



# European High Yield & Leveraged Loan Report



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# European Leveraged Finance Full Year 2010: The Year of Bank Disintermediation

## Highlights and Market Environment

### Highlights

- European leveraged finance issuance, which includes leveraged loans and high yield bonds, totalled €21.6 billion in the fourth quarter of 2010, a decline of 18.9 percent from the third quarter (€26.6 billion). For the full year 2010, €3.7 billion was issued, a 6.7% increase from 2008 but well under the high of €65.6 billion reached in 2007. Proceeds are generally used to refinance or restructure debt, although LBO/MBO activity has picked up considerably in the last half of the year. High yield bond issuance in the leveraged debt markets continues to inch higher in market share, representing 68.3% of all leveraged debt for 4Q'10.
- The trend of bank disintermediation continues to remain in place in the European markets as banks continue to reduce exposure. The rise of high yield bond issuance, and more particularly senior secured structures that rank pari passu to bank facilities, also picked up in 2010.

### Market and Economic Environment

- According to the January ECB bank lending survey, banks reported, on net, no change in lending standards in the fourth quarter, although on net standards were tightened slightly for small and medium enterprises (SMEs). Short-term loan credit standards continued to ease from the October survey as near-term default risk continues to remain low; long-term standards, however, remain unchanged from the October survey. Risks on collateral demand remains the paramount factor contributing to tight bank credit standards, although economic activity expectations played a strong role in the standards for SMEs; on the flip side, competition from other banks remains the primary factor contributing to easing credit standards.
- Increased loan demand continues, primarily due to working capital needs and debt restructuring; in addition, a pickup in loan demand for mergers & acquisitions (M&A) was in evidence in the January survey.

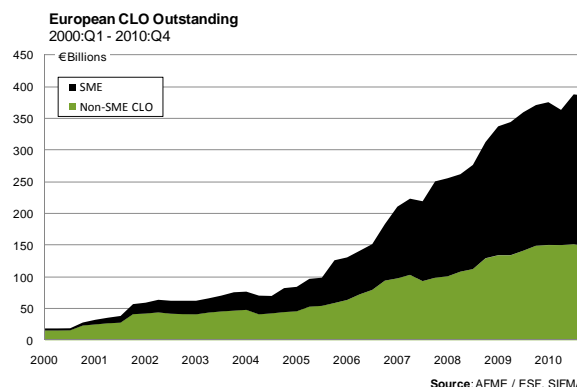
## Issuance

### Issuance: Leveraged Loans

- Leveraged loan issuance, which includes first lien, second lien, and mezzanine financing, totalled €6.9 billion in 4Q'10, all senior first liens, a steep decline of 57.0% and 49.9%, respectively, from 3Q'10 and 4Q'09. The loan pipeline, according to S&P, ended at €1.2 billion end-December, down from €1.8 billion end-September. For the full year, leveraged loan

issuance totalled €49.1 billion, a new low in the European loan markets.

- According to Dealogic data, the leading sector in leveraged loan issuance in 4Q'10 was telecommunications (€4.6 billion), led primarily by the refinancing of Wind Telecomunicazioni SpA's facilities.
- Although fewer "amend and extend" deals were done in 4Q (7.9% by dollar amount), deals aimed primarily to refinance and/or repay debt continue to remain a major theme (86.7%) in 4Q'10. For the full year, nearly a third of all deals by dollar amount (58.1%) were used towards refinancing and/or repayment of existing debt.
- The CLO market generally remained relatively quiet in 2010, but the market no longer remains completely closed as in 2009. One European CLO closed in 4Q'10 (€1.2 billion), a balance sheet deal partially placed by its sponsor. Moodys noted that with improving economic activity, comparatively narrow Aaa CLO spreads (~275 basis points (bps), down from highs reached during the crisis (375-400 bps)), combined with continued relatively high leveraged loan spreads (a 2010 average of 375 bps), some arbitrage CLO activity may pick up in 2011.
- On the flip side, however, some uncertainty remains from CRD II's retention rules; in addition, if primary leveraged loan issuance continued to remain at historical lows, current CLO managers would find some difficulty in sourcing assets for their portfolios.<sup>1</sup>
- While SME securitisations have ticked up slightly in outstanding (€237.3 billion in 4Q'10, up from €237.2 billion in 3Q'10), particularly as loan demand has started to pick up, significant headwinds remain.



- Fitch noted that regardless of credit, leverage continued to remain quite high among issuers and costs may have

<sup>1</sup> Moodys. "Global CLOs and SMEs: 2011 Outlook," 13 January 2011.

cut too aggressively at expense of further growth.<sup>2</sup> Significant bifurcation among stronger and weaker credits was in evidence in 2010, with only stronger credits generally reaping benefits of an open primary market. Significant leverage, combined with market bifurcation, will ultimately cause diverging market performance among leveraged credit. Although near-term default risk remains low in the near-term for 2011, 2013 and beyond poses challenges for leveraged credits.

- Fitch's default rates for mezzanine debt spiked in 3Q'10 to 8.12%, up from 5.34% in 2Q'10 and 4.8% a year ago in 2009. Fitch observed that with outstanding mezzanine debt well past historical averages on time to default, several credits were potential candidates for additional stress in 2011 and 2012.

### Issuance: High Yield Bonds

- Primary issuance in the fourth quarter, excluding emerging market issuance, totalled €10.9 billion on 28 deals, led by telecommunications (€5.9 billion; as with leveraged loans, this was primarily due to Wind SpA's debt refinancing) and transportation (€1.7 billion). From emerging market Europe, high yield issuance totalled €3.8 billion on 12 deals, led by the mining (€0.8 billion) and metals & steel (€0.7 billion) industries.
- For the full year 2010, high yield bond issuance, including emerging market issuance, totalled €44.6 billion, topping the 2006 high of €41.9 billion and funding approximately half the primary leveraged market (47.6%) in 2010. Use of proceeds continue to remain predominantly for refinancing and/or repayment of debt, with 75.1% of 4Q'10 issuance used for that purpose and nearly a third of all issuance in 2010 used for refinancing.
- The use of senior secured debt continues to remain firmly in place, further evidence of bank disintermediation. In 4Q'10, half of all high yield bond issuance (60% in developed Europe) was issued senior secured; for the full year 2010, 36.4% of all high yield bond issuance was issued senior secured (42.1% in developed Europe). Moody's observed that although ranking pari passu to senior secured bank debt should aid in recoveries (and ultimately returns), senior secured bonds "did not imply equality." Banks continued to remain in a relatively advantageous position, particularly through control in enforcement processes (e.g., bond standstill periods, intercreditor voting mechanics).<sup>3</sup>

## Returns & Credit Quality

### Returns

- Investors of European leveraged debt are unlikely to see the absolute returns experienced in 2009, but both European high yield and leveraged loans returned, on an absolute basis, 14.3% and 11.0% respectively for full year 2010. European leveraged loans outperformed high yield in 4Q'10 (3.4% return compared to a loss of 0.1%).

### Credit Quality

- Upgrades exceeded downgrades in both developed and emerging market Europe in 4Q'10; the bulk of the activity stemmed from developed market Europe, while emerging Europe enjoying a relatively quiet quarter, with 5 upgrades and 3 downgrades.
- Collectively from both developed and emerging Europe, upgrades were from the high technology, telecommunications, transportation, and oil & gas exploration and production sectors (all 3 upgrades). Downgrades were led by the bank sector (8 downgrades), with 4 from Ireland alone.
- High yield default rates continued to decline, with Moody's and S&P's HY trailing 12-month default rate ending at 1.9 and 1.0% respectively end-December, down from 3.5 and 2.7% end-September. Relatively low near-term debt refinancing needs in both the investment-grade and high-yield world plus general extensions of debt maturities out to 2014 and beyond will most likely play the largest factors in contributing to a low default rate in the near-term.
- No corporate defaults were reported in 4Q'10 by S&P. According to Moody's, Anglo Irish Bank and Bank of Ireland were reported as defaults through distressed exchanges (although for the Bank of Ireland, lower tier II bonds were considered in default).

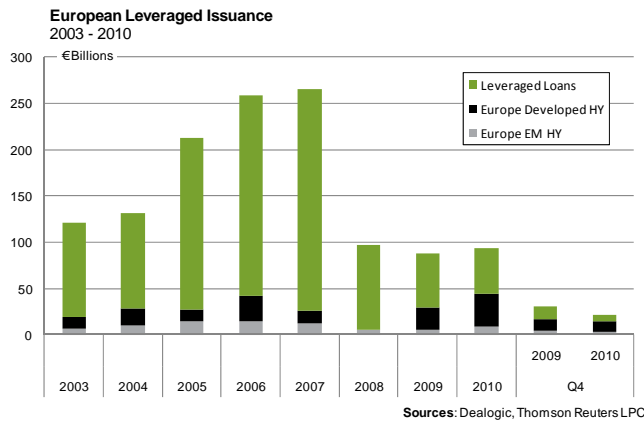
<sup>2</sup> Fitch Ratings. "European Leveraged Credit 2010 Review: Stabilisation in Performance as Refinancing Approaches," 5 January 2011.

<sup>3</sup> Moodys. "European High-Yield Bonds: Pari Passu, But Not the Same," November 10, 2010.

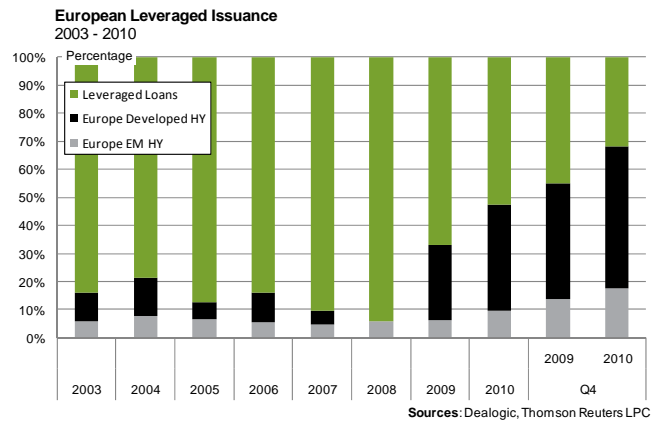
# ISSUANCE

## 1. Leveraged Finance Overview

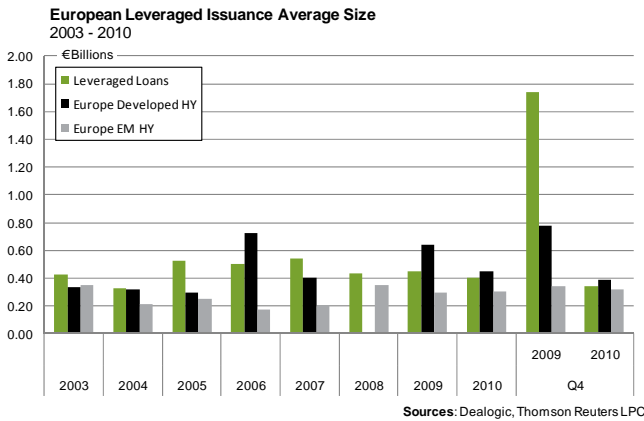
### 1.1. European Leveraged Issuance by Type



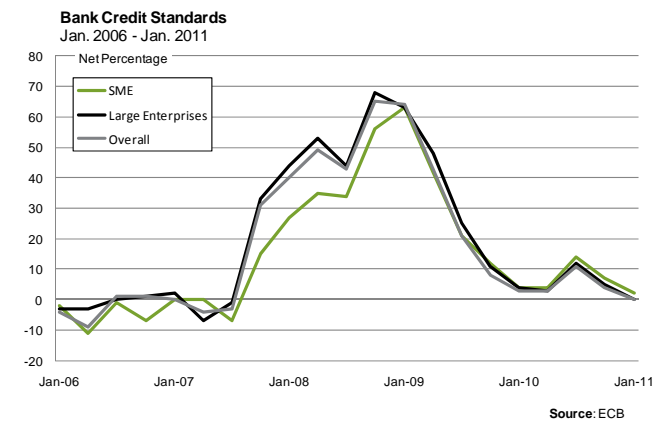
### 1.2. European Leveraged Issuance by Percentage



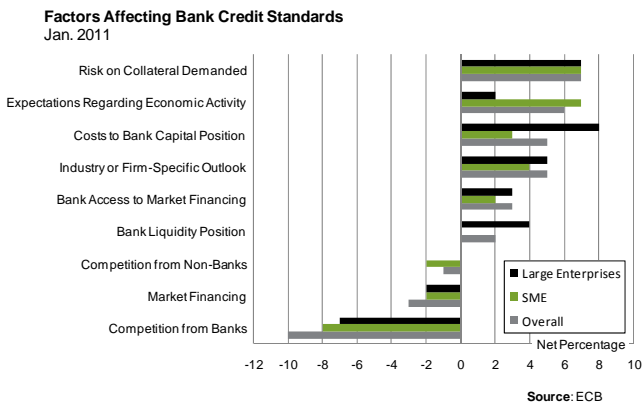
### 1.3. European Leveraged Issuance Average Deal Size



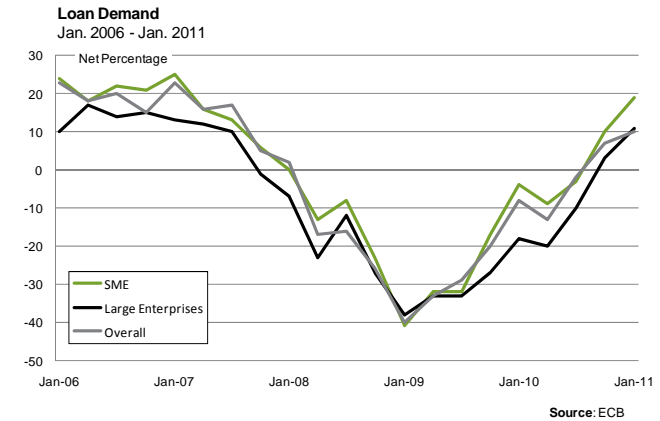
### 1.4. Bank Credit Standards<sup>1</sup>



### 1.5. Factors Affecting Bank Credit Standards<sup>2</sup>



### 1.6. Loan Demand<sup>3</sup>



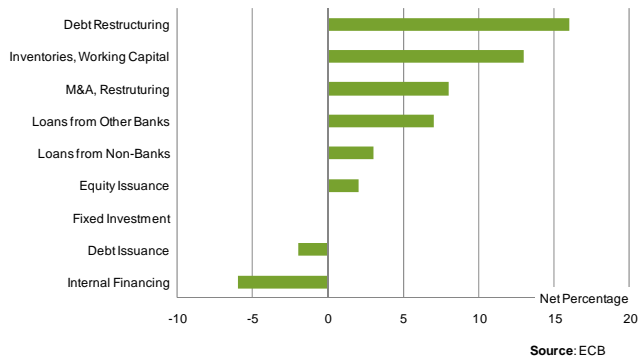
<sup>1</sup> A positive net percentage number signifies tightening bank credit; a negative net percentage number signifies easing credit.

<sup>2</sup> A positive net percentage signifies the factor contributed to tightening credit standards; a negative net percentage signifies the factor contributed to easing credit standards.

<sup>3</sup> A positive net percentage signifies increased demand; a negative net percentage signifies decreased demand.

## 1.7. Factors Affecting Loan Demand<sup>4</sup>

**Factors Affecting Loan Demand**  
Jan. 2011



## 1.8. Global Comparison – High Yield Issuance

€ Billions	2010				
	Q1	Q2	Q3	Q4	Full Year
United States	39.6	28.0	45.7	48.7	162.1
Asia Pacific	8.0	10.3	11.3	16.0	45.7
Europe	14.5	13.5	16.9	20.7	65.6

2009				
Q1	Q2	Q3	Q4	Full Year
11.6	33.7	27.1	26.8	99.1
6.8	8.1	7.0	9.4	31.3
6.1	5.4	12.6	21.5	45.6

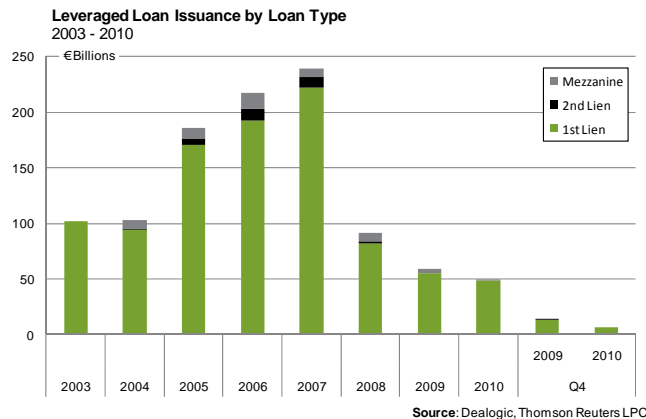
Prior	
2008	2007
27.7	99.0
12.8	22.4
23.7	41.3

<sup>4</sup> A positive net percentage signifies a factor that contributed to higher demand; a negative net percentage signifies a factor that contributed to lower demand.

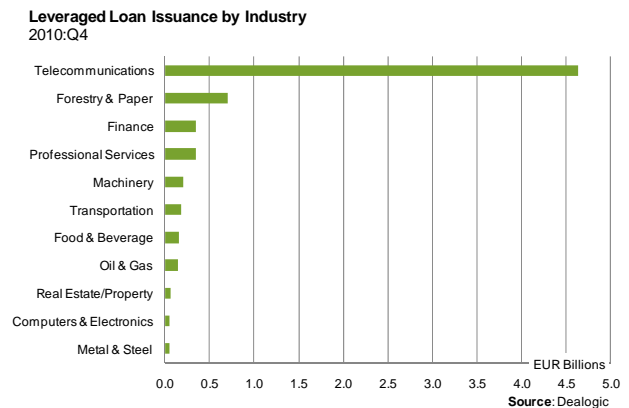
# ISSUANCE

## 2. Issuance – Leveraged Loans

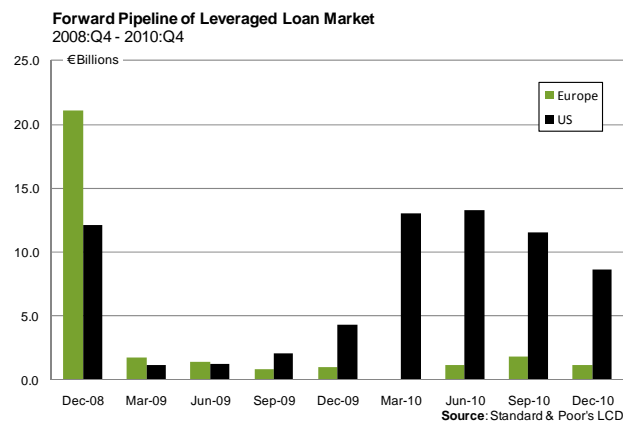
### 2.1. European Leveraged Loan Issuance By Loan Type



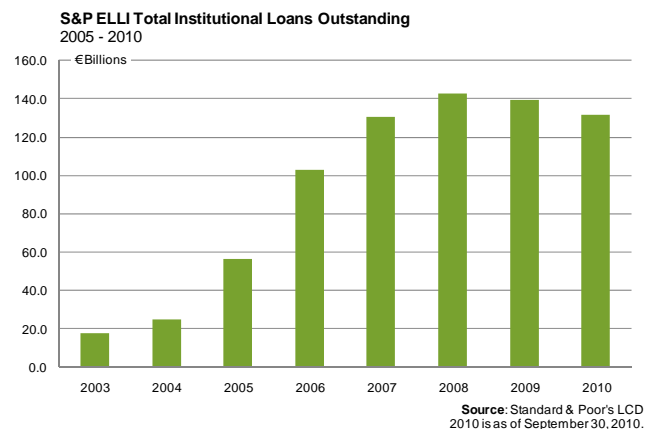
### 2.2. European Leveraged Loan Issuance by Industry Sector



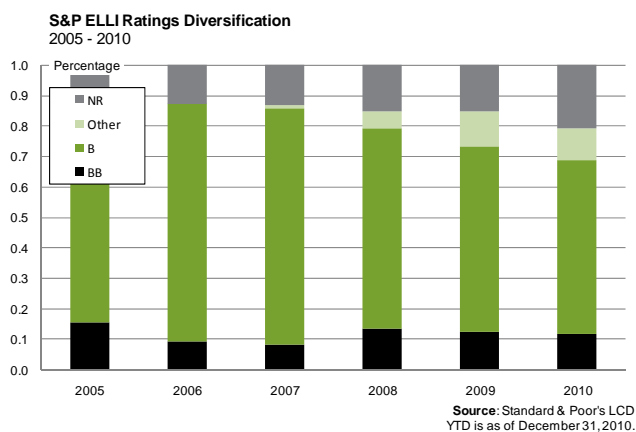
### 2.3. Forward Pipeline of Leveraged Loan Market



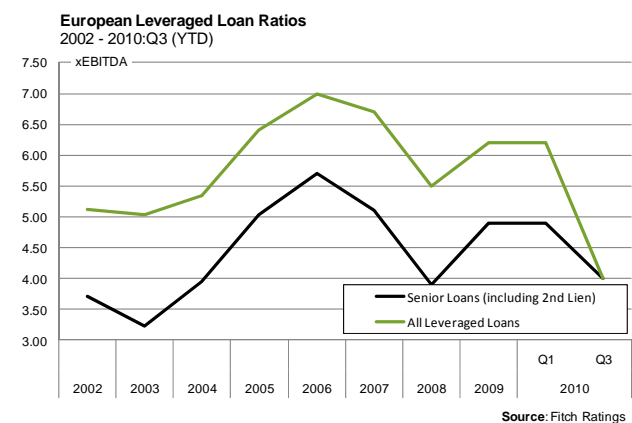
### 2.4. S&P ELLI Total Institutional Loans Outstanding



### 2.5. S&P ELLI Ratings Diversification

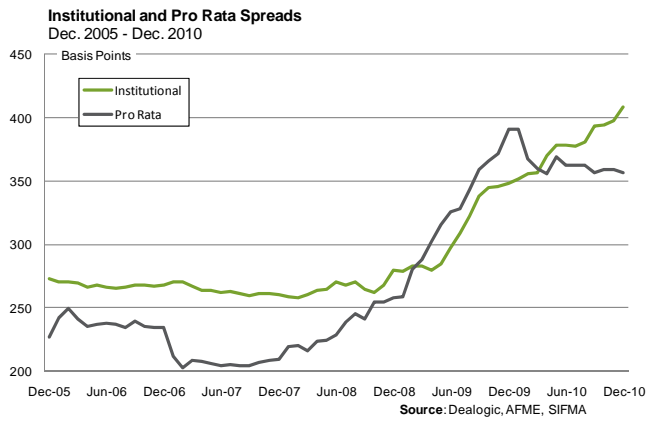


### 2.6. European Leveraged Loan Ratios<sup>5</sup>

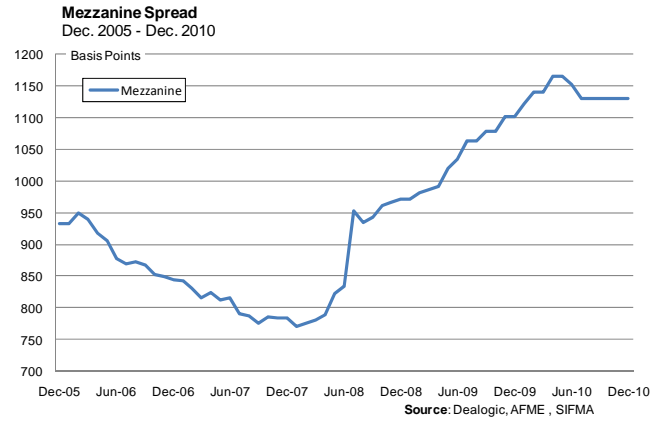


<sup>5</sup> Fitch data are as of 2010 Q1 and may be delayed.

## 2.7. Institutional and Pro Rata Spreads



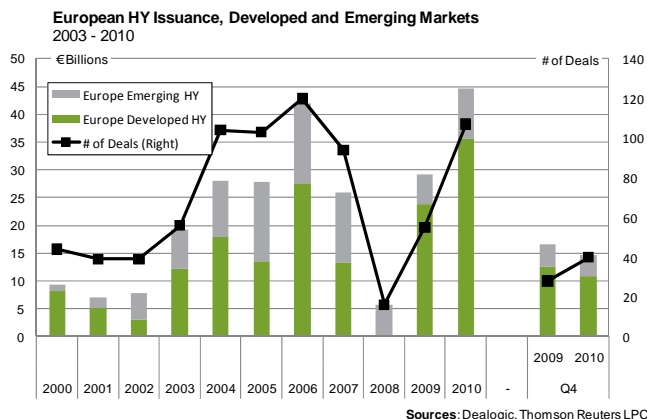
## 2.8. Mezzanine Spread



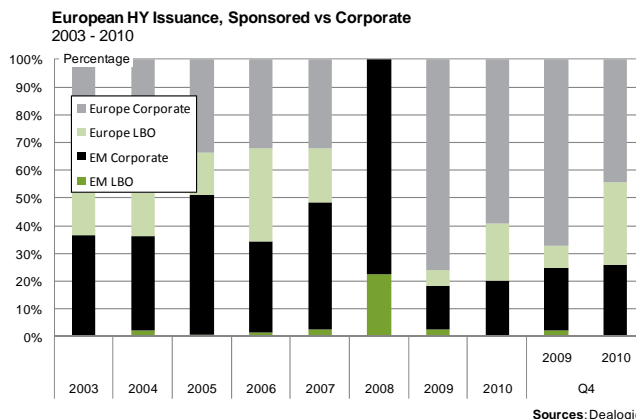


## 3. Issuance – High Yield Bonds Overview

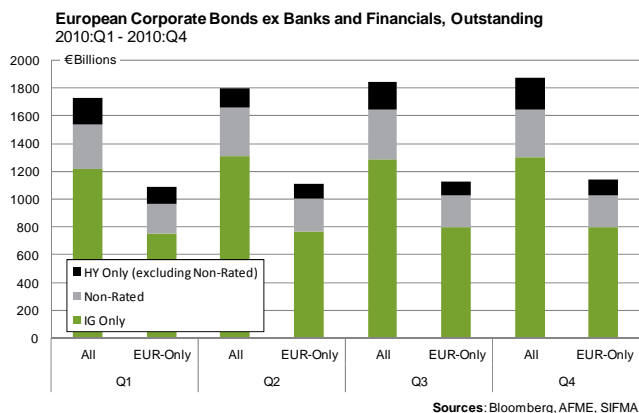
### 3.1. European HY Bond Issuance, Developed and Emerging Market



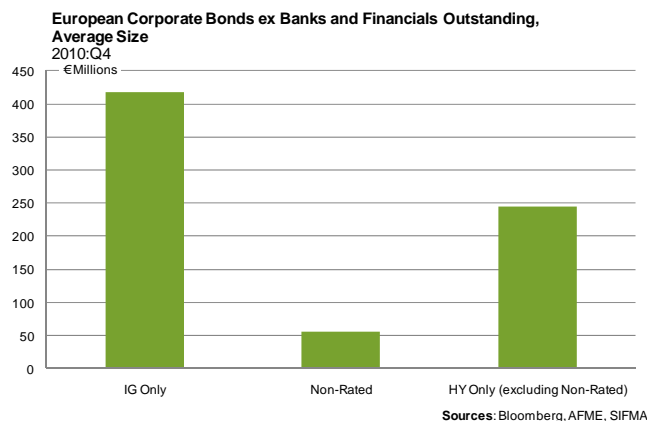
### 3.2. European HY Bond Issuance, Sponsored vs. Corporate



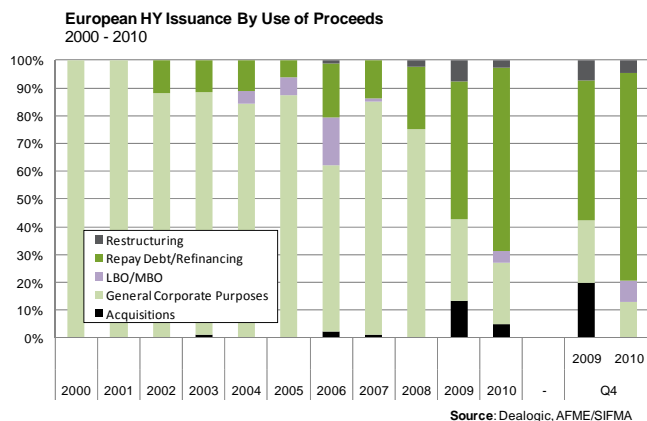
### 3.3. European Corporate Bonds ex Banks and Financials, Outstanding



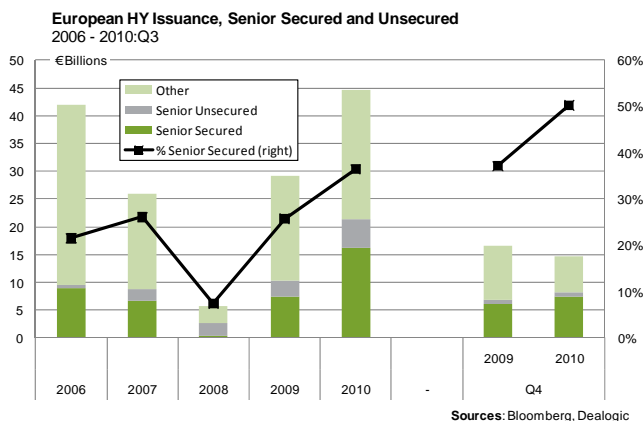
### 3.4. European Corporate Bonds ex Banks and Financials, Average Deal Size



### 3.5. European HY Use of Proceeds



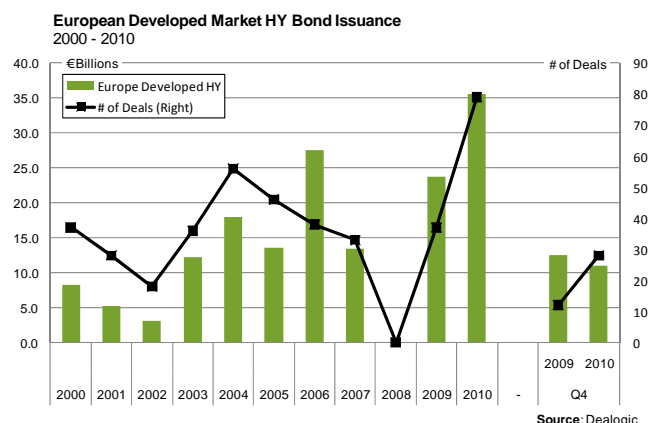
### 3.6. European HY Issuance, Senior Secured Share



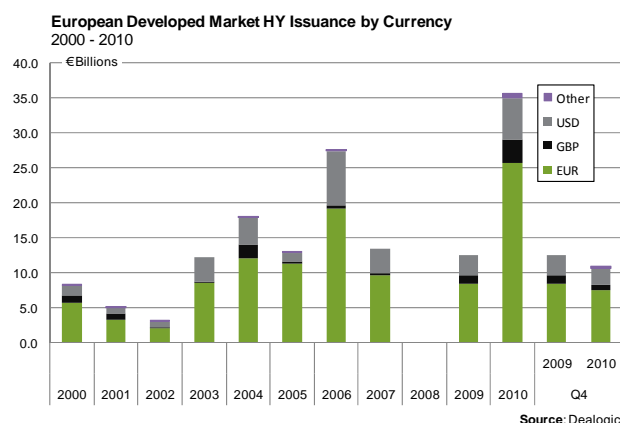
# ISSUANCE

## 4. Issuance – European Developed Market High Yield Bonds

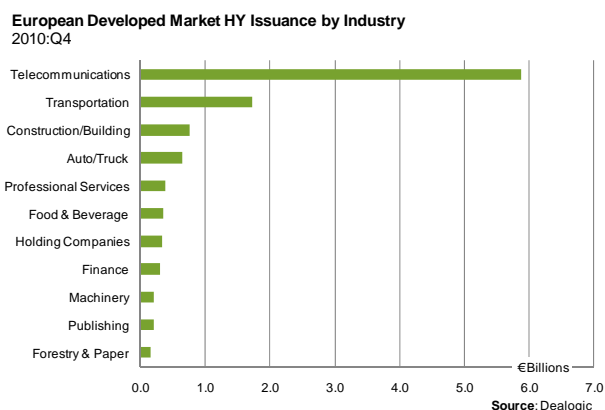
### 4.1. European Developed Market HY Bond Issuance



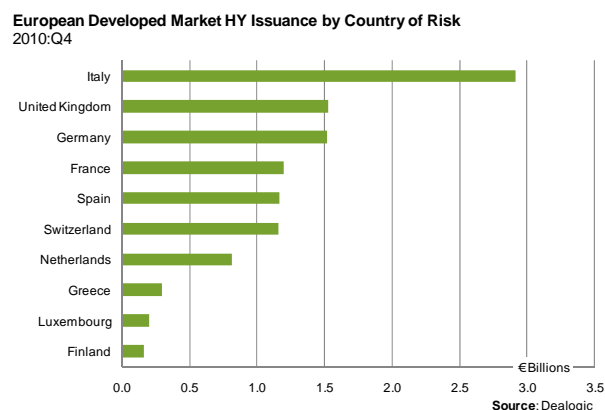
### 4.2. European Developed Market HY Issuance by Currency



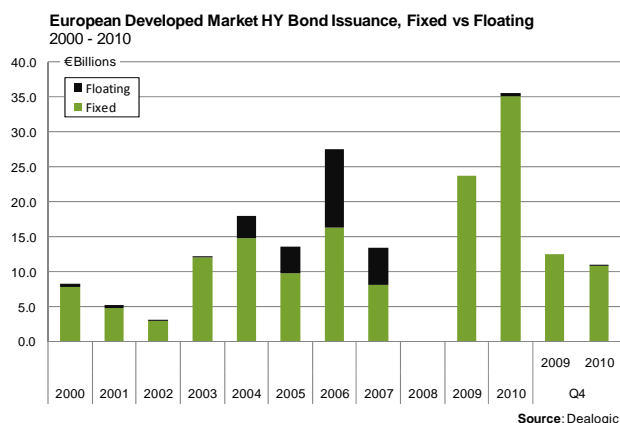
### 4.3. European Developed Market HY Issuance by Industry



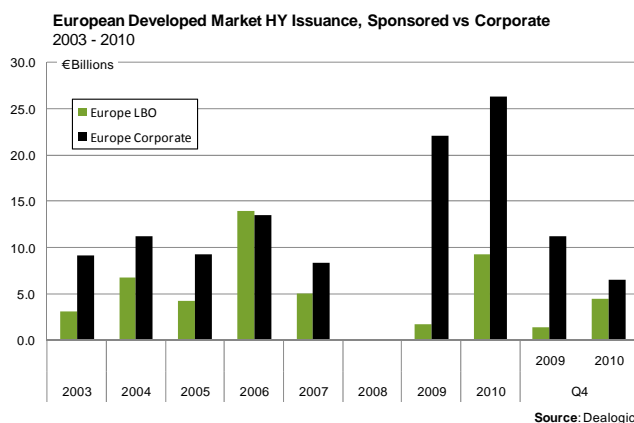
### 4.4. European Developed Market HY Issuance by Country of Risk



### 4.5. European Developed Market HY Issuance, Fixed vs. Floating



### 4.6. European Developed Market HY Issuance, Sponsored vs. Corporate



## ISSUANCE

### 4.7. European Developed Market HY Bond Issuance

Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Rexel SA	Computers & Electronics	08/01/2010	EUR	75	8.250	B1	B+	BB-
HeidelbergCement AG	Construction/Building	12/01/2010	EUR	1,400	6.500/7.500	B1	BB-	BB
FMC Finance VI SA	Finance	13/01/2010	EUR	250	5.500	Ba2	BB+	
Virgin Media Secured Finance plc	Telecommunications	13/01/2010	USD	1,000	6.500	Ba1	BB+	BB+
			GBP	875	7.000	Ba1	BB+	BB+
Ardagh Glass Finance plc	Consumer Products	14/01/2010	EUR	180	8.750	B3	B	
MU Finance plc	Leisure & Recreation	22/01/2010	USD	425	8.375			
			GBP	250	8.750			
SEAT PagineGialle SpA	Publishing	22/01/2010	EUR	550	10.500	B1	B+	
Kerling plc	Chemicals	22/01/2010	EUR	785	10.625	B3	B	
Fage Dairy Industries SA	Food & Beverage	26/01/2010	USD	150	9.875	B3	B-	
InterXion Holding NV	Telecommunications	09/02/2010	EUR	200	9.500	B2	BB-	
Sable International Finance Ltd	Telecommunications	09/02/2010	USD	500	7.750	Ba2	BB	
Ladbroke's Group Finance plc	Finance	26/02/2010	GBP	225	7.625	Ba2	BB	BB+
Pernod Ricard SA	Food & Beverage	11/03/2010	EUR	1,200	4.875	Ba1	BB+	BB+
Renault SA	Auto/Truck	11/03/2010	EUR	500	5.625	Ba1	BB	BB
Stena AB	Transportation	11/03/2010	EUR	200	7.875	Ba2	BB+	
Abengoa SA	Construction/Building	23/03/2010	EUR	500	8.500	Ba3	B	
Matalan Finance Ltd	Retail	24/03/2010	GBP	225	9.625	Ba3	B	
Wienerberger AG	Construction/Building	25/03/2010	EUR	250	4.875	Ba1	BB	
ISS Holding A/S	Professional Services	25/03/2010	EUR	128	8.875	Caa1	B	
Obrascon Huarte Lain SA - OHL	Construction/Building	16/04/2010	EUR	700	7.375	Ba1		BB-
Ziggo BV	Telecommunications	27/04/2010	EUR	1,209	8.000	B2	B	
Cirsa Finance Luxembourg SA	Leisure & Recreation	28/04/2010	EUR	400	8.750	B3	B+	
Rhodia SA	Chemicals	29/04/2010	EUR	500	7.000	B1	BB-	BB-
			EUR	300	9.000	B2	B	
INEOS Finance plc	Chemicals	05/05/2010	EUR	570	9.250	B2	B	
			USD	570	9.250	B2	B	
International Power Finance (2010) plc	Utility & Energy	06/05/2010	EUR	250	7.250	Ba3	BB	BB
TMD Friction Finance SA	Auto/Truck	14/05/2010	EUR	160	10.750	B3	B	
Remy Cointreau SA	Food & Beverage	18/06/2010	EUR	205	5.180	Ba2	BB-	
HeidelbergCement Finance BV	Construction/Building	22/06/2010	EUR	650	6.750	B1	BB-	BB
SPCM SA	Chemicals		EUR	190	8.250	B3	BB-	
Renault SA	Auto/Truck	24/06/2010	EUR	400	5.625	Ba1	BB	BB
EC Finance plc	Transportation	25/06/2010	EUR	250	9.750	B2	B+	
Attica Bank SA	Finance	29/06/2010	EUR	215	3MEuribor + 500			
Nordenia International AG	Chemicals	02/07/2010	EUR	280	9.750	B2		
Conti-Gummi Finance BV	Auto/Truck	09/07/2010	EUR	750	8.500	B1	BB-	B
Phoenix PIB Finance BV	Healthcare	09/07/2010	EUR	506	9.625	B1		CC
NXP BV	Computers & Electronics	13/07/2010	USD	1,000	9.750	Caa1		CCC+
Care UK Health & Social Care plc	Healthcare	15/07/2010	GBP	250	9.750	B2		B+
Inaer Aviation Finance Ltd	Finance	16/07/2010	EUR	470	9.500	B2		B
Cegedim SA	Computers & Electronics	20/07/2010	EUR	300	7.000			BB+
Codere Finance (Luxembourg) SA	Leisure & Recreation	22/07/2010	EUR	100	8.250	B2		B
DFS Furniture Holdings plc	Retail	22/07/2010	GBP	240	9.750	B1		B
DSG International plc	Retail	23/07/2010	GBP	150	8.750	Ba3		
International Personal Finance plc	Finance	30/07/2010	EUR	225	11.500		BB+	
Elan Finance Corp Ltd	Healthcare	11/08/2010	USD	200	8.750	B2		B
Stora Enso Oyj	Forestry & Paper	24/08/2010	SEK	1,300	5.750	Ba2		BB
			SEK	1,000	3M Other + 370	Ba2		BB

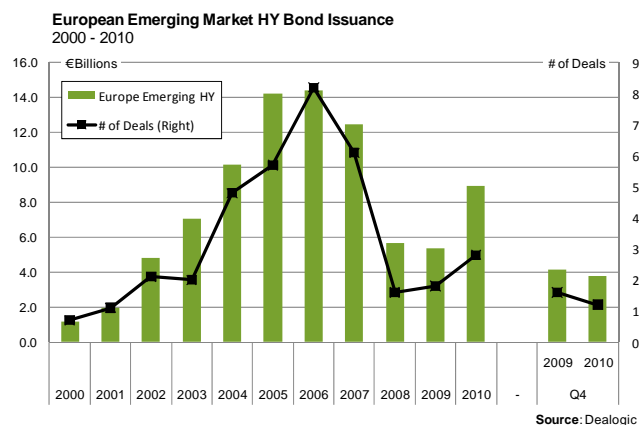
## ISSUANCE

Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Conti-Gummi Finance BV	Auto/Truck	02/09/2010	EUR	1,000	7.500	B1		B
Renault SA	Auto/Truck	13/09/2010	EUR	250	5.625	Ba1	BB	BB
Picard Bondco SA	Food & Beverage	22/09/2010	EUR	300	9.000	B3	B-	B-
Rhodia SA	Chemicals	22/09/2010	USD	400	6.875	B1		BB
Conti-Gummi Finance BV	Auto/Truck	28/09/2010	EUR	625	6.500	B1		
			EUR	625	7.125	B1		
Ardagh Glass Group plc	Consumer Products	30/09/2010	EUR	825	7.375	Ba3		BB-
			USD	350	7.375	Ba3		BB-
			EUR	275	9.250	B3		B-
			USD	450	9.125	B3		B-
SEAT PagineGialle SpA	Publishing	01/10/2010	EUR	200	10.500	B1e	B+	
Hapag-Lloyd AG	Transportation	01/10/2010	EUR	330	9.000	B3	B	
			USD	250	9.750	B3	B	
Sunrise Communications AG	Telecommunications	07/10/2010	CHF	300	7.000	Ba3	BB	
			EUR	505	8.500	B3	B	
			EUR	371	7.000	Ba3	BB	
Navios Maritime Acquisition Corp	Transportation	07/10/2010	USD	400	8.625	B3	B+	
ATU Auto-Teile-Unger Handels GmbH & Co KG	Auto/Truck	08/10/2010	EUR	375	11.000	B3	B-	
			EUR	75	6M Euribor+975	B3	B-	
Exova Group Ltd	Professional Services	15/10/2010	GBP	155	10.500	B3	B-	NR
Nara Cable Funding Ltd	Telecommunications	15/10/2010	EUR	700	8.875	B2	B-	BB-
Abengoa Finance SAU	Construction/Building	19/10/2010	USD	650	8.875	Ba3	B+	BB
Wendel Investissement SA	Finance	20/10/2010	EUR	300	4.875		BB-	
Ziggo BV	Telecommunications	21/10/2010	EUR	750	6.125	Ba2	BB	BB
Hapag-Lloyd AG	Transportation	25/10/2010	EUR	150	9.000	B3	B	
R&R Ice Cream Ltd	Food & Beverage	28/10/2010	EUR	350	8.375	B2	BB-	
Siemens Enterprise Communications GmbH & Co	Professional Services	29/10/2010	EUR	200	10.750	B3	B-	
BAA (SH) plc	Transportation	02/11/2010	GBP	325	7.125	Ba3		BB+
InterXion Holding NV	Telecommunications	04/11/2010	EUR	60	9.500	B2	BB-	
Sunrise Communications AG	Telecommunications	08/11/2010	EUR	56	8.500	B3	B	
KUKA AG	Machinery	11/11/2010	EUR	202	8.750	B3	B-	
Wind Acquisition Finance SA	Telecommunications	18/11/2010	EUR	1,750	7.375	Ba2	BB-	
			USD	1,300	7.250	Ba2	BB-	BB+
Europcar Groupe SA	Transportation	18/11/2010	EUR	400	9.375	Caa1	B-	
Stora Enso Oyj	Forestry & Paper	22/11/2010	SEK	400	3M Other+370	Ba2	BB	
			SEK	1,100	5.750		BB	
EFG Hellas (Cayman Islands) Ltd	Finance	23/11/2010	EUR	5	N/A	Baa3	BB	BBB-
			USD	3	N/A	Baa3	BB	BBB-
Taylor Wimpey plc	Construction/Building	25/11/2010	GBP	250	10.375	B2	B+	
Alcatel Lucent SA	Telecommunications	25/11/2010	EUR	500	8.500	B1	B	
Mark IV Europe Lux SCA	Auto/Truck	02/12/2010	EUR	200	8.875	Ba3	BB-	
EFG Hellas (Cayman Islands) Ltd	Finance	03/12/2010	EUR	1	N/A	Baa3	BB	BBB-
CEVA Group plc	Holding Companies	09/12/2010	USD	450	8.375	B1	B	

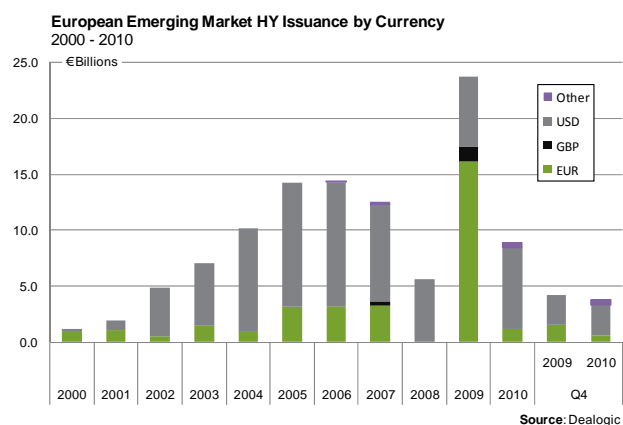
Source: Bloomberg, Dealogic

## 5. Issuance – European Emerging Market High Yield Bonds

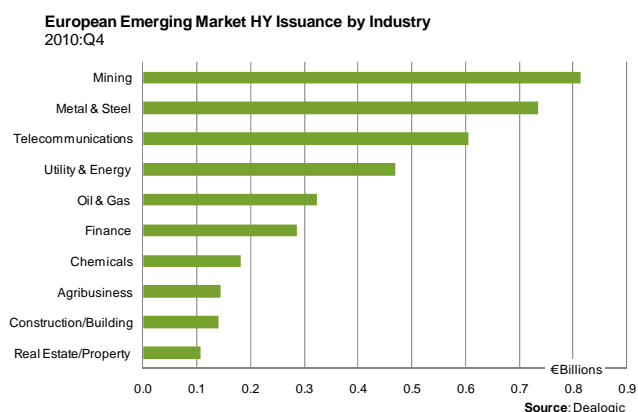
### 5.1. European Emerging Market HY Bond Issuance



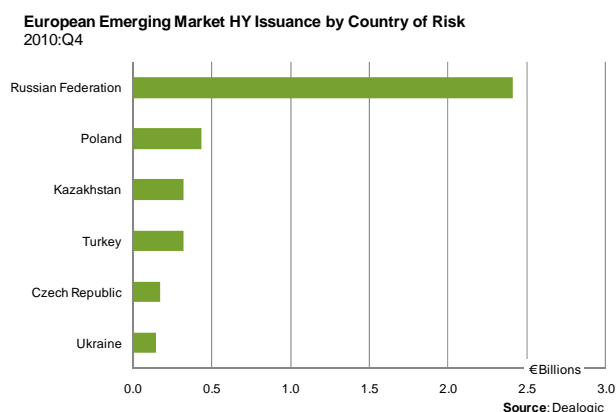
### 5.2. European Emerging Market HY Bond Issuance by Currency



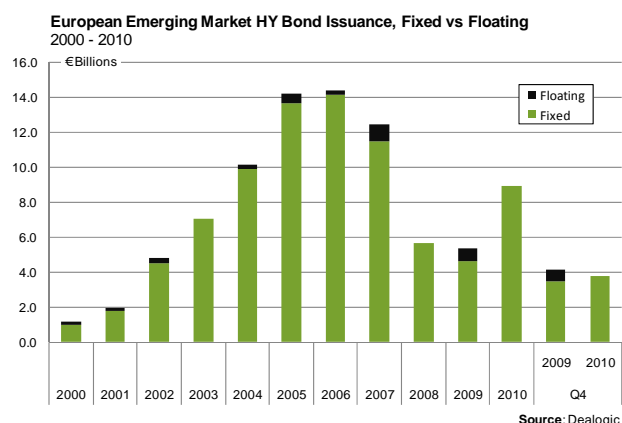
### 5.3. European Emerging Market HY Issuance by Industry



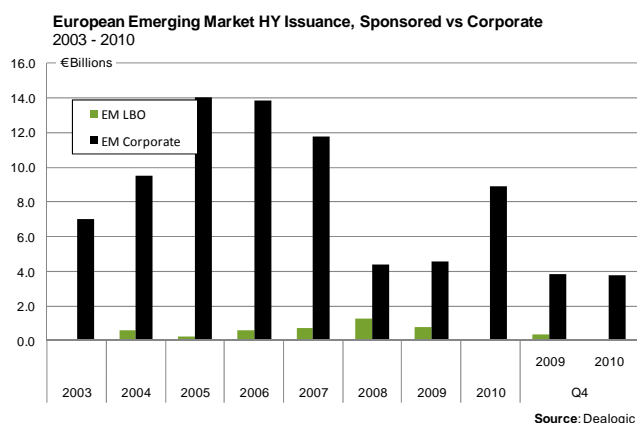
### 5.4. European Emerging Market HY Issuance by Country of Risk



### 5.5. European Emerging Market HY Issuance, Fixed vs. Floating



### 5.6. European Emerging Market HY Issuance, Sponsored vs. Corporate



## ISSUANCE

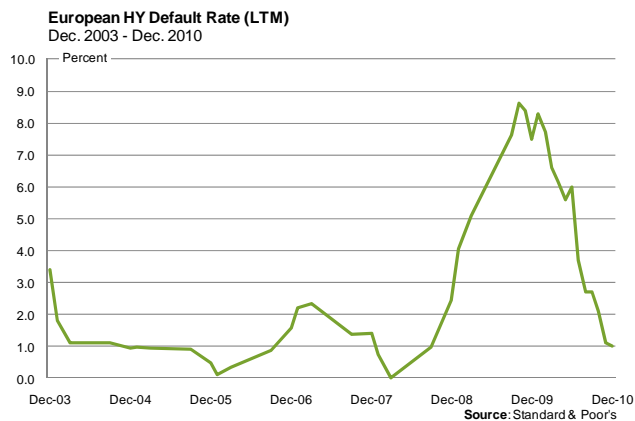
### 5.7. Emerging Market HY Bond Issuance

Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moodys	S&P	Fitch
Tatfondbank OAO	Finance	27/01/2010	USD	109	12.000	B2		
			USD	116	12.000	B2		
International Industrial Bank - Mezhprombank	Finance	04/02/2010	USD	200	11.000	B1	B	B
Alliance Oil Co Ltd	Oil & Gas	04/03/2010	USD	350	9.875	B+		B
Alfa MTN Issuance Ltd	Finance	09/03/2010	USD	600	8.000	Ba1	B+	BB
Renaissance Capital Bank OOO	Finance	25/03/2010	USD	225	13.000	B3	B-	B-
New Moscow Bank ZAO - Nomos Bank	Finance	14/04/2010	USD	350	8.750	B1		B+
New World Resources NV	Mining	20/04/2010	EUR	475	7.875	Ba3	BB-	
TVN Finance Corporation II AB	Telecommunications	20/04/2010	EUR	100	10.750	B1	B+	
DTEK Finance BV	Utility & Energy	21/04/2010	USD	500	9.500	B2		B
MHP SA	Agribusiness	22/04/2010	USD	330	10.250	B3		B
Credit Europe Bank (Russia) Ltd	Finance	12/05/2010	USD	300	7.750	Ba3		BB-
Metinvest BV	Metal & Steel	14/05/2010	USD	500	10.250	B3		B
Mobile TeleSystems OAO - MTS	Telecommunications	15/06/2010	USD	750	8.625	Ba2	BB	BB+
Promsvyazbank OAO	Finance	02/07/2010	USD	200	11.250	Ba3	B-	
Georgian Railway Ltd	Transportation	15/07/2010	USD	250	9.875		B+	B+
PrivatBank ZAT	Finance	16/09/2010	USD	200	9.375	B1	B	
Alfa Bank OAO	Finance	17/09/2010	USD	1,000	7.875	Ba1	BB	B+
Yasar Holdings SA	Chemicals	04/10/2010	USD	250	9.625	B2		B
Zhaikmunai Finance BV	Oil & Gas	13/10/2010	USD	450	10.500	B3	B	
SeverStal OAO	Metal & Steel	14/10/2010	USD	1,000	6.700	Ba3	BB-	B+
CET 21 spol sro	Telecommunications	14/10/2010	EUR	170	9.000	Ba3	B	
New Moscow Bank ZAO - Nomos Bank	Finance	15/10/2010	USD	400	6.500	Ba3		BB-
RusHydro OAO	Utility & Energy	21/10/2010	RUB	20,000	7.875	Ba1	BB+	BB+
Avangard ZAT	Agribusiness	25/10/2010	USD	200	10.000			B
ALROSA Finance SA	Mining	28/10/2010	USD	1,000	7.750	Ba3	BB-	BB-
YukseI Insaat AS	Construction/Building	05/11/2010	USD	200	9.500	B1		B
CUN LenSpecSMU ZAO	Real Estate/Property	08/11/2010	USD	150	9.750			
TVN Finance Corporation III AB	Telecommunications	10/11/2010	EUR	175	7.875	B1	B+	
Polish Television Holding BV	Telecommunications	10/11/2010	EUR	260	11.000		B-	

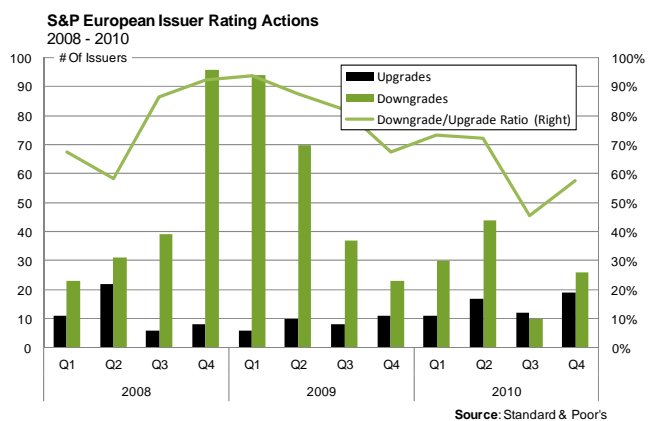
Source: Bloomberg, Dealogic

## 6. Credit Quality

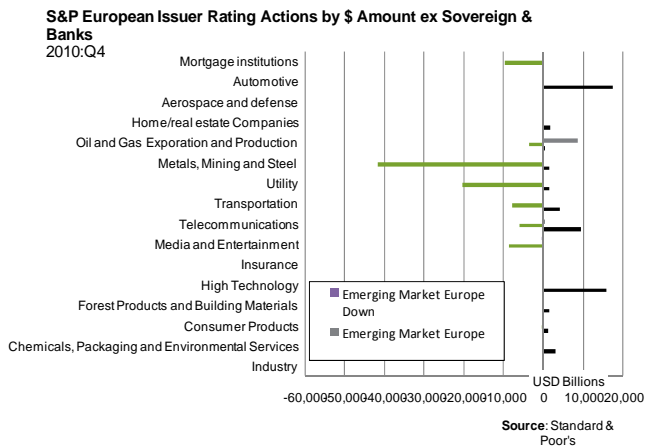
### 6.1. European HY Default Rate



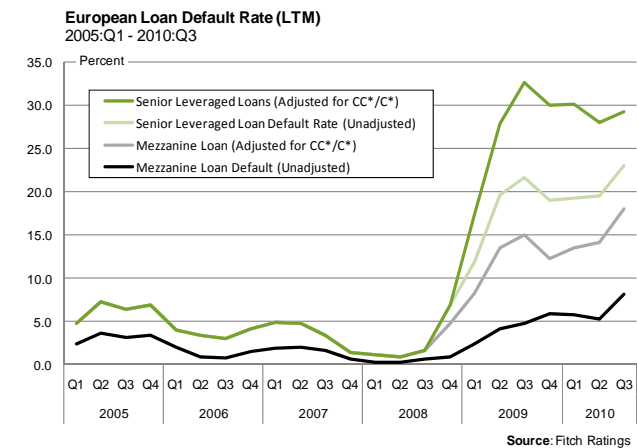
### 6.2. European Issuer Rating Actions<sup>1</sup>



### 6.3. European Industry Rating Actions by \$ Amount



### 6.4. European Loan Default Rate<sup>2</sup>



<sup>1</sup> "European" issuer downgrades are according to S&P's "Europe" list and may not include certain European emerging market countries. Numbers include both corporate and sovereigns.

<sup>2</sup> Fitch data are as of 2010 Q3; data may be a quarter or two behind due to timing of publications.

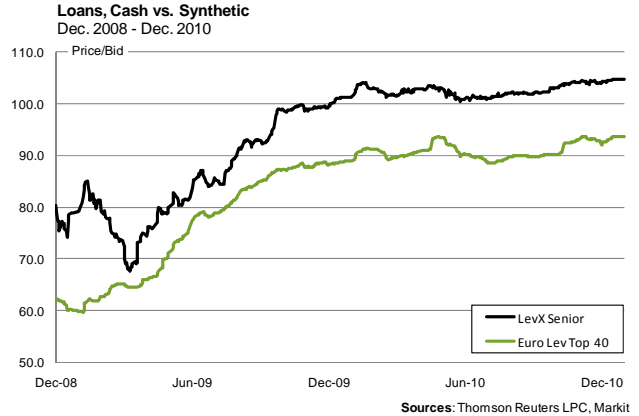
## RELATIVE VALUE

### 7. Relative Value

#### 7.1. European HY Bonds, Cash vs. Synthetic

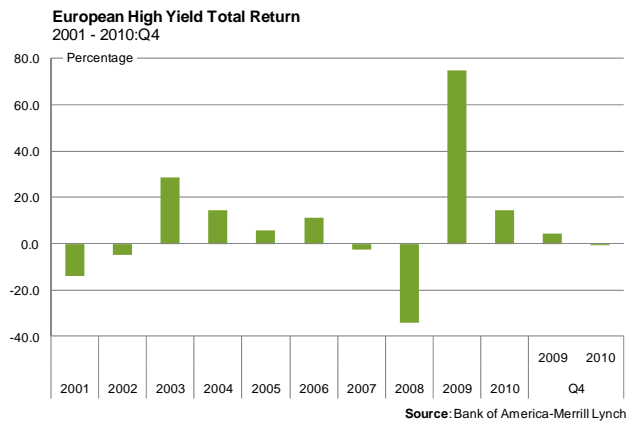


#### 7.2. European Leveraged Loans, Cash vs. Synthetic

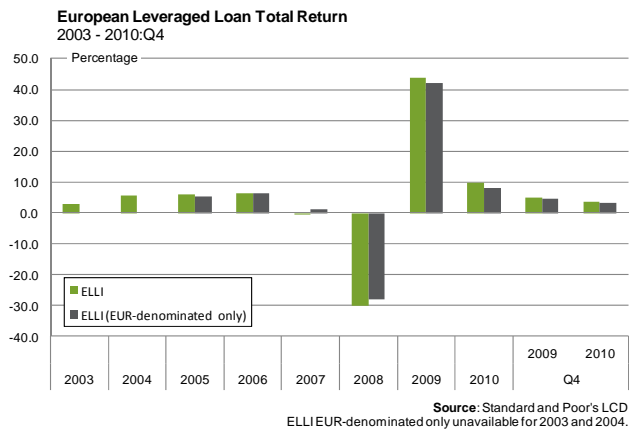


### 8. Total Return

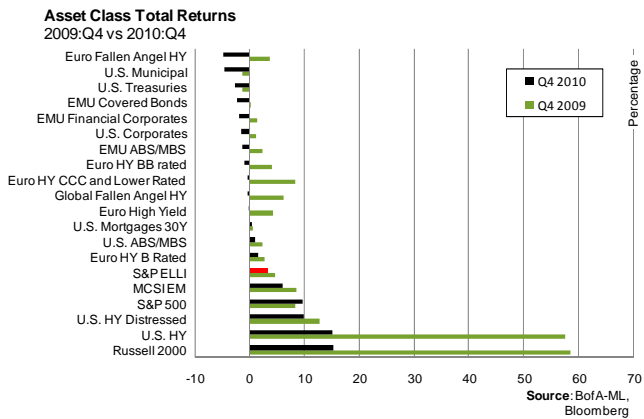
#### 8.1. European HY Bond Total Return



#### 8.2. European Leveraged Loan Total Return



#### 8.3. Asset Class Total Return





# Summary of the Methodologies Adopted for this Report

## 1. Leveraged Issuance – Overview

### 1.1. – 1.3. Leveraged Loans and High Yield Bonds

Leveraged loan data are sourced from Thomson Reuters LPC and Dealogic.

Leveraged loan data from Thomson Reuters LPC are defined primarily as having sub-investment grade ratings and/or a margin spread minimum of 200 basis points (spread minimums will vary from year to year to make Thomson Reuters LPC's cutoff). Leveraged loan aggregates will include first lien, second lien, and mezzanine financing. Discrepancies in Thomson Reuters LPC data are due to rounding and/or currency rate of exchange.

Leveraged loan data from Dealogic are defined primarily as coming from a leveraged or highly leveraged European deal; loan tranches must have sub-investment grade ratings, or, if unrated, a margin spread minimum of 125 basis points over a benchmark (e.g., Euribor, LIBOR). Under these guidelines, sub-investment grade-rated loans with a margin spread of less than 125 basis points are included. Deals must be European and are inclusive of both developed and emerging market Europe as defined in high yield criteria in Section 3. Deals must also be marketed either in Europe or in the United States. Loans not EUR-denominated are converted to EUR as of credit date for purposes of aggregation. Aggregates include new money as well as non-new money deals.

Criteria for high yield bond transactions can be found in Section 3, 4, and 5.

### 1.4. – 1.7. Bank Lending Surveys

Data for loan demand and credit standards are sourced from the ECB's bank lending survey. Graph numbers are net percentages of reporting banks.

### 1.8. Global Comparison – High Yield Issuance

Data for global high yield issuance are sourced from Dealogic. Asian deals are inclusive of Japan and Australia.

## 2. Issuance – Leveraged Loans

### 2.1. – 2.2.

Leveraged loan issuance data are sourced primarily from Dealogic and Thomson Reuters LPC. For more details on qualifying criteria, please refer to section 1.

### 2.3. Forward Pipeline of Leveraged Loan Market

Forward leveraged loan pipeline data are sourced from S&P LCD.

### 2.4. S&P ELLI Total Institutional Loans Outstanding

Total institutional loan outstanding data are sourced from S&P LCD and are outstanding loans in the S&P ELLI index.

### 2.5. S&P ELLI Ratings Diversification

S&P ELLI ratings diversification are the percentages of currently outstanding loans in S&P's ELLI index that are rated accordingly. Data are provided by S&P LCD.

### 2.6. European Leveraged Loan Ratios

European leveraged loan ratios are sourced from Fitch Ratings and are a debt/EBITDA ratio across Fitch's shadow rated universe. Transactions included in the ratio include new as well as existing transactions and ratings may be assigned at various points in time throughout the year.

### 2.7. – 2.8. Loan Spreads

Loan spread data are sourced from Dealogic under our criteria for leveraged loans (see Section 1). For purposes of loan spread calculations, deals marketed in the US are excluded. Spreads are a weighted average of spread margin on new leveraged issuance on a rolling twelve months basis, and are typically benchmarked to LIBOR or EURIBOR. Institutional loan spread data are inclusive of 2<sup>nd</sup> lien; pro rata spreads include all revolvers and term loan A (Tla).

## 3. Issuance – High Yield Bonds Overview

High yield bond transactions are sourced primarily from Dealogic, with supplemental information sourced from Bloomberg. High yield transactions are defined as transactions with a Dealogic "effective" rating of equal or less than BB+, and may include unrated transactions based on issuer and desk notes. Split-junk rated transactions are generally excluded.

European issuance, inclusive of both emerging market Europe and developed market Europe, are defined as an issue having a Dealogic "deal nationality" as well as "nationality of risk" within Europe issued in the euro, foreign, and global markets; deals marketed locally are excluded. Sovereign, sub-sovereign, and supranational parent issuers are excluded from issuance, as well as ABS/MBS issuers.

Emerging market Europe and developed market European issuance are defined by nationality of risk, rather than nationality of deal, and although primarily sourced from Dealogic, are ultimately subject to AFME's discretion. Emerging and developed market issuance are mutually exclusive and will contain no overlap unless otherwise mentioned.

European emerging market bonds are further defined with having a minimum deal size of €75.0 million; deals on the same day from the same issuer are aggregated for the purpose of meeting this minimum. Russian ruble (RUB)-denominated issuance are excluded due to differences in terms and documentation; as of 4Q'10 this criteria no longer applies and may be included on a case by case basis.

### 3.2. European HY Issuance by Sponsor

Data for high yield issuance by sponsor are sourced from Dealogic. LBO deals are defined as all high yield transactions whose issuer parent is a public or private finance entity (i.e., a financial sponsor), regardless of use of proceeds.

### 3.3. – 3.4. European Corporate Bonds Outstanding

Data for European corporate outstanding are sourced from Bloomberg and AFME/SIFMA estimates. Criteria for European corporate bonds are: bonds must be placed in the euro, foreign, and global markets (domestically placed issues are excluded) with a nationality of issue and risk from a European developed or emerging market country as defined by AFME. Corporate bonds exclude all issuance from banks and financials, and additionally excludes all covered bonds, warrants, deposit notes, receipts, and certificates of deposit. No currencies are excluded in this analysis and all non-EUR currencies are converted to EUR at end-quarter exchange rates.

To qualify as an investment grade corporate bond, a security must have a minimum of one investment grade rating from Moody's, Standard and Poor's, or Fitch Ratings. Split-rated securities are also included in investment-grade numbers. To qualify as a high yield corporate bond, a security must have a minimum of one sub-investment-grade rating from Moody's, Standard and Poor's, or Fitch Ratings; withdrawn ratings are not counted for purposes of determining high yield. Unless otherwise specified, high yield outstanding totals in discussion commentary will include non-rated securities, regardless of the credit quality of the debt or issuer.

Corporate bonds outstanding include certain securities that may be considered corporate securitisations or structured finance securities; while all effort is made to exclude the latter, the former will be counted toward the corporate bonds outstanding total, and will subsequently overlap to some extent to AFME / ESF structured finance outstanding numbers.

### 3.5. European HY Issuance By Use of Proceeds

Data for HY issuance by use of proceeds are sourced from Dealogic and aggregated for the purposes of this calculation. Please refer to Section 3 for criteria on high yield issue inclusion.

### 3.6. European HY Issuance, Senior Secured Share

Data for HY issuance by seniority are sourced from Dealogic and Bloomberg. "Senior Unsecured" totals include all bonds that are senior but not senior secured.

## 4. Issuance – European Developed Market High Yield Bonds

### 4.1. – 4.7.

High yield bond issuance data are sourced from Dealogic. For further criteria on how high yield issuance are defined, please refer to section 3.

Developed European issuance are deals predominantly from western Europe and includes deals from Andorra, Austria,

Belgium, Bulgaria, Cyprus, Switzerland, Germany, Denmark, Spain, Estonia, Finland, France, Faroe Islands, United Kingdom, Guernsey, Gibraltar, Greenland, Greece, Isle of Man, Ireland, Iceland, Italy, Jersey, Liechtenstein, Luxembourg, Monaco, Malta, Montenegro, Netherlands, Norway, Portugal, San Marino, and Sweden.

## 5. Issuance – European Emerging Market High Yield Bonds

### 5.1. – 5.7.

High yield bond issuance data are sourced from Dealogic. Criteria for all high yield issuance are found in section 3.

Emerging market European issuance deals are predominantly from eastern Europe but will also additionally include Turkey, the Russian Federation, Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan, Azerbaijan, and Kyrgyzstan. Certain sub-investment grade countries are not included in the emerging market total, including, among others, Iceland and Greece.

## 6. Credit Quality

### 6.1. European HY Default Rate

European HY bond default rates are sourced from S&P and are on a trailing 12 month basis.

"Europe" for the S&P default rate is defined to include Austria, Belgium, Bulgaria, Channel Islands, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland and the United Kingdom. Countries are subject to revision.

### 6.2. European Issuer Rating Actions

European issuer upgrades and downgrades are sourced from S&P. The list of countries included under S&P Europe's upgrade and downgrade numbers are listed in section 6.1. Multiple downgrades of a single issuer are counted separately. Rating actions are inclusive of both corporate as well as sovereign downgrades.

### 6.3. European Issuer Rating Actions by \$ Amount

Rating actions by US dollar amount, industry, and country are sourced from S&P. Breakdown by emerging market and developed Europe are from AFME's definition of developed and emerging markets and would be, under S&P's guidelines, a combination of both European and EMEA rating actions.

### 6.4. European Loan Default Rate

European loan default rates, both mezzanine and senior leveraged loans, are sourced from Fitch Ratings and are on a LTM basis.

Adjusted rates for both mezzanine and senior loans are inclusive of Fitch's CC\*/C\* shadow-rated leveraged credits, whereas unadjusted rates are exclusive of these rated credits. Senior leveraged loan data is available only for 2009.

## 7. Cash and Synthetic

### 7.1. – 7.2. Loans and Bonds, Cash and Synthetic

Data are sourced from Markit and Thomson Reuters LPC. High yield bond cash and synthetic spreads from Markit; European leveraged loan cash bid prices from Thomson Reuters LPC, and European leveraged loans synthetic prices from Markit.

## 8. Total Return

### 8.1. European HY Bond Total Return

European HY bond total return data are sourced from the Bank of America-Merrill Lynch's Euro High Yield Index (HE00). The index tracks the performance of EUR-denominated below-investment-grade corporate debt publicly issued in the euro domestic or Eurobond markets. Qualifying securities must have a below-investment-grade rating and an investment-grade rated country of risk. Qualifying securities must have at least one year remaining term to maturity, fixed coupon schedule and minimum amount outstanding of €100 million. Original issue zero coupon bonds, "global securities" (debt issued simultaneously in the Eurobond and euro domestic markets), 144a securities and pay-in-kind securities, including toggle notes, qualify for inclusion in the index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Defaulted, warrant-bearing and euro legacy currency securities are excluded from the index.

### 8.2. European Leveraged Loan Total Return

Total return data are provided by S&P LCD and are total returns from S&P's ELLI index, both ELLI and EUR-denominated ELLI. Total returns for ELLI EUR-denominated data are unavailable for 2003 and 2004.

### 8.3. Asset Class Total Return (Cash Basis)

Total returns are sourced from respective index owners and Bank of America-Merrill Lynch's indices.

## Disclaimer

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