MULTITUDE BANK

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Company Announcement

Date of Announcement: 24th August 2023

The following is a Company Announcement issued by Multitude Bank p.l.c. (C56251), with its registered office at ST Business Centre, 120, The Strand Gzira, GZR 1027, Malta, made pursuant to the Capital Market Rules as issued by the Malta Financial Services Authority:

Quote

Fitch Ratings has assigned Multitude Bank Plc Long-Term Issuer Default Rating (IDR) of 'B+' and Short-Term IDR of 'B'. The Outlook on the Long-Term IDR is Stable.

The full press release report is attached to this Company Announcement and in accordance with the requirements of the Capital Markets Rules, is being made publicly available for viewing on the Bank's website at https://www.multitudebank.com/investor-relations.

Unquote

Kenneth Zammit
Chief Financial Officer
Multitude Bank p.l.c.

FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Multitude Bank 'B+'/Stable

Thu 24 Aug, 2023 - 11:36 ET

Fitch Ratings - Frankfurt am Main - 24 Aug 2023: Fitch Ratings has assigned Multitude Bank Plc Long-Term Issuer Default Rating (IDR) of 'B+' and Short-Term IDR of 'B'. The Outlook on the Long-Term IDR is Stable. A full list of rating actions is below.

KEY RATING DRIVERS

Multitude Bank is a Malta-based 100%-owned subsidiary bank of online lender Multitude SE (B+/Stable). Multitude Bank's ratings reflect Fitch's 'group ratings' approach and are based on our analysis of Multitude, as a group of companies, on a consolidated basis. Multitude Bank is a core subsidiary of the group, accounting for about 80% of the group's gross loans, 70% of gross operating revenue and 100% of deposit base at end-2022. Fitch views the bank as operationally integrated into the group with a mostly similar geographic footprint and shared branding.

Focus on High-Yield Consumer Lending: The ratings reflect Multitude's niche franchise in high-yield unsecured consumer and SME lending, high loan impairments, which inherent to the business model, and pressure on profitability from narrowing net interest margins. They also reflect adequate capitalisation, supported by prudential requirements at Multitude Bank. The ratings further factor in the group's reliance on retail deposits for funding, which are price-sensitive, but granular and mostly covered by deposit insurance.

Niche Franchise, Established Underwriting: Multitude is an online lender operating predominantly in the high-yield consumer and SME segments. The group has a wide geographical presence with a focus on northern Europe. Multitude's focus on non-prime lending can lead to potential volatility of asset quality through the credit cycle. Risks are mitigated by high margins and reasonable underwriting procedures, including small-loan tickets and generally short loan tenors.

High Loan Impairments, Well-Reserved: High loan impairments are inherent to Multitude's business model, with asset quality improving from diversification into SME and lower-risk retail clients. Impaired loans ratio was 19% at end-1H23 (end-2022: 19%; end-2021: 26%), with the decline 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.

Pressure on Interest Margin: Multitude's net interest margin is strong, largely as a function of its business model, but continued to decline to 35% in 1H23 (2022: 40%). This is driven by pressures on the gross interest yield from regulatory caps, a gradual shift to lower-yielding client segments and higher funding costs. Cost of funding (excluding commissions paid to online platforms) increased to 3.7% in 1H23 (2022: 2.2%). We expect margins to remain under pressure as deposits reprice.

Improving Operating Efficiency: The pre-tax income/average assets ratio was 2.3% in 1H23, up from 1.8% in 2022, and a net loss in 2021. This was mainly helped by a reduction in operating expenses. Multitude's niche franchise and labour-intensive consumer lending business model with high marketing and client acquisition costs constrains efficiency. Impairment charges were flat since 2021 (at about 13%-14% of average gross loans), but still consumed more than 80% of pre-impairment profit in 2022-1H23.

Adequate Capitalisation: Multitude Bank has sound capitalisation with a common equity Tier 1 (CET1) ratio of 18.2% at end-2022. The assessment also factors in high leverage at the consolidated group level with gross debt and deposits/tangible equity of 6.8x at end-1H23 (end-2021: 8.8x), which can be volatile due to accumulation of deposits.

Deposit-Funded, Low Refinancing Risk: The group is predominately funded by retail deposits (82% of liabilities at end-1H23), 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, issued by Multitude. The group's liquidity position is adequate, supported by the short tenor of its loan book.

RATING SENSITIVITIES

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

Multitude Bank's ratings are primarily sensitive to adverse changes in the group's creditworthiness with the factors listed below.

A 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 could result in negative rating action.

Further 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 could also be credit-negative.

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

Multitude Bank's ratings are primarily sensitive to positive changes in the group's creditworthiness with the factors listed below.

Improved profitability, with a pre-tax income/average assets above 3.5% on a sustained basis, without a significant increase in risk appetite, asset-quality risks or leverage could result in a positive rating action.

A more diversified asset and revenue base, with all business segments contributing to overall group profitability, could also be credit-positive.

ADJUSTMENTS

The 'b+' business profile score has been assigned below the 'bbb' implied score due to the following adjustment reasons: business model (negative), market position (negative).

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

The 'b+' capitalisation and leverage score has been assigned below the 'bb' implied score due to the following adjustment reasons: risk profile and business model (negative), size of capital base (negative).

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

Date of Relevant Committee

15 August 2023

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 Bank 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 Bank 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, visitwww.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING

Multitude Bank plc	LT IDR	B+ Rating Outlook Stable	New Rating
	ST IDR	B	New Rating

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

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APPLICABLE CRITERIA

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

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

Non-Bank Financial Institutions Rating Criteria (pub. 05 May 2023) (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

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