

New Issue: Dilosk RMBS No.6 (STS) DAC

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Related Criteria

Related Research

New Issue: Dilosk RMBS No.6 (STS) DAC

Ratings Detail

Ratings							
Class	Rating*	Amount (mil. €)	Credit enhancement (%)§	Interest	Step-up margin	Step-up date	Legal final maturity
A	AAA (sf)	471.056	11.76	3m EURIBOR plus 0.87%	3m EURIBOR plus 1.31%	October 2026	July 2061
B-Dfrd	AA (sf)	25.211	7.01	3m EURIBOR plus 1.75%	3m EURIBOR plus 2.63%	October 2026	July 2061
C-Dfrd	AA- (sf)	14.596	4.26	3m EURIBOR plus 2.50%	3m EURIBOR plus 3.50%	October 2026	July 2061
D-Dfrd	BBB (sf)	7.961	2.76	3m EURIBOR plus 4.00%	3m EURIBOR plus 5.00%	October 2026	July 2061
E-Dfrd	BB+ (sf)	2.653	2.26	3m EURIBOR plus 6.00%	3m EURIBOR plus 7.00%	October 2026	July 2061
X-Dfrd	B (sf)	3.980	N/A	3m EURIBOR plus 8.75%	N/A	N/A	July 2061
Z1	NR	9.291	N/A	8.00%	N/A	N/A	July 2061
Z2	NR	7.431	N/A	8.00%	N/A	N/A	July 2061
R	NR	0.00	N/A	Class R note interest amount	N/A	N/A	July 2061

*Our ratings address timely receipt of interest and ultimate repayment of principal on the class A notes, the timely receipt of interest when they become most senior outstanding and ultimate repayment of principal on the class B-Dfrd notes, and the ultimate payment of interest and principal on all the other rated notes. §Credit enhancement is calculated using note subordination and the general reserve fund. 3m EURIBOR--Three-month Euro Interbank Offered Rate. NR--Not rated. N/A--Not applicable.

Overview

- Dilosk RMBS No.6 (STS) DAC is an Irish RMBS transaction that securitizes a portfolio of prime owner-occupied mortgage loans secured over residential properties in Ireland.
- The portfolio is a combination of loans originated by Dilosk DAC a nonbank specialist lender, under its ICS Mortgages brand over the last two years, and loans from the Dilosk RMBS No. 1 Ltd. transaction, which were also originated under the ICS Mortgage brand.
- While Dilosk was established in 2013, it has only been originating (buy-to-let) BTL mortgages since 2017 and owner-occupied mortgages since late 2019, and thus historical performance data is limited.
- All of the pool comprises of prime owner-occupied loans.
- The collateral comprises prime borrowers. Most of the loans (97%) from Dilosk No. 1 RMBS were originated between 2001 and 2014. The newly originated loans in the portfolio were originated between 2020 and 2022 and thus under the Irish Central Bank's mortgage lending rules limiting leverage (through loan-to-value [LTV] ratio limits) and debt burden (through loan-to-income ratio limits).
- The transaction benefits from liquidity provided by a non-amortizing general reserve fund, and, in the case of the class A notes, the class A liquidity reserve fund.

- Principal can be used to pay senior fees and interest on the notes subject to various conditions.
- The transaction incorporates a swap to hedge the mismatch between the notes, which pay a coupon based on the three-month Euro Interbank Offered Rate (EURIBOR), and certain loans, which pay fixed-rate interest before reversion.
- At closing, the issuer used the issuance proceeds to purchase the beneficial interest in the mortgage loans from the seller. The issuer grants security over all its assets in favor of the security trustee.
- There are no rating constraints in the transaction under our counterparty, operational risk, or structured finance sovereign risk criteria.
- We expect inflation to continue to be high in Ireland in the near term. Although high inflation is overall credit negative for all borrowers, inevitably some borrowers will be more negatively affected than others and to the extent that inflationary pressures materialize more quickly or more severely than currently expected, risks may emerge. Borrowers in this transaction are largely paying a fixed rate of interest until 2026- 2027. As a result, in the short to medium term, borrowers are protected from rate rises, but will be affected by cost of living pressures. We consider the borrowers in the transaction to be prime and, as such, will generally be resilient to inflationary pressure. Based on our most recent macroeconomic forecasts, we have also maintained our mortgage market outlook for Ireland to reflect uncertain economic conditions and increased credit risk. These continue to affect our 'B' foreclosure frequency assumptions for the archetypal pool (see "Residential Mortgage Market Outlooks Maintained For 15 European Jurisdictions Following Revised Economic Forecasts," published on April 28, 2022). We have also performed sensitivities related to higher levels of defaults in our cash flow analysis and the assigned ratings remain robust to these sensitivities.

The Credit Story

The Credit Story	
Strengths	Concerns and mitigating factors
We consider the pool of loans to be prime. The majority of the loans (88.3%) have been originated from 2021 onward and therefore in accordance with the Irish Central Bank's mortgage lending rules limiting leverage (through LTV ratio limits) and debt burden (through loan-to-income ratio limits).	Although established in 2013, Dilosk has only been originating BTL mortgages since 2017 and owner-occupied mortgages since late 2019. Therefore, the availability of historical performance data for the owner-occupied assets is limited. We have considered this factor in our analysis through an appropriate originator adjustment, and we used proxy data from comparable lenders in the Irish market to supplement our analysis.
In its role as delegate servicer, servicing is carried out by BCMGlobal, which has a well-established presence in Ireland. We consider BCMGlobal to be adequate in its transaction role given its experience of servicing residential mortgages.	There is limited seasoning within the portfolio and so we only give seasoning benefit to 11% of the portfolio. This is in line with our RMBS criteria, which stipulate that loans seasoned for more than two years receive seasoning benefit.
The weighted-average current LTV ratio is 62.0%, which is low in the context of Irish RMBS transactions. This is driven by the proportion of Dilosk No. 1 RMBS assets, which have a high weighted-average seasoning and the benefit of significant loan amortization to date.	The transaction contains a high proportion of first-time buyers (47.7%). First-time buyers have historically shown a higher propensity to default than other borrowers. We have incorporated this using a first-time buyer penalty in our weighted-average foreclosure frequency (WAFF) assumptions.

The Credit Story (cont.)

Strengths	Concerns and mitigating factors
The seller provides appropriate representations and warranties in the mortgage sale agreement, which we consider to be in line with the market standard for an Irish RMBS transaction.	Borrowers currently pay collections into collection accounts held at BNP Paribas S.A., Dublin Branch. If the collection account holder were to become insolvent, mortgage collection amounts in the collection account may become part of its bankruptcy estate. To mitigate this risk, collections are transferred at least twice weekly into the issuer's bank account, and a declaration of trust is in place for the collection accounts. Also, there is downgrade language in place for the bank account provider to ensure replacement in line with our current counterparty criteria. Nevertheless, we have accounted for commingling risk in our cash flow analysis by applying a one-month liquidity stress of principal and interest collections.
The transaction benefits from a class A liquidity reserve fund and a general reserve fund providing liquidity coverage and credit enhancement.	
The structure incorporates an arrears provisioning mechanism rather than being linked solely to the loans' loss status. We consider this more positive for the transaction than the latter, given that any excess spread is trapped as soon as the loan is in arrears rather than waiting until the recovery process is completed. We have considered this feature in our cash flow analysis.	
The notes pay down sequentially. Credit enhancement can therefore build up over time for the rated notes, enabling the capital structure to withstand performance shocks.	
Following the step-up date, a turbo feature directs excess spread to repay the rated notes sequentially.	

Environmental, Social, And Governance (ESG) Factors

Our rating analysis considers a transaction's potential exposure to ESG credit factors. This transaction is in line with our ESG sector benchmark as it consists of a static pool of prime quality, fully amortizing mortgages, originated by a regulated financial institution to individuals with no or low adverse credit history for the purchase of owner-occupied properties. Furthermore, the pool is diversified by obligor and geography, and all the mortgage loans are not delinquent when sold to the issuer. For RMBS, we view the exposure to environmental credit factors as average, social credit factors as above average, and governance credit factors as below average (see "ESG Industry Report Card: Residential Mortgage-Backed Securities," published on March 31, 2021).

In our view, the exposure to environmental credit factors is in line with the sector benchmark. Physical climate risks could severely damage properties and reduce their value, impacting recoveries if borrowers default. We believe that well-diversified portfolios reduce exposure to extreme weather events.

In our view, the exposure to social credit factors is in line with the sector benchmark. Social credit factors are generally considered above average because housing is viewed as one of the most basic human needs and conduct risk presents a direct social exposure for lenders and servicers, particularly as regulators are increasingly focused on ensuring fair treatment of borrowers. For RMBS, social risk is generally factored into our base case assumptions.

In our view, the exposure to governance credit factors is in line with the sector benchmark. There are very tight restrictions on what activities the special-purpose entity can undertake compared with other entities. Given that this transaction securitizes a static pool after the first interest payment date, the originator's role becomes less active over

the transaction's life, mitigating the risk of loosening underwriting standards or potential adverse selection.

In addition, Dilosk has strong internal control frameworks with significant relevant experience at key stages of the process. Finally, the origination process is subject to regular post-completion scrutiny and checking and oversight.

Collateral And Originator

Dilosk was formed in August 2013, with a view to becoming a nonbank specialist BTL lender in the Irish market. Dilosk launched its BTL origination business in 2017 and owner-occupied origination business in late 2019, and a product specifically targeting public sector employees in early 2020. To date, it has successfully issued two Irish RMBS transactions of legacy loan portfolio purchases and three RMBS transactions of its own originated mortgage portfolios. Dilosk RMBS No.3 DAC, which was its first securitization of its own 100% BTL originations. Dilosk RMBS No.4 DAC and Dilosk RMBS No. 5 DAC, which were securitizations of a combination of BTL and own owner-occupied originations.

As a starting point for the rating analysis of RMBS transactions, we typically seek performance data (e.g., default, delinquency, and recovery/loss severity) spanning a minimum of three years, ideally spanning a period of economic stress that demonstrates performance that is consistent with our expectations of similar assets in the relevant asset class. For Dilosk 6 (STS), we had 40 months of historical performance for the owner-occupied originations, during which time only a very small amount of arrears were recorded. In addition, no defaults were recorded since inception. Therefore, we used alternative analytical considerations during our operational review and credit analysis (see "How Much Is Enough? Information Quality Standards For The EMEA RMBS And ABS Rating Process," published Jan. 8, 2019). Following this analysis, we were satisfied that there was no requirement for a cap on the ratings.

Dilosk's current strategy, through the different products offered, focuses on prime residential borrowers. The loans pay an initial fixed rate (89.7% of the pool), with various rates and terms applied by product type.

Dilosk competes on price, but it does not offer cash-back schemes in line with some other lenders in the market.

Dilosk uses a manual underwriting approach, with all applications reviewed in house. Dilosk's business is primarily originated using a network of mortgage brokers, all of which have been vetted according to their in-house due diligence, and their performance is monitored on an ongoing basis.

All loans originated from 2021 onward were originated in line with the Irish Central Bank's macroprudential mortgage rules, which limit LTV ratios and income multiples.

Affordability assessments are based on the applicant's net income and a full review of expenditure, including total household and minimum living commitment. For all owner-occupier loans, a 2% stress test is included in the affordability checks. Standard income verification and credit bureau checks are carried out.

Dilosk uses a panel of established external valuers. All valuations are full valuations and must be reviewed and signed off by underwriting. Valuers need to complete a detailed Dilosk Valuation Template, which will then be stored in its internal system. This valuation report is comprehensive and covers the property condition, the local market, and

relevant comparable properties.

Overall, we consider the control framework of the origination process appropriate, with the relevant experience at key stages of the process. In addition, the origination process is subject to regular post-completion scrutiny, checking, and oversight.

Servicing

Dilosk is the servicer in this transaction and also holds the legal title to the mortgage loans until a perfection of title event occurs. Dilosk sub-delegates the portfolio's day-to-day servicing to BCMGlobal. S&P Global Ratings' residential loan servicer and residential special servicer rankings on BCMGlobal are ABOVE AVERAGE, and we believe its systems and processes are sufficiently robust to service a residential mortgage book.

Overall, we believe that the underwriting, servicing, and risk management policies and procedures are in line with market standards and adequate to support the ratings assigned to the transaction.

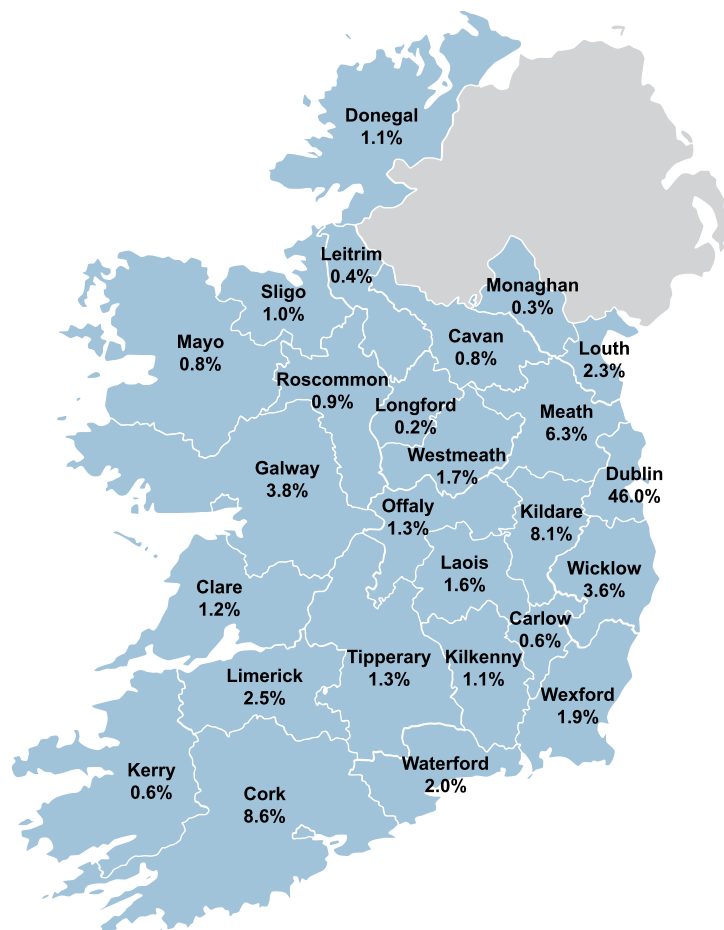
Collateral

We received loan-level data as of March 31, 2023, and historical performance data on the originator book since 2019.

We received a 99/1 pool audit report for this transaction. There were a small number of errors identified in the report relating to the missing valuation reports, incorrect valuation amounts, and valuation dates on the portfolio acquired from Bank of Ireland. We did not apply any additional adjustments to our WAFF assumptions for these findings.

As of the March 31, 2023, pool cutoff date, the pool of €530,734,281.84 comprised 2,707 loans secured on owner-occupied properties located in Ireland (most in Dublin).

Geographical Distribution



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Table 1

Collateral Key Features*	
Dilosk RMBS No.6 (STS) DAC	
Pool cutoff date	March 31, 2023
Jurisdiction	Ireland
Originator	ICS Mortgages DAC
Principal outstanding of the pool (mil. €)	530.73
Number of loans	2,707
Weighted-average interest rate (%)	2.49
Average loan balance (€)	196,065
Weighted-average indexed current LTV ratio (%)	62.0
Weighted-average original LTV ratio (%)	68.4
Weighted-average seasoning (months)	28
Top three regional concentration (by balance)	Dublin (46.0%), Cork (8.6%), and Kildare (8.1%)
Owner-occupied (%)	100.0

Table 1

Collateral Key Features* (cont.)	
First-time buyer loans (%)	47.7
Interest-only and part and part (%)	0.0
Civil servants (%)	32.7
Jumbo valuations (%)	19.7
Weighted-average 'AAA' RMVD (%)	49.6
Current arrears greater than or equal to one month (%)	0.3

*Calculations are according to S&P Global Ratings' methodology. LTV--Loan-to-value. RMVD--Repossession market value declines.

Asset description

The transaction comprises 89% of newly originated loans by Dilosk under its ICS Mortgages brand and 11% of loans from Dilosk RMBS No. 1.

The assets are distributed geographically throughout Ireland and no county exceeds the thresholds defined in our criteria.

All loans in the pool are owner-occupied.

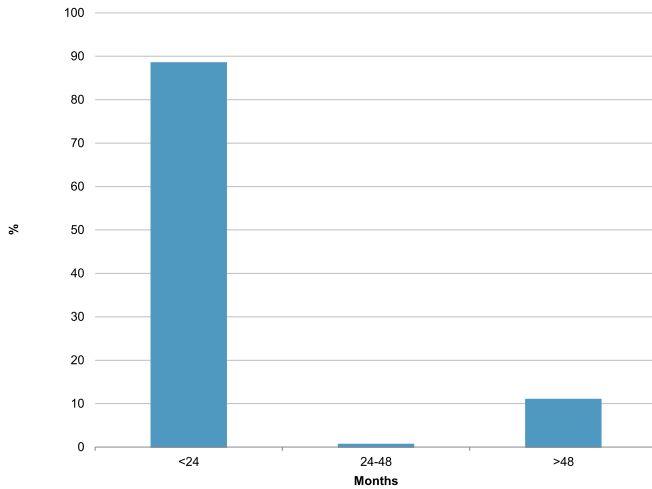
Self-employed borrowers make up 6.6% of the assets in the pool. In addition, 47.7% of the loans are to first-time buyers. We consider that loans to these borrowers are more likely to exhibit a higher historical default probability than otherwise similar loans. We applied a foreclosure frequency adjustment to these loans, in line with our criteria.

A high proportion of fixed-rate loans revert to higher reversionary rates. Therefore, the borrowers who are not able to refinance might be exposed to a payment shock. We have adjusted our foreclosure frequency assumptions accordingly.

Given that the 89% assets are newly originated, there is limited seasoning within the portfolio, and as a result, we only give seasoning benefit to the loans from Dilosk RMBS No. 1 in line with our RMBS criteria.

Chart 1

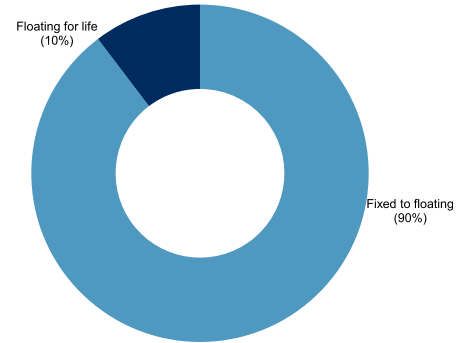
Seasoning Distribution



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Chart 2

Interest Rate Distribution



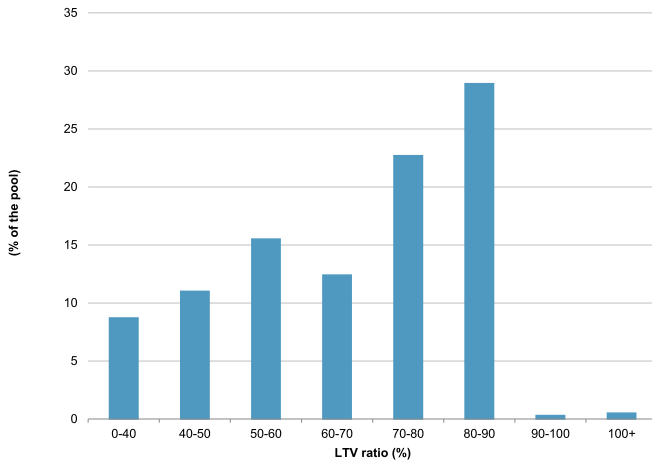
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Approximately 89.7% of the final pool (all consisting of owner-occupier loans) pays interest based on a fixed rate, but all will revert to a floating interest rate. The remaining 10.3% pay a floating interest rate for life.

The weighted-average original LTV ratio of the collateral pool is 68.4% (see chart 3). In our view, a borrower with minimal equity in their property is less likely to be able to refinance and more likely to default on their obligations than borrowers with lower original LTV ratio loans. At the same time, loans that have high current indexed LTV (CLTV) ratios are likely to incur more severe losses if the borrower defaults. The weighted-average CLTV ratio is 62.0%. The CLTV is low in the context of Irish RMBS transactions. This is driven by the proportion of Dilosk No. 1 RMBS assets, which have a high weighted-average seasoning and the benefit of significant loan amortization to date. The LTV ratio calculations are based on our methodology, and none incorporates valuation haircuts as all have undergone a full recent valuation (including remortgages).

Chart 3

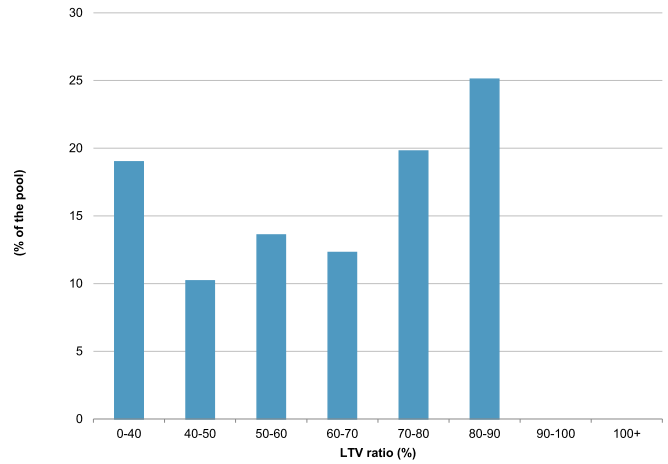
Original LTV Ratio Distribution



LTV--Loan to value.
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Chart 4

Current LTV Ratio Distribution



Note: All the loans in the 90-100% bucket are less than or equal to 91%. LTV--Loan-to-value.
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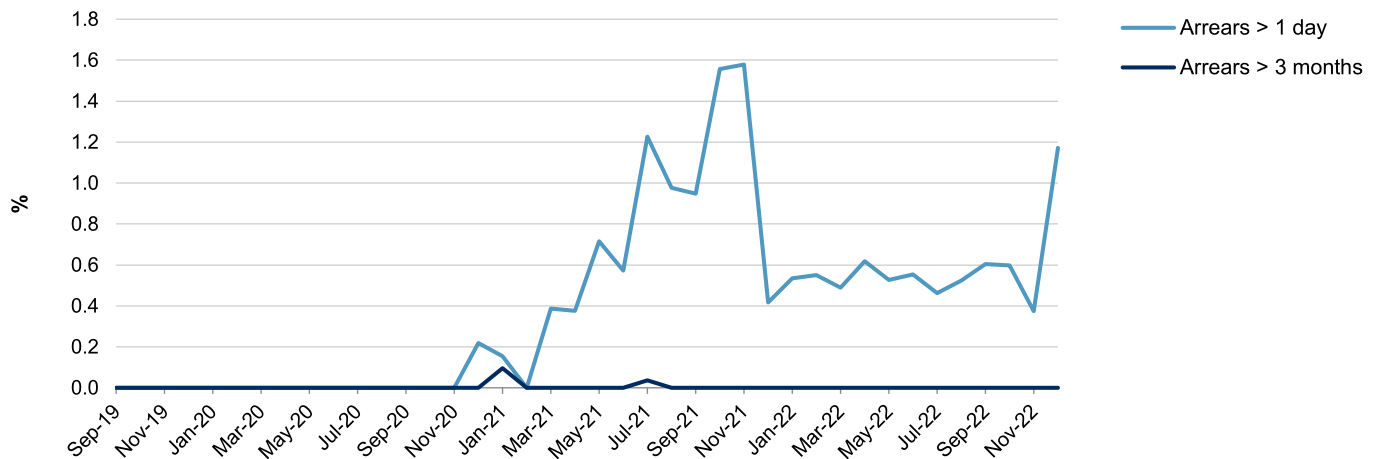
The securitized pool has no excessive borrower concentration when compared with comparable transactions.

Asset performance

There are 13 loans in arrears in the final pool (greater than or equal to one month in arrears). Additionally, we have received the historical performance data on the originator's owner-occupied book. However, the time period this data covers is limited. We have considered this factor in our analysis through an appropriate originator adjustment, and we used proxy data from comparable lenders in the Irish market to supplement our analysis.

Chart 5

Historical Arrears Distribution



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Credit Analysis And Assumptions

We applied our global residential loans criteria to the final pool in order to derive the WAFF and the weighted-average loss severity (WALS) at each rating level (see table 2).

The WAFF and WALS assumptions increase at each rating level because notes with a higher rating should be able to withstand a higher level of mortgage defaults and loss severity. Our credit analysis reflects the characteristics of loans, properties, and associated borrowers.

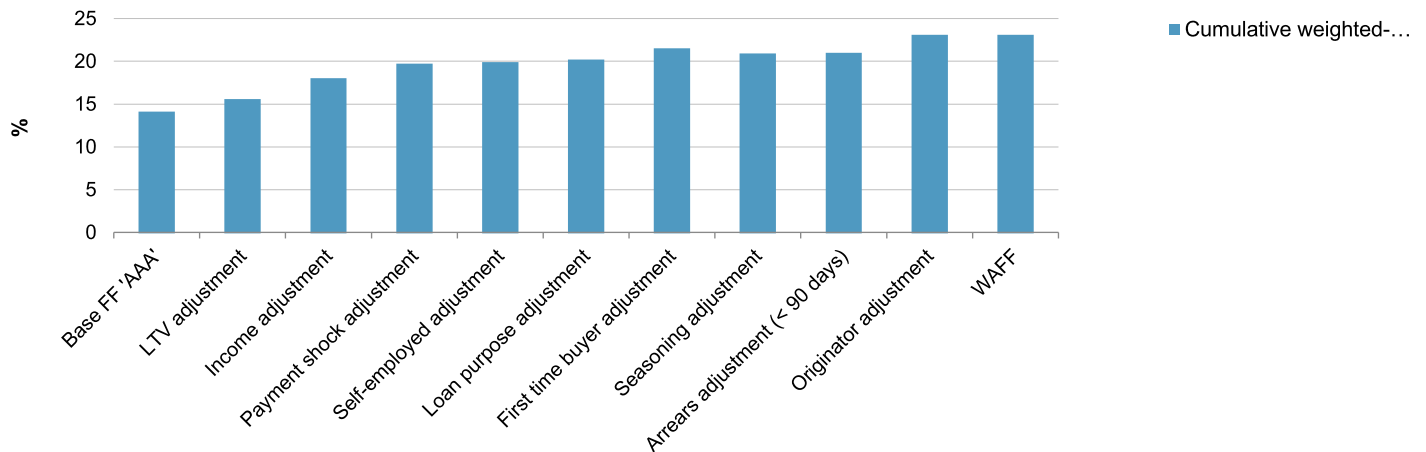
Table 2

Portfolio WAFF And WALS			
Rating level	WAFF (%)	WALS (%)	Credit coverage (%)
AAA	22.97	26.36	6.06
AA	15.42	22.79	3.51
A	11.65	16.40	1.91
BBB	7.71	13.17	1.02
BB	3.94	10.98	0.43
B	3.04	8.98	0.27

WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Chart 6

'AAA' Cumulative WAFF Distribution



FF--Foreclosure frequency. WAFF--Weighted-average foreclosure frequency. LTV--Loan-to-value.

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Macroeconomic And Sector Outlook

We forecast Ireland's underlying domestic economy will grow by 1.2% in 2023. The Irish economy will be only

moderately affected by the repercussions of the Russia-Ukraine war, but will be hit by secondary effects. Soaring energy prices will push headline inflation to about 8.4% in 2022 and 7.0% in 2023, reducing household purchasing power. The tight labor market and excess savings that households accumulated during the pandemic will, however, support consumption. Tighter monetary conditions and inflationary pressures will limit business investments, especially housing, but given the housing shortage in Ireland and still-strong price growth, we expect some momentum to persist. Irish exports--most importantly, pharmaceuticals and information communication technology services--are reasonably non-cyclical and therefore we expect these to hold up despite a general slowdown in global demand. This level of 1.2% growth is still ahead of the 0.0% European-wide forecast, driven by resilient sectors in Ireland in which unemployment is forecasted to remain lower than the European average into the expected credit headwinds of 2023-2024.

Table 3

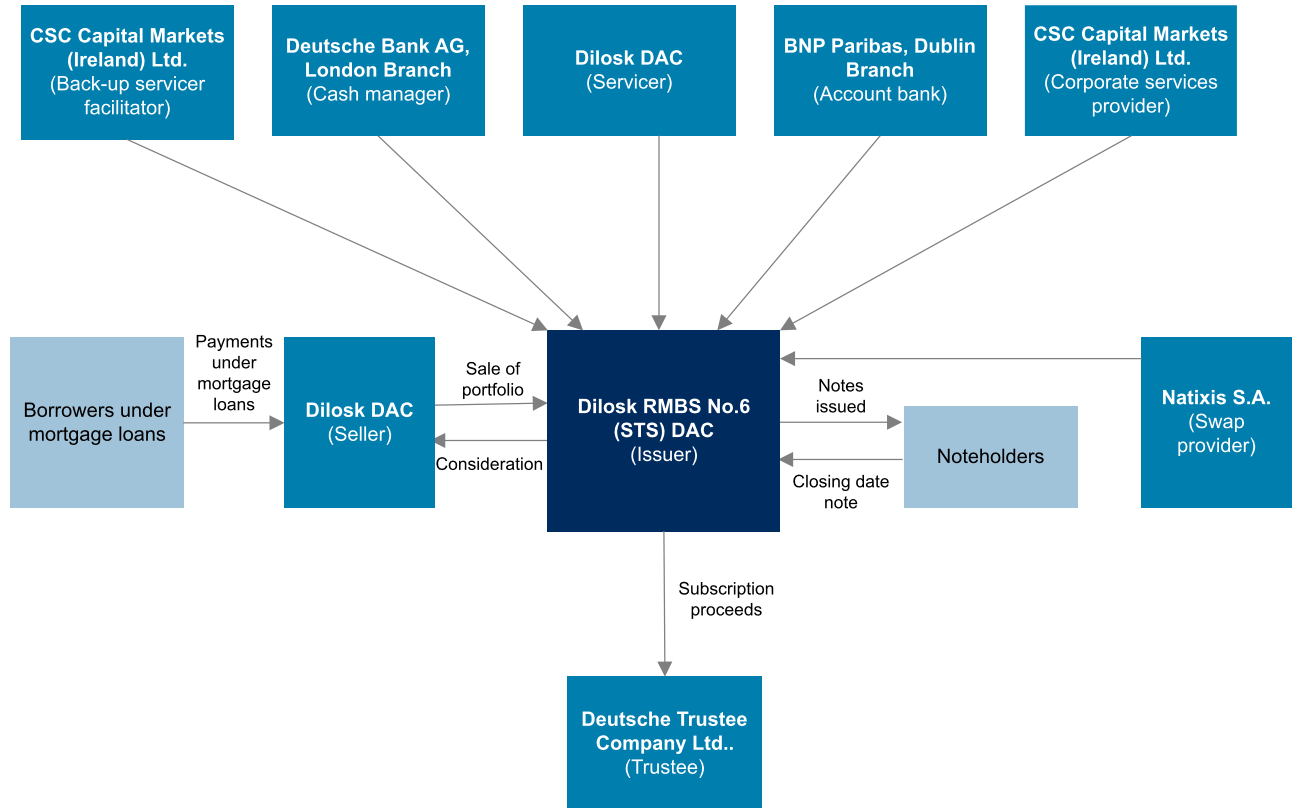
Irish Market Statistics				
	2021	2022	2023F	2024F
Nominal house prices, % change y/y	13.8	8.0	(2.0)	1.0
Real GDP (% change)	13.6	5.0	1.2	3.5
Unemployment rate	6.2	6.0	5.8	5.6
Sources: S&P Global Ratings, Eurostat, Organization for Economic Co-operation and Development, Department for Communities and Local Government, Office for National Statistics. Y/Y--Year on year. F--Forecast.				

Based on our macroeconomic forecasts we revised the 'B' foreclosure frequency assumptions in our global residential loans criteria for Ireland's archetypal pool to 1.85% from 1.5% on May 1, 2020 (see "Residential Mortgage Market Outlooks Updated For 13 European Jurisdictions Following Revised Economic Forecasts," published on May 1, 2020).

As the situation evolves, we will update our assumptions and estimates accordingly.

Transaction Summary

Transaction Structure



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The issuer is an Irish special-purpose entity (SPE), which we consider to be bankruptcy remote. We analyzed its corporate structure in line with our legal criteria.

Interest is paid quarterly on the interest payment dates, beginning in July 2023. The rated notes pay interest equal to three-month EURIBOR plus a class-specific margin, with a further step-up margin following the optional call date in October 2026. All of the notes will reach legal final maturity in July 2061.

Our rating on the class A notes addresses the timely payment of interest and the ultimate payment of principal, and the timely receipt of interest when they become most senior outstanding and ultimate repayment of principal on the class B-Dfrd notes. Our ratings on the class C-Dfrd to X-Dfrd notes reflect the ultimate payment of interest and principal.

Deferral of interest

Under the transaction documents, interest payments on the class B-Dfrd, C-Dfrd, D-Dfrd, and E-Dfrd notes can be deferred. The class B-Dfrd notes can only be deferred until it becomes the most senior class and then any accrued interest must be paid immediately. Interest on the C-Dfrd, D-Dfrd, and E-Dfrd notes can be paid up to the maturity date.

Class A liquidity reserve

The transaction has a liquidity reserve that was funded at closing to the target amount of 1.00% of the class A notes' closing balance. This reserve is available to cover shortfalls on the senior fees, swap payments, and the interest payments on the class A notes.

The required amount is 1.00% of the class A notes' outstanding notional over time. This reserve is topped up in the revenue waterfall to the required amount subject to available funds. Amounts exceeding the required amount will be released to the revenue waterfall.

General reserve fund

The transaction also has a non-amortizing general reserve fund (GRF), which is available to cover shortfalls on the senior fees, swap payments, interest payments on the class A to E-Dfrd notes, and the principal deficiency ledger (PDL) on the class A to E-Dfrd notes.

The GRF was sized at 1.40% of the class A to Z1 notes' notional at closing, minus the liquidity reserve amount. This reserve is topped up in the revenue waterfall to the required amount subject to available funds.

Principal to pay interest

In high-delinquency scenarios, there may be liquidity stresses for which the issuer would not have sufficient revenue receipts to pay senior fees or interest on the outstanding classes of notes. To mitigate this risk, the issuer can use any existing principal receipts to pay shortfalls in senior fees and interest on the class A notes. In addition, it can be used to pay interest on the class B-Dfrd to E-Dfrd notes when they become the most senior class outstanding. The use of principal to pay interest would result in the registering of a debit in the PDL and may reduce the credit enhancement available to the notes. Principal will be used only if the class A liquidity reserve fund and general reserve fund have been exhausted.

Principal deficiency ledgers

The PDL comprises six subledgers, one for each of the mortgage-backed classes of notes.

A PDL will be recorded if any losses occur on a mortgage loan in the pool or if principal is used to remedy senior fees and/or interest shortfalls. A PDL will also be incrementally recorded as follows:

- When a loan becomes between six- and nine-months delinquent, 50% of the outstanding principal balance is recorded on the PDL.
- When the loan is between nine and 12 months in arrears, a further 25% is recorded.
- The remaining 25% is recorded when the loan is more than 12 months in arrears.
- PDL amounts will first be recorded in the class Z1 notes' PDL, up to the class Z1 notes' outstanding amount. They will then be debited sequentially upward.

Payment priority**Table 4**

Priority of Payments	
Revenue priority of payments (simplified)	Principal priority of payments (simplified)
Senior fees	Principal applied to cover senior expenses deficit, if any
Swap payments	Class A notes' interest
Class A notes' interest	Class B-Dfrd notes' interest (if most senior)
Class A liquidity reserve fund up to required amount	Class C-Dfrd notes' interest (if most senior)
Class A notes' PDL	Class D-Dfrd notes' interest (if most senior)
Class B-Dfrd notes' interest	Class E-Dfrd notes' interest (if most senior)
Class B-Dfrd notes' PDL	Principal due on the class A notes until paid in full
Class C-Dfrd notes' interest	Principal due on the class B-Dfrd notes until paid in full
Class C-Dfrd notes' PDL	Principal due on the class C-Dfrd notes until paid in full
Class D-Dfrd notes' interest	Principal due on the class D-Dfrd notes until paid in full
Class D-Dfrd notes' PDL	Principal due on the class E-Dfrd notes until paid in full
Class E-Dfrd notes' interest	Principal due on the class Z1 notes until paid in full
Class E-Dfrd notes' PDL	Principal due on the class Z2 notes until paid in full
General reserve fund up to required amount (top up)	Remaining to be applied as revenue
Class Z1 notes' PDL	
Subordinated swap payments	
Junior servicing fee (before step-up date)	
Class X-Dfrd interest	
Class X-Dfrd principal	
Junior servicing fee (from step-up date)	
From the step-up date, amounts to be applied to available principal receipts	
The class Z1 notes' interest	
The class Z2 notes' interest	
The class R notes' interest	

PDL--Principal deficiency ledger.

Step-up date

After the step-up date in October 2026, the margins on the class A to E-Dfrd notes will increase, and all available revenue collections in the waterfall after providing for all items down to class X-Dfrd principal will be swept to the principal waterfall and used to pay down the notes. The junior servicing fee will also subordinate within the waterfall, to be paid after the payment of class X-Dfrd principal, after the step-up date.

Cash Flow Modeling And Analysis

We stress the transaction's cash flows to test the credit and liquidity support that the assets, subordinated tranches, and reserves provide.

Our ratings address timely payment of interest on the class A notes, the timely payment of interest on the class B-Dfrd notes once they become the most senior outstanding, and the ultimate payment of interest on the class C-Dfrd to

X-Dfrd notes. Our standard cash flow analysis indicates that the available credit enhancement for the class B-Dfrd to E-Dfrd notes is commensurate with higher ratings than those assigned. The ratings on these notes also reflect their ability to withstand the potential repercussions of a faster amortization of the interest swap notional in line with our high criteria prepayment rate. Furthermore, we have also considered their relative positions in the capital structure, potential exposure to borrower concentration risk, higher levels of defaults, and increased exposure to tail-end risk.

The class X-Dfrd notes are the most junior class of notes and are not asset-backed; instead they rely on excess spread. The class X-Dfrd notes do not pass any cash flow stress under the assumption of high prepayment rates (40% CPR) expected at the end of the reversionary period for fixed-floating loans in the pool. However, the class X-Dfrd notes do not face any shortfall under our steady-state scenario, where the current level of stress shows little to no increase and collateral performance remains steady. Hence, in our view, payment of ultimate interest and principal on the class X-Dfrd notes is not dependent upon favorable business, financial, and economic conditions (see our 'CCC' ratings criteria in "Related Criteria"). We have therefore assigned our 'B (sf)' rating to this class of notes.

Interest rate risk

Approximately 90% of the final pool pays interest based on a fixed rate, but all will revert to a fully discretionary rate at the expiration of the fixed term. There is a fixed-rate floor in place of the relevant swap rate plus the swap adjustment charge, plus 2.00%. The remaining assets pay a floating interest rate.

To address the interest mismatch between the mortgage loans and the rated notes, the transaction features a fixed-to-floating interest rate swap, by which the issuer will pay a fixed rate and receive EURIBOR, based on a fixed notional schedule. The collateral posting and replacement triggers in the draft swap documents are in line with our counterparty criteria.

The remaining loans are variable-rate loans, and in our analysis, we have incorporated a haircut to rate in line with our criteria, while considering the floor of three-month EURIBOR plus 2.00%.

Considering our treatment of the fixed- and variable-rate floors, we have not applied further basis risk.

Spread compression

The asset yield on the final pool can decrease if higher paying assets default or prepay. We have not applied any spread compression for the floating-rate loans, given we model the higher end of the haircut under our criteria, subject to the interest-rate floor. We apply 0.07% spread compression to the fixed-rate loans at the 'AAA' rating level.

Fees

Contractually, the issuer is obliged to pay periodic fees to various parties providing services to the transaction such as servicers, trustees, and cash managers, among others. We accounted for these in our analysis. We also incorporated the potential costs of finding a replacement servicer upon the insolvency of Dilosk, as well as potential bank replacement costs in our analysis.

Commingling risk

Borrowers pay into collection accounts held with BNP Paribas, Dublin Branch, in the name of Dilosk as legal titleholder.

If the legal titleholder were to become insolvent, the mortgage collection amounts in the collection account may become part of the legal titleholder's bankruptcy estate. In order to mitigate this risk, from and including the first interest payment date, the collections are transferred daily into the issuer's bank account, and a declaration of trust in favor of the issuer is in place over the collection accounts. The transaction documents contain replacement language in line with our counterparty criteria.

Although we believe that the combination of downgrade language and declaration of trust mitigates against the loss of collections if there is an insolvency, we have considered that collections could be delayed in an insolvency. We have therefore applied a liquidity stress of one month of collections.

Setoff risk

There are no employee loans or deposit setoff exposure in the transaction. Further advances are permitted in the transaction documents, but only until the step-up date and subject to various limitations. Thus, we considered the potential risk of setoff due to further advance as immaterial in our analysis.

Default and recovery timings

We used the WAFF and WALs derived in our credit analysis as inputs in our cash flow analysis (see table 5). At each rating level, the WAFF specifies the total balance of the mortgage loans we assume will default over the transaction's life. Defaults are applied on the outstanding balance of the assets as of the closing date. We simulate defaults following two paths (i.e., one front-loaded and one back-loaded) over a six-year period. During the recessionary period within each scenario, we assume 25% of the expected WAFF is applied annually for three years.

Table 5

Default Timings For Front-Loaded And Back-Loaded Default Curves		
Year after closing	Front-loaded defaults (% of WAFF per year)	Back-loaded defaults (% of WAFF per year)
1	25.0	5.0
2	25.0	10.0
3	25.0	10.0
4	10.0	25.0
5	10.0	25.0
6	5.0	25.0

WAFF--Weighted-average foreclosure frequency.

We assume recoveries on the defaulted assets will be received 42 months after default for owner-occupied properties. We have also tested the sensitivity of the structure to increased foreclosure timing assumptions of six months, and the ratings assigned remain robust.

Delinquencies

To simulate the effect of delinquencies on liquidity, we model a proportion of scheduled collections equal to one-third of the WAFF (in addition to assumed foreclosures reflected in the WAFF) to be delayed. We apply this in each of the first 18 months of the recession and assume a full recovery of these delinquencies will occur 36 months after they arise.

Prepayments

To assess the effect on excess spread and the absolute level of defaults in a transaction, we model both high and low prepayment scenarios at all rating levels (see table 6).

Table 6

Prepayment Assumptions		
	High	Low
Pre-recession	24.0	1.0
During recession	1.0	1.0
Post-recession	24.0	1.0

Interest rates

We modeled two interest rate scenarios in our analysis: up and down.

Summary

Combined, the default timings, recession timings, interest rates, and prepayment rates described above give rise to eight different scenarios at each rating level (see table 7).

Table 7

RMBS Stress Scenarios			
Total number of scenarios	Prepayment rate	Interest rate	Default timing
8	High and low	Up and down	Front-loaded and back-loaded

Scenario analysis and sensitivity analysis

We analyzed the effect of a moderate stress on our WAFF assumptions and its ultimate effect on our ratings on the notes. We ran two stress scenarios to demonstrate the rating transition of a note, and the results are in line with our credit stability criteria.

In addition, we have tested the structure's sensitivity to recovery timing assumptions and higher defaults, along with borrower concentration risk, and the ratings remain robust.

We also conducted additional sensitivity analysis to assess the effect of, all else being equal, increased WAFF and WALs on our ratings on the notes. For this purpose, we ran eight scenarios by either increasing stressed defaults and/or reducing expected recoveries as shown in the tables below.

Table 8

Sensitivity Stresses			
WAFF	WALS		
	0	1.1x	1.3x
0	Base Case	Scenario 3	Scenario 4
1.1x	Scenario 1	Scenario 5	Scenario 7
1.3x	Scenario 2	Scenario 6	Scenario 8

WAFF--Weighted-average foreclosure frequency. WALs--Weighted-average loss severity.

The results of the above sensitivity analysis indicate a deterioration of no more than three notches on the notes.

Table 9

Sensitivity Scenarios									
Class	Base case	1	2	3	4	5	6	7	8
A	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AA+	AA+
B-Dfrd	AA+	AA	AA	AA+	AA	AA	AA	AA-	A+
C-Dfrd	AA-	AA-	A	AA-	A+	A+	A	A	A
D-Dfrd	BBB+	BBB	BBB	BBB+	BBB+	BBB+	BBB	BBB+	BBB+
E-Dfrd	BB+	BB+	BB	BB+	BB	BB	BB	BB-	B+
X-Dfrd	B	B	B- or lower	B	B	B	B- or lower	B- or lower	B- or lower

Counterparty Risk

The issuer is exposed to BNP Paribas, Dublin Branch, as the transaction account provider and collection account provider, and to Natixis as swap counterparty (see table 10). The documented replacement mechanisms adequately mitigate the transaction's exposure to counterparty risk in line with our counterparty criteria.

Table 10

Supporting Ratings				
Institution/role	Current counterparty rating	Minimum eligible counterparty rating	Remedy period (calendar days)	Maximum supported rating
BNP Paribas, Dublin Branch as issuer account bank	A+/Stable/A-1	A	30	AAA
BNP Paribas, Dublin Branch as collection account bank	A+/Stable/A-1	BBB	30	AAA
Natixis S.A., as swap counterparty	A/Stable/A-1	A	90 to find a replacement	AAA

Sovereign Risk

Our long-term sovereign credit rating on Ireland is 'AA-'. This enables the notes to achieve a maximum potential rating of up to 'AAA'. We have also considered the fact that the originator targets public sector employees in our assessment of sovereign risk. Overall, public sector employees constitute 32.4% of the portfolio. We view the transaction's sensitivity to sovereign default risk to be low, despite the portion of public sector employees in the pool. Overall, we concluded that our structured finance sovereign risk criteria do not constrain our ratings in this transaction.

Surveillance

We will maintain surveillance on the transaction until the notes mature or are otherwise retired. To do this, we will analyze regular servicer reports detailing the performance of the underlying collateral, monitor supporting ratings, and make regular contact with the servicer to ensure that it maintains minimum servicing standards and that any material changes in the servicer's operations are communicated and assessed.

Appendix

Transaction Participants

Role	Participant
Issuer	Dilosk RMBS No.6 (STS) DAC
Seller, servicer	Dilosk DAC
Originator	Dilosk DAC through ICS Mortgages DAC
Delegate servicer	BCMGlobal (trading as Link Assets Services)
Backup servicer facilitator	CSC Capital Markets (Ireland) Ltd.
Principal paying agent	Deutsche Bank AG, London Branch
Cash manager	Deutsche Bank AG, London Branch
Note trustee and security trustee	Deutsche Trustee Company Ltd.
Share trustee	CSC Share Trustee Services (Ireland) Ltd.
Joint arrangers	Natixis S.A. and Bank of America Securities Europe S.A.
Joint lead managers	Natixis S.A. and Bank of America Securities Europe S.A.

Transaction Comparison*

	Dilosk RMBS No. 6 (STS)	Dilosk RMBS No. 5	Dilosk RMBS No. 4	Dilosk RMBS No. 3
Pool cutoff date	March 31, 2023	Aug. 31, 2021	Dec. 31, 2020	April 18, 2019
Jurisdiction	Ireland	Ireland	Ireland	Ireland
Principal outstanding of the pool (mil. €)	530,734,281.84	258,281,617	257,067,131	174,533,959
Number of borrowers	2,707	1,241	1,088	774
Number of properties	2,639	1,241	1,246	909
Average loan balance (€)	196,065	208,124	206,314	192,007
Weighted-average indexed current LTV ratio (%)	62.0	69.8	63.7	53.95
Weighted-average original LTV ratio (%)	68.4	70.3	64.2	56.81
Weighted-average seasoning (months)	28	4	8	11.33
First-time buyers (%)	47.7	46.5	23.9	N/A
Interest only (%)§	0.0	8.5	33.1	81.5
Buy-to-let (%)	0.0	24.0	49.9	100
Jumbo valuations	19.7	12.2	23.2	
'AAA' RMVD (%)	49.6	53.4	53.4	
Current arrears > one month (%)	0.3	0.0	0.2	0

*Calculations are according to S&P Global Ratings' methodology. §For Dilosk 5, includes both bullet loans (6.8%) and those loans with initial interest-only periods (1.7%). LTV--Loan-to-value. RMVD--Repossession market value declines.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities , Dec. 22, 2020

- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance , Oct. 18, 2019
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Related Research

- European RMBS Index Report Q4 2022, Feb 09, 2023
- European RMBS Outlook 2023: Permafrost Or Thaw?, Jan 12, 2023
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- Irish Nonbank Lenders May Capture More Of The Irish Mortgage Market, Oct. 25, 2022
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- 2017 EMEA RMBS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
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