

OCTOBER 06, 2022 09:36 AM (EDT)

AM Best Affirms Credit Ratings of Construction Guarantee Cooperative

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FOR IMMEDIATE RELEASE

HONG KONG - OCTOBER 06, 2022 09:36 AM (EDT)

AM Best has affirmed the Financial Strength Rating of A+ (Superior) and the Long-Term Issuer Credit Rating of "aa-" (Superior) of Construction Guarantee Cooperative (CG) (South Korea). The outlook of these Credit Ratings (ratings) is stable.

The ratings reflect CG's balance sheet strength, which AM Best assesses as strongest, as well as its strong operating performance, favourable business profile and appropriate enterprise risk management.

CG's risk-adjusted capitalisation is assessed at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), backed by a large capital base of KRW 6.7 trillion (USD 5.7 billion) as of year-end 2021, extremely low underwriting leverage, and a highly liquid and conservative investment portfolio that prioritises securing funds for surety claims and providing loans to its members.

CG's strong operating performance is evidenced by a five-year average combined ratio of 54% (2017-2021) and an operating ratio of -3% (as calculated by AM Best). As the majority of project owners for its surety bonds are public institutions, its surety underwriting volume has not been impacted much by the COVID-19 pandemic and recent economic volatility, given a stable stream of new public construction projects driven by increased infrastructure spending by the government. In addition, interest income from its conservative asset portfolio brings further stability to the overall bottom line, but with a relatively low investment margin. AM Best expects CG's investment yield to increase (potentially with higher volatility) over the coming years, following its plan to increase investments in higher-yielding assets.

Established under the Korea Construction Financial Cooperative Law, CG is a government-designated surety underwriter for general contractors in South Korea. It has the largest share of the construction surety segment (approximately 45%, based on surety premiums in 2021) and a strong membership base, which represents about 95% of the general contractors in the country. The company aims to partially alleviate business concentration risk in the domestic construction surety line and expand the range of services to its members. As a result, CG has been diversifying its business gradually to overseas surety bonds and construction-related insurance products over the past years, which respectively accounted for 14% and 18% of total gross premiums written in 2021, as calculated by AM Best.

AM Best considers CG's risk management capabilities are appropriate to manage its key risk areas effectively. For example, surety bond credit risks are assessed thoroughly on an annual basis through a sophisticated credit evaluation system, and the company monitors its members' financial and operational issues daily through an early warning model and watch system.

Negative rating actions could occur if CG's operating performance deteriorates markedly due to significant accumulation of surety bond claims from a prolonged downturn in the overall economy and construction industry.

Ratings are communicated to rated entities prior to publication. Unless stated otherwise, the ratings were not amended subsequent to that communication.

This press release relates to Credit Ratings that have been published on AM Best's website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see AM Best's [Recent Rating Activity](#) web page. For additional information regarding the use and limitations of Credit Rating opinions, please view [Guide to Best's Credit Ratings](#). For information on the proper use of Best's Credit Ratings, Best's Performance Assessments, Best's Preliminary Credit Assessments and AM Best press releases, please view [Guide to Proper Use of Best's Ratings & Assessments](#).

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AMB#	Company Name
093791	Construction Guarantee Cooperative



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