The Fortis Saga

On 6 August 2007 the Belgian-Dutch banking and insurance group Fortis held an extraordinary shareholders' meeting in which enthusiastically and by more than 95% of the votes the bid was approved that Fortis had made – together with the British Royal Bank of Scotland and the Spanish Banco Santander – for the Dutch ABN AMRO Bank. The bid was for 71 billion euro, the Fortis part being 24 billion euro for which it would acquire the Dutch branch of the worldwide operating ABN AMRO Bank. That day Fortis shares closed at 28.05 euro at the Brussels and Amsterdam stock exchanges.

On 1 December 2008 Fortis held another extraordinary shareholders' meeting in the Netherlands and the next day in Belgium. This time the board had to account to the furious shareholders for the catastrophic dismantling of the group which had taken place in the space of a few weeks as a direct consequence of Fortis having paid far too much for ABN AMRO. In early October 2008 Fortis had been forced to offload all its banking activities as well as its Belgian and Dutch insurance activities, with only the international insurance business outside these two countries plus a portfolio of American toxic assets remaining in the holding company. On 1 December 2008 Fortis shares quoted 0.69 euro on the stock exchanges. More than 97% of the shareholder value had evaporated.

In 2007 everything still seemed to be going well. In October of that year Fortis paid the €24 billion, having succeeded in increasing its capital by €13.4 billion by means of a rights issue. The share price was then around €23. Several billion euros had also been raised through other channels to finance the acquisition, and in November the Chinese insurance group Ping An acquired a stake of more than 4% in Fortis' equity. In all its public statements Fortis expressed the fullest confidence in its financial health. At the shareholders' meeting on 29 April 2008, Chief Financial Officer Gilbert Mittler explained that, '*barring unforeseen circumstances*', the intention was to distribute an interim dividend in September, as in 2007.

But then, on 26 June 2008, Fortis announced a number of measures designed to '*accelerate the implementation of the solvency plan*', including a share issue of €1.5 billion and the cancellation of the September interim dividend. These announcements shook confidence in Fortis shares, heralding the demise of a concern which had been created in 1990 by a merger of Belgian and Dutch insurance companies. Through its acquisition in the 1990s of the Belgian banks ASLK and Generale Bank and of MeesPierson Bank in the Netherlands Fortis had grown into a major banking and insurance concern. But institutional investors who had subscribed in October 2007 when the share price stood at €23 were no longer willing to do so now at €12.50. The share price slumped to 10 euros. By now, Fortis was worth just €22 billion, less than it had paid for ABN AMRO.

Not less than 15% of Fortis shares are held by Belgian private investors, for many of whom this represents a large proportion of their assets since they have very few investments elsewhere. The cancellation of the interim dividend hit them very hard and landed some of them in personal difficulties. On 11 July, CEO Jean-Paul Votron was forced to step down.

As the international credit crisis spread further in August and September 2008, triggering the failure of the major US bank Lehman Brothers, share prices fell worldwide. Fortis shares were no exception: on 25 September 2008 the share price fell to €6.55. On that day the Belgian regulator, the Banking, Finance and Insurance Commission, advised Maurice Lippens, chairman of the Fortis board, to seek support from a strong partner. Despite this, next day Fortis issued a press release stating that its liquidity was adequate, that only a limited number of clients were pulling out of the business and that the solvency position was solid. On the following day the shares closed down more than 20%, at €5.18. Major institutional clients and banks from Asia and Russia withdrew their money *en masse*. The result was an acute lack of liquidity and a serious threat of bankruptcy.

During the weekend of 27 and 28 September the governments of Belgium, the Netherlands and Luxembourg decided to take over. Each of them took a 49% stake in the Fortis businesses in their own coun-

try. Belgium put up €4.7 billion, the Netherlands 4 billion (which in the end was not paid) and Luxembourg 2.5 billion: a total of €11.2 billion. The Dutch contribution excluded ABN AMRO. The expectation was that this would restore confidence in Fortis. Maurice Lippens was forced to resign.

But confidence was not restored. Fortis was no longer able to raise money on the wholesale market to finance its own operations. The following weekend, the Fortis board was completely excluded from events and it was the Belgian and Dutch governments who decided what was going to happen. The Fortis group was broken up. All the Dutch components, this time including ABN AMRO, were nationalised by the Dutch government at a cost of €16.8 billion (instead of the unpaid 4 billion for a 49% stake): 12.8 million for the banking activities and 4 billion for the insurance business. During this process, Dutch Finance Minister Wouter Bos managed to call down the wrath of the Belgian public on his head by declaring publicly, and with some arrogance, that by taking this step he had rescued the healthy Dutch part of the Fortis operation and at the same time provided Belgium with the means to solve Fortis' problems in Belgium. ABN AMRO was to be amalgamated with Fortis Bank Netherlands and would in due course be re-privatised.

The Belgian state nationalised the other half of the Belgian Fortis for a further €4.7 billion. The Belgian government then reached an agreement with the French bank BNP Paribas: the latter would acquire a 75% stake in Fortis' Belgian banking operations, with the state retaining 25%; the Belgian state would also receive an 11% stake in BNP Paribas. As part of the agreement BNP Paribas also managed to negotiate the right to buy the insurance operation Fortis Assurance Belgium in its entirety for 5.73 billion in cash, despite the fact that it was a financially healthy business and of absolutely no significance for Fortis' continued existence. However, Fortis had no option but to accept.

The final word has yet to be written on the outcome of those decisions, however. For example, at the behest of the Dutch Association of Investors the Dutch Enterprise Chamber (*Ondernemingskamer*), the special judicial body that deals with cases of this kind, has instigated an investigation into the policy pursued by Fortis in 2007 and 2008, albeit without declaring its decisions invalid. And in mid-December 2008 the Court of Appeal in Brussels ruled in a case brought by a group of Belgian shareholders that the sale of Fortis to BNP Paribas must first be submitted to a shareholders' meeting in Belgium. The Belgian government then lodged an appeal against this ruling, a procedure which is likely to take months and prolong the uncertainty. But in the meantime the Fortis affair had already led to the fall of the Leterme government in Belgium, which had supposedly become too involved in the legal processes concerning Fortis and so infringed the principle of the division of powers.

Following the decision of the Court of Appeal, implementation of the agreement with BNP Paribas had to be suspended until it had been approved by a shareholders' meeting to be held on 11 February 2009. Meanwhile, at the end of January the Belgian state conciliated shareholders by reaching an agreement with the board of Fortis and BNP Paribas under which Fortis would retain 90% of Fortis Assurance Belgium. BNP Paribas would acquire 10% for €550 million instead of the whole company for €5.7 billion. In this way Fortis would remain a major Belgian insurance company with subsidiaries in a number of countries. Belgium will also take over €3 billion of toxic assets from the Fortis holding company. But that holding company has now been stripped of all its banking business.

But by the narrowest of majorities (50.3%) the highly emotional shareholders' meeting on 11 February rejected this agreement, thus facing Fortis with a new period of uncertainty. But on March 7 the Belgian government, Fortis Holding and BNP Paribas reached a new agreement. Fortis Bank would be 75% owned by BNP Paribas and 25 % by the Belgian government. Fortis Holding will sell 25% of Fortis Assurance Belgique to Fortis Bank. This agreement was to be subject to the approval of the shareholders at a shareholders' meeting to be held on 8 and 9 April.

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