

# ProCredit Holding AG & Co. KGaA

## Update

### Key Rating Drivers

**Support-Driven IDRs:** The Issuer Default Ratings (IDRs) and Shareholder Support Rating (SSR) of ProCredit Holding AG & Co. KGaA (PCH) are driven by Fitch Ratings' view of high likelihood of external support being forthcoming to PCH from its core international financial institution (IFI) shareholders: KfW (AAA/Stable), International Finance Corporation (IFC), and DOEN Foundation.

**SME-Oriented Business Model:** PCH's 'bb' Viability Rating (VR) reflects the fairly narrow franchises of most of its subsidiary banks in their respective jurisdictions and their focus on servicing SMEs in south eastern Europe (SEE) and eastern Europe (EE). PCH's credit profile is complemented by the group's strong corporate governance and cautious risk management, resulting in its asset quality consistently outperforming the markets in which it operates.

**Stable Asset Quality:** The group's Stage 3 loan ratio remained steady at a low 2.5% at end-3Q21, while its Stage 2 loan ratio reverted to pre-pandemic levels. We expect asset quality to remain stable or slightly deteriorate in 2022, but to an extent commensurate with our current assessment.

**Moderate Profitability:** In 9M21 the group's operating profit to risk-weighted assets (RWAs) was about 1.8%, up from 1% in 2020. We expect the group's 2022 profitability to hover at around 2021 levels, supported by higher loan growth and higher interest yields in specific segments or markets, while loan impairment charges (LICs) should normalise at 20bp-30bp in the medium term.

**Adequate Capitalisation:** Fitch expects the group's capitalisation to remain only adequate amid high appetite for organic growth, but commensurate with the risk profile. At end-3Q21, the common equity Tier 1 (CET1) ratio of 13.8% (end-2020: 13.3%) and the total capital ratio of 15% were maintained with reasonable buffers over minimum regulatory requirements.

**Diversified Funding, Reasonable Liquidity:** Our assessment of the group's funding and liquidity considers the nominal standalone deposit franchise of most of its subsidiary banks, some reliance on wholesale funding, and reasonable liquidity, which is managed centrally. Granular customer deposits, which have continued to grow, are the group's main source of funding and represented around 76% of total funding at end-3Q21.

### Rating Sensitivities

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

**Operating Environment, Financial Profile:** PCH's VR could be downgraded as a result of a deterioration in the environments where the group operates, especially if combined with a material weakening in asset quality. The group's VR could be also downgraded if its capitalisation deteriorates, particularly if the CET1 ratio was eroded below 12%, without credible prospect of it being restored within a short period.

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

**Double Leverage:** PCH's VR would also be downgraded if the holding company's common equity double leverage was above 120% for a sustained period.

### Ratings

#### Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F2

Viability Rating	bb
Shareholder Support Rating	bbb

#### 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 \(November 2021\)](#)

### Related Research

[Fitch Affirms ProCredit Holding and Six Subsidiary Banks \(December 2021\)](#)  
[Sovereign Data Comparator \(December 2021\)](#)  
[ProCredit Holding AG & Co. KGaA - Rating Report \(April 2021\)](#)

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## Shareholder Support Assessment

### High Probability of Extraordinary Support from Core IFI Shareholders

PCH's IDR and SSR are driven by Fitch's view of high likelihood of external support being forthcoming to PCH from its core international financial institution (IFI) shareholders: KfW (AAA/Stable), International Finance Corporation (IFC), and DOEN Foundation (with a combined stake of about 36%, according to the last disclosure of voting rights). Fitch also views Zeitinger Invest GmbH and ProCredit Staff Invest as core shareholders in PCH. These entities were founding shareholders and have strategic control over the group through their status as general partners within PCH's KGaA structure.

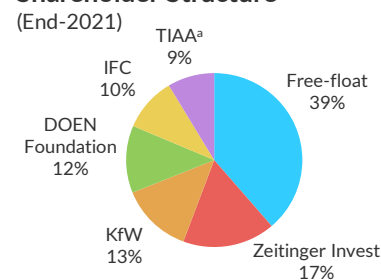
Fitch views the propensity of PCH's core shareholders to provide support as high. This is because of the long-lasting and strategic nature of the IFIs' investment in PCH, their role in PCH's governance structure, the alignment of the IFIs' missions of promoting economic and social development with ProCredit group responsibility for SME financing in emerging countries, and a record of ordinary debt and capital support for PCH and its subsidiary banks.

Fitch sees some uncertainty in respect to support always being provided timely if needed, given the fragmented nature of the shareholder structure and potentially diminished support in the event core IFI shareholders reduce their stakes in PCH. We therefore apply a wide notching between the ratings of KfW - the only Fitch-rated entity among core shareholders - and PCH (see the table below).

#### Within this report:

- PCH refers to ProCredit Holding AG & Co. KGaA, the holding company only.
- "ProCredit group" or "group" refers to the consolidated group, including PCH and its subsidiary banks.

### Shareholder Structure



<sup>a</sup> Teachers Insurance and Annuity Association of America  
 Source: Fitch Ratings, PCH

Shareholder Support Rating KRDS	
Parent IDR	AAA
Total Adjustments (notches)	-8
<b>Shareholder Support Rating:</b>	<b>bbb</b>
<b>Shareholder ability to support</b>	
Shareholder Rating	AAA/ Stable
Shareholder regulation	1 Notch
Relative size	Equalised
Country risks	Equalised
<b>Shareholder propensity to support</b>	
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

#### Legend:

**Support Assessment:** the colours indicate the weighting of each KRD in the assessment.

- Higher Influence
- Moderate Influence
- Lower Influence

**Ratings Navigator**

ProCredit Holding AG & Co. KGaA							ESG Relevance:	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Shareholder Support Rating	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%				
aaa							aaa	aaa	aaa	AAA
aa+							aa+	aa+	aa+	AA+
aa							aa	aa	aa	AA
aa-							aa-	aa-	aa-	AA-
a+							a+	a+	a+	A+
a							a	a	a	A
a-							a-	a-	a-	A-
bbb+							bbb+	bbb+	bbb+	BBB+
bbb							bbb	bbb	bbb	BBB Sta
bbb-							bbb-	bbb-	bbb-	BBB-
bb+							bb+	bb+	bb+	BB+
bb							bb	bb	bb	BB
bb-							bb-	bb-	bb-	BB-
b+							b+	b+	b+	B+
b							b	b	b	B
b-							b-	b-	b-	B-
ccc+							ccc+	ccc+	ccc+	CCC+
ccc							ccc	ccc	ccc	CCC
ccc-							ccc-	ccc-	ccc-	CCC-
cc							cc	cc	cc	CC
c							c	c	c	C
f							f	f	ns	D or RD

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 shared areas indicate the benchmark -implied scores for each KRD.

■ Higher influence ■ Moderate influence

**Assessment on Consolidated Basis**

PCH's VR is based on Fitch's assessment of the consolidated group's financial profile, because we view its failure risk as substantially the same as that of the group. This reflects the following factors: the group being subject to consolidated supervision and required to meet regulatory requirements at the consolidated level; the fungibility of capital and liquidity across the group, subject to its operating companies fulfilling their regulatory requirements; integrated liquidity management, with contingency plans; expectations that double leverage at the holding company will stabilise sustainably below 120% (end-3Q21: 119% under IFRS); and a simple organisational structure with full ownership of banking subsidiaries.

**Adjustments**

The Operating Environment score has been assigned below the implied score Fitch applies for banks operating purely in Germany ('aa') because of the ProCredit group's international operations primarily in jurisdictions scored at 'b' and 'bb' range.

The Business Profile score has been assigned above the implied score due to the solid strategy and governance supported by the experienced management.

## Significant Changes

### ProCredit Group's Main Operating Environments Outlook is Stable

Fitch's updated economic assumptions for countries where the group operates indicate sound economic rebound, despite some remaining risks related to the pandemic, supply-chain disruptions and rising energy prices. Consequently, we have revised the outlook for the group's Operating Environment (OE) to stable from negative.

The OE assessment reflects the ProCredit Group's activity in mostly less stable and less advanced economies with moderate to weak income levels and significant structural weaknesses. However, we have also factored in the benefits from PCH being based in Germany, which includes the supervision of the consolidated group by BaFin and PCH's access to the German deposits market through ProCredit Bank AG (PCBDE) and to capital markets.

## Key Financial Metrics – Latest Developments

### Smooth Profitability Rebound

The ProCredit group's operating profitability rebounded above out initial expectations to 1.8% of RWAs in 9M21 (1% in 2020), as the group benefited from modest LICs (8bp) compared to 2020. We expect margins to gradually recover in 2022, supported by higher loan growth and higher interest yields in specific segments/markets, while LICs should normalise at 20bp-30bp in a medium term. The potential for further material cost efficiencies is limited as a narrow physical network, a focus on automation and remote banking, are already the foundations for the group's business model.

### Resilient Asset Quality

ProCredit Group's asset quality has been resilient and we score this factor in line with the PCH's risk profile. The group's Stage 3 loan ratio were at a low 2.5% at end-3Q21 (excluding loans purchased or originated credit-impaired), while its Stage 2 loan ratio slightly decreased in 9M21. Fitch expects the impaired loans ratio to remain stable or slightly deteriorate in 2022. It will be supported by continued recoveries and improved economic prospects for ProCredit group markets, but will face renewed pandemic-related challenges and the potential adverse effects of higher energy costs and supply-chain disruptions on the corporate sector.

### Adequate Capitalisation

Fitch expects the group's capitalisation to remain only adequate in the context of high appetite for organic growth but commensurate with the group's risk profile. At end-3Q21, the CET1 ratio of 13.8% (end-2020: 13.3%) and the total capital ratio of 15% were maintained with reasonable buffers over minimum regulatory requirements, including the SREP add-on (at 8.2% for CET1 and 12.6% for total capital ratio). The dividend pay-out of EUR20 million signalled by the management has been already deducted from the regulatory capital.

### Diversified Funding, Reasonable Liquidity

Our assessment of the group's funding and liquidity considers the nominal standalone deposit franchise of its subsidiary banks (apart from PCBK), some reliance on wholesale funding, and reasonable liquidity, which is managed centrally. The funding has been generally stable and largely deposit-based with satisfactory gross loans/customer deposits ratio of 110% at end-3Q21. Senior and subordinated debt issued by PCH, interbank funding, and loans from IFIs (mostly extended directly to PCH's subsidiaries and partly guaranteed by the holding) complement the funding structure.

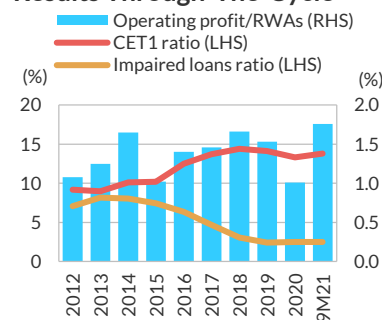
Liquidity is well-managed across the group and adequate reserves are held at the group level to cover subsidiary banks' potential liquidity needs. The Basel III liquidity ratios (liquidity coverage and net stable funding ratios) were well above 100% at end-3Q21.

## OE Scores and real GDP growth forecast (%)

Country	OE score	2020	2021F	2022F
Bulgaria	bb/Stable	-4.4	3.4	4.5
Ecuador	ccc+/ Negative	-7.8	4.0	2.6
Georgia	bb-/Stable	-6.8	8.5	5.8
Germany	aa/Stable	-4.6	2.8	4.4
North Macedonia	bb-/ Stable	-4.5	4.1	4.3
Romania	bb+/ Stable	-3.9	6.4	4.5
Serbia	bb-/Stable	-1.0	6.3	4.4
Ukraine	b/Stable	-4.0	3.5	4.0

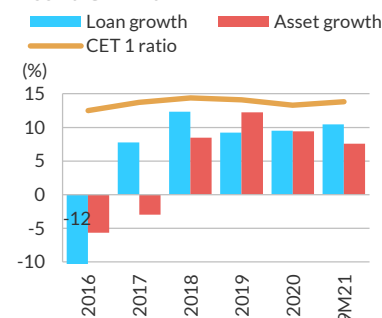
Source: Fitch Ratings

## Results Through-The-Cycle



Source: Fitch Ratings, PCH

## Asset Growth



Source: Fitch Ratings, PCH

**Summary Financials and Key Ratios (consolidated)**

	30 Sep 21		31 Dec 20	31 Dec 19	31 Dec 18
	9 months - 3rd quarter (USDm)	9 months - 3rd quarter (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
<b>Summary income statement</b>					
Net interest and dividend income	187	161.4	201.6	194.5	186.2
Net fees and commissions	43	37.1	47.4	52.0	52.2
Other operating income	7	6.0	4.9	6.2	2.9
Total operating income	237	204.5	253.9	252.7	241.3
Operating costs	148	127.7	171.4	175.8	167.8
Pre-impairment operating profit	89	76.8	82.5	76.9	73.5
Loan and other impairment charges	4	3.2	28.6	-3.3	-4.7
Operating profit	85	73.6	53.9	80.2	78.2
Other non-operating items (net)	n.a.	n.a.	-1.8	-10.6	-7.8
Tax	13	11.6	10.7	15.3	15.9
Net income	72	62.0	41.4	54.3	54.5
Other comprehensive income	29	25.1	-53.8	21.6	9.1
Fitch comprehensive income	101	87.1	-12.4	75.9	63.6
<b>Summary balance sheet</b>					
<b>Assets</b>					
Gross loans	6,719	5,803.0	5,254.3	4,797.4	4,392.1
- Of which impaired	169	145.7	130.8	115.5	134.3
Loan loss allowances	150	129.6	122.7	106.4	124.3
Net loans	6,569	5,673.4	5,131.6	4,691.0	4,267.8
Interbank	286	246.7	236.5	320.7	211.6
Derivatives	3	2.5	0.5	0.3	1.3
Other securities and earning assets	418	360.7	347.6	390.4	308.5
Total earning assets	7,275	6,283.3	5,716.2	5,402.4	4,789.2
Cash and due from banks	1,612	1,391.8	1,405.3	1,081.7	963.8
Other assets	243	209.9	207.8	213.5	213.2
Total assets	9,130	7,885.0	7,329.3	6,697.6	5,966.2
<b>Liabilities</b>					
Customer deposits	6,104	5,271.9	4,898.9	4,333.5	3,825.9
Interbank and other short-term funding	n.a.	n.a.	230.6	226.8	200.8
Other long-term funding	1,966	1,697.9	1,357.1	1,283.4	1,162.4
Trading liabilities and derivatives	0	0.4	4.4	1.7	1.3
Total funding and derivatives	8,071	6,970.2	6,491.0	5,845.4	5,190.4
Other liabilities	68	58.4	58.6	48.7	32.2
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	992	856.4	779.7	803.5	743.6
Total liabilities and equity	9,130	7,885.0	7,329.3	6,697.6	5,966.2
Exchange rate		USD1 = EUR0.86363	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, PCH

**Summary Financials and Key Ratios (consolidated)**

	30 Sep 21	31 Dec 20	31 Dec 19	31 Dec 18
<b>Ratios (annualised as appropriate)</b>				
<b>Profitability</b>				
Operating profit/risk-weighted assets	1.8	1.0	1.5	1.7
Net interest income/average earning assets	3.6	3.7	3.9	4.1
Non-interest expense/gross revenue	62.4	67.5	69.6	69.5
Net income/average equity	10.2	5.3	7.1	7.6
<b>Asset quality</b>				
Impaired loans ratio	2.5	2.5	2.4	3.1
Growth in gross loans	10.4	9.5	9.2	12.3
Loan loss allowances/impaired loans	89.0	93.8	92.1	92.6
Loan impairment charges/average gross loans	0.1	0.6	-0.1	-0.1
<b>Capitalisation</b>				
Common equity Tier 1 ratio	13.8	13.3	14.1	14.4
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	10.6	10.4	11.7	12.1
Basel leverage ratio	9.5	9.3	10.8	11.0
Net impaired loans/common equity Tier 1	2.1	1.2	1.2	1.5
<b>Funding and liquidity</b>				
Gross loans/customer deposits	110.1	107.3	110.7	114.8
Liquidity coverage ratio	154.0	153.0	198.0	187.0
Customer deposits/total non-equity funding	75.6	75.5	74.2	73.7
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, PCH

## Environmental, Social and Governance Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

### 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.	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	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	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.

### 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	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	

**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.

### Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale	CREDIT-RELEVANT ESG SCALE
					How relevant are E, S and G issues to the overall credit rating?
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	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.
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	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.
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	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.
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	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.

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