ProCredit Holding

Q125 results

Investments starting to level off

Banks

21 May 2025

ProCredit Holding (PCB) reported a Q125 annualised return on equity (ROE) of 9.5%, broadly in line with management's reiterated FY25 guidance of around 10% but down from 13.4% in Q124, as the company's operating expenses continue to reflect investments to deliver PCB's updated strategy. This was coupled with further pressure on PCB's net interest margin (NIM), which fell to 3.2% in Q125 versus 3.7% in Q124. Consequently, the cost-income ratio came in at 70.8% versus 61.7% in Q124. PCB's operating expense has begun to stabilise as the company is nearing the peak in its strategic investments. Moreover, the pricing of PCB's liabilities should at some stage decrease, reflecting recent monetary easing across Southeastern Europe (especially the fall in euro rates). This, together with scaling effects from continued robust growth in PCB's loan book (2.5% in Q125 or 3.2% excluding fx) and the ongoing shift to higher-margin, lower-volume clients (which accounted for more than 70% of loan portfolio growth in Q125) should allow PCB to drive profitability towards its reiterated medium-term ROE target of c 13–14%.

Year end	NII (€m)	EPS (€)	DPS (€)	BVPS (€)	ROE (%)	P/E (x)	Yield (%)	P/BVPS (x)
12/23	337	1.92	0.64	16.7	12.2	5.5	6.1	0.63
12/24	358	1.77	0.59	17.9	10.2	6.0	5.6	0.59
12/25e	360	1.78	0.59	19.1	9.6	5.9	5.6	0.55
12/26e	406	1.99	0.66	20.5	10.0	5.3	6.3	0.51

Note: NII, net interest income. EPS as reported by the company.

Waiting for a downward repricing of deposits

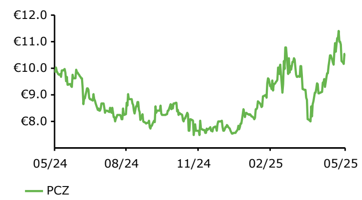
PCB's NIM was under pressure year-on-year from the cyclical repricing of assets amid interest rate cuts accompanied by a repricing of deposits that was slower than management had expected, as well as the inclusion of interest on PCB's €125m Green Bond issued in April 2024. That said, we note that the sequential NIM decline from 3.3% in Q424 was primarily due to a calendar effect (a lower number of days), with positive volume effects from loan book growth having a stabilising impact on NIM. Other Q125 highlights included: a sustained healthy credit quality with a minor €0.8m net provision release and a decline in the share of credit-impaired loans to 2.2% from 2.3% at end-2024; solid growth in income from payment services (including fx transactions); and stable capital ratios, though with the prospect of a compression in Tier 1 and Tier 2 buffers once higher regulatory requirements kick in.

Further upside from updated strategy and Ukraine

Our current fair value, based on a sustainable RoTE assumption of 11%, stands at €14.60/share (up from €13.65 previously). There is further valuation upside from PCB's achievement of its medium-term ROE target of c 13–14% (reflecting this in our sustainable RoTE assumption would bring our current fair value to €16.30–17.20 per share) and Ukraine's reconstruction following the end of Russia's invasion (which would add another c €1.30 to our fair value estimate). Here, we note that PCB is well-positioned for Ukraine's reconstruction via its Ukrainian bank, which is well-capitalised (CET-1 buffer vs regulatory requirement above 12pp, deposit to loan ratio of 149.7% in Q125), well-staffed (396 employees as of Q125) and highly profitable (25.4% annualised ROE in Q125).

Price	**€10.55**
Market cap	**€601m**
Shares in issue	58.9m
Code	PCZ
Primary exchange	FRA
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	11.4	10.9	11.1
52-week high/low		€11.5	€7.5

Business description

Based in Germany, ProCredit Holding operates regional banks across South-Eastern and Eastern Europe and Ecuador. The banks focus on micro, small and medium enterprises, and private clients.

Next events

AGM	4 June 2025
Q225 results	14 August 2025

Analyst

Milosz Papst +44 (0)20 3077 5700

financials@edisongroup.com

Edison profile page

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Q125 still shaped by strategic investments

PCB reported a Q125 net profit of €25.2m, down 24.8% y-o-y and translating into an annualised ROE of 9.5% (vs 13.4% in Q124), which was primarily the reflection of increased operating expenses (up 13.0% y-o-y to €74.7m) driven by investments to execute PCB's updated strategic agenda (see our recent outlook note for details). These investments had already started levelling off in Q125, as 1) PCB's headcount increased by only 19 in Q125, 2) the company opened only two new branches/service points in Q125 compared to 47 in FY24, 3) marketing costs decreased following a more active FY24, and 4) the budget of Quipu, its dedicated IT subsidiary, remained stable (though PCB also uses third-party providers). Higher operating expenses, coupled with a 5.7% y-o-y decline in net interest income (NII) to €85.0m, pushed PCB's cost-income ratio (CIR) up to 70.8% in Q125 compared to 61.7% in Q124.

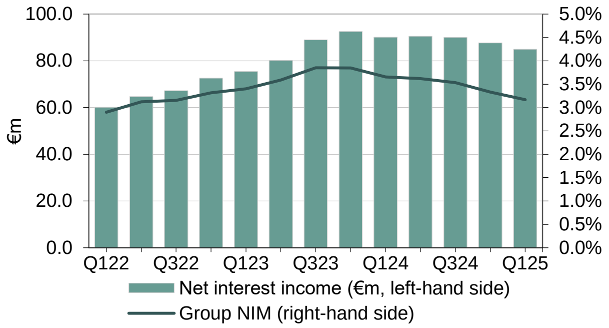
Exhibit 1: Q125 results highlights

€m, unless otherwise stated	Q125	Q124	y-o-y change
Net interest income	85.0	90.1	-5.7%
Net interest margin (annualised)	3.2%	3.7%	-49 bp
Expenses for loss allowances	(0.8)	0.3	NM
Cost of risk (annualised, bp)	(5)	2	NM
Net fee and commission income	22.6	21.0*	7.2%
Pre-tax profit	31.7	40.7	-22.2%
Net income	**25.2**	**33.5**	**-24.8%**
ROE	9.5%	13.4%	-3.9 pp
CIR	70.8%	61.7%	9.1 pp
CET-1 ratio (fully loaded)	13.1%	14.3%	-1.2 pp
Deposit to loan ratio	114.7%	116.2%	-1.6 pp
Gross loan portfolio growth (sequential)	2.5%	3.0%	-0.5 pp
Customer deposits growth (sequential)	-0.7%	2.8%	-3.5 pp

Source: PCB data

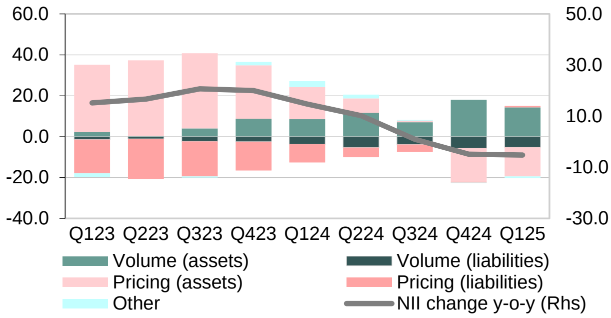
The year-on-year NII fall resulted from continued NIM pressure amid the cyclical downward repricing of assets (especially cash and cash equivalents held at central banks) coupled with stubbornly high deposit rates in several countries of PCB's operations (resulting in an only marginal positive effect from liabilities repricing of €0.7m in Q125). Another factor influencing the year-on-year development was the inclusion of interest expense on PCB's €125m Green Bond issued in April 2024. The repricing effect outweighed the net positive volume effect from assets and liabilities, despite the sustained solid loan book growth of 2.5% in Q125 (or 3.2% when adjusted for negative fx effects arising primarily from the weaker US dollar), see Exhibit 2. As a result, the annualised NIM reduced to 3.2% in Q125 compared with 3.7% in Q124 (see Exhibit 3), with particularly strong NIM compression in Ukraine (from 7.1% in Q124 to 5.6% in Q125), Ecuador (from 2.9% to 2.2%) and Georgia (from 4.2% to 3.6%). That said, we note that the sequential NII decline at group level, corresponding to a 16bp fall in NIM from 3.3% in Q424, was largely the result of the lower number of days in the quarter, which reduced NII by c €2.7m (the equivalent of a c 10bp NIM reduction, according to our calculations). PCB experienced minor negative repricing effects on its loan book in selected markets, according to its management.

Exhibit 2: PCB's historical net interest income and net interest margin evolution



Source: PCB data, Edison Investment Research

Exhibit 3: PCB's NII drivers in recent quarters (all figures in €m)



Source: PCB data, Edison Investment Research

Loan portfolio momentum driven by lower-volume clients

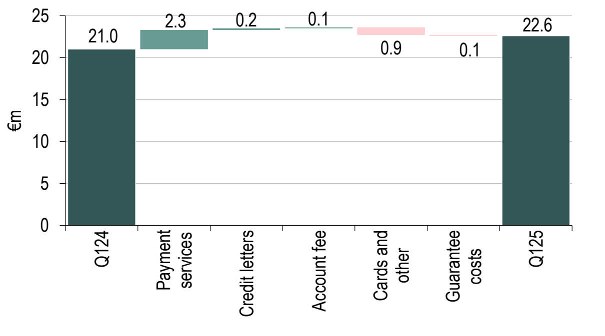
More than 70% of the Q125 loan portfolio growth came from lower-volume clients (private, micro enterprises and smaller enterprises), in line with PCB's strategic priority, resulting in a sequential increase in the share of this customer group in the total loan portfolio by 1pp to 45%, or by 3pp since end-2023. This compares with PCB's medium-term objective of more than 50%. Smaller enterprises are more likely to fully embrace PCB's Hausbank approach, therefore being more loyal and providing greater cross- and up-sell opportunities. Private individuals on the other hand support a granular, sticky deposit base, which is PCB's primary objective for expanding into this segment (rather than boosting its lending margins at the expense of portfolio quality).

PCB's deposit base shrunk by 0.7% in Q125, mostly due to seasonal factors affecting deposits from business clients, while those from private clients increased by 2.2% in Q125 and reached 45% of total deposits. PCB's deposit to loan ratio reached 114.7% at end-March 2025 compared with 116.2% at end-March 2024.

A healthy increase in income from payment services

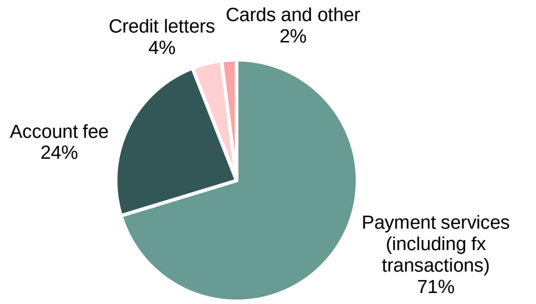
PCB's net fee and commission income rose by 7.2% y-o-y to €22.6m in Q125, which was particularly assisted by income from fx transactions (up by 26.8% y-o-y), which PCB started reporting under fee and commission income. Moreover, PCB posted a c 10.4% y-o-y increase in net income from other payment services, which is consistent with the 9–12% growth pa in FY21–24. While the roll-out of the Single Euro Payments Area (SEPA) in several countries (eg Macedonia, Albania and Moldova) put pressure on the pricing of payment services, it was more than offset by volume effects. PCB's net fee and commission income in Q125 was negatively affected by higher fees from card providers (PCB's management is actively working on mitigating measures); see Exhibit 4. Income from fx transactions and other payment services represented 71% of PCB's total fee income in Q125, see Exhibit 5.

Exhibit 4: Key drivers of PCB's net fee and commission income growth, Q125 versus Q124



Source: PCB data, Edison Investment Research

Exhibit 5: PCB's fee split, Q125



Source: PCB data, Edison Investment Research

Sustained strong credit quality at group level in Q125

PCB booked a net provision release of €0.8m (5bp) in Q125, assisted by a combination of improvements in Stage 2 loans and continued recoveries from written-off loans of €2.9m in Q125, a run-rate consistent with recent years. The share of stage 3 loans in PCB's loan portfolio fell sequentially by 0.1pp to a low level of 2.2%, with a strong 50.5% coverage ratio at end-March 2025. We note the continued improvement in credit quality at ProCredit Bank Ukraine, where the share of credit-impaired loans declined to 3.3% at end-March 2025 from 3.7% at end-2024 and 6.8% at end-March 2024. However, credit quality remains subdued in Ecuador, with the share of credit-impaired loans at 9.0% (a slight improvement vs 9.2% at end-2024) and 50bp cost of risk booked in Q125. PCB maintains a significant stock of management overlays at group level of €59.4m, or 33% of total loss allowances at end-March 2025.

Capital base: CET-1 buffer wide, but Tier 1 and TCR buffers narrowing

PCB's CET-1 ratio remained stable throughout Q125 at 13.1% (though down from 14.3% at end-March 2024), which is well above the current regulatory requirement of 9.4% and already reflects the impact from Basel IV. As communicated earlier, PCB's management expects an increase in PCB's CET-1 capital requirement to c 9.8%, which still leaves a solid regulatory buffer. However, as discussed in detail in our recent outlook note, the new regulatory requirements coupled with the recent weakening in risk-weighted assets (RWA) density (67.8% in Q125 vs 66.4% in FY24 and 63.5% in FY23) will result in quite narrow regulatory buffers at the Tier 1 and total capital level (we currently assume c 1.0pp and 0.6pp for FY26e excluding any new Tier 1 or Tier 2 issuance, respectively). Therefore, we consider it likely that PCB will intensify its RWA efficiency measures and/or consider raising additional capital beyond CET-1 capital. PCB may improve its RWA density by way of, among others, 1) shifting its loan book mix to small and micro clients in line with the medium-term target (which we estimate may reduce RWA density by 0.7pp overall), 2) negotiating important guarantee agreements with members of the international financial institutions community, 3) securitising parts of its loan portfolio (like it did with parts of its Bulgarian portfolio two years ago) and 4) widening the Multilateral Investment Guarantee Agency (MIGA) agreement. We note that, at the 2025 AGM (to be held on 4 June), PCB's shareholders will vote on authorising PCB's management to issue profit participation rights ('Genussrechte') of up to €200m, structured as Additional Tier 1 capital.

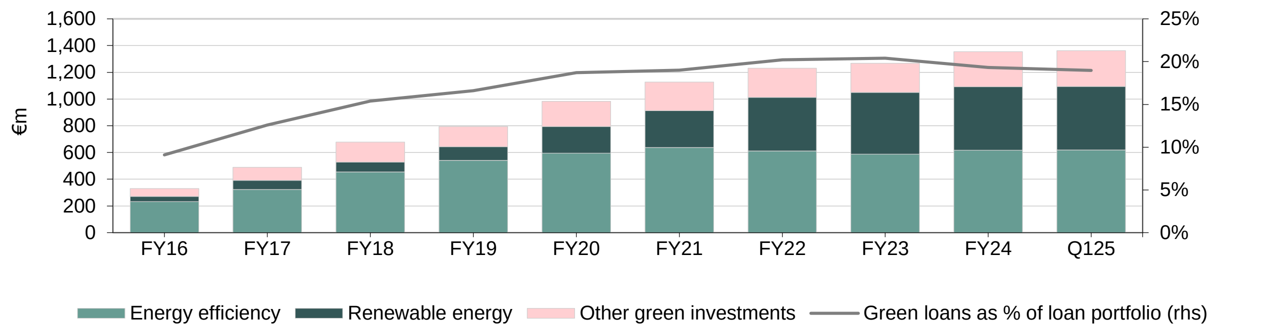
Sustainability progress

As part of PCB's recently broadened approach to impact orientation, it intends to focus on five UN Sustainable Development Goals (SDGs) as key performance indicators (KPIs). Three are related to social impact: Gender Equality; Decent Work and Economic Growth (fostered through job creation); and Industry, Innovation and Infrastructure (supported by PCB's investment loans, which accounted for 47% of total loans at end-March 2025). The remaining two SDGs are centred around environmental impact and are supported by PCB's green lending activity and the path to net zero: Affordable and Clean Energy; and Climate Action.

PCB's green loan book grew at an FY19–24 CAGR of 14% and reached c €1.4bn at end-March 2025 (consisting of over 10,000 loans). This represented a high 19.0% of PCB's total loan portfolio (and 25% of its investment loans to businesses), which management believes far outperforms local banking sectors. The share of green loans declined modestly from 20.4% at end-2023 due to PCB's strategic reorientation towards lower-volume enterprise and private clients, who are less likely to embark on significant green investments. Therefore, management does not expect a significant increase in the share of green loans. PCB's green portfolio includes loans to fund energy efficiency projects that reduce energy consumption by at least 20% (these made up 45% of the green loan portfolio at end-March 2025), renewable energy (35%, primarily photovoltaic project finance and rooftop installations) and other green investments (20%), including investments leading to the prevention of air, water and soil pollution, waste management and organic agriculture and production (see Exhibit 6). We note that PCB operates in countries where CO_2 emissions per unit of GDP are still higher than the EU average, which we believe creates scope for further gradual growth in its green loan book.

PCB also measures its ESG impact through the number of business clients and the number of jobs supported through its business loan clients (micro, small and medium enterprises, MSMEs), which reached around 75k (as disclosed in its FY24 report) and 197,111 (FY24), respectively. The latter included 42% and 7% of female and youth employment, respectively.

Exhibit 6: PCB's historical green loan book evolution



Source: PCB data

PCB's near-term targets were validated by the Science Based Targets initiative as science-based in accordance with the Paris Climate Agreement. PCB is committed to reducing the group's absolute Scope 1 and Scope 2 greenhouse gas emissions by 42% by 2030 compared to 2022, and to reach net zero by 2050. It plans to achieve this mainly through an increase in the share of renewable energy sources through guarantees of origin (we also note it commissioned its own 3MW photovoltaic park in Kosovo), as well as increasing the electric cars fleet (electric and hybrid plug-in cars made up 61% of its fleet at end-2024. PCB has also introduced energy efficiency measures at its premises and in its processes, with six of its head offices awarded the EDGE certification for green buildings. PCB reduced its total energy consumption per employee by 6.9% in FY24. PCB's Scope 3 target is to develop tailored emissions-saving strategies with small and medium enterprises responsible for 28% of the group's portfolio emissions (with an emphasis on agriculture and manufacturing sectors) by 2027. In FY24, PCB launched a CO_2 calculator for MSMEs to support them in measuring their carbon emissions.

PCB's social performance is measured by its employee diversity, with a 63.6% female representation across the group in FY24 (vs 62.1% in FY23), including 54.1% in the middle management in FY24 (stable vs FY23). We also note that PCB aims at introducing specialised products for women-owned and women-led MSMEs in at least seven of its banks by 2030.

Another relevant social KPI is the number of hours of training per employee, which in FY24 stood at 124, up from 114 in FY23 and in line with management's target of more than 120. Annual investment in employee training stood at €9.7m in FY24 versus €9.4m in FY23. We also note the low turnover rate at group level, with management targeting 7–10% over the long term. Turnover was somewhat higher in FY24 at 14.3% (vs 8.5% in FY23), but has remained limited over the last four years at 11.5% on average, according to our calculations.

In FY24, PCB implemented its first diversity, equity and inclusion strategy targeting employees, clients and suppliers, and communities in which PCB operates.

Forecast and valuation revisions

We have broadly maintained our net income estimates for FY25 and reduced them moderately for FY26 due to our slightly lower NIM assumptions to reflect the lack of any major downward repricing of deposits so far this year and the interest expense related to the Additional Tier 1 capital issuance we assumed (see below). This was partly offset by minor positive adjustments to our net fee and commission income and operating expense estimates (Exhibit 7). Consequently, we maintain our FY25 ROE forecast of 9.6% (vs company guidance of around 10%), followed by 10.0% in FY26e. We have factored in a €150m Additional Tier 1 capital issue in FY25e in our forecasts, resulting in improved Tier 1 and total capital buffers. We also updated our peer analysis (see Exhibit 9), which resulted in a fair value per PCB share of €14.60 (up from €13.65 previously), implying 39% upside potential to the current share price.

Exhibit 7: Forecast revision summary

€m	2024	2025e				2026e			
	Actual	Old	New	Change	growth y-o-y	Old	New	Change	growth y-o-y
Net interest income	358	366	360	-1.5%	0.6%	415	406	-2.3%	12.7%
Net interest margin (annualised)	3.5%	3.3%	3.2%	-0.1 pp	-0.3 pp	3.4%	3.3%	-0.1 pp	0.1 pp
Expenses for loss allowances	(5)	10	9	-10.5%	NM	28	28	0.0%	226.9%
Cost of risk (annualised in bp)	(8)	13	12	-1 bp	19 bp	34	34	0 bp	22 bp
Net fee and commission income	59	61	62	0.5%	4.3%	65	65	0.5%	5.8%
Operating expenses	303	317	314	-0.8%	3.8%	335	332	-0.8%	5.7%
Pre-tax profit	147	129	129	0.2%	-12.2%	148	143	-3.4%	11.1%
Net income	104	105	105	0.0%	0.6%	121	117	-3.3%	11.8%
ROE	10.2%	9.6%	9.6%	0 pp	-0.6 pp	10.4%	10.0%	-0.3 pp	0.4 pp
CET1 ratio	13.1%	13.1%	13.0%	-0.1 pp	0 pp	13.1%	13.0%	-0.1 pp	0 pp
TCR	16.1%	16.0%	17.8%	1.8 pp	1.7 pp	15.7%	17.4%	1.6 pp	-0.4 pp
CIR	68.1%	69.6%	69.6%	0 pp	1.4 pp	65.5%	66.0%	0.5 pp	-3.6 pp
Gross loan portfolio	7,010	7,821	7,821	0.0%	11.6%	8,728	8,728	0.0%	11.6%
Net loan portfolio	6,828	7,644	7,644	0.0%	11.9%	8,543	8,543	0.0%	11.8%
Customer deposits	8,291	9,254	9,254	0.0%	11.6%	10,400	10,400	0.0%	12.4%

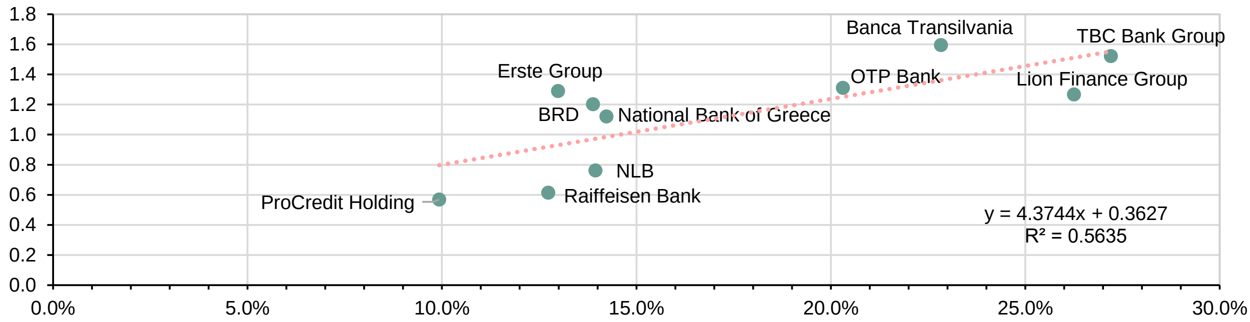
Source: Company data, Edison Investment Research

Exhibit 8: PCB's P/BV-ROE valuation (€m unless otherwise stated)

	FY24	FY25e	FY26e	FY27e	FY28e
Tangible Equity	**1,021,569**	**1,091,742**	**1,174,026**	**1,285,025**	**1,416,834**
Net attributable profit	104,309	104,924	117,259	150,085	181,837
RoTE (%)	*10.5%*	*9.9%*	*10.4%*	*12.2%*	*13.5%*
TNAV per share (€)	**17.3**	**18.5**	**19.9**	**21.8**	**24.1**
TNAV per share FY25e (€)	18.5				
RoTE	9.9%				
Sustainable RoTE	11.0%				
Growth rate	2.0%				
CoE	12.0%				
Fair value multiple – CAPM model	0.90				
Fair value multiple – regression multiple (FY25e)	0.80				
Blended multiple	**0.85**				
Fair value (€, end-2025)	15.69				
discount factor	0.93				
Fair value (€)	**14.60**				
Current share price (€)	10.55				
upside/downside	*39%*				

Source: Company data, Edison Investment Research

Exhibit 9: P/BV versus ROE - PCB compared to peers (FY25e)



Source: LSEG Data & Analytics consensus as of 21 May 2025 except for ProCredit Holding (Edison Investment Research estimates). P/BV ratios calculated based on tangible book value per share where available.

Exhibit 10: PCB's financial summary

Year end 31 December, IFRS, €000s	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e	FY28e
Income Statement								
Net interest income	222,021	264,634	337,224	358,239	360,218	405,966	462,761	517,314
Net fee and commission income	50,855	54,731	57,525	59,166	61,727	65,327	68,303	71,261
Operating income	281,881	339,848	412,506	444,299	451,511	503,228	565,973	626,652
Operating expenses	180,859	217,428	246,979	302,772	314,153	332,034	352,834	372,257
Loss allowances (-)	6,490	104,573	15,513	(5,154)	8,632	28,216	31,163	35,163
PBT	94,532	17,847	150,015	146,681	128,726	142,977	181,976	219,232
Net profit after tax	79,641	16,497	113,372	104,309	104,924	117,259	150,085	181,837
Reported EPS (€)	1.35	0.28	1.92	1.77	1.78	1.99	2.55	3.09
DPS (€)	0.00	0.00	0.64	0.59	0.59	0.66	0.85	1.03
Balance Sheet								
Loans and advances to customers	5,792,966	5,892,796	6,029,715	6,828,256	7,644,031	8,543,390	9,503,412	10,569,222
Total assets	8,215,901	8,826,124	9,748,968	10,751,615	11,773,653	12,915,678	14,258,660	15,793,539
Liabilities to customers	5,542,251	6,289,511	7,254,236	8,291,358	9,254,116	10,400,266	11,702,161	13,180,737
Total liabilities	7,359,587	7,956,689	8,765,179	9,695,713	10,497,578	11,557,319	12,789,301	14,192,372
Total shareholders' equity	856,314	869,435	983,789	1,055,902	1,276,075	1,358,359	1,469,358	1,601,167
BVPS (€)	14.54	14.76	16.70	17.93	19.12	20.52	22.40	24.64
TNAV per share (€)	14.23	14.46	16.32	17.34	18.54	19.93	21.82	24.06
Ratios								
NIM	2.90%	3.11%	3.63%	3.49%	3.20%	3.29%	3.41%	3.44%
Costs/Income	64.2%	64.0%	59.9%	68.1%	69.6%	66.0%	62.3%	59.4%
ROAE	9.7%	1.9%	12.2%	10.2%	9.6%	10.0%	11.9%	13.1%
CET1 Ratio	14.1%	13.5%	14.3%	13.1%	13.0%	13.0%	13.0%	13.2%
Tier 1 ratio	14.1%	13.5%	14.3%	13.1%	15.0%	14.8%	14.7%	14.8%
Capital adequacy ratio	15.3%	14.3%	15.8%	16.1%	17.8%	17.4%	17.1%	16.9%
Payout ratio (%)	0.0%*	0.0%*	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%
Customer loans/total assets	72.1%	69.1%	63.9%	65.2%	66.4%	67.6%	68.1%	68.3%
Deposits/loans	93.5%	103.0%	116.5%	118.3%	118.3%	119.2%	120.6%	122.1%

Source: Company data, Edison Investment Research
Note: *In light of the war in Ukraine and the risk of a broader escalation of the conflict, which could have adversely affected PCB's business in the entire region, no dividends were paid in 2022 and 2023, contrary to PCB's dividend policy of distributing one-third of consolidated profits.

London | New York | Frankfurt
20 Red Lion Street
London, WC1R 4PS
United Kingdom