

European High Yield & Leveraged Loan Report



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European Leveraged Finance, Second Quarter 2012

Highlights and Market Environment

Highlights

- Continued strain in the global financial markets played a role in weaker issuance levels in the second quarter of 2012. European leveraged finance issuance (leveraged loans and high yield bonds) declined considerably in Q2'12, with €27.8 billion issued, a 38.9% and 35.8% decrease, respectively, quarter-over-quarter (q-o-q) and year-over-year (y-o-y). Market share of high yield bond issuance declined slightly in 2Q'12 to 36.8%, from 41.1% in 1Q'12 and 46.0% in 2Q'11.
- Funding pressures on banks continue to remain extremely high in the second quarter, as banks increasingly retrench and shed capital-intensive business lines and assets. Although institutional investors are increasingly stepping up to fill the gap in financing resulting from such funding pressures, corporations continue to increasingly weigh higher funding costs demanded by institutional investors versus continued access to funding. Outside of the now traditional amend and extend (A&E) transactions, corporations are returning to defensive transactions to preserve liquidity in a strained environment.
- While concerns over Greece emerged in greater force in the second quarter, particularly after its tumultuous elections, fresh concerns reemerged among investors for some of the larger Eurozone sovereigns, most notably Spain (after its takeover of Bankia and the weakness of the Valencia region) and Italy.

Market and Economic Environment

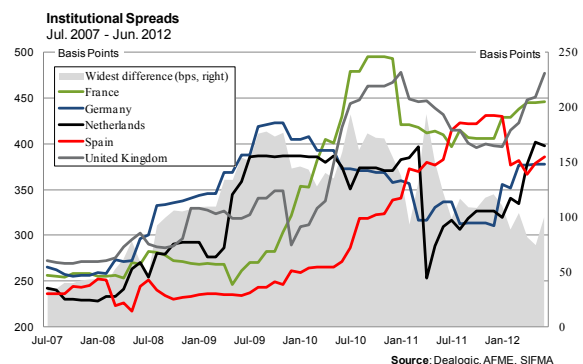
- According to the July European Central Bank (ECB) bank lending survey, banks reported on net, a further tightening of lending standards in the second quarter. Standards for long-term loans tightened slightly more than short-term loans, and more so for large enterprises than small- and medium (SME) enterprises. The industry outlook, economic backdrop, and costs to bank capital contributed greatly to tightened standards, while bank competition contributed to easing standards, albeit minutely.
- More generally loan demand continued to plummet in the second quarter, with loans primarily utilised to restructure existing debt or, to a lesser extent, allow for equity issuance.
- Bank funding remains extremely constrained in the current weak macroeconomic environment. While the ECB has further loosened collateral requirements on asset-backed securities (ABS) in June (both through widening the eligible pool and lowering the ratings required) to provide further liquidity support to banks, Greek bond

collateral acceptance lapsed in mid July.¹ The general downgrade of banks and securities firms with global operations by Moody's late in June also served to put pressure on bank funding.²

Issuance

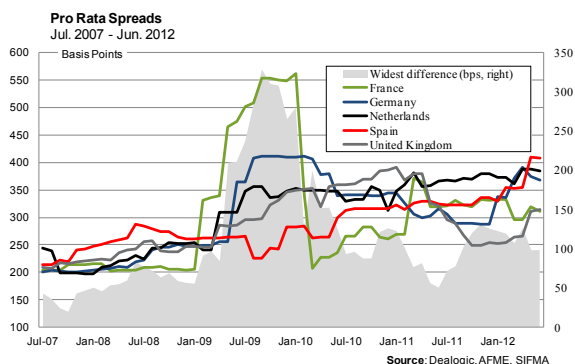
Issuance: Leveraged Loans

- Leveraged loan issuance continued to decline in a weak lending environment. Leveraged loan issuance, which includes first lien, second lien, and mezzanine financing, totalled €17.6 billion in 2Q'12, a 34.6% and 25.0% decline, respectively, from 1Q'12 and 2Q'11. Year to date, while leveraged loan issuance is on track to exceed 2011's €68.1 billion, issuance has generally increased through tapping the U.S. market. Approximately a quarter of leveraged loan volume this year by euro value has been denominated in U.S. currency, compared to 16.0% in 1Q'12 and 3.5% for all of 2011. According to S&P, the loan pipeline at the end of June 2012 was €56 million.
- Approximately €0.6 billion of second liens and €0.1 billion of mezzanine loans were made in the second quarter. Spreads at pricing for institutional loans widened by 18.8 basis points (bps), while pro rata loans widened by 42.8 bps. On the other hand, mezzanine loans continued to tighten by 140.6 bps, but given extremely light supply, spreads for mezzanine loans continue to be idiosyncratic to the deal.
- Tiering in the loan markets continued to persist in the second quarter, with corporate issuers from higher quality sovereign countries continuing to enjoy cheaper funding access in the market. Approximately 27.5% by euro volume this quarter were offered with an original issue discount, and reverse flex was exercised on a few deals.

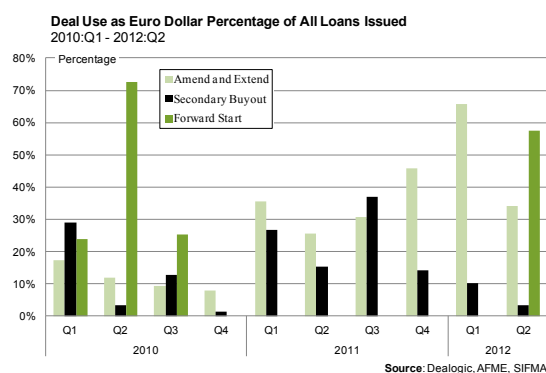


¹ ECB, "ECB takes further measures to increase collateral availability for counterparties," 22 June 2012; "Collateral eligibility of bonds issued or guaranteed by the Greek government," 20 July 2012.
² Moody's, "Moody's downgrades firms with global capital market operations," 21 June 2012.

MARKET HIGHLIGHTS AND COMMENTARY



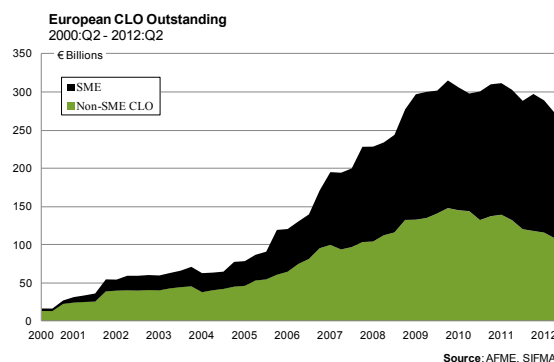
- According to Dealogic, the leading sectors in leveraged loan issuance for the second quarter of 2012 were chemicals (€3.2 billion), followed by leisure & recreation (€3.2 billion) and professional services (€2.0 billion). The largest deal was a transaction from Ineos for 2.3 billion, a covenant lite refinancing package for the UK chemicals company.
- One third of the deals by euro amount in the second quarter were amend and extend (A&E) transactions. Secondary buyouts transactions were scarce, constituting less than 4% of deals by euro amount, although more generally very few LBO/MBO deals were done in the second quarter.
- Corporations moved defensively to protect and preserve access to liquidity. Forward start facility transactions picked up again in the second quarter of 2012 for the first time since 2010. Such facilities are essentially guaranteed future refinancing deals as they are precommitments by existing lenders of credit facilities to provide the financing to repay the existing facility at maturity.
- The share of deals aimed to refinance and/or repay debt (inclusive of A&E deals) declined slightly to 67.4% by euro amount in 2Q'12, compared to 74.3% in 1Q'12 and 16.3% in 2Q'11.



- The primary CLO market continued to remain shuttered in the second quarter of 2012. SME issuance declined in 2Q'12 as in 1Q'12 (€6.2 billion in 2Q'12, compared to €7.7 billion in 1Q'12); however, all tranches were retained, presumably for repo with the ECB. Banks continued to remain largely focused on tendering bonds from

their existing securitisations and covered bond transactions.

- European CLO outstandings, including SME deals, declined 21.0 percent on an annualized basis in the second quarter, ending June 2012 at €272.6 billion. Both non-SME CLOs and SME CLOs shrank 23.2% and 19.5%, respectively, in the second quarter of 2012 on an annualized basis.



Issuance: High Yield Bonds

- Primary issuance in 2Q'12 totalled 10.2 billion on 30 deals, a 45.3% decline and 48.6 decline, respectively, from 1Q'12 (€18.7 billion) and 2Q'11 (€19.9 billion). The substantial volume drop in the second quarter primarily derived from the drop in volume in developed market Europe, while emerging market Europe volume has remained steady.
- Primary issuance in developed market Europe in the second quarter was 6.9 billion on 20 deals, while in emerging market Europe primary issuance was 3.3 billion on 10 deals. One new debut issue (Schmolz & Bickenbach Luxembourg) was brought to market in developed market Europe.
- High yield issuance for refinancing and/or repayment of debt declined in 2Q'12 to 33.0% of all deals by euro amount, compared to 48.0% and 69.1%, respectively, quarter-over-quarter and year-over-year.
- More surprisingly, the use of senior secured debt structures were not seen at all in 2Q'12, either in developed or emerging market Europe.
- 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%). Similar to the prior quarter, debt denominated in USD was heavily favoured in developed market Europe, with 39.4% by euro volume de-

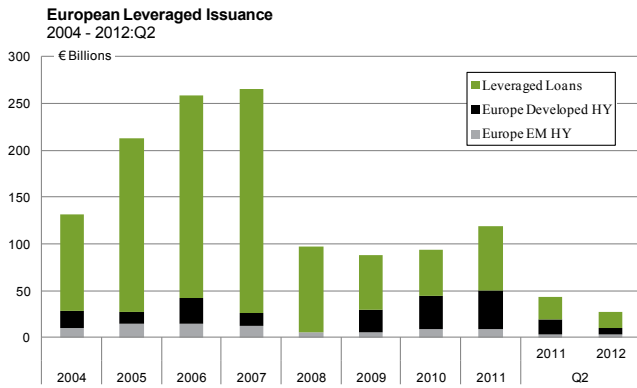
nominated in USD (56.0% when including emerging market Europe).

Returns & Credit Quality

- Equities led returns in the second quarter, followed by U.S. fixed income asset classes. While European leveraged loans eked out small but positive returns in the second quarter (1.7%), European high yield were among the worst performing asset classes, losing 0.79%.
- According to S&P, downgrades continued to exceed upgrades in developed market Europe, while upgrades exceeded downgrades in emerging market Europe. In developed market Europe, the rating agencies downgraded 39 names and upgrade 25 names. Bank downgrades drove a third of the downgrades (12); utilities, to a lesser extent, also experienced some rating slippage (4). Upgrades were concentrated in the chemicals & packaging sector (5), followed by transportation (3) and consumer products (3).
- Emerging market Europe rating activity remained relatively quiet, with 4 upgrades and 2 downgrades.
- High yield bond default rates dropped slightly in the second quarter, with both S&P and Moody's reporting a slight drop (2.2% end-June, compared to 2.3% end-March for S&P, 2.3% end-June for Moody's compared to 2.4% end-March). S&P reported three defaults in the second quarter: 1 confidential name; PGB S.A. (standstill agreement); and Kloeckner Holdings (subpar debt repurchase). Moody's reported a distressed loan exchange in the second quarter (Kleopatra Lux).

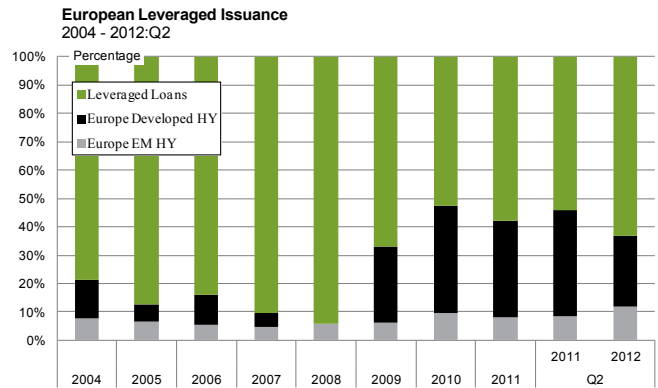
1. Leveraged Finance Overview

1.1. European Leveraged Issuance by Type



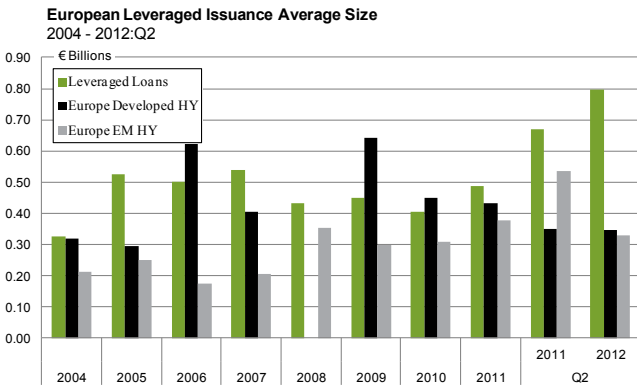
Sources: Dealogic, Thomson Reuters LPC

1.2. European Leveraged Issuance by Percentage



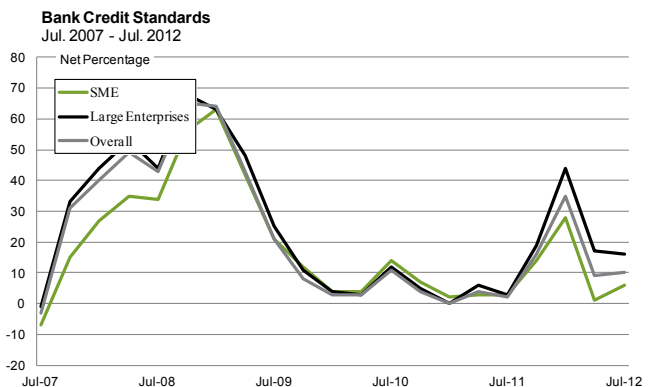
Sources: Dealogic, Thomson Reuters LPC

1.3. European Leveraged Issuance Average Deal Size



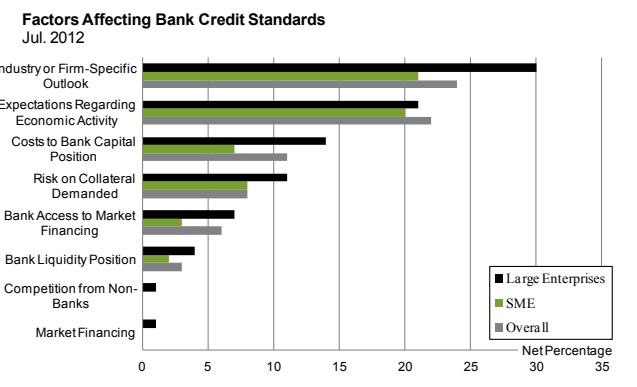
Sources: Dealogic, Thomson Reuters LPC

1.4. Bank Credit Standards¹



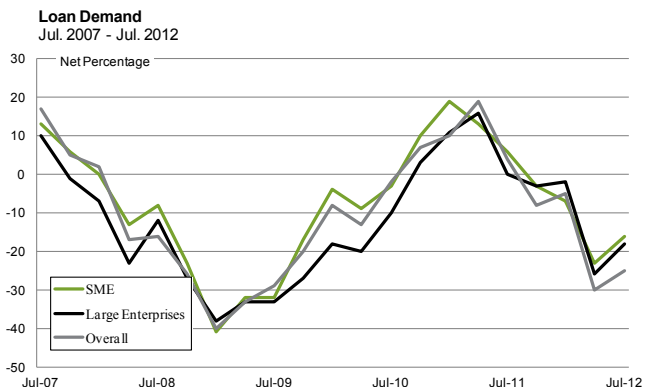
Source: ECB

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.

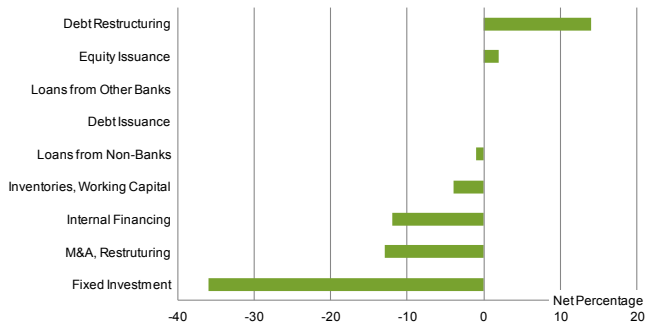
² A positive net percentage signifies the factor contributed to tightening credit standards; a negative net percentage signifies the factor contributed to easing credit standards.

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
Jul. 2012



Source: ECB

1.8. Global Comparison – High Yield Issuance

€ Billions	2012				
	Q1	Q2	Q3	Q4	Full Year
United States	55.8	30.5			86.3
Asia Pacific	10.0	4.7			14.7
Europe	23.4	13.8			37.2

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

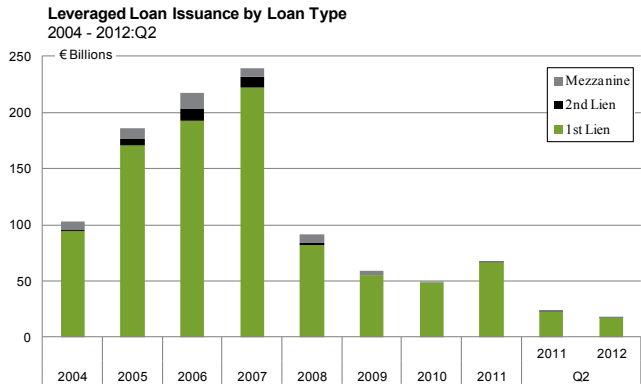
Prior
2010
162.0
45.5
65.6

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

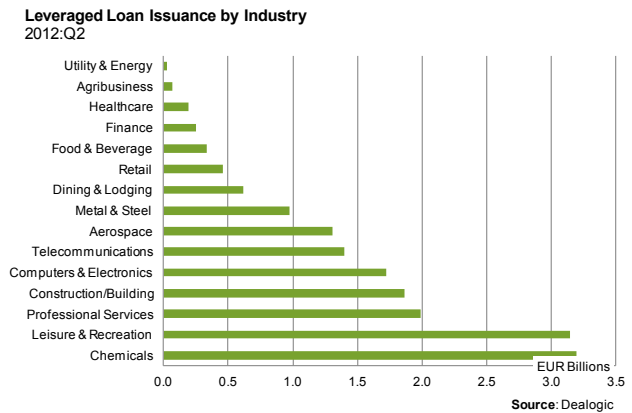
2. Issuance – Leveraged Loans

2.1. European Leveraged Loan Issuance By Loan Type



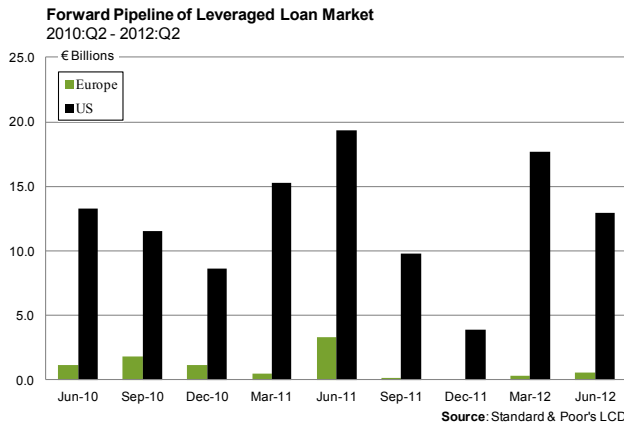
Source: Dealogic, Thomson Reuters LPC

2.2. European Leveraged Loan Issuance by Industry Sector



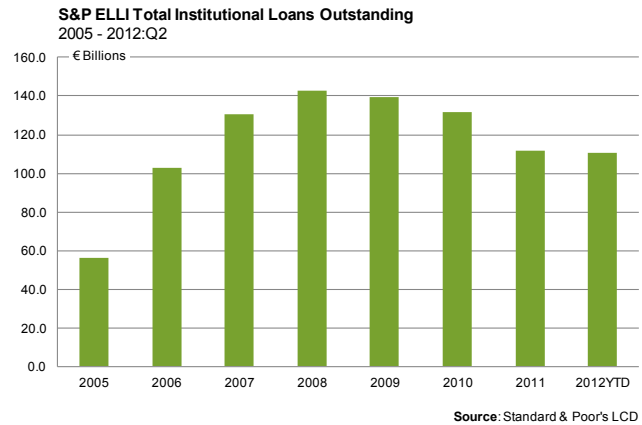
Source: Dealogic

2.3. Forward Pipeline of Leveraged Loan Market



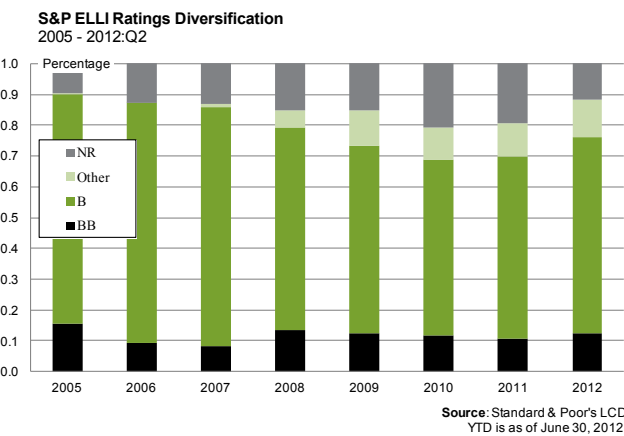
Source: Standard & Poor's LCD

2.4. S&P ELLI Total Institutional Loans Outstanding



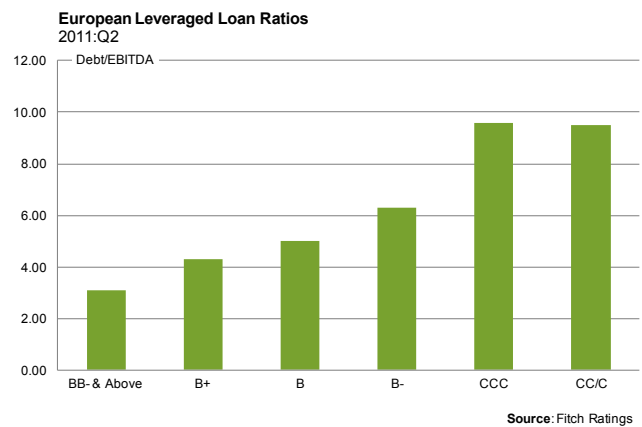
Source: Standard & Poor's LCD

2.5. S&P ELLI Ratings Diversification



Source: Standard & Poor's LCD
YTD is as of June 30, 2012.

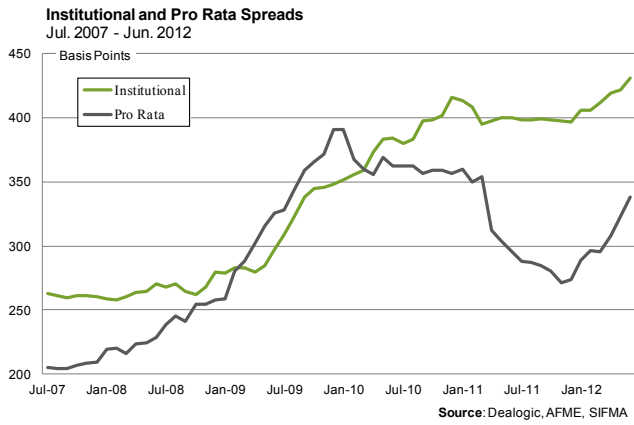
2.6. European Leveraged Loan Ratios⁵



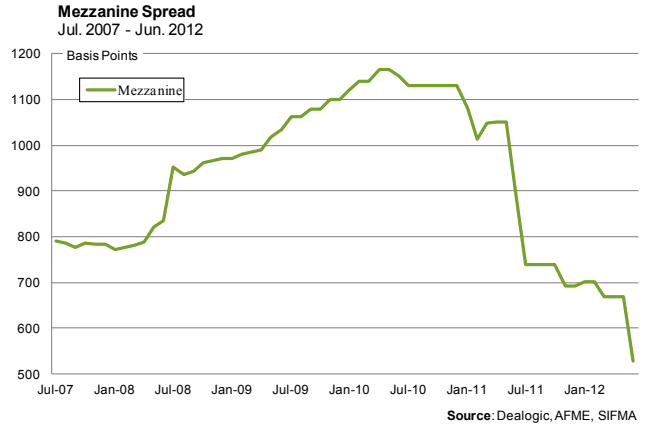
Source: Fitch Ratings

⁵ Data from Fitch ratings are on a lag.

2.7. Institutional and Pro Rata Spreads



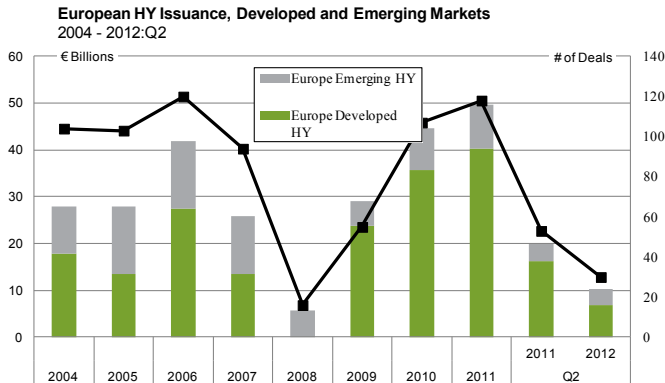
2.8. Mezzanine Spread



ISSUANCE

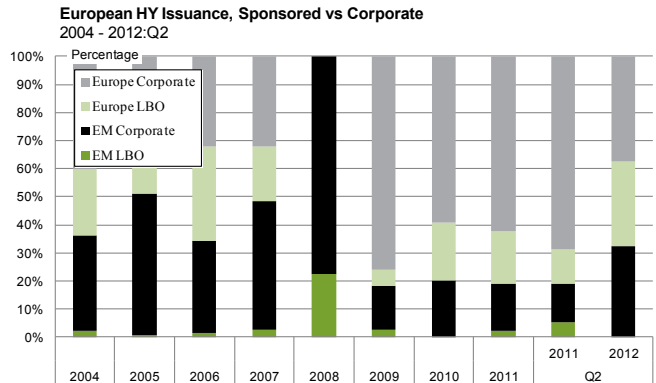
3. Issuance – High Yield Bonds Overview

3.1. European HY Bond Issuance, Developed and Emerging Market



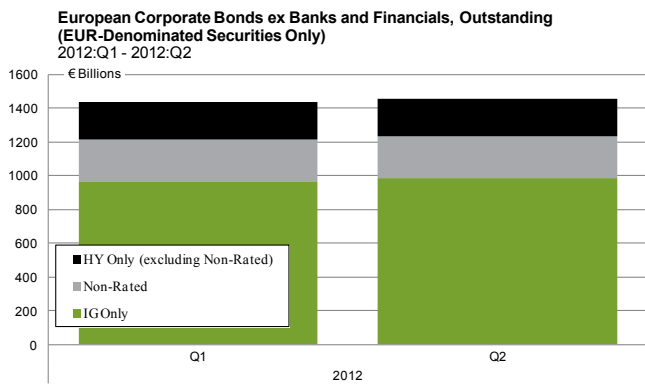
Sources: Dealogic, Thomson Reuters LPC

3.2. European HY Bond Issuance, Sponsored vs. Corporate



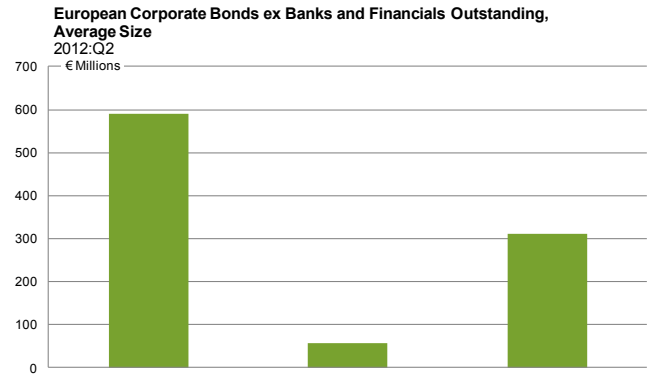
Sources: Dealogic, Thomson Reuters LPC

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



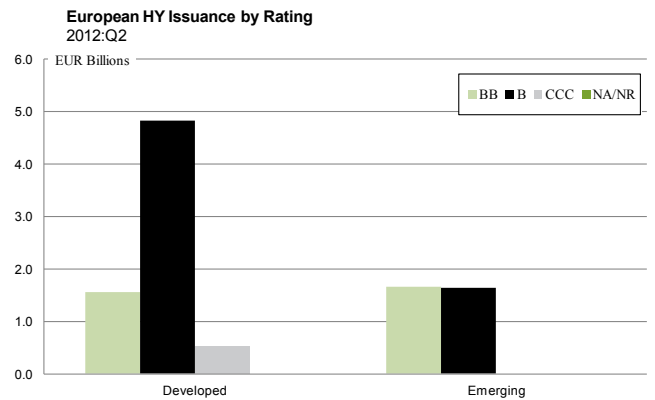
Sources: Bloomberg, AFME, SIFMA

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



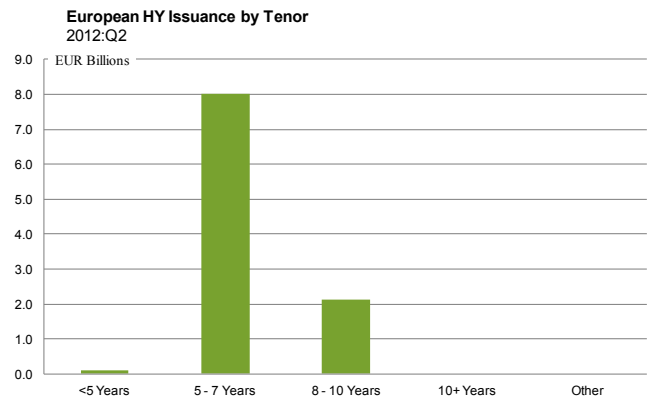
Sources: Bloomberg, AFME, SIFMA

3.5. European Corporate Bond Issuance by Rating



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

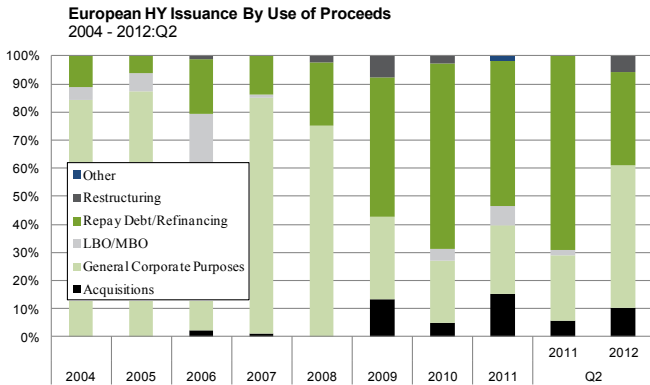
3.6. European Corporate Bond Issuance by Tenor



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

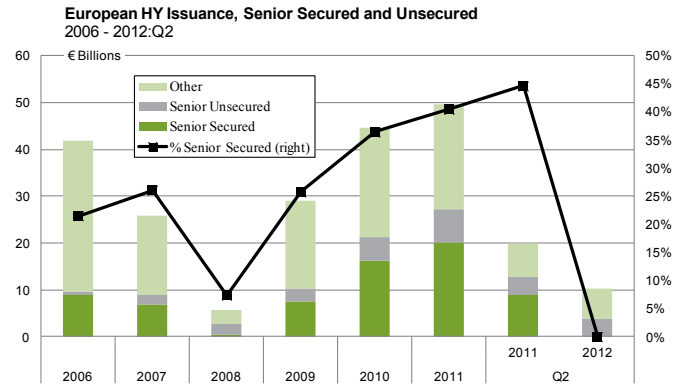
ISSUANCE

3.7. European HY Use of Proceeds



Source: Dealogic, AFME/SIFMA

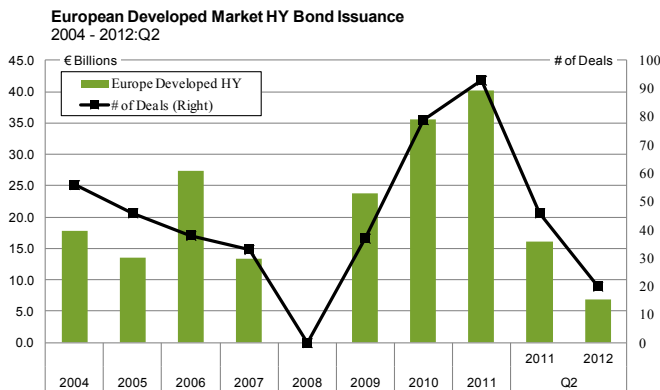
3.8. European HY Issuance, Senior Secured Share



Sources: Bloomberg, Dealogic

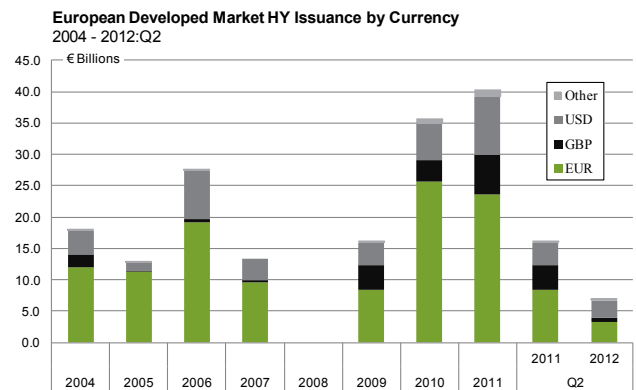
4. Issuance – European Developed Market High Yield Bonds

4.1. European Developed Market HY Bond Issuance



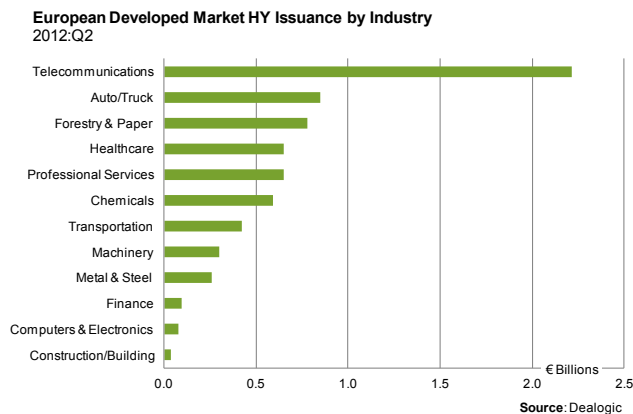
Source: Dealogic

4.2. European Developed Market HY Issuance by Currency



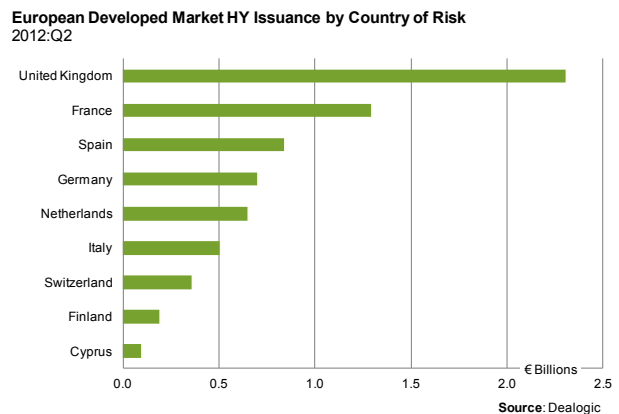
Source: Dealogic

4.3. European Developed Market HY Issuance by Industry



Source: Dealogic

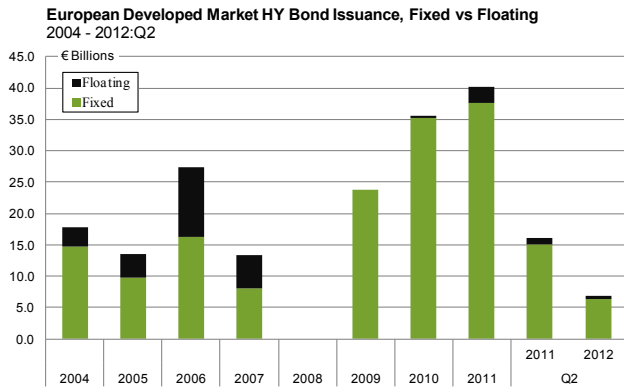
4.4. European Developed Market HY Issuance by Country of Risk



Source: Dealogic

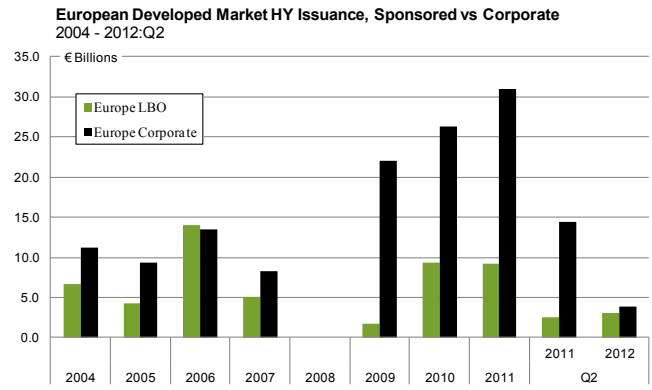
ISSUANCE

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



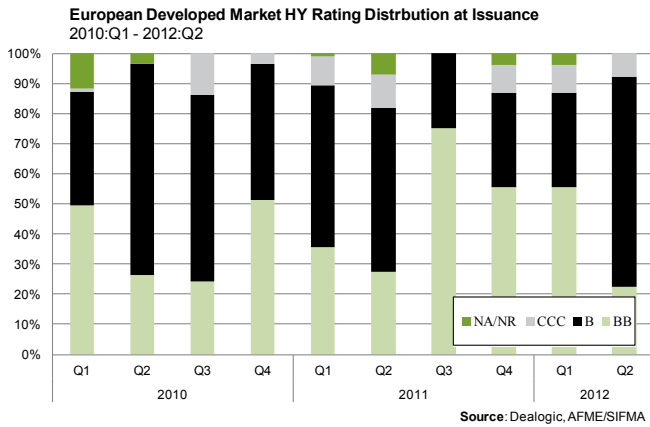
Source: Dealogic

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

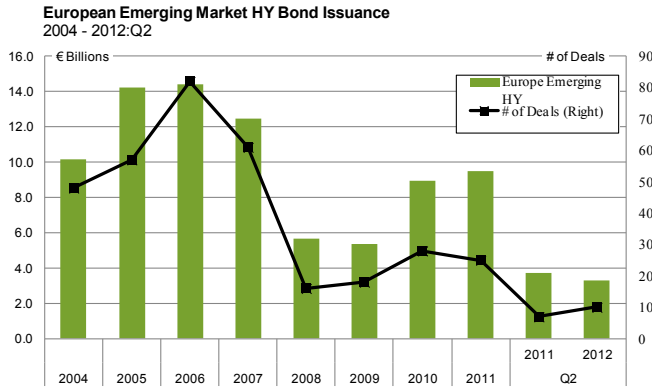
4.8. European Developed Market HY Bond Issuance

Issuer	Industry Group	Date	Currency	Amount		Coupon	Moody's	S&P	Fitch
				(Millions)					
Peugeot SA	Auto/Truck	03/04/2012	EUR	600		5.625	Ba1	BB+	BB+
Inmarsat Finance plc	Telecommunications	04/04/2012	USD	200		7.375	Ba2	BB+	
Wind Acquisition Finance SA	Telecommunications	04/04/2012	EUR	200		7.375	Ba3	BB	BB+
			USD	400		7.250	Ba3	BB	BB+
Intelsat Jackson Holdings Ltd	Telecommunications	12/04/2012	USD	1,200		7.250	B3	B	NA
Rexel SA	Computers & Electronics	16/04/2012	USD	100		6.125	Ba2	BB	BB
INEOS Finance plc	Chemicals	20/04/2012	USD	775		7.500	B1	B+	
Europcar Groupe SA	Transportation	04/05/2012	EUR	324		11.500	Caa1	B-	
Faurecia SA	Auto/Truck	27/04/2012	EUR	250		8.750	B2		
Lecta SA	Forestry & Paper	04/05/2012	EUR	49		3M EURIBOR + 550	B1	B+	
			EUR	200		8.875	B1	B+	
			EUR	341		3M EURIBOR + 550	B1	B+	
Carlson Wagonlit BV	Professional Services	09/05/2012	EUR	300		7.500	B1	B+	
			USD	465		6.875	B1	B+	
Schmolz + Bickenbach Luxembourg SA	Metal & Steel	11/05/2012	EUR	258		9.875	B1	B+	
Aguila 3 SA	Transportation	10/05/2012	USD	130		7.875	B2	B	
Nara Cable Funding Ltd	Telecommunications	30/05/2012	USD	310		8.875	B1	B+	BB-
Elli Finance UK plc	Healthcare	14/06/2012	GBP	350		8.750	B1	B+	BB
Stora Enso Oyj	Forestry & Paper	21/06/2012	SEK	350		5.750	Ba2	BB	
			SEK	1,350		3M OTHER + 390	Ba2	BB	
Lafarge SA	Construction/Building	12/06/2012	EUR	40		5.375	Ba1	BB+	BB+
Elli Investments Ltd	Healthcare	14/06/2012	GBP	175		12.250	Caa1	B-	BB
Kabel Deutschland Holding AG	Telecommunications	18/06/2012	EUR	400		6.500	B1	B	
Cyprus Popular Bank Ltd	Finance	12/06/2012	EUR	96		8.000	B3		BB+
Schaeffler Finance BV	Machinery	29/06/2012	EUR	300		6.750	B1	B	
†PIK (Payment in Kind)									Source: Bloomberg, Dealogic

ISSUANCE

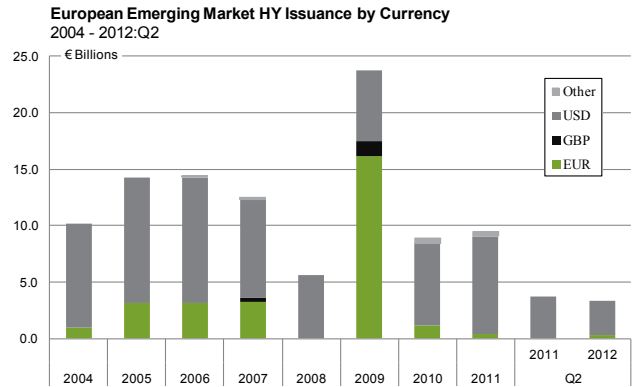
5. Issuance – European Emerging Market High Yield Bonds

5.1. European Emerging Market HY Bond Issuance



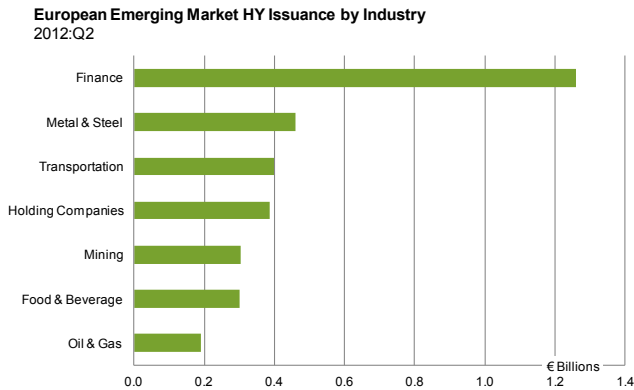
Source: Dealogic

5.2. European Emerging Market HY Bond Issuance by Currency



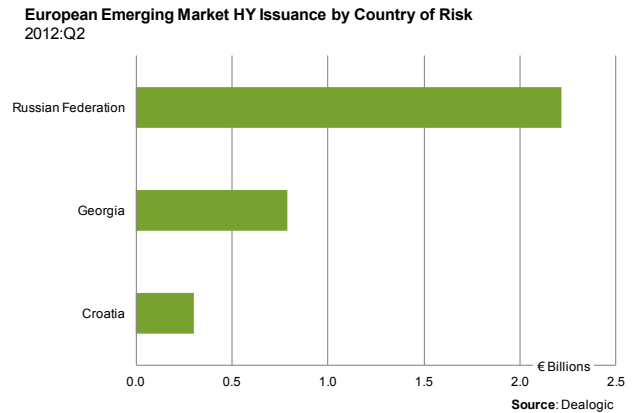
Source: Dealogic

5.3. European Emerging Market HY Issuance by Industry



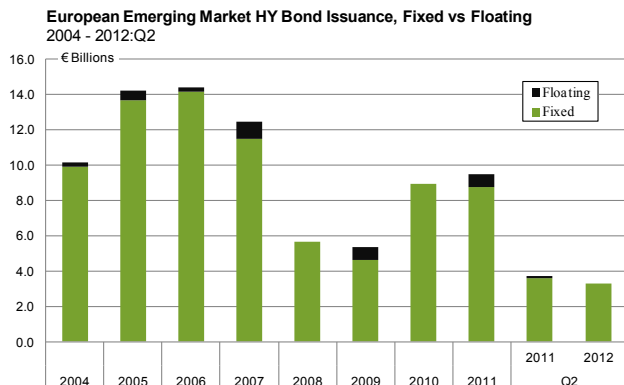
Source: Dealogic

5.4. European Emerging Market HY Issuance by Country of Risk



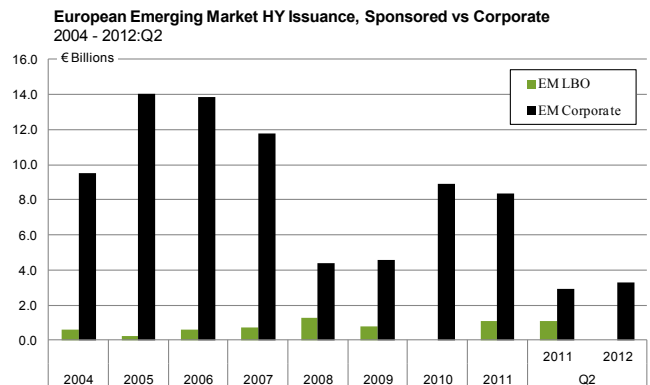
Source: Dealogic

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



Source: Dealogic

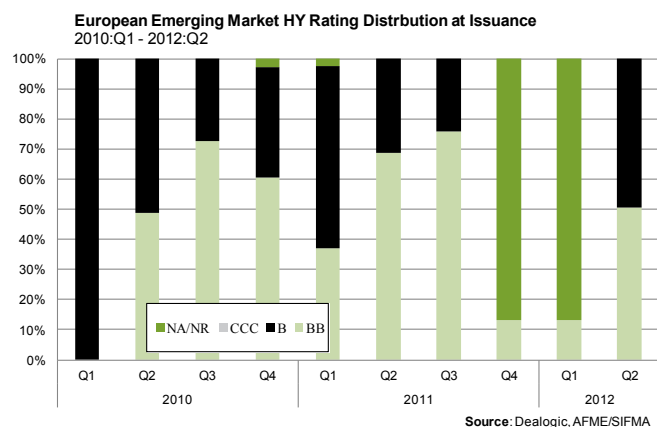
5.6. European Emerging Market HY Issuance, Sponsored vs. Corporate



Source: Dealogic

ISSUANCE

5.7. European Emerging Market HY Rating Distribution at Issuance



5.8. Emerging Market HY Bond Issuance

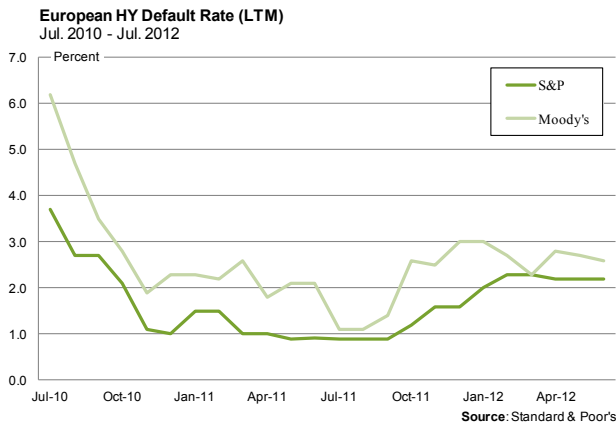
Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moodys	S&P	Fitch
Promsvyazbank OAO	Finance	19/04/2012	USD	400	8.500	Ba2		BB-
Evraz Group SA	Metal & Steel	17/04/2012	USD	600	7.400	B1	B+	BB-
Nomos-Bank OAO	Finance	20/04/2012	USD	500	10.000	B1		BB-
Agrokor dd	Food & Beverage	20/04/2012	EUR	300	9.875	B2	B	
Raspads kaya OAO	Mining	20/04/2012	USD	400	7.750	B1		B+
Gazprombank OAO	Finance	27/04/2012	USD	500	7.250	Ba1		BB-
Georgian Oil & Gas Corp - GOGC	Oil & Gas	09/05/2012	USD	250	6.875		B	BB-
Sistema Financial Corp OAO - AFK Sistema	Holding Companies	11/05/2012	USD	500	6.950		BB	BB-
Bank of Georgia	Finance	28/06/2012	USD	250	7.750	Ba3		BB- BB-
JSC Georgian Railway	Transportation	27/06/2012	USD	500	7.750		BB-	BB-
†PIK (Payment in Kind)								

Source: Bloomberg, Dealogic

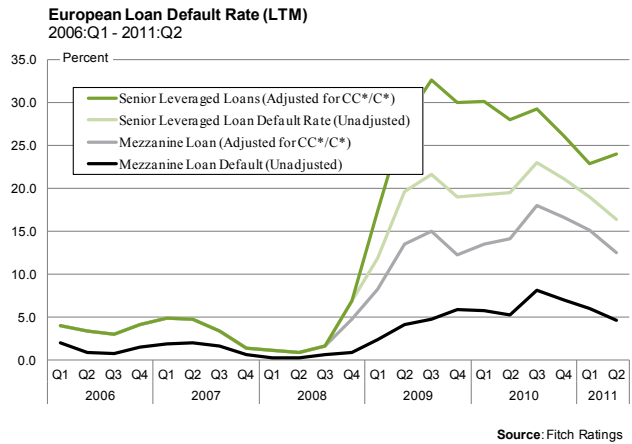
CREDIT QUALITY

6. Credit Quality

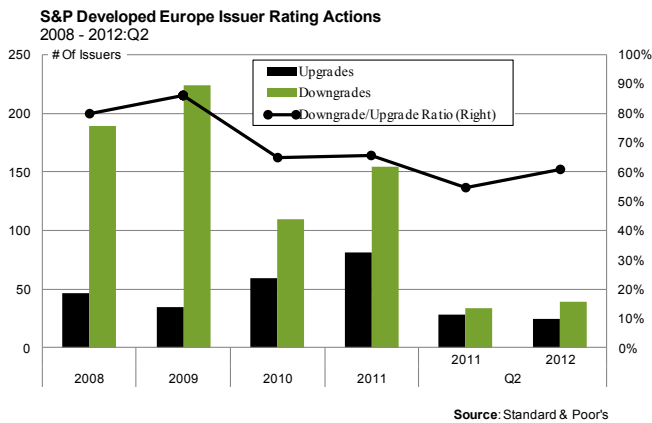
6.1. European HY Default Rate



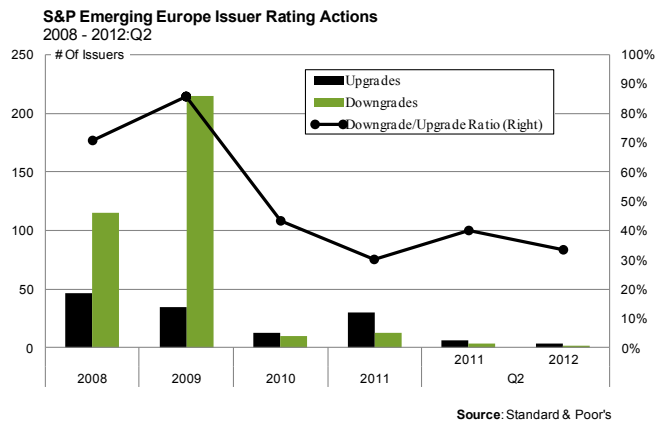
6.2. European Loan Default Rate¹



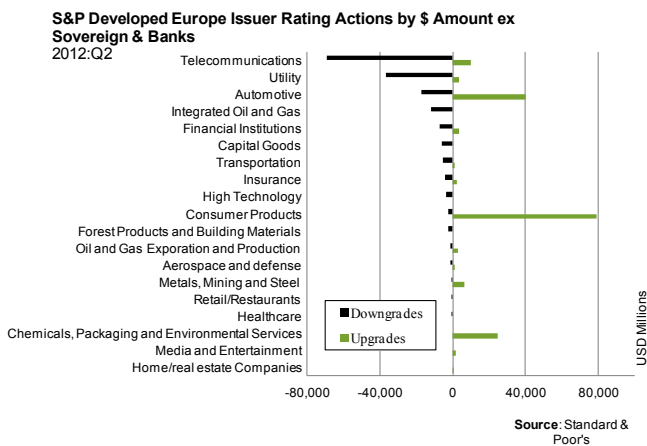
6.3. Developed Europe Issuer Rating Actions²



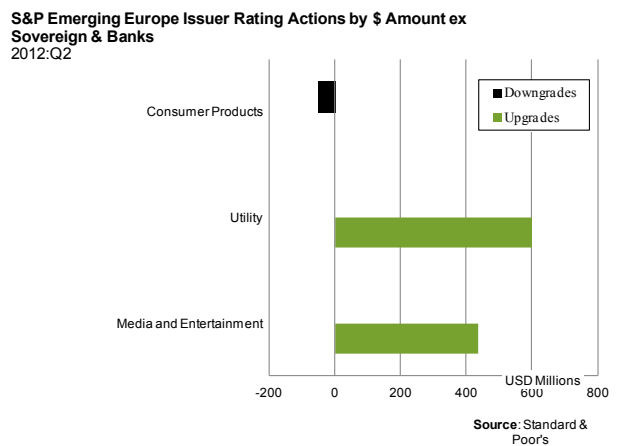
6.4. Emerging Europe Issuer Rating Actions³



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

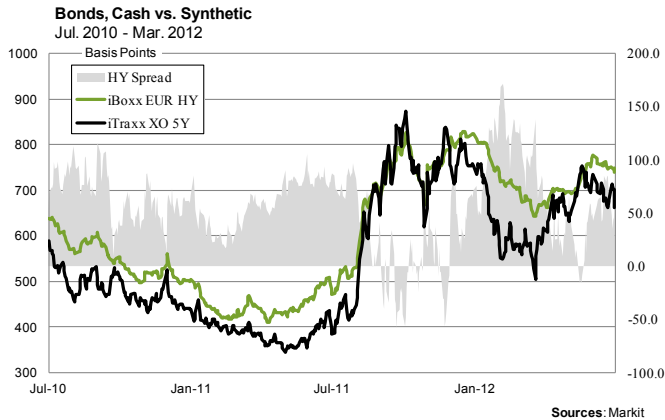
Issuer	Industry Group	Country	Date	Reported By	Reason
Petroplus Holdings AG	Oil & Gas	Switzerland	January 2012	Moody's/S&P	Bankruptcy
Yell Group PLC	Media & Entertainment	United Kingdom	January 2012	Moody's/S&P	Distressed Exchange
ERC Ireland Preferred Equity	Telecommunications	Ireland	February 2012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

Source: Moody's, Standard & Poor's

RELATIVE VALUE

7. Relative Value

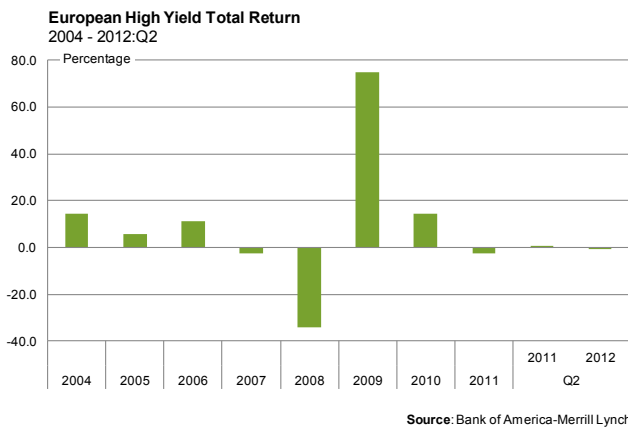
7.1. European HY Bonds, Cash vs. Synthetic



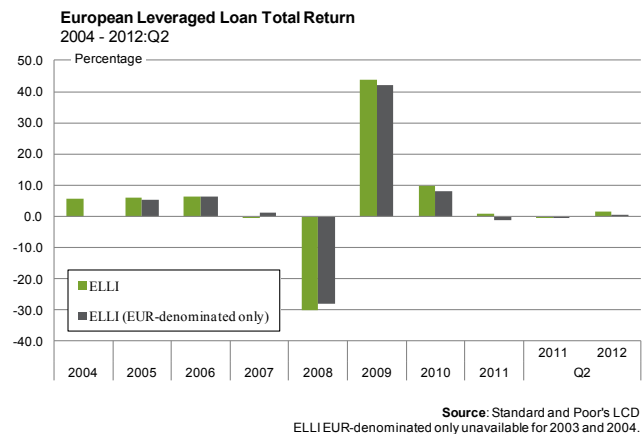
7.2. European Leveraged Loans, Cash vs. Synthetic

8. Total Return

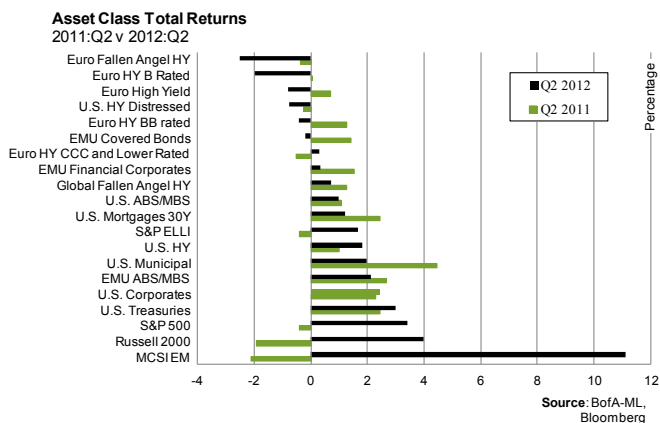
8.1. European HY Bond Total Return



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.

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