

Bermuda

Ratings

Bermuda	
Action: Affirmed	03 Oct 25
Foreign Currency LT	A+
Local Currency LT	A+
Action: Affirmed	03 Oct 25
Foreign Currency ST	K1+
Local Currency ST	K1+

Ratings are based on KBRA's <u>Sovereigns</u>
<u>Rating Methodology</u>, published 20
December 2021 and utilise the <u>ESG</u>
<u>Global Rating Methodology</u> published 16
June 2021. KBRA's rating scales and definitions are found <u>here</u>

Outlook/Watch

Bermuda	
Long-Term Ratings	Stable

Economic Snapshot

Economic Snapsnot				
	2024			
Per Capita Income	~100k			
(US\$, PPP)				
Real GDP Growth	4.5			
(% Change)				
Inflation Rate	1.9			
(Average %)				
Budget Balance	-0.3			
(% GDP)				
Current Account	18.4			
Balance (% GDP)				
External Debt (%	72.4			
CAR or GSPI)				
Level of Economic	high			
Development				
Default History	none			

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Executive Summary

KBRA affirms Bermuda's long-term issuer ratings. KBRA also affirms the short-term issuer ratings of the sovereign.

Ratings Outlook: Bermuda's Stable Outlook reflects its strides in fiscal consolidation and KBRA's expectations that its status as a financial hub will continue to prosper. Bermuda's new corporate income tax (CIT) is prompting considerable increased fiscal flexibility, although risks exist. Bermuda's innovativeness positions it as a hub in emerging financial industries and it is increasingly diversifying its international business services (IBS) sector.

Key Credit Considerations

The ratings were affirmed because of the following key credit considerations:

- Bermuda's high wealth level and strong institutions, including a topquality regulatory environment, underpin its status as a financial hub.
 Bermuda has been resilient to regulatory tax reform and is expected to be resilient to the global CIT reform.
- The burden of a large government gross debt and financing costs are mitigated by large external assets principally in the government's Public Service Superannuation Fund (PSSF) and the Contributory Pension Fund (CPF). The government's net external asset position has tipped to negative territory at~-6% of GDP, although the CIT reform should revert that ratio to surplus over the medium term. Fiscal restraint is integral to the policy environment and even if the tax produces a windfall, the government is expected to use it judiciously.
- Bermuda is well recognized for its world class (re)insurance and alternative capital sectors, such as Insurance Linked Securities (ILS). The expansion of new industries including in fintech and digital assets, and its promising role in climate mitigation finance reflect Bermuda's capacity to position itself for investment opportunities. IBS employment continues to grow and is at a record high, surpassing peak 2008 levels. Employment should surpass 2019 levels next year. Payroll taxes will be less important to the fiscal position with new CIT receipts.
- Bermuda appears likely to continue to post accelerated growth compared to the pre-Covid level and post Global Financial Crisis (GFC), when the island lost a substantial number of expats from its labor force. Immigration restrictions have eased but labor related supply side bottlenecks persist. ~10% of employment is in tourism, the largest employer for Bermudians, and the island's largest hotel is still closed. A strong IBS sector, improving capacity in hospitality, residential investment, immigration reform, sandbox initiatives, and a payroll tax reform have assisted recent performance.
- Bermuda has a reduced external vulnerability due to a large current account surplus and a sizeable net creditor standing, particularly in the financial sector. Lack of independent monetary policy and reliance on external funding are a vulnerability.
- Bermuda has no refinancing needs until 2027, and the fixed rate, longterm profile of government debt moderates risks. It is likely to be able to retire maturing debt given its expected fiscal performance.
- High capital levels at banks and strong supervision reduce risks.

Rating Sensitivities	
Positive rating momentum could arise net government debt be reduced in a meaningful way and should pension reform proceed to strengthen government assets.	+
Negative rating pressure could arise should Bermuda's status as an international financial services hub diminish, or upon expectations for the fiscal accounts and net liability position of the government to meaningfully deteriorate.	-

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K-Sov and Rating Methodology Steps

Bermuda Sovereign Credit Rating K-Sov				
Rating Determinant	Equivalent Rating Range			
Macroeconomic Performance	BBB/BB			
Government Financial Strength	A/BBB			
External Vulnerability	A			
Structural Robustness	AA			
K-Sov Bermuda	A range			

Determining the K-Sov is the first step of KBRA's Sovereigns Rating Methodology. The K-Sov output reflects the very small size of the economy and the pattern of very slow growth since the GFC, although the post-COVID recovery has been meaningful. Government Financial Strength reflects sound fiscal management and access to liquidity but a low revenue yield and sizeable debt and interest to revenues ratios. External Vulnerability and Structural Robustness enhance Bermuda's credit profile. Data limitations exist for the calculation of external debt service, the external vulnerability indicator and several institutional indicators. Where data may distort credit risks in the K-SOV, such as dollarization, this is discussed. Step II involves peer comparisons, forecasts and a willingness to pay evaluation. Bermuda's low net government debt (considering external assets), unfunded pension system, and its strong prospects for cultivating new niche industries are rating considerations, as is its expected resilience to global corporate tax reform. These items may also be discussed elsewhere in the report. Finally, the alignment of Bermuda's long-term ratings is determined.

Macroeconomic Credit Metrics

	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028
	2020	2021	2022	2023	2024e	2025e	2026f	2027f	2028f
Gross Domestic Product (\$ Bils.)	6.9	7.3	7.9	8.6	9.2	9.7	10.1	10.5	11.0
Nominal GDP Growth	-7.2	5.8	8.0	9.0	7.0	5.6	4.0	4.0	4.5
Real GDP Growth	-6.8	4.6	6.5	4.9	4.5	3.5	1.8	1.5	1.5
Population (000)	63.9	63.8	63.6	63.5					
Current Account Balance/GDP	12.4	13.2	14.4	15.8	18.4	15.0	15.0	15.0	15.0
International Investment Position/GDP	67.6	63.8	54.8	51.1	47.8				
External Debt % Current Account Receipts	150.1	114.9	115.1	81.5	72.4				
Liabilities Owed to BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Held in BIS Banks Due Within One Year/Total Assets Due Withi	50.8	47.7	53.7	48.0	52.4				
Total Liabilities Owed to BIS Banks/Total Assets Held in BIS Bank (%)	125.0	102.7	117.6	112.5	119.9				
Inflation (CPI) y/y	0.0	1.5	4.0	3.3	1.9	2.0	2.0	2.0	2.0
Government Revenues/GDP	15.8	13.7	13.8	13.2	12.8	12.9	14.2	17.5	16.4
Government Expenditures/GDP	16.2	16.2	14.6	13.6	13.1	12.7	13.8	13.7	12.8
Fiscal Interest/Revenues	11.1	14.5	12.0	12.5	11.2	10.3	8.9	6.9	5.9
Government Balance/GDP	-0.5	-2.5	-0.8	-0.4	-0.3	0.2	0.4	3.8	3.5
Primary Balance/GDP	1.3	-0.5	0.8	1.2	1.1	1.5	1.7	5.0	4.5
Government Debt /GDP	39.0	46.0	42.5	39.0	35.9	34.0	32.7	26.6	25.5
Government Debt/Revenues	247.4	335.6	308.6	296.2	279.9	263.8	230.2	152.0	155.7

Source: Government of Bermuda, World Bank, KBRA. Fiscal years for fiscal data. When fiscal years, ending March 31.

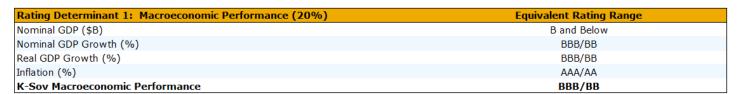
Step I: K-Sov Scorecard Analysis

Macroeconomic Performance

Bermuda's economy continues to perform well with GDP growth prints a multiple of pre-pandemic norms. Growth has been relatively balanced, fuelled by consumption, investment and especially the external balance. Q1 2025 real GDP growth decelerated sharply to 1.1% mostly due to the external balance dynamics, although consumption and investment performed strongly.

Employment creation (up 1.4% in 2024), accelerated employment income growth (8%), pension increases, a new minimum wage, an inflation shield, a defreezing of civil servant salaries, and rising government investment spending have supported growth dynamics. The recent payroll tax reform has also been a critical contributor to consumption, saving the average Bermudian worker \$5,000 a year and affecting $\sim 86\%$ of households. Inflation continues to generally decline, to the benefit of consumption. The latest CPI print is 1.8% y/y for April. A salary hike for civil servants for the current year budget is also supportive of economic growth.

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Investment growth has improved markedly due to several large projects -- Fairmont Southampton, the Brookfield headquarter relocation and the Morgan's Point development. More generous tax concessions for the hotel industry (lengthened to 25 years) and relaxed height restrictions for residential buildings in the Northeast Hamilton Empowerment Zone are fostering construction investment.

The ongoing recovery of tourism is also supportive of macroeconomic conditions on the island, given the importance of tourism to employment (\sim 10%). Its contribution to GDP, however, is just 3%-5%. The level of visitors, however, still has room to improve because the largest hotel, Fairmont Southampton, which has 600 rooms, is still closed. Visitor data for H1 2025 implies enduring positive momentum is being sustained this year, although cruise ship visitations have slowed. A rising Superyacht sector is also a positive contributor, although on the margin. These dynamics aid job growth and employment creation, especially for Bermudians. Once the Fairmont Southhampton reopens, perhaps by Q1 2026, employment data will strengthen more, and also lead to more robust employment income growth given labor scarcity factors. The new National Certification and Apprenticeship Board is also focusing on retooling and skill development for Bermudians to maximize employment opportunities for the population. While overall employment is about 97% of pre-COVID levels, this should change rapidly once the island's largest hotel reopens, and particularly support Bermudians.

The continued surge in IBS employment also supports Bermudian employment, but to a much lower extent. Assets of the sector continue to expand partly thanks to new entrants (766 new international companies and partnerships registered, increasing employment in the sector by 2.4%). At end-2024, there were 1,239 insurance licenses outstanding and total assets of the industry exceeded \$1.8 trillion (estimated). Asset growth has been steady and distributed across the many insurance lines, although long-term life is the single largest sector. Despite its renowned reputation in (re) insurance, Bermuda's IBS sector is diversified. Bermuda is increasingly a magnet for asset managers and funds. In 2024, 784 funds were registered in Bermuda. Total AUM for licensed investment providers stood at \$196 billion. Activity continues in the insurance regulatory sandbox and digital asset initiatives, and regulation continues to be refined to grow IBS in a responsible way.

Structural characteristics of the economy underpin Bermuda's status as a financial hub especially for (re)insurance. Bermuda's economy is characterized by very high per capita GDP, strong and stable institutions, and a flexible, wellmanaged and innovative investment environment. Bermuda's success in generating a high per capita income relates to its expertise in international financial services, especially (re)insurance, but increasingly in alternative capital alongside new opportunities in fintech, digital assets and other services. Bermuda's attractiveness has been enhanced by its taxneutral position and its wealth of expertise across related fields. While Bermuda has high payroll taxes, a zero-tax rate on corporate (until 2025 when a 15% CIT will be introduced on multinational enterprises with consolidated revenues of EUR 750 million or more, discussed below), withholdings and capital gains have been magnets for investment. Bermuda enjoys NAIC qualified jurisdiction status and reciprocal jurisdiction status. These statures benefit insurers and can qualify them for lower reinsurance collateral requirements. Bermuda enjoys Solvency II equivalency from the EU and reached full Basel III implementation in January 2019. English common law also contributes to its stature. 15 of the top 50 reinsurers are licensed in Bermuda and it is the most important jurisdiction for property and catastrophe insurance Insurance-Linked Securities (ILS). Of the total reinsurance written globally, Bermuda accounts for ~14%. The new CIT may possibly be offset by lowering other taxes. The Tax Reform Commission have recommended options to lower other taxes to address the cost of living and ease of doing business in Bermuda. These recommendations are currently under review by Government following consultation on illustrative draft legislation. In any case there are compelling reasons aside from taxes that IBS companies domicile in Bermuda.

Government Financial Strength

The government of Bermuda has a track record of responsible fiscal policy including the establishment of a sinking fund to finance debt payments due, multi-year budget planning, and reliance on debt ceiling caps. The Sinking Fund was tapped recently to retire \$50 million in debt and the government plans to pay down \$500 million coming due in 2027. Strong and sound government finances is a longstanding tradition in Bermuda. Pre-GFC, government debt was low (about 10% of GDP compared to ~34% today in gross terms). And while deficits and debt swelled after the GFC, they have been on a path of fiscal correction since FY 2014/15. Bermuda's membership in the commonwealth reduces the need for spending on security and diplomatic affairs. A low revenue yield – below 13% of GDP, among the lowest among global sovereigns - amplifies Bermuda's debt ratios. Constraints on monetary policy from Bermuda's fixed exchange

rate regime placed the burden on government finances to manage shocks in the economy. Fiscal restraint was very evident even during the height of the Covid-19 pandemic. In FY 2020/21 (FY ends April 30) a deficit of just -2.5% of GDP was recorded. That stands in sharp contrast to sharply widened fiscal imbalances in the rest of the world.

The government overperformed targets in FY 2021/22, and even though it responded to the inflation shock, it has demonstrated remarkable fiscal restraint, posting declining (and modest) deficits and generally strengthening primary surpluses. More buoyant revenues than expected – despite the payroll tax reform rollout – and expenditure discipline underlie the continued strengthening of government finances. The surplus for FY 2024/25 is the first since FY 2002/03. Underlying this trend, government payroll costs have trended downward thanks to steadily falling employment in the government sector, and in this year's budget a wage rise is legislated that reverse some of the erosion in real wages over the past decade. Growing fiscal surpluses are planned for the medium term and beyond, helped by CIT receipts.

Rating Determinant 2: Government Financial Performance (25%)	Equivalent Rating Range
General Government Revenues % GDP	B and Below
General Government Balance % GDP	AA/A
General Government Debt % Revenue	B and Below
General Government Interest % Revenue	BBB/BB
Access to Liquidity/Vulnerability to Sell-off	AAA/AA
Contingent Liabilities	AA
Fiscal Arrears	AAA/AA
K-Sov Government Financial Performance	A/BBB

Another important feature of government finances is solid access to liquidity, in KBRA's view, thanks to the existence of large international assets of the government due to external assets (including those related to the PSSF and CPF) of \$2.8 billion as of December 2024, according to balance of payments data. Contingent liabilities (guarantees) stand below \$1 billion, largely in healthcare, not insignificant. The mortgage guarantee program has helped spur residential construction and only \$4 million of the \$50 million cap has been used. The banking system is well capitalized and healthy, and not a worrisome contingent liability, as discussed in the Structural Robustness section.

In the midst of the pandemic, the government amended the Government Loans Act (1978) to increase the legal limit on government debt from \$2.75 billion to \$3.5 billion. The hike has enabled the government to raise \$1.35 billion in debt at historically low rates during the pandemic, and another \$500 million prior to the global spike in yields, refinancing amortizations and the moderate deficit forecasted until the current FY when a surplus is planned. The sinking fund stood at \$40 million at end-March 2025. The intent of the sinking fund is to allocate 2.5% of the stock of debt outstanding for the previous year in order to secure principal payments in about 20 years. It is expected to be rebuilt to \$85 million during the current FY.

The government has no external debt principal payments until January 2027 when a \$500 million payment is due, and expected to be extinguished. Gross debt stands at \$3.294 billion or 34% of GDP and is fully USD denominated. Net of the sinking fund balance, government debt stands at \$3.199 billion. Debt to revenues is outsized, at 264%. As noted, government net external liabilities (net of external assets) stand at ~-6% of GDP, also reflecting asset valuations. This compares to government policy which seeks to reduce debt and interest payments to 80% and 10%, respectively. The CIT reform, to be discussed further in Step II, should move Bermuda closer to those policy aims. IBS employees contribute the lion's share to government coffers given the size of the sector (28% of GDP and 15% of employment) and the importance of payroll taxes to government revenues. The CIT for international companies could be transformative for government finances and the economy.

While pension fund assets are significant, the unfunded liability is estimated at more than \$1 billion. The funds were expected to be exhausted in 2044 (CPF) and 2041 (PSSF), but this is already being addressed for the PSSF. Retirement age hikes, an increase in contributions and revised calculations for outlays – alongside a hike in public sector wages that have been frozen for over 10 years – is underway and the authorities are turning their attention to CPF. A mandatory private pension scheme funded by 10% salary contributions is an important cushion for the economy.

External Vulnerability

Bermuda's low external vulnerability is owed to its large double-digit current account surpluses (as a percent of GDP) and strong net creditor position to the world. The substantial (liquid) assets of the government are also supportive of the country's external position. In terms of current account dynamics, employee compensation flows, business services exports, tourism and investment income all contribute to sizeable and sustained external current account surpluses, while the trade balance is in deficit.

Bermuda's economy wide external debt of \sim \$4 billion is overshadowed by its substantial external assets of \$16 trillion, mostly located in the financial sector. Households run a small net external surplus, and the government, thanks in part to Covid-19, has moved its net surplus position to a small deficit, as noted. Non-financial corporates (largely hotels) run a net liability position of \sim \$2.2 billion. Bermuda's aggregated net international investment position (NIIP) stands about 50% of GDP as of Q4 2024 but it fluctuates with changes in asset valuations. The country's healthy external liquidity position is also reflected in BIS ratios that also incorporate the extensive internationalization of the financial sector.

Government debt of \$3.294 billion makes up the lion's share of external debt. The majority of government debt is U.S. dollar denominated. KBRA does not believe that this exposure poses an excessive risk to the country's external or fiscal stability given the durability of the peg, the government's manageable debt profile, and the government large external assets, as noted previously.

Rating Determinant 3: External Vulnerability (25%)	Equivalent Rating Range
Current Account Balance % GDP	AAA
External Debt % Current Account Receipts	BBB/BB
Debt Service Ratio	
(External ST Debt+ Amortizations+NR Deposits/FX Reserves)	
ST BIS Liabilities % BIS Assets	AA/A
BIS Liabilities % BIS Assets	AA/A
Dollarization Ratio	BB/B
K-Sov External Vulnerability	Α

The vast bulk of banking sector deposits of \$21.8 billion – a multiple of GDP - are denominated in foreign currency, also consistent with the internationalization of the financial services sector. In KBRA's view, dollarisation, while very high, does not pose a considerable risk to the financial system. We believe that it does not reflect lack of confidence in economic management and the Bermuda dollar, but rather the dominance of the international financial services sector in the economy. This rating sub-determinant does pull down Bermuda's external vulnerability profile according to the K-SOV.

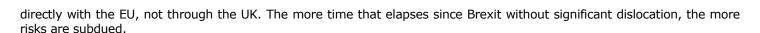
KBRA does not have precise data to calculate the economy wide external debt service ratio or the external vulnerability ratio, as indicated by the blank lines on the chart above.

Structural Robustness

Bermuda is an overseas territory of the UK, which has significant powers over the country, mostly through the power of the British Monarchy to appoint the Governor of Bermuda. As a British Overseas Territory, Bermuda's legal system is based on British Common Law. There is little appetite for independence among Bermudians, a feature that contains political risks. Elections were held in February 2025 and returned the incumbent Progressive Labor Party to office for a third consecutive term. There is broad agreement among two main political groupings, PLP and One Bermuda Alliance about the importance of fiscal responsibility, limiting policy risk, but the recent election does bode well for continuity in fiscal tightening. Income inequality and per capita income are high, common across many global financial centres. Low unemployment and favourable indicators of health and welfare (for example, life expectancy averages ~82 years) limit political risks as well. Policymaker commitment (and demonstrated ability) to strengthen employment prospects and focus on affordability for Bermudians contributes to political and social stability.

Rating Determinant 4: Structural Robustness (30%)	Equivalent Rating Range
Socio-Political Risk	AAA/AA
Security Risk	AAA/AA
Geostrategic Importance	AA/A
Systemic and Economic Risk	A/BBB
Per Capita GDP (PPP Basis)	AAA
Institutional Indicators	A
K-Sov Structural Robustness	AA

In terms of geostrategic importance, in KBRA's view, Bermuda's international financial niche role provides it with considerable importance to the global economy, especially to U.S. and UK firms with interests and activities on the island. Bermuda's standing as the third largest centre for reinsurance (3rd in the world) and its commercial relationships with those larger centres renders it important to the global financial system. Related, institutional indicators are strong, and range bound for its peer group. Strong institutions and a solid record on compliance contribute to the island's attractiveness as an international financial center. The UK's exit from the EU does pose risks related to its financial services sector, but such risks are believed to be moderated by the fact that Bermuda is treated as a third country by the bloc. In other words, negotiations are conducted



In KBRA's view, economic and systemic risk exists but are not outsized. Large-scale economic concentration in financial services, which directly accounts for over one-quarter of GDP and even more if considering linkages and spillover effects on the economy, make economic and systemic risk naturally high. However, this risk is offset by the longstanding health and attractiveness of the financial sector, which should allow it to continue to prosper. The key unknown remains the impact of Bermuda's CIT reform to be implemented next year as well as international CIT reform.

Regarding systemic risk stemming from the financial sector, KBRA notes that banking sector assets stand $\sim 4x$ GDP --outsized, relative to the economy. Still, KBRA views systemic risk from the banking sector to be contained. The aggregated CET 1 capital ratio exceeds the minimum requirement (7%) and stands at 26.8% as of Q1 2025. The Basel III leverage ratio is also higher than required (5%) at 7.6%. The main potential systemic risk from the banking sector derives from N.T. Butterfield Bank, the large locally-owned lender. However, KBRA rates the bank 'A+' based on its intrinsic credit strengths. The lack of independent monetary policy associated with the fixed exchange rate regime means that the government, not the BMA, functions as lender of last resort to the financial system. During the GFC, the government provided a guarantee to N.T. Butterfield Bank which was not exercised. KBRA considers the financial system to be well managed, regulated and supervised according to international best practices, with liquidity including HQLA and capitalization high, and non-performing loans (NPLs) heavily provisioned against. NPLs stand at 5.1% of the total loan book, reflecting the relatively high interest rate environment but also pandemic recovery.

Ease of Doing Business and Competitiveness rankings are absent in the data and our analysis of the Rating Sub-Determinant.

Step II: Peer Comparatives, Trends, Willingness to Pay

In Step II of the sovereign rating approach, KBRA evaluates peer comparisons, recent trends and outlook, and its evaluation of willingness to pay. KBRA believes Bermuda's peer comparisons place it well at the present rating level, especially considering the low government net debt (reflecting pension fund assets). Notwithstanding near-term global uncertainties, KBRA believes the main risks to Bermuda's outlook are structural, related to demographics, pension reform, employment growth and perhaps most importantly, CIT reform. Thus far, the impact of Brexit on Bermuda appears muted, which substantiates its resilience. Bermuda's heavy reliance on the U.S. for tourism and international services creates concentration risks. Sharply slower GDP growth in the U.S. or a hard landing, while unlikely at the current vantage point, in KBRA's opinion, could imperil Bermuda's planned fiscal surpluses (excluding CIT income). As such the impact of the tariffs on U.S. consumers is the main concern, rather than the direct impact of tariffs, with respect to the Bermudian economy. A slowdown in new investment projects already underway in 2024, leads to lower growth expectations. However, with IBS employment growth very robust and the reopening of the Fairmont Southampton, there should be a solid floor on growth. Moreover, a strengthening fiscal position allows for relaxing taxes, which is also growth positive.

Immigration and labor market reforms underway are also important to growth expectations for Bermuda. Accelerated immigration reform (2021) and streamlined work permit processes have gained increased momentum in recent years. The Economic Investment Resident Certificate (EIRC) program allows non-nationals to reside in Bermuda for 5 years with a \$2.5 million investment, upon which time s/he can apply for a resident certificate. As of December 2023, the benefit of this initiative was estimated at close to \$500 million to the island with 132 persons holding an EIRC. Also assisting this broader effort, in recent years the government has liberalized ownership requirements in some local industries, reducing the percentage ownership from 60% Bermudian to 40%, so long as the Board of Directors is 60% occupied by Bermudians. The government passed the Repatriation and Mixed Status Families Bill in April 2020, which facilitates such families taking up residency in Bermuda. Several years back (2018) it had allowed international law firms access to domicile in Bermuda, a move that helps stimulate employment. The Ministry of Economy and Labour just released policy guidelines on permissions to reside in Bermuda, clarifying the approach for temporary non-Bermudian students, for example, and partners of Bermudians, permanent residents and holders of work permits.

Fiscal Consolidation To Accelerate and Demographic Issues are Being Addressed

KBRA believes there is scope for overperformance on fiscal targets, given conservative estimates for CIT income, although uncertainty surrounds future developments. Already there was overperformance on the projected surplus for FY 2024/25 that ended March 31, with the original estimate a \$210,000 surplus versus a newer estimate of a \$19.7 million surplus. The fiscal surplus is programmed to rise to \$43 million in the current FY and to through 2026/27 when it will reach almost \$400 million, based on CIT that will climb from \$187.5 million to \$600 million over the period. CIT

was already flowing in as of August 2025. These surpluses are developing despite payroll tax reductions and rising government investment projects. Note, the new CIT will be somewhat offset by other tax reductions and qualified refundable tax credits still to be designed and approved. Unknowns persist on how CIT receipts develop. Also, KBRA notes that the introduction of the CIT potential increases volatility in revenues and is something the government will likely look to address. Importantly, a successful CIT would alleviate concerns KBRA has about employment creation given the new source of revenues.

The Tax Reform Commission has proposed a waterfall of how to earmark these windfall receipts according to priority. It's first priority is a Stability Fund of \$100 million that would afford greater fiscal flexibility to respond to shocks. Second is \$200 million of debt reduction. Social programs and employer payroll tax deductions follow. Already, however, the government is using its new fiscal surplus position pragmatically to help defray cost of living issues and increasing social spending. Measures include lowering customs duties and electricity taxes. As noted, it plans to retire a maturing debt instrument in January 2027.

Bermuda's worsening old age dependency ratio, significantly higher life expectancy (compared to when the programs were designed) and large unfunded liabilities has necessitated pension reform which is now underway. Public sector unions have agreed to lift the retirement age to 70 from 65, increase contributions, and restructure pension payouts for the PSSF, which will help improve the viability of the public pension system. This was facilitated by four year union pay agreement that lifts salaries. Similar measures are expected for CPF and work to reform that system which covers 14,000 Bermudians has already commenced.

Insurance and new niche industry boost prospects

Given the importance of (re)insurance to Bermuda, opportunities in this area are key to the economy's outlook. Rising weather and climate related disasters could increase demand for (re)insurance products and ILS. KBRA expects that Bermuda's strides in innovation and in exploring new industries, reflective of its responsive and adaptive business environment described in a KBRA report on the topic, will generate more robust growth over the longer-term, although we remain uncertain about the implications for employment creation and the fiscal impact. Niche expertise in fintech, regtech, and insurtech digital assets and other fields continues to flourish. Bermuda houses Ignite Bermuda, a tech accelerator that includes over 400 entrepreneurs. Bermuda has established itself as a center for alternative capital (cornering ~60% of the global market). Regarding ILS products, Bermuda covers about 90% of the market. It is positioned to maintain or even grow its share as the market for ILS expands. "Sandbox" initiatives, established in 2018, in both digital assets and (re)insurance assets, provide room for risk taking and innovation, activities that can contribute to increased dynamism. An energy regulatory sandbox is already leading to new technological development in that domain. Bermuda has been expanding its digital asset sector, although is proceeding with caution in expanding licenses, mindful of reputational risks from crypto. Medical tourism also seems a very viable newer focus on the island, and an MOU has been issued. A fintech strategy is going to be released soon, and also the BMA is in the process of refining a framework to support fintech. Google's selection of Bermuda as the location of its Nuvem line that positions it as a midatlantic hub for connectivity between Europe and the U.S. (Portugal and South Carolina) along with prospects for investment in data centers on the island is a long-term project that offers the promise of payoffs in terms of jobs and government revenues.

In 2024, net income for Bermuda's (re)insurers stood at \$27 billion according to the Association of Bermuda Insurers and Reinsurers (ABIR). This was lower than in 2023 (\$32.2) thanks to rising claims partly due to natural disasters and severe weather events. At the same time, ABIR's reinsurers experienced rising premiums and equity growth, however. Unknowns exist about the longer-term effects on insurers from the increased frequency and more deleterious impacts of severe weather events. While they tend to force pricing increases, they also constrain capacity. The BMA continues to integrate climate and sustainability into the regulatory frameworks for disclosures. Continued volatility in financial markets influences the financial portfolios of both Bermuda's financial services sector and the government large assets in pension funds, naturally, and something that KBRA monitors. Vulnerabilities are more muted for(re)insurance companies because they typically hold exposures to maturity. In terms of rising challenges, the BMA is cognizant of risks to the sector from private equity-owned insurance companies.



Macroeconomic Forecasts (2025-2028 average)						
Trends and Projections	Bermuda	Malaysia	Aruba	Poland	Chile	
GDP Growth	2.1	4.1	2.2	3.1	2.2	
Inflation	2.0	2.2	1.9	3.3	3.4	
Current Account Balance % GDP	15.0	1.8	8.9	-0.8	-2.5	
Government Revenues % GDP	15.2	19.0	24.3	44.1	25.1	
Government Balance % GDP	2.0	-3.4	1.2	-5.0	-1.1	
Government Primary Balance % GDP	3.2	-1.2	4.7	-2.4	-0.1	
Government Interest Payments % Revenues	8.0	12.1	14.2	6.0	4.0	
Government Gross Debt % Revenues	200.4	368.9	270.6	146.0	172.3	
Government Debt % GDP	29.7	70.1	65.7	64.4	43.3	

Sources: IMF and National sources

Comparative Statistics

Comparative Statistics					
2024 Data	Bermuda	Malaysia	Aruba	Poland	Chile
Gross Domestic Product (USD bn)	9.2	419.6	4.0	908.6	330.2
Nominal GDP Growth (%)	7.0	5.9	8.3	6.3	10.6
Real GDP Growth (%)	4.5	5.1	6.5	2.9	2.6
Consumer Price Inflation (%)	1.9	1.8	1.7	3.7	3.9
General Government Revenues % GDP	12.8	19.9	26.5	43.1	23.7
General Government Balance % GDP	-0.3	-4.0	4.5	-6.6	-2.7
General Government Gross Debt % GDP	35.9	70.4	74.4	55.3	42.0
General Government Gross Debt % Revenues	279.9	353.3	281.1	128.3	176.8
General Government Interest % Revenues	11.2	9.8	16.6	5.4	3.2
Current Account Balance % GDP	18.4	1.7	11.1	0.1	-1.5
ST BIS Liabilities/Assets	52.4	174	11	58	102
Total BIS Liabilities/Assets	119.9	304.84	22.95	165.44	215.11
Per Capita GDP (PPP) - USD (World Bank)	~100000	41,157	48,479	51,983	33,756
Average Institutional Indicators (KBRA Ranking)	Α	Α	AA	Α	Α
Human Development Index (Ranking)	-	62	-	34	42

Sources: IMF World Economic Outlook, IMF Fiscal Monitor, UN, World Bank, World Economic Forum, National sources.

FY data for Bermuda is end-March.

Finally, KBRA believes that Bermuda has a very high willingness to honour its debt obligations.

Step III: Local Currency vs. Foreign Currency Government Bond Ratings

KBRA has aligned the local and foreign sovereign ratings of Bermuda. In KBRA's opinion, the high level of dependency of the economy on IBS, lack of monetary independence, and reliance on external debt justify ratings alignment.

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how the sovereign plans for and manages relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in sovereign ratings can be found here. Over the medium-term, governments will need to prioritize ESG risk management and disclosure with the likelihood of expansions in global ESG-related regulations, including adherence to the commitments of the Paris Agreement, and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.



Environmental Factors

Bermuda has taken strong leadership in climate risk mitigation efforts and has developed a cohesive climate strategy. Numerous efforts to ensure for sustainability and resilience include management of extreme weather event risks. Advanced infrastructure, building codes that ensure for hurricane resilient structures, insurance on government buildings, responsible planning codes – even extending to underground transmission lines—are all examples of responsible climate action policy that goes far to improving the island's resilience to rising extreme weather risks. This is an iterative and informed process for Bermuda as it continues to identify ways to improve its resiliency. For example, it is further strengthening building codes to be proactive against challenges. Still, risks exist.

Regarding Bermuda's efforts to improve sustainability, including to reduce its carbon footprint and preserve its marine ecosystem, the country has made significant advances. The government established a Climate Action Task Force in 2021 that includes stakeholders across the spectrum. It often leads the delegation of overseas territories to COP conferences. most recently leading the delegation in COP 28 that involved a paper entitled, "The Bermuda Difference: Bringing Expertise, Resource and Finance to the World's Biggest Challenge. Bermuda's role in founding the Sargasso Sea Convention improves awareness and reaction function globally. A carbon trading platform is under discussion.

The government's plan for the economy to be 85% renewables dependent involves a series of measures including decarbonizing transportation systems and buildings and expanding the importance of solar and wind as energy sources. The economy is rapidly eliminating single use plastics. It has installed 15 MW of solar capacity on the island over the past three years to decrease the carbon footprint, which is very small in terms of global impact. Bermuda's role in finding solutions to See Level Rise (SLR) and severe weather events would not only help it insulate the Bermuda economy but could serve as a model to other countries with similar challenges.

In addition, with the help of UK funding, Bermuda has launched a climate change study with a goal to secure its long-term prosperity. It was recently released in two parts, Part I: Science and Physical Hazards, and Part II: Impacts and Societal Risk.

Bermuda's marine and ocean environment policy serves as an example of its generally focused approach to environmental risks and sustainability. Bermuda has the largest marine ocean research center in the world that collects data vital to oceanic risks. Its 'blue economy' goals are being advanced by a draft plan drawn in collaboration with the Waitt Institute that focuses on ocean and marine sustainability. These efforts are also vital to carbon reduction plans given the role marine life plays in carbon capture. Increasingly, Bermuda is being recognized internationally as a model in many of these efforts, and an inspiration for other economies, including for its work on regulatory sandboxes. Bermuda Ocean Prosperity Program has combined forces with Ignite Bermuda to foster an environment conducive to the development of eco-friendly technology, and more initiatives are expected to be forthcoming.

As an overseas territory of the UK, Bermuda adheres to the UK's goals on greenhouse gas emissions targets.

Bermuda is poised to play an important role in building resilience to climate risk

Bermuda's insurance sector is the global capital of natural catastrophe risk protection and is poised to play an important role in building resilience to climate related risks. Bermuda's sandbox initiative which helps cultivate innovative technology and financial innovation, has already born fruit on the climate action front, fostering a company that is working to harness the power of waves for energy production.

The collaborative relationship between government and business is instrumental to achieving ESG goals and taking advantage of ESG-related opportunities that could arise. The government's ESG strategy focuses on a key role for the Business Development Agency with is fully now an investment promotion agency to work in close collaboration with the private sector on establishing Bermuda as the world's climate risk finance capital. The government's clear and coherent strategy towards climate change and environmental risks assists this effort. In addition, Bermuda's established expertise in international financial services provides a solid platform for success on this front. KBRA expects that rising ESG risks could also improve the demand for insurance products, to the benefit of Bermuda.

Environmental risks appear manageable for insurance companies at present

More frequent weather/climate-related disasters have prompted large (re)insurance company payouts and KBRA monitors to the extent this becomes capital rather than earnings events. In KBRA's view, Bermuda's insurance companies are well capitalized and can withstand claims pressures should they intensify, although continued monitoring is essential in face of



what appears to be growing risks. Moreover, more frequent and/or severe episodes are likely to add to premiums. KBRA's Insurance ratings team has published research on the challenges and opportunities that ESG presents to insurance companies cited at the end of this report. Should weather and climate risks worsen to the extent that they more meaningfully impact the sector, KBRA expects this development could accelerate further merger and acquisition activity. Also, the Bermuda Monetary Authority (BMA) integrates sustainability goals and climate change risks into its regulatory framework for financial services, closely supervising this vital industry. The BMA also issues reports on climate risk.



Social Factors

KBRA focuses on social factor risk in terms of stakeholder preferences. Bermuda's progress on bolstering environmental sustainability has mitigated stakeholder risks, in KBRA's view. Its successful strategy in protecting the population from severe weather events when they occur lends to governance credibility.

Outside of environmental concerns, stakeholder risks from the population also emanate from the labor market. Policymakers are tasked with maximizing employment opportunities for Bermudians and managing immigration and net emigration of Bermudians, which adds to demographic pressures. The side effect of this policy framework adds to labor supply bottlenecks and has made it harder to meaningfully cut hefty payroll taxes. However, the budget for FY 2023/24 aggressively reformed and made the payroll tax system more progressive, and pension payouts have exceeded inflation since 2017. The new CIT could create greater affordability in Bermuda if the policy environment would involve a reduction in payroll taxes and other similar such tax measures. Strides to increase the supply of affordable housing and the mortgage guarantee program also assist affordability. An inaugural minimum wage of \$16.40/hr is a response to inflation and eroding purchasing power, and another way the government is trying to shield Bermudians from the high cost of living. The government is exploring areas to enhance immigration and retain Bermudians on the island, but improving affordability is essential.

A pension reform with the consultation of the unions is assisting the sustainability of the system, necessary given very adverse demographics on the island.



Governance Factors

Cybersecurity risks are a key area of focus for governance, and a risk that continues to rise with technological innovation. Bermuda's cybersecurity strategy is overseen by a Cybersecurity Governance Board and is under the authority of the Ministry of National Security. Its strategy incorporates the goals of increasing resilience to cybersecurity attacks, maintaining a policy environment that bolsters cybersecurity and thwarts cybercrime, and building upon collaborative international efforts in this regard. A National Computer Security Incident Response Team (CSIRT) is being established to support both private and public sector resilience to cyber threats. At the level of government, the Information Systems Risk Management Programme Policy requires the government to follow security policies that reduce risks for its accounts and those of economic agents in the country as well. Training to ensure for the right skills against cyber threats is part of the government's agenda. The Cybersecurity Act of 2024 establishes a framework for addressing cyber threats.

The cyberattack on the government of Bermuda in September 2023 indicates the rising risks of such events, but it has also served to illustrate the evolving ability to manage such risks and also has sparked an increase in preparedness for future events. Bermuda has also partnered with the International Telecommunication Union to build its resilience to cybersecurity threats,

Conclusion

Bermuda's ratings reflect its track record of fiscal responsibility, expectations for debt consolidation, and the government's very low net debt (net of international assets), as improving pension fund finances. Bermuda's regulatory environment fosters innovation and the creation of new industries and employment opportunities and is also key to the island's success as a hub for financial services. A new corporate income tax could add support for government finances and accelerated economic growth.

Dames de Datin de History						
Bermuda Ratings History Date Action Rating/Outlook/Watch Status						
31 Oct 2018	Assigned	LT Ratings: A+ (Stable) - ST Ratings: K1+				
4 Nov 2019	Affirmed	LT Ratings: A+ (Stable) - ST Ratings: K1+				
22 Oct 2020	Affirmed	LT Ratings: A+ (Negative) - ST Ratings: K1+				
7 Oct 2021	Affirmed	LT Ratings: A+ (Stable) - ST Ratings: K1+				
7 Oct 2022	Affirmed	LT Ratings: A+ (Stable) - ST Ratings: K1+				
6 Oct 2023	Affirmed	LT Ratings: A+ (Stable) - ST Ratings: K1+				
4 Oct 2024	Affirmed	LT Ratings: A+ (Stable) - ST Ratings: K1+				

Disclosures

3 Oct 2025

Further disclosures relating to this rating action are available in the <u>Information Disclosure Form</u>. Additional information regarding KBRA policies, methodologies, rating scales and disclosures are available at <u>www.kbra.com</u>.

LT Ratings: A+ (Stable) - ST Ratings: K1+

The ratings of Bermuda are unsolicited ratings. The rated entity or related third party did participate in the rating process and KBRA did not have access to the accounts and other relevant internal documents.

Related Publications: (available at www.kbra.com)

- What Could Possibly Go Wrong? Front Market Changes Overnight
- Innovation to Foster Growth of Bermuda's (Re) Insurance Market Despite Headwinds

Affirmed

- Climate Change Challenges Life Insurers' Mortality Assumptions
- Florida Insurers Facing Storms on Many Fronts
- Balancing ESG Priorities Never More Challenging for Insurers

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