

CREDIT ANALYSIS

Botswana, Government of

Botswana

Table of Contents:

SUMMARY RATING RATIONALE	1
Factor 1: Economic Strength – Moderate	2
Factor 2: Institutional Strength – High	7
Factor 3: Government Financial Strength – High	9
Factor 4: Susceptibility to Event Risk – High	14
RATING HISTORY	17
SOVEREIGN MECHANICS: BOTSWANA	18
ANNUAL STATISTICS	19
MOODY'S RELATED RESEARCH	21

Analyst Contacts:

LONDON +44.20.7772.5454

Aurelien Mali +44.20.7772.5567
Vice President - Senior Analyst
aurelien.mali@moodys.com

Yves Lemay +44.20.7772.5512
Managing Director - Banking
yves.lemay@moodys.com

NEW YORK +1.212.553.1653

Kristin Lindow +1.212.553.3896
Senior Vice President
kristin.lindow@moodys.com

Bart Oosterveld +1.212.553.7914
Managing Director - Sovereign Risk
bart.oosterveld@moodys.com

Botswana

	Foreign Currency	Local Currency
Government Bond Rating	A2/STA	A2/STA
Country Ceiling	Aa3	Aa3
Bank Deposit Ceiling	A2	Aa3

[Moody's sovereign rating list](#)

Summary Rating Rationale

Our most recent action on Botswana A2 government bond ratings took place in November 2011, when we changed the ratings outlook to stable from negative. This decision primarily reflected the continuous improvement in the government's fiscal position as a result of the faster-than-expected implementation of the country's fiscal consolidation plan. Although Botswana's credit fundamentals have deteriorated over the past four years, the authorities' response to the global financial crisis has been consistently effective, as reflected by the projected likelihood of a 2012-13 fiscal surplus, up from a low point of -12.2% of GDP in 2009. This will have been achieved without entirely depleting the sovereign wealth fund or recording excessive levels of debt (estimated to reach 17.8% of GDP by the end of 2012). As a result, the government has remained a large net creditor (still around 40% of GDP).

Our assessment of Botswana's economic strength as 'moderate' reflects weaknesses, such as the country's middle-income status and the small size of its economy, as well as strengths such as the sound policy framework and strong government effectiveness.

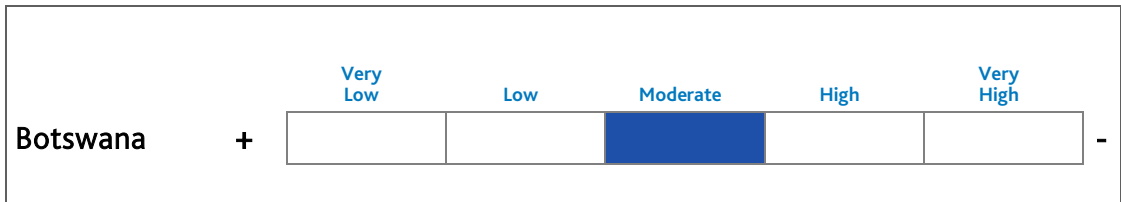
In our view, Botswana's institutional strength is 'high', reflecting its overall institutional framework, strong governance and successful implementation of forward-looking policies, which have ensured a strong government balance sheet and supported the government's A2 ratings.

Botswana's government financial strength is very high, reflecting a combination of debt affordability, access to resources and prudent fiscal policies. Unlike many other resource-rich countries in the developing world, Botswana's government has managed income from its diamond mines with a view to promoting long-term economic and social development. In our view, the government has accomplished this while registering almost uninterrupted fiscal surpluses up until the start of the global financial crisis, and building a substantial financial cushion for use during periods when government revenues are insufficient to cover ongoing government expenses.

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

We consider Botswana's susceptibility to event risk as 'low' based on an assessment of (1) the receding risks posed by regional problems; and (2) the low likelihood that the high incidence of HIV/AIDS and the persistently high levels of poverty and unemployment will generate significant downward pressure on the government's ratings.

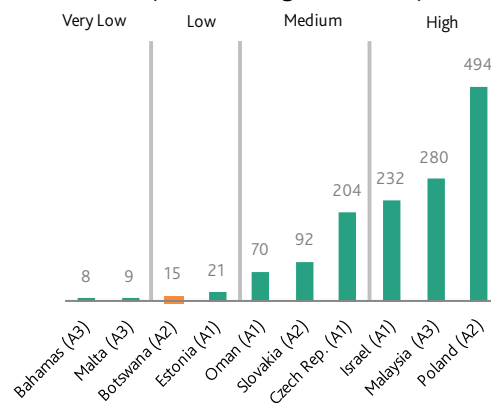
Factor 1: Economic Strength – Moderate



We score Botswana's economic strength as 'moderate', a ranking shared by countries including Bulgaria (Baa2), Chile (Aa3), Croatia (Baa3 negative), Mauritius (Baa1) and Thailand (Baa1). Botswana is a commodity-rich¹ middle-income country, which is slightly larger geographically than either Spain or Thailand, and slightly smaller than France.

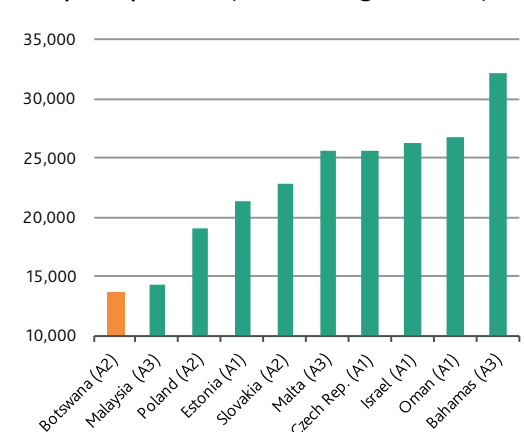
Botswana has a population of two million inhabitants and a relatively small economy, which is heavily reliant on the diamond industry and has an expected GDP figure of around \$16 billion in 2012. With a GDP per capita on a purchasing power parity (PPP) basis of around \$14,750, the country is at the upper end of our 'moderate' category in terms of economic strength. Botswana is very likely to remain within this moderate category for the foreseeable future given that we do not expect the country's long-term economic strength to change significantly in either direction, on the back of the levelling-off in diamond output (although there will be some expansion in non-mining sectors) and the relatively low population growth.

EXHIBIT 1
Nominal GDP (US\$, Average 2010-12F)



Source: Moody's

EXHIBIT 2
GDP per capita PPP (US\$, Average 2007-11)



Source: Moody's

¹ Botswana benefits from natural resources other than diamonds, such as copper, nickel, gold, salt, soda ash, silver, uranium, manganese, coal, and iron ore, some of which have not yet been exploited.

Diamond sector to remain a key sector in Botswana...

Botswana is one of the leading producers of diamonds both in carats and value. The diamond sector represents approximately one fourth of total value added, and an average of 73% of exports of goods over the past decade. Although global production has been on a downward trend for the past few years, we expect that global production will stabilise at around 110 million carats at the end of 2012, from 125 million carats in 2007.

Given the downward production trend, Debswana, which is a 50/50 joint venture between De Beers and the government, is significantly investing in the country to extend the operational life of the mines by at least seven years. The "cut 8" project implies a \$3.5 billion investment over the next few years. The mammoth project involves stripping away 713 million tonnes of waste between 2010-16. The company expects to add a minimum of 100 million carats to its production, i.e., an output worth at least \$15 billion. It is also highly probable that there will be a "cut 9" investment in the future. As such, Botswana's annual production (estimated at around 21 million carats in 2012) could relatively easily revert to 27 and 29 million carat levels for more than 20 years if markets conditions are favourable.

It should be noted that this does not include the millions of carats still present in the waste material produced by mining operations. There are plans to recover diamonds from the waste that was produced during the earlier exploitation of the mines between 1960-80, when the technology used was unsophisticated. According to Debswana, tens of millions of carats can be found in this waste. As far as production capability is concerned, there is also a \$500 million infrastructure and plant upgrade project at the Jwaneng mine that was completed in September this year. The expansion enables the removal of overburden to allow the mine to access 91 million tonnes of ore, which is expected to yield 102 million carats of diamonds and extend the life of the mine until at least 2025.

In addition to Debswana, fully private companies now operate diamond mines in Botswana, which is a promising development. In particular, the Karowe mine operated by Lucara Diamonds began operations in April this year, with potential resources of high-value diamonds estimated to be worth at least 11 million carats. Gem Diamonds, Botswana's mine production facility, is currently planned for early 2014. Botswana Diamonds, a London-listed firm, announced encouraging prospective results in the Orapa region in October, while Petra Diamonds has announced positive prospective results from the further Kukama East area in central Botswana.

...as prospects for the diamond sector remain favourable...

Prospects for the diamond sector remain favourable as the new 10-year sales agreement with De Beers last year aims to bring more value-added operations to Botswana. The previous agreement expired in December 2010 and the process to renew this agreement was long and problematic. The new agreement will run for 10 years instead of the previous five. Most of Debswana's diamonds will still be marketed through the Diamond Trading Company (DTC), which is De Beers' trading arm, but the percentage marketed will no longer be 100% as was the case previously. A small share of Debswana's production will be made available for sale outside of the DTC (initially 10%, rising to 15% by 2015), and the government is currently setting up a new trading body to market this portion. Part of DTC's London operations will be transferred to Gaborone by the end of 2013, thereby ending a long-standing arrangement for such sales to take place in London. The transfer of the sorting operations from De Beers started this August in Gaborone, two months earlier than planned. This is the first step in the process of relocating all of its sights and sales operations including professionals, equipment and

technology. DTC will also continue to support Botswana's domestic cutting operations by ensuring adequate diamond supplies (\$800 million a year from the current \$550).

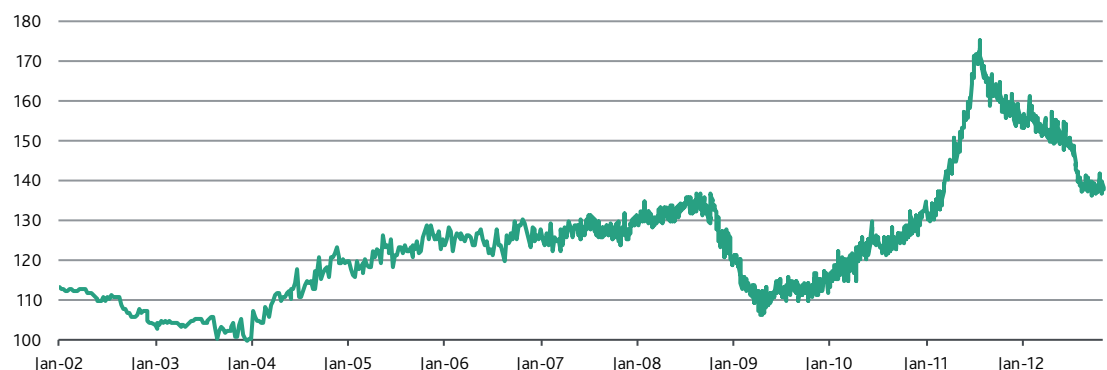
The relocation of DTC's activities to Botswana will lead to Gaborone becoming the centre for sales of all De Beers' production, from its own mines and joint venture mines in Canada, South Africa and Namibia, as well as Botswana. This will directly lead to additional economic activity in Botswana, additional tax revenue and more jobs as some personnel will be transferred from London to Gaborone, as well as direct or indirect employment created through positive externalities. In addition, the establishment of an independent marketing channel for the government may also attract the selling of diamonds from other countries outside of the De Beers group. Botswana will become one of the global hubs for diamonds with an expected \$6 billion worth of diamonds flowing through the country annually. The fact that the Oppenheimer family sold its 40% stake in De Beers to Anglo American plc, which now owns 85% of the company, does not change the importance of Debswana within the organisation. From a decision-making perspective, De Beers should be even more effective.

...despite recent price upswings

Botswana was severely affected by the 2009 global crisis, which had a negative effect on the luxury goods sector, and in particular diamonds. Prices fell by 14% between November 2008 and April 2009. However, diamond prices recovered strongly in 2010 and over the first seven months of 2011, before again declining gradually. The diamond market softened in the latter part of that year, a trend which continued into 2012 as shown in Exhibit 3. High stock levels, liquidity constraints, continued euro area concerns, a weaker rupee in India and softer demand from China have contributed to lower global demand, with prices declining by 10% year-to-date. Nevertheless, we expect that this volatility will be transient as diamond prices remain above pre-crisis levels. According to De Beers, new demand elsewhere, especially in India and China, is likely to compensate for any pressures stemming from the risk of a global slowdown, with the US remaining the biggest market. Moreover, as most competitors operate mines with tight margins, they are likely to close if the market becomes too difficult, which will make Debswana even more dominant. With global production declining, Botswana's revenue will increase alongside its share of global production.

EXHIBIT 3

Overall Diamond Price



Source: Bloomberg

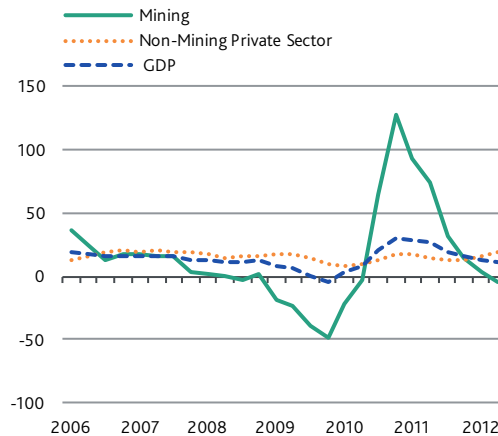
Due to the price movements noted above and illustrated in Exhibit 3, Botswana's balance-of-payments experienced a deficit of 3% of GDP in 2009, in contrast with large surpluses that averaged at 13% in 2004-08. With the strong recovery of the diamond industry in the following years, Botswana's balance-of-payments quickly returned to surpluses, albeit at lower levels than previously experienced. Despite the gradual decline in diamond prices since late 2011, we expect the current account to remain in surplus, reaching 3.8% and 3.7% of GDP in 2012 and 2013, respectively. The growing importance of imports requires closer analysis, since it is mainly the result of large projects that the country is completing, such as the Moropule power station. In addition, diamond imports are growing as the diversification initiative in cutting and polishing stones is developing. Equipment for the "Cut 8" project will also add pressure on imports. All in all, as Botswana's economy is growing relative to diamond production and its diversification strategy is taking hold, we believe that future current account surpluses are likely to be lower than in the past.

Current development in the non-mining sector is positive...

Exhibits 4 and 5 show the evolution of Botswana's nominal and real GDP. It is worth noting that real growth in non-mining GDP has been positive, even during the global crisis. We expect real GDP growth to be close to 7% in 2012 and 2013. Inflation was stable in 2011 at around 8.5%, compared with 2010, and is expected to decrease in 2012 by 1% on average. Although downside risks – mainly from exogenous factors – remain present (particularly the crisis in Europe) and could potentially lead to a further global slowdown, we do not consider another collapse in global demand for luxury goods, above all diamonds, to be likely. Although global growth is forecast to slow down, it is not projected to contract. More importantly, the impact on government finance is likely to be much smaller in view of the scheduled completion next year of the large infrastructure project that has been weighing on the country's deficits.

EXHIBIT 4

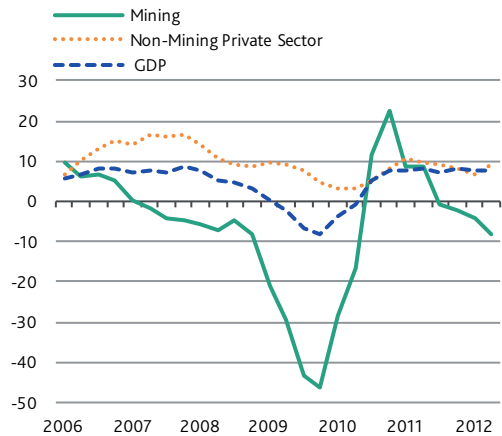
Annual Nominal GDP Growth (%change)



Source: Botswana CSO

EXHIBIT 5

Annual Real GDP Growth (%change)



Source: Botswana CSO

Botswana's Central Statistics Office (CSO) revised its GDP estimates in late 2012. The revision highlights a greater weight being attributed to the non-mining sector, especially in the manufacturing and service sectors. Over the short term, the non-mining sector is expected to support real growth in Botswana. For example, the manufacturing sector grew by 5.5% in H1 2012 compared with the same period a year ago in real terms, transport and communication by 13%, and the construction sector by almost 22%.

... but economic diversification remains a major objective

The global financial crisis exposed the extent of the vulnerability of Botswana's economy because of its reliance on mining, and has made the goal of diversifying the economy – a long-standing government target through successive six-year development plans – more important than ever. In 2011, private-sector non-mining activities accounted for 44% of GDP, while the mining sector accounted for 23.7%. The latter averaged 29% over the decade, except during 2009 given that a few mines were closed that year.

Diversifying the economy is always difficult to achieve for a commodity exporter country. For Botswana, it is especially complicated since its private sector is heavily dependent on government spending at a time when the public sector has to retrench. To support this goal, the government recently created a number of economic hubs or centres of excellence.

As part of the Economic Diversification Drive (EDD), the authorities' strategy is to improve the favourable business environment for the private sector, including the promotion of the SMME (Small, Medium and Micro-Enterprises). Notably, in late 2011, Botswana created a review of the regulatory framework called 'National Committee on Doing Business'. In addition, the authorities are promoting priority subsectors. Another focus of the government is to develop services such as education, ICT/innovation and especially tourism, which accounts for 11% of GDP and is considered to be the second key national asset.

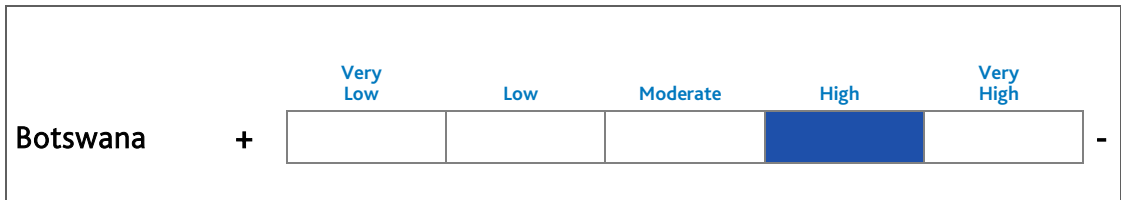
Moreover, Botswana will leverage its reputation as a mining jurisdiction that is characterised by transparency and the rule of law to exploit other mineral resources such as copper, coal, nickel, silver, gold and uranium. The authorities are developing a strategy to better manage the country's natural resources, which includes finding solutions to the country's infrastructure challenges such as its land-locked status.

For example, coal reserves are estimated to be in excess of 200 billion tonnes and the largest reserves in the African continent. The authorities devised a Coal Roadmap, a strategic plan to plot the development of the sector through 2018. It focuses on increasing production to support the extension of the Botswana power grid, as well as developing the sector towards exports. To that end, early this year the authorities lifted a moratorium on applications for coal licenses that was put in place in June 2011, amid concerns they were being acquired largely for speculative purposes. The aim is to introduce a more formal process of regular tenders that involves closely monitoring applicants' ability to develop prospects. In order to reach the ocean, a Trans-Kalahari railroad through Namibia is under consideration as well as another route through Mozambique. Several large mining projects in the north-west of Botswana could speed up the implementation of such plans. The government expects this sector to develop rapidly as reflected by the plans of African Energy Resources, an Australian listed company, to commence production at a coal mine, with a targeted 5 million tonnes to be excavated per year and exported.

We also note the positive developments in copper production during 2012. Discovery Metals Limited (DML) began copper production in early 2012, while development of the underground pit at the Zeta Ne mine is still at the planning stage with potential copper production of 50,000 metric tonnes/year. Hana mining is planning the development of a copper-silver mine, potentially one of Africa's premier future copper-silver resources.

The severity of the current global financial crisis could actually be a catalyst for the modernisation and diversification of the local economy by withdrawing some of the overwhelming influence of the public sector. However, this assumes that (1) the government will have adequate political support to move forward with downsizing-related spending until the end of the national development plan (NDP11) in 2022; and (2) a strong non-diamond sector grows sufficiently to support the economy's future growth.

Factor 2: Institutional Strength – High

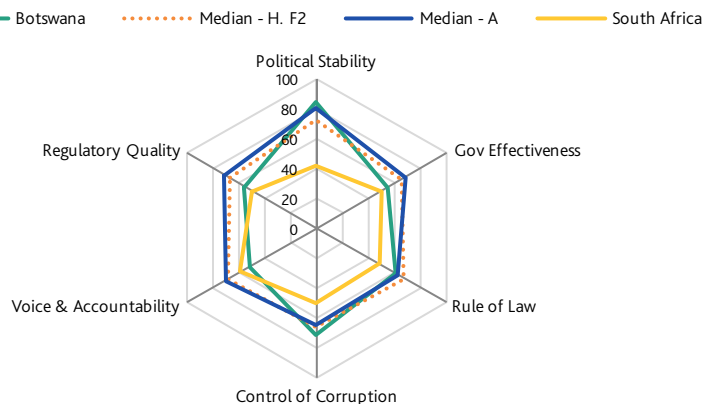


Moody's assesses Botswana's institutional strength as 'high', a ranking shared by countries including the Bahamas (A3), Czech Republic (A1), Mexico (Baa1), Taiwan (Aa3) and Trinidad & Tobago (Baa1). Botswana's 'high' score is based on its political stability, policy predictability, strong governance and successful implementation of forward-looking policies. Its institutional strengths are reflected in its highly ranked government effectiveness on the World Bank's index (see Exhibit 6), its relatively good transparency (despite still-weak statistical timeliness and accuracy) and the established rule of law.

The relative success of Botswana's government can also be measured by its rapid development over the past 46 years since independence (i.e., from a poverty-stricken, aid-dependent country to an upper middle-income country). The government is now a significant net creditor thanks largely to the careful management of its natural resource-based income. This is also substantiated by expansion in social and physical infrastructure, education, average wealth, institutional capacity within government and increasingly also in the private sector, as well as the significant expansion in transport, communications and utilities networks.

EXHIBIT 6

Institutional Quality



Source: World Bank Governance Indicators

The improved level of infrastructure provides clear evidence of the success of Botswana's development strategy over a relatively short period of time, although much remains to be accomplished. For example, the country expanded its road network from just 6 kilometres of paved roads at the time of its independence in 1966 to some 20,000 kilometres today, which provide access to almost the entire country. Another indicator is the level of literacy (81%) achieved through the provision of universal education up to the junior secondary level.

Cautious economic policy has supported the accumulation of financial assets

Over the past decade, Botswana's economic authorities have put in place a set of fiscal rules that have supported healthy budget positions on a nearly uninterrupted basis and the accumulation of substantial government financial assets. These policies are unusually refined for a developing country and reflect the high degree of political consensus regarding policy, which is best illustrated by the absence of political divisions that characterise most other African nations. These factors explain why the government has been able to accrue a positive net financial assets² position that is slightly in excess of 70% of GDP at its peak, and is expected to be around 40% of GDP at the end of 2012. This is even more impressive when taking into account the existing needs for greater social care (poverty and income inequality) and health care (HIV/AIDS treatment). This prudence has allowed the government to accumulate a cushion large enough to smooth over the necessary adjustments and provide the authorities with time to implement long-term policies. Another example of strong governance is the country's implementation of its national development plans (NDP). Although such plans reflect 'old style' development economics, they are very similar to the medium-term fiscal plans that are popular among developed and developing countries alike.

Political stability allows for policy predictability and continuity

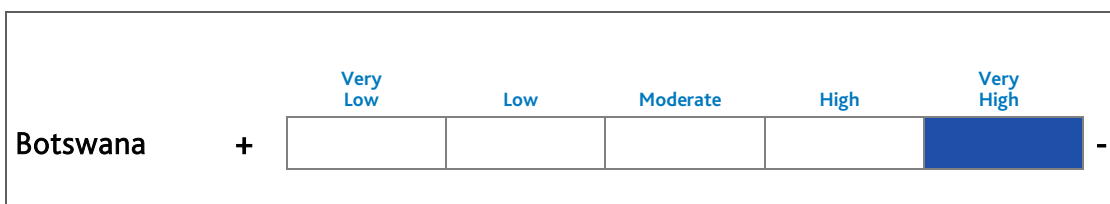
Longstanding political stability in Botswana has allowed for policy continuity and predictability, both of which are important in assessing institutional strength. This is an important aspect that explains the unity of purpose when it comes to devising policy. Indeed, only one political party – the Botswana Democratic Party (BDP) – has led the government since independence. Under the constitution, the president is elected by the national assembly and is not allowed to serve more than two five-year terms. Although Botswana has a multi-party system, the parliament has always been controlled by the BDP and as such, only BDP leaders have ever been president. The 2009 elections allowed the BDP to extend its majority, giving the government and President Khama a strong mandate to implement NDP10 reforms.

Response to the HIV/AIDS crisis also reflects high institutional strength

Botswana is often singled out for its proactive public-sector response to the HIV/AIDS crisis. From a relatively early stage at the beginning of this century, the government enacted the comprehensive and free provision of anti-retroviral medicines to HIV-positive citizens, as well as providing pregnant women with the drugs they needed in order to avoid passing on the virus to their new-born children at birth. Although the rollout of the program and the initial take-up of the treatments were rather slow, they are now widely hailed as a major success in lengthening the lives of such individuals. Given the enormous cost of the illness in terms of reducing life expectancy and seriously eroding the population growth rate, the government's actions are another sign of its relatively high institutional maturity.

² Calculated as gross government financial assets minus direct financial liabilities of the government.

Factor 3: Government Financial Strength – High



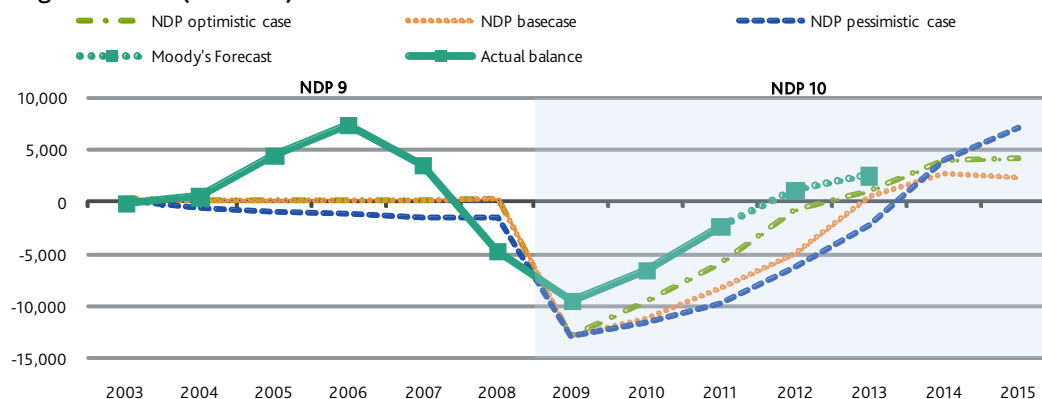
Moody's scores Botswana's government financial strength as 'very high', a ranking shared by countries including Azerbaijan (Baa3), China (Aa3), Cayman Islands (Aa3), and Kuwait (Aa2). The government's financial strength is derived from a combination of debt affordability and access to resources and represents the most important driver supporting Botswana's A2 ratings.

'Very high' government financial strength is supported by a track record of prudent fiscal policies

The anchoring of the budget process in the National Development Plan (NDP) is positive given that each six-year plan comprehensively defines key economic policies and objectives. This framework also defines fiscal rules to be followed over the applicable period, such as the fiscal rules on the total size of spending to GDP, the ratio between recurrent and development spending, and the use of mining revenues solely for investment (including recurrent expenditure on education, training and health). Botswana built up a track record of fiscal discipline and compliance with NDPs. Exhibit 7 shows the deficit scenarios that are included in the NDP9 and NDP10 and the realised budget balances. In both cases, Botswana performed better than expected, even under the optimistic scenario. The 2010-11 deficit was budgeted at -12% of GDP, mainly the result of the decision to complete important infrastructure projects. However, this deficit was reduced more rapidly than expected and ended up at -6.25% of GDP.³ In 2011-12, the deficit was 2.1% of GDP, which is a better fiscal outturn than the -6.3% of GDP that was originally budgeted, mainly driven by better revenue collection and significant under-spending. The 2012-13 budget expects a 0.9% of GDP surplus with a continued focus on high-priority projects and expenditure restraints. The successful achievement of this large fiscal consolidation is commendable.

EXHIBIT 7

Budget Balance (Pula mn) - NDP Forecasts Vs. Actual



*Fiscal years end March 31st. As such, e.g., 2003 refers to fiscal year 2003/04 in Botswana's NDP Plan.

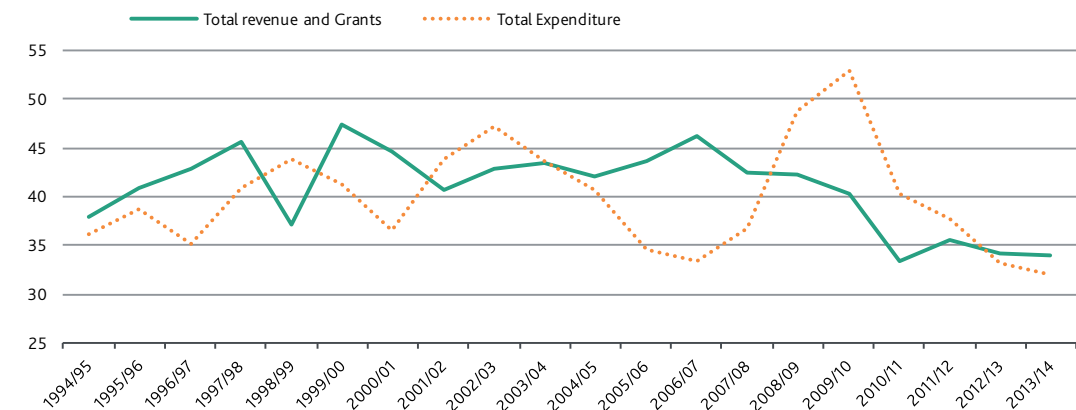
Source: Botswana Ministry of Finance, NDP 9 / NDP10

³ Based on GDP estimates using 1993/94 base for ease of comparison

The authorities are currently following the guidelines set out in the Tenth National Development Plan (NDP10: 2009-10, 2015-16), and adopted in 2009, which tried to address the economy's acute dependence on the diamond sector and the structural fiscal deficit that would be unsustainable unless spending is reduced. This plan included a reduction of government spending to 30% of GDP at the end of the period, down from a peak in 2009, at 53% of GDP after the rebasing of GDP in October 2012. Currently, expenditure-to-GDP is expected to reach 33% at the end of the current fiscal year. The final objective is to reach 25% of GDP during NDP11, which would be in line with expected trends in government revenue.

The authorities' dedication to this objective is illustrated by their uncompromising stance to the civil servants' strike in 2011. The dispute resulted in a wage increase of only 3%, far below the 16% demanded as the government remained committed to fiscal consolidation. Not only was a "no work no pay" policy adopted, but it was not reversed following the conclusion of the strike. In terms of wage negotiations, especially in difficult times, Botswana compares favourably with its neighbouring countries, including South Africa (Baa1 negative). The consistency of Botswana's leadership has been a key driver of the credibility and sustainability of country's efforts to return to a sustainable fiscal position.

EXHIBIT 8

Evolution of Revenue & Expenditure (% of GDP)

Source: Moody's

Gradual reduction of government size further highlights the need to diversify revenue sources

As a corollary to the downward trend in fiscal revenue from the diamond sector, the share of SACU⁴ receipts is growing in importance (See Box on SACU Revenue Agreement). Indeed, SACU receipts represented more than 22% of 2011-12 revenues, up from 13.6% in 2001-02, whereas mineral revenue⁵ decreased from 55% to 41.6% over the same period (see Exhibit 9). The current concentration of revenue within two main sources (the diamond sector and SACU receipts) represents a potential vulnerability in Botswana's fiscal balance, especially given the recent upswing in diamond prices and volatility in SACU revenues.⁶ Therefore, the NDP10 naturally put pressure on promoting the private sector and the diversification of the economy so as to strengthen non-mineral revenues. In

⁴ Southern African Custom Union

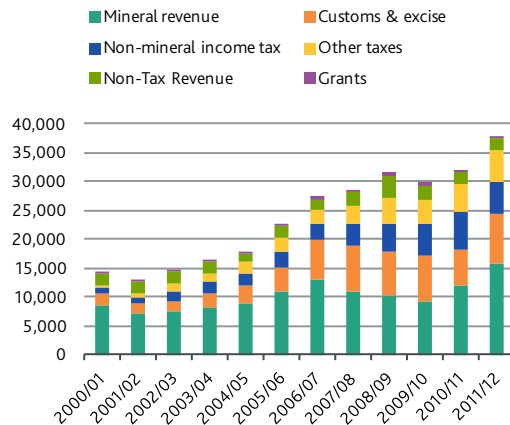
⁵ Mineral royalties and dividends are included under Mineral tax

⁶ Botswana's shares of SACU revenue were Botswana pula (BWP) 9.16 billion, or 30% of revenue in 2009-10; BWP5.65 billion, or 17% of revenue in 2010-11; and BWP8.95 billion, or 23% of estimated GDP in 2011-12.

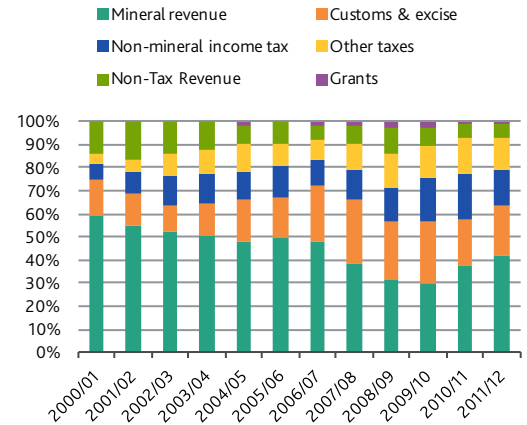
addition, the government is looking at improving tax collection and efficiency through greater transparency (supported by e-government) and simplicity (via a reduction of exemptions).

EXHIBIT 9

Botswana Government Revenue & Grants (BWP mn)



Botswana Government Revenue & Grants (% of Total Revenue & Grants)



Source: Bank of Botswana

SACU Revenue-Sharing Arrangement

SACU is made up of the members of the Common Monetary Union (i.e., Lesotho, Namibia, South Africa and Swaziland) and Botswana. The economic structure of the custom union links the Member States by a single tariff and no customs duties between them. The Member States form a single customs territory in which tariffs and other barriers are eliminated on almost all the trade between the Member States for products originating in these countries. There is a common external tariff that applies to non-SACU members.

All proceeds of customs duties and duties on excisable goods produced within SACU are pooled into a Common Revenue Pool (CRP), which is currently managed by South Africa and then shared among the countries according to a Revenue Sharing Formula (RSF). South Africa generates about 80%-90% of the revenue of the SACU pool, as illustrated by Exhibit 10, and the existing rule makes the other members' receipts heavily dependent on South Africa's GDP projections.

In addition, like other SACU members, Botswana faces the risk of a gradual decline in SACU revenue over the medium term, notwithstanding any potential further slowdown in global economic activity, which would affect the SACU revenue pool. This is based on two structural features affecting the members: (1) a reduction in the common external tariff rates as a result of trade liberalisation; and (2) the creation of the Southern African Development Community (SADC) customs union. Finally, the current proposal by the SACU secretariat for a new revenue-sharing formula would potentially lead to a further decline of transfers to Botswana.

Ongoing discussions and issues regarding the review of the Revenue-Sharing Formula

In addition, in early 2010, SACU members launched a project to reform the Revenue-Sharing Framework. Although this is still being negotiated, we consider it likely that Botswana may face a potential cut in its share from the SACU pool. This potential risk is mitigated by the following factors: (1) the sustainability of the SACU arrangement is still in the best interest of South Africa, which is committed to keeping the SACU alive, given that the development of neighbouring countries is in its interest; (2) a transition to a new Revenue-Sharing Framework is expected to be timely and gradual. In addition, a smoothing function is likely to be put in place to avoid the current pro-cyclicality that the current Revenue-Sharing Formula implies. Moreover, (3) Botswana's very strong revenue over the past two years, further to the continued development of trade, may make the nominal decrease in its share of pooled revenue acceptable.

EXHIBIT 10

Intra-SACU Trade for the period 2008/09 Fiscal Year (SAR mn)

		Botswana import	Lesotho import	Namibia import	South Africa import	Swaziland import	Total	Nominal GDP (Average 2008-11, US\$ bn)
Botswana	Export	-	8	162	2,585	5	2,760	14.4
	% of intra-SACU	-	0.01	0.17	2.74	0.01	-	-
Lesotho	Export	0	-	0	2,134	7	2,141	2.0
	% of intra-SACU	0.01	-	0.01	0.01	0.01	-	-
Namibia	Export	204	8	-	4,244	32	4,488	10.4
	% of intra-SACU	0.01	0.01	-	0.01	0.01	-	-
South Africa	Export	31,676	10,197	26,286	-	10,770	78,930	332.6
	% of intra-SACU	0.01	0.01	0.01	-	0.01	-	-
Swaziland	Export	18	32	100	5,846	-	5,996	3.4
	% of intra-SACU	0.01	0.01	0.01	0.01	-	-	-
Total		31,898	10,245	26,548	14,809	10,814	94,315	-

Trends in Member States' Revenue Shares (SAR bn)

		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	SACU Receipts / Gov Revenue (%, Average)
Botswana	Revenue Shares	4,008	5,549	8,330	9,473	9,167	7,115	24.2
	% of the CRP	16.0	16.4	19.1	17.8	17.6	16.9	-
Lesotho	Revenue Shares	1,984	2,784	3,822	4,901	4,918	2,908	51.1
	% of the CRP	7.9	8.2	8.8	9.2	9.5	6.9	-
Namibia	Revenue Shares	3,228	5,394	6,015	8,502	8,585	6,447	35.2
	% of the CRP	12.9	15.9	13.8	16.0	16.5	15.3	-
South Africa	Revenue Shares	13,027	16,478	20,796	24,264	24,125	22,651	4.2
	% of the CRP	52.0	48.7	47.7	45.7	46.4	53.8	-
Swaziland	Revenue Shares	2,795	3,654	4,591	6,009	5,189	2,956	56.8
	% of the CRP	11.2	10.8	10.5	11.3	10.0	7.0	-
CRP		25,042	33,859	43,554	53,149	51,984	42,077	-

Source: SACU Annual Report 2010/11, IMF

The gradual change in public-sector weight is to preserve a positive net financial position

Barring a global recession similar to that of 2009, the most plausible scenario is a slow replenishment of the pula fund given that fiscal surpluses are likely to be lower than in the past as the economy continues to expand. This scenario also assumes the successful retrenchment of the government at the end of NDP 2011.

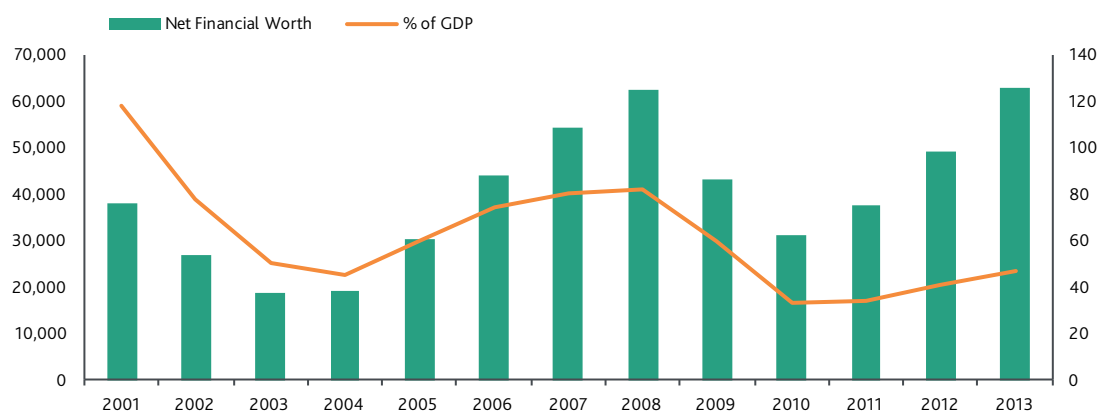
The government financial assets comprise (1) the Pula Fund holding (sovereign wealth fund invested abroad in foreign currency); and (2) a liquidity portfolio that is replenished/drawn down with transfers to/from the Pula Fund in order to keep liquidity equivalent to at least three months' worth of imports. In addition, government deposits at the central bank that are counterpart to some government foreign assets amounted to BWP20.6 billion, or 17% of GDP at the end of August 2012. Foreign-currency reserves amounted to BWP59.5 billion, or 49% of GDP.

As a result of Botswana's quicker-than-anticipated fiscal consolidation, general government debt is expected to reach 17.8% of GDP this fiscal year, which is a much lower level than the previously envisaged 25%. The cost of debt is likely to remain very low for the foreseeable future as the bulk of debt consists of the loan from the African Development Bank (AfDB). This 2009 loan was made on concessional terms (Libor +20 bps for 20 years with five years' grace). Debt affordability, measured as government interest payment to its revenue, although slightly increasing, remains relatively low at less than 4%. Government guarantees stood at BWP5.2 billion at the end of March 2012, or 4.3% of GDP.

Botswana's current net financial asset position hovers at around 40% of GDP, which offers a sizeable cushion in case of shocks. Given the medium-term fiscal trend and the government's track record, we expect a gradual reconstitution of its fiscal reserves that were effectively drawn upon during the crisis. We note that, in addition to its financial assets, the government could potentially mobilise resources through the privatisation of some "real" assets, in particular Botswana Telecommunication Corporation (BTC) if necessary.

EXHIBIT 11

Net Financial Assets



Source: Bank of Botswana, IMF, Moody's

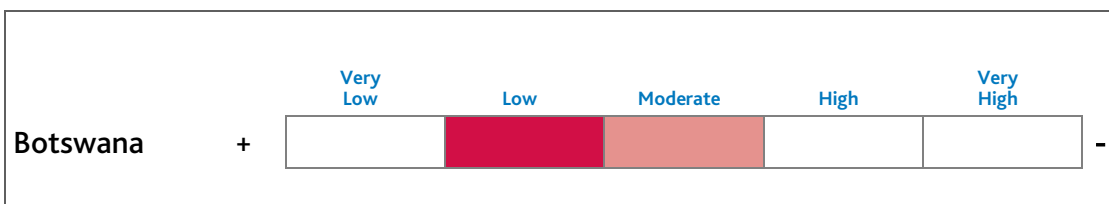
Access to domestic financing pool alleviates refinancing risks

The government also has access to a deep domestic market with the active participation of banks and pensions funds.

Firstly, the significant excess liquidity in the banking system has allowed the central bank to issue short-term instruments, called Bank of Botswana Certificates or “BoBCs”, for many years in order to mop up liquidity. Following the recent change in the Bank of Botswana’s liquidity policy (see last section on Factor 4 – Susceptibility to Event Risk), short-term government bonds benefited from renewed attention as they represent a perfect substitute, if necessary. The holding of T-bills by commercial banks more than doubled to reach BWP404.9 million by the end of August 2012, from BWP198.5 million at the start of the year.

Secondly, private pension funds naturally seek longer-dated government bonds for asset/liability matching. At the end of August 2012, the sector’s total assets had reached BWP44.6 billion or 36.7% of GDP, with 50.5% of this invested offshore. By law, private pension funds cannot invest more than 70% of their assets outside of the country. Pension funds already hold some government bonds worth an estimated BWP6 billion at the end of August 2012, which is equivalent to 13.5% of total assets. In addition to existing assets, pension funds are expected to receive at least BWP2 billion of new employee contributions every year – the equivalent of 1.7% of GDP annually.

Factor 4: Susceptibility to Event Risk – High



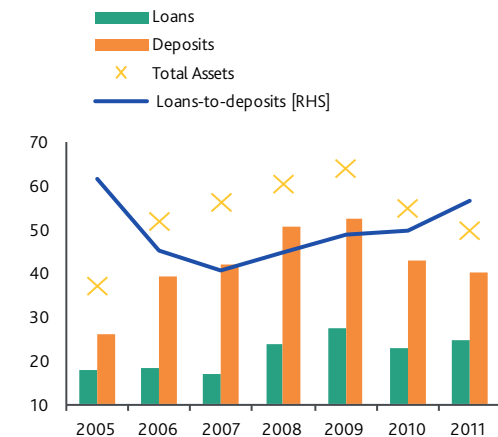
We assess Botswana’s event risk to be ‘low’, a ranking shared by countries including Cambodia (B2), Chile (Aa3), Guatemala (Ba1), Malaysia (A3), Mauritius (Baa2) and Papua New Guinea (B1). However, given the concentration of the economy, exports and government revenues, the risk for Botswana is shaded from ‘low’ towards ‘moderate’.

The BDP safely won the October 2009 elections, extending its already large majority in parliament to 45 of the country’s 57 constituencies. The BDP continues to dominate the political scene, mainly because of the fragmented opposition. In fact, the main political and social risks incorporated in Botswana’s rating are regional in nature, stemming largely from the risk of political and economic crises in neighbouring countries, including Zimbabwe, where those risks have receded to a large extent. In addition, the high incidence of HIV/AIDS and still-high levels of poverty and unemployment remain issues that need to be monitored. However, we consider the likelihood of these risks leading to multi-notch rating downgrades as low given the solid institutional underpinnings of the government and the popular support for economic reform.

Financial risks remain low. Botswana’s banking system consists of nine commercial banks and three statutory banks, with total assets of \$7.5 billion or 50% of GDP at the end of 2011. All banks are foreign-owned, except for three development finance institutions that represent 8% of total assets. The largest four foreign-owned banks are Barclays and Standard Chartered (subsidiaries of UK banks) and First National and Stanbic (subsidiaries of South African banks). They control around 79% of banking system assets, 75% of total loans and 83% of deposits. Domestic credit as a percentage of GDP is still

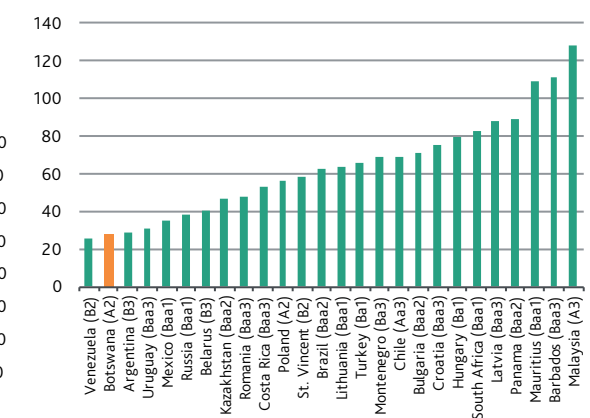
low at around 28% of GDP according to the IFS data. Parental support is likely to be forthcoming in times of stress, reducing the government's potential liabilities. The financial system has grown significantly over the past decade: domestic credit as a percentage of GDP grew from less than 10% in 2000 to more than 25% last year. However, financial intermediation remains low compared with middle-income countries, as shown in exhibits 12 and 13.

EXHIBIT 12

Credits & Deposits (% of GDP)

Source: IMF

EXHIBIT 13

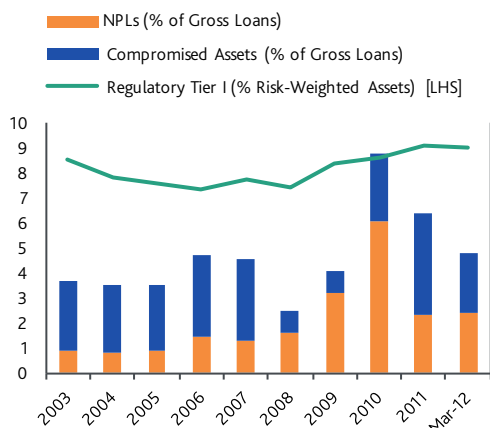
Domestic Credit (as % of GDP, Average 2009-11)

Source: Moody's

Overall, Botswana's banking system is in good financial health. Its banks have a relatively solid liquidity position, with liquid assets at around 20% of total assets. The majority of liquid assets are held in Bank of Botswana certificates (BWP11.5 billion were invested in BoBCs at the end of August 2012, which is equivalent to 10.5% of GDP). Following a change in its liquidity management policy with the aim of reducing its sterilisation cost, the Bank of Botswana reduced its issuance of certificates. Consequently, commercial banks have gradually expanded their loan portfolio, benefiting businesses. Banks are mostly locally funded through deposits: the loan-to-deposits ratio is largely below the 100-mark of around 60%.

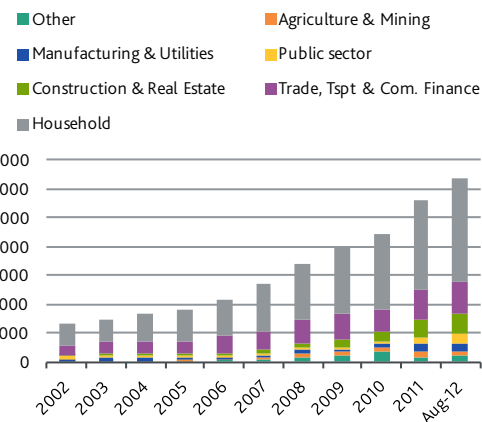
Despite the predominance of foreign banks, there is a low level of cross-border transactions, limiting potential spill-over effects from parent banks' liquidity provision. The level of non-performing loans (NPLs) as a percentage of gross loans has stabilised at around 2.3%, below the 6.1% peak reached in 2010. Capitalisation levels remain comfortably high, with a ratio of regulatory capital-to-risk-weighted assets of above 20%, significantly above the 15% regulatory requirement. Regulatory Tier I (as % of Risk-Weighted Assets) is above 12.5%.

EXHIBIT 14

Asset Quality & Capital Adequacy

Source: IMF

EXHIBIT 15

Loans & Advances (BWP mn)

Source: Bank of Botswana

The banking system's potential vulnerabilities include its high exposure (55% of lending) to the household sector, representing 14% of GDP at the end of 2011. The level of NPLs in the household sector is higher than it is among corporates, which are currently at their pre-crisis level of around 5%-6%, far below their 2009-10 peak when the ratio almost doubled. The household sector was affected by a reduction in real income in recent years due to the three-year public-sector pay freeze, affecting the ability to service debt. In addition, the non-bank financial institutions (NBFI) have increased the vulnerabilities affecting the overall financial system, given the recent acceleration of their lending to households and for property market development.⁷ However, the NBFI regulatory authorities are strengthening the legal and regulatory framework – for instance, micro-finance regulation was adopted in early 2012. In addition, a memorandum of understanding between the Banks of Botswana and NBFI regulatory authorities is making good progress with a view to facilitating effective information-sharing between the two institutions.

Income volatility justifies shading economic risk towards 'moderate'

Botswana's heavy dependence on the diamond sector increases GDP volatility, which is credit-negative. This feature is a common to all commodity-exporting countries. However, we consider the 'low'–shaded-to-'moderate' risk of economic susceptibility to event risk as adequate, given the large financial cushion the authorities have built over the years. For now, we view the government's assets, including the sovereign wealth fund, as a sufficient buffer to smooth another potential economic shock. Although this cushion has been depleted to some extent, the government is committed to rebuilding a larger cushion. It is likely that the buffer will grow slowly as the economy continues to grow. The country's capacity to rebuild such a cushion also plays a crucial part in our assessment.

⁷ Especially in commercial segment of real estate market in Gaborone

Rating History

Botswana

	Foreign Currency Ceilings				Government Bonds			Date
	Bonds & Notes		Bank Deposit		Foreign Currency	Local Currency	Outlook	
	Long-term	Short-term	Long-term	Short-term				
Outlook Changed	--	--	A2	--	A2	A2	Stable	Nov-11
Outlook Changed	--	--	A2	--	A2	A2	Negative	Feb-10
Rating Lowered	--	--	--	--	--	A2	Stable	Mar-09
Outlook Changed	Aa3	--	A2	--	A2	--	Stable	Mar-09
Outlook Changed	Aa3	--	A2	--	A2	--	Positive	Aug-07
Rating Raised	Aa3	--	--	--	--	--	--	May-06
Rating Assigned	A2	P-1	A2	P-1	A2	A1	Stable	Mar-01

Sovereign Mechanics: Botswana

ECONOMIC
STRENGTH*How strong is the economic structure?*

GCP/capita

Diversification/size

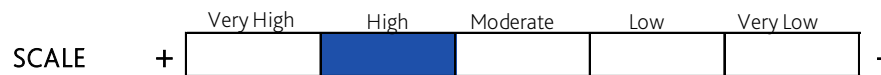
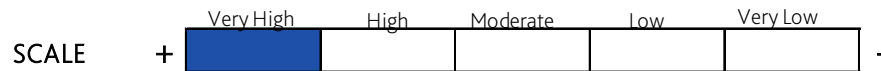
Long-term Trends

INSTITUTIONAL
STRENGTH*How robust are the institutions and how predictable are the policies?*

Rule of Law

Governance

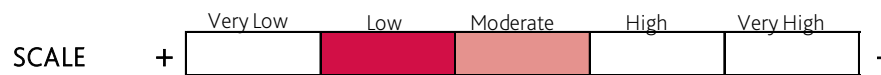
Transparency

GOVERNMENT
FINANCIAL
STRENGTH*How does the debt burden compare with the government's resource mobilization capacity?*Government balance
sheet tool kitBalance of Payment
tool kitSUSCEPTIBILITY
TO EVENT RISK*What is the risk of a direct and sudden threat to debt repayment?*

Financial

Economic

Political

ECONOMIC
RESILIENCY
RATING RANGE:
A1 – A3
FINANCIAL
ROBUSTNESSLink to our [Sovereign Bond Rating Methodology](#)

Annual Statistics

Botswana

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F
Economic Structure and Performance											
Nominal GDP (US\$ Bil.)	7.5	9.0	9.9	10.1	10.9	11.1	10.1	13.9	16.0	15.6	16.1
Population (Mil.)	1.8	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.1	2.1
GDP per capita (US\$)	4,104	4,836	5,295	5,327	5,675	5,685	5,106	6,924	7,899	7,600	7,737
GDP per capita (US\$, PPP basis)	10,338	11,130	11,542	12,360	13,146	13,639	12,942	13,832	14,753	--	--
Nominal GDP (% change, local currency.)	8.0	13.1	20.7	16.5	13.6	13.0	-4.6	30.4	16.2	10.7	9.6
Real GDP (% change)	4.6	2.6	4.8	8.3	8.9	3.7	-7.9	8.2	7.9	6.8	6.4
Inflation Rate (CPI, % change Dec/Dec)	6.4	7.9	11.3	8.5	8.2	13.7	5.8	7.4	9.2	6.5	6.1
Gross Investment/GDP	30.1	31.5	27.2	25.9	30.8	34.4	37.8	35.0	36.9	37.3	38.3
Gross Domestic Savings/GDP	39.4	39.7	42.5	44.2	42.8	36.6	24.9	32.7	33.6	33.2	32.8
Nominal Exports of Goods and Services (% change)	29.3	21.2	18.3	0.7	11.0	-0.2	-36.1	31.3	37.9	7.4	8.2
Nominal Imports of Goods and Services (% change)	28.8	33.4	-4.7	-2.3	27.0	26.5	-11.0	20.3	29.2	6.8	10.0
Openness of the Economy ^[1]	85.8	91.0	88.5	86.3	93.8	102.6	85.8	78.1	90.1	98.9	104.7
Government Effectiveness Indicator ^[2]	0.7	0.6	0.7	0.5	0.6	0.6	0.5	0.5	0.5	--	--
Government Finance											
General Government Revenue/GDP ^[3]	43.5	42.0	43.7	46.2	42.5	42.2	40.3	33.4	35.6	34.2	33.9
General Government Expenditures/GDP ^[3]	43.7	40.7	34.6	33.3	36.8	48.7	53.0	40.3	37.7	33.2	32.0
General Government Financial Balance/GDP ^[3]	-0.2	1.3	9.1	12.9	5.6	-6.5	-12.7	-6.8	-2.1	0.9	1.9
General Government Primary Balance/GDP ^[3]	0.3	2.1	9.7	13.3	6.0	-6.1	-12.2	-6.3	-1.6	2.2	3.0
General Government Direct Debt, \$ billion ^[3]	1.0	1.1	0.7	0.6	0.7	0.8	2.1	2.9	2.8	2.8	2.6
General Government Debt/GDP ^[3]	12.0	11.0	7.6	6.2	5.9	7.9	18.5	19.5	19.9	17.8	16.1
General Government Debt/General Government Revenues ^[3]	27.7	26.1	17.5	13.3	13.9	18.7	45.9	58.4	56.0	52.1	47.4
General Government Interest Payments/General Government Revenues ^[3]	1.2	1.8	1.4	0.9	0.9	0.9	1.2	1.6	1.5	3.7	3.2
General Government FC and FC-indexed Debt/Total General Government Debt ^[3]	44.3	46.7	55.1	52.1	44.6	36.8	67.4	67.5	64.8	63.6	63.3
External Payments and Debt											
Nominal exchange rate (currency/\$, Dec)	4.4	4.3	5.5	6.0	6.0	7.5	6.7	6.4	7.5	8.0	8.5
Real Effective Exchange Rate (% change)	--	--	--	--	--	--	--	--	--	--	--
Current Account Balance (US\$ bil.)	0.6	0.3	1.6	1.9	1.9	1.1	-0.3	0.1	0.4	0.7	0.7
Current Account Balance/GDP	8.2	3.7	15.7	18.7	17.5	10.2	-3.0	1.1	2.4	4.2	4.2
External Debt (US\$ Bil.)	1.1	1.0	1.1	1.1	1.2	0.6	2.4	2.6	2.8	2.5	2.2
Public Sector external Debt/Total External Debt ^[4]	39.8	48.8	35.5	27.7	24.3	47.5	58.8	76.2	65.5	72.1	73.7
Short-term external debt/total external debt	--	--	--	--	--	--	--	--	--	--	--
External Debt/GDP	13.4	10.7	11.9	11.6	10.8	5.8	21.8	17.5	19.2	16.2	14.1
External Debt/Current Account Receipts	24.5	19.0	16.5	16.5	15.4	7.8	43.6	37.5	31.9	26.6	22.4
Interest paid on external debt, \$ bil	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02
Amortization paid on external debt, \$ bil	0.04	0.04	0.07	0.03	0.03	0.02	0.03	0.03	0.03	0.02	0.02

Botswana

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F
Net Foreign Direct Investment/GDP	7.5	8.8	4.4	6.9	5.5	8.9	7.5	1.9	3.7	3.8	4.0
Net International Investment Position/ GDP	75.1	71.0	75.0	98.7	106.1	99.3	88.1	72.6	--	--	--
Official Foreign Exchange Reserves (US\$ Bil.)	5.2	5.6	6.2	7.9	9.7	9.0	8.5	7.7	7.9	9.0	10.0
Net foreign assets of domestic banks, \$ billion	0.3	0.3	0.3	0.2	0.4	0.6	0.4	0.5	0.6	--	--
Monetary Vulnerability and Liquidity Indicators											
M2 growth, (%change, Dec/Dec)	17.6	13.9	10.6	67.4	31.5	21.5	-1.3	10.7	4.4	--	--
Monetary Policy Rate (% per annum, Dec 31)	14.3	14.3	14.5	15.0	14.5	15.0	10.0	9.5	9.5	--	--
Domestic Credit (% change) ^[5]	9.8	23.5	7.5	19.5	24.5	26.2	10.7	11.3	29.5	--	--
Domestic Credit/GDP ^[5]	21.0	23.0	20.5	21.0	23.0	25.7	29.8	25.4	28.4	--	--
M2/Official Foreign Exchange Reserves (x)	0.5	0.6	0.4	0.5	0.6	0.6	0.7	0.9	0.8	--	--
Total external debt/foreign exchange reserves	21.5	18.8	17.5	14.4	12.5	6.5	27.7	33.2	35.4	27.4	22.0
Debt Service Ratio ^[6]	1.0	0.9	1.2	0.6	0.4	0.4	0.7	0.7	0.6	0.5	0.4
External Vulnerability Indicator ^[7]	1.3	1.3	1.3	1.0	1.2	0.9	1.5	1.4	0.8	0.8	0.7
Liquidity Ratio ^[8]	4.8	4.0	3.6	1.6	1.2	5.9	14.2	24.4	26.8	--	--
Total liabilities due BIS banks/total assets held in BIS banks	19.0	16.5	13.7	12.3	8.1	7.9	12.9	23.7	35.7	--	--
"Dollarization" Ratio ^[9]	14.4	11.8	22.1	20.2	29.2	27.4	13.0	14.8	15.5	--	--
"Dollarization" Vulnerability Indicator ^[10]	6.0	5.5	7.8	9.2	14.3	13.8	8.0	10.7	10.4	--	--

Notes

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

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

[3] Fiscal years beginning April 1

[4] General government only

[5] Excludes central government

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

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

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

[9] FX deposits in the domestic banking system/Total deposits in the domestic banking system

[10] FX deposits in the domestic banking system/(Official FX Reserves + Foreign assets of domestic banking institutions)

Moody's Related Research

Credit Opinion:

- » [Botswana, Government of](#)

Special Comments:

- » [International Sovereign Issuance in Africa 2012/2013 - a Rating Agency Perspective, October 2012 \(145826\)](#)
- » [Africa: Despite Transmission Risks from European Sovereign Debt Crisis, Stable Growth Likely, September 2012 \(145253\)](#)
- » [The Private Sector – a catalyst for building Institutional Capacity and Creditworthiness of Sovereigns in Sub-Saharan Africa, December 2011 \(136113\)](#)
- » [International Sovereign Issuance in Sub-Saharan Africa: A Rating Agency Perspective, October 2011 \(136405\)](#)
- » [Sub-Saharan Africa: A Sovereign Overview, May 2012 \(141050\)](#)
- » [Sub-Saharan Africa: A Sovereign Overview, June 2011 \(133633\)](#)

Issuer Comments:

- » [Peaceful Presidential Power Shift Confirms Senegal's Credit-Positive Political Stability, March 2012](#)
- » [Senegal's Democratic Presidential Election Supports Creditworthiness, March 2012 \(140346\)](#)

Analyses:

- » [South Africa, October 2012 \(146055\)](#)
- » [South and Eastern African Trade and Development Bank \("PTA Bank"\), June 2012 \(143266\)](#)
- » [Mauritius, Government of, April 2012 \(140630\)](#)
- » [Shelter-Afrique Bank, May 2012 \(142312\)](#)
- » [Namibia, September 2011 \(136209\)](#)
- » [Senegal, April 2011 \(132345\)](#)
- » [Angola, August 2012 \(144953\)](#)
- » [African Development Bank, September 2012 \(145540\)](#)

Rating Methodologies:

- » [Sovereign Bond Ratings, September 2008 \(109490\)](#)
- » [Sovereign Bond Ratings \(French Translation\), September 2008 \(111181\)](#)

Rating Implementation Guidance:

- » [Sovereign Methodology Update: Narrowing the gap - a clarification of Moody's approach to local versus foreign currency government bond ratings, February 2010 \(118820\)](#)

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.

Report Number: 147447

Authors

Aurelien Mali
Cyril Audrin

Editor

Shem Pennant

Production Associate

Sarah Warburton

© 2012 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.