



THE STS VERIFICATION PROCESS
– THE STRUCTURED PATH TO
YOUR SUCCESS.

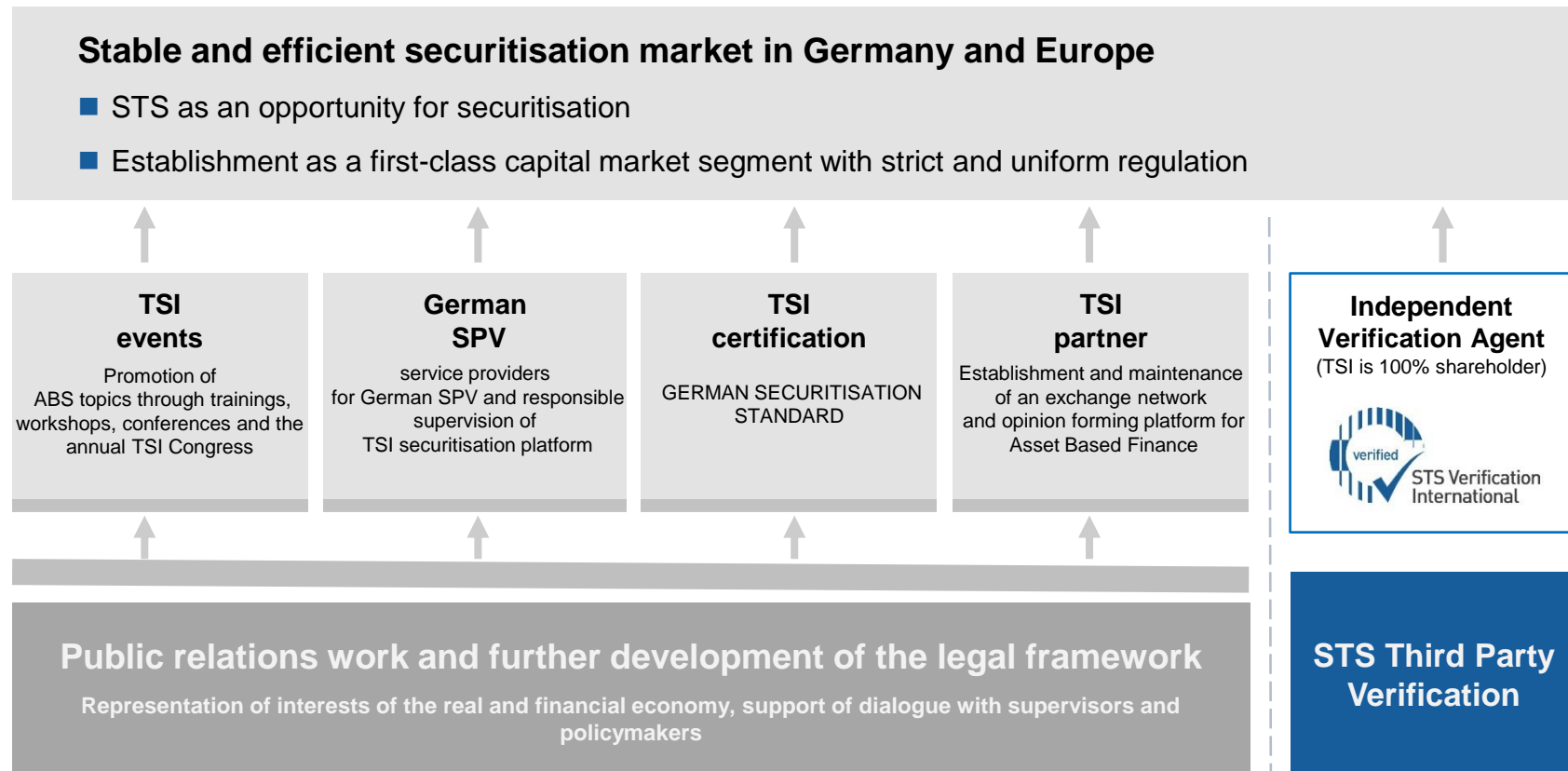
Introduction to SVI and STS Verification

STS Verification International GmbH ("SVI")

January 2022



SVI AS INDEPENDENT PART OF TSI*



*True Sale International GmbH, www.true-sale-international.de

OVERVIEW OF SVI

- **Mission:** As part of TSI Group, the mission of SVI is to contribute to a well developed, high quality and sustainable securitisation market in Europe through the provision of neutral and objective verification of STS criteria for securitisation transactions
- **Authorization and ongoing Supervision:** SVI has been authorized by the competent authority pursuant to Article 29 of the Securitisation Regulation (BaFin) to act as third-party verifier pursuant to Art. 28 of the Securitisation Regulation; this includes the on-going supervision of its activities.
- **Transaction Types & Asset Classes:** SVI covers the transaction types non-ABCP (=Term ABS), ABCP and synthetic on-balance-sheet securitisations involving all asset classes that are potentially eligible for STS; it also provides certain (CRR/LCR/Article 270) assessments building upon STS
- **Geographies:** All countries of the EU
- **Know-how:** Legal and economic know-how and long-standing expertise of SVI staff and its outsourcing partners assure an accurate, efficient and transparent verification process

SVI TRACK RECORD

- Since its authorization as third-party verifier in March 2019, SVI had verified more than 100 transactions across the various transaction types, asset classes and jurisdictions
- SVI has verified transactions in the transaction types “non-ABCP securitisations” (both public and private deals) and “ABCP securitisations” (transaction-level) and provides CRR/LCR assessments
- SVI has completed the verification of several synthetic on-balance sheet securitisations under the amended Securitisation Regulation that became effective in April 2021

■ **Asset classes** verified by SVI include the following:

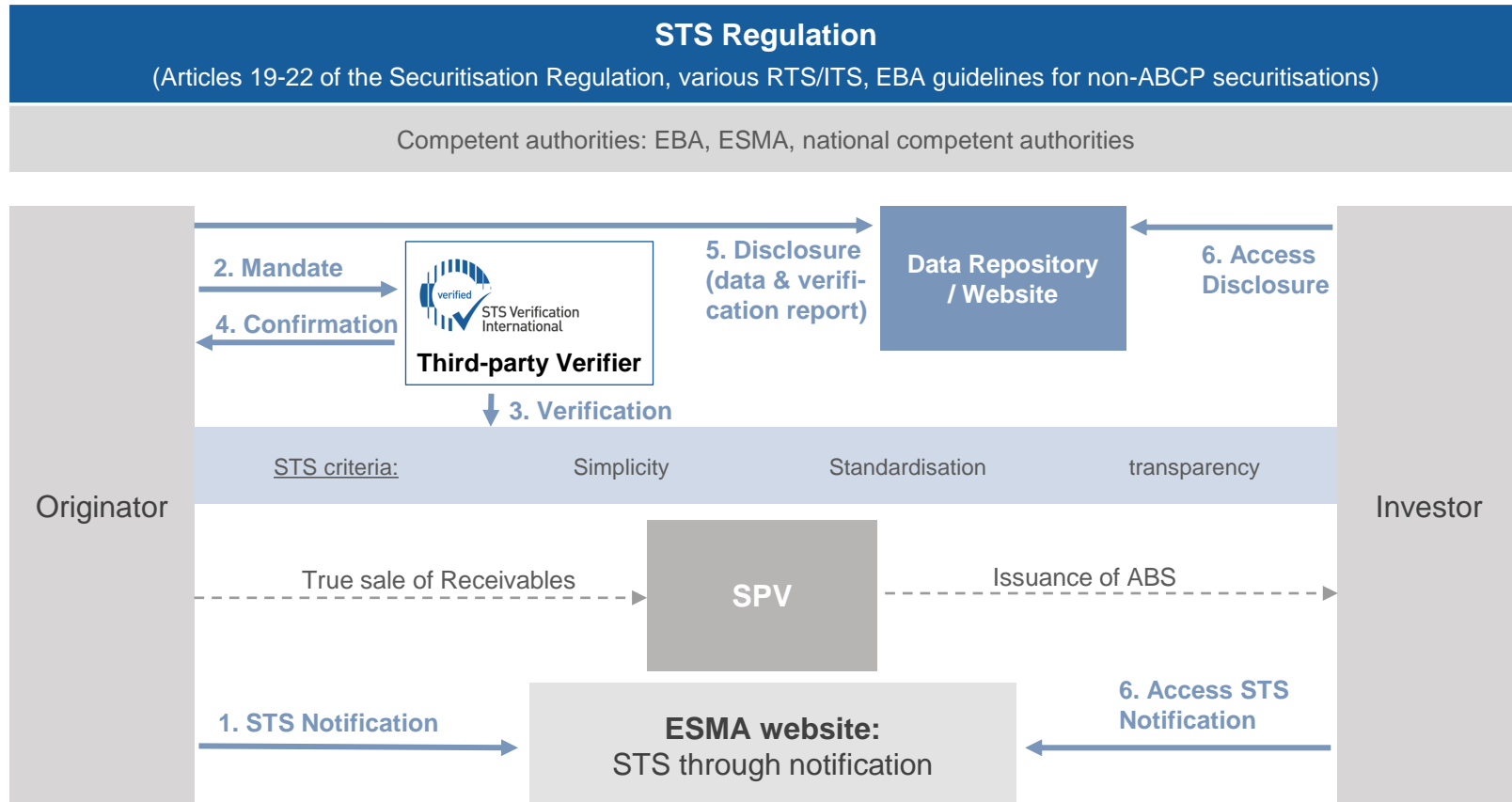
- Residential mortgages
- Auto loans & leases (including residual values)
- Equipment leases
- Dealer floorplan receivables
- Trade receivables
- Consumer loans
- Credit card receivables
- Corporate/SME loans

■ **Jurisdictions** where SVI has verified transactions include the following:

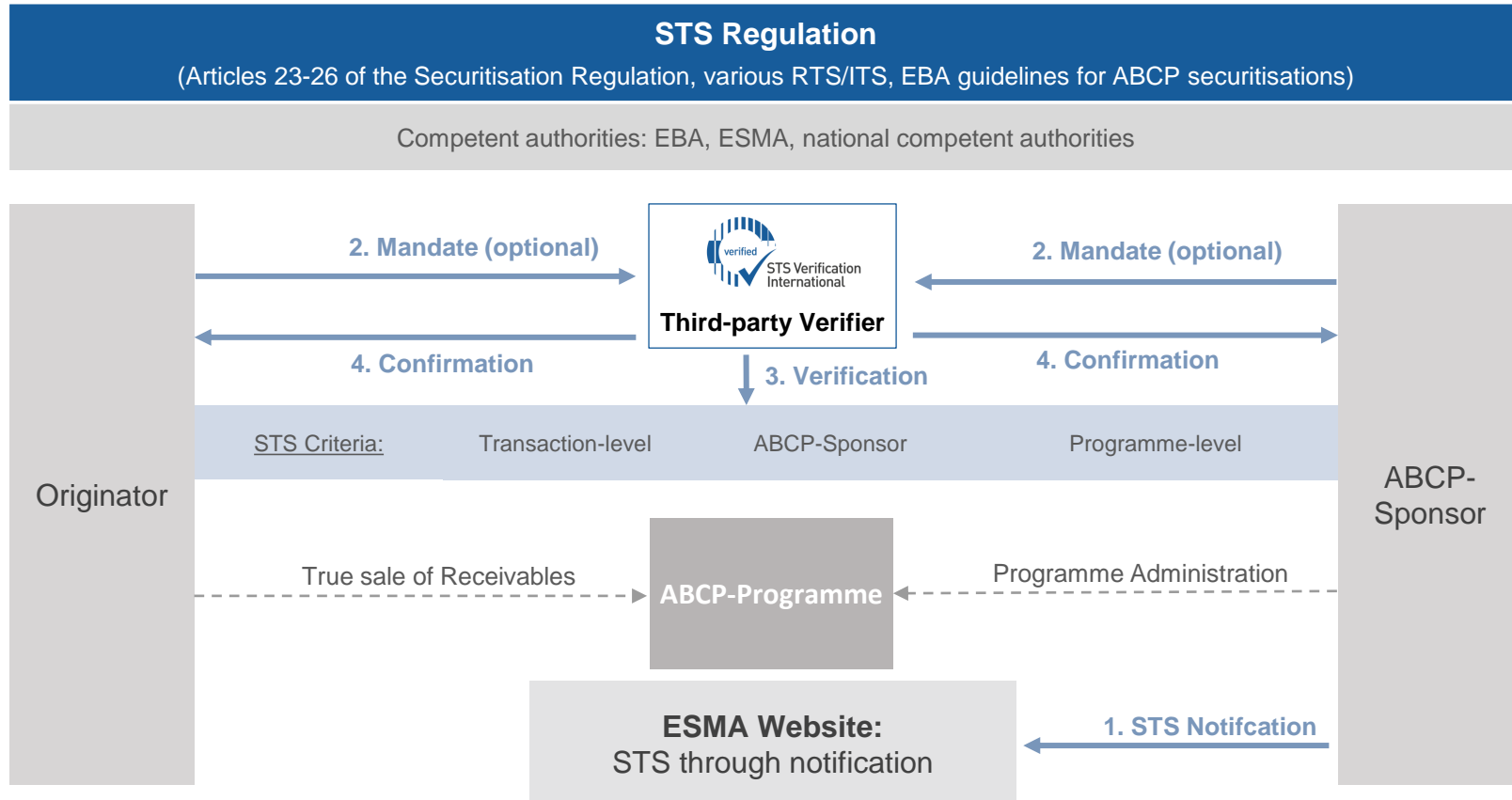
- | | | | |
|-----------|---|-------------------|---|
| ➤ Austria |  | ➤ Netherlands |  |
| ➤ Belgium |  | ➤ Poland |  |
| ➤ France |  | ➤ Portugal |  |
| ➤ Germany |  | ➤ Spain |  |
| ➤ Greece |  | ➤ UK |  |
| ➤ Ireland |  | ➤ US |  |
| ➤ Italy |  | ➤ International*) |  |

*) “International” includes also mixed portfolios with receivables from the Czech Republic, Luxembourg, Slovakia and Sweden.

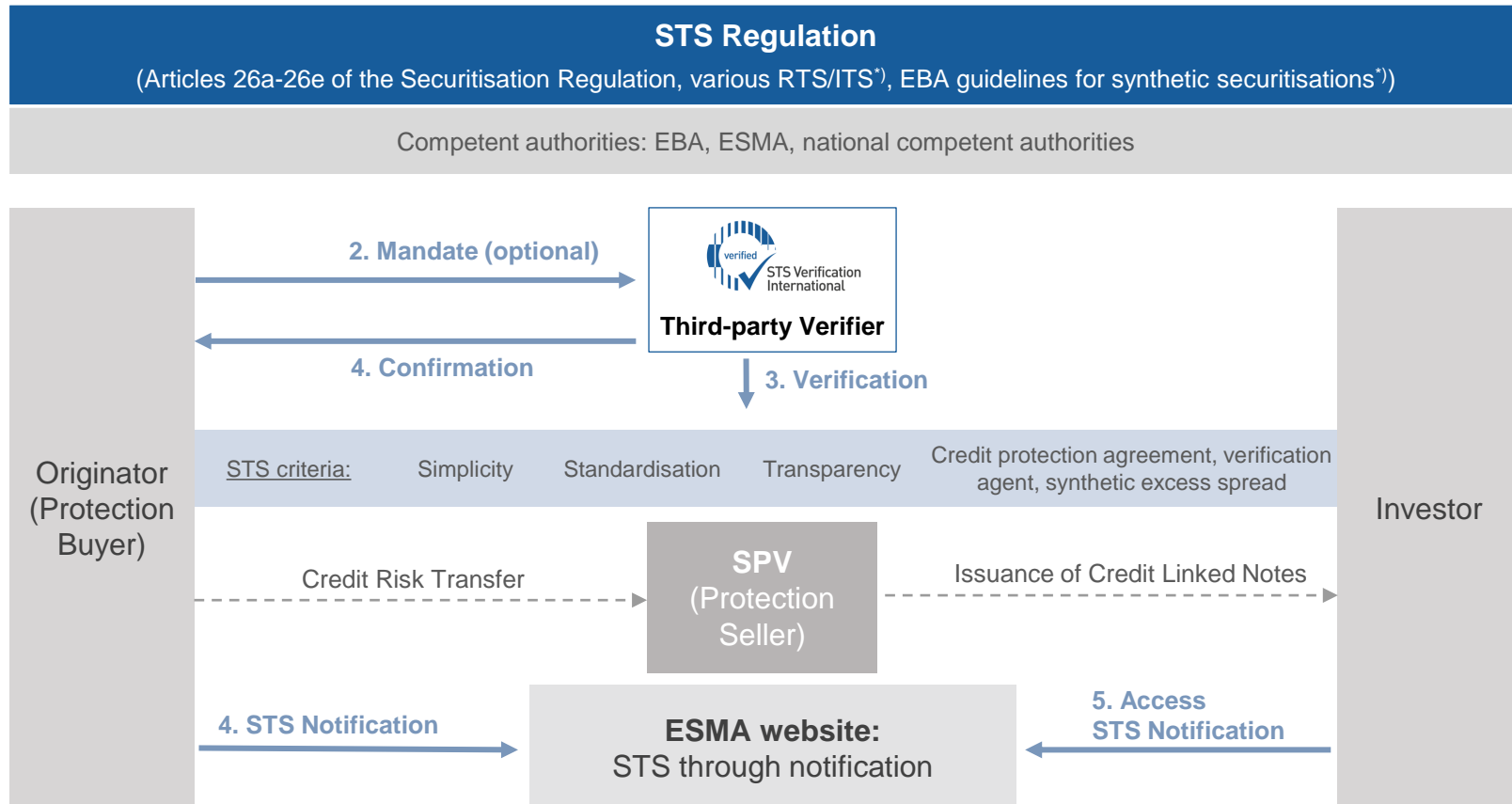
STS VERIFICATION AS PART OF THE ABS PROCESS (NON-ABCP SECURITISATIONS)



STS VERIFICATION AS PART OF THE ABCP PROCESS (ABCP SECURITISATIONS)



STS VERIFICATION AS PART OF THE ABS PROCESS (SYNTHETIC ON-BALANCE SHEET SECURITISATIONS)



^{*)} Currently in preparation or requested to be prepared

VERIFICATION METHODS AND THEIR APPLICATION FOR THE TRANSACTION

Verification methods: How are individual criteria checked?

- a) **Regulatory:** Including referenced regulations with recognised supervisory mechanisms (in particular banking supervisory aspects)
- b) **Legal:** Existence of contractual obligations according to transaction documentation
- c) **Due Diligence:** Written evidence based on data and tables, internal manuals and work instructions, written documents of due diligence presentations or verbal explanation by management or responsible specialist departments in the context of due diligence presentations by the originator or expert interviews
- d) **Data:** Verification on the basis of full data (e.g. performance history), verification on the basis of samples

Requirement



Compliance with
Requirement

Scope of verification for a specific transaction: Transaction Verification Catalogue

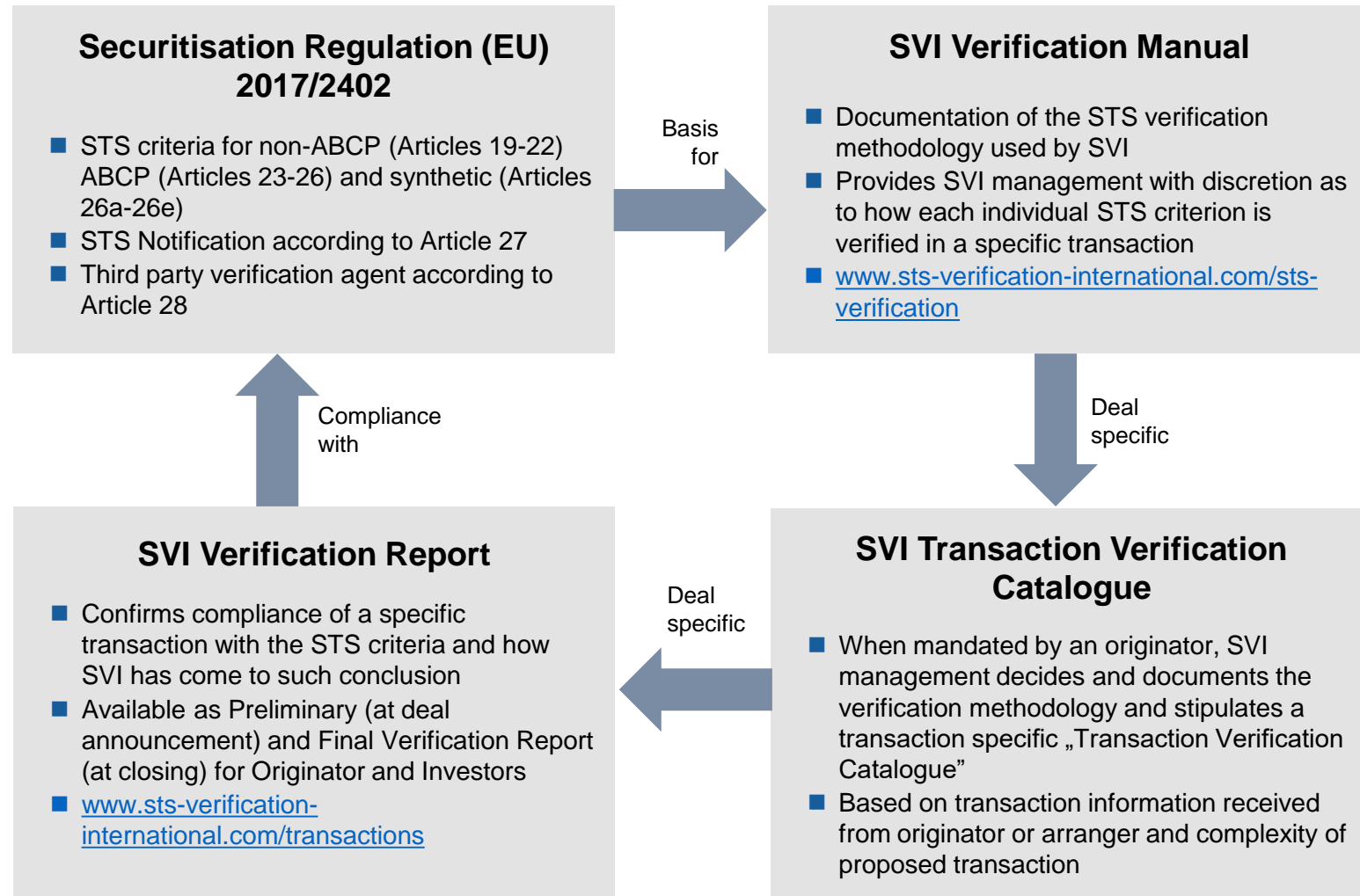
- Basis: Transaction information received from originator or arranger
- Experience from previous transactions from same originator or similar transactions (structure, jurisdiction, asset class) from other originators
- Complexity of proposed transaction

Verification Manual



Transaction Verification
Catalogue

FROM SECURITISATION REGULATION TO VERIFICATION REPORT



OVERVIEW OF THE CONTENTS OF THE STS VERIFICATION PROCESS

originator	portfolio	transactional parties	transactional structure		transparency
Regulatory framework	Eligibility criteria	Clear definition of responsibilities	Sale only to professional investors	Appropriate hedging of interest rate and currency risk	Provision of data to potential investors
Experience	Exclusion criteria	Experience	5% Retention	Clear description of the waterfall	Provision of all data in a repository
	Exclusion of "Originate to Distribute"	Arrangements for replacement of parties	No Re-Securitisations	No withholding of funds in the event of insolvency	Examination of STS-Notification
	Homogeneity		True sale	Presence of appropriate triggers	Investor Report Structure
	Enforcement of sale of receivables in case of insolvency		No active portfolio management	Description of Servicing Standards	Provision of insider and other important events
	Legal validity of contracts		Timely transfer	Replacement Counterparties	Provision of cash flow model
	Assignability		No predominant dependence on portfolio sales	Clear conflict resolution regulations	Provision of environmental data



For details of the STS Criteria for non-ABCP, ABCP and synthetic securitisations and the verification steps & methods applied by SVI, please refer to the SVI Verification Manual posted on SVI's website: www.sts-verification-international.com/sts-verification

STP FOR SYNTHETIC ON-BALANCE-SHEET SECURITISATIONS

Comparison between the STP Criteria for synthetic on-balance-sheet securitisations and the STP Criteria for non-ABCP traditional securitisations

DELETED STP CRITERIA

- Art. 20 (1) – (5): True sale criteria
- Art. 20 (13): repayment of the securitisation positions not predominantly dependent on the sale of assets securing the underlying exposures
- Art. 21 (9): Clear terms for defaulted receivables and priority of payments

NEW STP CRITERIA

- Art. 26b (1) – (2): Originator requirements and origination of underlying exposures
- Art. 26b (3): On-balance-sheet holding of the underlying exposures by the originator or a group entity
- Art. 26b (4): No further credit hedging of the portfolio
- Art. 26b (5): Compliance with credit risk mitigation rules of the CRR
- Art. 26c (9): Reference register
- Art. 26e (1): Credit events
- Art. 26e (2): Credit protection payment
- Art. 26e (3): Credit protection agreement (extension period for workout, credit protection premiums)
- Art. 26e (4): Third-party verification agent
- Art. 26e (5), (6): Transaction termination provisions (originator, investors)
- Art. 26e (7): Synthetic excess spread
- Art. 26e (8) – (10): Type of credit protection agreements, collateral requirements

STS FOR SYNTHETIC ON-BALANCE-SHEET SECURITISATIONS

Comparison between the STS Criteria for synthetic on-balance-sheet securitisations and the STS Criteria for non-ABCP traditional securitisations (continued)

(VIRTUALLY) UNCHANGED STS CRITERIA

- Art. 26b (8): Homogeneity, defined payment streams, no transferable securities
- Art. 26b (9): No securitisation positions
- Art. 26b (10): Underwriting standards, originator experience
- Art. 26b (11): No defaulted exposures or exposures to credit-impaired debtors
- Art. 26b (12): At least 1 payment made by debtor
- Art. 26c (1): Risk retention
- Art. 26c (2): Appropriate hedging of interest rate and currency risks
- Art. 26c (8): Experience of the servicer
- Art. 26c (10): Clear rules in the event of conflicts between noteholders
- Art. 26d (1): Historical performance data
- Art. 26d (2): Asset audit
- Art. 26d (3): Liability cashflow model
- Art. 26d (4): Environmental performance data on the financed assets or information on adverse impacts of the financed assets on sustainability factors
- Art. 26d (5): Disclosure requirements (Art. 7)

(SLIGHTLY) AMENDED STS CRITERIA

- Art. 26b (6): Reps & warranties of the originator on the underlying exposures
- Art. 26b (7): Eligibility criteria, no active portfolio management
- Art. 26c (3): Generally used reference rates for interest payments
- Art. 26c (4): Requirements in the event of an enforcement
- Art. 26c (5): Pro-rata vs. sequential amortization and triggers
- Art. 26c (6): Early amortisation provisions/triggers for termination of the revolving phase
- Art. 26c (7): Clear rules in the Transaction documentation on obligations of key transaction parties

ADDED VALUE OF THE THIRD-PARTY VERIFICATION

Added Value for **Originators**:

- During the preparation phase, the third-party verifier acts as first point of contact for questions and coordinated approach to the competent supervisory authorities
- Appropriate interpretation and consistent application of STS criteria (incl. RTS/ITS and guidelines) during the structuring phase
- These advantages also apply on an on-going basis during the life of the transactions (consistent implementation, contact with the competent supervisory authority, reduction of liability risks)

Added Value for **Investors**:

- Contribution to the uniform interpretation and application of the STS criteria throughout Europe
- Promoting confidence in the legally compliant application of the new Securitisation Regulation in general and the STS criteria in particular
- Facilitates risk analysis and portfolio management

Added Value for **Regulators**:

- Third party verification agents, as regulated independent bodies, can have interpretation discussions for the whole market on a basis of trust
- Risk of regulatory fragmentation undermining the European benchmark status of STS
- Due to their cross-border and cross-asset class work and expertise, third party verification agents can identify inconsistencies and address them e.g. through Q&A

INDICATIVE TIMELINE OF AN STS VERIFICATION

- t = 0 Discussion of the transaction to be verified with the originator and arranging bank (as applicable) and receipt of initial transaction information by SVI
- t + 5 Preparation and forwarding of mandate agreement from SVI to the originator
- t + 7 Countersigning of mandate agreement by originator
- t + 8 Circulation of Transaction verification catalogue by SVI to the originator
- t + 10 Receipt of draft transaction documentation and performance data by SVI
- t + 12 Start of verification analysis by SVI
- t + 15 Operations review at originator ('due diligence') or alternatively video/audio call with participants
- t + 25 Circulation of (advanced) draft verification report by SVI to the key transaction parties
- t + 30 (= Announcement) Preliminary verification report provided by SVI
- t + 50 (= Closing) Final verification report provided by SVI

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