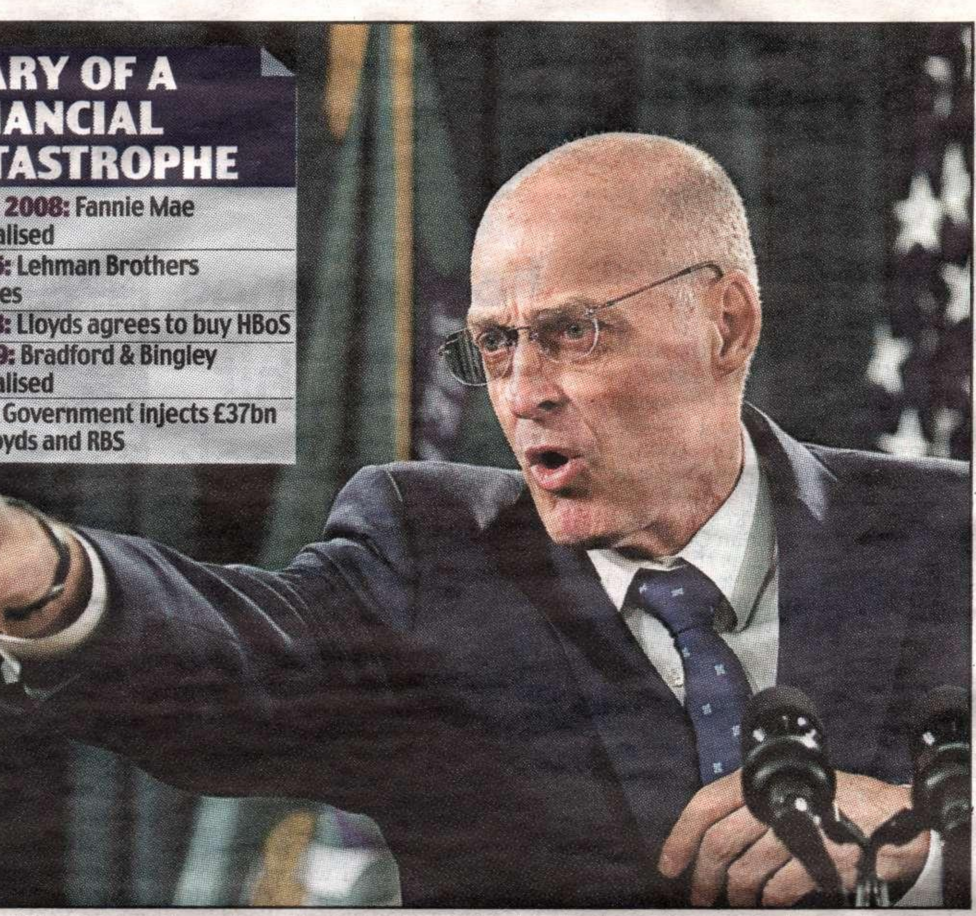
THE CRASH: ONE YEAR ON

LEHMAN BROTHERS

As the anniversary of the climax of the banking crisis approaches, the Daily Mail today launches a series of investigations into events that brought the global financial system to the brink of disaster. Here, BEN LAURANCE examines the collapse of an American banking icon

DIARY OF A FINANCIAL CATASTROPHE

Sept 7, 2008: Fannie Mae nationalised
Sept 15: Lehman Brothers collapses
Sept 18: Lloyds agrees to buy HBoS
Sept 29: Bradford & Bingley nationalised
Oct 12: Government injects £37bn into Lloyds and RBS



Stark message: US Treasury Secretary Hank Paulson who took a hard line on Lehman Brothers

Day the banking world stood still

UNTIL that very weekend, it seemed Lehman Brothers could still be saved. The date was Friday, September 12, 2008.

Thirty of the most powerful figures in the American banking industry were summoned to the headquarters of the US Federal Reserve in New York. They were given a stark and chilling message.

The assembled group was addressed by US Treasury Secretary Hank Paulson and Ben Bernanke, chairman of the Federal Reserve. Merrill Lynch and Lehman Brothers were on the brink of collapse, they said.

No, Washington wouldn't simply bail out the troubled duo; it was only a week since the US government had agreed to rescue the huge mortgage guaranteed group Fannie Mae. So, the banking executives were told, they would have to come up with a plan.

At stake was not only the fate of Merrills and Lehmans, two of the biggest and longest-established names on Wall Street. The future of the entire global banking system was now under threat: the collapse of these two giants would deal a huge blow to confidence.

If a bank as big as Merrills or Lehmans was not good for its debts, could anyone be trusted?

The US bankers gathering at the Fed offices knew that. But they also resented the idea that they should foot the bill for bailing out the two troubled giants.

And surely, if push came to shove, the US government would step in, wouldn't it? Well, wouldn't it?

Would George Bush want to be remembered as the man who presided over financial meltdown?

The following morning, on Saturday, the meeting reconvened. Ken Lewis, head of Bank of America, was by this time emerging as a key figure.

He indicated that Bank of America was interested in taking Merrills under its wing. The idea of buying Lehmans was out of the question. But that Saturday afternoon, the plan for a tie-up with Merrills was starting to crystallise. Detailed negotiations got under way at a Manhattan law firm.

But Lehmans remained unloved. (In large part, that was because no one was really sure of the true state of the bank's finances; the true worth of thousands of esoteric contracts was far from clear.)

With Bank of America having abandoned the notion of a takeover, that left only one other party in the running – Barclays, which was keen to establish a bridgehead in the US. Barclays president Bob Diamond and his colleague Rich Ricci had flown to New York on the Friday at the behest of Paulson.

In London, the Treasury, Financial Services Authority and Bank of England were unanimous in their belief that the Federal Reserve would not allow Lehmans to fail. They had grave reservations about the idea of a Barclays deal.

The three UK authorities – and Barclays – wanted reassurance. They wanted to know the US government would underpin the deal with guarantees. Barclays could not buy Lehmans blind, unsure of the liabilities it might inherit.

ON Sunday, Hank Paulson phoned Alistair Darling. It was late afternoon at the Chancellor's home in his Edinburgh constituency when he took the call. Darling reiterated his conditions for supporting a Barclays deal: the US government must provide some insurance against potential Lehmans losses.

Those conditions wouldn't be met, said Paulson. The Barclays rescue was now dead. Even at this late stage, there was an expectation the US authorities would prevent a Lehmans collapse. But PricewaterhouseCoopers had been put on notice that it might need to handle the insolvency of the bank's British operations.

Some 50 senior Lehmans executives were called to the firm's UK headquarters in Canary Wharf that afternoon to hear that the bank's fate now seemed sealed.

At 2am on Monday, September 15 came the official announcement: 158 years after it was founded, Lehman Brothers was filing for bankruptcy.

It was a seismic event – not just for Lehmans and Wall Street, but for the global financial system.

Within days, Halifax Bank of Scotland had fallen into the arms of Lloyds; within a fortnight, Bradford & Bingley was nationalised; within a month, the British government had propped up Lloyds and Royal Bank of Scotland with an unprecedented £37bn of state aid. Worldwide, banks were in crisis.

Breezy forecast for offshore wind

By **Sam Fleming**

IS there a long-term future for Britain's offshore oil industry? The answer is blowing in the wind – at least if energy explorer Ramco is to be believed.

The oil and gas firm is planning to sell off its hydrocarbon business and focus solely on the nascent offshore wind industry, renaming itself SeaEnergy.

Unprofitable Ramco has secured £7.5m of backing from investors Lanstead, which will become a 22pc shareholder in the group.

Founder and executive chairman Stephen Remp claimed there are good opportunities across British industry in wind turbines – even though most of the manufacturing is located in countries such as Germany, Denmark and China.

In particular, yards that used to specialise in building North Sea oil platforms could be started up again, focusing on the infrastructure that supports giant offshore turbines. He pointed to Burntisland Fabrications in Fife, which was involved in the Beatrice wind farm demonstration project.

'There is the opportunity to revisit these mothballed sites,' said Remp. 'North Sea oil is in its mature phase, but all of a sudden you have a new industry.'

In the 1990s Ramco grew rapidly thanks to its Caspian Sea oil interests, and more recently it has been trying to grab a toehold in the Iraqi industry.

But the firm's shares are just a fraction of levels at the turn of the decade. Ramco recorded a pretax loss of £2.5m in the half year ended June 30, compared with a loss of £1.2m in the same period last year. The stock fell 1.5p to 52.5p.

Ramco now wants to capitalise on the government incentives being offered to firms specialising in clean energy. The Aberdeen firm has already secured 456megawatts of offshore wind farm acreage alongside utility partners.

Offshore farms produce more reliable power because the wind is less intermittent, and they allow firms to avoid getting entangled in the country's labyrinthine planning regulations.

But they are notoriously expensive, and large firms including BP and Royal Dutch Shell have pulled out of the sector.

'The offshore wind opportunity is truly enormous, with over £130bn of investment envisaged over the next 11 years through the Scottish and UK Offshore Rounds,' said Remp.

Wind farms: Ramco Energy is betting its future on the technology

Shell prepares to wield the axe

ROYAL Dutch Shell managers are beginning the grim task of telling staff where job cuts will fall as chief executive Peter Voser wields the axe.

A report on company protest site royaldutchshellplc.com said about 15pc of jobs in the exploration and production unit will be lost and employees will be told early this week.

However, there is doubt over that figure as reductions have not been finalised yet. Shell declined to comment.

Voser has said thousands of positions will go as he slims down the oil leviathan in a plan called Transi tion 2009.

In an email to staff last month he said: 'We continue to operate in a challenging environment. That reinforces the urgency for us to step up our cost reduction efforts.'

The 'A' shares rose 18p to 1,703p.

Panmure could face legal action

STOCKBROKER Panmure Gordon is being threatened with legal action following a decision to sell off a 44pc stake to Qatari investment bank QInvest.

Multi-millionaire Bertrand des Pallieres is considering court action after his counterbid for the Panmure stake failed.

Des Pallieres and Italian deal-maker Alessandro Benedetti tried to buy a stake in Panmure in May through their hedge fund SPQR. But the stockbroker opted for a deal with QInvest instead.

Panmure (up 0.63p at 35.37p) said its solicitors 'have received notification of a potential claim' by the duo. The stockbroker said it would 'vigorously' defend any proceedings, adding that 'the company and its legal advisers are extremely confident that its conduct in relation to the failed investment was entirely proper'.

Myners cool on 'hurried' EU rules

CITY minister Lord Myners urged lawmakers in Brussels to conduct an 'impact assessment' before introducing EU rules to regulate London's controversial hedge fund and private equity markets.

Some of Britain's biggest hedge fund companies have already warned they will quit the country unless the European Commission's draft directive on 'Alternative Investment Fund Managers' is drastically revised.

Following talks with Euro-MEP's Myners said: 'This is a directive which has been produced in a hurry.'

London is the main marketplace for hedge funds, private equity and venture capital, with about 80pc of European hedge funds and 60pc of buyout funds located in the City.

UK-Swiss treaty on tax transparency

THE UK has signed a treaty with Switzerland which will provide HM Revenue & Customs with greater access to secret offshore bank accounts. It is the latest in a series of agreements to make tax havens more transparent.

The Swiss government has already agreed to share bank account data with France, and has promised to sign 12 new tax treaties by the end of this year in order to be removed from an Organisation for Cooperation and Economic Development 'grey list' of tax havens.

G20 nations have been trying to sweep away banking secrecy and crack down on tax avoidance.

Liechtenstein signed a deal with the UK on bank accounts last month.