4 February 2021 Structured Finance

Shamrock Residential 2021-1 DAC Reperforming RMBS - Ireland



Ratings

Note class	Rating ¹	Notional (EUR m)	Notional (% assets)	CE ² (% assets)	Index ³	Margin (bps)	Step-up margin⁴ (bps)	Final maturity
Α	AAA _{SF}	290.0	68.1%	33.8%	1mE	85	150	Dec 2059
В	AA+ _{SF}	29.9	7.0%	26.8%	1mE	140	210	Dec 2059
С	A+ _{SF}	24.5	5.8%	21.0%	1mE	190	290	Dec 2059
D	BBB _{SF}	17.2	4.0%	17.0%	1mE	240	340	Dec 2059
Е	BB _{SF}	13.1	3.1%	13.9%	1mE	450	550	Dec 2059
F	B+ _{SF}	5.7	1.3%	12.6%	1mE	550	650	Dec 2059
G	B- _{SF}	10.4	2.4%	10.2%	1mE	650	750	Dec 2059
RFN	NR	8.2	1.9%	8.2%	Fixed	7.0%		Dec 2059
Z1	NR	4.9	1.2%		Fixed	8.0%		Dec 2059
Z2	NR	13.1	3.1%		Fixed	10.0%		Dec 2059
Х	NR							Dec 2059
Rated notes		390.8					,	

- 1. The ratings on the class B to G notes reflect a periodic minimum of a) the index plus margin or step-up margin on the notes, as applicable, and b) the net weighted average coupon (net WAC) ranging from 1.2% as of closing to 1.7% as of the maturity date, in accordance with the transaction documentation and Scope's assumption of asset coupon and senior fees. The periodic net WAC is calculated as the period asset coupon minus senior fees, and plus the YSO release (0.4% per annum) if it occurs (see transaction waterfall at section 4.3 Priority of payments for more details)
- 2. Includes liquidity reserve and non-liquidity reserve
- 3. 1mE refers to 1-month Euribor
- 4. Step-up date July 2023

Scope's quantitative analysis is based on the portfolio dated 31 December 2020and the prospectus provided by Morgan Stanley (the arranger). Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on particular payment date or by its legal maturity. See Scope's website for the SF Rating Definitions.

Transaction details

Purpose Refinancing

Issuer Shamrock Residential 2021-1 DAC

Ulster Bank Ireland Designated Activity Company, Danske Bank A/S, Stepstone Mortgage Funding DAC, Nua Mortgages Limited, Originators

Start Mortgages DAC, Bank of Scotland (Ireland) Limited,

Permanent TSB P.L.C.

Start Mortgages DAC (servicing Monaco sub-portfolio), Pepper Servicers

Finance Corporation (Ireland) DAC (servicing Nore sub-portfolio)

Account bank Elavon Financial Services DAC

BNP Paribas Interest rate cap provider 4 February 2021 Closing date

Payment frequency Monthly (24th of each month)

The transaction is a true-sale securitisation of a mixed static portfolio of delinquent (21%), current and historically restructured (43%), and current and never restructured loans (36%), mostly secured by first-lien residential properties located in Ireland. The purpose of the transaction is to refinance loan pools acquired by Daire Residential DAC. The liability structure features strictly sequential, separate priorities of payment. The EUR 425.9m provisional portfolio comprises 2,400 loans granted to 1,837 borrowers.

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Related Research

General Structured Finance Rating Methodology, December 2020

Methodology for Counterparty Risk in Structured Finance, July 2020

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Rating rationale (summary)

The ratings reflect the legal and financial structure of the transaction; the quality of the underlying collateral; the experience and incentives of Start Mortgages DAC (Start) and Pepper Finance Corporation (Ireland) DAC (Pepper) as the servicers in the transaction; and the exposure to the transaction's key counterparties.

The ratings are mainly supported by credit enhancement, moderate current loan-to-values, and non-amortising cash reserve funds. Class A, Class B, Class C, Class D, Class E, Class F, and Class G will amortise over an estimated weighted average life of 6.8, 14.5, 16.6, 18.7, 20.4, 21.7 and 22.4 years respectively, assuming no call and a zero constant prepayment rate (CPR).

The credit quality of the rated notes is mainly constrained by a relatively high expected lifetime portfolio default rate, Ireland's volatile property market, and limited excess spread.

The transaction is exposed to the following key counterparties: Start and Pepper as the servicers, Elavon as the account bank and paying agent, and BNP Paribas as the interest rate cap provider. Counterparty risk is mitigated by the credit quality of the counterparties, structural mechanisms such as replacement rating triggers as well as the limited time exposure. We have assessed the credit quality of BNP Paribas, while available public credit ratings have been used for Elavon.

Rating drivers

Positive rating drivers

Credit enhancement. The Class A to G notes benefit from sufficient credit enhancement provided by subordination, overcollaterisation and reserve funds.

Moderate current loan-to-value ratio. Moderate current loan-to-values incentivise borrowers' willingness to pay, mitigating (re)default risks. The portfolio's current loan-to-value reflects the property market recovery in Ireland and gradual deleveraging and is close to that of peer transactions issued in Ireland.

Strong liquidity. Liquidity shortfalls are extremely unlikely for Class A, as it is supported by a liquidity reserve covering 24 months of senior fees and Class A interests. In addition, principal proceeds can be diverted to cover Class A interest shortfall risk, in accordance with the transaction's waterfalls (principal-to-interest via a revenue shortfall mechanism as well as yield supplement overcollateralisation — YSO). However, liquidity support for Class B to G is weaker as they will rely on a non-liquidity reserve fund, which is around six months of senior fees and all rated notes' interests but increases with the amortisation of Class A. The revenue shortfall mechanism will only protect the most senior outstanding tranche.

Upside rating-change drivers

Better than expected asset performance may positively impact the ratings due to decreased (re)default risk and improved recovery proceeds.

Negative rating drivers

High (re)default risk. A high proportion of the loans were restructured in the past or are currently being restructured. Our lifetime portfolio default rate distribution captures high expected defaults, indicated by the higher risks from reperforming loans as well as the uncertainty from those loans which are currently three months in arrears and may not become reperforming. We used an inverse Gaussian portfolio default rate distribution with a mean of 23% and a coefficient of variation of 27%.

Volatile property market. Our pessimistic view of Ireland's property market leads to higher property haircuts. We assumed a rating scenario with property value cuts of 39% and 64% for B and AAA respectively. Nevertheless, expected recoveries given default are quite high due to the relatively moderate leverage of the portfolio (recoveries of 75% and 45% for B and AAA respectively).

Limited excess spread. The transaction's excess spread is low, which limits the usefulness of principal deficiency ledgers (PDL) and makes the transaction rely more on reserve funds. We tested the rating impacts of different asset margin stress scenarios.

Downside rating-change drivers

Macroeconomic uncertainty in Ireland caused by Brexit and a global growth slowdown (e.g. Covid-19 impacts) may weigh negatively on the performance of the collateral pool, due to the retrieval of foreign investment in Ireland, leading to a long lasting deterioration in employment levels and potential sovereign crisis.

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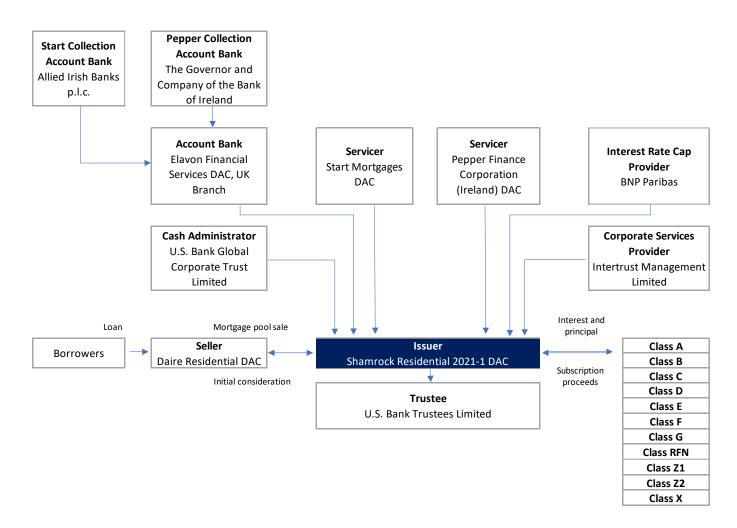
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1. Transaction summary

Shamrock 2021 is the first Irish RMBS transaction rated by Scope. The purpose of the transaction is to refinance portfolios acquired by Daire Residential (the seller), set up as per the transaction diagram in Figure 1.

The underlying pool consists of two sub-portfolios (Monaco 36% and Nore 64%) originated by different lenders. Both contain a certain percentage of reperforming loans. Monaco is made up of loans from an existing non-performing loan transaction (ERLS 2019-NPL1) and a loan pool acquired by Daire Residential in 2020. Nore was acquired in 2019 from Cerberus funds, which had purchased the assets between 2016 and 2018, and managed it since then until its disposal. When analysing sub-portfolios, we focused more closely on loan characteristics rather than the source of acquisition.

Figure 1: Simplified transaction diagram



Source: Transaction documents and Scope

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2. Asset analysis

2.1. Portfolio

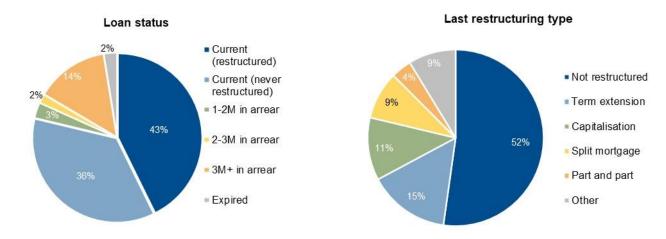
The transaction is a mix of reperforming and performing mortgage loans. We define performing mortgage loans as loans that have never been restructured nor in the observable history have been in 3M+ arrears. The definition of reperforming loans in this transaction is broader than usual, including those which have undergone restructuring measures or for which restructuring is currently being negotiated. The ongoing negotiations apply to either: i) loans which are currently three months or more in arrears (around 14% of the pool); or ii) loans which have reached their maturity date (2% – 'expired'). Those loans were not actively restructured before being acquired by Daire Residential in October 2019 and their restructuring process was delayed due to the ongoing Covid-19 crisis.

Loans are very seasoned (around 13 years) and over half of them were originated just before the financial crisis. We assume that seasonality is only a positive factor for performing loans. When analysing reperforming loans, we focus on their historical payment records and give no benefit to seasonality.

The loan-to-value is at a reasonable level (around 80%, based on the indexation of the latest available valuation) and most of the loans are amortised loans (77% of the initial portfolio). This is supportive and will further improve the pool through continuous deleveraging.

Fixed-rate loans represent 7% of the portfolio and floating-rate loans are mostly referred to the ECB base rate (62%). Figure 2 and Figure 3 summarises the main portfolio characteristics.

Figure 2: Portfolio segment overview

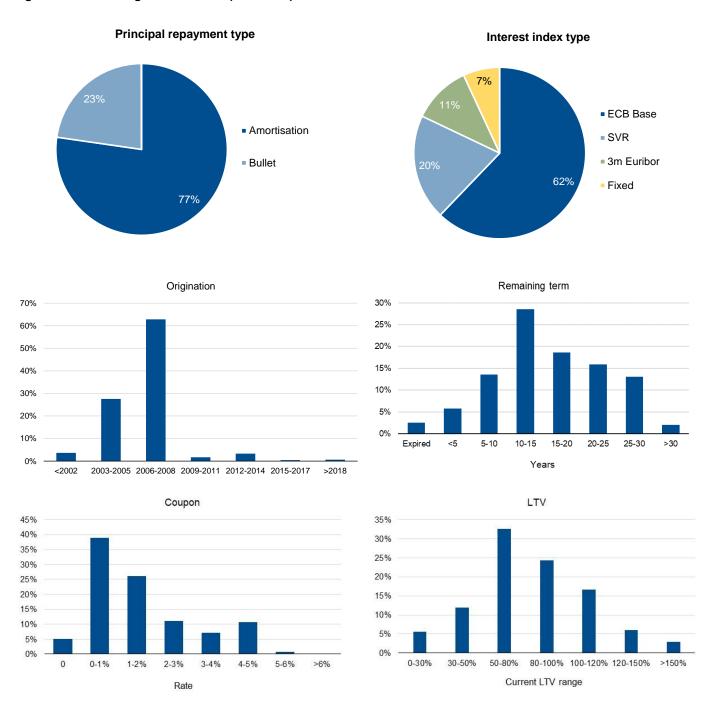


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Figure 3: Portfolio segment overview (continued)



Source: Scope, data provided by Morgan Stanley

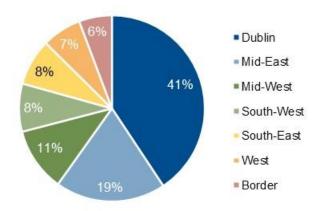
The underlying mortgage properties are relatively concentrated in Dublin (see Figure 4). We do not consider this a negative factor as this is reflective of the economic activity concentration of the country (half of the transactions in 2019 were in Dublin). In addition, Ireland's property markets are highly cyclical and volatile, subject to macroeconomic conditions. During the economic downturn of 2007-2013, we observed the Dublin and non-Dublin area both suffered a significant drop (residential price index peak-to-trough 60% vs 57%). We have assumed a uniform property value haircut across all regions, which reflects the vulnerability of the Irish property market.

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Figure 4: Regional distribution of the closing portfolio¹

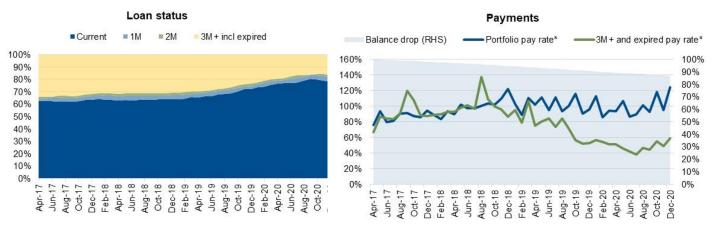


Source: Scope, data provided by Morgan Stanley

We expect the transaction to be strongly supported by the performing assets. We also expect less volatility in the event of an extreme economic downturn compared to a pure restructured pool. Historically, the portfolio actually contained less loans in 3M+ arrears (around 35% as per Figure 5 left) than comparable public transactions, which was around 40-75% at their peak. In addition, it has a relatively consistent and robust payment flow. We included this positive factor in our analysis as a less fat-tailed loss distribution.

However, it is undeniable that overall portfolio quality is weakened by the loans which are three months or more in arrears. Moreover, a portion of these has a very low payment rate, which has declined further in recent months. For these loans, we assume a low likelihood of reperformance even with active restructuring. We captured this low likelihood with a high mean default rate.

Figure 5: Average payment rates



*pay rate refers to periodic payment divided by its due amount

2.2. Amortisation

We developed our expectation of the amortisation profile by considering both the contractual amortisation of the portfolio and a term extension adjustment. The terms of expired loans are extended by 10 years after restructuring. Terms for delinquent loans (three months and more in arrears) are extended on average by seven years after restructuring. Both adjustments take into account guidance from the servicer and the

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¹ If loans are secured by multiple properties, we use the location of the highest property value for this calculation.



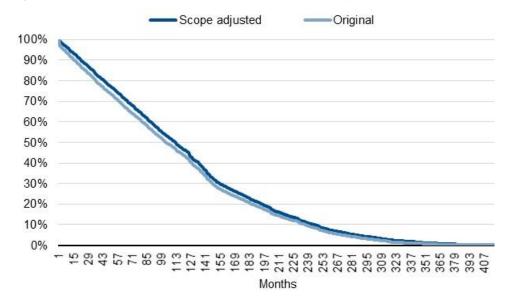
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Amortisation profile adjustments include the extension of terms following restructuring

commonly used term extension in the pool. After adjustments, the assumed monthly payment schedule is close to the portfolio's observed periodic payments.

The adjusted amortisation profile in Figure 6 shows that the weighted average remaining life is 10 years, reflecting the amortising nature of most of the loans.

Figure 6: Expected portfolio amortisation profile (0% prepayment, 0% defaults)



2.3. Portfolio modelling assumptions

We derived an expected portfolio default rate assumption based on a transaction-specific regression analysis using our internal sources, complemented by public data on Ireland's prime mortgage performance. The regression independent variables reflect the key characteristics of the underlying assets. The use of Ireland's public prime mortgage performance is limited to performing loans in the pool. Our expected portfolio default rate assumption also considers the macroeconomic stresses from both Covid-19 and Brexit. Please refer to 2.3.1. Default rate analysis of portfolio for further details.

Our recovery timing assumption includes a period of arrears management before the start of the foreclosure process. In Ireland, the required pre-foreclosure process is quite lengthy, required by law to be at least eight months from the date the arrears first arose.

Figure 7: Portfolio modeling inputs

	Portfolio
Mean default rate	23%
Coefficient of variation	27%
Base case recovery rate	75%
AAA rating-conditional recovery rate	45%
Recovery timing	3 years
Constant prepayment rate	0.0%

2.3.1. Default rate analysis of portfolio

We assumed 23% default rates for the portfolio, derived from the regression-implied default rates for reperforming loans and the benchmark method for performing loans.

We performed our regression analysis on a loan-by-loan basis, considering the borrower's ability and willingness to pay. More specifically, we examined each loan's accumulated payment rates, restructuring history, loan-to-value, and the length of time it

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was in 3M+ arrears. The first two factors attempt to capture the borrower's repayment ability. The latter two are associated with the borrower's willingness to repay or the likelihood of a cure. In addition, we applied a haircut to the observed payment rates and loan-to-values to reflect our expectations regarding impacts from Covid-19 and Brexit, leading to lower payment rates, a higher proportion of loans falling into negative equity and thus higher expected defaults.

On top of the regression analysis, we considered Ireland's residential mortgage default performance² when assigning default rates for performing loans. We believe default risks for these loans are low as they are very seasoned and have a clean payment history.

Analysis incorporates ratingconditional recovery assumptions

Conservative assumption of 0%

2.3.2. Recovery rate

We assumed the property's disposal value to be the only source of cash flow upon loan defaults. Figure 8 shows our rating-conditional recovery rate assumptions following defaults.

We derived the recovery assumptions using our fundamental recovery framework, which applies line-by-line haircuts to indexed property appraisals. These haircuts mainly reflect market value losses under rating-specific stress scenarios, as well as a constant liquidation discount (i.e. a firesale discount).

We took a conservative view of the Irish property market, assigning high market value losses and liquidation discounts compared to other European jurisdictions. This is mainly based on the country's small economy and very volatile property prices. Our AAA implicit total value haircut assumptions factors in a significant degree of stress that goes beyond our current expectations, including uncertainties due to the impact of Brexit and the consequences of the Covid-19 crisis.

We gave a small amount of benefit to the recovery value for the Nore sub-portfolio due to its better property valuations. The liquidation discount for Nore is 25% (vs 30% for Monaco). This is based on a sample of valuation reports which we reviewed. We believe that valuations are strongly transaction-based, and as such reflect the market conditions at the time of the appraisal.

Finally, we assumed 6% of foreclosure costs on the gross disposable proceeds.

Figure 8: Rating-conditional recovery assumptions

	В	BB	BBB	Α	AA	AAA
Implicit total value haircut (incl. foreclosure costs)	39%	43%	48%	52%	58%	64%
Recovery rate	75%	70%	64%	59%	52%	45%

2.3.3. Constant prepayment rate (CPR)

We assumed a zero CPR. The portfolio's historical average CPR is low and, in addition, it is unlikely that restructured borrowers will be able to increase their repayment speeds because their current payment schedules are based on their incomes.

3. Special servicer review

3.1. Introduction

Our assessment of the special servicer's capabilities addresses, among other aspects, its corporate structure, business processes and transaction-specific aspects, such as the forbearance procedure and asset disposal strategies. In our view, the special servicer's capabilities and processes used to manage the securitised portfolio are satisfactory.

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CPR

² Transactions include Celtic Residential Irish Mortgage Securitisation No. 11 PLC, Celtic Residential Irish Mortgage Securitisation No. 12 Limited, Celtic Residential Irish Mortgage Securitisation No. 14 LTD, Phoenix Funding 2 DAC, Phoenix Funding 3 DAC, and Dunmore Securities No. 1 DAC.



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To conduct this assessment, we relied on corporate presentations shared by the arranger. We also considered the performance to date of the securitised portfolio, which has been managed by the servicer for a certain period of time, and the servicer's track-record available from public transactions.

3.2. Start Mortgages DAC

Start is a wholly owned subsidiary of Start Mortgage Holding Limited and is licensed and regulated as a retail credit firm since 2008. Start was founded in 2004 and employs around 160 people, with the majority of operational functions located in the Dublin office. Start also owns a lending license, but it does not currently engage in new lending activity. It has EUR 3.7bn AUM of residential loans and uses a bespoke in-house developed loan recovery system. Start outsources certain servicing activities, including payment processing and client contact, to Computershare, which is the UK's third largest mortgage servicing business.

Forbearance options (i.e. alternative repayment arrangements or ARAs) are in accordance with the Mortgage Arrears Resolution Process under the Code of Conduct on Mortgage Arrears (CCMA). Start follows the Central Bank of Ireland's guidance in assessing borrowers' payment abilities when considering ARAs. Start has demonstrated a strong track record with borrowers on long-term ARAs, having a kept rate of 91%, which is above industry average. We expect the servicer to be capable of servicing the transaction.

3.3. Pepper Finance Corporation (Ireland) DAC

Pepper is the largest residential servicing firm in Ireland and has EUR 10bn in AUM consisting of residential assets. Pepper entered the Irish market in 2012 and employs over 400 people. It offers end-to-end primary and special servicing for unsecured, credit card, residential and commercial mortgages.

The residential servicing capability is highlighted by its scalable operating model, which offers various restructuring payment plans, and its wide geographic footprint, including Australia, the UK, Europe, and Ireland. It applies a decision matrix based on the borrower's affordability and follows an established process for identifying ARA solutions. The process is in alignment with CCMA requirements. We expect the servicer's capability and processes used to manage the pool to be adequate.

4. Financial structure

4.1. Capital structure

The proceeds from the issuance of the rated notes and from the Class Z1, Class Z2 and Class X notes (unrated) will be used to purchase the initial portfolio of assets. Proceeds from Class RFN will form the reserve fund at closing.

Ratings for Class B to Class G do not reflect the interest payable amounts above the net weighted average coupon (net WAC). The periodic net WAC is calculated as the period asset coupon minus senior fees, and plus the YSO rate (0.4% per annum) if it occurs. The YSO will be explained in further detail in 4.3 Priority of payments.

4.2. Reserve fund

The reserve fund is adequate to support the rated notes' respective ratings and does not amortise to protect the transaction during its lifetime. It is sized at closing and kept at 2% of the notes' closing balance (other than Class RFN and Class X). The reserve fund is divided into two parts: the liquidity reserve fund and the non-liquidity reserve fund.

The liquidity reserve fund covers senior expenses and Class A interests. The target size is equal to the higher of 2% of the Class A outstanding balance and 1% of the Class A initial balance. Available interest proceeds, before distribution to Class B, will be used to

Liquidity reserve fund is strongly supportive of Class A interests

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top up the liquidity reserve. If the amount is not covered in full, principal proceeds will be used. The liquidity reserve is able to cover two years of Class A interests, which strongly supports Class A's rating and leads to a remote risk of interest shortfall for Class A.

The non-liquidity reserve fund, on the other hand, covers senior expenses and all rated notes' interest in sequential order. The target size is the reserve fund target amount minus the liquidity reserve fund target. We expect the non-liquidity reserve fund to cover around six months of senior expenses and rated interests initially, and to cover more later following an increase of the non-liquidity reserve funds in relation to the Class A amortisation.

Strictly sequential and separate waterfall

4.3. Priority of payments

The structure features a separate priority of payments for interest and principal. Principal collected will be used to cover any unpaid senior expenses and interest of the most senior class, before the distribution of the first item in the principal priority of payments.

The YSO feature constantly diverts principal to the interest waterfall at the expense of the junior tranches' principal. YSO aims to boost the interest proceeds during the life of the transaction. The monthly transfer amount is set at 0.4% of the outstanding asset balance and divided by 12. The amount of YSO transferred is, however, capped at the available principal funds at each period and the cumulated transferred amount is capped at EUR 17m (4% of the mortgage portfolio balance). In our model, the transferred amount adds to around 20% of the interest proceeds. It improves the transaction's liquidity but leaves the principal of junior notes less protected. This impact is reflected in our ratings.

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Figure 9: Simplified available funds and pre-enforcement priority of payments

Revenue priority of payments	Principal priority of payments		
Available funds			
Revenue receipts	Principal receipts		
Interest earned from issuer account and eligible investments	Credit amount from principal deficiency ledgers (PDL)		
Liquidity reserve fund (for senior fees and Class A interest shortfall)	Less:		
Non-liquidity reserve fund	Revenue shortfall amount		
Swap receipts due to interest rate cap agreements	Yield supplement overcollateralisation release		
Indemnity payments			
Revenue shortfall amount allocated from available principal proceeds			
Yield supplement overcollateralisation release allocated from available principal proceeds			

	available principal proceeds					
	Revenue priority of payments	Principal priority of payments				
	Pre-enforcement Pre-enforcement					
1	Senior expenses and costs	Top up liquidity reserve fund if it cannot be fully topped up from pre-enforcement revenue priority of payments				
2	Tax	Class A principal				
3	Issuer profit amount	Class B principal				
4	Class A interest	Class C principal				
5	Class A PDL	Class D principal				
6	Top up liquidity reserve fund to the required amount	Class E principal				
7	Class B interest	Class F principal				
8	Class B PDL	Class G principal				
9	Class C interest	Net WAC additional amount for Class B coupon				
10	Class C PDL	Net WAC additional amount for Class C coupon				
11	Class D interest	Net WAC additional amount for Class D coupon				
12	Class D PDL	Net WAC additional amount for Class E coupon				
13	Class E interest	Net WAC additional amount for Class F coupon				
14	Class E PDL	Net WAC additional amount for Class G coupon				
15	Class F interest	Class RFN interest				
16	Class F PDL	Class RFN principal				
17	Class G interest	Class Z1 interest				
18	Class G PDL	Class Z1 principal				
19	Top up non-liquidity reserve fund to the required amount	Class Z2 interest				
20	Junior incentive fees to Start administrator	Class Z2 principal				
21	Junior issuer administration consultant fees	Any remaining principal applied as available revenue				
22	Net WAC additional amount for Class B coupon					
23	Net WAC additional amount for Class C coupon					
24	Net WAC additional amount for Class D coupon					
25	Net WAC additional amount for Class E coupon					
26	Net WAC additional amount for Class F coupon					
27	Net WAC additional amount for Class G coupon					
28	Class RFN interest					
29	After step-up date, allocated to available principal funds					
30	Class Z1 interest					
31	Class Z1 PDL					
32	Unpaid junior incentive fees to Start administrator					
33	Class Z2 interest					
34	Class Z2 PDL					
35	Class X					

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Figure 10: Simplified post-enforcement priority of payments

	ltem
1	Senior expenses and costs
2	Class A interest
3	Class A principal
4	Class B interest
5	Class B principal
6	Class C interest
7	Class C principal
8	Class D interest
9	Class D principal
10	Class E interest
11	Class E principal
12	Class F interest
13	Class F principal
14	Class G interest
15	Class G principal
16	Junior incentive fees to Start administrator
17	Junior issuer administration consultant fees
18	Net WAC additional amount for Class B coupon
19	Net WAC additional amount for Class C coupon
20	Net WAC additional amount for Class D coupon
21	Net WAC additional amount for Class E coupon
22	Net WAC additional amount for Class F coupon
23	Net WAC additional amount for Class G coupon
24	Unpaid junior incentive fees to Start administrator
25	Class RFN interest
26	Class RFN principal
27	Class Z1 interest
28	Class Z1 principal
29	Class Z2 interest
30	Class Z2 principal
31	Class X (until EUR 1)
32	Third party and corporate tax
33	Other costs
34	Class X

4.4. Amortisation and provisioning

The amortisation of the rated notes is strictly sequential.

The PDL is based on a loss-provisioning mechanism, including future write-off provisions, and a delinquency based provisioning. The delinquency based provisioning captures underlying loans with arrears over 180 days and whose interest coverage ratio in the previous year was below 100%. 20% of their outstanding balance will be recorded in the PDL. The PDL mechanism allows for the accelerated amortisation of the most senior class, making use of excess spread.

We recorded an initial PDL amount of EUR 10.5m, EUR 5.7m due to the delinquency based provisioning and EUR 4.7m due to the provisions for future potential write-offs. Across the transaction's life, we modelled the PDL increasing per the amount of our assumed default amount at that period.

The PDL mechanism does not trap the excess spread in our base case scenario. This is mainly due to the low excess spread that can be trapped.

The future write-off provisioning amount is around 1% of the pool asset for split-mortgages. Indeed, certain split-mortgage agreements allow a proportion of principal to

PDL is based on loss-provisioning

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be written-off upon borrowers fully complying with their restructuring arrangement obligations typically through personal insolvency arrangements. We excluded this future potential write-off amount from available assets.

4.5. Interest rate risk

The transaction is exposed to limited interest-related risks. There is a basis mismatch as over 50% of the assets are linked to the ECB base rate and 100% of the liabilities are linked to 1m Euribor. We expect the impact from basis mismatch to be limited because: i) risk is largely mitigated by the WAC adjustment, which in fact lowers the Class B to Class G coupon upon a decrease in asset yield; and ii) the basis mismatch between the ECB base rate and Euribor is relatively mild according to historical data.

An interest rate cap agreement further limits interest rate risk. The agreement will cover the first 10 years of the transaction's life with 30% of balance covered, according to our repayment schedule. The interest cap agreement prevents the negative impacts of significant interest increases.

4.6. Accounts

The issuer holds several interest and principal accounts with Elavon London Branch. The high credit quality of Elavon and replacement triggers mitigate counterparty exposure, in accordance with our counterparty risk methodology (see Counterparty risk section for further details).

5. Quantitative analysis

We used a cash flow tool to analyse the transaction and applied the loss distribution derived from our asset analysis when modelling the granular collateral pool. Key assumptions derived were then applied to the cash flow analysis of the transaction.

We calculated the expected loss of each tranche based on an inverse Gaussian default distribution for the assets, probability-weighting any loss. The cash flow tool also produced the expected weighted average life for the rated notes.

We derived the default timing term structure by leveraging the portfolio amortisation schedule. The cumulative default-timing assumptions are shown in Figure 11.

Figure 11: Default-timing assumptions for the portfolio

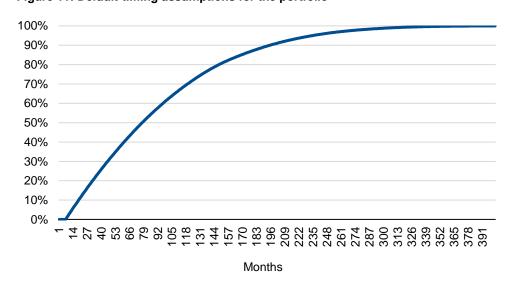


Figure 12 shows the losses of the rated notes at all default rate scenarios. It shows how credit enhancement, structural features as well as recovery proceeds protect the rated notes in the event of default.

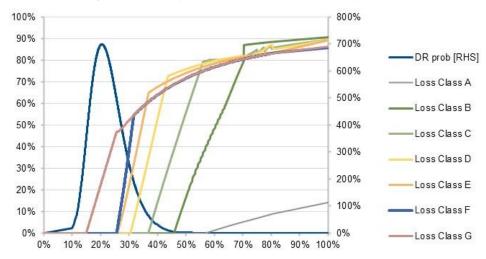
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Limited basis risk



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Figure 12: Cash flow model results for expected default rate and coefficient of variation; rating case recovery rate and zero constant prepayment rate



Note: The probabilities displayed on the right-hand side axis must be seen in the context of the calculation of probability density

6. Rating stability

6.1. Rating sensitivity

We tested the resilience of the rating against deviations in the main input parameters: the portfolio's expected default rate and the portfolio's recovery rate. This analysis has the sole purpose of illustrating the sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios.

The following shows how the ratings would change if the portfolio's expected default rate is increased by 50% and the portfolio's expected recovery rate is reduced by 50%, respectively:

Class A: sensitivity to probability of default, 1 notch; sensitivity to recovery rates, 1 notch.

Class B: sensitivity to probability of default, 3 notches; sensitivity to recovery rates, 6 notches.

Class C: sensitivity to probability of default, 4 notches; sensitivity to recovery rates, 9 notches.

Class D: sensitivity to probability of default, 3 notches; sensitivity to recovery rates, 8 notches.

Class E: sensitivity to probability of default, 2 notches; sensitivity to recovery rates, 8 notches.

Class F: sensitivity to probability of default, 3 notches; sensitivity to recovery rates, 6 notches.

Class G: sensitivity to probability of default, 4 notches; sensitivity to recovery rates, 4 notches.

The following shows how the ratings would change if the portfolio's expected default rate is increased by 10% and the portfolio's expected recovery rate is reduced by 10%, respectively:

Class A: sensitivity to probability of default, 0 notch; sensitivity to recovery rates, 0 notch.

Class B: sensitivity to probability of default, 0 notch; sensitivity to recovery rates, 0 notch.

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Class C: sensitivity to probability of default, 0 notch; sensitivity to recovery rates, 2 notches.

Class D: sensitivity to probability of default, 0 notch; sensitivity to recovery rates, 2 notches.

Class E: sensitivity to probability of default, 0 notch; sensitivity to recovery rates, 2 notches.

Class F: sensitivity to probability of default, 0 notch; sensitivity to recovery rates, 2 notches.

Class G: sensitivity to probability of default, 1 notch; sensitivity to recovery rates, 1 notch.

6.2. Break-even analysis

Our break-even default rate analysis shows the resilience of the ratings. Class A does not experience any loss at portfolio lifetime default rates of: i) 27.7% or lower, under a zero-recovery rate assumption; or ii) 55.8% or lower, under the portfolio's rating-conditional recovery rate assumption of 45%.

Class B would not experience any loss at portfolio lifetime default rates of: i) 20.3% or lower, under a zero-recovery rate assumption; or ii) 44.6% or lower, under the portfolio's rating-conditional recovery rate assumption of 52%.

Class C would not experience any loss at portfolio lifetime default rates of: i) 14.3% or lower, under a zero-recovery rate assumption; or ii) 35.9% or lower, under the portfolio's rating-conditional recovery rate assumption of 59%.

Class D would not experience any loss at portfolio lifetime default rates of: i) 10.2% or lower, under a zero-recovery rate assumption; or ii) 29.8% or lower, under the portfolio's rating-conditional recovery rate assumption of 64%.

Class E would not experience any loss at portfolio lifetime default rates of 25.3% or lower, under the portfolio's rating-conditional recovery rate assumption of 70%.

Class F would not experience any loss at portfolio lifetime default rates of 24.7% or lower, under the portfolio's rating-conditional recovery rate assumption of 75%.

Class G would not experience any loss at portfolio lifetime default rates of 13.9% or lower, under the portfolio's rating-conditional recovery rate assumption of 75%.

7. Sovereign risk

Sovereign risk does not limit any of the ratings. The risks of an institutional framework meltdown or legal insecurity are immaterial for the ratings, even in the context of an exit from the European Union.

Economic growth rebounded quickly after the March lockdown and the outlook remains robust throughout 2021. In our view, medium-term challenges stem from economic uncertainty due to Covid-19 and Brexit, as well as the country's high debt ratios.

8. Counterparty risk

The transaction's counterparty risk supports the highest ratings. We do not consider any of the counterparty exposures to be excessive.

8.1. Servicer disruption risk

There is no back-up servicer appointed at closing, thus the transaction remains exposed to a servicer disruption event. However, this risk is mitigated due to loans being standardised and our expectation of a quick transition to another servicer.

No losses for rated notes at break-even or lower portfolio default rates

Sovereign risk does not limit the transaction's ratings

No back-up servicer

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Commingling risk from exposure to the servicers is immaterial for the ratings, considering the limited exposure and short holding periods. Risk is further mitigated through a replacement trigger for the servicer's account holding bank based on its public rating.

Commingling risk is immaterial

8.2. Commingling risk from account bank and paying agent

The Class A notes have a medium expected weighted average life of 6.8 years. Given Elavon's high credit quality, we consider the risk of commingling losses sufficiently remote as to be immaterial for the rated notes. We assessed the credit quality of Elavon using public information as well as public ratings on U.S. Bankcorp, Elavon's parent company. Commingling risk is further mitigated through a replacement trigger for Elavon as account bank based on its public rating.

No set-off risk

8.3. Set-off risk from originator

Set-off risk is not considered in this transaction as the servicers are not deposit-taking institutes.

9. Legal structure

9.1. Legal framework

This securitisation is governed by English and Irish law and represents the true sale of the assets to a bankruptcy-remote vehicle without legal personality, represented by Intertrust Management Ireland Limited, the corporate service provider. The special purpose vehicle is essentially governed by the terms in the documentation.

Tax-efficient set-up; bankruptcy-

9.2. Use of legal and tax opinions

We reviewed the legal opinions produced by Clifford Chance for the issuer. These provide comfort on the issuer's legal structure and support our general legal analytical assumptions.

The tax opinion produced for the issuer indicates that the transaction is structured in a tax-efficient way, i.e. no taxes apply, except for minimum retained profit tax and VAT in the context of contracted services, which remain an unrecoverable expense for the issuer.

10. Monitoring

We will monitor this transaction on the basis of the performance reports from the management company as well as other available information. The ratings will be monitored continuously and reviewed at least once a year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed and the ongoing monitoring of the transaction.

11. Applied methodology and data adequacy

We analysed this transaction using our General Structured Finance Rating Methodology, dated December 2020, and our Methodology for Counterparty Risk in Structured Finance, dated July 2020, both available on our website www.scoperatings.com. Morgan Stanley provided us with property disposal data and loan-by-loan historical payment records. The payment records are rather short compared to the loan term and start from 2015 for Monaco and 2017 for Nore, which does not include the most stressful period for Ireland. The disposal data covers the period from 2014 and is relatively limited compared to the asset size.

remote special purpose vehicle

Scope analysts are available to discuss all the details surrounding the rating analysis

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I. Summary of portfolio characteristics

Our analysis was based on the provisional portfolio as of 31 December 2020.

	Shamrock Residential 2021-1	Monaco	Nore
Closing date	4 February 2021		
Current balance	EUR 425.9m	36%	64%
Number of loans	2,400	777	1,623
Borrower number	1,837	603	1,234
Weighted average coupon	1.71%	1.79%	1.66%
ECB tracker %	62%	64%	61%
SVR %	20%	29%	15%
Fixed %	7%	8%	6%
Euribor-linked	11%	0%	17%
3M+ arrears%	17%	2%	25%
Weighted average OLTV	73%	76%	71%
Weighted average indexed LTV	80%	77%	82%
Interest only and Part&Part %	23%	54%	5%
Buy to lets %	36%	22%	43%
Dublin %	41%	29%	48%
Ever restructured %	48%	69%	36%
WA seasoning (years)	13.4	13.5	13.3
WA remaining term (years)	15.4	15.9	15.1
Payment rates (last 6 months)	110%	145%	90%
Future write-off %	1.1%	3.1%	0.0%
In Covid-19 holiday	1.7%	0.3%	2.5%

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