TURKS & CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

2025 Financial Stability Report Highlights

July 2026

Inside this Issue

- Financial System Overview
- Financial Sector Performance
- Risks to Financial Stability
- Network Analysis
- Banking System Resilience
- Key Policy Initiatives

WELCOME!

The Financial Services Commission (FSC) is pleased to present the highlights of the 2025 Turks and Caicos Islands (TCI) Financial Stability Report (FSR).

This publication presents key developments, trends, and risks affecting the TCI financial system, highlighting the sector's performance, robustness, and role in supporting economic activity, while identifying vulnerabilities that may affect financial stability.

As the authority responsible for overseeing financial stability, the FSC remains committed to promoting a safe, sound, and stable financial system that supports confidence among consumers, businesses, and investors. Through ongoing surveillance and risk assessment, we seek to ensure that the financial sector remains well-positioned to withstand potential shocks and continue delivering essential services to the economy.

We invite you to explore these highlights in conjunction with the full FSR to learn more about the trends shaping our financial landscape, the resilience of the sector, and the FSC's ongoing efforts to safeguard financial stability in the TCI.

2025 Financial System Overview

Total financial system assets totalled $4,309Mn in 2025. The assets distribution is as follows:

- **Banks** - 74.2%
- **Trust Companies** - 0.2%
- **Investment Businesses** - 22.6%
- **Domestic Insurers** - 2.8%
- **Money Service Businesses** - 0.2%

Banking

The banking sector remained strong amidst a tougher operating environment in 2025. Despite profitability dipping slightly, asset quality, liquidity, capital adequacy, and loan growth remained robust, reinforcing overall resilience.

Insurance

The insurance sector remained resilient in 2025, supported by robust financial soundness indicators. Solvency and liquidity ratios comfortably exceeded regulatory minimums which underscored the sector's strength.

Money Service Businesses

MSBs delivered stronger profitability in 2025, underpinned by cost reductions and continued remittance growth.

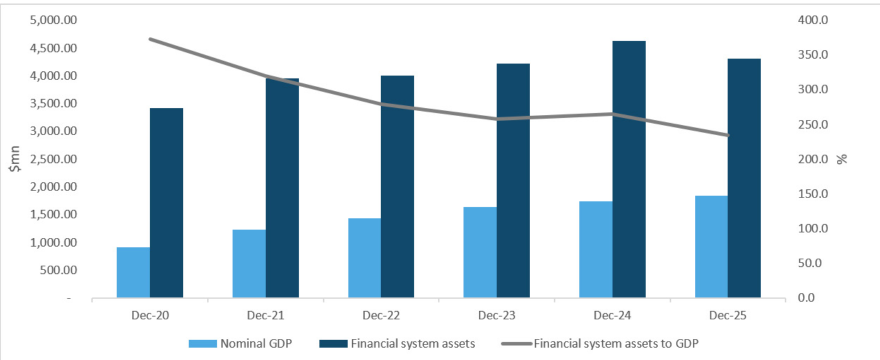
Investments*

Assets under management increased, as mutual funds and equities dominated investment portfolio allocations.

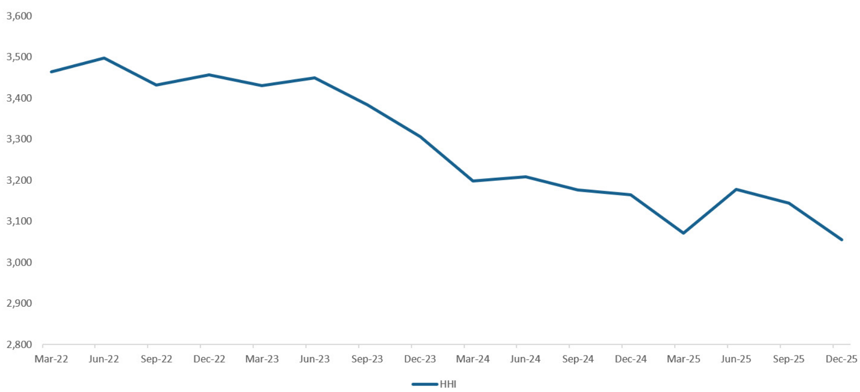
Trust Companies

Trust sector assets grew in 2025, with higher income and disciplined cost management driving stronger profitability.

Financial Intermediation



Market concentration remained significant, as two Canadian-owned banks controlled approximately 70% of the banking sector's total assets.



Though the banking sector remained concentrated, the Herfindahl-Hirschman Index (HHI) declined further in 2025, signalling gradual improvement in market diversification over time.

*One Investment dealer surrendered its license in 2025.

Risks to Financial Stability

US Recession: Weaker tourism arrivals could reduce economic activity and increase non-performing loans in the banking sector.

Global Trade Uncertainty: Policy uncertainty may delay foreign direct investment (FDI) inflows and weaken tourism demand and investor confidence.

Commodity Price Shocks: Geopolitical conflicts could drive inflation higher and tighten financial conditions through imported price pressures.

Lack of Deposit Insurance and Lender of Last Resort: The absence of these key features heighten the risk of sector-wide liquidity stress and depositor panic.

Counterparty & Concentration: Concentrated offshore placements increase exposure to counterparty failures and repatriation constraints.

Cyber: Rising cyber threats and reliance on third-party service providers could disrupt financial services and undermine confidence if critical systems are compromised or experience prolonged outages.

Correspondent Banking: Ongoing de-risking may threaten access to critical payment channels that support tourism, remittances, and FDI.

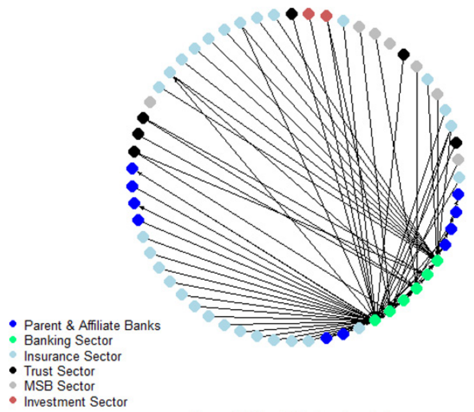
Climate & Natural Disasters: climate-related shocks could simultaneously impact tourism, property values, insurance claims, and financial stability, while rising reinsurance costs may increase protection gaps.

Network Analysis

In collaboration with CARTAC[1], the FSC conducted its first network-based contagion analysis to assess how credit and funding shocks propagate across the domestic and regional financial systems.

The assessment expanded systemic risk surveillance by incorporating both domestic and cross-border exposures among banks, parent institutions, affiliates, and NBFIs[2].

The analysis identified systemically important institutions, key contagion channels, and concentration risks, providing a stronger foundation for macroprudential monitoring and policy development.



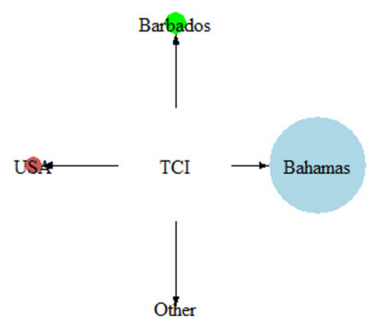
Source: TCI Financial Services Commission
Note: The graph was updated to reflect parent and affiliate banks

Domestic Interconnectedness

- Domestic banks and NBFIs remain highly interconnected, primarily through regulatory restricted deposits held by NBFIs with local banks.
- A small number of large banks hold most of the restricted deposits, with insurance companies being the largest contributors, amplifying potential systemic risk if a major bank experiences distress.
- No significant interconnections exist within the domestic banking sector due to the absence of a central bank or central payment system that would typically facilitate interbank liquidity markets.

Regional Interconnectedness

- Domestic banks continue to place substantial liquidity with overseas parent companies and affiliates, creating material cross-border interconnectedness.
- Exposure to foreign institutions may result in potential losses from counterparty distress and delays in accessing funds due to regulatory or operational constraints abroad.
- Overseas deposits remain largely within the Caribbean, particularly in the Bahamas and Barbados, limiting geographic diversification and increasing exposure to shared regional and climate-related risks.



Source: TCI Financial Services Commission

Banking System Resilience

Solvency Stress Test

- Under both the inflation and stagflation scenarios, banks experienced only moderate declines in capital levels, with no significant erosion stemming from credit portfolio losses and aggregate CAR remaining comfortably above regulatory requirements.
- The inclusion of concentration risk through the default of the largest borrowers reduced capital buffers further, but the banking sector as a whole remained resilient under both moderate and severe stress scenarios.

Liquidity Stress Test

- The banking sector remained broadly resilient under both domestic and regional liquidity stress scenarios, with all but one bank exhibiting some vulnerability under the simulated shock scenarios.
- Vulnerabilities were more pronounced under the severe regional stress scenario, where larger haircuts on foreign placements increased funding gaps, highlighting the importance of robust liquidity risk management, contingency funding plans, and ongoing supervisory oversight.

Key Policy Initiatives

Strengthen liquidity risk management and funding resilience through enhanced liquidity monitoring, improved supervisory reporting, a liquidity dashboard, and updated guidance on liquidity risk management and governance.

Address real estate and concentration risks by advancing the development of a Residential Property Price Index (RPPI) to support the monitoring of property market developments and the early identification of emerging vulnerabilities.

Enhance stress testing and macroprudential surveillance by expanding bank solvency and liquidity stress testing, incorporating the insurance sector, and gradually integrating climate-related risks into supervisory scenarios.

Improve supervisory data and risk-based oversight through stronger data quality and coverage, continued alignment with international standards, and the continued phased implementation of the Risk-Based Supervision (RBS) framework.

Expand the regulatory and supervisory perimeter through the development of a regulatory framework for Virtual Asset Service Providers (VASPs), including licensing, supervision, and AML/CFT requirements.

Strengthen oversight of emerging financial sectors by reviewing the credit union supervisory framework and ensuring new and evolving financial activities are subject to appropriate regulation and supervision to safeguard financial stability.

Turks and Caicos Islands Financial Services Commission

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