
CADWALADER

U.S. BANKS

QUARTERLY SURVEY

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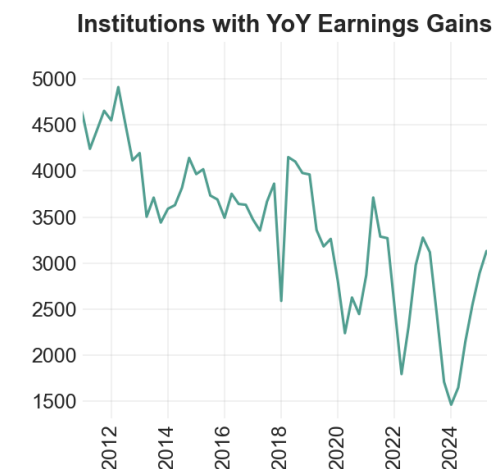
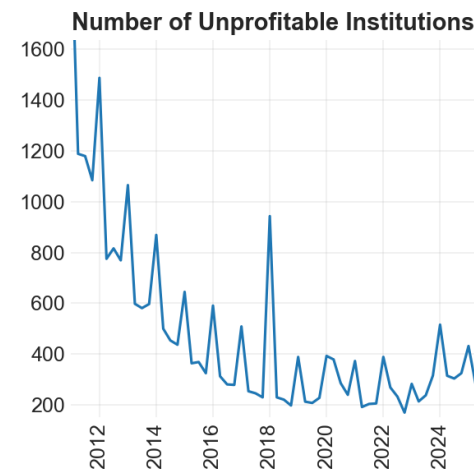
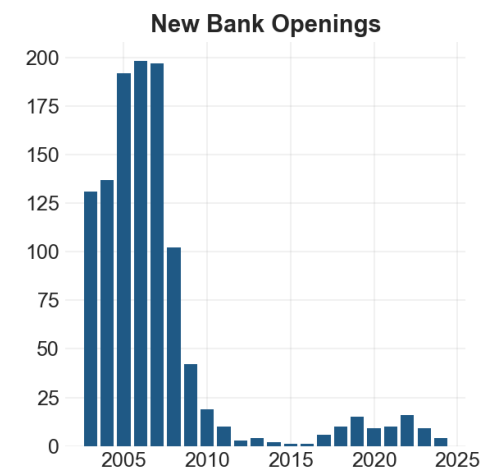
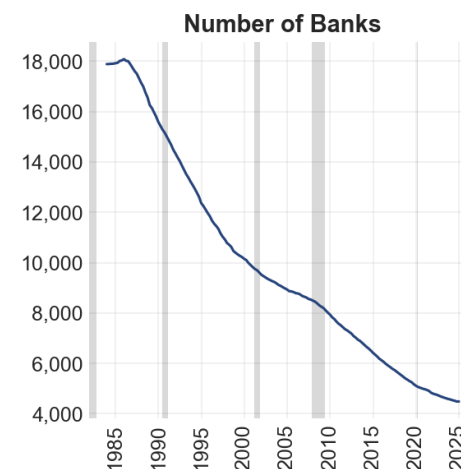
May 2025

Cadwalader, Wickersham & Taft LLP
www.cadwalader.com



LEVEL-SETTING

- The banking industry finds itself in the early stages of a transformation. Existing balance sheets have been shaped by more than a decade of negative real interest rates that fueled asset appreciation, muted volatility, and aided credit performance. A glut of deposit inflows due to covid-driven stimulus payments further influenced balance sheet composition. These trends supported growth, but also led to decisions that have proved difficult to reverse.
- Progress was evident on multiple fronts in Q1: (1) Overall funding mix improved with growth in deposits, (2) PPNR moved higher on non-interest income gains and expense improvement despite flattish NIM, and (3) loan loss provision held stable.
- Broader economic fundamentals slowed during the quarter with a visible influence on reported loan demand. Looking ahead, decelerating economic fundamentals may complicate the ability for some banks to organically grow out of capital constraints and loan concentrations. Loan demand weakened across a number of sectors during the quarter, and a large share of industry loan growth came from loans to non-depository financial institutions.
- Q2 is expected to deliver further clarity on a number of significant in-process rulemakings, including Basel III Endgame, while policy volatility more broadly could continue to make for a challenging operating environment.



Source: FDIC and Cadwalader, Wickersham & Taft LLP.

U.S. BANK Q1 2025 SURVEY

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NET INCOME

- Interest expense moved lower again in Q1.
- Provision was held essentially flat.
- Non-interest income approached the all-time quarterly record of Q1 2023.

\$billion	Q1 2023	Q1 2024	Q4 2024	Q1 2025	QoQ Change	QoQ Growth	YoY Growth	2-Yr. Growth
+ Interest Income	246.66	293.35	297.61	286.43	-11.18	-3.8%	-2.4%	16.1%
- Interest Expense	81.99	134.37	131.90	120.99	-10.91	-8.3%	-10.0%	47.6%
- Provision	17.00	15.72	18.17	18.33	0.16	0.9%	16.6%	7.8%
+ Non-Interest Income	78.77	69.73	68.93	74.82	5.89	8.5%	7.3%	-5.0%
- Securities Gain	-1.97	-1.03	-3.39	-2.02	1.36	-40.3%	95.5%	2.8%
- Non-Interest Expense	130.91	135.72	136.75	137.06	0.31	0.2%	1.0%	4.7%
- Unrealized Equity Gains	0.07	0.33	0.04	0.08	0.04	98.3%	-74.3%	22.7%
Pre-Tax NOI	93.63	76.56	76.37	82.93	6.56	8.6%	8.3%	-11.4%
- Income Tax	16.54	15.39	14.13	16.98	2.85	20.1%	10.3%	2.7%
- Discont. Ops.	-33.16	-30.81	-28.34	-34.03	-5.70	20.1%	10.4%	2.6%
Net Income	77.00	61.14	62.16	65.87	3.71	6.0%	7.7%	-14.5%

Excludes specialty lenders like Synchrony, Discover, AmEx, and Sallie Mae Bank, throughout. GSIBs includes U.S. domestic only. Subsidiaries of foreign GSIBs grouped according to total assets. Non-GSIB category based on total assets only. Only includes U.S. banking entities for foreign banks throughout. We do not verify third-party data for accuracy.

Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

BALANCE SHEET

- Total assets expanded 180 bps on a chained-quarter basis, aided by growth in trading assets and securities repo.
- Net loans lagged asset growth, growing 57 bps in the quarter to end 3.0% higher YoY.
- Total deposits rose 1.3% and core share of total deposits held steady 81.8%.

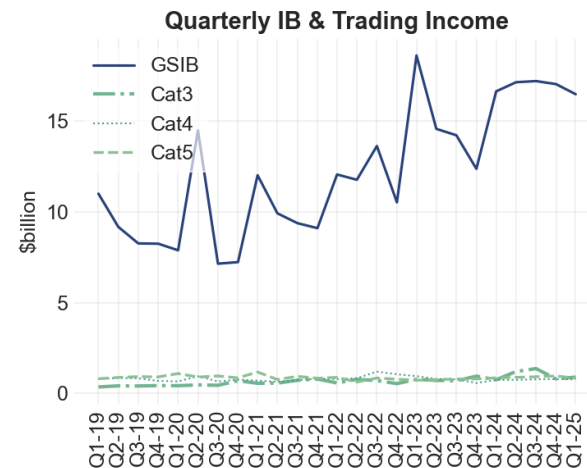
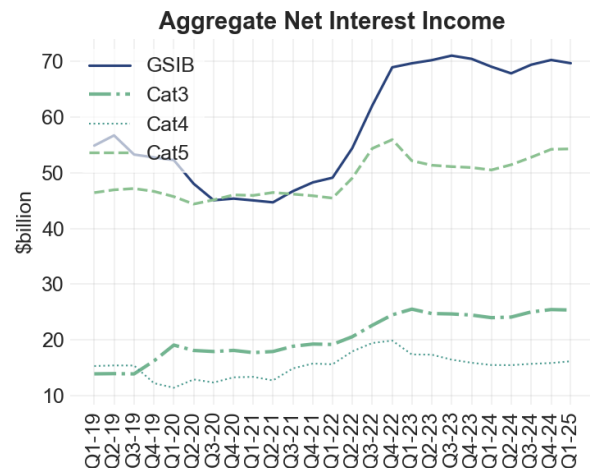
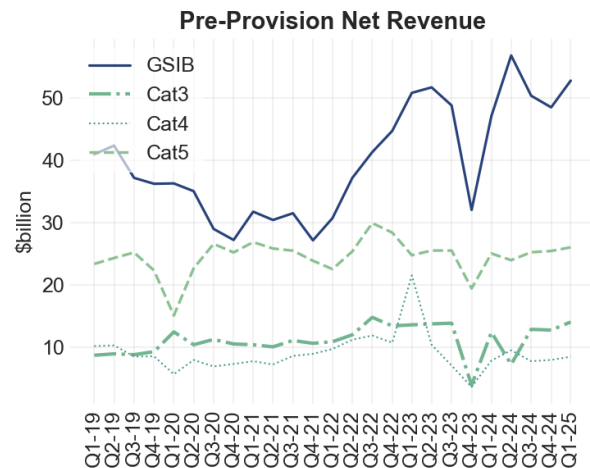
\$trillion	Q1 2023	Q1 2024	Q4 2024	Q1 2025	QoQ Change	QoQ Growth	YoY Growth	2-Yr. Growth
Assets	23.22	23.39	23.52	23.94	0.42	1.8%	2.4%	3.1%
Net Loans	11.63	11.77	12.06	12.13	0.07	0.6%	3.0%	4.2%
Securities (Cost)	5.59	5.45	5.55	5.56	0.01	0.2%	2.1%	-0.4%
Cash	2.77	2.83	2.61	2.59	-0.03	-1.1%	-8.7%	-6.6%
Trading Assets	0.80	0.93	0.89	1.11	0.22	24.7%	18.5%	39.0%
Deposits	18.36	18.56	18.77	19.01	0.24	1.3%	2.4%	3.5%
Core Deposits	15.44	15.12	15.37	15.54	0.17	1.1%	2.8%	0.6%
Pledged Loans	5.11	5.66	6.02	5.99	-0.03	-0.5%	5.7%	17.2%
Pledged Securities	2.08	2.45	2.38	2.36	-0.02	-0.9%	-3.6%	13.8%
FHLB Advances	0.80	0.54	0.48	0.44	-0.04	-8.3%	-18.0%	-44.7%

Excludes specialty lenders like Synchrony, Discover, AmEx, and Sallie Mae Bank, throughout. GSIBs includes U.S. domestic only. Subsidiaries of foreign GSIBs grouped according to total assets. Non-GSIB category based on total assets only. Only includes U.S. banking entities for foreign banks throughout.

Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

TOP LINE

- Despite flat overall NII, overall PPNR improved on gain in non-interest income and lower non-interest expense, although this applied mostly to large banks.



Pre-Provision Net Revenue					
	GSIB	Cat3	Cat4	Cat5	Total
PPNR (\$bn)	\$52.8	\$14.0	\$8.4	\$26.0	\$101.3
Chained Quarter Growth					
Q1-24	47.1%	221.5%	119.1%	29.0%	56.9%
Q2-24	20.7%	-41.7%	21.1%	-4.3%	5.6%
Q3-24	-11.4%	78.2%	-18.5%	5.3%	-1.3%
Q4-24	-3.7%	-0.9%	2.6%	0.8%	-1.7%
Q1-25	8.9%	10.3%	6.6%	2.3%	7.1%
YoY Growth					
2021	-0.2%	1.0%	22.5%	-5.3%	0.5%
2022	64.9%	26.5%	20.0%	19.0%	37.9%
2023	-28.4%	-71.3%	-66.6%	-31.6%	-39.5%
2024	51.5%	230.6%	121.8%	31.0%	60.7%
Q1 2025	12.1%	13.4%	7.9%	4.0%	9.7%

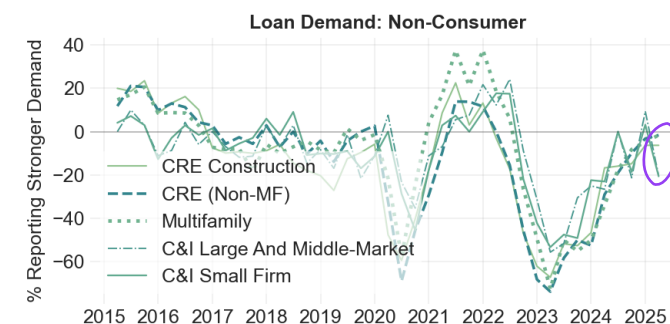
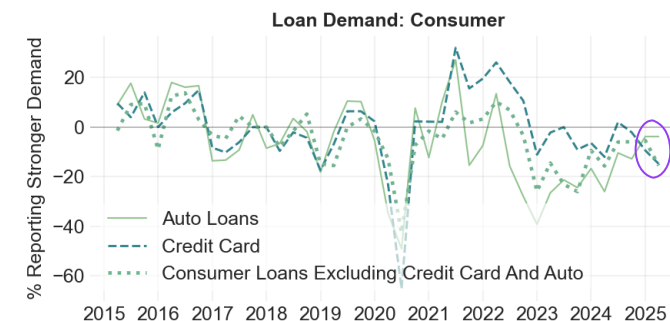
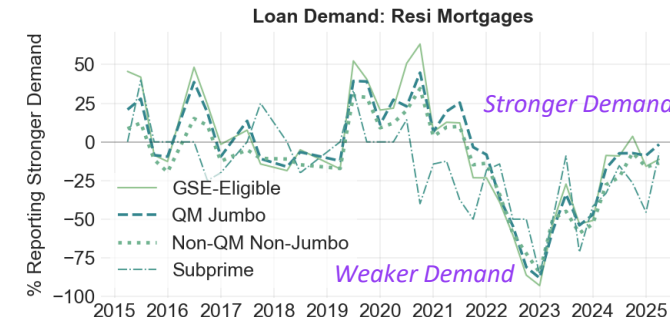
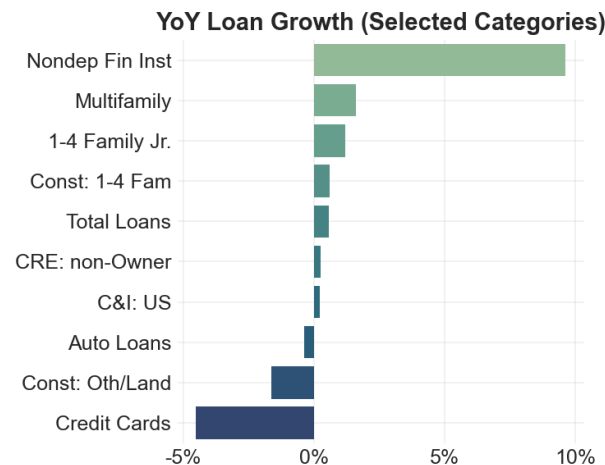
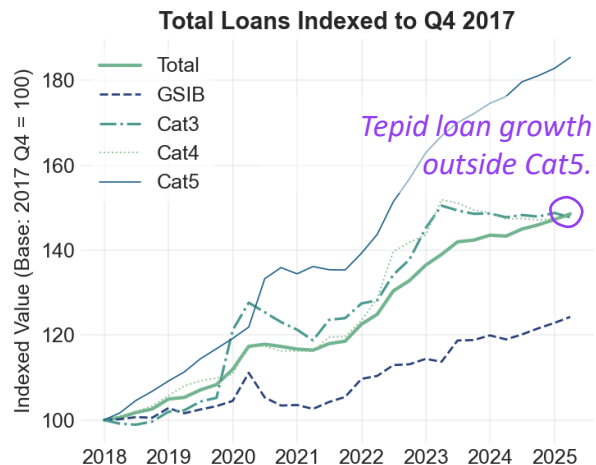
Net Interest Income					
	GSIB	Cat3	Cat4	Cat5	Total
NII (\$bn)	\$69.7	\$25.3	\$16.2	\$54.3	\$165.4
Chained Quarter Growth					
Q1-24	-2.0%	-1.9%	-2.5%	-0.8%	-1.7%
Q2-24	-1.7%	0.4%	-0.2%	1.9%	-0.1%
Q3-24	2.3%	3.8%	1.5%	2.6%	2.6%
Q4-24	1.2%	1.7%	0.9%	2.7%	1.8%
Q1-25	-0.8%	-0.3%	2.0%	0.1%	-0.2%
YoY Growth					
2021	6.4%	6.3%	18.7%	-0.3%	5.2%
2022	42.8%	27.2%	26.1%	22.0%	31.1%
2023	2.2%	-0.2%	-20.0%	-9.0%	-4.4%
2024	-0.3%	4.0%	-0.3%	6.4%	2.5%
Q1 2025	0.9%	5.7%	4.4%	7.5%	4.1%

Non-Interest Income					
	GSIB	Cat3	Cat4	Cat5	Total
Fee Income	\$44.4	\$8.8	\$7.4	\$14.2	\$74.8
Chained Quarter Growth					
Q1-24	27.4%	-10.2%	3.9%	17.5%	17.0%
Q2-24	2.0%	13.4%	-4.3%	-4.0%	1.4%
Q3-24	-3.6%	-7.4%	2.0%	0.1%	-2.8%
Q4-24	-0.9%	-6.6%	8.8%	3.4%	0.3%
Q1-25	14.5%	13.2%	-5.2%	-2.4%	8.5%
YoY Growth					
2021	1.7%	10.0%	12.9%	-8.1%	1.5%
2022	3.3%	-89.0%	-7.4%	-21.6%	-17.8%
2023	-4.7%	719.7%	-11.0%	0.6%	9.9%
2024	24.2%	-12.0%	10.3%	16.7%	15.6%
Q1 2025	11.6%	11.0%	0.7%	-3.1%	7.3%

Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

LOANS

- GSIB loan growth was dominated by NDFI (and securities-based lending) and had an outsized effect on total loan growth in Q1.
- Loan demand softened amid macro uncertainty and slowing growth.



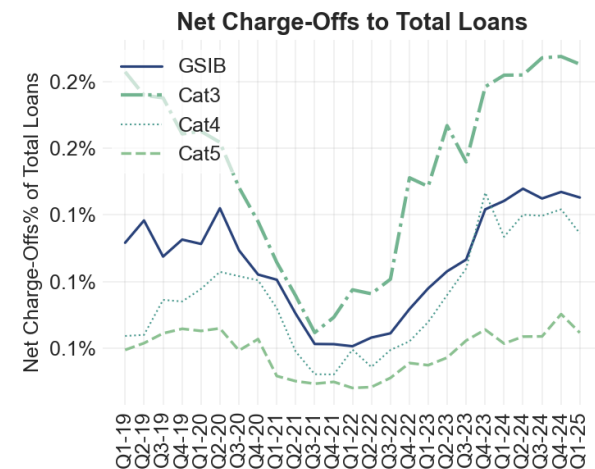
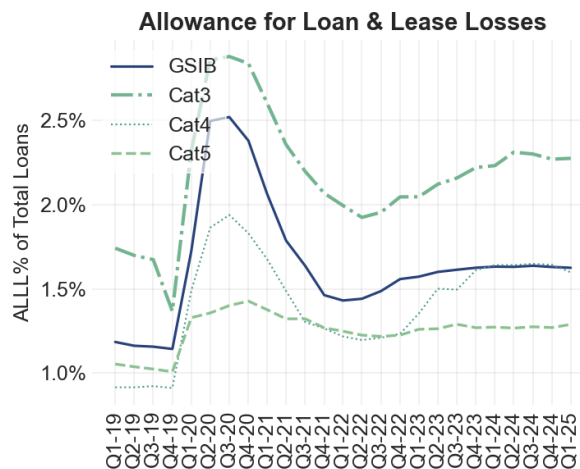
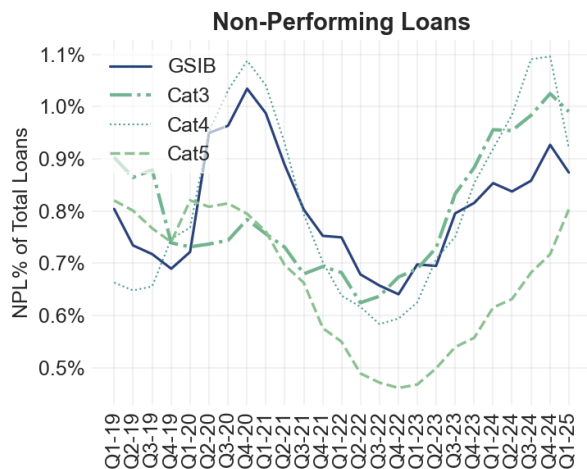
	GSIB	Cat3	Cat4	Cat5	Total
Loans (\$tn)	\$4.6	\$1.7	\$1.4	\$4.7	\$12.3
Chained Quarter Growth					
Q1-24	-0.8%	-0.6%	-1.0%	0.6%	-0.3%
Q2-24	1.0%	0.4%	0.0%	1.5%	1.0%
Q3-24	1.2%	-0.2%	-0.8%	0.7%	0.6%
Q4-24	1.0%	0.7%	-0.1%	0.9%	0.8%
Q1-25	1.2%	-0.6%	-0.1%	0.6%	0.6%
YoY Growth					
2021	5.9%	6.3%	21.4%	-5.4%	3.4%
2022	4.3%	13.8%	9.1%	10.5%	8.4%
2023	4.8%	8.8%	-17.4%	2.8%	1.5%
2024	2.4%	0.4%	-1.9%	3.8%	2.1%
Q1 2025	4.4%	0.4%	-0.9%	3.8%	3.0%

	Cumulative Loan Growth Rates			
	Loans (\$tn)	1-Yr.	2-Yr.	3-Yr.
Total Loans	\$12.3	3.0%	4.3%	11.9%
CRE	1.2	0.0%	1.9%	9.5%
Multifamily	0.6	3.0%	7.7%	21.1%
C&I	2.3	-4.1%	-5.7%	-0.6%
Resi RE	2.9	1.6%	3.7%	13.6%
Consumer	1.6	-6.6%	-6.3%	-0.7%
Construction	0.5	-4.1%	0.1%	15.9%
Nondep Fin Inst	1.3	59.6%	65.1%	86.6%

Source: BankRegData, Federal Reserve, and Cadwalader, Wickersham & Taft LLP.

CREDIT

- Loan loss reserves were mostly held flat but increased for Cat5 banks (sub \$100 billion in assets).
- NPLs also accelerated for Cat5 banks while improving elsewhere.
- Charge-offs eased but the longer-term trend is upward.



Non-Performing Loan Rate					
	GSIB	Cat3	Cat4	Cat5	Total
NPL (\$bn)	40.1	17.0	12.5	37.4	107.0
NPL%	0.87%	0.99%	0.92%	0.80%	0.87%
Chained Quarter Change in NPL Rate (bps)					
Q1-24	3.8	7.2	6.6	5.8	5.3
Q2-24	-1.6	-0.2	6.5	1.6	0.7
Q3-24	2.1	2.9	10.7	5.1	4.2
Q4-24	6.9	4.2	0.5	3.5	4.5
Q1-25	-5.3	-3.5	-17.5	8.6	-1.2
YoY Change in NPL Rate (bps)					
2021	-28.2	-9.0	-38.6	-21.9	-24.1
2022	-11.2	-2.0	-10.8	-11.5	-10.2
2023	-17.5	-21.0	-26.0	-9.6	-16.1
2024	11.1	14.2	24.2	16.0	14.7
Q1 2025	2.0	3.5	0.1	18.8	8.2

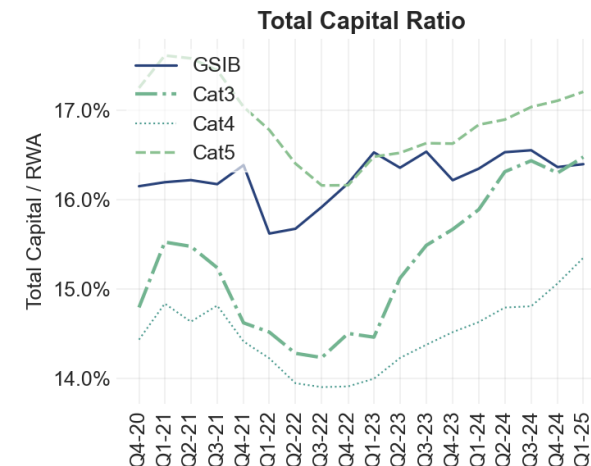
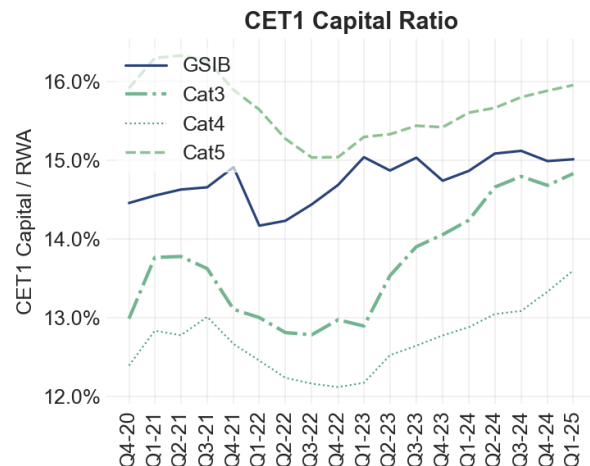
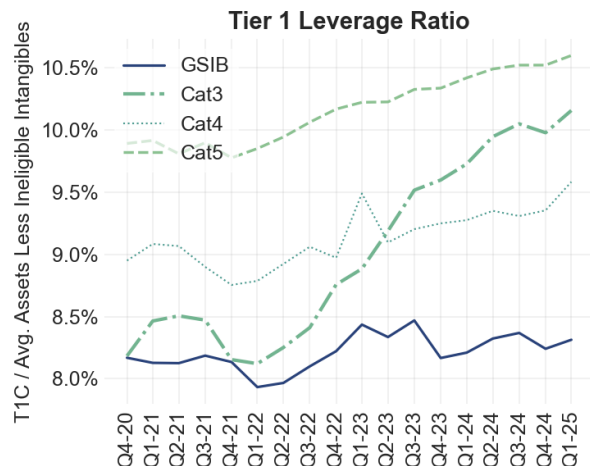
Allowance for Loan & Lease Losses					
	GSIB	Cat3	Cat4	Cat5	Total
ALLL (\$bn)	74.6	39.0	21.7	60.1	195.3
ALLL%	1.63%	2.28%	1.60%	1.29%	1.59%
Chained Quarter Change in ALLL Rate (bps)					
Q1-24	0.7	1.1	3.0	0.4	0.7
Q2-24	-0.1	8.0	0.0	-0.6	0.8
Q3-24	0.6	-1.1	0.7	0.8	0.4
Q4-24	-0.7	-3.1	-0.6	-0.5	-1.0
Q1-25	-0.5	0.5	-4.5	1.9	0.0
YoY Change in ALLL Rate (bps)					
2021	-91.8	-77.2	-56.6	-15.9	-55.6
2022	9.6	-2.1	-3.2	-4.3	1.4
2023	-6.7	-17.5	-37.9	-4.4	-12.1
2024	0.5	4.9	3.2	0.1	0.9
Q1 2025	-0.7	4.3	-4.4	1.6	0.2

Charge-Offs					
	GSIB	Cat3	Cat4	Cat5	Total
Q1 CO (\$bn)	7.5	4.5	1.8	2.9	16.7
Q1 CO%	0.16%	0.26%	0.14%	0.06%	0.14%
Quarterly Charge-Off Rate (bps)					
Q1-24	16.1	25.5	13.4	5.4	13.1
Q2-24	17.0	25.5	15.0	5.9	13.8
Q3-24	16.2	26.8	14.9	5.9	13.7
Q4-24	16.7	26.9	15.4	7.6	14.5
Q1-25	16.3	26.3	13.6	6.2	13.6
YoY Change in Total Charge-Offs					
2021	-40%	-49%	-37%	-46%	-43%
2022	-16%	25%	-6%	-15%	-7%
2023	91%	113%	105%	90%	98%
2024	17%	5%	10%	7%	11%
Q1 2025	33%	21%	21%	27%	27%

Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

CAPITAL

- Generally, banks conserved capital in 2024 into an expected B3E update and entered 2025 on a strong capital footing.
- High Tier 1 Leverage Ratios for non-GSIBs reflects business model differences, but also higher RWA density at the smaller banks.



Tier1 Leverage Ratio					
	GSIB	Cat3	Cat4	Cat5	Total
T1L Ratio	8.3%	10.2%	9.6%	10.6%	9.3%
Chained Quarter Change T1L Ratio (bps)					
Q1-24	-25.9	21.1	7.2	9.3	-6.7
Q2-24	15.7	34.9	10.1	15.4	17.3
Q3-24	15.8	32.2	3.3	10.2	14.9
Q4-24	-8.2	3.2	0.4	3.1	-2.8
Q1-25	-5.5	10.8	27.5	7.8	3.5
YoY Change in T1L Ratio (bps)					
2022	8.7	60.4	21.8	39.2	27.0
2023	-5.5	84.1	27.7	16.9	16.4
2024	7.4	38.0	10.4	18.5	14.4
2025	10.3	43.0	30.8	18.0	18.4

CET1 Capital Ratio					
	GSIB	Cat3	Cat4	Cat5	Total
CET1 Ratio	15.0%	14.8%	13.6%	16.0%	15.1%
Chained Quarter Change CET1 Ratio (bps)					
Q1-24	-16.8	33.6	23.5	16.6	6.5
Q2-24	34.5	60.4	27.2	24.5	34.9
Q3-24	25.5	55.6	20.6	19.7	28.3
Q4-24	-9.5	2.2	28.4	21.8	6.9
Q1-25	-10.7	3.6	51.6	15.3	6.9
YoY Change in CET1 Ratio (bps)					
2022	-22.6	-13.3	-54.8	-85.4	-44.7
2023	5.3	108.1	65.6	38.0	42.6
2024	24.9	62.5	55.6	46.3	41.8
2025	14.8	59.3	72.1	35.0	35.2

Total Capital Ratio					
	GSIB	Cat3	Cat4	Cat5	Total
TRBC Ratio	16.4%	16.5%	15.3%	17.2%	16.5%
Chained Quarter Change Total Capital Ratio (bps)					
Q1-24	-19.0	40.0	25.4	20.7	7.9
Q2-24	31.3	64.4	27.5	26.8	34.9
Q3-24	20.6	54.6	17.6	19.8	25.6
Q4-24	-16.6	-1.3	26.9	21.1	2.8
Q1-25	-15.5	4.1	54.2	17.0	5.6
YoY Change in Total Capital Ratio (bps)					
2022	-20.3	-11.8	-50.3	-87.6	-44.1
2023	3.5	116.4	60.7	46.5	44.3
2024	14.7	63.1	54.4	48.0	37.7
2025	5.0	58.7	71.8	36.8	31.2

Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

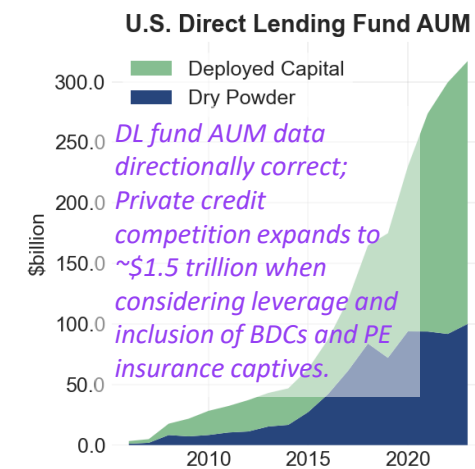
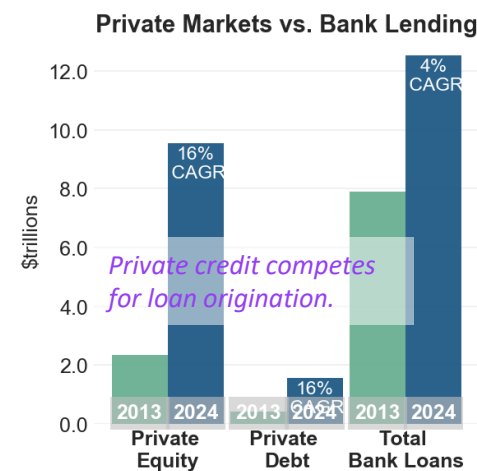
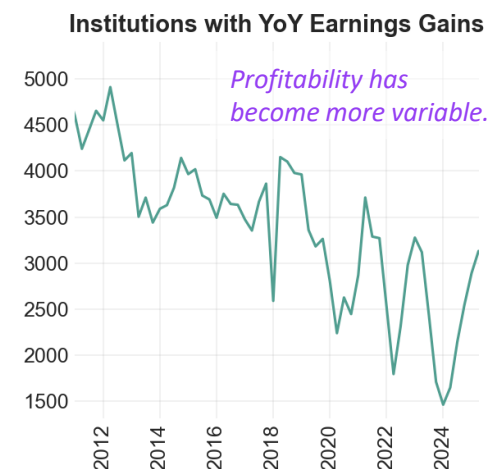
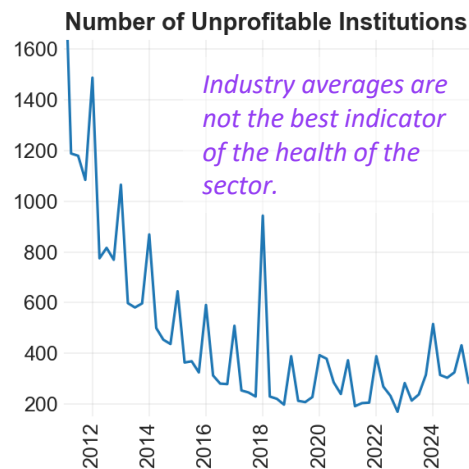
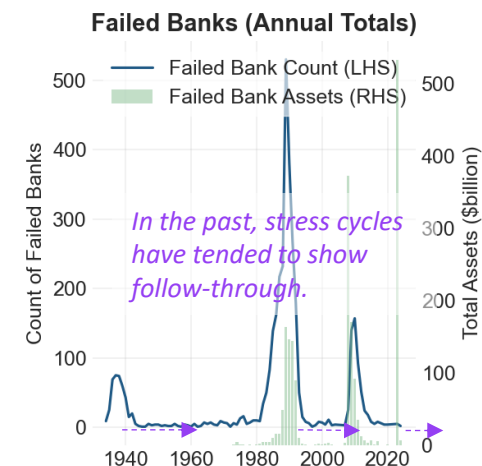
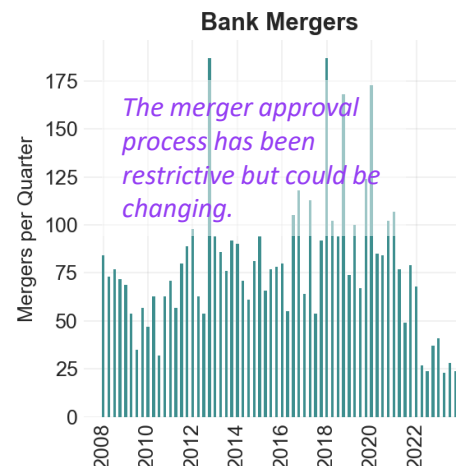
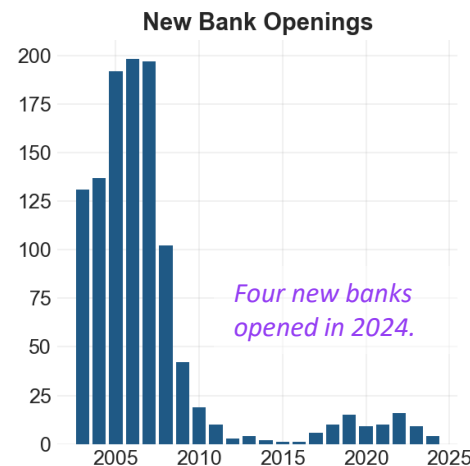
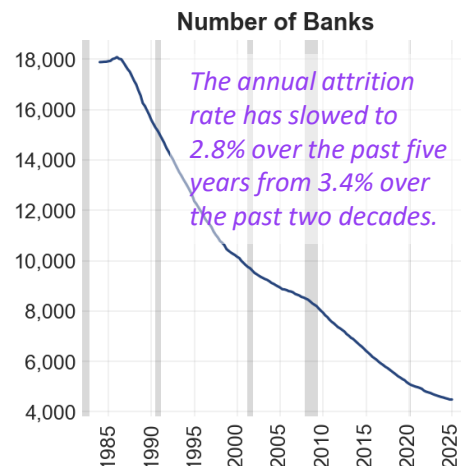
THE LONG GAME

- While the attrition rate in the number of banks has slowed over the past five years, the case for consolidation remains compelling: Client and product diversification, economies of scale on the cost side, the technology investment imperative, and national brand recognition all argue in favor of more bank combinations.
- The economic backdrop has complicated the ability for some banks to grow organically out of capital constraints and loan concentrations. Many institutions leaned into credit card, auto, and home equity lending to support loan growth over the past two years. Credit performance in these sectors is showing strains from higher interest rates and a slowing labor market. Commercial real estate loan performance has been slow to stabilize and large balances mean a few loans can have an outsized impact. Finally, the ramp-up in loan restructurings that are classified as performing loans may be leading to delinquency rates that are understated relative to what non-performing rates would be if newly restructured loans were placed on non-accrual status.
- There are causes for optimism in 2025. Capital conservation in anticipation of B3E has meant many banks entered the year from a strong position. Additional rate cuts look likely (but potentially back-end loaded and prompted by a broader slowdown) and deregulation momentum will likely continue.
- Private credit continues to grow as both a significant competitor and a collaborator. In corporate lending, intense competition from direct lending funds and BDCs has shaped loan terms, pricing, and refinancing volume across institutional loan, middle-market, and asset-backed lending markets. But sponsor partnerships are also increasingly important for banks that seek intermediate growth in private markets. Such collaborative relationships have emerged in loan origination joint ventures, loan and business line sales, and capital relief transactions, in addition to traditional financing and securitization functions.

THE LONG GAME

- The outlook has been tempered in recent months. The administration's attempted restructuring of international trade balances, supply chains, and manufacturing has been disorderly and will frustrate business investment and capital formation until a more structured approach emerges. Further uncertainty may spill over into the labor market, which is already showing signs of deterioration, and by extension impact consumer loan growth and credit performance. The U.S. fiscal position holds implications for deposit gathering and funding costs.
- The regulatory outlook has shifted dramatically in recent months. A one-way-ratchet-tighter approach has been replaced by a reassessment of previously proposed rules, new agency appointments, and an openness to streamlining supervision. These are welcome developments that will likely continue to become clearer in Q2.
- These themes are developed further in this report, relying primarily on call report data to provide an analysis that looks beyond publicly traded names (fewer than 20% of banks by count), and taking into consideration distributions and outliers rather than simple industry averages.

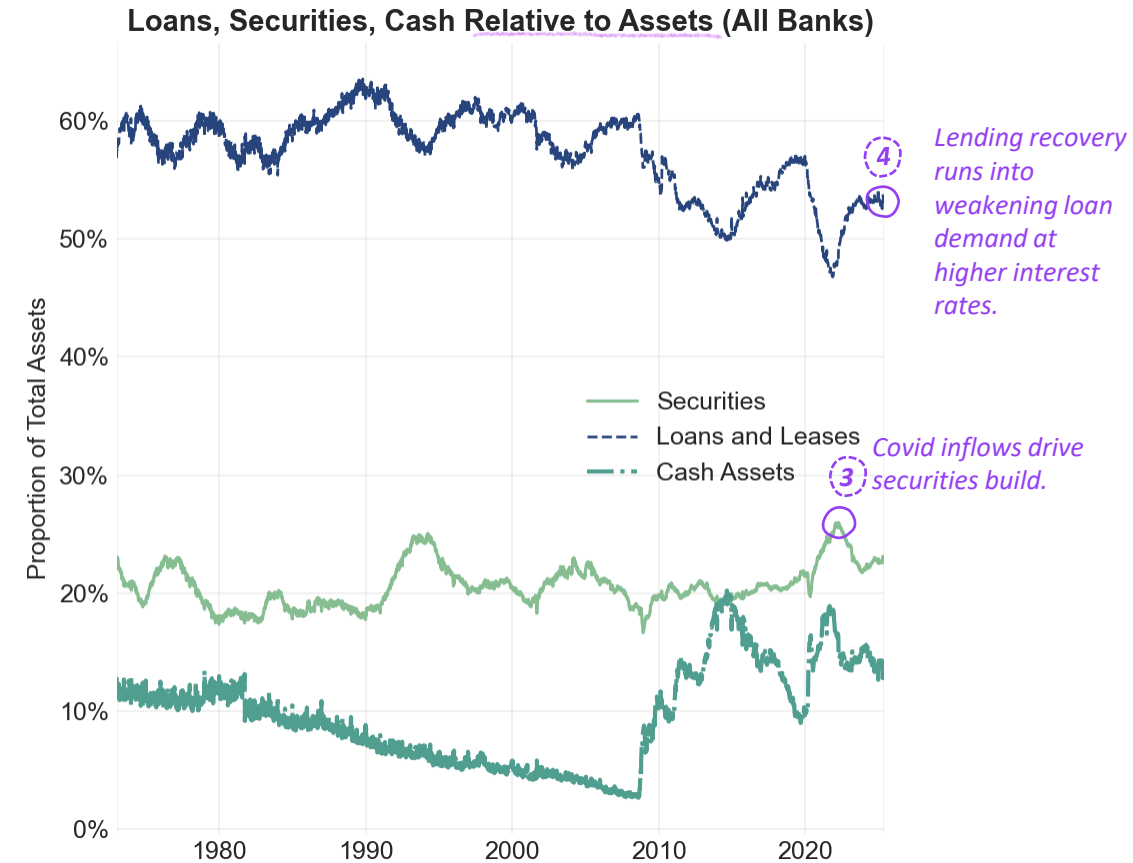
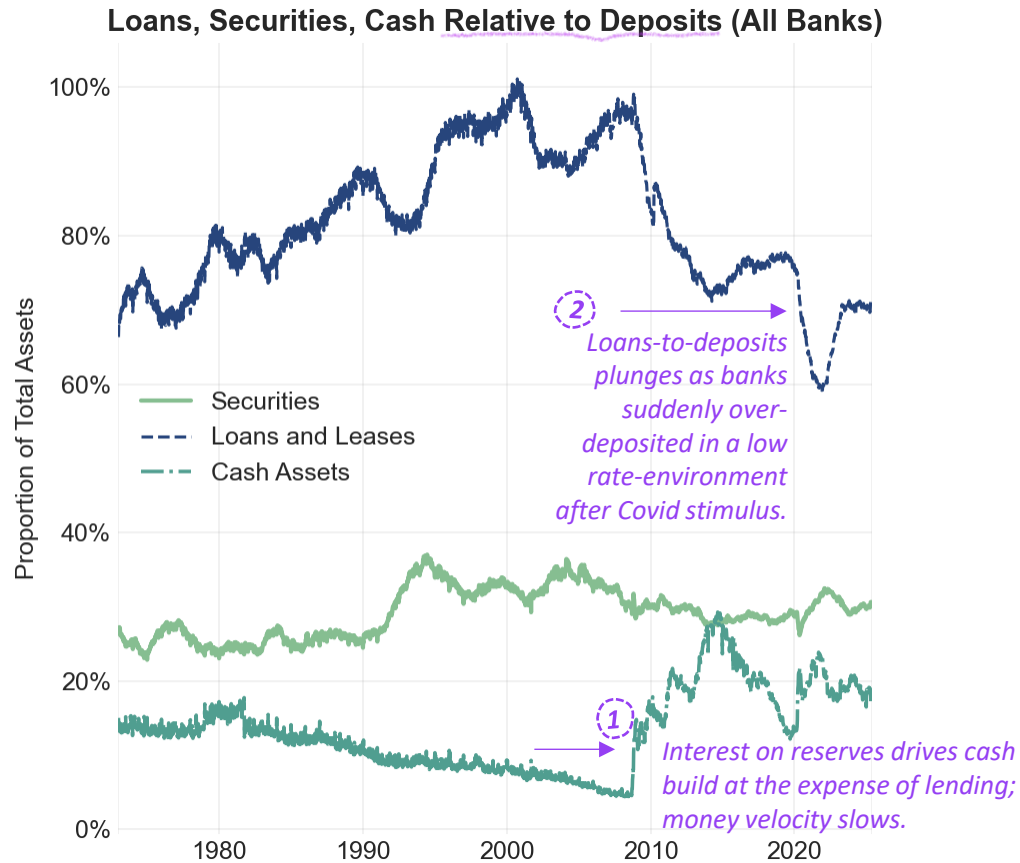
LONG-TERM CONTEXT



Source: FDIC, NYSEArca, PitchBook, Preqin, and Cadwalader, Wickersham & Taft LLP.

May 2025

LONG-TERM CONTEXT



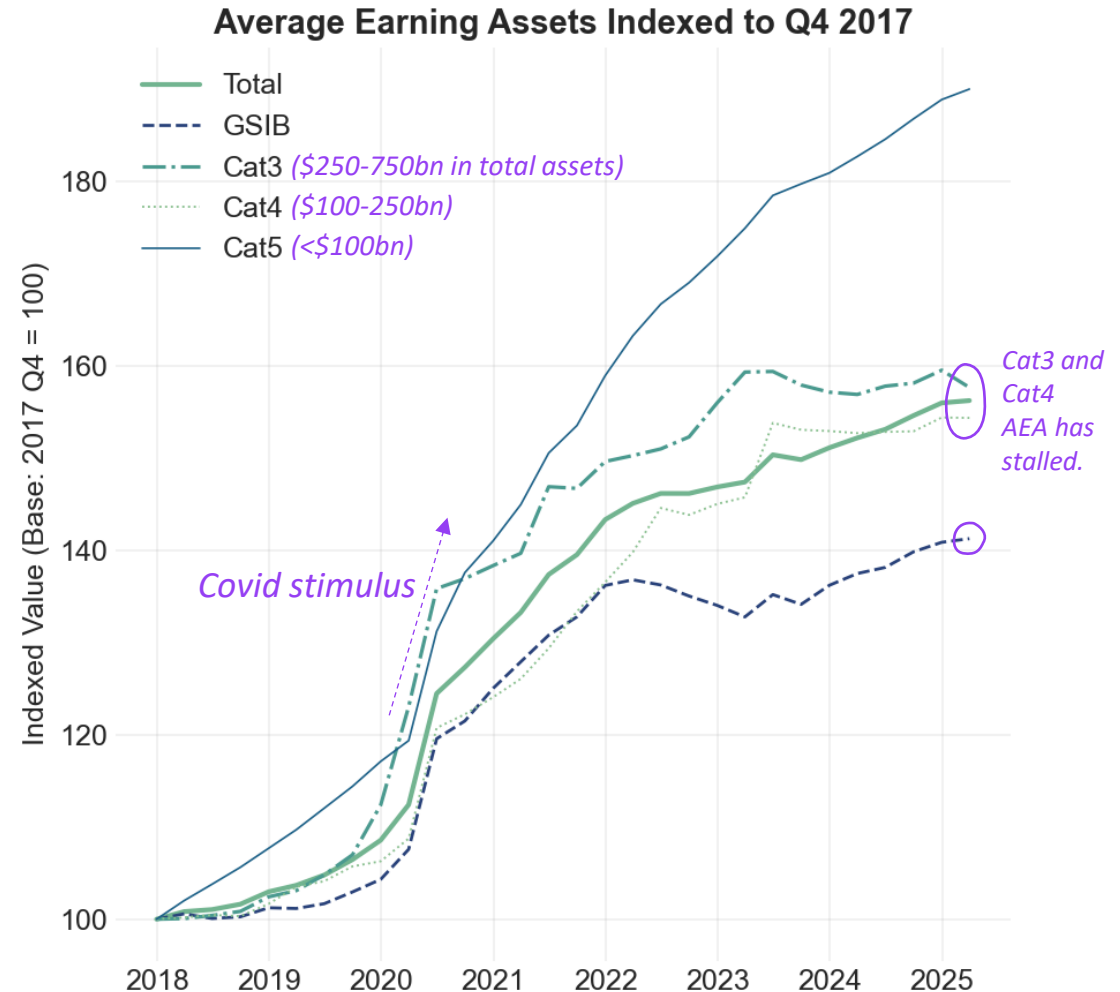
Source: Federal Reserve and Cadwalader, Wickersham & Taft LLP.

ASSETS: MODERATION

Asset growth challenges are most apparent for Cat3 and Cat4 institutions (the super-regionals). Growth has been particularly anemic when viewed in the context of inflation. A stall in earning assets raises a number of challenges.

- **Profitability.** A flat or declining trend in earning assets poses a headwind to profitability. A number of institutions have announced plans to shrink. Unlike interest-earning assets, fixed costs, real estate, and headcount don't scale down on a smooth curve. Declining total assets can reduce NIM accretion from roll-off of maturing assets.
- **Adverse selection.** High-quality securities and loans to stronger borrowers in better-performing sectors are more difficult to retain, particularly in corporate lending where private credit, BDCs, and capital markets are intensely competitive. Problem loans are more likely to be extended.

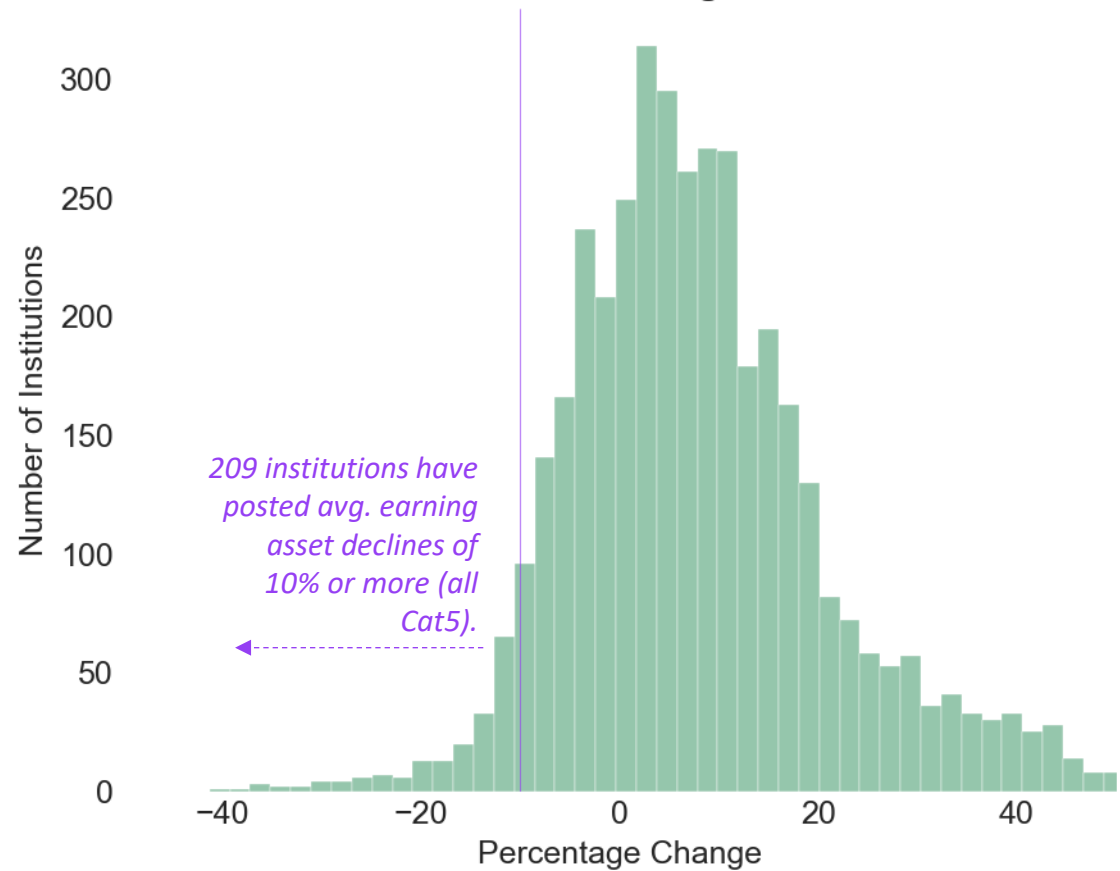
In 2025 these have been idiosyncratic and are more often apparent for banks with geographic or product line limitations.



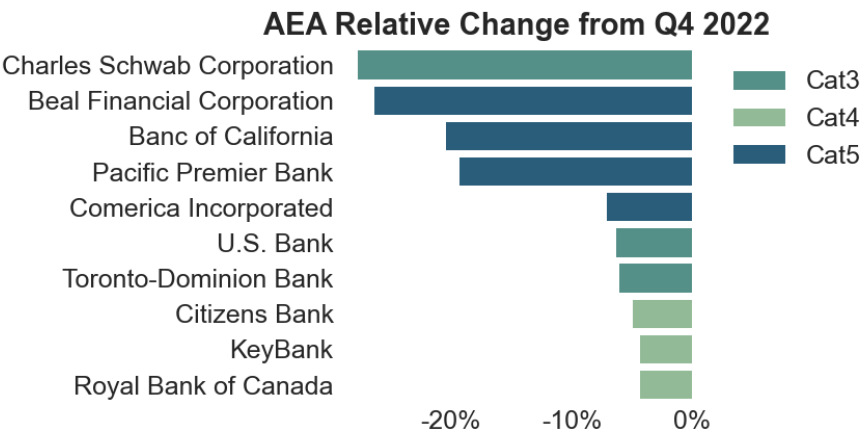
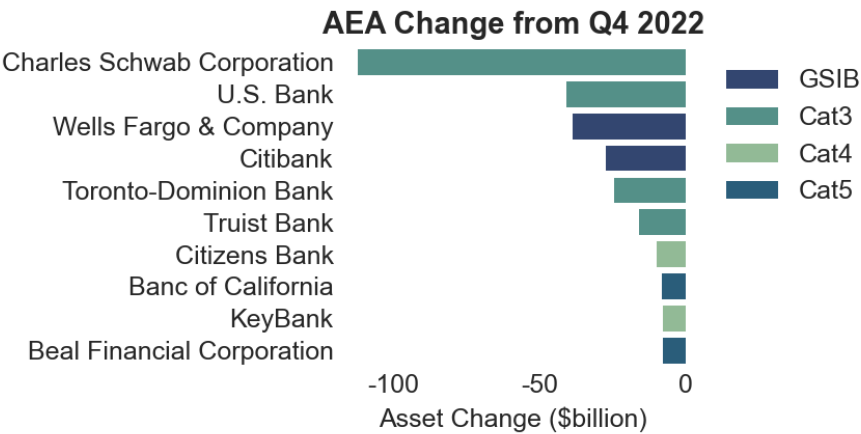
Note: Same-store-sales basis using current category. Category based solely on total assets. Category 5 describes banks with assets under \$100 billion. GSIBs limited to the U.S. GSIBs unless otherwise noted. Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

ASSET GROWTH DISTRIBUTION

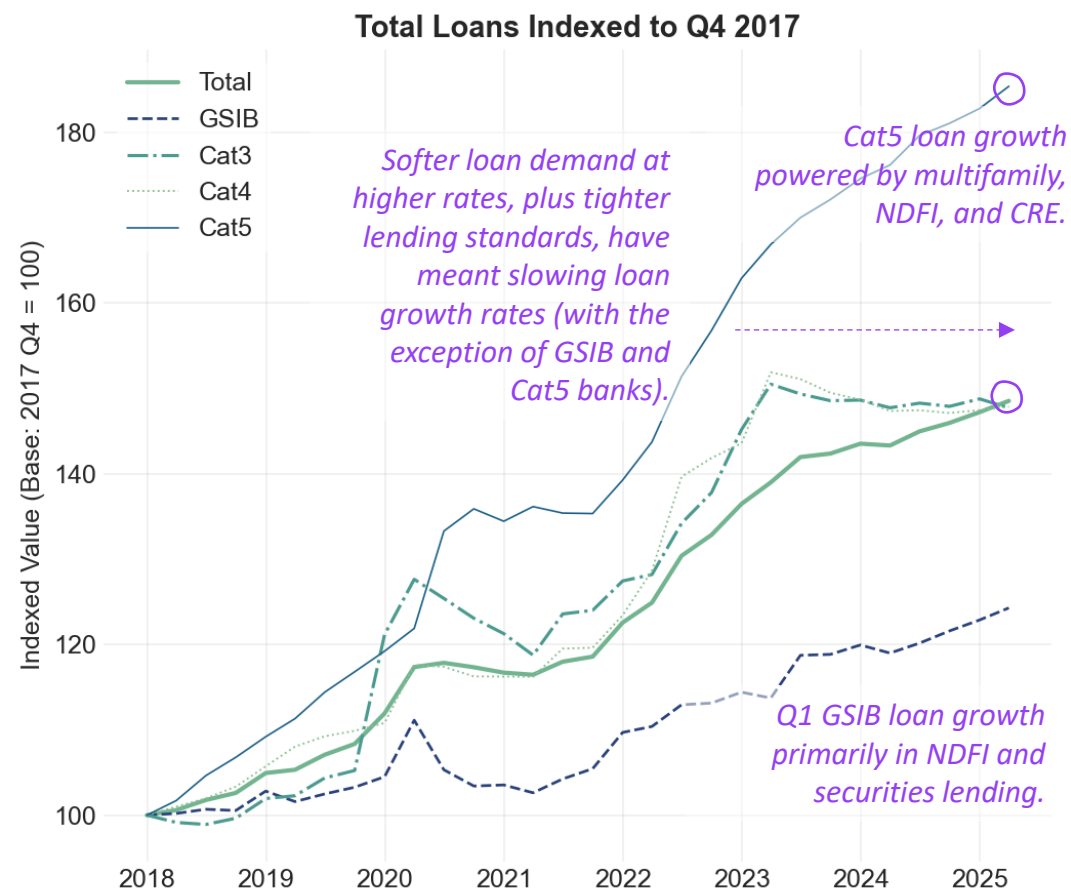
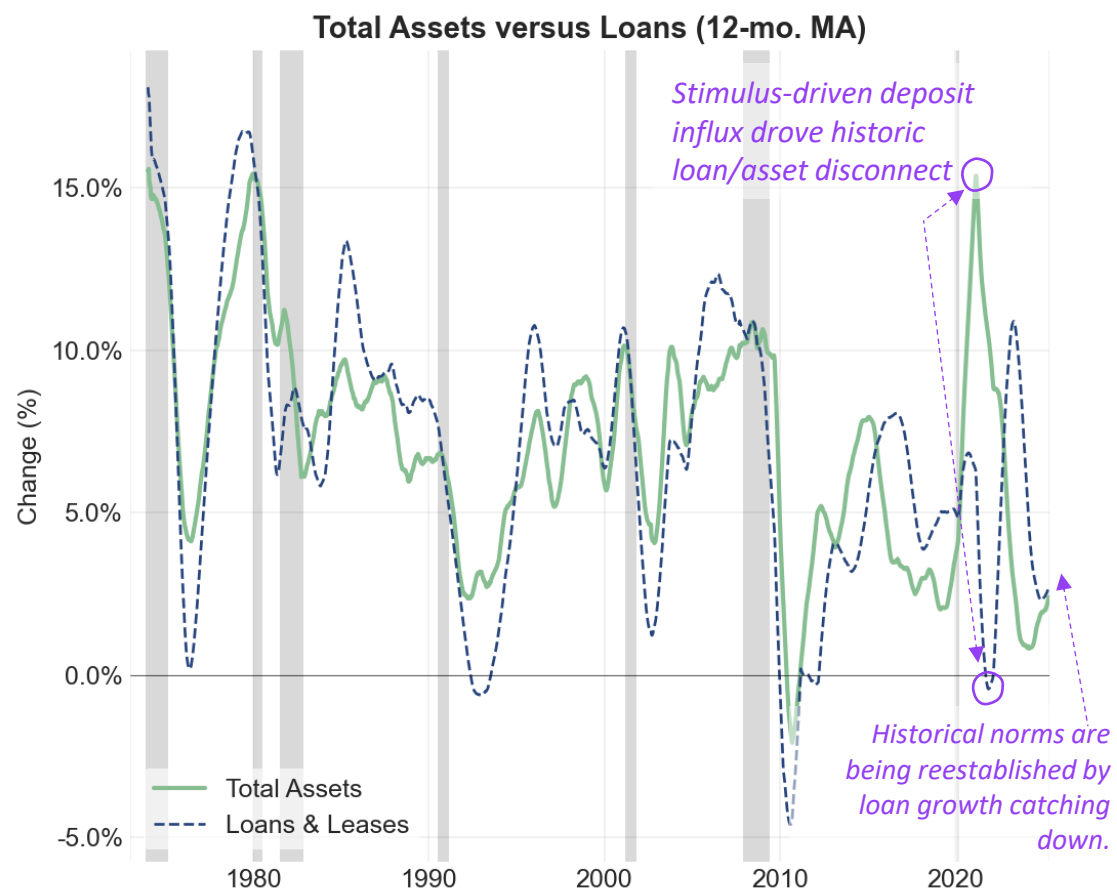
Distribution of AEA Change from Q4 2022



Source: BankRegData and Cadwalader, Wickersham & Taft LLP.



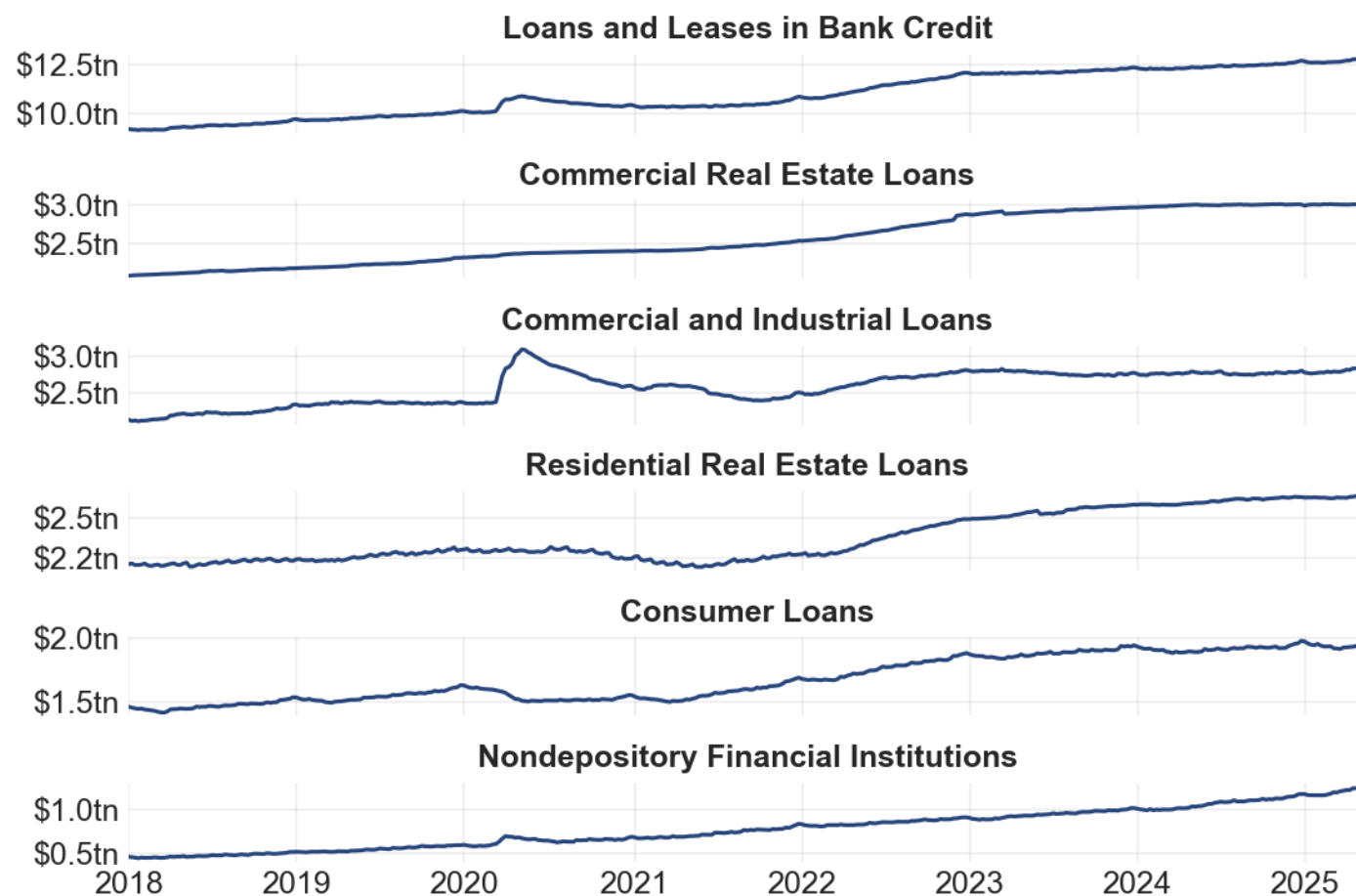
LOAN GROWTH



Note: Same-store-sales basis with Institution category held constant at current level. Non-GSIB category based solely on total assets throughout.

Source: BankRegData, Federal Reserve, and Cadwalader, Wickersham & Taft LLP.

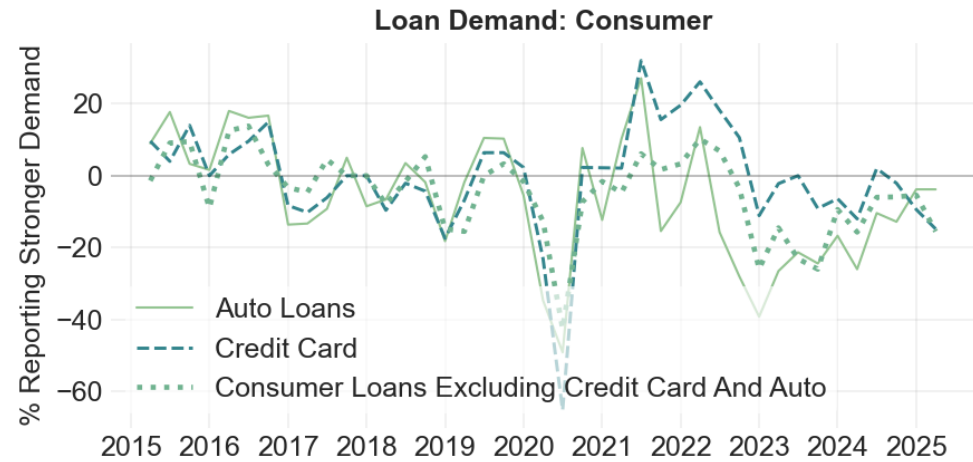
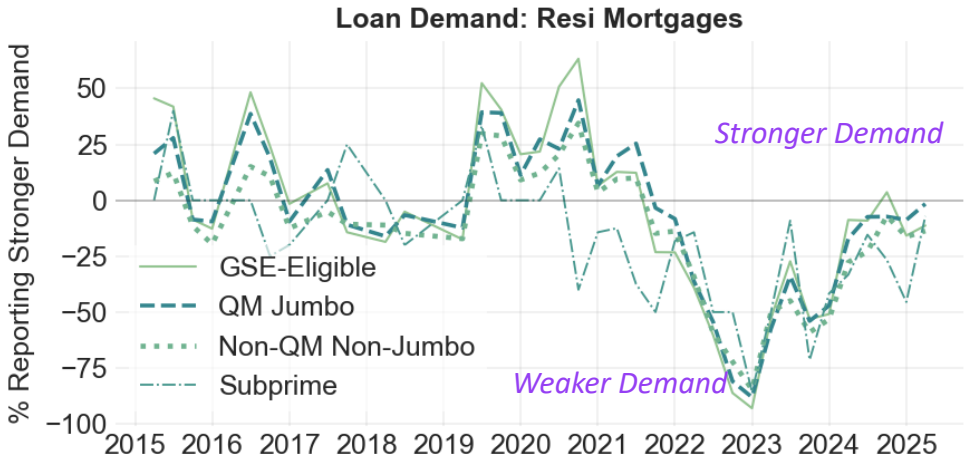
LOAN GROWTH



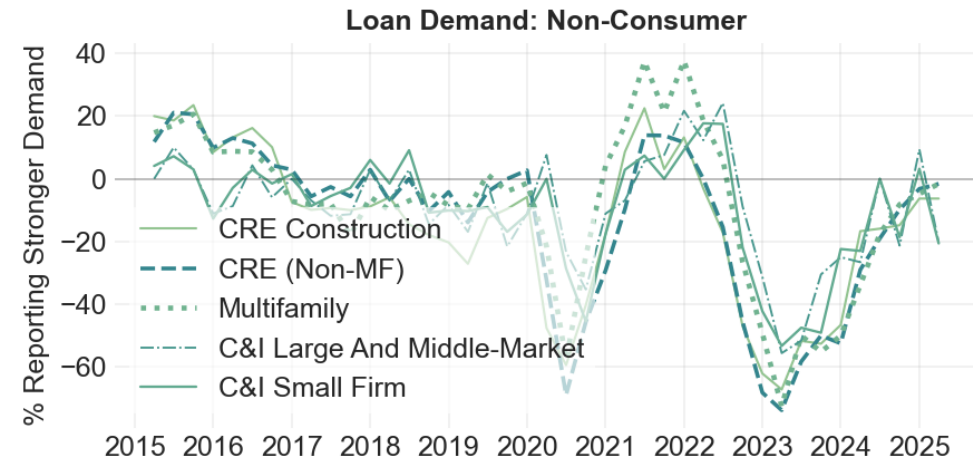
Source: Federal Reserve and Cadwalader, Wickersham & Taft LLP.

- Lending to non-depository financial institutions (NDFIs) has been a primary driver of loan growth. The NDFI category includes loans made to REITs, BDCs, SPEs, insurance cos., marketplace lenders, and private funds, and gives some insight into bank financing of non-bank lenders.
- Call reports started phasing in more NDFI loan detail in 2H 2024, and some of the reported growth has been due to re-classification from other loan categories in light of the newly clarified definitions.
- Relatedly, margin and securities-based lending (“Purchase/Carry Securities” in call reports) expanded briskly in the past year.
- Cat5 banks have leaned into real estate categories over the past three years, posting growth in residential mortgages, CRE, construction, multifamily, and home equity. Except for multifamily, Cat5 loan growth in these categories slowed in Q1.

LOAN DEMAND

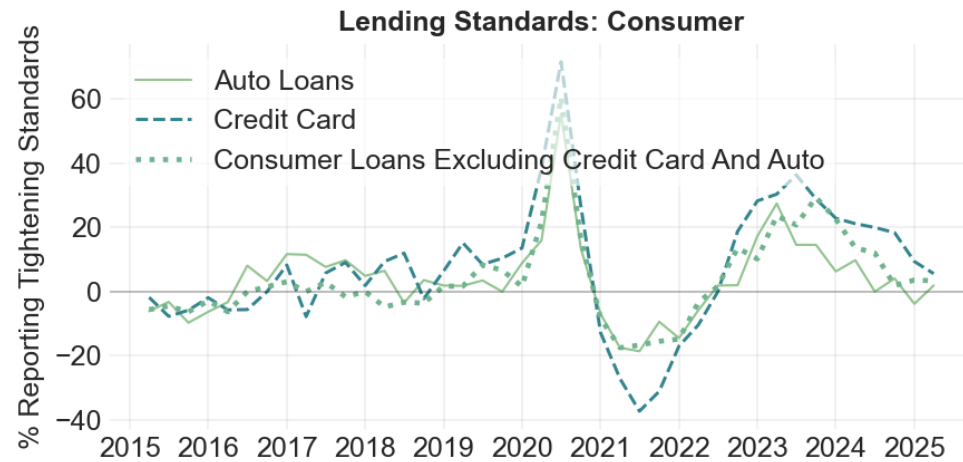
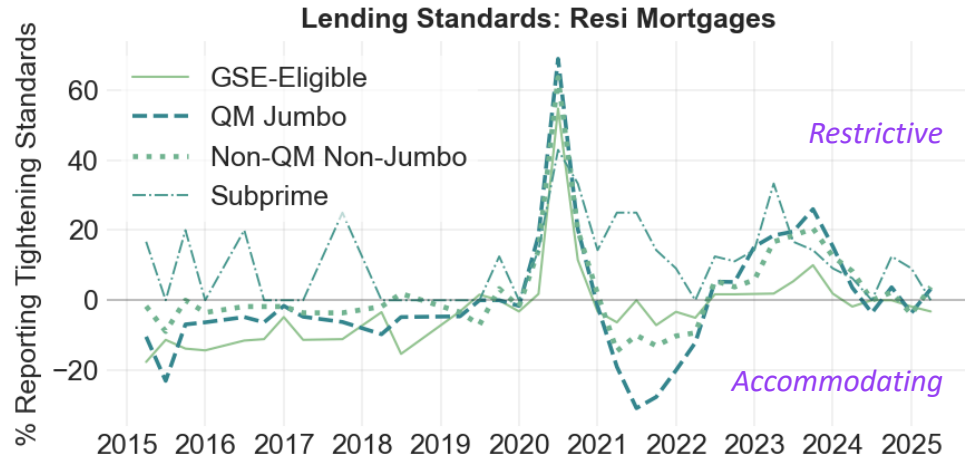


- Loan demand cooled across the board in the recent loan officer survey, with C&I demand hitting a one-year low and most household segments showing weaker borrowing appetite.
- The Q1 results reverse the brief rebound seen in late 2024.
- The reported decline in credit card demand follows other economic survey data showing declining consumer confidence. Cards had been a top source of loan growth in 2024.

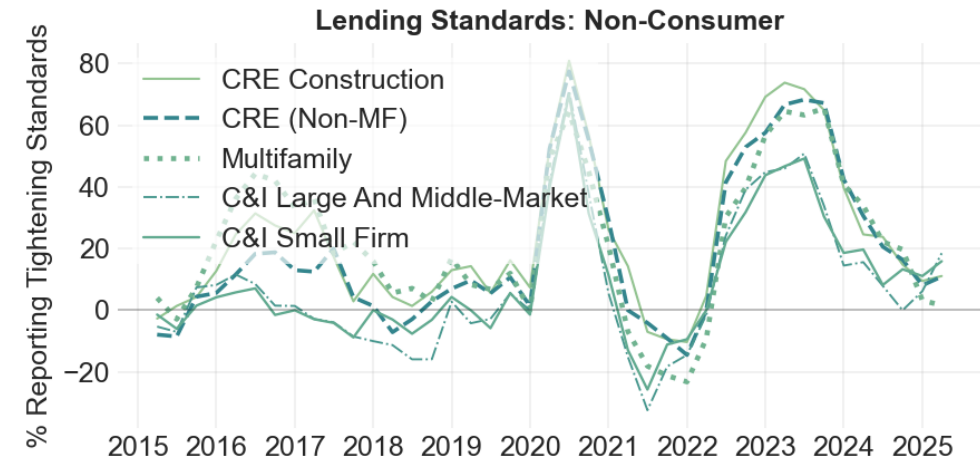


Source: Federal Reserve and Cadwalader, Wickersham & Taft LLP.

LENDING STANDARDS

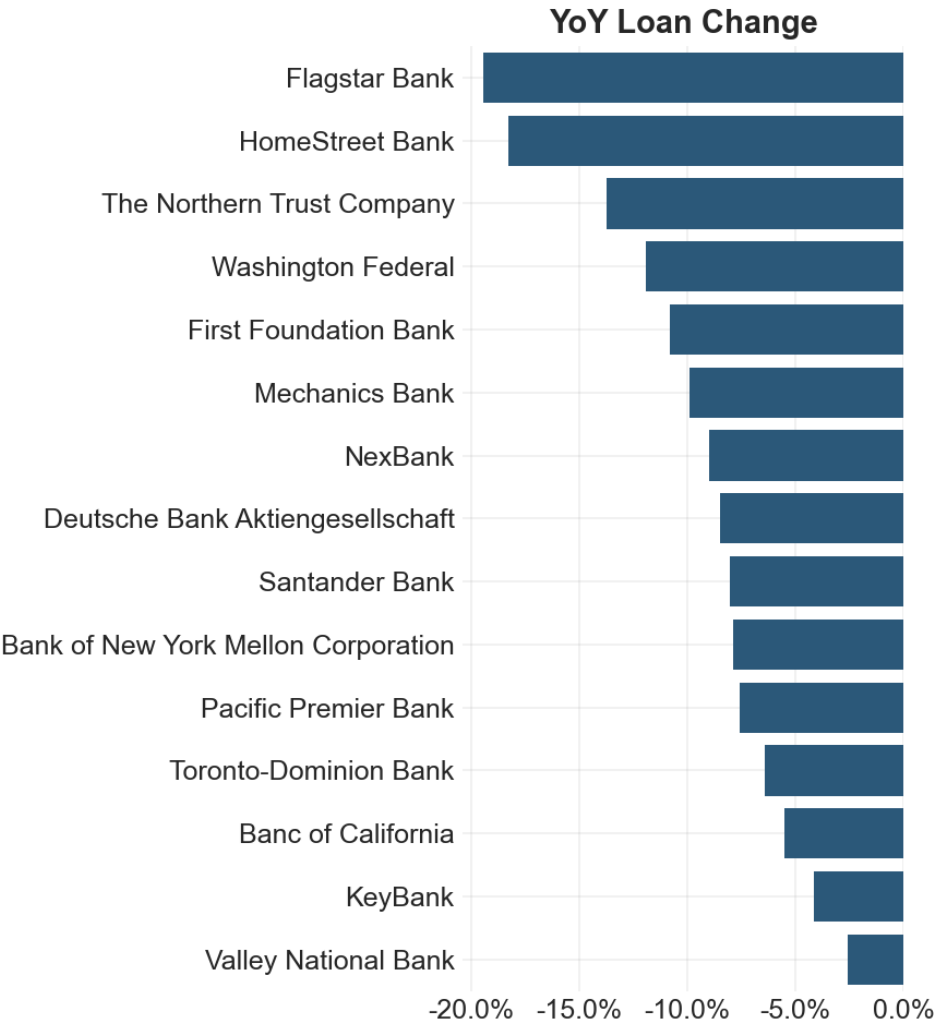
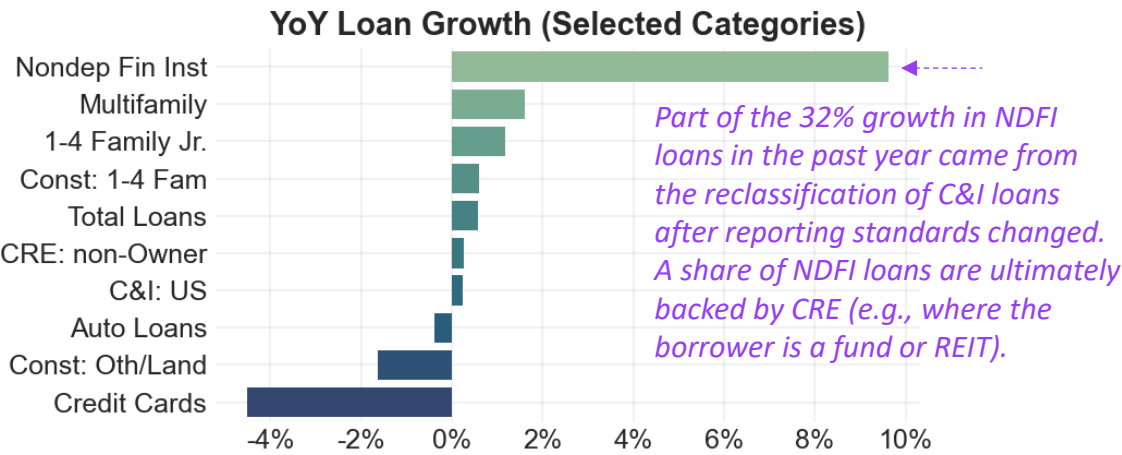
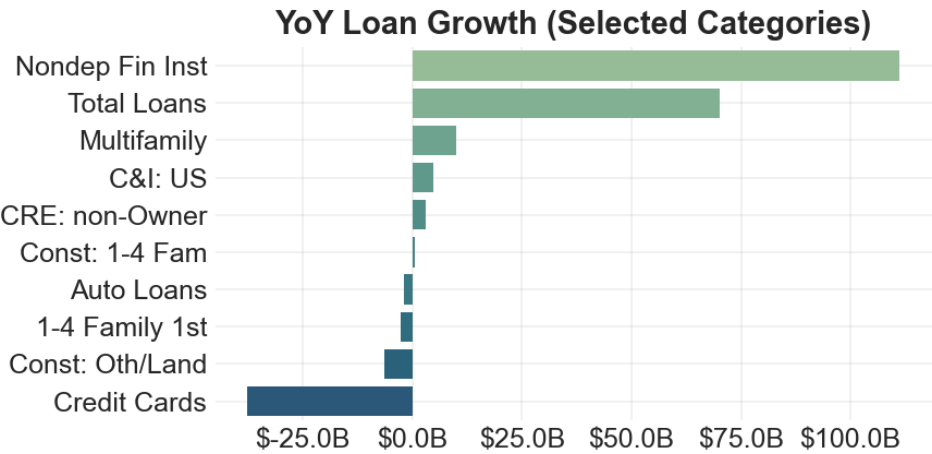


- On the whole, lending standards trended tighter in Q1 after easing in 2024.
- In C&I, lenders reported moderate net tightening (smaller lines, higher risk premiums, tougher covenants). Multifamily standards were relatively unchanged while CRE and construction standards tightened.
- Consumer credit standards were mostly held steady.



Source: Federal Reserve and Cadwalader, Wickersham & Taft LLP.

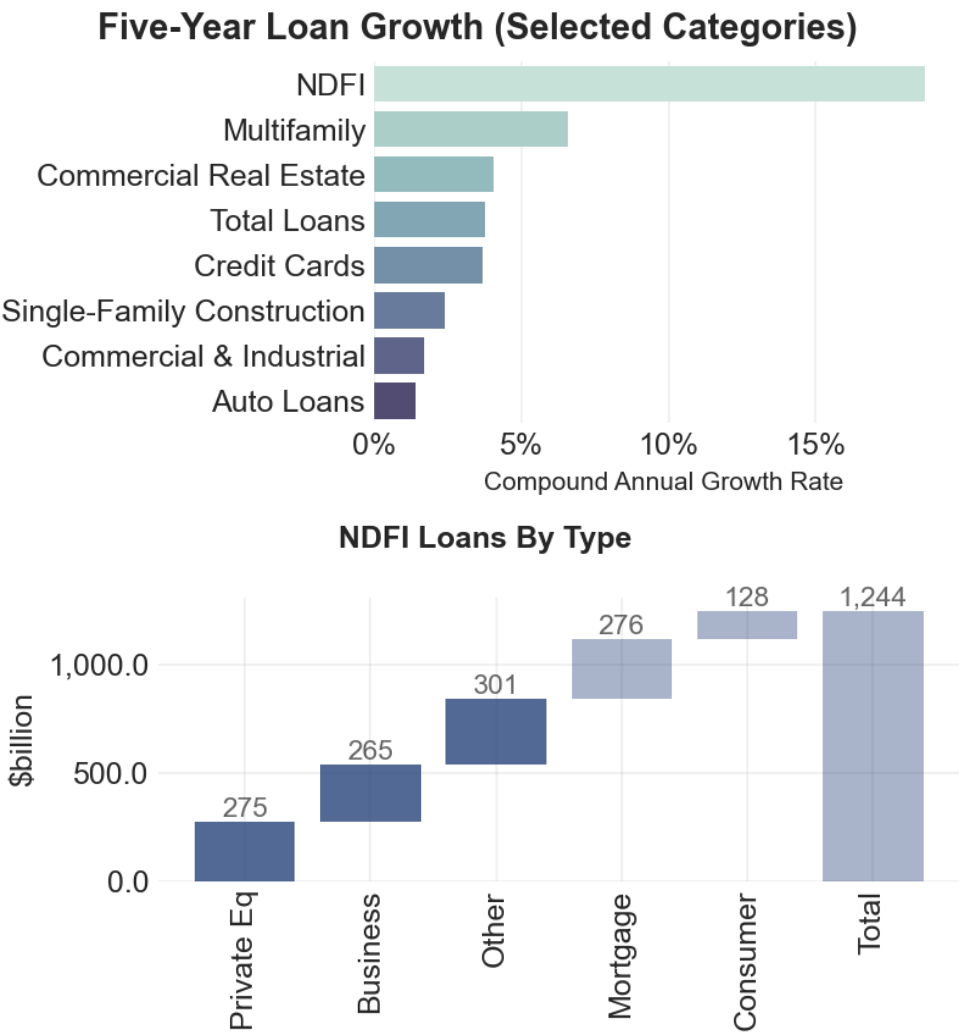
LOAN GROWTH



Note: Same-store-sales basis.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

NDFI LOANS

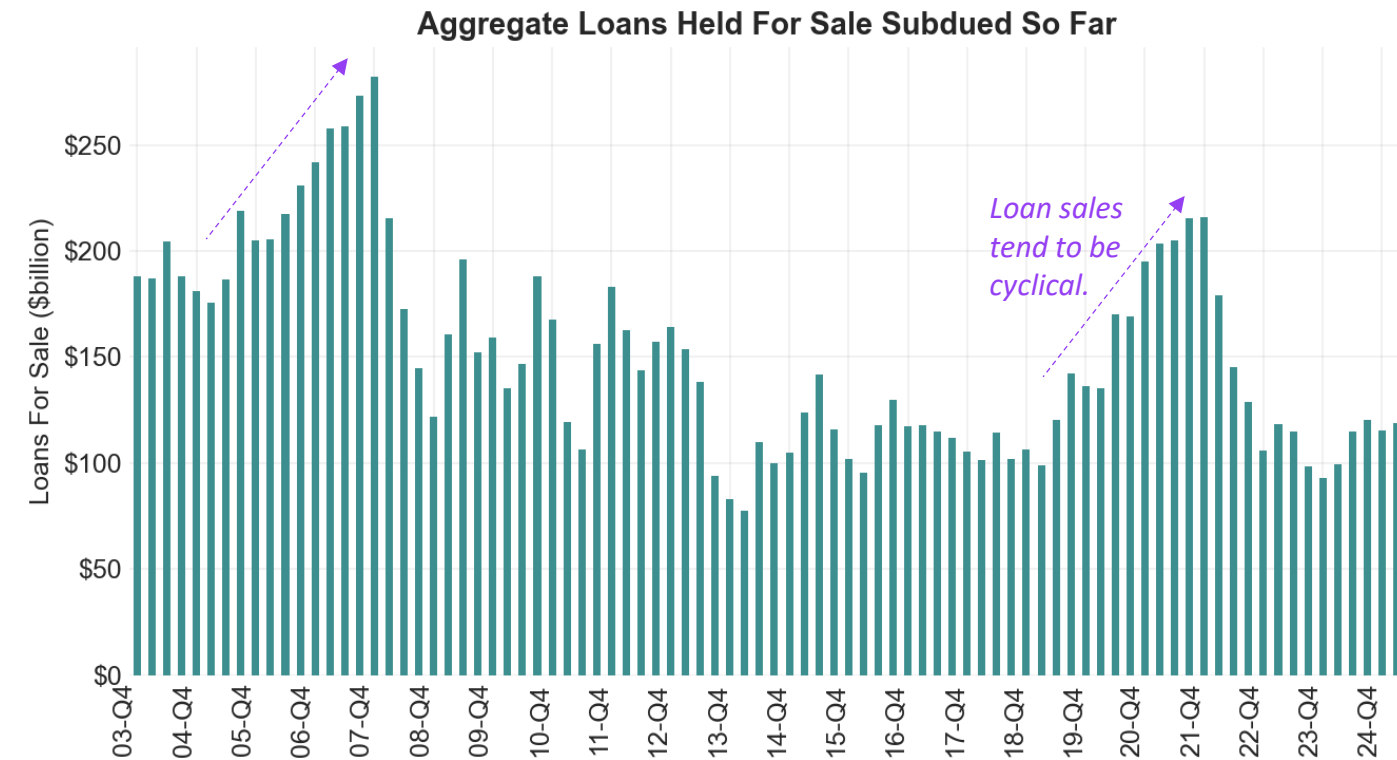
- Disclosure for NDFI loans is a work in progress. Effective Q4 2024, banks with \$10 billion or more began disclosing five new NDFI subcategories in call reports: loans to mortgage credit intermediaries, business credit intermediaries, private equity funds, consumer credit intermediaries, and other loans.
- In the first iteration of the new disclosures in Q4, some C&I and loans to individuals were reclassified into NDFI, skewing the growth rate in this category. Additionally, some institutions classified their entire NDFI loan book into the “Other” subcategory.
- Loans to private equity funds appear to consist largely of subscription loans, but subscription loans can also fall into the loans to business credit intermediaries (e.g., private credit funds), or the “Other” subcategory.
- As of 2024, the direction of travel was to implement additional NDFI loan detail in the bank submissions of Capital Assessments and Stress Testing Reports (FR Y-14A/Q/M).
- Rapid NDFI loan growth will continue to meet increased regulatory and supervisory attention, but banks will continue to serve as intermediaries to sponsor clients. Sponsors are a significant source of capital markets business and ancillary fee income, and capital formation in the non-bank sector continues to grow. Nonetheless, this is no longer a niche vertical growth strategy.



Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

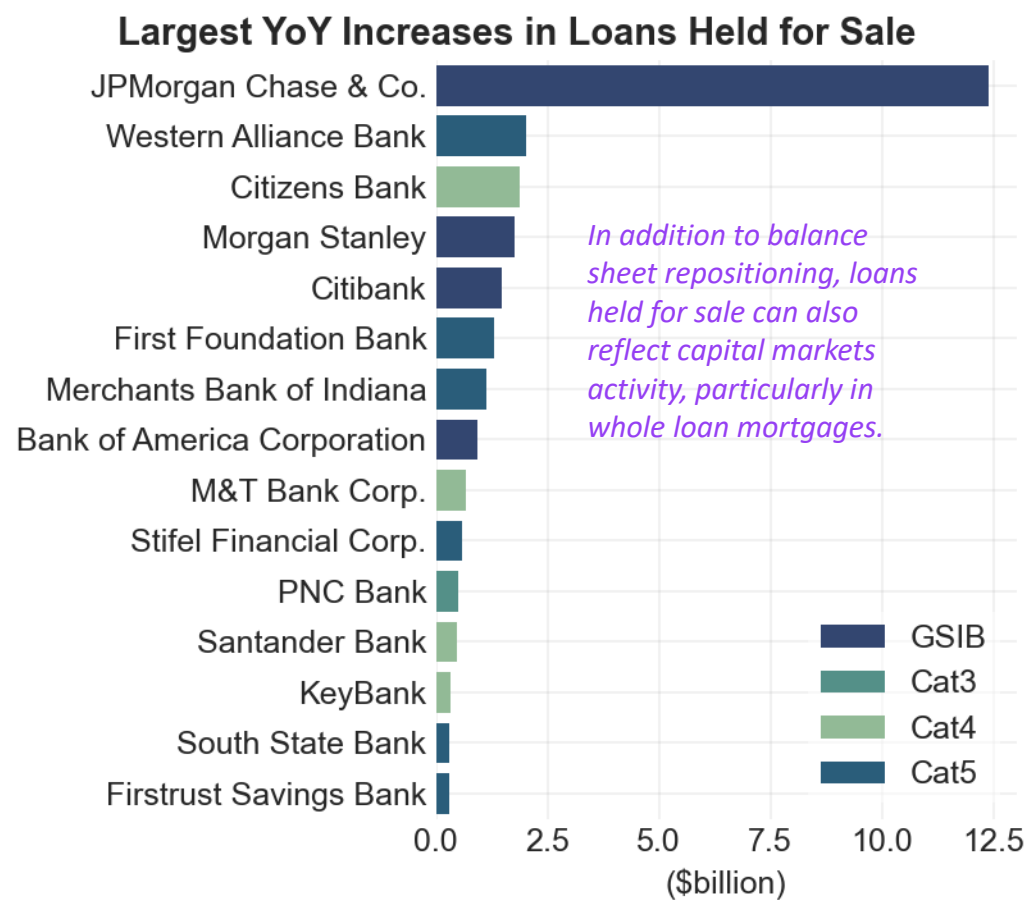
SCALING DOWN: LOANS FOR SALE

- While a cyclical upturn in loans held for sale has yet to materialize, a few institutions have increased loans held for sale. In the early innings par or near-par sales are more likely. Private credit sponsors are increasingly active loan portfolio purchasers.
- Insurance strategies (capital relief trades) and financing (note-on-note) may be taking some pressure off loan sales. These transactions represent a further migration of risk out of the regulated banking sector to private credit funds. This move that ultimately houses assets with long-term investors is difficult to track system-wide.
- These tools avoid potential capital costs from discounted loan sales but can come at the expense of future NII.
- The uncertain outlook for bank regulatory capital rulemaking may also be playing a role in limiting loan sales.

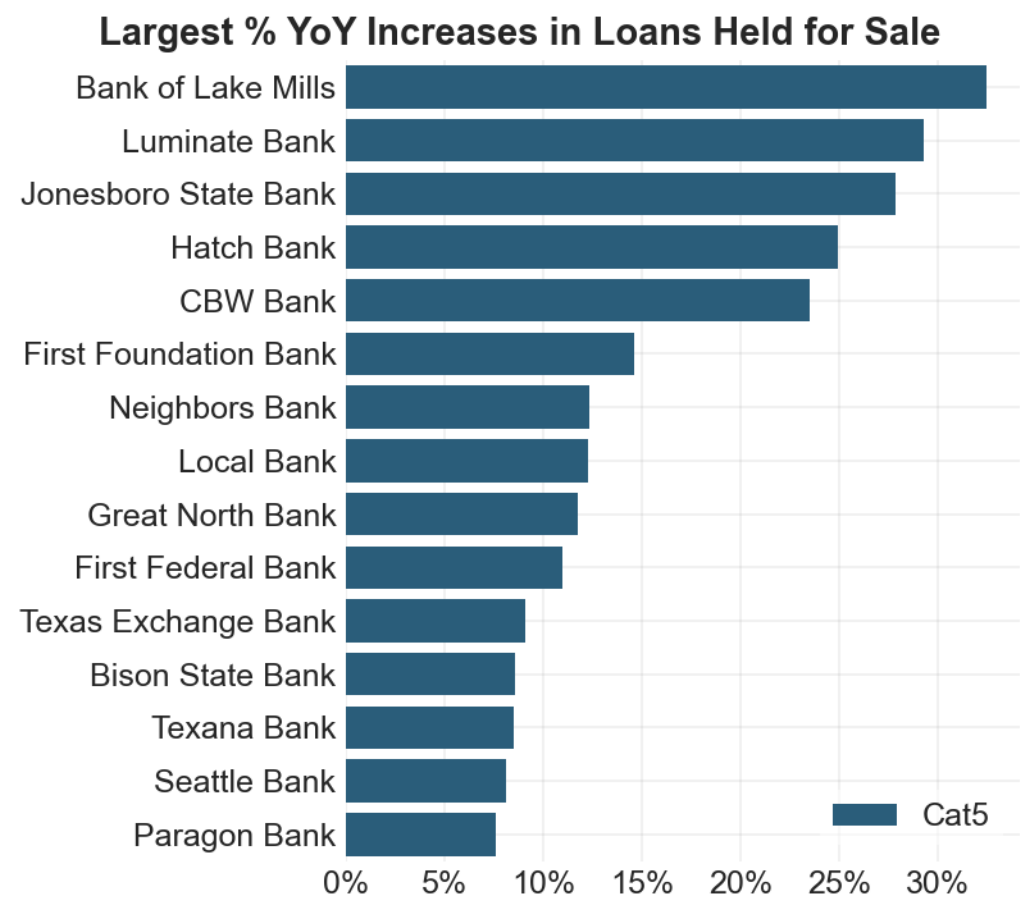


Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

SCALING DOWN: LOANS FOR SALE



Source: BankRegData and Cadwalader, Wickersham & Taft LLP.



Note: Measures the change in loans-held-for-sale-as-a-percentage-of-total-loans metric.

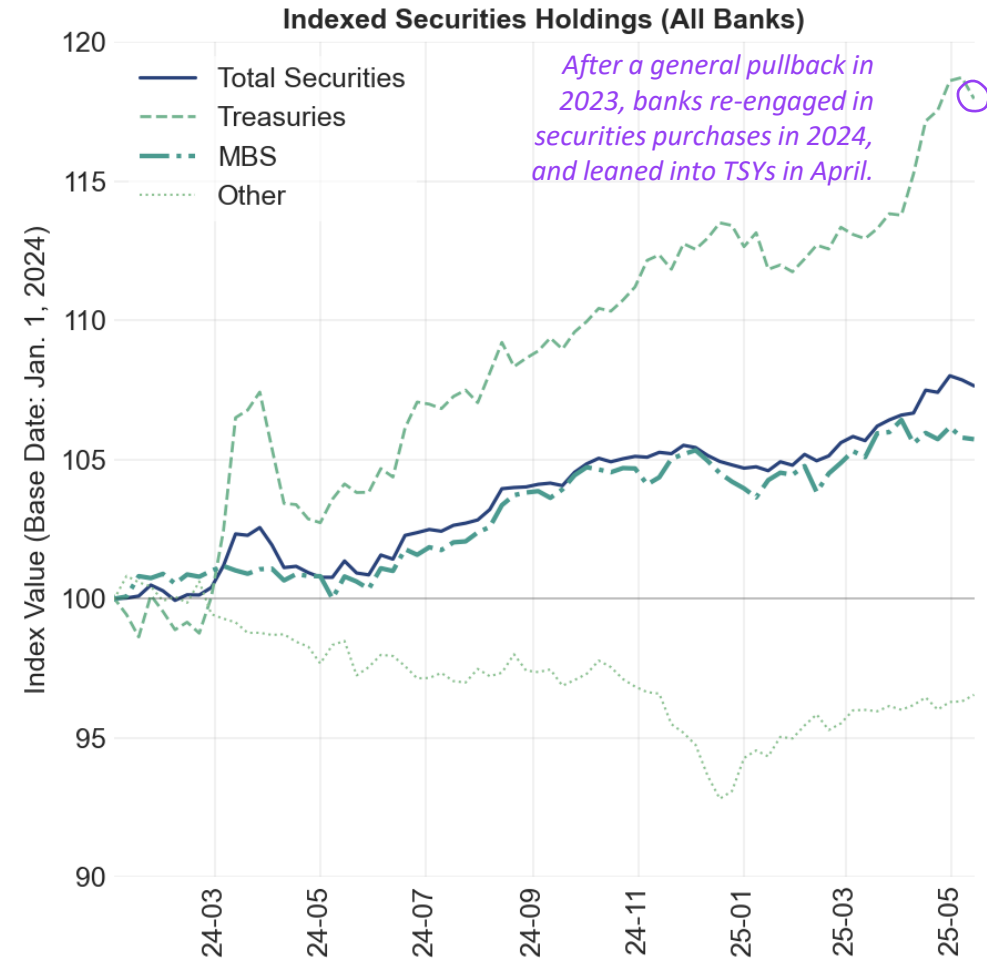
PC PORTFOLIO TRADES

- The choice between raising more costly debt capital or deleveraging through asset sales is being resolved in some cases through loan portfolio sales to private credit sponsors.
- Loan portfolio sale terms are generally limited to a press-release level of detail and can leave open questions, such as: (1) How much credit risk stays with the bank through seller financing? (2) If the sale includes a future flow joint venture, how is decision-making shared and how will the loan portfolio profile change (*i.e.*, credit quality and duration)? (3) Are there any contingent outs for the sponsor like putback options or MAC clauses? (4) What are the servicing arrangements and how will the client experience be affected by the sale?
- In addition to loan sales, banks have launched joint ventures with private credit funds. In some configurations, these amount to balance sheet outsourcing. Under these arrangements, the existing bank origination infrastructure and relationships continue, while the assets are ultimately housed on a private credit balance sheet.
- Private credit joint ventures are an analog to securitization as an outlet for bank-originated loans. But a fund/sponsor wrapper in place of tranching securities may mean more income accrues to the sponsor (management fee and carried interest) compared to the bank in securitization (gain on sale, secondary trading, trustee and servicing).

Date	Seller	Buyer	Amount (\$bn)	Loan Asset Class
Feb 2025	Flagstar Bank	Lone Star	0.3	NYC CRE
Jan. 2025	Flagstar Bank	Cantor	0.1	Rent-stabilized multifamily
Dec. 2024	Valley National	Brookfield	0.9	CRE loans
Sept. 2024	Cross River Bank	Keystone	0.2	NYC multifamily and office
July 2024	Discover Bank	Carlyle & KKR	10.8	Prime private student loans
March 2024	UBS	Apollo	8.0	Senior secured financing facilities
Feb. 2024	Barclays PLC	Blackstone	1.1	Credit card receivables and forward flow
Jan. 2024	Truist Bank	Carlyle	0.4	Student loans
Dec. 2023	BMO Bank	KKR	7.0	RV loans
Aug. 2023	Synovus Bank	KKR	0.4	Prime auto
July 2023	Synovus Bank	Kayne Anderson	1.3	Medical office
July 2023	Goldman Sachs	Varde Partners	1.0	Unsecured personal loans
June 2023	PacWest Bancorp	Ares Management	3.5	Consumer, single-family mortgage, and timeshare
June 2023	PacWest Bancorp	Kennedy Wilson	5.7	Construction loans

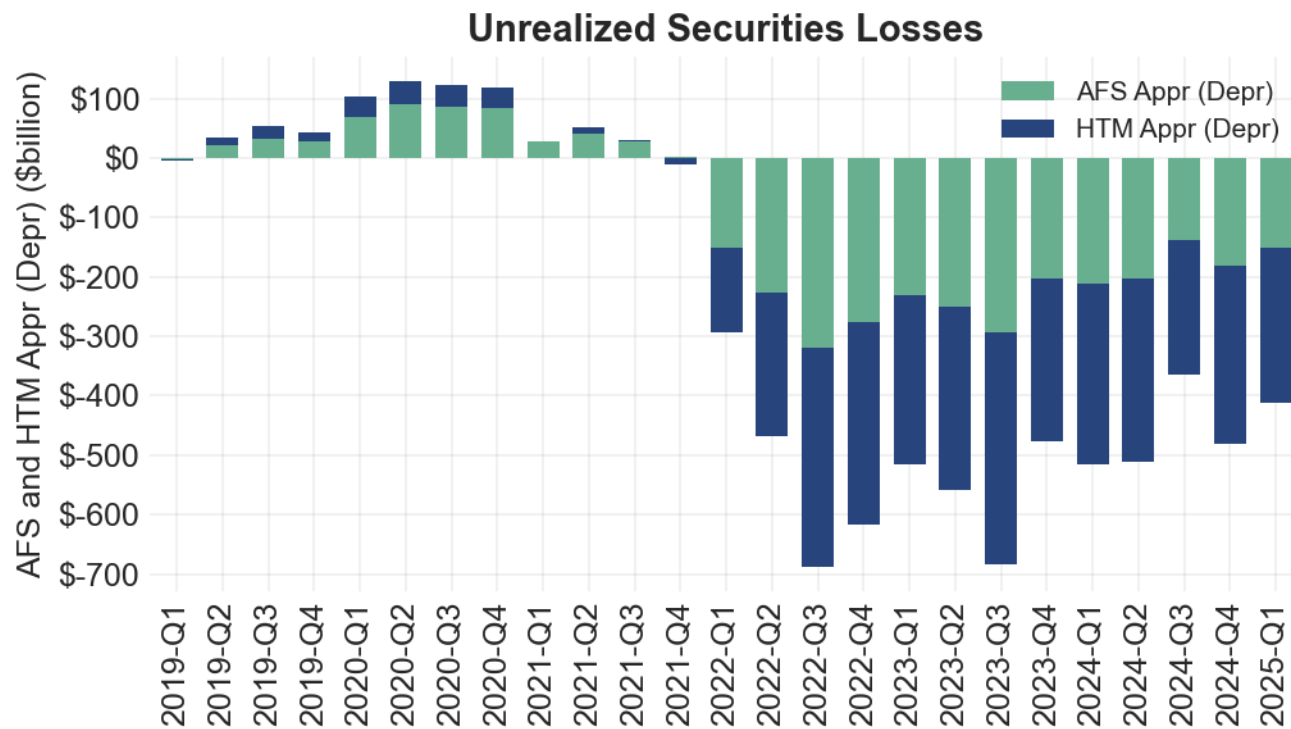
A SECURITIES REBOUND

- Bank securities holdings appeared to turn more interesting after Q1 ended when Treasury holdings expanded rapidly in April
- Some of the growth coincided with a reporting change in the H.8 release, but the persistent build over multiple weeks suggests real growth related to the April pop in real short-term yields, increased market-making demand amid increased volatility, and tax-season cash-flow timing. Q2 call reports will provide more clarity.
- Sluggish loan growth can support incremental securities accumulation when a bank has spare leverage capacity, deposit inflows exceed outflows, and the front-end yield curve offers positive carry over reserve rates. These conditions may be aligning for some institutions in Q2.
- The above fundamentals are likely more material on an industry basis over the long term than the in-process Supplementary Leverage Ratio (SLR) reform that could exempt dealer Treasury holdings from the SLR calculation.



Source: Federal Reserve and Cadwalader, Wickersham & Taft LLP.

SECURITIES

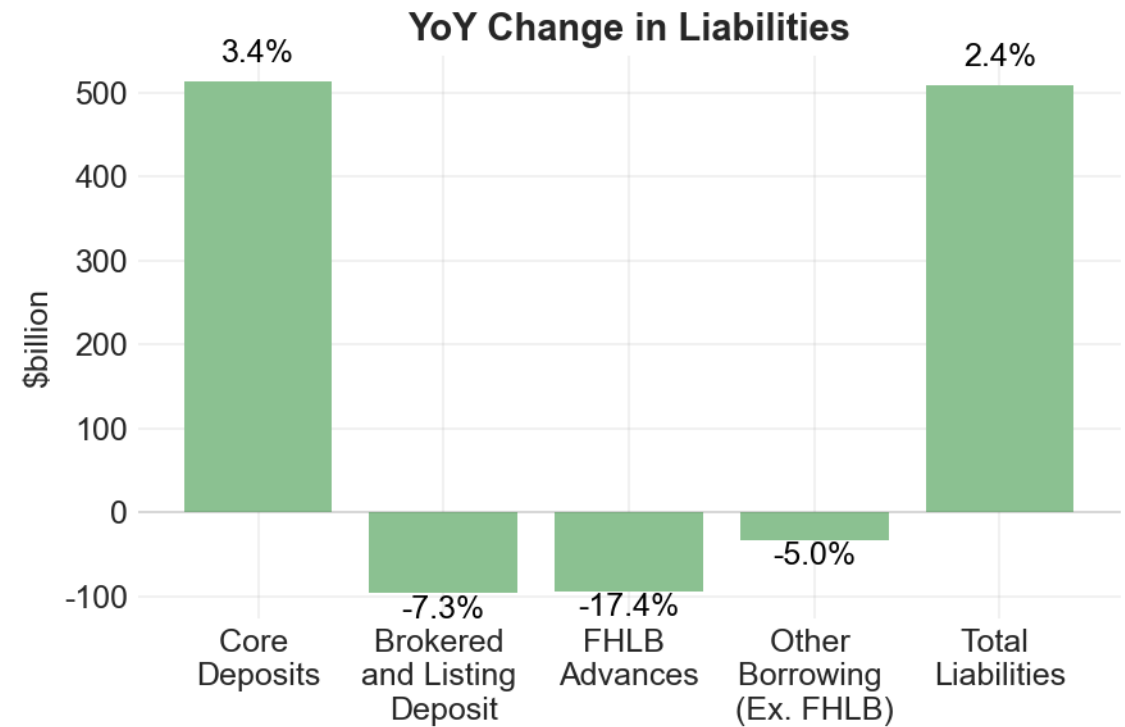


Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

- The \$400 billion-plus of unrealized losses in securities portfolios continues to pose a significant hurdle to mid-sized bank M&A because purchase accounting requires acquirers to mark target HTM/AFS books to fair value at acquisition.
- Institutions with deep securities losses become more reliant on more costly wholesale funding because underwater securities can't be sold without realizing a loss, impacting the "liquidity under stress" component of supervisory reviews.
- The proposal to remove the AOCI opt-out for Cat3 and Cat4 has not been finalized and may not materialize. Therefore, banks not following the advanced approach and those that fall into Cat3 and below may still elect to opt out of including AOCI in their regulatory capital calculations.

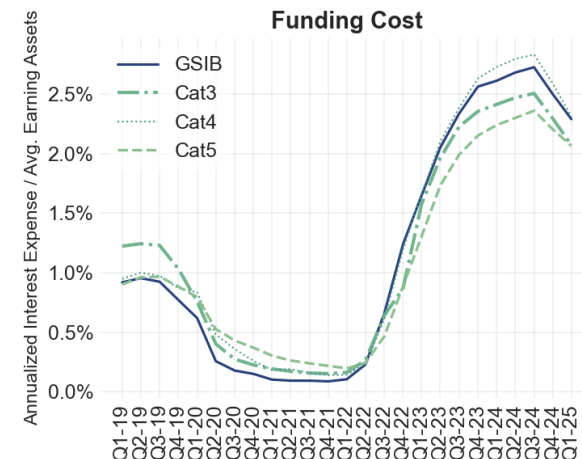
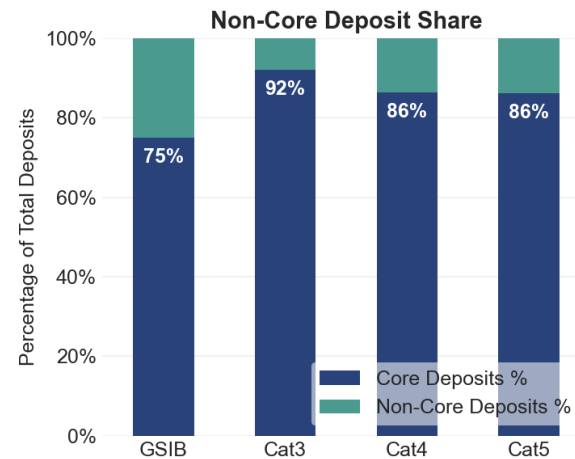
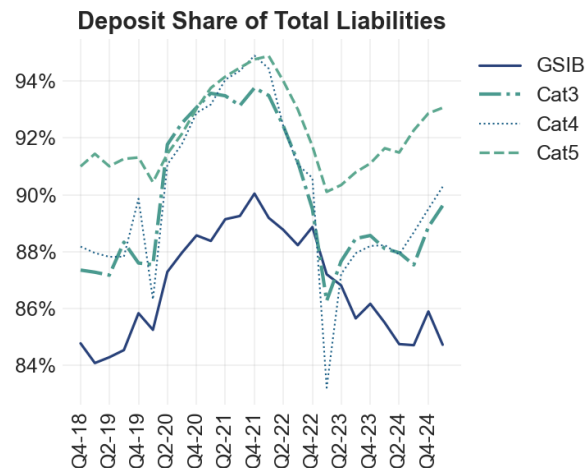
LIABILITY: COSTS EASE

- The overall liability mix continued to improve in Q1 with gains in core deposits. As core deposits grow and become more stable, banks have reduced reliance on higher-cost wholesale funding sources.
- A stable funding cost environment, while it holds, should be expected to further benefit NIMs, but the impact may be somewhat dampened by three structural factors:
- First, money market funds (MMFs) continue to pull AUM by offering attractive nearly risk-free yields and same-day liquidity.
- Second, T-Bill issuance resulting from the gaping Federal deficit also competes directly with bank deposits, particularly for large institutions.
- Third, the post-2023 behavioral shift to consider deposit account alternatives will likely continue to influence deposit pricing.



Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

FUNDING OVERVIEW



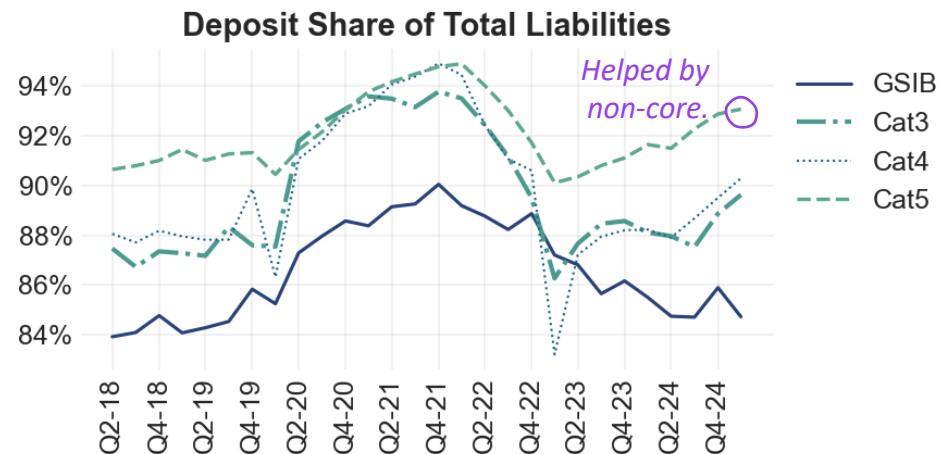
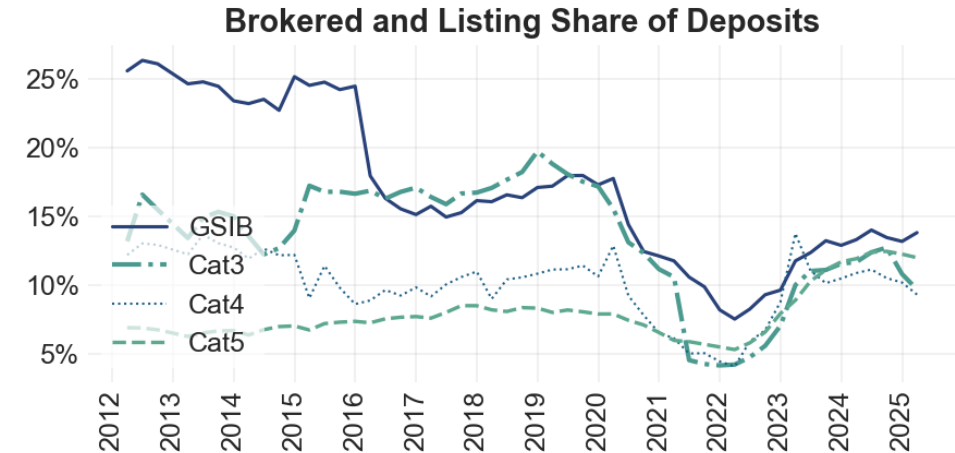
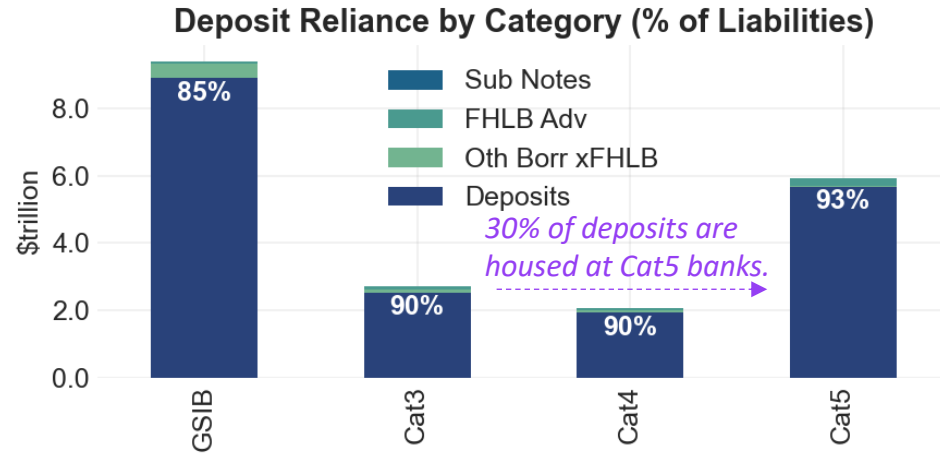
Deposits					
	GSIB	Cat3	Cat4	Cat5	Total
Depos. (\$tn)	8.9	2.5	1.9	5.7	19.0
Chained Quarter Change Deposits					
Q1-24	1.4%	-0.4%	0.8%	0.8%	0.9%
Q2-24	-1.6%	-2.1%	-0.9%	0.3%	-1.0%
Q3-24	1.4%	0.8%	1.1%	1.7%	1.4%
Q4-24	0.3%	1.0%	0.7%	1.4%	0.8%
Q1-25	2.0%	-0.7%	1.8%	0.9%	1.3%
YoY Change in Deposits					
2021	9.5%	11.6%	30.5%	5.2%	10.8%
2022	-3.1%	-3.8%	-5.6%	-0.8%	-2.9%
2023	-0.4%	2.8%	-20.0%	0.5%	-2.1%
2024	1.6%	-0.6%	1.6%	4.3%	2.1%
Q1 2025	2.1%	-0.9%	2.7%	4.4%	2.4%

Core Deposit % of Total Liabilities					
	GSIB	Cat3	Cat4	Cat5	Total
Core Dep. %	64%	83%	78%	80%	72%
Chained Quarter Change in Core Deposits					
Q1-24	1.9%	0.2%	0.5%	0.6%	1.1%
Q2-24	-2.3%	-2.1%	-1.0%	0.1%	-1.4%
Q3-24	1.2%	1.1%	1.3%	1.6%	1.3%
Q4-24	2.3%	1.5%	1.0%	1.5%	1.8%
Q1-25	1.3%	-0.3%	2.3%	1.1%	1.1%
YoY Change in Core Deposits					
2021	15.4%	20.6%	36.2%	7.7%	15.9%
2022	-6.0%	-2.8%	-7.8%	-3.8%	-5.1%
2023	-5.7%	-1.3%	-23.1%	-5.6%	-7.3%
2024	3.1%	0.7%	1.8%	3.9%	2.8%
Q1 2025	2.5%	0.2%	3.6%	4.4%	2.8%

Funding Cost (Int. Ext / Avg Earning Assets)					
	GSIB	Cat3	Cat4	Cat5	Total
Funding Cost	2.29%	2.07%	2.31%	2.07%	2.20%
Quarterly Change (bps)					
Q1-24	56	45	63	51	54
Q2-24	35	24	41	31	33
Q3-24	16	15	20	21	18
Q4-24	-11	-12	-14	-4	-10
Q1-25	-39	-40	-48	-23	-36
YoY Change (bps)					
2021	-6	-7	-12	-15	-10
2022	115	72	106	67	95
2023	132	149	143	126	134
2024	96	84	107	94	95
Q1 2025	-5	-15	-7	8	-3

Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

LIABILITY MIGRATION

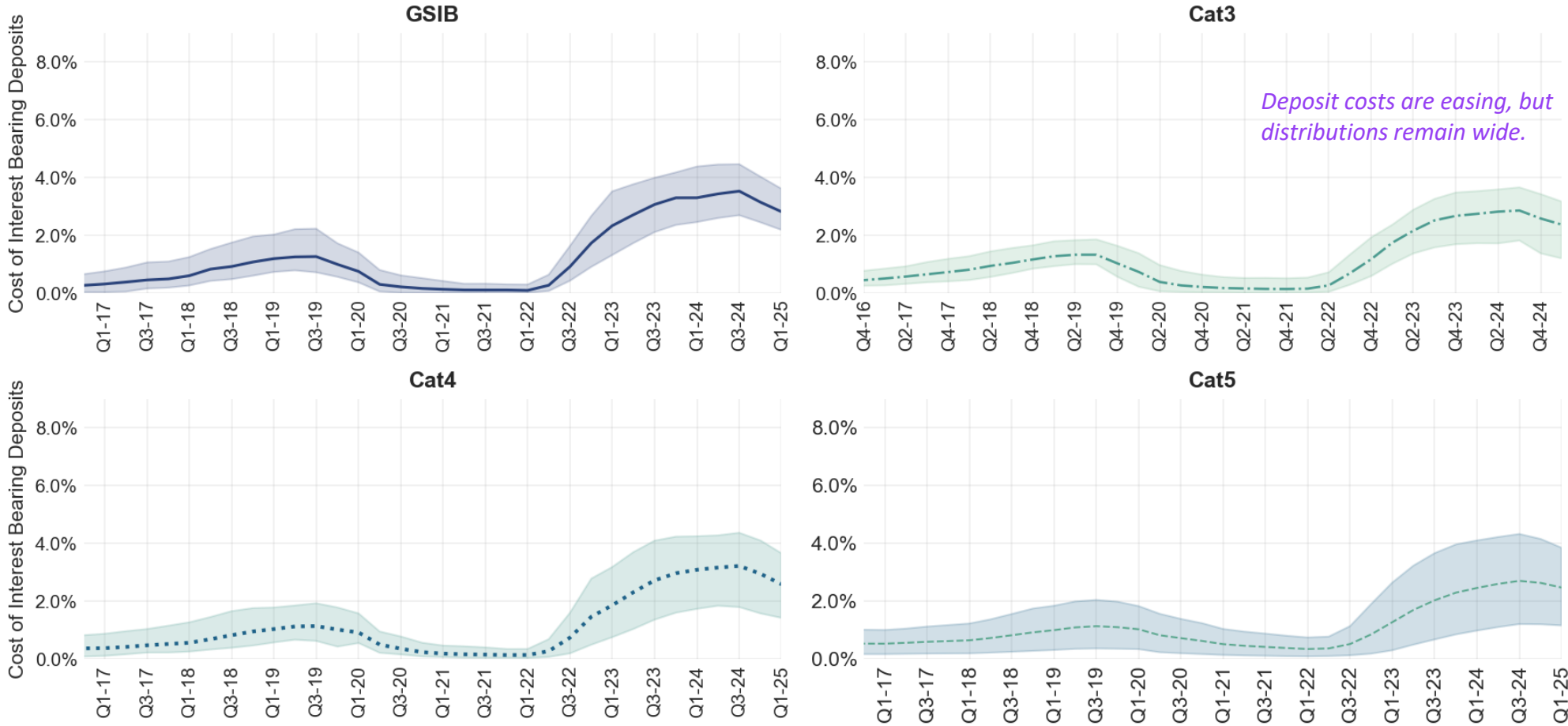


- Deposit levels improved in 2024 and eased reliance on wholesale funding, particularly for community banks.
- The outflow of abundant and cheap core deposits had been a key theme in 2023-2024.
- While the change was abrupt, deposit mix is largely returning to pre-covid norms, but with the structural changes on deposit pricing highlighted previously.

Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

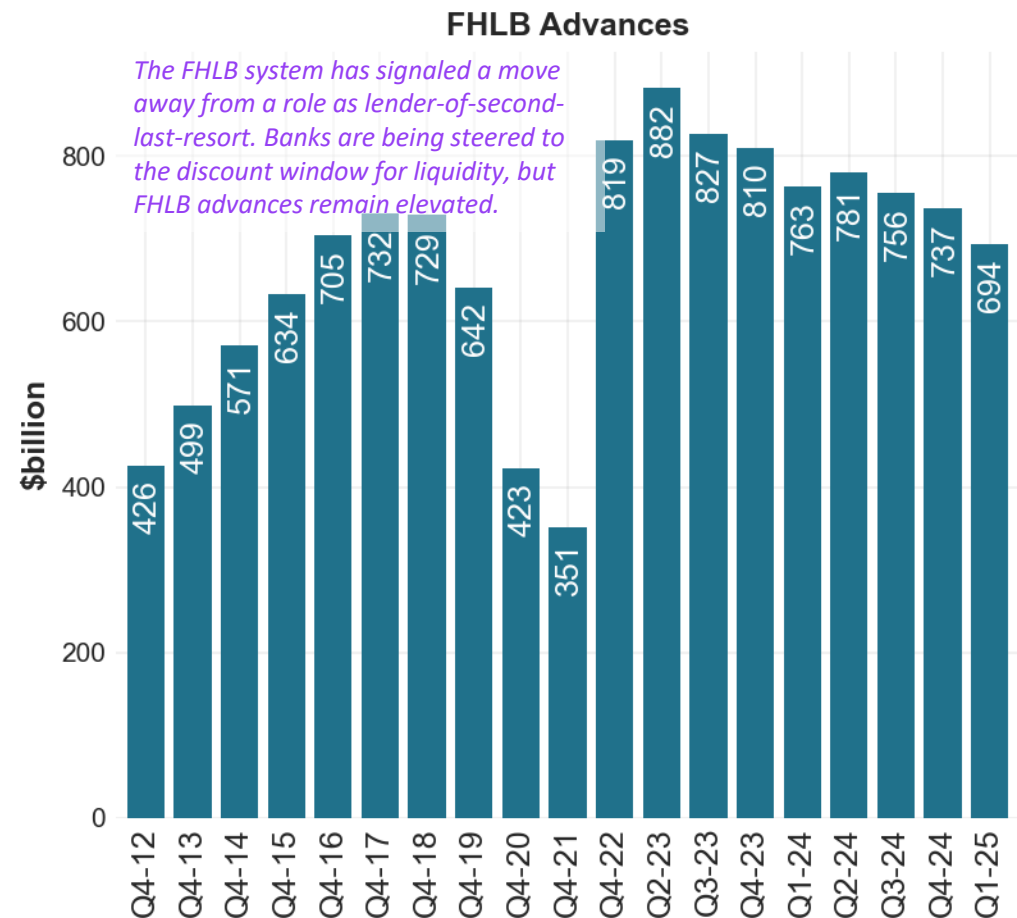
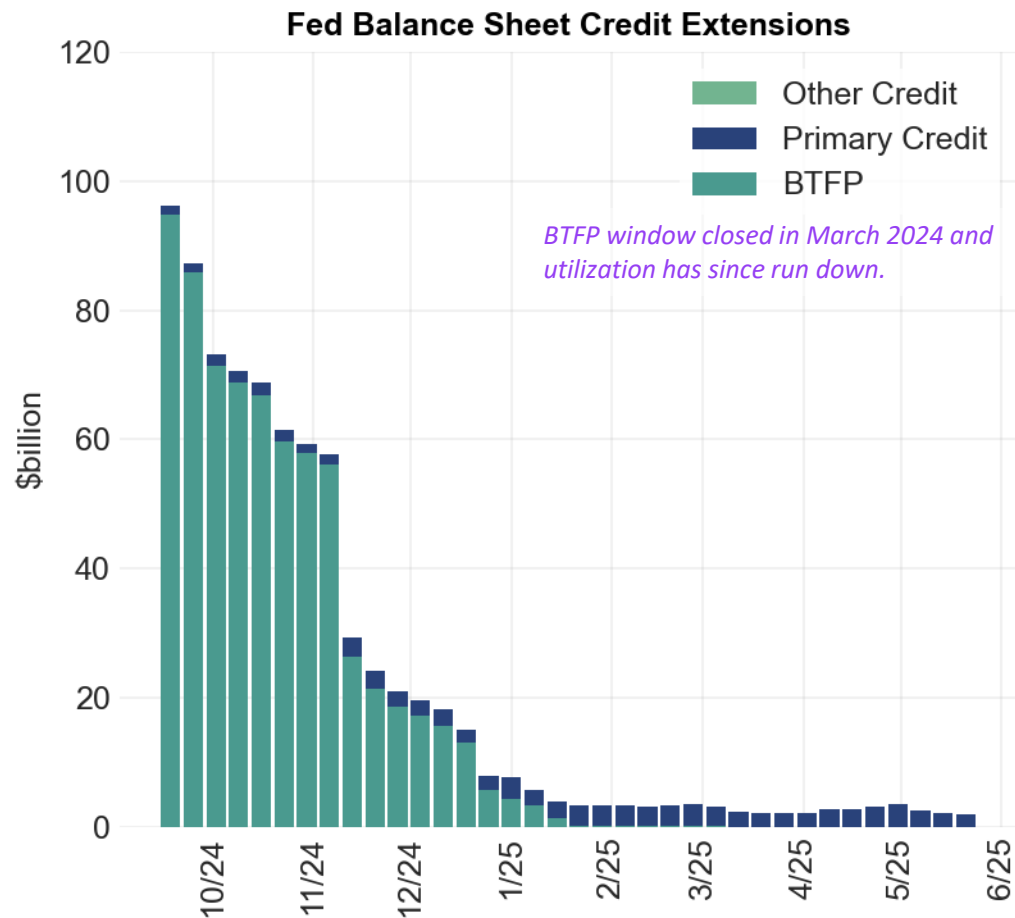
LIABILITY MIGRATION

Annualized Rates Paid on Domestic Interest-Bearing Deposits by Quarter



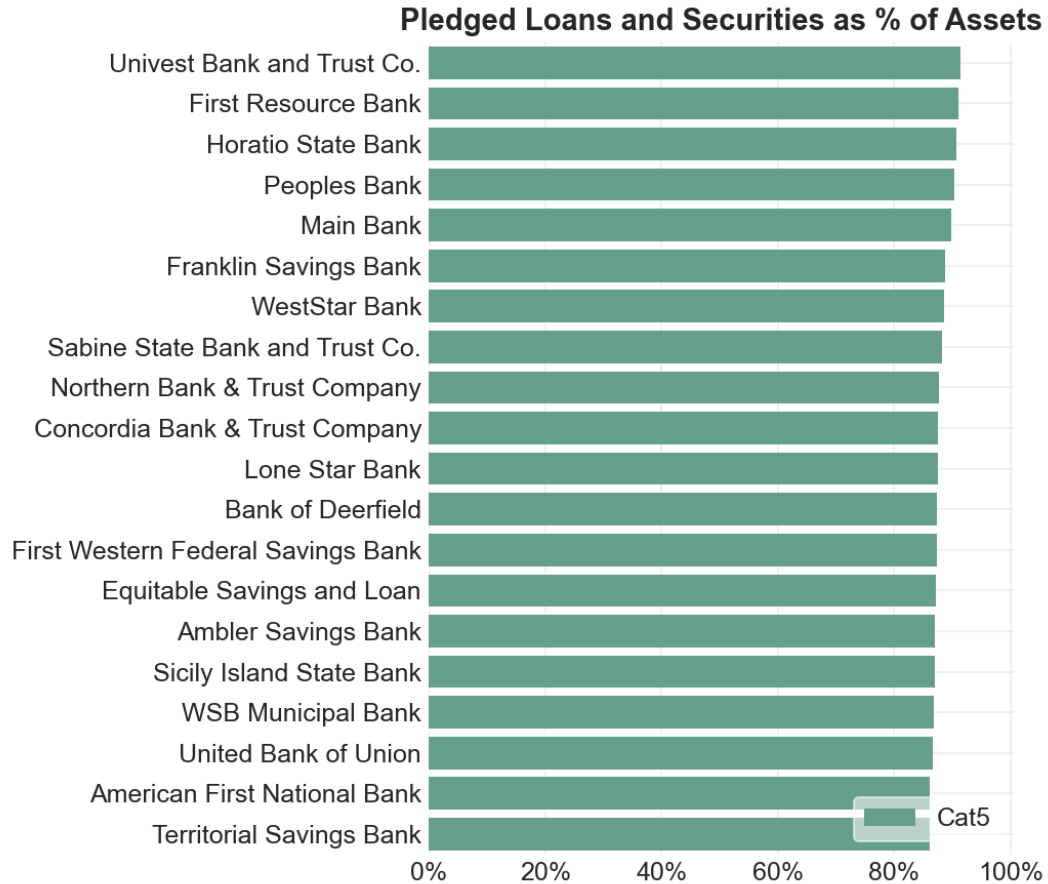
Shaded area represents 90th percentile.
 Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

SECURED BORROWING



Source: Federal Reserve, FHLBanks Office of Finance and Cadwalader, Wickersham & Taft LLP.

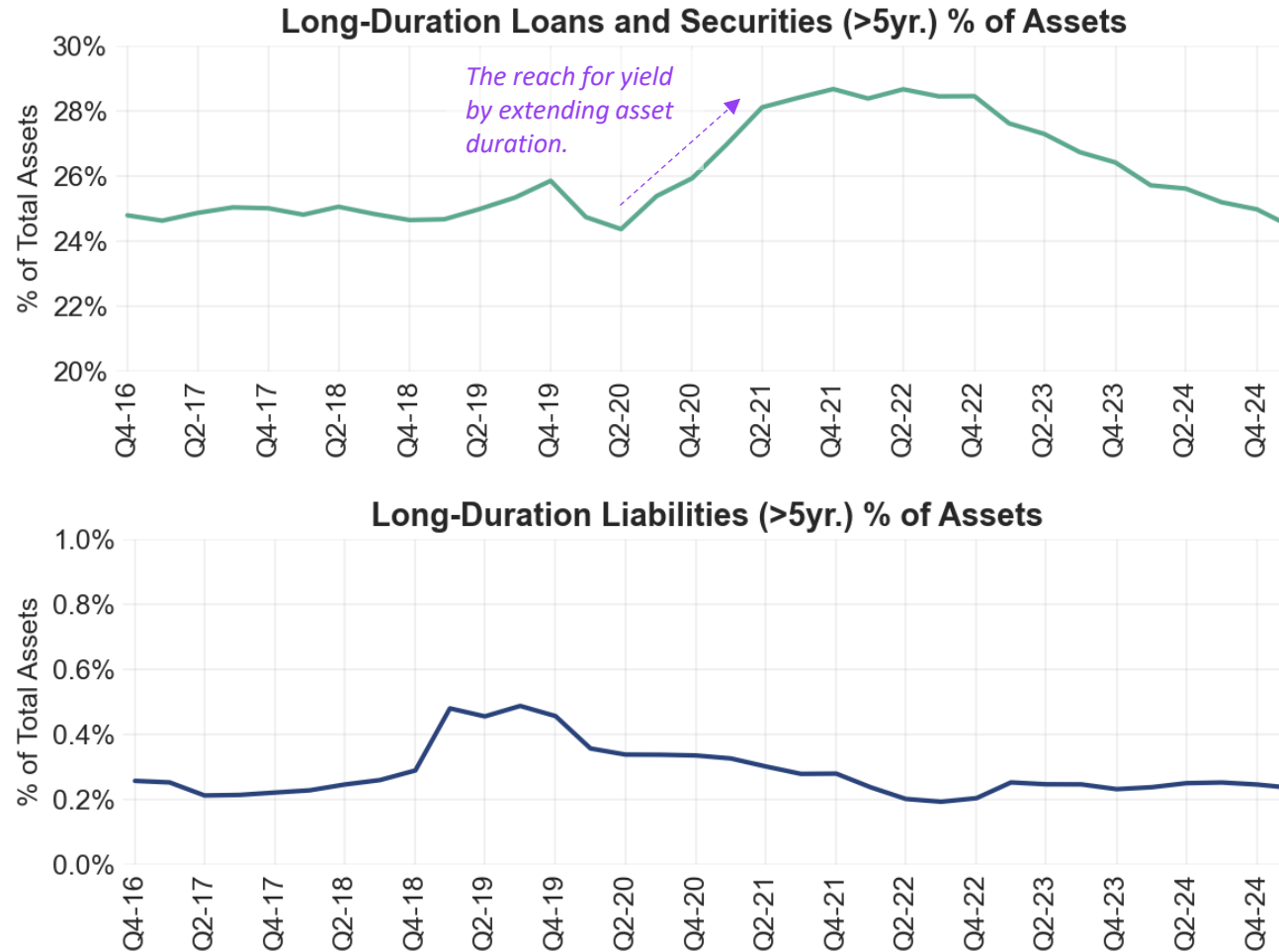
FINITE LIQUIDITY



Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

- A number of Category 5 banks have pledged 80% or more of total assets. The credit card is maxed out.
- Financing cost on securities can, in some cases, exceed underlying yields.
- Such negative leverage financing would provide immediate liquidity at the cost of future NII.

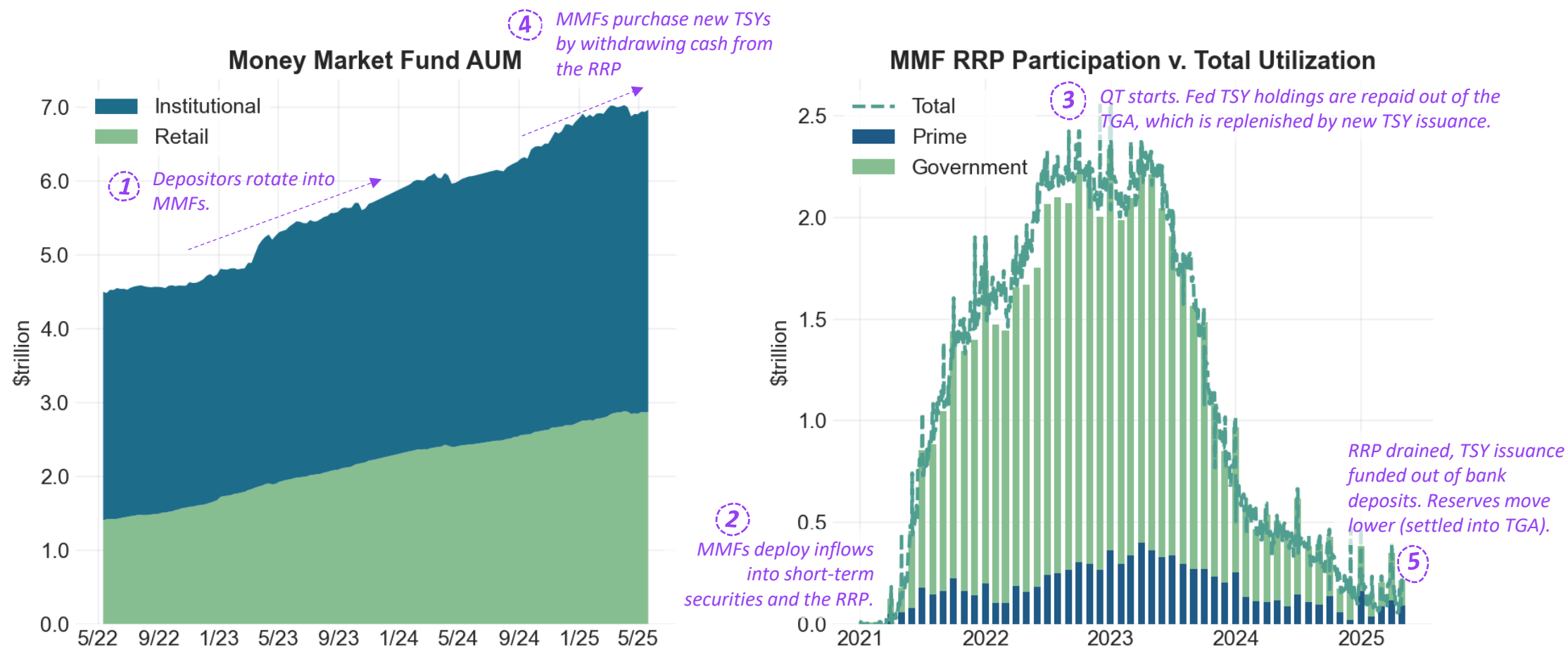
ASSET DURATION



Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

- Banks reached for yield by adding asset duration during 2020-2022.
- Lengthening asset duration came mostly from growth in mortgage-backed securities, but also from single-family residential loans and commercial real estate lending.
- This asset duration extension was not accompanied by a lengthening of liability duration, which became readily apparent in Q1 2023 (although the trend appears to reach beyond just a handful of institutions.)
- Asset duration has improved since year-end 2022, but there is likely significant variability in balance sheet adjustments below the surface.

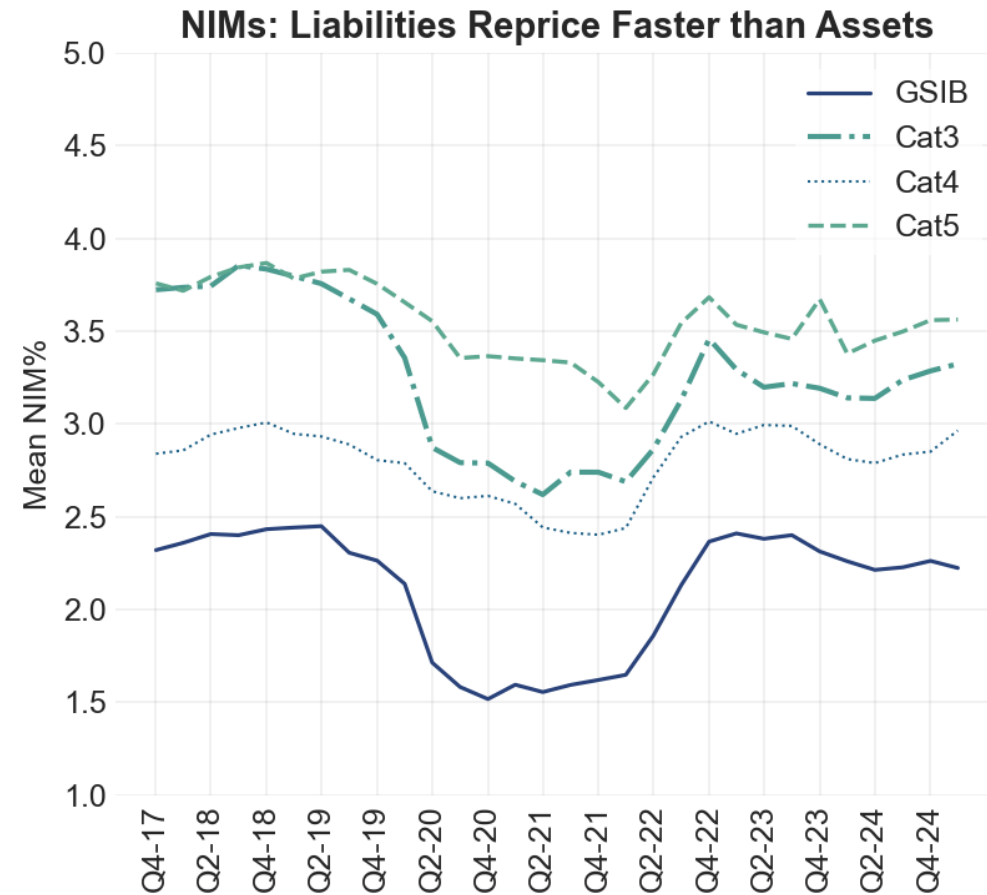
COMPETING WITH UNCLE SAM



Source: Investment Company Institute, Office of Financial Research, and Cadwalader, Wickersham & Taft LLP.

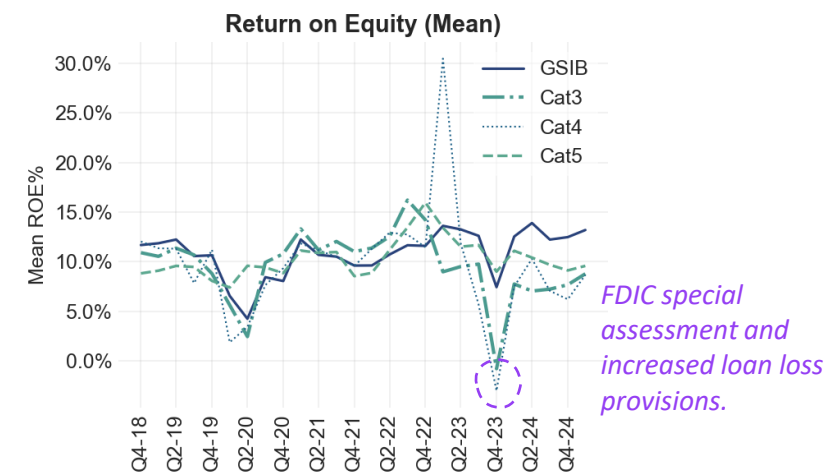
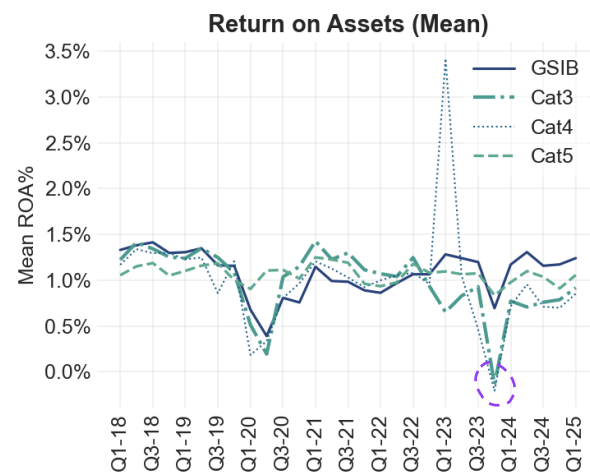
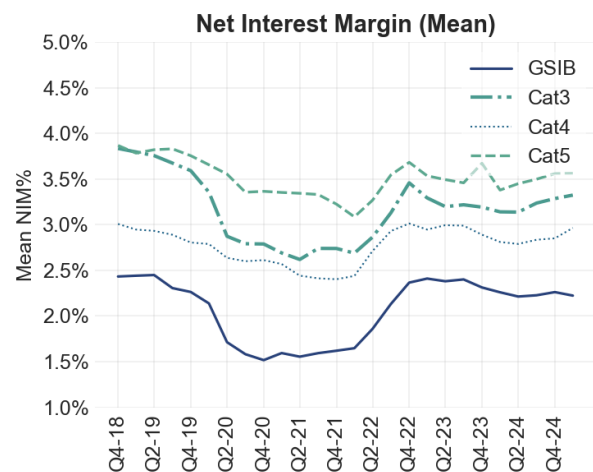
PROFITABILITY: EXPECT DELAYS

- Asset yields have been slow to catch up to the increase in liability costs over the past 18 months. Tepid loan growth slowed asset redeployment. NIM and profitability measures have lagged expectations.
- Over time, assets will continue to reprice higher, but the impact will depend on institution asset mix, with single-family mortgage loans and mortgage-backed securities slower to turn over. Notably, securities turnover has been accelerating.
- Consensus expectation for imminent rate cuts has repeatedly run into the buzzsaw of persistent inflation. A re-steepening in the yield curve, when it arrives, may help probability, but needs to be viewed in context: (1) In a bull-steepener scenario (downgraded growth and inflation expectations prompt rate cuts), credit performance could come under pressure with a rise in charge-offs. (2) In a bear-steepener scenario (fading demand for long-duration bonds possibly due to Treasury coupon issuance), commercial real estate values and loan performance could decline further.
- These challenges to profitability make a strong case for consolidation as an option for putting into play economies of scale across technology, operations, compliance, etc. Bank mergers currently face significant obstacles, but could be an important variable in the future to the profitability outlook.



Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

PROFITABILITY



Net Interest Margin					
	GSIB	Cat3	Cat4	Cat5	Total
NIM	2.22%	3.32%	2.96%	3.56%	3.02%
Chained Quarter Change NIM (bps)					
Q1-24	-14.1	-7.7	-17.9	-7.9	-11.9
Q2-24	-9.9	-5.5	-10.2	-22.3	-12.0
Q3-24	-3.3	9.6	2.4	11.9	5.2
Q4-24	4.8	14.8	6.2	11.0	9.2
Q1-25	-0.4	8.7	13.0	6.5	7.0
YoY Change in NIM (bps)					
2021	10.3	-4.9	-21.0	-14.0	-7.4
2022	74.6	71.8	61.0	45.8	63.3
2023	-5.3	-26.6	-12.3	-1.0	-11.3
2024	-5.1	9.3	-4.0	-11.3	-2.8
Q1 2025	-3.6	18.3	15.4	18.4	12.1

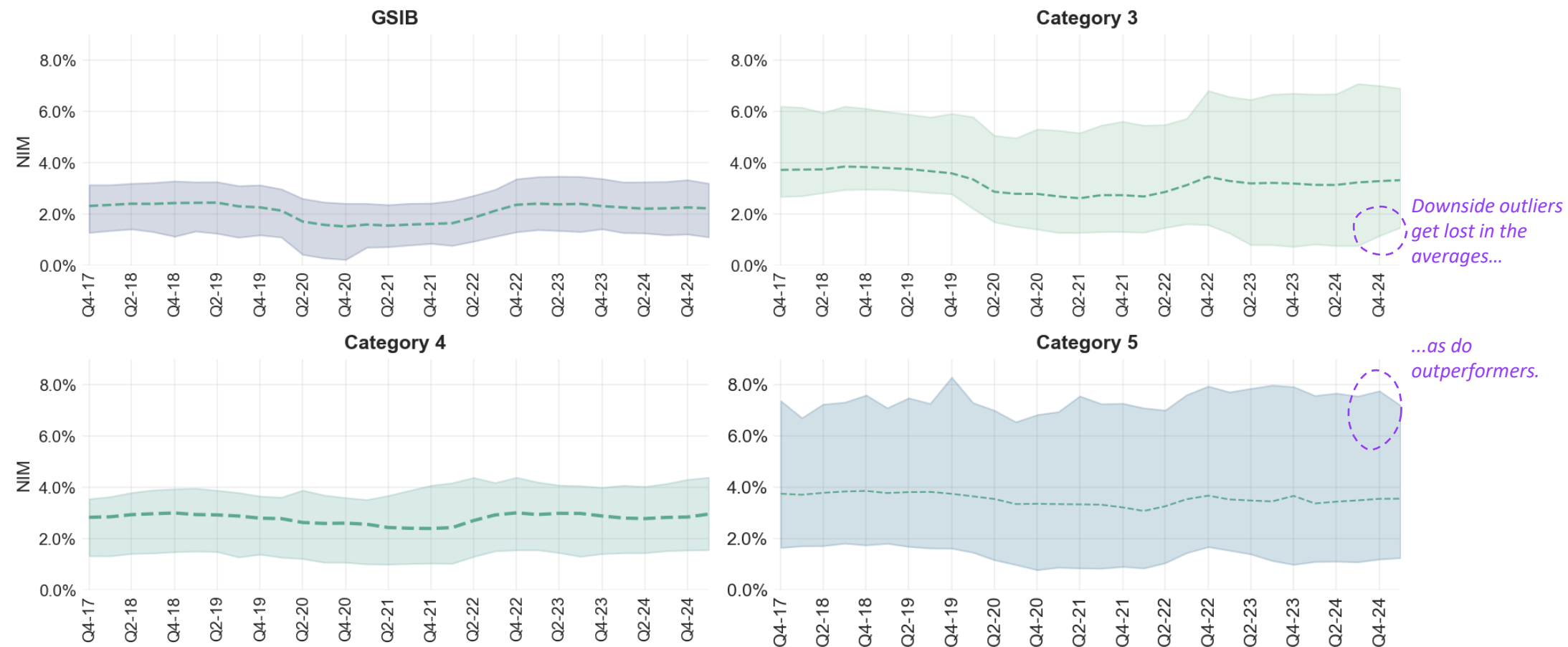
Return on Assets					
	GSIB	Cat3	Cat4	Cat5	Total
ROA	1.24%	0.92%	0.85%	1.06%	1.02%
Chained Quarter Change ROA (bps)					
Q1-24	-2.7	-15.7	25.4	-9.8	-0.7
Q2-24	61.2	84.6	116.1	26.4	72.1
Q3-24	-1.4	-1.3	-0.5	5.9	0.7
Q4-24	-13.5	8.0	-25.6	-18.8	-12.5
Q1-25	8.3	15.8	14.1	2.1	10.1
YoY Change in ROA (bps)					
2022	13.2	-3.6	-4.2	-5.6	-0.1
2023	17.5	-18.1	3.4	12.0	3.7
2024	-37.0	-107.2	-116.5	-24.7	-71.3
2025	47.7	92.6	90.5	7.6	59.6
Q1 2025	7.0	14.6	13.6	7.9	10.8

Return on Equity					
	GSIB	Cat3	Cat4	Cat5	Total
ROE	13.20%	8.79%	8.67%	9.59%	10.06%
Chained Quarter Change ROE (bps)					
Q1-24	-7	-201	182	-58	-21
Q2-24	646	782	1,329	141	725
Q3-24	-31	-52	-45	-141	-67
Q4-24	-142	63	-408	-129	-154
Q1-25	96	155	160	-11	100
YoY Change in ROE (bps)					
2022	156	22	23	-30	43
2023	198	319	188	740	362
2024	-416	-1,498	-1,446	-695	-1,014
2025	504	845	921	12	571
Q1 2025	65	103	115	-152	33

Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

PROFITABILITY

NIMs: Mixed Outcomes, Wider Distributions in Cat3 and Cat5

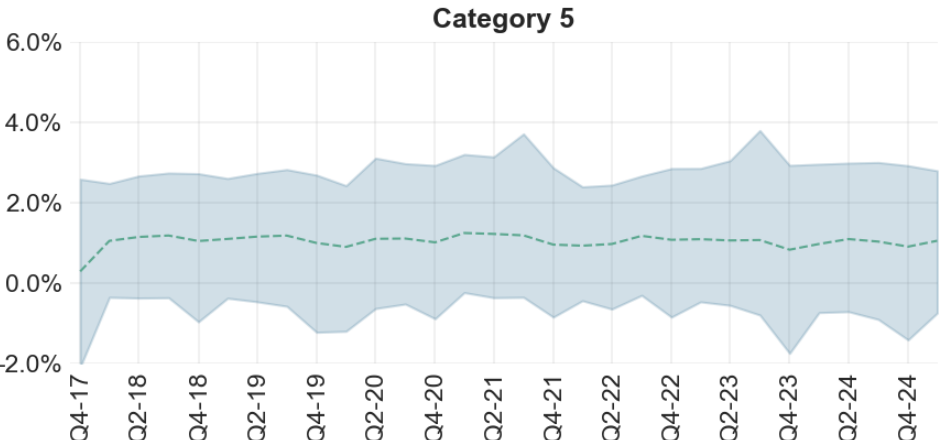
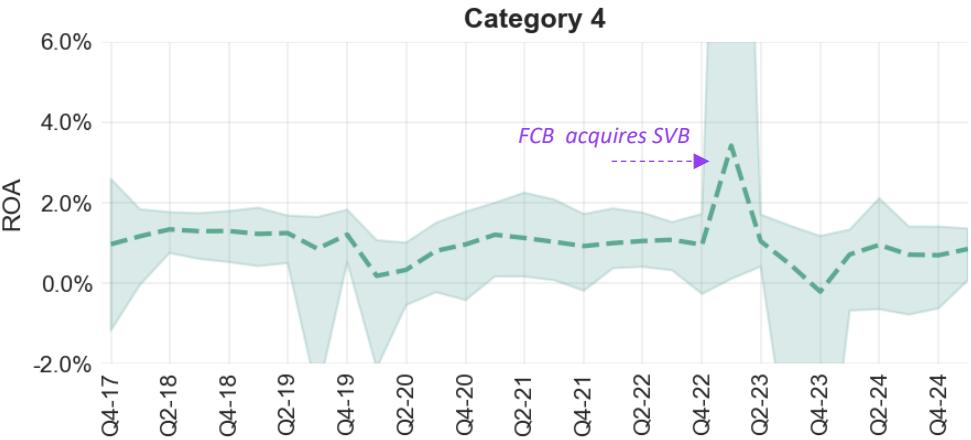
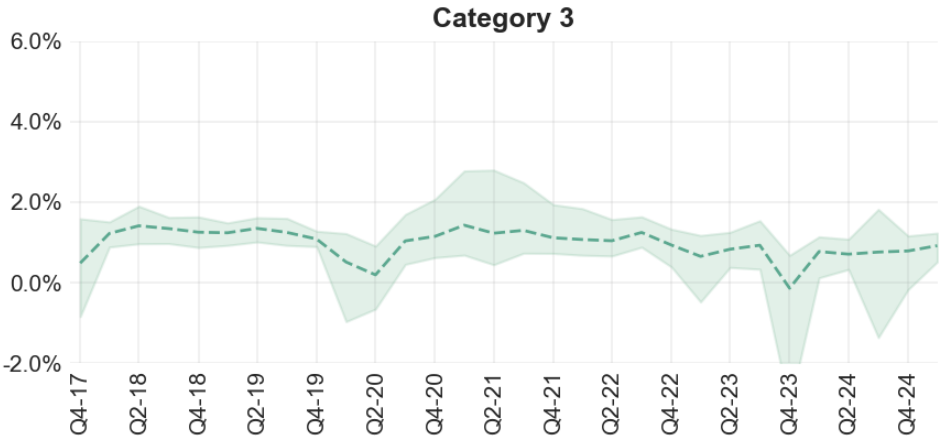
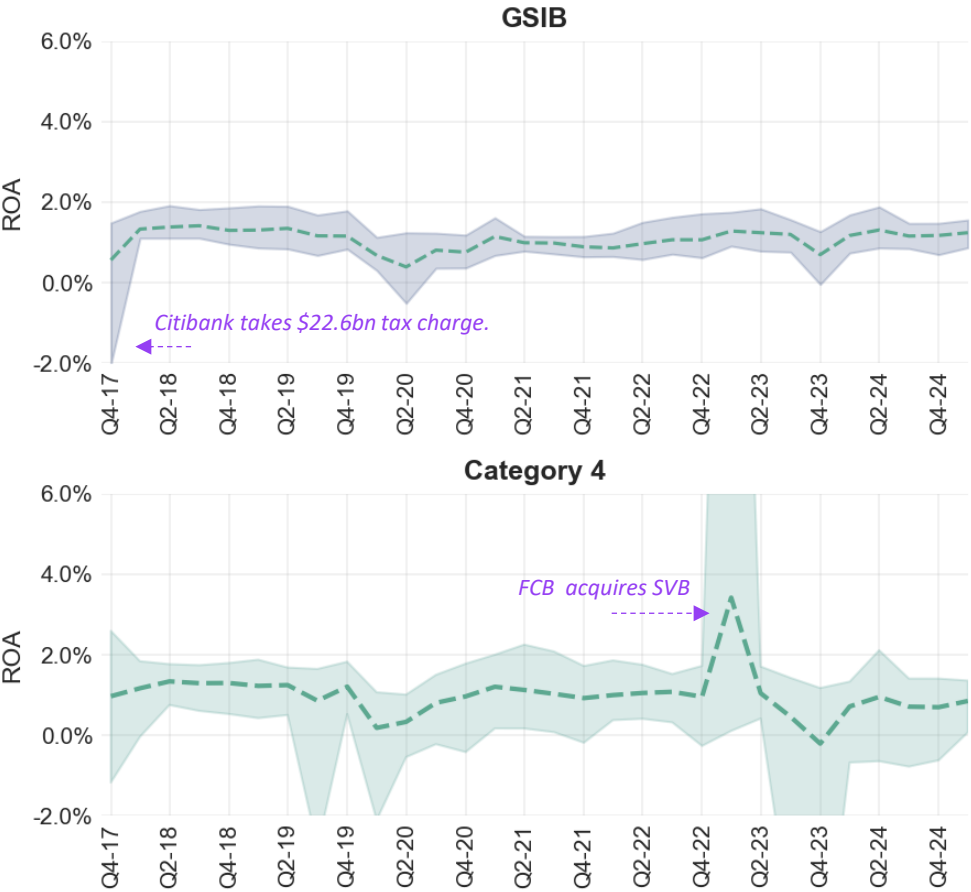


Total interest income less total interest expense (annualized) as a percent of average assets. Shaded area represents 99th percentile.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

Profitability

PROFITABILITY

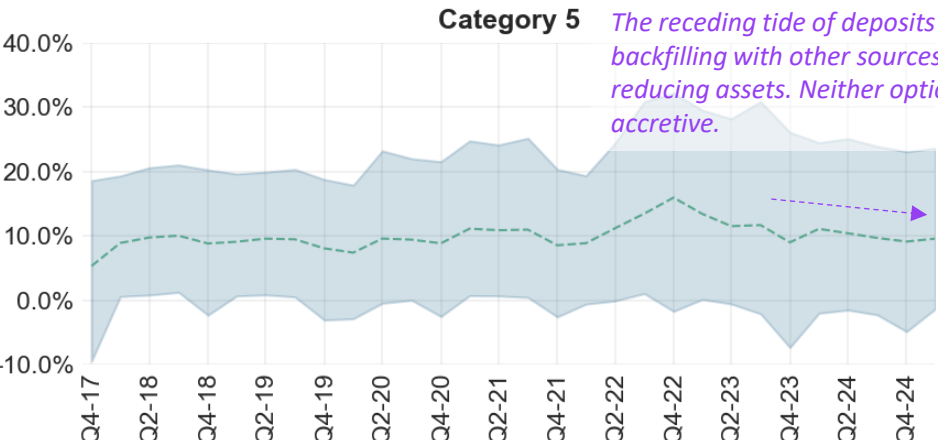
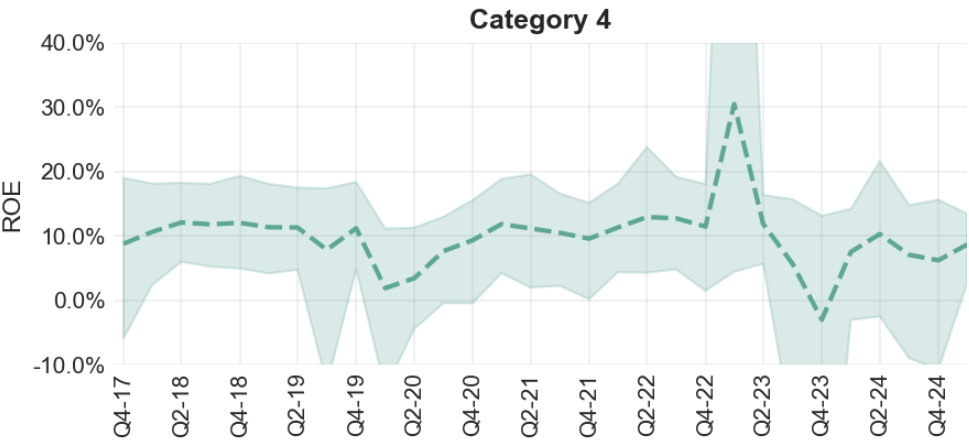
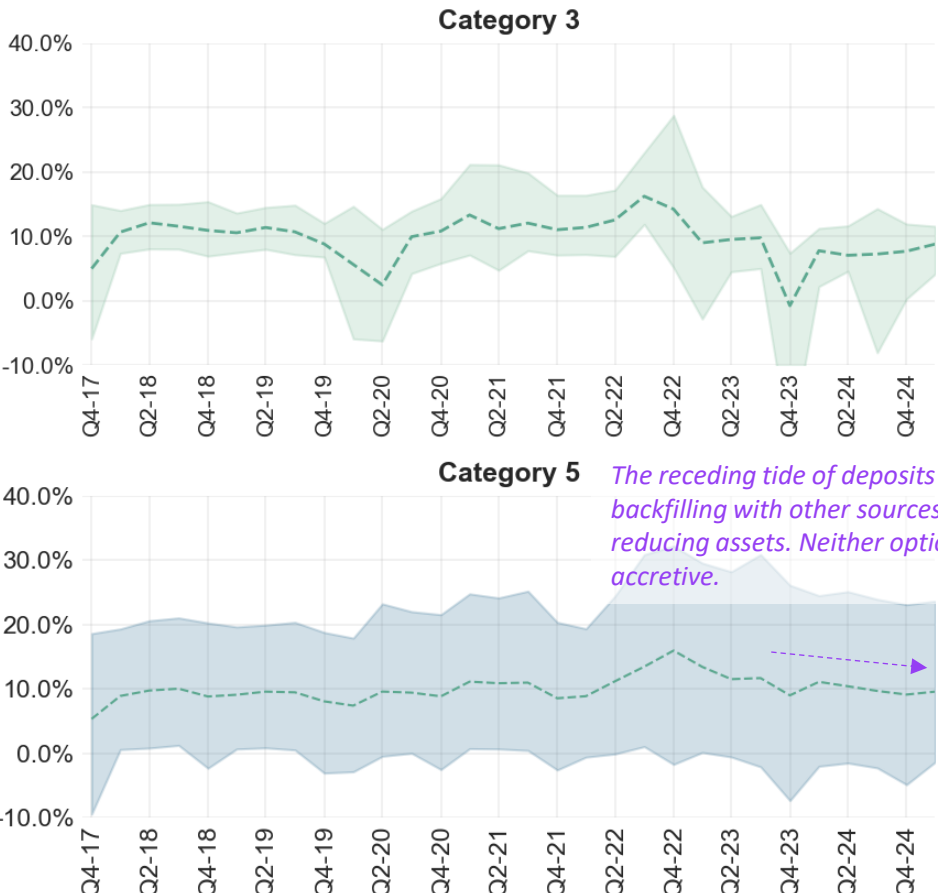
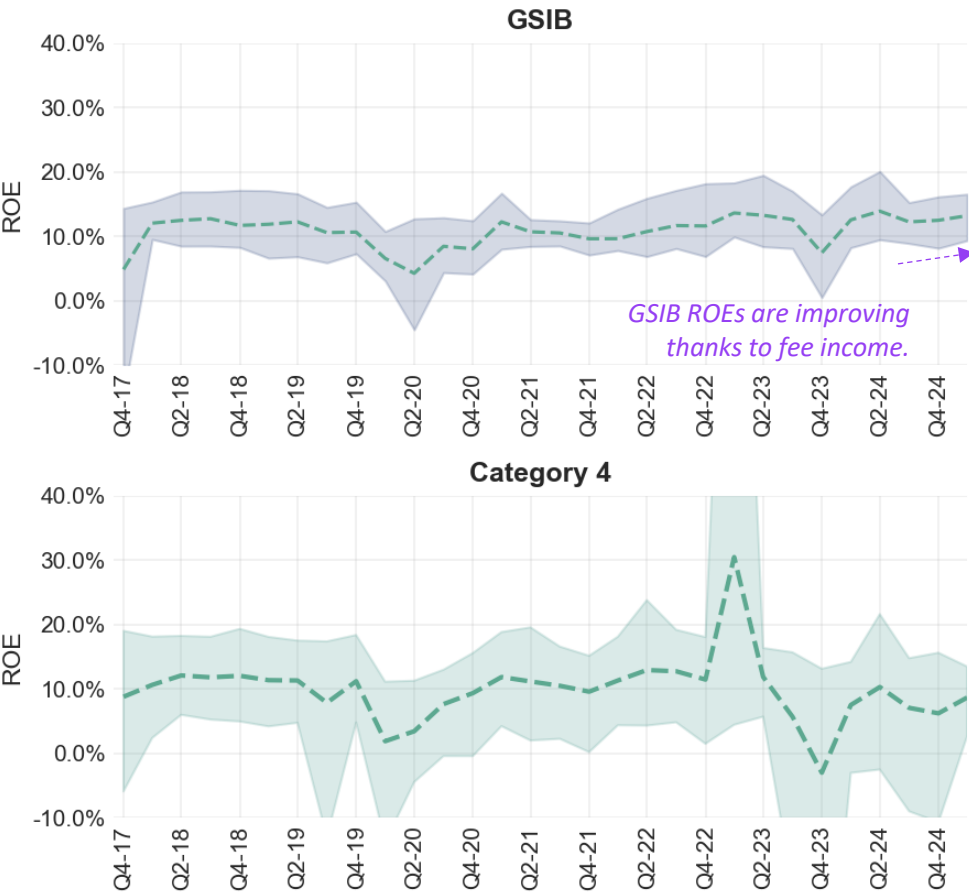
ROAs: Sluggish Interest Rate Flow-Through



Net income after taxes and extraordinary items (annualized) as a percent of average total assets. Shaded area represents 90th percentile.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

PROFITABILITY

Higher Rates Not an Automatic Boost: ROEs Have Been Slow to Rebound



Annualized net income as a percent of average equity on a consolidated basis. Shaded area represents 90th percentile.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

CREDIT: COMPLICATED

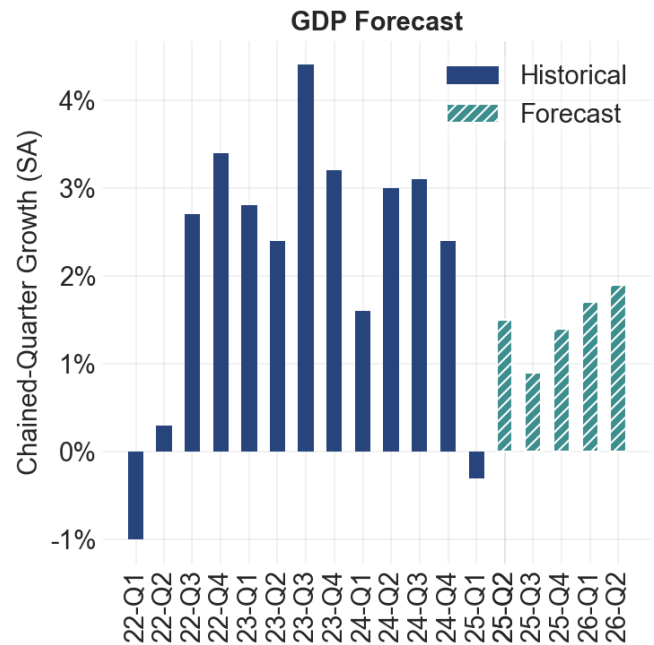
Rearview mirror credit trends look benign. The forward outlook, on the other hand, includes:

- A decelerating employment trend that is clearly impacting consumer-linked sectors.
- An evolving CRE credit cycle with rising long-end rates that continues to play out in non-performing loan trends.
- A normalization in corporate bankruptcies consistent with tightening credit availability and rising interest costs.
- A precarious fiscal backdrop in the U.S. and abroad that could pressure rate volatility.

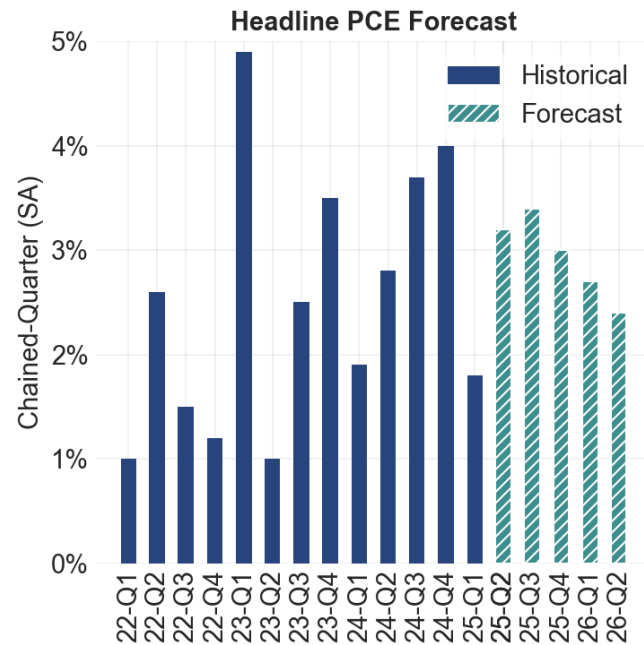


CONSENSUS FORECAST SUMMARY

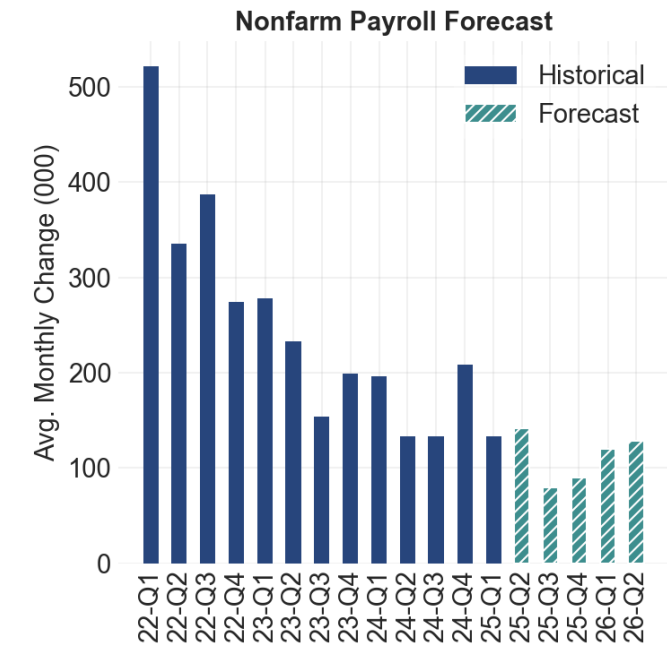
The consensus real GDP forecast of 2.5% missed the mark in Q1. Fundamentals are decelerating.



Inflation forecasts are finally catching up to reality (before any tariff pass-through).



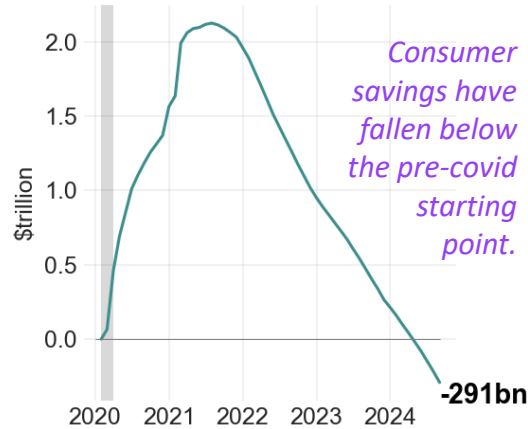
Job creation is expected to slow further.



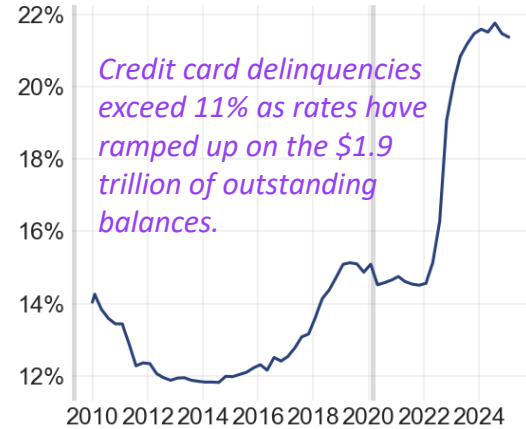
Sources: Bureau of Economic Analysis, Federal Reserve Bank of Philadelphia, National Bureau of Economic Research and Cadwalader, Wickersham & Taft LLP.

BEYOND THE HEADLINES

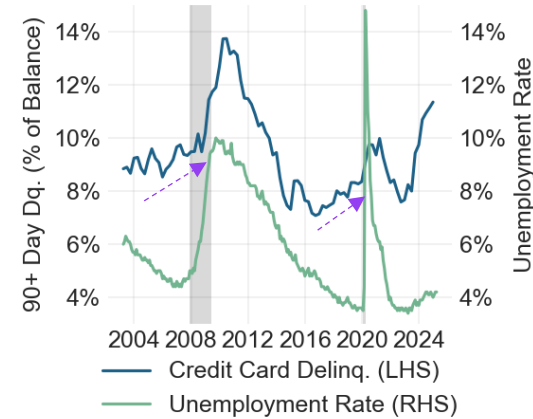
Cumulative Excess Consumer Savings



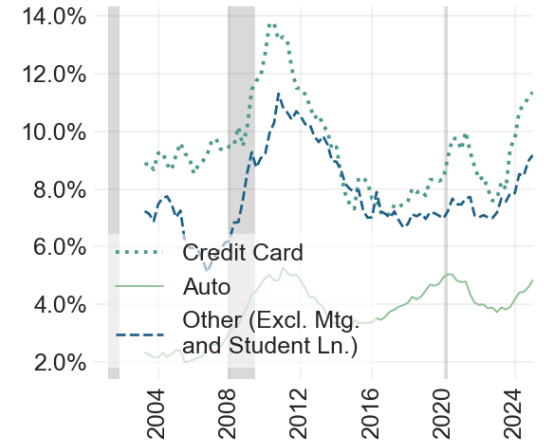
Interest Rate on Bank Credit Cards



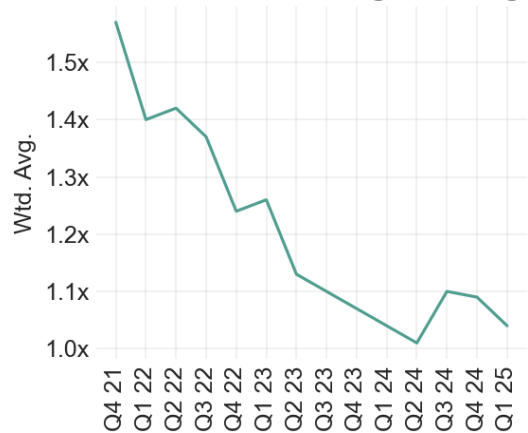
Card Delinq. Leads Unempl.



90+ Day Consumer Delinq.



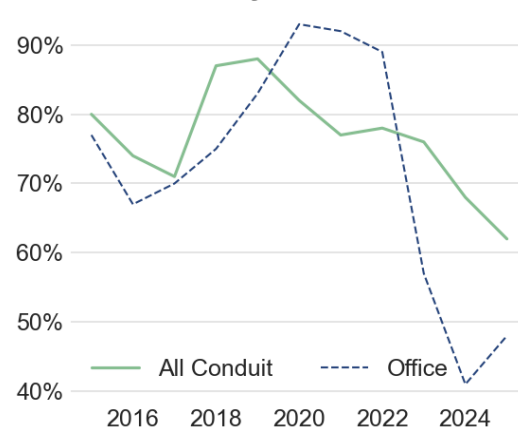
PE Portco Fixed Charge Coverage



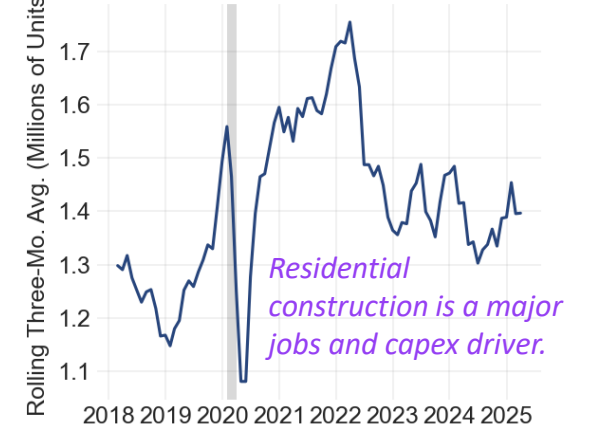
Monthly Business Bankruptcy Filings



CMBS Maturity Refi Success Rates

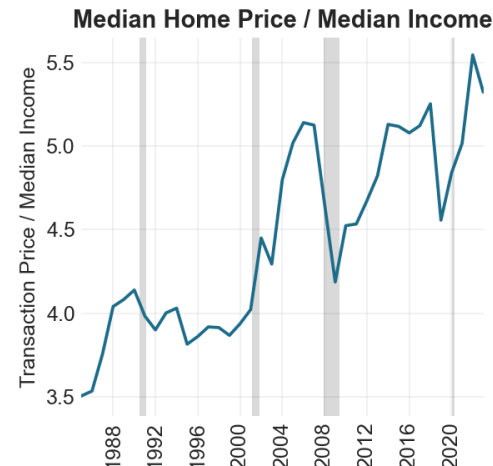
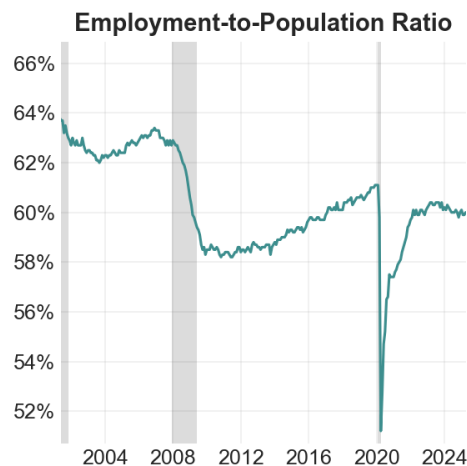
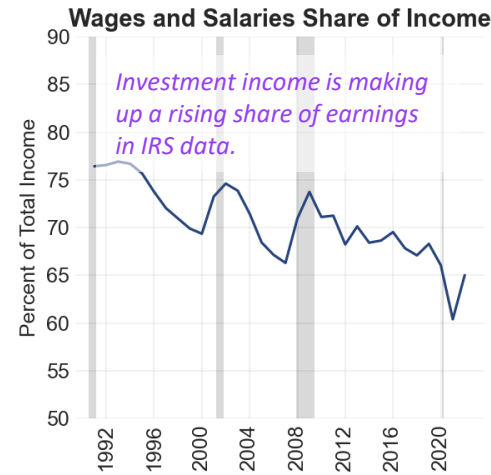
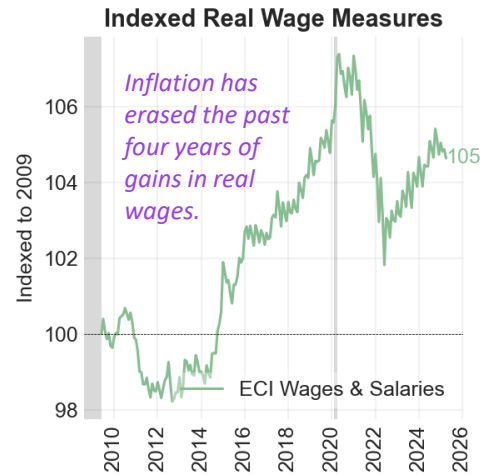


Housing Starts Total



Source: Administrative Office of the U.S. Courts, Board of Governors of the Federal Reserve System, Federal Reserve Bank of San Francisco, JP Morgan CMBS Research, Lincoln International, Manheim and Cadwalader, Wickersham & Taft LLP.

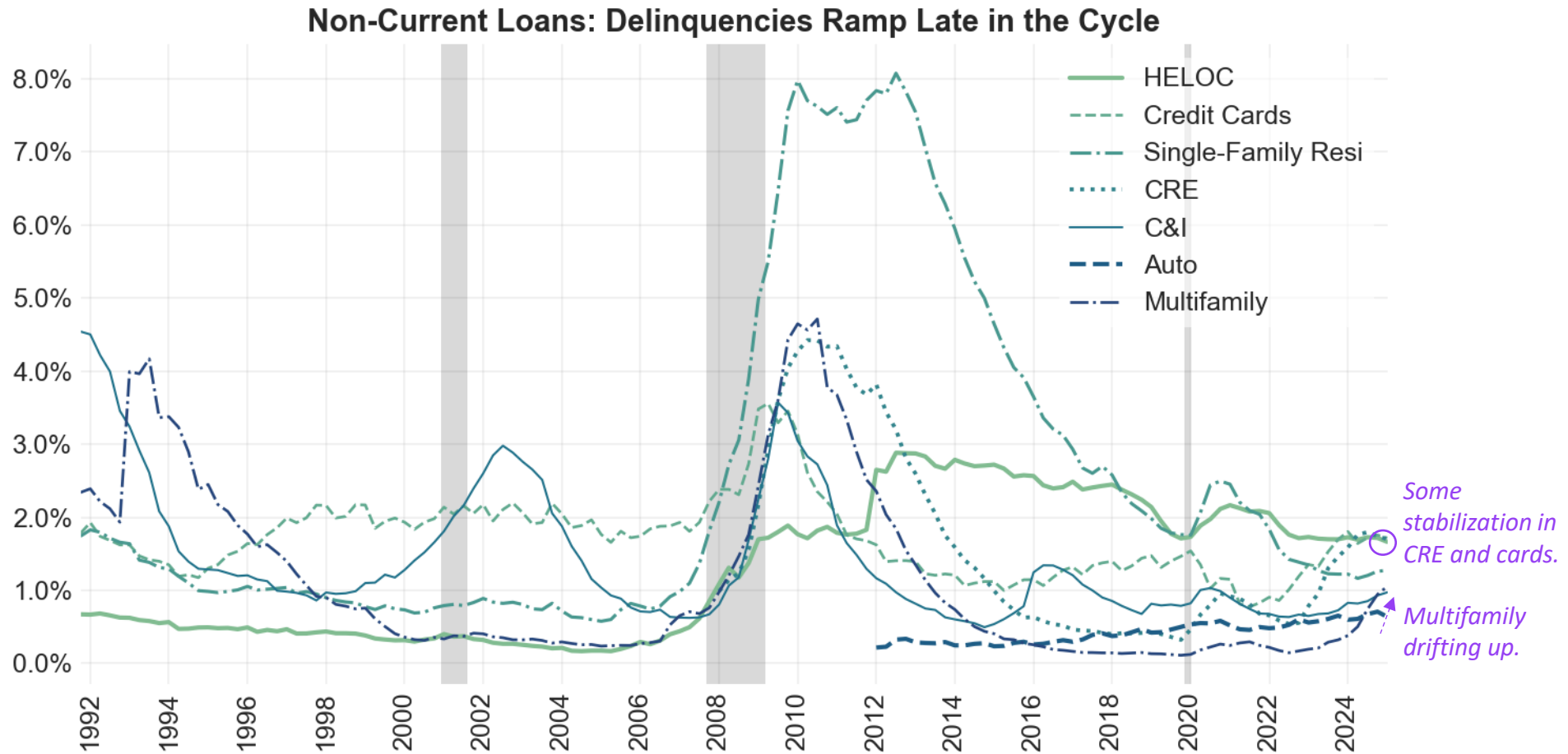
BEYOND THE HEADLINES



- The less-than-inclusive nature of the post-covid recovery may be material to consumer loan credit performance over time.
- Job market participation failed to fully recover covid losses and real wage growth (the Employment Cost Index is the best measure) is up only 5% since the GFC.
- The wage share of total personal income has declined. Investment income has increased post-GFC, but this helps a limited segment of the population.
- Homeownership has never been less affordable than in the past two years.
- Net, net, the post-GFC economic experience has differed widely for renters and those without a significant investment portfolio or rental income.
- Persistently high inflation—the Cleveland Fed model shows 2-2.5% over the next five years—erodes purchasing power. Wage increases lag, meaning inflation could strain consumer credit.

Sources: Bureau of Labor Statistics, Census Bureau, IRS, and Cadwalader, Wickersham & Taft LLP.

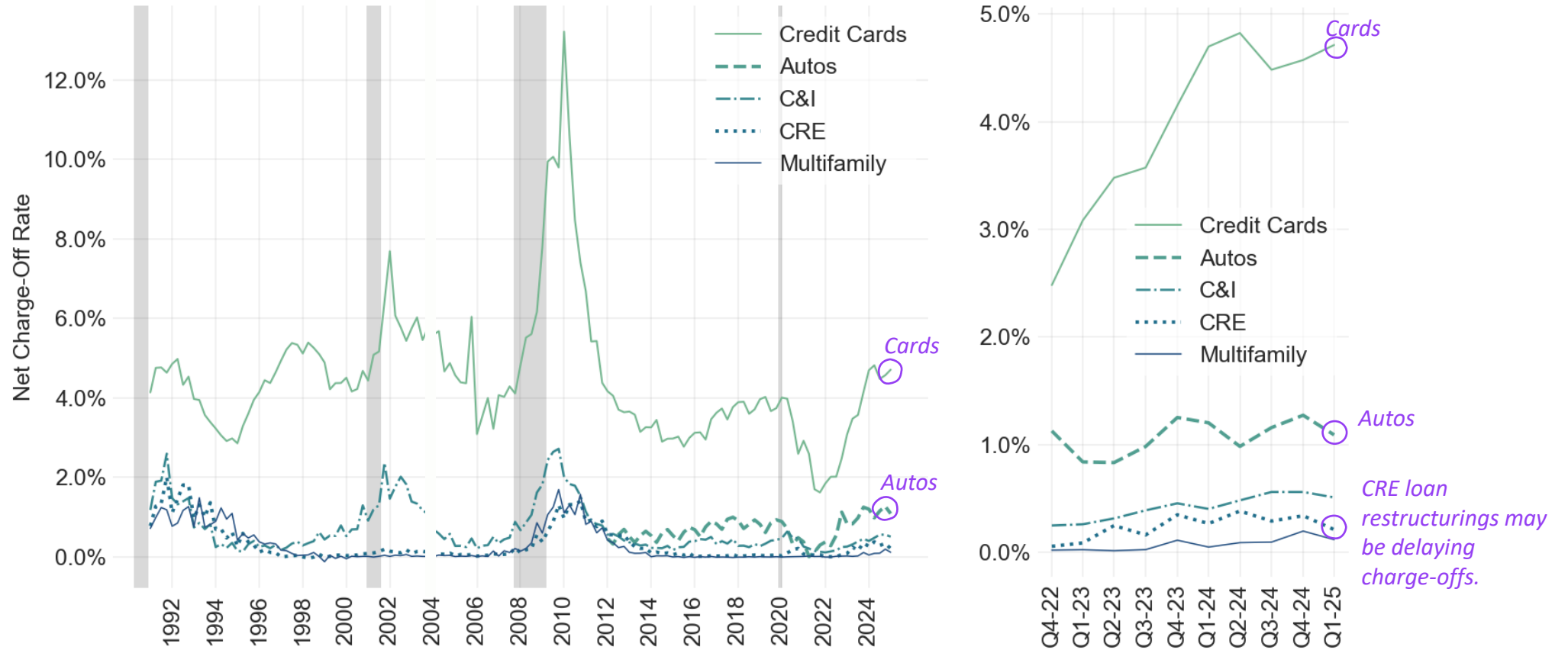
DELINQUENCIES



Source: All banks, Select loan categories, FDIC Quarterly Banking Profile.

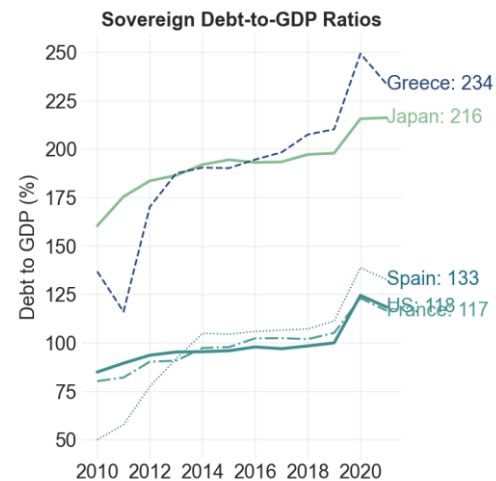
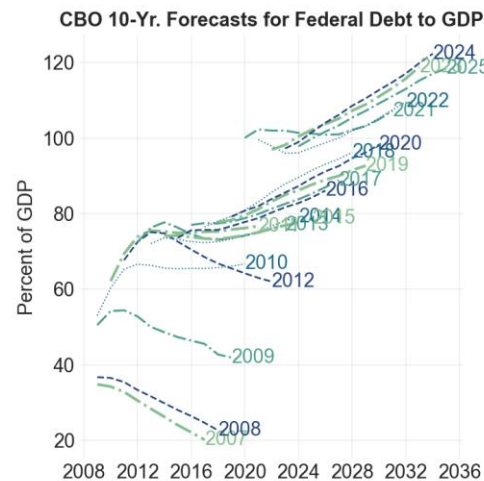
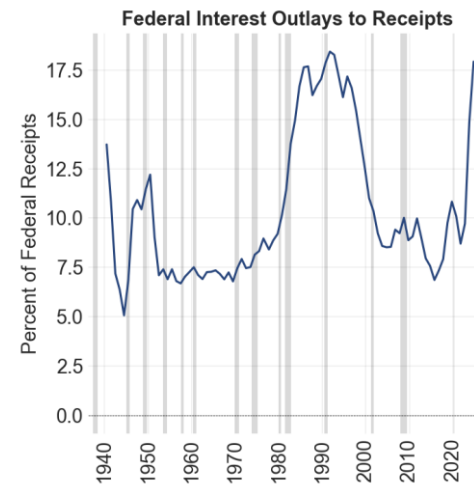
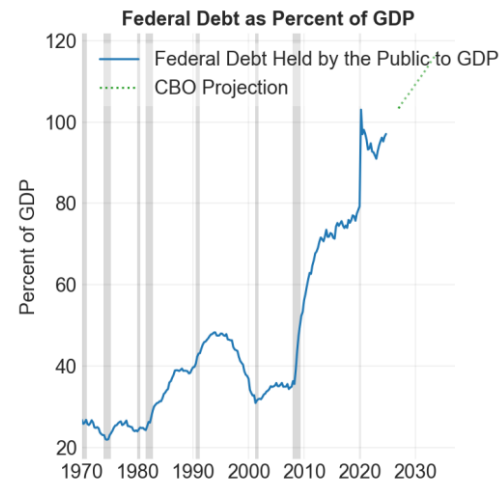
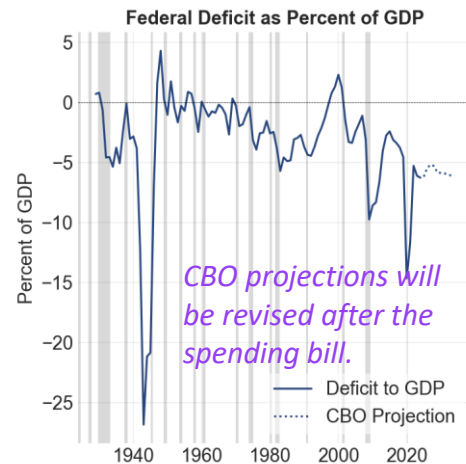
CHARGE-OFFS

Charge-Offs Have Surpassed Pre-Covid Levels in Some Categories But Generally Improved in Q1



Source: All banks, Select loan categories, FDIC Quarterly Banking Profile.

FISCAL STANDSTILL

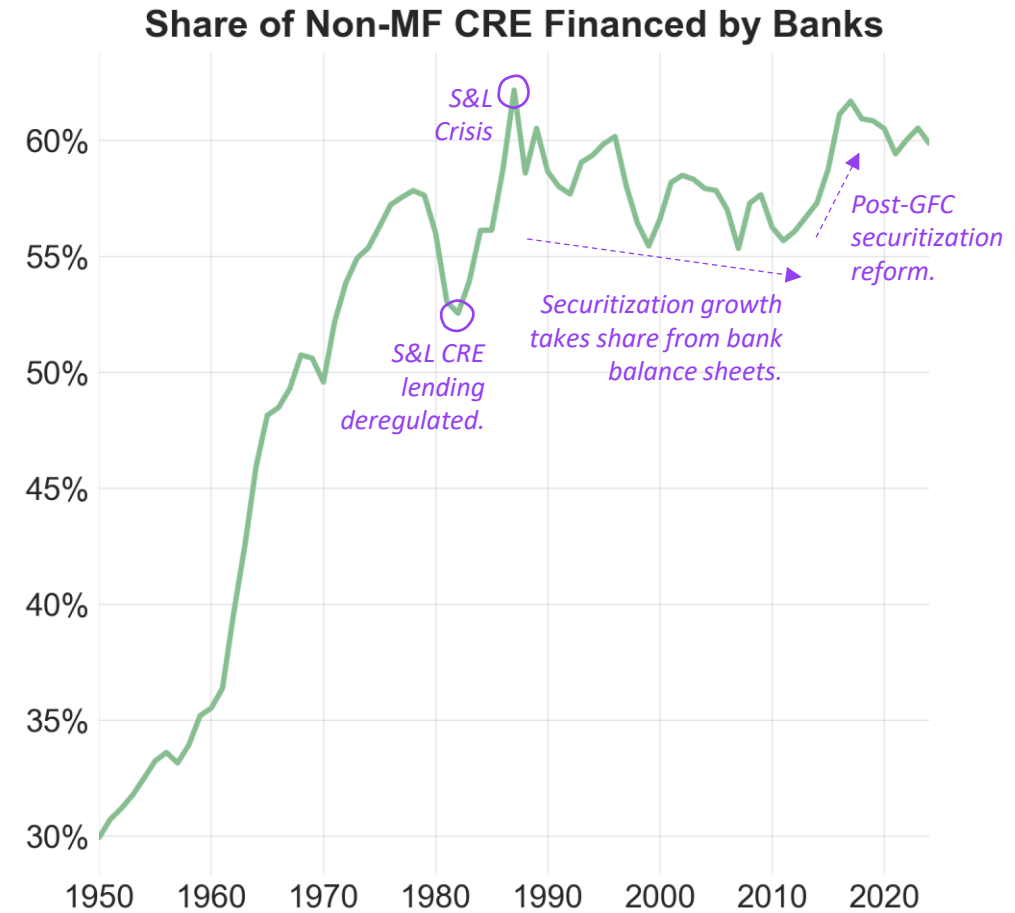


- Compartmentalizing the fiscal backdrop has worked for the past two decades, but today's unprecedented levels lurk in the background of the credit outlook.
- The rising U.S. debt level and Treasury issuance calendar are in tension with market expectations for a near-term return to a lower interest rate regime—the appetite for more Treasury issuance keeps being tested.
- The gaping deficit complicates the Fed's effectiveness in responding to the next downturn, meaning the strong historic positive correlation between short- and long-term rates could weaken because of the supply of government debt.
- With the RRP depleted, deficit funding will more directly impact bank reserve levels and potentially liquidity conditions.
- Sovereign debt funding will stay at the fore internationally, particularly for Japan, but potentially others.

Sources: Congressional Budget Office, Office of Management and Budget, Dept. of the Treasury, World Bank, and Cadwalader, Wickersham & Taft LLP.

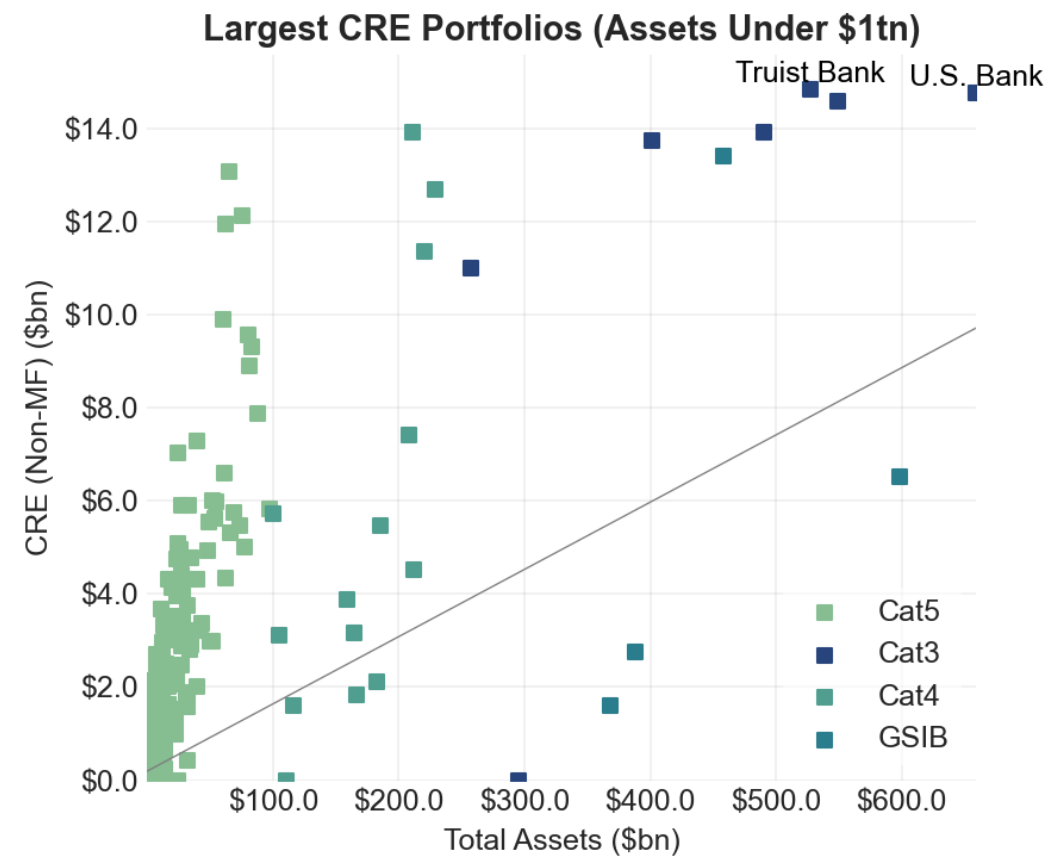
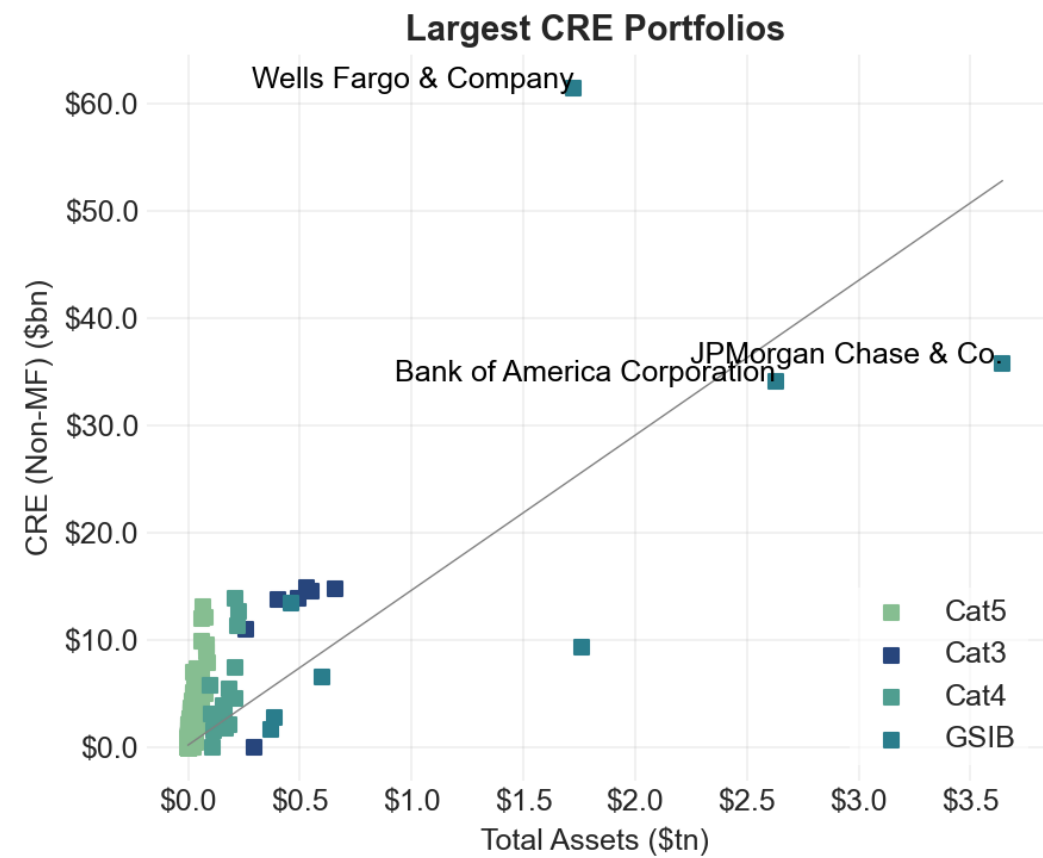
COMMERCIAL REAL ESTATE

- By clamping down on securitization, post-GFC reform had the effect of bringing a greater share of CRE financing back onto bank balance sheets. In fact, bank balance sheets now provide a near-historically high share of total U.S. CRE debt capital.
- In terms of loan resolutions, a strategy of playing for time and deferring loan resolutions has been reinforced through decades of repeated experience of seeing interest rates decline to ease refinancing hurdles. The recent context has clearly changed.
- It's no longer clear that a "buying time" approach to problem loans is the most appropriate in the current cycle. Long-term interest rates are not necessarily headed lower soon, and real estate fundamentals in, for example, the office market may not be on the upswing within the next year or two. Moreover, the cost of capital to a bank to fill the hole from charge-offs may not necessarily be lower in the future than now.
- Delayed resolution entails risks to collateral value as underwater borrowers may avoid capital spending on property maintenance and improvement.



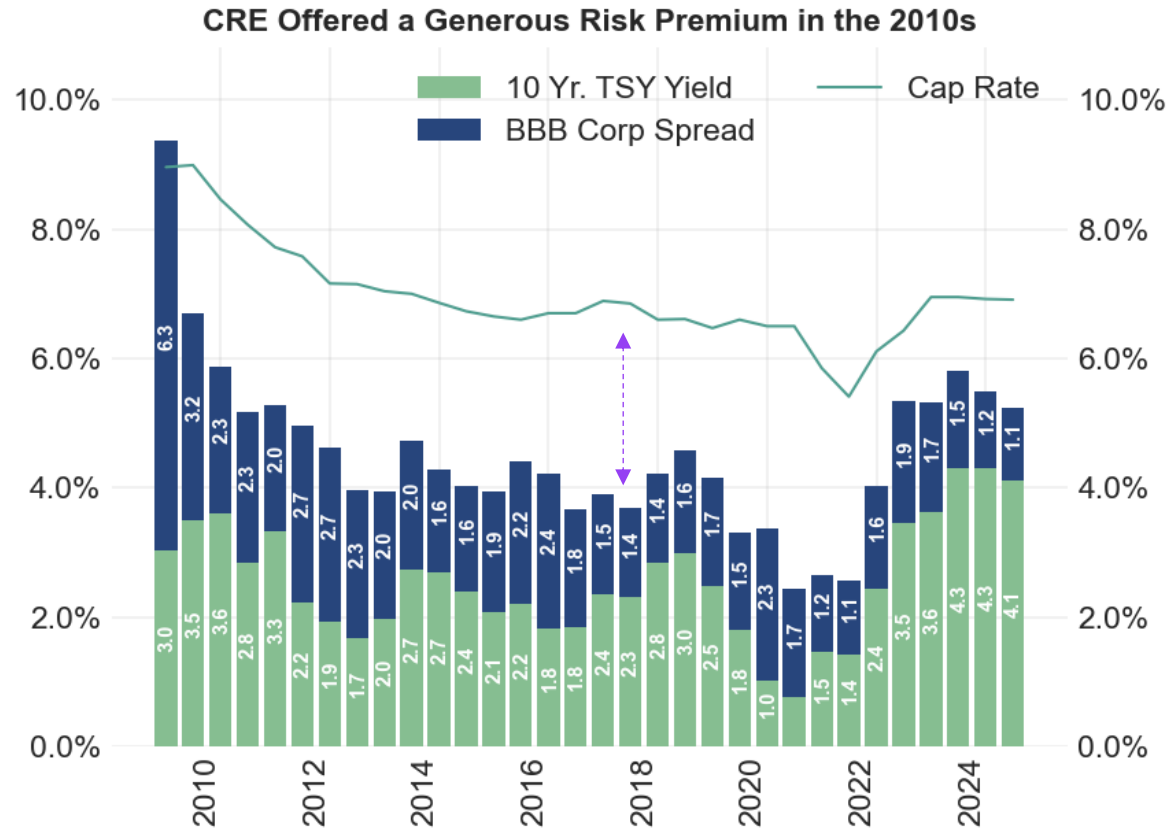
Source: Federal Reserve, BankRegData and Cadwalader, Wickersham & Taft LLP.

CRE EXPOSURE



Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

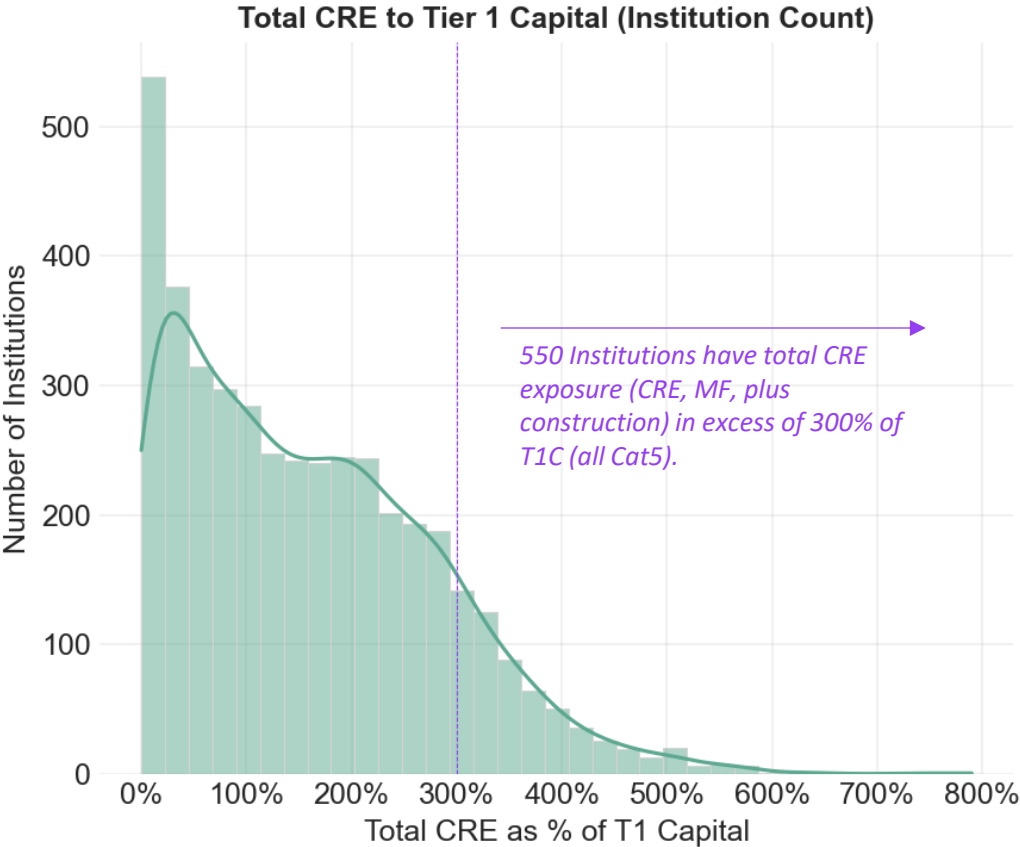
CRE EXPOSURE



- CRE offered an attractive relative value in the 2010s, significantly out-earning many other asset classes as banks worked to solve for NII in a low-rate environment.
- Bank allocation to CRE lending increased over this period.
- Increased CRE loan exposure coincided with a willingness to take on more asset duration in a low-rate environment.

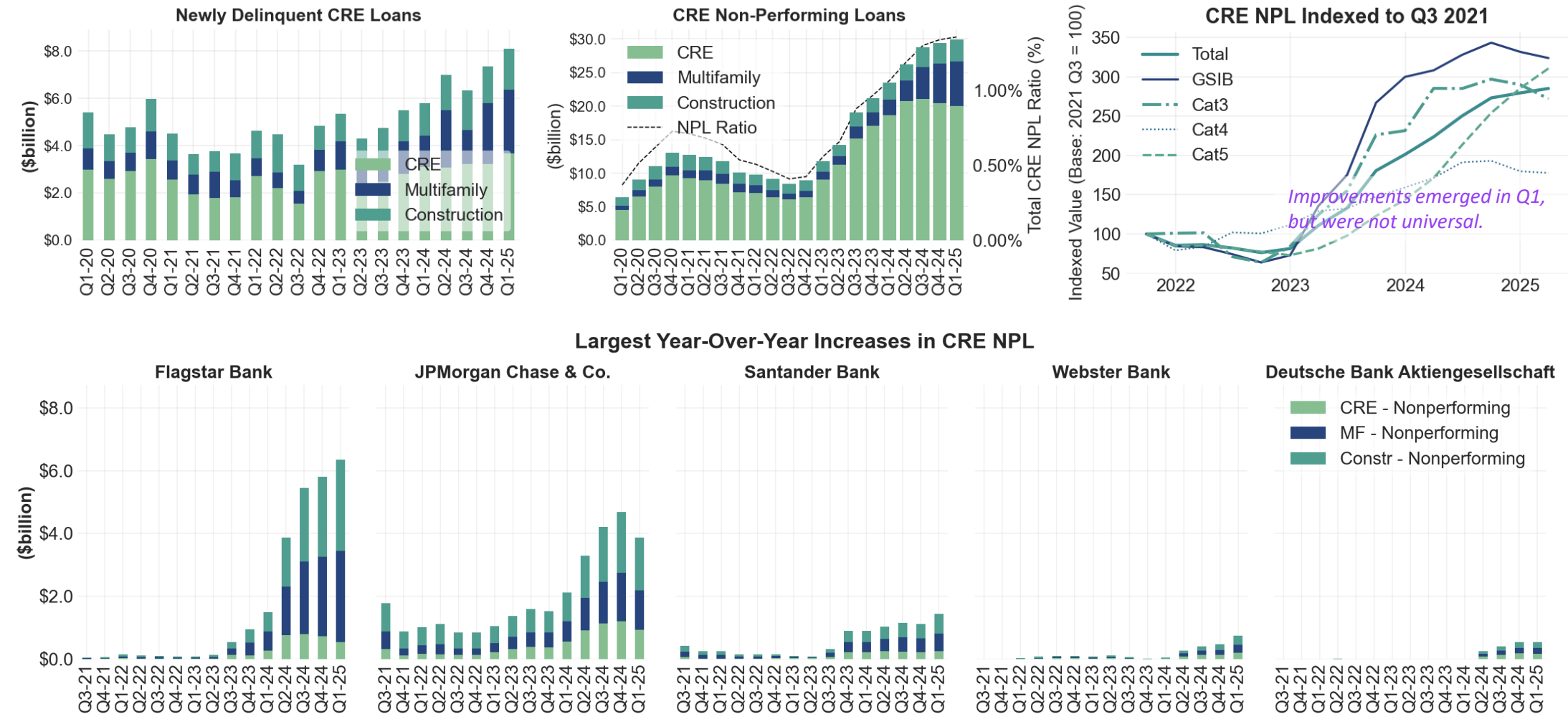
Source: CBRE, Federal Reserve, and Cadwalader, Wickersham & Taft LLP.

CRE CONCENTRATION



Note: Construction here includes residential.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

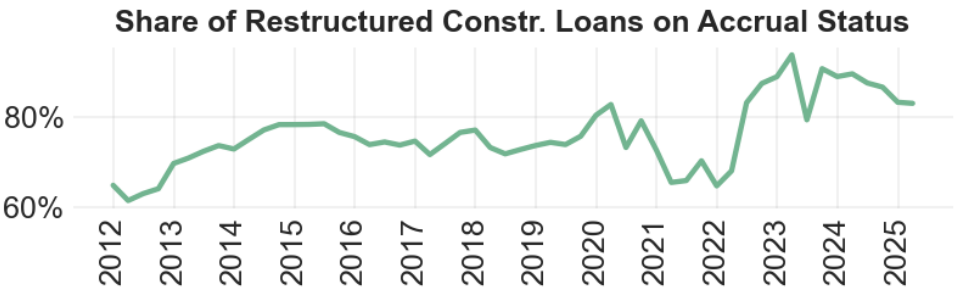
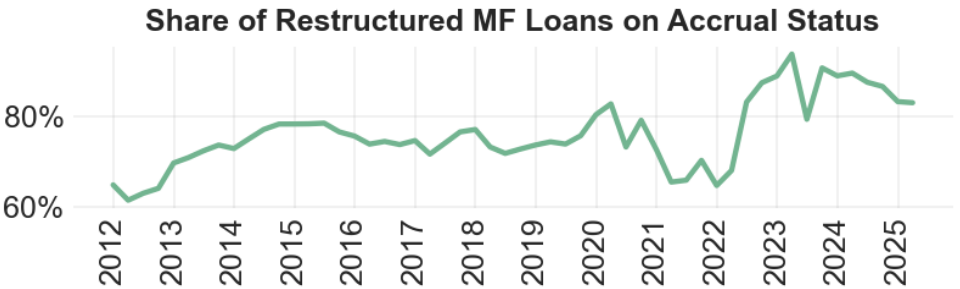
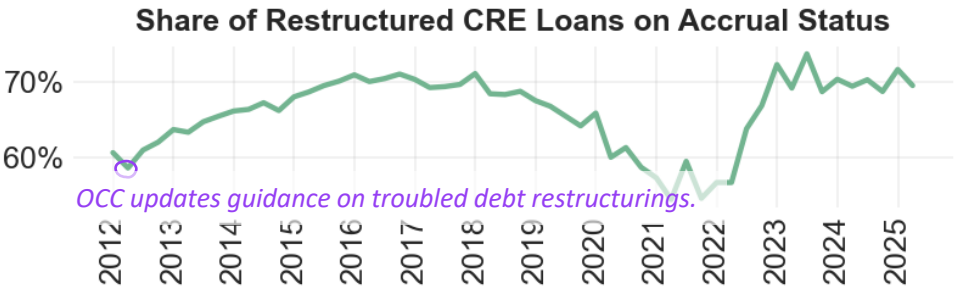
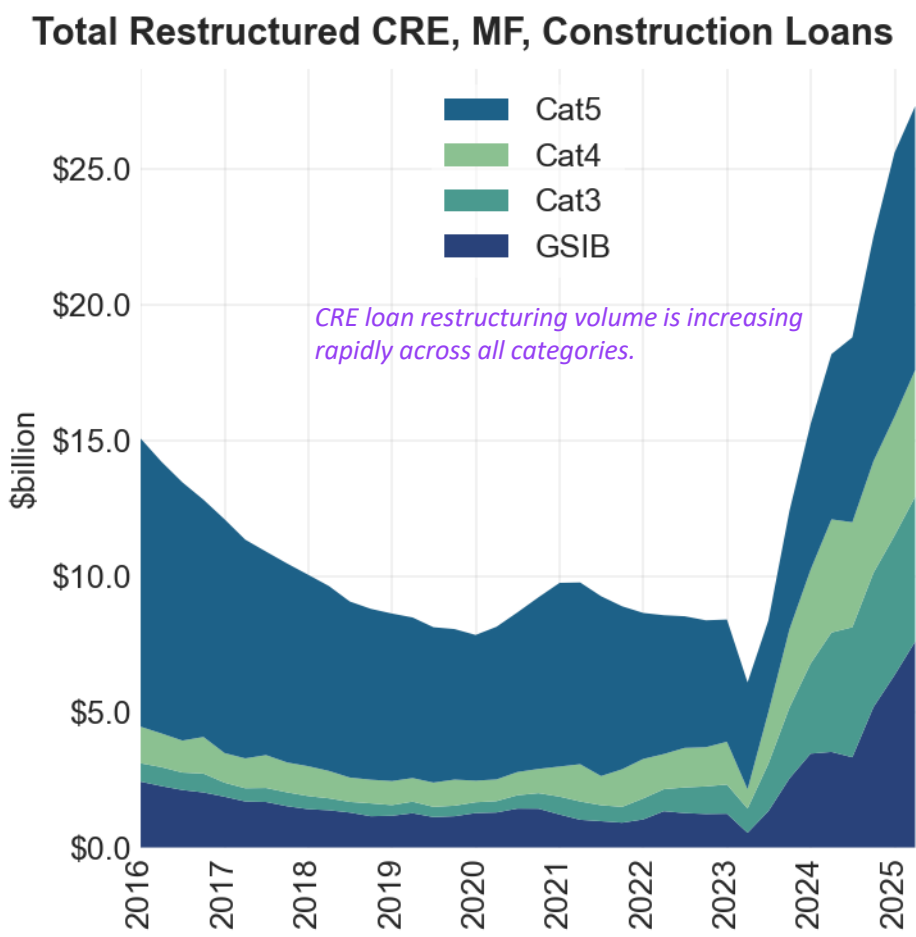
CRE NPL



Note: Construction excludes residential, NPL defined as 90+ day past due and non-accrual loans.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

CRE RESTRUCTURING

Banks are keeping restructured loans on accrual status with increasing frequency. This may lead to an understated NPL rate and forfeits the opportunity to amortize interest and fees to lower potential future loss severity.



Note: Q1 and Q3 Cat5 Total Restructured based on linear interpolation as some Cat5 report restructured loans only in Q2 and Q4. Category as of reporting period.
Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

MULTIFAMILY

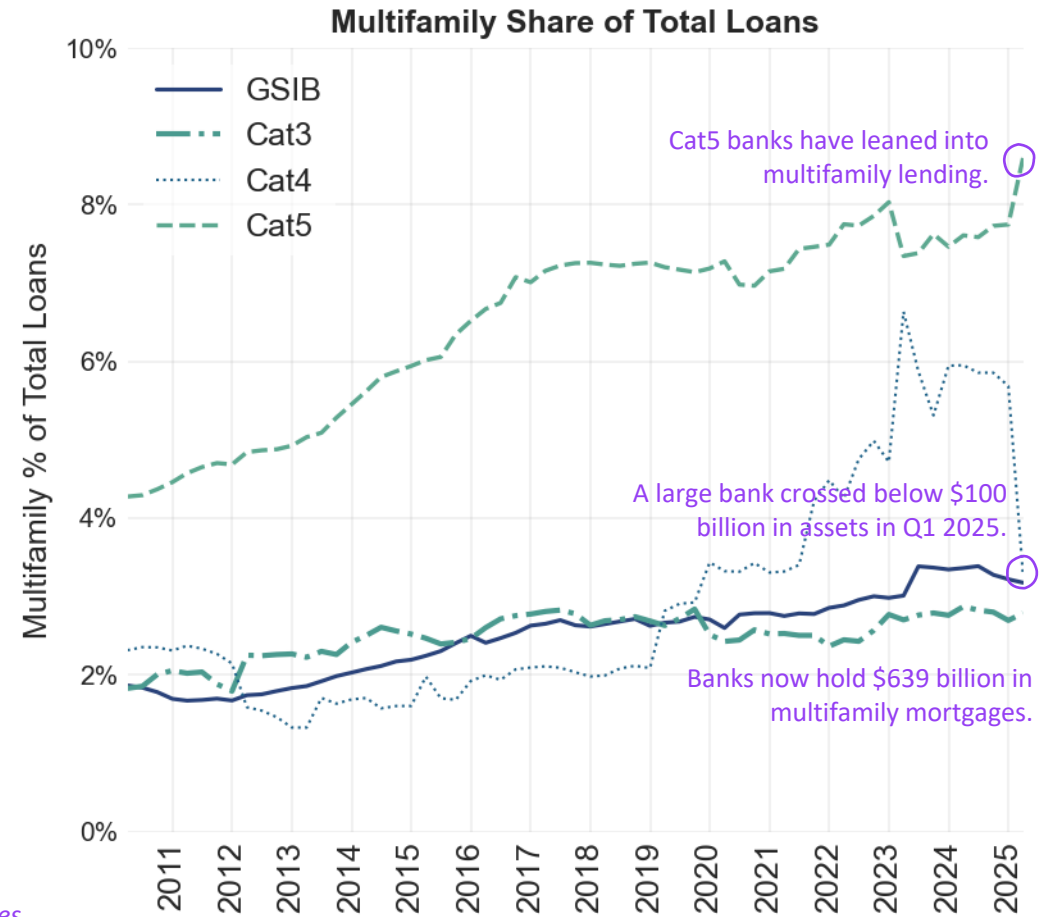
- Multifamily's status as a "safe" asset class is less certain as new supply comes online and the impact of interest rates becomes clearer.

Cap Rate Duration... and Convexity

Property 1	Original Value	New Value
NOI	300,000	300,000
Cap Rate	5.00%	7.00%
Implied Market Value	6,000,000	4,285,714
Original Debt	3,300,000	3,300,000
LTV	55%	77%
Property 2	Original Value	New Value
NOI	300,000	300,000
Cap Rate	3.00%	5.00%
Implied Market Value	10,000,000	6,000,000
Original Debt	5,500,000	5,500,000
LTV	55%	92%

Source: Cadwalader, Wickersham & Taft LLP.

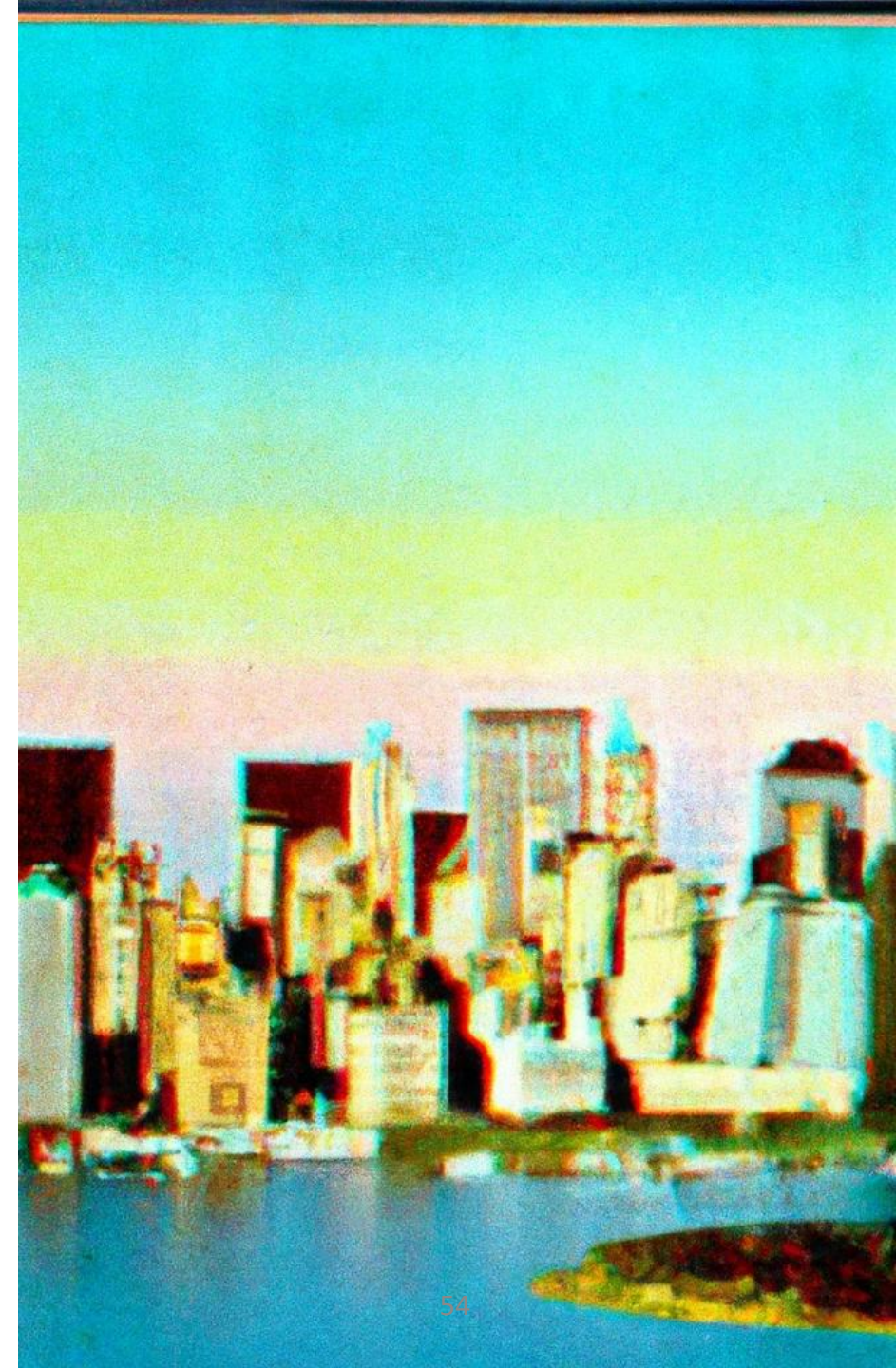
A 200 bps move wider in cap rates due to higher risk-free rates has a greater impact on the low cap rate (higher duration) property.



Source: BankRegData and Cadwalader, Wickersham & Taft LLP.

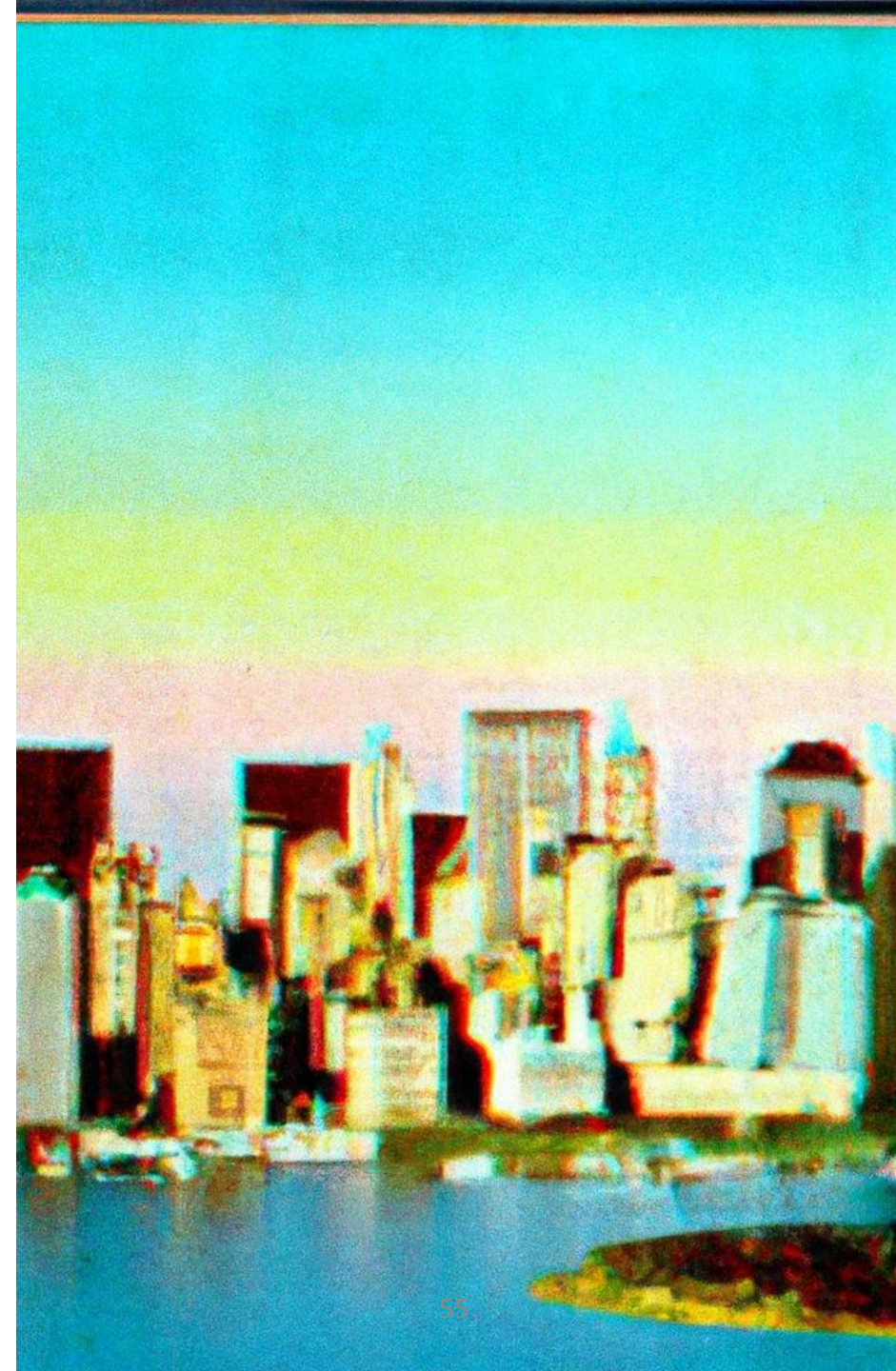
CONCLUSION

- The banking industry is undergoing a historic transformation after emerging from more than a decade dominated by negative real interest rates. Banking business models vary widely, as does the range of available responsive strategies to today's environment. Cost reduction and capital efficiency will continue to be key themes.
- Challenges to profitability at some banks and the benefits of scale across the franchise make a strong case for consolidation. Bank mergers currently face significant obstacles, but could be an important variable in the future to the profitability outlook.
- For now, an array of factors hold back M&A: (1) unrealized mark-to-market losses and the capital gap required under purchase accounting, (2) new regulatory guidance requiring post-acquisition day-1 capital position to be the same or better, and (3) widespread supervisory ratings issues.
- Only one-third of large banks (\$100 billion or more in assets) had satisfactory ratings across the three categories of capital planning and positions; liquidity risk management and positions; and governance and controls, as of mid-2024, according to the Federal Reserve. Banks with less-than-satisfactory ratings are effectively sidelined from acquisitions.



CONCLUSION

- Over the past five years, a regulatory escalator mindset advantaged private funds over banks and facilitated capital formation moving out of the regulated banking system.
- While the dial has been turned back to a deregulation setting, broader market stability and a coherent long-term framework for bank regulation with supporting legislation would create a more lasting long-term foundation.



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