

## Foundation Alert

### NBP faces penalty of US\$55.4mn by US regulators

#### Event

- National Bank of Pakistan (NBP) has been penalized US\$35mn by the New York State Department of Financial Services (NYDFS) and US\$20.4mn by the Federal Reserve Board for anti-money laundering violations.

#### Impact

- NYDFS has penalized NBP US\$35mn for compliance deficiencies with respect to Bank Secrecy Act/Anti-Money Laundering (BSA/AML) requirements for its New York Branch.
- Furthermore Federal Reserve Board (Fed) has imposed US\$20.4mn penalty for the same deficiencies.
- Superintendent of NYDFS disclosed that bank persistently violated compliance for years despite repeated regulatory warnings.
- NYDFS and Fed conducted their examination in 2014-2015 for inadequate BSA/AML compliance with its transaction monitoring system, weak internal controls and significant shortcomings in management oversight.
- The Bank had also implemented a new money remittance service without appropriate safeguards such as identification and verification processes or formalized risk-based due diligence controls.
- According to the regulator despite written agreement between the bank and regulators in 2016 to improve oversight, compliance deficiencies and further examinations, the overall condition of its risk management/compliance program continued to deteriorate.
- In 2020, the Bank had revamped its management for branch operations to improve compliance but continued to operate in an unsatisfactory manner with an inadequate compliance program.
- This penalty would translate into Rs9.7bn for NBP with a negative EPS impact of Rs2.73/sh.

#### Outlook

- The stock is not in our formal coverage.

#### Analyst

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If	
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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.