FitchRatings

Banks
Universal Commercial Banks
Germany

ProCredit Holding AG

Update

Key Rating Drivers

Shareholder Support Drives IDRs: ProCredit Holding AG's (PCH) Shareholder Support Rating (SSR) of 'bbb' drives its Long-Term Issuer Default Rating (IDR). The SSR is driven by Fitch Ratings' 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 the 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 small 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 Viability Rating (VR) considers its specialised business model, focused on responsible financing, primarily to SMEs, with a geographical footprint largely in south and eastern Europe. Our assessment also reflects the group's prudent corporate governance and risk management, and strong through-the-cycle asset quality.

Sustained Loan Book Quality: PCH's asset quality compares well with the markets its subsidiaries operate in. The group's impaired loans ratio decreased to 2.3% at end-3Q24 (end-2023: 2.7%), mainly due to increased loan growth and a fall in impaired loans. We expect it to remain largely stable in the medium term, reflecting disciplined risk-management practices and growth ambitions. Asset quality is sensitive to developments in the Ukrainian subsidiary, although the loan book and share of impaired loans have materially decreased since 2022.

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 fell to 2.2% of risk-weighted assets at end-3Q24 (end-2023: 2.4%) due to increased operating expenses. We expect the ratio to fall slightly further to about 2% over the next two years, due to strategic transformation costs and a slightly lower net interest margin, but to stay structurally stronger than in recent years (four-year average: 1.4%).

Moderate Capitalisation: The group's common equity Tier 1 (CET1) ratio of 14.1% at end-3Q24 was reasonable compared to peers, but remains only adequate in the context of the operations in less stable economies, which are more susceptible to unexpected events. We expect PCH's CET1 ratio to be overall 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. Deposit funding has increased in recent years, supporting a decrease in the gross loans/customer deposits ratio to 87% at end-3Q24 (end-2021: 107%). Liquidity is well-managed across the group, and adequate buffers are held at the group level.

Ratings

Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F2
Long-Term IDR (xgs)	BB(xgs)
Short-Term IDR (xgs)	B(xgs)
Viability Rating	bb
Shareholder Support Rating	bbb

Sovereign Risk (Germany)

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 (March 2024)

Related Research

Fitch Affirms EBRD at 'AAA'; Outlook Stable (November 2024)

Sovereign Data Comparator (September 2024)

Fitch Affirms KfW at 'AAA'; Outlook Stable (September 2024)

Fitch Affirms ProCredit Holding AG and ProCredit Bank AG at 'BBB'; Outlook Stable (May 2024)

ProCredit Holding AG - Ratings Navigator (May 2024)

Analysts

Caroline Herper, CFA
+49 69 768076 176
caroline.herper@fitchratings.com

Fatma Mohamed
+44 20 3530 1622
fatma.mohamed@fitchratings.com

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 operating environment 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

Rating Level	Rating
Long-term subordinated debt	BB-

Source: Fitch Ratings

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.

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).

Significant Changes from Last Review

Higher Costs Begin to Weigh on Profitability

Operating expenses driven by increased IT, marketing and personnel expenses, as part of the bank's growth strategy, weighed on the bank's operating profit, and could not be offset by the near-10% increase in PCH's operating income in 9M24. This rise in operating income was mainly due to higher loan growth (9% yoy) and higher average interest rates, which offset higher funding costs related to increased deposit funding and other funding sources. The loan impairment charges fell to EUR4.1 million in 9M24 (9M23: EUR8.5 million), due to the release of management overlays (EUR10.4 million) and recoveries on written-off loans (EUR9.6 million). Overall, operating profit fell only slightly by 5% in 9M24 relative to the same period in the previous year.

Presence in Ukraine and Ecuador Creates Challenges

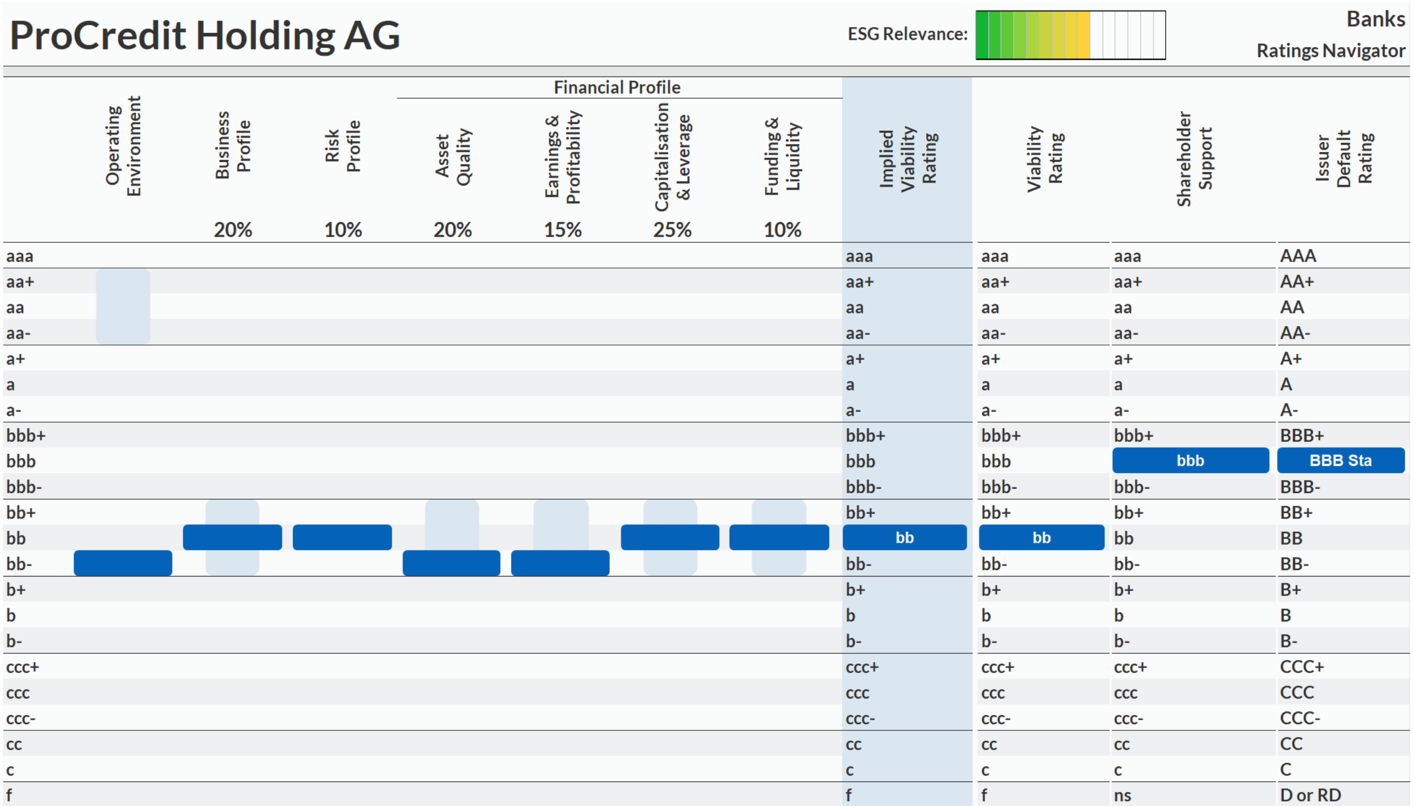
Loan portfolios reduced by an aggregate EUR50 million in Ukraine and Ecuador, driven by unfavourable market conditions. In Ukraine, the ongoing war has restricted new lending to existing customers outside of the conflict zone to help limit credit risk. Despite the loan contraction, impaired loans reduced to 4.8% (end-2023: 7.3%) of gross loans, and specific coverage of these impaired loans remains high at 83.4%. However, the expected temporary increase in the tax rate for banks in Ukraine to 50% could be a further drag on the bank's profitability.

Within Ecuador, ongoing security concerns, prolonged droughts and various other factors have led to an illiquid market, weaker profitability and lower growth prospects. ProCredit Bank Ecuador's loan portfolio contracted by 4.2% and the bank recorded a loss of EUR8 million. Rate ceilings in the country also continue to affect net interest rate margins as it means higher funding costs cannot be passed down to customers.

Key Targets for 2024 Updated

PCH has updated some of its key targets for 2024. In particular, its return on equity target was lowered slightly, to around 10% (from 10%–12%), due to the expected impact from the increased tax on the Ukrainian subsidiary, the challenging environment in Ecuador, and the increased costs from the new strategy. The higher costs also led to an increase in the bank's cost/income ratio target to 66% from 63% (9M24: 65.7%). PCH also raised its guidance for loan portfolio growth to above 10% in 2024, and confirmed the targets for its CET1 ratio (over 13%) and its leverage ratio (around 9%). We view the bank's loan growth, profitability and capital targets as broadly achievable and in line with our forecasts.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

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

Financials

Financial Statements

	30 Sep 24		31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
	9 months	9 months	12 months	12 months	12 months	12 months
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)	(EURm)
	Unaudited	Unaudited	Audited – unqualified	Audited – unqualified	Audited – unqualified	Audited – unqualified
Summary income statement						
Net interest and dividend income	303	270.6	337.2	264.6	222.0	201.6
Net fees and commissions	49	44.0	57.5	54.7	50.9	47.4
Other operating income	18	16.1	19.4	22.8	12.2	4.9
Total operating income	370	330.7	414.1	342.1	285.1	253.9
Operating costs	243	217.2	248.0	217.8	182.6	171.4
Pre-impairment operating profit	127	113.5	166.1	124.3	102.5	82.5
Loan and other impairment charges	5	4.1	15.3	104.8	6.5	28.6
Operating profit	122	109.4	150.8	19.5	96.0	53.9
Other non-operating items (net)	–	–	-0.8	-1.7	-1.5	-1.8
Tax	28	24.6	36.6	1.3	14.9	10.7
Net income	95	84.8	113.4	16.5	79.6	41.4
Other comprehensive income	-7	-6.1	1.0	-3.4	28.0	-53.8
Fitch comprehensive income	88	78.7	114.4	13.1	107.6	-12.4
Summary balance sheet						
Assets						
Gross loans	7,595	6,783.8	6,226.5	6,107.7	5,924.4	5,254.3
– Of which impaired	174	155.7	169.2	196.7	133.2	130.8
Loan loss allowances	211	188.4	196.8	214.9	131.4	122.7
Net loans	7,384	6,595.4	6,029.7	5,892.8	5,793.0	5,131.6
Interbank	561	501.0	372.1	280.5	252.6	236.5
Derivatives	7	6.5	8.1	12.7	1.3	0.5
Other securities and earning assets	920	821.5	762.4	491.2	422.7	347.6
Total earning assets	8,872	7,924.4	7,172.3	6,677.2	6,469.6	5,716.2
Cash and due from banks	2,393	2,137.6	2,347.6	1,939.7	1,545.5	1,405.3
Other assets	276	246.6	229.1	209.2	200.8	207.8
Total assets	11,542	10,308.6	9,749.0	8,826.1	8,215.9	7,329.3
Liabilities						
Customer deposits	8,756	7,820.5	7,254.2	6,289.5	5,542.3	4,898.9
Interbank and other short-term funding	1,150	1,027.1	1,127.7	1,318.6	1,313.7	230.6
Other long-term funding	388	346.8	286.4	285.6	440.6	1,357.1
Trading liabilities and derivatives	2	1.6	1.3	0.6	0.4	4.4
Total funding and derivatives	10,296	9,196.0	8,669.6	7,894.3	7,297.0	6,491.0
Other liabilities	98	87.8	95.6	62.4	62.6	58.6
Preference shares and hybrid capital	–	–	–	–	–	–
Total equity	1,147	1,024.8	983.8	869.4	856.3	779.7
Total liabilities and equity	11,542	10,308.6	9,749.0	8,826.1	8,215.9	7,329.3
Exchange rate		USD1 = EUR0.893176	USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, ProCredit Holding AG

Key Ratios

	30 Sep 24	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.2	2.4	0.3	1.7	1.0
Net interest income/average earning assets	4.8	4.9	4.0	3.7	3.7
Non-interest expense/gross revenue	65.7	59.9	63.7	64.1	67.5
Net income/average equity	11.2	12.1	1.9	9.7	5.3
Asset quality					
Impaired loans ratio	2.3	2.7	3.2	2.3	2.5
Growth in gross loans	9.0	2.0	3.1	12.8	9.5
Loan loss allowances/impaired loans	121.0	116.3	109.3	98.7	93.8
Loan impairment charges/average gross loans	0.1	0.3	1.7	0.1	0.6
Capitalisation					
Common equity Tier 1 ratio	14.1	14.3	13.5	14.1	13.3
Fully loaded common equity Tier 1 ratio	14.1	14.3	13.5	14.1	-
Fitch Core Capital ratio	–	–	–	–	-
Tangible common equity/tangible assets	9.6	9.8	9.6	10.2	10.4
Basel leverage ratio	8.7	8.8	8.9	9.3	9.3
Net impaired loans/common equity Tier 1	-3.5	-3.1	-2.2	0.2	1.2
Funding and liquidity					
Gross loans/customer deposits	86.7	85.8	97.1	106.9	107.3
Liquidity coverage ratio	197.3	177.9	155.0	158.4	153.0
Customer deposits/total non-equity funding	85.1	83.7	79.7	76.0	75.5
Net stable funding ratio	153.3	158.0	146.0	141.7	-

Source: Fitch Ratings, Fitch Solutions, ProCredit Holding AG

Support Assessment

Shareholder Support	
Shareholder IDR	AAA
Total Adjustments (notches)	-8
Shareholder Support Rating	bbb
Shareholder ability to support	
Shareholder Rating	AAA/ Stable
Shareholder regulation	1 Notch
Relative size	Equalised
Country risks	Equalised
Shareholder propensity to support	
Role in group	2+ Notches
Reputational risk	2+ Notches
Integration	2+ Notches
Support record	1 Notch
Subsidiary performance and prospects	Equalised
Legal commitments	2+ Notches

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Shareholders Support Rating Drives IDRs

PCH's IDRs and SSR are driven by Fitch's view of a high likelihood of extraordinary support from PCH's largest IFI shareholder, KfW, to which Fitch anchors its support assessment. We expect KfW to act in cooperation with the other IFI shareholders, the EBRD and the DOEN Foundation. These entities could provide further support, as their investment in PCH is of the same strategic nature as KfW's, which we view as long term, along with similar roles in governance structure, the alignment of the IFIs' missions of promoting economic and social development with ProCredit's impact-oriented strategy, their presence in emerging European countries, and a record of ordinary liquidity and capital support already provided to PCH and its subsidiaries.

The wide notching between the ratings of KfW and PCH is driven by the propensity to support being constrained by KfW's 13.2% minority stake, its limited synergies with PCH other than an aligned mission and strategic impact-orientation, and contained reputational risk for KfW should PCH default. We believe support would be made available to cover temporary shortages of capital or liquidity as long as PCH continues to operate in a manner consistent with the objectives of its IFI shareholders, and maintains robust corporate governance. The wide notching also results from uncertainty regarding support being timely, given the fragmented nature of the shareholder structure.

Subsidiaries and Affiliates

Issuer Ratings (Main Subsidiaries)

Rating Level	ProCredit Bank AG	ProCredit Bank (Bulgaria) EAD	ProCredit Bank a.d. Beograd	ProCredit Bank AD Skopje	ProCredit Bank S.A	ProCredit Bank Sh.a. (Kosovo)	ProCredit Bank Sh.a. (Albania)	Banco ProCredit S.A.	ProCredit Bank (Ukraine)
Long-Term IDR	BBB/Stable	BBB-/Stable	BBB-/Stable	BBB-/Stable	BBB-/Stable	BB+/Stable	BB+/Stable	B/Stable	CCC
Short-Term IDR	F2	F3	F3	F3	F3	B	B	B	C
Viability Rating	-	bb	bb-	bb-	b+	b+	b-	ccc+	ccc
Shareholder Support Rating	bbb	bbb-	bbb-	bbb-	bbb-	bb+	bb+	b	ccc

Source: Fitch Ratings

The Long- and Short-Term IDRs of the main subsidiaries are all based on shareholder support from ProCredit Holding AG.

ProCredit Bank AG's (PCBDE) IDRs are in line with PCH's. This reflects our view that PCBDE is an integral part of the ProCredit group given its treasury and other core "service" function role. The equalisation also considers the profit-and-loss transfer agreement between PCH and PCBDE, which Fitch regards as a solid indication of PCH's support commitment.

The Long-Term IDRs of ProCredit Bank (Bulgaria) EAD, ProCredit Bank a.d. Beograd, ProCredit Bank AD Skopje, and ProCredit Bank S.A. are all notched down once from PCH's to reflect Fitch's view that their activities are strategically important to the group and remain part of its long-standing and well-established presence in south and eastern Europe. We consider the strong ability and propensity of parent support. Our assessment is underpinned by the subsidiaries' long and successful support of group objectives and reputational risk for the parent should any of these subsidiaries default.

The Kosovar and Albanian subsidiaries are notched down twice from PCH to reflect our view that both banks' capacity to utilise parent support to service obligations remain linked to transfer and convertibility risks in their respective regions, which, although reduced, still limit the extent to which potential support can be factored into the banks' ratings.

The Long-Term IDR of Banco ProCredit Bank S.A. is notched down thrice from PCH to reflect Fitch's view that, while parental support is robust, it remains constrained by Ecuador's transfer and convertibility risks, as captured in the 'B' country ceiling.

The 'CCC' Long-Term IDR of ProCredit Bank (Ukraine) reflects that, while PCH's propensity to support the bank remains high due to its strategic importance, PCBU's ability to use potential parental support from its parent, in particular to service FC obligations is constrained.

Environmental, Social and Governance Considerations

FitchRatings **ProCredit Holding AG**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ProCredit Holding AG has 5 ESG potential rating drivers

- ProCredit Holding AG 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.

			ESG Relevance to Credit Rating
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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

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

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	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; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

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 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 entity, either due to their nature or the way in which they are being managed by the entity. 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.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.