FitchRatings

Banks
Universal Commercial Banks
Albania

ProCredit Bank Sh.a. (Albania)

Key Rating Drivers

Support Drives IDRs: The Issuer Default Ratings (IDRs) and Support Rating of ProCredit Bank Sh.a. (Albania), (PCBA) reflect Fitch Ratings' view of potential support from its shareholder, ProCredit Holding AG & Co. KGaA (PCH; BBB/Stable). PCBA is strategically important to the group and remains an important part of the group's long-standing and well-established presence in south eastern Europe (SEE).

Country Ceiling Constraint: The extent to which potential support can be factored into PCBA's ratings is constrained by Albania's country risks, in particular transfer and convertibility risks. Without these constraints, the bank's Long-Term IDR would be notched down once from the parent's Long-Term IDR.

Company Profile Constrains VR: PCBA's Viability Rating (VR) is constrained by its limited franchise and small scale, undermining its ability to generate profits. It also considers the risks stemming from its operations in emerging markets, challenges in implementing the strategy, but also the prudent risk management framework, the unique corporate culture and the strong corporate governance applied across the ProCredit group.

Loan-Book Clean-Up: PCBA further cleaned up its loan portfolio through write-offs and benefited from recoveries, resulting in the impaired loan ratio decreasing to 5.8% at end-2020. This compares favourably with the domestic sector average (at about 8%), but still remains one of the weakest ratios among its sister banks in SEE. We expect the deterioration amid the pandemic to be contained because of PCBA's below-average exposure to the most vulnerable sectors and due to its negligible exposure to moratoriums at end-2020.

Highly Vulnerable Profitability: PCBA has remained loss-making at pre-impairment operating level since 2017, as it suffers from its high cost base, lack of critical mass, margin compression and continuing restructuring measures. While the group expects PCBA to break even in 2022, we view it as conditional on the operating backdrop.

Capital Reliant on PCH: The bank's common equity Tier1 (CET1) ratio of 12.9% at end-2020 was strengthened by a capital injection (EUR5 million in 4Q20). This created a moderate 290bp buffers over capital requirement. PCBA remains reliant on capital support from its shareholder due to still negative operating profitability.

Reasonable Funding Base: The funding mix is dominated by customer deposits (75% of total funding at end-2020) and is supported by funding from the group resulting in loans/deposits ratio of 112% at end-2020. PCBA relies on retail deposits, which account for about 65% of customer funding. The liquidity buffer remains just adequate and this may be supported with excess liquidity pooled by sister bank PCB Germany.

Rating Sensitivities

IDRs Sensitivities: The IDRs and the Support Rating of PCBA are sensitive to changes in Fitch's perception of the bank's strategic importance for the group, which we consider unlikely in the rating horizon, and to changes in country risks, in particular transfer and convertibility risks.

VR Sensitivities: The VR could be downgraded in the event of a marked weakening in asset quality metrics (impaired loans ratio above 10%) associated with a deterioration in profitability and capital erosion to a point where capital ratios have only minimum headroom above minimum regulatory requirements.

Ratings

Foreign Currency	
Long-Term IDR	BB-
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB-
Short-Term IDR	B
Viability Rating	b-
Support Rating	3

Outlook

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

ProCredit Holding AG & Co. KGaA (April 2021)

Fitch Affirms ProCredit Holding and Six Subsidiary Banks (March 2021)

Fitch Ratings 2021 Outlook: Emerging Europe Sovereigns (December 2020)

Fitch Revises ProCredit Bank AD Skopje's Outlook to Negative; Affirms IDR at 'BBB-' (August 2020)

Analysts

Banfi, Manuela
+39 02 879087 202
manuela.banfi@fitchratings.com

Panasiuk, Monika
+48 22 330 6704
monika.panasiuk@fitchratings.com

Institutional Support Assessment

Fitch considers the PCH's propensity to provide support as high because PCBA is strategically important to the group and remains an important part of the group's long-standing and well-established presence in south eastern Europe (SEE). Our assessment of PCH's propensity to support also considers strong integration of PCBA with the ProCredit group and a record of ordinary support provided by the parent. We also view the reputational damage for the group, should PCBA default, as high due to the full ownership of its subsidiary and the common branding.

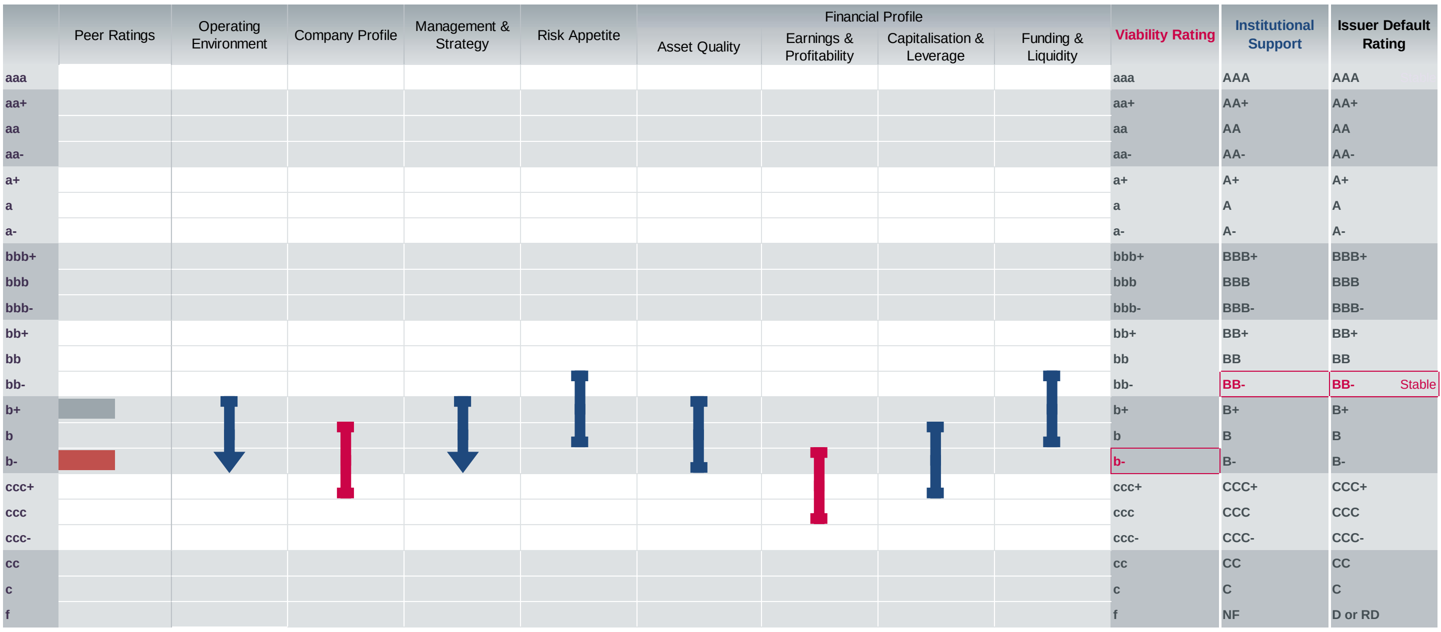
Institutional Support			Value
Parent IDR			BBB
Total Adjustments (notches)			-4
Institutional Support:			**BB-**
Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
Parent/group regulation		✓	
Relative size	✓		
Country risks			✓
Parent Propensity to Support			
Role in group		✓	
Potential for disposal		✓	
Implication of subsidiary default		✓	
Integration		✓	
Size of ownership stake	✓		
Support track record		✓	
Subsidiary performance and prospects			✓
Branding	✓		
Legal commitments			✓
Cross-default clauses			✓

Ratings Navigator

ProCredit Bank Sh.a.

ESG Relevance:

Banks
Ratings Navigator



Brief Company Summary

Limited Scale, Weak Profitability and Execution Challenges Constrain the Bank's Profile

PCBA is a small bank with a modest 2.2% market share by assets at end-2020, and ranks 10th in the concentrated Albanian banking sector consisting of only 12 banks. The bank's strategy follows that of ProCredit group which focuses on financing SMEs, innovation and environmental protection for formalised and established companies. However, the implementation of the group's strategy was longer and more challenging at PCBA than at its sister banks. For a more detailed view of ProCredit group, please see Fitch's rating report on ProCredit Holding AG & Co. KGaA.

The entity's narrow franchise and difficult operating environment translated into high execution variability and very weak performance. However, the bank is stronger than the market average in terms of asset quality, which is also only marginally affected by the pandemic.

Restructuring; Close Links with ProCredit's Bank in Kosovo

PCBA has been loss-making since 2017 due to pressure on margins and weak cost efficiency constrained by the bank's small scale. PCH initiated restructuring at PCBA in mid-2018 aimed at restoring its profitability, predominantly by exploiting cost savings through closer business ties with ProCredit Bank Sh.A. in Kosovo, but also through deep asset clean-ups.

The radical turnaround has continued and the bank expects to break even in 2022. We believe that under the current management and the patronage of the bank in Kosovo, the execution should improve, although this is also conditional on operating conditions in Albania.

Note on the Charts on the Following Page

Black dashed lines in the charts represent indicative quantitative ranges and corresponding implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'b' category.

The peer average includes ProCredit Bank a.d. Beograd (VR: 'bb-'), ProCredit Bank AD Skopje (bb-), ProCredit Bank Sh.a. (Albania, b-), ProCredit Bank Sh.a. (Kosovo, b+) and ProCredit Bank d.d. Sarajevo (b-).

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Key Financial Metrics – Latest Developments

Ongoing Loan Book Cleaning

The asset quality of PCBA, with Stage 3 loans ratio at about 6% at end-2020, is one of the weakest among PCH subsidiaries operating in SEE, but it compares well with the banking sector average (about 8%). The restructuring measures applied by the management (appointed in 2019) have been concentrated on complex balance sheet cleaning, which translated into higher write-offs and the revaluation of other assets, including a reduction in its repossessed assets portfolio (to below 1% of total assets). The remaining problem loans mainly reflect legacy underwriting, while the impact of the pandemic has been contained so far.

PCBA has had a lower participation rate in the statutory pandemic-driven moratoriums compared to the industry average, reflecting the bank's small exposure towards retail clients, the main beneficiaries of deferred payments. The bank has applied additional monitoring to exposures vulnerable amid the pandemic. This has resulted in some exposure reclassifications mainly to Stage 2 loans, increasing to 6.1% of gross loans at end-2020 from 8% at end-2019.

At end-2020, the coverage of Stage 3 loans with specific allowances was moderate at about 48% and increased to 93% when considering total loan loss allowances. This reflects high loan book collateralisation. Single-name concentration at PCBA is sizeable. The net value of top 25 credit exposures was nearly 300% of bank's CET1 capital at end-2020 reflecting the bank's small equity base in absolute terms.

Highly Vulnerable Profitability

PCBA's profitability is a rating weakness, suffering from a lack of critical mass, high cost base and higher-than-sister banks' problem loans. These together have resulted in losses at pre-impairment operating level since 2017. The bank's turnaround efforts will continue this year and we expect net losses in 2021 given its still high loan impairment charges (LICs)/average gross loans.

Although LICs almost doubled in 2020 yoy because of revised macro assumptions in the bank's provisioning models, the bank's operating profitability was stable yoy owing to improvements in cost efficiency and lower extraordinary charges (e.g. impairment costs on repossessed properties accounted for in 2019).

Stable Capitalisation Due to PCH's Ordinary Support

The bank's negative operating profitability renders the bank reliant on capital injections from its shareholder. To neutralise the impact of the restructuring on capital ratios the parent provided the bank with cumulative capital injections of EUR13 million in 2018-2020 and an additional EUR2 million of subordinated debt. These injections resulted in largely stable capital ratios and supported the recent solid loan growth.

At end-2020, the bank's CET1 ratio increased to 12.9%, resulting in a 290bp buffer over capital requirements, which we see as moderate, against unforeseen shocks given the bank's focus on SME lending, restructuring and the challenging operating environment.

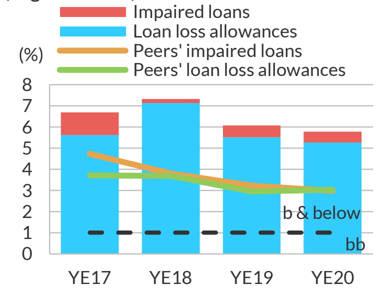
Reasonable Funding and Liquidity

Customer accounts are the core funding source and comprised 75% of total funding at end-2020. Nevertheless, PCBA's funding profile has changed in recent years towards a larger proportion of funding from the group. This is as a result of outflows of retail deposits in areas where the bank reduced its branch network presence. This led to the loan/deposit ratio increasing to 112% at end-2020. The deposit base is price-sensitive, reducing the benefits of recent monetary easing, with about half made up of term-deposits and it is still skewed towards retail depositors (65% of the customer funding).

The bank's liquidity position remains adequate with liquid assets at nearly 13% of total assets at end-2020. PCBA maintained its liquidity coverage and its net stable funding ratios above 100% at the same date.

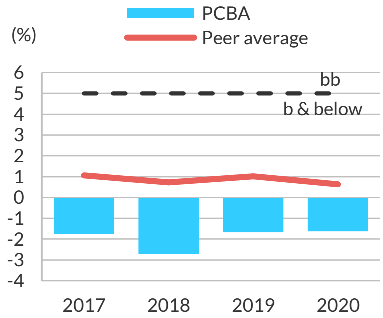
Asset Quality

(% gross loans)



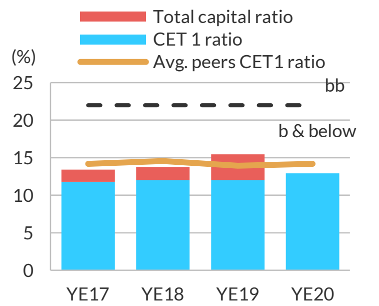
Source: Fitch Ratings, banks

Operating Profit/RWAs



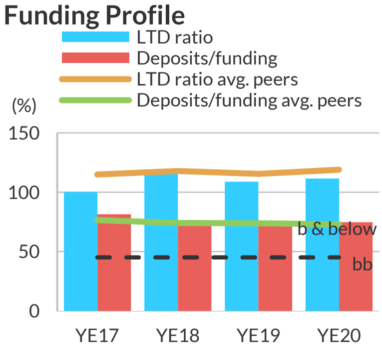
Source: Fitch Ratings, banks

Risk-Weighted Capital



Source: Fitch Ratings, banks

Funding Profile



Source: Fitch Ratings, banks

Summary Financials and Key Ratios

		31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
	Year End	Year End	Year End	Year End	Year End
	USDm	ALLm	ALLm	ALLm	ALLm
	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified(Emphasis of Matter)	Audited - Unqualified	Audited - Unqualified
Summary Income Statement					
Net interest and dividend income	8	789.1	789.7	1,193.6	1,139.7
Net fees and commissions	1	126.9	151.4	208.3	145.9
Other operating income	1	122.9	137.9	26.6	17.9
Total operating income	10	1,038.9	1,079.0	1,428.5	1,303.5
Operating costs	11	1,157.9	1,284.5	1,842.6	1,705.2
Pre-impairment operating profit	-1	-119.0	-205.5	-414.1	-401.7
Loan and other impairment charges	3	279.4	213.8	342.4	136.2
Operating profit	-4	-398.4	-419.3	-756.5	-537.9
Other non-operating items (net)	n.a.	n.a.	-383.0	33.1	-43.9
Tax	n.a.	n.a.	n.a.	60.1	-45.6
Net income	-4	-398.4	-802.3	-783.5	-536.2
Other comprehensive income	n.a.	n.a.	1.4	1.5	-11.3
Fitch comprehensive income	-4	-398.4	-800.9	-782.0	-547.5
Summary Balance Sheet					
Assets					
Gross loans	265	26,705.6	23,451.3	24,041.6	24,135.0
- of which impaired	15	1,543.7	1,426.9	1,758.9	1,615.8
Loan loss allowances	14	1,407.4	1,293.9	1,714.0	1,356.0
Net loans	251	25,298.2	22,157.4	22,327.6	22,779.0
Interbank	30	3,057.0	3,014.2	19.0	119.3
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	13	1,293.4	2,291.4	1,667.8	1,923.4
Total earning assets	294	29,648.6	27,463.0	24,014.4	24,821.7
Cash and due from banks	45	4,515.1	3,170.3	5,951.9	6,710.9
Other assets	13	1,283.1	1,318.8	1,998.9	2,631.2
Total assets	352	35,446.8	31,952.1	31,965.2	34,163.8
Liabilities					
Customer deposits	237	23,922.0	21,540.7	20,671.2	24,046.2
Interbank and other short-term funding	40	4,075.5	3,426.9	3,821.4	2,879.4
Other long-term funding	40	3,990.6	3,808.3	4,110.8	2,546.4
Trading liabilities and derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding	317	31,988.1	28,775.9	28,603.4	29,472.0
Other liabilities	3	271.3	230.6	228.5	402.7
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	32	3,187.4	2,945.6	3,133.3	4,289.1
Total liabilities and equity	352	35,446.8	31,952.1	31,965.2	34,163.8
Exchange rate		USD1 = ALL100.84	USD1 = ALL108.64	USD1 = ALL107.82	USD1 = ALL111.3

Summary Financials and Key Ratios (Cont.)

	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	-1.6	-1.7	-2.7	-1.8
Net interest income/average earning assets	2.7	3.0	4.9	4.7
Non-interest expense/gross revenue	111.5	119.1	129.0	130.8
Net income/average equity	-13.5	-27.3	-22.0	-11.8
Asset quality				
Impaired loans ratio	5.8	6.1	7.3	6.7
Growth in gross loans	13.9	-2.5	-0.4	12.9
Loan loss allowances/impaired loans	91.2	90.7	97.5	83.9
Loan impairment charges/average gross loans	1.1	0.9	1.4	0.6
Capitalisation				
Common equity Tier 1 ratio	12.9	12.0	12.0	11.8
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	12.9	11.6	n.a.	n.a.
Tangible common equity/tangible assets	9.0	9.1	9.7	12.2
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	4.3	4.4	1.4	7.2
Net impaired loans/Fitch Core Capital	4.3	4.6	n.a.	n.a.
Funding and liquidity				
Loans/customer deposits	111.6	108.9	116.3	100.4
Liquidity coverage ratio	n.a.	389.5	n.a.	n.a.
Customer deposits/funding	74.8	74.9	72.3	81.6
Net stable funding ratio	n.a.	120.8	n.a.	n.a.

Source: Fitch Ratings

Environmental, Social and Governance Considerations

FitchRatings **ProCredit Bank Sh.a.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ProCredit Bank Sh.a. has 5 ESG potential rating drivers

- ProCredit Bank Sh.a. 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	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	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; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	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	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
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.

The highest level of ESG credit relevance for PCBA 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 to the way in which they are being managed by the entity.

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.