Department of Justice

FOR IMMEDIATE RELEASE
Friday, January 9, 2009
WWW.USDOJ.GOV

CRM
(202) 514-2007
TDD (202) 514-1888

Lloyds TSB Bank Plc Agrees to Forfeit $350 Million in Connection with Violations of the International Emergency Economic Powers Act

WASHINGTON – Lloyds TSB Bank plc (Lloyds), a United Kingdom corporation headquartered in London, has agreed to forfeit $350 million to the United States and to the New York County District Attorney's Office in connection with violations of the International Emergency Economic Powers Act (IEEPA), Acting Assistant Attorney General Matthew Friedrich of the Criminal Division, Internal Revenue Service (IRS) Commissioner Doug Shulman and Robert M. Morgenthau, District Attorney for the New York County District Attorney's Office, announced today. The violations relate to transactions Lloyds illegally conducted on behalf of customers from Iran, Sudan and other countries sanctioned in programs administered by the Office of Foreign Assets Controls.

A criminal information was filed today in the U.S. District Court for the District of Columbia charging Lloyds with one count of violating the IEEPA. Lloyds waived indictment, agreed to the filing of the information, and has accepted and acknowledged responsibility for its criminal conduct. Lloyds agreed to forfeit the funds as part of deferred prosecution agreements with the Department of Justice and the New York County District Attorney's Office.

Under the IEEPA, it is a crime to willfully violate, or attempt to violate, any regulation issued under the act, including the Iranian Transactions Regulations, which prohibit exportation of services from the United States to Iran, and the Sudanese Sanctions Regulations, which prohibit exportation of services from the United States to Sudan.

According to court documents, beginning as early as 1995 and continuing until January 2007, Lloyds, in both the United Kingdom and Dubai, falsified outgoing U.S. wire transfers that involved countries or persons on U.S. sanctions lists. Specifically, according to court documents, Lloyds deliberately removed material information—such as customer names, bank names and addresses—from payment messages so that the wire transfers would pass undetected through filters at U.S. financial institutions. This process of "repairing" or "stripping," as Lloyds commonly referred to it, allowed more than $350 million in transactions to be processed by U.S. correspondent banks used by Lloyds that might have otherwise been blocked or rejected due to sanctions regulations or for internal bank policy reasons. According to court documents, the criminal conduct by Lloyds was designed to evade, and to assist its customers in evading, U.S. economic sanctions imposed against Iran, Sudan and other countries.

"For more than 12 years, Lloyds facilitated the anonymous movement of hundreds of millions of dollars from U.S.-sanctioned nations through our financial system," said Acting Assistant Attorney General Matthew Friedrich. "More than $350 million moved from places such as Iran through locations around the world because Lloyds stripped identifying information from international wire transfers that would have raised a red flag at U.S. financial institutions and caused such payments to be scrutinized. The Department will continue to use criminal enforcement measures against the knowing and intentional evasion of U.S. sanctions laws, particularly where such conduct has the potential to finance terrorist activities."

"Today's global economy demands this type of high-level coordinated approach by multiple agencies and authorities," said IRS Commissioner Doug Shulman. "The IRS is proud to have shared its hallmark expertise in following the money trail in this and other increasingly sophisticated criminal schemes. Indeed, creating new strategies and models of cooperation among governments on international tax compliance is one of my top priorities for the IRS."

The bank's forfeiture of $175 million to the United States and $175 million to New York County will settle forfeiture claims by the Department of Justice and the state of New York related to the misconduct. In light of the bank's remedial actions to date and its willingness to acknowledge responsibility for its actions, the Department will recommend the dismissal of the information in two years, provided Lloyds fully cooperates with, and abides by, the terms of the agreement.

The case was prosecuted by Assistant Chief Mia Levine and Trial Attorney Frederick Reynolds of the Criminal Division's Asset Forfeiture and Money Laundering Section, which is headed by Chief Richard Weber. The case was investigated by the IRS-Criminal Investigation's Washington Field Division.

###

09-023

DISTRICT ATTORNEY - NEW YORK COUNTY

NEWS RELEASE
January 9, 2009

Contact: Alicia Maxey Greene
212-335-9400

Manhattan District Attorney Robert M. Morgenthau announced today a Deferred Prosecution Agreement with the British bank, Lloyds TSB Bank plc ("LLOYDS") in settlement of a "stripping" scheme in which the Bank caused the falsification of the records of New York financial institutions and enabled its Iranian and Sudanese banking clients to access the U.S. banking system in violation of federal sanctions prohibiting such conduct. As a result, LLOYDS will pay fines and forfeiture totaling $350,000,000.

In the agreement LLOYDS admits that from 2001 – 2004, LLOYDS falsified the business records of banks in Manhattan by engaging in a systematic process of altering wire transfer information to hide the identity of its clients. This process allowed the illegal transfer of more than $300 million on behalf of Iranian banks and their customers; the Iranian banks involved included Bank Melli, Bank Saderat, Sepah Bank and others. While LLOYDS voluntarily exited the Iranian business by 2004, the Sudanese business, which resulted in the illegal transfer of over $20 million, continued into 2007, after the beginning of the investigation. The transfers were made to buy goods and services from U.S. companies and to finance the purchase of goods and services from foreign vendors that sought payment in dollars.

Mr. Morgenthau said that today's settlement was the result of a joint investigation undertaken by the District Attorney's Office and the Asset Forfeiture and Money Laundering Section of the United States Department of Justice ("DOJ"). As a result of the settlement and Deferred Prosecution Agreement with both the District Attorney's Office and DOJ, LLOYDS has agreed to adhere to best practices for international banking transparency, to cooperate with ongoing law enforcement investigations, to conduct an internal review of past transactions, and to pay the fines and forfeiture.

The United States government prohibits certain countries, entities and individuals from accessing U.S. financial institutions and the U.S. banking system. These sanctions are administered and enforced by the United States Department of the Treasury's Office of Foreign Assets Control ("OFAC").

New York banks use sophisticated computer systems to monitor and screen all wire transfer activities to ensure that the banks do not engage in prohibited transactions. The banks depend on these automated systems to prevent sanctioned entities from accessing the United States banking system.

The investigation revealed that LLOYDS engaged in a systematic practice of "stripping" wire transfer information. Stripping is the practice of removing wire transfer information that would identify that the transfers originated from a prohibited source. By stripping out the originator information, the wire transfers could pass through the screening software used by New York banks that would otherwise have rejected or frozen them for further inquiry. The stripping of wire transfer information in this manner made it appear that the transactions originated at LLOYDS in the United Kingdom rather than the sanctioned banks.

The investigation of LLOYDS focused primarily on its handling of accounts for financial institutions from two designated countries: Iran and Sudan. Knowing that they could not legally access U.S. banks, Iranian and Sudanese banks with accounts at LLOYDS sought to evade U.S. sanctions. Beginning in the mid-1990s, LLOYDS began removing any information from Iranian and Sudanese wire transfers that would trigger the detection systems at New York correspondent banks. To execute this policy, LLOYDS personnel removed any information that identified the payment messages as originating from Iranian, Sudanese or other sanctioned countries. The falsified wire transfers would then be processed undetected by the OFAC filters in place at the U.S. banks.

Mr. Morgenthau said that the investigation into LLOYDS' stripping activities grew out of an investigation into the suspicious movement of money by alleged Iranian front companies and charities. Specifically, the District Attorney's Office began an investigation in 2006 into the relationship between the Government of Iran and two New York entities, the Alavi Foundation and Assa Corporation, which jointly owned an office building located at 650 Fifth Avenue in Manhattan. During the course of this investigation, the District Attorney's Office uncovered evidence that LLOYDS was engaged in the illegal transfer of funds into Manhattan on behalf of sanctioned Iranian banks. At about the same time, the District Attorney's Office learned that DOJ was engaged in an investigation of similar stripping activity at other banks. As a result, the District Attorney's Office and DOJ joined forces, and today's Deferred Prosecution Agreement is the result. Mr. Morgenthau said that the joint investigation into stripping by banks other than LLOYDS is continuing.

Mr. Morgenthau said that the Deferred Prosecution Agreement is designed to send a strong message of deterrence to other banks. Important mitigating factors that led to the agreement were that LLOYDS exited the Iranian business voluntarily before being contacted by the District Attorney's Office, provided full cooperation with the investigation from the time it was contacted by prosecutors, readily admitted its criminal wrongdoing, and agreed to conduct an extensive internal look-back at its misconduct to identify the real parties in interest in the stripped transactions.

Senior Investigative Counsel Richard T. Preiss led the investigation with Assistant District Attorney Aaron Wolfson and former Assistant District Attorney Laura Billings. The investigation was supervised by Investigation Division Central Chief Adam Kaufmann and Deputy Chief Gary T. Fishman. Financial Intelligence Director David Rosenzweig worked on the investigation, as did former Intelligence Analyst Eitan Arusy. Investigative Analysts Gregory Dunlavey and Melissa Clarke, and Investigative Paralegals Aaron Davidowitz, Sarah Schoknecht, and Jamelia Morgan conducted analysis and assisted in the investigation.

Mr. Morgenthau recognized and thanked the following agencies and individuals for their assistance in the investigation:

Trial Attorney Frederick Reynolds and Assistant Chief Mia Levine of the Asset Forfeiture and Money Laundering Section, United States Department of Justice, headed by Rich Weber and Laurel Loomis-Rimon, Chief and Deputy Chief respectively, and Matthew Freidrich, Acting Assistant Attorney General in Charge of the Criminal Division. Senior Investigator Laurie Bender of the Federal Reserve Board was also assigned to the DOJ for this investigation.

Special Agents Randy Carrow and Randy Gregory of the Internal Revenue Service Criminal Investigations Division.

Senior Bank Examiner Dorota Kaszuba of the New York State Banking Department, Criminal Investigations Bureau.

The United Kingdom Financial Services Authority.

# # #