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Shareholders reject Fortis deal

Revolt against $20 billion sale to BNP forces Belgian government back to the bargaining table

BY JOHN W. MILLER

BRUSSELS—Shareholders of Belgian bank **Fortis** NV narrowly rejected a proposed $20 billion sale to **BNP Paribas** SA after a confrontation with board members—a rare popular revolt against the wave of government bank bailouts sweeping the globe.

The vote forces the Belgian government, which took control of Fortis in October to save it from bankruptcy, back to the bargaining table. The takeover has been controversial in Belgium, where Fortis is widely held by ordinary citizens, leading to the ouster of Prime Minister Yves Leterme in December.

The Belgian backlash is a vivid illustration of the eroded stakes left for shareholders as governments around the world pour money into battered financial institutions. While such moves typically dilute the holdings of existing investors, few have railed against the infusions because the alternatives seem even worse. Nationalization, for example, wipes out shareholders.

The tightening vise was evident when Barclays PLC shareholders grudgingly approved a $10.4 billion capital-raising plan from Middle East investors in November. The move heavily diluted Barclays shareholders but staved off a U.K. government takeover.

At Bank of America Corp., some shareholders are irate that executives didn't disclose Merrill Lynch & Co.'s deepening woes before the deal was approved in December in separate votes. Instead, Bank of America executives secretly hammered out an agreement in which the U.S. government agreed to pump an additional $20 billion into the Charlotte, N.C., bank as an inducement to go through with the Merrill deal. The infusion made the bank one of the two biggest beneficiaries of U.S. federal aid.

At Fortis, Wednesday's shareholder vote leaves Belgium with three options, say analysts: Let Fortis fend for itself, inject more cash or nationalize, or renegotiate a deal with the Dutch government and BNP Paribas with a better payoff for shareholders.

The first option is unlikely. On its own, Fortis has too much debt. A nationalization would be a risky move but it might be the Belgian government's only choice after failing twice to do a deal.

BNP Paribas has said it would drop its bid if shareholders voted no. It said in a

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Holders block the sale of Fortis

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statement Wednesday that while the original offer it made in October would remain legally binding until Feb. 28, a revised bid it made in January would not.

A no vote meant a threat of "bankruptcy, which will leave the shareholders empty-handed", Chief Executive Jan-Michiel Hessels said before the vote.

"Savers and staff should have no worries," Belgian Prime Minister Herman Van Rompuy said in Berlin, according to wire reports. Technically, the state still owns Fortis Bank, he pointed out.

The final ballot margin was less than a percentage point. That suggests that China's **Ping An Insurance (Group)** Co., the company's biggest shareholder, acted as the swing vote. Ping An, which holds a 5% stake in Fortis, said it planned to vote against the sale, the latest in a series of activist moves by Chinese companies holding shares in Western banks.

The deal, brokered last fall by the Belgian, Dutch and Luxembourg governments, involved selling the Dutch assets to the Netherlands and the Belgian assets to BNP Paribas for $20 billion in cash and stock. The agreement also created a holding company to absorb the bank's toxic assets.

In Wednesday's vote, shareholders also voted against the sale of assets to the Dutch government, setting up a battle in European courts over the fact that the Netherlands didn't give shareholders a vote.

The October deal priced Fortis shares at €1 ($1.29) apiece, well below the €14 at which the shares were changing hands a year ago. It left shareholders with an impoverished holding company—a small international insurance business, cash and nonperforming assets.

Shareholders rebelled. In December, a Belgian court ordered a special vote. An investigative judge alleged Mr. Leterme used backdoor channels to influence a judge. The ensuing public pressure led him to resign.

Last month, the Belgian government renegotiated the deal to allow Fortis to retain stakes in the Belgian banking and insurance businesses.

It wasn't enough. On Wednesday, a parade of shareholders and their representatives denounced the Belgian government and the board of Fortis. "No, no and no," said Mischael Modrikamen, a lawyer for 2,300 shareholders. "No because it's courageous, and no because we want a better deal." Mr. Modrikamen has said that shares should be worth at least €7 each.

"The Belgian and Dutch governments need to figure this out," says Georg Krijgh, an analyst with Rabobank in Amsterdam. "For BNP it was a nice deal because it would have been good for their solvency." He adds, "in the long term it might be good for the Fortis share price, but in the short term, a lot of people don't like the uncertainty."

The Fortis shareholders meeting nearly monopolized Belgium's attention Wednesday, reflecting the firm's deep ties throughout society here. Fortis has 500,000 individual shareholders; a great many live in this country of 10.5 million.

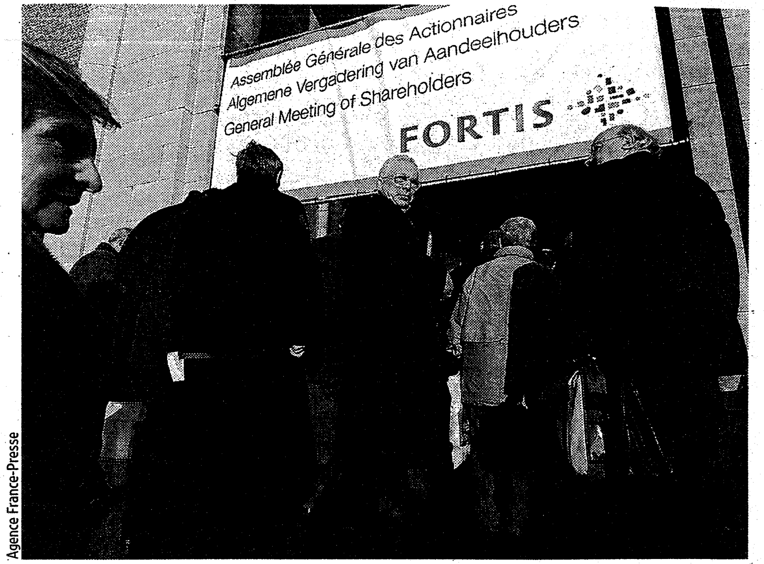
Schoolteachers brought their classes to the vote. "This is a major, historical event," says France Michaux, a teacher of history at Bracops-Lambert, a Brussels high school. She came with 13 economics students.

Thousands took the day off to crowd the Heysel complex in north Brussels, built for the 1958 World's Fair. Organizers had expected 3,000 shareholders. Over 7,000 showed up, Fortis said, the biggest assembly ever. They represented 23% of the 2.3 billion shares outstanding, said Fortis officials.

There were so many people that organizers set up two overflow viewing halls. At 11 a.m., they began pouring free coffee, juice and wine.

Raymond Cappart, 71 years old, chugged down a glass of red. "My wife told me not to drink, but I'm 70, and I'm not American," he says. "I'm mad."

Mr Cappart, a retired bank employee, says he has lost most of the €150,000 he invested in Fortis in the



Agence France-Presse

About 7,000 shareholders, more than twice as many as expected, attended a meeting Wednesday to vote on the sale of Fortis NV.

1990s, after he retired. "Why in Belgium can't the government be upfront and not dishonest?" he asked.

At noon, organizers rolled out thousands of cheese, tuna and crab sandwiches. "We had couscous at the last general assembly," says Laurent Bosquet. The 28-year-old invested €12,000 in Fortis last summer.

Mr. Bosquet says he wasn't worried that rejecting BNP Paribas would wipe out Fortis. "The share's worth around one euro now, so what's to lose?" he asked.

The shareholders would prevail, he added. "Yes we can," he said in English.

Shareholder Bruno Van Joen said he didn't know how he would vote when he showed up in the morning. "I want to hear all the arguments," he said. "The future of the country could be at stake here, not just my money."

By the afternoon, he had made up his mind. "No, definitely no," he said. "The government did not handle this well."

—David Enrich in New York and David Gauthier-Villars in Paris contributed to this article.