In For A Penny, In For Pound 1.4Bn Britain's Biggest Ever Fraud

In January 2008, times were good for Kweku Adoboli. The financial crisis had yet to bite, and after a rapid rise through the back office of the Swiss banking giant UBS, he had made it on to its London trading floor along with a high-octane lifestyle of graft, six-figure salaries and penthouse parties.

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The Independent | The Interview People

Such was the growing ease of the Ghanaian-born son of a United Nations diplomat in the sharp-elbowed world of City traders that he laughed off the fate of

Jérôme Kerviel, the Frenchman whose disastrous gambles had that month brought Société Générale to the brink of collapse by running up losses of Euro 4.9bn (£3.9bn).

With the financial world buzzing with the news of the hubristic fall of Kerviel and his "off-the-book" trades, Adoboli was emailed by a friend pointing out an article jokingly putting the Frenchman's losses down to the "stress" of what, in macho City terms, was his laughably short 30-hour working week. The reply of Adoboli, then aged 28, was laced with schadenfreude. He wrote: "It brings so much joy, this story. And to think, he does exactly what … I do."

In a subsequent email, the friend cited "interesting parallels" between the lives of the two men before adding: "Please don't let me read about you in the papers in the same fashion. It would destroy my faith in human nature."

That faith was, if not destroyed, then at least seriously dented in the early hours of 15 September last year when Adoboli — who despite earning £360,000 a year was having to make use of payday loans after running up huge debts on online spread betting sites — was arrested for a vast fraud that sent shockwaves through the City and wiped £2.3bn from UBS's share price.

The trader, whose friends and managers had tipped him for the top, had become a gambling addict whose reputation was built on ever- increasing recklessness as he tried to conceal the gap between his image as an unstoppable profit machine and the reality of a man willing to destroy himself — and nearly his bank — to maintain his "star" status.

Yesterday, Adoboli was found guilty of the largest fraud in British history after he gambled away £1.4bn of UBS money and left the bank with a total exposure of £7.5bn.

In the hours before his arrest, he sent his bosses a so-called "bombshell" email admitting to running up huge losses, and apologising for the impending "sh*t storm".

The trader was sentenced yesterday to seven years in jail after a jury at Southwark Crown Court, south London, found him guilty of two charges of fraud after a 10-week trial. Adoboli, 32, who had insisted he was encouraged by his bosses to take risks for a bank and colleagues he considered to be his "family", was cleared of four separate charges of false accounting.

As the trader cried in court, Mr Justice Keith told him: “Whatever the verdict of the jury you would forever have been known as the man responsible for the largest trading loss in British banking history, your fall from grace as a result of these convictions is spectacular. The fact is you are profoundly unselfconscious of your own failings.”

Detective Chief Inspector Perry Stokes, who led the investigation for the City of London Police, described Adoboli as “one of the most sophisticated fraudsters” ever seen in the Square Mile who had hidden behind an outward appearance of diligence.

He said: “Behind this facade lay a trader who was running completely out of control. Rules were being bypassed by a young man who wanted it all and was not willing to wait. When Adoboli’s pyramid of fictitious trades, exceeded trading limits and non-existent hedging, came crashing down the repercussions were felt in financial centres around the world.” Such was the scale of the trader’s losses that the custody sergeant filling in the details of the charges against him had asked how many zeroes there were in a billion. As prosecutors put it, he had been “a gamble or two away from totally destroying Switzerland’s largest bank”. In 2008, prison was the last place that the trader, who within 12 months would see his salary double to £100,000 and his annual bonus rocket six-fold to £95,000, saw himself.

His Father, John Adoboli, Who Attended Each Day Of His Son’s Trial, Said Kweku And His Three Sisters Had Been Schooled Not To Worship Wealth. He Said: “I Brought Them Up To Be God-Fearing.”’

The finance worker was building a reputation as a star trader, swapping a childhood spent in diplomatic circles and an education at a Quaker boarding school for the swagger of the Square Mile. Adoboli, who told his trial that his school had taught him “a lot great values”, did not fit the Square Mile stereotype of the grasping, ego-driven profit hunter. In his own mind, he belonged to a class of urbane technocrats, more excited by the process of shuffling millions of pounds around global capitalism’s chess board than pure gain.

His father, John Adoboli, who attended each day of his son’s trial, said Kweku and his three sisters had been schooled not to worship wealth. He said: “I brought them up to be God-fearing."

After joining UBS from university and serving an apprenticeship in the "back office" of the bank where he obtained an intimate knowledge of its accounting and regulatory procedures, he had been promoted to its "front office" and a post on the Delta One desk dealing in a financial instrument known as exchange-traded funds (ETFs).

Kweku was fascinated by the unceasing energy of the markets where he and his fellow traders were set to work mining profits from the nominal 0.05 per cent transaction fee UBS would charge clients.

From a typical day's trading up to his desk's official $100m (£63m) limit, Adoboli and his colleagues could be expected to make their memployer a minimum of £30,000 profit.

In March 2008, he was appointed an associate director of the ETF desk, a position which would fund a succession of rented flats in east London costing £1,000 a week, as well as a lifestyle that included touring trendy nightspots. But behind the facade of expert knowledge of ETFs — essentially grouped holdings which track different types of equities, bonds or commodities, Adoboli was beginning to adopt the tactics of the very man whose disgrace he had derided months earlier.

Kerviel had sought to conceal unauthorised "off-book" trades by creating fictitious counter-transactions to "hedge" or balance his accounts. The Frenchman was conducting transactions from a secret fund which eventually exceeded the market capitalisation of Société Générale.

In November 2008, Adoboli began to exceed his trading limits and make unhedged investments which he explained away by arbitrarily extending the dates on which his deals were to be settled. He was also accused of concealing his losses by setting up a secret fund to hide his own "off-book" trades, concealing unauthorised deals and generating additional profits which could offset losses.

Adoboli called this mechanism his "umbrella" and by the end of 2010 it contained a surplus of $40m, reflecting the wider success of its operator, who had been promoted to joint director of the Delta One desk with a salary of £100,000 and a bonus of £250,000. But the trader was cleared of false accounting yesterday after he insisted that his fund — and, crucially, its alleged use to bend UBS's rules on trading limits — was known to his bosses, who acquiesced when his desk was successful and then left him holding the can when it all started to go wrong. In a statement last night, UBS said it was “glad” the proceedings had reached a conclusion and thanked police for their handling of the case.

Along with his younger colleague John Hughes, Adoboli found himselfm between 2007 and 2009 in charge of a portfolio worth $50bn. The two men, then in their mid-20s, were, in the words of Adoboli, “two kids trying to work out how to make this work”.

And work it did. In 2010, the Delta One desk earned £5.5m, but by 2011 this had risen to £33m in a single quarter. On one particular day last year, the unit posted a profit of nearly £4m.

Adoboli told his trial that his team was so familiar with the existence of his rainy-day fund that it was referred to as “Rihanna”, whose hits include a song called Umbrella.

By last July, things were starting to go badly wrong for Adoboli and “Rihanna” was turning into a uncontrollable gorgon which by the time of his arrest meant UBS was exposed to a potential loss of $12bn (£7.5bn). One former UBS trader told The Independent: “When compared to the billions that UBS lost in the financial crisis, Kweku’s losses don’t seem that huge. But the damage was different and in many ways more dangerous because it went to the heart of how UBS does its business.

“A single employee who has been so extraordinarily reckless that he’s managed to write off nearly £8bn is appalling. That it happened without the bank noticing is much, much worse. Loss of confidence can have catastrophic consequences in the City and that is what UBS was flirting with.”

Adoboli had built up an immense bank of unhedged and unbooked trades broadly predicting a decline in values on European markets. He told his trial that one of his key mistakes was to cave in to pressure from managers to convert this “bearish” stance to a more “bullish” outlook of improving values.

In a single month, his losses ballooned from £2m to £2bn as he continued to bet vast sums in the doomed belief that eventually the market would turn and he could make good his deficit.

Adoboli told his trial: “I absolutely lost control — I was no longer in control of the decisions around the trades we were doing.”

The trader claimed he held an emergency summit with his colleagues and managers on 12 September last year at a branch of the All Bar One chain close to the UBS offices, to discuss the mounting losses that he was finding it increasingly difficult to explain away. His colleagues, who said the meeting never took place, allegedly told him he should carry the can — a claim which they all denied.

In a text sent to his girlfriend that evening, Adoboli wrote: “I’m a little upset because the boys have sold me down the river.”

In his private life, Adoboli was also losing control. He had become a heavy user of spread-betting websites, devoting hours a week to online gambling which by last summer had cost him £123,000.

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According to prosecutors, the reality was that Adoboli was acting alone and had become greedy and reckless, making vast trades which he then failed to mitigate or hedge with transactions betting in the opposite direction.

Sasha Wass QC, prosecuting, told him: “You played God in that bank, tearing up the rules and doing whatever you wanted. Rules were for other people: that was your attitude.”

During his own, often tearful, testimony, Adoboli insisted that far from being a maverick, he had been merely responding to pressure from his immediate managers right up to the highest levels of the bank to strain every sinew — and where necessary bend rules — to drive its profits and recover a £40bn loss suffered by UBS from its exposure to bad debts in the 2008 financial crisis.

The trader claimed that he and Mr Hughes, who was dismissed by UBS for his own infringements of the bank’s rules, were told at a meeting with two senior managers in March 2011 to take greater risks and that had been endorsed by the company’s chief executive, Oswald Grübel.

Adoboli told his trial: “We were told to push the boundaries, so we pushed the boundaries. We were told you wouldn’t know where the limit of the boundary was until you got a slap on the back of the wrist. We found that boundary, we found the edge, we fell off and I got arrested."

Yesterday a jury decided that Kweku Adoboli should go to prison, not for "falling off the edge" but for an ego-driven splurge motivated by a desire to conceal his errors.

DCI Stokes said: "What is clear from the evidence — he was breaking the rules going back to 2008. He was hiding losses. A lot of the good views of colleagues and managers had of him were based on lies.

"Once he started, he could not stop. He wanted to continue because he wanted to be the star of the bank."