

News Release

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Europe's banks forecast to lose €120bn in retail lending between 2008 and 2010**UK, Spain and Ireland will be particular black spots as Oliver Wyman and Intrum Justitia predict sharp increases in losses in consumer credit and mortgages**

Banks in Europe are poised to reveal massive further losses in the consumer credit and mortgage markets, according to research by Oliver Wyman, the management consultancy, and Intrum Justitia, the Credit Management Services Group. Over the three years 2008 to 2010 the predicted losses will reach €120bn, with the UK, Spain and Ireland in particular suffering a rapidly deteriorating credit market outlook.

Matthew Sebag-Montefiore, partner and UK market manager for Oliver Wyman, said: "Banks are already suffering from higher funding costs and a lack of liquidity, but with sharply falling house prices in some markets and a generally deteriorating macro-economic environment coupled with rising inflation, we expect the total retail credit losses across Europe to rapidly increase. We predict that in 2008, total consumer credit and mortgage losses will reach €34.7bn, rising to €42.5bn in 2009, a 35% increase on 2007 levels. It is easy to see a scenario where those losses in 2009 are even higher, possibly exceeding €50bn."

"Traditionally European banks have not been keen to outsource credit management and pre legal collection. However, in the last couple of years banks have become more active sellers of written off debt through so called Purchased Debt transactions. We believe that this research gives strong evidence that there are benefits also for the banking sector to use professional partners in credit management who can add information and knowledge of consumers payment behaviors" says Michael Wolf, CEO and President of the Intrum Justitia Group.

The highest level of write offs will be in the UK, Spain and Ireland. The combination of aggressive lending by the banks and the risk of the macroeconomic environment significantly changing for the worse, means that these countries stand out as the worst hit, though there will be problems in most European markets.

Oliver Wyman and Intrum Justitia predict that:

- The largest impact will be in 2009 when losses on consumer credit and mortgage lending in the UK could be more than €21bn - €6.4bn higher than 2007 levels. Similarly losses in Spain will be €2.1bn higher than 2007 and in Ireland by €400m more than 2007's levels

- UK mortgage loss rates are set to increase by a factor of between 6 and 10 times. This has been exacerbated by a 50% increase in the income multiples for mortgage lending between 2002 and 2007. Last year the total mortgage write offs by UK banks were just €700m – in 2008 they are expected to rise to €3.5bn and in 2009 they are predicted to be €4.7bn
- UK consumer credit loss rates have risen by more than a fifth in the last two years and are running at double the levels of the majority of the rest of Europe
- With banks already facing pressure on their capital ratios many will be constrained on their ability to secure new business and compete in the retail finance market. Consumers are likely to see further reductions in the availability of credit.

In countries such as the UK, Spain and Ireland, there has been a rapid increase in mortgage lending over recent years and the introduction of more risky products – such as high loan-to-value mortgages and loans with extended terms. The UK has seen an aggressive growth in sub-prime and near prime lending and today the UK has the broadest range of products outstanding targeted at high risk segments. Over the last few years, the Spanish and Irish markets have seen the introduction of high risk products, particularly for mortgages, and a relaxation of underwriting standards in an attempt to make homes more affordable.

Pablo Campos, a partner at Oliver Wyman in Spain, said: "Spain is at the heart of a retail credit storm. Coming from one of the lowest non-performing loan (NPL) ratios in the continent last year, credit quality indicators have deteriorated rapidly in the first half of 2008. We do not think the situation will get to levels of the crisis that hit Spain in 1993, but NPLs between 4% and 5% in 2010 are possible."

Given the rapid deterioration in retail credit markets, banks have to pay more attention to their procedures for dealing with borrowers who are in difficulty, an area known within the industry as "collections".

Matthew Sebag-Montefiore of Oliver Wyman said: "In countries where credit markets have started to turn, the focus of banks is dramatically shifting towards areas such as collections, where there is a wide gap in best practice. The leaders in this area will be able to greatly outperform their rivals in reducing the level of losses through the credit cycle."

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About Oliver Wyman:

With more than 2,900 professionals in over 40 cities around the globe, Oliver Wyman is the leading management consulting firm that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm helps clients optimize their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is part of Marsh & McLennan Companies [NYSE: MMC]. For more information, visit www.oliverwyman.com.

About Intrum Justitia:

Intrum Justitia is Europe's leading Credit Management Services (CMS) group, with revenues of approximately SEK 3.2 billion and 3,100 employees in 24 markets. Intrum Justitia offers services designed to measurably improve clients' cash flows and long-term profitability. Intrum Justitia AB is listed on the Nordic Exchange, Mid Cap list. For further information, please visit www.intrum.com