

Provisional
LCR ASSESSMENT
LACE FUNDING 2025-1 PLC



PRIME COLLATERALISED SECURITIES (PCS) UK LIMITED

21st January 2025

Analyst: Robert Leach – +44 020 3866 5005

This is a Provisional LCR Assessment.

This LCR Assessment covers the LCR rules and guidelines as at the date of this document.

This Provisional LCR Assessment must be read together with the PCS Procedures Manual. This document is based upon the draft materials received by PCS as at the date of this document. Any references in this document are to the preliminary prospectus unless otherwise stated.

Any references in this LCR Assessment to any EU regulations are meant to refer to such EU regulations as amended and incorporated into United Kingdom law by the Withdrawal Act 2019.

This Provisional LCR Assessment is not the final LCR assessment and it based on the draft documents and information provided to PCS by or on behalf of the originator as of the date of this assessment. It is anticipated at the date of this Provisional LCR Assessment that a Final LCR Assessment will be made available at or around closing of the transaction (i.e. when the contractual amendments are executed and the Supplement is published). However, such Final LCR Assessment will be based upon the final materials received by PCS and will only be made available on a fully ticked basis if no material adverse changes have been made to the transaction or the relevant material which, upon becoming known to PCS, would not adversely change our analysis. Therefore, no guarantees can be provided that such Final LCR Assessment will be made available on a fully ticked basis.

It is important that the reader of this checklist reviews and understands the disclaimer referred to on the following page. Note that all comments on the disclaimer relate to both Provisional LCR Assessments and Final LCR Assessments.

21st January 2025

STS Disclaimer

Neither an STS Verification, nor an LCR Assessment, nor an LCR Assessment is a recommendation to buy, sell or hold securities. None are investment advice whether generally or as defined under Markets in Financial Instruments Directive (2004/39/EC) and none are a credit rating whether generally or as defined under the Credit Rating Agency Regulation (1060/2009/EC) or any post-Brexit successor legislation in the United Kingdom.

PCS EU and PCS UK are authorised respectively by the French Autorité des Marchés Financiers and by the United Kingdom Financial Conduct Authority as third parties verifying STS compliance pursuant respectively to article 28 of Regulation (EU) 2017/2402 (the “**STS Regulation**”) and article 25 of the Securitisation Regulation 2024.

Currently, none of the activities involved in providing an LCR Assessment are endorsed or regulated by any regulatory and/or supervisory authority nor are the PCS Association or PCS EU regulated by any regulator and/or supervisory authority including the Belgian Financial Services and Markets Authority, the United Kingdom Financial Conduct Authority, the French Autorité des Marchés Financiers or the European Securities and Markets Authority.

By assessing the LCR status of any securities or financing, neither the PCS Association nor PCS UK nor PCS EU express any views about the creditworthiness of these securities or financings or their suitability for any existing or potential investor or as to whether there will be a ready, liquid market for these securities or financings.

Equally, by completing (either positively or negatively) any LCR status assessment of certain instruments, no statement of any kind is made as to the value or price of these instruments or the appropriateness of the interest rate they carry (if any).

In the provision of any LCR Assessment, PCS has based its decision on information provided directly and indirectly by the originator or sponsor of the relevant securitisation. Specifically, it has relied on statements made in the relevant prospectus or deal sheet, documentation and/or in certificates provided by, or on behalf of, the originator or sponsor in accordance with PCS’ published procedures for the relevant PCS verification or assessment. You should make yourself familiar with these procedures to understand fully how any PCS service is completed. These can be found at <https://pcsmarket.org/> (the “PCS Website”). Neither the PCS Association nor PCS UK nor PCS EU undertake their own direct verification of the underlying facts stated in the prospectus, deal sheet, documentation or certificates for the relevant instruments and the completion of any LCR Assessment is not a confirmation or implication that the information provided to it by or on behalf of the originator or sponsor is accurate or complete.

The PCS entities take reasonable measures to ensure the quality and accuracy of the information on www.pcsmarket.org. However, neither the PCS Association nor PCS UK nor PCS EU can be held liable in any way for the inaccuracy or incompleteness of any information that is available on or through the PCS Website. In addition, neither the PCS Association nor PCS UK nor PCS EU can in any way be held liable or responsible for the content of any website linked to the PCS Website.

To understand the meaning and limitations of any LCR Assessment you must read the [General Disclaimer](#) that appears on the PCS Website.

When entering any of the “Transaction” sections of the PCS Website, you will be asked to declare that you are allowed to do so under the legislation of your country. The circulation and distribution of information regarding securitisation instruments (including securities) that is available on the PCS Website may be restricted in certain jurisdictions. Persons receiving any information or documents with respect to or in connection with instruments (including securities) available on the PCS Website are required to inform themselves of and to observe all applicable restrictions.

PRIME COLLATERALISED SECURITIES (PCS) LCR Assessment

| | |
|---|-----------------------------------|
| Individual(s) undertaking the assessment | Robert Leach |
| Date of Verification | 21 January 2025 |
| The transaction to be verified (the "Transaction") | LACE FUNDING 2025-1 PLC |
| Issuer | LACE FUNDING 2025-1 PLC |
| Originator | Nottingham Building Society |
| Lead Manager(s) | Lloyds Bank Corporate Markets PLC |
| Transaction Legal Counsel | Clifford Chance |
| Rating Agencies | Fitch, Moody's |
| Stock Exchange | London Stock Exchange |
| Closing Date | [TBD] |

Please note that this Assessment is in respect of a UK transaction notified as STS to the UK Financial Conduct Authority. As such it cannot be treated as STS within the European Union and therefore, notwithstanding this assessment, is not eligible for inclusion into LCR pools or lower capital requirements under the CRR for financial institutions within the European Union. For more details, we invite you to consult your legal advisers.

PCS confirms that all checklist points have been verified as detailed in the associated comment box in the checklist below.

Within the checklist, the relevant legislative text is set out in grey introductory boxes with specific criteria for our verification listed underneath.

| Legislative Text and LCR Criteria (1) | | |
|---------------------------------------|--|--|
| 1a | <p>LCR Criteria</p> <p>1. Exposures in the form of asset-backed securities as referred to in Article 12(1)(a) shall qualify as level 2B securitisations where the following conditions are satisfied:</p> <p>(a) the designation ‘STS’ or ‘simple, transparent and standardised’, or a designation that refers directly or indirectly to those terms, is permitted to be used for the securitisation in accordance with Regulation (EU) 2017/2402 of the European Parliament and of the Council (*) and is being so used;</p> | <p>Meets Criteria? YES</p> |
| | <p>PCS Comments</p> <p><i>PCS is advised that the transaction, LACE FUNDING 2025-1 PLC, is expected to be designated STS.</i></p> | |
| 1b | <p>LCR Criteria</p> <p>1. Exposures in the form of asset-backed securities as referred to in Article 12(1)(a) shall qualify as level 2B securitisations where the following conditions are satisfied:</p> <p>(b) the criteria laid down in paragraph 2 and paragraphs 10 to 13 of this Article are met.</p> | <p>Meets Criteria? YES</p> |
| | <p>PCS Comments</p> <p><i>PCS has ticked the questions above as “yes”. See the disclaimer above for a fuller analysis of the limitations of PCS’s LCR assessment</i></p> | |
| 2a | <p>LCR Criteria</p> <p>2. The securitisation position and the exposures underlying the position shall meet all the following requirements:</p> <p>(a) the position has been assigned a credit assessment of credit quality step 1 by a nominated ECAI in accordance with Article 264 of Regulation (EU) No 575/2013 or the equivalent credit quality step in the event of a short-term credit assessment;</p> | <p>Meets Criteria? YES</p> |
| | <p>PCS Comments</p> <p><i>PCS has received confirmation that the Class A notes are expected to be rated AAA/AAA. This will be further confirmed in the final Prospectus.</i></p> | |

¹ Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (OJ L 347, 28.12.2017, p. 35).

| | | |
|----|--|--|
| 2b | <p>LCR Criteria</p> <p>2. The securitisation position and the exposures underlying the position shall meet all the following requirements:</p> <p>(b) the position is in the most senior tranche or tranches of the securitisation and possesses the highest level of seniority at all times during the ongoing life of the transaction. For these purposes, a tranche shall be deemed to be the most senior where after the delivery of an enforcement notice and where applicable an acceleration notice, the tranche is not subordinated to other tranches of the same securitisation transaction or scheme in respect of receiving principal and interest payments, without taking into account amounts due under interest rate or currency derivative contracts, fees or other similar payments in accordance with Article 242(6) of Regulation (EU) No 575/2013;</p> | <p>Meets Criteria? YES</p> |
| | <p>PCS Comments</p> <p>See Prospectus, <i>CASHFLOWS AND CASH MANAGEMENT</i>.</p> <p>APPLICATION OF REVENUE RECEIPTS, PRINCIPAL RECEIPTS AND OTHER MONIES FOLLOWING THE SERVICE OF AN ENFORCEMENT NOTICE</p> <p><i>The senior tranche of the securitisation is the highest level of seniority under the post-enforcement priority of payments.</i></p> | |
| 3 | <p>LCR Criteria</p> <p>(g) the securitisation position is backed by a pool of underlying exposures and those underlying exposures either all belong to only one of the following subcategories or else they consist of a combination of residential loans referred to in point (i):</p> <p>(i) residential loans secured with a first-ranking mortgage granted to individuals for the acquisition of their main residence, provided that one of the two following conditions is met:</p> <ul style="list-style-type: none"> – the loans in the pool meet on average the loan-to-value requirement laid down in point (i) of Article 129(1)(d) of Regulation (EU) No 575/2013 (); –the loans were originated in the United Kingdom and the law of the United Kingdom provides for a loan-to-income limit on the amount that an obligor may borrow in a residential loan. The loan-to-income limit is calculated on the gross annual income of the obligor, taking into account the tax obligations and other commitments of the obligor and the risk of changes in the interest rates over the term of the loan. For each residential loan in the pool, the percentage of the obligor's gross income that may be spent to service the loan, including interest, principal and fee payments, does not exceed 45 %; <p>(iii) commercial loans, leases and credit facilities to undertakings established in the United Kingdom to finance capital expenditures or business operations other than the acquisition or development of commercial real estate, provided that at least 80 % of the borrowers in the pool in terms of portfolio balance are small and medium- sized enterprises at the time of issuance of the securitisation, and none of the borrowers is an institution as defined in Article 4(1)(3) of Regulation (EU) No 575/2013; ()</p> <p>(iv) auto loans and leases to borrowers or lessees established or resident in the United Kingdom. For these purposes, auto loans and leases shall include loans or leases for the financing of motor vehicles or trailers as defined in points (11) and (12) of Article 3 of Directive 2007/46/EC of the European Parliament and of the Council, tractors as defined in point (8) of Article 3 of Regulation (EU) No 167/2013 of the European Parliament and of the Council (as it had effect immediately before IP completion day), powered two-wheelers or powered</p> | <p>Meets Criteria? YES</p> |

tricycles as defined in points (68) and (69) of Article 3 of Regulation (EU) No 168/2013 of the European Parliament and of the Council (as it had effect immediately before IP completion day) or tracked vehicles as referred to in point (c) of Article 2(2) of Directive 2007/46/EC. () Such loans or leases may include ancillary insurance and service products or additional vehicle parts, and in the case of leases, the residual value of leased vehicles. All loans and leases in the pool shall be secured with a first-ranking charge or security over the vehicle or an appropriate guarantee in favour of the SSPE, such as a retention of title provision;

(v) loans and credit facilities to individuals resident in the United Kingdom for personal, family or household consumption purposes.

PCS Comments

See Prospectus, *THE MORTGAGE PORTFOLIO*.

Representations and Warranties

On the Closing Date, the following asset warranties described below (the "Asset Warranties") will be given to the Issuer by the Seller, in relation to the Mortgage Loans and their Related Security, in each case as of the Closing Date: [...]

(bb) Each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage over the relevant Property, subject only in certain appropriate cases to applications for registrations at the Land Registry which, where required, have been made and are pending and (in relation to such cases) the Seller is not aware of any notice or any other matter that would prevent such registration.

(ss) Each Property was used, or was intended to be used, as or in connection with a residential dwelling by the relevant Borrower at the time of origination of the Mortgage Loan.

See Prospectus, *STATISTICAL INFORMATION ON THE PROVISIONAL MORTGAGE PORTFOLIO*.

Current indexed LTV ratios

The following table shows the range of current indexed LTV ratios, which express the aggregate outstanding current balance of all sub-accounts in a Mortgage Loan (including capitalised interest, capitalised arrears, capitalised high LTV fees, insurance fees, booking fees and valuation fees but excluding accrued interest) as at the Portfolio Reference Date divided by the indexed valuation at the same date (such indexed property valuation being obtained by indexing the actual valuation at origination or, if later, the most recent actual valuation obtained). All indexations are based on the non-seasonally adjusted index from the UK House Price Index.

Weighted average current Indexed LTV 61.42%

See Prospectus, *THE MORTGAGE PORTFOLIO*.

Characteristics of the Mortgage Loans

Each Mortgage Loan in the Mortgage Portfolio was granted to individuals for the acquisition of their main residence.

Origination and Underwriting

| | | |
|---|--|--|
| | <p>Lending criteria</p> <p>(g) Property - use</p> <p>A Mortgage Loan will not be granted in relation to Property which is used for commercial purposes (other than on an informal basis e.g. use of a room as an office). Each loan was granted to be used as the Borrower's main residence as at the date of origination.</p> | |
| 4 | <p>LCR Criteria</p> <p>10. The underlying exposures shall not have been originated by the credit institution holding the securitisation position in its liquidity buffer, its subsidiary, its parent undertaking, a subsidiary of its parent undertaking or any other undertaking closely linked with that credit institution.</p> | <p>Meets Criteria? YES</p> |
| | <p>PCS Comments</p> <p><i>The investor should confirm that it is not a group entity of the Originator to meet this point. We have ticked this point positive but ultimately it is the investors responsibility to confirm.</i></p> | |
| 5 | <p>LCR Criteria</p> <p>11. The issue size of the tranche shall be at least £88 100 million (or the equivalent amount in domestic currency).</p> | <p>Meets Criteria? YES</p> |
| | <p>PCS Comments</p> <p><i>PCS has received confirmation that the Class A notes are expected exceed £100 million. This will be further confirmed in the final Prospectus.</i></p> | |
| 6 | <p>LCR Criteria</p> <p>12. The remaining weighted average life of the tranche shall be 5 years or less, which shall be calculated using the lower of either the transaction's pricing prepayment assumption or a 20 % constant prepayment rate, for which the credit institution shall assume that the call is exercised on the first permitted call date.</p> | <p>Meets Criteria? YES</p> |
| | <p>PCS Comments</p> <p>See Prospectus, <i>WEIGHTED AVERAGE LIFE OF THE NOTES</i>.</p> <p>Weighted average life of the Notes</p> <p>Possible Average Life of Class A Notes (years)</p> <p><i>The Prospectus indicates that the weighted average life of the Class A Notes assuming exercise of the call option on the step-up date ranges from 4.9 years to 1.7 at PPRs of from 0% to 35%.</i></p> | |

| | | |
|---|--|--|
| 7 | <p>LCR Criteria</p> <p>13. The originator of the exposures underlying the securitisation shall be an institution as defined in Article 4(3) of Regulation (EU) No 575/2013 or an undertaking whose principal activity is to pursue one or more of the activities listed in points 2 to 12 and point 15 of Annex I to Directive 2013/36/EU, as that Directive has effect immediately before IP completion day, provided that for the purposes of this paragraph the reference in point 4 of Annex 1 to that Directive to point (3) of Article 4 of Directive (EU) 2015/2366 is to be read as a reference to regulation 2 of the Payment Services Regulations 2017.</p> | <p>Meets Criteria? YES</p> |
| | <p>PCS Comments</p> <p>See Prospectus, <i>NOTTINGHAM BUILDING SOCIETY</i>.</p> <p>General</p> <p>NBS operates in accordance with the Building Societies Act 1986, regulations made thereunder and its rules and memorandum. The principal purpose of NBS as set out in clause 3 of its Memorandum is to make loans that are secured on residential property and are funded substantially by its members. NBS's principal operating objective is to be a high-quality provider and servicer of building society services of retail savings and mortgages.</p> <p>NBS obtains funds through a combination of retail savings and wholesale funds. Retail savings are the cornerstone of NBS's funding requirement, with the remainder acquired via the secured and unsecured wholesale funding markets.</p> <p><i>The originator is an institution as defined in Article 4(3) of Regulation (EU) No 575/2013.</i></p> | |
| 8 | <p>LCR Criteria</p> <p>Article 37 Transitional provision for securitisations backed by residential loans</p> <p>1. By derogation from Article 13, securitisations issued before 1 October 2015, where the underlying exposures are residential loans as referred to in point (g)(i) of Article 13(2), shall qualify as Level 2B assets if they meet all the requirements set out in Article 13 other than the loan-to-value or loan-to-income requirements set out in that point (g)(i) of Article 13(2).</p> <p>2. By derogation from Article 13, securitisations issued after 1 October 2015, where the underlying exposures are residential loans as referred to in point (g)(i) of Article 13(2) that do not meet the average loan-to-value or the loan-to-income requirements set out in that point, shall qualify as Level 2B assets until 1 October 2025, provided that the underlying exposures include residential loans that were not subject to a national law regulating loan-to-income limits at the time they were granted and such residential loans were granted at any time prior to 1 October 2015.</p> | <p>Meets Criteria? YES</p> |
| | <p>PCS Comments</p> <p><i>Points 1 and 2 are not applicable.</i></p> | |