improve as the downside pressure on interest spread to ease the burden on consumers continues while banks cannot lower the interest rates offered on deposits comparably. Thus, the interest income is likely to decline in Q2. Non-interest income will also stay low because of reduced fee incomes and the increasing loan loss provision from the bad SME and household loans.

In Q2 2013, asset soundness of Korean banks will deteriorate slightly. New bad loans in construction and marine transportation industries are likely to rise due to the uncertainty in the global economic environment as well as losing export competitiveness due to the recent weakening of the yen.

The capital adequacy of Korean banks in terms of Tier 1 ratio is expected to deteriorate slightly in Q2 2013 as the Korean banks’ profitability declines. However, Korean banks’ BIS ratio can stay almost unchanged at the current level as the growth in risk-weighted assets will be limited.

2. Non-Banking Financial Institutions

Soonho Lee (soonholee@kif.re.kr)

Credit Card Companies

In Q4 2012, the total assets of credit card companies recorded KRW82.4 trillion, up 1.4% from Q3 2012 (Figure II.14). Card assets, which comprise the largest portion of the total assets, increased by 2.0% to KRW62.4 trillion q.o.q. due to the increase of receivables on credit card installment sales. An increase in durables installment assets and finance lease assets led the increase of the leases and installment assets by 6.5% to KRW3.3 trillion from KRW3.1 trillion of Q3 2012. The decrease in current and fixed assets was due to decreased cash and deposit.

Total net income during Q4 2012 dropped 20.4% to
KRW312.7 billion from KRW392.9 billion of the previous quarter (Figure II.15). Profit of credit card companies had been declining for three consecutive quarters after Q1 2012. Declined profitability was due to continuously decreased merchant fees and increased bad debt expense. Also Samsung Cards stock trading profits at the beginning of the year made a base effect. All of the credit card companies recorded deteriorated profitability. Especially Shinhan Card, which has the largest assets among credit card companies, recorded net profits of KRW160.1 billion which decreased 31.9% from KRW235.3 billion of the previous quarter. On the other hand, Samsung Card was in deficit due to large loan loss reserves for personal loans.

There was a decrease in the average adjusted capital ratio, which decreased from the previous quarter’s 26.7% to 25.7% (Table II.7). The combined delinquency ratio of the credit card companies recorded 1.9% which was the lowest level of this year. Since Q1 2011, although delinquency ratio has been rising slightly, the ratio of Q4 2012 improved similar to the ratio of Q4 2011. Meanwhile, the substandard and below loans (SBL) ratio improved at 1.3% from 1.4%. Because of decreased net incomes, ROA and ROE decreased 1.1%p, 4.8%p respectively. Capital adequacy deteriorated slightly.

Because of the seasonal effect of increasing consumption on children’s day, teacher’s day and parents’ day, card assets will increase slightly. The credit card industry will be more competitive due to the establishment of Woori Card.

### Credit Finance Companies Other than Credit Card Companies

In Q4 2012, total assets of the credit finance companies increased 2.3% to KRW82.5 trillion from KRW80.7 trillion in the preceding quarter (Table II.8). Based on increased liquidity and low interest rates, total asset has continued to grow consecutively since Q3 2009. The total assets of leasing companies grew 2.2% to KRW32.1 trillion. Increased durables

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**Table II.8** Total Assets for Credit Finance Companies (Excluding Credit Card Companies)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Q4</td>
<td>Q1</td>
</tr>
<tr>
<td>Leasing companies</td>
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</tr>
<tr>
<td>Installment finance companies</td>
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<tr>
<td>Venture capital companies</td>
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<td>5.7</td>
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<tr>
<td>Total</td>
<td>77.0</td>
<td>79.4</td>
</tr>
</tbody>
</table>

Source: FSS

**Figure II.16** Assets for Credit Finance Companies (Excluding Credit Card Companies)

(Unit: bil. won)

Source: FSS