CREDIT OPINION
23 October 2018

Pre-Sale

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Closing Date

[•] October 2018

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Dilosk RMBS No. 2 DAC

New Issue – Dilosk issues securitisation of residential mortgages in Ireland

Capital structure

Exhibit 1
Provisional ratings

Series	Rating	Amount (Million)	% Of Assets	Legal Final Maturity	Coupon Pre Step-up Date*	Subordi-nation**	Reserve Fund***	Total Credit Enhancement** **
A	Aaa(sf)	€ [•]	[63.00]%	[Dec 2057]	3mE +[•]%	[37.00]%	[3.00]%	[40.00]%
B	Aa1(sf)	€ [•]	[6.50]%	[Dec 2057]	3mE +[•]%	[30.50]%	[3.00]%	[33.50]%
C	A1(sf)	€ [•]	[5.00]%	[Dec 2057]	3mE +[•]%	[25.50]%	[3.00]%	[28.50]%
D	Baa3(sf)	€ [•]	[6.00]%	[Dec 2057]	3mE +[•]%	[19.50]%	[3.00]%	[22.50]%
E	B3(sf)	€ [•]	[9.00]%	[Dec 2057]	3mE +[•]%	[10.50]%	[3.00]%	[13.50]%
F	Caa3(sf)	€ [•]	[3.00]%	[Dec 2057]	3mE +[•]%	[7.50]%	[3.00]%	[10.50]%
Z1	NR	€ [•]	[7.50]%	[Dec 2057]	[•]%	[0.00]%	NA	[0.00]%
Z2	NR	€ [•]	[•]%	[Dec 2057]	[•]%	NA	NA	NA
X	NR	€ [•]	[•]%	[Dec 2057]	[•]%	NA	NA	NA
R	NR	€ [•]	[•]%	[Dec 2057]	[•]%	NA	NA	NA
Total		€ [•]	100.00%					

The ratings address the expected loss posed to investors by the legal final maturity. In our opinion, the structure allows for timely payment of interest and the ultimate payment of the principal at par on or before the rated final legal maturity date for the rated notes. Our ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.
*Euribor for three-month deposits in euros. [3] years from closing the coupon for Class A increases to 3mE + [•]%, the Class B, C and D receive a payment of [1.00]% and Class E and F notes a payment of [1.50]% due and payable junior in the waterfall. Class X receives [0.11]% of the outstanding mortgage portfolio balance paid pro-rata pari passu with the Class A notes. Interest on the notes (EURIBOR plus the margin) is paid up to the coupon cap which is [6.00]% for Class A, B and C notes and [8.00]% for Class D, E and F notes.
**At close, as a percentage of the portfolio as of the pool cut-off date as of 31/07/2018.
***General reserve fund sized at [3.00]% of the Class A, B, C, D, E, F and Z1 notes, reduced by the liquidity reserve fund balance which is [1.50]% of the Class A at closing.
****Only Classes A, B, C, D, E, F and Z1 are backed by mortgage loans. No benefit attributed to excess spread.
Source: Moody's Investors Service

Summary

The subject transaction is a static cash securitisation of residential mortgage loans, extended to obligors located in Ireland, originated by Leeds Building Society (A3/P-1 and A1(cr)/P-1(cr)) and Pepper Finance Corporation (Ireland) DAC (formerly GE Capital Woodchester Home Loans Limited) (NR). Between April 2017 and June 2017, the sellers Dilosk Funding No. 4 DAC and Dilosk Funding No. 5 DAC (both set up as a Special Purpose Vehicle and wholly owned subsidiaries of Dilosk DAC) purchased the loans originated by GE Capital Woodchester Home Loans Limited (approx. EUR [132]M within the pool) from Windmill Funding DAC and Pepper Finance Corporation (Ireland) DAC. In November 2018, Dilosk Funding No.5 DAC, with Barclays Bank plc as Sponsor, will purchase the loans originated by Leeds Building Society (approx. €[158] M within the pool) from Leeds Building Society. The portfolio sold to the issuer consists of [1,810] mortgage accounts extended to [1,744] primary borrowers with the total pool balance of around [290] million as of the cut-off date (31 July 2018). Our credit opinion is the result of an analysis of a wide array of quantitative and qualitative factors, including the pool characteristics, and the originator and servicer reviews. The credit opinion of the transaction also takes into consideration the structural features, such as credit enhancement and liquidity, available for each class of notes, as well as the mitigants to servicer disruption risk.

Credit strengths

The following factors were the strongest features of this transaction:

- » ***Asset quality:*** Particular strengths of the transaction include (1) highly seasoned pool with a (weighted-average) WA seasoning of [10.98] years; (2) a relatively low loan-to-value (LTV), with the current WA LTV at [55.8]%; and (3) no substitution of loans and no further advances are allowed. (See “Asset analysis - Comparables”)
- » ***Liquidity:*** An upfront funded amortising liquidity reserve fund, equal to [1.5]% of the outstanding principal balance of the Class A notes, which is in place to ensure timely payment of the Class A. The liquidity reserve fund is available to cover shortfall of funds in relation to senior fees and interest on Class A and X notes. (See “Securitisation structure description - Detailed description of the transaction”)
- » ***Subordinated Class Z1 notes:*** Interest on the unrated Class Z1 is paid junior to its PDL, which increases the excess spread available to the rated notes. (See “Securitisation structure description - Detailed description of the transaction”)

Credit challenges

The transaction contains the following challenges:

- » ***Inclusion of restructured loans in the pool*:** [42.1]% of the loans in the pool have been restructured as part of servicer loss mitigation techniques, taking into account that none of the restructured loans in the pool are more than three months in arrears. (See Asset analysis - Primary asset analysis)
- » ***Representations and warranties:*** The issuer rely on the representations and warranties provided by the sellers and master servicer. The liability of the seller and/ or master servicer is limited in time (18 months from closing) and limited to not greater than [•]% of the outstanding loan balance. (See Asset description - Representations and warranties)
- » ***Operational risk:*** The servicer, Pepper Finance Corporation (Ireland) DAC (Pepper) is not rated by us. This is mitigated by the appointment of a backup servicer facilitator at closing, which would support the issuer in the event a replacement needs to be appointed. In addition, estimation language, together with and independent cash manager and a dedicated liquidity for the Class A notes, ensures the timeliness of interest payments should there be a cash flow interruption in the transaction. (See “Securitisation structure description - Detailed description of the transaction”)
- » ***Waterfall features:*** There is a complex PDL mechanism in place, which tracks losses and loans in arrears. We have given limited benefit to the PDL's ability to trap excess spread as a source of credit enhancement in our cash flow modelling. In addition, Class X receives payments senior in the waterfall which further reduces the excess spread available to the rated notes. The interest payment to Class X is equal to [0.11]% of the outstanding pool balance and is paid pro rata with the Class A. (See “Securitisation structure description - Detailed description of the transaction”)

» ***Loan modifications:*** The servicer may modify the loan conditions and, has certain discretion to determine and set interest rates on the variable rate loans. There is no limitation on the loan modifications in terms of the proportion of the portfolio that may be affected. We have considered this risk in our asset margin modelling. (See Asset analysis - Changes to the asset pool after issuance)

Key characteristics

Exhibit 2
Asset characteristics
(Pool cut-off date as of 31/07/2018)

Key Characteristics	Dilosk RMBS No. 2 DAC
Originator(s):	Leeds Building Society and Pepper Finance Corporation (Ireland) DAC (A3/P-1 and A1(cr)/P-1(cr))
Seller:	Dilosk Funding No. 4 DAC (NR) Dilosk Funding No. 5 DAC (NR)
Sponsor:	Barclays Bank PLC (A2/P-1 and A2(cr)/P-1(cr))
Servicer/ Administrator:	Pepper Finance Corporation (Ireland) DAC (NR)
Master Servicer:	Dilosk DAC (NR)
Receivables:	First-lien loans to individuals secured by property located in Ireland
Methodology Used:	Moody's Approach to Rating RMBS Using the MILAN Framework, September 2017
Total Amount:	[290,066,984]
Number of Borrowers:	[1,744]
Borrower concentration:	Top 20 borrowers [5.42]% of pool balance
WA Remaining Term (in years):	[17.48]
WA Seasoning (in years):	[10.94]
WA Interest Rate:	[3.04%]
WA Current LTV:	[55.76]%
WA Original LTV:	[61.96]%
Moody's calculated WA indexed LTV:	[66.70]%
Delinquency Status :	[30.2]% of the loans in the pool are in areas with [24.2]% less than one month in arrears out of which approx. [66]% have an outstanding arrears balance of less than € 50. Approx. [6.0]% of the loans in the pool are more than one month in arrears with no loans in the pool more than three months in arrears.

* as per Moody's calculation
Source: Moody's Investors Service

Exhibit 3
Structure characteristics

Issuer:	Dilosk RMBS No. 2 DAC
Corporate Service Provider:	CSC Capital Markets (Ireland) Limited (Not Rated)
Models Used:	MILAN (Irish settings) and SFW
Excess Spread at Closing:	[1.4]%, assuming a stressed Euribor rate of 4% per annum
Length of Revolving Period:	N/A
Back-up Servicer(s):	N/A
Back-up Servicer Facilitator:	CSC Capital Markets (Ireland) Limited (Not Rated)
Cash Manager:	Citibank N.A. London Branch (A1/P-1, A1(cr)/P-1(cr))
Back-up Calculation/Computational Agent:	N/A
Currency Swap Counterparty:	N/A
Rate Swap Counterparty:	N/A
Issuer Account Bank:	Citibank N.A. London Branch (A1/P-1, A1(cr)/P-1(cr))
Collection Account Bank:	Bank of Ireland (A3/Baa1, A2(cr)/P-1(cr))
Principal Paying Agent:	Citibank N.A. London Branch (A1/P-1, A1(cr)/P-1(cr))
Trustee:	Citicorp Trustee Company Limited (Not Rated)
Arrangers:	NatWest Markets Plc (Baa2/P-2, A3(cr)/P-2(cr))
Joint Lead Managers:	Barclays Bank PLC, NatWest Markets Plc
Credit Enhancements/Reserves:	Subordination for Aaa (sf) notes Non-amortising general reserve fund
Form of Liquidity:	Excess spread, Liquidity Reserve Fund; Gerneral Reserve Fund
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	Pass-through
Payment Dates:	20th of March, June, September and December
First Payment Date:	20th of March
Hedging Arrangements:	N/A

Source: Moody's Investors Service

Asset description

The assets backing the notes are first-ranking mortgage loans originated by Leeds Building Society and Pepper Finance Corporation (Ireland) DAC (formerly GE Capital Woodchester Home Loans Limited). All the loans in the pool are secured on residential properties located in Ireland.

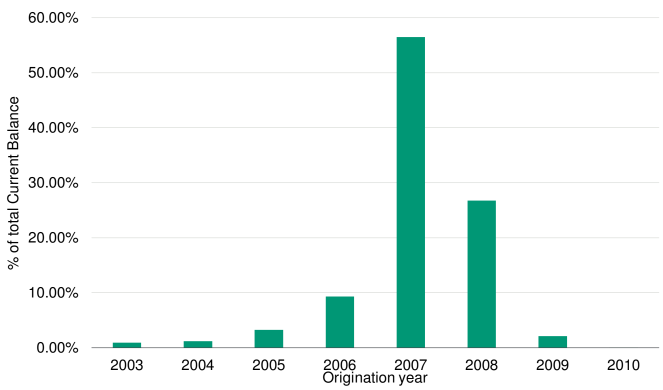
Asset description as of the cut-off date

The provisional pool cut-off date is 31 July 2018.

Pool characteristics

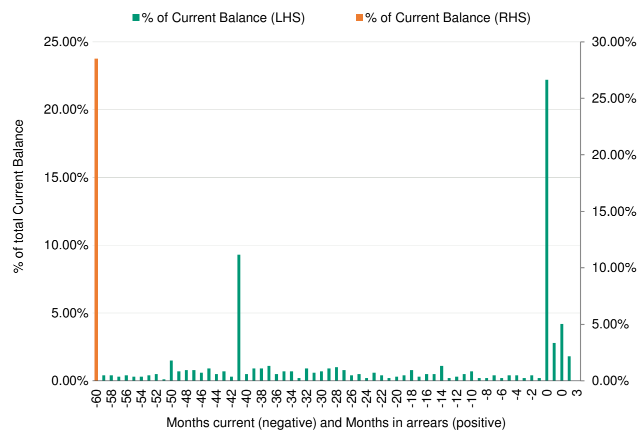
Exhibit 4 shows the proportion of loans by origination year and shows that most of the loans in the pool ([83.2]%) have been originated between 2007 and 2008. Exhibit 5 highlights that around [28.5]% of loans are at least 60 months current. The WA LTV ratio in the pool is [55.8]%. Exhibit 6 shows that [21.3]% of the loans in the pool have a current indexed LTV that is higher than 90%. Around [31]% of the loans are concentrated in the Dublin region, as shown in Exhibit 7.

Exhibit 4
Portfolio breakdown by origination year on the total loan balance



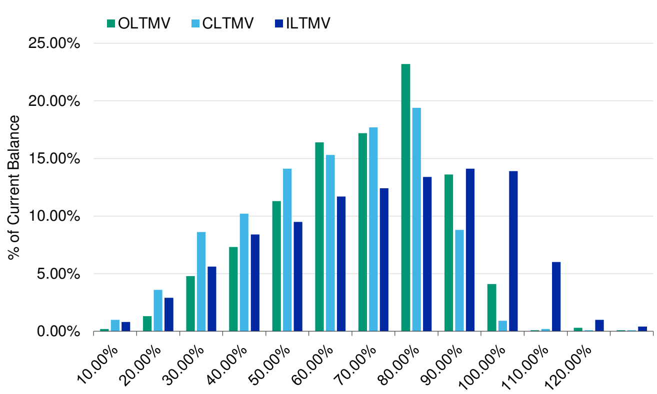
Sources: Input file, Moody's Investors Service computations

Exhibit 5
Portfolio breakdown by months current on vintage loan balance



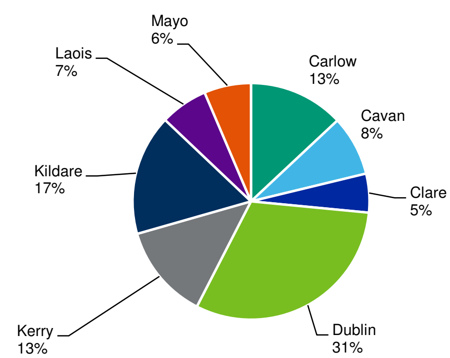
Sources: Input file, Moody's Investors Service computations

Exhibit 6
Portfolio breakdown by original/current and indexed LTV



Sources: Input file, Moody's Investors Service computations

Exhibit 7
Portfolio breakdown by geography



Sources: Input file, Moody's Investors Service computations

Originator

The originator of the loans is Leeds Building Society and Pepper Finance Corporation (Ireland) DAC (formerly GE Capital Woodchester Home Loans Limited). All of the mortgage loans in the mortgage portfolio were originated before March 2010.

Between April 2017 and June 2017, the seller Dilosk Funding No. 4 DAC and Dilosk Funding No. 5 DAC (both set up as a Special Purpose Vehicle and wholly owned subsidiaries of Dilosk DAC), purchased the loans originated by GE Capital Woodchester Home Loans Limited (approx. EUR 132M within the pool) from Windmill Funding DAC and Pepper Finance Corporation (Ireland) DAC. In November 2018, Dilosk Funding No.5 DAC, with Barclays Bank plc as Sponsor, will purchase the loans originated by Leeds Building Society (approx. €[158] M within the pool) from Leeds Building Society. The sellers will subsequently sell the beneficial title to the mortgage loans to the issuer. The legal title to the mortgage loans will be transferred to the servicer and will be held with the servicer until a perfection event occurs.

In 2015 the Central Bank of Ireland (CBI) decided to carry out an industry-wide review of tracker mortgage accounts. Lenders in the Irish market are required to conduct an examination of their compliance with their contractual obligations and consumer protection regulations regarding tracker mortgages. These include borrowers who switched from their tracker rate and/or lost their right to revert to a tracker rate when they came to the end of a fixed-rate period on their mortgage.

For this pool as of today, the review on possible impact by the CBI Tracker Mortgage Examination has been completed on all mortgage loans in the pool. Moody's understands that there is no loan outstanding for which any redress and compensation is pending.

Servicer/ Administrator

Pepper is the servicer in this transaction. Among other services, Pepper provides third-party residential mortgage administration services to its clients on mortgage loans secured by residential real estate in Ireland.

The mortgage portfolio originated by GE Capital Woodchester Home Loans Limited has been serviced by Pepper for special servicing and for primary servicing since October 2012. The mortgage portfolio originated by Leeds Building Society will be serviced by Pepper for special servicing and for primary servicing from the closing of this transaction.

Master Servicer

Dilosk DAC is the master servicer in this transaction. Dilosk DAC is an Irish financial services company, regulated by the Central Bank of Ireland as a retail credit firm and is an active residential mortgage lender in the Irish mortgage market. The master servicer is involved in the decision process relating to actions to deal with individual arrears cases including the servicer using the court process to seek an order for repossession. Any action to be taken following the repossession of a property is agreed with the master servicer. In addition, the master servicer monitors the compliance of servicers obligations, monitoring the operation of the issuer transaction account, reviewing the monthly reports and participating at case review committees.

Changes to the asset pool after issuance

No substitutions or further advances are allowed in the transaction. However the servicer my apply restructuring solution such as restructuring a loan into a split mortgage ([2.64]% in the pool as of the pool cut off date) as part of its forbearance solutions. There are no restriction on the type of restructuring solution that can be applied.

Representations and warranties

The representations and warranties ensure the information provided on the mortgage loans, by each seller and the master servicer, is accurate, in aspects such as current balance, repayment method, interest rate type, margin, original term etc. The representations and warranties also require all loans to be compliant with regulation.

The issuer will rely on the representations and warranties given by each seller and the master servicer in the mortgage sale agreement. The only remedies of the issuer in respect of the occurrence of a breach of a representation and warranty that materially and adversely affects the value of a loan will be the requirement that the seller and/ or master servicer repurchases such loans from the issuer. However, the liability of each seller and master servicer is limited in time (18 months from closing) and limited to not greater than [•]% of the outstanding loan balance. Further, each seller is set up as an SPV with limited assets available as a mitigant the master servicer is also liable to remedy any breaches.

Agreed upon procedures (AUP)

An AUP was performed in October 2018. The AUP results were in line with our expectation and were similar to the results of comparable transactions. Most of the errors identified in the AUP related to missing or unsigned certificate of title, incorrect property address and valuation dates. We note that prior to the purchase of the assets from the respective entities a due diligence was undertaken relating to the enforceability of all the mortgages in the pool. There are no loans in the pool for which an issue with the title was identified.

Asset analysis

Primary asset analysis

The first step in the analysis of the credit quality of the pool is to determine a loss distribution of the mortgages to be securitised. To determine the shape of the curve, two parameters are needed: the expected loss and the volatility around this expected loss. These parameters are derived from two important sources: historical loss data and the MILAN loan-by-loan model.

Derivation of expected loss

We use performance data provided by the originator in addition to other relevant data to extrapolate expected losses for the loan pool. Examples of data include market and sectorwide performance data, the performance of other securitisations and other originators' data.

The key drivers for the portfolio's expected loss of [12]%, which is above the Irish residential mortgage-backed securities (RMBS) sector average, are as follows: (1) the collateral performance of the loans to date, as provided by the sponsor; (2) restructured loans accounting for [42.1]% of the portfolio; (3) loans in arrears with approx. [6]% of the pool being one month or more in arrears. There are no loans more than three months in arrears in the pool at closing (4) seasoning of the pool with a WA seasoning of [10.98]years; (5) the current macroeconomic environment in Ireland; (6) the stable outlook that we have on Irish RMBS; and (6) benchmarking with other comparable Irish RMBS transactions.

MILAN model

To obtain the volatility under stressed scenarios, we take into account historical data. However, historical volatility may not be significant (given insufficient data points or incomplete data) and, in addition, may not be representative for the future because they are based on previous economic environments.

Consequently, we determine a number representing the enhancement that would be required for a pool of mortgages to obtain a rating consistent with Aaa under highly stressed conditions. This enhancement number (the MILAN CE number) is produced by using a loan-by-loan model, which looks at each loan in the pool individually and based on its individual characteristics such as LTV or other identified drivers of risk. The enhancement number will produce a benchmark CE number. The CE number assumes stressed recovery rates (through house price decline), time to recovery, interest rates and costs to foreclosure. The WA benchmark CE number will then be adjusted according to the positive and negative characteristics of each loan, or of the pool as a whole, to produce the MILAN CE number.

The key drivers for the MILAN CE number of [30]%, which is above the Irish RMBS sector, are as follows: (1) the WA LTV at around [55.8]%; (2) the restructured loans accounting for [42.1]% of the portfolio; (3) the well-seasoned portfolio of around [10.85]years; and (4) benchmarking with other Irish RMBS transactions.

Lognormal distribution

The first step in the analysis is to determine a loss distribution of the pool of mortgages to be securitised. Owing to the large number of loans and supporting historical data, we use a continuous distribution to approximate the loss distribution: the lognormal distribution.

To determine the shape of the curve, two parameters are needed: the expected loss and the volatility around this expected loss. These parameters are derived from two important sources: historical loss data and the loan-by-loan model.

We use performance data provided by the originator in addition to other relevant data to extrapolate expected losses for the loan pool. Examples of data include market and sectorwide performance data, the performance of other securitisations and other originators' data.

To obtain the volatility under stressed scenarios, we take into account historical data. However, observed historical volatility may not be significant (given insufficient data points or incomplete data) and, in addition, may not be representative for the future as they are based on the previous economic environments experienced.

Consequently, we determine a number representing the enhancement that would be required for a pool of mortgages to obtain a rating consistent with Aaa under highly stressed conditions. This enhancement number (the MILAN CE number) is produced by using a loan-by-loan model, which looks at each loan in the pool individually and based on its individual characteristics such as LTV or other identified drivers of risk. The enhancement number will produce a benchmark CE number. The CE number assumes stressed recovery rates (through house price decline), time to recovery, interest rates and costs to foreclosure. The WA benchmark CE number will then be adjusted according to the positive and negative characteristics of each loan, or of the pool as a whole, to produce the MILAN CE number.

Risk of interest rate declines

The portfolio comprises floating-rate loans linked to the servicer's standard variable rate (SVR) ([46.4]%) loans, ECB base rate ([52.9]%) and 3 month EURIBOR ([0.7]%), whereas the rated notes pay three-month Euribor plus a spread. The structure does not include an interest rate swap. Therefore, there is a basis risk mismatch between the interest payments received on the loans and that payable on the notes. In mitigation, the transaction includes a requirement for the servicer not to set the SVR on the loans at a level of less than ECB base rate plus the implied margin at the loan at closing.

We considered the absence of a swap in deriving the stressed portfolio yield used in the cash flow modelling and gave only partial credit to the current SVR levels and EURIBOR.

In our analysis, we have assumed that the margin on ECB-rate linked loans will remain the same as at closing, subject to a 50 basis point haircut to account for the basis mismatch. When modelling the margin on SVR-linked loans, partial credit is given to the minimum SVR requirement. Due to uncertainty on enforceability of this covenant, we stressed the interest rate of the pool by assuming that mortgage loans will gradually revert to SVR yielding the lower of current SVR rate and EURIBOR + 1.0% from the level at closing.

Comparables

Peer transactions compared with those of Dilosk RMBS No.2 DAC.

Exhibit 8 shows the collateral characteristics of Dilosk RMBS No.2 DAC and comparable recent Irish RMBS transactions that were considered in our rating committee.

Exhibit 8

Benchmark table with peer transactions

Deal Name	Dilosk RMBS No.2 DAC	Roundstone Securities No. 1 DAC	Dublin Bay Securities 2018-1 DAC	Fastnet Securities 15 DAC	Fastnet Securities 14 DAC	Fastnet Securities 13 DAC	Grand Canal Securities 1 DAC
Closing date	[•]	28/09/2018	28/09/2018	28/06/2018	22/06/2018	26/10/2017	27/04/2017
Cut-off date	[31-Jul-2018]	31/07/2018	31/07/2018	15/06/2018	15/06/2018	20/10/2017	31/03/2017
Information from	Draft Pool	Draft Pool	Closing Pool	Closing Pool	Closing Pool	Closing Pool	Closing Pool
Originator(s)	Leeds Building Society and Pepper Finance Corporation	Bank of Scotland	Bank of Scotland	PTSB	PTSB	PTSB	Irish Nationwide BS Springboard
Servicer(s)	Master servicer: Dilosk DAC Servicer/ Administrator: Pepper Finance Corporation (Ireland) DAC	Pepper Asset Servicing Ltd	Pepper Asset Servicing Ltd	PTSB	PTSB	PTSB	Acenden
MILAN CE	[30%]	21.00%	16.00%	21.00%	21.00%	17.00%	21.00%
Expected Loss	[12%]	6.00%	4.50%	6.00%	6.00%	4.90%	6.50%
Avg. Current LTV	[55.76%]	62.38%	59.97%	67.90%	67.84%	61.82%	57.90%
Avg. Original LTV	[61.96%]	72.35%	70.53%	88.23%	88.33%	70.10%	71.18%
Avg. Current LTV indexed*	[66.7%]	69.81%	66.26%	73.24%	73.41%	63.59%	73.59%
% Current LTV >= 70%	[29.53%]	32.32%	29.90%	49.60%	49.90%	46.64%	24.53%
% Current LTV >= 80%	[10.08%]	13.83%	12.62%	17.71%	17.54%	23.01%	7.67%
% Current LTV >= 90%	[1.32%]	6.55%	6.47%	4.85%	4.31%	1.24%	3.16%
% Indexed LTV >= 90%	[21.28%]	17.41%	18.03%	22.27%	22.95%	4.64%	23.05%
% Self Employed	[27.22%]	0.00%	0.00%	10.70%	10.80%	8.11%	32.86%
% Self Certified	[17.26%]	0.00%	0.00%	0.17%	0.09%	0.00%	24.78% incl. ND
% Non-Owner Occupied (Includes: Partial Owner, Vacation or Second Homes)	[0%]	19.59%	20.81%	23.16%	22.69%	0.00%	8.40%
% Fixed interest	[0%]	0.04%	0.02%	0.60%	0.66%	23.62%	0.00%
% IO without collateral	[44.6%]	56.20%	54.90%	21.09%	21.31%	0.40%	17.57%
% CCJs	[0%]	0.00%	0.00%	0.07%	0.07%	0.00%	0.64%
% IVA / Bankruptcy	[0%]	0.00%	0.00%	0.00%	0.00%	0.00%	0.44%
Max regional concentration	Dublin [31%]	Dublin (56.28%)	Dublin (58.5%)	Dublin (35.04%)	Dublin (34.64%)	Dublin (41.64%)	Dublin (23.75%)
Current Balance	[290,066,985]	2,882,866,172	260,009,326	1,426,742,694	1,442,233,304	526,196,228	326,842,294
Avg. Loan per borrower	[166,132]	233,392	219,974	177,257	178,097	143,966	148,026
Borrower top 20 (as % of pool bal)	[5.42%]	2.66%	12.15%	1.39%	1.45%	2.37%	3.21%
WA interest rate	[3.04%]	1.11%	1.10%	1.98%	1.95%	3.33%	3.63%
WA seasoning in years	[10.94]	11.73	11.59	12.03	12.02	5.13	10.1
WA time to reset in years	[0]	0	0	2.07	2.17	1.72	0
WA time to maturity in years	[17.48]	13.46	13.83	17.98	17.91	22.88	19.94
Maximum maturity date	[11/12/2052]	18/08/2049	29/06/2049	30/03/2050	28/02/2050	03/01/2052	22/05/2051
Avg. House Price stress rate**	[35%]	34.97%	35.00%	34.96%	34.98%	35.00%	34.92%
Avg. House Price change since origination***	[-15.45%]	-8.70%	-9.61%	-3.80%	-3.94%	-2.14%	-20.29%

* As per our calculation.
** As per our MILAN methodology for Aaa scenario.
*** As per our calculation.
Source: Moody's Investors Service

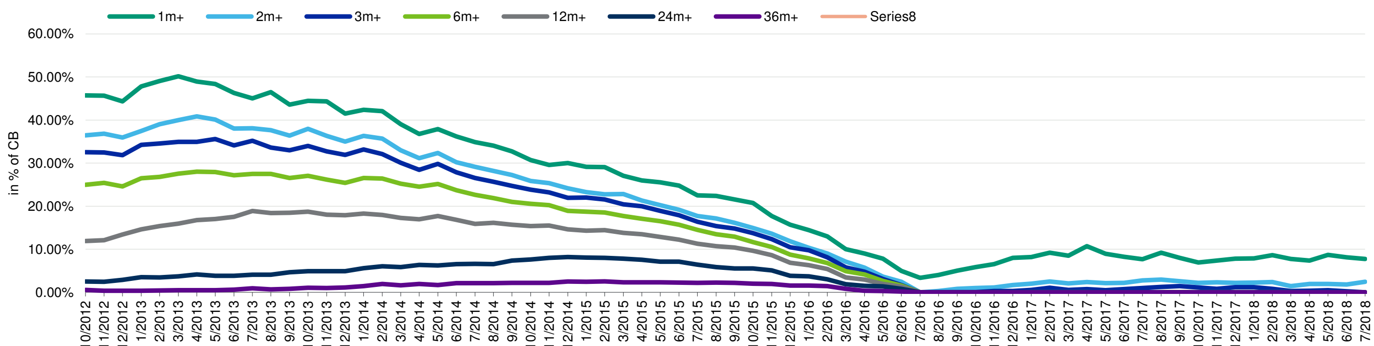
Performance of Irish RMBS

Our sector outlook for Ireland is stable as of May 2018.

Exhibit 9 shows the historical performance of all assets that were purchased by the seller from Pepper Finance Corporation (Ireland) DAC (formerly GE Capital Woodchester Home Loans Limited) and are securitized within this transaction. Exhibit 10 shows the historical performance of all assets that were purchased by the seller from Leeds Building Society and are securitized within this transaction. Exhibit 11 shows the historical performance of all assets that were purchased by the seller. Exhibit 12 and Exhibit 13 show the 90+ days and 360+ days of comparable transactions, as well as our calculated trend.

Exhibit 9

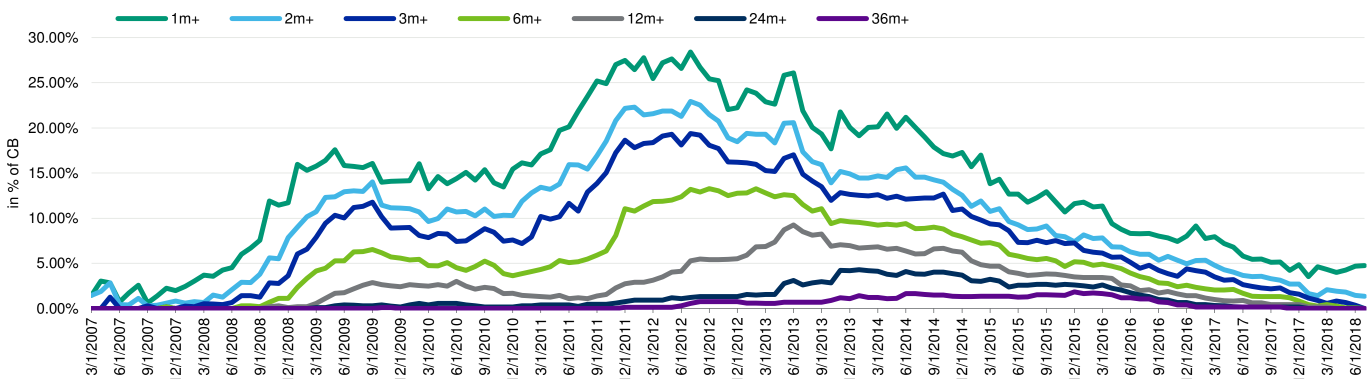
Historical performance of the total assets bought by the seller from Pepper Finance Corporation (Ireland) DAC (formerly GE Capital Woodchester Home Loans Limited)



Source: Dilosk

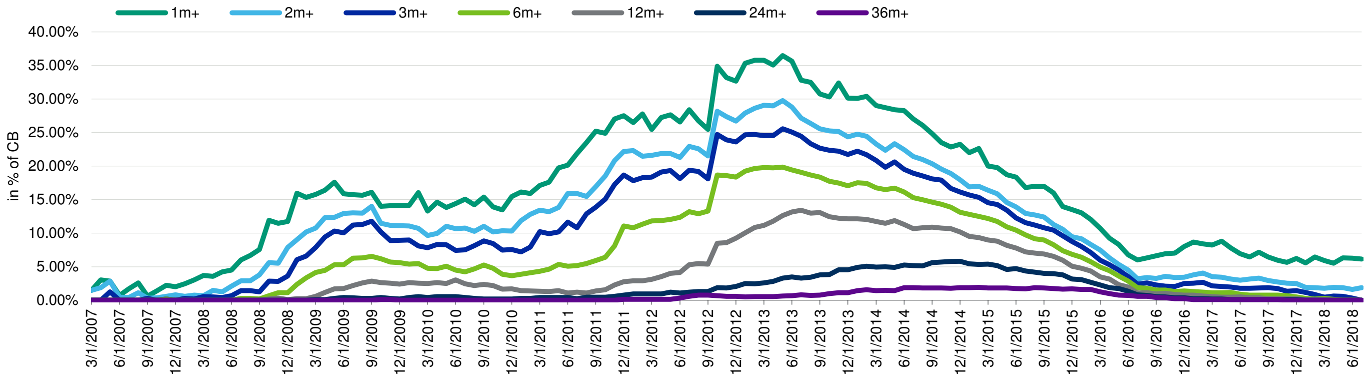
Exhibit 10

Historical performance of the total assets bought by the seller from Leeds Building Society



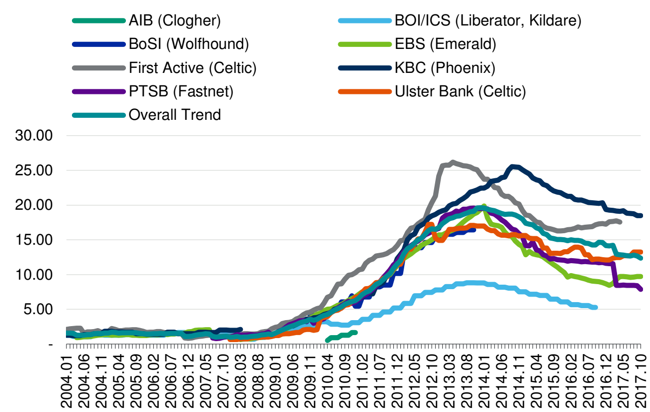
Source: Dilosk

Exhibit 11
Historical performance of the total assets bought by the seller



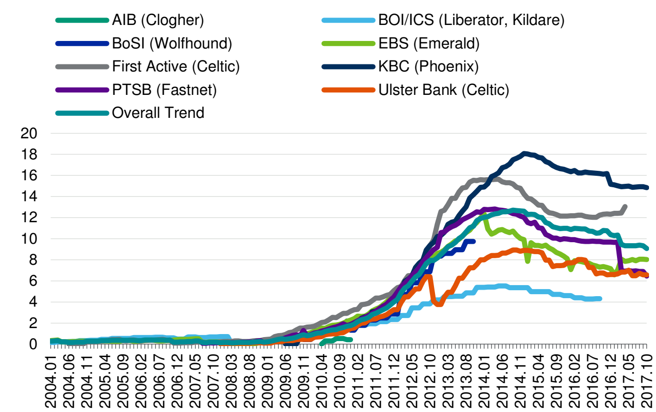
Source: Dilosk

Exhibit 12
Irish prime RMBS 90+ days delinquency - Trend



Sources: Moody's Investors Service, Moody's Performance Data Service, Periodic investor/ servicer reports

Exhibit 13
Irish prime RMBS 360+ days delinquencies - Trend



Sources: Moody's Investors Service, Moody's Performance Data Service, Periodic investor/ servicer reports

Additional asset analysis

Data quantity and content

We received historical performance data since 2012 relating to the assets that were purchased from Pepper Finance Corporation (Ireland) DAC (formerly GE Capital Woodchester Home Loans Limited) and performance data since 2007 relating to the assets that were purchased from Leeds Building Society.

Origination quality

Not available

Servicing quality

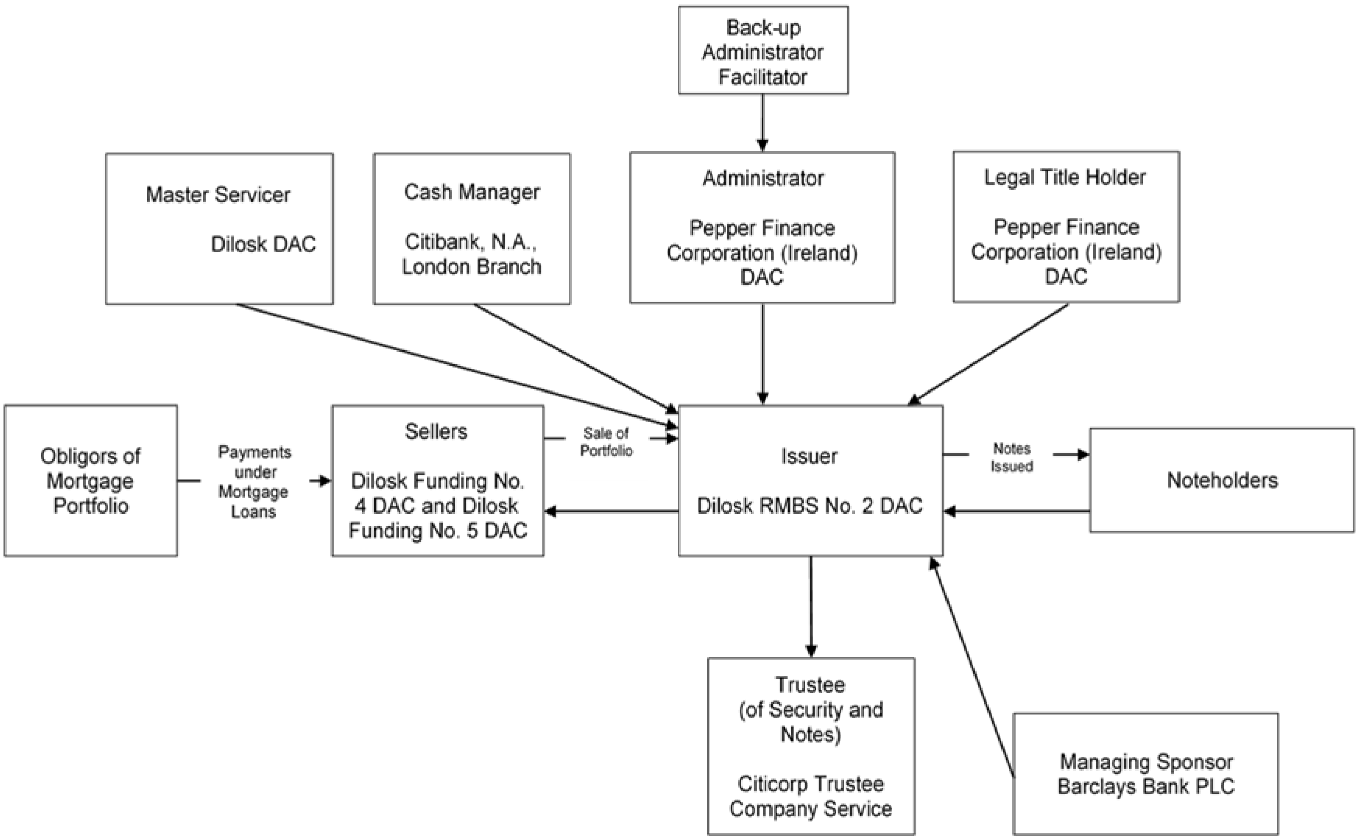
According to our Servicer review, the overall servicing ability and stability of Pepper has been classified as average. (See Appendix 3)

Securitisation structure description

Each seller, Dilosk Funding No. 4 DAC and Dilosk Funding No. 5 DAC (both set up as a Special Purpose Vehicle and wholly owned subsidiaries of Dilosk DAC), sells a portfolio of residential mortgage loans to Dilosk RMBS No.2 DAC, who issues the RMBS notes to finance the purchase of the asset pool. The servicer, Pepper, will service the assets. Exhibit 14 also illustrates other parties and their respective roles.

Structural diagram

Exhibit 14
Transaction structure



Source: Prospectus

Detailed description of the transaction

Credit enhancement

The Class A notes benefit from the subordination provided by more junior notes. There is an amortising liquidity reserve fund in place, sized at [1.5]% of Class A notes (referred to General Reserve Fund First Target Level within the deal documentation), dedicated to pay interest on Class A, X notes and senior fees. In addition, the transaction benefits from a non-amortising general reserve fund sized at [3.0]% of Class A, B, C, D, E, F and Z1 note balance at closing, reduced by the balance of the liquidity reserve fund (referred to General Reserve Fund Second Target Level within the deal documentation). At closing, the general reserve and liquidity reserve will be fully funded. During the life of the transaction, the general reserve fund can be used to provide liquidity support and to cure PDL for the rated notes. Through this mechanism, the amount that is available to cure credit losses within the General Reserve Fund increases through time as the amounts held in the Liquidity Reserve Fund decrease as the Class A Notes amortise. The transaction has an annualised excess spread of around [1.4]%, assuming a stressed Euribor rate of 4% per annum.

Flow of funds

Allocation of payments/pre-accelerated revenue waterfall: On the quarterly payment date, the issuer's available funds (interest amounts received from the portfolio, the general reserve fund, principal receipts and funds drawn from the liquidity reserve fund applied to remedy a remaining interest shortfall, interest earned on the issuer's account and any principal released following the PDL being reduced by cured loans) will be applied in the following simplified order of priority:

1. Senior expenses
2. Pro rata interest on Class A and X notes
3. Replenishment of the liquidity reserve fund
4. PDL on Class A notes
5. Interest on Class B notes (including accrued interest if any)
6. PDL on Class B notes
7. Interest on Class C notes (including accrued interest if any)
8. PDL on Class C notes
9. Interest on Class D notes (including accrued interest if any)
10. PDL on Class D notes
11. Interest on Class E notes (including accrued interest if any)
12. PDL on Class E notes
13. Interest on Class F notes (including accrued interest if any)
14. PDL on Class F notes
15. Replenishment of the general reserve fund
16. PDL on Class Z notes
17. Class B junior interest payment (from the step-up date 1.00% of the Class B outstanding balance)
18. Class C junior interest payment (from the step-up date 1.00% of the Class C outstanding balance)
19. Class D junior interest payment (from the step-up date 1.00% of the Class D outstanding balance)
20. Class E junior interest payment (from the step-up date 1.50% of the Class E outstanding balance)
21. Class F junior interest payment (from the step-up date 1.50% of the Class F outstanding balance)

22. From the step-up date to credit to principal amounts
23. Interest on Class Z1 (including accrued interest if any)
24. Interest on Class Z2 (including accrued interest if any)
25. Principal payments to Class Z2 notes
26. Residual to Class R

Allocation of payments/pre-accelerated principal waterfall: On each quarterly payment date, the principal amounts received from the portfolio and amounts applied to clear the PDL less any principal receipts to cover an interest shortfall and any principal released following the PDL being reduced by cured loans will be applied in the following simplified order of priority:

1. Amounts to cure a senior revenue shortfall.
2. Principal to Class A until redeemed in full.
3. Principal to Class B until redeemed in full.
4. Principal to Class C until redeemed in full.
5. Principal to Class D until redeemed in full.
6. Principal to Class E until redeemed in full.
7. Principal to Class F until redeemed in full.
8. Principal to Class Z2 until redeemed in full.
9. Principal to Class Z1 until redeemed in full.
10. Other junior items.

Allocation of payments/PDL-like mechanism

There is a complex PDL mechanism in place that tracks losses and a portion of defaulted or future loan restructures. The PDL mechanism is complex because loan balances, which have been previously written off to the PDL, can be reversed if the loan subsequently cures. In addition, PDL can also be reversed using the proceeds from the recoveries of the loan that was provisioned. We have given limited benefit to the PDL's ability to trap excess spread as a source of credit enhancement in our cash flow modelling. The PDL mechanism in place is based on:

» Losses (including set-off losses and write-downs under the personal insolvency legislation)

» 100% of the warehoused loan amount of a split loan

» The principal applied to cover revenue shortfalls

» Any principal used to reverse revenue amounts applied in excess of the aggregate PDL following the PDL being reduced by cured loans

» Arrears Provisioning Amount (APA):

  – 20% of the current balance of loans that are 180-269 days in arrears

  – 35% of the current balance of loans that are 270-359 days in arrears

  – 50% of the current balance of loans that are more than 359 days in arrears

Further, the amount of arrears provisioning is restricted so that the amount that can be accounted for within the PDL is equal to MAX(0, APA - 40% of the Class Z1 Notes at closing).

This mean that the PDL will only start to build up once the amount of arrears that can be provisioned is > 40% of the original balance of Class Z1.

General reserve fund

At closing, [3.0]% of Class A, B, C, D, E, F and Z1 note balance at closing less the balance of the liquidity reserve fund (referred to General Reserve Fund Second Target Level within the deal documentation). During the life of the transaction, the general reserve fund can be used to cure PDL and to provide liquidity support to the rated notes. As the Class A note repays, the amount that can be held in the liquidity reserve fund decreases, and, consequently, the amount that can be held in the general reserve fund increases until the general reserve fund balance is equal to [3.0]% of Class A, B, C, D, E, F and Z1 note balance at closing. As the general reserve fund increases, the amount that can be used to reduce PDL increases as well.

Liquidity reserve fund

At closing: [1.5]% of Class A notes' outstanding balance (referred to General Reserve Fund First Target Level within the deal documentation).

The liquidity reserve fund will be replenished in the revenue waterfall before the A notes' PDL. The liquidity reserve fund can be used for senior expenses, Class A and Class X interest payments.

Liquidity

» The general reserve fund provides liquidity support to the rated notes but may also be used to cover principal losses.

» Principal can be used to pay interest on the most senior class of notes outstanding.

» The liquidity reserve fund is fully funded at closing

Asset transfer

The loans and related securities were sold by way of equitable assignment to the issuer, which in turn will create a first fixed security over the assets, in favour of the trustee for the noteholders.

Authorised investments

Funds held in the accounts will not be invested.

Securitisation structure analysis

Our ratings are based upon the quality of the asset pool, the levels of credit enhancement, the liquidity provided by the subordinated tranches, the general reserve fund, the liquidity reserve fund, and the structural and legal integrity of the transaction. The ratings on the notes address the likelihood of receipt by noteholders of the timely payment of interest and of all distributions of principal by the final legal maturity date. Our ratings address only the credit risks associated with the transaction.

Primary structural analysis

We consider the probability of default under the notes, as well as the estimated severity of loss when assigning a rating.

Tranching of the notes

Once the loss distribution of the pool under consideration has been computed, a cash flow model is used to assess the impact of structural features of the transaction. The model calculates the average lives and the losses experienced by the notes for every loss scenario for the portfolio. Based on these numbers, the expected loss and the WA lives for the notes are calculated as WAs based on the probabilities of the respective scenarios. The expected loss on each tranche, together with the notes' WA life, determines the rating, which is consistent with our target losses for each rating category.

The rating of the notes is, therefore, based on an analysis of:

» The characteristics of the mortgage pool backing the notes

» The relative roll-rate levels and arrears in this type of lending compared with the market average

» Sectorwide and originator-specific performance data

» The protection provided by credit enhancement and liquidity support against defaults and arrears in the mortgage pool

» The legal and structural integrity of the issue

Assumptions and definitions

We use the following main assumptions and definitions in our cash flow modelling:

» Assumptions:

- Stressed fees: 0.50% per annum
- We have assumed that the margin on ECB-rate linked loans will remain the same at closing, subject to a 50 basis point haircut to account for the basis mismatch. When modelling the margin on SVR-linked loans, partial credit is given to the minimum SVR requirement. In addition, we have assumed that all fixed-rate loans will convert into floating-rate loans (SVR loans)
- Spread compression owing to prepayments: Of assumed CPR, 50% is applied to the loans with the highest interest rate/ spread in each period and the remaining 50% is applied to loans with an average interest rate
- No interest accumulated on funds held in the issuer account, given that there is no guaranteed interest rate contract in place

» Definitions:

- PDL tracks (1) losses; (2) 20%, 35% or 50% of the loan balance in case a loan is at least 180, 270 or 360 days in arrears, respectively; (3) the principal applied to cover revenue shortfalls; (4) the balance of split loans; and (5) the principal used to reverse revenue amounts applied in excess of the aggregate PDL following the PDL being reduced by cured loans. In addition, PDL can also be reversed with the proceeds from the recoveries of the loan that was provisioned.

Comparables

Exhibit 15 shows the main structural features of Dilosk RMBS No.2 DAC and how it compares with peer transactions that our rating committee considered for benchmarking purposes.

Exhibit 15

Benchmark table for structural features

Structural Features	Dilosk RMBS No.2 DAC	Roundstone Securities No. 1 DAC	Dublin Bay Securities 2018-1 DAC	Fastnet Securities 15 DAC	Fastnet Securities 14 DAC	Grand Canal Securities 1 DAC
Notes Payment Frequency	Quarterly	Quarterly	Quarterly	Monthly	Monthly	Quarterly
Replenishment periods	None	None	None	None	None	None
Rating and CE for senior note	Aaa (sf) with [40.00]% CE	Aaa (sf) with 21.75% CE	Aaa (sf) with 19.9% CE	Aaa (sf) with 24.5% CE	Aaa (sf) with 24.5% CE	Aaa(sf) with 26.75% CE
Reserve Fund (Closing)**	2.06%	0.23%	0.21%	0.48%	0.48%	0.00%
Reserve Fund (Target)	3.00%	1.50%	1.50%	2.00%	2.00%	3.50% prior to step up and 4.00% therafter
Reserve Fund Fully Funded at Closing?	YES	YES	YES	YES	YES	NO
Reserve Fund floor	non-amortizing	non-amortizing	non-amortizing	non-amortizing	non-amortizing	Non-amortizing prior to
Principal to pay interest?	YES	YES	YES	YES	YES	YES
Total Set-off Exposure	None	None	None	None	None	None

* Of original note balance.

** Accounting for the portion of the reserve available to cure credit losses, were applicable.

Source: Moody's Investors Service

Additional structural analysis

Cash commingling

All of the payments under the loans in this pool are collected by the servicer into the collection account held at Bank of Ireland being the collection account bank. Payments made by borrowers to the collection account are identified daily and are transferred to the issuer account on the next following business day.

The servicer has undertaken to use its best efforts to ensure that all such payments are transferred on a daily basis to the issuer account held in the name of the issuer with Citibank N.A. London Branch. There is a declaration of trust in place between the issuer, the servicer and the collection account bank over the collection account in favour of the issuer. In addition, in the event the collection account bank is rated below Baa2 a new collection account bank will need to be established that satisfies the rating trigger criteria.

The presence of a daily sweep to the issuer account, the declaration of trust and the account transfer trigger at Baa2 limits the risk of losing the funds held in the collection account.

Account Bank and Eligible Investments

Citibank N.A. London Branch (A1/P-1, A1(cr)/P-1(cr)) is issuer account bank, paying agent and cash manager in the transaction. Funds on deposit in the issuer account are not allowed to be invested. In the event Citibank is rated below A2 the account bank will be replaced with an account bank that rated A2.

Mitigating servicing disruptions

The fact that CSC Capital Markets (Ireland) Limited has been appointed as backup servicer facilitator is a positive feature. In case Pepper becomes unable to perform its servicing duties, the backup servicer facilitator has to use best efforts to appoint a replacement servicer. In the event the servicer report is not delivered on time, the cash manager shall base the payments on estimates and once it receives the servicer report, it will reconcile the estimates with the actual figures and if needed, make additional payments.

Set-off

No set-off; the servicer is not a deposit taking entity.

Methodology and monitoring

Overview

» The principal methodology used in this rating was Moody's Approach to Rating RMBS Using the MILAN Framework, published in September 2017. We will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

» Servicing disruption: Pepper acts as a servicer. Owing to the fact that there is a backup servicer facilitator and an independent cash manager, this structure is compliant with our published guidelines on operational risk.

» Significant influences: A further deterioration in the housing market beyond what is modelled may have an impact on the subject transaction's ratings.

Factors that could lead to a downgrade

» Worse-than-expected performance

» A significant deterioration in Ireland's economy and real estate market

» Unforeseen legal or regulatory changes

Monitoring trigger

For issuer account bank triggers[1]:

» For loss of A2, the remedy is to replace

For collection account bank triggers:

» For loss of Baa2, the remedy is to replace

Monitoring report

Data quality:

» The template for the investor report provided to us at the time of issuance is broadly in line with our template.

» Key performance indicators used to rate the transaction are included in the investor report.

» Further advances will not be reported in the investor report. Given the weaknesses highlighted above, the inclusion of further advances would have been a useful addition to the report.

» As of the date of publication, there is no commitment from the servicer to provide us with an updated pool cut on a periodic basis.

Data availability:

» Report provided by: Citibank

» The frequency of the publication of the investor report is in line with the frequency of the interest payment date (quarterly)

Investor reports are publicly available on Citibank's website.

The analysis that we undertook at the initial assignment of a rating for an RMBS security may focus on aspects that become less relevant or typically remain unchanged during the surveillance stage. Please see Moody's Approach to Rating RMBS Using the MILAN Framework for further information on our analysis at the initial rating assignment and for the ongoing surveillance of RMBS.

Moody's related publications

For a more detailed explanation of our approach to this type of transaction, as well as similar transactions, please refer to the following reports:

Methodologies used:

» Moody's Approach to Rating RMBS Using the MILAN Framework, September 2017 (1073832)

» Moody's Approach to Assessing Counterparty Risks in Structured Finance (SF1038135)

Performance update:

» Irish Prime RMBS Performance Update – January 2018

Special reports:

» Anglo-Dutch mortgage market trends will extend into other countries, May 2018 (1123735)

» Mortgage Performance and Home Prices Buoy Several Sectors Amid Arrears Concerns. January 2017 (1046601)

Others:

» Global RMBS Market Comparison Tool - May 2018

» Sector update – Q2 2018: Growth in UK mortgage market remains stable

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Appendix 1: Summary of the originator's underwriting policies and procedures

Not available

Appendix 2: Summary of the servicer's collection procedures

Exhibit 16

Servicer's collection procedures

Servicer Ability	
Training of new hires specific to the servicing function (i.e. excluding the company induction training):	Pepper operates a structured and robust training program for new hires into the "front line" servicing functions. This includes an initial classroom based "bootcamp" study scheme which we operate in conjunction with the Institute of Bankers from which new staff attain professional accreditation (APA). This is then followed by on the job training with experienced collectors and further sessions on real case studies and scenarios depending on the role.
Training for existing servicing staff:	A comprehensive training program is maintained for existing servicing staff with the average training hours likely to be in excess of 100 per year. This includes regulatory and compliance training, role specific training and development (eg. technical skills, negotiation skills), management development, and further professional accreditations.
Quality control and audit	
Responsibility of quality assurance:	Pepper operates a 3 lines of defence structure for quality assurance 1) First line - operational management, 2) Second line - internal Operational Risk & Compliance team, 3) Third line - internal audit function (currently outsourced to PWC). The Operational Risk & Compliance team has ultimate responsibility and oversight of quality assurance activities.
Number of files (and calls) per agent per month being monitored:	15-5 files/calls. Applies to ongoing monitoring activities conducted as part of the First and Second lines.
Recording of quality assurance findings and analysis of causes:	QA results are recorded, summarised and reported to management. Any issues identified are fed back to agents on a 1-to-1 basis and additional training and/or checking will be performed where necessary.
Frequency of operational audits for the servicing processes:	Operational audits (conducted by the internal audit function) are undertaken annually.
Operating manual available to servicing staff:	All operational policies and procedures are stored centrally on our "PolicyHub" tool with access aligned to the staff members role and function.
IT and Reporting	
Main software used and its operating manual:	Core software for servicing system ARM.Net is owned by a third party - Axcess Consulting based in Australia. In Ireland, Pepper has customised the system to align to the Irish market and regulatory environment and we have developed in house expertise to develop and enhance the system.
Tools/infrastructure available:	The majority of key servicing tasks and processes are captured and managed on the system. The small number of processes that aren't involve relatively small volumes in terms of activity.
Automatic tracking and reporting of specific characteristics:	Loans can be tracked by delinquency status, loan/product types, geographic location and a range of other characteristics as well as key workflow/activity status including for example restructures and legal.
Back-up server synchronisation and distance from main server:	Full system back-ups occur daily with back-up tapes stored at an external Data Recover Management (DRM) site.
Frequency of disaster recovery plan test:	Testing takes place annually with the most recent test successfully completed in July 2016. Testing includes ensuring that all core systems can be made available at each of the remote sites supporting both Dublin and Shannon locations.
Securitisation related	
Securitised loans in the servicers portfolio	Information not available.
Are defaulted loans in the securitisations checked for breach of representations and warranties?	Information not available.

Source: Moody's Investors Service

Appendix 3: Servicer review

Exhibit 17
Servicer assessment

Servicer Assessment:	Main Strengths And Challenges
Overall Assessment:	Average
Servicer Ability	
Loan Administration	+ Centralised in Headquarter.
	- Opening hours, five days a week, (9am – 7pm weekdays).
	+/- Daily monitoring of transactions and bank accounts to ensure all payments allocated.
	- Mortgage deed registration is reviewed only once legal proceeding have started or prior to consensual sale.
Early Arrears Management	+/- No pre-arrears strategy in place.
	+ Borrower declared defaulted if full payment is not made.
	- No prioritisation via risk scoring of borrowers.
Loss Mitigation and Asset Management	+/- Outsourcing to third parties as per industry practice.
	+/- As with other lenders there is widespread use of forbearance options.
	+/- Modified loans are classified as current but flagged as modified in system.
	- Limited data on severity as the servicer only been servicing the pool since June 2014.
Servicer Stability	
Management Strength & Staff Quality	+ 14 year's experience of management and 9 years for staff.
	+ Classroom based training.
	+/- Average staff turnover similar to what is observed in the market.
IT & Reporting & Quality control & Audit	+/- Internal Audit function outsourced to PWC.
	+ Ability to inform customer in arrears via SMS.
	+/- Ability to create ad hoc reports within a short time frame.
	+/- All calls are recorded.

Source: Moody's Investors Service

Endnotes

1 See Moody's Approach to Assessing Counterparty Risks in Structured Finance, published in 26 July 2017

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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