FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Multitude's Outlook to Positive; Affirms IDR at B+'

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Fitch Ratings - Frankfurt am Main - 15 Feb 2024: Fitch Ratings has revised Multitude SE's and its fully-owned operating bank Multitude Bank plc's Outlooks to Positive from Stable, while affirming their Long-Term Issuer Default Ratings (IDRs) at 'B+'. 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-' with 'RR6'.

The Outlook change reflects Multitude's improving business volumes, diversification and profitability since the pandemic, adequate capitalisation, supported by prudential requirements at Multitude Bank, and access to granular, albeit price-sensitive, retail deposits for funding.

The ratings also consider Multitude's niche franchise in high-yield unsecured consumer and SME lending, pressure on its net interest margin due to an increase in lending to lower-yielding clients, and improving - but still high - loan impairment charges.

Multitude's Shareholder Support Rating of 'No Support' has been affirmed and withdrawn as it is no longer considered to be relevant for the agency's coverage.

KEY RATING DRIVERS

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 core operating entity of the Multitude group, 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: Despite an increased focus on lower-risk consumer and SME lending in recent years, Multitude mainly operates in non-prime lending, which can lead to asset quality volatility through the credit cycle. Risks are mitigated by high margins and adequate underwriting standards, including small-ticket loans and generally short loan tenors. Recent expansion into wholesale lending adds diversification to the business model, but also poses risks of increased concentration in the loan book.

High Loan Impairments; Adequate Coverage: High loan impairment charges are inherent to Multitude's business model, with asset quality improving from diversification into SME and lower-risk retail clients. Its impaired loans ratio (18% at end-3Q23) has improved largely due to write-offs and sales of problem loans. Impaired loans are adequately reserved. Impaired loan origination (increase in impaired loans plus write-offs and sales of problem loans) has been broadly stable since 2021.

Improving Efficiency; Margin Pressures: Profitability continues to improve with Multitude's pre-tax income/average assets at 2.5% in 9M23, mainly helped by contained operating expenses. Multitude's niche franchise and labour-intensive consumer lending business model with high marketing and client acquisition costs constrain efficiency.

Multitude's net interest margin is strong, largely as a function of its business model, but has continued to decline due to pressures on the gross interest yield from regulatory caps, a gradual shift to lower-yielding client segments and increased funding costs. Loan impairment charges were 13%-14% of average gross loans since 2021, consuming 80% of pre-impairment profit in 9M23.

Capitalisation Benefits from Bank Regulation: Multitude's leverage (gross debt and deposits/ tangible equity) was a high 6.2x at end-3Q23. Prudential capitalisation of subsidiary Multitude Bank (common equity Tier 1 ratio of 17.8% at end-1H23; above its regulatory requirement of 13.8%) underpins the group's overall capitalisation.

Deposit-Funded; Moderate Refinancing Risk: The group is predominately funded by retail deposits (80% of liabilities at end-3Q23), which are price-sensitive but granular and 99% covered by deposit insurance. Non-deposit funding was mainly made up of a

EUR46 million senior unsecured bond with maturity in 2025 and EUR48 million perpetual debt, both issued at the holding company level. The group's liquidity position is adequate, supported by the 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 recover business volumes or profitability in line with management projections could lead to a revision of the Outlook to Stable.

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 rating downgrade.

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

Significantly higher leverage with a debt and deposits/tangible equity above 8x on a sustained basis, together with a significant decline in Multitude Bank's headroom above the regulatory capital requirement could also be credit-negative.

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 a pre-tax income/average assets approaching 3.5% 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 corporate notching criteria ('Non-Financial Corporates Hybrids Treatment and Notching Criteria', November 2020).

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 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 (eg. 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).

The 'b+' capitalisation & leverage score is below the 'bb' category implied score due to the following adjustment reason(s): risk profile and business model (negative), and size of capital base (negative).

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.

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 managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores,

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY	PRIOR
Multitude SE	LT IDR	B+ Rating Outlook Positive	Affirmed		B+ Rating Outlook Stable
	Shareholder Support	ns	Affirmed		ns
	Shareholder Support	WD	Withdrawn		ns
subordinated	LT	B-	Affirmed	RR6	B-

senior unsecured	LT	B+	Affirmed	RR4	B+
Multitude Bank plc	LT IDR	B+ Rating Outlook Positive	Affirmed		B+ Rating Outlook Stable
	ST IDR	B	Affirmed		B

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

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

Bank Rating Criteria (pub. 01 Sep 2023) (including rating assumption sensitivity)

Non-Bank Financial Institutions Rating Criteria (pub. 17 Jan 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Multitude Bank plc	EU Issued, UK Endorsed
Multitude SE	EU Issued, UK Endorsed

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