

September 16, 2025

Reg Cap Fundamental Credit Trends

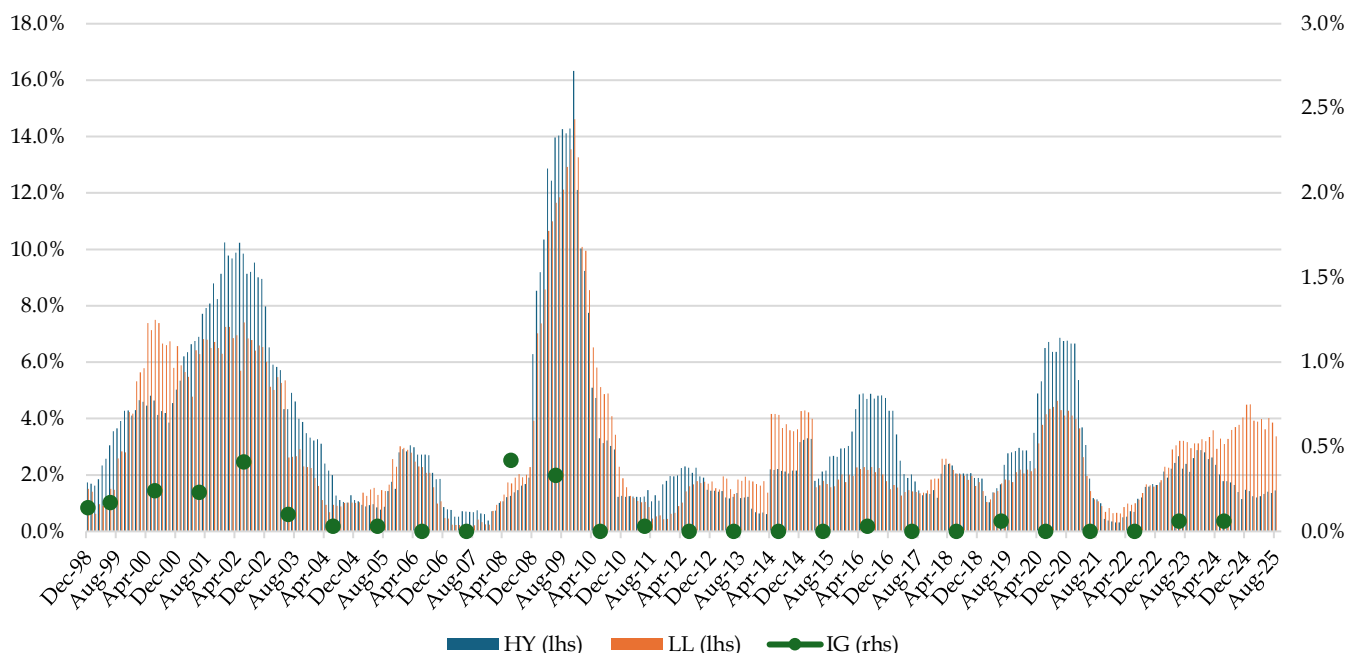
The Reg Cap sector spans a variety of reference assets and, of course, the performance of those assets varies among originators. Assets originated by banks to their clients for the banks' balance sheets have generally outperformed assets in generic credit indices. Further, investors impose selection criteria and originators, when selecting assets for a reference pool, are motivated to help ensure the success of their Reg Cap program on the most attractive terms. That said, we find it useful and important to track broad trends in asset performance in addition to deal-specific surveillance (which is non-public). Across the 40 investments that we own and track, referencing corporate, SME, middle market, consumer, and auto loans in Europe, North America, and Asia, we are seeing continued strong credit performance almost across-the-board, with just a few positions that we are monitoring more carefully due to slightly higher negative credit migration and/or default trends. The indices we look at as broadly representative of some of the most common reference assets include US Corporate Debt, including Investment Grade, High Yield and Leveraged Loans; European Investment Grade Debt and High Yield; and US Prime auto loans. We would expect most reference asset pools to significantly outperform these publicly available benchmarks. The following is a brief update on current credit trends for each.

US High Yield and Leveraged Loans

Most corporate credits in referenced pools are investment grade quality. Defaults of investment grade obligors are rare. While Investment Grade ("IG") defaults have been only a small fraction of the defaults in leveraged credit (i.e. US High Yield "HY" bonds and Leveraged Loans "LL"), there is a strong correlation (~75%). Therefore, it is useful to track the (far more numerous) default activity in HY and LL as a possible bellwether for IG. Current default performance in HY and LL continues to be consistent with very low or no IG defaults.

Default and distressed exchange ("D/E") activity moved higher in August after hitting a 32-month low in July. This month saw \$3.1bn in payment defaults and \$2.2bn in D/E. YTD defaults/D/E's total \$38bn, down from \$52bn and \$63.7bn YTD in 2024 and 2023, respectively. Including D/E, the par-weighted US high-yield bond default rate increased 8bp MOM while loan default rates decreased 48bp MOM, to 1.45% and 3.37%, respectively. That brings HY default rates to a 7-month high, while loan defaults are 115bp below the recent peak in January (which was a 4.5yr high). For context, the 25-year average HY and LL default rates are 3.3% and 3.1%. A recent 2Q25 review of HY issuers shows corporate balance sheets remain strong, albeit with some signs of erosion. Revenue (+2.1%) and EBITDA (+1.1%) are both up YOY but only modestly. Meanwhile gross margins are now at a 4yr low. Leverage is up slightly, to 4.20x, comparable to the historical average of 4.29x. Interest coverage held steady QOQ and at 4.71x, is about 20bp above long-term average. While defaults remain within street expectations, trade tensions and tariff uncertainty in the context of a palpably slowing economy pose downside risks to credit conditions in both HY and LL markets.

Default Rates - US Credit*



Source: Standard & Poor's, JPMorgan Research, as of August 31, 2025.

* HY and LL on a trailing 12-month basis, dollar-weighted. Includes distressed exchanges. IG on an annual basis.

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Reg Cap Recap

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Reg Cap Fundamental Credit Trends (Cont.)

European High Yield

Historically, IG defaults in Europe have also been very low, with no defaults at all in most years. Our European HY default data goes back to 2005. Since 2005, the default rate for IG in Europe has been zero in every year but two; in both 2008 and 2009 the IG default rate was 11bp per annum. Again, as with the US market, with so little default activity in IG, we turn to the European HY market as a bellwether.

As of August 2025, the trailing 12-mo.default rate for European HY is 3.39%, down 11bp MOM, though still about double the historical average of 1.71%. Street consensus calls for European high yield default rates to moderate next year. However, this assumes that the economy can moderate without veering into recession. Fiscal challenges in the UK and France also loom large in the outlook. Meanwhile, encouragingly, the share of distressed Euro HY bonds is quite low and falling. For example, the share of European HY bonds trading at a dollar price under 80 was 4.92% at the end of August, down 35bp MOM and down from ~7% earlier this year. Similarly, the share of European HY bonds trading at a spread over 1000bp (another measure of “distress”) was 3.94% at the end of August, down 43bp MOM and also down from ~7% earlier this year. Lower levels of distress of course augur well for lower defaults going forward. As in the US, default performance in European HY is consistent with very low levels of IG default, if any.

Default Rates - European High Yield

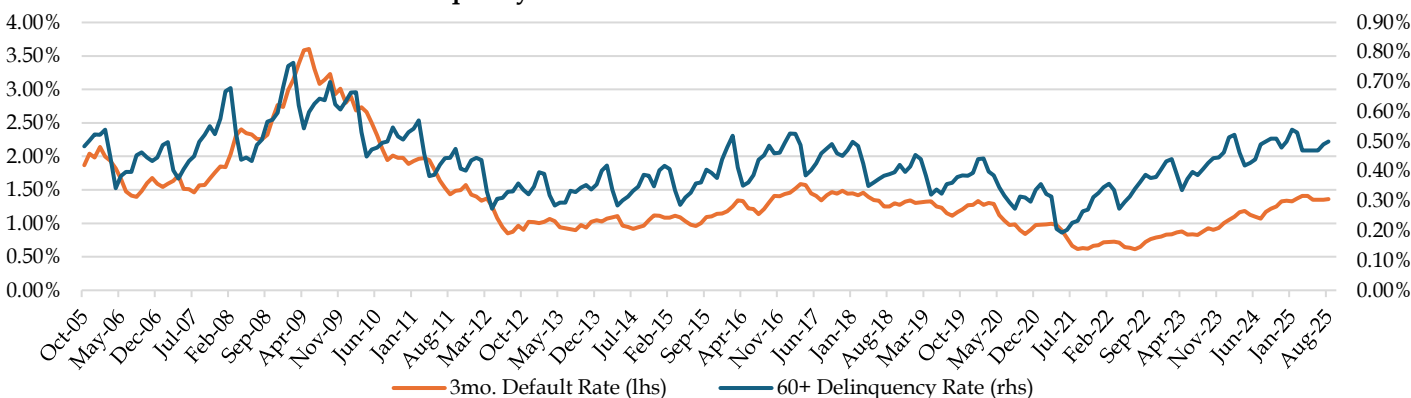


Source: JPMorgan Research, as of August 31, 2025. Trailing 12-month basis, dollar-weighted. Excludes Banks/Insurers.

US Prime Auto Loans

As of the end of August, the 60+ delinquency rate for securitized US prime auto loans is 50bps (up 1bp MOM) and the 3-month default rate is 136bps (also up 1bp MOM). This leaves delinquencies slightly above their long run average (42bps), but with fewer delinquencies rolling into defaults, 3mo CDRs remain are also below their long run average of 143bps. However, these levels are seasonally high and indicate some consumer stress, albeit modest stress relative to subprime auto loans (which, to our knowledge, have not been used as reference assets in Reg Cap transactions). Higher interest rates and elevated vehicle prices are leading to payment pressures. However, the current strength of household balance sheets and still low unemployment should be supportive of continued strong credit for auto loans, especially prime auto loans.

Delinquency and Default Rates - U.S. Prime Auto Loans



Source: Morgan Stanley, as of August 31, 2025

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Reg Cap News

Issuance News:

Macquarie Capital Turns to Alvarez & Marsal for Potential SRT (Bloomberg News, aka "BN," 9/8/25)

Australia's Macquarie Capital is said to be contemplating its first significant risk transfer issuance. The SRT would be linked to a portfolio of corporate loans and could be executed as early as year-end. The SRT deal would bolster Macquarie Capital's leeway for business growth.

Bawag Eyes SRT Deals Tied to €6 Billion of Austrian, Dutch Loans (BN, 9/10/25)

Bawag Group AG is sounding out investors for significant risk transfers (aka "SRT", aka Regulatory Capital or "Reg Cap") linked to about €5.9 billion (\$6.9 billion) of loans, comprised of both Austrian mortgages and Dutch home loans. Bawag's CEO has previously said the lender expects to issue two SRTs by the end of the year. Macquarie Capital, Deutsche Pfandbriefbank and UBS Group are among the lenders discussing or finalizing their own Reg Cap deals as well.

PRICED: US Bank National Association \$625M CLN Issuance (BN, 9/10/25)

US Banks priced a \$625mn SRT linked to a reference portfolio of investment grade rated corporate loans and revolvers. The deal was the second CLN issued under their Superior program, and achieved strong execution via syndication, with the Class R 0-2% tranche pricing at a spread of 650bp, an improvement over the Class R 0-2.5% tranche of their first deal in March, which priced at +750bp. US Bank seems to have established a template for the US market, achieving wide distribution and tight pricing with broadly syndicated CLNs. Capital structure below:

Class	\$AMT (M)	Ratings ¹	C.E ² (%)	WAL ³ (yrs.)	Coupon Type	Offered/ Retained	Pricing Benchmark	Guidance (bp)	Spread (bp)	Yield %	Coupon %	\$ Price
A	4,375	-	12.50	2.23	-	Retained	-	-				
B1	310	AA(low)(sf)	4.90	2.23	FIXED	Offered	I-CRV	+135-140	+135	4.866	4.8175	\$100
B2	70	AA(low)(sf)	4.90	2.23	FLOAT	Offered	SOFR30A	+135-140	+135			\$100
C	55	A(sf)	3.80	2.23	FLOAT	Offered	SOFR30A	+180-190	+190			\$100
D	50	BBB(sf)	2.80	2.23	FLOAT	Offered	SOFR30A	+230-240	+220			\$100
E	40	BB(high)(sf)	2.00	2.23	FLOAT	Offered	SOFR30A	+380-390	+370			\$100
R	100	N/R	0.00	2.23	FLOAT	Offered	SOFR30A	+675-685	+650			\$100

¹ Expected ratings from DBRS

² Credit enhancement percentage

³ Weighted average life, based on 25CPR and assuming exercise of a 10% optional clean up call

Banco BPM Plans SRT Tied to €2.5 Billion of Corporate Loans (BN, 9/15/25)

Italy's Banco BPM plans to issue a significant risk transfer tied to a portfolio of about €2.5bn (\$2.9bn) of corporate loans. This will be the bank's third Reg Cap issuance this year. BPM, which earlier this year was the target of a takeover bid by rival Unicredit, said in its most recent earnings report that its common equity tier 1 ratio is now at 13.3%, above its 13% target.

PRICED: Truist Bank Auto Credit-Linked Notes \$582.5M ABS (BN, 9/12/25)

Truist Financial has priced its inaugural Reg Cap deal, referencing a pool of prime auto loans. The deal was well received, and the offered size was upped from ~\$400mn to nearly \$600mn by the time it was priced. US prime auto CLNs have become frequent, standardized, and well bid by ABS buyers. The deal's capital structure is as follows:

Class	\$AMT (M)	WAL ¹	Ratings ²	Pricing Benchmark	Guidance (bp)	Spread (bp)	Yield %	Coupon %	\$ Price
B	525.0	1.45	A3	I-Curve	+125-135	+117	4.774	4.728	\$100
C	40.0	1.45	B3	I-Curve	+345-355	+330	6.904	6.807	\$100
D	17.5	1.71	NR	I-Curve	+665-675	+630	9.882	9.685	\$100

¹ Weighted average life, based on 25CPR and assuming exercise of a 10% optional clean up call

² Expected ratings from Moody's

Reg Cap News (Cont.)

Reg Cap News:

Regional Bank CRT Forum 2025 (SCI.com, 9/10/25)

We attended this NYC conference which focused on the outlook for Reg Cap issuance from US regional banks. Discussion included a review of the pros and cons for banks contemplating CRT ("credit risk transfer" aka SRT or "significant risk transfer" aka Reg Cap or "regulatory capital relief"), as follows:

Pros:

- Capital relief and balance sheet optimization
- Can provide pricing leverage to facilitate loan growth (however regulators-and investors-frown upon using SRT to be more aggressive on underwriting)
- Hedging credit exposures and concentration risks
- Unlike issuing ABS, the assets do not need to generate excess spread for credit enhancement
- Cheaper alternative to issuing equity

Cons:

- Regulatory uncertainty
 - Involves multiple agencies that are not always on the same page
- Reluctance to be one of the first issuers in peer group
- Costs of entering the CRT market
 - Expensive, but scalable
- Data challenges:
 - Producing loan-level loss and delinquency information required for CRT transactions
 - Evaluating and confirming eligibility criteria for reference assets
- Logistic challenges/limitations
 - Regional banks may have less sophistication in structured finance. Many regional banks lack a capital markets arm

The conference included a panel on credit insurance. Currently, in the US, unlike in Europe, credit insurance cannot be used for regulatory capital relief. Capital relief requires protection in a funded form, i.e. SRT. However, some regional banks have used credit insurance opportunistically to reduce credit risk even without a capital benefit. Credit insurance was tested during the GFC and as a result the product gained acceptance and has grown and innovated. US regulations are not clear on what is required for an "eligible guarantee" for these purposes, but the upcoming re-proposal of Basel 3 may open the door to the use of credit insurance.

Panelists agreed that the bank regulatory paradigm is moving in a more bank-friendly direction. More clarity, less "unfettered discretion," and greater harmony across regulators are expected. Regulators have indicated Basel 3 should be capital-neutral for the banking industry.

One panelist pointed out the growth of private credit and the trend toward investors partnering with banks, rather than competing with them. SRT is an attractive vehicle for private credit to partner with banks, and this, rather than regulatory considerations, will drive market growth in the coming years.

Webinar: Why SRT should still appeal to regional banks (9fin.com, 9/11/25)

This webinar covered many of the same points as the conference earlier in the week. Highlights of the discussion include:

1. It has never been more attractive for a bank to issue Reg Cap. Since the Fed clarified its stance in September 2023, there has been broad adoption. Spreads have halved, documents are more standardized, execution is faster, and the investor base has grown.
2. The relative appeal of SRT can shift with spreads, whole loan execution, the cost of subordinated debt, and other market factors. More banks now have the infrastructure in place, but the first deal still takes 9-12 months and requires significant internal buy-in.
3. SRT was once viewed as a defensive tool for banks under capital pressure. It is now often seen as an offensive instrument that can be used to support growth as efficiently as possible.
4. The best reference assets are granular, homogenous, well understood, and low risk, since these deals are easier to place and achieve better execution. Issuers need at least \$500 million in eligible assets. Unlike outright asset sales, SRTs allow banks to maintain control, keep client relationships, and preserve the ability to pledge loans. SRT is especially useful in a rising rate environment, when (fixed rate) asset sales are likely to be at a loss.

Reg Cap News (Cont.)

- From a bank perspective, the most efficient assets for SRT are those with low losses but high capital charges, such as auto loans. Residential mortgages, by contrast, carry low losses but also low charges and benefit from an active whole loan market, making outright sales easier. The choice of reference assets also depends on the bank's motivation. Panelists suggested that these motivations have evolved over time:

2023: Capital relief

2024: Proof of concept

2025: Capital efficiency, with a focus on ROC and ROE

- Issuers need more regulatory certainty. Because structures with regulatory call options are not permitted, most issuers prefer shorter-duration reference assets to avoid being locked into uneconomic deals should regulations change. Basel III uncertainty was disruptive, but has now largely faded, and regulators are signaling more support for Reg Cap.
- SRTs are fundamentally relationship-driven. Issuers prefer to work with investors who have deep expertise in the asset class and deep knowledge and confidence in the bank operations. Investors prefer reference assets that are part of the bank's core business.

ECB Vows to Cut Approval Times for 'Simple' SRTs to 10 Days (BN, 9/14/25)

The European Central Bank is rolling out a faster approval process for significant risk transfers (SRTs), aiming to cut review times from the current three months down to ten working days. The ECB Supervisory Board said the pilot program for "simple securitizations" ran in early 2025 was a success. The streamlined process should, on the margin, make SRTs even more attractive for banks. Regulators generally support SRTs to shift risk outside the banking sector, though they remain cautious about potential indirect exposures.

Banking Industry News:

Congress Takes Initial Action to Raise FDIC Limits for <\$250bn Banks (rbccm.com, 9/2/25)

Lawmakers are looking at an amendment to the FY2026 defense bill that would boost FDIC insurance on noninterest-bearing transaction accounts to \$20mn, for banks under \$250bn in assets. Details are still scant — for example, whether this mainly targets business accounts, what happens if a bank grows past the \$250 billion mark, and who ultimately pays for the extra insurance. For mid-sized banks, the change could make liquidity management a bit easier. Regulators have hinted that a shift like this could also lead them to rethink how deposits are treated in liquidity stress tests.

About Seer

Seer Capital Management LP is a diversified, credit-focused investment firm founded by Phil Weingord in 2008 that primarily invests in structured credit and loans. We allocate capital opportunistically across all major asset classes within structured credit in the U.S. and Europe, including: bank regulatory capital risk transfer (SRT), residential and commercial mortgages, syndicated and SME loans, and a variety of consumer loans (personal, auto, credit card, student, housing). These investments are executed through active trading in both legacy and new issue securitizations, purchase and securitization of whole loans, and direct lending joint ventures.

Seer Capital believes it is well positioned to capitalize on opportunities in structured credit as a result of our highly experienced senior investment team, which has on average more than two decades of experience working in structured credit.

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