



ALTERFIN CV

Valuation Policy

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Valuation Policy

This document sets out the organization of the valuation process with respect to the assets of Alterfin.

Topic	Valuation
Classification	Internal
Policy owner	Head of Risk
Related policies and procedures	<p>This document should be read in conjunction with all of Alterfin’s policies and procedures, including, but not limited to:</p> <ul style="list-style-type: none"> ▪ Organizational Policy ▪ Risk Management Framework Policy ▪ Conflicts of Interest Policy ▪ Remuneration Policy ▪ Financial Reporting Policy ▪ Outsourcing Policy ▪ Data Retention Policy

Version	Date	Author	Reason	Approved by	Date
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I. Introduction

Alterfin CV (“Alterfin”) is a self-managed alternative investment fund within the meaning of article 3,13° of the Law of April 19, 2014 on alternative investment funds and their managers (hereinafter the “AIFM Law”).

Alterfin focuses on investing in microfinance institutions, sustainable agriculture organizations, and entities that generate positive environmental and social impact, with the goal of supporting the development efforts of economically and socially marginalized groups through sustainable financial means. The investments are made primarily through loans to unlisted companies.

The purpose of this Valuation Policy is to establish a sound, transparent, comprehensive, and appropriately documented valuation process covering all material aspects of the valuation procedures and controls in respect to the assets under management.

II. Definitions

- “Conflict of Interest”:** A situation where Alterfin and/or its Staff Members have competing professional or personal (non-) financial interests, obligations or motivations with respect to one or more investors, suppliers (or other third parties) or (any part of) the organization. This potentially affects Alterfin’s and/or the Staff Member’s ability to fulfil their duties impartially. At the very least, a Conflict of Interest risks creating an appearance of impropriety and undermining confidence in the ability of Alterfin and/or its Staff Members to act appropriately in certain circumstances.
- “Externalization”¹:** The delegation of the valuation exercise to an independent external Valuation Expert, who is independent from Alterfin, and any other person closely associated with Alterfin.
- “Internal Audit Function”:** An independent control function within Alterfin, tasked with examining and evaluating the proper functioning, effectiveness and efficiency of the Internal Control system. The Internal Audit Function supports Staff Members in the effective fulfillment of their responsibilities by providing analyses, assessments, recommendations, opinions and information regarding the activities under review.
- “NAV”:** The net asset value per unit or share of Alterfin.
- “Risk Management Function”:** An independent Control Function within Alterfin, headed by the Head of Risk (“**Head of Risk**”) tasked with identifying, measuring, controlling and reporting the risks faced by Alterfin in its operations.
- “Staff Member”:**
- Any director of Alterfin;

¹ In accordance with article 50, §1, 1° AIFM Law.

- Any employee (i.e., any person working under an employment contract) of Alterfin, or any other natural person whose services are directly or indirectly placed at the disposal and under the control of Alterfin, including consultants (i.e., persons providing services under a consultancy agreement);
- Any natural person who directly or indirectly provides services to Alterfin pursuant to an outsourcing or delegation arrangement related to regulated services or activities.

“Valuation Expert”:

The Staff Members or external experts who, according to this Valuation Policy, are responsible for the valuation of the assets under management of Alterfin.

III. Legal requirements

This Policy has been drafted in accordance with, and pursuant to, the following applicable legal and regulatory provisions:

I. EU:

“AIFMD”: Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010.

“AIFM Regulation”: Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision.

II. National:

“AIFM Law”: Law of 19 April 2014 on alternative investment funds and their managers.

IV. Scope

This Policy applies to every valuation of the assets under management at Alterfin and should be known and understood by all relevant Staff Members of Alterfin.

V. Responsibilities and tasks

Within Alterfin, the responsibilities relating to valuation are allocated as follows:

- The Board of Directors is responsible for ensuring that Alterfin complies with all applicable legal and regulatory requirements. In this context, the Board of Directors ensures that Alterfin has an appropriate Valuation Policy and approves the Policy. The Board of Directors is responsible for exercising control over the proper valuation of the assets under management, including, where applicable, by an external valuer;
- The Head of Risk is required to establish and implement a Valuation Policy and to ensure that the necessary structures, processes, and resources are in place to apply the Valuation Policy effectively. It must be in particular assured that the Valuation Expert has sufficient resources to perform its function appropriately. The CFO reviews and provides appropriate support, as required, with respect to this Policy and ensures compliance of all valuation measures taken with the Financial Reporting Policy.
- The Valuation Expert is responsible for the valuation of the assets under management of Alterfin.

VI. Implementation

1. General

Alterfin is responsible for ensuring the accurate valuation of its assets under management, including for calculating and disclosing per share of Alterfin, in accordance with the internal rules or articles of association of Alterfin.

Alterfin applies fair, accurate and transparent pricing-models and valuation systems for its assets under management, as described in more detail in the following subsections. Each valuation is carried out impartially and with the necessary competence, care and diligence. The valuation of the assets are carried out in accordance with the valuation rules set by the Board in accordance with Belgian law.

The valuation may, subject to compliance with all relevant legal and regulatory provisions as well as the provisions of the *Outsourcing Policy*, be delegated by Alterfin to an external Valuation Expert (whose identity shall be communicated to the FSMA), provided that this external Valuation Expert is independent from Alterfin and any other person closely related to Alterfin. If no external Valuation Expert is engaged, the valuation will be carried out within Alterfin by an internal Valuation Expert. In such case, the valuation is internally performed in a way that guarantees functional independence from the portfolio management.²

At present Alterfin does not intend to make use of any Externalization and, an internal valuation panel serves as Valuation Expert and is therefore responsible for the valuation of the assets under management. The panel consists of at least two management-level members including the Head of Risk and is supported by the investment monitoring and investment recovery teams.

Conflicts of Interest and inappropriate influence by Staff Members on the valuation are prevented and mitigated in accordance with the *Conflicts of Interest Policy* and the *Remuneration Policy*.

The valuations are performed quarterly, taking into account the characteristics of Alterfin's assets under management and its *Subscription and Redemption Policy*.

2. Valuation of the assets

Relevancy of valuation for investors' "leaver's share"

When a shareholder withdraws or otherwise ceases to be a member of Alterfin, the leaving shareholder is entitled only to the value of its "leaver's share". The shareholder must accept Alterfin's accounting as the basis for this calculation of and may not take any legal or protective measures against the cooperative's assets.

As described in Article 16 of the Articles of Association, the "leaver's share" in principle equals the lower of the following two amounts: (i) the issue value of the share(s); and (ii) the book value of the share(s) at the time of exit, as determined based on the latest approved financial statements. However, under no circumstances shall the "leaver's share" exceed the amount originally paid by the holder of that share.

As the "leaver's share", according to the outlined calculation method, shall only be based on the book value of the shares in case the book value is lower than the issue value, the valuation of the assets under management and the shares may in many instances not be determinative for the calculation of the value of "leaver's share".

² The valuation is also subject to review of the external auditor, in accordance with their defined audit scope and audit procedures.

Types of investments

In line with Alterfin's investment strategy, Alterfin primarily invests in non-listed companies, mainly through loans and, where appropriate, unlisted equity participations. Alterfin may also hold derivatives for hedging purposes, as well as publicly traded bonds and other financial investments held on securities accounts with banks as security for dollar facilities.

If in the future, if Alterfin wishes to adopt a new investment strategy and invest in an asset class not yet covered by this Valuation Policy, Alterfin will amend this Valuation Policy accordingly. In accordance with applicable laws and regulations, Alterfin will not invest in a new asset class before an appropriate valuation methodology for such asset class has been identified and documented.

Valuation methods

The valuation of the assets of Alterfin is risk-based and shall be carried out in accordance with the following principles:

A) The valuation of loan assets

The main assets of Alterfin are loans to portfolio partners. These are valued at amortized cost – original amount (excluding transaction costs), adjusted for repayments, FX changes (if non-EUR), and any individual loss allowance.

Any individual loss allowance is recorded after a payment default exceeds a specified number of days (see Annex A); this period is shorter for restructured loans. No individual loss allowance is made within the first 30 days past due date, as this is treated as a technical delay.

The individual loss allowance estimated the expected irrecoverable amount by factoring in both recovery probability and the amount at risk (outstanding loan principal minus anticipated collateral and guarantee recovery).

The recovery probability is based on standard parameters linked to days past due (see Annex A); longer delinquency reduces recovery likelihood. Recovery values for collateral and guarantees are set by standard parameters by type (see Annex A), with deductions for costs and time.

A management overlay may adjust these parameters based on case specifics.

Loss allowances are removed when investments return to schedule through payment or restructuring; however, with repeated rescheduling, removal occurs after the first timely payment.

The investment value does not include accrued interest, which is separately recorded in Alterfin's net asset value. In case of default, accrued interest is impaired according to recovery likelihood and days past due (see Annex A).

In addition to the individual loss allowance on defaulted loans, a general loss allowance is made to cover potential future credit losses stemming from the performing portfolio. The general risk reserve amounts to a fixed percentage of net loans amount of each loan, i.e. the value after deduction of any individual loss allowance and is recorded as a separate risk reserve (which is not reflected in the value of individual loans).

B) The valuation of equity

Alterfin has a limited amount of equity holdings in its portfolio, partly directly in portfolio companies (shares), partly indirectly through units of investment funds. Equity investments are valued at cost (excluding transaction fees), adjusted for currency changes and revaluation impact if applicable.

A revaluation impact is recognized when a reassessment shows a sustained higher or lower value than the original amount. A value change is deemed sustainable after 3 consecutive reassessments indicate an – at least 15% - higher or lower value, respectively. Revaluations will be made sooner if clearly permanent and will be supplemented by a “management overlay”.

No revaluation occurs for investments below EUR 50.000.

The annual value reassessment considers several factors, as relevant, such as:

- The original investment cost, if invested within the last year;
- For investment fund units, the latest net asset value from the fund manager;
- The price from any significant subsequent equity investment;
- Prices reflected in binding third-party offers, regardless of acceptance;
- The portfolio company’s financial performance – such as revenue, EBITDA, and net profit – compared to its budget;
- A peer group multiple (like on revenue or EBITDA) from companies with comparable business models and countries (however, little data is available due to limited equity stakes in Alterfin’s portfolio);
- DCF values discounting expected project free cash flows, often at 15% over 5 years, but this is tough for early-stage firms due to uncertain and negative cash flow;
- VC values using a peer multiple for the exit value and discounting it (also challenging for early-stagers for similar reasons).

C) *The valuation of traded bonds*

For balance sheet management purposes, Alterfin invests in high-grade, euro-denominated traded bonds through a buy-and-hold approach. Given the hold to maturity view applied, any difference between the bonds’ nominal value and market price is not recorded in the accounts.

Escalation measures

Where the Valuation Expert, the Risk Management Function or the Internal Audit Function identifies any material risk, differences or other problems in the valuation of assets, the Board of Directors shall be alerted, providing a description of the issue, analysis performed and proposed resolution options.

Should a material risk occur, the Head of Risk and the Board of Directors shall assess the objectivity of the valuations by applying additional control measures.

Evaluation

Valuations will be performed based on a quarterly asset review process. The Valuation Expert list with each valuation report the parameters, inputs, sources and methodologies used that led to the actual valuation of the assets.

Based on this, the CFO will verify the parameters, inputs, sources and methodologies used for factual correctness:

- At least annually in view of the annual financial statements;
- When Alterfin wishes to use a new investment strategy and invest in a new asset type not covered by the current version of this Policy;
- When requested by senior management or the Internal Audit Function;
- When required by the AIFM Law.

The valuation is also subject to review of the external auditor, in accordance with their defined audit scope and audit procedures.

VII. Administration

The Head of Risk is responsible for ensuring compliance with this Policy by every relevant Staff Member of Alterfin.

The Board of Directors shall review this Policy periodically and:

- At least annually;
- When Alterfin wishes to use a new investment strategy or investment in a new asset type not covered by the current version of this Policy;
- When the Head of Risk is of the opinion that valuation parameters need adjusted based on comparison of the valuation parameters with the effective loss experiences;
- When requested by Management or the Internal Audit Function or recommended by the External Auditor;
- When required by the AIFM Law or any of its associated royal decrees.

Additionally, the Head of Risk will adjust the Policy as needed. Adjustments may be necessary due to, for example (non-exhaustive):

- Changes in relevant legislation;
- Changes in the activities or services of Alterfin; or
- Organizational changes within Alterfin.

When an update to this Policy involves significant changes, those changes will be submitted to the Board of Directors for approval.

This document has been drawn up in English. If any conflict arises between the English version of this Policy and any translation thereof, the English version will prevail.

Alterfin shall retain previous versions of this Policy, for a period of five years.

Annex A – Valuation parameters

The parameters outlined in this annex are subject to periodic revision, pending review by the external auditor.

Loan principal recovery probability

Applied % on loan principal, net of recovery value of collateral and guarantees, based on days past due date:

Recovery %	No restructuring	First restructuring	Repeat restructuring
100%	< 90 days	<60 days	<30 days
75%	90 to 179d	60 to 89d	-
50%	180 to 359d	90 to 179d	30 to 59d
0%	As of 360d	As of 180d	As of 60d

Collateral and guarantee parameters

Recovery value %	%
Alterfin Guarantee Fund	100%
European/US bank guarantee	100%
European/US institutional guarantee	100%
FOGAL (cash collateral)	50%
Local institutional guarantee	25-50%
Local mortgage	50%
Fixed asset pledged	0-25%
Warrant on commodities	25-50%

Overdue interest recovery assumptions

Applied % on overdue interest, based on days past due:

Recovery %	No restructuring	First restructuring	Repeat restructuring
100%	< 90 days	<60 days	<30 days
75%	90 to 179d	60 to 89d	-
50%	180 to 359d	90 to 179d	30 to 59d
0%	As of 360d	As of 180d	As of 60d

General Risk reserve parameter:

Percentage of net average loan amount, i.e. the value after deduction of any individual allowance, reset at year-end of each year: **3%**