

European High Yield & Leveraged Loan Report



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European Leveraged Finance, Fourth Quarter 2011

Highlights and Market Environment

Highlights

- European leveraged finance issuance (leveraged loans and high yield bonds) closed on an extremely soft note, with €9.3 billion issued in the fourth quarter of 2011, a decline of 57.2% and 54.4%, respectively, from Q3'11 (€20.3 billion) and Q4'10 (€21.6 billion). The continued financial market strain due to the ongoing sovereign debt crisis and weak macroeconomic backdrop continued to dominate in the fourth quarter. While the full year 2011 issuance was €118.5 billion, a 26.5% increase from 2010, the increase stems largely from a strong first half of the year before the market shutdown in the second half.
- Market share of high yield bond issuance increased to 39.7% in Q4'11 (compared to 22.0% in Q3'11). For the full year, however, high yield bond issuance reached a new high, with €49.7 billion issued, an 11.6% increase from the previous high in 2010 (€44.6 billion).

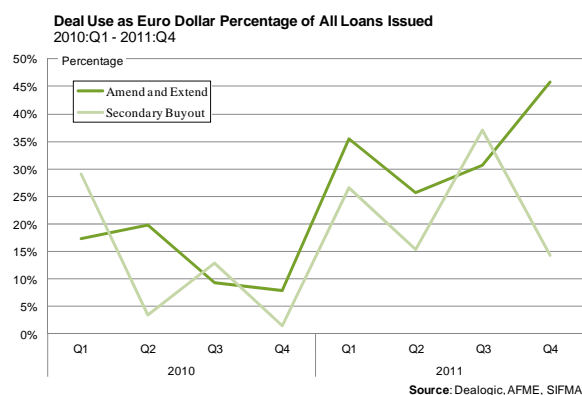
Market and Economic Environment

- According to the January European Central Bank (ECB) bank lending survey, banks reported, on net, a large tightening of lending standards in the fourth quarter, both for small- and medium-sized enterprises (SMEs) and large enterprises. Standards for short-term loans continued to further tighten for the second quarter in a row, while standards for long-term loans continued to tighten. While the extremely weak macroeconomic backdrop for Europe and negative industry outlooks contributed the most to tightening standards for corporates; bank access to financing and their liquidity positions featured prominently in tightened lending standards.
- Pressures on bank funding were relieved temporarily in the fourth quarter. Coordinated central bank actions at the end of November alleviated dollar funding needs by easing pricing on dollar liquidity swap arrangements. In mid-December, the European Central Bank (ECB) conducted two longer-term refinancing operations (LTROs) with a 3-year maturity, cut reserve requirements, and eased collateral requirements in European system operations for asset-backed securities (ABS) backed by SME loans or RMBS.
- Factors that contributed to easing standards, albeit minor contributions, were bank and non-bank competition and market financing. Overall, the demand for loans dropped in the fourth quarter, and any demand was primarily to continue restructuring debts.

Issuance

Issuance: Leveraged Loans

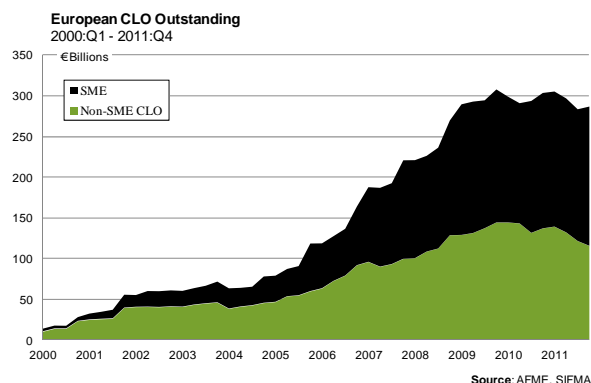
- Leveraged loan issuance, which includes first lien, second lien, and mezzanine financing, totalled €5.6 billion in Q4'11, a decline of 18.6% and 64.7% respectively, quarter-over-quarter (Q3'11's issuance of €15.8 billion) and year-over-year (Q4'11's issuance of €6.9 billion). According to S&P, the loan pipeline at the end of December 2011 was empty.
- Approximately €0.1 billion of mezzanine loans and no second liens were issued in the fourth quarter. The twelve-month weighted average mezzanine spread continued to remain at 738 basis points. Pricing spreads for pro rata loans tightened by 12 basis points end-December from end-September, while institutional loan spreads tightened by 0.97 basis points.
- According to Dealogic, the leading sectors in leveraged loan issuance for the fourth quarter were professional services (€1.5 billion, 1 deal), followed by telecommunications (€1.0 billion) and oil & gas (€0.93 billion). The largest deal was a transaction from Thomas Cook Group to amend covenants on existing facilities.



- Nearly half the deals in the fourth quarter were amend and extend (“A&E”) transactions. For the full year, approximately a third of all loan transactions, representing €21.3 billion, were A&E transactions.
- Approximately 14.3% of loan issuance were for private equity exits through secondary buyouts in Q4'11. For the full year €16.0 billion of loan issuance was used for secondary buyout transactions, more than double the amount in 2010. As markets turned sour in 2011, LBO sponsors stepped up in aggressively amending and extending loan terms, refinancing facilities through the high yield bond markets, and exiting existing transactions through secondary buyouts.
- The share of deals aimed to refinance and/or repay debt increased slightly to a 47.4% market share in Q4'11,

compared to 45.34% in 3Q'11, while LBO/MBO deals decreased to 23.0%, compared to 48.2% of all deals in the fourth quarter.

- The primary CLO market was quiet in the fourth quarter. Primary market SME issuance picked up in the fourth quarter to €26.4 billion, nearly triple the amount from the third quarter. Nearly all the tranches were retained, presumably for repo with the ECB. Although the ECB lowered collateral requirements for SME deals mid-December to single A at issuance, weak macroeconomic fundamentals and sensitivity to financial market strains have placed a strain on SME ratings generally, particularly given sovereign rating ceilings. Moody's noted that its outlooks for banking systems with active SME markets were largely negative. Spain, currently on negative outlook with ratings of A1, is the most active in the SME space and faces heightened risk in 2012.¹
- European CLO outstandings, including SME deals, modestly increased 4.9% on an annualized basis in the fourth quarter, ending in December 2011 at €286.7 billion. The increase is due to the large net issuance of mostly-retained SME deals done in the fourth quarter. Non-SME outstandings shrank 17.9% on an annualized basis.



Issuance: High Yield Bonds

- Primary issuance in Q4'11 totalled an anaemic €3.67 billion on 12 deals, a decline of 17.7% and 75.1%, respectively, quarter-over-quarter and year-over-year. Both emerging market and developed market Europe experienced heavy declines quarter-over-quarter.
- Primary issuance in developed markets Europe in the fourth quarter was €3.1 billion on 12 deals, while in emerging markets Europe primary issuance was €0.57 billion on 3 deals. One debut issue was brought to market in emerging market Europe, by Uranium One.
- High yield issuance for refinancing and/or repayment of debt ticked up slightly by percentage in Q4'11 to 35.8% of all deals by euro amount, compared to 30.6%

in Q3'11. For the full year, approximately half of all deals in both emerging and developed market were to refinance or repay debt (54% in developed Europe, 43% for emerging Europe).

- Use of senior secured debt structures increased slightly in 4Q'11 to 25.3% by euro amount, compared to the recent low of 12.3% in the third quarter. Overall, however, approximately 40.5% of all high yield deals in 2011 were issued senior secured. Usage was more prevalent in developed Europe, where 46.3% of all deals were issued senior secured, compare to 15.6% in emerging market Europe.

Returns & Credit Quality

- Both European high-yield and leveraged loans eked out positive returns in the fourth quarter, returning on an absolute basis 4.3% and 2.3% respectively. High yield globally did generally well on an absolute basis for the fourth quarter, with US high yield leading returns, while global equities continued their slide downwards. For the full year, however, European high yield returned (2.5%) while leveraged loans returned 0.72%.
- According to S&P, downgrades continue to exceed upgrades in developed market Europe, with 51 downgrades and 19 upgrades in the fourth quarter. The bulk of the downgrades continued to be concentrated in sovereigns and bank credits. Bank credit downgrades were spread across the Eurozone region, led by Italy (4 downgrades) and the United Kingdom (3 downgrades). On the other hand, banks also received the bulk of upgrades, led by German and Swedish banks.
- Emerging market Europe, on the other hand, continued to receive more upgrades than downgrades (13 upgrades, 3 downgrades). Three sovereigns received upgrades while three were downgraded. While generally emerging market Europe has remained a bright spot in the European region due to stronger commodities markets, Moody's noted that the region was at risk of being affected by European's sovereign debt crisis if there were a prolonged economic downturn.²
- High yield bond default rates ticked up in the fourth quarter, with the 12-month trailing default rate for bonds by S&P and Moody's at 1.6% and 2.7%, respectively. Three defaults were reported by Moody's in the fourth quarter: Lighthouse International Company SA (missed interest payment), SEAT Pagine Gialle (missed interest payment), and Northern Rock (distressed exchange). S&P also reported the default of Yioula Glassworks SA (failure to refinance loan).

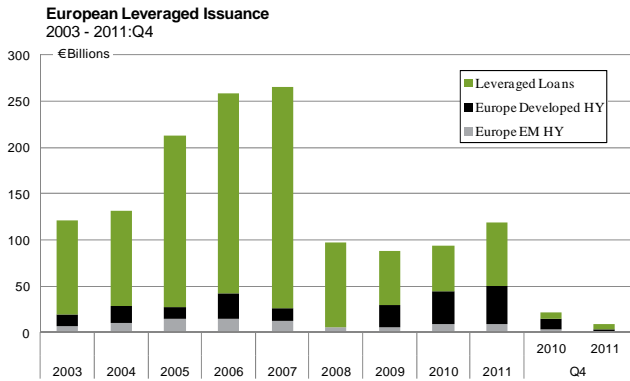
¹ Moody's, European SME ABS 2012 Outlook, 16 January 2012.

² Moody's, EMEA Corporates: 2012 Outlook, 12 January 2012.

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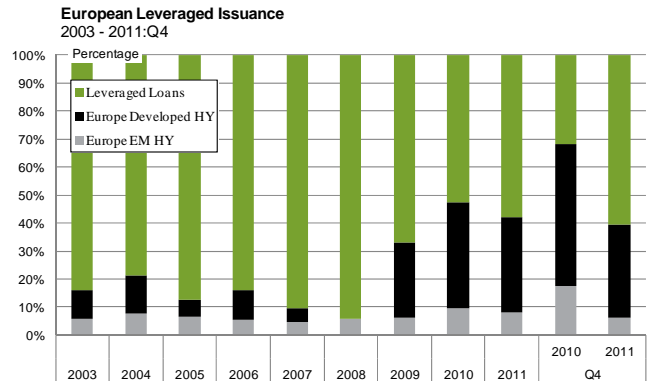
1. Leveraged Finance Overview

1.1. European Leveraged Issuance by Type



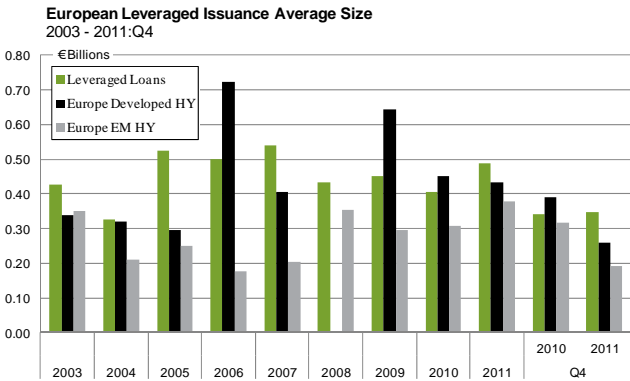
Sources: Dealogic, Thomson Reuters LPC

1.2. European Leveraged Issuance by Percentage



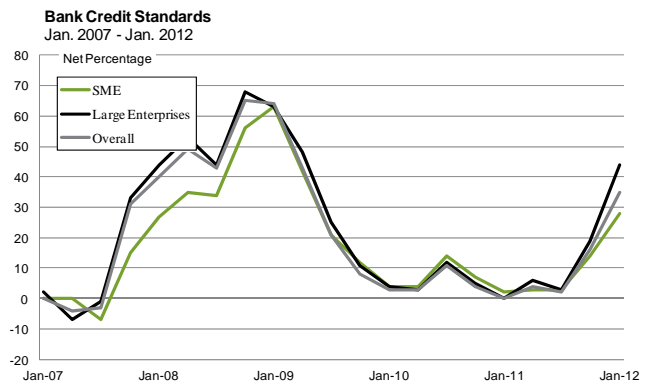
Sources: Dealogic, Thomson Reuters LPC

1.3. European Leveraged Issuance Average Deal Size



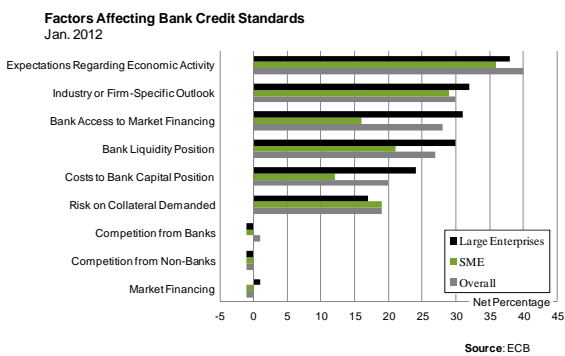
Sources: Dealogic, Thomson Reuters LPC

1.4. Bank Credit Standards¹



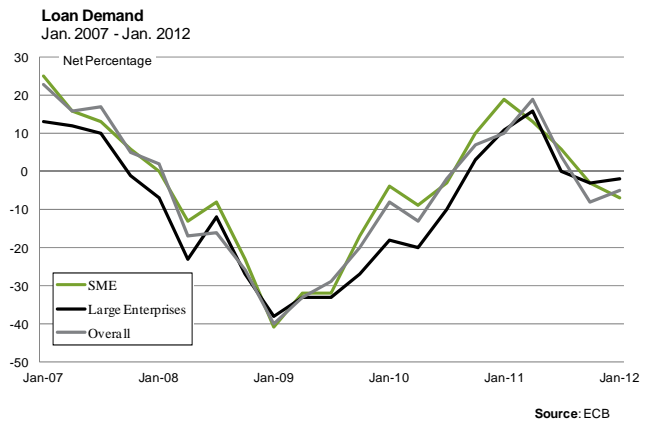
Source: ECB

1.5. Factors Affecting Bank Credit Standards²



Source: ECB

1.6. Loan Demand³



Source: ECB

¹ A positive net percentage number signifies tightening bank credit; a negative net percentage number signifies easing credit.

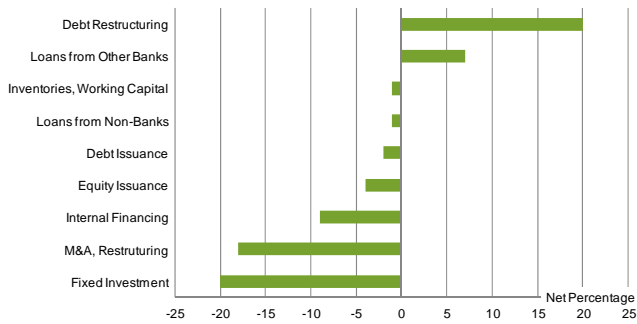
² A positive net percentage signifies the factor contributed to tightening credit standards; a negative net percentage signifies the factor contributed to easing credit standards.

³ A positive net percentage signifies increased demand; a negative net percentage signifies decreased demand.

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1.7. Factors Affecting Loan Demand⁴

Factors Affecting Loan Demand
Jan. 2012



Source: ECB

1.8. Global Comparison – High Yield Issuance

€ Billions	2011				
	Q1	Q2	Q3	Q4	Full Year
United States	47.0	43.9	13.8	21.8	126.5
Asia Pacific	14.9	12.3	5.1	4.9	37.3
Europe	28.0	26.8	5.7	5.6	66.1

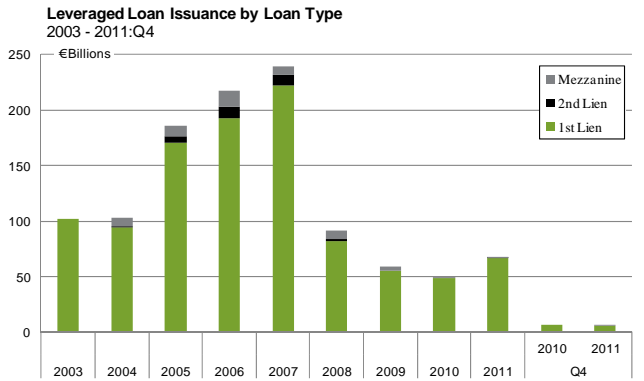
2010				
Q1	Q2	Q3	Q4	Full Year
39.6	28.0	45.7	48.6	162.0
8.0	10.3	11.3	15.8	45.5
14.5	13.5	16.9	20.7	65.6

Prior
2009
92.4
28.4
39.2

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

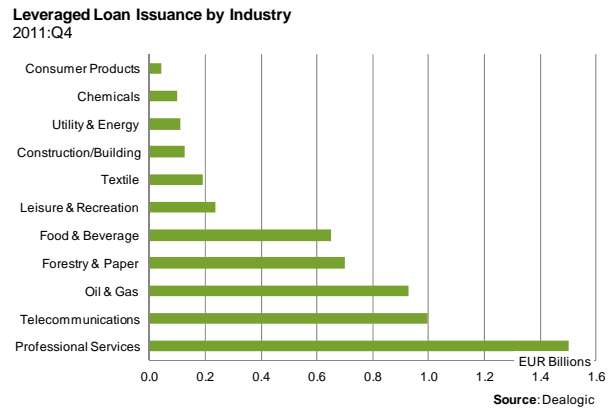
2. Issuance – Leveraged Loans

2.1. European Leveraged Loan Issuance By Loan Type



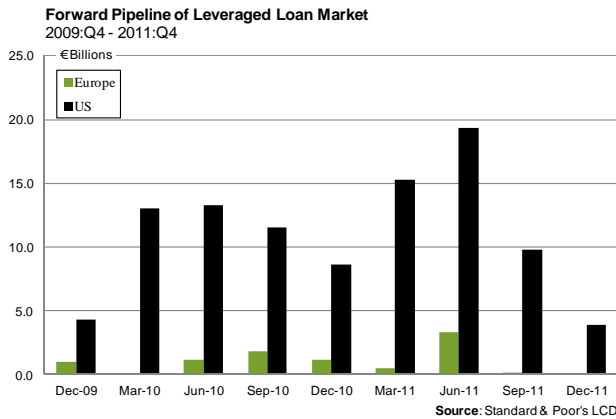
Source: Dealogic, Thomson Reuters LPC

2.2. European Leveraged Loan Issuance by Industry Sector



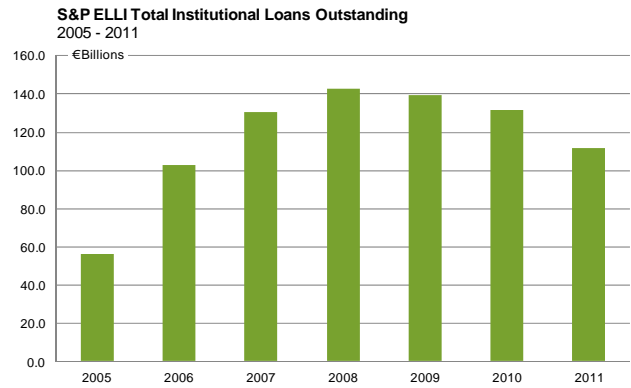
Source: Dealogic

2.3. Forward Pipeline of Leveraged Loan Market



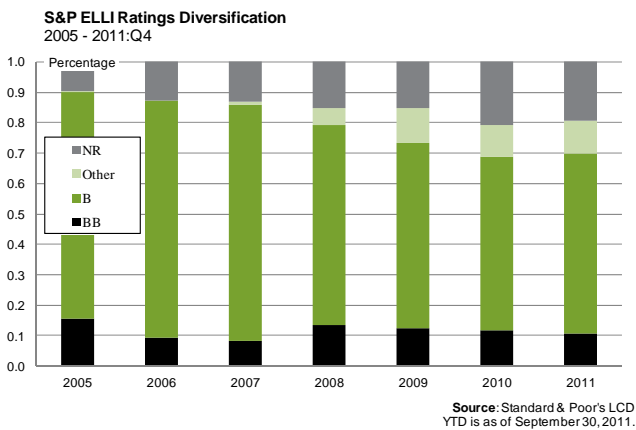
Source: Standard & Poor's LCD

2.4. S&P ELLI Total Institutional Loans Outstanding



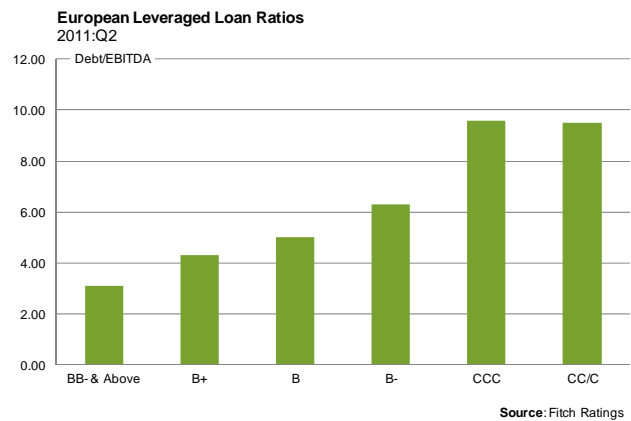
Source: Standard & Poor's LCD

2.5. S&P ELLI Ratings Diversification



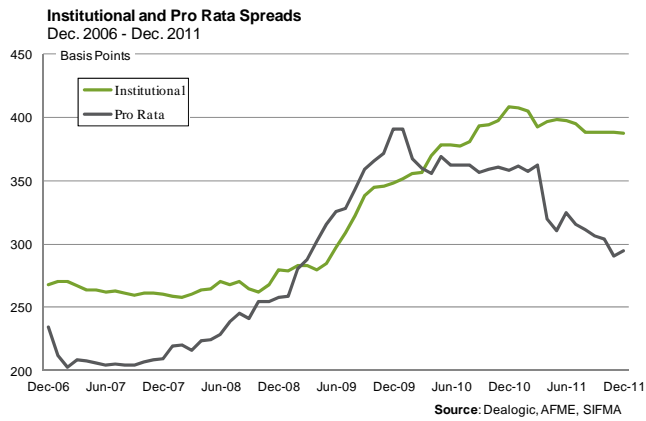
Source: Standard & Poor's LCD
YTD is as of September 30, 2011.

2.6. European Leveraged Loan Ratios

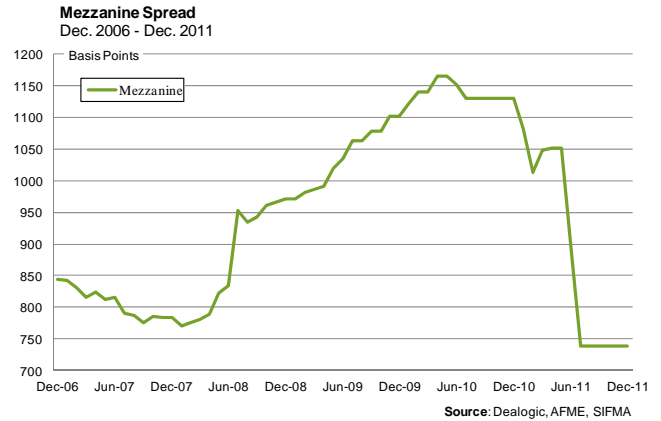


Source: Fitch Ratings

2.7. Institutional and Pro Rata Spreads



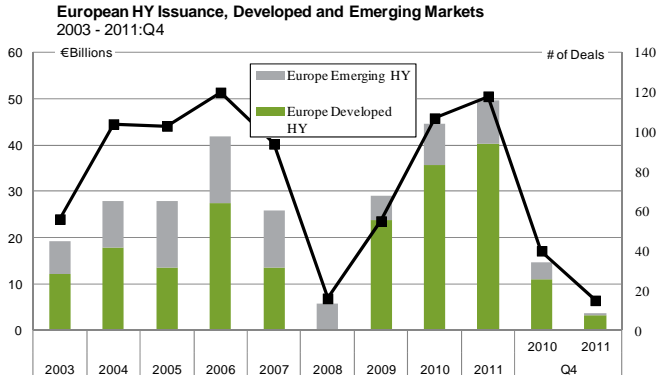
2.8. Mezzanine Spread



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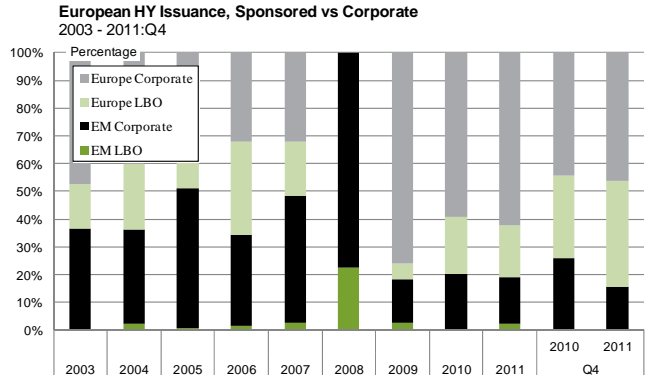
3. Issuance – High Yield Bonds Overview

3.1. European HY Bond Issuance, Developed and Emerging Market



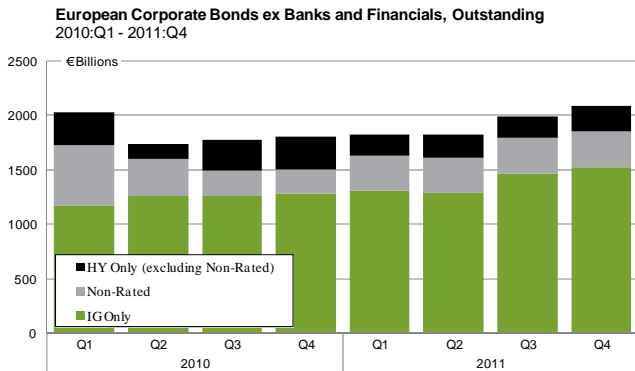
Sources: Dealogic, Thomson Reuters LPC

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



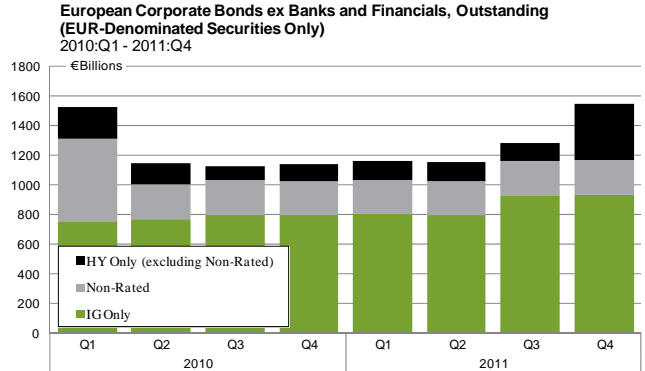
Sources: Dealogic

3.3. European Corporate Bonds ex Banks and Financials, Outstanding



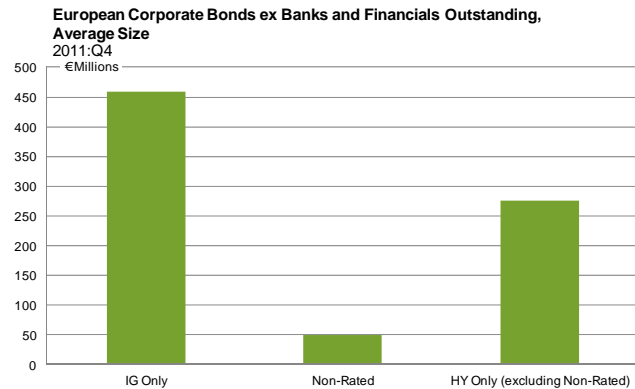
Sources: Bloomberg, AFME, SIFMA

3.4. European Corporate Bonds ex Banks and Financials, Outstanding (EUR-Denominated Securities Only)



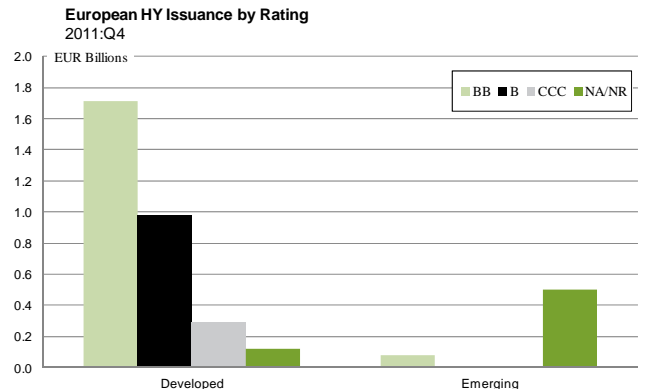
Sources: Bloomberg, AFME, SIFMA

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



Sources: Bloomberg, AFME, SIFMA

3.6. European Corporate Bonds Issuance by Rating

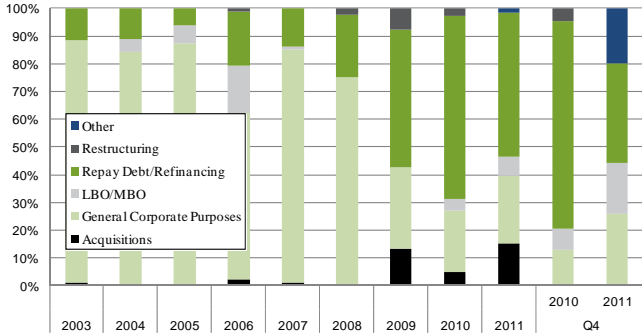


Sources: Bloomberg, Dealogic, Moody's, Standard and Poor's, Fitch Ratings

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3.7. European HY Use of Proceeds

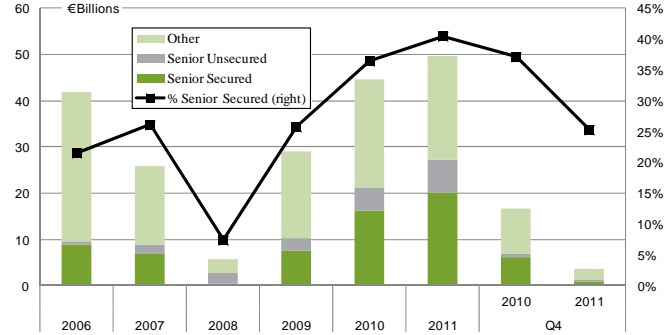
European HY Issuance By Use of Proceeds
2003 - 2011:Q4



Source: Dealogic, AFME/SIFMA

3.8. European HY Issuance, Senior Secured Share

European HY Issuance, Senior Secured and Unsecured
2006 - 2011:Q4

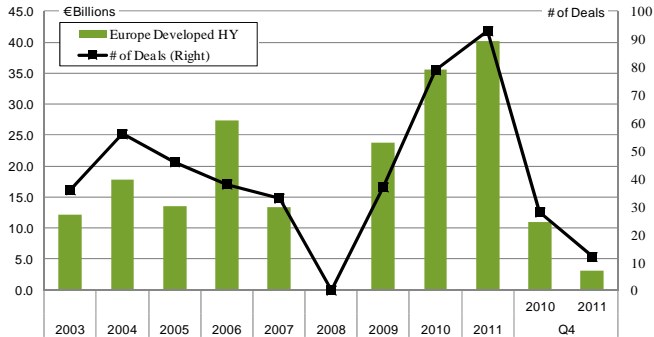


Sources: Bloomberg, Dealogic

4. Issuance – European Developed Market High Yield Bonds

4.1. European Developed Market HY Bond Issuance

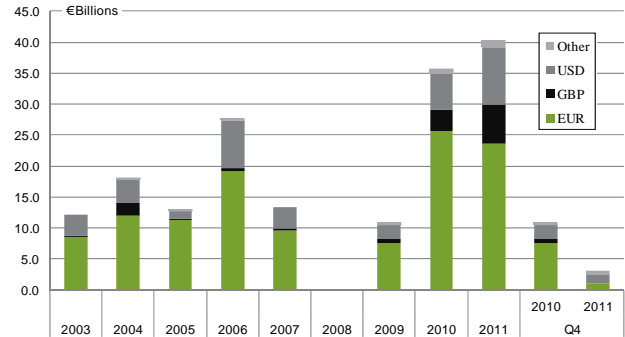
European Developed Market HY Bond Issuance
2003 - 2011:Q4



Source: Dealogic

4.2. European Developed Market HY Issuance by Currency

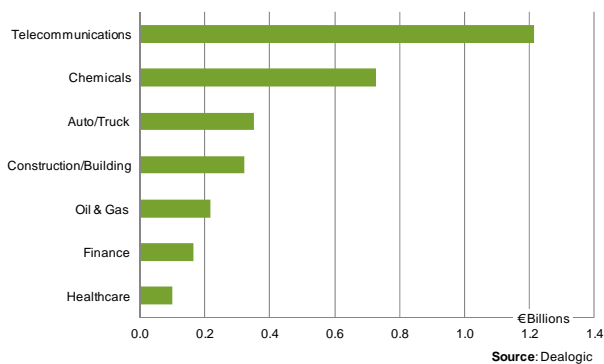
European Developed Market HY Issuance by Currency
2003 - 2011:Q4



Source: Dealogic

4.3. European Developed Market HY Issuance by Industry

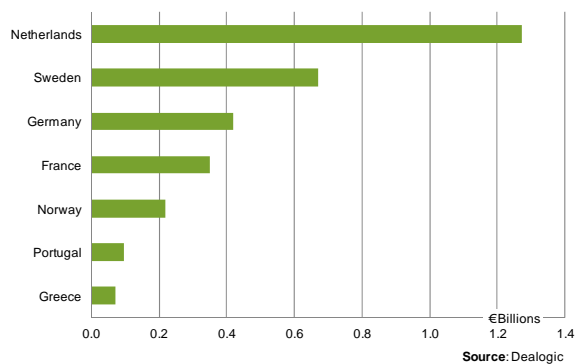
European Developed Market HY Issuance by Industry
2011:Q4



Source: Dealogic

4.4. European Developed Market HY Issuance by Country of Risk

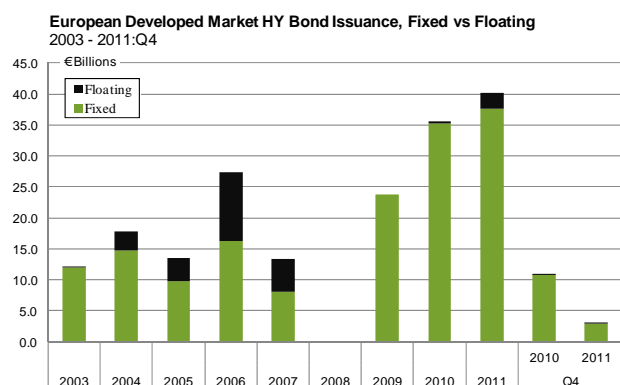
European Developed Market HY Issuance by Country of Risk
2011:Q4



Source: Dealogic

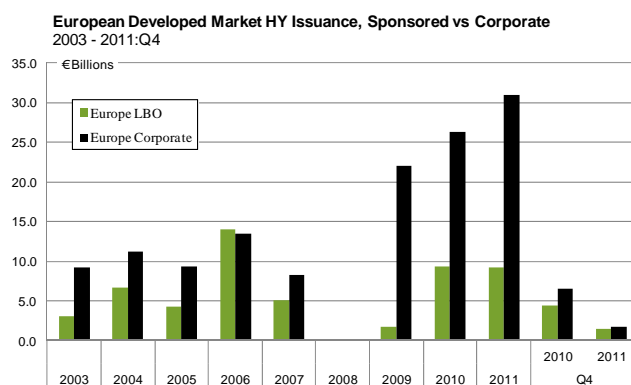
ISSUANCE

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



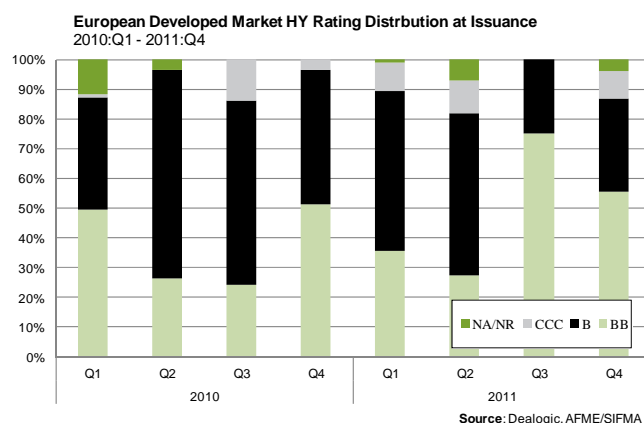
Source: Dealogic

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



Source: Dealogic

4.7. European Developed Market HY Rating Distribution at Issuance



Source: Dealogic, AFME/SIFMA

4.8. European Developed Market HY Bond Issuance

Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moodys	S&P	Fitch
Cirsa Finance Luxembourg SA	Leisure & Recreation	11/01/2011	EUR	280	8.750		B+	
Grifols Inc	Healthcare	12/01/2011	USD	850	8.250	B3	B	
Labco SAS	Healthcare	14/01/2011	EUR	500	8.500	B3	B+	BB-
Anglian Water (Osprey) Financing plc	Utility & Energy	21/01/2011	GBP	416	7.000	Ba3	NR	BB+
ONO Finance II plc	Telecommunications	21/01/2011	EUR	295	11.125	Caa2	CCC+	CCC
			USD	167	10.875	Caa2	CCC+	CCC
UPCB Finance II Ltd	Telecommunications	21/01/2011	EUR	750	6.375	Ba3	B+	
Aguila 3 SA	Transportation	24/01/2011	CHF	268	7.875	B2	B	
			USD	312	7.875	B2	B	
Fresenius Medical Care AG & CO KGaA	Healthcare	26/01/2011	EUR	300	5.250	Ba2	BB	
			USD	478	5.750	Ba2	BB	
Priory Healthcare Holdings Ltd	Healthcare	27/01/2011	GBP	495	7.000	B1	BB	BB+
			GBP	204	8.875	B3	B	BB
Afren plc	Oil & Gas	28/01/2011	USD	337	11.500		B-	B
Bakkavor Finance 2 plc	Food & Beverage	28/01/2011	GBP	411	8.250	B2	B	
Ardagh Packaging Finance plc	Finance	01/02/2011	EUR	200	9.250	B3	B-	
Towergate Finance plc	Insurance	04/02/2011	GBP	268	8.500	B1		BB
			GBP	339	10.500	B3		B-
UPCB Finance III Ltd	Telecommunications	07/02/2011	USD	736	6.625	Ba3	B+	
Telenet Finance Luxembourg III SA	Telecommunications	10/02/2011	EUR	300	6.625	Ba3		BB+
Afren plc	Oil & Gas	11/02/2011	USD	37	11.500	NR	B-	B
Fiat Industrial Finance Europe SA	Finance	07/03/2011	EUR	1,000	5.250	Ba2	BB+	
			EUR	1,200	6.250	Ba2	BB+	

†PIK (Payment in Kind) Source: Bloomberg, Dealogic

ISSUANCE

Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Grohe Holding GmbH	Consumer Products	08/03/2011	EUR	500	3M EURIBOR + 400	B2	B-	
Pernod Ricard SA	Food & Beverage	08/03/2011	EUR	1,000	5.000	Ba1	BB+	BB+
Moto Finance plc	Dining & Lodging	11/03/2011	GBP	204	10.250		CCC+	
Obrascon Huarte Lain SA - OHL	Construction/Building	18/03/2011	EUR	425	8.750	Ba2	NR	
Kabel Baden-Wuerttemberg GmbH & Co KG	Telecommunications	23/03/2011	EUR	800	7.750	B1	B+	
			EUR	680	9.500	Caa1	B-	
			EUR	420	3M EURIBOR + 425	B1	B+	
			USD	352	7.500	B1	B+	
Ontex IV SA	Forestry & Paper	24/03/2011	EUR	320	7.500	Ba3	B+	
			EUR	235	9.000	B3	B-	
			EUR	280	3M EURIBOR + 412.5		B+	
Aperam	Metal & Steel	25/03/2011	USD	177	7.375	B1	BB	
			USD	177	7.750	B1	BB	
Fiat Finance & Trade Ltd SA	Auto/Truck	29/03/2011	EUR	1,000	6.375	Ba1	BB	BB+
DNO International ASA	Oil & Gas	31/03/2011	NOK	560	3M Other + 750			
			USD	140	3MLIBOR + 750			
Heidelberger Druckmaschinen AG	Machinery	31/03/2011	EUR	304	9.250	Caa1	B-	
Thames Water (Kemble) Finance plc	Utility & Energy	01/04/2011	GBP	400	7.750	B1		BB
Pernod Ricard SA	Food & Beverage	04/04/2011	USD	1,000	5.750	Ba1	BB+	BB+
Priory Healthcare Holdings Ltd	Healthcare	05/04/2011	GBP	206	7.000	B1	BB	BB+
Matalan Finance Ltd	Retail	06/04/2011	GBP	250	8.875	Ba1	BB	
KION Finance SA	Machinery	07/04/2011	EUR	325	7.875	B2	B	
			EUR	175	3M EURIBOR + 425	B2	B	
Wendel SA	Finance	11/04/2011	EUR	300	6.750		BB-	
Ocean Rig UDW Inc	Oil & Gas	13/04/2011	USD	500	9.500			
Alba AG	Utility & Energy	14/04/2011	EUR	203	8.000	B3		
Boparan Finance plc	Food & Beverage	14/04/2011	EUR	340	9.750	Ba3	B+	
			GBP	400	9.875	Ba3	B+	
CMA CGM SA	Transportation	14/04/2011	EUR	325	8.875	B2	B-	
			USD	475	8.500	B2	B-	
Elster Finance BV	Computers & Electronics	14/04/2011	EUR	250	6.250	Ba2	BB-	
Southern Water (Greensands) Financing plc	Utility & Energy	14/04/2011	GBP	250	8.500		BB-	B+
Dometic International AB†	Consumer Products	15/04/2011	EUR	202	12.750	Caa1	CCC+	
Gcl Holding SCA	Metal & Steel	15/04/2011	EUR	200	9.375	Caa1	CCC+	
GEO Travel Finance SCA Luxembourg	Professional Services	15/04/2011	EUR	175	10.375	Caa1		
Renewable Energy Corp ASA	Computers & Electronics	15/04/2011	NOK	700	9.750			
			NOK	500	3M OTHER + 435			
Calcipar SA	Construction/Building	18/04/2011	USD	450	6.875	B1	BB-	
Ideal Standard International SA	Consumer Products	20/04/2011	EUR	250	11.750	Caa1		B+
Jasper Explorer Ltd	Oil & Gas	04/05/2011	USD	165	13.500			
Befesa Zinc SAU	Utility & Energy	06/05/2011	EUR	300	8.875	B2	B+	
Cyfrowy Polsat Finance AB	Telecommunications	06/05/2011	EUR	350	7.125	Ba3	BB-	
Heckler & Koch GmbH	Defense	06/05/2011	EUR	295	9.500	Caa1	CCC+	
EC Finance plc	Transportation	10/05/2011	EUR	100	9.750	B2	B+	
Refresco Group BV	Food & Beverage	11/05/2011	EUR	360	7.375	B1	BB-	
			EUR	300	3M EURIBOR + 400	B1	BB-	
Jaguar Land Rover plc	Auto/Truck	12/05/2011	GBP	500	8.125	B1		BB-
			USD	410	7.750	B1		BB-
			USD	410	8.125	B1		BB-
Navios Maritime Acquisition Corp	Transportation	12/05/2011	USD	105	8.625	B2	B+	
PagesJaunes Finance & Co SCA	Publishing	12/05/2011	EUR	350	8.875	B2		BB
Styrolution Group GmbH	Chemicals	12/05/2011	EUR	480	7.625	B2		
ARD Finance SA†	Consumer Products	13/05/2011	EUR	185	11.125	Caa1	B-	
			USD	345	11.125	Caa1	B-	
Ideal Standard International SA	Consumer Products	13/05/2011	EUR	25	11.750	Caa1		B+
Odeon & UCI Finco plc	Leisure & Recreation	13/05/2011	EUR	200	3M EURIBOR + 500	B3	B	
			GBP	300	9.000	B3	B	
Renault SA	Auto/Truck	17/05/2011	EUR	500	4.625	Ba1	BB+	
Gala Electric Casinos plc	Leisure & Recreation	23/05/2011	GBP	275	11.500	Caa2	CCC+	CCC
Gala Group Finance plc	Leisure & Recreation	23/05/2011	GBP	350	8.875	B2	B+	BB-
House of Fraser (Funding) plc	Retail	23/05/2011	GBP	250	8.875	B3	B+	
Rexel SA	Computers & Electronics	24/05/2011	EUR	500	7.000	Ba3	BB-	BB-

†PIK (Payment in Kind)

Source: Bloomberg, Dealogic

ISSUANCE

Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Compagnie Generale de Geophysique-Veritas	Oil & Gas	25/05/2011	USD	650	6.500	Ba3	BB-	
International Automotive Components Group	Auto/Truck	26/05/2011	USD	300	9.125	B3	B	
Xefin Lux SCA	Construction/Building	26/05/2011	EUR	300	8.000	Ba3		
Global Rig Company ASA	Oil & Gas	07/06/2011	USD	60	13.000			
Norske Skogindustrier ASA	Forestry & Paper	07/06/2011	EUR	150	11.750	B2	B-	
Telenet Finance Luxembourg IV SCA	Telecommunications	08/06/2011	EUR	400	3M EURIBOR + 387.5	Ba3		BB-
Aston Martin Capital Ltd	Auto/Truck	10/06/2011	GBP	304	9.250	B2		
Kabel Deutschland Vertrieb und Service GmbH & Kinove German Bondco GmbH	Telecommunications	10/06/2011	EUR	500	6.500	Ba2	BB-	
	Chemicals	17/06/2011	EUR	355	10.000	B2		
			USD	350	9.625	B2		
Fiat Finance & Trade Ltd SA	Auto/Truck	05/07/2011	EUR	600	7.375	Ba1	BB+	BB
			EUR	900	6.125	Ba1	BB+	BB
Nara Cable Funding Ltd	Telecommunications	06/07/2011	EUR	300	8.875	B2	BB-	B-
Dynacast International Ltd	Metal & Steel	12/07/2011	USD	350	9.250	B2		B
Emporiki Group Finance plc	Finance	20/07/2011	EUR	30	4.350	B1		NA
Bormioli Rocco Holdings SA	Consumer Products	26/07/2011	EUR	250	10.000	B1		BB-
Fresenius Medical Care AG & CO KGaA	Healthcare	08/09/2011	EUR	400	6.500	Ba2	BB	BB
			USD	400	6.500	Ba2		BB
HeidelbergCement Finance BV	Construction/Building	28/09/2011	EUR	300	9.500	Ba2	BB+	BB
Emporiki Group Finance plc	Finance	05/10/2011	EUR	50	5.000	B3		
FMC Finance VIII SA	Healthcare	10/10/2011	EUR	100	3M EURIBOR + 350	Ba2	BB	
HeidelbergCement Finance BV	Construction/Building	10/10/2011	CHF	150	7.250	Ba2	BB	BB+
BCP Finance Bank Ltd	Finance	11/10/2011	EUR	96	13.000			
Emporiki Group Finance plc	Finance	11/10/2011	EUR	20	5.000			
Norcell Sweden Holding 3 AB	Telecommunications	27/10/2011	SEK	3,492	9.250	B1	B	B
Faurecia SA	Auto/Truck	03/11/2011	EUR	350	9.375	Ba3		
Norcell Sweden Holding 2 AB	Telecommunications	04/11/2011	EUR	287	10.750	Caa1	CCC+	CCC+
LyondellBasell Industries NV	Chemicals	04/11/2011	USD	1,000	6.000	Ba2	BB	BB+
UPCB Finance V Ltd	Telecommunications	08/11/2011	USD	750	7.250	Ba3	B+	B+
Petroleum Geo-Services ASA - PGS	Oil & Gas	09/11/2011	USD	300	7.375	Ba2	BB	BB
HeidelbergCement Finance BV	Construction/Building	09/11/2011	EUR	200	9.500	Ba2	BB	BB+

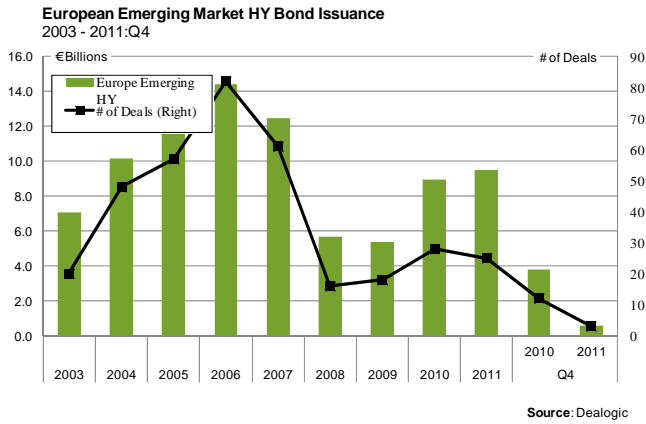
†PIK (Payment in Kind)

Source: Bloomberg, Dealogic

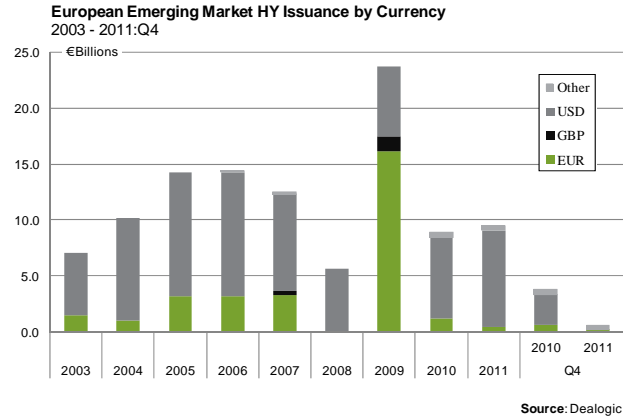
ISSUANCE

5. Issuance – European Emerging Market High Yield Bonds

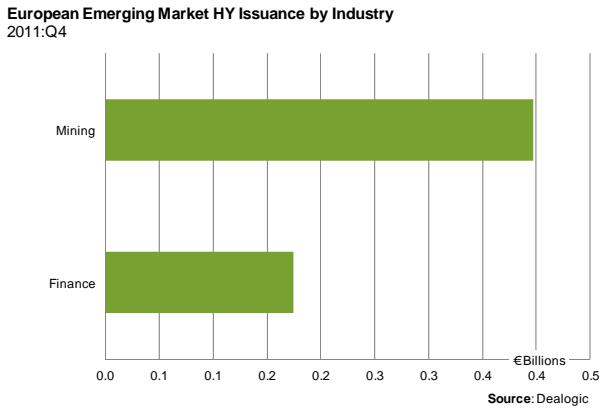
5.1. European Emerging Market HY Bond Issuance



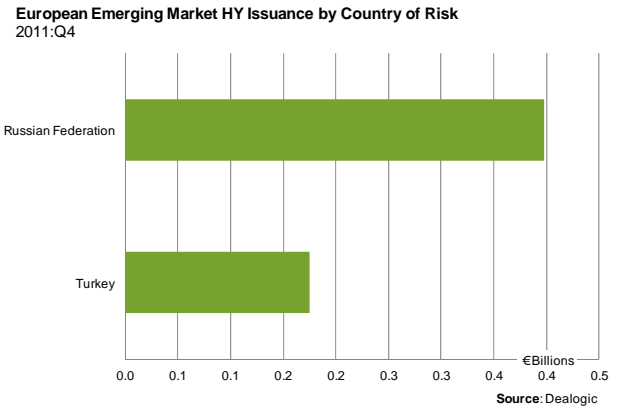
5.2. European Emerging Market HY Bond Issuance by Currency



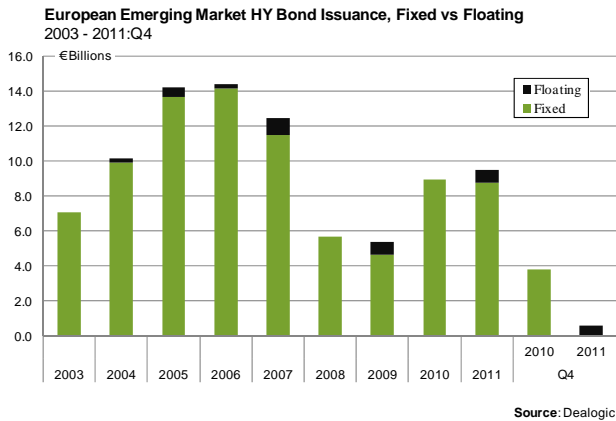
5.3. European Emerging Market HY Issuance by Industry



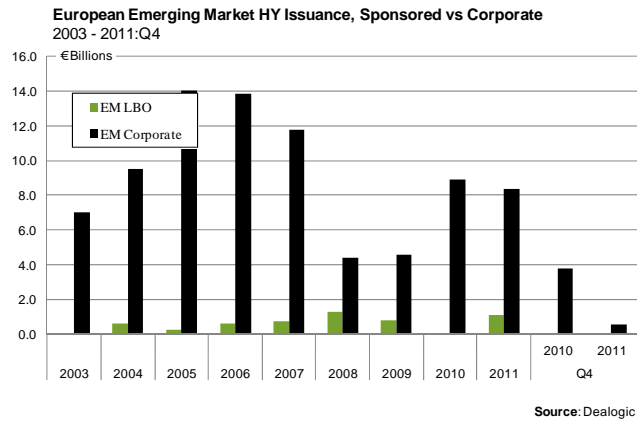
5.4. European Emerging Market HY Issuance by Country of Risk



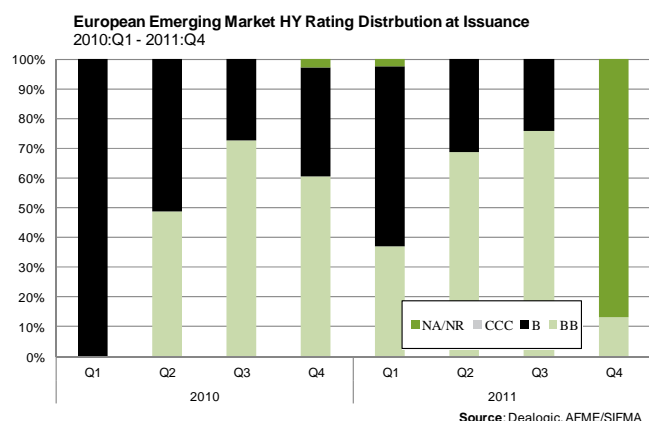
5.5. European Emerging Market HY Issuance, Fixed vs. Floating



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



5.7. European Emerging Market HY Rating Distribution at Issuance



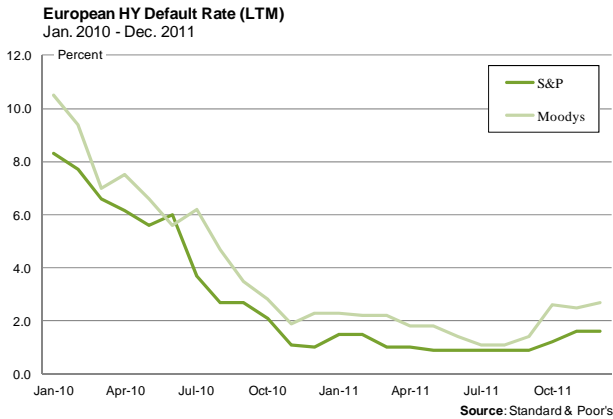
5.8. Emerging Market HY Bond Issuance

Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Agrokor dd	Food & Beverage	17/01/2011	EUR	150	10.000	B2	B	
Halyk Savings Bank of Kazakhstan - HSBK	Finance	20/01/2011	USD	379	7.250	Ba3	B+	B+
TMK OAO - Pipe Metallurgical Works OAO	Metal & Steel	21/01/2011	USD	384	7.750	B1	B	
Vimpel-Communications OAO - VimpelCom	Telecommunications	26/01/2011	USD	367	6.493	Ba3	BB+	
			USD	735	7.748	Ba3	BB+	
Metinvest BV	Metal & Steel	08/02/2011	USD	557	8.750	B2		B
Azerbaijan State Railway	Transportation	09/02/2011	USD	92	8.250			
State Savings Banks of Ukraine - OSCHADBANK VAT	Finance	02/03/2011	USD	369	8.250	B2		B
Home Credit & Finance Bank OOO - HCFB	Finance	11/03/2011	USD	359	7.000	Ba3	B+	
Magyar Telecom BV - Matel	Telecommunications	23/03/2011	EUR	80	9.500	B2	B	
Mriya Agro Holding plc	Agribusiness	25/03/2011	USD	179	10.950		B	B-
Ferrexpo Finance plc	Mining	31/03/2011	USD	353	7.875	B3	B-	B
PSB Finance SA	Finance	14/04/2011	USD	500	6.200	Ba2		BB-
Tinkoff Credit Systems	Finance	14/04/2011	USD	175	11.500	B2		B
Alfa Bank OAO	Finance	19/04/2011	USD	1,000	7.750	Ba1	BB-	BB
Evraz Group SA	Metal & Steel	19/04/2011	USD	850	6.750	B2	B+	BB-
Kazkommertsbank OAO	Finance	05/05/2011	USD	300	8.500	B2	B	B-
Koks OAO	Mining	16/06/2011	USD	350	7.750	B3	B-	
VimpelCom Holdings BV	Telecommunications	22/06/2011	USD	500	6.255	Ba3		
			USD	1,500	7.504	Ba3		
			USD	200	3M LIBOR + 400	Ba3		
State Savings Banks of Ukraine - OSCHADBANK VAT	Finance	08/07/2011	USD	200	8.250	B2	B	
Metallinvest Finance Ltd	Mining	14/07/2011	USD	750	6.500	Ba3	BB-	
SeverStal OAO	Metal & Steel	19/07/2011	USD	500	6.250	Ba2	BB-	BB
Credit Bank of Moscow OAO - MKB	Finance	28/07/2011	USD	200	8.250	B1	B+	
Turk Ekonomi Bankasi AS	Finance	28/10/2011	EUR	75	6M EURIBOR + 475			BBB-
Uranium One Inc	Mining	05/12/2011	RUB	16,500	9.750			
Turk Ekonomi Bankasi AS	Finance	15/12/2011	EUR	100	6M EURIBOR + 475			

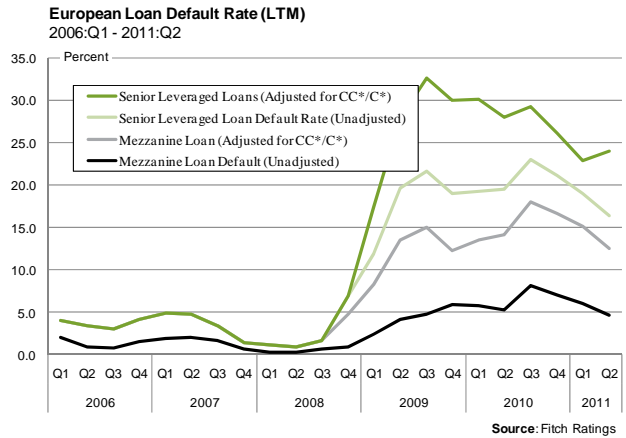
Source: Bloomberg, Dealogic

6. Credit Quality

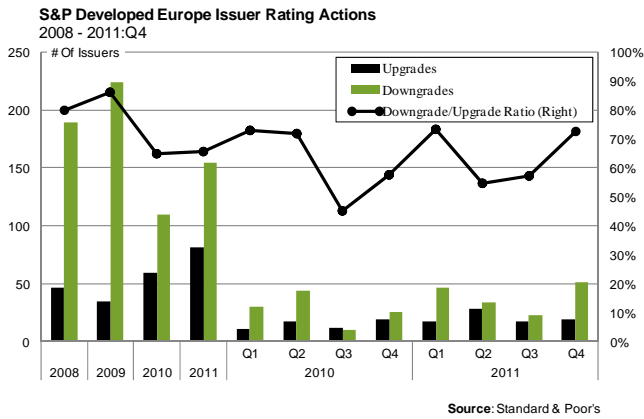
6.1. European HY Default Rate



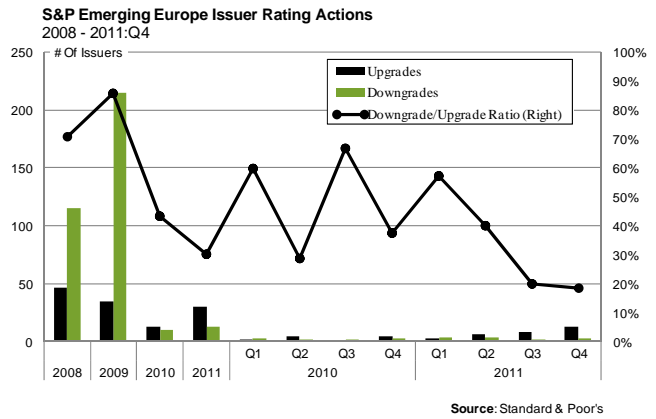
6.2. European Loan Default Rate



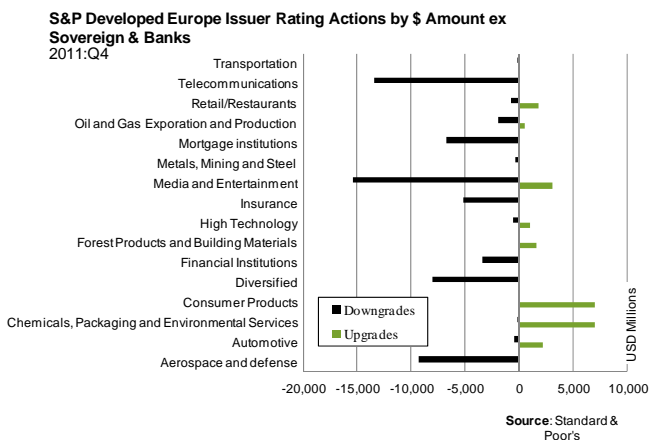
6.3. Developed Europe Issuer Rating Actions¹



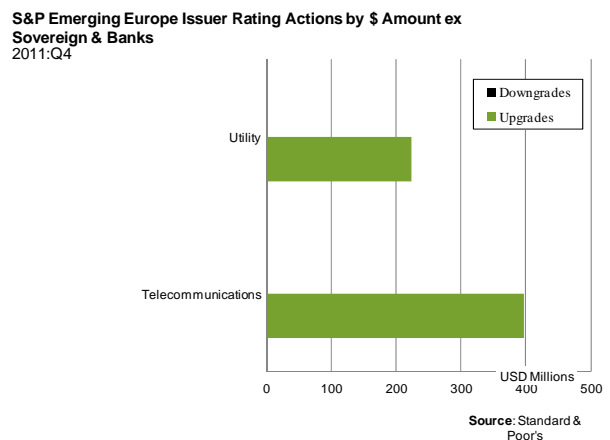
6.4. Emerging Europe Issuer Rating Actions²



6.5. Developed European Industry Rating Actions by \$ Amount



6.6. Emerging European Industry Rating Actions by \$ Amount

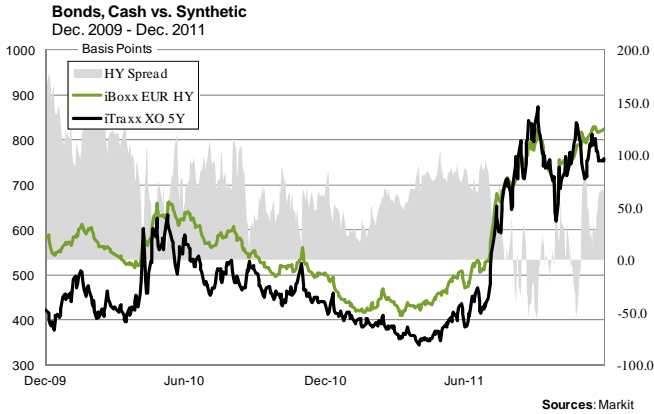


¹ Numbers include both corporate and sovereigns.
² Numbers include both corporate and sovereigns.

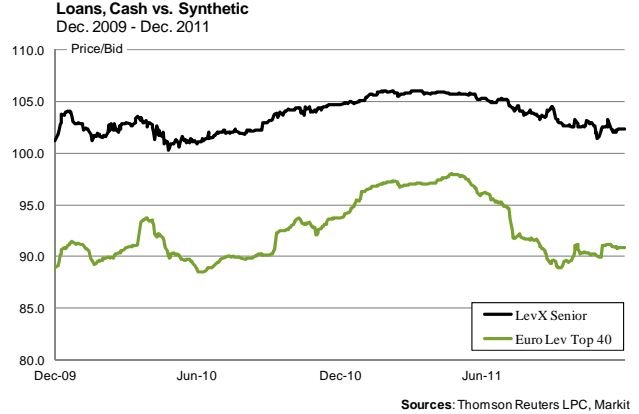
RELATIVE VALUE

7. Relative Value

7.1. European HY Bonds, Cash vs. Synthetic

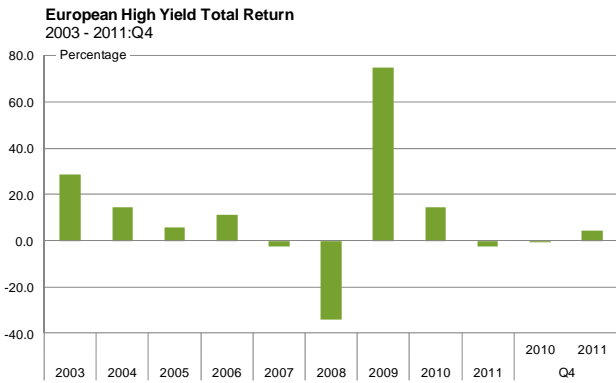


7.2. European Leveraged Loans, Cash vs. Synthetic

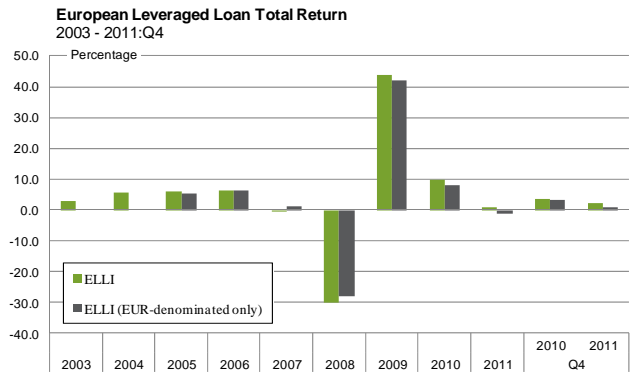


8. Total Return

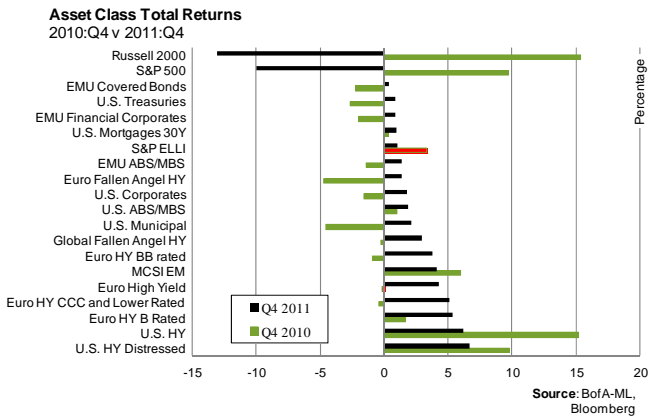
8.1. European HY Bond Total Return



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 debt/EBITDA ratios 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 2nd 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. – 3.5. 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 structured finance outstanding numbers.

3.6. European Corporate Bonds Issuance by Rating

Data for HY issuance by rating are sourced from Dealogic, Bloomberg, and the three rating agencies. The composite rating is determined by the lowest rating assigned by either Moody's, Standard and Poor's, or Fitch Ratings.

3.7. 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.

3.8. 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. – 4.8.

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. – 5.8.

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 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.

6.3. – 6.4. European Issuer Rating Actions

European issuer upgrades and downgrades are sourced from S&P. The 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. Multiple downgrades of a single issuer are counted

separately. Rating actions are inclusive of both corporate (both credit and merger-related) as well as sovereign ratings.

6.5. – 6.6. 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.

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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