Audit Report

OIG-18-029

FINANCIAL MANAGEMENT

Audit of the Office of the Comptroller of the Currency's Fiscal Years 2017 and 2016 Financial Statements

December 15, 2017

Office of Inspector General
Department of the Treasury

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OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 15, 2017

MEMORANDUM FOR JOSEPH M. OTTING
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 2017 and 2016 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, 2017 and 2016, and for the years then ended, and provided a report on internal control over financial reporting, and a report on compliance with laws, regulations, and contracts tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget Bulletin No. 17-03, *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 reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the OCC's financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations.

Williams Adley is responsible for the attached auditors' reports dated October 30, 2017, and the conclusions expressed in the reports. However, our review disclosed no instances where Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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

Attachment

Office of the
Comptroller of the Currency

2017
ANNUAL REPORT

Safe • Sound • Fair

Cover image: Athens, Ga.

About This Report

The fiscal year (FY) *2017 Annual Report* provides Congress with an overview of the condition of the federal banking system and suggestions for "any amendment to the laws relative to banking" as required by section 61 of the National Bank Act. The annual report discusses milestones and initiatives related to the OCC's strategic priorities and details agency regulatory and policy initiatives. Additionally, the report discusses the agency's financial management and condition, including its audited financial statements.

2017

ANNUAL REPORT

Safe • Sound • Fair


Office of the Comptroller of the Currency Headquarters

OFFICE OF THE
COMPTROLLER OF THE CURRENCY

About the OCC

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

The Office of the Comptroller of the Currency (OCC) ensures that the federal banking system 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 national banks and federal savings associations (FSA), and licenses and supervises federal branches and agencies of foreign banks. The agency also supervises certain third parties that provide services to banks.[1] The OCC oversees the organization and structure of the federal banking system, maintaining a framework that encourages regulated entities to responsibly innovate and adapt to meet the existing and evolving financial needs of consumers, businesses, and communities nationwide. The agency issues and implements regulations and, when warranted, takes appropriate enforcement actions.

President Abraham Lincoln signed the National Currency Act on February 25, 1863, creating the OCC and the federal banking system. In June 1864, the law was substantially revised, and, in 1874, it was renamed the National Bank Act. The law remains the authority under which the OCC and national banks operate today. The Home Owners' Loan Act of 1933 provides the basis for the operation and regulation of FSAs.

Headquartered in Washington, D.C., the OCC has offices in 61 cities nationwide, with 141 supervisory operating locations and four district offices. The OCC also has an office in London that supervises the international activities of national banks.

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

In supervising banks, the OCC is authorized to

- examine banks.
- approve, conditionally approve, or deny applications for new charters, branches, or other changes in corporate or banking structures.
- license federal branches and agencies of foreign banks.
- 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, guidance, and corporate decisions governing investments, lending, and other practices by banks.

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

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.

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.

CORE VALUES

- Integrity
- Expertise
- Collaboration
- Independence

OFFICE OF THE COMPTROLLER OF THE CURRENCY At a GLANCE

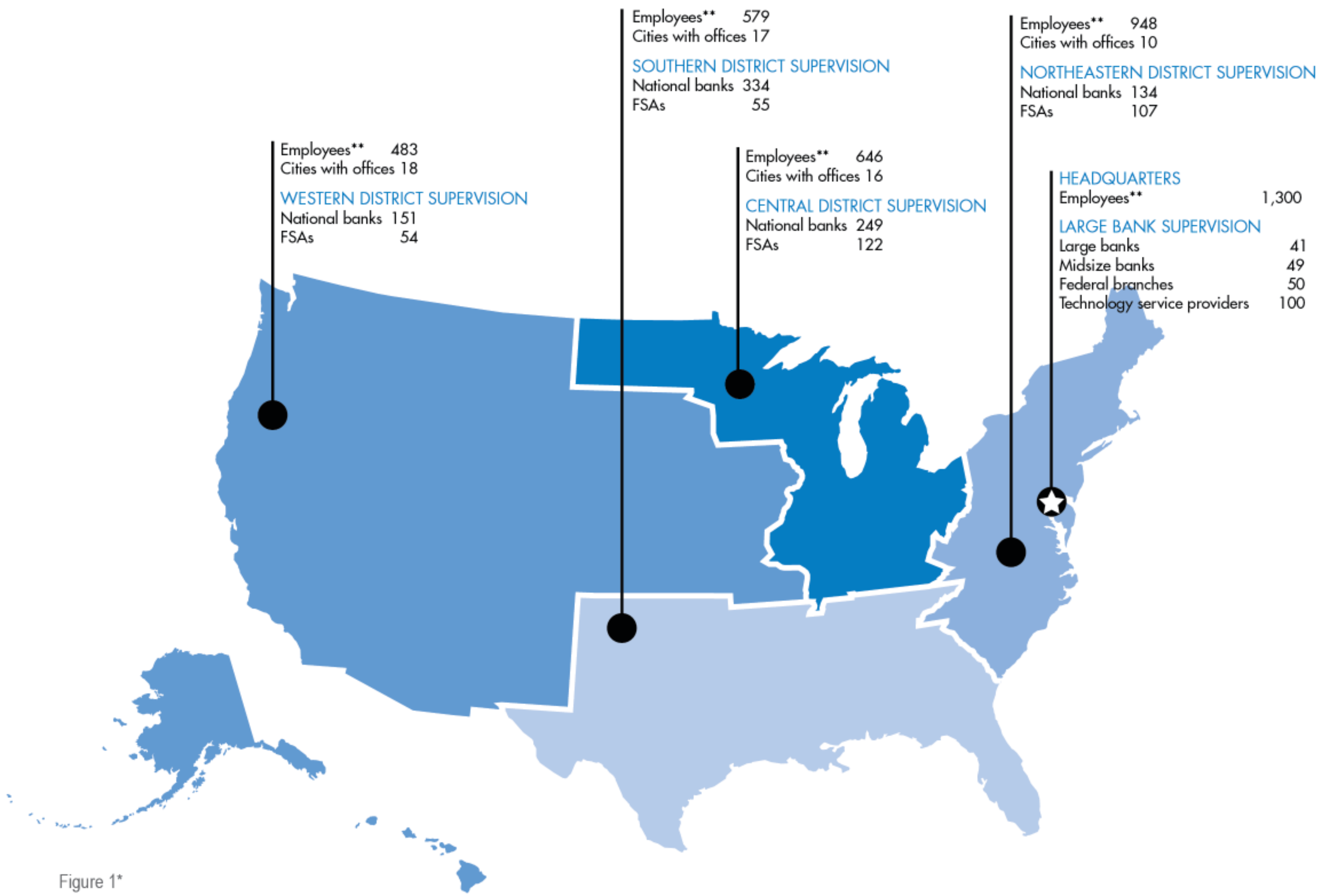

Figure 1*

EMPLOYEES (FULL-TIME-EQUIVALENTS)
3,956

BUDGET AUTHORITY
$1.2 billion

REVENUE DERIVED FROM ASSESSMENTS
96.8%

CITIES WITH OFFICES***
61

SUPERVISORY OPERATING LOCATIONS
141

CONSUMER COMPLAINTS OPENED/CLOSED
21,296/20,068

*Figures as of September 30, 2017.

**Employee numbers broken into districts include all employees geographically stationed within this region of the country.

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

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2017 ANNUAL REPORT

Comptroller's Viewpoint

When the federal banking system's condition is healthy and vibrant, it can power growth and prosperity for consumers, businesses, and communities across the country.

Acting Comptroller Keith A. Noreika spoke at the Online Lending Policy Summit in Washington, D.C., in September 2017.

Through federal charters and licenses, the OCC provides much value for national banks, federal savings associations, and federal branches and agencies of foreign banks. We continue to refine, update, and align the OCC's supervisory approach to enrich the agency's value to the American public as well as provide value-added supervision to banks.

Value-added supervision provides expert assessment of the health of a bank, its governance, and risk management, and provides insight that can only be gained from a broad national view of the marketplace paired with in-depth understanding of the local environment. Value-added supervision helps bankers manage their institutions more effectively through access to examiners; legal, economic, and policy experts; and other resources.

We are also working to enhance the value of the federal charter by, for example, promoting responsible innovation in the federal banking system. Innovations in the financial marketplace are changing how consumers interact with traditional banks and new financial service providers. Innovation offers consumers more tailored, responsive, and automated tools that support payments, promote savings, smooth income volatility, and provide personalized credit solutions.

The OCC's initiatives include identifying ways to promote and support banks interested in engaging in responsible innovation by partnering with financial technology (fintech) and other nonbank companies in a safe and sound manner, reducing costs and increasing earnings, and serving their customers more effectively.

When the federal banking system's condition is healthy and vibrant, it can power growth and prosperity for consumers, businesses, and communities across the country. Our role is to strike the right balance between prudent regulation and sound economic opportunities. The system works best when our appropriate supervision ensures safety, soundness, and regulatory compliance, but avoids imposing unnecessary burden or fostering an environment so risk averse that banks fail to meet the financial and credit needs of their customers.

Our system must also protect the people it is meant to serve. As such, I took action this year to highlight the negative effects of the Consumer Financial Protection Bureau's (CFPB) arbitration agreements rule. Eliminating this costly and burdensome regulation reined in bureaucracy and halted an inadvisable regulatory action. It was a victory for consumers and small and midsize banks across the country because it stopped a rule that likely would have significantly increased the cost of credit for hardworking Americans and taken away a valuable tool for resolving differences between banks and their customers. The action preserved consumer choice among financial providers that offer services with arbitration clauses and those that do not.

Today, banks in the federal banking system are well positioned for growth because of their improved financial condition, the value they receive from the federal charter, and the OCC's role as their prudential supervisor. This report reflects my view of the condition of the federal banking system, as well as an overview of how that system is poised to benefit from efforts to reduce regulatory burden and promote economic opportunity.

Keith A. Noreika
Acting Comptroller of the Currency

Section One

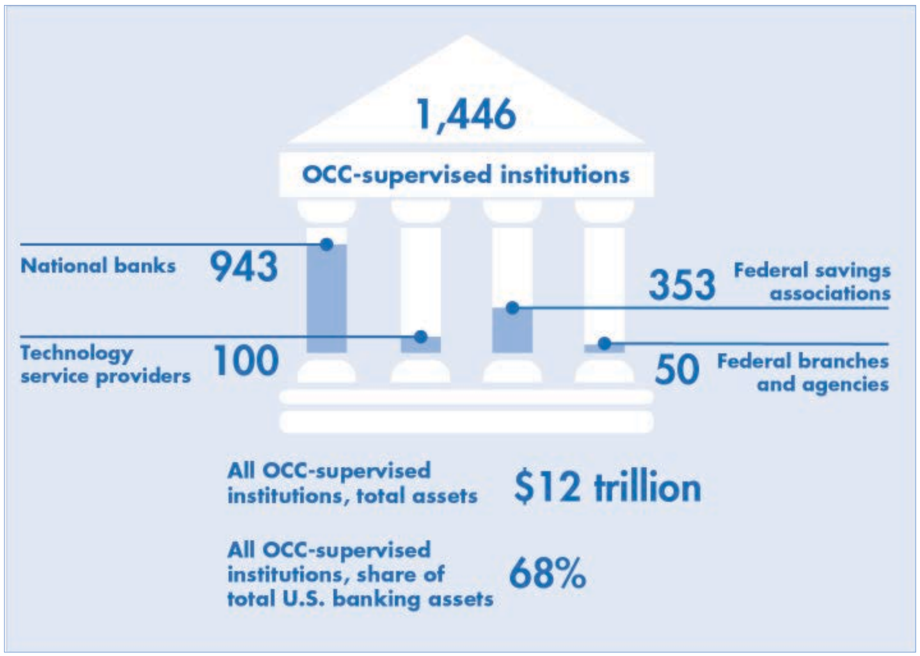
Condition of the Federal Banking System

The condition of the federal banking system is currently safe and sound, with strong financial performance. Federally chartered banks within the system enjoy a myriad of business opportunities and are capable of meeting the rapidly evolving needs of the consumers, businesses, and communities they serve.

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

- Resiliency
- Strong financial performance
- Balanced risk perspective
- Value of federal charters

Figure 2: Federal Banking System at a Glance*



* Figures as of September 30, 2017.

Influencing each of these factors are the trends regarding responsible innovation within the financial services industry and improving financial conditions in the United States. Technology and evolving consumer preferences are driving change at an unprecedented pace. Competition from nonbank companies offering traditional banking products is increasing. This competition is promoting financial inclusion and greater efficiency but also may challenge traditional banking models.

In such a dynamic environment, the OCC wants banks, particularly community banks, to remain a vibrant and relevant part of the financial services landscape and wants consumers to continue to have fair access and fair treatment related to financial services.

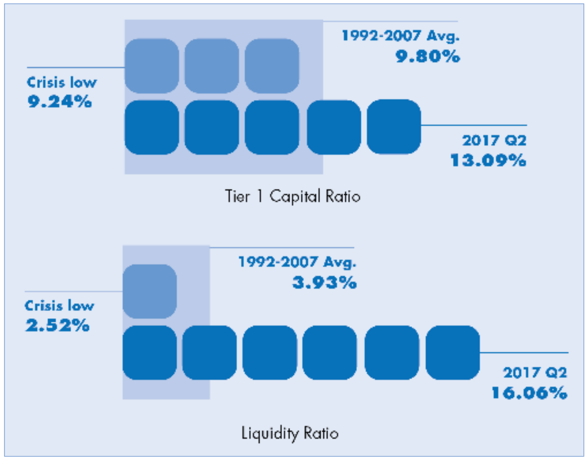
Resiliency of the Federal Banking System

Today's condition of the federal banking system shows that banks are resilient, well positioned to grow, and able to expand services to meet customer needs. Profitability at both community and large banks has recovered from the 2008 financial crisis with consistent loan growth, albeit at a slower pace in 2017.[2]

Robust capital levels, which stand near historic highs, are key to banks' resiliency. Furthermore, banks, particularly large banks, have substantially increased the volume and quality of capital, and implemented additional risk management practices to strengthen the quality and reliability of both capital and liquidity planning. These practices, which include use of stress testing and more stable funding and monitoring of liquidity, have had a positive effect on the overall strength of capital and liquidity in the federal banking system.

[2] Unless otherwise noted, all references to 2017 in this report refer to the fiscal year ending September 30, 2017.

Figure 3: Capital and Liquidity



Capital and liquidity are the building blocks of resiliency. The tier 1 capital ratio is 40 percent higher than in 2008, which represents the low point in the financial crisis. The liquidity ratio is six times the crisis low. Both ratios exceed their 15-year pre-crisis averages.

Robust Capital

The level and quality of bank capital improved this fiscal year, in part through the concerted effort of regulators and bankers. One key measure of the industry's capital health is commonly called tier 1 capital, which includes shareholders' equity and retained earnings. Tier 1 capital, which rose in 2017 to 13 percent of risk-weighted assets, measures how well banks can absorb losses and the resiliency of the banking system.

Stress tests help determine whether the industry can weather a crisis. Positive results reassure the public that the banking system is sound. Current capital levels suggest that, even under the most severe stress test scenarios of the largest bank holding companies, these banking companies would remain well capitalized and capable of lending in a recession, mitigating the severity and length of an economic downturn.[3]

Improving Liquidity

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

The largest banks have improved their quantity and quality of liquidity. In 2017, the liquidity coverage ratio rule, which requires banks to hold sufficient highly liquid assets to meet short-term outflows in a stress situation, took effect. Liquid assets[4] in the banking system continue to increase and have now achieved a 30-year high of 16 percent of total assets.

Regulatory relief efforts focused on reassessing capital requirements and freeing up balance sheet capacity could improve liquidity. Some of these efforts are discussed in section two of this report, "Reducing Regulatory Burden and Promoting Economic Opportunity."

Financial Performance of the Federal Banking System

Federal banking system profitability improved in 2017. Return on equity (ROE) stood at 9.9 percent in the first half of 2017,[5] up from 9.1 percent a year earlier. Return on assets was 1.08 percent in the first half of 2017, up from 1.01 percent in 2016. For community banks with less than $1 billion in assets, ROE rose over the same period, bolstered by higher net interest margins and strong loan growth. System net income rose by $6.4 billion during the first half of calendar year 2017 compared with the same period in 2016, reflecting an expansion in the net interest margin. Rising net interest income more than offset increased noninterest expenses, while provisions for future loan losses remained nearly flat.

Operating Profit

Pre-provision net revenues rose by $8.4 billion (8.5 percent) in the first half of 2017 compared with a year earlier. After years of low interest rates, rising rates made net interest income the primary earnings driver, growing by $12.5 billion, while noninterest income increased just $0.9 billion (1 percent). Noninterest expenses rose by $5.1 billion, reflecting higher staffing costs. Provisions edged down by $0.9 billion even though net charge-offs increased, resulting in little change to the allowance for loan and lease losses.

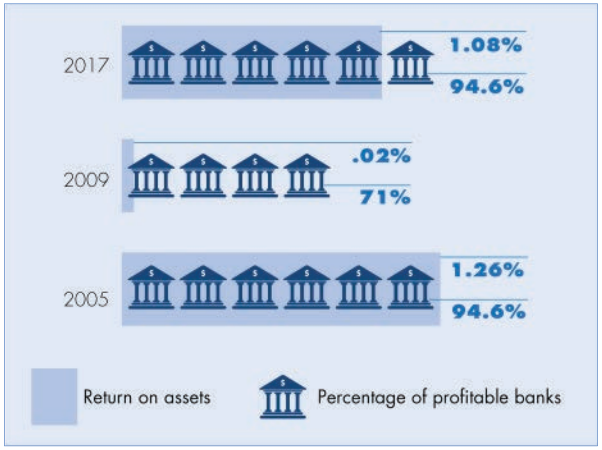
System-wide net interest income grew 8.4 percent in the first half of 2017 compared with a year earlier, as net interest margins expanded at both large and small banks. System loan growth slowed to 2.6 percent, even though it remained stronger at community banks, rising by 7 percent for banks with assets less than $1 billion. Margins benefited from rising interest rates, but increasing competition for deposits could temper margin improvement going forward.

3 Board of Governors of the Federal Reserve System, "Dodd-Frank Act Stress Test 2017: Supervisory Stress Test Methodology and Results," June 2017.

4 Liquidity assets are defined as cash, net Fed funds, and U.S. Treasury securities.

5 Data for only the first half of calendar year 2017 were available by publication deadline. This section of the Annual Report presents consolidated data for national banks and FSAs.

Figure 4: Bank Profitability



The federal banking system's recovery over the nine years since the financial crisis demonstrates its resiliency. Bank profitability is steadily improving, with 2017 earnings on pace to reach $124 billion. Return on assets is not quite back to its 2005 level, but the share of profitable banks is back to pre-crisis levels.

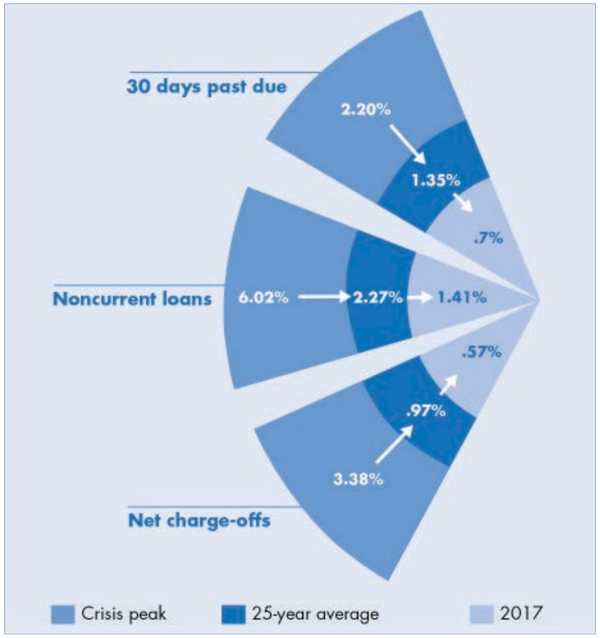
Noninterest expenses rose 3.6 percent system-wide in the first half of 2017 compared with a year earlier. Salary and benefits were the largest contributors, increasing 5 percent ($3.3 billion), while premises costs rose 4.4 percent ($0.7 billion).

The ROE for community banks rose nearly 50 basis points over the past year to 10.8 percent, though their median ROE remains under 8 percent. In the first half of 2017, net interest margins at community banks benefited from rising interest rates and the strong loan growth. Smaller banks have not been as successful as their larger peers, however, in keeping down noninterest expenses.

Loan Performance

Overall loan performance in the federal banking system has improved annually since 2010, though improvement stalled in several loan categories in 2016 and 2017. In the first half of 2017, charge-off rates were stable compared with 2016. Credit quality improvement in commercial and industrial (C&I) and commercial real estate (CRE) loans paused. Some borrowers in energy-dependent areas already strained by oil price volatility may face additional stress from repercussions of Hurricane Harvey. Nonetheless, loss rates for all major loan categories remain below their 25-year averages.

Figure 5: Credit Quality



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

Summary

To strengthen their balance sheets, many banks increased capital over the past several years, mostly by retaining more earnings. Equity to assets rose from 10.1 percent in 2007 to 11.1 percent as of mid-2017 for the system and from 11.1 percent to 12 percent for community banks. The result is a stronger banking system than before the 2008 financial crisis.

Risk Perspective of the Federal Banking System

Because banking is essentially a business of managing risk, banks' risk identification, assessment, monitoring, and management affect the condition of the federal banking system. The OCC's supervision focuses on evaluating a bank's ability to identify, measure, monitor, and control risks. The OCC's current assessment of key risk issues—credit, operational, compliance, and strategic—remained relatively unchanged from 2016.[6]

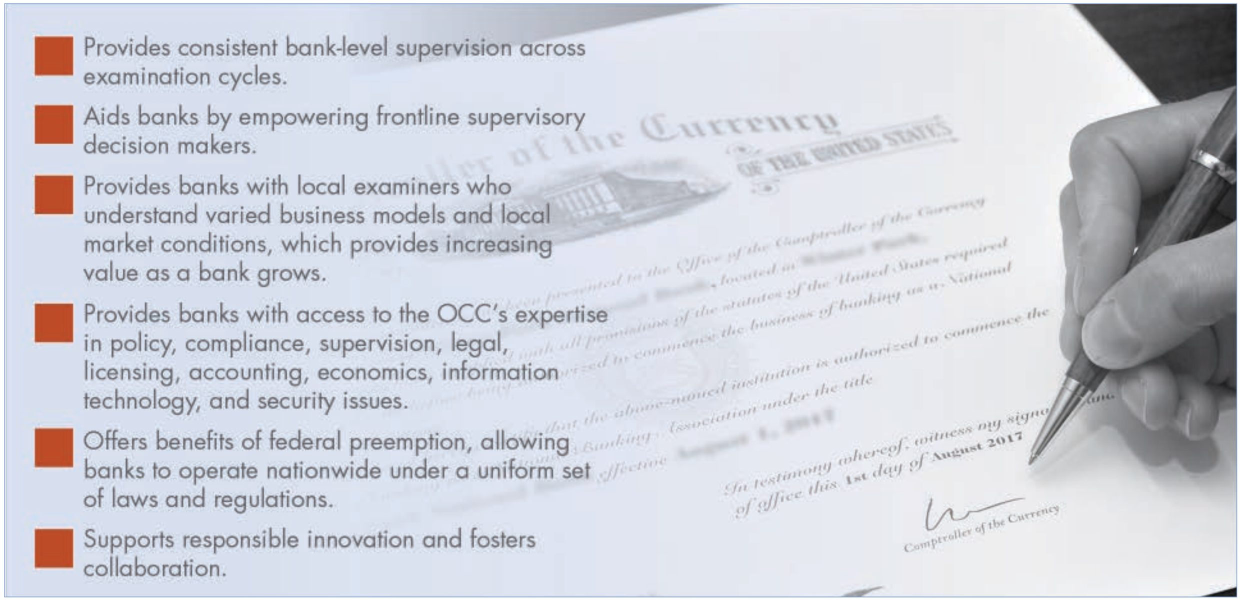
Credit Risk

Competitive pressure and strong credit risk appetites drove some banks to ease underwriting standards and increase credit risk for some loan portfolios for the fourth consecutive year. Examiners reported this incremental easing in underwriting standards across a variety of commercial and retail loan products during this period.[7] That easing, however, slowed in the first half of 2017. In commercial lending, some banks made concessions on pricing, loan covenants, and guarantor requirements. In retail

[6] OCC, *Semiannual Risk Perspective*, Spring 2017.

[7] OCC, *2016 Survey of Credit Underwriting Practices*, December 2016.

Figure 6: Value of a Federal Charter



lending, lenders eased loan-to-value, loan-size, and debt-to-income requirements.

Credit risk in the portfolio of large syndicated bank loans declined slightly but remains elevated. Like in 2016, the high level of credit risk in certain sectors of the shared national credit portfolio stems primarily from distressed borrowers in the oil and gas sector and other industry sector borrowers exhibiting excessive leverage. Strong CRE loan growth has resulted in increasing concentrations in the community and midsize bank portfolios. Credit risk management practices at most large banks improved in 2017.

Operational Risk

Operational risk rose as banks sought new business opportunities, adapted business models, and used technology to transform operating processes. Banks also confronted sophisticated cyber threats posing high risks to the increasingly interconnected financial services marketplace. Banks enhanced cyber defenses by augmenting staff, providing more training, increasing awareness, improving processes, and investing more in cyber-related technologies. Other factors contributing to operational risk include the number, nature, and complexity of third-party relationships, and control breakdowns in the governance of product sales, delivery, and service.

Compliance Risk

Compliance risk remained elevated as banks worked to manage evolving money laundering risks, subject to resource constraints. Banks also faced change management challenges as they worked to implement changes to policies and procedures to comply with new and revised consumer protection rules, including

- rules under the Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA).
- new requirements under the amended regulation implementing the Military Lending Act (MLA).
- changes to the data collection and processing rules for the Home Mortgage Disclosure Act (HMDA).

Strategic Risk

Strategic risk is elevated for banks of all sizes as they adopt innovative products, services, and processes in response to the evolving consumer demands and the entrance of new competitors, such as out-of-market banks and fintech companies. The rapidly changing financial industry calls for management at all banks to consider incorporating innovation and new technology in bank strategic planning.

Value of Federal Charters to the Condition of the Federal Banking System

A national bank or FSA charter is a flexible, dynamic license to provide a broad array of financial products and services. The OCC supervision that comes with a federal charter enhances the federal banking system's resiliency, balances its risk, and promotes its strong economic performance. Bank owners, directors, and management can have confidence in the federal charter for many reasons (see figure 6).

Nationwide Operation and Federal Preemption

Banks have broad statutory authority[8] to engage in banking activities. Preemption allows banks to apply these authorities and operate nationwide under a uniform set of regulations and a single, prudential supervisor that monitors the condition of the federal banking system and keeps it safe and sound. Without federal preemption through a federal charter, certain activities are limited or more complicated and expensive to conduct on a national scale.

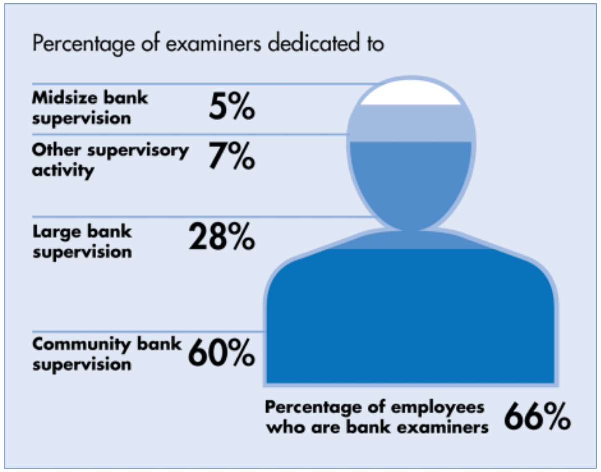
Nationwide Supervision With a Local Perspective

The OCC, by implementing consistent national standards for federally chartered banks and FSAs, enhances the condition of the federal banking system and, therefore, the value of a federal charter. Through this work, the OCC ensures that banks establish and maintain their corporate structure and operations in accordance with principles of safety and soundness and in compliance with applicable laws and regulations.[9]

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

Examiners analyze banks' ability to identify, measure, monitor, and control risk, such as with banks' loan and investment portfolios, capital adequacy, earnings, liquidity, and sensitivity to market conditions. They assess corporate governance and the bank's compliance with consumer protection, and Bank Secrecy Act and anti-money laundering (BSA/AML) laws and regulations. Examiners also review internal controls, internal and external audits, and information technology systems, including with respect to cybersecurity.

Figure 7: Examiners in the OCC Workforce



Foreign Banking Organization Supervision

The International Banking Act[10] allows foreign banks to establish federal branches or federal agencies supervised by the OCC. Under this act, federal branches and agencies generally have the same rights and responsibilities as national banks operating at the same locations and are generally subject to the same laws, regulations, policies, and procedures that apply to national banks, though there are differences between a federal branch or agency and a full-service bank. As with national banks and FSAs, the OCC tailors its supervisory strategies for an institution's unique risk profile. The OCC also maintains ongoing communication with home country supervisors for supervisory monitoring purposes and to understand home country conditions.

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[8] 12 USC 24, "Corporate Powers of Association," and 12 USC 1464, "Federal Savings Associations."

[9] OCC, "Charters" booklet of the *Comptroller's Licensing Manual*, September 2016.

[10] 12 USC 3101 et seq.

Section Two

Reducing Regulatory Burden and Promoting Economic Opportunity

Acting Comptroller Noreika spoke about responsible innovation and chartering fintech companies at the Exchequer Club on July 19, 2017.

In 2017, the OCC continued to eliminate and streamline regulations that are redundant, inefficient, out-of-date, or unnecessary, and to simplify other regulations. In particular, the OCC focused on minimizing regulatory burdens for community and midsize banks and promoting economic opportunity.

This section covers

- the OCC's recommendations to Congress to reduce regulatory burden and promote economic opportunity.
- discussion of section 619 of the Dodd–Frank Wall Street Reform and Consumer Protection Act (commonly known as the Volcker rule).
- results of the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) review.
- actions taken regarding the CFPB's arbitration rule.
- support to banks in regions affected by natural disasters.
- proposed and final rules published in 2017.

The OCC's efforts in 2017 were consistent with the financial regulatory policy of the administration, as articulated in the President's executive order, "Core Principles for Regulating the United States Financial System,"[11] which the U.S. Department of the Treasury developed more fully in a related report.[12]

The first traditional, full-service, de novo national bank in eight years opened its doors on August 1, 2017. Winter Park National Bank launched in central Florida after the OCC determined it had met all OCC requirements and completed all steps necessary to commence the business of banking. Pictured here are Acting Comptroller Noreika (center), along with OCC Assistant Deputy Comptroller Marilyn Bueno and Winter Park National Bank directors and leadership, following the signing of the bank's national bank charter. The last traditional de novo national bank to open before Winter Park National Bank was First Horizon Bank in 2009.
Photo credit: Little's Portraits

[11] Executive Order 13772, February 3, 2017.

[12] U.S. Department of the Treasury, "A Financial System That Creates Economic Opportunities: Banks and Credit Unions," June 2017.

Proposals to Congress

In testimony to Congress in June 2017,[13] Acting Comptroller Noreika offered legislative proposals to promote economic opportunity, increase regulatory efficiency, rightsize regulation, and provide regulatory certainty. These proposals included

- streamlining regulation of smaller, less complex bank holding companies so that when a depository institution constitutes the majority of its holding company's assets, the federal regulator of the depository institution would have sole examination and enforcement authority for the holding company as well.
- modernizing corporate governance procedures applicable to national banks, providing them flexibility to operate more efficiently and access the capital markets without having to employ a holding company and being subject to the associated regulatory burden.
- providing flexibility for FSAs to modernize and expand their business models without changing their governance structures.
- eliminating a statutory barrier to entry for new community banks by allowing de novo banks to obtain deposit insurance automatically when chartered by the OCC.
- simplifying capital requirements for smaller, less complex banks.
- maintaining the contracted interest rate on a bank loan at origination upon assignment of the loan to a third party.
- eliminating supervisory overlap by establishing a "regulatory traffic light," providing a green light to the primary prudential supervisor, while other regulators defer action until a contingency in the law has occurred.

Volcker Rule

During testimony, the Acting Comptroller also proposed that certain banks that do not engage in the type of activities that the Volcker rule was intended to address and that do not present systemic risks should be exempt from the Volcker rule or that Congress should better define the rule's requirements.

The OCC is reviewing how to clarify and recalibrate the Volcker rule to eliminate burden on these banks. To date, the OCC has made improvements to its internal operations and the way the agency evaluates compliance with the Volcker rule. The OCC solicited public comments on revising the regulation as part of a larger interagency effort to review the Volcker rule and its implementation.[14] At the time of publication, the OCC was reviewing the comments it received.

Additionally, the OCC, along with four other regulatory agencies, began coordinating their respective reviews of the treatment of certain foreign funds under the Volcker rule.[15]

Economic Growth and Regulatory Paperwork Reduction Act

EGRPRA requires the FFIEC, OCC, FDIC, and Board of Governors of the Federal Reserve System (FRB) to review their regulations at least once every 10 years to identify and eliminate outdated or unnecessary regulatory requirements imposed on insured depository institutions. EGRPRA also requires the FFIEC and the federal banking agencies to categorize and publish their regulations for public comment. The FFIEC must then submit a report to Congress that summarizes any significant issues raised by the comments, the relative merits of such issues, and an analysis of whether the agencies can address the regulatory burdens associated with such issues or whether legislative action is necessary.

Heidi Thomas, an attorney in the OCC's Legislative and Regulatory Activities Division, signs a copy of the final report to Congress identifying outdated, unnecessary, or unduly burdensome regulations imposed on insured depository institutions. This report is required by EGRPRA.

[13] Testimony of Keith A. Noreika, Acting Comptroller of the Currency, U.S. Senate Committee on Banking, Housing, and Urban Affairs, June 22, 2017.

[14] OCC, "OCC Solicits Public Comments on Revising the Volcker Rule," news release 2017-89, August 2, 2017.

[15] OCC, "Federal Regulatory Agencies Announce Coordination of Reviews for Certain Foreign Funds Under Volcker Rule," news release 2017-84, July 21, 2017.

On March 21, 2017, the banking agencies published their report to Congress.[16] The top issues raised by commenters involved appraisals, call reports, capital rules, frequency of examinations, the Community Reinvestment Act (CRA), and BSA/AML.

In response to issues raised during the EGRPRA review, the banking agencies took five actions in FY 2017:

- Modified community bank call reports.
- Expanded 18-month examination cycle eligibility.
- Proposed increasing the threshold of CRE appraisal requirements.
- Issued guidance on ways to address appraiser shortages.
- Proposed reducing regulatory burden in the capital rules on community banks.

Call report: The streamlined community bank call report reduced regulatory reporting requirements, taking effect March 31, 2017.[17] It applies to banks with less than $1 billion in total assets and with only domestic offices. The new report reduced the length of the call report for eligible banks from 85 to 61 pages and removed 40 percent of the 2,400 data items.

Examination cycle: The OCC also worked with other agencies on a final rule that amended regulations governing eligibility for the 18-month, on-site examination cycle pursuant to the Fixing America's Surface Transportation Act (FAST Act). The rule made qualifying 1- and 2-rated banks with less than $1 billion in total assets eligible for an 18-month examination cycle rather than a 12-month cycle.[18]

Appraisal threshold: Responding to concerns about the time and cost associated with completing real estate transactions, the OCC, FRB, and FDIC issued a notice of proposed rulemaking to raise the threshold for CRE transactions requiring an appraisal to $400,000. The agencies believe this will significantly reduce the number of transactions that require an appraisal and will not pose a threat to the safety and soundness of financial institutions.[19]

Appraiser shortages: Additionally, the OCC, with other federal banking agencies, issued an advisory on ways banks could address the shortage of state-certified and state-licensed appraisers, particularly in rural areas.[20]

Capital rules: Lastly, the federal banking agencies jointly issued a proposed rule to reduce regulatory burden in the capital rules on community banks.[21] The rulemaking simplifies the capital treatment for certain acquisition, development, and construction loans; mortgage servicing assets; certain deferred tax assets; investments in the capital instruments of unconsolidated financial institutions; and minority interest.

The agencies also continue to address EGRPRA comments related to call reports, flood insurance, and the Depository Institution Management Interlocks Act.

Separately, the OCC issued a final rule that amends OCC-only rules based on EGRPRA comments received early in the process, such as raising the asset threshold for mini-funds[22] and providing for the electronic filing of securities documents. This rulemaking also removed certain financial disclosure requirements for national banks and certain unnecessary regulatory reporting, accounting, and management policy requirements for FSAs.[23]

Ongoing OCC projects related to EGRPRA seek to

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

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[16] FFIEC, "Joint Report to Congress: Economic Growth and Regulatory Paperwork Reduction Act," March 2017.

[17] 82 Fed. Reg. 2444, January 9, 2017.

[18] OCC, "Expanded Examination Cycle Eligibility: Final Rule," bulletin 2017-3, January 6, 2017.

[19] OCC, "Federal Banking Agencies Issue Notice of Proposed Rulemaking to Exempt Commercial Real Estate Transactions of $400,000 or Less From Appraisal Requirements," news release 2017-81, July 19, 2017.

[20] OCC, "Interagency Advisory on the Availability of Appraisers," bulletin 2017-19, May 31, 2017.

[21] OCC, "Agencies Propose Simplifying Regulatory Capital Rules," news release 2017-111, September 27, 2017.

[22] Mini-funds are maintained by a bank for assets that the bank considers too small to be invested separately.

[23] 82 Fed. Reg. 8082, January 23, 2017.

The OCC continues to review other comments received through the EGRPRA process specific to rules about financial subsidiaries, fiduciary activities, and FSA employment contracts.

Arbitration Agreements

In July 2017, the OCC raised concerns about the CFPB's then-proposed rule on arbitration agreements, asking for a delay in its publication and an opportunity to review the rule as well as the data and method used to support and develop the rule. The rule prohibited the use of a pre-dispute arbitration agreement that could prevent a consumer from participating in certain class action lawsuits.

The CFPB's final rule was published in the *Federal Register* on July 19, 2017.[24] The OCC cautioned that the rule may have unintended consequences for banking customers in the form of decreased availability of products and services, increased related costs, fewer options to remedy consumer concerns, and delayed resolution of consumer issues.[25] Public debate over the rule was informed by the work of OCC economists who identified previously undisclosed issues with the data and rationale used to support and develop the rule.

Acting Comptroller Noreika (pictured fifth from the left) joined congressional and industry leaders at the White House for President Donald Trump's signing of H.J. Res. No. 111 repealing the CFPB's final rule regarding arbitration agreements. *Photo credit: White House*

Resolution of the debate occurred before this report's publication when Congress passed H.J. Res. No. 111, which provided for congressional disapproval of the rule, on October 24, 2017. The President signed the legislation on November 1, 2017, in what Acting Comptroller Noreika called a victory for consumers and small and midsize banks.[26]

24 82 Fed. Reg. 33210, July 19, 2017.

25 OCC, "Statement by the Acting Comptroller of the Currency Regarding the Consumer Financial Protection Bureau's Final Rule on Arbitration Agreements," news release 2017-86, July 31, 2017.

26 OCC, "Acting Comptroller of the Currency Issues Statement Following the President's Signature Overturning the Consumer Financial Protection Bureau's Rule on Arbitration Agreements," news release 2017-132, November 1, 2017.

Supporting Banks During Natural Disasters

The OCC supported banks and encouraged them to work with borrowers in the immediate aftermath of major natural disasters this year. The OCC took these actions:

- Recognized the serious impact of Hurricanes Harvey, Irma, and Maria on the customers and operations of many banks and provided regulatory assistance to affected banks.[27]
- Encouraged banks in affected areas to work constructively with borrowers to prudently adjust or alter terms on existing loans and monitor municipal securities and loans to stabilize investments.[28]
- Expedited requests from banks to operate from temporary banking facilities to provide more convenient availability of services to those affected.[29]

People line up to withdraw money from an automated teller machine in the aftermath of Hurricane Maria in Catano, Puerto Rico, on September 22, 2017. Puerto Rico battled dangerous floods after the hurricane ravaged the island. *Photo credit: Ricardo Arduengo/AFP/Getty Images*

- Reminded banks that they may receive CRA consideration for community development loans, investments, or services that revitalize or stabilize federally designated disaster areas.[30]
- Mitigated bank difficulties meeting reporting and publishing requirements.[31]
- Authorized banks to close in areas affected by emergency conditions for as long as deemed necessary for bank operation or public safety.[32]
- Reminded banks of steps they may take to support customers affected by natural disasters, such as waiving certain fees.
- Reiterated the lessons learned after Hurricane Katrina in 2005.[33]
- Eased appraisal requirements for real estate-related financial transactions in affected areas.[34]

Published Rules

In FY 2017, the OCC published these final rules:

- A rule amending the OCC's practice and procedure to adjust the maximum amount of each civil money penalty (CMP) for banks within its jurisdiction, pursuant to the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015.[35]

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[27] OCC, "Federal and State Banking Agencies Issue Statement on Supervisory Practices Regarding Financial Institutions and Borrowers Affected by Hurricane Harvey," news release 2017-97, August 26, 2017; "Federal and State Banking Agencies Issue Statement on Supervisory Practices Regarding Financial Institutions and Borrowers Affected by Hurricane Irma," news release 2017-104, September 6, 2017.

[28] Ibid.

[29] Ibid.

[30] Ibid.

[31] Ibid.

[32] OCC, "OCC Allows National Banks and Federal Savings Associations Affected by Hurricane Irma to Close," news release 2017-103, September 5, 2017; "Federal and State Banking Agencies Issue Statement on Supervisory Practices Regarding Financial Institutions and Borrowers Affected by Hurricane Harvey," news release 2017-97, August 26, 2017.

[33] OCC, "OCC Encourages National Banks and Federal Savings Associations to Work With Customers Affected by Hurricane Harvey," news release 2017-100, August 29, 2017.

[34] OCC, "Agencies Issue Temporary Exceptions to Appraisal Requirements in Areas Affected by Severe Storms and Flooding Related to Hurricanes Harvey, Irma, and Maria," news release 2017-123, October 17, 2017; "Temporary Real Estate Appraisal Exceptions in Louisiana Parishes Declared to Be in a Major Disaster Area," bulletin 2016-35, October 24, 2016.

[35] OCC, "Final Rule Adjusting Civil Money Penalties for Inflation," bulletin 2017-8, January 27, 2017.

- A rule prohibiting banks from dealing or investing in "industrial or commercial metal."[36]
- A rule implementing the basic legal framework for receiverships of uninsured national banks.[37]
- As part of the agency's EGRPRA review, a rule to remove outdated or unnecessary provisions of certain rules to reduce regulatory burden on national banks and FSAs.[38]
- A rule clarifying the annual inflation adjustment formula for the small-loan exemption to account for years with consumer price deflation.[39]
- A rule implementing section 83001 of the FAST Act, which permits agencies to conduct a full-scope, on-site examination of qualifying insured depository institutions with less than $1 billion in total assets no less than once during each 18-month period.[40]
- A rule amending regulations governing disclosure of information pursuant to requests under the Freedom of Information Act (FOIA) to reflect changes made by the FOIA Improvement Act of 2016 and the OPEN FOIA Act of 2009.[41]

In FY 2017, the OCC published these notices of proposed rulemaking:

- A joint rule to reduce regulatory burden in the capital rules on community banking organizations by simplifying the risk-based capital framework.[42]
- A rule to shorten the standard settlement cycle from three days to two days for securities purchased or sold by banks consistent with the standard industry-wide settlement cycle for securities trades.[43]
- A rule to amend agencies' CRA regulations' definitions of "home mortgage loan" and "consumer loan" to conform to recent changes made by the CFPB to Regulation C, which implements the HMDA.[44]
- A rule applicable to non-advanced-approaches banks that would maintain the capital rule's 2017 transition provisions for several regulatory capital deductions and certain other requirements that are subject to multiyear phase-in schedules in the regulatory capital rules.[45]
- A rule to increase the threshold for CRE transactions requiring an appraisal to $400,000.[46]
- A rule to implement the private flood insurance provisions of the Biggert–Waters Flood Insurance Reform Act.[47]
- An advance notice of proposed rulemaking inviting comment on a set of potential enhanced cybersecurity risk-management and resilience standards that would apply to large and interconnected entities under the three federal banking regulatory agencies' supervision.[48]

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36 OCC, "Industrial and Commercial Metals," bulletin 2017-1, January 3, 2017.

37 OCC, "Receiverships for Uninsured National Banks," bulletin 2016-46, December 20, 2016.

38 OCC, "Economic Growth and Regulatory Paperwork Reduction Act of 1996," bulletin 2017-10, February 13, 2017.

39 81 Fed. Reg. 86250, November 30, 2016.

40 OCC, "Expanded Examination Cycle Eligibility," bulletin 2017-3, January 6, 2017.

41 OCC, "Availability of Information Under the Freedom of Information Act," bulletin 2017-9, February 1, 2017.

42 OCC, "Agencies Propose Simplifying Regulatory Capital Rules," joint news release 2017-111, September 27, 2017.

43 OCC, "T+2 Securities Transaction Settlement Cycle," bulletin 2017-39, October 6, 2017.

44 OCC, "Community Reinvestment Act Regulations," bulletin 2017-38, September 22, 2017.

45 OCC, "Regulatory Capital Rule," bulletin 2017-32, August 29, 2017.

46 OCC, "Appraisals for Commercial Real Estate Transactions," bulletin 2017-29, August 23, 2017.

47 OCC, "Loans in Areas Having Special Flood Hazards—Private Flood Insurance," bulletin 2016-38, November 7, 2016.

48 OCC, "Agencies Issue Advanced Notice of Proposed Rulemaking on Enhanced Cyber Risk Management Standards," joint news release 2016-131, October 19, 2016.

Strategic Goals

In FY 2017, the agency continued to fulfill *The OCC's Strategic Plan: Fiscal Years 2015–2019*, which included these goals:

- Ensuring a vibrant and diverse federal banking system that supports a robust U.S. economy.
- Uniting the workforce behind the theme "One OCC" to focus agency efforts on collaboration, innovation, coordination, and process efficiency.
- Firmly positioning the OCC to continue operating independently and effectively.

To help further these goals, the OCC adopted its first-ever "National Outreach Strategy" for FY 2017 and 2018. The OCC's outreach strategy further advances the mission and vision of the agency and ensures the agency communicates with one voice as "One OCC" to support the strategic plan.

Three key initiatives in 2017 that advanced these strategic goals addressed responsible innovation, cybersecurity, and the OCC's workforce.

Responsible Innovation

Recognizing that innovation in the financial marketplace affects the traditional consumer–bank relationship, the OCC is working to make its regulatory framework receptive to responsible innovation. Leading the way among federal financial regulators, the OCC's responsible innovation efforts enhance its value to the American public and federal banking system.

Office of Innovation

The OCC established its Office of Innovation in October 2016. By January 2017 it was operating under the direction of Chief Innovation Officer Beth Knickerbocker. The office serves as a clearinghouse for innovation-related matters and as a central point of contact for OCC staff, banks, nonbank companies, and other industry stakeholders. The office collaborates with OCC business units and other regulators regarding innovation and facilitates related activities.

Beth Knickerbocker, OCC
Chief Innovation Officer

In 2017, the office conducted outreach and provided technical assistance in cities with significant financial innovation activity. The goal was to make candid regulatory advice more accessible. In particular, the office held office hours in San Francisco and New York, where OCC staff met with banks exploring potential innovations, companies seeking to work with banks, and fintech companies interested in opportunities to become national banks. The office hours encouraged discussions of innovation-related issues and participants to express their views.[49] The office provided technical assistance to banks, particularly community banks, regarding emerging trends and partnering with fintech companies, and to fintech companies on how to navigate the regulatory landscape. The office intends to expand its office hours program in 2018 to other technology hubs. The office continues to meet and hold discussions with parties interested in responsible innovation in the federal banking system, and has met or had discussions with more than 100 parties, including banks, nonbanks, individuals, trade groups, and fintech "hubs" and "accelerators."

The office added full-time Innovation Officers in Washington, New York, and San Francisco. The local presence in New York and San Francisco will facilitate future office hours and face-to-face interactions among OCC staff, banks, and nonbanks; allow the office to stay attuned to industry trends; and allow participation in regional outreach events.

[49] OCC, "OCC Announces One-on-One Industry Meetings as Part of Office of Innovation Office Hours," news release 2017-42, April 13, 2017.

Additionally, the OCC promoted awareness and training among its employees to improve their understanding of issues and to lead collaboration with other regulators, foreign and domestic. The office established a research function with a library of multisource resources regarding asset management, payments and settlements, lending, bank operations, and financial and regulation technology from across the industry. The OCC also published papers on

- robo-automated investment advisory services.
- distributed ledger technology.
- mobile payment services opportunities and risks.

Chartering Innovative National Banks

In December 2016, the OCC proposed allowing nondepository fintech companies engaged in the business of banking to apply for a special purpose national bank charter. In March 2017, the agency published a draft supplement to the *Comptroller's Licensing Manual* describing its proposed approach to chartering fintech companies. The draft supplement

- clarifies the agency's approach to evaluating national bank charter applications from fintech companies.
- describes how it would supervise these banks.
- articulates expectations for how these banks would ensure fair access and fair treatment for all customers.

Acting Comptroller Noreika spoke to reporters about responsible innovation and chartering fintech companies after his speech at the Exchequer Club on July 19, 2017.

To date, the OCC has not decided whether to exercise its authority to grant special purpose national bank charters to nondepository fintech companies under 12 CFR 5.20(e)(1). In July, the OCC clarified that fintech companies can also seek national bank charters using other authorities used to charter full-service banks, as well as other, long-established special-purpose national banks, such as trust banks, banker's banks, and CEBA[50] credit card banks.[51]

50 CEBA refers to the Competitive Equality Banking Act.

51 Remarks by Keith A. Noreika, Acting Comptroller of the Currency, Exchequer Club, July 19, 2017.

Cybersecurity

To protect the safety and soundness of the banking system, the OCC has the supervisory authority to require banks to bolster their cybersecurity defenses and their ability to manage, respond, and recover when events occur. Strengthening the cybersecurity of individual banks protects the broader financial services community and promotes confidence in the financial system.

The OCC, the FDIC, and the National Credit Union Administration hosted a technical assistance event in Washington, D.C., titled "Cybersecurity Awareness and Preparedness" in April 2017. The event featured a session about current trends regarding cybersecurity intrusions into small businesses and a panel with representatives from financial institutions on their cybersecurity requirements for vendors and their customers.

Interagency Cooperation and Examination Approach

Working as part of the FFIEC in 2017, the OCC provided input to update guidance and strategies that help mitigate cyber risks. Additionally, the OCC shared supervisory approaches to cybersecurity issues with bank supervisory authorities from other countries.[52]

The OCC's examiners are trained to evaluate risk management and control mechanisms related to cybersecurity risks. In 2017, the OCC continued efforts to implement the interagency cybersecurity assessment tool (CAT) to assess and analyze operational risk in this area.[53] The OCC also participated in updating the *FFIEC Information Technology Examination Handbook*.

The agency's efforts to combat cyber risks earned recognition in 2017 from *Risk* magazine, a publication focused on financial risk management. The magazine named the OCC the 2017 Regulator of the Year for operational risk and cited agency leadership with helping the financial sector to defend against cyber attacks.

"Examiner efforts have been critical to the success of our efforts to improve cyber resiliency," said Deputy Comptroller for Operational Risk Beth Dugan. "[Examiner] use of the CAT provides a rich data source that assists our risk-based supervisory processes, informs our policy assessments, and helps us identify weaknesses in controls for a particular financial institution and vulnerabilities across the system. It indicates where we need to focus our attention to ensure banks are in the strongest position to defend themselves against the next cyber threat."

Beth Dugan, the OCC's Deputy Comptroller for Operational Risk, accepted *Risk* magazine's 2017 Regulator of the Year award for operational risk on behalf of the OCC at a conference in London in June 2017. The OCC earned the award for its work in cybersecurity and as a leader in helping the financial sector defend against cyber attacks.

Finally, the OCC worked with other government agencies, law enforcement, the intelligence community, and the private sector to enhance coordination if a bank is breached or its data compromised. This collaboration included participating in cyber attack and response exercises.

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[52] Remarks by Thomas J. Curry, then-Comptroller of the Currency, Institute of International Bankers Annual Washington Conference, March 13, 2017.

[53] OCC, "Frequently Asked Questions on the FFIEC Cybersecurity Assessment Tool," bulletin 2016-34, October 17, 2016.

OCC Cyber Posture

The OCC enhanced its own cyber posture during 2017 by improving how it maintains and handles sensitive data. The agency provides employee training and a number of technological solutions to reduce the risk that confidential information could be compromised. A cross-functional working group led by the Office of the Chief National Bank Examiner (CNBE) hosted focus groups this year to gain feedback on how the OCC handles sensitive bank information and the technology available to protect it.

The OCC also plans to support information technology services initiatives that provide new functionality, enhance business value, increase the OCC's security posture, and ensure compliance with external mandates. One such initiative—email records management—was implemented agencywide on December 31, 2016, and ensures the capture of email in accordance with federal records management requirements.

The OCC's Workforce

In 2017 the OCC actively engaged employees to identify workforce needs, published a new strategic workforce plan, and improved how it provides quality leadership development.

Strategic Workforce Plan 2017–2019

The OCC's strategic workforce plan helps the agency recruit and retain employees with the right skills and competencies and create a more strategic, cohesive approach to recruitment and succession management. The OCC also promoted flexibility programs, mapped and analyzed the current examiner commissioning program, developed a more intentional approach to experiential learning and career management, and piloted a geographical resource allocation process. This plan is discussed further in section 7 of this report, "Financial Management Discussion and Analysis."

Employee Engagement

Engaged employees are critical to the OCC's success. Through ongoing dialogue during 2017, the OCC fostered employee engagement and affirmed its commitment to organizational goals and values. The OCC participated in the annual Federal Employee Viewpoint Survey, using the survey as one engagement measure and tool to assess progress. The OCC once again placed in the top tier of the agency subcomponents category in the "Best Places to Work in the Federal Government" rankings, an assessment of engagement within the federal workforce.

Leadership Development

In 2017, the OCC further developed its programs, processes, and curriculum to develop leaders at every level in the agency, receiving national recognition for these efforts. For the second year in a row, *Training Magazine* rated the OCC among the top 125 organizations in the nation that are "unsurpassed in harnessing human capital." As the top-rated government agency on the list, the OCC earned the recognition for its financial investment in employee development, the scope of its development program, and the close link between the OCC's development efforts and its strategic objectives.[54] Additionally, the OCC was recognized for having a best practice in the industry regarding its efforts to create the OCC Leadership Institute[55] and the Leadership Development 101 course.

Performance Measures and Results

The OCC's FY 2017 performance measures, workload indicators, customer service standards, and results are presented in table 1. They respond to the requirements for most agencies to set goals, measure performance, and report the information to Congress as established in the GPRA Modernization Act.[56]

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[54] Lorri Freifeld, "*Training Magazine* Ranks 2017 Training Top 125 Organizations," *Training Magazine*, January 31, 2017.

[55] Lorri Freifeld, "Training Top 125 Best Practice: Office of the Comptroller of the Currency's Leadership Development Program," *Training Magazine*, May 16, 2017.

[56] "GPRA" refers to the Government Performance and Results Act, a law designed to improve program management throughout the federal government.

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

Strategic goal	Performance measures, workload indicators, and customer service standards	FY 2014	FY 2015	FY 2016	FY 2017	
					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	87%	91%	93%	90%	94%
	Rehabilitated problem banks as a percentage of the problem banks one year ago (CAMELS 3, 4, or 5)	39%	39%	43%	40%	40%
	Percentage of banks that are well capitalized	93%	95%	96%	95%	97%
	Percentage of critically undercapitalized banks on which responsible action is taken within 90 calendar days after they become critically undercapitalized	100%	100%	100%	100%	100%
	Average survey response[a] that the report of examination clearly communicated: a. Supervisory findings b. Significant issues c. Corrective actions with time frames	1.59 Combined	1.54 1.59 1.58	1.53 1.58 1.57	< 1.50 < 1.50 < 1.50	1.55 1.59 1.58
	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.	95%	96%	98%	94%	97%
	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	51%	78%	88%	80%	67%
	Number of consumer complaints opened/closed during the fiscal year[b]	27,783/ 73,806	22,468/ 25,263	22,350/ 22,774	24,000/ 26,000	21,296/ 20,068
II. "One OCC" focused on collaboration, innovation, coordination, and process improvement						
	Total OCC costs relative to every $100,000 in assets regulated	$9.75	$9.37	$9.65	$10.16	$9.49
III. The OCC is firmly positioned to continue to operate independently and effectively into the future						
	Percentage of licensing applications and notices filed electronically	41%	41%	38%	35%	54%
	Number of licensing applications and notices filed electronically during the fiscal year	1,251	1,248	1,097	1,100	1,655
	Percentage of licensing applications and notices completed within established time frames	98%	97%	98%	95%	96%
	Number of licensing applications and notices completed during the fiscal year	2,624	2,524	2,399	2,100	2,857
	Average survey rating of the overall licensing services provided by the OCC[c]	1.20	1.20	1.44	≤ 1.5	1.09

[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, FRB, FDIC, state banking agencies) and others; and complaints received from other regulators and others. The OCC's Customer Assistance Group identifies complaints received from these sources as "total complaints."

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

Section Four

Supervision

Supervision Priorities

The OCC published its supervisory priorities in its *Fiscal Year 2017 Bank Supervision Operating Plan* to provide the foundation for policy initiatives and supervisory strategies for individual banks. The agency's supervisory strategies for FY 2017 focused on

- commercial and retail loan underwriting.
- business model sustainability and viability.
- operational resiliency.
- BSA/AML compliance management.
- change management to address new regulatory requirements.

In addition to activities at individual banks, the OCC also conducts horizontal supervisory initiatives for key risks to facilitate coordination and assessment of issues that cut across the banking industry. In 2017, the OCC conducted horizontal reviews related to cybersecurity, sales practices, shared national credits, stress testing, and underwriting.

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

The OCC's experienced cadre of bank examiners understands varied business models and local markets. Examiner teams provide expertise to assist banks with policy, supervision, legal, licensing, accounting, and economics issues.

Enhancing Supervision

The OCC's Committee on Bank Supervision (CBS) and National Risk Committee (NRC) include staff from CNBE, Compliance and Community Affairs (CCA), Large Bank Supervision (LBS), and Midsize and Community Bank Supervision (MCBS). The CBS ensures coordination of supervisory activities, policies, and programs, and that those activities, policies, and programs are consistent with the OCC's strategic plan and objectives. The NRC serves as a central point of coordination for the agency's existing and emerging supervision and policy issues, including recommended actions to address such issues.

In 2017, the OCC published the following supervisory material and guidance:

- Risk management guidance for higher-loan-to-value lending programs in communities targeted for revitalization.[57]
- Interagency guidance about the regulatory capital treatment of certain centrally cleared derivative contracts.[58]
- New guidance addressing the OCC's expectations for compliance by national bank swap dealers with minimum variation margin requirements that became applicable this year.[59]
- Supplemental procedures promoting consistency when examining banks' risk management of third-party relationships,[60] as well as a set of frequently asked questions regarding third-party relationships.[61]

[57] OCC, "Risk Management Guidance for Higher-Loan-to-Value Lending Programs in Communities Targeted for Revitalization," bulletin 2017-28, August 21, 2017.

[58] OCC, "Regulatory Capital Rule: Treatment of Certain Centrally Cleared Derivative Contracts," bulletin 2017-27, August 14, 2017.

[59] OCC, "Initial Examinations for Compliance With Final Rule Establishing Margin Requirements for Non-Cleared Swaps and Non-Cleared Security-Based Swaps," bulletin 2017-12, February 23, 2017.

[60] OCC, "Third-Party Relationships: Supplemental Examination Procedures," bulletin 2017-7, January 24, 2017.

[61] OCC, "Frequently Asked Questions to Supplement OCC Bulletin 2013-29," bulletin 2017-21, June 7, 2017.

- Guidance regarding the periodic evaluation of the risks related to foreign correspondent accounts that describes corporate governance best practices and reiterates the expectation that banks should periodically reevaluate and reassess this risk.[62]
- A new "Retail Lending" booklet and revisions of other booklets in the *Comptroller's Handbook*,[63] including:
  - "Bank Premises and Equipment"
  - "Community Bank Supervision"
  - "Consigned Items and Other Customer Services"
  - "Flood Disaster Protection Act"
  - "Foreword"
  - "Internal and External Audits"
- Guidance that advises banks to prepare for changes in the regular securities settlement cycle for most U.S. securities transactions in advance of the effective date this year.[64]
- Updates to OCC policies and procedures regarding violations of laws and regulations that emphasize timely detection and correction of violations before they affect a bank's condition.[65]
- Interagency frequently asked questions explaining the new accounting standard for the current expected credit losses methodology that estimates allowances for credit losses.[66]
- Revisions to the Uniform Interagency Consumer Compliance Rating System to reflect regulatory, supervisory, technological, and market changes since the system was established.[67]
- Revisions to interagency examination procedures for the MLA that reflect the expansion of MLA protections, rules for determining the fees and charges, optional safe harbor availability to creditors, required disclosures, and limitations on consumer credit extended to covered borrowers.[68]
- Interagency HMDA Examiner Transaction Testing Guidelines applicable to HMDA data collected in or after 2018.[69]
- Two new booklets of the *Comptroller's Licensing Manual,* "Articles of Association, Charter, and Bylaw Amendments" and "Substantial Asset Changes, Including Changes in Charter Purpose." Additionally, the OCC updated the following *Comptroller's Licensing Manual*[70] booklets:
  - "Branch Closings"
  - "Change in Bank Control"
  - "Changes in Directors and Senior Executive Officers"
  - "Changes of Corporate Title and Address"
  - "Conversions to Federal Charter"
  - "Failure Acquisitions"
  - "Fiduciary Powers"
  - "General Policies and Procedures"
  - "Management Interlocks"
  - "National Bank Director Waivers"
  - "Public Notice and Comments"
  - "Termination of Federal Charter"

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

63 The *Comptroller's Handbook* is a collection of booklets that contain the concepts and procedures established by the OCC for the examination of banks. Its booklets are available at www.occ.gov.

64 OCC, "Securities Operations: Shortening the Settlement Cycle," bulletin 2017-22, June 9, 2017.

65 OCC, "Violations of Laws and Regulations: Updated Guidance," bulletin 2017-18, May 23, 2017.

66 OCC, "Interagency Frequently Asked Questions on the New Accounting Standard on Financial Instruments—Credit Losses," bulletin 2016-45, December 19, 2016.

67 OCC, "Revised Uniform Interagency Consumer Compliance Rating System," bulletin 2016-39, November 8, 2016, effective March 31, 2017.

68 OCC, "Revised Interagency Examination Procedures Regarding Limitations on Terms of Consumer Credit Extended to Service Members and Dependents," bulletin 2016-33, October 7, 2016.

69 OCC, "Updated FFIEC Examiner Transaction Testing Guidelines," bulletin 2017-31, August 25, 2017.

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

Compliance and Community Affairs

The CCA Department serves as the agency's compliance technical expert; monitors risk with regard to consumer compliance, CRA, fair lending, and BSA/AML; and develops related compliance supervisory policy. CCA coordinates with CNBE to ensure consistency in supervisory policies. CCA also provides input for the compliance examination strategy development within LBS and MCBS, and issues annual compliance strategy guidance to those business units. Compliance strategies are risk-based, except when examinations are mandated by statute or agency policy, and may be adjusted in response to emerging risks and supervisory priorities, including the impact of new regulations or amendments to existing regulations. Established in 2016, CCA continued to evolve and became operational with the responsibility to

- develop consistent policy, guidance, and examiner training related to the CRA, fair lending, the BSA, and other compliance areas.
- support the supervisory process and enterprise-wide risk identification, monitoring, and reporting across the OCC's supervision activities.
- provide outreach to bankers and community-focused organizations, promoting community reinvestment and economic empowerment.

Grovetta Gardineer, Senior Deputy Comptroller for Compliance and Community Affairs, spoke at the NeighborWorks National Training Institute in Philadelphia in August 2017, celebrating the 40th anniversary of the CRA. "I firmly believe that in a competitive and changing environment, the most successful banks will be those that provide fair access to all potential customers, including individuals outside the financial mainstream," Ms. Gardineer said during her speech.
Photo credit: NeighborWorks America

Community Reinvestment

CRA: The OCC recognized the CRA's 40-year anniversary in 2017, affirming that banks that integrate CRA performance and compliance into their core business operations, and commit the dedicated leadership, staff, and resources necessary to produce strong performance in these areas, are best positioned to succeed and grow over the long term.[71] In 2017, the OCC improved its supervisory capabilities with regard to CRA compliance by

- improving its CRA performance evaluation process, for example, by increasing the notification time frame for upcoming CRA evaluations.[72]
- reducing the backlog of CRA performance evaluations.
- developing new examination tools to support more rigorous performance evaluation and promote more transparency in written CRA performance evaluations.
- enhancing the agency's understanding of banks' CRA performance within the context of their unique business operations.
- co-hosting training for examiners addressing community reinvestment following the publication of interagency CRA guidance.

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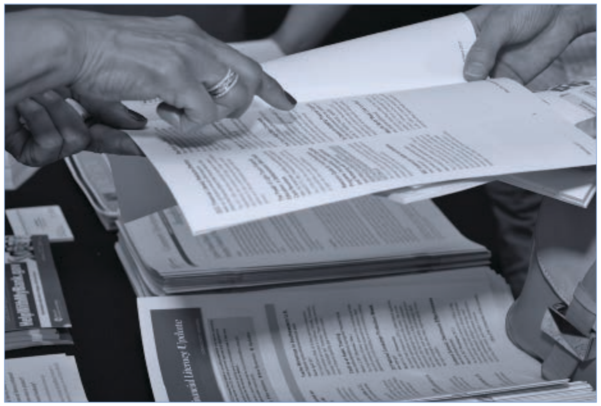
71 Remarks by Thomas J. Curry, National Association of Affordable Housing Lenders Policy and Practice Conference, December 1, 2016.

72 OCC, "OCC to Provide Extended Notice for Scheduled CRA Evaluations," news release 2017-61, May 31, 2017.



The OCC participated in Financial Literacy Day on Capitol Hill in March 2017. The agency highlighted products, services, and initiatives focused on community development, investments, and services aimed at traditionally underserved market segments.

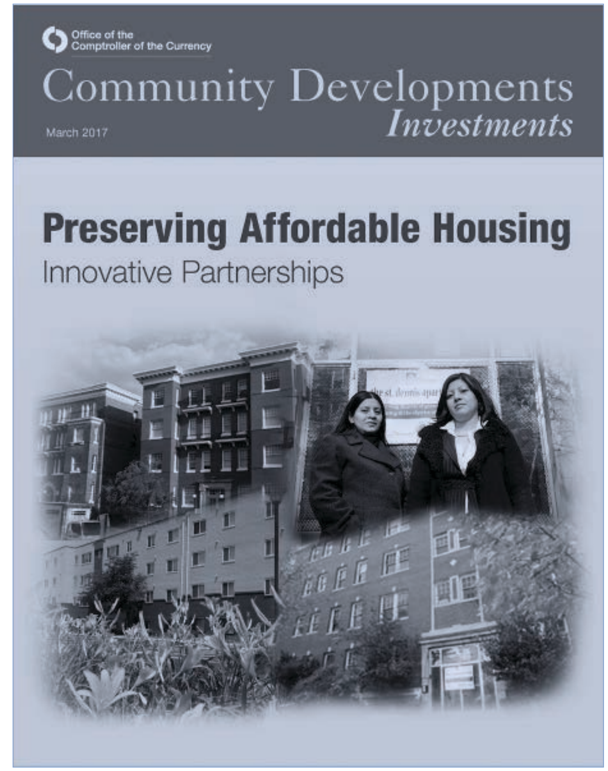
Revitalization, stabilization, and redevelopment: The rehabilitation of abandoned or distressed housing stock is an important component of the efforts to strengthen communities. Depressed housing values in certain communities inhibit mortgage lending, and the high cost of home repairs can constrain housing rehabilitation by exceeding a home's after-rehabilitation appraised value. Recognizing this, the OCC issued guidance in 2017 to help banks better manage the risks from residential mortgage loans with a higher loan-to-value ratio at origination.

The guidance articulates supervisory considerations regarding programs to originate certain higher-loan-to-value ratio loans and the circumstances under which banks may establish them.[73]

Community affairs outreach: The OCC co-sponsored nearly 100 community-focused events in 2017. Topics included rural and affordable housing, interagency bank and community development financial institution funds, the CRA, community development, and lending to small businesses.

In 2017, the OCC published or updated educational resources about

- the federal Historic Tax Credit program, which encourages the rehabilitation of historic buildings.[74]
- the Certified Development Company/504 Loan Program, which finances long-term assets at competitive rates for small businesses.[75]
- financial literacy and educational initiatives, such as school-based bank savings programs.[76]
- innovative partnerships in multifamily housing preservation approaches.[77]



Banks are using innovative approaches to help preserve the nation's supply of affordable multifamily rental properties, ranging from predevelopment financing to new debt products and mission-driven equity investment structures.

[73] OCC, "Risk Management Guidance for Higher-Loan-to-Value Lending Programs in Communities Targeted for Revitalization," bulletin 2017-28, August 21, 2017.

[74] OCC, "Historic Tax Credits: Bringing New Life to Older Communities," *Insights*, August 2017.

[75] OCC, "SBA's Certified Development Company/504 Loan Program: Small Businesses' Window to Wall Street," *Insights*, June 2017.

[76] OCC, "School-Based Savings Programs: Bringing Financial Education to Students," *Insights*, March 2017.

[77] OCC, "Preserving Affordable Housing: Innovative Partnerships," *Community Developments Investments*, March 2017.

Consumer Protection

Prudent change management processes are important during the implementation of new regulatory requirements. New or amended regulations pose challenges to change management processes and increase operational, compliance, and other risks. Recent changes include the integrated mortgage disclosures under TILA and RESPA, and the new requirements under the amended regulation implementing the MLA.

Uniform Interagency Consumer Compliance Rating System: OCC staff worked with the FFIEC Task Force on Consumer Compliance to develop extensive revisions and updates to the Uniform Interagency Consumer Compliance Rating System. The revisions reflected regulatory, supervisory, technological, and market changes since the system was established in 1980.[78] Effective March 31, 2017, the revisions were designed to better reflect current consumer compliance supervisory approaches and to more fully align the consumer compliance rating system with the agencies' current risk-based, tailored examination processes. Under risk-based supervision, examiners tailor supervisory activities to the size, complexity, and risk profile of each institution and adjust these activities over time.

Establishing incentives for institutions to promote consumer protection by preventing, self-identifying, and addressing compliance issues in a proactive manner was an important driver when developing the new rating system. Therefore, the revised rating system recognizes institutions that consistently adopt these compliance strategies. The new rating system also promotes coordination, communication, and consistency among the agencies, consistent with their respective supervisory authorities for banks and nonbanks.

Compliance training: OCC staff members enhanced supervision by identifying consumer compliance risks and communicating with examiners, bankers, service providers, and industry groups. In 2017, the OCC provided classroom sessions for more than 300 precommissioned and commissioned examiners. In addition, compliance supervision subject matter experts conducted training sessions in the four districts and their field offices on a monthly basis. In 2017, training covered topics such as "Know Before You Owe: Mortgage Disclosure Rules," "Unfair or Deceptive Acts or Practices," CRA performance evaluations, deposits, the Flood Disaster Protection Act, the MLA, the Servicemembers Civil Relief Act, and fair lending and fair credit rules and practices.

Bank Secrecy Act/Anti-Money Laundering

Examinations of BSA/AML and Office of Foreign Assets Control (OFAC) compliance programs are OCC supervisory priorities. The BSA and OFAC sanctions help prevent the financial system from being exploited for criminal activity and terrorist financing.

In 2017, the OCC

- conducted examinations of banks' BSA/AML and OFAC compliance programs, and provided guidance to banks in this challenging area, to ensure that banks report required transactions and comply with U.S. laws.
- participated as an active member of the U.S. delegation to the Financial Action Task Force, an intergovernmental body that sets international AML standards for safeguarding the international financial system.
- served on the AML Expert Group of the Basel Committee on Banking Supervision, enabling the OCC to collaborate with other bank supervisors from around the globe and promote consistent supervisory expectations.
- contributed to the oversight committee of the Financial Stability Board's Correspondent Banking Coordination Group as the group implements its four-point action plan to assess and address the decline in correspondent banking globally.
- conducted a foreign bank supervisor AML school to help international counterparts strengthen their national AML supervisory frameworks to meet international standards.

78 OCC, "Revised Uniform Interagency Consumer Compliance Rating System," bulletin 2016-39, November 8, 2016.

Minority Depository Institutions

The OCC actively promotes collaboration among community banks, particularly among minority- and women-owned banks. In 2017, the OCC held roundtables and participated in the national minority depository institution (MDI) conference to bring smaller organizations together with larger financial institutions to identify where they can collaborate and create mutually beneficial relationships. Participants brought enthusiasm and entrepreneurial spirit, leading to several concrete initiatives, such as loan participations with midsize banks and the use of larger banks' automated teller machine networks.

The OCC added new members to its MDI Advisory Committee in 2017. This committee advises the OCC on maintaining the health and viability of MDIs. The committee provides perspective on the business environment affecting MDIs, their customers, and the communities they serve.

The OCC's *Annual Report on the Preservation and Promotion of Minority-Owned National Banks and Federal Savings Associations*, published in December 2016, covers these efforts in greater detail.

The Minority Depository Institution Advisory Committee held a meeting in June 2017 to provide advice to the OCC on meeting the goals of section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act. MDIs "are an important segment of the federal banking system," said Acting Comptroller Noreika during the event.

Section Five

Licensing and Enforcement Measures

Licensing Activities

The OCC's licensing activities ensure that the corporate structures of banks are established and maintained in accordance with the principles of a safe and sound federal banking system as predicated by law and regulation. The OCC's licensing division works with the agency's legal and supervisory departments to render independent decisions supported by a sound record of facts and thoughtful financial, supervisory, and legal analyses. The OCC's licensing activities in 2017 for the federal banking system are depicted in the following tables.

Table 2: Corporate Application Activity

	2016	2017	2017 decisions			
	Applications received		Approved	Conditionally approved	Denied	Total
Branches	357	366	330	0	0	330
Capital/sub-debt	43	56	52	1	0	53
Change in bank control	9	9	5	2	0	7
Charters	1	2	0	1	0	1
Charter conversions*	5	7	5	2	0	7
Federal branches	0	3	0	0	0	0
Fiduciary powers	2	3	1	1	0	2
Mergers	78	63	67	3	0	70
Relocations	189	186	171	1	0	172
Reorganizations (national banks only)	31	25	22	0	0	22
Subsidiaries	46	52	47	2	0	49
Substantial change in assets	5	8	1	3	0	4
Mutual to stock conversions	2	1	0	2	0	2
Total	**768**	**781**	**701**	**18**	**0**	**719**

*Conversions to OCC-regulated bank.

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

Year	Received	Acted on	Not disapproved	Disapproved	Withdrawn
2017	9	7	7	0	0
2016	9	9	9	0	0
2015	12	11	11	0	1
2014	14	9	9	0	0
2013	8	6	6	0	1

Table 4: Licensing Actions and Timeliness, National Banks and FSAs

		2016			2017		
			Within target			Within target	
	Target time in days	Number of decisions	Number	Percent	Number of decisions	Number	Percent
Branches	45/60	316	315	100	330	324	98
Capital/sub-debt	15/45	46	44	96	53	52	98
Change in bank control	NA/120	9	9	100	7	5	71
Charters	45/60	1	1	100	1	1	100
Charter conversions	60/120	2	2	100	7	7	100
Federal branches	NA/120	1	1	100	0	0	----
Fiduciary powers	30/60	3	3	100	2	2	100
Mergers	45/60	69	67	97	70	64	91
Relocations	45/60	165	162	98	172	169	98
Reorganizations	45/60	32	32	100	22	21	95
Subsidiaries	30/60	32	30	94	49	47	96
Substantial change in assets	NA/60	9	9	100	4	3	75
Mutual to stock conversions	NA/60	2	2	100	2	2	100
Total		**687**	**677**	**98**	**719**	**697**	**97**

Note: Most of the decisions (93 percent in 2016 and 96 percent in 2017) were made in the district offices and large bank licensing under delegated authority. Decisions include approvals, conditional approvals, and denials. NA means not applicable.

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

Table 5: Applications Presenting CRA Issues Decided, FY 2017

Bank, city, state	Approval date	Document number
BOKF, National Association, Tulsa, Okla.	October 19, 2016	CRA decision No. 178
People's United Bank, National Association, Bridgeport, Conn.	February 2, 2017	CRA decision No. 179
First National Bank of Pennsylvania, Greenville, Pa.	February 24, 2017	CRA decision No. 180
UMB Bank, National Association, Kansas City, Mo.	March 17, 2017	CRA decision No. 181
TD Bank, National Association, Wilmington, Del.	May 18, 2017	CRA decision No. 182
EverBank, Jacksonville, Fla.	March 13, 2017	CRA decision No. 183
Community Bank, National Association, Canton, N.Y.	April 6, 2017	CRA decision No. 184
Sterling National Bank, Montebello, N.Y.	August 16, 2017	CRA decision No. 185

Enforcement Actions

The OCC investigates, litigates, and takes enforcement actions, such as CMPs, suspensions and removals, and cease-and-desist orders, to correct unsafe or unsound banking practices and failures in compliance. When warranted, the OCC refers criminal acts involving bank-affiliated parties to the U.S. Department of Justice and coordinates with other federal agencies on enforcement efforts involving national banks and FSAs. Table 6 describes the OCC's enforcement actions in 2017.

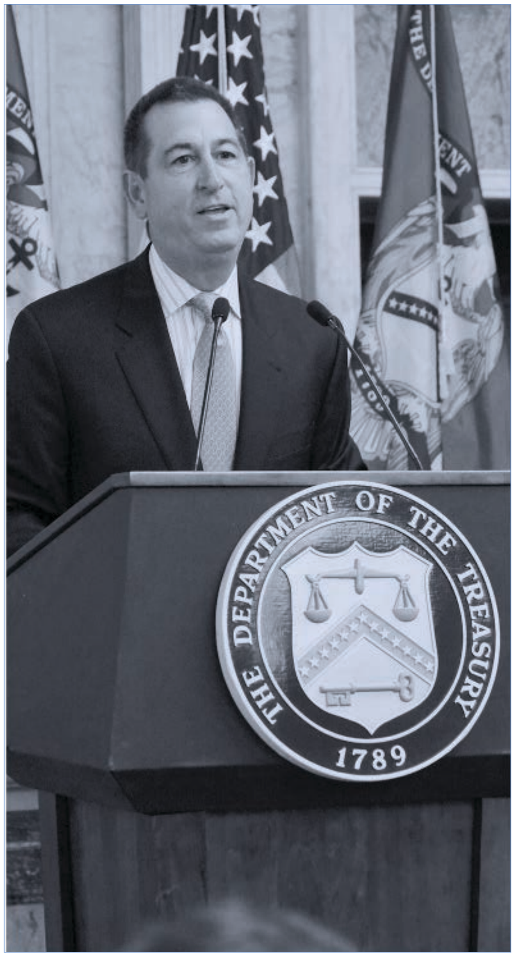
Table 6: OCC Enforcement Actions, FY 2017

Type of enforcement action	Number	Amount
12 USC 1829 removal	11	
Bank civil money penalty	6	$50,683,920*
Capital restoration plan	3	
Cease-and-desist order	6	
Formal agreement	9	
Institution-affiliated parties restitution to bank by order	7	$1,641,880
Letter of reprimand	1	
Memorandum of understanding	3	
Operating agreement	5	
Order of investigation	7	
Part 3 individual minimum capital ratio	5	
Part 19K suspension	1	
Personal cease-and-desist order	7	
Personal civil money penalty	26	$361,000
Prompt corrective action directive	1	
Regulatory conditions in writing	2	
Removal/prohibition	26	
Safety and soundness plan	4	
Supervisory letter	25	
Total	**155**	**$52,686,800**

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

Section Six

Leadership



Joseph M. Otting was nominated by the President in June 2017 to serve as the 31st Comptroller of the Currency. After the U.S. Senate confirmed Mr. Otting, Secretary of the Treasury Steven T. Mnuchin administered the oath of office to him on November 27, 2017, before this report's publication.

Acting Comptroller of the Currency Keith A. Noreika poses with members of the OCC's Executive Committee and members of his front office team. From left to right are William Rowe, Morris R. Morgan, Amy Friend, Larry L. Hattix, Kathy K. Murphy, Mr. Noreika, Grovetta N. Gardineer, Michael Sullivan, Grace E. Dailey, Toney M. Bland, and Jonathan Fink.

Keith A. Noreika
Acting Comptroller of the Currency

Keith A. Noreika served as the Acting Comptroller of the Currency from May to November 2017.

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

Before becoming Acting Comptroller, Mr. Noreika served as a partner at the Simpson Thacher & Bartlett law firm and a member of the firm's Financial Institutions Practice, where he focused on banking regulation and related litigation. He advised a wide range of domestic and international financial institutions on regulatory issues relating to mergers and acquisitions, minority investments, capital issuances, structuring and compliance activities, and litigation matters, particularly in the area of federal preemption.

Mr. Noreika's experience includes advising regional, multinational, and other banks on the structuring of their operations, including complying with the Volcker rule, CFPB regulations, and BSA/AML rules. He has represented national banks before the U.S. Supreme Court, the U.S. Courts of Appeals, and U.S. District Courts. He previously served as partner at Covington & Burling.

Mr. Noreika has been an adjunct faculty member at the University of Pennsylvania Law School and the University of Virginia School of Law. He earned his bachelor of science from the Wharton School of the University of Pennsylvania and his law degree from Harvard Law School, where he was editor of the Harvard Law Review.

Mr. Noreika left the OCC on November 28, 2017, following the swearing-in of Comptroller Otting.

Toney M. Bland

Midsize and Community Bank Supervision

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

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

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

Grace E. Dailey

Chief National Bank Examiner

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

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

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

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 this role, 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.

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

Prior to publication in October 2017, Ms. Friend announced her pending retirement from federal service.

Grovetta N. Gardineer

Compliance and Community Affairs

Grovetta N. Gardineer, Senior Deputy Comptroller for CCA, oversees agency compliance activities and supervises the agency's Community Affairs and CRA programs. She is responsible for policy and examination procedures relating to consumer issues and BSA/AML 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.

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.

Larry L. Hattix

Enterprise Governance and Ombudsman

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

Mr. Hattix was the OCC Ombudsman from 2008 to 2013, and previously served as Assistant Deputy Comptroller of the Cincinnati, 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.

Morris R. Morgan

Large Bank Supervision

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

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

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

Kathy K. Murphy

Office of Management and Chief Financial Officer

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

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

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

Michael Sullivan

Economics

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

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

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

Joyce Cofield

Office of Minority and Women Inclusion

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

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

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

Section Seven

Financial Management Discussion and Analysis

Letter From the Chief Financial Officer

Kathy K. Murphy
Chief Financial Officer

I am pleased to present the OCC's financial statements as an integral part of the *2017 Annual Report.* The agency's independent auditors have again rendered an unmodified opinion for FY 2017.

While the OCC has long prided itself on its consistent record of unmodified opinions on its financial statements, this sustained achievement is something it does not take for granted. The OCC's comprehensive internal control program includes a separate financial statement assurance process that is predicated on the concepts and requirements outlined in Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control." Annually, the OCC conducts a risk assessment of the financial statements and tests controls. This process has earned the OCC its unmodified opinion and gives assurance that its internal controls over financial reporting are operating effectively, with no material weaknesses found in their design or operation.

The OCC continues to be a responsible steward of agency funds and remains dedicated to sound financial management practices. In 2017, the agency continued its efforts to operate more effectively and manage its resources prudently to fulfill its mission. The OCC's operating budget for 2017 totaled approximately $1,182.1 million, an increase of $48.8 million (4.3 percent) from 2016. Actual 2017 spending totaled approximately $1,103.1 million.

This year, the OCC adopted a more disciplined process for reviewing and identifying the agency's workforce needs, which is being used to inform our enterprise workforce strategies and the FY 2018 budget. Although the OCC has done workforce planning in various business units for several years, a formal enterprise-wide effort was instituted for 2017. The agency aims to build on the 2017 process and develop and maintain mature organizational workforce planning in the future.

Looking forward, the OCC will continue to emphasize its commitment to transparency, accountability, and stewardship by sustaining a robust internal control program that will allow it to identify and mitigate financial, operational, and compliance risks as it grows its enterprise risk management program. The agency also will continue to effectively allocate resources to achieve its mission, while building its future through the enterprise workforce planning efforts.

It is our workforce, the men and women of the OCC, to whom I would like to express my sincere appreciation. Through their tremendous work every day, the OCC has been able to operate more effectively. Their consistent effort to manage the agency's resources provides the foundation for our strong stewardship.

Kathy K. Murphy

Senior Deputy Comptroller for Management and Chief Financial Officer

Financial Summary

The OCC received an unmodified opinion on its FY 2017 and FY 2016 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 OMB, 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 2017 and FY 2016. The financial statements are followed by notes and the auditor's report.

The OCC, in accordance with 12 USC 482, establishes its budget authority for a given fiscal year. The total budget authority available for use by the OCC in FY 2017 was $1,182.1 million, which represents an increase of $48.8 million, or 4.3 percent, from the $1,133.3 million budget in FY 2016. The OCC executed $1,103.1 million, or 93.3 percent, of the FY 2017 budget, compared with $1,083.7 million, or 95.6 percent, executed in FY 2016.

The Statements of Budgetary Resources provide information about how budgetary resources were made available to the OCC for the year. These statements present the status of these resources and the net outlay of budgetary resources at the end of the year. Table 7 illustrates the OCC's key components of financial condition, and the subsequent narrative sections address the OCC's financial activities in FY 2017 and FY 2016.

Table 7: Key Components of Financial Condition, as of September 30, 2017 (in Thousands)

					Increase/(decrease)		
		2017		2016		$	%
Costs[a]							
Total financing sources	$	24,867	$	27,383	$	(2,516)	(9.2%)
Less: net cost		(69,097)		(46,069)		23,028	50.0%
Net change of cumulative results of operations	$	93,964	$	73,452	$	20,512	27.9%
Net position[b]							
Assets							
Fund Balance With Treasury	$	6,220	$	11,588	$	(5,368)	(46.3%)
Investments		1,792,793		1,662,121		130,672	7.9%
General property, plant, and equipment, net		90,255		105,741		(15,486)	(14.6%)
Accounts receivable and other		4,852		5,475		(623)	(11.4%)
Total assets	$	1,894,120	$	1,784,925	$	109,195	6.1%
Liabilities							
Accounts payable and other accrued liabilities	$	33,712	$	34,340	$	(628)	(1.8%)
Accrued payroll and benefits		92,304		91,659		645	0.7%
Deferred revenue		296,558		286,480		10,078	3.5%
Other actuarial liabilities		85,739		80,603		5,136	6.4%
Total liabilities	$	508,313	$	493,082	$	15,231	3.1%
Net position		1,385,807		1,291,843		93,964	7.3%
Total liabilities and net position	$	1,894,120	$	1,784,925	$	109,195	6.1%

Source: OCC financial system data.

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

[b] Balance Sheets.

Cost of Operations

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

Total program costs for FY 2017 of $1,136.3 million reflected an increase of $27.8 million, or 2.5 percent, from $1,108.5 million in FY 2016. The change was due primarily to the increase in costs associated with the OCC's payroll and benefits.

Revenues

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

Total FY 2017 revenue of $1,205.3 million reflected a $41.8 million, or 3.6 percent, increase over FY 2016 revenue of $1,163.5 million. Total assets under the OCC's supervision rose as of June 30, 2017, to $12.0 trillion, up 3.4 percent from $11.6 trillion a year earlier.

Interest revenue totaled $20.0 million in FY 2017, an increase of $1.9 million, or 10.3 percent, from the $18.1 million reported in FY 2016. The majority ($1.5 million) of the increase is attributable to the additional interest the OCC received on its overnight investments during the year, which resulted from higher interest rates established by the FRB. Other income includes revenue received from rental income and reimbursable activities with federal entities. Table 8 shows the OCC's funding sources for FY 2017 and FY 2016.

Table 8: Funding Sources (in Millions)

	FY 2017	FY 2016	Change ($)	Change (%)
Assessments	$ 1,166.9	$ 1,122.8	$ 44.1	3.9%
Interest revenue	20.0	18.1	1.9	10.3%
Other income	18.4	22.6	(4.2)	(18.6)%
Total revenue	$ 1,205.3	$ 1,163.5	$ 41.8	3.6%

Source: OCC financial system data.

Assets

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

As of September 30, 2017, total assets were $1,894.1 million, an increase of $109.2 million, or 6.1 percent, from the total assets of $1,784.9 million reported on September 30, 2016. The main factors contributing to the net increase in total assets are an increase in investments and related interest of $130.7 million, resulting from the investment of additional funds from increased assessment revenue collected this year. The increased assessment revenue was a result of an increase in total bank assets, offset by a decrease in property, plant, and equipment (PP&E) of $15.5 million. The decrease in PP&E 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 consistent with the provisions of 12 USC 481 and 12 USC 192. The OCC manages risk by diversifying its portfolio holdings through laddering security maturities over a period not to exceed 10 years. Laddering in this manner facilitates the ability to reinvest in short- and long-term U.S. Treasury securities while maintaining sufficient cash for the routine use of funds for daily operating expenses. The OCC has the positive intent and ability to hold all U.S. Treasury securities to maturity and does not maintain any available for sale or trading securities.

On September 30, 2017, the amortized book value of investments and related accrued interest was $1,792.8 million, compared with $1,662.1 million the previous year. The increase of $130.7 million, or 7.9 percent, reflects additional investments made with available funds from an increase in total bank assets and the related assessment revenue collected in FY 2017. The market value of the OCC's investment portfolio in FY 2017 is $2.1 million lower than book value, a decrease of $21.5 million from the $19.4 million market value in excess of book value reported on September 30, 2016. This decrease is primarily attributable to the fluctuation in interest rates—when interest rates increase, the market value of bonds decrease—and the variation of portfolio holdings year-over-year. This fluctuation does not affect the reported value of securities held to maturity.

The OCC's investment portfolio is composed of overnight and longer-term securities. The portion of the portfolio comprising longer-term investments as of September 30, 2017, and September 30, 2016, was $1,154.5 million, or 64.4 percent, and $1,079.5 million, or 65.2 percent, respectively. The weighted average maturity of the portfolio decreased year over year to 1.97 years as of September 30, 2017, compared with 2.12 years as of September 30, 2016. 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 1.29 percent in FY 2017, compared with 1.28 percent in FY 2016. The OCC calculates annual portfolio yield by dividing the total interest earned during the year by the average ending monthly book value of investments.

Liabilities

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

As of September 30, 2017, total liabilities were $508.3 million, a net increase of $15.2 million, or 3.1 percent, from total liabilities of $493.1 million on September 30, 2016. This increase is attributed primarily to increases of $10.1 million in deferred revenue and $5.1 million in other actuarial liabilities.

Net Position

The OCC's net position of $1,385.8 million as of September 30, 2017, an increase of $94.0 million, or 7.3 percent, over the $1,291.8 million reported for FY 2016, represents the cumulative net excess of the OCC's revenues over the cost of operations. The net position is presented on both the Balance Sheets and the Statements of Changes in Net Position.

The OCC allocates a significant portion of the net position to its financial reserves. The establishment of financial reserves is integral to the effective stewardship of the OCC's resources. The OCC has a disciplined process for reviewing its reserve balances and allocating funds appropriately to support its ability to accomplish the OCC's mission. The OCC's financial reserves are available to reduce the impact on the OCC's operations in the event of a significant fluctuation in revenues or expenses or as a result of changes in risk at banks creating a need to reallocate resources. In FY 2017, a receivership contingency fund of $100.0 million was established within the financial reserves to facilitate the conduct of receiverships of uninsured national trust banks. Conversely, all national banks insured by the FDIC that are closed by the OCC are required to have the FDIC appointed as receiver. The OCC also sets aside funds for ongoing operations to cover undelivered orders, the consumption of assets, and capital investments.

The OCC ended FY 2017 with financial reserves of $1,206.1 million, which is $149.6 million less than the approved FY 2018 total budget authority of $1,355.7 million. The OCC's ability to execute the FY 2018 approved budget will depend on collecting current year assessments and utilizing available financial reserves. These reserves are an essential component of a sound, prudent, and reasonable financial management strategy.

At the end of FY 2018, the OCC expects its financial reserves to total $1,091.2 million, which is 80.5 percent of the total FY 2018 budget authority. This reserve number is calculated by adding projected budget revenues ($1,240.8 million) and deducting projected budget expenses ($1,355.7 million) from the $1,206.1 million financial reserve amount as of September 30, 2017.

OFFICE OF THE COMPTROLLER OF THE CURRENCY
BALANCE SHEETS

AS OF SEPTEMBER 30, 2017 AND 2016 (IN THOUSANDS)

	2017	2016
Assets		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	$ 6,220	$ 11,588
Investments and related interest (Note 3)	1,792,793	1,662,121
Accounts receivable (Note 4)	2,977	3,630
Other assets	448	323
Total intragovernmental	**1,802,438**	**1,677,662**
Accounts receivable, net (Note 4)	1,355	1,481
General property, plant, and equipment, net (Note 5)	90,255	105,741
Other assets	72	41
Total assets	**$ 1,894,120**	**$ 1,784,925**
Liabilities		
Intragovernmental:		
Accounts payable and other accrued liabilities	$ 8,801	$ 11,103
Total intragovernmental	**8,801**	**11,103**
Accounts payable	1,854	869
Accrued payroll and benefits	40,884	40,815
Accrued annual leave	51,420	50,844
Other accrued liabilities	23,057	22,368
Deferred revenue	296,558	286,480
Other actuarial liabilities (Note 7)	85,739	80,603
Total liabilities	**508,313**	**493,082**
Net position (Note 8)	**1,385,807**	**1,291,843**
Total liabilities and net position	**$ 1,894,120**	**$ 1,784,925**

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, 2017 AND 2016
(IN THOUSANDS)

	2017		2016	
Program costs:				
Supervise				
Intragovernmental	$	145,390	$	143,815
With the public		869,192		848,567
Subtotal—supervise	**$**	**1,014,582**	**$**	**992,382**
Regulate				
Intragovernmental	$	13,637	$	13,221
With the public		84,139		78,682
Subtotal—regulate	**$**	**97,776**	**$**	**91,903**
Charter				
Intragovernmental	$	3,545	$	3,663
With the public		20,421		20,527
Subtotal—charter	**$**	**23,966**	**$**	**24,190**
Total program costs	**$**	**1,136,324**	**$**	**1,108,475**
Less earned revenues not attributed to programs		(1,205,254)		(1,163,484)
Net program costs before gain/loss from changes in assumptions	**$**	**(68,930)**	**$**	**(55,009)**
Actuarial (gain)/loss (Note 7)		(167)		8,940
Net cost of operations (Note 9)	**$**	**(69,097)**	**$**	**(46,069)**

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, 2017 AND 2016
(IN THOUSANDS)

	2017		2016	
Beginning balances	$	1,291,843	$	1,218,391
Other financing sources:				
Imputed financing (Note 10)		24,867		27,383
Net cost of operations		69,097		46,069
Net change		93,964		73,452
Ending balances	**$**	**1,385,807**	**$**	**1,291,843**

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, 2017 AND 2016
(IN THOUSANDS)

		2017		2016
Budgetary resources:				
Unobligated balance brought forward, October 1	$	1,400,435	$	1,301,636
Recoveries of prior year unpaid obligations		4,307		18,484
Unobligated balance from prior year budget authority, net		1,404,742		1,320,120
Spending authority from offsetting collections		1,215,916		1,170,288
Total budgetary resources	**$**	**2,620,658**	**$**	**2,490,408**
Status of budgetary resources:				
Obligations incurred	$	1,110,257	$	1,089,973
Exempt from apportionment		1,510,401		1,400,435
Total unobligated balance, end of year		1,510,401		1,400,435
Total budgetary resources	**$**	**2,620,658**	**$**	**2,490,408**
Change in obligated balance:				
Unpaid obligation balance, brought forward, October 1	$	267,479	$	237,690
Obligations incurred		1,110,257		1,089,973
Outlay (gross)		(1,090,781)		(1,041,700)
Recoveries of prior year unpaid obligations		(4,306)		(18,484)
Unpaid obligation, end of year		282,649		267,479
Uncollected payment, federal source, brought forward, October 1		(7,432)		(4,846)
Change in uncollected payment, federal source		236		(2,586)
Uncollected payment, federal source, end of year		(7,196)		(7,432)
Memorandum (non-add) entries				
Obligated balance, start of year	$	260,047	$	232,844
Obligated balance, end of year	$	275,453	$	260,047
Budget authority and outlays, net:				
Budget authority, gross	$	1,215,916	$	1,170,288
Actual offsetting collections		(1,216,152)		(1,167,702)
Change in uncollected payment from federal source		236		(2,586)
Budget authority, net		0		0
Outlay, gross		1,090,781		1,041,700
Actual offsetting collections		(1,216,152)		(1,167,702)
Outlays, net	**$**	**(125,371)**	**$**	**(126,002)**

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, 2017 AND 2016
(IN THOUSANDS)

		2017		2016
Revenue activity:				
Sources of cash collections				
Civil money penalties	$	51,944	$	233,292
Accrual adjustment		(21)		82
Total custodial revenue		51,923		233,374
Disposition of custodial revenue:				
Transferred to Treasury		51,944		233,292
(Increase)/decrease in amounts yet to be transferred		(21)		82
Total disposition for custodial revenue		**51,923**		**233,374**
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 assumed the responsibility for the supervision of FSAs and rulemaking authority for all savings associations.

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

Basis of Accounting and Presentation

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

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 non-marketable U.S. Treasury securities, and from rental income and reimbursable activities with other federal entities. The OCC does not receive congressional appropriations to fund any of the agency's operations. Therefore, the OCC has no unexpended appropriations.

By federal statute 12 USC 481, the OCC's funds are not government funds or appropriated monies. They are maintained in a U.S. government trust fund and 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 Fund Balance With Treasury (FBWT) (see Note 2).

Investments

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

The OCC has the positive intent and ability to hold all U.S. Treasury securities to maturity in accordance with FASB Accounting Standards Codification (ASC) Topic 320, "Investments—Debt and Equity Securities" (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 annually or as needed to reflect the most current estimate of accounts that probably will be uncollectible. Accounts receivable from the public are reduced by an allowance for loss on doubtful accounts (see Note 4).

General Property, Plant, and Equipment, Net

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

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

In addition, PP&E are depreciated or amortized, as applicable, over their 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 PP&E 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: Accounts Payable represent short-term liabilities to vendors and other entities. Interest penalties are paid when payments are late as prescribed by the Prompt Payment Act (31 USC Chapter 39). 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 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). 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 and is closed to new entrants in accordance with the provisions of Dodd–Frank. 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 $22.4 million and $21.1 million for FY 2017 and FY 2016, respectively, and are included as a component of "Operating expense: Personnel compensation and benefits" in Note 9, "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.

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.

Employees who leave the OCC before the vesting period (three or more years of continuous credited service) forfeit the OCC's matching contributions. The OCC uses these accounts to reduce future administrative plan expenses and to satisfy future employer contributions. The 401(k) plan contribution was defrayed by $2.0 million in forfeited accounts in FY 2017 and by $0 in FY 2016.

The OCC's contributions to the 401(k) plans totaled $28.8 million and $29.9 million for FY 2017 and FY 2016, respectively, and are included as a component of "Operating expense: Personnel compensation and benefits," in Note 9, "Net Cost of Operations."

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

Post-retirement life insurance benefit plan: The OCC sponsors a life insurance benefit plan for current and retired employees. The OCC's life insurance benefit plan is a defined-benefit plan for which the benefit is earned over the period from the employee's date of hire to the date on which the employee is assumed to retire. The valuation of the plan is performed in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. Specifically, the OCC uses the actuarial cost method as outlined in FASB ASC Topic 715, "Compensation—Retirement Benefits," to determine costs for its retirement plans. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan. The actuarial assumptions and methods used in calculating actuarial amounts comply with the requirements for post-retirement benefits other than pensions as set forth in FASB ASC Topic 715, and for health benefit plans as set forth in American Institute of Certified Public Accountants

Statement of Position 92-6, "Accounting and Reporting by Health and Welfare Benefit Plans."

Receivership Contingency Fund

In FY 2017, a receivership contingency fund of $100.0 million was established within the OCC's financial reserves designated for expenses associated with the potential failure and subsequent receivership of an uninsured national trust bank.

Custodial Activity

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

Effects of Recent Accounting Pronouncements

On September 22, 2017, the FASAB issued Statement of Federal Financial Accounting Concepts (SFFAC) No. 8: "Federal Financial Reporting." This SFFAC discusses the role of financial statements and required supplementary information and their relationship to other reported financial and non-financial information. The OCC adopted SFFAC No. 8 upon issuance without material effect.

On January 19, 2016, the FASAB issued Technical Release No. 16, "Implementation Guidance for Internal Use Software." This release provides implementation guidance to assist 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 OCC adopted Technical Release 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 OCC's non-budgetary FBWT account balance represents investment accounts that reduce the status of the FBWT.

As of September 30, 2017, there were no unreconciled differences between U.S. Treasury records and balances reported on the OCC's general ledger.

Table 9 depicts the OCC's FBWT amounts for FY 2017 and FY 2016.

Table 9: Fund Balance With Treasury (in Thousands)

	FY 2017	FY 2016
Fund balance		
Trust fund	$ 6,220	$ 11,588
Status of FBWT		
Unobligated balance—available	$ 1,510,401	$ 1,400,435
Obligated balance not yet disbursed	275,453	260,047
Non-budgetary FBWT	(1,779,634)	(1,648,894)
Total	**$ 6,220**	**$ 11,588**

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 $1,786.5 million on September 30, 2017, and $1,677.7 million on September 30, 2016. The overall portfolio earned an annual yield of 1.29 percent for FY 2017 and 1.28 percent for FY 2016.

The yield-to-maturity on the non-overnight portion of the OCC's investment portfolio ranged from 0.8 percent to 2.9 percent on September 30, 2017, and from 0.5 percent to 2.9 percent on September 30, 2016.

Table 10: FY 2017 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities:					
Non-marketable market-based	$ 1,791,743	Effective interest	$ (3,169)	$ 1,788,574	$ 1,786,497
Accrued interest	4,219		0	4,219	4,219
Total intragovernmental investments	**$ 1,795,962**		**$ (3,169)**	**$ 1,792,793**	**$ 1,790,716**

Table 11: FY 2016 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities:					
Non-marketable 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**

NOTE 4
Accounts Receivable

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 Office of Thrift Supervision employees transferred to other federal agencies in accordance with the provisions of Dodd–Frank. CMP receivables are amounts assessed against people or banks for violations of law, regulation, and orders; unsafe or unsound practices; and breaches of fiduciary duty. Because CMPs are not debts owed to the OCC, the amount outstanding does not enter into the calculation for the allowance for uncollectible accounts.

Table 12: FY 2017 Accounts Receivable (in Thousands)

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

Table 13: 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**

NOTE 5
General Property, Plant, and Equipment, Net

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

For FY 2017 and FY 2016, the OCC recognized $1.9 million and $15.0 million, respectively, of fully depreciated assets or expired leasehold assets removed from service. In FY 2017 and FY 2016, the OCC did not recognize any losses on asset disposal. The figures below present the OCC's capitalization thresholds and the general PP&E balances as of September 30, 2017 and 2016.

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).

Table 14: FY 2017 General Property, Plant, and Equipment, Net (in Thousands)

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

Table 15: FY 2016 General Property, Plant, and Equipment, Net (in Thousands)

Class of assets	Capitalization threshold	Useful life (in years)	Cost	Accumulated depreciation/ amortization	Net book value
Land	NA	NA	$ 7,101	$ 0	$ 7,101
Building	50	50	49,188	(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
Total			**$ 323,699**	**$ (217,958)**	**$ 105,741**

Note: NA means not applicable.

NOTE 6
Leases

OCC as Lessee

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

The future minimum lease payments through FY 2023 and thereafter, not including renewals, are shown in tables 16 and 17.

Table 16: FY 2017 Future Lease Payments (in Thousands)

Year	Property	Equipment	Amount
2018	$ 59,784	$ 2,717	$ 62,501
2019	54,527	2,717	57,244
2020	50,823	2,717	53,540
2021	48,680	2,496	51,176
2022	47,986	1,345	49,331
2023 and thereafter	204,898	208	205,106
Total	**$ 466,698**	**$ 12,200**	**$ 478,898**

Table 17: FY 2016 Future Lease Payments (in Thousands)

Year	Property	Equipment	Amount
2017	$ 59,766	$ 2,510	$ 62,276
2018	57,062	2,717	59,779
2019	53,166	2,717	55,883
2020	49,823	2,717	52,540
2021	47,762	2,496	50,258
2022 and thereafter	252,435	1,552	253,987
Total	**$ 520,014**	**$ 14,709**	**$ 534,723**

OCC as Lessor

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

The future minimum rental income through FY 2023 and thereafter, not including renewals, is shown in tables 18 and 19.

Table 18: FY 2017 Future Rental Income (in Thousands)

Year	Amount
2018	$ 13,224
2019	13,458
2020	13,724
2021	13,994
2022	14,270
2023 and thereafter	157,105
Total	**$ 225,775**

Table 19: 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 thereafter	160,518
Total	**$ 226,816**

NOTE 7
Other Actuarial Liabilities

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

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 4.0 percent in FY 2017, as compared to FY 2016, when the rate was 3.9 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.

Table 21 presents a reconciliation of the beginning and ending post-retirement life insurance liability and provides material components of the related expenses.

Federal Employees' Compensation Act

The Federal Employees' Compensation Act provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OCC employees covered under the Federal Employees' Compensation Act are administered by the U.S. Department of Labor and billed to the OCC. The FY 2017 present values of these estimated outflows were calculated using a discount rate in the first year of 2.68 percent for wage benefits and 2.22 percent for medical benefits. For FY 2016 the discount rates for wage and medical benefits were 2.78 percent and 2.26 percent, respectively, in the first year.

Pentegra Defined Benefit Plan

In accordance with the provisions of Dodd–Frank, the OCC assumed the role of benefit administrator for the Pentegra DB Plan, a legacy retirement system, in FY 2011. 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 2017 and FY 2016, the OCC paid $16.6 million and $5.4 million, and recognized plan expenses of $17.2 million and $8.2 million, respectively. At September 30, 2017 and 2016, the OCC had accrued $4.8 million and $4.2 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 OCC made the Minimum Required Contribution for the 2017–2018 plan year expenses. See Note 13, "Subsequent Events," for information on an additional contribution that the OCC made to the Pentegra DB Plan.

Table 20: Actuarial Liabilities (in Thousands)

Component	FY 2017	FY 2016
Post-retirement life insurance benefits	$ 73,101	$ 69,283
Federal Employees' Compensation Act	7,838	7,170
Pentegra DB Plan	4,800	4,150
Total actuarial liabilities	**$ 85,739**	**$ 80,603**

Table 21: Reconciliation of Beginning and Ending Post-Retirement Liability and the Related Expenses (in Thousands)

Change in actuarial and accrued benefits	FY 2017	FY 2016
Actuarial post-retirement liability, beginning balance	**$ 69,283**	**$ 59,465**
Actuarial expense		
Normal cost	1,545	1,167
Interest on the liability balance	2,727	2,612
Actuarial (gain)/loss		
From experience	1,553	(1,224)
From assumption changes	(167)	8,940
Prior service costs	0	0
Total expense	5,658	11,495
Less amounts paid	(1,840)	(1,677)
Actuarial post-retirement liability, ending balance	**$ 73,101**	**$ 69,283**

NOTE 8
Net Position

Net position represents the net result of operations since inception and includes cumulative amounts related to investments in capitalized assets held by the OCC. The OCC allocates a portion of its net position as financial reserves for use at the Comptroller's discretion. These reserves include $100.0 million for a receivership contingency fund established in FY 2017 to facilitate the conduct of receiverships of uninsured national trust banks. This fund decreases the financial risk of unexpected costs associated with the potential receivership and resolution of an uninsured national trust bank. In addition, funds are set aside to cover the cost of ongoing operations.

Table 22 reflects balances for FY 2017 and FY 2016.

Table 22: Net Position Availability (in Thousands)

Component	FY 2017	FY 2016
Financial reserves	$ 1,206,096	$ 1,032,907
Set aside for ongoing operations:		
Undelivered orders	76,553	96,316
Consumption of assets	99,715	115,536
Capital investments	3,443	47,084
Net position	**$ 1,385,807**	**$ 1,291,843**

NOTE 9
Net Cost of Operations

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

Table 23 illustrates the OCC's operating expense categories for FY 2017 and FY 2016.

Table 23: Net Cost of Operations by Expense Category (in Thousands)

Component	FY 2017	FY 2016
Personnel compensation and benefits	$ 796,916	$ 774,472
Contractual services	126,512	124,349
Rent, communication, and utilities	81,322	76,633
Travel and transportation of persons and things	57,887	58,681
Imputed costs (Note 10)	24,867	27,383
Depreciation	24,460	25,997
Other	24,193	29,900
Total	**$ 1,136,157**	**$ 1,117,415**

NOTE 10
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 2017 and FY 2016 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 11, "Reconciliation of Net Cost of Operations to Budget."

Table 24: Imputed Costs Absorbed by the OPM (in Thousands)

Component	FY 2017	FY 2016
Retirement	$ 6,049	$ 9,259
Federal Employees Health Benefits	18,764	18,071
Federal Employees' Group Life Insurance	54	53
Total	**$ 24,867**	**$ 27,383**

NOTE 11
Reconciliation of Net Cost of Operations to Budget

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

For FY 2017, the reconciliation on the next page shows total offsetting collections exceeding resources used by $85.1 million. This is a net increase of $13.7 million from FY 2016, when offsetting collections exceeded resources used by $71.4 million. The year-over-year change resulted primarily from a $31.4 million decrease in spending authority from offsetting collections.

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

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(IN THOUSANDS)

		2017		2016
Resources used to finance activities				
Budgetary resources obligated				
Obligations incurred	$	1,110,256	$	1,089,973
Less: Spending authority from offsetting collections		(1,220,222)		(1,188,773)
Net obligations		(109,996)		(98,800)
Other resources				
Imputed financing sources (Note 10)		24,867		27,383
Total resources used to finance activities	**$**	**(85,099)**	**$**	**(71,417)**
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	$	(10,150)	$	(3,940)
Resources that finance the acquisition of assets		(8,974)		(4,014)
Total resources used to finance items not part of the net cost of operations		(19,124)		(7,954)
Total resources used to finance the net cost of operations	**$**	**(104,223)**	**$**	**(79,371)**
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	$	10,078	$	6,669
Increase in exchange revenue receivable from the public		103		(4)
Total components that will require or generate resources in future periods		10,181		6,665
Components not requiring or generating resources				
Depreciation and amortization		24,460		26,503
Net increase (decrease) in bond premium		485		134
Other		0		0
Total components that will not require or generate resources		24,945		26,637
Total components of the net cost of operations that will not require or generate resources in the current period	**$**	**35,126**	**$**	**33,302**
Net cost of operations	**$**	**(69,097)**	**$**	**(46,069)**

NOTE 12
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 2017 and FY 2016, the OCC neither identified nor recognized any contingent liabilities.

NOTE 13
Subsequent Events

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

WILLIAMS ADLEY

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, 2017 and 2016 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. 17-03, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 17-03 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, 2017 and 2016, 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 Six, the Other Accompanying Information, and the Assurance Statement* of OCC's fiscal year 2017 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

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 2017 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. 17-03. 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. 17-03.

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.

Williams, Adley & Company-DC, LLP

Washington, District of Columbia
October 30, 2017

Improper Payments Elimination and Recovery Improvement Act

The Improper Payments Elimination and Recovery Improvement Act (IPERIA) requires federal agencies to review all programs and activities annually and identify those that may be susceptible to significant 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 Treasury Department 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 2017, 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 2017 in the general categories of salary and benefit payments, travel payments, and vendor payments, and identified 147 erroneous payments in FY 2017 requiring adjustments totaling $120,117. As of September 30, 2017, the agency recaptured 80.7 percent of these payments, totaling $96,893. During FY 2017, the OCC collected 94.8 percent of non-payroll payments, excluding payroll amounts, which are considered fully collectible.

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, Do Not Pay continuous monitoring efforts, and other recapture auditing. The OCC ensures that effective controls are in place to limit payments to ineligible vendors and to meet the Do Not Pay 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.

Table 25 summarizes the OCC's erroneous payments for FY 2017 and FY 2016.

Table 25: Erroneous Payments

	FY 2017		FY 2016	
Payment type	**Amount**	**Number**	**Amount**	**Number**
Salary and benefits	$ 69,264	52	$ 93,590	67
Travel	24,235	86	64,810	131
Vendor	26,618	9	30,677	14
Total	**$ 120,117**	**147**	**$ 189,077**	**212**

Source: OCC financial system data.

Assurance Statement

To: Steven T. Mnuchin
Secretary of the Treasury

From: Keith A. Noreika
Acting Comptroller of the Currency

Date: November 1, 2017

Subject: FY 2017 Final Statement of Unmodified Assurance of Achievement of Management Control Objectives

The Office of the Comptroller of the Currency (OCC) is responsible for establishing and maintaining effective internal control over financial reporting, and the OCC has made a conscious effort to meet 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. The OCC is operating in accordance with the procedures and standards prescribed by the Comptroller General of the United States and OMB guidelines. The objectives are to ensure (1) reliable financial reporting, (2) effective and efficient operations, and (3) compliance with applicable laws and regulations. The safeguarding of assets is a subset of these objectives.

Summary of Analytical Basis and Assessment Activities

The OCC has evaluated its management controls, internal controls over financial reporting, and compliance with federal financial systems standards. As part of the evaluation process, the OCC considered results of extensive testing and assessment across the organization and independent audits.

For all OCC responsibilities, we herein provide unmodified assurance that the OCC achieved the above listed management control objectives during fiscal year 2017.

Integration of Enterprise Risk Management and Internal Controls

The OCC's executives and managers were responsible for establishing goals and objectives around the agency's operating environments, ensuring compliance with relevant laws and regulations, and managing expected and unexpected or unanticipated events. The OCC's executives and managers were responsible for implementing management practices that identify, assess, respond to, and report on risks. Risk management practices were taken into account when designing internal controls and assessing their effectiveness. In accordance with OMB Circular A-123, the OCC developed a risk profile that has been shared with the Office of Risk Management within the U.S. Department of the Treasury.

Internal Control Over Operations and Compliance

The OCC conducted its assessment of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123. Based on the results of this assessment, the OCC provides reasonable assurance that internal control over operations and compliance with applicable laws and regulations was operating effectively as of June 30, 2017, and that no material weaknesses were found in the design or execution of the internal control over operations and compliance.

Internal Control Over Financial Reporting

The OCC conducted the required Treasury evaluation of the effectiveness of internal control over financial reporting in accordance with OMB Circular A-123, Appendix A, Management's Responsibility for Internal Control Over Reporting. Based on the results of this evaluation, the OCC provides reasonable assurance that internal control over financial reporting as of June 30, 2017, is operating effectively and that no material weaknesses were found in the design or operation of the internal control over financial reporting.

Federal Financial Management Improvement Act of 1996

The FFMIA requires agencies to implement and maintain financial management systems that conform with federal financial management system requirements, federal accounting standards, and the U.S. Standard General Ledger at the transaction level. The OCC conducted an assessment of its financial management systems for compliance with the FFMIA in accordance with OMB Circular A-123, Appendix D. Based on the results of this assessment, the OCC provides assurance that it complies with the FFMIA.

Abbreviations

ASC	Accounting Standards Codification
BSA/AML	Bank Secrecy Act/anti-money laundering
CAT	cybersecurity assessment tool
CBS	Committee on Bank Supervision
CCA	Compliance and Community Affairs
CFPB	Consumer Financial Protection Bureau
CFR	Code of Federal Regulations
CMP	civil money penalty
CNBE	Chief National Bank Examiner
CRA	Community Reinvestment Act
CRE	commercial real estate
CSRS	Civil Service Retirement System
DB	Defined Benefit
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FAST Act	Fixing America's Surface Transportation Act
FBWT	Fund Balance With Treasury
FDIC	Federal Deposit Insurance Corporation
FERS	Federal Employees Retirement System
FFIEC	Federal Financial Institutions Examination Council
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FOIA	Freedom of Information Act
FRB	Board of Governors of the Federal Reserve System
FSA	federal savings association
FY	fiscal year
GAAP	generally accepted accounting principles
HMDA	Home Mortgage Disclosure Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
LBS	Large Bank Supervision
MCBS	Midsize and Community Bank Supervision
MDI	minority depository institution
MLA	Military Lending Act
NRC	National Risk Committee
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PP&E	property, plant, and equipment
RESPA	Real Estate Settlement Procedures Act
ROE	return on equity
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
TILA	Truth in Lending Act
TSP	Thrift Savings Plan
USC	U.S. Code

Figures and Tables

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