

RATING ACTION COMMENTARY

Fitch Affirms Multitude at 'B+'; Outlook Positive

Wed 05 Feb, 2025 - 3:58 AM ET

Fitch Ratings - Frankfurt am Main - 05 Feb 2025: Fitch Ratings has affirmed Multitude AG's and its fully-owned operating bank Multitude Bank plc's Long-Term Issuer Default Ratings (IDRs) at 'B+' with Positive Outlooks. Multitude's senior unsecured notes have been affirmed at 'B+' with a Recovery Rating of 'RR4' and its subordinated hybrid perpetual capital notes at 'B-/'RR6'.

KEY RATING DRIVERS

The ratings and Positive Outlook reflect Multitude's improving business volumes, diversification and profitability, adequate capitalisation, supported by prudential requirements at Multitude Bank, and access to granular, albeit price-sensitive, retail deposits. The ratings also consider Multitude's niche franchise in high-yield consumer and SME lending; pressure on its net interest margin; high, albeit declining, impairment charges; and rapid growth in SME and wholesale lending.

Group Ratings: Multitude Bank's ratings reflect Fitch's 'group ratings' approach and are based on the analysis of Multitude, as a group of companies, on a consolidated basis. Multitude Bank is a Malta-based 100%-owned subsidiary of Multitude and the group's core operating entity, accounting for about 80% of the group's assets. Fitch views the bank as operationally integrated into the group with a mostly similar geographic footprint and shared branding.

Multitude's ratings are equalised with the consolidated group's 'b+' Standalone Credit Profile (SCP), given adequate liquidity management, supported by revenues from intra-group services at the holding company level and material unencumbered cash held outside Multitude Bank.

Niche Franchise, Improving Diversification: Multitude mainly operates in non-prime lending with an increased focus on comparatively lower-risk consumer, SME and wholesale lending. Credit risk in consumer lending is mitigated by high margins and adequate underwriting standards. Expansion into SME and wholesale lending adds diversification to the business model, but also poses risks of increased concentration and credit losses due to rapid growth.

High Loan Impairments: Multitude's asset quality is improving from diversification into SME and wholesale lending, as well as lower-risk retail clients. High loan impairments are inherent to its business model, with an impaired/gross loans ratio of around 16%-18% since 2023. Impaired loans are well reserved. Loan impairment charges moderated to 13.5% in 9M24, after peaking at 16% in 1Q24, helped by tightened underwriting in consumer and SME segments.

Improving Profitability, Margin Pressures: Multitude's profitability has been improving, with pre-tax income/average assets close to 2% in 2022-9M24, helped by contained operating expenses. Multitude's high loan impairments consumed 84% of pre-impairment profit in 9M24 (2023: 80%). Its net interest margin is pressured by regulatory interest caps, a gradual shift to lower-yielding client segments and increased cost of deposit funding. Growth in SME and wholesale lending should support profitability, providing credit risk remains well-managed.

Capitalisation Benefits From Bank Regulation: Multitude's gross debt/tangible equity ratio was high (end-3Q24: 8.4x) and can be volatile, reflecting changing retail deposit needs. Multitude Bank's common equity Tier 1 and total capital ratios (16.8% and 17.3% at end-1H24) were managed with narrow headroom above the prudential requirements (13.08% and 16.95%, respectively), due to lending growth. Tier 2 debt issuance should help increase the headroom, which also benefited in January 2025 from a reduction in operational risk-weighted assets.

Deposit-Funded; Moderate Refinancing Risk: The group is predominately funded by retail deposits (88% of liabilities at end-3Q24), which are price sensitive but granular and 99% covered by deposit insurance. An increasing share of deposits from Multitude's own platform (17% at end-3Q24) adds resilience to its deposits base. Non-deposit funding comprises a EUR80 million senior unsecured bond with maturity in 2028 and EUR45 million perpetual debt (with a call option in 2026). The group's liquidity position is adequate, supported by the relatively short tenor of its loan book and a sound liquidity buffer.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Inability to increase business volumes and improve profitability in line with management projections could lead to a revision of the Outlook to Stable.

Pressure on profitability, e.g. from a tightening of regulatory requirements in key markets or losses from expansion into new business segments, could result in a downgrade.

Significant asset quality deterioration, with loan impairment charges sustained above 15% of average gross loans and pressuring profitability, or a notable increase in unreserved impaired loans relative to tangible equity, could result in a downgrade.

A reduction in Multitude Bank's headroom above the regulatory capital requirements to materially below 100bp without clear prospects of restoring capitalisation, as well as a significant increase in leverage at the consolidated group level, could also be credit-negative.

Material increase in double leverage or a weaker liquidity buffer at the holding company, including from the planned corporate reorganisation, additional debt issuances, as well as constraints to dividend upstream from the bank, could result in notching the holding company Long-Term IDR down from the group's SCP.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

A more diversified asset and revenue base, with all business segments contributing to overall group profitability in line with management's objectives, could result in an upgrade of the Long-Term IDR to 'BB-'.

Improved profitability, with pre-tax income/average assets close to 2.5% on a sustained basis, without a significant increase in risk appetite, asset-quality risks or leverage could also be credit positive.

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. Its subordinated

perpetual hybrid callable notes are notched down twice from Multitude's Long-Term IDR in line with Fitch's Non-Financial Corporates Hybrids Treatment and Notching Criteria.

DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES

Multitude's senior unsecured notes' rating is sensitive to changes in its Long-Term IDR. Changes to Fitch's assessment of recovery prospects for senior unsecured debt in default 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. Changes to Fitch's assessment of going-concern loss absorption or recovery prospects for subordinated debt in a default (e.g. the introduction of features resulting in easily activated going-concern loss absorption or a permanent write-down of the 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.

ADJUSTMENTS

The 'b+' business profile score is below the 'bbb' category implied score due to the following adjustment reason(s): business model (negative) and market position (negative).

The 'b+' asset-quality score is above the 'ccc and below' category implied score due to the following adjustment reason: collateral and reserves (positive).

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 its 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.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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 managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅			RECOVERY ⇅	PRIOR ⇅
Multitude AG	LT IDR	B+	Affirmed		B+
subordinated	LT	B-	Affirmed	RR6	B-
Multitude Capital Oyj					
senior unsecured	LT	B+	Affirmed	RR4	B+
Multitude Bank plc	LT IDR	B+	Affirmed		B+
	ST IDR	B	Affirmed		B

[PREVIOUS](#)

Page

1



of

10 rows

[NEXT](#)

1

[VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA[Corporate Hybrids Treatment and Notching Criteria \(pub. 12 Nov 2020\)](#)[Bank Rating Criteria \(pub. 15 Mar 2024\) \(including rating assumption sensitivity\)](#)[Non-Bank Financial Institutions Rating Criteria \(pub. 31 Jan 2025\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Multitude AG

EU Issued, UK Endorsed

Multitude Bank plc

EU Issued, UK Endorsed

Multitude Capital Oyj

EU Issued, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link: [https://](https://www.fitchratings.com/understandingcreditratings)

www.fitchratings.com/understandingcreditratings. In addition, the following [https://](https://www.fitchratings.com/rating-definitions-document)

www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for

each rating s

[READ MORE](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.

Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.