

Introduction

1. Prudential Ratings is a Zimbabwean based ratings agency. Our mission is to provide credible credit rating differentiation and ultimately better analytical coverage of entities across Africa by a team that's most amply knowledgeable about the dynamics of business on the continent.
2. Prudential Ratings' credit ratings relate to an issuer's ability to timely meet its financial obligations such as payment of principal, interest, preference share dividends, insurance claims and counterparty obligations.
3. The basis of our ratings is forward looking. We draw upon all available resources to give the users of our ratings an expectation of the issuer/issue's future performance regarding the fulfilment of its financial obligations.
4. Prudential Ratings' credit ratings express risk on a relative ranking order. Our credit ratings do not address any other risk other than credit risk. However, to arrive at a determination of credit risk for a rated entity we may draw into consideration elements of other risks that may affect this.
5. The credit rating scales may be used as basis for more specialised types of ratings like fund ratings, credit rating assessments, among others.
6. The purpose of this document is to give an enhanced understanding of Prudential Ratings' rating process, rating scales, symbols and definitions.

Uses and Limitations of Prudential Ratings' ratings

7. Our credit ratings are an assessment of credit risk related to the issuer; a specific obligation as specified. Though, our methodology does consider other elements of risk such as operational risk, foreign currency risk, liquidity risk among other, these should only be taken as elements of consideration in reaching an opinion on the ability of the rated entity to meet its financial obligations as they come due.
8. Ratings are relative measures of risk; as a result, the assignment of ratings in the same category to entities and obligations may not fully reflect small differences in the degrees of risk.
9. Our ratings are statement of opinion, not facts. Our ratings are forward-looking, which by their nature include assumptions and forecasts of possible future events. Therefore, Prudential Ratings Company cannot be held as liable to being right or wrong.



10. In determination of ratings, Prudential Ratings considers all the information at its disposal, considered relevant. This information includes, but not limited to public and non-publicly available information, and information provided by the issuers and other sources. The publication or continued analytical coverage of a rated entity's rating is subject to availability and sufficiency of information to form a rating opinion.
11. In issuing and maintaining its ratings, Prudential Ratings relies on factual information it receives from issuers, underwriters and other sources it believes to be credible. Prudential Ratings conducts a reasonable investigation of the factual information it relies on in accordance with its rating criteria and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction.
12. The nature and extent of information verification undertaken by Prudential Ratings is depended on the availability and nature of relevant public information; access to the management of the issuer and its advisers; the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties.
13. As alluded to earlier, Prudential Ratings' ratings are forward looking. By this qualification the ratings incorporate assumptions and predictions of future events. The accuracy of our assumptions and predictions however can be affected by future events and conditions which were not foreseen at the time of the ratings determination. Resultantly, the assignment of a rating to any issuer or any security By Prudential Ratings should not be viewed as a guarantee of accuracy.
14. Prudential Ratings is not responsible for any underwriting, credit, loan, purchase, strategic or investment decision. Ratings are not a recommendation or suggestion, directly or indirectly, to any person to buy, sell, make or hold any investment but can be considered a component for those processes. Prudential Rating Co is not an adviser to any party and is not providing to any party any financial advice, or any legal, auditing, accounting, valuation or actuarial services. A rating should not be viewed as replacement for such advice or services. The use of any rating is entirely at the users' own risk.
15. Prudential Ratings Company may upgrade, downgrade, affirm, qualify, place on Rating Watch, modify, or withdraw as a result of changes in, additions to, accuracy of, unavailability of or inadequacy of information or for any reason it deems sufficient.

Issuer Ratings

National Credit Rating Scales

16. Prudential Ratings' National scale ratings are an opinion of creditworthiness relative to the universe of issuers and issues within a single country or monetary union. They are most commonly used in emerging market countries with sub- or low investment grade sovereign ratings on the international scale.
17. As creditworthiness can be expressed across the full range of the scale, Prudential Ratings is of the view that a national scale can enable greater ratings differentiation within a market than the international scale, particularly in highly speculative grade countries where ratings tend to cluster around the often low sovereign rating due to higher risks associated with a more volatile operating environment.
18. Prudential's ratings are assigned based on the principle that the highest quality issuers or issues in the country are rated 'AAA' on the national scale.
19. Prudential's National Scale Ratings for local issuers exclude the effects of sovereign risk and the potential that investors may be unable to repatriate any due interest and principal repayments. Thus, comparisons between different national rating scales, or between an individual national scale and the international rating scale are therefore inappropriate and misleading, with the exception of ratings at 'C' and below. This convergence will be discussed under the 'C' level rating definition.
20. Typically, issuer credit ratings on the national scale are pari passu to the senior unsecured ratings in the rated entity's credit hierarchy.
21. In each country, a modifier (based on the ISO International country codes – alpha 2) reflects that the rating is a national scale rating. The modifier identifies to which country the rating relates. For example, a rating of 'AAA(ZW)' would refer to the national scale ratings in Zimbabwe, while a rating of 'AAA(ZM)' would refer to the national scale ratings in Zambia.

Long-Term and Short-Term International Scale Issuer Credit Ratings- What they mean

22. Prudential Ratings Company's long-term National Scale issuer credit ratings are assigned to rated entities. They measure the relative ability of the entity to meet its long-term contractual financial obligations as they fall due.
23. The symbols "+" or "-" may be appended to a National Scale Rating to denote relative status within a major rating category, with the "+" ranking highest in that category. For instance, within the "B" rating category (also used interchangeably with rating band), a rating of "B+" would rank highest, followed by a rating of "B" and lastly by the rating of "B-".



24. Prudential Ratings Company's short-term National Scale issuer credit ratings are assigned to rated entities. These ratings assess the relative ability of a rated entity to meet its short-term obligations. Short term should be taken to imply a one-year period or less.
25. Typically, a link exists between the long-term and short-term issue(r) ratings. Whilst there are a large number of distinct factors that drive short term ratings, the link between the two reflects the inherent importance of liquidity and near-term concerns within the assessment of the longer-term credit profile.

Long-Term National Scale Issuer Credit Ratings

26. AAA An issuer rated 'AAA' is deemed to have the highest credit quality, or lowest risk of default, relative to other issues or obligations in the same country. Such an issuer is assessed to have a very strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Prudential Ratings. There are no "+" or "-" modifiers applicable to this band.
27. AA An issuer rated 'AA' has a very high credit quality, or very low default risk, relative to other issuers or obligations in the same country. Such an issuer has a very strong capacity to meet its financial commitments, and has credit quality close to the highest-rated (AAA) issuers. Borrowers in this band can be further classified into AA+, AA and AA-, to give further credit risk differentiation among largely very high quality issuers.
28. A Issuers rated 'A' are deemed to have strong capacity to meet their financial commitments over the long term. Nevertheless, such issuers are more susceptible to the adverse changes in circumstances and economic conditions when compared to AAA and AA rated entities. Obligors in this band can be further classified into A+, A and A-.
29. BBB An issuer rated 'BBB' is deemed to have sufficient or adequate capacity to meet its financial commitments over the long term. Nevertheless, Prudential Ratings believes the such an entity will have a much weaker capacity to meet its financial commitments in the event of adverse economic developments or changing in company-specific circumstances. Issuers in this band can be further classified into BBB+, BBB and BBB-.
30. BB Issuers rated 'BB', are regarded as severely impaired credit risk profiles, although they will likely have some quality and protective characteristics. In Prudential Ratings' view, such positive credit qualities are outweighed by significant uncertainties or vulnerabilities to adverse conditions. Obligors in this band can be further classified into BB+, BB and BB-.
31. B Issuers rated 'B' are more speculative than those rated 'BB', but currently have the capacity to meet their financial commitments. In Prudential Ratings' view, such obligors are dependent upon favourable business, financial, and

economic conditions to meet their financial commitments, and any adverse development or conditions may impair the obligor's capacity or willingness to meet such financial commitments. Obligors in this band can be further classified into BB+, BB and BB-.

32. CCC, CC and C These ratings are used where the issuer is highly vulnerable, or where a default has not yet occurred but, in Prudential Ratings' view, an eventual default is highly likely. There are no "+" or "-" suffixes to these bands

33. SD and D A borrower rated 'SD' (selective default) or 'D' (default) when it has defaulted on one or more of its financial obligations, whether long- or short-term. A 'D' rating is assigned when there are reasonable expectations that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. A borrower is rated 'SD' when there are reasonable expectations that the obligor has selectively defaulted on a specific issue or class of obligations but will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. That is, the assumption of cross default is not applicable.

Short-Term National Scale Issuer Credit Ratings

34. A-1 A borrower rated 'A-1' is deemed to have very strong capacity to meet its financial obligations in a timely manner. Borrowers in this band can be further classified into A1+, A1 and A1-, indicating the borrower's capacity to meet financial obligations is extremely strong, very strong and strong respectively.

35. A-2 A borrower rated 'A-2' reflects ample capacity to meet financial obligations in a timely manner. Nevertheless, borrowers in this band are rather more exposed to the adverse changes in circumstances and economic and/or sector conditions than borrowers in the A1 rating band.

36. A-3 A borrower rated 'A-3' evidence sufficient capacity to meet its financial commitments in a timely manner. Nonetheless, exposure to unfavourable economic conditions or changing circumstances may dampen the borrower's capacity to meet its financial obligations.

37. B A borrower rated 'B' reflects moderately vulnerable capacity to meet financial obligations in a timely manner. Although the borrower presently has the capacity to meet its financial commitments, it is exposed to ongoing uncertainties that could impair the obligor's capacity to meet its financial commitments.

38. C A borrower rated 'C' is currently vulnerable to non-payment that would result in an 'SD' or 'D' issuer rating. The obligor is reliant upon favourable circumstances to meet its financial obligations.



39. SD and D A borrower rated 'SD' (selective default) or 'D' (default) when it has defaulted on one or more of its financial obligations, whether long- or short-term. A 'D' rating is assigned when there are reasonable expectations that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. A borrower is rated 'SD' when there are reasonable expectations that the obligor has selectively defaulted on a specific issue or class of obligations but will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. That is, the assumption of cross default is not applicable.

40. Table 1 below summarises the above ratings, and shows how the Prudential Ratings Short-Term national scale ratings link or map to the Long Term national scale ratings.

Table 1: Prudential Ratings National Long and Short-Term Scales and Definitions

Long Term Rating	Long Term Rating Description	Short Term Rating	Short Term Rating Description
AAA(xx)	Highest credit quality, or lowest risk of default, relative to other issues or obligations in the same country.		Highest probability of full and timely payment of Short term obligations relative to other issuers or obligations in the same country.
AA+(xx)	Very high credit quality, or very low default risk, relative to other issuers or obligations in the same country.	A1+(xx)	Highest probability of full and timely payment of Short term obligations relative to other issuers or obligations in the same country.
AA(xx)			
AA- (xx)			



A+(xx)		A1(xx)	Very high certainty of timely payment of Short term obligations relative to other issuers or obligations in the same country.
A (xx)	High credit quality, or low probability of default, relative to other issuers or obligations in the same country.	A1-(xx)	
A-(xx)		A2(xx)	High certainty of timely payment of Short term obligations relative to other issuers or obligations in the same country.
BBB+(xx)	Moderately strong credit quality, or risk of default around the average, relative to other issuers or obligations in the same country.		
BBB(xx)		A3(xx)	
BBB-(xx)			
BB+(xx)	Low levels of obligor/obligation creditworthiness. High levels of default risk		
BB(xx)			
BB-(xx)			
B+(xx)	Capacity for timely payment is vulnerable relative to other issuers or obligations in the same country.	B(xx)	
B(xx)			
B-(xx)			



CCC(xx)	Capacity for timely payment is highly vulnerable relative to other issuers or obligations in the same country.	C(xx)	Timely payment of short term obligations is considered to be highly vulnerable relative to other issuers or obligations in the same country.
CC(xx)	The likelihood of a liquidation / default / restructure or distressed exchange scenario to be material in the next 12 months.	C(xx)	Timely payment of short term obligations is considered to be highly vulnerable relative to other issuers or obligations in the same country.
C(xx)	Identify entities where liquidation/default/restructure/distressed exchange scenario has been announced or is expected in the short terms (typically within 6 months)	C(xx)	Timely payment of short term obligations is considered to be highly vulnerable relative to other issuers or obligations in the same country.
SD(xx)	Selective defaulting on the obligations, but not experiencing a general default. Default is limited to one or more of obligations that have fallen due, but other obligations continue to be serviced timely.	SD(xx)	Selective defaulting on the obligations, but not experiencing a general default.
D(xx)	Generally defaulting on obligations as they come due.	D(xx)	Generally defaulting on obligations as they come due.



Rating Direction Modifiers

Prudential Ratings makes use of two distinct types of modifiers to indicate the potential direction of ratings over different time horizons, namely: Rating Outlooks and Rating Watches. That said, it is imperative to note that "Rating Outlook" and "Rating Watch" are mutually exclusive, in other words, both events never occur at the same time.

Rating Outlooks

A Rating Outlook indicates the potential direction of a rating over the medium term, typically 12 to 24 months. It reflects financial, economic or other trends that, on a micro or macro level, have not yet reached the level that would trigger a rating action, but which may be likely if such trends continue. The Outlook may be defined as being "Positive" (the rating symbol may be uplifted or unchanged), "Negative" (the rating symbol may be lowered or unchanged) or "Evolving" (the rating symbol may be uplifted, lowered or unchanged). The latter is utilized where the fundamental trend has conflicting features of both positive and negative. An Outlook may be defined as "Stable" if there is nothing to suggest that the rating may change over a 12 to 24-month period. However, it is important to recognise that an Outlook is not necessarily point to a rating change or future Rating Watch action.

Ratings in the 'CC' category and below, including defaulted ratings, do not carry Outlooks since these ratings are highly volatile and an Outlook would not provide meaningful additional information.

Rating Watches

Rating Watch indicates that a rating is likely to change in the short-term and the expected direction of such a change. The Rating Watch may be "Positive" to indicate that a rating could potentially be upgraded or stay at its current level, "Negative" signalling a heightened probability of the rating being downgraded or staying at its current level, or "Evolving" if the rating may be raised, lowered or affirmed. It is important to note that ratings not on Rating Watch can be raised or lowered without being placed on Rating Watch first, if circumstances warrant such an action. Additionally, a Rating Watch does not mean that a rating change is certain or will occur.

Rating Watch is typically event-driven, and generally resolved over a relatively short period (typically 3 to 6 months). The event driving the watch may be anticipated or have already occurred, but in both cases the exact rating implications remain undetermined. The watch period is typically used to gather further information and to further analyse this information, with a view to determining a rating outcome. Watch is also used where rating implications are already clear but a triggering event exists. The Rating Watch will typically be extended to cover a period until the triggering event is resolved or the outcome is predictable with a high enough degree of certainty to resolve. A rated entity is usually taken off Rating Watch when the rating is upgraded, downgraded or affirmed.



A rating has been assigned or accorded to an issuer/issue for the first time i.e. the issuer/issue was previously not rated by Prudential Ratings.

Affirmation

The rating has been reviewed and there has been no change to the rating. Affirmations may include a change to the rating direction modifier (Rating Outlook or Ratings Watch.)

Upgrade

The rating has been raised on its specific scale. Upgrades may include a change to the rating direction modifier (Rating Outlook or Ratings Watch.)

Downgrade

The rating has been lowered on its specific scale. Downgrades may include a change to the rating direction modifier (Rating Outlook or Ratings Watch.)

Outlook Affirmation or Revision

A Rating Outlook can be affirmed at its current level or revised, for example Rating Outlook to Stable from Rating Outlook Negative. Outlook affirmations and revisions are typically used in conjunction with another action on the issuer/issue rating such as affirmation, downgrade or upgrade.

Rating Watch on

The issue or the issuer rating has been placed on active Rating Watch status which can be "Positive", "Negative" or "Evolving".

Rating Watch Maintained

The issue or the issuer rating has been reviewed and remains on active Rating Watch status whether "Positive", "Negative" or "Evolving".

Rating Watch Revision

The issue or the issuer rating has been reviewed and the previous Rating Watch status has been changed to "Positive", "Negative" or "Evolving".

Rating Watch Resolution

The issue or the issuer rating has been reviewed and ceases to be on active Rating Watch status. This Rating action is typically used in conjunction with another action on the rating and the Outlook such as rating affirmation, rating downgrade, rating upgrade or Outlook affirmation or revision.

Withdrawn Ratings (WD)

When Prudential Ratings no longer rates an obligation or an entity, which it once rated, the symbol WD is utilized. This would also include when a rated issue has been paid in full or when an issue has reached its redemption date or a rated program or



SPV is retired and rating coverage is discontinued. To view the Prudential Ratings withdrawal policy please visit www.prudentialratings.com/criteria.

Suspended Ratings

Prudential Ratings may suspend a credit rating in cases where the information provided either directly or through publicly available information falls short of Prudential Ratings sufficiency standard; however, there may be reasonable prospect that the information required will be provided in the near future. A credit rating suspension does not imply that the entity is not servicing its debt obligations or that its financial position has deteriorated, but rather that it has failed to provide important information pertaining to its credit profile. To view the Prudential Ratings withdrawal and suspension policy please visit www.prudentialratings.com.

Under Criteria Observation

A rating may be placed "Under Criteria Observation" (UCO) where a new or revised criteria has yet to be applied to the rating and where the application of the new or revised criteria could result in a rating change but the impact is not yet known. Where the application of the new or revised criteria is highly likely to result in a rating change in a particular direction, a Rating Watch may be considered more appropriate than the UCO to reflect the potential impact of the new or revised criteria. The application of a new or revised criteria is expected to be completed with six months from the publication date of the new or revised criteria.

Criteria Observation Removed

"Criteria Observation Removed" rating action will remove UCO status through a rating affirmation, downgrade or upgrade within six months from the date of placing the rating on UCO. In some situations, the full rating portfolio may not be reviewed within the six- month period, yet it can be determined that the ratings will not be impacted by the new or revised criteria based on the changes in the changes in the new or revised criteria. In these situations, the "Criteria Observation Removed" does not affect the rating level of the existing Outlook or Watch status.

Ratings Review Extension

Failure to carry out a full review of a rated entity within the designated timeframe (typically 12 months), either through lack of information or delays in finalization, may lead us to place the rating "Review Extension". The rating status will typically extend for no longer than 1 month, until the review is finalized. A rating is then either taken off 'Under Review' when it is upgraded, downgraded or affirmed, or the rating is withdrawn.

A part of Prudential Ratings policies, each rating must undergo a rating action within a required cycle, typically, 12 months. The following rating actions do not require Prudential Ratings' minimum annual credit requirement, Outlook Revisions, Paid-in-full, Under Criteria Observation, Criteria Observation Removed and Under Review.



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