Fitch Ratings

Banks
Universal Commercial Banks
Germany

ProCredit Holding AG & Co. KGaA

Key Rating Drivers

Support Drives IDRs: ProCredit Holding AG & Co. KGaA's (PCH) Issuer Default Ratings (IDRs) and Support Rating are driven by Fitch Ratings' view of potential support it can expect to receive from its core international financial institution (IFI) shareholders, KfW (AAA/Stable), IFC and DOEN Foundation.

Increased Standalone Credit Risks: The balance of risks for PCH's intrinsic creditworthiness is skewed to the downside due to significant weakening of operating environment for ProCredit group. We expect asset quality and profitability to be negatively affected by increasing borrower financial difficulties and higher loan impairment charges (LICs), and reduced lending volumes. We weigh these risks against PCH's capital buffers and low level of problem loans.

SME-Focused Franchise: PCH's Viability Rating (VR) reflects the fairly narrow franchises of most of its subsidiary banks in their respective jurisdictions and credit risks inherent in PCH's business model. PCH's VR benefits from the group's consolidated supervision by BaFin, the German regulator, strong corporate governance and prudent risk management, which have resulted in the group's better-than-average asset quality.

Strong Asset-Quality Metrics: PCH entered the pandemic with low levels of impaired loans as compared with local market averages and regional peers. However, we believe the metrics are likely to deteriorate in the coming quarters due to both increasing problem loans and subdued loan growth. At end-1Q20, the Stage 3 loans/total gross loans ratio was 2.3%.

Profitability to Weaken: PCH's profitability in 2020 is likely to suffer from margin pressure, lower business volumes and higher LICs. The results in 1Q20 were negatively affected by an increase in LICs driven by the worsened economic outlook.

Stable Capitalisation: The Stable Outlook reflects PCH's reasonable capital buffers over regulatory minimums and likely subdued balance-sheet expansion in 2020. In our view, PCH's capitalisation is moderate relative to the credit risks the group faces.

Adequate Liquidity Profile: Our assessment considers nominal standalone deposit franchises of most of PCH's subsidiary banks, PCH's notable reliance on wholesale funding and reasonable group liquidity, which is managed centrally.

Rating Sensitivities

Owner Support: A weakening of support available to PCH, for example, due to an exit of one or more core IFI shareholders or a change in their support stance, could lead to a downgrade of PCH's IDRs. The IDRs could be upgraded if PCH's strategic importance for its core IFI shareholders increases.

Standalone Credit Risks: PCH's VR could be downgraded as a result of a significant deterioration of operating environment, which could for example result from the economic fallout from the coronavirus pandemic, if combined with asset quality weakening and reduced capital buffers. PCH's VR could be also downgraded if we find that the capital and liquidity fungibility in the group has been materially and sustainably constrained, putting pressure on the group's liquidity profile and the holding's double leverage.

An upgrade of PCH's VR would require an improvement of the operating environments of the jurisdictions where the group operates, maintaining asset quality, sustainable improvement in profitability and strengthening of capitalisation.

Ratings

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F2
Viability Rating	bb
Support Rating	2
Sovereign Risk	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Affirms ProCredit Holding and 6 Subsidiary Banks (April 2020)

Financial Data

ProCredit Holding AG & Co. KGaA

	31 Mar 20	31 Dec 19
Total assets (USDm)	7,225.1	7,524.1
Total assets (EURm)	6,594.6	6,697.6
Total equity (EURm)	782.2	803.5

Source: Fitch Ratings

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Institutional Support Assessment

High Probability of External Support

Fitch looks to KfW, IFC and DOEN Foundation, PCH's core shareholders with a combined stake of about 36% according to the last voting rights notifications, as potential support providers to PCH. This is based on their long-term and strategic commitment to PCH, the alignment of their own missions of development finance with that of PCH and a record of debt and capital support to PCH and its subsidiary banks. PCH's Long-Term IDR of 'BBB' is directly notched off KFW's Long-Term IDR of 'AAA'. The wide notching between the two reflects KFW's minority stake in PCH (13%) and limited strategic role of PCH for KFW group's operations (see the table below).

The Stable Outlook on PCH's IDR reflects Fitch's view that the propensity and ability of PCH's owners to provide support are unlikely to change in the near to medium term.

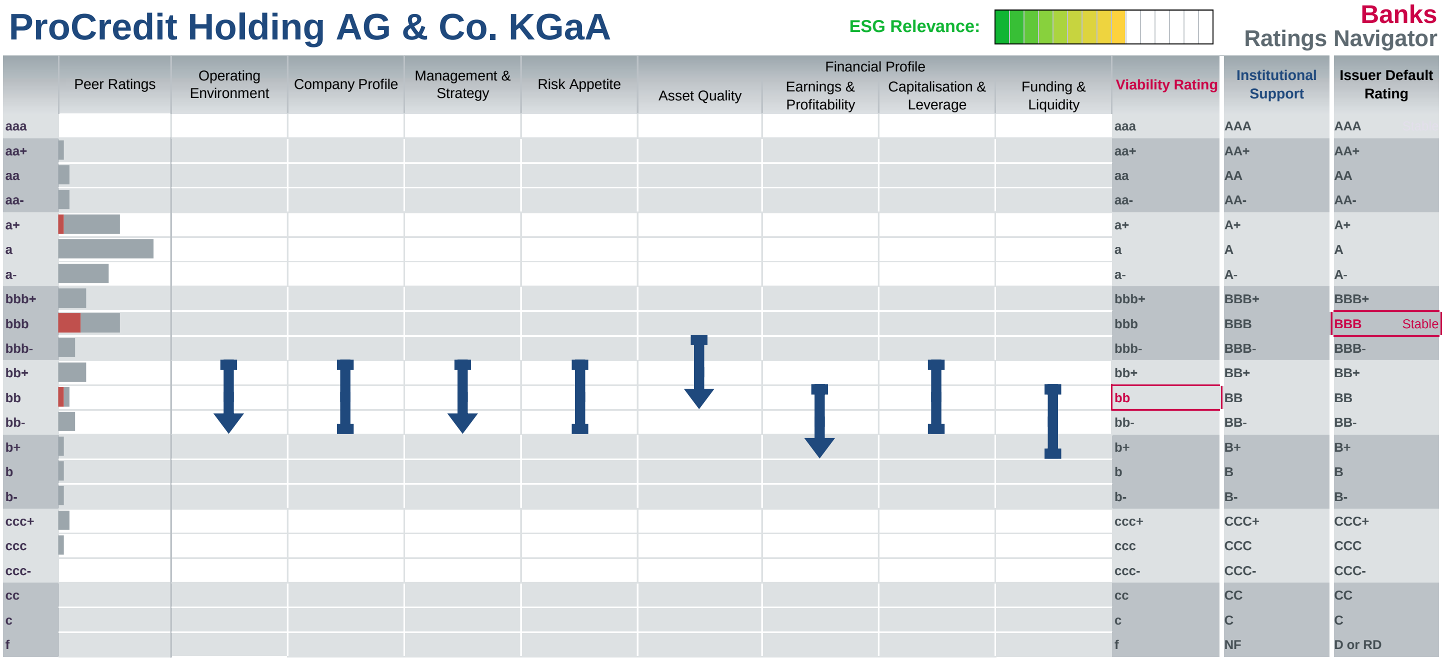
Apart from the three IFIs, Fitch views Zeitinger Invest (formerly IPC) and ProCredit Staff Invest as core shareholders in PCH, but does not factor in potential support from them into PCH's ratings. All core shareholders have strategic control over PCH through their status as general partners within PCH's KGaA structure. This is conditional upon them maintaining a combined 20% stake in the company. Given their combined stake of about 55% (as per the latest disclosure), such dilution seems unlikely in the near term.

Examples of support from the core shareholders include provisions of liquidity and capital at the holding level (the last capital injection took place in 2016 ahead of PCH's listing on Frankfurt stock exchange) as well as liquidity provision to PCH's operating subsidiaries when needed.

Institutional support scoring for PCH:

Institutional Support			Value
Parent IDR			AAA
Total Adjustments (notches)			-8
Institutional Support:			**BBB**
Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
Parent/group regulation		✓	
Relative size	✓		
Country risks	✓		
Parent Propensity to Support			
Role in group			✓
Potential for disposal		✓	
Implication of subsidiary default			✓
Integration			✓
Size of ownership stake			✓
Support track record		✓	
Subsidiary performance and prospects	✓		
Branding			✓
Legal commitments			✓
Cross-default clauses			✓

Ratings Navigator - Standalone Assessment



PCH's VR is based on Fitch's assessment of the consolidated group's financial profile and does not incorporate any downward notching at the holding company level. This reflects the following factors: the group being subject to consolidated supervision and required to meet regulatory requirements at the consolidated level; there are no significant regulatory restrictions on upstreaming capital or liquidity from subsidiaries to PCH; integrated liquidity management, with contingency plans in place; moderate double leverage; and a simple group structure with full ownership of banking subsidiaries.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Significant Changes

Coronavirus Outbreak Amplifies Operating Environment Risks

A sharp economic downturn caused by the coronavirus pandemic has significantly increased operating environment risks for the ProCredit group. Fitch expects economic contraction in all of the group's markets in 2020 (see the table in the margin), including deep recessions in Bulgaria and Ukraine (about 6%), which accounted for the bulk of PCH's total profit in 2019. At the same time, Fitch expects strong economic rebound in 2021. Downside risks to the forecasts remain high and are mostly related to a potential resurgence in the virus and renewed lockdown restrictions.

As a response to the pandemic, authorities of all the countries introduced monetary and fiscal relief measures targeting businesses and individuals. These should be also supportive for banks and could mitigate asset-quality pressures, at least in the near term. However, the scale of the support (as a percentage of GDP) differs between countries and much depends on the respective sovereigns' financial strength. Most common measures include deferral of tax payments, wage support for affected workers, loan guarantees and options to defer loan payments (loan moratoria). Local central banks have provided additional liquidity to the banking systems, while regulators ordered banks to retain their 2019 profits in order to strengthen their capital buffers and lending capacities.

Moderate Participation in Loan Repayment Moratoria

Loan payment deferral schemes were introduced at the outbreak of the pandemic in all PCH's markets. They differ in scope and length (typically three to six months), but in general should help borrowers mitigate pressures from reduction or loss of income. The take-up rate as of mid-May 2020 was only moderate at about 30% of the group's total customer loan book (or

Fitch's real GDP growth forecast (%)

Country	2019	2020	2021
Bulgaria	3.4	-6.1	4.2
Ecuador	0.1	-8.2	1.8
Georgia	5.1	-4.8	4.3
Germany	0.6	-6.3	5.0
North Macedonia	3.6	-4.2	5.1
Romania	4.1	-5.9	5.3
Serbia	4.2	-3.0	5.7
Ukraine	3.2	-6.5	3.5

Source: Fitch Ratings

20% without Serbia, where the moratorium was automatically applied to all borrowers with an opt-out option). Despite some flexibility allowed by regulators regarding risk classification of credit exposures subject to moratorium, we expect asset-quality metrics to deteriorate and LICs to rise as banks need to reflect revised macroeconomic forecasts in their loan-loss assumptions.

Company Profile and Key Qualitative Assessment Factors

Negative Operating Environment Outlook

Fitch has revised the outlook on its 'bb' assessment of PCH's operating environment to negative from stable. The outlooks on the operating enviornments of PCH's subsidiary banks rated by Fitch are also negative. They all reflect our expectation that the economic fallout from the coronavirus outbreak will have significant negative impact on ProCredit group's performance this year, with increased risks to its asset quality and profitability.

The operating environment score of 'bb' reflects Fitch's assessemnt of risks of doing banking business in jurisdictions where ProCredit group is present. The assessment reflects the group's operations in mostly less stable and less advanced economies, with moderate to weak income levels and significant structural weaknesses. In our view, this limits opportunities for banks to do consistently profitable business throughout the credit cycle. However, we have also factored in the benefits from PCH being based in Germany, which includes the high-quality supervision of the consolidated group by BaFin and PCH's access to the German deposit and capital markets.

SME Lender in Emerging Markets

PCH focuses on financing business development, innovation and environment protection in SME segment. Its subsidiary banks have typically small franchises in their respective markets. PCH's profitability has been fairly resilient through the cycle. However, its business model almost exclusively focuses on SMEs and relatively weak economies (mostly in south-eastern and eastern Europe), which can amplify credit risks.

PCH has established itself as an institution that builds long-term customer relationships and has well-qualified staff. However, ProCredit banks have limited pricing power given their small market shares, the low-interest-rate environments in which they operate and strong market competition. ProCredit banks' shares in local banking sector assets range typically between 2% and 6% (Kosovo: 18%).

PCH's earnings are less diversified than its universal bank peers' due to the SME business focus and a relatively simple product offer. In 2019 they were also concentrated by individual bank, with the subsidiaries in Bulgaria, Kosovo and Ukraine accounting for about 60% of the group's net profit.

Sound Management, Execution Risks

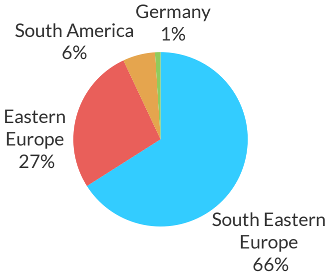
PCH's through-the-cycle performance has been supported by its stable and experienced management and a clearly defined strategy, which has been consistently implemented throughout the group. Strong corporate governance underpins management quality and protection of creditors' interests. However, we also consider limitations to strategy execution resulting from operating environment risks and country-specific factors.

PCH has made a strategic shift during the past several years as it ceased micro finance lending (exposures below EUR50,000) and focused on fully formalised and innovative SMEs. It also decided to largely digitalise its services, which added to substantial cost savings but had its consequences for the group's funding structure. PCH has achieved its key financial targets, though execution has varied between particular banks (with most challenges related to strategy implementation faced by the subsidiaries in Albania, Bosnia and Herzegovina, and Romania). PCH targets a return on equity of about 10% equity in the medium term (2019: about 7%), with average 10% annual loan growth and below 60% cost/income ratio.

Strong Risk Management Culture

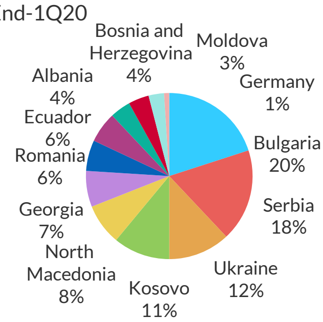
Our assessment of PCH's overall risk appetite considers the group's focus on lending to SMEs in relatively weak and less stable economies, which amplifies credit risks. However, this should be seen against PCH's traditionally conservative approach to risk management, which has

Loan Book
End-1Q20



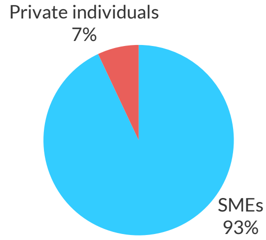
Source: Fitch Ratings, PCH

Loan Book
End-1Q20



Source: Fitch Ratings, PCH

Loan Book
End-1Q20



Source: Fitch Ratings, PCH

been reflected in limited exposure to risky economic sectors, strong loan collateralisation and lending based on 'know-your-client' concept. We have also considered PCH's good risk and reporting tools (though less sophisticated than at higher-rated peers), significant loan growth over the past few years and exposure to foreign-currency risks.

The group's prudent and analytically intensive underwriting policy combined with extensive training of staff and focus on building long-term customer relationships are key to explain its good asset quality. Risk management is integrated across the group and PCH is directly involved in approval and monitoring of the largest customer exposures at subsidiary banks.

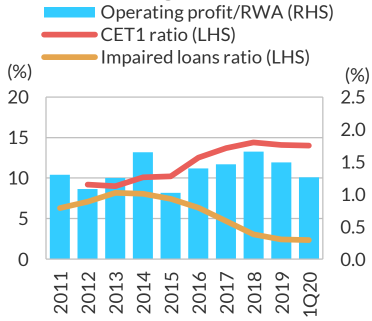
Loan underwriting is concentrated in SME segment. Limited lending to private individuals is generally low-risk since it is selective and mostly mortgage-backed (mainly housing loans). SME loans are mostly long-term and concentrated in trade, manufacturing and agricultural sectors. According to PCH, the most vulnerable sectors (hotels/restaurant/catering, transportation, construction, art and entertainment) accounted for a moderate 15% of gross loan book at end-1Q20. Green loans (related mostly to energy efficiency), which are characterised by low impaired loans ratios, accounted for around 17% of total gross loans.

Foreign-currency risks arise mainly from PCH's foreign-currency equity holdings in subsidiary banks. PCH's regulatory capital is exposed to changes in the exchange rates of local currencies against the euro through a translation reserve in equity. Lending by subsidiary banks in foreign currency (mostly the euro) is meaningful but typically to naturally hedged borrowers. Foreign-currency-related credit risks are mitigated by currency pegs to the euro in some countries (Bosnia and Herzegovina, Bulgaria, Kosovo and North Macedonia).

Loan growth has sometimes exceeded PCH's internal capital generation. However, we expect lending activity to be muted in 2020 across all markets due to reduced loan demand and more selective loan underwriting given amplified credit risks.

Non-loan assets (about 28% of total assets at end-1Q20) are moderate and relatively low-risk as they comprise predominantly cash and cash equivalents (about 17% share), including balances at local central banks. The remaining assets reflect mostly local government bond holdings (about 5%) and interbank exposures (about 3%).

Results Through-The-Cycle



Source: Fitch Ratings, PCH

Summary Financials and Key Ratios

	31 Mar 20		31 Dec 19	31 Dec 18	31 Dec 17
	3 months - 1st quarter	3 months - 1st Quarter	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	56	50.9	194.5	186.2	204.8
Net fees and commissions	13	12.0	52.0	52.2	45.8
Other operating income	2	1.8	4.2	2.9	4.2
Total operating income	71	64.7	250.7	241.3	254.8
Operating costs	46	41.8	175.8	167.8	186.2
Pre-impairment operating profit	25	22.9	74.9	73.5	68.6
Loan and other impairment charges	8	6.9	-3.3	-4.7	5.3
Operating profit	18	16.0	78.2	78.2	63.3
Other non-operating items (net)	n.a.	n.a.	-8.6	-7.8	-0.6
Tax	3	2.3	15.3	15.9	14.6
Net income	15	13.7	54.3	54.5	48.1
Other comprehensive income	-26	-23.6	21.6	9.1	-21.0
Fitch comprehensive income	-11	-9.9	75.9	63.6	27.1
Summary balance sheet					
Assets					
Gross loans	5,302	4,839.5	4,797.4	4,392.1	3,909.9
- Of which impaired	124	113.0	115.5	134.3	183.5
Loan-loss allowances	122	111.4	106.4	124.3	128.5
Net loans	5,180	4,728.1	4,691.0	4,267.8	3,781.4
Interbank	208	189.7	320.7	211.6	196.2
Derivatives	2	2.1	0.3	1.3	1.1
Other securities and earning assets	344	314.2	390.4	308.5	217.8
Total earning assets	5,734	5,234.1	5,402.4	4,789.2	4,196.5
Cash and due from banks	1,249	1,139.6	1,081.7	963.8	1,076.7
Other assets	242	220.9	213.5	213.2	226.2
Total assets	7,225	6,594.6	6,697.6	5,966.2	5,499.4
Liabilities					
Customer deposits	4,666	4,259.0	4,333.5	3,825.9	3,570.9
Interbank and other short-term funding	236	215.6	226.8	200.8	359.5
Other long-term funding	1,408	1,285.2	1,283.4	1,162.4	869.6
Trading liabilities and derivatives	1	1.0	1.7	1.3	4.1
Total funding	6,312	5,760.8	5,845.4	5,190.4	4,804.1
Other liabilities	57	51.6	48.7	32.2	36.8
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	857	782.2	803.5	743.6	658.5
Total liabilities and equity	7,225	6,594.6	6,697.6	5,966.2	5,499.4
Exchange rate		USD1 = EUR0.91274	USD1 = EUR0.89015	USD1 = EUR0.873057	USD1 = EUR0.83382

Source: Fitch Ratings, Fitch Solutions, ProCredit Holding AG & Co. KGaA

Summary Financials and Key Ratios

	31 Mar 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.3	1.5	1.7	1.5
Net interest income/average earning assets	3.9	3.9	4.1	5.0
Non-interest expense/gross revenue	64.6	70.1	69.5	73.1
Net income/average equity	7.0	7.1	7.6	7.3
Asset quality				
Impaired loans ratio	2.3	2.4	3.1	4.7
Growth in gross loans	0.9	9.2	12.3	7.8
Loan-loss allowances/impaired loans	98.6	92.1	92.6	70.0
Loan impairment charges/average gross loans	0.6	-0.1	-0.1	0.1
Capitalisation				
Common equity Tier 1 ratio	14.0	14.1	14.4	13.7
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	15.4	14.7
Tangible common equity/tangible assets	11.6	11.7	12.1	11.6
Basel leverage ratio	10.5	10.8	11.0	10.5
Net impaired loans/common equity Tier 1	0.2	1.2	1.5	9.3
Net impaired loans/Fitch Core Capital	n.a.	n.a.	1.4	8.7
Funding and liquidity				
Loans/customer deposits	113.6	110.7	114.8	109.5
Liquidity coverage ratio	181.0	198.0	187.0	179.0
Customer deposits/funding	73.9	74.2	73.7	74.4
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, ProCredit Holding AG & Co. KGaA

Key Financial Metrics – Latest Developments

Asset Quality

PCH's loan book quality is likely to suffer from expected sharp economic contraction. We believe that SME borrowers in general have less financial flexibility to deal with a prolonged reduction of income and loan moratoria could only temporary reduce these pressures. However, relative to peers, PCH may benefit from its conservative underwriting standards, including strong loan collateralisation and avoidance of more risky economic sectors (such as commercial real estate, tourism or retail unsecured loans).

PCH's asset quality has consistently outperformed the markets in which it operates. At end-1Q20, the Stage 3 loans/total gross loans ratio declined to 2.3%, driven by robust loan growth, recoveries and write-offs (mostly until 2019). The coverage of Stage 3 loans with specific loan-loss allowances was moderate at about 57%, partly reflecting the highly collateralised profile of the loan book. Overall coverage was much stronger at about 99%. Stage 2 loans increased in 1Q20 but were still fairly modest at about 4.5% of gross loans and mostly performing.

Earnings and Profitability

In 1Q20, PCH's operating profit to total risk weighted assets declined further, to 1.3% from 1.5% in 2019, which was driven by an increase in LICs. Pre-impairment profitability continued to be kept on well, supported by loan growth and cost reduction.

We believe that revenue will get under stronger pressure in the following quarters and potential for further cost efficiencies is limited. There are also downside risks to LICs. The latter, if annualised, equalled to a moderate 0.6% of average gross customer loans in 1Q20. According to PCH, the LICs in 1Q20 were driven mainly by a revision of macroeconomic projections in light of the pandemic (impact on provisioning in Stage 1 and 2 loan categories), but also reclassifications of loans into Stage 2.

The financial result of the holding company could suffer in 2020 from temporary restrictions on dividend payments by subsidiary banks, imposed by some local regulators (such as in Bulgaria). The dividend has been the main revenue source for the holding company, accounting for around 62% of total revenue in 2019 and 2018. The remaining recurring revenues could be insufficient to cover operating expenses.

In 2019, the holding reported a net loss (EUR18.5 million) driven by write-downs of the value of its equity investments in subsidiary banks (mainly in Albania and Romania). We understand that the write-down reflected both weak subsidiaries' performance and adjustments to PCH's internal valuation model (see the table below with the holding company's simplified income statement).

Capitalisation and Leverage

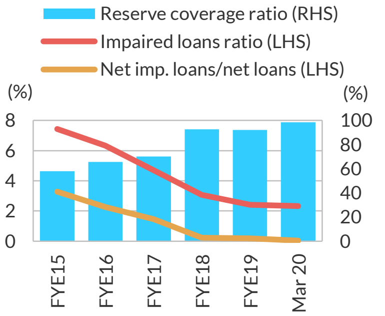
At end-1Q20, PCH's CET1 ratio (14.0%) and total capital adequacy ratio (TCR; 15.6%) were maintained with reasonable margin over minimum regulatory requirements (8.2% for CET1 and 12.6% for TCR). These included a 2.5% capital conservation buffer and a 2.0% additional requirement under Pillar 2. The CET1 did not include planned dividend payment from 2019 profit (EUR17.7million or about 0.35% of total risk-weighted assets). PCH intends to distribute the dividend in 4Q20 subject to regulatory consent.

The holding company's common equity double leverage (defined as the holding company's equity investments in subsidiaries and intangible assets in relation to its common equity) increased in 2019 but was still moderate at about 118% (2018: 113%). We believe that the double leverage could further moderately increase in 2020 as a result of the likely reduced dividend payments by subsidiary banks to PCH.

Funding and Liquidity

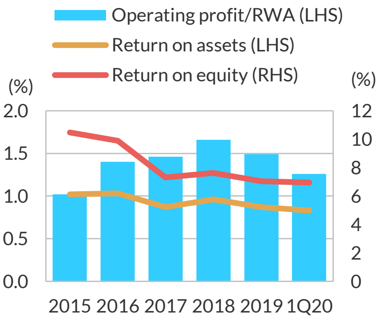
Granular customer deposits are the group's main source of funding (about 74% of PCH's total funding at end-1Q20). The loans/deposits ratio exceeded 100% at PCH (about 114%) and at most subsidiary banks reflecting, mainly their weak standalone deposit franchises. However, it was also attributable to a significant outflow of deposits (mainly retail) several years ago following branch closures (as part of its major strategic turnaround), which has not been fully

Asset Quality



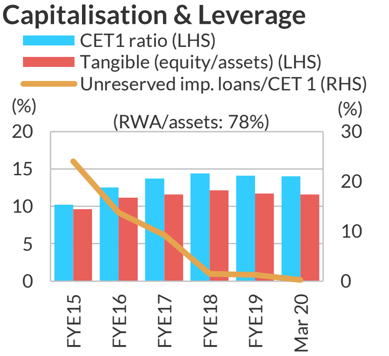
Source: Fitch Ratings, PCH

Profitability



Source: Fitch Ratings, PCH

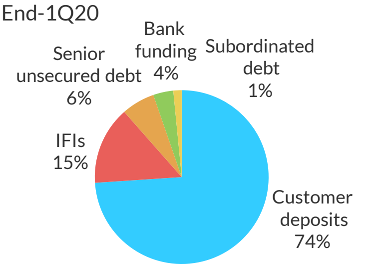
Capitalisation & Leverage



Source: Fitch Ratings, PCH

Funding Sources-ProCredit Group

End-1Q20



Source: Fitch Ratings, PCH

compensated by the build-up of a new deposit base. At end-1Q20, about 47% of customer deposits were from private individuals.

Non-deposit funding is mostly long-term. At the group level, it comprises mainly loans from IFIs extended directly to PCH's subsidiaries (and partly guaranteed by the holding), but also senior unsecured bonds issued by the holding, subordinated debt issued mainly by the holding and bank funding (including from local central banks). Accordingly, the holding company's funding structure is dominated by long-term senior and subordinated debt issued (the latter largely is downstreamed to subsidiary banks).

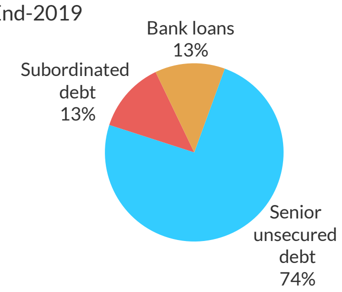
Liquidity is well-managed across the group and adequate reserves are held at the group level to cover potential liquidity needs from subsidiary banks in case of stress. At end-1Q20, the group's liquidity coverage ratio was high at about 181%.

The holding company maintains a fairly modest liquidity buffer (about EUR62.5 million of cash and cash equivalents as of end-2019). However, we believe that its proven access to wholesale debt markets and established relationships with IFIs limit refinancing risks. In July 2020, the holding company secured a USD100 million 12-month facility from IFC.

We view the recently introduced regulatory restrictions on dividend payments by banks in many ProCredit markets as temporary. However, if such restrictions stay in place for longer, this would clearly constrain capital and liquidity fungibility in the group and inflate the holding company's double leverage, having negative impact on our assessment of PCH's credit profile.

Funding Sources-Holding

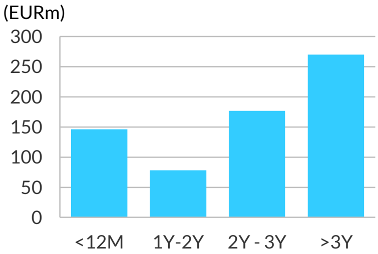
End-2019



Source: Fitch Ratings, PCH

Funding Maturities - Holding

End-2019



Source: Fitch Ratings, PCH

Holding Company's Simplified Income Statement

(EURm)	2019	2018
Interest on loans	15.6	13.6
Dividend income	46.8	50.3
Management service agreements	7.5	7.9
Guarantees	3.3	1.8
Reimbursed expenses	1.4	1.2
Recurring income from subsidiaries	***74.6***	***74.8***
Total revenue	**75.6**	**81.1**
Interest expense and similar	19.8	18.9
Other operating expenses	23.5	24.5
Recurring expenses	***43.3***	***43.4***
Impairment of equity investments	50.2	19.6
Total expenses	**93.5**	**63.0**
Pre-tax result	**-17.9**	**18.1**
Net result	**-18.5**	**17.8**

Source: Fitch Ratings, ProCredit Holding AG & Co. KGaA

Environmental, Social and Governance Considerations

FitchRatings **ProCredit Holding AG & Co. KGaA**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ProCredit Holding AG & Co. KGaA has 5 ESG potential rating drivers

- ProCredit Holding AG & Co. KGaA has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.