.5
NPL ratio	6.6	7.3	7.4	5.9	5.0	4.1	3.6
Substandard loans to total loans	5.2	5.5	5.7	4.9	4.2	3.5	3.2
Doubtful loans to total loans	0.5	1.3	1.0	0.6	0.4	0.3	0.2
Loss loans to total loans	0.9	0.5	0.6	0.4	0.3	0.2	0.2
Provisions to NPLs	52.5	56.3	53	53.1	54.1	46.5	45.0
Foreign Exchange Risk Indicators (%)							
Foreign-currency loans to total loans	2.9	1.8	1.7	1.6	1.3	1.2	1.6
Foreign-currency deposits to total deposits	6.7	6.6	7.8	8.6	8.8	9.6	10.6
Liquid assets to transferable deposits (Foreign currency)	140.8	96.2	92.8	82.3	83.5	70.9	83.8
Net Open Position in Foreign Exchange (on balance sheet) to Regulatory Capital	50.2	35.2	28.4	20.7	14.7	13.7	15.4
Profitability Indicators (%)							
Return on average assets	0.6	0.8	1.1	1.3	1.8	1.2	1.1
Net interest margin	5.5	5.4	5.0	4.8	4.8	5.0	4.6
Interest rate spread	6.1	5.7	5.3	5.2	5.1	5.4	5.0

Source: Central Bank of Barbados

Notes: [1] Refers to the year-on-year change in total lending to residents of Barbados.

Table C2: Financial Stability Indicators (FSIs) – Finance Companies

	2019	2020	2021	2022	2023	2024	2025
Solvency Indicators (%)							
Capital adequacy ratio (CAR)	18.4	19.3	19	19.8	20.6	19.5	20.0
Leverage ratio	11.2	12.1	12.4	12.6	14.1	13.6	13.7
Non-performing loans net of provisions to capital	43.0	42.5	63.1	51.2	42.1	33.3	24.4
Liquidity Indicators (%)							
Loan-to-deposit ratio	97.2	103	100.6	107.8	119.8	113.6	108.8
Transferable deposits to total deposits	2.6	3.7	5.6	5.1	3.4	6.3	6.5
Transferable deposits to total deposits (Domestic currency)	1.6	2.4	2.1	2.9	2.5	2.6	3.0
Liquid assets to total assets	12.9	11.9	13.3	18.0	14.0	14.0	13.5
Liquid assets to total assets (Domestic currency)	9.7	8.8	6.9	12.7	8.8	8.7	7.7
Liquid assets to transferable deposits	678.2	459.3	332	544.7	652.5	368.2	318.7
Credit Risk Indicators (%)							
Total loans (y-o-y change)	0	1.8	1.8	3.1	-0.1	6.6	7.0
Non-performing loans ratio	11.3	11.7	16.1	14.1	12.2	9.7	7.3
Substandard loans to total loans	8.9	9.3	13.3	11.8	10.3	8.1	5.9
Doubtful loans to total loans	0.6	0.9	0.7	0.3	0.6	0.5	0.5
Loss loans to total loans	1.7	1.5	2	2	1.4	1.0	0.9
Provisions to NPLs	26	24.1	24	26.1	26.5	27.3	29.9
Foreign Exchange Risk Indicators (%)							
Foreign-currency loans to total loans	0	0	0	0.3	0.4	0.4	0.6
Foreign-currency deposits to total deposits	1.3	1.7	5.1	3.0	1.4	5.5	5.5
Liquid assets to transferable deposits (Foreign currency)	486.7	360	266.1	369.2	893.0	270.9	273.2
Profitability Indicators (%)							
Return on equity	7.8	5.3	7.3	9.3	7.8	7.3	8.5
Return on average assets	1.2	0.7	1.0	1.4	1.2	1.1	1.1
Net interest margin	4.4	4.5	4.4	4.6	4.8	4.6	4.8
Interest rate spread	4.5	4.3	4.2	4.2	4.0	3.7	3.9

Source: Central Bank of Barbados

Table C3: Performance Indicators – Credit Unions

	2019	2020	2021	2022	2023	2024	2025
Capital Adequacy (%)							
Total capital to total deposits	13.0	12.6	12.8	12.9	12.9	13.0	12.6
Total capital to total assets	11.3	11.0	11.1	11.2	11.2	11.2	10.9
Total NPLs on total capital	58.1	76.7	73.0	73.6	73.7	63.7	64.1
Total NPLs net of provisions to total capital	41.2	58.7	50.1	50.3	54.5	46.0	47.9
Asset Quality (%)							
Total loans to total assets	68.1	64.0	63.5	64.7	64.7	64.0	63.2
Total NPLs to total loans	9.6	13.2	12.8	12.7	12.8	11.2	11.1
Total NPLs net of provisions to total loans	6.8	10.1	8.8	8.7	9.4	8.1	8.2
Provisions to total NPLs	29.2	23.4	31.4	31.7	26.0	27.8	26.3
Provisions to total loans	2.8	3.1	4.0	4.0	3.3	3.1	2.9
Earnings & Profitability (%)							
Return on average assets	0.9	0.6	0.7	0.7	0.5	0.6	0.4
Interest margin to gross income	68.7	67.6	65.1	67.8	66.1	65.0	66.2
Liquidity (%)							
Liquid assets to total assets	14.0	17.7	17.6	15.3	14.5	15.5	15.9
Liquid assets to total deposits	16.1	20.3	20.3	17.7	16.7	17.9	18.3
Total loans to total deposits	78.3	73.4	73.2	74.6	74.6	74.1	73.0
Growth Indicators (%)							
Total assets	7.5	7.3	5.3	4.0	2.9	3.6	4.9
Total deposits	8.3	7.6	4.8	4.0	2.8	3.2	5.3
Total loans	3.5	0.8	4.4	6.0	2.8	2.5	3.7

Source: Financial Services Commission

Table C4: Performance Indicators - Insurance Sector[64]

A: General Insurance

	2024e IFRS 4	2024e IFRS 17	2025e IFRS 17
Capital Adequacy (%)			
Capital-to-assets ratio	28.1	46.2	47.4
Capital-to-liabilities ratio	39.0	93.9	93.3
Asset Quality (%)			
Equities to total assets	8.6	4.7	6.0
Liquidity (%)			
Liquid assets to total liabilities	28.8	26.0	26.6

B: Life Insurance

	2024e IFRS 4	2024e IFRS 17	2025e IFRS 17
Capital Adequacy (%)			
Capital-to-technical reserves ratio	127.4	137.1	117.3
Asset Quality (%)			
Equities to total assets	0.3	0.3	0.5
Real estate to total assets	1.7	1.6	1.3
Related-party investments to total assets	48.3	37.3	37.0
Liquidity (%)			
Liquid assets to total liabilities	7.9	2.3	3.3

Source: Financial Services Commission

[64] In 2025, the FSC officially transitioned its insurance reporting standard from IFRS 4 to IFRS 17, which has affected the availability and comparability of certain performance metrics. As a result, the presentation of selected indicators relative to prior reporting periods has been temporarily impacted. Further information on IFRS 17 can be found in the Thematic Article entitled "*IFRS 17 - A New Accounting Standard for Insurance Companies in Barbados: Implementation Challenges, Implications, and a Regulatory Roadmap*", included in this year's report.

Table C5: Performance Indicators – Mutual Funds

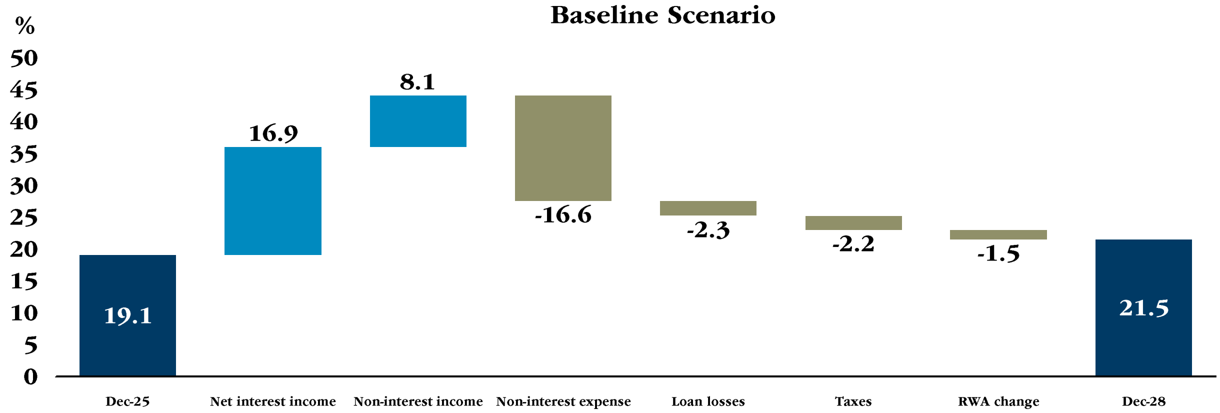
	2019	2020	2021	2022	2023	2024	2025
Asset Concentration (%)							
Related-party investments to total assets	30.0	30.7	30.7	30.1	27.8	30.7	32.8
Liquidity (%)							
Cash & cash equivalents to total assets	6.3	4.9	5.2	4.1	3.6	3.4	3.3
Liquid investments to total assets	27.5	25.8	25.1	24.8	26.4	34.1	31.9
Earnings and Profitability (%)							
Return on net assets (net income/net assets)	8.6	-3.6	24.0	-1.2	15.6	10.5	7.5
Asset Growth (%)							
Net assets under management	13.5	1.9	11.5	-3.1	5.0	2.0	8.1

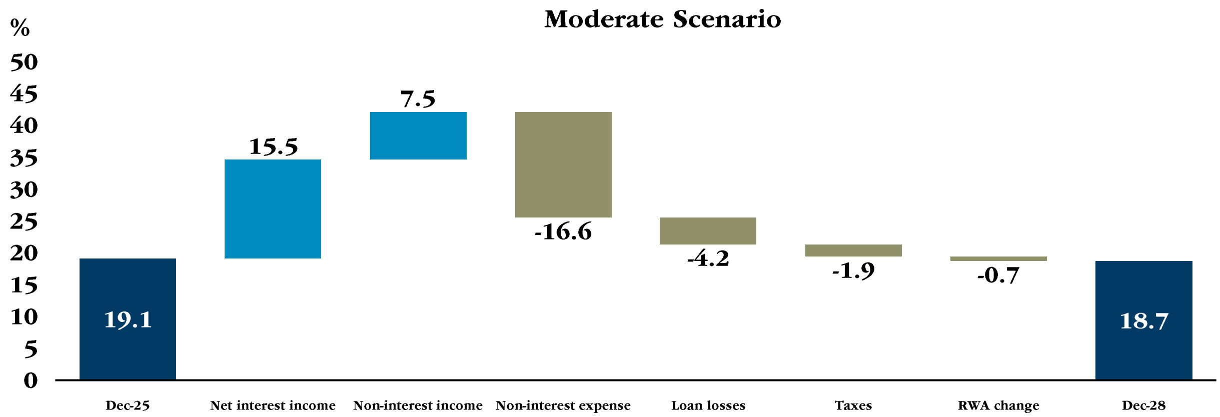
Source: Financial Services Commission

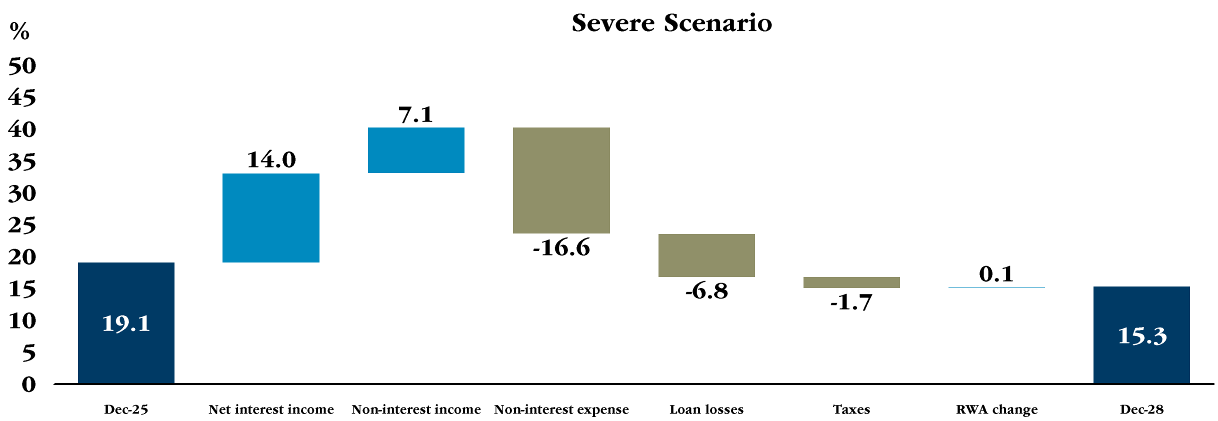
Appendix D: Chart Annex

Figure D1: Factors Contributing to Changes in Capital Adequacy

A: Commercial Banks and Finance Companies

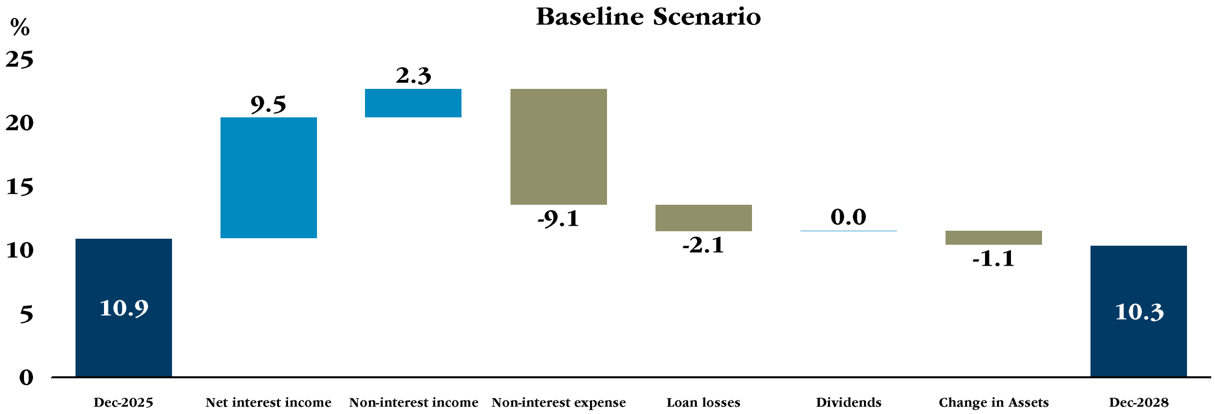


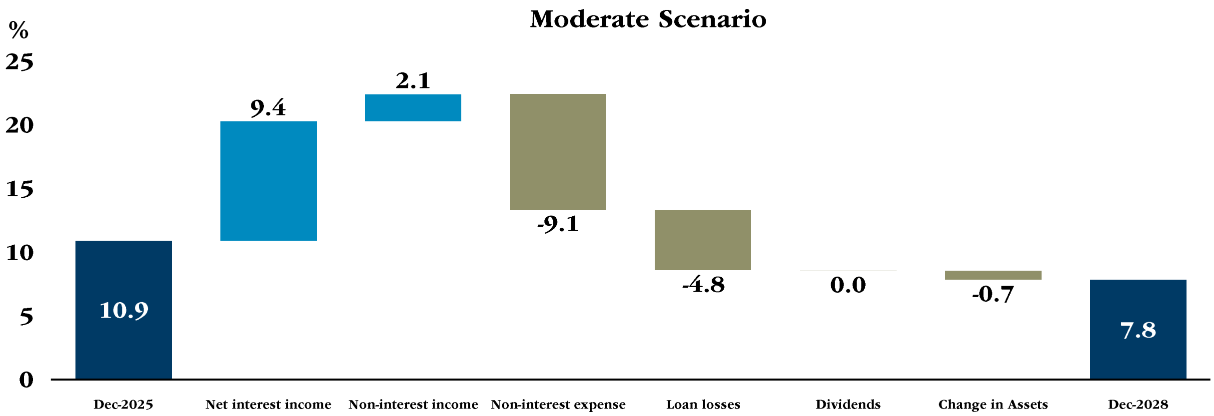


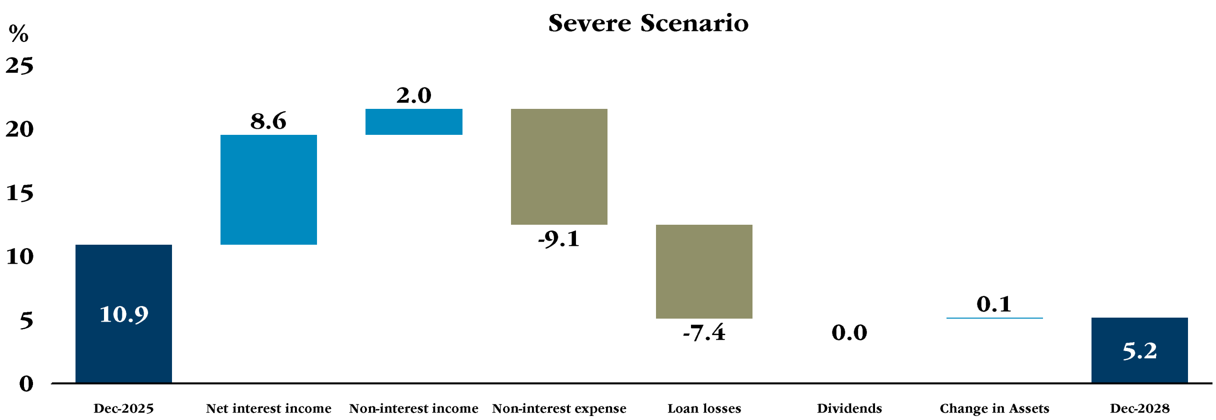


Source: Central Bank of Barbados' staff calculations

B: Credit Unions

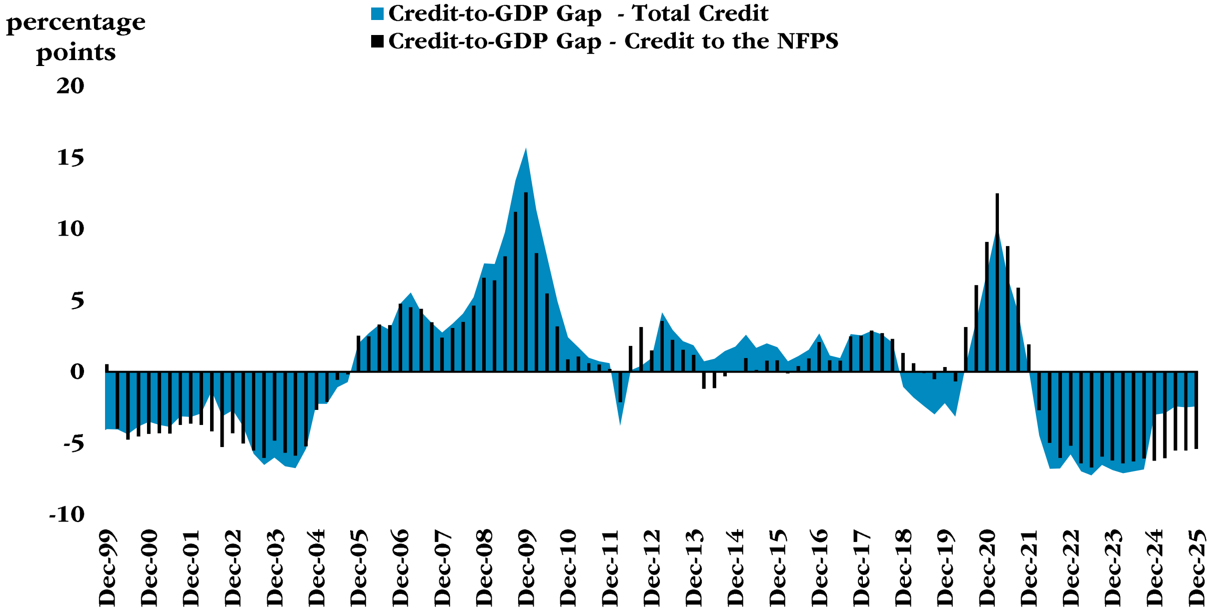






Source: Financial Services Commission's staff calculations

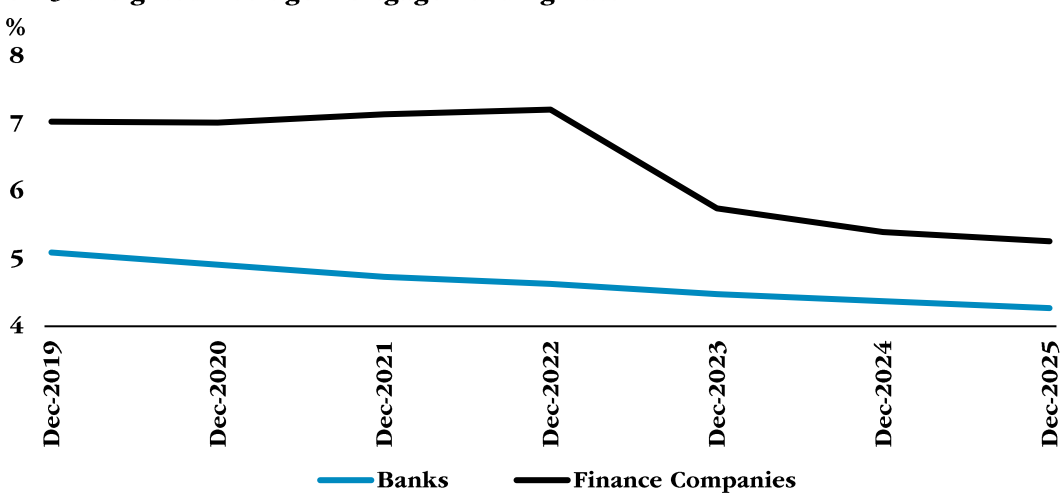
Figure D2: Credit-to-GDP Gap[1]



Sources: Central Bank of Barbados and Financial Services Commission

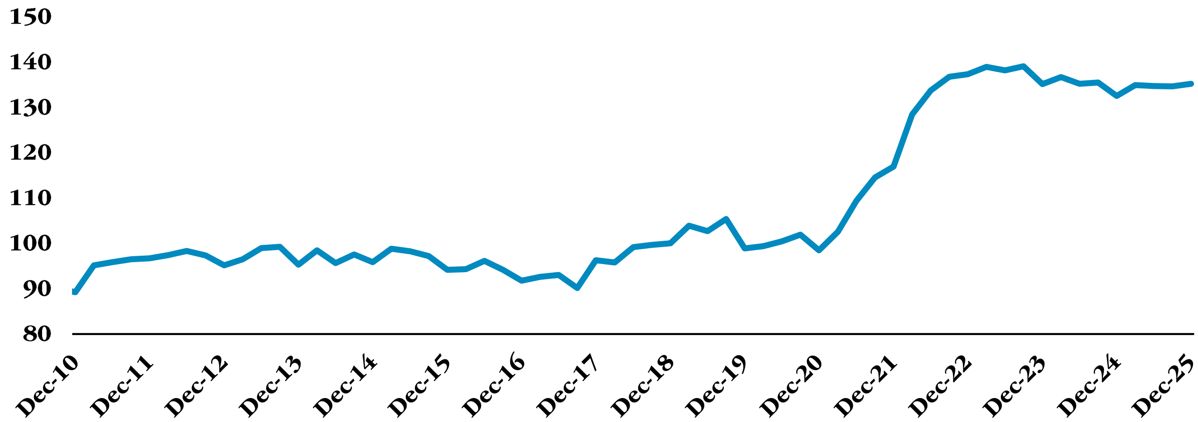
[1] The credit-to-GDP gap measures the deviation of the credit-to-GDP ratio from its long-term trend. It is calculated by applying the standard one-sided Hodrick-Prescott filter with the smoothing parameter (lambda) set at 400,000 to quarterly observations from March 1999 to December 2025.

Figure D3: Weighted Average Mortgage Lending Rate



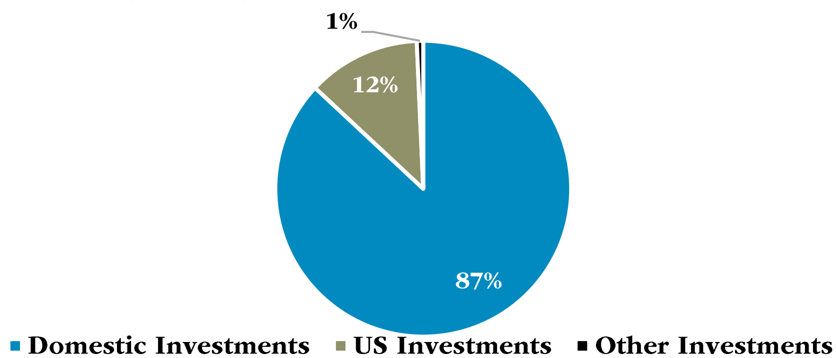
Source: Central Bank of Barbados

Figure D4: Building Materials Index



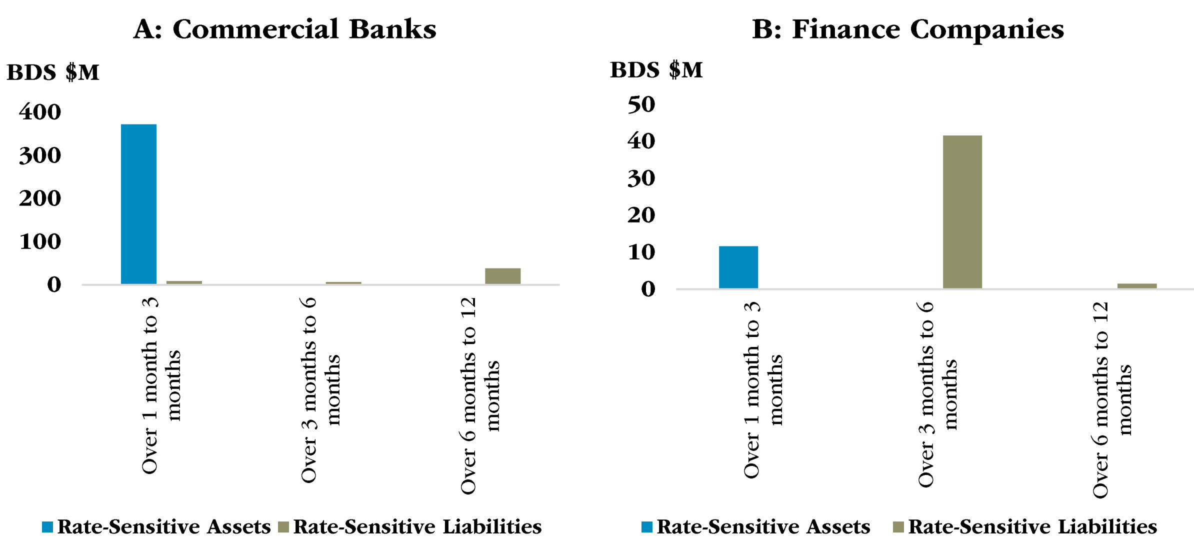
Source: Barbados Statistical Service

Figure D5: Investments by Country



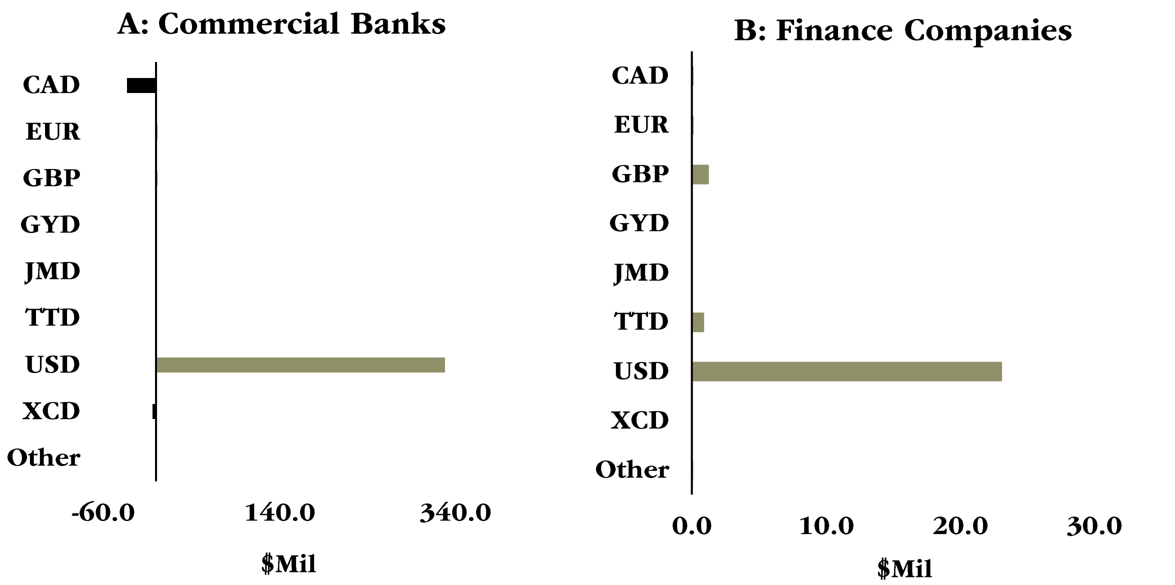
Source: Central Bank of Barbados

Figure D6: Maturity Gap Analysis



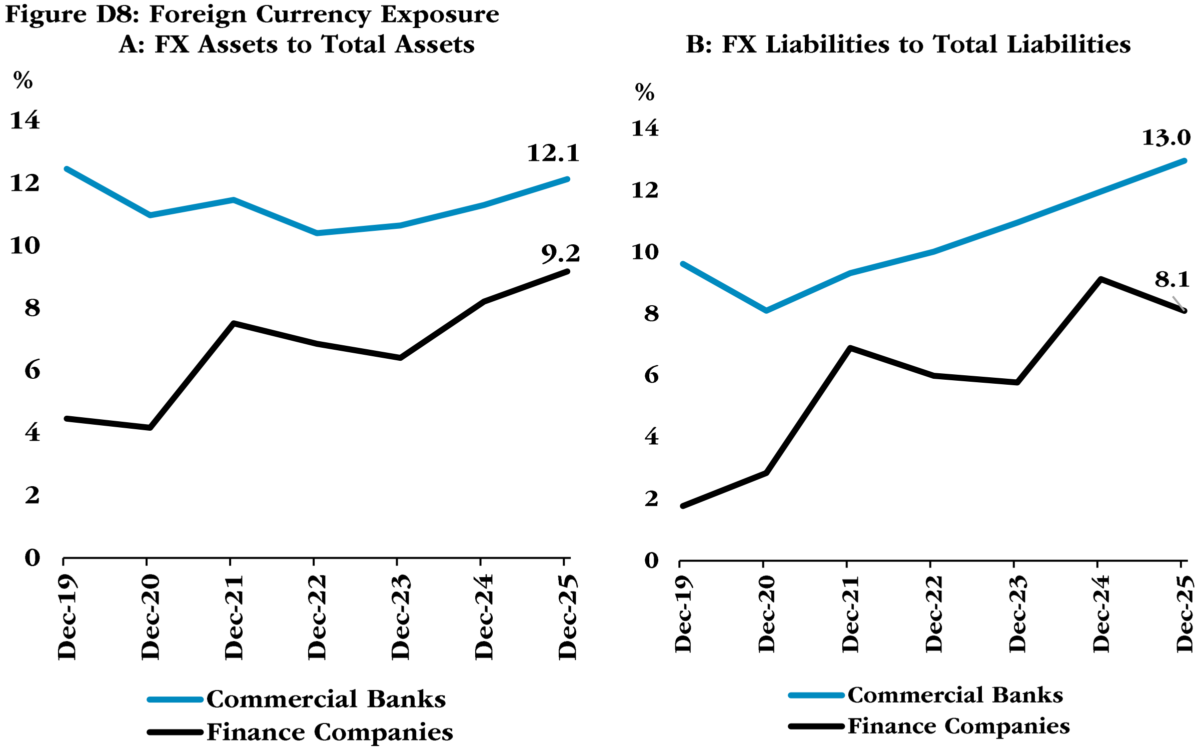
Source: Central Bank of Barbados

Figure D7: Net Open Position in Foreign Currency



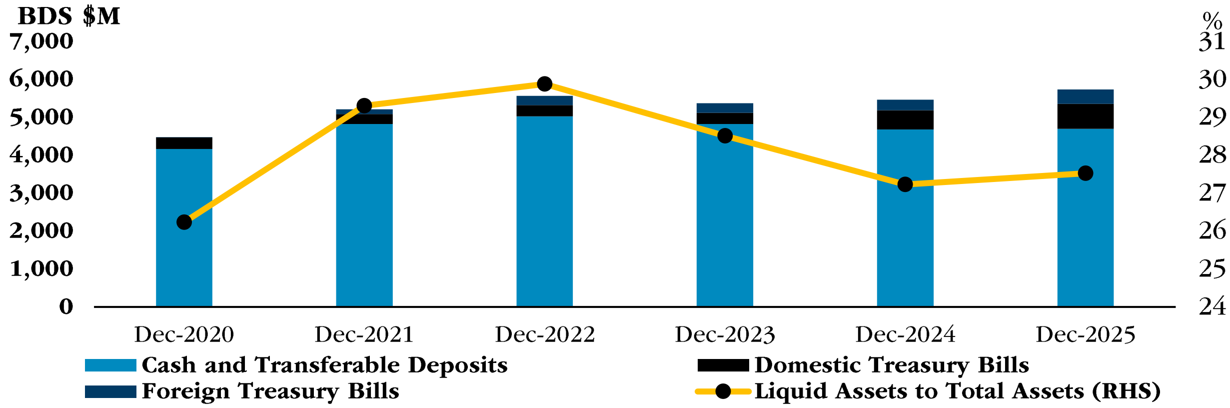
Sources: Central Bank of Barbados

Figure D8: Foreign Currency Exposure



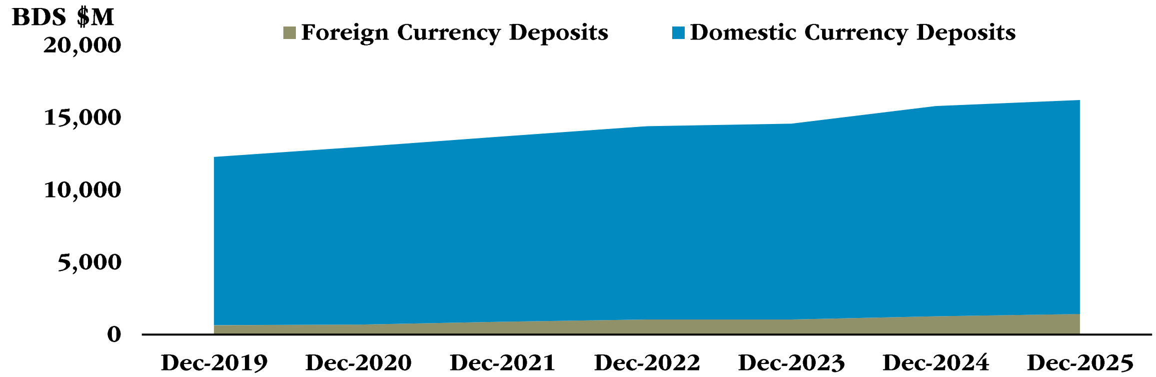
Source: Central Bank of Barbados

Figure D9: Liquidity Components



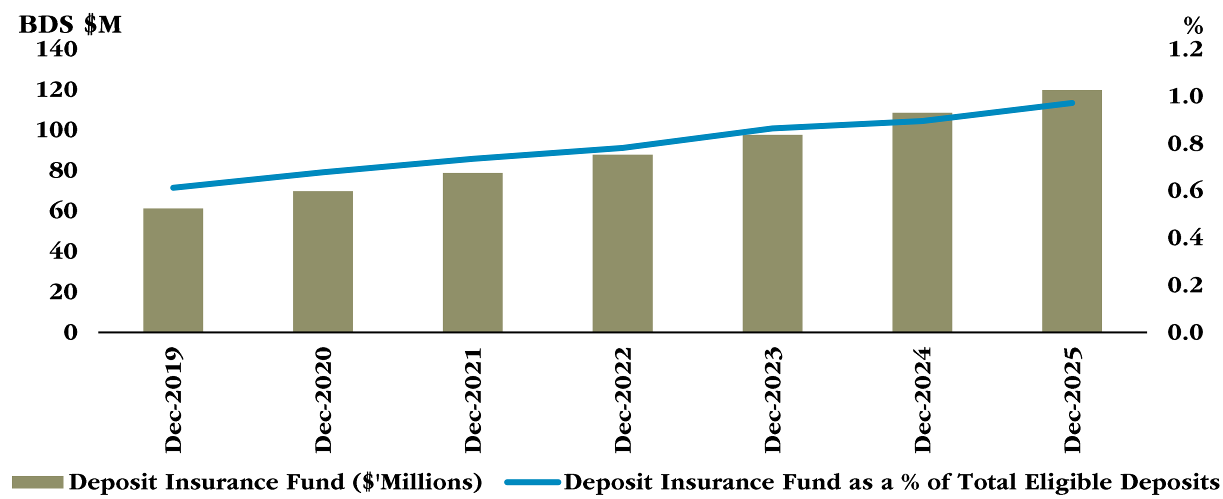
Source: Central Bank of Barbados and Financial Services Commission

Figure D10: Deposits by Currency



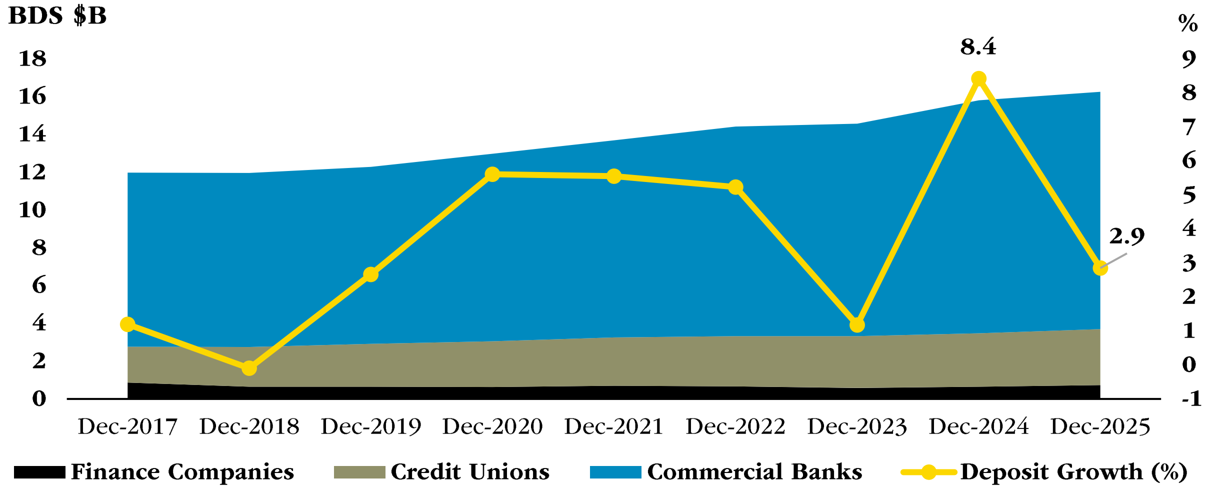
Source: Central Bank of Barbados and Financial Services Commission

Figure D11: Deposit Insurance Fund



Source: Barbados Deposit Insurance Corporation

Figure D12: Consolidated Deposits

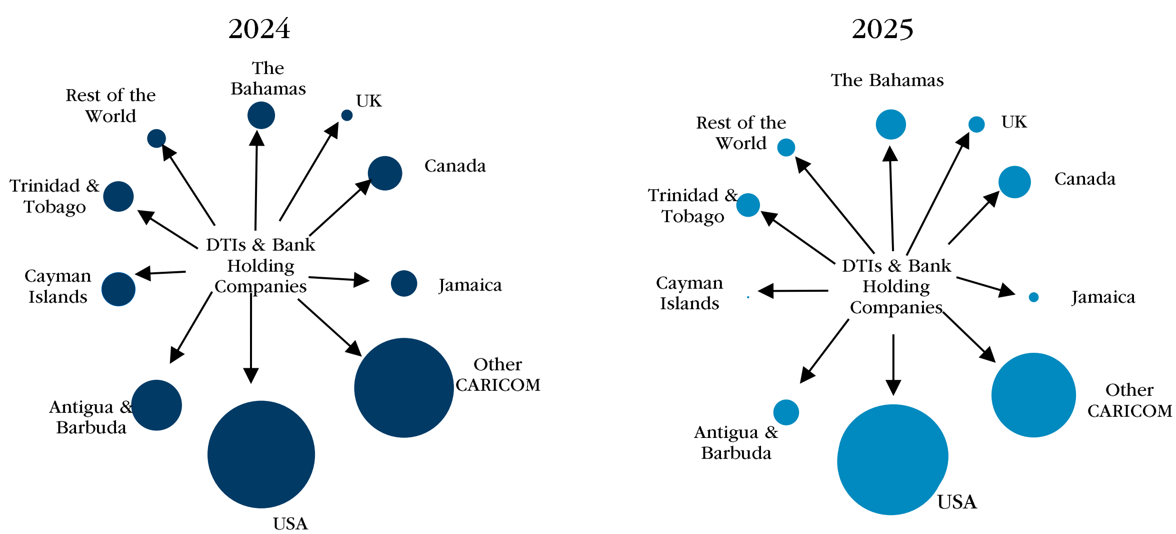


Sources: Central Bank of Barbados and Financial Services Commission

Cross-Border Assets of DTIs and Bank Holding Companies by Geographical Location

The cross-border assets of DTIs and bank holding companies remained stable in 2025. Total claims on non-residents declined marginally by 0.4 percent to approximately BDS$1.7 billion, with the US continuing to account for the largest share of external exposures (Figure D13). Regional exposures to the Cayman Islands and Jamaica declined significantly over the review period, while claims on the US increased by 25 percent.

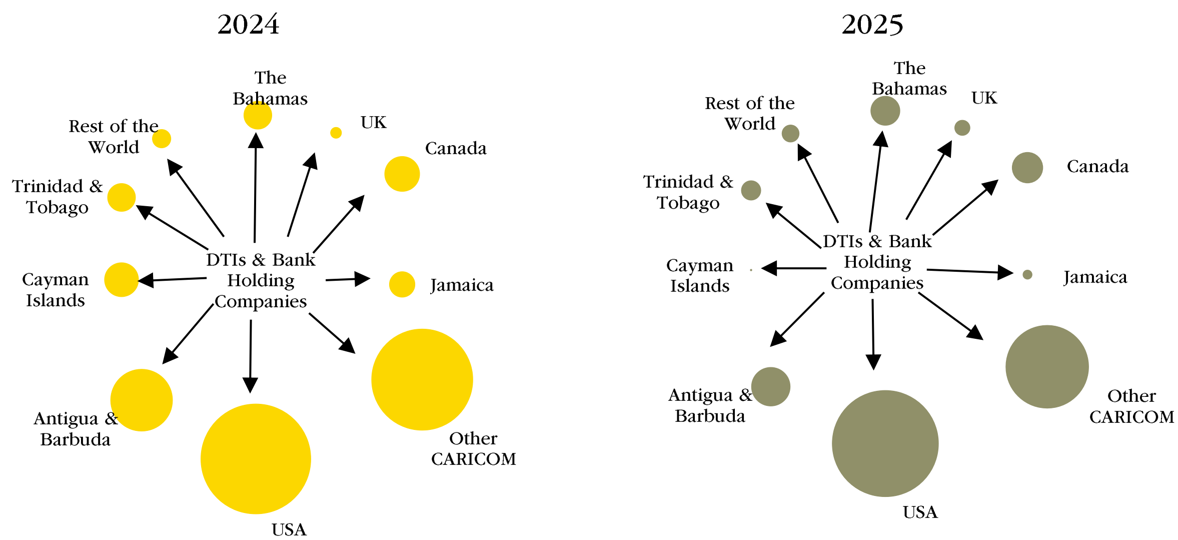
Figure D13: Total Claims on Non-Residents by Country and Region of Residence



Source: Central Bank of Barbados

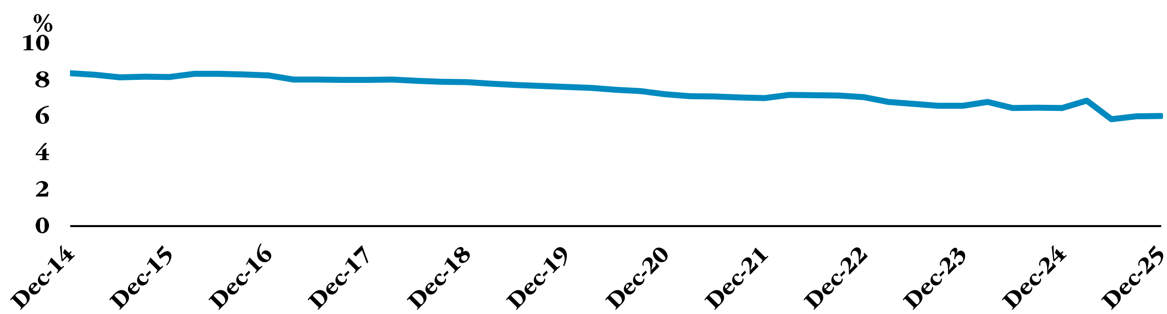
Debt instrument claims also contracted slightly by 0.7 percent, although holdings remained concentrated in US securities (Figure D14). Increased exposures to the US, Canada, the UK, and The Bahamas partly offset declines in debt claims on regional jurisdictions, including the Cayman Islands, Jamaica, Antigua and Barbuda, and other CARICOM countries.

Figure D14: Debt Instrument Claims on Non-Resident by Country and Region of Residence



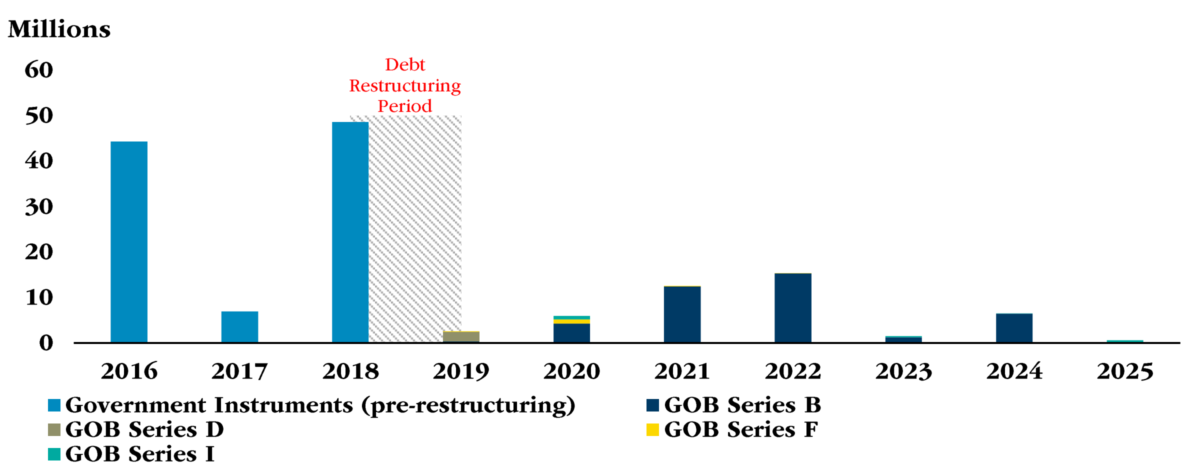
Source: Central Bank of Barbados

Figure D15: Implicit Loan Interest Rates for the Credit Union Industry



Source: Financial Services Commission

Figure D16: Fixed Income (Bond) Market Volume of Shares Traded



Source: Barbados Stock Exchange


AI

EARTH
valuable than money


WAR


data
privacy
code
safe
security
secrecy