BANK OF JAMAICA

Financial Stability

REPORT

Resilience by Design

2025

ABBREVIATIONS AND ACRONYMS

ABM	Automated Banking Machine	**FPC**	Financial Policy Committee
ACH	Automated Clearing House	**FSC**	Financial Services Commission
AFD	Agence Française de Développement	**FSI**	Financial Soundness Index
AFSI	Aggregate Financial Stability Index	**FSR**	Financial Stability Report
BAML-GFSI	Bank of America Merrill Lynch Global Financial Stress Index	**FSSC**	Financial System Stability Committee
BIS	Bank for International Settlement	**FSSN**	Financial System Safety Net
BN	Billion	**FTSE**	Financial Time Stock Exchange
BOJ	Bank of Jamaica	**FVI**	Financial Vulnerability Index
BPS	Basis Points	**FX**	Foreign Exchange
BSA	Banking Services Act	**GDP**	Gross Domestic Product
BSI	Banking Stability Index	**GOJ**	Government of Jamaica
CAR	Capital Adequacy Ratio	**GOJGB**	Government of Jamaica Global Bonds
CGS	Cambium Global Solutions	**HH**	Household
CPI	Consumer Price Index	**HQLA**	High Quality Liquid Assets
CRFRs	Climate Related Financial Risks	**IAIS**	International Association of Insurance Supervisors
CSM	Contractual Service Margin	**IFRS**	International Financial Reporting Standard
DTI	Deposit-taking Institution	**IMF**	International Monetary Fund
DVBP	Dollar Value of a Basis Point	**IoC**	Index of Contagion
eKYC	Electronic Know-Your-Customer	**JCSD**	Jamaica Central Securities Depository
EMBI+	Emerging Market Bond Index	**JDIC**	Jamaica Deposit Insurance Corporation
FDI	Financial Development Index	**JSE**	Jamaica Stock Exchange
FMI	Financial Market Infrastructure	**LCR**	Liquidity Coverage Ratio

LICAT	Life Insurance Capital Adequacy Test
LSCRI	Large System Concentration Risk Index
MaFI	Macro-Financial Index
MCCSR	Minimum Continuing Capital and Surplus Requirements
MCT	Minimum Capital Test
MiPI	Micro-Prudential Index
NDTFI	Non-Deposit-taking Financial Institution
NFCs	Non-financial Corporates
NHT	National Housing Trust
NOP	Net Open Position
NPL	Non-Performing Loan
PDL	Past-Due Loan
POS	Point-of-Sale
RAJ	Realtors Association of Jamaica
ROA	Return on Asset
ROE	Return of Equity
RREPI	Residential Real Estate Price Index
RTGS	Real-Time Gross Settlement
S&P 500	Standard & Poor's 500
SD	Securities Dealer
SIDS	Small Island Developing States
SIFI	Systemically Important Financial Institution
SRR	Special Resolution Regime
STATIN	Statistical Institute of Jamaica
StDEV	Standard Deviation
SyRB	Systemic Risk Buffer
TCFD	Task Force on Climate-Related Financial Disclosures
VIX	Volatility Index
WECI	World Economic Climate Index
WEO	World Economic Outlook
WTI	West Texas Intermediate
Y-O-Y	Year Over Year

Preface

Bank of Jamaica (BOJ) has institutional responsibility for the oversight of financial system stability and the conduct of macroprudential interventions (Bank of Jamaica (Amendment) Act, 2015). This responsibility entails identifying, monitoring and taking action to mitigate or reduce potential systemic risks to ensure the proper and efficient functioning of the financial system and, consequently, promote macroeconomic stability and growth. The financial system has three components: financial institutions, markets and infrastructure.[1] Therefore, BOJ ensures that the overall financial system is resilient to shocks, by strengthening the loss absorbency capacity of the system. Ultimately, when the financial system is functioning properly this contributes to the achievement of BOJ's primary objective of ensuring price stability.

This Financial Stability Report (FSR) articulates the Financial Policy Committee's (FPC) assessment of the outlook for financial stability in Jamaica.[2] It presents the Committee's evaluation of the resilience of the domestic financial system, highlights the key risks that could affect stability, and describes the policy measures being implemented to mitigate or reduce those risks. The contents of the FSR are consistent with the Bank's commitment to keep Jamaicans informed about its policies, activities and operations. This transparency allows for more informed discussions and activities around financial stability issues in Jamaica.

The Financial Stability Report is published annually, with a legislative requirement to be published by March 31st of each year.

The FSR is available on BOJ's website at https://boj.org.jm/boj-publications/annual-publications.

Comments and suggestions from readers are welcomed. Please email your feedback on this report to contact@boj.org.jm.

[1] For the purpose of this report, financial institutions include deposit-taking financial institutions, securities dealers and insurance companies. Financial markets include foreign exchange, money and capital markets. Financial market infrastructure refers to payment and securities settlement systems.

[2] The Financial Policy Committee of the Bank of Jamaica was established under the Bank of Jamaica (Amendment) Act, 2020 and became operational on 16 April 2021. The Committee, comprising ex-officio and appointed members, is responsible for decisions relating to financial policy, including prudential supervision, macroprudential policy, payments and settlements, and other financial stability matters. To effectively discharge its functions, the Committee, meets at regular scheduled intervals.

Bank of Jamaica

Financial Policy Committee

Richard Byles

Chairman

Wayne Robinson

Senior Deputy Governor - BOJ

Jide Lewis

Deputy Governor

Financial Institutions Supervisory Division - BOJ

Natalie Haynes

Deputy Governor

Banking, Currency Operations & Financial Markets Infrastructure - BOJ

Myrtle Halsall, OD

Appointed Member

David Tennant

Appointed Member

Bank of Jamaica

Financial System Stability Committee

Richard Byles

Chairman

Wayne Robinson

Senior Deputy Governor - BOJ

Jide Lewis

Deputy Governor

Financial Institutions Supervisory Division - BOJ

Darlene Morrison CD

Financial Secretary

Ministry of Finance and Public Service

Kerron Burrell

Executive Director

Financial Services Commission

Antoinette McKain

CEO

Jamaica Deposit Insurance Corporation

David Marston

Appointed Member

Dr. Laverne McFarlane

Appointed Member

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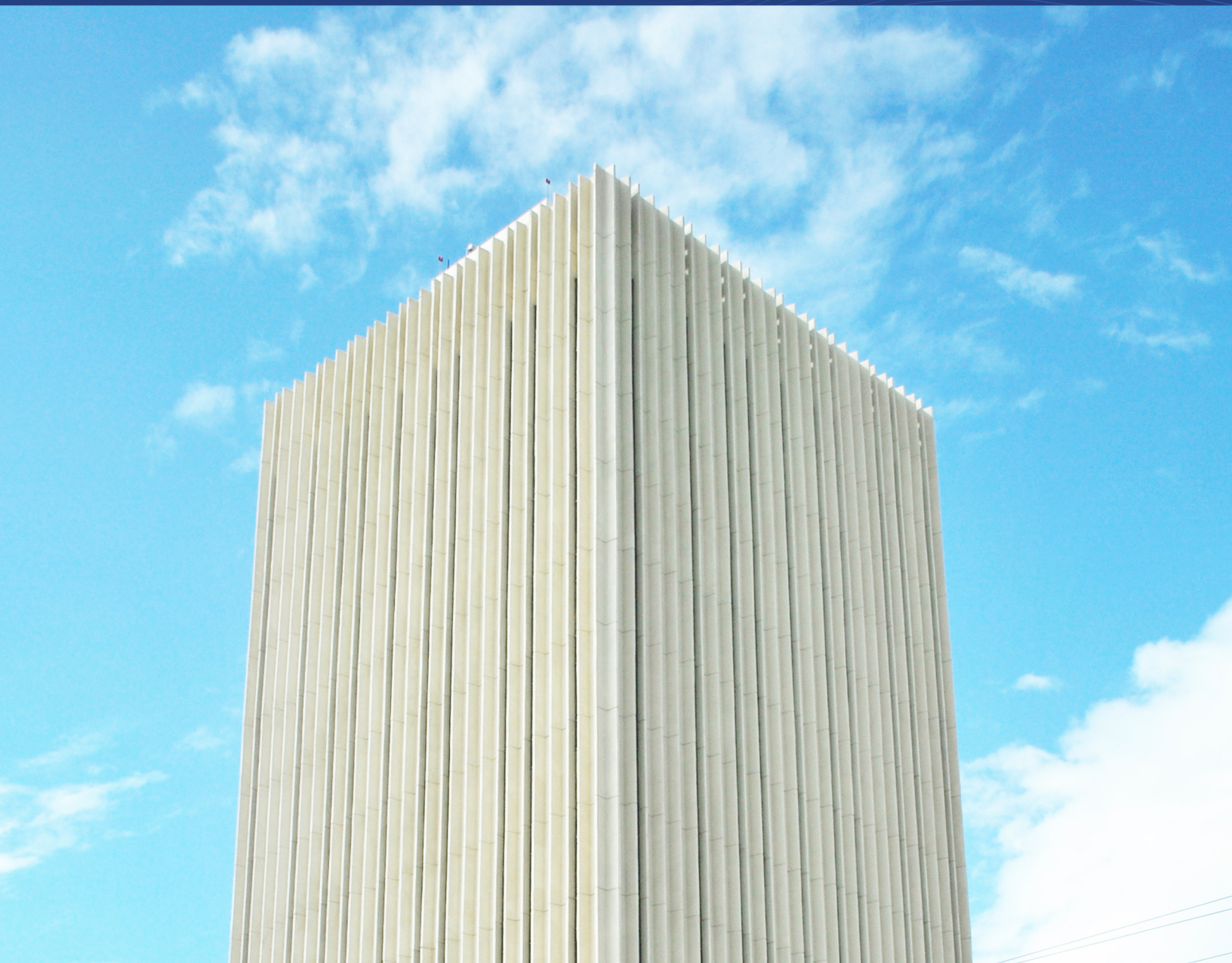


Foreword from **Governor Richard Byles**

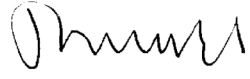
Jamaica's financial system remained stable and resilient, during 2025, despite the significant social and economic disruption caused by Hurricane Melissa in the fourth quarter. Deposit taking institutions (DTIs), securities dealers (SDs) and insurance companies maintained strong capital and liquidity positions, supported by prudent balance sheet management.

While the hurricane temporarily affected economic activity and contributed to some softening in asset quality indicators, the system continued to demonstrate its ability to absorb shocks. Stress testing conducted during the year confirmed that financial institutions remained resilient even under severe macrofinancial scenarios, supported by existing capital and liquidity buffers.

Identification and delineation of emerging risks remained central to the Bank's financial stability assessment. In particular, climate-related financial risks, operational vulnerabilities highlighted by physical disruptions, cybersecurity threats and external geopolitical uncertainties were closely monitored. The experience of Hurricane Melissa reinforced the systemic nature of climate-related shocks for small island developing states (SIDS) and underscored the importance of integrating climate considerations into financial stability surveillance and supervisory frameworks.

During the review year, there was continued progress in strengthening the financial system's structural resilience. Collaborative supervision advanced ahead of the full implementation of the Twin Peaks framework, while work progressed on key reforms including Basel III standards, the Systemic Risk Buffer (SyRB) and the Special Resolution Regime (SRR). In addition, there was advancement in initiatives aimed at enhancing bank competition such as the development of the electronic Know-Your-Customer (eKYC) Utility and Account Portability.

The Bank remains committed to deploying robust supervisory and macroprudential tools to safeguard financial stability. Accordingly, we will continue to monitor evolving risks and pursue policy actions that enhance the resilience of Jamaica's financial system in an increasingly uncertain global and climate-affected environment.



Richard Byles
Governor, Bank of Jamaica

Executive Summary

The year 2025 reflected mixed macrofinancial developments that shaped the performance of the domestic financial system. Globally, inflation continued to moderate, supporting further monetary policy easing across major central banks and contributing to improved financial market sentiment. Bond yields declined, emerging market spreads narrowed, and major equity indices recorded strong gains, signalling improved investor risk appetite and favourable external financing conditions.

Domestically, macroeconomic conditions were significantly influenced by the impact of Hurricane Melissa in the last quarter of 2025, which disrupted economic activity across several key sectors. Gross domestic product (GDP) in real terms is estimated to have declined between 0.5 and 1.5 per cent for the year. Notwithstanding the economic shock, inflation remained firmly within the Bank's target range, declining to 4.5 per cent at end-2025 relative to 5.0 per cent at end-2024. This outcome was supported by broad exchange rate stability and the Bank's decision to hold the policy rate in seven out of eight policy meetings for the year.

In the context of a mixed global and domestic economic environment, Bank of Jamaica reduced the policy rate to 5.75 per cent from 6.00 per cent at end-2024.[3] Deposit rates fell consistent with the easing policy stance, while lending rates remained relatively unchanged, reflecting structural rigidities in credit pricing and limited pass-through to borrowers. Credit-to-GDP gap remained negative, reflecting growth in credit-to-GDP remaining below its long-run trend. However, credit conditions were favorable with loan quality and lending rates remaining stable. These dynamics indicate muted financial cycle pressures and limited evidence of systemic risk accumulation from credit expansion during the review period.

Financial market conditions remained generally orderly throughout 2025. The foreign exchange market exhibited reduced volatility despite modest depreciation pressures following the hurricane shock. This performance was supported by the Bank's proactive strategies to maintain market stability. Consistent with global developments, yields on Government of Jamaica Global

[3] The policy rate was reduced to 5.75 per cent on 20 May 2025

Bonds (GOJGB) declined, reflecting improved external financing conditions and strengthening investor confidence in Jamaica's sovereign risk profile. In contrast, domestic equity market indices weakened during the year, reflecting portfolio rebalancing amid softer domestic economic conditions, particularly in the December quarter.

Against this macrofinancial backdrop, the domestic financial system remained stable and resilient. Deposit-taking institutions maintained strong liquidity and capital buffers, supported by sustained profitability and prudent balance-sheet management. Total assets expanded during the year, driven primarily by growth in loans, investments and liquid funds alongside strong deposit inflows as funding conditions remained strong. Liquidity indicators remained well above regulatory thresholds, and capital adequacy strengthened. Although there was a slight uptick in non-performing loans following the hurricane shock, asset quality remained broadly stable, supported in part by temporary borrower relief measures.

The securities dealers sector also maintained strong balance-sheet positions during 2025. Asset growth was modest, reflecting increases in accounts receivable and investments. Capital adequacy improved for the sector, with all entities maintaining capital adequacy ratios (CAR) above regulatory minimums. Profitability rebounded largely driven by higher non-interest income, particularly trading gains, and lower interest expenses associated with repo liabilities. Repo funding remained the dominant source of financing, although growth moderated as institutions diversified funding structures and improved operational efficiency.

The insurance sector also remained resilient during 2025, supported by continued balance sheet expansion and strong capital buffers. Growth in industry assets was driven primarily by the life insurance segment through increased investment holdings. In the second half of the year, general insurers strengthened liquidity positions, reflecting precautionary adjustments ahead of anticipated claims associated with hurricane-related risks. Capitalisation across the sector remained sound, with prudential ratios for both life and general insurers continuing to exceed regulatory requirements. Profitability was broadly maintained, as improved insurance service performance supported earnings despite some moderation in investment income. Overall, the sector continued to play an important risk-absorbing role within the financial system, underpinned by prudent risk management and adequate capital positions.

Aggregate financial stability indicators remained favourable. The Banking Stability Index (BSI) improved modestly but remained below its long-term historical average, indicating gradual strengthening in banking sector resilience. The Aggregate Financial Stability Index (AFSI) remained broadly stable, reflecting improvements in financial soundness and global economic conditions offset by weaker financial development indicators. The Micro-prudential Index (MiPi) also improved and remained well below its crisis threshold, reinforcing the assessment that the banking sector continues to operate from a position of strength.

Interconnectedness continued to be a defining feature of the domestic financial system, with systemically important financial institutions (SIFIs) remaining central within the network structure. The payment system remained robust, supported by continued expansion in electronic transactions and improvements in operational efficiency. Nonetheless, Hurricane Melissa highlighted vulnerabilities related to operational continuity, particularly regarding access to cash through physical infrastructures such as automated banking machines (ABMs) as well as digital payment channels. These vulnerabilities were evident with the disruptions to electricity and telecommunications infrastructure. The disruption in ABM services caused by these developments, underscores the importance of operational resilience and contingency planning within the financial system infrastructure.

Stress testing exercises conducted for deposit-taking institutions, securities dealers and insurance companies indicated that the financial system remained resilient even under severe macrofinancial shock scenarios. Existing capital and liquidity buffers provide significant loss-absorption capacity, supporting system stability despite emerging risks.

The experience of Hurricane Melissa demonstrated how climate events can transmit simultaneously through credit, liquidity and operational channels, affecting borrower repayment capacity, collateral values, and payment system functionality. While the financial system remained resilient, the hurricane reinforced the systemic nature of physical climate risks for small island developing states and the importance of integrating climate considerations into financial stability surveillance and stress testing frameworks.

Within the context of climate risk management, the insurance sector played an important shock-absorbing role within the financial system, supported by reinsurance arrangements and the Government of Jamaica's (GOJ's) layered disaster risk financing strategy, which included

parametric insurance and catastrophe risk transfer instruments. These mechanisms provided rapid liquidity support following the devastation caused by Hurricane Melissa and helped to mitigate fiscal pressures and reduce spillovers to the domestic financial system.

During 2025, the Bank continued its efforts to strengthen public confidence in the financial system through coordinated initiatives among members of the Financial System Safety Net (FSSN).[4] In keeping with its mandate, the Jamaica Deposit Insurance Corporation (JDIC) engaged in public education campaigns and communication strategies aimed at improving awareness of deposit insurance protections which contributed to depositor confidence and supported financial system stability.

The Bank also continued to advance broader regulatory and supervisory reforms, including implementation of Basel III standards, development of the Systemic Risk Buffer (SyRB) framework, and progressed toward operationalizing the Special Resolution Regime. Work towards the implementation of the Twin Peaks supervisory framework in collaboration with the Financial Services Commission (FSC) also continued. In addition, the Bank is advancing its climate risk programme, including the refinement of climate stress testing methodologies, improvements in data and disclosure frameworks, as well as integration of climate considerations into supervisory practices.

The outlook for financial stability remains positive, albeit with notable evolving downside risks. External risks include geopolitical tensions and potential supply-chain disruptions which may have implications for commodity prices and the path of global monetary policy. Domestically, climate-related shocks remain a key vulnerability, alongside cybersecurity threats and potential regional spillover risks. Furthermore, with residential real estate prices being elevated, relative to fundamentals in 2025, this raises concerns about potential overvaluation and the risk of a correction, which could have implications for financial stability through credit and collateral channels. Despite this, the financial system is expected to continue to demonstrate resilience, bolstered by proactive policy initiatives, strong institutional frameworks, and coordinated efforts among members of the Financial System Safety Net to mitigate risks and enhance systemic resilience.

[4] The Financial System Safety Net (FSSN) is a collaborative framework involving key financial institutions and regulators aimed at enhancing financial stability. The members include Bank of Jamaica (BOJ), the Financial Services Commission (FSC), and the Jamaica Deposit Insurance Corporation (JDIC).

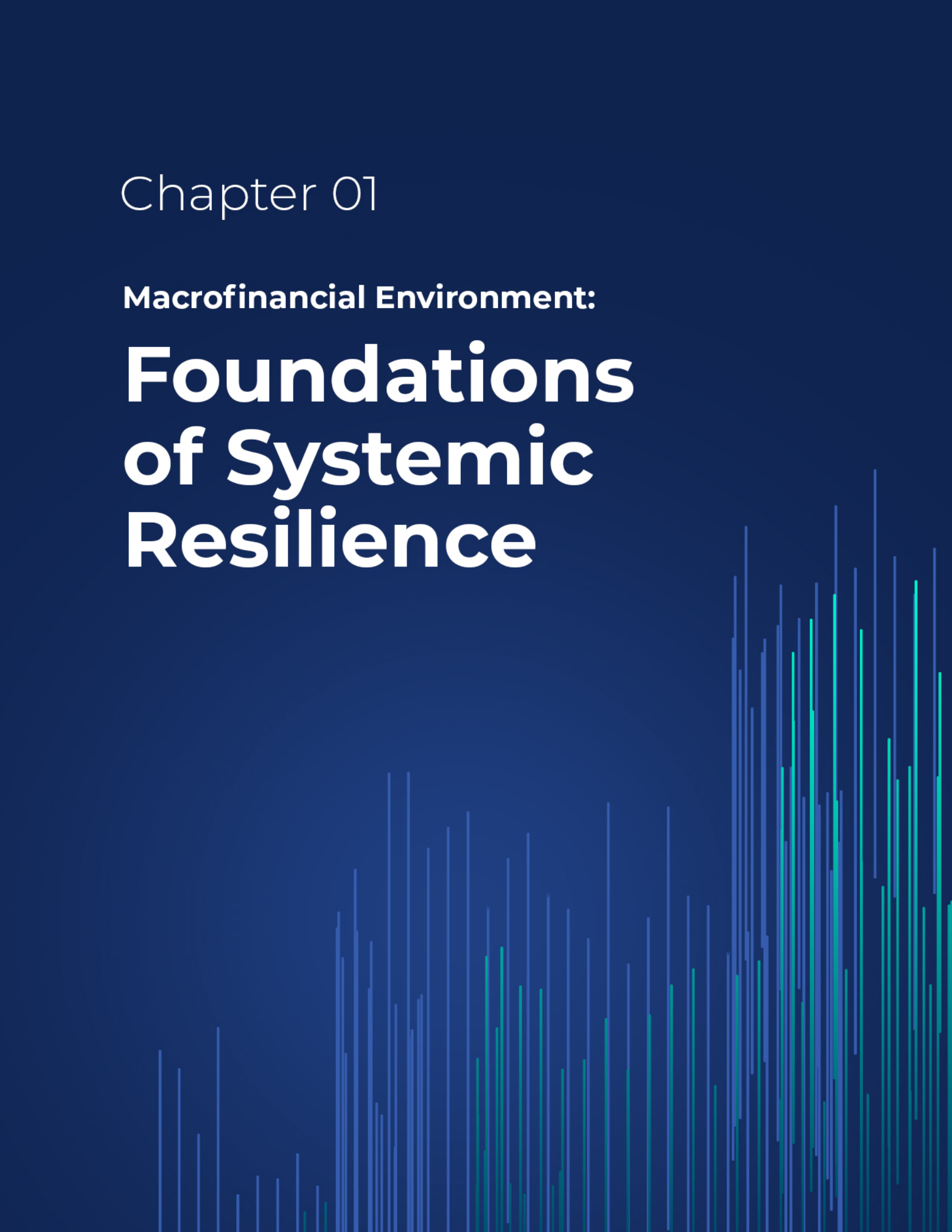
In response to these risks, the BOJ will continue to advance key policy initiatives aimed at strengthening systemic resilience and improving monetary policy transmission. Consistent with advancing key policy initiatives, was the progress made in the Enhancing Banking System Competition Programme during 2025, with advances in the development of the Electronic Know-Your-Customer Utility and the Account Portability initiative. These are among the policy initiatives intended to reduce structural frictions in the banking system, enhance competition, lower switching costs for customers, and improve the effectiveness of monetary policy transmission. Furthermore, initiatives such as the proposed microinsurance framework and the continued adoption of the central bank digital currency (CBDC) are expected to enhance financial inclusion and provide additional support to the financial system's operational resilience.

Against this background, the Bank will continue to monitor macrofinancial developments closely and pursue policies aimed at mitigating systemic risks and strengthening the resilience of the financial system as risks evolve.

Chapter 01

Macrofinancial Environment:

Foundations of Systemic Resilience



Global financial conditions improved in 2025 as moderating inflation and easing monetary policy supported stronger investor sentiment and lower financial market stress. Domestically, macro-financial conditions were mixed, reflecting the economic disruption caused by Hurricane Melissa alongside moderating inflation, stable foreign exchange markets and gradual monetary easing. Despite these developments, macrofinancial indicators pointed to broadly resilient financial sector, reflecting sound financial sector fundamentals.

1.1 Global Macrofinancial Conditions

Global economic growth is estimated to have remained stable, in 2025, as the impact of increased investment in technology partly offset the dampening effects of shifting trade policies. Estimates show that the global economy expanded by 3.3 per cent, in 2025, broadly unchanged from the pace recorded in 2024 (see **Figure 1.1**).[5] Growth is estimated to have accelerated in emerging markets and developing economies, in contrast to a deceleration among advanced economies. This divergence in growth estimates reflects pressures associated from shifting trade policies, the impact of which is partly offset by robust investment in technology and artificial intelligence, particularly in North America and Asia.

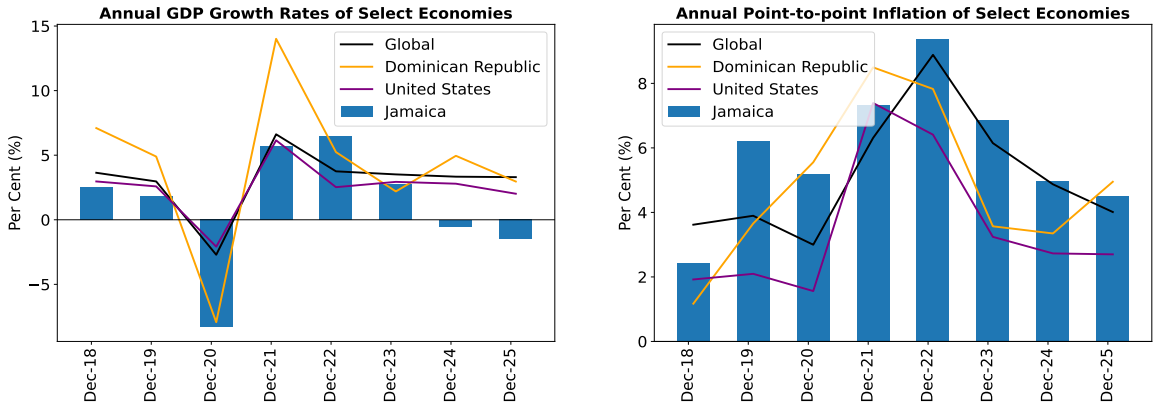
Globally, inflationary pressures continued to ease, in 2025, reinforcing the broad-based disinflation that began in 2023. Current estimates indicate that average global inflation declined to 4.1 per cent in 2025, from 5.8 per cent in 2024, driven primarily by weaker demand conditions, improvements in global supply chains, as well as a general moderation in oil and other commodity prices.[6] This trend is also evident in year-over-year (y-o-y) global inflation estimates (see **Figure 1.1**). International crude oil prices fell notably, during 2025, due to expanding supply from non-OPEC producers and weaker global industrial activity (see **Figure 1.2**).[7] These dynamics supported a more accommodative monetary policy stance across major central banks, enabling continued policy-rate reductions during 2025 (see **Figure 1.2**). The easing in global inflation and policy interest rates contributed to an improvement in global fi-

[5] See **IMF World Economic Outlook Update, January 2026.**

[6] See footnote **5**.

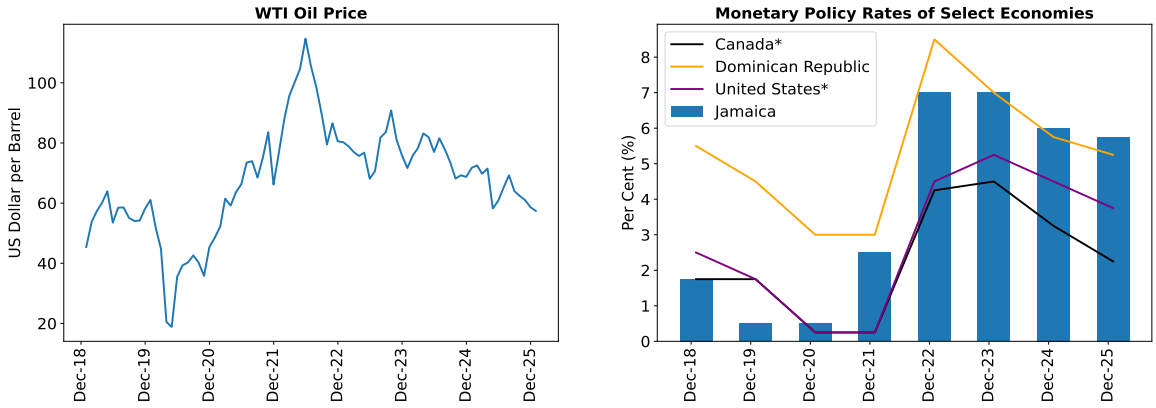
[7] West Texas Intermediate.

Figure 1.1
Global economic activity remained stable in 2025, while disinflation strengthened amid easing supply-side pressures.



Source: IMF WEO Database, BOJ Estimates, and National Statistical Offices

Figure 1.2
Oil prices declined in 2025 as supply conditions normalized, while major central banks continued policy rate reductions amid lower inflation.



Source: Bloomberg and Monetary Authorities
Note: * Indicates upper bound of target range

nancial conditions which impacted investor sentiment positively.

Measures of global financial market sentiment also improved, during 2025, as shown in key measures of financial market risk. The Chicago Board Options Exchange Volatility Index (VIX) trended downward over the year, indicating reduced uncertainty in equity markets (see **Figure 1.3**).[8] In addition, the Bank of America-Merrill Lynch Global Financial Stress Index (BAML-GFSI) remained in negative territory, signalling broadly accommodative global financial conditions.[9] Collectively, these indicators pointed to a favourable global financial risk environment in 2025, which complemented the ongoing easing in global monetary policy.

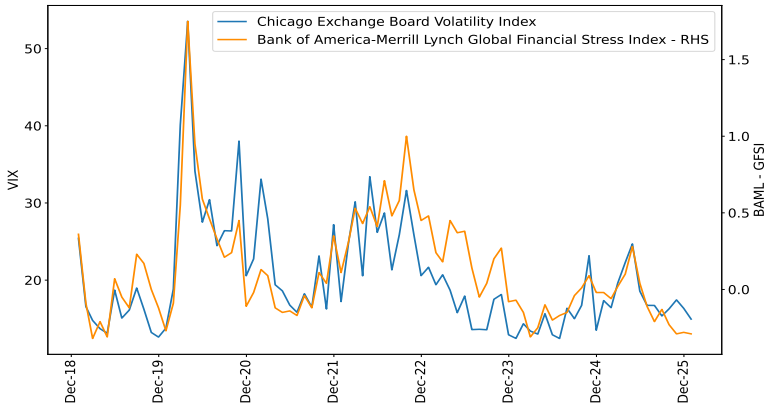
Consistent with stable global growth and moderating global inflation, bond yields and emerging market credit spreads fell, while major stock market indices registered strong gains, particularly in the second half of 2025. Specifically, US Treasury yields declined by 35 basis points (bps), while the emerging market bond index (EMBI+) spread narrowed by 143 bps at end-2025, relative to end-2024 (see **Figure 1.4**). At the same time, major stock market indices continued to record positive growth (y-o-y) at end-2025. In particular, the Standard and Poor's (S&P) 500 and Financial Time Stock Exchange (FTSE) indices expanded by 16.4 per cent and 21.5 per cent (y-o-y), respectively (see **Figure 1.4**). These outturns signalled increased investor risk appetite, particularly within advanced equity markets.

The Macrofinancial Index (MaFi) improved during the first three quarters of 2025, but deteriorated for the last quarter of the year. Specifically, the index eased to 7.0 points in September 2025, in comparison to 12.0 points in September 2024. This outcome was supported by favourable credit growth, low inflation volatility, declining public debt levels and improved domestic equity market performance. However, the index rose sharply to 16.0 points in the December 2025 quarter, compared to 9.0 points recorded in the December 2024 quarter. The outturn in the December 2025 quarter was as a result of the passage of Hurricane Melissa, which had adverse impacts on GDP growth, inflation volatility and domestic equity market indicators. These developments signalled a tightening of macro-financial conditions toward the end of the review year. Notably, although there

[8] The VIX reflects a market estimate of future volatility, based on the weighted average of the implied volatilities for a wide range of strikes. An increase in the VIX index indicates increased volatility.

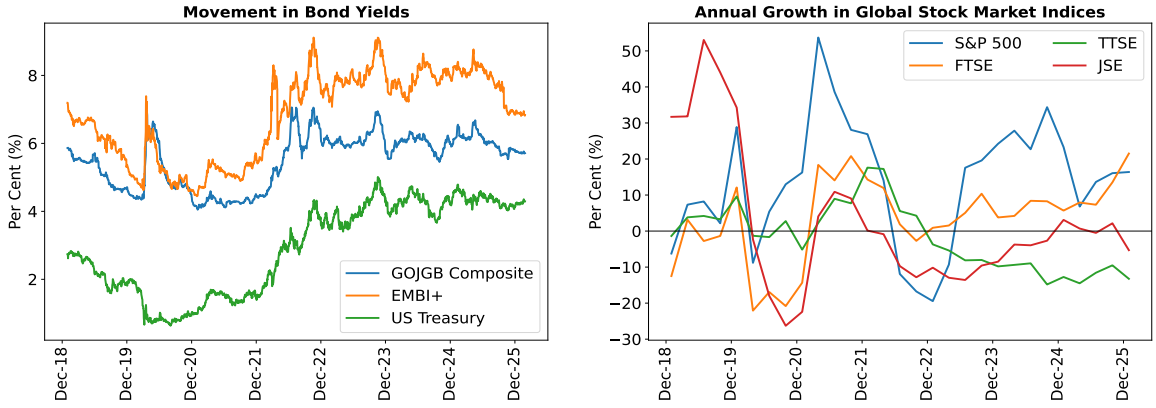
[9] The BAML-GFSI is a calculated, cross market measure of risk, hedging demand and investor flows in the global financial system. Values greater than 0 indicate more financial market stress than normal, while values less than 0 indicate less financial stress than normal.

Figure 1.3
Financial market stress remained subdued in 2025 amid improving risk sentiment.



Source: Bloomberg

Figure 1.4
Falling bond yields at end-2025 alongside continued growth in major stock market indices



Source: Bloomberg and JSE

was a significant increase, the index remained below the global crisis threshold of 38.0 points (See **Figure 1.5**).

1.2 Domestic Macrofinancial Conditions

1.2.1 The Macrofinancial Environment

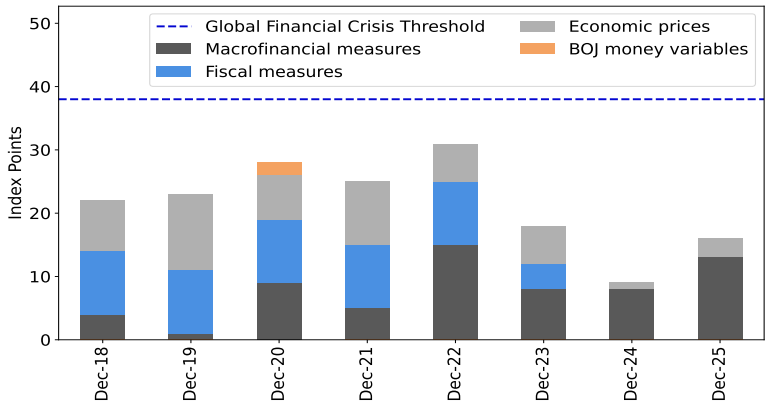
Domestic real Gross Domestic Product is estimated to have contracted in 2025, reflecting the significant economic disruption from Hurricane Melissa. This estimated contraction, contributed to a mixed macrofinancial environment for the year.[10] The estimate of real GDP, for 2025, indicated a decline within the range of 0.5 to 1.5 per cent, largely due to the adverse effects of Hurricane Melissa on economic activity. The main industries that were impacted include *Agriculture, Forestry & Fishing, Accommodation & Food Service Activities, Mining & Quarrying, Wholesale & Retail Trade; Repair of Motor Vehicle Installation of Machinery & Equipment and Electricity, Water Supply & Waste Management*. BOJ's projection at February 2026 suggested that the economy will contract over the near-term as key economic sectors continue to recover from the weather-related shock.

During 2025, domestic inflation moderated, remaining broadly within the Bank's target range throughout the year. Annual inflation declined to 4.5 per cent (y-o-y) at end-2025, compared with 5.0 per cent at end-2024 (see **Figure 1.6**). This moderation was supported by the Bank's monetary policy stance and relative stability in the exchange rate. Throughout the year, inflation generally remained within the Bank's 4.0 per cent to 6.0 per cent target range. However, BOJ's projection in February 2026 suggested that domestic inflation will temporarily breach the upper bound of the target in 2026, reflecting short-term supply and cost pressures, including second-round effects from reconstruction activities.

Monetary conditions eased modestly during 2025 following the Bank's decision to begin lowering the policy rate in late 2024. The Bank reduced the policy rate to 5.75 per cent in May 2025 from 6.00 per cent at end-2024. This rate adjustment reflected the Bank's assessment that inflation risks had moderated and that monetary conditions could be re-calibrated without jeopardizing inflation expectations (see **Figure 1.6**). The weighted average deposit rate for commercial banks fell from 2.7 per cent to

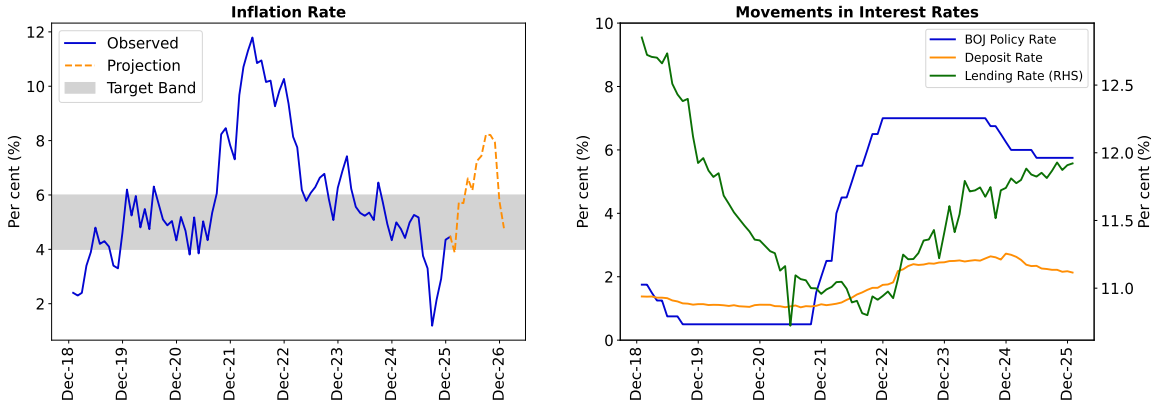
[10] Hurricane Melissa made landfall in October 2025, causing widespread devastation across all sectors. The estimated damage exceeds 40.0 per cent of GDP.

Figure 1.5
The Macrofinancial Index deteriorated at end 2025.



Source: BOJ

Figure 1.6
Domestic inflation remained broadly within target in 2025, while monetary conditions eased modestly.



Source: STATIN and BOJ Estimate
Note: BOJ Projection as at February 2026

2.1 per cent over the review period. In contrast, the weighted average lending rate increased marginally to 11.9 per cent from 11.8 per cent at end-2024. This limited pass-through largely reflected structural rigidities in domestic credit pricing.[11]

The foreign exchange market remained broadly stable, during 2025, with continued moderation in exchange rate volatility across rolling windows. The J$:US$ exchange rate depreciated by 2.4 per cent (y-o-y) at end-2025, compared with a 0.6 per cent (y-o-y) depreciation at end-2024 (see **Figure 1.7**). Despite the uptick in depreciation, one-year annualized rolling window volatility declined to 1.2 per cent at end-2025, relative to 2.3 per cent at end-2024 (see **Figure 1.7**).[12] Following Hurricane Melissa, the Bank implemented special pre-emptive measures to support relative stability in the foreign exchange market, which helped to contain volatility and maintain orderly market conditions.[13]

Consistent with the decline in US Treasury yields, the yield on the Government of Jamaica Global Bonds Composite also declined at end-2025, reflecting its sensitivity to movements in global risk-free benchmarks and the associated portfolio rebalancing toward higher-yielding emerging-market assets. The weighted average yield on GOJ Eurobonds declined by 33.0 bps at end-2025 relative to end-2024, supported by improved external financing conditions and strengthening investor appetite for Jamaica's sovereign risk. A disaggregation of the yields showed that the longer-term GOJGBs (6.75% 2028, 8.00% 2039, and 7.875% 2045) declined by 35.7 bps, 52.8 bps and 42.9 bps, respectively, relative to end-2024 (see **Figure 1.8**).[14, 15] These adjustments underscored a broad-based softening in Jamaica's sovereign risk premium, consistent with improved sovereign risk ratings in 2025.

[11] Limited pass-through largely reflects structural features of Jamaica's credit market, specifically the prevalence of fixed-rate loans and the slow repricing of variable-rate credit, which dampen the responsiveness of lending rates to policy rate adjustments.

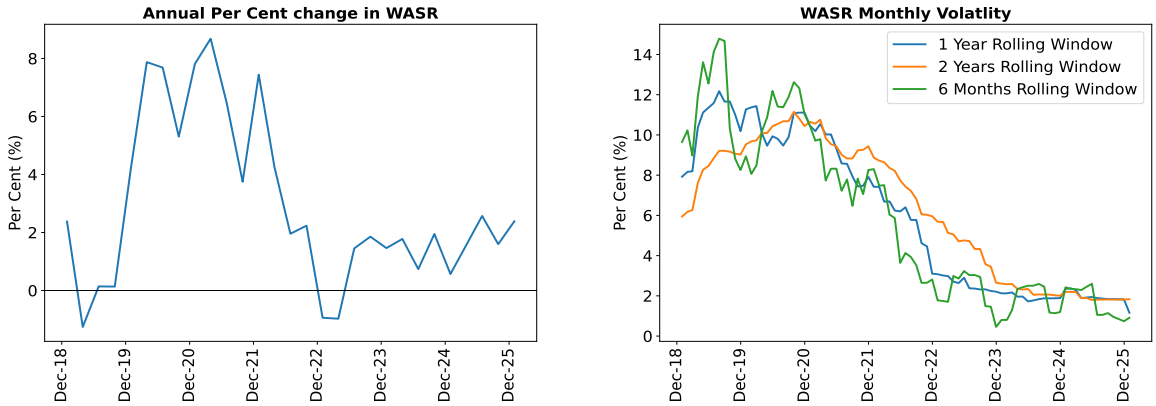
[12] The log returns of the monthly J$:US$ exchange rate were calculated. The rolling standard deviations of the log returns were then calculated for the six-month, one-year and two-year windows. The rolling standard deviations were annualized by scaling with the square root of the number of months in a year. This measure reflects the evolution of exchange rate uncertainty, supporting the assessment of external risks to financial system stability. These horizons are standard in foreign exchange-volatility analysis and allow for the tracking of short-term dynamics, annual cycles, and longer-term structural shifts in exchange rate behaviour.

[13] See **Bank of Jamaica holds the policy rate and acts to ensure adequate foreign currency availability and inflation control amidst impact of Hurricane Melissa**.

[14] The GOJGBs Yields reflect bid prices.

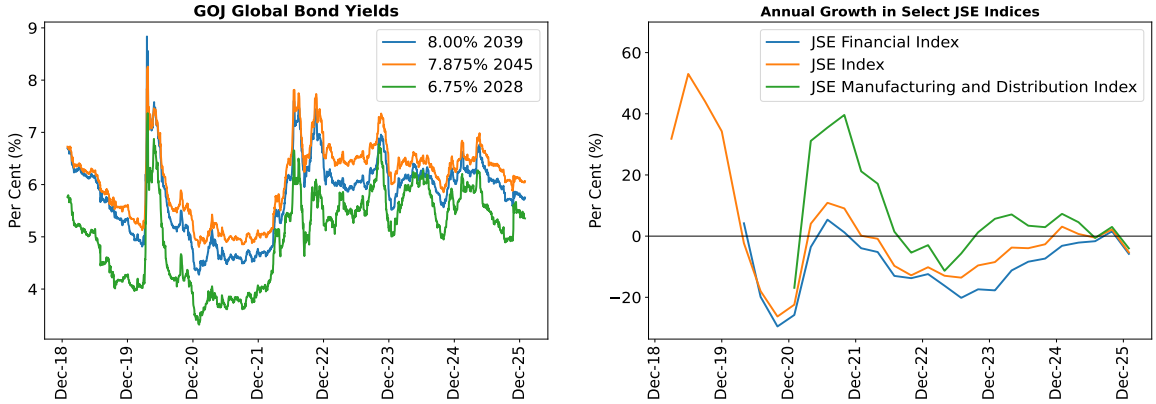
[15] Given the 2025 bonds' maturity dates in July 2025 and October 2025, the weighted average GOJ Eurobonds' yield is calculated as a composite of the longer-term GOJGBs 6.75% 2028, 8.00% 2039 and 7.875% 2045 bond yields.

Figure 1.7
Uptick in annual depreciation of the J$:US$ exchange rate in 2025, while one-year rolling FX volatility declined at end-2025.



Source: BOJ

Figure 1.8
Longer-term GOJ Eurobond yields declined at end-2025 amid improved external conditions and sovereign risk ratings, while declines in domestic stock market indices reflected weaker market performance and reduced depth.



Source: Bloomberg

Domestic equity prices declined at end-2025, driven by trading patterns consistent with investor portfolio rebalancing and profit-taking. Specifically, the Jamaica Stock Exchange (JSE) Main Index declined by 5.3 per cent (y-o-y) at end-2025, in contrast to an increase of 3.1 per cent at end-2024 (see **Figure 1.8**). Similarly, the JSE Financial Index (FI) declined by 5.8 per cent (y-o-y) at end-2025, following a decline of 3.2 per cent at end-2024. The JSE Manufacturing & Distribution Index (M&D) also declined by 4.0 per cent (y-o-y) at end-2025, in contrast to an increase of 7.3 per cent at end-2025.[16] The decline in the JSE Main Index occurred in the context of lower volume and value, but a higher number of transactions, implying a reduction in average trade size.[17] The downturn in stock market performance was indicative of year-end portfolio rebalancing by investors, alongside profit-taking activities.

These developments were reflective of the mixed domestic macrofinancial conditions in 2025. More specifically, while moderating inflation, gradually easing monetary conditions, and orderly foreign exchange market dynamics provided a generally supportive backdrop, overall performance was tempered by the economic disruption caused by Hurricane Melissa and declines in domestic equity market indices, resulting in uneven outcomes across key financial markets.

1.2.2 Macrofinancial Composites

The composite indicators pointed to generally resilient financial conditions in 2025. The Banking Stability Index improved, reflecting gains in the Foreign Exchange Risk and Soundness partial indicators, the impact of which was offset by the Interest Rate, Liquidity, and Asset Quality partial indicators. At end-2025, the BSI increased to -0.24 StDev from -0.64 StDev at end-2024 (see **Figure 1.9**).[18, 19] This improvement reflected gains across most partial indicators, particularly For-

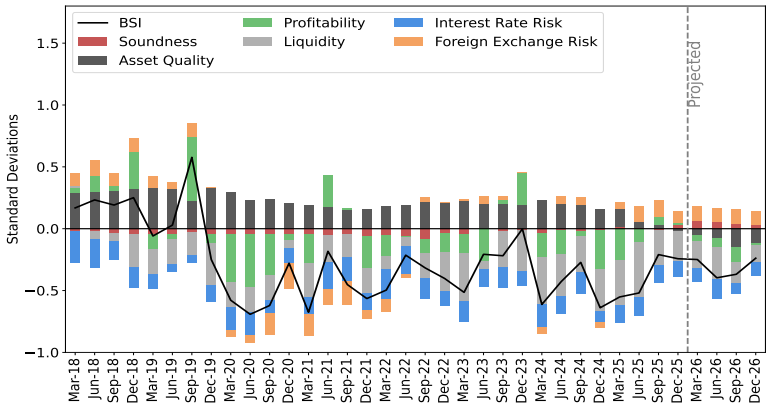
[16] The JSE FI measures the performance of only the financial companies listed on the Main Market and Junior Market. The JSE M&D Index measures the performance of only the manufacturing and distribution companies listed on the Main Market and Junior Market.

[17] Volume refers to the total number of shares traded during the period, value represents the dollar value of those trades, and number of transactions captures the count of individual trades executed.

[18] The BSI is an aggregate financial stability indicator, which combines partial indicators: Soundness, Asset Quality, Profitability, Liquidity, Interest Rate Risk and Foreign Exchange Risk. Each partial indicator is assessed in terms of standard deviations from its historical ten-year average. The relevant partial indicators were transformed such that all outturns above their ten-year averages are interpreted as an improvement in banking sector stability and vice versa.

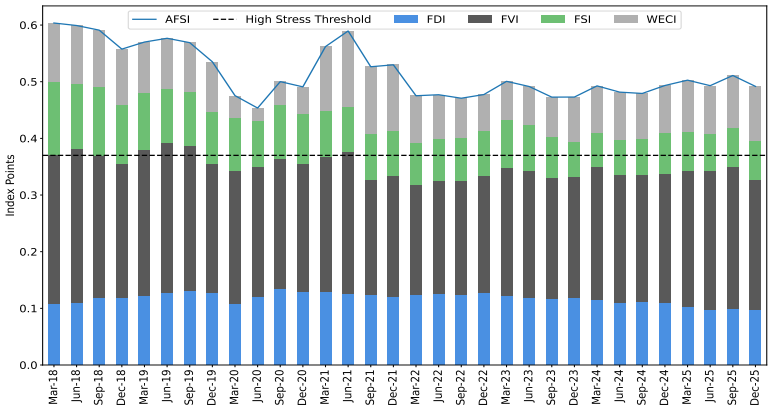
[19] Liquid assets, a component of the Liquidity partial indicator, was last updated in November 2025 given the move to the Liquidity Coverage Ratio framework. Accordingly, the November 2025 liquid assets value was used in the December 2025 calculation of the BSI.

Figure 1.9
Banking Stability Index improved in 2025 but remained below its long-term average.



Source: BOJ

Figure 1.10
Aggregate Financial Stability Index remained broadly stable in 2025.



Source: BOJ

eign Exchange Risk, and incremental improvements in Soundness and Profitability. Despite this overall improvement, the Interest Rate and Liquidity partial indicators remained below their ten-year averages. The Asset Quality partial indicator also softened during the year. Overall, while the BSI indicated gradual improvement in banking sector resilience, the index continued to signal residual vulnerabilities given its historical average view. The BSI is projected to remain below its historical ten-year average throughout 2026, ranging approximately between -0.40 StDev and -0.24 StDev.[20]

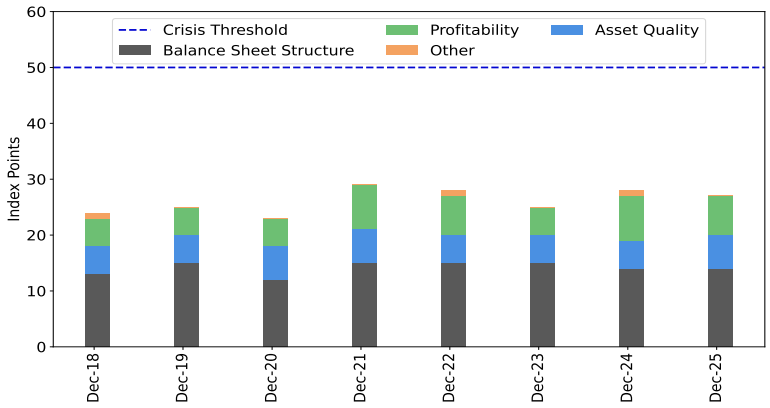
The Aggregate Financial Stability Index remained broadly stable, as the impact of improvements in the Financial Soundness Index (FSI), World Economic Climate Index (WECI), and Financial Vulnerability Index (FVI) were offset by a deterioration in the Financial Development Index (FDI). The AFSI averaged 0.50 for 2025, marginally higher than the 0.49 for 2024 (see **Figure 1.10**).[21] The marginal improvement in the FSI, during 2025 was supported by lower solvency risk and improved liquidity positions across the deposit taking institutions. With regard to the uptick in the WECI, this reflected more favourable global macrofinancial conditions, including moderating global inflation and improvements in world economic sentiment. For the FVI, the improvement was driven by lower domestic inflation and generally larger budget surpluses. Key drivers of the deterioration in the FDI included market capitalization-to-GDP, as well as the spread between deposit and lending rates. The outturn in the AFSI indicated that domestic financial stability remained broadly resilient, supported by sound financial sector fundamentals and improved global economic conditions.

The Bank's MiPI, which tracks the health of the Jamaican banking sector, improved at December 2025 despite mixed domestic macrofinancial conditions during the year. In particular, the MiPI fell to 27.0 points at

[20] The forecast was generated using auto regressive models with year-quarter dummy variables to account for specific time effects that are not explained by the auto regressive structure. The model for the Foreign Exchange Risk partial indicator included a structural break. The forecast was generated from the March 2018 through December 2025 outturns.

[21] The AFSI summarizes the impact of changes in microeconomic, macroeconomic and international factors to form a single measure of financial stability. A higher value indicates increased financial stability while a lower value indicates a deterioration in financial sector stability. The AFSI is a weighted average of normalized balance sheet and macroeconomic indicators which collectively capture (i) financial development (FDI), (ii) financial vulnerability (FVI), and (iii) financil soundness (FSI) as well as world economic climate (WECI).

Figure 1.11
The Micro-Prudential Index showed improvement, remaining below the crisis threshold.



Source: BOJ

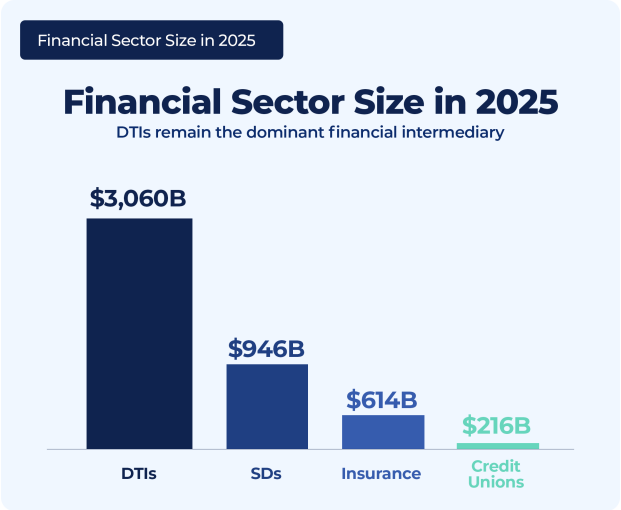
end-December 2025 from 28.0 points at end-December 2024, remaining well below the 50.0 points crisis threshold. This outturn was driven by improvements in the net income to assets ratio and the 12-month growth in deposits, the impact of which was partially offset by a deterioration in the non-performing loans to assets ratio. Notwithstanding emerging credit quality pressures in the aftermath of Hurricane Melissa, the sector's balance sheet indicators remained broadly stable over the review period, reinforcing the overall resilience of the banking system (see **Figure 1.11**).

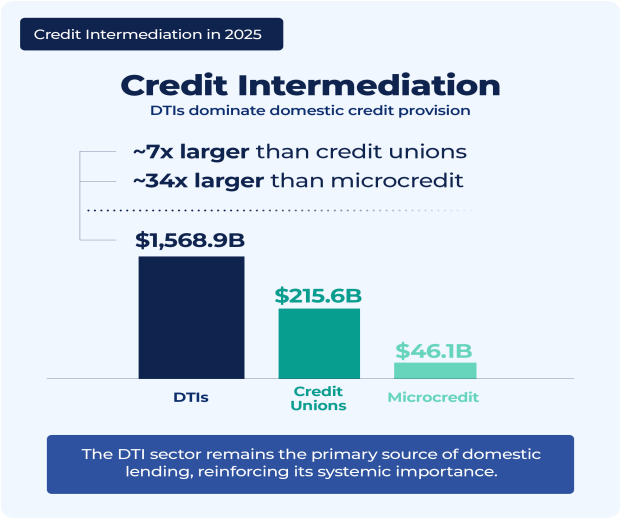
1.2.3 Deposit-taking Institutions Sector

Deposit-taking Institutions strengthened their balance-sheet positions in 2025, despite adverse weather-related shocks towards the latter part of the year. This strengthening occurred amid mixed domestic macrofinancial conditions and was supported by enhanced regulatory oversight.[22] Total assets increased by 9.1 per cent (y-o-y) to $3 060.0 billion at end- 2025 when compared to $2,806.5 billion at end-2024.[23] *Loans and Advances* continued to be the main component of total assets. Over the review period *Loans and Advances* grew by 6.7 per cent (y-o-y), *Investments* and *Liquid Funds* also experienced substantial increases of 14.2 per cent (y-o-y)

[22] During the year, DTI performance unfolded against generally favorable pre-hurricane domestic macroeconomic conditions, characterized by record-low unemployment, low and stable inflation, as well as a positive growth outlook.

[23] This reflected an acceleration in asset growth at end-2025, relative to the 5.0 per cent growth recorded for 2024





and 12.1 per cent (y-o-y) respectively (see **Figure 1.12**).[24,25] On the liabilities side, there was an uptick of 9.8 per cent (y-o-y), which reflected a 12.7 per cent (y-o-y) increase in deposits.[26] These developments pointed to generally stable funding conditions and continued confidence in the regulated entities, notwithstanding isolated incidents of reputational-risk.

Liquidity, capital, and asset quality indicators remained sound, as a result of pre-existing buffers built through sustained profitability, conservative balance sheet management, and supervisory guidance. For 2025, liquidity for the sector remained substantial, with the liquidity coverage ratio (LCR) at 194.1 per cent, which nearly doubled the prudential minimum.[27] Furthermore, capital adequacy strengthened and remained above the statutory minimum, for the review year, with the sector-wide capital adequacy ratio rising to 14.8 per cent, reflecting robust retained earnings and contained risk exposures (see **Figure 1.13**).[28] Notwithstanding a modest uptick in non-performing loans (NPLs) and upside risks from localized payment pressures following Hurricane Melissa, asset quality remained broadly

[24] DTI loans stood at $1 568.9 billion at end-December 2025. Loan growth accelerated over the review period compared to the 5.6 per cent (y-o-y) growth recorded at end-2024.

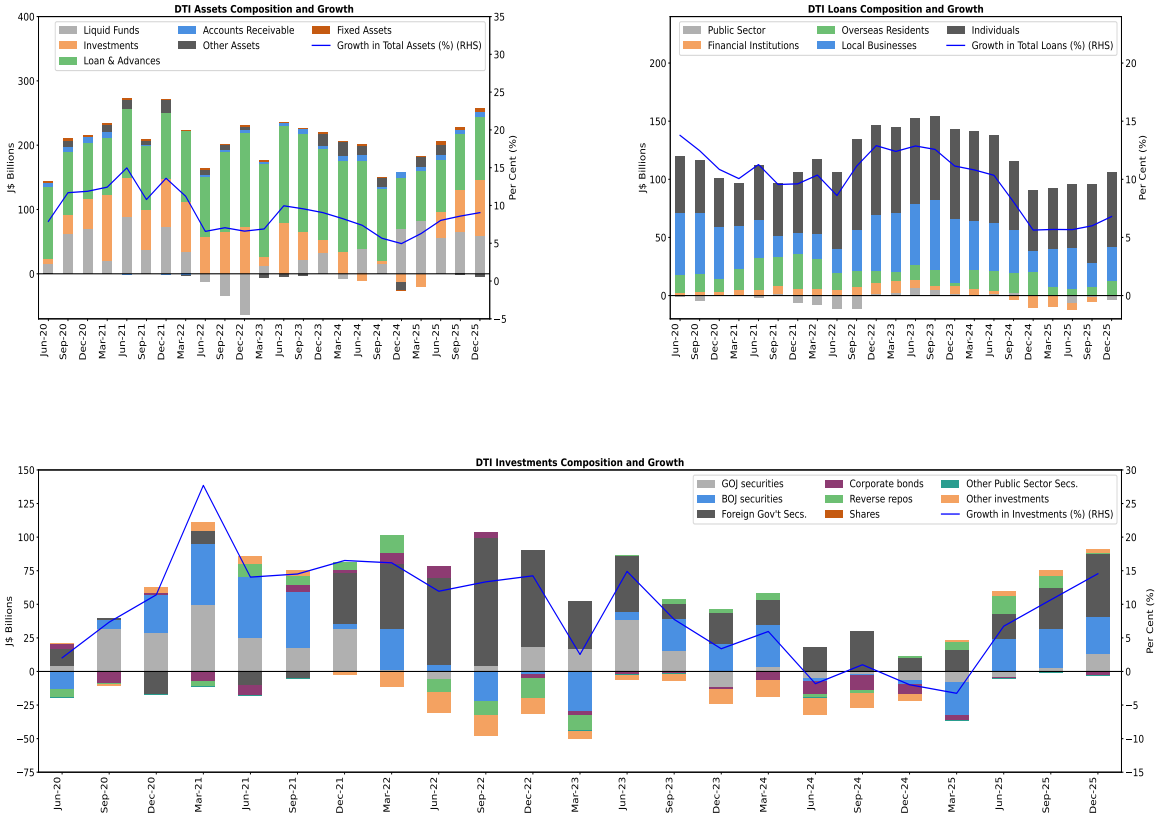
[25] The increase in investments reflected the redeployment of excess liquidity from loan repayments, maturities and deposit inflows into safer asset classes such as *foreign government securities, BOJ securities* and *GOJ securities*. This behaviour was consistent with conservative balance-sheet positioning.

[26] Deposits increased to $2 247.1 billion at end-2025 and continued to account for the majority of DTIs' liabilities (83.2 per cent). The growth rate of deposit funding rose by 5.1 percentage points to 12.7 per cent, compared to growth over the previous review year

[27] The regulatory minimum liquidity coverage ratio is 100.0 per cent

[28] The regulatory minimum requirement for the CAR is 10.0 per cent

Figure 1.12
DTI balance-sheet expansion in 2025 was driven by stronger loan growth alongside increased allocations to investments and liquid assets.



Source: BOJ

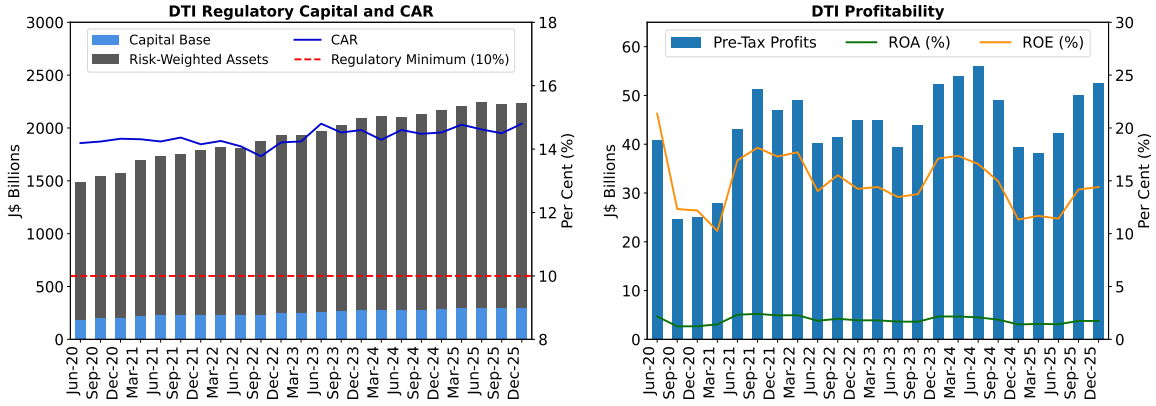
stable, with non-performing and past-due loan (PDL) ratios at 2.8 per cent and 3.2 per cent, respectively at end-2025.[29,30] Additionally, profitability improved, with return on assets (ROA) and return on equity (ROE) at 1.7 per cent and 14.4 per cent, respectively at end-2025 (see **Figure 1.13**).[31] Overall, these developments indicated that DTIs maintained robust buffers, which supported resilience amid emerging shocks.

[29] The PDL ratio increased marginally by 0.3 percentage point, while the NPL ratio remained relatively unchanged compared to the previous review year

[30] Localised arrears pressures were partly mitigated by temporary loan repayment moratoria offered by some financial institutions to clients affected by Hurricane Melissa, including short-term repayment deferrals of up to three months with possible extensions subject to assessment.

[31] The sharp increase in profits was primarily driven by a 7.6 per cent rise in operating income,which outpaced the 2.5 per cent growth in operating expenses. On the income side, both interest income (5.2 per cent) and non-interest income (11.9 per cent) increased. On the expenses side, a 7.2 per cent decline in interest expense partially offset the 5.0 per cent increase in non-interest expenses

Figure 1.13
DTIs' capital adequacy strengthened in 2025, remaining well above regulatory requirements, while profitability improved amid higher operating income and lower interest expenses.



Source: BOJ

1.2.4 Securities Dealers Sector

The securities dealers sector maintained sound balance-sheet positions during 2025, supported by prudent risk management and generally favourable macrofinancial conditions. Specifically, SDs' total assets grew by 1.1 per cent (y-o-y) to $946.1 billion at end-2025, albeit, slower than the growth of 6.0 per cent in 2024.[32] Asset expansion was primarily driven by growth in *Accounts Receivable* and *Investments*, the impact of which was partially offset by a contraction in *Liquid Funds* (see **Figure 1.14**). In particular, *Accounts receivable* rose by 8.6 per cent (y-o-y) to $87.5 billion, outpacing modest growth in *Investments* of 0.7 per cent (y-o-y) to $752.6 billion.[33] Nevertheless, *Investments* remained the largest component of securities dealers' asset base. Notably, securities dealers continued to rebalance their investment portfolios toward safer, lower-risk assets throughout 2025, amid generally stable macrofinancial conditions and ongoing domestic and global uncertainties. SDs' holdings of *Public sector domestic securities* rose by 23.9 per cent (y-o-y), the impact of which was partly offset by declines in *Domestic securities purchased with a view*

[32] The SDs sector consists of 33 listed securities dealers, of which 26 are primary dealers or core securities dealers. The analysis presented in this section is based on a representative sample of the top ten securities dealers that comprise approximately 95.0 per cent of the sector, based on data available up to end-2025.

[33] While the increase in receivables was slower than the sharp 28.4 per cent growth seen in 2024, it continued to reflect some sectoral challenges, as repayment difficulties persisted despite a more accommodative monetary policy stance in the last three quarters of the year. This moderation however suggests that the sector is gradually stabilizing.

to resale (-33.4 per cent), *Foreign Government Securities* (-18.6 per cent), and *Investments in Shares* (-10.9 per cent), reflecting lower GOJ bond yields and continued underperformance of the domestic equity market.

On the liabilities side, funding levels remained broadly stable, with total liabilities remaining relatively unchanged at $809.8 billion. This stability largely reflected SDs' continued reliance on repo-based funding, which remained the largest component of the sector's total financing (see **Figure 1.15**). Notwithstanding, the pace of repo growth continued to slow as SDs diversified their funding and shifted activity off-balance sheet to reduce costs and enhance operational efficiency. More specifically, repo liabilities rose modestly by 0.1 per cent to $660.8 billion at end-2025, compared with 6.8 per cent growth at end-2024.[34]

SD's capital adequacy ratio increased by 1.7 percentage points to 20.7 per cent at end-2025, with all entities maintaining capital ratios above their respective prudential minimums.[35] These buffers strengthened the sector's ability to absorb external shocks, particularly during the latter part of the year following Hurricane Melissa. Profitability also improved markedly, with the sector's annualized ROE and ROA rising to 7.8 per cent and 1.8 per cent, respectively, from 2.9 per cent and 0.4 per cent for 2024. These outcomes primarily reflected a strong rebound in net profits, which increased to $11.6 billion for the year ended 2025, representing a 198.7 per cent increase relative to the previous year. This strong performance primarily reflected a 54.4 per cent increase in non-interest income, largely driven by *Trading profits on Debt Securities*, which surged by 650.7 per cent ($8.4 billion). Furthermore, there was a reduction in SDs' total expenses by 6.2 per cent ($4.4 billion), which was mainly attributable to a 41.3 per cent ($5.1 billion) fall in interest costs on *Repo liabilities with retail clients*. This outturn reflected the favourable interest rate environment, combined with SDs' efforts to diversify funding and reduce balance sheet activity, which thereby lowered funding costs and strengthened their bottom line during 2025.

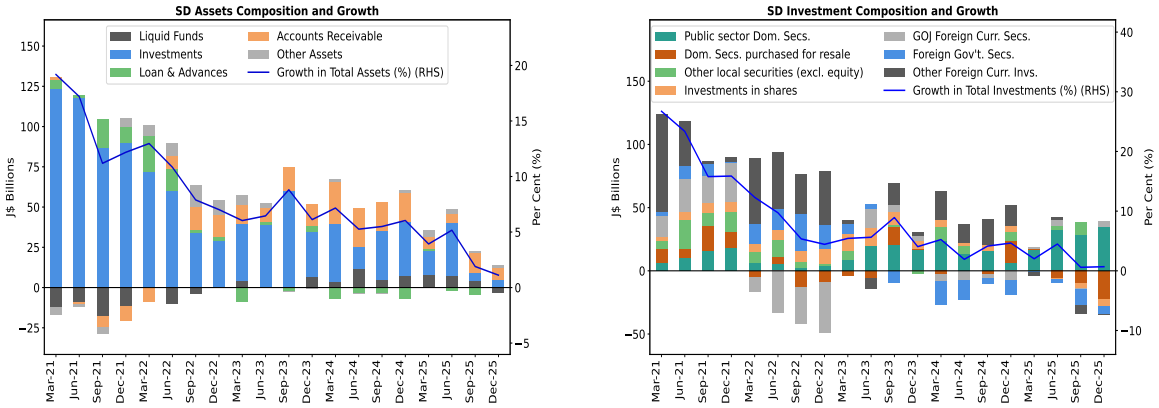
1.2.5 Insurance Sector

Amid generally stable macrofinancial conditions, the insurance industry recorded continued balance sheet expansion over the

[34] Increases in repo liabilities were mainly driven by *Non-financial corporate clients* and *Other SDs/FSC licensees*, which grew by 1.1 per cent and 1.8 per cent, respectively.

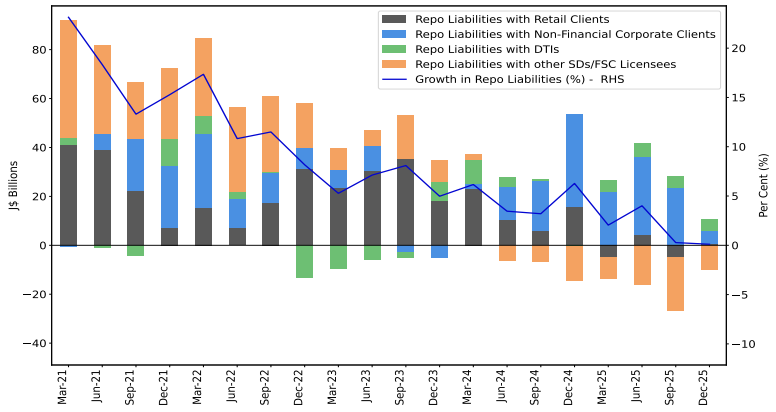
[35] The prudential minimum benchmark as prescribed by the FSC for the capital to total assets ratio and the CAR of SDs is 6.0 per cent and 14.0 per cent, respectively.

Figure 1.14
Growth in receivables and investments underpinned SDs' asset expansion in 2025.



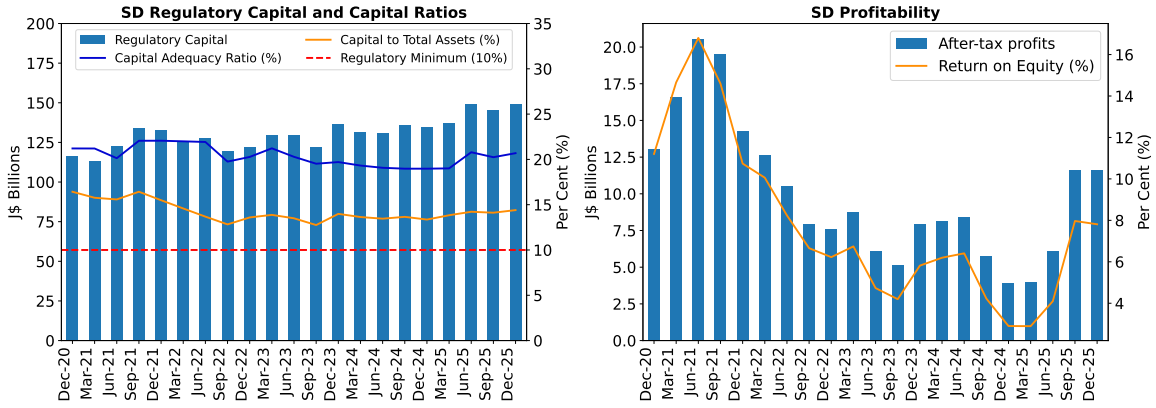
Source: FSC

Figure 1.15
Repo funding remained the dominant source of financing for SDs in 2025.



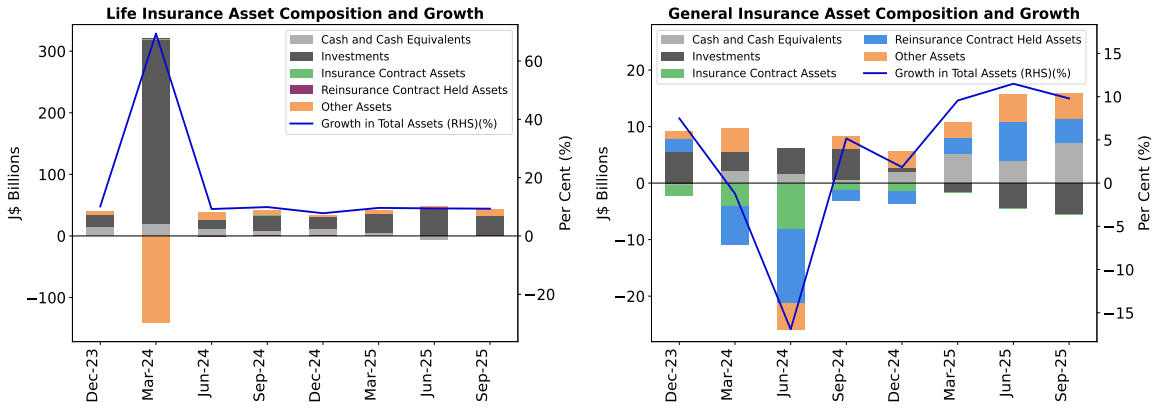
Source: FSC

Figure 1.16
Elevated capital buffers supported sector resilience, with the CAR rising to 20.7 per cent at end-2025, alongside a strong rebound in profitability.



Source: FSC

Figure 1.17
Life insurers' assets expanded in 2025 driven by investment growth, while general insurers' asset growth reflected higher cash holdings amid reduced investments.



Source: FSC

twelve months ended-September 2025.[36] Total assets for the industry reached $614.4 billion at end-September 2025, a 9.4 per cent increase over the return at end-September 2024.[37] This growth was primarily driven by the life insurance sub-sector, which grew by 9.3 per cent (y-o-y) to $499.4 billion at end-September 2025, primarily reflecting growth of 8.6 per cent in *Investments* (see **Figure 1.17**).[38] General insurers' asset base also expanded, albeit through higher holdings of 59.3 per cent in *Cash and Cash Equivalents*, as their investment portfolios contracted by 9.9 per cent over the same period (see **Figure 1.17**).[39]

A decomposition of life insurers' investment portfolios indicated that the expansion in investments was driven primarily by an 8.7 per cent ($31.3 billion) increase in *Government Securities and Bonds* relative to end-September 2024. This increase reflected life insurers' efforts to leverage investment growth to support profitability. In contrast, the contraction in general insurers' investment portfolios at end-September 2025, was largely due to reductions across most components (see **Figure 1.18**).[40] These outcomes highlighted the sub-sectors' distinct approaches to the evolving macrofinancial landscape, with life insurers expanding investment holdings to enhance returns, while general insurers focused on maintaining more liquid positions as a buffer strategy in the event of increased claims. Overall, investment trends across the industry demonstrated active balance sheet management, as insurers continued to adjust their portfolios to mitigate risks, preserve capital and maintain profitability.

On the liabilities side, total industry liabilities increased by 9.7 per cent (y-o-y) at end-September 2025, driven primarily by growth in *Insurance Contract Liabilities* across both the life and general insurance sub-sectors. This increase was broadly consistent with improved underwriting performance accross both sub-sectors, as reflected in the growth in *Insurance Service Results* during the review period. Specifically, *Insurance Contract Liabilities* rose

[36] The insurance industry comprises 6 registered life insurance companies and 11 general insurance companies, with the two largest firms in each sub-sector holding approximately 82.0 per cent of life insurance assets and 35.0 per cent of general insurance assets, respectively.

[37] Insurance industry data reflect reporting under IFRS 17, which replaced IFRS 4 for insurance contracts with effect from 01 January 2023.

[38] Notably, life insurance continued to be the most dominant sub-sector representing 81.3 per cent of the total industry's asset base at end-September 2025.

[39] The general insurance sub-sector's total assets grew by 9.8 per cent (y-o-y) to $115.0 billion at end-September 2025.

[40] Notably, *Term Deposits and Repos (one year or less)*, *Term Deposits and Repos (more than one year)* and *Government Securities and Bonds* declined by 22.1 per cent ($4.9 billion), 26.7 per cent ($1.3 billion) and 19.5 per cent ($3.8 billion), respectively. The impact of these declines was partly offset by a 24.0 per cent ($1.4 billion) increase in *Corporate Debts*.

by 8.3 per cent (y-o-y) to $292.4 billion for life insurers and by 9.2 per cent (y-o-y) to $62.8 billion for general insurers.

Capital positions across the insurance industry remained robust and well positioned to absorb shocks over the year ended-September 2025. The industry's capital-to-assets ratio was relatively unchanged at 26.6 per cent at end-September 2025, relative to end-September 2024 (see **Figure 1.19**). For the life insurance sub-sector, both solvency and Life Insurance Capital Adequacy Test (LICAT) ratios remained well above their respective prudential minimums of 10.0 per cent and 100.0 per cent.[41,42] Specifically, the LICAT ratio rose to 211.6 per cent, from 206.9 per cent at end-September 2024 (see **Figure 1.20**). Meanwhile, the MCT and solvency ratios for the general insurance sector fell to 188.5 per cent and 46.5 per cent, respectively, but remained well above their respective prudential benchmarks of 150.0 per cent and 25.0 per cent, indicating continued resilience in the sector (see **Figure 1.20**).[43] Although capital levels remained sufficient to absorb shocks, the FSC continues to closely monitor the sector in light of heightened catastrophe risk and the potential for increased Hurricane Melissa-related claims.

Profitability performance remained positive for the insurance industry, supported primarily by improved underwriting margins amid generally stable macrofinancial conditions. The industry's annualized ROE and ROA rose marginally by 1.9 percentage points and 0.5 percentage point, respectively, to 15.5 per cent and 4.1 per cent for the year ended-September 2025, relative to end-September 2024 (see **Figure 1.19**). These results were underpinned by a 23.2 per cent (y-o-y) increase in annualized after-tax profits to $25.4 billion, which was driven mainly by the life insurance sector.

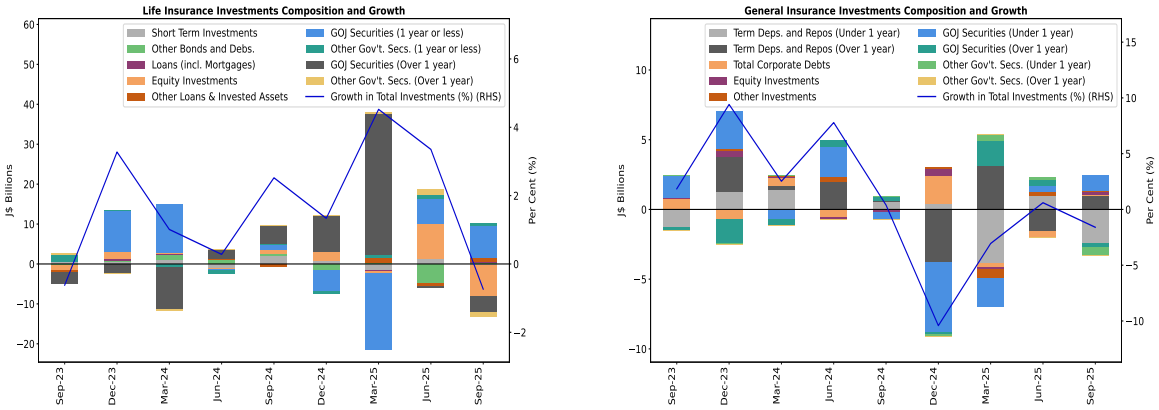
The life insurance sector accounted for 86.6 per cent of total industry profits, with after-tax earnings of $22.0 billion for the year ended-September 2025. This performance was supported by robust growth in the *Insurance Service Result*, the impact of which was partly offset by

[41] Solvency ratio examines a firm's ability to meet its long-term debts and obligations. It is the summation of capital and surplus, reserves and investments divided by total liabilities.

[42] The LICAT ratio is the regulatory capital standard for life insurers under IFRS 17, effective January 2023. It replaced MCCSR and uses risk-based ratios to assess capital adequacy. The FSC has set the minimum LICAT benchmark at 100.0 per cent.

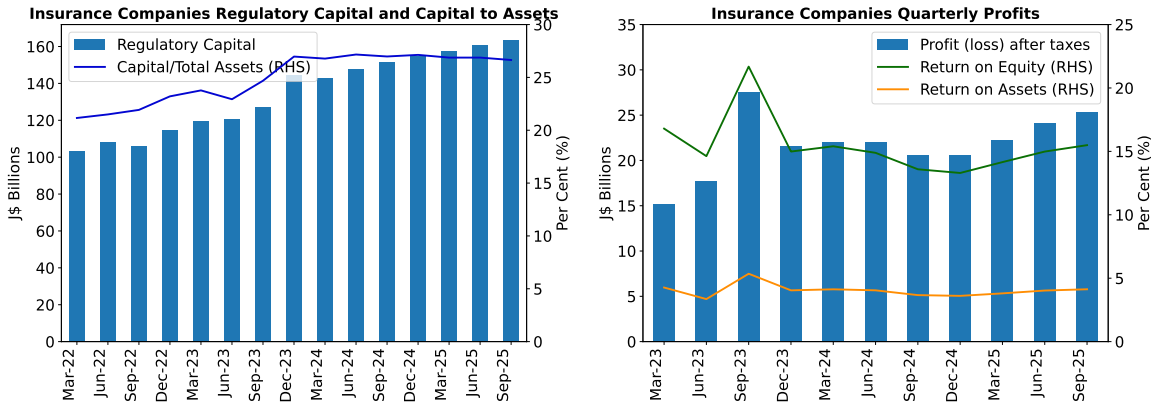
[43] The MCT Prescribed Capital Required ("PCR") assesses the riskiness of assets and policy liabilities and compares capital available to capital required. The MCT's benchmark was initially at 250.0 per cent in 2019, adjusted to 175.0 per cent effective December 2022, and was further adjusted to 150.0 per cent in 2023.

Figure 1.18
Investment strategies diverged across sub-sectors, with life insurers increasing holdings and general insurers shifting toward cash for liquidity.



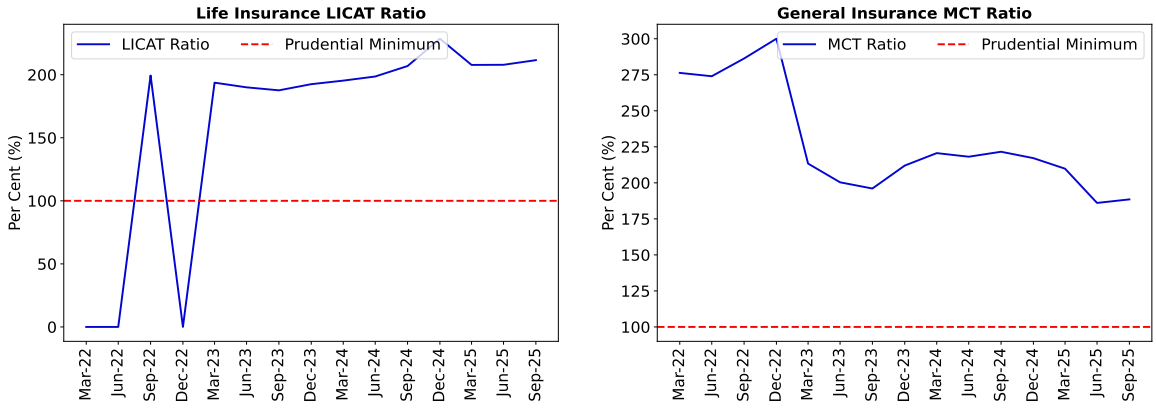
Source: FSC

Figure 1.19
Robust capital-to-assets ratios supported industry resilience, while insurance sector profitability improved in 2025, driven by stronger underwriting performance, particularly in life insurance.



Source: FSC

Figure 1.20
Life insurers maintained LICAT ratios well above prudential minimums, while general insurers' MCT and solvency ratios also remained above benchmarks, demonstrating sector resilience.



Source: FSC

weaker net investment income.[44] More specifically, the sub-sector's *Insurance Service Result* increased by 53.4 per cent ($7.2 billion) for the year ended-September 2025, reflecting stronger growth of 14.2 per cent in *Total Insurance Revenue* relative to the 6.1 per cent rise in *Insurance Service Expenses*, signaling improved underwriting performance. However, overall profitability was tempered by a 14.0 per cent decline in the *Net Investment Result*, driven by a 45.2 per cent ($6.7 billion) increase in *Net finance expenses from insurance contracts*. [45]

Profitability in the general insurance sub-sector also improved during the review period, with after-tax profits increasing to $3.4 billion from $2.4 billion at end-September 2024. This outturn was driven mainly by stronger underwriting performance, reflected in a 21.4 per cent ($4.9 billion) increase in the *Insurance Service Result*. The improvement in the *Insurance Service Result* reflected stronger declines of 37.7 per cent ($14.6 billion) in *Insurance Service Expenses* and 21.8 per cent ($9.4 billion) in *Net Expenses from Reinsurance Contracts Held*, which more

[44] Insurance service result represents the profit or loss from providing insurance services during the reporting period under IFRS 17 Insurance Contracts. It includes insurance revenue earned, less insurance service expenses (such as claims and acquisition costs), and reflects the release of the contractual service margin as services are provided.

[45] Net finance income (expenses) from insurance contracts refers to the interest and other financial effects arising from discounting insurance liabilities and changes in financial assumptions, and it is included in the net investment result because it captures the impact of movements in interest rates and the time value of money on insurers' financial performance.

than offset the 8.1 per cent increase in *Total Insurance Revenue*. Notwithstanding, general insurers' overall profitability performance was partly offset by a 5.6 per cent decline in the *Net Investment Result*, largely due to a 27.8 per cent ($0.7 billion) reduction in *Net Investment Income*.

1.2.6 Credit Unions Sector

The performance of the credit union sector moderated in 2025, reflecting adaptive balance-sheet positioning amid ongoing sector consolidation, evolving interest rate dynamics and lower credit demand.[46,47] These institutions continued to adopt a more cautious, prudential approach to balance-sheet management in anticipation of enhanced supervisory standards. The sector's total assets increased by 8.6 per cent to $215.6 billion at end-2025, a deceleration from the 10.0 per cent growth recorded in the previous year. The outturn, for the review year, was primarily driven by slower expansion in loans and advances, which nevertheless remained the largest component of the asset base.[48,49]At the same time, total investments increased by 8.7 per cent (y-o-y) at end-2025. Furthermore, credit unions increased holdings of liquid funds by 8.5 per cent (y-o-y) at end-2025. On the liabilities side, savings growth moderated but remained positive, supported by a stable, member-based domestic-currency funding structure.[50]

During 2025, the sector remained resilient, however, emerging asset quality pressures prompted stronger provisioning which weighed on profitability. NPLs increased by 15.9 per cent to $4.5 billion at end-2025, slightly lifting the NPL ratio to 3.1 per cent from 2.9 per cent a year earlier.[51] The increase in NPLs prompted further strengthening of provisioning buffers, with loan loss provisions rising by 19.0

[46] Consolidation in the CU sector continued, during 2025, driven by mergers among smaller credit unions aimed at achieving scale efficiencies, strengthening governance and risk-management capacity, as well as improving capital and liquidity positions. This process contributed to greater balance-sheet resilience at the sector level.

[47] Adaptive balance-sheet positioning refers to adjustments by credit unions in the composition and growth of assets and liabilities in response to evolving economic and financial conditions. In practice, this includes strengthening liquidity buffers, and reallocating investments to maintain prudent risk, liquidity, and capital positions.

[48] Loan growth decelerated to 7.2 per cent(y-o-y), from the 12.5 per cent (y-o-y) growth for 2024. Notwithstanding, loans accounted for 68.2 per cent of the asset base

[49] The moderation in loan growth reflected elevated borrowing costs. However, demand is expected to rebound due to recovery efforts and reconstruction following damage caused by Hurricane Melissa.

[50] The credit union sector's funding base remained largely domestic and retail in nature, reducing exposure to wholesale funding volatility and supporting stable liquidity conditions despite moderating savings growth.Notably,Credit Unions held deposits equivalent to 7.1 per cent of those held in DTIs

[51] The increase in NPLs was largely driven by member migration within a small number of credit unions and did not reflect a broad-based weakening in credit performance across the sector.

per cent to $4.1 billion, which in turn raised NPL coverage to 90.1 per cent at end-2025, from 87.8 per cent at end-2024.[52] This shift in provisioning buffers reinforced the sector's capacity to absorb potential losses. Against this backdrop, profitability weakened in 2025, as ROE and ROA declined to 6.5 per cent and 1.1 per cent, respectively, reflecting expense growth that outpaced revenue expansion.[53] Despite these pressures, earnings remained positive and the net interest margin was maintained at 9.0 per cent, which helped to preserve the capital buffers and funding stability in the sector.[54] Overall, these developments demonstrated that the sector absorbed emerging credit pressures while maintaining adequate risk coverage.

1.2.7 Microcredit Sector

The Bank continued to oversee the development of the microcredit sector in 2025 through the issuance of licences and targeted supervisory initiatives. At end-2025, 184 applications for licensing under the Microcredit Act had been received. These applications reflected an aggregated loan amount of $46.1 billion, equivalent to approximately 1.3 per cent of GDP. Of these applications, 47 licences were issued, bringing the total number of licensees to 112, which collectively accounted for roughly 99.0 per cent of the sector's assets.[55] As the microcredit sector continued to evolve, there was progress in advancing key initiatives including the completion of activities supporting risk-based supervision and the country's National Risk Assessment, sensitization sessions, the completion of targeted risk-based examinations, as well as continued engagement with the industry through the Microcredit Association's Joint Advocacy Committee.

[52] The strengthening of provisions reflected a precautionary approach to credit risk management amid expectations of near-term pressures on asset quality associated with economic and social dislocation following Hurricane Melissa.

[53] The contraction in surplus was driven by higher loan loss provisioning, increased administrative expenses, and elevated interest costs, which also contributed to a deterioration in operating efficiency.

[54] The stability of the net interest margin reflected broadly aligned growth in interest income and earning assets.

[55] The names of licensed microcredit institutions are available on the Bank's website: https://boj.org.jm/core-functions/financial-system/microcredit-regulation/.

Chapter 02

Financial Sector Risks and Resilience:

Buffers, Vulnerabilities and Structural Shift

Jamaica's financial sector remained resilient in 2025, supported by strong capital, liquidity buffers and sustained profitability across deposit-taking institutions, securities dealers and insurance companies. While vulnerabilities emerged from localized credit pressures and evolving market conditions, financial institutions maintained sound balance sheets and adequate loss-absorbing capacity. These developments highlight the sector's ability to withstand shocks while structural adjustments continue to reshape risk exposures.

2.1 Risks and Vulnerabilities

2.1.1 Credit Growth, Loan Quality and Provisioning Trends

The credit-to-GDP gap indicators remained negative, reflecting that credit growth remained below its long-run trend even as nominal credit growth accelerated and nominal GDP growth slowed.[56] At-end 2025, the total credit-to-GDP gap narrowed to −0.9 per cent, from −2.3 per cent at end-2024, remaining well below the early-warning threshold (see **Figure 2.1**).[57, 58, 59] Although the gap remained negative throughout the year, the narrowing from the 2023–2024 troughs suggest a gradual normalisation of credit conditions as balance sheet capacity improved.

The outturn for the credit-to-GDP gap indicators was due to an estimated slowdown in nominal GDP and an acceleration in nominal credit (see

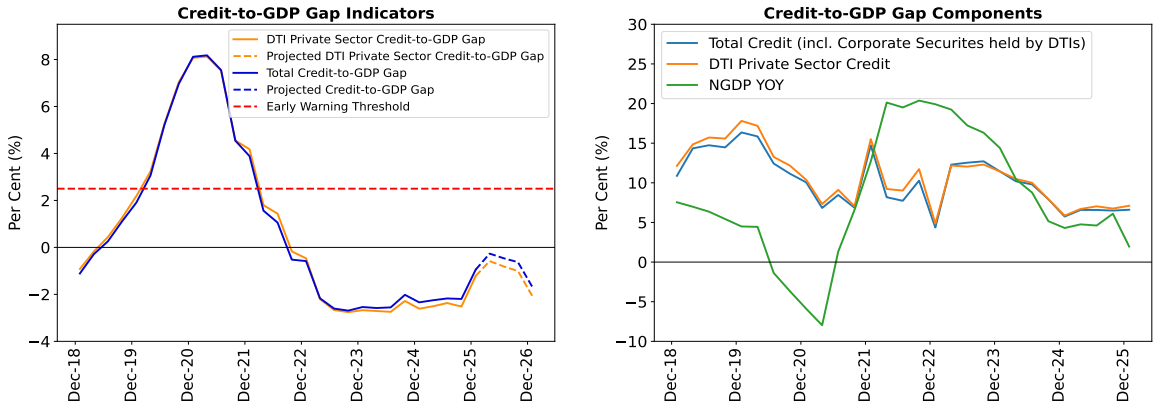
[56] The credit-to-GDP gap indicator measures the deviation of credit-to-GDP from its long-term trend. It is a systemic risk indicator associated with financial cycles which signals the extent of credit risk accumulation. A positive outturn indicates credit is growing faster than its long-term trend and may signal excessive credit expansion. Negative values indicate credit is below its long-term trend and may indicate tight credit conditions or deleverage in the economy.

[57] Similarly, the DTI private sector credit-to-GDP gap measured −1.2 per cent, an increase relative to -2.6 per cent at end-2024.

[58] Total credit used to calculate the credit-to-GDP gap is comprised of private sector credit (loans and advances), credit issued to the public sector (loans and advances) and corporate securities (bonds) held by DTIs. Nominal GDP is annualized by calculating a 4-quarter moving sum. The trend in credit/GDP is estimated using the Hodrick Prescott (HP) filter data smoothing econometric technique.

[59] The Bank's internal lower threshold is 2.5 per cent and the Bank for International Settlement (BIS) early-warning benchmark is 10.0 per cent, which is used to indicate signs of excessive credit expansion or systemic leverage buildup.

Figure 2.1
Credit-to-GDP gap indicators remained negative in 2025, reflecting tight credit conditions despite a slight uptick driven by slower nominal GDP growth.



Source: BOJ

Figure 2.1).[60] The upward movement in the gap occurred in a context of weak domestic demand and the disruptions to economic activity associated with Hurricane Melissa.

Despite the improvement, the persistently negative gap indicates that credit continued to underperform relative to its long-run trend. The projected path for the credit-to-GDP gap indicators point to a continuation of below trend performance throughout 2026. That is, remaining negative and signalling muted cyclical credit pressures. The total credit-to-GDP gap indicates that growth in total credit (including corporate bond held by DTIs) did not contribute materially to systemic risk in 2025.

2.1.2 Trends in Lending to the Household Sector

Households (HHs) continued to be the largest component of DTIs' loan portfolios during 2025, accounting for 53.1 per cent of total loans (see Figure 2.2). This outturn represented a slight increase in HH debt as a share of total loans, relative to 2024. The sector remained particularly vulnerable, during the review period, as the macroeconomic environment was affected by negative growth, moderating inflation, and the impact of Hurricane Melissa. These developments placed additional

[60] Nominal GDP is estimated to have grown by 2.0 per cent (y-o-y) at end-2025, slower than the increase of 4.3 per cent (y-o-y) at end-2024.The credit-to-GDP gap's total credit measure grew by 6.6 per cent (y-o-y) at end-2025, compared to 5.7 per cent (y-o-y) at end-2024. The growth in the total credit measure used in the calculation of the credit-to-GDP gap indicators was largely driven by loans and advances to Households (Personal Credit), which accounted for 59.2 per cent of total credit at end-2025 compared to 58.3 per cent at end-2024.

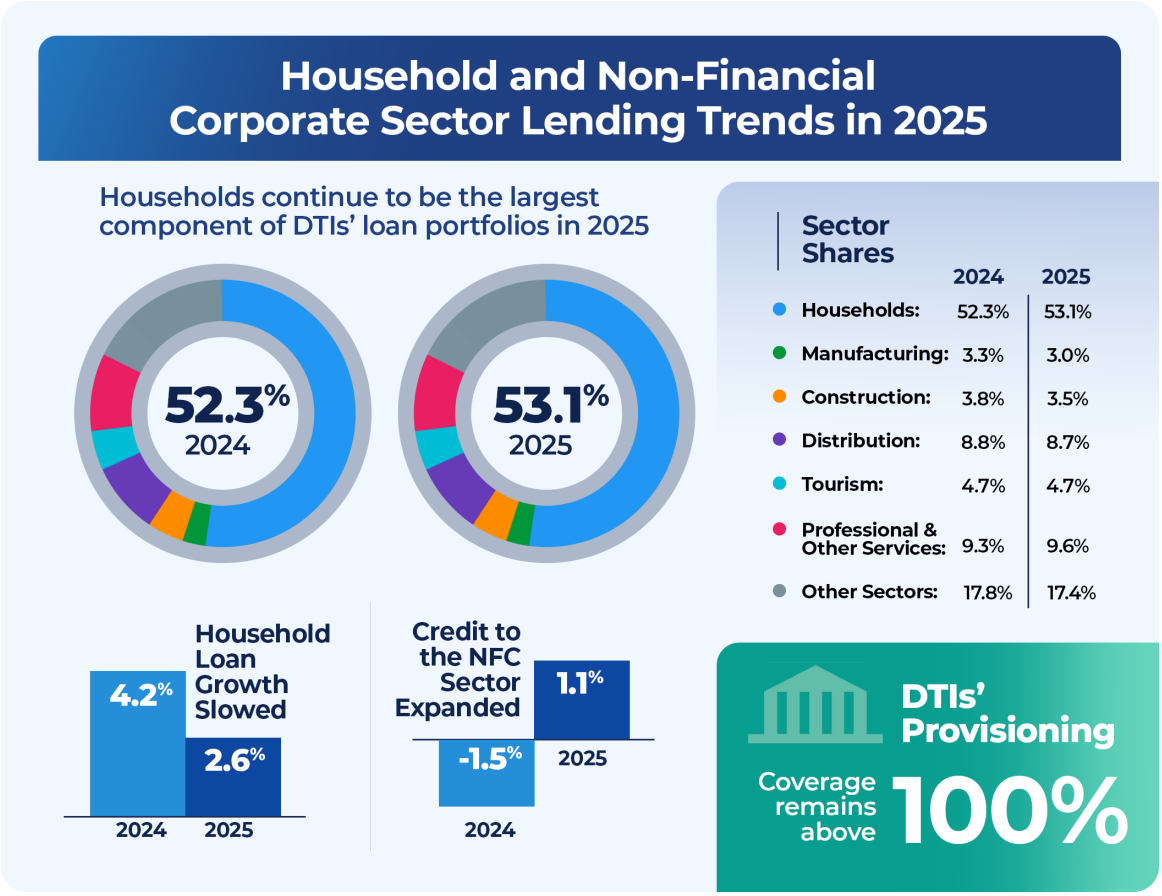
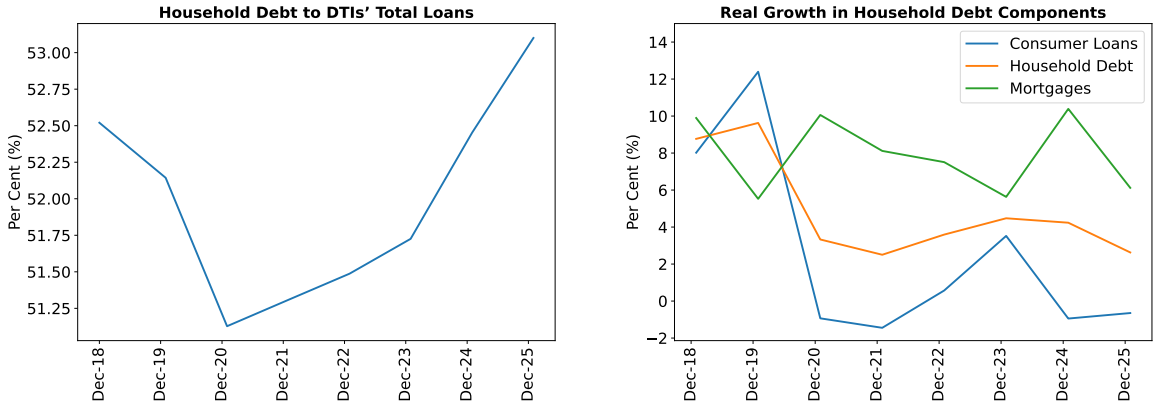


Figure 2.2
Household loans remained the largest share of DTIs' portfolios in 2025, while growth slowed remained positive.



Source: BOJ

pressure on household debt-servicing capacity.

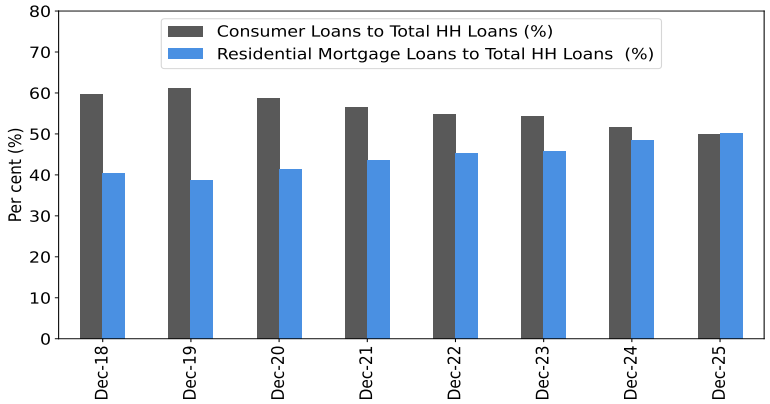
Furthermore, real HH loan growth remained positive although it decelerated to 2.6 per cent in 2025, compared to 4.2 per cent in 2024 (see **Figure 2.2**). This deceleration mainly reflected weaker demand as well as a slowdown in both consumer and mortgage lending following Hurricane Melissa. Notably, mortgages accounted for approximately 40.0 per cent of HH loans prior to the COVID-19 period, when DTIs largely prioritised consumer lending at about 60.0 per cent. The structural composition of HH loans subsequently reached an equal split, 50.0 per cent consumer loans and 50.0 per cent mortgages, by end-2025 (see **Figure 2.3**). More specifically, consumer lending continued to fall, though the pace of decline moderated slightly to -0.6 per cent from -0.9 per cent in 2024. At the same time, the post-pandemic trend of DTIs shifting their HH portfolios toward mortgage lending continued in 2025. Lending for mortgages grew by 6.1 per cent, however, below the 10.4 per cent mortgage lending expansion recorded in 2024 (see **Figure 2.3**).

Loan quality in the HH sector remained broadly stable over the review period. The HH NPL ratio was broadly unchanged at 3.6 per cent, while the HH PDL ratio fell slightly by 0.5 percentage point to 3.2 per cent at end-2025. Of note, HH consumer loan NPL ratio remained elevated, relative to prepandemic levels. In contrast, HH mortgage NPL ratio remained below prepandemic norms (see **Figure 2.4**). Early-stage delinquency indicators improved, as the mortgage PDL ratio declined by 1.0 percentage point and the consumer PDL ratio fell by 0.2 percentage point (see **Figure 2.4**). These outturns were partly due to the temporary loan moratoria implemented after Hurricane Melissa, as well as the relatively strong economic performance during the September 2025 quarter.

2.1.3 Trends in Lending to the Non-Financial Corporate (NFC) Sector

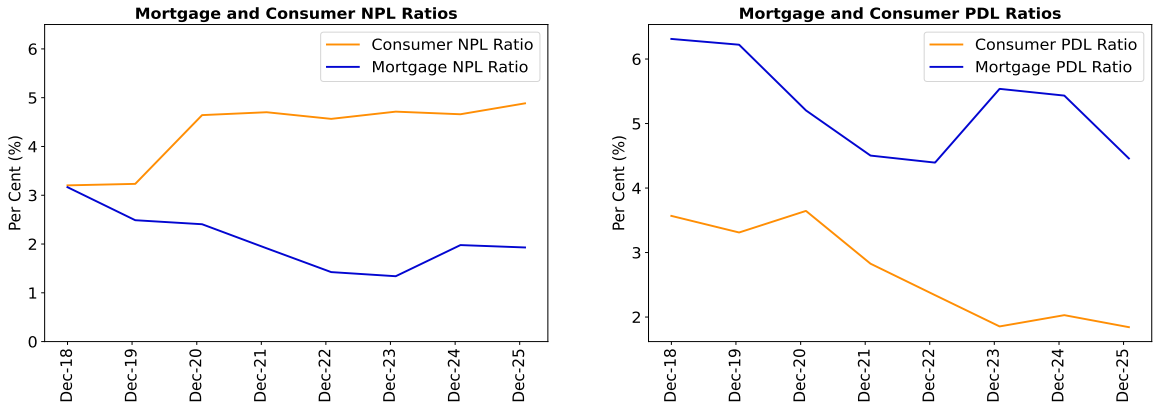
Lending to the NFC sector remained a significant share of DTIs' loan portfolios, in 2025, accounting for 35.1 per cent of total loans. Credit to the sector expanded by 1.1 per cent, in comparison to the contraction of 1.5 per cent in 2024. The growth, in 2025, was due to generally stable macroeconomic conditions throughout the year (see **Figure 2.5**). The composition of NFC lending remained generally unchanged. More specifically, the *Distribution* and *Professional & Other Services* sectors continued to account for the largest shares of business lending. Although growth in lending to both sec-

Figure 2.3
The share of HH mortgage and consumer loans converged to an equal split in 2025



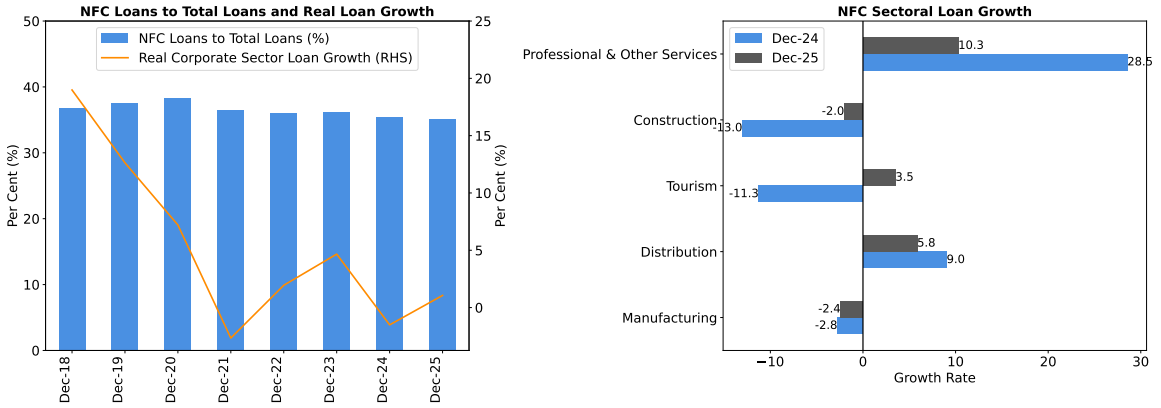
Source: BOJ

Figure 2.4
Household consumer NPL ratios increased while mortgage NPL ratios declined in 2025, alongside reductions in both consumer and mortgage PDL ratios.



Source: BOJ

Figure 2.5
NFC loans remained a significant share of total lending as credit to the sector expanded in 2025, although growth across the top five sectors was mixed.



Source: BOJ

tors remained positive, it decelerated relative to 2024 (see **Figure 2.5**). Furthermore, growth in lending to the *Construction* and *Manufacturing* sectors contracted, reflecting delayed investment activity and elevated credit risk following the extensive economic and infrastructural damage caused by Hurricane Melissa.[61] Notably, however, the pace of decline in these sectors decelerated relative to the outturns in 2024. Contrastingly, there was a sharp increase in lending to the *Tourism* sector in 2025, relative to the contraction in 2024.

The combined NPL ratio for the top five NFC industries remained at 1.0 per cent in 2025. In particular, sector-specific NPL ratios ranged between 0.2 per cent and 1.5 per cent, which was broadly inline with the outturn for the previous year (see **Figure 2.6**). However, PDL ratios worsened at end-2025, relative to end-2024, due to temporary cash flow pressures following the passage of Hurricane Melissa.

Of note, provisioning in the DTI sector increased as institutions responded to evolving credit risks and shifts in loan quality across key portfolios.[62,63,64] Between end-

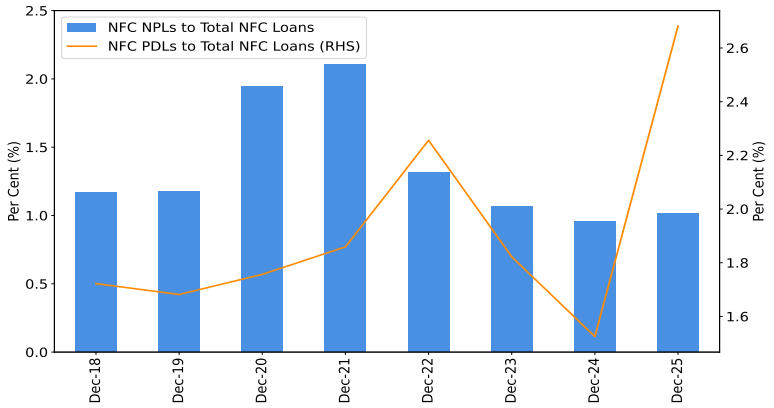
[61] Significant damage to infrastructure, agriculture, and tourism assets, contributed to these outcomes (Planning Institute of Jamaica, 2025).

[62] The NPL coverage ratio measures a bank's ability to absorb potential losses from its non-performing loans. It is calculated as IFRS impairment provisions plus prudential provisions as a ratio to NPLs.

[63] The prudential benchmark for the NPL coverage ratio is 50.0 per cent.

[64] DTIs' provisioning levels reflected two main components, accounting for loan loss provisions, which cover expected credit losses, and prudential loss provisioning reserves, which provide additional supervisory buffers to strengthen forward-looking risk coverage. Together, these components indicate the sector's overall credit loss-absorbing capacity.

Figure 2.6
NFC NPL ratios remained broadly unchanged, while PDL ratios worsened in 2025



Source: BOJ

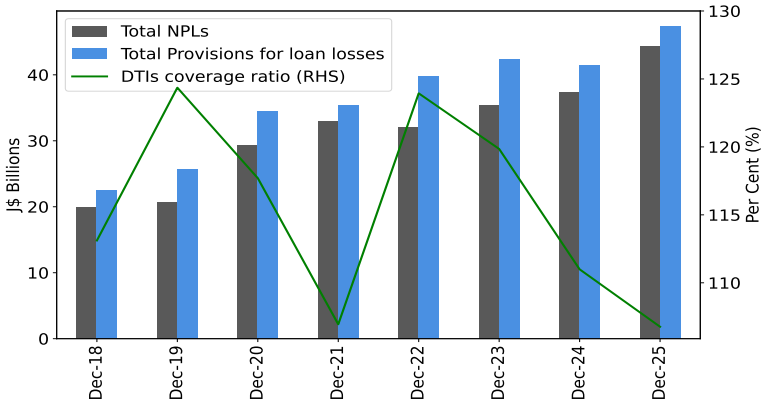
2024 and end-2025, total provisioning increased by 14.2 per cent (y-o-y), driven by a 12.9 per cent rise in loan provisioning and a 17.6 per cent expansion in prudential provisioning. Despite this expansion, the NPL coverage ratio declined to 106.8 per cent from 110.9 per cent, because NPLS rose by 18.7 per cent (see **Figure 2.7**).[65] This outcome occurred even as the loan loss provision rate increased to 3.0 per cent. As a result, while DTIs strengthened their provisioning buffers, during 2025, the rise in NPLs reduced coverage levels, underscoring the need for continued prudential discipline. Notwithstanding the outturn for 2025, the coverage ratio remained above 100 per cent indicating that existing NPLs are fully covered.

2.1.4 Asset Valuation Pressures: Real Estate and Equity Markets

During 2025, asset pricing demonstrated mixed results, as residential real estate prices remained elevated relative to fundamentals, while equity market valuations moderated. There was a y-o-y increase in the Residential Real Estate Price Index (RREPI) to 9.4 per cent in September 2025, relative to the expansion of 7.1 per cent at September 2024. The increase in 2025 remained below both the five-year and ten-year historical averages of 11.7 per cent and 9.5 per cent, respectively. Price-to-rent ratio increased to 2.1 in September 2025 from 2.0 in 2024, recording a new historical peak (see

[65] During the height of the COVID-19 pandemic, the coverage ratio ranged from a peak of 127.4 per cent in September 2020 to a low of 100.0 per cent in September 2021. Over the period, the average coverage ratio was 112.0 per cent.

Figure 2.7
DTIs maintained an NPL coverage ratio above 100 percent despite rising NPLs in 2025



Source: BOJ

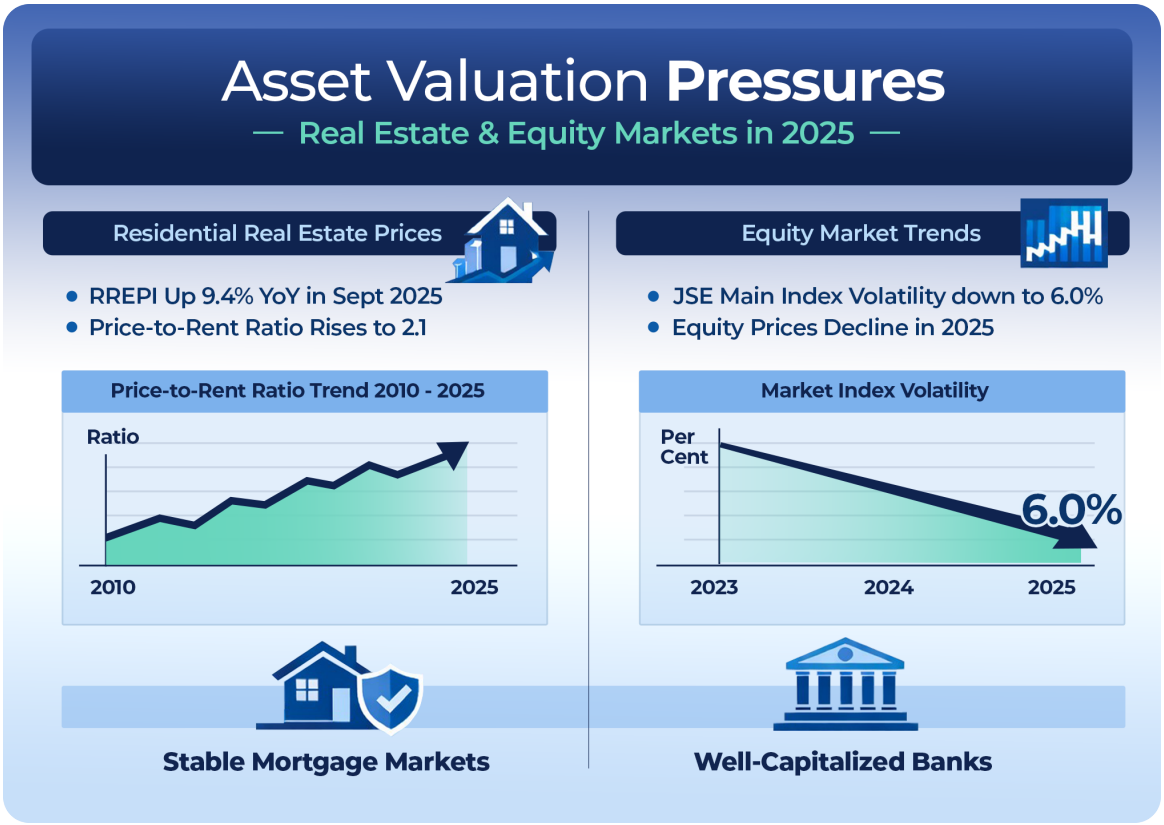


Figure 2.8).[66,67] Notably, the price-to-rent ratio has been trending upward steeply since 2018, indicating that residential property prices have increased at a faster pace than rental prices. Growth in mortgage lending remained positive, albeit, decelerating, which suggested that recent price increases were not primarily driven by excessive leverage expansion (see Chapter 2.1).[68]

Domestic equity markets moderated over the review period, reflecting stable market conditions. Annualized volatility of the JSE Main Market Index declined to 6.0 per cent in December 2025 from 7.3 per cent in 2024, remaining within historical norms (see Figure 2.8).[69,70] This moderation in volatility coincided with weaker annual point-to-point performance across all domestic stock market indices, which suggested a cooling in investor sentiment and reduced risk appetite (see Chapter 1.2). Overall, equity market conditions remained orderly, with no signs of stretched pricing dynamics.

Although residential property prices increased at a faster pace than rental prices, the transmission of valuation pressures to the financial system continued to be supported by stable mortgage NPL ratios and adequately capitalized deposit-taking institutions, with capital levels well above regulatory requirements. Additionally, the planned introduction of loan-to-value (LTV) ratio will further reinforce prudent lending standards. Furthermore, the decline in domestic equity prices, during the year, supported balanced conditions in the equities markets.

2.1.5 Systemically Important Financial Institutions and Consolidated Supervision

The domestic financial system continued to be characterized by a high degree of interconnectedness, a feature amplified by the dominance of a small number of large systemically important financial institutions

[66] Price-to-rent ratio is calculated as fraction of the residential real estate price index and the rental housing index. The price-to-rent ratio captures the pace at which house prices grow relative to rental prices.

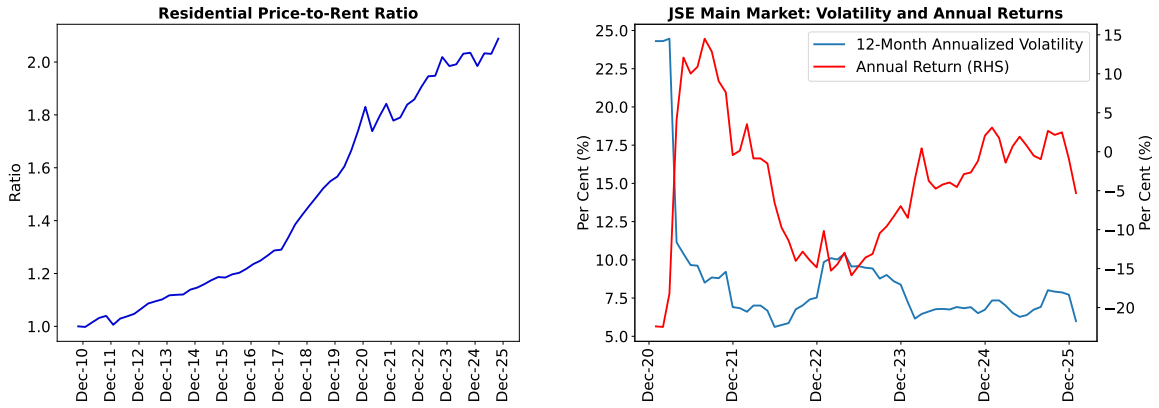
[67] The rental housing index represents the "rental for housing" component of the Consumer Price Index (CPI), sourced from the Statistical Institute of Jamaica (STATIN).

[68] Mortgage loans to individuals continued to grow at a lower rate of 12.3 per cent in September 2025 (y-o-y), compared to 14.3 per cent in the previous period.

[69] Annualized volatility is computed as the rolling 12-month standard deviation of monthly returns, scaled by $\sqrt{12}$.

[70] Current annualized volatility is less than 1 standard deviation below five year historical average.

Figure 2.8
Residential property price growth continued to outpace rental price growth, while moderation in annualized volatility coincided with weaker returns in the JSE Main Market Index.



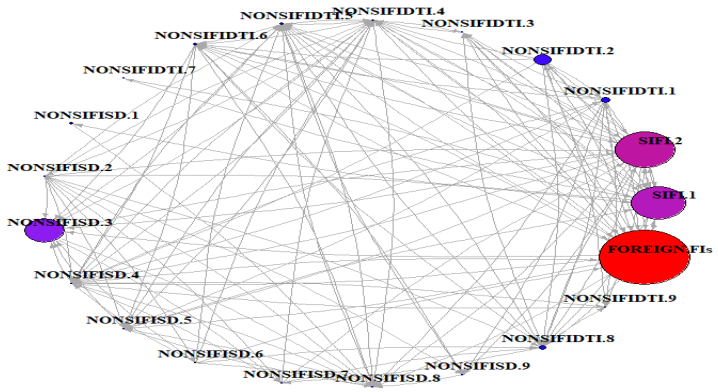
Source: BOJ and JSE

(see Figure 2.9).[71] This concentrated structure implied that disruptions within any SIFI had the potential to transmit stress across the broader financial system through balance sheet linkages and confidence effects. During 2025, SIFIs continued to account for a substantial share of financial intermediation in Jamaica, holding a significant proportion of total assets within the deposit-taking and securities dealer sectors. SIFIs therefore remained central to the provision of credit and financial services to households and businesses. At end-2025, these institutions accounted for over 42.4 per cent of total assets across these segments of the financial system, unchanged from the share recorded at end-2024. Against this background, stress affecting any SIFI could transmit more broadly through financial markets and confidence channels, with potential implications for overall financial stability. As such, during 2025, supervisory efforts remained focused on strengthening the resilience of these institutions through enhanced monitoring and the ongoing development of macro-prudential tools, including the Systemic Risk Buffer, aimed at bolstering loss-absorbing capacity and mitigating spillovers associated with systemic stress.

As Jamaica's financial sector becomes increasingly organized around financial holding company (FHC) structures, the need

[71] Network chart of domestic gross funding exposures reflect eigen vector centrality which is a global measure of centrality (vertex properties) that captures the relative importance of vertices (network members) due to other adjacent vertices. The vertices (nodes) represent financial institutions, in particular, domestic DTIs and securities dealers, as well as foreign financial institutions. The edges (lines) represent the funding exposures between vertices.

Figure 2.9
Network of gross funding exposures among SIFIs and non-SIFIs (including foreign institutions)



Source: BOJ

for robust consolidated supervision has become even more critical to safeguarding financial stability. FHCs introduce additional layers of complexity by integrating banking, securities, insurance and other financial activities under a common group structure, thereby increasing the potential for risk transmission across entities. These developments, including the expansion of FHCs and deepening cross sector linkages underscore the importance of a group wide supervisory approach. This approach will be able to capture risks arising from intra group exposures, common funding channels, and interconnected balance sheets that may be overlooked under entity level oversight. Strengthening consolidated supervision, supported by enhanced data sharing arrangements and improved coordination among domestic regulatory authorities, is therefore essential for the early identification of emerging vulnerabilities and for ensuring a more holistic assessment of systemic risk. These supervisory enhancements remain an important pillar of the broader macroprudential framework, helping to ensure that oversight evolves alongside the changing structure of Jamaica's financial system. At end-2025, Bank of Jamaica had licensed eight financial holding companies under the Banking Services Act (Financial Holding Companies) (Licensing Application Form) Rules, 2019, compared to seven at end-2024, supporting the Bank's consolidated regulation and supervision of financial groups.

2.2 System-wide Vulnerability Assessment

In 2025, the Jamaican financial system remained broadly resilient, with vulnerabilities across the main sectors assessed as moderate. In particular, domestic banks, securities dealers, and insurance companies experienced shifts in specific risk categories, reflecting both evolving macrofinancial conditions and sector-specific exposures. The easing of the policy rate and lower interest rate volatility contributed to reductions in interest rate risks, while broadly stable credit conditions helped to contain credit risks.

Meanwhile climate-related shocks, such as Hurricane Melissa, and structural exposures in credit, liquidity, and reserving presented areas of sensitivity.[72] Overall, strong prudential oversight, conservative balance sheet management, as well as adequate buffers across capital, liquidity, and reinsurance arrangements underpinned system-wide resilience. Nevertheless, credit and interest rate risks remained the main vulnerabilities for DTIs. For securities dealers, foreign exchange and concentration risks emerged as the primary areas of vulnerability at end-2025. Meanwhile, for insurers, liquidity and reserving risks warranted continued monitoring.

2.2.1 DTI Sector Vulnerabilities

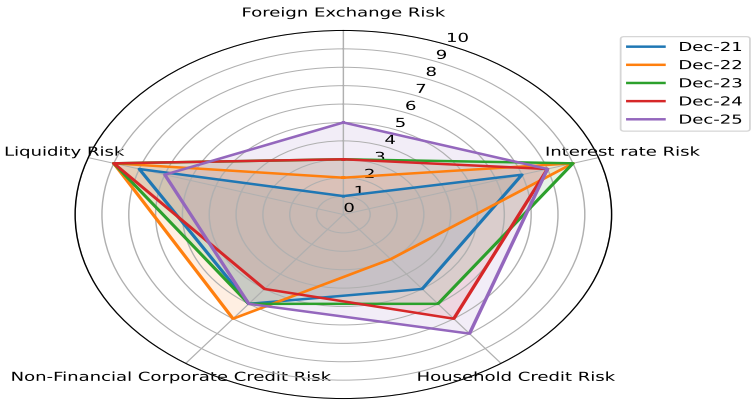
DTI sector vulnerabilities in 2025 remained moderate, despite rising exposures to credit and interest rate risks. These vulnerabilities partly reflected the early effects of climate-related shocks from Hurricane Melissa in the December 2025 quarter. Although these vulnerabilities were evident during the previous year, they remained largely contained, due to robust prudential oversight, sound management practices as well as strong pre-existing liquidity and capital buffers. These factors underpinned the sector's continued resilience, enabling DTIs to withstand adverse shocks without posing material risks to overall financial system stability. A consolidated view of the sector's risk profile is provided in **Figure 2.10**.

Credit and Concentration Risks

Credit risk exposures rose moderately, in 2025, as DTIs remained exposed to vulnerabilities linked to their sizeable household lending portfolios. In particular, consumer and mortgage loans continued to account for significant shares of household credit within the loan portfolios of DTIs. Notably, household loans accounted for

[72] Reserving risk is the risk that insurance liabilities are underestimated, i.e., claims reserves are insufficient to cover future claim payments. Lower reserving risk reflects prudent reserving practices and the use of reinsurance to mitigate potential underestimation of liabilities.

Figure 2.10
DTI sector vulnerabilities remained moderate in 2025, with credit and interest rate risks as the primary sources of exposure.



Source: BOJ

Risk exposure indicators[73]**:** [1] Credit Risk (households and NFCs) - NPLs/Loans (SDs); NPLs. (net)/ Capital [2] Interest Rate Risk - Cumulative maturity gap < 30 days and < 90 days/Assets, GOJ global bond yields, treasury bill rates. [3] Foreign Exchange Risk - NOP/Capital, FX liabilities/Total liabilities. [4] Liquidity Risk - Liquid assets/total assets, liquid assets to short-term liabilities.

approximately 53.6 per cent of DTIs' total credit, which was slightly above the 5-year historical average of 51.8 per cent, indicating a modest increase in household credit concentration at end-2025. Within the household loan portfolio, credit was evenly distributed between consumer and mortgage loans, each accounting for 50.0 per cent.[74]

In 2025, asset quality deteriorated marginally, particularly in the household and non-financial corporate (NFC) sectors. In particular, household and non-financial corporate sector NPL ratios increased to 2.8 per cent and 2.4 per cent, respectively, at end-2025, from 2.5 per cent and 1.4 per cent at end-2024. These deteriorations were mainly attributed to higher debt servicing costs and hurricane-related income disruptions towards the latter part of the year. Although both ratios were slightly above their respective 5-year historical averages of 2.6 per cent and 1.8 per cent, they remained well below the prudential threshold of 10.0 per cent, indicating that credit risks remained largely contained. In addition, DTIs continued to maintain adequate provisioning levels and implemented several credit risk mitigation strategies as well as enhanced loan

[74] See **Section 2.1.2** for further details on recent developments in credit growth and loan quality in the composition of household loan portfolios.

monitoring practices.[75]

Furthermore, DTIs remained exposed to concentration risk through large loan exposures, but generally remained within prudential limits.[76,77] Large exposures to the top five economic sectors remained broadly stable over the review period, with lending to Financial Institutions (their largest exposure) increasing to 34.6 per cent at end-2025, from 31.3 per cent at end-2024 (see **Figure 2.11**). Moderate increases were also recorded across all other sectors, with the exception of Tourism, which remained relatively unchanged at 12.0 per cent. In light of climate-related shocks from Hurricane Melissa, there was heightened risk that large exposures to Tourism could deteriorate if borrower performance weakened. Additionally, elevated large exposures to a few central borrowers also increased the sensitivity to idiosyncratic shocks. However, these risks continue to be mitigated through collateralization, diversification efforts, conservative underwriting standards, and capital buffers above regulatory requirements.

Interest Rate & Fair Value Risks

Interest rate risk was slightly elevated in 2025, with a risk rank of 8, driven by maturity mismatches, heightened duration sensitivity, and uncertainty around the near-term interest rate outlook, amid generally lower domestic yields. In particular, there were modest increases of 3.1 and 2.8 percentage points in the absolute value of cumulative maturity gaps of up to 30 days to 47.39 per cent, and up to 90 days to 48.72 per cent, respectively. This occurred despite slight declines of 0.2 and 0.8 percentage point in GOJ global bond yields to 5.75 per cent and T-bill rates to 5.37 per cent, respectively, which collectively influenced portfolio sensitivity to short-term interest rate fluctuations. Given lower market volatility and a more favourable interest rate environment, DTIs actively rebalanced their investment portfolios towards lower-risk securities.[78] This rebalancing contributed to a moderation in fair value losses

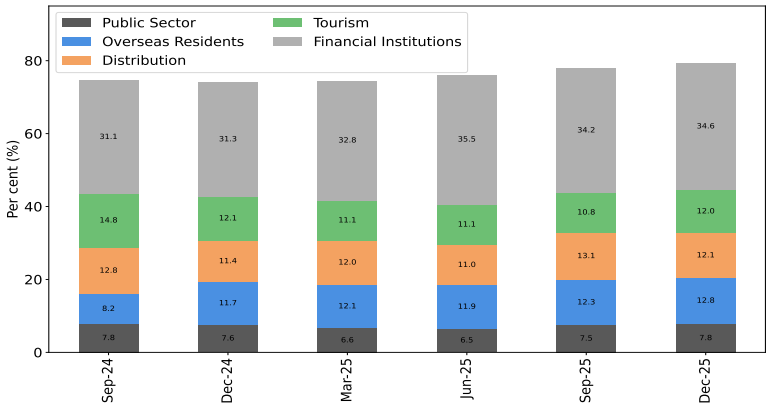
[75] Credit risk mitigation strategies adopted by DTIs included, but were not limited to, the provision of temporary loan repayment moratoria to clients affected by Hurricane Melissa, comprising short-term repayment deferrals of up to three months, with extensions granted on a case-by-case basis following individual credit assessments.

[76] Large exposures refer to loans or credit facilities to a single counterparty or a group of connected counterparties that represent a significant share of a financial institution's capital or total loan portfolio. Such exposures increase vulnerability to borrower-specific shocks, as financial distress or default by a large borrower could have a disproportionate impact on asset quality and capital adequacy. For DTIs, large exposures include the sum of exposures from placements, loans and advances, investments, other on-balance-sheet exposures, and off-balance-sheet exposures, aggregated by economic sector.

[77] The prescribed large exposure limits by the type of counterparty are as follows: i. Counterparty limit = 40%, ii. Body corporates limit = 20%, iii. Individuals limit = 10%.

[78] For further details on investment portfolio adjustments by DTIs, see Section 1.2: DTI Sector Analysis.

Figure 2.11
DTIs' large exposures by top five economic sectors at end-2025, showed moderate increases, with financial institutions remaining the largest sectoral exposure.



Source: BOJ

on their balance sheets over the year. The adjustments were supported by stable funding conditions and the strategic redeployment of excess liquidity into high-quality, lower-risk assets, reflecting prudent balance sheet management in a dynamic macrofinancial environment.

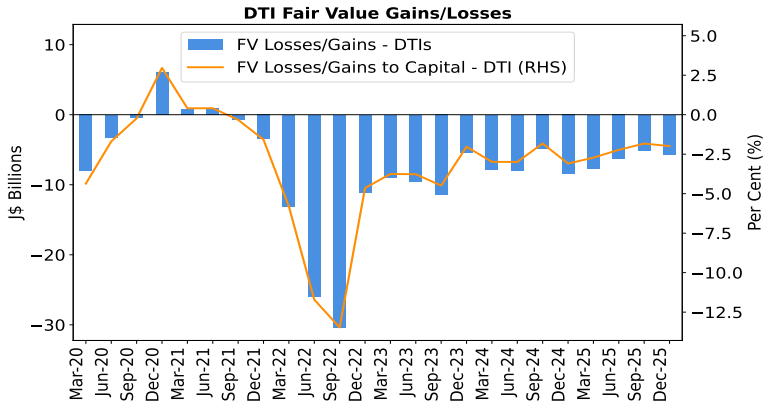
During 2025, DTIs' fair value losses improved, due to declining bond yields, stable policy rates, and continued macroeconomic stability for most of the year.[79] Exposures to GOJ securities, both domestic and global bonds, were actively managed to mitigate valuation impacts, contributing to a moderation in losses relative to 2024. As a result, unrealized fair value losses declined by 32.9 per cent to $5.7 billion, leading to an improvement in the ratio of losses to capital by 1.1 percentage points to 2.0 per cent (see **Figure 2.12**).

Foreign Exchange Risk Exposures

Foreign exchange risk remained moderate at end-2025, despite a slight uptick relative to end-2024 with a risk rank of 5. This uptick reflected the impact of wider net open positions and increased lending to non-FX earners. The DTI sector recorded a net open short foreign exchange (FX) position of 3.5 per cent of capital at end-2025, relative to a short position of 13.5 per cent at end-2024, indicating a marked narrowing of net short exposures.

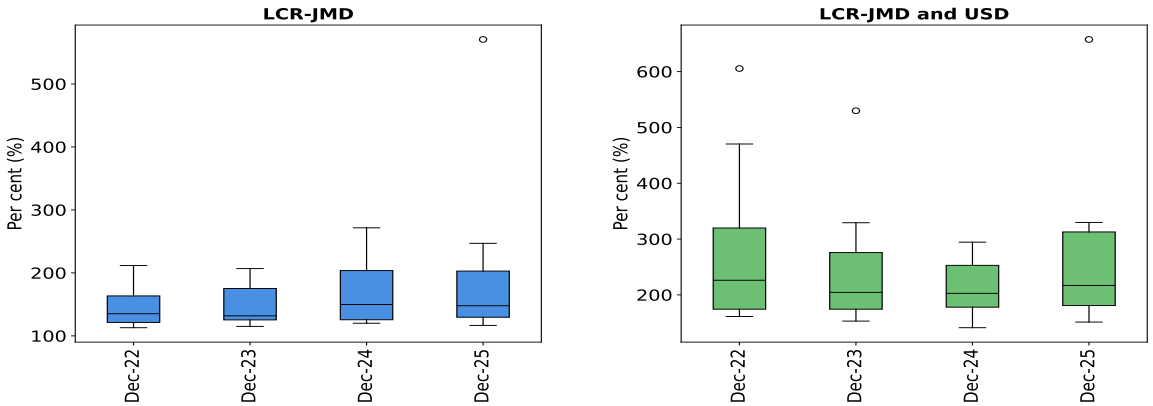
[79] Unrealized fair value losses for financial institutions occur when the current market value of their assets falls below its original purchase prices, but the asset has not yet been sold.

Figure 2.12
DTIs' unrealized fair value losses declined in 2025, reflecting lower bond yields and improved market conditions.



Source: BOJ

Figure 2.13
DTIs' JMD and USD Liquidity Coverage Ratios remained adequate in 2025



Source: BOJ

This shift reflected continued efforts to actively manage FX exposures by the DTIs.[80] Historically, the sector has maintained net short positions amid generally stable but depreciating domestic currency. Since end-2024, net open FX positions have trended upward, culminating in the first net long position in August 2025, the first since pre-COVID-19. This shift has been supported by lower FX market volatility, a relatively stable domestic currency, and tighter system liquidity, reflecting improved conditions for FX risk management.[81] Notwithstanding the increase in FX risk, exposures remained largely contained and comfortably within prudential limits.[82]

Liquidity Risk

Liquidity risk improved over the year, underpinned by higher liquid asset holdings relative to total assets and short-term liabilities. The Liquidity Coverage Ratio showed that DTIs remained resilient to short-term funding shocks, with all institutions maintaining ratios above the 100.0 per cent regulatory benchmark at end-2025.[83] At end-2025, total Jamaica dollar LCRs ranged from 151 to 327 per cent for most DTIs, compared with 141 to 281 per cent at end-2024, reflecting increases in both high-quality liquid assets (HQLAs) and net cash outflows. This range excluded three DTIs with unusually high LCRs due to differences in business models and market positioning (see **Figure 2.13**).[84]

2.2.2 Securities Dealers Sector Vulnerabilities

Securities dealers sector vulnerabilities remained moderate in 2025, underpinned by notable improvements in interest rate and counterparty risks. Interest rate risk declined sharply, falling to a rank of 4 at end-2025, from 9 at end-2024, reflecting a more cautious matu-

[80] The net open (FX) position across the selected foreign currencies for each institution is the sum of foreign currency spot position, net forward position and the foreign currency guarantees that are certain to be called and likely irrevocable. The spot position is calculated as foreign currency assets less foreign currency liabilities and capital items.

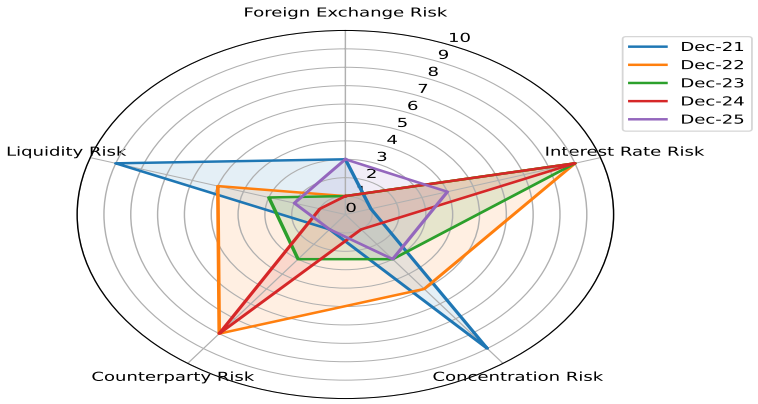
[81] see **Bank of Jamaica Signals Tightening in Monetary Policy**

[82] These positions were within the prescribed range of +15 per cent/-25 per cent established by the Bank.

[83] LCR is a requirement under Basel III whereby banks are required to hold an amount of high-quality liquid assets that's enough to fund cash outflows for 30 days.

[84] These outlier institutions reported LCRs of 495 per cent, 766 per cent, and 822 per cent, respectively. They primarily comprise banks whose business models focus exclusively on corporate banking or are otherwise smaller institutions. Corporate banking focused institutions typically experience lower and more predictable cash outflows, enabling them to maintain high LCRs with relatively lower liquidity risk. Meanwhile, smaller institutions, often with limited competitive lending capacity, tend to hold a larger portion of their liquid funds in HQLAs, resulting in elevated LCRs. While these high ratios indicate strong liquidity buffers, they also suggest underutilized lending capacity within the sector.

Figure 2.14
Securities Dealers sector vulnerabilities remained moderate in 2025, with FX and concentration risks as the primary sources of exposure.



Source: BOJ

Risk exposure indicators: [1] Liquidity Risk - Liquid assets/total assets, liquid assets/short-term liabilities, repo liabilities/total liabilities, borrowings/total liabilities. [2] Foreign Exchange Risk - NOP/capital, FX liabilities/total liabilities. [3] Interest Rate Risk - Cumulative maturity gap < 30 days, < 90 days, < 365 days/Assets, DVBP/Capital. [4] Concentration Risk - Equity investments/total investments, government securities/total investments, investments/total assets. [5] ounterparty Risk - (Loans + receivables + non-government securities)/total assets.

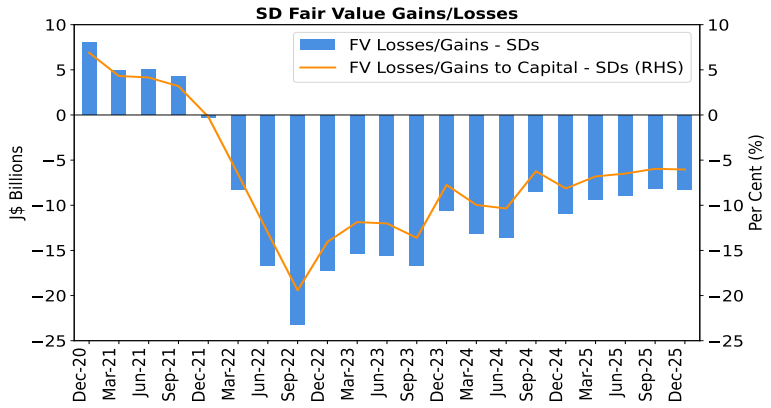
rity profile. This reflected SDs shifting towards shorter-term investments to limit duration exposure and hedge against uncertainty surrounding the future path of interest rates, while maintaining flexibility to reprice portfolios and benefit from relatively favourable short-term yields on a risk-adjusted basis (see **Figure 2.14**).[85]This rebalancing reduced the sensitivity of balance sheets to changes in yields on longer-duration government securities.

SDs' fair value losses also improved in 2025, supported by generally stable macrofinancial conditions and a strategic shift toward safer, lower-risk investment positions, which dampened valuation pressures relative to the previous year. Specifically, fair value losses declined by 24.3 per cent to $8.3 billion, resulting in an improvement of 2.1 percentage points in the ratio of losses to capital to 6.0 per cent at end-2025, compared to end-2024 (See **Figure 2.15**).

Counterparty risk also fell significantly, to a rank of 1 at end-2025 from 8 at end-2024, as exposures to private-sector counterparties and non-

[85] The shortening of SDs' investment maturities was driven by a reallocation toward short-term instruments. Holdings in the 1–30 day bucket increased by 85.0 per cent to $205.5 billion at end-2025, relative to end-2024, while on-call placements declined modestly by 6.0 per cent to $77.1 billion. In contrast, exposures at longer tenors contracted sharply, with investments in the 31–90 day bucket falling by 43.0 per cent to $62.1 billion, the 91–180 day bucket by 53.0 per cent to $35.3 billion, and the 181–365 day bucket by 40.0 per cent to $56.2 billion.

Figure 2.15
SDs' unrealized fair value losses declined in 2025, supported by stable macrofinancial conditions and portfolio rebalancing.



Source: BOJ

government securities declined relative to total assets. In particular, the ratio of loans, receivables, and non-government securities to total assets fell by 2.9 percentage points to 60.2 per cent at end-2025, relative to end-2024. Notwithstanding this improvement, these exposures represented a significant portion of SDs' assets and therefore remained a key area of vulnerability, should any of these exposures go into default. This vulnerability underscores the need for continuous monitoring and prudent credit management.

Over the review period, there were modest increases in foreign exchange, concentration and liquidity risks. In particular, FX risk rose to a rank of 3 from 1, despite a narrowing of the sector's net open long FX position to 21.9 per cent of capital at end-2025, from 25.5 per cent at end-2024. The increase in the FX risk rank was driven by SDs' substantial gross foreign-currency exposures.[86] Despite a modest decline in FX liabilities relative to total liabilities, balance sheets were more sensitive to exchange rate movements and valuation changes, which contributed to the higher FX risk rank. Concentration risk also increased slightly as GOJ securities and other market instruments continued to account for a significant share of balance sheets. Meanwhile, liquidity risk rose slightly to a rank of 2 at end-2025, from 1 at end-2024, re-

[86] At end-2025, FX liabilities stood at 356.4 billion, down from $363.5 billion at end-2024, while total liabilities were $809.8 billion, slightly lower than $810.6 billion at end-2024. As a result, the ratio of FX liabilities to total liabilities declined slightly to 44.0 per cent from 44.8 per cent, indicating that, despite a modest decline in relative size, gross foreign-currency exposures remained substantial and contributed to balance sheet sensitivity to exchange rate movements.

flecting continued reliance on short-term funding and repo markets.[87] Notwithstanding, the sector's liquidity buffers remained sufficient, with unencumbered assets totalling $52.4 billion as at 26 December 2025, demonstrating adequate capacity to meet obligations and maintain access to BOJ liquidity support.

Nonetheless, vulnerabilities persisted due to SD's sizable investment portfolios and significant holdings in GOJ securities, leaving the sector exposed to market risks.[88] While the sector continued to benefit from a moderation in yields at end-2025, a reversal could increase market volatility, leading to renewed fair value losses and triggering heightened collateral calls, as was observed in 2022 and in a few minor episodes thereafter.[89] These exposures underscored the need for ongoing risk monitoring, as the sector's balance sheets remained sensitive to interest rate movements, price fluctuations and market-driven collateral requirements.

Overall, pressures from the impact of modest increases in FX, concentration, and liquidity risks were more than offset by reductions in interest rate and counterparty risks. Furthermore, the sector remained well positioned to withstand adverse market shocks, with strong statutory capital, robust liquidity and active risk management.

2.2.3 Insurance Sector Vulnerabilities

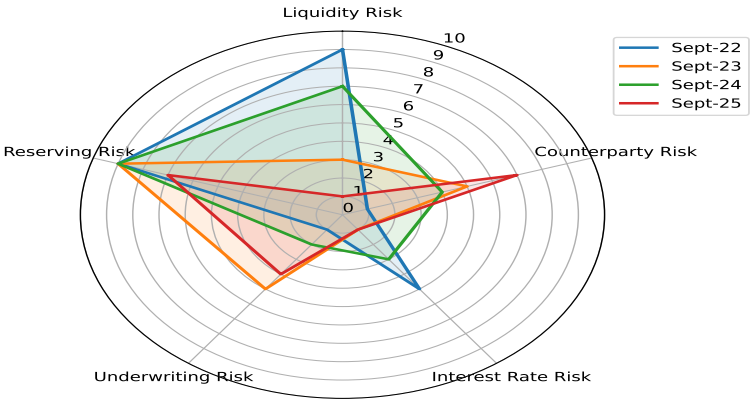
In 2025, the insurance sector vulnerabilities remained moderate across life and general insurance segments, with notable differences in risk drivers and sensitivity profiles based on their business models. While the impact of Hurricane Melissa, which made landfall in Jamaica in October 2025, is not captured in end-September 2025 financials, preliminary indicators suggest that vulnerabilities are likely to remain largely contained. This assessment is supported by the existence of proactive risk management, adequate reinsurance arrangements, and a generally stable macrofinancial environment, despite expected increases in claims, particularly for general insurers.

[87] Repo liabilities accounted for 81.6 per cent of total liabilities at end-2025, up from 81.4 per cent at end-2024.

[88] At end-2025, *public sector domestic securities* (GOJ instruments) accounted for approximately 24.3 per cent of the sector's total investment portfolio, highlighting the concentration of holdings in GOJ instruments and the associated market risk exposure.

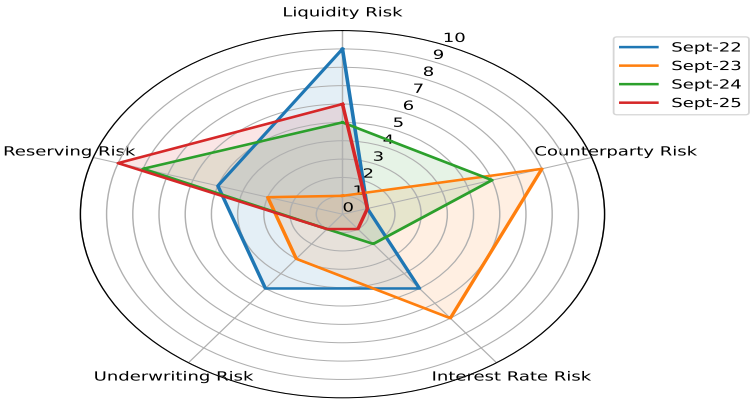
[89] On 17 June 2022, collateral calls issued by the Jamaica Central Securities Depository (JCSD) reached a peak value of $6.3 billion, compared to a 3-year average of approximately $0.5 billion at end-2023, reflecting heightened market volatility. Around this period, GOJ global bond yields spiked, while bond prices declined, with average bid/ask prices falling by 6.3 per cent, highlighting the sensitivity of SDs' investment portfolios to market fluctuations, particularly GOJ global bond prices.

Figure 2.16
General insurers' vulnerabilities remained moderate in 2025, driven mainly by counterparty and reserving risks.



Source: BOJ **Risk exposure indicators:**[1] Liquidity Risk - Insurance contract liabilities/cash & short-term assets. [2] Counterparty Risk - Reinsurance Assets/total assets. [3] Interest Rate Risk - Investment assets/insurance liabilities [4] Underwriting Risk - Insurance service expenses/insurance revenue. [5] Reserving Risk - Insurance contract liabilities/total assets.

Figure 2.17
Life insurers' vulnerabilities remained moderate in 2025, driven mainly by reserving and liquidity risks.



Source: BOJ

Risk exposure indicators: [1] Liquidity Risk - Insurance contract liabilities/cash & short-term assets. [2] Counterparty Risk - Reinsurance assets/total assets. [3] Interest Rate Risk - Investment assets/insurance liabilities. [4] Underwriting Risk - Insurance service expenses/insurance revenue. [5] Reserving Risk - Contractual service margin (CSM)/insurance liabilities.

At end-September 2025, general insurers exhibited a mixed risk profile. Liquidity risk improved markedly, with the risk rank falling to 1, from 7 at end-September 2024, reflecting higher cash and short-term asset positions (see **Figure 2.16**). This outturn was supported by a decline in the insurance liabilities to cash and short-term assets ratio to 3.29 from 4.79 at end-September 2024.[90] In addition, interest rate risk declined further, with the risk rank easing to 1 from 3 at end-September 2024. This lower risk rank was supported by a reduction in the investment assets to insurance contract liabilities ratio to 0.80 from 0.97, as general insurers benefited from portfolio adjustments and policy rate easing in early 2025, which moderated yields on GOJ securities.[91,92] These developments supported stable investment returns and helped maintain controlled expense ratios.[93] Reserving risk also improved, with the risk rank declining to 7 at end-September 2025 from 9 in the previous year, reflecting conservative claims reserving practices relative to total assets. In particular, the ratio of insurance contract liabilities to total assets remained broadly stable, decreasing slightly to 54.6 per cent at end-September 2025, from 54.9 per cent at end-September 2024, signalling a re-

[90] The decline in the ratio of insurance liabilities to cash and short-term assets was mainly due to stronger growth in *Cash and Cash Equivalents*, which increased by 59.3 per cent ($7.1 billion) at end-September 2025, compared with a 9.2 per cent ($5.3 billion) rise in insurance contract liabilities.

[91] Investment assets contracted by 9.9 per cent at end-September 2025, while insurance contract liabilities increased by 9.2 per cent, contributing to the decline in the investment assets to liabilities ratio.

[92] During the year, the sector reallocated its portfolio toward longer-term GOJ securities, term deposits, and repos, while reducing holdings of short-term GOJ securities (≤1 year). This strategy reflected the generally favourable interest rate environment and policy rate easing in early 2025, which encouraged modest portfolio shifts to preserve profitability. Notably, the subsector's portfolio remained concentrated in term deposits and repos—particularly with other domestic financial institutions—which accounted for just over 45.0 per cent of total investments at end-September 2025. These adjustments helped generate modest gains in Net Investment Results, particularly in the first half of the year, and contributed to reduced unrealized fair value losses on previously acquired positions.

[93] General insurance profitability was supported by a 21.4 per cent ($4.9 billion) increase in the Insurance Service Result for the year ended September 2025, reflecting stronger declines in Insurance Service Expenses (37.7 per cent or $14.6 billion) and net expenses from reinsurance contracts held (21.8 per cent or $9.4 billion), relative to an 8.1 per cent rise in total insurance revenue. This drove a significant improvement in the sector's expense ratio, which fell to 62.3 per cent at end-September 2025 from 95.3 per cent at end-September 2024, while the Net Investment Result declined modestly by 5.6 per cent ($0.7 billion), contributing to stable overall investment returns.

duction in the risk of underestimating liabilities.[94]

Notwithstanding, the impact of these improvements was offset by increases in counterparty and underwriting risks for general insurers. In particular, the counterparty risk rank rose to 7 from 4 at end-September 2024, driven by continued reliance on reinsurers. This was evidenced by reinsurance contract held assets accounting for 17.3 per cent of total assets at end-September 2025, up from 15.0 per cent for the corresponding period of the prior year.[95] The increase in reinsurance holdings reflected continued reliance on external risk transfer to manage underwriting exposures, particularly in property and motor vehicle lines. While the increase in reinsurance holdings supported risk mitigation, it also heightened counterparty concentration. This is in a context where any delays or shortfalls in recoveries could have material implications for liquidity and capital adequacy in adverse events. Underwriting risk also increased moderately, with the risk rank rising to 4, from 2 at end-September 2024, amid modest pressures in property and motor vehicle lines, driven by higher-than-expected claims. However, prudent expense management helped contain the impact on profitability.[96] Specifically, the ratio of insurance service expenses to total insurance revenue improved slightly, falling to 0.39 at end-September 2025 from 0.43 a year earlier.[97]

Notably, life insurers displayed a contrasting risk profile. Counterparty risk declined significantly for life insurers, with the risk rank falling sharply to 1 from 6 at end-September 2024, reflecting reduced reliance on reinsurers (see **Figure 2.17**). Reinsurance contract held assets accounted for less than 0.1 per cent of total assets at end-September 2025, down by approximately 48.0 per cent from the prior year.[98] Interest rate and underwriting risks remained low, with both risk ranks at 1, supported by effective asset–liability management

[94] Insurance contract liabilities grew by 9.2 per cent year-on-year to $62.8 billion, while total assets increased by 9.8 per cent to $115.0 billion. The stability of the liabilities-to-assets ratio reflected conservative reserving practices and careful management of reinsurance recoverables, which mitigated the risk of underestimating liabilities. Maintaining an appropriately sized reserve relative to total assets reduces the likelihood that claims obligations could exceed available resources, helping to protect solvency and ensure that the insurer can meet future policyholder obligations as they fall due.

[95] Reinsurance contract held assets grew 26.8 per cent year-on-year to $19.9 billion, outpacing total asset growth of 9.8 per cent to $115.0 billion.

[96] Underwriting risk measures the potential for losses arising from insurance policies underwritten by the insurer. Higher underwriting risk indicates greater exposure to unexpected claims or deviations from pricing and risk selection assumptions.

[97] Insurance service expenses declined by 2.4 per cent year-on-year to $9.51 billion, while total insurance revenue increased by 7.9 per cent to $24.22 billion.

[98] *Reinsurance contract held assets* declined by 48.4 per cent year-on-year to $0.2 billion, while total assets grew 9.3 per cent to $499.4 billion. The movement largely reflects the already minimal share of reinsurance contract held assets relative to the industry balance sheet and stronger growth in total assets.

and stable expense ratios. More specifically, the ratio of investment assets to insurance contract liabilities remained relatively unchanged at 1.34 at end-September 2025, relative to end-September 2024, reflecting a well-aligned asset base to cover policy liabilities.[99] Similarly, the ratio of insurance service expenses to total insurance revenue improved slightly to 0.73, from 0.77 at end-September 2024, indicating continued prudent expense management that helped contain underwriting pressures.[100]

By contrast, liquidity risk increased slightly, with the risk rank rising to 6 at end-September 2025, from 5 at end-September 2024, driven by faster growth in insurance contract liabilities relative to short-term assets. In particular, the ratio of insurance contract liabilities to cash and short-term assets rose to 8.02 at end-September 2025, from 7.73 at end-September 2024, reflecting a modest tightening of liquidity.[101] Reserving risk also increased, with the risk rank rising to 9, from 8 at end-September 2024, due to conservative assumptions embedded in the Contractual Service Margin (CSM).[102] The CSM to insurance contract liabilities ratio declined to 0.14 at end-September 2025 from 0.24 at end-September 2024, which was driven by a sharp decline in the CSM concurrent with growth in policy liabilities.[103] This outturn reflected a reduced margin to absorb potential future claims.

Overall, at end-September 2025, while some risk indicators shifted modestly across both sub-sectors, insurance sector vulnerabilities remain manageable. General insurers continued to show relative stability in underwriting and interest rate exposures, although high reliance on reinsurance presented a potential source of counterparty as well as liquidity risks. Life insurers exhibited heightened sensitivities in liquidity and reserving risks, but their overall risk profile remained contained. The resilience of both sub-sectors was underpinned by prudential oversight, insurers' conservative balance sheet management, and reinsurance arrangements.

[99] Investment assets grew 8.6 per cent year-on-year to $392.9 billion, while *insurance contract liabilities* increased by 8.3 per cent to $292.4 billion.

[100] *Insurance service expenses* increased by 2.7 per cent to $15.9 billion, while total insurance revenue rose by 8.0 per cent to $21.6 billion, resulting in a slight improvement in the expenses-to-revenue ratio to 0.73.

[101] Insurance contract liabilities grew 8.3 per cent year-on-year to $292.4 billion, while cash and cash equivalents increased by 4.3 per cent to $36.5 billion.

[102] The Contractual Service Margin represents unearned profit that a life insurer expects to earn from its insurance contracts over time under IFRS 17 accounting. Conservative assumptions embedded in the CSM, such as higher future claims or lower expected investment returns, increase reserving risk because they reflect a cautious approach to ensuring sufficient liabilities are held to meet future obligations. A higher reserving risk indicates sensitivity to potential underestimation of insurance liabilities.

[103] The CSM decreased by 35.6 per cent year-on-year to $42.3 billion, while insurance contract liabilities grew 8.3 per cent to $292.4 billion.

2.3 Payment System Developments

During 2025, the payment system remained broadly resilient, though specific events highlighted vulnerabilities. The payment system underpins the efficient transfer of funds across the economy. Its increased reliance on digital and real-time platforms has enhanced efficiency and interoperability across payment services, supporting a more interconnected and integrated payments ecosystem. Disruptions to the payment system, whether operational, technological, or weather-related, can affect consumer confidence and amplify vulnerabilities throughout the system.

Retail payment channels remained efficient and stable throughout the review year. Automated Banking Machines (ABMs) and Point-of-Sale (POS) networks are critical for maintaining access to funds and supporting daily transactions. The value of ABM activities increased to $110.2 billion as at December 2025, up from $76.7 billion in December 2024.[104] Similarly, the value of POS transactions rose to $101.2 billion as at December 2025 relative to $89.8 billion as at December 2024. However, the POS-to-ABM ratio moderated to 1.46 in December 2025 from 1.68 in December 2024. These increases suggest sustained consumer spending activity and continued confidence in electronic and cash-access payment infrastructure, reflecting the resilience and reliability of the retail payments ecosystem (see **Figure 2.18**).

Retail payment infrastructure remained broadly stable during the review year, though Hurricane Melissa temporarily disrupted physical access points. The ABM network recorded only a marginal net increase, rising to 784 terminals in December 2025 from 782 in December 2024. However, the decommissioning of 16 terminals in October 2025 due to hurricane-related damage temporarily reduced cash-access points.[105] This event underscored that infrastructure shocks can prompt increased reliance on cash, heightening liquidity-management challenges for both customers and financial institutions. Notwithstanding this decline, the installation of 12 replacement terminals by November 2025 partially mitigated the associated downtime. POS terminals also expanded, increasing to 34,151 in December 2025 from 31,836 in December 2024, indicating continued deepening

[104] ABM and POS activities consist of both debit and credit transactions.

[105] Decommissioning refers to ABMs being deactivated or offline.

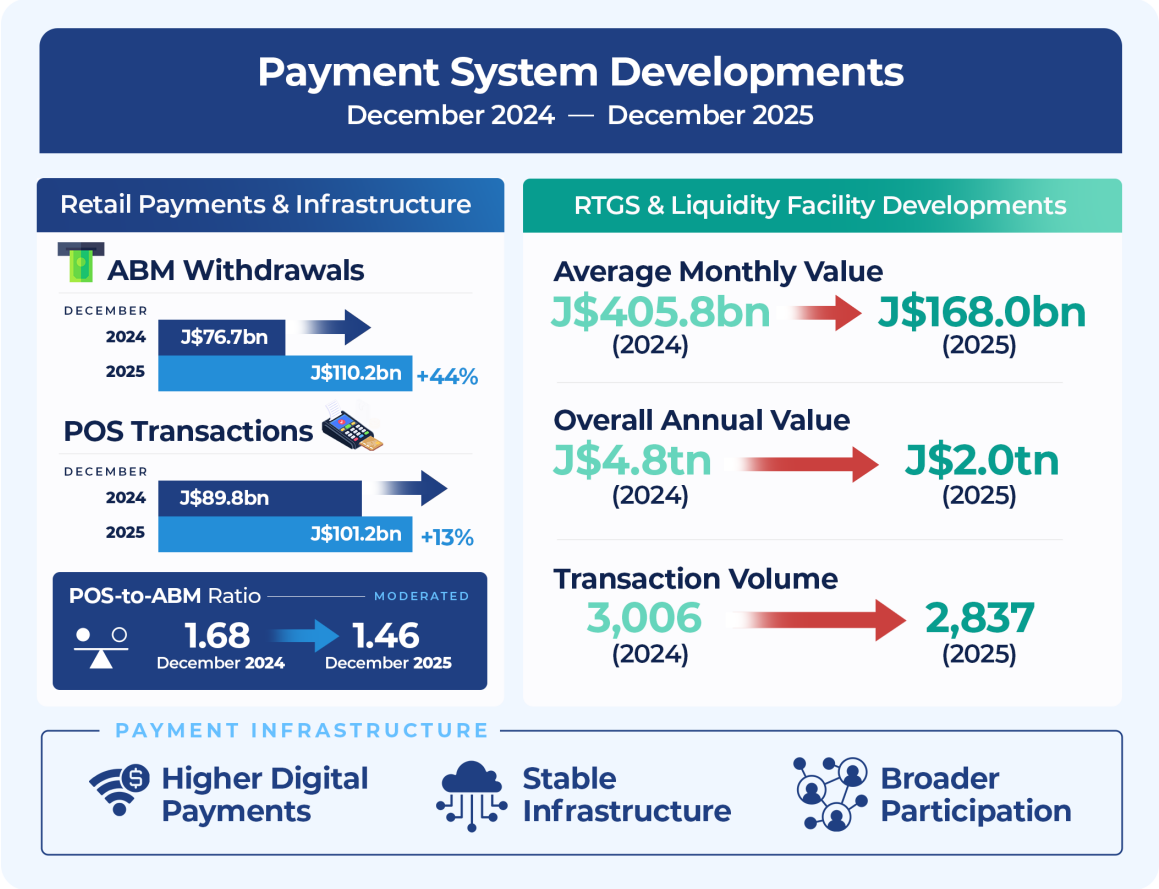
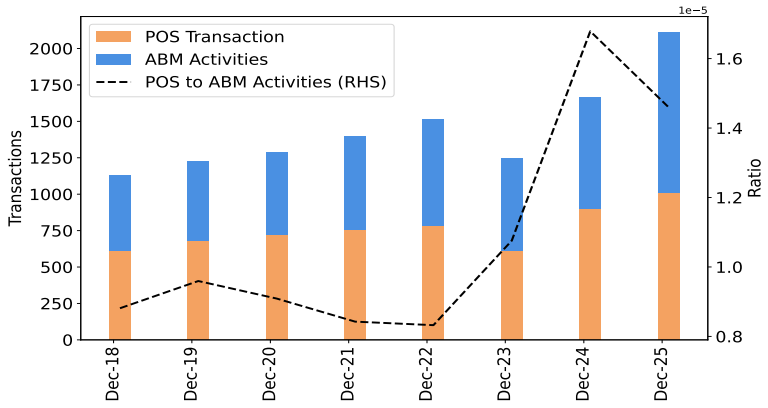
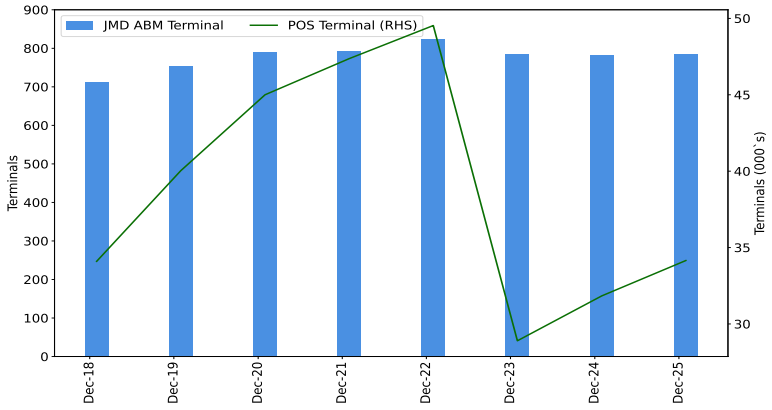


Figure 2.18
ABM Activities and POS Transactions increased however POS-to-ABM ratio moderated for December 2025



Source: BOJ

Figure 2.19
ABM and POS terminals increased for 2025



Source: BOJ

of electronic payment penetration (see **Figure 2.19**).

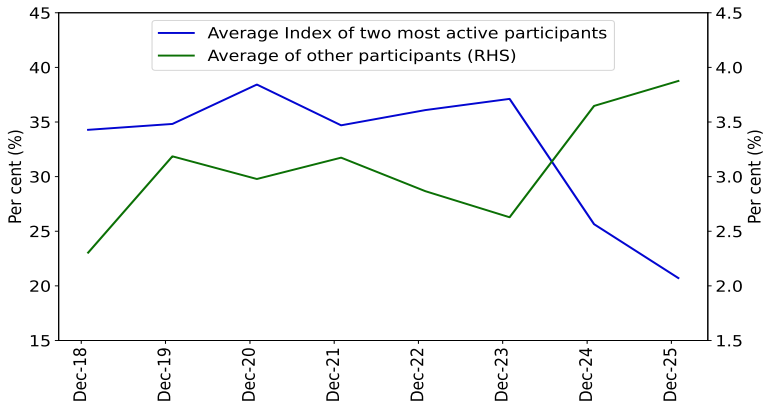
Payment systems are central to liquidity management within the financial system, particularly through the settlement of high-value interbank transactions. The average monthly and overall value of the BOJ intra-day liquidity facility, which supports Real Time Gross Settlement (RTGS), decreased to $168.0 billion and $2.0 trillion, respectively, for 2025 relative to $405.8 billion and $4.8 trillion for 2024. Additionally, the monthly transaction volumes decreased for the review year. In particular, the number of intra-day liquidity transactions decreased to 2 837 for 2025 from 3 006 for 2024, reflecting strong Jamaica Dollar liquidity conditions and improved liquidity management by institutions.[106]

Concentration risk within the RTGS system, as measured by the Large System Concentration Risk Index (LSCRI), moderated during 2025. [107] Notably, the two most active participants continue to dominate payment activity, accounting for an average monthly share of 20.7 per cent of payment activity, compared to 25.6 per cent in 2024. The monthly average share of activity for smaller participants improved to 3.8 per cent at end-2025, relative to 2.5 per cent at

[106] The BOJ intraday liquidity facility provides funds to financial system participants to minimize liquidity exposure arising from timing mismatches between incoming and outgoing payment activities.

[107] The LSCRI records the share of payment activity between: a) the two most active participants in relation to all other participants; and b) all other participants in relation to the two most active participants. The calculation excludes the activities of the Accountant General Department, BOJ and Clearing Houses who are also participants in the RTGS system.

Figure 2.20
Concentration Risk moderated for December 2025



Source: BOJ

end-2024. This shift suggests a modest broadening of participation within the RTGS network, reducing system concentration risk and enhancing overall payment system resilience by limiting reliance on a small number of dominant institutions.[108] Notwithstanding the impact of Hurricane Melissa, the payment infrastructure remained broadly operational and efficient in 2025 (See **Figure 2.20**).

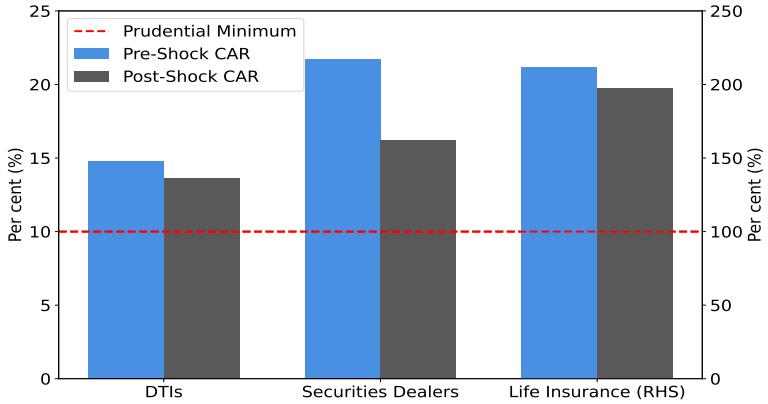
2.4 Stress Testing Resilience and Regulatory Actions in 2025

2.4.1 Assessment of Systemic Resilience Through Stress Testing

During 2025, Bank of Jamaica conducted routine stress tests to assess the capacity of the domestic financial sector to absorb market, liquidity and credit risk shocks. The results indicated broad-based resilience to a range of macro financial shocks, reflecting strong capitalization and ongoing enhancements in prudential oversight. In particular, six single-factor stress tests, an aggregated stress test as well as a second-round impact assessment were undertaken. In line with the assessed vulnerabilities of the domestic financial system, the analysis targeted market and liquidity risks for securities dealers and insurance companies, while credit risks were also

[108] High concentration can exacerbate maturity mismatch. Banks may rely heavily on short-term funding sources (e.g., interbank borrowing) to finance long-term assets (e.g., mortgages). If confidence wanes or liquidity tightens, these banks could face funding difficulties, potentially triggering a crisis.

Figure 2.21
Post Shock CAR for DTIs, Securities Dealers and Insurance Companies demonstrated resilience to the assessed shocks



Source: BOJ

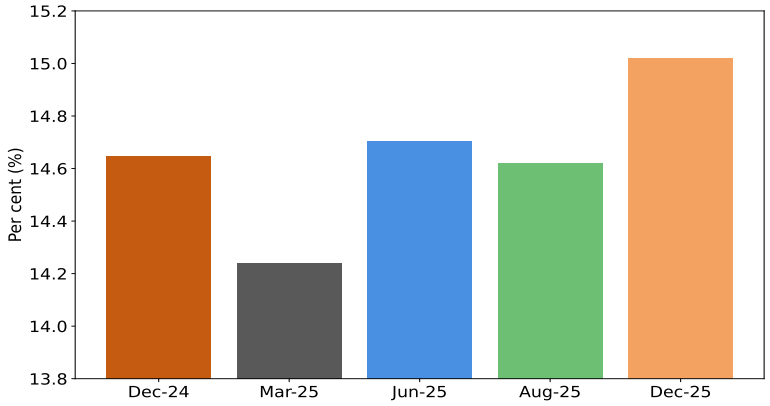
assessed for DTIs. The simulations evaluated the vulnerabilities of financial institutions to increases in bond yields, higher funding costs, declines in equity prices, foreign exchange rate depreciation, deposit and repo withdrawals, rising non-performing loans and interbank contagion effects. The stress testing shocks were applied to the balance sheets of DTIs and securities dealers at December 2025 while the shocks were applied to balance sheets of insurance companies at September 2025.[109] Furthermore, the evolution of these vulnerabilities for DTIs and securities dealers over the period December 2024 to December 2025 were demonstrated and a reverse stress testing exercise undertaken to identify the breakpoints at which institutions would breach prudential and early warning benchmarks.

[109] The stress testing shocks were derived from historical time series data using 95th percentile values to capture tail risks—low probability, high impact events. These shocks were further refined through expert judgment to reflect current and anticipated domestic and global macroeconomic conditions.

2.4.2 Key Results

The consolidated risk assessment indicated that the DTI, securities dealers and insurance sub-sectors maintained sufficient capital to absorb the contemplated macrofinancial shocks at their respective reporting periods. Specifically, DTIs recorded a post shock CAR of 13.6 per cent, down 1.2 percentage points, while the CAR for securities dealers declined by 5.5 percentage points to 16.2 per cent, remaining in compliance with prudential and

Figure 2.22
DTIs post-shock CAR performance improved over the period December 2024 to December 2025 driven by recapitalization and waning of credit risk exposures



Source: BOJ

early warning benchmarks.(see **Figure 2.21**).[110] DTIs were primarily affected by credit related losses, whereas the hypothetical pass-through to capital from equity risk was the least material. In contrast, securities dealers were most susceptible to interest rate risk and liquidity pressures.

Within the insurance sector, the results at end-September 2025 showed that the CAR for life insurers declined by 14.2 percentage points but remained comfortably above the prudential minimum.[111] This outcome is broadly unchanged relative to the corresponding period in 2024.

However, while capital levels across these sub-sectors remained broadly adequate, specific vulnerabilities existed within select financial groups that may require additional capital support and strengthened risk management practices to ensure ongoing stability.

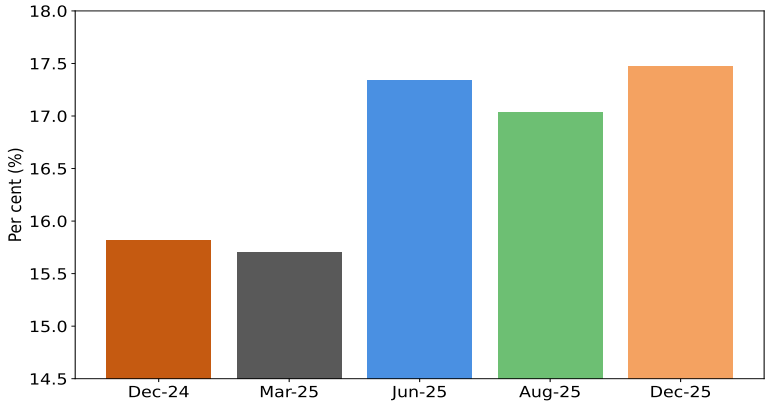
2.4.3 Evolution of Vulnerabilities

The evolution of vulnerabilities for DTIs and securities dealers fell over the period December 2024 to December 2025, due to recapitalization by large entities and waning of key risk exposures amid portfolio adjustments. For DTIs, the sector's post-shock CAR improved by 0.4 percentage points over the period, reflecting a combination of capital injections by large entities and a reduction in credit risk exposures (see **Figure 2.22**). For securities dealers, the post-shock CAR increased by 1.7 per-

[110] The prudential benchmark for DTIs and securities dealers is 10.0 per cent, while the early warning minimums are 11.0 per cent and 14.0 per cent, respectively.

[111] The life insurance sector uses the LICAT ratio to measure capital adequacy. The prudential minimum for this indicator is 100.0 per cent.

Figure 2.23
Securities dealers post-shock CAR performance was more resilient over the period December 2024 to December 2025 driven primarily by significant capital injections by the largest entity



Source: BOJ

centage points, primarily driven by a significant increase in capital by the largest entity in the middle of the year, as well as portfolio rebalancing and improved liquidity management practices by the industry as a whole (see **Figure 2.23**). These measures which were undertaken to reduce vulnerabilities underscored the usefulness of stress testing in identifying and managing systemic risks as well as encouraging proactive risk management practices.

2.4.4 Reverse Stress Testing

Reverse stress testing is a powerful tool that identifies the specific conditions under which financial institutions would fail to meet regulatory capital requirements. By simulating extreme but plausible scenarios, reverse stress testing helps to uncover vulnerabilities that may not be evident under normal stress testing conditions. As at end-December 2025, breakpoint analysis indicated that DTIs and securities dealers exhibited fairly strong resilience to the assessed risks. Specifically, the results indicate that all DTIs would remain above the early warning threshold of 11.0 per cent for shocks not exceeding an increase in bond yields of 145 bps, an increase in liability outflows of 20.0 per cent, an increase in non-performing loans of 133.0 per cent or a decrease in equity prices of 269.0 per cent. Meanwhile, all securities dealers would remain prudentially solvent for shocks not exceeding an increase in bond yields of 185 bps, an increase in liability outflows of 37.0 per cent or a decrease in equity prices of 77.0 per cent. Notably, these breakpoints were significantly higher than the outturns observed for these indicators since

2010, indicating more than adequate resilience across the financial system for plausible scenarios.

2.4.5 Second Round Impact Simulation

Simulations were also conducted to evaluate the implications of the impact of the aggregated shocks on the financial system network. More specifically, a contagion stress test examined the potential fallout for other institutions, stemming from the default of a financial institution within the financial system. The average Index of Contagion (IoC) for the system signalled that a defaulting institution would, on average, cause a 0.7 per cent loss in capital for its counterparties.[112, 113] The individual IoC ranged between 0.0 per cent and 2.7 per cent (see **Figure 2.24**). Notably, the largest IoC scores belonged to the two SIFIs. The average IoC for these SIFIs was 2.4 per cent, emphasizing the outsized role that these institutions play with regard to the system's contagion risk.

[112] The lower average IOC relative to previous quarters is due to a revision to the network templates as well as the inclusion of the ICs in the stress testing framework.

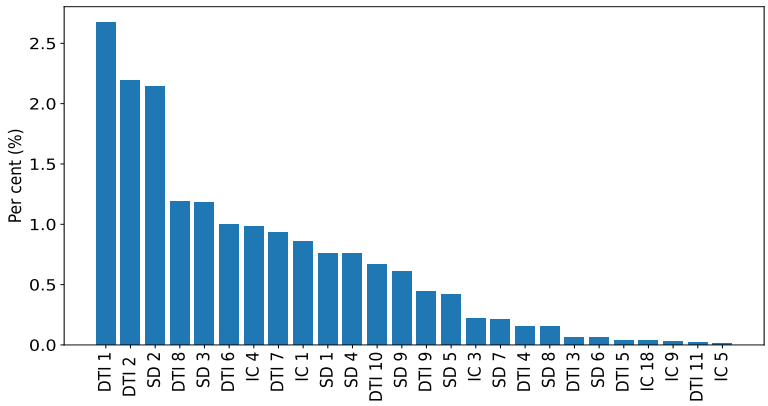
[113] An average loss of 2.4 per cent was recorded at end-2024.

2.4.6 Regulatory Initiatives Implemented Across the Financial Sector in 2025

Overall, the financial system remained broadly stable in 2025, reflecting the continued macroeconomic stability observed particularly during the first three quarters of the year. Despite the impact of Hurricane Melissa in the December 2025 quarter, financial soundness indicators and stress testing results continued to signal resilience across the system. This performance was supported by a combination of policy measures, enhanced supervisory oversight, as well as strengthened collaboration between financial institutions and financial sector regulators.

In 2025, Jamaica's financial regulators implemented several measures that strengthened the resilience of deposit-taking institutions, securities dealers, and insurers before and after Hurricane Melissa. Key initiatives included the BOJ's issuance of updated corporate governance standards for DTIs and financial holding companies to reinforce risk oversight and board accountability. In addition, the Financial Services Commission introduced cyber risk management guidance across the insurance, securities, and pensions sectors to bolster operational resilience. The FSC also implemented a revised fee framework for securities dealers to enhance supervi-

Figure 2.24
IoC of DTIs, Securities Dealers and Insurance Companies from credit and funding simulation



Source: BOJ

sory capacity.

Following the hurricane, the BOJ supported sector stability through targeted monetary and financial stability actions, including holding the policy rate to contain inflationary pressures, providing emergency liquidity support to stabilize the value of the domestic currency, waiving penalties and RTGS fees as well as conducting system wide stress tests which confirmed strong capital and liquidity buffers across DTIs, SDs and insurers. An important regulatory measure facilitated by the Bank of Jamaica was loan moratorium arrangements by DTIs for affected customers. In addition, the Bank undertook targeted interventions which were aimed at maintaining credit quality and supporting liquidity. Collectively, these measures contributed meaningfully to maintaining financial stability throughout the year.

Box 2.1: A Residential Real Estate Price Index (RREPI) for Jamaica: Methodology and Market Developments

The RREPI measures the change in residential property prices over time. It also supports the Bank's macroprudential surveillance toolkit by highlighting potential valuation pressures that may affect household balance sheets and financial sector resilience. Following methodological enhancements and expansion of the data framework, the RREPI was reintroduced to support routine monitoring of housing market conditions. Recent movements in the RREPI suggested that residential property price growth remained elevated but uneven across different regions in Jamaica.

Data Coverage

The RREPI was constructed using quarterly transaction-level data obtained from the National Housing Trust (NHT) and the Realtors Association of Jamaica (RAJ) covering the period September 2010 to September 2025. Both datasets contained transactions spanning a range of price points. However, the NHT data were more heavily weighted toward lower- to mid-priced housing, reflecting the institution's focus on facilitating housing solutions for lower income contributors through concessional financing and scheme development. The RAJ data captured a broader distribution of market-based transactions, particularly at the upper end of the market. The combined dataset contained information on sale prices, geographic location, as well as key structural characteristics of properties including dwelling type, size and the number of bedrooms and bathrooms. Together, both sources provided broad coverage of Jamaica's residential property market and supported the development of quality-adjusted price measures.

RREPI Framework

Given the heterogeneous nature of housing markets, the RREPI was compiled using a hedonic time-dummy regression framework to estimate quality-adjusted price movements while controlling for differences in property characteristics.[a] To limit excessive revisions of the index, as new data become available, the model was estimated using a four-quarter rolling window, with successive estimates chain-linked to previously calculated index levels.[b] Separate models were estimated for Kingston & St. Andrew, St. Catherine and the Rest of Jamaica. These models were then aggregated into an All-Jamaica RREPI using transaction-value weights that were periodically updated to reflect changes in market activity.[c]

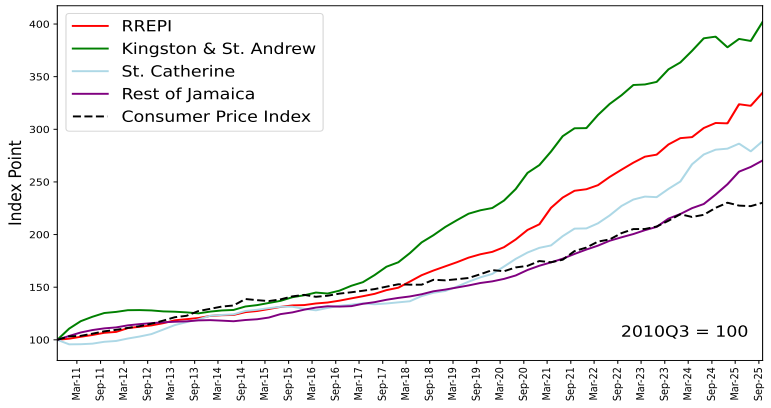
Recent Developments in the RREPIs

The RREPI recorded continued growth in residential property prices during 2025. More specifically, the All-Jamaica index increased by 9.4 per cent, year-on-year, following a 7.1 per cent increase in the September 2024 quarter.[d] This acceleration was largely driven by a stronger price increase in the Rest of Jamaica,

which rose by 13.6 per cent, while price increases in Kingston & St. Andrew and St. Catherine were more moderate, at 3.6 per cent and 2.9 per cent, respectively (see **Figure 1.0**).[e] While growth in prices in Kingston & St. Andrew had historically outpaced other regions, recent developments suggested a broader distribution of price pressures across regions, which may have reflected a gradual re-balancing of buyer activity.

Since around 2017, residential property prices have exhibited a sustained upward trend, although the pace of appreciation varied across regions in line with evolving demand conditions and housing market dynamics. Notwithstanding these regional differences, residential property prices generally rose faster than the Consumer Price Index (CPI), an indication of persistent asset price appreciation relative to broader price developments.

Figure 1.0: Residential Real Estate Price Indices[f]

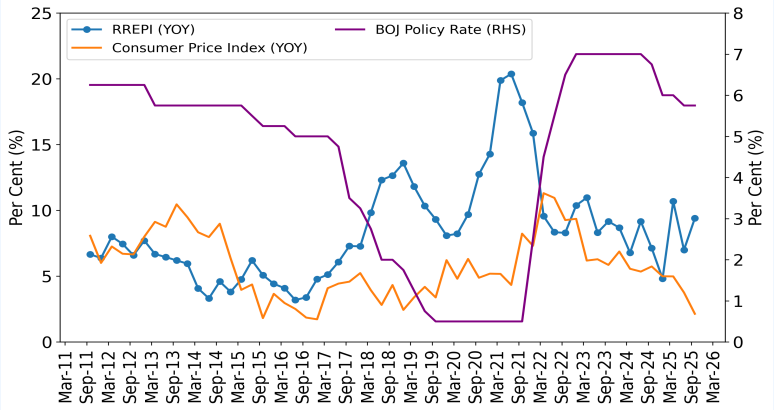


Source: BOJ

Monetary Policy, Credit Conditions and Housing Prices

Housing market developments continued to evolve alongside changes in the monetary policy environment. Changes in the policy rate influenced borrowing costs, credit conditions and housing demand. However, historical trends indicated that the relationship with residential property prices were not immediate or uniform. During the period of policy easing, between 2015 Q1 and 2019 Q3, the RREPI strengthened gradually, consistent with delayed pass-through to mortgage pricing and household purchasing decisions. More recently, following the tightening cycle that began around 2021 Q3, growth in the RREPI moderated only gradually rather than reversing sharply, pointing to a degree of stickiness in housing prices and the persistence of market adjustments even amid higher interest rates (see **Figure 2.0**).

Figure 2.0: Residential Property Prices, CPI, and BOJ Policy Rate



Source: BOJ

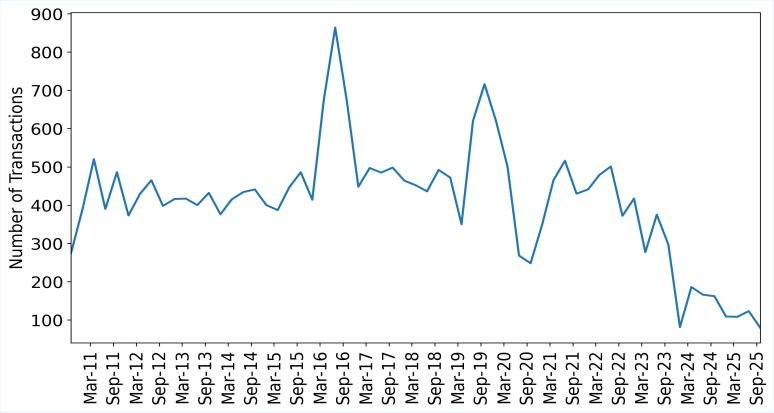
Growth in mortgage credit provided additional context for interpreting price developments, particularly given the sizeable exposure of deposit-taking institutions to residential mortgages within household lending portfolios (see **Section 2.1.2**). Periods of strong mortgage expansion were often associated with upward pressure on house prices, which reflected increased purchasing capacity, while slower credit growth tended to coincide with a moderation in price momentum. Mortgage growth, however, was typically more volatile than RREPI growth, with changes in credit conditions only gradually reflected in housing prices. While mortgage credit and residential property prices broadly exhibited co-movement over the cycle, periods of continued price growth, despite credit fluctuations, highlighted the role of non-mortgage transactions and other market drivers. Consequently, differences between mortgage credit growth and RREPI growth may emerge when non-credit-financed demand, supply constraints, or broader macrofinancial factors become more prominent. DTIs' exposure to residential mortgages implied that sustained price growth followed by sharp market corrections could affect borrower balance sheets and collateral values, underscoring the importance of monitoring both credit conditions and broader market drivers when assessing housing market developments.

Housing Supply and Market Activity

Developments in transaction volumes provided additional insight into shifts in supply-demand dynamics. Activity weakened significantly following the onset of the COVID-19 pandemic, before rebounding as economic conditions normalized (see **Figure 3.0**). From late-2022, however, transaction volumes declined coinciding with tighter domestic financial conditions. Periods of declining activity alongside elevated prices may have signalled supply constraints, while simultaneous moderation in both volume and price growth may have reflected cooling demand. More recent data suggested that transaction activity remained sub-

dued into 2024 and early-2025, indicating that the housing market continued to adjust to macroeconomic conditions. The moderation in transaction volumes alongside continued mortgage growth suggested that expansion in credit may have reflected larger average loan sizes, consistent with higher property prices, rather than an increase in transaction activity.

Figure 3.0: Trends in Transaction Volumes



Source: BOJ

Implications for Financial Stability and Policy

Recent developments in the RREPI, characterised by sustained national price growth alongside uneven regional performance and moderating transaction activity carry important implications for financial stability. Continued price increases, in an environment of subdued market activity, could signal tightening supply conditions and reduced market liquidity, which would sustain elevated property prices even as borrowing conditions tighten. While rising prices support household net worth and strengthen the value of collateral held by financial institutions, persistent valuation pressures could also increase the sensitivity of highly leveraged borrowers to future shifts in interest rates, income conditions, or credit availability.

At the same time, weaker transaction volumes alongside positive price growth suggest that housing market adjustments could be occurring gradually rather than through sharp price corrections. This dynamic would moderate near-term risks to financial institutions' balance sheets and should warrant close monitoring, as prolonged mismatches between price trends and underlying market activity could contribute to the build-up of vulnerabilities over the medium-term. In this context, the RREPI is an important analytical tool for assessing valuation dynamics, mortgage-related risks and evolving household leverage within the broader macrofinancial environment. Routine reporting of the RREPI will enhance the Bank's capacity to monitor collateral values, credit risk conditions and emerging housing market imbalances in a timely manner.

These insights would support the calibration of borrower-based macroprudential policy tools, while ongoing improvements in data coverage and methodology would further strengthen the role of the RREPI within the Bank's financial stability framework.[g]

[a] The hedonic model is estimated using the cleaned combined NHT and RAJ dataset, which is subject to standardised validation, harmonisation, and quality-control procedures prior to estimation

[b] See **Constructing Residential Real Estate Price Indices for Jamaica (2016)** for an earlier implementation of the hedonic methodology on which the current RREPI framework builds.

[c] Geographic stratification allows price dynamics to be captured within relatively homogeneous market segments, improving the accuracy and interpretability of the resulting indices.

[d] The analysis presented in this section is based on data available up to the September 2025 quarter.

[e] Property prices in Kingston & St. Andrew, St. Catherine and Rest of Jamaica increased by 8.7 per cent, 15.3 per cent and 10.6 per cent, respectively, in September 2024.

[f] The RPPI series is smoothed using the Holt-Winters double exponential method to reduce short-term volatility arising from fluctuations in transaction volumes. The smoothing is intended to limit statistical noise and improve the interpretation of underlying price trends.

[g] Borrower-based macroprudential policy tools are used to reduce the exposure of financial institutions to asset price and income shocks experienced by their debtors. Examples of these tools include loan-to-value, debt-service-to-income or loan-to-income ratios.

Box 2.2: Update on Trend in Bank Fraud in Jamaica

As DTIs, regulators and law enforcement agencies made gains in combating bank fraud amidst positive results in effected fraud controls, there was a general decline in annual bank fraud exposures during 2025. This outcome is consistent with a multi-year strengthening cycle across institutions and supervisors. In 2025, the establishment of a sector-wide cyber intelligence sharing hub further institutionalized real-time threat exchange, strengthening early warning capabilities across institutions.

For the 12 months ended December 2025, total fraud amounts reported by DTIs contracted by 18.0 per cent ($0.5 billion) to total $2.4 billion (see **Figure 1.0**), reversing the prior year's increase of 18.4 per cent ($0.5 billion). Similarly, the number of fraud occurrences declined by 58.9 per cent (63,499 events) to total 44,316 events, relative to growth of 75.5 per cent (46,383 events) during 2024. The reduction in reported fraud amounts was the first observed decline in aggregate banking fraud in over 4 years.

Figure 1.0: Stock Composition of Annual Fraud Amounts Reported ($' millions)

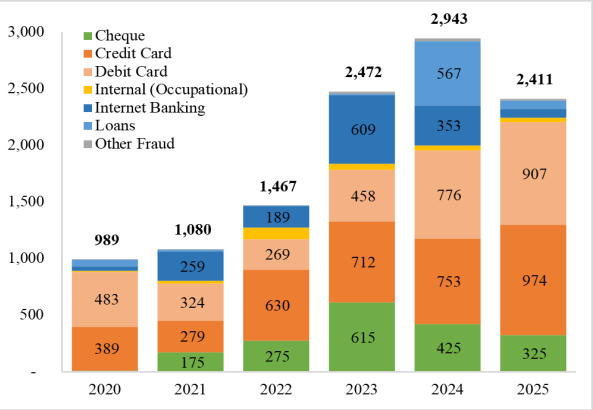
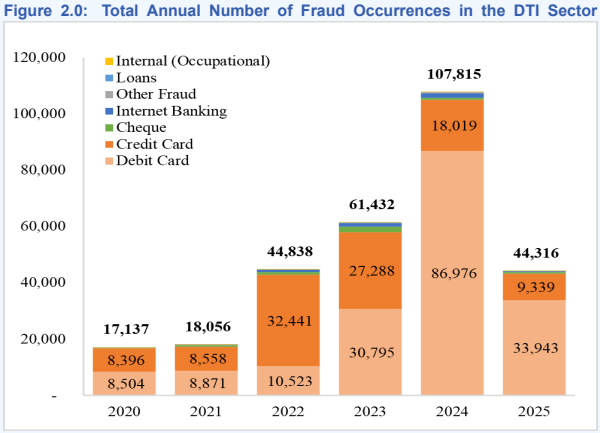


Figure 2.0: Total Annual Number of Fraud Occurrences in the DTI Sector



Source: BOJ

The general contraction in fraud amounts for 2025 was driven by a decline in loan fraud (down 87.0 per cent or $0.5 billion), internet banking (down 78.4 per cent or $0.3 billion) and cheque fraud (down 23.4 per cent or $0.1 billion), partially offset by increased levels of credit card fraud (up 29.4 per cent or $0.2 billion) and debit card fraud (up 16.8 per cent or $0.1 billion).

The reduction in loans, internet banking and cheque fraud was driven by upgrades made by DTIs to online platforms and mobile banking applications, industry level fact-finding and information sharing exercises, greater stakeholder dialogue and strengthened regulatory rules and guidance that enhance the identification, assessment, prioritization, monitoring and mitigation of risks. Consistent with global trends, tightening controls in high-frequency fraud channels have been accompanied by a migration toward fewer but higher-value digital attacks, particularly card-not-present transactions. This adaptive behaviour underscores that

fraud risk has not disappeared, but has become more bounded and less scalable, thereby reducing its systemic implications.

Despite the contraction in overall fraud amounts during 2025, credit card and debit card fraud remained the most significant form of fraud among DTIs (see **Figure 2.0**). While total volumes in both categories of card fraud declined during the year (debit card fraud volumes contracted by 61.0 per cent, while credit card fraud occurrences declined by 48.2 per cent), fraud amounts increased significantly as fraudsters were able to execute higher-value fraud attacks on these typologies, despite the attempts by DTIs and regulators to reduce the number of incidences. Consequently, credit card fraud amounts increased by 29.4 per cent ($0.2 billion) compared with 5.7 per cent ($0.04 billion) in 2024. Similarly, debit card fraud amounts expanded by 16.8 per cent ($0.1 billion) during 2025, slower than the growth of 69.7 per cent ($0.3 billion) in 2024. Notably, the majority of card fraud were reported as "card not present" (approximately 87.3 per cent), reflective of the increased use of phishing, smishing and other digital forms of fraud by mal-actors.

Against the backdrop of generally lower fraud amounts across the sector, potential impairment to institutional profits for the December 2025 review period represented a weighted annual average share of 6.2 per cent of institutional profits (see **Figure 3.0**).

Figure 3.0: Distribution of Bank Fraud Amounts to Average Pre-Tax Profits

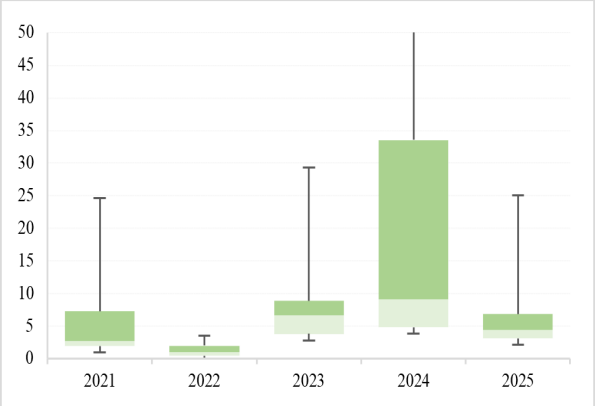
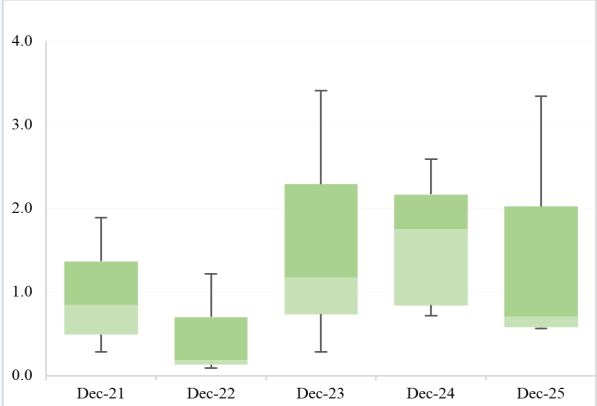


Figure 4.0: Distribution of Bank Fraud Amounts to Regulatory Capital



Source: BOJ

As a proportion of regulatory capital, average fraud amounts for 2025 remained consistently below 0.5 per cent of system regulatory capital. At the institutional level, bank fraud amounts ranged between 0.8 per cent and 2.0 per cent of regulatory capital (see **Figure 4.0**).

Given the relatively low ratio of total bank fraud amounts to institutional capital, fraud losses are not expected to pose a significant threat to regulatory capital in the near-term.

Jurisdictional comparisons indicate that while Jamaica's fraud ratios relative to GDP and banking assets remain higher than some large, advanced economies, they compare favourably with several peer jurisdictions and reflect measurable progress over the review period. Collectively, these developments suggest that fraud and cyber-enabled risks, while persistent, have diminished in their capacity to generate systemic stress.

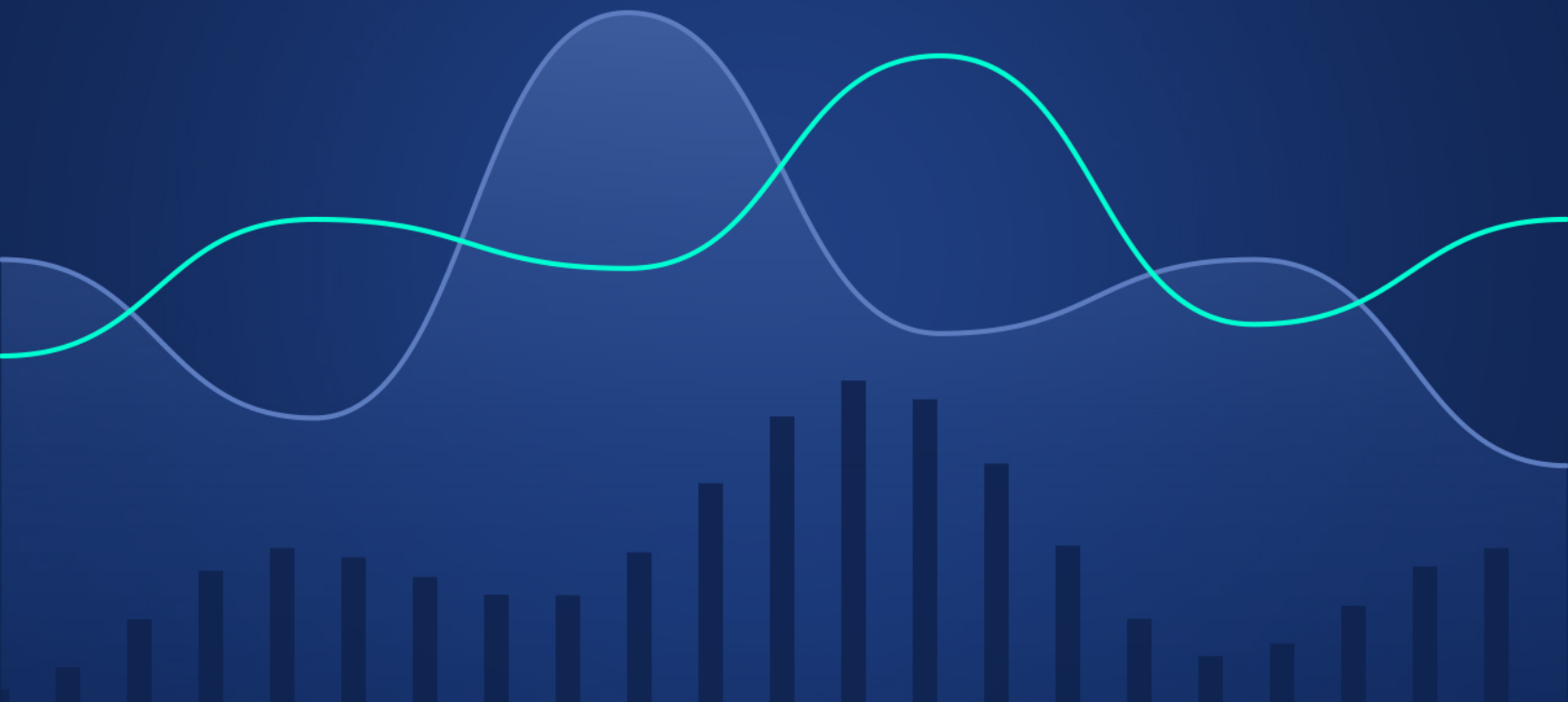
Conclusion

The deposit-taking sector has demonstrated progressive strengthening against bank fraud, driven by adaptation, institutional learning, and iterative risk management improvements. Although fraud and cyber-related threats persisted, their capacity to disrupt banking soundness or threaten overall financial stability declined over time. During 2025, Jamaica's banking sector was operating with enhanced resilience, more integrated supervisory oversight, and stronger stakeholder collaboration, enabling swifter and effective responses to evolving criminal tactics and emerging technological risks.

Chapter 03

Climate Risks as a Financial Stability Shock:

Stress, Adaptation and Policy Response



Climate-related events increasingly represent systemic risks for small island developing states, transmitting shocks through credit, liquidity, operational and insurance channels. The experience of Hurricane Melissa demonstrated how physical climate shocks can disrupt economic activity, affect borrower repayment capacity and strain financial infrastructure. Strengthening climate risk monitoring, supervisory frameworks and stress-testing approaches is therefore critical to enhancing financial system resilience.

3.1 Climate Risk and Financial Stability: Transmission Channels

Climate-related shocks are increasingly recognised as significant macroeconomic risks with systemic implications for small island developing states. For Jamaica, physical risks and associated infrastructure damage constitute the primary transmission channel to financial instability.[114] While transition risks remain relevant over the medium-to-long term, the Jamaican context underscores the immediacy of acute weather events and their capacity to disrupt financial intermediation, payment systems and broader macrofinancial conditions.[115]

Jamaica's structural characteristics heighten these transmission risks. Specifically, economic activity is concentrated along coastal zones, with tourism being a significant driver of output and foreign exchange earnings, as well as critical infrastructure being highly exposed to storm surge and flooding. These features increase the likelihood that climate shocks generate correlated losses across sectors, reducing diversification benefits within financial institutions' loan portfolios and investment books. Climate events may also interact with prevailing macrofinancial vulnerabilities, such as: high household indebtedness, sectoral concentration or adverse external conditions, thereby increasing the risk of more severe outcomes during periods of stress.

[114] Physical risk refers to the financial risks arising from the direct impacts of climate-related events, including acute events such as hurricanes, flooding and storms, as well as chronic changes such as rising sea levels and increasing temperatures.

[115] Transition risk refers to the financial risks associated with the process of adjusting to a lower-carbon and more climate-resilient economy, including changes in policy, regulation, technology, market preferences and investor behaviour.

3.1.1 Physical Risk as a Systemic Shock

Physical risks arise from both acute events and chronic climatic shifts (see **Figure 3.1**).

In Jamaica's case, acute hurricane shocks represent the dominant risk factor, capable of simultaneously affecting households, firms, infrastructure and public services. The passage of Hurricane Melissa in October 2025 provided an illustration of these dynamics. While the financial system remained resilient, the episode demonstrated how climate events can transmit across multiple financial stability dimensions.

At the borrower level, direct damage to residential and commercial property can reduce collateral values and weaken repayment capacity as income streams are disrupted. Tourism-related enterprises, agricultural producers and micro, small and medium-sized enterprises (MSMEs) are particularly vulnerable to revenue interruptions. [116] Rising credit risk premia under such conditions may tighten financial conditions more broadly. Where losses are widespread within specific parishes or sectors, correlated credit impairments may emerge, increasing provisioning requirements and exerting pressure on capital buffers under severe stress scenarios.

Climate shocks may also trigger precautionary behaviour among households and firms, leading to elevated short-term liquidity demand even when underlying solvency conditions remain sound. Ahead of, or immediately following, a storm event, cash withdrawals typically increase and deposit patterns may temporarily shift. Notably, in October 2025, with the impact of Hurricane Melissa, liquidity buffers within the DTI sector remained above regulatory thresholds. This experience underscored the importance of contingency liquidity planning and timely communication to mitigate confidence effects. In small, open economies with concentrated economic structures, such liquidity dynamics can be amplified by limited geographic diversification.

3.1.2 Operational and Payment System Disruptions

Beyond credit and liquidity channels, climate events pose material risks to financial market infrastructure (FMI) and payment networks. Hurricane Melissa highlighted vulnerabilities in the operational continuity of ABMs, POS terminals, mobile and internet banking platforms, and elements of interbank payment and settlement systems. Physical damage to power infrastructure and telecommunications networks, together

[116] see **GOJ Updated Climate Change Policy Framework**

Table 3.1
Physical Climate Risks and Transmission Channels

Physical Risks	Transmission Channels
Hurricanes & Flooding	• Direct damage to real estate and insurance losses • Reduction in asset values • Business and supply chain disruptions
Coastal Erosion & Sea Level Rise	• Reduction in desirability of tourism assets • Increased costs to insure and adapt coastal properties • Biodiversity loss and destruction of ecosystem service
Changing Rainfall Patterns	• Decreased crop yields and increased insurance claims • Potential hazards from landslides • Greater costs from reliance on irrigation
Extreme Heat	• Rising healthcare and insurance costs • Increased energy costs and burden on energy systems • Reduced worker productivity • Reduced agricultural and animal yield
Water Scarcity	• Increased water costs • Curtailment of economic activities dependent on water • Potential health consequences • Reduced agricultural and animal yield
Spread of Disease Vectors	• Increase in health burden from infectious diseases • Reduced agricultural yields due to pests • Increased insurance health and life claims

Source: Cambium Global Solutions (CGS) and BOJ

with road access constraints, temporarily impaired ABM functionality.

These operational constraints illustrate a critical transmission dynamic: when access to payment systems is impaired, a localized physical shock can evolve into a broader liquidity and confidence event. Climate risk therefore extends beyond credit and insurance exposures to encompass financial infrastructure resilience. The geographic concentration of key operational facilities including data centres, and branch networks can heighten operational risk during climate-events. As such, resilience of payment systems, telecommunications redundancy and cyber-physical risk integration are integral components of financial stability policy.

3.1.3 Insurance Sector Transmission and Risk Repricing

The insurance sector serves as a key shock absorber within Jamaica's financial system. Where reinsurance coverage and catastrophe risk transfer instruments are effective, systemic spillovers are mitigated and losses are partially externalised. However, global repricing of catastrophe risk could increase domestic premium costs over time, potentially reducing insurance penetration and increasing uninsured losses borne by households and firms. Jamaica's layered disaster risk financing strategy includes parametric insurance coverage and catastrophe bond arrangements which provides rapid liquidity following qualifying events, helping to mitigate short-term fiscal pressures and limit spillovers to the domestic financial system.

3.1.4 From Shock to Systemic Risk

The transmission of climate risk to financial stability can be conceptualised as a multi-layered process in which physical damage and income disruption lead to credit impairment, heightened liquidity demand and operational strain. These channels may operate simultaneously, reinforcing macrofinancial feedback loops.

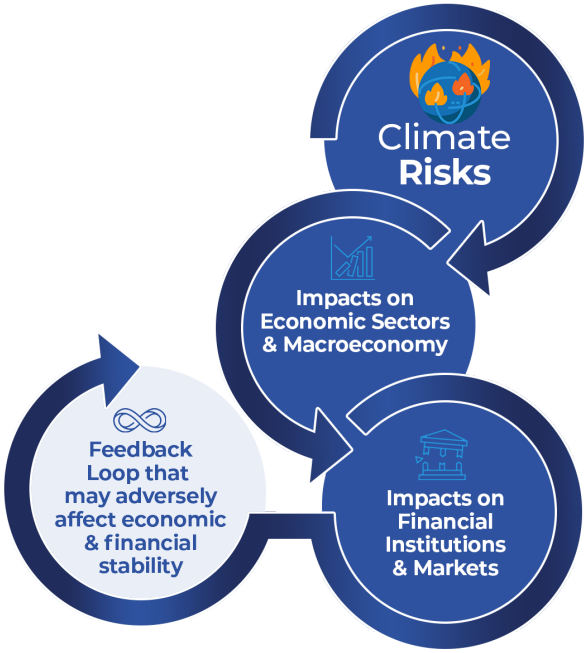
While Hurricane Melissa did not result in systemic instability, it demonstrated that climate shocks possess the characteristics of system-wide stress events capable of affecting solvency, liquidity and operational resilience concurrently.

3.1.5 Policy and Supervisory Initiatives to Strengthen Climate Resilience

International supervisory standards clarify that climate-related risks do not constitute a new category of financial risk. Rather, physical and transition risk drivers influence traditional prudential risk types already embedded in supervisory frameworks. In April 2024, the Basel Committee on Banking Supervision (BCBS) revised the Basel Core Principles to explicitly incorporate climate-related financial risks (CRFRs) across relevant principles, reinforcing their treatment as cross-cutting risk drivers within governance, risk management, and supervisory assessment processes. This approach promotes supervisory consistency while ensuring that climate-related vulnerabilities are assessed using established prudential concepts.[117]

[117] **Core principles for effective banking supervision**

Figure 3.1
Climate-Related Risk Transmission Channels and Financial Stability Implications



Transmission Risks

- Technological Changes
- Policy Shifts
- Changes in consumer preferences

Physical Risks

- Chronic (e.g. sea level rise)
- Acute (e.g. hurricanes)
- Damages to Property
- Business Interruption
- Effects on household and business income
- Feedback across economy through Product and labor markets
- Credit and market risks
- Liquidity risks
- Operational risks
- Amplification through interconnections and correleated exposures

Source: Taken from FSOC (2021)

Against this backdrop, the transmission channels outlined above underscore the importance of integrating climate risk into macroprudential surveillance and prudential supervision. Strengthening resilience therefore requires identifying, assessing and transparently communicating these risk drivers within existing prudential and market-discipline frameworks.

In line with this approach, BOJ has adopted a structured, phased approach to embed climate considerations into its supervisory framework. Phase 1 of the Climate Risk Project, implemented with technical assistance from the Agence Française de Développement (AfD), established the analytical and supervisory foundation for climate risk integration. This phase delivered a preliminary climate risk assessment, mapped relevant physical and transition risks, developed a survey instrument to assess institutional preparedness, and initiated a data management framework to address significant climate data gaps.[118,119]

Building on this foundation, Phase II supported by AFD and the European Union Latin America and Caribbean Investment Facility will fo-

[118] **Climate Stress Testing Data Management Framework**
[119] **Climate-related Financial Risks in Jamaica**

cus on refining climate stress testing models, enhancing data integration and strengthening disclosure practices. The Bank is advancing stress testing methodologies that incorporate hurricane scenarios, rising sea levels and relevant transition dynamics. Enhancements to data collection and the development of a climate risk dashboard are intended to support consistent analysis and cross-institutional comparison.

In parallel, BOJ and FSC have committed to producing their own Task Force on Climate-related Financial Disclosures (TCFD) reports, setting a benchmark for transparency and governance in climate risk management. Complementary frameworks, including the International Sustainability Standards Board's IFRS S1 and IFRS S2 standards, support structured disclosure of governance arrangements, strategy, risk management processes, and relevant metrics.[120] High-quality public disclosures play an important role in supporting financial stability. In addition, consistent and comparable data enable supervisors and other stakeholders to assess institutions' risk profiles, governance arrangements, and resilience strategies. In the context of CRFRs, disclosures help to address information gaps and support sound risk pricing. This transparency reduces the risk of abrupt market reactions following climate-related shocks.

Operational resilience is further supported by financial innovation. Jamaica's central bank digital currency, Jam-Dex, has the potential to mitigate hurricane-related disruptions by facilitating peer-to-peer transactions and government-to-person transfers even when physical cash distribution channels are constrained. By reducing reliance on branch networks and physical cash logistics, broader adoption of digital payment rails may enhance transactional continuity during severe weather events, provided that telecommunications infrastructure remains functional.

Furthermore, with low insurance penetration and a sizable informal sector, Jamaica faces challenges in risk transfer and loss absorption. In this regard, microinsurance products can help to mitigate the financial impact of climate shocks on vulnerable groups.[121] By providing affordable coverage for climate-related losses, microinsurance can enhance financial resilience among households and small businesses that may otherwise be excluded from traditional in-

[120] **IFRS - Introduction to the ISSB and IFRS Sustainability Disclosure Standards**

[121] The International Association of Insurance Supervisors (IAIS) defines microinsurance as "insurance that is accessed by the low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices."

surance markets. Additionally, through the use of parametric products, which pay out based on pre-defined event triggers rather than lengthy loss assessments, payouts are notably quicker which is vital for rapid recovery. Moreover, microinsurance also helps to improve the culture of saving and risk management among vulnerable populations, contributing to broader financial inclusion objectives. Towards this end, legislation to formalize the operation of microinsurance in Jamaica, is expected to be tabled and enacted by FY 2026/2027.

Collectively, strengthened stress testing frameworks, enhanced data and disclosure practices, digital financial innovation as well as diversified risk transfer mechanisms, will position the Jamaican financial system to better withstand the evolving challenges posed by climate change. In this regard, continued analytical refinement and inter-agency coordination will remain central to safeguarding financial stability in an era of heightened climate volatility.

3.2 Hurricane Melissa

3.2.1 Balance-Sheet Effects for Deposit-Taking Institutions and Securities Dealers

Hurricane Melissa, which hit Jamaica in October 2025, was one of the most severe natural disasters to affect the island in recent decades, inflicting extensive damage to physical infrastructure, housing, and productive capacity. The event introduced significant near-term challenges for the real economy and the financial system. The damage from the hurricane has been estimated at approximately US$12.2 billion, representing 55.7 per cent of Jamaica's GDP at end-2025, with the most affected sectors being agriculture, tourism, and construction.

In the aftermath of the hurricane, domestic financial markets experienced heightened volatility, with bond yields rising and equity prices declining. Specifically, GOJ global bond composite yields rose from 5.6 per cent, the week preceding the hurricane, to 5.8 per cent at end-November 2025, following consecutive months of trend declines. At the same time the main market index of the Jamaica Stock Exchange (JSE) declined from 323 843 points immediately before the passage of Hurricane Melissa to a

low of 309 355 in the weeks following the hurricane, before recovering to 318 658 points at end-November 2025, reflecting investor concerns about the economic impact of the hurricane and its implications for corporate earnings.

As a result, the balance sheets of financial institutions were negatively impacted through a combination of market, credit, and operational channels. Notably, the increased market volatility led to reductions in the market value of domestic financial assets, particularly for corporate bonds and equities. The effect was more pronounced for securities dealers, as their business models are more sensitive to market fluctuations. Specifically, the value of securities dealers' holdings of corporate bonds and equities both declined by an estimated 6.4 per cent between the September and December quarters of 2025. The corresponding decline for DTIs was approximately 1.4 per cent, reflecting DTIs' more diversified asset portfolios and lower exposure to market-sensitive instruments.

For the banking sector, there was a notable increase in PDLS between the September and December quarters of 2025 as some borrowers, particularly in the affected regions, struggled to meet their debt obligations. The PDL ratio rose from 2.6 per cent at end-September 2025 to 3.2 per cent at end-December 2025. The increase in the overall PDL ratio primarily reflected deterioration in the PDL ratios of the agriculture and tourism sectors, which were among the hardest hit by the hurricane. In particular, the PDL ratio for the agriculture sector rose from 0.3 per cent at end-September 2025 to 2.2 per cent at end-December 2025, while the tourism sector's PDL ratio increased from 0.3 per cent to 3.9 per cent over the same period. However, the overall impact on the banking sector was mitigated by strong pre-existing capitalization and prudent risk management practices. (see **Chapter 1 - Deposit-Taking Institutions** for further details).

The effects of Hurricane Melissa also contributed to a decline in profitability for both DTIs and securities dealers in the December quarter of 2025. More specifically, DTI pre-tax profits fell by 28.3 per cent between the September and December quarters of 2025. Concurrently, securities dealers experienced a more pronounced decline of 52.9 per cent, largely due to their higher exposure to market-sensitive assets and trading activities. Despite these challenges, both sub-sectors maintained positive profitability, supported by their diversified revenue streams and effective cost management strategies.

Despite the significant challenges posed by Hurricane Melissa, the financial system's overall re-

Table 3.2
ABM Recovery Progress following Hurricane Melissa was slowest in parishes in the direct line of impact

Parish	PRE-STORM	POST-STORM (MULTILINK NETWORK)					
	30-Sep	29-Oct		30-Oct		31-Oct	
	ABMs	ABMs	Recovery (%)	ABMs	Recovery (%)	ABMs	Recovery (%)
Clarendon	38	12	31.6	14	36.8	18	47.4
Hanover	16	11	68.8	11	68.8	11	68.8
Kingston	89	52	58.4	58	65.2	61	68.5
Manchester	46	20	43.5	22	47.8	27	58.7
Portland	19	7	36.8	9	47.4	9	47.4
St. Andrew	236	175	74.2	212	89.8	217	91.9
St. Ann	75	36	48.0	37	49.3	44	58.7
St. Catherine	141	65	46.1	82	58.2	102	72.3
St. Elizabeth	38	5	13.2	5	13.2	5	13.2
St. James	109	39	35.8	47	43.1	49	45.0
St. Mary	26	11	42.3	11	42.3	12	46.2
St. Thomas	16	9	56.3	10	62.5	14	87.5
Trelawny	21	4	19.0	4	19.0	4	19.0
Westmoreland	37	8	21.6	8	21.6	8	21.6
Total Country	**907**	**454**	**50.1**	**530**	**58.4**	**581**	**64.1**

silience was evident, with institutions demonstrating the capacity to absorb shocks and maintain critical functions. However, the event underscored the importance of continued vigilance and proactive risk management which includes strong contingency planning and operational resilience in the context of increasing climate-related risks and the possibility of more frequent and severe natural disasters in the future.

3.2.2 Operational Disruptions and Business Continuity

In the immediate aftermath of Hurricane Melissa, operational disruptions were widespread across the financial system, particularly in the most affected regions. The hurricane caused significant damage to physical infrastructure, including bank branches and ABMs, leading to tempo-

rary closures. Although core banking systems remained operational, last-mile connectivity limitations restricted customer access to cash and digital payment channels (see **Table 3.2**).

3.2.3 Insurance Sector Resilience

While the impact of Hurricane Melissa on the real economy was significant enough to lead to notable indirect effects on the financial system, the insurance sector was the most directly affected, given its role in providing risk transfer and financial protection for individuals and businesses against discontinuous shocks such as natural disasters. As such, the FSC conducted a preliminary assessment of Hurricane Melissa's impact on the insurance industry.

The results of the assessment show that life insurers remained resilient, with minimal capital impacts, strong liquidity positions. In addition, most entities quickly restored operations and executed business continuity plans (BCPs). Furthermore, withdrawal and surrender risks were generally low.[122] While direct claims for life insurers were limited, indirect pressures emerged from elevated lapse rates and premium arrears, likely reflecting temporary income challenges among some customers.

In contrast, general insurers faced more pronounced effects as hurricane-related claims placed pressure on near-term profitability and capital adequacy. However, reinsurance played a critical role in mitigating industry losses and net exposures, helping to preserve liquidity and absorb the majority of gross claims.[123]

Hurricane Melissa represented a significant gross loss event, particularly for the general insurance sub-sector. However, the industry's net retained exposure is generally expected to remain small relative to industry-wide capital and surplus in the medium term, even as underwriting and climate-related risks remain elevated.

[122] For Life insurers, withdrawal/surrender risks are generally expected to remain low, with the exception of one insurer, anticipating a potential increase of 10.0 - 30.0 per cent. Notwithstanding, all insurers continued to maintain strong and stable liquidity positions and, as a result, remained well positioned to meet near-term obligations.

[123] For general insurers, total expected insurable losses are estimated at approximately $115.7 billion (US$732.2 million), representing 6.0 per cent of the PIOJ's estimated US$12.2 billion in physical damage to Jamaica. Expected recoveries from reinsurers amount to J$111.2 billion, or 96.1 per cent of gross losses, effectively transferring the majority of the catastrophe risk to international reinsurance markets and limiting domestic insurers' net retained exposure. Of note, these expected losses were concentrated among the top four general insurers, which accounted for approximately 76.8 per cent of the sub-sector's total expected insurable losses. Claims settlement were at an early stage, with actual payments at end-December 2025 of $8.8 billion, representing approximately 7.6 per cent of total expected losses, and 23.7 per cent of total actual reinsurance inflows ($37.2 billion). This reflected the scale and complexity of this major catastrophic event. Overall, reinsurance recoverability across the sub-sector is estimated at 80-90 per cent, offsetting the majority of net losses.

It is important to note that while the exposure of the industry was significant, it was understated due to the low insurance penetration rate in Jamaica, which stood at approximately 4.9 per cent at September 2025.[124] This penetration gap highlights broader systemic vulnerabilities, as limited coverage reduces risk pooling and the sector's ability to absorb shocks from catastrophic events.

These findings underscore the importance of robust risk management practices, including effective reinsurance strategies, as well as the need for continued vigilance in monitoring and managing emerging risks, particularly in the context of increasing climate-related risks and the possibility of the occurrence of more frequent and severe natural disasters in the future. The FSC in concert with the Bank of Jamaica - as joint financial system supervisors - will continue to closely monitor the insurance sector's resilience in the aftermath of Hurricane Melissa, and will work with industry stakeholders to ensure that appropriate measures are in place to support the sector's continued stability.

[124] Insurance penetration is a commonly used indicator of the depth of insurance markets and is typically measured as the ratio of total insurance premiums to GDP. In this report, the insurance penetration ratio is proxied as the ratio of annualized total insurance revenue to annual nominal GDP, reflecting data availability and ensuring consistency with national accounts aggregates.

Chapter 04

Financial Stability Outlook:

Looking Towards 2026

The outlook for financial stability remains positive but subject to evolving risks from global uncertainty, climate-related shocks and domestic asset market developments. Model-based assessments suggest that, despite contraction in economic activity following Hurricane Melissa and potential weather-related shocks, the banking system is expected to remain resilient, supported by strong capital buffers, stable liquidity conditions, and manageable credit risks. Policy reforms, including Basel III implementation, the development of the Systemic Risk Buffer and progress toward the Twin Peaks supervisory framework, are expected to strengthen institutional resilience.

4.1 Emerging Risk for 2026

4.1.1 Geopolitical Tensions

Global uncertainty in 2026 is expected to be driven primarily by escalating geopolitical tensions and elevated policy uncertainty, both of which are likely to increase financial market volatility. Assessments from major international institutions, including the International Monetary Fund, point to a global landscape increasingly defined by geopolitical conflict and the expanding use of trade restrictions. Countries are relying more heavily on sanctions and tariffs as tools of economic leverage, often in place of traditional diplomatic channels.

Geopolitical tensions are expected to increasingly transmit through global and domestic fixed-income markets in 2026, with implications for sovereign bond valuations and financial system stability. In this context, heightened uncertainty is likely to prompt a reassessment of global risk premia, as investors demand higher compensation for perceived risks. This environment is expected to contribute to upward pressure on yields across advanced and emerging market instruments, including Jamaica's sovereign securities, reflecting tighter global financial conditions and a moderation in investor risk appetite.

While financing conditions improved in 2025, the evolving geopolitical landscape could reverse some of these gains in 2026. Particularly, a sustained period of uncertainty, especially if accompanied by higher energy prices and renewed inflationary pressures, may lead to further increases in yields, resulting in valuation losses on fixed-income portfolios. Given the exposure of domestic financial institutions across sectors to these assets, such developments could translate into mark-to-market losses and place down-

ward pressure on capital positions. As such, bond market repricing represents a key channel through which geopolitical risks could materialize, warranting closer monitoring within the macroprudential surveillance framework.

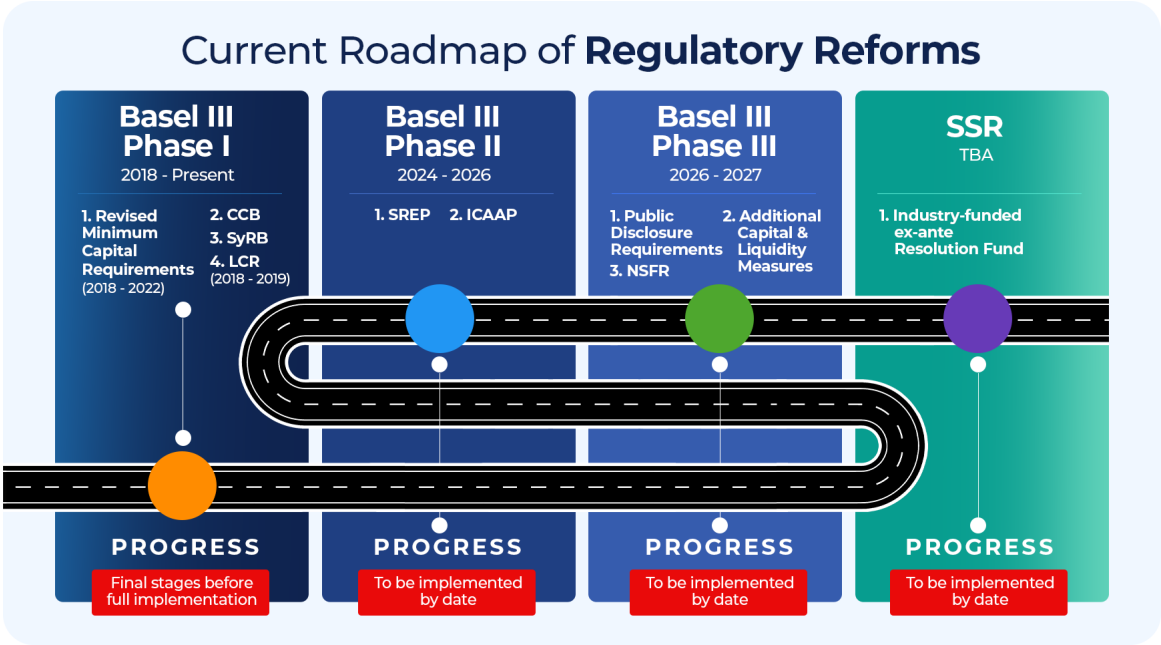
Furthermore, as Jamaica is characterized as being an economy highly dependent on imported goods, these global dynamics heighten external vulnerability. Disruptions to international shipping routes or broader global supply chains can lead to greater inflation volatility and unpredictable financial market conditions. Collectively, these risks pose tangible challenges to maintaining both price stability and financial stability, underscoring the need for heightened monitoring and policy agility.

4.2 Policy Reforms

4.2.1 Enhancing Financial System Resilience Through Basel III and Supporting Reforms

The continued resilience of Jamaica's financial system remains central to preserving financial stability. A robust and well-regulated financial sector is better positioned to absorb shocks arising from economic volatility, natural disasters and global financial market disruptions. Strong capital buffers, robust liquidity positions, sound governance and effective risk management frameworks are therefore key to maintaining the safety and soundness of deposit-taking institutions and support continued confidence in the financial system.

In this regard, Bank of Jamaica will continue to strengthen the prudential framework through the ongoing implementation of Basel III-compliant standards. These standards include enhancements to minimum capital requirements and capital buffers, guidelines for conducting the Internal Capital Adequacy Assessment Process (ICAAP), Supervisory Review and Evaluation Process ("SREP") as well as Market Discipline and Enhanced Risk Disclosure. Complementing these reforms are several non-Basel initiatives, such as the introduction of a prudential framework for the consolidated supervision of financial holding companies (FHCs), the strengthening of liquidity risk management standards and enhancements to recovery planning requirements. Collectively, these measures will enhance loss-absorbing capacity, improve supervisory transparency, and strengthen crisis preparedness, thus further aligning Jamaica's supervisory regime with international best practice and reinforcing financial system stability.

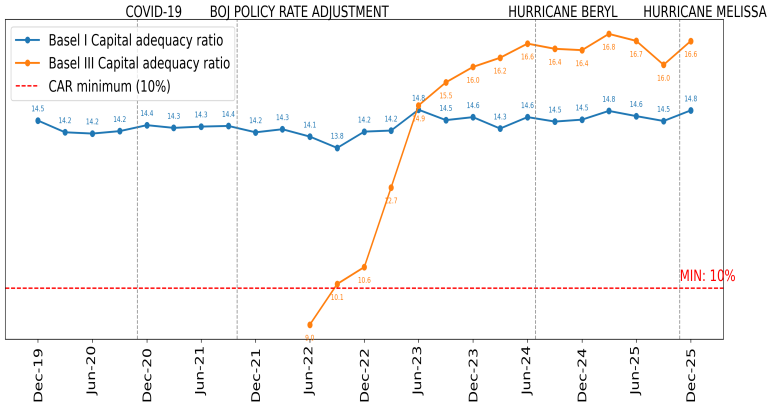


4.2.2 Basel III (Pillar I) Implementation

The phased implementation of Bank of Jamaica's Basel III-compliant framework has materially strengthened capital adequacy and loss-absorbing capacity within the local banking sector. Under Pillar I (Phase I), DTIs are required to maintain minimum risk-based capital ratios, including Common Equity Tier 1 (CET1), Tier 1, and Total Capital Adequacy Requirements (TCAR), thereby building a robust base of high-quality capital to absorb unexpected losses. Consistent with these reforms, DTIs' capital adequacy ratios remained comfortably above the 10.0 per cent regulatory minimum, with Basel III ratios trending higher than under Basel I, even reaching levels above 16.0 per cent since end-2023 Figure 4.1 and 4.2.

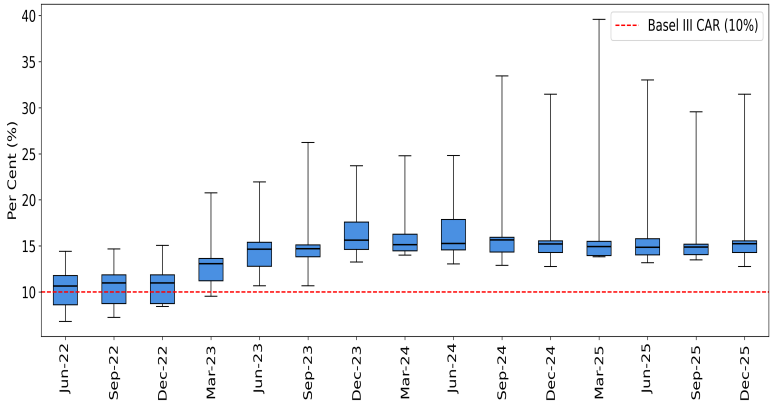
Complementing the strengthening of capital adequacy standards, BOJ has advanced liquidity reforms to reinforce the short-term resilience of deposit-taking institutions. By implementing the Liquidity Coverage Ratio (LCR) framework, DTIs are required to maintain an adequate stock of high-quality liquid assets (HQLA) sufficient to withstand 30 days of severe liquidity stress. This requirement will ensure that DTIs hold readily available, unencumbered liquid assets to meet short-term cash outflows, thereby reducing the risk of funding disruptions, preserving depositor confidence and supporting overall financial stability during periods of stress. In this context, the LCRs of DTIs remained well above the 100.0 per

Figure 4.1
Trend in Capital Adequacy Ratio: Basel I vs Basel III (%)



Source: BOJ

Figure 4.2
Distribution of Basel III Capital Adequacy Ratio



Source: BOJ

cent minimum requirement, with DTIs maintaining substantially HQLA buffers **Figure 4.3** and **4.4**. The system-wide position remained strong, demonstrating improved capacity to withstand short-term liquidity stress, thus reinforcing overall financial sector resilience.

4.2.3 Basel III (Pillar II) Implementation

In the short-to-medium term, the Bank will prioritize the development of the ICAAP and SREP Frameworks. The ICAAP, a core component of Basel III Pillar II, requires DTIs to assess their capital adequacy relative to their full risk profile and under stressed conditions. By embedding forward-looking risk assessment, stress testing, and stronger Board oversight, the ICAAP will promote robust capital planning and the maintenance of capital buffers to absorb shocks. The SREP, which will form part of the Bank's Basel III Pillar II Framework, will complement ICAAP by enabling the Bank to assess each DTI's overall risk profile, governance as well as capital and liquidity adequacy on a forward-looking basis. This framework is expected to allow BOJ to identify emerging vulnerabilities at an early stage and require corrective measures, such as strengthening capital buffers, improving risk management practices, or addressing governance weaknesses, before risks threaten financial stability.

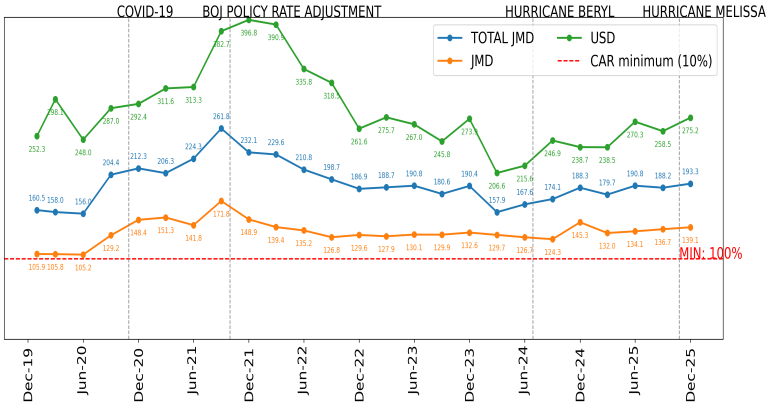
4.2.4 Additional Policy Initiatives

FHC Consolidated Framework - The proposed prudential framework for consolidated supervision of non-operating FHCs will strengthen resilience by enabling the Bank of Jamaica to assess capital adequacy and risks across the entire financial group, rather than solely at the level of individual institutions. This consolidated approach is aimed at capturing intra-group exposures, leverage and risks arising from unregulated or cross-sector subsidiaries, which may otherwise obscure vulnerabilities and create channels for contagion.

By requiring FHCs to maintain sufficient high-quality capital on both a stand-alone and a consolidated basis as well as by addressing concerns related to double leveraging, intra-group holdings and non-transferable capital, the framework will strengthen the financial sector's capacity to withstand adverse shocks, thereby enhancing system-wide resilience.

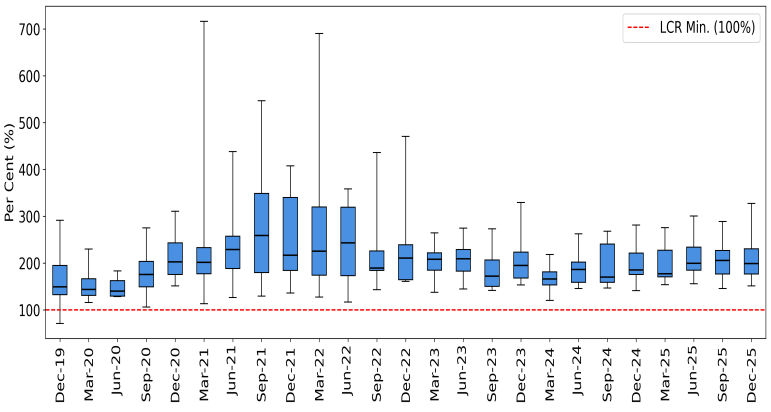
Liquidity Risk Management Framework - The Bank is well advanced in developing an updated Standard of Sound Practice on Liquidity Risk Management. The revised framework will align

Figure 4.3
Trend in LCR by Currency (%)



Source: BOJ

Figure 4.4
Distribution of Liquidity Coverage Ratios



Source: BOJ

with international best practice while addressing domestic vulnerabilities.

Special Resolution Regime - The establishment of a Special Resolution Regime will materially strengthen resilience within Jamaica's financial system by providing clear legal and operational mechanisms for the orderly resolution of non-viable financial institutions. In 2023, the Bank of Jamaica issued a consultation paper on the proposed framework, incorporated stakeholder feedback and subsequently prepared drafting instructions for the Financial Institutions (Resolution and Winding Up) Act ("the Act"). The draft legislation was submitted to the Ministry of Finance and the Public Service and is currently under consideration.

Recovery Planning – BOJ will be placing special emphasis on developing the Recovery Planning Guidelines in the near- to-medium term. This will strengthen Jamaica's financial system by requiring DTIs and FHCs to develop credible, actionable plans to restore financial viability during periods of severe stress. A forward-looking approach will be adopted to ensure institutional preparedness to respond promptly and effectively to emerging risks. At the system level, recovery planning will support financial stability by protecting critical financial functions, preserving depositor confidence and reducing the likelihood of disorderly institutional failure or systemic contagion.

By continuing to implement the Basel III framework, aligning recovery planning with ICAAP and the broader crisis management architecture as well as enhancing surveillance across financial groups, the Bank's policy framework will reinforce Jamaica's holistic approach to financial stability.

4.3 MaFiA Baseline and Climate Scenario Assessment

The Bank's Macro-Financial Assessment (MaFiA) model is designed to describe the interactions between the macroeconomy and the financial sector over a five-year horizon (see **Box 4.1**). This forward looking tool was used to assess a baseline economic trajectory for Jamaica and the potential impact of a climate related shock occurring in the Summer of 2026. The projections are based on the Bank's macroeconomic projections which envision inflation returning to the target range by end FY26/27 and growth averaging 1.0 – 2.0 per cent over the medium term. The results indicate that overall, the Jamaican financial system is projected to remain prudentially sound despite the adverse economic shock that resulted from Hurricane Melissa, with key indicators

suggesting resilience in the financial system and the capacity to absorb disruptions.

Under the baseline scenario—and in the absence of additional shocks—the banking system's capital position is expected to remain strong and stable, with the average CAR maintained within the current range of 14.0 – 16.0 per cent over the near term and remains well above prudential benchmarks throughout the near and long term. The credit-to-GDP gap is projected to fluctuate within a –3.0 to 2.0 per cent range, below the overheating benchmark for the credit market.[125] Furthermore, credit quality is expected to remain stable and well below the 10.0 per cent benchmark, despite a transitory increase linked to near term macroeconomic conditions due to Hurricane Melissa's impact.

To assess the financial system's broader climate vulnerability, the model also simulates a severe weather shock occurring in the third quarter of 2026. The results indicate that even without credit moratoria or supervisory forbearance, the banking system would maintain capital buffers above regulatory minimums. Notably, CAR would remain consistent with baseline ranging from 14.0 – 16.0 per cent after the weather-shock is applied and into 2027. Furthermore, in the long-run it remains in line with the baseline path. Signifying the financial sector would react similarly as it did to Hurricane Melissa or perhaps even better. Credit quality similarly deteriorates only temporarily, with NPLs remaining below the benchmark after the weather shock is applied. Credit-to-GDP rises modestly as households and firms access financing to manage damages but stabilizes within four quarters. Liquidity pressures remain limited, partly due to moderate increases in provisioning.

Overall, the financial system demonstrated strong resilience to both macroeconomic headwinds and climate driven shocks.

[125] The credit-to-GDP gap indicator measures the deviation of credit-to-GDP from its long-term trend. It is a systemic risk indicator associated with financial cycles which signals the extent of credit risk accumulation. A positive outturn indicates credit is growing faster than its long-term trend and may signal excessive credit expansion. Negative values indicate credit is below its long-term trend, indicating underperformance in the credit market based on the sustainable level of credit in the economy.

Box 4.1: Introduction to the Macro-Financial Assessment (MaFiA) Model

The Macro-Financial Assessment (MaFiA) Model is a forward looking semi-structural model developed which describes the dynamic interactions and feedback loops between the macroeconomy and the financial sector of Jamaica. **Figure 1.0** gives an overview of the five modules that make up the most basic version of the model:

i. the macroeconomy,

ii. the aggregate bank balance sheets (including mainly asset performance and bank capital),

and three "connecting" modules for:

iii. credit creation,

iv. credit risk and

v. lending and funding rates.

Figure 1.0: Modules in the basic version of MaFiA

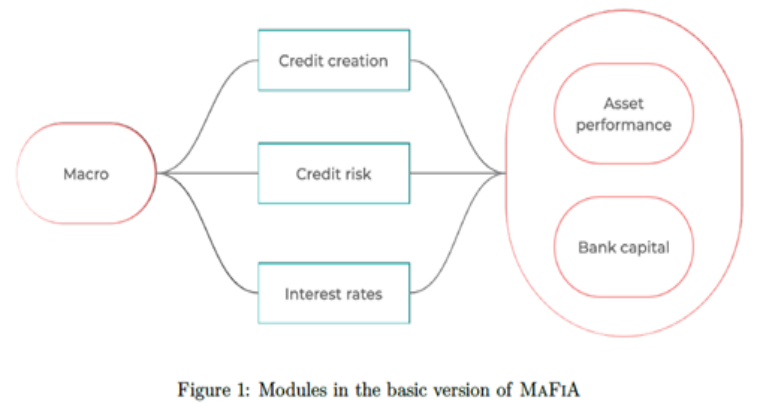


Figure 1: Modules in the basic version of MaFiA

Source: BOJ

The model complements the existing macroprudential policy toolkit of the Bank and integrates with its current real economy model for monetary policy decision-making. Therefore, the MAFiA enhances the Bank's ability to conduct scenario analyses with explicit assumptions over a five-year horizon and supports the provision of sound macroprudential policy advice.

Box 4.2: Enhancing Banking System Competition Programme - An Update

The Enhancing Banking System Competition Programme continued to advance in 2025 as a key pillar of the Bank's Monetary Policy Transmission Programme. This initiative is focused on reducing structural frictions within the banking system to support more effective monetary policy transmission, while safeguarding financial system stability.

During the year, progress was made on two core initiatives under the Programme: the Electronic Know-Your-Customer (eKYC) Utility and the Account Portability project. The eKYC Utility is intended to establish a centralised, secure framework to facilitate customer identity verification and customer due-diligence information sharing among participating financial institutions. By reducing duplication, onboarding costs, and barriers to entry, the Utility is expected to enhance competition within the banking sector, support financial sector innovation as well as improve regulatory effectiveness.

In 2025, the Bank prepared a Consultation Paper on the proposed eKYC operational framework and undertook extensive engagement with industry stakeholders. Building on the feedback received, the Bank advanced the conceptual and technical design of the Utility and subsequently published a Request for Proposals (RFP) to procure the eKYC solution. This milestone marked the transition from policy design to implementation. The initiative remains on track for a targeted launch in 2027.

Progress also continued on the Account Portability initiative, which is designed to reduce customer switching costs and enhance transparency in banking fees, charges, and interest rates. During the year, work advanced on measures to strengthen customer awareness and comparability, including approval to develop a comparative banking web platform, supported by planned focus group testing and public engagement ahead of its anticipated launch.

Collectively, these initiatives are expected to strengthen competition within the banking system, improve customer choice, and enhance the efficiency of monetary policy transmission. Work will continue in the near-term to advance the legislative, governance, and operational arrangements required to support implementation, in close collaboration with industry stakeholders and public-sector partners.

Box 4.3: Communicating to Strengthen Public Trust & Financial System Stability Through Strategic & Targeted Messaging

Deposit insurance plays a critical role in protecting depositors and promoting financial stability. To fully achieve this purpose, depositors must understand why institutions such as the Jamaica Deposit Insurance Corporation (JDIC) exist and the protection it provides for depositors. Established in 1998, the JDIC manages the Deposit Insurance Fund, providing coverage of up to $1.2 million per depositor, per institution, for deposit taking institutions regulated by the Bank of Jamaica. This coverage aligns with international best practice and currently protects approximately 96.5 per cent of deposit account holders within the banking system.[a]

Lessons from the Global Financial Crisis of 2007-2009, particularly in the United Kingdom, highlighted the importance of ensuring that depositors understand how deposit insurance protects them when banks encounter difficulties. The International Association of Deposit Insurers (IADI) likewise emphasizes that strong public awareness is essential to building depositor confidence.[b] More recent events, including regional bank failures, particularly in the United States in 2023, reinforced how gaps in public understanding can heighten uncertainty. In response to that failure, the Federal Deposit Insurance Corporation (FDIC) launched its *"Know Your Risk. Protect Your Money."* campaign targeting groups with low confidence in the banking system.

When depositors are well informed, they are less likely to panic or withdraw funds unnecessarily during periods of real or perceived uncertainty. In this context, the authorities are better able to manage troubled institutions more effectively and maintain confidence in the financial system.[c] Notably, since the JDIC's establishment, no bank has failed, underscoring the value of robust regulation and proactive, audience centred communication.

Recognizing the importance of having informed depositors, the JDIC and other members of the Financial System Safety Net (FSSN) continue to prioritize coordinated public education and joint outreach initiatives.[d] These initiatives include public forums, expositions and co-sponsored broadcasts designed to strengthen public understanding of how the financial system operates and how depositors are protected.[e]

Additionally, in recent years, the JDIC has enhanced its communication efforts by adopting data-driven strategies that translate the complexities of deposit insurance into accessible and easy-to-understand content. Key improvements included a redesigned, interactive website that serves as an information hub; multi-channel campaigns across print, electronic, billboard, and digital media as well as short-form video content, such as the JDIC Explained series.

Complementing these efforts were youth-focused engagements including essay and logo redesign competitions for secondary and tertiary students, as well as the publication of a financial education book for primary level students. These initiatives has helped to reduce awareness gaps identified by national surveys and allowed the Corporation to reach audiences where they were most active and engaged. Overall, together with its FSSN partners, the JDIC's strategic and targeted communication will ensure that depositors clearly understand the protection available to them. This will serve to reinforce public trust and support confidence in the stability of the financial system.

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[a] This level of protection is consistent with the International Association of Deposit Insurers' (IADI) best practice standard, which recommends that deposit insurers should aim to cover upwards of 90-95 per cent of the deposit accounts in the financial system.

[b] In its September 2025 publication of IADI Core Principles for Deposit Insurance Systems, specifically, Core Principle 10 (Public Awareness) states that, "in order to protect depositors and contribute to financial stability, the public is informed about the benefits and limitations of deposit insurance on an ongoing basis and in the event of a failure of an insured deposit-taking institution."

[c] Since the introduction of deposit insurance schemes, this has proved to be effective in allowing the orderly management and resolution of financial institutions in distress; thereby ensuring the maintenance of stability in the financial system.

[d] Members of the FSSN are, the Ministry of Finance and the Public Service, the Bank of Jamaica, the Financial Services Commission and the Jamaica Deposit Insurance Corporation.

[e] To further support this objective, FSSN members have developed a communication strategy and framework that outlines the principles for effective public engagement, ensuring message alignment and consistency to bolster public trust in the broader financial system.

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