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# Funds' €60bn to buy European bank debt

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By Robin Wigglesworth in London



Hedge funds and private equity firms have amassed almost €60bn to buy loans from stricken European banks in coming years as many of the continent's lenders seek to shrink their way to health, according to a PwC survey.

PwC, which is advising many banks on asset sales, estimates European banks have almost €2.5tn of "non-core" assets they could sell.

The consultancy expects loan portfolios with a face value of €50bn to sell in 2012 and €500bn over five years. Investors surveyed by PwC predict European bank asset sales will peak next year as banks begin to plan repayments of loans from the European Central Bank.

The ECB has injected more than €1tn of cheap three-year loans into the continent's banking system, hoping to stave off a looming credit crunch that could hit companies and households.

"The run-off or sale of these loan assets will continue for many years and will make up a major proportion of future M&A activity," said Richard Thompson, chairman of PwC's European Portfolio Advisory Group.

Investors are showing the greatest level of interest in loans backed by commercial real estate, the survey showed.

Most of the funds targeting assets dripping out of Europe's banking system are so-called distressed debt investors – hedge funds and private equity players who aim to buy loans and bonds at a discount and either profit from a recovery in their value, or by taking companies over in a restructuring.

Tougher bank lending conditions and wilting economies will increase the default rate of European companies from about 2.3 per cent to 6 per cent by the end of the year.

Most of the funds are based in the US, but the relatively muted opportunities for distressed debt investing there have spurred many to head across the Atlantic and set up permanent offices in London for the first time, or to raise funds dedicated to Europe.

Recent arrivals in London include Centerbridge Partners and Baupost, joining funds such as Oaktree Capital Management and Strategic Value Partners, which have had operations in Europe for some time.

Other funds, such as Apollo Management and Avenue Capital, have recently raised Europe-dedicated funds.

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