

CREDIT ANALYSIS

Rate this Research



RATINGS

Cayman Islands

	Foreign Currency	Local Currency
Gov. Bond Rating	Aa3/STA	--
Country Ceiling	Aa2	Aa2
Bank Deposit Ceiling	Aa3	Aa2

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Cayman Islands, Government of and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](#).

Cayman Islands, Government of

Overview and Outlook

The Cayman Islands' (Aa3 stable) government bond rating balances very high per capita gross domestic product (GDP), very strong institutions and a comparatively low debt burden with a small, slow-growing economy that is highly dependent on tourism and financial services.

Cayman's economic strength reflects a very high GDP-per-capita estimated at US\$56,801 for 2015, the 10th highest in our ratings universe, counterbalanced by the scale of the economy, which is the fourth smallest among rated sovereigns. Cayman's high level of economic development increases its resilience to economic and natural disaster shocks, which are of particular importance given the country's vulnerability to hurricanes. Even though the economy continues to rely on two key industries—tourism and financial services—there are major projects in the pipeline that could boost growth and help diversify the economic base in the medium to long term.

Cayman Islands' very strong institutional framework is a key support factor for the rating. The World Bank governance indicators for Cayman are the highest in the region and among the highest of all sovereigns rated by Moody's, including highly developed countries. A long history of policy consensus and a sensible macroeconomic approach explains its high economic development and still low debt burden. The United Kingdom provides further institutional support through fiscal oversight and ultimate judicial review.

The Cayman Islands' fiscal and debt positions are comparatively robust given fiscal surpluses, low levels of debt, and high debt affordability. We expect fiscal surpluses of around 2%-3% of GDP this year and next, which will lead to a fall in the government debt burden. The debt-to-GDP ratio is slated to decline to approximately 18.5% of GDP in 2015 compared to a peak of 24.4% in 2011. We forecast that debt-to-GDP will continue to trend down, declining to around 17.5% of GDP in 2016.

Cayman's stable outlook indicates that no rating changes are likely at this time. The outlook balances the very high levels of economic development and low debt metrics with the vulnerabilities resulting from a small and narrow economic base. A positive outlook could be considered in the event of a significant reduction of government debt levels coupled with a policy framework that makes it unlikely debt will increase significantly again. A negative outlook could result if the debt burden begins to rise, either due to policy reasons, a slower economic recovery, or both.

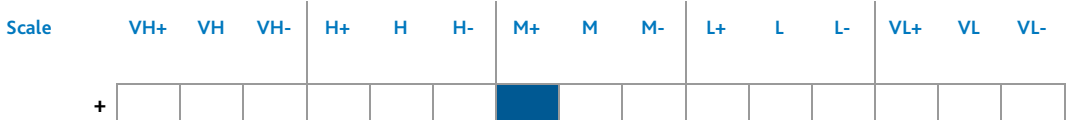
Rating Rationale

Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk. When a direct and imminent threat becomes a constraint, that can only lower the preliminary rating range. For more information please see our [Sovereign Bond Rating Methodology](#).

Economic Strength: Moderate (+)

High wealth is a key credit strength, offset by comparatively low growth rates, small size and limited diversification of the economy

Factor 1



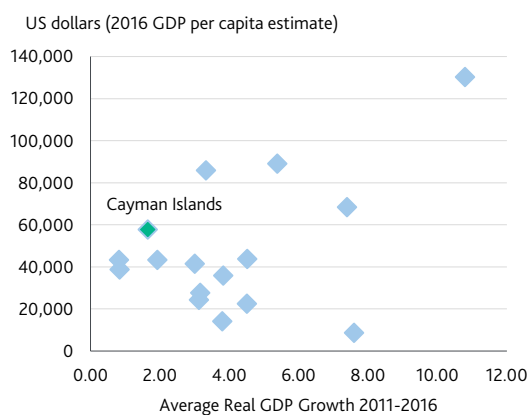
Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Economic strength is adjusted in case excessive credit growth is present and the risks of a boom-bust cycle are building. This 'Credit Boom' adjustment factor can only lower the overall score of economic strength.

The Cayman Islands' Moderate (+) economic strength balances a very high GDP-per-capita with a small-size economy that continues to be highly dependent on two industries, tourism and financial services. We estimate GDP-per-capita will be US\$56,801 for 2015, the 10th highest in Moody's rating universe, and the highest in the Caribbean region. Economic growth has been subdued since the financial crisis but started to pick up in 2014, and we expect real GDP around 2% in 2015 (see Exhibit 1). The country's economic strength is constrained by the small size of the economy and a narrow economic base. Cayman's nominal GDP of \$3.3 billion in 2014 is the fourth lowest among sovereigns rated by Moody's (see Exhibit 2). Even though the two main industries, off-shore financial services and tourism, continue to be the drivers of economic activity, new diversification efforts and private investment could boost growth rates in the longer term as there are several major projects in the pipeline.

EXHIBIT 1

Cayman is Wealthy But Slow Growing Relative to Aa Peers...

Plot of all 16 Aa-rated Sovereigns



This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

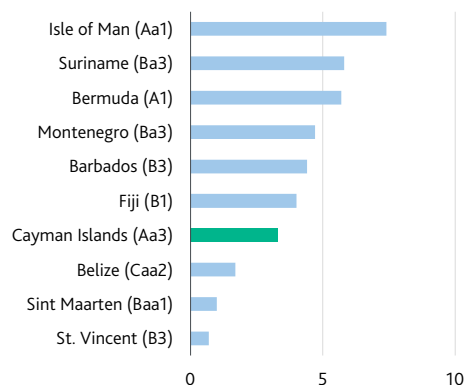
Source: National Sources; Moody's Estimates

EXHIBIT 2

...And It is the Fourth Smallest Rated Economy

Ten Smallest Rated Sovereigns

Nominal GDP (US\$ Billions, 2014 estimate)



Cayman's per capita GDP is higher than the median for Aa-rated sovereigns and a key support factor of its Aa3 rating. Out of 16 sovereigns rated Aa only four have a higher per-capita GDP—two of them are Middle Eastern oil producing countries.¹ Cayman's high GDP per capita supports its resiliency in the face of economic and natural disaster shocks, of particular importance given the country's vulnerability to hurricanes.²

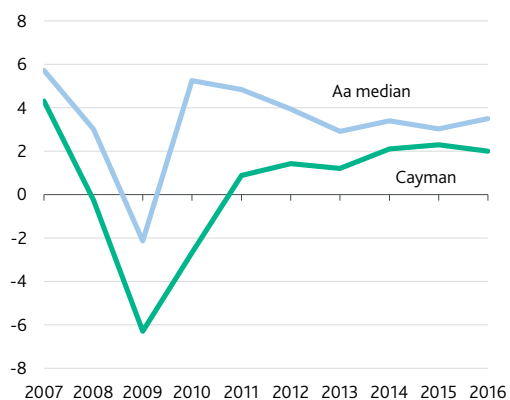
The Cayman Islands is in the lower growth segment relative to rating peers. From 2007 to 2013 real GDP declined 0.2% annually on average as the world financial crisis impacted Cayman's two main industries. In the same period, average growth for Aa rated sovereigns was a much more robust 3.6% per year. After several years of very low or negative growth the Cayman economy is now beginning to grow faster, although still at modest rates and lower than the Aa median (see Exhibit 3).

In 2014 GDP growth increased slightly, reaching an estimated 2.1%, mainly on the back of increased activity in tourism-related industries. The hotels and restaurants sector grew the most at 11.7% in the first nine months of 2014 compared to the same period in 2013. In the second and third quarters of 2014—the latest data available—real GDP growth reached 3.3% and 2.3% on an annualized basis, respectively. We expect this higher growth path to continue throughout 2015 and 2016, as a result of the recovering US economy (the US market represents 75% of tourist arrivals), and Cayman's diversification efforts.³

EXHIBIT 3

Economy Has Recovered at a Slow Pace...

Annual Real GDP Change (%)

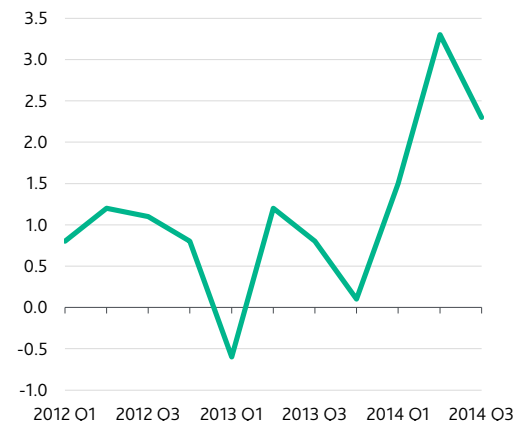


Source: Cayman Islands Economics and Statistics Office; Moody's Estimates

EXHIBIT 4

...But Recent Growth Has Picked Up

Annualized Quarterly GDP Growth (%)



The financial services and insurance sector is a key component of Cayman's economy. The country has a well-established offshore center, one of the largest in the world. Cayman has also one of the world's largest banking centers in terms of assets, one of the world's largest offshore insurance centers, and is a leader in the offshore mutual funds industry. The financial services and insurance sector continues to be the single largest direct contributor to real GDP, accounting for around 42% of GDP in 2013 (the latest available data). However, the sector's contribution to real GDP has been minimal in recent years, and in the first nine months of 2014, financial and insurance services grew only by 0.5%.

¹ Abu Dhabi and Qatar.

² In 2004 Hurricane Ivan hit Grenada, a much poorer Caribbean island, leading to a debt restructuring the following year. The same hurricane impacted Cayman with no major fiscal effect despite economic costs estimated at close to 200% of GDP.

³ Unemployment has been declining, reaching a low of 6% in 2014.

Increased international scrutiny of offshore centers raised the prospect that Cayman's financial industry could be curtailed. The OECD and G20 launched an initiative focusing on "bilateral agreements for the exchange of tax information on request," also known as "TIEAs," meant to facilitate increased sharing of tax information. Cayman's response included the signing of 35 TIEAs, with negotiations either completed, or underway, with a further 15 countries, and is no longer on the OECD's gray list of non-compliant tax jurisdictions.

Even though Cayman's offshore center is no longer in the direct spotlight, increased global pressure on tax havens has led to a trimming the offshore sector with the financial services sector showing mixed performance since the financial crisis. While the insurance market has maintained a trajectory of gradual recovery, activity in the financial services industry has remained subdued with the total number of licensed bank and trust companies decreasing by 5% from 2012 to 2014. Even though this trend can be attributed in part to the increase in mergers among subsidiaries and branches of international banks, it is also a reflection of a more careful and compliance-conscious investor base in Cayman. The government is not expecting any major uptick in the financial services industry in the medium term, and has therefore started pursuing new strategies to diversify the economy (see Box 1 below).

Tourism Remains a Key Sector

Tourism is the other key industry in Cayman. The impact of tourism on GDP and employment is spread across several sectors of the economy, including construction and retail sales. The World Travel & Tourism Council (WTTC) estimates that tourism contributed to 25% of GDP in 2013 when first and second order effects are included. This is one of the highest levels among all rated sovereigns, and the WTTC expects the relative importance to grow, reaching 30% of GDP in 2024. The relative importance of tourism for employment is also high reaching 27% of Cayman's jobs in 2013, according to the WTTC.

Over the past five years, growth in tourist inflows to the Cayman Islands outperformed the rest of the Caribbean region. This growth trajectory can in part be attributed to the improving US economy. Since 2010, stay-over tourist arrivals in Cayman has grown by an average of 7.1% year-on-year. Also, for the last two consecutive years, Cayman was the top performer with tourist arrival growth of 7.4% in 2013 and 10.8% in 2014 (see Exhibit 5). The growth in cruise passenger visits in 2014 was even more pronounced, jumping 17% compared to the year before. Cruise visitors tend to spend less per person than stay-over ones, but their spending power has risen together with their relative importance. In 1995 cruise arrivals were 60% of all visitors, but today four out of every five stay-over visitors arrive in a cruise ship. Mindful of their growing importance and to boost this revenue stream, the government is planning to develop docks that can handle larger cruise ships.

EXHIBIT 5

Tourism Growth Dynamics in the Caribbean, 2010-2014

Cayman the Top Performer in the Caribbean Region

	Stay-over arrival growth (% yoy)					2010-14 average
	2014	2013	2012	2011	2010	
Cayman (Aa3)	10.8	7.4	4.1	7.2	6.0	7.1
Dom Rep (B1)	9.6	2.8	5.9	4.4	3.3	5.2
Belize (Caa2)	9.2	6.1	10.7	3.5	4.2	6.7
St. Maarten (Baa1)*	7.3	2.3	7.6	-4.2	0.7	2.7
Cuba (Caa2)	5.3	0.5	4.5	7.3	4.2	4.3
Jamaica (Caa3)	3.6	1.1	1.8	1.6	4.9	2.6
Bahamas (Baa2)*	3.5	-4.1	5.6	-1.7	3.3	1.3
Barbados (B3)*	0.2	-5.2	-5.5	6.7	2.6	-0.2
St. Vincent & the Grenadines (B3)*	-1.2	-3.5	0.7	1.9	-3.9	-1.2
Average	5.4	0.8	3.9	3.0	2.8	3.2

* 2014 data for the Bahamas is Jan-July, for St. Maarten Jan-Sept, and for Barbados and St. Vincent Jan-Nov

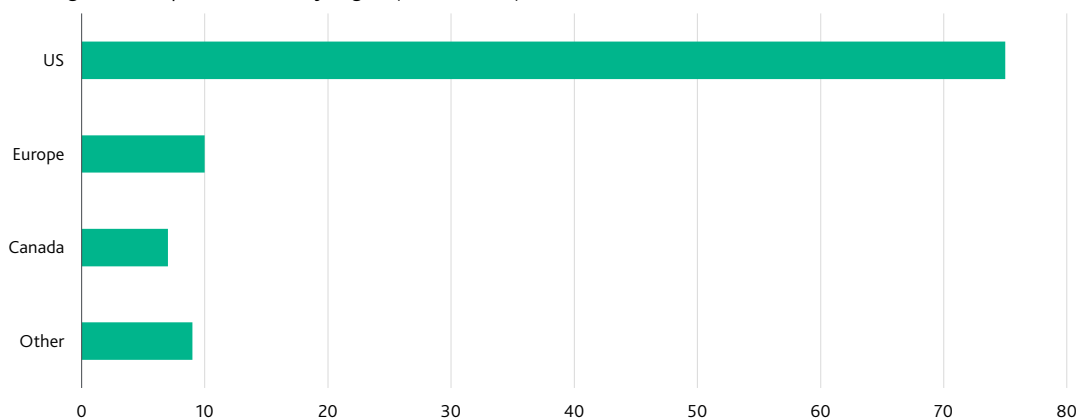
Source: Caribbean Tourism Organization (CTO) and Moody's Estimates

Tourism in the Caribbean is heavily dependent on economic conditions in the US and, to a lesser extent, Canada and Europe. While the US tourism market remains by far the most important source for tourism, its relative share declined to 75% of total tourist arrivals in 2014 from 79% in 2011. European tourists on the other hand have increased to 10% of total arrivals in 2014 from 7% in 2011. The faster economic recovery in the US will most likely continue to have a positive impact on tourism in Cayman throughout 2015. Even though the easing of US travel restrictions to neighboring Cuba may have a negative effect, we expect the impact to be minor as the islands are not directly competing for the same tourist clientele. Cayman is categorized as a medium- to high-end tourism destination with many return visitors, while Cuba lacks basic infrastructure and better-quality accommodations that typically attracts the higher-end tourist segment.

EXHIBIT 6

US Remains Key Tourist Market for the Cayman Islands

Percentage of All Stop-over Arrivals, by Region (Jan-Dec 2014)



Source: Caribbean Tourism Organization

Box 1

Diversification: Turning Focus Towards Visibility and Companies' Physical Footprint on the Islands

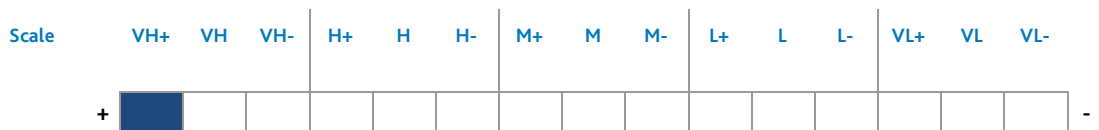
As a result of the declining activity in the financial services sector, the government has been increasing its efforts to diversify the economy by supporting various private sector initiatives. Specifically, there are two new projects, Cayman Enterprise City (CEC) and Health City Cayman Islands that we believe could have a significant impact on the economy in the medium- to long-term:

- » Cayman Enterprise City (CEC) is a special economic zone focused on technology and knowledge-based industries. It is a “fast track business licensing model” that helps companies to either relocate their existing operations to the island (mainly senior level management), or start up new businesses. The aim is to establish individual parks that specialize in sectors such as IT, media and marketing, biotechnology, commodities and derivatives and international academics. The initiative is aligned with the government’s plan to diversify and expand the size of the economy, while attracting more FDI. Despite its long-term horizon of 10-15 years, the initiative has already had an impact on the economy. Since its inception in 2012, CEC has brought 146 companies to the island, generating an estimated US\$40 million to the economy. An additional 80-100 companies are expected to sign up this year, and the ultimate objective is for the CEC to contribute 15% of Cayman Islands’ GDP.
- » Health City Cayman Islands is a large scale medical and surgical compound located in the less developed area of Grand Cayman, High Rock. The aim of the facility is to provide high quality specialized healthcare at low cost, with the option for longer-stay recuperation in near-by hotel/apartment accommodations. The project includes a hospital, medical and nursing schools, as well as hotels and commercial real estate developments. The first hospital, with a 100 patient bed capacity, opened last year, but the objective is to accommodate 2,000 patient beds when the project is finalized. The goal of Health City Cayman Islands is to develop into an all-inclusive resort for medical tourists, employing around 10,000 people in the next 15 years. This can be compared to Cayman’s current workforce of around 39,000. In order to assist the expansion of Health City, the government agreed to change a total of 9 laws and 13 regulations, including the elimination of import taxes on medical products and equipment. This year, Health City will receive its US license, which will facilitate access to patients in the US market. During the construction phase, the hospital may raise average annual GDP growth by 1%-2% and when completed, it is expected to increase tourist arrivals by 50% over current levels. We view medical tourism as a strong complement to Cayman’s more affluent tourist facilities.

Institutional Strength: Very High (+)

History of policy predictability and consensus remains a key credit strength

Factor 2



Institutional strength evaluates whether the country’s institutional features are conducive to supporting a country’s ability and willingness to repay its debt. A related aspect of institutional strength is the capacity of the government to conduct sound economic policies that foster economic growth and prosperity. Institutional strength is adjusted for the track record of default. This adjustment can only lower the overall score of institutional strength.

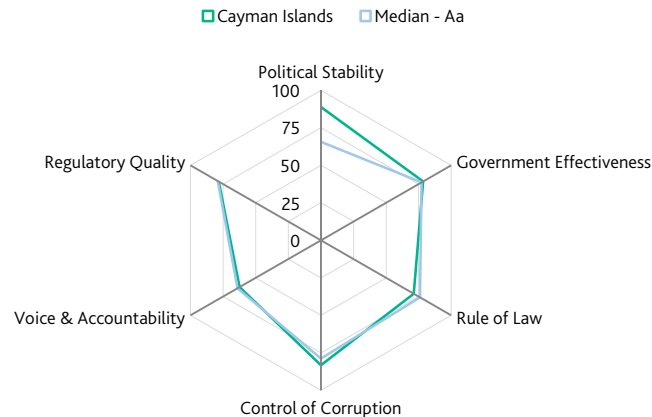
Moody’s ranks the Cayman Islands’ institutional strength as Very High (+) on a global scale. Strong governance indicators published by the World Bank confirm this view as Cayman’s are the highest in the region and in the top 20th percentile of all sovereigns rated by Moody’s, including highly developed

countries. Exhibit 7 highlights that Cayman's governance indicators are generally in line with the median for Aa-rated peers and outperform them in terms of political stability.

EXHIBIT 7

Cayman Islands Governance Indicators

Percentile Ranking Relative to All Rated Sovereigns, by Governance Measure. Higher Number is Better.



Source: World Bank Governance Indicators

UK Connection Supports Cayman's Strong Institutions

The Cayman Islands has enjoyed a very stable political environment since opting for its present UK Overseas Territory status in 1962, when Jamaica (of which the Cayman Islands was a dependency) gained independence. The UK appoints a governor every three years, and general elections for a 15-member Legislative Assembly are held every four years. The UK governor heads the cabinet and has veto power, though in practice his or her role in policymaking is quite limited.

While the Cayman Islands does not benefit from direct financial assistance or explicit guarantees from the UK, the UK Foreign Commonwealth Office reviews its fiscal policies on a regular basis. The review includes several fiscal covenants limiting potential indebtedness. The UK has other Overseas Territories in the Caribbean and has, in some cases, intervened to prevent mismanagement of fiscal affairs.

Political dependence on the UK is credited for enhancing stability and strong international recognition, particularly with regard to the regulatory framework and respect for contracts. This helped establish the Cayman Islands' offshore financial services industry.

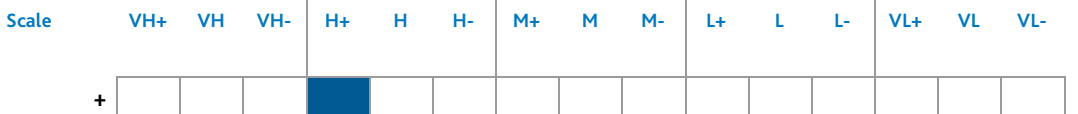
In late 2012, Cayman approved the Public Management and Finance Law, a fiscal responsibility framework (FRF) made in conjunction with the UK government. The law tightens prior fiscal constraints and is more comprehensive. It not only includes regulations and provisions for the central government, but encompasses laws for the public sector as a whole. The Finance Ministry has the responsibility to oversee and report on the financial performance of both the core government and the public sector as a whole.

The People's Progressive Movement (PPM) government of Premier Alden McLaughlin is in the second year of its four-year term (elections were held in May 2013). The new administration has focused on implementing an immigration reform and delivering on its campaign promise to relax residency requirements. Despite encountering some significant backlash domestically, an amended Immigration Law was passed by the Legislative Assembly last year. We think the reform will benefit the key financial sector by helping to attract and retain a high-skilled labor force, thus improving the overall competitiveness of the industry.

Fiscal Strength: High (+)

Debt burden falls due to successful fiscal consolidation

Factor 3

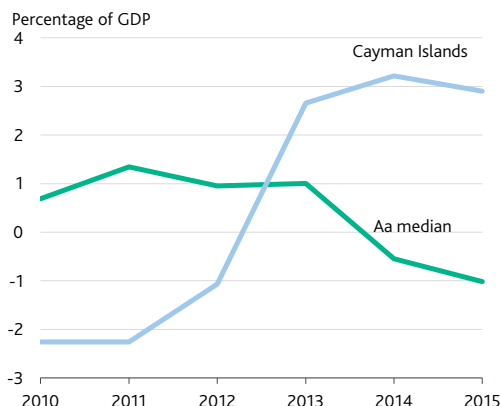


Fiscal strength captures the overall health of government finances, incorporating the assessment of relative debt burdens and debt affordability as well as the structure of government debt. Some governments have a greater ability to carry a higher debt burden at affordable rates than others. Fiscal strength is adjusted for the debt trend, the share of foreign currency debt in government debt, other public sector debt and for cases in which public sector financial assets or sovereign wealth funds are present. Depending on the adjustment factor the overall score of fiscal strength can be lowered or increased.

Moody's ranks the Cayman Islands' government financial strength as High (+), based on a combination of comparatively low levels of debt, high debt affordability and easy access to finance. We estimate Cayman's government debt-to-GDP will reach 18.5% in 2015, representing the fourth consecutive year of declining debt metrics. This is a direct result of fiscal consolidation efforts that have improved the fiscal balance to an average surplus of 2.9% of GDP from 2013 to 2015, compared to a deficit of 1.9% of GDP in the three years prior (see Exhibits 8 and 9).

EXHIBIT 8
An Improved Fiscal Position...

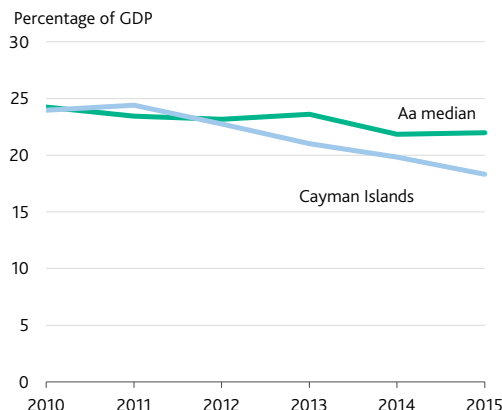
Government Financial Balance



Source: Cayman Islands Economics and Statistics Office; Moody's Estimates

EXHIBIT 9
...Reduces the Debt Burden

Government Debt



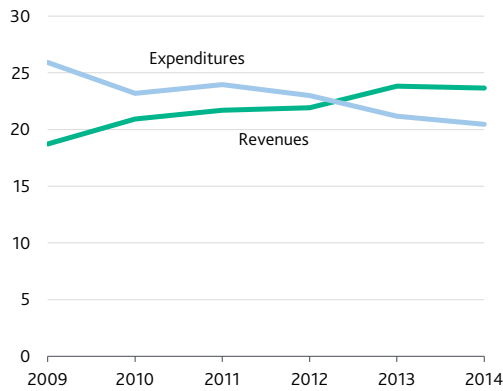
Robust Fiscal Framework and Political Commitment Helped Reverse Negative Debt Trajectory

Government debt increased from 13.4% of GDP in 2008 to 24.4% in 2011. The UK Foreign and Commonwealth Office (FCO)—in charge of reviewing Cayman's fiscal policies and approving the budget—warned the government about increasing debt levels, and as a result, several measures were incorporated into the 2010 revision of the Public Management and Finance Law. The law includes specific fiscal targets that the government is expected to adhere to. Among these rules are limits to debt service payments (interest and principal) of 10% of government revenues, a net debt cap of 80% of core government revenues, and a cash reserves target that needs to be higher than the level of executive expenses estimated for the next 90 days.

Higher Revenues and Lower Expenditures Improve Fiscal Results

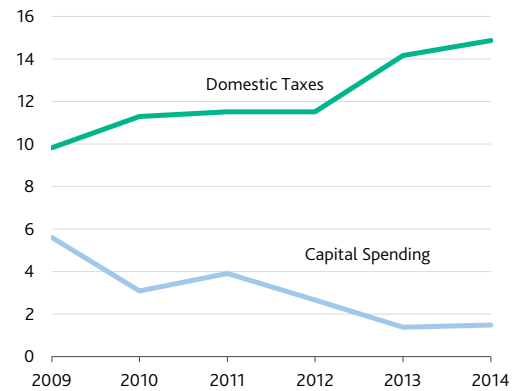
Fiscal consolidation relied on both an increase in revenues and a drop in expenditures (see Exhibit 10). In particular, the change in fiscal metrics was the result of a jump in local tax revenues and a sharp drop in government capital spending. Domestic taxes on goods and services rose to around 13% of GDP in 2014 from 9.8% of GDP in 2009, supported by an increase in financial service licenses as well as work permit fees. In that same period capital expenditures fell from 5.6% of GDP to 1.5% of GDP.

EXHIBIT 10
Higher Revenues and Lower Spending...
 Government Revenues & Expenditures Relative to GDP %



Source: Cayman Islands Economics and Statistics Office; Moody's Estimates

EXHIBIT 11
...Due to Rising Taxes and Lower Capital Outlays
 Taxes on Local Goods & Services and Government Capital Spending Relative to GDP %



The improved fiscal results have allowed Cayman to reduce the government debt burden continuously (see Exhibits 12 and 13). Measured in terms of GDP or government revenues, the debt burden has declined for several consecutive years. We estimate the debt-to-GDP level will drop to 18.5% of GDP in 2014, compared to 24% in 2010. Alternatively, debt to revenues should fall to 77% from 114% in the same period.

EXHIBIT 12
Government Debt Burden Falls Relative to GDP...
 Government Debt to GDP%

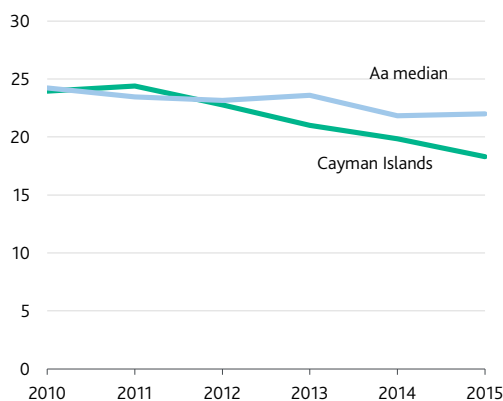
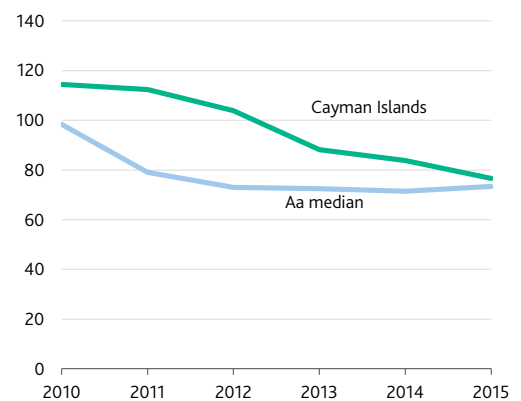


EXHIBIT 13
...And It Also Falls Relative to Revenues
 Government Debt to Government Revenues %



Source: Cayman Islands Economics and Statistics Office; Moody's Estimates

Not only is debt falling relative to GDP, or revenues, but it is also declining in absolute terms, which is uncommon among sovereigns. Lower deficits followed by fiscal surpluses, a policy of limiting or outright prohibiting new debt issuance, and the gradual payoff of outstanding debt resulted in nominal debt falling

every year since 2011. Government debt dropped to CI\$560 million (US\$672 million) at year-end 2013 after reaching CI\$613 million (US\$736 million) in 2011. As of end-September 2014, the latest available data, it had fallen even further to CI\$543 million (US\$651 million).

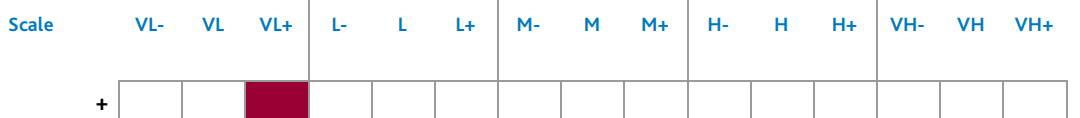
Comparatively high fiscal surpluses, averaging 2.9% of GDP for the three years leading up to 2015, have led to mounting pressure on the government to spend more on education, social programs and civil servant wages. It has become increasingly difficult for the government to justify the conservative fiscal approach. The government has already agreed to a 4% increase in compensation for civil servants, and we expect a slight increase in government spending on social programs going forward. Consequently, the fiscal surplus will most likely decrease somewhat in 2016.

The Cayman government does not have plans to issue debt in 2015 or 2016. However, the authorities are planning to refinance a portion of US\$312 million bullet payment coming due in November 2019. When a bullet payment of this size reaches maturity, the Cayman government runs the risk of breaching some of its fiscal rules, which limit a single year's debt service to no more than 10% of government revenues. We expect future debt issuance to rely on amortizing bonds, to spread out debt repayment more evenly over time.

Susceptibility to Event Risk: Very Low (+)

Strong economy and stable politics reduce the risk of shocks

Factor 4



Susceptibility to Event Risk evaluates a country's vulnerability to the risk that sudden events may severely strain public finances, thus increasing the country's probability of default. Such risks include political, government liquidity, banking sector and external vulnerability risks. Susceptibility of Event Risk is a constraint which can only lower the preliminary rating range as given by combining the first three factors.

Cayman's susceptibility to event risk, the risk of a sudden mult notch rating change is Very Low (+) according to our methodology. Politically there is very little risk of a destabilizing event, given strong institutions and UK fiscal oversight.

Long-term economic risks related to loss of competitiveness in the Cayman Islands' two key industries, tourism and financial services, could affect government finances and put pressure on the country's external accounts. But the likelihood of a major shock remains low. Hurricanes are a recurrent threat given the Cayman Islands' geographic location. The country's relative wealth provides a strong buffer against weather-related shocks as evidenced by Hurricane Ivan in 2004 (which inflicted damage equivalent to 200% of GDP) and the subsequent quick recovery.

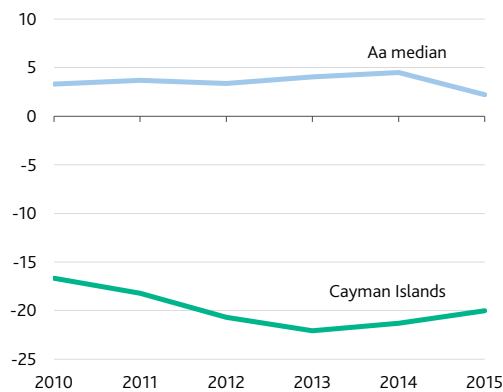
Financial System and External Sector Risks Remain Constrained

Despite the relatively large size of the financial sector, the lack of a deposit guarantee poses only a small threat to the economy as a whole, or to the government's fiscal accounts. Cayman's offshore banks cannot lend directly in the local market thus reducing risks of external contagion. Alternatively, a more relevant potential economic risk is that the financial sector could reduce its size as a result of tighter regulations from G20/OECD initiatives involving off-shore financial centers. This would lead to lower economic growth and negatively impact fiscal revenues but is a risk that would play out over a 5-7 year horizon.

EXHIBIT 14

Relatively High External Imbalances...

Current Account Balance Relative to GDP %



Source: Cayman Islands Economics and Statistics Office; Moody's Estimates

EXHIBIT 15

...And a High Financial Dollarization

Foreign Currency Deposits and Currency Relative to Broad Liquidity %



We expect current account deficits of around 20% of GDP for 2014 and 2015 (see Exhibit 14). Cayman shares with most of the Caribbean a combination of high current account deficits, which have averaged 17.2% of GDP since 2008, and a fixed exchange rate. This combination has proven troublesome in other parts of the world but the high dollarization means there is a reduced risk of a forced exchange rate devaluation. Cayman currency is less than 20% of broad liquidity and Moody's does not anticipate a challenge to the current monetary arrangement, which has been in place since 1971. The Cayman Islands Dollar is fixed to the US Dollar at a rate of 1.20 (CI \$1 = US \$1.2).

Being a small size economy without an industrial base, Cayman needs to import virtually all construction materials, machinery and capital goods. As the diversification efforts speed up, in particular in connection to the buildup of the Health City Cayman Islands compound, we anticipate continued high current account deficits in the medium term. In addition, the Cayman Islands imports most of its consumption goods. Financing of a seemingly large external imbalance has not led to sizable external debt accumulation. Although there is no detailed capital account data, the stability of foreign currency reserves suggests that external financing is not a concern.

Rating Range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see our [Sovereign Bond Rating Methodology](#).

Sovereign Rating Metrics: Cayman Islands

Economic Strength

How strong is the economic structure?

Sub-Factors: Growth Dynamics, Scale of the Economy, Wealth

VH+ VH VH- H+ H H- M+ M M- L+ L L- VL+ VL VL-



Institutional Strength

How robust are the institutions and how predictable are the policies?

Sub-Factors: Institutional Framework and Effectiveness, Policy Credibility and Effectiveness

VH+ VH VH- H+ H H- M+ M M- L+ L L- VL+ VL VL-



Fiscal Strength

How does the debt burden compare with the government's resource mobilization capacity?

Sub-Factors: Debt Burden, Debt Affordability

VH+ VH VH- H+ H H- M+ M M- L+ L L- VL+ VL VL-



Susceptibility to Event Risk

What is the risk of a direct and sudden threat to debt repayment?

Sub-Factors: Political Risk, Government Liquidity Risk, Banking Sector Risk, External Vulnerability Risk

VL- VL VL+ L- L L+ M- M M+ H- H H+ VH- VH VH+



Economic Resiliency

VH+ VH VH- H+ H H- M+ M M- L+ L L- VL+ VL VL-



Government Financial Strength

VH+ VH VH- H+ H H- M+ M M- L+ L L- VL+ VL VL-



Rating Range:
Aa2 – A1

Assigned Rating:
Aa3

Comparatives

This section compares credit relevant information regarding Cayman Islands with other sovereigns rated by Moody's Investors Service. It focuses on a comparison with sovereigns within the same rating range and shows the relevant credit metrics and factor scores.

Cayman, like most other Aa-rated sovereigns, benefits from a high level of economic development and strong institutions. Measured by GDP per capita, it is the fourth richest country out of 16 currently in the Aa category. However, it also has the smallest and least diversified economy in the group. Despite its relatively high current account deficit, Cayman is rated the least susceptible to event risk among key rating peers with low external vulnerability.

EXHIBIT 16

Cayman Islands's Key Peers

	Year	Cayman Islands	Korea	Kuwait	Estonia	Bermuda	Czech Republic	Aa3 Median	Latin America & Caribbean Median
Rating/Outlook		Aa3/STA	Aa3/POS	Aa2/STA	A1/STA	A1/STA	A1/STA	Aa3	Ba2
Rating Range		Aa2 - A1	Aa1 - Aa3	Aa3 - A2	Aa3 - A2	A1 - A3	Aa2 - A1	Aa2 - A1	Baa3 - Ba2
Factor 1		M+	VH+	H+	M-	L+	M+	VH-	M-
Nominal GDP (US\$ Bn)	2013	3.2	1305.6	175.8	24.9	5.6	208.8	525.0	36.6
GDP per Capita (PPP, US\$)	2013	--	33,791	70,785	26,052	--	27,347	37,276	12,776
Avg. Real GDP (% change)	2009-2018	0.5	3.3	1.8	1.4	-1.2	1.0	3.6	2.7
Volatility in Real GDP growth (ppts)	2004-2013	3.7	1.7	6.1	7.8	3.7	3.7	2.3	2.4
Global Competitiveness Index, percentile ^[1]	2014	--	76.1	64.6	73.4	--	67.2	77.0	28.3
Factor 2		VH+	VH	H-	VH-	VH+	H+	VH+	M-
Government Effectiveness, percentile ^[1]	2013	78.7	74.0	39.3	69.2	70.8	66.1	77.9	37.7
Rule of Law, percentile ^[1]	2013	71.6	73.2	57.4	81.8	81.1	77.9	73.2	29.9
Control of Corruption, percentile ^[1]	2013	83.4	64.5	45.6	74.8	77.9	57.4	68.5	34.6
Avg. Inflation (% change)	2009-2018	1.2	2.7	3.9	2.4	2.1	1.9	2.6	4.0
Volatility in Inflation (ppts)	2004-2013	2.5	1.0	1.5	2.7	0.9	1.5	2.0	2.3
Factor 3		H+	VH	VH+	VH+	H-	VH+	VH	M+
Gen. Gov. Debt/GDP	2013	21.0	36.2	6.4	10.1	41.4	45.7	33.5	34.4
Gen. Gov. Debt/Revenues	2013	88.2	164.6	8.7	26.2	258.2	112.4	152.3	168.9
Gen. Gov. Interest Payments/Revenue	2013	5.0	4.8	0.1	0.4	12.3	3.3	5.0	9.0
Gen. Gov. Interest Payments/GDP	2013	1.2	1.0	0.1	0.1	2.0	1.4	1.0	1.8
Gen. Gov. Financial Balance/GDP	2013	2.7	1.0	32.5	-0.5	-6.0	-1.3	-0.6	-2.3
Factor 4		VL+	M-	M	L	L	L	M-	M-
Current Account Balance/GDP	2013	-22.1	6.2	31.6	-1.4	15.1	-1.4	1.3	-3.9
Gen. Gov. External Debt/Gen. Gov. Debt	2013	100.0	12.8	52.4	78.0	100.0	33.2	15.3	49.3
External Vulnerability Indicator	2015F	25.0	45.3	56.3	--	--	110.1	32.5	64.5
Net International Investment Position/GDP	2013	--	-2.9	69.5	-46.8	62.7	-40.1	20.1	-32.5

Notes:

[1] Moody's calculations. Percentiles based on our rated universe.

Source: Moody's, Haver Analytics, Official National Sources, IMF, World Bank

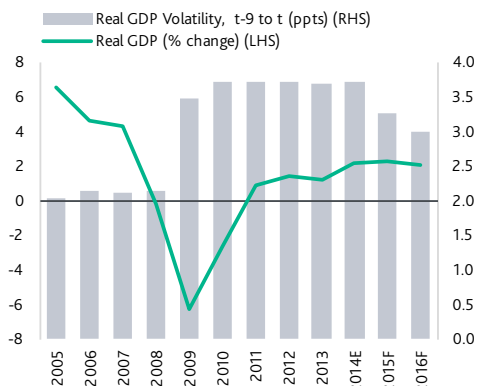
Appendices

Chart Pack

Cayman Islands

EXHIBIT 17

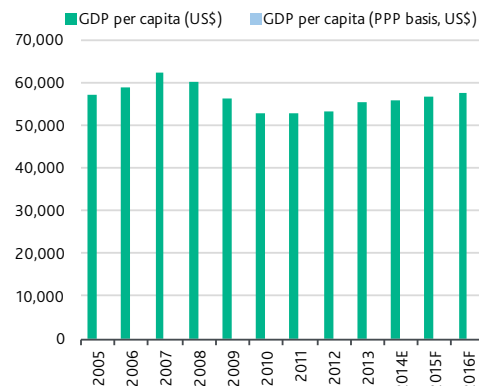
Economic Growth



Source: Cayman Islands Economics and Statistics Office; Moody's

EXHIBIT 18

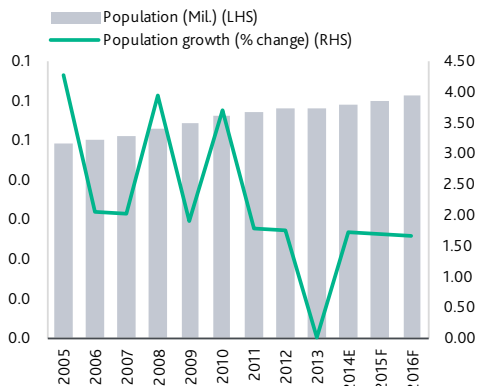
National Income



Source: Cayman Islands Economics and Statistics Office; Moody's

EXHIBIT 19

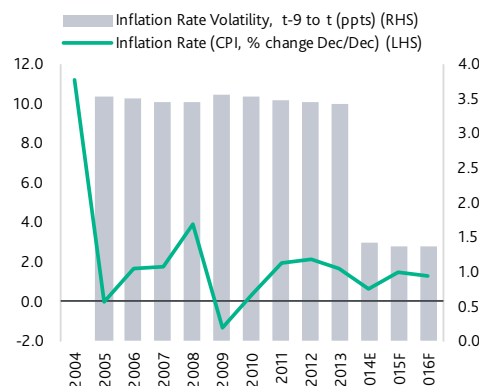
Population



Source: United Nations

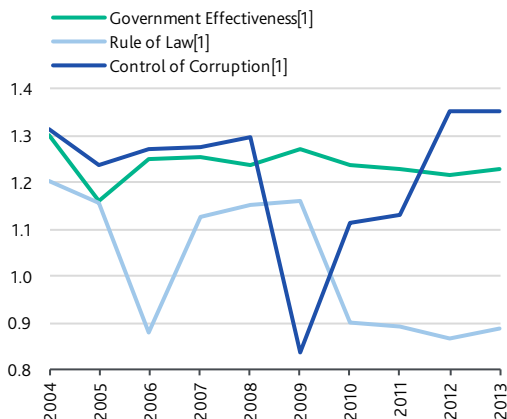
EXHIBIT 20

Inflation and Inflation Volatility



Source: Cayman Islands Economics and Statistics Office; Moody's

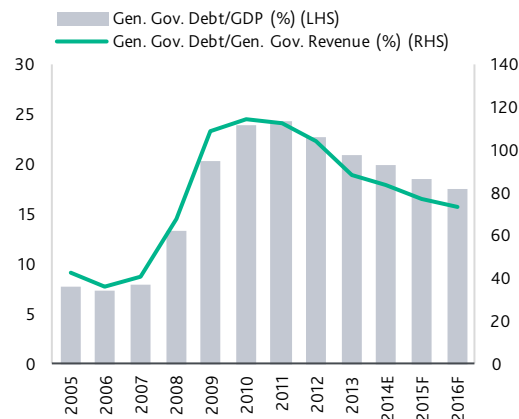
EXHIBIT 21
Institutional Framework and Effectiveness



Notes: [1] Composite index with values from about -2.50 to 2.50; higher values correspond to better governance.

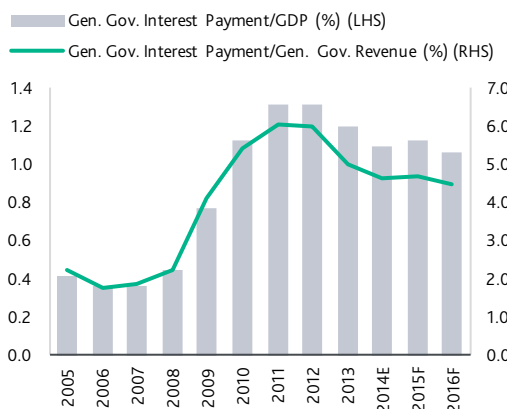
Source: World Bank Governance Indicators

EXHIBIT 22
Debt Burden



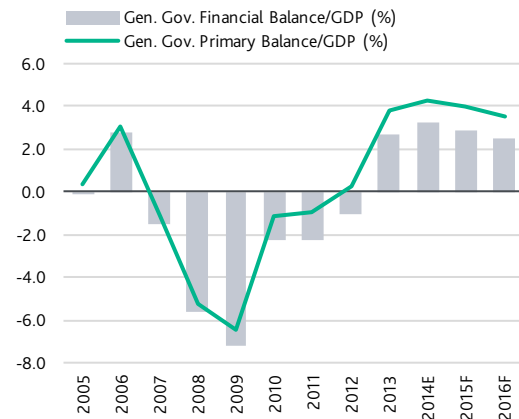
Source: Cayman Islands Economics and Statistics Office; Moody's

EXHIBIT 23
Debt Affordability



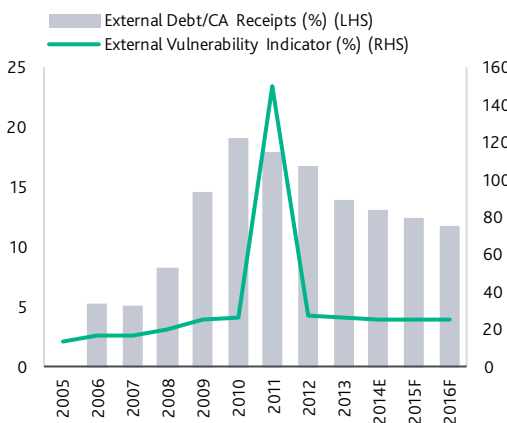
Source: Cayman Islands Economics and Statistics Office; Moody's

EXHIBIT 24
Financial Balance



Source: Cayman Islands Economics and Statistics Office; Moody's

EXHIBIT 25
External Vulnerability Risk



Source: Cayman Islands Economics and Statistics Office; Moody's

Rating History

Cayman Islands

	Government Bonds			Foreign Currency Ceilings				Date
	Foreign Currency	Local Currency	Outlook	Bonds & Notes		Bank Deposit		
				Long-term	Short-term	Long-term	Short-term	
Rating Lowered	--	--	--	Aa2	--	--	--	13-Feb
Rating Raised	--	--	--	Aaa	--	--	--	6-May
Rating Assigned	Aa3	--	Stable	--	--	--	--	Oct-00
Rating Assigned	--	--	--	Aa3	P-1	--	--	Dec-97
Rating Assigned	--	--	--	--	--	Aa3	P-1	Sep-89

Annual Statistics

Cayman Islands

	2007	2008	2009	2010	2011	2012	2013	2014E	2015F	2016F
Economic Structure and Performance										
GDP Nominal (US\$ Bil.)	3.2	3.2	3.0	2.9	3.0	3.1	3.2	3.3	3.4	3.5
Population (Mil.) ^[1]	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
GDP per capita (US\$)	62,048	60,179	56,197	52,674	52,695	53,295	55,144	55,673	56,801	57,682
GDP per capita (PPP basis, US\$)	--	--	--	--	--	--	--	--	--	--
Nominal GDP (% change, local currency)	7.7	0.8	-4.9	-2.2	1.7	2.5	3.5	2.7	3.8	3.2
Real GDP (% change)	4.3	-0.2	-6.3	-2.7	0.9	1.4	1.2	2.1	2.3	2.0
Inflation Rate (CPI, % change, Dec/Dec)	1.7	3.9	-1.3	0.3	1.9	2.1	1.7	0.6	1.5	1.2
Gross Investment/GDP	--	--	--	--	--	--	--	--	--	--
Gross Domestic Savings/GDP	--	--	--	--	--	--	--	--	--	--
Nominal Exports of G & S (% change)	-0.9	16.2	-5.7	5.8	2.8	0.3	6.1	2.0	2.5	3.0
Nominal Imports of G & S (% change)	3.9	10.2	-4.6	0.0	10.3	-4.2	-0.5	1.5	3.0	4.0
Openness of the Economy	99.0	110.9	110.6	116.2	121.9	116.5	117.7	116.6	115.5	115.8
Government Effectiveness ^[2]	1.24	1.27	1.24	1.23	1.22	1.23	1.21	--	--	--
Government Finance^[3]										
Gen. Gov. Revenue/GDP	19.5	19.6	18.7	20.9	21.7	21.9	23.8	23.7	23.9	23.8
Gen. Gov. Expenditures/GDP	20.9	25.3	25.9	23.2	24.0	23.0	21.2	20.5	21.0	21.3
Gen. Gov. Financial Balance/GDP	-1.5	-5.6	-7.2	-2.3	-2.3	-1.1	2.7	3.2	2.9	2.5
Gen. Gov. Primary Balance/GDP	-1.1	-5.2	-6.4	-1.1	-1.0	0.2	3.8	4.3	4.0	3.6
Gen. Gov. Debt (US\$ Bil.)	0.25	0.43	0.62	0.71	0.74	0.70	0.67	0.65	0.63	0.62
Gen. Gov. Debt/GDP	8.0	13.4	20.3	24.0	24.4	22.8	21.0	19.8	18.5	17.5
Gen. Gov. Debt/Gen. Gov. Revenue	41.0	68.0	108.4	114.5	112.4	103.8	88.2	83.8	77.3	73.5
Gen. Gov. Int. Pymt/Gen. Gov. Revenue	1.9	2.2	4.1	5.4	6.0	6.0	5.0	4.6	4.7	4.5
Gen. Gov. FC & FC-indexed Debt/GG Debt	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Gross Borrowing Requirements/GDP	2.1	6.4	8.2	3.3	7.6	2.1	-1.7	-2.2	-2.0	2.6
General Government External Debt/Total General Government Debt	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Cayman Islands

	2007	2008	2009	2010	2011	2012	2013	2014E	2015F	2016F
External Payments and Debt										
Nominal Exchange Rate (local currency per US\$, Dec)	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83
Real Eff. Exchange Rate (% change)	--	--	--	--	--	--	--	--	--	--
Current Account Balance (US\$ Bil.)	-0.58	-0.53	-0.51	-0.49	-0.55	-0.64	-0.71	-0.84	-0.82	-0.84
Current Account Balance/GDP	-18.3	-16.5	-16.7	-16.7	-18.2	-20.7	-22.1	-21.3	-20.0	-19.9
External Debt (US \$Bil.) ^[5]	0.25	0.43	0.62	0.71	0.74	0.70	0.67	0.65	0.63	0.62
Public Sector External Debt/Total External Debt	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Short-Term External Debt/Total External Debt	--	--	--	--	--	--	--	--	--	--
External Debt/GDP	8.0	13.4	20.3	24.1	24.5	22.8	21.0	19.8	18.5	17.5
External Debt/CA Receipts	5.1	8.3	14.5	19.2	17.9	16.8	13.8	13.2	12.4	11.8
Interest Paid on External Debt (US\$ Bil.) ^[4]	0.01	0.01	0.02	0.03	0.04	0.04	0.04	0.04	0.04	0.04
Amortization Paid on External Debt (US\$ Bil.) ^[6]	0.02	0.02	0.03	0.03	0.16	0.03	0.03	0.03	0.03	0.03
Net Foreign Direct Investment/GDP	--	--	--	--	--	--	--	--	--	--
Net International Investment Position/GDP	--	--	--	--	--	--	--	--	--	--
Official Foreign Exchange Reserves (US\$ Bil.)	0.13	0.12	0.12	0.11	0.11	0.12	0.12	0.12	0.12	0.12
Net Foreign Assets of Domestic Banks (US\$ Bil.)	1.71	-0.41	-1.52	-3.42	-4.09	-2.49	1.04	2.04	--	--
Monetary, External Vulnerability and Liquidity Indicators										
M2 (% change, Dec/Dec)	--	--	-5.5	2.0	-4.6	18.6	-0.3	0.2	--	--
Short-term Nominal Interest Rate (% per annum, Dec 31)	--	3.75	3.25	3.25	3.25	3.25	3.25	3.25	--	--
Domestic Credit (% change Dec/Dec)	--	--	2.7	6.0	3.3	-1.8	-2.5	2.3	--	--
Domestic Credit/GDP	--	91.7	102.7	110.4	108.4	104.5	98.9	98.1	--	--
M2/Official Forex Reserves (X)	--	10.0	9.6	11.0	9.9	11.2	10.9	10.7	--	--
Total External Debt/Official Forex Reserves	197.5	349.4	511.2	663.2	648.4	591.5	551.6	522.2	517.1	501.2
Debt Service Ratio ^{[4][5]}	0.6	0.8	1.3	1.7	4.9	1.7	1.4	1.4	1.4	1.3
External Vulnerability Indicator ^[6]	16.5	19.4	25.5	25.8	149.8	27.4	26.7	24.6	25.0	25.6
Liquidity Ratio ^[7]	17.1	13.1	17.1	19.2	21.2	29.5	24.9	27.0	--	--
Total Liab. due BIS banks/Total Assets held in BIS banks	101.2	84.3	93.4	96.0	101.5	104.8	97.2	100.8	--	--

[1] Cayman Islands' population is below 50,000 and appears as 0.0 million in data series due to rounding.

[2] Composite index with values from -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.

[3] Central Government.

[4] Central Government.

[5] Central Government.

[6] Central Government.

[7] 2003 reflects debt prepayment and refinancing.

[8] (Interest + Current-Year Repayment of Principal)/Current Account Receipts.

[9] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves.

[10] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks.

Moody's Related Research

Credit Opinion:

- » [Cayman Islands, Government of](#)

Rating Action:

- » [Moody's Affirms the Cayman Islands' Aa3 Sovereign Rating, Maintains Stable Outlook, February 2013](#)

Rating Methodologies:

- » [Sovereign Bond Ratings, September 2013 \(157547\)](#)
- » [Sovereign Default and Recovery Rates, 1983-2013, April 2014 \(166650\)](#)

Special Comment:

- » [Sovereign Default and Recovery Rates, June 2013 \(154805\)](#)

Moody's Website Links:

- » [Sovereign Risk Group Webpage](#)
- » [Sovereign Ratings List](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related Websites

For additional information, please see:

- » [Cayman Islands Economics and Statistics Office](#)

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Rate this Research



Report Number: 180725

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