



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

DEC 22 2009

MUL-4745344

SETTLEMENT AGREEMENT

This Settlement Agreement (the "Agreement") is made by and between the U.S. Department of the Treasury's Office of Foreign Assets Control and Lloyds TSB Bank, plc, whose registered office is at 25 Gresham Street, London, EC2V 7HN, United Kingdom.

I. PARTIES

1. The Office of Foreign Assets Control ("OFAC") of the U.S. Department of the Treasury administers and enforces economic sanctions against targeted foreign countries, regimes, terrorists, international narcotics traffickers, and persons engaged in activities related to the proliferation of weapons of mass destruction, among others. OFAC acts under Presidential national emergency authorities, as well as authority granted by specific legislation, to impose controls on transactions and freeze assets under U.S. jurisdiction.

2. Lloyds TSB Bank, plc ("Lloyds") is a financial institution registered and organized under the laws of England and Wales and is a wholly owned subsidiary of Lloyds Banking Group plc. The United Kingdom's Financial Services Authority ("FSA") is Lloyds' primary regulator.

II. FACTUAL STATEMENT

3. Apparent violations of U.S. sanctions by Lloyds first came to the attention of OFAC in early June 2007, after the New York County District Attorney's Office queried United Kingdom regulatory authorities about Iran-related payments involving Lloyds. In mid-July 2007, Lloyds informed OFAC that it was cooperating with the New York County District Attorney's Office and the United States Department of Justice in an investigation by those two agencies into Lloyds' USD payment processing services for Iranian banks. Lloyds informed OFAC that it had commenced an internal investigation as part of its cooperation, and that it would provide the results of this internal investigation to OFAC.

4. Lloyds cooperated with OFAC and provided information to OFAC revealing historical USD payment processing practices that reflected a systemic pattern of conduct giving rise to apparent violations involving (1) the exportation of services by Lloyds from the United

States to Iran or the Government of Iran; (2) the exportation of services by Lloyds from the United States to Sudan or the Government of Sudan; (3) the transfer, payment, exportation, withdrawal, or other dealings by Lloyds in property or interests in property of the Government of Sudan that were in or came within the United States; and (4) the transfer, payment, exportation, withdrawal, or other dealings by Lloyds in property or interests in property of the Government of Libya that were in or came within the United States during the pendency of U.S. sanctions against Libya.

5. On September 12, 2008, OFAC notified Lloyds that OFAC had reason to believe that Lloyds may have violated the Iranian Transactions Regulations, 31 C.F.R. Part 560; the Sudanese Sanctions Regulations, 31 C.F.R. Part 538; and the now-repealed Libyan Sanctions Regulations, 31 C.F.R. Part 550 (collectively, the “Regulations”), as well as Executive Order 13059 of August 19, 1997 (62 Fed. Reg. 44,531); Executive Order 13067 of November 3, 1997 (62 Fed. Reg. 59,989); and Executive Order 12543 of January 7, 1986 (51 Fed. Reg. 875)¹ (the “Executive Orders”), all of which were promulgated under the International Emergency Economic Powers Act (“IEEPA”), 50 U.S.C. § 1701 *et seq.*, and other authorities.

6. Lloyds had a policy of intentionally manipulating and deleting information in wire transfer instructions executed on behalf of its Iranian bank customers. Lloyds initially engaged in this activity at the behest of its Iranian bank customers. Lloyds’ history of providing banking services to Iranian banks dates from the early 1980s. When the United States imposed heightened sanctions against Iran in mid-1995, Lloyds developed a practice to manipulate and delete information in USD wire transfer instructions received from Iranian banks. Lloyds decided to handle all outward USD payments by the Iranian banks manually to ensure that the relevant banks’ names were not included on payment instructions received in the United States. Where the name or address of the “ordering customer” referenced Iran, Lloyds either omitted or abbreviated any reference to Iran before forwarding the payments to or through the United States.

7. Lloyds similarly manipulated wire transfer instructions involving other U.S. sanctions targets, including Sudan and Libya. For example, when the U.S. imposed sanctions on Sudan in 1997, Lloyds was concerned that its Sudanese transactions passing through the United States would be subject to “sequestration.” Having established a process of “cleansing” U.S. dollar transactions with respect to Iran, Lloyds set out to attract the business of Sudanese banks by reassuring the banks that “we are used to handling these transactions in our dealings with the Iranians.”

8. Lloyds’ policy of manipulating information in wire transfer instructions was memorialized in writing and approved by senior managers within Lloyds. For example, Lloyds relied on an internal document called the “Payment Services Aide Memoire” which instructed that any mention of Iran, Sudan, Libya, or other U.S.-sanctioned countries be deleted from customer payments transiting the United States because “any funds identified as relating to any

¹ Although the President has terminated the national emergency with respect to Libya, *see* Executive Order 13357 of September 20, 2004 (69 Fed. Reg. 56,665), the violations of the Libyan Sanctions Regulations by Lloyds occurred during a period when the U.S. sanctions on Libya were still in effect.

of the above-listed countries [including Iran, Sudan, and Libya] are liable to seizure by the U.S. Office of Foreign Assets Control (OFAC), and retrieval can be a protracted and difficult affair.” The stated rationale for the policy with respect to Iranian banks was to expedite such transactions in the United States because “OFAC filters” were perceived to subject “legitimate payments” to delays and uncertainties.

9. Based on OFAC’s analysis of the transactions described in the paragraphs above, many were not within the scope of any applicable exemption or authorization under the Regulations. All told, from June 2003 through August 2006, Lloyds routed at least 4,200 electronic funds transfers to or through third-party banks located in the United States, in apparent violation of IEEPA and OFAC regulations related to Iran, Sudan, and Libya. None of the apparent violations involved either of Lloyds’ two U.S. branches, in New York, New York, and Miami, Florida.

10. Specifically, from on or about June 26, 2003, to and including October 31, 2003, Lloyds routed at least 165 electronic funds transfers totaling USD 13,707,126 to or through banks located in the United States and to the benefit of the Government of Iran and/or persons in Iran, including various Iranian financial institutions, in apparent violation of the prohibition against the “exportation . . . , directly or indirectly, from the United States . . . of any . . . services to Iran or the Government of Iran.” *See* 31 C.F.R. § 560.204. In addition, from on or about June 26, 2003, to and including August 29, 2006, Lloyds also routed at least 574 electronic funds transfers totaling USD 13,899,345 to or through banks located in the United States and to the benefit of the Government of Sudan and/or persons in Sudan, including various Sudanese financial institutions, in apparent violation of (i) the prohibition that “no property or interests in property of the Government of Sudan, that are in the United States, or that are or hereafter come within the possession or control of U.S. persons . . . may be transferred, paid, exported, withdrawn or otherwise dealt in,” *see* 31 C.F.R. § 538.201(a), and (ii) the prohibition against the “exportation . . . , directly or indirectly, to Sudan of any . . . services from the United States,” *see id.* § 538.205. Finally, from on or about June 26, 2003, to April 29, 2004, Lloyds routed approximately 3,542 electronic funds transfers totaling approximately USD 9,381,986 to or through banks located in the United States and to the benefit of a Libyan customer,² in apparent violation of the then-applicable prohibition that “no property or interests in property of the Government of Libya that are in the United States, that hereafter come within the United States, or that are or hereafter come within the possession or control of U.S. persons, including their overseas branches, may be transferred, paid, exported, withdrawn or otherwise dealt in,” *see* 31 C.F.R. § 550.209(a) (withdrawn).

11. In or around early 2002, employees in Lloyds’ U.K.-based International Payment Processing Unit (“IPPU”) recognized that increased scrutiny of international wire transfers was causing conflict for Lloyds. Senior Lloyds’ IPPU staff and the Director of Lloyds’ Group Financial Crime Unit raised concerns with Lloyds’ Financial Institutions (“FI”) unit, the business

² Lloyds’ Libyan customer was, until April 29, 2004, a Specially Designated National that was designated for its relationship to the Government of Libya under the Libyan Sanctions Regulations, *see* 31 C.F.R. § 550.304 (withdrawn). Lloyds’ Libyan customer was removed from the OFAC list of Specially Designated Nationals and Blocked Persons upon termination of United States sanctions with respect to Libya.

Lloyds TSB Bank, plc

unit responsible for generating business between Lloyds and banks around the world. These concerns included, among other things, threats to Lloyds' "[r]elationships with correspondent banks," which would not be "comfortable" being made a party to transactions originated by sanctions targets. In late January 2002, Lloyds' IPPU and FI personnel began an internal debate regarding the propriety of the bank's relationships with Iranian banks and the potential damage that these relationships might cause to Lloyds' reputation. Motivated too by Financial Action Task Force ("FATF") Special Recommendation VII — which recommended the inclusion of all remitter and beneficiary information in international wire transfers — Lloyds' FI proposed that IPPU cease its own manual "stripping" of information referencing Iran. FI's proposal was implemented in or around July 2002. Lloyds' IPPU instead began to instruct Iranian banks on how to "clean" payment instructions in which they were the originating bank to avoid detection by OFAC filters.

12. Believing that these measures were not enough, some senior Lloyds' IPPU personnel questioned how the "cleansing" of Iranian payments was not "sanctions busting." The Lloyds Group Financial Crime Director stated in an April 9, 2003 memorandum to Lloyds' Group Executive Committee (the "GEC") that a risk associated with the payments business included the possibility of a U.S. investigation characterizing Lloyds as having been "knowingly and directly complicit in frustrating [the United States'] sanctions policy [and] thereby diluting the effectiveness of the U.S. government's fight against terrorism." That same day, the GEC decided to "stop undertaking transactions of the kind" referenced in the report of the Group Financial Crime Director — *i.e.*, the active manipulation of wire transfer instructions, which impeded the ability of banks in the United States to detect the Iranian nexus of such transactions. Around the same time, Lloyds also approached the United Kingdom authorities to discuss the manner in which it was dealing with Iranian transfers.

13. Lloyds did not, however, immediately cease the business of processing Iranian bank payments, or payments related to Sudan and Libya. From May 2003 until November 2003, Lloyds personnel debated the meaning of the decision of the GEC, with some personnel finding a lack of "categorical instruction to cease the business." Some FI employees of Lloyds were still counseling Iranian banks to delete references to Iran from their payments, with at least one Lloyds employee stating "that this was to be kept secret as 'we are not supposed to help them' and that that was why it was done over the phone." Lloyds gradually stopped providing "clearing facilities" for the Iranian banks in London and developed an "exit plan," with activity ceasing in November 2003.

14. It took more time for Lloyds to cease this activity with respect to Sudan and Libya. As of May 2003, Lloyds' Group Financial Crime Director noted in an e-mail that Lloyds' IPPU was still "delet[ing] any reference to Libya and Sudan on any payment instructions," notwithstanding the fact that he had suggested that Lloyds was to "[a]pply identical treatment to (i.e. cease) USD payments which are still being cleaned/alter[ed] for Sudan and Libya." Lloyds did not ultimately cease this activity with respect to Sudan until approximately August 2006.³

³ As previously noted, the Libyan customer was removed from OFAC's SDN list on April 29, 2004, upon termination of sanctions on Libya.

15. The apparent violations by Lloyds in its clearing activity through the United States gave substantial economic benefit to Iran, Sudan, and Libya, thereby undermining the U.S. national security, foreign policy, and other objectives of the related sanctions programs.

III. TERMS OF SETTLEMENT

IT IS HEREBY AGREED by OFAC and Lloyds that:

16. Lloyds had terminated the conduct described in paragraphs 3 through 15 above prior to July 2007 and agrees not to engage in any similar conduct in the future.

17. Lloyds has provided to OFAC all available incoming and outgoing Society for Worldwide Interbank Financial Telecommunication ("SWIFT") Message Transfer ("MT") 100 and MT 200 series payment messages relating to USD payments processed during the period from April 2002 through December 2007 through the correspondent accounts held by Iranian banks (also referred to as "the vostro accounts"), in electronic format as well as in the form of an appropriate electronic summary, and all existing periodic or monthly account statements for the vostro accounts.

18. Lloyds has also conducted a review of all available incoming and outgoing USD SWIFT MT 100 and MT 200 series payment messages processed through (i) Lloyds' payments processing centers located in the United Kingdom during the period from April 2002 through December 2007, and (ii) Lloyds' branch in Dubai during the period from April 2002 through December 2007, and compared all such data against the list of persons who, at any time during that period, were listed by OFAC pursuant to various Executive orders as Specially Designated Terrorists ("SDTs"), Specially Designated Global Terrorists ("SDGTs"), Foreign Terrorist Organizations ("FTOs"), and proliferators of Weapons of Mass Destruction ("WMDs"). Lloyds has provided in electronic form to OFAC a report containing information relating to any confirmed match and any other match that could not be eliminated as a false positive after investigation by Lloyds and all payments messages and other documentation associated with such matches. This information review was performed with the assistance of an independent consultant selected by Lloyds.

19. On an annual basis, for a period of two years from the date of this Agreement, Lloyds shall have its Internal Audit Department review its policies, procedures, and a statistically significant sampling of USD payments to determine to the best of its abilities whether any of the payments that were subject to any OFAC regulation were processed through, or on behalf of, any U.S. individual or entity. Lloyds hereby attests that its Internal Audit Department has the technical expertise to carry out such an undertaking. Lloyds shall use a qualified independent third party approved by the FSA to oversee and certify the findings of the Internal Audit Department. The scope of the independent third party's oversight must be approved in advance by the FSA. Reviews will be conducted in accordance with generally accepted auditing

procedures and the results of such reviews will be forwarded to OFAC and the FSA within 90 days after the first and second anniversary dates of this Agreement.

20. If OFAC finds it necessary to send its representatives to consult on site with the independent third party that is overseeing the reviews referenced above in paragraph 19, Lloyds pledges its full cooperation with representatives of OFAC to the full extent permitted by local law. FSA would also be invited to participate in such discussions.

21. Lloyds waives any claim by or on behalf of Lloyds, whether asserted or unasserted, against OFAC, the U.S. Department of the Treasury, and/or its officials and employees arising out of the facts giving rise to the civil penalty matter that resulted in this Agreement, including but not limited to OFAC's investigation of the apparent violations and any possible legal objection to this Agreement at any future date.

22. Without this Agreement constituting an admission or denial by Lloyds of any allegation made or implied by OFAC in connection with this matter, and solely for the purpose of settling this matter without a final agency finding that a violation has occurred, Lloyds agrees to a settlement in the amount of USD 217,000,000 arising out of the alleged violations of IEEPA, the Executive Orders, and the Regulations as previously described to Lloyds by OFAC and summarized in this Agreement. Lloyds' obligation to pay such settlement amount to OFAC has been satisfied by Lloyds' prior payment of a greater amount in satisfaction of penalties assessed by U.S. federal, state, or county officials arising out of the same pattern of conduct.

23. Should OFAC determine that Lloyds has breached its obligations under paragraph 19 of this Agreement, OFAC shall provide written notice to Lloyds of the alleged breach and provide Lloyds with 30 days from the date of Lloyds' receipt of such notice, or longer as determined by OFAC, to demonstrate that no breach has occurred or that any breach has been cured. In the event that OFAC ultimately determines that a breach of this Agreement has occurred, OFAC will provide notice to Lloyds of its determination, and this Agreement shall be null and void, and the statute of limitations applying to activity occurring on or after July 25, 2003, shall be deemed tolled until a date 90 days following Lloyds' receipt of notice of OFAC's determination that a breach of the Agreement has occurred.

IV. MISCELLANEOUS PROVISIONS

24. The provisions of this Agreement shall not bar, estop, or otherwise prevent OFAC from taking any other action affecting Lloyds with respect to any and all violations not arising from or related to the conduct described in paragraphs 3 through 15 above or violations occurring after the date of this Agreement. The provisions of this Agreement shall not bar, estop, or otherwise prevent other U.S. federal, state, or county officials from taking any other action affecting Lloyds.

25. Each provision of this Agreement shall remain effective and enforceable according to the laws of the United States of America until stayed, modified, terminated, or suspended by OFAC.

26. No amendment to the provisions of this Agreement shall be effective unless executed in writing by OFAC and by Lloyds.

27. The provisions of this Agreement shall be binding on Lloyds and its successors and assigns.

28. No representations, either oral or written, except those provisions as set forth herein, were made to induce any of the parties to agree to the provisions as set forth herein.

29. This Agreement consists of 8 pages and expresses the complete understanding of OFAC and Lloyds regarding resolution of OFAC's civil penalty matter involving the alleged violations arising from or related to the conduct described in paragraphs 3 through 15 above. No other agreements, oral or written, exist between OFAC and Lloyds regarding resolution of this matter.

30. OFAC, in its sole discretion, may post on OFAC's website this entire Agreement or the facts set forth in paragraphs 3 through 15 of this Agreement, including the identity of any entity involved, the satisfied settlement amount, and a brief description of the alleged violations. OFAC also may issue a press release including this information.

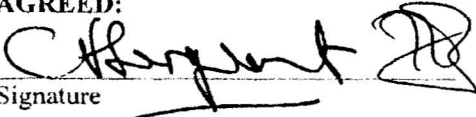
31. Use of facsimile signatures shall not delay the approval and implementation of the terms of this Agreement. In the event any party to this Agreement provides a facsimile signature, the party shall substitute the facsimile with an original signature. The Agreement may be signed in multiple counterparts, which together shall constitute the Agreement. The effective date of the Agreement shall be the latest date of execution.

32. All communications regarding this Agreement shall be addressed to:

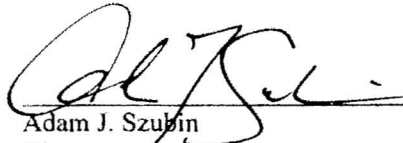
Elton Ellison
Assistant Director, Civil Penalties
Office of Foreign Assets Control
U.S. Department of the Treasury
1500 Pennsylvania Ave., N.W., Annex
Washington, D.C. 20220

General Counsel and
Chief Risk Officer
Lloyds TSB Bank plc
25 Gresham Street
London, EC2V 7HN England

AGREED:


Signature

CAROL SERGEANT Tim Tooken
Printed name of Lloyds
Duly Authorized Representative


Adam J. Szubin
Director
Office of Foreign Assets Control

DATED: December 22, 2009

CHIEF RISK OFFICER GROUP FINANCE
Printed title of Lloyds
Duly Authorized Representative