Audit Report

OIG-19-021

FINANCIAL MANAGEMENT

Audit of the Office of the Comptroller of the Currency's Financial Statements for Fiscal Years 2018 and 2017

December 12, 2018

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 12, 2018

MEMORANDUM FOR JOSEPH OTTING
COMPTROLLER OF THE CURRENCY

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Audit of the Office of the Comptroller of the Currency's Financial Statements for Fiscal Years 2018 and 2017

I am pleased to transmit the attached subject report. Under a contract monitored by our office, Williams, Adley & Company-DC, LLP (Williams Adley), a certified independent public accounting firm, audited the financial statements of the Office of the Comptroller of the Currency (OCC) as of September 30, 2018 and 2017, and for the years then ended, provided a report on internal control over financial reporting, and on compliance with laws, regulations, and contracts tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements,* and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual.*

In its audit of OCC, Williams Adley found

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no deficiencies in internal control over financial reporting that are considered material weaknesses; and
- no instances of reportable noncompliance with laws, regulations, and contracts tested.

In connection with the contract, we reviewed Williams Adley's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on OCC's financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations.

Williams Adley is responsible for the attached auditors' reports dated October 31, 2018, and the conclusions expressed in the reports. However, our review disclosed no instances where Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-0009, or Shiela Michel, Manager, Financial Audit, at (202) 927-5407.

Attachment

Office of the
Comptroller of the Currency

2018
ANNUAL REPORT

Safe • Sound • Fair

2018 ANNUAL REPORT

Safe • Sound • Fair

About This Report

The fiscal year *2018 Annual Report* provides Congress with an overview of the condition of the federal banking system. The annual report discusses the OCC's strategic priorities and details agency regulatory and policy initiatives. Additionally, the report discusses the agency's financial management and condition, including its audited financial statements.

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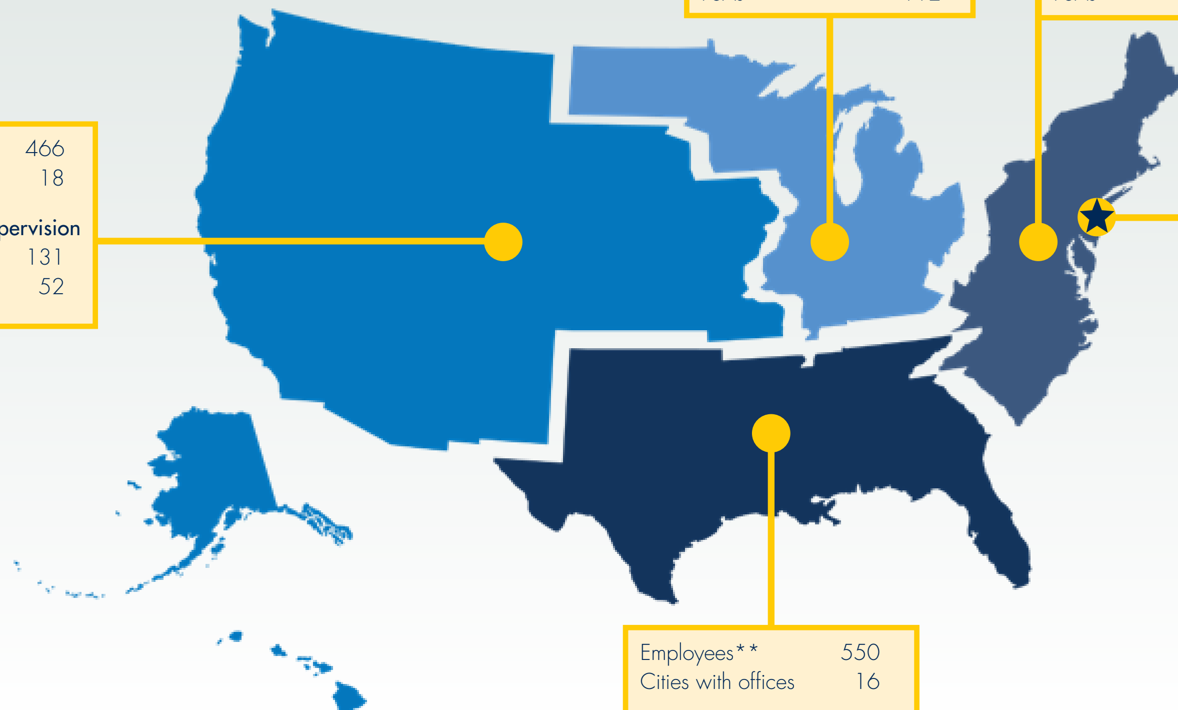
Office of the Comptroller of the Currency

At a Glance*



Employees** 466
Cities with offices 18

Western District Supervision
National banks 131
FSAs 52

Employees** 617
Cities with offices 16

Central District Supervision
National banks 233
FSAs 112

Employees** 933
Cities with offices 10

Northeastern District Supervision
National banks 126
FSAs 92

Headquarters
Employees** 1,277

Headquarters Supervision
Large banks 42
Midsize banks 48
Federal branches and agencies 57

Employees** 550
Cities with offices 16

Southern District Supervision
National banks 324
FSAs 47

Employees (full-time equivalents) **3,843**

Budget authority **$1.1 billion**

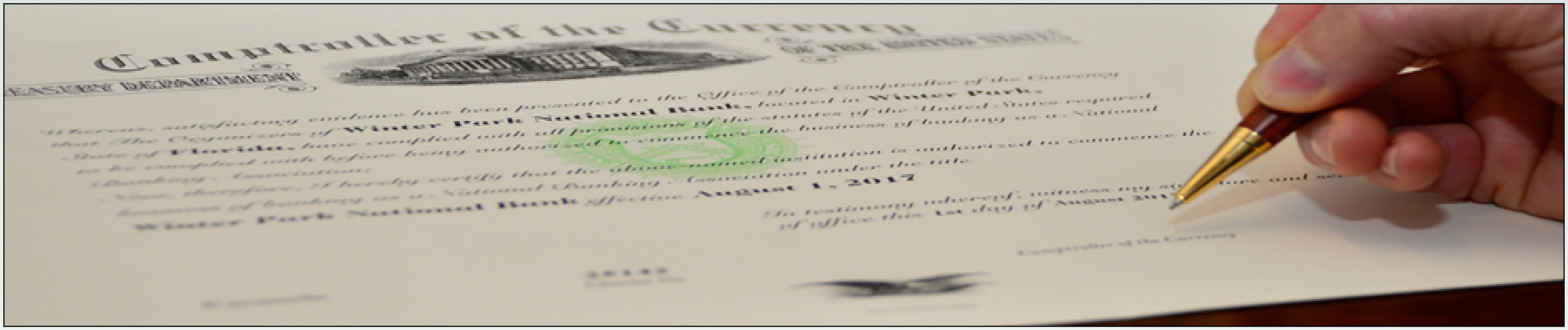
Revenue derived from assessments **94.5%**

Cities with offices*** **60**

Supervisory operating locations **96**

* Figures as of September 30, 2018.
** Employee numbers broken into districts include all employees geographically stationed within this region of the country.
*** This number does not include the multiple locations the OCC maintains in some large cities.
In addition, the OCC has a continuous, on-site presence at large banks under its supervision as well as an office in London.

About the OCC



The Office of the Comptroller of the Currency's (OCC) mission is to ensure that the institutions that compose the federal banking system operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

The OCC charters, regulates, and supervises national banks and federal savings associations (FSA) and licenses and supervises federal branches and agencies of foreign banks.[1] The agency also supervises services provided by certain third parties.[2] The OCC oversees the organization and structure of the federal banking system and maintains a supervisory framework that encourages banks to responsibly innovate and adapt to meet the evolving financial needs of consumers, businesses, and communities nationwide. The agency issues regulations to implement federal banking laws. It also uses a risk-based supervision process focused on evaluating banks' risks, identifying material and emerging concerns, and requiring banks to take corrective action when warranted.

President Abraham Lincoln signed the National Currency Act on February 25, 1863, creating the OCC and the federal banking system. In June 1864, the law was substantially revised, and, in 1874, it was renamed the National Bank Act. The law remains the authority under which the OCC and national banks operate. The Home Owners' Loan Act of 1933 provides the basis for the operation and regulation of FSAs. With the passage of the International Banking Act of 1978, foreign banking organizations could opt to conduct banking operations through a federal branch or agency.

Headquartered in Washington, D.C., the OCC has offices in 60 cities nationwide, with 96 supervisory operating locations and four district offices. The OCC also has a London office that supervises the international activities of national banks.

The President, with the advice and consent of the U.S. Senate, appoints the Comptroller of the Currency to head the agency for a five-year term. The Comptroller serves as a director of the Federal Deposit Insurance Corporation (FDIC) and is a member of the Financial Stability Oversight Council (FSOC) and the Federal Financial Institutions Examination Council (FFIEC).

[1] This report refers to all entities under OCC supervision collectively as "banks," unless it is necessary to distinguish among them.

[2] The OCC examines certain third-party entities for the services they provide to national banks and FSAs based on authorities provided by 12 USC 1867(c) of the Bank Service Company Act. The examinations are conducted in coordination with other federal banking agencies.

Mission

To ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

Vision

The OCC is the preeminent prudential supervisor that

- adds value through proactive and risk-based supervision.
- is sought after as a source of knowledge and expertise.
- promotes a vibrant and diverse banking system that benefits consumers, communities, businesses, and the U.S. economy.

Core Values

- Integrity
- Expertise
- Collaboration
- Independence

The OCC and our federal banking system have evolved continuously in the 155 years since their creation in 1863. With $12.5 trillion in total assets today, the federal banking system serves as a source of strength and economic opportunity for our nation. Community banks remain anchors in their neighborhoods, and the nation's most complex and internationally active banks fuel industry and economic activity on a grand scale.

Joseph M. Otting (right) became the 31st Comptroller of the Currency, after being sworn into office by Secretary of the Treasury **Steven T. Mnuchin** (left) on November 27, 2017. Also pictured is Mr. Otting's wife, **Bonnie Otting**. Mr. Otting took over from Keith A. Noreika, who served as Acting Comptroller of the Currency after the 30th Comptroller, Thomas J. Curry, completed his term in May 2017. Photo credit: Andrew Harrer/Bloomberg via Getty Images.

The overall condition of the federal banking system is strong. The capital position and the credit quality across the system have strengthened considerably in recent years, and loan portfolios are growing. Additionally, increased liquidity has made credit more accessible. OCC-supervised banks are profitable with increasing returns on assets. We see other signs of strength in the increased interest in forming new banks and in merger and acquisition activity. I am optimistic about the direction of the country's economy, in no small part because of the OCC's work to support and enable a strong and resilient banking system.

As a career banker, I slept better knowing the people of the OCC were supervising my bank because the OCC provided the best supervision available—supervision that helped me manage my bank better and provided greater assurances to our boards and investors.

As a banker and now as the Comptroller,[3] I understand the precautions and safeguards implemented after the global financial crisis. After 10 years, we need to take stock of which policies continue to serve the needs of the nation and which could be revisited so that banks could fulfill more of their potential to promote economic opportunity and create jobs.

Economic Growth, Regulatory Relief, and Consumer Protection

This year,[4] Congress restored an important balance to the business of banking by providing common-sense, bipartisan reforms that reduced unnecessary burden on small and midsize institutions while maintaining safeguards that protect the financial system and consumers.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (Economic Growth Act),[5] enacted in May 2018, made meaningful changes to the laws governing our nation's financial system. The new law benefits community banks in particular and reflects the OCC's legislative recommendations from previous years.

With passage of the Economic Growth Act, the financial regulators have worked closely and cooperatively to implement reforms quickly. Consumers, businesses, and communities alike will benefit from these tailored reforms for many years.

Comptroller's Priorities

While the Economic Growth Act makes progress toward rebalancing our regulatory framework, there is more to do. My immediate priorities for the agency focus on helping banks promote economic opportunity while continuing to operate in a safe, sound, and fair manner. Those priorities include

[3] See OCC News Release 2017-141, "Joseph M. Otting Takes Office As the 31st Comptroller of the Currency."

[4] Unless otherwise noted, all references to 2018 in this report refer to the fiscal year ending September 30, 2018.

[5] Pub. L. 115-174.

Comptroller **Otting** participated in the Economic Growth Act signing ceremony held by President **Donald J. Trump,** May 24, 2018.

- modernizing the regulatory approach to evaluating performance under the Community Reinvestment Act (CRA) to encourage more lending and investment where they are needed most.
- increasing consumer choice within the federal banking system to meet consumers' short-term, small-dollar credit needs.
- reducing the burden involved in complying with the Bank Secrecy Act (BSA) and anti-money laundering (AML) requirements while protecting the financial system.
- simplifying the Volcker rule and regulatory capital requirements.
- encouraging responsible innovation to enhance the federal banking system, increase choice, and meet the evolving needs of consumers, businesses, and communities.
- operating the OCC efficiently and effectively, and empowering employees through active engagement.

Modernizing the Regulatory Approach to the CRA

The CRA promotes the vitality of our neighborhoods and encourages lending, investment, and other banking activities that stimulate economic opportunity and serve the needs of low- and moderate-income communities across the nation. Despite its benefits, I have seen how CRA regulations can fail to incentivize needed lending or can lead to investment deserts unreached by CRA activity. We have a once-in-a-generation opportunity to build on a 40-year legacy of community development and make the CRA work better for everyone.

Over the four decades of the CRA's existence, the regulations implementing the law have become cumbersome, complex, and outdated. Regulations have failed to keep up with the evolution of how banks deliver services, especially because of interstate branching and the digitization of services. Another drawback of the current approach is the fact that performance evaluations take too long, lack transparency, and suffer from subjectivity that causes inconsistency from bank to bank. This inefficiency wastes resources and frustrates community members, bankers, and regulators alike.

CRA modernization can

- increase bank lending, investment, and services where they are needed most.
- establish a clear, metric-based framework for assessing CRA performance.
- clarify and expand activities eligible for CRA consideration.
- make evaluations more transparent, objective, and timely.

Throughout the year, I met with community leaders, civil rights advocates, bankers, and other regulators to discuss the opportunity to improve the CRA. The vast majority agrees that it is time.

We took an important initial step toward modernizing our approach to the CRA regulations by releasing an advance notice of proposed rulemaking (ANPR) in August 2018 seeking stakeholder comment. I look forward to working with other federal regulators toward a joint proposed rule in 2019. I am confident we can improve the regulations implementing the CRA to better meet the credit needs of our communities, including low- and moderate-income neighborhoods, consistent with safe and sound operations.

Increasing Consumer Choice With Short-Term, Small-Dollar Lending

Millions of U.S. consumers rely on short-term, small-dollar loans each year. Because banks have nearly opted out of this market, consumers have fewer choices. Fewer choices and less supply lead to higher prices and less favorable terms for individuals who rely on short-term credit to make ends meet.

Consumers need safe, affordable choices, and banks should be part of that solution. While banks may not be able to serve all of this market, they can reach a significant portion of it and bring more competition to the marketplace.

Bank-offered products can lead consumers on the financial fringe to more mainstream services without trapping them in cycles of debt. Strategies could include working with consumers who have an ability to repay a loan despite a credit profile that is outside of a bank's typical underwriting standards for credit scores and repayment ratios.

We made progress by publishing a bulletin in May 2018 encouraging banks to offer short-term, small-dollar loans.

Enhancing BSA/AML Compliance

The BSA/AML laws and regulations exist to protect our financial system from criminals who attempt to exploit the system for illegal purposes, including financing terrorism. Bank regulators, law enforcement, national security personnel, and bankers must continually adapt to increasingly sophisticated activities of criminals and other illicit actors.

The process for complying with current BSA/AML laws and regulations has, however, become inefficient and costly. Today, numerous Suspicious Activity Reports are filed annually, and banks expend considerable resources each year on reporting and other compliance activities. We need to work with the Financial Crimes Enforcement Network (FinCEN) and our fellow regulators to reform the BSA/AML regulations to be more efficient while improving the ability of the federal banking system and law enforcement to safeguard the nation's financial system.

This year, regulators, FinCEN, and the U.S. Department of the Treasury established a working group to discuss how to make BSA/AML compliance more effective and efficient. Such open communication is a step in the right direction and stirs optimism for reform.

Simplifying the Volcker Rule and Capital Requirements

After the global financial crisis, bankers, regulators, and policymakers responded by focusing on eliminating irresponsible risk-taking and improving the quality and quantity of capital and liquidity in the federal banking system.

With the other agencies that administer the Volcker rule, the OCC proposed changes to simplify the rule's requirements this year. These proposed changes are intended to reduce burden and improve the agencies' implementation of the Volcker rule by providing greater clarity and regulatory certainty.

Comptroller **Otting** discussed the federal banking system and his priorities as Comptroller with editors of Banking Exchange during an interview in his office at OCC Headquarters in February.

While recapitalization of our banking system has been a great success, calculating regulatory capital has become too complex. This complexity results in inefficiency and places an unnecessary burden on banks, particularly on sound community and midsize banks. The Economic Growth Act pointed us in the right direction to fix these issues, but there is more to do.

Encouraging Responsible Innovation

As it has done in the past, the federal banking system must evolve and embrace innovation to meet changing customer needs and to continue serving as a source of strength for the nation's economy. Responsible innovation provides consumers with greater choice and promotes financial inclusion by delivering products and services in more efficient and effective ways.

After thoughtful research, review of public comments, and broad outreach to stakeholders over the past two years, the OCC announced in July 2018 that we would begin accepting applications for national bank charters from nondepository financial technology (fintech) companies engaged in the business of banking. A special purpose charter allows fintech companies engaged in the business of banking the opportunity to provide innovative banking products and services on a national scale, while being regulated like similarly situated national banks. This decision also signifies the OCC's continued ability and willingness to evolve while still ensuring the safety and soundness of the federal banking system. Providing a path for fintech companies to become national banks also makes the federal banking system stronger by promoting economic growth, modernization, and competition.

Comptroller Otting hosted a gathering of former Comptrollers and Acting Comptrollers to mark the agency's 155th anniversary. As part of the gathering, Comptroller Otting engaged the group in a discussion about their tenures, the future of the agency, and the federal banking system. Pictured from left to right are **Robert L. Clarke** (1985–1992), **John D. "Jerry" Hawke Jr.** (1998–2004), **James E. Smith** (1973–1976), **John C. Dugan** (2005–2010), **Joseph M. Otting** (2017–present), **Keith A. Noreika** (Acting, May 2017–November 2017), **Julie L. Williams** (Acting, April 1998–December 1998 and October 2004–August 2005), **John G. Walsh** (Acting, August 2010–April 2012), **Eugene A. Ludwig** (1993–1998), and **Thomas J. Curry** (2012–2017).

Operating the Agency Efficiently and Effectively

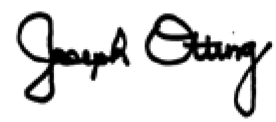
Ensuring the OCC operates efficiently and effectively allows us to succeed in our mission, to be a responsible steward of every assessment dollar collected, and to maintain a professional and inspiring workplace for the men and women who serve our nation by supervising the federal banking system.

Since I arrived at the OCC, we have improved the agency's decision-making processes, reduced costs through gaining efficiencies, made better use of technology, and started an initiative to modernize our supervisory approach. As a result of such efforts, we reduced our spending for 2018 by nearly $100 million from what we had originally planned. As the agency looks toward fiscal year 2019, we will think even more critically and creatively about what we need to perform our jobs successfully while planning to reduce our costs further.

Conclusion

All of these priorities affected the OCC's new strategic plan published in September. This plan reaffirms the agency's mission and vision and articulates three broad goals, which will guide the OCC's work over the next five years.

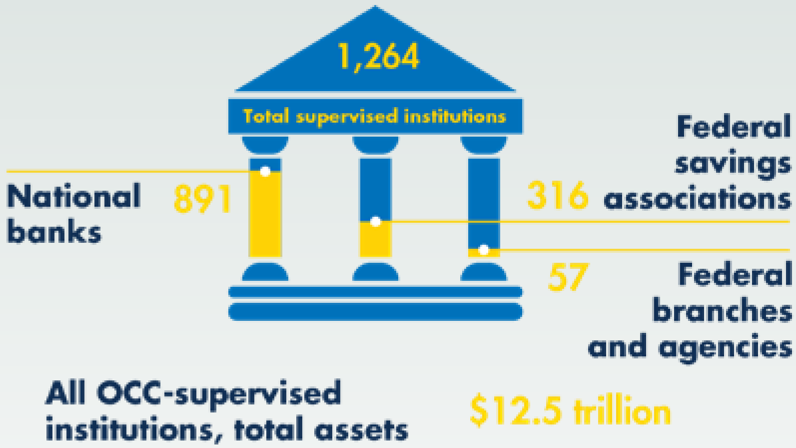
The world's most respected banking system requires the OCC as the preeminent prudential supervisor to ensure the nation can always rely on our federal banking system. With my long history as a banker regulated by the OCC, I know firsthand the value of quality supervision and where opportunities exist to improve. I look forward to continued work with the men and women of this great agency, my fellow regulators, Congress, and our constituents to advance the strength and long-term health of the banks we supervise and improve their ability to meet their communities' needs.



Joseph M. Otting
31st Comptroller of the Currency

Section 1: Condition of the Federal Banking System

Figure 1: Federal Banking System at a Glance*



* Number of banks as of September 30, 2018.

The condition of the federal banking system is strong. The economic environment through 2018 supported loan growth and bank profitability. Asset quality, as measured by traditional metrics such as delinquencies, nonperforming assets, and losses, is sound. Capital and liquidity are near historical highs, and earnings are improving. Recent examination findings indicate improvement in banks' overall risk management practices. Also, mergers and acquisitions activity is beginning to increase.

This section highlights these factors contributing to the federal banking system's condition:

- Composition
- Capital and liquidity
- Financial performance
- Risk perspective
- Diversity

Composition

At the end of 2018, the federal banking system comprised 1,264 banks. These banks range from small community banks[6] to the largest, most globally active U.S. banks. Of these banks, 1,010 have less than $1 billion in assets, while 62 have more than $10 billion. In total, the banks within the federal banking system hold $12.5 trillion of all assets of U.S. commercial banks. The federal banking system holds two-thirds of credit card balances in the country and services almost half of all residential mortgages. Through these products and services, a majority of American families have one or more relationships with an OCC-supervised bank

Capital and Liquidity

Banks, particularly large banks, have substantially increased the volume and quality of capital and strengthened risk management practices to enhance the quality and reliability of capital and liquidity planning. These practices, which include the use of stress testing and more stable funding and monitoring of liquidity, have had a positive effect on the overall strength of capital and liquidity in the federal banking system.

Robust Capital

The level and quality of bank capital have stabilized at healthy levels, in part through the concerted effort of regulators and bankers over the past few years. Tier 1 capital, which includes shareholders' equity and retained earnings, is a common key measure of the industry's health. Tier 1 capital provides protection for banks to absorb losses and supports the resiliency of the federal banking system. Tier 1 capital reached 13 percent of risk-weighted assets in 2017 and remained there in 2018.

Stress tests help determine whether the industry can weather a crisis. Positive results reassure the public that the federal banking system is safe and sound. Current capital levels suggest that the nation's largest bank holding companies are strongly capitalized and would be able to lend to households and businesses during a severe global recession, according to the results of supervisory stress tests released in June 2018 by the Board of Governors of the Federal Reserve System.[7]

Stable Liquidity

Liquidity is the ready access to funds on reasonable terms. The OCC examines banks' liquidity levels and risk management to determine whether bank liquidity can meet banks' financial obligations and fulfill the banking needs of their communities.

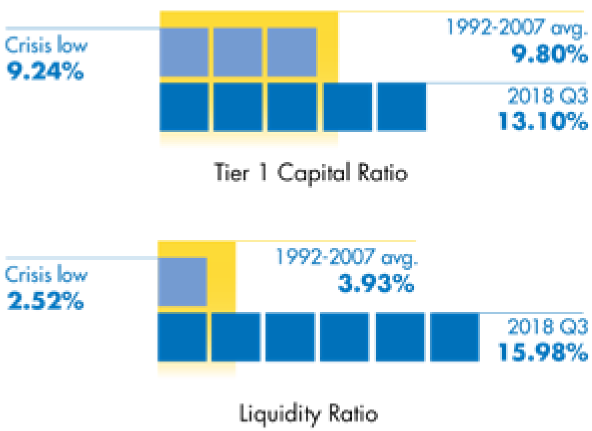
The largest banks have improved their quantity and quality of liquidity. Liquid assets in the banking system increased after the liquidity coverage ratio rule, which requires banks to hold sufficient highly liquid assets to meet short-term outflows in stress situations, took effect last year. One historically available measure shows that liquid assets[8] have increased and have now stabilized near a 30-year high of 16 percent of total assets in 2018.

[6] For purposes of this report, community banks are national banks and FSAs with less than $1 billion in total assets and exclude trust and credit card institutions.

[7] Federal Reserve Board, "Dodd–Frank Act Stress Test 2018: Supervisory Stress Test Methodology and Results," June 2018.

[8] Liquid assets are defined as cash, net Federal Reserve funds, and U.S. Treasury securities.

Figure 2: Capital and Liquidity



Capital and liquidity are the building blocks of the federal banking system's resiliency. The tier 1 capital ratio is 42 percent higher than in 2008, which represents the low point in the financial crisis. The liquidity ratio is six times the crisis low. Both ratios exceed their 15-year pre-crisis averages.

Financial Performance

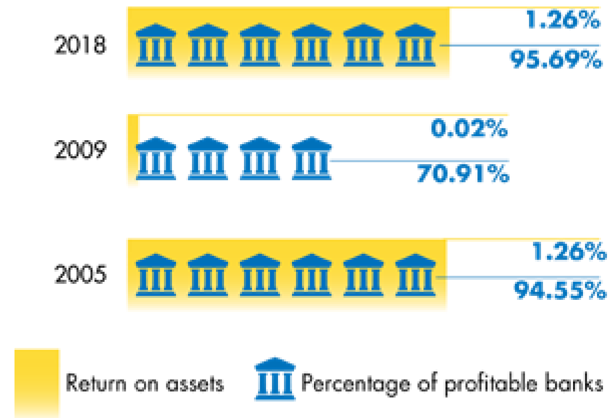
Federal banking system profitability benefited from strong underlying performance and tax cuts[9] in the first three quarters of 2018.[10] Return on equity jumped to 12.1 percent, exceeding the 10 percent benchmark return for the first time since 2006. Return on average assets of 1.4 percent reflected a 44-basis-point improvement over the past year. Net income grew 28 percent to $121 billion from the year earlier period with tax cuts accounting for about 40 percent of the increase.[11] Pre-tax income rose 12 percent to $156 billion, reflecting strong revenue growth. Net interest income continued to increase at an 8 percent pace, spurred by margin expansion at banks of all sizes. Noninterest income growth accelerated to 6 percent from nearly flat a year earlier. Provisions for loans losses declined 5 percent. Noninterest expense growth picked up a bit, but expenses grew more slowly than revenues.

Operating Profit

Pre-provision net revenues rose by $16.0 billion (9.7 percent) in the first three quarters of 2018 compared with a year earlier. After years of low interest rates, rising interest rates made net interest income the primary earnings driver in 2017, with the trend continuing in 2018.

Net interest margins expanded as asset yields rose faster than funding costs. Funding costs benefited from the elevated level of low-cost core deposits[12]—effectively funding nearly 60 percent of total assets, a 25-year high. Over the past year, net interest margins rose 16 basis points to 3.39 percent, the highest margin since 2012 for the federal banking system. At community banks, margins expanded by 11 basis points to 3.78 percent, the highest margin since 2011. Increasing competition for deposits could begin to temper margin improvement going forward.

Figure 3: Bank Profitability



The federal banking system's recovery over the 10 years since the financial crisis demonstrates its resiliency. Bank profitability is steadily improving with 2018 earnings on pace to reach $162 billion. Both return on assets and the share of profitable banks are back to pre-crisis levels.

Loan Performance

Overall loan performance has improved annually since 2010, though there was a small uptick in net charge-offs in 2018. The credit cycle remains benign with loan loss rates in the first three quarters of 2018 well below their 25-year average for the federal banking system. Total nonperforming assets continue to decline, reaching a 10-year low of 0.66 percent of loans as of September 30, 2018. Reserve coverage is stable for total loans at 1.3 percent but is improving for noncurrent loans—reaching 116 percent of noncurrent loans, slightly above its 25-year average.

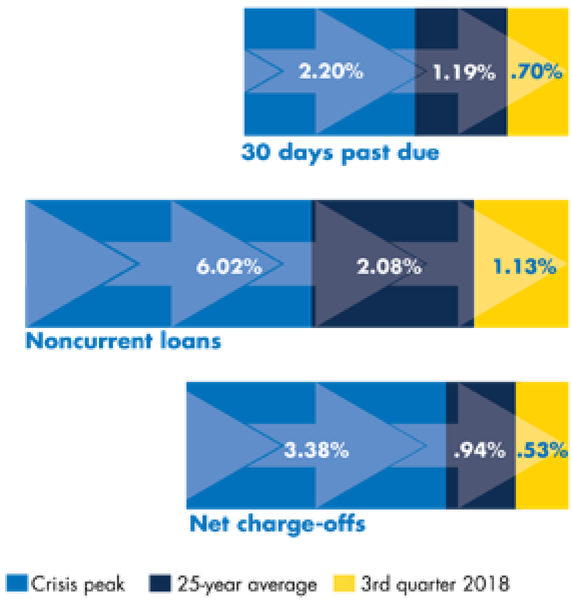
[9] The Tax Cuts and Jobs Act, passed in December 2017, effectively cut tax rates for all banks except subchapter S banks (typically smaller banks), which pass income through directly to owners to be taxed at the owners' personal tax rates.

[10] Data for only the first three quarters of calendar year 2018 were available by publication deadline.

[11] Income and expense data are merger-adjusted and held constant for institutions in continuous operation from the first quarter of 2010 through the third quarter of 2018.

[12] Core deposits are total domestic deposits excluding large time deposits of more than $250,000 and brokered deposits. Before 2010, core deposits excluded time deposits of more than $100,000.

Figure 4: Credit Quality



Credit quality ratios are below their 25-year averages, and credit quality is not a hindrance to loan growth. Loans 30 days past due include the share of total loans that are 30 to 89 days past due. Noncurrent loans are the share of total loans that are 90 or more days past due or on nonaccrual status. Net charge-offs are the share of total loan balances charged off as a loss, net of recoveries.

Conclusion

To strengthen their balance sheets, many banks increased capital over the past several years, mostly by retaining earnings. Equity to assets rose from 10.1 percent in 2007 to 11.1 percent as of third-quarter 2018 for the system and from 10.9 percent to 11.7 percent for community banks. The result is a stronger system than before the 2008 financial crisis.

Risk Perspective

Banking is essentially a business of managing risk, and banks' risk identification, assessment, monitoring, and management affect the condition of the federal banking system. The OCC's supervision focuses on evaluating banks' ability to identify, measure, monitor, and control risks. The OCC monitors the condition of the federal banking system, identifies and assesses key supervision risks, and takes action to respond to those risks. The OCC communicates its assessment of risk in the federal banking system in the *Semiannual Risk Perspective*.

Key risks[13] include

- incremental easing in commercial credit underwriting practices.
- bank risk management of cybersecurity threats.
- third-party concentration risk for certain products and services.
- complex money-laundering and terrorism-financing methods that pose challenges in complying with the BSA.
- challenges to compliance management processes in implementing and maintaining an effective compliance program for consumer protection regulations.
- potential effects of rising interest rates, increasing competition for retail and commercial deposits, and post-crisis liquidity regulations for banks with total assets of $250 billion or more, on the mix and cost of deposits.

The potential effect of rising interest rates on deposit mix and cost was added as a key risk issue in the spring of 2018. In addition, the integrated mortgage disclosure requirements under the Truth in Lending Act and the Real Estate Settlement Procedures Act were downgraded from a key risk to an issue that warrants monitoring.

Operational risk is elevated as banks adapt business models, transform technology and operating processes, and respond to evolving cyber threats.

Compliance risk remains elevated as banks manage money-laundering risks in a complex environment. Implementing changes to policies and procedures to comply with amended consumer protection requirements also tests banks' compliance risk management processes.

Lastly, there is uncertainty in how bank deposits will react to increasing interest rates. Banks may experience unexpected adverse shifts in liability mix or increasing costs that may adversely affect earnings or increase liquidity risk.

Diversity

The OCC administers a minority depository institution (MDI) program to provide technical assistance and other support to OCC-supervised MDIs, promoting and preserving these banks consistent with requirements set forth in law. The OCC's *2017 Annual Report: Preservation and Promotion of Minority-Owned National Banks and Federal Savings Associations*, published in June 2018, addresses the condition of these institutions and the OCC's actions in support of this program.

[13] See OCC, *Semiannual Risk Perspective*, Spring 2018.

Section 2: Priorities for Economic Growth, Regulatory Relief, and Consumer Protection

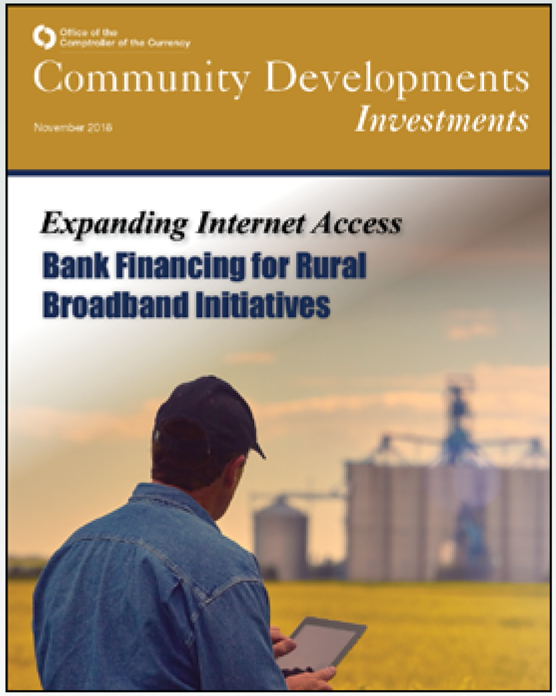
This section covers specific efforts in 2018 related to the Comptroller's priorities including the following:

- Modernizing CRA regulations to encourage more lending and investment where it is needed most.
- Expanding consumer options with short-term, small-dollar lending.
- Reducing the burden of BSA/AML regulations while protecting banks from exploitation.
- Simplifying the Volcker rule and regulatory capital requirements.
- Encouraging responsible innovation within the federal banking system.
- Implementing the Economic Growth Act.
- Other legislative priorities.

Modernizing the Approach to the Community Reinvestment Act

Banks supervised by the OCC contributed more than $14 billion in community development investments under their public welfare investment authority this year. Community development lending by OCC-supervised banks and other federally insured depository institutions continued its trend of steady growth since 2011.

The OCC released an ANPR[14] in August 2018 soliciting comments from stakeholders on how to transform or modernize the CRA regulatory framework. Published in the *Federal Register*[15] in September 2018, the ANPR seeks feedback with a specific focus on encouraging increased lending



The OCC released a video in 2018 highlighting the important role that banks can play in helping rural communities develop high-speed broadband systems and reviewing how banks may receive CRA consideration for these activities. Specifically, the video discusses how banks and community leaders developed a cooperatively owned fiber optic network serving 10 towns and 17 townships across four counties in Minnesota.

and services to people and in areas that need it most, including in low- and moderate-income areas; clarifying and expanding the types of activities eligible for CRA consideration; revisiting how assessment areas are delineated and used; establishing metric-based thresholds for CRA ratings; making bank CRA performance more transparent; and improving the timeliness of regulatory decisions related to CRA.

Feedback gathered by the Treasury Department published this year pointed to opportunities to modernize CRA regulations. The opportunities were included in the Treasury Department's recommendations to the federal banking agencies in April 2018.

While such modernization efforts progressed, the OCC clarified its supervisory policies and processes about how examiners evaluate and communicate bank performance under the CRA.[16] Additionally, the OCC clarified its policy for determining the adverse effect of evidence of discriminatory or other illegal credit practices on the CRA rating of a bank.[17]

Expanding Consumer Options With Short-Term, Small-Dollar Lending

In June, the OCC issued a bulletin to encourage banks to meet their customers' short-term, small-dollar credit needs. The bulletin[18]

- provided core lending principles banks should consider when offering such products.
- highlighted the opportunity banks have to provide short-term installment loans to consumers who may be outside of a bank's typical underwriting standards for credit scores and repayment ratios.
- provided references to existing OCC guidance regarding the risk management of new, modified, or expanded products and services; third-party risk management; fair access and fair treatment of consumers; and lending to subprime borrowers.

[14] See OCC Bulletin 2018-24, "Community Reinvestment Act: Advance Notice of Proposed Rulemaking."

[15] 83 Fed. Reg. 45053.

[16] See OCC Bulletin 2018-17, "Community Reinvestment Act: Supervisory Policy and Processes for Community Reinvestment Act Performance Evaluations."

[17] See OCC Bulletin 2018-23, "Revisions to Impact of Evidence of Discriminatory or Other Illegal Credit Practices on Community Reinvestment Act Ratings."

[18] See OCC Bulletin 2018-14, "Installment Lending: Core Lending Principles for Short-Term, Small-Dollar Installment Lending."

As many consumers meet their short-term needs through payday loans, deposit advance products, and other very short-term products that are covered by the Bureau of Consumer Financial Protection's (BCFP) payday lending rule, the OCC worked with the BCFP and other stakeholders when developing guidance for OCC-supervised banks to responsibly engage in consumer lending, including those products covered by the BCFP rule.

In testimony before Congress in June 2018,[19] Comptroller Otting noted that the OCC is working with Congress to encourage the banking sector to offer additional short-term, small-dollar lending products to meet consumer needs.

To support short-term, small-dollar credit needs of small businesses, the OCC launched an initiative in 2018 called "Access to Capital." This initiative facilitates partnerships with community and stakeholder groups that support minority entrepreneurs and small businesses, with a goal to expand access to capital for small businesses and promote economic growth in low- and moderate-income communities. The initiative also encourages collaboration among financial institutions of different sizes to provide creative solutions that offer greater access to credit for small businesses.

Enhancing Compliance With Bank Secrecy Act and Anti-Money Laundering Laws

Examinations for compliance with BSA/AML and Office of Foreign Assets Control (OFAC) requirements are OCC supervisory priorities. The BSA rules and OFAC-administered sanctions programs help prevent exploitation of the financial system by criminals and terrorists.

In 2018, the OCC worked with the Treasury Department, FinCEN, Congress, and other regulators to identify ways to make BSA/AML compliance more efficient and give law enforcement and national security professionals the information they need. The OCC formulated recommendations for improvements to BSA/AML that could be addressed through regulations or legislative relief. Suggested improvements include

OCC representatives **Glenda Cross** (front, center), **Andrew Moss** (standing, eighth from left), **Beth Castro** (standing, second from right), and **David Black** (standing, sixth from right) met with small business practitioners to discuss microenterprise and small-dollar lending opportunities at the OCC's Small Business Lending Listening Roundtable in Los Angeles. Organizations represented included the Business Resource Group, the California Association for Micro Enterprise Opportunity, and the Asian Pacific Islander Small Business Program.

- allowing regulators to schedule and scope BSA/AML examinations on a risk basis and identifying ways to conduct associated examinations in a more efficient manner.
- working with law enforcement to provide feedback to banks so that they understand how report filings are used and can provide the most useful information.
- exploring the use of technologies to reduce reporting burden and provide more effective access and information to law enforcement and national security personnel.

In testimony to Congress in June 2018,[20] Comptroller Otting advocated for legislation to change reporting thresholds and provide additional authority for industry participants to share information about certain unlawful activities in addition to possible terrorist or money laundering activities.

In May 2018, FinCEN's Customer Due Diligence and Beneficial Ownership for Financial Institutions rule became effective. The OCC, in conjunction with other agencies, issued guidance and examination procedures for the rule.[21] The guidance and procedures reflect the ongoing commitment of the federal and state banking agencies to examine financial institutions for compliance with the BSA in accordance with uniform standards and principles.

Other activities related to BSA/AML in 2018 include

- conducting examinations of banks' BSA/AML and OFAC compliance programs and providing guidance to banks in this challenging area to ensure that banks report required transactions and comply with U.S. laws.

[19] See OCC News Release 2018-61, "Comptroller of the Currency Discusses Priorities for the Federal Banking System."

[20] Ibid.

[21] See OCC Bulletin 2018-12, "Bank Secrecy Act/Anti-Money Laundering: Customer Due Diligence and Beneficial Ownership Requirements for Legal Entity Customers—Overviews and Examination Procedures."

- issuing an interagency statement[22] to address instances in which banks may decide to enter into collaborative arrangements to share resources to manage BSA/AML obligations more efficiently and effectively.
- participating as an active member of the U.S. delegation to the Financial Action Task Force on Money Laundering, the intergovernmental body that sets international AML standards for safeguarding the international financial system.
- serving on the AML/Combating the Financing of Terrorism Expert Group (AMLEG) of the Basel Committee on Banking Supervision, to collaborate with other bank supervisors from around the globe and promote consistent supervisory expectations.
- contributing as a member of the Oversight Committee of the Financial Stability Board's Correspondent Banking Coordination Group (CBCG) as the group implements its four-point action plan to assess and address the decline in correspondent banking globally.
- participating in the work streams implementing the CBCG's action plan focused on data collection and analysis, clarifying supervisory expectations, and building domestic capacity.
- issuing an interagency order exempting commercial insurance premium finance loans from the Customer Identification Program requirements of the BSA.[23]
- conducting international outreach through a Foreign Technical Assistance Program with schools for foreign banking supervisors covering problem bank supervision, AML/terrorist financing, balance-sheet and liquidity risk management, and bank information technology.

Simplifying the Volker Rule and Capital Requirements

In October 2017, federal bank regulators proposed a rule to reduce regulatory burden by simplifying complex aspects of the agencies' existing regulatory capital rule.[24] The proposal would simplify certain aspects of the existing capital rule. The federal banking agencies received a number of comments on various aspects of the proposal and have been working together to consider changes to the proposal.

In April 2018, the OCC and the Federal Reserve Board proposed a rule to tailor leverage ratio requirements to the business activities and risk profiles of the largest domestic firms.[25] The proposal would tie the standard to the risk-based capital surcharge of the firm, which is based on the firm's individual characteristics.

This summer, five federal financial regulatory agencies including the OCC announced a proposal to simplify and tailor compliance requirements relating to the Volcker rule.[26] By statute, the Volcker rule generally restricts banking entities from engaging in prohibited proprietary trading and from owning or controlling hedge funds or private equity funds. The proposed changes intend to streamline the rule by eliminating or modifying requirements that are not necessary to effectively implement the statute, while maintaining the core principles of the Volcker rule.

Comptroller **Otting** (right) discussed issues affecting credit access for small and minority-owned businesses during a roundtable meeting in April 2018 about small business access to capital. The Comptroller identified successful and feasible practices that can facilitate bank lending to this market segment. Pictured to the Comptroller's left is **Bryan Hubbard,** Deputy Comptroller for Public Affairs.

The Economic Growth Act exempted small banks from the Volcker rule.[27] Under the new law, a bank that does not have and is not controlled by a company that has (1) more than $10 billion in total assets and (2)

[22] See OCC Bulletin 2018-36, "Interagency Statement on Sharing Bank Secrecy Act Resources."

[23] See OCC Bulletin 2018-35, "Bank Secrecy Act/Anti-Money Laundering: Order Granting Exemption From Customer Identification Program Requirements for Premium Finance Lending."

[24] See 82 Fed. Reg. 49984.

[25] See 83 Fed. Reg. 17317.

[26] See OCC News Release 2018-56, "Agencies Ask for Public Comment on Proposal to Simplify and Tailor 'Volcker Rule,' " and 83 Fed. Reg. 33432.

[27] See OCC News Release 2018-50, "Comptroller of the Currency Congratulates House on Passage of Important Regulatory Reforms," and section 203 of the Economic Growth Act, Pub. L. No. 115-174.

trading assets and trading liabilities that are more than 5 percent of the bank's assets is now exempt from the Volcker rule.

Encouraging Responsible Innovation

The OCC defines responsible innovation as the use of new or improved financial products, services, and processes to meet the evolving needs of consumers, businesses, and communities in a manner that is consistent with sound risk management and is aligned with the bank's overall business strategy.

Chartering Special Purpose National Banks

In July 2018, the OCC issued a policy statement clarifying the agency's intent to consider charter applications from fintech companies that are engaged in the business of banking but that do not take deposits.[28] The policy is based on the OCC's broad authority under the National Bank Act to charter as national banks entities engaged in the business of banking.[29]

The agency also issued a *Comptroller's Licensing Manual* supplement related to such applications.[30] The supplement explains how the OCC would evaluate applications for a special purpose national bank charter from fintech companies. The guidance applies specifically to fintech companies that are engaged in one or more of the core banking activities of lending money or paying checks, but not taking deposits, and that are therefore not insured by the FDIC.

Depending on its activities, a fintech company may instead choose to apply under the OCC's authority to charter national banks for full-service or other types of special operations, such as trust banks, banker's banks, or credit card banks.

Fintech companies that receive national bank charters will be subject to the same high standards of safety and soundness and fairness that all federally chartered banks must meet. As it does for all banks under its supervision, the OCC would tailor these standards based on the bank's size, complexity, and risk profile, consistent with applicable law. In addition, fintech companies that apply for, qualify for, and receive national bank charters will be supervised like similarly situated national banks, including with respect to capital, liquidity, and risk management. The OCC expects any entity seeking a special purpose national bank charter to demonstrate a commitment to financial inclusion, the nature of which depends on the proposed bank's business model and the types of products, services, or activities it intends to provide. In addition, a fintech company approved for a national bank charter will be required to develop a contingency plan to address significant financial stress that could threaten the viability of the bank.

Office of Innovation

The OCC's Office of Innovation is a clearinghouse for innovation-related matters and the OCC's central point of contact for staff, banks, nonbank companies, and other industry stakeholders on these matters; collaborates with OCC business lines and other regulators; and facilitates innovation-related activities. After a year of operation, the office has made progress implementing the OCC's framework for responsible innovation. In 2018, the office

- enhanced outreach efforts by expanding office hours, instituting listening sessions, and participating in numerous external conferences.

While in Chicago for a listening session, OCC staff visited a business incubator designed to support digital startups. OCC staff members pictured (from left to right) are Central District Deputy Comptroller **Blake Paulson**, Attorney **Hannah Wendling**, Director for Banking Relations **Ralph DeLeon**, Innovation Officer **Marcey Hoelting**, Deputy Comptroller for Midsize Bank Supervision **Bill Haas**, National Bank Examiner **Debra Brown**, Assistant Deputy Comptroller **Matt White**, and Chief Innovation Officer **Beth Knickerbocker**.

- fostered expertise and shared insights on emerging trends in the industry with OCC staff. Efforts included publishing awareness materials, presenting to examination staff, and collaborating on training content.
- served as an agency resource for field office and district outreach events, as well as meeting with banks.
- enhanced global and domestic interagency collaboration efforts.

The OCC hosted office hours in Chicago, Denver, New York, and San Francisco this year. There, agency officials discussed new products or services, partnering with a bank or fintech company, and other matters related to financial innovation and emerging trends

[28] See OCC, *Policy Statement on Financial Technology Companies' Eligibility to Apply for National Bank Charters,* July 31, 2018.

[29] See 12 USC 21, 26, and 27.

[30] See the *Comptroller's Licensing Manual,* specifically the "Charters" booklet and the supplement "Considering Charter Applications From Financial Technology Companies."

with interested stakeholders. The OCC also hosted its inaugural listening session to invite discussion of emerging issues, trends, and current events concerning responsible innovation. At each event, OCC staff engaged in discussion, provided feedback, and responded to questions.

Implementing the Economic Growth Act

This year, the OCC joined the Federal Reserve Board and the FDIC to clarify the agencies' intention to regulate and supervise financial institutions consistent with the recently passed Economic Growth Act. These clarifications were published in the following documents:

- A joint statement with the other federal banking regulators detailing the rules and associated reporting requirements that were immediately affected by the Economic Growth Act's enactment.[31]
- An OCC bulletin about the status of implementation for provisions regarding partial exemptions for some insured depository institutions from certain Home Mortgage Disclosure Act (HMDA) requirements.[32]

Additionally, at the time of this report's publication, progress toward writing the Economic Growth Act's implementing regulations was under way. That progress included publishing

- an interim final rule, jointly with the other federal banking regulators, to make qualifying 1- and 2-rated banks with less than $3 billion in total assets eligible for an 18-month examination cycle.[33]
- an interim final rule, jointly with the other federal banking regulators, to amend the OCC's liquidity coverage ratio rule to treat certain municipal obligations as high-quality liquid assets.[34]
- a proposed rule to allow certain FSAs to elect national bank powers and operate as covered savings associations. The proposed rule aims to provide certain FSAs with additional flexibility to adapt to new economic conditions and business environments without having to change their charters.[35]
- a proposed rule, jointly with the other federal banking regulators, to modify the agencies' capital rules for high-volatility commercial real estate exposures.[36]

Comptroller Otting testified before the U.S. Senate Committee on Banking, Housing, and Urban Affairs about this progress.[37] Other actions he noted as under way at the time of this testimony addressed

- the community bank leverage ratio,
- the short-form call report for community banks,
- periodic stress testing,
- the supplementary leverage ratio,
- additional capital framework changes, and
- recovery planning.

Other Legislative Priorities

In addition to the legislative activity already mentioned, the OCC continues to support

- implementing measures that would continue to reduce regulatory burden on OCC-supervised banks, particularly community and midsize banks, while maintaining core requirements of safety and soundness.
- tailoring existing regulations to right-size their application to the national banking sector.
- providing additional flexibility to the banking regulators to expand use of risk-based supervision. This flexibility allows regulators to focus attention and resources on banks engaged in activities presenting a higher risk to an institution and the banking system, and streamline the supervision of banks that conduct less risky activities.
- clarifying that the long-standing "valid when made" doctrine remains in effect to ensure that the interest rate term of a loan that is valid when it is made remains valid even if the loan is subsequently sold, assigned, or transferred.
- streamlining the process for obtaining deposit insurance, which would facilitate the chartering of more de novo banks and provide additional economic growth opportunities to communities.

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[31] See OCC News Release 2018-69, "Agencies Issue Statement Regarding the Impact of the Economic Growth, Regulatory Relief, and Consumer Protection Act."

[32] See OCC Bulletin 2018-19, "Statement on the Implementation of the Economic Growth, Regulatory Relief, and Consumer Protection Act Amendments to the Home Mortgage Disclosure Act."

[33] See OCC Bulletin 2018-27, "Expanded Examination Cycle Eligibility: Interim Final Rule."

[34] See OCC Bulletin 2018-32, "Liquidity Coverage Ratio Rule: Treatment of Certain Municipal Obligations as High-Quality Liquid Assets: Interim Final Rule."

[35] See OCC Bulletin 2018-29, "Covered Savings Associations: Notice of Proposed Rulemaking."

[36] See OCC News Release 2018-100, "Agencies Propose Rule Regarding the Treatment of High Volatility Commercial Real Estate."

[37] See OCC News Release 2018-105, "Comptroller of the Currency Discusses Implementation of the Economic Growth Act."

Section 3: Operating Efficiently and Effectively

This year, the agency focused on generating value to banks through improving the agency's efficiency and effectiveness. To provide a road map for achieving its mission, the agency published a new strategic plan for the next five years that integrated the agency's existing priority to operate more efficiently and effectively into its goals and objectives.

Promoting Efficient and Effective Operations

In line with the priority to operate more efficiently and effectively in 2018, the OCC has instituted supervisory and internal operating efficiencies.

Operating Efficiencies

- Re-baselined its budget, reducing planned fiscal year 2018 expenses by 6 percent after a thorough review of expected expenses.
- Reprioritized and reformed work to accomplish the mission while planning to hire fewer people.
- Reduced travel expenses by 9 percent through improved use of technology and by conducting portions of examination work offsite where it made sense.
- Identified opportunities to terminate or reduce space in leased offices that are underutilized or no longer needed.
- Realigned the agency's strategic management with its finances, establishing monthly financial reviews and conducting financial reviews of reserves needed for uninsured OCC-supervised institutions.
- Reduced reliance on paper in favor of electronic coordination, which sped the OCC's decision-making process and eliminated administrative burden on staff.
- Improved the decision-making approval framework, allowing more resources to be committed to executing decisions rather than coordinating their approval.

David Parks, Leadership and Career Development Specialist; **Jo Anne Smith**, Director of Leadership and Career Development; and **Melissa DuRoss**, the Leadership and Career Development Specialist who manages the program were on hand to receive the 2018 Distinguished Service Award for Innovation from the Training Officers Consortium for the OCC's Continuous Leadership Experience program.

- Piloted a nontraditional approach to talent acquisition recruiting efforts.
- Installed innovative security technology solutions necessary to enhance cybersecurity capabilities and comply with the Office of Management and Budget and U.S. Department of Homeland Security mandates for continuous monitoring.
- Implemented an innovative, agile acquisitions process for information technology contracts.
- Devised a virtual conference to meet the agency's compliance training requirements, leveraging existing technology to save on travel expenses.
- Launched an online financial institution search tool streamlining how employees and constituents obtain public information about OCC-supervised banks.

Supervisory Efficiencies

- Progressed on implementing the agency's geographic resource allocation process to allocate available examiner resources more effectively across the lines of business based on examination activity.
- Initiated an effort to integrate technology that supports the agency's supervisory approach.

- Increased resources committed to supervising large, complex institutions.
- Improved how supervision staff access confidential supervisory information.
- Leveraged technology to enhance supervision and reduce burden on regulated institutions.
- Developed an end-to-end enterprise-wide solution for the OCC to manage and resolve bank whistleblower referrals.

Empowering Employees

The OCC's leadership empowered staff to apply judgment, critical thinking, and effective decision-making skills at every level. Through ongoing dialogue during 2018, the OCC fostered employee engagement and affirmed its commitment to organizational goals and values. The OCC participated in the annual Federal Employee Viewpoint Survey and placed 51st out of 339 agency subcomponents in the 2017 Best Places to Work in the federal government rankings, released in December 2017.[38] The ranking puts the OCC in the top quartile of agency subcomponents.

The OCC also promoted empowerment through training. In 2018, the OCC's Leadership Institute created a micro-learning program called the Continuous Leadership Experience. The program received industry recognition in April 2018 from the Training Officers Consortium, which selected the OCC to receive its 2018 Distinguished Service Award.

Strategic Plan

This year, the OCC published its strategic plan for fiscal years 2019–2023. The strategic plan describes the OCC's goals, objectives, and strategies. In the plan, the OCC updated its vision statement to reflect its status as the preeminent prudential supervisor that

- adds value through proactive and risk-based supervision;
- is sought after as a source of knowledge and expertise; and
- promotes a vibrant and diverse banking system that benefits consumers, communities, businesses, and the U.S. economy.

The OCC also updated its strategic goals to reflect the current operating environment. These goals will ensure the OCC

- fosters a safe, sound, and fair federal banking system that is a source of economic strength and opportunity that meets the evolving needs of consumers, businesses, and communities.
- engages, prepares, and empowers its employees to meet the mission.
- operates efficiently and effectively.

To meet these goals over the next five years, the OCC will work toward achieving specific objectives to enhance the effectiveness and efficiency of OCC operations and aim to enable the agency to deliver the greatest possible value for every assessment dollar collected.

Figure 5: Strategic Goals

Performance Measures and Results

As the new strategic plan formed, the agency finalized its fulfillment of *The OCC's Strategic Plan: Fiscal Years 2015–2019*. Reflecting the goals of that plan, the OCC's 2018 performance measures, workload indicators, customer service standards, and results are presented in table 1. These measures, indicators, and standards are comparable to those described in the Government Performance and Results Act Modernization Act.[39]

[38] See the "Best Places to Work in the Federal Government" website.

[39] See Pub. L. 111-352.

Table 1: Performance Measures, Workload Indicators, Customer Service Standards, and Results

Strategic goal	Performance measures, workload indicators, and customer service standards	FY 2015	FY 2016	FY 2017	FY 2018	
					Target	Actual
I. A vibrant and diverse system of banks that supports a robust U.S. economy						
	Percentage of banks with composite capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk (CAMELS) rating of 1 or 2	91%	93%	94%	90%	96%
	Rehabilitated problem banks as a percentage of the problem banks one year ago (CAMELS 3, 4, or 5)	39%	43%	40%	40%	44%
	Percentage of banks that are well capitalized	95%	96%	97%	95%	95%
	Percentage of critically undercapitalized banks on which responsible action is taken within 90 calendar days after they become critically undercapitalized	100%	100%	100%	100%	100%
	Average survey response[a] that the report of examination clearly communicated:					
	- Supervisory findings	1.54	1.53	1.55	>90%	90%
	- Significant issues	1.59	1.58	1.59	>90%	88%
	- Corrective actions with time frames	1.58	1.57	1.58	>90%	86%
	Percentage of banks with consumer compliance rating of 1 or 2	96%	98%	97%	94%	98%
	Percentage of community banks that are within one year of their first Intermediate Small Bank or Large Bank CRA examination for which the OCC offers to provide consultation on community development opportunities	100%	100%	100%	100%	100%
	Percentage of consumer complaints closed within 60 calendar days of receipt	78%	88%	67%	80%	70%
	Number of consumer complaints opened/closed during the fiscal year[b]	22,468/ 25,263	22,350/ 22,774	21,296/ 20,068	21,000/ 21,000	21,729/ 21,760
II. "One OCC" focused on collaboration, innovation, coordination, and process improvement						
	Total OCC costs relative to every $100,000 in assets regulated	$9.37	$9.65	$9.49	$11.00	$9.12
III. The OCC is firmly positioned to continue to operate independently and effectively into the future						
	Percentage of licensing applications and notices filed electronically	41%	38%	54%	45%	63%
	Number of licensing applications and notices filed electronically during the fiscal year	1,248	1,097	1,655	1,200	2,053
	Percentage of licensing applications and notices completed within established time frames	97%	98%	96%	95%	97%
	Number of licensing applications and notices completed during the fiscal year	2,524	2,399	2,857	2,100	3,012
	Average survey rating of the overall licensing services provided by the OCC[c]	1.20	1.44	1.09	≤ 1.5	1.04

[a] The examination survey is based on a five-point scale in which 1 indicates complete agreement and 5 indicates complete disagreement.

[b] Total complaint cases include complaints against banks regulated by the OCC; complaints referred to other regulators (BCFP, Federal Reserve Board, FDIC, and state banking agencies) and others; and complaints received from other regulators and others. The OCC's Customer Assistance Group identifies complaints received from these sources as "total complaints."

[c] The licensing survey is based on a five-point scale in which 1 indicates outstanding and 5 indicates significantly deficient.

Section 4: Supervision Program

The OCC's supervision program is governed by two key committees. The OCC's Committee on Bank Supervision (CBS) and National Risk Committee (NRC) include staff from the offices of the Chief National Bank Examiner, Compliance and Community Affairs, Large Bank Supervision (LBS), and Midsize and Community Bank Supervision (MCBS). The CBS ensures coordination of supervisory activities, policies, and programs, and that those activities, policies, and programs are consistent with the OCC's strategic plan and objectives. The NRC coordinates the agency's existing and emerging supervision and policy issues.

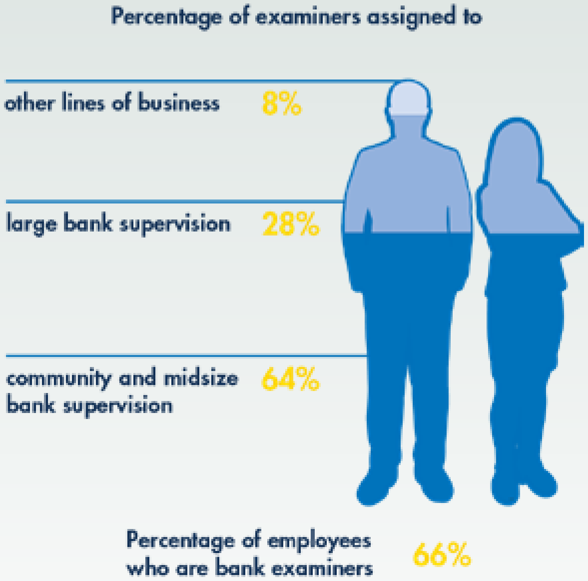
This section covers

- examiners in the OCC workforce.
- the OCC's supervision priorities for fiscal year 2018.
- actions taken related to the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA).
- published rules, guidance, and other materials.
- efforts to integrate the agency's approach to supervision.

Examiners in the OCC Workforce

Federally chartered banks receive consistent, bank-level supervision across examination cycles by examiners who leverage agency experts with knowledge of specific banking issues, laws, economics, accounting, innovation, information technology, and data security. OCC examiners, located in banks and OCC offices across the United States and in London, conduct on-site examinations in scheduled cycles and maintain a continuous presence in the nation's largest banks. Bankers regularly interact with OCC examiners and other district staff who are familiar with the needs of local markets and communities.

Figure 6: Examiners in the OCC Workforce



Examiners analyze banks' ability to identify, measure, monitor, and control risk, such as with banks' loan and investment portfolios, capital adequacy, earnings, liquidity, and sensitivity to market conditions. Examiners assess corporate governance and the bank's compliance with laws and regulations. Examiners also review internal controls, internal and external audits, and information technology systems, including with respect to cybersecurity.

Supervision Priorities

The OCC published its supervisory priorities in its *Fiscal Year 2018 Bank Supervision Operating Plan*[40] to provide the foundation for policy initiatives and supervisory strategies for individual banks. The 2018 plan focused on

- cybersecurity and operational resiliency;
- commercial and retail credit loan underwriting, concentration risk management, and the allowance for loan and lease losses;
- business model sustainability and viability and strategy changes;
- BSA/AML compliance management; and
- change management to address new regulatory requirements.

In addition to activities at individual banks, the OCC also conducts horizontal supervisory initiatives for key risks to facilitate coordination and assessment of issues across the banking industry.

Following up on the operating plan, the OCC provided updates about risks to the federal banking system and supervisory priorities through its *Semiannual Risk Perspective*.

Economic Growth and Regulatory Paperwork Reduction Act

Last year, in accordance with the EGRPRA, agencies of the FFIEC, which includes the OCC, submitted a report to Congress that identified opportunities to eliminate outdated or unnecessary regulatory requirements imposed on insured depository institutions. In 2018, the following actions occurred to implement findings made during the EGRPRA review:

- Streamlined call report: The OCC, with other FFIEC members, finalized revisions to the call report that were proposed in June 2017 to reduce the burden associated with the report's preparation and filing. The final revisions were announced in January and implemented in the middle of 2018.[41]
- Appraisal threshold: Responding to concerns about the time and cost associated with completing real estate transactions, the OCC published a final rule to increase the appraisal threshold for commercial real

[40] See OCC News Release 2017-113, "OCC Fiscal Year 2018 Bank Supervision Operating Plan."

[41] See FFIEC Press Release, "FFIEC Finalizes June 2017 Proposed Revisions to Streamline the 'Call Report,' " January 3, 2018

estate transactions from $250,000 to $500,000.[42] The agencies originally proposed to raise the threshold to $400,000 but determined that a $500,000 threshold would materially reduce unnecessary regulatory burden and the number of transactions that require an appraisal without sacrificing safety and soundness.

- Capital rules: To reduce regulatory burden in the capital rules on community banks, the federal banking agencies jointly issued a rule that maintains the capital rules' 2017 transition provisions for the regulatory capital treatment of certain items. This final rule simplified certain aspects of the capital rules.[43]
- International capital standards: The federal banking agencies announced support to conclude efforts to reform the international bank capital standards initiated in response to the global financial crisis. They finalized the reforms to the "Basel III" agreement on bank capital standards. With this agreement, the Basel Committee brought to conclusion the international reforms initiated in response to the global financial crisis.[44] The OCC has initiated discussions with other federal banking agencies about a strategy for implementing the Basel III revisions for large, internationally active banks.

The agencies continue to address EGRPRA comments related to flood insurance and the Depository Institution Management Interlocks Act.[45]

The management team of MCBS met in Headquarters in June. **Toney Bland**, Senior Deputy Comptroller for MCBS, is pictured in the front row, fourth from the right.

Ongoing OCC-specific projects related to EGRPRA seek to

- integrate national bank rules.
- remove redundant and unnecessary supervisory information requests.
- improve examination planning.
- make the examination process more efficient by leveraging technology.

Published Rules, Guidance, and Material

In addition to rules mentioned elsewhere in this report, the OCC published these rules in fiscal year 2018:

- An interagency rule to amend swap margin requirements to conform to recent rule changes that imposed new restrictions on certain qualified financial contracts of systemically important banking organizations.[46]
- A final rule to shorten the standard settlement cycle for securities purchased or sold by banks.[47]

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[42] See OCC Bulletin 2018-10, "Appraisals for Commercial Real Estate Transactions: Final Rule."

[43] See OCC Bulletin 2017-56, "Regulatory Capital Rule: Final Rule."

[44] See OCC News Release 2017-147, "U.S. Banking Agencies Support Conclusion of Reforms to International Capital Standards."

[45] 12 USC 3201–3208.

[46] See OCC news releases 2018-12, "Agencies Seek Comment on Proposed Amendments to Swap Margin Rule," and 2018-102, "Agencies Approve Amendments to Swap Margin Rule."

[47] See OCC Bulletin 2018-15, "T+2 Securities Transaction Settlement Cycle: Final Rule."

- A final rule to implement several technical and conforming changes to the OCC's Annual Stress Test regulation.[48]
- A final rule to addresses concerns relating to the exercise of default rights of certain financial contracts that could interfere with the orderly resolution of certain systemically important financial firms.[49]
- An interim final rule with the Federal Reserve and FDIC that expanded examination cycles for qualifying small banks and U.S. branches and agencies of foreign banks.[50]
- A proposed rule to amend its enforceable guidelines relating to recovery planning standards for banks that would limit the application of the guidelines to the largest, most complex banks.[51]
- A proposed rule, with the Federal Reserve Board, to further tailor leverage ratio requirements to the business activities and risk profiles of the largest domestic banks.[52]
- A proposed rule to enhance flexibility for FSAs.[53]
- An interagency proposed rule that would simplify certain aspects of the capital rule primarily for banks not subject to the advanced approaches capital rule.[54]
- An interagency proposed rule that would implement the Financial Accounting Standards Board's Accounting Standards (FASB) Update 2016-13, "Financial Instruments—Credit Losses," in each agency's rules.[55]

In addition to supervisory material and guidance mentioned elsewhere in this report, in fiscal year 2018, the OCC published

- guidelines and procedures by which the OCC implements its authority to apply prompt corrective action provisions as they relate to banks' regulatory capital ratios.[56]
- guidance addressing the OCC's framework for evaluating certain types of licensing applications when an applicant bank has a less than satisfactory CRA performance rating.[57]
- guidance setting forth the OCC's policy and framework for determining the effect of evidence of discriminatory or other illegal credit practices on the CRA rating of a bank.[58]
- amendments to CRA regulations to conform to HMDA regulation changes and remove references to the Neighborhood Stabilization Program.[59]
- joint guidance to clarify the differences among supervisory guidance, laws, and regulations; reminds that guidance does not have the force and effect of law; and states that examiners may not criticize financial institutions for violations of guidance alone.[60]
- guidance to banks regarding the role of informal or implied expressions of support from foreign governments in determining a borrower's obligor and facility credit risk ratings.[61]
- a joint statement on "Interagency Coordination of Formal Corrective Action by the Federal Bank Regulatory Agencies."[62]

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[48] See OCC Bulletin 2018-4, "Annual Stress Test: Final Rule—Technical and Conforming Changes."

[49] See OCC Bulletin 2017-57, "Mandatory Contractual Stay Requirements for Qualified Financial Contracts: Final Rule."

[50] See OCC News Release 2018-82, "Agencies Issue Interim Final Rules Expanding Examination Cycles for Qualifying Small Banks and U.S. Branches and Agencies of Foreign Banks."

[51] See OCC Bulletin 2018-30, "Recovery Planning Guidelines: Notice of Proposed Rulemaking; Revised Guidelines."

[52] See OCC News Release 2018-36, "Rule Proposed to Tailor 'Enhanced Supplementary Leverage Ratio' Requirements."

[53] See OCC News Release 2018-95, "Office of the Comptroller of the Currency Invites Comment on Proposed Rule to Enhance Business Flexibility for Federal Savings Associations."

[54] See OCC Bulletin 2017-47, "Simplifications to the Capital Rule: Notice of Proposed Rulemaking."

[55] See OCC Bulletin 2018-13, "Current Expected Credit Losses: Notice of Proposed Rulemaking."

[56] See OCC Bulletin 2018-33, "Prompt Corrective Action: Guidelines and Rescissions."

[57] See OCC Bulletin 2017-51, "Community Reinvestment Act: Impact of CRA Ratings on Licensing Applications."

[58] See OCC Bulletin 2018-23, "Community Reinvestment Act: Revisions to Impact of Evidence of Discriminatory or Other Illegal Credit Practices on Community Reinvestment Act Ratings."

[59] See OCC News Release 2017-137, "Agencies Amend CRA Regulations to Conform to HMDA Regulation Changes and Remove References to the Neighborhood Stabilization Program."

[60] See OCC News Release 2018-97, "Agencies Issue Statement Reaffirming the Role of Supervisory Guidance."

[61] See OCC Bulletin 2018-25, "Credit Risk: Informal or Implied Support From Foreign Governments (Implied Sovereign Support)."

[62] See OCC Bulletin 2018-16, "Interagency Notification of Formal Enforcement Actions: Interagency Policy Statement."

- a joint statement that discusses considerations for financial institutions contemplating the purchase of cyber insurance as a component of their risk management programs.[63]
- clarifications about data submission and penalties for HMDA data collected in 2018,[64] and a revision to the FFIEC's "Guide to HMDA Reporting: Getting It Right!" to assist banks in complying with the HMDA and Regulation C.[65]
- information about key fields agencies have determined examiners typically use to test and validate home mortgage loan data collected beginning in 2018 pursuant to the HMDA rule issued October 15, 2015.[66]
- an interagency announcement adjusting the definition of shared national credit, increasing the aggregate loan commitment threshold to adjust for inflation, and changing average loan sizes.[67]
- an interagency statement on accounting and reporting implications of the new tax law.[68]
- an adjustment to the maximum amount of each civil money penalty (CMP) within its jurisdiction.[69]
- a revision to the OCC's *Approach to Federal Branch and Agency Supervision*, incorporating changes in supervision processes relative to large and complex federal branches and agencies.[70]
- answers to frequently asked questions regarding the liquidity coverage ratio rule as interpreted by multiple agencies.[71]
- principles that banks should follow to prudently manage the risks associated with offering new, modified, or expanded products and services.[72]
- supervisory guidance[73] and temporary exemptions to appraisal requirements[74] for major disasters that occurred in 2018.
- two new booklets of the *Comptroller's Handbook*, "Military Lending Act" and "Recovery Planning."
- updates or revisions to these *Comptroller's Handbook*[75] booklets:
  - "Bank Supervision Process"
  - "Capital and Dividends"
  - "Community Bank Supervision"
  - "Compliance Management Systems"
  - "Deposit-Related Credit"
  - "Federal Branches and Agencies Supervision"
  - "Installment Lending"
  - "Large Bank Supervision"
  - "Municipal Securities Rulemaking Board Rules"
  - "Other Real Estate Owned"
  - "Retail Lending"
  - "Truth in Lending Act"

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[63] See OCC Bulletin 2018-8, "FFIEC Joint Statement on Cyber Insurance and Its Potential Role in Risk Management Programs."

[64] See OCC Bulletin 2017-62, "Home Mortgage Disclosure Act: Implementation of Data Collection in 2018."

[65] See OCC Bulletin 2018-6, "FFIEC's Revised 'A Guide to HMDA Reporting: Getting It Right!' "

[66] See OCC Bulletin 2017-41, "Home Mortgage Disclosure Act: Interagency Key Fields."

[67] See OCC News Release 2017-152, "Agencies Announce Shared National Credit Definition Change; Aggregate Loan Commitment Threshold Increased to Adjust for Inflation, and Changes in Average Loan Size."

[68] See OCC Bulletin 2018-2, "Tax Reform: Interagency Statement on Accounting and Reporting Implications of the New Tax Law."

[69] See OCC Bulletin 2018-1, "Notice Adjusting Civil Money Penalties for 2018."

[70] See OCC Bulletin 2017-46, "Federal Branches and Agencies Supervision: Revised Guidance."

[71] See OCC Bulletin 2017-44, "Liquidity Coverage Ratio: Interagency Frequently Asked Questions."

[72] See OCC Bulletin 2017-43, "New, Modified, or Expanded Bank Products and Services: Risk Management Principles."

[73] See OCC Bulletin 2017-61, "Interagency Examiner Guidance for Institutions Affected by Major Disasters," and OCC news releases 2018-77, "OCC Allows Federally Chartered Financial Institutions Affected by Wildfires in California to Close"; 2018-83, "OCC Allows National Banks and Federal Savings Associations Affected by Hurricane Lane in the Hawaiian Islands to Close"; 2018-92, "OCC Allows National Banks and Federal Savings Associations Affected by Tropical Storm Gordon in the Gulf Coast Region to Close"; 2018-96, "OCC Allows National Banks and Federal Savings Associations Affected by Hurricane Florence in the Southeast and Mid-Atlantic to Close"; and 2018-99, "Federal and State Financial Regulatory Agencies Issue Interagency Statement on Supervisory Practices Regarding Financial Institutions Affected by Hurricane Florence."

[74] See OCC Bulletin 2017-42, "Flood Disaster: Temporary Exceptions to FIRREA Appraisal Requirements in Areas Affected by Severe Storms and Flooding in Florida, Georgia, Puerto Rico, Texas, and the U.S. Virgin Islands."

[75] The *Comptroller's Handbook* is a collection of booklets that contain the concepts and procedures established by the OCC for the examination of banks.

- updates or revisions to these *Comptroller's Licensing Manual*[76] booklets:
  - "Background Investigations"
  - "Branches and Relocations"
  - "Business Combinations"
  - "Capital and Dividends"
  - "Public Notice and Comments"
  - "Subordinated Debt"
  - "Subsidiaries and Equity Investments"
- educational resources about
  - financial literacy events, initiatives, and educational resources throughout the year.[77]
  - ways that large and midsize banks can profit through collaboration with MDIs.[78]
  - an overview of the U.S. Department of Agriculture's Business and Industry Guaranteed Loan Program.[79]
  - how banks can help revitalize communities by expanding housing opportunities with single-family rehabilitation financing programs.[80]

Community Development Specialist **Denise Murray** talks with an attendee at the 2018 Capitol Hill Financial Literacy Day on April 12. The event featured more than 50 financial literacy exhibits, including this one from the OCC. More than 300 people, including members of Congress and their staffs, leaders of the financial literacy community, and the general public attended the event.

Creating an Integrated Approach to Bank Supervision

The OCC is modernizing its approach to bank supervision through standardizing data and information, reducing duplication of effort, and leveraging technology in an integrated approach across lines of operation. The goal of the single supervisory platform project (SSPP) is to provide near real-time enterprise data, information, and analytics from which examiners and other OCC stakeholders can best draw supervisory judgments and conclusions.

In 2018, the OCC began phase I of the effort to modernize and integrate the OCC's supervision practices, processes, systems, and tools to create a single supervisory platform. The project involves a core team of OCC staff, drawn from business units across the agency, who began work to document comprehensive business requirements, assess the capability of existing systems, and identify potential for eliminating duplicative systems. This initial work represents an interim measure in achieving the SSPP's long-term goal of deploying a single supervisory platform by December 2020.

[76] The *Comptroller's Licensing Manual* consists of a series of booklets that explain the OCC's policies and procedures on key licensing topics.

[77] The OCC's *Financial Literacy Update* is a bimonthly, online newsletter.

[78] OCC, "Profitable Partnerships: Collaborating With Minority Depository Institutions," *Community Developments Investments,* May 2018.

[79] OCC, "USDA's Business and Industry Guaranteed Loan Program," *Community Developments Insights,* September 2018.

[80] OCC, "Expanding Housing Opportunities: Single-Family Rehabilitation Financing Programs," *Community Developments Investments,* February 2018.

Section 5: Supervisory Actions

Licensing Activities

The OCC's licensing activities ensure that banks establish and maintain corporate structures in accordance with the principles of safe and sound banking as predicated by law and regulation. The OCC's Licensing Division works with the agency's legal and supervisory departments to render independent decisions supported by a record of facts and financial, supervisory, and legal analyses.

Table 2: Corporate Application Activity

	2017	2018	2018 decisions			
	Applications received		Approved	Conditionally approved	Denied	Total
Branches	366	445	417	0	0	417
Capital/sub-debt	56	48	40	5	0	45
Change in bank control	9	6	1	5	0	6
Charters	2	6	2	3	0	5
Charter conversions*	7	10	5	8	0	13
Federal branches	3	0	0	0	0	0
Fiduciary powers	3	6	4	1	0	5
Mergers	63	52	57	1	0	58
Relocations	186	149	147	1	0	148
Reorganizations (national banks only)	25	31	24	6	0	30
Subsidiaries	52	30	26	4	0	30
Substantial change in assets	8	5	4	3	0	7
Mutual to stock conversions	1	2	1	1	0	2
Total	781	790	728	38	0	766

*Conversions to an OCC-regulated bank.

Table 3: Change in Bank Control Act (Notices Processed With Disposition)

Year	Received	Acted on	Not disapproved	Disapproved	Withdrawn
2018	6	6	6	0	0
2017	9	7	7	0	0
2016	9	9	9	0	0
2015	12	11	11	0	1
2014	14	9	9	0	0

Table 4: Licensing Actions and Timeliness, National Banks and Federal Savings Associations

		2017			2018		
			Within target			Within target	
	Target time in days	Number of decisions	Number	Percent	Number of decisions	Number	Percent
Branches	45/60	330	324	98	417	416	99.76
Capital/sub-debt	15/45	53	52	98	45	44	97.78
Change in bank control	NA/120	7	5	71	6	5	83.33
Charters	45/60	1	1	100	5	4	80
Charter conversions	60/120	7	7	100	13	12	92.31
Federal branches	NA/120	0	0	----	0	0	----
Fiduciary powers	30/60	2	2	100	5	5	100
Mergers	45/60	70	64	91	58	55	94.83
Relocations	45/60	172	169	98	148	147	99.32
Reorganizations	45/60	22	21	95	30	29	96.67
Subsidiaries	30/60	49	47	96	30	24	80
Substantial change in assets	NA/60	4	3	75	7	6	85.71
Mutual to stock conversions	NA/60	2	2	100	2	2	100
Total		719	697	97	766	749	97.78

Note: Most of the decisions (96 percent in 2017 and 92 percent in 2018) were made in the district offices and large bank licensing under delegated authority. Decisions include approvals, conditional approvals, and denials. NA means not applicable.

Note: Certain filings qualify for "expedited review" and are subject to the shorter time frames listed. The longer time frames are for standard review of more complex applications. The target time frame may be extended if the OCC needs additional information to reach a decision, permits additional time for public comment, or processes a group of related filings as one transaction.

Table 5: Applications Presenting CRA Issues Decided

Bank, city, state	Approval date	Document number
First Tennessee Bank National Association, Memphis, Tenn.	October 16, 2017	CRA decision No. 186
Associated Bank, National Association, Green Bay, Wis.	January 4, 2018	CRA decision No. 187
E*Trade Savings Bank, Arlington, Va.	March 23, 2018	CRA decision No. 188
City National Bank of Florida, Miami, Fla.	April 2, 2018	CRA decision No. 189
First National Bank of Texas, Killeen, Texas	May 3, 2018	CRA decision No. 190
Bank of America, National Association, Charlotte, N.C.	August 20, 2018	CRA decision No. 191
Varo Bank, National Association, Salt Lake City, Utah	August 31, 2018	CRA decision No. 1205
People's United Bank, National Association, Bridgeport, Conn.	September 12, 2018	CRA decision No. 192

Enforcement Actions

The OCC investigates, litigates, and takes enforcement actions to correct unsafe or unsound banking practices and failures in compliance. When warranted, the OCC refers potential criminal acts involving bank-affiliated parties to the U.S. Department of Justice and coordinates with other federal agencies on enforcement efforts involving banks.

The number of enforcement actions outstanding against banks has declined since peaking in 2010, reflecting overall improvement in banks' risk management practices and economic condition. This trend continued this year. Compliance or operational failures, however, have resulted in a number of recent enforcement actions. These enforcement actions address a lack of appropriate governance, oversight, and risk management systems and controls.

Table 6 summarizes the OCC's enforcement actions in 2018.

Table 6: OCC Enforcement Actions

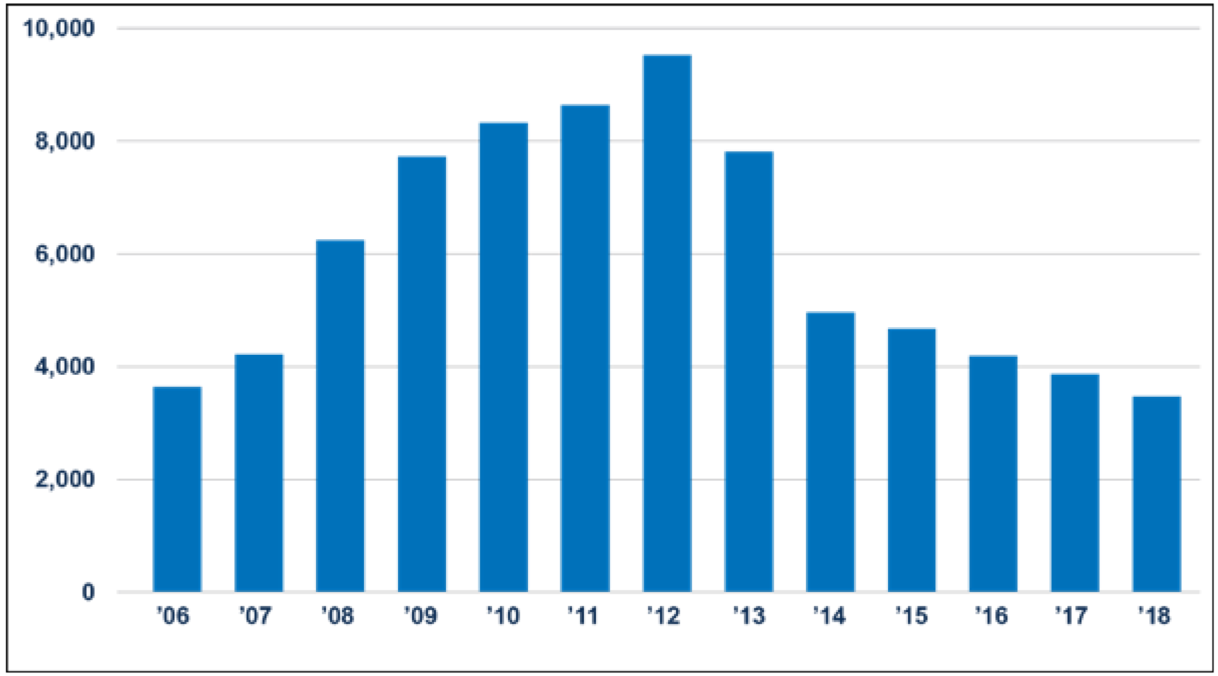
Type of enforcement action	Number	Amount*
12 USC 1829 removal	80	
Bank civil money penalty	10	$726,194,245
Bank restitution to customers by order	1	$25,000,000
Capital restoration plan	2	
Cease-and-desist order	10	
Commitment letter	1	
Formal agreement	1	
Institution-affiliated parties' restitution to bank by order	1	$100,000
Letter of reprimand	5	
Memorandum of understanding	2	
Notices of charges filed	2	
Operating agreement	1	
Part 3 Individual minimum capital ratio	2	
Personal cease-and-desist order	15	
Personal civil money penalty	28	$791,500
Prompt corrective action directive	1	
Regulatory conditions in writing	5	
Removal/prohibition	28	
Safety and soundness plan	4	
Supervisory letter	17	
Total	**216**	**$752,085,745**

* Includes only assessed penalties and does not include remediation to customers that the OCC may have required of the bank.

Matters Requiring Attention

The OCC communicates supervisory concerns to a bank's board and management in the form of matters requiring attention (MRA). Supervisory concerns include practices that deviate from sound governance, internal control, or risk management principles. Such deviations, if not addressed appropriately, could adversely affect a bank's condition or risk profile, result in violations of laws or regulations, and result in enforcement actions. The number of outstanding MRA concerns peaked in 2012 and declined steadily through December 31, 2017, to the lowest level since 2006. MRA concerns were relatively unchanged in 2018. During fiscal year 2018, OCC examinations cited concerns related mainly to credit, operational, and compliance risk.

Figure 7: Open MRA Concerns



Note: Data for 2018 are as of September 30. All other data are as of calendar year end.

Joseph M. Otting

Comptroller of the Currency

Joseph M. Otting was sworn in as the 31st Comptroller of the Currency on November 27, 2017.

The Comptroller of the Currency is the administrator of the federal banking system and head of the OCC.

The Comptroller also serves as a director of the FDIC and member of the FSOC and the FFIEC.

Before becoming Comptroller of the Currency, Mr. Otting was an executive in the banking industry. He served as President of CIT Bank and Co-President of CIT Group. Mr. Otting previously was President, Chief Executive Officer, and a member of the Board of Directors of OneWest Bank, NA. Before joining OneWest Bank, he served as Vice Chairman of U.S. Bancorp, where he managed the Commercial Banking Group and served on Bancorp's executive management committee. He also was a member of U.S. Bank's main subsidiary banks' board of directors.

From 1986 to 2001, Mr. Otting was with Union Bank of California, where he was Executive Vice President and Group Head of Commercial Banking. Before joining Union Bank, he was with Bank of America and held positions in branch management, preferred banking, and commercial lending.

Mr. Otting has played significant roles in charitable and community development organizations. He has served as a board member for the California Chamber of Commerce, the Killebrew-Thompson Memorial Foundation, the Associated Oregon Industries, the Oregon Business Council, the Portland Business Alliance, the Minnesota Chamber of Commerce, and Blue Cross Blue Shield of Oregon. He was also a member of the Financial Services Roundtable, the Los Angeles Chamber of Commerce, and the Board and Executive Committee of the Los Angeles Economic Development Corporation.

Mr. Otting holds a bachelor of arts degree in management from the University of Northern Iowa and is a graduate of the School of Credit and Financial Management, which was held at Dartmouth College in Hanover, N.H.

Comptroller of the Currency **Joseph M. Otting**.

The OCC's Executive Committee, pictured from left to right: **William Rowe**, Chief Risk Officer; **Morris R. Morgan**, Senior Deputy Comptroller for Large Bank Supervision; **Larry L. Hattix**, Senior Deputy Comptroller for Enterprise Governance and Ombudsman; **Kathy K. Murphy**, Senior Deputy Comptroller for Management and Chief Financial Officer; **Karen Solomon**, Acting Senior Deputy Comptroller and Chief Counsel; **Joseph M. Otting**, Comptroller; **Grovetta N. Gardineer**, Senior Deputy Comptroller for Compliance and Community Affairs; **Michael Sullivan**, Senior Deputy Comptroller for Economics; **Grace E. Dailey**, Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner; and **Toney M. Bland**, Senior Deputy Comptroller for Midsize and Community Bank Supervision.

Toney M. Bland

Midsize and Community Bank Supervision

As Senior Deputy Comptroller for MCBS, Toney M. Bland is responsible for overseeing the supervision of the country's midsize and community banks. He assumed these duties in August 2014.

Mr. Bland previously served as Deputy Comptroller for the agency's Northeastern District, where he was responsible for overseeing more than 400 banks. Mr. Bland started his OCC career as an Assistant National Bank Examiner in Milwaukee, Wis., in 1981. He was commissioned as a National Bank Examiner in 1986.

Mr. Bland received his bachelor of science degree in business administration and economics from Carroll University.

Grace E. Dailey
Chief National Bank Examiner

As Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner, Grace E. Dailey directs the formulation of policies and procedures for bank supervision and chairs the agency's CBS. She assumed this role in May 2016.

Ms. Dailey previously served as Deputy Comptroller for LBS. She also has served as Examiner-in-Charge for Citibank and U.S. Bank and as Assistant Deputy Comptroller for MCBS. She was designated a Senior National Bank Examiner, the highest honor available to National Bank Examiners.

Ms. Dailey joined the OCC in 1983 after graduating from the University of Wisconsin at Eau Claire. She also earned the chartered financial analyst designation.

Grovetta N. Gardineer
Compliance and Community Affairs

Grovetta N. Gardineer, Senior Deputy Comptroller for Compliance and Community Affairs, oversees agency compliance activities and supervises the agency's Community Affairs and CRA programs. She is responsible for policy and examination procedures relating to consumer issues and BSA/AML. She represents the agency on interagency groups and activities related to compliance, the CRA, fair lending, and the BSA. She assumed this role in March 2016. Ms. Gardineer also was named Chair of the NeighborWorks America Board of Directors in June 2016.

Before joining the OCC in 2010, Ms. Gardineer was the Managing Director for Corporate and International Activities and the Managing Director for Supervision Policy at the Office of Thrift Supervision (OTS).

Ms. Gardineer has a bachelor of arts degree from Wake Forest University and a law degree, cum laude, from North Carolina Central University.

Larry L. Hattix
Enterprise Governance and Ombudsman

Larry L. Hattix is the Senior Deputy Comptroller for Enterprise Governance and Ombudsman. He oversees the agency's enterprise governance function, the bank and savings association appeals program, and the Customer Assistance Group. Mr. Hattix represents the agency as a member of the International Network of Financial Services Ombudsman Schemes, which promotes effective dispute resolution, improves international coordination and cooperation, and shares best practices globally.

Mr. Hattix was the OCC Ombudsman from 2008 to 2013 and previously served as Assistant Deputy Comptroller of the Cincinnati field office. He joined the OCC in 1988 as an Assistant National Bank Examiner and obtained his commission as a National Bank Examiner in 1994, with a specialty in consumer and CRA compliance.

Mr. Hattix has a bachelor's degree in business administration and finance from Carroll University.

Morris R. Morgan
Large Bank Supervision

Morris Morgan is the Senior Deputy Comptroller for LBS, overseeing the supervision of the country's largest banks. He also oversees the operations of the agency's International Banking Supervision group and the OCC's London office. He assumed these responsibilities in December 2016.

Mr. Morgan previously served as Examiner-in-Charge for Bank of America and PNC and as Deputy Comptroller for LBS. He joined the OCC in 1985 and has held positions in bank supervision, analysis, and policy as well as leadership roles covering capital markets, asset management, and commercial credit.

Mr. Morgan became a commissioned National Bank Examiner in 1989 and earned the chartered financial analyst designation in 1999. He holds a bachelor of business administration degree in finance from Stephen F. Austin State University.

Kathy K. Murphy
Office of Management and Chief Financial Officer

Kathy K. Murphy is the Senior Deputy Comptroller for Management and Chief Financial Officer. She is responsible for the OCC's departments of financial management; human capital (including continuing education); leadership, executive, and organizational development; administrative operations; and information technology. She assumed these duties in October 2014.

From 2009 to 2014, as Deputy Comptroller and Chief Accountant, Ms. Murphy was the OCC's lead authority on bank accounting and financial reporting, providing counsel to examiners, the banking industry, and the accounting profession. She represented the OCC on the FFIEC's Reports Task Force and the Accounting Expert Group of the Basel Committee on Banking Supervision.

Ms. Murphy joined the OCC in 2002 after working at two large national accounting firms. She graduated from the University of Maryland with bachelor's degrees in accountancy and finance. She is a certified public accountant and a member of the American Institute of Certified Public Accountants.

William Rowe
Chief Risk Officer

William A. Rowe is the OCC's Chief Risk Officer. He leads the agency's Office of Enterprise Risk Management and the agency's Enterprise Risk Committee. Under his direction, the Office of Enterprise Risk Management drives an agency-wide view of risks and evaluates adherence to the agency's risk appetite statement. He assumed this position in July 2017. In that role, he supports the Comptroller as a member of the FDIC's board of directors and provides feedback and advice on major policies, rulemakings, and other items coming before the board.

Prior to this role, Mr. Rowe served as Deputy to the Chief of Staff, Executive Assistant to the Senior Deputy Comptroller for MCBS, and Executive Assistant to the Senior Deputy Comptroller for Bank Supervision Operations. He joined the OCC in 1992 after more than 12 years in the banking industry.

He was commissioned as a National Bank Examiner in 1995 after becoming a certified public accountant in 1994 and was credentialed as a Federal Savings Association Examiner in 2015. He is a graduate of Towson University with a degree in economics and holds an MBA in finance from Loyola University Maryland.

Karen Solomon
Acting Chief Counsel

Karen Solomon was the Acting Senior Deputy Comptroller and Chief Counsel of the OCC until her retirement in August 2018. In this capacity, Ms. Solomon supervised the OCC's Legislative and Regulatory Activities, Securities and Corporate Practices, and Bank Activities and Structure divisions. She also supervised the district counsel staffs in the OCC's Northeastern and Central Districts.

Ms. Solomon joined the OCC in 1995. From 1991 through 1994, she was a Deputy Chief Counsel at the OTS for the management of work on regulations, legislation, and the preparation of that agency's administrative decisions in contested enforcement matters. She began federal service in 1985 at the OTS's predecessor agency, the Federal Home Loan Bank Board.

Before beginning her federal career, Ms. Solomon had been in private practice representing clients in landlord-tenant and domestic relations matters, as well as corporate matters for small business clients. She began her career teaching at her alma mater, the Catholic University Law School, from 1979 to 1981. She received her juris doctor and her bachelor of arts degree in Latin from Catholic University.

Bao Nguyen became Acting Chief Counsel upon her retirement.

Michael Sullivan
Economics

As Senior Deputy Comptroller for Economics, Michael Sullivan oversees the OCC's Economics Department, which includes the Economic and Policy Analysis, Data and Analytical Solutions, and Risk Analysis divisions. His department supports bank examination and supervision, conducts analysis and research, and provides regular reports to OCC executives and personnel. He assumed this role in June 2017.

Mr. Sullivan previously served as Deputy Comptroller for Risk Analysis, overseeing the four divisions that provide expertise to the agency on banks' use of quantitative data and analytics to measure and manage compliance risk, credit risk, enterprise-wide risk, and market risk. He also served as a key advisor and technical expert on practical and policy issues related to the use of quantitative models by banks and the oversight of banks' risk models by supervisors. Mr. Sullivan joined the OCC in 1999 as a financial economist. He was appointed Deputy Director for Market Risk Modeling in 2004 and Director of the Market Risk Analysis Division in 2008.

Before joining the OCC, he was an assistant professor at Florida International University in Miami. He has published scholarly research on computational finance in several leading journals. Mr. Sullivan earned a bachelor's degree in economics from Stanford University and a doctorate in economics from Yale University.

Joyce Cofield
Office of Minority and Women Inclusion

As Executive Director for the Office of Minority and Women Inclusion, Joyce Cofield provides executive direction, sets policy, and oversees agency matters relating to diversity in management, employment, and business activities. She reports to the Comptroller of the Currency. Ms. Cofield assumed her current duties in December 2010.

Since joining the OCC in 2001, Ms. Cofield has served in a variety of leadership roles in human capital, recruitment, and diversity management. Before joining the agency, she held several executive positions in private industry.

She has a bachelor of science degree in biology from Virginia Union University and a master's degree in industrial microbiology from Boston University.

Letter From the Chief Financial Officer

I am pleased to present the Office of the Comptroller of the Currency's (OCC) financial statements as an integral part of the 2018 Annual Report. This year, as in prior years, our independent auditors have issued an unmodified opinion, which indicates that our financial statements are fairly stated at September 30, 2018 and 2017. The independent auditor's report on page 53 indicates that the OCC does not have any significant deficiencies or material weakness in internal control over financial reporting. In this section of this report, we have provided the OCC's Assurance Statement, which speaks to the strength of our comprehensive internal control program and describes the assurance process we use to implement requirements in Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control." To fulfill these requirements, the OCC has established processes to identify and assess the risks it faces as an organization to effectively manage potential issues.

The OCC emphasizes accurate and timely financial reporting, strong internal controls, and sound fiscal corporate governance to operate efficiently and effectively. It continues to refine its budget, reducing planned expenses for fiscal year 2018. The OCC will continue to explore new ways of doing business—whether by conducting virtual meetings more frequently or optimizing use of space—without losing sight of its mission and by engaging its employees. With that in mind, the OCC has continued to expand its enterprise-wide workforce planning and leadership programs to develop a versatile, engaged, and skilled team capable of succeeding at the agency's important mission.

In the years ahead, the OCC will continue to act as a responsible steward of its resources. It will foster an organization that is open to adapting to new ways of accomplishing its mission and working more efficiently and effectively. As we look forward to our future, I am proud of the OCC team and all that we have accomplished and will accomplish together.

Kathy K. Murphy
Senior Deputy Comptroller for Management and Chief Financial Officer

Financial Summary

The OCC received an unmodified opinion on its FY 2018 and FY 2017 financial statements. The OCC presents the principal financial statements to report the financial position and results of the agency's operations, pursuant to the requirements of 31 USC 3515(b). The OCC has prepared these statements from its books and records in accordance with U.S. generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the OMB. In addition, the OCC prepares financial reports to monitor and control budgetary resources using the same books and records.

The OCC's financial statements consist of the Balance Sheets, the Statements of Net Cost, the Statements of Changes in Net Position, the Statements of Budgetary Resources, and the Statements of Custodial Activity. The OCC presents the financial statements and notes on a comparative basis, providing financial information for FY 2018 and FY 2017. The financial statements, followed by notes and the independent auditor's report, begin on page 36.

In accordance with 12 USC 482, the OCC establishes its own budget authority each fiscal year. The total budget authority available for use by the OCC in FY 2018 was $1,126.8 million. This amount excludes the additional pension contribution the OCC made to the Pentegra Defined Benefit (DB) Plan in October 2017. The FY 2018 budget authority was $55.3 million, or 4.7 percent lower than the $1,182.1 million budget in FY 2017. The OCC executed approximately $7.2 million less than in FY 2017.

The Statements of Budgetary Resources, found on page 38, provide information about how budgetary resources were made available to the OCC for the year. These statements present the status of these resources and the net outlay of budgetary resources at the end of the year.

Table 7 illustrates the OCC's key components of financial condition, and the subsequent narrative sections address the OCC's financial activities in FY 2018 and FY 2017.

Table 7: Key Components of Financial Condition, as of September 30, 2018 (in Thousands)

	FY 2018	FY 2017	Increase/(decrease) $	Increase/(decrease) %
Costs[a]				
Total financing sources	$ 39,523	$ 24,867	$ 14,656	58.9%
Less: net cost	30,943	(69,097)	100,040	144.8%
Net change of cumulative results of operations	$ 8,580	$ 93,964	$ (85,384)	(90.9%)
Net position[b]				
Assets				
Fund Balance With Treasury	$ 7,382	$ 6,220	$ 1,162	18.7%
Investments	1,834,468	1,792,793	41,675	2.3%
General property, plant, and equipment, net	74,203	90,255	(16,052)	(17.8%)
Accounts receivable and other	5,294	4,852	442	9.1%
Total assets	$ 1,921,347	$ 1,894,120	$ 27,227	1.4%
Liabilities				
Accounts payable and other accrued liabilities	$ 39,568	$ 33,712	$ 5,856	17.4%
Accrued payroll and benefits	101,659	92,304	9,355	10.1%
Deferred revenue	303,839	296,558	7,281	2.5%
Other actuarial liabilities	81,894	85,739	(3,845)	(4.5%)
Total liabilities	$ 526,960	$ 508,313	$ 18,647	3.7%
Net position	1,394,387	1,385,807	8,580	0.6%
Total liabilities and net position	$ 1,921,347	$ 1,894,120	$ 27,227	1.4%

Source: OCC financial system data.

[a] Statements of Net Cost and Statements of Changes in Net Position.

[b] Balance Sheets.

Cost of Operations

The OCC's net cost of operations is reported in the Statements of Net Cost and the Statements of Changes in Net Position. The OCC uses an activity-based time reporting system to allocate costs among the agency's programs. Costs are further divided into those resulting from transactions between the OCC and other federal entities (intragovernmental) and those between the OCC and nonfederal entities (with the public). The Statements of Net Cost present the full cost of operating the OCC's three major programs—supervise, regulate, and charter banks.

Total program costs for FY 2018 of $1,281.6 million reflected an increase of $145.3 million, or 12.8 percent, from $1,136.3 million reported in FY 2017. FY 2018 costs include an additional $148.3 million pension contribution to the Pentegra DB Plan, which the OCC administers for employees who, as a result of the Dodd–Frank Wall Street Reform and Consumer Protection Act (as amended by the Economic Growth Act), were transferred to the OCC from the former OTS. (For more information, see Note 1.) Excluding the additional pension contribution to the Pentegra DB Plan, FY 2018 program costs represented a decrease of 0.3 percent from those in FY 2017.

Revenues

The OCC's operations are funded primarily by assessments, fees paid by banks, interest received on investments in nonmarketable U.S. Treasury securities, and other income.

Total FY 2018 revenue of $1,247.4 million reflects a $42.1 million, or 3.5 percent, increase from FY 2017 revenue of $1,205.3 million. Total assets under the OCC's supervision rose as of September 30, 2018, to $12.5 trillion, an increase of 4.2 percent, from $12.0 trillion a year earlier.

Interest revenue totaled $23.8 million in FY 2018, an increase of $3.8 million, or 19.0 percent, from the $20.0 million reported in FY 2017. The change is due in large part to higher overnight interest rates in FY 2018. Other income includes revenue received from rental income and reimbursable activities with federal entities. Table 8 shows the OCC's funding sources for FY 2018 and FY 2017.

Table 8: Funding Sources (in Millions)

	FY 2018	FY 2017	Change ($)	Change (%)
Assessments	$ 1,204.4	$ 1,166.9	$ 37.5	3.2%
Interest revenue	23.8	20.0	3.8	19.0%
Other income	19.2	18.4	0.8	4.3%
Total revenue	$ 1,247.4	$ 1,205.3	$ 42.1	3.5%

Source: OCC financial system data.

Assets

The OCC's assets include both "entity" and "non-entity" assets. The OCC uses entity assets, which belong to the agency, to fund operations. Non-entity assets are assets that the OCC holds on behalf of another federal agency. The OCC's non-entity assets presented as accounts receivable are CMPs due the federal government through court-enforced legal actions.

As of September 30, 2018, total assets were $1,921.3 million, an increase of $27.2 million, or 1.4 percent, from the total assets of $1,894.1 million reported on September 30, 2017. The main factor contributing to the change is the increased amount of assets under OCC supervision in FY 2018, which resulted in additional assessment revenue and, subsequently, a larger volume of investments.

Investments

The OCC invests available funds in nonmarketable U.S. Treasury securities issued through the Treasury Department's Bureau of the Fiscal Service consistent with the provisions of 12 USC 481 and 12 USC 192. The OCC manages risk by diversifying its portfolio holdings through laddering security maturities over a period not to exceed five years. Laddering in this manner facilitates the ability to reinvest in short- and long-term U.S. Treasury securities while maintaining sufficient cash for daily operating expenses. The OCC has the positive intent and ability to hold all U.S. Treasury securities to maturity and does not maintain any available for sale or trading securities.

On September 30, 2018, the amortized book value of investments and related accrued interest was $1,834.5 million, compared with $1,792.8 million the previous year. The difference of $41.7 million, or 2.3 percent, reflects additional investments made with available funds from an increase in assessment revenue collected in FY 2018, as a result of an increase in total bank assets under OCC supervision. The market value of the OCC's investment portfolio in FY 2018 was $27.5 million lower than book value, as compared with FY 2017, when the market value was $2.1 million lower than book value. This change is primarily attributable to the recent rise in interest rates—when interest rates increase, the market value of bonds decreases—and the variation of portfolio holdings year-over-year. This fluctuation does not affect the reported value of securities held to maturity.

The OCC's investment portfolio is composed of overnight and longer-term securities. The portion of the portfolio comprising longer-term investments as of September 30, 2018, and September 30, 2017, was $1,183.0 million, or 64.5 percent, and $1,154.5 million, or 64.4 percent, respectively. The weighted average maturity of the portfolio decreased year-over-year to 1.60 years as of September 30, 2018, compared with 1.97 years as of September 30, 2017. This change reflects the OCC's decision to weight its portfolio more heavily toward shorter-term investments to maintain desired liquidity levels. The OCC portfolio earned an annual yield of 1.6 percent in FY 2018, compared with 1.3 percent in FY 2017. The OCC calculates annual portfolio yield by dividing the total interest earned during the year by the average ending monthly book value of investments.

Liabilities

The OCC's liabilities represent the resources due to others or held for future recognition and are composed largely of deferred revenue, accrued annual leave, accrued payroll and benefits, and other actuarial liabilities. Deferred revenue represents the unearned portion of semiannual assessments.

As of September 30, 2018, total liabilities were $527.0 million, a net increase of $18.7 million, or 3.7 percent, from total liabilities of $508.3 million on September 30, 2017. This change is primarily due to increased accrued salary and benefits in FY 2018.

Net Position

The OCC's net position of $1,394.4 million as of September 30, 2018, an increase of $8.6 million, or 0.6 percent, over the $1,385.8 million reported for FY 2017, represents the cumulative net excess of the OCC's revenues over the cost of operations. The net position is presented on both the Balance Sheets and the Statements of Changes in Net Position.

The OCC allocates a significant portion of the net position to its financial reserves, which includes a reserve for uninsured national trust banks and a reserve for uninsured federal branches or agencies of a foreign banking organization. The establishment of financial reserves is integral to the effective stewardship of the OCC's resources, and the OCC has a disciplined process for reviewing its reserve balances and allocating funds appropriately to support its ability to accomplish the agency's mission. The OCC's financial reserves are available to reduce the impact on the OCC's operations in the event of a significant fluctuation in revenues or expenses. The OCC also sets aside funds for ongoing operations to cover undelivered orders and capital investments.

All national banks insured by the FDIC that are closed by the OCC are required to have the FDIC appointed as receiver. In FY 2018, the OCC established a receivership contingency fund of $86.6 million within its financial reserves to facilitate the conduct of receiverships of uninsured federal branches or agencies of a foreign banking organization. A federal branch or agency licensed by the OCC has never gone into receivership. Similarly, the OCC established a receivership contingency fund of $100.0 million within its financial reserves in FY 2017 to support receiverships of uninsured national trust banks.

As of September 30, 2018, the OCC's financial reserves were $1,319.9 million. These reserves are essential to a sound, prudent, and reasonable financial management strategy.

OFFICE OF THE COMPTROLLER OF THE CURRENCY
BALANCE SHEETS

AS OF SEPTEMBER 30, 2018 AND 2017 (IN THOUSANDS)

	FY 2018	FY 2017
Assets		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	$ 7,382	$ 6,220
Investments and related interest (Note 3)	1,834,468	1,792,793
Accounts receivable (Note 4)	3,042	2,977
Other assets	531	448
Total intragovernmental	**1,845,423**	**1,802,438**
Accounts receivable, net (Note 4)	1,692	1,355
General property, plant, and equipment, net (Note 5)	74,203	90,255
Other assets	29	72
Total assets	**$ 1,921,347**	**$ 1,894,120**
Liabilities		
Intragovernmental:		
Accounts payable and other accrued liabilities	$ 11,144	$ 8,801
Total intragovernmental	**11,144**	**8,801**
Accounts payable	1,361	1,854
Accrued payroll and benefits	50,815	40,884
Accrued annual leave	50,844	51,420
Other accrued liabilities	27,063	23,057
Deferred revenue	303,839	296,558
Other actuarial liabilities (Note 7)	81,894	85,739
Total liabilities	**526,960**	**508,313**
Net position (Note 8)	**1,394,387**	**1,385,807**
Total liabilities and net position	**$ 1,921,347**	**$ 1,894,120**

The accompanying notes are an integral part of these financial statements.

OFFICE OF THE COMPTROLLER OF THE CURRENCY
STATEMENTS OF NET COST

FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

	FY 2018	FY 2017
Program costs:		
Supervise		
Intragovernmental	$ 160,390	$ 145,390
With the public	985,632	869,192
Subtotal—supervise	**$ 1,146,022**	**$ 1,014,582**
Regulate		
Intragovernmental	$ 15,372	$ 13,637
With the public	95,233	84,139
Subtotal—regulate	**$ 110,605**	**$ 97,776**
Charter		
Intragovernmental	$ 3,594	$ 3,545
With the public	21,331	20,421
Subtotal—charter	**$ 24,925**	**$ 23,966**
Total program costs	**$ 1,281,552**	**$ 1,136,324**
Less earned revenues not attributed to programs	(1,247,375)	(1,205,254)
Net program costs before gain/loss from changes in assumptions	**$ 34,177**	**$ (68,930)**
Actuarial (gain)/loss (Note 7)	(3,234)	(167)
Net cost (excess of revenues over cost) of operations (Note 9)	**$ 30,943**	**$ (69,097)**

The accompanying notes are an integral part of these financial statements.

OFFICE OF THE COMPTROLLER OF THE CURRENCY
STATEMENTS OF CHANGES IN NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

	FY 2018	FY 2017
Beginning balances	$ 1,385,807	$ 1,291,843
Other financing sources:		
Imputed financing (Note 10)	39,523	24,867
Net cost of operations	(30,943)	69,097
Net change	8,580	93,964
Ending balances	**$ 1,394,387**	**$ 1,385,807**

The accompanying notes are an integral part of these financial statements.

OFFICE OF THE COMPTROLLER OF THE CURRENCY
STATEMENTS OF BUDGETARY RESOURCES[81]

FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
Budgetary resources:		
Unobligated balance from prior year budget authority, net	1,522,624	1,404,742
Spending authority from offsetting collections	1,254,688	1,215,916
Total budgetary resources	**$ 2,777,312**	**$ 2,620,658**
Status of budgetary resources:		
New obligations and upward adjustments (total)	$ 1,235,704	$ 1,110,257
Unobligated balance, end of year:		
Exempt from apportionment, unexpired accounts	1,541,608	1,510,401
Unexpired unobligated balance, end of year	1,541,608	1,510,401
Expired unobligated balance, end of year	0	0
Unobligated balance, end of year (total)	$ 1,541,608	1,510,401
Total status of budgetary resources:	**$ 2,777,312**	**$ 2,620,658**
Outlays, net:		
Outlay, net (total) (discretionary and mandatory)	(43,103)	(125,371)
Agency outlays, net:	**$ (43,103)**	**(125,371)**

The accompanying notes are an integral part of these financial statements.

OFFICE OF THE COMPTROLLER OF THE CURRENCY
STATEMENTS OF CUSTODIAL ACTIVITY

FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
Revenue activity:		
Sources of cash collections		
Fines and penalties	$ 747,910	$ 51,944
Accrual adjustment	239	(21)
Total custodial revenue	748,149	51,923
Disposition of custodial revenue:		
Transferred to Treasury	747,910	51,944
(Increase)/decrease in amounts yet to be transferred	239	(21)
Total disposition for custodial revenue	748,149	51,923
Net custodial activity	$ **0**	$ 0

The accompanying notes are an integral part of these financial statements.

[81] In FY 2018, OMB Circular A-136 updated the required presentation for this statement.

Note 1—Significant Accounting Policies

Reporting Entity

The OCC was created as a bureau within the Treasury Department by an act of Congress in 1863. The mission of the OCC was to establish and regulate a system of federally chartered national banks. The National Currency Act of 1863, rewritten and reenacted as the National Bank Act of 1864, authorized the OCC to supervise national banks and regulate their lending and investment activities. With the passage of Dodd–Frank on July 21, 2010, the OCC assumed the responsibility for the supervision of FSAs and rulemaking authority for all savings associations.

To achieve its goals and objectives, the OCC organizes its activities under three major programs: supervision, regulation, and chartering. These three programs support the agency's overall mission by ensuring that banks operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

Basis of Accounting and Presentation

The OCC's financial statements are prepared from the agency's accounting records in conformity with GAAP as set forth by the Federal Accounting Standards Advisory Board (FASAB). The OCC's financial statements are presented in accordance with the reporting guidance established by the OMB in Circular No. A-136, "Financial Reporting Requirements."

With the update to OMB Circular No. A-136 in 2018, the FY 2018 Statement of Budgetary Resources (SBR) format was significantly modified from that presented in prior year financial statements. The FY 2017 SBR has been revised to conform to the presentation used in 2018, to provide for appropriate comparative analysis.

In addition, the OCC applies financial accounting and reporting standards pursuant to the FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 34, "The Hierarchy of Generally Accepted Accounting Principles."

The financial statements reflect both the accrual and the budgetary bases of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to cash receipt or payment. The budgetary method recognizes the obligation of funds according to legal requirements, which in many cases is recorded before the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds.

Use of estimates: In accordance with GAAP, the preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Such estimates and assumptions could change as more information becomes known, which could affect the amounts reported and disclosed herein.

Entity and non-entity assets: Entity assets are those that the OCC has the authority to use in its operations and include the assessments that the OCC collects regularly from the banks it regulates in order to fund its operations. The OCC also collects CMPs as part of its operations. It records these as non-entity assets, since the OCC is responsible for transferring these funds to the Treasury. These non-entity assets are not fiduciary, as fiduciary funds are those that the federal government holds on behalf of non-federal individuals or entities that have an ownership interest.

Intragovernmental and governmental: Throughout these financial statements, assets, liabilities, earned revenues, and costs have been classified according to the entity responsible for these transactions. Intragovernmental earned revenues are collections or accruals of revenue from other federal entities, and intragovernmental costs are payments or accruals of expenditures to other federal entities.

Funds from dedicated collections: Funds from dedicated collections are financed by specifically identified revenue that is provided to the government by non-federal sources and reported by the OCC in accordance with SFFAS No. 43, "Funds From Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds." These funds are required by statute to be used for designated activities or purposes, and must be accounted for separately from the federal government's Treasury General Fund. Typically, an agency reports these funds separately, but because all OCC funds are considered funds from dedicated collections, all net position amounts are recorded and classified as such.

Revenues and Other Financing Sources

The OCC derives its revenue primarily from assessments and fees paid by banks, from income on investments in non-marketable U.S. Treasury securities, and from rental income and reimbursable activities with other federal entities. The OCC does not receive congressional appropriations to fund the agency's operations. Therefore, the OCC has no unexpended appropriations.

Federal statute stipulates that the OCC's funds are neither government funds nor appropriated monies (12 USC 481). They are maintained in a U.S. government trust fund and remain available to cover the cost of the OCC's operations in accordance with policies established by the Comptroller of the Currency.

Fund Balance With Treasury (FBWT)

The Department of the Treasury processes the OCC's cash receipts and disbursements. The OCC's Statements of Budgetary Resources reflect the status of the agency's FBWT. (For more information, see Note 2.)

Investments

It is the OCC's policy to invest available funds consistent with the provisions of 12 USC 481 and 12 USC 192. The OCC invests available funds in U.S. Government Account Series Treasury securities, which include bills, notes, and one-day certificates; Government Account Series securities are available to federal agencies that have specific authority to invest in these special, nonmarketable U.S. Treasury securities.

The OCC has the positive intent and ability to hold all U.S. Treasury securities to maturity in accordance with FASB Accounting Standards Codification (ASC) Topic 320, "Investments—Debt and Equity Securities." (For more information, see Note 3.)

Accounts Receivable

In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," the OCC updates the allowance for loss on accounts receivable periodically to reflect the most current estimate of accounts that probably will be uncollectible. The OCC considers multiple factors when calculating the allowance, including how long the debt has been outstanding and what kind of debt it is. Once calculated, the OCC uses the allowance to reduce accounts receivable from the public. The OCC does not recognize any allowance for loss on intragovernmental accounts receivable. (For more information, see Note 4.)

General Property, Plant, and Equipment (PP&E), Net

General PP&E and internal-use software are accounted for in accordance with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," and SFFAS No. 10, "Accounting for Internal Use Software."

General PP&E purchases and additions are stated at cost. General PP&E purchased at a cost greater than or equal to the established capitalization thresholds are capitalized at cost and depreciated or amortized, as applicable. Depreciation is expensed on a straight-line basis over the estimated useful life of the asset with the exception of major leasehold improvements, which are amortized on a straight-line basis over the lesser of the terms of the related leases or the estimated useful lives. Land, minor leasehold improvements, and internal-use software in development are not depreciated or amortized. Major alterations and renovations, including leasehold and land improvements, are capitalized, while maintenance and repair costs are expensed as incurred. All other general PP&E are depreciated or amortized, as applicable, on a straight-line basis over their estimated useful lives.

Allowable internal-use software costs are capitalized and amortized once the software is placed in service. The OCC recognizes as expenses purchases and software development costs that do not meet the capitalization criteria, such as normal repairs and maintenance, when received or incurred.

The OCC tests for impairment in accordance with SFFAS No. 44, "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use," and removes PP&E from its asset accounts in the period of disposal, retirement, or removal from service. Any difference between the book value of PP&E and amounts realized is recognized as a gain or loss in the same period that the asset is removed. (For more information, see Note 5.)

Liabilities

The OCC records liabilities for amounts that are likely to be paid because of events that have occurred as of the relevant balance sheet dates. The OCC's liabilities consist of routine operating accounts payable, accrued payroll and benefits, deferred revenue, and other liabilities. The OCC's liabilities represent the amounts owed or accrued under contractual or other arrangements governing the transactions, including operating expenses incurred but not paid. The OCC accounts for liabilities in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government."

Accounts payable: Accounts payable represent short-term liabilities to vendors and other entities. Interest penalties are paid when payments are late as prescribed by the Prompt Payment Act (31 USC 39). Discounts are taken when cost effective and when the invoices are paid within the discount period.

Accrued annual leave: The OCC accrues and funds annual leave as it is earned and reduces the accrual as leave is taken or paid. Each year, the balance in the accrued annual leave account is adjusted to reflect actual leave balances with current pay rates. Sick leave and other types of leave are expensed as incurred.

Deferred revenue: The OCC's activities are primarily financed by assessments on assets held by banks. These assessments are due March 31 and September 30 of each year, based on each institution's asset balance as of December 31 and June 30, respectively. Assessments are recognized as earned revenue on a straight-line basis. The unearned portions of collected assessments are classified as deferred revenue.

Contingent liabilities: The OCC recognizes and discloses contingencies for pending or threatened litigation and unasserted claims in accordance with SFFAS No. 12, "Recognition of Contingent Liabilities Arising From Litigation." As such, the OCC accrues an estimated loss if it is probable and the OCC is able to reasonably estimate the amount. If the likelihood of an unfavorable outcome is more than remote, the OCC discloses the contingent liability. (For more information, see Note 12.)

Employment Benefits

Retirement plans: All of the OCC's employees participate in one of three retirement systems—the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), or the Pentegra DB Plan (i.e., the Financial Institutions Retirement Fund). CSRS and FERS are administered by the U.S. Office of Personnel Management (OPM). Pursuant to the enactment of Public Law 99-335, which established FERS, most OCC employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, are covered by CSRS, with the exception of those who, during the election period, joined FERS.

The OCC does not report CSRS or FERS assets or accumulated plan benefits that may be applicable to its employees in its financial statements; these amounts are reported by the OPM. Although the OCC reports no liability for future payments to employees under these programs, the federal government is liable for future payments to employees through the various agencies administering these programs. The OCC recognizes future benefit costs as an imputed cost to the OPM.

In accordance with the provisions of Dodd–Frank Act (as amended by the Economic Growth Act), the OCC assumed the role of benefit administrator for the Pentegra DB Plan in FY 2011. The Pentegra DB Plan covers those employees transferred from the former OTS who elected the plan before October 8, 1989, when it was closed to new entrants.

The OCC does not report Pentegra assets or accumulated plan benefits that may be applicable to its employees in its financial statements; these amounts are reported by Pentegra. When the plan is in surplus (assets are greater than plan liabilities), the OCC's annual costs equal plan expenses, which include administrative expenses and Pension Benefit Guaranty Corporation premiums. When the plan is not in surplus, the OCC's expenses also include the present value of the benefits expected to be earned in the plan year (the target normal cost) and a portion of the unfunded liability. The plan is currently in surplus. The OCC is committed to adhering to sound financial policies and management oversight of the plan to ensure its sustainability for current and future retirees.

Thrift savings and 401(k) plans: The OCC's employees are eligible to participate in the federal Thrift Savings Plan (TSP). FERS employees can receive up to 4.0 percent in OCC matching contributions, in addition to an automatic contribution of 1.0 percent of adjusted base pay. The OCC's contributions to the TSP totaled $22.8 million and $22.4 million for FY 2018 and FY 2017, respectively, and are included as a component of "Operating expense: Personnel compensation and benefits" in Note 9, "Net Cost of Operations."

OCC employees also may elect to contribute a portion of their total pay to the OCC-sponsored 401(k) plan, subject to Internal Revenue Service regulations that apply to employee contributions in both the federal TSP and the OCC-sponsored 401(k) plan. The OCC matches 100 percent of the first 1.0 percent of employee contributions to the OCC 401(k) plan and provides an automatic employer contribution of 4.0 percent of adjusted base pay.

The amount of each participant's matching contribution is based on the applicable retirement system under which each participant is covered. For those who participate in FERS, CSRS, or CSRS Offset, the OCC provides an automatic contribution of 4.0 percent of adjusted base pay and an additional matching contribution of up to 1.0 percent. For those who participate in the OTS 401(k) plan, the OCC provides an automatic contribution of 4.0 percent of adjusted base pay, an additional matching contribution of up to 3.0 percent to participants in the Financial Institutions Retirement Fund and 1.0 percent additional match to all other participants.

Employees who leave the OCC before the vesting period (three or more years of continuous credited service) forfeit the OCC's matching contributions. The OCC uses these accounts to reduce future administrative plan expenses and to satisfy future employer contributions. The OCC did not use any forfeitures this year to defray employer contributions.

The OCC's contributions to the 401(k) plans totaled $30.3 million and $28.8 million for FY 2018 and FY 2017, respectively, and are included as a component of "Operating expense: Personnel compensation and benefits," in Note 9, "Net Cost of Operations."

Federal Employees Health Benefits and Federal Employees' Group Life Insurance: Employees and retirees of the OCC are eligible to participate in the Federal Employees Health Benefits and Federal Employees' Group Life Insurance plans administered by the OPM, which involve a cost sharing of biweekly coverage premiums by OCC employees and the OCC. The OCC does not fund post-retirement benefits for these programs. Instead, the OCC's financial statements recognize an imputed financing source and corresponding expense that represent the OCC's share of the cost to the federal government of providing these benefits to all eligible OCC employees.

Post-retirement life insurance benefit plan: The OCC sponsors a life insurance benefit plan for current and retired employees. The OCC's life insurance benefit plan is a defined-benefit plan for which the benefit is earned over the period from the employee's date of hire to the date on which the employee is assumed to retire. The valuation of the plan is performed in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. Specifically, the OCC uses the actuarial cost method as outlined in FASB

ASC Topic 715, Compensation—Retirement Benefits, to determine costs for its retirement plans. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan. The actuarial assumptions and methods used in calculating actuarial amounts comply with the requirements for post-retirement benefits other than pensions as set forth in FASB ASC Topic 715, and for health benefit plans as set forth in American Institute of Certified Public Accountants Statement of Position 92-6, "Accounting and Reporting by Health and Welfare Benefit Plans."

Net Position

Net position is the residual difference between assets and liabilities, and is composed of Cumulative Results of Operations. The OCC allocates a significant portion of the net position to its financial reserves. The establishment of financial reserves is integral to the effective stewardship of the OCC's resources, particularly because the agency does not receive congressional appropriations.

In FY 2018, the OCC established an $86.6 million receivership contingency fund within its financial reserves, designated for expenses associated with the potential failure and subsequent receivership of uninsured federal branches or agencies of a foreign banking organization. In FY 2017, the OCC similarly established a receivership contingency fund of $100.0 million within its financial reserves designated for expenses associated with the potential failure and subsequent receivership of an uninsured national trust bank. The two receivership funds are included in net position on the Balance Sheet.

Custodial Activity

Non-entity receivables, liabilities, and revenues are recorded as custodial activity in the Statements of Custodial Activity and include amounts collected for fines, CMPs, and related interest assessments. Revenues are recognized as cash collected that will be transferred to the General Fund of the U.S. Treasury.

The OCC presents the Statements of Custodial Activity on the "modified accrual basis." We recognize revenues as cash is collected and record a "non-cash accrual adjustment" representing the net increase or decrease during the reporting period in net revenue-related assets and liabilities.

In FY 2018, the OCC collected $21.8 million from qualified settlement funds established for the administration of payments to borrowers of OCC regulated institutions as a result of an Independent Foreclosure Review settlement. These funds were also transferred to the General Fund of the U.S. Treasury.

Effects of Recent Accounting Pronouncements

On December 23, 2014, the FASAB issued SFFAS No. 47, "Reporting Entity." This release provides guidance for deciding which organizations should be included in the reporting entity's general purpose federal financial reports for financial accountability purposes. The OCC adopted SFFAS No. 47 in FY 2018 without material effect.

The OCC examined its operations and has prepared these statements and notes in compliance with SFFAS No. 47. The OCC did not have a relationship with any entity that would require reporting as a related party as of September 30, 2018.

On October 4, 2018, the FASAB issued SFFAS No. 56, "Classified Activities." This statement requires the following disclosure:

Accounting Standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Note 2—Fund Balance With Treasury

The FBWT represents the budgetary resources available for the OCC's use and is a reconciliation between budgetary and proprietary accounts. The OCC's FBWT consists of one U.S. Treasury fund symbol designated as a trust fund and established by 12 USC 481, which governs the collection and use of assessments and other funds by the OCC.

The OCC's FBWT consists of unobligated and obligated balances that reflect the budgetary authority remaining for disbursement against current or future obligations. The unobligated balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations and is classified as available for future OCC use. The obligated balance not yet disbursed represents funds that have been obligated for goods that have not been received or services that have not been performed. It also represents goods and services that have been delivered or received but for which payment has not been made. The majority of the OCC's non-budgetary FBWT account balance represents investment accounts that reduce the status of the FBWT.

As of September 30, 2018, and September 30, 2017, there were no unreconciled differences between U.S. Treasury records and balances reported on the OCC's general ledger. Table 9 depicts the OCC's FBWT amounts for FY 2018 and FY 2017.

Table 9: Fund Balance With Treasury (in Thousands)

	FY 2018		FY 2017	
Fund balance				
Trust fund	$	7,382	$	6,220
Status of FBWT				
Unobligated balance—available	$	1,541,608	$	1,510,401
Obligated balance not yet disbursed		287,259		275,453
Non-budgetary FBWT		(1,821,485)		(1,779,634)
Total	**$**	**7,382**	**$**	**6,220**

Note 3—Investments and Related Interest

The OCC's investments are stated at amortized cost and the related accrued interest. Premiums and discounts are amortized over the term of the investment using the effective interest method. The fair market value of investment securities was $1,806.9 million on September 30, 2018, and $1,790.7 million on September 30, 2017. The overall portfolio earned an annual yield of 1.60 percent for FY 2018 and 1.29 percent for FY 2017.

The yield-to-maturity on individual securities in the non-overnight portion of the OCC's investment portfolio ranged from 0.9 percent to 2.9 percent on September 30, 2018, and from 0.8 percent to 2.9 percent on September 30, 2017.

Table 10: FY 2018 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Interest Receivable	Investments, net	Other Adjustments	Market value disclosure
Intragovernmental securities:							
Non-marketable market-based	$ 1,831,390	Effective interest	$ (1,064)	$ 4,142	$ 1,834,468	$ 0	$ 1,806,922
Total intragovernmental investments	**$ 1,831,390**		**$ (1,064)**	**$ 4,142**	**$ 1,834,468**	$ 0	**$** 1,806,922

Table 11: FY 2017 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Interest Receivable	Investments, net	Other Adjustments	Market value disclosure
Intragovernmental securities:							
Non-marketable market-based	$ 1,791,743	Effective interest	$ (3,169)	$ 4,219	$ 1,792,793	$ 0	$ 1,790,716
Total intragovernmental investments	**$ 1,791,743**		**$ (3,169)**	**$ 4,219**	**$ 1,792,793**	$ 0	**$ 1,790,716**

Note 4—Accounts Receivable

Accounts receivable represent monies due for services and goods provided that are retained by the OCC upon collection. The amounts shown for federal receivables include pension-sharing costs for former OTS employees transferred to other federal agencies in accordance with the provisions of Dodd–Frank. CMP receivables are amounts assessed against people or banks for violations of law, regulation, and orders; unsafe or unsound practices; and breaches of fiduciary duty. Because CMPs are not debts owed to the OCC, the amount outstanding does not enter into the calculation for the allowance for uncollectible accounts. (For more information on how the OCC calculates the allowance, see Note 1.)

Table 12: FY 2018 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Federal receivables	$ 3,042	$ 0	$ 3,042
CMP receivables	1,592	0	1,592
Nonfederal receivables	102	(2)	100
Total accounts receivable	**$ 4,736**	**$ (2)**	**$ 4,734**

Table 13: FY 2017 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Federal receivables	$ 2,977	$ 0	$ 2,977
CMP receivables	1,353	0	1,353
Nonfederal receivables	103	(101)	2
Total accounts receivable	**$ 4,433**	**$ (101)**	**$ 4,332**

Note 5—General Property, Plant, and Equipment, Net

General PP&E purchased at a cost greater than or equal to the established capitalization thresholds are capitalized at cost and depreciated or amortized, as applicable. Depreciation is expensed on a straight-line basis over the estimated useful life of the asset with the exception of major leasehold improvements, which are amortized on a straight-line basis over the lesser of the terms of the related leases or the estimated useful lives. Land, minor leasehold improvements, and internal-use software in development are not depreciated or amortized. Major alterations and renovations, including leasehold and land improvements, are capitalized, while maintenance and repair costs are expensed as incurred. All other general PP&E are depreciated or amortized, as applicable, on a straight-line basis over their estimated useful lives.

In FY 2018, the OCC recognized $21.4 million of fully depreciated assets or expired leasehold assets removed from service, as compared to $1.9 million in FY 2017. The majority of the change is due to $20.2 million in internal-use software that the OCC retired in FY 2018. In both FY 2018 and FY 2017, the OCC did not recognize any losses on asset disposal. The figures n tables 14 and 15 present the OCC's capitalization thresholds and the general PP&E balances as of September 30, 2018 and 2017.

The OCC's assets include a building and associated land in Washington, D.C. The building is a rental-income property that the OCC uses to supplement its operating budget (see Note 6).

Table 14: FY 2018 Property, Plant, and Equipment, Net (in Thousands)

Class of assets	Capitalization threshold	Useful life (in years)	Cost	Accumulated depreciation/ amortization	Net book value
Land	NA	NA	$ 7,101	$ 0	$ 7,101
Building	50	50	49,188	(39,184)	10,004
Leasehold improvements	50	5-20	113,932	(69,207)	44,725
Equipment	50	3-10	49,106	(39,993)	9,113
Internal-use software	500	5	91,729	(88,469)	3,260
Internal-use software—development	500	NA	0	0	0
Total			**$ 311,056**	**$ (236,853)**	**$ 74,203**

Table 15: FY 2017 Property, Plant, and Equipment, Net (in Thousands)

Class of assets	Capitalization threshold	Useful life (in years)	Cost	Accumulated depreciation/ amortization	Net Book Value
Land	NA	NA	$ 7,101	$ 0	$ $7,101
Building	50	50	49,188	(38,130)	11,058
Leasehold improvements	50	5-20	113,868	(62,394)	51,474
Equipment	50	3-10	48,633	(35,762)	12,871
Internal-use software	500	5	111,100	(104,217)	6,883
Internal-use software—development	500	NA	868	0	868
Total			**$ 330,758**	**$ (240,503)**	**$ 90,255**

Note: NA means not applicable.

Note 6—Leases

OCC as Lessee

The OCC leases equipment and office space for its headquarters operations in Washington, D.C., and for district and field operations. All of the OCC's leases are recorded as operating leases, and the costs are included in the Statements of Net Cost. These leases are non-cancelable and have remaining terms ranging from one to approximately 10 years, the majority with renewal options. The leases provide for future increased payments based on increases in real estate taxes, operating costs, or selected price indexes.

The future minimum lease payments to non-federal lessors through FY 2024 and thereafter, not including renewals, are shown in table 16. The OCC has one lease with a federal lessor with an end date of February 2019 and total future minimum lease payments are immaterial.

Table 16: FY 2018 Future Lease Payments to Non-Federal Lessors (in Thousands)

Year	Property	Equipment	Total
2019	$ 56,884	$ 2,717	$ 59,601
2020	51,611	2,717	54,328
2021	49,549	2,496	52,045
2022	49,270	1,494	50,764
2023	41,008	60	41,068
2024 and beyond	166,181	0	166,181
Total	**$ 414,503**	**$ 9,484**	**$ 423,987**

OCC as Lessor

In FY 2012, the OCC entered into a 20-year occupancy agreement with another federal agency for space in a building the OCC owns. This agreement expires in 2032 and provides renewal options. The agreement provides for annual base rent and additional rent for building operating expenses. The agreement also provides for fixed future increases in rents over the term of the agreement. The OCC is also continuing to enter into lease agreements with retail tenants to comply with the District of Columbia's requirement to have retail establishments on the plaza level.

The future minimum rental income through FY 2024 and thereafter, not including renewals, is shown in table 17.

Table 17: FY 2018 Future Rental Income (in Thousands)

Year	Amount
2019	$ 13,468
2020	13,733
2021	13,942
2022	14,115
2023	14,347
2024 and beyond	132,105
Total	**$ 201,710**

Note 7—Other Actuarial Liabilities

The OCC's other actuarial liabilities are reported on the Balance Sheets and include the following components.

Table 18: Actuarial Liabilities (in Thousands)

Component	FY 2018	FY 2017
Post-retirement life insurance benefits	$ 72,405	$ 73,101
Federal Employees' Compensation Act	8,673	7,838
Pentegra DB Plan	816	4,800
Total actuarial liabilities	**$ 81,894**	**$ 85,739**

Post-Retirement Life Insurance Benefits

The OCC sponsors a life insurance benefit plan for current and retired employees. The weighted-average discount rate used in determining the post-retirement life insurance benefits, also known as the accumulated post-retirement benefit obligation, was 4.3 percent in FY 2018, as compared with FY 2017, when the rate was 4.0 percent. There were several reasons for the difference, including a change in the discount rate, a new mortality projection scale, and the impact of demographic experience. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan.

Total periodic post-retirement life insurance benefit expenses are recognized as program costs in the Statements of Net Cost. Any gains or losses from changes in long-term assumptions used to measure liabilities for post-retirement life insurance benefits are displayed separately in the Statements of Net Cost, as required.

Table 19 presents a reconciliation of the beginning and ending post-retirement life insurance liability and provides material components of the related expenses.

Table 19: Reconciliation of Beginning and Ending Post-Retirement Liability and the Related Expenses (in Thousands)

Change in actuarial and accrued benefits	FY 2018	FY 2017
Actuarial post-retirement liability, beginning balance	$ 73,101	$ 69,283
Actuarial expense		
Normal cost	1,587	1,545
Interest on the liability balance	2,888	2,727
Actuarial (gain)/loss		
From experience	162	1,553
From assumption changes	(3,234)	(167)
Prior service costs	0	0
Total expense	**1,403**	**5,658**
Less amounts paid	(2,099)	(1,840)
Actuarial post-retirement liability, ending balance	**$ 72,405**	**$ 73,101**

Federal Employees' Compensation Act

The Federal Employees' Compensation Act provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OCC employees covered under the Federal Employees' Compensation Act are administered by the U.S. Department of Labor and billed to the OCC. The FY 2018 present value of these estimated outflows was calculated using a discount rate of 2.72 percent for wage benefits and 2.34 percent for medical benefits. For FY 2017, the discount rates for wage and medical benefits were 2.68 percent and 2.22 percent, respectively.

Pentegra Defined Benefit Plan

The Pentegra DB Plan is a tax-exempt, multiple-employer, defined benefit pension plan in which all costs are paid by the employer into one general account. The OCC does not report Pentegra assets or accumulated plan benefits that may be applicable to its employees in its financial statements; these amounts are reported by Pentegra.

At retirement, employees may either receive a lump sum payment or choose an annuity/lump sum split. The Pentegra DB Plan year begins in July and ends in June.

In FY 2018 and FY 2017, the OCC paid $2.7 million and $16.6 million, and recognized plan expenses of $2.8 million and $17.2 million, respectively. At September 30, 2018 and 2017, the OCC had accrued $0.8 million and $4.8 million, representing the portion of the plan expenses from July to September of each fiscal year that is paid in the following fiscal year. The OCC made the Minimum Required Contribution for the 2018–2019 plan year expenses.

On October 5, 2017, the OCC made an additional pension contribution of $148.3 million to the Pentegra DB Plan to fully fund the plan to a pre-Moving Ahead for Progress in the 21st Century Act level. This payment will enable the OCC to achieve significant savings by lowering or avoiding certain future costs, but it is difficult to quantify these amounts until they actually occur.

Note 8—Net Position

Net position represents the net result of operations since inception and includes cumulative amounts related to investments in capitalized assets held by the OCC. The OCC allocates a portion of its net position as financial reserves for use at the Comptroller's discretion. These funds include a receivership contingency fund of $86.6 million established within the financial reserves in FY 2018 to facilitate the conduct of receiverships of uninsured federal branches or agencies of a foreign banking organization. The reserves also include $100.0 million for a receivership contingency fund established in FY 2017 to facilitate the conduct of receiverships of uninsured national trust banks. This fund decreases the financial risk of unexpected costs associated with the potential receivership and resolution of an uninsured national trust bank. In addition to both of these, the OCC sets aside funds to cover the cost of ongoing operations, including undelivered orders and capital investments. Table 20 reflects balances for FY 2018 and FY 2017.

Table 20: Net Position Availability (in Thousands)

Component	FY 2018	FY 2017
Financial reserves	$ 1,319,926	$ 1,305,811
Set-aside for ongoing operations	74,461	79,996
Net position	**$ 1,394,387**	**$ 1,385,807**

Note 9—Net Cost of Operations

The net cost of operations represents the OCC's operating costs deducted from assessments and fees paid by banks and other income earned. The operating costs include the gain or loss from actuarial experience and assumption changes per the guidance in SFFAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses From Changes in Assumptions and Selecting Discount Rates and Valuation Dates." The imputed financing sources for net cost of operations are reported in the Statements of Changes in Net Position; in Note 10, "Imputed Costs and Financing Sources"; and in Note 11, "Reconciliation of Net Cost of Operations to Budget." Table 21 illustrates the OCC's operating expense categories for FY 2018 and FY 2017.

Table 21: Net Cost (Excess of Revenues Over Cost) of Operations by Expense Category (in Thousands)

Component	FY 2018	FY 2017
Personnel compensation and benefits	$ 933,608	$ 796,916
Contractual services	119,663	126,512
Rent, communication, and utilities	88,777	81,322
Travel and transportation of persons and things	56,119	57,887
Imputed costs (Note 10)	39,523	24,867
Depreciation	17,732	24,460
Other	22,896	24,193
Total cost of operations	**1,278,318**	**1,136,157**
Less earned revenues not attributed to programs	(1,247,375)	(1,205,254)
Total	**$ 30,943**	**$ (69,097)**

Note 10—Imputed Costs and Financing Sources

In accordance with SFFAS No. 5, federal agencies must recognize the portions of employees' pension and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for other agencies. Annually, the OPM provides federal agencies with cost factors for computing current year imputed costs. These cost factors are multiplied by the current year salary or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency.

The imputed cost categories for FY 2018 and FY 2017 are listed in the table below. These imputed costs are included on the Statements of Net Cost. The financing sources absorbed by the OPM are reflected in the Statements of Changes in Net Position and in Note 11, "Reconciliation of Net Cost of Operations to Budget." The year-to-year change in imputed cost is related to increases in OPM cost factors for Retirement and Federal Employees Health Benefits.

Table 22: Imputed Costs Absorbed by the OPM (in Thousands)

Component	FY 2018	FY 2017
Retirement	$ 13,272	$ 6,049
Federal Employees Health Benefits	26,194	18,764
Federal Employees' Group Life Insurance	57	54
Total	**$ 39,523**	**$ 24,867**

Note 11—Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations.

For FY 2018, the reconciliation shows total resources used exceeding offsetting collections by $8.3 million. This is a net decrease of $93.4 million from FY 2017, when offsetting collections exceeded resources used by $85.1 million. The year-over-year change resulted primarily from a $125.4 million increase in obligations incurred.

OFFICE OF THE COMPTROLLER OF THE CURRENCY
RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(IN THOUSANDS)

		FY 2018		FY 2017
Resources used to finance activities				
Budgetary resources obligated				
Obligations incurred	$	1,235,704	$	1,110,256
Less: Spending authority from offsetting collections		(1,266,911)		(1,220,222)
Net obligations		(31,207)		(109,996)
Other resources				
Imputed financing sources (Note 10)		39,523		24,867
Total resources used to finance activities	**$**	**8,316**	**$**	**(85,099)**
Resources used to finance items not part of the net cost of operations				
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	$	(707)	$	(10,150)
Resources that finance the acquisition of assets		(1,679)		(8,974)
Total resources used to finance items not part of the net cost of operations		(2,386)		(19,124)
Total resources used to finance the net cost of operations	**$**	**5,930**	**$**	**(104,223)**
Components of the net cost of operations that will not require or generate resources in the current period				
Components requiring or generating resources in future periods				
Change in deferred revenue	$	7,280	$	10,078
Increase in exchange revenue receivable from the public		(98)		103
Total components that will require or generate resources in future periods		7,182		10,181
Components not requiring or generating resources				
Depreciation and amortization		17,732		24,460
Net increase (decrease) in bond premium		99		485
Other		0		0
Total components that will not require or generate resources		17,831		24,945
Total components of the net cost of operations that will not require or generate resources in the current period	**$**	**25,013**	**$**	**35,126**
Net cost (excess of revenues over cost) of operations	**$**	**30,943**	**$**	**(69,097)**

Note 12—Contingent Liabilities

The OCC recognizes and discloses contingencies in accordance with SFFAS No. 12. The OCC is party to various administrative proceedings, legal actions, and claims brought against the agency, including threatened or pending litigation involving federal employment claims, some of which may ultimately result in settlements or decisions against the federal government.

As of September 30, 2018, there was one contingency for litigation involving the OCC. Because the risk of loss is probable and the amount is estimable, the OCC recorded a liability of $545,000, which includes back pay plus interest, and legal fees. In FY 2017, the OCC neither identified nor recognized any contingent liabilities.

Note 13—Undelivered Orders at the End of the Period

Undelivered Orders represent the amount of goods and/or services ordered to perform the OCC's mission objectives, but which have not been received.

Pursuant to OMB Circular A-136, issued in July 2018, the detailed information in table 23 is new and is only required for FY 2018. The total amount of undelivered orders unpaid at September 30, 2017 was $83,145 thousand.

Table 23: Undelivered Orders at the End of the Period (in Thousands)

	FY 2018
Undelivered Orders Paid at the end of the period:	
Federal	$ 532
Non-federal	28
Total Undelivered Orders Paid at the end of the period	$ 560
Undelivered Orders Unpaid at the end of the period:	
Federal	$ 6,366
Non-federal	66,548
Total Undelivered Orders Unpaid at the end of the period	$ 72,914
Total	**$ 73,474**

Note 14—Custodial Revenues

The OCC assesses fines and penalties against people or banks for violations of law, regulation, and orders; unsafe or unsound practices; and breaches of fiduciary duty. These amounts typically are collected in the same year that the OCC assesses them, and are recognized as cash collected that will be transferred to the General Fund of the U.S. Treasury. The change in FY 2018 is due to a significant increase in penalties assessed against regulated institutions.

Table 24: Custodial Revenue (in Thousands)

	Tax year				2018 collections
	2018	2017	2016	Pre-2016	
Fines and Penalties, Non-tax Related	$ 747,801	$ 78	$ 0	$ 31	$ 747,910

	Tax Year				2017 collections
	2017	2016	2015	Pre-2015	
Fines and Penalties, Non-tax Related	$ 51,802	$ 94	$ 8	$ 40	$ 51,944

WILLIAMS ADLEY

Independent Auditor's Report

Comptroller of the Currency
Office of the Comptroller of the Currency

Inspector General
Department of the Treasury

In our audits of the fiscal years 2018 and 2017 financial statements of the Office of the Comptroller of the Currency (OCC), we found:

- the OCC's financial statements as of and for the fiscal years ended September 30, 2018, and 2017, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed;[1] and
- no reportable noncompliance for fiscal year 2018 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes an emphasis of matter paragraph related to the new Statement of Budgetary Resources presentation, and required supplementary information (RSI)[2] and other information included with the financial statements;[3] (2) our report on internal control over financial reporting; and (3) our report on compliance with laws, regulations, contracts, and grant agreements.

Report on the Financial Statements

In accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*, we have audited the OCC's financial statements. The OCC's financial statements comprise the balance sheets as of September 30, 2018, and 2017; the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended; and the related notes to the financial statements.

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

The OCC management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted government auditing standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment,

[1] A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

[2] The RSI consists of the OCC's Management's Discussion and Analysis, inclusive of the OCC's Financial Summary following the Message from the Chief Financial Officer, which precedes the OCC's Financial Statements.

[3] Other information consists of the OCC's Message from the Chief Financial Officer (page 32), the OCC's Improper Payments Elimination and Recovery Improvement Act Report (page 56), and the OCC's Assurance of Achievement of Management Control Objective Letter (page 57).

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including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, the OCC's financial statements present fairly, in all material respects, OCC's financial position as of September 30, 2018, and 2017, and its net cost of operations, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As described in note 1, *Basis of Accounting and Presentation*, to the financial statements, OMB Circular A-136, *Financial Reporting Requirements*, required federal agencies in fiscal year 2018 to present its budgetary information in a format different than that used in fiscal year 2017. We draw attention to the newly presented information in the OCC's fiscal years 2018 and 2017 Statement of Budgetary Resources and related note 13. Our opinion on the OCC's financial statements is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

The OCC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on the OCC's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control over Financial Reporting

In connection with our audits of the OCC's financial statements, we considered the OCC's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to the OCC's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

The OCC management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

In planning and performing our audit of the OCC's financial statements as of and for the year ended September 30, 2018, in accordance with U.S. generally accepted government auditing standards, we considered the OCC's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OCC's internal control over financial reporting. Accordingly, we do not express an opinion on the OCC's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies[4] or

[4] A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses and significant deficiencies or to express an opinion on the effectiveness of the OCC's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses. However, significant deficiencies or material weaknesses may exist that have not been identified.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of the OCC's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the OCC's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of the OCC's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

The OCC management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the OCC.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to the OCC that have a direct effect on the determination of material amounts and disclosures in the OCC's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the OCC.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2018 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the OCC. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Williams, Adley & Company-DC, LLP

Washington, D.C.
October 31, 2018

Improper Payments Elimination and Recovery Improvement Act

The Improper Payments Elimination and Recovery Improvement Act (IPERIA) requires federal agencies to review all programs and activities annually and identify those that may be susceptible to significant improper payments. For programs and activities in which the risk of improper payments is determined to be significant, agencies are required to estimate the amount of improper payments made in those programs and activities, and meet specific reporting requirements.

IPERIA Risk Assessment

Each year, the Treasury Department provides the OCC with guidance, in accordance with OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management," appendix C, to complete an annual risk assessment of programs and activities to identify those susceptible to significant improper payments. In FY 2018, the OCC performed a risk assessment on the following five programs:

- Federal employee payments, including payroll
- Entitlements and benefits other than payroll
- Travel card
- Contract payments and/or invoices
- Purchase card

These five programs are reported in the three more general categories of "salary and benefits," "travel payments," and "vendor payments." The results of the agency's risk assessment indicate that none of the OCC's programs or activities are susceptible to significant improper payments at or above thresholds established by the OMB and that, therefore, the OCC is not required to determine a statistically valid estimate of improper payments, perform additional reporting on corrective actions or root causes, or provide corrective actions.

Analysis of Improper Payments

The OCC analyzed payments made during FY 2018 in the general categories of salary and benefit payments, travel payments, and vendor payments, and identified 146 improper payments in the fiscal year requiring adjustments totaling $96,995. As of September 30, 2018, the agency recaptured 82 percent of these payments, totaling $79,971. During FY 2018, the OCC collected 97.7 percent of travel and vendor payments; salary and benefits amounts are considered fully collectible.

Improper payments are identified through pre- and post-payment audits, recurring quality control reviews, and other controls, such as vendor reviews before contract award, Treasury pay file reviews, Do Not Pay (DNP) continuous monitoring efforts, and other recapture auditing. The OCC ensures that effective controls are in place to limit payments to ineligible vendors and to meet the DNP requirements of IPERIA.

The OCC monitors improper payments to increase the likelihood of prompt recovery. The underlying causes and contributing factors are identified quickly, and control measures are implemented to prevent additional improper payments.

Table 25 summarizes the OCC's erroneous payments for FY 2018 and FY 2017.

Table 25: Erroneous Payments

Payment Type	FY 2018			FY 2017		
	Amount		Number	Amount		Number
Salary and benefits	$	33,686	44	$	69,264	52
Travel		37,393	99		24,235	86
Vendor		25,915	3		26,618	9
Total	$	96,995	146	$	120,117	147

Source: OCC Financial system data.

To: Steven T. Mnuchin
Secretary of the Treasury

From: Joseph M. Otting
Comptroller of the Currency

Date: November 2, 2018

Subject: FY 2018 Final Statement of Unmodified Assurance of Achievement of Management Control Objectives

Assurance Statement

The Office of the Comptroller of the Currency (OCC) is responsible for managing risks and maintaining effective internal control to meet the objectives of section 2 and section 4 of the Federal Managers' Financial Integrity Act (FMFIA), as well as implementing the requirements of the Federal Financial Management Improvement Act (FFMIA). The implementation guidelines related to these acts are included in the internal control requirements of the Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. The objectives of OMB Circular A-123, including its appendices, are to ensure (1) alignment of strategic goals with the agency's mission, (2) effective and efficient operations, (3) reliable financial reporting, and (4) compliance with applicable laws and regulations.

The OCC conducted our assessment of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A, Management of Reporting and Data Integrity Risk. Based on the results of this assessment, the OCC provides reasonable assurance that the internal controls over financial reporting as of June 30, 2018, were operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

In addition, the OCC conducted an assessment of its financial management systems in accordance with OMB Circular A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996. Based on the results of this assessment, the OCC provides assurance that our financial management systems substantially complied with FFMIA as of September 30, 2018.

The OCC's executives and managers were responsible for implementing management practices that identify, assess, respond to, and report on risks. Risk management practices were taken into account when designing internal controls and assessing their effectiveness. The OCC conducted our assessment of risk and internal controls in accordance with OMB Circular A-123. Based on the results of this assessment, we provide reasonable assurance that the internal controls over strategic, operational, non-financial reporting, and compliance objectives were operating effectively as of September 30, 2018.

As part of the evaluation process, the OCC considered results of extensive testing and assessment across the organization and independent audits.

Abbreviations

AML	anti-money laundering
AMLEG	AML/Combating the Financing of Terrorism Expert Group
ANPR	advance notice of proposed rulemaking
ASC	Accounting Standards Codification
BCFP	Bureau of Consumer Financial Protection
BSA/AML	Bank Secrecy Act/anti-money laundering
CBS	Committee on Bank Supervision
CMP	civil money penalty
CRA	Community Reinvestment Act
CSRS	Civil Service Retirement System
DB	defined benefit
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FERS	Federal Employees Retirement System
FSA	federal savings association
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FinCEN	Financial Crimes Enforcement Network
fintech	financial technology
FY	fiscal year
GAAP	generally accepted accounting principles
HMDA	Home Mortgage Disclosure Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
LBS	Large Bank Supervision
MCBS	Midsize and Community Bank Supervision
MDI	minority depository institution
MRA	matters requiring attention
NRC	National Risk Committee
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OMB	Office of Management and Budget
OPM	U.S. Office of Personnel Management
OTS	Office of Thrift Supervision
PP&E	property, plant, and equipment
RSI	required supplementary information
SBR	Statement of Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standards
SSPP	single supervisory platform project
TSP	Thrift Savings Plan
USC	U.S. Code

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