

January 20, 2026

Reg Cap Fundamental Credit Trends

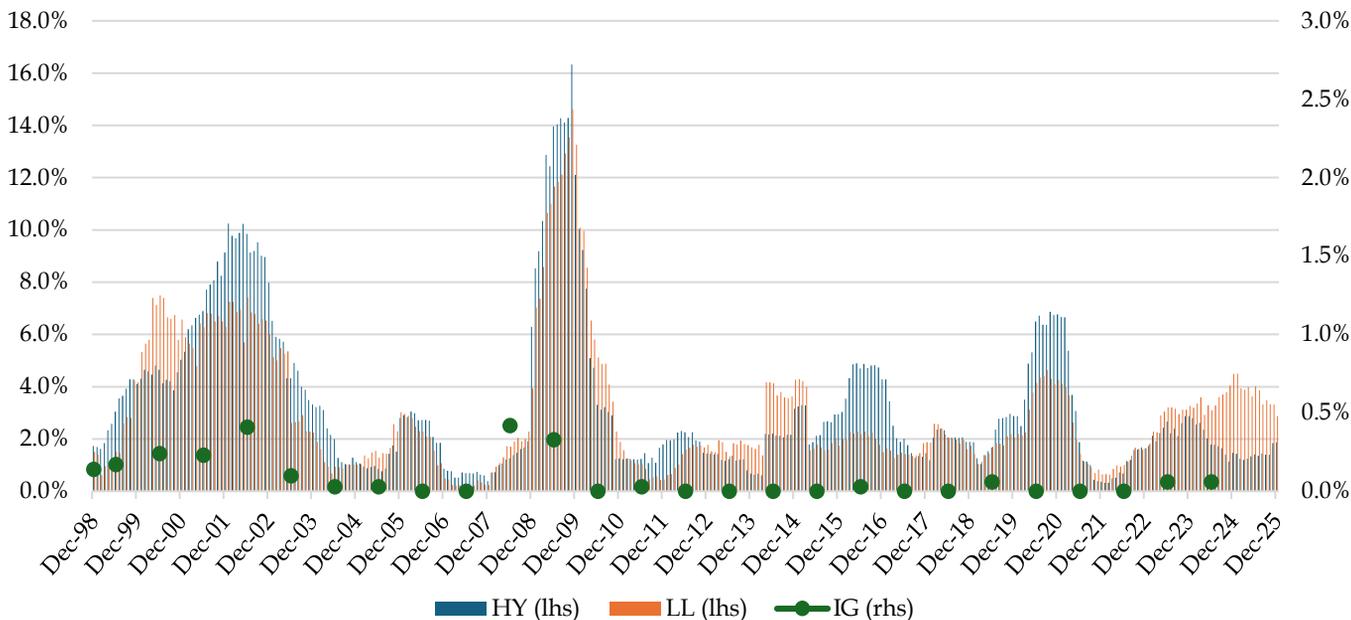
The Reg Cap sector spans a variety of reference assets and, of course, the performance of those assets varies among originators. Assets originated by banks to their clients for the banks' balance sheets have generally outperformed assets in generic credit indices. Further, investors impose selection 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 41 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.

Defaults and distressed exchange activity fell substantially MOM, from a YTD high of \$12.5bn in November down to \$7.3bn in December (for high yield, "HY," bonds and leveraged loans, "LL," combined). For the full year, defaults and distressed exchanges totaled \$67.8bn, 20% below 2024's level of \$83.6. The most impacted sectors were Technology, with nine (15%) defaults/distressed transactions followed by Healthcare (8, 13%) and Retail (7, 12%). Parsing by subsector, the trailing-twelve-month par-weighted US HY and LL default/LME rates increased and decreased 4bp and -45bp MOM to 1.88% and 2.87%, respectively. Both figures are tracking below the 25-year average for default rates: 3.3% in HY and 3.1% in LL. That said, market prices indicate rising concern over credit, particularly in loans. While the volume of HY bonds trading 1000bp+ decreased MOM, to 4.8% of the universe, the distressed universe of leveraged loans is at a 2yr. high. The share of LL trading at or below \$80 increased MOM from 6.8% to 7.1% of outstandings. Time will tell whether this is based on fundamental weakening or merely contagion from a spate of negative headlines.

Default Rates - US Credit*



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

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

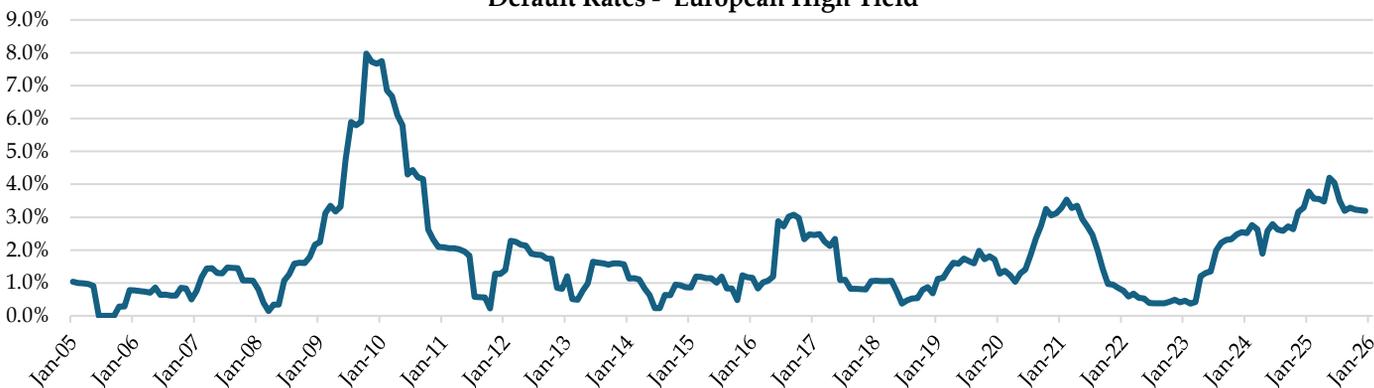
Reg Cap Fundamental Credit Trends (Cont.)

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 HY market as a bellwether.

As of the end of December 2025, the trailing-twelve-month par-weighted default rate for European HY was 3.19%, down 2bp MOM but remaining above the historical average of 1.82%. Meanwhile the share of distressed Euro HY bonds (trading at a dollar price below 80) was down 11bp MOM, to 4.83%. This is also down from a local high of 12% in October 2023. Lower levels of distress generally translates into lower defaults going forward. While geopolitical uncertainty, particularly around tariffs, remains elevated, credit quality metrics such as leverage and interest coverage remain generally constructive and suggest that default activity is likely to remain modest based on what we know today, i.e., in the 3-4% range. 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

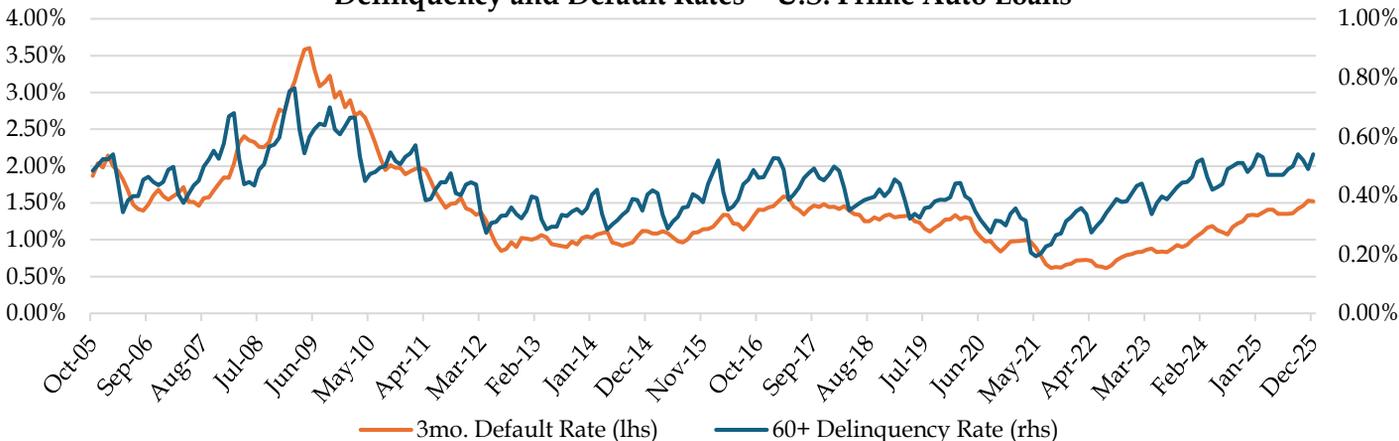


Source: JPMorgan Research, as of December 31, 2025. Trailing 12-month basis, dollar-weighted. Excludes Banks/Insurers.

US Prime Auto Loans

As of the end of December, the 60+ day delinquency rate for securitized U.S. prime auto loans was 54bps (down 5bps MOM), and the three-month default rate was 153bps (down 1bp MOM). These credit metrics are a bit higher than the long run averages, which are ~32bps of delinquency and a 142bp CDR. For context, though, performance remains solid. Across twenty years of data the maximum default rate, recorded in May 2009, was 2.5x today's level. Current credit metrics in prime auto lending remain well within our credit modeling assumptions and stress testing. Credit deterioration is largely confined to the subprime segment, a product that is neither included in our portfolio nor, to our knowledge, commonly referenced in SRTs.

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



Source: Morgan Stanley, as of December 31, 2025

Reg Cap News

New Issue News:

Insurers Buy Erste SRT Deal Linked to €10 Billion Loans for M&A (Bloomberg News, aka “BN,” 01/08/26)

Erste bank sold a large synthetic risk transfer (SRT, aka regulatory capital trade or “Reg Cap”), referencing more than €10bn in loans, to a small group of insurers. The deal stands out as one of the larger SRTs aimed exclusively at insurers. Typically insurers participate in SRTs via guarantees, but this SRT was in a fully funded form. The transaction frees up capital for Erste's planned acquisition of Santander Bank Polska. The referenced loans mainly come from small and mid-sized firms in Austria, though in 2025 Erste issued SRT for assets in Romania, the Czech Republic, Slovakia and Hungary. While the Polska acquisition is expected to reduce Erste's CET1 ratio, the SRT helps offset some of the impact. European policymakers are also evaluating how to make SRT participation more attractive for insurers as part of broader capital markets reforms under contemplation.

Toronto-Dominion Bank Plans SRT Tied to \$5 Billion of Corporate Loans (BN, 01/12/26)

Toronto-Dominion Bank is gauging investor interest in a significant risk transfer linked to a portfolio of about \$5bn of corporate loans, including both investment-grade and high-yield credits. Both Toronto-Dominion and rival Bank of Montreal have been issuing SRTs in part to help to meet new, higher, Basel III criteria.

HSBC Plans Risk Transfer Linked to €2 Billion of Corporate Loans (BN, 01/14/26)

HSBC is exploring investor interest in a significant risk transfer connected to a portfolio of about €2bn (\$2.3bn) of investment-grade corporate loans. The proposed transaction would cover roughly 10% of the underlying loan book. HSBC is finalizing a \$14 billion takeover of Hang Seng Bank Ltd. That purchase would lower their common equity tier 1 ratio, by ~125 basis points; an SRT issue could partially offset that reduction.

BNP Paribas Assists Abu Dhabi Commercial Bank With Potential Risk Transfer (BN, 1/19/26)

BNP Paribas is working with Abu Dhabi Commercial Bank on a significant risk transfer issue, as adoption of SRT “technology” continues to grow beyond Europe and North America. BNP Paribas is one of the largest issuers of SRTs, and recently completed a \$1.25bn transaction backed by revolving credit facilities. Abu Dhabi Commercial Bank faces a 50bp increase in capital requirements this year. SRT is also building interest in other regions, with Sumitomo Mitsui completing its first \$3.2bn SRT last year. Singapore's DBS is also reported to be considering an SRT issuance.

Reg Cap News:

Rated Securitizations: Using SRTs to Optimise Financial Balance Sheet (Fitch Ratings, 1/06/26)

This report discusses the basics of SRTs and their use by banks. Fitch points out that SRTs have become increasingly popular as balance sheet optimisation tools, driven by Basel capital rules, pressure on return on equity, and demand from investors. SRTs help banks support new lending, release capital for M&A, and manage concentrations. Investors benefit from a spread pickup, diversification into bank-originated credit, and the ability to tailor duration and exposure profiles.

Fitch also discusses the use of ratings, of course. The report argues that externally-rated SRT tranches can help improve capital relief for banks, reduce “information asymmetry” for investors, and improve marketability of SRTs. Fitch also notes that the success of an SRT depends on robust data, credit modelling, ongoing surveillance, all core elements of the rating process. Currently, SRT transactions are typically private, mostly unrated instruments. There is no data on the share of SRT deals that have been rated.

The report notes that SRT securitisations are now a mainstream tool for enhancing capital efficiency in a tightly regulated banking system. Looking ahead, Fitch highlights multiple drivers for continued SRT growth, including Basel III implementation, rising investor appetite for private credit exposure, and growing insurer involvement.

Some US issuers have achieved very efficient pricing for rated SRT transactions referencing IG corporate loans and prime auto loans. These relatively low risk and well understood asset classes can be tranching into discrete thin tranches with different ratings, and placed among ABS investors at relatively tight spreads. Meanwhile, European banks often reference off-the-run assets such as SME loans in SRT transactions, and such assets can be more difficult for rating agencies to evaluate. Also, the market for rated tranches of ABS transactions is less deep in Europe than in the US. Adoption of rated SRT transactions, especially among European banks, remains to be seen.

PRA SRT Rules Impact on Standardised Portfolios (LinkedIn/Alec Innes, 1/8/26)

This KPMG report analyzes recent Prudential Regulation Authority (“PRA,” the UK's bank regulator) proposals for SRTs, with a focus on proposals that impact so-called standardized banks. These (smaller) banks assign risk weights to their assets based on predefined percentages provided by the PRA, rather than modeling the probability of default themselves. Under the current

Reg Cap News (Cont.)

approach, SRT is costly and "economically unviable" for standardized banks. The proposed reforms would make SRTs a more attractive option as it would allow these smaller banks to issue thinner junior tranches and still get capital relief. The report estimates that the cost of doing an SRT would be as much as 20-35% less than it is currently. The changes would be most significant for assets that currently have the high standardized risk weights, e.g. SME, corporate loans, consumer loans, and infrastructure lending (but not mortgages, which have a low standardized risk weight). The PRA's proposals would also create a simpler regime for smaller banks, with lower reporting requirements and reduced operational burdens.

European Banks' €10 Billion SRT Capital Relief Expected to Grow (Bloomberg Intelligence, 1/12/26)

Bloomberg Intelligence estimates that European banks are expected to unlock nearly €10bn in capital relief through significant risk transfers (SRTs) done in 2025. This estimate is based on an assumption that roughly 1% of their €8 trillion-plus RWAs are packaged into SRTs and net capital relief runs just above 10%.

The market has been scaling rapidly, with cumulative synthetically securitized assets projected to surpass €1.9 trillion by 2026 after reaching more than €1.3 trillion in 2024. YOY growth was strong in 2024, the most recent data available, at 16%. Growth was driven largely by EU banks, where issuance rose 37% YOY. Bloomberg Intelligence foresees sustained momentum in the use of SRTs as part of banks' efforts to balance lending growth, capital requirements, and profitability targets. RWA expansion is also expected to accelerate amid more normalized interest rates, increasing the potential for further SRT issuance. Moreover, once banks have invested in required infrastructure—risk management, IT, accounting and legal—they have incentives to remain active in the SRT market.

The article also notes that SRT transaction pricing is opaque and rarely disclosed, though recent deals range from roughly 675 bps over Euribor at Santander to about 900 bps at BNP.

Singapore Banks: SRT Use Selective, Not a Big-Bang Capital Tool (Bloomberg Intelligence, 01/15/26)

Bloomberg Intelligence argues that Singaporean banks are likely to use SRT only selectively for capital optimization, given their low risk-weighted assets density and ample capital levels. As of 3Q25, their average fully phased-in CET1 ratio is 15%, well above regulatory minimums, and asset quality remains strong. Singaporean banks also have other levers—such as subordinated debt issuance—to manage capital structures. While Singapore's DBS is a better candidate for SRT usage due to its larger and more diversified corporate book, aggressive adoption across the country is viewed as unlikely.

SRT development is expected to be gradual and uneven across Asia as Basel III securitization frameworks continue to roll out. Recent activity includes Sumitomo Mitsui's first Asia Pacific SRT, referencing a US\$3.2bn project finance portfolio. The article also notes that "Asian regulators have built credibility for supervisory rigor over the years, which increases investor confidence in the region."

SRT Boom Offers Costly Lifeline to Banks Shedding Risky CRE Debt (BN, 1/19/26)

Historically, most SRTs are backed by reference assets that are part of the banks' ongoing business, which keeps the bank incentivized to support good performance. A recent transaction, Deutsche Pfandbriefbank's ("PBB") SRT tied to about \$2bn of US office loans, many already underperforming, was a notable exception and not one that fits our investing strategy. PBB is winding down its US business, and the SRT is part of that exit. The pool was also very small, at 30 loans, which precludes the type of actuarial analysis we prefer to use as part of our underwriting. While CRE is not a new reference asset, and both NatWest and Aareal Bank have executed CRE-linked SRTs, such structures are not commonly used to facilitate business exits. The PBB deal, however, offered above market pricing and was well received; 2/3rds of invited parties submitted offers on the deal. Reportedly the deal priced at a spread of 15%, well above market spreads, which are generally 10% and under today.

There may be more to come, as European supervisors view troubled commercial real estate as a pressure point, with estimated €200bn of "stage 2" exposures across major banks, meaning the credit risk of the loan is higher than it was at origination.

Banking Industry News:

Hottest Credit Markets Since '07 Spur Warnings on Complacency (BN, 1/16/26)

Global credit markets are trading at their tightest of almost twenty years, with corporate credit spreads now just over 100bps — their tightest point since 2007 (per a Bloomberg index of bonds across currencies and ratings). In high-yield markets, spreads have also compressed to levels not seen in nearly two decades. Money managers don't want to miss out on the rally, yet they are being pushed to accept thinner compensation for a growing list of risks, including unpredictable policy, geopolitical tensions, and the risk

Reg Cap News (Cont.)

of “cockroaches.” Barclays’ proprietary complacency signal, which aggregates indicators such as spreads, volatility, positioning, and investor behavior recently hit 93%, its highest reading since December 2024, suggesting investors are becoming less fearful about credit.

Another gauge of conditions, the new issue concession, has fallen to about 1.3bps vs. 3bps last year, showing that issuers can now place new bonds at yields barely above their existing debt. New offerings are still attracting more than four times the demand relative to supply, up from 3.8x last year. While managers acknowledge that corporate fundamentals are robust, many warn that there is “not much margin for error.”

Expectations of rate cuts and improving global growth forecasts (the World Bank recently raised its 2026 outlook from 2.4% to 2.6% also add fuel to the rally. Despite the supply surge, investors remain flush with cash. As one investor noted, “We are cautious. But in the end, we need to make returns and we like carry.”

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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