

ISSUER IN-DEPTH

18 May 2021



RATINGS

Isle of Man

	Foreign Currency	Local Currency
Gov. Bond Rating	Aa3/STA	Aa3/STA
Country Ceiling	Aaa	Aaa

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Government of Isle of Man - Aa3 stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The credit profile of the [Isle of Man](#) (IoM, Aa3 stable) reflects the island's high levels of wealth and economic resilience. The IoM's economy is more diversified than are most entities of its size, having moved away from a reliance on offshore banking toward information and communications technology (ICT), insurance and e-gaming.

Despite the IoM's small size, its institutions are robust and benefit from close ties to the [UK](#) (Aa3 stable), and have shown themselves to be proactive and effective in dealing with the exogenous shocks of Brexit and the coronavirus pandemic. The government's very strong public finances are a key credit strength. The IoM has no direct debt outstanding, a distinction only shared by [Macao](#) (Aa3 stable) among the sovereigns we rate. A prudent approach to managing government finances has resulted in a high level of overall reserves through which fiscal deficits are financed.

The IoM's material linkages with the UK leave its credit profile exposed to the deterioration of the UK's creditworthiness and the impact of Brexit. Close economic links between the UK and the IoM mean that the UK's decision to leave the [EU](#) (Aaa stable) will have repercussions for the island's economic prospects. While offshore financial services are less important to the economy now than they were in the past, the IoM also remains vulnerable to global and regional tax coordination efforts that can adversely affect the sector.

Upward pressure on the IoM's rating is unlikely over the medium term due to the implications of Brexit and the pandemic, and the associated challenges that they pose for the UK. Technological or regulatory changes to key industries in the IoM, such as insurance, e-gaming, ICT, or banking could be material for the credit profile in either a positive or negative way given concentration in these sectors.

Given the material linkages between the IoM and the UK, a downgrade of the UK's sovereign rating could put downward pressure on the IoM's rating. However, if the IoM's intrinsic credit strengths were to remain intact it is possible that the trajectory of the IoM and UK ratings could begin to diverge somewhat. Downward pressure on the rating would also arise if the IoM's economic or fiscal position were to deteriorate significantly.

This credit analysis elaborates on the IoM's credit profile in terms of economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk, which are the four main analytical factors in our [Sovereign Ratings Methodology](#).

CREDIT PROFILE

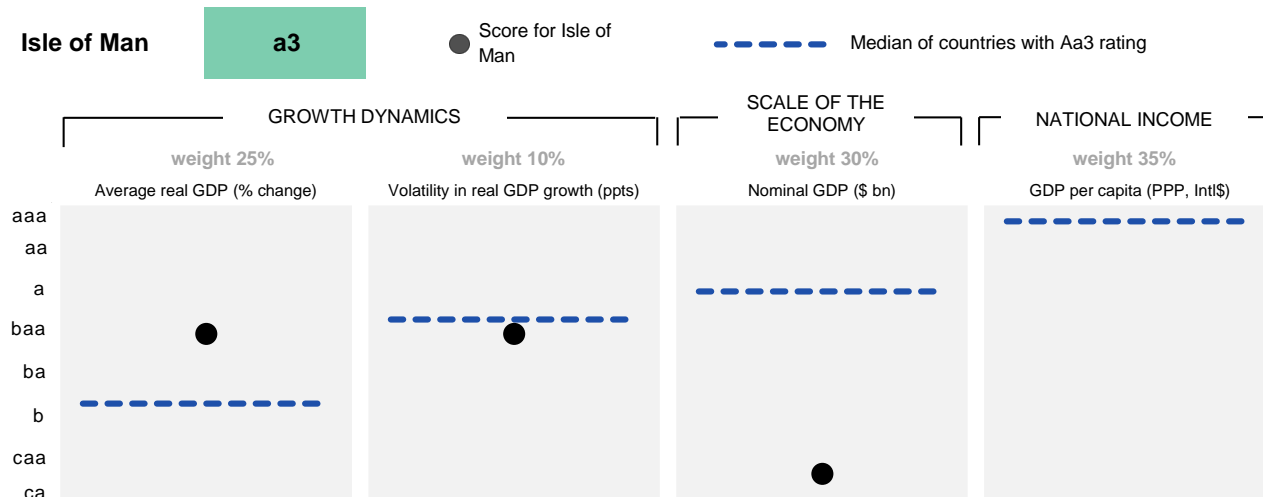
Our determination of a sovereign's government bond rating is based on the consideration of four factors: economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk. When a direct and imminent threat becomes a constraint, that can only lower the scorecard-indicated outcome. For more information please see our [Sovereign Ratings Methodology](#).

Economic strength score: a3

Factor 1: Overall score

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca
							Final													

Factor 1: Sub-scores



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. Adjustments to the economic strength factor score most often reflect our judgement regarding the economy's flexibility, diversity, productivity and labour supply challenges.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

We score the IoM's **economic strength** as "a3", underpinned by high wealth levels and a track record of strong economic growth, but balanced by the very small size of the economy which limits capacity to absorb new shocks. The coronavirus outbreak pushed the IoM into economic contraction last year, for only the second time in the past three decades. Of the IoM's closest peers, which are small island jurisdictions specialising in similar economic sectors, the [Cayman Islands](#) (Aa3 stable) and Macao both receive scores of "baa2". [Luxembourg](#) (Aaa stable), another peer in terms of size and breakdown of economic sectors, receives a score of "a1" because of its significantly higher wealth levels.

Exhibit 1

Peer comparison table factor 1: Economic strength

	Isle of Man Aa3/STA	a3 Median	Bermuda A2/STA	Cayman Islands Aa3/STA	Macao Aa3/STA	Ireland A2/STA	Luxembourg Aaa/STA	Hong Kong Aa3/STA
Final score	a3		ba1	baa2	baa3	a3	a1	a1
Initial score	--		ba2	baa2	baa1	aa3	a2	a2
Nominal GDP (\$ billion)	7.3	326.8	7.5	6.2	55.2	398.6	71.1	365.7
GDP per capita (PPP, Int\$)	--	27,556.6	71,682.0	79,170.3	124,903.5	91,812.0	120,490.8	62,266.9
Average real GDP (% change)	2.9	4.7	0.7	2.6	3.1	7.0	2.7	1.7
Volatility in real GDP growth (ppts)	2.2	1.6	11.6	2.0	13.3	7.5	1.6	2.1

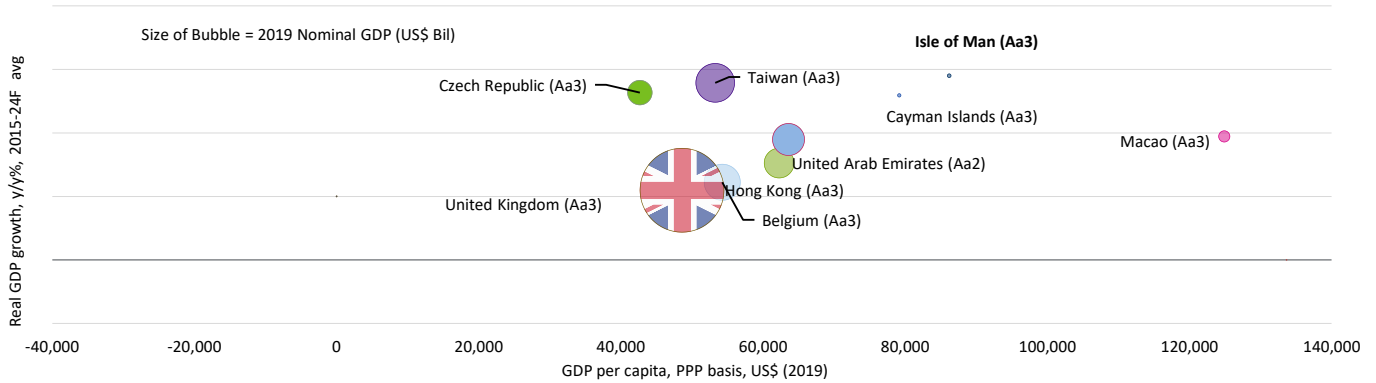
Sources: IMF, National authorities, Moody's Investors Service

Wealth and comparatively high diversification partly offset challenges posed by economy's small size

Although the economy is very small – we estimate nominal GDP at \$7.3 billion as of 2019, making it one of the smallest economies that we rate globally – which naturally reduces its capacity to absorb shocks, it is more diversified than many other economies of a similar size. This diversification is supported by specific government policies and sustained the economy during the global financial crisis. Per capita income is one of the highest among the sovereigns we rate, at around \$86,000, while real GDP growth has averaged 3.2% over the last decade of available data (2009-10 through 2018-19).¹

Exhibit 2

The IoM is an outlier in terms of both wealth and size
 Economic wealth, scale and growth relative to other Aa-rated sovereigns

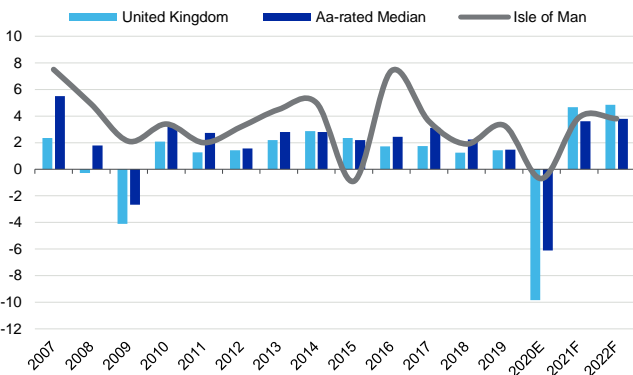


GDP per capita is on a purchasing power parity basis for all except the IoM and the Cayman Islands.
 Source: Moody's Investors Service

While economic growth has slowed since the global financial crisis, the economy has been relatively resilient, and real GDP grew by an average 2.7% per year between 2009 and 2012. The IoM enjoyed an unbroken record of economic growth for 32 years until 2015-16, when GDP contracted by 0.9% in real terms. That contraction resulted partly from a decline in e-gaming profit following the implementation of a point of consumption tax on profit generated in the UK, highlighting the still high degree of concentration in a few key sectors as well as the substantial linkages with the UK. However, the economy had recovered strongly ahead of the coronavirus outbreak, with realised income tax receipts coming in 4.6% above budget in the 2019-20 fiscal year and unemployment at the low rate of 0.9% in February 2020.

Exhibit 3

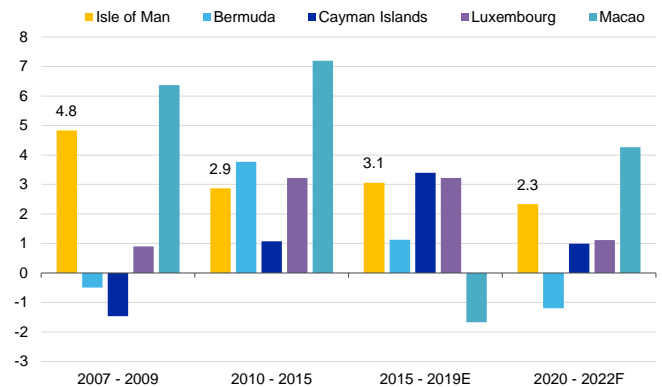
The island's growth has historically been very resilient...
 Real GDP growth, %



Source: Moody's Investors Service

Exhibit 4

... particularly relative to other offshore centres and small economies
 Real GDP growth, %



Source: Moody's Investors Service

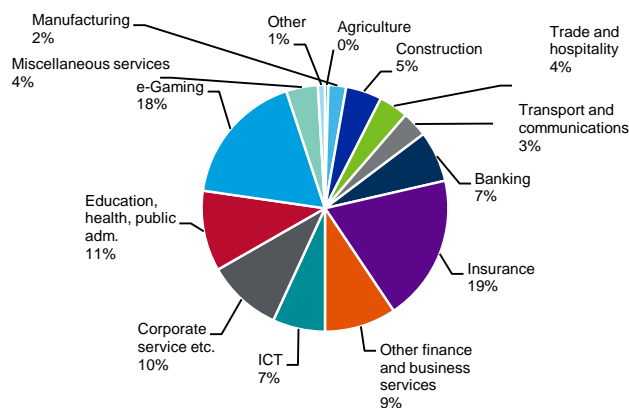
Diversification away from traditional banking activities has supported growth

The IoM's economy is more diversified than that of other offshore financial centres and also more than many other small economies. The importance of financial services to the IoM's gross-valued added (GVA) has fallen significantly since the late 1990s. E-gaming is now one of the largest sectors, accounting for 17.6% of national income in 2018-19. However, the number of corporations in each sector is naturally small, and the largest companies can have a disproportionate impact on the overall growth performance of both their sector and the economy more broadly. Moreover, the IoM calculates GDP using the income method, which magnifies the impact of fluctuations in corporate profit. Corporate income accounted for 64% of GDP in 2018-19.

The IoM's financial services are mainly offered in offshore banking, captive insurance, offshore life insurance, fund management, and trust and company services. While the broader financial services industry is still the largest sector of the economy, the banking sector's contribution has fallen since the global financial crisis, and the number of licensed deposit-taking institutions on the island has declined. As a share of GVA, the banking sector stood at 6.7% in 2018-19 compared with 16.3% in 2007-08. On the other hand, the insurance sector – notably the offering of life insurance policies for expatriates and global high-net-worth individuals – has resurged in recent years, and was the island's largest sector and main driver of growth in the most recent published national accounts.

Exhibit 5

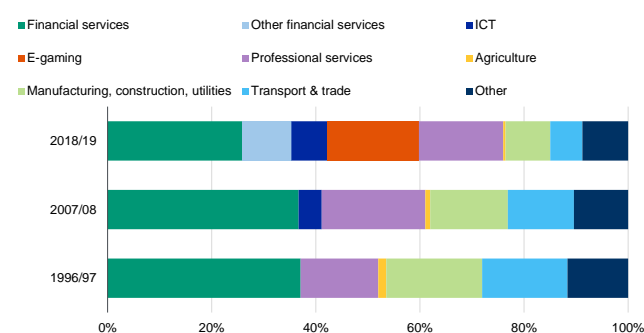
Isle of Man's economy is relatively diversified... National income by economic activity, % share of total (2018-19)



Sources: Isle of Man Treasury and Moody's Investors Service

Exhibit 6

...and has moved away from banking activities since the global financial crisis Sectoral composition of GVA, % of total



Sources: Isle of Man Treasury and Moody's Investors Service

Government policies have supported the transformation of the IoM into a more diversified economy, particularly through low-tax legislation, which was initially directed toward financial services. Further changes to its tax legislation (including the introduction of a zero corporate tax rate in 2006), the development of a modern telecommunications infrastructure and a skilled population, as well as the IoM's flexible regulatory and business environment, have attracted a broader range of sectors. Besides ICT and e-gaming, the island has several companies engaged in niche manufacturing, including for the aerospace industry as well as specialised services such as shipping and aircraft registers.

ICT and e-gaming have grown strongly over the past decade and accounted for a combined 24.5% of GVA in 2018-19, up from 10% in 2008-09. The sectors' development has been helped by the island's high-quality telecommunications and IT infrastructure, which minimises latency (delays in processing network data) in IT systems. The authorities have also focused on creating an ecosystem of auxiliary services, such as software developers and engineers, to help foster the sectors. Generating such clusters helps retain businesses and contributes to overall competitiveness in winning further investment.

Relative diversification of the economy and effective policy response have mitigated the pandemic's economic impact

The IoM has fared relatively well during the pandemic, with the imposition of fewer and shorter pandemic-related restrictions than seen in the UK, and we expect a robust recovery to take hold – with growth averaging close to 4% over 2021 and 2022 – after the shallow 0.7% contraction that we estimate for 2020. The IoM was able to avoid having to implement lockdowns during the second

half of 2020, although spikes in coronavirus cases led to the imposition of two short "circuit-breaker" lockdowns over January and March this year, forcing the closure of non-essential businesses. The IoM's borders remain closed, although the government's recently published revised exit framework sets an indicative date of 28 June for the lifting of all restrictions, including mandatory isolation of those arriving on the island. The annual TT motorsport races for this year, an important source of tourism for the island, have also been canceled. Unemployment has remained higher than before the pandemic, at a rate of 2.2% in March 2021 compared with 0.9% in February 2020.

The economic fallout has generally been contained outside of the tourism and hospitality sectors, which account for only 1% of the island's GVA, although the limitations on travel from the island has supported domestic tourism helping to offset some of the impact. In contrast, the impact of the crisis on key sectors such as ICT, financial services and e-gaming has been much less pronounced. The latter has seen a marked rise in demand for gaming licences over the past year, while the sector has benefitted from people spending more time at home during the pandemic. The island's relative diversification and limited exposure to those sectors most impacted by the pandemic as well as an effective policy response are likely to mitigate the risk of long-term economic scarring. A £100 million Economic Recovery Fund is intended to support the economic recovery from the coronavirus shock through strengthening businesses, promoting innovation and new sectors, creating training and employment opportunities, and accelerating capital infrastructure projects.

The government's measures to support the economy during the pandemic have included:

- » A wage support scheme that has encouraged employers to retain employees by providing businesses with a maximum contribution of £310 per week (increased from £280) for every full-time equivalent staff member.
- » An earnings replacement allowance that has provided income of £230 (increased from £200) per week to people who have been temporarily or permanently laid off.
- » A loan guarantee scheme to unlock up to £60 million in new lending, with the government underwriting 80% of new lending to businesses.
- » Funding grants to businesses and self-employed individuals who have been financially affected by COVID-19 measures.

UK's departure from the EU is likely to weaken the IoM's GDP growth

We expect Brexit to have manageable but negative implications, on balance, for the IoM's economic prospects – both through direct channels as well as indirectly through our lower growth assumptions for the UK. The Brexit transition period, during which the relationship between the IoM and the EU functioned as if Protocol 3 was still in place, concluded at the end of 2020. The IoM is covered by certain parts of the UK-EU Trade and Cooperation Agreement (TCA) signed at the end of 2020. This pact allows for the export to the EU of tariff-free and quota-free goods, both agricultural and manufactured. The end of the Brexit transition period has had relatively limited impact to date, although, as with the UK, disentangling the effects of the pandemic is challenging and the full extent of the impact will only become clear over the coming months.

Exporters now face significant non-tariff barriers in trading with the EU, creating additional costs and frictions to trade. The sectors affected the most are those with the highest reliance on exporting goods to the EU, namely manufacturing, agriculture and fisheries. These sectors make a small direct contribution to the economy – around 2.8% of GVA – but their contribution to employment is larger, accounting for a combined 6.5% of the employed population, according to the island's most recent census in 2016. In particular, the manufacturing sector, which includes precision engineering of aircraft components and laser optics, employs highly skilled segments of the workforce. However, a lack of substitutes could shield the more specialised parts of the manufacturing sector from the most negative effects of the new barriers to trade.

The impact on other sectors, including the far more important ICT and e-gaming sectors, is likely to be much smaller. Throughout the Brexit process, the IoM's government has maintained close contact with the relevant UK ministries to raise awareness of the island's position and prepare the economy for the consequences of leaving the EU. An arrangement between the UK Treasury and the Manx government was signed in November 2018, establishing a customs union which will allow the island to trade with the UK free of tariffs and with no restrictions on quantities since the end of the transition period. This will replace the previous Protocol 3 arrangement. The

IoM is also part of the Common Travel Area (CTA) between the UK, the Channel Islands and the [Republic of Ireland](#) (A2 stable), which provides for the movement of CTA nationals without immigration controls.

Skills shortages are the greatest long-term economic risk other than Brexit

Besides Brexit, the biggest long-term risk to the island's continuing economic success revolves around access to skilled labour. Before the coronavirus outbreak, material skill shortages were evident in most sectors of the economy amid a tight labour market – shortage of labour was the most widely reported limiting factor for both manufacturing and services in the December 2019 Business Confidence Survey.

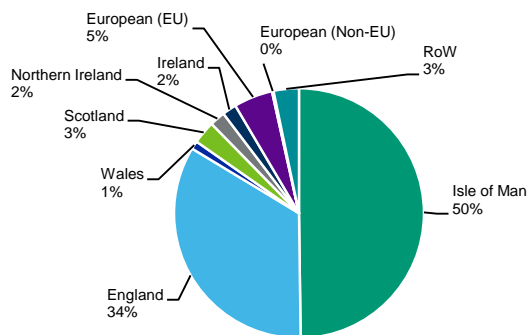
Outward migration of the native population contributes to demographic challenges, particularly university graduates, many of whom do not return to the island following their studies. The latest census from 2016 revealed a net decline in the resident population of 1,200 out of a total population of around 83,000. The core working age population (25-54 years) has declined even more strongly – by 5.8% between the two census dates. At the same time, the birth rate has fallen significantly, with the number of births in 2016 at its lowest level since 1987. The dependency ratio (the proportion of nonworking to working people) is second only to Wales among the jurisdictions of the British Isles.

However, the IoM has traditionally been very open to workers from abroad and intends to continue to be so, even following Brexit. Immigrants from the UK are by far the largest group, based on the CTA which gives citizens of the UK and the IoM reciprocal residential rights. IoM citizens can work in the UK without a work permit, and while UK citizens need a work permit for the IoM, obtaining one is straightforward. The authorities have also maintained a pathway to allow skilled labour to continue to move to the IoM during the pandemic despite the closure of its borders.

Exhibit 7

The IoM has an open attitude to immigration...

Resident population by place of birth, % of total (2016 census)

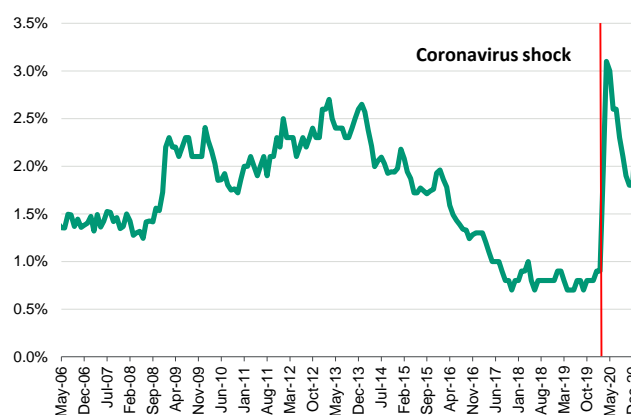


Sources: *Isle of Man Treasury* and *Moody's Investors Service*

Exhibit 8

... driven in part by a very tight labour market in recent years

Unemployment rate, %



Sources: *Isle of Man Treasury* and *Moody's Investors Service*

The authorities recognise the need for continued inward migration, particularly in the healthcare and ICT-related growth sectors, and have implemented various initiatives to attract highly skilled labour to the island and increase its economically active population.² For example, in 2019 the government introduced a national insurance rebate scheme, open to new residents and returning Manx graduates. This follows the 2018 liberalisation of the work permit system through a simplified application process and a new register of exempt persons. The government's LOCATE initiative also provides funds to businesses seeking to bring people to the island, helping to cover the costs and investment associated with staff relocation. The island's effective response to the pandemic, as well as the potential for a sustained trend towards greater remote working, might act as a catalyst for additional relocations by businesses and high-net-worth individuals.

We consider the IoM's fiscal policies to be forward-looking and prudent, exemplified by the large fiscal buffers that were accumulated over many years. Importantly for its status as a low-tax jurisdiction, it has a good track record of complying with international tax standards and is rated "compliant" by the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes. The IoM is one of only a handful of small offshore financial centres to achieve this rating, and this proactiveness acts a source of competitiveness for attracting new entrants to their market.

The UK and the IoM enjoy a stable constitutional relationship based on a UK government royal commission (also known as the Kilbrandon Report) which reported in 1973. The UK is responsible for the island's defence, international representation and "good governance", and is able, as a last resort, to legislate on the IoM's behalf, normally with the consent of the IoM authorities. For example, when the UK negotiates new international treaties, it asks the IoM whether or not to include it in such agreements. As noted above, the IoM was not part of the EU directly before Brexit but had a relationship with the regional body under Protocol 3 of the 1972 treaty under which the UK acceded to the EU. Taken together, these ensure a high level of conformity between the IoM's institutional arrangements and those of the UK.³

The IoM's institutions have been proactive and effective in dealing with the exogenous shocks of Brexit and the pandemic. The island (as well as the other Crown Dependencies) presented its own legislative equivalent of the UK's "Great Repeal Bill", including provisions to allow EU instruments that fall within the scope of Protocol 3 to be incorporated into domestic law. Following a public consultation, the bill was passed by Tynwald and received Royal Assent in January 2019. The IoM's programme of engagement with the UK includes regular meetings with relevant UK ministries, including HM Treasury and the Home Office, and the recent intensive preparations for Brexit in conjunction with the UK has likely further solidified this relationship.

Use of sterling has historically delivered low and stable inflation

The IoM's use of the Manx pound, which is pegged to the British pound at parity, has historically delivered low and stable inflation despite the island's reliance on imports and strong exposure to global oil price volatility. Annual consumer price inflation averaged just 0.5% between 2012 and 2016. Sterling's depreciation following the Brexit referendum, combined with swings in global oil prices, have since fuelled increased volatility. Nevertheless, we consider the relative exchange rate flexibility that the currency union with the UK provides to be positive for the IoM.

Strong regulatory framework for banking and e-gaming sectors

Given the size of the IoM banking sector and its offshore nature, a strong regulatory framework is an important aspect of institutional strength. The UK government has a strong interest in ensuring that its Crown Dependencies follow best practices for regulation and disclosure, and has, in the past, commissioned several reviews that found the IoM to be compliant or largely compliant with international principles of banking regulation.⁴ The Isle of Man Financial Services Authority (IoMFSA) and the UK Prudential Regulation Authority have a cooperative relationship, reflecting the fact that around half the banks on the island are based in the UK. A memorandum of understanding between IoM and UK regulators, which has been in place since 2003, establishes a formal basis for cooperation between the two institutions, including the exchange of information and investigative assistance, while IoM regulators regularly participate in supervisory colleges at the Bank of England.⁵

The other area in which the IoM has implemented a strong regulatory regime is the e-gaming industry, with a framework for the sector established as early as 2001 under the Online Gambling Regulation Act. The Gambling Supervision Commission (GSC) has a broad range of powers to monitor compliance of e-gaming operators, including off-site reviews and on-site inspection visits. Importantly, operators are obliged to keep clients' funds separate from their working capital and ensure that these funds are fully protected.

In 2016, the IoM underwent an inspection by MONEYVAL – the Council of Europe's anti-money laundering and counterterrorism financing body – that assessed the island's capabilities in countering money laundering and terrorist financing.⁶ MONEYVAL concluded that the IoM had enacted a strong legal and technical framework, though it also noted that gaps remained in respect of internal controls for e-gaming operators and supervisory and sanctioning powers available to the GSC. The IoM Parliament has since passed new legislation aimed at addressing some of MONEYVAL's recommendations, including acts providing the GSC with a wider range of administrative sanctions and supervisory powers, and increasing financial sanctions for companies that fail to provide law enforcement authorities with timely access to information. The [latest follow-up report by MONEYVAL](#) in September 2020 found continued progress

in addressing the technical compliance deficiencies identified four years prior, although the island remains under enhanced follow-up. While gaps remain, the e-gaming sector's relatively advanced position in this area compared to competing jurisdictions acts a source of competitive advantage for the IoM.

Shifts in international tax regulations pose a risk, but authorities have been responsive to evolving standards

The IoM's "zero-10" tax system – under which the corporate tax rate is zero with the exception of the banking sector and large retailers (10%), and the personal income tax is low (with a top tax rate of 20%)⁷ – has made the island, like other low-tax jurisdictions, vulnerable to accusations that it is facilitating tax avoidance and money laundering. International pressure on small financial centres to revise their tax systems and eliminate regulatory and fiscal arbitration is likely to remain significant in the coming years, while the release in November 2017 of the "Paradise Papers" – leaked documents detailing companies and individuals allegedly involved in offshore investments – underscored the risk of reputational damage for small jurisdictions.⁸ The UK's departure from the EU will remove its generally supportive voice at the EU table and indirectly reduce the IoM's influence over EU policies on tax harmonisation.

In response, the IoM has tended to proactively sign up for international initiatives designed to reduce tax avoidance and increase transparency. It is rated "compliant" by the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes, with the IoM being one of only a handful of small offshore financial centres to achieve this rating.⁹ The IoM is also included on the OECD's "white list", which includes jurisdictions that have implemented internationally agreed tax standards, and made an early commitment to a common reporting standard for the automatic exchange of taxpayer information, completing its first exchanges of financial account information in September 2017. In 2013, the island signed an automatic tax information exchange agreement with the UK based on the basic provisions of the US Foreign Account Tax Compliance Act (FATCA), the first offshore centre to do so, and has also signed such an agreement with the US.

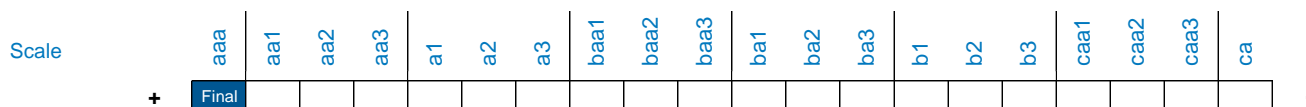
We also note that the IoM is an active participant in the OECD's action plan on "harmful tax practices" related to profit-shifting by multinational companies. Although the Base Erosion and Profit Shifting (BEPS) initiative has the potential to negatively affect small, low-tax jurisdictions, the impact on the IoM should be mitigated by the authorities' economic development strategy. This strategy is focused on diversifying away from traditional banking and has encouraged companies to establish significant operations on the island rather than solely making use of the location to minimise tax. For example, e-gaming company PokerStars – which is often cited as a success story in terms of the IoM's diversification into the ICT sector – has around 400 staff, including key management, based at the company's IoM site.

In March 2019, the IoM was removed from the European Commission's "grey list" of noncooperative tax jurisdictions. This follows the passing of tax legislation by Tynwald in December 2018 which set out new requirements for IoM resident companies deriving income from activity in a range of sectors, including banking, insurance, and headquartering. Relevant companies are now required to demonstrate that they have sufficient substance in the IoM – including an adequate number of qualified employees and physical presence – to access the island's corporate tax regime. The legislation provides for the use of sanctions against companies that fail to meet the requirements, including disclosing the failure to other tax jurisdictions and fines of up to £100,000. The Manx government published additional guidance on the new requirements in 2019. After a review, the OECD declared the system's tax practices "not harmful". That said, pressure for low tax jurisdictions to revise their tax systems is likely to continue to increase in the coming years, evidenced by the EU parliament passing a motion in January 2021 in support of widening the criteria used by the EU for assessing the fairness of tax jurisdictions.

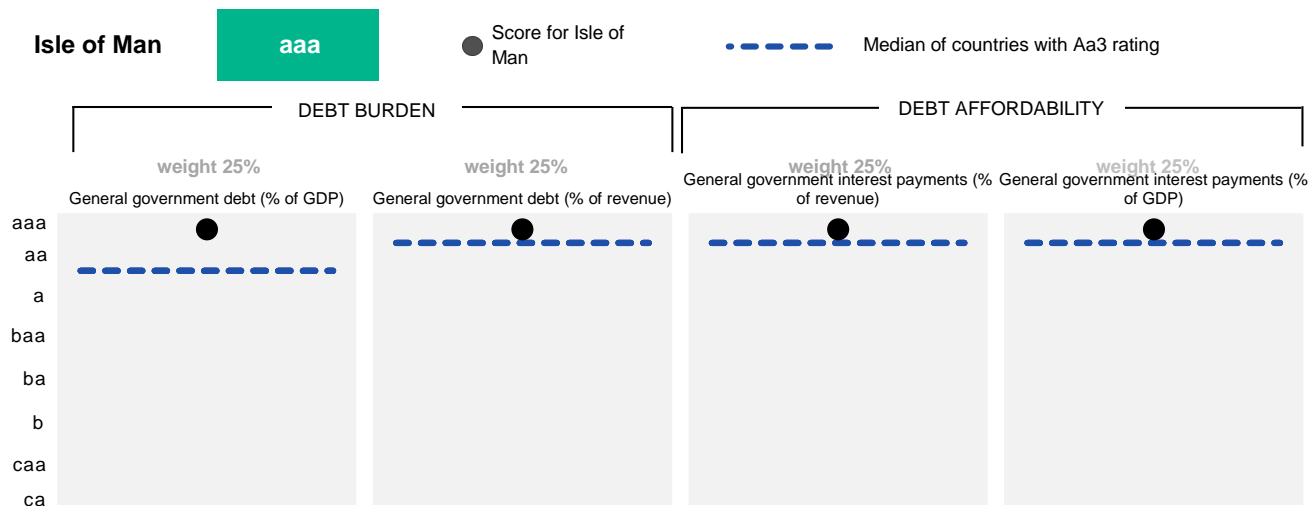
Following cross-party pressure from the UK Parliament, the IoM, along with the other Crown Dependencies, also pledged in June 2019 to adopt public registers by 2023 of the ultimate owners of offshore companies incorporated in their jurisdictions. Currently, only local authorities can access this information. The phased transition would see registers become first available for access by law enforcement authorities, then opened up to financial services businesses that require access for corporate due-diligence purposes, and finally to the public.

Fiscal strength score: aaa

Factor 3: Overall score



Factor 3: Sub-scores



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.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

We assess the IoM's **fiscal strength** at "aaa", given the absence of direct general government debt and the high level of overall reserves, which total around 30% of estimated GDP. The government indirectly supports the debt issued by the combined electricity and water utility, the Manx Utilities Authority (MUA). MUA is in the process of building up a reserve fund out of its own resources, so as to be able to repay its two outstanding bonds, amounting to a combined £260 million (around 4.6% of GDP) in 2030 and 2034.

Exhibit 10

Peer comparison table factor 3: Fiscal strength

	Isle of Man	aaa Median	United Kingdom	Bermuda	Cayman Islands	Luxembourg	Hong Kong	Macao
	Aa3/STA		Aa3/STA	A2/STA	Aa3/STA	Aaa/STA	Aa3/STA	Aa3/STA
Final score	aaa		a3	a3	aa1	aa1	aaa	aaa
Initial score	aaa		a3	a3	a1	aa1	aaa	aaa
Gen. gov. debt (% of GDP)	0.0	10.2	85.2	35.9	5.5	22.0	3.0	0.0
Gen. gov. debt (% of revenue)	0.0	24.3	220.0	247.4	32.9	49.2	14.3	0.0
Gen. gov. interest payments (% of GDP)	0.0	0.0	2.1	1.6	0.5	0.3	0.0	0.0
Gen. gov. int. payments (% of revenue)	0.0	0.0	5.5	10.7	2.8	0.7	0.0	0.0

Sources: IMF, National authorities, Moody's Investors Service

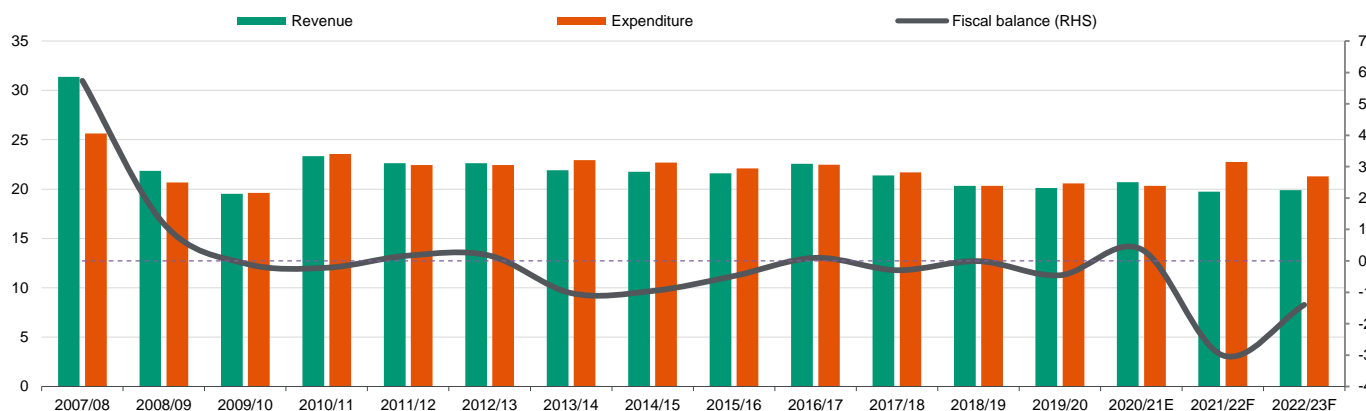
Coronavirus shock will drive a temporary increased deficit, but reserves provide a strong buffer

The IoM's public finances were in a strong position ahead of the pandemic shock. A surplus of £68.9 million (1.2% of GDP) was recorded on the revenue account in 2019-20, ahead of a budgeted £5.9 million, with the outperformance attributable to a higher-than-budgeted level of VAT income and income tax receipts and lower spending on social security benefits as a result of low unemployment. The pandemic has driven an overall deterioration of the island's public finances, on account of higher health spending and economic support, as well as weaker tax revenue. We project the general government deficit to reach around 1.4% of GDP this year, from an estimated 3% in 2020.¹⁰ However, we expect this to be a temporary and manageable shock, with the expected recovery in public finances supported by a relatively strong resumption of economic growth in 2021, while the deficit will continue to be met through the use of reserves, which provide an important buffer.

The government's budget (Pink Book) for 2021-22 plans for a structural deficit of £128.5 million this fiscal year (2.1% of GDP), from an estimated £178 million in 2020-21. Operating income is expected to be 6.1% lower this year than in 2019-20 as the impact of the shock on corporate profit materialises. While the extent of economic scarring from the pandemic is expected to be limited, the authorities have also provisioned against the potential impact of the crisis on the share of indirect tax revenue due under the revenue-sharing agreement with the UK, through using a lower assumed growth rate than that contained in the agreement, in line with previous practice. Departmental spending also remains affected, most notably the Department of Health and Social Care (DHSC), which has been allocated £15.5 million in new funding, in part to support the long-term transformation of the health service. To contain costs, the government has capped public sector wage growth at 1% and is implementing changes to infrastructure investment planning to ensure better targeting and transparency.

Exhibit 11

The IoM will report a large but temporary deficit General government financial balance, % of GDP



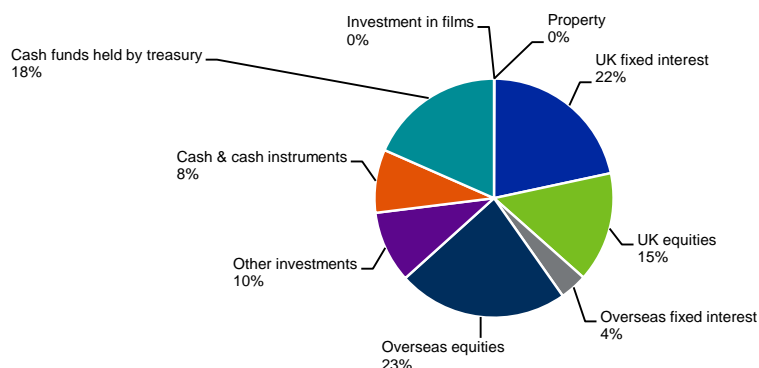
Fiscal years ending 31 March; 2019-20 to 2021-22 are Moody's own estimates/forecasts.

Sources: Isle of Man Treasury and Moody's Investors Service

The deficit and funding for the support schemes will be met through the use of reserves, which provide an important buffer to offset the current economic shock. The IoM's reserves, built up due to the robust fiscal surpluses the government recorded before the global financial crisis, remain among the strongest across the sovereigns that we rate and support the island's fiscal strength.

The market value of total externally invested funds stood at £1,752 million (around 30% of estimated 2020 GDP) in March 2020, with a significant proportion held in the National Insurance Fund (£847 million) used for the financing of the employee support programmes. The value of these funds has diminished somewhat in light of the coronavirus-related measures and market movements, but these declines are not large. The external funds are mainly invested in liquid assets such as traded equities and fixed-income instruments, although the precise nature of the underlying investments varies according to each fund's purpose. The IoM government appoints external investment managers, tenures of which last for five years. As Exhibit 12 shows, the investment portfolio is diversified.

Exhibit 12

Reserve funds hold a diversified portfolio**Market value of reserves by asset type, % of total (March 2020)**

The audited market value and composition of reserves as of 2021 is not yet available.

Sources: Isle of Man Treasury and Moody's Investors Service

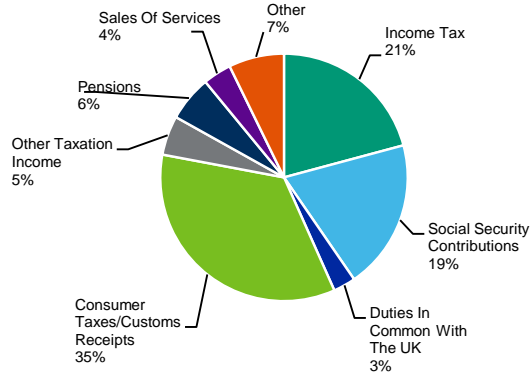
The IoM also has a number of internally invested funds and reserves to help fund costs which are difficult to predict given their unforeseen nature or inherent volatility; these include the new £100 million Economic Recovery Fund, intended to support the economy's recovery from the coronavirus shock and longer term growth potential. To further expand liquidity and limit any reliance on reserves for short-term funding needs, the Treasury has further secured a short-term syndicated borrowing facility of up to £250 million.

The government is attempting to reduce its reliance on reserve deficit financing

The government has maintained a conservative approach to the public finances since the global financial crisis, following a material decline in tax revenue. The decline was driven by the renegotiation between the IoM and the UK government of their sharing of common duties (including VAT), as well as a decision by the IoM government to cover a £35 million bond payment on behalf of the Manx Electricity Authority (MEA) in 2013. Fiscal deficits have been met by running down the level of the island's reserve funds, rather than issuing debt. The current multiyear fiscal adjustment programme – now in its final year – aims to reduce the government's ongoing reliance on reserves and to support reserve growth from 2022-23, while maintaining a five-year £438 million (7.7% of GDP) capital expenditure programme through to 2025-26. The coronavirus shock has delayed these efforts and magnified spending pressures in some areas, notably health. However, we expect fiscal policy to remain prudent and to continue to have preservation of financial reserves as a key aim.

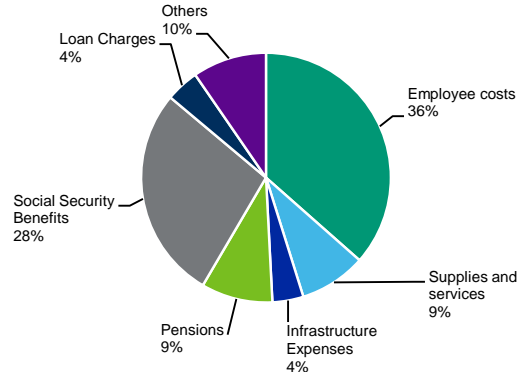
Since 2010, the government has enacted significant spending cuts to reduce the structural deficit. These include cuts to the public-sector headcount and the restructuring of several government departments, including the merging of the Health and Social Care departments in 2014 and the disbanding of the Community, Culture and Leisure department, as part of a drive to focus on the provision of essential services. The government also focused on reducing the public-sector wage bill, by outsourcing or stopping some services and capping salary growth at 1% (this rose to 2% in 2019 and 2020, but has been restored to 1% as a result of the pandemic), as well as efforts to centralise the procurement of goods and services. In contrast, the government has limited room for manoeuvre on the revenue side, given that the IoM's low tax environment constitutes a competitive advantage, and as the proportion of VAT receipts is already high.

Exhibit 13
Reliance on VAT revenue remains high
 Government revenue by source, % of total (2019-20)



Sources: Isle of Man Treasury and Moody's Investors Service

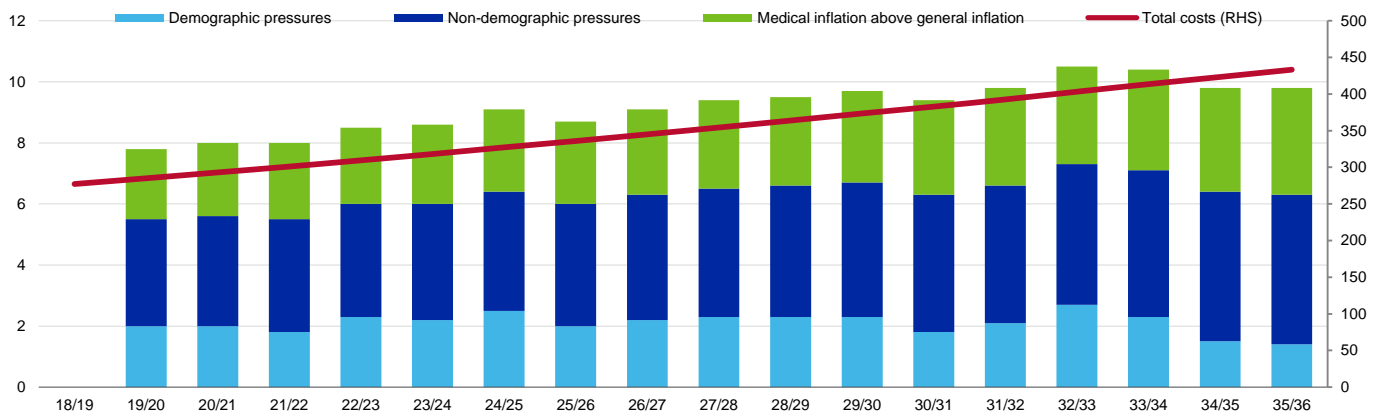
Exhibit 14
Adjustment programme has focused on reducing the wage bill and pension outlays
 Government expenditure by source, % of total (2019-20)



Sources: Isle of Man Treasury and Moody's Investors Service

Health had already been a recurrent source of spending pressure even before the pandemic, with the DHSC receiving a total of £42.5 million in supplementary funding between 2016 and January 2020. This reflects factors shared by most other advanced economies, including demographic pressures, rising public expectations, and technological change. An independent review of the health service commissioned by the government to assess potential options concluded in May 2019 and made 26 recommendations, most notably the separation of the policy and strategy-setting body from the delivery organisation. Under the recommendation, a new independent body would provide frontline health and social care as a way to drive accountability within the system. Tynwald has approved the recommendations and allocated a further £3 million into the Healthcare Transformation Fund, on top of the previous £5 million allocation, to fund their implementation. In a no-change scenario, the review estimated that health and social care funding needs would rise by an average of £9.2 million a year through to 2035-36.

Exhibit 15
Health is currently a key source of spending pressure
 Future cost forecast broken down by source of cost increase, in a no-change scenario



Sources: Independent Health and Social Care Review and Moody's Investors Service

New VAT survey has been confirmed, and the government has adopted conservative management of customs duty income expectations

The IoM has had a Customs and Excise Agreement or Common Purse Agreement with the UK for several decades, which serves to make the UK and IoM a single VAT and customs area. The current agreement dates from 1979 and provides for the sharing of common duties by way of a revenue-sharing agreement (RSA). The RSA covers VAT, customs duties and many, although not all, excise duties, and means that there are no customs barriers between the two sides. Either side can choose to terminate the agreement if they decide that it is no longer in their interest, having given two years' notice.

Negotiations with the UK over revising the RSA concluded in March 2016, removing a key uncertainty for the island's public finances. The formula adopted under the agreement – the final expenditure revenue-sharing arrangement (FERSA) – provides the IoM with a share of the joint indirect tax revenue based largely on final expenditure by IoM households and exempt businesses. The share for 2013-14 was rebased using actual consumption data obtained that year through a series of income and expenditure surveys. FERSA provides that final expenditure surveys will be undertaken every five years and in between 'survey years' the island's provisional share is calculated by indexation of the base year (previously at 4.5% per annum). Work on a new series of VAT surveys was undertaken in 2018-19 and the new set of calculations were agreed with the UK Treasury in February 2020, largely in line with the previous methodology applied. This allowed for the release of provisions held back over the previous three years, which had been reserved to deal with any negative outcome. A new indexation rate has been established and is valid up to 2025.

While FERSA alleviates uncertainty over how much income will be due to the island, income through the arrangement – accounting for around one-third of the IoM's total revenue – could be weaker than expected as part of an annual adjustment, particularly given the possibility of some lasting economic ramifications from the pandemic, or weaker UK economic growth adversely impacting the IoM economy. In a more extreme scenario, the IoM could be exposed to changes by the UK to the revenue-sharing arrangement, although the UK government would be required to give two years' notice. The IoM government has tried to address these risks by adopting conservative assumptions, for example by assuming a revenue increase of only 3.35% (rather than 4.35% in the agreement) per year in its recent medium-term fiscal plans.

Absence of direct debt is a key strength, with public utility's indirect debt to be repaid from sinking fund

The fact that the IoM has no direct debt outstanding is a key credit strength. However, it has indirect obligations with respect to the MUA, the combined electricity and water utility, amounting to £260 million. The MUA was created in April 2014 through the merger of the Isle of Man Water and Sewerage Authority and the electricity utility MEA.

Upon the merger, a 20-year financial plan for the combined entity was developed to build up sufficient funds to repay both entities' external debt obligations, which were originally raised to fund large infrastructure projects. The Water Authority had a sinking fund that will allow it to repay a £75 million (around 1.3% of GDP) bond that comes due in 2030. In contrast, the MEA was in poor financial shape, and in 2013, had to use £35 million of the government's reserve funds to meet financial obligations. This situation highlights the close link between the MUA's obligations and the government, and the entity's obligations represent a contingent liability for the government.

The sinking fund was transferred into the Treasury's name in April 2015 and renamed the MUA Bond Repayment Fund, with the aim of growing the funds so that both outstanding bond issues, totalling £260 million, can be repaid in 2030 and 2034. The fund's market value was £69.2 million at the end of March 2020. The MUA is paying into the fund on an annual basis to ensure the government will not have to use its own reserves for future repayments. In October 2017, the IoM Parliament also approved a write-off of £95 million of Treasury loans (out of a total of £278 million) to the MUA in preparation for a new long-term pricing strategy.

Exhibit 16

IoM government has indirect obligations on behalf of the MEA and water authority

Statutory Board	Amount	Interest rate	Maturity Date
Manx Utilities Authority (former Isle of Man Water and Sewerage Authority)	£75 million	5.625% (fixed)	29 March 2030
Manx Utilities Authority (former Manx Electricity Authority)	£185 million	5.375% (fixed)	14 August 2034

Sources: Isle of Man Treasury and Moody's Investors Service

The government is also responsible for guarantees extended to local authorities to support borrowing for housing projects. These guarantees amounted to around £255 million at the end of March 2019, and largely constitute letters of comfort issued by the Treasury to the banks in relation to authorised borrowings of local authorities amounting to £275 million. The local authorities' accounts are largely in balance.

Pensions are partly funded; continuing pension reforms are positive

Pensions for public-sector employees are the most significant longer-term obligation for the government. Like the UK, the IoM has built up reserves in a specific Public Service Employees Pension Reserve, but these will be depleted in 2022 under current expectations. From then, public-sector pensions will have to be funded out of the general budget, resulting in an estimated £24 million in additional pressure on the revenue account in 2022-23 and £41 million in 2023-24. The fund's market value was assessed at £80.9 million as of 31 March 2020 from £244 million in 2012. By contrast, the most recent estimate places pension liabilities at £4.2 billion as of 2019. This would leave an unfunded balance of approximately 70% of GDP.

In February 2017, the IoM's Parliament agreed proposals to amend the future benefit structure in the IoM Government Unified Scheme (GUS), the public sector's main pension scheme. The amendments increase employee contributions by 2.5%, improving the government's short-term cash flow, and reduce pension benefits built up from April 2017 onward by 6%. The Public Sector Pensions Authority and the Treasury, in conjunction with members of Parliament, are exploring options for managing the legacy position in the longer term.¹¹

The IoM has also been advancing the reform of state pensions and benefits. Following a comprehensive review of the social security system, Parliament approved a new Manx state pension scheme that came into effect in April 2019. The scheme: (1) introduces a single-tier pension of £180 a week; (2) will gradually raise the state pension age from 65 to 67 in line with life expectancy on the island; and (3) phases out the Manx Pension Supplement. Overall, we view these efforts at social security reform as credit positive for the IoM.

Susceptibility to event risk score: a

Political risk is limited, although the UK Treasury's decisions can affect revenue intake

The next general election to the House of Keys, the lower branch of Tynwald, is scheduled on 23 September. While there are several political parties, they wield only very limited influence at present in Parliament and the 24 members of the lower branch are elected directly by popular vote, with the chief minister in turn elected by the members of Tynwald. Given the stable institutions and predictable policymaking, we do not expect election results to drive credit outcomes. Consequently, we reflect this situation in our "aa" assessment of Political Risk.

Exhibit 17

Peer comparison table factor 4a: Political risk

	Isle of Man Aa3/STA	aa Median	Hong Kong Aa3/STA	United Kingdom Aa3/STA	Ireland A2/STA	Bermuda A2/STA	Cayman Islands Aa3/STA	Singapore Aaa/STA
Final score	aa		baa	a	a	a	aa	aa
Voice & accountability, score[1]	--	1.3	0.2	1.3	1.3	0.0	0.5	-0.2
Political stability, score[1]	--	1.0	0.8	0.5	1.0	1.1	1.4	1.5

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

Sources: National authorities, International Monetary Fund and Moody's Investors Service

While the IoM's revenue intake can be adversely affected by the UK government's decisions, these revenue-sharing agreements are voluntary, and if they are seen to offer too many disadvantages for the island, it can withdraw and unilaterally change its policies. However, this flexibility also introduces some political uncertainty and dependence on UK government decisions, which the political risk score also reflects.

Government liquidity risk is very low

The IoM has no external limitations on its ability to borrow. In practice, the central government has no direct debt, although it continues to stand behind the debt of the MUA. Its willingness to provide support to the utility was clearly demonstrated when the government used £35 million of its reserve funds to cover the MEA's obligations in 2013. The merger of the island's electricity and water utilities, which was completed in 2014, puts the combined entity on a more sustainable financial basis to ensure repayment of the MUA's debt.

Exhibit 18

Peer comparison table factor 4b: Government liquidity risk

	Isle of Man Aa3/STA	aaa Median	United Kingdom Aa3/STA	Hong Kong Aa3/STA	Luxembourg Aaa/STA	Macao Aa3/STA	Bermuda A2/STA	Cayman Islands Aa3/STA
Final score	aaa		aaa	aaa	aaa	aaa	aa	a
Initial score	aaa		aaa	aaa	aaa	aaa	aa	a
Ease of access to funding	aaa	aaa	aaa	aaa	aaa	aaa	aa	a
Gross borrowing requirements (% of GDP)	--	10.0	22.9	8.1	5.6	0.0	5.8	1.6

Sources: IMF, National authorities, Moody's Investors Service

Fiscal deficits continue to be financed through transfers from the island's reserve funds. As discussed in the fiscal strength section above, these funds remain significant. The Treasury retains significant cash on hand to address liquidity needs. To further expand liquidity and limit any reliance on reserves for short-term funding needs, the Treasury has also secured a short-term syndicated borrowing facility of up to £250 million.

Banking sector poses limited risks to government balance sheet despite large size

The IoM's large exposure to the financial services sector remains its main source of event risk. Total assets of licensed banks have fallen in recent years but they still stood at £37.8 billion at the end of 2020, equivalent to more than six times the island's estimated GDP.

However, nearly all of those assets (with the exception of Conister Bank) relate to foreign-owned entities. Also, rising international pressure to enhance tax transparency could pose challenges to the financial sector. However, the risks emanating from the banking sector are mitigated by the low-risk nature of the business, which is predominantly foreign-owned, and high levels of capital.

Exhibit 19

Peer comparison table factor 4c: Banking sector risk

	Isle of Man Aa3/STA	a Median	United Kingdom Aa3/STA	Hong Kong Aa3/STA	Netherlands Aaa/STA	Bermuda A2/STA	Macao Aa3/STA	Belgium Aa3/STA
Final score	a		a	a	a	a	a	a
Initial score	a		a	a	a	a	a	a
BCA[1]	ba1	baa2	baa1	a2	baa1	baa2	baa3	baa1
BSCE[2]	aaa-a3	baa2	aaa-a3	aaa-a3	baa1	baa2	aaa-a3	baa1
Total domestic bank assets (% of GDP)	663.5	140.5	361.8	685.7	298.1	280.7	452.7	220.0

[1] BCA is an average of Baseline Credit Assessments (BCAs) for rated domestic banks, weighted by bank assets.

[2] Where we have no or small rating coverage in a system, we estimate the risk of Banking Sector Credit Event (BSCE) based on available data for the aggregate banking system.

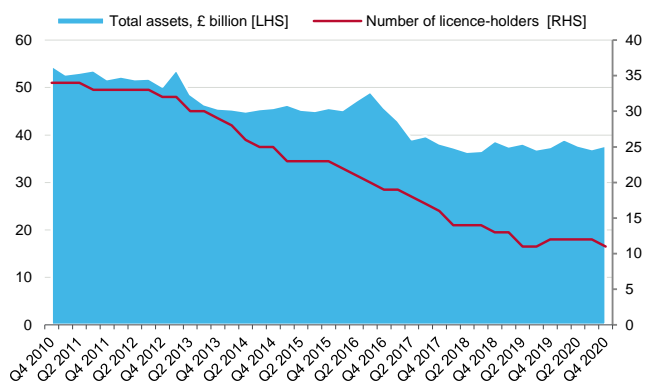
Sources: National authorities, Moody's Investors Service

There are currently only 11 deposit-taking institutions on the island, down from 34 in 2011. Several institutions have surrendered licences and closed their IoM operations over the past four years, most recently including Permanent Bank International Limited, Duncan Lawrie (IOM) Limited, and Nationwide Building Society. This trend is consistent with the broad slowdown of growth in traditional banking services on the IoM.

Exhibit 20

The number of licence holders has declined since the global financial crisis ...

Total assets, £ billion (LHS) and number of licence-holders (RHS)

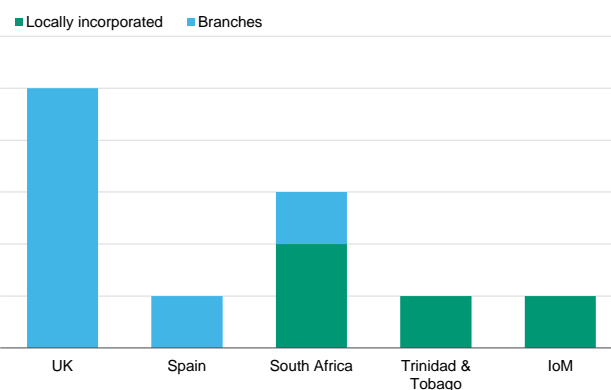


Sources: Isle of Man Financial Services Authority and Moody's Investors Service

Exhibit 21

... falling from 34 in 2011 to just 11 in 2020

Ultimate country of origin of banking groups operating in the IoM (December 2020)



Sources: Isle of Man Financial Services Authority and Moody's Investors Service

Despite the banking system's large size relative to GDP, only one bank, Conister Bank Limited, is not part of a wider banking group subject to consolidated supervision outside the IoM. The bank had £260 million in assets (around 4.6% of GDP) at the end of 2020. Most of the other banks are UK-based, though there are also a small number of Spanish, South African and Trinidad and Tobago institutions.

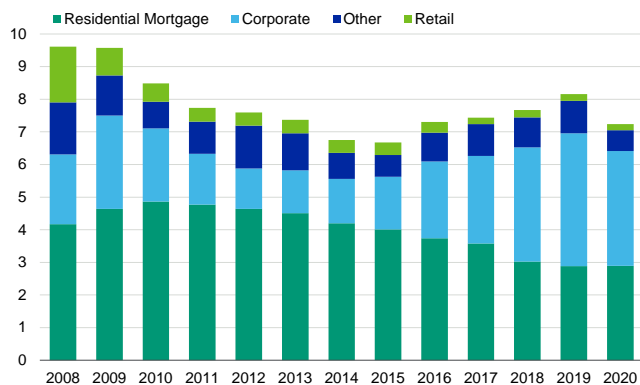
The financial industry's declining importance to the IoM's economy can also be seen in the composition of assets and liabilities for the banking sector, not including those held in overseas branches of IoM-incorporated banks. Since the end of 2010, total assets have fallen by almost one-third. As of December 2020, most assets consisted of loans to parent banks (£24.2 billion, or 64% of total assets), while £2.4 billion were loans due from other banks. By contrast, only £7.2 billion of assets were loans, advances and leases, of which around £2.9 billion consists of residential mortgages and around £3.5 billion – a growing share – represents corporate lending. On the liabilities side, most of banks' obligations consist of deposits (£36.9 billion or 97% of total liabilities). Deposits have been on a declining trend

since 2008, when total deposits in the system were around £58 billion. The vast majority of deposits are retail or corporate. Over half of deposits are reported as being from persons (retail and corporate) resident in the IoM or the UK.

Exhibit 22

Corporate lending continues to expand despite sector's broad decline

Non-bank lending by sector, £ billion

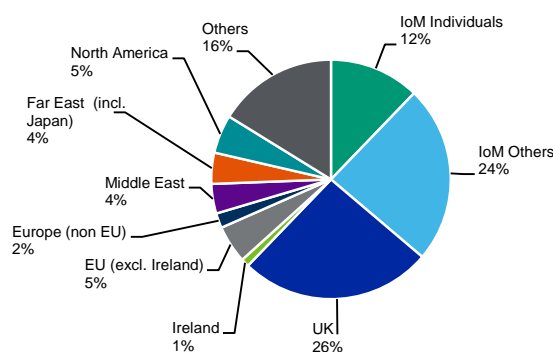


Sources: Isle of Man Financial Services Authority and Moody's Investors Service

Exhibit 23

Deposits are largely sourced from the IoM and the UK

Geographical source of non-bank deposits (% of total, December 2020)



Note: Sums may not add up to 100% due to rounding.

Sources: Isle of Man Financial Services Authority and Moody's Investors Service

A new bank resolution and recovery regime came into effect at the start of 2021, providing a wider range of mechanisms other than liquidation to deal with a failing bank, and broadly reflecting similar legislation in the UK. While effective over all domestic operations, it is likely that any decisions around distressed branches would need to be taken in conjunction with the affected group's home regulator. However, the IoM has a long-standing Depositors' Compensation Scheme (DCS), which was introduced in 1991. It currently limits compensation to £50,000 of net deposits for individual current and deposit accounts, and pays up to £20,000 for most other categories of depositors, such as companies and trusts. The DCS does not maintain a standing fund, but is funded by contributions from IoM banks that participate as needed. The IoM Treasury also funds the DCS on the same basis. The net total amounts to be provided to the fund for all compensation costs arising from defaults in any 10-year period are limited to £100 million apiece for both the banks and the IoM government, which equates to around 2% of GDP.

In contrast with the actions surrounding other banking failures during the global financial crisis, the Manx authorities did not need to resort to borrowings – with associated fiscal costs – during the resolution and liquidation of the Icelandic subsidiary, Kaupthing Singer & Friedlander (Isle of Man) after its failure in 2009. The liquidator recovered the full value for depositors, due to the high asset quality of the subsidiary.

The authorities subsequently initiated a review of the framework for dealing with bank failures, including the structure of the DCS, recognising the need for further reforms to enhance the banking sector's resilience to future failures. The review considered: (1) improvements to asset recovery both before and in the event of a failure, such as early-warning indicators and improved contingency plans;¹² (2) prioritisation of creditors in a bank insolvency; (3) future changes to the DCS, including limits of the scheme and its funding structure (under development); and (4) the legal structure of banks operating in the IoM.

However, two developments could adversely affect the banking sector:

- » **The UK banking structural reform process, particularly with regard to ring-fencing rules which came into full effect in January 2019.** IoM operations of the large UK banking groups must be outside of the ring-fenced parts of these groups. Such a situation raises uncertainty as to their place within the new group structures and strategies, though in the immediate aftermath of these changes it appears that some IoM entities have become more prominent for their respective institutions (including from a funding and liquidity perspective). Given that there is intense scrutiny of bank regulations and banking sector structures in both the UK and at the EU level in the wake of the global financial crisis – which will in turn affect the UK's legal framework – the IoM likely faces a structurally higher degree of legislative and political risk than it did before the crisis. The IoM often tries to mitigate this risk by proactively addressing concerns from the UK or international players.
- » **International focus on recovering funds from offshore financial centres, as advanced economies around the world face greater fiscal challenges.** This situation will likely cause the IoM's banking industry to shrink further. Nevertheless, the IoM has been proactively implementing Tax Information Exchange Agreements to alleviate such international pressure. It has also been at the forefront among the Crown Dependencies in adopting FATCA-style agreements on automatic information exchanges with the UK and US authorities.

To mitigate potential effects on the sector, the authorities have proactively implemented an Alternative Banking regime, which was introduced in August 2016. The IoMFSA has created two new types of banking licences aimed at enticing new entrants to the market, especially in the corporate lending segment. One licence is targeted at institutions serving the corporate or high-net-worth sectors, and does not apply to retail customers. Deposits with these banks are not covered under the deposit insurance scheme. The other permits foreign banks to open a representative office, which enables potential new market entrants to test the market before setting up a branch.

External vulnerability risk is absent because of the customs and currency relationship with the UK

The IoM uses the Manx pound, which is pegged to sterling at a 1:1 exchange rate. The UK pound, a global reserve currency, is also legal tender in the IoM. Because of its customs relationship with the UK, the IoM does not produce balance-of-payments statistics.

Exhibit 24

Peer comparison table factor 4d: External vulnerability risk

	Isle of Man Aa3/STA	aaa Median	United Kingdom Aa3/STA	Macao Aa3/STA	Bermuda A2/STA	Cayman Islands Aa3/STA	Luxembourg Aaa/STA	Hong Kong Aa3/STA
Final score	aaa		aaa	aaa	aaa	a	a	aa
Initial score	aaa		aaa	aaa	aaa	a	a	aa
Current account balance (% of GDP)	--	3.7	-3.1	33.6	9.9	-9.4	4.6	6.0
Net IIP (% of GDP)[1]	--	47.5	-28.7	--	44.3	--	56.2	429.1
External debt (% of current account receipts)	--	201.9	747.9	125.5	250.9	3.9	862.9	193.8
External vulnerability indicator (EVI)[2]	--	32.1	--	--	--	--	--	--

[1] Net international investment position, % of GDP.

[2] (Short-term external debt + currently maturing long-term debt + total nonresident deposits over one year)/ official foreign exchange reserves.

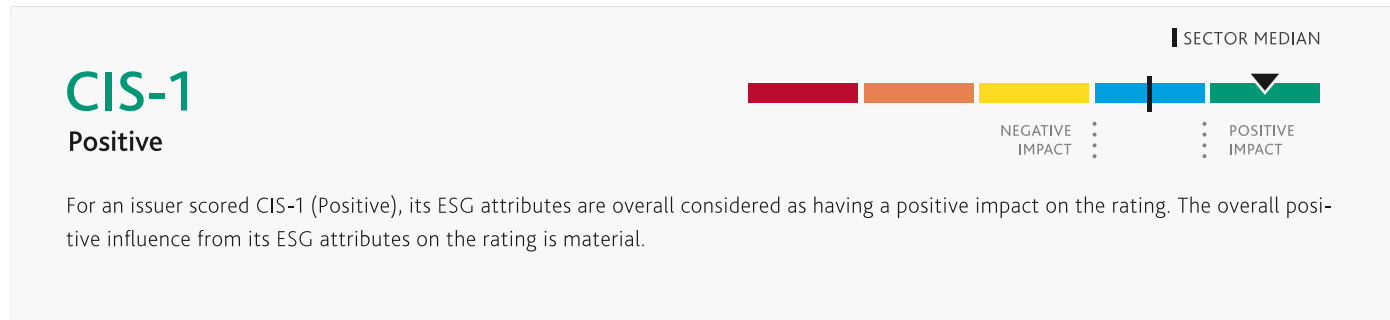
Sources: National authorities, International Monetary Fund and Moody's Investors Service

ESG considerations

Isle of Man's ESG credit impact score is positive (CIS-1).

Exhibit 25

ESG credit impact score



Source: Moody's Investors Service

The IoM's ESG credit impact score is positive (**CIS-1**), reflecting low exposure to environmental and social risks and, like many other advanced economies, a very strong governance profile and the general capacity to respond to shocks.

Exhibit 26

ESG issuer profile scores



Source: Moody's Investors Service

Environmental

The IoM's overall E issuer profile score is neutral to low (**E-2**), reflecting low exposure to environmental risks across most categories. Natural capital is a particular point of strength for the IoM, as the entire island is a UNESCO biosphere reserve.

Social

We assess its S issuer profile score as positive (**S-1**), reflecting low exposure to social risks over most categories, as well as a strong focus on quality of life for residents, which allows the island to attract labour with the skill sets necessary to support the growth sectors of the economy. This focus on quality of life also has positive spillover effects on the protection of natural capital (mentioned above).

Governance

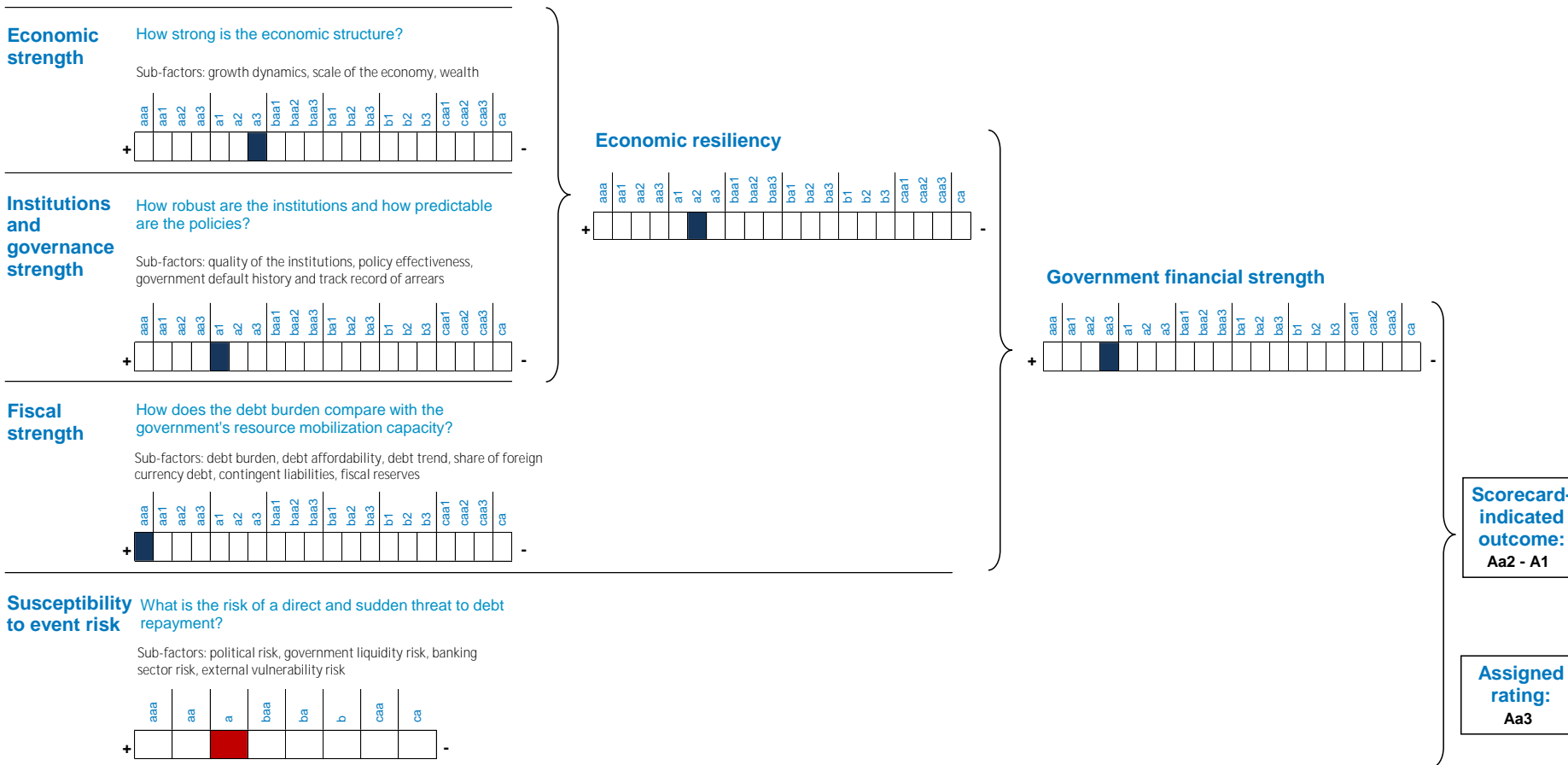
The IoM's very strong institutions and governance profile support its rating, which is captured by a positive G issuer profile score (**G-1**). Coupled with high wealth levels and very high government financial strength, this supports a high degree of resilience.

All of these considerations are further discussed in the "Credit profile" section above. Our approach to ESG is explained in our report on how the [scores depict varied and largely credit-negative impact of ESG factors](#) and our cross-sector methodology [General Principles for Assessing Environmental, Social and Governance Risks Methodology](#).

Scorecard-indicated outcome

Combining the scores for individual factors provides the scorecard-indicated outcome. 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 scorecard-indicated outcome. 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 scorecard-indicated outcome. For more information please see our [Sovereign Ratings Methodology](#).

Exhibit 27
Sovereign rating metrics: Isle of Man



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding the IoM with other sovereigns that we rate. It focuses on a comparison with sovereigns within the same scorecard-indicated outcome and shows the relevant credit metrics and factor scores. The IoM, in common with most other Aa-rated sovereigns, benefits from a high level of economic development and strong institutions. Measured by GDP per capita, which we estimate at around \$86,000 in the 2019-20 fiscal year, the IoM is one of the richest jurisdictions in the Aa rating category. Moreover, unlike other financial centres such as the Cayman Islands and [Bermuda](#) (A2 stable), growth has remained strong and relatively stable, while the island's economy is more diversified. The IoM is one of the few sovereigns we rate that has no direct debt outstanding, and also enjoys access to significant reserves.

Exhibit 28

Isle of Man's key peers

	Year	Isle of Man	Taiwan	Chile	Estonia	Cayman Islands	United Kingdom	Aa3 Median	Western Europe Median
Rating/outlook		Aa3/STA	Aa3/POS	A1/NEG	A1/STA	Aa3/STA	Aa3/STA	Aa3	Aa2
Scorecard-indicated outcome		Aa2 - A1	Aa2 - A1	A1 - A3	Aa2 - A1	Aa2 - A1	Aa3 - A2	Aa2 - A1	Aa1 - Aa3
Factor 1		a3	a1	baa1	baa1	baa2	a1	a2	a2
Nominal GDP (\$ bn)	2019	7.3	612.2	279.4	31.5	6.2	2831.6	250.7	425.3
GDP per capita (PPP, Intl\$)	2019	--	53,429	24,969	38,480	79,170	48,603	58,266	55,324
Avg. real GDP (% change)	2015 - 2024F	2.9	3.0	1.9	3.2	2.6	1.1	2.6	1.7
Volatility in real GDP growth (ppts)	2010 - 2019	2.2	2.5	2.0	1.8	2.0	0.5	2.1	1.6
Factor 2		a1	aa2	aa3	aa3	aa3	a1	aa3	aa2
Quality of legislative & executive institutions	Latest available	a	aa	aa	aa	aa	a	aa	aa
Strength of civil society & judiciary	Latest available	a	aa	a	a	aa	aaa	a	aaa
Fiscal policy effectiveness	Latest available	aa	aa	a	aaa	aa	baa	aa	aa
Monetary & macro policy effectiveness	Latest available	a	aa	aa	a	a	aa	aa	aa
Gen. gov. fiscal balance (% of GDP)	2019 - 2021F	-1.3	-0.5	-4.8	-3.5	0.0	-8.8	-1.3	-3.6
Average inflation (% change)	2015 - 2024F	1.6	0.9	3.0	1.8	1.7	1.7	1.6	1.3
Volatility of inflation (ppts)	2010 - 2019	2.0	0.6	1.1	1.7	3.0	1.0	1.2	1.0
Factor 3		aaa	aa3	a1	aa1	aa1	a3	aa2	a1
Gen. gov. debt (% of GDP)	2019	0.0	33.7	28.2	8.4	5.5	85.2	30.3	59.6
Gen. gov. debt (% of revenue)	2019	0.0	217.5	130.2	21.6	32.9	220.0	72.6	135.6
Gen. gov. interest payments (% of revenue)	2019	0.0	3.7	4.3	0.1	2.8	5.5	2.8	2.8
Gen. gov. interest payments (% of GDP)	2019	0.0	0.6	0.9	0.0	0.5	2.1	0.6	1.3
Factor 4		a	ba	baa	baa	a	a	a	a
Political risk	Latest available	aa	ba	a	baa	aa	a	a	aa
Government liquidity risk	Latest available	aaa	aaa	aaa	aa	a	aaa	aaa	aaa
Gross borrowing requirements (% of GDP)	2020F	--	5.6	2.9	--	1.6	22.9	9.4	14.0
Banking sector risk	Latest available	a	baa	a	a	aa	a	a	a
BSCE[1]	Latest available	aaa-a3	baa2	baa2	baa3	baa2	aaa-a3	baa1	baa1
Total domestic bank assets (% of GDP)	2019	663.5	291.8	147.9	102.4	43.5	361.8	291.8	220.0
External vulnerability risk	Latest available	aaa	aaa	baa	a	a	aaa	aaa	aaa
Current account balance (% of GDP)	2019	--	10.6	-3.7	2.0	-9.4	-3.1	1.3	2.9
External vulnerability indicator (EVI)	2021F	--	33.1	204.9	--	--	--	147.0	--
External debt (% of current account receipts)	2019	--	42.9	218.3	92.1	3.9	747.9	125.5	327.7
Net international investment position (% of GDP)	2019	--	219.3	-14.4	-21.4	--	-28.7	86.6	17.6

[1] BSCE is our estimate of the risk of a Banking Sector Credit Event (BSCE), which we use for sovereigns where we have no or very limited rating coverage of a system. Otherwise, we use the Baseline Credit Assessment (BCA) for rated domestic banks, weighted by bank assets.

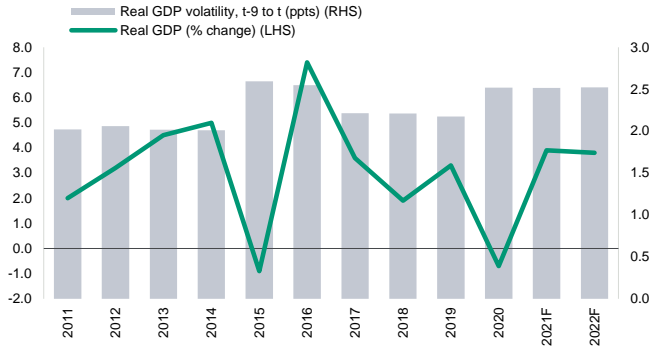
Sources: National authorities, IMF, Moody's Investors Service

DATA, CHARTS AND REFERENCES

Chart pack: Isle of Man

Exhibit 29

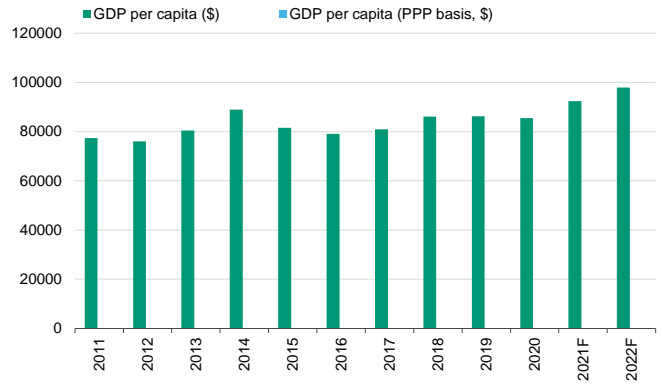
Economic growth



Source: Moody's Investors Service

Exhibit 30

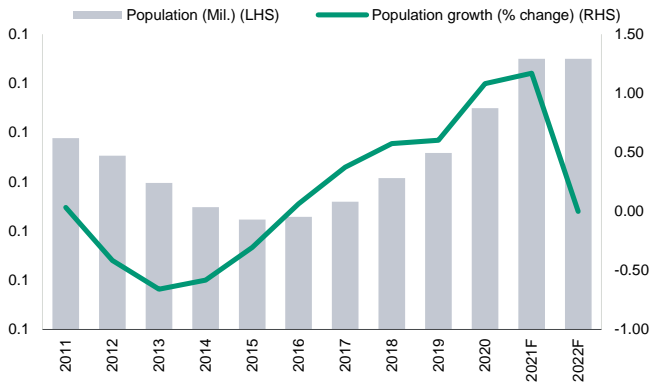
National income



Source: Moody's Investors Service

Exhibit 31

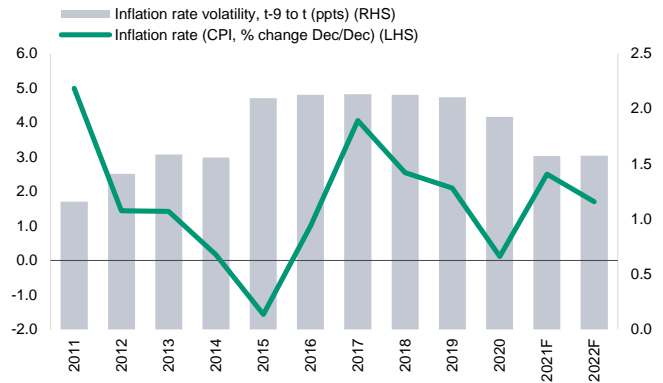
Population



Source: Moody's Investors Service

Exhibit 32

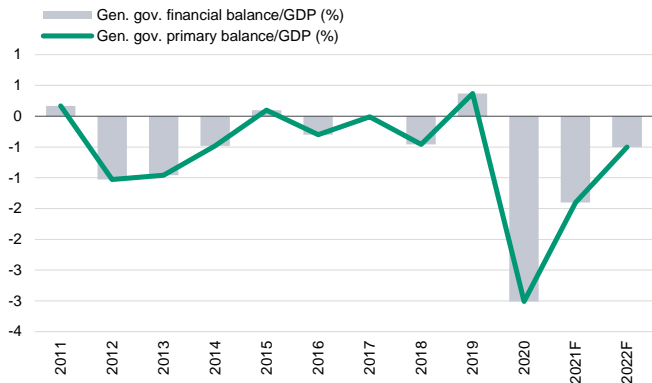
Inflation and inflation volatility



Source: Moody's Investors Service

Exhibit 33

Financial balance



Source: Moody's Investors Service

Rating history

Exhibit 34

Isle of Man^[1]

Long Term Ratings		Outlook	Review Action		Short Term Ratings		Action Date
Foreign Currency	Local Currency		Foreign Currency	Local Currency	Foreign Currency	Local Currency	
Aa3	Aa3	STA	-	-	-	-	Oct-20
Aa2	Aa2	NEG	-	-	-	-	Nov-19
Aa2	Aa2	STA	-	-	-	-	Sep-17
Aa1	Aa1	NEG	-	-	-	-	Jun-16
Aa1	Aa1	STA	-	-	-	-	Dec-13
Aaa	Aaa	RUR	Possible Downgrade	Possible Downgrade	-	-	Jul-13
Aaa	Aaa	STA	Confirmed	Confirmed	-	-	Nov-10
Aaa	Aaa	RUR	Possible Downgrade	Possible Downgrade	-	-	Oct-09
Aaa	Aaa	STA	-	-	-	-	Nov-03
Aaa	Aaa	-	-	-	-	-	Oct-00
Aaa	-	-	-	-	-	-	Dec-97

[1] Table excludes rating affirmations and ceilings. Please visit the issuer page for the [Isle of Man](#) for the full rating history.

Source: Moody's Investors Service

Annual statistics

Exhibit 35

Isle of Man

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021F	2022F
Economic structure and performance												
Nominal GDP (US\$ bil.)[1]	6.6	6.4	6.8	7.4	6.8	6.6	6.8	7.2	7.3	7.3	8.0	8.5
Population (Mil.)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
GDP per capita (US\$)	77,347	76,099	80,437	88,970	81,601	79,152	80,992	86,149	86,196	85,498	92,358	97,881
GDP per capita (PPP basis, US\$)	--	--	--	--	--	--	--	--	--	--	--	--
Nominal GDP (% change, local currency)	7.0	-0.6	6.1	4.5	-1.5	9.8	7.7	3.2	5.2	-0.2	6.5	6.0
Real GDP (% change)[1]	2.0	3.2	4.5	5.0	-0.9	7.4	3.6	1.9	3.3	-0.7	3.9	3.8
Inflation (CPI, % change Dec/Dec)	5.0	1.4	1.4	0.2	-1.6	1.0	4.1	2.5	2.1	0.1	2.5	1.7
Unemployment rate (%)	2.1	2.3	2.5	2.1	1.8	1.5	1.0	0.8	0.8	2.1	1.4	1.2
Gross investment/GDP	--	--	--	--	--	--	--	--	--	--	--	--
Gross domestic saving/GDP	--	--	--	--	--	--	--	--	--	--	--	--
Nominal exports of G & S (% change, US\$ basis)	--	--	--	--	--	--	--	--	--	--	--	--
Nominal imports of G & S (% change, US\$ basis)	--	--	--	--	--	--	--	--	--	--	--	--
Real exports of G & S (% change)	--	--	--	--	--	--	--	--	--	--	--	--
Real imports of G & S (% change)	--	--	--	--	--	--	--	--	--	--	--	--
Net exports of goods & services/GDP	--	--	--	--	--	--	--	--	--	--	--	--
Openness of the economy[2]	--	--	--	--	--	--	--	--	--	--	--	--
Government Effectiveness[3]	--	--	--	--	--	--	--	--	--	--	--	--
Government finance												
Gen. gov. revenue/GDP[4]	22.6	21.9	21.7	21.6	22.6	21.4	20.3	20.1	20.7	19.7	19.9	20.1
Gen. gov. expenditures/GDP[4]	22.4	22.9	22.7	22.1	22.5	21.7	20.3	20.6	20.3	22.7	21.3	20.6
Gen. gov. financial balance/GDP	0.2	-1.0	-1.0	-0.5	0.1	-0.3	0.0	-0.5	0.4	-3.0	-1.4	-0.5
Gen. gov. primary balance/GDP	0.2	-1.0	-1.0	-0.5	0.1	-0.3	0.0	-0.5	0.4	-3.0	-1.4	-0.5
Gen. gov. debt (US\$ bil.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gen. gov. debt/GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gen. gov. debt/gen. gov. revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gen. gov. interest payments/gen. gov. revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External payments and debt												
Nominal exchange rate (local currency per US\$, Dec)	0.6	0.6	0.6	0.6	0.7	0.8	0.7	0.8	0.8	0.7	0.8	0.8
Real eff. exchange rate (% change)	--	--	--	--	--	--	--	--	--	--	--	--
Relative unit labor cost	--	--	--	--	--	--	--	--	--	--	--	--
Current account balance (US\$ bil.)	--	--	--	--	--	--	--	--	--	--	--	--
Current account balance/GDP	--	--	--	--	--	--	--	--	--	--	--	--
Net foreign direct investment/GDP	--	--	--	--	--	--	--	--	--	--	--	--
Net international investment position/GDP	--	--	--	--	--	--	--	--	--	--	--	--
Official forex reserves (US\$ bil.)	--	--	--	--	--	--	--	--	--	--	--	--

[1] 2019 onward are Moody's estimates.

[2] Sum of Exports and Imports of Goods and Services/GDP

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

[4] Fiscal years ending March 31, e.g., 2019 refers to fiscal year 2019-20; Includes National

Source: Moody's Investors Service

Moody's related publications

- » **Rating Action:** [Moody's downgrades the Isle of Man's ratings to Aa3, outlook stable](#), 23 October 2020
- » **Credit Opinion:** [Government of Isle of Man – Aa3 stable: Regular update](#), 27 April 2021
- » **Sector In-Depth:** [Banks – Isle of Man: Macro profile – Strong](#), 4 November 2020
- » **Rating Methodology:** [Sovereign Ratings Methodology](#), 25 November 2019

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 and information sources

- » [Sovereign risk group webpage](#)
- » [Sovereign ratings list](#)

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Endnotes

- 1 The IoM's financial year runs from 1 April to 31 March: 2018-19 refers to the period from 1 April 2018 to 31 March 2019.
- 2 The Cabinet Office published a [White Paper on the island's population challenges](#) in February 2018.
- 3 The IoM has been granted observer status in the OECD for certain technical and taxation groups.
- 4 The latest such review, conducted by the Foot Commission, focused on UK Overseas Territories and Crown Dependencies acting as offshore financial centres, and was published in October 2009.
- 5 See [Bank of England](#).
- 6 The IoM achieved substantial or moderate results in eight of the 11 areas of effectiveness that MONEYVAL measured, but improvements were identified as needed in respect of three: financial intelligence; money laundering investigations and prosecutions; and confiscation of criminal assets.
- 7 IoM land and property tax is charged at 20%.
- 8 In the IoM's case, the allegations centred around the value-added tax treatment of aircraft leasing arrangements, under which the island issued full refunds to 231 jet-leasing companies between 2011 and 2016. The UK Treasury published in October 2019 [the results of an assessment of the practice for the importation of aircraft](#), commissioned at the request of the IoM's government. The review found no evidence of VAT avoidance but recommended the implementation of further compliance checks.
- 9 See the [full rankings](#) here (as of December 2020).
- 10 Constituting the capital and revenue accounts, including income from reserve funds. The capital account is used for capital investment, while the revenue account includes all spending other than capital spending.
- 11 Two Cabinet Office reports have been published exploring options to address the legacy funding gap, in [June 2018](#) and [February 2019](#).
- 12 Recent reforms require all major banks with subsidiaries in the IoM that upstream funding to parents to produce a comprehensive strategic plan. This plan will outline ways to disengage from its group in the event of forward-looking triggers such as a rating downgrade. Furthermore, smaller banks are now subject to stricter large exposure rules which require these exposures to be limited to paid-up share capital and reserves.

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