STANDARD & POOR'S RATINGS SERVICES

RatingsDirect®

KBC Bank N.V.

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KBC Bank N.V.

SACP	bbb+
Anchor	bbb+	
Business Position	Strong	+1
Capital and Earnings	Moderate	-1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

+

Support	+1
GRE Support	0
Group Support	0
Sovereign Support	+1

+

Additional Factors	0

Issuer Credit Rating
A-/Stable/A-2

Major Rating Factors

Strengths:

- Leading and stable market positions in Belgium and the Czech Republic.
- Successful bankinsurance model in key core markets.
- High systemic importance in the Belgian banking system.

Weaknesses:

- Constrained capital due to expected government hybrid reimbursement.
- Exposure to high economic risk in Central and Eastern Europe and Ireland.
- Exposure to legacy market risk.

Outlook: Stable

Standard & Poor's Ratings Services' outlook on Belgium-based KBC Bank N.V. (KBC Bank) is stable, reflecting our view that the bank's capital will strengthen due to sales of noncore assets and lower nonrecurring costs. Accordingly, we expect the risk-adjusted capital (RAC) ratio of KBC Group N.V. (KBC Group, BBB+/Stable/A-2) to remain within the moderate range of 5%-7% for the next eighteen months. We also believe that weakening economic conditions will have only a moderate impact on KBC bank, as action in recent years to reduce exposure to riskier products and countries has made the bank more resilient. In addition, we already factor into our ratings on KBC Bank a higher level of economic risk than for its domestic peers.

An acceleration of worsening economic conditions could hurt earnings and weaken KBC Bank's stand-alone credit profile (SACP). However, this would not necessarily lead to a downgrade of the bank, if we were to see increased government support.

We would lower the ratings on KBC Bank in the event of a sovereign downgrade and if the bank's capital or asset quality were to decline materially below our expectations.

An upgrade is unlikely because it would require a material strengthening of KBC Group's core capital base such that the RAC ratio rose to 7%-10%. We believe that a structural increase in the RAC ratio to such levels is unlikely in the next 18 months given the weight of reimbursing government hybrid instruments.

Rationale

We base our ratings on KBC Bank on our analysis of the consolidated creditworthiness of KBC Group, which controls 100% of the bank, and KBC Insurance N.V. (A-/Stable/--), given the very high integration between the group's banking and insurance operations.

We believe KBC Bank has a "strong" business position as defined in our criteria, reflecting its leading position within the Belgian and Czech markets, where its business lines have market shares of close to 20%. The group's capital and earnings positions are "moderate", in our view, and will remain so for the next two years given the financial constraints of reimbursing about €5.7 billion in government hybrid debt by end 2013 (including estimated coupons and penalties). We consider the group's risk position to be "adequate" as actions taken over the past three years to reduce risk offsets a still large exposure to legacy market risk. Our view that the bank's funding is "average" and its liquidity "adequate" reflects its large and stable retail base combined with a sizable liquidity portfolio that amply covers wholesale funding maturities.

Anchor: 'bbb+' based on weighted average of economic risk related to the countries where the bank operates

Chart 1

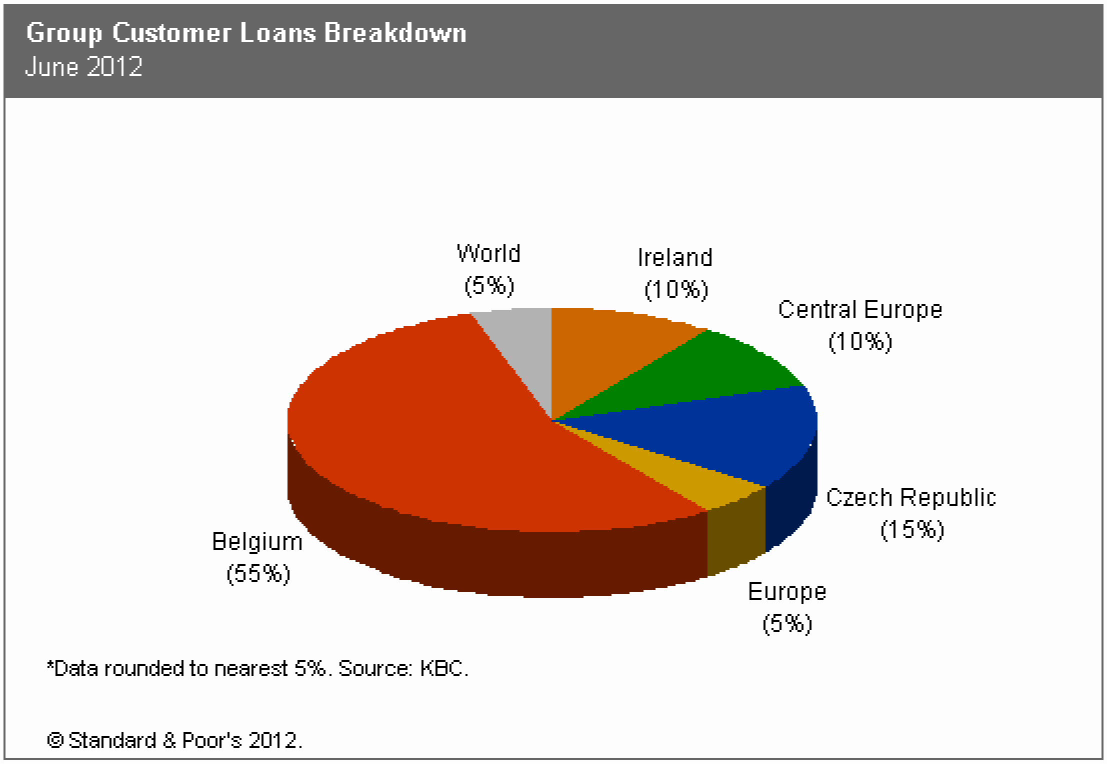
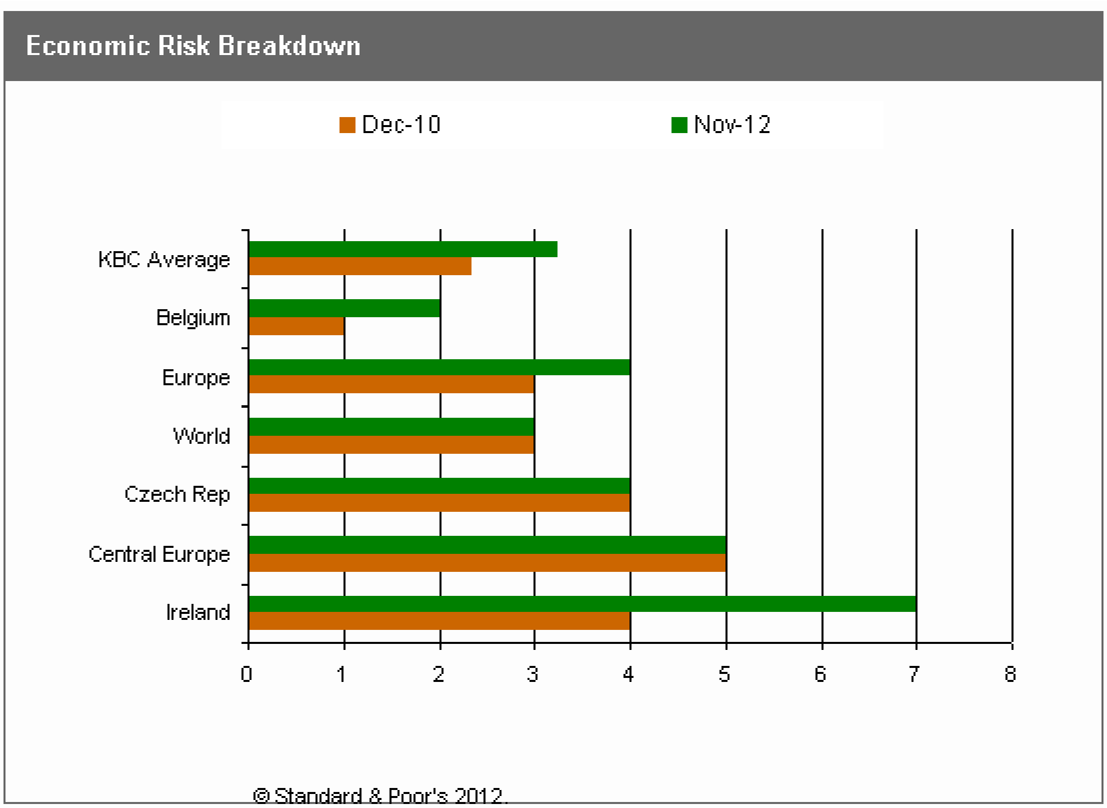


Chart 2



KBC Bank's 'bbb+' anchor reflects the blended Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores of the countries where the bank operates. Given KBC Bank's presence outside Belgium in higher economic risk countries in Central and Eastern Europe (CEE) and in Ireland, the weighted economic risk is close to '3'. The BICRA score for Belgium reflects our evaluation that there is a "low" level of economic risk; we view Belgium as a wealthy, highly diverse, and export-oriented economy, even if a fractious political environment and high sovereign debt constrains its resilience. Expected stable nominal housing prices, lower-than-peer-countries private sector leverage at about 92%, and a stable private sector debt trend sustains our view that economic imbalances and credit risk in the economy are of low risk to the banking system. Industry risk is "intermediate," as Belgian banks' strong domestic funding positions and stable domestic market shares are counterbalanced by the funding needs of foreign subsidiaries and their own large securities portfolios. We consider such securities portfolios to include potentially risky assets that are a legacy of past expansion. Regulatory standards are in line with those of Western European peers.

Table 1

KBC Group N.V. Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	**2012***	**2011**	**2010**	**2009**	**2008**
Adjusted assets	257,962.0	275,832.0	311,238.0	312,958.0	344,503.0
Customer loans (gross)	133,194.0	144,987.0	149,693.0	154,292.0	159,971.0
Adjusted common equity	7,997.0	6,954.0	7,791.0	5,905.0	8,236.0
Operating revenues	5,976.0	7,224.0	8,276.0	5,381.0	4,581.0
Noninterest expenses	3,167.0	4,344.0	4,436.0	5,251.0	5,515.0
Core earnings	1,344.4	292.5	2,275.0	(1,539.0)	(1,127.0)

*Data as of Sept. 30.

Business position: Leading bank and insurance franchise in Belgium and the Czech Republic

Our assessment of KBC Group's business position as "strong" reflects its high market shares and a successful integrated bankinsurance model that provides a competitive advantage and earnings diversity. KBC Bank's long-term presence in CEE provides profitable geographic diversity, consistently providing about 25% of group earnings. KBC Bank is a market leader in the richer and more populous Flemish part of Belgium and has a domestic market share of about 21% in terms of retail credit and deposits. Ceskoslovenská obchodní banka (unrated) is a leading domestic player in the Czech Republic, with a 23% market share in terms of loans and deposits.

KBC Insurance is highly integrated, bank channels accounting for the majority of total sales. This enables levels of efficiency, such that the insurer has a combined ratio of 92% and a dominant share of profitable unit-linked life policies. KBC Insurance consistently contributes about 25% of KBC Group profits. As such, the group has higher efficiency than its peers.

We view KBC Group's strategy as a relative weakness compared with that of peers. The group's focus on deleveraging to reimburse government capital support compels the group to sell assets in difficult markets. We will closely monitor the evolution of the group's business position in light of its recently announced strategic focus on core markets and products.

Table 2

KBC Group N.V. Business Position					
	--Year-ended Dec. 31--				
(%)	**2012***	**2011**	**2010**	**2009**	**2008**
Loan market share in country of domicile	21.0	21.0	23.0	23.0	22.0
Deposit market share in country of domicile	19.0	19.0	18.0	18.0	19.0
Total revenues from business line (currency in millions)	6,359.0	6,833.0	8,284.0	5,031.0	3,908.0
Commercial & retail banking/total revenues from business line	92.4	94.8	87.3	151.2	187.0
Trading and sales income/total revenues from business line	5.9	(2.6)	(0.9)	(68.6)	(89.1)
Insurance activities/total revenues from business line	1.7	7.8	4.2	7.1	3.8
Other revenues/total revenues from business line	N/A	0.0	9.4	10.3	(1.8)
Investment banking/total revenues from business line	5.9	(2.6)	(0.9)	(68.6)	(89.1)
Return on equity	4.9	0.1	17.9	(24.2)	(17.9)

*Data as of Sept. 30. N/A--Not applicable.

Capital and earnings: Capital strengthening offset by reimbursement of government hybrids

We view KBC Bank's capital and earnings as "moderate." We compute the RAC ratio at group level because we consider that KBC Group will remain an integrated bankinsurance group in the near future, and because it manages capital allocation on a consolidated basis. We believe that KBC Group's RAC ratio, before diversification adjustments, will increase to above 6% by the end of 2013 compared with 4.9% at the end of 2011.

The forecast RAC ratio takes into account the reimbursement of about €5.7 billion in government hybrids between end 2012 and the end of 2013 including coupons and penalties. We expect risk-weighted assets to decline as a result of sales of assets, notably Polish bank Kredyt Bank. The forecast also takes into account the write-down of intangibles and affiliate equity stakes (€0.8 billion), the sale of treasury shares (€0.35 billion) and reduction of the valuation reserve for KBC Bank's own credit risk (€0.44 billion) during 2012, which combined will have a positive impact of about 100 basis points on the RAC ratio.

The reimbursement of €4.17 billion of nominal value in government hybrids by the end of 2013 does not materially impact the RAC ratio as these hybrids mostly exceed our cap on eligible hybrids at 33% of adjusted common equity. We categorize the government hybrids issued by KBC Group as having "intermediate" equity content.

We expect that KBC Bank's RAC ratio, which stood at 6.4% at the end of 2011 on a pro-forma basis, will remain close to this level over the next eighteen months. This is because we expect KBC Bank to continue to transfer capital to KBC Group by way of large dividends to enable the group to repay government hybrids. In 2011, KBC Bank paid €1.6 billion in dividends compared with €0.35 billion of net profit.

Our calculation of KBC Group's earnings buffer exceeds that of many of its peers. However, in the past two years, losses on asset sales, Greek bonds and volatile mark-to-market collateralized debt obligations (CDOs) have significantly reduced net profit. We consider a €1.2 billion impairment booked in the second quarter of 2012 to cover the costs of forthcoming asset sales as non-recurring, and now expect KBC Group's earnings buffer to translate into higher net income levels.

Table 3

KBC Group N.V. Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2012***	**2011**	**2010**	**2009**	**2008**
Tier 1 capital ratio	15.3	12.3	12.6	10.8	9.7
S&P RAC ratio before diversification	N.M.	5.0	4.7	3.9	N.M.
S&P RAC ratio after diversification	N.M.	6.3	5.9	4.8	N.M.
Adjusted common equity/total adjusted capital	75.2	75.2	75.2	66.7	66.7
Net interest income/operating revenues	59.4	75.8	75.5	112.7	109.0
Fee income/operating revenues	16.0	16.1	14.8	27.7	37.4
Market-sensitive income/operating revenues	15.4	(5.1)	(0.3)	(57.3)	(79.3)
Noninterest expenses/operating revenues	53.0	60.1	53.6	97.6	120.4
Preprovision operating income/average assets	1.3	1.0	1.2	0.0	(0.3)
Core earnings/average managed assets	0.6	0.1	0.7	(0.5)	(0.3)

*Data as of Sept. 30. N.M.--Not meaningful.

Table 4

Total Adjusted Capital

Dec. 31, 2011		
(Mil. €)	**KBC Group**	**KBC Bank**
Common shareholders' equity (Reported)	9755	11117
+ Minority Interest (equity)	516	975
+ Revaluation reserves	711	1025
- Nonservicing intangibles	(1,898)	(1,544)
- Tax loss carry-forward	(982)	(957)
- Own credit risk valutaion	(550)	(550)
- Dividends (not yet distributed)	(598)	(120)
= Adjusted common equity	6954	9946
+ Admissible hybrid capital	2295	0
Total Adjusted Capital	9249	9946

Table 5

KBC Bank N.V. Risk-Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel II RWA**	**Average Basel II RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government and central banks	53,131	3,266	6	4,753	9
Institutions	6,753	2,300	34	2,377	35
Corporate	56,973	44,758	79	51,924	91
Retail	79,467	17,899	23	38,707	49
Of which mortgage	57,516	11,322	20	22,059	38
Securitization§	3,456	6,658	193	12,327	357
Other assets	14,735	8,965	61	9,858	67
Total credit risk	214,515	83,846	39	119,946	56

Table 5

KBC Bank N.V. Risk-Adjusted Capital Framework Data (cont.)

Market risk					
Equity in the banking book†	624	1,972	986	6,800	1,090
Trading book market risk	--	9,675	--	13,850	--
Total market risk	--	11,647	--	20,650	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	10,775	--	14,231	--

(Mil. €)	Basel II RWA	Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments			
RWA before diversification	106,269	154,827	100
Total Diversification/Concentration Adjustments	--	(21,512)	(14)
RWA after diversification	106,269	133,316	86

(Mil. €)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	12,326	11.6	9,946	6.4
Capital ratio after adjustments‡	12,326	11.6	9,946	7.5

*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2011, Standard & Poor's.

Table 6

KBC Group N.V. Risk-Adjusted Capital Framework Data

(Mil. €)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	53,131	3,266	6	4,753	9
Institutions	6,753	2,300	34	2,377	35
Corporate	56,973	44,758	79	51,924	91
Retail	79,467	17,899	23	38,738	49
Of which mortgage	57,516	11,322	20	22,090	38
Securitization§	3,456	6,658	193	12,327	357
Other assets	14,735	8,965	61	9,856	67
Total credit risk	214,515	83,846	39	119,975	56
Market risk					
Equity in the banking book†	624	1,972	986	6,800	1,090
Trading book market risk	--	9,675	--	13,850	--
Total market risk	--	11,647	--	20,650	--

Table 6

KBC Group N.V. Risk-Adjusted Capital Framework Data (cont.)

Insurance risk					
Total insurance risk	--	--	--	31,663	--
Operational risk					
Total operational risk	--	10,775	--	14,231	--
(Mil. €)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		106,269		188,275	100
Total Diversification/Concentration Adjustments		--		(36,452)	(19)
RWA after diversification		106,269		151,823	81
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		13,809	13.0	9,249	4.9
Capital ratio after adjustments‡		13,809	13.0	9,249	6.1

*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2011, Standard & Poor's.

Risk position: Adequate following derisking

We assess KBC Group's risk position as "adequate". Good diversity and action over the past three years to reduce risk offset a still large exposure to legacy market risk. KBC Bank's loan portfolio is geographically diverse, and single-name and sector concentration is low.

Over the past three years, KBC has taken significant action to reduce risk:

- The balance sheet has been reduced by 25%.
- Exposure to Greece, Ireland, Italy, Portugal, and Spain was reduced to €1.6 billion at the end of September 2012 from €16 billion at the end of 2009. Exposure to Spanish regional governments has been sold.
- The nominal value of CDOs has been reduced to €15.6 billion from €24.6 billion at end 2009.
- Equities at the KBC Bank level have been almost completely sold or written down, and significantly reduced at KBC Insurance.
- The value of all remaining assets scheduled for sale has been adjusted in line with market value, leading to a final €1.2 billion impairment in the second quarter of 2012.

In terms of the CDO portfolio, through which the group is mainly exposed to corporates, the profit and loss impact of a 50% rise in credit spreads has been reduced to €300 million from €700 million at the end of 2009 through active exposure management and accelerated sales. We believe €4.1 billion in markdowns as at Sept. 30, 2012 adequately covers potential risk. The Belgian government provides a cash guarantee on 90% of losses on the first €9 billion of CDOs.

We believe the RAC ratio adequately reflects the credit risk of operating in countries with higher economic risk than

Belgium, particularly Ireland and CEE countries. Risk not covered by the RAC ratio is modest. KBC Group had unrealized gains in its available-for-sale portfolio at the end of September 2012. CDOs are deemed adequately covered by markdowns, although they could negatively affect profitability in the event of a new crisis in the corporate credit markets.

Our view of KBC Group's moderate loss experience balances the very large market risk losses of €7 billion in 2008 and 2009, mostly linked to CDOs, against an adequate credit track record. KBC Bank's loan loss provisions and nonperforming loan coverage ratios appear in line or slightly better than those of its peers. However, relatively low coverage of nonperforming loans in the KBC Ireland portfolio (45%) could lead to protracted high credit losses.

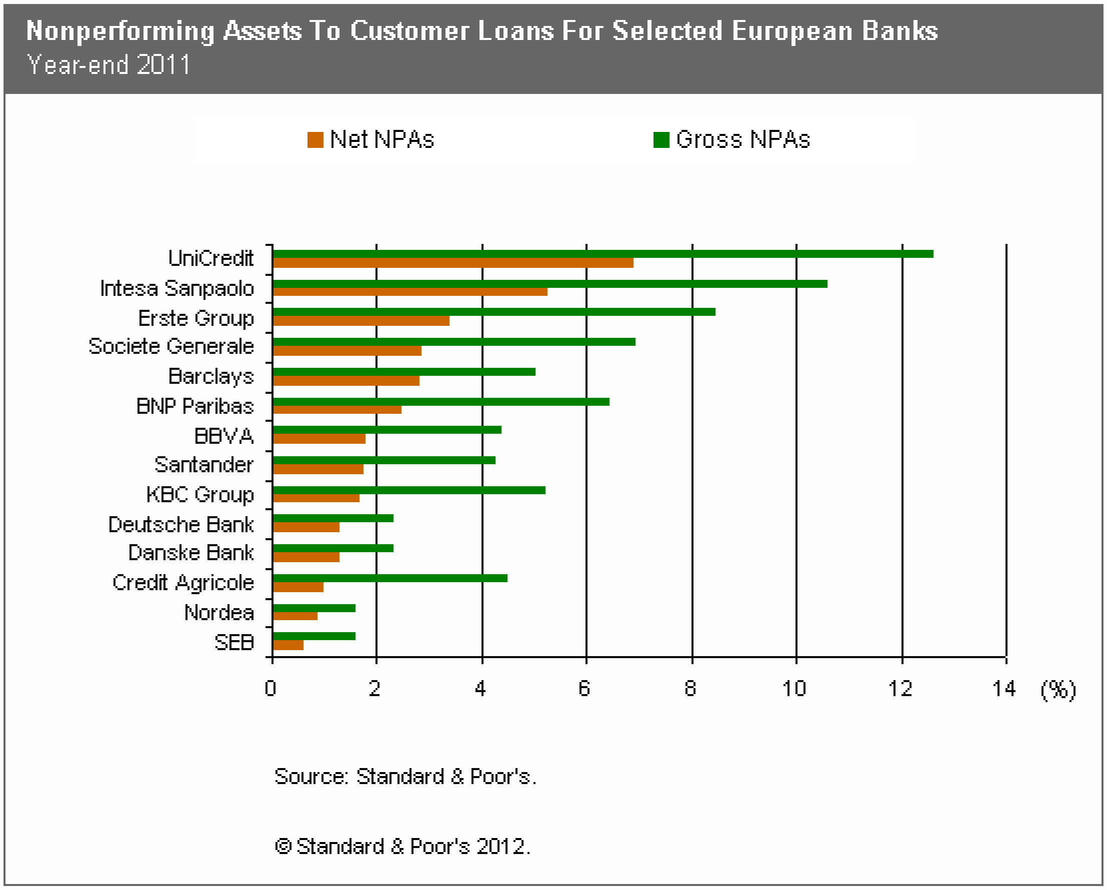
Table 7

KBC Group N.V. Risk Position

	--Year-ended Dec. 31--				
(%)	**2012***	**2011**	**2010**	**2009**	**2008**
Growth in customer loans	(10.8)	(3.1)	(3.0)	(3.6)	12.0
Total diversification adjustment / S&P RWA before diversification	N.M.	(20.2)	(19.2)	(19.5)	N.M.
Total managed assets/adjusted common equity (x)	33.8	41.0	41.2	54.9	43.1
New loan loss provisions/average customer loans	0.7	0.9	1.0	1.2	0.5
Gross nonperforming assets/customer loans + other real estate owned	5.8	5.2	4.4	3.6	2.0
Loan loss reserves/gross nonperforming assets	61.0	69.1	76.9	73.0	83.6

*Data as of Sept. 30. N.M.--Not meaningful.

Chart 3



Funding and liquidity: Stable core deposits and adequate liquidity buffers

KBC Bank's funding is "average" and its liquidity is "adequate," in our opinion. The bank's large retail branch network provides it with a stable base of core deposits that fully covers the loan portfolio. The ratio of total loans to customer deposits was 107% by our calculation as of end-September 2012. The liquidity position is supported by a manageable amount of long-term wholesale funding maturing at about €5 billion a year from 2013 to 2015. KBC Bank's large portfolio of liquid assets, in the form of securities eligible for repo activity also sustains liquidity. As of Sept. 30, 2012, KBC Bank had €50 billion unencumbered central-bank-eligible assets, compared with €18.7 billion in net short-term wholesale funding at the same date. KBC Bank also had more than €4 billion in deposits with central banks and €8.7 billion in long-term repos with the European Central Bank as of Sept. 30, 2012.

Table 8

KBC Bank Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2012***	**2011**	**2010**	**2009**	**2008**
Core deposits/funding base	65.3	62.1	60.9	55.3	54.6
Customer loans (net)/customer deposits	107.0	117.8	105.2	113.7	113.0
Long term funding ratio	71.2	74.9	69.4	64.5	59.4
Broad liquid assets/short-term wholesale funding (x)	N/A	1.6	1.8	1.5	0.5

Table 8

KBC Bank Funding And Liquidity (cont.)					
Net broad liquid assets/short-term customer deposits	N/A	87.0	143.5	105.1	(40.2)
Narrow liquid assets/3-month wholesale funding (x)	N/A	N/A	1.9	1.8	N/A
Net short-term interbank funding/total wholesale funding	24.1	25.9	28.5	31.2	25.2
Short-term wholesale funding/total wholesale funding	56.0	59.5	62.0	65.0	68.7

*Data as of Sept. 30. N/A--Not applicable.

External support: One notch of government support for high systemic importance

The issuer credit rating is one notch higher than the SACP, reflecting KBC Bank's "high" systemic importance for Belgium and our assessment of the Belgian government as "supportive."

Additional rating factors: KBC Insurance and KBC Group RE

The ratings on KBC Insurance reflect our view of its core position to KBC Bank. KBC Group owns 100% of both KBC Bank and KBC Insurance. We consider KBC Insurance to be fully integrated with KBC Bank (see "KBC Insurance N.V.", published Nov. 30, 2012 on RatingsDirect on the Global Credit Portal).

The ratings on Luxembourg-based reinsurer KBC Group Re SA (BBB+/Stable/--) continue to reflect our view of its highly strategic importance to KBC Group's bank and insurance businesses (see "KBC Group Re SA", published Nov. 30, 2012 on RatingsDirect on the Global Credit Portal).

Related Criteria And Research

- Banking Industry Country Risk Assessment: Belgium, Nov. 20, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of November 30, 2012)	
KBC Bank N.V.	
Counterparty Credit Rating	A-/Stable/A-2
Junior Subordinated	BB+
Preferred Stock	BB+
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB
Counterparty Credit Ratings History	
08-Dec-2011	A-/Stable/A-2
18-Mar-2009	A/Stable/A-1
25-Nov-2008	A+/Negative/A-1
15-Oct-2008	AA-/Watch Neg/A-1+
Sovereign Rating	
Belgium (Kingdom of) (Unsolicited Ratings)	AA/Negative/A-1+
Related Entities	
CSOB Pojistovna a. s.	
Financial Strength Rating	
Local Currency	BBB+/Stable/--
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
KBC Bank Ireland PLC	
Issuer Credit Rating	BBB-/Negative/A-3
Senior Unsecured	BBB-
KBC Group N.V.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
KBC Group Re S.A.	
Financial Strength Rating	
Local Currency	BBB+/Stable/--
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
KBC Ifima N.V.	
Senior Unsecured	A-
KBC Insurance N.V.	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/Stable/--
K&H Bank (Unsolicited Ratings)	
Issuer Credit Rating	
Local Currency	BBpi/--/--

Ratings Detail (As Of November 30, 2012) (cont.)	
Kredyt Bank S.A. (Unsolicited Ratings)	
Issuer Credit Rating	
Local Currency	BBpi/--/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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