Seer Capital Management LP
1177 Avenue of the Americas, 4th Floor
New York, NY 10036
212 850-9068
investorrelations@seercap.com
www.seercap.com

Reg Cap Recap

A biweekly update on the Regulatory Capital Relief/Significant Risk Transfer sector

August 18, 2026

SEER CAPITAL

Reg Cap Fundamental Credit Trends

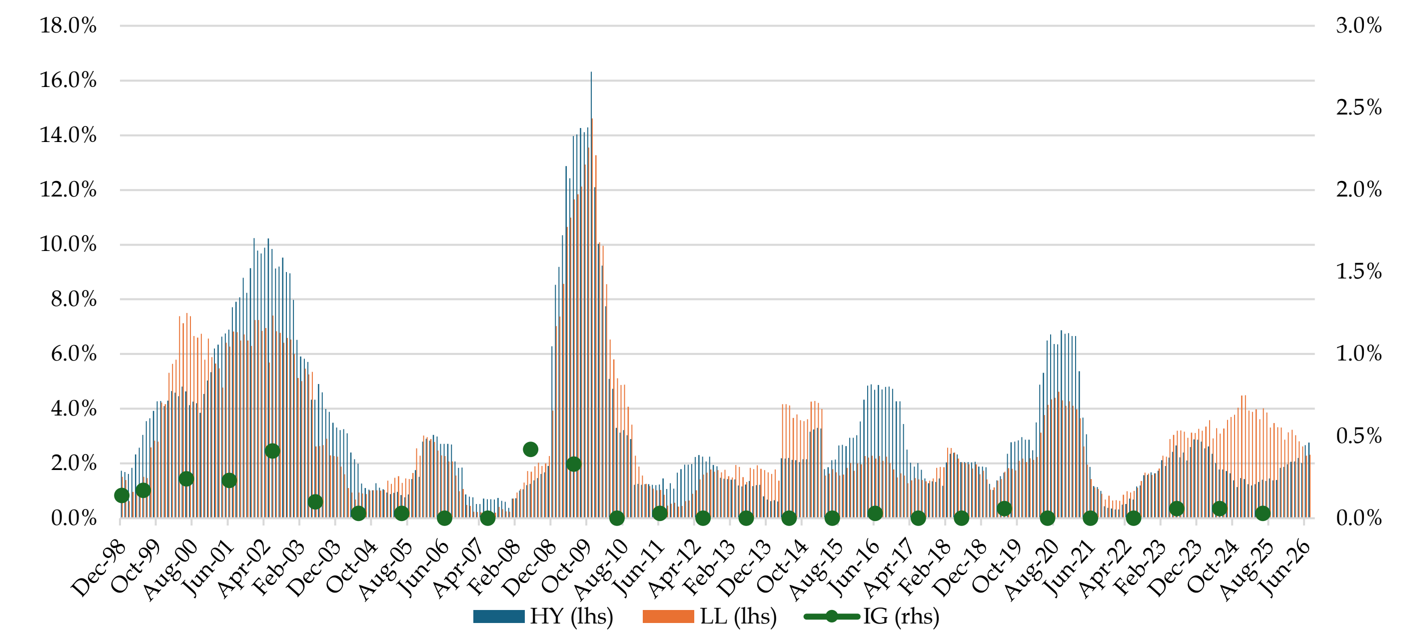
The Reg Cap sector spans a variety of reference assets and, of course, the performance of those assets varies among originators. Assets originated by banks to their clients for the banks' balance sheets have generally outperformed assets in generic credit indices. Further, investors impose selection 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 42 investments that we own and track, referencing corporate, SME, middle market, CRE 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, as well as two positions from one issuer with losses outside the boundaries we typically see. 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.

<u>US High Yield and Leveraged Loans</u>

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.

After a difficult June, when defaults reached an 18-month high by volume and an eight-month high by count, U.S. leveraged-credit default activity slowed in July. Over the month there was one $3.1bn payment default and no distressed exchanges. YTD default and distressed exchange volume is at $36.5bn, a 15% YOY increase. The trailing 12-month high-yield bond and leveraged-loan default rates edged up 10bp MOM to 2.77% and up 3bp MOM to 2.32%, respectively. Credit-rating trends improved, but distressed debt remains elevated at 7.1% (albeit down a bit from 7.3% last month). J.P. Morgan raised its 2026 high-yield default forecast by 50bp to 2.25%, while lowering its leveraged loan forecast by 75bp to 2.25%. However, they also expect defaults to rise in 2027, to 2.75% for high yield and 4.50% for loans. By comparison, the 25-year default rate is 3.25% for high yield and 2.95% for loans. The outlook for HY defaults is based on weakness in the Cable sector, where companies are losing video subscribers to streaming. Cable represents 30% of the distressed high-yield universe, with 26% of outstanding high-yield Cable debt trades at spreads of at least 1,000bp. The sizable forecasted increase in leveraged loan defaults is driven by the approaching 2028 maturity wall (which could drive distressed exchange activity in 2027) and pressure in the Tech sector. Even those Tech credits with solid fundamentals may find it challenging to refinance in an environment where risk premiums on Tech have risen. Technology accounts for 45% of the distressed-loan universe, and 18% of the sector's loans trade at distressed levels ($80 price or lower).

Default Rates - US Credit*



Source: Standard & Poor's, JPMorgan Research, as of July 31, 2026.
** HY and LL on a trailing 12-month basis, dollar-weighted. Includes distressed exchanges. IG on an annual basis.*

Seer Capital Management LP
1177 Avenue of the Americas, 4th Floor
New York, NY 10036
212 850-9068
investorrelations@seercap.com
www.seercap.com

Reg Cap Recap

August 18, 2026

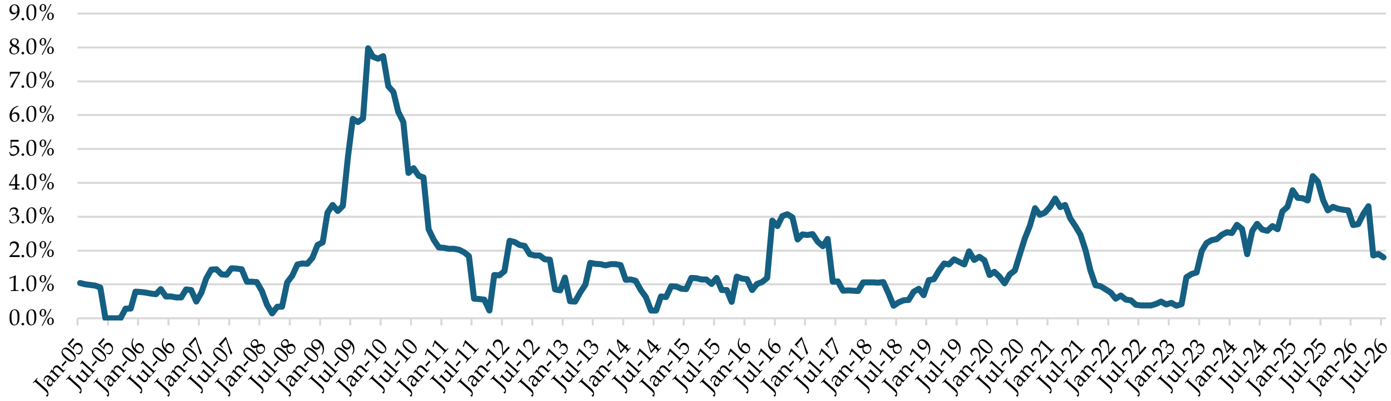
Reg Cap Fundamental Credit Trends (Cont.)

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 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.

The trailing twelve-month ("TTM") default rate in European high yield fell 10bps MOM to 1.8%, with no new defaults in July. Analysts believe this is likely a bottom for default rates, given the rising levels of distress seen in the market. One of the best leading indicators of forward default rates is the distressed ratio (the share of bonds trading at spreads in excess of 1000bps). That ratio ended July at 5.7%, up 30bps vs. June and up from a local low of 3.9% last summer. Growing dispersion and deteriorating credit quality at the B3 rating level are both vulnerabilities. Based on research using the most recent available financial reports, European high yield fundamentals were marginally weaker in 1Q26. Revenues were off 2% YOY and 4% QOQ while EBITDA declined 2% YOY and 7% QOQ. Net leverage rose 0.2x QOQ to 5.1x, driven primarily by the weakness in EBITDA. Interest coverage remained steady at 5.3x overall, but the share of issuers below 2.0x increased from 13% to 15%. The outlook is cautious due to the lagged effects of the energy shock flows. 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

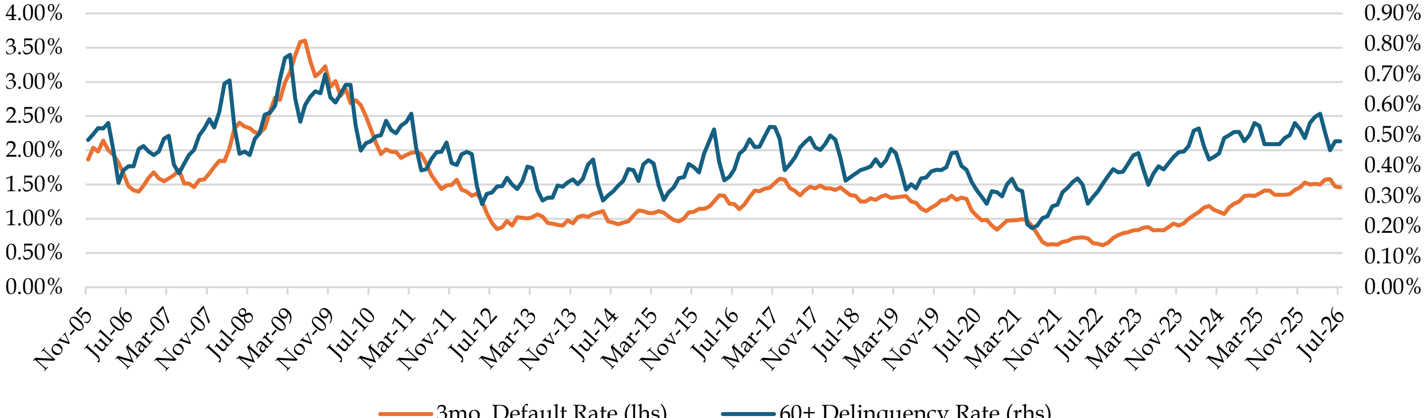


Source: JPMorgan Research, as of July 31, 2026. Trailing 12-month basis, dollar-weighted. Excludes Banks/Insurers.

US Prime Auto Loans

Prime auto loan performance continues to be very robust and remarkably consistent. The 60+ day delinquency rate for securitized U.S. prime auto loans was essentially unchanged from June to July, at 48 and 49bps. The three-month default rate came down 5bps MOM. While typically there is some seasonal deterioration at this time of year, that has not been evident in recent months. Transition rates between various delinquency statuses have held fairly steady over the past 24 months and defaults continue to come in below expected values. We continue to see a notable divergence between the reliable performance of prime auto loans (the products referenced in SRTs) and the weaker, more volatile performance of subprime loans. It bears noting that subprime auto loans have not been used as reference assets in the SRT market, to our knowledge.

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



Source: Morgan Stanley, as of July 31, 2026

Seer Capital Management LP
1177 Avenue of the Americas, 4th Floor
New York, NY 10036
212 850-9068
investorrelations@seercap.com
www.seercap.com

Reg Cap Recap

August 18, 2026

SEER CAPITAL

Reg Cap News

New Issue News:

mBank, PGGM in €1.1B Real Estate-Backed Credit Risk Sharing Deal (BN, 8/6/26)
mBank and PGGM agreed to a credit risk-sharing deal on a €1.1bn portfolio of Polish commercial real estate loans. PGGM is the anchor investor and will take 80% of the outstanding tranche. The deal gives PGGM and its end investor, the Dutch pension fund PFZW, exposure to commercial real estate lending in Central and Eastern Europe.

SRT Market Update (SCI, 8/17/26)
National Bank of Canada is testing investor appetite for a possible SRT backed by project-finance loans. The deal has moved into due diligence but is still early stage. It would likely be relatively small and close in 4Q. The potential deal comes as Canadian SRT activity picks up. BMO and CIBC returned to the market in July with transactions backed by SME and corporate loans, while RBC BlueBay is developing a broader risk-transfer platform spanning several types of reference assets including subscription lines, commercial real estate, infrastructure and corporate lending. Other Canadian transactions are also in development, with data-center exposures expected to be a particular focus in 4Q.

Reg Cap News:

Commerzbank CFO Says Expected RWA Drop May Reduce SRT Need (BN, 8/6/26)
Speaking on a recent earnings call, Commerzbank's CFO shared that he expects ECB approval in Q3 for a change to the "scope of its internal credit risk models." The change could reduce Commerzbank's risk-weighted assets by "a mid- to high-single-digit billion euros". If successful, the change may reduce the amount of SRT the bank needs to issue going forward.

Capital Relief Gap Stifles SE Asian, Indian Banks SRT Growth (Bloomberg Intelligence, 8/11/26)
SRT use by Southeast Asian and Indian banks will likely remain limited. Capital levels in the region are generally healthy, and banks tend to rely on earnings and/or equity issuance to meet capital needs.
Another obstacle to greater uptake may be regulatory: many countries do not offer capital relief, and countries such as India and Thailand prohibit synthetic securitizations altogether. Regulators in Vietnam and Cambodia are still focused on Basel III and securities laws. Malaysia is perhaps the best candidate to follow Singapore's SRT precedent, given Malaysia's investor base, established securitization market and willingness to approve capital relief case-by-case.
Most banks also do not need the relief badly enough to justify the cost. Singapore banks had an average fully phased-in CET1 ratio of 14.5% in 2Q26, plus low RWA density and strong asset quality. Singapore's DBS stands out. After completing its first $1bn corporate-loan SRT, the bank may use additional deals selectively to manage capital, "steer its portfolio" and support more client lending.
Capital remains broadly sound elsewhere in the region, although some midsize Philippine lenders are weaker and some suggest that temporary regulatory relief could mask erosion. Indian banks are also expected to maintain solid buffers in fiscal 2027, with earnings sufficient to absorb slower loan growth and the capital impact of the new expected-credit-loss rules.

SRT Market Update (SCI, 8/11/26)
SRT issuance has grown from about €6bn in 2017 to €27bn in 2025, as banks increasingly treat the transactions as a permanent part of capital planning rather than a year-end tool. Investor participation has also expanded beyond specialists to pension funds, insurers and alternative asset managers. Greater demand has made pricing more competitive. One commenter from BNP Paribas Asset Management argued that investors should focus on asset quality, structural protections and diversification—not just spreads.
The appeal is access to bank-originated loans that are difficult to find in traditional private credit or syndicated markets, including revolving facilities for large companies and loans to smaller European businesses. Large corporate loans still make up 52% of SRT assets, but banks are adding commercial real estate, trade finance, subscription finance and consumer loans. Europe accounts for about 80% of global issuance, although activity is growing quickly in the US, Japan and Latin America. US issuance exceeded $5bn in Q1 2026, driven more by balance-sheet management and credit hedging than regulatory capital relief.
The market is also becoming less seasonal as repeat issuers run SRT programs throughout the year. The largest European banks now have €15bn-€70bn of assets under SRT, generally equal to 1%-4% of their balance sheets.

SCI Webinar - Regulatory Flux: What Basel Uncertainty Means for US Bank SRT (SCI, 8/11/26)
We participated in this webinar discussion on the regulatory environment and US Bank SRT and provided an investors' point of view. The hoped-for US SRT market growth never seems to have fully materialized. This is partly due to a less supportive regulatory environment vs. what has developed in Europe, and partly due to relatively ample capital especially given a pull back from more stringent requirements proposed right after the collapse of SVB.
The US SRT that are issued tend to reference very high-quality assets (the Collins amendment makes it relatively less beneficial to issue SRT against riskier assets), and thus are structured with thin tranches and at relatively tight spreads. SRT issues against riskier assets tend to be used as risk management tools rather than capital management tools. Our investment philosophy is to invest alongside issuers and therefore we strongly prefer SRT that are capital-relief motivated.

Seer Capital Management LP
1177 Avenue of the Americas, 4th Floor
New York, NY 10036
212 850-9068
investorrelations@seercap.com
www.seercap.com

Reg Cap Recap

August 18, 2026

Reg Cap News

Our co-panelist shared their views on the US regulatory environment and SRT. They noted that:
US banks have a better sense of the direction of regulatory policy, but not enough clarity to make firm assumptions about the final capital framework. The Basel III Endgame re-proposal is more supportive of SRT, particularly in its proposed treatment of credit-linked notes. Important gaps remain, however, and the US framework still lacks the structural certainty available in Europe.
Commercial real estate could be the biggest source of new US SRT issuance. If regulators allow synthetic SRT to reduce CRE concentrations, regional banks would have a much stronger reason to transfer that risk.
For regional banks, regulation is only part of the challenge. SRT programs require specialized expertise, operating systems and reliable historical loan data, all of which are expensive to build for a single transaction. Wider adoption will therefore depend on banks developing repeat programs that justify the upfront investment. Regional bank consolidation could add more critical mass and make SRT more attractive for issuers.

SRT: Market Broadens as New Issuers and Assets Drive Q2 Momentum – SCI Analytics (SCI, 8/14/26)
The European SRT market broadened again in Q2 2026 as more small and midsize banks entered the market and established issuers returned with new portfolios. SCI's pipeline included 22 European deals, five North American deals, three global deals and one each from Asia and Latin America. BNP Paribas had the most transactions in the pipeline with five, followed by Santander with four and Stellantis Financial Services with three.
Investor demand remains strong and is pushing spreads tighter. Corporate SRTs generally price at 650-700bps, while SME transactions start around 750bps. Institutional investors are taking a larger share of allocations, although most deals still go to buy-and-hold accounts and secondary trading remains limited. While demand may have meant tighter pricing, it has not yet weakened deal structures. Looking ahead, a growing supply of transactions could eventually reduce competition for allocations and ease pricing pressures.
Banks are also bringing a wider range of collateral to market, including project finance, infrastructure, commercial real estate, consumer loans, mortgages and AI-related exposures such as data centers. Regulation remains a constraint. Portfolio-homogeneity rules under STS can make it difficult to combine different borrower types, specialized loans or assets originated in multiple jurisdictions in a single transaction. Construction-stage project finance and commercial real estate can struggle to qualify for favorable STS treatment as well. SCI expects activity for the rest of 2026 to at least match last year's, with corporate loans still dominant and project finance, RMBS, auto loans, infrastructure and AI-related financing also contributing.

Banking Industry News:
Swiss Parliament Panel Fails to Reach Deal on UBS Capital Rules (Reuters, 8/11/26)
A Swiss parliamentary committee failed to agree on proposed rules that could require UBS to hold another $20bn of CET1 against its foreign subsidiaries. This move to shore up UBS' already substantial capital position arose after UBS was called on to bail out its troubled rival, Credit Suisse, in 2023. Some lawmakers want to soften the proposal by allowing UBS to meet part of the requirement with AT1. UBS argues that the full CET1 requirement would hurt its competitiveness. The committee will resume discussions on August 31, with the details still unresolved ahead of a possible parliamentary vote in September.

ECB Leaning Towards Approving UniCredit's Commerzbank Bid, Document Shows (Reuters, 8/12/26)
The ECB is leaning toward approving UniCredit's $49.6bn bid for Commerzbank, although the application remains incomplete and a final review is expected in September or October. The regulator reportedly sees no basis for blocking the transaction but has concerns about governance, integration and UniCredit's assumptions for the combined bank's capital position. Approval could reshape both banks' capital plans and SRT issuance, particularly after Commerzbank said an expected reduction in RWA may reduce its near-term need for SRT.

Seer Capital Management LP
1177 Avenue of the Americas, 4th Floor
New York, NY 10036
212 850-9068
investorrelations@seercap.com
www.seercap.com

Reg Cap Recap

August 18, 2026

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.

For more information about Reg Cap or this publication, contact:

Terry Lanson
Managing Director
Reg Cap Portfolio Manager
212 850-9005
tlanson@seercap.com

Katya Bosshard
Director
Head of Investor Relations
212 850-9068
kbosshard@seercap.com

IMPORTANT DISCLAIMERS

Seer Capital Management has prepared this Reg Cap Update using information gathered from third parties as well as its own independent research, all of which it believes to be accurate as of the date hereof. While this memorandum represents our current thinking, future events could lead to a change in our opinion, and there can be no guarantee that the opinions expressed herein will be borne out by the market or underlying asset performance.
No offering of any investment product managed by Seer Capital Management is intended hereby.