FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Frankfurt am Main - 28 Apr 2025: Fitch Ratings has affirmed ProCredit Holding AG's (PCH) Long-Term Issuer Default Rating (IDR) at 'BBB' 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'. The Outlook on the IDRs is Stable.

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 believe 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 operational synergies with PCH, and that reputational risks would be contained for KfW in 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 the IFI shareholders' mission and corporate governance remains effective.

SME Focus; 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 geographical 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.

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. 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 below 120% (end-2024: 119% under IFRS).

International Operations: PCH's 'bb' operating environment (OE) score reflects the group's operations in less stable and less advanced economies across SEE, although some of these are improving. The OE also considers PCH's domicile in Germany, which results in robust oversight of the group by the European and German regulators.

Sustained, Reasonable Asset Quality: PCH's asset quality compares well with the respective markets its subsidiaries operate in. PCH's impaired loan ratio decreased to 2.3% at end-2024 (end-2023: 2.7%), due in part to strong loan growth and a fall in impaired loans. We expect it to remain broadly stable over the next two years, reflecting disciplined risk-management practices and growth ambitions. The share of loans in Ukraine has materially decreased since 2022.

Strategic Investments Weigh on Profitability: PCH's profitability is moderate by international standards and prone to swings due to its business model. The group's operating profit declined in 2024 to 2.1% of risk-weighted assets (2023: 2.4%), due to strategy implementation costs and a lower net interest margin (NIM) driven by higher funding costs. We expect operating profit/risk-weighted assets to weaken in 2025 towards 1% due to continued strategic spend and a lower NIM, before improving in 2026 to above 1.5%.

Moderate Capitalisation: PCH's common equity Tier 1 (CET1) ratio of 13.1% at end-2024 is only adequate in the context of the group's operations in less stable economies, which are more susceptible to unexpected events. We expect PCH's CET1 ratio to remain above 12% over the next two years due to less capital-intensive loan growth and moderate internal capital generation.

Diversified Funding, Reasonable Liquidity: PCH'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 85% at end-2024 (107% at end-2021). Liquidity is well managed across the group with adequate buffers.

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 or a material shift away from the group's current strategic focus that results in a negative change in its support stance, could lead to downgrades of PCH's IDRs and SSR, unless it is offset by potential support from another highly rated shareholder.

PCH's VR would be downgraded if we expect a sustained weakening in the CET1 ratio to below 12% or an increase of its impaired loans ratio to above 5%.

The VR could also be downgraded if we expect the holding company's IFRS common equity double-leverage to rise above 120% for a sustained period, without mitigating factors.

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

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

Fitch does not expect a VR upgrade in the medium term unless the group's operating environment score improves further. This could lead to an upgrade if it is 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

PCH's subordinated Tier 2 debt is rated one notch below its 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 IFI 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 the 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 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, if 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 strong integration within the broader group, resulting in a limited standalone franchise. PCBDE's role as a 'service' bank to other group members means 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 on a smaller scale. 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, in the absence of a resolution debt buffer requirement and a small total debt buffer.

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 operating environment score of 'bb' is below the 'aa' implied category 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 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.

RATING ACTIONS

ENTITY / DEBT	RATING			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)
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

PREVIOUS Page 1 of 2 10 rows NEXT

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Bank Rating Criteria (pub. 21 Mar 2025) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

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

DISCLAIMER & DISCLOSURES

SOLICITATION STATUS

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

ENDORSEMENT POLICY

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