CREDIT OPINION
14 January 2025

Update

Send Your Feedback

RATINGS

B2 Impact ASA	
Domicile	Norway
Long Term Rating	Ba2
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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B2 Impact ASA

Update following rating affirmation

Summary

B2 Impact ASA's (B2 Impact) Ba2 corporate family rating (CFR) reflects its good profitability and moderate leverage, a solid equity cushion and a steady investment and collection performance. The company has continued to streamline its operations, focusing on key markets in Northern Europe and Poland, and continues to implement workforce efficiency measures. Furthermore, B2 Impact has initiated timely refinancings of its bonds and its revolving credit facility (RCF), and reduced total debt volume and interest costs as compared with 2023. The company has no upcoming debt maturities within the next 24 months.

Similar to other debt purchasing and debt collection companies B2 Impact's CFR is constrained by the operating environment score, which we have lowered for rated debt purchasing companies to B1. B2 Impact's applicable operating environment score was Ba3 previously. This reflects our view that the sector is highly cyclical, sensitive to the availability of nonperforming loans, and affected by changes in collection patterns through economic cycles. During periods of the credit cycle with high interest rates, access to capital and cost of capital can represent material challenges as the debt purchasing business is capital and technology intensive, while low availability of nonperforming loan supply results in highly competitive pricing, thus significantly affecting the profitability of debt purchasers.

The Ba3 rating of B2 Impact's senior unsecured notes reflects their priorities of claims and asset coverage in the company's current liability structure.

Credit strengths

» Strong capitalisation

» Solid profitability

» Low leverage and adequate interest coverage

» Diversified portfolio of secured and unsecured debt, supported by third-party servicing revenue

Credit challenges

» Unfavorable macro-economics in some of B2 Impact’s markets could constrain borrowers' debt servicing capacity and impact collections

» Limited availability of non-performing loans (NPL) and intense competition could impact investment levels and thus reduce future collections

» Inflationary pressure on operating costs

Outlook

The stable outlook reflects our view that B2 Impact will be able to maintain its credit profile, including modest leverage and solid profitability, during the 12-18 month outlook period.

Factors that could lead to an upgrade

B2 Impact's CFR could be upgraded if the company significantly improves its interest coverage and profitability while maintaining low leverage and continues to demonstrate strong liquidity management.

An upgrade of B2 Impact's CFR would likely result in an upgrade of the Ba3 senior unsecured debt rating or in case of changes in the liability structure that would decrease the amount of debt considered senior to the notes or increase the amount of debt considered junior to the notes.

Factors that could lead to a downgrade

Downward rating pressure could develop if the company's credit profile weakens significantly, if for example profitability and leverage metrics deteriorate substantially or if the improved liquidity position significantly weakens.

A downgrade of B2 Impact's CFR would likely result in a downgrade of the Ba3 senior unsecured debt rating.

Key indicators

Exhibit 1
B2 Impact ASA (Consolidated Financials) [1]

	09-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total managed assets (NOK Million)	16,514.0	17,328.0	16,500.0	15,315.0	17,169.0	(1.0)[4]
EBITDA (Finance) (NOK Million)	2,938.0	4,619.0	3,708.0	4,109.0	4,107.0	(1.2)[4]
Net Income / Average Managed Assets (%)	2.5	2.7	2.6	3.6	1.7	2.6[5]
EBITDA / Interest Expense + Preferred Dividends	3.6x	4.4x	6.3x	7.2x	5.1x	5.3x[5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	31.8	28.6	27.8	28.2	23.1	27.9[5]
Debt / EBITDA (Finance)	2.4x	2.3x	2.8x	2.3x	2.8x	2.5x[5]
Debt Maturities Coverage (%)	516.7	56.5	87.5	14.2	30.0	141.0[5]
FFO to Debt (%)	4.6	2.7	3.7	2.6	-2.6	2.2[5]

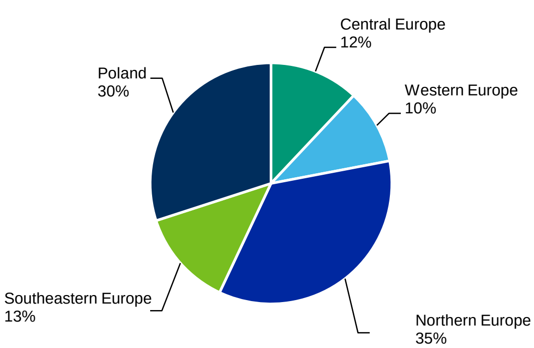
[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] IFRS [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime.
Sources: Moody's Ratings and company filings

Profile

B2 Impact ASA is a pan-European debt purchasing company, with portfolios in 17 countries, predominantly focused on the Nordics, Eastern Europe and Southern Europe. The company acquires nonperforming loans, largely unsecured and to a lesser extent, secured, and provides debt collection for third-party lenders, with banks and other financial institutions accounting for most of its clients. B2 Impact has operated in its current form since November 2011 and has been listed on the Oslo Stock Exchange since June 2016.

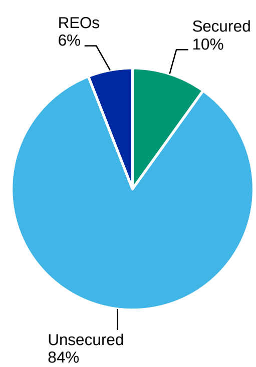
Since 2022, B2 Impact has started to reduce its footprint in countries where it has insufficient scale. In 2023 it sold its subsidiary in Bulgaria and announced for H2 2024 the finalization of disposal of its Hungarian operations. B2 Impact also has a servicing subsidiary for secured assets Veraltis Asset Management (Veraltis), with presence in France, Italy, Greece, Croatia, Slovenia, Cyprus, Romania, Bulgaria and Serbia.

Exhibit 2
Geographical distribution of ERC as of Q3 2024



Sources: Company and Moody's Ratings

Exhibit 3
Asset class distribution of ERC as of Q3 2024



Sources: Company and Moody's Ratings

Detailed credit considerations

Profitability: Consistently solid profitability

We assign a Baa1 Net Income/Average Managed Assets score, one notch below the initial A3 score. The assigned score reflects the company's consistently solid profitability and adequate return on assets despite a challenging competitive environment for debt purchasers. The one-notch downward adjustment reflects potential uncertainties resulting from the implementation of its efficiency strategy to reduce funding and operating expenses while simultaneously maintaining its investment levels.

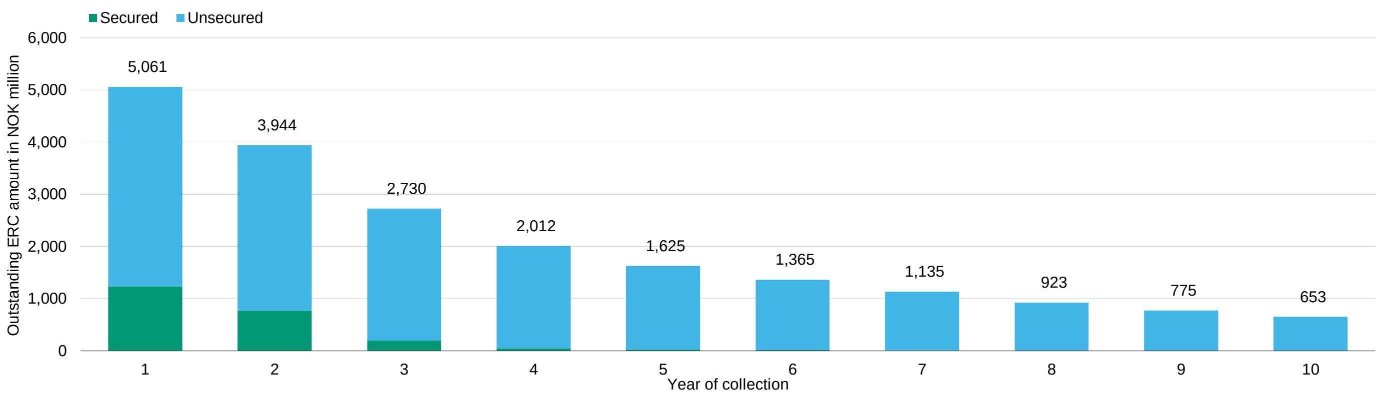
Since 2022 B2 Impact has been implementing a strategy focusing on its core markets where it has sufficient scale and continues to implement its profitability and efficiency enhancing measures. This includes discontinuation of less performing operations, substantial workforce reduction, interest cost management and OPEX reduction targets and increasing asset under management volume for its servicing platform Veraltis. However, even after reducing its geographical diversification, B2 Impact will still be able to shift its investment focus to markets that offer better pricing conditions or greater growth opportunities, reducing the need to invest in tightly priced assets to maintain its collection pipeline.

B2 Impact is focusing on unsecured debt investments, particularly in its 10 to 12 core markets, secured debt and Reposessed Collateral Assets (REO), accounting for around 16% of B2 Impact's ERCs (as of Q3 2024), together providing good asset class diversification and shorter collection periods. While the diversification between secured and unsecured debt is positive, the secured debt portfolio usually contains higher balances per debtor and collection through a court process is common. Therefore, the collection profile of these portfolios is somewhat more volatile and faces revaluations more often (both negative and positive) than the unsecured debt portfolios. The share of secured debt in B2 Impact's portfolio has gradually reduced over the past few years to around 10% from around 23% in December 2020 and will eventually reduce further, as B2 Impact carved out its secured assets into a special purpose vehicle structure in 2022, funded by PIMCO and serviced by B2 Impact via its subsidiary Veraltis.

Exhibit 4

Secured debt has a significantly shorter estimated collection curve than unsecured debt (as of Q3 2024)

120-month ERC curve



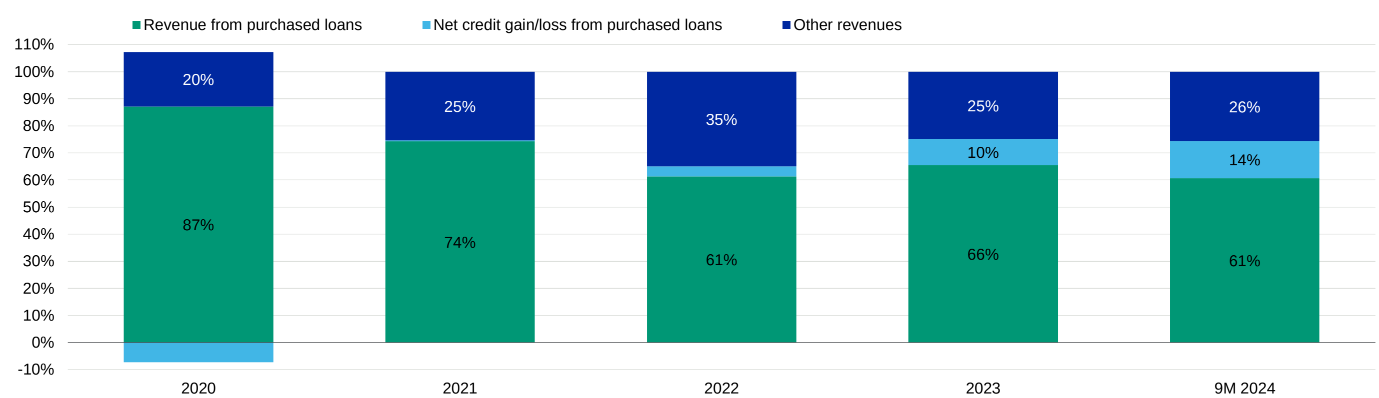
Sources: Company and Moody's Ratings

Purchased loan portfolios account for around 60-65% of the total revenues. The company also offers third-party servicing and provides a small amount of direct lending in Poland, as well as credit information services in Latvia. The share of third-party servicing and other non-NPL related revenue increased to 25% as of year-end 2023 from around 13% in 2017. This increase, however, includes a large share of third-party servicing of co-owned portfolios through Veraltis.

Exhibit 5

B2 Impact's revenue was concentrated in collection from purchased loan portfolios, but the share of servicing revenue has increased

Revenue breakdown for 2020-24



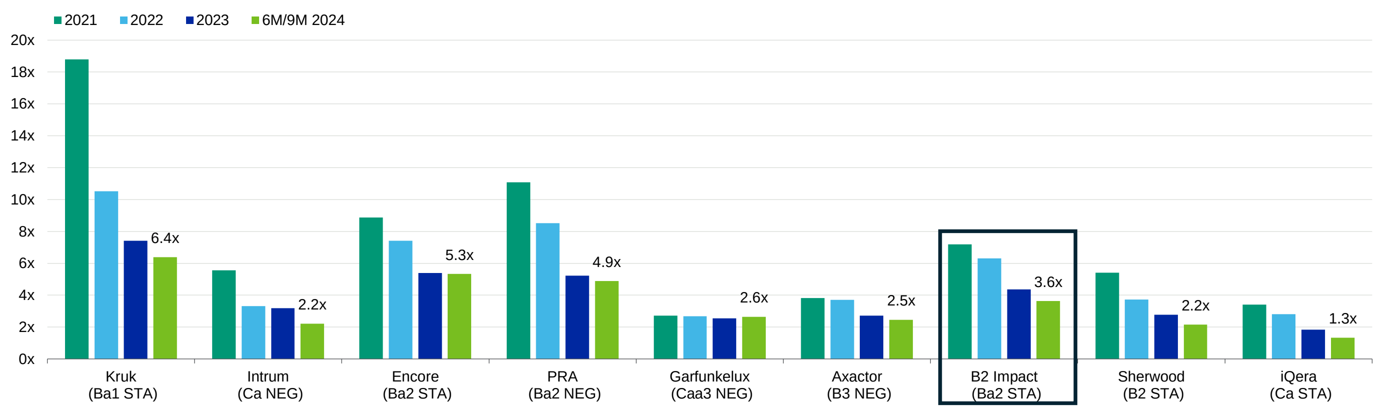
Sources: Company and Moody's Ratings

In 2023, cash EBITDA was NOK4,752 million, 19% higher than that in 2022, driven by a corresponding growth in collections and revenues. Following the resumption of portfolio purchases in 2022 and 2023, B2 Impact invested NOK2,741 million during the year, well above the NOK2,165 million invested in 2022. Despite strong inflationary pressures B2 Impact's OPEX/cash revenues ratio remained relatively stable, at around 30%. B2 Impact's bottom-line profitability (profit after tax) was NOK363 million in 2023, up from NOK326 million in 2022, despite the doubling of financial expenses driven by a rapid increase in interest rates. Besides strong collections and implemented cost measures, profitability was additionally supported by positive revaluations and a larger than expected collection of a secured claims in Q4 2023.

In the first three quarters of 2024, B2 Impact has maintained the strong momentum despite continuing pressure on costs and highly competitive market environment. Cash EBITDA stood at NOK3,242 million (NOK3,222 million for 9 months 2023). The bottom line net income stood at NOK 259 million (NOK 299 million for 9 months 2023). The net income for the 9 months 2024 was impacted by non-recurring effects. The largest items being the call fee for B2H06 of NOK 139m, and NOK 54m driven by non-cash adjustment of non-amortized fees relating to the termination of the Senior Facility agreement with Pimco and early repayment of B2H06.

We assign an Interest coverage score of Ba1, one notch above the initial Ba2 score taking into account the refinancing measures in 2024 at improved terms. Similarly to other debt purchasers the interest coverage ratio of B2 Impact has dropped in 2023 to around 4.0x of Moody's-adjusted EBITDA as of year-end 2023 from over 6x in 2022, reflecting the effect of increased interest rates and of higher hedging costs on the funding mix and thus increasing blended funding rates. The interest coverage as of Q3 2024 stood at 3.7x (according to Moody's adjusted calculations, which does not take into account financial income). However, following the refinancing measures executed in 2024 at improved terms and given that B2 Impact hedges a substantial part of interest risk exposure, we anticipate that the reduction in interest costs will become more visible in 2025, while the EBITDA will eventually improve, given investments above the replacement level and continuous strong focus on efficiency.

Exhibit 6
Selected rated peers' adjusted EBITDA/interest expense



9M 2024 data used where available, otherwise 6M 2024.
Sources: Company and Moody's Ratings

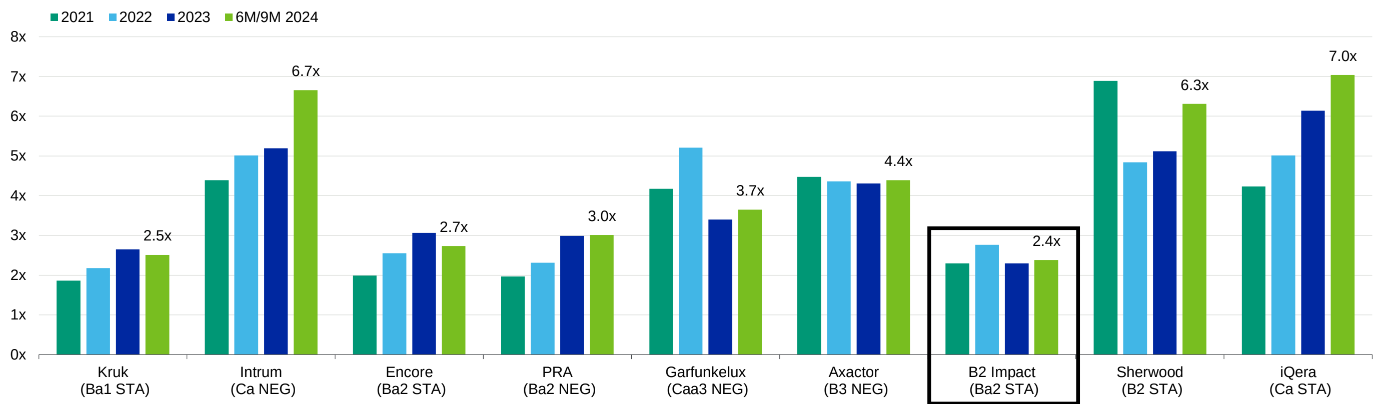
Capital adequacy and leverage: Strong capitalisation and favourable leverage metrics compared with those of its peers

We assign an Aaa TCE/TMA score to B2 Impact, in line with the initial score, reflecting its historically strong capitalization. We expect B2 Impact to maintain its robust capital levels for the next 12-18 months, also underlined by B2 Impact's public commitment to maintain a minimum equity ratio of 27.5%.

B2 Impact has historically reported significantly stronger capitalization and leverage metrics than most of its European peers. The company has strong tangible common equity (TCE)/tangible assets ratio of 31.8%% as of Q3 2024, well above that of its peers we rate, many of which have negative TCE because of high goodwill positions resulting from acquisitions. B2 Impact's high level of tangible equity provides additional protection for debt-holders through loss absorption by equity in the unlikely event of a default. We expect TCE/tangible assets to remain well above 25% over the next 12-18 months, supported by B2 Impact's cautious capital policies and a minimum equity ratio covenant in the RCF. Additionally, B2 Impact has publicly committed to maintain an equity ratio above 27.5%, which would still remain comfortably remain in our Aaa range for TCE/TMA.

Our assigned leverage score for B2 Impact is Baa1, which is one notch below the initial score of A3. This adjustment reflects our anticipation of additional investments B2 Impact aims to undertake around the last quarter of 2024. B2 Impact has reported moderate leverage metrics in 2023 and YTD 2024. Despite resumed investments gross debt/EBITDA stood at 2.3x as of year-end 2023 and at 2.4x as of Q3 2024, supported by strong collections and prudent cost management.

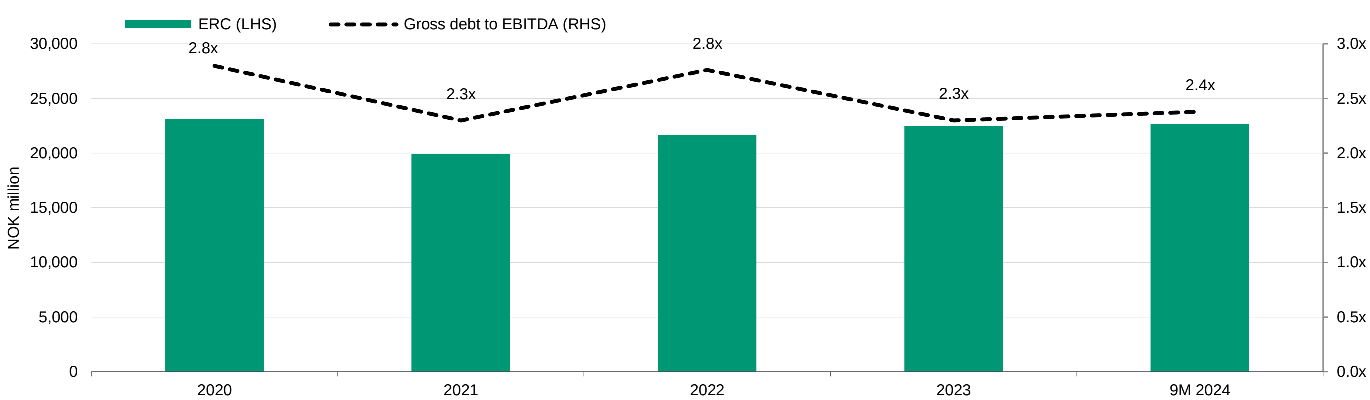
Exhibit 7
B2 Impact's leverage remains well below that of its European peers we rate
Rated peers' leverage, measured as gross debt/EBITDA



9M 2024 data used where available, otherwise 6M 2024. Both interim data categories are annualised.
Sources: Company and Moody's Ratings

B2 Impact's financial covenants, limiting net debt/cash EBITDA at 4.0x, will continue to contribute to the company's prudent leverage management and disciplined approach to investments. Although the RCF leverage covenant takes into account pro forma adjustments when new portfolios are bought, resulting in additional flexibility, the covenants could limit financial flexibility during times of stress (see the "Cash flow and liquidity section" below) or when considering debt-funded acquisitions. B2 Impact has publicly committed to maintain a leverage ratio of below 3.0x, thus allowing for an adequate headroom to the covenant.

Exhibit 8
B2 Impact's leverage has remained at moderate levels since 2014
Gross debt/EBITDA and ERC



9M 2024 data is annualised for Gross Debt/EBITDA, ERC is a as of 9M 2024
Sources: Company and Moody's Ratings

Cash flow and liquidity: Timely refinancing reduces liquidity risk

We assign a Ba1 Debt Maturity Coverage score to B2 Impact, three notches above the initial score of B1 (based on the year end 2023 value, prior to the refinancing in 2024), to reflect that it has addressed its upcoming maturities in a very timely manner. The company has no upcoming maturities until 2027 and a well-laddered maturity profile thereafter.

In early 2024 B2 Impact has partially refinanced and prepaid its EUR 200 million bond maturing in May 2024 with a EUR 150 million bond at a lower margin, thus reducing its interest cost. In September and November 2024 B2 Impact has refinanced its EUR 300 million bond (B2H06) maturing in 2026. The company has also renegotiated and extended its RCF, which now will mature in 2027. B2 Impact has also terminated its EUR 180 million non-recourse senior financing facility with PIMCO in 2024, which served as a co-investment facility for B2 Impact's back book in secured assets, but remained undrawn in 2024.

We assign a Ba2 Funds from operations (FFO) to total debt score, six notches above the initial Caa2 score. The underlying Moody's-adjusted FFO ratio takes into consideration our assumption that the amortization of purchased loans is a proxy for the replacement rate for the NPL portfolios to keep its ERCs constant. Given that B2 Impact's investments are moderate in the current highly competitive market and are partially financed from their own cash flows, the ratio has improved in 2024.

Operating environment

We assign a B1 operating environment score to debt purchasers. The assigned score reflects B2 Impact's Home Country Environment Score of B2, which is based on the Industry Risk score of B and a Macro-Level Indicator of Aa2, and our upward adjustment to the B1 score. The adjustment reflects our view that the sector's niche but stable product offering in the form of debt collections, which has a long-established track record, has a relatively low risk of obsolescence and event risk. In addition, while the regulatory environment for debt collections focuses on conduct risk related to fair treatment of customers and data protection, it is less complex than that of consumer lenders, which also face regulations around loan affordability and pricing. In our view, the scope of the regulatory framework for debt collection activities limits the sector's exposure to adverse regulatory changes.

The macro-level indicator of Aa2 receives no weight in the scorecard because it is higher than the industry risk score for all countries where B2 Impact operates. We use B2 Impact's ERCs to determine the geographical split when assigning the Macro-Level Indicators. The B1 Operating Environment score is below B2 Impact's Baa2 Financial Profile score. Therefore, we constrain the adjusted Financial Profile by weighting the Operating Environment score at 65% and the Financial Profile score at 35%, which results in an Adjusted Financial Profile of Ba2.

Macro-level indicator

We use B2 Impact's ERCs to determine the geographical split when assigning the Macro-Level indicators. The portfolios are split among Northern Europe (36%), Central Europe (13%), Poland (27%), Southeast Europe (13%) and Western Europe (11%), resulting in an Aa2 weighted Macro-Level indicator.

Industry risk

We assign a B Industry Risk score to the debt purchasing sector. The sector's performance is sensitive to volatility in the availability of NPLs and is also affected by cyclical changes in collection patterns. A low supply of NPLs in recent years has resulted in highly competitive pricing, thus significantly reducing debt purchasers' profitability. The cyclicality of collections is mainly driven by the prevailing state of the economy and consumer affordability, reflecting the fact that debt purchasers' customers typically have weaker credit profiles or experience temporary financial difficulties. Further, during a downturn, cash flows are impacted by a slowdown in collection volumes and companies' earnings can be negatively impacted by revaluation losses because of the time value of money as collection curves shift into the future. The debt purchasing industry has moderate barriers to entry. Accurately pricing NPL portfolios requires access to large amounts of data, which acts as a barrier to entry for new competitors. However, the industry is capital-intensive, requiring substantial financial resources to acquire NPLs and to establish and maintain operations. Debt purchasers and servicers also need to maintain relationships with NPL sellers (i.e., banks and other lenders/providers) and to comply with their outsourcing and conduct guidelines.

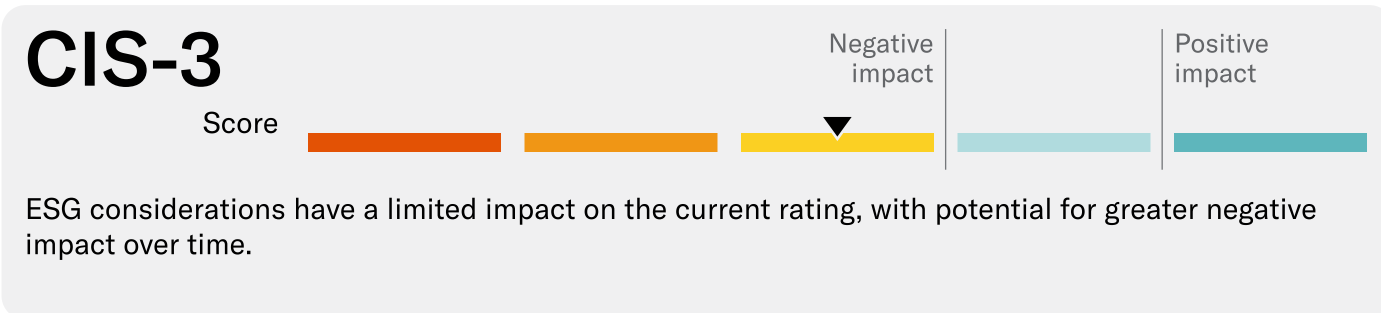
Regulation further increases barriers to entry through licensing applicable to servicing and compliance costs.

At the same time, the availability of alternative capital in the NPL market, such as from asset and investment management firms, has reduced debt purchasers' market share in this business and has further heightened the competitive pricing dynamics.

ESG considerations

B2 Impact ASA's ESG credit impact score is CIS-3

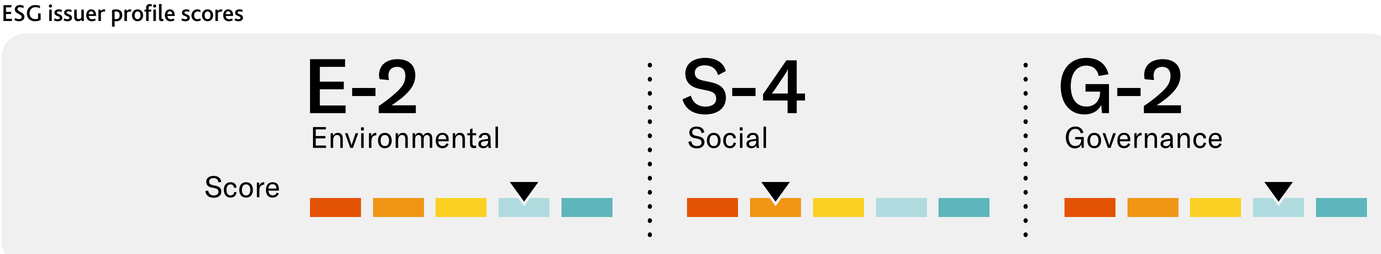
Exhibit 9
ESG credit impact score



Source: Moody's Ratings

B2 Impact ASA's **CIS-3** score reflects the limited impact of ESG risks on the company's current ratings with potential for greater negative impact over time, mainly due to the impact of high social risks. B2 Impact, like its peers, is exposed to a high level of social risks reflecting the risks inherent to the subprime debt purchasing and collection business.

Exhibit 10
ESG issuer profile scores



Source: Moody's Ratings

Environmental

B2 Impact faces low environmental risks because it only has indirect exposure to industries facing carbon transition risks and faces low other environmental risks, such as physical climate risks, water risks, waste and pollution, and natural capital risks.

Social

B2 Impact faces high social risks, which are associated with consumer protection legislation and the fair treatment of customers during the collection process. These risks are mitigated by well-developed policies and procedures. High cybersecurity and personal data risks are mitigated by advanced technology solutions, ongoing IT investments and organizational measures to prevent data breaches. The company's established governance practices, extensive knowledge of respective legislation and good track record help to mitigate but not eliminate these risks.

Governance

B2 Impact faces no material governance risks. Since its inception in 2011, the company has established a sound track record of successful operational and financial performance, particularly following a period of rapid growth between 2014 and 2018. Since 2020 B2 Impact demonstrates conservative financial policy as reflected in its stable financial profile with a leverage level below the most industry peers, solid equity buffers and solid profitability track record. Compliance and reporting are consistent with industry best practices, which is essential because of high regulatory scrutiny. Governance risks are also mitigated by corporate governance and compliance practices of a publicly listed company and an independent, diversified board with expertise spanning across different professional sectors.

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ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Structural considerations

B2 Impact's issuer and senior unsecured ratings reflect the priorities of claims and asset coverage in the company's capital structure. The size of B2 Impact's senior secured RCF indicates higher loss given default for senior unsecured creditors, leading to a one-notch differential with B2 Impact's Ba2 CFR, thus resulting in a Ba3 senior unsecured rating.

Methodology and scorecard

About Moody's Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Overall, the scorecard-indicated standalone assessment range for B2 Impact is ba1-ba3. The company's assigned ba2 standalone assessment is positioned at the midpoint of the indicated range. B2 Impact's assigned CFR of Ba2 is consistent with our finance company scorecard-indicated standalone credit assessment.

The principal methodology used in rating B2 Impact was our Finance Companies Methodology.

Rating methodology and scorecard factors

Exhibit 11
B2 Impact ASA

B2 Impact ASA						
Financial Profile	**Factor Weights**	**Historic Ratio**	**Initial Score**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Profitability						
Net Income / Average Managed Assets (%)	10%	2.75%	A3	Baa1	Expected trend	
EBITDA / (Interest Expense & Preferred Dividends) (x)	20%	4.37x	Ba2	Ba1	Expected trend	
Weighted Average Profitability Score			**Baa3**	**Baa3**		
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	10%	31.76%	Aaa	Aaa	Expected trend	
Debt / EBITDA (x)	25%	2.45x	A3	Baa1	Expected trend	
Weighted Average Capital Adequacy and Leverage Score			**A1**	**A2**		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%	56.48%	B1	Ba1	Other adjustments	
FFO / Total Debt (%)	25%	2.66%	Caa2	Ba2	Pro-forma adjustments	
Weighted Average Cash Flow and Liquidity Score			**Caa1**	**Ba2**		
Financial Profile Score	**35%**		**Ba1**	**Baa2**		
Operating Environment						
Home Country	**Factor Weights**	**Sub-factor Score**	**Score**			
Macro Level Indicator	0%		Aa2			
Economic Strength	25%	aa3				
Institutions and Governance Strength	50%	aaa				
Susceptibility to Event Risk	25%	baa				
Industry Risk	100%		B			
Home Country Operating Environment Score			B2			
	Factor Weights			**Score**	**Comment**	
Operating Environment Score	**65%**			**B1**		
ADJUSTED FINANCIAL PROFILE				**Score**		
Adjusted Financial Profile Score				**Ba2**		
Financial Profile Weight	35%					
Operating Environment Weight	65%					
Business Profile and Financial Policy				**Adjustment**	**Comment**	
Business Diversification, Concentration and Franchise Positioning				0		
Opacity and Complexity				0		
Corporate Behavior / Risk Management				0		
Liquidity Management				0		
Total Business Profile and Financial Policy Adjustments				**Ba2**		
					Comment	
Sovereign or parent constraint				**Aa2**		
Standalone Assessment Scorecard-indicated Range				ba1 - ba3		
Assigned Standalone Assessment				ba2		

Source: Moody's Ratings

Exhibit 12
B2 Impact ASA

Instrument Class	Assigned Standalone Assessment	Affiliate Support Notching	Government Support Notching	Individual Debt Class Notching	Assigned Rating
LT Corporate Family Ratings	ba2	0	0		Ba2
Senior Unsecured (Operating Company)	ba2	0	0	-1	Ba3

Source: Moody's Ratings

Ratings

Exhibit 13

Category	Moody's Rating
B2 IMPACT ASA	
Outlook	Stable
Corporate Family Rating	Ba2
Senior Unsecured	Ba3

Source: Moody's Ratings

REPORT NUMBER 1409734

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