Audit Report

OIG-24-013

FINANCIAL MANAGEMENT

Audit of the Office of the Comptroller of the Currency's Financial Statements for Fiscal Years 2023 and 2022

December 8, 2023

Office of Inspector General
Department of the Treasury

This Page Intentionally Left Blank

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D. C. 20220

December 8, 2023

MEMORANDUM FOR MICHAEL J. HSU
ACTING COMPTROLLER OF THE CURRENCY

FROM: Ade Bankole /s/
Director, Financial Statement Audits

SUBJECT: Audit of the Office of the Comptroller of the Currency's Financial Statements for Fiscal Years 2023 and 2022

We hereby transmit the attached subject report. Under a contract monitored by our office, GKA, P.C. (GKA), a certified independent public accounting firm, audited the financial statements of the Office of the Comptroller of the Currency (OCC) as of September 30, 2023 and for the year then ended. OCC's financial statements as of September 30, 2022 were audited by other auditors. 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. 24-01, *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, GKA 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.

GKA also issued a management letter dated October 31, 2023, discussing deficiencies in internal control over financial reporting that were identified during the audit but were not required to be included in the auditors' report. These matters involved information system controls. This letter will be transmitted separately.

In connection with the contract, we reviewed GKA'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.

GKA is responsible for the attached auditors' reports dated October 31, 2023, and the conclusions expressed in the report. However, our review disclosed no instances where GKA did not comply, in all material respects, with U.S. generally accepted government auditing standards.

If you wish to discuss this report, please contact me at (202) 927-5329, or a member of your staff may contact Shiela Michel, Manager, Financial Statement Audits, at (202) 486-1415.

Attachment

Office of the Comptroller of the Currency

2023 ANNUAL REPORT

160 YEARS OF SAFEGUARDING TRUST IN BANKING

ABOUT THIS REPORT

The fiscal year (FY) 2023 Annual Report provides Congress with an overview of the condition of the federal banking system,[1] discusses the OCC's strategic priorities and initiatives, and shares the agency's financial management and condition.

1 Unless otherwise noted, all references to 2023 in this report refer to the FY ending September 30, 2023.

CONTENTS

ABOUT THE OCC

The Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises national banks and federal savings associations (FSA) and licenses, regulates, and supervises federal branches and agencies of foreign banking organizations.[2] The agency also examines banking-related services provided by certain third parties.[3] It administers the organization and structure of the federal banking system by implementing and enforcing federal banking laws. The OCC maintains a supervisory and regulatory framework for banks that contributes to the safety, soundness, and fairness of the federal banking system and supports banks' efforts to innovate responsibly and adapt to meet the evolving financial needs of consumers, businesses, and communities nationwide. The OCC uses a risk-based supervision process focused on evaluating banks' risk management, identifying material and emerging concerns, and requiring banks to take corrective action when warranted. Headquartered in Washington, D.C., the OCC has offices in 51 cities nationwide.

President Abraham Lincoln signed the National Currency Act 160 years ago on February 25, 1863, creating the OCC and the federal banking system. The law was revised in June 1864 and renamed the National Bank Act in 1874. 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 International Banking Act of 1978's passage, foreign banking organizations could opt to conduct banking operations in the United States through a federal branch or agency.

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 member of the Financial Stability Oversight Council (FSOC), the Federal Financial Institutions Examination Council (FFIEC), and the Financial Literacy and Education Commission.

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

3 The OCC examines certain third-party services provided to banks based on authorities provided by the Bank Service Company Act, 12 USC 1867(c), and the Home Owners' Loan Act, 12 USC 1464(d)(7)(D). The examinations are often coordinated with other federal banking agencies.

OUR 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.

OUR VISION

The OCC is the leading 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.

OUR VALUES

The OCC adheres to four key tenets in carrying out its mission and vision:

INTEGRITY: Firm adherence to a code or standard. We do the right thing, conducting ourselves in accordance with the law, policies, and the highest ethical standards.

EXPERTISE: Mastery in one's field; unique or specialized knowledge or skill. We continuously enhance our leadership and technical skills and experience, act on careful analysis, and apply our knowledge and capabilities to achieve the agency's mission.

COLLABORATION: Working together to achieve a common goal. We include diverse stakeholders in our decision-making, seek alternative perspectives, and excel in a team environment.

INDEPENDENCE: Freedom from undue influence or control of others. We exercise our own judgment in a manner consistent with the agency's mission and vision.

OCC AT A GLANCE

$1.194 BILLION
Budget authority

95%
percentage of revenue from assessments

51
Cities with offices

3,509
OCC EMPLOYEES

63.8%
OF EMPLOYEES ARE BANK EXAMINERS

PERCENTAGE OF BANK EXAMINERS ASSIGNED TO

56.4%
Midsize and Community Bank Supervision

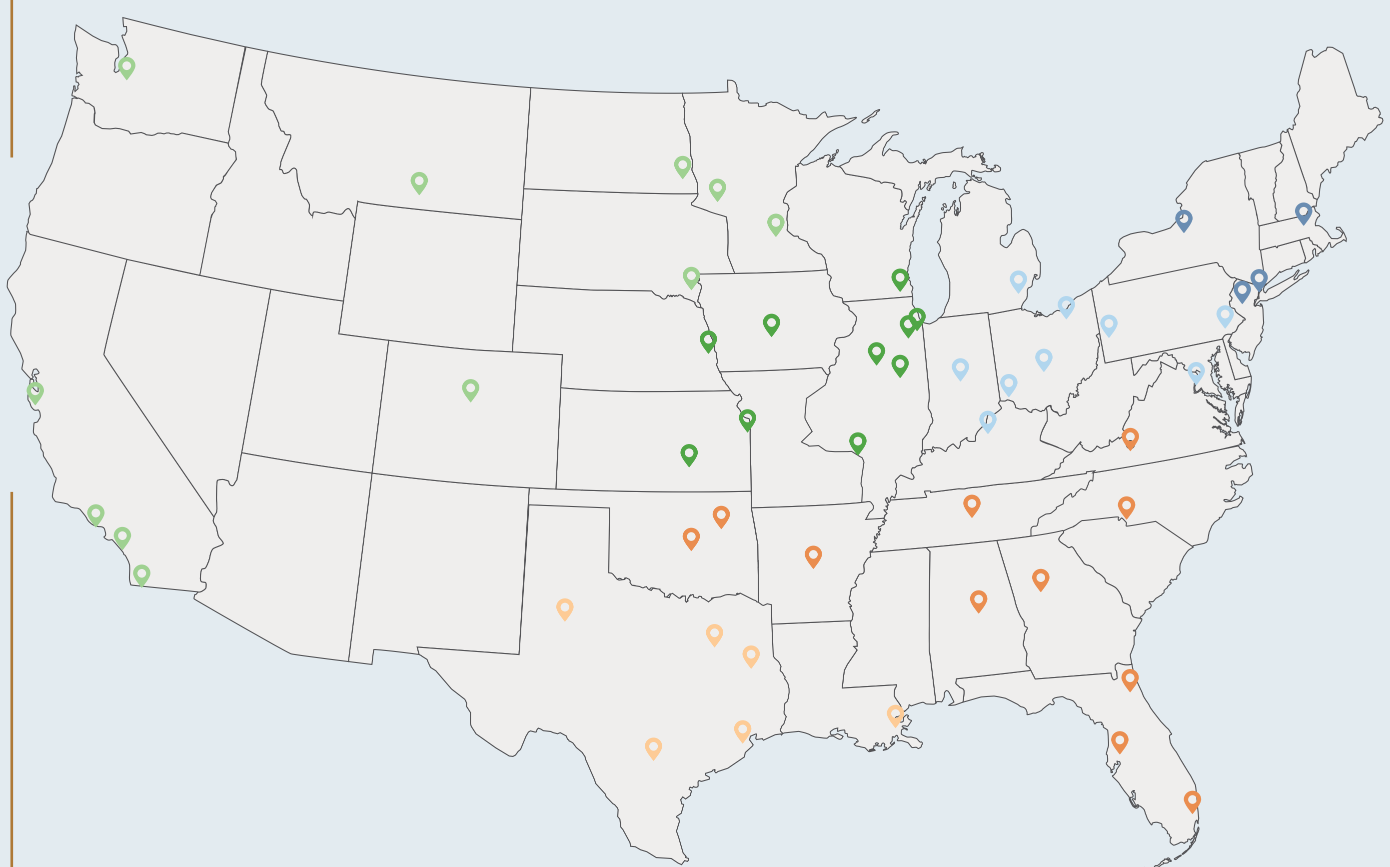
31.0%
Large Bank Supervision

12.6%
Other lines of business

Note: Employee data as of June 30, 2023

LOCATIONS

Headquartered in Washington, D.C., the OCC has offices nationwide.



REGIONS

WEST MIDWEST SOUTH SOUTHEAST EAST NORTHEAST

COMPTROLLER'S VIEWPOINT

Acting Comptroller of the Currency Michael J. Hsu spoke at the OCC's 160th Anniversary town hall for employees and OCC alumni March 2, 2023.

February 25, 2023, marked the 160th anniversary of the National Currency Act and the creation of the OCC. Charged with organizing and administering a system of nationally chartered banks and a uniform national currency, the OCC has steadfastly served the American public. The OCC's mission – ensuring that national banks and FSAs operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations – fosters trust in banking and in the OCC. Looking back over the OCC's long history, the outsized importance that public trust plays in maintaining a thriving and stable banking system is apparent.

Since 1863, safeguarding public trust has been central to the OCC's mission. Trust cannot be engineered, manufactured, or bought. Trust must be earned, carefully maintained, and vigorously protected. My four key priorities – guarding against complacency, reducing inequality, adapting to digitalization, and acting on climate-related financial risks – focus the OCC's efforts to maintain the public's trust in banking and banks' trust in the OCC.

To understand, measure, and track the public's trust in banks and banking supervision over time, in June the OCC published a request for information to gather input on a proposed new annual survey.[4] By conducting an annual survey on trust in banking, my hope is that banks, regulators, and community organizations will be better able to hold each other accountable for safeguarding trust in banks and the banking system. This proposed survey supports the

4 See OCC Bulletin 2023-19, "Bank Management: Request for Information on Proposed Annual Consumer Trust in Banking Survey."

OCC's strategic plan goal to focus on credibility and trust.[5] The survey's aim is to establish a rich set of data points capturing trends in and drivers of consumers' trust in banking that could inform policymaking, supervision, community advocacy priorities, and bank products and services.[6]

A liquidity crisis and market stresses early in calendar year 2023 threatened public trust in the banking system. While OCC-supervised banks remained a source of strength for the U.S. economy and no OCC-supervised banks failed, bankers and regulators alike must guard against complacency and sustain focus on safety and soundness principles.

Acting Comptroller Hsu spoke on the OCC's efforts to promote and safeguard trust in banking at the Woodstock Institute's 50th anniversary celebration in Chicago on June 8, 2023. In his remarks, he discussed the gap in research and data on consumer trust in banking and bank supervision.

Acting Comptroller Hsu testified on bank supervision before the U.S. Senate Committee on Banking, Housing, and Urban Affairs on May 18, 2023. During his testimony, he shared observations about the bank failures in the spring and the federal banking system's resiliency.

Based on my perspective as Acting Comptroller and 20 years of experience as a financial regulator, I made four observations about actions that could be taken to restore full confidence and trust in the banking system: (1) bank supervisors need support to act in a timely and effective manner, (2) regulations regarding the resilience and resolvability of large banks need to be strengthened, (3) deposit insurance coverage should be updated, and (4) the diversity of the banking system must be preserved as the industry evolves.[7]

5 See Office of the Comptroller of the Currency Strategic Plan for Fiscal Years 2023–2027.

6 See OCC News Release 2023-57, "Acting Comptroller Discusses Trust and Banking."

7 See OCC News Release 2023-45, "Acting Comptroller of the Currency Testifies on Bank Supervision."

GUARDING AGAINST COMPLACENCY

Guarding against complacency is essential to building and maintaining trust in the banking system. The spring 2023 market disruption demonstrated the effects that stress at a few regional banking organizations could have on the stability, confidence, and trust in the banking system. The period of financial stress serves as a timely reminder of the need to increase the overall resilience of the banking system. In July, the bank regulators invited public comment on a proposal that would implement the final components of the Basel III agreement.[8] While the events of last spring may be attributed to a variety of factors, the effect on financial stability supports further alignment of the regulatory capital framework across all large banking organizations with $100 billion or more of assets.

It is important that bank management correct weaknesses in a timely manner to maintain public trust. In alignment with our mission, we updated the OCC's *Policies and Procedures Manual* for bank enforcement actions to address consideration of actions against large banks that exhibit or fail to correct persistent weaknesses.[9] The revised policies and procedures promote effective risk management by making clear that bank management's failure to correct persistent weaknesses in response to prior enforcement actions or other measures will result in proportionate, fair, and appropriate consequences, including growth restrictions and divestitures when warranted. These guardrails are especially important today as banks choose to grow to better serve their customers, improve their competitiveness, and achieve economies of scale. As banks become more complex and larger, risk management functions must remain commensurate.

Additionally, in January, the OCC's revised civil money penalty (CMP) manual became effective. Revisions discourage complacency by allowing for sufficient differentiation among varying types of misconduct or by institution size. We also updated the mitigating factors to provide a stronger incentive for banks to fully address underlying deficiencies. The revised

8 See OCC Bulletin 2023-24, "Regulatory Capital: Notice of Proposed Rulemaking to Revise Requirements for Large Banking Organizations and Banking Organizations With Significant Trading Activity."

9 See OCC Bulletin 2023-16, "OCC Enforcement Actions: Revised Policies and Procedures Manual for Bank Enforcement Actions and Related Matters."

CMP matrix for OCC-supervised institutions further builds and maintains trust by strengthening the effectiveness and fairness of our enforcement actions.[10]

Similarly, regulators cannot become complacent in the critical work that we do. The framework for analyzing bank mergers needs updating. Without enhancements, the risk of mergers that diminish competition, hurt communities, or present systemic risks increases.[11] In February, the OCC hosted a symposium on bank mergers, which included panel discussions among thought leaders, academics, community groups, and the banking industry.[12] The OCC will use information from this symposium and other feedback as our efforts to consider updates to the bank merger framework proceed.

10 See OCC News Release 2022-143, "OCC Revises Civil Money Penalty Manual."

11 See "Acting Comptroller of the Currency Michael J. Hsu, Opening Remarks for the OCC Bank Merger Symposium, February 10, 2023."

12 See OCC News Release 2023-15, "OCC Chief Counsel Discusses Bank Mergers."

Risk Environment

It is important that banks and banking regulators be agile in responding to changes in the risk environment to maintain public trust. The OCC's *Semiannual Risk Perspective* (SARP), issued each spring and fall, highlights key risks facing the federal banking system.[13] The SARP communicates our priorities as bank supervisors and key risks that the OCC expects bankers to be attentive to and prudently manage.[14]

Banks' relationships with third parties, including financial technology (fintech) companies, continue to expand. The use of third parties has significant potential benefits, but poor risk management may result in adverse effects that erode public trust. At the Financial Data Exchange Global Summit in April in Raleigh, N.C., I spoke on the evolution of banks enabling consumer-permissioned sharing of financial data with third parties, also known as "open banking," and its potential impact on the OCC's supervision. A wide range of entities engage in banking activities to some degree, and banks rely significantly on nonbanks to operate. Open banking is evidence of this trend; this decoupling of banks and banking, however, raises a host of questions for banks and supervisors regarding regulation, competition, and culture.[15]

To provide guidance to banks with their risk management of third parties, the OCC, the Board of Governors of the Federal Reserve System, and the FDIC jointly issued "Interagency Guidance on Third-Party Relationships: Risk Management."[16] This document confirms banks' responsibility to operate in a safe and sound manner and in compliance with applicable laws and regulations regardless of whether bank activities are performed in-house or outsourced. The guidance also recognizes that not all third-party relationships reflect the same level of risk and therefore not all require the same level of risk management. The principles set forth in the guidance support effective risk management for all types of third-party relationships.

Bank regulators and bankers must remain agile and consider emerging risks. To that end, and to support the OCC's strategic goal to lead on supervision as the banking system evolves, we have actively pursued opportunities to engage with various stakeholders to discuss emerging risks. The OCC solicited academic research papers on emerging risks in the banking system and related policy and supervisory issues, and the agency hosted authors to present their

13 See OCC News Release 2023-60, "OCC Report Identifies Key Risks Facing Federal Banking System."

14 See OCC News Release 2023-61, "Acting Comptroller Issues Statement on Key Risks Facing Federal Banking System."

15 See OCC News Release 2023-38, "Acting Comptroller Discusses Open Banking."

16 See OCC News Release 2023-53, "Agencies Issue Final Guidance on Third-Party Risk Management."

Attendees of the South East Asian Central Banks' High-Level Seminar and Meeting of Deputy Governors of Financial Stability, Supervision, and Payments met August 23-24, 2023, to discuss issues relating to financial stability, innovations, and emerging risks. Acting Comptroller Hsu is in the front row, sixth from left. Senior Deputy Comptroller and Chief of Staff Lauren Oppenheimer is in the third row, second from left.

research to OCC staff in June.[17] In August, I spoke at the South East Asian Central Banks' High-Level Seminar and Meeting of Deputy Governors of Financial Stability, Supervision, and Payments in Malaysia. This annual event brought together senior regulators and central bankers to discuss issues relating to financial stability, innovations, and emerging risks. The discussion addressed nonbank financial intermediaries, digitalization and digital money, cybersecurity, climate-related financial risks and sustainable finance, as well as other emerging risk topics.

Other Actions Taken to Guard Against Complacency

The OCC took additional actions to guard against complacency by issuing policy statements and updating examination manuals this year.

In 2023 businesses continued to navigate the shift from in-person to remote work. Additionally, economic headwinds continued to pressure both consumers and businesses. In response to the resulting increasing risk in commercial real estate (CRE), the OCC, Federal Reserve Board, the FDIC, and the National Credit Union Administration (NCUA), in consultation with state bank and credit union regulators, published the "Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts."[18] The statement replaces the 2009 interagency guidance on CRE loan workouts and reflects the OCC's commitment to build trust by collaborating with other agencies to ensure consistent supervision and to provide timely guidance that reflects current best practices.

The OCC issued guidance on addressing the risks associated with overdraft protection programs, which include certain practices that may present heightened risk of violating prohibitions against unfair or deceptive acts or practices.[19] When supported by appropriate risk management practices, overdraft protection programs may assist some consumers in meeting short-term liquidity and cash-flow needs.

The FFIEC also updated several sections of the *FFIEC Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual* to reinforce the risk-focused approach to BSA/AML examinations. The updates reflect the OCC's commitment to improving the effectiveness of the BSA/AML regime and reducing burdens on banks.[20]

REDUCING INEQUALITY IN BANKING

Another area essential to building and maintaining trust in the banking system is reducing inequality in banking. Equity and fairness are preconditions for trust. Ensuring that financial services are offered responsibly and fairly takes continual effort and vigilance by banks, regulators, community advocates, and other stakeholders. Public trust in banks can enable a virtuous cycle between banks and the communities they serve.

At the November 2022 Community Reinvestment Act & Fair Lending Colloquium, Senior Deputy Comptroller for Bank Supervision Policy Grovetta Gardineer reinforced the OCC's commitment to elevating

17 See OCC News Release 2023-10, "OCC Solicits Research on Emerging Risks in the Banking System."

18 See OCC Bulletin 2023-23, "Credit Administration: Final Interagency Policy Statement on Prudent Commercial Real Estate Loan accommodations and Workouts."

19 See OCC Bulletin 2023-12, "Overdraft Protection Programs: Risk Management Practices."

20 See OCC Bulletin 2023-26, "Bank Secrecy Act/Anti-Money Laundering: updated Sections of the FFIEC BSA/AML Examination Manual."

fairness and ensuring that the federal banking system provides fair access and treats customers fairly. She noted that enforcement of both the Fair Housing Act and the Equal Credit Opportunity Act (ECOA) is critical to address discriminatory lending practices that create and exacerbate racial inequity in the financial system.[21]

The OCC is an active member of the interagency Property Appraisal and Valuation Equity (PAVE) Task Force to address bias in appraising real estate. PAVE is a first-of-its-kind interagency task force dedicated to identifying concrete actions that agencies have committed to take to eliminate bias and advance equity in home appraisals.

To further the discussion on appraisal bias in home valuations, in June the OCC and our interagency counterparts published a request for comment on proposed interagency guidance on reconsiderations of value (ROV) of residential real estate.[22] The proposed interagency guidance highlights the risks of deficient collateral valuations, outlines applicable statutes, regulations, and existing guidance that govern ROVs; explains how ROVs can be incorporated into existing risk management functions; and provides examples of ROV policies and procedures banks may choose to adopt. We will consider the comments as they relate to the utility, relevance, comprehensiveness, and clarity of the proposed guidance.

OCC Attorney Wilson Parker interacted with students while volunteering at the Junior Achievement Finance Park in Landover, Md., April 24, 2023. OCC leadership and staff shared financial literacy insights and lessons while volunteering over two days at the park with middle school students. The Junior Achievement Program provides elementary and middle school students with a curriculum and life skills simulation that helps students build financial literacy skills by exploring topics including income, expenses, savings, and credit.

21 See OCC News Release 2022-136, "Senior Deputy Comptroller Discusses Efforts to Ensure Fair Lending."

22 See OCC Bulletin 2023-18, "Real Estate Appraisals: Notice and Request for Comment on Proposed Interagency Guidance on Reconsiderations of Value of Residential Real Estate."

With our interagency counterparts, the OCC also proposed a rule in June designed to implement quality control standards for automated valuation models (AVM) used by mortgage originators and secondary market issuers in valuing residential real estate.[23] The proposed standards are designed to ensure a high level of confidence in the estimates produced by AVMs, help protect against the manipulation of data, seek to avoid conflicts of interest, require random sample testing and reviews, and promote compliance with applicable nondiscrimination laws.

Supporting Community Banks

The OCC is committed to promoting a vibrant and diverse banking system. This diversity helps the system remain healthy, meet our nation's financial services needs, and be capable of adapting to change and withstanding adversity. A vibrant and diverse system comprises a broad spectrum of institutions, including community banks and minority depository institutions, community development financial institution banks, mutual savings associations, and FSAs. Supporting them is critical to our mission and vision.

The OCC significantly reduced assessments on the smallest banks in 2023.[24] The reduction provided to community banks helps with the cost of supervision compared to state community bank charters and provides community banks with extra capacity to invest in digitalization, compliance, cybersecurity, and personnel. The OCC continues to pursue efficiencies to ensure that the 2023 assessment rates will provide the agency with sufficient resources to recruit, train, and retain the talent and experience necessary to perform its important mission and continue to invest in initiatives that improve the agency's ability to maintain the safety, soundness, and fairness of the federal banking system.

Financial Inclusion

In April, we hosted the second discussion in our Financial Health: Vital Signs initiative. This livestream discussion aimed to explore the importance of assets for financial health.[25] We are committed to promoting financial

23 See OCC Bulletin 2023-21, "Quality Control Standards for Automated Valuation Models: Notice of Proposed Rulemaking."

24 See OCC News Release 2022-145, "OCC Reduces 2023 Assessments on National Banks and Federal Savings Associations."

25 See OCC News Release 2023-48, "Acting Comptroller Discusses Financial Inclusion."

Acting Comptroller Hsu; Leigh Phillips, CEO of SaverLife; and Marietta Rodriguez, President and CEO of NeighborWorks America, discussed the importance of assets for financial health during a livestream event April 14, 2023. This discussion is part of the OCC's Financial Health: Vital Signs series, which was launched in 2022.

health as the core purpose of banking: to help people have financial stability so they can fulfill their regular financial obligations, have resilience to handle adverse circumstances, and have security for their future.

In September, U.S. Department of Housing and Urban Development Secretary Marcia L. Fudge, Consumer Financial Protection Bureau (CFPB) Director Rohit Chopra, and Federal Housing Finance Agency (FHFA) Director Sandra L. Thompson joined me to call attention to the availability of special purpose credit programs (SPCP) to help meet the credit needs of eligible individuals. As creditors consider how they may expand access to credit to better address underserved individuals and communities, our agencies encourage creditors to explore opportunities to develop special purpose credit programs consistent with the ECOA, Regulation B, and safe and sound lending principles.

As we continue to make progress on financial inclusion, it is important to remember that consumers' financial health, as it relates to bank services, extends beyond the ability to open an account or secure a loan. Treating consumers fairly builds trust. The FFIEC's Task Force on Consumer Compliance adopted the revised examination procedures for the Fair Debt Collection Practices Act and its implementing regulation, Regulation F.[26] The revised interagency examination procedures incorporate the CFPB's 2020 and 2021 Fair Debt Collection Final Rules that went into effect November 30, 2021. The revised interagency examination procedures address determinations, prohibitions, and requirements to safeguard consumers.

26 See OCC Bulletin 2022-26, "Fair Debt Collection Practices Act: Revised Interagency Examination Procedures and Rescissions."

Project REACh

Project REACh, which stands for the Roundtable for Economic Access and Change, brings together leaders from the banking industry, national civil rights organizations, business, consumer groups, and technology to reduce specific barriers that prevent full, equal, and fair participation in the nation's economy. The four national workstreams under Project REACh claimed several accomplishments this year.

1. **The Alternative Credit and Financial Access Workstream** brings together stakeholders seeking access to credit for individuals with no credit files. Four participating financial institutions launched Demand Deposit Account Second Chance Loan pilot programs this year.

2. **The Homeownership Workstream** hosted a "matchmaking" session for tribal members of the National American Indian Housing Council at the organization's Legal Symposium.

   The session was designed to encourage partnership between banks and tribes/tribal entities. Tribal representatives presented and solicited financial institution support for lending and investment proposals related to housing and community development projects within tribal areas.

3. **The Minority Depository Institutions (MDI) Revitalization Workstream** launched the MDI Rotational Program where participants embedded employees from larger banks in MDIs for up to a year to share their expertise and help grow specialized business lines. This approach provided a model to strengthen relationships between larger banks and MDIs.

4. **The Small and Minority Business Opportunities Workstream** participants launched a SPCP Resource Hub for small business lenders to increase awareness among the banking industry about SPCPs.[27]

From left, Karima M. Woods, Commissioner of District of Columbia's Department of Insurance, Securities and Banking; Andrew Moss, Director for Minority Outreach at the OCC; Marcia Griffin, Founder and President of HomeFree USA; and Crystal Dully, a Community Relations and Minority Affairs Specialist at the OCC, participate in the Project REACh National Workstream Highlights Panel at the DC REACh Economic Inclusion Forum on June 2, 2023.

27 See American Bankers Association Press Release, "ABA Launches New Webpage Highlighting Programs Designed to Improve Access to Capital for Underserved Small Businesses."

High School Scholars Internship Program

The OCC hosted the fifth year of its High School Scholars Internship Program (HSSIP), a paid summer internship that provides students and graduates of Washington, D.C., high schools with professional experience that gives them insight into the financial services regulatory sector. This program supports the agency's commitment to increasing diversity in our future workforce. This year, 19 high school seniors and four high school graduates participated in HSSIP. The program also supported 13 high school interns who were placed at the FHFA and NCUA. In addition to HSSIP, nine College Apprenticeship Program interns gained valuable professional skills and experience at the OCC.

HSSIP interns (left) talk to William Ross (center right), a Supervisory IT Program Manager, and Sean Frey (right), a Contract Specialist at the OCC about their careers at the OCC during a career fair at the OCC on August 2, 2023.

OCC Employee Diversity and Inclusion

Building a workforce of dedicated employees from varying backgrounds with diverse perspectives helps ensure that the federal banking system remains safe, sound, fair, and a source of economic strength to individuals and communities across the country.

The OCC's nine employee network groups (ENG) provide employees with supportive workplace communities and host events, programs, newsletters, and meetings. The ENGs are a forum to discuss workforce issues, improve the agency's effectiveness, and support our strategic goal of a diverse workforce.

In July, the OCC received the Spotlight Impact Award from Talent Dimensions, a career development and employee engagement firm. Talent Dimensions recognized the OCC for its exemplary efforts in sponsoring career development opportunities and mentoring sessions through its ENGs. The executive sponsors were also applauded for their efforts in promoting the importance of the ENGs' work to OCC employees.

Finally, fostering an environment and culture that strongly promotes a safe, fair, and inclusive workplace is imperative, speaks to the OCC's values, and is fundamental to achieving the agency's mission. With the senior leadership team, I have made clear that harassment, discrimination, misconduct, and retaliation have no place at the OCC.

ADAPTING TO DIGITALIZATION

The digitalization trend, including mobile and application-based banking and blockchain technology, has been underway for some time, but has accelerated in recent years. Digitalization continues to provide exciting new opportunities in the banking system and requires effective adaptation to maintain financial stability and public trust. Successful adaptation involves a move toward comprehensive use of digital technologies to compete and support evolving customer needs and expectations, especially regarding open banking and bank-fintech partnerships.

In October 2022, the OCC announced the intention to establish the Office of Financial Technology[28] (OFT) that would build on and incorporate the Office of Innovation. The OFT, established in April 2023, bolsters the agency's expertise and ability to adapt to the rapid pace of technological changes in the banking industry. The OFT broadens the OCC's focus in this area and ensures the agency's agility to provide high-quality supervision of bank-fintech partnerships. It will further enhance the agency's expertise on financial technology platforms and applications in support of the OCC's mission.

Acting Comptroller Hsu spoke with Hugh Carney, Vice President of Capital Policy for the American Bankers Association, June 16 at the 2023 Risk and Compliance Conference in San Antonio, Texas. Acting Comptroller Hsu discussed the benefits and risks of tokenization and artificial intelligence and how to facilitate responsible innovation in such areas.

Cybersecurity

Protecting customer data and assets from cyberattacks remains a high priority in maintaining public trust. As cyberattacks evolve and banks adopt various standardized tools and frameworks to assess cybersecurity preparedness, the OCC recognizes the

28 See OCC News Release 2022-133, "OCC Announces Office of Financial Technology."

need to update its supervisory approach to cybersecurity assessments. The Cybersecurity Supervision Work Program provides high-level examination objectives and procedures aligned with existing supervisory guidance and the National Institute of Standards and Technology Cybersecurity Framework.[29] The OCC continues to encourage, but does not require, use of standardized approaches to assess and improve cybersecurity preparedness. Banks may choose from a variety of tools and frameworks available.

Digital Assets

The OCC is working with stakeholders to address the risks and opportunities presented by digital assets while working to protect consumers and businesses and ensure the continued stability of the U.S. financial system. The 2022 FSOC *Report on Digital Asset Financial Stability Risks and Regulation* identified the most significant financial stability risks that crypto-assets, activities, and markets may pose to the broader financial system.[30]

The federal banking agencies issued two joint statements reminding banks of supervisory risk management and liquidity expectations regarding crypto-assets and exposures,[31] and I emphasized the importance of financial regulators not lowering their standards.[32]

Tokenization of real-world assets and liabilities, on the other hand, is driven by solving real-world settlement problems and can be developed in a safe and sound manner and fully compliant with anti-money laundering rules. It has the potential to improve settlement efficiency by minimizing lags and reducing the associated frictions, costs, and risks.[33]

Work remains to be done, both by the industry and by the regulators, to ensure that tokenization innovations can be sustained and trusted over time. The newly established Office of Financial Technology will allow the OCC to keep up with developments more easily, to engage banks more actively, to educate examiners and policy staff more effectively, and to collaborate with peer agencies more regularly.

Acting Comptroller Hsu testified before the U.S. House of Representatives' Financial Services Committee on May 16, 2023, where he discussed the OCC's work to advance the agency's four regulatory priorities: guarding against complacency by banks, reducing inequality in banking, adapting to digitalization, and managing climate-related financial risks to the federal banking system.[34]

29 See OCC Bulletin 2023-22, "Cybersecurity: Cybersecurity Supervision Work Program."

30 See OCC News Release 2022-123, "Acting Comptroller of the Currency Issues Statement on FSOC's Report on Digital Asset Financial Stability Risks and Regulation."

31 See OCC News Release 2023-1, "Agencies Issue Joint Statement on Crypto-Asset Risks to Banking Organizations," and OCC News Release 2023-18, "Agencies Issue Joint Statement on Liquidity Risks Resulting from Crypto-Asset Market Vulnerabilities."

32 See OCC News Release 2022-126, "Acting Comptroller Discusses Crypto and the Regulatory Perimeter."

33 See OCC News Release 2023-64, "Acting Comptroller Discusses Tokenization, Artificial Intelligence."

34 See OCC News Release 2023-44, "Acting Comptroller of the Currency Testifies on Prudential Regulation."

ADDRESSING

CLIMATE-RELATED FINANCIAL RISK

Addressing climate-related financial risk is another way of building and maintaining trust in the banking system. The OCC's efforts are directed at banks with $100 billion or more in total consolidated assets.[35] These efforts are firmly rooted in our safety and soundness mandate. The OCC has been working with the FDIC and Federal Reserve on joint principles, which further our common objective of promoting safe and sound climate-related financial risk management practices.[36]

As part of our focus, the OCC is conducting exploratory reviews at banks with $100 billion or more in total consolidated assets to develop a baseline understanding of the banks' climate-related financial risk management. Large bank management is in varying stages of incorporating climate-related financial risks in their strategic planning processes and understanding the effects of these risks on their financial condition and operations over different time horizons.

Conclusion

The OCC's talented workforce and a dedicated executive leadership team is focused on safeguarding trust in the federal banking system and maintaining our mission of ensuring that the federal banking system is safe and sound and treats customers fairly. This focus has driven the OCC for 160 years and will guide the agency for years to come.

MICHAEL J. HSU
Acting Comptroller of the Currency

The OCC hosted a panel of former Comptrollers and former Acting Comptrollers who spoke during a special town hall March 2 highlighting the OCC's 160th anniversary. Speaking at the podium is Senior Deputy Comptroller for Enterprise Governance and Ombudsman and Chief Risk Officer Larry Hattix. Seated from left are Blake Paulson, Brian Brooks, Joseph Otting, Keith Noreika, Julie Williams, Eugene Ludwig, Robert Clarke, and Acting Comptroller Hsu.

35 See OCC News Release 2023-73, "Senior Deputy Comptroller for Large Bank Supervision Testifies on Climate-Related Financial Risks."

36 See OCC News Release 2022-152, "Acting Comptroller Provides Statements at Financial Stability Oversight Council Meeting."

CONDITION OF THE FEDERAL BANKING SYSTEM

The condition of the federal banking system remains sound. The OCC has closely monitored the condition of the institutions it supervises throughout the market stress this spring and has engaged directly with its banks to ensure they are appropriately managing their risks.

Banks are focused on stabilizing liquidity and maintaining confidence in the banking system. Many banks have increased their cash holdings and borrowing capacity to cover potential depositor withdrawals. These moves enhance resiliency, but also could put pressure on bank earnings.

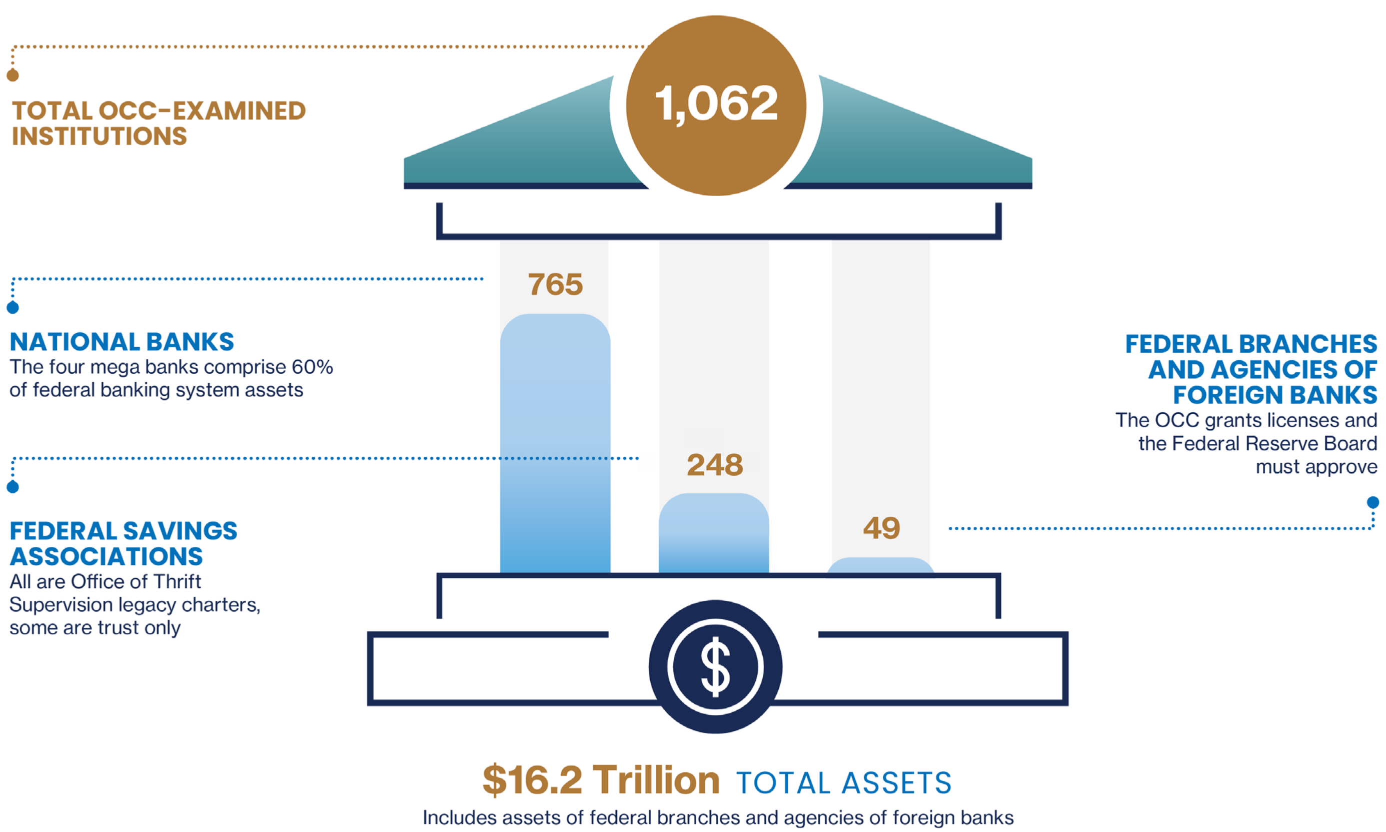
This section highlights the following factors contributing to the federal banking system's condition:

- COMPOSITION
- CAPITAL AND LIQUIDITY
- FINANCIAL PERFORMANCE
- LOAN PERFORMANCE

COMPOSITION

As of September 30, 2023, the federal banking system comprises 1,062 banks and federal branches operating in the United States. These banks range from small community banks[37] to the largest, most globally active U.S. banks. Of these banks, 753 have less than $1 billion in assets, while 55 have more than $10 billion. In total, the banks within the federal banking system hold $15.4 trillion of all assets of U.S. banks (66 percent of the total assets held by all U.S. banks). The federal banking system holds more than 73 percent of credit card balances in the country. Through these products and services, most American families have one or more relationship with an OCC-supervised bank.

Figure 1: Federal Banking System at a Glance



Source: OCC
Data as of September 30, 2023

37 For the 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.

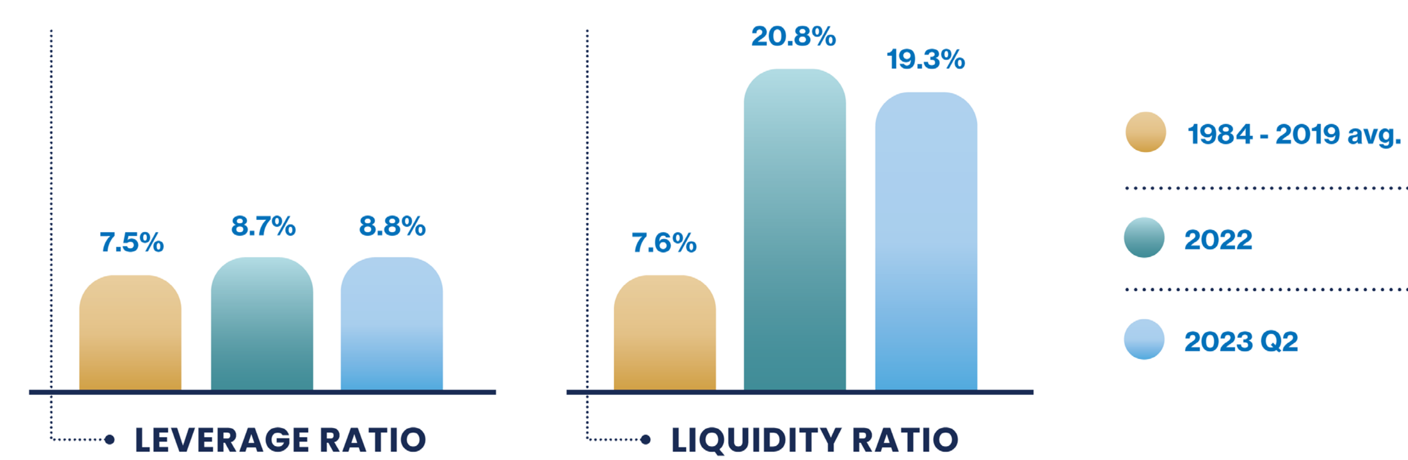
CAPITAL AND LIQUIDITY

Despite higher interest rates and disruptions to the financial system from the failure of three banks this spring, the economy remained resilient through the first half of 2023.[38]

The federal banking system's liquidity ratio stood at 19.3 percent of assets in the first half of 2023, a slight decline from 2022's liquidity ratio of 20.8 percent, but well above the pre-pandemic long-term average of 7.6 percent from 1984 to 2019. Liquidity[39] in the system was sound before the pandemic thanks to policy developments and stronger risk management following the global financial crisis. During the pandemic, due to an influx of deposits from unprecedented fiscal and monetary stimulus, cash balances increased by over a trillion dollars by year-end 2021, and the share of liquid assets peaked at almost 25 percent. Although the share of liquid assets declined in the first half of 2023, due to the continued normalization in the Federal Reserve's monetary policy, it remains very high, as shown in figure 2.

In addition to ample liquidity, the federal banking system remained well capitalized in the first half of 2023. The tier 1 leverage ratio stood at 8.8 percent in the first half of 2023, gradually increasing for the third consecutive year and steadily returning to its pre-pandemic high of 9.4 percent in 2018. The tier 1 leverage ratio had increased over the past decade due to both higher capital levels and enhanced supervisory expectations.

Figure 2: Capital and Liquidity



Source: OCC

38 See FDIC "Bank Failures in Brief—2023."

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

FINANCIAL PERFORMANCE

System profitability remained healthy through the first half of 2023, supported by net interest margins. Profitability as measured by return on assets (ROA) stood at 1.3 percent in the first half of 2023, an 18 basis points increase from 2022. Profitability is above its long-term average of 0.89 percent, and excluding downturns, ROA is consistent with periods of economic expansion. See figure 3 for OCC-supervised bank profitability.

Figure 3: Bank Profitability

Source: OCC

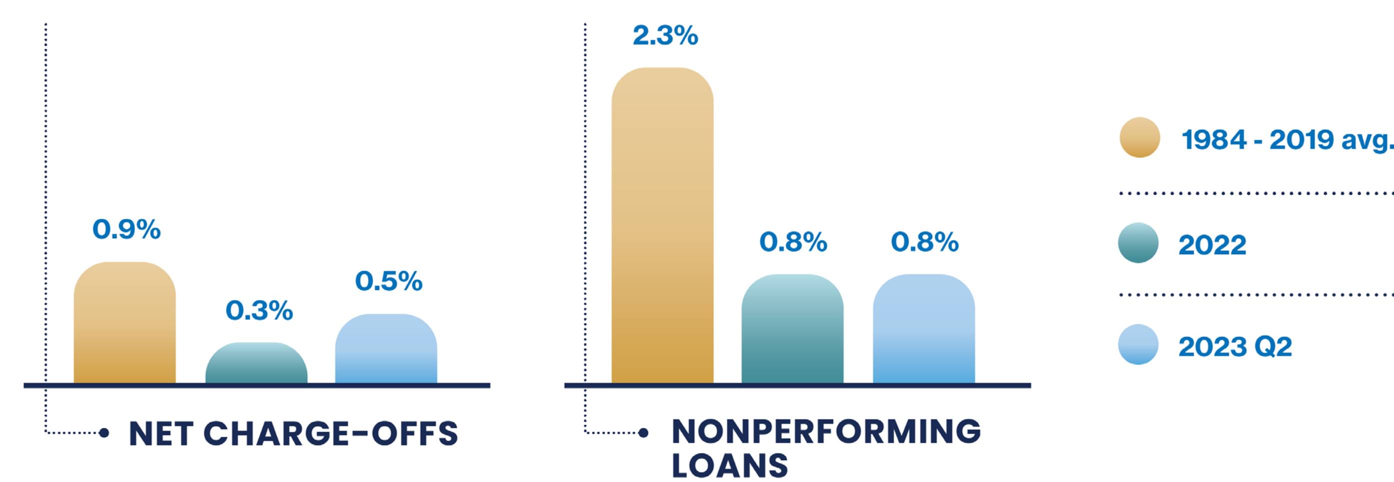
Profitability in the first half of 2023 has been driven primarily by net interest income and, more specifically, by larger banks in the system, as they have benefited more from the high-yielding credit card market. Pressure on interest margins, however, is expected to intensify going forward as banks increasingly rely on more costly sources of funding, and inflation and interest rates are expected to remain elevated through at least the end of 2023, according to the Blue Chip consensus.[40]

Noninterest income also continued to increase in 2023 but to a much lesser extent. Over the last 12 months, noninterest income rose modestly for the system. For banks with assets less than $10 billion, noninterest income declined by 5.8 percent. Gains in revenues were partially offset by rising provisions as banks continued to incorporate the ongoing uncertainty of future credit conditions.

The outlook for profitability for the remainder of 2023 is dependent on the Federal Reserve's ability to slow inflation to its long-run target of 2.0 percent without tipping the economy into recession, while banks manage slowing loan demand and face higher funding costs.

LOAN PERFORMANCE

Figure 4: Credit Quality



Source: OCC

40 Blue Chip consensus refers collectively to forecasts and economic indicators from the *Blue Chip Financial Forecasts* and *Blue Chip Economic Indicators* September 2023 publications.

Credit quality ratios inched up slightly in the first half of 2023 for the federal banking system, although they remain below their long-term average as shown in figure 4. The rate of nonperforming loans was 0.8 percent in the first half of 2023, unchanged from the rate recorded for 2022.[41] The rate of 0.8 percent is still well below the historic average of 2.3 percent as credit conditions on net remain strong.

Net charge-offs as a share of total loans rose to 0.5 percent as of June 2023 from 0.3 percent in 2022.[42] Despite the recent uptick, net charge-offs remain below the pre-pandemic average of 0.9 percent. The recent increase in net charge-offs is coming after historically low levels and is driven primarily by credit cards, accompanied by slight increases in other consumer loans, CRE loans, and commercial and industrial loan losses.

41 Nonperforming loans are the share of total loans that are 90 or more days past due or on nonaccrual status.

42 Net charge-offs are the share of total loan balances charged off as a loss, net of recoveries.

SUPERVISION

The OCC governs its bank supervision program through two key committees: the Committee on Bank Supervision (CBS) and the National Risk Committee (NRC). The CBS ensures coordination of supervisory activities, policies, and programs and consistency with the OCC's strategic plan and objectives. The NRC identifies and assesses existing and emerging risks to the industry and coordinates the agency's supervision and policy issues in addressing those risks.

This section covers

- the OCC's supervision priorities for 2023;
- Mutual Savings Association Advisory Committee (MSAAC);
- MDIs;
- published rules, guidance, and other materials;
- licensing activities; and enforcement actions.

Acting Comptroller Hsu (first row, center) stands with employees who completed the Uniform Commissioned Examination in April 2023. They include (bottom row) Shakitha Uchendu, Sarah Riese, Khrynise Jones, Amanda Dennewitz, Nina Jensen Rodriguez, Taylor Ellsworth, (back row) Crystal Ball, Donald Valentine, Anthony Campitelli, Lega Dolicho, Josh Lingen, Michelle Tenney, Christian Imkeller, and Jonathan Browe.

Supervision Priorities

The OCC's supervisory priorities outlined in its *Fiscal Year 2023 Bank Supervision Operating Plan* provided the foundation for policy initiatives and supervisory strategies, as applied to individual banks and third-party servicers subject to OCC examination.[43] The 2023 plan focused on these topics:

- **Strategic and operational planning**
- **Operational resiliency**
- **Third parties and related concentrations**
- **Credit risk management**
- **Allowances for credit losses**
- **Interest rate risk**
- **Liquidity risk management**
- **Consumer compliance**
- **Bank Secrecy Act**
- **Fair lending**
- **Community Reinvestment Act**
- **New products and services**
- **Climate-related financial risks**

In addition to supervising activities at individual banks, the OCC 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 SARPs, bulletins, news releases, the *Comptroller's Handbook*, speeches, outreach events, and discussions with bank management and boards of directors.

Mutual Savings Association Advisory Committee

The MSAAC's role includes assessing the condition of mutual savings associations, considering regulatory changes, and recommending steps the OCC may take to ensure the health and vitality of the mutual savings association industry. The OCC appointed six new members to the MSAAC this year.

Minority Depository Institutions

The OCC administers an MDI program to provide technical assistance and other support to OCC-supervised MDIs, consistently promoting and preserving these banks with requirements set forth in law. The OCC issues the *Report to Congress on Preserving and Promoting Minority Depository Institutions* annually, which covers activities taken related to MDIs.

The OCC also appointed four new MDI Advisory Committee (MDIAC) members. The MDIAC advises the OCC on steps the OCC may take to ensure the continued health and viability of MDIs and other issues of concern to these institutions.

Published Rules and Guidance

The OCC proposed three rules in FY 2023 regarding capital and compliance. See table 1.

In addition to guidance, the OCC published periodic reports providing information and analysis on trends in various financial markets and economic sectors for a wider audience, including members of Congress. See table 2.

REDUCING FEES AND RATES

The OCC reduced the rates in the 2023 general assessment fee schedule and maintained assessment rates from 2022 for the independent trust and independent credit card fee schedules.[44] Changes to the general assessment fee schedule include reductions by 40 percent for all banks on their first $200 million in total balance-sheet assets, and a 20 percent reduction for all banks on balance-sheet assets above $200 million and up to $20 billion.

Table 1: Proposed Rules Published During FY 2023

TOPIC	ACTION	REFERENCE
Capital	Joint notice of proposed rulemaking to substantially revise the regulatory capital requirements applicable to banking organizations with total assets of $100 billion or more and their subsidiary depository institutions and banking organizations with significant trading activity	OCC Bulletin 2023-24
Capital markets	Joint notice of proposed rulemaking that would require certain large depository institution holding companies, U.S. intermediate holding companies of foreign banking organizations, and certain insured depository institutions to issue and maintain an outstanding minimum amount of long-term debt	OCC Bulletin 2023-29
Compliance	Proposed rule to implement quality control standards for AVMs used by mortgage originators and secondary market issuers in valuing residential real estate	OCC Bulletin 2023-21

43 See OCC News Release 2022-124, "OCC Releases Bank Supervision Operating Plan for Fiscal Year 2023."

44 See OCC News Release 2022-145, "OCC Reduces 2023 Assessments on National Banks and Federal Savings Associations."

Table 2: Guidance and Publications Issued During FY 2023

TOPIC	PUBLICATION	REFERENCE
Accounting	Update to the *Bank Accounting Advisory Series*, which reflects accounting standards issued by the Financial Accounting Standards Board on such topics as eliminating the recognition and measurement of troubled debt restructurings by creditors, loan modifications, and credit losses	OCC Bulletin 2023-28
	Revised "Interagency Policy Statement on Allowances for Credit Losses" with technical changes	OCC Bulletin 2023-11
Bank management and operations	Request for information on a proposed new OCC survey about the public's trust in banking and bank supervision	OCC Bulletin 2023-19
	SARP analyzing the key issues facing the federal banking system	OCC news releases 2022-147 and 2023-60
	Fees and assessments charged by the OCC for calendar year 2023	OCC Bulletin 2022-25
BSA/AML	Notice of six revised sections of the *FFIEC BSA/AML Examination Manual*	OCC Bulletin 2023-26
Capital markets	Joint statement to remind banks that U.S. dollar London Interbank Offered Rate (LIBOR) panels will end on June 30, 2023, and to emphasize that banks with USD LIBOR exposure complete their transition of remaining LIBOR contracts as soon as practicable	OCC Bulletin 2023-13
	Addendum to the interagency policy statement on funding and liquidity risk management	OCC Bulletin 2023-25
	Quarterly reports on bank trading and derivative activities to increase awareness of size and character of trading and derivative exposures within the federal banking system	OCC news releases 2022-148, 2023-33, 2023-62, and 2023-104
	Semiannual *Interest Rate Risk Statistics Report* of data gathered during examinations of OCC-supervised midsize and community banks	OCC Bulletin 2023-9 and occ.gov Publications page
Compliance	Information on the risks associated with overdraft protection programs	OCC Bulletin 2023-12
	Issuance announcing FFIEC's revised "A Guide to HMDA Reporting: Getting It Right!"	OCC Bulletin 2023-10
	Notice informing banks and OCC examining personnel that the loan origination threshold for reporting is now 25 closed-end mortgage loans originated in each of the two preceding calendar years	OCC Bulletin 2023-5
	Revised interagency examination procedures for the Fair Debt Collection Practices Act and its implementing regulation, Regulation F	OCC Bulletin 2022-26
Corporate and risk governance	Notice of "Interagency Guidance on Third-Party Relationships: Risk Management"	OCC Bulletin 2023-17
	Joint statement highlighting liquidity risks to banks presented by certain sources of funding from crypto-asset-related entities	OCC bulletins 2023-8 and 2023-1
CRA	Host state loan-to-deposit ratios that the agencies will use to determine compliance with section 109 of the Riegle–Neal Interstate Banking and Branching Efficiency Act of 1994	OCC Bulletin 2023-14
	Revisions to the asset-size threshold amounts used to define "small bank or savings association" and "intermediate small bank or savings association" under the CRA regulations	OCC Bulletin 2022-28

TOPIC	PUBLICATION	REFERENCE
Credit	Quarterly *OCC Mortgage Metrics Report* to promote broader understanding of mortgage portfolio performance and modification activity in the federal banking system and support supervision of regulated institutions	OCC news releases 2022-151, 2023-32, 2023-68, and 2023-108
	Joint annual report on the Shared National Credit Program to review the performance of large loan commitments shared between regulated institutions	OCC News Release 2023-19
	Background on loan purchase activities and guidance on the applicability of the legal lending limit to purchased loans.	OCC Bulletin 2023-27
Credit administration	Interagency "Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts"	OCC Bulletin 2023-23
Cybersecurity	Cybersecurity Supervision Work Program providing high-level examination objectives and procedures	OCC Bulletin 2023-22
	Updated FFIEC *Cybersecurity Resource Guide for Financial Institutions*	OCC Bulletin 2022-22
	Annual *Cybersecurity and Financial System Resilience Report*	See www.occ.gov
Economics	*Economic Snapshot* series reporting data on national and regional trends	See www.occ.gov
	Moments in History series: » "The History of National Bank Real Estate Lending: Part I (1863-1980)" » "The History of Supervisory Expectations for Capital Adequacy: Part II (1984–2021)"	See www.occ.gov
	On Point series of economic and policy insights from OCC staff: » "Supply Chain Vulnerabilities Likely to Persist" » "Global Banking's Improved Capital Levels May Soon be Tested"	See www.occ.gov
Enforcement	Revised *Policies and Procedures Manual* for bank enforcement actions and related matters	OCC Bulletin 2023-16
	Notice to adjust the maximum amount of each CMP within the OCC's jurisdiction pursuant to the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015	OCC Bulletin 2023-3
	Revised *Policies and Procedures Manual* for CMPs	OCC Bulletin 2022-24
Examinations	New and updated *Comptroller's Handbook* booklets: » "Asset Management" » "Fair Lending" » "Lease Financing" » "Liquidity"	OCC bulletins 2023-30, 2023-2, 2023-15, and 2023-20
Licensing	New and updated *Comptroller's Licensing Manual* booklets: » "Branch Closings" » "Branches and Relocations" » "Change in Bank Control"	OCC bulletins 2023-4, 2023-6, and 2023-7
Regulation O	Interagency statement on "Extension of the Revised Statement Regarding Status of Certain Investment Funds and Their Portfolio Investments for Purposes of Regulation O and Reporting Requirements under Part 363 of FDIC Regulations"	OCC Bulletin 2022-27

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. See tables 3 to 6 for a summary of licensing activities year over year.

Table 3: Corporate Application Activity in FY 2023

APPLICATION TYPE	APPLICATIONS RECEIVED	APPROVED	CONDITIONALLY APPROVED	DENIED	TOTAL
Branches	477	460	0	0	460
Capital/sub-debt	34	26	4	0	30
Change in bank control	4	3	0	0	3
Charters	9	3	3	0	6
Charter conversions*	6	2	3	0	5
Federal branches	0	1	0	0	1
Fiduciary powers	0	0	0	0	0
Licensing other	8	4	0	0	4
Mergers	18	20	3	0	23
Relocations	140	139	0	0	139
Reorganizations	15	12	4	0	16
Subsidiaries	6	9	0	0	9
Substantial change in assets	4	1	0	0	1
Mutual to stock conversions	2	0	3	0	3
Total	**723**	**680**	**20**	**0**	**700**

*Conversions to an OCC-regulated bank.

Table 4: Change in Bank Control Act (Notices Processed With Disposition)

YEAR	RECEIVED	ACTED ON	NOT DISAPPROVED	DISAPPROVED	WITHDRAWN
2023	4	3	2	0	2
2022	7	5	1	0	1
2021	7	7	7	0	0
2020	13	10	10	0	4
2019	16	10	10	0	0

Table 5: Licensing Actions and Timeliness for National Banks and FSAs in FY 2023

LICENSING ACTION	TARGET TIME IN DAYS	NUMBER OF DECISIONS	NUMBER WITHIN TARGET	PERCENT WITHIN TARGET
Branches	45/60	460	456	99.13
Capital/sub-debt	15/45	30	30	100
Change in bank control	NA/120	3	3	100
Charters	45/120	6	6	100
Charter conversions	45/120	5	5	100
Federal branches	NA/120	1	1	100
Fiduciary powers	30/60	0	0	0
Licensing other	NA/60	4	4	100
Mergers	45/60	23	22	95.65
Relocations	30/60	139	138	99.28
Reorganizations	45/60	16	16	100
Subsidiaries	30/60	9	9	100
Substantial change in assets	NA/60	1	1	100
Mutual to stock conversions	NA/60	3	3	100
Total		**700**	**694**	**99.14**

Note: Most decisions were made in the district offices and large bank licensing departments 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 or process a group of related filings as one transaction, or to permit additional time for public comment.

Table 6: Applications Presenting CRA Issues Decided in FY 2023

BANK, CITY, STATE	APPROVAL DATE	DOCUMENT NUMBER
BMO Harris Bank National Association, Chicago, IL	January 17, 2023	CRA Decision 230

Enforcement Actions

The OCC investigates, litigates, and takes enforcement actions to address unsafe or unsound banking practices and failures in compliance, including compliance with certain consumer protection laws. 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 formal enforcement actions taken against banks has generally declined since 2010, reflecting overall improvement in banks' financial conditions. Oversight, compliance, and operational failures, however, have resulted in a number of significant enforcement actions in recent years. These enforcement actions address various risk management and compliance failures and continue to emphasize individual accountability. Table 7 summarizes the OCC's formal enforcement actions published in 2023.

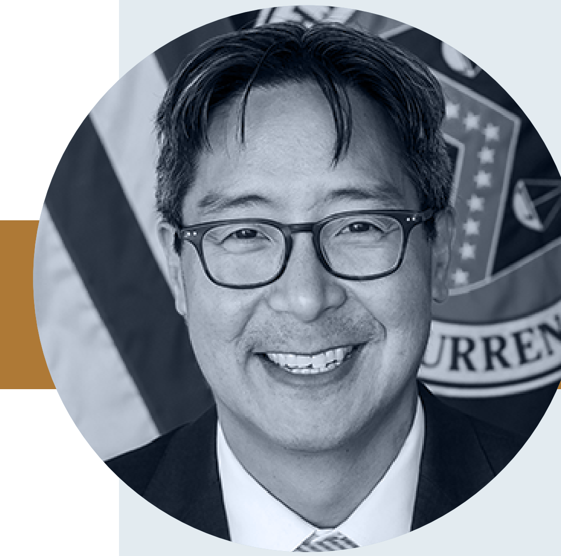
Table 7: OCC Enforcement Actions in FY 2023

TYPE OF ENFORCEMENT ACTION	NUMBER	AMOUNT[a]
12 USC 1829 notifications	2	
Bank CMP	3	$90,000,000[c]
Cease-and-desist order (bank)[b]	4	
Formal agreement (bank)	4	
Notices of charges filed	2	
Personal cease-and-desist order	2	
Personal CMP	5	$17,052,500
Prompt corrective action directive	0	
Removal/prohibition	21	
Total	**43**	**$107,052,500**

[a] Includes only assessed penalties through September 30, 2023, and does not include remediation to customers that the OCC may have required of the bank.
[b] Includes instances when multiple charters in a company are subject to the same enforcement action.
[c] Penalties are sent to the Treasury Department.

LEADERSHIP

MICHAEL J. HSU



Acting Comptroller of the Currency

Michael J. Hsu became Acting Comptroller of the Currency on May 10, 2021. As Acting Comptroller, Mr. Hsu is the administrator of the federal banking system, chief executive officer of the OCC, and a member of the OCC's Executive Committee. The Comptroller also serves as a director of the FDIC and a member of the FSOC and the FFIEC.

Before joining the OCC, Mr. Hsu served as an associate director in the Division of Supervision and Regulation at the Federal Reserve Board, where he chaired the Large Institution Supervision Coordinating Committee Operating Committee. He cochaired the Federal Reserve's Systemic Risk Integration Forum, served as a member of the Basel Committee Risk and Vulnerabilities Assessment Group, and cosponsored forums promoting interagency coordination with foreign and domestic financial regulatory agencies.

His career has included serving as a financial sector expert at the International Monetary Fund, financial economist at the Treasury Department helping to establish the Troubled Assets Relief Program, and as a financial economist at the U.S. Securities and Exchange Commission overseeing the largest securities firms. He began his career in 2002 as a staff attorney in the Federal Reserve Board's Legal Division.

Mr. Hsu has a bachelor of arts degree from Brown University, a master of science degree in finance from George Washington University, and a juris doctor degree from New York University School of Law.

FFIEC Chair

The OCC assumed the Chair of the FFIEC on April 1, 2023, for a two-year term, which runs through March 31, 2025. The Council is responsible for developing uniform reporting systems for federally supervised financial institutions, their holding companies, and the nonfinancial institution subsidiaries of those institutions and holding companies.

The FFIEC also conducts schools for examiners employed by the five federal member agencies represented on the FFIEC and makes those schools available to employees of state agencies that supervise financial institutions. The Chair of the Council rotates among its federal members in the following order: OCC, Federal Reserve Board, FDIC, CFPB, and NCUA.

BEVERLY COLE

Midsize and Community Bank Supervision

As the Senior Deputy Comptroller for Midsize and Community Bank Supervision (MCBS), Beverly Cole is responsible for supervising nearly 1,100 banks, as well as nearly 1,400 OCC employees. She is a member of the OCC's Executive Committee and the CBS. She assumed these duties in October 2022.

Ms. Cole joined the OCC in 1979 as an assistant national bank examiner in Little Rock, Ark. She left the OCC to work in the banking industry in 1984, rejoining the agency in 1987. She was commissioned as a National Bank Examiner in 1989. She has served at the OCC in a variety of supervisory roles including as Deputy Comptroller for Compliance Supervision and Deputy Comptroller for the Northeastern District.

Ms. Cole graduated from Tougaloo College with a bachelor's degree in economics with an emphasis in business administration. She was cross-credentialed as a federal thrift regulator in 2015.

GREG COLEMAN

Large Bank Supervision

As the Senior Deputy Comptroller for Large Bank Supervision, Greg Coleman directs nearly 800 employees who supervise the country's largest banks and is a member of the OCC's Executive Committee and the CBS. He assumed these duties in January 2021.

Mr. Coleman previously served as a Deputy Comptroller for Large Bank Supervision. He has served in a variety of bank supervision roles as an examiner, policy expert, and manager at the OCC, including serving as Examiner-in-Charge of Capital One and E*TRADE. He previously served as director within the Credit and Market Risk Division in the Office of the Chief National Bank Examiner and as the lead for the capital markets team at JPMorgan Chase. He joined the OCC in 1989 as a field examiner, became a commissioned National Bank Examiner in 1994, and cross-certified to examine FSAs in 2013.

Mr. Coleman is a chartered financial analyst charterholder and holds a bachelor of science degree in business administration from the University of Nebraska–Lincoln.

JAY GALLAGHER

Supervision Risk and Analysis

As Senior Deputy Comptroller for Supervision Risk and Analysis, Jay Gallagher oversees OCC staff responsible for Systemic Risk Identification and Support, Supervision System and Analytical Support, Economic and Policy Analysis, and Economic and Risk Analysis. He is a member of the OCC's Executive Committee and the CBS. He assumed these duties in October 2022.

Before this position, Mr. Gallagher served as Deputy Comptroller for Systemic Risk Identification and Support. Mr. Gallagher previously served as an asset management expert in MCBS. He has been a team leader for asset management, mortgage, and retail credit. Additionally, he has served as a market risk team lead and lead expert for asset management in Large Bank Supervision. In recognition of his expertise and service, Mr. Gallagher was designated a Senior National Bank Examiner in 2019.

Mr. Gallagher graduated with a bachelor's degree from Bloomsburg University in Pennsylvania. He is a U.S. Marine Corps veteran.

GROVETTA N. GARDINEER

Bank Supervision Policy

As the Senior Deputy Comptroller for Bank Supervision Policy, Grovetta N. Gardineer directs the formulation of policies and procedures for bank supervision and examination, chairs the agency's CBS, and is a member of the OCC's Executive Committee. She oversees the units for policy related to credit risk, market risk, operational risk, and compliance risk, as well as units responsible for international banking and capital policy, accounting policy, community affairs, and the Office of Financial Technology. She assumed this role in March 2019.

Previously at the OCC, Ms. Gardineer served as the Senior Deputy Comptroller for Compliance and Community Affairs and Deputy Comptroller for Compliance Risk. 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.

Ms. Gardineer has a bachelor of arts degree in politics from Wake Forest University and a law degree from North Carolina Central University.

LARRY L. HATTIX

Enterprise Governance and Ombudsman, and Chief Risk Officer

As the Senior Deputy Comptroller for Enterprise Governance and the agency's Ombudsman, Larry L. Hattix oversees the agency's enterprise governance function, the bank and savings association appeals program, and the Customer Assistance Group. As the Chief Risk Officer, he drives an agencywide view of risks and evaluates adherence to the agency's risk appetite statement. He assumed the duties of Chief Risk Officer in 2021. He is a member of the OCC's Executive Committee and the National Risk Steering Committee. He 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 of science degree in business administration and finance from Carroll University.

BENJAMIN W. MCDONOUGH

Chief Counsel

As Senior Deputy Comptroller and Chief Counsel, Benjamin W. McDonough oversees the agency's legal and licensing activities, including legal advisory services to bank supervision and policy, enforcement, litigation, agency administrative matters, legislative initiatives, the chartering of new banks, and changes in structure and activities of existing banks. He serves on the OCC's Executive Committee and provides advice and counsel to the Acting Comptroller of the Currency and senior OCC executives. He assumed this role in June 2021.

Before joining the OCC, Mr. McDonough served as Associate General Counsel in the Legal Division at the Federal Reserve Board. He began his career at the FDIC as an honors attorney.

Mr. McDonough has a bachelor of arts degree from the University of Michigan and a joint juris doctor and master of public policy degree from the University of Michigan Law School and Gerald R. Ford School of Public Policy.

LAUREN OPPENHEIMER

Public Affairs and Chief of Staff

Lauren Oppenheimer is the Senior Deputy Comptroller for Public Affairs and Chief of Staff for Acting Comptroller of the Currency Michael J. Hsu.

In this role, Ms. Oppenheimer advances the priorities of the Acting Comptroller and serves as a member of the OCC's Executive Committee. She directs the daily operations of the Acting Comptroller's staff and provides administrative oversight to the Office of Minority and Women Inclusion as well as the Office of Climate Risk. She oversees the Office of Public Affairs with functions that include banking, congressional, and media relations; design, digital, disclosure, and editorial services; external outreach; internal communications; and minority affairs. She assumed this role in December 2021.

Before joining the OCC, Ms. Oppenheimer was the Director of Legislative and Intergovernmental Affairs at the Department of Commerce. She also previously worked as the Minority Staff Director for the Senate Banking, Housing, and Urban Affairs Subcommittee on Financial Institutions and Consumer Protection and in the House of Representatives for members of Congress on the U.S. House Financial Services Committee.

She holds a bachelor's degree from the University of Toronto and a master's degree from the London School of Economics.

MINH-HAI TRAN-LAM

Office of Management and Chief Management Officer

As Senior Deputy Comptroller for Management and Chief Management Officer, Minh-Hai Tran-Lam is responsible for the OCC's departments of financial management; human capital; leadership, executive, and organizational development; administrative operations; and information technology. She is a member of the OCC's Executive Committee and assumed these duties in October 2022.

Before her current role, Ms. Tran-Lam was the Chief of Staff to the Chief Information Officer at the FDIC where she oversaw financial management, human resources management, procurement, policy, and technology initiatives. She has held leadership positions at the Department of State's Bureau of Information Resource Management, managing day-to-day global business management operations, congressional relations, and implementation of cross-cutting regulations. Ms. Tran-Lam also served at the Executive Office of the President, Office of Management and Budget, where she was responsible for oversight of the federal government's information technology portfolio and led domestic policy initiatives across the Executive Branch.

Ms. Tran-Lam has an undergraduate degree in environmental science from the University of Virginia and holds a master's degree from the George Mason University School of Public Policy, with a concentration in science and technology.

Commemorating

THE OCC'S 160TH ANNIVERSARY

EXAMINER'S VIEW: THE EVOLUTION OF BANK SUPERVISION

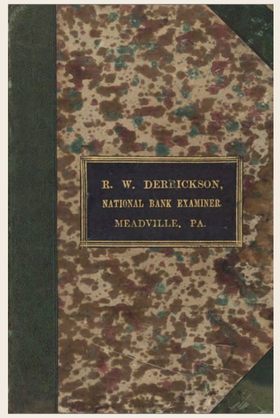
To celebrate the OCC's 160th Anniversary this year, the agency commissioned two exhibits articulating how the mission of the OCC has changed throughout its distinguished history and how bank examiners have helped safeguard trust in banking since 1863.

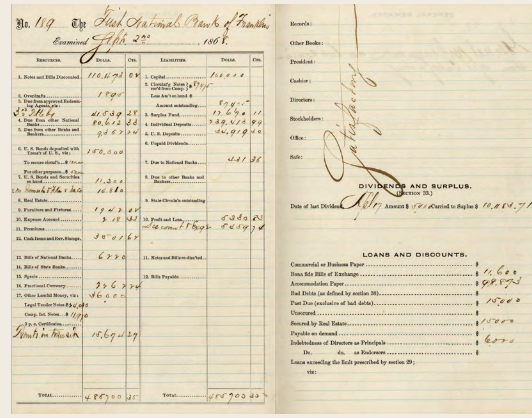
This Annual Report section summarizes one exhibit that tells the narrative of how bank examiners' responsibilities evolved into what they are today.

Explore the full exhibit at occ.gov/since1863.

Hugh McCulloch, Comptroller of the Currency from 1863–1865
(National Portrait Gallery, Smithsonian Institution, Frederick Hill Meserve Collection)

Cover and several pages from an 1860s bank examination report





1863 – 1912

Hugh McCulloch, the first Comptroller of the Currency, was a self-described expert at examining banks. He characterized his examinations of the Indiana bank he ran as "so searching and thorough ... that fraud or mismanagement could hardly have escaped detection." To apply that degree of oversight over the nation's banks required a staff of examiners who were "expert, vigilant, and trustworthy," he wrote.

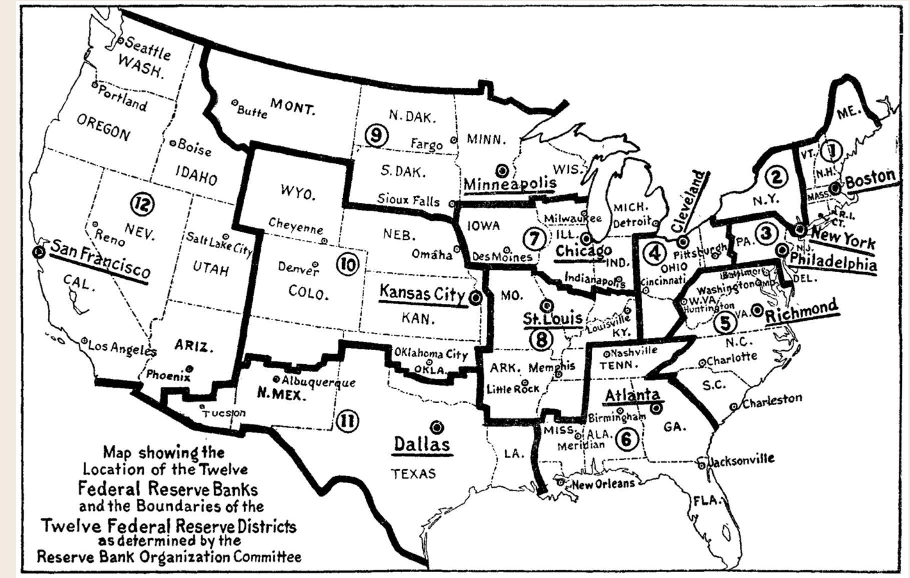
An OCC bank examiner's need for those characteristics has not changed since McCulloch first described them 160 years ago. Yet almost every aspect of an examiner's responsibilities has changed, from a broadened scrutiny over banking activities to accessing bank records.

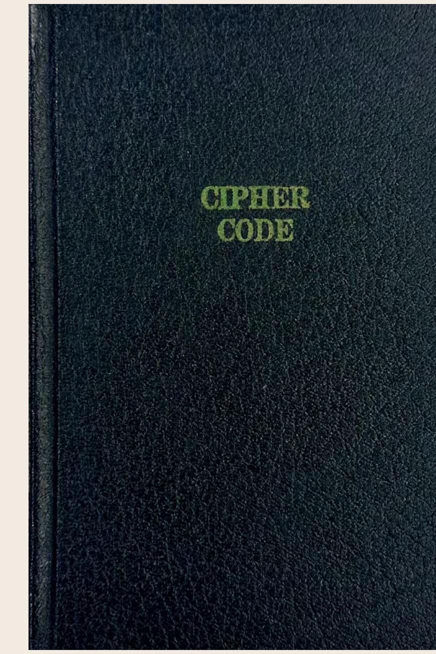
Accessing a bank's records could be a daunting task in the early decades. A single OCC examiner in 1887 covered 90 banks in seven states from Florida to Arkansas.

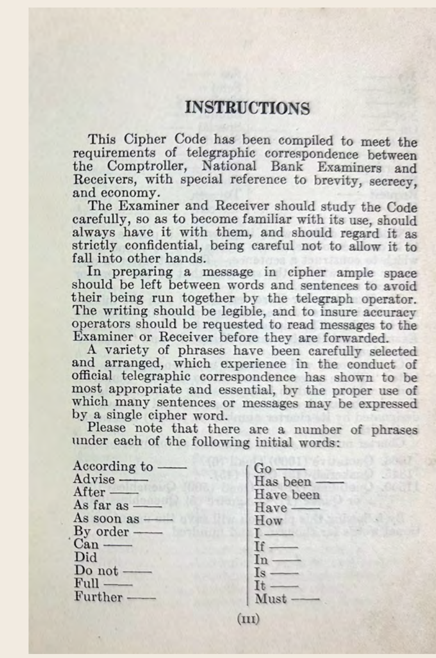
Getting to and from banks could be grueling and costly. Train schedules and connections were erratic, and missing a train meant being stranded and unpaid for days because examiners were paid by the banks they examined instead of the federal government.

Hiring an assistant was an option but would be a personal expense. As a result, examiners were sometimes tempted to rush through their work to avoid interruptions.

A map showing the reorganization of the districts from 25 to 12







INSTRUCTIONS

This Cipher Code has been compiled to meet the requirements of telegraphic correspondence between the Comptroller, National Bank Examiners and Receivers, with special reference to brevity, secrecy, and economy.

The Examiner and Receiver should study the Code carefully, so as to become familiar with its use, should always have it with them, and should regard it as strictly confidential, being careful not to allow it to fall into other hands.

In preparing a message in cipher ample space should be left between words and sentences to avoid their being run together by the telegraph operator. The writing should be legible, and to insure accuracy operators should be requested to read messages to the Examiner or Receiver before they are forwarded.

A variety of phrases have been carefully selected and arranged, which experience in the conduct of official telegraphic correspondence has shown to be most appropriate and essential, by the proper use of which many sentences or messages may be expressed by a single cipher word.

Please note that there are a number of phrases under each of the following initial words:

According to ——	Go ——
Advise ——	Has been ——
After ——	Have been
As far as ——	Have ——
As soon as ——	How
By order ——	I ——
Can ——	If ——
Did	In ——
Do not ——	Is ——
Full ——	It ——
Further ——	Must ——

(III)

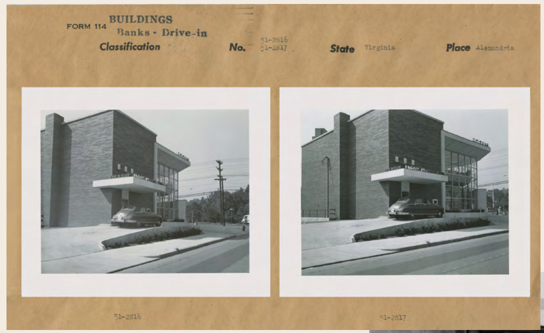
Cover and page from the pocket-size 1926 edition of *Cipher Code*

1913 – 1940

The passage of the Federal Reserve Act in 1913 relieved some pressure by making examiners salaried workers. The act also transformed their jobs as the agency began handing over the management of currency to the new Federal Reserve System. The OCC became an organization of National Bank Examiners focused fully on maintaining the safety and soundness of the national banks they supervised.

By 1929, there were more than 8,000 national banks – about five times more than the 1,601 banks that existed in 1865. Banks were offering more services, too, which meant more for examiners to review and more for policymakers to monitor for any effects those services had on consumers and the economy.

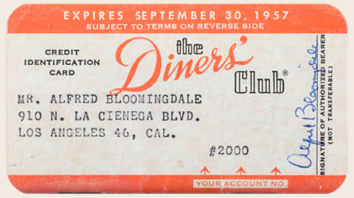
After the stock market crashed in 1929, bank regulators worked to restore stability and public confidence in the banking system, believing that the banking crisis stemmed from overbanking and over-competition. Their response included requiring strict limitations on the numbers of banks and what activities they could undertake.



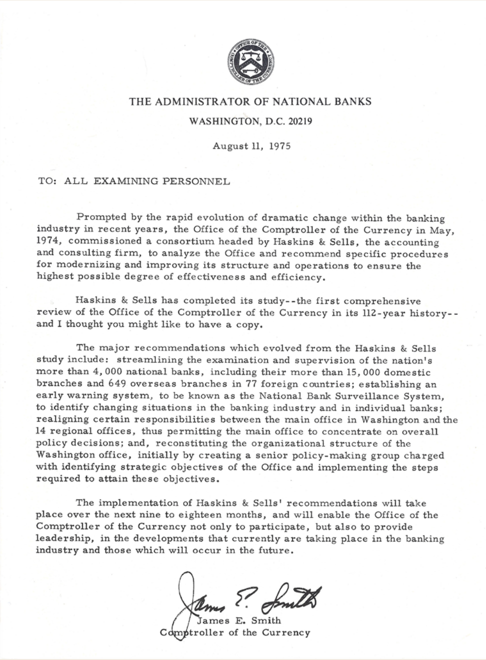
A drive-through bank at the corner of Hume and Mount Vernon avenues in Alexandria, Va., in 1951

All-female examining team
Left to right: Mary Elena Braham, Mercedes Torres, Laura L. Marshall, Karen J. Wilson, Eva Hazen, and Barbara McGill (October 1973)

Diners Club was one of the earliest charge cards issued.



A drive-through window at the National City Bank of New York in 1953



THE ADMINISTRATOR OF NATIONAL BANKS

WASHINGTON, D.C. 20219

August 11, 1975

TO: ALL EXAMINING PERSONNEL

Prompted by the rapid evolution of dramatic change within the banking industry in recent years, the Office of the Comptroller of the Currency in May, 1974, commissioned a consortium headed by Haskins & Sells, the accounting and consulting firm, to analyze the Office and recommend specific procedures for modernizing and improving its structure and operations to ensure the highest possible degree of effectiveness and efficiency.

Haskins & Sells has completed its study--the first comprehensive review of the Office of the Comptroller of the Currency in its 112-year history--and I thought you might like to have a copy.

The major recommendations which evolved from the Haskins & Sells study include: streamlining the examination and supervision of the nation's more than 4,000 national banks, including their more than 15,000 domestic branches and 649 overseas branches in 77 foreign countries; establishing an early warning system, to be known as the National Bank Surveillance System, to identify changing situations in the banking industry and in individual banks; realigning certain responsibilities between the main office in Washington and the 14 regional offices, thus permitting the main office to concentrate on overall policy decisions; and, reconstituting the organizational structure of the Washington office, initially by creating a senior policy-making group charged with identifying strategic objectives of the Office and implementing the steps required to attain these objectives.

The implementation of Haskins & Sells' recommendations will take place over the next nine to eighteen months, and will enable the Office of the Comptroller of the Currency not only to participate, but also to provide leadership, in the developments that currently are taking place in the banking industry and those which will occur in the future.

James E. Smith
James E. Smith
Comptroller of the Currency

Letter from Comptroller James E. Smith to examiners on the Haskins & Sells study conducted in 1974

The PPC-400 Corona microcomputer, the first portable model used by field examiners, weighed 28 pounds and had a 10MB hard drive and 512MB of memory

1941 – 1973

World War II pulled many examiners off the front lines of supervision and onto the front lines of combat, which meant increased responsibility for those remaining stateside. Despite this, OCC employees successfully shouldered the wartime responsibility of supervising banks' roles in financing the production of war materials and spearheading the government's bond drives.

After the war, consumer spending and borrowing grew. Technological developments such as drive-through tellers and credit cards came with the growth of suburban sprawl and branch banking. While the breadth of supervision became more complicated with such developments, stability in the federal banking system eased pressure on OCC examiners. The interstate highway system simplified travel and logistics for conducting examinations. A team approach to bank examinations bred camaraderie and esprit de corps.

New banking products such as the negotiable certificate of deposit eased deposit shortages. The civil rights movement brought new compliance laws requiring banks to give all customers fair access to financial services and to treat all customers fairly. All these advances increased bank examiners' responsibilities.

Within the agency, processes and practices evolved to keep pace with societal and economic changes. By the mid-1960s, new examiners had to have college degrees for the first time. In 1973, the first all-female examination team came together when 31 women examined the records of United National Bank of Plainfield, N.J.

1974 – 1989

Comptroller James Smith commissioned the first-ever comprehensive review of agency practices in 1974, which led to major changes in examiners' responsibilities, including a move away from verifying assets to more sophisticated systems and risk analysis. A new computer system enabled examiners to conduct more off-site monitoring.

While policy and staffing shifts occurred, the number of bank mergers and acquisitions and new bank charters increased dramatically. Legislative changes allowed interest-bearing checking accounts and deregulated interest ceilings on deposit accounts. This further enabled bank competition, which prompted more OCC scrutiny.

New laws helped fuel an explosion of speculative real estate lending that lasted until 1986, when the Tax Reform Act eliminated investor-friendly incentives. CRE investment plummeted, resulting in the savings and loan crisis.

Simultaneously, the OCC examiner staff had declined by 20 percent. With too few examiners, more off-site examination activity, and insufficient tools to address speculative CRE lending, the high number of bank failures in the late 1980s raised questions about the effectiveness of supervision systems to identify problem banks and examiners' ability to then influence bank behavior. In response, Congress passed the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), which addressed many of these issues and created the Office of Thrift Supervision (OTS).

As the agency rebuilt its examiner workforce, FIRREA facilitated OCC recruitment by removing the civil service limits on OCC pay and benefits.

1990 – 2014

It was clear by this time that off-site monitoring was not a substitute for, but potentially a useful complement to, on-site examinations. The OCC thus concentrated examination resources on banks that posed the greatest threat to stability across the system, physically embedding examiners within the largest 11 banks for the first time. It introduced quarterly reviews that monitored changes in a bank's call report. These reviews added regular, recurring touch points between examiners and bankers that dramatically changed the tone of how banks and examiners interacted.

In the 1990s the OCC formalized a system of risk-based supervision that explicitly tied oversight to the type and degree of risk presented by each national bank. This was a sea change from previous supervision practices. Supervision by risk focuses on evaluating risk, identifying material and emerging problems, and making sure individual banks act before any problems compromise safety and soundness.

Unbundling traditional banking services masked new, financially engineered assets. This created a challenging situation for examiners to understand how these complicated obligations affected a bank's risk exposures. The OCC sounded public warnings through guidance and speeches about these developments and pointed to rising concentrations of real estate lending in several areas of the banking industry. Despite these warnings, the real estate market collapsed, crippling the economy from 2007 through 2008.

The OCC played an important role in the government-wide effort to stabilize the banking system, restore the flow of credit, and rebuild trust in the federal banking system. To do so, the agency helped design and apply stress tests to assess how well the largest institutions could withstand a substantial credit shock. OCC examiners also worked to understand the difficulty many banks faced in accessing liquid funds during the crisis – and learned more about the complex financial instruments banks held, many hidden in off-balance-sheet vehicles that clouded exposure to risk.

In July 2010, President Barack Obama signed into law the Dodd–Frank Wall Street Reform and Consumer Protection Act, which was intended to better protect consumers and taxpayers in response to the financial activities that caused the 2007–2008 crisis. Dodd–Frank transferred most functions of the OTS to the OCC, which then began supervising federal savings associations as well as national banks.

2015 – 2023

With the increased use of smartphones and the expansion of online and mobile banking, scrutiny over technology evolved. The definition of what a bank is and could do was challenged by fintechs, which offered services like traditional banks but without the same regulatory requirements. Other companies began delving into digital assets. The types of products and services banks provided in this new digital age increased the need for the OCC's supervision over bank information security.

In 2020, the global pandemic shuttered millions of businesses and fundamentally changed how people lived and worked. Technological advances allowed examiners to adapt and stay connected with each other and the banks they supervised. They relied on enhanced market and credit monitoring activities to stay aware of and give prompt attention to potential adverse effects. They made sure that examination reports reflected the steady stream of pandemic-related actions by the federal banking agencies to ensure that the federal banking system remained a conduit for capital, lending, and other assistance for consumers and communities.

The act of supervising the nation's banks has come a long way since OCC examiners showed up by train, horseback, or on foot to physically count cash. The agency has stepped up to serve in response to myriad changes in finance, technology, and society over 160 years.

UNIFORM COMMISSION EXAMINATION MODERNIZATION

The OCC is evaluating and modernizing the credentialing process for National Bank Examiners (NBE). In 2023, the Uniform Commission Examination (UCE) Modernization Project Team collected data through two surveys designed to gather feedback on the current credentialing process, assess its effectiveness, and identify areas for improvement.

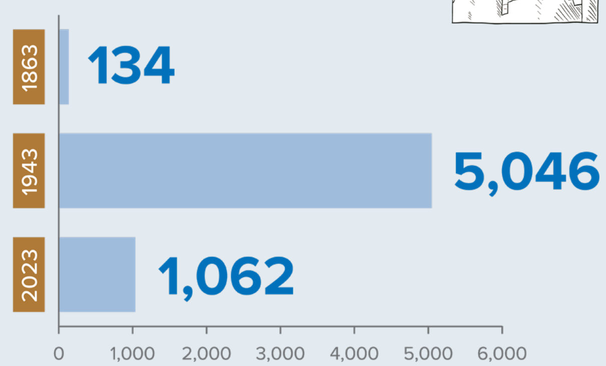
The project represents the OCC's commitment to evolving and improving its credentialing process to ensure that NBEs possess the knowledge, skills, and abilities required to effectively carry out their roles as examiners in the ever-changing landscape of the banking industry.

OCC THROUGH THE YEARS

Number of EXAMINERS

1867	1943	2023
15	607	2,239

Number of SUPERVISED INSTITUTIONS



LARGEST BANK SUPERVISED (assets)

1866	1943	2023
$588K	$4.6B	$3.4T
Second National Bank of Cleveland	Chase National Bank	JPMorgan Chase Bank, N.A.

SMALLEST BANK SUPERVISED (assets)

1865 **$31,275**
Raleigh National Bank of North Carolina

1941 **$99,857**
First National Bank of Annona, Texas

2023 **$2.9M**
Kentland Federal Savings and Loan Association

Years shown reflect available data as close to 1863 and 1943 as possible.

OCC-SUPERVISED INSTITUTIONS (total assets)

1863	1943	2023
$16.8M	$64.5B	$16.2T

Includes assets of federal branches and agencies of foreign banks

FINANCIAL MANAGEMENT DISCUSSION AND ANALYSIS

Letter From the Chief Financial Officer

I am pleased to present the OCC's financial statements as an integral part of the 2023 Annual Report. For FY 2023, our independent auditor has again issued an unmodified opinion on the OCC's financial statements. This accomplishment demonstrates our commitment to strong internal controls and processes to ensure we provide relevant, reliable, and timely financial information to our stakeholders.

In FY 2023, the OCC's revenues exceeded the cost of operations resulting in an increase to the net position of $32.9 million. We take pride in our role as stewards of the financial resources needed to achieve the OCC's mission to ensure that national banks and FSAs operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

During the year, the OCC's Office of Management made progress in its effort to review, standardize, enhance, and align the documentation of key operational processes across each of its operating divisions. This advanced our goal of continuous process improvement, strengthened our internal controls, and promoted positive operating outcomes across the OCC.

As we look forward to FY 2024 and beyond, the agency will continue to maintain sound operations, invest in technology modernization, and support a resilient and agile culture that is prepared to meet future challenges while embracing opportunity. I sincerely appreciate the OCC professionals who provide the foundation for our ongoing success.

PEGGY SHERRY
Principal Deputy Comptroller for Management and Chief Financial Officer

Financial Summary

The OCC received an unmodified audit opinion on its FY 2023 and FY 2022 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 Office of Management and Budget (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 2023 and FY 2022.

The Statements of Budgetary Resources 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 outlays of budgetary resources at the end of the year.

Table 8 illustrates the OCC's key components of financial condition, and the subsequent narrative sections address the OCC's financial activities in FY 2023 and FY 2022.

Table 8: Key Components of Financial Condition, as of September 30, 2023 and 2022 (Dollars in Thousands)

COSTS[a]	FY 2023	FY 2022	$ INCREASE/ (DECREASE)	% INCREASE/ (DECREASE)
Total financing sources	$51,163	$34,082	$17,081	50.1%
Less: net cost	$18,226	$(99,036)	$117,262	118.4%
Net change of cumulative results of operations	$32,937	$133,118	$(100,181)	(75.3%)
Net position[b] **Assets**				
Fund Balance With Treasury	$32,220	$15,111	$17,109	113.2%
Investments	$2,256,199	$2,245,322	$(10,877)	(0.5%)
General property, plant, and equipment, net	$76,316	$54,655	$21,661	39.6%
Accounts receivable and other	$2,366	$2,963	$(597)	(20.1%)
Total assets	$2,367,101	$2,318,051	$49,050	2.1%
Liabilities				
Accounts payable and other accrued liabilities	$59,738	$38,701	$21,037	54.4%
Accrued payroll and benefits	$139,845	$128,330	$11,515	9.0%
Deferred revenue	$278,977	$293,609	$(14,632)	(5.0%)
Other actuarial liabilities	$79,939	$81,746	$(1,807)	(2.2%)
Total liabilities	$558,499	$542,386	$16,113	3.0%
Net position	$1,808,602	$1,775,665	$32,937	1.9%
Total liabilities and net position	$2,367,101	$2,318,051	$49,050	2.1%

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 2023 of $1,207.4 million reflected an increase of $72.7 million, or 6.4 percent, from $1,134.7 million reported in FY 2022. The slight year-over-year rise is primarily attributable to increases in personnel compensation and benefits, travel, and other expenses such as non-capitalized automated data processing software and contingent liabilities. These were partially offset by decreases in rent, utilities, and communications.

Revenues

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

Total FY 2023 revenue of $1,185.3 million reflects a $19.7 million, or 1.6 percent, decrease from FY 2022 revenue of $1,205.0 million. Bank assets used in the September 30, 2023, semiannual assessment were $16.2 trillion, an increase of 1.9 percent, from $15.9 trillion a year earlier. While bank assets rose year over year, the OCC had a decrease in assessment revenue by 3.4% due to reductions in the general assessment fee schedule.

Interest revenue totaled $43.1 million in FY 2023, an increase of $20.7 million, or 92.4 percent, from the $22.4 million reported in FY 2022. The year-to-year change is a result of interest rate increases for both overnight and longer-term securities, during FY 2023. Other income includes revenue received from rental property and reimbursable activities with separate entities. Table 9 shows the OCC's funding sources for FY 2023 and FY 2022.

Table 9: Funding Sources (Dollars in Millions)

SOURCE	FY 2023	FY 2022	CHANGE ($)	CHANGE (%)
Assessments	$1,124.4	$1,163.7	$(39.3)	(3.4)%
Interest revenue	$43.1	$22.4	$20.7	92.4%
Other income	$17.8	$18.9	$(1.1)	(5.8)%
Total revenue	**$1,185.3**	**$1,205.0**	**$(19.7)**	**1.6%**

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. As of September 30, 2023, total assets were $2,367.1 million, an increase of $49.0 million, or 2.1 percent, from the total assets of $2,318.1 million reported on September 30, 2022.

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 civil money penalties (CMP) due to the federal government through court-enforced legal actions.

Investments

The OCC primarily invests available funds in nonmarketable U.S. Treasury securities issued through the U.S. Department of the Treasury's Bureau of the Fiscal Service consistent with the provisions of 12 USC 481 and 12 USC 192. The agency also maintains a limited amount of funds invested with the public in support of contingency planning. 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, 2023, the amortized book value of intragovernmental investments and related accrued interest was $2,235.2 million, compared with $2,225.2 million the previous year. The difference of $10.0 million, or 0.5 percent, reflects an increase in invested funds as a result of operating surpluses. The market value of the OCC's intragovernmental investment portfolio in FY 2023 was $100.4 million lower than book value, compared with FY 2022, when the market value was $120.0 million lower than book value. This change is mostly attributable to the decline in interest rates in September of FY 2023 – when interest rates decrease, the market value of the agency's securities increases – reducing the year-over-year gap between market and book value.

The OCC's intragovernmental investment portfolio is composed of overnight and longer-term securities. The portion of the portfolio comprising longer-term investments as of September 30, 2023, was $1,673.0 million or 73.2 percent and September 30, 2022, was $1,628.0 million, or 72.6 percent, respectively. The weighted average maturity of the portfolio, including overnights, was 1.9 years as of September 30, 2023, compared to 2.0 years at the end of FY 2022.

The OCC's intragovernmental portfolio earned an annual yield of 2.2 percent in FY 2023, compared with 1.2 percent in FY 2022. The OCC calculates annual portfolio yield by dividing the total interest earned during the year by the average ending monthly book value of investments.

The OCC's investments with the public consist of funds held in a money market mutual fund with a state-chartered Federal Reserve-supervised bank. The agency's investments with the public as of September 30, 2023, and September 30, 2022, were $21.0 million and $20.1 million, respectively. The increase reflects interest earned on invested funds.

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, 2023, total liabilities were $558.5 million, a net increase of $16.1 million, or 3.0 percent, from total liabilities of $542.4 million on September 30, 2022. This change is largely due to increases in accrued liabilities for goods received, contingencies, payroll and benefits, and leave in FY 2023, offset by a decrease in deferred revenue due to reductions in the general assessment fee schedule.

Net Position

The OCC's net position of $1,808.6 million as of September 30, 2023, an increase of $33.0 million, or 1.9 percent, over the $1,775.6 million reported for FY 2022, 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. Financial reserves are 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.

As of September 30, 2023, and September 30, 2022, the OCC's financial reserves were $1,636.9 million and $1,636.7, respectively. These reserves are essential to a prudent and reasonable financial management strategy.

FINANCIAL STATEMENTS

OFFICE OF THE COMPTROLLER OF THE CURRENCY
BALANCE SHEETS
AS OF SEPTEMBER 30, 2023 AND 2022

(Dollars in Thousands)	FY 2023	FY 2022
Assets		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	$32,220	$15,111
Investments, net (Note 3)	2,235,186	2,225,201
Accounts receivable (Note 4)	1,700	1,974
Other assets	30	33
Total intragovernmental	**$2,269,136**	**$2,242,319**
With the public:		
Investments, net (Note 3)	21,014	20,121
Accounts receivable, net (Note 4)	601	889
General property, plant, and equipment, net (Note 5)	76,316	54,655
Other assets	34	67
Total with the public	**$97,965**	**$75,732**
Total assets	**$2,367,101**	**$2,318,051**
Liabilities		
Intragovernmental:		
Accounts payable and other accrued liabilities	13,721	12,525
Total intragovernmental	**$13,721**	**$12,525**
With the public:		
Accounts payable	4,033	3,448
Accrued payroll and benefits	63,746	58,096
Accrued annual leave	76,099	70,234
Capital lease liabilities	1,805	651
Other accrued liabilities	40,179	22,077
Deferred revenue	278,977	293,609
Other actuarial liabilities (Note 7)	79,939	81,746
Total with the public	**$544,778**	**$529,861**
Total liabilities	**$558,499**	**$542,386**
Net position (Note 8)	**1,808,602**	**1,775,665**
Total liabilities and net position	**$2,367,101**	**$2,318,051**

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, 2023 AND 2022

(Dollars in Thousands)	FY 2023	FY 2022
Program costs:		
Supervise		
Intragovernmental	$189,816	$168,052
With the public	868,351	829,625
Subtotal – supervise	**$1,058,167**	**$997,677**
Regulate		
Intragovernmental	22,311	18,220
With the public	104,330	94,142
Subtotal – regulate	**$126,641**	**$112,362**
Charter		
Intragovernmental	4,125	4,191
With the public	18,479	20,460
Subtotal – charter	**22,604**	**24,651**
Total program costs	**$1,207,412**	**$1,134,690**
Less earned revenues not attributed to programs	(1,185,310)	(1,204,999)
Net program costs before gain/loss from changes in assumptions	**$22,102**	**$(70,309)**
Actuarial (gain)/loss (Note 7)	(3,876)	(28,727)
Net cost of operations (Note 9)	**$18,226**	**$(99,036)**

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, 2023 AND 2022

(Dollars in Thousands)	FY 2023	FY 2022
Cumulative results of operations:		
Beginning balance	$1,775,665	$1,642,547
Transfer in without reimbursement	0	0
Imputed financing (Note 10)	51,163	34,082
Net cost of operations	(18,226)	99,036
Net change in cumulative results of operations	32,937	133,118
Cumulative results of operations	**$1,808,602**	**$1,775,665**
Net Position	**$1,808,602**	**$1,775,665**

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

OFFICE OF THE COMPTROLLER OF THE CURRENCY
STATEMENTS OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

(Dollars in Thousands)	FY 2023	FY 2022
Budgetary resources:		
Unobligated balance from prior year budget authority, net	$1,851,690	$1,737,973
Spending authority from offsetting collections	1,169,406	1,223,510
Total budgetary resources	**$3,021,096**	**$2,961,483**
Status of budgetary resources:		
New obligations and upward adjustments (total)	$1,208,528	$1,127,612
Unobligated balance, end of year:		
Exempt from apportionment, unexpired accounts	1,812,568	1,833,871
Unexpired unobligated balance, end of year	1,812,568	1,833,871
Expired unobligated balance, end of year	0	0
Unobligated balance, end of year (total)	1,812,568	1,833,871
Total status of budgetary resources	**$3,021,096**	**$2,961,483**
Outlays, net		
Outlays, net (total) (discretionary and mandatory)	(25,950)	(122,617)
Agency outlays, net	**$(25,950)**	**$(122,617)**

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, 2023 AND 2022

Dollars in Thousands	FY223	FY2023
Revenue activity:		
Sources of cash collections		
Fines and penalties (Note 14)	$107,227	$193,093
Accrual adjustment	$(139)	$(1,163)
Total custodial revenue	**$107,088**	**$191,930**
Disposition of custodial revenue:		
Transferred to Treasury	$107,227	$193,093
(Increase)/decrease in amounts yet to be transferred	$(139)	$(1,163)
Total disposition for custodial revenue	**$107,088**	**$191,930**
Net custodial activity	**$0**	**$0**

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

NOTES TO THE FINANCIAL STATEMENTS

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: supervise, regulate, and charter banks. 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.

The OCC examined its operations and has prepared these statements and notes in compliance with the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 47, "Reporting Entity." The OCC determined that it does not have a relationship with any entity that would require reporting as a related party as of September 30, 2023.

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 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." 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.

In addition, the OCC applies financial accounting and reporting standards pursuant to 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 records obligations 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 semiannually from the banks it supervises 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 General Fund of the Treasury. These non-entity assets are not fiduciary, as fiduciary funds are those that the federal government holds on behalf of nonfederal individuals or entities that have an ownership interest. (For more information, see Note 4.)

Intragovernmental and with the public: Throughout these financial statements, assets, liabilities, earned revenues, and costs have been classified according to the entity responsible for these transactions. Intragovernmental assets, liabilities, and earned revenues are derived from activity with other federal entities. All other assets, liabilities, and revenues result from activities with parties outside the federal government. Intragovernmental costs are payments or expense accruals to other federal entities.

Funds from dedicated collections: These funds are financed by specifically identified revenue that is provided to the government by nonfederal 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 other fees paid by banks, from income on investments in nonmarketable U.S. Treasury securities, and from rental property and reimbursable activities with other entities. The OCC does not receive congressional appropriations to fund its operations. Therefore, the OCC has no unexpended appropriations.

The OCC's semiannual bank assessments are collected in the middle of each six-month assessment cycle. At the time of collection, the OCC records deferred revenue on its balance sheet as a liability for the assessments that the agency has not yet earned. The OCC recognizes deferred revenue as revenue as the supervisory services are delivered over the following three months.

Federal statute stipulates that the OCC's funds are neither government funds nor appropriated monies (12 USC 481). They are maintained primarily 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

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

Investments, Net

The OCC has statutory authority to make investments. The OCC reports its net investments, both intragovernmental and with the public, on an amortized cost basis and related accrued interest. Premiums and discounts are amortized over the term of the investment using the effective interest method.

Consistent with the provisions of 12 USC 481 and 12 USC 192, the OCC invests (1) available funds held by the U.S. Treasury in nonmarketable U.S. Treasury securities that are not offered to the marketplace and cannot be bought and sold on exchange markets (intragovernmental investments); and (2) beginning in FY 2020, available funds held outside the Treasury in marketable U.S. Treasury securities, which are offered to the marketplace and can be bought and sold on securities exchange markets (with the public investments).

Intragovernmental investments, net: The OCC invests available funds held by the U.S. Treasury in U.S. Government Account Series Treasury securities, which include bills, notes, and one-day certificates. U.S. Government Account Series Treasury 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 320, "Investments – Debt and Equity Securities." (For more information, see Note 3.)

With the public investments, net: The OCC also invests available funds held outside the Treasury in a money market mutual fund that operates as a "government money market fund" as defined in Rule 2a-7 under the Investment Company Act of 1940, as amended. It is the OCC's policy to invest in held-to-maturity securities. The fair value of these investments is based on the fair value measurement hierarchy classification, Level 1, in accordance with ASC Topic 820, "Fair Value Measurement." Level 1 reflects the unadjusted quoted prices in active markets for identical assets that the OCC is able to access at the measurement date. (For more information, see Note 3.)

Accounts Receivable, Net

In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," the OCC updates the allowance for loss on accounts receivable with the public 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 the allowance is calculated, the OCC uses it 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, Net

General property, plant, and equipment (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 expenses purchases and software development costs that do not meet the capitalization criteria, 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 general PP&E from its asset accounts in the period of disposal, retirement, or removal from service. Any difference between the book value of general 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 leave: The OCC accrues and funds annual leave and credit hours as they are earned and reduces the accrual as leave and credit hours are taken or paid. Each year, the balance in the accrued leave account is adjusted to reflect actual leave balances with current pay rates. Sick leave and other types of non-vested leave are expensed as used.

Deferred revenue: The OCC's activities are primarily financed by assessments on assets held by banks. These assessments are due semiannually on March 31 and September 30 based on each institution's asset balance in accordance with the methodology in the OCC Notice of Fees. 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 liability if it is both probable and can be reasonably estimated. 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 OCC employees participate in one of three retirement systems – the Civil Service Retirement System (CSRS or CSRS Offset), the Federal Employees Retirement System (FERS), or the Pentegra Defined Benefit Plan (Pentegra DB Plan). The 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 the CSRS, except for those who, during the election period, joined FERS. The Pentegra DB Plan is administered by the president of the plan. 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 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 imputed costs based on OPM cost factors.

The Pentegra DB Plan is a tax-exempt, multiple-employer, DB pension plan. In accordance with the provisions of Dodd–Frank (as amended by the Economic Growth Act), the OCC assumed the role of benefit administrator for the Pentegra DB Plan in FY 2011. For funding purposes, 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. The OCC does not report in its financial statements any assets, accumulated plan benefits, or actuarial gains/losses from the Pentegra DB Plan. Pentegra, as plan administrator, reports these amounts in an annual filing.

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 $26.1 million and $24.4 million for FY 2023 and FY 2022, respectively, and are included as a component of "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 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 to the 401(k) plan is based on the applicable retirement system under which each participant is covered. For those who participate in FERS, the 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 a 1.0 percent additional match to all other participants.

With few exceptions, 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's 401(k) Plan Adoption Agreement provides that the OCC may use forfeitures to pay plan expenses and offset the employer's contribution obligation. In addition, the agency may re-allocate forfeitures among participants. This year, the OCC used forfeitures to defray plan expenses.

The OCC's contributions to the 401(k) plans totaled $32.2 million and $30.4 million for FY 2023 and FY 2022, respectively, and are included as a component of "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." (For more information, see Note 7.)

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. Financial reserves are integral to the effective stewardship of the OCC's resources, particularly because the agency does not receive congressional appropriations. (For more information, see Note 8.)

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 Treasury Department. The OCC presents the Statements of Custodial Activity on the "modified cash basis," in accordance with SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting." The OCC recognizes revenues as cash is collected and records a "noncash accrual adjustment" representing the net increase or decrease during the reporting period in net revenue-related assets and liabilities.

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 OCC's nonbudgetary FBWT account balance represents investment accounts that reduce the status of the FBWT.

The OCC holds a limited amount of funds outside of Treasury that are classified as with the public investments, net. See Note 3 for more information.

As of September 30, 2023, and 2022, respectively, there were no unreconciled differences between U.S. Treasury records and balances reported on the OCC's general ledger. Table 10 depicts the OCC's FBWT amounts for FY 2023 and FY 2022.

Table 10: Fund Balance With Treasury (Dollars in Thousands)

FUND BALANCE	FY 2023	FY 2022
Trust fund	$32,220	$15,111
STATUS OF FBWT	**FY 2023**	**FY 2022**
Unobligated balance – available	$1,812,559	$1,832,957
Obligated balance not yet disbursed	$426,957	$380,609
Nonbudgetary FBWT	$(2,207,296)	$(2,198,455)
Total	**$32,220**	**$15,111**

Note 3 – Investments, Net

Intragovernmental investments, net: 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 intragovernmental investment securities was $2,135.0 million on September 30, 2023, and $2,120.0 million on September 30, 2022. The overall portfolio earned an annual yield of 2.2 percent for FY 2023 and 1.2 percent for FY 2022.

The yield-to-maturity on individual securities in the non-overnight portion of the OCC's investment portfolio ranged from 0.2 percent to 4.7 percent on September 30, 2023, and from 0.2 percent to 4.0 percent on September 30, 2022.

Table 11: Intragovernmental Investments, Net as of September 30, 2023 (Dollars in Thousands)

INTRAGOVERNMENTAL SECURITIES	COST	AMORTIZATION METHOD	AMORTIZED (PREMIUM) DISCOUNT	INTEREST RECEIVABLE	INVESTMENTS, NET	OTHER ADJUSTMENTS	MARKET VALUE DISCLOSURE
Nonmarketable market-based	$2,229,259	Effective interest	$1,730	$4,197	$2,235,186	$0	$2,134,776
Total intragovernmental investments	$2,229,259	NA	$1,730	$4,197	$2,235,186	$0	$2,134,776

Table 12: Intragovernmental Investments, Net as of September 30, 2022 (Dollars in Thousands)

INTRAGOVERNMENTAL SECURITIES	COST	AMORTIZATION METHOD	AMORTIZED (PREMIUM) DISCOUNT	INTEREST RECEIVABLE	INVESTMENTS, NET	OTHER ADJUSTMENTS	MARKET VALUE DISCLOSURE
Nonmarketable market-based	$2,220,616	Effective interest	$168	$4,417	$2,225,201	$0	$2,120,022
Total intragovernmental investments	$2,220,616	NA	$168	$4.417	$2,225,201	$0	$2,120,022

With the public investments, net: During FY 2023, the OCC maintained investments in a money market mutual fund, Federated Hermes Trust for Treasury Obligations Fund, Capital Share Class, through a state-chartered Federal Reserve-supervised bank as part of its contingency planning strategy. Total investments with the public are $21.0 million as of September 30, 2023, up from $20.1 million as of September 30, 2022. Growth in the account was driven exclusively by interest earned on invested funds. The bank and its related affiliates are responsible for the administration of the investments in the fund. Although the fund is not insured or guaranteed by the FDIC or any other government agency, the fund complies with Rule 2a-7 definition of a government money market fund.

Table 13: With the Public Investments, Fair Value Measurement as of September 30, 2023 (Dollars in Thousands)

INVESTMENT TYPE	LEVEL 1	LEVEL 2	LEVEL 3	OTHER	TOTAL
Debt securities	$21,014	$0	$0	$0	$21,014
Total with the public investments	**$21,014**	**$0**	**$0**	**$0**	**$21,014**

Table 14: With the Public Investments, Fair Value Measurement as of September 30, 2022 (Dollars in Thousands)

INVESTMENT TYPE	LEVEL 1	LEVEL 2	LEVEL 3	OTHER	TOTAL
Debt securities	$20,121	$0	$0	$0	$20,121
Total with the public investments	**$20,121**	**$0**	**$0**	**$0**	**$20,121**

Note 4 – Accounts Receivable

Except for CMPs, 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 15: Accounts Receivable as of September 30, 2023 (Dollars in Thousands)

COMPONENT	GROSS	ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS	ACCOUNTS RECEIVABLE, NET
Intragovernmental receivables	$1,700	$0	$1,700
CMP receivables	553	0	553
With the public receivables	55	(7)	48
Total accounts receivable	**$2,308**	**$(7)**	**$2,301**

Table 16: Accounts Receivable as of September 30, 2022 (Dollars in Thousands)

COMPONENT	GROSS	ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS	ACCOUNTS RECEIVABLE, NET
Intragovernmental receivables	$692	$0	$692
CMP receivables	1,974	0	1,974
With the public receivables	197	0	197
Total accounts receivable	**$2,863**	**$0**	**$2,863**

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

The OCC's assets include land, a building, leasehold improvements, equipment, capital leases, and internal-use software. Please see Note 1 for details on the OCC's capitalization policy and accounting for depreciation and amortization. The figures in tables 17 and 18 present the OCC's capitalization thresholds and the general PP&E balances as of September 30, 2023 and 2022, respectively.

In FY 2023, the OCC recognized $4.5 million of fully depreciated assets and fully amortized leasehold assets removed from service, compared with $5.0 million in FY 2022.

The OCC's building and associated land are located in Washington, D.C. The building is a rental-income property that the OCC uses to supplement its operating budget (see Note 6). Details concerning estimated land acreage are discussed in unaudited required supplementary information.

Table 17: Property, Plant, and Equipment, Net as of September 30, 2023 (Dollars 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	(44,449)	4,739
Leasehold improvements	50	5-20	100,177	(68,844)	31,333
Equipment	50	5	68,598	(37,996)	30,602
Capital leases	50	5	6,556	(4,513)	2,043
Internal-use software	$250	5	90,549	(90,051)	498
Total	**NA**	**NA**	**$322,169**	**$(245,853)**	**$76,316**

Table 18: Property, Plant, and Equipment, Net as of September 30, 2022 (Dollars 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	(43,396)	5,792
Leasehold improvements	50	5-20	97,768	(67,983)	29,785
Equipment	50	5	45,390	(34,224)	11,166
Capital leases	50	5	3,167	(2,530)	637
Internal-use software	$250	5	90,016	(89,842)	174
Total	**NA**	**NA**	**$292,630**	**$(237,975)**	**$54,655**

Note 6 – Leases

OCC as Lessee

The OCC leases equipment and office space for its headquarters operations in Washington, D.C., and for region and field operations. The OCC evaluates all leases at inception in accordance with the criteria set forth in SFFAS No. 5, "Accounting for Liabilities of the Federal Government." In FY 2023, all but three of the OCC's leases were recorded as operating leases. The three capital leases are for equipment with a nonfederal lessor and will be fully amortized in December 2026. The total future minimum lease payments for the capital leases are immaterial. The costs for both the operating and capital leases are included in the Statements of Net Cost. These leases are noncancelable and have expiration dates ranging from FY 2024 to FY 2038, 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 nonfederal lessors through FY 2029 and thereafter, not including renewals, as of September 30, 2023, are shown in table 19. The OCC has three leases with intragovernmental lessors with end dates in 2024 and 2025. Total future minimum lease payments to federal lessors are immaterial.

Table 19: Future Lease Payments to Nonfederal Lessors for Operating Leases (Dollars in Thousands)

YEAR	PROPERTY	EQUIPMENT	TOTAL
2024	$47,546	$0	$47,546
2025	45,352	0	45,352
2026	44,728	0	44,728
2027	44,077	0	44,077
2028	43,480	0	43,480
2029 and beyond	391,380	0	391,380
Total	**$616,563**	**$0**	**$616,563**

OCC as Lessor

In FY 2012, the OCC entered into a 20-year occupancy agreement with another federal agency for space in the building the OCC owns. This agreement expires in February 2032 and includes 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 2029 and thereafter, not including renewals, as of September 30, 2023, is shown in table 20.

Table 20: Future Rental Income (Dollars in Thousands)

YEAR	AMOUNT
2024	$14,703
2025	14,997
2026	15,297
2027	15,604
2028	15,916
2029 and beyond	56,513
Total	**$133,030**

Note 7 – Other Actuarial Liabilities

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

Table 21: Actuarial Liabilities (Dollars in Thousands)

COMPONENT	FY 2023	FY 2022
Post-retirement life insurance benefits	$70,016	$71,168
Federal Employees' Compensation Act	9,262	9,742
Pentegra DB Plan	661	1,422
Total actuarial liabilities	**$79,939**	**$82,332**

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 5.8 percent in FY 2023 and 5.4 percent in FY 2022. The year-over-year net actuarial liability decreased ($70.0 million in FY 2023 from $71.2 million in FY 2022) primarily due to an increase in the discount rate with the OCC recognizing a $3.1 million actuarial gain in FY 2023 and an actuarial gain of $28.7 million in FY 2022.

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

Table 22: Reconciliation of Beginning and Ending Post-Retirement Liability and the Related Expenses (Dollars in Thousands)

Change in actuarial and accrued benefits	**FY 2023**	**FY 2022**
Actuarial post-retirement liability, beginning balance	$71,168	$97,027
Actuarial expense		
Normal cost	1,049	1,781
Interest on the liability balance	3,765	3,047
Actuarial (gain)/loss		
From experience	(171)	699
From assumption changes	(2,950)	(28,728)
Prior service costs		
Total expense	**1,693**	**(23,201)**
Less amounts paid	(2,845)	(2,658)
Actuarial post-retirement liability, ending balance	**$70,016**	**$71,168**

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 2023 present value of these estimated outflows was calculated using a discount rate of 2.3 percent for wage benefits and 2.1 percent for medical benefits. For FY 2022, the discount rates for wage and medical benefits were 2.1 percent and 2.0 percent, respectively.

Pentegra Defined Benefit Plan

The Pentegra DB Plan is a tax-exempt, multiple-employer, DB pension plan in which participating employers pay all costs into one general account. At retirement, employees may choose either a lump sum payment or an annuity/lump sum split. The Pentegra DB Plan year begins July 1 and ends June 30.

For the plan years beginning 2023 and 2022, the OCC made the minimum required contribution payments to Pentegra DB Plan. In fiscal years 2023 and 2022, the OCC recognized plan expenses of $3.3 million and $4.6 million, respectively.

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. In addition, the OCC sets aside funds in the net position to cover the cost of ongoing operations, including commitments and open obligations supporting the achievement of OCC strategic goals and objectives. The year-to-year increase in net position reflects the excess of revenues over the cost of operations for both years presented. Table 23 shows balances for the years ended September 30, 2023 and 2022, respectively.

Table 23: Net Position Availability (Dollars in Thousands)

COMPONENT	FY 2023	FY 2022
Financial reserves	$1,636,867	$1,636,717
Set aside for ongoing operations	171,735	138,948
Net position	**$1,808,602**	**$1,775,665**

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 reflected in the Statements of Changes in Net Position, Note 10, and Note 11. Table 24 illustrates the OCC's operating expense categories for the years ended September 30, 2023 and 2022, respectively.

Table 24: Net Cost (Excess of Revenues Over Cost) of Operations by Expense Category (Dollars in Thousands)

COMPONENT	FY 2023	FY 2022
Personnel compensation and benefits	$867,413	$798,338
Contractual services	138,915	138,459
Rent, communication, and utilities	64,889	78,553
Travel and transportation of persons and things	29,060	13,239
Imputed costs (Note 10)	51,163	34,082
Depreciation	12,348	10,510
Other	39,748	32,781
Total cost of operations	**1,203,536**	**1,105,963**
Less earned revenues not attributed to programs	(1,185,310)	(1,204,999)
Total	**$18,226**	**$(99,036)**

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 OPM trust funds. These amounts are recorded as imputed costs and imputed financing for other agencies. Annually, 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 OPM trust funds will provide for each agency.

The imputed cost categories for FY 2023 and FY 2022 are listed in the table below. These imputed costs are included on the Statements of Net Cost. The financing sources absorbed by OPM are reflected in the Statements of Changes in Net Position and in Note 11. The year-to-year change in imputed cost is primarily due to an increase in OPM cost factors.

Table 25: Imputed Costs Absorbed by OPM (Dollars in Thousands)

COMPONENT	FY 2023	FY 2022
Retirement	$19,273	$4,975
Federal Employees Health Benefits	31,822	29,045
Federal Employee's Group Life Insurance	68	62
Total	**$51,163**	**$34,082**

Note 11 – Reconciliation of Net Cost to Net Outlays

The Reconciliation of Net Cost of Operations to Net Outlays depicts the difference between proprietary financial accounting information and budgetary accounting information. Proprietary financial accounting information is intended to depict the U.S. government's financial operations and financial position presented on an accrual basis in accordance with GAAP, which includes the recognition of assets and liabilities for which collections and payments, respectively, have not been made. In contrast, budgetary accounting information is used for planning and control purposes and includes net outlays that reflect both the receipt and use of cash, as well as reporting the federal deficit. The reconciliation of the OCC's net cost (presented on an accrual basis) and net outlays (presented on a budgetary basis) reflects the relationship between financial accounting and budgetary information. The reconciliation serves not only to identify costs paid in the past and those that will be paid in the future but also to assure integrity between financial and budgetary accounting. Tables 26 and 27 depict the OCC's Reconciliation of Net Cost to Net Outlays for the years ended September 30, 2023 and 2022, respectively.

Table 26: Reconciliation of Net Cost to Net Outlays for the Year Ended September 30, 2023 (Dollars in Thousands)

(Dollars in Thousands)	Intra-governmental	With the public	Total FY 2023
Net cost	$157,473	$ (139,247)	$ 18,226
Components of net cost not part of net outlays:			
Property, plant, and equipment depreciation	0	21,661	21,661
Increase/(decrease) in assets:			
Accounts receivable, net	(273)	(150)	(423)
Investments, net	9,985	892	10,877
Other assets	(3)	(32)	(35)
(Increase)/decrease in liabilities:			
Accounts payable	0	(584)	(584)
Salaries and benefits	(462)	(11,035)	(11,497)
Other liabilities	(874)	(3,297)	(4,171)
Other financing sources:			
Imputed financing	(51,163)	0	(51,163)
Total components of net cost not part of net outlays	**$(42,790)**	**$7,455**	**$(35,335)**
Components of net outlays that are not part of net cost:			
Intragovernmental investments	(8,841)	0	(8,841)
Total components of net outlays that are not part of net cost	**(8,841)**	**0**	**(8,841)**
Net outlays	**$105,842**	**$(131,792)**	**$(25,950)**

Table 27: Reconciliation of Net Cost to Net Outlays for the Year Ended September 30, 2022 (Dollars in Thousands)

(Dollars in Thousands)	Intra-governmental	With the public	Total FY 2022
Net cost	$ 150,726	$ (249,762)	$ (99,036)
Components of net cost not part of net outlays:			
Property, plant, and equipment depreciation	0	688	688
Increase/(decrease) in assets:			
Accounts receivable, net	(626)	(4,094)	(4,720)
Investments, net	121,949	15,121	137,070
Other assets	28	1	29
(Increase)/decrease in liabilities:			
Accounts payable	0	3,703	3,703
Salaries and benefits	(1,197)	(13,815)	(15,012)
Other liabilities	672	13,398	14,070
Other financing sources:			
Imputed financing	(34,082)	0	(34,082)
Total components of net cost not part of net outlays	**$86,744**	**$15,002**	**$101,746**
Components of net outlays that are not part of net cost:			
Intragovernmental investments	(125,327)	0	(125,327)
Total components of net outlays that are not part of net cost	**(125,327)**	**0**	**(125,327)**
Net outlays	**$112,143**	**$(234,760)**	**$(122,617)**

Note 12 – Contingent Liabilities

The OCC recognizes and discloses contingencies in accordance with SFFAS No. 5, as amended by 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.

In FY 2023, the OCC recorded an additional $4,650,852 contingent liability for two new legal cases where the risk of loss was probable, and the amounts were estimable. The ongoing legal case contingent liability increased and is estimated between $1,145,000 and $1,280,000. In FY 2022, the OCC increased the same liability by $150,000 from the prior year.

Note 13 – Undelivered Orders at the End of the Period

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

Table 28: Undelivered Orders at the End of the Period (Dollars in Thousands)

Undelivered orders paid at the end of the period	FY 2023	FY 2022
Intragovernmental	$30	$33
With the public	34	66
Total undelivered orders paid at the end of the period	$64	$99
Undelivered orders unpaid at the end of the period	**FY 2023**	**FY 2022**
Intragovernmental	$5,024	$6,053
With the public	148,853	131,948
Total undelivered orders unpaid at the end of the period	$153,877	$138,001
Total	**$153,941**	**$138,100**

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 Treasury. The change in FY 2023 is due to a decrease in the penalties assessed against regulated institutions.

Table 29: Custodial Revenue (Dollars in Thousands)

COMPONENT	TAX YEAR 2023	TAX YEAR 2022	TAX YEAR 2021	TAX YEAR PRE-2021	2023 COLLECTIONS
Fines and penalties, nontax related	$107,042	$30	$32	$123	$107,227

Table 30: Custodial Revenue (Dollars in Thousands)

COMPONENT	TAX YEAR 2022	TAX YEAR 2021	TAX YEAR 2020	TAX YEAR PRE-2020	2022 COLLECTIONS
Fines and penalties, nontax related	$192,743	$102	$144	$104	$193,093

gka, p.c.
Certified Public Accountants
& Consultants

Independent Auditor's Report

Deputy Inspector General
U.S. Department of the Treasury

Acting Comptroller of the Currency
Office of the Comptroller of the Currency

Report on the Financial Statements

Opinion

In accordance with *Government Auditing Standards*, we have audited the accompanying financial statements of the Office of the Comptroller of the Currency (OCC), which comprise the balance sheet as of September 30, 2023, and the related statements of net costs, changes in net position, budgetary resources and custodial activity for the year then ended, and the related notes to the financial statements, hereinafter referred to as the "financial statements."

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OCC as of September 30, 2023, and its net costs, changes in net position, budgetary resources, and custodial activity for the fiscal year then ended in accordance with U.S. generally accepted accounting principles.

Prior Period Financial Statements

The financial statements of OCC as of September 30, 2022, were audited by other auditors whose report dated November 23, 2022, expressed an unmodified opinion on those statements.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*.

Our responsibilities under those standards and OMB Bulletin No. 24-01 are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the OCC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin 24-01 will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards* and OMB Bulletin 24-01, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements in order to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- Obtain an understanding of internal control relevant to our audit 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 OCC's internal control over financial reporting. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the financial statement audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Financial Management Discussion and Analysis section be presented to supplement the basic financial statements referred to in the first paragraph of this report. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information in the About the OCC, Comptroller's Viewpoint, Condition of the Federal Banking System, Supervision, OCC Leadership, and Commemorating the OCC's 160th Anniversary sections, but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2023, we considered the OCC's internal control over financial reporting (internal control) as a basis for designing the 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. Accordingly, we do not express an opinion on the effectiveness of the OCC's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982.*

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

During our 2023 audit, we identified deficiencies in OCC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant OCC management's attention. We have communicated these matters to OCC management and will report on them separately.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OCC's financial statements as of and for the year ended September 30, 2023, are free from material misstatement, we performed tests of the OCC's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-01.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the OCC's internal control or on OCC's compliance. This section is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OCC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

GKA, P.C.

Washington, DC
October 31, 2023

OTHER INFORMATION

Key Performance Measures and Results

The OCC's FY 2023 performance measures, workload indicators, customer service standards, and results are presented in table 31. They respond to the requirements for most agencies to set goals, measure performance, and report the information to Congress as established in the Government Performance and Results Act of 1993 Modernization Act of 2010.

The OCC organizes its programs under three activities: supervise, regulate, and charter banks. In addition, the OCC measures its overall efficiency and effectiveness with an agency-wide indicator. As such, the OCC's priorities focus on strengthening the resiliency of the institutions subject to its jurisdiction through its supervisory and regulatory programs and activities. A stronger and more resilient banking system supports four out of five Treasury Department FY 2022–2026 strategic goals: boost U.S. economic growth, promote financial stability, enhance national security, and achieve operational excellence.

Table 31: Performance Measures, Workload Indicators, Customer Service Standards, and Results

CATEGORY	PERFORMANCE MEASURES, WORKLOAD INDICATORS, AND CUSTOMER SERVICE STANDARDS	FY 2020	FY 2021	FY 2022	FY 2023 TARGET	FY 2023 ACTUAL
Supervise and regulate programs	Percentage of banks with composite capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk (CAMELS) rating of 1 or 2	99%	99%	96%	90%	95%
Supervise and regulate programs	Percentage of banks that are well capitalized	95%	99%	99%	95%	99%
Supervise and regulate programs	Percentage of banks with consumer compliance rating of 1 or 2. For institutions with assets more than $10 billion, these ratings reflect only those laws and regulations for which the OCC has enforcement and supervisory authority.	98%	98%	98%	94%	98%
Charter program	Percentage of licensing applications and notices completed within established time frames	98%	98%	98%	95%	99%
Agency-wide	Total OCC costs relative to every $100,000 in assets regulated	$7.78	$6.79	$6.78	$7.21	$7.04

Note: A bank's composite rating, or CAMELS, under the Uniform Financial Institutions Rating System integrates ratings from six component areas: capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk.

Government Land

The OCC owns one building and associated land located at 1700 G Street NW, Washington, D.C. The building was placed onto the OCC's balance sheet in July 2011, when the Office of Thrift Supervision activities were merged into the Office of the Comptroller of the Currency with the passage of Dodd–Frank.

Predominant use of land is considered commercial use since the OCC leases the office space to another federal agency and leases the ground floor space to commercial retail tenants. The OCC uses the rental income to supplement its operating budget. The total estimated acreage for this property at the beginning of the reporting year was 1.4 acres and was the same at the end of the year.

Payment Integrity

The OCC follows the Treasury Department's implementation guidance for OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," Appendix C, "Requirements for Payment Integrity Improvement." In FY 2023, the OCC performed a risk assessment for the following programs:

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

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 Office of Management and Budget (OMB); therefore, the OCC is not required to determine a statistically valid estimate of improper payments or perform additional reporting on corrective actions or root causes.

Analysis of Overpayments

Overpayments are identified through pre- and post-payment audits, recurring quality control reviews, and other controls, such as Treasury pay file reviews and Do Not Pay (DNP) continuous monitoring efforts. The OCC ensures that effective controls are in place to prevent payments to ineligible vendors and to meet the DNP requirements.

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

Office of the Comptroller of the Currency

MEMORANDUM

To: Janet Yellen
Secretary of the Treasury

From: Michael J. Hsu
Acting Comptroller of the Currency

Michael J. Hsu Digitally signed by Michael J. Hsu Date: 2023.10.13 13:22:11 -04'00'

Date: October 13, 2023

Subject: Final FY 2023 Unmodified Statement of Assurance of Achievement of Management Control Objectives

The Office of the Comptroller of the Currency (OCC) is responsible for meeting 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), and the Digital Accountability and Transparency Act. 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 reporting, and (4) compliance with applicable laws and regulations.

Management is responsible for managing risks and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. Risk management practices that identify, assess, respond to, and report on risks are 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 and OMB Circular A-123, Appendix A, Management of Reporting and Data Integrity Risk. Based on the results of this assessment, the OCC can provide reasonable assurance that our internal controls over strategic, operational, reporting, and compliance objectives were operating effectively as of September 30, 2023.

In addition, the OCC conducted an assessment of our financial management systems in accordance with OMB Circular A-123, Appendix D, Management of Financial Management Systems – Risk and Compliance. Based on the results of this assessment, our financial management systems substantially comply with FFMIA Section 803(a) as of September 30, 2023.

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

ABBREVIATIONS

AVM	automated valuation model
BSA/AML	Bank Secrecy Act/Anti-Money Laundering
CBS	Committee on Bank Supervision
CFPB	Consumer Financial Protection Bureau
CMP	civil money penalty
CRA	Community Reinvestment Act
CRE	commercial real estate
ECOA	Equal Credit Opportunity Act
ENG	employee network group
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FHFA	Federal Housing Finance Agency
FSA	federal savings association
FSOC	Financial Stability Oversight Council
LIBOR	London Interbank Offered Rate
MCBS	Midsize and Community Bank Supervision
MDI	minority depository institution
MDIAC	Minority Depository Institutions Advisory Committee
MSAAC	Mutual Savings Association Advisory Committee
OCC	Office of the Comptroller of the Currency
PAVE	Property Appraisal and Valuation Equity
REACh	Roundtable for Economic Access and Change
ROA	return on assets
ROV	reconsiderations of value
SARP	Semiannual Risk Perspective
SPCP	Special Purpose Credit Program
UCE	Uniform Commission Examination

About the Cover

The OCC celebrated its 160th anniversary in 2023 by acknowledging its robust history of safeguarding trust in banking since 1863. The cover art of this report pays tribute to this milestone anniversary and depicts the OCC's priorities today and for the future.

The landscape chronicles the evolution of the OCC and the federal banking system through illustrations of bank headquarters buildings from the OCC's inception to today's digital age.

The arch over the buildings morphs from Morse code to binary sequences paying homage to the OCC's earliest supervisory communications that have evolved into the language of the digital era. It culminates with technology nodes to represent today's integrated risk-based supervisory framework, which underpins banks' efforts to innovate responsibly and inspires bank adaptability to meet the financial needs of consumers, businesses, and communities nationwide. The hidden message in binary code spells out safety and soundness – the overarching tenants of the OCC's original mission that remain as two of the critical elements of our supervisory mandate today.

Trains were the primary means of travel by OCC employees traversing the country to examine banks. The train tracks intersect with cyber lines to illustrate examiners' continual adaptation to technological advances to monitor the condition of the federal banking system over time.

The individuals poised to board the train are juxtaposed with contemporary silhouettes to reflect bank examiners' timeless dedication and constant presence in banks across the eras.

Finally, the imagery and colors acknowledge the OCC's current priorities. The many references to advances in technology demonstrate the agency's focus on adapting to digitalization. The transition from sepia tones (static) to color (dynamic) reflects the evolution of banks and bank supervisors as they guard against complacency in light of continually evolving risks. The blue and green shades around the tallest buildings represent the agency's priority of acting on climate risks. The people represent the agency's priority of reducing inequality and building trust in the banking system as well as OCC's commitment to diversity and inclusion in its workforce.

Editorial and Design Staff

Editors
Adam Stump and Erin Smith

Designer
Svetlana Bilenkina

Illustrator
Jeanette Passons

OCC HEADQUARTERS
400 7th St. SW
Washington, DC 20219

This Page Intentionally Left Blank

REPORT WASTE, FRAUD, AND ABUSE

Submit a complaint regarding Treasury OIG Treasury Programs and Operations using our online form: https://oig.treasury.gov/report-fraud-waste-and-abuse

TREASURY OIG WEBSITE

Access Treasury OIG reports and other information online: https://oig.treasury.gov/

RESPONSE TO REPORT OIG-24-013 PURSUANT TO THE JAMES M. INHOFE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2023, PUBLIC LAW NO. 117-263, SECTION 5274

The Treasury Office of Inspector General attaches the following summary of response received from specifically identified non-governmental organizations or business entities as required by the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law No. 117-263, § 5274.

The Treasury Office of Inspector General offers no comment and makes no representations, express or implied, of any nature with respect to the matters stated in the attached summary of response.

DEPARTMENT OF THE TREASURY
WASHINGTON, D. C. 20220

OFFICE OF
INSPECTOR GENERAL

February 28, 2024

Summary of Pentegra's Response to Report Number OIG-24-013 Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, § 5274

Public Law 117-263, § 5274, James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, which amends the Inspector General Act of 1978, requires the Office of Inspector General (OIG) to notify non-government organizations (NGOs) and business entities (BEs) of the publication of a report, which specifically identifies them in the content of the report. The law also requires the OIG to provide NGOs and BEs 30 days from the date of the notice to review the final report and submit a written response to the OIG that clarifies or provides additional context for each instance within the report in which they are specifically identified.

On January 3, 2024, we notified Pentegra that they were identified in the content of the report, Audit of the Office of the Comptroller of the Currency's (OCC) Financial Statements for Fiscal Years 2023 and 2022 (OIG-24-013). On February 1, 2024, Pentegra via email[1], responded to our notification with the following comments:

> *The cover letter is from the Dept. of the Treasury and appears to give us the opportunity to comment on references to the Pentegra DB Plan. In reviewing the audit report, we found 3 references to Pentegra:*
>
> 1. *Pg. 68- We feel this language is accurate.*
> 2. *Pg.- 70- there is a reference to FIRF- the Financial Institutions Retirement Fund, an old name for the current Pentegra Defined Benefit Plan for Financial Institutions. We suggest you add (now the Pentegra DB Plan) after the reference to FIRF.*
> 3. *Pg. 80-We think the language is accurate but you should consider modifying 3 words- the reference to "one general account" should be replaced by "a single Trust."*

OCC management has reviewed Pentegra's response. While OCC disagrees with Pentegra's second comment, OCC will continue to work with Pentegra to understand their recommended edits and make changes in future annual reports as appropriate.

[1] Pentegra did not respond to our notification on company letterhead.