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KBC Bank and Insurance Holding Company (KBC) (C)

In May 2012, Johan Thijs took over as CEO of KBC Group. Despite major restructuring in the previous three years, the bank was still in a precarious position. The stock was trading at €11, down from a high of €106, giving the Group a market value of €4 billion. The bank had received capital support from the Belgian federal government and the Flemish state government for a total amount of €7 billion and still had to repay these loans, which could total €14 billion with all the penalties included. The eurozone was still in deep crisis and the Belgian economy was not growing at all. Customer trust in banks was at an all-time low and employee morale in the bank was low. Johan was now in the driving seat and the responsibility for turning around the fortunes of the whole Group was on his shoulders.

Taking action

One of Johan's first actions was to approach the Chairman of KBC and tell him they should write down €1.4 billion of assets in the balance sheet relating to the legacy businesses with immediate effect, as their current value was no longer what was being carried in the accounts. The Chairman was concerned as this would put the Group in a negative position by showing a loss in the income statement with the subsequent reduction in net income. Johan's logic was that it was better to take the hit quickly and then focus on KBC's recovery. He knew that the underlying business in the main or core countries in which KBC operated was very profitable. This profitability wasn't apparent, however, as every quarter an incident would occur in one of the legacy businesses, such as impairment loans in Russia or Serbia. This had been going on for a couple of years and completely blurred good results. This was detrimental to KBC overall as investors shied away from such volatility.

The EU was also pressing for action, despite the bad market. Taking the write-down now would be better and cleaner. Johan knew he needed to do something that quickly removed this volatility and repaired the reputation of the Group. He wanted the markets to be confident of KBC and build trust with the shareholders. (See **Exhibit 1** for the breakdown of shareholders in 2012.)

To rebuild trust, Johan had to drive KBC's share price up. Everybody's concern was that KBC's capital ratio would drop from its bad position to a worse one. Johan convinced them,

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