

**Rating Action: Moody's Downgrades Bermuda's Ratings**

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New York, April 29, 2009 -- Moody's Investors Service has downgraded Bermuda's government bond ratings to Aa2 from Aaa for local currency and from Aa1 for foreign currency. The foreign currency bank deposit ceiling was also downgraded to Aa2 from Aa1. The outlook for the ratings is stable.

Moody's said the downgrade was based the island territory's vulnerability to external shocks due to its small size and lack of diversity. "The current global credit crisis and recession are affecting the outlook for Bermuda's most important industry, insurance and reinsurance," said Steven Hess, Moody's Vice President and Senior Credit Officer. "In addition, government finance is also being affected, although it remains strong in comparison to most other countries in the Aa rating category."

While the international business sector—primarily insurance—has seen the effects of the credit crisis as in other financial centers, Bermuda could possibly see an adverse impact from changes to US and other countries' tax laws. "While we do not see a major threat to the viability of the industry, the dynamism experienced over the past decade in this industry could be considerably lessened," said Hess. "So, we see slower economic growth in the next several years."

A slower economy could weaken government finances over time. According to Moody's, Bermuda's government finances are strong, but a less dynamic economy could weaken the government's revenue base. The Bermuda government has recently decided to guarantee a bank's \$200 million issuance of preferred stock or to purchase the stock should it not be sold in the market. While not large enough to materially affect government finances, this contingent liability is materializing at a time when the budget deficit is already rising from its very low levels of recent years, according to Moody's Hess.

Despite some rise this year and next, government debt ratios are still low by international standards. Moody's believes that the low, but rising, government debt, along with the island's institutional strength and long track record of prudent fiscal management, justifies the high Aa2 rating of the government's debt.

Moody's last rating action on Bermuda was on March 16, 2009, when the ratings were placed on review for possible downgrade.

The principal methodology used in rating Bermuda was Sovereign Bond Ratings, which can be found at [www.moodys.com](http://www.moodys.com) in the Credit Policy and Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy and Methodologies directory.

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