MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms the Cayman Islands' Aa3 rating; maintains stable outlook

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New York, February 17, 2017 -- Moody's Investors Service ("Moody's") has today affirmed the Cayman Islands' Aa3 government bond and issuer rating. At the same time, the rating outlook was maintained at stable.

Today's action reflects the combination of the following credit drivers for the Cayman Islands:

1. A comparatively low and falling government debt burden.

2. A very high per-capita income which mitigates the risks deriving from a small, narrow economy susceptible to weather-related shocks.

3. A strong institutional framework, broad consensus on macroeconomic policies and fiscal oversight by the UK.

The Cayman Islands' foreign currency bond ceiling, and the long-term local-currency bond and deposit ceilings, all remain unchanged at Aa2. The long-term foreign currency bank deposit ceiling remains unchanged at Aa3.

RATIONALE FOR AFFIRMING THE Aa3 RATING

FIRST DRIVER: COMPARATIVELY LOW AND FALLING GOVERNMENT DEBT BURDEN

Caymans' fiscal and debt position remains comparatively robust with strong revenues allowing the government to run budget surpluses since 2013. Moody's forecasts continued surpluses averaging 1.8% of GDP for 2017 and 2018. The positive financial balances in turn have reduced the Cayman Islands' debt burden; Moody's expects debt-to-GDP to fall to 17% of GDP this year, less than half the 38% of GDP median for Ba-rated sovereigns. And the rating agency expects debt to fall further in 2019, when a single large bullet bond payment, equivalent to 7% of GDP, comes due. Cayman's government plans to pay most, and possibly all, of that upcoming bullet payment from its cash reserves.

SECOND DRIVER: HIGH WEALTH THAT BALANCES A SMALL UNDIVERSIFIED ECONOMY

Cayman's economic strength reflects a very high GDP-per-capita which Moody's estimates at US$57,936 for 2017, among the highest of all Moody's-rated sovereigns and significantly higher than the US$41,462 median for Aa rated countries. The level of wealth is counterbalanced by the scale of the economy, with a nominal GDP of only $3.6 billion this year, the fifth smallest among all rated sovereigns.

The Cayman Islands' high level of economic development increases its resilience in the face of economic and natural disaster shocks, of particular importance given the country's vulnerability to hurricanes. Cayman's economy is highly concentrated, and tourism and financial services represent almost 70% of the island's GDP. Pushed by several tourism-related projects, Moody's forecasts that economic growth will average 2.6% annually from 2016 to 2018, compared to the 1.8% annual average the economy grew from 2011 to 2015.

THIRD DRIVER: A STRONG INSTITUTIONAL FRAMEWORK

The Cayman Islands benefits from decades of stable institutions and respect for the rule of law. The Cayman's Worldwide Governance indicators results are among the highest in the region and in the top 20th percentile of all rated sovereigns, including highly developed countries. A long history of policy consensus and a consistent macroeconomic approach is a key support of its economic development. The United Kingdom provides further institutional support through fiscal oversight and ultimate judicial review. Legal limits on government borrowing and oversight from the UK's Foreign Office are a key reason behind the drop in debt in recent years. Moody's expects that those limits and oversight will remain in place in the next few years.

OUTLOOK

Cayman's stable outlook indicates that the rating is unlikely to change over the outlook horizon. The outlook balances the very high levels of economic development and low debt metrics with the credit challenges resulting from a small and narrow economic base.

WHAT COULD CHANGE THE RATING UP

A positive outlook could be considered if developments alleviate the constraints that Cayman Island's small and relatively undiversified economy poses to the sovereign credit profile. This could include a significant reduction of overall projected debt levels in the context of a policy framework that ensures debt levels will remain very low. Alternatively greater and more diversified economic growth that pushed per capita GDP even higher relative to peers could lead to a positive rating action.

WHAT COULD CHANGE THE RATING DOWN

A negative outlook could result if the debt burden begins to rise, either due to policy reasons, a slower economic recovery or both. A change to the institutional arrangements that place restrictions on excessive debt would also lead to a negative rating action.

GDP per capita (US$): 55,274 (2015 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 2.8% (2015 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): -2.5% (2015 Actual)

Gen. Gov. Financial Balance/GDP: 3% (2015 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -22.8% (2015 Actual) (also known as External Balance)

External debt/GDP: 18.5% (2015 Actual)

Level of economic development: High level of economic resilience

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 15 February 2017, a rating committee was called to discuss the rating of the Cayman Islands, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutional strength/ framework, have not materially changed. The issuer's governance and/or management, have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has not materially changed. The systemic risk in which the issuer operates has not materially changed. The issuer's susceptibility to event risks has not materially changed.

The principal methodology used in these ratings was Sovereign Bond Ratings published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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