MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns definitive ratings to Notes issued by Dilosk RMBS No.2 Designated Activity Company

19 Nov 2018

Frankfurt am Main, November 19, 2018 -- Moody's Investors Service ("Moody's") has today assigned definitive long-term credit ratings to the following Notes issued by Dilosk RMBS No.2 Designated Activity Company:

....EUR 180,457,000 Class A Residential Mortgage Backed Floating Rate Notes due December 2057, Definitive Rating Assigned Aaa (sf)

....EUR 18,618,000 Class B Residential Mortgage Backed Floating Rate Notes due December 2057, Definitive Rating Assigned Aa1 (sf)

....EUR 14,322,000 Class C Residential Mortgage Backed Floating Rate Notes due December 2057, Definitive Rating Assigned A1 (sf)

....EUR 17,186,000 Class D Residential Mortgage Backed Floating Rate Notes due December 2057, Definitive Rating Assigned Baa3 (sf)

....EUR 25,779,000 Class E Residential Mortgage Backed Floating Rate Notes due December 2057, Definitive Rating Assigned B3 (sf)

....EUR 8,593,000 Class F Residential Mortgage Backed Floating Rate Notes due December 2057, Definitive Rating Assigned Caa3 (sf)

Moody's has not rated EUR 21,486,000 Class Z1 Residential Mortgage Backed Fixed Rate Notes due December 2057, EUR 12,890,000 Class Z2 Fixed Rate Notes due December 2057, EUR 2,000,000 Class R Notes due December 2057 and EUR 100,000 Class X Notes due December 2057.

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-2 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 respectively, (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 130M within the pool) from Windmill Funding DAC and Pepper Finance Corporation (Ireland) DAC. In November 2018, Dilosk Funding No. 5 DAC is purchasing the loans originated by Leeds Building Society (approx. EUR 155M within the pool), from Leeds Building Society. The portfolio sold to the issuer consists of 1,791 mortgage accounts extended to 1,727 primary borrowers, with the total pool balance of around EUR 286 million as of the cut-off date (30 September 2018).

RATINGS RATIONALE

The ratings take into account the credit quality of the underlying mortgage loan pool, from which Moody's determined the MILAN Credit Enhancement ("MILAN CE") and the portfolio expected loss, as well as the transaction structure and legal considerations. The expected portfolio loss of 12.0% and the MILAN CE of 30.0%, serve as input parameters for Moody's cash flow model and tranching model, which is based on a probabilistic lognormal distribution.

The key drivers for the portfolio's expected loss of 12.0%, which is higher than the Irish residential mortgage-backed securities ("RMBS") sector average, are as follows: (i) the collateral performance of the loans to date, as provided by the sponsor; (ii) restructured loans accounting for 42.4% of the portfolio; (iii) seasoning of the pool with a WA seasoning of 11 years; (iv) the current macroeconomic environment in Ireland; (v) the stable outlook that we have on Irish RMBS; and (vi) benchmarking with other comparable Irish RMBS transactions.

The key drivers for the MILAN CE number of 30.0%, which is higher than the Irish RMBS sector, are as follows: (i) the WA Current LTV at around 55.7%; (ii) the restructured loans accounting for 42.4% of the portfolio; (iii) the well-seasoned portfolio of around 11 years; and (iv) benchmarking with other Irish RMBS transactions.

Transaction structure: The transaction benefits from an amortising Liquidity Reserve Fund and a General Reserve Fund, both funded at closing via a subordinated Note. The Liquidity Reserve Fund required amount is equal to 1.5% of the outstanding balance of Class A and will be available to cover senior expenses and interest on Class A Notes and Class X Notes. The General Reserve Fund is equal to 3% of the Class A, B, C, D, E and Z1 Notes at closing, minus the Liquidity Reserve Fund Required Amount, and will be used to cover interest shortfalls and to cure PDLs on the rated Notes and the interest on Class X Notes. The transaction benefits from the equivalent of approx. 12 months of liquidity coverage provided by the Liquidity Reserve Fund and the General Reserve Fund. Principal is also available to provide liquidity support to the Notes, subject to PDL condition.

Operational risk analysis: Pepper Finance Corporation (Ireland) DAC acts as the servicer of the portfolio during the life of the transaction. Dilosk DAC acts as master servicer, performing an oversight function and is involved in the decision process relating to actions to deal with individual arrears cases. In addition, CSC Capital Markets (Ireland) Limited (unrated) acts as back-up servicer facilitator. Citibank, N.A., London Branch (A1(cr)/P-1(cr)) was appointed as independent cash manager at closing. To ensure payment continuity over the transaction's lifetime, the transaction documents incorporate estimation language according to which the cash manager, will prepare the payment report based on estimates if the servicer report is not available.

Interest Rate Risk Analysis: The portfolio comprises 46.5% floating rate loans linked to standard variable rate, and 53.5% loans linked to ECB Base Rate, whereas, the rated Notes pay 3-month Euribor plus a spread. There is no swap in the transaction to hedge the fixed-floating rate risk and the basis risk. Moody's has taken those risks into consideration in deriving the portfolio yield.

In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal by the legal final maturity with respect to the Class A to E Notes. Other non-credit risks have not been addressed, but may have significant effect on yield to investors.

Principal methodology

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in September 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The Credit Rating for Dilosk RMBS No.2 Designated Activity Company was assigned in accordance with Moody's existing methodology entitled "Moody's Approach to Rating RMBS Using the MILAN Framework" dated 11th September 2017. Please note that on 14th November 2018, Moody's released a Request for Comment, in which it has requested market feedback on potential revisions to its methodology for RMBS. If the revised methodology is implemented as proposed, the Credit Ratings on Dilosk RMBS No.2 Designated Activity Company are not expected to be affected. Please refer to Moody's Request for Comment, titled " Proposed Update to Moody's Approach to Rating RMBS Using the MILAN Framework" for further details regarding the implications of the proposed methodology revisions on certain Credit Ratings.

The analysis undertaken by Moody's at the initial assignment of ratings for RMBS securities 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 Moody's analysis at the initial rating assignment and the on-going surveillance in RMBS.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS:

Factors that may lead to an upgrade of the ratings include, significantly better than expected performance of the pool and increase in the credit enhancement of the Notes.

Factors that may cause a downgrade of the ratings include, significantly different realized losses compared with our expectations at close, due to either a change in economic conditions from our central scenario forecast or idiosyncratic performance. For instance, should economic conditions be worse than forecast, the higher defaults and loss severities resulting from a greater unemployment, worsening household affordability and a weaker housing market could result in downgrade of the ratings. A deterioration in the Notes available credit enhancement could result in a downgrade of the ratings. Additionally, counterparty risk could cause a downgrade of the ratings due to a weakening of the credit profile of transaction counterparties. Finally, unforeseen regulatory changes or significant changes in the legal environment may also result in changes of the ratings.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.