FitchRatings

Banks
Universal Commercial Banks
Germany

ProCredit Holding AG & Co. KGaA

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

Key Rating Drivers

Shareholder Support Drives IDRs: ProCredit Holding AG & Co. KGaA's (PCH) Long-Term Issuer Default Ratings (IDR) and Shareholder Support Rating (SSR) are driven by Fitch Ratings' view of a high probability of external support being forthcoming to PCH from its largest IFI shareholder KfW (AAA/Stable).

We use KfW as anchor to our support assessment, although we expect KfW to act in cooperation with other shareholders. Other IFI shareholders, European Bank for Reconstruction and Development (EBRD; AAA/Stable) and DOEN Foundation, could provide further support, given the same strategic nature of their investment in PCH, their role in governance structure and a record of liquidity and capital support already provided to PCH and its subsidiaries. However, potential support from them does not drive the ratings.

Strong Governance, Less Stable Economies: Fitch assesses PCH on a consolidated basis. Its Viability Rating (VR) reflects the group's business model focused on cautious SME lending in less stable and less advanced economies, its prudent risk management and strong corporate governance. In addition, its subsidiary banks have typically nominal domestic franchises, but sound through-the-cycle asset quality.

Operations Concentrated in SEE: Our 'bb-' operating environment (OE) score reflects the ProCredit Group's operations in South-eastern Europe (SEE), which has less stable and less advanced economies, moderate to weak income levels and significant structural weaknesses. However, we have also factored in the benefits from the holding company being based in Germany, which includes the high-quality supervision of the consolidated group by the European and German regulator (BaFin) and access to the German deposit and capital markets.

Exposure on Ukraine: PCH's asset-quality metrics have been consistently better than the average in the banking sectors where its subsidiaries operate. This reflects its conservative approach to risk management and, mostly, collateralised lending. We expect the loan portfolio in Ukraine to remain a main risk for asset quality in the near term. It amounted to EUR553 million equivalent net of provisions or 61% of the group's equity. The deterioration of the quality of this portfolio has lifted the group's historically low Stage3 ratio to 3.2% at end-1Q23.

Challenges to Profitability: PCH's profitability is moderate by international standards and is prone to performance swings due to its business model. Widening net interest margin (NIM) and reasonable cost efficiency supported its sound performance in 1Q23. However, we expect weaker PCH's results for 2023 and 2024 due to higher loan impairment charges (LICs), slower lending growth and higher funding costs.

Capitalisation Vulnerable to Country Risks: The group's risk-weighted capital ratios (common equity Tier 1 (CET1) ratio of 14.1% and total capital ratio of 15.4% at end-1Q23) are reasonable, but remain only adequate in the context of its operations in weaker and less stable economies, which are more susceptible to shocks. We expect PCH to gradually steer its CET1 ratio towards 13% via moderate growth and capital distributions.

Diversified Funding, Reasonable Liquidity: Our assessment of the group's funding and liquidity considers the generally nominal standalone deposit franchise of its subsidiary banks, established relationships with IFI investors and reasonable liquidity, which is managed centrally. Deposit funding has increased, supporting a decrease in the gross loans/customer deposits ratio to below 100%. Liquidity is well-managed across the group and adequate reserves are held at the group level to cover the subsidiary banks' and PCH's liquidity needs.

Applicable Criteria

Bank Rating Criteria (September 2022)

Bank Ex-Government Support Ratings Criteria (April 2023)

Related Research

Fitch Affirms ProCredit Holding's and ProCredit Bank AG's at 'BBB' (June 2023)

ProCredit Holding AG & Co. KGaA - Ratings Navigator (July 2023)

Sovereign Data Comparator (June 2023)

ProCredit Holding Ratings To Be Unaffected by Core Shareholder Change (March 2023)

ProCredit Holding's Legal Form Change to Have No Immediate Rating Impact (November 2022)

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Rating Sensitivities

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

A weakening of support available to PCH from KfW due to a material decrease in its stake accompanied by a change in its support stance, could lead to downgrade PCH's IDRs and SSR, unless offset by support from another strong shareholder.

PCH's VR would be downgraded if LICs in Ukraine and other markets increased above our current expectations and put pressure on capitalisation. In particular, a sustained reduction in the bank's CET1 ratio to below 12% or an increase of its Stage 3 ratio above 5% would likely result in a downgrade.

The VR could also be downgraded if the holding company's IFRS common equity double-leverage is 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 combined with maintaining good asset quality, improvement in profitability and significant strengthening of capitalisation.

Other Debt and Issuer 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 mapped to its Long-Term IDR (xgs).

Ratings Navigator

ProCredit Holding AG & Co. KGaA — ESG Relevance: — Banks Ratings Navigator

	Operating Environment	Business Profile	Risk Profile	Asset Quality (Financial Profile)	Earnings & Profitability (Financial Profile)	Capitalisation & Leverage (Financial Profile)	Funding & Liquidity (Financial Profile)
Weighting		20%	10%	20%	15%	25%	10%

Implied Viability Rating	Viability Rating	Shareholder Support	Issuer Default Rating
aaa	aaa	aaa	AAA
aa+	aa+	aa+	AA+
aa	aa	aa	AA
aa-	aa-	aa-	AA-
a+	a+	a+	A+
a	a	a	A
a-	a-	a-	A-
bbb+	bbb+	bbb+	BBB+
bbb	bbb	**bbb**	**BBB Sta**
bbb-	bbb-	bbb-	BBB-
bb+	bb+	bb+	BB+
bb	**bb**	bb	BB
bb-	bb-	bb-	BB-
b+	b+	b+	B+
b	b	b	B
b-	b-	b-	B-
ccc+	ccc+	ccc+	CCC+
ccc	ccc	ccc	CCC
ccc-	ccc-	ccc-	CCC-
cc	cc	cc	CC
c	c	c	C
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 shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

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

Company Summary and Key Qualitative Factors

Operating Environment

Operations Concentrated in SEE; Ongoing War in Ukraine Is a Key Downside Risk

Our assessment of the ProCredit Group OE is based on the weighted average loan exposure approach; the 'bb-' OE score reflects the group's operations 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 the holding company being based in Germany, which includes the high-quality supervision of the consolidated group by the European and German regulator (BaFin) and access to the German deposit and capital markets.

Through its subsidiary in Ukraine - ProCredit Bank (Ukraine) (PCBU, Long-Term IDR at 'CCC-', VR at 'cc') - ProCredit Group is significantly exposed to the downside risks caused by the ongoing war as the magnitude of economic damage remains a key uncertainty. Following a targeted reduction of the portfolio, the subsidiary in Ukraine was about 9% of the group's gross loans at end-1Q23.

Conversely, in June 2023, Fitch revised the OE score for Bulgarian banks to 'bb+' from 'bb'. This revision reflects the convergence of its economic environment towards CEE levels, improving banks' moderate opportunities to do consistently profitable business. Furthermore, the banking union membership, significant and structural improvements in sector's asset quality over the past five years and materially reduced sector fragmentation, further support the banks' business prospects. Bulgaria is the largest market where ProCredit Group operates (24.5% of group's gross loans at end-March 2023), therefore the assessment of its OE influences that at group level.

ProCredit Markets - OE Scores

OE SCORE	COUNTRIES			LOANS EURm end-1Q23	(%)
aa-	Germany			51	0.9
bb+	Romania	Bulgaria		1,792	29.6
bb-	Serbia	North Macedonia	Georgia	1,778	29.3
b	Albania	Bosnia&Herzegovina	Kosovo	1,224	20.2
ccc+	Ecuador			491	8.1
cc	Ukraine			553	9.1
Not Rated	Moldova			173	2.8

Source: Fitch Ratings, PCH

Business Profile

Focus on SMEs in Emerging Markets

ProCredit Group operates a traditional banking model, which is heavily weighted towards lending to SMEs in relatively weak economies and relies on net interest income (NII), which typically represents about 80% of revenue. The group's business orientation remains on financing business development, innovation and environment protection for formalised and established companies and agricultural producers. The role of the holding company is to provide equity and debt financing to group banks to support ordinary business, to encompass a clear mission, product offering and risk-management framework and policies, and to oversee subsidiaries' performance. PCH wholly owns the stakes in all group banks.

Although PCH's subsidiary banks generally lack strong franchise and pricing power in any particular geography (usually having low single-digit market shares, except double-digit in Kosovo), the ProCredit brand is well recognised and the bank is perceived as an SME lender on the local markets. ProCredit Group has established itself as a client-focused institution that builds long-term relationships, has proper digital capabilities and has well-qualified staff.

Banks are increasingly deposit-funded, with well-established access to IFI lending and guarantee programmes and impact-oriented investor's sources, while the rest is funded by the parent and ProCredit Bank AG (PCBDE). PCBDE is based in Germany and serves as the group's treasury arm, a hub for liquidity operations and clearing of international payments.

Presence in Ukraine Remains Key Residual Downside Risk, Although Reduced

Ukraine is one of the strategic markets for PCH, accounting for 9% of gross loans, equivalent to 66% of the group's CET1 capital at end-1Q23, following a selective reduction by about one third since the start of the war. We believe

residual risks for the group from PCBU's operations are manageable if spread over time; still, the exceptionally high operating risks caused by the war will continue to put pressure on the bank's asset quality (about 13% of the Ukrainian bank's loan portfolio was classified as Stage3) and require extensive provisioning.

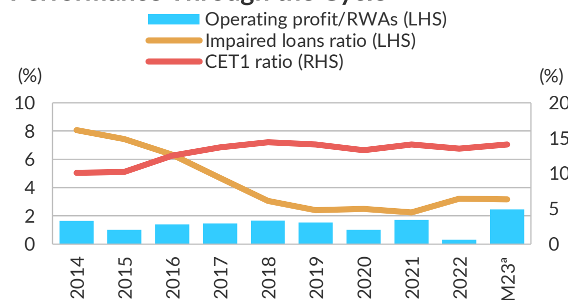
We believe the group is committed to its subsidiary, and therefore, potential cumulative losses for the group from its operations in Ukraine could be greater than PCH's current equity stake (EUR59 million at end-1Q23) and PCH's senior loans in this subsidiary (EUR20 million). Nonetheless, subject to an agreement with PCH's bondholders, any extra investments should comply with the EUR50 million limit beyond group's end-2021 exposure to PCBU.

Experienced Management, Reasonable Performance Tested by Market Challenges

ProCredit Group's performance has been supported by its experienced management, strong corporate governance and a clearly defined strategy. PCH sets guidelines for commercial, risk, capital and funding strategies and the local management deploys the group's guidance adapting the set of objectives to the specifics of local markets. The in-house academies enhance the corporate culture and provide training programmes for management and staff.

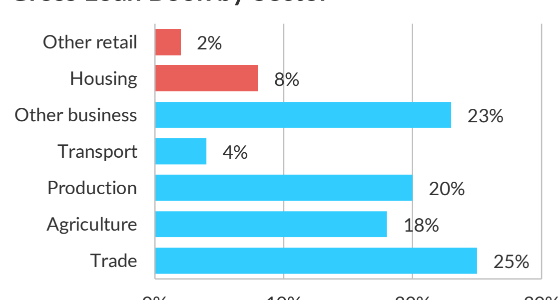
The group has generally met its key financial targets, though execution was variable across the banks with most challenges in the past related to strategic exit from micro-lending, implementation of a direct banking concept and strengthening of the bank's self-financing capacity. The pandemic-related challenges and the war in Ukraine showed the group's agility and the benefits of geographical diversification. We consider the group's medium-term targets to be achievable, although we forecast higher LICs for 2023 compared with the bank's target.

Performance Through the Cycle



a Annualised
Source: Fitch Ratings, PCH

Gross Loan Book by Sector



End-1Q23
Source: Fitch Ratings, PCH

Risk Profile

Proven Risk Management Framework

PCH's risk profile is bound by our assessment of its operating environment, and supported by geographical diversification. ProCredit Group's risk appetite balances its prudent underwriting standards, reasonable control framework and solid organic growth. However, these cannot fully contain the risks to the group's business model from markets that are inherently riskier than its German base. Its loan growth only recently moderated, but we believe that the control environment is suitably adapted to handle higher business volumes.

ProCredit Group's traditionally conservative approach to risk management has been reflected in limited exposure to risky economic sectors, a good degree of diversification by country and borrower and cash-flow-based loan underwriting process supplemented by strong collateralisation.

Risk management is integrated across the group and PCH is directly involved in the approval and monitoring of the largest customer exposures at subsidiary banks. Non-retail exposures are mostly long-term investment loans concentrated in trade, manufacturing and agricultural sectors. Green loans, characterised by superior quality, were 20% of gross loans at end-1Q23. The group's loan portfolio is granular (the top 25 customer loans were about 3.5% of total loans), but with naturally higher single-name concentrations at subsidiaries. Limited lending to private individuals is generally low-risk, since it is selective and mostly related to mortgage-backed housing loans.

Foreign-currency (FC) risks arise primarily from PCH's FC equity holdings in subsidiary banks, and is difficult to hedge. This exposes PCH's regulatory capital to changes in exchange rates of local currencies against the euro through a translation reserve in equity. Lending by subsidiary banks in FC (mostly the euro) is meaningful and typical for banks operating in SEE. This puts unhedged borrowers' repayments at risk in the event of a sharp depreciation of the local currency, but is mitigated by the evaluation of the borrowers' debt service capacity under the stress scenarios in the underwriting process and reliable currency pegs to the euro in some countries (Bosnia and Herzegovina, Bulgaria, Kosovo and North Macedonia).

Financial Profile

Asset Quality

Heightened Asset-Quality Risks; Stage Transfers within Ukraine's Portfolio

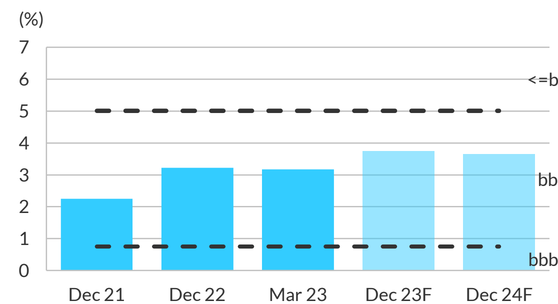
ProCredit Group's fairly conservative risk appetite and prudent underwriting standards support its sound asset quality. Despite the challenging OE due to the second-order effects of the military conflict in Ukraine and direct exposure in Ukraine through its subsidiary, the group's Stage 3 loans ratio only moderately deteriorated in the 12 months until end-1Q23 to 3.2% (end-2021: 2.3%), while risks were largely reflected in the transfers to Stage 2 staying at 7%-8% since end-1Q22.

Most subsidiaries have reported stable impaired loans ratios yoy, but we expect the group's impaired loans ratio to weaken in 2023 due to the ongoing defaults in Ukraine, accompanied by a modest deterioration across other markets. The ongoing Russia-Ukraine war remains the major downside risk to our scenario.

At end-1Q23, the coverage of Stage 3 loans with specific loan-loss allowances was 62% (end-2021: 50%), which includes increased provisions over the Ukrainian portfolio. The overall impairment coverage was solid at above 100%, inflated by Stage 2 loans provisions and the management's overlays.

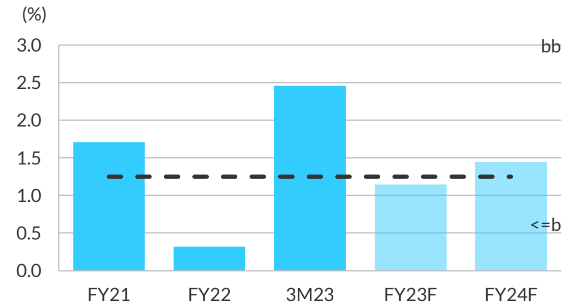
Non-loan assets (about 34% of total assets at end-1Q23) are held mostly for liquidity management purposes and largely reflect sovereign risk of the countries in which the group operates. They mainly comprised cash and balances at central banks (22%) and local government bonds/bills (6%) mostly with up to 12-months maturity.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

Widened Interest Margins; Volatile Loan Impairment Charges

ProCredit Group's through-the-cycle profitability has been supported by its generally better-than-peers' asset quality, despite challenges in some of its operating countries (ie the war in Ukraine, the earthquake in Albania and political instability in Bosnia and Herzegovina).

More recently, pre-impairment profitability (1Q23: 2.6% of risk-weighted assets (RWAs); 2022: 2%) improved, supported by higher NII (up 25% yoy). The latter was underpinned by the increase of the reference rates as the bank's NIM widened to 4.6% in 1Q23 based on Fitch's calculation (2021: 3.7%), in tandem with healthy and selective lending growth outside Ukraine. Fee and commission income also grew yoy as a result of a steady increase in the number of clients and transactions. LICs also substantially reduced to 12bp of gross loans relative to 2022 (171bp based on Fitch's calculation), when they were inflated by the extensive provisions to frontload the deterioration of the portfolio in Ukraine and additional management overlays for macroeconomic headwinds in other countries.

Therefore, the group's operating profit improved to 2.5% of RWAs in 1Q23 (2022: 0.3%). However, we expect this to be a temporary peak as deposits will further reprice and LICs increase from the current low base.

Capital and Leverage

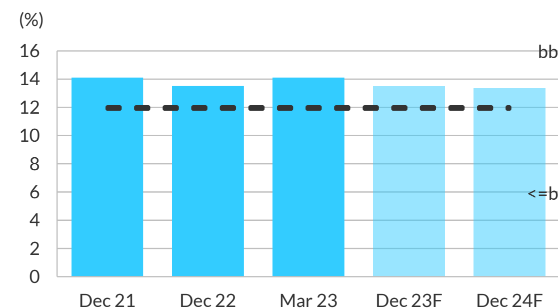
Capitalisation Vulnerable to Country Risks

PCH's capitalisation is underpinned by moderate loss-absorption capacity through pre-impairment profit and conservative risk management resulting in low levels of problem loans. At end-1Q23, the reported CET1 ratio (14.1%) and total capital adequacy ratio (15.4%) provided reasonable buffers over the regulatory minimum requirements (despite the latter's increase by 1.5% to 9.2% and 14.3%, respectively, starting 2H23).

Over the past two years, PCH managed to maintain capitalisation relatively stable supported by full profit retention, despite the uncertainties related to the Russia-Ukraine war. Stability was also supported by the plausible RWA optimisation with leverage remaining adequate as measured by the leverage ratio (9.1% at end-1Q23) and tangible common equity/tangible assets (9.9%). RWAs are likely to trend slightly lower as the group is constantly working on increasing RWA efficiency, as recently evidenced by the broadening of the agreement with the Multilateral Investment Guarantee Agency. We expect PCH to resume dividend pay-outs from 2023 as its general policy is to distribute about a third of profits.

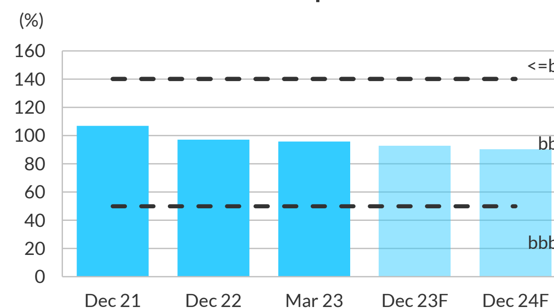
We believe that PCH's capital metrics could be more prone to fluctuations due to inherent risks in the markets where the group operates, also resulting in fluctuations in the fair-value reserve and translation component of its equity (both difficult to predict).

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

Diversified Funding, Reasonable Liquidity

The group accelerated its efforts to enhance the self-financing capabilities of its subsidiaries, which resulted in a reduced loans/deposits ratio of 96% at end-1Q23 (end-2021: 107%). Customer deposits of subsidiary banks (including PCBDE) were about 80% of the group's funding. A stable 68% of these were cheap current and savings accounts. Most of the group's subsidiaries have only nominal deposit franchises and lack pricing power; the quality of their deposit base is supported by its high granularity. We do not expect the group to alter its relationship-focused strategy to attract new deposits; however, in the current interest-rate environment, a moderate shift towards term-deposits is highly likely.

The funding profile is complemented by well-established and adequately diversified long-term loans from IFIs directly extended to PCH's subsidiaries and partly guaranteed by the holding, senior unsecured and subordinated debts issued by PCH, and by interbank funding.

Liquidity has been managed cautiously across the group and complies with the rules prescribed on the national level for subsidiary banks. The liquidity coverage ratio was solid at 174% at end-1Q23, comfortably above the regulatory requirement. The group's pool of high-quality liquid assets was nearly 20% of total assets at end-1Q23.

We view PCH's standalone liquidity buffers as sufficient in the medium term in light of the scheduled repayments, considering both an amendment of its debts' cross-default clause and potential stress at its Ukrainian subsidiary. Moreover, PCH should also be able to mobilise external liquidity and refinancing sources, in case of need.

Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics as per Fitch's *Bank Rating Criteria*. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market. To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bb' category. Light-blue columns represent Fitch's forecasts.

Financials

Financial Statements

	31 Mar 23		31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
	3 months - 1st quarter (USDm) Unaudited	3 months - 1st quarter (EURm) Unaudited	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified
Summary income statement						
Net interest and dividend income	82	75.4	264.6	222.0	201.6	194.5
Net fees and commissions	15	14.0	54.7	50.9	47.4	52.0
Other operating income	5	4.3	22.6	12.2	4.9	6.2
Total operating income	102	93.7	341.9	285.1	253.9	252.7
Operating costs	61	55.9	217.8	182.6	171.4	175.8
Pre-impairment operating profit	41	37.8	124.1	102.5	82.5	76.9
Loan and other impairment charges	2	1.9	104.6	6.5	28.6	-3.3
Operating profit	39	35.9	19.5	96.0	53.9	80.2
Other non-operating items (net)	n.a.	n.a.	-1.7	-1.5	-1.8	-10.6
Tax	7	6.5	1.3	14.9	10.7	15.3
Net income	32	29.5	16.5	79.6	41.4	54.3
Other comprehensive income	4	3.8	-3.4	28.0	-53.8	21.6
Fitch comprehensive income	36	33.3	13.1	107.6	-12.4	75.9
Summary balance sheet						
Assets						
Gross loans	6,592	6,061.2	6,107.7	5,924.4	5,254.3	4,797.4
- Of which impaired	209	192.4	196.7	133.2	130.8	115.5
Loan loss allowances	231	212.1	214.9	131.4	122.7	106.4
Net loans	6,361	5,849.1	5,892.8	5,793.0	5,131.6	4,691.0
Interbank	323	297.2	280.5	252.6	236.5	320.7
Derivatives	13	11.6	12.7	1.3	0.5	0.3
Other securities and earning assets	545	501.6	491.2	422.7	347.6	390.4
Total earning assets	7,242	6,659.5	6,677.2	6,469.6	5,716.2	5,402.4
Cash and due from banks	2,167	1,992.4	1,939.7	1,545.5	1,405.3	1,081.7
Other assets	244	224.3	209.2	200.8	207.8	213.5
Total assets	9,653	8,876.2	8,826.1	8,215.9	7,329.3	6,697.6
Liabilities						
Customer deposits	6,878	6,324.3	6,289.5	5,542.3	4,898.9	4,333.5
Interbank and other short-term funding	1,392	1,279.8	1,318.6	1,313.7	230.6	226.8
Other long-term funding	329	302.5	285.6	440.6	1,357.1	1,283.4
Trading liabilities and derivatives	1	1.2	0.6	0.4	4.4	1.7
Total funding and derivatives	8,600	7,907.8	7,894.3	7,297.0	6,491.0	5,845.4
Other liabilities	71	65.7	62.4	62.6	58.6	48.7
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	982	902.7	869.4	856.3	779.7	803.5
Total liabilities and equity	9,653	8,876.2	8,826.1	8,215.9	7,329.3	6,697.6
Exchange rate		USD1 = EUR0.91954	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, PCH

Key Ratios

	31 Mar 23	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.5	0.3	1.7	1.0	1.5
Net interest income/average earning assets	4.6	4.0	3.7	3.7	3.9
Non-interest expense/gross revenue	59.7	63.7	64.1	67.5	69.6
Net income/average equity	13.3	1.9	9.7	5.3	7.1
Asset quality					
Impaired loans ratio	3.2	3.2	2.3	2.5	2.4
Growth in gross loans	-0.8	3.1	12.8	9.5	9.2
Loan loss allowances/impaired loans	110.2	109.3	98.7	93.8	92.1
Loan impairment charges/average gross loans	0.1	1.7	0.1	0.6	-0.1
Capitalisation					
Common equity Tier 1 ratio	14.1	13.5	14.1	13.3	14.1
Fully loaded common equity Tier 1 ratio	14.1	13.5	14.1	n.a.	n.a.
Tangible common equity/tangible assets	9.9	9.6	10.2	10.4	11.7
Basel leverage ratio	9.1	8.9	9.3	9.3	10.8
Net impaired loans/common equity Tier 1	-2.4	-2.2	0.2	1.2	1.2
Funding and liquidity					
Gross loans/customer deposits	95.8	97.1	106.9	107.3	110.7
Liquidity coverage ratio	174.0	155.0	158.4	153.0	198.0
Customer deposits/total non-equity funding	80.0	79.7	76.0	75.5	74.2
Net stable funding ratio	n.a.	146.0	141.7	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, PCH

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

High Propensity to Support

PCH's IDRs and SSR are driven by Fitch's view of a high likelihood of extraordinary support given to PCH from its largest IFI shareholder – KfW - to which Fitch anchors its support assessment. Nonetheless, we expect KfW to act in cooperation with other IFI shareholders - EBRD and DOEN Foundation. These entities could provide further support, given the same strategic nature of their investment in PCH, which we view as long term, their role in governance structure (despite planned changes), the alignment of the IFIs' missions of promoting economic and social development with ProCredit impact-oriented strategy and geographical 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 only 13.2% minority stake, its limited synergies with PCH other than an aligned mission and strategic impact-orientation and contained reputational risk in a PCH default. We believe support would be made available to cover temporary shortages of capital or liquidity provided there are no material concerns over the viability of PCH's business model. The wide notching also results from uncertainty regarding support being timely, given the fragmented nature of the shareholder structure.

The planned conversion of the current legal form Kommanditgesellschaft auf Aktien (KGaA) into stock corporation (which has already received shareholders' approval) will result over the coming months in core shareholders (currently KfW, EBRD, DOEN, Zeitinger Invest GmbH and ProCredit Staff Invest; collective share of 53%) losing their exclusive influence on the group's management. They currently have this influence through the general partner executive body, which is typical for the KGaA structure. Such a change by itself will be neutral for our support assessment and the ratings, unless it is accompanied by a weakening of the support stance.

Subsidiaries and Affiliates

The assessment of individual subsidiaries' standalone credit profiles is summarised below:

PCH's Subsidiary Banks	Operating Environment		Business Profile		Risk Profile		Asset Quality		Earnings & Profitability		Capitalisation & Leverage		Funding & Liquidity		Viability Rating	Long-Term IDR
ProCredit Bank Sh.a. (Albania)	b	■	b-	■ (red)	b+	■	b	■	b-	▲	b-	▲	b	■	b-	BB- Stable
ProCredit Bank d.d. Sarajevo (Bosnia)	b	■	b-	■ (red)	b+	■	b	■	b	■	b	■	b	■	b-	B+ Stable
ProCredit Bank (Bulgaria) EAD	bb+	■	bb-	■	bb+	■	bb+	■	bb	■	bb	■	bb	■	bb	BBB- Stable
Banco ProCredit S.A.(Ecuador)	ccc+	■	ccc+	■	b-	■	b-	▼	ccc	■	b-	■	ccc+	■	ccc+	B- Negative
ProCredit Bank (Georgia)	bb-	▲	b+	■	bb-	■	bb-	▼	bb-	▲	bb-	■	bb-	■	bb-	BB+ Positive
ProCredit Bank Sh.a. (Kosovo)	b	■	b+	■	b+	■	b+	■	b+	■	b	■	b+	■	b+	BB Stable
ProCredit Bank AD Skopje (North Macedonia)	bb-	■	b+	■	bb	■	bb	■	b+	■	bb-	■	bb-	■	bb-	BBB- Stable
ProCredit Bank S.A. (Romania)	bb+	■	b	▲ (red)	bb-	■	bb	■	b-	▲	bb-	■	b+	■	b	BBB- Stable
ProCredit Bank a.d. Beograd (Serbia)	bb-	■	b+	■	bb	■	bb	■	b+	▲	bb-	■	bb-	■	bb-	BBB- Stable
ProCredit Bank (Ukraine)	cc	■	cc	■	cc	■	cc	▼	cc	▼	cc	▼	ccc	▼	cc	CCC-

Red signs reflect higher influence factors for VR; Outlooks: ■ - Stable ▲ - Positive ▼ - Negative
As of 07/07/2023

PCBDE's Ratings

The equalisation of PCBDE's IDRs, IDRs (xgs) and SSR with those of PCH reflect Fitch's view of a high likelihood of support being provided to PCBDE and that, in case external support is required, it will flow through PCH. 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 a strong integration within the broader group, resulting in 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 any deposit rating uplift because, in our view, the bank's qualifying debt buffers would not afford any obvious additional benefit over and above the support benefit already factored into the bank's IDRs, even if they reach a sufficient size.

As PCBDE's IDRs, SSR and deposit ratings are equalised with PCH's IDRs, so 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.

Consolidated Profile Basis for Assessment

PCH's VR is based on our 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 group being regulated at the consolidated level and the fungibility of capital and liquidity across the group, subject to its operating companies fulfilling their regulatory requirements.

It also reflects centralised liquidity management, with contingency plans; our expectations that double leverage at the holding company will stabilise below 120% (end-1Q23: 119% under IFRS) on a sustained basis; and the simple organisational structure with full ownership of banking subsidiaries.

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	Business Profile (incl. Management & governance); Risk Profile; 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	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)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
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

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?

Score	Description
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.

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

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.

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