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Fitch Affirms ProCredit Holding AG and ProCredit Bank AG at 'BBB'; Outlook Stable

Fitch Ratings - Frankfurt am Main - 15 May 2024: Fitch Ratings has affirmed ProCredit Holding AG's (PCH) Long-Term Issuer Default Rating (IDR) at 'BBB' with a Stable Outlook and Viability Rating (VR) at 'bb'. Fitch has also affirmed the Long-Term IDR of PCH's German subsidiary, ProCredit Bank AG (PCBDE), at 'BBB' with a Stable Outlook.

A full list of rating actions is below.

Key Rating Drivers

Shareholder Support Drives IDRs: PCH's Shareholder Support Rating (SSR) of 'bbb' drives its Long-Term IDR. The SSR is driven by Fitch's view of a high probability of external support being forthcoming to PCH from its largest international financial institution (IFI) shareholder, KfW (AAA/Stable).

We use KfW's ratings as an anchor to our support assessment, although we expect other IFI shareholders, including the European Bank for Reconstruction and Development (EBRD; AAA/Stable) and DOEN Foundation, could also contribute to any required support. This reflects the strategic nature of the IFIs' investment in PCH, their role in the governance structure and a record of liquidity and capital support.

High Propensity to Support: The wide notching between the ratings of KfW and PCH is driven by our view that potential support could be constrained by KfW's only 13.2% stake in PCH, its limited synergies with PCH, and that reputational risks would be contained for KfW in case of a PCH default. Nevertheless, we believe capital or liquidity support would be made available to PCH as long as PCH's business model sustainably aligns with IFI shareholders' mission and corporate governance remains effective.

High SME Exposure; Strong Governance: Fitch assesses PCH on a consolidated basis. Its VR considers its specialised business model focused on responsible financing, primarily to SMEs, with a geographic footprint largely in South and Eastern Europe (SEE). Our assessment also reflects the group's prudent corporate governance and risk management, and strong through-the-cycle asset quality.

ProCredit Group's SEE Focus: The 'bb-' operating environment (OE) score reflects the ProCredit Group's operations in less stable and less advanced economies of SEE, characterised by moderate to weak income levels and structural challenges. However, we have also factored in the advantages of the holding company being based in Germany, which includes robust oversight of the consolidated group by the European and German regulator (BaFin) and access to the German financial market.

Sustained Loan Book Quality: PCH's asset quality is generally strong and compares well with the respective markets its subsidiaries operate in. The group's impaired loans ratio decreased to 2.6% at end-1Q24 (end-2022: 3.2%), and we expect it to remain largely stable in the medium term, reflecting disciplined risk management practices and growth ambitions. Nevertheless, PCH's asset quality is sensitive to developments in its Ukrainian subsidiary, although the latter's loan book has materially decreased over the past two years.

Strengthened Profitability; Potential Volatility: PCH's key profitability ratios are moderate by international standards and prone to swings due to its business model. The group's operating profit (1Q24: 2.5% of risk-weighted assets) benefited from lower loan impairment charges and a wider net interest margin (NIM). We expect the ratio to moderate slightly to about 2% over the next two years, due to strategic transformation costs and a slightly lower NIM, but stay structurally stronger than in recent years (four-year average: 1.4%).

Moderate Capitalisation: The group's common equity Tier 1 (CET1) ratio of 14.3% at end-1Q24 was reasonable, but remains only adequate in the context of its operations in less stable economies, which are more susceptible to unexpected events. We expect PCH's CET1 ratio to remain broadly flat at about 14% over the next two years due to accelerated but less capital-intensive loan portfolio growth, and moderate internal capital generation.

Diversified Funding, Reasonable Liquidity: Our assessment of the group's funding and liquidity considers the generally nominal standalone deposit franchises of its subsidiaries, established relationships with IFI creditors and reasonable liquidity, which is managed centrally. Deposit funding has increased in recent years, supporting a decrease in the gross loans/customer deposits ratio to 86% at end-1Q24 (107% at end-2021). Liquidity is well-managed across the group and adequate buffers are held at the group level.

Assessment Based on Consolidated Profile: PCH's VR is based on Fitch's assessment of the group's consolidated financial profile, because we view the risk of PCH's failure as substantially the same as that of the group as a whole. This reflects the group's effective liquidity management with the presence of contingency plans, but also reasonable capital fungibility, subject to compliance with regulatory requirements by PCH's fully-owned banking subsidiaries. It also takes into consideration our expectations that double leverage at the holding company will stay consistently below 120% (end-2023: 112.5% under IFRS).

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

A weakening in our assessment of potential support available to PCH from KfW, for example, due to a material decrease in its stake accompanied by a negative change in its support stance, could lead to downgrades of PCH's IDRs and SSR, unless offset by support from another highly-rated shareholder.

PCH's VR would be downgraded if we expected a sustained weakening in the CET1 ratio to below 12%

or an increase of its impaired loans ratio above 5%.

The VR could also be downgraded if the holding company's IFRS common equity double-leverage was expected to rise above 120% for a sustained period.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The IDRs could be upgraded if PCH's strategic importance for KfW increased or if another IFI shareholder with a strong credit profile and a very high propensity to support PCH increased its share above KfW's.

Fitch does not expect a VR upgrade in the medium term unless the group's OE score improves. This could lead to an upgrade if it was combined with PCH maintaining good asset quality, sustained improvement in profitability and significant strengthening of capitalisation.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

SUBORDINATED DEBT

The Tier 2 subordinated debt is rated one notch below the VR. The VR is used as the anchor rating for this instrument as it best indicates the risk of the issuer becoming non-viable, and reflects our view that extraordinary support from PCH's international financial institutions shareholder is less likely to fully extend to non-senior obligations. The rating is notched down once for loss severity, rather than our baseline two notches, from the VR to reflect our view that a large or full loss is likely to be mitigated by institutional support.

EX-GOVERNMENT SUPPORT RATINGS

PCH's 'BB(xgs)' Long-Term IDR (xgs) is in line with the bank's VR. Its 'B(xgs)' Short-Term IDR (xgs) is the only option mapping to its Long-Term IDR (xgs).

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

SUBORDINATED DEBT

PCH's subordinated debt rating is primarily sensitive to a change in the anchor rating. It is also sensitive to a revision in Fitch's assessment of potential loss severity in case of non-performance, including revised view that partial support could mitigate losses.

EX-GOVERNMENT SUPPORT RATINGS

PCH's Long-Term IDR (xgs) has the same sensitivities as the bank's VR.

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

PCBDE's IDRs, IDRs (xgs) and SSR are equalised with those of PCH and reflect Fitch's view of a high likelihood of support being provided to PCBDE, in case of need. This view is based primarily on the bank's central treasury role within the group and a strong legal commitment in the form of a profit and loss transfer agreement, which includes a provision requiring a capital injection by the parent if PCBDE's regulatory total capital ratio falls below 13%. The Stable Outlook on PCBDE's rating reflects that on the parent.

Fitch does not assign a VR to PCBDE because the bank's business model is highly dependent on that of the parent and its operations rely on strong integration within the broader group, resulting in a limited standalone franchise. PCBDE's role as a 'service' bank to other group members means that the bank concentrates on providing treasury, clearing, trade finance and liquidity management services to sister banks. The bank also offers some co-financing with sister banks and financing to German SMEs, but the latter is narrow. PCBDE is the regulatory anchor for the group's consolidated supervision by BaFin and Bundesbank.

PCBDE's deposit ratings are aligned with its respective IDRs and IDRs(xgs). We have not given an uplift to PCBDE's deposit rating, given no resolution debt buffer requirement and a small total debt buffer. Even if the latter reached a sufficient size in the future we believe the bank's qualifying debt buffer would not afford any obvious additional benefit over and above the support benefit already factored into the IDRs.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

As PCBDE's IDRs, SSR and deposit ratings are equalised with PCH's IDRs, a change in PCH's IDRs would lead to a corresponding change in PCBDE's ratings. The bank's xgs ratings will move in tandem with PCH's xgs ratings.

VR ADJUSTMENTS

The OE score at 'bb-' is below the 'aa' category implied score due to the following adjustment reason: international operations (negative).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

PCH's IDRs and SSR reflect potential support from its largest shareholder, KfW. PCBDE's ratings are driven by support from PCH.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entities, either due to their nature or the way in which they are being managed by the entities. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Fitch Ratings Analysts

Caroline Herper
Associate Director
Primary Rating Analyst
+49 69 768076 176
Fitch Ratings – a branch of Fitch Ratings Ireland Limited Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Monika Panasiuk
Associate Director
Secondary Rating Analyst
+48 22 103 3028

Huseyin Sevinc
Senior Director
Committee Chairperson
+44 20 3530 1027

Media Contacts

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
ProCredit Bank AG	LT IDR	BBB	Affirmed		BBB
	ST IDR	F2	Affirmed		F2
	LT IDR (xgs)	BB(xgs)	Affirmed		BB(xgs)
	Shareholder Support	bbb	Affirmed		bbb
	ST IDR (xgs)	B(xgs)	Affirmed		B(xgs)

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• long-term deposits	LT	BBB	Affirmed		BBB
• short-term deposits	ST	F2	Affirmed		F2
• long-term deposits	LT (xgs)	BB(xgs)	Affirmed		BB(xgs)
• short-term deposits	ST (xgs)	B(xgs)	Affirmed		B(xgs)
ProCredit Holding AG	LT IDR	BBB	Affirmed		BBB
	ST IDR	F2	Affirmed		F2
	Viability	bb	Affirmed		bb
	LT IDR (xgs)	BB(xgs)	Affirmed		BB(xgs)
	ST IDR (xgs)	B(xgs)	Affirmed		B(xgs)
	Shareholder Support	bbb	Affirmed		bbb
• subordinated	LT	BB-	Affirmed		BB-

RATINGS KEY OUTLOOK WATCH

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	◆
NEGATIVE	⊖	◆
EVOLVING	⊙	◆
STABLE	⊙	

Applicable Criteria

Bank Rating Criteria (pub.15 Mar 2024) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

ProCredit Bank AG	EU Issued, UK Endorsed
ProCredit Holding AG	EU Issued, UK Endorsed

DISCLAIMER & DISCLOSURES

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch’s website.

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