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Aegean Baltic Bank S.A.

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Aegean Baltic Bank S.A.

Ratings Score Snapshot

Issuer Credit Rating
B+/Positive/B

SACP: b+ → **Support: 0** → **Additional factors: 0**

Anchor	bb	
Business position	Constrained	-2
Capital and earnings	Strong	+1
Risk position	Adequate	0
Funding	Moderate	-1
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
B+/Positive/B

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Solid capitalization.	High single-name and business concentration, stemming from its shipping-focused business model.
Low credit losses through the cycle thanks to a strong risk management and expertise in shipping.	Depositor base lacks granularity.
	Targeted rapid lending growth in new segments could result in downward pressure on capital and asset quality.

Aegean Baltic Bank S.A. (ABB) remains small in domestic and global terms and primarily operates a concentrated business model centered on shipping. Despite ABB's rapid lending growth, its business remains heavily concentrated on Greek shipowners, leaving it, in S&P Global Ratings' view, more vulnerable to adverse operating conditions than peers. As of Dec. 31, 2022, the lending book was more than double what it was in 2020, outpacing sector growth, supported by ABB's cleaner balance sheet and stronger capitalization than those of its Greek peers. In the first 10 months of 2023, however, the bank's loan book had shrunk by 4%, reflecting early repayment of cash-rich shipowners against the rise in interest rates. Still, we anticipate that ABB will continue to execute its lending expansion strategy going into 2024, targeting a 75% shipping and 25% corporate lending split.

Solid earnings and asset quality track records support a strong risk-adjusted capitalization profile, which remains a key rating strength. The bank's nonperforming exposure (NPE) ratio hovers around 1% on Oct. 31, 2023, with new impairments at a low €500,000. ABB's NPE ratio has been below that of domestic and international peers. As with most of the Greek banks, the bank improved its operating efficiency: The bank's cost-to-income ratio improved significantly to 30.8% as of Oct. 31, 2023, from 67.5% at end-2019. We consider that the bank's risk-management experience, its conservative lending approach, and its long-lasting relationships with its niche customer base, to some extent mitigates the risks of the bank's concentration on the cyclical shipping sector. We project ABB's risk-adjusted capital (RAC) ratio above 12% for the next 12-18 months. We base them on our expectation of sustained strong earnings generation, supported by ABB's growth, high interest rates environment, and efficiency.

At the same time, we note that ABB's funding profile is more confidence sensitive than that of other banks in the system, due to material concentrations in corporate deposits. The bank's depositor base displays a low degree of granularity, which represents a tail risk in the case of potential external stress, in our view. Nevertheless, ABB has managed to retain its yields-driven international depositor base and its customer loans-to-deposits ratio stood at a low 51% on Oct. 31, 2023. The bank maintains high liquidity buffers with excess cash and a large, unencumbered bonds portfolio.

Outlook

The positive outlook on ABB reflects our view that Greek banks will likely face reduced economic and industry risks over the next 12 months, which will be supportive for ABB's creditworthiness.

Downside scenario

We could revise the outlook to stable if we conclude that:

- The industry or economic risks faced by the Greek banking sector are unlikely to reduce in the next two years.
- ABB's funding or liquidity profile deteriorate because of its high asset-liability mismatches or outflows of deposits.
- ABB's asset quality deteriorates compared with historical levels.
- The bank proves unable to preserve its sound capitalization. Specifically, this could occur if the RAC ratio falls closer to or below 10% on a sustained basis, mostly due to rising credit losses or aggressive growth.

Upside scenario

We would consider raising our long-term issuer credit rating on ABB by one notch to 'BB-' if we view industry and economic risks for Greek banks to have sustainably reduced, all else being equal.

Key Metrics

Aegean Baltic Bank S.A.--Key ratios and forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2021a**	**2022a**	**2023f**	**2024f**	**2025f**
Growth in operating revenue	29.0	70.0	26.6-32.5	(2.8)-(3.4)	5.5-6.7
Growth in customer loans	52.1	(7.8)	0.0-0.0	31.5-38.5	18.0-22.0
Growth in total assets	65.2	14.1	(5.6)-(6.8)	18.5-22.6	15.8-19.3
Net interest income/average earning assets (NIM)	2.8	3.7	4.8-5.3	4.4-4.8	3.9-4.3
Cost to income ratio	53.6	36.5	30.2-31.8	33.7-35.4	34.3-36.1
Return on average common equity	7.0	16.0	19.7-21.8	14.6-16.1	13.8-15.2
Return on assets	0.9	1.6	2.1-2.6	1.7-2.1	1.5-1.9
New loan loss provisions/average customer loans	0.3	0.4	0.3-0.3	0.6-0.7	0.5-0.5
Gross nonperforming assets/customer loans	1.9	1.1	0.8-0.8	0.8-0.9	0.9-1.0
Net charge-offs/average customer loans	0.7	(0.1)	0.9-0.9	0.6-0.6	0.3-0.3
Risk-adjusted capital ratio	11.1	12.7	15.1-15.9	13.2-13.9	12.4-13.0

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'bb' For Banks Operating In Greece

After cleaning up about €80 billion of legacy bad assets since 2019, Greek banks are ready to leverage the country's solid growth prospects, resumption of credit demand, improving household and business creditworthiness, recovering property prices, and decreasing unemployment. Despite that, we continue to see Greece having higher economic risks than the rest of the Europe. Hercules Asset protection scheme was a success: over the first nine months of 2023, Greek banks' NPE ratios dropped below 6% securitizations, but importantly muted new inflows. Yet, the systemwide NPE ratio is still above the 1.8% EU average. Over the next three years, we continue to expect Greece's economic growth will surpass the eurozone average thanks to the EU's various support funds for investments in infrastructure and renewable energy are boosting credit demand from corporates. Nevertheless, typical to countries recovering from financial crises, the pace of lending growth is below that of GDP. We forecast total private sector debt will drop below 70% of GDP by 2024 versus about 107% in 2020. Positively, higher interest rates also didn't lead to higher nonperforming loan formation in retail lending, thanks to the four largest banks' joint decision to cap interest rates on outstanding, largely floating-rate, mortgages. We expect a normalized cost of risk (below 100 basis points [bps] for most banks) over the next 12-18 months, versus the highs of 570 bps in 2021.

Decreasing sovereign and financial system risks have boosted investor sentiment and enabled Greek banks to regain access to debt markets abroad, repay the most of their targeted longer-term refinancing operations (TLTRO) borrowings while remaining liquid, and contain the pass through of higher rates to customer deposits. In our view, the European Central Bank's (ECB's) funding support, visible increase in domestic deposits, and ongoing deleveraging have led to a noticeable improvement in Greek banks' liquidity profiles. Now banks' broad liquid assets cover their short-term funding needs more than sufficiently. Banks' external debt issuances have already gained momentum, but the system is still a net external lender. We expect banks to meet their minimum requirements for own funds and eligible liabilities (MREL) in 2025. Bank earnings benefit from higher rates, major cost efficiency gains of the past years, following branch closures, voluntary exit schemes, digitalization benefits, and business streamlining to favor online channels and a focus on fee income. In our view, the quality of Greece's banking supervision and regulation strongly benefits from its membership of the Single Supervisory Mechanism. However, Attica Bank's ongoing restructuring following its insolvency in 2021 after posting huge losses due to high volumes of legacy nonperforming loans, showed again that the supervision lacks some proactiveness. Banks' significant deferred tax assets remain as another key regulatory challenge.

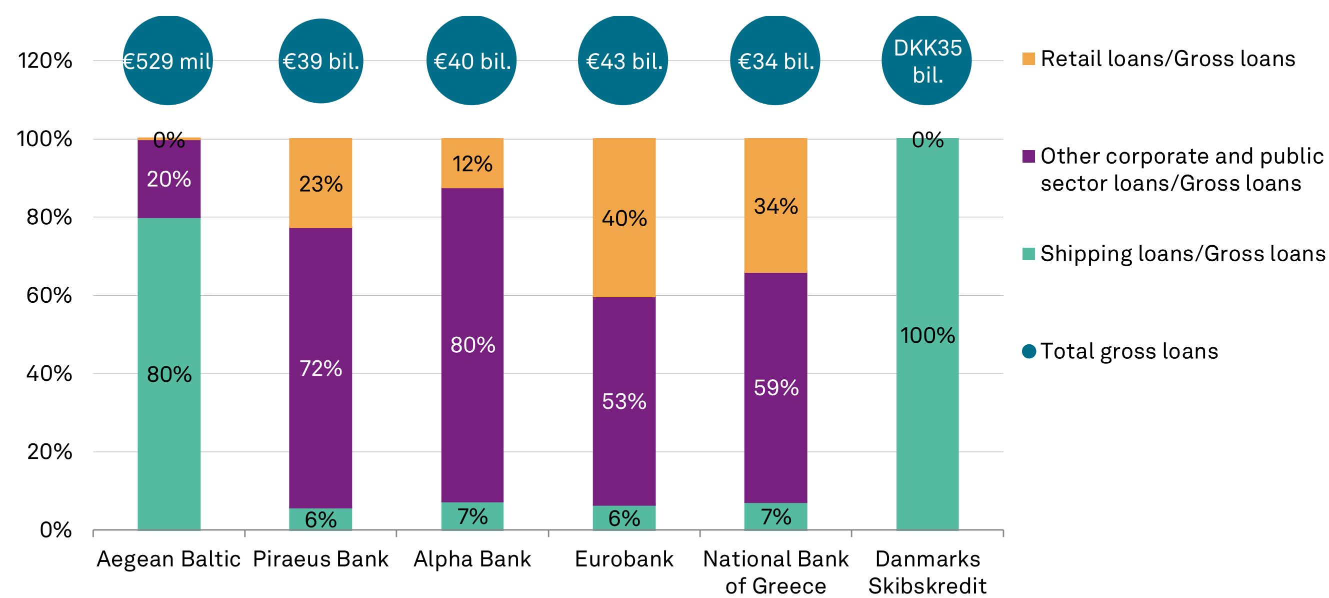
Business Position: Experienced Management With A Proven Ability To Execute, But Significant Business Concentration

We consider ABB's overall business profile a rating weakness, owing to its lack of scale and granularity, and its business model structured around highly volatile international shipping finance. With total assets of €1.11 billion on Oct. 31, 2023, ABB's share of global shipping finance was less than a 1%, even though this constitutes its core business. Out of €506 million in gross loans as of Oct. 31, 2023, €389 million was in the shipping segment (representing 51 clients and about 400 vessels financed). As a result, its customer base lacks the kind of granularity seen, for example, at its closest peer Danmarks Skibskredit Bank, which has approximately 70 clients, for which it finances more than 679 vessels. ABB's product offering includes syndicated and bilateral lending for new building and purchasing second-hand tonnage, as well as trade finance and treasury solutions, predominantly in U.S. dollars. The reported return on assets stood at a high 2.4% on Oct. 31, 2023, up from 1.6% at end-2022 and 0.9% at end-2021.

Chart 1

Despite recent aggressive growth ABB remains concentrated and small by international standards

Data as of Dec. 2022



Sources: Bank annual reports and presentations. S&P Global Ratings.

Having more than doubled the size of its lending book from 2020 to 2022, we expect lending expansion to resume in 2024. Early repayments due to successive interest rates hikes have led ABB's loan portfolio to shrink year on year. In our view this is of limited concern because the bank has undisbursed lending commitments and we see its growth target as achievable. We foresee the bank will grow by about 35% 2024 and 20% in 2025 to bring its loan book to close to €850 million by end 2025. ABB also continued its growth in the corporate loan segment, where it focuses on commercial real estate and invests in renewable energy projects to diversify its risk profile. Still, as shipowners repaid part of their loans, the share of non-shipping loans in ABB's mix have increased to 23% as of Oct. 31, 2023.

The intrinsic geographic diversification of ABB's obligors and high collateralization of its loans partly counterbalances its narrow business franchise, in our view. This somewhat protected the bank's business stability during the recent downturn in Greece and during the COVID-19-induced downturn. Partly counterbalancing its narrow business franchise, our assessment also incorporates ABB's more than 19 years of successful operations without a state bailout. We believe this shows the resilience of its business model. We attribute this to the bank's management, which has solid experience and a demonstrated skillset in the industry. Conversely, the bank is exposed to some key man risk as the management team is relatively small and the business partly relies on the strong relationships between the bank and the shipowners.

Capital And Earnings: ABB's Solid Capitalization Supported By Strong Earnings Is A Rating Positive

ABB's RAC ratio was 12.7% on a stand-alone basis at end-2022. We anticipate that the RAC ratio will remain around 12%-13% until the end-2025. The common equity Tier 1 ratio rose to 18.9% at end-2022, from 16% at end-2021, and should stand above 22% by end-2023 due to ABB's deleveraging. Improvement in capital ratios stemmed from the higher interest rate environment that provided a significant profitability boost to ABB in 2023, with return on equity reaching 24.4% on an annualized basis as of Oct. 31, 2023, from 14.7% as of end-2022.

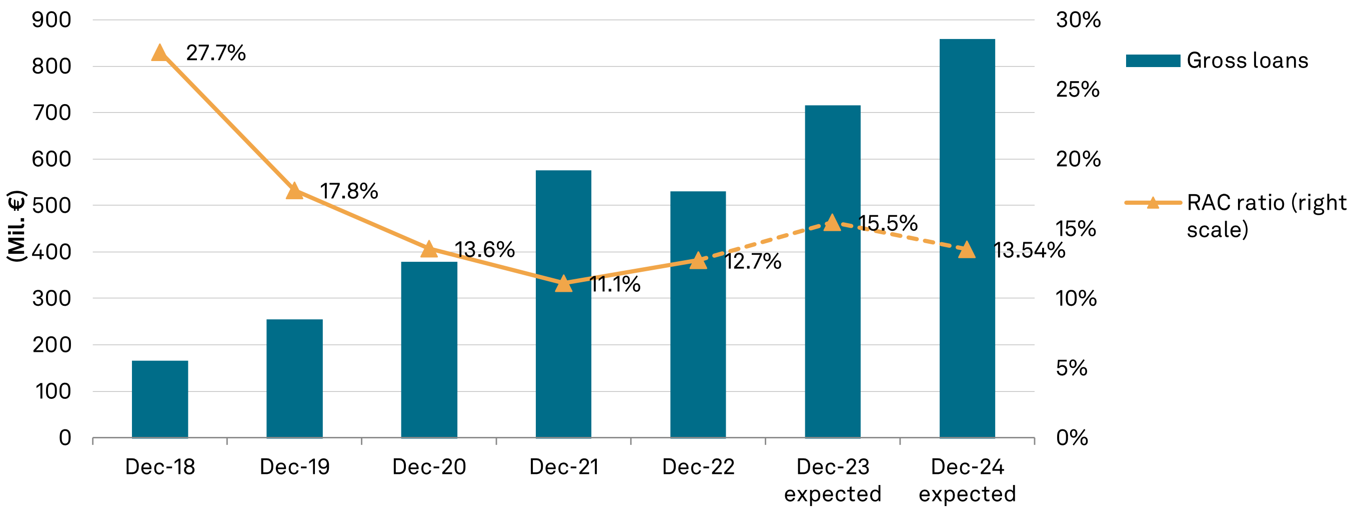
Our forecasts assume:

- We forecast a customer loans growth of 35% in 2024 and 20% in 2025. The rapid loan growth is justified by the excess capital and liquidity in ABB's balance sheet and the bank's willingness to reach a size that will enable the bank to achieve sound and recurrent profitability;
- We believe the net interest margin should gradually declines from its peak of 2023 as the rates environment normalize throughout the world and funding cost rises. Fees and commissions are also expected to grow by around 5% on average through 2024-2025;
- Operating expenses are projected to grow by 8%-10% over 2023-2025 as inflation remains at 4%-6%;
- We forecast cost of risk to rise to 50-60 bps from the current 32 bps;
- We factor in a 25% dividend payout over 2023-2025.

ABB's quality of capital is a strength. It comprises only common equity and lacks any deferred tax credits or Tier 2 instruments, which make up the lion's share of most large Greek banks' capital bases.

Chart 2

ABB's aggressive growth has consumed capital but we expect RAC to remain above 10%



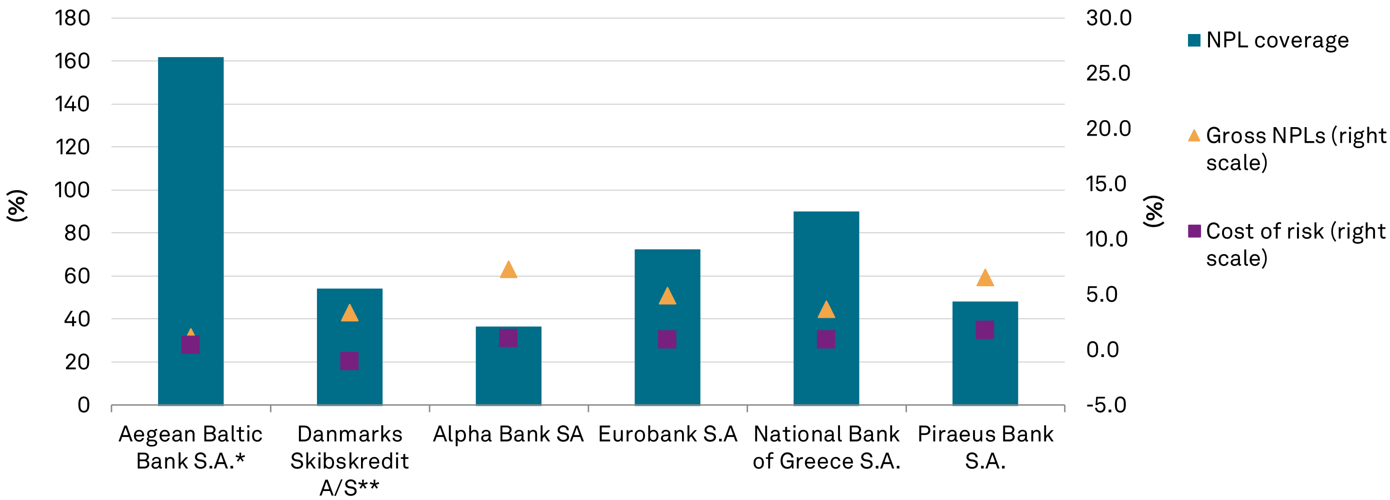
RAC--Risk-adjusted capital. Sources: Bank presentations. S&P Global Ratings.

Risk Position: Concentration Risks In The Highly Cyclical Shipping Industry Are Well Balanced By Conservative Underwriting And Prudent Provisioning

We believe ABB has the skillset to manage its intrinsically high credit risks as evidenced by its track record of low credit losses through the cycle. Its high business and single-name concentration in shipping financing and its small scale leave the bank with high tail risks though. We expect ABB's NPE ratio to hover around 1% in the next 12-24 months, well below that of other Greek banks and international peers. NPE coverage increased to 100% at end-2022, as a function of reduced gross NPEs. High intrinsic collateralization and recoveries, and low net losses are further rating supports.

Chart 3

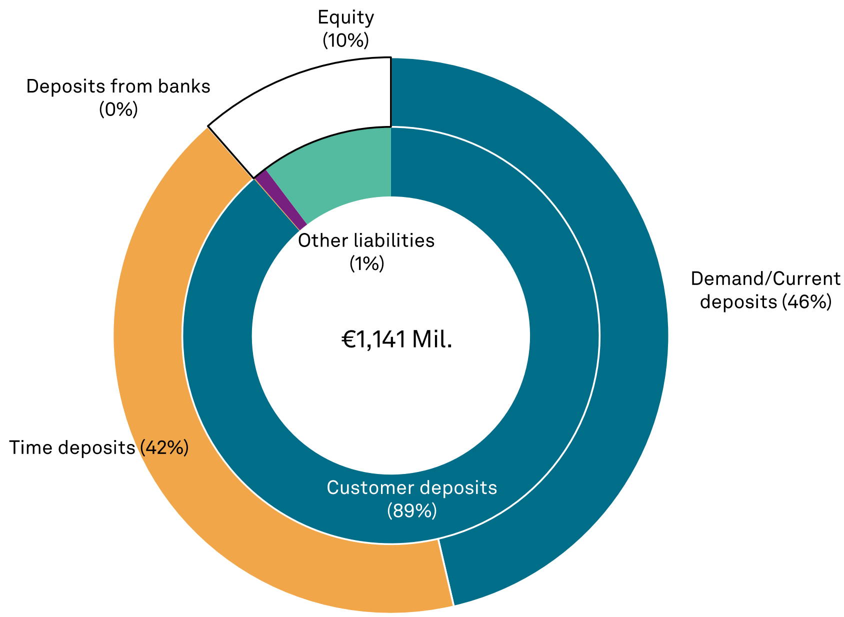
Asset quality metrics versus peers
Data as of September 2023



**Data as of June 2023. *Data as of December 2022. Q--Quarter. NPL--Non-performing loan. Source: S&P Global Ratings.

Chart 4

ABB's funding mix
Data as of end-2022



Source: ABB's financial reports.

Targeted rapid lending growth leads to less predictable performance during economic slowdown. The total lending portfolio has more than tripled over 2019-2022, to €529 million as of year-end 2022 from €164 million as of year-end 2018. That said, the bank's split of exposures by ship type is skewed toward less-risky bulkers and tankers, which has helped ABB navigate the sector's seasonality.

Funding And Liquidity: Differentiated Funding Base With A Yield-Driven International Depositor Base, Combined With A Solid Liquidity Profile And High Quality Liquid Assets

In our view, ABB's funding profile is more confidence sensitive than that of other banks in the system, due to material concentrations in corporate deposits. The bank's depositor base displays a low degree of granularity, which represents a tail risk in the case of potential external stress, in our view. Top 10 deposits represent 38% of total depositor base as of Oct. 31, 2023. This is only partly offset by ABB's access to central bank facilities and the funds it raises via its private banking segment.

ABB's funding position will continue to benefit from its proven capacity to raise funds from its private-banking segment, together with alternative deposit solutions. ABB's customer loans-to-deposits ratio stood at 51% on Oct. 31, 2023. Our stable funding ratio stood at 143% at end-2022, up from 129% at end-2020 and compared adequately with that of large Greek banks. On top of that, ABB has access to the funds it raises via its private banking segment which partly offset the weaknesses of the lack of a retail deposit base.

ABB also has a balanced liquidity position, with low reliance on short-term and central bank funding. Following the Greek crisis, ABB was the last bank that had to resort to the ECB's Emergency Liquidity Assistance program, and the first bank to repay it. On Oct. 31, 2023, ABB held about 34% of its assets in cash and highly liquid bonds. The bank's liquidity coverage ratio stood at 440%. Our anticipation of improving funding conditions in Greece and investor sentiment toward Greek banks also supports our view.

Support: No Uplift To The SACP

We do not factor in any external support to ABB's stand-alone credit profile. We view the bank as of low systemic importance in Greece, and we assess Greek government support to domestic banks as uncertain.

Environmental, Social, And Governance

ESG factors are neutral in our assessment of ABB's credit worthiness. Social and environmental credit factors are in line with those of peers in the banking industry, while the bank's governance standards are comparable with the practice in Greece.

Environmental factors are creating mounting challenges for the shipping industry. We believe that increasingly stringent regulation on sulfur emissions and broader considerations about greenhouse gas emissions in general--particularly in the context of decarbonization--will likely result in economic uncertainties regarding ship lifetimes over the short term. However, we expect that this will not have a material effect on ABB's existing loan portfolio. We expect ABB will continue carefully selecting its exposures and diligently monitoring the potential impact of technology, environmental factors, and regulatory developments on the future value of the vessels it uses as collateral.

Key Statistics

Table 1

Aegean Baltic Bank S.A.--Key figures

	--Year ended Dec. 31--				
(Mil. €)	**2022**	**2021**	**2020**	**2019**	**2018**
Adjusted assets	1,140	998	603	502	270
Customer loans (gross)	529	574	377	253	164
Adjusted common equity	112	100	92	87	88
Operating revenues	40	23	18	13	10

Table 1

Aegean Baltic Bank S.A.--Key figures (cont.)

	--Year ended Dec. 31--				
(Mil. €)	**2022**	**2021**	**2020**	**2019**	**2018**
Noninterest expenses	15	13	12	11	9
Core earnings	18	7	5	(0)	1

Table 2

Aegean Baltic Bank S.A.--Business position

	--Year ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Total revenues from business line (currency in millions)	39.8	23.4	18.1	13.2	9.7
Return on average common equity	16.0	7.0	4.4	(0.7)	0.4

Table 3

Aegean Baltic Bank S.A.--Capital and earnings

	--Year ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Tier 1 capital ratio	18.9	16.0	20.5	26.2	38.2
S&P Global Ratings' RAC ratio before diversification	12.7	11.1	13.6	17.8	27.7
S&P Global Ratings' RAC ratio after diversification	10.7	9.1	8.7	13.3	17.5
Net interest income/operating revenues	76.4	76.6	74.8	79.8	95.6
Fee income/operating revenues	12.0	16.4	16.5	20.3	20.3
Market-sensitive income/operating revenues	5.3	6.8	8.6	(0.7)	(16.0)
Cost to income ratio	36.5	53.6	64.6	82.0	97.0
Preprovision operating income/average assets	2.4	1.4	1.2	0.6	0.1
Core earnings/average managed assets	1.7	0.9	0.8	(0.0)	0.3

RAC--Risk-adjusted capital.

Table 4

Aegean Baltic Bank S.A.--Risk-adjusted capital framework data

(€ 000s)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government and central banks	474,402	0	0	108,828	23
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	118,881	34,324	29	55,626	47
Corporate	545,669	506,727	93	589,177	108
Retail	776	582	75	1,103	142
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets†	23,444	21,744	93	49,146	210
Total credit risk	1,163,173	563,377	48	803,880	69

Table 4

Aegean Baltic Bank S.A.--Risk-adjusted capital framework data (cont.)

Credit valuation adjustment					
Total credit valuation adjustment	--	0	--	0	--
Market risk					
Equity in the banking book	0	0	0	0	0
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	0	--
Operational risk					
Total operational risk	--	50,800	--	74,541	--

	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	614,176	--	878,421	100
Total diversification/ Concentration adjustments	--	--	--	168,904	19
RWA after diversification	--	614,176	--	1,047,325	119

		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		115,817	18.9	111,946	12.7
Capital ratio after adjustments‡		115,817	18.9	111,946	10.7

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. CCPs--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2022. S&P Global Ratings.

Table 5

Aegean Baltic Bank S.A.--Risk position

	--Year ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Growth in customer loans	(7.8)	52.1	49.3	53.9	12.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	19.2	22.6	56.6	33.7	58.5
Total managed assets/adjusted common equity (x)	10.2	10.0	6.6	5.8	3.1
New loan loss provisions/average customer loans	0.4	0.3	0.2	1.3	(0.4)
Net charge-offs/average customer loans	(0.1)	0.7	(0.6)	(0.4)	(0.9)
Gross nonperforming assets/customer loans + other real estate owned	1.1	1.9	6.5	10.3	16.2
Loan loss reserves/gross nonperforming assets	161.2	70.4	40.9	40.3	29.3

RWA--Risk-adjusted capital.

Table 6

Aegean Baltic Bank S.A.--Funding and liquidity

	--Year ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Core deposits/funding base	99.9	94.5	88.5	91.5	81.9
Customer loans (net)/customer deposits	51.4	67.2	82.1	64.3	107.2
Long-term funding ratio	99.9	95.1	90.3	93.1	87.9
Stable funding ratio	187.3	143.0	128.9	166.0	129.2
Short-term wholesale funding/funding base	0.1	5.5	11.4	8.4	18.1
Regulatory net stable funding ratio	147.1	125.0	116.0	135.0	114.0
Broad liquid assets/short-term wholesale funding (x)	583.0	7.0	3.2	6.5	2.8
Broad liquid assets/total assets	47.5	34.2	30.7	44.5	32.9
Broad liquid assets/customer deposits	53.6	40.6	41.6	59.5	61.2
Net broad liquid assets/short-term customer deposits	55.9	34.9	28.7	51.1	40.2
Regulatory liquidity coverage ratio (LCR) (x)	2.9	1.9	2.8	3.1	1.8
Short-term wholesale funding/total wholesale funding	73.1	99.4	99.6	99.0	100.0
Narrow liquid assets/3-month wholesale funding (x)	722.2	7.2	3.3	6.7	4.0

Aegean Baltic Bank S.A.--Rating component scores

Issuer credit rating	**B+/Positive/B**
SACP	b+
Anchor	bb
Economic risk	7
Industry risk	7
Business position	Constrained
Capital and earnings	Strong
Risk position	Adequate
Funding	Moderate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Various Positive Rating Actions On Greek Banks On Resilience To Economic Cycles And Improving Foreign Funding Prospects, Dec. 14, 2023
- Greece Upgraded To 'BBB-/A-3' On An Improved Budgetary Position; Outlook Stable, Oct. 20, 2023

Ratings Detail (As Of February 7, 2024)*	
Aegean Baltic Bank S.A.	
Issuer Credit Rating	B+/Positive/B
Issuer Credit Ratings History	
14-Dec-2023	B+/Positive/B
25-Apr-2023	B+/Stable/B
19-Jul-2022	B/Positive/B
01-Mar-2019	B/Stable/B
Sovereign Rating	
Greece	BBB-/Stable/A-3

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.