STANDARD & POOR'S

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Vero Liability Insurance Ltd.

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Table Of Contents

Vero Liability Insurance Ltd.

Major Rating Factors

Strengths:

- Strong explicit support from Vero Insurance New Zealand Ltd.
- Strong presence in the New Zealand general insurance market
- A team of high-profile and experienced underwriting specialists that focus on liability and professional indemnity insurance

Weaknesses:

- Competitive nature of the New Zealand non-life insurance market

Operating Company Covered By This Report
Financial Strength Rating
Local Currency
A+/Stable/--

Rationale

The rating on New Zealand-based insurer Vero Liability Insurance Ltd. (Vero Liability) reflects our opinion of the explicit support of, and strong integration with, the company's local parent, Vero Insurance New Zealand Ltd. (Vero NZ; A+/Stable/--). Also underpinning the rating is Vero Liability's strong market presence in the liability and professional indemnity business in New Zealand. As a wholly owned subsidiary of Vero NZ, Vero Liability also benefits indirectly from its membership as one of the core operating companies of Australian-based bank Suncorp-Metway Ltd. (A/Stable/A-1).

The underlying strength of Vero Liability's financial flexibility is underpinned by the guarantee provided by Vero NZ. Vero NZ is one of the core operating companies of the Suncorp-Metway group; the entire New Zealand operations represented about 7% of the group's gross premium written in fiscal 2009. Vero Liability, indirectly through Vero NZ's ownership, provides good business and geographic diversity to Suncorp Metway group. Operational and market risks associated with a concentrated business line and a harshly competitive environment in New Zealand moderate the company's underlying creditworthiness.

Vero Liability's business profile is enhanced by the company's team of high-profile and experienced underwriters. The business profile also benefits from the explicit support provided by Vero NZ through a guarantee, and Vero Liability's strong integration with Vero NZ's operations through branding, actuarial, and other corporate services.

The insurer's headline operating performance for the year ended June 30, 2009 was modest, in our view, with pretax profit reported at NZ$6.7 million, compared with a year-earlier NZ$12.4 million. This reduced operating performance was mainly attributable to a significant increase in gross incurred claims to NZ$31 million, from NZ$6.6 million the prior year. Also affecting Vero Liability's profitability was a NZ$10 million subvention payment related to a group taxation initiative. Vero Liability's pretax profit excluding this subvention payment was moderate at NZ$16.7 million. As a result of the increase in claims, the company's combined ratio deteriorated to 81% for fiscal 2009, from 53.4% in fiscal 2008.

Outlook

The stable outlook on Vero Liability reflects that on the Suncorp-Metway group ratings. We expect earnings pressure on the bank will be short term given an improving economy and the expected orderly run-off of riskier loans in the noncore bank division.

The outlook also assumes:

- The bank's capital position will continue to be solid;
- Funding duration and liquidity will remain supportive of the rating;
- The solid underlying performance of the core bank division will continue; and
- Asset quality continues to improve.

Standard & Poor's Ratings Services' stable outlook factors in the successful integration of the group's general insurance back-office systems. We also expect that the group's general insurance and life businesses' profitability will improve, based on the assumption that adverse climatic events will abate (at least in the short term) and financial markets will become less challenging. If our expectations are not met—and key earnings, capital, or business fundamentals suffer—the ratings may be lowered. Standard & Poor's would, however, continue to take into account the group's business diversity, as well as acknowledge economic and insurance cycles.

Factors that would strengthen Vero Liability's stand-alone credit profile include continued earnings growth, despite the challenging and competitive operating environment. Conversely, an unfavorable claims experience, coupled with deterioration in profitability, could result in a lower credit profile.

Table 1

Vero Liability Insurance Ltd./Selected Statistics

	--Year ended June 30--			--Year ended Dec. 31--	
(Mil. NZ$)	**2009***	**2008***	**2007***	**2006**	**2005¶**
Total assets	174.1	157.9	146.1	163.0	134.3
Equity	36.2	31.5	33.0	32.5	35.1
Gross premiums written	64.9	59.0	23.6	60.0	57.7
Net premium earned	49.5	48.6	23.6	46.5	43.5
Underwriting profit	9.4	22.7	4.8	11.8	8.6
Profit before tax	6.7	12.4	0.8	18.6	14.1
Profit before tax (excluding subvention payment)	16.7	29.8	7.3	18.6	14.1
Net profit after tax	4.7	8.5	0.5	12.4	9.4
Return on equity (%)	13.8	26.2	1.6	36.7	30.8
Combined ratio (%)	81.1	53.4	79.6	74.6	80.2
Loss ratio (%)	40.2	12.8	41.2	33.7	43.5

*From 2007, the company changed its balance date to June 30 from Dec. 31. Figures for 2007 are for six months ended June 30 and for 2008 are for 12 months. ¶Adjusted for New Zealand International Financial Reporting Standards.

Ratings Detail (As Of February 28, 2010)*	
Operating Company Covered By This Report	
Vero Liability Insurance Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Counterparty Credit Rating	
Local Currency	A+/Stable/--
Domicile	New Zealand

*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.