

1300 Debt purchasing and portfolio management policy

09.12.2025

Approved by the Axactor Board

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1. Purpose

Debt purchase and portfolio management is the process of acquiring and managing portfolios of terminated non-performing debt. Axactor aims to succeed with debt purchase and portfolio management through high ethical standards and adhering to principles of good business practice. Throughout the entire value chain, Axactor shall operate with good business control, only purchasing legitimate claims, at the correct price, from responsible sellers and through balanced contracts protecting Axactor’s interests.

Business success in demanding markets shall be achieved without compromising on good business practice principles. This policy shall ensure that Axactor reaches its strategy and targets with integrity and in respect of laws, culture, business partners and debtors.

2. Target group

This policy, related procedures and supporting documents applies to all Directors of the Board, employees, including temporary employees, legal entities within the Axactor Group and where applicable to consultants and subcontractors, pursuant to the Axactor Corporate Governance policy.

3. Governing principles

3.1. Roles and responsibilities

Investments shall be managed locally, and the Group portfolio team shall perform quality assurance of the local analyses. Each investment opportunity shall be owned by the Country manager and managed by the Portfolio director. Relevant functions shall be involved as required to evaluate the portfolio and verify the assumptions relied upon in the process. In the event there is limited capacity of local analyst resources, resources from the Group portfolio team may assist in the local valuation. When taking part in the local evaluation process, the group resources shall, to the extent possible, not take part in the subsequent quality assurance performed by the Group portfolio team.

3.2. Debt purchasing process

The debt purchase process is separated into two main phases: pre-acquisition including sourcing of deals, portfolio evaluation and approval, and post-acquisition including closing activities, monitoring and reporting. Portfolio evaluation includes valuation, due diligence, SPA negotiation and preparation of IM, plus internal considerations of the underlying assumptions.



Document title:	Debt purchasing and portfolio management policy
Document number:	1300
Valid for:	All employees in Axactor
Date last approved:	09.12.2025
Document owner:	Chief Investment Officer
Classification:	Internal

3.3. Pre-acquisition

3.3.1. Deal sourcing

The local teams shall work in a structured way to identify potential investments in line with the Deal sourcing procedure, and Axactor's investment strategy. The teams shall seek to minimize the dependence on single deals by identifying a sufficient number of relevant opportunities that will allow Axactor to allocate capital at reasonable profitability and maintain or build relevance as a player in the industry.

3.3.1.1. Know Your Counterparty (KYC)

Prior to initiating any relationship which leads to the acquisition of a portfolio, Axactor must first demonstrate that the seller is an entity with a clear ownership structure, sound financial standing, that conducts their business in compliance with laws, and generally recognized business practice principles. It is the responsibility of the respective Sales director to ensure the most recent KYC template is completed and filed appropriately.

3.3.2. Investment evaluation

The potential investments shall be evaluated in accordance with the Investment procedure.

3.3.2.1. Non-disclosure agreement (NDA) and data processing agreement (DPA)

Signing of an NDA or DPA requested by the seller requires approval from Legal director as well as Portfolio director.

3.3.2.2. Valuation

Valuations shall be managed by the Portfolio director, following the discounted cash flow method based on net cash flows including all local cost items and tax. The applied discount rate shall maximize Axactor's expected long-term return on equity by optimizing the portfolio return and the probability of winning each portfolio. It shall as a minimum be equal to Axactor's weighted average cost of capital as calculated by Group, adjusted for portfolio specific risks as applicable.

The elements of the valuation shall be accurately estimated and the basis for the valuation shall be the probability-weighted best estimate. All available and relevant data shall be used in the analysis, including data received from the seller for the specific investment opportunity, other seller data available in Axactor, and benchmark data from other portfolios. All relevant estimation techniques shall be considered in the process.

3.3.2.3. Due Diligence (DD)

A DD shall be performed to verify the integrity of the data and test the quality of the underlying claims and debtors to ensure any assumptions used in the Axactor valuation model are aligned with the quality of the portfolio. All areas indicated in the Group Due Diligence template shall be

covered with primary focus on the topics involving the highest risk, such as credit policy and pre-collection processes.

As part of the DD process, the Portfolio director shall ensure that a documented KYC process has been performed prior to any decision on a portfolio acquisition.

Any external advisory/transaction cost that will incur despite the evaluation process being unsuccessful must be approved in advance by the relevant authority level in accordance with the Delegation of authority policy.

3.3.2.3.1. Secured portfolios

Evaluation of Secured portfolios also require updated appraisal values to establish the expected sale price for each asset acting as collateral against a claim that is going to be acquired. The seller’s appraisal values shall not be relied upon for any purposes, except for insignificant parts of the portfolio and only as highly indicative.

A significant part of the portfolio shall be appraised by external providers and using Drive by Valuation or Formal Valuation methods. At least two external providers shall be used and there shall be sufficient overlap between the appraisal providers and between Desktop and Drive by / Formal Valuations to assess the uncertainty in the appraisals.

3.3.2.4. Sales and Purchase Agreement (SPA)

The sale and purchase agreement (“SPA”) (*interchangeably referred to as receivables purchase agreement (“RPA”) is an integral part of the investment process, and the document in which the business understanding between the parties for the sale and purchase of the portfolio of claims are memorialized.*

The SPA should allocate risk, secure necessary information and remedies, and set out the consequences to each party if things go wrong. Where possible, Axactor’s standard agreements should be used. Where the Seller’s standard agreement is used, contractual risks shall be verified against Axactor’s contractual checklist, as further outlined in the Investment procedure.

Legal shall always be consulted in the SPA negotiations and substantive legal risks identified and potential consequences shall be described in the IM presented to the relevant authority level(s) for approval. Any outstanding points in the SPA negotiations at the time of approval of a binding offer shall be highlighted in the IM. Impact of potential deviations and/or omissions shall be evaluated against the Business Case that is being approved. Specific approval shall be obtained before any deviations and/or omissions can be accepted in the final negotiations.

When terms have been agreed with the seller, the SPA shall be signed by someone with the appropriate signatory powers.

The fully executed SPA shall be stored by the legal entity entering the contract in accordance with local legislation and according to the principles set out in the Legal and compliance policy.

3.3.2.5. Investment Memorandum (IM)

The evaluation of a portfolio shall be documented in an IM which shall be reviewed by Group Investment to ensure integrity and accuracy of the underlying data and assumptions. The IM shall be presented to the relevant approval authority level(s) and shall serve as a basis for their approval of a non-binding or binding offer.

The IM shall be prepared using the data made accessible by the seller under the NDA and other information available internally or from external sources. The IM shall include at least; executive summary, pricing summary, valuation summary, OPEX analysis, portfolio stats, legal considerations, operational considerations, and DD findings. The IM template provided by the Group portfolio team shall be used.

3.3.3. Approval

Approval of non-binding and binding offers shall be conducted according to the Delegation of authority policy and the Investment procedure.

3.4. Post-acquisition

3.4.1. Onboarding

Acquired portfolios shall be onboarded in accordance with the Portfolio handover procedure and relevant information from the Business Case and acquisition process shall be shared with the involved teams in a handover meeting. The handover meeting shall include participants from Sales, Portfolio, Finance, Legal and Operations to ensure that the operational activities support the assumptions leading to the acquisition. The participants in the handover meeting shall sign off on which information has been shared and received during the handover meeting.

3.4.2. Monitoring and reporting

Performance of acquired portfolios shall be monitored continuously by the Portfolio director and the Group portfolio team. Appropriate actions shall be taken to mitigate risks and low performance.

Revaluation testing shall be conducted quarterly on portfolio level according to the Revaluation testing procedure, using performance over the last 6 months to select portfolios for testing. Portfolios shall be selected for testing if they have a deviation of more than 10% (up or down) from the current active forecast, and an absolute deviation of more than EUR 100,000. Each Portfolio director shall prepare a report covering their selected portfolios including recommended curve adjustments. This report shall be presented to the Chief Investment Officer, CFO and CEO for quality assurance, and a summary shall be submitted to the Board Investment Committee (BIC) for approval. The BIC report shall also include a high-level performance analysis.

3.4.2.1. Authorities of discounts and collection settlements

Collection settlements (discounts) on NPL portfolios are authorized according to the Delegation of authority policy. Specific authorities are outlined in the Authorities of discounts and collection settlements procedure.

3.4.2.2. Sale of repossessed assets

The sale of repossessed assets (or assets from a REO portfolio) shall be managed by the local team but is subject to the authority mandate for discounting the expected sales prices provided by the Authorities of discounts and collection settlements procedure. In addition, if there are significant changes related to legal, financial, reputational and environmental risks associated with any assets, the local team shall raise this with both the group Chief Investment Officer and the group Chief of Staff.

3.4.3. Risk assessment

The Portfolio director and Legal director shall conduct a regular risk assessment of the market from a micro and macro perspective, including implemented, planned and potential regulation changes, and evaluate and implement necessary mitigations to reduce the risks.

4. Compliance

Axactor shall conduct its debt purchasing business in compliance with all relevant legislation, good business practice principles, guidelines from supervisory authorities and industry standards.

To ensure compliance with these requirements, Axactor shall provide adequate and sufficient training to its employees, have in place efficient routines and practices to stay updated on relevant regulatory developments, and ensure that its processes and operational procedures are updated. This shall further be verified through frequent internal controls, risk assessments, and internal audits, as described in the Legal and compliance policy.

4.1. GDPR

Axactor shall process personal data in accordance with the relevant data protection regulation, and in accordance with the Data protection policy and the Investment procedure.

As a main rule, Axactor is a data controller for processing activities related to debt purchasing.

4.2. AML

Anti-money laundering and terror financing legislation (AML) apply for most purchases of debt portfolios. Each legal entity purchasing debt must consequently have sufficient documented routines in place for “Know-your-counterparty” (KYC) and monitoring of the monetary receivables. Axactor shall have in place general routines and procedures for AML. However, as the legislation

is differently implemented in each country, the AML procedure must be adapted to local needs and rules.

Where the seller of the portfolio is an entity covered by specific AML requirements, the SPA shall include a clause whereas the seller warrants its compliance to the AML requirements and where necessary will keep sufficient documentation of its KYC checks and similar documentation available to Axactor for a period equal to the legal requirement, normally 5 years, enabling Axactor to fulfil its legal obligations in this respect.

4.3. Valuables handled in the debt purchasing process

It is strictly forbidden for all Axactor employees and Axactor representatives involved in debt purchasing process, under any circumstances, to retain valuables as part of the debt purchase process. This means that Axactor employees cannot acquire items offered or being part of a portfolio to be or potentially be possessed by Axactor.

4.4. Sustainability

ESG shall be part of the investment selection criteria and included in the Due Diligence material before investing. Axactor shall seek to invest in portfolios from companies with a strong sustainability focus and conscious environmental approach, and refrain from investing in companies that are in violation of the principles outlined in Axactor's CSR policy and Axactor's Supplier code of conduct.

5. Supporting documents

- Delegation of authority policy
- Legal and compliance policy
- Operations policy
- Axactor's supplier code of conduct
- Data protection policy
- Authorities of discounts and collection settlements
- Revaluation testing procedure
- Investment procedure
- Deal sourcing procedure
- Portfolio handover procedure

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