FCA FINANCIAL CONDUCT AUTHORITY

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FINAL NOTICE

To: Credit Suisse International
Credit Suisse Securities (Europe) Ltd
Credit Suisse AG (together "Credit Suisse")

Reference Numbers: 146702
124611
119206

Address: One Cabot Square
London, E14 4QR
UK

Date: 19 October 2021

1. ACTION

1.1. For the reasons given in this Final Notice, the Authority hereby imposes on Credit Suisse a financial penalty of £147,190,200.

1.2. Credit Suisse agreed to resolve this matter and qualified for a 30% (stage 1) discount under the Authority's executive settlement procedures. Were it not for this discount, the Authority would have imposed a financial penalty of £210,271,800 on Credit Suisse.

2. SUMMARY OF REASONS

2.1. Fighting financial crime is an issue of international importance, and forms part of the Authority's operational objective of protecting and enhancing the integrity of the UK financial system. Financial institutions in the UK are obliged to establish, implement and maintain adequate systems and controls to counter the risk of firms being used to facilitate financial crime; and must act with due skill, care and

diligence to adhere to the systems and controls they have put in place, and to properly assess, monitor and manage the risk of financial crime (which includes the risk of fraud, bribery and corruption).

2.2. Between 1 October 2012 and 30 March 2016 ("the Relevant Period")- Credit Suisse failed to meet these obligations, breaching Principle 3 (by failing to take reasonable steps to manage and control its affairs), SYSC 6.1.1R (by failing to maintain adequate policies and procedures to counter the risk it would be used to further financial crime) and Principle 2 (by conducting its business without skill, care and diligence).

2.3. In the Relevant Period Credit Suisse failed to sufficiently prioritise the mitigation of financial crime risks, including corruption risks, within its Emerging Markets business. Credit Suisse lacked a financial crime strategy for the management of those risks, (which was exemplified by the under-resourcing of its EMEA financial crime compliance team and procedural weaknesses in its financial crime risk management).

2.4. These and other weaknesses were exposed by three transactions related to two infrastructure projects in the Republic of Mozambique ("Mozambique"), one relating to a coastal surveillance project and the other relating to the creation of a tuna fishing industry within Mozambican waters (respectively, the First Project and the Second Project). Credit Suisse arranged, facilitated and provided funds for two loans to finance the First and Second Project (respectively, the First Loan and Second Loan) amounting to over $1.3 billion.

2.5. Credit Suisse's inadequate consideration and approval of these transactions continued over an extended period and involved senior individuals and control functions. Accordingly, the Authority views the failings as extremely serious:

(1) Senior individuals, committees and control functions had information from which Credit Suisse should have appreciated that there was a high risk of bribery and corruption associated with the loans. However, there was insufficient challenge, scrutiny, and investigation in the face of various risk factors and warning signs in the transactions, for example:

(a) Mozambique was a jurisdiction where the risk of corruption of government officials was high;

(b) These projects were not subject to public scrutiny and formal procurement laws. The borrowers for both loans were newly-created special purpose vehicles (SPVs) owned by Mozambican governmental entities and directed by individuals (some of whom had military and intelligence backgrounds);

(c) Credit Suisse understood that the Mozambican government did not provide a written opinion on the sovereign guarantee underpinning the loan from its Attorney-General and was only willing to represent in general terms that it had complied with its IMF obligations rather than undertake to inform the IMF of the loans in question;

(d) Credit Suisse did not conduct due diligence on individuals who represented themselves as being involved in the establishment of the First Project on behalf of the Mozambican government;

(e) Allegations of ongoing corrupt practices in respect of a senior individual at the shipbuilding contractor engaged by Mozambique on both projects, who had faced formal criminal allegations in the past (which were ultimately dropped), were identified in an external due diligence report received by Credit Suisse before money was lent. A range of anonymous sources described him as *"a master of the kickbacks", "heavily involved in corrupt practices"* and someone for whom "*Ethics are at the bottom of* [their] *list*";

(f) As early as October or November 2012 a Credit Suisse senior manager with knowledge of the Middle East region where the contractor was based was consulted in connection with the deal about whether any business relationship with the contractor was appropriate. They expressed their serious reservations over the conduct risks posed by the combination of the senior individual at the contractor and Mozambique, but their views were not conveyed to Credit Suisse's control functions at the time and the senior manager left Credit Suisse before the First Loan was structured and submitted for approval; and

(g) A Credit Ratings Agency did not rate the Loan Participation Notes (the "LPNs") issued in relation to the Second Loan as expected because the Second SPV had refused to engage with its due diligence process.

(2) Credit Suisse conducted due diligence, including enhanced due diligence, on the relevant entities and individuals related to the transactions, and other key functions and committees were involved in reviewing and approving the transactions. However, Credit Suisse's consideration of the above risk factors was inadequate because it gave insufficient weight to the risk factors individually and failed to adequately consider them holistically. Credit Suisse failed to recognise that a corruption 'red flag' will often be – rather than direct evidence of corruption or bribery – apparent from the context of the transaction, sector, jurisdiction and counterparty. Instead of aggregating relevant risks, it considered them in isolation. For example:

(a) In concluding that the contractor concerned was an "*acceptable counterparty"* Credit Suisse relied heavily on reports that the contractor dealt with a number of European governments and navies. Insufficient consideration was given to the added risks of this contractor doing business in a jurisdiction with elevated corruption risk such as Mozambique; and

(b) Credit Suisse proceeded with the loans despite the risks posed by the contractor and paid the loan funds directly to the contractor rather than the borrower SPVs. While payment directly to a contractor can mitigate corruption risk in some circumstances, and payment to Mozambican entities was considered a risk factor by Credit Suisse in this context, Credit Suisse failed adequately to consider this in the context of the corruption risk relating to the contractor itself.

(3) Moreover, a lack of engagement by senior individuals within the Emerging Markets business, including one such individual not reviewing the external due diligence reports commissioned before the First Loan, despite being aware of criminal allegations in relation to the individual at the contractor, and inadequately considering this together with obvious risk factors such as Mozambique being a high-risk jurisdiction, was symptomatic of Credit Suisse's failure to sufficiently prioritise the mitigation of financial crime risk.

(4) Separate to the above, and unknown to Credit Suisse at the time, three Credit Suisse employees (including two Managing Directors) with conduct of the First Loan and one of whom had conduct of the Second Loan accepted kick-backs from the contractor in exchange for agreeing to help secure approval for the loans at more favourable terms for the contractor. These Credit Suisse employees (including former employees) took advantage of weaknesses and the lack of effective challenge in Credit Suisse's approval processes, including by concealing material facts from their Credit Suisse colleagues.

(5) The three employees benefitted from kick-backs of around $53 million from the contractor. Mozambique has subsequently claimed the minimum total of bribes that were paid in connection with the contractor's corrupt scheme was around $137m. For the sake of clarity, the Authority does not assert that any other employees at Credit Suisse were aware of any bribes being paid to the three individuals, or that any employees at Credit Suisse were aware of any other bribes.

(6) After the money was lent, it was clear by January 2014 that the IMF already had concerns about a lack of transparency in the use of the Second Loan funds, and $350m of those funds – at the behest of the IMF – had been allocated in December 2013 by the Mozambican Parliament to its defence budget to provide *"coastal protection"*. This had been the purported purpose of the First Loan, which was still not public knowledge. Despite this, individuals in Credit Suisse's Emerging Markets business continued to discuss future business with the contractor.

(7) From mid-2015 to April 2016, Credit Suisse was engaged on arranging an exchange whereby holders of LPNs relating to $850 million of the debt arising out of the Second Loan were invited to exchange their existing holdings for government bonds of a different maturity ("the LPN Exchange"). This arose because the fishing project for which the money had been sought was failing. By this time Credit Suisse was aware that there appeared to be a significant disparity (running to hundreds of millions of US$) between the value of the fishing vessels to be supplied to Mozambique and the amount borrowed to fund the project (a "valuation gap").

(8) While Credit Suisse eventually took some steps to investigate or clarify these circumstances, including physical inspection of some of the vessels, obtaining

two expert valuations, and seeking further information from the Second SPV (its client), these steps were inadequate. As a result of its unresolved concerns about the valuation gap, Credit Suisse decided not to approve $150 million of "*new money*" requested by the Second SPV.

(9) In the face of this information which further indicated a heightened risk that the money lent in 2013 had been used (in part) to pay bribes, or had otherwise been misapplied or misappropriated, Credit Suisse again failed to sufficiently prioritise the mitigation of financial crime risks by challenging and scrutinising the information it had. The information of which Credit Suisse was aware when proceeding with the LPN Exchange included:

(a) Its continuing awareness that Mozambique was a jurisdiction where the risk of corruption of government officials was high;

(b) Allegations post-dating the deals from Mozambican opposition politicians and reports by investigative journalists that the funds from the Second Loan had been used to enrich senior Mozambican officials;

(c) Reports post-dating the deals alleging that loan proceeds had been spent on military as opposed to fishing infrastructure, and the budgetary reallocation by the Mozambican Parliament – at the insistence of the IMF – of up to $500m of the funds borrowed to the defence budget;

(d) The due diligence report it had received in 2013 referring to allegations of past and current bribery and corruption by a senior individual at the contractor;

(e) Explanations from the contractor and representatives of the Government of Mozambique that knowledge of the First Loan should be kept out of the public domain because of "security concerns" and the opacity of the tender process for and the pricing of the underlying assets that were to be supplied in consideration for the Second Loan;

(f) Its own lack of understanding of how the proceeds of the Second Loan had been applied and whether proper value had been given by the contractor;

(g) Reports indicating that the Mozambique sovereign guarantee underpinning the Second Loan may have been signed by a member of the Mozambican government in excess of budgetary limits set by the Mozambican Parliament; and

(h) An independent valuation which had calculated a 'valuation gap' on the Second Loan of between $279 million and $408 million for which Credit Suisse could find no concrete explanation, hampered in part by the refusal of the contractor to allow Credit Suisse to physically inspect certain of the vessels which were delivered as part of the second project.

2.6. By the time of the LPN Exchange the cumulative effect of the information known to Credit Suisse constituted circumstances sufficient to ground a reasonable suspicion that the Second Loan may have been tainted either by corruption or other financial crime. Although the LPN Exchange was considered extensively by financial crime compliance, the Reputational Risk function, senior individuals and a senior business committee, Credit Suisse again failed to adequately consider important risk factors individually and holistically, despite its unresolved concerns. As a result, it failed to take appropriate steps (including informing relevant authorities) before proceeding with the LPN Exchange. This increased the risk of any bribery or other financial crime continuing and the beneficiaries of any previous corruption retaining the fruits of their participation in the corruption.

2.7. In the circumstances the Authority hereby imposes a financial penalty of £147,190,200 on Credit Suisse.

3. DEFINITIONS

"the Act" means the Financial Services and Markets Act 2000;

"the Authority" means the body corporate previously known as the Financial Services Authority and renamed on 1 April 2013 as the Financial Conduct Authority;

"BACC" means Credit Suisse's Bribery Anti-Corruption Compliance team;

"EIBC" means Credit Suisse's European Investment Banking Committee;

"EMG Deal Team" means the Credit Suisse deal teams which had conduct of the First and Second Loans

"Exchange Deal Team" means the Credit Suisse deal team which had conduct of the LPN Exchange;

"FCC" means Credit Suisse's Financial Crime Compliance function;

"First SPV" means the Special Purpose Vehicle which took out the First Loan;

"LPN Exchange" means the transaction by which the LPNs which had been issued pursuant to the Second Loan were converted into sovereign bonds;

"LPNs" means Loan Participation Notes, a type of publicly traded debt issuance;

"RACO" means a Regional anti-corruption compliance officer, within Credit Suisse's BACC function;

"Relevant Period" means 1 October 2012 to 30 March 2016;

"Second SPV" means the Special Purpose Vehicle which took out the Second Loan;

"Third-Party Contractor" means the contractor engaged to deliver the First and Second Projects.

4. FACTS AND MATTERS

Credit Suisse's Emerging Markets Group

4.1. In 2012, Credit Suisse's global Emerging Markets Group ("EMG") was headquartered in Credit Suisse's London office. Among the global EMG's product lines and activities were the trading of foreign exchange products, the trading of bonds and derivatives, and financing, including structured lending via syndication or the issuance of securities.

4.2. The various teams within the EMG responsible for the European, Middle Eastern and African ("EMEA") markets were also based in London. At the outset of the Relevant Period, Managing Director A jointly managed a team which specialised in structured financing in Central and Eastern Europe, the Middle East and Africa

(the "EMG Deal Team"). Managing Director A reported to Senior Manager A. From 1 August 2013, Managing Director A's role managing that team was taken over by another Managing Director, Managing Director B. Managing Director A, Managing Director B and Vice President A are referred to collectively in this Notice as "the Three CS Individuals".

4.3. A separate Coverage team managed by Managing Director C, did not sit within the EMG, but in Credit Suisse's Sales Group. In providing coverage of a particular geographical area, it worked with teams including the EMG Deal Team to source transactions in emerging markets and maintain client relationships.

4.4. Another separate team, which had special expertise in capital markets issuances, was managed by another managing director, Managing Director D. Managing Director D's team worked on various capital markets issuances both inside and outside the EMG, but reported to Senior Manager A to the extent that they and his team worked on issuances within the EMG.

Credit Suisse's Financial Crime systems and controls

4.5. Credit Suisse's Financial Crime Compliance ("FCC") function was comprised of several specialist teams that covered, among other responsibilities, AML Controls/Surveillance, Sanctions, Bribery Anti-Corruption Compliance ("BACC"), Anti-Fraud, and Client Identification ("CID").

4.6. At the start of the Relevant Period, a 'siloed' approach to certain financial crime risks within EMEA had been identified, and the creation of a High-Risk Advisory Team ("HRAT") in 2013 was aimed at making the management of financial crime risks more holistic. However, Credit Suisse did not have a clear and developed financial crime strategy in place during the Relevant Period, and the position of Money Laundering Reporting Officer was a Director (rather than Managing Director) level position notwithstanding its strategic importance in the management of financial crime risks.

4.7. Within Credit Suisse's BACC function, Regional anti-corruption compliance officers (or 'RACOs') had an advisory role for business units within their particular region, including on individual transactions, where escalated. BACC also relied on the relevant business unit or deal team within the first line of defence to identify financial crime risks given their more detailed knowledge about the relevant sector

and specific transactions. In 2013, only one RACO was available to deal with escalations from all EMEA business units, including in relation to sub-Saharan Africa.

Reputational Risk Function

4.8. Credit Suisse's Reputational Risk Policy provided a framework for determining whether, and if so on what basis, to pursue a particular transaction or client relationship which may pose a risk to the bank's reputation and therefore its franchise.

4.9. In 2013, the Reputational Risk process was described in Credit Suisse's Reputational Risk Policy as a "*senior level independent review"* of reputational risk issues, which should be made "*with sufficient time for the appropriate evaluation of the issues",* and *"be comprehensive in disclosure of the business being pursued, material risks and mitigants*". At the time, the total full-time employee headcount within the formal Reputational Risk team was low, with only one employee in the formal team based in London, albeit supported by members of control functions and business line teams.

4.10. In order to begin the Reputational Risk process, an 'Originator', who could be any Credit Suisse employee, would complete a submission form. 'Feedback Providers' designated by the originator could comment in specific boxes in the online tool as to risks that related to their area of expertise. A 'Divisional Endorser', of an appropriate level of seniority in the business, had to review the submission, consider whether all feedback providers had been identified and had the opportunity to opine on the matter, confirm that the transaction has been accurately described and evaluate whether the business supported the proposed transaction . Finally, for the transaction to clear Reputational Risk, the submission had to be approved or declined by a 'Reputational Risk Approver', senior approvers in each region, who had to first confirm and finalise the risk type, identify other feedback providers, if required, evaluate and make a decision about reputational risk aspects of the proposed transaction.

4.11. The Reputational Risk review was not a substitute for decision making processes within the relevant business area, or scrutiny by the formal control functions such as FCC. In practice, in certain circumstances, the Reputational Risk function could function as a supplementary layer of protection against financial crime risks

including corruption risks, given the reputational risk such factors posed to the bank. However, this depended upon the Reputational Risk process being properly followed and engaged with, including at a senior level.

4.12. The Reputational Risk Process within the EMEA region was overseen by a Reputational Risk Council, attended by Credit Suisse senior managers, which met at least quarterly and could be called on an *ad hoc* basis. At this meeting, the Council would discuss existing and potential reputational risks, themes and trends, including *ex post facto* review of individual transactions, but it had no live role in the approval of individual transactions.

The First Loan

4.13. In February 2012, a senior individual ("TP Individual A") at a ship building company ("the Third-Party Contractor"), with whom Credit Suisse had first made contact through an existing client in October 2011, approached Credit Suisse through its Coverage team, on behalf of the Government of Mozambique and its Ministry of Defence, to finance the First Project, a $350m project to create a coastal surveillance and protection system for Mozambique.

4.14. Over the course of the next several months, Credit Suisse communicated primarily with TP Individual A, and individuals claiming a role within the Mozambican government, in relation to its potential financing of the First Loan. In some instances, the nature of the Mozambican individuals' roles in the First Project and the Mozambican government was unclear. One such individual communicated with Credit Suisse only by telephone or by using non-official, web-hosted email addresses, and at one point told a Credit Suisse employee that certain important details of the transaction were not to be discussed "*by email or phone*".

4.15. In October 2012, a member of Credit Suisse's senior management who had knowledge of the region where the Third-Party Contractor was based expressed concerns about Credit Suisse entering into a business relationship with another senior individual at the Third-Party Contractor ("TP Individual B"), and in particular about the "*combination*" of TP Individual B and the nature of such a project in Mozambique. On the same day a member of the coverage team said in response that, notwithstanding the individual's initial reaction, the participants in the discussion might need to "*go to* [the senior individual] *and demonstrate that those* [counterparties associated with TP Individual B] *are good partners to have*

in the deal". Despite this, there is no evidence that this was done or that these concerns were conveyed outside of the EMG Deal Team for the First Loan or coverage team working on the transaction. The senior manager had left Credit Suisse by the time the First Loan was submitted for formal review and approval within Credit Suisse.

4.16. A special purpose vehicle ("The First SPV") was created and incorporated in Mozambique on 21 December 2012. On 18 January 2013, the First SPV signed a $366m supply contract with the Third-Party Contractor ("the First Supply Contract") for a coastal monitoring and surveillance system including the training of staff and operational support.

4.17. The Government of Mozambique had indicated to the Third-Party Contractor in August 2012 that Credit Suisse's proposed financing terms (at that time) were beyond the financial capacity of the Government. As Credit Suisse would not agree to Mozambique's terms, the Third-Party Contractor subsequently agreed to pay Credit Suisse a 'subvention fee', by which it subsidised the interest fee paid on the First Loan by the Government of Mozambique, to bring it down to a level closer to that of a concessional loan.

4.18. Throughout 2012 the Third-Party Contractor and the Government of Mozambique discussed acceptable financing terms. Correspondence between the Government of Mozambique and the Third-Party Contractor from December 2012 made clear that the Government of Mozambique considered the proposed financing to be non-concessional debt for the purposes of the restrictions which the IMF had placed on it as a result of its lending and assistance programme to Mozambique, but that it regarded an "*alternative solution*" would be to establish an SPV that would be owned by the Government of Mozambique to handle the First Project and "*the* [Government would] *rightfully provide the guarantees required for the project to be financed*". TP Individual A also confirmed to Credit Suisse that that the proposed financing was within IMF borrowing limits. However, it was unclear how such an arrangement was consistent with borrowing limits set by the IMF.

4.19. In the weeks leading up to Credit Suisse's approval of the First Loan, the Three CS Individuals discussed amongst themselves what information was required from the Government of Mozambique in connection with the proposed guarantee and Mozambique's IMF obligations. Managing Director B told Vice President A that Credit Suisse should request that Mozambique notify the IMF, but in the event

Mozambique did not want to then "*we* [Credit Suisse] *can live without it, as* [there is] *no legal risk to us".* A senior official of the Government of Mozambique told Managing Director A that they refused to agree to a provision requiring Mozambique to inform the IMF. This conversation was not communicated to anyone else within Credit Suisse. Ultimately, the Mozambique represented in guarantee documentation that it was in compliance with its obligations to the IMF, but remained silent as to notification.

4.20. On 18 February 2013, TP Individual A told the Three CS Individuals that the First SPV's borrowing was "*legally covered by a presidential decree*" and that they believed requiring an opinion from the Mozambican Attorney-General would not be accepted by the First SPV since its owner wanted to bypass public tender and normal bureaucratic processes and therefore "*would never accept* [that it must] *inform the Attorney-General"*. Again, the Three CS Individuals did not communicate this information to anyone else within Credit Suisse. The individuals and control functions who reviewed and approved the First Loan did not adequately consider whether the lack of an opinion from the Mozambique Attorney-General increased the corruption risks of the transaction.

4.21. On or around 25 February 2013, TP Individual A and Managing Director A agreed that if Managing Director A could arrange the reduction of the subvention fee to be paid by the Third-Party Contractor to Credit Suisse, 50% of any such reduction as a 'kickback' would be paid by the Third-Party Contractor to Managing Director A into a personal bank account. Credit Suisse was not aware of this arrangement.

4.22. Managing Director B assisted Managing Director A in analysing the subvention fee with the aim of determining how low any fee could be. Following this analysis, the subvention fee was lowered by $11m from $49m to $38m. None of the Three CS Individuals informed Senior Manager A or the bank's compliance functions. The Authority does not assert that any Credit Suisse employee other than the Three CS Individuals was aware of these corrupt arrangements.

FCC consideration of the First Loan

4.23. FCC had informed Managing Director B and Vice President A in January 2013 that "for [this deal involving Mozambique] on the ground source enquiries are essential". Although the Three CS Individuals commissioned two reports ("EDD Reports 1 and 2") from a provider of external enhanced due diligence (the "First

EDD Provider"), that provider had not been approved by FCC as an appropriate source of external due diligence. The reports from the First EDD Provider identified "serious red flags" surrounding one of the individuals and identified other individuals connected to Mozambique's military and intelligence community. They were provided directly to the Three CS Individuals.

4.24. Several external due diligence reports were commissioned by FCC from a different EDD provider ("the Second EDD Provider") including reports on:

(1) the "Business Environment" in Mozambique, giving a general overview of the risk of corruption in Mozambique;

(2) the Third-Party Contractor ("EDD Report 3"); and

(3) the First SPV ("EDD Report 4"), covering *"An overview of the maritime security project, focussed on uncovering any concerns about its transparency and any controversy concerning the contractor tender process or project's management"*.

4.25. EDD Report 3 identified a number of allegations that TP Individual B had engaged in corrupt practices; including multiple sources cited who were "*confident of his past and continued involvement in offering bribes and kickbacks*"; a "*senior banking source who previously dealt with [TP Individual B]" described him as "a master of the kickbacks*". A draft version of the Report provided to Credit Suisse also gave a specific example of a contract in which TP Individual B had allegedly been "*clear and transparent about the fact that there would be kickbacks involved*". Another source cited in the report stated that, recently, TP Individual B "*appears to be conducting… business in a much more classical way, more in compliance with the rules of ethics*". EDD Report 3 also stated that one of TP Individual B's companies had "*key clients including navies and governmental authorities*".

4.26. EDD Report 4 indicated that three out of four proposed directors of the First SPV had connections to Mozambican politicians and (in some cases) senior military credentials. The fourth, Mozambican Individual A, was reported as having a "*negligible public profile"*. EDD Report 4 did not include any due diligence on any Mozambican government officials involved with the procurement of the project, notwithstanding that this had been an explicit recommendation of BACC, nor any of the other individuals who had represented, or claimed to represent, the

Mozambican government in discussions with Credit Suisse up to that point. Credit Suisse had not provided their identities to the Second EDD Provider.

4.27. Two FCC individuals contacted the Second EDD Provider on 20 March 2013 seeking clarification on how the Third-Party Contractor was awarded the project. The Second EDD Provider responded "*Unfortunately, we were not able to get any input from sources on the procurement process. The problem is that this is clearly a highly confidential project. Nobody we spoke to was aware of any major new initiatives in offshore maritime security, and that includes well-placed private operators and a consultant who works closely with the MoD on exactly these types of projects… it would seem the only people aware of the procurement agreement on the Mozambique side would be those who directly negotiated with* [the Third-Party Contractor]". The EDD review form for the First Loan recorded that Credit Suisse was aware that there was a lack of public scrutiny of the project.

4.28. Previously, BACC had asked the EMG Deal Team whether it was *"able to provide any information on the procurement of* [the Third-Party Contractor] *by the Republic"* to which Vice President A had responded that the public procurement regime did not apply, and that the Third-Party Contractor was selected following it having pitched the project to the Government, the Government having compared its proposal to other offerings, and having then selected it on the basis that it was the best suited provider for various reasons.

The Reputational Risk process for the First Loan

4.29. Following a review of EDD Reports 3 and 4, a member of the Reputational Risk team requested that meetings be convened with the "*deal team/AML/BACC*" to discuss the reports. Subsequently, two meetings took place on the afternoon of 20 March 2013. One meeting was attended by (among others) the Three CS Individuals, Managing Directors C and E (the latter of whom was both Reputational Risk Approver for the First Transaction and a senior individual within the Credit Risk Management function) and other members holding reputational risk, credit risk management and coverage roles. Issues raised in EDD Reports 3 and 4 were discussed at that meeting and it was agreed that a Reputational Risk Submission should be made. A second meeting was attended by Managing Director A, Vice President A, representatives of FCC (including senior individuals and representatives from BACC), and a representative of the Reputational Risk

function. The conclusion reached was that while there was some "*noise*" around TP Individual B, there was no bribery/AML issue and no objections from FCC.

4.30. A Reputational Risk Submission was originated by Vice President A on the evening of 20 March 2013. Senior Manager E signed off the Submission as Divisional Endorser. Senior Manager A agreed to be copied into the Reputational Risk Submission, and was aware in broad terms of its content. Senior Manager A had not read any of the underlying EDD Reports including EDD Report 3. They were aware of criminal/corruption allegations in relation to TP Individual B and that Mozambique was a high-risk jurisdiction.

4.31. The Submission summarised the discussions held at the meetings earlier that day and only briefly set out the corruption concerns from EDD Report 3, and categorised them as "*historic*" and as relating to previous legal procedures involving TP Individual B which had been terminated. Various mitigants were listed in the Submission, including that TP Individual B, through their companies, continued to conduct business with Ministries of Defence from countries in Western Europe, Africa, South America and the Middle East. The only contemporaneous source cited in the Submission was the one that had suggested TP Individual B conducted business "*in a transparent and responsible manner*"; the others that had described TP Individual B's current corrupt practices were not mentioned. The Reputational Risk Approver, who had reviewed EDD Reports 3 and 4 and discussed them at the meetings held on 20 March 2013, approved the First Loan on the morning of 21 March 2013, stating in the Submission that with the exception of two cases which have been dropped, TP Individual B "*has no substantiated allegations against him*" and that Credit Suisse's AML function had "*reviewed all the due diligence and* [had] *no issues proceeding*".

4.32. On 21 March 2013, the First Loan funds passed from Credit Suisse to the Third-Party Contractor. In its final form, the First Loan was a 6-year amortising $372m loan facility. Since the funds were disbursed to the Third-Party Contractor, Credit Suisse deducted $38m from the amount disbursed as a subvention fee agreed to be due from the Third-Party Contractor to subsidise the interest rate paid on the First Loan. $172m of the loan principal was syndicated by Credit Suisse to other lenders (the benefit of a certain portion of the subvention fee also being passed on to them). Credit Suisse obtained insurance hedges totalling $180m so that its initial overall exposure on the First Loan was approximately $20m.

4.33. Credit Suisse also had a separate "Non-Standard transactions" process. This was a mandatory pre-execution control within Credit Suisse's Sales Group for transactions which carried a particular reputational, market or franchise risk. The Non-Standard Transactions Policy described itself as independent of, but complementary to, the Reputational Risk process. It required the approval of Senior Manager F, to whom Managing Director C reported. Senior Manager F had questions, which he wished addressed before the loan was funded. He contacted Managing Director A who responded: *"Bit late now – we have funded."* Managing Director A claimed in contemporaneous emails to have no knowledge of the Non-Standard Transactions procedure, and did not understand its purpose.

Upsizes to First Loan and involvement of Managing Director B

4.34. Around this time Managing Director A had decided to leave Credit Suisse's employment. At some time after 25 June 2013, while on 'gardening leave' and unknown to Credit Suisse, Managing Director A offered kick-backs to Managing Director B on behalf of the Third-Party Contractor. Managing Director B was to ensure that Credit Suisse provided significant increases in the funds to the First SPV under the First Loan, and ensure provision of a new loan (the Second Loan). Managing Director B accepted. He agreed to allocate resources in a way which would expedite the transactions, and to advocate for the transactions during Credit Suisse's internal approvals processes.

4.35. By that time, the First Loan had already been upsized. An email of 16 April 2013 from a Credit Suisse employee to a senior manager stated "*we are upsizing the [First Loan] by another $200m to $250m*", because the Government of Mozambique had decided to expand the project to include "*land border security monitoring*". Three changes ensued to the First Supply Contract between the Third-Party Contractor and the First SPV in the next month. Credit Suisse approved these change orders and on 14 June 2013 Credit Suisse and the First SPV entered into an amended loan facility increasing the maximum loan amount to $622m.

4.36. On or around 25 June 2013, Credit Suisse provided additional funding of $100m for the First Loan. On 12 August 2013 Credit Suisse provided further additional funding of $32m. All payments were remitted directly to the account of the Third-Party Contractor subject to the deduction of the subvention fee. In total under the First Loan Agreement and its subsequent upsizes, the First SPV's total principal

liability in respect of funds advanced by Credit Suisse stood at $504m, all of which was subject to a sovereign guarantee by the Government of Mozambique.

The Second Loan

4.37. TP Individual A informed Managing Director B by email on 28 July 2013 of another project, for the development by Mozambique of a domestic fishing industry, to be progressed via another new company, the Second SPV, incorporated on 2 August 2013. Its articles of association defined its main object as "*the fishery activity of Tuna and other fish resources, including the fishing, holding, processing, storage, handling, transit, sale, import and export of such products."* It was jointly owned by the Mozambican Ministry of Fisheries, the Ministry of Finance, and Mozambique's Intelligence and State Security Services.

4.38. The Second SPV signed a $785.4m contract ("the Second Supply Contract") with the Third-Party Contractor for "*the supply of twenty-four fishing vessels, three* [patrol and surveillance trimarans]*, equipment for a Land Operations Coordination Centre, training, intellectual property and support to enable the company to construct the ordered vessels in the future*". The contract was with a different company within the group structure of the Third-Party Contractor, but throughout this Notice shall also be referred to as "the Third-Party Contractor". As with the First Supply Contract, the Second Supply Contract was to be paid up front in full.

4.39. The Second Loan was to be a capital markets debt issuance in the form of Loan Participation Notes ('LPNs'). This entailed the participation of Managing Director D's team, with responsibility for debt capital market transactions, and the approval of Credit Suisse's European Investment Banking Committee ("EIBC").

4.40. On 1 August 2013, Managing Director B sent a memo (known as a "*Heads Up*" memo) notifying the EIBC of, and outlining, the Second Loan, under which it was proposed that Credit Suisse would arrange and underwrite an amortising loan to the Second SPV of up to $850m. The memo included a section on the *"background"* of TP Individual B. It set out past criminal allegations against and indictments of TP Individual B allegedly involving "*monies paid to government officials"* but went on to state that none had resulted in a conviction (the charges having been dropped) and that following enhanced due diligence in March 2013 the First Loan had been approved. This memo was also provided to a member of the Reputational Risk function.

4.41. The Second Loan deal team was comprised of several individuals of varying degrees of seniority. It still included Managing Director B but did not include Managing Director A or Vice President A, who by that time were no longer actively employed by Credit Suisse. On or about 5 August 2013, Managing Director B travelled to Mozambique with two other members of the Second Loan deal team in order to conduct due diligence over several days. A series of meetings were held with representatives of the Mozambican Ministry of Finance and Ministry of Fisheries, representatives of the Third-Party Contractor and representatives of the Second SPV. Managing Director B knew, although did not share this information with their Credit Suisse colleagues, that Managing Director A and Vice President A (on "gardening leave" from Credit Suisse) were assisting the Third-Party Contractor with the Second Loan, and providing the Mozambican participants in the due diligence discussions with purported answers to Credit Suisse's questions, including false information, to help ensure that the Second Loan would be approved by Credit Suisse.

4.42. For example, during the meeting with representatives from the Second SPV in Maputo, at which three Second Loan Deal Team members were present, Managing Director B asked Mozambican Individual A why the Third-Party Contractor had been chosen for the project. In response, Mozambican Individual A described bids by other contractors, but provided no documentary support for them. The Second Loan deal team compiled the orally transmitted information into a table which it later provided as evidence of a procurement process.

FCC consideration of the Second Loan

4.43. An enhanced due diligence form in respect of the Second Loan was submitted to FCC by a member of the Coverage Team on 12 August 2013. This form was considered by all three individuals from FCC who had scrutinised the First Loan.

4.44. In considering the EDD form, an individual with defined senior financial crime responsibilities noted that it would be necessary given "*the risks of possible corruption in a case like this*" to "*assess the proposed transactions and related parties (e.g. contractors) plus controls to ensure funding provided by CS is not mis-used*." In response to the FCC's follow-up question if there were "*any controls/procedures in place to ensure that the proceeds are not used for improper purposes*", a member of the Second Loan deal team responded as it did regarding

the First Loan that "*We believe that the upfront direct payment of all proceeds of the loan to the* [Third-Party] *contractor is the best assurance that the proceeds will be used according to the contract terms…*".

4.45. Another of the FCC individuals commented on the EDD form that "*while there is inherent country related corruption risk with this jurisdiction no specific BACC issues have been identified from the review or the procurement process for this transaction… Adverse news was identified via the previous external reports* on [TP Individual B but were] *not substantiated...*". The EDD form was later submitted as part of the reputational risk process. FCC was informed by the Second Loan deal team that the Third-Party Contractor had not been required to go through a "*formal procurement procedure*" and had been appointed through a legal exception to the formal procurement laws of Mozambique.

4.46. Credit Suisse did not commission any additional external due diligence reports in respect of the Second Loan. In respect of the Third-Party Contractor, TP Individual B and the Second SPV, FCC relied on EDD Reports 3 and 4 as external due diligence which had been obtained five months earlier for the purposes of the First Loan. EDD Report 4 was concerned with the First SPV and did not contain any information on three directors of the new Second SPV who had not also been director of the First SPV. On 15 August 2013, FCC gave its approval for the transaction to proceed.

EIBC consideration of the Second Loan

4.47. On 13 August 2013, the EIBC was provided with an 82-page Memo ("the EIBC Memo") in which the Second Loan deal team, together with Managing Director D's team, set out the details of the proposed transaction and sought approval for Credit Suisse to act as lead manager and underwrite the $850m Second Loan facility. As part of a section regarding the Third-Party Contractor's selection for the project, the purported details of bids by other contractors provided orally by Mozambican Individual A had been compiled by the Second Loan deal team into a table and it was explained that the Third-Party Contractor was selected based on price, timeline for delivery and intellectual property transfers. The EIBC memo also provided that in "*June 2013 the IMF approved a new 3-year policy support instrument (PSI)…* [for Mozambique and] *established a new non-concessional debt limit… of $2bn applicable until June 2014. This transaction falls within the new non-concessional limit*".

4.48. The EIBC memo gave an overview of the due diligence conducted, including details of the Second Loan deal team's due diligence trip to Mozambique and a section covering various risks and mitigants of the transaction, which included the same information which had been included in the 'Heads-Up' memo regarding previous indictments and allegations relating to corruption involving TP Individual B. Among the other risks flagged was that disclosure by Mozambique under an LPN issue would be limited compared to disclosure under other types of securities, and that the mitigating factors of this risk included the *"good quality publicly available information"* on Mozambique from *"credible third parties"* including the IMF and World Bank and two ratings agencies. Also, the LPNs were *"expected to be rated B+ by* [a Credit Ratings Agency] *in line with the sovereign rating of the Republic of Mozambique"*. The EIBC Memo listed all of the approvals that had been obtained or were expected, including Sustainability, Reputational Risk and AML.

4.49. The EIBC approved the transaction on 14 August 2013 "*subject to final satisfactory due diligence, documentation, comfort package and relevant pending internal approvals*".

4.50. On 17 August 2013, a credit ratings agency submitted to Credit Suisse additional due diligence questions for Mozambique "*regarding* [Mozambique's] *sovereign support for* [the Second SPV]". These included questions about whether the guarantee fell under Mozambique's non-concessional borrowing limits allowed by the IMF, whether the transaction (and in particular the sovereign guarantee underpinning it) had been discussed with the IMF, and whether the Government of Mozambique would report the debt as its own in its debt statistics.

4.51. These questions were relayed by Managing Director B to TP Individual A who refused to answer them. Managing Director B subsequently notified the EIBC by email that due diligence required by the credit ratings agency could not be accommodated and that "*as a result the transaction team has decided to proceed on the basis of the* [LPNs] *being unrated"*. Managing Director B also notified the EIBC that the credit ratings agency had downgraded Mozambique's country credit rating.

4.52. By 19 August 2013, the Second Loan deal team and the Debt Capital Markets ("DCM") team determined that the loan facility would be reduced to $500m underwritten, with an additional $350m on a 'best efforts' basis. The EIBC asked

questions about the impact of the downgrade, including on performance of the underlying contract, but did not ask for details of the due diligence sought by the credit ratings agency or why it could not be accommodated. The EIBC reconfirmed its authorisation of the transaction later on 19 August 2013.

4.53. On 20 August 2013, in order to satisfy one of EIBC's conditions for approval, Managing Director B summarised the Second Loan by email for divisional senior management approval. Senior management approval was granted on 23 August 2013.

Reputational Risk process for the Second Loan

4.54. A member of the Reputational Risk team had been provided with the 'Heads up' memo on 1 August 2013. An iterative discussion followed which included members of the Second Loan deal team, FCC and the Reputational Risk function, including the Reputational Risk Approver for the First Loan and the individual who was (eventually) to be the Reputational Risk Approver for the Second Loan. The discussion was informal and resulted in the participants in the discussion coming to the view that no additional reputational risk arose from the Second Loan following Reputational Risk's approval of the First Loan and therefore no Reputational Risk Submission was required.

4.55. On 21 August 2013, Senior Manager B brought the Second Loan to the attention of the Risk Committee of Credit Suisse's EMEA Board, noting that the Second Loan was a second Mozambican transaction involving the Third-Party Contractor and had completed internal approvals, and that the First Loan had drawn *"regulatory scrutiny"*. The Risk Committee requested that prior to final approval of the Second Loan a Reputational Risk Submission be made. The Reputational Risk Approver for the First Loan commented to a Risk Committee member that this request was *"ridiculous"*, given that that the transaction had already been through *"all appropriate channels"*.

4.56. Following this exchange, on 23 August 2013, a draft Reputational Risk Submission was prepared, although some members of the Reputational Risk function and Managing Director B still objected that it was not necessary. On 28 August 2013, Managing Director B requested the endorsement of Senior Manager D, in the capacity of Divisional Endorser for the Reputational Risk Submission.

4.57. On 30 August 2013, before Senior Manager D had provided such endorsement, or the Reputational Risk submission had been made, a facility agreement for the Second Loan was executed between the Second SPV as borrower, and Credit Suisse as arranger, original lender, and facility agent. Managing Director B and Director A signed on behalf of Credit Suisse.

4.58. On 2 September 2013, Senior Manager D (who had been on leave) endorsed the Reputational Risk Submission and a member of the Second Loan deal team originated it. It stated that the reputation of TP Individual B and the linked acceptability of the Third-Party Contractor formed the basis of a Reputational Risk review for the First Loan and stated that EDD Report 3 "*alludes to historic corrupt business practices* [of TP Individual B] *but there are no specific, substantiated facts pointing to any occurrence*" and that the "*deal team considers that from a reputational perspective the* [Third-Party Contractor] *remains an acceptable counterparty…".* As with the Submission for the First Loan, the Submission for the Second Loan was flawed for want of any reference to allegations of contemporaneous corrupt practices, rather than merely "*historic*" ones. The Submission also did not include any feedback from a member of Credit Suisse's Risk Committee who had been nominated as a feedback provider, and did not contain any analysis from FCC or otherwise that captured the discussions held among FCC, Reputational Risk and other Credit Suisse personnel.

4.59. A Reputational Risk Approver approved the transaction on 3 September 2013, stating "*that while a Reputational Risk Submission was requested by the* [Credit Suisse International / Credit Suisse Securities Europe Limited] *Board, no reputational risk has been identified*". The Reputational Risk Approver, who was aware of the contents of EDD Report 3, did not include any detail of the consideration of the potential reputational risks or explain the basis for the conclusion that no reputational risk had been identified.

Conclusion of the Second Loan

4.60. On 5 September 2013, Managing Director B and Director B signed a 'Notice of Commitment' letter on behalf of Credit Suisse which committed Credit Suisse to funding $500m of the Second Loan and paying that money directly to the Third-Party Contractor on demand, once the subvention fee had been deducted.

4.61. On 11 September 2013, after obtaining the requisite approvals from the Second SPV, the loan monies totalling $446m following deduction of the subvention fee, and fees owed by the Second SPV to Credit Suisse, was released by Credit Suisse to the Third-Party Contractor.

4.62. The DCM team was responsible for distributing the loan to investors on behalf of Credit Suisse via LPNs. On 10 September 2013, an Offering Circular was published in relation to the LPNs. This was an official memorandum, to which the facility agreement and the sovereign guarantee were appended and which described the Second Loan to potential investors. It specified the use of proceeds as follows: *"The Borrower shall apply all amounts borrowed by it towards financing the purchase of fishing infrastructure, comprising of 27 vessels, an operations centre and related training and the general corporate purposes of the Borrower."*

Payment of kick-backs to Managing Director B by Managing Director A

4.63. In addition to the sum of $5.5m that Managing Director A received into a personal account for reducing the subvention fee (referred to in paragraphs 4.21 and 4.22 above) in connection with the First Loan, Managing Director A received further kick-backs from the Third-Party Contractor through 2013 and 2014, unknown to Credit Suisse and after he had ceased working for Credit Suisse, which in total amounted to approximately an additional $47m. For his role in assisting with the completion of the Second Loan and upsizing the First Loan, Managing Director B received $5.7m in kick-backs from Managing Director A.

Continued reports and enquiries about the Second Loan

4.64. Following the issuance of the LPNs, questions and allegations concerning the Second Loan began to be reported in the press and elsewhere indicating possible impropriety in connection with the Second Loan and the use of proceeds. These reports centred on proceeds being spent on military expenditure (and a large portion of the loan being eventually allocated to the Mozambican defence budget), the possible weaponisation of vessels, and the associated concerns of international donors. For example, one press report from November 2013 stated that "*Mozambique risks delays in* [aid] *payment because of questions by donor countries over an $850 million bond issue*". The articles quoted donor concerns regarding "*a very murky deal*" and reported that "*key concerns are* [the Second

SPV's] *unclear mandate, a lack of feasibility studies, and unclear procurement spending which includes patrol boats and possibly military hardware*".

4.65. During October and November 2013, Credit Suisse was contacted by journalists, asking if the Second Loan had been used to finance military expenditure, rather than the tuna fishing boats and infrastructure specified in the LPN Offering Circular. Some of the journalists went on to publish articles about the concerns of international donors, including the IMF.

4.66. In January 2014, the IMF published a report that identified that the Second Loan had been used to finance the purchase of "*24 tuna fishing vessels and 3 patrol vessels, as well as other vessels*", the latter of which were not specified under the Second Supply Contract. The report contained a table detailing Mozambique's non-concessional borrowing, but the table did not include the First Loan. The report also referred to a revised budget proposal for 2014, whereby $350m of the Second Loan had – as required by the IMF itself – been allocated to the Ministry of Defence to account for "*the non-commercial activities of* [the Second SPV]*"* because "*the* [Mozambican] *Government believes that this increase in the budget of the Ministry of Defense is necessary to provide protection services along the coast of Mozambique, including for natural resource companies operating offshore*". The report noted "*concerns, shared in the donor community about the lack of transparency regarding the use of funds and the secretive manner in which the project was evaluated, selected, and implemented*…". Credit Suisse did not make enquiries of the IMF, the Second SPV or any of the government officials or associates with whom it had been dealing about these non-commercial activities.

4.67. By late June 2015, Credit Suisse was aware of further reports (which continued in the months ahead) that $500m of the $850m Second Loan had been incorporated into the budget of the Mozambican Ministry of Defence, having supposedly been used to purchase naval ships and equipment. In July 2015, press reports alleged that "*vast profits* [from the deal had been] *made by senior figures in the* [Mozambican government]" and suggested that the Second Loan had been used to enrich senior Mozambican officials. Around this time, Credit Suisse was also contacted by reporters who claimed that the government's guarantee on the Second Loan was in breach of Mozambican law and sought Credit Suisse's response.

4.68. Credit Suisse considered these press reports internally and focused on the contractual restrictions imposed in the loan documentation on how the loan monies were to be spent. Credit Suisse contacted the Third-Party Contractor and the Second SPV regarding the press reports and obtained their confirmation that there was no weaponisation of the vessels. However, Credit Suisse did not ask the Third-Party Contractor any other questions about the true use of the proceeds of the Second Loan or request evidence to verify that use at that time or subsequently. Credit Suisse did subsequently ask some more questions of its client, the Second SPV, however, as set out in paragraphs 4.87, 4.90 and 4.91 below, those enquiries were limited.

4.69. Credit Suisse did not adequately consider the scenario that if it was the case that the guarantee had been granted in excess of Mozambican budgetary limits, why that may have occurred and whether that would be evidence of corruption or some other unlawfulness in respect of the Second Loan, given the widespread reports and other information about corruption circulating at the time.

4.70. In November 2014, Credit Suisse also physically inspected five fishing vessels at Maputo. This inspection confirmed that no weapons had been installed. Further investigative steps in response to these press reports were not taken until later in 2015, in the context of the LPN Exchange (a transaction described below). As to the First Loan, Credit Suisse did not take steps at this time, or subsequently, to physically inspect the vessels supplied or to conduct any valuation exercise.

The LPN Exchange

4.71. On 29 May 2015, the Second SPV published accounts showing financial losses of $24.9m during 2014, which were attributed to implementation problems and delays. (The problems as reported to Credit Suisse related to external challenges such as a lack of public electricity, government infighting and a lack of staff due to increased military exercises.) On or around 5 June 2015, Credit Suisse met a representative of the Second SPV about a proposed restructuring of the Second Loan because the underlying fishing project was not yet fully operational and therefore unable to generate the level of revenues initially expected and pay the first amortisation of its bond in September 2015. The Government of Mozambique, in its function as the guarantor, therefore engaged Credit Suisse to replace the current note with a more liquid, less expensive, longer-dated, direct sovereign

bond of $850m. On 17 July 2015, Credit Suisse was appointed to act as lead manager.

4.72. At this time, the intention was that the existing $850m of LPNs would be exchanged for sovereign bonds (the "LPN Exchange"), with a possibility of raising a further circa $150m of new money should that be required (and should that be approved by Credit Suisse), for "*general corporate purposes*" and to keep the Second SPV "*afloat*".

4.73. The Credit Suisse team in charge of preparations for the LPN Exchange (the "Exchange Deal Team") consisted of members from the DCM, Coverage, Liability Management, Transaction Management Group and Structuring teams. DCM was led by Managing Director D. As a member of the Structuring team, Managing Director B had a more limited involvement in the LPN Exchange, primarily in response to certain information requests from the Exchange Deal Team.

FCC and Reputational Risk initial consideration of the LPN Exchange

4.75. In July 2015, a draft Reputational Risk Submission for the proposed LPN Exchange dismissed allegations that the Second Loan had been used to procure patrol vessels instead of fishing vessels or that the vessels would be weaponised, on the basis that such allegations stemmed from "*confusion*", "*speculation*" and "*misinformed*" statements due to "*political jostling*". The summary of the transaction included a statement that "*the deal team had inspected vessels delivered for* [the Second SPV]*and* [the First SPV] *during a* [due diligence] *trip to Maputo in November 2014*" and that "*the contractor and* [the Second SPV] *both categorically confirmed that there are no weapons on any of the vessels*." The document referred to "*prior (unsubstantiated) allegations*" but did not provide any further (negative) detail from EDD Report 3 about TP Individual B.

4.76. The Reputational Risk team and FCC discussed the allegations and concerns over use of proceeds and concluded that "*we've weighed the allegations against what we factually know to be true and those two don't quite stack up, with the allegations really coming with a lot of political baggage attached*". FCC noted that "*Unfortunately, we have not* [reviewed the proceeds of the Second Loan to check that they were spent on the assets that they were provided for]", but concluded that Credit Suisse's ability to investigate the allegations was limited and that it could not verify how the proceeds of the Second Loan were actually spent because

it concerned the actions of a sovereign state. In deciding to approve the LPN Exchange, Credit Suisse comforted itself with the following factors: (i) the "*issuer is the State, not* [the Third-Party Contractor]"; (ii) "*robust use of proceeds*"; (iii) "*broader disclosure requirements*"; (iv) "*broad anti-corruption reps & warranties*"; and (v) "*public assurances from the issuer regarding use of funds*". On this basis, and on the condition that "*the business is to monitor for any corruption-related development*", BACC did not object to a new deal (to include the additional $150m of new money). BACC did not direct that further enquiries be made in an effort to gain more clarity about the circumstances surrounding the apparent diversion of some $500m of the Second Loan.

4.77. On 3 August 2015, a Divisional Endorser for the Reputational Risk process recorded that they had noted the negative press and that "*having spoken to the deal teams and synthesized the reviews of the various feedback providers (AML, Corp Comms etc), my conclusion is that the restructuring of this loan is ultimately a good thing*" and was in the best interests of investors and Credit Suisse's client, the Second SPV. Their reasoning included that the restructuring: (i) would give direct recourse to the Government of Mozambique rather than via a secondary obligation through the government's guarantee on the Second Loan; (ii) had the effect of moving the debt obligation from a state-owned entity to the sovereign itself; (iii) created more transparency and a liquid tradeable instrument; and (iv) would reduce the cost of capital to the government. The Divisional Endorser also made their approval conditional on inspection of the fishing fleet to ensure that it complied with "*the original intentions of our loan (ie not weaponised, being used for fishing etc*)" and that if "*new money*" was raised that the use of proceeds would be restricted to the project and requirements related to it.

4.78. On 5 August 2015, the LPN Exchange with a "*new money*" component of $150m was approved by the Reputational Risk function, with a direction that the Exchange Deal Team "*ensures robust independent third-party verification on the Use of Proceeds (working with BACC and Sustainability Affairs) and that* [Corporate Communications] *continue to work with the business and client on suitable media strategy*".

Inspection and valuation of vessels: the Valuation Gap

4.79. In early August 2015, BACC and Sustainability Affairs directed that there be an independent valuation of the vessels. A number of members of the Exchange Deal

Team travelled to Mozambique in early August 2015 to inspect the fishing vessels supplied under the Second Supply Contract. They reported back that they saw 22 of the 24 fishing vessels (explaining that the other two vessels were out at sea at the time) and that there "*were no sign of any weapons, and clearly no signs of any intention to build weapons on the boats*".

4.80. However, the Exchange Deal Team members reported that the trimarans (which were to be supplied under the Second Supply Contract) were not available for inspection because they were still "*in Europe and will be delivered to Mozambique as soon as the infrastructure is in place to moor them*". One of the reasons for inspecting the vessels was to verify negative press reports suggesting that weapons had been installed on them, which Credit Suisse confirmed as incorrect. However, as part of this due diligence trip, Credit Suisse did not take steps to also investigate the range of other allegations (e.g., the allocation of $500m from the Second Loan to the defence budget). Therefore, those other issues remained at large.

4.81. On 16 November 2015, members of the Exchange Deal Team prepared an internal document for senior colleagues that explained that their "*understanding is that* [$500m of the Second Loan] *has been allocated* to [the Mozambican] *defence budget*". The Exchange Deal Team also stated that, given the Mozambican government had assumed $500m of the Second SPV's debt, it was "*likely that the trimarans will form part of the navy*".

4.82. Some five months after the direction of BACC and Sustainability Affairs to obtain a valuation, in January 2016, Credit Suisse engaged a shipping expert to value the fishing vessels. At the time of engagement, the shipping expert made it clear that they would only be able to "*produce a very hypothetical valuation*" because of the difficulty in "*finding a market* [as] *you have to have a Licence to catch Tuna and these are few and far between.*" The expert's report valued each of the fishing boats (i.e. not the trimarans), including the costs of delivery, at $10m-$15m. The valuer explained that the reason for the higher and lower range of values was to take account of the facilities and services that were also said to have been included in the contract, which the valuer did not observe (for example, spare parts for the fishing vessels) and delivery. In contrast with this valuation, the fishing vessels (as distinct from the trimarans) had been invoiced to the Second SPV at $22.3m each. Credit Suisse did not take further steps to verify the

existence of the facilities and services. Nor did it take steps to verify and value the intellectual property that was also to have been provided under the contract.

4.83. Credit Suisse also sought to arrange inspection of the three trimarans (which were said to be located in France) on several occasions, but permission was refused by the Second SPV because the Second SPV said that the shipyard contained several other confidential vessels (even though the Second Supply Contract provided that the Second SPV could insist on inspection facilities being made available at the site of manufacture). Credit Suisse therefore engaged another independent valuer to provide a separate 'desk top' valuation for the trimarans (i.e. without physically inspecting them) in the range of €19.39m to €22.29m. In the event, Credit Suisse never obtained access to the trimarans to verify their existence and to value them.

4.84. Based on these two valuations, Credit Suisse calculated that there was a difference between the valuations of all of the vessels to be supplied under the contract and the contract value of between $265,400,000 and $394,400,000 ("the Valuation Gap"). The Valuation Gap amounted to between 33% and 48% of the Second Loan facility.

4.85. On 22 February 2016, BACC circulated internally four potential explanations for the Valuation Gap:

a) The Second SPV simply entered into a "*highly unfavourable deal*";
b) The funds were used to purchase other undeclared vessels;
c) The funds were "*significantly mismanaged*"; or
d) The funds were "*used for improper purposes (e.g. bribes)*".

4.86. On 1 March 2016, BACC emailed senior FCC colleagues noting that consideration was being given to whether notifying Credit Suisse's client, the Second SPV, about the Valuation Gap could constitute a criminal offence of "*tipping off*" under the Proceeds of Crime Act 2002. The email said that this question would be put to external counsel to advise upon, along with "*the larger question of our obligations vis-à-vis regulators (both here and locally)*".

4.87. On 2 March 2016, Exchange Deal Team Member A met Mozambican Individual A in Maputo to inform the Second SPV about the Valuation Gap, ascertain the response of the Second SPV and ask about how the Second SPV would follow up on the information. Exchange Deal Team Member A's file note of the discussion

recorded that Mozambican Individual A had purposely not been briefed on the topic of the meeting to "*get a more realistic/unprepared response from* [them] *so as to properly* [gauge their] *reaction*". The note described Mozambican Individual A's response as "*thoughtful &* [their] *reaction was one of interest, perhaps concern, but no alarm*". In terms of value provided, Mozambican Individual A considered "*the contract was an integral ie one solution*", "*they had preferred to appoint one contractor given strict confidentiality*", they *"felt that the different components of the contract were of significant value*" and that "[the Contractor] *has provided value overall*".

4.88. Credit Suisse ultimately arrived at the view that the most likely explanation for the Valuation Gap was that the Second SPV had been overcharged and that they attributed greater value to certain items (e.g. intellectual property/technology transfer) in the contract than Credit Suisse or valuers did. It considered this explanation plausible on the basis that: (i) the project was a new venture for Mozambique; (ii) they had little experience, expertise, or knowledge of the boats and infrastructure that were to be acquired; (iii) there was a lack of efficiency in the way they had approached the contract; (iv) it was extremely difficult to value the vessels (particularly the trimarans); (v) the client had obtained alternative quotes which were more expensive than the contract value; and (vi) the difference may have been partially explained by the intellectual property/technology transfer relating to the trimarans.

4.89. However, overcharging could not, of itself, have constituted an adequate explanation and insufficient weight was afforded to allegations in the press of corruption and the misuse of the proceeds of the Second Loan (including to fund military expansion) and the information held about the business practices of TP Individual B according to EDD Report 3.

4.90. On 8 March 2016, Credit Suisse asked the Second SPV for sight of the documentation for the purported alternative quotes referred to in paragraph 4.88 (v). The Second SPV said that it had not retained the documents. Credit Suisse did not take any further steps to obtain this documentation e.g. to ask the Second SPV to request the documentation from the other providers, or to authorise them to supply it to Credit Suisse.

4.91. Credit Suisse did not take any other steps to further investigate the possible other explanations for the Valuation Gap (including by questioning the explanations it

received from Mozambican Individual A more rigorously. For example, no questions were put to Mozambican Individual A about the $500m that had been allocated to the defence budget). No questions on the reports of military expansion and/or reports about the misuse of the loan proceeds, or the Valuation Gap were asked of the Third-Party Contractor or any of the Mozambican officials with whom Credit Suisse had been dealing.

4.92. Instead, Credit Suisse placed too much weight on the fact that allegations in the press had not been proven and that it had no evidence or certainty that misuse or misappropriation of the proceeds of the Second Loan was the explanation for the Valuation Gap.

4.93. The cumulative effect of the information known to Credit Suisse was not properly assessed. Credit Suisse did not inform the relevant authorities about its concerns regarding the use of proceeds of the Second Loan.

Final consideration and approval of the LPN Exchange

4.94. Having established the existence and scale of the Valuation Gap, by no later than 11 February 2016, Credit Suisse decided that it would not provide any new money as part of the LPN Exchange because of its use of proceeds concerns (which included financial crime concerns) arising from the Valuation Gap and press allegations. On 3 March 2016, the LPN Exchange was approved by the Global Investment Bank Committee, on the condition that Credit Suisse was not involved in the raising of any new money.

4.95. On 3 March 2016, BACC emailed senior individuals in compliance, anti-money laundering and FCC, stating "*FCC/Compliance has no objection to the proposed restructure transaction on the grounds that there is no evidence the proceeds were used for purposes other than those described in the original transaction* [Use of Proceeds] *clause*." BACC noted that: *"The proposed restructure will create transparency, provide a more liquid issuer and will extend the timeline for repayment"* and that it had reached this view following *"discussions with the deal team, Sustainability Affairs, Legal, Reputational Risk, dozens of email exchanges, numerous requests for documents and various independent reviews of publicly available and non-public sources"*.

4.96. On 7 March 2016, a senior FCC member noted that he "*remained concerned (…) that we have not closed out the red flags regarding the deal – not least because*

of information concerning [TP Individual B] *who has a reputation... for allegedly making corrupt payments… Although the business has asked some questions of* [the Second SPV]*, in my view we still do not have a clear picture of why* [the Second SPV] *appeared to pay so much for the boats*." However, on 9 March 2016, having been provided with further information about the due diligence conducted on the Third-Party Contractor, the vessel valuations and the responses received from Mozambican Individual A, the same senior FCC member concluded that, "*While I am still uncomfortable about the valuation gap, I think we have done now all the due diligence we reasonably can in the timeframe available. As such, I'm ok to proceed*."

4.97. The Reputational Risk Approver approved the LPN Exchange, based on the rationale presented by the Exchange Deal Team and Compliance confirmation that it did not object to the LPN Exchange proceeding. The Reputational Risk Approver placed reliance on the following representations made by "*senior business management"* :

(1) The explanation provided by the Second SPV for the Valuation Gap was "*broadly reasonable … in the context of the market expertise of the client in this type of EM* [Emerging Markets] *market transaction"*;

(2) FCC did not object to the LPN Exchange on the basis of the facts presented;

(3) There was to be no new money generated and lent to the Second SPV as part of the LPN Exchange; and

(4) The LPN Exchange was "*economically the best outcome for the client and the current investors*", to whom Credit Suisse had an obligation.

4.98. On 6 April 2016, the LPN Exchange settled, following which the LPNs issued by the Second SPV ceased to exist.

4.99. On 23 April 2016, the IMF announced that an excess of $1billion of external debt guaranteed by the Government of Mozambique had not been disclosed by that government to the fund. That non-disclosure related to the approximately $1.4billion of non-concessional debt (including the First Loan).

4.100. The IMF halted loan disbursement and other international donors suspended budgetary support. The Government of Mozambique introduced an emergency budget which significantly cut public expenditure. There was a drop in foreign investment. Inflation increased from 3.6 per cent in 2015 to 19.9 per cent in 2016. Mozambique's currency fell by one third in value during 2017, and it defaulted on its sovereign debt. Compounding the accumulated impact of a range of factors (such as low commodity prices, drought and conflict), this severely impacted public services, including health and education. The impact has been most seriously felt in Mozambique's poorest communities.

5. FAILINGS

5.1. The regulatory provisions relevant to this Notice are referred to in Annex A.

Principle 3 & SYSC 6.1.1R

5.2. Principle 3 required Credit Suisse to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. SYSC 6.1.1R required Credit Suisse to establish, implement and maintain adequate policies and procedures sufficient to ensure compliance of the firm, including its managers and employees, with its obligations under the regulatory system and for countering the risk that the firm might be used to further financial crime. Both Principle 3 and SYSC 6.1.1R apply with respect to the carrying on of unregulated activities in a prudential context (PRIN 3.2.3R and SYSC 1 Annex 1 2.13R). 'Prudential context' is defined by the FCA Handbook as including the context in which activities have, or might reasonably be regarded as likely to have, a negative effect on the integrity of the UK financial system, and the integrity of the UK financial system includes it not being used for a purpose connected with financial crime (section 1D of the Act). Therefore Principle 3 and SYSC 6.1.1R required Credit Suisse to have adequate financial crime controls, policies and procedures including in relation to unregulated activities (such as corporate lending).

5.3. Credit Suisse breached Principle 3 and SYSC 6.1.1R because it failed to sufficiently prioritise the mitigation of financial crime risks, including corruption risks, within its emerging markets business; it lacked an adequate financial crime strategy for the management of those risks, and as a result, the risk management systems it had in place were not adequate. At the outset of the Relevant Period:

(1) Both FCC and the Reputational Risk function were under increased strain due to the broad remit of their respective roles, and the processes in place at the time were inadequate for facilitating and capturing a comprehensive and holistic assessment of potential financial crime risks;

(2) The FCC function covering EMEA was inadequately resourced in terms of the number, experience and seniority of its personnel to deal fully with the volume and complexity of work assigned to it;

(3) The distinction between financial crime controls and reputational risk controls was not adequately defined, which contributed to the distinction between financial crime risks and reputational issues becoming blurred;

(4) The Reputational Risk function had three full-time employees globally and the process was informal, lacking in committee oversight and inadequate for the comprehensive assessment of risks required by the Reputational Risk policy; and

(5) The 'Non-Standard Transactions' process, albeit potentially capable of providing some protection against financial crime risks, was neither clearly defined relative to other transaction controls, including the Reputational Risk process, nor adequately disseminated among stakeholders to be effective.

5.4 While some of these processes and procedures improved over the Relevant Period, Credit Suisse did not complete the full implementation of its financial crime strategy until after the end of the Relevant Period.

5.5 Furthermore, Credit Suisse breached Principle 3 and SYSC 6.1.1R because on multiple occasions there was insufficient challenge and scrutiny in the face of important risk factors related to these transactions. Credit Suisse had sufficient information from which it should have appreciated that the transactions were associated with a high risk of bribery and corruption. Although Credit Suisse did consider relevant risk factors, it consistently gave insufficient weight to them individually and failed adequately to consider them holistically. At times, a lack of engagement by senior individuals within the emerging markets business contributed to Credit Suisse's failure to adequately scrutinise these transactions. Collectively, the above shortcomings constituted a failure by Credit Suisse to take

reasonable care to organise and control its affairs responsibly and effectively over the Relevant Period.

Principle 2

5.6 Principle 2 required Credit Suisse to conduct its business with due skill, care and diligence. As set out in more detail below Credit Suisse breached Principle 2 on multiple occasions during the Relevant Period by failing to adequately assess the risks related to these transactions.

The Second Loan

5.7 Credit Suisse breached Principle 2 in August and September 2013 because:

(1) its FCC team, on the information of which it was made aware, failed adequately to assess the heightened risks associated with the Second Loan. This included failing to aggregate relevant risks by reference to the First Loan and particularly the information set out in EDD Report 3;

(2) its European Investment Bank Committee failed to adequately challenge the information presented to the committee in the EIBC Memo, given the complexities of the transaction, and the conduct risks arising from the jurisdiction and Third Party Contractor. In particular, it failed to give adequate challenge or seek further information regarding changes to the deal structure following its initial approval;

(3) its Reputational Risk function, including the Divisional Endorser and Reputational Risk Approver in respect of the Second Loan, did not follow the reputational risk process properly and failed to identify any reputational risk associated with the Second Loan, despite the corruption risk posed by TP Individual B and other risk factors.

After the Second Loan

5.8 After the Second Loan, Credit Suisse breached Principle 2 on a number of occasions because it failed to adequately scrutinise or react to relevant information of which it became aware, including:

(1) Numerous articles and reports between September 2013 and November 2013 which raised questions and concerns about proceeds from the Second Loan being used for naval ships and equipment.

(2) A report published by the IMF in January 2014 that identified that more vessels than specified under the Second Supply Contract had been financed with the Second Loan, and in which the existence of the First Loan was omitted from a table detailing the amount of non-concessional borrowing. The report also referred to $350m from the Second Loan being re-allocated to the defence budget of Mozambique – as required by the IMF - for what was described as non-commercial activities. It should therefore have been apparent to Credit Suisse that the basis upon which it had made the Second Loan was, on the face of it, untrue.

(3) In the period from June 2015 to November 2015, there were further reports, including a statement from a Mozambican minister of finance, that $500m of the $850m from the Second Loan had been spent on naval ships and had been incorporated into the Mozambican Ministry of Defence budget. Reports also circulated that the Second Loan had been used to enrich senior individuals in the Mozambican government.

The LPN Exchange

5.9 From mid-2015 to April 2016, whilst engaged on the LPN Exchange, Credit Suisse breached Principle 2 because in the face of information which indicated a further heightened risk that the money lent in 2013 had been misapplied or misappropriated and tainted by financial crime, Credit Suisse again failed to challenge and scrutinise information adequately including an independent valuation that calculated a 'valuation gap' between the assets purchased and the funds lent on the Second Loan of between $279m and $408m.

5.10 By the time of the LPN Exchange, the cumulative effect of the information known to Credit Suisse constituted circumstances sufficient to ground a reasonable suspicion that the Second Loan may have been tainted, either by corruption or other financial crime. Although the LPN Exchange was considered extensively by financial crime compliance, the Reputational Risk function, senior individuals and a senior business committee, Credit Suisse again failed to adequately consider

important risk factors individually and holistically, despite its unresolved concerns. As a result, it failed to take appropriate steps (including informing relevant authorities) before proceeding with the LPN Exchange. This increased the risk of any bribery or other financial crime continuing and the beneficiaries of any previous corruption retaining the fruits of their participation in the corruption.

6. SANCTION

Financial Penalty: breaches of Principles 2 and 3 and SYSC 6.1.1R

6.1. The Authority has considered the disciplinary and other options available to it and has concluded that a financial penalty is the appropriate sanction in the circumstances of this particular case.

6.2. The Authority's policy for imposing a financial penalty is set out in Chapter 6 of DEPP. In respect of conduct occurring on or after 6 March 2010, the Authority applies a five-step framework to determine the appropriate level of financial penalty. DEPP 6.5A sets out the details of the five-step framework that applies in respect of financial penalties imposed on firms.

Step 1: disgorgement

6.3. Pursuant to DEPP 5.5A.1G, at Step 1 the Authority seeks to deprive a firm of the financial benefit derived directly from the breach where it is practicable to quantify this. The financial benefit arising directly from its breach of Statement of Principles 2 and 3 and SYSC 6.1.1R has or will be disgorged from Credit Suisse in other proceedings. Step 1 is therefore $0.

Step 2: the seriousness of the breach

6.4 Pursuant to DEPP 6.5A.2G, at Step 2 the Authority determines a figure that reflects the seriousness of the breach. Where the amount of revenue generated by a firm from a particular product line or business area is indicative of the harm or potential harm that its breach may cause, that figure will be based on a percentage of the firm's revenue from the relevant products or business area.

6.5 The Authority considers that the gross revenue generated by the global activities of Credit Suisse's Emerging Markets Group is indicative of the harm or potential harm caused by its breach. The Authority has therefore determined a figure based on a percentage of Credit Suisse's relevant revenue, which is the gross global revenue of the Emerging Markets Group during the period of Credit Suisse's breach.

6.6 The period of Credit Suisse's breach was from 1 October 2012 to 30 March 2016. The Authority therefore considers Credit Suisse's relevant revenue for this period to be $5,754,100,000.

6.7 In deciding on the percentage of the relevant revenue that forms the basis of the step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage between 0% and 20%. This range is divided into five fixed levels which represent, on a sliding scale, the seriousness of the breach; the more serious the breach, the higher the level. For penalties imposed on firms there are the following five levels:

Level 1 – 0%
Level 2 – 5%
Level 3 – 10%
Level 4 – 15%
Level 5 – 20%

6.8 In assessing the seriousness level, the Authority takes into account various factors which reflect the impact and nature of the breach, and whether it was committed deliberately or recklessly. DEPP 6.5A.2G(11) lists factors likely to be considered 'level 4 or 5 factors'. Of these, the Authority considers the following factors to be relevant:

(1) the breach revealed serious or systemic weaknesses in the firm's procedures or in the management systems or internal controls relating to all or part of the firm's business;
(2) financial crime was facilitated, occasioned or otherwise attributable to the breach.

6.9 DEPP 6.5A.2G(12) lists factors likely to be considered 'level 1, 2 or 3 factors'. The Authority considers the following factor to be relevant: the breaches were not committed deliberately or recklessly.

6.10 Under DEPP 6.5A.2G(6) it is relevant whether the breach had an effect on particularly vulnerable people, whether intentionally or otherwise. The Authority considers that the level of poverty in Mozambique renders a significant proportion of the inhabitants of that nation vulnerable to financial shock. The indebtedness resulting from the First and Second Loan and its subsequent conversion in the LPN Exchange, which contributed to a debt crisis, currency devaluation, and inflation in Mozambique, has materially affected the people of Mozambique. The Authority does not assert that Credit Suisse was solely or primarily responsible for this, and recognises the involvement of other key actors and other factors, but finds that by its role in these transactions Credit Suisse contributed to these outcomes.

6.11 Taking all of these factors into account, the Authority considers the seriousness of the breach to be level 4 and so the Step 2 figure is 15% of $5,754,100,000 which is $863,115,000.

6.12 DEPP6.5.3(3)G provides that the Authority may decrease the level of penalty arrived at after applying Step 2 of the framework if it considers that the penalty is disproportionately high for the breach concerned. The Authority considers that the level of penalty is disproportionate.

6.13 In order to achieve a penalty that (at Step 2) is proportionate to the breach the Step 2 figure is therefore reduced to $600,000,000.

6.14 Step 2 is therefore $600,000,000.

Step 3: mitigating and aggravating factors

6.15 Pursuant to DEPP 6.5A.3G, at Step 3 the Authority may increase or decrease the amount of the financial penalty arrived at after Step 2, but not including any amount to be disgorged as set out in Step 1, to take into account factors which aggravate or mitigate the breach.

6.16 The Authority considers that the following factors specified in DEPP 6.5A(3) aggravate the breach:

(1) the firm had previously been told about the Authority's concerns in relation to the issue in supervisory meetings and email correspondence. In 2013, the Authority had specifically queried aspects of the First Loan. While the specific possibility that the transactions were corrupt was not raised by the supervisors, the risks of the transactions and the proper application of systems and controls governing Credit Suisse's emerging markets business to them were raised.

(2) the firm's previous disciplinary history:

(a) 13 August 2008: £5.6 million penalty for breaches of Principles 2 and 3 in relation to the mismarking of securities by Credit Suisse International and Credit Suisse Securities (Europe) Limited;

(b) 8 April 2010: £1.75 million penalty for breaches of SUP 17 of the FSA Handbook in relation to transaction reports by Credit Suisse International, Credit Suisse Securities (Europe) Limited, Credit Suisse AG and Credit Suisse (UK) Limited;

(c) 25 October 2011: £5.95 million penalty for breaches of Principle 3 in relation to the suitability of its advice to private banking retail advisory customers by Credit Suisse (UK) Limited; and

(d) 16 June 2014: £2.398m penalty for breach of Principle 7 in relation to the information needs of its clients and the requirement that its communications with them be clear, fair and not misleading by Credit Suisse International.

6.17 The Authority considers that the above factors justify an increase in the penalty at Step 3 by 10%. Were there no mitigating factors, the Step 3 figure would therefore be $660,000,000.

6.18 The Authority has had regard to Credit Suisse's co-ordinated settlements with overseas agencies in respect of related facts and matters. Furthermore, the Authority has made specific allowance in respect of the following step Credit Suisse has taken to mitigate the harm to the population of Mozambique to which its misconduct has contributed referred to at paragraph 6.10 above.

6.19 As part of this resolution, the Authority has sought and Credit Suisse has given an irrevocable and unconditional undertaking to the Authority that, in respect of ongoing civil proceedings between the Mozambique and Credit Suisse in relation to the First and Second Loan, the first $200m of any sums claimed by Credit Suisse as due and payable to it from Mozambique shall not be payable, whether as part of any settlement reached, or in the event of judgment against Mozambique (a possibility on which the Authority expresses no opinion).

6.20 This sum explicitly excludes that portion of any settlement, or judgment, under which default interest is agreed or ordered to be payable by Mozambique to Credit Suisse, and Credit Suisse has additionally undertaken to reduce any such sums of default interest arising from the First Loan by $42.484m.

6.21 The Authority considers that it is appropriate to reduce the penalty payable by giving credit for the above undertakings on the following basis. The Authority considers that (a) no credit should be given in relation to the undertaking relating to default interest (b) the $200m undertaking amount should be 'grossed up' at step 3 to achieve a dollar for dollar reduction in the figure generated following Step 5 and (c) it is appropriate to use a spot FX rate of $1.3633[1] in relation to the credit provided (whereas by contrast an historic average is used, in accordance with the Authority's usual practice, when converting the $660,000,000 into £419,847,328). This results in a reduction of $285,714,286 from $660,000,000 or, in GBP, a deduction of £209,575,505 from £419,847,328. This calculation is solely for the purposes of determining an appropriate level of financial penalty in this matter and the Authority expresses no opinion as to the validity of amounts in dispute between Credit Suisse and the Republic or any other party.

6.22 Step 3 is therefore £210,271,823.

Step 4: adjustment for deterrence

6.23 Pursuant to DEPP 6.5A.4G, if the Authority considers the figure arrived at after Step 3 is insufficient to deter the firm who committed the breach, or others, from committing further or similar breaches, then the Authority may increase the penalty. The Authority considers that the Step 3 figure of £210,271,823

[1] This is the spot FX rate as set out by the Bank of England on Thursday 14 October 2021

represents a sufficient deterrent to Credit Suisse and others, and so has not increased the penalty at Step 4.

6.24 Step 4 is therefore £210,271,823.

Step 5: settlement discount

6.25 Pursuant to DEPP 6.5A.5G, if the Authority and the firm on whom a penalty is to be imposed agree the amount of the financial penalty and other terms, DEPP 6.7 provides that the amount of the financial penalty which might otherwise have been payable will be reduced to reflect the stage at which the Authority and the firm reached agreement. The settlement discount does not apply to the disgorgement of any benefit calculated at Step 1.

6.26 The Authority and Credit Suisse reached agreement at Stage 1 and so a 30% discount applies to the Step 4 figure.

6.27 Step 5 is therefore £147,190,276 ($200,664,504).

Financial Penalty

6.28 The Authority, therefore, hereby imposes a total financial penalty on Credit Suisse for breaches of Principles 2 and 3 and SYSC 6.1.1R of £147,190,200.

7. PROCEDURAL MATTERS

7.1. This Notice is given to Credit Suisse under and in accordance with section 390 of the Act.

7.2. The following statutory rights are important.

Decision maker

7.3. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.

Manner and time for payment

7.4. The financial penalty must be paid in full by Credit Suisse to the Authority no later than 5 November 2021.

If the financial penalty is not paid

7.5. If all or any of the financial penalty is outstanding on 6 November 2021, the Authority may recover the outstanding amount as a debt owed by Credit Suisse and due to the Authority.

Publicity

7.6. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the Authority must publish such information about the matter to which this notice relates as the Authority considers appropriate. The information may be published in such manner as the Authority considers appropriate. However, the Authority may not publish information if such publication would, in the opinion of the Authority, be unfair to you or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.

7.7. The Authority intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

Authority contacts

7.8. For more information concerning this matter generally, contact Richard Littlechild at the Authority (direct line: 020 7066 7146).

Caroline Ryan

Head of Department

Financial Conduct Authority, Enforcement and Market Oversight Division

ANNEX A

RELEVANT STATUTORY AND REGULATORY PROVISIONS

1.1. The Authority's operational objectives, set out in section 1B(3) of the Act, include the objective of protecting and enhancing the integrity of the UK financial system. The integrity of the UK financial system includes it not being used for a purpose connected with financial crime.

1.2. 'Financial crime' (in accordance with section 1H of the Act) means any kind of criminal conduct relating to money or to financial services or markets, including any offence involving:

(a) fraud or dishonesty; or

(b) misconduct in, or misuse of information relating to, a financial market; or

(c) handling the proceeds of crime; or

(d) the financing of terrorism;

and in this definition "offence" includes an act or omission which would be an offence if it had taken place in the United Kingdom.

1.3. Prior to 1 April 2013 'financial crime' was defined by section 6(3) of the Act in the same way as above save that it did not include reference to offences involving the financing of terrorism.

1.4. Section 206(1) of the Act provides:

"If the Authority considers that an authorised person has contravened a requirement imposed on him by or under this Act… it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate."

RELEVANT REGULATORY PROVISIONS

Principles for Businesses

1.5. The Principles are a general statement of the fundamental obligations of firms under the regulatory system and are set out in the Authority's Handbook. They derive their authority from the Authority's rule-making powers set out in the Act. The relevant Principles are as follows.

1.6. Principle 2 provides that a firm must conduct its business with due skill, care and diligence,

1.7. Principle 3 provides that a firm take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

Relevant Rules

1.8. SYSC 6.1.1R provides that a firm must establish, implement and maintain adequate policies and procedures sufficient to ensure compliance of the firm including its managers, employees and appointed representatives (or where applicable, tied agents) with its obligations under the regulatory

system and for countering the risk that the firm might be used to further financial crime.

DEPP

1.9. Chapter 6 of DEPP, which forms part of the Authority's Handbook, sets out the Authority's statement of policy with respect to the imposition and amount of financial penalties under the Act.

The Enforcement Guide

1.10. The Enforcement Guide sets out the Authority's approach to exercising its main enforcement powers under the Act.

1.11. Chapter 7 of the Enforcement Guide sets out the Authority's approach to exercising its power to impose a financial a penalty.