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ARC RATINGS (UK) LIMITED 2023 TRANSPARENCY REPORT

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DISCLAIMERS

As required in Part III, Section E of Annex I to Statutory Instrument N° 266/2019, of 13 February 2019 (The Credit Rating Agencies (Amendment, etc.) (EU Exit) Regulations 2019), ARC Ratings (UK) Limited (ARC Ratings)' Board of Directors hereby discloses ARC Ratings' 2023 Transparency Report.

This report covers the period of 1st January 2023 to 31st December 2023.

I. LEGAL STRUCTURE AND OWNERSHIP OF ARC RATINGS (UK) LIMITED

ARC Ratings (UK) Limited'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 (70.3%)
- ARC Manco Limited (14.7%)
- Kunal Naik (10.1%)

Holdings of other shareholders (below 5%) totalled 4.9%

II. DESCRIPTION OF THE INTERNAL CONTROL MECHANISMS INTENDED TO ENSURE THE QUALITY OF THE RISK RATING ACTIVITIES

GOVERNANCE AND ADMINISTRATION BOARD

ARC Ratings (UK) Limited's Board of Directors is 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 CRA Regulations, applicable laws, ARC Ratings' Manual of Organisation and ARC Ratings' Code of Conduct.

The Board, which includes Independent Non-Executive Directors, is responsible for monitoring the compliance of ARC Ratings' internal controls and functions in line with CRA regulation.

INTERNAL RATINGS AUDITOR

The Internal Ratings Auditor (IRA) is independent from both the ARC Ratings' Analytical Department and the ARC Ratings Commercial Department. 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 and Management with independent feedback regarding whether the technical quality of ARC Ratings rating's analysis is in line with best international standards. In 2023, the IRA chaired the Internal Review Committee (IRC), which approved the proposals for all new or existing methodologies, models and key rating assumptions that are used in the credit rating process. These were also presented to the Board Criteria Review Committee (BCRC).

THE BOARD CRITERIA REVIEW COMMITTEE

The Board Criteria Review Committee (BCRC) includes the Independent Directors from all ARC Ratings' subsidiaries, ARC Ratings' Internal Ratings Auditor and ARC Ratings' Head of Methodology. The BCRC has oversight responsibility for all new and existing ARC Ratings' methodologies.

In 2023, the Board Criteria Review Committee aimed to ensure the independence of the approval of ARC Rating's methodologies from any commercial interest of the Group and, at the same time, ensured that the same methodologies were 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 during the year under the supervision of the Board Criteria Review Committee, with the support of the Internal Review Committee, which follows the procedures 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 methodologies.

The Methodology Department takes on an Internal Review Function, in accordance with Point 9 Annex I of the Regulation, as it 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".

COMPLIANCE

The Compliance Department's main role is to ensure that ARC Ratings complies with all the regulatory and legal requirements of the jurisdiction where it operates. 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 (UK) Limited 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, ensuring ARC Ratings' Independence and the avoidance of Conflicts of Interest.

RISK MANAGEMENT AND REPORTING

It is the responsibility of the ARC Ratings Internal Risk Committee to report on risk strategy, including the oversight of current and anticipated risk exposures within ARC Ratings', and to understand, question and measure the full spectrum of risks faced, be they operational, methodological, reputational or financial. In addition, the ARC Ratings Risk Committee is responsible to monitor the execution of timely action plans to eliminate or manage such risks as and when they occur, as well as to create an effective risk management framework with the aim of embedding a risk-focused culture across the whole of the organisation. The plan and execution is also 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 (UK) Limited.

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 Statutory Instrument 2019/266 – The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 made on 13 of February by HM Treasury.

The ARC Ratings' Manual of Organisation and Code of Conduct are reviewed at least annually and whenever significant changes occur which impact on the rating process and will be amended 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.

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

In 2023, ARC Ratings (UK) Limited had on average twenty-one employees at its service with all staff being hired on a permanent basis ("open-ended employment contracts"). Six were in management/commercial positions, two in compliance, eleven in rating analyst positions, one in methodology development and review and the remaining one in support/secretariat functions.

IV. DESCRIPTION OF THE RECORD KEEPING POLICY

With regard to the record keeping and confidential information policy implemented at ARC Ratings (UK) Limited, in 2023 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 (UK) Limited, confidentiality is guaranteed through Confidentiality Agreements signed within ARC Ratings' employee "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.

V. OUTCOME OF THE ANNUAL INTERNAL REVIEW OF THE INDEPENDENT COMPLIANCE FUNCTION

The Compliance Function within ARC Ratings (UK) Limited is independent and reports its findings to the ARC Ratings Board of Directors, which also includes the Independent Non-Executive Directors (INEDs).

The Compliance Function monitors adherence to compliance by ARC Ratings (UK) Limited and its employees to regulatory requirements, policies and procedures governing the issuance of credit ratings set out within the ARC Ratings' Manual of Organisation and Code of Conduct and in line with regulatory requirements.

ARC Ratings (UK) Limited 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 ad hoc 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 of Organisation and Code of Conduct. This alignment ensures that our internal processes are mirrored in each jurisdiction and adhere to the CRA Regulation, with minimal variation in policies and controls.

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.

Compliance met with ARC Ratings' Independent Non-Executive Directors at regular intervals throughout 2023, reporting on control functions, compliance workplan and advising on changes to CRA regulation and made the necessary amendments to policies and procedures, as and when required. In addition, the Internal Ratings Auditor also met alongside Compliance 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 2023 included (with further details on each in section below):

- ARC Ratings Manual of Organisation and Attestations
- IT and Cyber Safeguards
- Application Error Protocol
- Enhanced Onboarding and Training
- Private Ratings Disclosures
- Rating Administration Tool

During 2023, the ARC Ratings Compliance team at ARC Ratings diligently conducted a comprehensive review of the global ARC Ratings' Manual and Code of Conduct (Manual). This review aimed to incorporate regulatory changes and updates, enhancing internal working processes.

The proposed changes were reviewed by the Risk Committee and were subsequently approved by the ARC Ratings Board of Directors by the end of December 2023 and came into force January 2024. To ensure alignment with the revised manual, all staff members received training on the amendments. This proactive approach ensures that ARC maintains high standards of compliance and governance.

Annually, all employees comply with manual attestations. These attestations confirm their oversight and understanding of ARC's internal processes and procedures. Additionally, employees complete a Declaration of Interest, providing information to manage any potential conflicts of interest.

During 2023, ARC Ratings also reviewed its internal and external IT and specifically Cyber safeguards, ensuring robust protection against cyber threats. As part of this initiative, ARC Ratings implemented enhanced Information Technology processes. Moreover, comprehensive training sessions were conducted for all staff, emphasising the critical importance of maintaining vigilance in safeguarding our systems and data from potential cyber risks. The ARC Ratings Compliance team reviewed this enhanced process.

During 2023, ARC Ratings updated its Application Error Protocol and further outlined a step-by-step process to be followed when an error is identified. The implementation of this protocol was reviewed by ARC Ratings Compliance department, and all staff members received training on its execution following its approval.

ARC Ratings also enhanced its onboarding and training process for all new staff members. New employees gained insights into the organisation's operations, compliance requirements, and best practices. ARC Compliance Department reviewed the process and believes it empowers staff with the knowledge needed to contribute effectively and align with the company's values and standards.

In line with new regulations on Private ratings that would enter into force in 2024, ARC Ratings Compliance Department conducted a thorough review of the process for disseminating Private Ratings. This critical evaluation aimed to enhance the efficiency and effectiveness of the disclosure process and resulted in a series of enhancements to the process in line with industry best standards. These enhancements that are expected to begin in 2024, will ensure that private rating information is communicated seamlessly and securely to relevant stakeholders, maintaining transparency and compliance with regulatory requirements.

ARC Ratings Compliance Department also conducted a review on the Ratings Administration tool used by analysts. As a result of the review, additional refinements were included to improve the rating administration workflow to ensures that Compliance and the Analytical teams have a holistic overview for auditing transactions and creating comprehensive management reports as well as allowing analytical staff to input information more efficiently throughout the rating process.

VI. MANAGEMENT AND ANALYST ROTATION POLICY

Given its size, ARC Ratings (UK) Limited was granted an exemption from the FCA as per Article 7 (4) of the Regulation concerning the rotation of rating analysts.

Concerning the management structure of ARC Ratings (UK) Limited's credit risk rating analysts in 2023, please see point 3) above.

VII. FINANCIAL INFORMATION ON THE REVENUE OF ARC RATINGS (UK) LIMITED, DIVIDED INTO FEES FROM CREDIT RATING AND NON CREDIT RATING SERVICES AND OTHER ACTIVITIES

For the financial year ended 31 December 2023, ARC Ratings (UK) Limited's turnover was £2.29m, all in respect of credit rating and credit assessment activities. The breakdown of turnover is reflected in the table below:

2023 Revenue Split - ARC Ratings (UK) Limited	
By Region	
UK	70%
Other	30%
By Activity	
Rating Activities	100%
Ancillary Services	0%

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

ARC Ratings (UK) Limited is governed by English 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 (UK) Limited during 2023 was Moore Stephens.

ARC Ratings (UK) Limited's Board meetings are held on a quarterly basis, and the composition of the Board in 2023 was as follows:

- Mr Olivier Beroud, Independent Non-Executive Director and Chair, who was appointed onto the Board of Directors on 1 February 2019, resigned 16 June 2023;
- Mr Lindon Neil, Independent Non-Executive Director, who was appointed onto the Board of Directors on 10 March 2019;
- Mr Andrew Cunningham, Independent Non-Executive Director, who was appointed to the Board of Directors on 1 June 2022, appointed Chair of the Board 16 June 2023:
- Ms Anne Le Hénaff, Independent Non-Executive Director, who was appointed to the Board of Directors 1 July 2023.
- Mr David King, Executive Director, who was appointed onto the Board of Directors on 20 February 2012; and
- Mr Oliver Howard, Executive Director, who was appointed onto the Board of Directors on 11 March 2021.

The Board members shall be elected at a General Meeting for a mandate of a minimum of three years and a maximum of five years. 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 Statutory Instrument 2019/266 – The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 made on 13 of February by HM Treasury.

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

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 Chair 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;
- selecting, appointing, supporting and reviewing the performance of the CEO and any other Executive Directors;
- terminating the appointment of CEO or any other Executive Director;
- setting the salaries, compensation and benefits of senior management;
- approving the annual budget;
- choosing the auditor;
- accounting to shareholders and other relevant stakeholders for the subsidiary's performance.

In addition to these broader responsibilities, it shall also be part of the Board of Directors' responsibilities:

- to approve ARC Ratings' Code of Conduct;
- to approve the Manual of Organisation and Procedures;
- to verify compliance with the principles set out in ARC Ratings' Code of Conduct;
- to take all reasonable steps to satisfy itself that the organisation is compliant with relevant regulatory and legal obligations;
- to maintain contacts with market participants and the public in general about any questions, concerns, complaints or relevant information regarding ARC Ratings' activity.

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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