Bloomberg Businessweek

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February 10, 2017

Dear Judges,

“Here in Libya I can make you disappear, and nobody will ever hear back from you.”

When Libyans began rebuilding their shattered country after the death of dictator Moammar Qaddafi, they faced a fiendishly complex challenge: Reclaiming the billions of dollars of oil revenue his regime had moved abroad through deals with major banks.

As Matthew Campbell and Kit Chellel showed in a rollicking international cover story for Bloomberg Businessweek, much of it ended up with none other than Goldman Sachs—specifically, through a series of opaque derivatives transactions engineered by an ambitious junior banker, Youssef Kabbaj. A rising star who'd gone from obscurity in Morocco to the top table of international finance in a matter of months, Kabbaj wined and dined the Libyans in London, Dubai, and Marrakesh, striking up a close friendship with the kid brother of Mustafa Zarti, the director of the fledgling Libyan Investment Authority.

The unlikely partnership between the most aggressive wolf on Wall Street and the country still known as the Great Socialist People's Libyan Arab Jamahiriya seemed like a win-win at first. But it soon descended into a tangled, costly scandal that's still being unwound. After an explosive confrontation with Zarti, who claimed he'd been hoodwinked by Goldman, Kabbaj had to flee Libya with his life under threat and his career in shambles. The Libyans lost every penny of the $1.2 billion they invested, and blamed their former friend—and the firm he represented.

Drawing on thousands of pages of legal documents and dozens of interviews with participants in the deals, Campbell and Chellel offered a rare glimpse behind the closed doors of the world's most secretive bank, explaining how Goldman convinced Libya's young, inexperienced investment team to commit to huge trades they may never have understood. Their story, which was read online by more than 250,000 people and was the most popular of the week at Longform.org, rendered those complicated financial concepts understandable to a broad readership. In doing so, it showed how bankers can use complex transactions to beguile clients into what's essentially high-stakes gambling, in which the House of Goldman usually wins.

The piece was widely praised by competitors at the Financial Times, Wall Street Journal, and New York Times, with Foreign Policy's Robbie Gramer praising its “phenomenal investigative reporting” and Yahoo Finance's managing editor, Sam Ro, calling it “incredible.” The richness of Campbell and Chellel's work lay in the details that turned the dry perambulations of international finance into a riveting narrative. One example: early in his courtship of the Libyans, Kabbaj shipped a box of books to Tripoli to provide the basis for a financial library. In addition to dry tomes on asset allocation and economics, he included several copies of Liar's Poker, Michael Lewis's tale of smart bankers who made a killing, and dumb clients who got screwed.

I’m proud to nominate it for the Gerald Loeb Award for feature writing.

Sincerely,

Megan Murphy

Gerald Loeb Award
For Feature Writing
Bloomberg Businessweek
"Hot Mess: How Goldman Lost Libya's Money"
Matthew Campbell and Kit Chellel

1. "Hot Mess: How Goldman Sachs Lost $1.2 Billion of Libya's Money," September 29, 2016 https://www.bloomberg.com/features/2016-goldman-sachs-libya/

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Photograph by Juan Arredondo

Hot Mess: How Goldman Sachs Lost $1.2 Billion of Libya's Money

When Wall Street's most aggressive bank took on the world's most incendiary client, someone was going to make a killing.

By Matthew Campbell and Kit Chellel

Youssef Kabbaj, *Goldman Sachs securities salesman. Illustration: 731*

Moammar Qaddafi's Libya was a miserable place for a business trip.

In 2008, a few years after renouncing its nuclear and chemical weapons program, the desert nation remained a menacing and ugly place, with cratered highways, awful restaurants with no booze, and Qaddafi's leathery visage everywhere, staring balefully down from billboards. The dreary capital, Tripoli, sat at the edge of the Sahara, in the least barren sliver of a country defined in the West by dictatorship, terrorism, and billions of dollars' worth of oil.

Goldman Sachs's Youssef Kabbaj was one of the few that enjoyed the commute. A securities salesman based out of the bank's London headquarters, Kabbaj found that Libya reminded him of his native Morocco, and he considered the ruins in Tripoli's old quarter enchanting. The city had a single decent hotel, the Corinthia, a crescent hulk the color of sand, and that year Kabbaj was such a frequent guest that he stored a rack of pressed suits there at all times. With slick black hair, round cheeks, and a mischievous smile, he was fluent in English, French, Arabic, and the language of international finance.

Qaddafi's peaceful turn had reopened Libya to Western banking for the first time in two decades. Its $60 billion in oil wealth, no longer dammed up by international sanctions, was ready to flood into the market, as directed by the Libyan Investment Authority, Qaddafi's brand-new sovereign wealth fund. With his North African pedigree, Kabbaj had

been one of the first at Goldman to spot the opportunity. The LIA had become his biggest client, transforming him in a year from rookie salesman into possibly the No. 1 rainmaker at the world's most profitable investment bank. He was 31 years old.

On July 23, 2008, Kabbaj was in his room at the Corinthia, waiting anxiously for his mobile phone to ring. It finally did around 9 a.m., and he grabbed a pen and paper to take notes. On the line was Michael Daffey, a senior Goldman executive in London. Daffey praised Kabbaj's work in Libya and said that after some negotiation, the bank was willing to guarantee him $9 million in pay. It was an astonishing sum, even at Goldman.

Kabbaj immediately asked for more. He knew he'd been instrumental in extracting an unusual amount of money from a highly unusual client. Who else on the planet could sell a billion dollars of derivatives to a regime whose theatrical despot slept in a tent under an all-female warrior guard?

By now Kabbaj was running late, and Nick Pentreath, a South African colleague on one of his first trips to Libya, was knocking on his hotel room door to hurry him up. They'd been summoned to a late-morning meeting by the LIA's deputy chief executive, Mustafa Zarti, a Qaddafi family friend. Zarti kept a ceremonial sword mounted above his desk—and was rumored to wave it around before visitors who displeased him. The markets were scary enough that summer. Bear Stearns, an American investment bank, had collapsed in March, and there were rumors that Lehman Brothers could be next. Zarti wanted Kabbaj to give him an update on Libya's portfolio at Goldman.

Pentreath and Kabbaj took a short taxi ride to the Al-Fateh Tower, a two-pronged structure of stupendous ugliness that loomed over Tripoli in a style that might be called totalitarian postmodern. The LIA's offices were on the 22nd floor. Usually, Kabbaj was shown right in, but this time he and Pentreath were kept waiting for what felt like hours, watched over by an oversize portrait of Qaddafi in military garb. Something wasn't quite right. Finally, as Kabbaj was called into a boardroom next to Zarti's office, he recognized three bankers from the French bank Société Générale—Goldman's main rival for the LIA's cash. He saw with alarm that they were holding term sheets for Goldman deals and grinning at him as he walked past.

Kabbaj steeled himself and began to address Zarti. The LIA's day-to-day chief was 38, with plump features, thinning black hair, and a Marlboro Red forever at his lips. He glowered as Kabbaj said that Goldman had some great new trading ideas. Zarti cut him off, saying he wanted to talk about deals that had already been done. Kabbaj started drawing on a whiteboard, running through basic concepts like how options could be "in the money" or "out of the money," and Pentreath began a technical explanation of the derivatives.

Zarti again interrupted. "Youssef," he said, "I'm asking you." Before Kabbaj could say

Nick Pentreath, Goldman Sachs securities salesman. *Illustration: 731*

much more, Zarti exploded. Screaming in a mix of English and Arabic, he accused Kabbaj of deceiving the LIA into deals it didn't understand. He called Goldman "a bank of Mafiosi" and said that he could behave like a Mafioso, too. He stormed out of the room, leaving Kabbaj, Pentreath, and a clutch of LIA staffers in a Marlboro haze.

Shaken, Kabbaj asked Zarti's aides what had just happened. None had an answer. After a few minutes, Zarti burst back in, angrier than ever. Catherine McDougall, an Australian lawyer who was in the office that day, later recalled Zarti's words as along the lines of "F--- your mother, f--- you, and get out of my country." Kabbaj and Pentreath packed up their things.

Zarti followed them into the corridor. If Kabbaj didn't make amends, he shouted, "we will go after your own family in Morocco!" The Al-Fateh Tower elevators were agonizingly slow to arrive. "What are you still doing here? Get out of my building!" Zarti screamed. He told Pentreath that if he didn't get in the lift soon, he'd throw him out the window. Kabbaj was white with shock. Zarti had saved his most chilling remark for him. "You are only a Moroccan here in Libya," he said. "I can make you disappear, and nobody will ever hear back from you."

The story of Goldman's seduction of Libya—based on court evidence, testimony from witnesses, and interviews with people who were involved in the transactions—is as

Mustafa Zarti, Libyan Investment Authority deputy chief executive. *Illustration: 731; Based on photograph by Rene Van Bakal*

brief as it was costly. Barely 12 months elapsed between Zarti's first tour of the bank and his threat to murder its brightest young star, and Libya wound up losing $1.2 billion. Goldman enjoyed its payday, the exact size of which it has never disclosed. But whatever the level, the matter is now before a London judge, and the Libyans have a chance to extract an even more damaging toll.

For 65 million years, a mile beneath what's now the Libyan Desert, the supercompressed remains of billions of dinosaurs, plants, and other Cretaceous organisms have been gently cooking into crude. Human ancestors were using tools in the region 200,000 years ago, and early civilizations came to be conquered in turn by the Phoenicians, the Greeks, the Romans, and others in a chain of foreign rule that reached the modern era. Italy relinquished Libya after World War II, and the nation declared independence in 1951. Eight years later, Western drillers struck what remain the largest oil reserves in all of Africa.

In 1969, while Libya's U.S.-allied king was out of the country, a strikingly handsome young military officer pulled off an ambitious coup. Initially, Moammar Qaddafi ruled as a garden-variety Arab nationalist, like those who'd recently taken over Egypt, Iraq, and Syria. He gradually became more erratic, writing checks to the Black Panthers and Red Brigades and declaring himself supreme leader of the Great Socialist People's Libyan Arab

Jamahiriya. By the 1980s, Qaddafi seemed to relish his image as a villain out of a Chuck Norris movie, blamed for a Berlin nightclub bombing, targeting U.S. servicemen in the region, and downing a Pan Am jet over Scotland, killing 270 people. Ronald Reagan called him the "mad dog of the Middle East," an image that stuck even as Qaddafi extended his canny rule into the 21st century.

U.S.-led sanctions steadily crippled the Libyan economy. Then, in 2003, Qaddafi watched American troops invade Iraq and drag a filthy Saddam Hussein out of a spider hole. A few days later, Qaddafi offered to give up Libya's WMD programs. Eager to reward good behavior, the U.S. eased sanctions, restoring full relations in 2006. Qaddafi might have been a brutal tyrant who forced citizens to study his Green Book, but he was abruptly a man the West could do business with. So complete was the reversal in his fortunes that on one visit to New York he struck a deal to pitch his Bedouin tent on the Westchester County lawn of Donald Trump.

The reemergence of Libya, and its vast oil wealth, coincided with an era of nearly unbridled avarice on Wall Street—and nowhere more so than at Goldman Sachs. The same year that Qaddafi established the LIA, Goldman posted the largest profit in Wall Street history. The bank paid employees an average of $622,000, with many times that amount available for bankers who nailed down the biggest deals. A stupendously wealthy petro state desperate to buy into a bull market was a dream client—the kind of "elephant," in Goldman argot, that could make careers.

Kabbaj joined Goldman's London office in 2006. Born to a wealthy Rabat family, he'd attended the elite Lycée Louis-le-Grand in Paris, going on to a degree in engineering at MIT. Goldman hired him after a stint at a Moroccan bank, initially offering Kabbaj a job as one of its "quants"—the math whizzes who devise algorithmic trading strategies behind closed doors. He insisted on a role in sales, convinced he could climb the ladder faster by being close to clients. The only available post was on a team covering Africa—at the time, a backwater within the firm that generated next to no revenue.

Kabbaj was one of the first to realize that to make big money in Africa, Goldman would have to tap Libya, telling a colleague in February 2007 that its wealth fund was "one of our key prospects." He cold-called the LIA and was told that Zarti was due in London soon and would listen to what Kabbaj and his colleagues had to say.

Zarti's background underscored the essential weirdness of doing business in Libya, where there were few private companies and credit cards didn't exist until 2005. Before coming to the LIA, he'd worked at a fund run by OPEC and led a modest tuna-fishing concern. He also happened to be a close friend of Saif Qaddafi, Moammar's son, which in Libya was the best possible qualification for a government job. Zarti favored Italian suits in loud colors, paired with chunky watches from Audemars Piguet, and he was often

Driss Ben-Brahim, Goldman Sachs partner. Illustration: 731

accompanied at meetings by his elegant assistant Sofia Wellesley, the aristocratic granddaughter of the Duke of Wellington, who would make introductions and smooth out Zarti's rough manners. (Zarti declined interview requests sent through a spokesman.)

Zarti and Wellesley were given the VIP treatment when they arrived at Goldman's Fleet Street offices on the afternoon of July 6, 2007, waved past security and escorted onto the trading floor by Kabbaj. The Libyan seemed awed by the cavernous space, clanging with the noise of late-day trading. Zarti kept asking if he could smoke and kept getting told he couldn't. After the tour, he was led into a glass-walled office to meet Goldman partner Driss Ben-Brahim. Tall and charismatic, with dual Austrian and Moroccan citizenship, Ben-Brahim was well-known in the Arab world thanks to reports that he'd been paid a £30 million ($54 million) bonus in 2004. (Goldman denied the story at the time.) Ben-Brahim gave Zarti a sense of Goldman's scale: It had 26,000 employees, $69 billion in revenue, and $9.5 billion in profit. Zarti said, "So if you had a flag, you'd be a country." Pleased, he invited Goldman to come to Libya to talk about whether the LIA should make some small "appetizer" investments—something in the region of $100 million to $200 million.

Soon after, a group of Goldman bankers converged on Tripoli, including Ben-Brahim; Kabbaj and another salesman, Laurent Lalou; and Edward Eisler, a senior trader. On the

Laurent Lalou, Goldman Sachs vice president, salesman. *Illustration: 731*

ground, Libyan officials confiscated a bottle of wine intended as a gift. Alcohol was banned in Qaddafi's Libya, and speed limits didn't really exist, as the bankers learned on a white-knuckle ride into town, their local drivers tearing down the decrepit roads at more than 90 miles an hour. The Goldman delegation stayed at the Corinthia, which, because of its monopoly on business travel, charged upwards of $500 for a basic room. Ben-Brahim said, half-seriously, that Goldman should buy it.

First impressions of the LIA were unpromising. The Al-Fateh Tower seemed like it couldn't possibly be the headquarters of a multibillion-dollar investment fund. The 25-story structure had been built without enough elevators, which meant long waits in a dingy lobby full of cell phone shops. A ring-shaped roof deck was supposed to rotate but didn't. The LIA's floor was a raw construction site with almost no furniture. But such concerns receded when LIA's chief executive officer, Mohammed Layas, an experienced banker, explained the fund's ambitions. Qaddafi himself, who communicated with the LIA through missives transcribed by a man known as "Qaddafi's quill," wanted large, quick returns to support state spending.

"Investment opportunities with this account is [sic] one of the largest I've ever seen," Goldman partner Yusuf Aliredha wrote afterward. "We are all over them." Goldman wanted to strike quickly, as other firms began to notice the giant pot of money in Libya.

The day Goldman arrived, Wellesley noted in an e-mail that "there are private jets blocking Tripoli International."

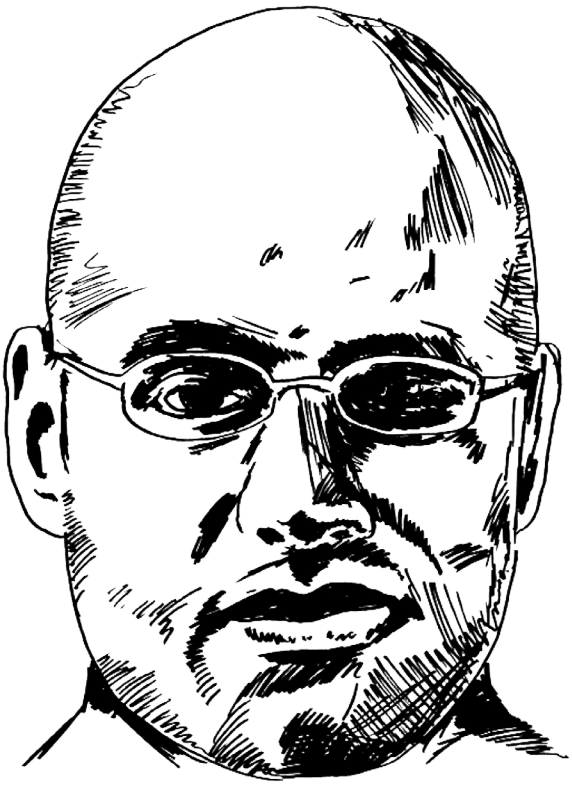
Ben-Brahim was on vacation in the south of France later in July when Zarti got in touch, asking him to meet on a yacht that had just pulled into Cannes from Saint-Tropez. As Ben-Brahim climbed aboard the vessel, he realized that it belonged to Saif Qaddafi, the colonel's heir apparent, who had an international reputation as Libya's reformer-in-chief. After the three men spoke, Ben-Brahim thought there could be even more money in Libya than Goldman realized. The country expected "gigantic" new oil and gas finds, he wrote in a debrief to colleagues, who began to gossip about the bank's exotic new client—including tales, never confirmed, that the yacht meeting featured a cameo by one of Saif's pet white tigers.

Ben-Brahim instructed Kabbaj to "stay a lot in Tripoli. It's important you stay super close to the client on a daily basis. Teach them, train them, dine them." Aliredha agreed. "You need to own this client," he wrote. "This is a once in a career opportunity." Kabbaj traveled to Tripoli four more times before the end of September, becoming such a fixture at the Al-Fateh Tower that he eventually got his own desk. He spent part of his time taking the LIA's junior people "through Finance 1.00," as he put it, using MIT's term for an introductory course. The fund's young staff had been recruited from the Libyan diaspora with help from Monitor, the Massachusetts-based consulting firm, and knew little about complex securities deals. Kabbaj helped stock an in-house library. In addition to dry tomes on asset allocation and pop-economics hits such as The Black Swan, he bought the Libyans a few copies of Liar's Poker, Michael Lewis's seminal tale of bond salesmen screwing over clients. (Amazon.com didn't deliver to Libya, so Kabbaj ordered the books to London and had a colleague lug them to Tripoli.)

Kabbaj also entertained the Libyans when they came to London, expensing a $757 sushi dinner at Nobu and taking them to the Lord of the Rings musical. Lalou took a junior LIA employee to Paris to watch England's rugby team play South Africa. (Goldman says the hospitality was in line with what other banks also provided the fund.) Nothing was too much trouble. One banker, Jaber Jabbour, declared to an LIA employee by e-mail, "You are brothers and friends before clients."

By late September 2007, the LIA was ready to proceed with its first substantial investment with Goldman: $350 million into two funds called Petershill and Mezzanine. Libya had signed a document describing itself as a "market counterparty"—large and sophisticated enough not to need special regulatory protection. Ben-Brahim and Aliredha flew again to Tripoli early in October, chartering a jet from Qaddafi's favorite vendor to give their arrival the necessary gravitas.

It was Ramadan, and the Goldman team joined LIA executives for a traditional



Saif Qaddafi, Moammar's son and heir apparent. *Illustration: 731; Based on photograph by Kason Florio/Corbis/Getty Images*

breaking-the-fast dinner at the Corinthia. Layas, the LIA chief executive, was at the head of the table. The LIA had previously indicated that it was planning to split its business equally among as many as 20 banks, but as they ate, Goldman's executives suggested a more exclusive relationship. They proposed a dedicated team of partners, access to research and training, and the opportunity to join in Goldman's own proprietary investments—a "strategic partnership." Both sides could make money, Ben-Brahim told the group, citing Goldman's long-standing informal motto of being "long-term greedy." The Libyans were receptive. Ben-Brahim and Aliredha flew straight back to London after the meal, leaving Jabbour and Kabbaj behind to discuss Goldman's proposals. They were bleary-eyed, having just pulled an all-nighter preparing a presentation. A suggested first step: "Buy strategic stakes in key undervalued companies."

By January 2008, the Libyans had some companies in mind. The talk at the LIA, Kabbaj learned, was that Qaddafi wanted to emulate the leaders of Qatar, who'd invested in the shares of troubled banks. One target was Citigroup, which Abu Dhabi's sovereign wealth fund had put $7.5 billion into less than two months before. On Jan. 15, Kabbaj texted the head of the LIA's equities team to note that Citi shares were down, creating a buying opportunity: "It is time to do the trade!!!"

The Libyans made two trades later that month, totaling $200 million. But this wasn't a simple purchase of shares—it was a complex derivatives deal, or as Goldman Sachs described it later, "a cash-settled forward purchase agreement for Citigroup shares with downside protection in the form of a put option at the same price as the forward." More simply, if Citi shares rose, as the LIA was betting, the fund stood to gain many times its initial investment. If the shares fell by a certain amount, the fund could lose everything. The structure was potentially more lucrative than a conventional purchase of equity and also significantly riskier—while resulting in far higher profits for Goldman.

Whether the LIA understood it wasn't actually investing in Citi is disputed. Whatever the case, the fund proceeded a few weeks later with another large deal, a similar wager on the French utility EDF Group that cost it almost €120 million (then $175 million) in premiums.

Word was getting around the financial sphere that Goldman had landed an African elephant. Kabbaj discovered that Société Générale was also pursuing megadeals with the LIA. "People are spreading that we made a lot of money with LIA and we screwed them," Kabbaj texted a colleague from Tripoli. "Even though this is of course uncorrect [sic], Pnls [profit and loss figures] have to become super secret."

Kabbaj began spending more time with the Libyans and bought some of them iPods. A few came to London in February for training at Goldman, with the firm covering their hotels and dinners. There, Kabbaj could entertain the Libyans in a capital with incomparably greater diversions than Tripoli. At Zuma, a bankers-and-Bentleys Japanese restaurant in Knightsbridge, he expensed a $1,009 dinner; at The Playroom lounge, he put $1,573 on his corporate card. They went to see *Chicago* and, records indicate, the *Lord of the Rings* musical again.

To help plan the training sessions, one of Kabbaj's colleagues e-mailed to ask about the level of the Libyans' knowledge of derivatives. He responded: "Baaaaaaaasic." In another exchange, Kabbaj's manager, Lalou, told a colleague he'd "just delivered a pitch on structured leveraged loans to someone who lives in the middle of the desert with his camels."

Zarti had goals beyond the greater glory of Libya. He also wanted to help his younger brother, Haitem, learn the banking trade, preferably through an internship at Goldman. Kabbaj wouldn't disappoint his best client.

Kabbaj found it easy to connect with Haitem, who was 25, shy, and soft-spoken—nothing like his intense sibling. Both he and Kabbaj were single and from important North African families. They spent the weekend together in Morocco in late February and then flew business class to Dubai, where Kabbaj had offered to take Haitem to a

Mohammed Layas, LIA chief executive officer. *Illustration: 731; Based on photograph by Bank ABC*

Goldman conference, checking into the five-star Ritz-Carlton, all at the firm's expense.

Just after arriving, Kabbaj used his company BlackBerry to get in touch with a prostitute who went by the name Michella. "Hi darling, do you remember me? Youssef from London," he texted. "Just arrived in dubai. Available tonight, with a friend?" They haggled over price before Kabbaj agreed to pay $300, with one condition: "Your friend has to be as good looking as you." There is no record of what happened next, but the following day, Kabbaj texted Haitem to say he needed a rest: "Going to the hotel. I am dead." A couple of nights later, Kabbaj wrote that he'd stay in, "Getting back to god's way incha allah."

Immediately after returning from Dubai, Haitem sent Kabbaj his résumé, which didn't fit the bank's typical hiring profile. Haitem listed an MBA from the Vienna campus of Webster University, an institution based in St. Louis with branches mostly near U.S. military bases, and his most recent work experience was at a "Video Club" in 2003, where he was "in charge of customer and reservation services."

Ben-Brahim, discussing the possibility of an internship by e-mail with two other partners, said he was "not sure what the best course of action is. We are running the risk of

'upsetting' [Mustafa] Zarti." Yet by April, Goldman was prepared to offer a 6- to 12-week gig to Haitem. The next day, Kabbaj told colleagues he'd spoken with Mustafa about further deals, and that the elder Zarti wanted "to give us something. If we can have him focus, we should be in a good position."

The same month, Kabbaj again spent a weekend with Haitem in Marrakech and flew him to Dubai a second time. Haitem dawdled in committing to the internship. Kabbaj messaged him a few days later, on April 23: "Can you start May 1? June 1? Mustafa wants you to start asap." Haitem indicated June. "OK. How long? Mustafa is killing us," Kabbaj replied. The same day, the elder Zarti gave the go-ahead for Goldman to execute several trades of astonishing size, totaling more than €2.4 billion in notional value. Like the Citi and EDF deals, they were "synthetic"—the LIA wasn't actually buying shares in the companies concerned, in this case Banco Santander, Allianz, Eni, and UniCredit. Kabbaj later called it "one of the biggest orders that GS has ever been given on single names." (Goldman says Haitem's internship had no impact on the trades. Haitem couldn't be reached for comment.)

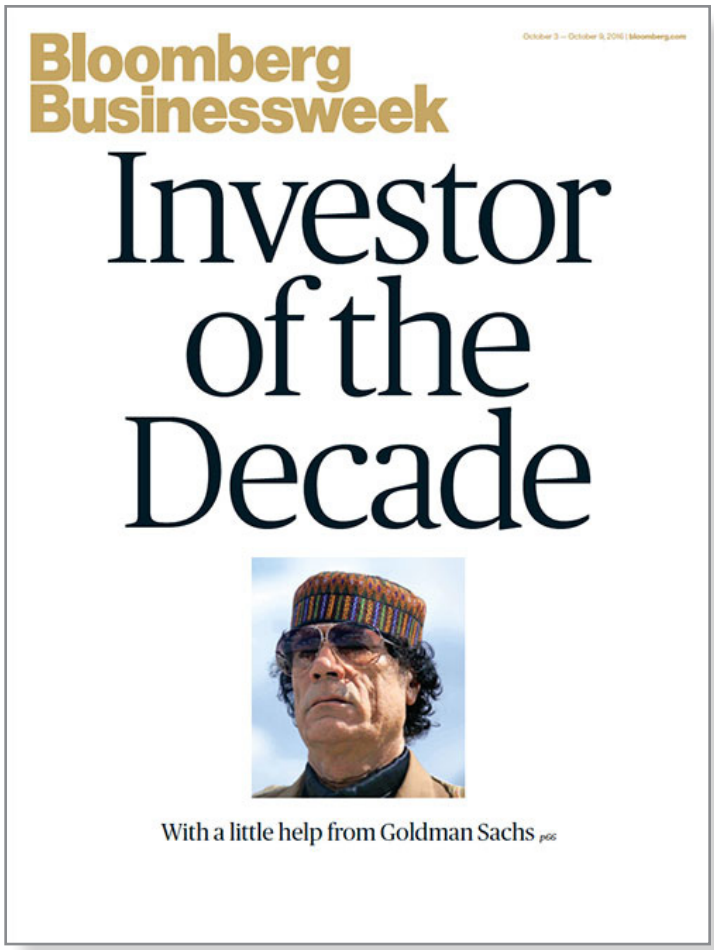
The scale of Goldman's business with Libya was now being noticed at the highest levels. When Chief Executive Officer Lloyd Blankfein "found out how big the p&l [was] on the recent trade he started asking" questions about it, one executive said in an April e-mail. Another internal note later described Kabbaj as perhaps Goldman's top salesman globally. In a text to Kabbaj, Ben-Brahim's verdict was simple: "Bravo Youssef. Well done. You are a hero."

Goldman's downfall in Libya began with the arrival of Catherine McDougall. A cheerful Australian lawyer at London firm Allen & Overy, she was just 26 when she arrived in Tripoli on July 1, 2008, to begin an assignment with the LIA, which was seen as a major potential client. Although McDougall had traveled widely in the Middle East, Libya was a new experience. It seemed frozen in the 1970s: There were no cinemas and barely any shops. Foreigners lived in gated compounds under the watchful eyes of Qaddafi's secret police, who LIA employees warned her had moles at the office. In London she'd bought a copy of *In the Country of Men*, a novel depicting the fearful atmosphere of 1970s Tripoli. When her Libyan counterparts saw it on her desk, they told her to put it away. Qaddafi had banned the book.

McDougall was astonished by how little the LIA's junior employees seemed to know. The legal department's level of competence in dealing with complex legal documentation was "zero," she wrote later in a witness statement. The problem was compounded by rudimentary English and basic paperwork that was missing. She described the setup as like "an advertising company having no TVs."

One of McDougall's tasks was to work with LIA staff on some paperwork for the

Goldman derivatives trades. She was struck by their affection for Kabbaj, whom they considered a friend. One LIA staff member showed McDougall Facebook photos of Kabbaj hanging out with the equity team. They told her stories of expensive nights out in London and Morocco, covered by his Goldman credit card. As she learned more, McDougall began to suspect the LIA team didn't realize they hadn't purchased actual shares. No one understood, she wrote, that if the underlying stocks went the wrong way, "they could lose all their money." She asked to see the due diligence the LIA had performed before committing to the deals. They responded, she wrote, "Due what?"



Featured in Bloomberg Businessweek, Oct. 3-Oct. 9, 2016. *Photograph: Reuters*

Citigroup's share price, meanwhile, had dropped about 40 percent since the start of the year, and analysts were warning of a worldwide credit crisis. McDougall relayed her concerns to Zarti, who also asked her opinion on a currency trade the fund had recently carried out with Goldman. She told him the $50 million the LIA had committed to the deal stood a better chance if she took it to a Monaco casino. Zarti asked Kabbaj to return to Tripoli. Soon, on July 23, 2008, Goldman's phenom was sitting on the 22nd floor of the Al-Fateh Tower, thinking about his $9 million paycheck and wondering why Zarti was keeping him waiting so long.

After Zarti offered to defenestrate Pentreath and disappear Kabbaj, the two bankers hustled into a cab back to the Corinthia. They understood that in Libya, threats that came from a close friend of the Qaddafis weren't to be taken lightly. From his hotel room, Kabbaj called Michael Sherwood, one of Goldman's top London executives, who said the bank would do whatever it took to get them out. Goldman's security team called back, telling Kabbaj it was looking at options for "extraction" and ordering him not to leave the Corinthia. The hotel housed the U.S. embassy and a complement of armed U.S. Marines, not to mention hundreds of foreign witnesses to anything unpleasant that

might occur. The next morning, a Goldman partner called to say the bank's security team was increasingly concerned about their safety. They hustled to the airport and a flight to London.

Seven weeks later: the end of the world. Lehman Brothers filed for bankruptcy in September, and stocks crashed. The full force of the global financial crisis left Libya's derivative bets virtually worthless; when they expired three years later, the LIA had lost $1.2 billion—a total wipeout. Goldman hasn't revealed how much profit it made from the other side of the trades, saying only that the figure was appropriate given the size and risk of the deals. The LIA has said it was more than $200 million.

Kabbaj never got his $9 million. After the confrontation in Tripoli, he was told he'd be fired if he tried to contact the LIA. Sidelined to minor accounts, he took to joking that he'd been put in charge of "Oman and North Korea." When Kabbaj complained, Andrea Vella—a Goldman partner who took charge of the Libya relationship—got so angry he took off his shoe and used it to pound the table, according to Kabbaj's lawyers. (Vella says he doesn't recall the incident.) In November 2008, Kabbaj threatened to sue Goldman for the pay he'd been promised, claiming to fear for his life and blaming Libya for ruining his reputation. Goldman agreed to pay Kabbaj $4.5 million, according to court filings, under two conditions: that he leave the bank and that he keep quiet about the circumstances of his exit. Incredibly, Haitem Zarti outlasted Kabbaj at Goldman. The bank extended his internship six times, to 11 months. (The LIA has said U.S. authorities are investigating the internship. Goldman declined to comment.) Now working at a small financial firm in Dubai, Kabbaj said in a June statement that neither he nor Goldman paid for improper entertainment for LIA employees. "All my expenses relating to LIA have been reimbursed and signed off by at least two Goldman Sachs partners," he said. "I am under a strong confidentiality agreement but I expect Goldman Sachs to correct the facts and protect my reputation."

Qaddafi came to a grisly end. In early 2011, when Arab Spring protests spread from neighboring Tunisia into Libya, he turned on his own people with shocking savagery. As his forces bombed and shot demonstrators, the U.S. and its allies reimposed sanctions and began military action. Assisted by Western airstrikes, rebels captured Tripoli in August, and that October, Qaddafi was dragged from a drainpipe, shot, and killed. Zarti fled to Vienna.

Libya's new leaders started asking questions about the LIA's dealings. Global Witness, an investigative organization funded by billionaire George Soros, published leaked documents in 2011 that showed the dismal performance of the LIA's investments at the end of the Qaddafi era. It had made deals with at least 70 different banks and investment firms, many of them losing money. In 2013, AbdulMagid Breish, the new LIA chairman, asked Deloitte to review the fund's losses, and a U.K. firm, Enyo Law, to look

AbdulMagid Breish, LIA chairman as of 2013. *Illustration: 731; Based on photograph by LIA*

at whether they could recover anything through the courts. The LIA sued Goldman for $1.2 billion in London on Jan. 21, 2014, just before a six-year statute of limitations would have expired. (It later filed a separate suit against Société Générale, which denies wrongdoing.)

The LIA v. *Goldman Sachs* trial began in June 2016 in a bright, modern courthouse just a few hundred yards from the bank's Fleet Street offices. The chaos of post-Qaddafi Libya, which has two rival governments plus an insurgency by Islamic State militants, had its echoes in the courtroom. At the outset of the case, the LIA also had dueling executive teams—one based in Malta and one in Tripoli—and both factions hired their own legal and PR outfits. For now, a court-appointed accounting firm is managing the case on Libya's behalf.

During the trial, the LIA claimed its people never understood they weren't buying shares. They barely understood anything at all, their lawyers argued, and were the victims of Goldman's gifts, slick salesmanship, and misleading marketing materials. Several junior LIA staffers came to London to testify about the extent of their naiveté. One said he'd never heard of Goldman Sachs, or derivatives, before getting a job at the fund.

Goldman argued the LIA was exaggerating its cluelessness. Even if its staff didn't

understand the deals, lawyer Robert Miles said, that's not the bank's problem; the Libyans entered commercial transactions, fair and square. The LIA "understood at all times that Mr. Kabbaj was a salesman, and that his job was to sell investments to the LIA from which [Goldman] could make money," Goldman's lawyers said in closing arguments. The bank's official statement on the lawsuit reads, in part, "We have always disputed the LIA's claim that it was financially illiterate and it is clear that they understood the disputed trades and entered into them of their own volition."

The judge in the case will rule after early October. Why is Goldman allowing such an embarrassing suit to drag on, exposing its internal talk of prostitutes and camels, instead of quietly settling? More than the bank's image is at stake. The LIA is employing a legal concept called "undue influence" that's more commonly used by wives against husbands—it's novel in financial litigation. The idea is that one party to a transaction can have so much power over another that a contract between them isn't valid. If Libya wins, investment banks everywhere will face the risk of lawsuits by clients claiming they were snowed.

Goldman may have made hundreds of millions off Libya, but it's put banking dogma at risk. A bedrock principle of the securities business is that sophisticated investors can look out for themselves and don't have recourse to the courts if they lose their shirts. If a huge sovereign wealth fund can successfully claim it was duped, there's no telling who else can. Ben-Brahim identified the perils of dealing with Libya in an April 2008 e-mail. "These guys are extreme," he wrote a colleague. "If we truly behave as steadfast friends looking after their interests, they will do anything for us. If we ever lose their trust, they are ruthless."

UPDATE: On Oct. 14 in London, Judge Vivien Rose dismissed the LIA's legal claims, ruling that Goldman did not exercise "undue influence" over the fund when it entered the derivatives trades. In her judgement, she largely accepted Goldman's arguments that the Libyans knew, or should have known, what they were getting themselves into. The LIA said that "all options are being considered" to continue pressing its case.