Office of the Comptroller of the Currency

U.S. Department of the Treasury

Annual Report

FISCAL YEAR 2014

y and Soundness **Compliance** Leadership
n Risk Culture Volcker Rule Community Reinvestment Act
ength Funding Assets **Peer Review** **Regulation** **Cybersecurity**
Vision **Heightened Standards** Assessing
nnecting **Outreach** **Local Presence** National Perspective
Consumer Protection **Community Banks**
Stress Tests Examination **Independence**

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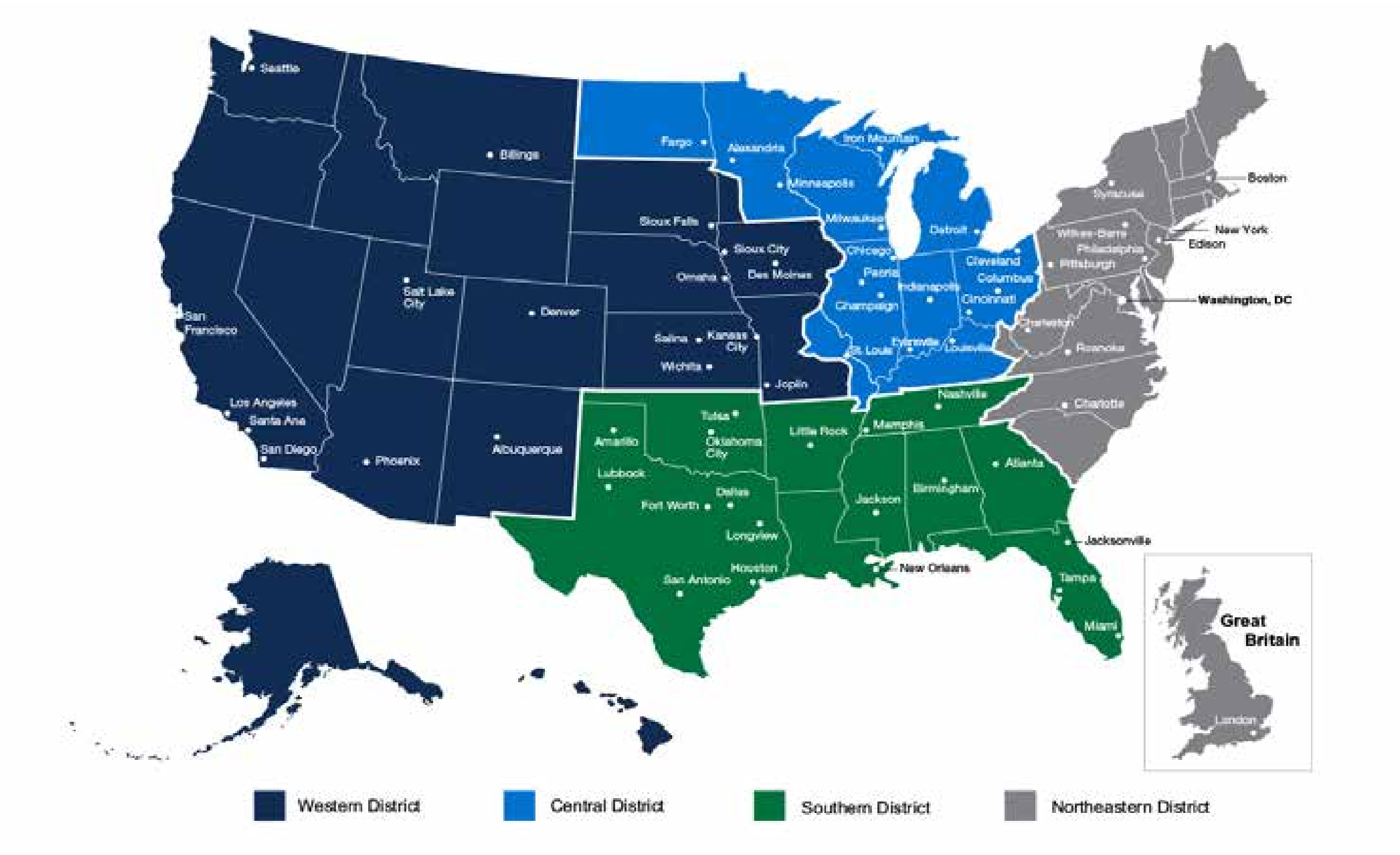
OCC Locations



Federal Banking System at a Glance	
All OCC-supervised institutions, total assets	$10.9 trillion
All OCC-supervised institutions, share of total U.S. banking assets	71 percent
All OCC-supervised institutions	1,663
Large banks	39
Midsize banks	36
Community banks	1,077
Federal branches	49
Federal savings associations	462

The OCC at a Glance	
Employees (full-time-equivalents)	3,954
Office locations*	65
Budget authority	$1.06 billion
Revenue derived from assessments	97.0 percent
Consumer complaints opened	27,783
Consumer complaints closed or referred	73,806

* 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.

About the OCC

The Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises national banks and federal savings associations (collectively, banks) and licenses and supervises the federal branches and agencies of foreign banks. The OCC's mission is to ensure that these institutions operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations. The OCC is an independent bureau of the U.S. Department of the Treasury.

The President nominates the Comptroller of the Currency subject to confirmation by the U.S. Senate. The Comptroller also serves as a director of the Federal Deposit Insurance Corporation (FDIC) and NeighborWorks America and as a member of the Financial Stability Oversight Council and the Federal Financial Institutions Examination Council (FFIEC).

Headquartered in Washington, D.C., the OCC has 65 office locations, including four district offices and an office in London that supervises the international activities of national banks. The OCC's nationwide staff of bank examiners conducts on-site reviews of banks and provides sustained supervision of these institutions' operations. OCC examiners analyze asset quality, capital adequacy, earnings, liquidity, and sensitivity to market risk, as well as Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance for all banks, and assess compliance with federal consumer financial laws for banks with less than $10 billion in assets. Examiners also evaluate management's ability to identify and control risk, and assess banks' performance in meeting the credit needs of the communities in which they operate, pursuant to the Community Reinvestment Act (CRA).

In supervising banks, the OCC has the power to

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

The OCC and the federal banking system were created by the National Currency Act, which President Abraham Lincoln signed into law on February 25, 1863. In June 1864, the law was substantially revised and expanded, and in 1874 it was given a new name: the National Bank Act. It remains the basic statute under which the OCC and the federal banking system operate today.

About This Annual Report

Section 61 of the National Currency Act of February 25, 1863, directed the Comptroller of the Currency to report annually to Congress "a summary of the state and condition" of the national banking system, along with suggestions for "any amendment to the laws relative to banking." Over the past century and a half, some of the most significant changes to the U.S. financial system—including the amendments to the National Currency Act enacted by Congress as the National Bank Act of 1864—began with recommendations contained within the pages of this report. Since that time, the OCC Annual Report has chronicled and advanced the long evolution of the nation's financial and regulatory structure, providing the American people and their representatives with information about the federal banking system.

The first Comptroller of the Currency was Hugh McCulloch, formerly the president of the state-chartered Bank of Indiana. McCulloch went to Washington to argue against passage of the National Currency Act but soon came to appreciate its merits. At the request of Salmon P. Chase, Lincoln's Secretary of the Treasury, McCulloch agreed to lead the new system.

Under a professional staff of national bank examiners, the new system made an important contribution to the robust growth of the U.S. economy. Banks under OCC supervision issued a uniform national currency, which replaced the previous varied and unreliable money supply, and provided financial services across the country. The OCC long ago ceded oversight of the money supply. Today it focuses on ensuring 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.

On July 21, 2011, under provisions of the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010,[1] the Office of Thrift Supervision (OTS) was integrated into the OCC. As a result, the OCC is responsible for the supervision of federal savings associations, under the Home Owners' Loan Act.

[1] Hereafter referred to as Dodd–Frank in this report.

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Comptroller's Viewpoint

The national banks and federal savings associations that compose the federal banking system are the backbone of a strong national economy, so I am pleased to report that the federal banking system has recovered significantly since the 2008 financial crisis and that it continues to grow stronger by the day. The men and women of the OCC have played an important role in that recovery, and this Annual Report details the steps we have taken to strengthen national banks, ranging from the smallest community banks and thrifts to the multi-trillion dollar institutions that are among the world's largest financial companies. While these institutions are very different in terms of size, complexity, and business focus, each plays a vital role in our nation's economic life. It is critical that they all remain safe and sound and able to serve their communities.

When reading this report, I hope you'll take note of the wide range of activities under way at the OCC that aim to ensure safety and soundness. These activities include work on leveraged lending, derivatives, Bank Secrecy Act compliance, and efforts to contain the risk to banks—and limit the impact on consumers—of home equity lines of credit that are reaching their end-of-draw period.

In this message, I want to focus on four of my top priorities: cybersecurity, our heightened standards for large institutions, the relationship between healthy organizational culture and sound risk management practices, and the work we are doing to implement the recommendations from our international peer review.

Cybersecurity has been much in the news lately, but it has been at the top of my agenda since my early months at the OCC. We have taken a number of steps to improve readiness, not just among the federal institutions we supervise, but also across the industry as a whole.

As chairman of the FFIEC, which brings together all of the bank, thrift, and credit union regulatory agencies, I called for—and the council concurred in—the creation of the Cybersecurity and Critical Infrastructure Working Group. The working group has been quite active and was responsible for issuances alerting banks and the public to the "Heartbleed" vulnerability and attacks on automated teller machines, among other issues. The working group also hosted a widely attended webinar for community bankers on cyber issues. One important initiative was a pilot project to assess the cybersecurity readiness of a sample of institutions supervised by FFIEC member agencies. This pilot will help member agencies make informed decisions about ways to enhance the effectiveness of cybersecurity-related supervisory programs, guidance, and examiner training. It will also help supervisors and bankers identify actions that can strengthen the industry's overall preparedness and its ability to address the growing level and evolving nature of threats to systems and data.

Each agency has its own programs to address cybersecurity in the institutions it supervises. But collective action through the FFIEC is of special value in helping all banks and thrifts, and community institutions in particular. Large banks are attractive targets for hackers, and those institutions have sophisticated and well-funded programs in place to address threats. Smaller financial institutions need to take advantage of every option available, including support from the OCC and other regulators, to address cybersecurity threats. We have responded to that need not only as an agency but also through the FFIEC, with informational bulletins, alerts, supervisory support, webinars, and other programs.

It is important to keep in mind, however, just how complex and interconnected the financial system has become. Complexity and interdependence create opportunities for cyber attackers to gain access to the systems of financial institutions and the third-party vendors that provide services to the industry. Not only do financial institutions need to have good controls over their own systems, they also need to monitor carefully the ways in which they connect to third-party vendors, how those vendors manage their systems, and how they connect to still other third parties. Financial institutions need to be aware of ways in which even their own employees may create opportunities to compromise systems, by introducing personal (and possibly corrupted) devices into bank networks. In a highly interconnected environment, it can be very difficult to identify and address all of the potential vulnerabilities a bank might face.

At the OCC, we face many of the same cybersecurity issues as the banks and thrifts we supervise, and we are working every day to address potential vulnerabilities in our own system. Clearly, staying ahead of cyber criminals requires constant vigilance.

While we are working to improve the readiness of all banks in the area of cybersecurity, we are also raising the bar for management and corporate governance in the largest and most systemically important banks and thrifts we supervise. The financial crisis and subsequent events revealed a number of problems at the nation's largest institutions as well as weaknesses among the bank regulatory agencies. Because the large banks supervised by the OCC have such an outsized effect on the economy, we have focused heavily on implementing new and more robust standards for them. These heightened standards, which we initially termed "heightened expectations," were translated into formal guidelines during this fiscal year.

Our guidelines are aimed at ensuring that banks have the risk management framework and board oversight needed to address the whole range of risks that banks face, including cyber and other operational risks. The principles in the guidelines will help banks avoid some of the problems that we saw in the years just before and after the financial crisis.

The guidelines require each large institution to define its capacity and appetite for risk and to establish a framework to ensure that risk is being properly controlled within those approved appetite limits. Embedded in the new guidelines is the expectation that the risk management and control functions at the large banks covered by the rules are sufficiently robust for each institution's size, complexity, and risk profile. Each bank is expected to ensure that its risk profile is easily distinguished and separate from its parent company for risk management and supervisory reporting purposes and that the safety and soundness of the bank is not jeopardized by its parent company's decisions. A bank's board of directors is expected to hold management accountable for meeting these standards, and, when necessary, provide a credible challenge to management.

These are significant objectives, and we all recognize that we will not achieve them overnight. We have been pressing these standards, however, for four years. I am pleased that the large banks and thrifts we supervise have made substantial improvements to their governance and risk management practices as a result. Those improvements have made the industry much stronger and better able to withstand financial stress.

Of course, no set of standards can cover every eventuality. Our guidelines are very specific about the standards we expect our largest institutions to meet, but it is impossible for regulators to anticipate and prescribe a remedy for every situation that might eventually pose a problem for a large institution. For that matter, it's unrealistic to believe that senior management and boards of directors can lay down rules to guide employee action in every situation that might arise. What is possible, though—and, frankly, more effective—is for senior management to foster a strong and healthy risk culture that promotes responsible business practices, guards against excessive or improper risk taking, and encourages employees to act in the best interests of the whole organization and its customers.

A healthy culture starts at the top. The tone set by the bank's senior leadership tells employees they are expected to behave responsibly and ethically, to put the long-term interests of the organization above their own, and to treat customers fairly. In that sense, a strong risk culture is really the beacon that guides employees to behave responsibly, knowing that they will have the support and approval of their superiors and their colleagues. When that beacon goes dark, an organization can lose its direction. Without a strong risk culture, a bank might enter new markets or introduce new products without proper due diligence. It might lose sight of the risks of pursuing earnings and growth at any cost. And the absence of a strong risk culture can lead employees to subordinate ethical considerations or the interests of the organization to their own compensation.

The strength of an organization's risk culture is not easy for regulators to measure. It's not like credit quality or earnings strength. But it is important, because it has an incredibly powerful influence on risk decisions and behaviors at all levels of an organization. We at the OCC are looking to boards of directors and the senior management of the large banks we supervise—in fact, of all banks—to set the tone at the top that leads to a healthy organizational culture that discourages improper practices and excessive risk taking.

All of that, and more, applies to the OCC. Even as we are asking more of the large banks we supervise, we are also asking more of ourselves. The financial crisis revealed opportunities to strengthen our supervisory processes, so last year we invited a group of regulators from three countries to take a hard look at our supervisory work and offer recommendations for how we might improve. This was not an easy process; being evaluated by one's peers can be uncomfortable. But in the wake of the financial crisis, which did so much damage to so many households, businesses, and communities, we couldn't do less.

To be clear, I believe the OCC performed as well and perhaps better than most of our fellow regulators during that difficult time. Of course, that is cold comfort when one considers the extent of the damage caused by the financial crisis. The fact is that we all fell short, and we all have an obligation to do everything we can to improve.

The peer review committee was composed of senior supervisors from Australia, Canada, and Singapore—three countries that proved especially resilient during the financial crisis. It was led by long-time U.S. and international regulator Jonathan Fiechter. The committee found much to like about our approach to supervision. The committee also found areas where it thought we could improve, and it made a number of helpful recommendations. For example, the committee encouraged us to expand our program of lead experts and recommended that we implement a rotation program to limit the time examiners spend at any one bank. It also offered suggestions on enhancing the interagency CAMELS rating system to give banks greater directional guidance and to make the ratings more forward-looking. We set up a working group of senior staff to review these and the other recommendations made in the peer review committee's report and to oversee the implementation of needed changes. This is an ongoing process, and we have made a strong start.

We also recognized that the ability of the federal banking system to fulfill its role in helping to maintain a strong U.S. economy depends on the dedication and professionalism of every person at the OCC. As we finalize rules developed in response to the crisis and work to implement the supervisory peer review recommendations, we recognize that we must have the foresight, resolve, and capability to identify, understand, and manage the emerging challenges facing the industry and our agency.

Our new strategic plan provides a framework for meeting that need. The plan speaks to core values that harken back to the earliest days of the agency's existence, among them, integrity, expertise, and independence. One additional core value that has become increasingly important as the banking industry has grown in size and complexity is collaboration, both internal and external. We are more effective working as part of a team than we can be working alone.

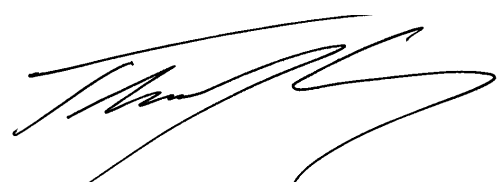
The strategic plan sets three broad goals and provides objectives and strategies to implement them. One of our goals highlights our determination to foster a vibrant and diverse system of national banks and federal savings associations that supports a robust U.S. economy. Another speaks to our determination to continue to operate independently and effectively into the future, and a third highlights the importance of "One OCC," focused on collaboration, innovation, coordination, and process efficiency.

This strategic plan provides the framework for many of our initiatives, including implementation of the peer review recommendations, that will ensure the OCC continues to be ready to meet the needs of an evolving economy and federal banking system. While it is never easy to challenge or change the way an agency or business works, OCC employees embraced the peer review process and are implementing the recommendations enthusiastically. My hope is that senior management at the large banks we supervise will take the same path—not just complying with our heightened standards but also actively embracing them and conveying to employees that they represent management's expectations as well as those of the OCC.

This report highlights the actions we took over the past year to ensure that banks operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations. But neither we nor the banks we supervise can rest on our achievements. It takes continuous effort to strengthen the reputation and resiliency of the banking system and prevent practices and cultures that foster imprudent and excessive risk taking.

The first Comptroller of the Currency, Hugh McCulloch, encouraged bankers to "pursue a straightforward, upright, legitimate banking business," never being "tempted by the prospect of large returns to do anything but what may be properly done" under the law. This was good advice in 1863, and it is good advice today. Banking is still a business founded on confidence and character. When those qualities are absent, it causes trouble —not just for banks, but for the households, businesses, and communities that depend on a healthy banking system and falter in its absence.

McCulloch's principles are simple and straightforward, and they provide the basis for every financial institution to develop a strong risk culture. It is my expectation that every national bank and federal savings association will take these principles to heart, so that their employees will engage in responsible business practices and avoid excessive risk taking, for the simple reason that they know that is what management and their colleagues expect of them. McCulloch's words provide the basis not only for a healthy corporate culture but also for a safe and sound federal banking system that serves the people, the communities, and the economy of the United States.



Thomas J. Curry
Comptroller of the Currency

Section One

Year in Review

Fiscal year (FY) 2014 saw improvement in the health of the U.S. banking system, as the aftereffects of the financial crisis of 2007–2008 continued to ease and an expanding economy provided new opportunities for banks to lend and grow. It was also a year in which the nation's financial regulators continued to make progress implementing Dodd–Frank, which provided new tools to address risk and promote financial stability.

Overall, OCC-supervised banks and savings associations achieved noteworthy gains in 2014. In aggregate, these banks logged improvement in loan growth, net income, and asset quality, as the economy rebounded and unemployment trended downward. Significantly, community banks—generally defined as banks with total assets under $1 billion—saw better performance than in previous post-crisis years, demonstrating a resilience that reflects the important role these institutions play in the country's economic life. The OCC reaffirmed its commitment to the vitality of community banking in 2014 in ways that are discussed later in this report.[2]

Beyond its accomplishments in connection with Dodd–Frank regulatory mandates, the OCC used its independent authority to promote more effective bank supervision. Efforts to achieve that goal included addressing rising operational challenges, such as cyber threats and third-party relationship risk management, and reassessing and revising the agency's own supervisory strategies and techniques. The agency's long-standing commitment to self-improvement has helped it acquire and retain its reputation as a global leader in supervising financial institutions.

Changing Complexion of Risk in the Federal Banking System

Bank supervision as carried out by the OCC comprises three distinct activities. The OCC *licenses* entry into the federal banking system and oversees the system's corporate structure. The agency *regulates* by developing, implementing, and enforcing rules that govern banks' conduct and activities. And the agency *examines* in accordance with the legal requirement that all banks receive a full-scope, on-site examination at least once during every 12-month period.[3] The largest banks have teams of full-time, dedicated examiners whose job is to provide continuous supervision of all facets of the banks' operations.

OCC examinations provide a detailed assessment of a bank's financial performance since its last examination and the quality of its current management. Examinations also help the OCC develop a better sense of the industry's direction and where potential threats to the industry's safety and soundness may lie. When analyzed and synthesized with data from other sources, OCC examination findings form an important part of the broader picture of risk throughout the banking system. This information helps OCC-supervised banks identify areas of concern and adjust their business strategies accordingly.

One way the OCC disseminates this information and provides guidance is through annual and semiannual publications such as the *Survey of Credit Underwriting Practices*, the interagency *Shared National Credits*

[2] See section 2 of this report for a detailed review of the condition of the federal banking system.

[3] The OCC may extend this requirement to 18 months if (a) a bank has total assets of less than $500 million; (b) it is well capitalized; (c) its previous examination assigned a rating of 1 or 2 for management and a composite rating of 1 or 2 under the Uniform Financial Institutions Rating System; (d) it has not changed hands during the previous 12 months; and (e) it is not subject to a formal enforcement proceeding. See the "Bank Supervision Process" booklet of the *Comptroller's Handbook*, September 2007, pp. 12–13. Unless otherwise noted, all documents cited in this report can be found on the "About the OCC," "News and Issuances," or "Publications" pages at www.occ.gov.

OCC–Boston University Conference Looks Forward

Photo by Frank Curran

The discussion between former U.S. senator Christopher Dodd, center, and former congressman Barney Frank, right, was one of the highlights of the OCC–Boston University conference. OCC Senior Deputy Comptroller and Chief Counsel Amy Friend moderated the discussion.

Culminating a year of reflection on the agency's 150-year history, a March 2014 conference cosponsored by the OCC and the Boston University Center for Finance, Law, and Policy looked to the future of banking and bank supervision. More than 300 attendees heard Comptroller Curry, FDIC Vice Chairman Thomas Hoenig, Financial Services Roundtable Chief Executive Officer Tim Pawlenty, and other distinguished presenters discuss the evolving nature of risk and how the changing regulatory environment is likely to affect banks' ability to compete and serve their customers in the coming years.

Among the conference highlights was the discussion between former U.S. senator Christopher Dodd and former congressman Barney Frank on the landmark legislation that bears their names. OCC Senior Deputy Comptroller and Chief Counsel Amy Friend, who played an important role in shaping the Dodd–Frank legislation in her capacity as Chief Counsel to the U.S. Senate Committee on Banking, Housing, and Urban Affairs, moderated the discussion. Friend, Dodd, and Frank discussed the law's development and enactment, assessed its accomplishments to date, and offered their thoughts on what remains to be done to prevent another financial crisis, protect consumers, and create a sound economic foundation to grow jobs and increase productivity.

(SNC) Review, and the *Semiannual Risk Perspective*. In addition, the OCC distributes bulletins, alerts, and other supervisory publications to banks and other concerned parties about trends and issues in banking and bank supervision. Finally, the OCC meets regularly with bankers and industry associations to share insights about current and emerging issues.

The *Survey of Credit Underwriting Practices* collects input from OCC examiners on the underwriting standards banks use to extend or renew credit, such as financial reporting and collateral requirements, repayment programs, terms, pricing, and covenants. The January 2014 survey covered 86 banks with assets of $3 billion or more for the 18-month period ending on June 30, 2013. Examiners were queried on retail and commercial loan products that represented 2 percent or more of each bank's total loan portfolio. The survey covered loans totaling about $4.5 trillion.[4]

The survey reflected a continuation of the trend toward easing underwriting standards noted in previous years' surveys. Easing standards in commercial loan products tended to take the form of more aggressive pricing and reduced collateral requirements and debt service

[4] OCC, *2014 Survey of Credit Underwriting Practices*, January 2014.

requirements to protect lenders. Loosening of loan covenants that typically require commercial borrowers to meet certain performance thresholds to continue drawing on their lines of credit also was noted. In the retail category, banks eased collateral requirements, pricing, and debt service requirements.

Risk management has been a major point of emphasis in OCC supervision for many years, and the agency reiterated and reinforced this priority in 2014.[5] Examiners expect that credit risk will continue to increase in 2015, reflecting easing underwriting standards, strong competition for borrowers, and the uncertain state of the economy. The OCC will continue to review banks' risk profiles to ensure that growth does not come at the expense of safety and soundness.

In the annual SNC review, examiners from the OCC, the Board of Governors of the Federal Reserve System (Federal Reserve Board), and the FDIC jointly focus on the quality of an important subset of bank loans: large syndicated credits in which multiple lenders participate. The 2014 review included examination of $975 billion in credit commitments covering 28.7 percent of the $3.39 trillion SNC portfolio.[6]

A large share of this portfolio, and an even larger share of its criticized assets, was in the form of leveraged loans—loans that result in the borrower having debt that significantly exceeds industry norms. These loans, which often are used to finance purchases of other companies, offer lenders more attractive returns, in the form of fees and higher interest rates, than other loan products. They also, however, entail a higher degree of risk.

The 2014 SNC review focused significant attention on leveraged lending, including assessing the impact of the March 2013 Interagency Guidance on Leveraged Lending.[7] The review found that risk in the overall SNC portfolio was centered in the leveraged portfolio, noting a criticized rate of 33.2 percent for leveraged loans, compared with 3.3 percent for the non-leveraged portfolio.[8] While the high criticized rate for leveraged loans illustrates the risk inherent in this portfolio, the "pass" portion of the leveraged portfolio also carried more than the normal degree of risk, because these borrowers were considered to be more vulnerable to risk rating downgrades during an economic downturn. The analysis also showed that while borrower leverage was not the sole driver of an adverse rating classification, it was an important factor because of its influence on repayment capacity. Overall, the SNC review showed gaps between industry practices and supervisory expectations for safe and sound banking, as articulated in the guidance. In response to these findings, the OCC, the Federal Reserve Board, and the FDIC issued a leveraged lending supplement to the SNC review that identifies specific areas where institutions need to strengthen compliance with the March 2013 guidance.

The *Semiannual Risk Perspective* draws on the previously mentioned two reports, other financial data, and insights from the OCC's ongoing supervisory activities to build a picture of risk conditions across OCC-supervised banks. It is a product of the OCC's National Risk Committee (NRC), a cross-disciplinary group drawn from the ranks of senior officials who supervise banks of all sizes, as well as officials from the law, policy, accounting, and economics departments.[9] The NRC meets quarterly and, among other things, issues guidance to examiners that provides perspective on industry trends and highlights risks and concerns that may require additional monitoring and supervisory attention.

The spring 2014 *Semiannual Risk Perspective* pointed to the three most salient threats to the future safety and soundness of the federal banking system. The first, as noted above, is credit risk, which the OCC judges to be low but rising, not only in syndicated leveraged lending but also in consumer products such as indirect auto loans. Banks make indirect auto loans through car dealerships, and it has become a matter of supervisory concern that loans with certain subprime characteristics reminiscent of the mortgage lending bubble, such as low down payments and extended terms, are being made in significant numbers.

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[5] See, for example, remarks by Thomas J. Curry, Comptroller of the Currency, RMA Governance, Compliance, and Operational Risk Conference, May 8, 2014, and remarks by Thomas J. Curry, ABA Risk Management Forum, April 10, 2014.

[6] OCC, *Shared National Credits Program, 2014 Review*, November 2014.

[7] OCC, "Guidance on Leveraged Lending," bulletin 2013-9, March 22, 2013.

[8] Criticized assets fall into one of four categories, from least impaired to most: special mention, substandard, doubtful, or loss.

[9] OCC, *Semiannual Risk Perspective, Spring 2014*, June 25, 2014.

In the Central District

For **Rachel Rieniets**, recent developments in technology and the economy have brought significant changes, to both the banks she examines and the way she does her job. What hasn't changed is the importance of practicing firm and fair supervision in the context of a good working relationship, such as the one she has with the banks she supervises.

"Even if they get to be larger—and by 'larger' we mean still under $1 billion—they still really have community roots," she said.

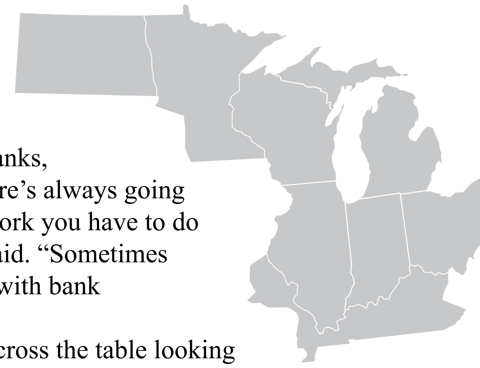
Ms. Rieniets, a commissioned National Bank Examiner (NBE), knows those communities well. A native Minnesotan, she has lived and worked in Alexandria, Minn., a town of about 11,000, since 2008. Over the past six years, she has traveled from her office in Alexandria (a satellite of the Minneapolis field office) to examinations at community banks all over Minnesota and parts of North Dakota.

She said improving economic conditions over the past year have eased some of the pressures on banks—and on bank examiners.

"We're not seeing as many troubled institutions," she said. "We're seeing the volume of their classified problems improve. They're able to work out deals. They're able to actually start some loan growth again."

Ms. Rieniets said that new technology has had a major impact on bank supervision. As the channels that banks use to interact with their customers, such as mobile and Internet banking, continue to evolve, "so does my ability to examine that and identify risks," she said. "There's more training that we all go through as examiners to keep up with the technology advances in the banking industry."

While new banking technology has changed the risks examiners must identify, other developments have changed the supervisory process itself. Thanks to technology, it is no longer necessary for bankers to deliver reams of reports in hard copy to on-site examiners. Instead, Ms. Rieniets said, "bankers can just e-mail them to me using the OCC's secure e-mail system and I can work from my office."



That doesn't mean examiners will stop visiting banks, however. "There's always going to be certain work you have to do on-site," she said. "Sometimes conversations with bank management are best held across the table looking eye to eye."

Keeping an appropriate distance from the banks he or she examines is an important part of an examiner's job, and the OCC regularly reassigns examiners to new banks to bring in a fresh perspective and help maintain that distance. It is also important, however, for examiners and bankers to maintain open lines of communication.

"We have really good working relationships with our bankers," Ms. Rieniets said. "The banks I work with are more than comfortable calling me up and saying, 'Rachel, we've heard about this product out there, we think it's a really great idea. Where can we go to get additional information on it? What are the pluses and minuses that you've heard?'

"They'll run those types of things by you first to avoid a violation of law or a regulation or an unsafe or unsound practice. That's a lot easier for the bank than when we come on site and identify the practice as a problem. We will do so and then it's much harder to unwind that transaction or practice."

Even as the economy improves, loan growth has been sluggish in many parts of the country, leading some banks to turn to new products and services to build profits. But Ms. Rieniets said the banks in her area tend to be cautious, and the experience of the financial crisis has only strengthened their focus on the central business of making loans.

"There were a few lessons learned along the way. Our banks are really working to ensure concentration management—in other words, don't put all your eggs in one basket. It's much more on the front burner when they're starting to write the strategic plan or look for loan growth."

As dedicated as she is to her job, Ms. Rieniets prizes the work-life balance that the OCC provides. "Too much time away from home is always bad, but sometimes getting away for a little bit is good," she said. "You've got to walk that fine line, and that's something every examiner has to define for themselves."

Photo by Ron White

At the Joint Mutual Forum in July, which focused on issues affecting federal mutual savings associations, bankers had the opportunity to interact with regulators from the OCC and FDIC.

Another source of credit-risk-related concern has been with home equity lines of credit (HELOC) nearing their end-of-draw periods, when the principal amount of the HELOC must begin to be repaid. At that time, loans may reset to an amortizing payment or reach a balloon maturity, potentially resulting in higher monthly payments. While most borrowers in that situation continue to meet their contractual obligations, some find it difficult to make higher payments or to refinance their existing loans because of changes in their financial circumstances or declines in property values. In guidance released in July, the OCC and other federal financial regulatory agencies encouraged financial institutions to communicate clearly and effectively with borrowers about pending resets. The guidance also provided broad principles for banks to follow in managing risk as HELOCs reach their end-of-draw periods.[10]

The *Semiannual Risk Perspective* also focuses on strategic risk, which can arise when banks execute a change in strategic direction or from flaws in their business models and practices. A rising appetite for risk in a highly competitive marketplace can lead banks to expand into products and markets in which they lack adequate expertise. Banks that overreach in their bid to reduce overhead and back-office expenses may cut into critical risk management capabilities. Banks that do not devote adequate attention to succession planning and employee retention could find themselves at critical moments without essential leadership and expertise. OCC examiners emphasize the crucial role that bank boards of directors and senior managers must play in overseeing the adequacy of banks' strategic planning and execution.

Finally, there is operational risk, which has been one of the OCC's foremost concerns since the financial crisis demonstrated how lapses in risk management, internal audit, and corporate governance erode safety and soundness. Since that time, the OCC has taken action to address the following areas of operational concern.

Third-Party Relationships

In an increasingly interconnected world, no bank is entirely self-sufficient. Even the largest banks work in various capacities with outside vendors, which may supply retail system products, specialized support functions, or other services. Smaller banks, with their limited resources, typically find it more cost effective to contract with a third-party provider for such critical services as data processing and information security. While banks can gain efficiencies and expertise by outsourcing, this also exposes them to vulnerabilities in the vendors' systems—and in the systems of any outside parties with which those vendors do business—in addition to their own.

Banks that work with third parties remain ultimately responsible for the products and services provided by them or under their names. The OCC has taken enforcement actions in recent years against agency-supervised institutions for legal violations committed by third parties that the banks hired to perform tasks such as telemarketing or debt collection. The OCC requires that banks establish and maintain effective third-party risk management programs.[11]

The OCC continued to focus on third-party risk in FY 2014. In October 2013, the agency issued updated guidance designed, as Comptroller Curry said, to provide "more comprehensive instruction for banks to ensure these relationships and activities are conducted in a safe and sound manner."[12] Among other things, the guidance instructs banks to adopt an effective third-party risk management process that follows a continuous life cycle for all third-party relationships,

[10] OCC, "Agencies Issue Guidance for Home Equity Lines of Credit Nearing Their End-of-Draw Periods," news release 2014-95, July 1, 2014.

[11] The Bank Service Company Act of 1962 and subsequent legislation gave regulators statutory authority to supervise third-party servicers of regulated financial institutions. That function is largely carried out on an interagency basis and coordinated through the FFIEC.

[12] OCC, "Office of the Comptroller of the Currency Releases Guidance on Third-Party Relationships," news release 2013-167, October 30, 2013.

and to have risk management processes commensurate with the level and complexity of risk. The phases of that life cycle include planning, due diligence, third-party selection, contract negotiation, ongoing monitoring, and contingency planning for terminating the relationship, at which point banks may decide to switch providers, discontinue the activity, or bring it fully in-house.[13]

Cybersecurity

Efforts to safeguard the security of bank information systems and data remained one of the OCC's areas of highest concern in 2014.

Banks have long been a target for electronic attacks. Hackers may have a number of motivations for breaching bank systems, including fraud, political activism, and intent to undermine public confidence in the U.S. financial system. New and more sophisticated threats surface almost daily and have affected a number of organizations in various industries. For example, attacks involving retailers cost merchants and credit card issuers tens of millions of dollars in lost business and remediation costs, and raised concerns among consumers about the safety of Internet commerce and electronic banking. In addition, vulnerabilities requiring remediation continue to be identified, such as the OpenSSL "Heartbleed" and the Bash "Shellshock" bugs that place financial institutions, their third parties, and customers at risk.

The largest banks have many employees dedicated to combating cyber threats. Many community banks, however, often rely on third-party relationships for cybersecurity. As cyber criminals seek the easiest access point into the financial system, the OCC emphasizes the need for community banks to be vigilant against attacks on their systems.[14]

Meeting the challenge of cybersecurity continues to require leadership on the part of industry executives, government officials, and financial regulators. As chairman of the FFIEC, Comptroller Curry spearheaded an interagency effort to raise public awareness, assist regulated financial institutions in understanding and managing the threats they face, disseminate best practices, and promote compliance

with relevant regulatory requirements.[15] In June 2014, the FFIEC launched a Web page that serves as a central repository for statements, alerts, and other related resources. An FFIEC webinar, *Executive Leadership of Cybersecurity: What Today's CEOs Need to Know About the Threats They Don't See,* was held in May.[16]

Bank Secrecy Act

Violations of the BSA/AML laws can be extremely costly for banks and may allow money launderers, drug traffickers, and other criminals to gain access to the banking system. Failure to maintain effective BSA compliance programs can also be exploited by terrorist groups and can harm national security. In 2014, the OCC took several enforcement actions against banks that failed to maintain effective BSA/AML programs and file complete, timely, and accurate suspicious activity reports (SAR). Among those actions was a $350 million civil money penalty (CMP) against three affiliated banks following a 2013 cease-and-desist order in which the banks were ordered to correct deficiencies in their compliance programs. The OCC also collaborated on BSA enforcement-related activities with other federal agencies and law enforcement entities such as the Financial Crimes Enforcement Network (FinCEN).[17]

In 2014, however, the number of BSA-related enforcement actions declined overall, and, in fact, the

[13] OCC, "Third-Party Relationships: Risk Management Guidance," bulletin 2013-29, October 30, 2013.

[14] Remarks by Thomas J. Curry, CES Government meeting, April 16, 2014.

[15] Remarks by Thomas J. Curry, New England Council, May 16, 2014.

[16] FFIEC, Cybersecurity Awareness, www.ffiec.gov/cybersecurity.htm.

[17] OCC, "OCC Assesses $37,500,000 Penalty Against TD Bank, N.A., for Failures to File Suspicious Activity Reports," news release 2013-145, September 23, 2013; "OCC Assesses $4.1 Million Civil Money Penalty Against Saddle River Valley Bank for Bank Secrecy Act Violations," news release 2013-147, September 24, 2013; "OCC Assesses a $350 Million Civil Money Penalty Against JPMorgan Chase for Bank Secrecy Act Violations," news release 2014-1, January 7, 2014.

In the Western District

Karen Pham grew up thousands of miles from her parents' native Vietnam. They had left the country as refugees from poverty, violence, and political repression. Settling in the United States, they owned a small business, and they instilled in their youngest daughter a strong work ethic and a desire to achieve.

"I'm proud to work for the OCC," said Ms. Pham, a native of Los Angeles, Calif. "It means a lot to my parents that the opportunities and the education they worked so hard to provide have led to this career, where my actions can make an impact for the better."

Ms. Pham, an NBE in Santa Ana, Calif., brings a keen sense of civic duty to her work at the OCC. She joined the agency in 2006, after majoring in business administration at the University of Southern California. "A good examiner has to have a high level of skill and judgment—in banking, communications, and organization—and also a lot of adaptability," she said. "I'm constantly challenged to scrutinize myself and reassess my assumptions so that I can do the best possible job."

While examining more than 50 banks in her career, Ms. Pham has encountered many types of problem banks. She recalled one bank that underwrote poor-quality commercial loans during the run-up to the financial crisis, resulting in financial losses when the economy slipped into recession.

In dealing with that bank and its challenges, Ms. Pham drew on her diverse experience to develop an appropriate supervisory response. This included requiring the bank to establish a strong risk management framework, including better monitoring of its riskiest customers. The bank also reduced its troubled assets, boosted deposits from local customers, and strengthened its information technology program against disasters and cyber attacks.

"In spite of all the time and hard work it involved, the bank understood that it was better off for it," Ms. Pham said.

At another bank, Ms. Pham used her financial and teamwork skills to address an excessive concentration of assets. The bank—through its subsidiaries—acquired investments whose total value exceeded the OCC's lending limit of 15 percent of the bank's capital and surplus. "The bank was reluctant to sell these investments," she said. "For a few years, it moved the assets around among itself, its subsidiaries, and its holding company, but didn't really sell anything. We had to demand a clear strategy and action plan." Only then did the bank take steps to correct the problem.

"Good communications made the difference with that bank," said Ms. Pham, "and good communication is essential to bank examining in general." She notes that examiners must speak to many kinds of audiences, including loan officers, bank managers, and board directors with no background in banking. OCC reports of examination must clearly explain the condition of each bank. Likewise, OCC memorandums issued to banks and cease-and-desist orders must clearly describe what a bank must do to improve.

Well-organized messages are important, and so is a well-planned exam schedule. "It's important to know how many examiners to assign to each exam," said Ms. Pham. "And, depending on the complexity of the institution, we may also bring in specialists in credit risk or information technology, for example. We have to consider the examiners' travel needs and the amount of off-site supervision conducted from our offices. It's important to work efficiently, while also being as effective as possible."

Ms. Pham prides herself on her broad perspective as a veteran examiner-in-charge. "I've examined banks with a few million dollars in assets, and banks with tens of billions," she said. "I try to be a self-starter, use my creativity, and understand the bank and who its customers are. It's gratifying when those efforts bring about positive changes at banks. In the end, those changes benefit all users of the financial system."

vast majority of OCC-supervised banks were found to have programs in place that meet the requirements of the BSA. OCC examiners are increasingly seeing a stronger commitment from senior bank management to resource these functions adequately, empower and pay BSA staff accordingly, and, when mistakes—inadvertent or deliberate—occur, hold the responsible party or parties accountable. While these are positive developments, BSA/AML risk remains high and the OCC and the banking industry must remain vigilant in this area.[18]

Consumer Protection

In Dodd–Frank, the Consumer Financial Protection Bureau (CFPB) received exclusive authority to write regulations implementing specified federal consumer financial laws, as well as authority to examine banks with more than $10 billion in total assets for compliance with those laws. For banks with $10 billion or less in total assets, the OCC and the other prudential banking regulators retained consumer compliance examination and supervision authority to enforce CFPB-authored regulations.

These legislative changes have not diminished the OCC's commitment to consumer protection. The agency continues to enforce those laws with respect to which the authority did not transfer to the CFPB, including section 5 of the Federal Trade Commission Act, the CRA, and the Servicemembers Civil Relief Act (SCRA). OCC supervision and enforcement staff also work closely with their CFPB counterparts on matters affecting OCC-regulated entities, and the OCC consults with the CFPB on its rulemaking initiatives, as provided for in Dodd–Frank. As it has always done, the OCC considers a bank's consumer compliance record in the process of evaluating merger and acquisition applications and in the performance evaluations that lead to a CRA rating. A bank's consumer compliance record also tells much about the strength of the bank's corporate governance and culture. "There is no neat dividing line between consumer compliance and safety and soundness issues," Comptroller Curry observed. "If an institution has a compliance issue, they are certain to have underlying risk management issues."[19]

In 2000, the OCC became the first government agency to use the authority of section 5 of the Federal Trade Commission Act to take enforcement action against a bank found to have engaged in unfair and deceptive consumer acts or practices. Since then, the agency has taken dozens of enforcement actions, resulting in hundreds of millions of dollars in CMPs and restitution paid to consumers victimized by illegal practices.

The OCC used this authority in 2014 to stop unfair and deceptive add-on consumer products, which some banks offered through marketing agreements with third-party vendors. Banks were cited for offering debt cancellation products that did not always cover the consumer's minimum monthly loan payment, as promised, and for identity theft protection products that did not deliver the promised benefits. Because these cases involved third parties, the OCC's consent orders also required the cited banks to develop and submit risk management plans for add-on consumer products marketed or sold by the banks or their vendors.[20]

The OCC retains its authority for ensuring compliance with the SCRA. This law provides a range of legal and financial protections to active duty military members, reservists, and, to a lesser degree, National Guard members. The SCRA's provisions include foreclosure and eviction protection and interest rate caps on certain types of consumer debt. When SCRA violations occur in OCC-supervised banks, the agency takes decisive action, including requiring the bank to pay remediation and correct the operational deficiencies that led to the problem.[21]

With respect to small-dollar lending, the OCC has encouraged banks to make such products available

[18] Remarks by Thomas J. Curry, Association of Certified Anti-Money Laundering Specialists, March 17, 2014, and remarks by Thomas J. Curry, American Bankers Association and American Bar Association Money Laundering Enforcement Conference, November 17, 2013.

[19] Remarks by Thomas J. Curry, Consumer Federation of America, December 6, 2013.

[20] OCC, "OCC Assesses $3 Million Penalty Against American Express Bank, F.S.B.; Orders Restitution to Consumers for Unfair Billing and Deceptive Marketing Practices," news release 2013-198, December 24, 2013; "OCC Assesses $25 Million Penalty Against Bank of America, N.A. and FIA Card Services, N.A.; Orders $459.5 Million in Restitution to Customers for Unfair Billing Practices," news release 2014-55, April 9, 2014; "OCC Assesses Penalty Against U.S. Bank National Association; Orders Restitution for Unfair Billing Practices," news release 2014-128, September 25, 2014.

[21] OCC, "OCC Takes Action Against JPMC to Protect Consumers and to Ensure Servicemembers Receive Credit Protections for Their Non-Home Loans," news release 2013-139, September 19, 2013.

White House Photo Office

Comptroller Curry (far left) and other financial regulators meet with President Obama at the White House.

on more reasonable terms and subject to closer supervision. With that goal in mind, the OCC issued final guidance on deposit advance products, which are short-term loans repaid from the customer's next direct deposit. The OCC's guidance provides a regime of careful compliance and risk management standards to ensure that these products are safe for consumers as well as for the banks that offer them.[22]

The OCC's Customer Assistance Group (CAG) is another resource available to help bank customers. The group handles complaints and concerns related to applicable banking laws and regulations. In addition to providing informal consumer education on a variety of banking topics, the Customer Assistance Group facilitates communication between banks and their customers regarding individual disputes formally filed with the OCC.

[22] OCC, "Office of the Comptroller of the Currency Releases Final Guidance Regarding Deposit Advance Products," news release 2013-182, November 21, 2013; remarks by Thomas J. Curry, 2014 National Interagency Community Reinvestment Conference, April 1, 2014.

Community Reinvestment Act

The CRA requires banks to meet their communities' needs for financial products and services. OCC examiners evaluate banks' CRA performance and assign ratings of "outstanding," "satisfactory," "needs to improve," or, in the worst cases, "substantial noncompliance." Most banks strive to achieve outstanding ratings, not only to enhance their public reputations but also because their business depends on the financial well-being of their customers and the communities they serve. Also, the OCC considers a bank's record of CRA performance when reviewing that bank's application to establish a branch, merge or consolidate with another insured depository institution, or relocate a main office or a branch.

The federal financial regulatory agencies make revisions to, refinements in, and clarification of CRA policy through Interagency Questions and Answers (Q&A), the most recent of which were issued in

November 2013.[23] One of the issues addressed in these Q&As concerned the geographical scope of the products and services that qualify for CRA consideration. Banks are evaluated for CRA purposes based on their responsiveness to financial needs and opportunities in their assessment areas, defined as the areas in which a bank has its main office, branches, and deposit-taking automated teller machines, and the surrounding areas where the bank has originated or purchased a majority of its loans. The November 2013 Q&A affirms that CRA consideration is extended to community development activities conducted in a broader statewide or regional area that includes a bank's assessment area, if the bank has been responsive to needs and opportunities within its assessment area. The OCC believes that this approach provides a more flexible standard for evaluating CRA performance and will stimulate banks to look outside their assessment areas for opportunities to lend and invest in rural communities.[24] In 2014, the OCC processed 906 public welfare investments—those that provide capital for affordable housing, small business development, and other community needs—totaling $10.5 billion.

Changing Regulatory Environment

Acting on its own and in concert with other federal financial regulators, the OCC in 2014 made significant progress in fulfilling Dodd–Frank requirements and completing other rules intended to achieve the law's broad objective of promoting transparency, financial stability, and market integrity.

OCC–OTS Integration

As described in the *Annual Report* in previous years, the OCC successfully completed the transfer of responsibility for the examination, supervision, and regulation of federal savings associations from the OTS to the OCC by the July 21, 2011 deadline set by Dodd–Frank.[25] Since then, the OCC has worked toward the goal of greater supervisory uniformity for banks and federal savings associations. The OCC has undertaken a comprehensive, multiphase review of OCC and OTS regulations to reduce regulatory burden and duplication, promote fairness in supervision, and create efficiencies for both types of institutions, consistent with safety and soundness. In May, the agency issued a final rule that integrated certain national bank and federal savings association rules issued on an interagency basis relating to consumer protection in insurance sales, BSA compliance, management interlocks, appraisals, disclosure and reporting of CRA-related agreements, and the Fair Credit Reporting Act.[26] In June, the agency issued a proposal to integrate national bank and federal savings association rules related to corporate activities and transactions.[27] And in September, the agency issued a final rule integrating its national bank and federal savings association rules relating to safety and soundness standards.[28]

Photo by Ron White

Comptroller Curry testifies in February before the U.S. Senate Committee on Banking, Housing, and Urban Affairs on the OCC's progress in implementing the provisions of Dodd–Frank.

Volcker Rule

Among the OCC's important recent accomplishments was finalizing the rules implementing section 619 of Dodd–Frank, better known as the Volcker rule, together with the other federal banking agencies, the Securities and Exchange Commission, and the Commodities Futures Trading Commission.

The Volcker rule prohibits banks from engaging in proprietary trading and from owning, sponsoring, or having certain relationships with hedge funds or private equity funds. Section 619, however, permits banks to engage in related activities that preserve

[23] OCC, "Agencies Release Final Revisions to Interagency Questions and Answers Regarding Community Reinvestment," news release 2013-176, November 15, 2013.

[24] Remarks by Thomas J. Curry, National Community Reinvestment Coalition, March 12, 2014.

[25] OCC, *Annual Report Fiscal Year 2012*, pp. 22–23.

[26] 79 Fed. Reg. 28393, May 16, 2014.

[27] 79 Fed. Reg. 33260, June 10, 2014.

[28] 79 Fed. Reg. 54518, September 11, 2014.

market liquidity and allows banks to provide important client-oriented services, including market-making, underwriting, risk-mitigating hedging, and trading in government obligations.

On December 10, 2013, after reviewing more than 19,000 comment letters, the OCC and the other rule-writing agencies adopted joint final regulations implementing the requirements of section 619. The revisions adopted in the final rule addressed a number of concerns expressed by commenters. The final rule

- provides exemptions for certain activities, including market making-related activities, underwriting, risk-mitigating hedging, trading in government obligations, insurance company activities, and organizing and offering hedge funds and private equity funds.
- clarifies that certain activities are not prohibited, including acting as agent, broker, or custodian.
- scales compliance requirements based on the size of the bank and the scope of its activities. Larger banks must establish detailed compliance programs and their chief executive officers must attest to the OCC that the bank's programs are reasonably designed to comply with the final regulations. Smaller banks engaged in a modest amount of Volcker rule-related activities are subject to a simplified compliance program.

The rule is to be implemented by covered institutions during a conformance period that runs through July 21, 2015.[29]

One of the major concerns expressed by community banks during the rulemaking process concerned the treatment of collateralized debt obligations backed by trust preferred securities (TruPS). Community banks pointed out that the proposed Volcker rule would have required them to divest of these investments, and, as a result, recognize an immediate write-down in their value, an outcome that would have been at odds with another Dodd–Frank provision that permitted favorable treatment for regulatory capital purposes for these instruments. The OCC and other rulemaking agencies issued clarifying questions and answers and later approved an interim final rule permitting banks to retain certain collateralized debt obligations backed by TruPS under specified circumstances.[30]

Swaps Margins

The Volcker rule is one of several Dodd–Frank provisions that aim to curb speculation in derivative products without interfering with the legitimate need for financial institutions to manage risk through their hedging activities. Dodd–Frank's sections 731 and 764 require covered institutions to collect cash or collateral for swaps that are not routed through clearinghouses. In April 2011, federal financial regulatory agencies issued a proposed rule to establish margin requirements for swap dealers and major swap participants. Then, in September 2013, the Basel Committee on Banking Supervision and the International Organization of Securities Commissions finalized their own agreements on how to treat these instruments, and U.S. regulators modified their proposed rule so that it conformed to both the new international standard and Dodd–Frank's requirements.[31]

In September 2014, federal financial regulatory agencies released that rule for comment. The proposed rule would establish minimum margin requirements for swaps based on the relative risk of the counterparty and of the swap itself. The proposed rule specifically seeks to avoid unnecessarily burdening both nonfinancial entities that use swap contracts to hedge commercial costs and smaller financial companies whose activities do not pose a risk to the financial system. Although the comment period was still under way in FY 2014, the OCC has already seen improvement in the collateralization rates for industry derivative exposures.[32]

[29] OCC, "Agencies Issue Final Rules Implementing the Volcker Rule," news release 2013-186, December 10, 2013; testimony of Thomas J. Curry, Committee on Financial Services, U.S. House of Representatives, February 5, 2014. For an overview of Dodd–Frank implementation efforts, see testimony of Thomas J. Curry, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, September 9, 2014.

[30] OCC, "Agencies Issue FAQ Document Regarding Collateralized Debt Obligations Backed by Trust Preferred Securities Under Final Rules Implementing the 'Volcker Rule,'" news release 2013-195, December 19, 2013; "Agencies Approve Interim Final Rule Authorizing Retention of Interests in and Sponsorship of Collateralized Debt Obligations Backed Primarily by Bank-Issued Trust Preferred Securities," news release 2014-2, January 14, 2014.

[31] Testimony of Thomas J. Curry, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, September 9, 2014.

[32] OCC, "Agencies Seek Comment on Swap Margin Requirements," news release 2014-119, September 3, 2014.

In the Northeastern District

As banks in the competitive New York City metro area strive for growth and profitability, **Kerry Ann Samuel** works hard to help the community banks she examines manage the accompanying risks.

“We remind them to do due diligence and promote a strong risk culture. If they don’t, we warn them that things could spiral out of control,” she said.

As the Analyst for the Deputy Comptroller for Community Bank Supervision in the Northeastern District, Ms. Samuel supports the Deputy Comptroller in managing all 11 field offices and two satellite office locations in the district, acting as a bridge between OCC Headquarters and the field to communicate and apply agency policies. Before taking that job in October 2014, Ms. Samuel worked for five years as the Analyst for one of the Assistant Deputy Comptrollers in the New York field office. During this time, she supervised a portfolio of community banks and participated in examinations across the field office’s supervisory region, which comprises New York City, Long Island, New Jersey, and parts of upstate New York and Connecticut.

During her 12 years with the OCC as a field examiner, portfolio manager, and ADC Analyst, she repeatedly visited the banks in her portfolio. “We try to foster good communication with the bankers,” she said. “We hold outreach sessions at the district level, where bankers hear from OCC experts on hot topics like compliance, IT, and operational risk.” These sessions, which are also attended by senior OCC managers for the region, give bankers regular opportunities to ask questions and get up-to-date information about best practices and emerging risks.

Every quarter, portfolio managers review their respective banks. “We take this opportunity to touch base with bank management and discuss the banks’ performance,” she said. This is how the OCC provides “continuous supervision” of banks.

OCC examiners generally live in the same communities as the banks they supervise, and Ms. Samuel has lived in the New York City area for many years. Her familiarity with the broad and diverse area covered by the New York field office helps her engage with the bankers. “They know to reach out to us if they’re having difficulties,” Ms. Samuel said. “Bankers often call us to ask what we’re seeing in other banks” in regard to emerging risks and best practices. “We welcome those calls, because they foster good communication between the banks and the OCC.”

BankNet, the OCC’s secure Web site for communicating with and receiving information from banks, provides enormous value to bankers and examiners, she noted. The site has enabled more efficient information sharing between banks and the OCC. It allows banks to view statistics and trends at other OCC-supervised institutions. In the New York field office region, she said, at least one manager at every bank is signed up to use the service.

Ms. Samuel said one of the biggest concerns of bankers in her area has been strategic planning, particularly how to deploy capital and excess liquidity. Although this is a concern many businesses would like to have, problems can arise when banks get involved with unfamiliar new products and services to try to generate earnings.

Since the financial crisis, she said, “there hasn’t been as much demand for loan products, and banks are trying to come up with creative ways to generate earnings for shareholders. We encourage bankers to look at their underwriting standards, to talk to the board and collectively decide what the bank’s risk appetite is and whether it is compatible with new or expanded products and services.”

Cybersecurity is another major concern. “Cyber threats are as big a risk to small banks as they are to large ones,” Ms. Samuel said. “We talk to our banks repeatedly to remind them of new and ongoing threats and to encourage them to take appropriate testing and security measures.”

Ms. Samuel takes a lot of satisfaction in helping the banks she works with. “I enjoy working at the OCC because I truly believe in our mission,” she said. “In my early days on the job, my manager told me, ‘Don’t just identify the problems. When you do, try to come up with solutions.’ I try to do that every day.”

Stress Tests

Pursuant to section 165(i)(2) of Dodd–Frank, the federal banking agencies in October 2012 issued rules requiring banks with more than $10 billion in consolidated assets to conduct annual company-run stress tests to gauge how a bank's risk may be amplified in adverse market or financial conditions, as occurred during the financial crisis. Banks with assets of $50 billion or more must also submit to stress tests conducted by their regulators.

In March, the banking agencies issued guidance for self-testing by midsize banks, defined as those with total assets between $10 billion and $50 billion. The guidance is designed to accommodate different risk profiles, sizes, business mixes, market footprints, and complexities. Consistent with this flexibility, the final guidance describes general supervisory expectations for stress tests and, where appropriate, provides examples of practices that are consistent with those expectations.[33]

Liquidity

While many factors contributed to the financial crisis, its proximate cause was a liquidity shortfall that left major banks with assets that could not be sold in time to meet the demand for cash from their customers and counterparties. To mitigate the risks that such shortfalls may pose to the financial system, the banking agencies in 2010 issued an "Interagency Statement on Funding and Liquidity Risk Management," which summarizes the agencies' supervisory expectations for banks' liquidity risk management.[34] Subsequently, the OCC, the Federal Reserve Board, and the FDIC took steps to issue a regulation that sets forth a quantitative standard addressing the liquidity risks of the largest U.S. banking organizations.

In November 2013, the OCC, the Federal Reserve Board, and the FDIC issued a proposed rule applicable to large, internationally active banking companies (those with $250 billion or more in total consolidated assets or $10 billion or more in on-balance-sheet foreign exposure) and to any consolidated bank or savings association subsidiary of one of those companies that have, at the bank level, total consolidated assets of $10 billion or more. The proposal required these banking companies to maintain high-quality liquid assets, for example, central bank reserves, government and government-sponsored enterprise securities, and corporate debt securities that could be converted easily and quickly into cash. The proposal called for these banking companies to hold such assets on each business day in an amount equal to or greater than their projected cash outflows less their projected cash inflows over a 30-day period. The ratio of a company's high-quality liquid assets to its projected net cash outflow is referred to as its "liquidity coverage ratio."[35]

In September 2014, the agencies issued a final rule, which will go into effect on January 1, 2015. It does not apply to community banks.[36]

Capital

As highlighted in the OCC's 2013 *Annual Report*, the financial crisis made plain that all institutions needed stronger and higher-quality capital. In response, the OCC, the Federal Reserve Board, and the FDIC adopted a revised capital regime in 2013 that required banks to hold more and higher-quality capital and added a new, stricter leverage ratio requirement for large, internationally active banking organizations, known as the Basel III supplementary leverage ratio.[37] Unlike the more broadly applicable leverage ratio, the supplementary leverage ratio adds off-balance-sheet exposures to the measure of total leverage exposure. The supplementary leverage ratio is a more demanding standard because large banking organizations often have significant off-balance-sheet exposures arising from different types of commitments, derivatives, and other activities.

Concurrent with the issuance of the revised capital regime, the OCC and other federal banking agencies proposed a rule to enhance the supplementary leverage ratio requirement for the largest, most systemically important U.S. banking organizations. Because the very largest banks can have an outsized impact on the entire financial system, it makes sense to require

[33] OCC, "Agencies Issue Final Dodd-Frank Act Stress Test Guidance for Medium-Sized Firms," news release 2014-31, March 5, 2014.

[34] 75 Fed. Reg. 13656, March 22, 2010.

[35] OCC, "OCC and FDIC Propose Rule to Strengthen Liquidity Risk Management," news release 2013-169, October 30, 2013.

[36] OCC, "Federal Banking Regulators Finalize Liquidity Coverage Ratio," news release 2014-120, September 3, 2014.

[37] See the OCC's *Annual Report Fiscal Year 2013*, pp. 8-12, for a full discussion of the new capital regime.

that they hold higher levels of capital. After careful consideration of public comments, the federal banking agencies adopted a final rule in May 2014. It requires covered bank holding companies (those with $700 billion or more in total consolidated assets or $10 trillion or more in assets under custody) to maintain a leverage buffer greater than 2 percentage points above the minimum supplementary leverage ratio requirement of 3 percent, for a total of 5 percent, to avoid restrictions on capital distributions and discretionary bonus payments. In addition, the rule added a 6 percent supplementary leverage ratio threshold to the "well capitalized" category of the prompt corrective action regulations for large, interconnected U.S. banks.[38] "This new leverage capital rule," Comptroller Curry said, "will not only strengthen our largest and most systemically important financial institutions, but will serve to reassure markets in times of stress."

In September 2014, the OCC and other federal banking agencies further strengthened the supplementary leverage ratio with revisions that more appropriately capture banking organizations' potential exposures.[39] In particular, the revisions contained in this final rule better capture leverage embedded in banks' activities of buying and selling credit protection through credit derivatives. This action should further improve the OCC's assessment of leverage at the largest banks that are most involved in the credit derivatives business.

The supplementary leverage ratio rulemakings, along with changes the agencies made in 2013 to the risk-based capital standards, will improve the resilience of the largest financial institutions and help maintain public confidence in their ability to weather future financial shocks. Importantly, the supplementary leverage ratio also places an additional cushion between those banks and both the FDIC insurance fund and the resolution mechanisms of the federal government. These capital rules, said Comptroller Curry, "will go a long way toward preventing future systemic breakdowns of the type that triggered the last financial crisis."

[38] OCC, "Agencies Adopt Enhanced Supplementary Leverage Ratio Final Rule and Issue Supplementary Leverage Ratio Notice of Proposed Rulemaking," news release 2014-54, April 8, 2014.

[39] OCC, "Agencies Adopt Supplementary Leverage Ratio Final Rule," news release 2014-118, September 3, 2014.

Photo by Ron White

Comptroller Curry takes questions from directors of OCC-supervised large banks.

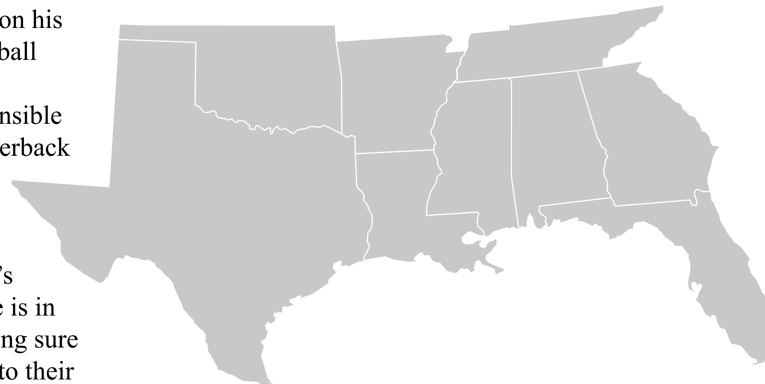
Heightened Standards for Corporate Governance and Risk Management

The financial crisis can be traced to failures of corporate governance and risk management systems. At some banks, boards of directors and senior managers did not sufficiently understand aggregate risk within their firms and lacked a sufficiently robust risk framework—that is, the people, systems, and processes for monitoring a complex set of risks. In some cases, bank compensation programs were structured to share upside benefits but not downside risks. Inadequate and fragmented technology infrastructures hindered efforts to identify, measure, monitor, and control risk. Some of these banks' risk cultures discouraged independent risk managers and audit and control personnel from asking tough questions about management's plans and execution. While these problems existed to some extent at banks of all sizes, problems at the largest, most complex banks created the greatest potential threat to the stability of the financial system.

For these reasons, the OCC developed a set of "heightened expectations" to enhance supervision and strengthen the governance and risk management practices of large national banks. In September, the agency issued final guidelines refining and formalizing these standards and making them enforceable under the Code of Federal Regulations (12 CFR 30, appendix D). The heightened standards do not apply to community banks.[40]

[40] OCC, "OCC Proposes Formal Guidelines for its Heightened Expectations for Large Banks," news release 2014-4, January 16, 2014; "OCC Finalizes Its Heightened Standards for Large Financial Institutions," news release 2014-117, September 2, 2014.

In the Southern District



As the center on his college football team, **Bert Hopgood** was responsible for helping his quarterback quickly identify and respond to risks on the field. Today, as an NBE in the OCC's Southern District, he is in the business of making sure banks identify risks to their solvency.

Mr. Hopgood joined the OCC in the Little Rock, Ark., field office in January 2007, just months before the economy entered its protracted downturn. He participated in community bank examinations and acquired valuable experience dealing with problem banks with poor loan quality and, sometimes, significant losses. He looked for red flags such as high percentages of delinquent loans and excessive concentrations of lending.

He also analyzed how the banks managed those risks. "We look at how well risks are identified, measured, monitored, and controlled," he said. "When a bank is in a troubled condition, the root cause is usually management-related. We look at whether bank management is proactive or reactive in dealing with risk. We monitor the bank's strategic planning. If a bank plans to move into a new market, has it conducted proper research and due diligence? Is it setting reasonable growth goals and defined thresholds?"

Mr. Hopgood and his colleagues sometimes conduct horizontal examinations, which focus on a subset of assets across various institutions. These examinations help the OCC gain insight into how banks are dealing with specialized risks, insight that the agency is able to share with other bankers.

In a recent horizontal exam, Mr. Hopgood found one bank that had six carryover loans from 2013 out of a total 80 paid-out agricultural loans. "A carryover is a loan that has not been paid off from the current year operations, as most agricultural loans are," explained Mr. Hopgood. "The harvested crop is the security for the loan. When a carryover is identified, we typically start with a 'substandard' classification and discuss with the bankers any mitigating factors.

"We found the loan had carryover not because of poor management by the borrower but because of a temporary factor—bad weather," Mr. Hopgood said. "A wet spring had delayed the planting and irrigation of the soybean crop. The loan classification remained 'pass' for several reasons: current crop projections reflected an adequate cash flow; the bank developed a prudent workout strategy with a reasonable amortization and appropriate loan-to-value ratio for the carryover; and there was a history of positive borrower performance."

"The horizontal exam gave us a good picture of agricultural lending in Arkansas," he added. "We were able to go deeper into a particular line of business, learned more about crops, weather, types of soil, and had a good exchange of information with the bankers."

"We require our banks to be proactive about dealing with risk," Mr. Hopgood said. "But we must be proactive ourselves and learn as much as we can about our banks and their customers. That knowledge makes us more effective in preventing the next financial crisis and keeping the whole system strong."

The guidelines set out roles and responsibilities for front-line units, independent risk management, and internal audit—what the OCC refers to as the "three lines of defense" for banks. Those units must establish appropriate systems to identify, measure, monitor, and control risk taking. They must ensure that the boards of directors have enough information on their banks' risk profiles and risk management practices to ensure that operational units do not exceed the board-approved enterprise risk appetite. If variances arise, the boards of directors would then have more meaningful data with which to pose a credible challenge to management.

Under the OCC's heightened standards guidelines, large banks are required to develop risk appetite statements that define both quantitative and qualitative parameters for safe and sound operating environments. The guidelines require that these statements address the question of how the bank will assess and accept risks, articulating behavioral expectations that shape risk culture. In addition, it makes clear that quantitative limits on risk taking should be based on sound stress testing processes and other methods, taking into account banks' earnings, capital, and liquidity positions.

The OCC's heightened standards guidelines also address standards for boards of directors of large banks. The guidelines remind board members of their duty to exercise sound independent judgment and to actively oversee their banks' compliance with safe and sound banking practices. The guidelines stipulate that each covered bank's board have at least two independent members, that each bank must establish and maintain an ongoing training program for the independent board members, and that each bank conduct an annual self-assessment of the board's effectiveness.[41]

Diversity

The OCC's long-standing commitment to a diverse workforce was codified in Dodd–Frank's section 342, which required the OCC to establish an Office of Minority and Women Inclusion (OMWI). This office is responsible for all OCC matters relating to diversity in management, employment, and business activities, and for developing standards to assess the diversity policies and practices of entities regulated by the OCC. Section 342 required each federal financial regulatory agency to establish an OMWI office and develop assessment standards.

Photo by Ron White

OCC volunteers assemble food packages for the charity group Bread for the City in Washington, D.C.

In 2012, the OCC and five other federal financial regulatory agencies focused their efforts on developing the assessment standards. Agency representatives held roundtable discussions with a range of parties, including representatives from financial institutions, holding companies, and industry trade groups, to solicit input on assessment standards and to learn about the challenges and successes of current diversity programs and policies. The agencies also held roundtables with financial professionals, consumer advocates, and community representatives to gain a better understanding of issues facing minorities and women in employment and business contracting in the financial sector.

Information obtained from these discussions helped shape the proposed joint assessment standards released for comment in October 2013. These proposed standards covered four key areas:

- Organizational commitment to diversity and inclusion.
- Workforce profile and employment practices.
- Procurement and business practices and supplier diversity.
- Practices to promote transparency of organizational diversity and inclusion.

[41] Remarks by Thomas J. Curry, ABA Risk Management Forum, April 10, 2014.

The agencies tailored the standards to account for a number of variables, including asset size, number of employees, governance structure, income, number of members or customers, contract volume, location, and community characteristics. The agencies also recognized that standards may need to change and evolve over time.[42]

The agencies collectively received more than 200 comments on the proposal from financial institutions, public interest organizations, trade associations, government officials, and other members of the public. The agencies are carefully considering these comments as they formulate the final standards.

Stabilizing Housing Finance

The financial crisis exposed problems in mortgage lending and gave rise to higher standards for mortgage lenders and related businesses. Dodd–Frank required lenders to certify that borrowers have the ability to repay their mortgages, held lenders liable for mortgages extended to unqualified borrowers, expanded protections for those holding "high-cost" mortgages (generally, borrowers with the lowest credit scores), and required clearer and more comprehensive disclosures. The law also required that issuers of securities backed by mortgages that did not meet these standards retain a financial interest in those securities.

At the same time, federal programs such as the Home Affordable Mortgage Program provided alternatives for homeowners who fell behind on their mortgage payments or whose outstanding mortgages exceeded their homes' market value. Regulators imposed heavy penalties on lenders who misrepresented the quality of mortgage loans sold to investors or engaged in illegal or unethical foreclosure practices. Together, these actions aimed to restore integrity to mortgage lending, provide redress for affected consumers, and restore a healthier equilibrium between supply and demand in the nation's housing markets.

These initiatives continued to bear fruit in FY 2014. The OCC's quarterly reports on the performance of first mortgages recorded a rise in the percentage of mortgage loans that were current and performing, while the number of mortgages in the process of foreclosure dipped from 604,000 at the end of the third quarter of calendar year 2013 to 391,000 at the end of the second quarter of calendar year 2014. Between January 1, 2008, and March 31, 2014, servicers had implemented 3,525,000 loan modification agreements, helping thousands of Americans to avoid foreclosure and remain in their homes.[43]

In January 2013, the OCC released a status report on the Independent Foreclosure Review Settlement reached between regulators and the largest mortgage servicers. It showed that more than $3.3 billion had been disbursed to qualified borrowers by OCC-supervised servicers, and billions more had been provided in the form of foreclosure prevention assistance, including borrower counseling and education.[44] Nonprofit organizations also played a key role in advising homeowners and would-be homeowners on obtaining mortgages and meeting the financial responsibilities of home ownership.[45]

A major concern has been whether, in making mortgage lending safer, the Dodd–Frank mandates would make mortgages more difficult to obtain for otherwise creditworthy borrowers. The OCC issued guidance throughout the fiscal year with a view to

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42 OCC, "Federal Financial Regulators Proposing Joint Standards for Assessing Diversity Policies and Practices of Regulated Entities Pursuant to Section 342 of the Dodd–Frank Act," news release 2013-165, October 23, 2013.

43 OCC, "Improvement in Mortgage Performance Continues, OCC Reports," news release 2013-197, December 23, 2013; "Mortgage Performance Improvement Continues, OCC Reports," news release 2014-129, September 25, 2014.

44 OCC, "Report Highlights Status of Independent Foreclosure Review Payment Agreement," news release 2014-65, April 30, 2014.

45 Remarks by Thomas J. Curry, National Asian American Coalition, October 18, 2013.

making it possible for banks to continue making sound loans to potential homeowners.

First, in October 2013, the federal banking agencies issued guidance to reassure lenders that a decision to originate only mortgages that meet the standards for qualified mortgages would not lead to a presumption that the lender was in violation of fair lending rules, which make it illegal to discriminate in any aspect of a credit transaction based on characteristics that include race, religion, marital status, color, national origin, sex, and age.[46]

Second, in December, the agencies issued a statement saying that a residential mortgage loan would not be subject to regulatory criticism solely because it did not meet the higher Dodd–Frank standards. The OCC emphasized that such loans would continue to be evaluated on their merits, taking into account loan terms, borrower qualification standards, loan-to-value limits, and other traditional factors.[47]

Photo by Ron White

Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, testifies in September before the U.S. Senate Committee on Banking, Housing, and Urban Affairs.

Supervising Community Banks

Community banks and their employees play a crucial role in providing consumers and small businesses in communities across the nation with essential financial services and sources of credit that are critical to economic growth and job expansion. Community bankers offer hands-on counseling and credit products tailored to meet small businesses' specific needs. Community bankers strengthen communities by helping them meet municipal finance needs and by actively participating in civic life. Community bankers deeply understand their local markets' unique needs and tailor their bank products and services to meet those needs. The willingness and ability of community bankers to work with their customers through good times and bad is one reason local businesses rely on community banks. And it is one reason so many of these communities have thrived.

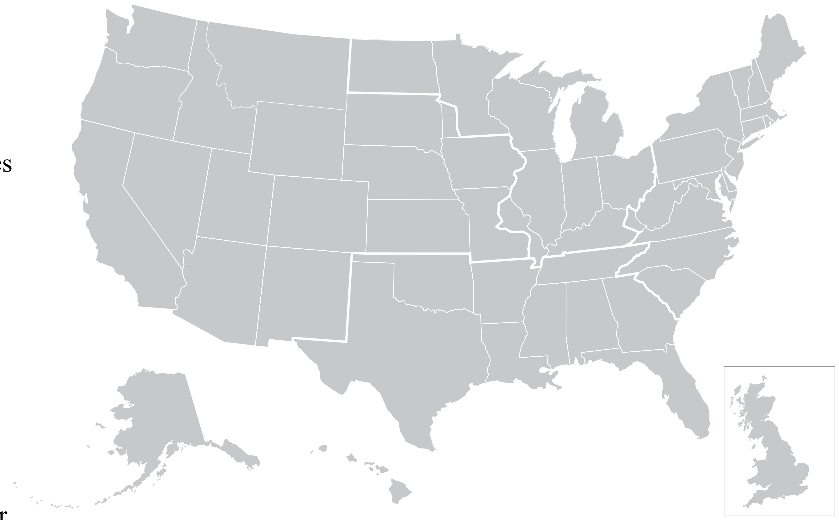
These advantages help explain why well-managed community banks weathered the financial crisis and provided a steady source of credit to their communities. These advantages also help explain the considerable improvement in the overall condition of community banks since the crisis. The number of troubled institutions has declined significantly, capital has increased, asset-quality indicators are improving, and lending opportunities are rebounding. Indeed, community banks have experienced growth in most major loan categories and at a faster pace than that of the federal banking system as a whole.

Yet, community banks still face many challenges. Some community bankers express concern about the long-term viability of their business models and frustration that too much of their time and resources are spent trying to track and comply with an ever expanding array of regulatory requirements. Economic recovery and job creation continue to lag in many regions and communities, and many community bankers face the challenge of finding profitable lending and investment opportunities without taking on undue credit or interest rate risk. Strategic risk is a concern for many community bankers as they search for sustainable ways to generate earnings in the current environment of prolonged low interest rates, increased competition, and rising compliance costs. In addition, although the volume and sophistication of

[46] OCC, "Federal Regulators Provide Guidance on Qualified Mortgage Fair Lending Risks," news release 2013-164, October 22, 2013.

[47] OCC, "Agencies Issue Statement on Supervisory Approach for Qualified and Non-Qualified Mortgage Loans," news release 2013-188, December 13, 2013.

At Headquarters



Since 2010, the OCC has made significant advances in building its capacity to deal with increasing levels of operational risk. As part of this effort, the agency in December 2012 appointed **Valerie Abend** to be Director and Senior Critical Infrastructure Officer.

Reporting to the Deputy Comptroller for Operational Risk, Ms. Abend brings deep public and private sector experience to her position. Before joining the OCC, she was a Managing Director at BNY Mellon and served as a Deputy Assistant Secretary of the Treasury for Critical Infrastructure Protection and Compliance Policy.

Ms. Abend learned the importance of advance preparations for disaster first-hand when her family lost its home to Hurricane Andrew in 1992. She continues to emphasize that lesson in helping the agency and the banks it supervises contend with evolving cyber threats and other operational issues.

Ms. Abend is the Comptroller's representative and inaugural chair of the FFIEC's Cybersecurity and Critical Infrastructure Working Group. The group was formed at Comptroller Curry's initiative to raise industry awareness of cybersecurity risks and act as a vehicle for interagency coordination and collaboration on cyber issues.

In 2014, staff members from the FFIEC agencies piloted new cybersecurity examination procedures at more than 500 community institutions to assess their level of preparedness to deal with evolving and increasing cybersecurity threats. The agencies are now evaluating the results of this exercise, which will help inform future supervisory policy, procedures, and examiner training.

It is essential that bankers understand cybersecurity risks and how their strategy and business decisions impact these risks over time. "By monitoring and managing the technologies they use, the products and services they offer, and their connections to third parties, employees, and customers," said Ms. Abend, "banks can better understand their cybersecurity risk."

The OCC is making a concerted effort to help community banks improve their awareness of cyber threats and risk mitigation tactics. "While community banks tend to rely more heavily on third-party service providers to manage their core systems, there are risks on both sides of these relationships," she said. "It is important that community banks have the information they need to support their ongoing efforts to manage this risk." To support this effort further, the FFIEC launched a cybersecurity Web site that provides a single resource for bankers seeking the latest supervisory news and information on the evolving cyber environment.

The OCC will continue to expand these efforts. After all, Ms. Abend said, "the threats to financial institutions are vast and growing in sophistication and volume. We need to identify and assess cyber risks, share information, and decide what guidance and alerts to issue." Ms. Abend will be a leading participant in these efforts.

cyber threats continue to challenge banks of all sizes, community banks must be especially vigilant to the risk posed by third-party providers, on which they tend to be especially dependent.

Given the importance of community banking to the United States, two-thirds of the OCC's examination force is dedicated to supervising community banks. OCC examiners are part of the communities in which they work and are empowered to make most supervisory decisions at the local level. The entire agency works to support these examiners, providing them with easy access to licensing specialists, lawyers, compliance and information technology specialists, and a variety of other subject matter experts.[48]

The OCC has been especially sensitive to the views and concerns of community banks about regulatory burden in the rulemaking process. A number of the steps taken specifically to minimize that burden for community banks have already been noted in this *Annual Report*, notably the TruPS exception in the implementation of the Volcker rule, the supplementary leverage capital rules, and limits on the applicability of the new liquidity standards. To emphasize when a new supervisory initiative or rulemaking applies—or does not apply—to community banks, OCC bulletins now include a short section labeled "Note for Community Banks," which tells community banks whether and to what extent the guidance may apply to them.

Moreover, the Economic Growth and Regulatory Paperwork Reduction Act of 1996 mandates that the OCC, the FDIC, and the Federal Reserve Board review their regulations every 10 years to identify, with the public's help, outdated, unnecessary, or unduly burdensome regulations applicable to insured depository institutions. The current review got under way in June 2014, when the federal financial regulatory agencies published a *Federal Register* notice soliciting public comment on regulations relating to applications and reporting, powers and activities, and international operations. Other categories of regulations will be presented for comment in future *Federal Register* notices.[49]

The OCC continued to provide attention to two special types of community banks in 2014: mutual savings associations and minority-owned depository institutions. The agency's responsibility for federal savings associations, including mutual savings associations, derives from the provision of Dodd–Frank under which the OCC absorbed the mission of the OTS. One way that the OCC fulfills that responsibility is through the Mutual Savings Association Advisory Committee, which provides information and advice to the OCC on conditions in that sector of the banking system and on regulatory changes that support the health and viability of those associations. The OCC's committee comprises a diverse group of officers and directors of mutual savings associations of varying types, sizes, operating strategies, and geographic areas, as well as two representatives from federal savings associations in a mutual holding company structure.

OCC data presented to the committee at its July 2014 meeting showed that, like other OCC-supervised community banks, federal mutual savings associations are generally well capitalized and have relatively few asset-quality problems. All federal savings associations operate under the lending restrictions in the Home Owners' Loan Act, which encourages them to provide housing credit and limits the amount of commercial lending in which they may engage. If a federal savings association wishes to broaden its business strategy, for example, to embrace more of a mix of business loans and consumer credit, it must convert its charter to a national bank charter, which can be an expensive and time-consuming process. For a federal mutual savings association to convert to a national bank charter, it must first convert to a stock thrift. Comptroller Curry has suggested the need for legislation to modernize the mutual savings association charter and provide these institutions with greater flexibility to expand their businesses and serve their communities.[50]

Minority-owned depository institutions also face challenges. They provide financial services, including

[48] Testimony of Toney Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, September 16, 2014.

[49] OCC, "Economic Growth and Regulatory Paperwork: Regulatory Review to Identify Outdated, Unnecessary, or Unduly Burdensome Regulations," bulletin 2014-28, June 26, 2014.

[50] Remarks by Thomas J. Curry, Joint Mutual Forum, July 24, 2014.

New OCC Strategic Plan

As 2014 came to a close, the OCC took the opportunity, as Comptroller Curry put it, to "step back, check our bearings, and make sure we continue on the right path to fulfill our mission and vision." The result was the OCC's Strategic Plan, Fiscal Years 2015-2019, published in September 2014.

The strategic plan establishes three goals:

- To achieve a vibrant and diverse system of national banks and federal savings associations that supports a robust U.S. economy.
- To work toward "one OCC," focusing on collaboration, innovation, coordination, and process efficiency.
- To ensure that the OCC is positioned to continue operating independently and effectively into the future.

The strategic plan reaffirms the agency's 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. The plan presents a vision in which 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. To succeed in that mission and achieve that vision, the OCC commits itself to the core values of integrity, expertise, collaboration, and independence—values that always have been the bedrock of the OCC's culture.

depository services and small business lending, to communities that may lack other sound financial options. Partly for those reasons, federal financial regulatory agencies are required by law to give minority-owned depository institutions special support.

OCC support has come in several forms. In 2013, the OCC adopted a policy change that allows minority banks to broaden their capital base with the help of non-minority investors. The OCC also formed the Minority Depository Institutions Advisory Committee, with representation from African-American, Asian-American, Native American, and Hispanic institutions, as well as from other banks and government agencies offering opportunities through partnerships with minority institutions. In addition, the OCC maintained an active outreach program to minority bankers, through regular supervisory channels and executive-level initiatives facilitated by the OCC's Community Affairs Department and External Outreach and Minority Affairs Department. The OCC provided technical training, such as the 2014 workshop on cybersecurity, which was specifically designed for the leaders of minority institutions.[51]

Toward a Better OCC

Throughout 2014, the OCC advanced initiatives designed to preserve and enhance the agency's status as a preeminent bank supervisor. The agency did so, in part, by using lessons of the financial crisis to identify necessary improvements. The OCC's *Annual Report Fiscal Year 2013* described the eight key elements of the agency's strategic initiatives: aligning, supervising, leading, funding, connecting, engaging, messaging, and assessing. Those initiatives yielded significant accomplishments in 2014:

- Adoption of an automated testing and assessment process to expedite the evaluation and hiring of new examiners.
- Improvements in internal communications.
- A more formal approach to succession planning.
- A streamlined process for sharing examination findings with other bank regulatory agencies.
- Improvements in supervisory analytics.

[51] Remarks by Thomas J. Curry, National Bankers Association, October 3, 2013; remarks by Thomas J. Curry, National Bankers Association, October 1, 2014.

In addition, the OCC conducted a comprehensive review of the agency's approach to supervising large and midsize banks. The review was conducted by an independent, international, peer review team of bank supervisors from countries whose banks demonstrated particular resilience during the financial crisis. Jonathan Fiechter, a distinguished U.S. regulator who served in senior-level positions at the OTS, the OCC, and the World Bank, headed the team, which delivered its report to the OCC in December 2013.[52]

Fiechter and his colleagues praised the OCC's employees and the agency's supervisory approach, and flagged several areas where the agency could improve. The peer review team recommended that the agency expand the role and number of lead experts who assess specific activities and risk areas across multiple banks in the agency's large bank supervision program. The team recommended adopting a formal examiner rotation program to limit the time an examiner spends at any one bank. The team also recommended that the OCC improve the way it evaluates risk at specific banks. It suggested refinements in the interagency CAMELS supervisory rating system and the OCC's Risk Assessment System.[53] The team also offered ideas to improve employee recruitment and retention.[54]

In response, the OCC formed two cross-functional working groups, one to evaluate recommendations related to policy enhancement and the other related to process improvement. The groups developed draft project lists and implementation plans, which were distributed to all OCC employees for comment. The OCC issued approved plans in July 2014 and assigned the plans to working groups for implementation, which was under way as the fiscal year ended. Future issues of the OCC's *Annual Report* will chronicle the agency's progress in these important areas.

Photo by Ron White

Jonathan Fiechter explains the recommendations of the International Peer Review to OCC staff members in December 2013.

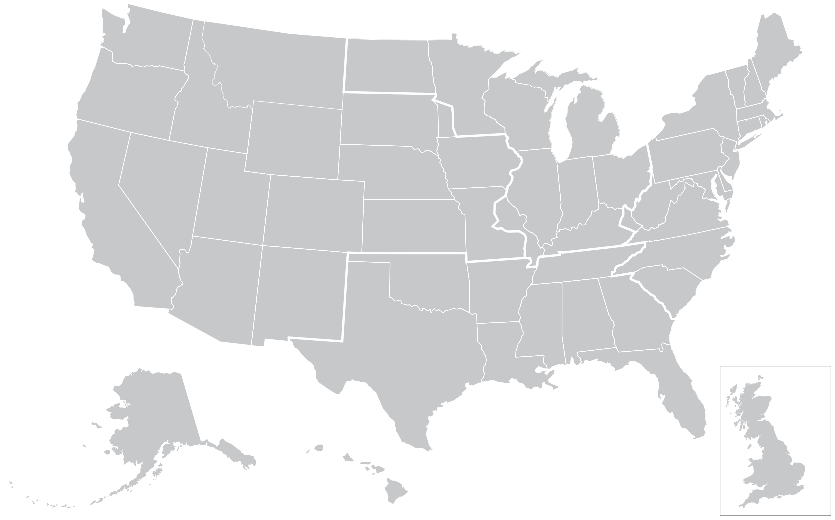
[52] OCC, *An International Review of OCC's Supervision of Large and Midsize Institutions: Recommendations to Improve Supervisory Effectiveness*, December 4, 2013; "OCC Releases International Peer Review of OCC Supervision of Large and Midsize Institutions," news release 2013-184, December 5, 2013.

[53] CAMELS is an interagency supervisory rating system used by the supervisory agencies to classify a bank's overall condition. Examiners rate the bank's capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk.

[54] OCC, "OCC Announces Actions to Respond to International Peer Review Recommendations," news release 2014-75, May 28, 2014; "Summary of OCC's Responses to the Supervision Peer Review Recommendations," news release 2014-75, May 28, 2014.

In Large Bank Supervision

During his 12 years as a trust examiner with the state of Ohio, there was very little **Greg McDougle** had not seen and done. So when the OCC made him a job offer, he viewed it as an opportunity to move on and up—to take advantage of the agency's outstanding training program, to travel, and to work in the largest and most complex banks.



That was 15 years ago. Today, Mr. McDougle is an important member of the Large Bank team that supervises Cleveland-based KeyCorp, which holds nearly $90 billion in assets.

During those years, he said, the trust business has undergone significant change. What was once a largely local, hands-on, service-oriented line of business has become more centralized, automated, and complex. It has become more competitive, as nonbank providers vie with banks for a limited number of affluent customers. "Competition," Mr. McDougle pointed out, "has meant new options and more efficient service delivery for trust customers." But it has raised systemic risk, as trust officers find themselves venturing further onto the risk curve to generate returns and income.

As a result of these changes, the work of the trust examiner has also changed. Other examiners used to tease Mr. McDougle that there was only one regulation he needed to know and enforce: 12 CFR 9, "Fiduciary Activities of National Banks." That was never true, of course: Each state has its own fiduciary and tax laws with which national banks with multistate operations have to comply. It is even less true today, with the growing complexity of financial products and the internationalization of capital markets. As Mr. McDougle explained, "trust examiners have to be expert in the nuances of the Bank Secrecy Act and money transfers, for example, just as they are in the mechanics of trust administration."

It is an expression of the agency's regard for Mr. McDougle that he was chosen to be a member of its Policy Enhancement Team. The OCC formed this team, along with a separate Process Improvement Team, to design, prioritize, and implement the changes recommended by the international peer review report delivered to the OCC in December 2013. Because of the likely impact of the peer review initiatives on large and midsize bank examiners, the OCC, in consultation with the National Treasury Employees Union, agreed to include several such examiners on each team to ensure that the field perspective is taken properly into account. Mr. McDougle was among those selected to provide that perspective.

In his work on the Policy Enhancement Team, he has taken a special interest in the initiative to improve the way the OCC defines matters requiring attention (MRA), how the agency trains its examiners to recognize them, and how it tracks the way banks address them. That initiative was already under way when the peer review report was delivered, but it gained momentum when the agency appointed a sub-group in July 2014 to develop a final policy, an MRA reference guide, and tracking rules.

The MRA and other peer review initiatives will undoubtedly change the way the OCC conducts its business and the way large and midsize bank examiners operate. That kind of change is often difficult. But Mr. McDougle believes that when all is said and done, these changes will result in a stronger OCC and a stronger federal banking system.

Section Two

Condition of the Federal Banking System

Summary

As measured by return on equity (ROE), national banks and federal savings associations were generally profitable in fiscal year 2014. System-wide, ROE stood at approximately 10 percent in the first half of calendar year 2014,[55] slightly below the level of a year earlier. While noninterest income fell during that period, the fall was offset by declines in provisions for loan and lease losses and noninterest expenses. ROE at community banks, those with less than $1 billion in total assets, rose over the same period, on the strength of higher noninterest income, lower provisions, and lower noninterest expenses. ROE at midsize banks edged down, as falling noninterest income more than offset a modest rise in net interest income. Credit quality continued to improve throughout the federal banking system, with charge-off rates for all major loan categories now at or below their 25-year averages.

Discussion

For the first half of calendar year 2014, net income at OCC-supervised banks decreased by $1.7 billion compared with a year earlier. System profitability as measured by ROE stood at 9.9 percent for the second quarter, above the 9.4 percent posted a year earlier but still well below pre-crisis levels. Also in the second quarter, profitability rose at large banks and community banks but slipped at midsize banks. Banks still face pressure on net interest margins (NIM) because of the unprecedented length and duration of the low interest rate environment. Compared with a year ago, however, fewer midsize and community banks experienced NIM compression. The factors supporting earnings over the past several years, mainly falling loan-loss provisions and cost cutting, are not likely to be sustainable sources of profit growth.

Operating profit. Pre-provision net revenues fell by $6.0 billion (6.3 percent) in the first half of 2014 compared with the first half of 2013. Noninterest income, largely in the form of fees on bank products and services, fell by $9.0 billion, noninterest expense fell by $2.5 billion, and net interest income rose by $0.5 billion, reflecting modest loan growth. A $3.9 billion drop in provision expenses also boosted pretax net income.

Loan-loss provisions, which have declined since 2009, are now running at only two-thirds the level of net charge-offs. As a share of total loans, provisions stand at a three-decade low and may not have much more room to fall. The low level of provisions is a matter of supervisory focus.

Pressure is likely to continue on net interest income, the main source of revenue for most banks. Loan volume is growing again, but in the first half of 2014 declining loan yields (due to the low interest rate climate) offset slightly higher loan volume for the federal banking system as a whole.

Community banks have narrowed the gap in ROE with larger banks. In the first half of 2014, net interest income for community banks rose 3.3 percent on a 4.4 percent increase in loans on the books. Smaller

[55] Only data for the first half of calendar year 2014 were available by publication deadline. This section of the *Annual Report* presents consolidated data for national banks and federal savings associations, reflecting the expansion of the OCC's mission under Dodd–Frank.

banks have not been as successful as their larger peers, however, in reducing noninterest expenses, some of which are attributable to higher compliance and regulatory costs. Further, the steady decline in provisions that has boosted net income for several years must reverse at some point.

Loan performance. Loan performance has improved steadily over the past four years. For all major loan categories, charge-off rates declined again in the first half of 2014 compared with a year earlier, and are now below their 25-year averages.

To strengthen their positions, many banks increased the amount and quality of capital and raised their liquidity over the last several years. The result is a stronger banking system than existed before the crisis.

Section Three

OCC Leadership

Thomas J. Curry
Comptroller of the Currency

Thomas J. Curry was sworn in as the 30th Comptroller of the Currency on April 9, 2012. The Comptroller of the Currency is the administrator of the federal banking system and chief officer of the OCC. The OCC supervises nearly 1,700 national banks and federal savings associations, including 49 federal branches and agencies of foreign banks in the United States. These institutions comprise about 71 percent of total U.S. banking assets.

The Comptroller also is a Director of the FDIC and NeighborWorks America. On April 1, 2013, he was named Chairman of the FFIEC for a two-year term. He is the 21st FFIEC Chairman; his appointment marks the fifth time the OCC has led the council.

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

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

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

Chief of Staff's Office

Paul M. Nash
Senior Deputy Comptroller and Chief of Staff

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

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

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

Chief Counsel's Office

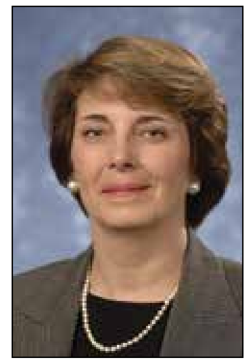
Amy Friend
Senior Deputy Comptroller and Chief Counsel

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, and regulation of securities and corporate practices of national banks and federal savings associations. Ms. Friend also oversees the agency's licensing and community affairs functions. She assumed these duties in February 2013.

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

Ms. Friend is a graduate of the Georgetown University Law Center and the University of Pennsylvania.

Chief National Bank Examiner's Office



Jennifer C. Kelly
Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner

As Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner, Jennifer C. Kelly directs the formulation of policies and procedures for the supervision and examination of all OCC-supervised institutions, and she chairs the agency's Committee on Bank Supervision. She assumed this role in August 2014.

Ms. Kelly previously served as Senior Deputy Comptroller for Midsize and Community Bank Supervision, a position she held from 2008 to 2014. She joined the OCC in 1979 as an Assistant National Bank Examiner and received her commission in 1983. She has a broad supervision background, including extensive experience in problem bank supervision and policy development.

Ms. Kelly earned a bachelor of arts degree in economics from Mount Holyoke College.

Large Bank Supervision

Martin Pfinsgraff
Senior Deputy Comptroller for Large Bank Supervision

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

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

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

Midsize and Community Bank Supervision

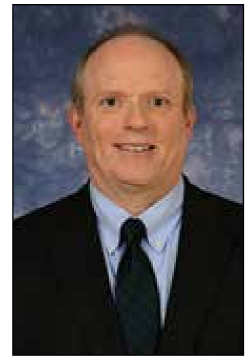
Toney Bland
Senior Deputy Comptroller for Midsize and Community Bank Supervision

As Senior Deputy Comptroller for Midsize and Community Bank Supervision, Toney Bland is responsible for supervising approximately 1,600 national banks and federal savings associations, as well as 2,000 OCC employees. He assumed these duties in August 2014.

Mr. Bland previously served as Deputy Comptroller for the agency's Northeastern District, where he was responsible for overseeing more than 400 community banks and federal savings associations. 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.

Economics



David Nebhut
Senior Deputy Comptroller for Economics

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

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

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

Office of Management

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

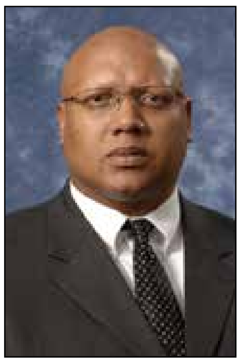
Kathy K. Murphy is Senior Deputy Comptroller for Management and Chief Financial Officer. In this role, Ms. Murphy is responsible for the OCC's departments of financial management, human capital, continuing education, information technology, security, real estate services, performance improvement, and management services. She took on her current duties in 2014.

From 2009 to 2014, as Deputy Comptroller and Chief Accountant, Ms. Murphy was the OCC's authoritative source on bank accounting and financial reporting, providing counsel to examiners, the banking industry, and the accounting profession.

She also represented the OCC on the FFIEC's Reports Task Force and the Accounting Expert Group of the Basel Committee on Bank Supervision.

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

Office of Enterprise Governance and the Ombudsman



Larry L. Hattix
Senior Deputy Comptroller for Enterprise Governance and the Ombudsman

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

Mr. Hattix was the OCC Ombudsman from 2008 to 2013, having previously served as Assistant Deputy Comptroller for 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 holds a degree in business administration and finance from Carroll College.

Office of Minority and Women Inclusion

Joyce Cofield
Executive Director for the Office of Minority and Women Inclusion

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

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

Section Four

Licensing and Enforcement Measures

Figure 1: Corporate Application Activity, FY 2013 and FY 2014

	FY 2013	FY 2014	FY 2014 decisions			
	Applications received		Approved	Conditionally approved	Denied	Total[a]
Branches	696	380	391	0	0	391
Capital/sub-debt	97	82	66	10	0	76
Change in bank control	8	14	3	3	0	9
Charters	2	2	1	1	0	2
Conversions into national banks	12	8	6	1	0	7
Federal branches	0	1	0	1	0	1
Fiduciary powers	7	5	6	0	0	6
Mergers[b]	92	102	98	8	0	106
Relocations	190	223	212	1	0	213
Reorganizations (national banks only)	53	44	48	2	0	50
Stock appraisals	0	0	0	0	0	0
Subsidiaries	48	46	32	0	0	33
12 CFR 5.53 change in assets	27	17	14	3	0	17
Limited national bank upgrade	0	0	0	1	0	1
Operations	4	4	2	1	0	3
FSA conversions[c]	3	4	2	2	0	4
Total	**1,239**	**932**	**881**	**34**	**0**	**919**

Source: OCC data.

[a] Total includes alternative decisions or no-objections.

[b] Mergers include failure transactions when a national bank is the resulting institution.

[c] Conversions of federal savings associations from mutual to stock charter.

Figure 2: Licensing Actions and Timeliness, FY 2013 and FY 2014

		FY 2013			FY 2014		
			Within target			Within target	
	Target time frames in days[a]	Number of decisions	Number	Percent	Number of decisions	Number	Percent
Branches	45/60	694	676	97	391	388	99
Capital/sub-debt	30/45	115	109	95	76	74	97
Change in bank control	NA/60	6	5	83	9	9	100
Charters[b]		0	0	0	2	2	100
Conversions into national banks	30/90	5	5	100	7	7	100
Federal branches	NA/120	0	0	0	1	1	100
Fiduciary powers	30/45	4	4	100	6	6	100
Mergers	45/60	98	92	94	106	105	99
Relocations	45/60	186	180	97	213	200	94
Reorganizations	45/60	45	40	89	50	49	98
Stock appraisals	NA/90	0	0	0	0	0	0
Subsidiaries	NA	38	37	97	33	33	100
12 CFR 5.53 change in assets	NA/60	25	25	100	17	17	100
Limited national bank upgrade		0	0	0	1	1	100
Operations	30/60	6	6	100	3	3	100
FSA conversions	30/60	2	2	100	4	4	100
Total		**1,224**	**1,181**	**96**	**919**	**899**	**98**

Source: OCC data.

Note: Most decisions (97 percent in 2013 and 97 percent in 2014) were decided in the district offices and Large Bank Licensing under delegated authority. Decisions include approvals, conditional approvals, and denials. NA means not applicable.

[a] Those filings that qualified for the “expedited review” process are subject to the shorter time frames listed. The longer time frames are the standard benchmarks for 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.

[b] For independent national bank charter applications, the target time frame is 120 days. For holding-company-sponsored applications, the target time frame is 45 days for applications eligible for expedited review and 90 days for all others.

Figure 3: Change in Bank Control Act, FY 2010–FY 2014
(Notices Processed With Disposition)[a]

Year	Received	Acted on	Not disapproved	Disapproved	Withdrawn
2014	14	9	9	0	0
2013	8	6	6	0	1
2012	10	6	6	0	0
2011	4	6	6	0	0
2010	8	5	5	0	0

Source: OCC data.

[a] FY 2012 through 2014 data are for national banks and federal savings associations combined.

Figure 4: OCC Enforcement Actions, FY 2014

Type of enforcement action	Against institutions	Against institution-affiliated parties
Cease-and-desist orders	24	11
Restitution amount ordered	$ 85,290,450	$ 318,789
Temporary cease-and-desist orders	0	0
12 USC 1818 civil money penalties	9	31
12 USC 1818 civil money penalties amount assessed	$ 383,000,000	$ 203,000
Flood insurance civil money penalties	9	0
Flood insurance civil money penalties amount assessed	$ 125,735	$ 0
Formal agreements	11	1
Capital directives	0	NA
Prompt corrective action directives	2	NA
Individual minimum capital ratio letters	11	NA
Safety and soundness orders	0	NA
Memorandums of understanding	8	4
Commitment letters	0	NA
Suspension orders	NA	0
12 USC 1818 removal/prohibition orders	NA	20
12 USC 1829 prohibitions	NA	94
Letters of reprimand	1	16
Total	**75**	**177**

Source: OCC data.

Note: NA means not applicable.

Figure 5: List of Applications Presenting Community Reinvestment Act Issues Decided, FY 2014

Bank, city, state	Approval date	Document number
Old National Bank, Evansville, Ind.	April 11, 2014	CRA Decision No. 157
U.S. Bank National Association, Cincinnati, Ohio	May 14, 2014	CRA Decision No. 158
Old National Bank, Evansville, Ind.	July 14, 2014	CRA Decision No. 159
MB Financial Bank, NA, Chicago, Ill.	July 24, 2014	CRA Decision No. 160
First Financial Bank, NA, Hamilton, Ohio	July 23, 2014	CRA Decision No. 162
First Financial Bank, NA, Hamilton, Ohio	July 30, 2014	CRA Decision No. 161

Source: OCC data.

Note: NA means National Association.

Section Five

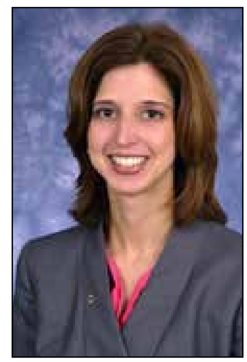
Financial Management Discussion and Analysis

Letter From the Chief Financial Officer

I am pleased to present the OCC's financial statements as an integral part of the *Annual Report Fiscal Year 2014*. For FY 2014, our independent auditors again have rendered an unmodified opinion.

The OCC earned an unmodified opinion on its financial statements in FY 2014 through its resolute commitment to strong internal controls. In FY 2014, as it has during the past nine years, the OCC systematically applied the concepts and requirements outlined in the Office of Management and Budget's (OMB) Circular A-123, "Management's Responsibility for Internal Control, Appendix A—Internal Control Over Financial Reporting." This year, like all other federal agencies subject to the Chief Financial Officers Act, the OCC was asked to provide additional assurances on its procurement reporting to the public and the administration of its purchase, travel, and fleet card programs. Being able to provide these assurances to the Treasury Department evidences the strength of the OCC's internal control environment and control activities that track, maintain, and safeguard the OCC's resources while helping the agency focus on its core mission.

In addition to successfully executing its internal control program requirements, each year the OCC strives to identify new ways to improve the efficiency and effectiveness of its operations. During FY 2014, the OCC continued to pursue the use of data analytic tools to enhance its administrative operations. The Office of Management (OM) leveraged its data analytics expertise to include the evaluation of telework usage, relocation program expenses, and vendor contract activity. These efforts allow the OCC to use its resources more efficiently and effectively and ensure compliance with applicable laws and regulations.



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

A strong internal control environment includes a continuous review of processes. During FY 2014, the OCC continued its Lean Six Sigma (LSS) implementation efforts, realizing many benefits. The LSS process improvement program resulted in the completion of 48 formal and informal projects that saved the OCC approximately $8.7 million in cost savings and productivity enhancements. The results of these improvements and reengineering efforts are captured in three ways: as a direct savings, resulting in either a cost reduction or a cost savings that can be applied to a budget line item; as a soft savings that allows resources to be redeployed; or as regulatory or safety improvements viewed as a reduction to the cost of compliance or doing business. These efforts were supplemented by more than 796 employee-initiated improvements that resulted in an additional $7.1 million in savings and productivity.

For FY 2014, the agency's financial condition remains sound. As a nonappropriated federal agency, the OCC's primary sources of revenue are bank assessments and interest earned on investments. Bank assessment revenue continues to meet the operating costs associated with supervising national banks and federal savings associations. The OCC remains committed to maintaining adequate staffing levels by continuing to improve the efficiency and effectiveness of our programs directed at recruiting and developing entry-level staff; increasing staff expertise through expanding the use of rotational assignments and enhancing the agency's career development program for mid-career employees; and investing in our information technology infrastructure.

As in previous years, the OCC continues to ensure that the agency maintains resource levels that successfully achieve its mission. To that end, in FY 2014, OCC leadership began restructuring the budget process. The goal was to develop a new budget framework that would support strategic discussions on the efficiency and alignment of the OCC's resources and identify areas where transformative change can occur. This framework will continue to support a collaborative and transparent process in which regular discussions regarding potential changes to business processes and associated adjustments will occur at various levels within the agency.

The OCC's OM is committed to ensuring that the agency has the resources it needs to maintain a safe and sound federal banking system. In the years since the financial crisis, the OCC has written and implemented dozens of new regulations stemming from the Dodd–Frank Act and the global Basel III standards for capital and liquidity. OCC staff members have devoted countless hours to projects designed to improve the OCC's policies and processes, helping the agency to better meet the supervisory challenges of the future. The OM worked diligently to support the agency in completing these goals.

Continuing into FY 2015, the OCC maintains its commitment to sustaining its strong internal control program and sound financial condition. These elements provide the foundation on which the agency is based and create an environment that allows the OCC to manage its resources efficiently and effectively. Our commitment to sustaining that environment affords the OCC the opportunity to continue to fulfill its core 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.

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

Financial Summary

The OCC received an unmodified opinion on its FY 2014 and FY 2013 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 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 2014 and FY 2013. The financial statements, followed by notes and the auditor's opinion, begin on page 46.

The OCC, in accordance with 12 USC 482, establishes budget authority for a given fiscal year. The total budget authority available for use by the OCC in FY 2014 was $1,056.9 million, which represents an increase of $33.9 million, or 3.3 percent, from the $1,023.0 million budget in FY 2013. The OCC executed $1,026.5 million, or 97.1 percent, of the FY 2014 budget compared with $1,004.8 million, or 98.2 percent, executed in FY 2013.

The Statements of Budgetary Resources, found on page 49, provide information about how budgetary resources were made available to the OCC for the year and present the status of these resources and the net outlay of budgetary resources at the end of the year.

Figure 6 illustrates the OCC's key components of financial condition and the subsequent narrative sections address the OCC's financial activities in FY 2014 and FY 2013.

Figure 6: Key Components of Financial Condition, as of September 30, 2014 (in Thousands)

	2014	2013	Increase / (Decrease) $	Increase / (Decrease) %
Costs[a]				
Total financing sources	$ 34,479	$ 31,843	$ 2,636	8.3%
Less net cost	(22,733)	(29,211)	6,478	(22.2%)
Net change of cumulative results of operations	$ 11,746	$ 2,632	$ 9,114	346.3%
Net position[b]				
Assets				
Fund balance with Treasury	$ 11,750	$ 3,466	$ 8,284	239.0%
Investments	934,743	1,310,072	(375,329)	(28.6%)
Property, plant, and equipment, net	144,515	156,658	(12,143)	(7.8%)
Accounts receivable and other	449,514	6,671	442,843	6,638.3%
Total assets	$ 1,540,522	$ 1,476,867	$ 63,655	4.3%
Liabilities				
Accounts payable and other accrued liabilities	$ 30,317	$ 30,705	$ (388)	(1.3%)
Accrual payroll and benefits	78,065	70,417	7,648	10.9%
Deferred revenue	275,507	239,272	36,235	15.1%
Other actuarial liabilities	68,798	60,384	8,414	13.9%
Total liabilities	$ 452,687	$ 400,778	$ 51,909	13.0%
Net position	1,087,835	1,076,089	11,746	1.1%
Total liabilities and net position	$ 1,540,522	$ 1,476,867	$ 63,655	4.3%

Source: OCC financial system data.

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

[b] Balance Sheets.

Cost of Operations

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

Total program costs for FY 2014 of $1,057.1 million reflect an increase of $18.6 million, or 1.8 percent, from $1,038.5 million in FY 2013. The change was due primarily to the increase in staffing and related payroll and benefits in FY 2014.

Revenues

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

Total FY 2014 revenue of $1,038.8 million reflects a $32.1 million, or 3.2 percent, increase over FY 2013 revenue of $1,006.7 million. Total assets under the OCC's supervision rose as of June 30, 2014, to $10.7 trillion, up 4.9 percent from $10.2 trillion a year earlier.

Interest revenue totaled $15.8 million in FY 2014, a decrease of $2.1 million, or 11.7 percent, from interest revenue of $17.9 million reported in FY 2013. This decrease is primarily attributable to longer-term securities with higher yields maturing and being reinvested at lower rates. Other income includes revenue received from reimbursable activities with federal entities. Figure 7 shows the OCC's funding sources for FY 2014 and FY 2013.

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, 2014, total assets were $1,540.5 million, an increase of $63.6 million, or 4.3 percent, from total assets of $1,476.9 million reported on September 30, 2013. The increase in total assets is primarily attributable to an increase in accounts receivable of $442.8 million, partially offset by a decrease in investments and related interest of $375.3 million. Both changes were a result of bank assessments due September 30, 2014, but collected on October 1, 2014.

Investments

On September 30, 2014, investments and related interest were $934.7 million, compared with $1.31 billion the previous year. The decrease of $375.3 million, or 28.6 percent, is attributable to a large portion of the OCC's assessment revenue being collected on October 1, 2014, rather than September 30, 2014. The market value of the OCC's investment portfolio in excess of book value declined this year to $7.3 million from $14.4 million on September 30, 2013. This $7.1 million decrease in market value (49.3 percent) is primarily attributable to the effects of rising interest rates and the variation of portfolio holdings year over year because of note maturities and new purchases made during FY 2014. The OCC invests available funds in nonmarketable U.S. Treasury securities issued through the Treasury Department's Bureau of the Fiscal Service in accordance with the provisions of 12 USC 481 and 12 USC 192. The OCC manages risk by diversifying its portfolio across maturities within established parameters. Diversifying maturities of the individual securities is meant to help manage the inherent risk of interest rate fluctuations.

The OCC's investment portfolio is composed of overnight and longer-term securities. The portion of the portfolio comprising longer-term (core) investments as of September 30, 2014, and September 30, 2013, was $797.5 million, or 86.2 percent, and $771.5 million, or 59.7 percent, respectively. The weighted average maturity of the portfolio increased year over year to 2.84 years as of September 30, 2014, compared with 2.1 years as of September 30, 2013, because of note maturities and the reinvestment of funds in longer-term securities during the period. The portfolio earned an annual yield for FY 2014 of

Figure 7: Funding Sources (in Millions)

	FY 2014	FY 2013	Change ($)	Change (%)
Assessments	$ 1,006.0	$ 973.1	$ 32.9	3.4%
Interest and other income	32.8	33.6	(0.8)	(2.4%)
Total revenue	$ 1,038.8	$ 1,006.7	$ 32.1	3.2%

Source: OCC financial system data.

1.49 percent, compared with 1.60 percent in FY 2013. 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 liabilities, and accounts payable. Deferred revenue represents the unearned portion of semiannual assessments.

As of September 30, 2014, total liabilities were $452.7 million, a net increase of $51.9 million, or 13.0 percent, from total liabilities of $400.8 million on September 30, 2013. The majority of this change is related to increased bank assessment revenue.

Net Position

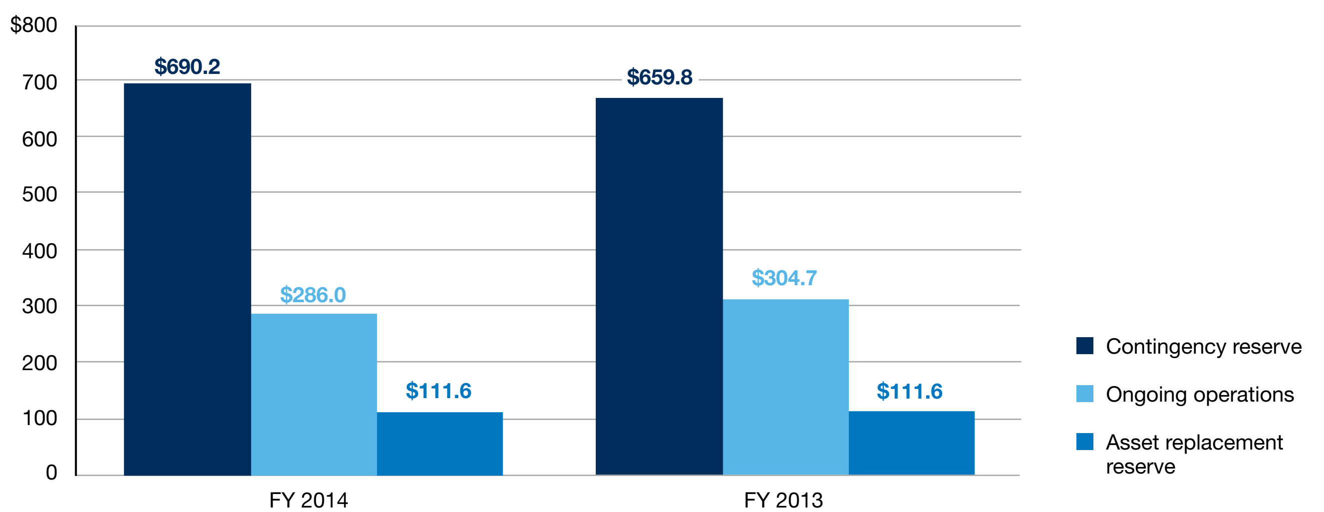
The OCC's net position of $1,087.8 million as of September 30, 2014, and $1,076.1 million as of September 30, 2013, represents the cumulative net excess of the OCC's revenues over the cost of operations. The net position is presented on both the Balance Sheets and the Statements of Changes in Net Position.

The OCC reserves a significant portion of the net position to cover foreseeable but rare events or new requirements and opportunities. The OCC also sets aside funds for ongoing operations to cover undelivered orders, the consumption of assets, and capital investments. The establishment of financial reserves is integral to the effective stewardship of the OCC's resources, particularly because the agency does not receive congressional appropriations. The contingency reserve also supports the OCC's ability to accomplish its mission by being available to reduce the impact on the OCC's operations of significant revenue fluctuations.

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

Figure 8 shows the OCC's composition of net position for FY 2014 and FY 2013.

Figure 8: Composition of Net Position (in Millions)



Source: OCC financial system data.

Office of the Comptroller of the Currency
Balance Sheets
As of September 30, 2014 and 2013
(in Thousands)

	2014	2013
Assets		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 11,750	$ 3,466
Investments and related interest (Note 3)	934,743	1,310,072
Accounts receivable (Note 4)	1,800	1,170
Other assets	347	165
Total intragovernmental	**948,640**	**1,314,873**
Accounts receivable, net (Note 4)	447,297	5,290
Property and equipment, net (Note 5)	144,515	156,658
Other assets	70	46
Total assets	**$ 1,540,522**	**$ 1,476,867**
Liabilities		
Intragovernmental:		
Accounts payable and other accrued liabilities	$ 10,213	$ 6,558
Total intragovernmental	**10,213**	**6,558**
Accounts payable	99	1,617
Accrued payroll and benefits	29,024	21,458
Accrued annual leave	49,041	48,959
Other accrued liabilities	20,005	22,530
Deferred revenue	275,507	239,272
Other actuarial liabilities (Note 8)	68,798	60,384
Total liabilities	**452,687**	**400,778**
Net position (Note 9)	**1,087,835**	**1,076,089**
Total liabilities and net position	**$ 1,540,522**	**$ 1,476,867**

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, 2014 and 2013
(in Thousands)

	2014	2013
Program costs:		
Supervise		
Intragovernmental	$ 128,473	$ 121,456
With the public	799,394	771,313
Subtotal—supervise	**$ 927,867**	**$ 892,769**
Regulate		
Intragovernmental	$ 15,739	$ 18,235
With the public	93,904	110,364
Subtotal—regulate	**$ 109,643**	**$ 128,599**
Charter		
Intragovernmental	$ 2,875	$ 2,852
With the public	16,734	16,894
Subtotal—charter	**$ 19,609**	**$ 19,746**
Total program costs	**$ 1,057,119**	**$ 1,041,114**
Less earned revenues not attributed to programs	(1,038,851)	(1,006,665)
Net program costs before gain/loss from changes in assumptions	**$ 18,268**	**$ 34,449**
Actuarial (gain)/loss (Note 8)	4,465	(5,238)
Net cost of operations (Note 10)	**$ 22,733**	**$ 29,211**

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, 2014 and 2013
(in Thousands)

	2014	2013
Beginning balances	$ 1,076,089	$ 1,073,457
Other financing sources:		
Imputed financing (Note 11)	34,479	31,843
Net cost of operations	(22,733)	(29,211)
Net change	11,746	2,632
Ending balances	**$ 1,087,835**	**$ 1,076,089**

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, 2014 and 2013
(in Thousands)

	2014	2013
Budgetary resources:		
Unobligated balance, brought forward, October 1	$ 1,076,391	$ 1,087,149
Adjustment to unobligated balance brought forward, October 1	0	0
Unobligated balance from prior year budget authority, net	1,076,391	1,087,149
Spending authority from offsetting collections	640,892	1,005,453
Total budgetary resources	**$ 1,717,283**	**$ 2,092,602**
Status of budgetary resources:		
Obligations incurred	$ 1,013,809	$ 1,016,211
Exempt from apportionment	703,474	1,076,391
Total unobligated balance, end of year	703,474	1,076,391
Total budgetary resources	**$ 1,717,283**	**$ 2,092,602**
Change in obligated balance:		
Unpaid obligation balance brought forward, October 1	$ 223,736	$ 284,513
Obligations incurred	1,013,809	1,016,211
Outlay (gross)	(1,003,374)	(1,076,988)
Unpaid obligation, end of year	234,171	223,736
Uncollected payment, federal source brought forward, October 1	(4,746)	(5,978)
Change in uncollected payment, federal source	(294)	1,232
Uncollected payment, federal source, end of year	(5,040)	(4,746)
Memorandum (non-add) entries		
Obligated balance, start of year	$ 218,990	$ 278,535
Obligated balance, end of year	$ 229,131	$ 218,990
Budget authority and outlays, net:		
Budget authority, gross	$ 640,892	$ 1,005,453
Actual offsetting collections	(640,598)	(1,006,685)
Change in uncollected payment from federal source	(294)	1,232
Budget authority, net	0	0
Outlay, gross	1,003,374	1,076,988
Actual offsetting collections	(640,598)	(1,006,685)
Agency outlay, net	**$ 362,776**	**$ 70,303**

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, 2014 and 2013
(in Thousands)

	2014	2013
Revenue activity:		
Sources of cash collections		
Civil money penalties	$ 379,337	$ 917,538
Accrual adjustment	3,873	1,076
Total custodial revenue	383,210	918,614
Disposition of custodial revenue:		
Transferred to Treasury	379,337	917,538
Decrease in amounts yet to be transferred	3,873	1,076
Total disposition for custodial revenue	383,210	918,614
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 to regulate the lending and investment activities of federally chartered institutions. With the passage of Dodd–Frank on July 21, 2010, the OCC also oversees federally chartered savings associations.

The financial statements report on the OCC's three major programs: supervise, regulate, and charter national banks and federal savings associations. The OCC's major programs support the agency's overall mission by ensuring a safe and sound system of national banks and federal savings associations; providing fair access to financial services and fair treatment of national bank and federal savings association customers; maintaining a flexible legal and regulatory framework that enables national banks and federal savings associations to provide a full, competitive array of financial services consistent with statutory and prudential safety and soundness constraints; and having a competent, highly motivated, and diverse workforce that makes effective use of the OCC's resources.

Basis of Accounting and Presentation

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 its financial statements on a comparative basis, providing information for FY 2014 and FY 2013.

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

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

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

In accordance with GAAP, the preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Such estimates and assumptions could change in the future 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 national banks and federal savings associations; from income on investments in nonmarketable U.S. Treasury securities; and from rent the CFPB pays the OCC for leasing office space. The OCC does not receive congressional appropriations to fund any of the agency's operations. Therefore, the OCC has no unexpended appropriations.

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

Funds from Dedicated Collections

Funds from dedicated collections are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. 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 (see Note 2).

Investments

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

Accounts Receivable

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

Property and Equipment

Property and equipment as well as internal-use software are accounted for in accordance with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," and SFFAS No. 10, "Accounting for Internal Use Software."

Property and equipment purchases and additions are stated at cost. The OCC expenses purchases that do not meet the capitalization criteria, such as normal repairs and maintenance, when received or incurred.

In addition, property and equipment are depreciated or amortized, as applicable, over the estimated useful lives using the straight-line method and are removed from the OCC's asset accounts in the period of disposal, retirement, or removal from service. Any difference between the book value of the property and equipment and amounts realized is recognized as a gain or loss in the same period that the asset is removed (see Note 5).

Liabilities

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

Accounts Payable

Payments have been accelerated to be made within 15 days in accordance with OMB Memorandum M-12-16, issued July 11, 2012. Interest penalties are paid when payments are late. Discounts are taken when cost effective and when the invoices are paid within the discount period.

Accrued Annual Leave

In accordance with SFFAS No. 5, annual leave is accrued and funded by the OCC as it is earned, and the accrual is reduced as leave is taken or paid. Each year, the balance in the accrued annual leave account is adjusted to reflect actual leave balances with current pay rates. Sick leave and other types of leave are expensed as incurred.

Deferred Revenue

The OCC's activities are primarily financed by assessments on assets held by national banks and federal savings associations. These assessments are due March 31 and September 30 of each year, based on the institutions' asset balances as of December 31 and June 30, respectively. Assessments are paid mid-cycle and are recognized as earned revenue on a straight-line basis. The unearned portions of 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. The CSRS and FERS are administered by the U.S. Office of Personnel Management (OPM). Pursuant to the enactment of Public Law 99-335, which established FERS, most OCC employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, are covered by the CSRS, 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 OTS and is closed to new entrants. 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. 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 Thrift Savings Plan and the OCC-sponsored 401(k) plan.

As required by law, for OTS employees transferred to the OCC, the OCC continues to offer a separate 401(k) plan. The amount of each participant's matching contribution is based on the applicable retirement system under which each participant is covered.

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

Post-Retirement Life Insurance Benefit Plan

The OCC sponsors a life insurance benefit plan for current and retired employees. The OCC's life insurance benefit plan is a defined benefit plan for which the benefit is earned over the period from the employee's date of hire to the date on which the employee is assumed to retire. The valuation of the plan is conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. Specifically, the OCC uses the actuarial cost method as outlined in FASB ASC Topic 715, "Compensation—Retirement Benefits," to determine costs for its retirement plans. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan. The actuarial assumptions and methods used in calculating actuarial amounts comply with the requirements for post-retirement benefits other than pensions as set forth in FASB ASC Topic 715 and for health benefit plans as set forth in American Institute of Certified Public Accountants Statement of Position 92-6, "Accounting and Reporting by Health and Welfare Benefit Plans."

Custodial Revenues and Collections

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the September 30, 2014 presentation.

Note 2—Fund Balance With Treasury

The status of the fund balance with Treasury (FBWT) represents the budgetary resources that support the FBWT and is a reconciliation between budgetary and proprietary accounts. The OCC's FBWT comprises 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 without further congressional action. The obligated balance not yet disbursed represents funds that have been obligated for goods that have not been received or services that have not been performed. It also represents goods and services that have been delivered or received but for which payment has not been made. The non-budgetary FBWT account represents adjustments to budgetary accounts that do not affect the FBWT. The OCC's balance represents investment accounts that reduce the status of the FBWT.

As of September 30, 2014, there were no unreconciled differences between U.S. Treasury records and balances reported on the OCC's general ledger.

The figure below depicts the OCC's FBWT amounts for FY 2014 and FY 2013.

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 $938.8 million on September 30, 2014, and $1,320.9 million on September 30, 2013. The overall portfolio earned an annual yield of 1.49 percent for FY 2014 and 1.60 percent for FY 2013.

The yield-to-maturity on the non-overnight portion of the OCC's investment portfolio ranged from 0.3 percent to 4.0 percent on September 30, 2014, and from 0.2 percent to 4.2 percent on September 30, 2013.

Fund Balance With Treasury (in Thousands)

	FY 2014	FY 2013
Fund balance		
Trust fund	$ 11,750	$ 3,466
Status of fund balance with Treasury		
Unobligated balance—available	$ 703,474	$ 1,076,391
Obligated balance not yet disbursed	229,131	218,990
Non-budgetary fund balance with Treasury	(920,855)	(1,291,915)
Total	**$ 11,750**	**$ 3,466**

FY 2014 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities					
Non-marketable market-based	$ 947,751	Effective interest	$ (16,248)	$ 931,503	$ 938,829
Accrued interest	3,240		0	3,240	3,240
Total intragovernmental investments	**$ 950,991**		**$ (16,248)**	**$ 934,743**	**$ 942,069**

FY 2013 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities					
Non-marketable market-based	$ 1,321,091	Effective interest	$ (14,595)	$ 1,306,496	$ 1,320,881
Accrued interest	3,576		0	3,576	3,576
Total intragovernmental investments	**$ 1,324,667**		**$ (14,595)**	**$ 1,310,072**	**$ 1,324,457**

Note 4—Accounts Receivable

As presented in the OCC's Balance Sheets, accounts receivable represent monies due from the public for services and goods provided that are retained by the OCC upon collection. The amounts shown for federal receivables include pension-sharing costs for OTS employees transferred to other federal agencies rather than to the OCC. Also included are CMP amounts assessed against people, national banks, or federal savings associations for violations of law, regulation, and orders; unsafe or unsound practices; and breaches of fiduciary duty. Because CMPs are not debts due the OCC, the amount outstanding does not enter into the calculation for the allowance for uncollectible accounts. The OCC collected $379.3 million and $917.5 million in CMP non-entity revenue as of September 30, 2014 and 2013, respectively. In FY 2014, the amount shown for nonfederal receivables includes assessment fees due from banks.

FY 2014 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Federal receivables	$ 1,800	$ 0	$ 1,800
CMP receivables	5,366	0	5,366
Nonfederal receivables	441,996	(65)	441,931
Total accounts receivable	**$ 449,162**	**$ (65)**	**$ 449,097**

FY 2013 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Federal receivables	$ 1,170	$ 0	$ 1,170
CMP receivables	1,493	0	1,493
Nonfederal receivables	3,822	(25)	3,797
Total accounts receivable	**$ 6,485**	**$ (25)**	**$ 6,460**

Note 5—Property and Equipment, Net

Property and equipment purchased at a cost greater than or equal to the noted thresholds below with useful lives of three years or more are capitalized at cost and depreciated or amortized, as applicable. Depreciation is expensed on a straight-line basis over the estimated useful life of the asset with the exception of leasehold improvements. Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the related leases or the estimated useful lives. Land, leasehold improvements in development, and internal-use software in development are not depreciated or amortized. Major alterations and renovations, including leasehold and land improvements, are capitalized, while maintenance and repair costs are charged to expenses as incurred. All other property and equipment are depreciated or amortized, as applicable, on a straight-line basis over the estimated useful lives.

For FY 2014 and FY 2013, the OCC recognized $1.7 million and $40.3 million, respectively, of fully depreciated assets or expired leasehold assets removed from service. In FY 2014 and FY 2013, the OCC recognized a loss of $14,200 and $8,400, respectively, on asset disposal. The figures below summarize property and equipment balances as of September 30, 2014 and 2013.

FY 2014 and FY 2013 assets include land and a building. The building is a rental-income property that the OCC uses to supplement its operating budget (see Note 6).

FY 2014 Property and Equipment, Net (in Thousands)

Class of assets	Capitalization threshold	Useful life (in years)	Cost	Accumulated depreciation/ amortization	Net book value
Land	NA	NA	$ 7,101	$ 0	$ 7,101
Building	50	50	49,188	(34,971)	14,217
Leasehold improvements	50	5-20	110,152	(36,736)	73,416
Equipment	50	3-10	55,745	(37,030)	18,715
Internal-use software	500	5	108,373	(80,054)	28,319
Internal-use software—development	500	NA	2,695	0	2,695
Leasehold improvements—development	50	NA	52	0	52
Total			**$ 333,306**	**$ (188,791)**	**$ 144,515**

FY 2013 Property and Equipment, Net (in Thousands)

Class of assets	Capitalization threshold	Useful life (in years)	Cost	Accumulated depreciation/ amortization	Net book value
Land	NA	NA	$ 7,101	$ 0	$ 7,101
Building	50	50	49,188	(33,918)	15,270
Leasehold improvements	50	5-20	106,729	(27,913)	78,816
Equipment	50	3-10	49,437	(31,364)	18,073
Internal-use software	500	5	102,726	(71,347)	31,379
Internal-use software—development	500	NA	5,513	0	5,513
Leasehold improvements—development	50	NA	506	0	506
Total			**$ 321,200**	**$ (164,542)**	**$ 156,658**

Note: NA means not applicable.

Note 6—Rental Income

In FY 2012, the OCC entered into a 20-year occupancy agreement with the CFPB for a portion of the building the OCC owns. The OCC also has noncancelable operating leases for additional space in that building and continues to receive rental income from building tenants. These leases expire at various dates through 2021, and some provide renewal options. The leases provide for annual base rent and additional rents for building operating expenses. Some leases also provide for fixed future increases in rents over the term of the lease.

The future minimum rental income through FY 2020 and thereafter, not including renewals, are shown below.

FY 2014 Future Rental Income (in Thousands)

Year	Amount
2015	$ 12,456
2016	12,704
2017	12,849
2018	13,100
2019	13,363
2020 and beyond	184,266
Total	**$ 248,738**

FY 2013 Future Rental Income (in Thousands)

Year	Amount
2014	$ 12,313
2015	12,287
2016	12,534
2017	12,678
2018	12,934
2019 and beyond	197,461
Total	**$ 260,207**

Note 7—Leases

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

The future minimum lease payments through FY 2020 and thereafter, not including renewals, are shown below.

FY 2014 Future Lease Payments (in Thousands)

Year	Amount
2015	$ 55,163
2016	54,224
2017	55,475
2018	49,929
2019	47,080
2020 and beyond	320,537
Total	**$ 582,408**

FY 2013 Future Lease Payments (in Thousands)

Year	Amount
2014	$ 56,367
2015	56,242
2016	56,278
2017	51,504
2018	48,492
2019 and beyond	332,934
Total	**$ 601,817**

Note 8—Other Actuarial Liabilities

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

Actuarial Liabilities (in Thousands)

Component	FY 2014		FY 2013	
Post-retirement life insurance benefits	$	61,275	$	53,258
Federal Employees' Compensation Act		6,547		6,298
Pentegra Defined Benefit Plan		976		828
Total actuarial liabilities	**$**	**68,798**	**$**	**60,384**

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 4.5 percent. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan.

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

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

Reconciliation of Beginning and Ending Post-Retirement Liability and the Related Expense (in Thousands)

Change in actuarial and accrued benefits	FY 2014		FY 2013	
Actuarial post-retirement liability beginning balance	$	53,258	$	54,101
Actuarial expense				
Normal cost		1,124		1,226
Interest on the liability balance		2,766		2,351
Actuarial (gain)/loss				
From experience		1,548		2,621
From assumption changes		4,465		(5,238)
Prior service costs		0		0
Total expense		9,903		960
Less amounts paid		(1,886)		(1,803)
Actuarial post-retirement liability ending balance	**$**	**61,275**	**$**	**53,258**

Federal Employees' Compensation Act

The Federal Employees' Compensation Act provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OCC employees covered under the Federal Employees' Compensation Act are administered by the U.S. Department of Labor and later billed to the OCC. The FY 2014 present values of these estimated outflows are calculated using a discount rate in the first year of 3.46 percent for wage benefits and 2.86 percent for medical benefits, and rates of 3.46 percent and 2.86 percent, respectively, in subsequent years. For FY 2013, the discount rates for wage and medical benefits were 2.73 percent and 2.33 percent, respectively, in the first year and 3.13 percent and 2.86 percent, respectively, in subsequent years.

Pentegra Defined Benefit Plan

In accordance with the provisions of Dodd–Frank, in FY 2012 the OCC assumed the role of benefit administrator for a legacy retirement system—the Pentegra DB Plan. The Pentegra DB Plan is a tax-exempt, multi-employer, defined benefit pension plan in which all costs are paid by the employer into one general account. A multi-employer plan is one to which two or more employers contribute. Multi-employer plans differ from single-employer plans in that a single-employer plan is available to participants from only one employer, while the multi-employer plan includes participants from multiple employers. Both plan types are pensions, but unlike multi-employer plans, which allow employees to maintain their pension accounts when they move from one employer to another within the same pension plan, single-employer pension plans only allow employees to build their share in a plan while they remain with that particular employer. At retirement, employees may either receive a lump sum payment or choose an annuity/lump sum split.

As of September 30, 2014 and 2013, the OCC recognized approximately $1.0 million and $0.8 million, respectively, for the Pentegra DB Plan liability.

Note 9—Net Position

Net position represents the net result of operations since inception and includes cumulative amounts related to investments in capitalized assets held by the OCC. The OCC sets aside a portion of its net position as contingency and asset replacement reserves for use at the Comptroller's discretion. In addition, funds are set aside to cover the cost of ongoing operations.

The figure below reflects balances for FY 2014 and FY 2013.

Net Position Availability (in Thousands)

Component	FY 2014	FY 2013
Contingency reserve	$ 690,162	$ 659,844
Asset replacement reserve	111,600	111,600
Set aside for ongoing operations:		
Undelivered orders	94,042	85,455
Consumption of assets	155,580	171,450
Capital investments	36,451	47,740
Net position	**$ 1,087,835**	**$ 1,076,089**

Note 10—Net Cost of Operations

The net cost of operations represents the OCC's operating costs deducted from assessments and fees paid by banks and other income earned. The operating costs include the gain or loss from actuarial experience and assumption changes per the guidance in 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 11, "Imputed Costs and Financing Sources," and in Note 12, "Reconciliation of Net Cost of Operations to Budget."

The figure below illustrates the OCC's operating expense categories for FY 2014 and FY 2013.

Net Cost of Operations by Expense Category (in Thousands)

	FY 2014		FY 2013	
Personnel compensation and benefits	$	726,085	$	691,853
Contractual services		114,419		128,013
Rent, communication, and utilities		73,081		80,606
Travel and transportation of persons and things		59,725		60,746
Imputed costs		34,479		31,843
Depreciation		25,988		21,807
Other		27,807		21,008
Total	**$**	**1,061,584**	**$**	**1,035,876**

Note 11—Imputed Costs and Financing Sources

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

The imputed costs categories for FY 2014 and FY 2013 are listed in the figure below. These imputed costs are included in the Statements of Net Cost. The financing sources absorbed by the OPM are reflected in the Statements of Changes in Net Position and in Note 12, "Reconciliation of Net Cost of Operations to Budget."

Imputed Costs Absorbed by the OPM (in Thousands)

Component	FY 2014		FY 2013	
Retirement	$	19,292	$	16,677
Federal Employees Health Benefits		15,145		15,119
Federal Employees' Group Life Insurance		42		47
Total imputed costs absorbed by the OPM	**$**	**34,479**	**$**	**31,843**

Note 12—Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget demonstrates the relationship between the OCC's proprietary accounting (net cost of operations) and budgetary accounting (net obligations) information. For FY 2014, the statement on the next page shows a total use of resources to finance activities of $407.4 million. This is a net increase of $364.8 million from FY 2013, when there were excess resources of $42.6 million. This net increase resulted primarily from a $364.6 million decrease in resources available (spending authority from offsetting collections)—attributable to a large portion of the OCC's assessment revenue being collected on October 1, 2014, rather than September 30, 2014—netted against the decrease of $2.4 million in resources used (obligations incurred) and the $2.6 million increase in imputed financing.

Office of the Comptroller of the Currency
Reconciliation of Net Cost of Operations to Budget
For the Years Ended September 30, 2014 and 2013
(in Thousands)

	FY 2014	FY 2013
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 1,013,809	$ 1,016,211
Less: Spending authority from offsetting collections	(640,892)	(1,005,453)
Net obligations	372,917	10,758
Other resources		
Imputed financing sources (Note 11)	34,479	31,843
Total resources used to finance activities	**$ 407,396**	**$ 42,601**
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	1,160	16,908
Resources that finance the acquisition of assets	(13,845)	(50,906)
Total resources used to finance items not part of the net cost of operations	(12,685)	(33,998)
Total resources used to finance the net cost of operations	**$ 394,711**	**$ 8,603**
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	36,235	(2,076)
Increase in exchange revenue receivable from the public	(438,134)	(3,743)
Total components that will require or generate resources in future periods	(401,899)	(5,819)
Components not requiring or generating resources		
Depreciation and amortization	25,974	21,808
Net increase in bond premium	3,933	4,611
Other	14	8
Total components that will not require or generate resources	29,921	26,427
Total components of net cost of operations that will not require or generate resources in the current period	**(371,978)**	**20,608**
Net cost of operations	**$ 22,733**	**$ 29,211**

Note 13—Contingent Liabilities

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

As of September 30, 2014, there were two contingencies for litigation involving the OCC. For one of these, there was a reasonable possibility that the OCC could incur a loss of $450,000, which comprises $150,000 in back pay plus interest and $300,000 in compensatory damages. For the second contingency where the risk of loss was probable, the OCC recorded a liability for FY 2014 of $1.3 million, which covered costs incurred for services provided. As of September 30, 2013, the OCC reported contingencies for litigations totaling $950,000 where the risk of loss was reasonably possible.

WILLIAMS
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Independent Auditors' 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, 2014 and 2013 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

Management is responsible for the preparation and fair presentation of these 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 audit. We conducted our audit 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 applicable provisions of the Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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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, 2014 and 2013, 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, Financial Summary, and Other Accompanying Information 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 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 the *Comptroller's Viewpoint*, and Sections One, Two, Three, and Four of OCC's fiscal year 2014 Annual Report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 13, 2014, on our consideration of the OCC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OCC's internal control over financial reporting and compliance.

Williams, Adley & Company-DC, LLP

Washington, D.C.
November 13, 2014

WILLIAMS ADLEY

Independent Auditors' Report on Internal Control over Financial Reporting

Comptroller of the Currency
Office of the Comptroller of the Currency

Inspector General
Department of the Treasury

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No.14-02, *Audit Requirements for Federal Financial Statements*, the balance sheets and statements of net cost, changes in net position, budgetary resources, and custodial activity of the Office of the Comptroller of the Currency (OCC), as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise OCC's basic financial statements, and have issued our report thereon dated November 13, 2014.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Purpose of this Report

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.

Williams, Adley & Company-DC, LLP

Washington, D.C.
November 13, 2014

WILLIAMS ADLEY

Independent Auditors' Report on Compliance and Other Matters

Comptroller of the Currency
Office of the Comptroller of the Currency

Inspector General
Department of the Treasury

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, the balance sheet and statements of net cost, changes in net position, budgetary resources, and custodial activity of the Office of the Comptroller of the Currency (OCC), as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise OCC's basic financial statements, and have issued our report thereon dated November 13, 2014.

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. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which the OCC's financial management systems did not substantially comply with the (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) application of the United States Government Standard General Ledger at the transaction level.

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Purpose of this Report

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, D.C.
November 13, 2014

Other Accompanying Information

Performance Measures and Results

The OCC's FY 2014 performance measures, workload indicators, customer service standards, and results are presented in figure 9.

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

Strategic goal	Performance measure workload indicator customer service standard	FY 2011	FY 2012	FY 2013	FY 2014	
					Target	Actual
I. A safe and sound national banking system and federal savings associations						
	Percentage of national banks and federal savings associations with composite CAMELS rating of 1 or 2[a]	75%	76%	80%	90%	***87%***
	Rehabilitated problem national banks and federal savings associations as a percentage of the problem national banks one year ago (CAMELS 3, 4, or 5)[a]	22%	27%	34%	40%	***39%***
	Percentage of national banks and federal savings associations that are well capitalized[a]	93%	92%	94%	95%	***93%***
	Percentage of critically undercapitalized banks and federal savings associations on which responsible action is taken within 90 calendar days after they become critically undercapitalized	100%	100%	100%	100%	100%
	Average survey response that the report of examination clearly communicated examination findings, significant issues and the corrective actions management needed to take[b]	1.45	1.41	1.35	≤1.75	1.59
II. Fair access to financial services and fair treatment of national bank and federal savings association customers						
	Percentage of national banks and federal savings associations with consumer compliance rating of 1 or 2. For institutions with assets over $10 billion these ratings will reflect only those laws and regulations for which the OCC has enforcement and supervisory authority	94%	93%	94%	94%	***95%***
	Percentage of community banks that are within one year of their first Intermediate Small Bank or Large Bank Community Reinvestment Act 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	44%	56%	71%	80%	51%
	Number of consumer complaints opened/closed during the fiscal year[c]	85,127/ 85,128	66,161/ 59,130	44,370/ 44,274	40,000/ 80,000	27,783/ 73,806
III. A flexible legal and regulatory framework that enables national banks and federal savings associations to provide a full, competitive array of financial services consistent with statutory and prudential safety and soundness constraints						
	Percentage of external legal opinions issued within established time frames	91%	90%	96%	90%	95%
	Number of external legal opinions issued during the fiscal year	77	59	44	60	37
	Percentage of licensing applications and notices filed electronically	53%	42%	39%	35%	41%
	Number of licensing applications and notices filed electronically during the fiscal year	1,610	1,374	1,320	1,100	1,251
	Percentage of licensing applications and notices completed within established time frames	97%	98%	97%	95%	98%
	Number of licensing applications and notices completed during the fiscal year	1,382	1,614	2,378	2,100	2,624
	Average survey rating of the overall licensing services provided by the OCC[d]	1.31	1.22	1.25	≤1.5	1.20
IV. A competent, highly motivated, and diverse workforce that makes effective use of OCC resources						
	Total OCC costs relative to every $100,000 in assets regulated	$8.76	$10.51	$9.99	$10.20	$9.75

Note: Before FY 2012, OCC performance measures included only supervision of national banks. On July 21, 2011, the OCC assumed responsibility for regulating federal savings associations. Therefore, FY 2012 is the new baseline year for the OCC, with new measures that include both national banks and federal savings associations. All data before FY 2012 include only national banks.

[a] These performance measures for fiscal year 2014 are below target primarily because of the continued difficulties in the economic environment. The OCC continues to closely monitor the capital levels and performance of all the banks it regulates.

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

[c] Total complaint cases include complaints against national banks and federal savings associations regulated by the OCC, complaints referred to other regulators (CFPB, Federal Reserve Board, FDIC, state banking agencies) and others, and complaints received from other regulators and others. The CAG unit identifies complaints received from these sources as "total complaints."

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

Improper Payments Elimination and Recovery Improvement Act

The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), as implemented by the OMB, requires federal agencies to review all programs and activities annually and identify those that may be susceptible to significant erroneous payments. The OCC analyzed payments (excluding payroll) made during FY 2014 and identified 134 erroneous payments requiring adjustments totaling $74,996. The primary source of these erroneous payments is adjustments to travel reimbursements made to employees as identified through the OCC's continuous data analytics audit program. Erroneous payments are identified and monitored daily to ensure prompt recovery. The underlying causes and contributing factors are identified quickly, and control measures are implemented to prevent additional erroneous payments. In addition, the OCC has been working with the Treasury Department to implement the Do Not Pay (DNP) initiative per OMB guidelines.

Through a combination of pre-award reviews, Treasury pay file reviews, and DNP continuous monitoring efforts, the OCC ensures effective controls are in place to limit payments to ineligible vendors and to meet the DNP requirements of IPERIA. Future steps in the ongoing implementation include continuous monitoring of all OCC vendors using the DNP monitoring tool.

The OCC corrected and recovered all erroneous payments made during the year. Figure 10 summarizes the OCC's erroneous payments for FY 2014 and FY 2013.

Figure 10: Erroneous Payments

	FY 2014	FY 2013
Number of payments	134	159
Dollar value of adjustments	$74,996	$151,336

Source: OCC financial system data.

Assurance Statement

The Office of the Comptroller of the Currency (OCC) met the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and Office of Management and Budget (OMB) Circular A-123 during fiscal year (FY) 2014.

The OCC's systems of management control ensure that

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

I am providing unqualified assurance that the OCC achieved the above listed management control objectives without material weakness during FY 2014. Specifically, this assurance is provided relative to Sections 2 and 4 of the FMFIA.

The OCC conducted its assessment of the effectiveness of its internal control over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the OCC can provide unqualified assurance that its internal control over financial reporting was operating effectively as of June 30, 2014, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

I am reporting substantial compliance with the requirements imposed by the FFMIA. In the management letter that accompanied their FY 2013 financial statement audit report, our external auditors identified three areas where the OCC has an opportunity to strengthen internal controls. Two of the three issues were addressed in their entirety during FY 2014. The corrective action for the third issue, which is our revised contingency and disaster recovery strategy, extends over a consecutive four-year period that began in FY 2014. It incorporates the incremental deployment of the technology systems, infrastructure, and hosting facilities necessary to sustain OCC priority business processes and functions in the midst of a disruptive event.

I am also providing unqualified assurance that our supervision programs achieved intended results despite the challenges that continued to confront national banks and federal savings associations (collectively, banks).

Federally chartered institutions have made significant strides since the financial crisis in repairing their balance sheets through stronger capital, improved liquidity, and timely recognition of problem loans. While these are positive developments, banks are challenged to sustain revenue growth given strong competition in an environment of prolonged low interest rates and an uneven economic recovery. To maintain earnings, many banks continue to increase their risk appetites. Additionally, the pace, volume and complexity of the changing technology, regulatory, and competitive environments are challenging and straining banks' resources and risk management structures. As a result, banks need to remain sufficiently agile and forward-looking in their risk management and governance to ensure safe and sound operations.

The OCC is the only bank regulator whose mission is to license, supervise, and regulate the national banks and federal savings associations. Our "One OCC" approach to bank supervision includes several efforts that cut across the agency to enhance our capacity to do our job well, and to help us better allocate agency resources to the highest supervisory priorities. We have undertaken several initiatives to better allocate our resources, enhance metrics and analytics, and make process improvements to our quality assurance programs. We have increased staffing across our bank supervision program. We have hired experienced professionals in several specialty areas, including credit risk, operational risk, Bank Secrecy Act/Anti-Money Laundering (BSA/AML), and information technology. To develop and engage our examiners, we provide internal and external formal training and rotational assignments that foster the exchange of information, on-the-job training, and leadership development. Our aggressive cross-credentialing program qualifies examiners to lead examinations of both national banks and federal savings associations.

To best align resources to meet our objectives, we implemented changes in our large bank supervision (LBS) program to broaden the roles and responsibilities of our lead experts. These are experienced examiners who have demonstrated expertise in specialized risk areas. In addition to an enhanced role in supervisory analytics and horizontal analyses, lead experts are taking an expanded role in the review and completion of supervisory strategies, helping to ensure that LBS is consistent in its use of matters requiring attention and enforcement actions across the portfolio, and assisting in policy development (both domestic and international).

Consistent with our strategic initiatives, we are using and enhancing an integrated, broad approach to supervision. This approach includes integrating market-based and supervisory data and analyses more effectively into our supervision strategies and providing examiners and bankers with forward-looking perspectives on emerging risks and pressure points, both systemically and for individual organizations.

OCC bank supervision includes a focus on effective policy development and initiatives to educate examiners and bankers on new policies and regulations. OCC management ensures that issues, trends, and risks are discussed and, as appropriate, addressed in policy guidance and regulations. Among other issuances to communicate sound practices, we published guidance on sound risk management practices for leveraged lending (March 2013), third-party relationships (November 2013), deposit advance products (December 2013), home equity lines of credit that are approaching their end-of-draw periods (July 2014), and consumer debt sales (August 2014). Among several efforts to promote consistency in our supervision, we have made significant progress on integrating the OCC and former Office of Thrift Supervision policy platforms. This includes our multi-year effort to update and integrate the *Comptroller's Handbook,* our suite of examination procedures, with updated booklets on mortgage banking, and various commercial credit, asset management, and consumer compliance topics. In addition, we have made it a priority to enhance our banker and industry outreach activities that allow us to discuss and provide guidance on risk management practices and emerging risks.

The OCC's National Risk Committee (NRC) continues to serve as the agency's primary forum for monitoring the condition of the banking industry and advancing our efforts to identify threats to the system's safety and soundness. The NRC monitors evolving business practices and financial market issues and helps to formulate the OCC's annual bank supervision operating plan, which guides supervisory strategies for the coming year. The plan builds on and supports our strategic initiatives to make the OCC a stronger and more effective agency. The NRC continues to publish the *Semiannual Risk Perspective*. This report provides examiners and bankers with the OCC's view, derived from supervisory activity and outside sources, of where systemic threats are building. The NRC's internal issuances are also used by our examiners to identify and monitor risks.

The OCC actively participates on various interagency and international committees, including the Federal Financial Institutions Examination Council (FFIEC), the Financial Stability Oversight Council, the Basel Committee on Bank Supervision, and the Financial and Banking Infrastructure Committee. We also regularly engage with other external groups, such as the Financial Accounting Standards Board.

We carefully assess potential implications of proposed and final policies and rulemakings on national banks' and federal savings associations' business strategies and risk profiles. We are keenly aware of the special challenges that community banks face in keeping abreast of, and complying with, new regulatory requirements, and we look for ways to explain and organize our rulemakings to assist community bankers with understanding the scope and application of the rules to their institutions. During the past year, we revamped the format of our banking bulletins to include both a "highlights section" that succinctly summarizes the major provisions of the issuance and features a prominent box written in plain language text that allows community banks to assess quickly whether and to what extent the issuance applies to them. Together with the Federal Reserve Board (FRB) and the Federal Deposit Insurance Corporation (FDIC), we also launched our decennial review to identify outdated, unnecessary, or unduly burdensome regulations, pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA).

Through joint efforts with the other federal banking agencies, the OCC continues to implement provisions of the Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and other supervisory initiatives through proposed and final rulemakings, supervisory policy issuances, and interagency information sharing.

We continue our collaboration and coordination with the FRB, the FDIC, and the Consumer Financial Protection Bureau to better leverage our collective resources and reduce regulatory burden on the institutions we supervise. We actively seek input from the FRB and the FDIC early in our process of developing examination strategies, and we invite them to attend meetings of the NRC. We are also working to build and strengthen international regulatory relationships through participation in supervisory colleges and crisis management groups.

We have communicated our heightened expectations for governance and risk management of large banks and are measuring progress in their achievement. On September 2, the OCC published its final heightened expectations guidelines as a new Appendix D to 12 CFR 30. We will continue to focus on raising the bar for banks across key governance and risk management functions, as well as on validating banks' tools for measuring progress toward meeting the standards contained in the guidelines. In addition, we will continue the legal entity simplification initiative for reducing the volume and complexity of bank legal entities and ensuring alignment with lines of business. We will also continue to benchmark the composition of board risk management committees to ensure the right skills and perspectives are in place.

Pursuant to the Dodd–Frank Act, the OCC implemented the annual company-run stress test for national banks and federal savings associations with total assets greater than $10 billion. In coordination with the Federal Reserve, we implemented processes for examining the stress testing models and analytical frameworks used by banks to project revenues, expenses, losses, and capital ratios under hypothetical distressed economic conditions. The objective of this examination process is to ensure that each bank's stress testing process and approach are credible and provide the OCC, the board of directors, and management with reliable, forward-looking risk information that can be used to assess capital adequacy. More generally, our examiners reinforce with banks the standards addressed in our capital planning guidance.

The OCC continues its focus on strong supervision of BSA/AML. These efforts include updates to examiner training and guidance and implementing steps in our examination process to promptly obtain a holistic view of a bank's BSA/AML compliance. We have a cross-functional review team to ensure consistency in large bank BSA/AML supervision and enforcement. The OCC's Major Matters Supervision Review Committee further strengthens and enhances our review process of significant enforcement cases, including large bank BSA/AML cases. This committee includes the most senior staff within the OCC. Consistent with new internal guidance, we more heavily weight BSA/AML in the management component of the CAMELS rating. Finally, we maintain an ongoing dialogue with the Financial Crimes Enforcement Network and other regulatory bodies to ensure prompt revision to policies and guidance provided to OCC examiners.

Another area of concern is the increase in the sophistication of cyber threats. Cyber-attacks are a significant threat to banks of all sizes. Adversaries have the motivation and resources to create attacks with significant destructive intent. Financial institutions are highly dependent on telecommunications and third parties, providing adversaries with opportunities for attacks that could disrupt multiple institutions or the broader financial system. Operational risks, including cyber threats, are heightened by the interconnected and interdependent financial services landscape. In the same way that a chain is only as strong as its weakest link, the security of financial services is only as strong as its weakest participant.

Our supervision strategy regarding cybersecurity is to ensure that institutions continue to focus on processes and controls to mitigate this rapidly changing threat through strong risk management and governance processes and controls, and with the ongoing involvement and support of senior management and boards. In addition, we are strengthening processes to share threat information and mitigation strategies among agencies and financial institutions. The OCC has issued guidance and alerts and has collaborated with the other agencies to address information systems and technology policy issues that can assist banks in managing their risks. The OCC's Senior Critical Infrastructure Officer coordinates our response to the increasing sophistication of cyber threats and critical infrastructure vulnerabilities and leads agency efforts to enhance information sharing and coordination across federal banking and state regulatory agencies. The OCC chairs the Cybersecurity and Critical Infrastructure Working Group established by the FFIEC in June 2013. The FFIEC formed the group to promote coordination and communications among its member agencies and build on existing efforts to strengthen the activities of other interagency and public/private sector groups. The OCC also continues to partner with law enforcement, other federal agency stakeholders, and the intelligence community on common initiatives.

Analytical Basis of Assurance Statement

The OCC evaluated its management controls in accordance with the FY 2014 Secretary's Assurance Statement Guidance of June 13, 2014 (revised August 15, 2014), and considered

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

Information considered in our control assessment included

- FMFIA certifications submitted by each Executive Committee member;
- FFMIA certification submitted by our Chief Financial Officer;
- results of internal control testing under OMB Circular A-123, Appendix A;
- quality management program descriptions submitted by each Executive Committee department;
- results of control self-assessments completed by OCC managers in FY 2014;
- audit reports and evaluations issued by the Government Accountability Office (GAO) and the Treasury Office of the Inspector General;
- results of other external and internal reviews;
- assessment of the Improper Payments Elimination and Recovery Act submitted to the Department of the Treasury in July 2014;
- FFMIA Final Compliance Determination Worksheet submitted to the Department of the Treasury in September 2014;

- unmodified and timely audit opinion on FY 2013 financial statements; and
- certified public accountant Williams Adley's October 2014 status report on the FY 2014 financial statement audit, in which no reportable items were noted.

Thomas J. Curry
Comptroller of the Currency

Abbreviations

ASC	Accounting Standards Codification
BSA/AML	Bank Secrecy Act/Anti-Money Laundering
CAG	Customer Assistance Group
CAMELS	capital, asset quality, management, earnings, liquidity, and sensitivity to market risk
CFPB	Consumer Financial Protection Bureau
CFR	Code of Federal Regulations
CMP	civil money penalty
CRA	Community Reinvestment Act
CSRS	Civil Service Retirement System
DB	defined benefit
DNP	Do Not Pay
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
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
FinCEN	Financial Crimes Enforcement Network
FMFIA	Federal Managers' Financial Integrity Act

FRB	Federal Reserve Board
FSA	Federal savings association
FY	fiscal year
GAAP	generally accepted accounting principles
HELOC	home equity line of credit
IPERIA	Improper Payments Elimination and Recovery Improvement Act
LBS	large bank supervision
LSS	Lean Six Sigma
MRA	matters requiring attention
NBE	National Bank Examiner
NIM	net interest margin
NRC	National Risk Committee
OCC	Office of the Comptroller of the Currency
OM	Office of Management
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OTS	Office of Thrift Supervision
ROE	return on equity
SCRA	Servicemembers Civil Relief Act
SFFAS	Statement of Federal Financial Accounting Standards
SNC	shared national credits
TruPS	trust preferred securities

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OCC Mission, Vision, and Core Values

Mission

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

Vision

The OCC is a preeminent prudential supervisor that

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

Core Values

- Integrity
- Expertise
- Collaboration
- Independence

Interagency Employee Engagement Mortgages Audit Safet
Management Risk Appetite Risk Retentio
Aligning Messaging Analytics Strategic Planning Str
Lending Liquidity Diversity Bank Secrecy Act Operational Risk
Local Presence Interest Rates Swaps Margins Engaging Capital
Accountability Supervising Co