FitchRatings

ProCredit Holding AG & Co. KGaA

Banks
Universal Commercial Banks
Germany

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
Viability Rating	Watch Off
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Affirms ProCredit Holding and ProCredit Bank AG at 'BBB' (September 2022)

ProCredit Holding AG & Co. KGaA - Ratings Navigator (September 2022)

Sovereign Data Comparator (September 2022)

Gas Shortages a Rating Driver in CEE (August 2022)

Key Rating Drivers

ProCredit Holding AG & Co. KGaA's (PCH) Issued Default Ratings (IDRs) and Shareholder Support Rating (SSR) are driven by Fitch Ratings' view of a high likelihood of external support being forthcoming to PCH from its core international financial institution (IFI) shareholders – KfW (AAA/Stable), International Finance Corporation and DOEN Foundation. These have a combined stake of about 36%, according to the last disclosure of voting rights.

Fitch assesses PCH on a consolidated basis. Its Viability Rating (VR) reflects the group's operations in less stable and less advanced economies, the successful record of its largest subsidiaries, typically nominal domestic franchises of the subsidiary banks and a business model focused on cautious SME lending and building strong customer relationships. PCH's VR is supported by its strong corporate governance and prudent risk management.

Support Drives IDRs: Fitch views the propensity of PCH's core shareholders to provide support as high, because of the long-lasting and strategic nature of IFIs' investment in PCH, their role in governance structure and a record of ordinary support provided to PCH and its subsidiary banks. There is some uncertainty about the timeliness of support if needed, given the fragmented nature of the shareholder structure. As a result, we apply wide notching between the ratings of KfW – the only Fitch-rated entity among the core shareholders – and PCH.

Good Asset Quality Outside Ukraine: PCH's asset-quality metrics have been consistently better than average in the banking sectors where its subsidiaries operate. This reflects its conservative approach to risk management and mostly collateralised lending. Nonetheless, the group's historically low Stage 3 loan ratio increased by about 30bp in 1H22 from 2.3% at end-2021, as did the Stage 2 bucket, reflecting the stage transfers within the Ukraine portfolio. We expect this to continue, while higher macro risks across other markets should be manageable.

Elevated LICs Hit Profitability Hard: The bank's operating profit/risk-weighted assets (RWAs) ratio fell to 0.2% in 1H22 from 1.7% in 2021, due to extraordinarily high loan impairment charges (LICs) for operations in Ukraine. Impairment charges are likely to remain elevated over the next 18 months, pressuring near-term results, despite positive developments in markets outside Ukraine. The potential for further savings is limited as a narrow physical network, a focus on automation and remote banking are already the foundations for the business model.

Adequate Capital Buffers: Fitch expects the group's capitalisation to remain only adequate in the context of its business profile and risks stemming from the operations in Ukraine, which drag on internal capital generation. At end-1H22, the CET1 ratio of 13.7% and the total capital ratio of 14.7% had reasonable buffers over minimum regulatory requirements.

Diversified Funding, Reasonable Liquidity: Our assessment of the group's funding and liquidity considers the generally nominal standalone deposit franchise of its subsidiary banks, good relationships with IFIs allowing the group access to this funding source, and reasonable liquidity, which is managed centrally.

Funding has been generally stable and largely deposit-based, with a satisfactory gross loans/customer deposits ratio of 110% at end-1H22. Liquidity is well managed across the group and adequate reserves are held at the group level to cover subsidiary banks' and PCH's liquidity needs. The Basel III liquidity ratios were well above 100% at end-1H22.

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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 due to, for example, an exit of one or more core IFI shareholders, or a material decrease in their stake accompanied by a change in their support stance, could lead to downgrades of PCH's IDRs and SSR.

PCH's VR would be downgraded if impairment charges in Ukraine and other markets increase above our current expectations and put pressure on capitalisation. In particular, a sustained reduction in the bank's CET1 ratio 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 common equity double-leverage is above 120% for a sustained period.

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

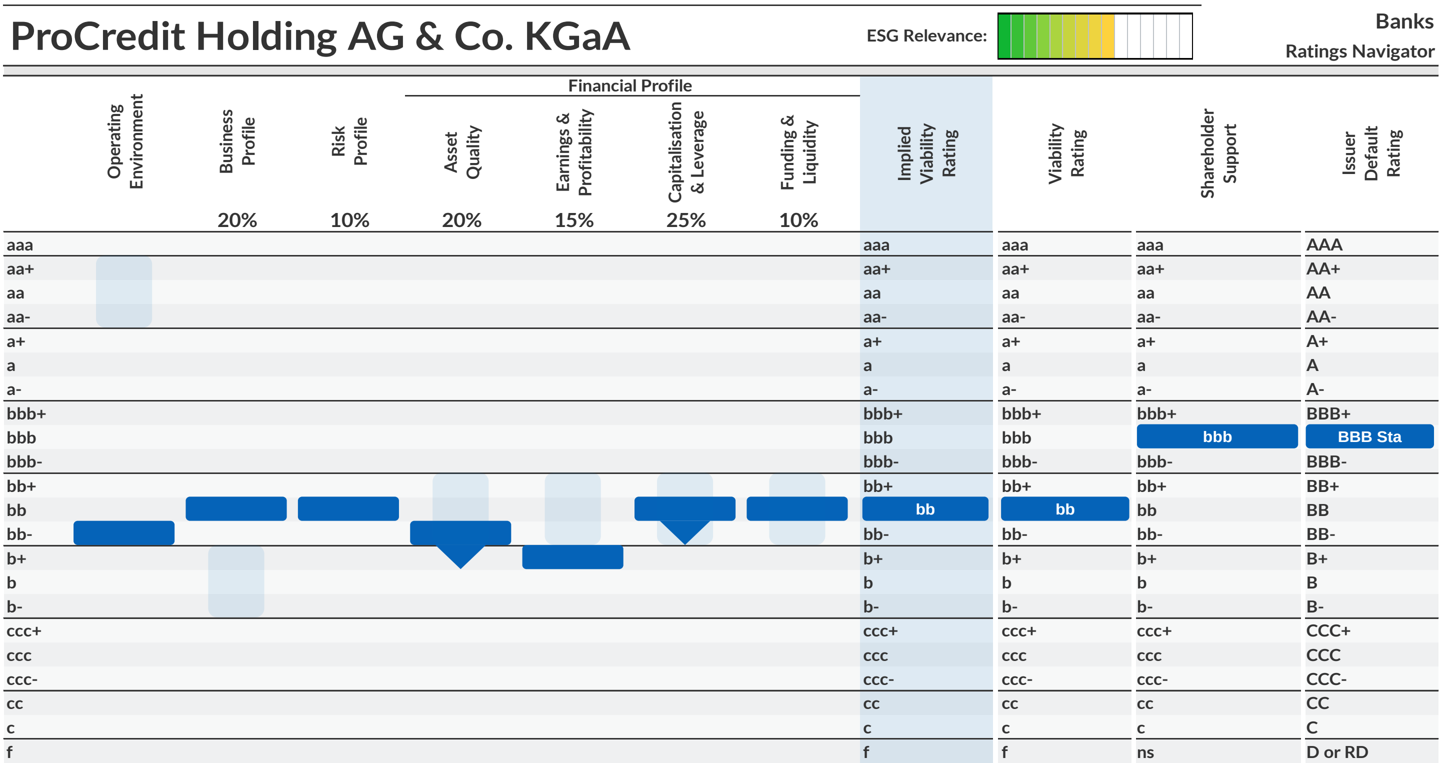
The IDRs could be upgraded if PCH's strategic importance for its core IFI shareholders increases.

Fitch does not foresee a VR upgrade in the medium term. A prerequisite for an upgrade would be an improvement in several of the operating environment scores for the markets where the group operates. This could lead to an upgrade if combined with maintaining good asset quality with an impaired loans ratio of well below 5%, healthy profitability with operating profit/RWAs above 1.25% for a sustained period and significant strengthening of capitalisation.

Note on this Report

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

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).

The business profile score at 'bb' is above the 'b' category implied score due to the following adjustment reasons: management and governance (positive) and strategy and execution (positive).

The earnings & profitability score at 'b+' is below the 'bb' category implied score due to the following adjustment reason: historical and future metrics (negative).

Company Summary and Key Qualitative Factors

Operating Environment

Operations Concentrated in South and Eastern Europe

Our assessment of the ProCredit Group operating environment is based on the weighted average loan exposure approach and its 'bb' score for the operating environment 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.

Operating Environment Scores

Country	Operating Environment score	GDP per capita 2022F (USD 000)	Operational Risk Index (percent rank)	% of ProCredit Group's loans
Germany	aa-	47.9	85.6	0.8
Romania	bb+	15.6	68.3	6.0
Bulgaria	bb	13.4	67.6	21.6
Georgia	bb-	6.6	56.1	6.6
North Macedonia	bb-	6.5	44.6	7.6
Serbia	bb-	9.8	61.1	16.0
Albania	b	6.3	33.0	4.0
Bosnia and Herzegovina	b	6.7	32.3	4.6
Kosovo	b	5.4	27.3	10.3
Ecuador	ccc+	6.4	38.1	7.7
Ukraine	cc	3.6	37.4	12.1
Moldova	n.a.	-	-	2.7

Source: Fitch Ratings, PCH

Business Profile

Deeply Rooted Business Model, Focused on SMEs in Emerging Markets

ProCredit Group operates a traditional banking model, which is heavily weighted towards lending to SMEs in relatively weak economies (mostly in south-eastern and eastern Europe, SEE) 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.

Although PCH's subsidiary banks generally lack strong franchise and pricing power in any particular geography (usually having low single-digit market shares, except in 15% in Kosovo), the ProCredit brand is well recognised and the bank is perceived as a SME-oriented and digital. ProCredit Group has established itself as a client-focused institution that builds long-term customer relationships and has well-qualified staff.

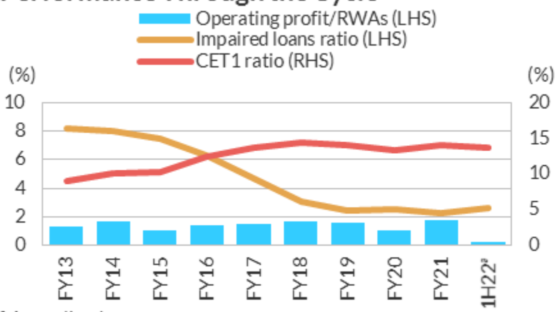
PCH wholly owns the stakes in all group banks. The role of the holding company is to provide equity and debt financing to group banks, to encompass a clear mission, product offering and risk-management framework and policies, and to oversee subsidiaries' performance. ProCredit Bank AG (PCBDE) is based in Germany and serves as the group's treasury arm, a hub for liquidity operations and clearing of international payments.

Experienced Management, Reasonable Performance Tested by Market Headwinds

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.

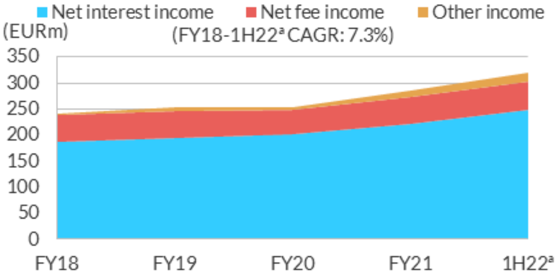
The group has generally met its key financial targets, though execution was variable across the banks with most challenges related to strategic exit from micro-lending, implementation of a direct banking concept and strengthening of self-financing capacity. Pandemic headwinds and war in Ukraine demonstrated the group's agility and benefits of geographical diversification. In the medium term, the group targets a return on equity of about 10% (1H22: 9.5% excluding the Ukraine bank) with medium-to-high-single-digit percent annual loan growth (average five-year growth rate of 10.3%) and a cost/income ratio at below 60% (2021: 64%).

Performance Through the Cycle



ª Annualised
Source: Fitch Ratings, PCH

Revenue Breakdown



CAGR: compound annual growth rate
ª Annualised
Source: Fitch Ratings, PCH

Risk Profile

Well-Balanced Risk Management Framework

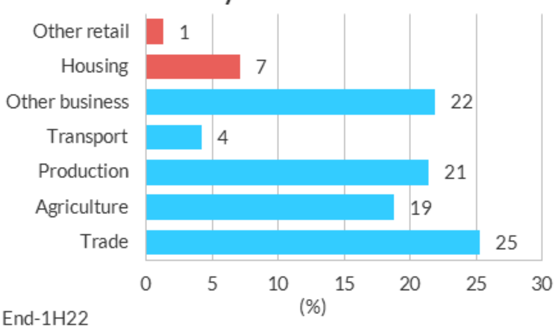
ProCredit Group's risk appetite balances its prudent underwriting standards, reasonable control framework and solid organic growth. However, these cannot fully contain the risks to its business model coming from markets that are inherently riskier than its German base. Its loan growth outpaced internal capital generation in recent years, 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 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, accounted for 19% of gross loans at end-1H22. The group's loan portfolio is granular (the top 25 customer loans accounted for about 4% of total loans at end-1H22), 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).

Gross Loan Book by Sector



End-1H22
Source: Fitch Ratings, PCH

Financial Profile

Asset Quality

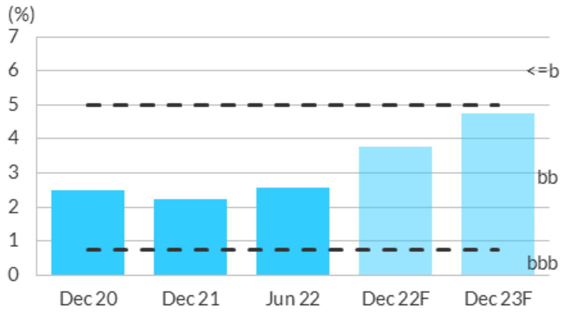
Heightened Asset-Quality Risks; Stage Transfers within the Ukraine's Portfolio

ProCredit Group's fairly conservative risk appetite and prudent underwriting standards support its sound asset quality. Despite the challenging operating environment due to the second-order effects of the military conflict in Ukraine and direct exposure to Ukraine through its third-largest subsidiary, the group's Stage 3 loans ratio only moderately deteriorated in 1H22 to 2.6%, while risks were largely reflected in the transfers to Stage 2 risen to 7.3% of gross loans from 3.6% at end-2021. Outside Ukraine, most subsidiaries managed to further reduce their impaired loans ratio, with the weakest asset-quality metrics reported by the small Albanian and Moldovan subsidiaries (the Stage 3 loans ratio at about 4%). We expect the group's impaired loans ratio to weaken close to about 5% in the next 12 to 18 months, while a prolonged Russia-Ukraine war remains a major downside risk to our baseline scenario.

At end-1H22, the coverage of Stage 3 loans with specific loan-loss allowances increased to 56%, including soundly provisioned transfers within Ukrainian portfolio, while overall coverage was much stronger at above 100% inflated by reasonable Stage 2 loans provisions and management's overlays booked in 1H22.

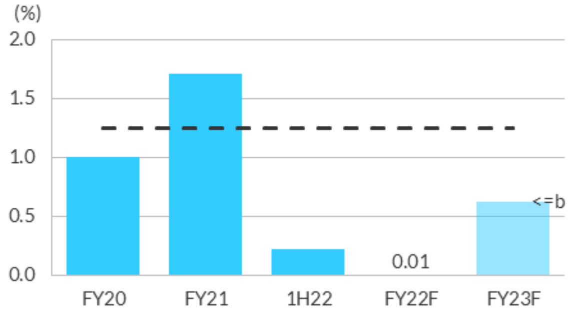
Non-loan assets (about 27% of total assets at end-1H22) are held mostly for liquidity management and largely reflect sovereign risk of the countries in which the group operates. They mainly comprised cash and balances at central banks (17%) and local government bonds (4%).

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

Profitability Affected by Elevated Loan Impairments

In 1H22, the operating profit/RWAs ratio was modest at 0.2%, largely due to elevated LICs. These grew to 188bp of gross loans from 12bp in 2021 and were inflated by the provisions to frontload the deterioration of the portfolio in Ukraine and additional management overlays for macroeconomic headwinds in other countries. The Bulgarian, Kosovar and Georgian subsidiaries were the main profit contributors in 1H22 (aggregated EUR29 million), but unable to offset the deep loss in Ukraine (EUR34 million).

Pre-impairment profitability (2.1% of RWAs) improved, supported by higher net interest income (up 20% yoy). The latter was underpinned by healthy lending growth and the increase of the reference rates as the net interest margin widened to 3.85% in 1H22. Fee and commission income also grew on an annualised basis as a result of steady increase in the number of clients and transactions. Gradual improvements in cost efficiency are reflected in a cost/income ratio at about 60% at end-1H22, but further cost optimisation is limited, in our view.

Capital and Leverage

Adequate Capitalisation

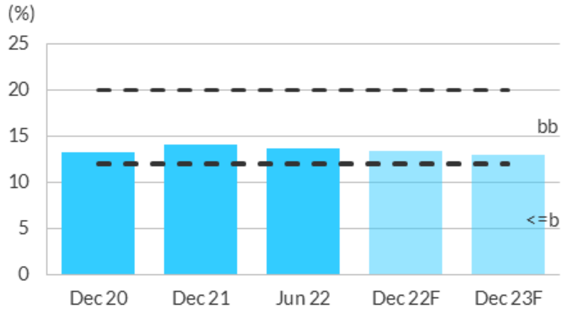
PCH is subject to consolidated supervision and minimum capital ratios are set at consolidated group level. At end-1H22, the reported CET1 ratio (13.7%) and total capital adequacy ratio (14.7%) provided reasonable buffers over minimum requirements. Including the SREP add-on, these were set at 8.2% for CET1, 10.1% for Tier1 and at about 12.6% for the total capital ratio.

PCH's capital ratios should be viewed in light of its high average RWA density (70%-75% of assets).

Capitalisation at end-1H22 benefitted from full 2021 profit retention as the group did not pay dividends due to the uncertainties related to the Russia-Ukraine war. PCH's general policy is to distribute about a third of profits. We expect the group to resume pay-outs from 2023.

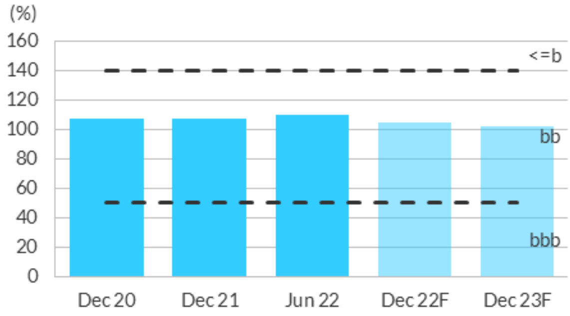
PCH's capital is likely to be reduced by lower retained earnings, given the additional provisions against the Ukrainian bank, and by higher fluctuations in the fair-value reserve and translation component of its equity (both difficult to predict).

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

Diversified Funding, Reasonable Liquidity

At end-1H22, the group's loans/deposits ratio was stable at about 110%. Customer deposits of subsidiary banks (including PCBDE) accounted for about 77% of group's funding. About 71% of these were cheap current and savings accounts.

Even though most the group's subsidiaries have nominal deposit franchises and lack in pricing power, the quality of their deposit base is supported by its high granularity and ProCredit's relationship banking model. PCH makes continuous efforts to strengthen its deposit franchise among the private individuals.

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

Liquidity is well-managed across the group and complies with the rules prescribed on the national level for subsidiary banks. The liquidity coverage ratio was solid at 146% at end-1H22, comfortably above the regulatory requirement. The group's pool of high-quality liquid assets accounted for nearly 15% of total assets at end-1H22.

We believe that the PCH's standalone liquidity buffers are 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 has reliable access to external liquidity and refinancing sources, in case of need.

About Fitch Forecasts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics 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, our 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 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

Summary Financials and Key Ratios

	30 Jun 22		31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
	6 months - interim	6 months - interim	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)	(EURm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	130	124.8	222.0	201.6	194.5	186.2
Net fees and commissions	27	26.3	50.9	47.4	52.0	52.2
Other operating income	9	9.1	12.2	4.9	6.2	2.9
Total operating income	166	160.2	285.1	253.9	252.7	241.3
Operating costs	100	96.3	182.6	171.4	175.8	167.8
Pre-impairment operating profit	66	63.9	102.5	82.5	76.9	73.5
Loan and other impairment charges	60	57.3	6.5	28.6	-3.3	-4.7
Operating profit	7	6.6	96.0	53.9	80.2	78.2
Other non-operating items (net)	n.a.	n.a.	-1.5	-1.8	-10.6	-7.8
Tax	-1	-1.1	14.9	10.7	15.3	15.9
Net income	8	7.7	79.6	41.4	54.3	54.5
Other comprehensive income	12	11.6	28.0	-53.8	21.6	9.1
Fitch comprehensive income	20	19.3	107.6	-12.4	75.9	63.6
Summary balance sheet						
Assets						
Gross loans	6,538	6,294.3	5,924.4	5,254.3	4,797.4	4,392.1
- Of which impaired	168	161.9	133.2	130.8	115.5	134.3
Loan loss allowances	195	187.4	131.4	122.7	106.4	124.3
Net loans	6,343	6,106.9	5,793.0	5,131.6	4,691.0	4,267.8
Interbank	241	232.0	252.6	236.5	320.7	211.6
Derivatives	11	10.2	1.3	0.5	0.3	1.3
Other securities and earning assets	385	370.5	422.7	347.6	390.4	308.5
Total earning assets	6,980	6,719.6	6,469.6	5,716.2	5,402.4	4,789.2
Cash and due from banks	1,500	1,444.1	1,545.5	1,405.3	1,081.7	963.8
Other assets	231	222.5	200.8	207.8	213.5	213.2
Total assets	8,711	8,386.2	8,215.9	7,329.3	6,697.6	5,966.2
Liabilities						
Customer deposits	5,964	5,741.9	5,542.3	4,898.9	4,333.5	3,825.9
Interbank and other short-term funding	1,388	1,336.5	1,313.7	230.6	226.8	200.8
Other long-term funding	380	365.9	440.6	1,357.1	1,283.4	1,162.4
Trading liabilities and derivatives	0	0.1	0.4	4.4	1.7	1.3
Total funding and derivatives	7,733	7,444.4	7,297.0	6,491.0	5,845.4	5,190.4
Other liabilities	69	66.2	62.6	58.6	48.7	32.2
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	909	875.6	856.3	779.7	803.5	743.6
Total liabilities and equity	8,711	8,386.2	8,215.9	7,329.3	6,697.6	5,966.2
Exchange rate		USD1 = EUR0.96274	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, PCH

Key Ratios

Summary Financials and Key Ratios

	30 Jun 22	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	0.2	1.7	1.0	1.5	1.7
Net interest income/average earning assets	3.9	3.7	3.7	3.9	4.1
Non-interest expense/gross revenue	60.1	64.1	67.5	69.6	69.5
Net income/average equity	1.8	9.7	5.3	7.1	7.6
Asset quality					
Impaired loans ratio	2.6	2.3	2.5	2.4	3.1
Growth in gross loans	6.2	12.8	9.5	9.2	12.3
Loan loss allowances/impaired loans	115.8	98.7	93.8	92.1	92.6
Loan impairment charges/average gross loans	1.9	0.1	0.6	-0.1	-0.1
Capitalisation					
Common equity Tier 1 ratio	13.7	14.1	13.3	14.1	14.4
Fully loaded common equity Tier 1 ratio	13.7	14.1	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	10.2	10.2	10.4	11.7	12.1
Basel leverage ratio	9.7	9.3	9.3	10.8	11.0
Net impaired loans/common equity Tier 1	-3.0	0.2	1.2	1.2	1.5
Funding and liquidity					
Gross loans/customer deposits	109.6	106.9	107.3	110.7	114.8
Liquidity coverage ratio	145.6	158.4	153.0	198.0	187.0
Customer deposits/total non-equity funding	77.1	76.0	75.5	74.2	73.7
Net stable funding ratio	134.8	141.7	n.a.	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

Shareholders Support Rating Drives IDRs

PCH's IDRs and SSR are driven by Fitch's view of high likelihood of external support being forthcoming to PCH from its core IFI shareholders – KfW, International Finance Corporation (IFC), and DOEN Foundation (with a combined stake of about 36%. Fitch also views Zeitinger Invest GmbH and ProCredit Staff Invest as core shareholders in PCH. These entities have been 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 and PCH.

Subsidiaries and Affiliates

The equalisation of PCBDE's IDRs and SSR with those of PCH reflect Fitch's view of a high likelihood of parental support. 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 obliges PCH to replenish PCBDE's equity should the latter suffer a loss. The Stable Outlook on PCBDE's rating reflects that on the parent.

Fitch does not assign a VR to PCBDE because the bank does not have a meaningful standalone franchise and its operations rely strongly on integration within the broader group. PCBDE's role as a 'service' bank to other group members means that the bank concentrates on providing treasury, clearing and liquidity management services. 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. A profit and loss transfer agreement between PCH and PCBDE includes a provision requiring a capital injection by the parent if PCBDE's regulatory total capital ratio falls below 13%.

PCBDE's Deposit Ratings are aligned with its IDRs. 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.

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

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.

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

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.

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.

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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