What the FFIEC's Proposed Revisions to CAMELS Exam Ratings Mean for the Banking Industry

May 26, 2026

On May 19, 2026, the Federal Financial Institutions Examination Council ("FFIEC") released its long-anticipated proposal to revise the Uniform Financial Institutions Rating System ("UFIRS"), commonly known as the CAMELS rating system.[1] The rating system, which is used to assess the safety and soundness of banks, credit unions and other insured depository institutions, has not been meaningfully updated in 30 years.[2]

The basic framework of the CAMELS rating system would remain intact, but the proposal would modify the composite rating and component rating definitions and assessment factors to tie ratings more closely to a bank's financial condition and material financial risk and improve transparency and consistency in supervisory outcomes. Central to the proposed reform are changes that aim to narrow and refocus the Management component on key risk management issues and reduce the influence of the Management rating on the composite rating. A redline of the proposal against the current CAMELS rating system text is included in the Appendix.

The proposal aligns with other recent efforts by the federal banking regulators to refocus bank supervision on material financial risk and away from process-oriented concerns, including revisions to the rating system for large financial institutions ("LFI") adopted by the Federal Reserve Board ("FRB") in November 2025.[3] Because revising CAMELS requires cooperation across the FFIEC's federal and state agency membership,[4] its reform may have more permanence than other unilateral or interagency actions taken by the federal banking regulators, although each agency will

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1 91 Fed. Reg. 29128 (proposed May 19, 2026).

2 UFIRS was originally adopted by the FFIEC in 1979 as the CAMEL framework and was amended in 1996 to become the CAMELS framework. 61 Fed. Reg. 67021 (Dec. 19, 1996).

3 Other reform efforts have included the FRB's adoption and publication of a Statement of Supervisory Operating Principles, the proposal to define unsafe and unsound practices from the Federal Deposit Insurance Corporation ("FDIC") and the Office of the Comptroller of the Currency ("OCC") and steps all three agencies have taken to remove reputation risk from regulations, guidance and supervisory processes.

4 The members of the FFIEC include the FRB, FDIC, OCC, the National Credit Union Administration, the Consumer Financial Protection Bureau and the chair of the State Liaison Committee that represents state banking agencies at the FFIEC.

still need to implement the changes in their supervisory programs once the proposal is finalized.

Following a brief summary of the CAMELS rating system and its significance, this analysis summarizes the key changes proposed by the FFIEC and assesses select areas for further monitoring. Comments on the proposal are due August 17, 2026.

The CAMELS Rating System and Consequences of Poor Ratings

Under the CAMELS rating system, each institution receives a composite rating and six component ratings—Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk—on a 1-to-5 scale, with 1 being the highest rating, and anything lower than a 2 being considered less than satisfactory.

Ratings below 2 can have important consequences for a bank. For example, a bank must have a rating of at least 2 for both its composite rating and its Management rating to be considered "well managed," which is required for a parent financial holding company ("FHC") to be able to exercise its full powers to engage in financial activities and acquire financial companies.[5] Revising the CAMELS rating system is therefore a necessary complement to the FRB's revisions to the LFI rating system to meaningfully recalibrate supervisory ratings and reduce their impact on the permitted activities of large FHCs. Less-than-satisfactory ratings can also result in significant supervisory obstacles to pursuing acquisitions, disqualification from expedited application processing procedures, restrictions on establishing de novo interstate branches and on controlling financial subsidiaries, higher assessment rates and other restrictions.[6]

Key Proposed Changes

Management Component Rating

- Establishes a "material financial risk threshold" for assigning Management component ratings of 3 or worse. A bank's risk management practices generally would need to pose a material financial risk to the institution to receive a 3 Management component rating or worse, although a bank that has unreliable

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5 *See* 12 USC 1843(j)(4)(B) & (l); 12 CFR 225.83(d). In addition, pursuant to Section 606 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the FHC itself must be considered "well managed" to exercise its full powers. *See* 12 USC 1843(l).

6 *See* FRB, SR Letter 14-2 (Feb. 24, 2014); 12 CFR 5.3; 12 CFR 5.34(f)(2); 12 CFR 5.36(h)(1); 12 CFR 327.10; 12 CFR 327.16; 12 CFR 8.2(d). *See also, e.g.*, 12 CFR 337.6(e) (limits on reciprocal brokered deposits).

financial or regulatory reporting, fails to safeguard assets or is in significant noncompliance with law or regulations also could receive a 3 rating.

- Limits the scope of factors an examiner may consider under the Management component to the "most material aspects of risk management" by removing the evaluation factors for "Management depth and succession," "Responsiveness to recommendations from auditors and supervisory authorities" and "Demonstrated willingness to serve the legitimate banking needs of the community."

- Limits the consideration of "specialty review areas" (e.g., Bank Secrecy Act ("BSA")/Anti-Money Laundering ("AML"), Consumer Compliance, Information Systems)[7] in assigning a bank's CAMELS composite and component ratings. The proposal notes that specialty review ratings are often incorporated in the Management component rating. Under the proposal, only those findings that "impact a financial institution's overall financial condition, represent material financial risks, or reflect significant noncompliance with laws and regulations" would be considered in assigning CAMELS ratings.

Composite Rating

- Removes the direction to give "special consideration" to the Management component in determining the composite rating, so that a composite rating "better reflects a financial institution's overall financial condition and risk profile."

  - The proposal describes supervisory data from 2000 to 2025 that suggest "the Management component has been the most influential factor in determining composite ratings, particularly in recent years."

- Ties the composite rating definitions to financial performance and risk management practices that result in material financial risk by revising the definitions for composite ratings of 3 or lower.

  - Under the proposal, a 3 composite rating should only be given if the bank exhibits "less than satisfactory financial performance or inadequate risk management practices that result in material financial risk to the institution" or "significant noncompliance with laws and regulations." A 4 composite rating would require "deficient" financial performance, and a 5 composite rating would require "critically deficient" financial performance.

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7 Specialty review areas also include Community Reinvestment, Government Security Dealers, Municipal Security Dealers, Transfer Agent and Trust.

- The proposal's new thresholds are intended to ensure that ratings of 3 or worse are "fully supported by evidence of weaknesses that materially impact the safety and soundness of the institution."

- By contrast, under the current definition, examiners have discretion to assign a 3 composite rating for reasons unrelated to financial performance or material financial risk. For example, a bank with a 3 composite rating may have risk management practices that are "less than satisfactory relative to the institution's size, complexity, and risk profile" or management who "lack the ability or willingness to effectively address weaknesses within appropriate time frames."[8]

Clarifying Evaluation Factors and Modernizing and Standardizing Definitions

- Replaces broad, overlapping language across the non-Management components that requires examiners to evaluate management's ability to "identify, measure, monitor and control" risks with narrower, component-specific evaluation factors focused on the "effectiveness" of the bank's practices related to, for example, capital management or credit underwriting. This appears intended to constrain examiner discretion and reduce the risk of "double counting" management-related issues in other components by providing a more objective, results-oriented view of risk management relevant to each component.

- Narrows the ability of examiners to consider evaluation factors that are not enumerated. The proposal would permit consideration of additional factors if warranted by "exceptional circumstances or evolving business practices," and if the factors were critical to assessing a bank's financial condition or risk profile. Examiners would be required to document and explain the rationale for including any additional factors.

- Updates the evaluation factors and modernizes terminology for specific components, such as adding express references to contingency funding planning in the Liquidity component and adding factors related to net interest income risk and interest rate volatility in Sensitivity to Market Risk.

- Introduces more standardized terminology across component ratings, including "strong," "satisfactory," "less than satisfactory," "deficient" and "critically deficient" for financial condition, and "effective," "adequate," "inadequate" and "deficient" for risk management.

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[8] 61 Fed. Reg. 67021, 67026 (Dec. 19, 1996).

Areas to Watch

Potential for Additional Reforms

The proposal includes several specific questions suggesting the agencies are considering whether to adopt further reforms—for example, by establishing an explicit expectation that a Management rating of less than satisfactory should be "rare" when all other components are satisfactory, or by requiring additional justification when a single component rating drives the composite rating.

Notably, OCC Comptroller Jonathan Gould has already signaled his view that the proposal does not go far enough, stating that "[a]bsent extenuating circumstances, no single component rating should disproportionately drive the composite rating" and that he remains concerned "that the revisions do not sufficiently address 'double counting' within the Management, or M, component."[9]

Implications for Specialty Review Areas: Consumer Compliance and BSA/AML

Historically, Consumer Compliance, BSA/AML and Information Systems examinations have been a major supervisory priority and have often influenced Management downgrades for banks that are otherwise in a sound financial condition. The proposal's approach to specialty review areas has the potential to significantly reduce the consequences of compliance findings in these examinations for overall CAMELS composite and Management ratings, and it will be important to watch how examination practices evolve as a result.

For BSA/AML, the proposed change is consistent with the reforms in the Financial Crimes Enforcement Network's proposed AML program rule, which would provide that a bank with a properly established AML program should not be subject to an enforcement action or significant supervisory action, except for a "significant or systemic failure to implement" the program "in all material respects."[10]

No Definition of "Material Financial Risk"

The requirement to base composite and Management downgrades on a finding of "material financial risk" is likely to add discipline and rigor to the ratings, but notably absent from the proposal is a definition for "material financial risk."

Similar issues are raised in the OCC and FDIC's October 30, 2025 joint proposal to define unsafe and unsound practices, which introduces the concepts of "material harm" to the

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[9] OCC, Comptroller Statement on Proposed Revisions to the Uniform Financial Institutions Ratings System (May 19, 2026).

[10] 91 Fed. Reg. 18704 (Apr. 10, 2026).

financial condition of the institution and "material risk of loss" to the Deposit Insurance Fund, and explicitly asks whether the agencies should define "materially" or tie it to specific quantitative measurements, indicators or thresholds,[11] and in the FRB's updated Statement of Supervisory Operating Principles, which states that the FRB is "in the process of developing various quantitative tests to determine whether a realized or unrealized loss would constitute significant harm to the financial condition" of a bank.[12]

Implications for Foreign Banking Organization Ratings

The rationales driving the proposed reforms to CAMELS should equally justify reform of both the interagency ROCA ratings system applicable to the U.S. branches of foreign banks and the FRB's composite combined U.S. operations rating for the U.S. operations of foreign banks. Foreign banking organizations may wish to consider advocating for parallel changes to these foreign bank-specific ratings systems, which are not addressed or discussed in the proposal.

Conclusion

The proposed CAMELS revisions represent a meaningful shift toward observable financial outcomes and away from the sort of "subjective" supervisory process that FRB Vice Chair for Supervision Michelle Bowman and others have criticized. If finalized, the changes could meaningfully reduce the frequency of ratings downgrades unrelated to financial risk and ultimately lead to a more dynamic, growth-oriented banking system. Ratings reform has been a long-term priority of the banking industry, and we expect banks will actively engage to support the changes and further shape the contours of the final framework.

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11 90 Fed. Reg. 48835 (Oct. 30, 2025).

12 FRB, Updated Statement of Supervisory Operating Principles (2026).

Appendix: Redline of Proposal Against CAMELS Rating System Text

Uniform Financial Institutions~~[1]~~ Rating System

~~**Introduction**~~

The Uniform Financial Institutions Rating System (UFIRS) was adopted by the Federal Financial Institutions Examination Council (FFIEC)[1] on November 13, 1979~~.~~, and updated on December 20, 1996.[2] Over the years, the UFIRS has generally proven to be an effective internal supervisory tool for evaluating the soundness of financial institutions[3] on a uniform basis and for identifying those institutions requiring special attention or concern. ~~A number of changes, however, have occurred in the banking industry and in the Federal supervisory agencies' policies and procedures which have prompted a review and revision of the 1979 rating system. The revisions to UFIRS include the addition of a sixth component addressing sensitivity to market risks, the explicit reference to the quality of risk management processes in the management component, and the identification of risk elements within the composite and component rating descriptions.~~[4]

~~The revisions to UFIRS are not intended to add to the regulatory burden of institutions nor require additional policies or processes. The revisions are intended to promote and complement efficient examination processes. The revisions have been made to update the rating system, while retaining the basic framework of the original rating system.~~

~~1 For purposes of this rating system, the term "financial institution" refers to those insured depository institutions whose primary Federal supervisory agency is represented on the Federal Financial Institutions Examination Council (FFIEC). The agencies comprising the FFIEC are the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. The term "financial institution" includes Federally supervised commercial banks, savings and loan associations, mutual savings banks and credit unions.~~

1 The agencies represented on the Federal Financial Institutions Examination Council (FFIEC) are the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Consumer Financial Protection Bureau. The chair of the State Liaison Committee serves as the sixth member of the Council.

2 The 1996 revision to UFIRS included the addition of a sixth component addressing sensitivity to market risks, the explicit reference to the quality of risk management processes in the management component, and the identification of risk elements within the composite and component rating descriptions. The NCUA adopted the sixth component rating in 2021, which went into effect in 2022.

3 For purposes of this rating system, the term "financial institution(s)" refers to those insured depository institutions whose primary Federal supervisory agency is represented on the FFIEC, and includes Federally supervised commercial banks, savings and loan associations, mutual savings banks, and credit unions.

4 Because the CFPB does not examine the institutions it supervises for safety and soundness, the CFPB does not use the UFIRS.

The UFIRS evaluates the safety and soundness of a financial institution through an assessment of the institution's overall financial condition and its risk profile, with emphasis on material financial risks. The UFIRS considers the institution's financial condition, measured in terms of Capital Adequacy, Asset Quality, Earnings, Liquidity, and Sensitivity to Market Risk. The UFIRS also evaluates the effectiveness of an institution's risk management relative to its risk profile, including its ability to identify, measure, monitor, and control its risks.

The FFIEC has identified ways to further clarify the UFIRS system to strengthen the link between supervisory ratings and safety and soundness. Specifically, the revised UFIRS retains the basic framework of the existing rating system but emphasizes factors that materially affect an institution's financial condition and risk profile. These updates will improve the effectiveness of UFIRS as a supervisory tool and increase the public's confidence in supervisors' assessment of the banking system.

The UFIRS takes into consideration certain ~~financial, managerial, and compliance~~safety and soundness related factors that are common to all institutions. Under this system, the ~~supervisory agencies~~FFIEC member entities endeavor to ensure that all financial institutions are evaluated in a comprehensive and uniform manner, and that supervisory attention is appropriately focused on the financial institutions exhibiting material financial ~~and operational~~ weaknesses or ~~adverse trends~~risks.

The UFIRS also serves as a useful vehicle for identifying problem or deteriorating financial institutions, as well as for categorizing institutions with deficiencies in particular component areas. Further, the rating system assists Congress in following safety and soundness trends and in assessing the aggregate strength and soundness of the financial industry. As such, the UFIRS assists the ~~agencies~~FFIEC member entities in fulfilling their collective mission of maintaining stability and public confidence in the nation's financial system.

Overview

Under the UFIRS, each financial institution is assigned a composite rating that measures its overall financial condition and risk profile, with emphasis on material financial risks. The composite rating is based on an evaluation and rating of six essential components of an institution's ~~financial condition and operations. These component factors address the adequacy of capital, the quality of assets, the capability of management, the quality and level of earnings, the adequacy of liquidity, and the sensitivity to market risk~~safety and soundness. These components are Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk. Evaluations of the components take into consideration the institution's size and sophistication, the nature and complexity of its activities, and its risk profile.

Composite and component ratings are assigned based on a 1 to 5 numerical scale. A 1 indicates the highest rating, the strongest performance and risk management practices, and the least degree of supervisory concern, while a 5 indicates the lowest rating, the weakest performance, ~~inadequate risk management practices~~ and, therefore, the highest degree of supervisory concern.

The composite rating generally bears a close relationship to the component ratings assigned. ~~However, the composite rating is not derived by computing an arithmetic average of the component ratings.~~ Each component rating is based on a ~~qualitative analysis of the~~rigorous assessment of the evaluation factors comprising that component ~~and its interrelationship with the other components~~. In the revised framework, financial condition and material financial risks are the predominant considerations when making rating determinations. When assigning a composite rating, some components may be given more weight than others depending on the ~~situation at the institution. In general, assignment of a composite rating may incorporate any factor that bears significantly on the overall condition and soundness of the~~institution's overall financial condition and risk profile with emphasis on material financial ~~institution~~risks. Assigned composite and component ratings are disclosed to the institution's board of directors and senior management.

~~The ability of management to respond to changing circumstances and to address the risks that may arise from changing business conditions, or the initiation of new activities or products, is an important factor in evaluating a financial institution's overall risk profile and the level of supervisory attention warranted. For this reason, the management component is given special consideration when assigning a composite rating.~~

~~The ability of management to identify, measure, monitor, and control the risks of its operations is also taken into account when assigning each component rating. It is recognized, however, that appropriate management practices vary considerably among financial institutions, depending on their size, complexity, and risk profile. For less complex institutions engaged solely in traditional banking activities and whose directors and senior managers, in their respective roles, are actively involved in the oversight and management of day-to-day operations, relatively basic management systems and controls may be adequate. At more complex institutions, on the other hand, detailed and formal management systems and controls are needed to address their broader range of financial activities and to provide senior managers and directors, in their respective roles, with the information they need to monitor and direct day-to-day activities. All institutions are expected to properly manage their risks. For less complex institutions engaging in less sophisticated risk taking activities, detailed or highly formalized management systems and controls are not required to receive strong or satisfactory component or composite ratings.~~

Foreign Branch and specialty review findings and ratings are considered when assigning composite and component ratings under the UFIRS to the extent that they impact an institution's overall financial condition or pose material financial risk.[5] For institutions that primarily engage in trust activities (such as trust banks), Trust examination findings and ~~the~~ ratings ~~assigned to those areas~~generally reflect the institution's overall financial condition or material financial risks, and examination conclusions are taken into consideration~~, as appropriate,~~ when assigning ~~component and~~ composite and component ratings under the UFIRS. ~~The specialty examination areas include: Compliance, Community Reinvestment, Government Security Dealers, Information Systems, Municipal Security Dealers, Transfer Agent, and Trust.~~

The following two sections of this document contain the composite rating definitions, and the descriptions and definitions for the six component ratings.

Composite Ratings

Composite ratings are based on a careful evaluation of an institution's ~~managerial, operational,~~ financial~~, and compliance performance~~ condition and risk profile with emphasis on material financial risks. The six key components used to assess an ~~institution's financial condition and operations are: capital adequacy, asset quality, management capability, earnings quantity and quality, the adequacy of liquidity, and sensitivity to market risk. The rating scale ranges from 1 to 5, with a rating of 1 indicating: the strongest performance and risk management practices relative to the institution's size, complexity, and risk profile; and the level of least supervisory concern. A 5 rating indicates: the most critically deficient level of performance; inadequate risk management practices relative to the institution's size, complexity, and risk profile; and the greatest supervisory concern~~institution are: Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk. The composite ratings are defined as follows:

Composite 1

Financial institutions in this group are sound in every respect and generally have components rated 1 or 2. ~~Any~~These institutions exhibit strong financial performance. Risk management weaknesses are minor~~and can be handled in a routine manner by the board of directors and management. These financial institutions are the most capable of withstanding the vagaries of business conditions and are resistant to outside influences such as economic instability in their trade area. These financial~~. These institutions are in substantial compliance with laws and regulations. As a result, these ~~financial~~ institutions ~~exhibit the strongest performance and risk management practices relative~~

[5] Specialty review areas include Compliance (for example, Consumer Compliance, Bank Secrecy Act/Anti-Money Laundering), Community Reinvestment, Government Security Dealers, Information Systems, Municipal Security Dealers, Transfer Agent, and Trust.

~~to the institution's size, complexity, and risk profile, and~~ give no cause for supervisory concern.

Composite 2

Financial institutions in this group are fundamentally sound~~. For a financial institution to receive this rating,~~ and generally no component rating should be more severe than 3. ~~Only moderate weaknesses are present and are well within the board of directors' and management's capabilities and willingness to correct. These financial institutions are stable and are capable of withstanding business fluctuations. These financial~~These institutions exhibit satisfactory financial performance. Any risk management weaknesses are moderate and generally do not result in material financial risk to the institution. These institutions are in substantial compliance with laws and regulations. ~~Overall risk management practices are satisfactory relative to the institution's size, complexity, and risk profile.~~ There are no material ~~supervisory~~safety and soundness concerns and, as a result, the supervisory response is informal and limited.

Composite 3

Financial institutions in this group exhibit some degree of supervisory concern ~~in one or more of the component areas. These financial institutions exhibit a combination of weaknesses that may range from moderate to severe; however, the magnitude of the deficiencies generally will not cause a component to be rated more severely than 4. Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames. Financial institutions in this group generally are less capable of withstanding business fluctuations and are more vulnerable to outside influences than those institutions rated a composite 1 or 2. Additionally, these financial institutions may be in~~and generally no component rating should be more severe than 4. These institutions exhibit less than satisfactory financial performance or inadequate risk management practices that result in material financial risk to the institution. There may be significant noncompliance with laws and regulations. ~~Risk management practices may be less than satisfactory relative to the institution's size, complexity, and risk profile.~~ These financial institutions require more than normal supervision, which may include formal or informal enforcement actions. Failure appears unlikely, however, given the overall strength and financial capacity of these institutions.

Composite 4

Financial institutions in this group generally exhibit ~~unsafe and unsound practices or conditions. There are serious financial or managerial deficiencies that result in unsatisfactory~~a significant degree of supervisory concern. These institutions exhibit deficient financial performance. ~~The problems~~Any risk management weaknesses range from severe to critically deficient~~. The weaknesses and problems are not being~~

~~satisfactorily addressed or resolved by the board of directors and management. Financial institutions in this group generally are not capable of withstanding business fluctuations~~. There may be significant noncompliance with laws and regulations~~. Risk management practices are generally unacceptable relative to the institution's size, complexity, and~~ that represents material financial risk ~~profile~~. Close supervisory attention is required, which means, in most cases, formal enforcement action is necessary to address the problems. Institutions in this group pose a risk of loss to the ~~deposit insurance fund~~Deposit Insurance Fund or Share Insurance Fund. Failure is a distinct possibility if the problems and weaknesses are not satisfactorily addressed and resolved.

Composite 5

Financial institutions in this group exhibit ~~extremely unsafe and unsound practices or conditions; exhibit a critically deficient performance; often contain inadequate risk management practices relative to the institution's size, complexity, and risk profile; and are of the greatest~~the highest degree of supervisory concern. ~~The volume and severity of problems are beyond management's ability or willingness to control or correct~~These institutions exhibit critically deficient financial performance. Immediate outside financial or other assistance is needed ~~in order~~ for the ~~financial~~ institution to be viable. Ongoing supervisory attention is necessary. Institutions in this group pose a significant risk of loss to the ~~deposit insurance fund~~Deposit Insurance Fund or Share Insurance Fund, and failure is highly probable.

Component Ratings

Each of the component rating descriptions is divided into three sections: an introductory paragraph; a list of the ~~principal~~ evaluation factors that relate to that component; and~~,~~ a ~~brief~~ description of each numerical rating for that component. ~~Some of the~~Generally, component ratings are determined by the specific evaluation factors ~~are reiterated under one or more of the other components to reinforce the interrelationship between components. The listing of~~listed in the following sections; however, exceptional circumstances or evolving business practices could give rise to additional evaluation factors that are critical to an assessment of an institution's financial condition or risk profile with emphasis on material financial risks. If any factor beyond those listed is considered when assigning a supervisory rating, examiners should document and explain the factor. The evaluation factors for each component rating ~~is~~are in no particular order of importance.

Capital Adequacy

~~A financial~~The Capital Adequacy rating reflects a financial institution's ability to maintain sufficient capital to absorb unexpected losses from credit, market, and other risk exposures. An institution is expected to maintain capital commensurate with the nature and extent of risks to the institution~~ and the ability of management to identify, measure, monitor, and control these risks. The effect of credit, market, and other risks on the institution's financial condition should be considered when evaluating the adequacy of capital~~. The types and quantity of risk ~~inherent~~ in an institution's activities ~~will~~ determine ~~the extent to which~~whether it may be ~~necessary~~appropriate to maintain capital at levels above required regulatory minimums to ~~properly reflect the potentially adverse consequences that these risks may have on the institution's capital.~~ appropriately support on- and off-balance sheet exposures. Capital Adequacy ~~The capital adequacy of an institution~~ is rated based ~~upon, but not limited to,~~on an assessment of the following evaluation factors:

☒ The level and quality of capital and the institution's overall financial condition~~ of the institution~~.

☒ The ~~ability of management to address emerging needs for additional capital~~institution's effectiveness in maintaining capital levels commensurate with its risk profile and strategic priorities through a range of economic conditions.

☒ The nature, trend, and volume of problem assets, and the adequacy of allowances for ~~loan and lease~~credit losses and other asset valuation ~~reserves~~allowances.

☒ Balance sheet composition, including the nature and amount of intangible assets, market ~~risk~~risks, credit risks, concentration ~~risk~~risks, and risks associated with ~~nontraditional~~other material activities.

☒ ~~Risk exposure represented~~Risks posed by off-balance sheet activities and contingent liabilities.

☒ The quality and strength of earnings, and the reasonableness of ~~dividends~~capital distributions relative to the institution's financial condition and material financial risks.

~~☒ Prospects and plans for growth, as well as past experience in managing growth.~~

☒ Access to ~~capital markets and~~ other sources of capital, including capital markets and support provided by a sponsor, parent, or holding company.

Ratings

1. A rating of 1 indicates a strong capital level relative to the institution's risk profile.

2. A rating of 2 indicates a satisfactory capital level relative to the ~~financial~~ institution's risk profile.

3. A rating of 3 indicates a less than satisfactory level of capital that does not fully support the institution's risk profile. The rating indicates a need for improvement, even if the institution's capital level exceeds minimum regulatory ~~and statutory~~ requirements.

4. A rating of 4 indicates a deficient level of capital. ~~In light of the institution's risk profile, viability~~Viability of the institution may be threatened, but failure does not appear imminent. Assistance from shareholders or other external sources of financial support may be required.

5. A rating of 5 indicates a critically deficient level of capital such that the institution's viability is threatened. Immediate assistance from shareholders or other external sources of financial support is required.

Asset Quality

The ~~asset quality~~Asset Quality rating reflects the quantity of existing and potential credit ~~risk~~risks associated with ~~the~~a financial institution's loan and investment portfolios, ~~other real estate owned~~foreclosed or repossessed assets, and other assets, as well as off-balance sheet ~~transactions. The ability of management to identify, measure, monitor, and control credit risk is also reflected here~~exposures. The evaluation of asset quality ~~should consider~~includes the adequacy of ~~the allowance for loan and lease~~allowances for credit losses and ~~weigh~~ the exposure to ~~counterparty, issuer, or borrower default under actual or implied contractual agreements. All other risks that may affect the value or marketability of an institution's assets, including, but not limited to, operating, market, reputation, strategic, or compliance risks should also be considered.~~

obligor, issuer, borrower, or other counterparty defaults. Asset Quality ~~The asset quality of a financial institution~~ is rated based ~~upon, but not limited to,~~on an assessment of the following evaluation factors:

- ☒ The ~~adequacy of underwriting standards, soundness~~effectiveness of credit underwriting and administration practices~~, and appropriateness of risk identification practices~~.

- ☒ The level, distribution, severity, and trend of problem, adversely classified, nonaccrual, restructured, modified, delinquent, and nonperforming assets for ~~both~~ on- and off-balance sheet transactions.

- ☒ The adequacy of ~~the allowance for loan and lease~~allowances for credit losses and other asset valuation ~~reserves~~allowances.

☒ The credit risk arising from or reduced by off-balance sheet transactions, such as unfunded commitments, ~~credit derivatives, commercial and standby letters~~unused lines of credit, and ~~lines of~~ credit derivatives.

☒ The diversification and quality of the loan and investment portfolios.

☒ The financial risk arising from asset concentrations.

☒ The extent of securities underwriting activities and exposure to counterparties in trading activities.

☒ ~~The existence of asset concentrations.~~

☒ The adequacy of loan and investment policies~~, procedures,~~ and practices.

☒ • The ~~ability of management to properly administer its assets, including the timely identification and~~effectiveness of risk monitoring practices and timely collection of problem assets.

☒ ~~The adequacy of internal controls and management information systems.~~

☒ ~~The volume and nature of credit documentation exceptions.~~

Ratings

1. A rating of 1 indicates strong asset quality and effective credit underwriting and administration practices. ~~Identified~~Any weaknesses are minor in nature and risk exposure is modest in relation to allowances for credit losses and capital protection ~~and management's abilities~~. Asset quality in such institutions is of minimal supervisory concern.

2. A rating of 2 indicates satisfactory asset quality and adequate credit underwriting and administration practices. The level and severity of ~~classifications and~~problem or adversely classified assets and any other weaknesses warrant a limited level of supervisory attention. Risk exposure is commensurate with allowances for credit losses and capital protection ~~and management's abilities~~.

3. A rating of 3 ~~is assigned when asset quality or credit administration practices are~~indicates less than satisfactory asset quality or inadequate credit underwriting or administration practices. Trends may be stable or indicate deterioration in asset quality or an increase in risk exposure. The level and severity of problem or adversely classified assets, other weaknesses, and risks require an elevated level of supervisory

~~concern. There is generally a need to improve credit administration and risk management practices.~~attention.

4. A rating of 4 ~~is assigned to financial institutions with~~indicates deficient asset quality or credit underwriting or administration practices. The levels of risk and problem or adversely classified assets are significant, inadequately controlled, and subject the ~~financial~~ institution to potential losses that~~, if left unchecked,~~ may threaten its viability.

5. A rating of 5 ~~represents~~indicates critically deficient asset quality ~~or credit administration practices that present~~that presents an imminent threat to the institution's viability.

Management

The ~~capability of the~~Management rating reflects the effectiveness of a financial institution's board of directors and management, in their respective roles, to identify, measure, monitor, and control the ~~risks of an institution's activities and to ensure a financial institution's safe, sound, and efficient operation in compliance with applicable laws and regulations is reflected in this rating. Generally, directors need not be actively involved in day-to-day operations; however, they must provide clear guidance regarding acceptable risk exposure levels and ensure that appropriate policies, procedures, and practices have been established. Senior management is responsible for developing and implementing policies, procedures, and practices that translate the board's goals, objectives, and risk limits into prudent operating standards.~~

material financial risks associated with the ~~Depending on the nature and scope of an~~ institution's activities~~, management practices may need to address some or all of the following risks: credit, market, operating or transaction, reputation, strategic, compliance, legal, liquidity, and other risks. Sound~~. Sound risk management practices are demonstrated ~~by: active oversight by the~~through effective board of directors and senior management~~; competent personnel; adequate policies, processes, and controls taking into consideration the size and sophistication of the institution; maintenance of an appropriate audit program and internal control environment; and effective~~ oversight; risk management policies, practices, and limits; audits, internal controls, and recordkeeping; and risk monitoring and management information systems. ~~This rating should reflect the board's and management's ability as it applies to all aspects of banking operations as well as other financial service activities in which the institution is involved.~~Management is rated based on an assessment of the following evaluation factors:

~~The capability and performance of management and the board of directors is rated based upon, but not limited to, an assessment of the following evaluation factors:~~

☒ The level and quality of oversight ~~and support of all institution activities~~ by the board of directors and management.

☒ The ~~ability~~effectiveness of the board of directors and management, in their respective roles, to plan for~~,~~ and respond to~~,~~ risks that may arise from changing business conditions or the initiation of new activities or products.

☒ The ~~adequacy of, and conformance with, appropriate internal policies and~~effectiveness of controls addressing the operations and risks of significant activities.

☒ The accuracy, timeliness, and effectiveness of management information and risk monitoring systems~~ appropriate for the institution's size, complexity, and risk profile~~.

☒ The adequacy of audits~~ and~~, internal controls~~ to:~~, and recordkeeping to promote effective operations and reliable financial and regulatory reporting~~;~~, safeguard assets~~;~~, and ensure compliance with laws~~,~~ and regulations~~, and internal policies~~.

☒ Compliance with laws and regulations.

~~☒ Responsiveness to recommendations from auditors and supervisory authorities.~~

~~☒ Management depth and succession.~~

☒ The extent that ~~the board of~~ directors and management ~~is~~are affected by, or susceptible to, dominant influence or concentration of authority.

☒ ~~Reasonableness of~~Avoidance of excessive compensation~~ policies and avoidance of~~, self-dealing, and conflicts of interest.

~~☒ Demonstrated willingness to serve the legitimate banking needs of the community.~~

~~☒ The overall performance of the institution and its risk profile.~~

Ratings

1. A rating of 1 indicates strong ~~performance by management and the board of directors and strong~~ risk management practices relative to the institution's size, complexity, and risk profile. All ~~significant~~material financial risks are consistently and effectively identified, measured, monitored, and controlled.~~ Management and the board have demonstrated the ability to promptly and successfully address existing and potential problems and risks.~~

2. A rating of 2 indicates satisfactory ~~management and board performance and~~ risk management practices relative to the institution's size, complexity, and risk profile. ~~Minor weaknesses may exist, but are not material to the safety and soundness of the institution and are being addressed.~~ In general, ~~significant risks and problems are effectively~~material financial risks are adequately identified, measured, monitored, and controlled. Minor weaknesses may exist but are not material.

3. A rating of 3 indicates ~~management and board performance that need improvement or~~ risk management practices including internal controls, audit, or recordkeeping, that are less than satisfactory ~~given the nature of the institution's activities~~, resulting in material financial risk to the institution. This rating also applies to institutions that have unreliable financial or regulatory reporting, have failed to safeguard assets, or are in significant noncompliance with law or regulation. The capabilities of management or the board of directors may be insufficient for the type, size, or condition of the institution. ~~Problems and significant risks may be inadequately identified, measured, monitored, or controlled.~~

4. A rating of 4 indicates deficient ~~management and board performance or~~ risk management practices ~~that are inadequate considering the nature of an institution's activities~~, resulting in material financial risk to the institution. The level of problems and risk exposure is excessive. ~~Problems and significant risks are inadequately identified, measured, monitored, or controlled and require immediate action by the board and management~~Immediate action is required to preserve the soundness of the institution. Replacing or strengthening management or the board may be necessary.

5. A rating of 5 indicates critically deficient ~~management and board performance or~~ risk management practices. ~~Management and the board of directors have not demonstrated the ability to correct problems and implement appropriate risk management practices~~, resulting in material financial risk to the institution. Problems and significant risks ~~are inadequately identified, measured, monitored, or controlled and~~ now threaten the continued viability of the institution. Replacing or strengthening management or the board of directors is likely necessary.

Earnings

~~This~~The Earnings rating reflects ~~not only~~ the ~~quantity~~quality, quantity, and trend of ~~earnings, but also factors that may affect the sustainability or quality of earnings. The quantity as well as the quality of earnings can be~~a financial institution's earnings. Earnings can be adversely affected by excessive or inadequately managed credit risk ~~that~~, which may result in loan losses and require additions to ~~the allowance for loan and lease losses, or by high levels of~~allowances for credit losses. Earnings can also be adversely affected by excessive market risk ~~that~~, which may unduly expose an institution's earnings to volatility in interest rates. The quality of earnings may ~~also~~ be diminished by undue reliance on extraordinary gains, nonrecurring events, or favorable tax effects. ~~Future~~In addition, future earnings ~~may~~can be adversely affected by ~~an inability to forecast or control~~high current or future funding and operating expenses~~, improperly~~ relative to revenues, poorly executed ~~or ill-advised~~ business strategies, or other poorly managed ~~or uncontrolled exposure to other~~ risks.

Earnings are rated ~~The rating of an institution's earnings is~~ based ~~upon, but not limited to,~~on an assessment of the following evaluation factors:

- ☒ The level of earnings, including trends and stability.
- ☒ The ability to provide for adequate capital through retained earnings.
- ☒ The quality and sources of earnings.
- ☒ The level of funding costs and noninterest expenses ~~in relation to operations~~relative to the institution's business model.
- ☒ The ~~adequacy of the~~effectiveness of budgeting ~~systems,~~and income and expense forecasting ~~processes, and management information systems in general~~.
- ☒ The adequacy of provisions to maintain ~~the allowance for loan and lease~~allowances for credit losses and other asset valuation ~~allowance accounts~~allowances.
- ☒ The earnings exposure to market risk such as interest rate, foreign exchange, ~~and~~commodity price, or other financial instrument price risks.

Ratings

1. A rating of 1 indicates strong earnings ~~that are strong~~. Earnings are more than sufficient to support operations and maintain adequate capital and ~~allowance levels after consideration is given to~~allowances for credit losses considering asset quality, growth, and other factors affecting the quality, quantity, and trend of earnings.

2. A rating of 2 indicates satisfactory earnings ~~that are satisfactory~~. Earnings are sufficient to support operations and maintain adequate capital and ~~allowance levels after consideration is given to~~allowances for credit losses considering asset quality, growth, and other factors affecting the quality, quantity, and trend of earnings. Earnings that are relatively static, or ~~even~~ experiencing a ~~slight~~ decline, may still receive a 2 rating ~~provided the institution's level of earnings is adequate in view of the assessment factors listed above~~.

3. A rating of 3 indicates less than satisfactory earnings ~~that need to be improved~~. Earnings may not fully support operations ~~and~~or provide for the accretion of capital and ~~allowance levels~~allowances for credit losses in relation to the institution's overall condition, growth, and other factors affecting the quality, quantity, and trend of earnings.

4. A rating of 4 indicates deficient earnings ~~that are deficient~~. Earnings are insufficient to support operations and maintain appropriate capital and ~~allowance levels~~allowances for credit losses. Institutions so rated may be characterized by erratic ~~luctuations~~fluctuations in net income or net interest margin, the development of significant negative trends, nominal or unsustainable earnings, intermittent losses, or a substantive drop in earnings from ~~the previous~~prior years.

5. A rating of 5 indicates ~~earnings that are~~ critically deficient earnings. A financial institution with earnings rated 5 is experiencing losses that represent a distinct threat to its viability through the erosion of capital.

Liquidity

~~In evaluating the adequacy of a financial institution's liquidity position, consideration should be given to~~The Liquidity rating reflects the current level and prospective sources of liquidity compared to funding needs~~, as well as to the adequacy of funds management practices relative to the institution's size, complexity, and risk profile~~. In general, funds management practices should ensure that ~~an~~a financial institution is able to maintain ~~a level of~~sufficient liquidity ~~sufficient~~ to meet its financial obligations in a timely manner ~~and to fulfill the legitimate banking needs of its community~~. Practices should reflect the institution's ability ~~of the institution~~ to manage unplanned changes in funding sources, as well as react to changes in market conditions that affect the institution's ability to quickly liquidate assets with minimal loss. ~~In addition, funds management practices should ensure that liquidity is not~~Liquidity should also be maintained at a ~~high~~reasonable cost~~, or through~~ and without undue reliance on funding sources that may not be available in ~~times~~the event of financial stress or adverse changes in market conditions.

Contingency funding plans should enable an institution to effectively navigate funding shortfalls or stress events and include operationalized and confirmed access to reliable funds providers. Liquidity is rated based ~~upon, but not limited to,~~on an assessment of the following evaluation factors:

- ☒ The adequacy of liquidity sources compared to present and future needs, and the institution's ability ~~of the institution~~ to meet liquidity needs through a range of economic conditions without adversely affecting its operations or financial condition.

- ⊠ The availability of assets that are readily convertible to cash without undue loss.

- ⊠ Access to ~~money markets and other sources of~~reliable external or contingent funding sources, particularly to address potential liquidity shortfalls.

- ⊠ The level of ~~diversification of~~ funding ~~sources~~diversification or funding concentrations, both on- and off-balance sheet.

- ⊠ The degree of reliance on short-term~~, volatile~~ or less stable funding sources ~~of funds, including borrowings and brokered deposits, to fund longer term~~to fund longer-term assets.

- ⊠ The trend and stability of deposits.[6]

- ⊠ The ability to ~~securitize and sell certain pools of~~pledge, sell, or securitize assets.

- ⊠ The ~~capability of management to properly identify, measure, monitor, and control the institution's liquidity position, including the~~ effectiveness of funds management ~~strategies, liquidity policies, management information systems, and~~practices, including contingency funding plans and cash flow forecasting.

Ratings

1. A rating of 1 indicates strong liquidity levels and ~~well-developed~~effective funds management practices. The institution has reliable access to sufficient sources of funds on favorable terms to meet present ~~and~~, anticipated, and contingent liquidity needs. Any identified weaknesses in funds management practices are minor in nature.

2. A rating of 2 indicates satisfactory liquidity levels and adequate funds management practices. The institution has access to sufficient sources of funds on ~~acceptable~~reasonable terms to meet present ~~and~~, anticipated, and contingent liquidity needs. Modest weaknesses may be evident in funds management practices.

3. A rating of 3 indicates less than satisfactory liquidity levels or inadequate funds management practices ~~in need of improvement~~. Institutions rated 3 may lack ready access to funds on reasonable terms to meet present, anticipated, or contingent liquidity needs, or may evidence significant weaknesses in funds management practices.

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[6] Deposits include credit union share accounts, if applicable.

4. A rating of 4 indicates deficient liquidity levels or ~~inadequate~~ funds management practices. Institutions rated 4 may not have or be able to obtain a sufficient volume of funds on reasonable terms to meet liquidity needs.

5. A rating of 5 indicates critically deficient liquidity levels ~~or funds management practices so critically deficient that~~that threaten the continued viability of the institution ~~is threatened~~. Institutions rated 5 require immediate external financial assistance to meet maturing obligations or other liquidity needs.

Sensitivity to Market Risk

The ~~sensitivity to market risk component~~Sensitivity to Market Risk rating reflects the degree to which changes in interest rates, foreign exchange rates, commodity prices, or ~~equity~~other financial instrument prices can adversely affect a financial institution's earnings or ~~economic~~ capital. When evaluating this component, the primary consideration ~~should be given to: management's ability to identify, measure, monitor~~is the level, trend, measurement, and control of market risk~~; the~~ relative to an institution's ~~size; the nature and complexity of its activities; and the adequacy of its~~ capital and earnings ~~in relation to its level of market risk exposure.~~

. For many institutions, the primary source of market risk arises from nontrading positions and their sensitivity to changes in interest rates. ~~In some larger institutions, foreign~~Foreign operations and trading activities can also be a significant source of market risk~~. For~~ in some institutions~~, trading activities are a major source of market risk.~~. Sensitivity to Market ~~risk~~Risk is rated based ~~upon, but not limited to,~~on an assessment of the following evaluation factors:

☒ The sensitivity of the ~~financial~~ institution's earnings or ~~the economic value of its~~ capital to adverse changes in interest rates, foreign ~~exchanges~~exchange rates, commodity prices, or ~~equity~~other financial instrument prices.

☒ Recent net interest income performance in response to the interest rate environment, and expectations for net interest income based on the balance sheet position and exposure to interest rate volatility.

☒ Measures of the long-term sensitivity of exposure to interest rate volatility on the institution's net economic value.

☒ The ~~ability of management to identify, measure, monitor, and control exposure to~~adequacy of market risk measurement and control practices given the institution's ~~size, complexity, and risk profile~~scale and activities.

- ☒ The degree to which assets, liabilities, and off-balance sheet exposures are appropriately aligned considering their potential impact on earnings and capital, as well as other risk mitigation strategies, such as hedging.

- ☒ The effectiveness of managing embedded options risk in assets and liabilities.

- ☒ The nature and complexity of interest rate risk exposure arising from nontrading positions.

- ☒ ~~Where appropriate, the~~The nature and complexity of market risk exposure arising from ~~trading and~~ foreign operations and trading activities.

Ratings

1. A rating of 1 indicates that sensitivity to market risk ~~sensitivity~~ is well controlled, and ~~that there~~market risk management practices are effective. There is minimal potential that the earnings performance or capital position will be adversely affected~~. Risk management practices are strong for the size, sophistication, and market risk accepted by the institution. The level of earnings and capital provide substantial support for the degree of market risk taken by the institution.~~ by market risk.

2. A rating of 2 indicates that sensitivity to market risk ~~sensitivity is adequately~~is satisfactorily controlled, and ~~that there~~market risk management practices are adequate. There is only moderate potential that the earnings performance or capital position will be adversely affected~~. Risk management practices are satisfactory for the size, sophistication, and market risk accepted by the institution. The level of earnings and capital provide adequate support for the degree of market risk taken by the institution.~~ by market risk.

3. A rating of 3 indicates that control of market risk sensitivity ~~needs improvement or that there is significant~~is less than satisfactory or market risk management practices are inadequate. There is an elevated potential that the earnings performance or capital position will be adversely affected~~. Risk management practices need to be improved given the size, sophistication, and level of market risk accepted by the institution. The level of earnings and capital may not adequately support the degree of market risk taken by the institution.~~ by market risk.

4. A rating of 4 indicates that control of market risk sensitivity ~~is unacceptable or that there~~or market risk management practices is deficient. There is high potential that the earnings performance or capital position will be adversely affected~~. Risk management practices are deficient for the size, sophistication, and level of market risk accepted by the institution. The level of earnings and capital provide inadequate support for the degree of market risk taken by the institution.~~ by market risk.

5. A rating of 5 indicates that control of market risk sensitivity is ~~unacceptable or that~~critically deficient and the level of market risk taken by the institution is an imminent threat to its viability. ~~Risk management practices are wholly inadequate for the size, sophistication, and level of market risk accepted by the institution.~~

Please do not hesitate to contact us with any questions.

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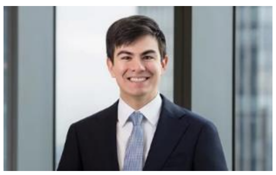

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