

Credit Rating Announcement

26 June 2024

Scope assigns to Aegean Baltic Bank a first-time issuer rating of BB/Stable

The rating reflects the bank's focus on shipping finance, as well as its strong earnings capacity and leading asset quality metrics in the Greek banking sector. The concentrated customer and funding profile is a risk.

The latest information on the rating, including rating reports and related methodologies, is available on this [LINK](#).

Rating action

Scope Ratings GmbH (Scope) has assigned a new issuer rating to Aegean Baltic Bank SA (ABBank) of BB, with a Stable Outlook.

The full list of rating actions and rated entities is at the end of this rating action release.

Key rating drivers

Business model assessment: Focused (Low). ABBank is a small, specialised lender focused on shipping finance. While the shipping industry is highly cyclical, it is largely decoupled from the Greek economy, which enabled the bank to weather the domestic sovereign crisis. The bank's recent expansion into onshore corporate lending adds to its business diversification profile.

Since 2018, the bank has been diversifying by lending to Greek onshore companies, mainly operating in the commercial real estate, manufacturing, renewable energy, and construction sectors. ABBank targets strong balance sheet expansion in the 2024-26 period, as well as a 70/30 split of the loan book between shipping and non-shipping. While the bank has a proven track record in shipping, it has yet to be tested in onshore corporate lending. And it remains to be seen whether rapid volume growth could be sustained without materially affecting the bank's risk profile.

Scope understands that the pending change to the shareholder structure, with Mr. Mistakidis assuming ownership and control of the bank, will not disrupt the current strategy. At the same time, this introduces a degree of uncertainty, particularly with regard to potential changes in key management personnel.

Operating environment assessment: Moderately supportive (High). Greece is a small economy within the EU, with a GDP per capita well below the euro area average. The high level of public debt could constrain the Greek government's ability to support to the economy during a downturn. At the same time, Scope acknowledges that the country's public debt ratio and general government deficit have been declining due to

sustained economic growth, elevated inflation, and primary budget surpluses. Strong European institutional support, through both monetary and fiscal policy measures, is also a key positive.

Ongoing structural reforms have improved the stability of the banking system. The regulatory framework is strong and well-established, with the ECB directly supervising the four largest banks in the country. The banking sector is dominated by four banks, which have significantly reduced non-performing exposures since 2018 and now exhibit solid financial fundamentals.

Scope arrives at an initial mapping of **bb-** based on a combined assessment of the bank's operating environment and business model.

Long-term sustainability assessment (ESG factor): Developing. The exposure to governance risks is high given the bank's concentrated shareholder structure and the importance of key individuals in the management team. The management team has decades of experience in shipping finance, which Scope believes has contributed positively to the bank's operating performance. In addition, Scope considers that the bank's track record in a very challenging operating environment indicates a prudent approach to risk taking.

Prompted by the Central Bank of Greece, ABBank has started working on an action plan to address the first four (out of 13) ECB supervisory expectations related to the management of environmental risks. Scope believes that ABBank is prepared for this challenge, as it has long experience in managing environmental risks that can affect the value of the ships used as collateral.

The long-term sustainability assessment leads to an adjusted rating anchor of **bb-**.

Earnings capacity and risk exposures assessment: Supportive (+1). ABBank has a robust capacity to generate earnings due to its competitive operating leverage and low cost of risk. The bank also has strong asset quality metrics.

Increased lending capacity, driven by improved funding conditions for the Greek banking sector, has enabled ABBank to grow quickly and achieve record results since 2020. Loan losses have also remained very low. At the same time, the bank's customer base and credit exposures are relatively concentrated. The gross loan balances of the ten largest obligor groups accounted for 37% of total on-and-off balance sheet customer credit limits as of YE 2023. The bank has established specific limits for concentration risk and monitors credit risk concentrations on a continuous basis.

After three years of rapid growth, the bank's loan book has declined by 11% since December 2021. This has been driven by early loan repayments by shipping customers in a context of sharply rising interest rates and excess liquidity. Management expects net loans to double by 2026, alongside rising customer deposits and greater funding diversification. Given the continued high interest rate environment, Scope sees risks to the realisation of expected loan volumes, but this may be offset by strong margins.

ABBank's asset quality metrics are solid, reflecting not only management's clean-up efforts, but also a prudent risk appetite, high levels of collateralisation and a favourable economic cycle. The gross non-performing exposure ratio stood at 0.8% as of YE 2023, well below the national average.

Financial viability management assessment: Adequate. ABBank has maintained a sound capital position even as risk-weighted assets have increased significantly since 2018. The buffer to total capital requirements was more than 10% as of YE 2023. Management expects the CET1 ratio to gradually decline to around 18% by 2026 due to business growth. This would imply a minimum capital buffer of 440 bp, which Scope considers adequate. Given the concentrated nature of the bank's funding profile, Scope believes it is critical for ABBank to maintain a strong capital position.

Funding risk is elevated due to the bank's reliance on large, uninsured deposits and reflects the high degree of customer concentration. Positively, the group maintains large liquidity buffers and targets a low loan-to-deposit ratio to mitigate risks. The liquidity coverage ratio and the net stable funding ratio were 386% and 157%, respectively, as of YE 2023.

One or more key drivers of the credit rating action are considered an ESG factor.

Outlook and rating sensitivities

The **Stable Outlook** reflects Scope's view that the risks to the current rating are balanced.

The **upside scenario** for the rating and Outlook is:

1. Well managed growth, both in the shipping and in onshore corporate segments, coupled with increasing diversification of funding sources.

The **downside scenarios** for the ratings and Outlooks are (individually or collectively):

1. Material worsening of asset quality metrics, potentially from rapid expansion into industry sectors where the bank does not have a long track record.
2. Evidence of a less prudent approach to capital management and/or a decline in liquidity buffers, leading to a lower assessment of financial viability management.

Environmental, social and governance (ESG) factors

Please refer to the 'long-term sustainability assessment' under the 'key rating drivers' section above for the ESG analysis.

All rating actions and rated entities

Aegean Baltic Bank SA

Issuer rating: BB/Stable, new rating

Stress testing & cash flow analysis

No stress testing was performed. No cash flow analysis was performed.

Methodology

The methodology used for this Credit Rating and Outlook, (Financial Institutions Rating Methodology, 6 February 2024), is available on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://scoperatings.com/governance-and-policies/regulatory/eu-regulation>. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>.

governance/methodologies.

The Outlook indicates the most likely direction of the Credit Rating if the Credit Rating were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Rating: public domain, the Rated Entity, and Scope Ratings' internal sources.

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Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Rating and Outlook and the principal grounds on which the Credit Rating and Outlook are based. Following that review, the Credit Rating and Outlook were not amended before being issued.

Regulatory disclosures

The Credit Rating and Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Rating and Outlook are UK-endorsed.

Lead analyst: Alessandro Boratti, Senior Analyst

Person responsible for approval of the Credit Rating: Pauline Lambert, Executive Director

The Credit Rating/Outlook was first released by Scope Ratings on 26 June 2024.

Potential conflicts

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