



## GCR places Zimnat Lion's national scale financial strength rating of A+<sub>(ZW)</sub> on Rating Watch Evolving

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### Rating action

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Johannesburg, 30 July 2020 - GCR Ratings ("GCR") places Zimnat Insurance Company Limited's ("Zimnat Lion") national scale financial strength rating of A+<sub>(ZW)</sub> on Rating Watch Evolving.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Zimnat Lion Insurance Company Limited	Financial strength	National	A+ <sub>(ZW)</sub>	Rating Watch Evolving

### Rating rationale

The Rating Watch Evolving accorded to Zimnat Lion balances the potential for rating uplift implied by the recently issued guarantee from its parent company, Masawara Holdings Mauritius Limited ("MHM"), against the issuer's weakened financial profile.

MHM, an Intermediary Non-Operating Holding Company wholly owned by Masawara Plc ("Masawara"), recently issued an unconditional, irrevocable guarantee on Zimnat Lion's obligations, which if deemed admissible would result in Zimnat Lion's credit profile being uplifted towards that of its parent. In this regard, GCR is currently in the process of (1) reviewing the credit profile of both Masawara and MHM, and (2) establishing the strength of the guarantee.

The guarantee was issued following a significant reduction in risk adjusted capitalisation, along with a moderation in earnings due to the hyperinflationary environment in Zimbabwe, which offset the insurer's strong market position and sound liquidity. In this respect, credit substitution from MHM could have a significant impact on the insurer's credit profile.

GCR expects to review the rating within the next three months.

### Rating triggers

The rating may improve by multiple notches if the guarantee complies with GCR's internal guidelines. In addition, GCR needs to determine if MHM's standalone credit profile, after taking into account the potential liability introduced by the guarantee, is sufficient to provide rating uplift. Conversely, if the guarantee doesn't meet our requirements, we could lower the ratings, due to the reduction in capital and earnings of the insurer.

### Analytical contacts

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#### Related criteria and research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Insurance Companies, May 2019
GCR Ratings Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, May 2020
GCR Insurance Sector Risk Scores, July 2020
Jurisdictional Supplement for Criteria, July 2020

#### Ratings history

##### Zimnat Lion Insurance Company Limited

Rating class	Review	Rating scale	Rating class	Outlook/Watch	Date
Claims paying ability	Initial	National	A <sub>(ZW)</sub> <sup>-</sup>	Stable Outlook	May 2009
Financial strength	Last	National	A <sub>(ZW)</sub> <sup>+</sup>	Stable Outlook	September 2019

#### Glossary

Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Rating Watch	See GCR Rating Scales, Symbols and Definitions.

Reinsurance	The practice whereby one party, called the Reinsurer, in consideration of a premium paid to him agrees to indemnify another party, called the Reinsured, for part or all of the liability assumed by the latter party under a policy or policies of insurance, which it has issued. The reinsured may be referred to as the Original or Primary Insurer, or Direct Writing Company, or the Ceding Company.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securities	Various instruments used in the capital market to raise funds.
Security	One of various instruments used in the capital market to raise funds.
Upgrade	The rating has been raised on its specific scale.

#### SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of rated entity, security or financial instrument being rated; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to the rated entity. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating. The rated entity participated in the rating process via virtual management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The information received from the rated entity and other reliable third parties to accord the credit rating included:

- Audited financial results as at 31 December 2019;
- Four years of comparative audited financial statements to 31 December
- Full year budgeted financial statements for 2020;
- Unaudited interim results to 30 June 2020;
- Masawara Holding Mauritius Limited Guarantee;
- Reinsurance cover notes for 2020; and
- Other relevant documents

Due to severe foreign currency shortages, hyperinflation and significant monetary and exchange control policy changes over the last 12-18months in our opinion, the national scale credit ratings on Zimbabwean entities are not directly comparable to credit ratings and risk scores within other markets. Furthermore, outlook statements may fail to capture forward looking trends due to the



extreme volatility in the operating environment and audited opinions. See the latest Jurisdictional Supplement for Criteria, published July 2020.