

March 17, 2026

Reg Cap Fundamental Credit Trends

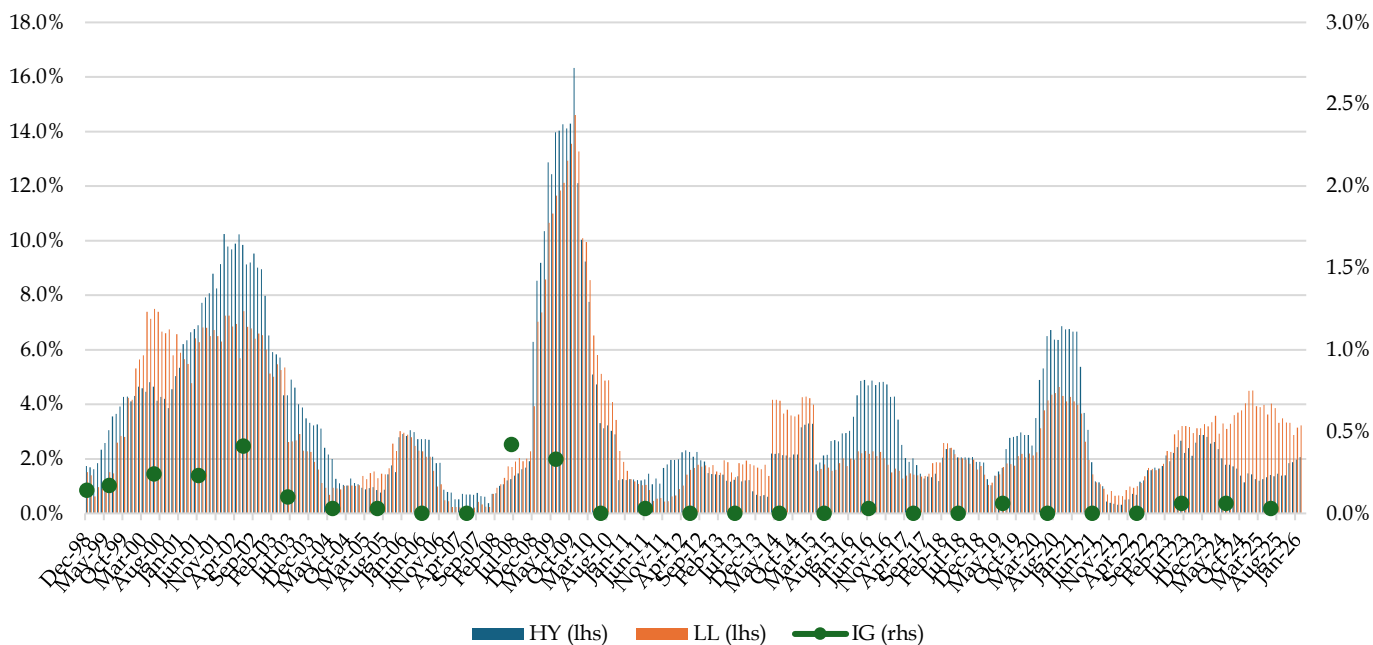
The Reg Cap sector spans a variety of reference assets and, of course, the performance of those assets varies among originators. Assets originated by banks to their clients for the banks' balance sheets have generally outperformed assets in generic credit indices. Further, investors impose selection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

Default activity in February was at a 7-month low. There were three payment defaults this month and two distressed exchanges, totaling \$5.0bn, vs. an average of just under \$6bn a month in 2025. The trailing 12-month default rate rose, MOM, as the oldest month dropped out of the metric. Both the US HY bond and LL default rates (par weighted) rose +9bp MOM, 2.06% and 3.23%, respectively. The HY default rate is at a 22-month high, as it reverts toward its historical mean, 3.2%. The LL default rate is also mean-reverting, by dropping 129bp off the recent high. LL defaults remain modestly above their 25-year historical average of 2.9%. Based on current conditions, most credit analysts have been forecasting modest improvements in default rates in 2026. The Technology sector has been an area of concern due to the uncertainties of AI disruption. However, looking at LTM default activity in Technology, the sector's combined HY and LL default rate is only 4.0%, which compares quite favorably to 10.5%, 10.2% and 5.8% for Paper/Packaging, Retail, and Chemicals, respectively. Recent market volatility has increased the share of loans trading at distressed levels, i.e., for bonds, a spread of 1,000bp or more and for loans, a dollar price below 80. In February, the share of distressed HY bonds rose 90bp MOM to 5.70% of the universe and the distressed share of the LL market rose 156bp MOM to 8.79%. While underlying borrower metrics have been stable, recent events in private credit have led to a repricing of risk. The current oil shock will only exacerbate the downturn in investor sentiment. It remains to be seen if the spikes in oil will be temporary or not, and hence whether the crisis threatens the global economy.

Default Rates - US Credit*



Source: Standard & Poor's, JPMorgan Research, as of February 28, 2026.

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

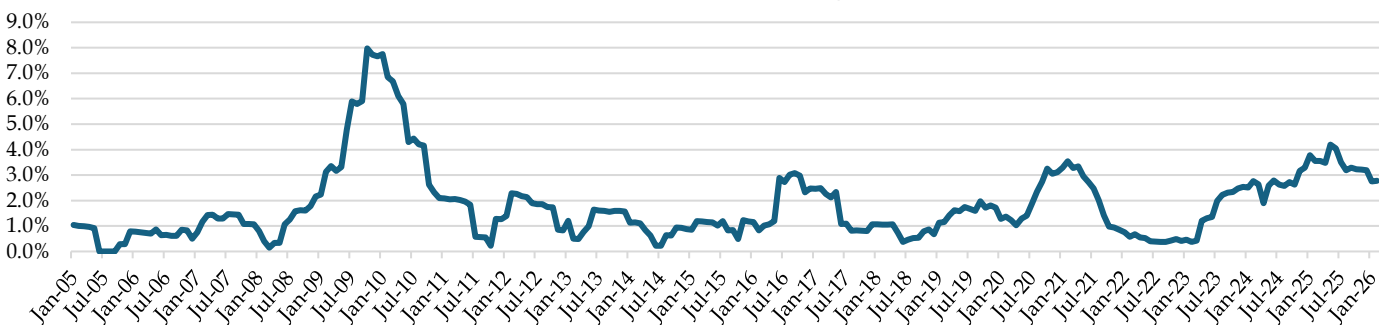
Reg Cap Fundamental Credit Trends (Cont.)

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.

There were no defaults in the European HY market this month. As of the end of February, the trailing twelve-month, par-weighted default rate for European high yield (HY) rose 3bp MOM to 2.78%, after hitting a 15-month low in January, as older months' data dropped out of the metric. The long-run historical average default rate for European high yield is 1.82%. The default rate is expected to remain above average this year, with several ongoing restructurings factoring into forecasts of rising defaults over 2026. Meanwhile, the share of distressed euro-denominated HY bonds (defined as trading below 80 cents on the dollar) also rose this month, by 70bp MOM to end February at 5.4%. Analysts argue that distress has remained in a narrow range over the past year, and remains significantly below its local peak of 12% in October 2023. Looking forward, most lower-rated debt in cyclical sectors, which is likely to be the most vulnerable to the oil shock, represents a relatively small share of the European high yield index, limiting near-term default risk. As in the US, default performance in European HY remains consistent with very low – if any – investment grade (IG) defaults.

Default Rates - European High Yield

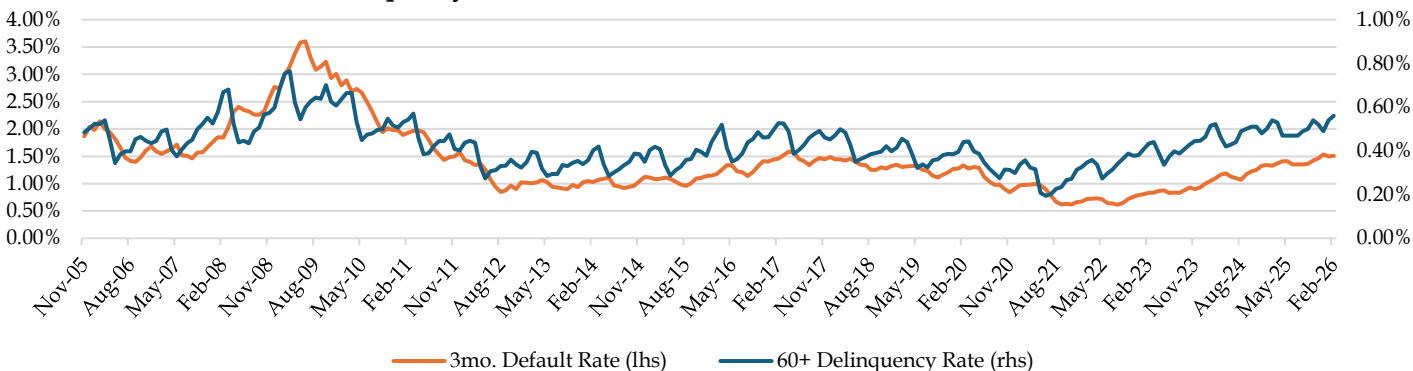


Source: JPMorgan Research, as of February 28, 2026. Trailing 12-month basis, dollar-weighted. Excludes Banks/Insurers.

US Prime Auto Loans

Little changed in February, as the 60+ day delinquency rate for securitized U.S. prime auto loans was 57bps (up 1bp MOM), and the three-month default rate was 150bps (down 1bp MOM). Consumer delinquencies tend to peak in January, and then fall consistently through May as borrowers receive tax refunds. In that context, February performance disappointed; historically, the prime auto delinquency rate fell 40bp MOM on average in the month of February, while this February it was essentially unchanged MOM. However, higher delinquencies are not translating into higher losses. For example, on a z-score basis, while prime auto delinquencies are 1.4 standard deviations above the historical mean, defaults are only 0.14 standard deviations from the historical mean. Though auto loan delinquencies remain elevated vs. the long run averages, defaults are below average (e.g. ~32bps of delinquency and a 142bp CDR). So while there is clearly pressure on consumers, causing higher delinquencies on the margin, in the main the consumer is well-positioned, with strong balance sheets and low unemployment. The lower transition into defaults also suggests that auto lenders have become more effective at preventing default through modifications and extensions.

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



Source: Morgan Stanley, as of February 28, 2026

Reg Cap News

New Issue News:

PRICED: US Bank National Association RV/Marine CLN ABS (BN, 3/11/26)

US Bank, a leader in domestic SRT issuance, came out with another strong print on their inaugural \$5 bn RV/Marine SRT transaction. The unrated second loss tranche, attaching at 1.25% and 0.5% thick, priced at the tight end of talk, a spread of 675bps. over the fixed rate benchmark, even in the midst of market uncertainty around the war. This is in contrast to Huntington Bank, which priced the second loss tranche of their auto SRT a week earlier at a spread of 865bps. The full capital structure of US Bank's deal is shown below.

US Bank National Association RV/Marine SRT								
Class	Size (\$MM)	Rating (Fitch)	Subordination	Coupon Type	WAL yrs. (to call)	Offered or retained	Pricing Benchmark	Guidance/ Launch (bps)
A	\$4375.0	-	12.50%	-	-	Retained	-	-
B1	370.0	A	4.80%	Fixed	3.15	Offered	I-CRV	- / +135
B2	15.0	A	4.80%	Floating	3.15	Offered	SOFR30A	- / +135
C	72.5	BBB	3.35%	Fixed	3.15	Offered	I-CRV	+200/200
D	55.0	BB	2.25%	Fixed	3.15	Offered	I-CRV	+310-325/350
E	25.0	B	1.75%	Fixed	3.15	Offered	I-CRV	+410-425/435
F	25.0	NR	1.25%	Fixed	3.15	Offered	I-CRV	+675-700/675
R	62.5	-	0%	-	-	Retained	-	-

Belgium's Belfius 'Investigating' Potential SRT Issue, CFO Says (Bloomberg News, aka "BN," 3/13/26)

Belgian state-owned bank Belfius is considering a Regulatory Capital aka "Reg Cap" aka SRT (significant risk transfer) issuance, though perhaps not this calendar year. Their CFO notes that they are considering SRT "in the context of potential inorganic growth opportunities." The bank is also working on the sale of a ~20% stake, as requested by the federal government.

BNP Paribas Tests Appetite for SRT as War Reprices Credit Risk (BN, 3/13/26)

BNP Paribas is holding discussions with investors about a potential significant risk transfer tied to ~€2.5 bn of corporate loans. Meanwhile fears of a global stagflationary shock have taken the iTraxx Crossover index of junk-rated credit default swaps (a gauge of investors' risk aversion), to a nine-month high, and Euribor, the most common benchmark for floating-rate SRTs, near a one-year high. BNP Paribas has also discussed SRTs tied to leveraged buyout debt, and so-called "Lombard Loans" (a type of HNW financing backed by liquid assets such as equities or bonds). Paribas completed an SRT tied to \$1.25bn worth of revolving credit facilities for US business development companies this past December. Meanwhile other European banks including Deutsche Bank and ING have said they plan to expand their use of SRTs, while Banco Santander and UniCredit are among the lenders discussing potential deals.

Reg Cap News:

Global Association of Risk Professionals (GARP) 2026 Financial Risk Symposium (GARP, 3/5/26)

Seer was pleased to participate in a panel on Significant Risk Transfer (SRT) and the Private Credit Market. The panel was notable in featuring a rare appearance by a Fed official, Jeremy Brizzi, Principal Capital Markets Specialist at the Philadelphia Fed; as well as an IMF Official, Caio Ferreira, Deputy Division Chief, Monetary and Capital Markets Department. Cadwalader Partner Jed Miller moderated. Seer traced the increasing adoption of SRT, particularly in Europe, to the point where it has become an essential capital and risk management tool for banks. Brizzi highlighted the complexity of the SRT product, and the work done by US bank examiners to understand and become comfortable with it. He and Ferreira agreed that regulators need to identify and understand any risks being assumed by SRT issuers, such as counterparty risk. Brizzi and Miller described the Fed's review process, which is aimed at 1) confirming that the transaction meets the capital rules, and 2) verifying that the bank's risk management process is adequate to handle the transaction. Brizzi and Ferreira noted that banks can use SRT to manage risk and redeploy capital and should not rely excessively on SRT. Brizzi and Ferreira also touched on leverage in the SRT market, highlighting the broader issue of interconnectedness between banks and large nonbank players who may invest in SRT alongside other types of lending products to which banks are not otherwise directly exposed.

Reg Cap News (Cont.)

SRT Sales Hit Record Pace as Banks Expand Use to Hedge Risks (BN, 3/5/26)

Banks ramped up issuance of SRT deals as they used the structures to hedge a broader set of loans and manage regulatory capital more efficiently. For the full year 2025, issuance reportedly reached \$41bn up 41% from 2024 and setting a volume record for the fifth consecutive year. The total size of loan portfolios being protected through SRTs rose to ~\$500 bn in 2025, from up to \$350bn a year earlier. Moreover, the ranks of institutions using Reg Cap continues to expand, and major issuers including Deutsche Bank, ING, and NatWest have signaled plans to expand their issuance program. Banks looking at a foray into the market include Sweden's SEB, Singapore's DBS, and several lenders in Saudi Arabia.

The market is also diversifying beyond traditional corporate loan portfolios. While large corporate loans still make up about half of SRT collateral, banks are increasingly referencing high-yield and leveraged loans, fund finance, and more. Recent examples include BNP Paribas exploring SRTs tied to business development company loans and leveraged buyout financing, and Morgan Stanley considering deals backed by subscription credit lines for private equity funds. European and UK lenders continue to dominate the market with more than 70% of issuance, but activity is gradually spreading globally as banks in Asia, the Middle East, and Africa explore the use of SRT. Despite concerns about the Middle East conflict the Reg Cap market has remained resilient, much like it did at the outset of Russia-Ukraine war. Market participants report that transactions currently in pricing or execution continue to move forward without disruption.

SRT Sales Cost Likely to Rise as War Fuels Economic Concerns (Bloomberg News, 3/9/26)

Banks are expected to face higher costs when issuing SRTs as investors demand greater compensation amid rising economic uncertainty. According to a recent *Bloomberg Intelligence* survey, European banks anticipate issuance costs rising to about 14% of the capital relief benefit by 2027, up from 11% in 2025, while US banks may see costs increase from roughly 6% to around 9%. Growing geopolitical tensions have pushed up global risk premiums. While direct exposure of reference portfolios to the war region is limited, knock-on effects could influence pricing and the pace of new deals. Despite these risks, the market is still expected to expand rapidly. Survey respondents indicated that Reg Cap issuance could grow at about a 30% annual pace through 2027, while investors plan to increase allocations by more than 20% per year.

We agree that geopolitical turmoil and the rise in global risk premia is bound to feed through to the SRT market, even if the effect has been limited so far. US Bank (see above) is one of a handful of banks that has seen strong bids on SRT deals since the beginning of the conflict in Iran. SRT has also been largely insulated from concerns around private credit. Private credit has seen negative headlines due to a variety of concerns, including (i) concentrated exposure to software companies thought to be at risk of significant disruption from AI, (ii) illiquidity and opaque valuations, with some assets marked down rapidly from near par to 0, and (iii) some funds not meeting all redemption requests. In our view, SRT, while considered by many allocators as a subset of private credit, is a fundamentally different product, providing investors with exposure to banks' core lending. We go into more detail here: <https://seercap.com/wp-content/uploads/2026/02/If-you-Cant-Beat-Em-Join-Em.pdf>

Ultimately, if concerns around private credit persist, they are bound to impact the amount of capital available for SRT. Similarly, if the Middle East conflict continues to disrupt markets, investors will demand higher risk premia for SRT in sympathy with other risk assets. In our view, these scenarios would make SRTs even more attractive, as we believe that properly conceived and structured SRT transactions are likely to suffer less from fundamental credit deterioration than most other assets.

Synthetic SRTs: From Capital Relief to Key Risks (Morningstar DBRS Securitisation Insights Podcast, 3/9/26)

This podcast from rating agency Morningstar DBRS explains how SRT have become an increasingly important tool for European banks. The speakers note that SRTs have become popular because they provide bank issuers with capital efficiency without requiring banks to sell the underlying assets. At the same time, institutional investors, including insurers, hedge funds, and private credit funds, find Reg Cap to be an attractive risk/return proposition. As a result, SRTs are evolving from a niche structured-finance product into a more mainstream financing and risk-management tool.

However, the podcast also highlights that deal structures can be complex and highly customized. Investors and rating agencies must carefully evaluate factors such as portfolio quality, structural protections, counterparty exposure, and alignment of incentives between banks and investors. While more granular portfolios reduce idiosyncratic risk that can plague "lumpier" portfolios, it may also introduce model risk. There is also a broader concern about transparency and the implications of a buildup of risk outside traditional bank balance sheets.

The conversation also touches on regulatory oversight and the market's future trajectory. Regulators in Europe are paying closer attention to SRT transactions to ensure that banks truly transfer risk and do not simply optimize capital through "cosmetic transactions." Going forward, the panel expects the SRT market to keep expanding, with more sophisticated deal structures, but also with greater scrutiny and evolving regulatory guidance.

Reg Cap News (Cont.)

BI Survey: SRT Pipelines Strong but Risks Lurk – Banks’ €20 Billion-Plus SRT Capital Boost Set for Long-Term Lift (Bloomberg Intelligence, 3/12/26)

Among the 36 lenders surveyed, more than 30% annual growth in SRT issuance is expected this year. Banks are now using Reg Cap as a core component of balance sheet management rather than a niche funding tool. Many lenders view SRTs as essential for maintaining capital efficiency: nearly half of surveyed banks believe the tool will be critical for capital optimization within five years, while another 30% see it as an important but not indispensable strategy. Survey results suggest SRTs generate 15–18bps of CET1 capital annually, and even more for European banks. Applied to the risk-weighted assets of major European lenders, this translates to €14–€17 bn in capital benefits, which the author extrapolates to \$20bn in benefits globally.

Rising interest rates, macro uncertainty, and thicker risk-transfer tranches may push costs higher. At the same time, new asset classes are emerging. Banks continue to favor bilateral or club deal structures, which allow more customized terms and faster execution while maintaining the market’s traditionally opaque nature.

SRT Weekly Wrap: Core Bank Underwriting Outperforms Direct Lending Credit Box, Says Seer Capital (Octus, 3/13/26)

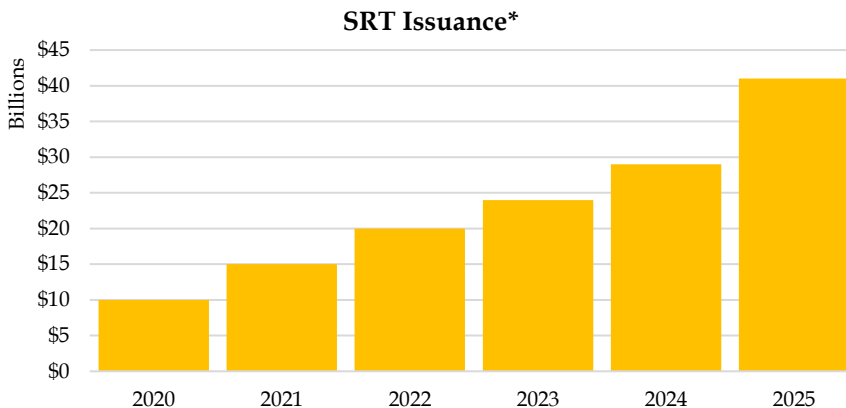
The SRT market has demonstrated resilience in the first quarter of 2026, remaining largely insulated from broader geopolitical volatility and headlines surrounding private credit “cockroaches.” The author quotes Seer’s Reg Cap PM, Terry Lanson, who notes that SRT spreads have held firm even as global tensions escalate. Lanson adds that this is not a guarantee and adds that “Eventually it has to move at least somewhat in sympathy with other assets,” if not necessarily in lockstep.

One key theme emerging from the quarter is the strategic bifurcation between bank-aligned SRTs and the expanding direct lending space. As the author notes, “...Lanson defines the core of the SRT asset class as transactions referencing a bank’s long-standing, ‘core’ lending portfolios within its primary jurisdiction, hypothesizing that a portfolio of small- and medium-sized enterprise (SME) loans originated by a bank to clients it has known for a long period will outperform newer, more aggressive credit structures.” This alignment is, in Seer’s view, what separates high-quality risk transfer from the broader private credit market.

Lanson also cautioned against the “originate to distribute” business model. He argues that the most robust SRTs are those where the bank originates the loan because it genuinely wants the asset on its balance sheet, using the Reg cap solely as a capital management tool ... rather than a mechanism to fuel the expansion of the “credit box” for assets that might not otherwise meet banking standards.

Stress Test on SRTs Could Help Shed Light on Risks, BIS Says (BN, 3/16/26)

Regulators should consider Reg Cap/SRT transactions into system-wide stress tests to better understand the risks they may pose to the broader financial system, according to a report from the Bank for International Settlements (BIS). This could help identify possible spillover effects “under severe but plausible scenarios,” the report’s authors said. The report also notes that SRTs currently account for only about 2% or less of total bank lending in major markets such as the EU, US, UK, and Canada, though their use has expanded roughly fivefold since 2016. The report estimated that eight new banks have entered the market annually since 2016, bringing the total number of SRT issuers above 100. Reg Cap transactions have provided estimated capital relief of ~43 bps. of Common Equity Tier 1 on average, in the context of average CET1 levels between 14-16%.



* Bloomberg “Stress Test on SRTs Could Help Shed Light on Risks” 3/16/2026

The BIS warns that limited transparency and data gaps around investor leverage, funding structures, and cross-border exposures could allow vulnerabilities to build unnoticed as the market expands. Some investors use leverage or complex financing vehicles to boost returns,

Reg Cap News (Cont.)

which could amplify contagion risks if stress spreads through the financial system. Banks have already used SRTs to hedge portfolios totaling, by their estimate, nearly €800 billion in loans, generating meaningful capital relief, and the number of issuing banks has steadily increased. While the small scale of the SRT market means that risks remain modest for now, the BIS argues that closer monitoring, better information sharing across regulators, and more consistent global securitization frameworks will be important as the market continues to grow.

On one hand, regulators are watchful to make sure that banks' regulatory capital trades do, in fact, transfer risk. At the same time, as expressed in the report, regulators express concern that "SRT issuance has facilitated the redistribution of risk from banks to non-bank financial institutions," which are lightly regulated, "...thereby deepening the linkages between the two sectors." While regulators tend to prefer that banks shore up their capital the old-fashioned way, through issuing equity, the banks themselves have to manage capital as efficiently as possible. For many that means having the ability to use SRT technology, sparingly and when it makes economic sense.

Banking Industry News:

Regulators Plan to Relax Some Capital Proposals for Wall Street (BN, 3/11/26)

The Federal Reserve, FDIC, and Office of the Comptroller of the Currency are expected to unveil new proposals for bank capital rules that include a revised version of the Basel III framework, a change allowing midsize banks to use simpler standardized methods to calculate capital, and an update to the G-SIB surcharge so it adjusts with changes in nominal GDP. The revised Basel III proposal is expected to result in moderate capital increases—roughly 3% to 7% for some large banks. However, when combined with other planned changes, such as adjustments to stress tests and leverage ratio, the net effect could be lower overall capital requirements for certain banks. Regulators say the goal is to maintain financial stability while avoiding overly burdensome rules that could restrict credit availability.

Regulators, have argued that the updated approach could also help revitalize mortgage lending by aligning capital rules more closely with actual risk, potentially shifting some activity back from nonbank lenders to traditional banks and giving them more flexibility to compete with the growing private credit sector.

FRB Governor Bowman previews the Basel Endgame proposal (TD Regulatory Update, 3/12/26)

Fed to Unveil Bank Capital Plan in Coming Week, Bowman Says (BN, 3/12/26)

Federal Reserve Vice Chair for Supervision Bowman previewed the upcoming Basel III "Endgame" proposal, which regulators expect to release this week with a 90-day public comment period. The proposal aims to simplify and recalibrate bank capital rules by eliminating overlapping requirements, better aligning capital levels with actual risk, and addressing gaps in the current regulatory framework. One of the most notable changes would be moving to a single standardized approach for calculating capital requirements, replacing the current "dual stack" system where large banks must calculate capital under two methodologies, and then use the more conservative result.

The revised framework would adjust capital requirements across several risk categories, including credit risk, operational risk, market risk, and counterparty risk. For example, mortgage capital requirements would become more risk-sensitive by factoring in loan-to-value ratios, while retail lending could incorporate a borrower's repayment history. Regulators also plan to refine operational and market risk rules to better reflect the lower risk of some activities and reduce the burden on banks with simpler trading operations. At the same time, adjustments to stress testing models are expected to offset some increases in these areas, leaving the overall impact relatively neutral for many banks.

These regulatory changes could impact the capital relief benefits banks obtain from Reg Cap trades on the margin, potentially affecting how institutions structure and use the product going forward.

Why Bank Stocks Are Getting Beaten Up Over Private Credit -- Heard on the Street (WSJ, 3/13/26)

While the emergence of the private credit sector was an outgrowth of banks' exit from riskier lending post-GFC, the banks remain involved indirectly. Private-credit funds rely on bank borrowing to operate. In strong markets, such borrowing boosts returns. In downturns, funds often borrow to raise cash for investor redemptions (and this avoid selling loans at distressed prices). However, banks must also protect their own balance sheets and answer to investors. Private credit funds typically may only use half of their borrowing capacity, meaning they could draw down their lines significantly to fund redemptions or credit losses. That would increase banks' capital requirements at a time when they may already be under pressure, and cause banks to reconsider these lending commitments.

Bank stocks have lagged the broader market this year, partly due to investors' worries about the scale of bank lending to private credit funds and other NBFIs (non-bank financial institutions). Loans to these entities have nearly doubled in the past three years and now represent ~14% of total bank lending. For many banks, these loans have also been an important source of growth and profitability, since they are often secured, which means they require less capital.

Reg Cap News (Cont.)

We can't help but point out that regulators have singled out SRT, among all the products on which banks are providing leverage, for scrutiny. Banks under pressure to withdraw from financing well-structured and protected SRT, which have proved to be relatively safe and stable, can invariably find other assets to finance, which may be more risky. We discussed Reg Cap investor leverage in more detail here: <https://seercap.com/wp-content/uploads/2025/01/Reg-Cap-Leverage-Clearing-Misconceptions.pdf>

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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