

European High Yield & Leveraged Loan Report



TABLE OF CONTENTS

Market Highlights and Commentary	1
1. Leveraged Finance Overview	4
1.1. European Leveraged Issuance by Type	4
1.2. European Leveraged Issuance by Percentage	4
1.3. European Leveraged Issuance Average Deal Size.....	4
1.4. Bank Credit Standards.....	4
1.5. Factors Affecting Bank Credit Standards	4
1.6. Loan Demand	4
1.7. Factors Affecting Loan Demand	5
1.8. Global Comparison – High Yield Issuance	5
2. Issuance – Leveraged Loans	6
2.1. European Leveraged Loan Issuance By Loan Type	6
2.2. European Leveraged Loan Issuance by Industry Sector....	6
2.3. Forward Pipeline of Leveraged Loan Market	6
2.4. S&P ELLI Total Institutional Loans Outstanding.....	6
2.5. S&P ELLI Ratings Diversification.....	6
2.6. European Leveraged Loan Ratios.....	6
2.7. Institutional and Pro Rata Spreads.....	7
2.8. Mezzanine Spread	7
3. Issuance – High Yield Bonds Overview	8
3.1. European HY Bond Issuance, Developed and Emerging Market	8
3.2. European HY Bond Issuance, Sponsored vs. Corporate....	8
3.3. European Corporate Bonds ex Banks and Financials, Outstanding (EUR-Denominated Securities Only).....	8
3.4. European Corporate Bonds ex Banks and Financials, Average Deal Size (EUR-Denominated Securities Only) 8	8
3.5. European Corporate Bond Issuance by Rating	8
3.6. European Corporate Bond Issuance by Tenor	8
3.7. European HY Use of Proceeds	9
3.8. European HY Issuance, Senior Secured Share	9
4. Issuance – European Developed Market High Yield Bonds	9
4.1. European Developed Market HY Bond Issuance	9
4.2. European Developed Market HY Issuance by Currency ...	9
4.3. European Developed Market HY Issuance by Industry....	9
4.4. European Developed Market HY Issuance by Country of Risk	9
4.5. European Developed Market HY Issuance, Fixed vs. Floating	10
4.6. European Developed Market HY Issuance, Sponsored vs. Corporate.....	10
4.7. European Developed Market HY Rating Distribution at Issuance.....	10
4.8. European Developed Market HY Bond Issuance	11
5. Issuance – European Emerging Market High Yield Bonds	12
5.1. European Emerging Market HY Bond Issuance.....	12
5.2. European Emerging Market HY Bond Issuance by Currency	12
5.3. European Emerging Market HY Issuance by Industry	12
5.4. European Emerging Market HY Issuance by Country of Risk	12
5.5. European Emerging Market HY Issuance, Fixed vs. Floating	12
5.6. European Emerging Market HY Issuance, Sponsored vs. Corporate.....	12
5.7. European Emerging Market HY Rating Distribution at Issuance.....	13
5.8. Emerging Market HY Bond Issuance	13
6. Credit Quality	14
6.1. European HY Default Rate	14
6.2. European Loan Default Rate	14
6.3. Developed Europe Issuer Rating Actions.....	14
6.4. Emerging Europe Issuer Rating Actions	14
6.5. Developed European Industry Rating Actions by \$ Amount	14
6.6. Emerging European Industry Rating Actions by \$ Amount	14
6.7. European Defaults.....	15
7. Relative Value	16
7.1. European HY Bonds, Cash vs. Synthetic	16
7.2. European Leveraged Loans, Cash vs. Synthetic.....	16
8. Total Return	16
8.1. European HY Bond Total Return	16
8.2. European Leveraged Loan Total Return	16
8.3. Asset Class Total Return.....	16
Annex	17
Disclaimer	20

European Leveraged Finance, First Quarter 2012

Highlights and Market Environment

Highlights

- European leveraged finance issuance (leveraged loans and high yield bonds) opened on a stronger note than in the last quarter of 2011, with €45.5 billion issued in the first quarter of 2012, a fourfold increase from Q4'11 (€9.3 billion) and a 17.0% increase from 1Q'11 (€38.9 billion). The continued financial market strain from the sovereign debt crisis, weak macroeconomic backdrop, and bank capital ratio requirements continued to play out in the first quarter. Market share of high yield bond issuance was 41.1% in 1Q'12, compared to 39.7% in 4Q'11 and 54.1% in 1Q'11.

Market and Economic Environment

- According to the January European Central Bank (ECB) bank lending survey, banks reported, on net, a further tightening of lending standards in the first quarter, both for small- and medium-sized enterprises (SMEs) and large enterprises. Standards for long-term loans tightened considerably more than short-term loans in the first quarter. The recessionary backdrop, negative industry outlooks, and bank capital requirements contributed greatly to tightened standards, while less important factors included bank liquidity positions, bank access to refinancing, and risk to collateral demanded. Factors that contributed to easing standards, albeit minor, were bank and non-bank competition, as well as market financing.
- More generally, however, loan demand plummeted in the first quarter, with loans primarily utilised to restructure debt. Factors contributing to decreased demand included fixed investments and mergers & acquisitions.
- While coordinated central bank actions alleviated funding pressures in banks in the fourth quarter of 2011, Basel III rules, limited funding access, and bank capital raising needs have placed heavy constraints on bank lending. The need for European banks to raise €115 billion in additional capital has placed pressure on banks to rein in lending and subsequently access to balance sheet has been reduced, with further reductions expected in the next few months. Thomson Reuters noted that several European retail banks reduced amounts they are willing to take on deals by more than 50%.¹

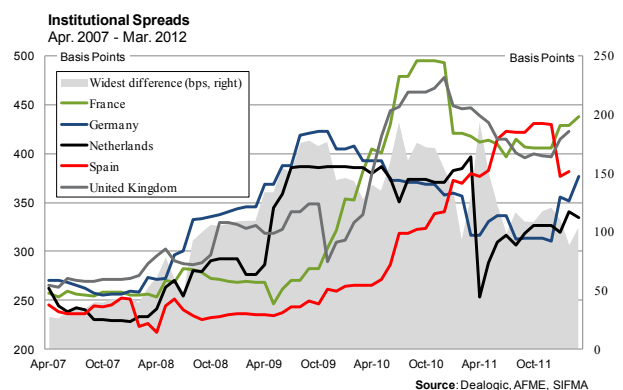
Issuance

Issuance: Leveraged Loans

- Leveraged loan issuance, which includes first lien, second lien, and mezzanine financing, totalled €26.8 billion in 1Q'12, a fourfold increase quarter-over-quarter (4Q'11's issuance of €5.6 billion) and an increase of 50.2% from 1Q'11 (€17.9 billion). According to S&P, the

loan pipeline at the end of March 2012 was an extremely light €33 million.

- Approximately €0.1 billion of second liens and €0.2 billion of mezzanine loans were issued in the first quarter. Pricing spreads for institutional loans widened by 24.7 basis points (bps), while pro rata loans tightened by 0.3 bps. Mezzanine loans tightened by 22.3 bps.
- The tiering of the loan markets continued to persist in the first quarter of 2012, with corporates from higher quality sovereign countries enjoying cheaper access to the markets. Differences of more than 100 bps continue to persist between companies from higher rated sovereign countries (Germany, Netherlands), compared to companies from weaker sovereigns (France, Spain).

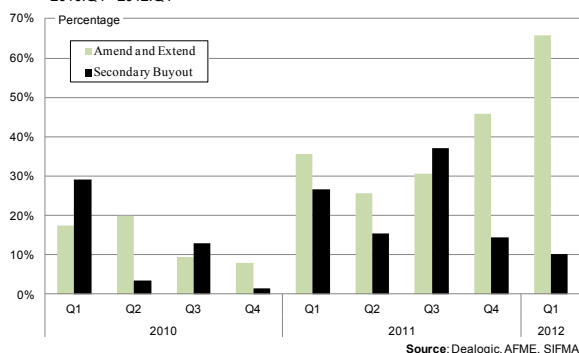


- According to Dealogic, the leading sectors in leveraged loan issuance for the first quarter were machinery (€8.0 billion), followed by construction/building (€5.3 billion), and computers & electronics (€2.69 billion). The largest deal was a transaction from Schaeffler Technologies AG, an amend & extend (“A&E”) transaction on a €7.7 billion credit facility signed in August 2009.
- Two-thirds of the deals by euro amount in the first quarter of 2012 were A&E transactions; an additional 10% were private equity exits through secondary buyouts.
- The share of deals aimed to refinance and/or repay debt (inclusive of A&E deals) jumped to 74.3% in 1Q'12, compared to 47.4% in 4Q'11 and 45.2% in 1Q'11. The share of LBO/MBO deals remained unchanged from the previous quarter, at 23%.

¹ Thomson Reuters, EuroLoanMarketPulse, 16 April 2012.

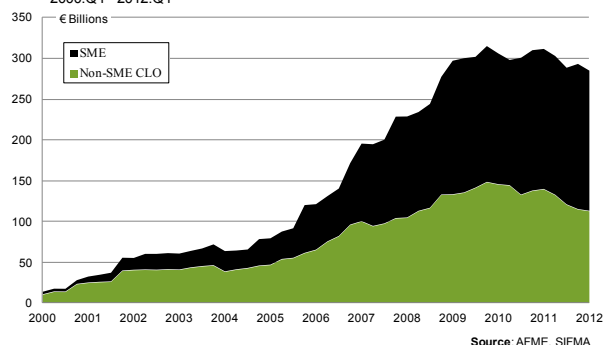
MARKET HIGHLIGHTS AND COMMENTARY

Deal Use as Euro Dollar Percentage of All Loans Issued
2010:Q1 - 2012:Q1



- The primary CLO market remained quiet in the first quarter of 2012, with the two deals completed retained (Cosmo Finance 2012-1; Societa Italiana Per La Cartolarizzazione Dei CRE 2012-1). SME issuance declined in the first quarter to €7.7 billion, a decline of 71.9% and 50.9%, respectively, quarter-over-quarter and year-over-year. The majority of deals were retained, with only €1.0 billion placed.
- European CLO outstandings, including SME deals, decreased 10.8% on an annualized basis in the first quarter, ending March 2012 at €285.0 billion. Both non-SME CLO and SME CLOs shrank 7.0% and 13.2%, respectively, in the first quarter of 2012 on an annualized basis.

European CLO Outstanding
2000:Q1 - 2012:Q1



Issuance: High Yield Bonds

- Primary issuance in 1Q'12 totalled €18.1 billion on 39 deals, a fourfold increase quarter-over-quarter (€3.7 billion) but a decrease of 11.0% year-over-year (€21.02 billion). The decrease year-over-year stemmed primarily from the decline in issuance from emerging market Europe, while developed market Europe continued to maintain issuance at levels seen last year.
- Primary issuance in developed markets Europe in the first quarter was €17.6 billion on 37 deals, while in emerging markets Europe primary issuance was €1.1 billion on 2 deals. Six new debut issues were brought to market in developed markets Europe: Welltec A/S; Schaeffler Finance; Lowell Group Financing, Talvivaara Mining Co, Numericable Finance & Co, and Viridian Group. In

emerging markets Europe one payment-in-kind (PIK) deal emerged: Eileme 1.

- High yield issuance for refinancing and/or repayment of debt ticked up slightly in 1Q'12 to 48.0% of all deals by euro amount, compared to 35.8% and 44.1%, respectively, quarter-over-quarter and year-over-year.
- Use of senior secured debt structures increased in 1Q'12 to 39.8% by euro amount, compared to 25.3% and 44.7%, respectively, quarter-over-quarter and year-over-year. Usage continues to remain predominantly from developed markets Europe; in the first quarter of 2012, no emerging market deals were senior secured.
- Continuing the trend that emerged in the fourth quarter of 2011, USD-denominated issuance in Europe, especially developed market Europe, continued to represent a larger share of European corporate issuance than prior years. While USD-denominated issuance has always been a mainstay in emerging markets Europe, USD-denominated issuance has traditionally represented only a fifth of high yield issuance in developed market Europe (10-year average of 22.1%). In the first quarter of 2012, 39.8% of issuance was denominated in USD, compared to 48.1% in Q4'11 and 21.3% in 1Q'11. Other European debt markets saw a similar rise in USD-denominated issuance in 4Q'11 and 1Q'11, particularly public structured finance deals.

Returns & Credit Quality

- European high yield led total returns in the first quarter, in part buoyed by a recovery of European corporate bonds more generally and a general selloff of equities. On a total return basis, high yield and leveraged loans returned 12.6% and 4.2%, respectively, quarter-over-quarter.
- While Moody's expected increases to the default rate to remain moderate in 2012, the rating agency noted that the reduction of exposure by banks could lead to a liquidity crisis for some weaker-performing companies.² With \$325 billion in refinancing needs for the period 2012-2015 and a greater proportion of B-rated names and unrated LBOs due in 2013 and beyond, Moody's noted that B-rated companies would find it challenging to refinance their 2013 maturities in time when competing against upcoming LBO maturities.³
- According to S&P, downgrades continued to exceed upgrades in both emerging and developed market Europe. In developed market Europe, the downgrade of several sovereigns in the first quarter drove the downgrade ratio upward, with 77 downgrades and 16 upgrades in 1Q'12. Both sovereigns and more particularly banks dominated downgrade headlines in the first quarter, with 40 downgrades stemming from bank downgrades (which, in turn, were impacted by sovereign downgrades). The few up-

² Moody's, "Liquidity will be diminished by sovereign and banking pressures", 3 April 2012.

³ Moody's, "Distressed Exchanges Likely to Remain Prominent in 2012-13", 13 March 2012.

MARKET HIGHLIGHTS AND COMMENTARY

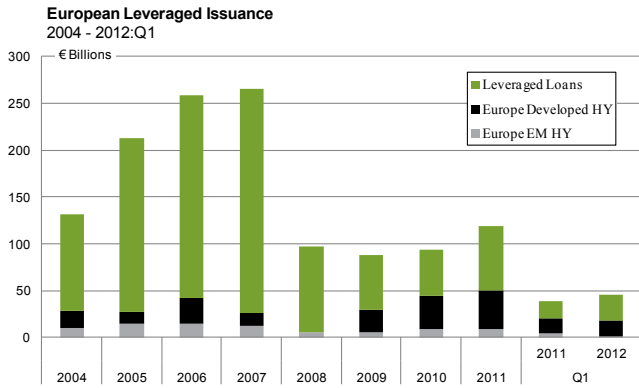
grades were concentrated largely in the automotive and consumer products sectors.

- Emerging market Europe also received more downgrades than upgrades (3 downgrades to 1 upgrade), but remained relatively quiet.
- High yield bond default rates diverged between Moody's and S&P in the first quarter, with the former reporting a decline in default rates (2.3% in 1Q'12, compared to 3.0% in 4Q'11) and the latter reporting a slight rise in default rates (2.3% in 1Q'12, compared to 1.6% in 4Q'11). Three defaults were reported by Moody's and Standard and Poor's: Petroplus Holdings, Yell Group, and ERC Ireland.

ISSUANCE

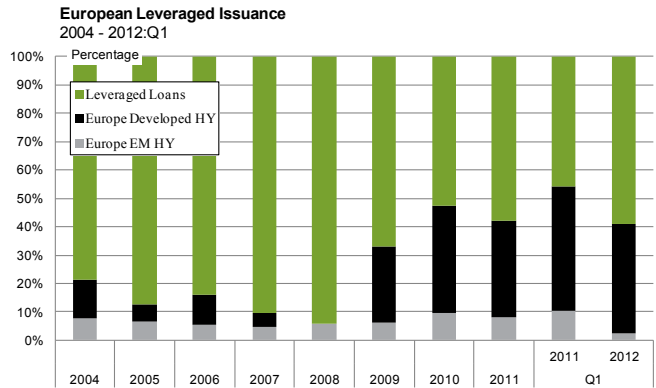
1. Leveraged Finance Overview

1.1. European Leveraged Issuance by Type



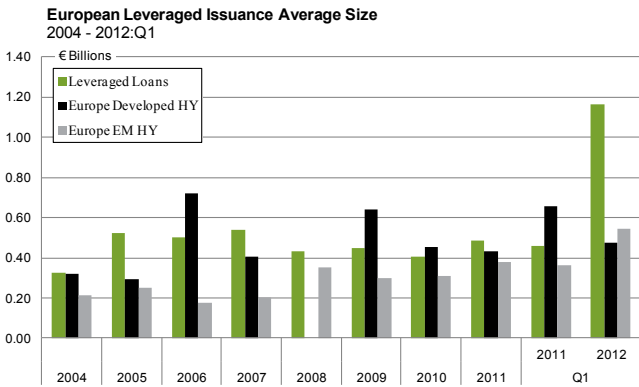
Sources: Dealogic, Thomson Reuters LPC

1.2. European Leveraged Issuance by Percentage



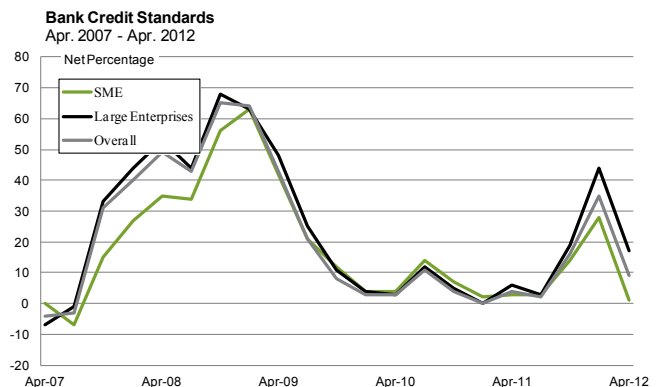
Sources: Dealogic, Thomson Reuters LPC

1.3. European Leveraged Issuance Average Deal Size



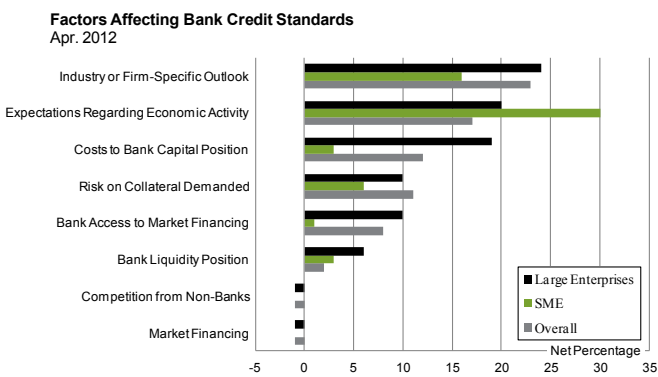
Sources: Dealogic, Thomson Reuters LPC

1.4. Bank Credit Standards¹



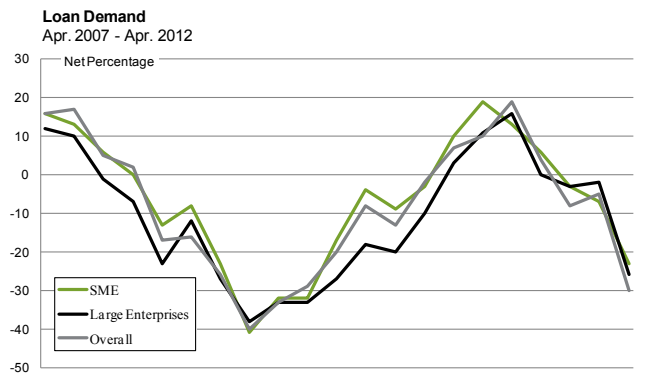
Source: ECB

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.

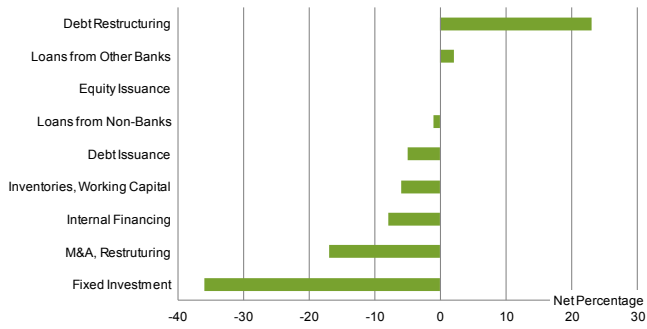
² A positive net percentage signifies the factor contributed to tightening credit standards; a negative net percentage signifies the factor contributed to easing credit standards.

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

ISSUANCE

1.7. Factors Affecting Loan Demand⁴

Factors Affecting Loan Demand
Apr. 2012



Source: ECB

1.8. Global Comparison – High Yield Issuance

€ Billions	2012				
	Q1	Q2	Q3	Q4	Full Year
United States	55.9				55.9
Asia Pacific	10.9				10.9
Europe	23.5				23.5

2011				
Q1	Q2	Q3	Q4	Full Year
47.0	43.9	14.0	21.8	126.7
14.1	12.3	5.2	4.9	36.5
28.0	26.8	5.7	5.6	66.2

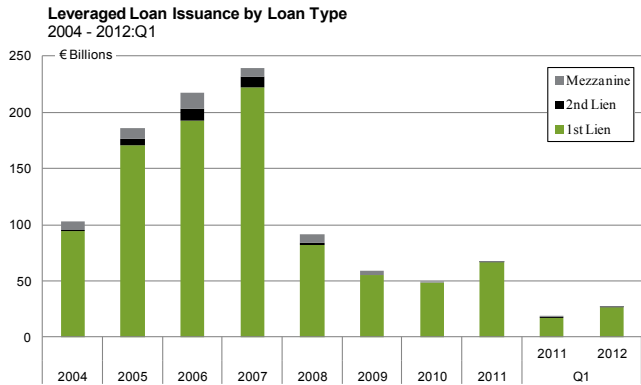
Prior
2010
162.0
45.5
65.6

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.

ISSUANCE

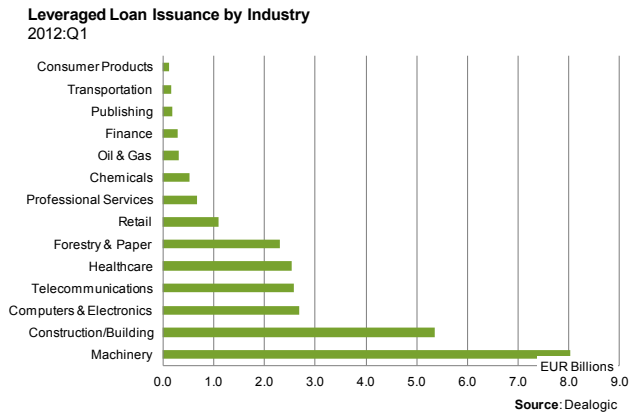
2. Issuance – Leveraged Loans

2.1. European Leveraged Loan Issuance By Loan Type



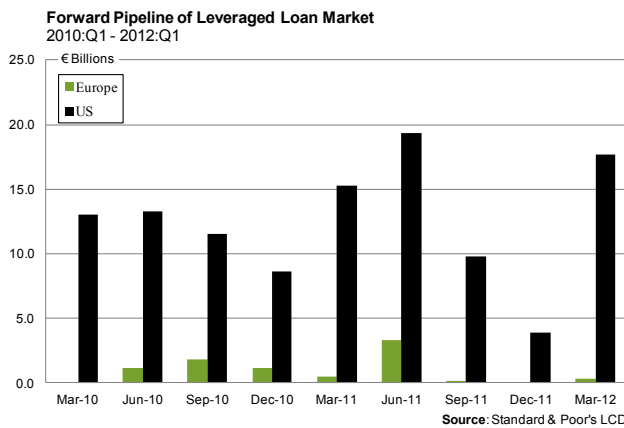
Source: Dealogic, Thomson Reuters LPC

2.2. European Leveraged Loan Issuance by Industry Sector



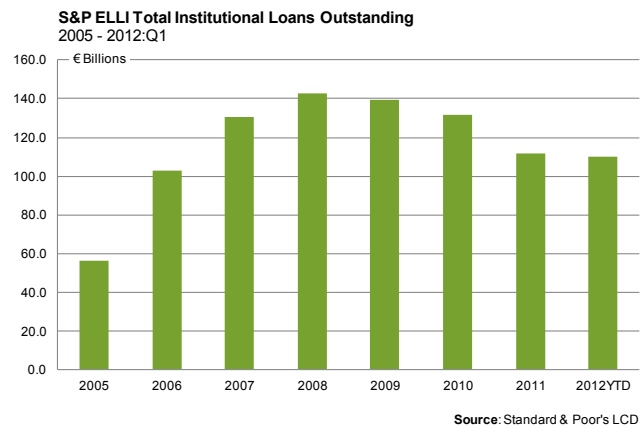
Source: Dealogic

2.3. Forward Pipeline of Leveraged Loan Market



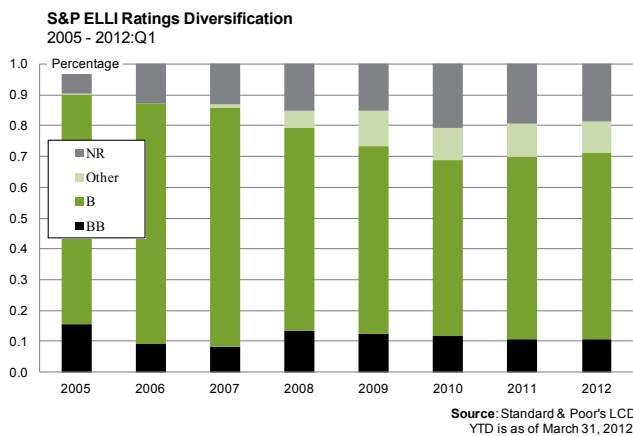
Source: Standard & Poor's LCD

2.4. S&P ELLI Total Institutional Loans Outstanding



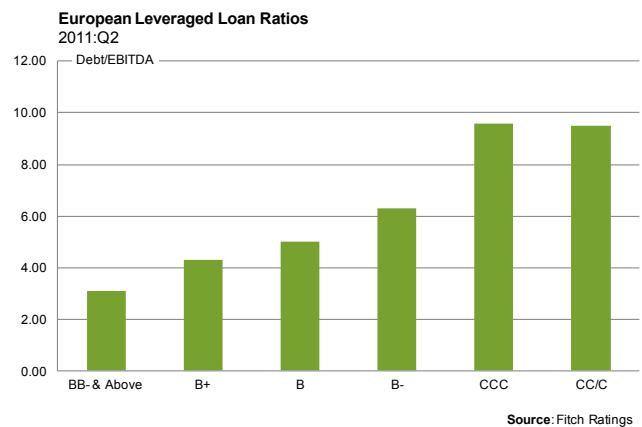
Source: Standard & Poor's LCD

2.5. S&P ELLI Ratings Diversification



Source: Standard & Poor's LCD
YTD is as of March 31, 2012.

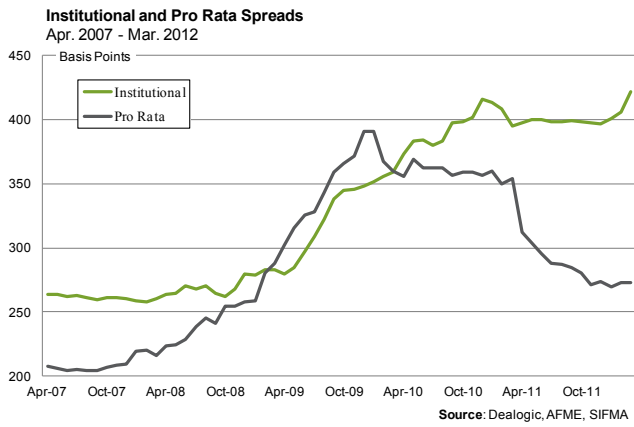
2.6. European Leveraged Loan Ratios⁵



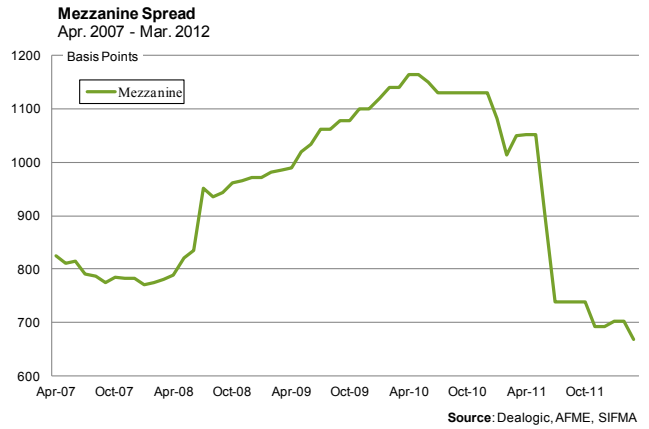
Source: Fitch Ratings

⁵ Data from Fitch ratings are on a lag.

2.7. Institutional and Pro Rata Spreads



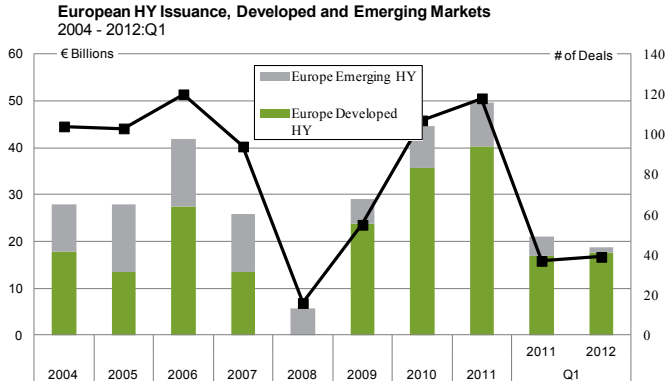
2.8. Mezzanine Spread



ISSUANCE

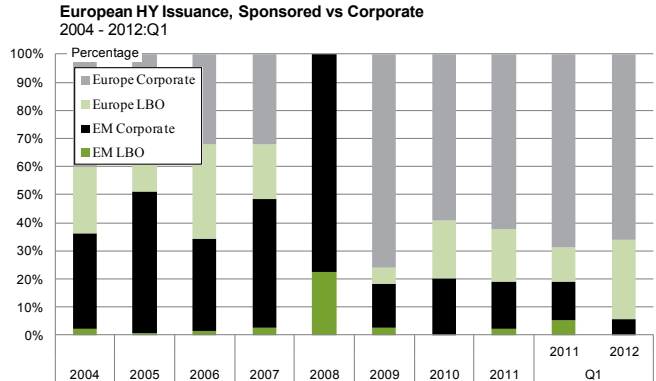
3. Issuance – High Yield Bonds Overview

3.1. European HY Bond Issuance, Developed and Emerging Market



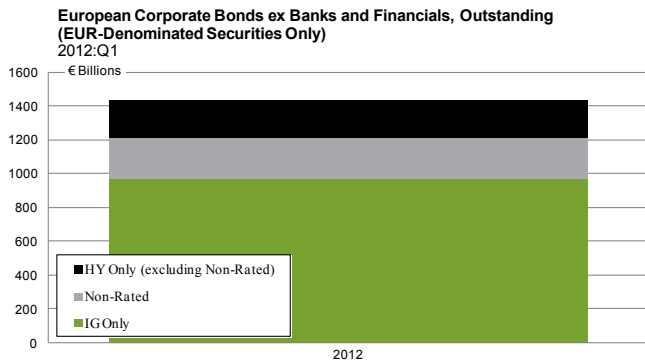
Sources: Dealogic, Thomson Reuters LPC

3.2. European HY Bond Issuance, Sponsored vs. Corporate



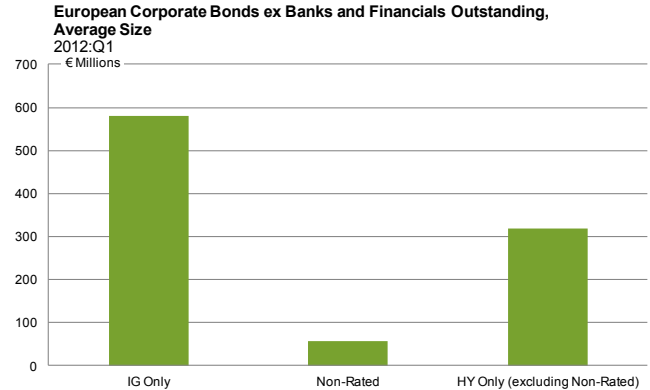
Sources: Dealogic

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



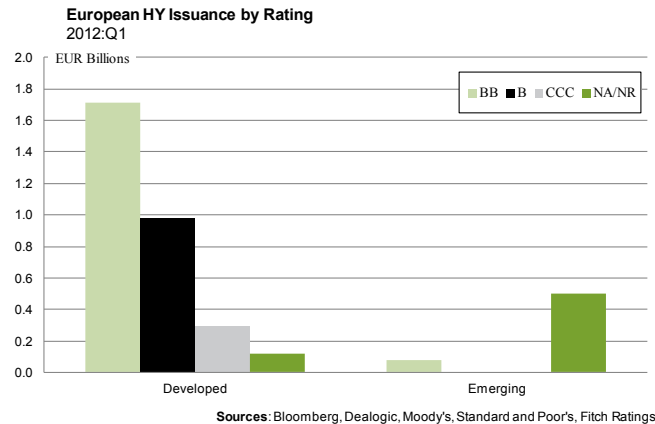
Sources: Bloomberg, AFME, SIFMA

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



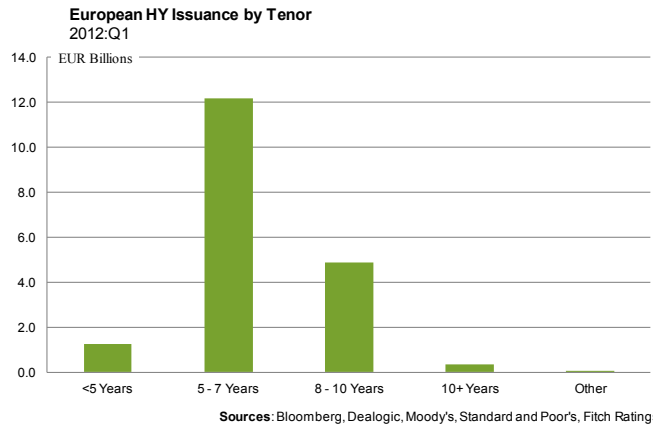
Sources: Bloomberg, AFME, SIFMA

3.5. European Corporate Bond Issuance by Rating



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

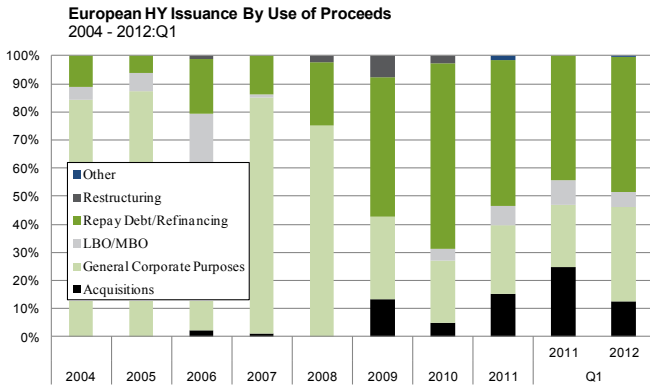
3.6. European Corporate Bond Issuance by Tenor



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

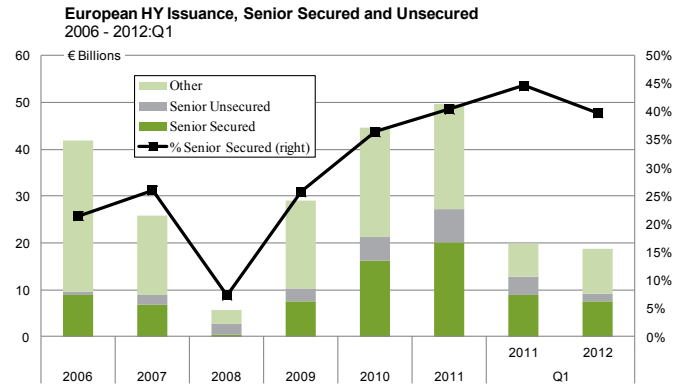
ISSUANCE

3.7. European HY Use of Proceeds



Source: Dealogic, AFME/SIFMA

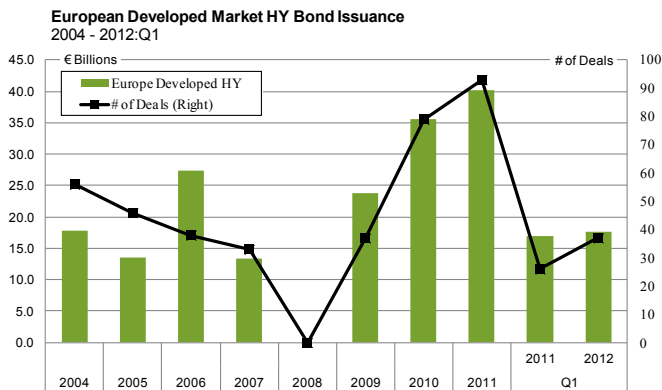
3.8. European HY Issuance, Senior Secured Share



Sources: Bloomberg, Dealogic

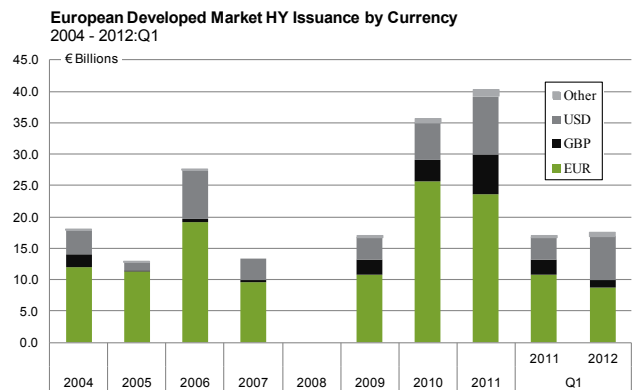
4. Issuance – European Developed Market High Yield Bonds

4.1. European Developed Market HY Bond Issuance



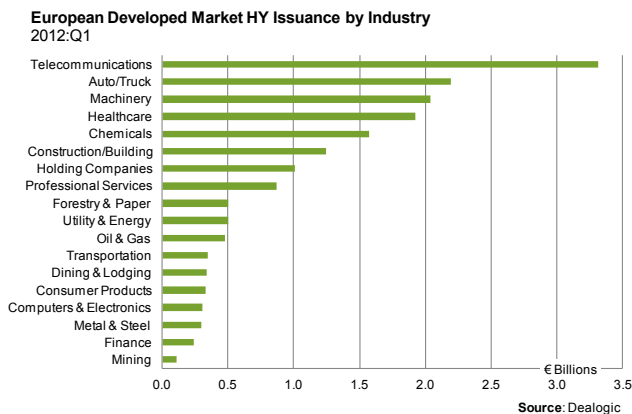
Source: Dealogic

4.2. European Developed Market HY Issuance by Currency



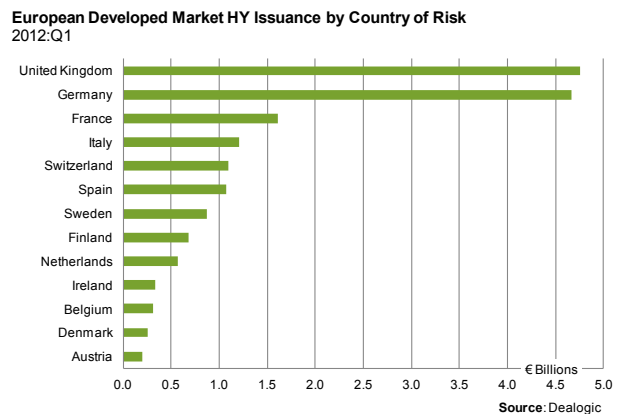
Source: Dealogic

4.3. European Developed Market HY Issuance by Industry



Source: Dealogic

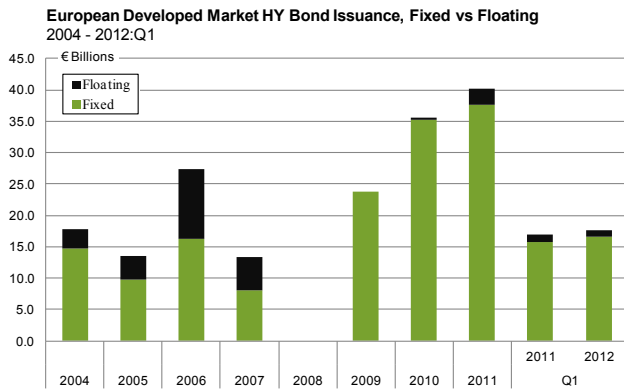
4.4. European Developed Market HY Issuance by Country of Risk



Source: Dealogic

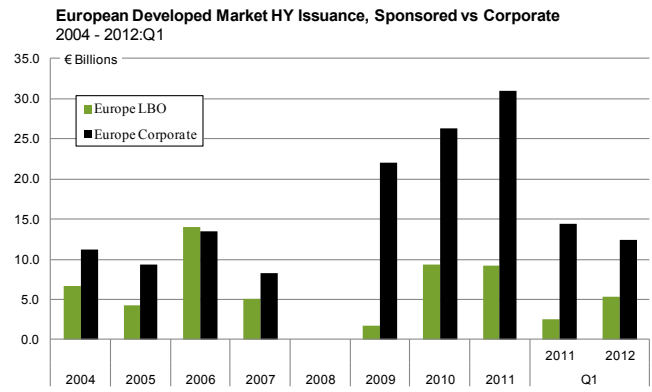
ISSUANCE

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



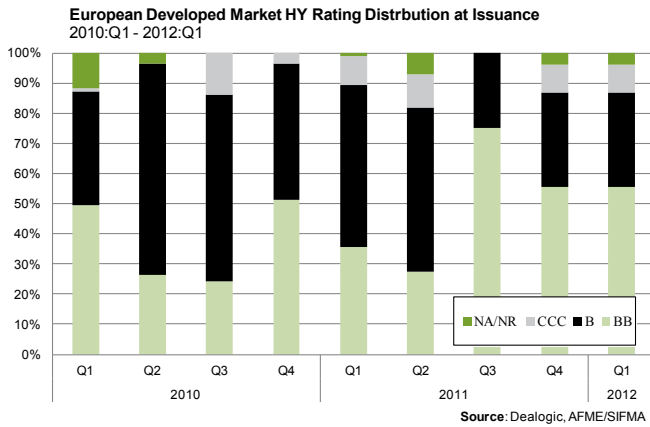
Source: Dealogic

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

ISSUANCE

4.8. European Developed Market HY Bond Issuance

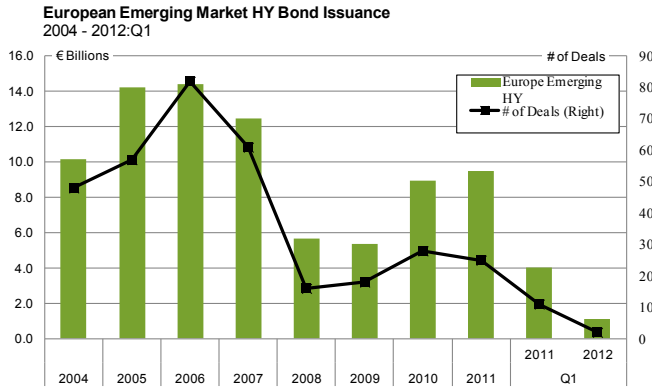
Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Wienerberger AG	Construction/Building	13/01/2012	EUR	200	5.000	Ba1	BB	
Fresenius Medical Care US Finance II Inc	Healthcare	17/01/2012	USD	700	5.875	Ba2	BB	
			USD	800	5.625	Ba2	BB	
FMC Finance VIII SA	Healthcare	18/01/2012	EUR	250	5.250	Ba2	BB	BB
Sable International Finance Ltd	Telecommunications		USD	400	8.750	Ba2	BB	
Ardagh Packaging Finance plc	Consumer Products	19/01/2012	USD	160	7.375	Ba3		
			USD	260	9.125	B3		
Taminco NV	Chemicals	20/01/2012	USD	400	9.750	Caa1	B-	
Weltec A/S	Oil & Gas	25/01/2012	USD	325	8.000	B1	BB-	
Nara Cable Funding Ltd	Telecommunications	26/01/2012	USD	1,000	8.875	B1	B	
CEVA Group plc	Holding Companies	27/01/2012	USD	325	8.375	Ba3	B+	
			USD	475	12.750	Caa2	B-	
UPCB Finance VI Ltd	Telecommunications	31/01/2012	USD	750	6.875	Ba3	B+	
Franz Haniel & Cie GmbH	Holding Companies	01/02/2012	EUR	400	6.250	Ba1	BB+	
Schaeffler Finance BV	Machinery	02/02/2012	EUR	400	8.750	B1	B	
			EUR	800	7.750	B1	B	
			USD	500	8.500	B1	B	
			USD	600	7.750	B1	B	
INEOS Finance plc	Chemicals	03/02/2012	EUR	500	3M EURIBOR + 600	Ba3	B	
			USD	1,000	8.375	Ba3	B	
Orange Communications SA	Telecommunications		CHF	450	6.750	Ba3	BB-	
			EUR	150	3M EURIBOR + 525	Ba3	BB-	
			EUR	225	8.250	B3	B-	
Numericable Finance & Co SCA	Telecommunications	09/02/2012	EUR	360	12.375	B2		
Orange Communications SA	Telecommunications		EUR	180	3M EURIBOR + 525	Ba3	BB-	
Verisure Holding AB	Professional Services	10/02/2012	EUR	100	3M EURIBOR + 650	B2	B	B
			EUR	272	8.750	Caa1	CCC+	CCC+
			EUR	500	8.750	B2	B	
Faurecia SA	Auto/Truck	14/02/2012	EUR	140	9.375	Ba3		
Fiat Finance & Trade Ltd SA	Auto/Truck	16/02/2012	CHF	425	5.000	Ba3	BB	BB
CPUK Finance Ltd	Dining & Lodging	17/02/2012	GBP	280	11.625		BB+	B+
Virgin Media Finance plc	Telecommunications	28/02/2012	USD	500	5.250	Ba2	BB-	BB+
Stora Enso Oyj	Forestry & Paper	29/02/2012	EUR	500	5.500	Ba2	BB	
Afren plc	Oil & Gas	01/03/2012	USD	300	10.250		B	B
Viridian Group Ltd	Utility & Energy		EUR	313	11.125	B2		BB
			USD	250	11.125	B2		BB
Eco-Bat Finance plc	Metal & Steel	02/03/2012	EUR	300	7.750	B1	B+	
Gategroup Finance (Luxembourg) SA	Transportation		EUR	350	6.750	B1	BB	
HeidelbergCement Finance BV	Construction/Building		EUR	300	4.000	Ba1	BB	BB+
Renault SA	Auto/Truck	12/03/2012	EUR	250	4.625	Ba1	BB+	
Obrascon Huarte Lain SA - OHL	Construction/Building	15/03/2012	EUR	300	7.625	Ba2	BB-	BB-
Fiat Finance & Trade Ltd SA	Auto/Truck	20/03/2012	EUR	850	7.000	Ba3	BB	BB
Fresenius Finance BV	Healthcare	21/03/2012	EUR	500	4.250	Ba1	BB+	
Rexel SA	Computers & Electronics		USD	400	6.125	Ba2	BB	BB
Jaguar Land Rover plc	Auto/Truck	22/03/2012	GBP	500	8.250	B1	B+	BB-
Lemminkainen Oyj	Construction/Building	23/03/2012	EUR	70	10.000			
Lowell Group Financing plc	Finance		GBP	200	10.750	B1	BB	
SPIE SA	Construction/Building	28/03/2012	EUR	375	11.000	Caa1	CCC+	
Talvivaara Mining Co Ltd	Mining		EUR	110	9.750			

Source: Bloomberg, Dealogic

ISSUANCE

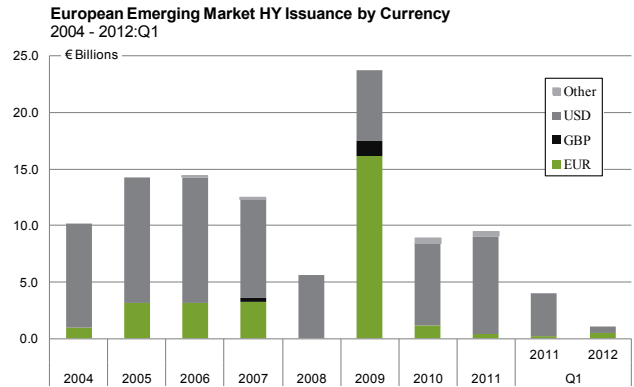
5. Issuance – European Emerging Market High Yield Bonds

5.1. European Emerging Market HY Bond Issuance



Source: Dealogic

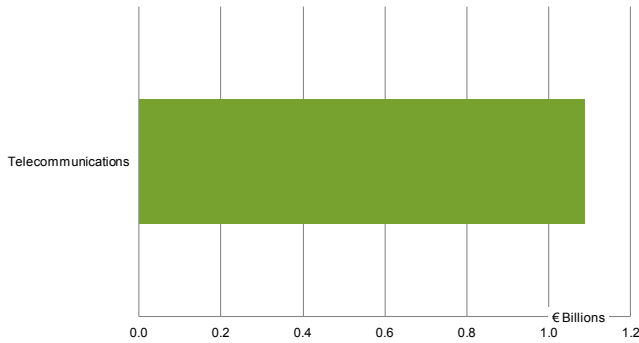
5.2. European Emerging Market HY Bond Issuance by Currency



Source: Dealogic

5.3. European Emerging Market HY Issuance by Industry

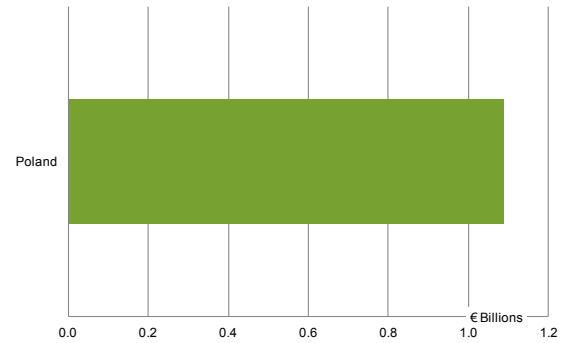
European Emerging Market HY Issuance by Industry 2012:Q1



Source: Dealogic

5.4. European Emerging Market HY Issuance by Country of Risk

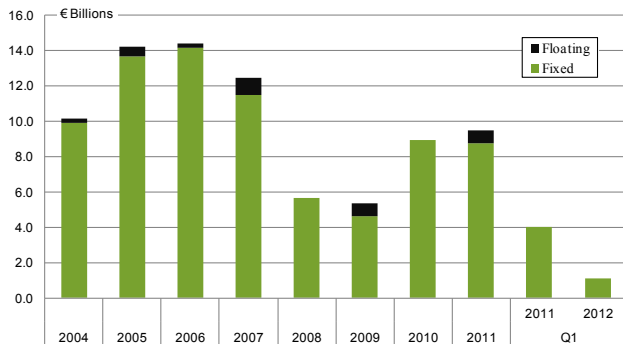
European Emerging Market HY Issuance by Country of Risk 2012:Q1



Source: Dealogic

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

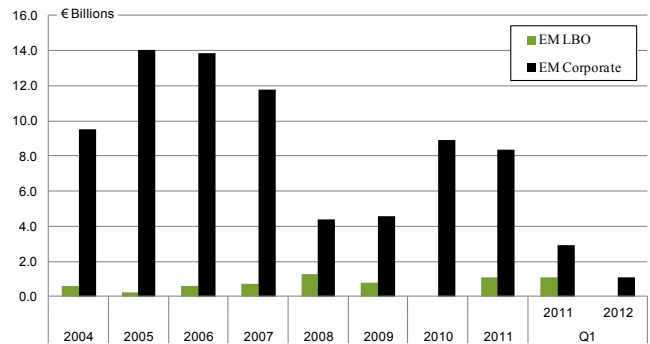
European Emerging Market HY Bond Issuance, Fixed vs Floating 2004 - 2012:Q1



Source: Dealogic

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

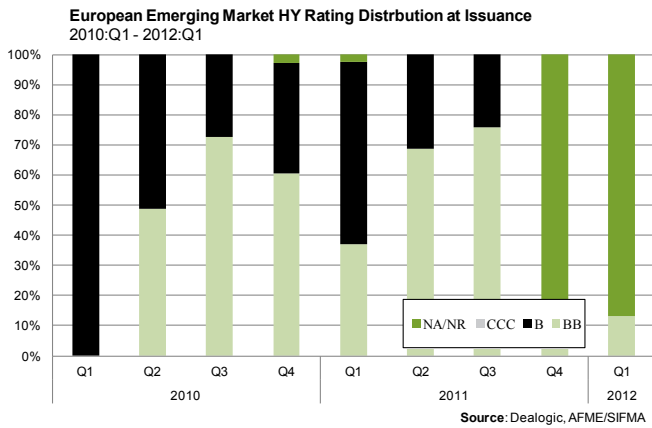
European Emerging Market HY Issuance, Sponsored vs Corporate 2004 - 2012:Q1



Source: Dealogic

ISSUANCE

5.7. European Emerging Market HY Rating Distribution at Issuance



5.8. Emerging Market HY Bond Issuance

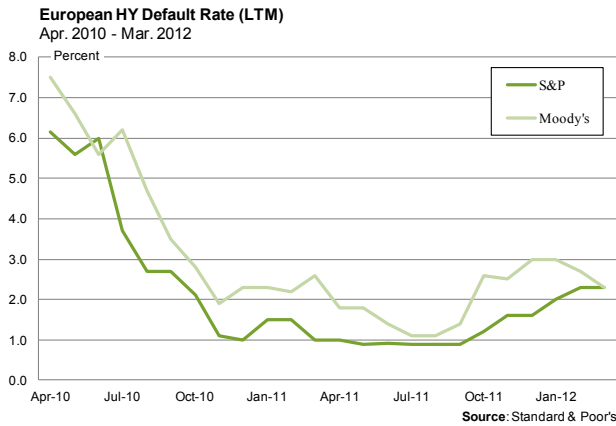
Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moodys	S&P	Fitch
Eileme 2 AB	Telecommunications	19/01/2012	EUR	543	11.750	B3	B-	
Eileme 1 AB†	Telecommunications	09/02/2012	USD	500	11.625	B3	B-	B-
Eileme 1 AB†			USD	201	14.250	Caa1	B-	

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

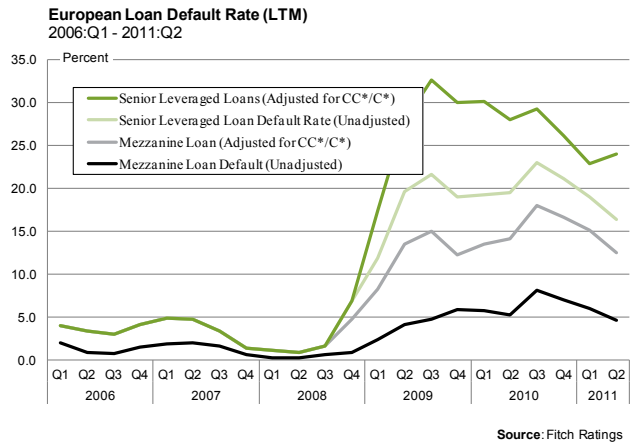
CREDIT QUALITY

6. Credit Quality

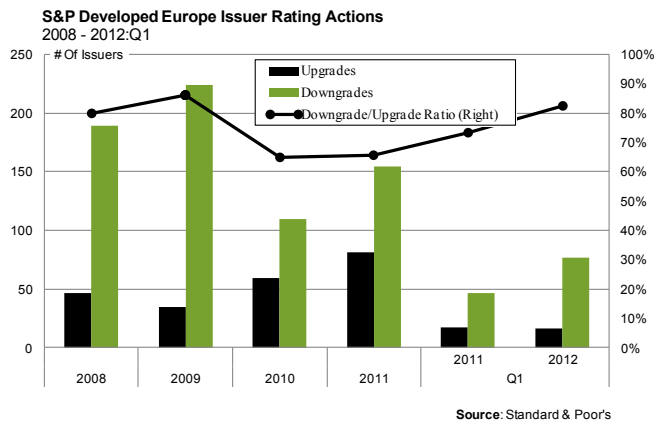
6.1. European HY Default Rate



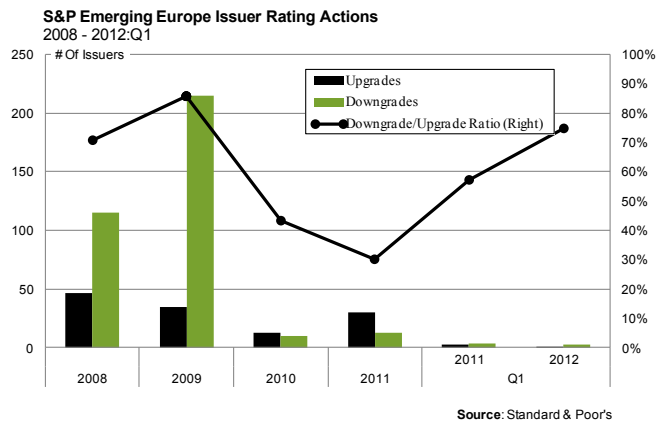
6.2. European Loan Default Rate¹



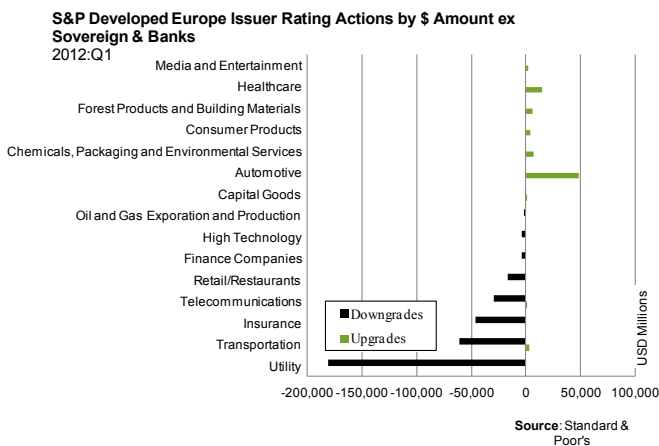
6.3. Developed Europe Issuer Rating Actions²



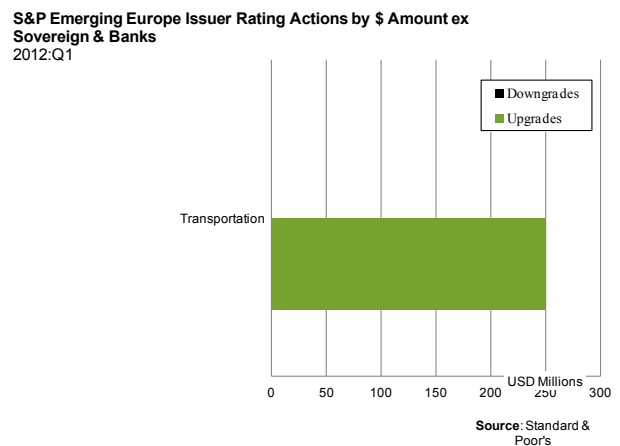
6.4. Emerging Europe Issuer Rating Actions³



6.5. Developed European Industry Rating Actions by \$ Amount



6.6. Emerging European Industry Rating Actions by \$ Amount



¹ Data from Fitch Ratings are on a lag.
² Numbers include both corporate and sovereigns.
³ Numbers include both corporate and sovereigns.

CREDIT QUALITY

6.7. European Defaults

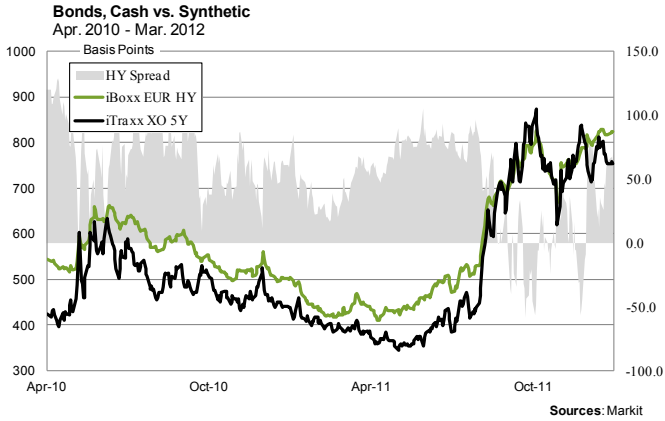
Issuer	Industry Group	Country	Date	Reported By	Reason
Petroplus Holdings AG	Oil & Gas	Switzerland	January 2012	Moody's/S&P	Bankruptcy
Yell Group PLC	Media & Entertainment	United Kingdom	January 2012	Moody's/S&P	Distressed Exchange
ERC Ireland Preferred Equity	Telecommunications	Ireland	February 2012	Moody's/S&P	Missed Coupon

Source: Moody's, Standard & Poor's

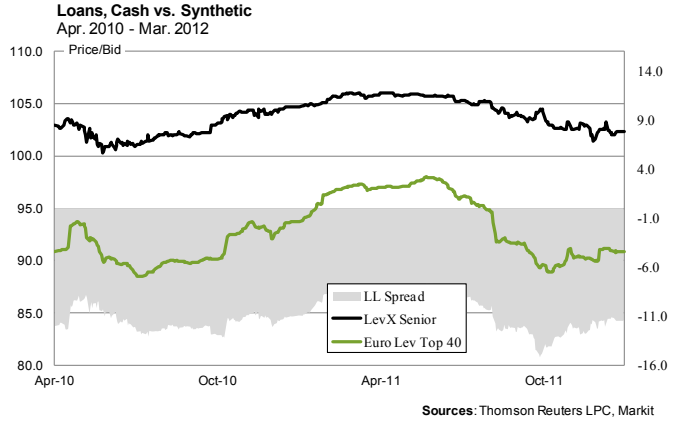
RELATIVE VALUE

7. Relative Value

7.1. European HY Bonds, Cash vs. Synthetic

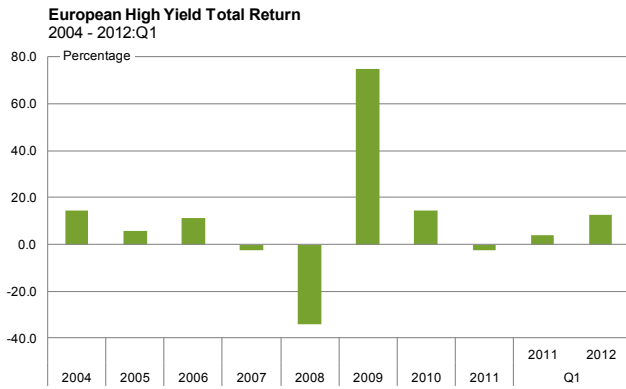


7.2. European Leveraged Loans, Cash vs. Synthetic

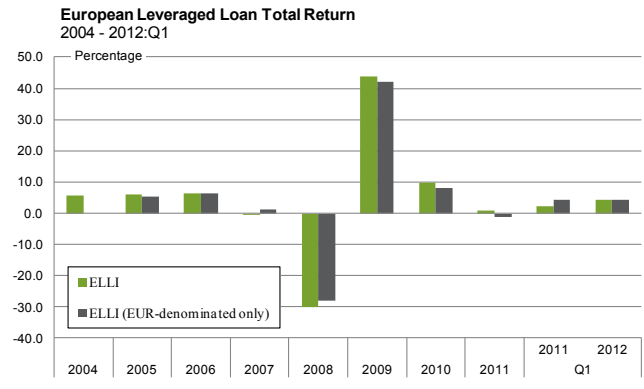


8. Total Return

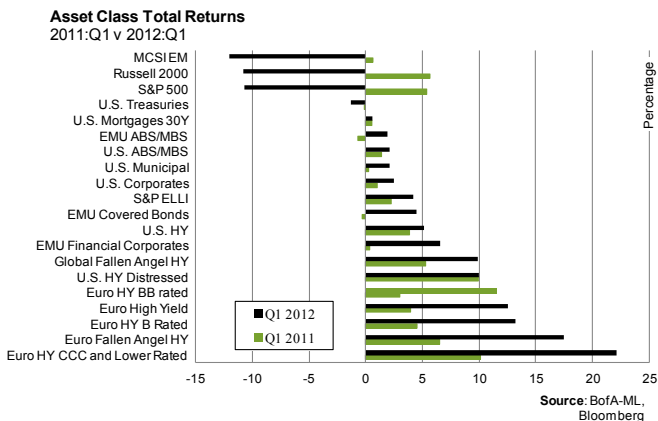
8.1. European HY Bond Total Return



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 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 (T1a).

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 domestic, euro, foreign, and global markets 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. Only EUR-denominated issues are counted in this calculation.

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.

3.5. European Corporate Bond 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.

3.6. European Corporate Bond Issuance by Tenor

Data for HY issuance by tenor are sourced from Dealogic. "Other" includes perpetuals.

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.

6.7. European Defaults

Defaults reported by either Moody's or Standard and Poor's in the European bond markets and loans markets, when available.

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

The information and opinion commentary in this High Yield and Leveraged Loan Report (Report) was prepared by the leveraged finance division of the Association for Financial Markets in Europe (AFME) and the Securities Industry and Financial Markets Association (SIFMA). AFME and SIFMA believe that the information in the Report, which has been obtained from multiple sources believed to be reliable, is reliable as of the date of publication. In no event, however, does either of AFME and SIFMA make any representation as to the accuracy or completeness of such information. AFME and SIFMA have no obligation to update, modify or amend the information in this Report or to otherwise notify readers if any information in the Report becomes outdated or inaccurate. AFME and SIFMA will make every effort to include updated information as it becomes available and in subsequent reports. As information is collected from multiple sources and estimates by the individual sources may differ from one another, estimates for similar types of data could vary within the Report.

www.afme.eu

AFME

Gary Simmons, Director

www.afme.eu

SIFMA

Kyle Brandon, Managing Director, Director of Research

Sharon Sung, Research Analyst

www.sifma.org