S&P Global
Ratings

Research

New Issue: Kinbane 2024-RPL 1 DAC

Primary Credit Analyst:
Matt Cosgrove, CFA, Dublin +353 15680613; matt.cosgrove@spglobal.com

Secondary Contacts:
Sinead Egan, Dublin + 353 1 568 0612; sinead.egan@spglobal.com
Alastair Bigley, London + 44 20 7176 3245; Alastair.Bigley@spglobal.com

Table Of Contents

Overview

Environmental, Social, And Governance

Collateral Description

Credit Analysis And Assumptions

Transaction Summary

Cash Flow Assumptions And Analysis

Sovereign Risk

Surveillance

Appendix

Related Criteria

Related Research

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Ratings Detail

Ratings

Class	Rating*	Amount (mil. €)	Class size (%)§	Available credit enhancement (%)†	Interest	Step-up margin	Step-up date	Legal final maturity
A	AAA (sf)	199.502	66.0	32.25	One-month EURIBOR plus 1.5%	One-month EURIBOR plus 2.5%	April 2027	January 2065
B-Dfrd	AA (sf)	15.114	5.0	26.75	One-month EURIBOR plus 2.0%	One-month EURIBOR plus 3.0%	April 2027	January 2065
C-Dfrd	A (sf)	10.580	3.5	22.91	One-month EURIBOR plus 2.5%	One-month EURIBOR plus 3.5%	April 2027	January 2065
D-Dfrd	BBB (sf)	6.801	2.3	20.44	One-month EURIBOR plus 3.25%	One-month EURIBOR plus 4.25%	April 2027	January 2065
E-Dfrd	BB (sf)	6.801	2.3	17.97	One-month EURIBOR plus 4.25%	One-month EURIBOR plus 5.25%	April 2027	January 2065
F-Dfrd	B- (sf)	9.068	3.0	14.67	One-month EURIBOR plus 5.25%	One-month EURIBOR plus 6.25%	April 2027	January 2065
RFN	NR	8.570	2.8	12.5	One-month EURIBOR plus 7.0%	N/A	N/A	January 2065
Z	NR	37.784	12.5	0	One-month EURIBOR plus 8.0%	N/A	N/A	January 2065
Yield supplement overcollateralization (YSO)	N/A	16.626	5.5	0	NA	N/A	N/A	N/A

*Our ratings address timely receipt of interest and ultimate repayment of principal on the class A notes and the ultimate payment of interest and principal on the other rated notes. Our ratings on the class E-Dfrd and F-Dfrd notes also address the payment of interest based on the lower of the stated coupon and the net weighted-average coupon. §Note sizes are based on 94.5% of the total asset balance, which excludes the 5.50% overcollateralization. †Credit enhancement includes subordination and a general reserve fund. The transaction will benefit from 5.50% overcollateralization at closing that will support the available yield. The figures do not show any credit that may accrue due to unused yield supplement overcollateralization. EURIBOR--Euro Interbank Offered Rate. NR--Not rated. N/A--Not applicable. Dfrd--Deferrable.

Overview

- S&P Global Ratings assigned its credit ratings to Kinbane 2024-RPL 1 DAC's (Kinbane's) class A, B-Dfrd, C-Dfrd, D-Dfrd, E-Dfrd, and F-Dfrd notes. At closing, Kinbane also issued unrated class RFN and Z notes.
- Our ratings address the timely payment of interest and the ultimate payment of principal on the class A notes. Our ratings on the class B-Dfrd, C-Dfrd, D-Dfrd, E-Dfrd, and F-Dfrd notes address the ultimate payment of interest and principal on these notes. The class B-Dfrd to F-Dfrd notes can continue to defer interest even when they become the most senior class outstanding. Interest will accrue on any deferred interest amounts at the respective note rate.

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- Our ratings on the class E-Dfrd and F-Dfrd notes also address the payment of interest based on the lower of the stated coupon and the net weighted-average coupon.
- Senior fees and interest due on the class A notes are supported by a liquidity reserve fund, the general reserve fund and available principal.
- Kinbane is a static RMBS transaction that securitizes a portfolio of €302.3 million loans, which comprises mostly (87.3%) owner-occupied and some buy-to-let (BTL) mortgage loans. The Governor and Company of the Bank of Ireland (BOI), KBC Bank Ireland PLC (KBC), and ACC Bank PLC (ACC) originated the majority of the loans. ICS Building Society originated a small portion of the pool.
- Of the loans, €290.2 million are secured over residential properties in Ireland, so credit is only given to this portion in the credit and cash flow analysis, and €12.1 million are unsecured.
- At closing, the issuer used the issuance proceeds to purchase the beneficial interest in the mortgage loans from the seller. The issuer granted security over all its assets in the security trustee's favor. We consider the issuer to be a bankruptcy remote entity, and we have received legal opinions that indicate that the sale of the assets would survive the sellers' insolvency.
- Mars Finance DAC (Mars) and Pepper Finance Corporation (Ireland) DAC (Pepper) are the servicers for all of the loans in the transaction. Mars assumed servicing responsibility for the BOI-originated loans (both Snow V retail and business banking subpools) in September 2023. A small segment (4.5% of the total pool) migrated earlier, in April 2023. These loans were serviced by their originator (BOI) up to these dates. Pepper is the servicer of the non-BOI-originated loans. We have considered this in light of our operational risk criteria, and it does not constrain our ratings. Mars and Pepper will also act as the legal titleholders until a perfection event occurs.
- There are no rating constraints in the transaction under our structured finance sovereign risk criteria.
- The documented replacement triggers and collateral posting framework under the cap agreement support a maximum rating of 'AAA' under our counterparty risk criteria.
- The timely payment of interest on the class A notes is supported by the liquidity reserve fund, which was fully funded at closing to its required level of 3.0% of the class A notes' balance. Furthermore, the transaction benefits from a yield supplement of 5.50% overcollateralization, which will be released to the revenue waterfall over time. Principal can also be used to cover certain senior items. The class B to F-Dfrd notes are supported by a non-liquidity reserve fund, which is available to cover any interest shortfalls and principal deficiency ledger (PDL) amounts outstanding.
- Although the loans in the pool were originated as prime mortgages, the portfolio has been characterized by high arrears levels (currently 56.6%) and a significant number of restructures (currently 76.3%). We have accounted for this in our analysis.
- In our analysis, we gave credit to payment rates and applied a lower arrears adjustment at 'A' rating category and below to loans that have consistently made above 80% of their scheduled monthly mortgage payments and that the servicer identified for permanent restructure.

Transaction key features*	
Closing date	April 8, 2024
Note payment frequency	Monthly
Collateral	Predominantly reperforming Irish first-lien owner-occupied and BTL mortgage loans

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Transaction key features* (cont.)

Sources of credit enhancement	Initial subordination, non-liquidity reserve fund ledger, and any unused yield supplement overcollateralization
Outstanding principal of the pool (mil. €)	290.2§
Country of origination	Ireland
Concentration	Dublin: 31.1%
Property occupancy	87.3% owner-occupied, 12.7% BTL
Deferral	Class B-Dfrd to F-Dfrd notes
Unrated additional interest	Class E-Dfrd and F-Dfrd notes
Reported weighted-average original LTV ratio (%)	80.8
Weighted-average current LTV ratio (%)	66.1
Weighted-average seasoning (months)	208
Reported Arrears greater than or equal to one month (%)§	56.6
Restructured loans (%)	76.3
Current balance of the top five borrowers (%)	3.3
Asset redemption profile§	78.8% repayment, 21.2% interest-only or part-and-part
Liability redemption profile	Fully sequential
Liquidity reserve fund at closing	3.0% of initial class A notes
General reserve fund at closing	3.0% of the sum of initial class B-Dfrd to F-Dfrd notes and Z notes balance
First optional redemption date	April 25, 2027

*Data is based on a pool as of Dec. 31, 2023. §Calculations are according to S&P Global Ratings' methodology. All proportions are based on the secured loans in the pool. Based on the redemption profile post-expiry of the restructuring arrangement. BTL--Buy-to-let. LTV--Loan-to-value.

The credit story

Strengths	Concerns and mitigating factors
The capital structure provides 32.3% of available credit enhancement for the class A notes through a combination of subordination and the general reserve fund. Additionally, at closing the transaction will benefit from 5.50% of overcollateralization. On each interest payment date (IPD), principal equal to an annualized 0.55% of the outstanding portfolio balance will be transferred to the revenue waterfall to supplement the available revenue. Any unused yield supplement overcollateralization will be available as credit enhancement.	Most of the borrowers (76.4%) have had their loans restructured in the past. In a stressed economy, these borrowers are more likely to go back into arrears. We have considered this risk in our analysis and increased our weighted-average foreclosure frequency (WAFF) assumptions based on the date when the loan was restructured. In our analysis, we have applied our reperforming adjustment to those loans that were restructured or were three months or more in arrears in the past 60 months and are currently performing (34.9%).
A fully funded amortizing liquidity reserve fund (3.0% of the class A outstanding balance) supports class A interest, as well as senior fees. The general reserve fund was also fully funded (3.0% of the sum of initial class B-Dfrd to F-Dfrd notes and Z notes balance) at closing and provides liquidity protection for senior fees, the class A notes, and the other rated notes.	Within the provisional pool, 56.6% of loans currently have arrears of greater than or equal to one month (45.2% are more than 90 days past due). We view these borrowers as having a higher risk of default. In line with our global RMBS criteria, we have increased our WAFF estimates accordingly to address this increased risk. We applied a 100% WAFF at 'AAA' and 'AA' rating levels for loans in severe arrears (90+ days). At all rating levels from 'A' to 'B', we gave credit to the payment rate of loans in severe arrears and instead applied a 5x adjustment to the WAFF where the loans exceed 80% average payment rate and that the servicer identified for permanent restructure. The thirty-six-month average payment rate (paid/amount due) for the loans is strong, with more than 50% of the pool recording over 80%*. This indicates a relatively high willingness to pay following a restructuring arrangement, even for borrowers in long-term arrears.
The application of principal proceeds is fully sequential in all circumstances. Credit enhancement can therefore build up over time for the rated notes, enabling the capital structure to withstand performance shocks.	94 loan parts (€12.1 million) are unsecured loans. We considered this in our cash flow analysis by using the current balance of the pool, net of any unsecured loans.

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The credit story (cont.)

Strengths	Concerns and mitigating factors
The interest rate cap hedges the exposure to liquidity risks in a rising interest rate scenario.	Based on our analysis of the historical property sales data provided by the servicer on similar loans from the originator and the difference between updated property valuations and indexed original property valuations on pools of other comparable assets, we concluded that there is the risk that the original property valuations may be overstated. Considering this, we applied a 15% valuation haircut to the original property valuations.
The issuer can also use principal receipts to mitigate shortfalls in senior expenses and interest on the most senior class of notes outstanding This is beneficial for the senior notes but will reduce the credit enhancement available for junior notes if used.	About 21% of the portfolio is currently paying either interest-only or part-and-part instalments. We have considered this in our analysis. Loans with these characteristics have historically exhibited poorer performance than otherwise similar loans. In addition, natural deleveraging will be slower than for a fully capital and interest repayment pool, and prepayment is the only likely source of significant deleveraging. We have addressed these factors in our credit and cash flow analysis.
Servicing is carried out by Mars and Pepper, both of which are experienced servicers, with well-established and fully integrated servicing systems and policies, and, in our view, have the relevant expertise to service the residential assets in this pool.	Loan restructuring has resulted in a small proportion of split loans, with interest-only lump sums due in the future. Of the closing pool, 0.3% has been set as interest-only for a term. However, this leaves a risk that these borrowers will need to make a lump-sum payment at maturity.
The structure incorporates an arrears provisioning mechanism rather than being linked solely to the loans' loss status. We consider this to benefit the transaction, given that any excess spread is trapped as soon as the loan is in arrears rather than waiting until the recovery process is completed. We have considered this feature in our cash flow analysis.	The notes pay one-month Euro Interbank Offered Rate (EURIBOR) plus a margin. Of the mortgage loans, 21.0% are fixed (19.7% revert to a standard variable rate [SVR] at their reversion dates) and 46.2% are linked to the European Central Bank (ECB) tracker rate. The remaining loans (32.8%) are linked to a variable rate. The administrators have committed to maintain a floor for variable rate loans at one-month EURIBOR plus 2.00%, which kicks in immediately for Pepper loans at a loan level and 12 months after closing for Mars loans at a weighed-average pool level. We have considered this in our cash flow analysis. The transaction does not have a basis swap to mitigate the basis risk between the ECB tracker loans and the interest on the liabilities. We have therefore stressed the basis risk in our analysis.
	There is a small portion (1.0%) of commercial loans in the pool that personal guarantees are not provided for. These loans are receiving a 2.0x WAFF adjustment in our model to reflect this in line with our criteria.
	Although the portfolio's weighted-average seasoning is considerable (208 months), we only give seasoning credit to 8.3%. We do not give any credit to loans that are currently in arrears. Similarly, for those loans that are current but have been restructured or have been more than 90 days in arrears in the last five years, we apply seasoning from the date of the restructure or from the date the loan became current again.
	The pool features cross-collateralization, as there are multiple loans secured by the same properties, one loan secured by multiple properties, or one property linked to multiple borrowers. To account for these characteristics, we have considered the default risk at the borrower level (see "Asset description").
	The seller provides representations and warranties in the mortgage sale agreement, which we consider to be weaker than the market standard for an Irish RMBS transaction. Claims must be greater than €20,000 and they will expire after two years. We have therefore increased our foreclosure frequency estimates to address this risk. We also considered the pool's high seasoning as a mitigating factor in this regard.
	Although broadly in line with other RMBS pools, the audit report generated some errors. In addition, some material fields for our analysis were not checked against the loan documentation primarily due to missing documentation but against the originatorś systems. We have taken this into account in our credit analysis through an increased originator adjustment.

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The credit story (cont.)	
Strengths	**Concerns and mitigating factors**
	We believe Eurozone inflation has peaked in 2022 at 8.4%, and we expect it to have remained elevated in 2023 at 5.5%. It is forecasted to drop to 2.9% in 2024. Although elevated inflation is overall credit negative for all borrowers, inevitably some borrowers will be more negatively affected than others. To the extent inflationary pressures materialize more quickly or more severely than currently expected, risks may emerge. We consider the borrowers in the transaction to be reperforming and as such they will generally have lower resilience to inflationary pressures than prime borrowers. Most of the borrowers in this transaction pay a variable rate of interest. As a result, some borrowers in this pool face near-term pressure from both a cost of living and rate rise perspective. We have considered this in both our credit and cash flow analyses.

*The payment rate is capped at 300% and floored at 0%.

Environmental, Social, And Governance

Our analysis considers a transaction's potential exposure to environmental, social, and governance (ESG) credit factors. For RMBS, we view the exposure to environmental credit factors as average, social credit factors as above average, and governance credit factors as below average (see "ESG Industry Report Card: Residential Mortgage-Backed Securities," published on March 31, 2021).

In our view, the exposure to social credit factors is in line with the sector benchmark. Social credit factors are generally considered above average because housing is viewed as one of the most basic human needs. Conduct risk presents a direct social exposure for lenders and servicers, particularly as regulators are increasingly focused on ensuring fair treatment of borrowers. This is particularly the case in Ireland, where the owners of loans and the respective servicers are encouraged to agree sustainable restructuring solutions for struggling borrowers. For RMBS, social risk is generally factored into our base-case assumptions.

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

In our view, the transaction has a relatively higher exposure to governance credit factors than our sector benchmark. We have not received certain information within the loan-level data that we typically receive. Although the data provided meets our minimum requirements, we have accounted for the limitations in loan-level data provided in our originator adjustment.

Collateral Description

As of the Dec. 31, 2023, pool cutoff date, the pool of €302,275,510 comprised 2,688 loan parts originated by BOI, KBC and ACC Bank. There are three subpools in the collateral pool: the Snow V (Hartland) portfolio (BOI originated, 81.2% of the portfolio: 78.9% retail and 2.3% business banking), the Braunton portfolio (KBC originated, 12.2%), and the Omni (Otterham) portfolio (ACC originated, 6.6%). Since preliminary ratings were assigned, €5.3 million of loans in the Omni portfolio were removed.

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Within the pool, €12,103,556 (4.0%) of the loans are unsecured. We have conducted our analysis based on the secured portion of the portfolio, which will reflect an undercollateralization of this amount for the cash flow analysis. All proportions reported are based on the secured portion of the loans only.

The pool has a large proportion of loans in arrears of 56.6%, with 45.2% of these loans being in arrears for 90 days or more. The loans were selected based on having high payment rates despite the large arrears amounts seen in the pool. The collateral has a weighted-average payment rate of 78.9% (36-month average). In line with our criteria, we have given credit to loans in 90 days or more in arrears that have had high payment rates and applied a 5.0x WAFF adjustment (in line with the 60-89 days in arrears bucket) in our model instead of a 100% foreclosure frequency for rating levels 'A' and below. Any loan that had a thirty-six-month average payment rate of above 80% received this benefit. Of the 45.2% of the loans in 90 days or more in arrears, 16.5% receive the benefit.

The collateral comprises first-ranking owner-occupied (87.3%) or BTL (12.7%) mortgage loans secured against properties in Ireland.

The assets in the portfolio were originated as prime collateral, however, Irish mortgage performance was significantly affected by rising unemployment in the aftermath of the global financial crisis, and the performance of the loans originated as prime deteriorated.

Data adequacy

We have received historical arrears performance data for the loans in the portfolio since 2012 for the Snow portfolio, since 2016 for the Braunton portfolio, and since 2019 for the Omni portfolio. We have also received details of all restructurings in the portfolio, and payment rate data for the same time periods. The historical data spans a relatively benign economic environment given that most of the pool was originated before 2008. We have considered this in our credit analysis by increasing our originator adjustment.

For the Omni portfolio, the original property valuations were not provided. We were provided with the loan underwriting criteria from ACC for the period during which these loans were originated, and this stated that the maximum loan-to-value (LTV) ratio permitted was 92%. We assumed the original LTV ratio for the Omni loans to have been originated at this maximum value.

Based on our analysis of the difference between updated property valuations and indexed original property valuations provided for the portfolio, along with on pools of other comparable assets, there is a risk that the original property valuations may be overstated. We have accounted for this through a 15% haircut to the valuation.

In addition, the pool was audited by a third-party due diligence provider. There were some errors in the data and some material fields for our analysis were not checked against the loan documentation, primarily due to missing documentation, but were instead checked against the originator's systems. However, the scope and results were in line with what we typically see for reperforming transactions in the Irish market. We have accounted for this through a loan-level adjustment.

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Table 1

Collateral key features*

	Kinbane 2024-RPL1 DAC	Kinbane 2022-RPL1 DAC	Shamrock Residential 2023-1 DAC	Shamrock Residential 2022-2 DAC	Shamrock Residential 2022-1 DAC	Mulcair Securities No.3 DAC
Pool cutoff date	Dec. 31, 2023	April 30, 2022	Jan. 31, 2023	Sept. 30, 2022	Jan. 31, 2022	Dec. 31, 2021
Jurisdiction	Ireland	Ireland	Ireland	Ireland	Ireland	Ireland
Principal outstanding of the pool (€)	290,171,954	574,108,559	340,019,011	513,756,398	574,788,697	361,216,358
Number of loans	2,594	4,977	1,881	2,508	4,057	2,112
Average loan balance (€)	111,862	115,352	180,765	154,616	141,678	171,030
Weighted-average reported indexed current S&P Global Ratings LTV ratio (%)	66.1	73.8	73.0	80.0	70.9	61.6
Weighted-average original LTV ratio (%)	80.8	68.5	76.9	76.2	76.7	74.6
Weighted-average seasoning (months)	208	182	196	192	186	188
First-time buyers (%)	20.3	N/A	6.7	5.5	N/A	14.7
Self-certified loans (%)	0.0	0.0	4.9	8.4	1.8	2.8
Interest-only (%)§	21.2	4.0	26.6	44.9	27.2	62.4
Buy-to-let (%)	12.7	7.1	8.2	17.8	21.6	78.1
Loan purpose--purchase/remortgage(%)	73.2	ND	99.5	98.0	47.0	75.0
Jumbo valuation (%)	24.5	17.7	13.2	19.3	24.3	7.0
'AAA' RMVD (%)	51.8	49.6	49.6	49.6	49.6	49.6
Current reported arrears greater than or equal to one month (%)	56.6	45.3	24.8	22.7	21.5	7.7
Historical restructures (%)	76.3	95.5	78.0	68.6	68.5	97.3

*Calculations are according to S&P Global Ratings' methodology. These amounts are based on the available data. §Based on the redemption profile post expiry of the restructuring arrangement. LTV--Loan-to-value. N/A--Not applicable. ND--No data, assumption made. RMVD--Repossession market value decline.

Asset performance

Historically, 76.3% of the portfolio has been restructured, of which almost 41% have occurred in the past three years. We classify 34.9% of the loans as reperforming under our criteria, and we increased our WAFF assumptions for these assets based on the date when the loan was last 90 days or more in arrears or restructured over the last 60 months, in line with our criteria.

When a restructuring arrangement occurred, it included a full reassessment of the borrower's affordability. We have therefore calculated our seasoning credit on these loans based on the date a loan was last 90 or more days in arrears or restructured.

Although the pool has historically experienced a significant number of restructurings, arrears have remained high but decreasing in recent years. The lack of reduction in arrears levels is partly explained by BOI's reluctance as the servicer to capitalize arrears as we observed in other similar portfolios.

Arrears in the pool increased after the pandemic and have since decreased in line with recent restructures, which helped to reduce these arrears balances (see chart 2). Most of the restructurings took place since the start of 2021, with another smaller concentration around 2015 (see chart 1). This decrease in arrears correlates with the elevated payment

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rate of the pool within the similar timeframe (see chart 3)

Chart 1

Year of latest restructuring

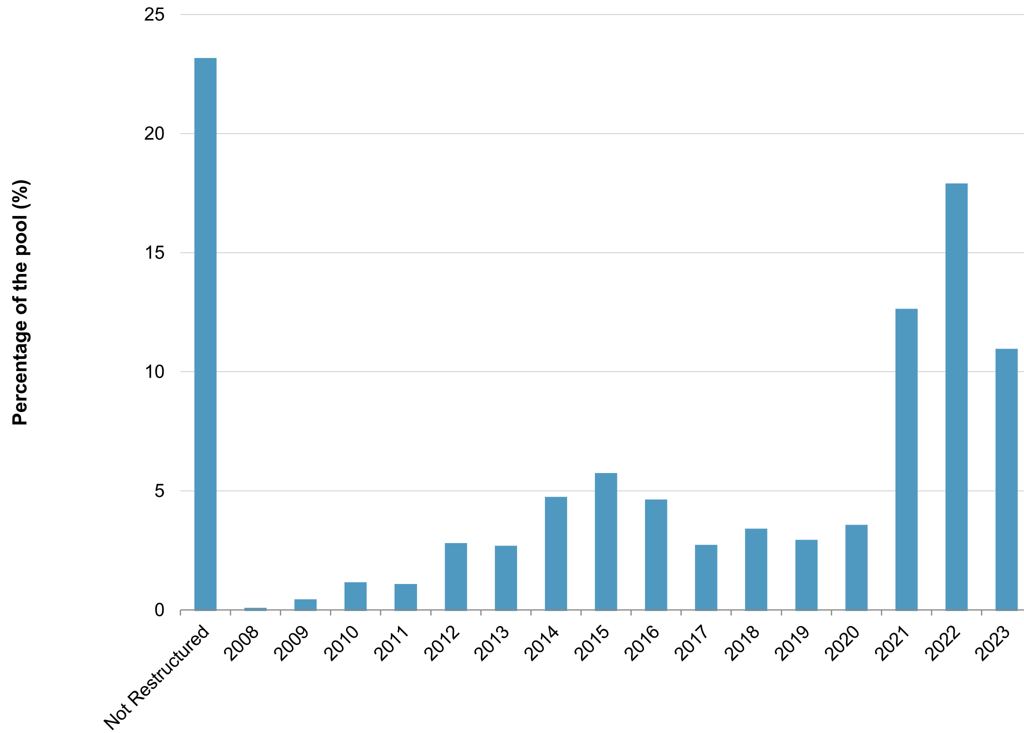

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Chart 2

Historical delinquency performance

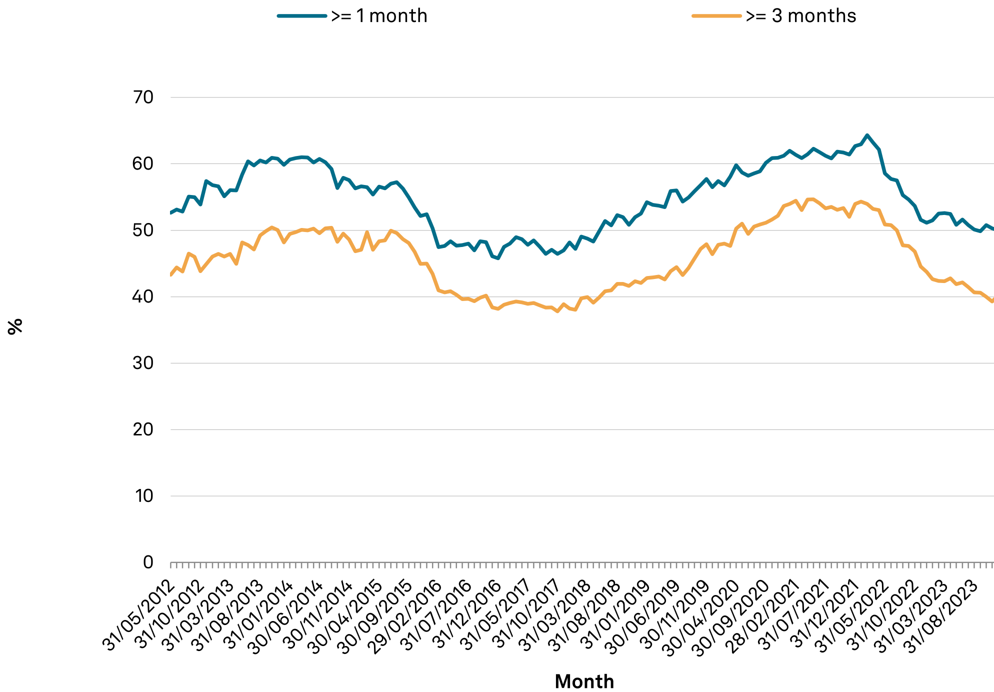

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Table 2

Arrears summary

	Percentage of the portfolio (%)
Loans attracting a reperforming adjustment (i.e., either a restructure or three months in arrears over the past five years and no longer in arrears)	34.9
Currently in arrears (less than three months)	11.4
Currently three months or more in arrears	45.2

The portfolio's payment rate has trended upward since 2020, despite the high percentage of the portfolio in arrears (see chart 2). Currently, more than 50% of the portfolio are paying at least 80% of their full payment (36-month average). We note the recent fall in the payment rates and have factored it into our analysis. The payment rate is calculated as the monthly payment received divided by the monthly payment due on a loan-level basis. The payment rates are capped at 300% and floored at 0%.

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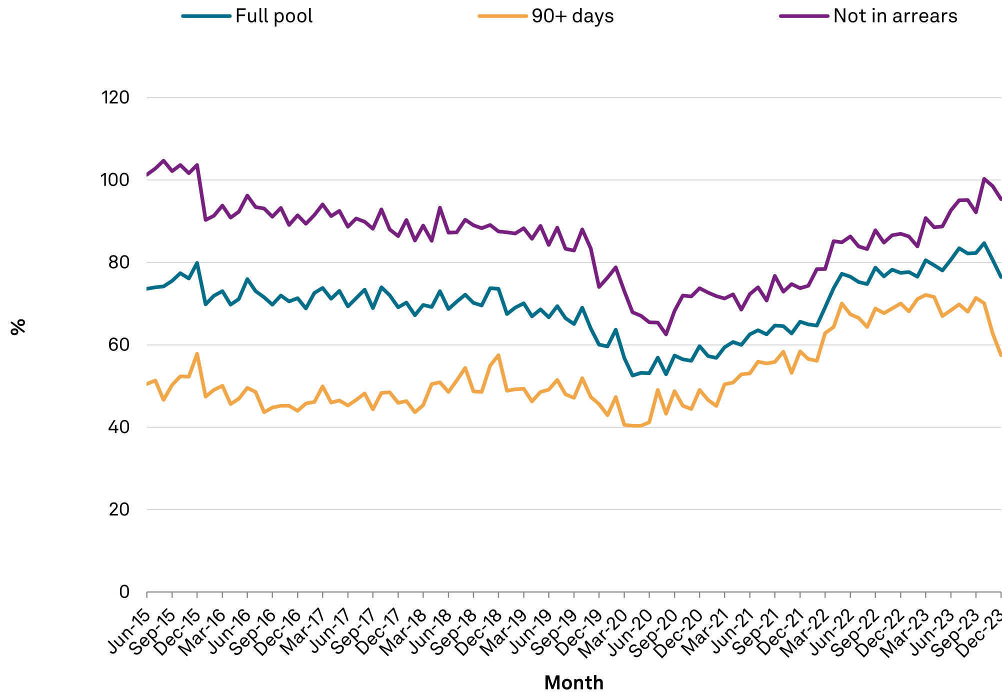
Chart 3

Payment rate



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Asset description

The portfolio's weighted-average current indexed LTV ratio is 66.1%, and the weighted-average original LTV ratio is 80.8% (see charts 4 and 5 below).

We have capped the original LTV ratio at the borrower level at 100% because according to the loan underwriting criteria at origination, lending above 100% was not common.

The weighted-average current LTV ratio of 66.1% is based on our methodology and incorporates the 15% valuation haircut on the original valuations of the properties.

We consider that borrowers with minimal equity in their property are more likely to default on their obligations than borrowers with lower original loans. At the same time, loans with high current LTV ratios are likely to incur greater loss severities if the borrower defaults.

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Chart 4

Original loan-to-value ratio distribution

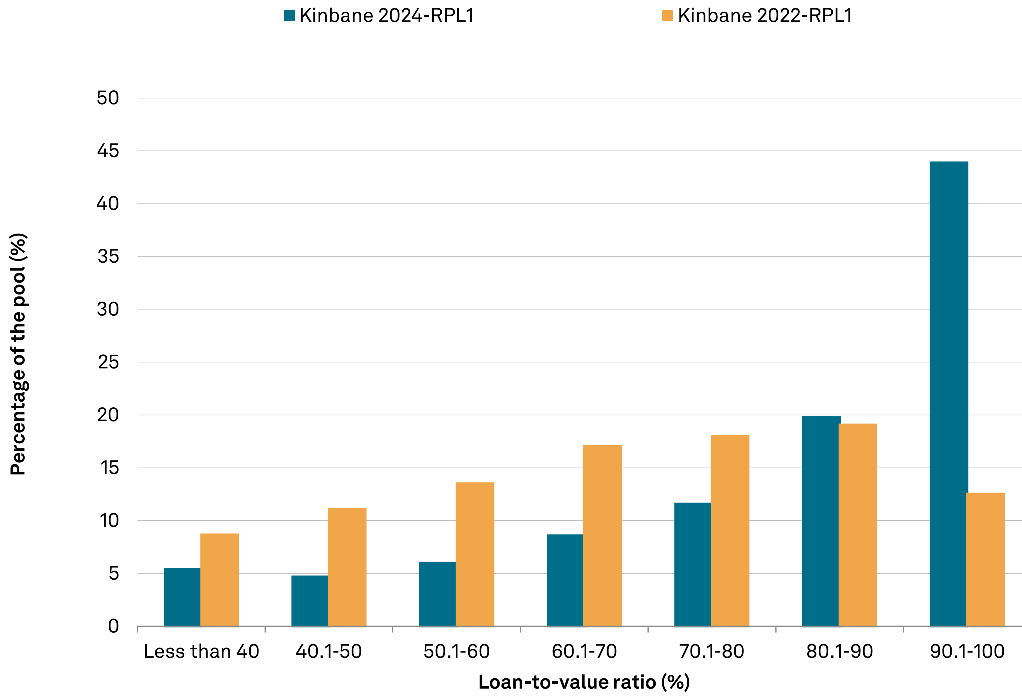

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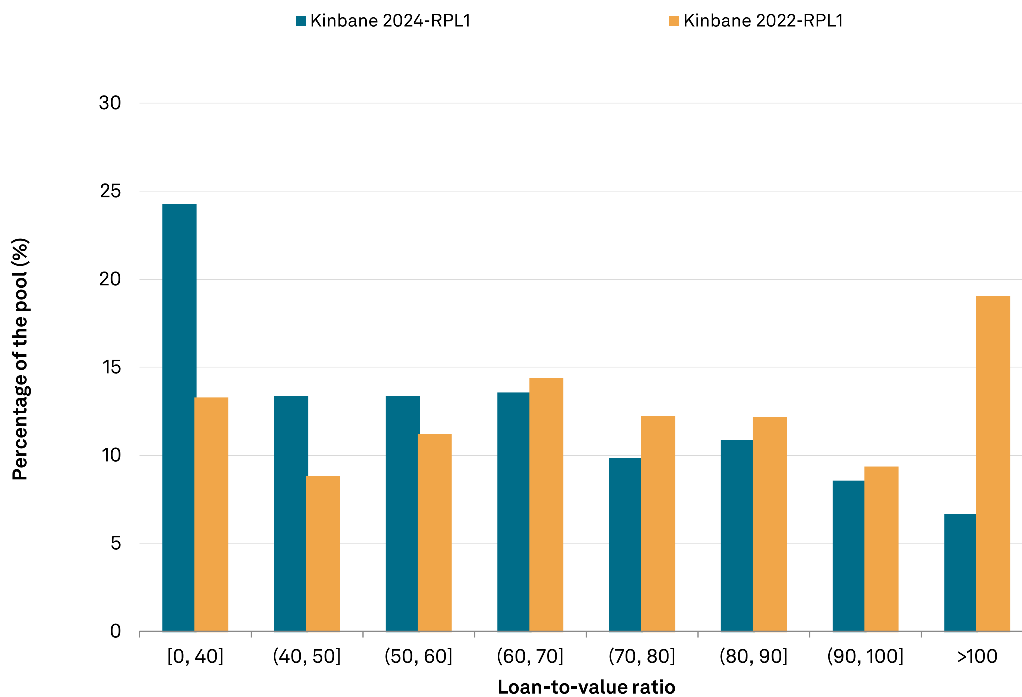
Chart 5

S&P Global Ratings current loan-to-value ratio distribution



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Approximately 21% of loans are currently paying either interest-only or part-and-part instalments. In our view, interest-only loans on owner-occupied properties have historically exhibited a higher default probability than otherwise similar loans. Additionally, some borrowers are not currently paying their capital instalments due to temporary repayment agreements. In our view, these borrowers would also introduce higher risk in the portfolio due to the increased probability that they will be unable to pay when the loan falls due and may require a term extension.

The portfolio's weighted-average seasoning is 208 months, but this is offset by the fact that we have not given any benefit to the seasoning of loans that have been classified as reperforming in the past five years (see above).

The assets are relatively well distributed across Ireland. In line with other Irish portfolios, the assets are primarily concentrated in Dublin (31.8%), but no counties breach our concentration limits.

Table 3

Geographic distribution

Concentration limits	Percentage of the pool (%)
Carlow (2%)	1.2
Cavan (3%)	0.9
Clare (5%)	1.9
Cork (20%)	11.4

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Table 3

Geographic distribution (cont.)

Concentration limits	Percentage of the pool (%)
Donegal (7%)	2.2
Dublin (50%)	31.1
Galway (11%)	6.9
Kerry (6%)	1.6
Kildare (9%)	5.1
Kilkenny (4%)	1.7
Laois (4%)	1.8
Leitrim (1%)	0.7
Limerick (8%)	4.1
Longford (2%)	0.8
Louth (5%)	2.8
Mayo (6%)	1.9
Meath (8%)	4.2
Monaghan (3%)	0.5
Offaly (3%)	1.3
Roscommon (3%)	1.1
Sligo (3%)	1.5
Tipperary (7%)	3.2
Waterford (5%)	2.5
Westmeath (4%)	2.2
Wexford (6%)	2.9
Wicklow (6%)	4.5

The sellers are special-purpose entities (SPEs). They did not originate the loans, and they have limited resources to meet their financial obligations.

While the sellers provide certain representations and warranties on the assets, their responsibility to indemnify the issuer is limited. We consider the sellers' responsibility in case of a breach to be weaker than what we normally see in European RMBS transactions, and we have increased the originator adjustment to incorporate this risk. We have also considered the pool's high seasoning as a mitigating factor in this regard.

The proportion of the pool with jumbo valuations is 24.5%. Due to the illiquid nature of larger valued properties, these loans may suffer an additional market value decline, in our view. A property is classified as jumbo under our criteria if it exceeds €850,000 for Dublin properties and €500,000 for properties outside Dublin.

Servicers

Mars and Pepper will provide the day-to-day operational servicing capabilities for this transaction. Mars assumed servicing responsibility from BOI for the Snow V (both retail and business banking subpools) portion of the pool in September 2023. A small segment (4.5% of the total pool) migrated earlier, in April 2023. Pepper is the servicer for the Braunton and Omni portions of the pool.

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The servicing strategy for these loans is to proactively use restructuring techniques as outlined under the Central Bank of Ireland's Mortgage Arrears Resolution Process to help cure borrowers struggling to make their payments and those in long-term arrears. These restructures will include reduced payments, term extensions, and eventual arrears capitalizations. As Mars has recently taken over the servicing of the Snow subpool, there will be a focus over the first months of the transaction on implementing new sustainable restructures to borrowers, with the aim of reducing the arrears balance on their accounts.

A large portion of the portfolio has already gone through a permanent restructure considering borrowers' circumstances. Should these restructure agreements fail, and a sustainable solution not be available, the servicing strategy aims to realize the real estate value in the most efficient manner available.

Mars and Pepper are experienced servicers in the Irish market with well-established and fully integrated servicing systems and policies. We have considered Mars' and Pepper's ability to service the portfolio under our operational risk criteria, and we are satisfied that they are capable of performing their functions in the transaction. There is no cap on the ratings on the notes from an operational risk perspective.

Credit Analysis And Assumptions

WAFF and WALS

We have applied our global RMBS criteria to the pool to derive the WAFF and the weighted-average loss severity (WALS) at each rating level.

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

Table 4

Portfolio WAFF and WALS

Rating level	WAFF (%)	WALS (%)	Credit coverage (%)	Base foreclosure frequency component for an archetypical Irish mortgage loan pool (%)
AAA	80.86	27.53	22.26	14.00
AA	74.32	23.77	17.67	9.4
A	67.39	17.66	11.9	7.1
BBB	59.4	14.6	8.67	4.7
BB	49.38	12.61	6.23	2.4
B	46.61	10.88	5.07	1.85

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

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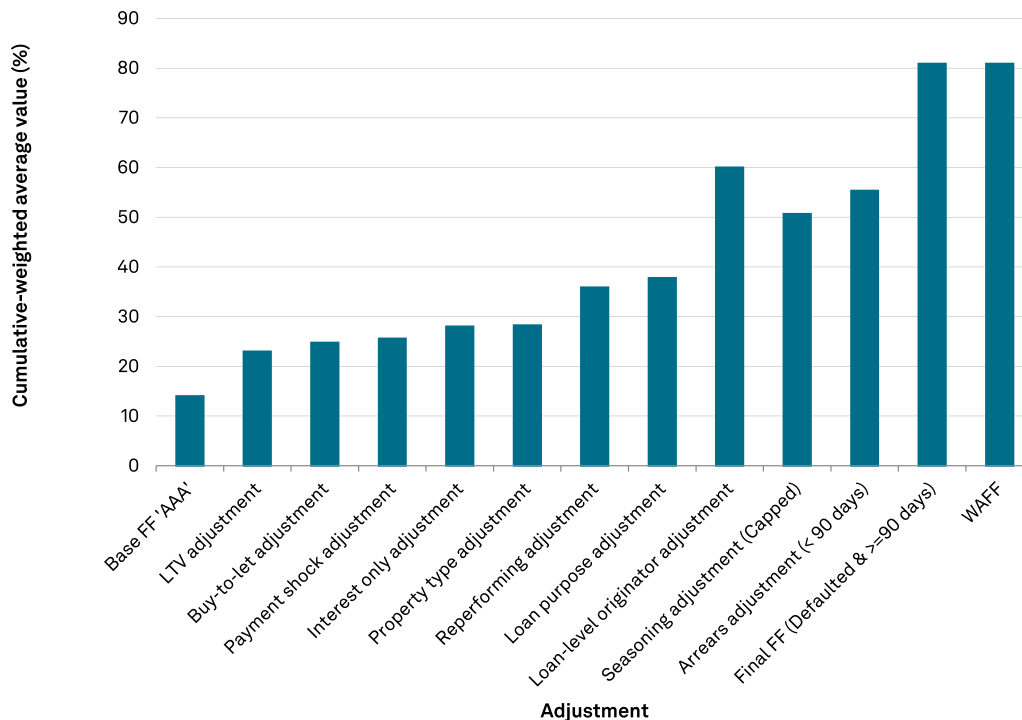
Chart 6

Cumulative 'AAA' WAFF migration



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

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Macroeconomic and sector outlook

We estimate that Ireland's underlying domestic economy has grown by 2.0% in 2023. The Irish economy will feel the lasting effects of the soaring inflation witnessed in 2022 of 8.1%, and consumers will continue to feel the increased cost of living. Headline inflation is forecast to have fallen to about 5.3% in 2023 and forecast to fall to 2.7% in 2024, which will continue to reduce household purchasing power. The tight labor market that is persevering through the current environment will support consumption. Tighter monetary conditions and inflationary pressures will limit business investments, especially housing, but given the housing shortage in Ireland and still-strong price growth, we expect some momentum to persist. Irish exports--with pharmaceuticals and information and communications technology services being the most important--are reasonably non-cyclical and therefore we expect these to hold up despite a general slowdown in global demand. The 2.0% GDP growth for 2023 was still ahead of the 0.5% European-wide estimate, driven by the resilient sectors in Ireland in which unemployment levels are forecasted to remain lower than the European average into the suspected credit headwinds of 2024.

Table 5

Irish market statistics

	2021	2022	2023	2024f	2025f
Nominal house prices, % change year on year	13.8	8.6	1.8	1.3	2.1
Real GDP (% change)	13.6	12.0	2.0	2.5	3.1

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Table 5

Irish market statistics (cont.)	2021	2022	2023	2024f	2025f
Unemployment rate	6.2	4.5	4.7	5.0	4.9

Sources: S&P Global Ratings, Eurostat, Organization for Economic Co-operation and Development, Central Statistics Office. f--Forecast.

Transaction Summary

We assigned our credit ratings to Kinbane's class A notes and to the interest deferrable class B-Dfrd to F-Dfrd notes. Our ratings on the class E-Dfrd and F-Dfrd notes address the payment of interest based on the lower of the stated coupon and the net weighted-average coupon. At closing, Kinbane also issued unrated class RFN and Z notes.

At closing, Kinbane used the class A, B-Dfrd, C-Dfrd, D-Dfrd, E-Dfrd, F-Dfrd, and Z notes' issuance proceeds to purchase the beneficial title of the mortgage loans from the sellers. The issuer granted security over all of its assets to the trustee (see chart 7). Pepper and Mars holds the legal title to their respective mortgage loans on trust for the issuer, until a perfection of title event occurs.

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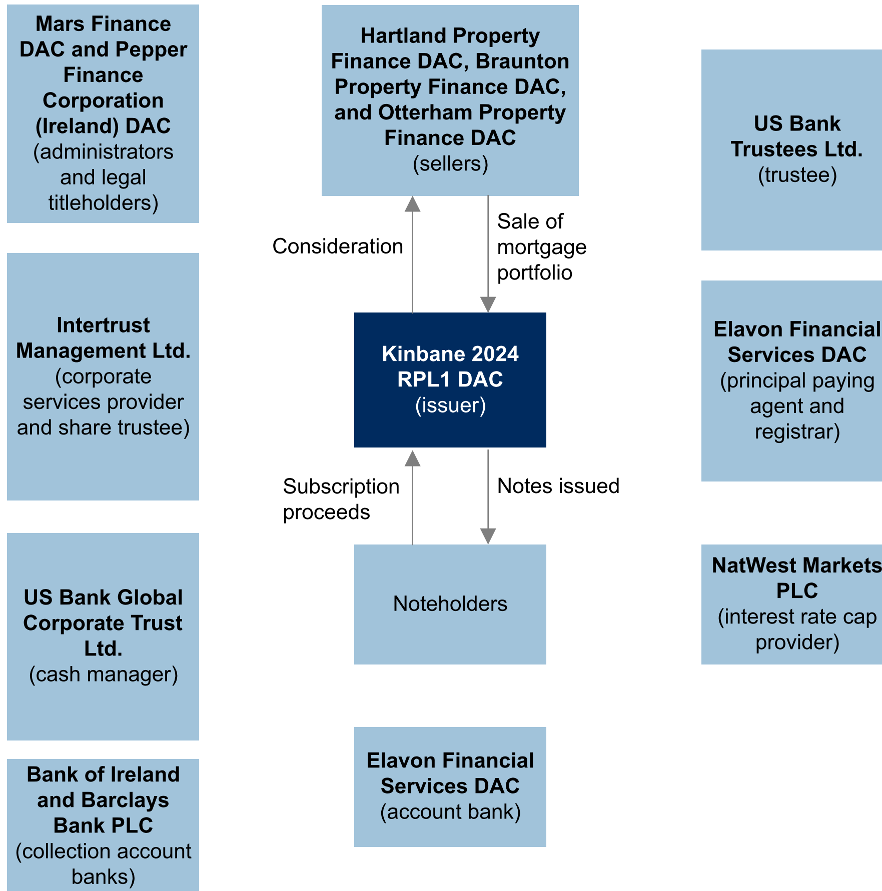
Chart 7

Transaction structure



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The issuer is an Irish SPE. We analyzed its corporate structure in line with our legal criteria and reviewed the transaction legal opinion, which provides assurance as to whether the structure will achieve a valid and effective sale of assets. We believe that the sale of the assets would survive the seller's insolvency.

Stated coupon and net weighted-average coupon

Interest is paid monthly, beginning in May 2024.

The class A notes pay interest equal to one-month EURIBOR plus a margin with a further step-up in margin following the optional call date in April 2027. Our rating on the class A notes addresses timely payment of interest and the ultimate payment of principal.

The class E-Dfrd and F-Dfrd notes pay interest based on the lower of the coupon on the notes (one-month EURIBOR plus a class-specific margin) and the net weighted-average coupon (WAC). The annualized net WAC is calculated based on the interest accrued on the assets (whether it was collected or not) during the month, less senior fees, plus any yield supplement overcollateralization release for that interest payment date, divided by the assets' balance at the

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beginning of the collection period. The net WAC is then applied to the outstanding balance of the notes in question to determine the required interest. A failure to pay the lower of these amounts will result in interest being deferred. Deferred interest will also accrue at the lower of the two rates. Our ratings on the class B-Dfrd to F-Dfrd notes address the ultimate payment of interest and principal.

Net WAC additional amounts

The net WAC additional amounts refer to the difference between the stated coupon and the net WAC where the stated coupon exceeds the net WAC. For instance, should the coupon be 2.0% and the net WAC 1.5%, the noteholders will receive interest based on 1.5%, which is what our ratings address. The 0.5% difference between the coupon and the net WAC constitutes the net WAC additional amount and will be subordinated in the revenue priority of payments. No additional interest will accrue on the net WAC additional amount.

In our view, the initial coupons on the notes are not "de minimis", and nonpayment of the additional note interest amounts is not considered an event of default under the transaction documents. Therefore, we do not need to consider these amounts in our cash flow analysis, in line with the imputed promises section of our ratings definitions commentary (see "Related Research"). Our ratings do not address the repayment of such amounts.

General reserve fund

At closing, part of the class RFN notes' issuance proceeds was used to fund the general reserve fund to 3.0% of the sum of the initial class B-Dfrd to F-Dfrd notes and Z notes' balance. This reserve amortizes over time, in line with the class B-Dfrd through F-Dfrd's outstanding note balance. Any excess over the general reserve fund required amount will be released as available principal.

The general reserve can be used to pay shortfalls of interest and PDLs on the class A through F-Dfrd notes.

Liquidity reserve fund

At closing, the class A liquidity reserve was fully funded to 3.0% of the class A notes' balance and can amortize in line with the class A notes without any floor. Any liquidity reserve fund amount over class A liquidity reserve fund required amount will be released as available principal. Upon redemption of the class A notes, the reserve will expire. This can be used for the class A notes as well as items senior to these notes in the waterfall. The liquidity reserve is topped up through the principal priority of payments, and the use of principal to top up the liquidity reserve will result in the recording of a PDL.

Yield supplement overcollateralization

Under a period of stress, the interest generated by the performing assets may not be sufficient to cover revenue items. To address this risk, the transaction benefits from a yield supplement of 5.50% overcollateralization, which will be released to the revenue waterfall. On each IPD, principal equal to an annualized 0.55% of the outstanding portfolio balance will be transferred to the revenue waterfall to supplement the available revenue.

Principal to pay interest

In high-delinquency scenarios, there may be liquidity stresses, whereby the issuer would not have sufficient revenue receipts to pay interest due on senior fees or the most senior class of notes. To mitigate this risk, the issuer can use any existing principal receipts. The use of principal to pay interest would result in the registering of a PDL and may reduce

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the credit enhancement available to the notes.

PDLs

The PDL comprises seven subledgers, one for each of the collateral-backed notes (class A to Z notes).

The PDL is a loss-based and default-based hybrid. Amounts will be recorded on the PDL if the portfolio suffers any losses or if the transaction uses principal as available revenue receipts or to top up the liquidity reserve fund. A PDL of 20% of the loan balance will also be recorded when a loan goes into arrears for more than 180 days.

PDL amounts will first be recorded in the class Z notes' PDL, up to the class Z notes' outstanding amount. They will then be debited sequentially upward.

Revenue and principal waterfall

Table 6

Simplified priority of payments

Revenue priority of payments	Principal priority of payments
Third-party fees.	If revenue receipts, the senior reserve, and the general reserve are insufficient, principal may be used to pay interest on the senior-most notes or to pay senior fees.
Servicing fees.	Replenish the liquidity reserve fund.
Issuer profit amount	Class A notes' principal.
Interest due on the class A notes.	Class B-Dfrd notes' principal.
Credit the class A PDL if applicable.	Class C-Dfrd notes' principal.
Replenish the liquidity reserve fund.	Class D-Dfrd notes' principal.
Interest due on the class B-Dfrd notes.	Class E-Dfrd notes' principal.
Credit the class B-Dfrd PDL if applicable.	Class F-Dfrd notes' principal. and
Interest due on the class C-Dfrd notes.	Net WAC additional amount due and payable on the class E-Dfrd notes.*
Credit the class C-Dfrd PDL if applicable.	Net WAC additional amount due and payable on the class F-Dfrd notes.*
Interest due on the class D-Dfrd notes.	Class RFN notes principal.
Credit the class D-Dfrd PDL if applicable.	Class Z notes principal.
Interest due on the class E-Dfrd notes.	Residual amounts to available revenue.
Credit the class E-Dfrd PDL if applicable.	
Interest due on the class F-Dfrd notes.	
Credit the class F-Dfrd PDL if applicable.	
Replenish the general reserve fund.	
Net WAC additional amount due and payable on the class E-Dfrd notes.*	
Net WAC additional amount due and payable on the class F-Dfrd notes.*	
Interest due on the class RFN notes.	
Following the step-up date, all excess revenue to become available principal until rated notes and RFN are redeemed.	
Interest due on the class Z notes.	
Credit the class Z PDL if applicable.	
Residual payments to the class Z notes.	

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Table 6

Simplified priority of payments (cont.)	
Revenue priority of payments	**Principal priority of payments**
*Our ratings do not address the payment of what are termed "net WAC additional amounts" i.e., the difference between the coupon and the net WAC where the coupon exceeds the net WAC. These amounts will be subordinated in the interest priority of payments. PDL--Principal deficiency ledger. WAC--Weighted-average coupon.	

Hedging

The issuer benefits from an interest rate cap with strike rates of 4.00% to 6.00%. The notional of the cap is outlined in table 8. The interest rate cap acts to minimize the exposure to liquidity stresses up to 10 years after closing (see interest rates for details about how it affects our modelling).

Table 7

Hedging details

Cap start date	Cap end date	Notional (mil. €)	Strike rate (%)
May 25, 2024	May 25, 2026	80.0	4.0
May 25, 2026	May 25, 2028	120.0	4.5
May 25, 2028	May 25, 2029	120.0	5.0
May 25, 2029	May 25, 2030	100.0	5.0
May 25, 2030	May 25, 2032	100.0	5.5
May 25, 2032	May 25, 2034	80.0	6.0

Of the loans in the portfolio, 46.2% are linked to the ECB tracker rate, 32.8% are linked to an SVR, and 21.0% (19.7% of which revert to an SVR in the future) are fixed-rate loans.

The transaction does not have a basis risk swap. We have accounted for this in our cash flow analysis by applying a basis risk stress to account for the mismatch between the one-month EURIBOR paid on the notes and the three-month EURIBOR, which the SVR loans are linked to (via covenants; see below). We also stress for the mismatch between the notes and the ECB-linked loans.

SVR loans

Mars and Pepper, the transaction administrators, have committed to maintaining a minimum weighted-average SVR of one-month EURIBOR plus 2.0%, which takes effect immediately for the Pepper loans at a loan level and 12 months after closing for the Mars loans at a weighted-average pool level. However, the underlying mortgage conditions do not reflect this floor. We have given credit to this floor in our analysis. In the event of Mars'/Pepper's insolvency, the right to set the SVR rate will transfer to the replacement servicer.

The floor of one-month EURIBOR plus 2.0% is in line with what we have previously seen in similar transactions, and is lower than the previous Kinbane transaction. As the majority of the loans have only recently transferred to Mars, the 12-month period will give the servicer time to implement rates that reflect this floor.

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Cash Flow Assumptions And Analysis

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

We apply these stresses to the cash flows at all relevant rating levels. In our stresses on the class A notes, all notes must pay full principal and timely interest when due. Our ratings on the class B-Dfrd to F-Dfrd notes address the payment of ultimate interest and principal.

The cash flow results have improved since the preliminary ratings, driven primarily by the improved credit profile of the secured pool. Our standard cash flow analysis indicates that the available credit enhancement for the class C-Dfrd, D-Dfrd, and E-Dfrd notes is commensurate with higher ratings than those assigned. The ratings on these notes also reflect borrower's ability to withstand increased inflationary pressures and the notes' ability to absorb extended recovery timing and potential term extensions.

In our analysis, the class F-Dfrd notes are unable to withstand the stresses we apply at our 'B' rating level, particularly in a low prepayment scenario. Therefore, we applied our 'CCC' criteria, to assess if either a rating in the 'B–' or 'CCC' category would be appropriate (see "Criteria for Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published Oct. 1, 2012). According to our 'CCC' criteria, for structured finance issues, expected collateral performance and the level of credit enhancement are the primary factors in our assessment of the degree of financial stress and likelihood of default.

We performed a qualitative assessment of the key variables, along with simulating a steady-state scenario in our cash flow analysis. The class F-Dfrd notes are able to pass such a scenario. Hence, we do not consider repayment of this class of notes to be dependent upon favorable business, financial, and economic conditions. Consequently, we have assigned a 'B- (sf)' rating to the notes in line with our criteria.

Spread compression

The asset yield on the pool can decrease if higher-paying assets default or prepay. We have taken this into account by applying spread compression in our cash flow analysis.

Commingling risk

Borrowers pay into collection accounts held with Bank of Ireland. The collection accounts are in the name of the legal titleholders. All amounts will be transferred weekly from the collection accounts to the bank account provider (Elavon Financial Services DAC).

If the legal titleholders were to become insolvent, mortgage collection amounts in the collection account may become part of the legal titleholders' bankruptcy estate. In order to mitigate this risk, collections are transferred weekly into the issuer's bank account and declaration of trusts are in place over the collection accounts. The transaction documents contain replacement language in line with our current counterparty criteria.

Although we believe that the above mechanisms (downgrade language and declaration of trust) mitigate against loss of collections, we have considered that collections could be delayed in the event of an insolvency. In our analysis, we have therefore applied a liquidity stress of one month of collections.

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Setoff

Although the originator of the loans is a deposit-taking institution, the current legal titleholders and the seller are not deposit-taking institutions and borrowers have been notified of the transfer of their loans to the legal titleholders, we have not applied a stress to account for potential deposit setoff risk in our analysis.

Fees

The issuer must pay periodic fees to various parties providing services to the transaction, including servicers, trustees, and cash managers. We have accounted for these in our analysis. In particular, and in line with our global RMBS criteria, we have applied a stressed servicing fee of 0.55% to account for the potential increase in costs to attract a replacement servicer.

Net asset realization payments

For loans that are more than 360 days in arrears, should the servicer close out the loan, Mars will be entitled to 1.00% of the cash collected, and Pepper will be entitled to 1.25% of cash collected. Mars and Pepper will receive this payment irrespective of whether the loan's outstanding balance is fully repaid or if there is a loss. A fee of this nature is not something we typically see in similar Irish reperforming transactions, but was in the previous Kinbane transaction, and we have accounted for this in our WALS assumptions.

Default timing and recoveries

We used the WAFF and WALS derived in our credit analysis as inputs in our cash flow analysis (see table 8). At each rating level, the WAFF specifies the total balance of the mortgage loans we assume will default over the transaction's life. Defaults are applied on the outstanding balance of the assets as of the closing date. We simulate defaults following two paths (that is, one front-loaded and one back-loaded) over a six-year period. During the recessionary period within each scenario, we assume 25% of the expected WAFF is applied annually for three years.

Table 8

Default timings for front-loaded and back-loaded default curves

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

WAFF--Weighted-average foreclosure frequency.

Timing of recoveries

This pool comprises a mix of both owner-occupied and BTL mortgages, which have different recovery timing assumptions in our criteria of 42 months and 24 months, respectively. On a weighted-average basis, we have used a foreclosure timing assumption of 39 months for the full pool. Foreclosure costs are estimated at 3.0% of the repossession value and €10,000.

Our loss severities are based on loan principal and do not give any credit to the recovery of interest accrued on the loan during the foreclosure process.

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Delinquencies

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

Prepayments

To assess the impact on excess spread and the absolute level of defaults in a transaction, we model two prepayment scenarios: high and low (see table 9). We have also tested the effects of running higher prepayment levels in our model in line with our criteria.

Table 9

Prepayment assumptions

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

Interest rates

We modeled two interest rate scenarios in our analysis: up and down. Given that the transaction incorporates an interest rate cap, upward interest rate stress assumptions exceeding the cap level may be unduly beneficial for the transaction's cash flow projection. Therefore, we have also tested the sensitivity of the structure where, in our up interest rate curves, the levels on the assets do not exceed the average cap strike rates.

Summary

Combined, the default timings, recession timings, interest rates, and prepayment rates described above give rise to eight different scenarios at each rating level (see table 10).

Table 10

RMBS stress scenarios

Total number of scenarios	Prepayment rate	Interest rate	Default timing
8	High and low	Up, down, and to the average strike rate on the cap	Front-loaded and back-loaded

Scenario analysis

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

Various factors could lead us to lower our ratings on the notes, such as increasing foreclosure rates in the underlying pool and changes in the pool composition. We have analyzed the effect of increased defaults by testing the sensitivity of the ratings to two different levels of movements.

Under our scenario analysis, the ratings on the notes in both scenarios would not suffer a rating transition outside of that considered under our credit stability criteria.

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

Table 11

Sensitivity stresses

	WALS		
	1.0x	1.1x	1.3x
WAFF			
1.0x	Base case	Scenario 3	Scenario 4
1.1x	Scenario 1	Scenario 5	Scenario 7
1.3x	Scenario 2	Scenario 6	Scenario 8

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

Table 12

Sensitivity scenarios

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

NR--Not rated.

Legal risk

We have assessed the transaction from a legal perspective, and we have applied our legal criteria (see "Structured Finance: Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). As part of our legal analysis, we have considered the transaction in the context of the legal opinions and have performed analyses at the asset, SPE, and liability levels.

We consider the issuer to be a bankruptcy remote entity, and we have received legal opinions that indicate that the sale of the assets would survive the seller's insolvency.

Counterparty risk

The transaction is exposed to Elavon Financial Services as the issuer bank account provider and to BOI and Barclays Bank PLC as the collection bank account providers. The transaction is also exposed to NatWest Markets PLC as the interest rate cap provider. The documented replacement mechanisms adequately mitigate the transaction's exposure to counterparty risk in line with our current counterparty criteria, and therefore, these criteria do not constrain our ratings.

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Table 13

Supporting Ratings	
Institution/role	**Rating**
Elavon Financial Services DAC as the transaction account provider	A+/Stable/A-1
The Governor and Company of the Bank of Ireland as a collection account provider	A/Stable/A-1
Barclays Bank PLC as a collection account provider	A+/Stable/A-1
NatWest Markets PLC as interest rate cap provider	RCR: A+/--/A-1

RCR--Resolution counterparty rating.

Sovereign Risk

Our long-term sovereign credit rating on Ireland is 'AA'. This enables the notes to achieve a maximum potential rating of up to 'AAA'. Therefore, our structured finance sovereign risk criteria do not constrain our ratings in this transaction.

Surveillance

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

Appendix

Transaction participants

The full list of transaction parties (excluding those providing supporting ratings) are listed below.

Transaction Participants	
Originators	Governor and Company of the Bank of Ireland, KBC Bank Ireland PLC, ACC Bank PLC, and ICS Building Society
Arranger	Morgan Stanley & Co. International PLC
Sellers	Hartland Property Finance DAC, Braunton Property Finance DAC, and Otterham Property Finance DAC
Administrators	Mars Finance DAC and Pepper Finance Corporation (Ireland) DAC
Legal titleholders	Mars Finance DAC and Pepper Finance Corporation (Ireland) DAC
Replacement administrator facilitator	Intertrust Management Ltd.
Cash manager	U.S. Bank Global Corporate Trust Ltd.
Corporate services provider	Intertrust Management Ltd.
Principal paying agent	Elavon Financial Services DAC
Registrar	Elavon Financial Services DAC
Trustee	U.S. Bank Trustees Ltd.

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Related Criteria

- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans--Europe Supplement, April 4, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
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