ARC RATINGS, S.A.
2022 TRANSPARENCY REPORT

March 2023

As required in Part III, Section E of Annex I to Regulation (EC) No. 1060/2009 of the European Parliament and of the Council, of 16 September 2009 (Regulation), ARC Ratings, S.A (ARC Ratings)' Board of Directors hereby discloses ARC Ratings' 2021 Transparency Report.

1) LEGAL STRUCTURE AND OWNERSHIP OF ARC RATINGS, S.A.

ARC Ratings, S.A. results from the redenomination on October 7, 2013 of Companhia Portuguesa de Rating, S.A. (CPR), a company formed in 1988 as a public limited company.

ARC Ratings, S.A's sole shareholder is ARC Ratings Holdings Limited. A list of shareholders owning more than 5% of ARC Ratings Holdings Limited's share capital is as follows:

- Enigma Investment Holdings Limited (68%)
- ARC Manco Limited (15%)
- Kunal Naik (10%)
- CARE Ratings Limited (6%)

2) DESCRIPTION OF THE INTERNAL CONTROL MECHANISMS INTENDED TO ENSURE THE QUALITY OF THE RISK RATING ACTIVITIES

GOVERNANCE AND ADMINISTRATION BOARD

ARC Ratings, S.A's. Board of Directors are responsible for setting the standards, processes and structures necessary for implementing internal controls across ARC Ratings. The governance structure ensures that ARC Ratings' credit rating activities are conducted in compliance with the CRA Regulation, applicable laws and ARC Ratings Manual of Organisation and Code of Conduct.

The Board incorporates three Independent Non-Executive Directors, who are responsible for monitoring the compliance of ARC Ratings' internal controls and functions in line with CRA regulation, overseeing the development of new and reviewed methodologies, conflicts of interest and credit rating activities.

INTERNAL REVIEW FUNCTION

The Internal Review Function in accordance with Point 9 Annex I of the Regulation, and is "responsible for periodically reviewing its methodologies, models and key rating assumptions, such as mathematical or correlation assumptions, and any significant changes or modifications thereto as well as the appropriateness of those methodologies, models and key rating assumptions where they are used or intended to be used for the assessment of new financial instruments".

INTERNAL RATINGS AUDITOR

The Internal Ratings Auditor (IRA) is independent from both ARC Ratings analytical ratings and commercial departments. The Internal Ratings Auditor works alongside the compliance department, but is focused on the technical ratings aspects (as opposed to the compliance department's focus on regulatory aspects).

The role of the Internal Ratings Auditor is to provide the Board with independent feedback regarding whether the technical quality of ARC Rating's ratings analysis is in line with best international practice. The IRA chairs the Internal Review Committee (IRC) who approves the proposals of the review or new methodologies, models and key rating assumptions that are used in the credit rating process and presents this to the Board Criteria Review Committee (BCRC).

THE BOARD CRITERIA REVIEW COMMITTEE

The Board Criteria Review Committee integrates the Independent Directors from all ARC Ratings' subsidiaries, ARC Ratings' Internal Ratings Auditor and Head of Methodologies, who together will have the responsibility for the final sign-off of any new or reviewed ARC Ratings methodologies.

The Board Criteria Review Committee aims to ensure the independence of the approval of ARC Rating's methodologies from any commercial interest of the Group and, at the same time, ensure that the same methodologies are applied consistently in all ARC Ratings' subsidiaries.

Methodology Review Process

ARC Ratings' Head of Methodology delivers an annual methodology calendar at the start of the year, which is presented to the Board Criteria Review Committee for review.

The development of new criteria and review/adjustments of methodologies is carried out under the supervision of the Board Criteria Review Committee, with the support of the Internal Review Committee which follows the procedures as set out within the ARC Ratings' Manual of Organisation and Code of Conduct.

ARC Ratings' criteria are publicly available on the ARC Ratings website. ARC conducts an annual review of all criteria.

Compliance

The Compliance Department's main role is to ensure that ARC Ratings' comply with all the regulatory demands of the jurisdiction where it is based. It provides training for all staff on any new and existing regulatory updates, as well as ARC Ratings' Manual of Organisation and Code of Conduct, so as to ensure adherence to the written policies and procedures.

The Compliance Department supervises the current activity of ARC Ratings' in all its various aspects, through the implementation of a "Compliance Work Plan" which enables the monitoring of analytical process, reporting of breaches, monitoring adherence to all other internal policies and where necessary updating upon regulatory changes.

Compliance will oversee that all endorsed ratings are compliant with the ARC Ratings' internal processes and procedures.

Conflicts of Interest

ARC Ratings, S.A. has strong internal policies in place to eliminate conflicts of interest. Inter alia, each year all staff members sign Declaration of Interests forms, whereby compliance holds a centralised list and will cross reference to new and existing transactions. All staff adhere to the rules set out within the Code of Conduct, ARC Ratings' Independence and the avoidance of Conflicts of Interest.

Risk Management and Reporting

It is the responsibility of the Internal Risk Committee to report on risk strategy, including the oversight of current risk exposures within ARC Ratings', to understand, question and measure the full spectrum of risks faced (be they operational, methodological, reputational or financial) and put timely action plans in place to eliminate or manage such risks as and when they occur, as well as to create an effective risk management framework and also embed a risk-focused culture across the whole of the organisation. All risks are reported to the Board.

Credit Rating Process

ARC Ratings' credit rating activities are conducted in compliance with the CRA Regulation and applicable laws. They follow the procedures set out within the ARC Ratings' Manual of Organisation and Code of Conduct, whereby rules are defined on the rating panel composition, approval processes and the level of documentation required to conduct a credit rating.

ARC Ratings Code of Conduct

ARC Ratings' Code of Conduct reflects the measures, procedures and guiding principles followed by ARC Ratings' subsidiaries that assign credit ratings under the brand name "ARC Ratings".

This Code of Conduct applies to ARC Ratings', to all employees, and to all persons and entities that provide services to ARC Ratings and which, by reason of that provision of services, may have access to confidential information held by ARC Ratings, S.A..

The Code of Conduct reflects the Code of Conduct Fundamentals for Credit Rating Agencies issued in December 2004 by the International Organisation of Securities Commissions (IOSCO) and its subsequent reviews, and the requirements of Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (Regulation 1060/2009), amended by Regulation (EU) No. 513/2011 of the European Parliament and of the Council, of 11 May, and Regulation (EU) No. 462/2013 of the European Parliament and of the Council, of 21 May.

The ARC Ratings' Manual of Organisation and Code of Conduct is reviewed at least annually and whenever significant changes occur which impact on the rating process and will amend to incorporate regulation amendments.

All ARC Ratings' employees sign an attestation to confirm adherence to the ARC Ratings' Manual of Organisation and Code of Conduct.

3) STATISTICS ON STAFF ALLOCATION TO NEW CREDIT RATINGS, CREDIT RATING REVIEWS, METHODOLOGY OR MODEL APPRAISAL AND MANAGEMENT

In 2022 ARC Ratings, S.A. had on average seventeen employees at its service, with all staff being hired on a permanent basis ("open-ended employment contracts"). Four were in management/commercial positions, three in compliance, eight in rating analyst positions, one in methodology development and review and the remaining one in support/secretariat functions.

Given its small staff structure, in 2022 ARC Ratings, S.A. did not allocate different staff members to new risk ratings and to reviews of existing risk ratings, in accordance with the exemption granted by the European Securities and Markets Authority (ESMA) under Article 7 (4) of its Regulation.

4) DESCRIPTION OF THE RECORD KEEPING POLICY

With regard to the record keeping and confidential information policy implemented at ARC Ratings, S.A., in 2022 all employees followed the principles set out below, which are included in ARC Ratings' Manual of Organisation and are either established or arise from ARC Ratings' Code of Conduct:

- To maintain records of the elements indicated below for at least five years after the maturity of the financial commitment being rated or after the date when the rating ceased to be valid (withdrawn), whichever comes first, and for a further period of three years if ARC Ratings' registration has been revoked:
  - the records documenting the methodologies and procedures used by ARC Ratings to assign each rating;
  - the internal records and files, including confidential information, work papers, and draft reports for discussion (confidential), used as the basis for the assignment of each rating;
  - copies of the internal and external communications, including electronic communications, received and sent by ARC Ratings and employees in connection to rating activities;
- To take all measures to ensure that the confidential information made available to ARC Ratings' by the entities whose financial commitments are being rated as well as information related to the rating processes is adequately kept and cannot be used unduly or in a fraudulent manner;
- To disclose confidential information concerning credit ratings or changes in these ratings only to the entities whose corresponding commitments were rated;
- not to disclose the names of the entities whose financial commitments are at any given time being rated by ARC Ratings', except if publicly available;
- not to share ARC Ratings' subsidiary confidential information with employees of companies under a group relationship with ARC Ratings' subsidiary, and only share this information among themselves to the extent necessary for the assignment of ratings.

For all entities whose financial commitments are rated by ARC Ratings, S.A., confidentiality is guaranteed through Confidentiality Agreements signed within ARC Ratings' employees "Employment Contracts". Employees are bound to maintain strict and permanent confidentiality under the law about any information to which he/she may have access in the course of their activity with regard to any company, and shall not use such information to their own advantage or that of others. For external rating members, ARC Ratings' receives written commitments for all external network collaborators. This is in accordance with the terms and procedures established in ARC Ratings' Manual of Organisation and Code of Conduct.

5) OUTCOME OF THE ANNUAL INTERNAL REVIEW OF THE INDEPENDENT COMPLIANCE FUNCTION

The Compliance Function within ARC Ratings, S.A. is independent and reports to the Independent Non-Executive Directors of the Board (INEDs).

The compliance function monitors adherence to compliance by ARC Ratings, S.A. and its employees to regulatory requirements, policies and procedures governing the issuance of credit ratings set out within the ARC Ratings' Manual and Code of Conduct and in line with regulatory requirements.

ARC Ratings, S.A. has an ever present Compliance culture and carries out regular monitoring and surveillance of credit rating activities, identifying risks and potential non-compliance. All potential non-compliance, issues raised during the reporting period followed ARC Ratings' internal reporting structure and where necessary adhoc reporting was provided to regulators.

ARC Ratings' operates within two jurisdictions ARC Ratings, S.A. covering EU operations and ARC Ratings (UK) Limited covering UK operations. ARC Ratings' operating structure (with certain functions operating across both jurisdictions) share the global ARC Ratings' Manual and Code of Conduct, whereby our internal processes are mirrored in each jurisdiction and to the CRA Regulation, which have minimal jurisdictional variation to both policies and controls.

Compliance conduct a yearly review of the global ARC Ratings' Manual and Code of Conduct which incorporates regulatory change and updates to enhance internal working processes, all changes are reported to employees. All employees provide confirmation to the Compliance Department of their understanding and adherence to the ARC Ratings' Manual of Organisation and Code of Conduct and update their Declarations of Interests annually or as circumstances change. The Compliance Function delivers Compliance and Code of Conduct Training for all new hires and provide regular updates through group training or one to one as required.

During 2022, ARC Ratings' implemented a Ratings Administration tool tracking the credit rating processes from notice to commence to close of transaction, enabling greater oversight for ARC and Compliance on all credit rating processes enabling greater efficiency for monitoring and auditing.

Compliance meet with ARC Ratings' Independent Non-Executive Directors (INIEDs), at regular intervals throughout 2022, reporting on control functions, workplans and advising on changes to CRA regulation and made the necessary amendments to policies, as and when required. An overview of segregation of duties was conducted in Q3 2022 to enhance internal process around conflict of interest.

Internal Ratings Auditor works with key functions across ARC and reports at regular intervals with the INEDs, advising on key topics of internal processes, workplans and credit rating activities, implementing remedial action where necessary to enhance process and policy. Focus areas in 2022:

- Methodology validation
- Error reporting
- Update of new Panel memo papers and checklist

The Compliance Department monitors the endorsed ratings from each subsidiary to ensure consistency with rating processes as part of the annual Workplan, with the assistance of the Internal Ratings Auditor.

6) MANAGEMENT AND ANALYST ROTATION POLICY

ARC Ratings, S.A. meets the conditions foreseen in Article 6 (3) of the Regulations the agency, during the registration process as a Credit Rating Agency (CRA) with the Committee of European Securities Regulators (CESR)/ESMA, requested exemption from the requirements established in Article 7 (4) of the Regulation concerning the rotation or risk rating analysts. This exemption was granted by ESMA in the registration obtained on 26 August 2011. Therefore, this point was not applicable in 2022.

Concerning the management of ARC Ratings, S.A. credit risk rating analysts in 2022 see point 3) above.

7) FINANCIAL INFORMATION ON THE REVENUE OF ARC RATINGS, S.A., DIVIDED INTO FEES FROM CREDIT RATING AND NONCREDIT RATING SERVICES AND OTHER ACTIVITIES

For the financial year ended 31 December 2022, ARC Ratings, S.A. turnover was €1.43m, all in respect of credit rating / credit assessment activities. The breakdown of turnover is reflected in the table below:

2022 Revenue Split - ARC Ratings, S.A.	
By Region	
EU	79%
Other	21%
By Activity	
Rating Activities	100%
Ancillary services	0%

8) GOVERNANCE STATEMENT WITHIN THE MEANING OF ARTICLE 46-A OF COUNCIL DIRECTIVE 78/660/EEC OF 25 JULY, CONCERNING THE ANNUAL ACCOUNTS

ARC Ratings S.A. is governed by Portuguese Law and the Articles of Association. None of the Company's shares confer special control rights and there are no restrictions to voting rights. The auditor for ARC Ratings, S.A during 2022 was Moore Stephens.

ARC Ratings S.A. Board meetings are held on a quarterly basis and the composition of the Board in 2022 was as follows:

- Mr Olivier Beroud, Independent Non-Executive Director and Chairman, who was appointed onto the Board of Directors on 21 January 2019;
- Mr Lindon Neil, Independent Non-Executive Director, who was appointed onto the Board of Directors on 3 June 2019;
- Mr Andrew Cunningham, Independent Non-Executive Director, who was appointed to the Board of Directors 1 June 2022:
- Mr José Poças Esteves, Non-Executive Director, who was appointed onto the Board of Directors on 21 December 2004;
- Mr David Charles Peter King, Executive Director, who was appointed onto the Board of Directors on 29 July 2015; and
- Mr Oliver Howard, Executive Director, who was appointed onto the Board of Directors on 31 March 2021.

The Board members shall be elected at a General Meeting for a mandate of three years (taking into consideration the specific limitations of the Independent Directors, as stated below).

The Chairman and the Chief Executive Officer shall be elected by majority of the Board's members.

The Independent members of the Board of Directors Terms of Engagement shall be governed by and subject to all the terms and conditions specified in applicable regulations, including Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (Regulation 1060/2009), amended by Regulation (EU) No. 513/2011 of the European Parliament and of the Council, of 11 May, and Regulation (EU) No. 462/2013 of the European Parliament and of the Council, of 21 May.

Other than in the cases foreseen in the law or as required by the interests of the company, the Board of Directors shall meet at least on a quarterly basis.

The quorum for the Board meetings shall only be valid provided that a majority of its members attend the meeting.

Resolutions are passed by absolute majority of the votes.

Directors may confer powers to another Director to act/represent him/her during his/her absence, which shall be presented in a written form and addressed to the Chairman of the Board.

Resolutions signed in writing by the requisite quorum of Directors shall be valid and effectual as if passed at a meeting of Directors.

ARC Ratings' shall be legally bound:

a) by the signature of 2 (two) members of the Board of Directors; or

b) by the signature of a single member of the Board of Directors to whom the powers for so doing have been formally delegated; or

c) by the signature of appointed proxies, acting alone or jointly, subject to the scope and in accordance with the terms of the corresponding mandate.

Ordinary acts involved in the day-to-day running of the company shall require only the signature of one member of the Board of Directors or the signature of one appointed proxy, subject to the scope and in accordance with the terms of the corresponding mandate.

Directors shall treat all information and documentation obtained with the necessary discretion and, in the case of classified information, with the appropriate secrecy. Confidential information shall not be disclosed outside the Board, made public or otherwise made available to third parties, even after resignation from the Board.

The responsibility of the Board, among others:

- governing the organisation by establishing broad policies and setting out strategic objectives and guidelines and overseeing its implementation;
- accounting to shareholders and other relevant stakeholders for the Company's performance;
- the development, review and final sign-off of the credit rating methodologies, through the Board Criteria Review Committee;
- the effectiveness of the internal quality control system of the credit rating agency in relation to credit rating activities;
- the effectiveness of measures and procedures instituted to ensure that any conflicts of interest are identified, eliminated or managed and disclosed; and
- the compliance and governance processes, including the efficiency of the Internal Review Function.

The skill set of the Independent Non-Executive Directors provides sufficient expertise in financial services and governance and risk and have in-depth knowledge and experience at a senior level of the markets in structured finance instruments.

DISCLAIMERS

ARC Ratings, S.A. is registered as a Credit Rating Agency with the European Securities and Markets Authority (ESMA), within the scope of the Regulation (EC) Nº 1060/2009 of the European Parliament and of the Council, of 16 September, and recognised as an External Credit Assessment Institution (ECAI).

ARC Ratings (UK) Limited is registered as a Credit Rating Agency with the United Kingdom Financial Conduct Authority, within the scope of the Statutory Instrument Nº 266/2019, of 13 February, and recognised as an ECAI.

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