



Audit Report



OIG-17-033

FINANCIAL MANAGEMENT

Audit of the Office of the Comptroller of the Currency's
Fiscal Years 2016 and 2015 Financial Statements

January 19, 2017

Office of
Inspector General

Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

January 19, 2017

**MEMORANDUM FOR THOMAS J. CURRY
COMPTROLLER OF THE CURRENCY**

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Audit of the Office of the Comptroller of the Currency's
Fiscal Years 2016 and 2015 Financial Statements

I am pleased to transmit the attached subject report. Under a contract monitored by our office, Williams, Adley & Company-DC, LLP (Williams Adley), an independent certified public accounting firm, audited the financial statements of the Office of the Comptroller of the Currency (OCC) as of September 30, 2016 and 2015, and for the years then ended, and provided a report on internal control over financial reporting, and a report on reportable noncompliance with laws, regulations, and contracts tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/President's Council on Integrity and Efficiency *Financial Audit Manual*.

In its audit of OCC, Williams Adley found

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

In connection with the contract, we reviewed Williams Adley's report 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, opinions on OCC's financial statements or conclusions about the effectiveness of internal control or compliance with laws, regulations, and contracts. William Adley is responsible for the attached auditors' report dated

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October 31, 2016, and the conclusions expressed in the report. However, our review disclosed no instances where Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-0009, or a member of your staff may contact Ade Bankole, Manager, Financial Audit, at (202) 927-5329

Attachment

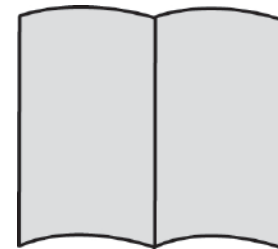
Supporting Responsible **INNOVATION**
in the Federal Banking System



ANNUAL
2016 **REPORT**
SAFE
SOUND
FAIR

WHAT'S NEW

New for FY 2016, this annual report uses cutting-edge augmented reality (AR) technology to enhance your reading experience. Using your smartphone or tablet, we invite you to experience the interactive features within the following pages. Follow the instructions below to download a free AR scanner app. With only a few taps on your mobile device, you can download documents, view videos, and interact with the OCC online.



- 1** Download and open the free Layar* app.
- 2** Aim your phone at any page with this icon.
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*No federal endorsement intended.



ANNUAL 2016 REPORT

Supporting Responsible Innovation
in the Federal Banking System

About the OCC



Hugh McCulloch
First Comptroller of the Currency

The mission of the Office of the Comptroller of the Currency (OCC) is to ensure that the federal banking system, comprising national banks and federal savings associations (also known as thrifts), operates in a safe and sound manner, provides fair access to financial services, treats customers fairly, and complies with applicable laws and regulations.

The OCC charters, regulates, and supervises these institutions and also licenses, regulates, and supervises federal branches and agencies of foreign banks.

It oversees the organization and structure of the federal banking system, establishing a framework that encourages regulated entities to innovate and adapt to meet the evolving financial needs of the American people. The agency issues and implements regulations and takes appropriate enforcement action when shortcomings are identified.

The OCC and the federal banking system were created by the National Currency Act, which President Abraham Lincoln signed into law on February 25, 1863. In June 1864, the law was substantially revised and expanded, and in 1874 it was given a new name: the National Bank Act. As further amended, it remains the basic statute under which the OCC and national banks operate today. Federal savings associations (FSA) are governed by the Home Owners' Loan Act of 1933.

The OCC pioneered many of the practices used today by bank regulators in the United States and around the world. These practices include the judicious use of examiners of different specialties, a multifaceted approach to assessing a bank's condition, and a risk-centered, continuous approach to supervision and compliance. The OCC also developed the concept of bank supervision that integrates licensing, regulation, and examination.

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

Council (FSOC) and the Federal Financial Institutions Examination Council (FFIEC).

Headquartered in Washington, D.C., the OCC has 62 offices nationwide, including four district offices, and an office in London that supervises the international activities of national banks. The OCC's nationwide staff of bank examiners conducts examinations of banks and provides sustained supervision of these institutions' operations. Examiners analyze and assess asset quality, bank management, capital adequacy, earnings, liquidity, and sensitivity to market risk for all banks and assess compliance with applicable laws and regulations. Examiners also evaluate the adequacy of banks' information systems, including cybersecurity; bank management's ability to identify and control risk; and banks' performance in helping to meet the credit needs of the communities in which they operate, pursuant to the Community Reinvestment Act (CRA).

In supervising banks, the OCC has the power to

- examine banks.
- approve, conditionally approve, or deny applications for new charters, branches, or other changes in corporate or banking structure.
- take supervisory and enforcement actions against banks that do not comply with laws and regulations or that otherwise engage in unsafe or unsound practices.
- issue rules and regulations, legal interpretations, supervisory guidance, and corporate decisions governing investments, lending, and other practices by banks.

Office of the Comptroller of the Currency 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.



Scan now for additional information
about the history of the OCC.

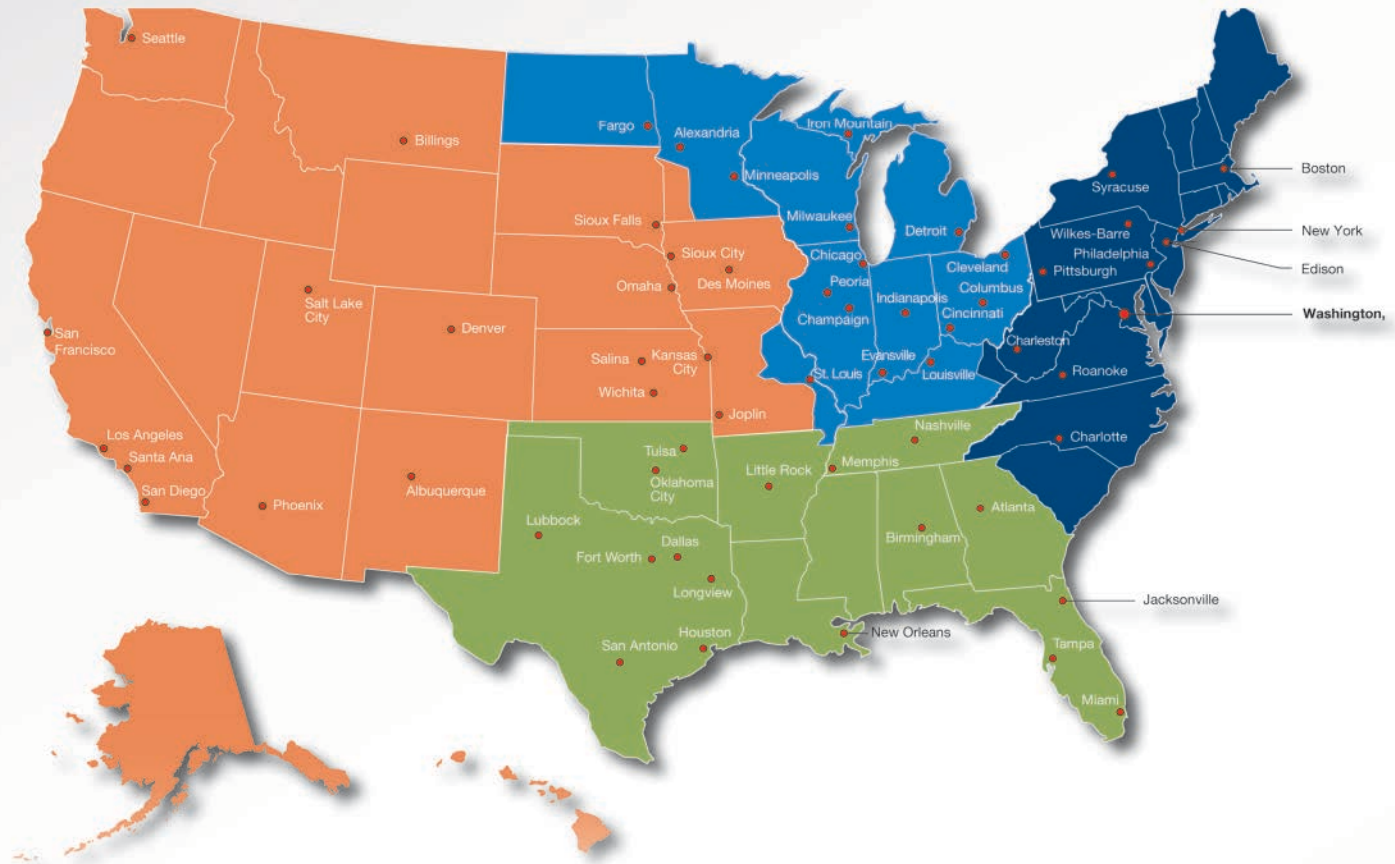
FEDERAL BANKING SYSTEM AT A GLANCE

All OCC-supervised institutions, total assets	\$11.6 trillion
All OCC-supervised institutions, share of total U.S. banking assets	71.6%
All OCC-supervised institutions	1,452
<ul style="list-style-type: none"> ■ Large banks ■ Midsize banks ■ Community banks ■ Federal branches ■ Federal savings associations 	<ul style="list-style-type: none"> 41 41 946 49 375

THE OCC AT A GLANCE

Employees (full-time-equivalents)	3,955
Office locations*	62
Budget authority	\$1.113 billion
Revenue derived from assessments	96.5%
Consumer complaints opened	22,350
Consumer complaints closed or referred	22,774

* This number does not include the multiple locations the OCC maintains in some large cities. In addition, the OCC has a continuous, on-site presence at large banks under its supervision.



Western District
 Central District
 Southern District
 Northeastern District



Scan now for additional information on OCC district locations, as well as, contact information.



About This Annual Report

Section 61 of the National Currency Act of February 25, 1863, directed the Comptroller of the Currency to report annually to Congress “a summary of the state and condition” of the national banking system, along with suggestions for “any amendment to the laws relative to banking.” Over the past century and a half, the OCC Annual Report has chronicled and advanced the long evolution of the nation’s financial and regulatory structure, providing the American people and their representatives with information about the federal banking system.

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VISION

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

CORE VALUES

- Integrity
- Expertise
- Collaboration
- Independence

Comptroller's Viewpoint

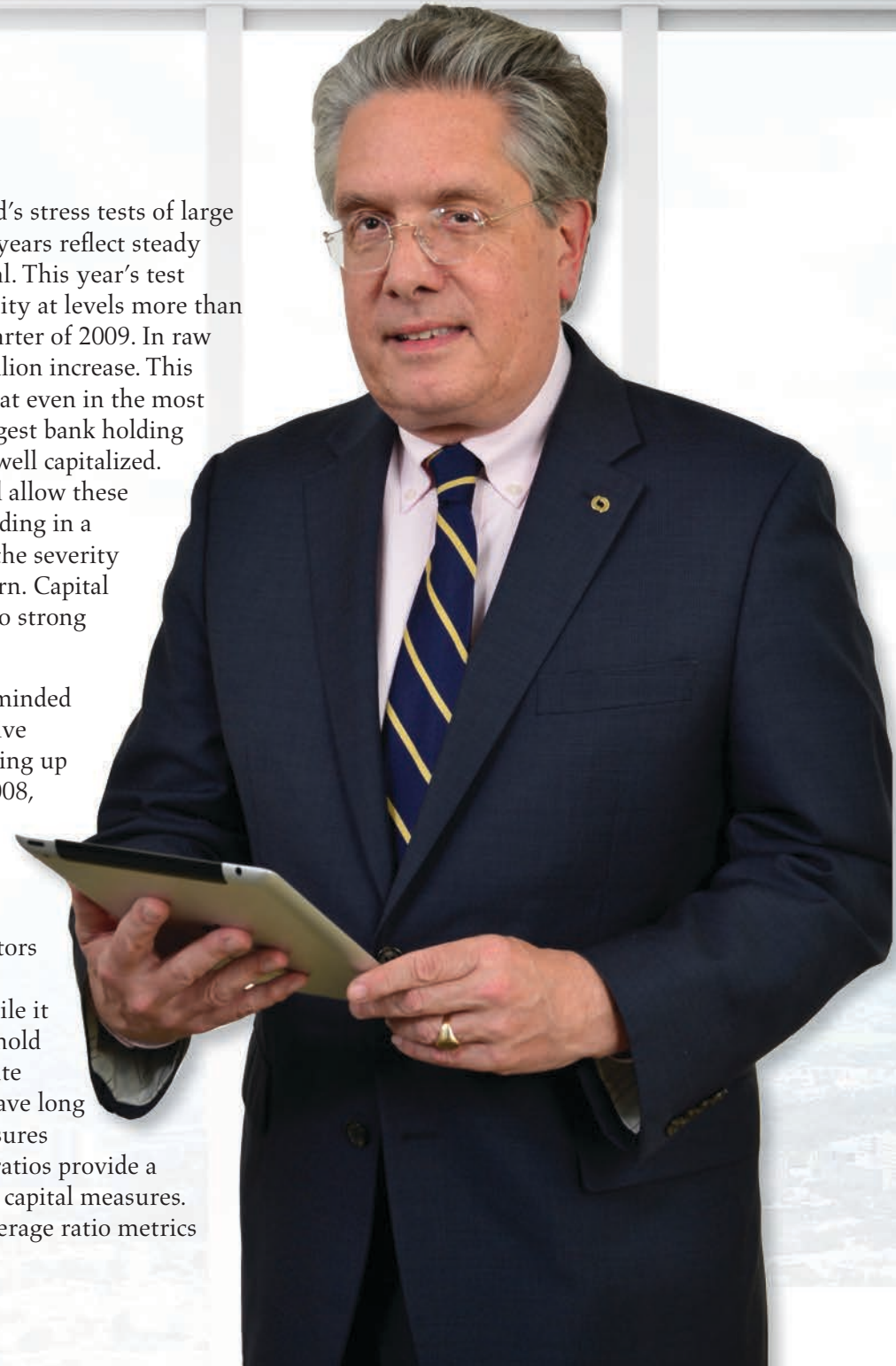
Shortly after the OCC was founded in 1863, the first Comptroller, Hugh McCulloch, laid down basic principles to guide the bankers who received national charters. He spoke about the value of strong capital, the danger of excessive leverage, and the need for ample liquidity. In organizing the OCC, Comptroller McCulloch recognized the critical role that supervision plays in maintaining public confidence in the system's safety and soundness.

The Federal Reserve Board's stress tests of large banks reflect steady progress in building capital

More than 150 years after he articulated them, Comptroller McCulloch's principles are still relevant today. They speak to the importance of building capital, recognizing that stronger capital means stronger banks and that banks should grow their capital during healthier economic periods so that it is available during a downturn. These principles have been borne out by our own experience, which has taught us that when the market begins questioning a bank's capital strength, it might already be too late, as liquidity challenges and questions of solvency can quickly follow.

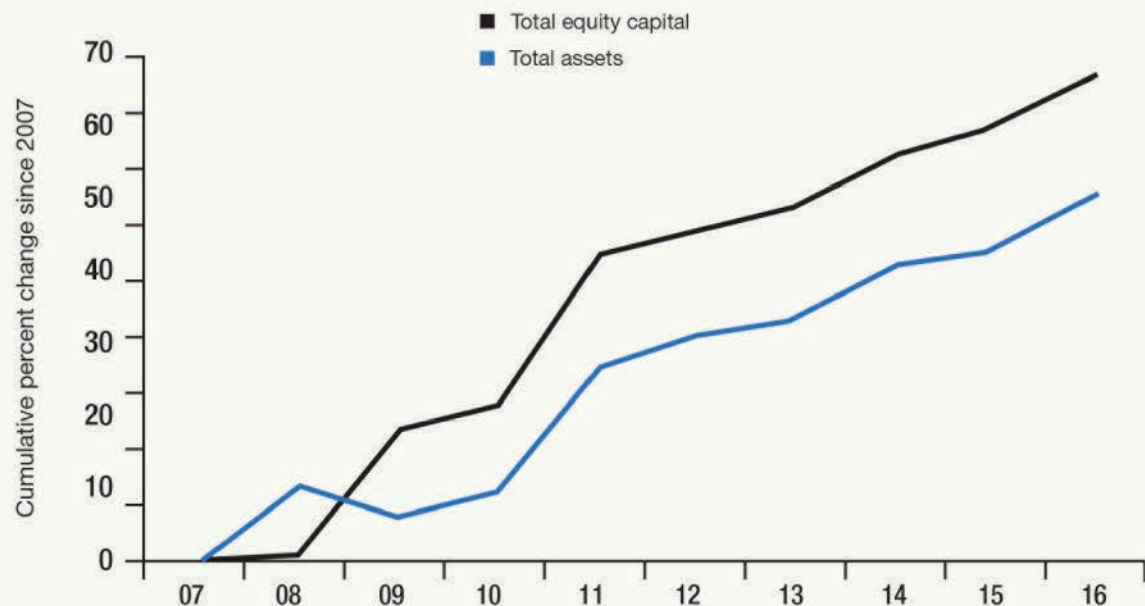
The Federal Reserve Board's stress tests of large banks during the past six years reflect steady progress in building capital. This year's test results show common equity at levels more than double that in the first quarter of 2009. In raw numbers, that is a \$700 billion increase. This level of capital suggests that even in the most severe scenario, the 33 largest bank holding companies would remain well capitalized. That level of capital would allow these companies to continue lending in a recession, helping reduce the severity and length of any downturn. Capital at community banks is also strong and growing.

Recent years have also reminded us of the danger of excessive leverage. In the years leading up to the financial crisis of 2008, leverage increased dramatically, particularly in the largest and most complex banks. In response, regulators subjected large banks to a stricter leverage ratio. While it makes sense for banks to hold capital levels commensurate with their risks, we also have long recognized that such measures are not perfect. Leverage ratios provide a backstop to the risk-based capital measures. A key feature of these leverage ratio metrics



CONDITION OF THE FEDERAL BANKING SYSTEM

Growth in total equity and assets of OCC-supervised institutions, calendar years 2007–2016



Source: FFIEC call/thrift reports

2016 value is year-to-date through third quarter 2016 annualized.

for large banks is the inclusion of elements that contribute to leverage and that are not captured by simpler measures, such as those focusing exclusively on a bank's balance sheet. We require our largest, most systemically important banks to meet more stringent leverage ratio requirements than smaller institutions.

We also emphasize the importance of ample liquidity. The lack of liquidity was a significant factor in the solvency issues faced by finance

and banking companies in 2008. Since then, we have taken steps in the right direction by implementing the liquidity coverage ratio and proposing the net stable funding ratio. These two ratios complement each other and require covered banks to hold sufficient ready resources to meet short-term cash outflows and encourage banks to shift to more stable, longer-term funding by relying less on short-term wholesale funding. U.S. banks must comply with the

liquidity coverage ratio by 2017; the proposed net stable funding ratio would become effective in January 2018.

These safeguards bolster the strength of our banking system, equipping it to weather financial storms while still meeting the financial needs of its customers. The safeguards make the riskiest behavior more expensive, while largely sparing smaller, less complex banks that do not pose broader risks to the system.

Improving capital, limiting leverage, and enhancing liquidity have helped strengthen our financial system. Improvements in supervision have also played a crucial role. As a regulator with more than three decades of experience overseeing financial institutions of all shapes and sizes, I know supervision is the regulators' primary means of affecting behavior and promoting a healthy risk culture. Weak capital and excessive risk taking are often symptoms of unhealthy risk cultures that can lead to lapses in compliance and controls affecting the safety and soundness of institutions. Addressing the risk culture within the banking system was an early priority of mine as Comptroller, and I continue to make it a theme of conversation with bankers, examiners, and other regulators.

To address risk culture and improve risk management in the largest banks we supervise, we set heightened standards for management and boards of directors that established clear expectations for governance and risk management. These standards grew from on-site supervisory observations. We took those observations and distilled them into enforceable

standards for our largest banks, and we supervise using those standards today. We made significant progress implementing the heightened standards in 2016, and more work remains.

Since 2013, we have expanded our lead expert program and use of horizontal reviews to provide more of an industry-wide perspective. We reduced the percentage of examiners residing in large banks to address the perception of regulatory capture. We expanded the use of term limits and rotational assignments to ensure examiners bring fresh perspectives to their work. We enhanced our ability to identify and assess risk earlier and more effectively. In 2016, recognizing that compliance is critical to safety and soundness, we established an executive-level department dedicated to that function.

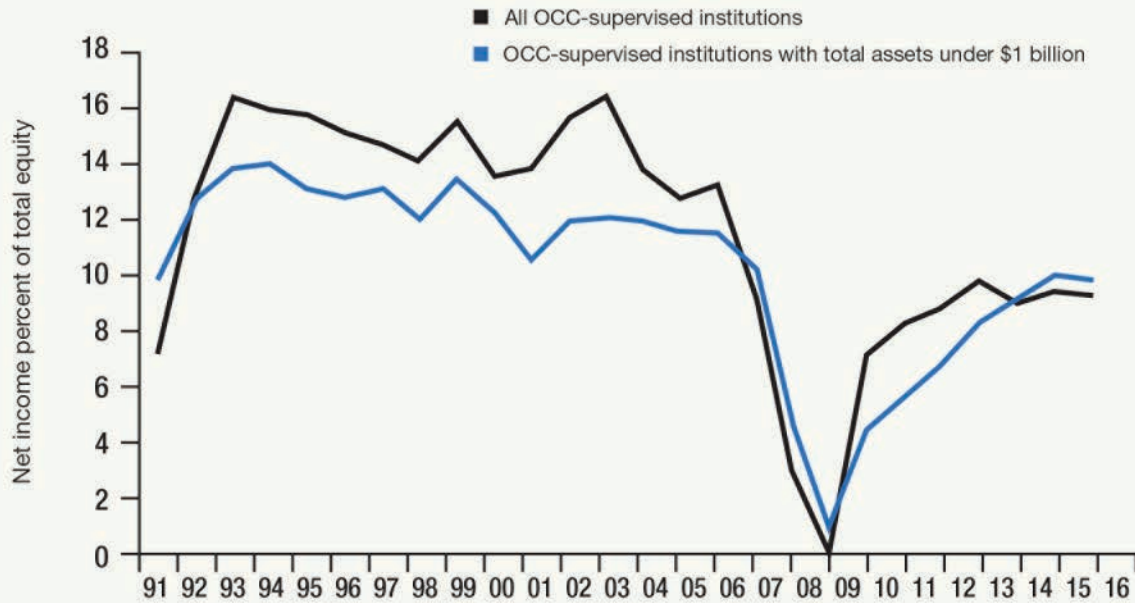
Internally, we created an Office of Enterprise Risk Management and published an enterprise risk appetite statement so employees and external stakeholders understand our own risk tolerance in key areas. We enhanced our use of metrics to assess the quality of our work and to be more forward-looking. We strengthened the ties between our strategy and budgeting process so that every dollar in assessments paid by banks yields greater value in the form of more effective supervision. We established a strategic workforce plan to improve succession and recruitment so that we can be assured of having the right talent and skill in the right place at the right time.



Comptroller Curry (seated, third from left) and other financial regulators meet with President Obama at the White House, March 2016.

CONDITION OF THE FEDERAL BANKING SYSTEM

Return on equity, calendar years 1991–2016



Source: FFIEC call/thrift reports

2016 value is year-to-date through third quarter 2016 annualized.

While upgrading our supervisory capabilities, we intensified our focus on the future—on what a banking system 20 years from now should look like and what its regulatory needs will be. There is little doubt that technology and innovation will reshape the way people interact with banks and how they access financial services. To make sure the OCC is as nimble as the industry it supervises, I announced this year an initiative to ensure that banks with federal charters have both

a regulatory framework that is receptive to responsible innovation and supervision that supports that framework. The intent of that initiative is to provide more timely guidance and decisions on innovations, and to increase our openness to responsible innovation that can help banks operate more effectively and better meet the needs of their customers. The initiative encourages innovation that promotes fair access by increasing the financial inclusion of underserved consumers and communities.

One significant milestone in that effort occurred in March, when we released a paper outlining the principles guiding our efforts. Another occurred in October 2016, with the release of an OCC framework for responsible innovation.

All of these changes help to ensure that the OCC is capable of delivering effective supervision for decades to come. The measure of our success is whether the financial system remains strong, resilient, and capable of satisfying the financial needs of the United States, and whether the financial system can adapt to changing consumer demands, market opportunities, and new technologies.

The progress we have made is not limited to large banks. America’s community banks have become stronger, too. Return on equity among community banks has nearly recovered to pre-crisis levels, and loan growth has been steady. To help community banks further, we have worked aggressively to remove unnecessary burden by simplifying the call report, lengthening the examination cycle for well-managed banks, and encouraging collaboration.

Veteran bank supervisors know full well that good times don’t last forever and a downturn will inevitably occur. Effective regulation and supervision will help ensure that the trough will not be so deep or wide. As Comptroller, I remain committed to achieving those goals.

Thomas J. Curry
Comptroller of the Currency



Section 1 The Year in Review

In 2014, the OCC adopted a five-year strategic plan to advance the agency's capabilities as a preeminent financial regulator.¹ To turn the strategic plan into shorter-term (12- to 18-month), coordinated actions, the OCC developed five strategic priorities, each of which was assigned to a member of its executive team. The OCC uses a "balanced scorecard," an advanced strategic planning and management system, to measure its progress in achieving its goals and priorities.

Three Strategic Goals

- A vibrant and diverse system of national banks and federal savings associations that supports a robust U.S. economy
- "One OCC" focused on collaboration, innovation, coordination, and process efficiency
- The OCC is firmly positioned to continue to operate independently and effectively into the future

Five Strategic Priorities

1. Refine, update, and align our supervisory approach.
2. Enhance our value to the American public and the federal banking system.
3. Operate more effectively.
4. Match our workforce with our needs.
5. Be a thought leader within the regulatory community.

¹ OCC Strategic Plan, Fiscal Years 2015–2019.

ENHANCING SUPERVISION

Four operating departments share direct responsibility for the OCC's supervision of the federal banking system and the accomplishment of its related objectives.

- The Large Bank Supervision Department oversees the supervision of large national banks and the federal branches and agencies of foreign banking organizations.
- The Midsize and Community Bank Supervision Department is responsible for all other OCC-supervised institutions.
- The Office of the Chief National Bank Examiner monitors risk, develops agency supervisory policy, and supports examination activities.
- The Compliance and Community Affairs Department, created in 2016, oversees agency compliance examinations and supervises the agency's Community Affairs and CRA programs.

The work of the four operating departments is coordinated through a number of interdepartmental committees, including the Committee on Bank Supervision and the National Risk Committee (NRC). The NRC draws on examination findings and other industry and individual-bank analysis to develop a comprehensive picture of risk that informs the OCC's supervisory priorities and strategies.²

² OCC, "OCC Releases Bank Supervision Operating Plan for Fiscal Year 2017," news release 2016-112, September 14, 2016.

The OCC introduced significant refinements in its supervisory processes in FY 2016.³ In 2013 the OCC enlisted a team of independent international bank supervisors to study the agency's approach to supervising large and midsize banks and prepare recommendations for improvements. Among other things, this "peer review" recommended refinements to the risk assessment system (RAS). The RAS provides a consistent means of measuring risk and determining when examiners should expand an examination's scope. The RAS communicates and documents judgments regarding the quantity of risk, quality of risk management, level of supervisory concern, and direction of risk for each institution. In doing so, the RAS enables the OCC to measure and assess existing and emerging risks in banks, regardless of their size and complexity.

In December, the agency updated its RAS guidance, clarifying the relationship between the RAS and the interagency CAMELS rating system used to classify a bank's condition. The RAS broadens the definition of risk to include its impact on a bank's current or projected financial condition and resilience. This guidance expands the "quality of risk management" assessment to include a new category, "insufficient," to better stratify and communicate concerns. The RAS also expands strategic and reputation risk assessments to include both quantity of risk and quality of risk management.⁴

³ Unless otherwise noted, all references to 2016 refer to the fiscal year ending September 30, 2016.

⁴ OCC, "Risk Assessment System: Updated Guidance," bulletin 2015-48, December 3, 2015.

The OCC communicates its assessment of risk in the federal banking system in several different reports. Since 2012, the OCC has published the *Semiannual Risk Perspective*, which promotes effective risk identification and management by bankers and provides greater transparency about the OCC's supervisory views and priorities.⁵

The two *Semiannual Risk Perspective* reports published in FY 2016 painted a positive picture of the health of the federal banking system, while highlighting risks banks and regulators must consider. Drawing strength from the continued growth of the national economy, OCC-supervised banks reported broad-based loan growth, driven by commercial and industrial and real estate lending. The decreasing number of problem banks also demonstrated the improvement in banks' performance.

Nonetheless, the *Semiannual Risk Perspective* reports highlighted elevated risk to bank safety and soundness in several areas. Strategic risk arose from the challenge banks face in developing and implementing business plans that enable them to compete with other financial providers, adapt to changing consumer preferences, and meet regulatory and investor expectations. The reports cited rising credit risk due to loan growth and easing underwriting standards, which imply higher future losses. Operational risk remained elevated as banks deal with the changing threats to cybersecurity and increasing reliance on third-party relationships,

⁵ OCC, *Semiannual Risk Perspective*, Fall 2015 and Spring 2016.

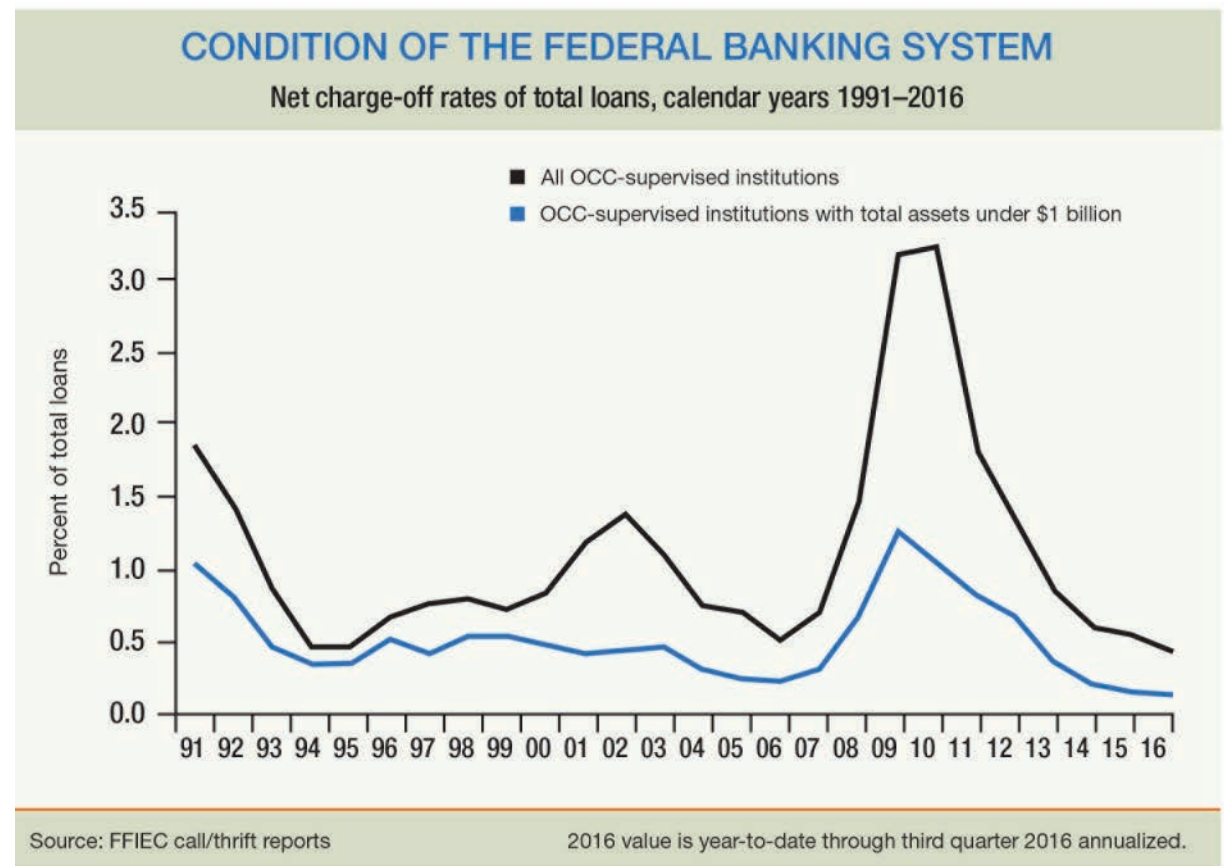
especially with technology service providers. Compliance risk also remained high, as banks managed Bank Secrecy Act/anti-money laundering (BSA/AML) risks and implemented changes to policies and procedures to adapt to the evolution in technology and markets and also to comply with new regulatory requirements—for example, the new integrated mortgage disclosures under the Truth in Lending Act (TILA), which became effective October 3, 2015, and the amended Military Lending Act regulations that went into effect on October 3, 2016.⁶

CREDIT RISK MANAGEMENT

The OCC's *Semiannual Risk Perspective* reports, its annual *Survey of Credit Underwriting Practices*, and the report on its Shared National Credits program⁷ highlighted an increase in credit risk, especially in commercial and industrial loans, loans for commercial real estate, and loans to finance automobile purchases. Loans for oil and gas exploration and production, as well as energy services, which have been affected by the downturn in energy prices, have been a particular concern, with significant increases in those loans classified as substandard, doubtful, or loss.

⁶ The compliance date for credit card accounts is October 3, 2017, unless the Secretary of Defense extends this date by up to one year.

⁷ OCC, *2015 Survey of Credit Underwriting Practices*, December 2015, and *Shared National Credits Program, 1st Quarter 2016 Review*, July 2016.

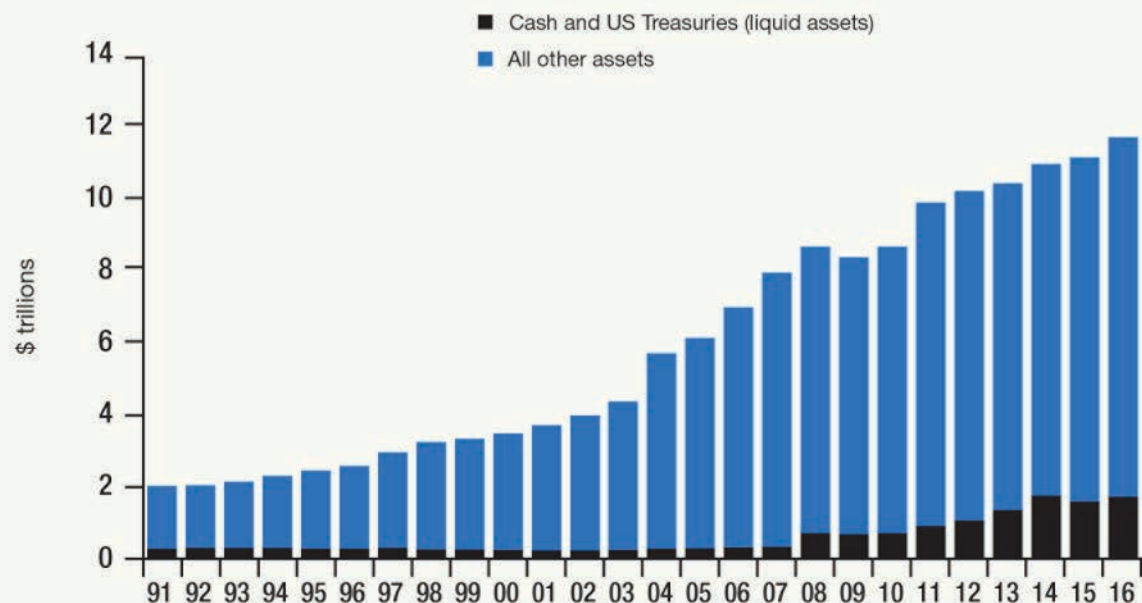


Easing underwriting often took the form of less restrictive loan covenants, extended maturities, longer interest-only payment periods, and limited guarantor requirements. In some cases, lending activity resulted in unsafe or unsound loan concentrations. In the course of its 2016 supervisory activities, the OCC emphasized the need for banks to set aside sufficient reserves to protect against prospective loan-loss increases, and to establish reasonable concentration limits that consider the additional risk from eased underwriting.

The agency also launched a number of supervisory and regulatory initiatives to strengthen the industry's credit risk management capabilities and maintain rigorous credit risk monitoring. Concerns about trends in commercial real estate lending, including rising concentration levels and easing underwriting standards, prompted the OCC to issue with the Federal Reserve Board and the FDIC an interagency statement on commercial real estate lending. The statement instructs

CONDITION OF THE FEDERAL BANKING SYSTEM

Total assets of OCC-supervised institutions, calendar years 1991–2016



Source: FFIEC call/thrift reports

2016 value is year-to-date through third quarter 2016 annualized.

financial institutions to implement prudent risk management practices and maintain capital levels commensurate with commercial real estate concentration risk, while also reminding lenders of their responsibility to comply with existing regulations and guidance related to commercial real estate lending.⁸

⁸ “Statement on Prudent Risk Management for Commercial Real Estate Lending,” December 18, 2015.

The OCC’s *Comptroller’s Handbook* is a compilation of booklets that provide comprehensive guidance to OCC examiners in connection with their examination and supervision activities. Several booklets were revised in 2016 to provide examiners with updated guidance for assessing risk management controls and processes in the federal banking system. For example, in response to concerns about increased risk in energy lending, the OCC issued a revised booklet on oil and gas

exploration and production lending. The booklet provided expanded descriptions of prudent risk management in energy lending, clarified the rating factors that examiners consider in evaluating energy-related loans, and addressed issues relating to collateral valuation and the adequacy of reserves for potential loan and lease losses.⁹

The agency also issued revised and expanded *Comptroller’s Handbook* guidance on several consumer products, including credit cards,¹⁰ student loans,¹¹ and installment loans¹²—products that require especially robust management of compliance and credit risk. As provided by the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010, the OCC continues to supervise banks with \$10 billion or less in assets for compliance with federal consumer financial laws, while the Consumer Financial Protection Bureau supervises banks with more than \$10 billion in assets for compliance with federal consumer financial laws.

⁹ OCC, “Oil and Gas Exploration and Production Lending,” *Comptroller’s Handbook*, March 2016. See also OCC, “Oil and Gas Exploration and Production Lending: Revised Comptroller’s Handbook Booklet,” bulletin 2016-9, March 16, 2016.

¹⁰ OCC, “Credit Card Lending,” *Comptroller’s Handbook*, November 2015 (updated June 16, 2016). See also OCC, “Credit Card Lending: Revised Comptroller’s Handbook Booklet and Rescissions,” bulletin 2015-41, November 4, 2015.

¹¹ OCC, “Student Lending,” *Comptroller’s Handbook*, May 2016. See also OCC, “Student Lending: New Comptroller’s Handbook Booklet,” bulletin 2016-15, May 9, 2016.

¹² OCC, “Installment Lending,” *Comptroller’s Handbook*, February 2016. See also OCC, “Installment Lending: Revised Comptroller’s Handbook Booklet and Rescissions,” bulletin 2016-3, February 12, 2016.

LIQUIDITY RISK MANAGEMENT

A major step toward ensuring that national banks and FSAs have adequate liquidity to meet any foreseeable contingency occurred in April, when the federal banking agencies adopted a proposed net stable funding rule. This rule, which was designed to ensure that an institution's funding is adequate to support its activities, is meant to work in concert with the liquidity coverage ratio rule issued in September 2014. The liquidity coverage ratio rule required banking companies with assets greater than \$10 billion to maintain high-quality liquid assets that could easily be converted into cash in an amount equal to or greater than their net cash outflows over a 30-day period. The proposed net stable funding ratio would further reduce the probability that covered institutions will encounter funding stress, by requiring covered institutions to have sources of funding that are stable over a one-year period. Like the liquidity coverage ratio rule, the net stable funding rule would only cover large internationally active banking companies with more than \$250 billion in total consolidated assets.¹³

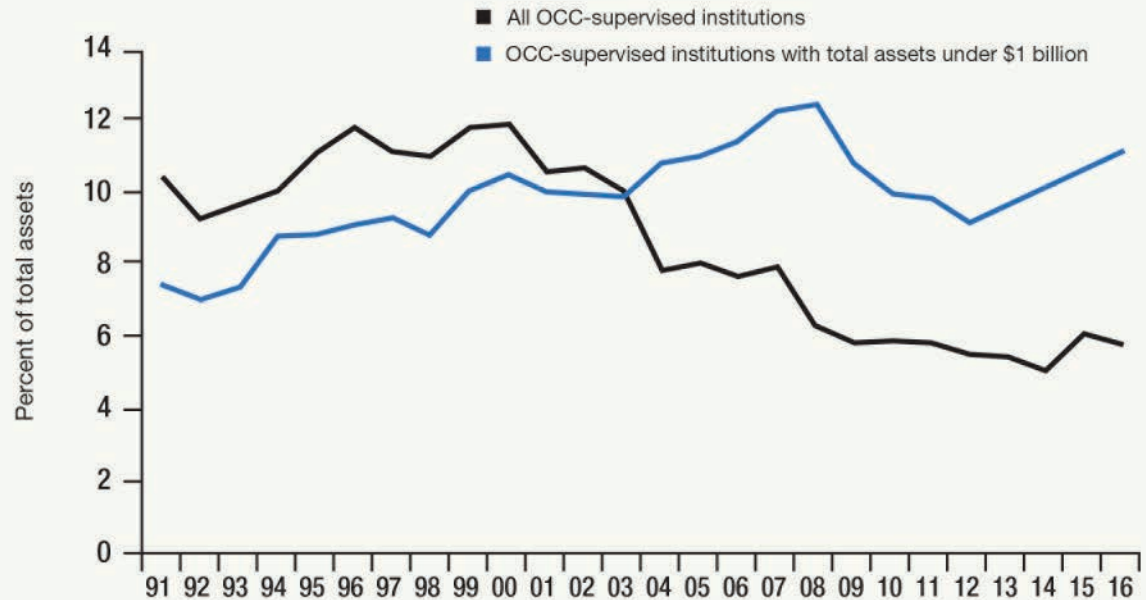
STRATEGIC RISK MANAGEMENT

Effective management of strategic risk requires banks to conduct regular and comprehensive

¹³ OCC, "Comptroller Statement Regarding the Proposed Net Stable Funding Rule," news release 2016-50, April 26, 2016. See also OCC, *Annual Report Fiscal Year 2014*, p. 20.

CONDITION OF THE FEDERAL BANKING SYSTEM

Loans as share of total assets, calendar years 1991–2016



Source: FFIEC call/thrift reports

2016 value is year-to-date through third quarter 2016 annualized.

reviews of their business models, the competitive environment in which they operate, the mix of products and services they offer, how those products and services are and will be delivered, and whether their systems and processes are sufficiently robust to ensure operational integrity, business continuity, and regulatory compliance. With this information, banks can better determine what they need to do to remain viable in the evolving financial marketplace.

The strategic challenges facing community banks differ significantly from those confronting multibillion-dollar, internationally active banks. OCC supervision is structured to accommodate those differences and support the viability of community banks. In 2016, the agency's outreach program offered 36 workshops for community bankers and bank directors in cities around the United States, providing ideas on managing strategic risk more effectively. For example, to help smaller banks achieve some

of the economies of scale that larger institutions enjoy, the agency continues to offer practical ideas for pooling resources in such areas as purchasing, back-office operations, disaster planning, and product development. In one recent case, a group of banks pooled their resources to finance community development activities through multibank community development corporations, loan pools, and loan consortiums. In another example, several smaller institutions formed an alliance through a loan participation agreement to bid on larger loan projects.¹⁴

RESPONSIBLE INNOVATION

The banking system is experiencing significant changes driven by technology and demographics. Banks in the United States have always been early developers and adopters of technology, dating back to the creation of checking accounts, credit cards, and automated teller machines. These innovative products and services helped transform banking relationships in their day. Today, innovations being developed by banks, by nonbank financial technology companies (fintechs), or by banks and fintech companies working together are transforming the delivery of financial products and services to consumers, businesses, and communities across the country.

Innovative products and services hold the potential to improve access to the financial

system, particularly for the unbanked or underbanked. They provide opportunities to expand access, lower the cost of financial products and services, expand product offerings to better serve consumers, make branch networks more efficient, and help banks fulfill their regulatory obligations to meet the credit needs of the communities they serve.¹⁵

The OCC recognizes that innovation brings risk as well as opportunity. Financial products once considered innovative, such as option adjustable rate mortgages, structured investment vehicles, and subprime mortgage-backed securities, contributed to the 2008 financial crisis. Greater reliance on technology means greater risk of system breakdown and corruption by hackers and cyber criminals. Smaller banks in particular may choose to introduce innovations that outsource all or part of their responsibilities to third-party technology providers, which poses additional risk management challenges. New sources and types of data and models to assess product performance and creditworthiness remain untested by adverse credit conditions. At the same time, bankers face strategic risk if they are too slow in adapting to markets and customer trends or if innovation fails to align with their long-term strategies.

Marketplace lending, which links borrowers and lenders through technology-based platforms, exemplifies the benefits and risks inherent in financial innovation. By reducing paperwork



and expediting the underwriting process, marketplace lenders make credit available more quickly and conveniently. Borrowers who may have trouble accessing credit through traditional lenders may gain access to credit and the opportunities that come with it. These advantages help explain the nearly six-fold increase in 2015 in the volume of consumer loans originated by marketplace lenders since 2013.

Yet it is crucial that marketplace lenders are also *responsible* lenders that promote the safety

¹⁴ OCC, “An Opportunity for Community Banks: Working Together Collaboratively,” January 13, 2015. For more on this subject, see OCC, *Annual Report Fiscal Year 2015*, p. 12.

¹⁵ Remarks by Thomas J. Curry, Comptroller of the Currency, National Community Reinvestment Coalition, March 18, 2016.



and soundness of the financial system and the interests of borrowers and consumers.¹⁶

Regulators must provide a framework that encourages banks to innovate, compete, and meet the needs of customers and communities. That framework must protect the safety and soundness of the financial system against unnecessary risk and ensure that consumers are protected from abuse. The process of designing

¹⁶ Remarks by Thomas J. Curry, Marketplace Lending Policy Summit, September 13, 2016.

such a framework was one of the OCC's key initiatives in 2016.

That initiative included forming a team of policy experts, examiners, lawyers, and others to study emerging technologies and new approaches in financial services, with the goal of developing recommendations to improve the agency's ability to evaluate these products and services and assess the associated risks. To obtain a broad perspective, the team met with a variety of groups to discuss the changes in the financial services industry and the implications of those changes for banks. The discussions included bankers from community, midsize, and large banks, as well as innovators in various fields, consumer groups, academics, other regulators, and OCC employees.

The team's research formed the basis of a March paper titled "Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective." The paper established a set of principles to guide the agency's approach to innovative financial products and services. The principles commit the OCC to supporting responsible innovation that provides fair access to financial services and fair treatment of consumers; to fostering both an internal culture receptive to financial innovation and a workforce that brings a deep understanding and expertise to the subject; and to promoting dialogue and collaboration through outreach to industry stakeholders and other regulators to ensure that innovative products and services are provided in a safe, sound, fair, and inclusive manner.¹⁷

¹⁷ OCC, "Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective," March 2016.

"When it comes to fintech, it's very difficult to move things forward [from a regulatory standpoint]. So I will talk around the world about what I've heard today."

—Jeremy Wilson, Co-Chairman, Whitechapel Think Tank, at the OCC's Responsible Innovation forum.

The paper raised a number of ways to accomplish these goals. It addressed possibilities for streamlining the evaluation and approval processes for certain innovative products and services, strengthening the OCC's supervisory capabilities in this area, and advancing the agency's reputation as a thought leader in the field of financial services innovation. Recommendations and decisions for implementing a responsible innovation framework were finalized in October 2016.¹⁸

To underscore the agency's commitment, the OCC sponsored a "Forum on Responsible Innovation," held in Washington, D.C., in June. More detail about this conference, which attracted financial technology experts from around the world, is provided in sidebars in this *Annual Report*.¹⁹

¹⁸ OCC, "OCC Issues Responsible Innovation Framework," news release 2016-135, October 26, 2016.

¹⁹ Remarks by Thomas J. Curry, OCC Forum, "Supporting Responsible Innovation in the Federal Banking System," June 23, 2016.

OCC FORUM ON RESPONSIBLE INNOVATION



OCC FORUM ON RESPONSIBLE INNOVATION

The OCC understands the importance of encouraging innovation in banking while assuring that safety and soundness and consumer protection are not compromised. The agency calls that “responsible innovation,” and it was at the forefront of the OCC’s agenda throughout FY 2016.

In June, the agency sponsored a “Forum on Responsible Innovation in the Federal Banking System” at its Washington, D.C., headquarters. The forum attracted representatives from banks and fintech companies, along with consumer advocates, academics, regulators, and private-sector representatives. The broad cross-section in attendance was critical to the success of the event, which was intended to spark a discussion among myriad and sometimes competing stakeholders in the industry.

The forum was organized into four panel discussions, each focusing on a separate area of innovation within the financial services industry. Videos of the forum are available on OCC.gov.

THE BIG PICTURE

Moderating the overview panel, OCC Senior Deputy Comptroller and Chief Counsel **Amy Friend** (pictured at left) discussed the speed at which technology is reshaping the financial services industry, noting the recent proliferation of fintech companies and products such as virtual currencies and distributed ledgers that were nearly unheard of just a few years ago.

To introduce some of those core concepts and key questions, the panel featured veteran bankers, investors, and former regulators with decades of experience who now work in the fintech sector, a group Ms. Friend called “big thinkers at the intersection of fintech and banking.”

The panel discussed a number of questions about the evolution of fintech: What gave rise to fintech? Was it primarily the availability of technology, or was it the need to fill gaps in financial services? Do fintech companies and banks need each other? Several panelists noted that generational differences were one of the key reasons for the rise of fintech. Younger consumers have demanded services and platforms that fintech companies can offer more easily, panelists said, and, in contrast to many older consumers, millennials tend to have more faith in technology than in institutions.²⁰

²⁰ “The 2014 ICBA American Millennials and Community Banking Study,” Independent Community Bankers of America. October 2014 (<https://www.icba.org/files/ICBASites/PDFs/ICBAMillennialsandCommunityBankingStudyWhitePaper.pdf>).

THE BUSINESS OF INNOVATION: OPPORTUNITIES AND CHALLENGES

Kathleen Oldenborg, the OCC’s Director for Payment Systems Policy, moderated this panel. While the first panel discussed the “big ideas” in financial innovation, the “Business of Innovation” panel brought together bankers from institutions of various sizes and fintech representatives to discuss the nuts and bolts of innovation.

Panelists pointed out that partnerships between banks and fintech companies offer opportunities to leverage the strengths of both parties. The panelists discussed the ways fintech companies and banks are already working together and where such relationships are likely to go in the future.

Much of the discussion revolved around payments—for example, the way banking deposits, withdrawals, and transfers are reconciled and credit card transactions are processed. Fintech companies carry out many of these transactions for the benefit of banks, illustrating that banks and fintech companies already are partnering in some areas.

RESPONSIBLE INNOVATION AND THE CONSUMER

One reason the OCC is encouraging responsible innovation is the potential of technology to improve the financial well-being of millions of Americans, particularly the unbanked and underbanked populations. As **Comptroller Curry** said in his opening remarks, “To be responsible, innovation should improve the products and services that customers rely upon. It should help expand financial inclusion.”

In moderating this panel, Senior Deputy Comptroller for Compliance and Community Affairs **Grovetta N. Gardineer** asked panelists a series of questions to gain their perspective on consumers and fintech. There was general agreement that partnerships

between banks and fintech companies can provide improved access to financial services for consumers.

While much of the day’s discussion revolved around the extension of credit, the panel also discussed ways fintech is helping people save money—an important issue in retail banking. Several companies offer banking applications that make regular, automated withdrawals from customers’ checking accounts to special savings accounts, helping people save money for unexpected situations and retirement.

BUILDING A FRAMEWORK FOR RESPONSIBLE INNOVATION

The final panel of the day brought together OCC officials who discussed the agency’s efforts to build a framework to support responsible innovation. This panel, led by Deputy Comptroller for Public Affairs **Bryan Hubbard**, discussed comments the agency received about its paper on responsible innovation.

Western District Deputy Comptroller **Kay Kowitz**, who led the team developing the OCC’s framework for evaluating proposed innovations, said that one of the challenges facing the OCC is to make itself more open to innovation despite the risk it entails. Part of the effort in developing a framework for identifying and evaluating innovation is to foster a culture that is more receptive to responsible innovation.

Ms. Kowitz assured the attendees that the OCC does not intend to issue onerous rules, regulations, or guidance related to fintech companies working with banks and FSAs. Rather, she said, there may be places to fill gaps, modernize, or update existing guidance.

“Maybe it is just a question of clarification or interpretation, or frequently asked questions. Again, the mandate is not to be pushing out a bunch of new regulations or guidance,” Ms. Kowitz said.

MINORITY DEPOSITORY INSTITUTIONS AND MUTUAL SAVINGS ASSOCIATIONS

The OCC provides specialized support for and supervision of minority depository institutions (MDI) and mutual savings associations. MDIs include any U.S.-chartered bank or FSA that is at least 51 percent owned by minorities, women, or socially and economically disadvantaged individuals.²¹ Mutual savings associations are owned by their members.

MDIs often are among the few sources of banking services in disadvantaged or otherwise underserved communities, and the OCC provides them a range of services, including training, technical assistance, and publications to support the vital role MDIs play in the financial life of the populations they serve.

To better understand the business environment in which these institutions operate, the OCC maintains advisory committees for MDIs and for mutual savings associations. These committees include officers and directors of representative institutions, who provide insight on regulatory and supervisory issues facing these institutions and steps that may promote the institutions' health and viability. The MDI Advisory Committee met three times in

²¹ "Policy Statement on Minority National Banks and Federal Savings Associations," June 7, 2013.



Comptroller Curry (right) and OCC executives take questions at the Joint Mutual Forum, from left: Senior Thrift Adviser Charlotte Bahin, Senior Deputy Comptroller for Midsize and Community Bank Supervision Toney M. Bland, Senior Deputy Comptroller for Compliance and Community Affairs Groveta N. Gardineer, Senior Deputy Comptroller and Chief National Bank Examiner Grace E. Dailey, Comptroller of the Currency Thomas J. Curry.

2016, and in July its charter was renewed for an additional two years.²²

In August, the OCC and the FDIC co-sponsored a Joint Mutual Forum to support the operations of mutual depository institutions and discuss

²² OCC, "OCC's Minority Depository Institutions Advisory Committee Charter Renewed," news release 2016-85, July 22, 2016.

industry trends. Industry representatives interacted with Comptroller Curry and FDIC Chairman Martin J. Gruenberg and heard presentations on topics of interest to the mutual industry, including strategic planning, cyber challenges, accounting and regulatory changes, and compliance risk management.²³

²³ FDIC, "2016 Joint Mutual Forum," <https://www.fdic.gov/regulations/resources/mutual/2016/index.html>.

CYBERSECURITY AND THE OCC



Cyber attacks have been among the foremost threats to the operational integrity of the federal banking system. Therefore, cybersecurity is also among the OCC's highest supervisory priorities.

The threats to bank information systems are numerous and evolving, as cyber

criminals develop new tools and sophistication to hack into consumer accounts, compromise business-to-business transactions, and interfere in transfers among institutions. Among the latest manifestations of the threat are schemes to gain access to customer account information by hacking smartphone applications, business e-mail compromises that enable thieves to forge and intercept corporate payment requests, and cyber attacks against SWIFT, the communications network that facilitates payments among central banks. Business e-mail compromise schemes alone netted hackers more than \$2.3 billion over the past three years.

But damage is not just measured in dollars. Cyber attacks also undermine public confidence in the financial system and discourage necessary and useful innovations.

Cyber criminals seek to take advantage of the complexity and interdependence of the global financial system to carry out their crimes. Stopping them requires an integrated and coordinated response from governments, regulatory agencies, law enforcement, and industry.

In 2016, the OCC worked collaboratively with other U.S. financial regulators to step up monitoring of U.S. banks and assess their readiness to deal with cyber attacks. OCC supervisory staff continued to implement the FFIEC's Cybersecurity Assessment Tool, which helps financial institutions identify their risks and determine their cybersecurity preparedness.²⁴ The OCC also worked with interagency groups, including the Financial and Banking Information Infrastructure Committee of the President's Working Group on Financial Markets, the FSOC, and the FFIEC, to improve coordination and communication among financial regulators on cybersecurity issues.

²⁴ Remarks by Thomas J. Curry, Institute of International Bankers, March 7, 2016.



Comptroller Curry signs the proposed incentive compensation rule as OCC staff look on. From left: Attorney Alison MacDonald, Senior Deputy Comptroller and Chief Counsel Amy Friend, Senior Deputy Comptroller and Chief of Staff Paul Nash, Director for Legislative and Regulatory Activities Stuart Feldstein, and Attorney Melissa Lisenbee.

OPERATIONAL RISK MANAGEMENT

The OCC identifies operational risk as one of the most significant risks facing the banking industry. Operational risk is the broadest component of the OCC's supervisory framework, covering the loss of information from information system failures, business disruptions, human error and fraud, business process and product design defects, and legal challenges.

To ensure that banks have the risk management framework and board oversight needed to address the range of risks that the banks face, the OCC implemented formal, enforceable guidelines, which were codified in September 2014. These heightened standards set out roles and responsibilities for frontline units, independent risk management, and internal audit—what the OCC refers to as the “three lines of defense” for banks. The standards do not apply to community banks.²⁵

²⁵ OCC, *Annual Report Fiscal Year 2014*, pp. 21–24.

In June, regulators reissued for public comment a proposed rule, required by section 956 of Dodd–Frank, to prohibit incentive-based payment arrangements that would encourage inappropriate risk-taking and, consequently, expose the institution to material financial loss. The proposed rule was among the most anticipated of the final Dodd–Frank rulemakings. Comments on the proposal were under review at the end of the fiscal year.²⁶

The proposed rule, which would apply to covered financial institutions with total assets of \$1 billion or more, seeks to ensure the proper alignment of compensation incentives with the institution’s risk appetite. The rule would require the institutions to report to regulators on any incentive-based compensation arrangements, ensure that appropriate oversight is provided by bank boards of directors, and prohibit any incentive-based arrangements deemed to encourage inappropriate risk-taking or lead to material financial loss. Most of the requirements in the proposed rule, however, would apply only to senior executive officers and employees at institutions with assets equaling or exceeding \$50 billion.²⁷

²⁶ 81 Fed. Reg. 37670, June 10, 2016.

²⁷ OCC, “Agencies Invite Comment on Proposed Rule to Prohibit Incentive-Based Pay That Encourages Inappropriate Risk-Taking in Financial Institutions,” news release 2016-56, May 16, 2016. See also OCC, “Comptroller Statement Regarding the Proposed Incentive-Based Compensation Rule,” news release 2016-49, April 26, 2016.

COMPLIANCE ISSUES

The OCC strengthened its staffing and infrastructure to address the increase in compliance risk in 2016. In March, the Comptroller created a new senior executive-level department and named Grovetta N. Gardineer, a veteran bank supervisor, the Senior Deputy Comptroller for Compliance and Community Affairs. This change merged two existing divisions—Compliance Risk and Community Affairs—and established a third related division, Compliance Supervision. These units coordinate all aspects of compliance-related oversight and outreach in other OCC bank supervision units. The new department provides consistent and effective policy guidance and supervision to promote the safe and sound operation of banks, compliance with consumer protection and BSA/AML laws and regulations, fair access and treatment for consumers, and responsible community reinvestment.²⁸

²⁸ Remarks by Grovetta N. Gardineer, Senior Deputy Comptroller for Compliance and Community Affairs, 2016 Association of Military Bankers of America Workshop, August 29, 2016. See also OCC, “OCC Announces New Senior Executives,” news release 2016-28, March 17, 2016.



Danièle Nouy, Chair of the Supervisory Board of the European Central Bank, discusses bank supervision in the European Union with Comptroller Curry in April 2016. The event was the first of the year in the Comptroller’s Speaker Series, which brings prominent leaders to the OCC to share their insights on issues important to the OCC, its employees, and the federal banking system.

BANK SECRECY ACT/ ANTI-MONEY LAUNDERING

One key compliance function relates to supervising institutions for compliance with the BSA. The BSA was designed to help identify the source, volume, and movement of currency and other monetary instruments transported or transmitted into or out of the United States or deposited in financial institutions. In addition to currency reporting, the BSA requires that financial institutions have compliance programs and file suspicious activity reports whenever they detect known or suspected criminal violations of federal law

or suspicious transactions related to money laundering activity or a violation of the BSA. With resourceful and determined adversaries constantly probing for the weakest links in the global financial network, this role has never been more challenging.

Consistent with the commitment to improve collaboration with other industry and government agencies, the OCC has been a prominent participant in intergovernmental efforts to study, organize, and implement AML policies and practices for banks, while also focusing on the related issue of combating terrorist financing. The OCC also works closely with other U.S. agencies to increase BSA compliance and develop and disseminate guidance on effective risk management in these areas.

The OCC is a member of the U.S. delegation to the Financial Action Task Force (FATF), an intergovernmental body that sets standards for safeguarding the international financial system. The FATF's efforts have led to the establishment of an international framework for sound management of risks related to money laundering, terrorist financing, and other threats to the integrity of the international financial system.

In February, the Basel Committee on Banking Supervision issued its revised guide to account opening as an annex to its guidance on the sound management of risks related to money laundering and terrorist financing. The framework established by this guidance

strengthens the international financial system and makes it safer and more resistant to incursion.

The risks associated with BSA noncompliance are significant. While most BSA deficiencies are addressed through OCC supervision, banks failing to effectively manage money laundering and terrorist financing risks have faced large legal penalties and sustained significant reputational damage from being associated with possible financial crimes.

In addition, the OCC expects banks to periodically reevaluate BSA risks. In doing so, some banks have concluded that the risks associated with certain accounts outweigh the potential benefits, and have closed the accounts of customers who appear to present elevated BSA risk.

This practice is sometimes called “de-risking.” While the review and periodic reevaluation of BSA risk is an act of prudent risk management, the practice can raise questions about the public purpose of banks and the financial needs of customers that those banks are chartered to serve. “Decisions to terminate relationships,” Comptroller Curry pointed out, “can have regrettable consequences. ... long-standing business relationships may be disrupted. Transactions that would have taken place legally and transparently may be driven underground. Customers whose banking relationships are terminated and who cannot make alternative banking arrangements elsewhere may effectively be cut off from the regulated

financial system altogether. And there have been many instances of real human hardship that results when customers find themselves unable to transmit funds to family members in troubled countries.”²⁹

These issues prompted the OCC to take a deep look at how the institutions it supervises develop and implement policies and procedures for managing risks associated with foreign correspondent banking as part of their BSA/AML programs and for making risk-based assessments of their own business objectives, the risks associated with particular account relationships, and their ability to manage those risks.

In August, the OCC, the Treasury Department, and other federal banking agencies issued a correspondent banking fact sheet that described the agencies’ approach to BSA and AML supervision and enforcement processes, as well as the roles of other concerned government agencies. The fact sheet helped dispel misconceptions about what is expected of U.S. banks with foreign correspondent business. It clarified that, under existing U.S. regulations, there is no general requirement for banks to conduct due diligence on the customers of their foreign correspondent partners. In short, that there is no general regulatory requirement that banks know their customers’ customers.³⁰

²⁹ Remarks by Thomas J. Curry, Institute of International Bankers, March 7, 2016.

³⁰ Treasury Department, “U.S. Department of the Treasury and Federal Banking Agencies Joint Fact Sheet on Foreign Correspondent Banking: Approach to BSA/AML and OFAC Sanctions Supervision and Enforcement,” August 30, 2016.

In October 2016, the OCC issued guidance that describes corporate governance best practices for banks to consider when conducting periodic evaluations of risk and making decisions about retaining or terminating foreign correspondent accounts. The guidance also reiterated the agency's risk management expectations for banks in this regard. The agency expects banks to have established policies and procedures for conducting risk assessments for foreign correspondent accounts and to periodically evaluate and reassess this risk as part of their ongoing risk management and due diligence practices.

Industry best practices described in this guidance include establishing effective governance procedures and clear communications between senior bank management and the operational units that may propose changes in the bank's treatment of foreign correspondent accounts. Other factors in considering whether to retain or close foreign correspondent accounts include weighing the adverse impact of relationship termination on whole groups of customers or geographical regions and, if accounts are closed, providing adequate time for customers to establish alternative banking relationships if appropriate under the circumstances.³¹

The OCC has reiterated that it generally does not direct banks to open, close, or maintain individual accounts. Nor does it encourage

³¹ OCC, "Risk Management Guidance on Periodic Risk Reevaluation of Foreign Correspondent Banking," bulletin 2016-32, October 5, 2016.

banks to terminate entire categories of customer accounts without considering the risks presented by individual customers or the bank's ability to manage those risks. The agency emphasizes that these are decisions banks must make, based on their objectives, an evaluation of their risks and their customers' expected and actual activity, and their ability to manage those risks effectively.³²

PROTECTING FINANCIAL INTERESTS OF MILITARY SERVICE MEMBERS

Two laws protect the financial interests of military service members. The Servicemembers Civil Relief Act of 2003 (SCRA) provides service members with specific protections because of the unique conditions of their service to the country. Evidence of noncompliance with these protections prompted the OCC to incorporate an evaluation of SCRA compliance as a required component in its examination strategies in 2011. Since that time, the OCC has addressed many SCRA compliance issues through its supervisory process and has brought a number of enforcement actions to address serious SCRA violations.

Compliance with amendments to the Military Lending Act of 2006 generally became mandatory on October 3, 2016. The law sets

³² Remarks by Thomas J. Curry, Association of Certified Anti-Money Laundering Specialists, September 28, 2016.

an interest rate ceiling on loans to covered military members and their dependents, limits certain practices, and requires written and oral disclosures to covered borrowers. Previously, the Military Lending Act applied to certain defined payday loans, motor vehicle title loans, and tax-refund anticipation loans. Subject to certain statutory exclusions, the amended regulation defines covered "consumer credit" much more broadly, generally paralleling the definition in Regulation Z, implementing TILA.³³ This definition includes credit cards, certain installment loans, and deposit advance products.

These changes will require financial institutions to upgrade their systems and processes to identify covered borrowers and loan products, accurately calculate the applicable interest rates, provide required disclosures, and incorporate other required limitations and protections.

With other federal financial regulators, the OCC is coordinating the implementation of these changes to promote consistent enforcement across the agencies, including the recent publication of interagency examination procedures. The OCC intends to monitor compliance with the regulatory amendments to ensure that they are adhered to appropriately.³⁴

³³ The term "consumer credit" does not include residential mortgages or credit transactions expressly intended to finance the purchase of a motor vehicle or personal property when secured by the vehicle or property being purchased.

³⁴ OCC, "Revised Interagency Examination Procedures Regarding Limitations on Terms of Consumer Credit Extended to Service Members and Dependents," bulletin 2016-33, October 7, 2016. See also remarks by Grovetta N. Gardineer,

TILA-RESPA INTEGRATED DISCLOSURE RULE

Disclosures required under the Real Estate Settlement Procedures Act (RESPA) and TILA were combined under a new rule that went into effect on October 3, 2015. The rule is designed to make the application process for mortgages more transparent to consumers and provide additional information to assist consumers in that process. The TILA/RESPA integrated disclosure forms replace the long-established Good Faith Estimate, TILA disclosures, and the HUD-1 Settlement Statement for most closed-end mortgages.

To comply with the new integrated rule, individual banks and the mortgage industry as a whole needed to make significant systems and operational changes. Recognizing the complexities involved in the transition, in November 2015 the OCC coordinated with other federal agencies in issuing a bulletin emphasizing that examiners would focus on banks' progress in developing implementation plans; the actions being taken or planned to update policies, procedures, and processes; training of appropriate staff; and contingency arrangements if technical problems or other implementation challenges arise.³⁵

2016 Association of Military Bankers of America Workshop, August 29, 2016.

³⁵ OCC, "Consumer Compliance: Initial Examinations for Compliance With TILA-RESPA Integrated Disclosure Rule," bulletin 2015-42, November 6, 2015.

COMMUNITY REINVESTMENT ACT

The CRA is designed to encourage banks to help meet the credit needs of their entire communities, including low- and moderate-income individuals and areas. OCC examiners evaluate banks' CRA performance and assign ratings of "outstanding," "satisfactory," "needs to improve," or, in the worst cases, "substantial noncompliance." Achieving "outstanding" ratings can enhance banks' public reputations and the financial well-being of the customers and communities they serve.

Defining community needs and shaping products and services to match cannot be done in a vacuum. The OCC encourages banks to consult and interact with community stakeholders to help pinpoint new business opportunities, identify potential partnerships with local community organizations and public agencies, and help banks formulate business strategies to meet community needs as well as their CRA obligations.

The OCC also encourages the public to share comments and concerns about banks' performance under the CRA through the formal processes that are in place. The agency publishes lists of upcoming CRA evaluations each quarter, providing stakeholders with the opportunity to express their views. The comments and concerns received are taken into consideration during the evaluation process. The OCC also considers public comments in evaluating certain corporate applications, such as applications to merge



with another insured depository institution. In 2016, the agency adopted changes that made it easier for citizens to search OCC.gov for CRA performance evaluations.³⁶

The agency seeks to enhance its understanding of community credit needs through an outreach program to CRA-covered financial institutions and community organizations and leaders. This outreach takes the form of speeches by the Comptroller and other senior officials and meetings with local groups, government officials, and community leaders. In 2016, the OCC

³⁶ Remarks by Thomas J. Curry, 2016 National Interagency Community Reinvestment Conference, February 9, 2016.

also co-sponsored a National Interagency Community Reinvestment Conference, which offered participants from around the country the opportunity to learn about the CRA and discuss best practices and emerging challenges in community development.³⁷

Periodically, the federal banking agencies with responsibility for CRA rulemaking issue questions and answers that provide updated guidance to financial institutions and the public. In the interagency questions and answers published in July, the agencies addressed questions raised by bankers, community organizations, and others regarding the agencies' CRA regulations in a number of areas. For example, the agencies provided examples of types of activities eligible for CRA consideration in such areas as economic development and retail banking services. The agencies also provided greater clarity about how retail and community development services are quantitatively and qualitatively evaluated by examiners, and addressed questions on the agencies' CRA regulations raised by bankers, community organizations, and others concerning the availability and effectiveness of retail banking services, community development-related issues, and innovative, responsible, and flexible banking practices.³⁸

³⁷ OCC, "Bank Regulatory Agencies and CDFI Fund to Sponsor National Interagency Community Reinvestment Conference," news release 2016-3, January 6, 2016.

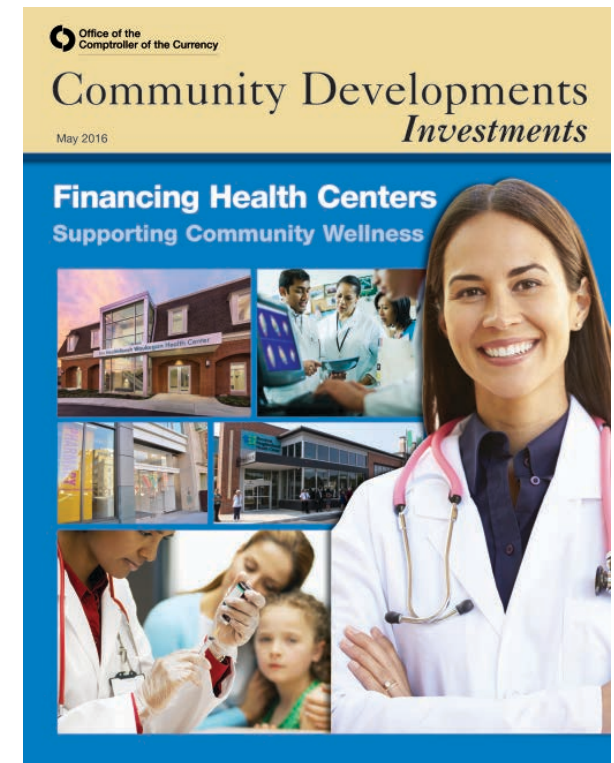
³⁸ 81 Fed. Reg. 48506, July 25, 2016. See also OCC, "Agencies Release Final Revisions to Interagency Questions and Answers Regarding Community Reinvestment," news release 2016-82, July 15, 2016.

COMMUNITY DEVELOPMENT

In addition to monitoring CRA compliance in the federal banking system, the OCC seeks to identify and promote opportunities for partnerships between financial institutions and the organizations and individuals who work to improve the well-being of American communities. The agency also seeks to ensure that its supervisory policies and procedures support community development goals.

For example, the OCC publishes a wide variety of fact sheets, resource guides, newsletters, and reports to keep bankers informed about products and services, investment vehicles, and government programs and initiatives related to community development and consumer banking. In 2016, the OCC's *Insights* series highlighted opportunities for commercial lending in self-governing Native American communities and the use of the U.S. Small Business Administration's Small Business Investment Company program to expand banks' small-business finance activities. The OCC's *Community Developments Investments* newsletters reported on opportunities to provide funding to Indian tribes for affordable housing activities and on the partnerships banks are forming to help finance the construction and expansion of community health centers.³⁹

³⁹ OCC, "Commercial Lending in Indian Country: Potential Opportunities in a Growing Market," *Insights*, February 2016; OCC, "Small Business Investment Companies: Investment Option for Banks," *Insights*, September 2015; OCC, "Housing Financing in Indian Country: Spotlight on HUD's



One of the foremost challenges facing older communities in particular is dealing with large inventories of abandoned homes in the possession of banks and public authorities. Restoring these properties to habitability—or demolishing those beyond restoration—requires significant financial resources. Yet banks willing to support these efforts have sometimes been stymied by supervisory loan-

Title VI Program," *Community Developments Investments*, September 2016; OCC, "Financing Health Centers: Supporting Community Wellness," *Community Developments Investments*, June 2016.

to-value limits, which could prevent a bank from providing would-be homeowners with sufficient funds to purchase and rehabilitate targeted properties.

In a September 2015 speech, Comptroller Curry announced that the OCC was addressing this issue. In December 2015 and June 2016, the agency published in the *Federal Register* proposed risk management guidance that addresses circumstances under which banks could establish programs to originate certain residential mortgages where the loan-to-value ratio at origination exceeds 100 percent and that describes the OCC's supervisory expectations. In August 2016, the OCC requested approval for final guidance from the Office of Management and Budget under the Paperwork Reduction Act of 1995.⁴⁰

MITIGATING REGULATORY BURDEN

Regulators must ensure that regulations are tailored to address identified issues and do not create unnecessary regulatory burden. In developing new regulations, the OCC carefully considers whether a particular regulation should apply to all banks or only to those of a particular size and risk profile.

⁴⁰ Remarks by Thomas J. Curry, 2016 National Interagency Community Reinvestment Conference, February 9, 2016. See also remarks by Thomas J. Curry, Community Development Corporation of Long Island, June 30, 2016; 80 Fed. Reg. 80458, December 24, 2015.

The Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) provides a formal process for addressing regulatory burden. The law requires the federal banking agencies to review their regulations at least once every 10 years to identify those regulations that might be outdated, unnecessary, or unduly burdensome. To facilitate this review, the agencies divided their regulations into 12 subject matter categories and then grouped those 12 into four sets. In 2016, the agencies published *Federal Register* notices requesting comments on the fourth and final set of rules, covering three of the 12 subject matter categories.⁴¹

In connection with the current review, a series of six meetings was held around the country with community bankers and others to share ideas with Comptroller Curry and other regulatory officials on regulations in need of reconsideration. The final two outreach meetings in this series took place in the Washington, D.C., and Chicago areas in 2016. The agencies studied the input they received from bankers, industry representatives, and community groups, and are addressing regulations found to be unnecessary or unduly burdensome.

⁴¹ OCC, "Economic Growth and Regulatory Paperwork Reduction Act of 1996: Review of Regulations Related to Procedure; Safety and Soundness; and Securities and Recently Issued Regulations," bulletin 2015-52, December 23, 2015.

In 2016, the agency's EGRPRA review of OCC-only regulations resulted in 11 proposed changes in OCC regulations. They included proposals to remove notice and approval requirements for certain changes in permanent capital involving national banks; to simplify certain licensing rules for business combinations involving federal mutual savings associations; and to clarify national bank oath requirements.⁴²

Changing some regulations requires specific legislative action. For example, the Fixing America's Surface Transportation Act, which President Obama signed into law in December 2015, included authorization to raise from \$500 million to \$1 billion the threshold for healthy, well-managed community banks to qualify for an extended examination cycle of once every 18 months instead of 12 months. The federal banking agencies acted on that authority with a rule that raised the threshold, resulting in an increase in the number of institutions that qualify for the extended cycle by approximately 617, to nearly 5,000 banks and savings associations. The rule also increased the number of U.S. branches and agencies of foreign banks that may qualify for an 18-month examination cycle from 63 to 89. This change not only reduces the burden on well-managed community banks and savings associations but also allows the banking agencies to focus supervisory resources on

⁴² OCC, "Office of the Comptroller of the Currency Proposes Rule Changes to Reduce Regulatory Burden," news release 2016-27, March 14, 2016.

those banks that present capital, managerial, or other issues of significant supervisory concern.⁴³

In adopting a rule on swap margins, regulators differentiated between standardized swaps that are traded openly and customized swaps prepared by dealers directly for their counterparties to hedge commercial risks. Under the final rule promulgated in October 2015, custom (i.e., non-cleared) swaps are subject to margin requirements to provide the parties with an added level of security in periods of market distress. The rule also exempts most banks with less than \$10 billion in assets; those institutions may continue to use non-cleared swaps to hedge risks without having to provide margin collateral. This rule was another instance of regulators taking steps to minimize regulatory burden on smaller banks, in recognition of the lower systemic risk they pose.⁴⁴



Nobel laureate economist Dr. Joseph Stiglitz signs a copy of his book *The Euro* for Chief Counsel Amy Friend after his presentation to the OCC.

⁴³ Remarks by Thomas J. Curry, FDIC Board Meeting, January 21, 2016. See also OCC, “Federal Banking Agencies Expand Number of Banks and Savings Associations Qualifying for 18-Month Examination Cycle,” news release 2016-16, February 19, 2016.

⁴⁴ OCC, “Comptroller of the Currency Approves Final Swaps Margin Rule,” news release 2015-142, October 22, 2015. See also OCC, “Agencies Finalize Rule Exempting Certain Commercial and Financial End Users From Initial and Variation Margin Requirements,” news release 2016-89, August 1, 2016.

ENTERPRISE RISK MANAGEMENT

The 2013 international “peer review” recommended that the agency develop a risk appetite statement to provide OCC staff with a clear and consistent understanding of the risks the agency faces and how they will be managed. In response to this recommendation, the OCC formalized an enterprise risk management framework, creating an Office of Enterprise Risk Management and an Enterprise Risk Committee to facilitate the identification, evaluation, and management of those risks. This approach is consistent with the leading edge of industry and government best practices and brings the OCC into alignment with the agency’s risk management expectations for the banks it supervises.

In April 2016, the OCC released its first “Enterprise Risk Appetite Statement,” which establishes the agency’s risk tolerance in nine categories: supervision risk, human capital risk, strategic risk, reputation risk, technology risk, operational risk, legal risk, external risk, and financial risk. The risk appetite statement characterizes the agency’s tolerance for each risk as low, moderate, or high.

The image shows a person in a white lab coat, likely a medical professional, looking at a document titled "Proposed Risk Metrics Examples". The document is a table with columns for Risk Category, Risk Appetite, Topic, Metric, and Tolerance. The table lists various risk categories and their corresponding metrics and tolerances.

Risk Category	Risk Appetite	Topic	Metric	Tolerance
Supervision	Low risk appetite	Large bank and midsize bank supervisory activities	High priority supervisory activities cancelled or deferred to the next fiscal year as a percentage of total approved high priority activities in fiscal year	TBD
Operational	No risk appetite for lapses in physical security	Physical security of Employees	Number of physical security incidents per month that require mitigation (change in policy, procedures, standards or guidelines)	0 (zero)
Operational	Low risk appetite for weaknesses in governance processes and internal controls	Internal reviews (EG Supervision; EG Operations)	Timely remediation of Actions Required from internal reviews	TBD
Operational	Low risk appetite	System reliability	Percent of critical system downtime based on hours of operation	TBD

Under development and subject to change.

The “Enterprise Risk Appetite Statement” documents the agency’s overall conservative risk appetite. The statement affirms that the OCC will accept more risk in some areas so it can adapt to the changing supervisory needs of the federal banking system. Agency managers and employees will use the risk appetite statement to evaluate their decisions and actions in both supervisory and administrative functions.

“By clearly articulating the level of risks within our own operations,” Comptroller Curry said, “agency management and employees have clearer signposts by which to guide their decisions, and external stakeholders can better understand OCC actions in the context of the risks facing the agency.”⁴⁵

⁴⁵ OCC, “OCC Releases Its Risk Appetite Statement,” news release 2016-44, April 12, 2016.



Section 2 Condition of the Federal Banking System

Summary

National banks and FSAs were generally profitable in 2016. System-wide return on equity (ROE) stood at 9.6 percent in the second quarter of 2016,⁴⁷ slightly below the level of a year earlier. Net income fell by \$1.5 billion during the first half of calendar year 2016 compared with the same period in 2015, reflecting a similar decline in noninterest income. Rising net interest income offset higher provision expenses. At community banks with less than \$1 billion in assets, ROE rose

over the same period, on the strength of both higher interest income and higher noninterest income. Across the federal system, credit quality remained solid, although charge-off rates in several categories edged higher over the last year.

Discussion

For the first half of calendar year 2016, net income at OCC-supervised banks fell by \$1.5 billion compared with a year earlier. System profitability as measured by ROE stood at 9.6 percent for the second quarter, slightly below the 10.0 percent posted a year earlier, and

still well below pre-crisis levels. Profitability slipped at large banks, while holding steady for community banks. Banks still face pressure on net interest margins because of the unprecedented duration of the low interest rate environment. The factors supporting earnings growth since the end of the recession in 2009—mainly falling loan-loss provisions and cost cutting—are not sustainable sources of profit growth.

Operating profit. Pre-provision net revenues rose by \$0.7 billion (5 percent) in the first half of 2016 compared with a year earlier. Noninterest income, largely in the form of fees on bank

⁴⁷ Only data for the first half of calendar year 2016 were available at publication deadline.

products and services, fell by \$1.4 billion, noninterest expense rose by \$0.6 billion, and net interest income rose by a healthy \$6.7 billion, reflecting growth in loans. A \$5.9 billion increase in provisions nearly offset the growth in net interest income.

Loan-loss provisions are now running above net charge-offs again, modestly adding to the allowance for loan and lease losses.

System-wide net interest income grew 4.7 percent in the first half of 2016, compared with a year earlier, on solid growth in loan

volume and little improvement in loan yields. As long as interest rates remain low, pressure is likely to continue on net interest income, the main source of revenue for most banks.

Community banks are posting higher ROE than larger banks. In the first half of 2016, net interest income for community banks rose 5.2 percent, compared with the previous year, on a 7 percent increase in loans on the books. Smaller banks have not been as successful as their larger peers, however, in keeping down noninterest expenses, some of which are attributable to higher compliance and regulatory

costs. Further, the steady decline in provisions, which boosted net income for several years, now appears to have reversed.

Loan performance. Loan performance improved steadily from 2010 to 2015. In the first half of 2016, charge-off rates edged up compared with 2015, led by higher loss rates in commercial and industrial loans and some consumer loans. Nonetheless, loss rates for all major loan categories remain below their 25-year averages.

To strengthen their positions, many banks raised additional capital over the last several years. The result is a more resilient banking system than existed before the financial crisis.



Section 3 OCC Leadership



THOMAS J. CURRY
COMPTROLLER OF THE CURRENCY

Thomas J. Curry was sworn in as the 30th Comptroller of the Currency on April 9, 2012. The Comptroller of the Currency is the administrator of the federal banking system and chief officer of the OCC. The OCC supervises more than 1,400 national banks and FSAs, including 48 federal branches and agencies of foreign banks in the United States. These institutions comprise nearly two-thirds of the assets of the commercial banking system.

The Comptroller also is a Director of the FDIC and is a member of the FSOC and the FFIEC.

Before becoming Comptroller of the Currency, Mr. Curry served as a Director of the FDIC from 2004 to 2012 and as Chairman of the NeighborWorks America Board of Directors. Comptroller Curry served five Massachusetts governors as the Commonwealth's Commissioner of Banks from 1990 to 1991 and from 1995 to 2003. He was Acting Commissioner from February 1994 to June 1995. He previously served as First Deputy Commissioner and Assistant General Counsel in the Massachusetts Division of Banks.

Comptroller Curry entered state government in 1982 as an attorney with the Massachusetts Office of the Secretary of State. He was Chairman of the Conference of State Bank Supervisors from 2000 to 2001 and served two terms on the State Liaison Committee of the FFIEC, including a term as the committee chairman.

He is a summa cum laude graduate of Manhattan College, where he was elected to Phi Beta Kappa. He received his law degree from the New England School of Law.



PAUL M. NASH

CHIEF OF STAFF

Paul M. Nash, Senior Deputy Comptroller and Chief of Staff, oversees the external affairs and communications functions of the OCC, including Congressional Liaison, Banking Relations, Press Relations, Internal Communications, Minority Affairs, Disclosure Services, Editorial Services, and Design and Print Services. He also directs the daily operations of the Comptroller's support staff. Mr. Nash joined the OCC in this role in May 2012.

Previously, Mr. Nash was the Deputy to the Chairman for External Affairs at the FDIC from 2009 to 2012. He served as Executive Director and Counsel at Verizon Wireless in Washington, D.C., from 2001 to 2009. Before joining Verizon Wireless, Mr. Nash was a legislative assistant to Senator Tim Johnson (D-S.D.) from 1997 to 2001. He also worked for the Congressional Research Service and practiced law in Washington, D.C., and New Orleans, La.

Mr. Nash received a bachelor of arts degree in international relations and history from the University of Pennsylvania and a law degree from Georgetown University Law Center.



AMY FRIEND

CHIEF COUNSEL

Amy Friend, Senior Deputy Comptroller and Chief Counsel, supervises the agency's legal activities, including legal advisory services to banks and examiners, enforcement and compliance activities, litigation, legislative initiatives, regulation of banks' securities and corporate practices, and the agency's licensing functions. Ms. Friend assumed these duties in February 2013.

Before taking on her current role at the OCC, Ms. Friend was Managing Director at Promontory Financial Group. From 2008 to 2010, she served as Chief Counsel to the U.S. Senate Committee on Banking, Housing, and Urban Affairs. She previously worked at the OCC from 1998 to 2008 as Assistant Chief Counsel, after holding several key legal positions in the private sector and the legislative branch.

Ms. Friend is a graduate of the University of Pennsylvania, magna cum laude, Phi Beta Kappa, and Georgetown University Law Center, cum laude.



GRACE E. DAILEY

CHIEF NATIONAL BANK EXAMINER

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

Ms. Dailey previously served as Deputy Comptroller for Large Bank Supervision, overseeing a portfolio of the nation's largest banks. She also has served as Examiner-in-Charge for Citibank and U.S. Bank and as Assistant Deputy Comptroller for Midsize and Community Bank Supervision. She has supervised banks of all sizes from OCC offices in Minneapolis, Minn., Chicago, Ill., and New York, N.Y. She was designated a Senior National Bank Examiner, the highest honor available to National Bank Examiners.

Ms. Dailey joined the OCC in 1983 as an Assistant National Bank Examiner in Minneapolis after graduating from the University of Wisconsin at Eau Claire. She also earned the chartered financial analyst designation.



GROVETTA N. GARDINEER

COMPLIANCE AND COMMUNITY AFFAIRS

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

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 from Wake Forest University and a law degree, cum laude, from North Carolina Central University.

**MARTIN PFINSGRAFF**

LARGE BANK SUPERVISION

Martin Pfinsgraff, Senior Deputy Comptroller for Large Bank Supervision, is responsible for supervision activities in the largest national banks and FSAs, as well as federal branches and agencies. He also oversees operations of the International Banking Supervision group and the OCC's London office. He assumed his current OCC position in July 2013.

Mr. Pfinsgraff joined the OCC in 2011 as Deputy Comptroller for Credit and Market Risk. In this role, he managed and directed the agency's market risk activities, oversaw credit and market risk policy formulation, and served as co-chair of the OCC's National Risk Committee.

Mr. Pfinsgraff has more than 30 years of experience in finance and risk management in the banking, securities, and insurance industries. He is a graduate of Allegheny College, holds a master's degree in finance from Harvard Business School, and has earned the chartered financial analyst designation.

**TONEY M. BLAND**MIDSIZE AND COMMUNITY BANK
SUPERVISION

As Senior Deputy Comptroller for Midsize and Community Bank Supervision, Toney Bland is responsible for supervising nearly 1,400 national banks and FSAs, as well as nearly 2,000 OCC employees. He assumed these duties in August 2014.

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

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

**DAVID NEBHUT**

ECONOMICS

As Senior Deputy Comptroller for Economics, David Nebhut oversees the agency's Economics Department. The department provides support to bank supervision, conducts analysis and research, and delivers regular reports to OCC executives and personnel. Mr. Nebhut assumed this role in November 2013.

From 2011 to 2013, Mr. Nebhut served as Deputy Comptroller for Economic and Policy Analysis. He joined the OCC in 1980 as a financial economist. Previously, he taught economics at Northwestern University.

Mr. Nebhut has a bachelor's degree in economics from Pennsylvania State University and has completed the course work for his doctorate in economics at Northwestern University.

**KATHY K. MURPHY**

OFFICE OF MANAGEMENT

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

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

Ms. Murphy joined the OCC in 2002 after serving in public accounting with two large national accounting firms. She graduated in 1997 from the University of Maryland with bachelor's degrees in accountancy and finance. She is also a certified public accountant and a member of the American Institute of Certified Public Accountants.



LARRY L. HATTIX

ENTERPRISE GOVERNANCE AND OMBUDSMAN

Larry L. Hattix is the Senior Deputy Comptroller for Enterprise Governance and Ombudsman. He oversees the agency's enterprise governance function, the bank and savings association appeals program, and the OCC's Customer Assistance Group. He assumed these duties in February 2013.

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

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



JOYCE COFIELD

OFFICE OF MINORITY AND WOMEN INCLUSION

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

Since joining the OCC in 2001, Ms. Cofield has served in a variety of leadership roles in human capital, recruitment, and diversity management. Before joining the agency, she held several executive positions in private industry. She has a bachelor of science degree in biology from Virginia Union University and a master's degree in industrial microbiology from Boston University.



Section **4** Licensing and Enforcement Measures

Figure 1: Corporate Application Activity, FY 2015 and FY 2016

	FY 2015	FY 2016	FY 2016 decisions			
	Applications received		Approved	Conditionally approved	Denied	Total
Branches	353	357	308	3	0	311
Capital/sub-debt	83	43	35	11	0	46
Change in bank control	12	9	7	2	0	9
Charters	0	1	1	0	0	1
Charter conversions ^a	6	5	2	0	0	2
Federal branches	0	0	0	1	0	1
Fiduciary powers	2	2	1	2	0	3
Mergers	75	78	64	5	0	69
Relocations	201	189	161	3	0	164
Reorganizations (national banks only)	62	31	24	8	0	32
Subsidiaries	18	46	29	3	0	32
Substantial change in assets	21	5	3	6	0	9
Mutual to stock conversions	5	2	0	2	0	2
Total	838	768	635	46	0	681

Source: OCC data.

^a Conversions to OCC-regulated institution.

Figure 2: Change in Bank Control Act, FY 2012–FY 2016 (Notices Processed With Disposition)

Year	Received	Acted on	Not disapproved	Disapproved	Withdrawn
2016	9	9	9	0	0
2015	12	11	11	0	1
2014	14	9	9	0	0
2013	8	6	6	0	1
2012	10	6	6	0	0

Source: OCC data.

Figure 3: Licensing Actions and Timeliness, National Banks and FSAs, FY 2015 and FY 2016

	Target time frames in days ^a	FY 2015			FY 2016		
		Number of decisions	Within target		Number of decisions	Within target	
			Number	Percent		Number	Percent
Branches	45/60	326	321	98	316	315	100
Capital/sub-debt	15/45	67	65	97	46	44	96
Change in bank control	NA/120	11	11	100	9	9	100
Charters	45/60	0	0	—	1	1	100
Charter conversions	60/120	7	7	100	2	2	100
Federal branches	NA/120	0	0	—	1	1	100
Fiduciary powers	30/60	2	2	100	3	3	100
Mergers	45/60	66	66	100	69	67	97
Relocations	45/60	200	192	96	165	162	98
Reorganizations	45/60	47	42	89	32	32	100
Subsidiaries	30/60	20	20	100	32	30	94
Substantial change in assets	NA/60	16	15	94	9	9	100
Mutual to stock conversions	NA/60	5	4	75	2	2	100
Total		767	745	97	687	677	98

Source: OCC data.

Note: Most of the decisions (95 percent in 2015 and 93 percent in 2016) were made in the district offices and Large Bank Licensing under delegated authority. Decisions include approvals, conditional approvals, and denials. NA means not applicable.

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

Figure 4: OCC Enforcement Actions, FY 2016

Type of enforcement action	Number	Amount
12 USC 1829 removal	42	42
Bank civil money penalties	15	\$ 226,483,300
Bank restitution to customers by order	2	\$ 2,500,000
Capital restoration plan	2	
Cease-and-desist orders	16	
Formal agreements	11	
IAP restitution to bank by order	7	\$ 1,873,210
Letters of reprimand	34	
Memorandums of understanding	6	
Orders of investigation	4	
Part 19K suspensions	1	
Part 3 individual minimum capital ratio	10	
Personal cease-and-desist orders	6	
Personal civil money penalties	19	\$ 11,100,000
Regulator conditions in writing	21	
Removals/prohibitions	26	
Safety and soundness plans	6	
Supervisory conditions in writing	3	
Total	231	\$ 241,956,510

Source: OCC data.

Figure 5: Applications Presenting CRA Issues Decided, FY 2016

Bank, city, state	Approval date	Document number
Sunshine Bank, Plant City, Fla.	October 28, 2015	CRA decision No. 170
Community Bank, NA, Canton, N.Y.	November 12, 2015	CRA decision No. 171
HSBC USA NA, McLean, Va.	February 11, 2016	CRA decision No. 172
First Federal Bank of Kansas City, Kansas City, Mo.	February 26, 2016	CRA decision No. 173
MB Financial Bank, NA, Chicago, Ill.	July 19, 2016	CRA decision No. 174
The Huntington National Bank, Columbus, Ohio	August 11, 2016	CRA decision No. 176
First National Bank of Dwight, Dwight, Ill.	August 17, 2016	CRA decision No. 175
KeyBank National Association, Cleveland, Ohio	September 22, 2016	CRA decision No. 177

Source: OCC data.



Section 5 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 Annual Report Fiscal Year 2016. For FY 2016, our independent auditors again have rendered an unmodified opinion.

This unmodified opinion reflects the OCC's ability to maintain its strong internal control environment, which is the foundation of accurate financial reporting and the safeguarding of agency assets. The OCC continuously strives for strong internal controls by carrying out the

guidance contained in Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control."

The OCC provides additional assurances under other government requirements to demonstrate its strong internal control environment, supported by activities that track, maintain, and safeguard OCC resources. For example, the OCC provides assurances that its system security program substantially complies with the requirements of the Federal Information Security Management Act of 2002 (FISMA) and that the agency has sufficient controls in place to minimize improper or erroneous payments,

in compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).

The OCC is a nonappropriated agency and receives the majority of its funding through assessments and fees paid by banks. The OCC uses these monies to fund its operating costs, which include personnel, travel, and training. These three items represent 77.7 percent of the OCC's total annual operating budget.

The agency's budget and planning processes support the OCC's strategic goal of "One OCC," which focuses on collaboration, innovation, and process efficiency. The OCC's efforts in this

area included horizontal reviews of the agency's resources, which supplemented the agency's new program-costing structure and were designed to capture meaningful data on the use of agency resources. In addition, the OCC implemented an enterprise-wide workforce planning process, aligned with the FY 2017 budget process, to improve the agency's allocation of resources for risk-based supervision and operational efficiency. Aligning the workforce requirements with the OCC's strategic plan enables the agency to keep pace with the changing landscape of the banking industry and labor market.

In FY 2016, leadership development was a key OCC priority. After a thorough review of the agency's Human Capital organization and the practices of other government agencies, the OCC established a new organization within the Office of Management (OM). The newly created Leadership, Executive, and Organizational Development organization aligns the functions of Organizational Development and Leadership Development, combining the strengths of both groups, while expanding executive development and resources. The new organization is responsible for advancing the OCC's Leadership Vision, which describes the ideal attributes and behaviors of an OCC leader, guides the development of leadership competencies, and serves as a compass for current and developing leaders. The OCC cultivates this vision by developing employees who embody the agency's core values of integrity, expertise, collaboration, and independence.

The agency's OM reorganized its acquisition management, workplace services, and security

office business units into a new Administrative Operations department. This realignment provides Deputy Comptroller-level strategic management over key administrative operations and services. It is consistent with other government agencies' organizational structures, and it places the OCC's administrative operations and transactional support services under a senior manager.

In FY 2015, the OCC launched an effort to gather information on current workspace conditions, discuss lease-related issues, and meet with building management when necessary to discuss opportunities for improving the workspace. As of September 2016, assessments of two district offices, 22 field offices, and 11 satellite offices had been completed.

The OCC is committed to safeguarding employees' personal data and sensitive banking information. The agency continues to invest in cybersecurity staffing, security technologies, and multiyear continuous monitoring and compliance authorization initiatives, including awarding a new contract for an around-the-clock cyber defense center with expanded capabilities. The OCC also implemented a data loss prevention program focused on employee training and culture, continuously improving processes, and making technology enhancements. The agency is executing its multiyear strategy for disaster recovery and business continuity, and has awarded a managed disaster recovery service contract and is moving forward with its implementation. The solution provides coverage for the OCC's business-critical applications and their supporting infrastructure.

To maintain regulatory compliance, the OM compliance team worked with the OCC's legal department and OM leaders to identify new regulatory requirements and coordinate efforts to strengthen compliance with those requirements. These included an evaluation of the Federal Information Technology Acquisition Reform Act (FITARA) to identify compliance requirements that are applicable to the OCC, and implementation of new e-mail records management requirements issued by the National Archives. The compliance team also worked with OM units to resolve and close all open audit findings and to enhance controls within business processes. The team initiated a comprehensive review of OM policies, resulting in revision and reissuance of approximately 25 percent of all policies. The policy revision program will continue into FY 2017. OM coordinated with the OCC's Enterprise Governance organization to enhance quality-control functions across the agency and expand the tracking of key metrics.

Moving into FY 2017, the OCC will continue its commitment to preserving and enhancing its strong internal control environment, one that supports the agency's core mission: ensure 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.



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

FINANCIAL SUMMARY

The OCC received an unmodified opinion on its FY 2016 and FY 2015 financial statements. The OCC's principal financial statements have been prepared to report the financial position and results of the agency's operations, pursuant to the requirements of 31 USC 3515(b). While the statements have been prepared from the books and records of the agency in accordance with U.S. generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The OCC's financial statements consist of 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 2016 and FY 2015. The financial statements, followed by notes and the auditor's report, begin on page 38.

The OCC, in accordance with 12 USC 482, establishes budget authority for a given fiscal year. The total budget authority available for use by the OCC in FY 2016 was \$1,133.3 million, which represents an increase of \$42.6 million, or 3.9 percent, from the \$1,090.7 million budget in FY 2015. The OCC executed \$1,083.7 million, or 95.6 percent, of the FY 2016 budget, compared

with \$1,012.5 million, or 92.8 percent, executed in FY 2015.

The Statements of Budgetary Resources, found on page 40, provide information about how budgetary resources were made available to the OCC for the year and present the status of

these resources and the net outlay of budgetary resources at the end of the year.

Figure 6 illustrates the OCC's key components of financial condition, and the subsequent narrative sections address the OCC's financial activities in FY 2016 and FY 2015.

Figure 6: Key Components of Financial Condition, as of September 30, 2016 (in Thousands)

	2016	2015	Increase/(Decrease)	
			\$	%
Costs^a				
Total financing sources	\$ 27,383	\$ 27,571	\$ (188)	(0.7%)
Less: net cost	(46,069)	(102,985)	(56,916)	(55.3%)
Net change of cumulative results of operations	\$ 73,452	\$ 130,556	\$ (57,104)	(43.7%)
Net position^b				
Assets				
Fund Balance With Treasury	\$ 11,588	\$ 6,513	\$ 5,075	77.9%
Investments	1,662,121	1,541,228	120,893	7.8%
Property, plant, and equipment, net	105,741	128,230	(22,489)	(17.5%)
Accounts receivable and other	5,475	2,831	2,644	93.4%
Total assets	\$ 1,784,925	\$ 1,678,802	\$ 106,123	6.3%
Liabilities				
Accounts payable and other accrued liabilities	\$ 34,340	\$ 31,111	\$ 3,229	10.4%
Accrued payroll and benefits	91,659	82,052	9,607	11.7%
Deferred revenue	286,480	279,812	6,668	2.4%
Other actuarial liabilities	80,603	67,436	13,167	19.5%
Total liabilities	\$ 493,082	\$ 460,411	\$ 32,671	7.1%
Net position	1,291,843	1,218,391	73,452	6.0%
Total liabilities and net position	\$ 1,784,925	\$ 1,678,802	\$ 106,123	6.3%

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 national banks and FSAs.

Total program costs for FY 2016 of \$1,108.5 million reflected an increase of \$70.1 million, or 6.8 percent, from \$1,038.4 million in FY 2015. The change was due primarily to the increase in staffing and the cost of funding the OCC's post-retirement life insurance plan.

REVENUES

The OCC's operations are funded primarily by assessments collected from banks and from interest received on investments in U.S. Treasury securities.

Total FY 2016 revenue of \$1,163.5 million reflected a \$17.9 million, or 1.6 percent, increase over FY 2015 revenue of \$1,145.6 million. Total assets under the OCC's supervision rose as of June 30, 2016, to \$11.6 trillion, up 5.5 percent from \$11.0 trillion a year earlier.

Figure 7: Funding Sources (in Millions)

	FY 2016	FY 2015	Change (\$)	Change (%)
Assessments	\$ 1,122.8	\$ 1,106.7	\$ 16.1	1.5%
Interest and other income	40.7	38.9	1.8	4.6%
Total revenue	\$ 1,163.5	\$ 1,145.6	\$ 17.9	1.6%

Source: OCC financial system data.

Interest revenue totaled \$18.1 million in FY 2016, an increase of \$1.4 million, or 8.4 percent, from interest income of \$16.7 million reported in FY 2015. This increase is primarily attributable to the variation (net increase of \$141.0 million) in the composition of long-term securities in the portfolio earning interest during the year. Other income includes revenue received from rental income and reimbursable activities with federal entities. Figure 7 shows the OCC's funding sources for FY 2016 and FY 2015.

ASSETS

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

As of September 30, 2016, total assets were \$1,784.9 million, an increase of \$106.1 million, or 6.3 percent, from the total assets of \$1,678.8 million reported on September 30, 2015.

The main factors contributing to the net increase in total assets include an increase in investments and related interest of \$120.9 million resulting from the investment of additional funds from increased assessment revenue this year, and a \$5.1 million increase in the Fund Balance With Treasury (FBWT), offset by decreases in property and equipment of \$22.5 million. The decrease in property and equipment resulted primarily from normal depreciation expense realized during the current year.

INVESTMENTS

The OCC invests available funds in nonmarketable U.S. Treasury securities issued through the Treasury Department's Bureau of the Fiscal Service in accordance with the provisions of 12 USC 481 and 12 USC 192. The OCC manages risk by diversifying its portfolio holdings through laddering security maturities over a period not to exceed 10 years. Laddering in this manner facilitates the ability to reinvest in short- and long-term Treasuries while maintaining sufficient cash for the routine use of funds for daily operating expenses. On September 30, 2016, investments and related interest were \$1,662.1 million, compared with

\$1,541.2 million the previous year. The increase of \$120.9 million, or 7.8 percent, reflects additional investments made with available funds from an increase in total bank assets and the assessment revenue collected in FY 2016. The market value of the OCC's investment portfolio in excess of book value rose in FY 2016 to \$19.4 million from \$14.3 million on September 30, 2015. This \$5.1 million, or 35.7 percent, increase in market value is primarily attributable to the fluctuation in interest rates—when interest rates decrease, there is a corresponding increase in bond prices—and the variation of portfolio holdings year-over-year because of note maturities and new purchases made during FY 2016.

The OCC's investment portfolio is composed of overnight and longer-term securities. The portion of the portfolio comprising longer-term (core) investments as of September 30, 2016, and September 30, 2015, was \$1,079.5 million, or 65.2 percent, and \$938.5 million, or 61.1 percent, respectively. The weighted average maturity of the portfolio decreased year-over-year to 2.12 years as of September 30, 2016, compared with 2.25 years as of September 30, 2015. This decrease is because many of the long-term investments made this year were in securities maturing within the earlier portion of the investment ladder. The portfolio earned an annual yield of 1.28 percent in FY 2016, compared with 1.39 percent in FY 2015. The OCC calculates annual portfolio yield by dividing the total interest earned during the year by the average ending monthly book value of investments.

LIABILITIES

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

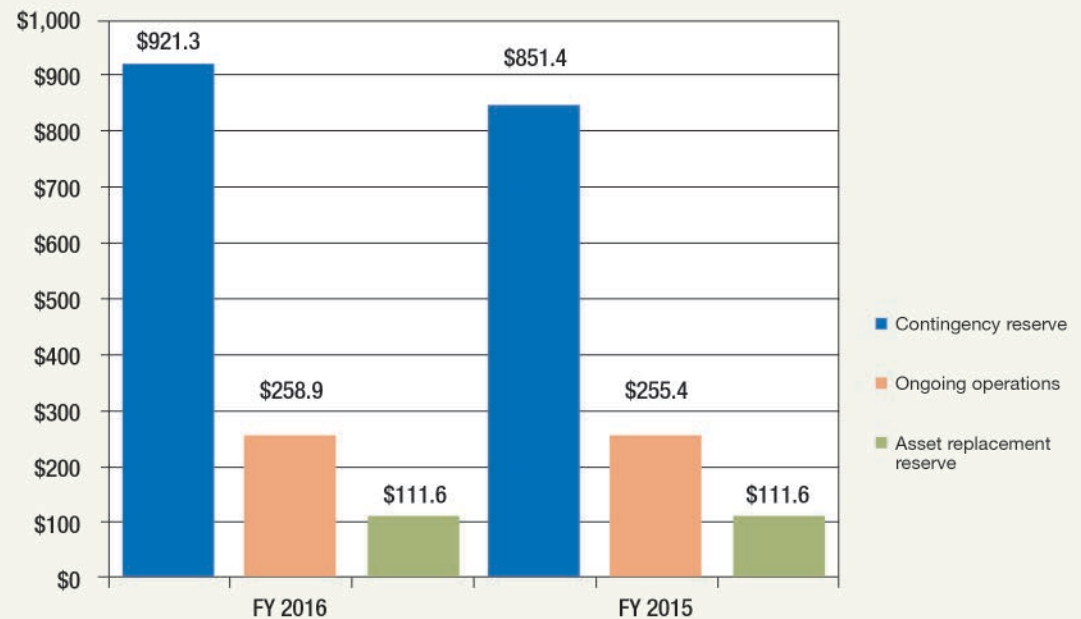
As of September 30, 2016, total liabilities were \$493.1 million, a net increase of \$32.7 million, or 7.1 percent, from total liabilities of \$460.4 million on September 30, 2015. The

majority of this increase is attributed to increases of \$13.2 million in other actuarial liabilities, \$7.4 million in accrued payroll and benefits, and \$6.7 million in deferred revenue.

NET POSITION

The OCC's net position of \$1,291.8 million as of September 30, 2016, and \$1,218.4 million as of September 30, 2015, represented the cumulative net excess of the OCC's revenues over the cost of operations. The net position is presented on

FIGURE 8: COMPOSITION OF NET POSITION (IN MILLIONS)



Source: OCC financial system data.

both the Balance Sheets and the Statements of Changes in Net Position.

The OCC allocates a significant portion of the net position to its contingency reserve to cover foreseeable but rare events or to respond to new requirements and opportunities. The contingency reserve also supports the OCC's ability to accomplish its mission by being available to reduce the impact on the OCC's operations in the event of a significant fluctuation in revenues or expenses. The OCC also sets aside funds for ongoing operations to cover undelivered orders, the consumption of assets, and capital investments.

In addition, the OCC maintains an asset replacement reserve for the replacement of information technology equipment, leasehold improvements, and furniture. The target level for the replacement reserve is established annually based on the gross value of existing property and equipment plus a growth-rate factor and a margin for market cost adjustments.

The establishment of financial reserves is integral to the effective stewardship of the OCC's resources, particularly because the agency does not receive congressional appropriations.

Figure 8 shows the OCC's composition of net position for FY 2016 and FY 2015.

OFFICE OF THE COMPTROLLER OF THE CURRENCY BALANCE SHEETS

AS OF SEPTEMBER 30, 2016 AND 2015 (IN THOUSANDS)

	2016	2015
Assets		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 11,588	\$ 6,513
Investments and related interest (Note 3)	1,662,121	1,541,228
Accounts receivable (Note 4)	3,630	1,143
Other assets	323	241
Total intragovernmental	1,677,662	1,549,125
Accounts receivable, net (Note 4)	1,481	1,396
Property and equipment, net (Note 5)	105,741	128,230
Other assets	41	51
Total assets	\$ 1,784,925	\$ 1,678,802
Liabilities		
Intragovernmental:		
Accounts payable and other accrued liabilities	\$ 11,103	\$ 7,664
Total intragovernmental	11,103	7,664
Accounts payable	869	2,914
Accrued payroll and benefits	40,815	33,417
Accrued annual leave	50,844	48,635
Other accrued liabilities	22,368	20,533
Deferred revenue	286,480	279,812
Other actuarial liabilities (Note 8)	80,603	67,436
Total liabilities	493,082	460,411
Net position (Note 9)	1,291,843	1,218,391
Total liabilities and net position	\$ 1,784,925	\$ 1,678,802

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, 2016 AND 2015 (IN THOUSANDS)

	<u>2016</u>	<u>2015</u>
Program costs:		
Supervise		
Intragovernmental	\$ 143,815	\$ 128,403
With the public	848,567	789,469
Subtotal—supervise	\$ 992,382	\$ 917,872
Regulate		
Intragovernmental	\$ 13,221	\$ 14,424
With the public	78,682	85,134
Subtotal—regulate	\$ 91,903	\$ 99,558
Charter		
Intragovernmental	\$ 3,663	\$ 3,110
With the public	20,527	17,879
Subtotal—charter	\$ 24,190	\$ 20,989
Total program costs	\$ 1,108,475	\$ 1,038,419
Less earned revenues not attributed to programs	(1,163,484)	(1,145,644)
Net program costs before gain/loss from changes in assumptions	\$ (55,009)	\$ (107,225)
Actuarial (gain)/loss (Note 8)	8,940	4,240
Net cost of operations (Note 10)	\$ (46,069)	\$ (102,985)

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, 2016 AND 2015 (IN THOUSANDS)

	<u>2016</u>	<u>2015</u>
Beginning balances	\$ 1,218,391	\$ 1,087,835
Other financing sources:		
Imputed financing (Note 11)	27,383	27,571
Net cost of operations	46,069	102,985
Net change	73,452	130,556
Ending balances	\$ 1,291,843	\$ 1,218,391

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, 2016 AND 2015 (IN THOUSANDS)

	2016	2015
Budgetary resources:		
Unobligated balance, brought forward, October 1	\$ 1,301,636	\$ 703,474
Recoveries of prior year unpaid obligations	18,484	1,159
Unobligated balance from prior year budget authority, net	1,320,120	704,633
Spending authority from offsetting collections	1,170,288	1,592,858
Total budgetary resources	\$ 2,490,408	\$ 2,297,491
Status of budgetary resources:		
Obligations incurred	\$ 1,089,973	\$ 995,855
Exempt from apportionment	1,400,435	1,301,636
Total unobligated balance, end of year	1,400,435	1,301,636
Total budgetary resources	\$ 2,490,408	\$ 2,297,491
Change in obligated balance:		
Unpaid obligation balance brought forward, October 1	\$ 237,690	\$ 234,172
Obligations incurred	1,089,973	995,855
Outlay (gross)	(1,041,700)	(991,178)
Recoveries of prior year unpaid obligations	(18,484)	(1,159)
Unpaid obligation, end of year	267,479	237,690
Uncollected payment, federal source brought forward, October 1	(4,846)	(5,040)
Change in uncollected payment, federal source	(2,586)	195
Uncollected payment, federal source, end of year	(7,432)	(4,845)
Memorandum (non-add) entries		
Obligated balance, start of year	\$ 232,844	\$ 229,132
Obligated balance, end of year	\$ 260,047	\$ 232,845
Budget authority and outlays, net:		
Budget authority, gross	\$ 1,170,288	\$ 1,592,858
Actual offsetting collections	(1,167,702)	(1,593,053)
Change in uncollected payment from federal source	(2,586)	195
Budget authority, net	0	0
Outlay, gross	1,041,700	991,178
Actual offsetting collections	(1,167,702)	(1,593,053)
Outlays, net	\$ (126,002)	\$ (601,875)

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, 2016 AND 2015 (IN THOUSANDS)

	2016	2015
Revenue activity:		
Sources of cash collections		
Civil money penalties	\$ 233,292	\$ 1,076,730
Accrual adjustment	82	(4,072)
Total custodial revenue	233,374	1,072,658
Disposition of custodial revenue:		
Transferred to Treasury	233,292	1,076,730
(Increase)/decrease in amounts yet to be transferred	82	(4,072)
Total disposition for custodial revenue	233,374	1,072,658
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 the lending and investment activities of federally chartered institutions. With the passage of Dodd–Frank on July 21, 2010, the OCC also oversees federally chartered savings associations.

The financial statements report on the OCC’s three major programs: supervise, regulate, and charter banks. The OCC’s major programs support the agency’s overall mission by ensuring that banks operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

Basis of Accounting and Presentation

The OCC’s financial statements are prepared from the agency’s accounting records in conformity with GAAP as set forth by the Federal Accounting Standards Advisory Board (FASAB). The OCC’s financial statements are presented in accordance with the form and content guidelines established by the OMB in Circular No. A-136, “Financial Reporting Requirements.”

In addition, the OCC applies financial accounting and reporting standards issued by the Financial Accounting Standards Board (FASB) only as outlined in FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 34, “The Hierarchy of Generally Accepted Accounting

Principles,” including the “Application of Standards Issued by the Financial Accounting Standards Board.”

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

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.

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

Revenues and Other Financing Sources

The OCC derives its revenue primarily from assessments and fees paid by banks, from income on investments in nonmarketable U.S. Treasury securities, and from rent the Consumer Financial Protection Bureau (CFPB) pays the OCC for leasing office space. The OCC does not receive congressional appropriations to fund any of the agency’s operations. Therefore, the OCC has no unexpended appropriations.

By federal statute 12 USC 481, the OCC’s funds are maintained in a U.S. government trust revolving fund. The funds remain available to cover the annual cost of the OCC’s operations in accordance with policies established by the Comptroller of the Currency.

Funds From Dedicated Collections

In accordance with SFFAS No. 43, “Funds From Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds,” all of the OCC’s revenue constitutes funds from dedicated collections.

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 FBWT (see Note 2).

Investments

It is the OCC’s policy to invest available funds in accordance with the provisions of 12 USC 481 and 12 USC 192. The OCC invests available funds in U.S. government account series Treasury securities, which may include one-day certificates, bills, and notes. The OCC does not invest funds with state or national banks. The OCC has the positive intent and ability to hold all U.S. Treasury securities to maturity in accordance with FASB Accounting Standards Codification (ASC) Topic 320, “Investments—Debt and Equity Securities” (see Note 3).

Accounts Receivable

In accordance with SFFAS No. 1, “Accounting for Selected Assets and Liabilities,” the OCC updates the allowance for loss on accounts receivable account annually or as needed to reflect the most current estimate of accounts that are likely to be uncollectible. Accounts receivable from the public are reduced by an allowance for loss on doubtful accounts (see Note 4).

Property and Equipment

Property and equipment 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.”

Property and equipment purchases and additions are stated at cost. Allowable internal-use software costs are capitalized. The OCC expenses purchases and software development costs that do not meet the capitalization criteria, such as normal repairs and maintenance, when received or incurred.

In addition, property and equipment are depreciated or amortized, as applicable, over the estimated useful lives using the straight-line method and are removed from the OCC’s asset accounts in the period of disposal, retirement, or removal from service. Any difference between the book value of the property and equipment and amounts realized is recognized as a gain or loss in the same period that the asset is removed (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, and deferred revenue. 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

Payments have been accelerated to be made within 15 days of receipt of invoices and other relevant documents in accordance with OMB Memorandum M-12-16, “Providing Prompt Payment to Small Business Subcontractors,” issued July 11, 2012. Interest penalties are paid when payments are late. Discounts are taken when cost effective and when the invoices are paid within the discount period.

Accrued Annual Leave

In accordance with SFFAS No. 5, annual leave is accrued and funded by the OCC as it is earned, and the accrual is reduced as leave is taken or paid. Each year, the balance in the accrued annual leave account is adjusted to

reflect actual leave balances with current pay rates. Sick leave and other types of leave are expensed as incurred.

Deferred Revenue

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

Employment Benefits

Retirement Plans

All of the OCC's employees participate in one of three retirement systems—the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), or the Pentegra Defined Benefit (DB) Plan (i.e., the Financial Institutions Retirement Fund). 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 CSRS, with the exception of those who, during the election period, joined FERS.

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

The OCC assumed the role of benefit administrator for the Pentegra DB Plan in FY 2011. The Pentegra DB Plan covers some of the employees transferred from the former Office of Thrift Supervision (OTS) and is closed to new entrants. The OCC does not report Pentegra assets or accumulated plan benefits that may be applicable to its employees in its financial statements; these amounts are reported by Pentegra.

The OCC is committed to adhering to sound financial policies and management oversight of the plan to ensure its sustainability for current and future retirees.

Thrift Savings and 401(k) Plans

The OCC's employees are eligible to participate in the federal Thrift Savings Plan (TSP). FERS employees can receive up to 4.0 percent in OCC matching contributions, in addition to an automatic contribution of 1.0 percent of adjusted base pay. The OCC's contributions to the TSP totaled \$21.1 million and \$19.8 million for FY 2016 and FY 2015, respectively, and are included as a component of "Operating expense: Personnel compensation and benefits" illustrated in Note 10, "Net Cost of Operations."

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

As required by law, for former OTS employees transferred to the OCC, the OCC continues to offer a separate 401(k) plan. The amount of each participant's matching contribution is based on the applicable retirement system under which each participant is covered. For those who participate in FERS, CSRS, or CSRS Offset, the OCC provides an automatic contribution of 4.0 percent of adjusted base pay and an additional matching contribution of up to 1.0 percent. For those who participate in the Financial Institutions Retirement Fund, the OCC provides an automatic contribution of 4.0 percent of adjusted base pay and an additional matching contribution of up to 3.0 percent.

The OCC's contributions to the 401(k) plans totaled \$29.9 million and \$29.2 million for FY 2016 and FY 2015, respectively, and are included as a component of "Personnel compensation and benefits," as illustrated in Note 10, "Net Cost of Operations."

Federal Employees Health Benefit and Federal Employees' Group Life Insurance

Employees and retirees of the OCC are eligible to participate in the Federal Employees Health Benefit (FEHB) and Federal Employees' Group Life Insurance (FEGLI) plans administered by the OPM, which involve a cost sharing of biweekly coverage premiums by employee and employer. 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."

Custodial Revenues and Collections

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

Effects of Recent Accounting Pronouncements

On January 19, 2016, the FASAB issued Technical Release (TR) No. 16, "Implementation Guidance for Internal Use Software." This release assists reporting entities in implementing SFFAS 10, "Accounting for Internal Use Software." Since the FASAB issued SFFAS 10 in 1998, software development practices have changed dramatically, and reporting entities have experienced challenges applying the standards because of the new terminology and techniques that have evolved. The TR provides implementation guidance regarding

- the definition of internal-use software; component/module-based internal-use software assets; software development practices, including approaches that involve phases; and clarifying internal-use software recognition, measurement, and disclosure items (such as capitalized cost, capitalization cutoff, capitalization threshold, enhancement, impairment, and related matters).
- new internal-use software challenges related to changes in internal-use software development practices since the issuance of SFFAS 10.
- management's role in applying SFFAS 10.

The OCC adopted TR No. 16 upon issuance, as required, without material effect.

NOTE 2

Fund Balance With Treasury

The status of the FBWT represents the budgetary resources that support the FBWT 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 non-budgetary FBWT account represents adjustments to budgetary accounts that do not affect the FBWT. The OCC's balance represents investment accounts that reduce the status of the FBWT.

As of September 30, 2016, there were no unreconciled differences between U.S. Treasury records and balances reported on the OCC's general ledger. The figure below depicts the OCC's FBWT amounts for FY 2016 and FY 2015.

Fund Balance With Treasury (in Thousands)		
	FY 2016	FY 2015
Fund balance		
Trust fund	\$ 11,588	\$ 6,513
Status of FBWT		
Unobligated balance—available	\$ 1,400,435	\$ 1,301,636
Obligated balance not yet disbursed	260,047	232,844
Non-budgetary FBWT	(1,648,894)	(1,527,967)
Total	\$ 11,588	\$ 6,513

NOTE 3

Investments and Related Interest

The OCC's investments are stated at amortized cost and the related accrued interest. Premiums and discounts are amortized over the term of the investment using the effective interest method. The fair market value of investment securities was \$1,677.7 million on September 30, 2016, and \$1,551.8 million on September 30, 2015. The overall portfolio earned an annual yield of 1.3 percent for FY 2016 and 1.4 percent for FY 2015.

The yield-to-maturity on the non-overnight portion of the OCC's investment portfolio ranged from 0.5 percent to 2.9 percent on September 30, 2016, and from 0.2 percent to 4.0 percent on September 30, 2015.

FY 2016 Investments and Related Interest (in Thousands)					
	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities:					
Nonmarketable market-based	\$ 1,665,745	Effective interest	\$ (7,426)	\$ 1,658,319	\$ 1,677,697
Accrued interest	3,802		0	3,802	3,802
Total intragovernmental investments	\$ 1,669,547		\$ (7,426)	\$ 1,662,121	\$ 1,681,499

FY 2015 Investments and Related Interest (in Thousands)					
	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities:					
Nonmarketable market-based	\$ 1,548,208	Effective interest	\$ (10,683)	\$ 1,537,525	\$ 1,551,788
Accrued interest	3,703		0	3,703	3,703
Total intragovernmental investments	\$ 1,551,911		\$ (10,683)	\$ 1,541,228	\$ 1,555,491

NOTE 4

Accounts Receivable

As presented in the OCC's Balance Sheets, accounts receivable represent monies due from the public 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 federal agencies other than the OCC. Also included are CMP 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 due the OCC, the amount outstanding does not enter into the calculation for the allowance for uncollectible accounts. In FY 2016, the amount shown for nonfederal receivables included assessment fees due from banks.

FY 2016 Accounts Receivable (in Thousands)			
	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Federal receivables	\$ 3,630	\$ 0	\$ 3,630
CMP receivables	1,376	0	1,376
Nonfederal receivables	225	(120)	105
Total accounts receivable	\$ 5,231	\$ (120)	\$ 5,111

FY 2015 Accounts Receivable (in Thousands)			
	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Federal receivables	\$ 1,143	\$ 0	\$ 1,143
CMP receivables	1,294	0	1,294
Nonfederal receivables	128	(26)	102
Total accounts receivable	\$ 2,565	\$ (26)	\$ 2,539

NOTE 5

Property and Equipment, Net

Property and equipment purchased at a cost greater than or equal to the established capitalization thresholds with useful lives of three years or more 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 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, leasehold improvements in development, 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 property and equipment are depreciated or amortized, as applicable, on a straight-line basis over the estimated useful lives.

For FY 2016 and FY 2015, the OCC recognized \$15.0 million and \$9.7 million, respectively, of fully depreciated assets or expired leasehold assets removed from service. In FY 2016 and FY 2015, the OCC recognized losses of \$0 and \$192,314, respectively, on asset disposal. The first two figures on the next page present the OCC's capitalization thresholds and the property and equipment balances as of September 30, 2016 and 2015.

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

FY 2016 Property and Equipment, Net (in Thousands)					
Class of assets	Capitalization threshold	Useful life (in years)	Cost	Accumulated depreciation/ amortization	Net book value
Land	NA	NA	\$ 7,101	\$ 0	\$ 7,101
Building	50	50	49,188	(37,077)	12,111
Leasehold improvements	50	5-20	113,808	(54,738)	59,070
Equipment	50	3-10	42,293	(30,040)	12,253
Internal-use software	500	5	111,309	(96,103)	15,206
Internal-use software—development	500	NA	0	0	0
Leasehold improvements—development	50	NA	0	0	0
Total			\$ 323,699	\$ (217,958)	\$ 105,741

FY 2015 Property and Equipment, Net (in Thousands)					
Class of assets	Capitalization threshold	Useful life (in years)	Cost	Accumulated depreciation/ amortization	Net book value
Land	NA	NA	\$ 7,101	\$ 0	\$ 7,101
Building	50	50	49,188	(36,024)	13,164
Leasehold improvements	50	5-20	112,873	(46,567)	66,306
Equipment	50	3-10	55,424	(37,893)	17,531
Internal-use software	500	5	104,974	(85,974)	19,000
Internal-use software—development	500	NA	5,128	0	5,128
Leasehold improvements—development	50	NA	0	0	0
Total			\$ 334,688	\$ (206,458)	\$ 128,230

Note: NA means not applicable.

NOTE 6 Rental Income

In FY 2012, the OCC entered into a 20-year occupancy agreement with the CFPB for a portion of the building the OCC owns. The OCC also had noncancelable operating leases for additional space in that building. The lease with the CFPB expires in 2032 and provides renewal options. The lease provides for annual base rent and additional rent for building operating expenses. The lease also provides for fixed future increases in rents over the term of the lease.

The future minimum rental income through FY 2022 and thereafter, not including renewals, is shown below.

FY 2016 Future Rental Income (in Thousands)	
Year	Amount
2017	\$ 12,740
2018	12,995
2019	13,254
2020	13,519
2021	13,790
2022 and beyond	160,518
Total	\$ 226,816

FY 2015 Future Rental Income (in Thousands)	
Year	Amount
2016	\$ 12,838
2017	13,022
2018	13,265
2019	13,501
2020	13,613
2021 and beyond	170,367
Total	\$ 236,606

NOTE 7 Leases

The OCC leases equipment and office space for its headquarters operations in Washington, D.C., and for district and field operations. All of the OCC's leases are recorded as operating leases, and the costs are included in the Statements of Net Cost.

The future minimum lease payments through FY 2022 and thereafter, not including renewals, are shown below.

FY 2016 Future Lease Payments (in Thousands)	
Year	Amount
2017	\$ 62,276
2018	59,779
2019	55,883
2020	52,540
2021	50,258
2022 and beyond	253,987
Total	\$ 534,723

FY 2015 Future Lease Payments (in Thousands)	
Year	Amount
2016	\$ 57,049
2017	59,175
2018	56,872
2019	53,135
2020	49,855
2021 and beyond	315,010
Total	\$ 591,096

NOTE 8 Other Actuarial Liabilities

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

Actuarial Liabilities (in Thousands)		
Component	FY 2016	FY 2015
Post-retirement life insurance benefits	\$ 69,283	\$ 59,465
Federal Employees' Compensation Act	7,170	6,616
Pentegra DB Plan	4,150	1,355
Total actuarial liabilities	\$ 80,603	\$ 67,436

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 accumulated post-retirement benefit obligation was 3.9 percent in FY 2016, as compared to FY 2015, when the rate was 4.6 percent. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan.

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

The figure on the next page presents a reconciliation of the beginning and ending post-retirement life insurance liability and provides material components of the related expenses.

Reconciliation of Beginning and Ending Post-Retirement Liability and the Related Expenses (in Thousands)		
Change in actuarial and accrued benefits	FY 2016	FY 2015
Actuarial post-retirement liability beginning balance	\$ 59,465	\$ 61,275
Actuarial expense		
Normal cost	1,167	1,261
Interest on the liability balance	2,612	2,733
Actuarial (gain)/loss		
From experience	(1,224)	461
From assumption changes	8,940	(4,240)
Prior service costs	0	0
Total expense	11,495	215
Less amounts paid	(1,677)	(2,025)
Actuarial post-retirement liability ending balance	\$ 69,283	\$ 59,465

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 later billed to the OCC. The FY 2016 present values of these estimated outflows were calculated using a discount rate in the first year of 2.78 percent for wage benefits and 2.26 percent for medical benefits. For FY 2015 the discount rates for wage and medical benefits were 3.13 percent and 2.50 percent, respectively, in the first year.

Pentegra Defined Benefit Plan

In accordance with the provisions of Dodd–Frank, in FY 2011, the OCC assumed the role of benefit administrator for the Pentegra DB Plan, a legacy retirement system. The Pentegra DB Plan is a tax-exempt, multiple employer, defined benefit pension plan in which all costs are paid by the employer into one general account.

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

In FY 2016 and FY 2015, the OCC paid \$5.4 million and \$3.9 million, and recognized plan expenses of \$8.2 million and \$4.3 million, respectively. At September 30, 2016 and 2015, the OCC had accrued \$4.2 million and \$1.4 million, which represents the portion of the plan expenses from July to September of each fiscal year that is paid in the following fiscal year. The increase in plan expenses resulted primarily from the funding status of the OCC Pentegra DB Plan as of July 1, 2016 (the beginning of the new plan year). The OCC was 99.2 percent funded as of July 1, 2016. As such, our Minimum Required Contribution was the entire Target Normal Cost (i.e., one year's worth of benefit accruals) plus an additional charge due to the amortization of the unfunded liability.

NOTE 9 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 sets aside a portion of its net position as contingency and asset replacement reserves for use at the Comptroller's discretion. In addition, funds are set aside to cover the cost of ongoing operations.

The figure below reflects balances for FY 2016 and FY 2015.

Net Position Availability (in Thousands)		
Component	FY 2016	FY 2015
Contingency reserve	\$ 921,307	\$ 851,409
Asset replacement reserve	111,600	111,600
Set aside for ongoing operations:		
Undelivered orders	96,316	79,101
Consumption of assets	115,536	138,081
Capital investments	47,084	38,200
Net position	\$ 1,291,843	\$ 1,218,391

NOTE 10 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 SFAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses From Changes in Assumptions and Selecting Discount Rates and Valuation Dates." The imputed financing sources for net cost of operations are reported in the Statements of Changes in Net Position; in Note 11, "Imputed Costs and Financing Sources"; and in Note 12, "Reconciliation of Net Cost of Operations to Budget."

The following figure illustrates the OCC's operating expense categories for FY 2016 and FY 2015.

Net Cost of Operations by Expense Category (in Thousands)		
Component	FY 2016	FY 2015
Personnel compensation and benefits	\$ 774,472	\$ 723,177
Contractual services	124,349	115,223
Rent, communication, and utilities	76,633	70,893
Travel and transportation of persons and things	58,681	57,005
Imputed costs	27,383	27,571
Depreciation	25,997	27,902
Other	29,900	20,888
Total	\$ 1,117,415	\$ 1,042,659

NOTE 11**Imputed Costs and Financing Sources**

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

The imputed costs categories for FY 2016 and FY 2015 are listed in the table below. These imputed costs are included on the Statements of Net Cost. The financing sources absorbed by the OPM are reflected on the Statements of Changes in Net Position and in Note 12, "Reconciliation of Net Cost of Operations to Budget."

Imputed Costs Absorbed by the OPM (in Thousands)		
Component	FY 2016	FY 2015
Retirement	\$ 9,259	\$ 11,721
Federal Employees Health Benefits	18,071	15,800
Federal Employees' Group Life Insurance	53	50
Total	\$ 27,383	\$ 27,571

NOTE 12**Reconciliation of Net Cost of Operations to Budget**

The Reconciliation of Net Cost of Operations to Budget demonstrates the relationship between the OCC's proprietary accounting (net cost of operations) and budgetary accounting (net obligations) information. For FY 2016, the statement on the next page shows total offsetting collections exceeding resources used by \$71.4 million. This is a net decrease of \$499.1 million from FY 2015, when offsetting collections exceeded resources used by \$570.6 million. The year-over-year change resulted primarily from a \$405.2 million decrease in spending authority from offsetting collections, which is due to a large portion of the OCC's assessment revenue being collected on October 1, 2014, rather than September 30, 2014. This increase was netted against the increase of \$94.1 million in resources used (obligations incurred).

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

FOR THE YEARS ENDED SEPTEMBER 30, 2016
AND 2015 (IN THOUSANDS)

	FY 2016	FY 2015
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	\$ 1,089,973	\$ 995,855
Less: Spending authority from offsetting collections	(1,188,773)	(1,594,017)
Net obligations	(98,800)	(598,162)
Other resources		
Imputed financing sources (Note 11)	27,383	27,571
Total resources used to finance activities	\$ (71,417)	\$ (570,591)
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	\$ (3,940)	\$ 3,999
Resources that finance the acquisition of assets	(4,014)	(11,110)
Total resources used to finance items not part of the net cost of operations	(7,954)	(7,111)
Total resources used to finance the net cost of operations	\$ (79,371)	\$ (577,702)
Components of the net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in future periods		
Change in deferred revenue	\$ 6,669	\$ 275,442
Increase in exchange revenue receivable from the public	(4)	170,692
Total components that will require or generate resources in future periods	6,665	446,134
Components not requiring or generating resources		
Depreciation and amortization	26,503	27,203
Net increase (decrease) in bond premium	134	1,090
Other	0	290
Total components that will not require or generate resources	26,637	28,583
Total components of net cost of operations that will not require or generate resources in the current period	\$ 33,302	\$ 474,717
Net cost of operations	\$ (46,069)	\$ (102,985)

NOTE 13

Contingent Liabilities

The OCC recognizes and discloses contingencies in accordance with SFFAS No. 12, "Recognition of Contingent Liabilities Arising From Litigation." 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.

For FY 2016 and FY 2015, the OCC neither identified nor recognized any contingent liabilities.



Independent Auditor's Report

Comptroller of the Currency
Office of the Comptroller of the Currency

Inspector General
Department of the Treasury

Report on the Financial Statements

We have audited the accompanying Balance Sheets of the Office of the Comptroller of the Currency (OCC) as of September 30, 2016 and 2015 and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Custodial Activity for the years then ended and the related notes to the financial statements (hereinafter referred to as the financial statements).

Management's Responsibility for the Financial Statements

OCC management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statement audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 15-02, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Office of the Comptroller of the Currency as of September 30, 2016 and 2015, and its net cost, changes in net position, budgetary resources and custodial activity for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the information in the Letter from the Chief Financial Officer and Financial Summary be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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 audit 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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information in About the OCC, the Comptroller's Viewpoint, Sections One through Four, the Other Accompanying Information, and the Assurance Statement of OCC's fiscal year 2016 Annual Report is presented for purposes of additional

analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our reports dated October 31, 2016, on our consideration of the OCC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards in considering the OCC's internal control over financial reporting and compliance.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the OCC's internal control over financial reporting (internal control) to determine 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 OCC'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. In our fiscal year 2016 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. Given these limitations, material weaknesses may exist that have not been identified.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCC's financial statements are free from material misstatement, we performed tests of its 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 and certain provisions of other laws and regulations specified in OMB Bulletin No. 15-02. 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. 15-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such

an opinion. The results of our tests of FFMIA disclosed no instances in which the OCC's financial management systems did not substantially comply with the (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) application of the United States Government Standard General Ledger at the transaction level.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the OCC's compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the OCC's compliance. Accordingly, this communication is not suitable for any other purpose.

William, Adley & Company-DC, LLP

Washington, District of Columbia

October 31, 2016

OTHER ACCOMPANYING INFORMATION

Performance Measures and Results

The OCC’s FY 2016 performance measures, workload indicators, customer service standards, and results are presented in figure 9. They respond to the requirements for most agencies to set goals, measure performance, and report the information to Congress as established in the GPRM Modernization Act of 2010 (GPRAMA). The “GPRM” in the act’s title refers to the Government Performance and Results Act of 1993, a law designed to improve program management throughout the federal government; GPRAMA substantially modified the GPRM when it became law in January 2011.

Figure 9: Performance Measures, Workload Indicators, Customer Service Standards, and Results

Strategic goal	Performance measures, workload indicators, and customer service standards	FY 2013	FY 2014	FY 2015	FY 2016	
					Target	Actual
I. A vibrant and diverse system of banks that supports a robust U.S. economy						
	Percentage of banks with composite capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk (CAMELS) rating of 1 or 2	80%	87%	91%	90%	93%
	Rehabilitated problem banks as a percentage of the problem banks one year ago (CAMELS 3, 4, or 5)	34%	39%	39%	40%	43%
	Percentage of banks that are well capitalized	94%	93%	95%	95%	96%
	Percentage of critically undercapitalized banks on which responsible action is taken within 90 calendar days after they become critically undercapitalized	100%	100%	100%	100%	100%
	Average survey response that the report of examination clearly communicated:	1.35	1.59	1.54	< 1.50	1.53
	a. Supervisory findings	Combined	Combined	1.59	< 1.50	1.58
	b. Significant issues			1.58	< 1.50	1.57
	c. Corrective actions with time frames ^a					
	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	94%	95%	96%	94%	98%
	Percentage of community banks that are within one year of their first Intermediate Small Bank or Large Bank CRA examination for which the OCC offers to provide consultation on community development opportunities	100%	100%	100%	100%	100%
	Percentage of consumer complaints closed within 60 calendar days of receipt	71%	51%	78%	80%	88%
	Number of consumer complaints opened/closed during the fiscal year ^b	44,370/ 44,274	27,783/ 73,806	22,468/ 25,263	24,000/ 26,000	22,350/ 22,774

Figure 9: Performance Measures, Workload Indicators, Customer Service Standards, and Results (continued)

Strategic goal	Performance measures, workload indicators, and customer service standards	FY 2013	FY 2014	FY 2015	FY 2016	
					Target	Actual
II. "One OCC" focused on collaboration, innovation, coordination, and process improvement						
	Total OCC costs relative to every \$100,000 in assets regulated	\$9.99	\$9.75	\$9.37	\$10.26	\$9.65
III. The OCC is firmly positioned to continue to operate independently and effectively into the future						
	Percentage of external legal opinions issued within established time frames	96%	95%	97%	90%	93%
	Number of external legal opinions issued during the fiscal year	44	37	29	60	43
	Percentage of licensing applications and notices filed electronically	39%	41%	41%	35%	38%
	Number of licensing applications and notices filed electronically during the fiscal year	1,320	1,251	1,248	1,100	1,097
	Percentage of licensing applications and notices completed within established time frames	97%	98%	97%	95%	98%
	Number of licensing applications and notices completed during the fiscal year	2,378	2,624	2,524	2,100	2,399
	Average survey rating of the overall licensing services provided by the OCC ^c	1.25	1.20	1.20	< 1.5	1.44

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

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

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

IMPROPER PAYMENTS ELIMINATION AND RECOVERY IMPROVEMENT ACT

IPERIA requires federal agencies to review all programs and activities annually and identify those that may be susceptible to significant erroneous payments. For programs and activities in which the risk of erroneous payments is determined to be significant, agencies are required to estimate the amount of erroneous payments made in those programs and activities, and meet specific reporting requirements.

IPERIA Risk Assessment

Each year, the U.S. Department of the Treasury provides the OCC with guidance, in accordance with OMB Circular A-123, appendix C, to complete an annual risk assessment of programs and activities to identify those susceptible to significant erroneous payments. In FY 2016, the OCC performed a risk assessment on the following five programs:

- federal employee payments, including payroll.
- entitlements and benefits other than payroll.
- travel card.
- contract payments and/or invoices.
- purchase card.

These five programs are reported in the three more general categories of "salary and benefits," "travel payments," and "vendor payments."

The results of the agency’s risk assessment indicate that none of the OCC’s programs or activities are susceptible to significant erroneous payments at or above thresholds established by the OMB and that, therefore, the OCC is not required to determine a statistically valid estimate of erroneous payments, perform additional reporting on corrective actions or root causes, or provide corrective actions.

Analysis of Erroneous Payments

The OCC analyzed payments made during FY 2016 in the general categories of salary and benefit payments, travel payments, and vendor payments, and identified 212 erroneous payments in FY 2016 requiring adjustments totaling \$189,077. As of September 30, 2016, the agency recaptured 91.1 percent of these payments, totaling \$172,172.

Figure 10: Erroneous Payments				
Payment Type	FY 2016		FY 2015	
	Amount	Number	Amount	Number
Salary and benefits	\$ 93,590	67	\$ 84,956	152
Travel	64,810	131	22,810	103
Vendor	30,677	14	25,425	2
Total	\$ 189,077	212	\$ 133,191	257

Source: OCC financial system data.

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

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

Figure 10 summarizes the OCC’s erroneous payments for FY 2016 and FY 2015.

Assurance Statement

The Office of the Comptroller of the Currency (OCC) met the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and Office of Management and Budget (OMB) Circular A-123 during fiscal year (FY) 2016.

The OCC's systems of management control are designed to ensure that

- programs achieve their intended results;
- resources are used in accordance with the agency's mission;
- programs and resources are protected from waste, fraud, and mismanagement;
- laws and regulations are followed;
- controls are sufficient to minimize improper or erroneous payments;
- performance information is reliable;
- systems security is in substantial compliance with relevant requirements;
- continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels;
- financial management systems are in compliance with federal financial systems standards, i.e., FMFIA Section 4 and FFMIA;
- complete and accurate data are reported on USAspending.gov;

- controls and policies are in place to prevent fraud and inappropriate use of government charge cards;
- risks are reviewed with appropriate frequency; and
- new or emerging risks are addressed.

I am providing unmodified assurance that the OCC achieved the above listed management control objectives, taken as a whole, without material weakness during FY 2016. Specifically, this assurance is provided relative to Sections 2 and 4 of the FMFIA.

The OCC conducted its evaluation of the effectiveness of its internal control over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the OCC can provide unmodified assurance that its internal control over financial reporting was operating effectively as of June 30, 2016, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

I am reporting substantial compliance with the requirements imposed by the FFMIA. In the management letter that accompanied their FY 2015 financial statement audit report, our external auditors identified one area related to developing an executable recovery strategy

for the OCC network where the OCC has an opportunity to strengthen internal controls. The OCC completed the corrective action for this issue as of October 5, 2016.

Analytical Basis of Assurance Statement

The OCC evaluated its management controls in accordance with the FY 2016 Secretary's Assurance Statement Guidance of July 20, 2016, and considered

- OMB Circular A-127, Financial Management Systems;
- OMB Circular A-130 Revised, Management of Federal Information Resources;
- OMB Circular A-11, Preparation, Submission, and Execution of the Budget;
- OMB Bulletin 06-03, Audit Requirements for Federal Financial Statements;
- Statement on Auditing Standards No. 115, Communicating Internal Control Related Matters Identified in an Audit; and
- Treasury Directive 40-04, Treasury Internal (Management) Control Program.

Information considered in our control assessment included

- FMFIA certifications submitted by each Executive Committee member;

- FFMIA certification submitted by our Chief Financial Officer;
- results of internal control testing under OMB Circular A-123, Appendix A;
- quality management program descriptions submitted by each Executive Committee department;
- results of control self-assessments completed by OCC managers in FY 2016;
- audit reports and evaluations issued by the U.S. Government Accountability Office and the U.S. Department of the Treasury (Treasury Department) Office of the Inspector General;
- results of other external and internal reviews;
- assessment of the Improper Payments Elimination and Recovery Improvement Act submitted to the Treasury Department in July 2016;
- FFMIA Final Compliance Determination Worksheet submitted to the Treasury Department in September 2016;
- unmodified and timely audit opinion on FY 2015 financial statements; and
- certified public accountant Williams-Adley's monthly status reports on this fiscal year's financial statement audit, in which no reportable items were noted.



Thomas J. Curry
Comptroller of the Currency

Abbreviations

ASC	Accounting Standards Codification	FERS	Federal Employees Retirement System	OTS	Office of Thrift Supervision
BSA/AML	Bank Secrecy Act/anti-money laundering	FFIEC	Federal Financial Institutions Examination Council	RAS	risk assessment system
CAMELS	capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk	FFMIA	Federal Financial Management Improvement Act	RESPA	Real Estate Settlement Procedures Act
CFPB	Consumer Financial Protection Bureau	FISMA	Federal Information Security Management Act	ROE	return on equity
CMP	civil money penalty	FMFIA	Federal Managers' Financial Integrity Act	SCRA	Servicemembers Civil Relief Act
CRA	Community Reinvestment Act	FSA	federal savings association	SFFAS	Statement of Federal Financial Accounting Standards
CSRS	Civil Service Retirement System	FSOC	Financial Stability Oversight Council	TILA	Truth in Lending Act
DNP	Do Not Pay	FY	fiscal year	TR	technical release
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act	GAAP	generally accepted accounting principles	TSP	Thrift Savings Plan
FASAB	Federal Accounting Standards Advisory Board	GPRAMA	Government Performance and Results Act Modernization Act		
FASB	Financial Accounting Standards Board	IPERIA	Improper Payments Elimination and Recovery Improvement Act		
FATF	Financial Action Task Force	MDI	minority depository institution		
FBWT	Fund Balance With Treasury	NRC	National Risk Committee		
FDIC	Federal Deposit Insurance Corporation	OCC	Office of the Comptroller of the Currency		
FEGLI	Federal Employees' Group Life Insurance	OMB	Office of Management and Budget		
FEHB	Federal Employees Health Benefit	OPM	Office of Personnel Management		

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