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KBC considers shift in strategy

By Stanley Pignal and Nikki Tait in Brussels

Published: June 2 2011 05:10 | Last updated: June 2 2011 05:10

KBC, the Belgian financial group, on Wednesday said it was considering wholesale changes to its post-crisis strategy amid press reports of a large capital-raising and a possible shelving of plans to float its Czech business.

KBC joins its Belgian rival Dexia, also the beneficiary of a large bail-out during the financial crisis, in seeking to renegotiate commitments made with European regulators to mitigate the distortions in competition caused by state intervention.

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The group responded to an article in De Tijd, the Belgian daily, that detailed a new strategy for KBC, including the early repayment of state aid by the end of 2011, a €2bn (\$2.9bn) capital raising in spring 2012, and a divestment of its Polish units Kredyt Bank and Warta.

The latter move could be in lieu of a planned flotation of part of its CSOB, its Czech operation, which was originally mooted for the first half of this year but has been delayed by concerns about market conditions.

KBC said any changes in strategy would respect the main **commitments it made to the European Commission in November 2009** to slim down its balance sheet by nearly a fifth and significantly reduce its risk profile.

It declined to confirm the various elements detailed by the paper but confirmed it was "currently proactively examining what the added value of certain changes to its strategic plan could be".

The reduction in the size of the balance sheet and risk-weighted assets imposed by Brussels was designed to address potential distortions in competition resulting from the €7bn bail-out KBC received from Belgian authorities during the downturn.

The imposed restructuring was less drastic than at other bailed out banks partly because the Commission acknowledged the high quality of the units being divested by KBC and the high price it is paying for the state credit line – two elements that could be part of the re-evaluation of the existing strategy.

An early repayment of state aid could result in a smaller bill for KBC, but also lower the returns made by the state in exchange for putting forward the money – an element that could be met by opposition from the Commission.

KBC is the latest to join the list of banks that received government assistance as a result of the financial crisis but are now trying to change the terms on which it was approved under EU state aid rules. In general, competition officials in Brussels are reviewing these situations on a case-by-case basis, but there is substantial resistance to easing the conditions unless this can be fully justified. Another recent case involved **Dexia, which recently sought to accelerate asset disposals**.

The Commission said only that it was monitoring both the KBC and Dexia situations and was in contact with the governments in the two cases.

Albert Ploegh, analyst at ING, said the fresh capital would raise the bank's core tier one ratio, a measure of capital strength, to near 10 per cent by 2013, compared with a forecast of just under 8 per cent.

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