TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

FINANCIAL STABILITY

REPORT 2025

TURKS AND CAICOS ISLANDS

FINANCIAL SERVICES COMMISSION

Financial Stability Report

2025

Comments and suggestions may be sent to:
fsc@tcifsc.tc

Disclaimer

This report is published by the Financial Services Commission for general information only and does not constitute financial or other advice. The Commission is not liable if this report is used for an alternative purpose for which it is not intended. While the Commission takes every precaution to ensure the accuracy of the information published in this report, the Commission will not be liable to any person where the information reported is incomplete, subject to interpretation or incorrect.

Table of Contents

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATIONS

AFSI	Aggregate Financial Stability Index
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BSI	Banking Stability Index
CAIR	Caribbean Association of Insurance Supervisors
CAR	Capital Adequacy Ratio
CARTAC	Caribbean Regional Technical Assistance Centre
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CPI	Consumer Price Index
FSI	Financial Soundness Index
FVI	Financial Vulnerability Index
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IADB	Inter-American Development Bank
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
LAC	Latin American and Caribbean
MaFi	Macro-Financial Index
MSB	Money Services Businesses
NBFI	Non-Bank Financial Institution
NPL	Non-Performing Loan
PARC	Producer Affiliated Reinsurance Company
RBA	Risk-Based Approach
RBS	Risk-Based Supervision
RHS	Right Hand Side
ROA	Return on Assets
ROE	Return on Equity
RWA	Risk-weighted Assets
TCI	Turks and Caicos Islands
UK	United Kingdom
US	United States of America
WECI	World Economic Climate Index
WEO	World Economic Outlook

LIST OF CARIBBEAN ISLAND ABBREVIATIONS

CARIBBEAN: TOURISM DEPENDENT COUNTRIES

Antigua & Barbuda	**A&B**
Aruba	**ARB**
The Bahamas	**BHS**
Barbados	**BAR**
Belize	**BLZ**
Dominican Republic	**DOM**
Grenada	**GRN**
Jamaica	**JAM**
St. Kitts & Nevis	**SKN**
St. Lucia	**SLA**
St. Vincent & the Grenadines	**SVG**
Turks & Caicos Islands	**TCI**

CARIBBEAN: NON-TOURISM DEPENDENT COUNTRIES

Haiti	**HTI**

CARIBBEAN: COMMODITY EXPORTERS

Guyana	**GUY**
Suriname	**SUR**
Trinidad & Tobago	**T&T**

FOREWARD

Dear Readers,

Financial stability is fundamental to sustaining economic growth, preserving public confidence, and supporting the continued prosperity of the TCI. In an increasingly interconnected and uncertain global environment, the resilience of our financial system remains a key priority for the Financial Services Commission. It is in this context that I am pleased to present the 2025 Financial Stability Report.

The report provides an assessment of the domestic financial system and the external environment in which it operates, including an evaluation of key risks, vulnerabilities, and the system's capacity to continue supporting economic activity in the face of potential shocks. It also reflects the Commission's ongoing commitment to strengthening financial stability surveillance, enhancing risk identification, and supporting the development of a safe, sound, and resilient financial system.

The Commission's assessment indicates that the financial system remained resilient throughout 2025, supported by generally sound fundamentals across key sectors. Domestic economic activity was robust, underpinned by the continued strength of the tourism industry, sustained construction and real estate investment, low unemployment, and a strong fiscal position. The affirmation of the TCI's sovereign credit rating during the period further reinforced external confidence in our economic and institutional framework. Against this backdrop, financial institutions continued to operate from a position of strength, with sound capital and liquidity buffers supporting overall stability.

At the same time, resilience should not be interpreted as the absence of vulnerability. The external environment remains characterised by uncertainty, including geopolitical tensions, trade policy developments, inflationary dynamics, climate-related risks, and other emerging vulnerabilities. Domestically, structural features of the financial system and close linkages with external markets continue to warrant close supervisory attention. The Commission therefore remains focused on identifying emerging vulnerabilities, strengthening macroprudential oversight, and ensuring that regulated entities remain well positioned to withstand future shocks.

This year's report also reflects continued progress in strengthening the Commission's financial stability framework. With technical assistance from the Caribbean Regional Technical Assistance Centre (CARTAC), we enhanced our liquidity stress testing framework and expanded our analysis of interconnectedness and contagion risks. These developments support a more structured assessment of system-wide vulnerabilities and provide a stronger evidence base for supervisory judgement.

Looking ahead, the Commission will continue to refine its macroprudential toolkit, drawing on insights from ongoing surveillance, stress testing, and supervisory analysis. Particular attention will be directed to liquidity and climate-related risks, financial innovation, real estate market developments, and interconnectedness across regulated sectors. The Commission will also continue working on establishing a regulatory framework for virtual asset service providers and to support supervisory coverage that remains responsive as the market evolves.

The Commission remains firmly committed to fulfilling its mandate with independence, integrity, and vigilance. We will continue to work collaboratively with regulated entities, government, regional partners, and international standard setters to safeguard the stability and resilience of the TCI's financial system.

I would like to extend my sincere appreciation to the Commission's staff and our partner institutions for their valuable contributions to the preparation of this report. We trust that this publication will continue to serve as a useful resource for policymakers, industry participants, investors, and the wider public.

Kenisha Bacchus
Managing Director (Ag.)
Turks and Caicos Islands Financial Services Commission

PREFACE

The Financial Services Commission (the Commission) is entrusted with safeguarding and promoting the stability of the financial system in the Turks and Caicos Islands (TCI). This responsibility encompasses the continuous identification, assessment, and mitigation of risks that could undermine system-wide resilience. The Commission defines financial stability as the capacity of the financial system to absorb internal and external shocks while maintaining its core functions, such as facilitating payments, allocating capital, and supporting economic activity, without significant disruption.

This report presents key developments and vulnerabilities within TCI's financial system, drawing attention to risks that may undermine its stability. In fulfilling this mandate, the Commission plays a proactive role in monitoring financial institutions and macroeconomic developments to ensure that the system remains robust and adaptive in the face of evolving challenges.

OBJECTIVES OF THE REPORT

This report aims to:

- Provide an overview of risks and threats to financial stability in TCI, and evaluate the system's resilience in response to these challenges;
- Assess trends in key risk indicators and present the results of stress testing exercises; and
- Examine emerging risks and their potential implications for stability.

SCOPE AND FOCUS

The report examines macro-financial developments across international, regional, and domestic landscapes, with a particular emphasis on the domestic financial system. This includes banks, investment firms, domestic insurance companies, trust companies, and money service businesses (MSBs). The domestic banking sector receives focused attention due to its critical role in financial intermediation and its potential to trigger systemic instability, given its deep interconnectedness with the broader economy.

Notably, institutions licensed to operate exclusively outside of TCI are excluded from the scope of this report.

REGULATORY OVERSIGHT

In addition to prudential supervision of financial institutions, the Commission is responsible for supervising corporate service providers, non-profit organisations, and designated non-financial businesses and professionals for compliance with anti-money laundering (AML), combating the financing of terrorism (CFT), and counter-proliferation financing (CPF) standards.

Unless otherwise stated, all data referenced in this report are as of 31 December 2025.

This publication is intended to enhance public understanding and transparency regarding risks in the financial sector.

The report is available for download at: http://www.tcifsc.tc/financial-stability-reports.

ACKNOWLEDGEMENTS

The Financial Stability Report is an output of the Financial Services Commission. The Commission acknowledges the contribution of several government agencies, including the TCI Treasury and Statistics Department, for providing fiscal and economic data for this report.

AUTHORS

The Policy Unit:

- **Chivel Greenland, Senior Policy Analyst**
- **Xuxa Gordon, Senior Policy Analyst**

EXECUTIVE SUMMARY

3.2%
Global Growth

3.9%
TCI Economic Growth in 2025

233.9%
Financial System Assets to GDP

Risk Assessment

In 2025, the global economy remained resilient. Global economic output expanded by 3.2 per cent, supported by above-average growth in the United States and parts of Asia, the continued recovery in services, and investments tied to digitalisation and the build-out of artificial intelligence infrastructure. Global inflation continued its downward trend, reflecting lower food and energy prices and the restrictive monetary policy stance maintained by most central banks in recent years. Despite these favourable economic conditions, global uncertainty increased markedly during the year. Trade and economic policy volatility intensified, while conflict in the Middle East, a major global oil and gas producing region, introduced additional geopolitical risks. Although recent diplomatic efforts appear to have reduced the immediate risk of further escalation, geopolitical risks remain elevated and continue to weigh on the global outlook.

Consequently, risks to financial stability remain tilted to the downside. Further expansion of the conflict, including damage to energy infrastructure and disruptions to global supply chains, could intensify volatility in commodity prices and destabilise inflation expectations. As a commodity-importing economy, the TCI is particularly vulnerable to these supply-side shocks.

The TCI's economy expanded by 3.9 per cent in 2025, driven by strong tourism activity and sustained momentum in the real estate sector. Unemployment also declined, reflecting the strength of the local economy, particularly within the tourism sector. In addition, the TCI is projected to achieve a fiscal surplus of approximately 3.2 per cent of GDP, while the government has repaid nearly all its debt and is expected to remain a net creditor. Together, these favourable macroeconomic developments have reduced the risk of financial instability stemming from the local macroeconomic environment.

Stress Testing

Solvency stress testing results indicate that banks remain resilient to macroeconomic shocks; however, adverse stress scenarios highlight vulnerabilities, especially associated with credit concentration. Under both inflation and stagflation scenarios, the banking sector remained adequately capitalised and well above the 11 per cent regulatory minimum. However, under the stagflation scenario, where a bank’s largest borrower is assumed to default, CARs for some banks are projected to fall below the regulatory minimum, underscoring the risks associated with concentrated exposures.

Banks remain broadly resilient to domestic and regional liquidity shocks under the new cash-flow based stress testing model. Under both scenarios, most banks maintain adequate liquidity buffers to absorb the simulated shocks. The FSC will continue to closely monitor banks' liquidity risk management and contingency funding plans to support early detection of risks to the overall stability of the banking system.

Network and Contagion Analysis

Domestic banks and non-bank financial institutions (NBFIs) remain highly interconnected, owing primarily to regulatory requirements for NBFIs to place restricted deposits with domestic banks. This arrangement results in a concentrated financial network, with a small number of large banks serving as the main counterparties for these deposits. Accordingly, any disruption affecting those banks could have implications for the stability of NBFIs.

As at December 2025, TCI banks placed a significant portion of their liquid assets ($1.82 billion) with overseas financial institutions, including parents and affiliates. This creates both counterparty risk, arising from the potential failure of foreign institutions holding TCI deposits, and transfer risk, where the repatriation of funds to TCI may be constrained by regulatory barriers overseas. In addition, the concentration of placements within the Caribbean hampers diversification, leaving the system more exposed to correlated stress events.

Contagion analysis shows that parent and affiliate banks transmit shocks to the local financial system through the credit channel. As they are the main recipients of placements from domestic banks, any default on these exposures would result in losses to domestic banks.

NBFIs are vulnerable to banking sector distress but generate limited systemic funding contagion. As a few local banks are the primary recipients of restricted deposits, any default by these banks would adversely affect the capital of the NBFIs. However, withdrawals by NBFIs would not materially impact the banks' liquidity positions, indicating that NBFIs do not amplify shocks within the banking system.

Analysis of the Financial System

TCI's financial system is large relative to the size of its economy, with total assets amounting to 233.9 per cent of GDP. The banking sector accounts for the largest share, at 173.6 per cent of GDP, while the non-bank financial sector represents a further 60.3 per cent of GDP and consists predominantly of investment-related assets. The banking sector is also highly concentrated, with the two largest entities holding over 70 per cent of total banking assets. Those two banks operate under traditional credit and liquidity intermediation models, while the smaller banks specialise in offshore wealth management services.

The banking sector's loan portfolio expanded by 11.9 per cent over the review period. This growth is primarily attributable to a 17.9 per cent increase in personal credit, as household mortgages expanded by 24.6 per cent. Consistent with the expansion in local economic activity, tourism and entertainment, and the construction and land development sub-sectors contributed meaningfully to overall loan growth, with increases of 11.4 per cent and 44.9 per cent respectively.

Banks maintained strong liquidity positions and customer deposits continued to be the primary source of funding for loan growth. Liquid assets increased by 5.0 per cent year-over-year to $2.1 billion, representing 61.4 per cent of banks' total assets. Customer deposits grew by 6.9 per cent to $2.4 billion, while the gross loan-to-deposits ratio (LDR) remained well below levels typically associated with elevated funding risk, underscoring the sector's overall strong liquidity and funding profile.

Overall, the banking sector remained resilient during the review period, with financial soundness indicators continuing to point to strong solvency and asset quality, despite modest declines in profitability and capital adequacy. Aggregate profits fell by 12.6 per cent year-over-year, reflecting higher provisioning for doubtful debts. Although capital adequacy declined slightly as risk-weighted assets increased, banks remained well capitalised with capital ratios comfortably above the regulatory minimum of 11 per cent. Asset quality also remained strong, with non-performing loans (NPLs) continuing to trend downward over the year.

The insurance sector remained financially sound, with both life and non-life segments maintaining strong liquidity and solvency positions. The non-life segment, which accounts for 87.1 per cent of domestic insurance assets, remains heavily reliant on overseas reinsurance. Overall, insurers remained well positioned to meet both their short- and long-term obligations.

In the investment sector, assets under management contracted by 33.6 per cent year-over-year, largely reflecting the exit of one investment dealer from the market. Alongside this structural change, investment dealers' portfolios were challenged by market volatility driven by geopolitical developments, trade policy uncertainty, and persistent inflationary pressures, among other shocks.

SECTOR HIGHLIGHTS

BANKING SECTOR

- ✓ Loan portfolio grew by 11.9% year-over-year.
- ✓ Strong asset quality as non-performing loans continued to decline.
- ✓ Capital adequacy ratios declined modestly, while the sector remained well capitalised.

Overall, the banking sector remained well capitalised, liquid and resilient throughout 2025.

RISK ASSESSMENT

2025-2026 Risk Heat Map

Risk	Likelihood	Impact	Trend	Rationale
US economic downturn	4 (High)	5 (Very High)	↑	The risk of a US recession is materially elevated and explicitly linked to weaker tourism arrivals with likely spillover to the domestic banking industry through higher non-performing loans.
Protectionism shock	4 (High)	4 (High)	↑	Uncertainty in global trade policy may defer foreign direct investments; for TCI, this transmits via lower tourism demand and confidence.
Geopolitical risk	4 (High)	4 (High)	↑	Conflict-driven commodity price shocks fuel inflation and tighten financial conditions; TCI is vulnerable to imported inflation due to its reliance on imports.
Confidence/run risk (Lack of deposit insurance)	3 (Medium)	5 (Very High)	↔	A persistent threat; impact is amplified by the absence of a central bank as the lender-of-last-resort and the potential for sector-wide panic.
Counterparty & transfer risk (Cross-border liquidity placement concentration)	3 (Medium)	4 (High)	↔	Offshore placements are heavily concentrated in a few jurisdictions; counterparty failure risk and repatriation constraints limit diversification benefits.
Cyber risk / operational disruption (including third-party dependency)	3 (Medium)	4 (High)	↑	Global cyberattacks continue to rise; dependence on third parties for key services increase systemic vulnerability. A severe incident could erode confidence and disrupt local services.
Correspondent banking (de-risking)	4 (High)	4 (High)	↔	Impact of ongoing de-risking driven by AML/CFT compliance and reputational concerns is high because correspondent banking underpins tourism receipts, remittances, and FDI channels in the TCI.
Climate-related and reinsurance risks	4 (High)	4 (High)	↔	TCI's hurricane-belt exposure is an ever-present downside risk; shock can hit tourism, property, claims, and collateral values simultaneously. Furthermore, rising reinsurance costs driven by climate disasters, along with the risk that reinsurers withdraw from the market, can have systemic effects, including more uninsured losses and higher insurance premiums.

KEY TAKEAWAY

Geopolitical uncertainty, cross-border liquidity placement concentration and cyber threats remain the key risks to financial stability.

Lack of Deposit Insurance: A Persistent Threat

The absence of a deposit insurance scheme in the TCI amplifies financial stability risks, particularly in the event of a bank failure. Deposit insurance plays a critical role in preserving depositor confidence by ensuring timely access to insured funds, thereby reducing the risk of panic and contagion across the banking sector. In its absence, even isolated stress at an individual institution could undermine broader confidence and heighten the potential for systemic disruption. That said, this risk is partially mitigated by the continued maintenance of strong liquidity positions by systemically important banks, which provides an important buffer against adverse shocks.

Escalating Climate and Cyber Risks

Global environmental changes, including rising sea levels, warming oceans, and increasing disruption to atmospheric and oceanic circulation, pose growing risks to human health, economic activity, and financial stability. Although Caribbean small island states contribute a negligible share of global greenhouse gas emissions, they are among the most exposed to climate impacts due to their geographic location, narrow economic base, and heavy reliance on tourism and other sensitive sectors. For the Turks and Caicos Islands, climate risk may be transmitted through higher insurance costs as the frequency and severity of natural disasters increase. While reinsurance pricing has moderated recently amid improved capacity, the increasing frequency and severity of natural disasters could place upward pressure on reinsurance costs over the longer term. Such increases are typically passed on to policyholders through higher premiums and deductibles. As insurance becomes less affordable, households and businesses may reduce coverage or become underinsured, increasing economic vulnerability and potential fiscal costs in the aftermath of major disasters. However, these risks are partially mitigated through TCI's participation in regional risk-pooling initiatives such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF[1]), which provides rapid liquidity following natural disasters and helps support economic resilience and livelihoods.

Cyber risks continue to intensify as the adoption of artificial intelligence expands, increasing vulnerabilities across financial systems. Reported cyberattacks have nearly doubled since the COVID-19 period, with the financial sector accounting for approximately one-fifth of global incidents[2]. While no cyber event has yet caused systemic disruption, the growing scale and sophistication of AI-enabled attacks raise the risk that a severe incident affecting a major financial institution could undermine confidence and disrupt critical services. Governance risks are also rising due to increased reliance on third-party providers for AI data, algorithms, cloud computing, and IT outsourcing. This dependence heightens ethical, data privacy, security, and regulatory compliance risks, potentially amplifying systemic financial vulnerabilities. Given the high degree of interconnectedness within the TCI financial system, a significant cyber incident could disrupt banking operations, erode trust in financial institutions, and pose broader risks to financial stability (see **Domestic and Cross-Border Interconnectedness**).

Correspondent Banks, De-risking and the Implications for the Region

Mounting compliance costs associated with increasingly stringent AML/CFT requirements, together with elevated reputational risks linked to money laundering and drug trafficking, continue to drive correspondent banks to de-risk from the Caribbean. The global contraction in correspondent banking relationships (CBRs)[3] has persisted, with relationships declining further and Caribbean jurisdictions remaining among the most affected worldwide. While the loss of correspondent banking relationships has been a significant challenge in several Caribbean jurisdictions, there is limited

[1] CCRIF is the Caribbean and Central America Parametric Insurance Facility and Development Insurer. It is the world's first multi-country, multi-peril risk pool based on parametric insurance and the leading provider of parametric insurance for Caribbean and Central American governments, as well as electric utility companies and water utilities.
[2] IMF Global Financial Stability Report (April 2024), Chapter 3: Cyber Risk: A Growing Concern for Macrofinancial Stability
[3] Correspondent Banking Relationships

evidence of a comparable impact on the TCI to date. Nevertheless, the jurisdiction remains exposed to regional de-risking pressures, and any future reduction in correspondent banking access could increase transaction costs, constrain cross-border payment services, and affect the efficiency of international financial transactions.

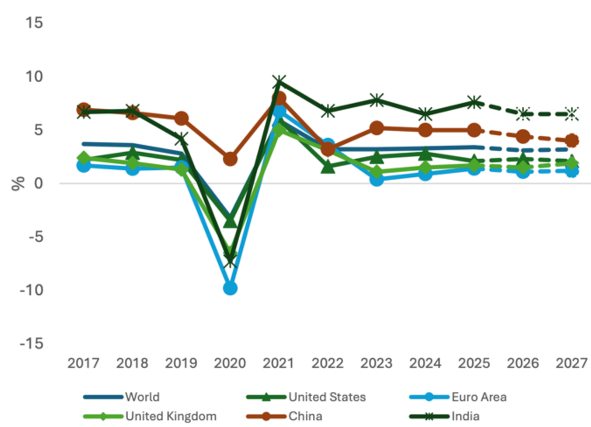
These pressures are reinforced by international risk assessments. **In its 2025 International Narcotics Control Strategy Report, the US Department of State once again identified several Caribbean jurisdictions as money laundering centres and drug transit corridors, reinforcing negative perceptions among global banks.** The region's geographic position between South America and the United States continues to heighten exposure to transnational drug-related criminal activity, further amplifying correspondent banking risk aversion.

Correspondent banking relationships are nevertheless critical to Caribbean economies, forming the backbone of cross-border payments, trade finance, tourism receipts, remittance inflows, and foreign direct investment. Continued erosion of these relationships risks constraining access to global financial markets, raising transaction costs, lengthening payment chains, and, in extreme cases, forcing economic activity into less transparent channels.

Global banks cite the rising cost of complying with Basel AML/CFT expectations, FATCA, and OECD Global Forum tax transparency standards, alongside heightened supervisory scrutiny and potential extraterritorial enforcement risks, as key drivers of de-risking. For small Caribbean banks, relatively low transaction volumes and thin margins often make correspondent relationships commercially unviable once compliance costs are factored in. As relationships are terminated, local institutions increasingly rely on costlier, slower, and less reliable, intermediated arrangements, weakening financial inclusion and posing longer-term risks to economic resilience and financial stability.

Global Economic Growth Subdued but Resilient in 2025

Figure 1: IMF Global Growth Estimates and Projections



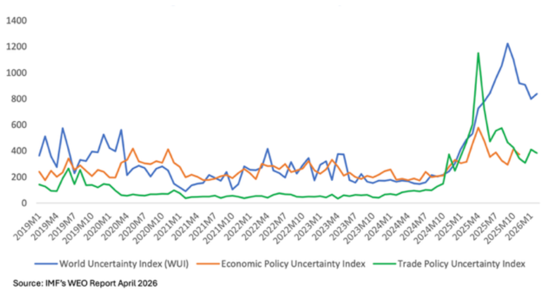
Sources: TCI Financial Services Commission and IMF's WEO April Report

Global economic growth remained resilient but subdued in 2025, with output expanding at around 3.2 per cent (see Figure 1). Growth was supported by stronger-than-expected activity in the United States and parts of Asia, continued recovery in global services—particularly travel and tourism—and pockets of public and private investment linked to digitalisation and artificial intelligence[4]. However, these positive impulses were partially offset by weakening manufacturing activity, particularly in China, and the fading of temporary supports such as post-pandemic reopening effects. While the 2025 growth was steady, it was insufficient to materially lift long-term prospects, as global output remained well below pre-pandemic (2000–19: 3.7 per cent) trend amid heightened policy uncertainty and geopolitical tensions **(refer to Figure 2)**[5].

[4] IMF's World Economic Outlook (WEO)
[5] World Bank

Global inflation continued to ease in 2025, falling to around 4.2 per cent, though remaining above pre-pandemic figures in several economies. Disinflation was driven primarily by overall declining energy and goods prices, improved supply chain conditions, and relatively tighter monetary policy over the preceding years. Inflation in advanced economies generally moved closer to central bank targets, while price pressures in emerging markets moderated more gradually due to currency depreciation and still-elevated food and energy costs. While headline inflation declined, service inflation and wage pressures remained sticky in some economies, reflecting tight labour markets[6].

Figure 2: Global Uncertainty Indices



Despite relatively stable economic conditions, global uncertainty peaked in 2025 (see Figure 2). Uncertainty rose sharply, led initially by increasingly fickle trade policy, which spiked early in the year and reached extreme levels, consistent with heightened tariff unpredictability and rapid adjustments in global trade behaviour. There was also a growing lack of clarity surrounding economic policy in early 2025, reflecting broader opacity around the policy environment, with trade policy a key contributor. As the year progressed, the rise in the World Uncertainty Index indicated a widening of risks beyond trade to encompass more generalised global concerns, consistent with an environment shaped by persistent geopolitical tensions and geoeconomic fragmentation. Elevated uncertainty, particularly relating to trade and economic policy, tends to dampen growth by weakening investment and trade through heightened risk aversion and delayed decision-making.

Global Economic Outlook: Fragile Resilience amid Persistent Uncertainty

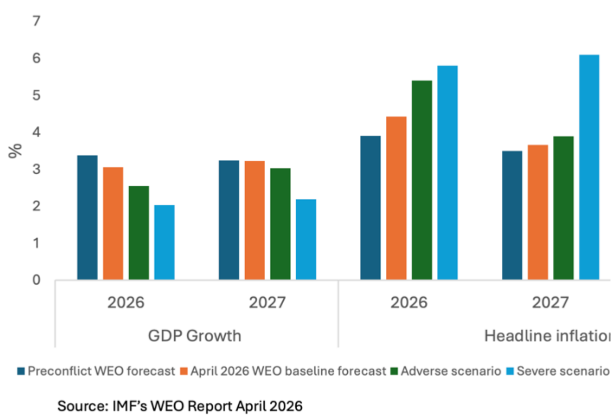
Prior to the outbreak of the conflict in the Middle East, projections pointed to a stable and moderately improving global growth trajectory. Under the pre-conflict baseline projections, global output was expected to expand by 3.4 per cent in 2026 and 3.2 per cent in 2027, while inflation was anticipated to be 3.9 per cent and to decelerate to 3.5 per cent in 2027. These projections reflected easing trade frictions and stronger-than-anticipated economic momentum toward the end of 2025 and into early 2026, which provided a positive base for the forecast horizon (**refer to Figure 3**). Also under the baseline scenario, global disinflation is expected to stall in the near term, with headline inflation rising from 4.1 per cent in 2025 to 4.4 per cent in 2026 before easing to 3.7 per cent in 2027. This upward revision reflects renewed pressures from higher energy and food prices and underscores the persistence of inflation risks at a time when price stability had appeared within reach.

In the baseline forecast, the assumption is that the conflict is relatively short-lived; global growth is projected to slow modestly but remain resilient. Under this scenario, growth is expected to reach 3.1 per cent in 2026 and 3.2 per cent in 2027, decelerating from the estimated 3.4 per cent achieved in 2025. This is a modest (0.2 percentage points) downward revision relative to the January 2026 WEO Update and reflects continued tailwinds, including lower tariffs and strong growth outturn in 2025, which partially offset the negative shocks stemming from the conflict.

[6] Organisation for Economic Cooperation and Development

In the adverse scenario, oil prices rise sharply (+80 per cent to $100/b[7] in mid-2026 before partially unwinding in 2027 (falling back to about 20 per cent of baseline to $75/b), while gas and food prices also increase significantly. Inflation expectations drift higher, and a risk-off episode tightens financial conditions, particularly for emerging markets. Under these assumptions, global growth declines in 2026 to 2.5 per cent and in 2027 to 3.0 per cent. Inflation rises to 5.4 per cent in 2026 and remains elevated in 2027, driven primarily by higher energy prices which initiates financial tightening via a modest increase in the policy rate.

Figure 3: Global Growth and Inflation Scenarios



The severe scenario entails larger and more persistent commodity price shocks, sharper increases in inflation expectations, and a pronounced tightening of global financial conditions. In this case, global growth falls by 1.3 percentage points in 2026 (to 2.03 per cent), bringing the global economy close to recession territory (growth rate below 2 per cent[8]), and remains subdued in 2027 at 2.2 per cent. A global growth rate of below 2 per cent has happened only four times since 1980, with the latest two occasions corresponding to the global financial crisis and the COVID-19 pandemic. Under this scenario, oil prices are assumed to double starting in the latter half of 2026 relative to the baseline, averaging about US$110/b in 2026 and remaining elevated at around US$125/b in 2027, before gradually dissipating in 2028. Inflation rises sharply and remains elevated, prompting aggressive monetary tightening. Emerging markets bear a disproportionate share of the adjustment, reflecting greater exposure to commodity price shocks, capital flow volatility, and tighter financing conditions, underscoring the heightened vulnerabilities facing the global economy under a prolonged and intensified conflict scenario.

Medium-term global growth prospects remain subdued, reflecting structural headwinds from a global economy that will be more divided along geopolitical lines. Global growth over 2028–31 is projected at 3.1 per cent, well below pre-pandemic trend (3.7 per cent), limiting economies' ability to reduce debt burdens organically and rebuild fiscal buffers. The slowdown extends across major regions, raising concerns about a prolonged period of low growth and heightened susceptibility to negative shocks.

Looking ahead, global uncertainty is likely to remain elevated in the short term, with several potential inflection points posing risks of renewed volatility in uncertainty indices. Most notably, the situation in the Middle East remains fluid, with the likelihood of outcomes ranging from a ceasefire to a significant escalation in hostilities shifting from day to day. On the trade front, extending the Section 122 tariffs enacted by the U.S. administration beyond their initial 150-day period would require congressional approval, unless similar measures are implemented

[7] Per Barrel
[8] According to the IMF

under alternative legal authorities[9]. At the same time, the United States–Mexico–Canada Agreement (USMCA) is scheduled for a mandatory joint review by July 1, 2026, coinciding with the deadline for any tariff extension. Moreover, several US trade agreements with other partners currently offer only temporary relief and are set to expire by the end of 2026.

Risks to financial stability remain firmly skewed to the downside, with geopolitical escalation representing the most salient near-term threat. A protracted conflict that causes severe damage to energy infrastructure and results in lasting supply disruptions and scarring effects could intensify commodity price volatility, disrupt supply chains, and destabilise inflation expectations, cause exchange rate depreciation, and external imbalances—particularly for commodity-importing and remittance-dependent economies. Food insecurity, external payment pressures, and rising poverty could lead to destabilising economic adjustments. A rise in global risk aversion could lead to capital outflows and asset price corrections, disproportionately affecting emerging markets with weaker policy frameworks and limited fiscal and external buffers.

Additional systemic risks stem from financial market repricing, fiscal vulnerabilities, and confidence erosion in economic institutions. A correction in technology-heavy equity markets, especially if AI-related productivity expectations prove overly optimistic, could propagate through wealth effects, investment retrenchment, and tighter global financial conditions. Elevated public debt in several systemically important economies raises the risk that adverse shocks could trigger abrupt increases in sovereign borrowing costs, ripple through global financial markets, and exacerbate refinancing risks for high-debt developing countries. At the same time, political interference in independent institutions threatens to weaken policy credibility, unanchor inflation expectations, and entrench higher risk premia.

Domestic Growth Decelerates but Remains Strong

Table 1: Domestic Economic Indicators 2020 to 2026

	Actuals					Estimate	Projection
Indicators	2020	2021	2022	2023	2024	2025	2026
Nominal GDP ($ bil.)	0.91	1.18	1.35	1.64	1.75	1.84	1.93
Real GDP Growth (%)	-33.8	29.6	14.1	13.6	5.5	4.5	3.9
Unemployment rate (%)	11	9	8	7	5.5	4	4
Balance of Merchandise Trade (mil. $)	-345.8	-474.1	-678.8	-798.2	-879.4	-943.8	-991
Current Account Balance/GDP (%)	-4.3	13	25.8	27.8	30.6	29.6	28.4
CPI growth (%)	2.3	4.5	6	5.5	3	2.5	3

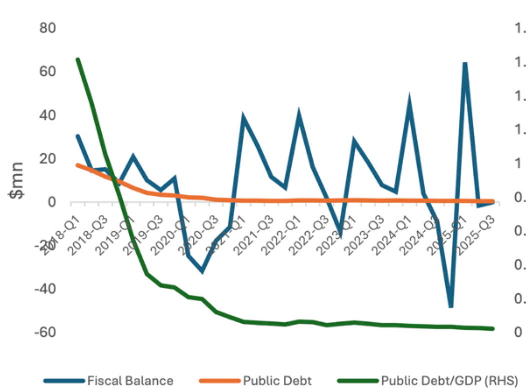
Sources: Ministry of Finance, the Treasury Department and S&P Ratings
** Figures may have been revised

[9]Section 122 of the Trade Act of 1974 authorizes the President to impose a temporary tariff surcharge of up to 15% ad valorem on all imports for up to 150 days, to address fundamental international payments problems. The current Section 122 surcharge took effect February 24, 2026, at 10%, raised to 15%, and expires automatically July 24, 2026, unless Congress acts.

Local economic activity continued to expand in 2025, although the pace of growth moderated for the fifth consecutive year following the post-COVID surge in 2021. Real GDP is estimated to have increased by 3.9 per cent in 2025, down from 4.5 per cent in the previous year. The expansion remained underpinned by tourism activity, alongside sustained momentum in real estate investment and construction industries.

Labour market conditions improved further in 2025, reflecting the resilience of the tourism sector, an anchor of domestic economic activity and the primary employer in TCI. The unemployment rate declined to 4.0 per cent in 2025, from 5.5 per cent in 2024 (**refer to Table 1**). Inflationary pressures eased, with headline inflation moderating to 2.5 per cent in 2025 from 3.0 per cent in 2024, providing some relief to households and businesses.

Figure 4: Fiscal Balance and Public Debt Continues to Improve



Sources: TCI Financial Services Commission and Treasury Department

TCI is estimated to have achieved a government surplus of approximately 3.2 per cent of GDP for the fiscal year 2025-2026, driven primarily by muted spending. As of 31 March 2026, revenues amounted to $563.2 million, largely in line with budget projections, while expenditure stood at $519.4 million, 3 per cent below the budgeted amount, resulting in a surplus. A fiscal surplus strengthens the government's capacity to absorb economic shocks without undue financial strain. It also enhances the TCI's appeal to investors and supports favourable sovereign credit ratings, thereby reinforcing overall financial stability.

The government has repaid almost all its debt and is expected to remain a sizeable net creditor[10] (refer to Figure 4). As at 31 March 2026, the government recorded a public debt of $0.31 million, compared to $0.56 million in the corresponding period of the prior fiscal year. The debt servicing capacity – measured by the ratio of public debt to GDP[11] – improved further over the review period. Strong economic activity and government efforts to keep the debt burden manageable have translated into a low and stable debt-to-GDP ratio for the past few years[12]. Maintaining prudent debt levels reduces the risk of financial instability arising from debt-related pressures. Low public debt also improves access to financing on favourable terms, providing a buffer against unexpected economic shocks and strengthening sovereign creditworthiness.

TCI's Credit Rating Affirmed at A-, Buoyed by Strong Growth Outlook

In February 2026, S&P Global Ratings affirmed TCI's long-term foreign and local currency sovereign credit ratings at 'A-', with the outlook remaining stable.

The stable outlook reflects S&P's view that risks to the territory's creditworthiness are broadly balanced over the next two years. Strong economic performance and sound institutional frameworks provide a solid basis for continued asset accumulation, helping to offset the vulnerabilities associated with

[10] A nation is a net creditor if it has more invested in foreign nations than they have invested in them. This usually implies the nation is running a trade surplus as it is taking some of the money earned on exports and investing it abroad.
[11] Annual GDP was converted to a quarterly series using the cubic last method.
[12] S&P Capital IQ

being a small island economy exposed to external shocks.

The ratings could be revised in response to adverse economic developments, a weakening of institutional ties with the United Kingdom (UK), or changes in per capita economic growth. A downgrade could occur over the next two years if an unexpected external shock leads to a significant economic contraction from which the territory struggles to recover, or if there is a material deterioration in governance stemming from a weakening of relations with the UK. Conversely, an upgrade could be considered if per capita economic growth materially exceeds S&P's expectations and is sustained over several years.

The affirmation of the sovereign credit rating has important implications for the TCI's financial stability. A strong and stable rating enhances government access to external financing by lowering borrowing costs and improving funding terms should financing be required, thereby preserving fiscal space and strengthening shock-absorption capacity. This, in turn, reduces the likelihood of sovereign stress spilling over into the domestic financial system, supports confidence in the jurisdiction, and contributes to overall macro-financial stability.

Solid Growth Outlook Tempered by Rising External and Climate-Related Risks

In the short to medium term, economic growth in TCI is expected to be underpinned by continued strength in the tourism, real estate, and construction sectors. Tourism prospects remain favourable, supported by the ongoing implementation of the National Tourism Strategy[13] and strengthened air connectivity. These factors are expected to boost stayover arrivals and stimulate wider economic activity across supporting sectors. Strong demand from high-income US visitors, alongside targeted efforts to diversify tourism offerings and enhance destination marketing, is projected to sustain momentum across the sector. Against the aforementioned factors, real GDP growth is forecast to average around 4 per cent over the next three years[14].

Investment activity is also expected to remain robust, supported by major resort and infrastructure projects, including the ongoing redevelopment of the Howard Hamilton International Airport and the South Dock Redevelopment project in Providenciales. Together with prudent fiscal management, these favourable growth dynamics are anticipated to further grow the budget surpluses over the near to medium term[15]. **Notwithstanding this generally favourable baseline, the economic outlook remains subject to several material downside risks. Chief among the global risks with potential for local spillover is the ongoing conflict in the Middle East.** Lower- and middle-income, net energy-importing economies are particularly exposed to higher energy and food prices, raising the risk of downward revisions to global, regional and local growth. These risks are compounded by an elevated likelihood of a recession in the United States, driven in part by heightened geopolitical tensions and oil price shocks – an external factor that has preceded almost every US recession since the Great Depression[16], despite the country's relative energy independence. **Leading forecasters currently assess US recession risks over the next 12 months as materially elevated, with estimates ranging from 30 per cent to nearly 50 per cent[17], and some warning that risks could rise further if geopolitical tensions intensify.** A materialisation of a US downturn

[13] Published March 2023
[14] S&P Capital IQ
[15] S&P Capital IQ
[16] The COVID-19 Pandemic is an exception to this
[17] CNBC Economy

would weigh significantly on tourism demand, the mainstay of TCI's economy, through weaker external demand and reduced travel spending. An additional source of downside risk arises from the TCI's susceptibility to hurricanes and other climate-related events, which can disrupt tourism, damage critical infrastructure, and weigh on the broader economic outlook.

ASFI, MAFI, and BSI Signal Mixed Conditions Across the Financial Sector

The 2025 macro-financial risk indicators, namely Banking Stability Indicator (BSI)[18], Macro-financial Index (MaFi[19]) and the Aggregate Financial Stability Index (AFSI[20]), point to mixed sentiments within the financial system (refer to Figures 5, 6 & 7 in Appendix A).

The BSI trended downward throughout the year, reflecting softer contributions from capital adequacy, liquidity and profitability, with capital buffers and earnings capacity being less supportive than in earlier years. At the same time, the AFSI remained broadly stable, with only a mild easing toward the end of the year, underscoring continued resilience in financial stability. On the contrary, the macro-financial indicator improved throughout 2025, primarily due to bettering central government balance as a percentage of GDP. In aggregate, these developments indicated a more challenging environment in 2025.

Against the backdrop of continued global economic and geopolitical uncertainty, it is likely that downside risks will gradually become more pronounced, particularly if external factors, such as persistently higher global interest rates, shifts in trade and supply chains, and/or renewed inflationary pressures, begin to transmit to domestic financial and economic conditions. These channels could affect non-performing loans, credit demand, asset valuations, and general confidence across the financial system. While TCI's financial system has so far demonstrated resilience and sound underlying fundamentals, maintaining ongoing surveillance of global developments and transmission risks is important to preserve stability and ensure that emerging vulnerabilities are identified and addressed in a timely manner.

KEY TAKEAWAY

The TCI economy remained resilient in 2025, supported by strong tourism, fiscal discipline and investment, although external risks continue to weigh on the outlook.

[18] The BSI is computed as the weighted sum of selected, normalised indicators that reflect the IMF's core financial soundness indicators of capital adequacy, profitability, asset quality and balance sheet liquidity. A higher value represents an improvement in financial stability, and a decrease symbolises a deterioration.

[19] The MaFi is an early warning signal-based indicator of systemic risk that computes scores based on the number of standard deviations of each indicator from its base period mean value. Computation of the overall value of the index requires aggregation of the signal scores (scores range from 0-5, with 5 representing the most severe signal) across all indicators. In the period leading up to instability, the signals will increase in terms of both the number of variables signalling and the severity of the signals. Increases in the value of the index reflect a deterioration in financial stability.

[20] The AFSI is a composite index generated as a weighted average of normalised macroeconomic data and financial statement variables to form an aggregate measure of financial stability. The index is grouped into four sub-indices, namely, financial development index (FDI), financial vulnerability index (FVI), financial soundness index (FSI) and the World Economic Climate Index (WECI). An increase in the value of the AFSI shows an improvement in financial stability, and a decrease indicates deterioration.

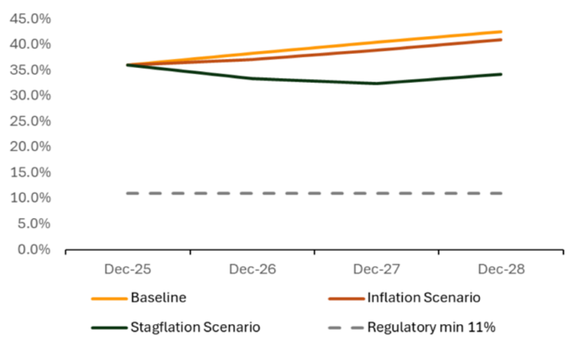
STRESS TESTING

Stress testing is used as a method of evaluating financial institutions' ability to withstand severe yet plausible shocks to credit and liquidity positions. These tests serve as a critical supervisory tool, allowing the swift identification of vulnerabilities in financial institutions and formulation of mitigation policies.

Macroeconomic Solvency Stress Test

Banking Sector Resilient to Macroeconomic Shocks

Figure 8: Capital Adequacy Ratio Trends Well Above Regulatory Minimum Amid Shock



Source: TCI Financial Services Commission

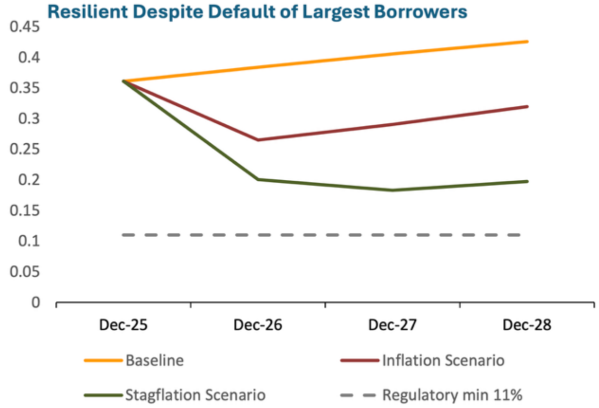
A multifactor, multi-period macroeconomic stress testing model was used to assess the resilience of domestic banks' solvency to local economic shocks arising from a potential global slowdown. This stress encompasses two adverse scenarios to capture varying degrees of impact on the local economy stemming from heightened global uncertainty, particularly the threat to global growth and inflation presented by the recent Middle East conflict. The first scenario considers a high inflation environment, while the second accounts for the introduction of stagflation[21].

The solvency stress test results showed that the banking industry remains broadly resilient over the medium term, supported by its relatively high capital adequacy levels and robust profitability. The projected aggregate CAR for the industry grew in both the baseline and inflation scenarios (**Figure 8**) as banks remain profitable with retained earnings contributing to the growth in regulatory capital. For the baseline scenario, aggregate CAR increased from 36.0 per cent in December 2025 to 42.5 per cent by December 2028. Under the inflation scenario, the projected aggregate CAR reached 40.9 per cent by December 2028, which is 1.6 percentage points lower than the baseline figure for the same period. Under the stagflation (severe) scenario, the industry's CAR is projected to decline but remain well above the 11 per cent regulatory minimum throughout the forecasted period. Importantly, it was assumed that banks would continue to pay dividends[22] throughout the shock periods. However, the Commission reserves the right to suspend dividend payments for banks whose capital falls below the regulatory minimum. Overall, the assessment found no substantial capital erosion from macroeconomic shocks to the banks' credit portfolios. The contribution of each factor to aggregate CAR in all scenarios over a three-year horizon is shown in **Figure 9 in Appendix A**

[21] Stagflation or recession-inflation is a situation in which the inflation rate is high or increasing, the economic growth rate slows, and unemployment remains high.
[22] The stress test assumes banks maintain a dividend payout rate of 20%.

Concentration Risk – Default of Largest Borrowers

Figure 10: Capital Adequacy Ratio (CAR) Remained Resilient Despite Default of Largest Borrowers



Source: TCI Financial Services Commission

Aggregate CAR Remained Above Regulatory Minimum, Despite Pockets of Vulnerability Under Adverse Stress

The addition of the default of the largest borrowers[23] to the macroeconomic solvency stress results in a further decline in the aggregate CAR, albeit remaining above the 11 per cent regulatory minimum (Figure 10). To incorporate a more comprehensive assessment, a scenario is considered in which macroeconomic stress conditions trigger a default by the banks' largest borrowers. The sector demonstrates resilience under the moderate scenario (inflation and default of the largest borrowers), with projected aggregate CAR declining to 32.0 per cent by December 2028. Under the severe scenario (stagflation and default of the largest borrowers), while the projected aggregate CAR remained above the regulatory limit, some banks were more sensitive to concentration risk, with CARs projected to trend below the minimum threshold. In such an event, these banks would require a total capital injection of approximately 2.6 per cent of GDP to restore their CAR to 11 per cent.

Overall, the sector demonstrates resilience at the aggregate level under both the moderate and adverse scenarios; however, pockets of vulnerability emerged under severe stress. These results assume that the Commission would suspend dividend payments throughout the projected stress period, thus supporting capital preservation.

[23] This assumes the default of the top three borrowers under the inflation scenario and the top five borrowers under the stagflation scenario

Box 1: Liquidity Stress Test

To enhance the assessment of the banking sector's resilience to liquidity shocks, the FSC, in collaboration with CARTAC, implemented a cash flow–based liquidity stress testing framework. This methodology aligns anticipated cash outflows from liabilities with projected inflows from assets maturing within a year. The stress outputs identify funding mismatches and evaluate whether banks' liquid assets are adequate to cover net cash outflows.

Model Description and Methodology

The CARTAC mission introduced an Excel-based tool. This tool uses a detailed maturity ladder data received from banks to assess the flow of assets and liabilities and net liquidity positions. The projected inflows categorise assets based on liquidity, while outflow projections break down deposits by type and stability. The tool applies haircuts to liquid assets, roll-off rates for maturing assets, and run-off rates to deposits based on their stability and deposit type.

The calibration of run-off rates within the stress testing framework is grounded by IMF guidance and international standards (**See Appendix B – Stress Test Assumptions).** The run-off rates used in the stress test framework are aligned with the IMF's guidance and international standards. More particularly, rates applied in the 0 to 30-day maturity buckets meet or exceed the Basel III Liquidity Coverage Ratio (LCR) benchmark. The calibration of deposit outflows relies on IMF's guidance, targeting total outflows of 15-30 per cent and 20-30 per cent over three and six months, respectively. This is consistent with the 10-24 per cent range observed in historical crises documented by the Financial Stability Board (FSB, 2024).

Roll-off rates are applied based on asset types and time to maturity. The stress test assigns roll-off rates between 35 and 50 per cent to loans maturing within 90 days. Securities maturing within the same period were given a roll-off rate of between 70-100 per cent. These rates represent banks' projected cash inflows based on the assumption of sustained economic activity and uninterrupted lending. Cumulative inflows account for approximately 30 per cent and 25 per cent of outflows under domestic and regional shock scenarios, respectively. These figures are in line with the Basel LCR guidelines that restrict inflows to 75 percent of outflows.

Haircut assumptions are designed to account for structural features of the TCI banking system, including the absence of key financial safety nets and reliance on external liquidity sources. Unlike many jurisdictions, TCI has no central bank, deposit insurance, or mandatory reserve requirements. As such, banks in TCI primarily manage net outflows by using vault cash and placements at foreign banks, most of which are parent companies or affiliated subsidiaries. While cash held in vault is immediately accessible, interbank placements present counterparty and transfer risks and may be subject to significant delays during the repatriation process (**See Cross-Border Interconnectedness**). To reflect these risks, varying haircuts are applied to these placements.

The stress testing framework incorporates both domestic and regional shock scenarios to capture a range of potential liquidity stress conditions. The domestic scenario assumes a shock that triggers significant deposit outflows from the TCI banking system. In contrast, the regional shock considers a more systematic disturbance affecting both the TCI and the wider Caribbean banking system, thereby increasing the risk of disruption to interbank placements. This regional dimension is particularly relevant given the shared vulnerabilities across Caribbean jurisdictions, including heavy reliance on tourism, commodity price fluctuations, and susceptibility to natural disasters.

Results

The stress test results indicate that the banking sector remains broadly resilient under both domestic and regional liquidity shocks, albeit with heightened vulnerabilities under more severe regional stress. Under both the domestic and regional scenarios, all but one bank demonstrated adequate buffers to absorb the simulated shocks. The liquidity drainage experienced by this bank was confined to the next-day time bucket (**see Table 2**).

Notably, banks experienced a larger funding gap in the regional stress scenario, primarily due to the larger haircuts applied to foreign placements (**see Figures 11a & 11b**). These haircuts reflect the potential challenges with repatriating cash to local banks during a regional crisis. In such an event, regional parent companies and affiliates could be limited in their ability to provide funding support or return foreign placements.

Overall, the Commission remains committed to the continuous supervision of banks' liquidity risk management practices and to ensuring that contingency funding plans remain robust and effective, thereby supporting the overall soundness and stability of the banking system.

Table 2: Liquidity Stress Results

		Time buckets					
		Next day	2 to 8 days	9 to 30 days	31 to 90 days	91 to 180 days	More than 180 days
No. of banks with liquidity drainage	Domestic Shock	1	0	0	0	0	0
	Regional Shock	1	0	0	0	0	0

Figure 11a: Domestic Shock Scenario

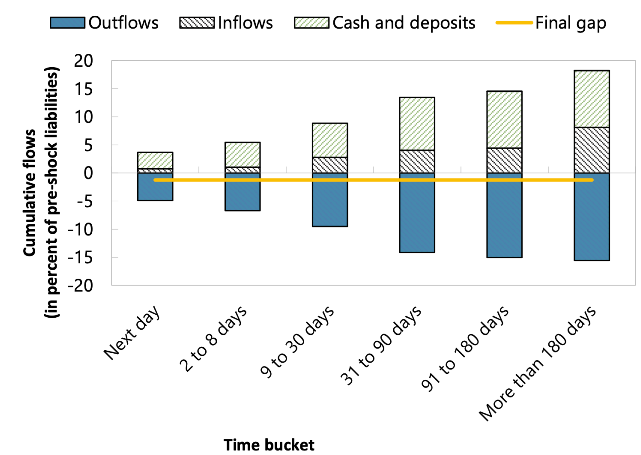
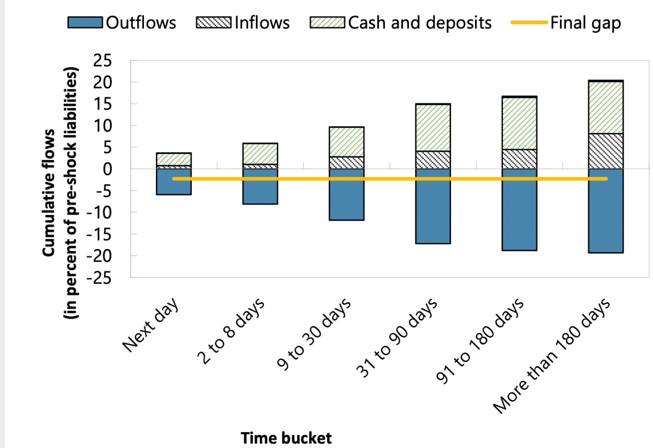


Figure11b: Regional Shock Scenario



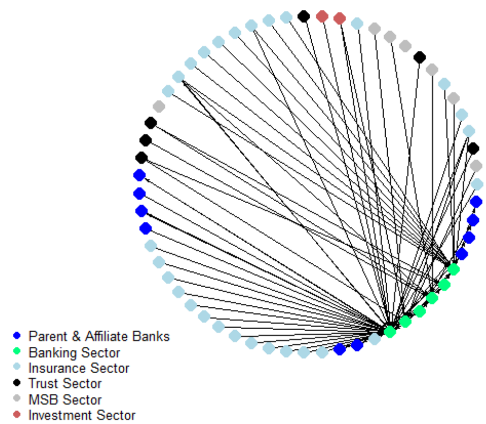
Network Analysis

Financial interconnectedness[24] drives efficient capital flows and diversifies risk, yet it also serves as a conduit to transmit shocks that spark systemic crises. Interconnectedness is a fundamental aspect of financial system development, involving various financial institutions to ensure that capital flows smoothly and efficiently from savers to borrowers. Interconnection facilitates credit expansion, fuelling economic growth, thereby supporting the real economy. Additionally, interconnectedness allows for diversification and risk-sharing by spreading exposure across multiple financial institutions, thus reducing the impact of shocks on any single entity. However, financial system interconnection may serve as a channel for risk transmission, where the failure of weak financial institutions triggers a broader systemic crisis, amplifying financial instability across the system.

Domestic Interconnectedness

Restricted Deposits Drive Strong Bank–NBFI Interconnections, Presenting a Potential Channel for Risk Transmission

Figure 12a: Financial Sector Interconnectedness Map - 2025



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

[24] Interconnectedness in the financial system refers to linkages between and across financial institutions (banks and non-banks).

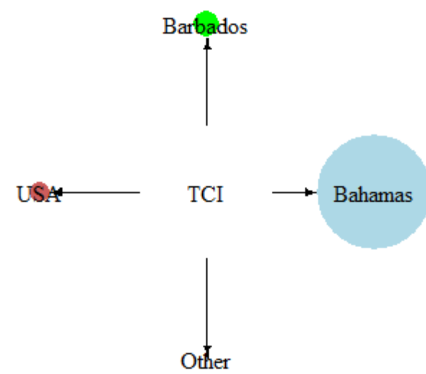
The 2025 interconnectedness analysis demonstrated that domestic banks and non-bank financial institutions (NBFIs[25]) remained highly interconnected, driven by regulatory requirements for NBFIs to hold restricted deposits. As shown in **Figure 12a**, there is a significant level of connectivity between domestic banks and NBFIs, as NBFIs are required to hold restricted deposits with a local bank to meet regulatory requirements. Restricted deposits serve multiple purposes for NBFIs, including safeguarding policyholders' interests, meeting minimum regulatory capital requirements, covering potential penalties payable to the Commission, and satisfying the costs associated with winding up the NBFI's operations. The network structure remains highly concentrated, with a few large banks acting as the primary recipients of these restricted deposits. As such, any financial distress experienced by those banks could create broader systemic concerns and compromise the security of restricted and other deposits. Importantly, insurance companies account for the largest share of restricted deposits and, as such, are the primary drivers of interconnectedness within the system.

Notably, there are no significant interconnections within the domestic banking sector, owing to the nonexistence of a central bank or central payment system, which traditionally facilitates inter-bank liquidity markets.

Cross-Border Interconnectedness

Significant Overseas Deposit Placements Present Counterparty and Transfer Risks for TCI Banks

Figure 12b: Cross-Border Deposit Outflows - 2025



Source: TCI Financial Services Commission

[25] NBFIs consist of the Trust Companies, Money Services Businesses, Investment Businesses, and Domestic Insurance Companies.

The placement of TCI banks' deposits with overseas parents and affiliates heightens counterparty and transfer risks. As at December 2025, banks continue to place a significant portion of their liquid assets[26] (approximately $1.82 billion) with financial institutions outside the TCI (**Figure 12b: Cross-Border Deposit Outflows**). Most of this liquidity (85.16 per cent) was with parent companies or affiliates in other Caribbean Islands. The Bahamas and Barbados were the primary recipients of these deposits, amounting to 69.57 per cent and 15.60 per cent, respectively. Outside the Caribbean, the US was the largest recipient, accounting for 12.03 per cent of deposit flows. The placement of funds with financial institutions overseas represents a significant source of counterparty risk[27] for local banks, even if placements are with subsidiaries, as domestic banks may be unable to recover funds should their foreign counterparts face financial distress. Additionally, transfer risk arises from potential regulatory, operational, or market constraints in foreign countries, which may impede or delay the repatriation of funds when needed. Importantly, the high concentration of deposits within the Caribbean region potentially limits the diversification benefits of cross-border placements, given that many countries within the region share similar vulnerabilities, including those related to climate change.

[26] "US dollar-denominated deposits placed on call or up to one month's notice at a bank licensed in a Zone A or FSC-approved country" are considered liquid assets under Section 6 of the Turks and Caicos Islands Financial Services Commission, Guideline on Liquidity Requirements for Licensed Banks in the Turks and Caicos Islands (Revised).

[27] The risk that one party in a financial transaction may default on its obligations, leaving the other party exposed to potential losses.

Box 2: Contagion Analysis

Background

In 2025, the FSC, in collaboration with the Caribbean Regional Technical Assistance Centre (CARTAC), assessed contagion risk within the TCI financial system, with a particular focus on credit and funding shocks as key transmission channels[28] for systemic risk. The analysis applied the methodology of Espinosa-Vega and Solé (2010) to deposit exposures between banks and NBFIs, considering both domestic and cross-border financial linkages.

Model Description and Methodology

This analysis used a network-based analytical framework to assess banks' exposure to contagion risk. The network analysis tool used in this analysis is a user-friendly Excel add-in developed by the IMF to simulate how financial distress at individual institutions could propagate and create contagion across the wider financial system. The tool simulates how hypothetical default at financial institutions transmits shocks through credit and funding channels. Through the credit channel, financial institutions experienced capital losses due to their deposits being placed with distressed institutions who defaulted on their counterparty obligations. Financial institutions fail if their capital is insufficient to cover the loss of deposits. From the funding channel perspective, troubled financial institutions may withdraw their funding from others, forcing asset liquidations at reduced prices and leading to further capital losses. These shocks can propagate through the financial system, amplifying as successive rounds of contagion occur. The network analysis tool offers a robust view of contagion pathways, thereby supporting more effective cross-border and cross-sector interconnectedness analysis.

The analysis uses a bilateral exposure matrix consisting of 50 domestic and foreign financial institutions. The dataset comprises local banks, parent and affiliate banks across the Caribbean region, and NBFIs. The data captures each institution's exposures to all other institutions, including local banks' deposits with parent and affiliate banks, deposits by parent and affiliate banks with local banks, and deposits held in local banks by NBFIs.

Two principal simulation exercises were conducted. The first considers how credit shocks transmit losses throughout the financial system. The second expands this by incorporating funding shocks, considering significant institutional deposit withdrawals and fire-sale of assets. This combined scenario facilitates assessment of amplification effects from the interaction between solvency and liquidity risks.

The network analysis tool identifies financial institutions that are conduits of shocks as well as those that are vulnerable to spillovers. The results from the model include quantitative metrics, such as the vulnerability index[29], the contagion index[30], as well as capital impairment indicators following the shocks.

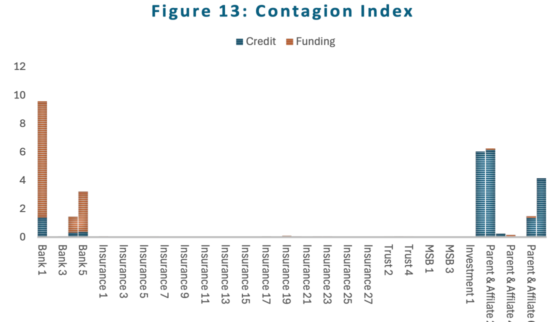
[28] This refers to the process or mechanism through which risk spreads through the financial system.
[29] The vulnerability index represents the average loss experienced by each financial institution (as a percentage of its capital) across individually triggered failure of all other financial institutions. For example, Bank 1 suffers an average loss of capital of 4.54 per cent across individually triggered failures of all other financial institutions.
[30] The contagion index represents the average loss experienced by each entity (as a percentage of their capital) due to the triggered failure of one entity. For example, the failure of Bank 1 results in the average loss to other entities of around 9.56 per cent of capital.

Results

The results of the contagion analysis indicate that local banks transmit shocks to their parents and affiliates entities primarily through funding channels (see Figure 13). Domestic banks maintain significant foreign placements with regional parent and affiliate entities (**see Cross-Border Interconnectedness**), making these institutions somewhat dependent on funding sources from the domestic banking system. Consequently, a withdrawal of deposits or placements by local banks during periods of liquidity stress could materially weaken the funding positions of parent and affiliate institutions across the Caribbean region.

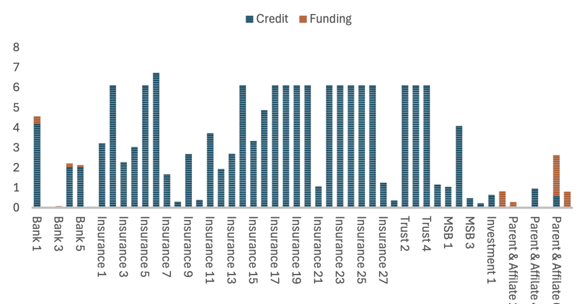
Parent and affiliate banks transmit contagion to the local financial system through the credit channel (see Figure 13). As the primary recipient of overseas placements from local banks, any default on these funds would transmit losses directly to domestic banks and by extension the local financial system through the credit channel. This demonstrates the vulnerability of the domestic financial system to external shocks originating from regional counterparties.

Figure 13: Contagion Index



Source: TCI Financial Services Commission

Figure 14: Vulnerability Index



Source: TCI Financial Services Commission

Insurance companies and other NBFIs are vulnerable to credit shocks emanating from the banking sector (see Figure 14). Given that a few local banks are the primary recipients of restricted deposits (See Domestic Interconnectedness), any default on deposits by these banks will adversely affect the capital of insurance companies and NBFIs, highlighting cross-sector transmission risks through the credit channel.

In contrast, insurance companies and NBFIs generate limited systemic funding contagion. The relatively low funding contagion scores (**see Figure 13**) suggest that withdrawals of deposits by NBFIs from domestic banks would not materially impact the banks liquidity positions. This asymmetry implies that while NBFIs are vulnerable to banking sector distress, they are not major amplifiers of systemic liquidity shocks.

Overall, the analysis demonstrates the systemic importance of major domestic banks and highlights the interconnected nature of the financial system through both domestic and cross-border channels. The findings demonstrate that overseas placements and concentrated intra-financial sector exposures, particularly the concentration of restricted deposits with small number of domestic banks, remain key sources of systemic risk. Importantly, contagion analysis demonstrates that regional shocks could rapidly propagate through domestic banks and thus transmit stress across the broader local financial system.

This analysis reinforces the need for stronger monitoring of cross-border interconnectedness, large exposure concentrations, and intra-group funding dependencies. In particular, policies aimed at strengthening liquidity buffers, diversifying counterparty exposures, and improving regional supervisory coordination would help mitigate the transmission of contagion risks.

Analysis of the Financial System

Structure of the Financial System

Financial system assets are about 2.3 times GDP, with the banks as the largest sector

The TCI's financial system is large relative to its economy, with assets amounting to 233.9 per cent of GDP. The banking sector remained the largest in the financial system, with assets of 173.6 per cent of GDP ($3.2 billion). Despite a 111.69 year-over-year reduction in the Herfindahl-Hirschman Index (HHI[31]) to 3,054 as at December 2025 (**see Figure 15**), reflecting a slight reduction in the market share of the larger banks, the banking sector remains highly concentrated. The two largest banks collectively accounted for 71.8 per cent of total banking system assets. Both follow a traditional business model, with credit and liquidity as their main sources of risk. In contrast, smaller banks are primarily niche players with some specialising in offshore wealth management. Among the larger banks, two Canadian retail banks are identified as Systemically Important Banks[32] (SIBs) for the TCI economy.

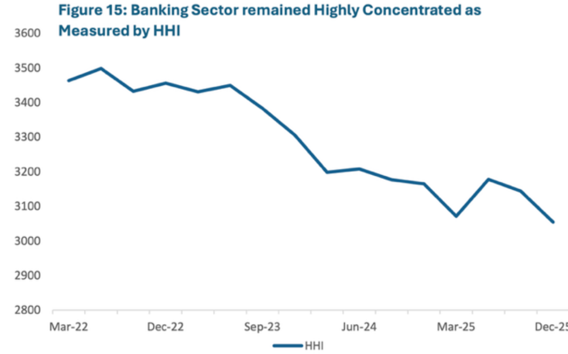
MARKET CONCENTRATION

71.8%

of total banking assets held by the two largest banks

Although market concentration eased slightly during 2025, the banking sector remained highly concentrated, with the two largest banks continuing to dominate the financial system.

Figure 15: Banking Sector remained Highly Concentrated as Measured by HHI



Source: TCI Financial Services Commission

[31] The HHI is defined as the sum of the squared share of all banks' assets. It takes into consideration each bank's share of assets within the sector and is an indication of the degree of asset concentration. A market with an HHI of less than 1,500 is considered competitive, an HHI of 1,500 to 2,500 is moderately concentrated, and an HHI of 2,500 or greater is highly concentrated.

[32] Butterfield Group has agreed to acquire a 91.7% stake in CIBC Caribbean Bank Limited for $1.8 billion — $1.09 billion in cash and the remainder in shares — in a deal that is would create one of the region's largest banking groups. The new banking group will hold an estimated $29 billion in assets. The Bermuda-based Butterfield Group also operates in The Bahamas, the Cayman Islands, the Channel Islands, Singapore, Switzerland, and the U.K. CIBC has a presence in 10 countries and is based in Barbados.

Total non-bank financial system assets in the non-bank financial system[33] accounted for approximately 60.3 per cent of GDP, with the investment sector as the main contributor. Although the investment sector remains the largest non-bank sector, total assets under management declined to 53.0 per cent of GDP ($975.9 million) in 2025, down from 84.1 per cent of GDP ($1.47 billion) in 2024. This reduction stemmed from an investment dealer surrendering its license to operate in the TCI. As at 31 December 2025, the sector comprised of six (6) investment dealers and eleven (11) mutual funds and exempt mutual fund managers licensed to operate in the TCI.

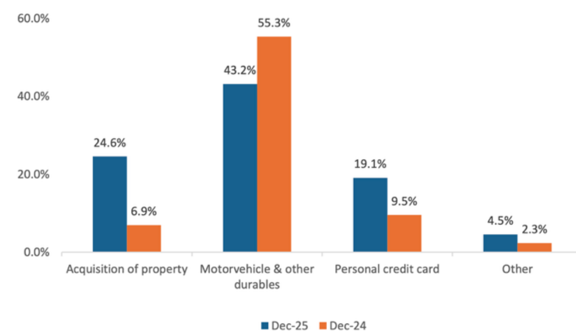
The domestic insurance industry remained relatively small (6.5 per cent of GDP), with significant reinsurance outside the island. Approximately 63.6 per cent of domestic non-life insurance risk, the larger of the two insurance segments, was ceded to reinsurers abroad, significantly reducing exposure to the domestic economy. The ratings assigned to reinsurers reflect their robust financial positions, ensuring their ability to fulfil policy claims under agreements with TCI insurers (**see Table 3 in Appendix A**). The sector has transitioned to the IFRS 17[34] accounting standard. The transition will improve financial stability reporting for the insurance sector by introducing consistent, transparent, and risk-sensitive valuation of insurance liabilities.

The Banking Sector

Loan Growth

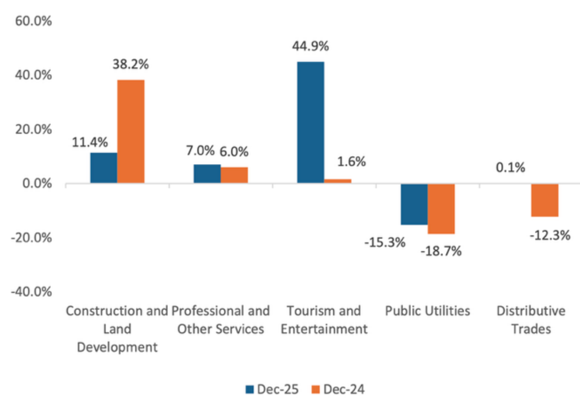
Acquisition of Personal Property, Corporate Construction and Land Development, and Tourism and Entertainment Drove Credit Expansion

Figure 16a: Growth in Banks' Lending to the Personal Sub-Sectors



Source: TCI Financial Services Commission

Figure 16b: Growth in Banks' Lending to the Top Five Corporate Sub-Sectors



Source: TCI Financial Services Commission

[33] Trust Companies, Money Services Businesses, Investment Businesses, Domestic Insurance Companies.

[34] This standard requires insurers to recognise profits as insurance services are delivered (rather than when premiums are received) and provide information about insurance contract profits the company expects to recognise in the future.

As at December 2025, the banking sector's total loan portfolio increased by 11.9 per cent, breaking the $1.0 billion mark. This growth was primarily attributed to a 17.9 per cent increase in household debt, represented as personal credit. Corporate credit contributed to overall loan growth with an increase of 4.3 per cent year-over-year; however, this represents a slowdown compared to 8.4 per cent growth recorded in December 2024.

Mortgage credit (acquisition of property) drove growth in personal loans. Household credit remained the largest credit exposure, accounting for 59.1 per cent of total loans. The composition of household credit was largely stable over the reporting period (**see Figure 17 in Appendix A**), with mortgages representing the largest share of household loans. Mortgages drove the expansion in household credit with an increase of 24.6 per cent year-over-year. The smaller sub-sectors, namely *Motor Vehicles and Other Durables* and *Personal Credit Cards*, also contributed to growth, recording increases of 43.2 and 19.1 per cent, respectively (**see Figure 16a**).

The Construction and Land Development sub-sector continues to drive growth in corporate credit, albeit at a slower pace. Growth in the *Construction and Land Development* sub-sector, the largest corporate sub-sector, slowed to 11.4 per cent as at December 2025 compared to 38.2 per cent in the prior year (**see Figure 16b**). This deceleration is consistent with the current slowdown in construction activity observed throughout the economy following periods of strong growth.

The *Tourism and entertainment* subsector, the third largest corporate segment (8.6 per cent of corporate loans), contributed notably to corporate sector growth with an increase of 44.9 per cent year-over-year.

Rising inflation due to the current Middle East conflict and tariff uncertainty presents downside risk to domestic loan growth. Given the economy's heavy reliance on the tourism sector, particularly the US market, higher inflation facing these consumers could reduce disposable income and lead to a slowdown in arrivals to the TCI. Such a slowdown may have cascading effects across the domestic economy, weakening activity in tourism-dependent sectors, and dampening demand for credit. This softer loan growth outlook could be further exacerbated by rising import costs associated with higher tariffs, which may place additional strain on domestic consumers and businesses, eroding purchasing power and lowering the demand for goods and services (**see Global Macroeconomic Discussion in Risk Assessment**).

Asset Quality

Banks Maintained Strong Asset Quality, Although Global Macroeconomic Shocks Present Downside Risks

Non-performing loans (NPLs) remained low over the review period, reflecting banks' robust asset quality. The ratio of NPLs to total loans declined slightly from 2.8 per cent to 2.6 per cent year-over-year (**refer to Table 4 in Appendix A**), indicative of the sector's high asset quality. This has contributed to the overall stability of the banking system.

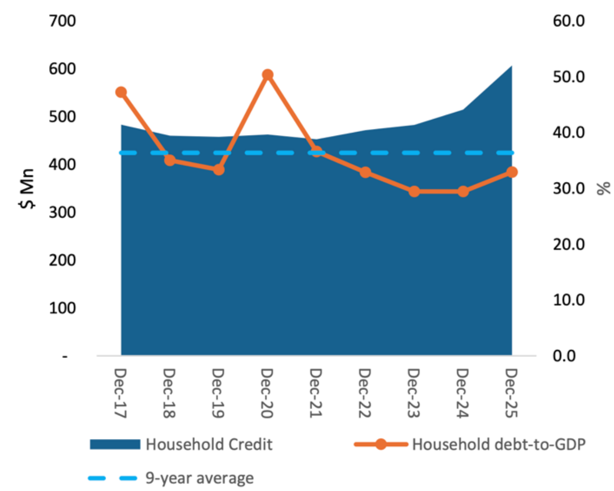
In 2025, banks maintained adequate provisioning against credit losses. The NPL coverage ratio rose by 9.5 percentage points year-over-year to 100.0 per cent, indicating full coverage of banks' NPL stock. This level of provisioning suggests that banks remained well-positioned to absorb potential credit losses which provides support to financial system stability.

The global economic slowdown and rising trade tensions, however, present downside risk to TCI's tourism-dependent economy and, by extension, loan repayment capacity. The ongoing Middle East conflict that resulted in the closure of the Strait of Hormuz and the risk of the reemergence of global trade tensions could cause spillover effects for the local economy, exacerbating inflation and dampening economic activity. This could materially weaken the financial position of households and businesses, impairing their repayment capacity. In such an event, banks could see a significant increase in NPLs and would need to further increase loan loss provisions. Nonetheless, results from the solvency stress test (see Macroeconomic Solvency Stress Test) suggests that the banking sector is adequately capitalised to absorb projected credit losses arising from adverse macroeconomic conditions.

Nonetheless, it is important to note that even during the COVID-19 pandemic, banks did not incur significant losses. This reflects the sector's longstanding recognition of the cyclical nature of tourism-related lending, which has fostered a generally conservative approach to underwriting and a strong reliance on collateralized exposures.

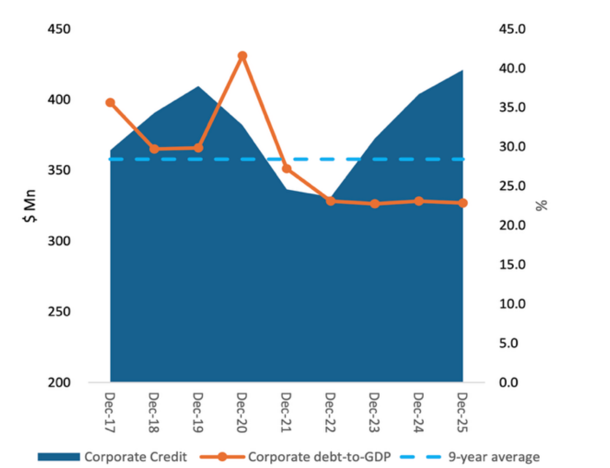
Household and Corporate Debt-to-GDP Remained in Line with Historical Standards

Figure 18a: Household Sector Debt-to-GDP



Source: TCI Financial Services Commission

Figure 18b: Corporate Sector Debt-to-GDP



Source: TCI Financial Services Commission

The industry's household debt-to-GDP showed a year-over-year uptrend (from 29.5 per cent in FY-2024 to 33.0 per cent in FY 2025), moving closer to its 9-year average (36.4 per cent), reflecting year-over-year growth in household credit (+17.9 per cent) that has significantly outpaced growth in nominal GDP (+5.4 per cent). In contrast, the corporate sector's debt-to-GDP ratio remained relatively stable year-over-year as expansion in corporate credit was primarily in line with economic activity (see **Figures 18a and 18b**). Overall, these ratios indicate that household and corporate sector leverage remained moderate and broadly in line with historical standards. However, sustained growth in household credit relative to GDP could, over time, lead to higher levels of indebtedness and increase the sensitivity of households to macroeconomic and financial shocks. This underscores the importance of ongoing monitoring of household debt servicing capacity and underwriting standards from a financial stability perspective.

Liquidity Analysis

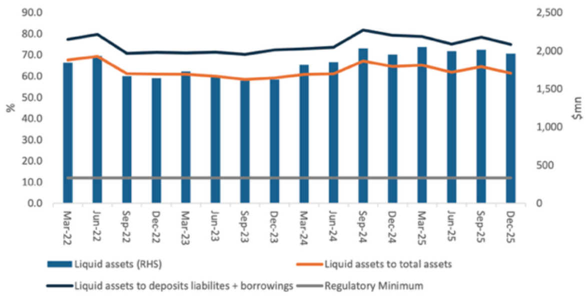
Banking Sector Maintained Robust Liquidity Position

Throughout the review period, the banking sector maintained strong liquidity, reflected in robust ratios. The aggregate level of liquid assets[35] to total liabilities (74.9 per cent) stayed well above the regulatory minimum of 12 per cent (**see Figure 19**). Also, the liquid assets to short-term liabilities ratio remained relatively high (78.5 per cent), although trending down slightly from the previous year due to a 5.3 per cent increase in short-term liabilities to $2.6 billion which slightly outpaces the growth in liquid assets (**see Table 4 in Appendix A**).

Liquid assets continued to represent the largest share of banks' total assets. Total liquid assets of the industry increased by 5.0 per cent year-over-year to $2.1 billion, accounting for 61.4 per cent of banks' total assets. A significant portion of this liquidity is held as placements with parent companies or affiliates domiciled outside the TCI, primarily in the form of demand and fixed deposits maturing within one year. This trend partly reflects the limited depth of domestic investment avenues in the TCI, particularly the capital and money markets.

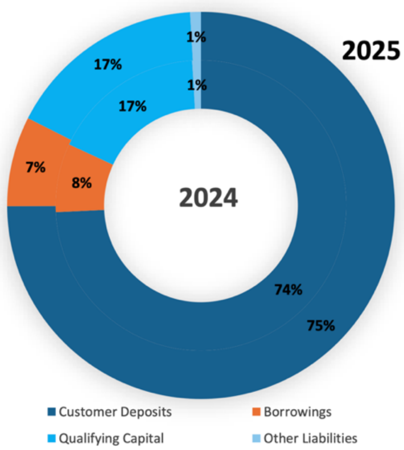
[35] For the Commission's definition of "liquid assets," see Section 6 of the Turks and Caicos Islands Financial Services Commission, Guideline on Liquidity Requirements for Licensed Banks in the Turks and Caicos Islands (Revised).

Figure 19: Liquidity Profile of the Banking Sector



Source: TCI Financial Services Commission

Figure 20: Banks Funding Sources



Source: TCI Financial Services Commission

Deposits Continued to be the Primary Source of Funding for Credit Growth

Customer deposits remained the primary funding source for banks' credit expansion (see Figure 20). Total deposits in the banking sector increased by 6.9 per cent to $2.4 billion in 2025. The gross loans to customer deposits ratio (LDR[36]) trended below its five-year average of 41.6 per cent and well below levels generally associated with elevated funding risk, indicating that deposits are more than sufficient to finance loan growth. As such, the banking sector has no immediate need to rely on more expensive wholesale funding for credit expansion, which provides a cost advantage in the current high-interest-rate environment. Notably, an LDR that is too high indicates that banks' funding position has deteriorated, while a LDR that is too low implies that banks may not be maximising earning potential. Overall, the banks' liquidity and funding risk indicators remain robust (see Table 4 in Appendix A), implying sufficient liquidity to meet short-term obligations and that the banking sector is primarily financed by deposits instead of more expensive wholesale funds.

[36] The TCI does not impose a regulatory limit on the LDR, and there is no universally established international regulatory standard. However, an LDR in the range of 80–90 per cent is generally considered healthy; below 80 per cent may suggest underutilised funds, whereas above 90 per cent could signal emerging liquidity risks. A ratio exceeding 100 per cent indicates reliance on external funding sources.

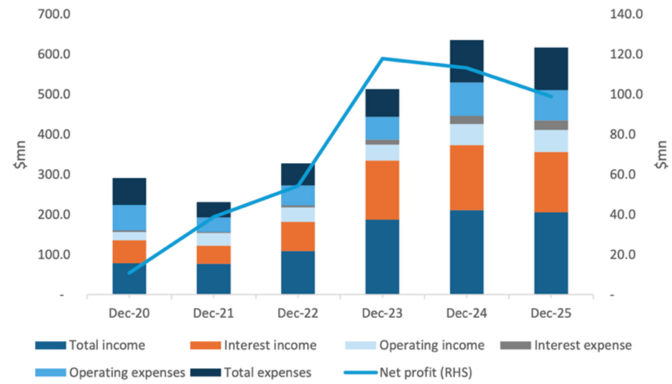
Earnings and Profitability

Profitability Moderates in 2025

Banks' profitability moderated over the review period, reflecting a less supportive earnings environment in 2025. Annualised interest income declined by 6.9 per cent during 2025, contributing to a 2.6 per cent contraction in total income of the industry. This development points to growing pressure on net interest margins, stemming from narrower interest rate spreads, as funding costs inch higher and competition intensifies. However, the fall-off in interest income was offset by an increase in operating income of 3.1 per cent, driven primarily by higher income from services (+15.6 per cent) and commissions (+19.9 per cent). While in 2025 income diversification supported profitability, it should be noted that non-interest revenue streams are inherently more volatile and less predictable than traditional interest income.

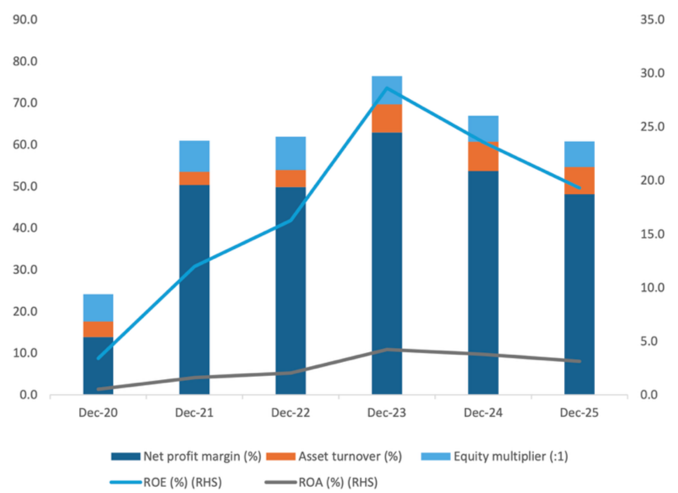
Total costs for the sector remained relatively flat in 2025, as a decline in operating expenses helped offset increases in funding and credit-related costs. Operating expenses fell by 9.0 per cent, providing a key moderating effect on overall cost growth. Interest expenses however rose by 18.7 per cent, largely reflecting a 16.9 per cent increase in interest paid on deposits. This reflects the persistence of elevated global interest rates, which continued to keep funding costs high in TCI's dollarised economy. Provisioning charges for doubtful debts also increased (+265.7 per cent, or $4.5 million), reflecting a more cautious overall posture by banks amid uncertain economic conditions.

Figure 21: Banking Sector Top and Bottom Lines Moderate



Sources: TCI Financial Services Commission and Bank Financials

Figure 22: Banking Sector Profitability Ratios Trend Decelerates



Source: TCI Financial Services Commission

Taken together, the decline in total income alongside broadly flat expenses, weighed on sector-wide profitability. As a result, aggregate profits fell by 12.6 per cent to $98.9 million in 2025 **(Figure 21)**. Notwithstanding this decline, the banking sector remained profitable overall during the review period.

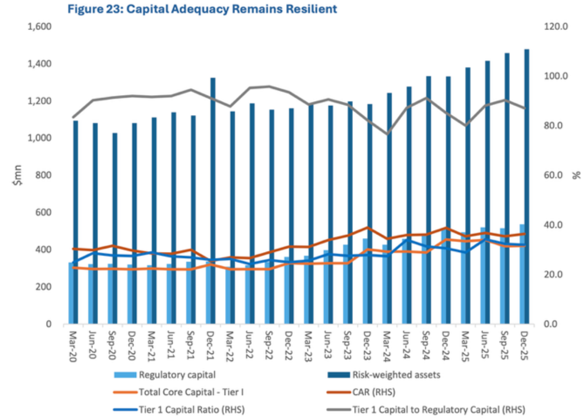
Profitability moderated in 2025 but remained robust. Return on equity (ROE) declined to 19.3 per cent, marking a second consecutive year of easing. A DuPont decomposition reveals that this moderation was broad-based, reflecting declines across all components: the net profit margin, asset turnover and the equity multiplier. This deceleration reflects a combination of margin compression, softer asset utilisation, and reduced leverage. **Return on assets (ROA) also declined by a percentage point to 3.1 per cent, consistent with these underlying pressures** (**see Figure 22**).

These developments were consistent with broader global banking trends, which showed strong uplift in profitability during 2022–2023 from rising interest rates and wider net interest margins, followed by a moderation in 2024–2025, due to a less supportive operating environment.

Capital Adequacy

Capital Adequacy Levels Remained Resilient

Figure 23: Capital Adequacy Remains Resilient



Sources: TCI Financial Services Commission and Bank's Financials

The banking sector preserved its strong solvency position throughout the review period, supported by substantial capital buffers to absorb potential balance sheet shocks. At end-2025, the aggregate Capital Adequacy Ratio (CAR)[37] stood at 36.3 per cent, down modestly from 38.8 per cent in 2024. This slight moderation reflects faster growth in risk-weighted assets (RWA) (+11.0 per cent), relative to the more moderate 3.9 per cent increase in regulatory capital. Nevertheless, the CAR remains well above the statutory minimum of 11 per cent, underscoring the continued robustness and resilience of the banking sector (**see Figure 23**).

[37] Capital adequacy ratio is the ratio of regulatory capital to risk-weighted assets.

Total Core Capital[38] declined by 7.5 per cent during the review period, reversing the improvement observed over the previous four years. This reduction was primarily driven by a 27.1 per cent contraction in retained earnings. As the most stable and loss-absorbing component of capital base, core capital provides an important buffer during periods of financial stress. The decline therefore points to some moderation in internally generated capital strength. It does not materially weaken the sector's overall position however, as the banking sector remained well capitalised.

BANKING SECTOR AT A GLANCE

→ 173.6%

Banking sector assets as a share of GDP.

→ 71.8%

Share of banking assets held by the two largest banks.

→ 3,054

Herfindahl-Hirschman Index (HHI), indicating the banking sector remained highly concentrated despite a modest decline.

The banking sector remained the largest component of the financial system, supported by strong institutions despite a concentrated market structure.

[38] Total Core Capital consists of common equity tier 1 (CET1) capital, which includes common shares, retained earnings, and other comprehensive income.

The Non-Bank Sectors

Insurance Sector

Non-Life Insurance

Table 5a: Financial Soundness Indicators – Non-Life Insurance Sector

Ratio	Dec-21	Dec-22	Dec-23	Dec-24[39]	Dec-25
Solvency Ratio - Standard minimum 25%					
Total Equity / Total Liabilities	33.6	34.4	54.9	87.9	95.6
Return on Equity					
Net Income / Total Equity	26.0	-1.0	9.8	33.7	24.1
Combined Ratio - Standard max 100%					
Total Underwriting Expenses / Net Earned Premiums	68.3	104.0	83.2	85.7[40]	88.8
Liquidity - Standard minimum 95%					
Liquid Assets / Total Liabilities	127.0	125.3	136.7	125.8	156.0

Source: TCI Financial Services Commission

Total assets in the non-life sector increased relative to the prior year. Total non-life insurance assets increased by 12.7 per cent year-over-year, moving to $88.7 million. This was primarily attributable to a 52.7 per cent growth in reinsurance contract assets, as insurers cede more Property business to their reinsurers to offset the insurance risk stemming from an increase in total Property business written in 2025. The non-life sector continues to make up the lion's share of industry, accounting for 87.1 per cent of total insurance assets.

Total liabilities for non-life insurers increased by 8.2 per cent year-over-year to $45.3 million. The main contributors of this growth where insurance contract liabilities which increased by 8.0 per cent to $38.1 million and reinsurance contract held liabilities which experienced a significant 375.6 per cent increase to $2.6 million in December 2025.

Growth in insurance revenue and a reduction in non-attributable expenses[41] drove expansion in profitability. The total insurance revenue for the non-life sector increased by 12.7 per cent year over year to $119.3 million. This growth was offset by 12.1 per cent increase in net expenses from reinsurance contract held to $75.9 million as insurance service expenses was relatively flat at $26.4 million. The growth in insurance service revenue, coupled with 28.7 per cent (or $1.4 million) reduction in non-attributable expenses, resulted in an 82.1 per cent increase in net profit for the non-life sector to $14.6 million.

[39] The ratios for FY 2024 and onwards are based on IFRS 17. As such, prior periods may not be directly comparable.

[40] The combined ratio for FY 2024 and FY 2025 was calculated as (Insurance Service Expense + Net Expenses from Reinsurance Contracts Held)/ Insurance Service Revenue.

[41] Expenses not directly tied to insurance contract fulfilment

Climate-Related Risks Could Threaten Future Growth in Insurance Revenue

The growing impact of climate risk could challenge premium growth for non-life insurers. The increasing frequency and severity of climate-related events across the Caribbean continue to elevate catastrophe risks for the insurance industry. While reinsurance markets have recently benefited from improved capacity and moderating pricing conditions, climate-related losses could place upward pressure on reinsurance costs over the longer term **(see Climate Risk discussion in the risk Assessment section)**. Any resulting increases in insurance premiums would likely be passed on to policyholders, potentially reducing insurance uptake and increasing levels of underinsurance. This could constrain premium growth and slow the development of the non-life insurance sector over time.

Strong Solvency and Liquidity Positions

Solvency and liquidity positions remained strong in 2025 (see Table 5a). The aggregate solvency position of the non-life sector has accelerated from 87.9 per cent to 95.6 per cent over the reporting period. This is driven by a 17.7 per cent increase in equity due to growth in both retained earnings and reserves and accumulated other comprehensive income. The sector's solvency position continued to trend well above the 25 per cent regulatory minimum.

Liquidity also remained strong and well above the 95 per cent regulatory minimum, standing at 156.0 per cent as at the reporting period. This high level of liquidity was primarily attributed to the regulatory requirement for insurers to hold restricted deposits in local banks.

Overall, non-life insurers' solvency and liquidity ratios demonstrate the sector's ability to meet long and short-term obligations.

Life Insurance

Table 5b: Financial Soundness Indicators – Life Insurance Sector

Ratio	Dec-21	Dec-22	Dec-23	Dec-24[42]	Dec-25
Solvency Ratio - Standard minimum 8%					
Total Equity / Total Liabilities	403.2	374.0	320.6	274.1	253.4
Return on Equity					
Net Income / Total Equity	0.5	5.9	9.8	9.0	4.8
Liquidity - Standard minimum 60%					
Liquid Assets / Total Liabilities	470.9	383.2	370.2	328.0	231.0

Source: TCI Financial Services Commission

The life insurance sector's assets expanded by 4.80 per cent to $13.1 million year-over-year. This was primarily driven by a 146.1 per cent increase in short-term deposits to $1.4 million.

Insurance contract liabilities experienced a 6.6 per cent decline to $2.7 million year-over-year.

Higher Insurance Service Expense Drove Reduction in Profitability

[42] The ratios for FY 2024 and onwards are based on IFRS 17. As such, prior periods may not be directly comparable.

Rising insurance service expenses results in a reduction in net income. Insurance service revenue for the life insurance sector expanded by 5.4 per cent to $2.1 million over the review period. Despite the growth in insurance service revenue and a reduction in reinsurance contract expense, net income for the life insurance sector experienced a 46.0 per cent decline to $447.7 thousand. This is attributable to a 95.2 per cent increase in insurance service expenses.

Strong Solvency and Liquidity Positions

Financial Soundness Indicators (FSIs) for the life insurance sector remained strong over the review period. Evidenced by solvency and liquidity indicators trending well above their respective regulatory minimums (**see Table 5b**), this suggests that life insurers are well-positioned to meet their short and long-term obligations.

Trust Companies

Revenue Expansion and Modest Rise in Expenses Sustain Growth

The trust sector recorded a solid performance in 2025, supported by improved revenue performance and effective expense management. On-balance-sheet assets expanded by 8.4 per cent to $6.6 million during the year. This growth was primarily driven by an 18.1 per cent ($101 thousand) increase in accounts receivable, reflecting stronger income generation, alongside a 10.7 per cent ($381 thousand) increase in cash and cash equivalents. Additional contributions came from increases in certificates of deposit (+8.0 per cent) and other assets (+14.4 per cent). These gains were partially offset by a 33.0 per cent contraction in loans and advances, which moderated the overall pace of asset expansion.

Total consolidated income for the trust sector rose by 9.8 per cent to $6.4 million, mainly influenced by a 9.4 per cent increase in service-related income, which accounted for 99 per cent of sector revenue. This reflects continued demand for trust and fiduciary services. Over the same period, total consolidated expenses increased modestly by 2.2 per cent, largely due to higher operating and other expenses. This increase was partially offset by a 0.4 per cent reduction in service-related expenses. As a result, net profit for the sector increased by a strong 29.7 per cent, reaching $2.1 million in 2025.

From a financial stability perspective, risks emanating from the trust sector remain limited. The sector accounts for less than 1 per cent of total financial system assets, significantly constraining its potential to transmit systemic stress. Consequently, even in the event of financial distress within individual trust companies, spillover effects to the broader financial system are expected to be minimal. The sector's relatively small scale also facilitates targeted supervisory engagement and risk mitigation, allowing emerging vulnerabilities to be identified and addressed in a timely and contained manner.

Money Service Businesses (MSB) Sector

Remittance Activities Extend Growth Trajectory in 2025

In 2025, the MSB sector's net income improved. Despite a 5.8 per cent contraction in total revenue to $3.8 million, primarily due to reduction in both remittance service fees (-6.4 per cent) and commission income (-10.1 per cent), net profit for the sector increased by 4.5 per cent to $316.8 thousand in 2025. This improvement in profitability is primarily driven by a 7.6 per cent year-over-year reduction in operating expenses to $2.8 million. Remittance expenses experienced a 2.5 per cent decline over the same period closing at $666.0 thousand.

In 2025, the total value of remitted funds maintained its upward trajectory, rising by 8.7 per cent to $177.9 million. Outbound remittances continued to account for the majority of remitted funds contributing to 89.4

per cent of the total. Total outbound remittance expanded by 6.1 per cent to $159.0 million in comparison to the previous year. Growth was observed across all major recipient countries, except Haiti which experienced a 4.5 per cent decline.

The Dominican Republic remained the leading destination for outbound funds, accounting for 35.3 per cent of total remittance outflows, followed by Jamaica at 14.5 per cent and Haiti at 13.4 per cent.

Remittance inflows increased significantly by 36.4 per cent, reaching $18.9 million in 2025. This growth was driven by a 51.9 per cent increase in inflows from the US, the primary source of inbound funds to TCI, accounting for 71.7 per cent of total inflows.

Key risks associated with remittance activities include anti-money laundering (AML) and counter-terrorism financing (CFT) concerns. Financial institutions facilitating remittance activities must ensure that they are compliant with AML/CFT regulations. Increased scrutiny can lead to higher compliance costs and potential disruptions in remittance channels locally.

Given that the TCI is not heavily reliant on remittance inflows, the 1.0 per cent US remittance tax enacted under the "One Big Beautiful Bill Act", which became effective January 1, 2026, is not expected to pose a material risk to the domestic economy.

Investment Business Sector

Assets Under Management Exhibit Growth in 2025

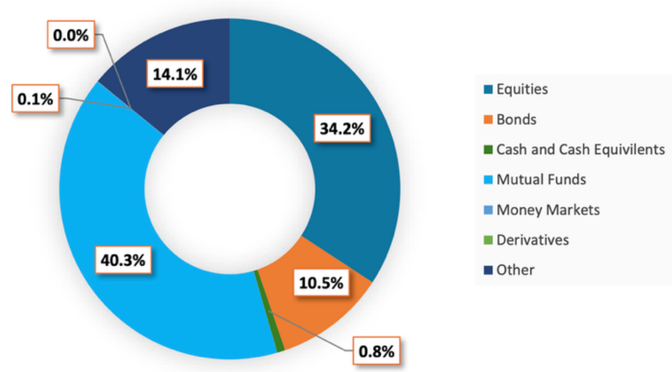
Assets managed by investment businesses declined by 33.6 per cent (or $494.1Mn) to $975.9 million, falling below the US$1 billion mark for the first time since 2019. This sharp contraction largely reflects the exit of one investment dealer from the market.

Adjusting for the exit of the investment dealer, underlying performance in the sector remained robust. On a like-for-like basis, assets under management increased 8.2 per cent (or $73.5 million) in 2025. Growth was mainly driven by strong increases in the 'other' category (+133.7 million or 3,378 per cent), followed by mutual funds (+$51.4 million or 15.0 per cent), while more modest gains were recorded in equities (+7.65 million or 2.3 per cent) and money market instruments ($433 thousands or +361 per cent). Those increases were partially offset by declines in cash and cash equivalents ($114.6 million or 93.9 per cent), bonds ($5.1 million or 4.7 per cent) and derivatives ($5.2 thousand or 34.4 per cent).

In 2025, mutual funds remained the dominant asset class, accounting for 40 per cent of total assets under management, followed by equities (34 per cent), other assets (14 per cent), and bonds (11 per cent). Cash & cash equivalents, money markets and derivatives collectively accounted for the remaining 1 per cent (**refer to Figure 24**).

Market volatility remains a material risk for investment firms, especially given the sector's relatively large footprint, accounting for roughly 23 per cent of total financial system assets. With mutual funds comprising a significant share of assets under management, portfolios benefit from a degree of built-in diversification across asset classes and issuers, which serves to ease some exposure to risk during periods of market stress. However, this does not fully insulate the sector from adverse developments. Abrupt market movements, driven by geopolitical developments, shifting global economic conditions, persistent inflationary pressures, or sudden monetary policy actions, could trigger portfolio rebalancing and expose liquidity pressures. In the short term, heightened uncertainty surrounding global economics, especially in the US, elevated geopolitical risks, and uneven progress in disinflation are likely to sustain above-average market volatility, particularly within interest-rate-sensitive assets and lower-credit-quality segments. In this environment, portfolios with limited diversification across asset classes, regions, and inflation sensitivities remain more vulnerable, while well-diversified strategies are better positioned to withstand market shocks.

Figure 24: Investment Products Breakdown by Type



Source: TCI Financial Services Commission

Key Policy Initiatives

The Commission reaffirms its commitment to implementing policy initiatives that bolster the resilience of the financial system and support its long-term stability. Over the next 12–24 months (and beyond), the Commission will continue to advance a set of targeted policy and supervisory initiatives aimed at strengthening the prudential framework and addressing key vulnerabilities identified in the current assessment, particularly those relating to liquidity conditions, asset concentration, and external exposures:

Strengthening Liquidity Risk Management and Funding Resilience

Liquidity risk remains a key supervisory priority in the TCI, reflecting the jurisdiction's small, open financial system, the absence of a domestic central bank or lender-of-last-resort facility, and the banking sector's reliance on cross-border and intragroup placements for liquidity management. While current liquidity indicators do not point to immediate stress, these structural features warrant continued supervisory focus on the quality, availability, concentration, and transferability of liquid assets, particularly under stressed conditions.

Against this backdrop, the Commission will continue to enhance the monitoring and assessment of liquidity risk across the banking sector, with a focus on improving the quality, granularity, and timeliness of supervisory data. This includes the development of a more structured liquidity monitoring framework, supported by revised reporting templates and the introduction of supervisory tools such as a liquidity dashboard to strengthen ongoing risk surveillance.

In parallel, the Commission will explore options, appropriate to the jurisdictional context, to support the availability of high-quality liquid assets (HQLA), with a view to strengthening banks' capacity to withstand liquidity stress. Given the system's structural characteristics, this work will also consider the accessibility and usability of liquidity buffers, including under cross-border stress scenarios.

The Commission also intends to issue updated guidance on liquidity risk management and corporate governance, aimed at reinforcing sound funding practices, strengthening internal risk oversight, and supporting a more forward-looking and proportionate approach to liquidity supervision. Over the medium term, these initiatives are expected to enhance the early identification of emerging liquidity pressures and provide a stronger basis for targeted supervisory engagement.

Addressing Real Estate and Concentration Risk

Given the structural importance of the property market to the domestic economy and financial system, addressing real estate and concentration risk remains a key supervisory priority. The banking sector's exposure to real estate, alongside the strong linkages between property markets, construction activity, and tourism, underscores the potential for asset price dynamics to have broader financial stability implications.

In this context, the Commission will continue to advance the development of a Residential Property Price Index (RPPI), in collaboration with key external stakeholders. The RPPI will provide a consistent and reliable measure of property price movements, supporting effective monitoring of market trends and the early identification of potential imbalances.

Over time, this initiative is expected to enhance the analytical toolkit available to the Commission, supporting a more informed and forward-looking assessment of real estate-related risks within the financial system.

Enhancing Stress Testing and Macroprudential Surveillance

The Commission will continue to enhance and expand its stress testing framework as a central pillar of its macroprudential surveillance toolkit. Over the next two years, bank-level solvency and liquidity stress testing will be further developed to strengthen forward-looking risk identification and deepen the assessment of potential vulnerabilities under a range of adverse scenarios.

In parallel, the programme will be progressively extended to incorporate the insurance sector, supporting a more comprehensive, system-wide perspective on financial resilience and risk transmission. This expansion reflects the increasing importance of cross-sector linkages and the need to assess how shocks may propagate across different parts of the financial system.

In addition, climate-related risks will be gradually integrated into stress testing scenarios for banks, alongside a focused assessment of spillovers to the insurance sector, particularly through underwriting exposures and catastrophe risk. This will support a more structured evaluation of the financial system's resilience to climate-related shocks over time.

Strengthening Supervisory Data and Risk-Based Oversight

Ongoing efforts will focus on strengthening the quality, consistency, and coverage of supervisory data, alongside continued alignment with relevant international prudential standards. These enhancements will support more effective risk identification and improve the Commission's ability to monitor emerging vulnerabilities across the financial system.

The Commission will continue the phased implementation of the risk-based supervision (RBS) framework across entities within its supervisory remit, with the aim of enhancing the focus and effectiveness of supervisory oversight and ensuring that supervisory resources are directed toward the areas of greatest risk to financial stability.

Expanding The Supervisory Perimeter: Virtual Assets and Credit Unions

In collaboration with key stakeholders, the Commission is advancing the development of a comprehensive regulatory framework for the supervision of virtual asset service providers (VASPs). This initiative will establish a legislative and supervisory regime designed to address financial, operational, and AML/CFT risks associated with VASP activities, while supporting responsible innovation within the TCI.

Primary legislation is expected to be in place by end-2026, with the Commission undertaking preparatory work to operationalise the framework, including the development of supervisory processes and guidance. The Commission is also preparing to accept applications for the licensing of VASPs in 2027.

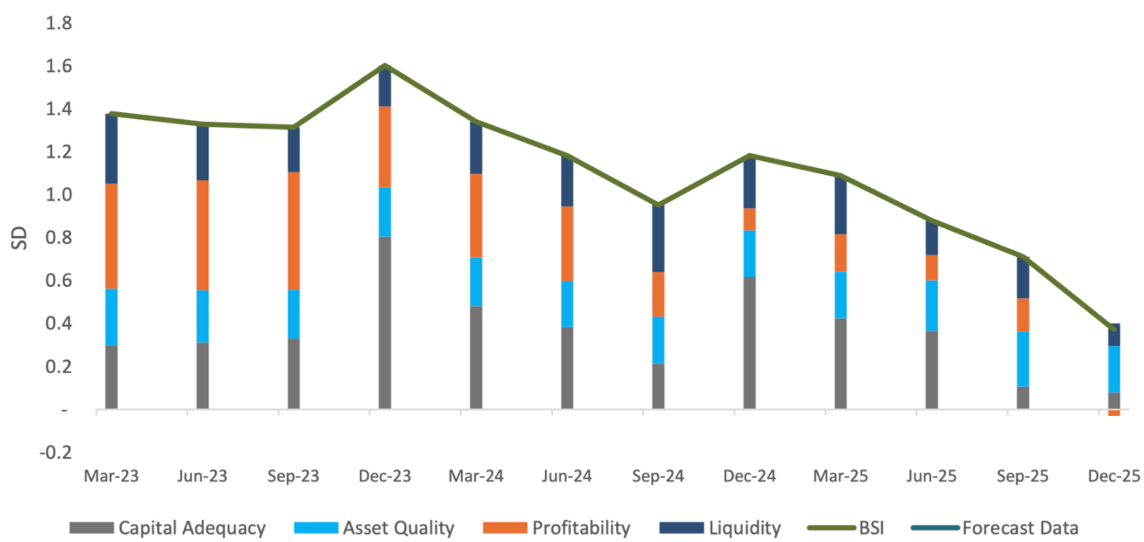
The Commission continues to expand its supervisory perimeter to ensure appropriate oversight of all relevant segments of the financial system. In this context, the legislative framework for the supervision of credit unions is already in place. The Commission will undertake a light review of the framework over the coming months to ensure it remains operationally fit for purpose, ahead of any potential applications for licensing, noting that no applications have yet been received.

These developments collectively represent an important step in strengthening the regulatory perimeter, ensuring that emerging and evolving financial activities are subject to appropriate oversight. In doing so, they help safeguard financial stability, preserve international confidence, and mitigate potential risks related to market volatility, financial crime and reputational exposure.

Appendix

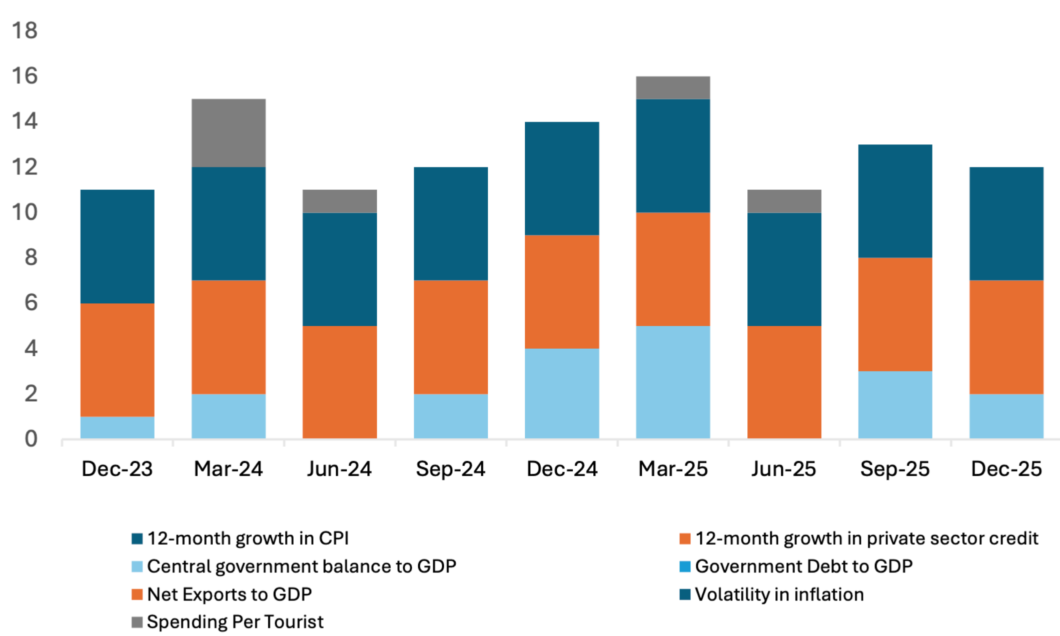
Appendix A

Figure 5: BSI and Sub-Components



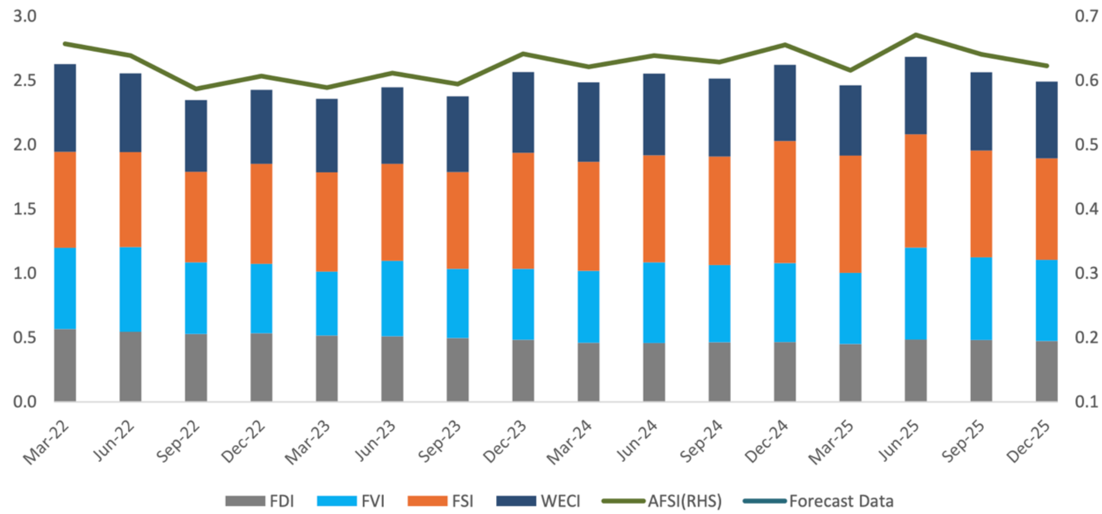
Source: Financial Services Commission

Figure 6: Macro-Financial Index



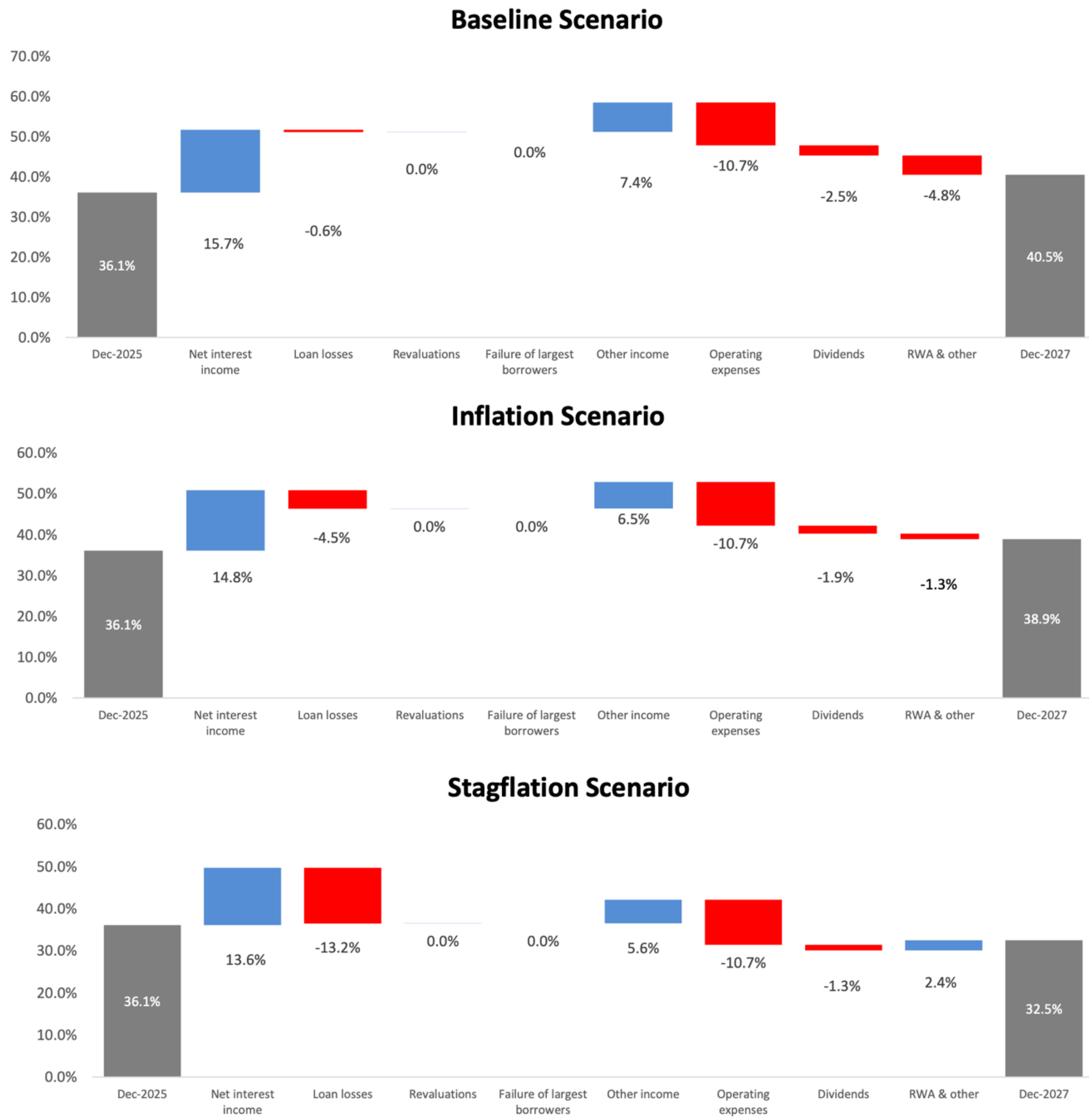
Source: Financial Services Commission

Figure 7: AFSI and Sub-Components



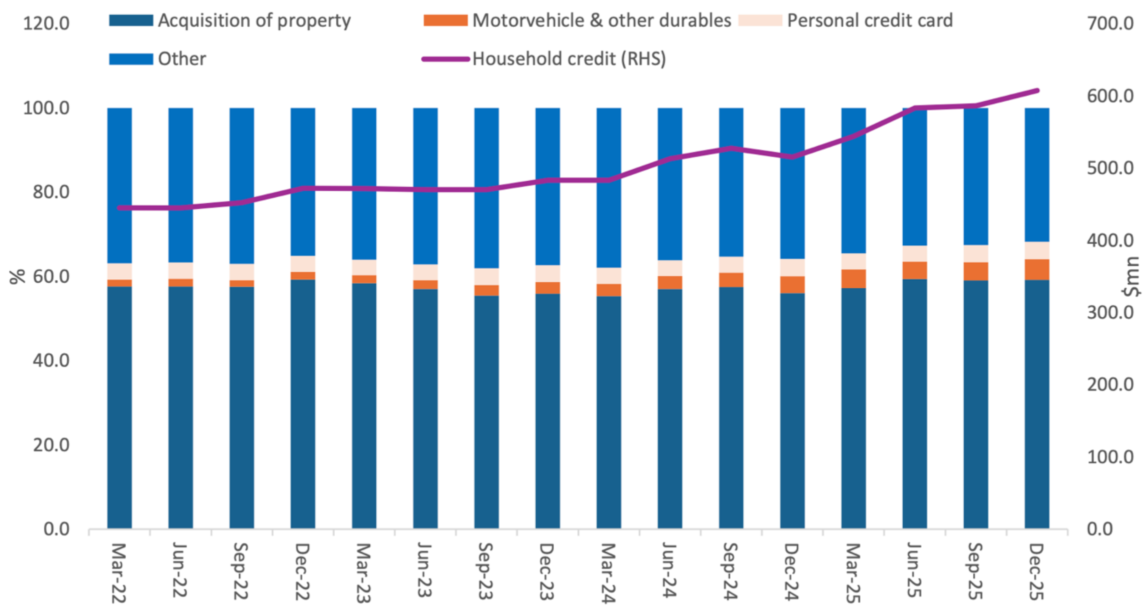
Source: Financial Services Commission

Figure 9: Decomposition of the Changes in Capital Adequacy in Alternative Scenarios



Source: TCI Financial Services Commission

Figure 17: Sectoral Distribution of Household Credit



Source: TCI Financial Services Commission

Table 3: Reinsurers Ratings

Reinsurer	Domiciled	AM Best Rating
R&V Versicherung AG	Germany	AM Best; Not Rated (S&P: A+)
Swiss Re	Switzerland	A+ (Superior)
Munich Re	Germany	A+ (Superior)
Hannover Ruck	Germany	A+ (Superior)
SCOR Re	USA	A (Excellent)
Everest Re	Bermuda	A+ (Excellent)
Transatlantic Re	USA	A++ (Superior)
Shelter Re	USA	A (Excellent)
Lloyds	UK	A+ (Superior)
Partner Re	Bermuda	A+ (Superior)

Sources: AM Best, Standard & Poor's

Table 4: Banking Sector's Annual Financial Soundness Indicators

Ratio	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
Capital Adequacy					
Regulatory Capital / Risk-weighted Assets	25.4	31.4	38.9	38.8	35.8
Regulatory Tier I Capital / Risk-weighted Assets	24.2	28.4	33.9	34.1	28.5
Total Capital / Net Assets	13.2	13.5	16.8	17.1	16.8
Asset Quality					
Non-performing loans / Gross Loans	4.5	3.0	2.9	2.8	2.6
Non-performing loans net of provisions for loan losses / Total Capital	1.0	-0.8	0.3	0.5	0.0
Provision for loans losses / Gross Loans	4.1	3.4	2.8	2.5	2.6
Non-performing Loans net of provision for loan losses / Paid-up capital	3.4	-3.1	1.4	2.5	0.01
Earning and Profitability					
Return on Assets (Net profit / Average net assets)	1.6	2.0	4.2	4.1	3.1
Return on Equity (Net profits / Average total capital)	12.0	16.3	28.6	25.7	19.3
Net interest income / Gross income	55.3	62.1	72.2	68.0	61.7
Non-interest expenses / Gross income	46.7	45.9	30.3	36.1	36.7
Liquidity					
Liquid assets / Total assets	62.2	61.0	59.2	64.6	61.4
Liquid assets / Short-term liabilities	72.6	70.8	72.8	78.7	78.5
Gross Loans / Customer Deposits	42.5	39.1	42.6	41.0	42.9
Liquid assets / Total deposits + borrowings	73.8	71.3	72.4	79.3	74.9

Appendix B – Stress Test Assumptions

Domestic Liquidity Stress Scenario

	Domestic Stress Scenario Assumptions					
	Run-off rates					
	1	2	3	4	5	6
	Next day	2 to 8 days	9 to 30 days	31 to 90 days	91 to 180 days	More than 180 days
	DC	DC	DC	DC	DC	DC
Retail funding: sight deposits						
Stable	5%	5%	5%	5%	0%	0%
Unstable	10%	10%	10%	5%	0%	0%
Retail funding: savings deposits						
Stable	5%	5%	5%	4%	0%	0%
Unstable	10%	10%	10%	5%	0%	0%
Retail funding: term deposits	10%	10%	20%	20%	10%	5%
Other deposits	20%	20%	20%	20%	15%	5%
Wholesale funding from domestic financial institutions	20%	20%	20%	50%	50%	50%
Wholesale funding from foreign financial institutions	25%	25%	50%	50%	50%	50%
Outflows from derivatives	100%	100%	100%	100%	100%	100%
Other liabilities	60%	100%	100%	100%	100%	100%
Undrawn volume of commited credit/liquidity lines	40%	40%	40%	25%	20%	0%

Roll-off rates					
1	2	3	4	5	6
Next day	2 to 8 days	9 to 30 days	31 to 90 days	91 to 180 days	More than 180 days
DC	DC	DC	DC	DC	DC

Securities in trading book	70%	80%	90%	100%	50%	50%
Securities available for sale	100%	100%	100%	100%	50%	50%
Securities held to maturity	100%	100%	100%	100%	50%	50%
Inflows from derivatives	100%	100%	100%	100%	100%	100%
Loans maturing	35%	35%	40%	50%	10%	10%
Other assets	35%	40%	40%	60%	30%	30%

	Haircuts					
Cash in vault	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits with domestic banks	20.0%	15.0%	10.0%	5.0%	0.0%	0.0%
Deposits with foreign banks	30.0%	25.0%	20.0%	15.0%	10.0%	5.0%

Securities in trading book	10.0%
Securities available for sale	10.0%
Securities held to maturity	15.0%

Haircut step reduction per bucket (interbank deposits)	5.0%

References

Espinosa-Vega, M. A., & Solé, J. (2010). Cross-border financial surveillance: A network perspective (IMF Working Paper No. 10/105). International Monetary Fund. https://www.imf.org/-/media/websites/imf/imported-full-text-pdf/external/pubs/ft/wp/2010/_wp10105.pdf

International Monetary Fund. (2024, April 16). Global financial stability report: The last mile: Financial vulnerabilities and risks. International Monetary Fund. https://doi.org/10.5089/9798400257704.082

International Monetary Fund. (2026, April 14). World economic outlook: Global economy in the shadow of war. International Monetary Fund. https://www.imf.org/-/media/files/publications/weo/2026/april/english/text.pdf

TGB Editorial Team. (2025). Correspondent banking relationships declined by a further 8% in 2024, with the Caribbean and Pacific Islands most affected. The Global Banker. https://www.theglobalbanker.com/correspondent-banking-relationships-declined-by-a-further-8-in-2024-with-the-caribbean-and-pacific-islands-most-affected/

Cox, J. (2026, March 25). Recession odds climb on Wall Street as economy shows cracks beneath the surface. CNBC. https://www.cnbc.com/2026/03/25/recession-odds-climb-on-wall-street-as-economy-shows-cracks-beneath-the-surface.html

Turks and Caicos Islands Government. (2023). TCI National Tourism Development Strategy and Action Plan 2023. Turks and Caicos Islands Government. https://gov.tc/tourismregulations/images/docs/TCI%20National%20Tourism%20Development%20Strategy%20and%20Action%20Plan%202023.pdf

Turks and Caicos Islands Financial Services Commission. (2024). Guideline on liquidity requirements for licensed banks in the Turks and Caicos Islands: Minimum holdings of liquid assets and minimum mismatch limits (Revised). https://www.tcifsc.tc/assets/documents/guideline-on-liquidity-requirements-for-licensed-banks-in-tci-re2-20240516054612.pdf

Financial Stability Board. (2024, October 23). Depositor behaviour and interest rate and liquidity risks in the financial system: Lessons from the March 2023 banking turmoil. https://www.fsb.org/uploads/P231024.pdf