ProCredit Holding

Well-positioned for Ukraine's reconstruction

ProCredit Holding's (PCB's) financial year 2024 was characterised by continued execution of its updated strategy; it made solid progress in terms of loan book expansion, scaling up its smaller banks, growing the share of loans to low-volume clients (micro and small enterprises, and private clients), as well as increasing the deposit-to-loan ratio. Continued strategic investments in IT, marketing, headcount expansion and selected expansion of PCB's branch network led to a c 23% increase in operating expenses, which management expects to stabilise in H225. This, together with a contracting net interest margin (NIM) due to a cyclical repricing of assets, translated into a decline in return on equity (ROE) from 12.2% in FY23 to a still robust 10.2% (in line with management's updated guidance). Management maintained its medium-term ROE target of 13–14%, which we consider achievable. The company sees a further 1.5pp upside from the post-war reconstruction of Ukraine, which it is well positioned for through its highly profitable, well-capitalised and well-staffed local bank.

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	5.2	6.3	0.60
12/24	358	1.77	0.59	17.9	10.2	5.7	5.8	0.56
12/25e	366	1.78	0.59	19.1	9.6	5.7	5.9	0.53
12/26e	415	2.06	0.69	20.6	10.4	4.9	6.8	0.49

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

SEE/EE outlook robust despite the trade war

PCB's medium-term loan book growth should be assisted by the solid macroeconomic prospects in the South-Eastern (SEE) and Eastern Europe (EE) region according to the latest IMF projections, even after the revision published in April 2025 following the onset of the tariff war. The share of the US in total exports of SEE/EE countries is rather limited, though the region may be indirectly affected by the trade tensions due to the weakening macroeconomic environment. That said, the IMF's downward revision of GDP growth projections for Emerging and Developing Europe (including Russia) was a mere 0.1pp to 2.1%. The average GDP growth implied by IMF's projections for all PCB's countries of operations (weighted based on the end-2024 share of the group loan book) stands at 3.0% in 2025 and 3.4% in 2026, according to our calculations.

Valuation: 35% upside potential

We update our fair value estimate for PCB, which now stands at €13.65 per share, down from €15.70 previously due to lower peer multiples and our updated cost of equity. We retain our sustainable return on tangible equity (RoTE) assumption of 11% for now. There is further valuation upside from PCB's achievement of its medium-term ROE target of 13–14% (reflecting this in our sustainable RoTE assumption would bring our current fair value to €15.40–16.25 per share) and Ukraine's reconstruction following the end of Russia's invasion (which would add another c €1.35 to our fair value estimate).

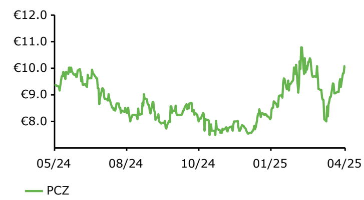
Company outlook

Banks

2 May 2025

Price	**€10.10**
Market cap	**€580m**
Shares in issue	58.9m
Code	PCZ
Primary exchange	FRA
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	6.3	20.0	9.6
52-week high/low		€10.9	€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

Q125 results	12 May 2025
AGM	4 June 2025

Analyst

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Edison profile page

ProCredit Holding is a research client of Edison Investment Research Limited

Investment summary

Company profile: Sustainability play in the banking sector

PCB is a German-headquartered specialist micro, small and medium-sized enterprises (MSME) lender operating in emerging Europe – SEE and EE – and Ecuador, with a strong emphasis on sustainability and long-term relationships with its customers. The bank is among the top three lenders in the small and medium-sized enterprises (SME) segment across most of its markets. Last year, it updated its strategy to position itself as a universal bank for MSMEs and private individual clients.

Financials: Good strategic progress in loans and deposits

PCB made solid progress on the path to achieving its strategic objectives set out last year: 1) significant expansion of its loan book (up 12.6% in FY24), especially in its subscale banks (average growth of 18%), 2) increasing the share of low-volume clients (up 2.5pp to 44%) and 3) improving its deposit-to-loan ratio (up to 118.3% vs 116.5% at end-2023). PCB's investments in IT, marketing and headcount expansion to drive its updated strategy are still in progress, which together with the NIM pressure from asset repricing translated into an ROE of 10.2%, in line with management's updated guidance of c 10%. PCB's loan book quality continues to improve, with the share of credit-impaired loans down to 2.3% at end-2024 versus 2.7% at end-2023 and a net release of loss allowances of 8bp in FY24 (supported by recoveries of written-off loans and some moderate release of management overlays). PCB's risk weighted assets (RWA) density increased in Q424 to 66.4%. Management sees scope for reducing it (its medium-term target is below 60%). We believe that PCB's prospective RWA density efficiency measures are important given the net increase in the Supervisory Review and Evaluation Process capital add-on from FY25 (expected by management at 0.75pp), which, together with the recent increase in RWA density, will lead to narrow Tier-1 and total capital ratio (TCR) buffers versus regulatory requirements.

Valuation: Offering c 35% upside potential

Our fair value estimate for PCB stands at €13.65/share, down from €15.70 previously as a result of lower peer valuations and our updated cost of equity estimate (12.0% vs 10.9% previously). This results in an assumed P/BV multiple for PCB of 0.8x (vs 0.9x previously). Together with our maintained sustainable RoTE assumption of 11%, this still leaves significant upside potential to the current share price. There could be further potential upside from PCB's successful execution of its strategy to reach an ROE of 13–14% in the medium term; such an RoTE assumption would translate into a fair value of €15.40–16.25.

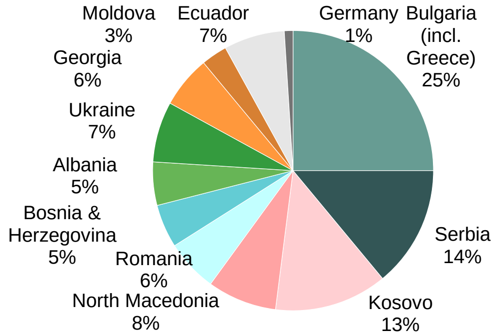
Sensitivities: Macroeconomic and geopolitical situation

The main risks to PCB's investment case come from macroeconomic and geopolitical uncertainty, including the outcome of the Russian-Ukrainian war (which offers both downside and upside risks), the unstable situation in Ecuador (which made up 7% of PCB's end-2024 loan book), the political deadlock in Georgia, and the indirect impact of the unfolding trade war. Moreover, although PCB's strategic update in 2024 does not represent a complete change of strategy, it still poses certain execution risks, mostly around its further expansion into retail, the introduction of automated credit decisions and monitoring, the expansion of its branch network, as well as the ability to reach the targeted deposit-to-loan ratio, among others.

Impact-oriented SME lender focused on SEE and EE

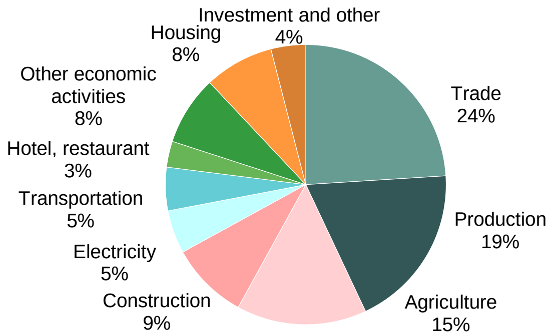
PCB specialises in financing MSMEs and private individuals in transition economies, currently in emerging Europe (SEE and EE) and Ecuador (see Exhibit 1), while its German operations are largely focused on providing services to the group such as efficient payment, liquidity and support functions. PCB's focus is on impact-oriented financing, which supports sustainable development, employment and social prosperity. Its long-term mission is to contribute to an inclusive, stable and efficient financial system. PCB has an issuer credit rating of BBB with a stable outlook from Fitch, last affirmed on 28 April 2025.

Exhibit 1: PCB's loan book by country at end-2024



Source: Company data

Exhibit 2: PCB's loan book by sector at end-2024



Source: Company data

Its 'Hausbank' concept relies on developing long-term relationships as a trusted partner and adviser offering a comprehensive banking experience to clients. It offers simple and transparent products, promotes a savings-oriented culture and puts strong emphasis on prudent credit as well as environmental and social risk management. Moreover, PCB has been actively cooperating with European institutions to foster innovation and has been the largest partner of the last major guarantee programme for SMEs in the Balkans run by the European Investment Fund. PCB highlights that it can fulfil the needs of SMEs better than its competitors, thanks to its well-trained and long-serving staff.

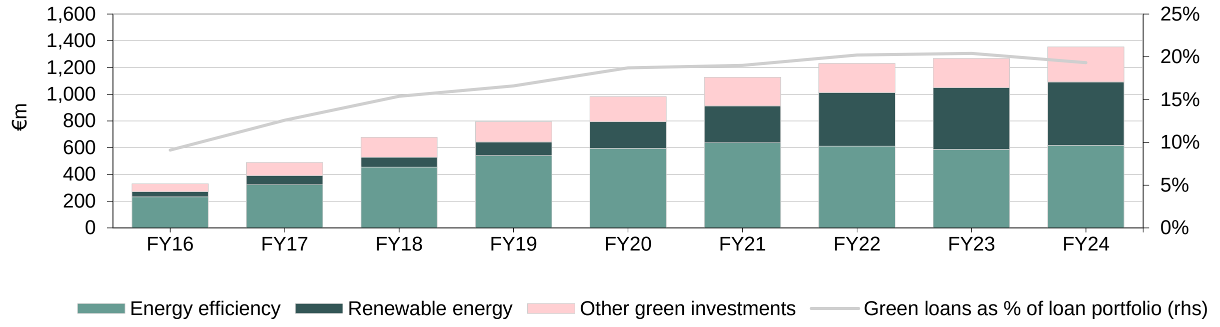
Despite its traditional approach to banking, PCB is committed to investing in the development of efficient and secure technology. Its app- and web-based functionalities are developed in-house by Quipu, which PCB believes helps address IT challenges quickly. That said, part of PCB's updated strategy includes opening up to third-party suppliers to allow Quipu to focus its development on the core banking system and other central IT applications. The launch of ProCredit Direct in 2017, a digital banking platform primarily for private clients, complemented the existing approach of Hausbank for SMEs and allowed the company to initiate the digitalisation of financial services to private clients, fully completed in 2018. All transactions in the group's banks are now digital (PCB has abolished over-the-counter and cash transactions in its branches).

As part of its 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). 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 sustainability orientation is illustrated by an FY19–24 CAGR of 11% in its book of green loans to c €1.4bn at end-2024. This represented a high 19.3% of PCB's total at end-2024, which management believes far outperforms local banking sectors. The share of green loans declined modestly in FY24 from 20.4% at end-2023 due to PCB's strategic reorientation towards lower-volume enterprise and private clients (see below), who are less likely to embark on significant green investments. Therefore, management does not expect a significant increase in the share of green loans.

Its green portfolio includes loans to fund energy efficiency projects that reduce energy consumption by at least 20% (these made up 46% of the green loan portfolio at end-FY24), renewable energy (35%) and other green investments (19%), including investments leading to the prevention of air, water and soil pollution, waste management and organic agriculture and production (see Exhibit 3). 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 growth in its green loan book.

Exhibit 3: Evolution of PCB's green loan book



Source: Company data

We believe PCB's holistic approach to sustainability issues, which is well-rooted in its history and mission, is supported by its shareholder structure. Based on company information from voting rights notifications and voluntary disclosure of voting rights, PCB's large shareholders include Zeitinger Invest (a strategic shareholder since inception, 18.3% stake), KfW (a German development bank, 13.2%), DOEN Participaties (a Dutch entity focused on supporting sustainable and socially inclusive entrepreneurs, 12.5%) and the European Bank for Reconstruction and Development (8.7%). The Teachers Insurance and Annuity Association holds an 8.6% stake in the company, and PCB's free float stands at 38.7%.

Management: Leadership transition ahead

The company has planned for a leadership transition in 2026. By request of PCB's supervisory board, Hubert Spechtenhauser (the current chairperson of the management board) agreed in March 2024 to extend his mandate by a further year to February 2026. Following a structured search for nominees, the supervisory board recommended the appointment of Eriola Bibolli as the new chairperson from 1 March 2026. Eriola spent more than 20 years at ProCredit Bank Kosovo, where she was a member of the management board from 2007 to 2023. Subsequently, she joined the management board of ProCredit Holding in 2023 and is now responsible for MSME banking, group sustainability, economic analysis, retail banking and marketing (she was previously also chief risk officer at ProCredit Holding). Hubert Spechtenhauser joined the board in March 2022 and became chairperson in November 2022, after holding various senior managerial positions at Commerzbank Group, Landesbank Hessen-Thüringen (Helaba) Group and UniCredit Group. At ProCredit, he is responsible for legal aspects, group communications and the corporate office. Other members of PCB's management board are listed below:

- **Christian Dagrosa** joined ProCredit Holding in 2017 and between 2019 and 2022 was an authorised representative of the company ('prokurist') and manager responsible for investor relations, as well as reporting and controlling. He is currently the group's CFO, responsible for accounting and taxes, group regulatory reporting, investor relations, group financial planning and analysis, reporting and data management, data systems projects, the group asset & liability management function, as well as group funding.
- **Christoph Beeck** is responsible for human resources, fraud prevention and compliance, anti-money laundering, internal audit, as well as administration and translation.
- **George Chatzis** has more than 20 years of experience in the banking sector and before joining ProCredit Holding in April 2024, he was chief risk officer at Rabobank Frankfurt and International Direct Bank Europe and head of HR at Rabobank Frankfurt. At ProCredit Holding, he is currently responsible for group financial, operational and credit risk management, as well as risk control at group and ProCredit Holding level.
- **Dr Gian Marco Felice** joined the management board in June 2020. He has held various managerial positions within the group since 2001 and is now responsible for group and ProCredit Holding IT.

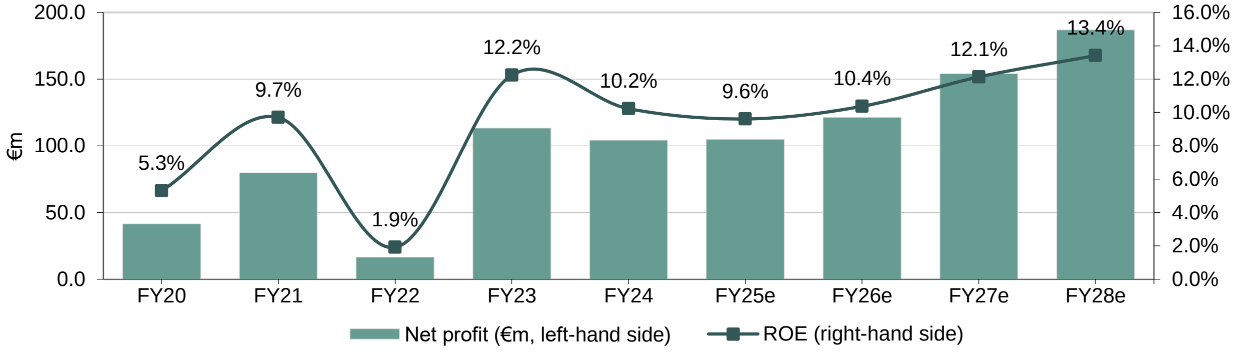
The management team is supported by two authorised company representatives: Rossana Mazzilli (chief legal counsel) and Dr Jan Kulak (team leader of the Corporate Office).

Financials

Last year, ProCredit's management unveiled an updated strategy to drive its ROE to 13–14% in the medium term. PCB's management aims to achieve this by becoming a universal bank for MSMEs (with an increased focus on the lower end of the segment) and private individual clients. Management believes that this should allow PCB to grow its loan book to more than €10bn, bring local deposit-to-loan ratios to around 120% and offset the impact of declining base rates on its NIM in the medium term. Management also aims to reach a cost-to-income ratio (CIR) of around 57%, supported by scaling effects at several of its local banks. These targets were reiterated upon the release of FY24 results, and the company has made good progress towards achieving them (see below).

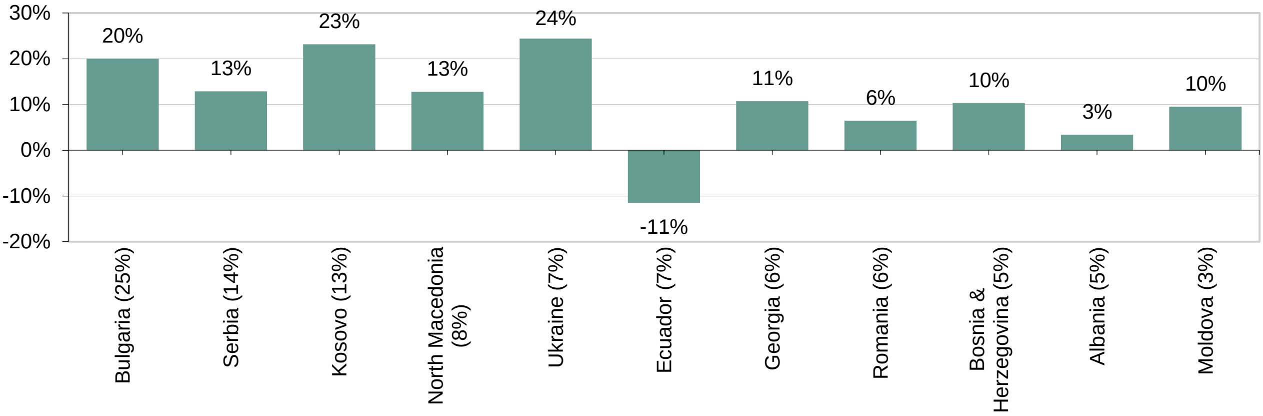
PCB's ROE reached 10.2% in FY24, in line with the updated management guidance of around 10%. This guidance was revised from 10–12% previously due to the special banking tax in Ukraine imposed in Q424, headwinds in Ecuador and faster execution of its strategic initiatives (eg in terms of headcount expansion). Management expects a similar ROE of around 10% in 2025 (assuming continued low cost of risk).

Exhibit 4: PCB's historical and forecast net profit and ROE



Source: Company data, Edison Investment Research

Exhibit 5: PCB's ROE by local bank in FY24



Source: Company data. Note: Share of end-2024 customer loan book provided in brackets.

Strong loan book growth with emphasis on lower-volume clients

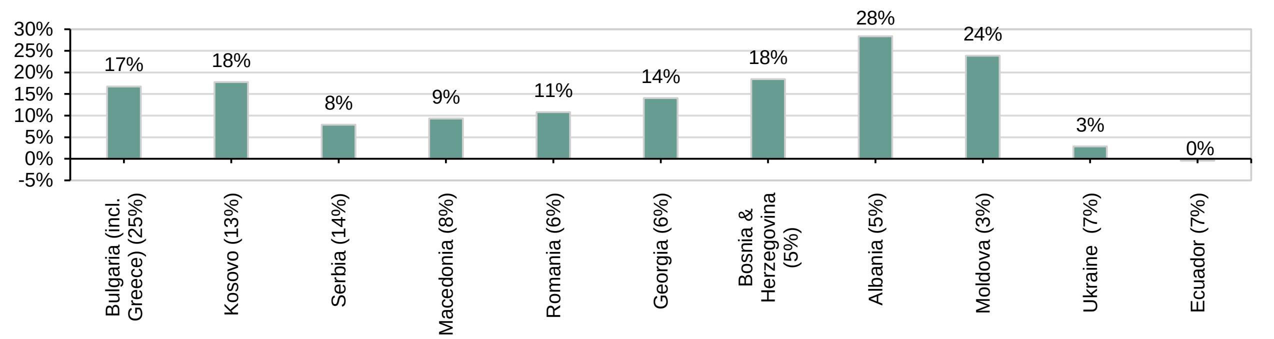
The positive momentum across PCB's loan book continued in FY24, with growth of 12.6% (or 13.7% excluding Ecuador) to €6.8bn, in line with management's FY24 guidance of growth above 10% (upgraded from c 10% fx-adjusted growth previously). Management expects a similar increase of c 12% in FY25 (absent any major fx movements, we forecast 11.6%), despite assuming stagnant Ukrainian and Ecuadorian loan books. This represents a run-rate that is consistent with PCB's growth of 10–13% pa in 2018–21 (ie before Russia's invasion of Ukraine) and puts the company on track to reach the above-mentioned medium-term loan book target.

Loans to micro and small enterprises as well as private clients contributed 65% of the growth, which is broadly in line with the 60% contribution implied by management's assumptions embedded in its strategy, according to our calculations. Loans to private and micro clients grew particularly strongly, by 35% and 56% y-o-y. This was accompanied by an increase in business clients of more than 5k to 75k, and in private clients of c 22k (or 11%). 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). Overall, the share of lower-volume clients (smaller and micro enterprises and private clients) went up by 2.5pp to 44%, which represents good progress towards its mid-term objective of a 10pp increase (since the announcement of the new strategy) to 51%.

Robust progress in scaling its smaller banks

PCB's smaller banks in Albania, Bosnia & Herzegovina, Georgia, Moldova and Romania showed particularly strong growth of 18% on average, ranging from 11% (Romania) to 28% (Albania), see Exhibit 6. These banks are considered subscale by PCB's management and therefore it aims to significantly invest in the transformation of their balance sheets and on driving scaling effects. PCB's most mature banks in Bulgaria (which also serves the Greek market) and Kosovo, which exhibit good scale and profitability and are focused on further consolidating their market positions, also posted strong loan book growth of 18% and 17%, respectively. Management considers PCB's banks in Serbia and North Macedonia as being at an advanced stage, with emphasis on further growth but also optimisation of balance sheet structure to drive profitability. These banks expanded their loan portfolios in FY24 by 8% and 9%, respectively. The Serbian bank was able to slightly improve its ROE and deposit-to-loan ratio to 12.9% (from 12.6% in FY23) and 109.4% (vs 106.6% at end-2023), respectively, while the bank in North Macedonia saw a slight softening of ROE to 12.8% from 13.0% and deposit-to-loan ratio to 110.3% from 115.0%.

Exhibit 6: PCB's loan book growth by country in FY24

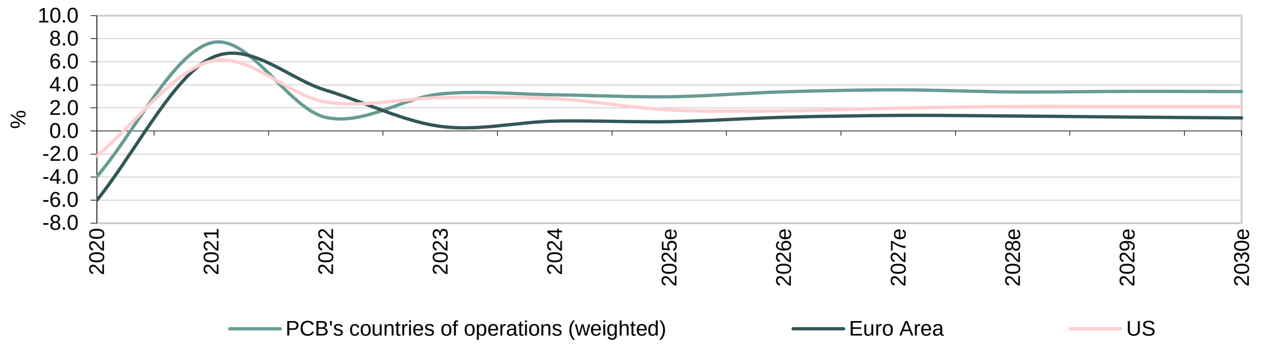


Source: Company data

PCB should maintain healthy growth despite broader market headwinds

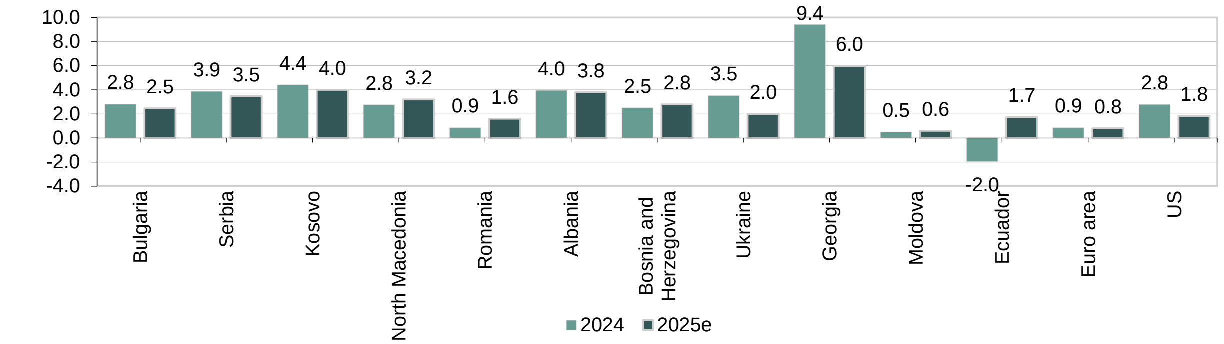
PCB's medium-term loan book growth should be assisted by the solid macroeconomic prospects in the SEE/EE region according to the latest IMF projections, even after the revision published in April 2025 following the onset of the tariff war. The share of the US in total exports of SEE/EE countries is rather limited. For instance, it represented only 7.0% and 8.8% of Bulgaria's and Romania's exports outside the EU in 2024, according to Eurostat. The SEE/EE region may be indirectly affected by the trade tensions due to the weakening macroeconomic environment. That said, while the IMF's forecasted real GDP growth for the US in 2025 was revised down to 1.8% (0.9pp lower than the January 2025 projection), the downward revision for the Euro area was just 0.2pp to 0.8% and that for Emerging and Developing Europe (including Russia) was down a mere 0.1pp to 2.1%. We calculate that the average GDP growth implied by the IMF's projections for all PCB's countries of operations (weighted based on the end-2024 share in group loan book) stands at 3.0% in 2025 and 3.4% in 2026 (compared to 0.8% and 1.2% for the Euro area), see Exhibit 7. We note that the IMF's reference forecasts are based on measures announced as of 4 April (ie before the tariff pause and additional exemptions, as well as the escalating tariff rates between China and the US). Therefore, they already account for the direct impact of US tariffs on PCB's countries of operations.

Exhibit 7: GDP growth projections for PCB's countries of operations compared to developed markets



Source: IMF, company data, Edison Investment Research. Note: Growth for PCB's countries of operations weighted based on the share of PCB's loan book as at the end of the respective year (end-2024 for 2025–30e).

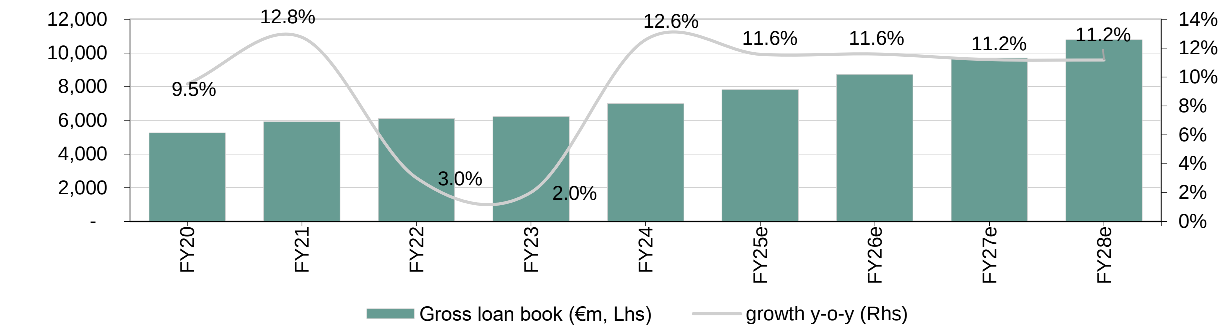
Exhibit 8: Projected GDP growth (%) across PCB's countries of operations in 2025 versus 2024



Source: IMF's World Economic Outlook database April 2025

Accordingly, we expect solid average growth across PCB's loan book of 11.4% pa between FY24 and FY28e, resulting in the fulfilment of management's ambition of a loan book above €10bn (we estimate €10.6bn at end-FY28e). The IMF expects inflation to be moderate at c 2–5% across almost all countries of PCB's operations in 2025 except Ukraine (12.6%) and Moldova (8.0%).

Exhibit 9: PCB's historical and forecast loan book growth

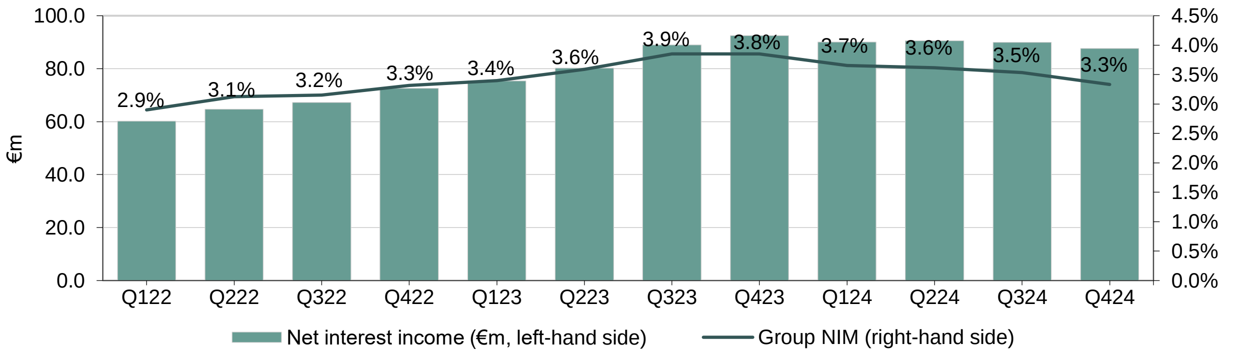


Source: Company data, Edison Investment Research

Short-term NIM squeeze, but structural expansion ahead

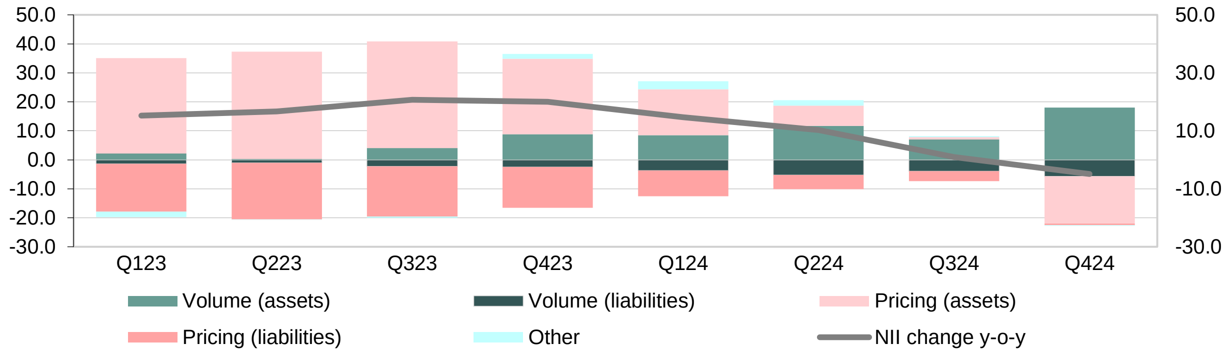
PCB's deposit growth at group level of 14.3% (or €1bn) was ahead of loan book growth in FY24. The share of deposits from private clients was up by 1.3pp to c 43%, with management targeting around 50% in the medium term. This supported a further improvement in the group deposit-to-loan ratio to 118.3% at end-2024 (vs 116.5% at end-2023), broadly in line with the above-mentioned mid-term target at the level of individual local banks. The higher share of deposits in PCB's refinancing, coupled with greater diversification of loan and deposit clients and a higher margin on small, micro and private clients versus mid-sized enterprises, should in the medium term help PCB at least partly mitigate the current NIM pressure from the cyclical repricing of its balance sheet amid a turn in the interest rate cycle. For now, however, PCB has experienced a NIM compression in every quarter after Q323 (following the strong expansion in FY22 and most of FY23, see Exhibit 10). This resulted in a 5.3% y-o-y fall in net interest income (NII) in Q424, bringing the FY24 growth to 6.2%. While the negative impact of liabilities repricing diminished throughout the respective quarters in 2024 (with a minor €0.5m y-o-y headwind in Q424), the impact from asset repricing turned negative in Q424, leading to a net negative repricing impact on PCB's Q424 NII of €16.8m y-o-y (or by 18% of the Q423 NII). This was partly offset by volume effects, see Exhibit 11.

Exhibit 10: PCB's NII and NIM development



Source: Company data

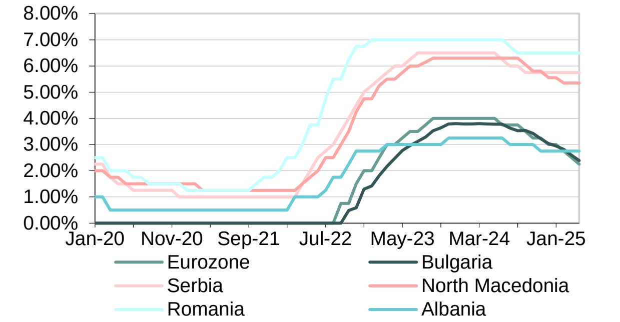
Exhibit 11: PCB's NII drivers in recent quarters (all figures in €m)



Source: Company data, Edison Investment Research

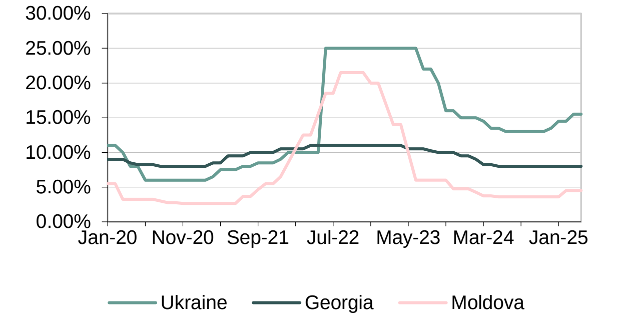
An important contributor was the negative repricing of short-term assets, including cash and cash equivalents, as well as the margin squeeze in Ecuador given the regulatory lending rate caps, which the bank tries to mitigate by focusing on lower-volume clients where caps are higher. Amid the adverse macroeconomic conditions, PCB's Ecuadorian bank holds a particularly high cash reserve, which does not generate any interest income and weighs on PCB's group margin. PCB also experienced a stronger margin compression in Eastern Europe, which management attributes partly to a sluggish pace of downward deposit repricing after the decline in base rates in 2023–24, which likely had a particularly adverse impact on PCB's Ukrainian bank, which had a very high deposit-to-loan ratio of 158.5% at end-2024. We note that base rates in Ukraine and Moldova were raised again in 2025 (see Exhibit 13). PCB's management highlighted that it believes that the company is nearing the end of the repricing cycle. We therefore assume a FY25 NIM of 3.3%, followed by a gradual increase to 3.6% in FY28. PCB's net fee and commission income rose slightly by 2.9% to €59.2m in FY24, driven primarily by income from payment services (up by €2.6m or 9.7%) and trade finance (up €0.7m or 9.5%), partly offset by a lower contribution from card services and higher guarantee costs. We assume a slightly higher FY24–28e CAGR of 4.6%, assisted by growth in payment fees from private clients.

Exhibit 12: Base rates in SEE and the eurozone



Source: local central banks, Edison Investment Research

Exhibit 13: Base rates in Eastern Europe



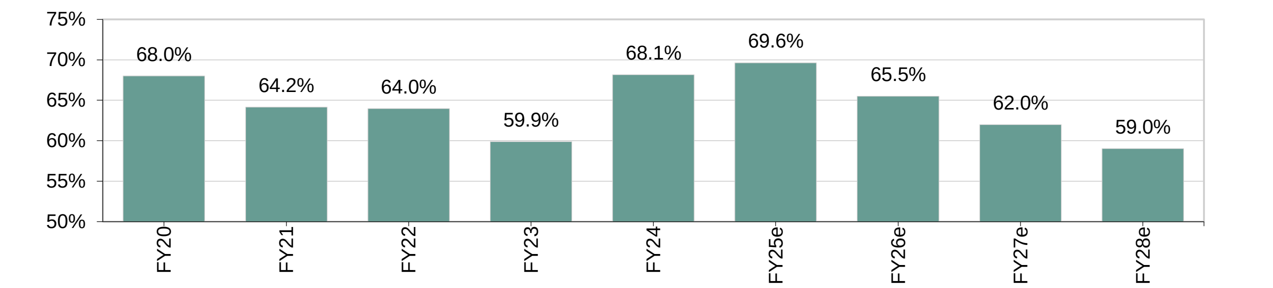
Source: local central banks, Edison Investment Research

CIR reflects initiatives to drive strategic agenda

Within its updated strategy, PCB embarked on sizeable investments into IT, marketing and headcount expansion, as well as the opening of 15 new branches in tier-2 economic hubs to facilitate its new ambitions, which will bring its total footprint to around 50 branches. It aims to increase headcount by 25%, most of which it already achieved in FY24 given the 18.7% y-o-y growth in the number of employees to 4,689, with a strong increase in staff focused on front-office functions (in both the retail and business segments) as well as IT. Management earlier highlighted that the hiring pace was ahead of its expectations, despite the tight local labour markets. This resulted in a 22% increase in personnel expenses at group level in FY24 to €146.8m, as well as a rise in recruitment and training costs (included in administrative expenses) to €12.2m from €7.2m in FY23. We expect a further 6% increase in personnel expenses in FY25 upon full-year recognition of the salary costs of the new employees, partly offset by the impact of a weakening US dollar on personnel expenses in Ecuador.

When it announced the updated strategy, PCB's management guided to €10m of additional network costs per year from increased office rent and depreciation, a €12m (or 20%) rise in IT costs and a €5m (or 50%) increase in marketing expenses, representing a combined c €27m increase in administrative expenses. In FY24, the combined increase in PCB's depreciation, IT, marketing and office-space related expenses stood at c €14m, and overall administrative expenses increased by c €30m (or c 23% y-o-y). The company opened six new branches in 2024, and also expanded the number of service points by 41 as a result of new openings and modernisations, with particular emphasis on downtown areas for brand building. Consequently, PCB's CIR reached 68.1% (or 65.0% excluding Ecuador) compared with management guidance of 66% (which was revised from 63% earlier). Management guides to a similar level in FY25e (we estimate 69.6%), with a year-on-year rise in operating expenses in H125 (due to base effects) and subsequent stabilisation in H225. From FY26, the CIR should gradually decline on the back of scaling effects, with our FY28 forecast at 59.0% (see Exhibit 14), slightly above PCB's target.

Exhibit 14: PCB's historical and forecast CIR

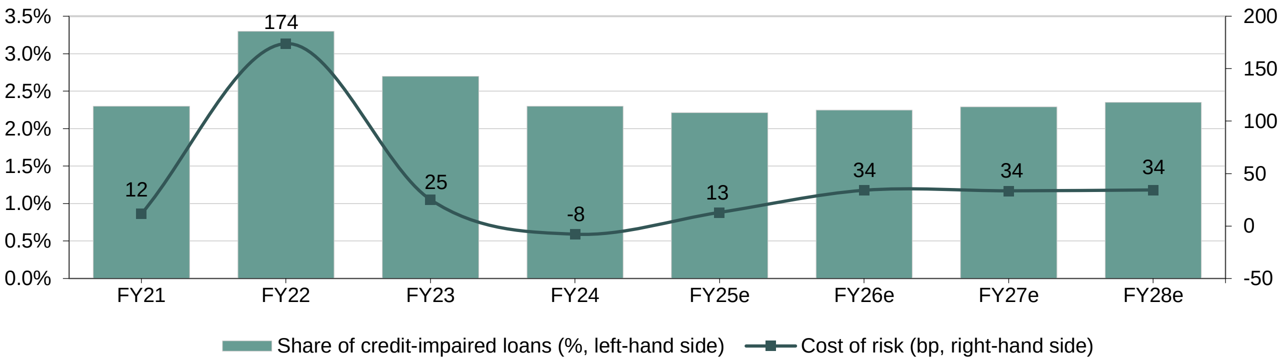


Source: Company data, Edison Investment Research

Cost of risk remains limited

PCB's credit quality remains robust and was strengthened further, as illustrated by the fall in the share of credit-impaired loans from 2.7% at end-2023 to 2.3% at end-2024, a level similar to what PCB reported before Russia's invasion of Ukraine. This was particularly supported by the improving Ukrainian portfolio where the share of credit-impaired loans reduced to 3.7% from 7.3%, with a stable stage 3 coverage ratio of 83% (considerably ahead of the 49.9% at group level). We note that only 1.7% of the Ukrainian loan book was in the war zone or territories under occupation at end-2024. PCB booked a net release of loss allowances of €5.2m in FY24 on the back of €12.6m of recoveries of written-off loans, an amount consistent with the c €12–14m recoveries booked per year since 2021 and which represents c 29% of the loss allowances incurred in FY23. Recoveries were quite granular with only 10% coming from Ukraine. Moreover, PCB booked a slight €2.5m reduction in management overlays (with the remaining balance still significant at €59.5m, of which €24.1m was at PCB Ukraine). Management's FY25 guidance assumes a continued low cost of risk, though without a detailed quantification (we forecast 13bp). We assume around 34bp per year thereafter, broadly in line with management's medium-term assumption of 30–35bp pa, which is higher than the 19bp reported in FY19–24 (with FY22 adjusted for Ukraine), given the growing share of loans to low-volume clients.

Exhibit 15: PCB's historical and forecast credit quality

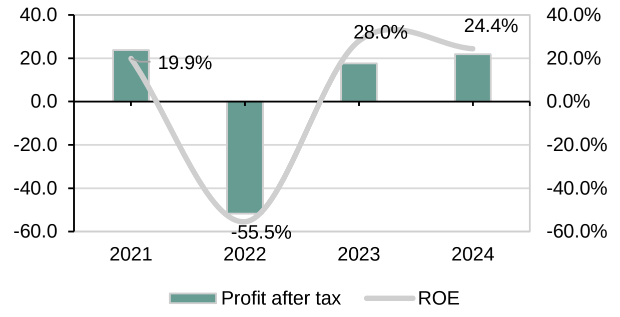


Source: Company data, Edison Investment Research

Ukraine: Ready for the reconstruction scenario

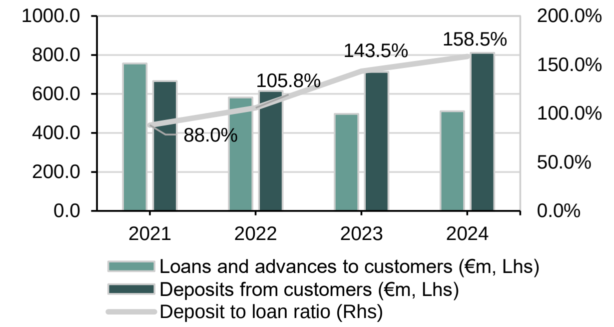
PCB Ukraine is currently highly profitable, well capitalised and well positioned to step up its lending activity once a sustainable ceasefire/truce is in place to fuel the reconstruction of Ukraine. The bank made a significant positive contribution to group results in FY24, with net income of €21.8m and an ROE of 24.4%. This was despite the special banking tax levied in Q424, which brought the tax rate to 50% versus the 25% standard rate, leading to an additional €9m tax expense (its pre-tax profit increased by 24% y-o-y in FY24). PCB Ukraine carried out a capital increase of €20m in December 2024 via the conversion of its remaining subordinated loan into equity. PCB's new investment is insured under the umbrella of the German investment guarantee scheme by the Federal Government of Germany, which effectively reduced PCB group's capital exposure to Ukraine. This capital increase brought the local bank's CET-1 ratio to a level that is 12pp above the local regulatory requirements and its Tier-1 ratio above 20%. Together with the high deposit-to-loan ratio of 158.5% at end-2024, this provides scope for significant credit expansion (the share of PCB Ukraine in PCB's total loan book declined gradually in recent years, from 12.8% in FY21 to 7.3% in FY24).

Exhibit 16: PCB Ukraine's net profit and ROE



Source: Company data

Exhibit 17: PCB Ukraine's customer loans and deposits



Source: Company data

PCB's management sees a 1.5pp ROE upside potential (vs the 13–14% mid-term target) in a Ukraine reconstruction scenario. This is based on the pre-war performance of the bank in Ukraine (ie loan book growth of c 10–15% pa and an ROE of around 25%). We believe that PCB's current regulatory capital and deposit growth can facilitate the above-mentioned loan portfolio expansion in the coming years, or an even slightly higher growth rate if the bank maintains its strong ROE.

Given the relatively small size of PCB Ukraine (1.3% market share in net sector assets at end-Q124 according to Fitch Ratings) and PCB's strong backing by international financial institutions (including its main shareholders, see above), we believe that the reconstruction opportunity in Ukraine should not constrain its growth. According to an updated Ukraine recovery and reconstruction needs assessment released in February 2025 by the World Bank, the estimated total cost of reconstruction (based on end-2024 data) stands at around €506bn over the next decade, 2.8 times the estimated nominal GDP of Ukraine in 2024. The World Bank estimates that 72% of the total damage is concentrated in regions closest to the front lines: the Donetsk, Kharkiv, Luhansk, Zaporizhzhia, Kherson and Kyiv oblasts. We note that part of these territories is under Russia's occupation, especially Luhansk (almost the entire region), Donetsk (most of the region), Zaporizhzhia (southern parts) and Kherson (parts on the eastern bank of the Dnipro River). Ukraine is unlikely to win back and start rebuilding these occupied territories any time soon. That said, even the reconstruction needs in areas further away from the front lines of c €142bn (which do not account for the significant potential in the Kherson and Kyiv oblasts) represent c 277 times the end-2024 loan book of PCB Ukraine. While PCB's focus on MSMEs and private individuals means that it will not provide credit directly to large enterprises executing sizeable reconstruction projects, it may lend to smaller subcontractors involved in these projects. The International Finance Corporation (IFC, a member of the World Bank) estimates that a third of the total reconstruction needs could be covered by the private sector. Given the damage Russia inflicted on Ukraine's energy infrastructure, and PCB's experience in providing green loans, we believe that investments in distributed energy solutions, including renewables, could be an interesting angle for PCB to explore.

Ecuador: No improvement in sight

PCB's ROE would have been 11.2% in FY24 excluding the Ecuadorian bank, which recorded a loss of €10.3m (when adjusted for the one-off effect from the intra-group sale-and-lease-back transaction related to the head office building). This was below management's earlier expectations of a broadly neutral result for FY24. The difficult local macroeconomic and sociopolitical situation persists, with the president recently communicating his desire to invite US troops to help curb the terror from powerful gangs. The country faced a drought last year that significantly affected the local hydro-power-reliant energy sector and led to long-lasting power cuts. We also note that the country is sensitive to a decline in oil prices given that it is an oil exporter, which is important in the context of the recent price volatility triggered by the turbulent start of Trump's presidency (including tariff announcements and a standoff with the Fed chair). The US is also Ecuador's major trade partner, accounting for around 20–25% of total exports, which may be affected by the 10% tariff initially imposed by the US (which for now is subject to a 90-day grace period). There is no clear improvement in sight in the short term, with the IMF forecasting GDP growth of 1.7% in 2025 (after a 2.0% contraction in 2024) amid a decline in private consumption, lower government spending and weak investment activity.

The tough local situation together with the corporate lending caps imposed on local banks and high refinancing rates weigh on the performance of PCB's Ecuadorian bank. Its NIM compressed further to 2.5% in FY24 versus 3.1% in FY23, despite the bank's efforts to reposition its portfolio to lower-volume segments where lending caps are higher. The quality of its credit portfolio deteriorated as the share of stage 3 loans reached 9.2% at end-2024 versus 6.9% at end-2023. Management also highlighted that there were legally regulated payment deferral measures introduced for customers affected by energy shortages, which drove the share of stage 2 loans to 15.7% from 9.4% at end-2023. A silver lining is that the bank managed to improve its deposit-to-loan ratio to 108.0% at end-2024, versus 79.5% a year earlier, thanks to a 35% y-o-y increase in customer deposits. The bank's equity fell only slightly in FY24 to €46.3m from €48.9m, assisted by the conversion of US$6m of PCB's subordinated debt into equity (with US$4m of subordinated debt still outstanding) and the above-mentioned sale-and-lease-back of the bank's head office (which drove the bank's net other operating income in FY24 to €5.3m).

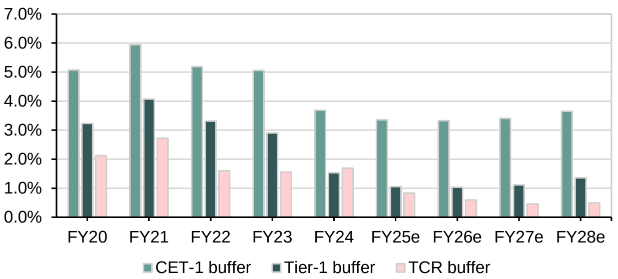
Capital base: CET-1 buffer wide, but Tier-1 and TCR buffers narrowing

PCB's RWA density (ie RWA as a percentage of total assets) increased to 66.4% at end-2024 from 63.5% at end-2023. This came from a combination of: 1) higher liquidity held with Ukrainian and Ecuadorian central banks (to which PCB needs to apply a risk weight of 150% given the lack of European Banking Authority (EBA) equivalence acknowledgement), 2) A 17.8% increase in RWA related to market risk and 3) a recalibration of operational risk ahead of Basel III implementation which led to an 18.0% increase in RWA related to this risk category in FY24. PCB's management considers this a temporary increase in the RWA density and sees potential to reduce it going forward, having previously communicated a mid-term target to reduce it below 60%. This will be supported by the shift in client mix, as medium-sized clients are characterised by risk weights of c 75–85%, while small and micro clients benefit from the application of both the SME factor (which is higher for credit exposures below €2.5m) and the retail factor, resulting in a risk weight of 57% (retail has a fixed 75% risk weight). However, based on these weights and the change in loan book composition targeted by PCB's management vs end-2024 levels, we estimate that the potential for reducing PCB's overall RWA density in the medium term from changes in the client mix is moderate at c 0.7pp in total. Beyond this, management highlighted that PCB continues to negotiate important guarantee agreements with members of the IFI community, which should reduce credit risk and improve PCB's RWA density (especially in the medium and small segment). PCB may also seek to widen the Multilateral Investment Guarantee Agency (MIGA) agreement to reduce the risk weighting of cash with central banks without an EBA equivalence acknowledgement. Finally, it may also consider securitisation of parts of its portfolio, seek the attribution of the infrastructure factor to selected renewable energy projects, and attribute hard collateral to the RWA calculation according to the capital requirements regulation standardised approach for its Bulgarian portfolio. At this stage, we cautiously assume a moderate decline in the RWA density to 63.1% by FY28e.

The reduction in RWA density would be much welcomed, as we expect PCB's tier-1 and total capital buffers vs regulatory requirements to compress starting from 2025 as the German Federal Supervisory Authority (BaFin) intends to increase PCB's capital requirements by 2pp following a review of its credit processes, to allow the group to cover unexpected risks. Based on our discussion with PCB's management, we understand that this resulted from BaFin's more stringent requirements with respect to documenting compliance with the German Banking Act and MaRisk (minimum requirements for risk management) at the level of individual subsidiaries (a group policy is not sufficient anymore). PCB's management highlighted the strong credit risk track record of the group and that it is actively addressing the above-mentioned regulatory demands.

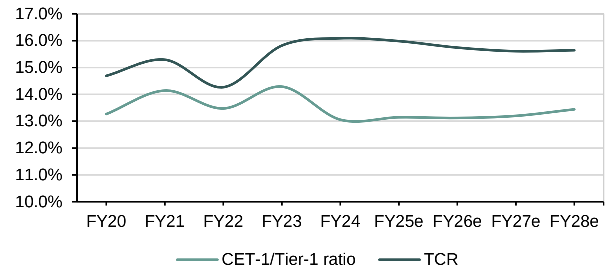
Simultaneously, PCB's management expects a 1.25pp reduction in its regulatory capital requirements due to methodological changes in the Supervisory Review and Evaluation Process (SREP), translating into a net increase in capital requirements of 0.75pp. This will bring PCB's CET-1, Tier-1 and total capital requirements to 9.8%, 12.1% and 15.2%, respectively. While we expect PCB's CET-1 ratio to maintain a quite solid buffer against regulatory requirements of more than 300bp over our forecast horizon (with management guiding to a CET-1 ratio of c 13% for FY25e), the Tier-1 and TCR buffers may at least temporarily shrink to 1.0pp and 0.5pp, respectively (see Exhibit 18). Therefore, we consider it likely that PCB will intensify its RWA efficiency measures and/or consider issuing additional Tier-2 capital, like it did in April 2024 via the successful placement of €125m green subordinated bonds (unless it can revert the recent 2pp capital add-on).

Exhibit 18: PCB's historical and forecast capital buffers versus regulatory requirements



Source: Company data, Edison Investment Research

Exhibit 19: PCB's historical and forecast capital ratios



Source: Company data, Edison Investment Research

PCB's management communicated that the increased capital requirements have had no effect on its medium-term ROE and loan growth guidance or its dividend policy. The company also does not expect any meaningful impact from the introduction of Basel IV. Accordingly, management proposed a dividend of €0.59 from FY24 earnings (vs €0.64 paid from FY23 earnings) based on a 1/3 payout ratio (which it also guides for FY25e), in line with PCB's dividend policy. Based on the last closing price, this represents a dividend yield of 5.8%.

Sensitivities

Strategy execution risk: although PCB's strategic update in 2024 did not represent a complete change of strategy, it still poses certain execution risks, mostly around its expansion into retail, the introduction of automated credit decisions and monitoring, the expansion of its branch network, as well as the ability to reach the targeted deposit-to-loan ratio, among others.

Macroeconomic risk remains higher in PCB's core countries of operations (SEE/EE) compared to Western Europe and Central and Eastern European countries given the earlier stage of economic development and several challenges or risks these economies face. These include: 1) a higher share of foreign currency-denominated loans in the banking sector in several countries; 2) susceptibility to global supply chain disruptions; 3) high reliance on remittances (eg Kosovo, Albania, Moldova) and high tourism contribution to GDP (eg Georgia, Albania).

Ecuador: as discussed above, Ecuador's socioeconomic and political situation is unstable, which makes PCB's local bank vulnerable. We estimate that PCB's total exposure to the bank in Ecuador as of end-2024 (including equity and the remaining outstanding US$4m subordinated loan represent) represents 7% of our PCB fair value. However, the continued loss (dragging down our sustainable RoTE assumptions) and high market risk premium attached to Ecuador means that the inclusion of the Ecuadorian bank is currently reducing our PCB fair value estimate.

Political risk is elevated in several SEE/EE countries, as illustrated by military conflicts (including Russia's current war of aggression against Ukraine), territorial disputes (Kosovo-Serbia) and internal political deadlocks (eg North Macedonia in 2015–17 or Georgia at present). As global populism has intensified in recent years, the Western Balkans face the potential risk of conflicts between parties appealing to major ethnic groups. Moreover, the region is one of the playgrounds for political competition between the West and Russia. Having said that, we note that two countries where PCB operates – Bulgaria and Romania – are EU members, while Albania, Bosnia and Herzegovina, Moldova, North Macedonia, Georgia, Serbia and Ukraine are EU member candidates. Some of these countries are also NATO members (Albania, Bulgaria, North Macedonia and Romania). Finally, we note that PCB has extensive experience in operating in these countries and navigating through times of political and military unrest. There is both downside and upside risk from the future developments in Ukraine. In a worst-case scenario of an ongoing war and greater than expected successes of the Russian army, there is a risk of a significant deterioration in the local bank's performance, including a default (however remote it may seem at this stage). On the other hand, a permanent ceasefire/truce and reconstruction of Ukraine and a resulting increase in PCB's sustainable RoTE by 1.5pp to 12.5% would raise our fair value estimate for PCB to €15.00 per share.

Foreign exchange risk: PCB is exposed to fx rate volatility due to its international operations. At group level, currency risk primarily arises from the changing value of the parent company's equity investments in regional banks, which are denominated in the respective domestic currencies and accounted for on an equity basis. This is directly reflected in PCB's equity in the changes to its translation reserve. However, the impact on PCB's CET-1 capital is normally largely offset by a corresponding downward fx impact on its RWA. It aims to reduce credit risk for clients and the group's banks by typically disbursing foreign currency loans only to customers that generate revenues in this currency. Finally, depreciation of domestic currencies could lead to a reduction in regulatory capital ratios at local banks, but PCB mitigates this risk by matching the foreign currency exposures of its assets and liabilities. Its use of hedging instruments is therefore limited. Some countries where PCB has a presence have pegged their domestic currencies to the euro, which inherently reduces their volatility versus the euro (the group's reporting currency); see our initiation note for details.

Weather anomalies and natural disasters pose a risk for PCB's significant exposure to agriculture loans (15% at end-2024).

Valuation

We continue to value PCB using an implied P/BV multiple based on a blend of our assessment of the bank's sustainable RoTE and cost of equity derived from a capital asset pricing model (CAPM), and the regression line implied by the ROE and P/BV relationships at which PCB's peers currently trade.

In our CAPM, we have used country-level market risk premiums (as provided by Aswath Damodaran as of January 2025) weighted by PCB's gross loan book split by country at end-2024, arriving at an equity risk premium of 9.7% (previously 10.6%). We have used a risk-free rate of 3.08%, in line with the current euro area yield curve for a 10-year maturity after adjusting it for the long-term inflation differential between the eurozone and PCB's countries of operations (based on IMF projections). We have also applied a beta of 0.92x (in line with the average beta for banks (money centres) in emerging markets and Europe as provided by Aswath Damodaran), compared to 0.78x previously (which was based on the beta for banks in emerging markets). We have retained our long-term growth rate assumption of 2.0%. Although we consider PCB's 13–14% mid-term ROE target achievable, and we have reflected the improving profitability outlook in our forecasts, we have conservatively retained our sustainable RoTE assumption of 11%. Our new assumptions imply a P/BV multiple for PCB of 0.9x (see Exhibit 20), versus 1.0x in our previous valuation.

A regression line based on FY25e P/BV and ROE indicators for PCB's peers implies a P/BV multiple of 0.7x for our RoTE forecast for FY25e of c 10% (see Exhibit 21). As a result, we have assumed a fair value multiple of 0.8x, which is the average of the multiple derived from the CAPM and the regression analysis. This implies a fair value per PCB share of €13.65 (down from €15.70 in our November 2024 update) and a 35% potential upside to the current price of €10.10.

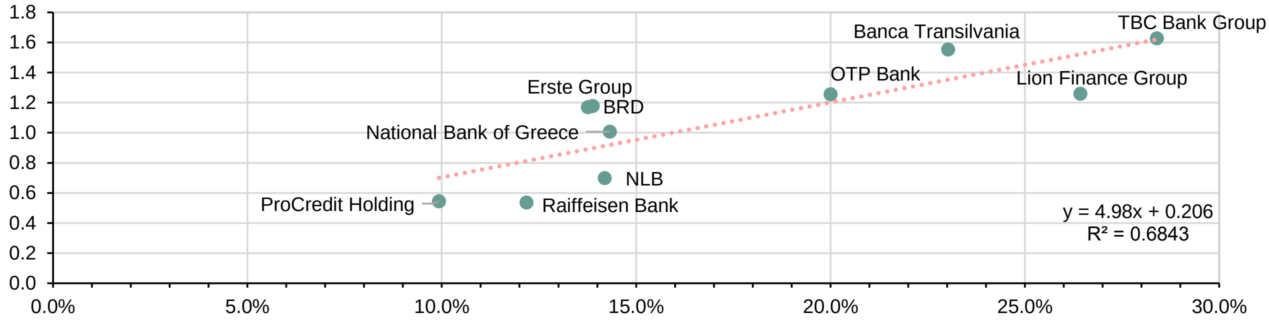
If we assumed a sustainable RoTE of 13–14% (in line with management's mid-term target), we would arrive at a fair value per PCB share of €15.40–16.25.

Exhibit 20: PCB's P/BV-ROE valuation (€m unless otherwise stated)

	FY24	FY25e	FY26e	FY27e	FY28e
Tangible Equity	**1,021,569**	**1,091,705**	**1,177,991**	**1,291,572**	**1,427,173**
Net attributable profit	104,309	104,886	121,248	153,997	186,933
RoTE (%)	*10.5%*	*9.9%*	*10.7%*	*12.5%*	*13.8%*
TNAV per share (€)	**17.3**	**18.5**	**20.0**	**21.9**	**24.2**
TNAV per share (€)	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)	0.70				
Blended multiple	**0.80**				
Fair value (€, end-2025)	14.75				
discount factor	0.93				
Fair value (€)	**13.65**				
Current share price (€)	10.10				
upside / downside	*35%*				

Source: Company data, Edison Investment Research

Exhibit 21: P/BV versus ROE – PCB compared to peers (FY25e)



Source: LSEG Data & Analytics consensus as of 2 May 2025 except for ProCredit Holding (Edison Investment Research estimates)

Exhibit 22: PCB's financial summary

Year Ending December	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e	FY28e
Income Statement								
Net interest income	222,021	264,634	337,224	358,239	365,700	415,427	472,284	528,448
Net fee and commission income	50,855	54,731	57,525	59,166	61,431	64,980	67,893	70,777
Operating income	281,881	339,848	412,506	444,299	454,826	510,861	573,567	635,745
Operating expenses	180,859	217,428	246,979	302,772	316,673	334,687	355,625	375,194
Loss allowances (-)	6,490	104,573	15,513	(5,154)	9,648	28,216	31,163	35,163
PBT	94,532	17,847	150,015	146,681	128,505	147,958	186,779	225,388
Net profit after tax	79,641	16,497	113,372	104,309	104,886	121,248	153,997	186,933
Reported EPS (€)	1.35	0.28	1.92	1.77	1.78	2.06	2.61	3.17
DPS (€)	0.00	0.00	0.64	0.59	0.59	0.69	0.87	1.06
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**	**11,623,616**	**12,753,932**	**14,053,228**	**15,570,975**
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**	**11,541,608**	**12,727,323**	**14,109,469**
Total shareholders' equity	**856,314**	**869,435**	**983,789**	**1,055,902**	**1,126,038**	**1,212,324**	**1,325,905**	**1,461,506**
BVPS (€)	14.5	14.8	16.7	17.9	19.1	20.6	22.5	24.8
TNAV per share (€)	14.2	14.5	16.3	17.3	18.5	20.0	21.9	24.2
Ratios								
NIM	2.90%	3.11%	3.63%	3.49%	3.27%	3.41%	3.52%	3.57%
Costs/Income	64.2%	64.0%	59.9%	68.1%	69.6%	65.5%	62.0%	59.0%
ROAE	9.7%	1.9%	12.2%	10.2%	9.6%	10.4%	12.1%	13.4%
CET1 Ratio	14.1%	13.5%	14.3%	13.1%	13.1%	13.1%	13.2%	13.4%
Tier 1 ratio	14.1%	13.5%	14.3%	13.1%	13.1%	13.1%	13.2%	13.4%
Capital adequacy ratio	15.3%	14.3%	15.8%	16.1%	16.0%	15.7%	15.6%	15.6%
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%	67.3%	68.4%	69.1%	69.3%
Deposits/loans	93.5%	103.0%	116.5%	118.3%	118.3%	119.2%	120.6%	122.1%

Source: PCB 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.

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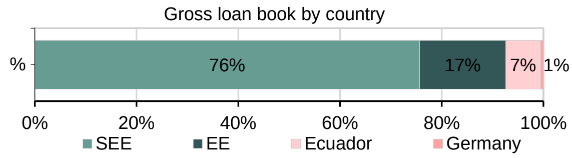
Revenue by geography



Management team

Chairperson: Hubert Spechtenhauser

Hubert joined as the board in March 2022 and became chairman in November 2022, after holding various senior managerial positions at Commerzbank Group, Landesbank Hessen-Thüringen (Helaba) Group and UniCredit Group. At ProCredit, he is responsible for legal aspects, group communications and corporate office.

Board member: Eriola Bibolli

Eriola spent more than 20 years at ProCredit Bank Kosovo, where she was member of the management board from 2007 to 2023. Subsequently, she joined the management board of ProCredit Holding in 2023 and is now responsible for MSME banking, group sustainability, economic analysis, retail banking and marketing (she was previously also chief risk officer at ProCredit Holding).

CFO: Christian Dagrosa

Christian joined ProCredit Holding in 2017 and between 2019 and 2022 was an authorised representative of the company (prokurist) and manager responsible for investor relations, as well as reporting and controlling. He is currently the group's CFO responsible for accounting and taxes, group regulatory reporting, investor relations, group financial planning and analysis, reporting and data management, data systems projects, the group asset & liability management function, as well as group funding.

Board member: Christoph Beeck

Christoph is responsible for human resources, fraud prevention and compliance, anti-money laundering, internal audit, as well as administration and translation.

Board member: George Chatzis

George has more than 20 years of experience in the banking sector and before joining ProCredit Holding in April 2024, he was chief risk officer at Rabobank Frankfurt and International Direct Bank Europe and head of HR at Rabobank Frankfurt. At ProCredit Holding, he is responsible for group financial, operational and credit risk management, as well as risk control at group and ProCredit Holding level.

Board member: Dr Gian Marco Felice

Gian Marco joined the management board in June 2020. He has held various managerial positions within the group since 2001 and is now responsible for group and ProCredit Holding IT.

Principal shareholders	%
Zeitinger Invest	18.3
KfW	13.2
DOEN Participaties	12.5
European Bank for Reconstruction and Development	8.7
Teachers Insurance and Annuity Association	8.6
Free float	38.7

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