European - Structured Finance

RMBS – Ireland

Ratings Report

22 February, 2012

Insight beyond the rating.

RMBS

Mespil1 RMBS Limited

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Ratings

Debt	Par Amount	Credit Enhancement	Investor Coupon (p.a.)	CUSIP/ISIN	Step-up Provision	DBRS Rating	DBRS Rating Action
Class A1	EUR150,100,000	26.00%	2.50%	XS0562903038	NA	AA(sf)	Final
Class A2	EUR300,000,000	26.00%	2.00%	XS0562903202	NA	AA(sf)	Final
Class A3	EUR300,000,000	26.00%	1.75%	XS0562903467	NA	AA(sf)	Final
Class Z	EUR250,000,000	0.00%	NA	NA	NA	NR	NA
Reserve Fund	EUR10,001,000						

Notes:

1. The credit enhancement for Class A1, A2 and A3 is provided by the subordination of Class Z notes (25.00%) and a fully funded reserve fund of 1%.

Transaction Summary

Mespil1 RMBS Limited (Mespil1, issuer) is a securitisation of a portfolio of first ranking Irish residential mortgages funded by the issuance of four classes of mortgage—backed notes. The mortgages were originated by EBS Limited (EBS) and its wholly owned subsidiary Haven Mortgages Limited (Haven) and are also serviced by these entities. Mespil1 closed on 21 December 2010.

Notable Features

- **Positively selected pool:** The mortgage portfolio of Mespil1 has been selected to include only loans which have not been in arrears since origination or have shown technical arrears. These technical arrears' cases include those that have had non-credit related issues like direct debit set-up issues or cases where loans have been in arrears for no more than 2 consecutive months with less than 15% of the scheduled payment. The positive selection of the pool reflects in the performance of the mortgage portfolio with 3.36% of loans in arrears for more than 3 months. In comparison to other rated mortgage portfolios in Ireland, the performance of Mespil1 has been better so far notwithstanding the recessionary economic scenario being experienced in Ireland.

- **Republic of Ireland rating and Two-Year PD:** Republic of Ireland is currently rated A(low)/Negative Trend (Foreign and Local Currency) by DBRS. The Two-Year probability of default (PD) estimation for the Mespil1 mortgage portfolio of 1.7% reflects the performance history of EBS/Haven originations and that of the Mespil1 mortgage portfolio so far. It also includes an adjustment, increasing the PD, for the rating of the sovereign. DBRS will closely monitor the rating of Republic of Ireland and any effects this may have on the performance of the mortgage portfolio.

- **Revolving Period:** The revolving period under Mespil1 end on 22 February 2012. DBRS has been given to understand that no further loan purchases have been made since 31 December 2011, the cut-off date of the mortgage portfolio assessed by DBRS, and the issuer does not have any intention of further purchases till the end of the revolving period. DBRS, in its analysis, has treated the Mespil1 mortgage portfolio to be static from the cut-off date.

Strengths

- **Atypical PDL mechanism:** Deemed losses will be debited to the PDL for Class Z and thereafter pro-rata to that for Class A1, A2 and A3. Deemed losses have been defined to include: 1) principal balance of loans in arrears for greater than 12 months in arrears, 2) principal balance of loans where enforcement proceedings have been completed, prior to application of realization proceeds and 3) any principal loss arising on account of set-off by a borrower against EBS. In light of the stretched timeframe for enforcing security against a borrower, this is a positive feature which enables capture of any excess spread in the transaction resulting in claw-back of losses debited to the PDLs.

- **Liquidity for interest payments on notes:** Principal receipts from the mortgage portfolio can be used to pay any shortfalls in interest payments to rated notes. In addition to this structural feature, the rated notes are also supported by a reserve fund (1% in size) available to meet any interest shortfalls on payment of senior fees and interest on the rated notes.

Challenges and Mitigating Factors

- **Concentration in worst performing vintages:** 70.75% of the loans in the mortgage portfolio are originated across 2006, 2007 and 2008 vintages. In EBS' mortgage book, these vintages show the worst performance amongst all other vintages since 2006. As of November 2011, the 3months plus arrears ranged between 14%-18% for these vintages.

  Mitigant: Mespil1 mortgage portfolio is positively selected to include loans which have performed much better than the EBS mortgage book in general. DBRS has accounted for this aspect in the estimation of the Two-Year PD for mortgage portfolio.

- **High proportion of loans in negative equity:** DBRS has indexed the property valuations using the house price index maintained by the Central Statistics Office, Ireland. The house prices at the national level have fallen by 46.28% since peak in September 2007 and that reported for Dublin have fallen 53.75% since peak in February 2007. While the weighted average current loan to value ratio (WACLTV) for the mortgage portfolio is at 72.79% the WACLTV(indexed) stands at 124%. 67.8% of the loans in the mortgage portfolio are currently in negative equity.

  Mitigant: DBRS views loans in negative equity to be riskier where a borrower motivation to keep up with monthly repayments can fall away quickly in times of financial stress given no stake in ownership of a property. DBRS has applied PD adjustments to the loans based on the CLTV(indexed) for each loan in line with DBRS criteria.

- **Basis Risk Unhedged:** Currently the Mesil1 mortgage portfolio is comprised of loans paying a fixed rate of interest (26.35% of mortgage portfolio), loans paying variable rate of interest, linked to the standard variable rate (SVR) set by EBS/Haven (47.14% of mortgage portfolio) and those where interest is linked to the ECB rate (26.51% of mortgage portfolio). Moreover, after the end of the fixed rate period for loans paying a fixed rate of interest currently, the interest rate would be linked to the SVR set by EBS/Haven. In comparison the interest paid on the rated notes is fixed. This basis risk to the noteholders is unhedged.

  Mitigant: The mortgage portfolio currently yields 3.99% and in comparison the weighted average coupon on the rated notes is 1.53%. While there is comfortable level of excess spread currently, a fall in interest rates will mean a reduction in excess spread. To mitigate this risk of fall in excess spread the servicer (EBS) is obliged to maintain the SVR rate for loans not less than 1.5% over the life of the mortgage loans. The product switch conditions allow a loan to remain in the mortgage portfolio only if the loan yields greater than 2.5% which is an additional mitigant to the risk of fall in yield from the mortgage portfolio. DBRS has stressed the cash flows of the transaction in a falling interest rate scenario including a stress for the SVR rate to fall to 1%, below the rate which the servicer is obliged to maintain for SVR loans.

- **Residential Investment Property (RIP) loans:** 8.53% of the mortgage portfolio is RIP loans. EBS/Haven assesses the affordability for such loans from the disposable income of the borrower which considers the repayment obligations of any existing debt of the borrower. However, during periods of financial stress, as is the current economic scenario in Ireland, DBRS believes that a borrower would choose to meet repayment obligations of the owner-occupied loan over the RIP loan, if the rental income is insufficient to cover the loan repayment. This borrower behavior is borne out of the performance of the Mespil1 mortgage portfolio where 16% of the RIP loans are currently in arrears in comparison to only 8.5% of the owner-occupied loans in arrears.

  Mitigant: DBRS has applied a PD adjustment of three times for RIP loans in the mortgage portfolio in line with its Irish RMBS criteria.

- **Stretched foreclosure timelines:** The lengthy and less creditor friendly foreclosure regime in Ireland has created challenges for EBS as well as other Irish servicers. Timelines have lengthened over the last few years due in part to the Irish government's 12 month moratorium on initiating legal action once a loan goes into arrears. According to EBS, historically the average time from arrears to repossession is approx. 18 months but can take as long as two years. Based on repossession data provided by EBS, the average time to dispose of the assets is 15 months. However there are also cases where the properties have not been sold for around 20 months awaiting a private sale where the realisations are better than taking the auction route.

  Mitigant: DBRS expects the foreclosure timelines to stretch further to between 48-60 months in the worst case scenario. DBRS has applied a foreclosure time of 60 months in its analysis. Mespil1's PDL related structural feature where the outstanding balance of a loan in arrears for more than 12 months is assumed a deemed loss helps partially mitigate this risk. This feature allows the excess spread to claw-back on the losses in the PDLs.

Rating Rationale

The rating is based upon review by DBRS of the following analytical considerations:

- The transaction's capital structure and the form and sufficiency of available credit enhancement. Relevant credit enhancement is in the form of subordination, a reserve fund and excess spread. The Class A1, A2 and A3 will be the senior class of notes in the structure and will be supported by Class Z subordinated notes and a reserve fund of 1% of the notes issued.
- The Mespil1 mortgage portfolio is comprised of loans which were in minor or technical arrears before being sold to the issuer. This positive selection reflects in the performance of the mortgage portfolio so far with 3.36% of loans in arrears greater than or equal to 3 months. The performance so far is relatively better than other mortgage portfolios of rated RMBS transactions in Ireland.
- The Mespil1 mortgage portfolio consists of loans which currently pay fixed and variable rate of interest. At the end of the fixed rate period the loans paying fixed rate of interest will revert to variable rate of interest. In comparison the interest paid on the notes is fixed. This

basis risk exposure is unhedged in the transaction. There is excess spread currently in the transaction and there are conditions where the servicer is obliged to maintain the standard variable rate above 1.5% which mitigates the risk of fall in excess spread during falling interest rate scenarios.

- The credit quality of the mortgages backing the notes and ability of the Servicer to perform collection activities on the mortgages.
- The ability of the transaction to withstand stressed cash flow assumptions and repay investors according to the terms of the transaction documents.
- The legal structure and presence of legal opinions addressing the assignment of the assets to the issuer and the consistency with the DBRS Legal Criteria for European Structured Finance Transactions.

Sovereign Assessment

Republic of Ireland

On 17 August 2011, DBRS Inc. (DBRS) downgraded the Republic of Ireland's long-term foreign and local currency debt to A (low) from "A". The trend on both ratings is Negative. In spite of strong political commitment to fiscal consolidation and lower interest rates on EU loans, the downgrade reflected weaker than expected growth prospects. As a result, public debt ratios are estimated to peak in 2013 at higher levels than previously anticipated, reducing Ireland's room to maneuver in the event of further financial or economic shocks. The Negative trend reflects our view that downside risks to Ireland's export-led recovery persist, particularly given heightened uncertainty over the economic outlook in the United States and Europe and ongoing turbulence in financial markets.

While the Irish economy is expected to have returned to growth last year, domestic demand continued to contract. According to the Central Bank of Ireland, deflationary pressures persisted through 2011, reflecting significant resource underutilisation in the economy and lower export prices. Labour market conditions remain weak. Employment has fallen 16% since its peak in the fourth quarter of 2007, although the pace of contraction has moderated significantly. Downward price pressures improve Ireland's cost competitiveness but negatively affect nominal growth and make debt stabilisation more challenging.

Weaker than expected growth is likely to push public debt ratios higher than previously anticipated. In our baseline scenario, Ireland's gross general government debt peaks at 120% of GDP in 2013 and gradually declines thereafter. This excludes National Asset Management Agency (NAMA) bonds and associated assets.

As a highly open economy, Ireland's growth prospects largely depend on external demand. Strong net export performance in the first half of 2011 made a positive contribution to growth, more than offsetting the contraction in domestic demand. However, slower growth in the United States and Europe is likely to dampen Ireland's prospects for recovery, potentially delaying debt stabilisation.

The A (low) ratings are underpinned by the strong commitment of the newly elected government to reduce the fiscal deficit below 3% of GDP by 2015. Deficit reduction measures amounted to €6 billion (3.8% of GDP) in 2011 and total €3.8 billion (2.4% of GDP) in 2012. Tax receipts and expenditures in 2011 were broadly in line with forecasts from the Department of Finance. Steps have also been taken to address financial stability concerns. Following bank stress tests in March 2011, measures to restructure, deleverage and recapitalise the banking system have proceeded on schedule. In addition, the EU-IMF programme fully covers Ireland's financing needs through 2013, providing Ireland with two years to stabilise its public finances.

DBRS believes that the recent lowering of interest rates on EU loans is positive for Ireland (see *Policy Announcements Positive but Euro Area Debt Sustainability Still a Concern* published on 27 July 2011). Ireland's previous loan program, of which €45 billion is borrowed from the EFSF, the EFSM and bilateral sources, was scheduled to have an average maturity of 7.5 years and an average interest rate of approximately 5.8%. Depending on the maturity structure and cost of funds, the new loans could lower annual interest payments by approximately €1 billion, or 0.6% of GDP.

Ireland is also regaining competitiveness and unwinding external imbalances. According to the IMF, unit labour costs declined 11% relative to the euro area average from 2007 to 2010. Exports of goods and services increased 8.3% in 2010 and continued to perform well in the first half of 2011. Improved competitiveness is also reflected in the current account, which shifted from a deficit of 5.6% of GDP in 2008 to a surplus of 0.5% of GDP in 2010. As a result, Ireland is no longer reliant on net external financing.

However, the evolution of Ireland's ratings ultimately depends on the prospects for debt stabilisation. If fiscal targets are achieved and there is clear evidence of economic recovery, the trend could be changed to Stable. On the other hand, fiscal slippage or a material worsening of growth prospects, particularly in the context of Ireland's high debt burden, could trigger a downward rating action.

Sector Analysis

The majority of European countries have experienced nominal house price declines since the onset of the global financial crisis. However, the Irish residential mortgage and property markets have undergone the most prolonged and severe period of stress of all established European markets. According to data from the Irish Central Statistics Office (CSO) nominal house prices have fallen on average 47% during the period from the end of 2006 to the end of 2011. Furthermore, during the same period, prices have fallen relentlessly, and although there are signs that the speed of the declines in Euro amount terms (but not percentage terms) may be easing, DBRS believes that the bottom of the residential housing market has not yet been reached.

The reasons why the collapse in the Irish residential property has been so much more severe than in other countries are varied. Part of the explanation rests in the period of economic growth seen in Ireland during the 'Celtic Tiger' phase from 1995 to 2007.

Ireland was already enjoying a period of economic growth and relative prosperity prior to the introduction of the single currency in 2001.The introduction of the single currency had the effect of reducing the overall cost of borrowing for Ireland as a sovereign and for Irish banks. For example the cost of borrowing for Ireland in 1995 were approximately 10%, had fallen a decade later to around 4.5%. This reduction in the cost of debt filtered its way to consumers in the form of lower interest rates on consumer debt, including mortgages. During this period Ireland enjoyed significant inward investment leading to a material drop in unemployment. For example, unemployment in Ireland fell from approximately 15% in 1993 to approximately 4.5% in 2006 according to data from the CSO. The phenomenon of continuous economic growth, increasing employment and lower interest rates helped promote consumer confidence to unprecedented levels. This combination of factors also helped fuel the demand for property that would lead to a residential property asset bubble.

The supply of credit made available to property developers to acquire and build on land was matched by the supply of credit made available to borrowers creating an inflationary spiral for residential assets. The supply of credit and the demand for property was exacerbated by a planning system which failed to act as a natural check to excessive property speculation.

Although there was significant property speculation it was not driven by product innovation in the mortgage sector in the same way that it was in the UK. Although markets and products such as sub-prime and self-certification did exist in Ireland their prevalence and their contributions to driving mortgage volumes was not as material as in the UK.

There were, however, two product innovations which did lead to an expansion of the credit supply and demand in Ireland.

The first major product innovation in the early part of the past decade was the introduction of loans to fund Residential Investment Properties (RIPs). RIPs were essentially the same as UK buy-to-let properties, whereby the affordability assessment at the underwriting stage was assessed by reference to rental income rather than to a borrower's earned income from employment. The introduction of RIP loans in the early part of the last decade and in some cases at relatively high LTVs meant that borrowers were able to leverage significantly and build property portfolios with relatively little equity. The introduction of RIP properties in addition to cheap debt had the short term impact of fuelling demand for properties which in turn helped fuel the construction of yet more residential properties. This demand fuelled price rises which convinced yet more investors of the worth of residential property as an investment.

The second major shift in lending policy in Ireland in the period up to 2006 was the steady creep of the upper band of LTV's that lenders were prepared to lend against. This evolved over the period to 2006 to the extent that 100% LTV lending was possible.

The impact of product innovation and cheap and plentiful credit availability for both developers and purchasers meant that the market excessively overheated as the promise of quick gains tempted yet more investors in. In Q3 2006 approximately according to data from The Irish Banking Federation 54,000 mortgage loans were approved in Ireland, compared to approximately 110,000 in the UK (according to data from the Council of Mortgage Lenders) which has a population of approximately 14 times Ireland.

The onset of the crash started tentatively in mid-2007 with the ESRI House Price Index returning its first decline. Ireland's residential house price crisis has been more severe than in other countries owing in part to the excesses of the peak years, but also due to the weakness of the Irish banks. By 2011 lending contracted to the point that only 13,000 mortgage originations were made. Furthermore, as so much of the economic growth in the period derived from the construction industry the collapse in demand for new houses led to a deep recession, with the consequent rise in unemployment leading to deterioration in mortgage performance.

DBRS believes it will be years before the impact of the boom from 1995-2007 is flushed through the system.

Mortgage Performance

Given the scale of the crisis in Ireland the arrears performance of loans in Ireland has deteriorated significantly. The negative performance is closely correlated with unemployment trend in Ireland. Although the pace in increase in unemployment appears to be decreasing DBRS anticipates that mortgage arrears will increase in the short to medium term.

Mespil 1 RMBS Limited

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Transaction Parties and Relevant Dates

Transaction Parties

Type	Name	Rating
Issuer	Mespil1 RMBS Limited	N/A
Fund	N/A	N/A
Originator	EBS Limited and Haven Mortgages Limited	N/A
Seller	EBS Limited and Haven Mortgages Limited	N/A
Servicer	EBS Limited	Private Rating
Back-up Servicer	Crown Mortgage Management Limited	N/A
Back-up Cash Manager	Deutsche Bank AG, London Branch	N/A
Account Bank 1 (Till 22 February 2012)	Ulster Bank Ireland Limited	Not rated
Account Bank (From 22 February 2012)	BNP Paribas, Dublin	Private Rating
Swap Counterparty	N/A	N/A
Subordinated Loan Facility Provider	EBS Limited and Haven Mortgages Limited	N/A
Cash Manager	EBS Limited	N/A
Trustee	BNY Mellon Corporate Trustee Services Limited	N/A
Data Trustee	N/A	N/A
Principal Paying Agent/Agent Bank	The Bank of New York Mellon, London Branch	AA/R-1(high)/Stable
Corporate Services Provider	EBS Limited	Private Rating
Arranger(s)	J.P.Morgan	N/A

Relevant Dates

Type	Date
Issue Date	21 December 2010
First Interest Payment Date	22 February 2011
Payment Frequency	Monthly
Revolving Period Maturity Date	22 February 2012
Call Date	22 February 2016
Pro-Rata Amortisation Date	N/A
Ramp-up Completion Date	N/A
Legal Final Maturity Date	22 August 2055

Origination and Servicing

DBRS conducted an on-site review of EBS Building Society (now EBS Limited) and its wholly-owned subsidiary, Haven Mortgages, conducted on 8th February 2012 in Dublin, Ireland. DBRS believes the origination and servicing practices are consistent with those observed among other Irish lenders.

Origination:

The majority of mortgages prior to 2005 were sourced through the bank's branch network and agents. EBS began working with brokers in 2005, and established Haven in 2007 as a distinct brand working directly with intermediaries. As a result 100% of mortgages originated by Haven are sourced through third parties.

Haven offers a variety of mortgage products including owner-occupied home loans, equity release loans ('top-ups') and residential investment loans (Buy-to-Let). Standard repayment terms and interest terms apply with majority of loans on variable rates. Fixed rate loans were offered at start of crisis but have since been discontinued and only about 7% of the mortgage book is interest only (IO). The low IO rate has enabled EBS to utilise principal deferrals as an effective modification strategy with rising arrears levels and the 7% rate has remained fairly constant through the last several years.

Brokers are paid a commission based on the size of the loan and for a minimum 3 year term. Such commissions are refunded back to the originator based on an annual sliding scale for loans that redeem within the first 3 years. For 2010, the total achievable commission ranged from 0.40% for loan production under €2m to 0.80% for total loan completions > €25m. The 'clawback' (refund) ranges from 25-75%. The remuneration schedule is similar to prior years excluding an additional 5-15 bps incentive for conversions over 75% introduced in 2010. The additional incentive could be viewed negatively as it increases the propensity for fraud as brokers may try to manipulate information to ensure approval and subsequent loan completion. However, DBRS notes the strong oversight of intermediaries since 2005 and the lenders use of the overall Irish broker network (over 2,000 licensed entities) is currently 5% and at its peak only numbered 300. Furthermore, the incentive is linked to closed loans only and not merely approval and the regulator introduced new guidelines forbidding the termination of broker arrangements for low volumes.

Underwriting process:

All underwriting activities are centralised in Haven's head office in Dublin. Intermediaries liaise with the lender through an electronic application process. The initial assessment and subsequent 'approval in principle' (AIP) is paper based and carried out by the sales team involving a Haven account manager. The AIP and all supporting documentation are entered into the system and automated workflows distribute the information to the relevant parties for further analysis.

Credit policy is set centrally and applies to all intermediaries. The current policy has been in places since October 2010 and any changes to credit policy are tracked. Current guidelines are consistent with the wider Irish market and more conservative than those in place pre-crisis. However, it should be noted that Haven's tightening of criteria occurred in 2008 and before most peers. For example, Haven’s maximum LTV in 2008 was 80% versus 90-92% for other major Irish lenders, and as of 2010, Haven is the only major lender discontinuing interest only loans.

Approval authority limits are set for each of the three main product types and based on an 8 level scoring system based on the size of the loan. The risk rank and borrower employment status are also included in the authority guidelines. While the risk profile and/or characteristics of each loan type can vary considerably particularly between owner-occupied and investment products, the approval limits are the same for all products.

Individual approval authority is granted to underwriters based on recommendation from the head of credit and approved by the Haven board. With an average loan size less than €150,000, the majority of loans are approved by less experienced level 1 or 2 underwriters. However, all underwriters have at least level 4 clearance, and loans generally deemed higher risk such as those to self-employed borrowers require approval by a more experienced level 4 underwriter regardless of loan size. All 'very high' risk loans over €500,000 require approval from the most senior underwriters or credit officers. Furthermore, new credit guidelines introduced in Oct 2010 require dual sign-off of all new originations. The following chart shows the approval limits for each product type:

Level	Homeloans	Risk Rank	Self-employed
1	175,000	Low/med	N
2	250,000	Low/med	N
3	350,000	Low/med	N
4	450,000	Low/med	Y
5	500,000*	High/very high*	Y
6	750,000**	High/very high**	Y
7	1,000,000	All	Y
8	1,500,000	All	Y

*capped at 450,000 if ‘very high’ risk or outside credit guidelines
**capped at 500,000 if ‘very high’ risk or outside credit guidelines

Valuations:

Haven orders full valuations of every mortgaged asset completed by a qualified third-party appraisal selected from an approved panel which is vigorously monitored. Audits are conducted quarterly of valuers including a random sampling of 15-20 appraisals. As a building society until 2010, EBS and Haven were bound by the 'building society act' requiring full valuations of all properties, thereby eliminating the potential operational risks associated with 'drive by', 'desktop' or automated valuations. Indexed values were used for equity release loans prior to Oct 2010 when policy changes required full, external appraisals regardless of product type.

Summary strengths

- Centralised underwriting and good experience across underwriting team.
- Full, external valuations on all first charge mortgage loans with no drive-by, desktop or indexed valuations. Process consistent since start of broker business at EBS in 2005 as required through the “Building Society Act”.
- Regular review and updates to corporate credit policy, and some underwriting criteria tightened sooner than peers in 2008.

Summary weaknesses

- Complete reliance on external sourcing through intermediary network.

Mitigant(s): Strong management of network and only engages 5% of total licensed brokers (15% at peak). All underwriting is centralised and intermediaries not involved in any stage of loan approval process. Clawback provisions help ensure quality loans from brokers.

- Index valuations for 'Top Up' loans (equity release) prior to 2010.
  Mitigant(s): *Policy changed to require full, external valuations on all loans starting Oct 2010.*

- Reduced originations since 2010 and closed securitisation market significantly impacting Haven's funding capacity.
  Mitigant(s): *Current securitisation (Mespil1) is first for Haven and closed in Dec 2010 and offers some funding relief through parent company, EBS.*

Servicing

All servicing activities for Haven originated loans are outsourced to its parent company, EBS. This includes Haven's role as servicer in the Mespil1 RMBS securitisation. A detailed servicing agreement is in place between the two parties and includes delegation of decision-making authority to EBS for the management of all arrears cases including defaulted loans (post 90 days). EBS also provides servicing for EBS Mortgage Finance which includes the covered bond pool, the Emerald RMBS programme active since 2000 as well as for the NAMA loans. Although the Irish Central Bank required lenders to establish separate servicing units to manage the commercial loans transferred into the NAMA programme, special consideration was given to EBS due to the small size of the eligible portfolio, thus, a separate servicing unit was not required.

The Operations department is responsible for all general administration of the loans as well as 'KYC' checks for new originations. EBS employs a document imaging and workflow system called "M6/Connect" which begins at the origination stage with the issuance of the AIP through eventual redemption of the loan. The operations group includes 24 staff and 2 managers split evenly across two teams: (a) loan administration and (b) securities (deed management).

The Credit Management department based centrally in Dublin is responsible for on-going monitoring of the pre-arrears cases, delinquencies and the workout process for non-performing loans (NPL). The department employs a variety of loss mitigation and workout strategies to cure arrears cases including capitalisation (only once), term extensions, conversion to IO, principal deferral and forbearance as well as government initiated programmes such as the Deferred Interest Scheme (DIS) although participation within the scheme is very limited with only 60 cases being assessed. Entry criteria for the scheme include a requirement for the borrowers to meet sustainable loan repayments on the expiry of the 5 year maximum term of forbearance.

Capitalisation is used selectively for suitable cases only. The re-default rate is 20-25% compared to term extension at approximately 15%. Increased focus has been placed on 'pre-arrears' management over the last two years; whereby, borrowers contact EBS and the servicer attempts to work-out a solution before the first missed payment. Through 2011, the company reviewed over 11,000 loans with around 40% being approved for some form of arrangement. The remaining loans required additional information and review although only 6% of requests had been formally declined and the Nov and Dec declined rate had fallen to 2% from a peak of 17% in January. Along with pre-arrears activity, EBS has modified over 4,400 loans in 2011 with capitalisation comprising less than 10% as illustrated in the following chart.

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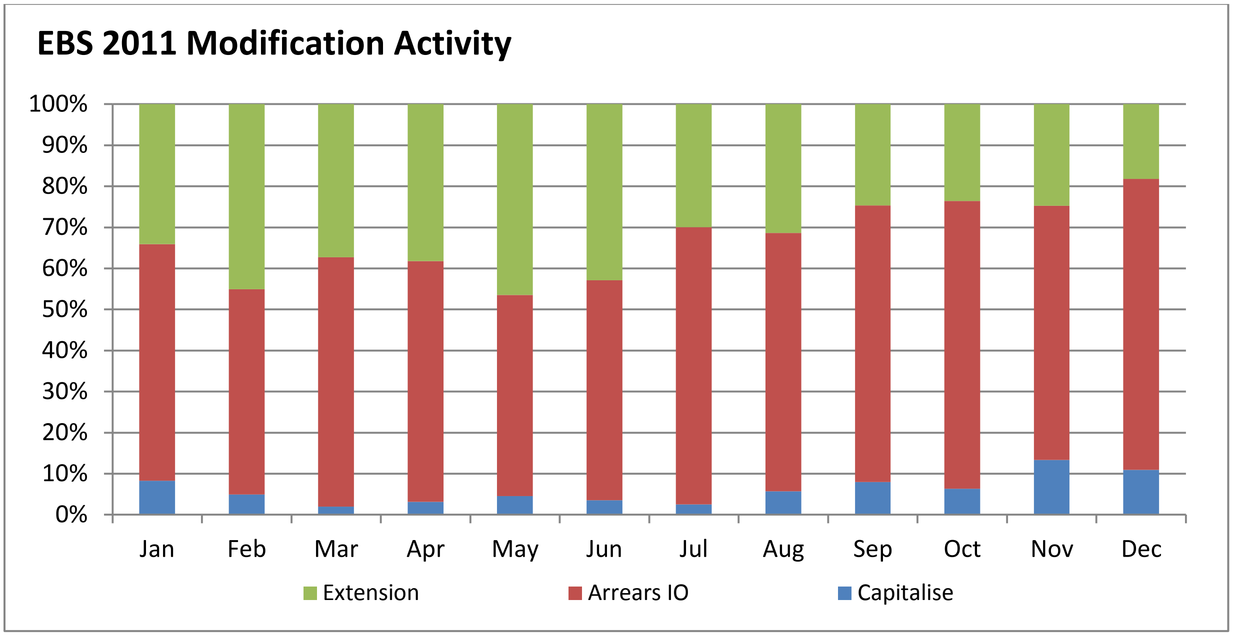

Given the increased regulatory focus on arrears management some of which has hindered EBS' and other Irish servicers' ability to effectively manage the growing arrears portfolio, DBRS believes modifications will continue to play a vital role in the Irish market.

The lengthy and less creditor friendly foreclosure regime in Ireland has created challenges for EBS as well as other Irish servicers. Timelines have lengthened over the last few years due in part to the Irish government's 12 month moratorium on initiating legal action. According to EBS, the average time from arrears to repossession is approx. 18 months but can take as long as three years. Based on sales data for repossessed asset, the average time to dispose of the assets is 15 months although EBS has only sold 10% of the total repossession portfolio and the remaining assets have been in the portfolio for just over 20 months. The repossess portfolio (161 assets as of end-December 2011) is further burdened with a high percentage of 'abandoned' properties representing half of the portfolio. Private sale continues to be the main disposition method as auction is still negatively perceived in Ireland and recoveries would be lower than through private sale which is only achieving approx. 62% against the principal balance at the time of foreclosure. Given the considerable timeframes, falling house prices and rising expenses associated with managing repossessions, the use of auctions may become more viable in the near- to medium-term.

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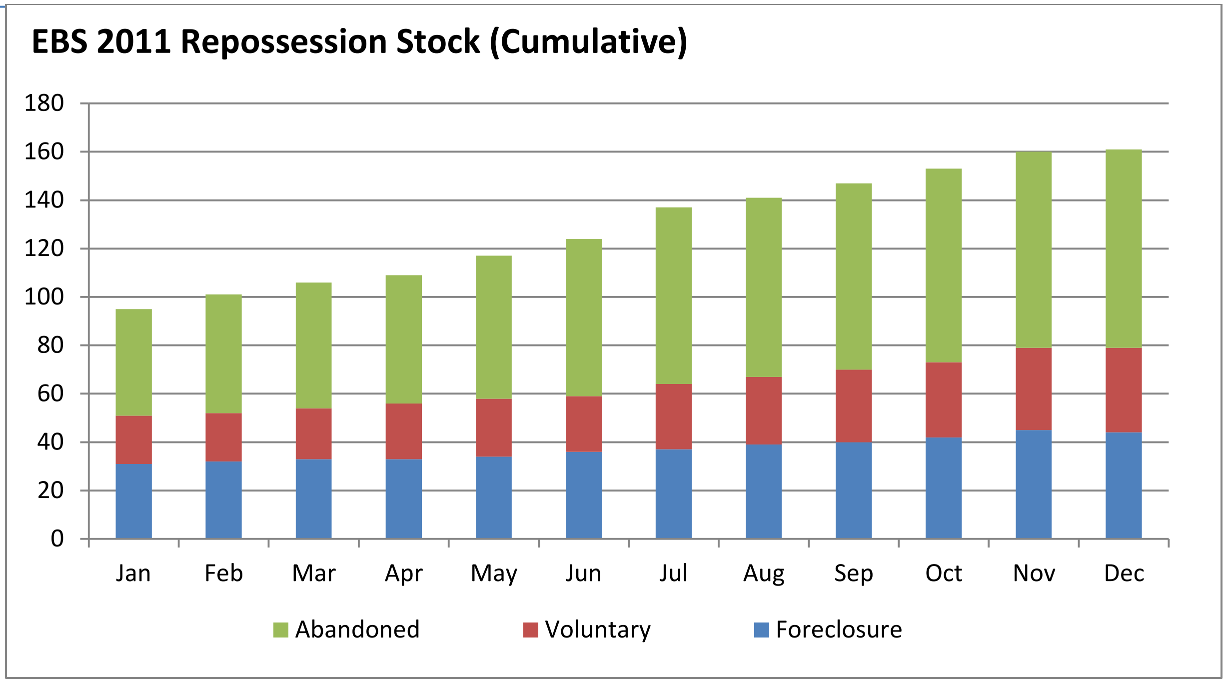

Summary strengths

- Very active delinquency management activities including calling and letter campaigns and pre-arrears activities including modifications, and highly experienced arrears support management team averaging 20 years' experience with half such experience within EBS.
- Strong IT platform including robust customisation and functionality within servicing and arrears management system.
- Monthly investor reporting and remittance requirements providing significant benefits for bondholders, and help ensure more efficient and quality cash bond administration and reporting capabilities. Nearly all European RMBS transactions have quarterly reporting requirements.
- Virtual paperless working environment through document imaging and electronic workflow systems.

Summary weaknesses

- Early stage arrears management activities are somewhat hindered by recent regulation such as limiting contact activity (including attempts) to only three and 12 month moratorium on legal action. ***Mitigant(s):*** *Arrears team has doubled since 2010 and increased focus on improving effectiveness of borrower interaction. More pre-arrears activity, and good performance surrounding curing defaults.*
- Lengthening timelines from arrears to repossession (partly due to regulatory moratorium) and eventual sale. Only 10% of repossession portfolio has sold with an average sale time of 15 months and 62% recovery against loan balance at foreclosure. Remaining assets have been on market for 20 months on average. Reluctance to use auction and limit value given lack of participation and lower recovery rates compared to private sales.
  Mitigant(s): *Timelines consistent with overall Irish market and driven by current economic environment. Overall default and foreclosure performance is better than peers.*

Back-Up Servicer: Crown Mortgage Management Ltd (CMM) based in Ipswich, England is the named back-up servicer (BUS) for the Mespil1 transaction.

CMM is a UK residential and commercial mortgage primary and special servicer with a substantial back-up servicing portfolio. However, as the portfolio includes Irish loans, CMM may face some challenges in managing the portfolio specifically the arrears and defaulted loans, and the agency will closely monitor the situation should a servicing transfer occur.

Back-up Cash Manager: Deutsche Bank has been appointed the back-up cash manager.

Collateral Analysis Details

Data Quality

DBRS has been provided the performance history of the EBS mortgage book of vintages from 2006. The 2006, 2007 and 2008 vintages are worst vintages in terms of 3 months plus arrears and show an increasing trend. The performance of the EBS mortgage book is similar to the observed rise in arrears across lenders.

In addition DBRS was also provided the repossession data for loans which have defaulted. DBRS assessed this data to estimate the extent of forced sale discount and the time to foreclosure.

DBRS received the mortgage portfolio from the Issuer to conduct the credit analysis of the collateral pool.

DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

Collateral Analysis

- **The Two-Year Probability of Default:** This has been estimated at 1.7% for the Mespil1 mortgage pool. The performance information of the EBS mortgage book has been considered for the estimation of the Two-Year PD, however due credit has been given to the aspect of a positively selected Mespil1 mortgage portfolio. The Two-Year PD number also includes an adjustment to account for the rating of Republic of Ireland, currently rated A(low)/Negative Trend.

- **Loan-to-Value and Loans in Negative equity:** The WACLTV of the mortgage portfolio is 72.79%. DBRS has applied indexation to the property values of the loans in the mortgage portfolio. The WACLTV(indexed) is high at 124%. Approximately 68% of the loans in the mortgage portfolio are currently in negative equity status. DBRS has applied default probability penalties based on the CLTV(indexed) of each loan, in line with DBRS Irish RMBS criteria.

- **Self-employed Borrowers:** 10.78% of the mortgage portfolio consists of borrowers who are self-employed. EBS/Haven checks the audited accounts and/or certificates to check for trading status and income verification. Taxes paid (personal and business) and six months of bank statements are also checked. The income of these borrowers is taken only on a verified basis. DBRS applies a default probability penalty, in line with DBRS Irish RMBS criteria, to such loans as the income of such self-employed borrowers is considered relatively volatile as compared to that of employed borrowers.

- **Interest-only loans:** 13.77% of the loans in the mortgage pool repay only interest on a monthly basis. Majority of these loans (13.65%) pay interest-only for a short term after which the monthly payments are on a repayment basis. The rest (0.12%) are interest-only for the full term of the loan with the principal to be repaid at the end of the tenure. There are no repayment vehicles to ensure adequate savings by the borrower to repay the loan principal. DBRS views such loans (interest-only for life) more risky as compared to repayment loans as it would result in a payment shock for the borrower at the end of the tenure of the loan as well as the fact that the borrower is unable to afford a repayment loan. DBRS has thus applied a default probability adjustment to such loans in line with DBRS Irish RMBS criteria.

- **Residential Investment Property loans:** 8.53% of the loans are RIP loans. EBS/Haven assesses the affordability for such loans from the disposable income of the borrower which considers the repayment obligations of any existing debt of the borrower. However, during periods of financial stress, as is the current economic scenario in Ireland, DBRS believes that a borrower would choose to meet repayment obligations of the owner-occupied loan over the RIP loan, if the rental income is insufficient to cover the loan repayment. This borrower behavior is borne out of the performance of the Mespil1 mortgage portfolio where 16% of the RIP loans are currently in arrears in comparison to only 8.5% of the owner-occupied loans in arrears. DBRS considers the RIP product to be riskier than an owner-occupied loan and has adjusted the default probability of such loans in line with DBRS Irish RMBS criteria.

- **Regional PD adjustment:** Based on data from Central Bank of Ireland, DBRS observes that the arrears performance of the various regions in Ireland is not nationally consistent, i.e. certain areas contribute disproportionately to the overall level of mortgage arrears in Ireland relative to their contribution to overall mortgage lending in Ireland. Accordingly, DBRS applies a probability default adjustment to loans where properties are located in the Border, Mid-East and the Midlands regions. The distribution of loans in these regions is: Border – 9.43%, Mid-East – 17.02% and Midlands – 6.58%.

- **Market Value Decline (MVD):** The MVDs have been applied to the indexed value of the property, in line with DBRS Irish RMBS criteria.

- **Time to Foreclosure:** Based on the repossession data provided DBRS estimated the average time to foreclosure at 60 months.

Transaction Structure

Source of Funds/Available Funds

Revenue funds broadly include the following:

- Interest receipts from the mortgage portfolio and any fees paid under the loans.
- Recoveries of interest, outstanding fees from defaulting borrowers; recoveries of principal from defaulting borrowers in respect of loans which have been debited to the principal deficiency ledger (PDL)
- Interest received on the funds with the account bank.
- The funds in the reserve fund.
- If required the principal receipts from the mortgage portfolio to meet interest payments on the Class A1, A2 and A3 notes.

Principal funds broadly include the following:

- Principal receipts from the mortgage portfolio and any principal retained in the principal receipts ledger during the revolving period.
- Amounts used to reduce outstanding amounts under the principal deficiency ledgers.

Priority of Payments

The determination date would be five business days prior to an interest payment date (IPD) on which date the cash/bond administrator would be expected to calculate the amounts of interest and principal required to paid on the notes. The IPDs would be on the 22nd of each month.

The principal receipts from mortgage portfolio can be used to meet interest shortfalls on the interest payments on Class A1, A2 and A3 notes. The revolving period ends on 22 February 2012. DBRS understands that no new loans have been purchased by the issuer since 31 December 2011 and there is no intention to purchase new loans till the revolving period expires later this month. The priority of payments is as follows:

Pre-Enforcement Revenue Priority of Payments

- Senior Fees
- Interest payments on Class A1, Class A2 and Class A3 notes on a pro rata and pari passu basis.
- Amounts if required to be credited to Class A1, Class A2 and Class A3 PDLs on a pro rata and pari passu basis.
- Amounts to be credit to the reserve fund.
- Amounts if required to be credited to Class Z PDL.
- Interest on Class Z loan.
- Interest payments on subordinated loan.
- Principal payments on subordinated loan.
- Deferred consideration to seller/s

Pre-Enforcement Principal Priority of Payments

- Principal on A1 notes
- Principal on A2 notes
- Principal on A3 notes
- Principal on Z loan

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Post-Enforcement Priority of Payments

- Senior fees.
- Interest and principal on Class A1, A2 and A3 notes on a pro rata and pari passu basis.
- Interest and principal due on Class Z loan.
- Interest and principal due on the subordinated loan.
- Deferred consideration to seller/s

Cash Reserve Fund

A reserve fund of 1% of the total issuance, i.e. EUR10 million, was available to the issuer at close of the transaction. The reserve fund was funded by a subordinate loan provided by EBS at close of the transaction. The reserve fund is non-amortising and will be maintained at 1% of the notes outstanding at close throughout the life of the transaction. The reserve fund currently is at the same level as at close of the transaction. These funds will be available to the Issuer to meet any interest shortfalls on the Class A1, A2 and A3 notes as also for recouping losses debited to the PDLs for these notes. The reserve fund is replenished in the revenue waterfall senior to the Class Z PDL and hence does not support the Class Z notes in any way.

Transaction Accounts

Servicer Collection Account
The collections from the mortgages will be credited to collection accounts with various banks in Ireland in the name of EBS/Haven. The funds belonging to Mespil1 will be commingled with funds received from borrowers that do not form a part of the Mespil1 mortgage portfolio.

To mitigate the commingling risk, the funds credited to the collections' accounts will be swept on the next business day to the transaction account in the name of the issuer with BNP Paribas, Dublin Branch. Also, EBS and Haven have declared trusts over the funds in the collection accounts in favour of the Issuer. This would ensure that the funds belonging to Mespil1 would not form part of the bankruptcy estate upon insolvency of EBS/Haven.

Issuer Accounts
The transaction account and the cash reserve account will be maintained with BNP Paribas, Dublin Branch effective 22 February 2012. Currently the issuer accounts are maintained at Ulster Bank Ireland Limited whose rating has fallen below the rating triggers allowed for under the transaction documents. Ulster Bank Ireland Limited is thus being replaced by BNP Paribas, Dublin Branch. The latter has a private rating by DBRS and meets DBRS criteria for an account bank in structured finance transactions.

Cash Flow Analysis

To assess the timely payment of interest as well as the ultimate payment of principal on the rated notes, DBRS has applied its defaults curves (front and back-ended), its prepayment curves (low and high CPR assumptions) and interest rates stresses as per its published criteria on the same.

Excess Spread
The weighted average (WA) coupon paid by the mortgage assets currently stand at 3.99%. After meeting the amounts to be paid under senior fees, and interest on the rated notes, the excess spread, if any would be available to recoup any debit balances in the PDLs. The actual senior fees plus the WA coupon to be paid on the rated notes stands at approximately 1.65%. While currently there is excess spread available in

the transaction, it can quickly get eroded by delinquencies, defaults and prepayments of higher coupon paying loans. The excess spread can also be adversely affected by the permitted variations under the transaction and reduction in the SVR rate set by the servicer. However, loans where variations are allowed will continue in the portfolio only if they yield at least 2.5%. The servicer also covenants that the SVR rate will not be set below 1.5%.

DBRS has applied margin compression stresses, in the form of higher senior fees (30 bps), high prepayments (15% and 20%) and falling interest rates (with SVR at a low of 1% and the ECB rate at 0.5%) to stress the cash flows of the Mespil1 structure.

Probability of Default

The Two-year probability of default (PD) has been estimated at 1.7% for the Mespil1 mortgage portfolio. The Two-year PD includes credit to the positive selection of the Mespil1 mortgage portfolio and an increase to account for the rating of Republic of Ireland (A(low)/Negative Trend) by DBRS. Based on this estimation DBRS has arrived at the lifetime PD for the mortgage portfolio by applying mortgage and borrower related specific PD penalties. The lifetime PD for Mespil1 mortgage portfolio is estimated at 13.48% in a single B scenario. The PD applied in 'AA' rating scenario is 36.64%.

Loss Given Default

The loss give default (LGD) for the mortgage portfolio has been estimated at 50.35% (applied at single B rating scenario). The LGD applied in the 'AA' rating scenario is 69.96%. The key drivers of LGD are

- the WACLTV (indexed) of 124%
- 67.8% of the loans are currently in negative equity status.
- MVD for Mespil1 is at 60.8% (AA rating scenario)

Prepayment Speeds

DBRS has used its criteria for the CPR assumptions 5%, 15% and 20% p.a.

Given the lending criteria with tighter LTVs across the mortgage market in Ireland, DBRS views the low CPR scenario to be most realistic for the Mespil1 mortgage portfolio in the short term. However, in order to stress the excess spread available in the revenue waterfall DBRS has stressed the cash flows using its high CPR scenarios as well.

Timing of Defaults and Recoveries

DBRS has used front and back-ended default curves to test the cash flows of the notes.

The lengthy and less creditor friendly foreclosure regime in Ireland has created challenges for EBS as well as other Irish servicers. Timelines have lengthened over the last few years due in part to the Irish government's 12 month moratorium on initiating legal action once a loan goes into arrears. According to EBS, the average time from arrears to repossession is approx. 18 months but can take as long as three years. Based on repossession data provided by EBS, the average time to dispose of the assets is 15 months. However there are also cases where the properties have not been sold for around 20 months awaiting a private sale where the realisations are better than taking the auction route. DBRS expects the foreclosure timelines to stretch further to between 48-60 months in the worst case scenario. DBRS has applied a foreclosure time of 60 months in its cash flows analysis.

Interest Rate Stresses

DBRS uses interest rate stresses as per its Unified Interest Rate Model which include rising, flat and declining interest rate curves. For Mespil1, the falling interest rates' scenario is relatively more stressful on the cash flows as it compresses the interest receipts from the mortgage portfolio to pay the fixed rate of interest on the rated notes. DBRS was provided the historical SVR rates set by EBS and Haven. DBRS applied the assumption of the SVR rate to fall to 1%, below the servicer covenant to maintain the rate above 1.5% and much lower than the historical low SVR rate set by EBS/Haven. A floor of 0.5% was applied to the ECB rate for loans paying interest linked to the ECB rate.

Legal Structure

Law(s) Impacting Transaction

On the closing date, Mespil1 acquired beneficial title to the collateral. As security for the payments of all monies payable with respect to the notes, Mespil1 entered into a deed of charge, creating security in favour of the trustee consisting of a first-ranking fixed charge over the issuer's rights, title, benefit and interest in and to the underlying collateral. The transaction structure is designed to ensure that any insolvency of the originator will not interrupt the timely payments of principal and interest to investors. The Issuer has charged its rights, title and interest in and to the mortgages to the trustee. The Issuer has no recourse to the originator except in limited circumstances.

Set-Off Risk

The potential deposit set-off for Mespil1 is de minimis. EBS is a deposit taking institution. The aggregate deposit size of borrowers in the Mespil1 mortgage portfolio currently is approx. EUR856,000 which is 0.09% of the aggregate current balance of the mortgage portfolio. Up to EUR100,000 per depositor, is protected by the central bank and the aggregate amount of deposits, for the borrowers in the mortgage portfolio, above this protected threshold is zero.

Though the deposit size can potentially grow in the future, the threshold of the deposit protection scheme means that potential deposit set-off should be negligible and can be recouped from the reserve fund of 1% in the transaction.

There are no loans in the mortgage portfolio provided to the staff of EBS/Haven. One of the loan warranties provided by EBS/Haven states that none of the borrowers are employees of the lenders.

Representations and Warranties

The mortgage sale agreements contain representations and warranties given by EBS and Haven (as the Originators and Sellers) in relation to the mortgage portfolio and also the loans purchased during the revolving period. The representations and warranties in Mespil1 are standard as those for Irish RMBS transactions; the following warranties are specific to Mespil1 mortgage portfolio features:

- No borrower is an employee of EBS/Haven.
- No loan has been in arrears, other than technical arrears where technical arrears has been defined as loans in arrears due non-credit related issues like direct debit set-up issues or minor arrears' cases where the loans has not been arrears for more than two consecutive months and for an amount less than 15% of the monthly repayment amount.
- No loan has been provided to a borrower being or having been subject to bankruptcy proceedings or declared bankrupt.

A breach of any of the representations and warranties would require the sellers to repurchase such loans from Mespil1 mortgage portfolio.

Further Advances

Further advances can be provided to borrowers in the mortgage portfolio. These will be provided by EBS/Haven and will be purchased by the Issuer subject to specific conditions as follows:

- No event of default is continuing.
- The weighted-average (WA) original LTV ratio of the portfolio after the sale of the further advance will not exceed the WA original LTV ratio of the portfolio at closing.
- The WA current LTV ratio of the portfolio after the sale of the further advance will not exceed the WA current LTV ratio of the portfolio at closing.
- The WA DTI (Debt to income) ratio of the portfolio after the sale of the further advance will not exceed the WA DTI ratio of the portfolio at closing.
- The yield of the further advance loans is at least 2.5% p.a.
- Each further advance loan complies with the loan warranties at the relevant sale date.
- The original and current LTV of the aggregated loans is equal to or less than 90%.
- No debit balance on the PDL exists and the general reserve fund is at its required amount.
- No further advances will be purchased if the aggregate balance of loans more than 90 days in arrears (including loans that have been subject to an arrears capitalisation within 12 months of the test date) exceeds 5% of the outstanding balance.

If the seller chooses not to sell a further advance to the Issuer or the Issuer is unable to fund the purchase of such further advance,

- the relevant seller may repurchase any loans secured by the property offered as security for the further advance. OR
- the relevant seller’s interest in the loan and security would be subordinated to the Issuer’s interest.

Permitted Variations

A loan in which EBS/Haven has agreed to a request by a borrower to convert the loan into any other type of loan product offered by EBS/Haven may remain in the pool. The conversion of the loan is subject to certain conditions, including,

- No PDL debit outstanding.
- The reserve fund being funded up to the required level.
- 90+ days arrears being below 5% of the outstanding pool and
- The proportion of IO loans (including part IO loans) in the outstanding pool being less than the proportion at closing plus 3%.
- The yield on the product switch is greater than 2.5% p.a.

If EBS/Haven agrees to convert a loan contained in the mortgage portfolio that does not satisfy the conversion conditions, the Issuer may sell to EBS/Haven the affected loan. The repurchase price payable will be an amount equal to the current balance on the loan plus all unpaid interest (including all accrued interest and arrears of interest) and any expenses payable on the loan.

Transaction Counterparty Risk

Originator/Servicer

EBS and Haven are the originators and the named servicers of the Mespil1 mortgage portfolio. Haven has delegated the servicing of its loans to EBS. DBRS has conducted an operational review of the origination and servicing capabilities of EBS and Haven. At close of the transaction, there was no back-up servicer appointed. However, effective 22 February 2012, Mespil1has appointed a back-up servicer, Crown Mortgage Management Limited (CMM), based in Ipswich, England. CMM is a UK residential and commercial mortgage primary and special servicer with a substantial back-up servicing portfolio. However, as the portfolio includes Irish loans, CMM may face some challenges in managing the portfolio specifically the arrears and defaulted loans, and the agency will closely monitor the situation should a servicing transfer occur.

Please see the section on Origination and Servicing for the detailed assessment of origination and servicing capabilities of EBS/Haven.

Bank Accounts

Ulster Bank Ireland Limited is the account bank but will be replaced by BNP Paribas, Dublin Branch effective 22 February 2012. BNP Paribas, Dublin Branch has a private rating by DBRS and meets DBRS criteria to act as an account bank.

Commingling Risk

The collections from the mortgages are credited to collection accounts with various banks in Ireland in the name of EBS/Haven. The funds belonging to Mespil1 are commingled with funds received from borrowers that do form a part of the Mespil1 mortgage portfolio.

To mitigate the commingling risk, the funds credited to the collections' accounts are swept on the next business day to the transaction account in the name of the issuer with BNP Paribas, Dublin Branch. Also, EBS and Haven have declared trusts over the funds in the collection accounts in favour of the Issuer. This would ensure that the funds belonging to Mespil1 would not form part of the bankruptcy estate upon insolvency of EBS/Haven.

Swap Counterparty

Not applicable. The basis risk exposure of the Issuer is not hedged in the transaction.

Methodologies Applied

The following are the primary methodologies DBRS applied to assign a rating to the above referenced transaction, which can be found on www.dbrs.com under the heading Methodologies, Alternatively, please contact info@ dbrs,com, or contact the primary analysts whose information is listed in this report:

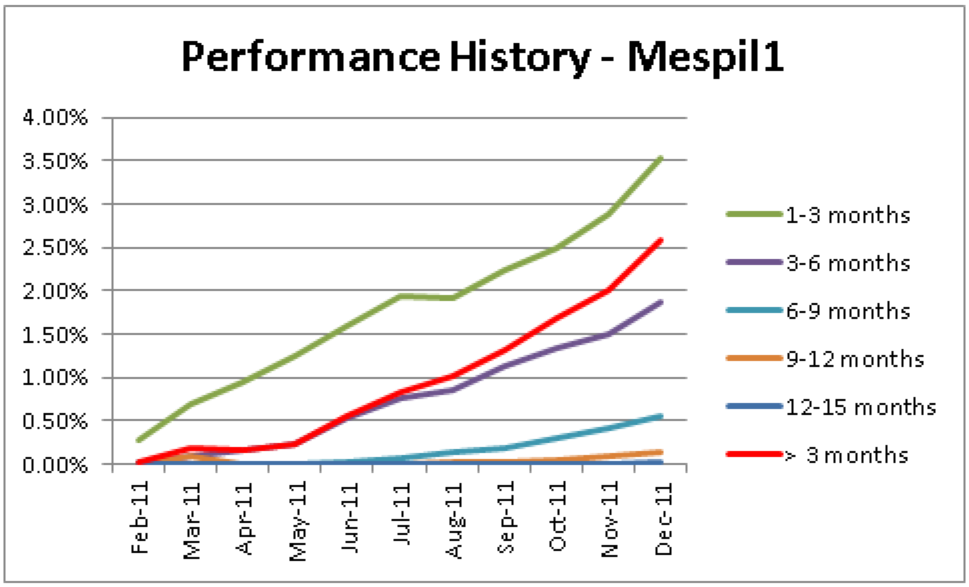
- Master European Residential Mortgage–Backed Securities Rating Methodology and Jurisdictional addenda
- Legal Criteria for European Structured Finance Transactions

- Swap Criteria for European Structured Finance Transactions
- Unified Interest Rate Model Methodology for European Securitizations.

Monitoring and Surveillance

The transaction will be monitored DBRS in accordance with its Master European Structured Finance Surveillance Methodology available at www.DBRS.com

The performance of Mespil1 mortgage portfolio since close in December 2010 is given in the chart below:



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Appendix A – Collateral Features

	Mespil1 RMBS Limited
As of Date	31/12/2011
Number of Loans	4,491
Number of Borrowers	4,378
Original Balance	1,046,721,750
Current Balance	981,895,340
Average Original Balance	233,071
Average Current Balance	218,636
Wtd Avg Seasoning (months)	43.3
Wtd Avg Remain Term (months)	326.9
Wtd Avg Coupon	3.99%
Wtd Avg Spread	2.63%
WA Original Loan-To-Value	77%
Current Loan-To-Value	72.79%
Current Loan-To-Value (Ind)	124%
CLTV(ind) >100%	67.8%
Origination Vintage	
2006	9.55%
2007	14.97%
2008	46.24%
Top 5 Geographic Concentration	
Dublin	34.99%
Mid-East	17.02%
South-East	12.13%
South-West	10.04%
Border	9.43%
Loan Purpose	
Purchase	69.12%
Re-Mortgage	30.88%
Employment	
Full-Time	89.22%
Self-Employed	10.78%
Buy-to-Let	8.53%
Arrears %	
1 Month	2.61%
2 Month	0.99%
3 Months	0.81%
> 3Months	2.55%
Expected Loss Levels	
AA	25.63%
A	21.32%
BBB	16.47%

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Note:
All figures are in EUR unless otherwise noted.

This report is based on information as of November 2011, unless otherwise noted. Subsequent information may result in material changes to the rating assigned herein and/or the contents of this report.