STANDARD & POOR'S RATINGS SERVICES

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KBC Bank Ireland PLC

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KBC Bank Ireland PLC

SACP	bb-

Anchor	bb	
Business Position	Moderate	-1
Capital and Earnings	Moderate	0
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

+

Support	+3
GRE Support	0
Group Support	+3
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating
BBB-/Negative/A-3

Major Rating Factors

Strengths:	Weaknesses:
• 100% ownership by KBC Bank N.V. • Highly efficient operating model. • Useful diversification across retail and commercial banking.	• Modest market position and geographic diversification. • Asset quality pressured by ongoing difficult economic environment. • High reliance on funding sourced from or via the group.

Outlook: Negative

Standard & Poor's Ratings Services' negative outlook on Ireland-based KBC Bank Ireland PLC (KBCI) principally reflects our view that while its regulatory Tier 1 capital may remain robust, there is a risk that capitalization measured by Standard & Poor's risk-adjusted capital (RAC) framework may move persistently below the 5.0% threshold. It also acknowledges the risk that the apparent slowing pace of deterioration in KBCI's asset quality and economic and collateral value trends in Ireland could yet take a further turn for the worse, further delaying the bank's return to profitability.

The ratings reflect our expectation that KBCI will remain loss-making in the second half of 2012 and full-year 2013, mainly as a result of continued elevated loan impairment charges. We expect that KBCI will continue to receive capital injections from the parent that will hold the regulatory Tier 1 ratio at around 11%. In our view, this may well result in the RAC ratio moving back above the 5.0% level by end-2012 and staying there. We further expect the parent to remain supportive with regard to funding, at a time when KBCI is trying to grow its retail customer deposit base.

We could potentially lower the ratings if KBCI's stand-alone credit profile (SACP) deteriorates. This would most likely arise if we project the RAC ratio to be below 5.0% through end-2013, which would lead us to revise our assessment of KBCI's capital and earnings to "weak" from "moderate". It could also result if KBCI's asset quality and impairment loss trends become demonstrably weaker than peers'--a factor that we would most likely reflect in a revision of the bank's risk position assessment to "moderate" from "adequate".

We may also take negative rating action if we observe that the links between KBCI and its parent KBC Bank N.V. (KBC; A-/Stable/A-2) are weakening, even allowing for our expectation of continued support. This could result in a revision of our group status designation for KBCI to "moderately strategic". Assuming no change in the SACP, the latter assessment would lead to a two-notch downgrade of the counterparty credit ratings. This is because a "moderately strategic" group status only allows for one notch of group support compared with the current three notches.

We could revise the outlook on KBCI to stable if, in our view, the links between KBC and KBCI do not weaken and there is clear evidence that the impairment charge is on a sustainable downward track, leading to a high probability that the bank's earnings and capitalization will be, at worst, in line with our expectations.

Rationale

The starting point for our ratings on KBCI is its 'bb' anchor, which is based on our view of the banking system in Ireland. We consider KBCI's business position to be "moderate" (as defined by our criteria) as we consider that its business mix and stable franchise are partially offset by its somewhat niche market position. We view capital and earnings as "moderate" since we expect that while the RAC ratio may have fallen slightly below 5.0% at June 2012, it may well move back above 5.0% by end-2012 and stay there. Our assessment of KBCI's risk position is "adequate", reflecting geographical concentration on a par with relevant peers and loss experience that, while heavy in the current environment, is not indicative of materially better or worse like-for-like underwriting than peers. We view funding as "average" and liquidity as "adequate" due to support from KBC which has enabled KBCI to deal with any refinancing risk despite the limited nature of its own deposit-taking franchise. We additionally include in the rating three notches for potential future group support, reflecting our view that any potential sale of KBCI is highly unlikely over the two-year outlook time horizon and that KBC will continue to support KBCI's capital and funding needs.

Table 1

KBC Bank Ireland PLC Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	**2011**	**2010**	**2009**	**2008**	**2007**
Adjusted assets	18,589.1	18,146.4	19,560.3	21,106.6	24,074.0
Customer loans (gross)	16,928.7	17,503.0	18,214.9	18,821.0	17,699.6
Adjusted common equity	842.3	835.6	1,104.6	1,012.2	989.7
Operating revenues	284.3	371.2	333.6	226.3	211.7
Noninterest expenses	66.9	49.4	57.5	65.4	61.4
Core earnings	(269.3)	(177.1)	92.0	93.9	129.0

Anchor

The 'bb' anchor draws on our Banking Industry Country Risk Assessment (BICRA) methodology and our view of the economic and industry risk in the Republic of Ireland (BBB+/Negative/A-2), where KBCI almost exclusively operates. The BICRA score is informed by our assessment of economic risk, where we view Ireland as a fundamentally resilient, flexible, and open economy, but which is undergoing a painful correction following the decade-long boom that ended in 2007. In our view, this has severely strained the government's finances and left domestically focused banks dealing with a considerable overhang of private-sector leverage and depleted asset prices. With regard to industry risk, the Irish banking industry is increasingly concentrated among a handful of key players, but profitability is undermined by high competition for deposits and shrinking loan books. Our view of industry risk is further constrained by the regulatory weaknesses that contributed to the economic crisis, as well as the system's relatively weak funding position, where monetary authorities and foreign-owned parents now fill the gap left by the exit of a substantial number of overseas investors.

Business position: Stable franchise but modest overall market position

We view KBCI's business position as "moderate". We consider that KBCI has a more modest market position than larger peers in Ireland, which reflects its relatively lower market share in its chosen markets and the absence of a branch network. KBCI's spread of revenues across residential mortgages and commercial lending is nevertheless more diverse than would typically be the case for a niche lender. We view the bank's management and strategy as generally favorable, and note that the bank is continuing to invest in the franchise and develop its range of household banking products. In our view, this, together with financial support from its parent, KBC, has helped business stability.

Table 2

KBC Bank Ireland PLC Business Position					
	--Year-ended Dec. 31--				
(%)	**2011**	**2010**	**2009**	**2008**	**2007**
Total revenues from business line (currency in millions)	284.3	371.0	333.6	226.3	211.7
Commercial banking/total revenues from business line*	27.4	28.6	N/A	N/A	N/A
Retail banking/total revenues from business line*	72.5	71.4	N/A	N/A	N/A
Return on equity	(34.1)	(19.6)	9.3	9.7	13.9

* % for 2010 and 2011 are Standard and Poor's estimates. N/A--Not applicable.

Capital and earnings: RAC ratio at risk of moving persistently below 5%

We view KBCI's capital and earnings as "moderate". While KBCI remained profitable through to 2009, it recorded sizable losses in the past two years due to high loan impairment charges across its retail and commercial lending portfolios. These losses were offset by capital injections from the parent, offering a degree of stability to capitalization. KBCI's Tier 1 ratio at June-2012 was a reported 11.1%, little changed on the preceding quarters. While we expect that it will remain at this level for the foreseeable future--and that the RAC ratio will move back above 5%--in our view there is meaningful risk that the RAC ratio could instead decline through the period to end-2013, albeit most likely remaining above 4.0%.

We calculate that KBCI's RAC ratio was 5.1% at end-2011, little changed on the pro forma 5.0% ratio that we calculated for end-2010 based on our updated Nov. 2011 criteria. The large gap between the RAC ratio and the Tier 1 ratio primarily reflects a material difference in the risk-weights that we apply to credit exposures. The quality of the bank's capital is high, in our view, as it is all common equity. While a reduced interest margin has led to some pressure on revenues, the bank's high efficiency and advantageous cost of funds means that it continues to have a positive earnings buffer, unlike several other Irish peers, which suggests an achievable return to profitability once the impairment charge subsides.

Although the Tier 1 ratio held firm in the first half of 2012, we estimate that the RAC fell to slightly below 5.0% at end-June. While we currently project that it may well move back above the 5.0% level by end-2012 and stay there, in our view there is meaningful risk that the RAC ratio could instead decline through the period to end-2013, albeit most likely remaining above 4.0%. This divergent trend from the projected stable Tier 1 ratio reflects the fact that potentially supportive elements within the calculation of Tier 1 capital would not be reflected in total adjusted capital (TAC, the numerator of the RAC calculation). These include the likely reducing deductions for the expected loss shortfall and rising deferred tax assets for tax-loss carryforwards. As a result, capital injections that may be sufficient to maintain the Tier 1 ratio at around 11% could be insufficient to prevent a fall in the RAC ratio, in our view.

Given the apparently reducing pace of deterioration in the bank's asset quality, as reported by KBC, we consider the group's guidance of a €500-€600 million impairment charge for KBCI for 2012 to be broadly credible, which, in our view, points to a post-tax loss of a little above €300 million. We expect the losses to narrow in 2013 but that the bank will not become profitable until 2014 at the earliest. While ongoing moderate deleveraging will continue to reduce risk-weighted assets, our ratings assume that KBC will make further material capital injections into KBCI in the coming quarters as it seeks to maintain the bank's Tier 1 ratio at around 11%.

Table 3

KBC Bank Ireland PLC Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2011**	**2010**	**2009**	**2008**	**2007**
Tier 1 capital ratio	11.0	10.3	9.3	9.2	N/A
S&P RAC ratio before diversification	5.1	8.0	9.3	N.M.	N.M.
S&P RAC ratio after diversification	4.3	6.9	7.9	N.M.	N.M.
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	106.9	104.7	105.6	86.6	76.3
Fee income/operating revenues	0.3	1.1	2.6	4.7	5.3

Table 3

KBC Bank Ireland PLC Capital And Earnings (cont.)					
Market-sensitive income/operating revenues	(7.5)	(7.1)	(10.8)	3.9	12.9
Noninterest expenses/operating revenues	23.5	13.3	17.2	28.9	29.0
Preprovision operating income/average assets	1.2	1.7	1.4	0.7	0.7
Core earnings/average managed assets	(1.5)	(0.9)	0.5	0.4	0.6

N/A--Not applicable. N.M.--Not meaningful.

Table 4

KBC Bank Ireland PLC RACF [Risk-Adjusted Capital Framework] Data

(€ 000s)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	4,832,129	381,840	8	376,093	8
Institutions	1,896,493	180,469	10	395,436	21
Corporate	4,229,753	2,369,180	56	6,746,197	159
Retail	12,913,022	3,514,737	27	8,134,354	63
Of which mortgage	12,913,022	3,514,737	27	8,134,354	63
Securitization§	0	0	0	0	0
Other assets	134,550	134,550	100	286,880	213
Total credit risk	24,005,948	6,580,775	27	15,938,959	66
Market risk					
Equity in the banking book†	0	0	0	0	0
Trading book market risk	--	313	--	469	--
Total market risk	--	313	--	469	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	502,300	--	663,760	--

(€ 000s)	Basel II RWA	Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments			
RWA before diversification	7,083,388	16,603,187	100
Total Diversification/Concentration Adjustments	--	3,198,778	19
RWA after diversification	7,083,388	19,801,966	119

(€ 000s)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	783,137	11.1	842,333	5.1
Capital ratio after adjustments‡	783,137	11.0	842,333	4.3

*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.

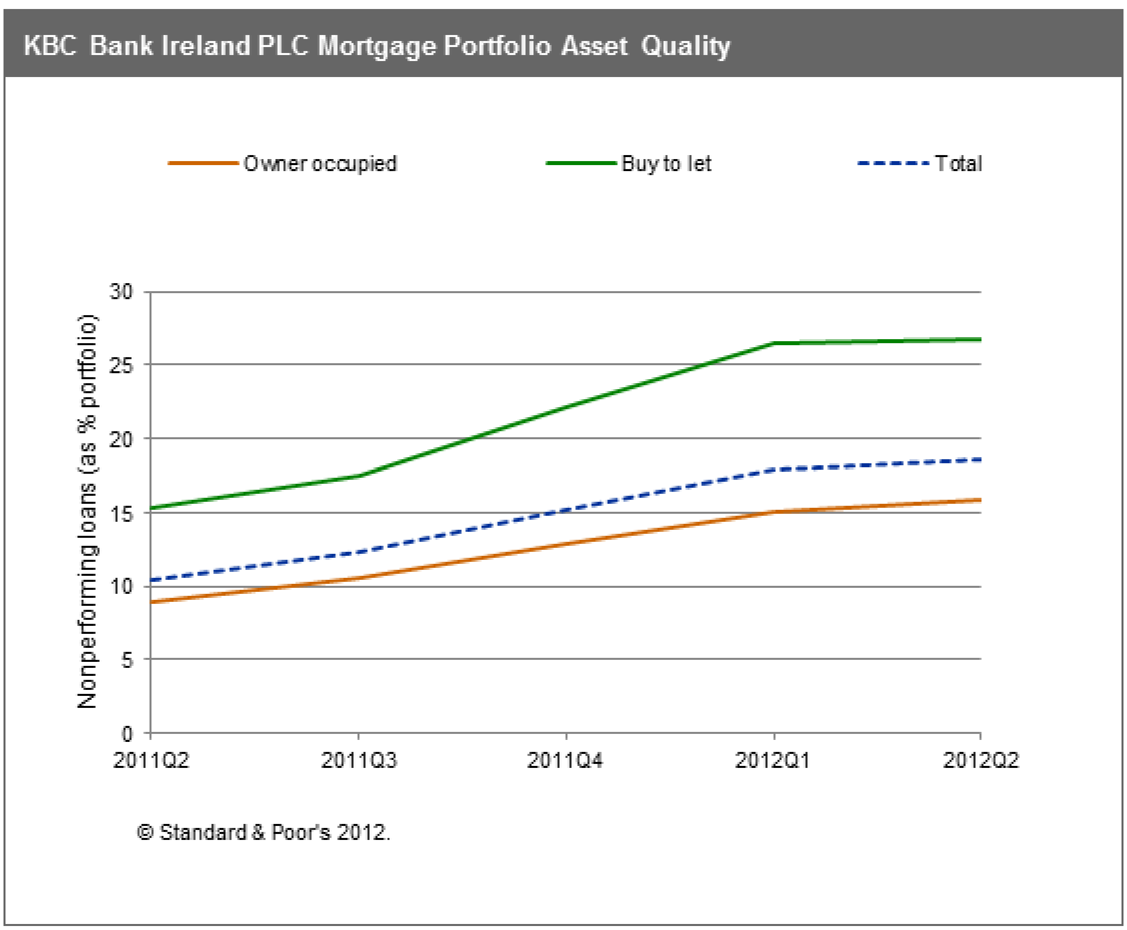
Risk position: Risk of unexpected loss not materially understated by RACF

We view KBCI's risk position as "adequate" when compared with peers in systems with similar economic risk.

We consider that the bank's straightforward business model aids management control and that, while it continues to underwrite new loans, the trend of gradual deleveraging will remain unchecked. The spread of retail and commercial credit exposures notionally offers some diversification, but given the pressures on the household and corporate sectors and the small size of the market, we give little credit for this. While the RAC ratio may somewhat understate KBCI's risk exposures because higher risk buy-to-let mortgages (one quarter of the gross mortgage book) are treated as standard mortgages, we do not consider the effect to be out of line with peers.

In our view, KBCI's asset quality is, on average, proving to be broadly similar to most Irish peers. We consider the bank to have provisioned commercial real estate exposures in line with peers. At a reported 30% at the end of June2012, provision coverage of standard mortgage nonperforming loans (NPLs) is slightly below some Irish peers, but we ascribe this to KBCI's unique use of mortgage indemnity insurance. While the formation of new mortgage NPLs appears to have peaked--slowing the growth in the stock of impaired loans (see chart 1)--and the total impairment charge may be on a reducing trend, mortgage performance remains vulnerable, in our view, not only to the economic environment and a moderate fall further in collateral values but potentially also to impending changes to the Irish personal insolvency regime.

Chart 1



KBCI holds a diversified pool of eurozone (European Economic and Monetary Union)government securities for liquidity purposes. At end-2011, the pool totaled €745 million nominal value, including €340 million exposure to Ireland (BBB+/Negative/A-2), €35 million to Portugal (BB/Negative/B), and €55 million to Italy (BBB+/Negative/A-2), the remainder being to higher rated issuers. Given the relativities of our rating on KBCI to those on the above countries, and the risk weighting of these assets in our RAC ratio, we consider the associated credit risk to be a neutral factor for KBCI.

Table 5

KBC Bank Ireland PLC Risk Position					
	--Year-ended Dec. 31--				
(%)	**2011**	**2010**	**2009**	**2008**	**2007**
Growth in customer loans	(3.3)	(3.9)	(3.2)	6.3	11.2
Total diversification adjustment/ S&P RWA before diversification*	19.3	16.5	18.3	N.A	N.A
Total managed assets/adjusted common equity (x)	22.1	21.7	17.7	20.9	24.3
New loan loss provisions/average customer loans	3.1	2.9	0.9	0.3	0.0
Net charge-offs/average customer loans	0.0	0.0	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	21.5	23.0	13.7	4.5	1.5
Loan loss reserves/gross nonperforming assets	34.1	18.6	9.4	7.9	5.8

* For KBCI this is an add on for concentration. N.A.--Not available.

Funding and liquidity: Increased focus on deposit-gathering

KBCI's funding is "average" and its liquidity position is "adequate", in our opinion. The support from KBC has enabled KBCI to deal with any refinancing risk despite the limited nature of its own deposit-taking franchise.

KBCI's funding position remains underpinned by the role of the KBC group. Parental funding--sourced directly from Head Office and via customer deposits placed with KBC Dublin branch and on-lent to KBCI--has long accounted for the majority of the bank's funding base. This remains the case, although such funding is reducing in absolute terms because the bank is deleveraging and because it took advantage of the ECB's LTRO--borrowing €3.2 billion by end-2011. Customer deposits declined in 2011 by €770 million, which we understand was due to the exit of more rating-sensitive accounts. By contrast, KBC reported that in the first half of 2012, KBCI's increased focus on retail deposits brought in €500 million of new money.

The bank's liquidity is supported by its pool of eurozone government securities and ability to generate collateral from its mortgage book. These provide scope for further access to contingent external sources, such as from monetary authorities. We understand that the group also remains willing to provide the bank with liquidity, should this be needed.

Table 6

KBC Bank Ireland PLC Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	**2011**	**2010**	**2009**	**2008**	**2007**
Core deposits/funding base	9.8	14.5	15.3	27.0	38.9
Customer loans (net)/customer deposits	921.8	677.9	648.9	356.7	200.1
Long term funding ratio	38.8	15.2	42.3	31.3	42.2

Table 6

KBC Bank Ireland PLC Funding And Liquidity (cont.)					
Broad liquid assets/short-term wholesale funding (x)	0.1	0.1	0.1	0.1	0.3
Net broad liquid assets/short-term customer deposits	N.M.	N.M.	N.M.	(304.6)	(123.6)
Narrow liquid assets/3-month wholesale funding (x)	0.1	0.2	0.1	N/A	N/A
Net short-term interbank funding/total wholesale funding	57.2	80.6	60.4	90.2	62.9
Short-term wholesale funding/total wholesale funding	64.8	93.7	72.1	95.4	96.8

N/A--Not applicable. N.M.--Not meaningful.

External Support: Ratings benefit from continued KBC support

The long-term counterparty credit rating is three notches higher than the 'bb-' SACP, reflecting our view that KBCI is "strategically important" to its parent, KBC, in accordance with our group rating methodology for banks. KBCI would not ordinarily meet our criteria for being assessed as a "strategically important" subsidiary; particularly as the subsidiary is unlikely to be sold and is important to the group's long-term strategy or is reasonably successful at what it does (which in our view is difficult in the context of the uncertain Irish operating environment, as our high BICRA score of '7' for Ireland demonstrates). For example, we note that Ireland was not included among the group's 'core' markets, identified in its 2013 strategy launch on Oct. 8, 2012. Nevertheless, we note that whereas KBC is divesting operations outside of the group's core markets, in the coming years it intends to manage KBCI to maximize its value contribution through the retail banking business. We also observe the substantial support that KBC has already provided KBCI. Overall, we consider that any potential sale of KBCI is highly unlikely over the two-year outlook time horizon and expect that KBC will continue to support KBCI's capital and funding needs.

We consider KBCI to be of "low" systemic importance and we factor no government support into its ratings.

Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- KBC Bank Ireland Ratings Affirmed At 'BBB-/A-3'; Outlook Remains Negative, Aug. 29, 2012
- Ireland Ratings Affirmed At 'BBB+/A-2'; Outlook Remains Negative, Aug. 2, 2012
- Banking Industry Country Risk Assessment: Ireland, July 25, 2012
- Ireland's New Personal Insolvency Regime Keeps Mortgage Risk To The Fore, July 3, 2012

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 5, 2012)

KBC Bank Ireland PLC	
Counterparty Credit Rating	BBB-/Negative/A-3
Senior Unsecured	BBB-
Counterparty Credit Ratings History	
08-Dec-2011	BBB-/Negative/A-3
11-Jul-2011	BBB+/Negative/A-2
02-Feb-2011	BBB+/Watch Neg/A-2
26-Nov-2010	A-/Watch Neg/A-2
25-Aug-2010	A-/Stable/A-2
25-Jun-2009	A-/Negative/A-2
18-Mar-2009	A-/Stable/A-2
25-Nov-2008	A/Negative/A-1
15-Oct-2008	A+/Watch Neg/A-1
Sovereign Rating	
Ireland (Republic of)	BBB+/Negative/A-2
Related Entities	
CSOB Pojistovna a. s.	
Financial Strength Rating	
Local Currency	BBB+/Stable/--
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
KBC Bank N.V.	
Issuer Credit Rating	A-/Stable/A-2
Junior Subordinated	BB+
Preferred Stock	BB+
KBC Group N.V.	
Issuer Credit Rating	BBB+/Stable/A-2

Ratings Detail (As Of November 5, 2012) (cont.)	
Short-Term Debt	A-2
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/--/--
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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