Office of the Comptroller of the Currency

ANNUAL REPORT

2019

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2019 ANNUAL REPORT

ABOUT THIS REPORT

The fiscal year (FY) *2019 Annual Report* provides Congress with an overview of the condition of the federal banking system.[1] The annual report discusses the OCC's strategic priorities and details agency regulatory and policy initiatives. Additionally, the report discusses the agency's financial management and condition, including its audited financial statements.

1 Unless otherwise noted, all references to 2019 in this report refer to the fiscal year ending September 30, 2019.

2019 ANNUAL REPORT

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ABOUT THE OCC

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

The OCC charters, regulates, and supervises national banks and federal savings associations and licenses, regulates, and supervises federal branches and agencies of foreign banking organizations.[2] The agency also supervises services provided by certain third parties.[3] The OCC oversees the organization and structure of the federal banking system and maintains a supervisory framework that encourages banks to responsibly innovate and adapt to meet the evolving financial needs of consumers, businesses, and communities nationwide. The agency issues regulations to implement federal banking laws. It also uses a risk-based supervision process focused on evaluating banks' risks, identifying material and emerging concerns, and requiring banks to take corrective action when warranted.

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

Headquartered in Washington, D.C., the OCC has offices in 60 cities nationwide, with 87 supervisory operating locations and four district offices.

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

MISSION

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

CORE VALUES

- Integrity
- Expertise
- Collaboration
- Independence

OUR VISION

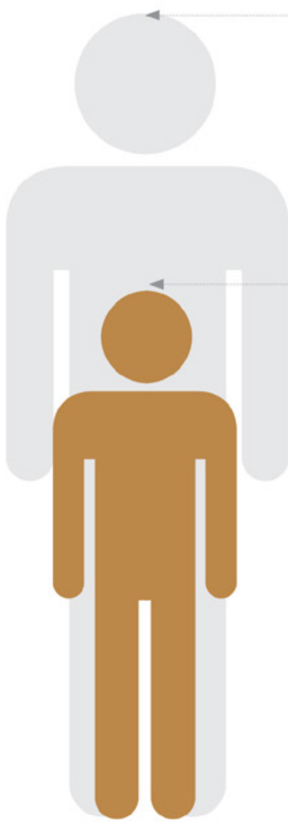
The OCC is the preeminent prudential supervisor that

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

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

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

Office of the Comptroller of the Currency AT A GLANCE

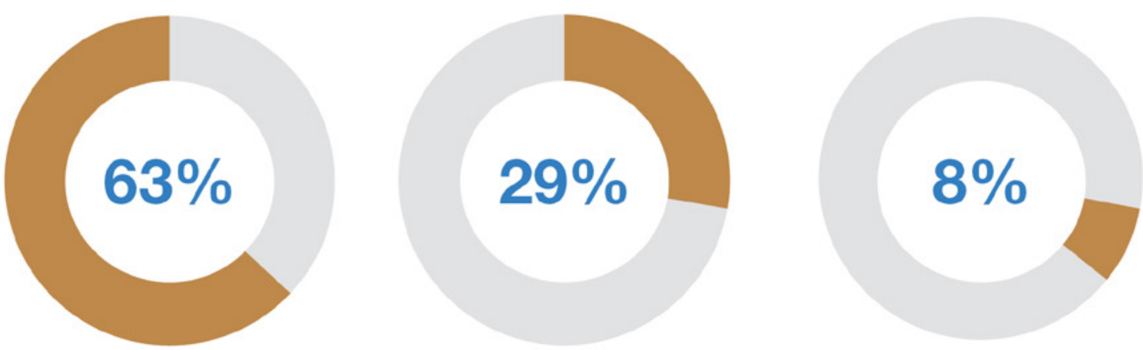


3,699
OCC employees

66%
of employees are bank examiners

Federally chartered banks receive consistent, bank-level supervision across examination cycles by examiners who leverage agency experts with knowledge of specific banking issues, laws, economics, accounting, innovation, information technology, and data security. OCC examiners, located in banks and OCC offices across the United States, conduct on-site examinations in scheduled cycles and maintain a continuous presence in the nation's largest banks. Bankers regularly interact with OCC examiners and other district staff who are familiar with the needs of local markets and communities. Examiners analyze banks' ability to identify, measure, monitor, and control risk, such as with banks' loan and investment portfolios, capital adequacy, earnings, liquidity, and sensitivity to market conditions. Examiners assess corporate governance and banks' compliance with laws and regulations. Examiners also review internal controls, internal and external audits, and information technology systems, including with respect to cybersecurity.

Percentage of examiners assigned to



Community and midsize bank supervision | Large bank supervision | Other lines of business

95.6%
% Revenue from assessments

60
Cities with offices

$1.086 billion
Budget authority

87
Supervisory operating locations

Western District Supervision
Cities with offices, 18
National banks, 119
FSAs, 49

Southern District Supervision
Cities with offices, 16
National banks, 304
FSAs, 45

Central District Supervision
Cities with offices, 16
National banks, 220
FSAs, 107

Headquarters Supervision
Large banks, 38
Midsize banks, 38
Federal branches and agencies, 57

Northeastern District Supervision
Cities with offices, 10
National banks, 121
FSAs, 89

COMPTROLLER'S VIEWPOINT

During 2019, the OCC made significant strides to promote economic opportunity through its focused priorities and activities. This progress occurred while the OCC ensured that the federal banking system operated in a safe, sound, and fair manner.

Joseph M. Otting
Comptroller of the Currency

Comptroller Priorities

To achieve the agency's mission, my 2019 priorities remained consistent and include

- modernizing the regulatory approach to the Community Reinvestment Act (CRA).
- encouraging the federal banking system to meet short-term, small-dollar credit needs.
- reducing the burden of Bank Secrecy Act (BSA) and anti-money laundering (AML) compliance while protecting the financial system.
- operating the agency as efficiently and effectively as possible.
- empowering the OCC's staff to meet agency strategic objectives.

Modernizing the Regulatory Approach to the CRA

The CRA remains a critical tool to encourage lending, investment, and bank services in communities that need them most. Since 1977, the CRA has been responsible for trillions of dollars in lending and investment in neighborhoods across the country. More can be done by modernizing regulations that implement the CRA.

This year, we reviewed approximately 1,500 comments from our 2018 advance notice of proposed rulemaking. Respondents overwhelmingly supported modernizing the CRA regulations. Regulators could update four areas to encourage more investment, lending, and services:

- Clarify which activities qualify for CRA consideration: Requiring regulators to publish lists of approved loan products, investments, and services, and creating transparent processes for seeking approval of new activities would eliminate ambiguity regarding which activities count toward CRA performance.

- Expand assessment areas to match how consumers bank today: Requiring banks to delineate assessment areas not only around branches, headquarters, and deposit-taking ATMs, but also in areas where they have significant concentrations of deposit customers, would help eliminate CRA deserts and stimulate investment and lending in rural communities. Adding assessment areas that capture banks' broader customer bases would reflect advances in technologies delivering bank products and services and hold banks more accountable for meeting the needs of their entire communities.
- Create a more objective means to evaluate CRA performance: Objective, empirical benchmarks would reduce subjectivity in evaluating CRA performance. Benchmarks would be set to motivate more investment, lending, and services.
- Make reporting more timely and transparent: More standardized reporting would allow for comparison across the industry and over time, reduce the gaps between published performance evaluations, and bring greater predictability to certain licensing applications.

To see firsthand the success of CRA activity and to discuss with how CRA regulations can be improved, this summer I visited five cities—Atlanta, Baltimore, Los Angeles, New York, and Washington, D.C.—and several pueblos in New Mexico.

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

Millions of consumers rely on short-term, small-dollar banking products each year. The institutions we supervise play an important role in helping Americans not only achieve long-term financial goals but also deal with unforeseen short-term expenses. When banks do not participate in the small-dollar credit market, consumers have fewer choices, which often leads to short-term credit products with higher prices and less favorable terms.

When banks offer short-term loan products with sustainable pricing and repayment terms, consumers benefit from other banking services, such as financial education and credit reporting.

Civil rights leader and former ambassador Andrew Young (center) discussed his documentary *The Color of Money* before an audience of OCC employees with John Hope Bryant (left), CEO and founder of Operation HOPE, and Comptroller Otting (right) on May 22, 2019.

Banks may not be able to serve all of this market, but they can reach a significant portion of it and bring additional options and more competition to the marketplace. The OCC will continue to work with the other federal banking regulators to explore principles-based options to encourage banks to deliver safe, fair, and less expensive short-term credit products that support the long-term financial health of their customers.

Reducing the Burden of BSA/AML Compliance

The OCC is committed to ensuring that the institutions it supervises have robust controls to safeguard them from being used as vehicles to launder money or to facilitate terrorist financing or other federal crimes. In May, Senior Deputy Comptroller for Bank Supervision Policy Grovetta N. Gardineer testified before the U.S. Senate Committee on Banking, Housing, and Urban Affairs on the need to update the nearly 50-year-old BSA/AML regime. The regulations should be updated to address rapidly evolving risks, including the inappropriate use of shell companies, and to make better use of technology to protect the financial system from illicit activity.

The agency recognizes that private sector innovation, including new use of existing tools and adopting new technologies, can play a role in identifying suspicious activity and combating money laundering and terrorist financing. In two statements issued in late 2018, the OCC and the other federal financial regulatory agencies encouraged banks to use innovative technologies to help meet their compliance obligations and issued guidance on ways that community banks with lower BSA risk profiles can share resources related to BSA compliance to reduce costs and increase operational efficiency.

In addition, the agencies, together with the Financial Crimes Enforcement Network, formed a working group in 2018 to improve the effectiveness and efficiency of banks' BSA/AML compliance. In 2019, the working group released a joint statement to improve the transparency of the agencies' risk-focused approach to BSA/AML supervision. Under this approach, the federal banking agencies tailor examination plans and procedures based on the unique risks of each bank, thereby allowing banks to allocate compliance resources commensurate with their risks. We are also working with other agencies to update the Federal Financial Institutions Examination Council's *BSA/AML Examination Manual* to further clarify this approach.

Operating Efficiently and Effectively

This year, our focus on improving the agency's efficiency and effectiveness yielded meaningful results. We reduced our budget by 15 percent compared with 2018. We did this, in part, by investing in employees and technology to meet our mission for years to come. Additionally, we built on this progress by better

Comptroller Otting discusses his priorities during Consumer Bankers Association Live 2019 in April. The Comptroller spoke about modernizing the CRA, increasing responsible choices for consumers to meet their small-dollar credit needs, making BSA compliance more efficient and effective, and promoting more consumer choice by supporting responsible innovation in banking. (OCC photo) aligning OCC business units and continuing our efforts to modernize the OCC's approach to bank supervision.

Because of these and other efficiencies, the OCC reduced the amount we charge banks for our supervision. We reduced the 2019 marginal rates in the general assessment fee schedule by 10 percent and will reduce the fees again by 10 percent for the 2020 calendar year. The reductions in rates reflect cost savings in the OCC's operations and align the OCC's revenues with the agency's streamlined cost structure.

Aligning OCC Business Units

The Executive Committee reviewed the agency's structure to identify ways to better align like work, eliminate redundancies, clarify lines of communication, present a single voice to supervised institutions, and generate additional synergies.

As a result, we realigned certain functions. Within supervision, we combined the Chief National Bank Examiner's office and Compliance and Community Affairs into the Bank Supervision Policy Department, allowing the OCC to present a single supervisory policy voice to the institutions we oversee. We established the Chief Operating Officer position, which has direct responsibility over the agency's core mission functions of supervision and supervision policy. In addition, two new units that consolidate certain supervision and supervision-support functions report to the Chief Operating Officer. These changes took effect October 1, 2019.

We also realigned business units within the Chief Counsel's Office, the Economics Department, and Information Technology Services.

Modernizing Approach to Bank Supervision

We are modernizing our approach to bank supervision by leveraging technology. With the introduction of the single supervisory platform project, we set out to integrate the agency's supervision practices, processes, systems, and tools to provide near real-time enterprise data and analytics. The agency expects to deploy a single supervisory platform by FY 2021.

In 2019, the agency completed phases I and II of the project. During phase I, project leaders verified the current state of supervision, including workflow, people, processes, requirements, systems, data, analytics, and tools. During phase II, project teams used a gap analysis to gather information, identify opportunities for consolidation, and prepare recommendations for developing the system in phase III.

Empowering Employees

Employee engagement is crucial to the success of our mission. The OCC promotes engagement by providing meaningful work in a supportive, professional environment where team members share a common vision. To achieve that vision, our employee engagement plan includes

Comptroller Otting (left) and Senior Deputy Comptroller and Chief Operating Officer Morris Morgan (right) speak to employees during the Comptroller's Fireside Chat in January 2019. The event was one of three town hall-style events that the Comptroller held in 2019 to update employees on agency priorities and the strategic plan. (OCC photo)

- implementing a redesigned performance management program to more effectively recognize high performance and support the growth and development of employees through pay and other forms of recognition.
- improving our communication to ensure employees understand the rationale for changes and to help employees facilitate smooth transitions.
- following up on feedback from previous year surveys and implementing ongoing employee engagement discussions at all levels throughout the organization.

Through ongoing dialogue, in 2019 we fostered employee engagement and affirmed the OCC's commitment to organizational goals and values. In 2019, the senior leadership team demonstrated its commitment to engagement through various initiatives in the 2019 executive committee engagement action plan as well as other actions taken based on employees' feedback, including the Federal Employee Viewpoint Survey.

Other Activities and Progress

The agency continued to promote diversity and financial literacy, to simplify capital requirements and the Volcker rule, to implement the Economic Growth, Regulatory Relief, and Consumer Protection Act (Economic Growth Act), and to promote responsible innovation.

Promoting Diversity and Financial Literacy

As we support banks in giving back to their communities, expanding financial literacy, and promoting diversity, I want the OCC to lead by example. In 2019, we launched the OCC High School Scholars Internship Program for rising seniors from District of Columbia public or charter high schools. Our inaugural class consisted of 80 minority students. The students spent six weeks over the summer learning about the OCC and gaining valuable employment experience and meaningful life skills, including financial literacy. Programs such as these enrich the lives of participants and benefit sponsoring organizations by promoting diversity, bringing fresh perspectives to the agency, and facilitating mentor relationships with potential federal employees.

The program is consistent with the requirement of section 342 of the Dodd–Frank Wall Street Reform and Consumer Protection Act, which requires the OCC to partner with organizations that are focused on developing opportunities to place talented young minorities and women in industry internships and summer employment.

Simplifying Capital Requirements and the Volcker Rule

The federal banking agencies progressed toward streamlining capital requirements, especially for community and midsize banks. Since issuance of the capital rule in 2013, banks and other stakeholders

Glenda B. Cross, Director for Minority Outreach (standing), joins Comptroller Otting (center) and Washington, D.C., Mayor Muriel E. Bowser (left) to welcome 80 rising seniors from D.C. area high schools to the inaugural OCC High School Scholars Internship Program. (OCC photo) have raised concerns regarding regulatory burden, complexity, and costs associated with parts of the rule. In July 2019, the federal banking agencies finalized a rule simplifying compliance with several aspects of the capital rule for community banks.

The OCC and other federal financial regulatory agencies approved a final rule amending section 619 of Dodd–Frank, known as the Volcker rule. The final rule tailors compliance requirements for banks that do not engage in significant trading activities and clarifies the key provisions around prohibited and permissible activities. In particular, the final rule revises those requirements that were not effective at distinguishing between prohibited and permissible activities and that restricted responsible banking activity.

Under the revised requirements, banks with less than $1 billion in trading assets and liabilities are presumed to comply with the Volcker rule and have no obligation to demonstrate compliance. These changes provide regulatory relief to institutions that do not pose the types of risks the Volcker rule was intended to limit. The final rule will become effective on January 1, 2020, with a compliance date of January 1, 2021.

Economic Growth, Regulatory Relief, and Consumer Protection

In the year since passage of the Economic Growth Act, the OCC and other federal banking agencies have issued several rules to implement Economic Growth Act provisions and reduce unnecessary regulatory burden, particularly on small and midsize banks.

A rule published in December 2018 expanded the eligibility for an extended 18-month on-site examination cycle to qualifying insured depository institutions with less than $3 billion in total assets. In June 2019, the federal banking agencies expanded the eligibility of some smaller, less complex banks to use short-form call reports, which require less time and effort to file.

The OCC issued a rule in May 2019 expanding the flexibility of the federal savings association charter by allowing certain federal savings associations to operate as covered savings associations and elect national bank powers. This rule provides federal savings associations having total assets of $20 billion or less with a streamlined process for adapting their business models to changing community needs without changing their charters.

The OCC remains committed to completing the implementation of the Economic Growth Act in collaboration with the other federal agencies.

Encouraging Responsible Innovation

Innovation, including the rapid growth of financial technology (fintech), is changing how banking products and services are delivered and consumed. Responsible innovation can increase consumer choice, improve the delivery of products and services, and enable financial institutions to meet the needs of consumers, businesses, and communities more effectively. Innovation can also enhance a bank's ability to compete by gaining operating efficiencies and increasing effectiveness.

The OCC has led the banking sector in promoting responsible innovation. We work closely with banks and fintech companies through our Office of Innovation, which is a clearinghouse for innovation-related activities and serves as the OCC's central point of contact for staff, banks, nonbank companies, and other industry stakeholders on innovative matters. In its third year of operation, the office directs resources to researching and monitoring trends and technologies, fostering agency expertise on trends and related issues, and enhancing domestic and global interagency collaboration efforts.

This year, the office conducted a variety of outreach activities, including office hours and listening session events in New York, Washington, D.C., and Dallas. Office staff frequently participated in industry events and conducted bank visits to discuss innovation. Chief Innovation Officer Beth Knickerbocker testified at a hearing held by the Task Force on Financial Technology of the U.S. House of Representatives Committee on Financial Services.[4]

The OCC recognizes that fintech companies can play an important role in responsible innovation in the federal banking system by becoming OCC-chartered

4 See OCC News Release 2019-70, "Chief Innovation Officer Discusses OCC Support of Responsible Innovation."

The OCC Executive Committee pictured in front of the U.S. Department of the Treasury building. Pictured from left to right in the front row: Jonathan V. Gould, Larry L. Hattix, Grovetta N. Gardineer, Joseph M. Otting, Morris R. Morgan, and William A. Rowe. Pictured from left to right in the back row: Kathy K. Murphy, Toney M. Bland, Maryann H. Kennedy, and Michael Sullivan.

institutions. The OCC has worked closely with fintech companies and other nonbanks that may choose to apply under the OCC's authority for full-service or other types of charters, such as trust banks, banker's banks, or credit card banks.

Proposed Innovation Pilot Program

In 2019, the OCC proposed a voluntary pilot program to support the testing of innovative products, services, and processes that could benefit consumers, businesses, and communities. The Innovation Pilot Program would be open to OCC-regulated banks and federal savings associations, their subsidiaries, and federal branches and agencies, including those partnering with third parties to offer innovative products, services, or processes. It would also be open to banks working together, such as in a consortium or utility.

The program would offer timely engagement between the OCC and banks of all sizes and complexities regarding safety and soundness expectations, risk management principles, and compliance requirements of potential products and services. It would facilitate the development of appropriate risk management controls that can be scaled up as necessary. Participants would be subject to the OCC's safety and soundness expectations, risk management principles, and compliance requirements. The program would not provide statutory or regulatory waivers.

Conclusion

As the nation's preeminent prudential supervisor, the OCC plays an important role in helping to promote economic opportunity and encourage job creation throughout the country. My experience as a banker and now a regulator gives me a unique perspective on how the agency can support these goals. I look forward to continuing the significant progress we have already made and to fostering an environment in which banks can meet the needs of their communities and achieve their business goals while safely managing risks.

Joseph Otting

Joseph M. Otting
31st Comptroller of the Currency

CONDITION OF THE FEDERAL BANKING SYSTEM

The condition of the federal banking system remains strong. The financial performance of banks strengthened in 2019, driven primarily by strong operating performance. Capital and liquidity remain near historical highs. OCC-supervised banks reported healthy revenue growth. Net income increased 25 percent for banks with total assets of less than $1 billion and increased nearly 50 percent for the federal banking system as a whole. Asset quality is strong and stable, and loan performance is the best it has been in the past decade.

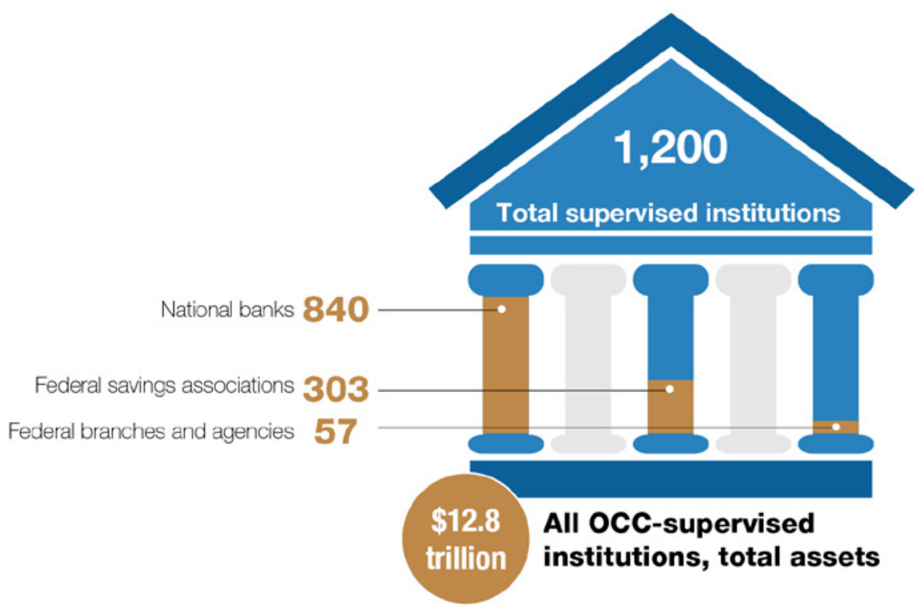
This section highlights these factors contributing to the federal banking system's condition:

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

COMPOSITION

The federal banking system comprises 1,200 banks operating in the United States. These banks range from small community banks[5] to the largest, most globally active U.S. banks. Of these banks, 958 have less than $1 billion in assets, while 72 have more than $10 billion. In total, the banks within the federal banking system hold $12.8 trillion of all assets of U.S. commercial banks (69 percent of the total in U.S. commercial banks). The federal banking system holds two-thirds of credit card balances in the country and services almost half of all residential mortgages. Through these products and services, most American families have one or more relationships with an OCC-supervised bank.

FIGURE 1: Federal Banking System at a Glance



Source: OCC. Supervised institution totals as of September 30, 2019. Total assets as of June 30, 2019.

5 For purposes of this report, community banks are national banks and federal savings associations with less than $1 billion in total assets and exclude trust and credit card institutions.

CAPITAL AND LIQUIDITY

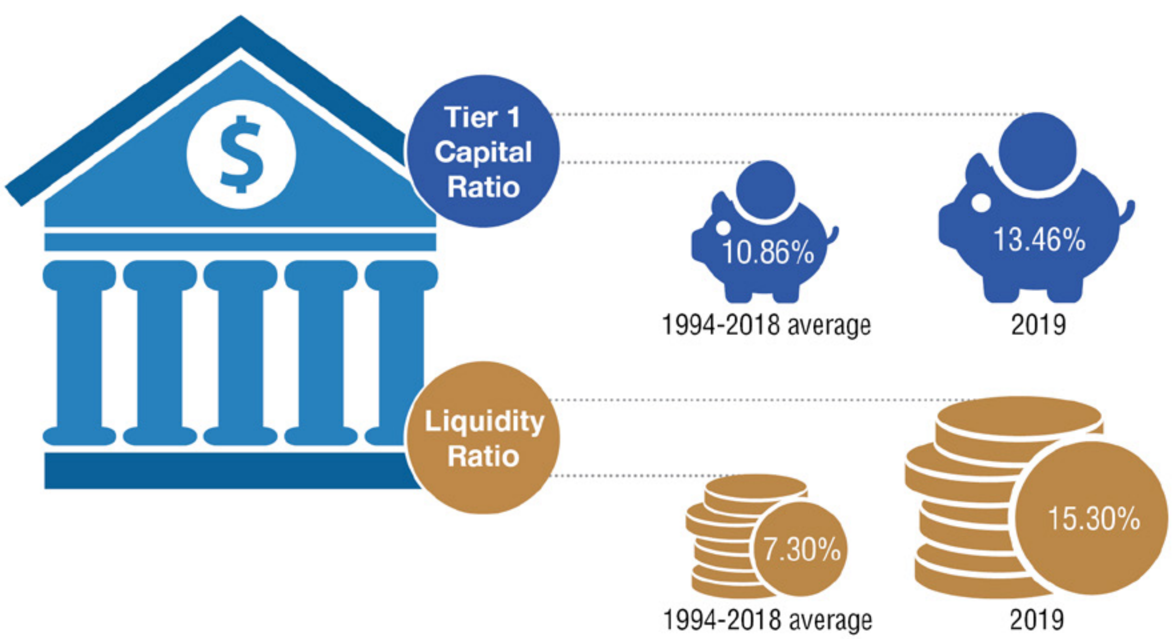
Compared with annual averages since 1994, banks have substantially increased the volume and quality of capital and strengthened risk management practices to enhance the quality and reliability of capital and liquidity planning.

The level and quality of bank capital has remained healthy, in part through the concerted effort of regulators and bankers since the financial crisis. Tier 1 capital, which includes shareholders' equity and retained earnings, provides protection for banks to absorb losses and supports the resiliency of the federal banking system. The tier 1 capital ratio consistently increased over the last 10 years, reaching 13.46 percent of risk-weighted assets in mid-2019.

Liquidity is the ready access to funds on reasonable terms. The OCC examines a bank's liquidity levels and risk management to determine whether its liquidity can readily meet the bank's financial obligations and fulfill the banking needs of its community.

The largest banks have improved their quantity and quality of liquidity. Liquid assets in the banking system increased after the liquidity coverage ratio (LCR) rule, which requires banks to hold sufficient highly liquid assets to meet short-term outflows in stress situations, was fully implemented in 2017. As shown in figure 2, the liquidity ratio[6] has climbed significantly since the end of the financial crisis and remains at more than two times its historical average.

FIGURE 2: Capital and Liquidity



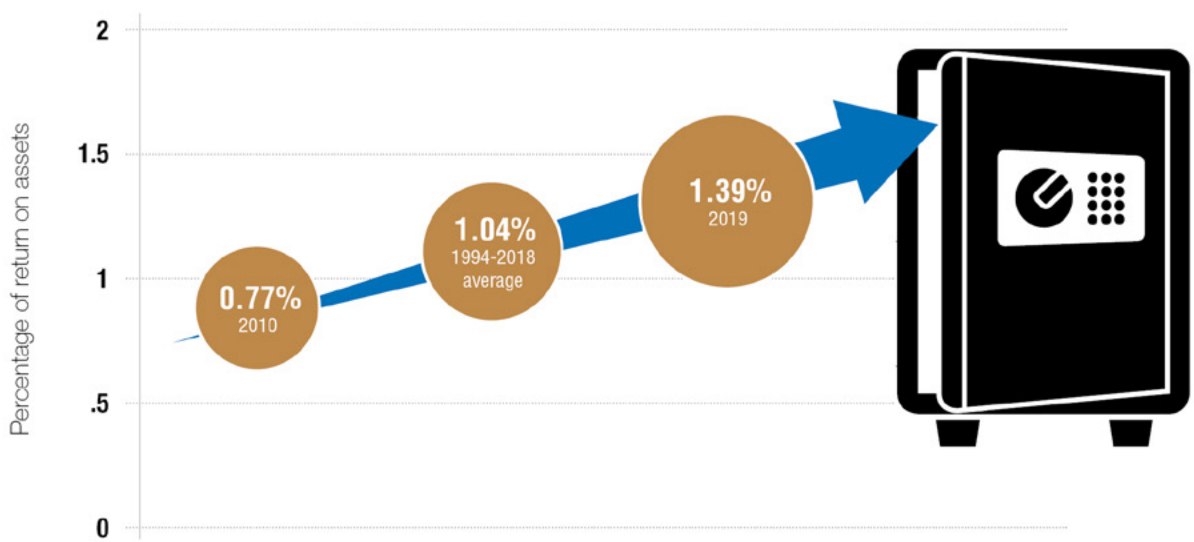
Source: OCC

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

FINANCIAL PERFORMANCE

Profitability improved slightly through June 2019 compared with 2018, reaching 1.39 percent of average assets. Profitability in the previous year surged in large part due to the one-time boost from tax cuts[7] as well as strong underlying performance. Compared with its historical average, return on assets is currently at a high level. Profitability in 2019 has been supported by a low level of credit quality concerns (see figure 3 for OCC-supervised bank profitability) as well as prudent control of expenses, which has offset some slowdown in lending and flatter net interest margins.

FIGURE 3: Bank Profitability



Source: OCC

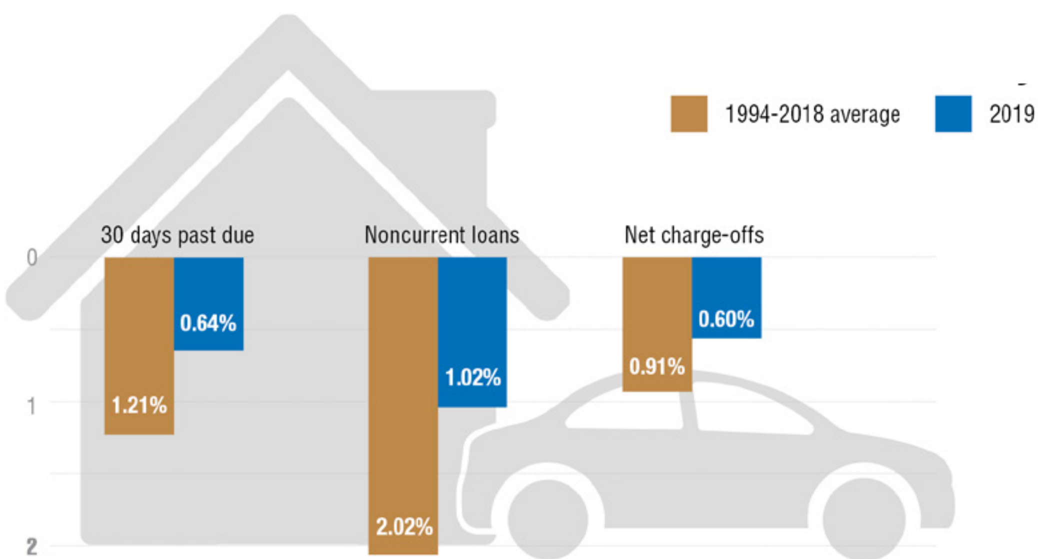
7 The Tax Cuts and Jobs Act, passed in December 2017, effectively cut tax rates for all banks except subchapter S banks, which are typically smaller banks that pass income through directly to owners to be taxed at the owners' personal tax rates.

LOAN PERFORMANCE

Credit quality ratios have improved greatly since 2010, and overall credit quality is significantly better than the 25-year averages, as shown in figure 4. Past due and noncurrent loan rates have declined since their respective peaks and almost returned to their pre-crisis lows.

Net charge-offs as a share of total loans reached a low of 0.51 percent in 2015 but have ticked up slightly over the last four years to 0.60 percent in June 2019. The overall charge-off rate is driven by a rise in credit card losses. Although credit card losses have increased during this period, they remain at a relatively low level historically. See figure 4 for OCC-supervised banks' aggregate credit quality.

FIGURE 4: Credit Quality



Source: OCC

Loans 30 days past due include the share of total loans that are 30-89 days past due. Noncurrent loans are the share of total loans that are 90 or more days past due or on nonaccrual status. Net charge-offs are the share of total loan balances charged off as a loss, net of recoveries.

Risk Perspective

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

This year, the federal banking system faced credit, operational, compliance, and interest rate risk. The financial services sector experienced rapid growth in fintech and regulatory technology (i.e., technology used to assist financial institutions in meeting regulatory requirements), which touch each of these risk themes.

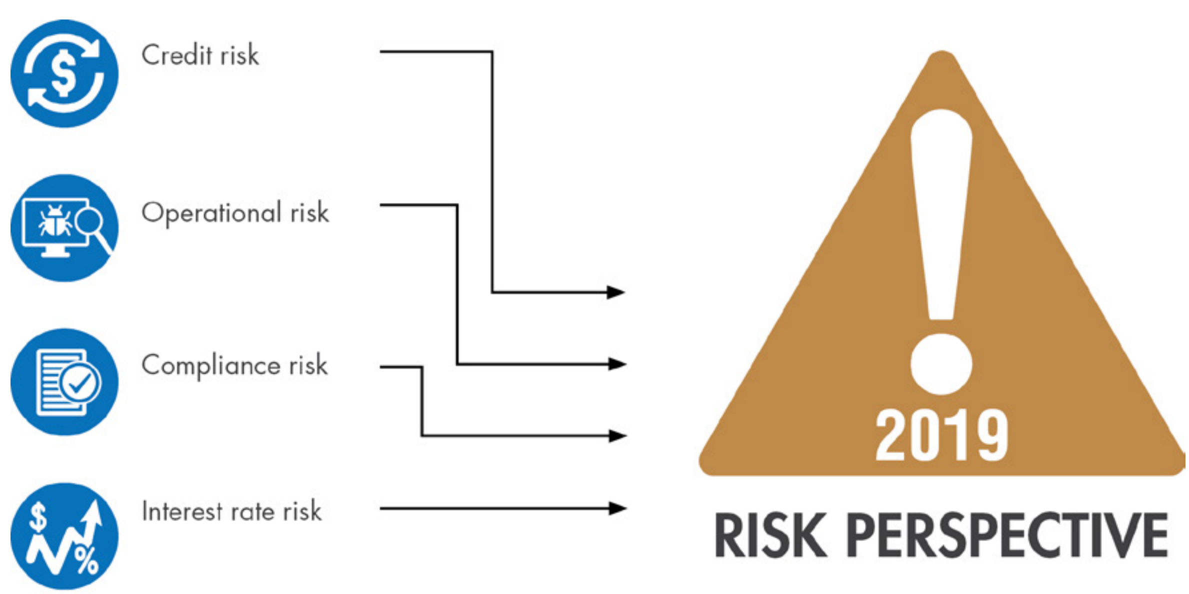
While credit quality was strong, the OCC reminded bankers and examiners to assess the quality and timeliness of credit risk identification, risk mitigation, and loan loss reserves.

Operational risk was elevated as banks adapted to a changing and increasingly complex operating environment. Key drivers for operational risk included persistent cybersecurity threats, innovation in financial products and services, and increasing use of third parties to provide and support operations.

Compliance risk related to BSA/AML remained high. Money-laundering risks challenged banks' effective management of those risks in a complex, dynamic global operating and regulatory environment. BSA/AML compliance risk management systems should be commensurate with the risk associated with a bank's products, services, customers, and geographic footprint.

Interest rate risk and the related liquidity risk implications also posed potential challenges to earnings given the uncertain rate environment, competitive pressures, changes in technology that have made it easier for customers to move funds, and untested depositor behavior after an extended low-rate environment. These factors increased the difficulty in forecasting liability costs.

Other issues that warrant awareness among bankers and examiners and may develop into key risks were outlined further in the *Semiannual Risk Perspective*.



SUPERVISION

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

This section covers the following supervisory topics:

- The OCC's supervision priorities for FY 2019
- Minority depository institutions (MDI)
- Published rules, guidance, and other materials
- Licensing activities
- Enforcement actions

Supervision Priorities

The OCC published its supervisory priorities in its *Fiscal Year 2019 Bank Supervision Operating Plan* to provide the foundation for policy initiatives and supervisory strategies for individual banks. The 2019 plan focused on

- cybersecurity and operational resiliency;
- commercial and retail credit loan underwriting, concentration risk management, and the allowance for loan and lease losses;
- BSA/AML compliance management;
- compliance-related change management to address regulatory requirements; and
- internal controls and end-to-end processes necessary for product and service delivery.

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

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

Minority Depository Institutions

The OCC administers an MDI program to provide technical assistance and other support to OCC-supervised MDIs, promoting and preserving these banks consistent with requirements set forth in law. The OCC's *2018 Annual Report: Preservation and Promotion of Minority-Owned National Banks and Federal Savings Associations,* published in June 2019, addresses the condition of these institutions and the OCC's actions in support of this program.

Rules

The OCC published the following rules in 2019:

- A joint rule to amend regulations regarding the minimum margin and capital requirements for registered swap dealers, major swap participants, security-based swap dealers, and major security-based swap participants.[8]
- A joint rule to make qualifying 1- and 2-rated banks with less than $3 billion in total assets eligible for an 18-month examination cycle.[9]
- A joint rule to amend the LCR rule to treat liquid and readily marketable, investment-grade municipal obligations as high-quality liquid assets.[10]
- A joint rule to implement the Financial Accounting Standards Board's (FASB) Accounting Standards Update 2016-13, "Financial Instruments—Credit Losses," and provide an option to phase in the day-one regulatory capital effects of the "Current Expected Credit Losses" methodology in the FASB standard.[11]

8 See OCC Bulletin 2018-37, "Margin and Capital Requirements for Covered Swap Entities: Final Rule."

9 See OCC Bulletin 2019-3, "Expanded Examination Cycle Eligibility: Final Rule."

10 See OCC Bulletin 2019-27, "Liquidity Coverage Ratio Rule: Treatment of Certain Municipal Obligations as High-Quality Liquid Assets: Final Rule."

11 See OCC Bulletin 2019-10, "Implementation of the Current Expected Credit Losses Standard: Final Rule."

- A joint rule to implement section 205 of the Economic Growth Act, which streamlined regulatory reporting requirements for small institutions.[12]
- A joint rule to implement sections 203 and 204 of the Economic Growth Act, which amends section 13 of the Bank Holding Company Act, commonly known as the Volcker rule.[13]
- A joint rule revising and simplifying the regulations implementing section 13 of the Bank Holding Company Act.[14]
- A joint rule to simplify certain aspects of the capital rule, including the current regulatory capital treatment for mortgage servicing assets, temporary difference deferred tax assets, and holdings of regulatory capital instruments issued by other financial institutions, and the calculation for limitations on minority interest includable in regulatory capital.[15]
- A joint rule to raise the threshold for residential real estate transactions requiring an appraisal to $400,000.[16]
- A joint rule that implements the private flood insurance provisions of the Biggert–Waters Flood Insurance Reform Act of 2012.[17]
- A rule to allow federal savings associations with total consolidated assets of $20 billion or less as of December 31, 2017, to elect national bank powers and operate as covered savings associations.[18]
- A rule to amend the OCC's stress testing rule, consistent with requirements imposed by section 401 of the Economic Growth Act.[19]
- A joint proposed rule to limit the interconnectedness of large banking organizations and reduce the impact from failure of the largest banking organizations.[20]
- A joint proposed rule to establish a revised framework for determining requirements under the regulatory capital rule, the LCR rule, and the proposed net stable funding ratio (NSFR) rule for large U.S. banking organizations based on their risk profiles.[21]
- A joint proposed rule to increase the major assets prohibition thresholds for management interlocks in the OCC's rule implementing the Depository Institution Management Interlocks Act.[22]
- A joint proposed rule to provide a simplified measure of capital adequacy for qualifying community banking organizations consistent with section 201 of the Economic Growth Act.[23]
- A joint proposed rule to exclude from the supplementary leverage ratio certain central bank deposits of banking organizations predominantly engaged in custody, safekeeping, and asset servicing activities consistent with section 402 of the Economic Growth Act.[24]

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12 See OCC Bulletin 2019-30, "Expanding Eligibility to File the FFIEC 051 Call Report: Final Rule."

13 See OCC Bulletin 2019-32, "Volcker Rule: Final Rule."

14 The OCC approved the final rule in August 2019. See OCC News Release 2019-94, "Comptroller of the Currency Approves Volcker Rule Reforms." The joint rule was approved by all five agencies responsible for the Volcker rule by October 2019. See OCC News Release 2019-117, "Agencies Finalize Changes to Simplify Volcker Rule."

15 See OCC Bulletin 2019-34, "Simplifications to the Capital Rule: Final Rule."

16 See OCC News Release 2019-109, "Federal Banking Agencies Issue Final Rule to Exempt Residential Real Estate Transactions of $400,000 or Less From Appraisal Requirements."

17 See OCC Bulletin 2019-8, "Loans in Areas Having Special Flood Hazards—Private Flood Insurance: Final Rule."

18 See OCC Bulletin 2019-25, "Covered Savings Associations: Final Rule."

19 See OCC Bulletin 2019-47, "Amendments to the Stress Testing Rule for National Banks and Federal Savings Associations: Final Rule."

20 See OCC Bulletin 2019-18, "Regulatory Capital Rule: Notice of Proposed Rulemaking."

21 See OCC Bulletin 2018-46, "Capital and Liquidity Requirements: Notice of Proposed Rulemaking."

22 See OCC Bulletin 2019-5, "Thresholds Increase for the Major Assets Prohibition of the Depository Institution Management Interlocks Act Rules: Notice of Proposed Rulemaking."

23 See OCC Bulletin 2019-6, "Community Bank Leverage Ratio: Notice of Proposed Rulemaking."

24 See OCC Bulletin 2019-24, "Revisions to the Supplementary Leverage Ratio for Custodial Banking Organizations and Custody Banks: Notice of Proposed Rulemaking."

- A joint proposed rule to update calculation of derivative contract exposure amounts under regulatory capital rules.[25]
- A joint proposed rule to establish a revised framework for determining requirements under the regulatory capital rule, the LCR rule, and the proposed NSFR rule for large foreign banking organizations with respect to certain U.S. operations based on their risk profile.[26]
- A joint proposed rule to seek comment on the treatment of land development loans for purposes of the one- to four-family residential properties exclusion in the definition of high volatility commercial real estate exposure in the agencies' regulatory capital rule.[27]
- A joint proposed rule that would establish four categories of standards and apply tailored capital and liquidity requirements for certain large U.S. banking organizations with more than $100 billion in total consolidated assets.[28]
- A proposed rule about other real estate owned activities to clarify and streamline the existing rule, update regulatory framework, and make technical amendments to the rule.[29]
- An advance notice of proposed rulemaking inviting comment on possible revisions to the OCC's fiduciary regulations, 12 CFR 9 and 150.[30]

Guidance and Other Publications

The OCC issued the following guidance and publications in 2019:

- A threshold increase for smaller loan exemptions from appraisal requirements for higher-priced mortgage loans.[31]
- Supervisory guidance and temporary exemptions to Financial Institutions Reform, Recovery, and Enforcement Act appraisal requirements for major disasters that occurred in 2019.[32]
- Updates or revisions to booklets in the *Comptroller's Handbook* and the *Comptroller's Licensing Manual.*
- Informative resources about
  - financial literacy events, initiatives, and educational resources.
  - the important role banks can play in helping rural communities gain reliable, high-speed internet access through broadband networks.[33]

25 See Joint News Release 2018-114, "Agencies Propose Rule to Update Calculation of Derivative Contract Exposure Amounts Under Regulatory Capital Rules."

26 See OCC Bulletin 2019-26, "Tailoring of Capital and Liquidity Standards for Foreign Banking Organizations: Notice of Proposed Rulemaking."

27 See OCC Bulletin 2019-35, "High Volatility Commercial Real Estate (HVCRE): Notice of Proposed Rulemaking."

28 See OCC News Release 2018-115, "OCC Invites Comment on Proposed Rule to Change Applicability Thresholds for Regulatory Capital and Liquidity Requirements."

29 See OCC Bulletin 2019-20, "Other Real Estate Owned: Notice of Proposed Rulemaking."

30 See OCC Bulletin 2019-21, "Fiduciary Regulations; Non-Fiduciary Custody Activities: Advance Notice of Proposed Rulemaking."

31 See OCC News Release 2018-124, "Agencies Announce Threshold for Smaller Loan Exemption From Appraisal Requirements for Higher-Priced Mortgage Loans."

32 See OCC Bulletin 2017-61, "Interagency Examiner Guidance for Institutions Affected by Major Disasters," and OCC news releases 2018-146, "Agencies Issue Statement on Financial Institutions Issuing Loans When National Flood Insurance Program Is Unavailable"; 2018-109, "OCC Allows National Banks and Federal Savings Associations Affected by Hurricane Michael in the Gulf Coast Region to Close"; 2018-110, "Federal and State Financial Regulatory Agencies Issue Interagency Statement on Supervisory Practices Regarding Financial Institutions Affected by Hurricane Michael"; 2018-119, "OCC Allows National Banks and Federal Savings Associations Affected by California Wildfires to Close"; 2018-122, "Federal and State Financial Regulatory Agencies Issue Interagency Statement on Supervisory Practices Regarding Financial Institutions and Their Customers Affected by California Wildfires"; 2019-10, "OCC Allows National Banks and Federal Savings Associations Affected by Severe Winter Weather to Close"; 2019-28, "OCC Allows National Banks and Federal Savings Associations Affected by Flooding in the Central Plains and Midwest to Close"; 2019-31, "Federal and State Financial Regulatory Agencies Issue Interagency Statement on Supervisory Practices Regarding Financial Institutions Affected by Flooding in the Midwest"; 2019-57, "OCC Allows National Banks and Federal Savings Associations Affected by Flooding in the South Central United States to Close"; 2019-78, "OCC Allows National Banks and Federal Savings Associations Affected by Severe Weather Along the Gulf Coast to Close"; and 2019-101, "OCC Allows National Banks and Federal Savings Associations Affected by Hurricane Dorian in Southeast United States to Close."

33 See OCC, *Community Developments Investments*, "Expanding Internet Access: Bank Financing for Rural Broadband Initiatives," November 2018.

- the safe and sound operation of community-based financial institutions.[34]
- Answers to frequently asked questions concerning appraisals and evaluations for real estate transactions that are covered by the interagency appraisal rules.[35]
- A statement to alert financial institutions of actions taken by the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) under OFAC's Cyber-Related Sanctions Program and alert them to the potential impact similar sanctions may have on financial institutions' operations.[36]
- A joint statement to encourage banks to consider innovative approaches in meeting their BSA/AML compliance obligations, to improve the efficiency and effectiveness of their BSA/AML programs while continuing to protect the national financial system.[37]
- A statement to address instances in which banks may decide to enter into collaborative arrangements to share resources to manage their BSA/AML obligations more efficiently and effectively.[38]
- An amendment to enforceable guidelines relating to recovery planning standards for insured national banks, insured federal savings associations, and insured federal branches to limit the application of the guidelines to the largest, most complex banks and thereby provide regulatory burden relief to smaller, less complex institutions.[39]
- Highlights about revisions to the OCC's CRA regulations, which became effective January 1, 2019, that adjusted the asset-size threshold amounts used to define bank sizes based on the annual percentage change in a measure of the consumer price index.[40]
- A notice to adjust the maximum amount of each civil money penalty (CMP) within its jurisdiction pursuant to the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015.[41]
- Economic and financial market scenarios, including baseline, adverse, and severely adverse scenarios for use in stress tests for covered institutions.[42]
- Information about key data fields that the OCC determined examiners typically use to test and validate the accuracy and reliability of home mortgage loan data collected beginning in 2018.[43]
- A reminder to banks that they are prohibited by regulation from disclosing nonpublic OCC information, including their CAMELS rating, without prior approval of the OCC.[44]
- Revised interagency examination procedures for the Truth in Lending Act and Electronic Fund Transfer Act.[45]
- Frequently asked questions to assist financial institutions and examiners with the new accounting standard, Accounting Standards Update 2016-13, Topic 326, "Financial Instruments–Credit Losses."[46]
- Revised interagency examination procedures for determining compliance with the Home Mortgage Disclosure Act.[47]

34 See OCC News Release 2019-1, "OCC Releases 2019 Schedule of Workshops for Directors and Senior Management of National Community Banks and Federal Savings Associations."

35 See OCC Bulletin 2018-39, "Appraisals and Evaluations of Real Estate: Frequently Asked Questions."

36 See OCC Bulletin 2018-40, "Cybersecurity: Cyber-Related Sanctions."

37 See OCC Bulletin 2018-44, "Bank Secrecy Act/Anti-Money Laundering: Joint Statement on Innovative Efforts to Combat Money Laundering and Terrorist Financing."

38 See OCC Bulletin 2018-36, "Bank Secrecy Act/Anti-Money Laundering: Interagency Statement on Sharing Bank Secrecy Act Resources."

39 See OCC Bulletin 2018-47, "Recovery Planning Guidelines: Final Revised Guidelines."

40 See OCC Bulletin 2019-1, "Community Reinvestment Act Regulations: Revision of Small and Intermediate Small Bank and Savings Association Asset Thresholds."

41 See OCC Bulletin 2019-2, "Civil Money Penalties: Notice Adjusting Civil Money Penalties for 2019."

42 See News Release 2019-13, "OCC Releases Dodd–Frank Act Stress Test Scenarios for 2019."

43 See OCC Bulletin 2019-12, "Home Mortgage Disclosure Act: Key Data Fields for Full and Partial Reporters."

44 See OCC Bulletin 2019-15, "Supervisory Ratings and Other Nonpublic OCC Information: Statement on Confidentiality."

45 See OCC Bulletin 2019-16, "Consumer Compliance: Revised Interagency Examination Procedures."

46 See OCC Bulletin 2019-17, "Current Expected Credit Losses: Additional and Updated Interagency Frequently Asked Questions on the New Accounting Standard on Financial Instruments–Credit Losses."

47 See OCC Bulletin 2019-19, "Home Mortgage Disclosure Act: Revised Interagency Examination Procedures."

- Risk management guidance for higher-loan-to-value lending activities in communities targeted for revitalization.[48]
- A joint statement to clarify and explain the existing risk-focused approach to examinations of financial institutions' BSA/AML compliance programs.[49]
- A joint statement regarding treatment of certain foreign funds under the Volcker rule.[50]
- Supervisory guidance to remind banks that real estate and mortgage lending activities using asset dissipation underwriting are subject to regulatory standards.[51]
- Supervisory guidance to inform banks of sound fraud risk management principles.[52]
- Guidance for requesting approval to be evaluated under the CRA using the strategic plan option or to request approval to amend an approved CRA strategic plan.[53]
- Guidance for requesting a designation as a wholesale or limited purpose bank for CRA purposes or requesting confirmation of its exemption as a special purpose bank under CRA regulations.[54]
- An update to the Bank Accounting Advisory Series, which reflects accounting standards issued by the FASB on such topics as hedging and credit losses.[55]
- Host state loan-to-deposit ratios that the agencies will use to determine compliance with section 109 of the Riegle–Neal Interstate Banking and Branching Efficiency Act of 1994.[56]
- Revised interagency procedures for the Flood Disaster Protection Act, which reflect the amendments to the regulations regarding loans in areas having special flood hazards to implement the private flood insurance provisions of the Biggert–Waters Act.[57]
- A notice reminding banks of the new registration requirement for appraisal management companies.[58]
- Quarterly mortgage metrics reports to promote broader understanding of mortgage portfolio performance and modification activity in the federal banking system and support supervision of regulated institutions.[59] The reports help fulfill requirements outlined in section 104 of the Helping Families Save Their Homes Act of 2009.[60]
- Quarterly reports on bank trading and derivative activities to increase awareness of the size and character of trading and derivative exposures within the federal banking system.[61]

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48 See OCC Bulletin 2019-28, "Mortgage Lending: Risk Management Guidance for Higher-Loan-to-Value Lending Activities in Communities Targeted for Revitalization."

49 See OCC Bulletin 2019-33, "Bank Secrecy Act/Anti-Money Laundering: Joint Statement on the Risk-Focused Approach to BSA/AML Supervision."

50 See News Release 2019-79, "Federal Bank Regulatory Agencies Announce Coordination of Reviews for Certain Foreign Funds Under Volcker Rule."

51 See OCC Bulletin 2019-36, "Mortgage Lending: Lending Standards for Asset Dissipation Underwriting."

52 See OCC Bulletin 2019-37, "Operational Risk: Fraud Risk Management Principles."

53 See OCC Bulletin 2019-39, "Community Reinvestment Act: Guidelines for Requesting Approval of a Strategic Plan."

54 See OCC Bulletin 2019-40, "Community Reinvestment Act: Guidelines for Requesting Designation as a Wholesale, Limited Purpose, or Special Purpose Bank."

55 See OCC News Release 2019-91, "Bank Accounting Advisory Series Updated."

56 See OCC Bulletin 2019-41, "Prohibition Against Interstate Deposit: Annual Host State Loan-to-Deposit Ratios."

57 See OCC Bulletin 2019-42, "Flood Disaster Protection Act: Revised Interagency Examination Procedures."

58 See OCC Bulletin 2019-43, "Appraisals: Appraisal Management Company Registration Requirements."

59 See OCC news releases 2019-110, "OCC Reports Slight Improvement in Mortgage Performance"; 2019-71, "OCC Reports Improvement in Mortgage Performance"; 2019-30, "OCC Reports Mortgage Performance Improves in Fourth Quarter of 2018"; and 2018-135, "OCC Reports Slight Improvement in Mortgage Performance."

60 See 12 USC 1715z-25, as amended by section 1493(a) of Dodd–Frank.

61 See OCC news releases 2019-107, "OCC Reports Second Quarter 2019 Bank Trading Revenue"; 2019-67, "OCC Reports First Quarter 2019 Bank Trading Revenue"; 2019-29, "OCC Reports Fourth Quarter 2018 Bank Trading Revenue"; and 2018-136, "OCC Reports Third Quarter 2018 Bank Trading Revenue."

Licensing Activities

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

Table 1: Corporate Application Activity

	2018	2019	2019 decisions			
	Applications received		Approved	Conditionally approved	Denied	Total
Branches	445	560	549	1	0	550
Capital/sub-debt	48	56	47	6	0	53
Change in bank control	6	16	9	1	0	10
Charters	6	4	0	2	0	2
Charter conversions*	10	17	13	1	0	14
Federal branches	0	3	1	0	0	1
Fiduciary powers	6	3	3	0	0	3
Mergers	52	51	42	2	0	44
Relocations	149	161	146	0	0	146
Reorganizations	31	30	32	1	0	33
Subsidiaries	30	15	21	3	0	24
Substantial change in assets	5	7	4	3	0	7
Mutual to stock conversions	2	1	0	1	0	1
Total	**790**	**924**	**867**	**21**	**0**	**888**

*Conversions to an OCC-regulated bank.

Table 2: Change in Bank Control Act (Notices Processed With Disposition)

Year	Received	Acted on	Not disapproved	Disapproved	Withdrawn
2019	16	10	10	0	0
2018	6	6	6	0	0
2017	9	7	7	0	0
2016	9	9	9	0	0
2015	12	11	11	0	1

Table 3: Licensing Actions and Timeliness, National Banks and Federal Savings Associations

	Target time in days	2018			2019		
		Number of decisions	Within target		Number of decisions	Within target	
			Number	Percent		Number	Percent
Branches	45/60	417	416	99.76	550	549	99.82
Capital/sub-debt	15/45	45	44	97.78	53	50	94.34
Change in bank control	NA/120	6	5	83.33	10	10	100
Charters	45/60	5	4	80	2	1	50
Charter conversions	60/120	13	12	92.31	14	14	100
Federal branches	NA/120	0	0	----	1	1	100
Fiduciary powers	30/60	5	5	100	3	2	66.67
Mergers	45/60	58	55	94.83	44	43	97.73
Relocations	45/60	148	147	99.32	146	145	99.32
Reorganizations	45/60	30	29	96.67	33	32	96.97
Subsidiaries	30/60	30	24	80	24	24	100
Substantial change in assets	NA/60	7	6	85.71	7	4	57.14
Mutual to stock conversions	NA/60	2	2	100	1	1	100
Total		**766**	**749**	**97.78**	**888**	**876**	**89.38**

Note: Most of the decisions (92 percent in 2018 and 96 percent in 2019) were made in the district offices and large bank licensing under delegated authority. Decisions include approvals, conditional approvals, and denials. NA means not applicable.

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

Table 4: Applications Presenting CRA Issues Decided

Bank, city, state	Approval date	Document number
Cadence Bank, National Association, Birmingham, Ala.	October 4, 2018	CRA decision No. 193
Old National Bank, Evansville, Ind.	October 12, 2018	CRA decision No. 194
Bank of America, Charlotte, N.C.	October 18, 2018	CRA decision No. 195
Bank of America, Charlotte, N.C.	May 1, 2019	CRA decision No. 196
TCF Bank, National Association, Sioux Falls, S.D.	June 20, 2019	CRA decision No. 197
KeyBank, National Association, Cleveland, Ohio	July 11, 2019	CRA decision No. 198

Enforcement Actions

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

The number of enforcement actions outstanding against banks has declined since 2010, reflecting overall improvement in banks' risk management practices and economic conditions. This trend continued this year.

Table 5 summarizes the OCC's formal enforcement actions published in 2019.

Table 5: OCC Enforcement Actions

Type of enforcement action	Number	Amount[a]
12 USC 1829 notifications	94	
Bank civil money penalty	8	$125,474,728.00
Cease-and-desist order (bank)[b]	6	
Formal agreement (bank)	9	
Notices of charges filed	7	
Personal cease-and-desist order	4	
Personal civil money penalty	15	$277,000.00
Prompt corrective action directive	3	
Removal/prohibition	30	
Total	**176**	**$125,751,728.00**

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

[b] Includes instances where multiple charters in a company are subject to the same enforcement action.

LEADERSHIP

Joseph M. Otting

Comptroller of the Currency

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

The Comptroller of the Currency is the administrator of the federal banking system and head of the OCC. The Comptroller also serves as a director of the FDIC and a member of the Financial Stability Oversight Council and the Federal Financial Institutions Examination Council.

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

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

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

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

Toney M. Bland

Midsize and Community Bank Supervision

As Senior Deputy Comptroller for Midsize and Community Bank Supervision (MCBS), Toney M. Bland is responsible for overseeing the supervision of the country's midsize and community banks and serves on the Executive Committee. He assumed these duties in August 2014.

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

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

Grovetta N. Gardineer

Bank Supervision Policy

As Senior Deputy Comptroller for Bank Supervision Policy, Grovetta N. Gardineer directs the formulation of policies and procedures for bank supervision, chairs the agency's CBS, and serves on the OCC's Executive Committee. She oversees the units for policy related to credit risk, market risk, operational risk, compliance risk, capital policy, accounting policy, and community affairs. She assumed this role in March 2019.

Previously at the OCC, Ms. Gardineer served as the Senior Deputy Comptroller for Compliance and Community Affairs and Deputy Comptroller for Compliance Risk. Before joining the OCC in 2010, Ms. Gardineer was the Managing Director for Corporate and International Activities and the Managing Director for Supervision Policy at the Office of Thrift Supervision (OTS).

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

Jonathan V. Gould

Chief Counsel

As Senior Deputy Comptroller and Chief Counsel, Jonathan V. Gould oversees all 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. He serves on the OCC's Executive Committee and provides advice and counsel to the Comptroller of the Currency and senior OCC executives. He assumed this role in December 2018.

Mr. Gould previously served as Chief Counsel of the U.S. Senate Committee on Banking, Housing, and Urban Affairs and in the private sector at BlackRock and Promontory Financial Group, including serving as Promontory's Deputy General Counsel. He began his career at Alston & Bird LLP advising financial services companies on banking and corporate law.

Mr. Gould holds a bachelor's degree from Princeton University and a law degree from Washington and Lee University.

Larry L. Hattix

Enterprise Governance and Ombudsman

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

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

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

Maryann H. Kennedy

Large Bank Supervision

As Senior Deputy Comptroller for Large Bank Supervision, Maryann H. Kennedy directs nearly 800 men and women who supervise the country's largest banks and serves as a member of the agency's Executive Committee. She assumed these duties in April 2019.

Ms. Kennedy previously served as the Deputy Comptroller for Large Bank Supervision, Assistant Deputy Comptroller for the Wilkes-Barre and Washington, D.C., field offices, and Examiner-in-Charge at JPMorgan Chase and TD Bank, NA. She joined the OCC in 1991 in the Philadelphia field office after eight years in the banking industry.

She earned her commission as a National Bank Examiner in 1997. Ms. Kennedy has a bachelor of science degree in accounting from Ohio State University.

Morris R. Morgan

Chief Operating Officer and
Chief National Bank Examiner

Morris R. Morgan is a Senior Deputy Comptroller and the OCC's Chief Operating Officer and is designated as the Chief National Bank Examiner. In these roles, he oversees the OCC's bank supervision, bank supervision policy, economics, compliance and community affairs, and innovation units. He serves as a member of the OCC's Executive Committee and the CBS. He assumed these responsibilities in January 2019.

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

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

Kathy K. Murphy
Office of Management and
Chief Financial Officer

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

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

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

William A. Rowe
Chief Risk Officer

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

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

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

Michael Sullivan

Economics

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

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

Before joining the OCC, he was an assistant professor at Florida International University in Miami. He has published scholarly research on computational finance in several leading journals.

Mr. Sullivan earned a bachelor's degree in economics from Stanford University and a doctorate in economics from Yale University.

Joyce Cofield

Office of Minority and Women Inclusion

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

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

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

FINANCIAL MANAGEMENT DISCUSSION AND ANALYSIS

Kathy K. Murphy
Office of Management and Chief Financial Officer

Letter From the Chief Financial Officer

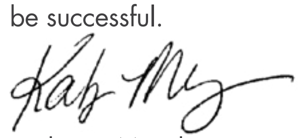
I am pleased to present the OCC's financial statements as an integral part of the 2019 Annual Report. This year, our independent auditors have once again issued an unmodified opinion. We take great pride in this achievement.

The OCC's continued commitment to excellence in business management is evidenced by the agency's focus on its mission, objectives, and values, as outlined in The OCC Strategic Plan for FY 2019–2023. The plan articulates the OCC's vision for achieving its objectives and communicates to key stakeholders the direction and priorities of the agency for the next five years. How we will fulfill our mission—to ensure the federal banking system continues to operate in a safe, sound, and fair manner, and complies with applicable laws and regulations—is at the forefront of everything we do, guiding our decision making.

Moving forward, we will continue to streamline how we successfully accomplish our mission through effective management of the agency's business. Over the past year, we have automated many of our manual processes, including the conference event planning request and approval process and manager approval of all training and OCC-endorsed certification requests. We also continue to develop innovative tools like electronic dashboards that enhance our reporting capabilities by providing real-time data to users agency wide. These tools help staff analyze and forecast trends, and allow managers to make better-informed decisions. By identifying and implementing new ways to enhance the efficiency and effectiveness of our operations, we are poised to deliver the greatest possible value for every assessment dollar that we collect.

With that in mind, the OCC's budget for FY 2019 continues the discipline established in previous years—to spend only what is necessary to effectively supervise and regulate banks and federal savings associations, without sacrificing quality in the important services we provide. One of the ways we can do this is through ongoing efforts to improve space utilization at our OCC Headquarters location, and to optimize our space across the agency by reducing the size of or combining field offices. We also have achieved reductions in agency travel costs by leveraging existing technology, attending local training, and participating virtually in external training and meetings.

Of course, none of these achievements would be possible without the many dedicated men and women of this agency, who, through their hard work and innovation, enable the OCC to realize the vision outlined in its strategic plan. We continue to invest in our employees by ensuring that they have the right training, mentoring, and development so that they are equipped with the skill sets to do their best work. We believe that taking care of our people—by motivating, enabling, and engaging them to support the agency's mission—will ensure that our business continues to be successful.



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

Financial Summary

The OCC received an unmodified opinion on its FY 2019 and FY 2018 financial statements. The OCC presents the principal financial statements to report the financial position and results of the agency's operations, pursuant to the requirements of 31 USC 3515(b). The OCC has prepared these statements from its books and records in accordance with U.S. generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget (OMB). In addition, the OCC prepares financial reports to monitor and control budgetary resources using the same books and records.

The OCC's financial statements consist of the Balance Sheets, the Statements of Net Cost, the Statements of Changes in Net Position, the Statements of Budgetary Resources, and the Statements of Custodial Activity. The OCC presents the financial statements and notes on a comparative basis, providing financial information for FY 2019 and FY 2018.

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

Table 6 illustrates the OCC's key components of financial condition, and the subsequent narrative sections address the OCC's financial activities in FY 2019 and FY 2018.

Table 6: Key Components of Financial Condition, as of September 30, 2019 (in Thousands)

	FY 2019	FY 2018	Increase/(decrease) $	Increase/(decrease) %
Costs[a]				
Total financing sources	$ 41,302	$ 39,523	$ 1,779	4.5%
Less: net cost	(101,070)	30,943	(132,013)	(426.6%)
Net change of cumulative results of operations	$ 142,372	$ 8,580	$ 133,792	1,559.4%
Net position[b]				
Assets				
Fund Balance With Treasury	$ 6,487	$ 7,382	$ (895)	(12.1%)
Investments	1,967,387	1,834,468	132,919	7.2%
General property, plant, and equipment, net	65,631	74,203	(8,572)	(11.6%)
Accounts receivable and other	5,544	5,294	250	4.7%
Total assets	$ 2,045,049	$ 1,921,347	$ 123,702	6.4%
Liabilities				
Accounts payable and other accrued liabilities	$ 34,275	$ 39,568	$ (5,293)	(13.4%)
Accrued payroll and benefits	96,395	101,659	(5,264)	(5.2%)
Deferred revenue	279,962	303,839	(23,877)	(7.9%)
Other actuarial liabilities	97,658	81,894	15,764	19.2%
Total liabilities	$ 508,290	$ 526,960	$ (18,670)	(3.5%)
Net position	1,536,759	1,394,387	142,372	10.2%
Total liabilities and net position	$ 2,045,049	$ 1,921,347	$ 123,702	6.4%

Source: OCC financial system data.

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

[b] Balance Sheets.

Cost of Operations

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

Total program costs for FY 2019 of $1,081.4 million reflected a decrease of $200.2 million, or 15.6 percent, from $1,281.6 million reported in FY 2018. FY 2018 costs included an additional $148.3 million pension contribution to the Pentegra Defined Benefit (DB) Plan. (For more information, see Note 1.) Excluding the additional pension contribution to the Pentegra DB Plan in FY 2018, the reduction in program costs for FY 2019 represented a decrease of 4.6 percent from the previous year.

Revenues

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

Total FY 2019 revenue of $1,195.5 million reflects a $51.9 million, or 4.2 percent, decrease from FY 2018 revenue of $1,247.4 million. Total assets under the OCC's supervision rose as of September 30, 2019, to $12.8 trillion, an increase of 3.5 percent, from $12.4 trillion a year earlier. The OCC, however, reduced the marginal rates in the General Assessment Fee Schedule by 10 percent for the 2019 calendar year, resulting in a decrease in revenues. The reduction in marginal rates reflects cost savings in the OCC's operations and aligns the OCC's revenues with the agency's streamlined cost structure.

Interest revenue totaled $32.5 million in FY 2019, an increase of $8.7 million, or 36.6 percent, from the $23.8 million reported in FY 2018. The year-to-year change of $8.7 million is primarily due to an increase in overnight interest of $4.6 million on higher overnight balances and interest rates. Other income includes revenue received from rental income and reimbursable activities with separate entities. Table 7 shows the OCC's funding sources for FY 2019 and FY 2018.

Table 7: Funding Sources (in Millions)

	FY 2019	FY 2018	Change ($)	Change (%)
Assessments	$ 1,143.7	$ 1,204.4	$ (60.7)	(5.0%)
Interest revenue	32.5	23.8	8.7	36.6%
Other income	19.3	19.2	0.1	0.5%
Total revenue	**$ 1,195.5**	**$ 1,247.4**	**$ (51.9)**	**(4.2%)**

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, 2019, total assets were $2,045.0 million, an increase of $123.7 million, or 6.4 percent, from the total assets of $1,921.3 million reported on September 30, 2018. The increase in total assets was driven by additional investments in securities made possible by a reduction in the cost of operations. Overnight funds increased year-over-year by $104.6 million and short-term and long-term notes investment activity increased by $28.3 million over the same period. The increase was partially offset by a decrease of $8.6 million related to property, plant, and equipment (PP&E).

Investments

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

On September 30, 2019, the amortized book value of investments and related accrued interest was $1,967.4 million, compared with $1,834.5 million the previous year. The difference of $132.9 million, or 7.2 percent, reflects an increase in invested funds as a result of lower pension contribution expenses in FY 2019. The market value of the OCC's investment portfolio in FY 2019 was $11.4 million higher than book value, as compared with FY 2018, when the market value was $27.5 million lower than book value. This change is primarily attributable to the substantial decline in interest rates in FY 2019—when interest rates decrease, the market value of the agency's securities increases.

The OCC's investment portfolio is composed of overnight and longer-term securities. The portion of the portfolio comprising longer-term investments as of September 30, 2019, and September 30, 2018, was $1,212.0 million, or 62.0 percent, and $1,183.0 million, or 64.5 percent, respectively. The weighted average maturity of the portfolio, including overnights, decreased year-over-year to 1.30 years as of September 30, 2019, compared with 1.60 years as of September 30, 2018. This change reflects the OCC's decision to weight its portfolio more heavily toward shorter-term investments to maintain desired liquidity levels. For much of the year, yields on longer-term securities were comparable to those on short-term securities.

The OCC's portfolio earned an annual yield of 2.14 percent in FY 2019, compared with 1.60 percent in FY 2018. The OCC calculates annual portfolio yield by dividing the total interest earned during the year by the average ending monthly book value of investments.

Liabilities

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

As of September 30, 2019, total liabilities were $508.3 million, a net decrease of $18.7 million, or 3.5 percent, from total liabilities of $527.0 million on September 30, 2018. This change is due to a decrease in deferred revenue in FY 2019 because of the reduction in the marginal rates in the General Assessment Fee Schedule as well as a decrease in accrued payroll and benefits and other liabilities. This was partially offset by an increase in actuarial post-retirement liabilities.

Net Position

The OCC's net position of $1,536.8 million as of September 30, 2019, an increase of $142.4 million, or 10.2 percent, over the $1,394.4 million reported for FY 2018, represents the cumulative net excess of the OCC's revenues over the cost of operations. The net position is presented on both the Balance Sheets and the Statements of Changes in Net Position.

The OCC allocates a significant portion of the net position to its financial reserves. Financial reserves are integral to the effective stewardship of the OCC's resources, and the OCC has a disciplined process for reviewing its reserve balances and allocating funds appropriately to support its ability to accomplish the agency's mission. The OCC's financial reserves are available to reduce the impact on the OCC's operations in the event of a significant fluctuation in revenues or expenses. The OCC also sets aside funds for ongoing operations.

As of September 30, 2019, the OCC's financial reserves were $1,444.4 million. This represents an increase of 9.4 percent from the end of FY 2018. These reserves are essential to a sound, prudent, and reasonable financial management strategy.

Financial Statements

OFFICE OF THE COMPTROLLER OF THE CURRENCY BALANCE SHEETS AS OF SEPTEMBER 30, 2019 AND 2018 (IN THOUSANDS)	FY 2019	FY 2018
Assets		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	$ 6,487	$ 7,382
Investments and related interest (Note 3)	1,967,387	1,834,468
Accounts receivable (Note 4)	3,517	3,042
Other assets	640	531
Total intragovernmental	**$ 1,978,031**	**$ 1,845,423**
Accounts receivable, net (Note 4)	1,317	1,692
General property, plant, and equipment, net (Note 5)	65,631	74,203
Other assets	70	29
Total assets	**$ 2,045,049**	**$ 1,921,347**
Liabilities		
Intragovernmental:		
Accounts payable and other accrued liabilities	$ 9,042	$ 11,144
Total intragovernmental	**9,042**	**11,144**
Accounts payable	1,969	1,361
Accrued payroll and benefits	46,654	50,815
Accrued annual leave	49,741	50,844
Capital lease liabilities	2,498	0
Other accrued liabilities	20,766	27,063
Deferred revenue	279,962	303,839
Other actuarial liabilities (Note 7)	97,658	81,894
Total liabilities	**$ 508,290**	**$ 526,960**
Net position (Note 8)	**1,536,759**	**1,394,387**
Total liabilities and net position	**$ 2,045,049**	**$ 1,921,347**

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, 2019 AND 2018 (IN THOUSANDS)

	FY 2019	FY 2018
Program costs:		
Supervise		
Intragovernmental	$ 153,290	$ 160,390
With the public	811,439	985,632
Subtotal—supervise	**$ 964,729**	**$ 1,146,022**
Regulate		
Intragovernmental	$ 15,005	$ 15,372
With the public	80,855	95,233
Subtotal—regulate	**$ 95,860**	**$ 110,605**
Charter		
Intragovernmental	$ 3,401	$ 3,594
With the public	17,361	21,331
Subtotal—charter	**$ 20,762**	**$ 24,925**
Total program costs	**$ 1,081,351**	**$ 1,281,552**
Less earned revenues not attributed to programs	(1,195,538)	(1,247,375)
Net program costs before gain/loss from changes in assumptions	**$ (114,187)**	**$ 34,177**
Actuarial (gain)/loss (Note 7)	13,117	(3,234)
Net cost (excess of revenues over cost) of operations (Note 9)	**$ (101,070)**	**$ 30,943**

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, 2019 and 2018 (IN THOUSANDS)

	FY 2019		FY 2018	
Beginning balances	$	1,394,387	$	1,385,807
Other financing sources:				
Imputed financing (Note 10)		41,302		39,523
Net cost of operations		101,070		(30,943)
Net change		142,372		8,580
Ending balances	**$**	**1,536,759**	**$**	**1,394,387**

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, 2019 AND 2018 (IN THOUSANDS)

	2019		2018	
Budgetary resources:				
Unobligated balance from prior year budget authority, net	$	1,541,609	$	1,522,624
Spending authority from offsetting collections		1,170,797		1,254,688
Total budgetary resources	**$**	**2,712,406**	**$**	**2,777,312**
Status of budgetary resources:				
New obligations and upward adjustments (total)	$	1,052,729	$	1,235,704
Unobligated balance, end of year:				
Exempt from apportionment, unexpired accounts		1,659,677		1,541,608
Unexpired unobligated balance, end of year		1,659,677		1,541,608
Expired unobligated balance, end of year		0		0
Unobligated balance, end of year (total)		1,659,677		1,541,608
Total status of budgetary resources	**$**	**2,712,406**	**$**	**2,777,312**
Outlays, net:				
Outlay, net (total) (discretionary and mandatory)		(130,560)		(43,103)
Agency outlay, net	**$**	**(130,560)**	**$**	**(43,103)**

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, 2019 AND 2018 (IN THOUSANDS)

	2019	2018
Revenue activity:		
Sources of cash collections		
Fines and penalties (Note 14)	$ 125,593	$ 747,910
Accrual adjustment	(281)	239
Total custodial revenue	**125,312**	**748,149**
Disposition of custodial revenue:		
Transferred to Treasury	125,593	747,910
(Increase)/decrease in amounts yet to be transferred	(281)	239
Total disposition for custodial revenue	**125,312**	**748,149**
Net custodial activity	**$ 0**	**$ 0**

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

Notes to the Financial Statements

Note 1—Significant Accounting Policies

Reporting Entity

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

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

The OCC examined its operations and has prepared these statements and notes in compliance with the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 47, "Reporting Entity." The OCC determined that it does not have a relationship with any entity that would require reporting as a related party as of September 30, 2019.

Basis of Accounting and Presentation

The OCC's financial statements are prepared from the agency's accounting records in conformity with GAAP as set forth by the FASAB. The OCC's financial statements are presented in accordance with the reporting guidance established by the OMB in Circular No. A-136, "Financial Reporting Requirements." Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

In addition, the OCC applies financial accounting and reporting standards pursuant to SFFAS No. 34, "The Hierarchy of Generally Accepted Accounting Principles."

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

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

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

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

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

Revenues and Other Financing Sources

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

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

Fund Balance With Treasury

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

Investments

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

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

Accounts Receivable

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

General Property, Plant, and Equipment

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

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

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

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

Liabilities

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

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

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

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

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

Employment Benefits

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

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 OPM. Although the OCC reports no liability for future payments to employees under these programs, the federal government is liable for future payments to employees through the various agencies administering these programs. The OCC recognizes future benefit costs as an imputed cost to OPM.

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

The Pentegra DB Plan is a tax-exempt, multiple-employer, DB pension plan. When the plan is in surplus (assets are greater than plan liabilities) the OCC's annual costs equal plan expenses, which include administrative expenses and Pension Benefit Guaranty Corporation premiums. When the plan is not in surplus, the OCC's expenses also include the present value of the benefits expected to be earned in the plan year (the target normal cost), and a portion of the unfunded liability. The plan is currently in surplus. The OCC is committed to adhering to sound financial policies and management oversight of the plan to ensure its sustainability for current and future retirees.

Thrift savings and 401(k) plans: The OCC's employees are eligible to participate in the federal Thrift Savings Plan (TSP). FERS employees can receive up to 4.0 percent in OCC matching contributions, in addition to an automatic contribution of 1.0 percent of adjusted base pay. The OCC's contributions to the TSP totaled $22.7 million and $22.8 million for FY 2019 and FY 2018, respectively, and are included as a component of "Operating expense: Personnel compensation and benefits" in Note 9, "Net Cost of Operations."

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

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

With few exceptions, employees who leave the OCC before the vesting period (three or more years of continuous credited service) forfeit the OCC's matching contributions. The OCC's 401(k) Plan Adoption Agreement provides that the OCC may use forfeitures to pay plan expenses and offset the employer's contribution obligation. In addition, the agency may re-allocate forfeitures among participants. This year, the OCC used forfeitures to defray plan expenses.

The OCC's contributions to the 401(k) plans totaled $29.7 million and $30.3 million for FY 2019 and FY 2018, respectively, and are included as a component of "Operating expense: Personnel compensation and benefits," in Note 9, "Net Cost of Operations."

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

Post-retirement life insurance benefit plan: The OCC sponsors a life insurance benefit plan for current and retired employees. The OCC's life insurance benefit plan is a defined-benefit plan for which the benefit is earned over the period from the employee's date of hire to the date on which the employee is assumed to retire. The valuation of the plan is performed in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. Specifically, the OCC uses the actuarial cost method as outlined in FASB ASC Topic 715, "Compensation—Retirement Benefits," to determine costs for its retirement plans. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan. The actuarial assumptions and methods used in calculating actuarial amounts comply with the requirements for post-retirement benefits other than pensions as set forth in FASB ASC Topic 715, and for health benefit plans as set forth in American Institute of Certified Public Accountants Statement of Position 92-6, "Accounting and Reporting by Health and Welfare Benefit Plans." (For more information, see Note 7.)

Net Position

Net position is the residual difference between assets and liabilities and is composed of cumulative results of operations. The OCC allocates a significant portion of the net position to its financial reserves. Financial reserves are integral to the effective stewardship of the OCC's resources, particularly because the agency does not receive congressional appropriations. (For more information, see Note 8.)

Custodial Activity

Non-entity receivables, liabilities, and revenues are recorded as custodial activity in the Statements of Custodial Activity and include amounts collected for fines, CMPs, and related interest assessments. Revenues are recognized as cash collected that will be transferred to the General Fund of the U.S. Treasury. The OCC presents the Statements of Custodial Activity on the "modified cash basis," in accordance with SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting." We recognize revenues as cash is collected and record a "noncash accrual adjustment" representing the net increase or decrease during the reporting period in net revenue-related assets and liabilities.

In FY 2018, the OCC collected $21.8 million from qualified settlement funds established for the administration of payments to borrowers of OCC-regulated institutions because of an Independent Foreclosure Review settlement. These funds were also transferred to the General Fund of the U.S. Treasury. This was a transaction unique to FY 2018; no similar transaction occurred in FY 2019.

Effects of Recent Accounting Pronouncements

The FASAB issued the following statements that took effect in FY 2019 and affect the OCC's reporting:

- SFFAS No. 51, "Insurance Programs": Establishes accounting and financial reporting standards for insurance programs. The OCC sponsors a life insurance benefit plan for current and retired employees, as described earlier in this note, and does not collect premiums. MetLife administers the program on behalf of the OCC and assumes the associated risk. (For more information, see Note 7.)

- SFFAS No. 53, "Budget and Accrual Reconciliation: Amending SFFAS 7, and 24, and Rescinding SFFAS 22": Requires the presentation of a reconciliation between budgetary and financial accounting information in FY 2019 to replace the statement of financing. (For more information, see Note 11.)

Note 2—Fund Balance With Treasury

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

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

As of September 30, 2019, and September 30, 2018, there were no unreconciled differences between U.S. Treasury records and balances reported on the OCC's general ledger.

Table 8 depicts the OCC's FBWT amounts for FY 2019 and FY 2018.

Table 8: Fund Balance With Treasury (in Thousands)

	FY 2019	FY 2018
Fund balance		
Trust fund	$ 6,487	$ 7,382
Status of FBWT		
Unobligated balance—available	$ 1,659,677	$ 1,541,608
Obligated balance not yet disbursed	299,750	287,259
Nonbudgetary FBWT	(1,952,940)	(1,821,485)
Total	**$ 6,487**	**$ 7,382**

Note 3—Investments and Related Interest

The OCC's investments are stated at amortized cost and the related accrued interest. Premiums and discounts are amortized over the term of the investment using the effective interest method. The fair market value of investment securities was $1,978.7 million on September 30, 2019, and $1,806.9 million on September 30, 2018. The overall portfolio earned an annual yield of 2.14 percent for FY 2019 and 1.60 percent for FY 2018.

The yield-to-maturity on individual securities in the non-overnight portion of the OCC's investment portfolio ranged from 1.0 percent to 3.1 percent on September 30, 2019, and from 0.9 percent to 2.9 percent on September 30, 2018.

Table 9: FY 2019 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Interest receivable	Investments, net	Other adjustments	Market value disclosure
Intragovernmental securities:							
Nonmarketable market-based	$ 1,960,513	Effective interest	$ 2,220	$ 4,654	$ 1,967,387	$ 0	$ 1,978,726
Total intragovernmental investments	**$ 1,960,513**		**$ 2,220**	**$ 4,654**	**$ 1,967,387**	**$ 0**	**$ 1,978,726**

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

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

Note 4—Accounts Receivable

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

Table 11: FY 2019 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Federal receivables	$ 3,517	$ 0	$ 3,517
CMP receivables	1,311	0	1,311
Nonfederal receivables	6	0	6
Total accounts receivable	**$ 4,834**	**$ 0**	**$ 4,834**

Table 12: FY 2018 Accounts Receivable (in Thousands)

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

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

The OCC's assets include land, a building, leasehold improvements, equipment, a capital lease, and internal-use software. Please see Note 1 for details on the OCC's capitalization policy and accounting for depreciation and amortization. The figures in tables 13 and 14 present the OCC's capitalization thresholds and the general PP&E balances as of September 30, 2019 and 2018.

In FY 2019, the OCC recognized $15.4 million of fully depreciated assets and expired leasehold assets removed from service, compared with $21.4 million in FY 2018. In both FY 2019 and FY 2018, the OCC did not recognize any losses on asset disposal.

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

Table 13: FY 2019 Property, Plant, and Equipment, Net (in Thousands)

Class of assets	Capitalization threshold	Useful life (in years)	Cost	Accumulated depreciation/ amortization	Net book value
Land	NA	NA	$ $7,101	$ 0	$ $7,101
Building	50	50	49,188	(40,237)	8,951
Leasehold improvements	50	5-20	108,032	(69,277)	38,755
Equipment	50	3-10	41,255	(34,736)	6,519
Capital leases	50	5	3,128	(625)	2,503
Internal-use software	500	5	91,729	(89,927)	1,802
Total			**$ 300,433**	**$ (234,802)**	**$ 65,631**

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

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

Note 6—Leases

OCC as Lessee

The OCC leases equipment and office space for its headquarters operations in Washington, D.C., and for district and field operations. The OCC evaluates all leases at inception in accordance with the criteria set forth in SFFAS No. 5, "Accounting for Liabilities of the Federal Government." In FY 2019, all but one of the OCC's leases were recorded as operating leases. The one capital lease is with a nonfederal lessor and will be fully amortized in September 2023. The total future minimum lease payments for the capital lease are immaterial. The costs for both the operating and capital leases are included in the Statements of Net Cost. These leases are noncancelable and have expiration dates ranging from FY 2019 to FY 2028, the majority with renewal options. The leases provide for future increased payments based on increases in real estate taxes, operating costs, or selected price indexes.

The future minimum lease payments to nonfederal lessors through FY 2025 and thereafter, not including renewals, are shown in table 15. The OCC has one lease with a federal lessor with an end date of March 2022 and total future minimum lease payments are immaterial.

Table 15: FY 2019 Future Lease Payments to Nonfederal Lessors for Operating Leases (in Thousands)

Year	Property	Equipment	Total
2020	$ 57,752	$ 3,029	$ 60,781
2021	52,659	2,496	55,155
2022	51,584	1,493	53,077
2023	43,326	60	43,386
2024	41,374	0	41,374
2025 and beyond	126,603	0	126,603
Total	**$ 373,298**	**$ 7,078**	**$ 380,376**

OCC as Lessor

In FY 2012, the OCC entered into a 20-year occupancy agreement with another federal agency for space in the building the OCC owns. This agreement expires in February 2032 and includes renewal options. The agreement provides for annual base rent and additional rent for building operating expenses. The agreement also provides for fixed future increases in rents over the term of the agreement. The OCC is also continuing to enter into lease agreements with retail tenants to comply with the District of Columbia's requirement to have retail establishments on the plaza level. The future minimum rental income through FY 2025 and thereafter, not including renewals, is shown in table 16.

Table 16: FY 2019 Future Rental Income (in Thousands)

Year	Amount
2020	$ 13,733
2021	13,942
2022	14,115
2023	14,347
2024	14,634
2025 and beyond	117,471
Total	**$ 188,242**

Note 7—Other Actuarial Liabilities

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

Table 17: Actuarial Liabilities (in Thousands)

Component	FY 2019	FY 2018
Post-retirement life insurance benefits	$ 87,533	$ 72,405
Federal Employees' Compensation Act	8,925	8,673
Pentegra DB Plan	1,200	816
Total actuarial liabilities	**$ 97,658**	**$ 81,894**

Post-Retirement Life Insurance Benefits

The OCC sponsors a life insurance benefit plan for current and retired employees. The weighted-average discount rate used in determining the post-retirement life insurance benefits, also known as the accumulated post-retirement benefit obligation, was 3.4 percent in FY 2019 and 4.3 percent in FY 2018. The discount rate was the primary driver for the $15.1 million year-over-year increase in the net actuarial liability ($87.5 million in FY 2019 and $72.4 million in FY 2018) and the change from a $3.2 million actuarial gain in FY 2018 to a $12.6 million actuarial loss in FY 2019.

Total periodic post-retirement life insurance benefit expenses are recognized as program costs in the Statements of Net Cost. Any gains or losses from changes in long-term assumptions used to measure liabilities for post-retirement life insurance benefits are displayed separately in the Statements of Net Cost, as required. Table 18 presents a reconciliation of the beginning and ending post-retirement life insurance liability and provides material components of the related expenses.

Table 18: Reconciliation of Beginning and Ending Post-Retirement Liability and the Related Expenses (in Thousands)

Change in actuarial and accrued benefits	FY 2019	FY 2018
Actuarial post-retirement liability, beginning balance	$ 72,405	$ 73,101
Actuarial expense		
Normal cost	1,468	1,587
Interest on the liability balance	3,053	2,888
Actuarial (gain)/loss		
From experience	(343)	162
From assumption changes	13,117	(3,234)
Prior service costs		
Total expense	**17,295**	**1,403**
Less amounts paid	(2,167)	(2,099)
Actuarial post-retirement liability, ending balance	**$ 87,533**	**$ 72,405**

Federal Employees' Compensation Act

The Federal Employees' Compensation Act provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OCC employees covered under the Federal Employees' Compensation Act are administered by the U.S. Department of Labor and billed to the OCC. The FY 2019 present value of these estimated outflows was calculated using a discount rate of 2.61 percent for wage benefits and 2.35 percent for medical benefits. For FY 2018, the discount rates for wage and medical benefits were 2.72 percent and 2.34 percent, respectively.

Pentegra Defined Benefit Plan

The Pentegra DB Plan is a tax-exempt, multiple-employer, DB pension plan in which participating employers pay all costs into one general account. The OCC does not report in its financial statements any assets, accumulated plan benefits, or actuarial gains/losses from the Pentegra DB Plan. Pentegra, as plan administrator, reports these amounts in an annual filing.

At retirement, employees may choose either a lump sum payment or an annuity/lump sum split. The Pentegra DB Plan year begins July 1 and ends June 30.

In FY 2019 and FY 2018, the OCC paid $3.3 million and $2.7 million and recognized plan expenses of $3.6 million and $2.8 million, respectively. At September 30, 2019 and 2018, the OCC had accrued $1.2 million and $0.8 million, representing the portion of the plan expenses from July to September of each fiscal year that is paid in the following fiscal year. The OCC made the minimum required contribution for the 2019–2020 plan year expenses.

Note 8—Net Position

Net position represents the net result of operations since inception and includes cumulative amounts related to investments in capitalized assets held by the OCC. The OCC allocates a portion of its net position as financial reserves for use at the Comptroller's discretion. In addition, the OCC sets aside funds in the net position to cover the cost of ongoing operations, including commitments and open obligations supporting the achievement of OCC strategic goals and objectives. Table 19 reflects balances for FY 2019 and FY 2018.

Table 19: Net Position Availability (in Thousands)

Component	FY 2019		FY 2018	
Financial reserves	$	1,444,356	$	1,319,926
Set aside for ongoing operations		92,403		74,461
Net position	**$**	**1,536,759**	**$**	**1,394,387**

Note 9—Net Cost of Operations

The net cost of operations represents the OCC's operating costs deducted from assessments and fees paid by banks and other income earned. The operating costs include the gain or loss from actuarial experience and assumption changes per the guidance in SFFAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses From Changes in Assumptions and Selecting Discount Rates and Valuation Dates." The imputed financing sources for net cost of operations are reflected in the Statements of Changes in Net Position, Note 10, and Note 11." Table 20 illustrates the OCC's operating expense categories for FY 2019 and FY 2018.

Table 20: Net Cost (Excess of Revenues Over Cost) of Operations by Expense Category (in Thousands)

Component	FY 2019		FY 2018	
Personnel compensation and benefits	$	785,746	$	933,608
Contractual services		110,557		119,663
Rent, communication, and utilities		77,596		88,777
Travel and transportation of persons and things		43,444		56,119
Imputed costs (Note 10)		41,302		39,523
Depreciation		13,326		17,732
Other		22,497		22,896
Total cost of operations		**1,094,468**		**1,278,318**
Less earned revenues not attributed to programs		(1,195,538)		(1,247,375)
Total	**$**	**(101,070)**	**$**	**30,943**

Note 10—Imputed Costs and Financing Sources

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

The imputed cost categories for FY 2019 and FY 2018 are listed in the table below. These imputed costs are included on the Statements of Net Cost. The financing sources absorbed by OPM are reflected in the Statements of Changes in Net Position and in Note 11. The year-to-year change in imputed cost is related to increases in OPM cost factors for retirement and Federal Employee Health Benefits.

Table 21: Imputed Costs Absorbed by OPM (in Thousands)

Component	FY 2019	FY 2018
Retirement	$ 15,583	$ 13,272
Federal Employee Health Benefits	25,663	26,194
Federal Employees' Group Life Insurance	56	57
Total	**$ 41,302**	**$ 39,523**

Note 11—Reconciliation of Net Cost to Net Outlays

The Reconciliation of Net Cost of Operations to Net Outlays depicts the difference between proprietary financial accounting information and budgetary accounting information. Proprietary financial accounting information is intended to depict the U.S. government's financial operations and financial position presented on an accrual basis in accordance with GAAP, which includes the recognition of assets and liabilities for which collections and payments, respectively, have not been made. In contrast, budgetary accounting information is used for planning and control purposes and includes net outlays that reflect both the receipt and use of cash, as well as reporting the federal deficit. The reconciliation of the OCC's net cost (presented on an accrual basis) and net outlays (presented on a budgetary basis) reflects the relationship between financial accounting and budgetary information. The reconciliation serves not only to identify costs paid in the past and those that will be paid in the future but also to assure integrity between financial and budgetary accounting. The OCC is not presenting comparatively as this is the initial year of implementation, in accordance with SFFAS 53. Therefore, table 22 reflects balances for FY 2019 only.

Table 22: Reconciliation of Net Cost to Net Outlays (in Thousands)

	Intra-governmental	With the public	Total FY 2019
Net cost	**$ 121,754**	**$ (222,824)**	**$ (101,070)**
Components of net cost not part of net outlays:			
Property, plant, and equipment depreciation	$ 0	$ (13,326)	$ (13,326)
Increase/(decrease) in assets:			
Accounts receivable	987	(95)	892
Investments	952	0	952
Other assets	108	41	149
Increase/(decrease) in liabilities:			
Accounts payable	0	(607)	(607)
Salaries and benefits	(302)	5,264	4,962
Other liabilities	2,124	11,912	14,036
Other financing sources:			
Imputed financing	(41,302)	0	(41,302)
Total components of net cost not part of net outlays	**$ (37,433)**	**$ 3,189**	**$ (34,244)**
Components of net outlays that are not part of net cost:			
Acquisition of capital assets	0	4,754	4,754
Total components of net outlays that are not part of net cost	**0**	**4,754**	**4,754**
Net outlays	**$ 84,321**	**$ (214,881)**	**$ (130,560)**

Note 12—Contingent Liabilities

The OCC recognizes and discloses contingencies in accordance with SFFAS No. 5, as amended by SFFAS No. 12. The OCC is party to various administrative proceedings, legal actions, and claims brought against the agency, including threatened or pending litigation involving federal employment claims, some of which may ultimately result in settlements or decisions against the federal government.

In FY 2018, the OCC recorded a contingent liability for $545,000 for litigation involving the OCC because the risk of loss was probable, and the amount was estimable. As of September 30, 2019, the OCC recorded an additional $125,000 liability for the same ongoing legal case.

Note 13—Undelivered Orders at the End of the Period

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

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

	FY 2019	FY 2018
Undelivered orders paid at the end of the period		
Federal	$ 639	$ 532
Nonfederal	70	28
Total undelivered orders paid at the end of the period	$ 709	$ 560
Undelivered orders unpaid at the end of the period		
Federal	$ 8,659	$ 6,366
Nonfederal	72,247	66,548
Total undelivered orders unpaid at the end of the period	$ 80,906	$ 72,914
Total	**$ 81,615**	**$ 73,474**

Note 14—Custodial Revenues

The OCC assesses fines and penalties against people or banks for violations of law, regulation, and orders; unsafe or unsound practices; and breaches of fiduciary duty. These amounts typically are collected in the same year that the OCC assesses them and are recognized as cash collected that will be transferred to the General Fund of the U.S. Treasury. The change in FY 2019 is due to a decrease in the need to assess penalties against regulated institutions.

Table 24: Custodial Revenue (in Thousands)

	Tax Year				
	2019	2018	2017	Pre-2017	2019 collections
Fines and penalties, nontax related	$ 125,183	$ 356	$ 3	$ 51	$ 125,593

	Tax Year				
	2018	2017	2016	Pre-2016	2018 collections
Fines and penalties, nontax related	$ 747,801	$ 78	$ 0	$ 31	$ 747,910

Independent Auditor's Report

Comptroller of the Currency
Office of the Comptroller of the Currency

Acting Inspector General
Department of the Treasury

In our audits of the fiscal years 2019 and 2018 financial statements of the Office of the Comptroller of the Currency (OCC), we found:

- the OCC's financial statements as of and for the fiscal years ended September 30, 2019, and 2018, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed; [1] and
- no reportable noncompliance for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, required supplementary information (RSI)[2], and other information included with the financial statements; [3] (2) our report on internal control over financial reporting; and (3) our report on compliance with laws, regulations, contracts, and grant agreements.

Report on the Financial Statements

In accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, we have audited the OCC's financial statements. The OCC's financial statements is comprised of the balance sheets as of September 30, 2019, and 2018; the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended; and the related notes to the financial statements.

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

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

[3]Other information consists of the Key Performance Measures and Results and Improper Payments Elimination and Recovery Improvement Act sections.

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted government auditing standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

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

Opinion on Financial Statements

In our opinion, the OCC's financial statements present fairly, in all material respects, the OCC's financial position as of September 30, 2019, and 2018, and its net cost of operations, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

Other Information

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

Report on Internal Control over Financial Reporting

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

Management's Responsibility

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

Auditor's Responsibility

In planning and performing our audit of the OCC's financial statements as of and for the year ended September 30, 2019, in accordance with U.S. generally accepted government auditing standards, we considered the OCC's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OCC's internal control over financial reporting. Accordingly, we do not express an opinion on the OCC's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies[4] or material weaknesses.

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

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

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

Results of Our Consideration of Internal Control over Financial Reporting

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

Intended Purpose of Report on Internal Control over Financial Reporting

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

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

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

Management's Responsibility

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

Auditor’s Responsibility

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

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2019 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the OCC. Accordingly, we do not express such an opinion.

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

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance.

This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Williams, Adley & Company-DC, LLP

Washington, District of Columbia
November 7, 2019

Other Information

Key Performance Measures and Results

The OCC's FY 2019 performance measures, workload indicators, customer service standards, and results are presented in table 25. They respond to the requirements for most agencies to set goals, measure performance, and report the information to Congress as established in the Government Performance and Results Act of 1993 Modernization Act of 2010.

The OCC organizes its programs under three activities: supervise, regulate, and charter banks. In addition, the OCC measures its overall efficiency and effectiveness with an agency-wide indicator. As such, the OCC's priorities focus on strengthening the resiliency of the institutions subject to its jurisdiction through its supervisory and regulatory programs and activities. A stronger and more resilient banking system directly supports four out of five Treasury Department FY 2018–2022 strategic goals: boost U.S. economic growth, promote financial stability, enhance national security, and achieve operational excellence.

Table 25: Performance Measures, Workload Indicators, Customer Service Standards, and Results

Performance measures, workload indicators, and customer service standards	FY 2016	FY 2017	FY 2018	2019 Target	2019 Actual
Supervise and regulate programs					
Percentage of banks with composite capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk (CAMELS) rating of 1 or 2	93%	94%	96%	90%	96%
Rehabilitated problem banks as a percentage of the problem banks one year ago (CAMELS 3, 4, or 5)	43%	40%	44%	40%	15%[a]
Percentage of banks that are well capitalized	96%	97%	97%	95%	98%
Percentage of banks with consumer compliance rating of 1 or 2. For institutions with assets more than $10 billion, these ratings reflect only those laws and regulations for which the OCC has enforcement and supervisory authority.	98%	97%	98%	94%	98%
Charter program					
Percentage of licensing applications and notices completed within established time frames	98%	96%	97%	95%	99%
Agency-wide					
Total OCC costs relative to every $100,000 in assets regulated	$9.65	$9.49	$9.12	$8.50	$8.07

[a] The low percentage is an indicator of a shrinking population base of problem banks. Two years ago, there were approximately 80 problem banks, last year 60 problem banks, and currently fewer than 50 problem banks.

Improper Payments Elimination and Recovery Improvement Act

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

IPERIA Risk Assessment

Each year, the Treasury Department provides the OCC with guidance, in accordance with OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," appendix C, "Requirements for Payment Integrity Improvement," to complete an annual risk assessment of programs and activities to identify those susceptible to significant improper payments. In FY 2019, the OCC performed a risk assessment on the following five programs:

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

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

Analysis of Improper Payments

The OCC analyzed payments made during FY 2019 in the general categories of salary and benefit payments, travel payments, and vendor payments, and identified 166 improper payments in the fiscal year requiring adjustments totaling $162,539. As of September 30, 2019, the agency recaptured 94 percent of these payments, totaling $152,462. During FY 2019, the OCC collected 99 percent of travel and vendor payments; salary and benefits amounts are considered fully collectible (see table 26).

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

The OCC monitors improper payments to increase the likelihood of prompt recovery. The underlying causes and contributing factors are identified quickly, and control measures are implemented to prevent additional improper payments. Table 26 summarizes the OCC's improper payments for FY 2019 and FY 2018.

Table 26: Improper Payments

	FY 2019		FY 2018	
Payment type	Amount	Number	Amount	Number
Salary and benefits	$ 24,192	22	$ 33,686	44
Travel*	33,257	138	37,393	99
Vendor	105,090	6	25,915	3
Total	**$ 162,539**	**166**	**$ 96,995**	**146**

Source: OCC financial system data

*From FY 2018 to FY 2019, the increase in the total number of improper travel payments was related to the transition to the GSA SmartPay 3 payment solution.

Note: All improper payments are attributed to a monetary loss to the federal government within the OCC's control.

Assurance Statement

To:	Steven T. Mnuchin Secretary of the Treasury
From:	Joseph M. Otting Comptroller of the Currency
Date:	November 1, 2019
Subject:	FY 2019 Final Unmodified Statement of Assurance of Achievement of Management Control Objectives

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

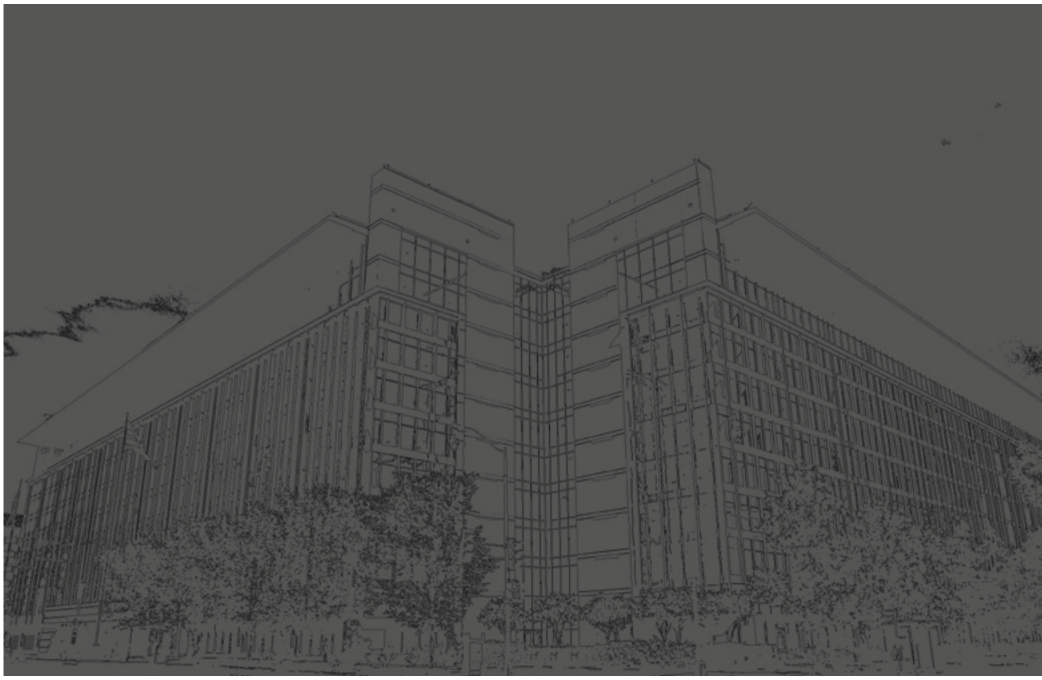
Management is responsible for managing risks and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. Risk management practices that identify, assess, respond to, and report on risks are taken into account when designing internal controls and assessing their effectiveness. The OCC conducted its assessment of risk and internal controls in accordance with OMB Circular A-123 and OMB Circular A-123, appendix A, "Management of Reporting and Data Integrity Risk." Based on the results of this assessment, the OCC can provide reasonable assurance that our internal controls over strategic, operational, reporting, and compliance objectives were operating effectively as of September 30, 2019.

In addition, the OCC assessed its financial management systems in accordance with OMB Circular A-123, appendix D, "Compliance With the FFMIA." Based on the results of this assessment, our financial management systems substantially comply with FFMIA section 803(a) as of September 30, 2019.

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

ABBREVIATIONS

AML	anti-money laundering
ASC	Accounting Standards Codification
BSA	Bank Secrecy Act
CAMELS	capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk
CBS	Committee on Bank Supervision
CMP	civil money penalty
CRA	Community Reinvestment Act
CSC	Center for Sustainable Communities
CSRS	Civil Service Retirement System
DB	defined benefit
DNP	Do Not Pay
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
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FY	fiscal year
GAAP	generally accepted accounting principles
IPERIA	Improper Payments Elimination and Recovery Improvement Act
LCR	liquidity coverage ratio
MCBS	Midsize and Community Bank Supervision
MDI	minority depository institution
NRC	National Risk Committee
NSFR	net stable funding ratio
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
OMB	Office of Management and Budget
OPM	U.S. Office of Personnel Management
OTS	Office of Thrift Supervision
PP&E	property, plant, and equipment
SFFAS	Statement of Federal Financial Accounting Standards
TSP	Thrift Savings Plan



OCC HEADQUARTERS

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