

FROM RISK TRANSFER TO RETURN ENGINE: THE EVOLUTION OF SRT

The significant risk transfer (SRT, also referred to as regulatory capital) market has doubled in size since 2020 — and we expect this growth to keep accelerating as regulations compel banks to reduce their risk capital. At the same time, SRT has now become a mainstream asset class within Private debt allocation for institutional investors thanks to its attractive return opportunities.



SNAPSHOT OF THE SRT MARKET

2x
Growth since 2020

The SRT market has grown rapidly over the last four years, mainly because of a) regulatory pressure on banks to reduce their risk exposure and generate capital relief, and b) increased issuance from more jurisdictions.

~7-8%
Average spread currently in the market

Compared to other credit asset classes the premium on SRT has widened over the last year.

0.15%
Average default rate

The quality of the underlying portfolios is consistently high, as most banks have tight restrictions on which assets are in the underlying loans.

25y
BNP SRT track record

BNP Paribas Asset Management Alts has invested in SRT for over 25 years. Our scale, resource and reputation gives us extensive market access and we have established relationships with more than 50 originating banks.

Source: BNP Paribas Asset Management. October 2025.

A MATURING ASSET CLASS

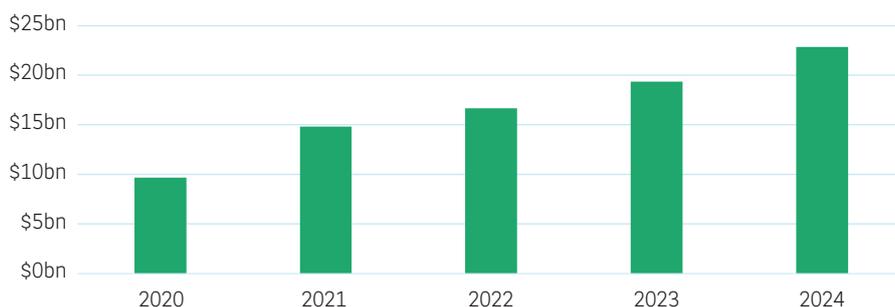
The SRT market has matured. What used to be sporadic, ad-hoc transactions has become a year-round stream of issuances. European banks have been long-time users but US banks are increasingly participating, especially after regulatory clarifications in 2024.

Issuers now number in the 60's, not just among G-SIBs (Global Systemically Important Banks), but also among smaller and regional banks. Several banks now set explicit targets for SRT issuance as part of their capital management strategy. They have built out dedicated SRT teams to manage what is a complex process involving reference portfolio selection, risk layering, regulatory approval, ratings and sub-asset class expertise.

From the issuance side, there is a regular cadence of deals. Rather than only issuing when under capital pressure or at regulatory deadlines, many banks now treat SRT as part of their ongoing balance-sheet optimisation toolbox, and new types of portfolios are being transferred such as trade finance or ESG-related assets.

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Figure 1: Global annual SRT issuance



Source: BNP Paribas Asset Management. December 2024.

Transparency in the market has also improved and regulators — especially in Europe — have developed clearer guidance. The STS (Simple, Transparent, Standardised) securitisation framework has enabled some SRT transactions to benefit from more favourable regulatory treatment. Fast-track processes are being developed to speed up regulatory approvals when transactions are simpler and standardised. Reporting on reference portfolios, underwriting, risk layering and other deal structure details are more standardised.

Finally, participation has broadened — few large banks in Europe haven't done at least one SRT transaction. The issuer base is no longer limited to the very largest or the most internationally active; banks with different geographic reach and sizes are experimenting and issuing, subject to regulatory oversight.

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SRT IN THE CURRENT MARKET ENVIRONMENT

Downturn credit cycle

- SRT are typically composed of high-quality (IG), performing portfolios
- Exposure to the real economy — benefiting from bank/central bank/government support
- Exposure to low-levered companies — financed (at least partially) by banks, avoiding market liquidity risk
- Diversified exposures across different types of risks (US Large Corporates, French mid-caps, German SME, etc.)

Relative value in tightening markets

- Tightening across the wider Credit market over the past 18 months — but less pronounced in the SRT market.
- In the SRT market, tightening has been deal specific — not evenly spread across classes and/or jurisdictions. For example, deals referencing Cap Calls and IG US portfolios are the tightest.
- It is important for SRT investors to be able to review a large part of the market in order to be selective and focus on transactions which offer better relative value.

THE SRT MARKET IN 2024

€300bn

of referenced portfolios

>120

deals

€22.8bn

issued SRT tranches

65+

regular issuers and growing

A GROWING, INCREASINGLY DIVERSIFIED MARKET

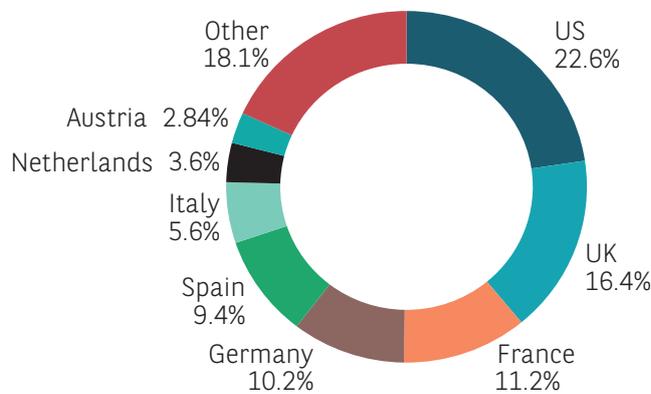
A growing number of jurisdictions

Bank participation in SRT has been widening geographically over the past few years, with notable recent entrants from Canada, the US and Latin America. Issuance remains skewed to Europe, c. 80% of total issuance in 2024, but the US grew rapidly from nearly no issuance in 2022 to 23% of the market in 2024.

We expect banks in more countries to issue SRT as regulatory pressure to remove risk from banks’ balance sheets spreads to more jurisdictions, and investor demand continues to grow.

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Figure 2: Issuance by country – 2024



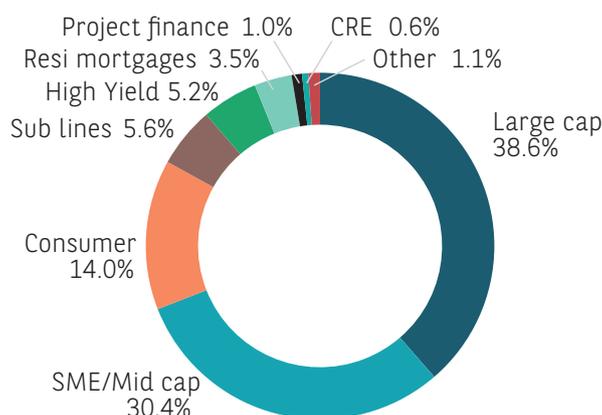
Source: BNP Paribas Asset Management. Dec 2024.

A more diverse asset base with regional skewness

Large banks continue to extend their SRT programs to various underlying asset classes. In addition to the traditionally referenced portfolios (Large Cap, Mid-cap, SME), we have seen many transactions with appealing premiums based on CRE Debt, Infra Debt, Cap Call facilities and more.

Over the last year, corporates represented c. 75% of all issuance, and Large Corporate Revolvers remain the main referenced asset class. SME and Mid-cap portfolios remain mostly located in Europe, while Consumers were predominantly referenced by US regional banks.

Figure 3: Breakdown by asset class – 2024



Source: BNP Paribas Asset Management. Dec 2024.

Diversified exposure on several layers

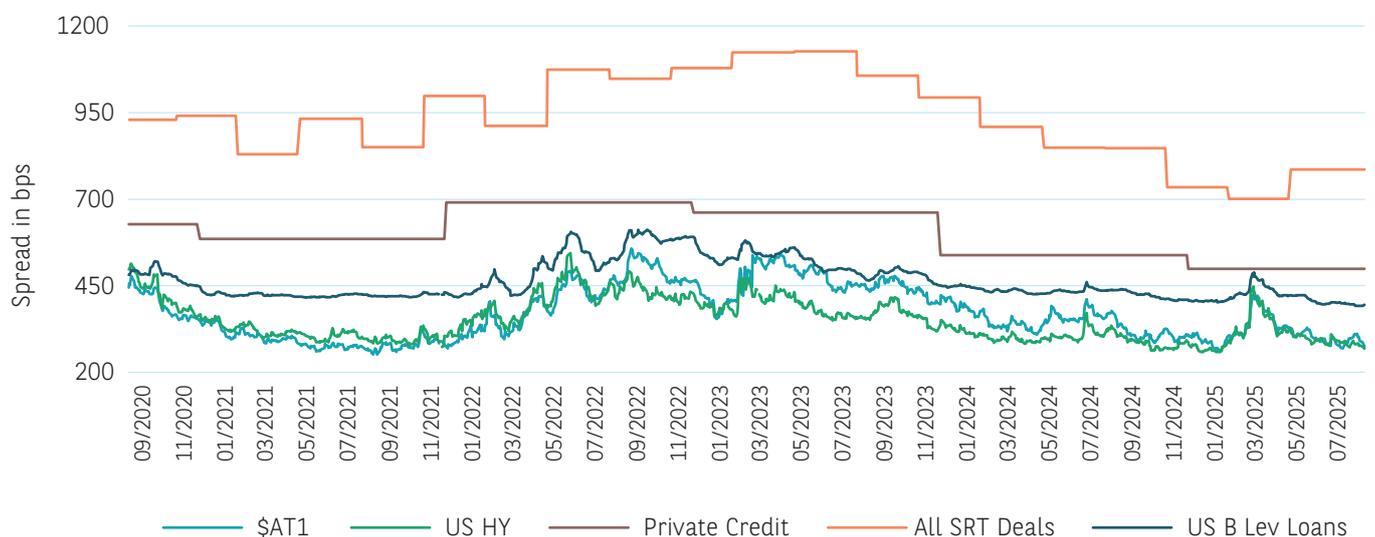
SRT gives investors access to credit portfolios that are not available in the public market. An SRT portfolio normally covers several hundred, up to thousands of holdings. But the portfolio is not only diversified in terms of names, sectors and geographies on a portfolio level: a typical SRT fund invests in 20-40 SRT transactions.

RELATIVE VALUE

A growing number of jurisdictions

SRT offers attractive relative value versus other credit assets through higher carry with shorter effective duration, stronger downside protection from structured/secured features, and favourable convexity. Its distinct cash-flow structures can deliver resilient returns in rising-rate environments while reducing correlation with core IG and high yield bets. As SRT issuance grows and liquidity improves, dispersion across structures should widen, supporting more efficient risk transfer and potential valuation gains.

Figure 4: SRT relative value in Alternative credit universe



Past performance is not an indicator of future performance.

Source: BNP Paribas Asset Management. October 2025. For illustrative purposes only. **AT1 USD:** Spread on AT1 bank capital. JPMorgan. **US HY:** Spread on US HY Bonds: HOA0 — ICE BofA US Yield Index. **Private credit:** Spread of LBO financed in BSL vs Direct lending. Pitchbook LCD. **SRT deals:** BNP Paribas Asset Management Alts observed transactions. **US B Lev Loans:** Morningstar LSTA B rated US Leveraged Loan Index. Pitchbook.



ATTRACTIVE CREDIT RISK

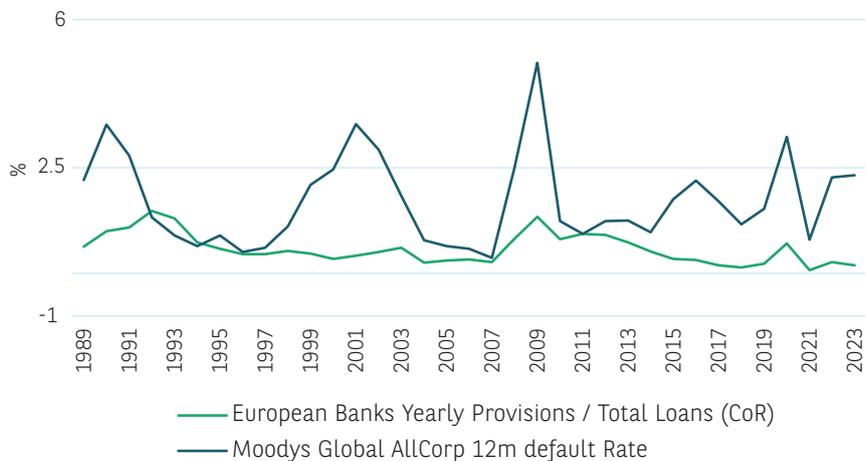
High-quality portfolios

Banks have always been selective when underwriting credit risk. Over the past decade, banks' provision level — a loss recognised by the bank before it has occurred — were significantly less than the default rates observed on credit indices. Consequently, loans referenced in SRT portfolios have been much more resilient than comparable portfolios and SRT investors have benefited from the quality of underwriting from banks.

Compared to the wider credit markets, it's also an asset class that has consistently shown structural resistance. For example, during the Global Financial Crisis or at the beginning of the Covid pandemic, banks' yearly provisions were stable while global corporate default rates rose significantly.

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Figure 5: Comparison between European banks' cost of risk and Moody's Speculative Corporates default rates



Source: BNP Paribas Asset Management. September 2024.

Alignment of interest contributing to quality portfolios

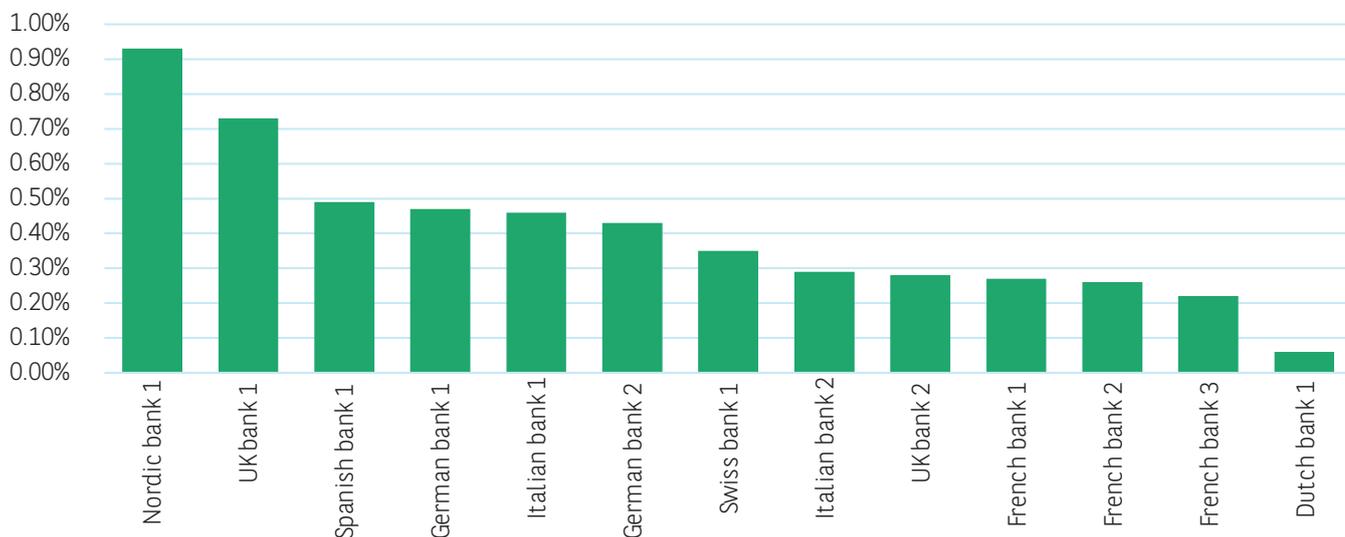
SRT are not part of the bank's liabilities but a credit hedge that references a portfolio on the bank's balance sheet. Despite this, it is in banks' interest to maintain healthy loan portfolios:

- 1 Because banks retain a minimum 5% of each loan and are responsible for originating, servicing and working out underlying exposures;
- 2 Because banks typically take the first loss on half of the transactions and are incentivised to keep them viable;
- 3 To encourage healthy SRT demand from investors and promote a way to lower the cost of capital for the bank.

AN ESTABLISHED MARKET

The SRT market has gone from niche to mainstream. From banks' perspective, SRT is increasingly used as a programmatic tool, and most large European banks today issue SRT transaction to reduce their risk weighted capital. On average, SRT made up c. 0.50% of CET1 among the top banks issuing SRT in Europe¹.

Figure 6: SRT contribution to CET1



Source: BNP Paribas Asset Management. December 2024.

Notes: 1. BNP Paribas Asset Management. June 2025.



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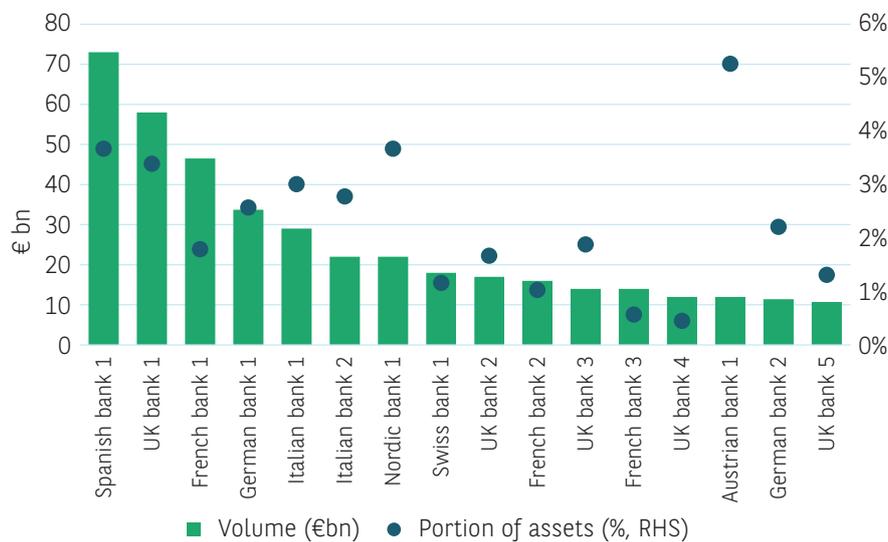
To show how SRT has become an integral part of banks' capital optimisation strategy, and the high credit quality of the underlying portfolios, below is an example from a large French bank and their use of SRT.

The total gross exposure of their securitised assets are €150bn, as at end of 2024. That's an increase of over 9% from just a year before. Out of the €150bn, the default rate was c. 0.4%, largely skewed to retail assets, with the corporate assets having a default rate of 0.009%².

In Europe, on average c. 2% of banks' assets are referenced by SRT³, reaching as much as 5% at some banks. Despite this rapid growth of the SRT market, we still believe it could grow significantly more before reaching its limits.

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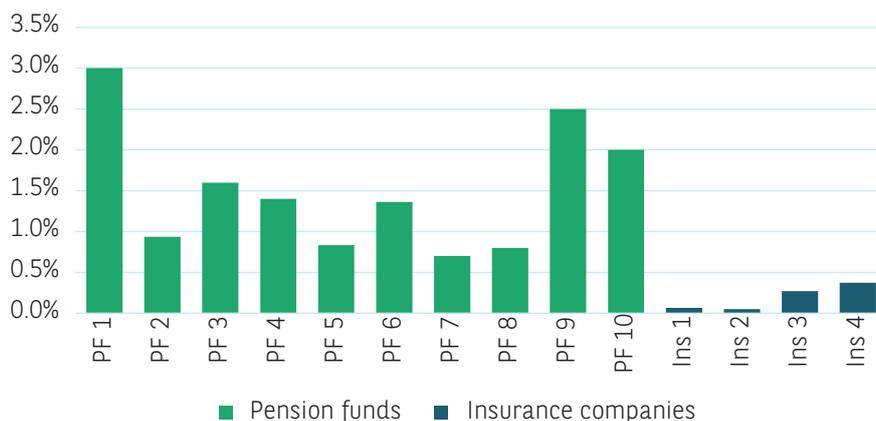
Figure 7: Assets under SRT, select European banks



Source: BNP Paribas Asset Management. December 2024. For illustrative purposes only.

On the demand side, SRT trades have become a core allocation within the private debt universe. A typical allocation for Institutional investors is around 1% but is consistently growing.

Figure 8: Allocation to SRT among select pension funds and insurance companies



Source: BNP Paribas Asset Management. December 2024. For illustrative purposes only.

Notes: 2. Annual report. December 2024. 3. BNP Paribas Asset Management. June 2025.

BNP'S CREDENTIALS AS A LONG-TERM SRT INVESTOR



We have managed SRT for over 25 years across ten generations of SRT funds, with a team that has an average experience of 25 years.



We have completed more than 125 transactions and invested nearly €7bn since the launch of our first fund. During our 25-year track record, only one transaction has posted a negative return (-0.86% annualised IRR).



Our scale, resource and reputation gives us extensive market access and we have established relationships with more than 50 originating banks.

Past performance is not a reliable indicator of future performance.

Source: BNP Paribas Asset Management unaudited data as of 30 June 2025. This indication is for illustrative purpose, depending on market conditions and is not representative of the fund performance.

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