FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Multitude at 'B+'; Outlook Stable

Thu 23 Feb, 2023 - 4:01 AM ET

Fitch Ratings - Frankfurt am Main - 23 Feb 2023: Fitch Ratings has affirmed Multitude SE's Long-Term Issuer Default Rating (IDR) at 'B+' with Stable Outlook. The senior unsecured notes have been affirmed at 'B+'/RR4 and the subordinated hybrid perpetual capital notes at 'B-'/RR6.

KEY RATING DRIVERS

Multitude's IDR reflects its sound funding profile and stable asset quality metrics despite the challenging operating environment. Refinancing risk has reduced following a bond refinancing in December 2022. The rating also captures Multitude's focus on high-risk unsecured consumer lending, niche franchise, high leverage and weak profitability due to pressure on its net interest margin, as well as high operating costs. We view Multitude's deposit funding and prudential regulation at subsidiary Multitude Bank as a rating strength.

Focus on Non-Standard Consumer Lending: Multitude is an online lender operating predominantly in the high-yield segment with an international footprint in 19 countries and a strong presence in Scandinavian and Baltic markets. Despite some diversification towards prime consumer and SME lending in recent years, Multitude mainly serves underbanked clients, which leads to potential volatility in asset quality through the credit cycle. Risks are mitigated by high margins and well-established underwriting somewhat less risky retail clients. Multitude's impaired loans ratio declined to 20% at end-3Q22 from 26% at end-2021, largely due to write-offs and sales of problem loans (12% of end-2021 gross loans). Impaired loans were 92% covered by total loan loss allowances (LLAs). Coverage by specific LLAs was lower at 64%. Stage 2 loans were 5.5% of gross loans at end-3Q22 and 30% provisioned by specific LLAs. Impaired loan origination (increase in Stage 3 loans plus write-offs and sale of problem loans divided by average Stage 1 and Stage 2 loans) was 12% in 9M22 (annualised; 2021: 13%).

Operating Costs, Impairments Consume Revenues: Multitude's pre-tax income/average assets ratio was 1.4% in 9M22 (2021: negative 0.7%). Operating expenses reduced in absolute terms in recent years but still consumed 53% of gross revenues in 9M22. High operating expenses are driven by Multitude's niche franchise, expansion into new products and markets and reliance on third-party platforms for funding attraction. Impairment charges were 13% of average gross loans in 9M22, consuming 36% of gross revenues and 87% of pre-impairment profit.

Lower Lending Margins: Multitude's net interest margin remains high but continued to decline to 41% in 9M22 from 45% in 2021, due to pressures on interest yield from regulatory interventions but also from a gradual shift to lower-yielding client segments. Cost of funding (excluding commissions paid to online platforms) was a low 2.1% in 9M21 (2021: 2.7%) benefiting from Multitude's access to retail deposits. We expect margins to remain under pressure as deposits reprice faster than loans, but this should be manageable as margins are high and Multitude should be able to pass part of the funding cost increase onto customers.

High Leverage, Prudential Requirements Positive: Multitude's leverage ratio (gross debt plus deposits to tangible equity) stood at 7.2x at end-3Q22 (end-2021: 8.8x; end-2020: 6.3x). Tangible equity to net loans ratio was 17.1% at end-3Q22, broadly unchanged from 17.4% at end-2021. Positively, capital encumbrance by unreserved impaired loans declined to 11% at end-3Q22 from 36% at end-2021. Good capitalisation of prudentially regulated Multitude Bank (common equity Tier 1 ratio of 18.5% at end-2022) underpins the group's overall capital standing.

Deposit-Funded, Low Refinancing Risks: Funding is mostly sourced from retail deposits (73% of liabilities at end-3Q22), which are price-sensitive but granular. Non-deposit funding mainly made up of a EUR50 million senior bond with maturity in 2025 and EUR50 million perpetual debt, mitigating refinancing risk in the medium term. At end-

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Significant asset quality deterioration with loan impairment charges above 15% of average gross loans or a notable increase in unreserved impaired loans relative to tangible equity.

- Further pressure on profitability from tightening of regulatory requirements in key markets or continuing losses from expansion into new business segments.

- Significantly higher leverage with a debt to tangible equity ratio above 8x on a sustained basis.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Improved profitability with a pre-tax income/ average assets ratio above 3.5% on a sustained basis, without significant increase in risk appetite, asset quality risks or leverage;

- A more diversified asset and revenue base with all business segments contributing to overall group profitability.

DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS

Multitude's senior unsecured bond is rated in line with its Long-Term IDR. The rating alignment reflects Fitch's expectation of average recovery prospects. The subordinated perpetual hybrid callable notes are notched down twice from Multitude's Long-Term IDR reflecting Fitch's expectation of zero recovery prospects.

DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES

Multitude's senior unsecured notes' rating is sensitive to changes in Multitude's Long-Term IDR. Changes to Fitch's assessment of recovery prospects for senior unsecured debt in default (e.g. the introduction of debt obligations ranking ahead of the senior unsecured debt notes or a material increase in the proportion of customer deposits leading to a weakening of notes' recovery prospects) would result in the senior unsecured notes' rating being notched down from the IDR.

The subordinated notes' rating will mirror changes in Multitude's Long-Term IDR.

principal in wind-down) could also result in a widening of the notching for the subordinated notes' rating to more than two notches below Multitude's Long-Term IDR.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Multitude has an ESG Relevance Score of '4' for exposure to social impacts as a result of its exposure to the high-cost consumer lending sector. As the regulatory environment evolves (including a tightening of rate caps), this has a moderately negative influence on the credit profile via our assessment of Multitude's business model and is relevant to the rating in conjunction with other factors.

Multitude has an ESG Relevance Score of '4' for customer welfare, in particular in the context of fair lending practices, pricing transparency and the potential involvement of foreclosure procedures, given its focus on the high-cost consumer credit segment. This has a moderately negative influence on the credit profile via our assessment of risk appetite and asset quality and is relevant to the rating in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance 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 the way in which they are being

ENTITY / DEBT	RATING			RECOVERY	PRIOR
Multitude SE	LT IDR	B+ Rating Outlook Stable	Affirmed		B+ Rating Outlook Stable
	Shareholder Support	ns	Affirmed		ns
subordinated	LT	B-	Affirmed	RR6	B-
senior unsecured	LT	B+	Affirmed	RR4	B+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Hybrids Treatment and Notching Criteria (pub. 12 Nov 2020)

Non-Bank Financial Institutions Rating Criteria (pub. 31 Jan 2022) (including rating assumption sensitivity)

Bank Rating Criteria (pub. 07 Sep 2022) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Multitude SE	EU Issued, UK Endorsed

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