

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

In the Matter of

NATIONAL BANK OF PAKISTAN
Karachi, Pakistan

and

NATIONAL BANK OF PAKISTAN
NEW YORK BRANCH
New York, New York

Docket Nos. 21-27-B-FB
21-27-B-FBR
21-27-CMP-FB
21-27-CMP-FBR

Order to Cease and Desist and
Order of Assessment of a Civil
Money Penalty Issued Upon
Consent, Pursuant to the Federal
Deposit Insurance Act, as amended

WHEREAS, National Bank of Pakistan, Karachi, Pakistan, (the “Bank”) is a foreign bank as defined in section 1(b)(7) of the International Banking Act (12 U.S.C. § 3101(7));

WHEREAS, the Bank conducts operations in the United States through a branch in New York, New York (the “Branch”) for which the Board of Governors of the Federal Reserve System (the “Board of Governors”) is the appropriate federal supervisor in the United States of the Bank and the Branch;

WHEREAS, the most recent examination of the Branch conducted by the Federal Reserve Bank of New York (the “Reserve Bank”) and the New York State Department of Financial Services (“NYSDFS”) as of March 4, 2021 disclosed significant deficiencies in the Branch’s risk management and compliance with federal laws, rules, and regulations relating to anti-money laundering (“AML”) compliance, including the Bank Secrecy Act (“BSA”) (31 U.S.C. § 5311 *et seq.*); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Chapter X); and the requirements of Regulation K of the Board of

Governors to report suspicious activity and to maintain an adequate BSA/AML compliance program (12 C.F.R. §§ 211.24(f) and 211.24(j)) (collectively, the “BSA/AML Requirements”);

WHEREAS, on March 14, 2016, the Bank and the Branch entered into a Written Agreement with the Reserve Bank and NYSDFS designed to correct certain deficiencies in the Branch’s compliance with the BSA/AML Requirements;

WHEREAS, as of the most recent examination, the Bank and the Branch had not achieved full compliance with each and every provision of the Written Agreement;

WHEREAS, in response to the Reserve Bank’s 2019 examination of the Branch, the Bank has instituted new management at the Branch who are continuing to improve the Branch’s corporate governance, management oversight, and compliance with the BSA/AML Requirements, in order to comply with safe and sound banking practices and applicable federal laws, rules, and regulations;

WHEREAS, it is the common goal of the Board of Governors, the Reserve Bank, the Bank, and the Branch that the Bank and the Branch operate in compliance with all applicable federal laws, rules, and regulations;

WHEREAS, the Bank, the Branch, and the Board of Governors have mutually agreed to enter into this Cease and Desist Order and Order of Assessment of a Civil Money Penalty (the “Order”); and

WHEREAS, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing the undersigned to enter into this Order on behalf of the Bank and the Branch, respectively, and consenting to compliance with each and every provision of this Order by the Bank and the Branch, and waiving all rights that the Bank and the Branch may have pursuant to section 8 of the Federal Deposit Insurance Act, as amended (the “FDI

Act”) (12 U.S.C. § 1818), including but not limited to: (i) the issuance of a notice of charges on any and all matters set forth in this Order; (ii) a hearing for the purpose of taking evidence on any matters set forth in this Order; (iii) judicial review of this Order; and (iv) challenging or contesting, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provision hereof.

NOW, THEREFORE, it is hereby ordered that, before the filing of any notices, or taking of any testimony, or adjudication of or finding on any issues of fact or law herein, and solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony, pursuant to sections 8(b)(1) and (4) of the FDI Act (12 U.S.C. §§ 1818(b)(1) and 1818(b)(4)), the Bank and the Branch shall cease and desist and take affirmative action as follows:

Corporate Governance and Management Oversight

1. Within 60 days of this Order, the Bank’s board of directors and the Branch’s management shall jointly submit to the Reserve Bank a written plan to enhance oversight, by the management of the Bank and Branch, of the Branch’s compliance with the BSA/AML Requirements acceptable to the Reserve Bank. The plan shall provide for a sustainable governance framework that includes the following six items:

(a) actions the board of directors will take to maintain effective control over, and oversight of, Branch management’s compliance with the BSA/AML Requirements;

(b) measures to improve the management information systems’ reporting of the Branch’s compliance with the BSA/AML Requirements to senior management of the Bank and the Branch;

(c) measures to ensure BSA/AML issues are appropriately tracked, escalated, and reviewed by the Branch's senior management;

(d) measures to ensure that the person or groups at the Bank and the Branch charged with the responsibility of overseeing the Branch's compliance with the BSA/AML Requirements possess appropriate subject matter expertise and are actively involved in carrying out such responsibilities; and

(e) allocation of adequate resources to ensure the Branch's compliance with this Order and the BSA/AML Requirements.

BSA/AML Compliance Program

2. Within 60 days of this Order, the Bank and the Branch shall jointly submit a written revised BSA/AML compliance program for the Branch that is acceptable to the Reserve Bank. The revised program shall include the following seven items:

(a) a system of internal controls reasonably designed to ensure compliance with the BSA/AML Requirements;

(b) controls reasonably designed to limit risks and to achieve compliance with all requirements relating to correspondent accounts for foreign financial institutions;

(c) a comprehensive BSA/AML risk assessment that identifies the Branch's money laundering, terrorist financing, and other illicit financial activity risks and considers all products and services of the Branch, customer types, geographic locations, and transaction volumes, as appropriate, in determining inherent and residual risks;

(d) management of the Branch's BSA/AML compliance program by a qualified compliance officer, who is given full autonomy, independence, and responsibility for implementing and maintaining an effective BSA/AML compliance program that is commensurate

with the Branch's size and risk profile, has meaningful decision-making authority, and is supported by adequate staffing levels and resources;

(e) identification of management information systems used to achieve compliance with the BSA/AML Requirements and a timeline to review key systems to ensure they are configured to identify and mitigate BSA/AML risks;

(f) comprehensive and timely independent testing for the Branch's compliance with applicable BSA/AML Requirements; and

(g) effective training for all appropriate Branch personnel and appropriate personnel of affiliates that perform BSA/AML compliance-related functions for the Branch in all aspects of the BSA/AML Requirements and internal policies and procedures.

Customer Due Diligence

3. Within 60 days of this Order, the Bank and the Branch shall jointly submit a written revised customer due diligence program acceptable to the Reserve Bank. The program shall include the following six items:

(a) policies, procedures, and controls to ensure that the Branch collects, analyzes, and retains complete and accurate customer information for all account holders, including but not limited to affiliates;

(b) a plan to remediate deficient due diligence for existing customer accounts;

(c) a revised methodology for assigning risk ratings to account holders that considers factors such as type of customer, type of products and services, geographic location, and transaction type and volume;

(d) for each customer whose transactions require additional due diligence, procedures to:

- (i) determine the appropriate documentation necessary to verify the identity and business activities of the customer; and
- (ii) understand the normal and expected transactions of the customer;
- (e) policies, procedures, and controls to ensure that foreign correspondent accounts are accorded the appropriate due diligence and, where necessary, enhanced due diligence; and
- (f) periodic reviews and evaluations of customer and account information for the entire customer base to ensure that information is current and complete, and that the risk rating reflects the current information and, if applicable, documents the rationales for any revisions made to the customer risk rating.

Suspicious Activity Monitoring and Reporting

4. Within 60 days of this Order, the Bank and the Branch shall jointly submit a written program acceptable to the Reserve Bank and reasonably designed to ensure the identification and timely, accurate, and complete reporting by the Branch of all known or suspected violations of law or suspicious transactions to law enforcement and supervisory authorities, as required by applicable suspicious activity reporting laws and regulations. The program shall include the following three items:

- (a) a well-documented methodology for establishing monitoring rules and thresholds appropriate for the Branch's risk profile which considers factors such as type of customer, type of product or service, geographic location, and foreign correspondent banking activities, including U.S. dollar clearing activities;
- (b) policies and procedures for analyzing, testing, and documenting changes to monitoring rules and thresholds;

(c) enhanced monitoring and investigation criteria and procedures to ensure the timely detection, investigation, and reporting of all known or suspected violations of law and suspicious transactions, including but not limited to:

(i) effective monitoring of customer accounts and transactions, including but not limited to transactions conducted through foreign correspondent accounts;

(ii) appropriate allocation of resources to manage alert and case inventory;

(iii) adequate escalation of information about potentially suspicious activity through appropriate levels of management;

(iv) maintenance of sufficient documentation with respect to the investigation and analysis of potentially suspicious activity, including the resolution and escalation of concerns; and

(v) maintenance of accurate and comprehensive customer and transactional data utilized to identify, investigate, and report suspicious transactions by the Branch's compliance program.

Transaction Monitoring System

5. Within 60 days of this Order, the Bank and the Branch shall jointly engage an independent third party, acceptable to the Reserve Bank to: (i) validate the effectiveness of the Branch's transaction monitoring system ("Transaction Monitoring System Validation") and (ii) prepare a written report of findings, conclusions, and recommendations (the "Transaction Monitoring System Report").

6. Within 10 days of the engagement of the independent third party, but prior to the commencement of the Transaction Monitoring System Validation, the Bank and the Branch

shall jointly submit to the Reserve Bank for approval an engagement letter that provides, at a minimum, for the independent third party to:

- (a) evaluate the appropriateness of filtering criteria and thresholds used in the Branch's transaction monitoring system;
- (b) test the Branch's transaction monitoring system to ensure that intended information is accurately captured;
- (c) complete the Transaction Monitoring System Validation within 60 days of the Reserve Bank's approval of the engagement letter;
- (d) provide to the Reserve Bank a copy of the Transaction Monitoring System Report at the same time the report is provided to the Bank and the Branch; and
- (e) commit that any and all interim reports, drafts, workpapers, or other supporting materials associated with the Transaction Monitoring System Validation will be made available to the Reserve Bank upon request.

7. Within 30 days of the completion of the Transaction Monitoring System Report, the Bank and the Branch shall submit to the Reserve Bank an acceptable written plan to address findings and correct deficiencies cited in the report.

Primary Contact

8. Within 10 days of this Order, the Bank and the Branch shall jointly designate an officer to be responsible for coordinating and submitting to the Reserve Bank the written plans, programs, and engagement letter required under the terms of this Order.

Assessment of Civil Money Penalty

9. The Board of Governors hereby assesses the Bank a civil money penalty in the amount of \$20.4 million which shall be paid upon the execution of this Order by Fedwire

transfer of immediately available funds to the Federal Reserve Bank of Richmond ABA No. 051000033, beneficiary, Board of Governors of the Federal Reserve System. This penalty is a penalty paid to a government agency for a violation of law for purposes of 26 U.S.C. § 162(f) and 26 C.F.R. § 1.162-21. The Federal Reserve Bank of Richmond, on behalf of the Board of Governors, shall distribute this sum to the U.S. Department of the Treasury, pursuant to section 8(i) of the FDI Act (12 U.S.C. § 1818(i)).

Approval, Implementation, and Progress Reports

10. (a) The Bank and the Branch shall jointly submit the written plans and programs that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 1, 2, 3, 4, and 7 of this Order. Each plan and program shall contain a timeline for full implementation of the plan or program with specific deadlines for the completion of each component of the plan or program. An independent third party acceptable to the Reserve Bank shall be retained by the Bank and the Branch within the time period set forth in paragraph 5 of this Order. An engagement letter acceptable to the Reserve Bank shall be submitted within the time period set forth in paragraph 6 of this Order.

(b) Within 10 days of approval by the Reserve Bank, the Bank and the Branch, as applicable, shall adopt the approved plans and programs. Upon adoption, the Bank and the Branch, as applicable, shall promptly implement the approved plans and programs, and thereafter fully comply with them.

(c) During the term of this Order, the approved plans, programs, and engagement letter shall not be amended or rescinded without the prior written approval of the Reserve Bank.

11. Within 30 days after the end of each calendar quarter following the date of this Order, the Bank and the Branch shall jointly submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with this Order, a timetable and schedule to implement specific remedial actions to be taken, and the results thereof. The Reserve Bank may, in writing, discontinue the requirement for progress reports or modify the reporting schedule.

Communications

12. All communications regarding this Order shall be sent to:

- (a) Mr. Eric Caban
Vice President
Federal Reserve Bank of New York
Liberty Street
New York, New York 10045
- (b) Mr. Jason Gonzalez
Assistant General Counsel
Board of Directors of the Federal Reserve System
Washington, D.C. 20551
- (c) Mr. Arif Usmani
President and Chief Executive Officer
National Bank of Pakistan
Head Office
NBP Building
1.1 Chundrigar Road
Karachi-74000
Pakistan
- (d) Mr. James Stubbs
General Manager
National Bank of Pakistan
New York Branch
100 Wall Street, 21st Floor
New York, New York 10005

Miscellaneous

13. Notwithstanding any provision of this Order to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to the Bank and the Branch to comply with any provision of this Order.

14. The provisions of this Order shall be binding on the Bank and the Branch, and each of their institution-affiliated parties, as defined in section 3(u) and 8(b)(4) of the FDI Act (12 U.S.C. §§ 1813(u) and 1818(b)(4)), in their capacities as such, and their successors and assigns.

15. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank.

16. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency from taking any other action affecting the Bank, the Branch, any of their subsidiaries, or any of their current or former institution-affiliated parties and their successors and assigns.

By order of the Board of Governors of the Federal Reserve System effective this 22nd day of February, 2022.

NATIONAL BANK OF PAKISTAN

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: /s/ Arif Usmani
Arif Usmani
President and Chief Executive Officer

By: /s/ Ann Misback
Ann Misback
Secretary of the Board

NATIONAL BANK OF PAKISTAN
NEW YORK BRANCH

By: /s/ James Stubbs
James Stubbs
Country Manager