

Dilosk RMBS No.2 DAC


Insight beyond the rating.

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Ratings and Issuer's Assets and Liabilities

Debt	Amount (EUR)	Size	Initial Credit Enhancement ¹	Coupon ³	Step-Up Coupon ⁴	Additional Note Payment ⁴	Coupon Cap	Rating	Rating Action
Class A ²	180,457,000	63.00%	40.00%	3m Euribor + 0.75%	3m Euribor + 1.50%	N/A	6.00%	AAA (sf)	Provisional Rating - Finalised
Class B ²	18,618,000	6.50%	33.50%	3m Euribor + 1.30%	N/A	3m Euribor + 1.00%	6.00%	AA (high) (sf)	Provisional Rating - Finalised
Class C ²	14,322,000	5.00%	28.50%	3m Euribor + 2.00%	N/A	3m Euribor + 1.00%	6.00%	AA (sf)	Provisional Rating - Finalised
Class D ²	17,186,000	6.00%	22.50%	3m Euribor + 2.30%	N/A	3m Euribor + 1.00%	8.00%	A (sf)	Provisional Rating - Finalised
Class E ²	25,779,000	9.00%	13.50%	3m Euribor + 3.25%	N/A	3m Euribor + 1.50%	8.00%	BB (high) (sf)	Provisional Rating - Finalised
Class F ²	8,593,000	3.00%	10.50%	3m Euribor + 4.50%	N/A	3m Euribor + 1.50%	8.00%	BB (sf)	Provisional Rating - Finalised
Class Z1	21,486,000	7.50%	0.00%	Fixed Rate 8%	0%	N/A	N/A	Not Rated	N/A
Class X	100,000	N/A	N/A	Class X Payment	N/A	N/A	N/A	Not Rated	N/A
Class R	2,000,000	N/A	N/A	Class R Payment	N/A	N/A	N/A	Not Rated	N/A
Class Z2	12,890,000	N/A	N/A	Fixed Rate 8%	0%	N/A	N/A	Not Rated	N/A

Notes:

- Credit enhancement is expressed as a percentage of the aggregate current balance of the portfolio.
- The rating for the Class A notes addresses the timely payment of interest and ultimate payment of principal. The ratings for the other classes of notes address the ultimate payment of interest and principal while junior but timely payment of interest when the senior-most tranche.
- Coupons are floored at 0%.
- From the step-up date, the step-up coupon will be payable in respect of the Class A notes and additional note payments will be payable in respect of the Class B to F notes, but junior to interest payments.
- The general reserve fund is funded at the closing of the transaction by part of the proceeds of issuance of the Class Z2 Notes and replenished on each interest payment date up to the aggregate of the general reserve fund first target level and the general reserve fund second target level. The general reserve fund first target level equals 1.50% of the principal amount outstanding of the Class A notes and the general reserve fund second target level amounts to 3.00% of the principal amount outstanding of the Class A, B, C, D, E and F notes (the Rated Notes) together with the Class Z1 notes as at the closing date, minus the general reserve fund first target level.

	Initial Amount (EUR)	Size
Asset Portfolio (as at 30 September 2018)	286,443,097	100.00%
General Reserve Fund First Target Level	2,706,887	1.50% ⁵ of the Class A notes at closing
General Reserve Fund Second Target Level	5,886,406	3.00% ⁵ of the initial balance of the Rated Notes and Class Z1 notes minus the general reserve fund first target level

DBRS Ratings Limited (DBRS) finalised its provisional ratings of the Class A through F securitisation notes issued by Dilosk RMBS No.2 DAC (the Issuer).

The Issuer is a bankruptcy-remote special-purpose vehicle (SPV) incorporated in the Republic of Ireland. The issued notes were used to fund the purchase of Irish residential mortgage loans secured over properties located in Ireland. The mortgage loans were originated by Pepper Finance Corporation (Ireland) DAC (Pepper; formerly GE Capital Woodchester Home Loans Limited) and Leeds Building Society (LBS). The portfolio was sold to Areo S.à.r.l. Compartment 26 (Areo), a private limited liability company incorporated in Luxembourg, and sold on to Dilosk Funding No. 4 DAC (DF4) and to Dilosk Funding No. 5 DAC (DF5). Some of the Pepper-originated loans were sold to DF4, some to DF5. All LBS-originated loans were sold to DF5.

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Transaction Parties

Roles	Counterparty	Rating
Issuer	Dilosk RMBS No.2 DAC	Not Rated
Sponsor and Retention Holder	Barclays Bank PLC	A/Stable/R-1 (low)/Stable
Seller	Dilosk Funding No. 4 DAC	Not Rated
Seller	Dilosk Funding No. 5 DAC	Not Rated
Original Seller	Leeds Building Society	Not Rated
Original Seller	Pepper Finance Corporation (Ireland) DAC (formerly GE Capital Woodchester Home Loans Limited)	Not Rated
Intermediate Seller	Areo S.á.r.l. Compartment 26	Not Rated
Master Servicer	Dilosk DAC	Not Rated
Administrator	Pepper Finance Corporation (Ireland) DAC	Not Rated
Backup Administrator Facilitator	CSC Capital Markets (Ireland) Limited	Not Rated
Legal Title Holder	Pepper Finance Corporation (Ireland) DAC	Not Rated
Principal Paying Agent	Citibank, N.A., London Branch	DBRS Private Rating
Account Bank	Citibank, N.A., London Branch	DBRS Private Rating
Cash Manager	Citibank, N.A., London Branch	DBRS Private Rating
Collection Account Bank	Bank of Ireland	A (low)/Stable/R-1 (low)/Stable
Collection Account Bank	Barclays Bank plc	A/Stable/R-1 (low)/Stable
Trustee	Citicorp Trustee Company Limited	Not Rated
Corporate Services Provider	CSC Capital Markets (Ireland) Limited	Not Rated
Share Trustee	CSC Capital Markets (Ireland) Limited	Not Rated
Reference Agent	Citibank, N.A., London Branch	DBRS Private Rating
Registrar and Transfer Agent	Citibank, N.A., London Branch	DBRS Private Rating
Arranger and Joint Lead Manager	NatWest Markets Plc	BBB (high)/Stable/R-1 (low)/Stable
Joint Lead Manager	Barclays Bank PLC	A/Stable/R-1 (low)/Stable

Relevant Dates

Portfolio Cut-Off Date	30 September 2018
Issue Date	16 November 2018
First Payment Date	Interest Payment Date (IPD) falling in March 2019
Payment Dates	20 of March, June, September and December
Payment Frequency	Quarterly
Step-Up Date/Optional Redemption Date	IPD falling in December 2021
Final Maturity Date	IPD falling in December 2057

As of 30 September 2018, the final mortgage portfolio totalled EUR 286.4 million. Approximately 92.5% of the mortgage portfolio by loan balance was originated between 2006 and 2008. Dynamic performance data was provided for each sub-portfolio (LBS-originated and Pepper-originated) from October 2012 to July 2018. A large proportion of the loans in the portfolio (44.5% in terms of outstanding balance – all originated by LBS) repays on an interest-only basis. Approximately 47% of the loans have been restructured at least once.

The beneficial interest of the mortgage loans was transferred to the Issuer while the legal title of the mortgage loans remains with Pepper as the Legal Title Holder. Pepper will service the mortgage portfolio during the life of the transaction, with CSC Capital Markets (Ireland) Limited acting as the backup administrator/facilitator. Pepper's servicing capabilities are appropriate for being able to monitor and manage the performance of its mortgage book and securitised mortgage portfolios. In DBRS's view, this set-up can mitigate a potential servicer termination and therefore remedy potential interest shortfalls arising from operational issues. Moreover, the Rated Notes will have necessary liquidity support from the general reserve fund (general reserve fund second target level) and the liquidity reserve fund (general reserve fund first target level) to mitigate any temporary servicing disruption.

The transaction's capital structure provides 40.0% credit enhancement to the Class A notes through subordination of the Class B notes (6.5% in size of the total issuance), the Class C notes (5.0% in size of the total issuance), the Class D notes (6.0% in size of the total issuance), the Class E notes (9.0% in size of the total issuance), the Class F notes (3.0% in size of the total issuance) and the Class Z1 notes (7.5% in size of the total issuance) and through the general reserve fund. Additional credit enhancement is provided through excess spread. The general reserve fund was established at closing in an amount equal to 3.0% of the aggregate principal amount of the Rated Notes and Class Z1 notes minus the liquidity reserve amount; it was funded by part of the issuance of the Class Z2 notes proceeds. The general reserve fund will not amortise.

Liquidity in the transaction is provided by the general reserve fund, which can be used to pay senior costs and interest on the Rated Notes. Liquidity for the Class A notes will be further supported using available principal receipts from the mortgage loans and a fully funded liquidity reserve fund (sized at 1.5% of the outstanding balance of the Class A notes and funded by part of the proceeds of the issuance of Class Z2 notes). The liquidity reserve fund will amortise with the Class A notes. The notes' terms and conditions allow interest payments on them, other than on the most senior class of notes then outstanding, to be deferred if the funds available are insufficient.

A key structural feature is the provisioning mechanism in the transaction, which is linked to the arrears status of a loan besides the usual provisioning based on losses. The degree of provisioning increases with the increase in number of months in arrears status of a loan. DBRS views this positively as provisioning based on the arrears' status of loans will trap excess spread much earlier for loans that may ultimately end up in litigation for recovery.

Portfolio Summary (30 September 2018)

Total Current Balance (EUR) ¹	286,443,097	Asset Class	RMBS
Number of Loans	1,727	Governing Jurisdiction	Republic of Ireland
Weighted-Average Coupon	3.04%	Sovereign Rating	A(high)/R-1(middle)/Stable trend
Indexed WACLTV ²	70.27%		
Weighted-Average Seasoning (Years)	11.15		

¹ Excluding loans with a negative current balance.

² 50% credit for increases in house price index since the original valuation date.

Rating Considerations

Notable Features

- The Dilosk RMBS No.2 portfolio is a strong-performing subset of a larger portfolio originated by LBS and Pepper. At closing, the majority (82%) of the loans will be performing with no loan being in arrears for more than three months. The share of loans that underwent some form of renegotiation is large at 47% of the portfolio by loan balance. Renegotiation types include switch to interest only (IO), arrears capitalisation, term extension and concessions on a reduction of the monthly instalments.
- The final rating for the Class A notes addresses the timely payment of interest and ultimate payment of principal. The ratings for the other classes of notes indicate the ultimate payment of interest and principal while junior but timely payment of interest when the senior-most tranche.
- The beneficial interest of the mortgage loans is transferred to the Issuer while the legal title of the mortgage loans remains with Pepper as the Legal Title Holder. Pepper will service the mortgage portfolio during the life of the transaction with CSC Capital Markets (Ireland) Limited acting as the backup administrator facilitator. There is not a replacement servicer in the transaction. Pepper's servicing capabilities are appropriate for being able to monitor and manage the performance of its mortgage book and securitised mortgage portfolios. In DBRS's view, this set up can mitigate a potential servicer termination and therefore remedy potential interest shortfalls arising from operational issues. Moreover, the Class A notes will have necessary liquidity support from the liquidity reserve fund and all the Rated Notes from the general reserve fund on account of any temporary servicing disruption. Furthermore, the interest on the notes, except for the senior-most outstanding class, is deferrable during the life of the transaction.
- The notes are always paid sequentially, allowing for the build-up in credit enhancement over time as the notes amortise.
- The mortgage sale agreement includes asset warranties that are weaker than the market standard. Both sellers and Dilosk DAC have agreed to indemnify the Issuer for any loss, liability or cost incurred by the Issuer as a direct consequence of breach of the representations or warranties provided by that seller at closing. However, certain asset warranties, for example relating to the origination process, among others, are qualified by reference to the awareness of the relevant seller; the sellers have no direct knowledge of the origination processes and whether certain asset warranties are correct. In addition, DBRS notes that the remedial action following a breach of asset warranties is substantially weaker than DBRS generally observes. The requirement to indemnify is subject to a sunset clause of 18 months from the closing date, and the indemnification payments are capped at 5% of the proceeds of the rated notes and Class Z1 notes and at EUR 20,000 per mortgage loan and are subject to a minimum claim value (disregarding above cap) of EUR 5,000. In addition, no liability relating to a breach of asset warranties shall arise unless the aggregate of all agreed and determined warranty claims exceed EUR 1.0 million. In addition, no liability relating to a breach of asset warranties shall arise unless the aggregate of all agreed and determined warranty claims exceed EUR 1,000,000.
- The administration agreement includes substantial indemnifications of the issuer towards the Legal Title Holder, including for losses arising from the Mondello IOA Issue and the Mondello TRS Issue. These affect loans originated by LBS and relate to the method of calculating interest on loans that have non-zero arrears balances (IOA issue) and the potential over-claim of Tax Relief at Source (TRS) amounts from the Irish Revenue Commissioners by LBS. As outlined in *Legal Structure* below, DBRS views these risks as mitigated.

Strengths

- **Positive Portfolio Selection:** The Dilosk RMBS No.2 portfolio is a subset from a wider pool of loans originated by LBS and Pepper. As of the cut-off date, none of the loans were three or more months in arrears. However, a large portion of loans (47%) have previously been subject to forbearance measures.
- **Seasoned Portfolio:** As of the cut-off date, the weighted-average (WA) seasoning was 11.1 years.
- **Granular Portfolio:** The portfolio is granular. The largest borrower accounts for 0.4% of the portfolio's total loan balance. The top five borrowers account for 1.8% of the portfolio's loan balance, with the top ten borrowers accounting for 3.2%.
- **Property Occupancy:** 100% of the mortgages are collateralised by owner-occupied properties.
- **Provisioning Based on Delinquency Status of Loans:** The provisioning mechanism in the transaction is linked to the arrears' status of a loan in addition to being based on losses. The degree of provisioning increases the longer a loan is in arrears. Given the regulatory code of conduct for mortgage loans in arrears, the time to recovery and realisation of a loss, if any, can be stretched. In this context, provisioning based on arrears' status will trap any excess spread much earlier for a loan in the recovery process that otherwise would have been released to the seller as deferred consideration.

Challenges and Mitigating Factors

- Asset Warranties:** DBRS considers the representations and warranties and the remedial action following a breach of asset warranty to be weaker than the market standard observed in other Irish residential mortgage-backed securities (RMBS) transactions. Certain asset warranties are qualified by reference to the relevant seller's awareness, where the sellers have no direct knowledge of certain matters which could give rise to a breach of warranties (e.g., in relation to origination). Also, there is no warranty given on servicing, including compliance with laws and regulations. In addition, the asset warranties are limited: the indemnification payments are capped at 5% of the Class A-F and Class Z1 notes and EUR 20,000 per loan and floored at a claim value of EUR 5,000, which is atypical. In addition, liabilities arising from a breach of warranty is subject to a minimum aggregate claim value of EUR 1.0 million. Claims must be made within 18 months of the closing date. Furthermore, the indemnification obligation may lie with the sellers (DF4 or DF5), each a SPV, or with Dilosk DAC.

Mitigant: The portfolio is significantly seasoned with a WA seasoning of 11.0 years. No loans were originated after 2010 and all are serviced by an experienced servicer. DBRS expects that most potential cases of a breach of any of the representations or warranties would already have materialised. Moreover, following from the due diligence conducted at the time of the portfolio sale, only an immaterial portion of the portfolio was identified with potential issues pertaining to title.

- Indemnifications by the Issuer:** The Issuer indemnifies the Legal Title Holder for any losses suffered as a consequence of the Mondello IOA Issue and the Mondello TRS Issue.

The Mondello TRS Issue relates to the fact that LBS based the calculations of the tax relief amount granted to borrowers under the TRS scheme on interest charged rather than interest paid, leading to claiming too much from the Irish Revenue Commission.

Mitigant: The Mondello TRS Issue has been resolved between LBS and the commission for all loans originated prior to 2018, while the cover pool contains no loans originated after 2010.

The Mondello IOA Issue relates to the methodology used by LBS to calculate Interest on arrears (IOA), which led to higher interest charged compared with the method Pepper uses. As no warranty is given on servicing, including compliance with laws and regulations, future adverse interpretation by the relevant authority could result in redress payments due to affected borrowers.

Mitigants: Following discussions with the relevant transaction parties and their legal counsel, DBRS believes that this risk is remote, and, should it materialise, the redress payments would have to be made by LBS, whose losses are not covered in the indemnity given by the issuer. Furthermore, the Legal Title Holder is a party to the transaction and as such is expected to have signed up to limited recourse and non-petition language.

- Set-Off Risk:** LBS, the original seller and originator of 54% of the portfolio, is a deposit taking institution, potentially leading to deposit set-off risk. Furthermore, the Central Bank of Ireland (CBI) Tracker Mortgage Examination has been ongoing, which could have led to set-off risk to the Issuer.

Mitigants: LBS customers have received an initial notification from LBS to advise that their mortgages are being transferred to Pepper. On or immediately after the Closing Date the borrowers will be notified that the transfer of their mortgages to Pepper has been completed. DBRS considers unlikely that an attempt to set off any deposits with LBS against a mortgage owned to Pepper after receiving notification will be successful. Foremost, LBS have ceased their savings business in Ireland and do not have any deposits since end-September 2018.

Pepper has not originated tracker mortgages. The CBI has issued a letter to LBS stating that the Tracker Review is complete from their perspective. DBRS has been informed that to the best of the Master Servicer's knowledge no loan will receive any compensation or be redressed (e.g., through having its interest rate reduced) as part of the tracker review.

- Restructured Loans:** 47.3% of the loans underwent some form of renegotiation during their life. Renegotiation types include switch to IO, arrears capitalisation, term extension and concessions on a reduction of the monthly instalments.

Mitigant: Of the 47.3% mentioned above, 43.4% of the loans are current (less than or equal to one month), with none of the loans being in arrears more than three months. The majority of the loans that were provided some form of forbearance show a sustainable and improving track record of monthly repayments in the last 24 months. Such a turnaround in loan performance suggests that the forbearance measures are helping borrowers in financial stress. Such a turnaround has also been driven by the Irish economy's recovery and improving income and employment prospects in Ireland.

- Geographic Concentration:** 69.2% of the pool is concentrated outside Dublin, with 30.8% concentrated in the Dublin area.

Mitigant: The peak-to-trough house price decline in Dublin was higher compared with the areas outside Dublin at 59.6%. However, recovery has been slower outside Dublin, where prices have recovered by 63% compared with a recovery of 88% in Dublin. DBRS assessed potential losses using its market value decline assumptions for Dublin and areas outside Dublin as per DBRS's *Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda*. A

probability of default (PD) adjustment has also been applied to arrears outside of Dublin (excluding South West and West) in accordance with the methodology.

- **Employment Status:** For 34.2% of the mortgage loans, DBRS received no indication on the employment of the borrower, 27.0% of the loans have been granted to self-employed borrowers, for 0.5% of the loans the relevant borrowers are unemployed, the remaining 38.3% being granted to full-time employees.

Mitigant: These loans (apart from the latter category) have been treated for analysis purposes as self-employed and consequently receive a PD adjustment in accordance with the *Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda*.

- **Income Verification and Valuation Method:** 17.0% of the loans have been granted based on self-certification, with income and employment details of the relevant borrower not substantiated by supporting documentation.

Mitigant: These loans receive a PD adjustment in accordance with the *Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda*.

- **Repayment Type:** 44.5% of the mortgage loans are interest only; the rest pay interest and principal.

Mitigant: The IO loans receive a PD adjustment in accordance with the *Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda*.

- **Loan Purpose:** 47.9% of the portfolio has been granted for purposes other than the purchase of the property and for 45.7% no data is available. Loans have been granted for the following purposes:

- Re-mortgage (44.9%)
- Re-mortgage with equity release (2.9%)
- Renovation (0.1%)

Mitigant: All loans not classified as “purchase” have been treated for analysis purposes as “debt/equity re-mortgage” and received adjustments to the PD.

- **Unhedged Basis Risk:** The Rated Notes pay an interest linked to the three-month Euribor rate. In comparison, the loans in the mortgage portfolio pay interest linked to the standard variable rate (SVR) (46.5% of the mortgage portfolio), to the European Central Bank’s (ECB) Base Rate (52.8%) and to the three-month Euribor rate (0.7% of the mortgage portfolio). This gives rise to basis risk that is not hedged in the transaction.

Mitigant: DBRS has accounted for this risk in its cash flow analysis.

- **Split Mortgage Loans:** 2.74% of the cover pool are split mortgage loans, of which 0.91% are warehoused mortgage accounts. The borrower does not have to pay any interest on the warehoused portion of the loans (WL) and the principal balance will become due on the loan’s maturity date. If the borrower makes all payments due on the non-warehoused portion of the loans (NWL) during a 12-month period, an amount equal to 5% of those payments are written off the outstanding balance of the WL without increasing the balance of the NWL. If a borrower makes additional overpayment on their NWL during the same period, 20% of that overpayment are written off the WL balance.

Mitigant: DBRS has accounted for this risk in its asset analysis.

- **Part and Part Mortgage Loans:** The cover pool contains mortgage loans (0.22% in terms of outstanding balance) for which borrowers have to pay interest and principal on a part of their loan with the other part being interest-only.

Mitigant: DBRS has accounted for this risk in its asset analysis.

Servicing

DBRS conducted an operational review of the mortgage servicer, Pepper Finance Corporation (Ireland) DAC trading as Pepper Asset Servicing (PAS), in February 2018 in Dublin. DBRS considers the servicing practices of PAS to be consistent with the overall Irish market.

PAS was founded in September 2012 following the purchase of the Irish residential mortgage portfolio from GE Money. The company is a wholly owned subsidiary of Pepper Group Limited (the Group). Along with Australia and Ireland, the Group has also established companies in the U.K., Spain, South Korea, Cyprus and Italy. As of June 2017, the Group had AUD 53.3 billion of assets under management globally. Its global lending book stood at AUD 8 billion and its global servicing portfolio was approximately AUD 45.3 billion.

Although PAS is primarily involved in servicing residential mortgages and commercial real estate loans, the company moved into lending with the launch of an Irish residential lending programme in early 2016 and a commercial real estate lending programme in June 2017.

As of December 2017, PAS had 413 employees operating across two Irish sites in Shannon and Dublin with a servicing portfolio just over EUR 16 billion. The portfolio has grown steadily year-on-year since 2012 and increased significantly in October 2015 when PAS took over the servicing of a EUR 5.5 billion portfolio of Irish residential loans originated by the Bank of Scotland. The portfolio includes residential mortgages, which are 41% of the portfolio, commercial real estate assets, which are 45% of the portfolio and buy-to-let loans comprising the remaining 14%.

DBRS does not rate PAS or its Australian parent-company, Pepper.

All primary and special servicing activities within PAS are centralised in the company's two offices in Shannon and Dublin. While some external resources are used for the management of defaulted loans, specifically legal enforcement cases, the company has no offshore operations outside Ireland.

PAS employs 413 people across two locations with 64% based in the company's Shannon headquarters and the remaining staff based in the Irish capital. Senior management averages over 15 years' experience including nearly four years with the company, although half of the executives were with GE prior to the creation of PAS. The servicing management team is also highly qualified, averaging around 13 years' experience and seven years with PAS and its Irish predecessor.

The company enjoys a healthy staff turnover rate of around 9% which is below the Irish market average and down from 12% reported in 2015. Comprehensive training and personal development plans are in place for all staff and employees average around 40 hours of training annually. PAS has a dedicated training manager responsible for tracking and managing the company's training needs as well as ensuring compliance with regulatory training requirements.

PAS's servicing activities benefit from significant automation for loan administration, bespoke applications for special servicing and strong reporting systems supported by a robust data warehouse linking all of the company's systems. All mortgage payments are on monthly schedules and the majority of performing loans are paid via direct debit or bank transfer. An operations team, segregated from the other servicing functions, is responsible for collecting and processing all incoming mail including cheques. Interest rate adjustment for variable-rate loans is an automated process as is the generation of all standard letters including collection notices.

PAS operates a robust and sophisticated IT platform, which has been significantly enhanced over the last several years and the company continues to devote significant resources to ongoing development of the systems. PAS launched a new website in February 2015 which included enhanced functionality for borrowers including the ability to view account information, make debit card payments, download documents and submit online enquiries.

The company also benefits from good operational performance and strong management reporting activities. Key performance metrics for the customer service and special servicing areas are consistent, and in some cases better than their Irish peers. Average hold times and abandonment rates, for instance, are around ten seconds and under 3%, respectively. The reporting systems enable PAS to more effectively manage resources, implement training programmes, identify potential risks and initiate action plans.

For collections and default management activities, PAS adheres to a case ownership approach for managing all arrears cases while primary servicing is organised functionally. The current number of arrears cases per analyst is around 100, which DBRS considers manageable.

PAS uses a variety of strategies in attempting to cure arrears and defaults, viewing litigation and legal enforcement as the least favourable option. The restructuring and modification schemes used by PAS include reduced payment arrangement, conversion to interest-only or rate reduction, payment deferrals, term extensions and arrears capitalisation. The company has developed a rigorous process focusing on the identification of the most suitable solutions for borrowers. The structured workflows developed by PAS are strictly aligned to Code of Conduct on Mortgage Arrears regulations and include financial tools integrated into the servicing system to assist staff in the decision-making process.

The company's re-default rate for modified loans is approximately 10% with most loans re-defaulting within the first six months of the restructuring. This compares favourably with the Irish market average of 20%. PAS also offers additional workout schemes for the most severe defaults including assisted voluntary sales, voluntary surrender and mortgage to rent, all of which are encouraged by the Irish regulators.

Recovery timelines for defaulted loans are generally consistent with the Irish market. The average timeline from litigation (initiated around 180 days following the first missed payment) to completion of legal proceedings is around 36 months, driven in large part by the regulatory environment and delays within some Irish courts. Repossessed assets are generally sold within eight months and approximately 95% are sold privately with PAS offering some support to borrowers. These figures are within DBRS's recovery time assumptions for Ireland and appear to be compliant with the national regulatory guidelines.

The repossessed portfolio of PAS currently includes around 70 assets valued at approximately EUR 30 million and is not expected to grow significantly in the short term. For all repossessed properties, at least two full valuations are prepared as a guide to set the sale price. The valuations are undertaken by a sales agent on an approved panel and include a full condition report and details of comparatives used in arriving at the appraised value. PAS has an internal property management team that reviews every valuation report.

Summary Strengths

- Solid servicing experience among senior and servicing management teams.
- Healthy turnover rates below the Irish market average albeit the majority of staff hired in the last three years.
- Pro-active early arrears management processes coupled with robust special-servicing application.
- Strong risk management and internal control environment.

Summary Weaknesses

- Independent servicer operating in the Irish market with financial support from an unrated parent.

Mitigants: Stable financial trend since company's inception in 2012. Pepper has a strong presence in its home market. Ireland comprises around half of the group's global servicing portfolio.

- Limited securitisation experience within the Irish market.

Mitigants: PAS and the wider Pepper Group has significant client reporting experience within Ireland and other European jurisdictions where the group has been involved in securitisation. The Pepper Group has developed a RMBS programme in Australia. PAS also benefits from robust technology and reporting systems.

Opinion on Replacement Servicer: There is no replacement servicer appointed in this transaction. However, there is a replacement servicer facilitator.

Transaction Structure

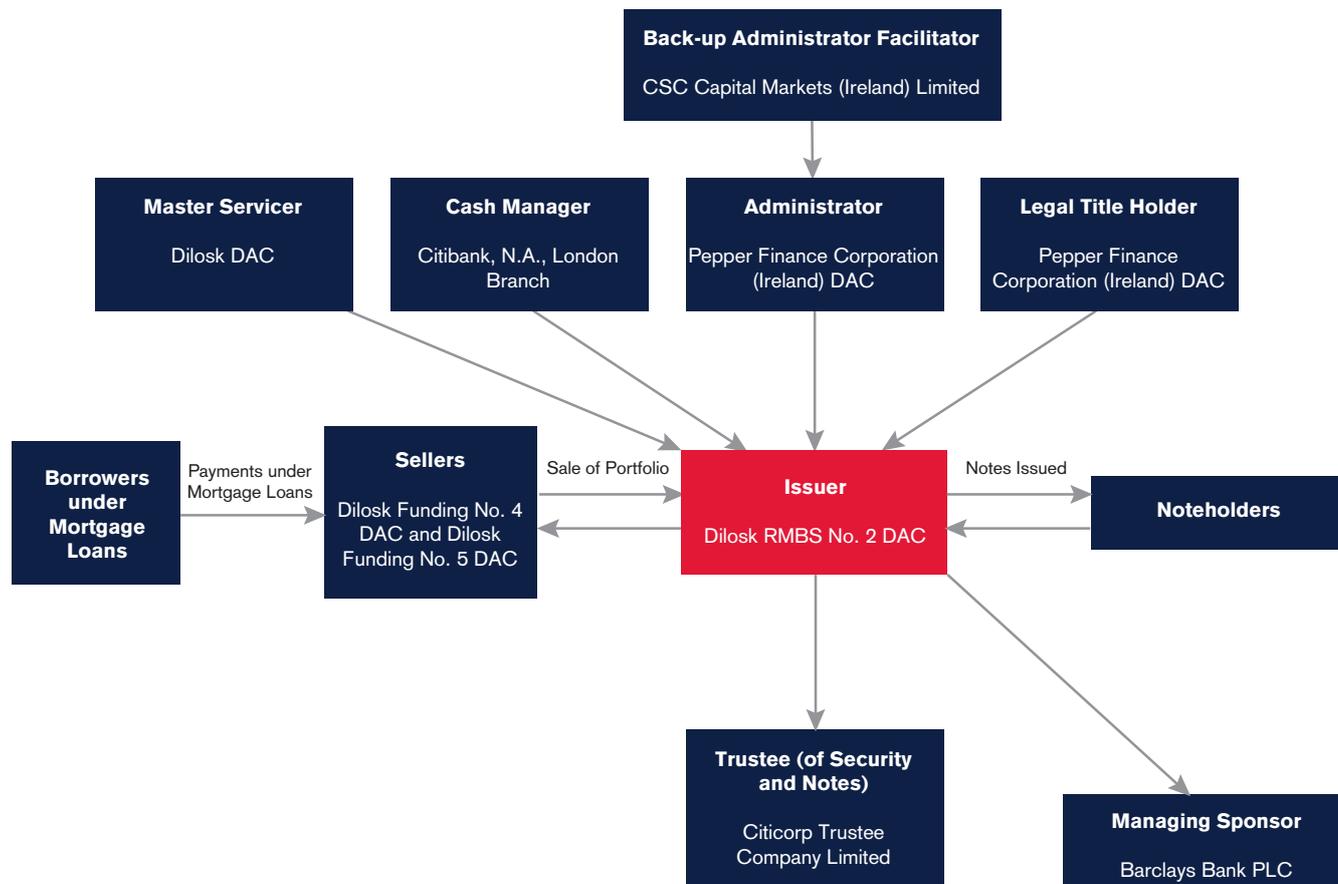
Transaction Summary

Currencies	Issuer's assets and liabilities are denominated in euros.	
Relevant Jurisdictions	English and Irish Law	
Basis Risk Hedging	Not hedged	
Interest Rate Hedging	N.A.	
Reserve Account	Provides credit and liquidity support to the Rated Notes and Class X notes.	
Second Target Level (General Reserve Fund)	Initial Amount:	3.0% of the Rated Notes plus Class Z1 notes, minus liquidity reserve fund.
	Target Amount:	3.0% of the Rated Notes plus Class Z1 notes at closing minus liquidity reserve fund at the relevant interest payment date.
	Amortisation:	N.A.
Reserve Account First Target Level (Liquidity Reserve Fund)	Available to provide liquidity support to the senior fees payments and interest on the Class A and X notes.	
	Initial Amount:	EUR 2,706,887 Corresponding to 1.5% of the Class A notes balance at issuance.
	Amortisation:	1.5% of the Class A current outstanding balance
	Support Trigger:	N.A.

Principal receipts from loans can be used to support liquidity for the Class A to Z1 notes (and only after shortfalls are first met from the liquidity reserve for Class A interest – and then from the general reserve fund), and for the Class X notes. The Class Z principal deficiency ledger (PDL), then the Class F PDL, then the Class E PDL, then the Class D PDL, then the Class C PDL, then the Class B PDL and then the Class A PDL will be debited when applying principal receipts to pay for shortfall of senior fees, interest on Class A notes and the most senior notes outstanding.

The liquidity support for the senior fees in the revenue waterfall and interest payments on the Class A and X notes will be provided first by the liquidity reserve fund. The general reserve fund will provide support for the Class A to F notes' interest payments, subject to the PDL condition.

The transaction structure is summarised below:



Counterparty Assessment

Servicer and Backup Servicer

Pepper is the portfolio administrator. DBRS considers the servicing practices of Pepper to be consistent with the overall Irish market. CSC Capital Markets (Ireland) Limited has been engaged to act as the back-up administrator facilitator to ensure the continuity of the mortgage portfolio servicing.

Collection Account Bank and Commingling Risk

Bank of Ireland (BOI, rated A (low) with a Stable trend by DBRS) is the collection account bank in the transaction. The amounts collected in the BOI collections account will be transferred to the Issuer transaction account on a daily basis.

Shortly after the closing date, the Issuer will open a new collection account in its name with Barclays Bank PLC, rated “A” with a Stable trend by DBRS. The amounts collected in the Issuer’s collections account will be transferred to the Issuer transaction account on a daily basis.

If a collection account provider is downgraded below BBB, the collection account bank will be replaced by an appropriately rated bank within 30 business days.

The BOI collection account is in the name of the legal title holder, Pepper. To mitigate commingling risk, each seller provided a declaration of trust to hold all amounts standing to the credit of the BOI collection account on trust for the Issuer. The collection account held with Barclays Bank PLC will be in the name of the Issuer, hence no commingling risk arises from the Issuer’s collection account.

Issuer Account Bank

Citibank N.A., London Branch (Citibank) is the account bank in the transaction. Based on the DBRS private rating of the account bank, the downgrade provisions outlined in the transaction documents, and structural mitigants, DBRS considers the risk arising from the exposure to the account bank to be consistent with the ratings assigned to the Notes, as described in DBRS’s *Legal Criteria for European Structured Finance Transactions* methodology.

Authorised Investments

Funds standing to the credit of the transaction account may be invested in authorised investments. The authorised investments are expected to be in accordance with DBRS's Legal Criteria for European Structured Finance Transactions for eligible investments.

Available Funds

The available revenue funds to be applied in accordance with the pre-enforcement revenue waterfall are as follows:

- Interest collections, including recoveries of interest from defaulting borrowers.
- Interest on the Issuer bank accounts.
- Cash generated from authorised investments.
- Principal receipts applied as principal deficiency excess revenue amounts.
- Amounts available under the general reserve fund to remedy a revenue shortfall.
- Amounts available under the liquidity reserve fund to remedy a Class A shortfall.
- Residual general reserve amounts.
- Residual liquidity reserve amounts.
- Principal receipts, which are required to meet any further Class A shortfall, and
- Excess available principal receipts.

The available principal funds to be applied in accordance with the pre-enforcement principal waterfall are as follows:

- Principal collections, including recoveries of principal from defaulting borrowers.
 - Revenue funds allocated to crediting a PDL.
- less*
- Principal receipts applied as principal deficiency excess revenue amounts.

Principal receipts can be applied by the Issuer in the funding of the Class A and X shortfall.

Priority of Payments

The Issuer applies the available funds in accordance with separate priorities of payments for interest and principal.

Revenue Priority of Payments:

1. Fees of trustee;
2. Other senior fees;
3. Amounts payable by the Issuer to third parties;
4. Issuer profit amount;
5. Interest due on the Class A notes and amounts due under the Class X notes;
6. Replenish the liquidity reserve fund to the target amount as long as the Class A notes are outstanding;
7. Class A notes PDL credit if applicable;
8. Interest due on the Class B notes (including accrued interest if any);
9. Class B PDL credit if applicable;
10. Interest due on the Class C notes (including accrued interest if any);
11. Class C PDL credit if applicable;
12. Interest due on the Class D notes (including accrued interest if any);
13. Class D PDL credit if applicable;
14. Interest due on the Class E notes (including accrued interest if any);
15. Class E PDL credit if applicable;
16. Interest due on the Class F notes (including accrued interest if any);

17. Class F PDL credit if applicable;
18. Replenish the general reserve fund to the target amount as long as the rated notes are outstanding;
19. Class Z1 PDL credit if applicable;
20. Class B additional note payment;
21. Class C additional note payment;
22. Class D additional note payment;
23. Class E additional note payment;
24. Class F additional note payment;
25. Excess available principal receipts;
26. Interest due on the Class Z1 notes (including accrued interest if any);
27. Interest due on the Class Z2 notes (including accrued interest if any);
28. Principal due on the Class Z2 notes;
29. Principal due on the Class X notes;
30. Principal due on the Class R notes; and
31. Interest due on the Class R notes (including accrued interest if any).

Items 20 to 25 inclusive of the Revenue Priority of Payments will be payable from the step-up date.

Principal Priority of Payments:

1. Senior class shortfalls (shortfalls on items (1) to (5) of the Revenue Priority of Payments);
2. Principal due on the Class A notes until paid in full;
3. Principal due on the Class B notes until paid in full;
4. Principal due on the Class C notes until paid in full;
5. Principal due on the Class D notes until paid in full;
6. Principal due on the Class E notes until paid in full;
7. Principal due on the Class F notes until paid in full;
8. Principal due on the Class Z2 notes until paid in full;
9. Principal due on the Class Z1 notes until paid in full;
10. Principal due on the Class X notes until the principal amount outstanding is reduced to EUR 1;
11. Principal due on the Class R notes until the principal amount outstanding is reduced to EUR 1; and
12. Excess to be allocated as revenue.

Principal Deficiency Ledger

The PDL is recorded as a debit ledger of the following items (without double counting):

- Losses on the underlying mortgages.
- In the case of split mortgage loans the current balance of the warehoused loan part, plus for loans greater than 180 days in arrears, an amount equal to the current balance of the loan in arrears times the applicable arrears percentage (20% after six months, 35% after nine months and 50% after 12 months), minus 40% of the principal amount outstanding of the Class Z1 notes as at the closing date.
 - If such loan cures to a status below six months in arrears, the PDL debits are credited back.
- Principal receipts to meet any remaining revenue shortfall on the senior fees, interest on the Class A notes or interest on the Class X notes.

Legal Structure

On the Issue Date, the Issuer acquired the beneficial title to the collateral. As security for the payments of all monies payable with respect to the notes, the Issuer will enter a deed of charge, creating security in favour of the trustee consisting of a first-ranking fixed charge over the Issuer's rights, title, benefit and interest in and to the underlying collateral. The transaction structure is designed to ensure that any insolvency of the originator will not interrupt the timely payments of principal and interest to investors. The Issuer will charge its rights, title and interest in and to the mortgages to the trustee. The Issuer will have no recourse to the originator except in limited circumstances.

Representations and Warranties

The mortgage sale agreements contain representations and warranties given by DF4 or DF5 (as the relevant seller) and the Master Servicer in relation to the mortgage portfolio. A breach of any of the representations and warranties (except where identified with regard to the remediation reviews) would require the relevant seller to indemnify the Issuer. The indemnification payments are capped and subject to a minimum claim value, as described above.

The relevant seller may have limited resources available at its disposal to fund indemnification. The relevant seller is able to claim for indemnification from the relevant original seller, with such amounts being passed to the Issuer. Any claims are time limited to 18 months from closing, (May 2020) and are monetary limited. DBRS expects any future breach of warranty to be limited.

Set-Off Risk

Should an originator which takes deposits – here LBS as original seller – become insolvent, borrowers may have the right to set off the balance of their mortgage loan against their deposits. However, the borrowers have been notified that their mortgage will be transferred to Pepper and will receive another notification following the completion of the transfer on or shortly after the Closing Date which, in DBRS's view, makes a successful deposit set-off claim unlikely. Foremost, LBS do not take or hold any deposits anymore in Ireland since end-September 2018.

The mortgage portfolio contains tracker mortgage loans, which are subject to review by the CBI as part of the original seller's participation in the CBI Tracker Mortgage Examination. The CBI have confirmed to LBS that the tracker review is complete from their perspective. To the best of the Master Servicer's knowledge, no borrower of any of these loans will be compensated or redressed as part of the review.

Indemnification by the Issuer

According to transaction documentation, the Issuer indemnifies the Legal Title Holder, Pepper, for various risks. This indemnification was previously formulated in general wording. Later, a clarification was added, highlighting two specific risks: the Mondello IOA Issue and the Mondello TRS Issue.

The Mondello TRS Issue relates the way LBS has calculated tax relief amounts under the Tax Relief at Source (TRS) scheme operated in Ireland, under which Irish mortgage borrowers are permitted to pay interest net of the relevant tax relief to the relevant mortgage lender and the relevant mortgage lender, once it constitutes a qualifying lender, can claim a refund of the tax relief directly from an account of the Irish Revenue Commissioners. Before 2014, LBS calculated the tax relief amounts based on interest charged rather than the interest actually paid by the borrowers. As a consequence, borrowers that did not make the full scheduled interest payments were granted too much tax relief; hence, LBS claimed too much from the Irish Revenue Commission. However, the arranger's legal counsel has confirmed that the Mondello TRS Issue has been resolved for all years prior to 2018 (hence for all loans in the cover pool, as no loan in the cover pool was originated after 2010). DBRS therefore views the risk that compensation payments to the Irish Revenue Commission could have to be made by Pepper (and indemnified or directly made by the Issuer) mitigated.

The Mondello IOA Issue relates to the methodology LBS used to calculate interest on arrears (IOA): LBS capitalises IOA onto the outstanding principal mortgage balance and reduces it only by payment actually made by the customer, rather than scheduled payment. Pepper, as the Legal Title Holder and Administrator (i.e. servicer), intends to change this methodology for the LBS-originated portfolio to not capitalising IOA onto the outstanding principal balance of a loan, keeping a separate balance of any arrears, with interest charged on sums in arrears separately, without being capitalised and reducing the principal balance on a loan by the amount of a contractual payment due, rather than the amount actually paid. The risk that could arise from the way LBS has calculated IOA, in DBRS's view, is of a regulatory nature, resulting in potential of redress payments due to the borrowers for the higher IOA they have been charged. DBRS also notes that no warranty is given on servicing, including compliance with laws and regulations.

Discussions with the arranger and its legal counsel have led DBRS to believe that the risk stemming from the Mondello IOA issue is remote, and that if it were to materialise, the redress payments would have to be made by LBS (whose losses are not covered by the indemnity given by the issuer) as the original seller, not Pepper as the Legal Title Holder, and therefore views this risk mitigated.

DBRS will continue to monitor the regulatory situation in Ireland. Should the Issuer have to make any indemnification payments to the Legal Title Holder, such payments would be disclosed as indemnity payments in the investor report.

DBRS notes that its ratings do not address changes in laws and regulations. Further, DBRS notes that the Legal Title Holder is a party to the transaction and as such is expected to have signed up to limited recourse and non-petition language.

Events of Default

Events of default will occur under the following scenarios:

- Non-payment of principal on any of the notes within seven days of such amount being due.
- Non-payment of interest on any of the notes within fourteen days of such amount being due, subject to the interest deferral condition.
- The Issuer fails to perform or observe any of its other obligations and the failure continues for a period of 30 days (or as the Note Trustee may permit) following the service by the Note Trustee on the Issuer.
- An insolvency event in respect of the Issuer.
- Illegality for the Issuer to perform or comply with its obligations.

Collateral Summary

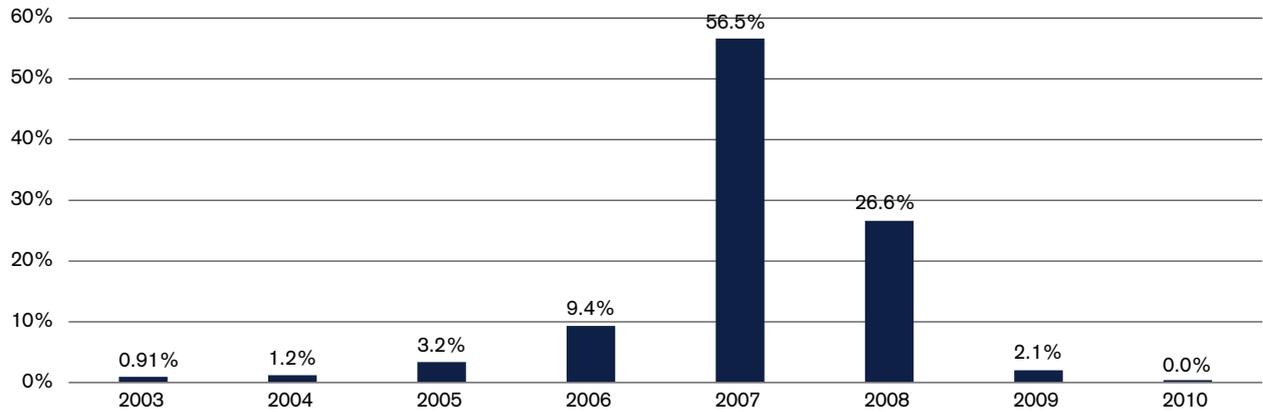
Data Quality

DBRS received the mortgage portfolio loan tape to conduct the credit analysis of the collateral pool (cut-off date of 30 September 2018). DBRS received performance history information from October 2012 to July 2018. DBRS viewed the Agreed Upon Procedures report. The main source of information used for these ratings is Dilosk DAC. DBRS considers the information available to it for the purposes of providing these ratings to be of satisfactory quality.

Historical Performance Data

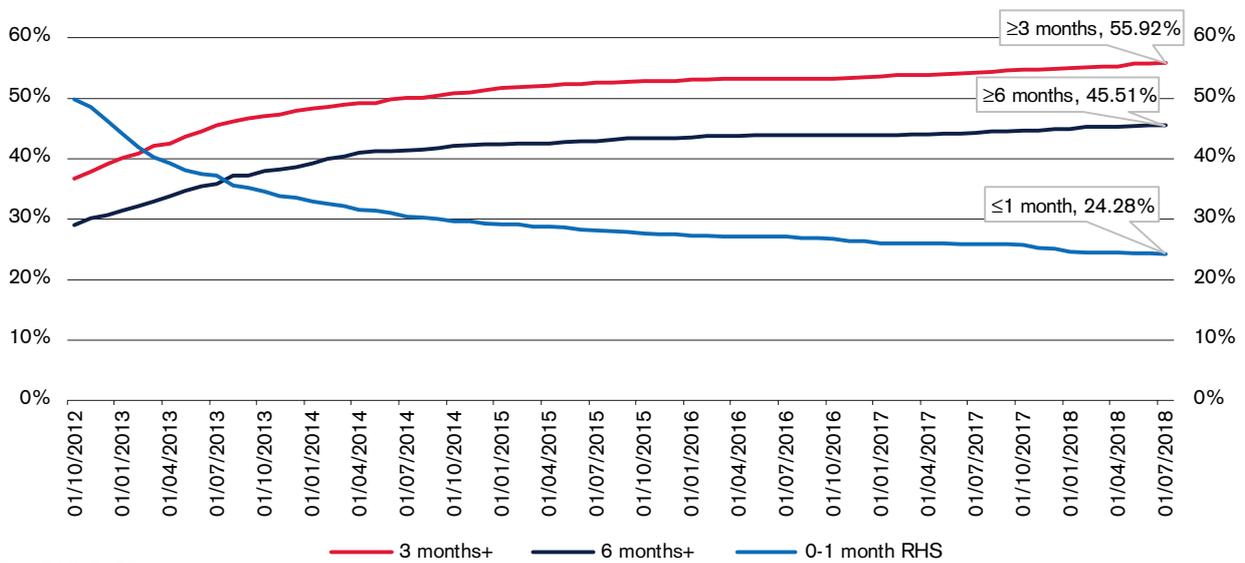
As of the cut-off date, the securitised portfolio had approximately 11.1 years of seasoning. The chart below shows the proportion of loans in the mortgage portfolio by the origination vintage.

Exhibit 1: Origination Date



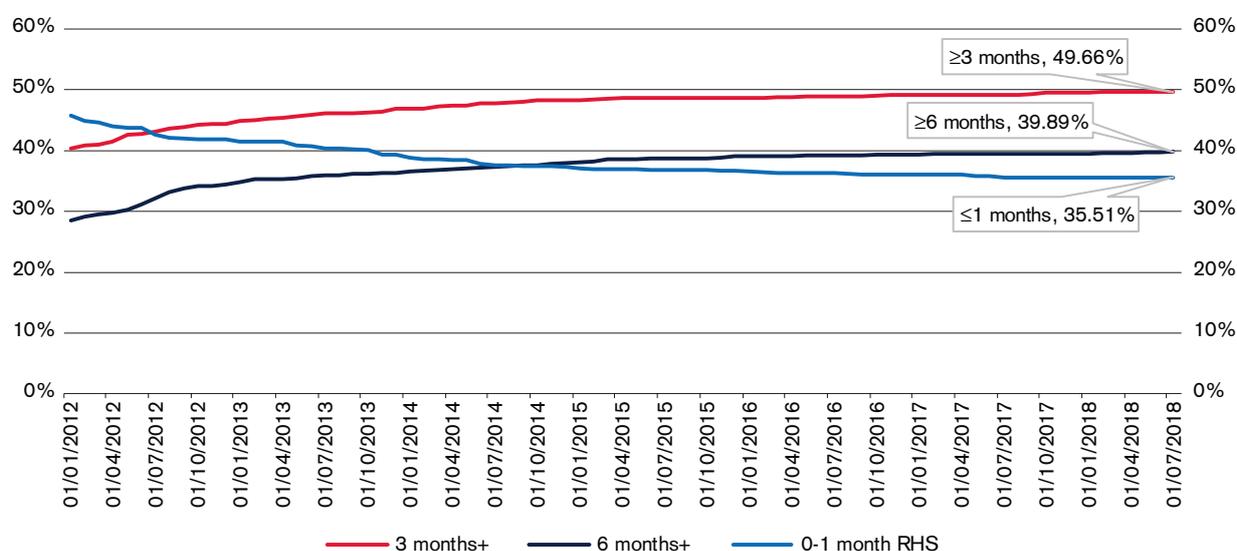
Source: Dilosk RMBS No. 2 pool tape, Dilosk DAC.

Exhibit 2: Cumulative Arrears - Pepper



Source: Dilosk DAC, DBRS.

Exhibit 3: Cumulative Arrears - LBS



Source: Dilosk DAC, DBRS.

Summary Statistics (DBRS Calculations)

30-Spe-18

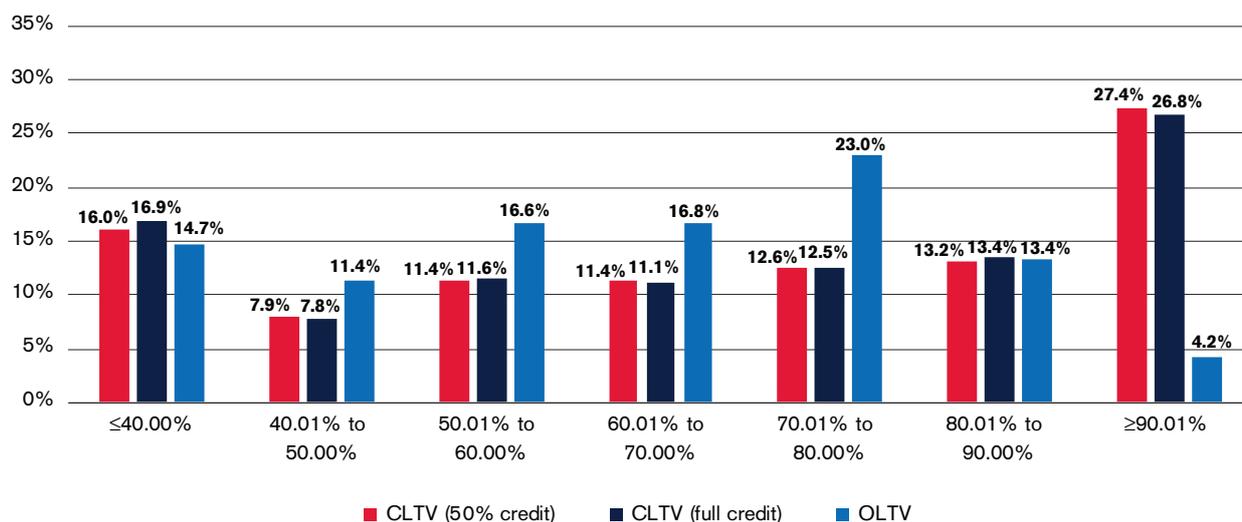
Number of Mortgage Loans	1,791
Number of Borrowers	1,727
Total Original Balance (EUR)	340,514,809
Total Current Balance (EUR)	286,443,097
Average Original Balance per Borrower (EUR)	190,126
Average Current Balance per Borrower (EUR)	159,935
Maximum Original Balance (EUR)	1,200,000
Maximum Current Balance (EUR)	1,126,517
WA Original LTV	61.95%
WA Current LTV Indexed*	70.27%
Proportion of loans with CLTV(ind)>100%*	14.13%
WA Seasoning (Years)	11.14
WA Residual Term (Years)	17.19
WA Interest Rate	3.04%
Interest-Only Loans	44.51%
Self-Employed / ND	61.67%
Income Self-Certified	17.00%
Owner Occupied	100.00%
Buy-to-Let	0.00%
Purchase Loans	6.34%
Re-mortgage Loans	44.89%
Re-mortgage w Equity Release Loans	2.90%
Restructured Loans	47.34%
>0 and <=1 Month in Arrears	11.77%
>1 and <=2 Months in Arrears	3.98%
>2 and <=3 Months in Arrears	1.88%
>3 Months in Arrears	0.00%

*DBRS Calculation: the WA Indexed LTV was calculated giving 50% credit to increase in house prices.

Interest Rates

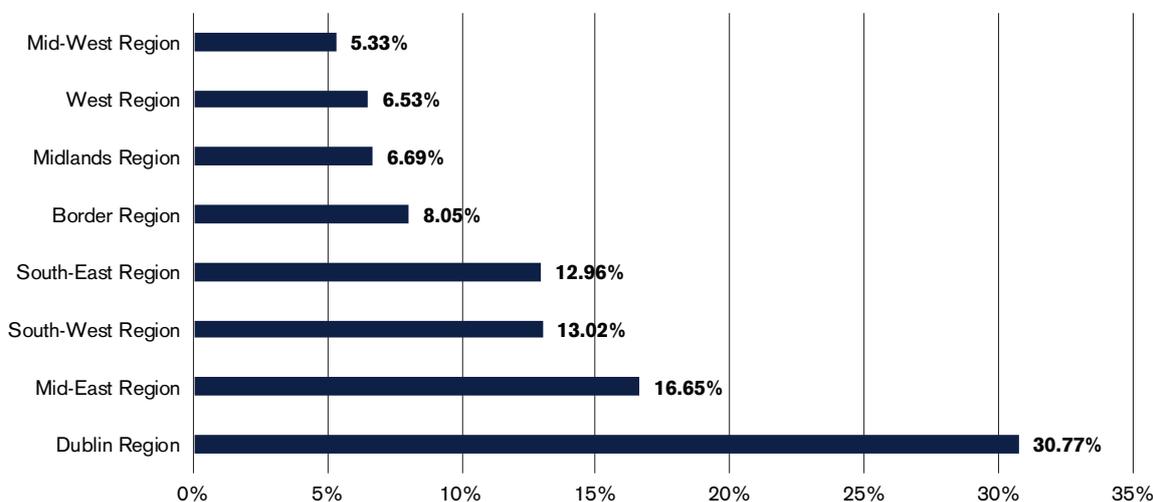
The WA interest rate of the portfolio is 3.04%. The majority of the loans tracks the ECB rate plus a spread (52.78% of the mortgage portfolio, with a WA coupon of 1.26%). The remaining portion pays the SVR set by Pepper at ECB Base Rate plus a margin, each loan floored at its current margin (46.48% of the mortgage portfolio, with a WA coupon of 5.17%). The remaining 0.74% of the portfolio pays a margin above the three-month Euribor.

Exhibit 4: LTV Distribution



Source: Dilosk RMBS No. 2 pool tape, Dilosk DAC.

Exhibit 5: Geographic Breakdown



Source: Dilosk RMBS No. 2 pool tape, Dilosk DAC.

Summary of the Cash Flow Scenarios

To assess the timely payment of interest and the ultimate payment of principal on the Rated Notes, DBRS applied its default curves (front ended and back ended), its prepayment curves (low, medium and high constant prepayment rate (CPR) assumptions) and interest rate stresses as per its *Interest Rate Stresses for European Structured Finance Transactions* methodology. Additionally, a 0% prepayment curve was also tested.

Based on a combination of these assumptions, a total of 16 cash flow scenarios were applied to test the performance of the Rated Notes (see table below).

Scenario	Pre-Payments	Default Timing	Interest Rate
1	0%	Front	Upward
2	0%	Front	Downward
3	0%	Back	Upward
4	0%	Back	Downward
5	5%	Front	Upward
6	5%	Front	Downward
7	5%	Back	Upward
8	5%	Back	Downward
9	10%	Front	Upward
10	10%	Front	Downward
11	10%	Back	Upward
12	10%	Back	Downward
13	20%	Front	Upward
14	20%	Front	Downward
15	20%	Back	Upward
16	20%	Back	Downward

Interest Rate Stresses

DBRS applied its standard interest rate stresses as detailed in its *Interest Rate Stresses for European Structured Finance Transactions* methodology.

The Rated Notes pay an interest rate linked to the three-month Euribor rate and are capped at an interest rate of 6% (Class A to C notes) or 8% (Class D to F notes). In comparison, the loans in the mortgage portfolio pay interest linked to the ECB Base Rate plus a spread (52.78% of the mortgage portfolio by outstanding loan balance), or the SVR set by Pepper (46.48% of the mortgage portfolio). The remaining 0.74% of the portfolio pays a margin above the three-month Euribor. This gives rise to basis risk that is not hedged in the transaction.

To mitigate this risk, the servicer is expected to maintain the SVR rate at a minimum of the ECB Base Rate plus the current margin. Pepper has the flexibility to increase the SVR if there is an increase in the ECB Rate, but only in an amount equal to such increase, or decrease the SVR following a decrease in the ECB Rate but only in an amount equal to such decrease and subject to the floor mentioned above.

Probability of Default, Loss Given Default and Expected Losses

The lifetime PD, loss given default (LGD) and expected losses (EL) estimated for the mortgage portfolio were used as an input for the cash flow analysis of the transaction structure and its supporting features.

Rating Scenario	PD	LGD	EL
AAA	55.00%	65.18%	35.85%
AA	48.44%	54.68%	26.49%
A	43.73%	49.50%	21.65%
BBB	37.94%	42.62%	16.17%
BB	29.62%	34.88%	10.33%
B	21.01%	29.11%	6.11%

Timing of Defaults and Recovery Lag

DBRS utilised ten-year front- and back-loaded default timing curves and assumed a recovery lag of 48 months.

Risk Sensitivity

DBRS estimated the PD and LGD for the pool based on a review of historical data and an assessment of the mortgage pool characteristics. Adverse changes to asset performance may cause stresses to base case assumptions and therefore have a negative impact on the credit ratings. The tables below illustrate the sensitivity of the rating to various changes in the base case default rates and loss severity assumptions relative to the base case assumptions, in the respective rating scenario of the following classes:

Class A

		Increase in Default Rate (%)		
		0	25	50
Increase in LGD (%)	0	AAA	AAH	AAL
	25	AAH	AAL	AL
	50	AA	AL	BBB

Class B

		Increase in Default Rate (%)		
		0	25	50
Increase in LGD (%)	0	AAH	AA	A
	25	AA	AL	BBB
	50	A	BBBH	BBBL

Class C

		Increase in Default Rate (%)		
		0	25	50
Increase in LGD (%)	0	AA	AH	BBBH
	25	AH	BBBH	BBBL
	50	BBBH	BBBL	BBH

Class D

		Increase in Default Rate (%)		
		0	25	50
Increase in LGD (%)	0	A	BBBH	BBBL
	25	BBB	BBBL	BBH
	50	BBBL	BBH	BBL

Class E

		Increase in Default Rate (%)		
		0	25	50
Increase in LGD (%)	0	BBH	BB	BBL
	25	BB	BH	B
	50	BBL	B	B

Class F

		Increase in Default Rate (%)		
		0	25	50
Increase in LGD (%)	0	BB	BH	B
	25	BH	B	BL
	50	B	BL	BL

Appendix

Methodologies Applied

The principal methodology applicable to assign ratings to this transaction is the *Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda*.

Other methodologies referenced in this transaction are listed below:

- *Legal Criteria for European Structured Finance Transactions*
- *Operational Risk Assessment for European Structured Finance Servicers*
- *Operational Risk Assessment for European Structured Finance Originators*
- *Interest Rate Stresses for European Structured Finance Transactions*

The rating methodologies and criteria used in the analysis of this transaction can be found at:

<http://www.dbrs.com/about/methodologies>. Alternatively, please contact info@dbrs.com.

Surveillance Methodology

The transaction is monitored by DBRS in accordance with its *Master European Structured Finance Surveillance Methodology* and is available at www.dbrs.com under the heading Methodologies. Alternatively, please contact info@dbrs.com.

Notes:

All figures are euros unless otherwise noted.

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