

# European High Yield & Leveraged Loan Report



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# European Leveraged Finance, First Quarter 2014

## Highlights and Market Environment

### Highlights

European leveraged finance issuance (leveraged loans and high yield bonds) rose in 1Q'14, with €44.89 billion issued, a 4.7% increase quarter-over-quarter (q-o-q) but a 28.7% decline year-over-year (y-o-y). The increase q-o-q stems from the increase in high yield bond issuance, which experienced a surge during the first quarter of 2014, despite turmoil in eastern Europe; the high yield share of the leveraged finance market rose to 57.6%, up from 53.1% in 4Q'13.

### Market and Economic Environment

According to the April 2014 European Central Bank lending survey, banks reported, on net, continued but minimal tightening of lending standards in the first quarter. More notably, lending standards have actually eased for large enterprises for the first time since the July 2007 bank lending survey. Short-term loans also eased slightly, while long-term loan standards tightened slightly. Competition between banks was the strongest factor in easing lending standards, particularly for large enterprises, followed by economic activity expectations.

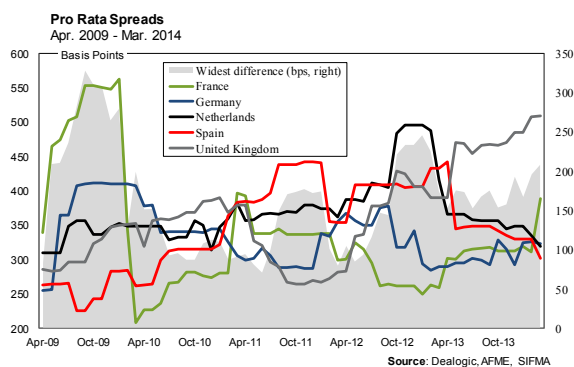
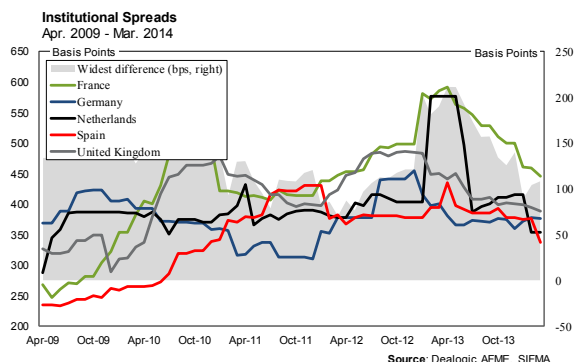
Loan demand also rose modestly in the first quarter on net, almost entirely from small- and medium enterprises (SMEs), while demand fell for large enterprises. Debt restructuring and inventory are the key drivers of loan demand, while internal financing and debt issuance were drivers for reduced loan demand, particularly for large enterprises.

### Issuance

#### Issuance: Leveraged Loans

Leveraged loan issuance, including first lien, second lien, and mezzanine financing, fell in the first quarter of 2014 to €19.0 billion, down 5.5% q-o-q (€20.1 billion) and 36.8% y-o-y. Amend-and-extend (“A&E”) transactions continue to take place, with slightly less than a third of deals in the first quarter structured as such (30.9% by euro amount), an increase from the fourth quarter of 2013 (26.7%). According to S&P, the loan pipeline at the end of March 2014 was €35 million.

In the first quarter of 2014, €20 million of mezzanine loans and €20 million in second liens were financed. Spreads at pricing for institutional loans tightened by 16.2 basis points (bps) while spreads for pro rata loans widened by 4.5 bps. Mezzanine loan spreads tightened by 162.2 bps.



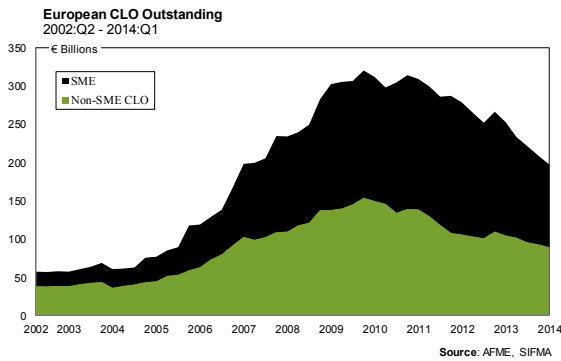
According to Dealogic, the leading sector in leveraged loan issuance for the first quarter of 2014 was healthcare (€4.40 billion), followed by telecommunications (€4.38 billion) and chemicals (€3.07 billion). The largest deal was a Liberty Global plc €4.38 billion leveraged buyout and refinancing of existing debt of Ziggo BV.

The share of deals aimed to refinance and/or repay debt fell q-o-q and y-o-y, falling to 60.4% of all deals by euro amount in the first quarter of 2014, compared to 63.8% in 4Q'13 and 67.0% in 1Q'13.

After the European primary CLO market came to life in 2013, €2.5 billion in CLO deals were done in the first quarter of 2014: Jubilee 11 (Alcentra), Harvest CLO VIII (3i), Babson Euro CLO (Babson Capital Europe), Carlyle Global Market Strategies Euro CLO (Carlyle), CVC Cordatus Loan Fund (CVC Credit Partners), and St Paul's IV. (ICG).

Outside the primary CLO market, €1.56 billion in two SME deals were completed in the first quarter of 2014, €722.65 million retained: Atlantes SME and Quadrivio srl.

European CLO outstandings, including SME deals, declined by 20.4% on an annualized basis in the quarter ending March 2014 at €197.5 billion. Due in part to the revival of the European CLO market, non-SME CLOs shrank at a slower rate (24.5%, annualized) than SME CLOs (15.2%, annualized).



**Issuance: High Yield Bonds**

Primary issuance in 1Q'14 totalled €25.87 billion on 64 deals, an increase of 13.7% but a decrease of 21.4%, respectively, q-o-q and y-o-y. Issuance from developed market Europe rose in the first quarter of 2014 but, given the turmoil in eastern Europe, issuance from emerging market Europe fell.

According to Standard and Poor's, some \$4.1 trillion of European corporate debt (46% of global debt) to mature between 2014 and 2018.<sup>1</sup> The rating agency noted that "geopolitical instability, both within and outside of Europe, could pose significant risk that may give investors pause." Among sectors, the agency highlighted the headwinds facing banks as well.

Primary issuance in developed market Europe in the first quarter of 2014 was €24.79 billion on 61 deals, while in emerging market Europe primary issuance was €1.08 billion on 3 deals.

In first quarter of 2014, average deal sizes from developed market Europe rose from the fourth quarter of 2013, with an average of €406.4 million per deal in 1Q'14 (€322.2 million for 4Q'13). Average deal sizes for emerging market Europe also rose to €359.5 million in 1Q'14 from €204.2 million in 4Q'13.

High yield issuance for refinancing and/or repayment of debt in developed market Europe fell q-o-q and y-o-y, representing 27.7% of all issuance by euro amount in 1Q'14, compared to 35.8% in 4Q'13 and 37.8%, in 1Q'13. In emerging market Europe, refinancing and/or repayment of debt deals fell q-o-q but rose y-o-y, representing 26.5% of issuance by euro amount in 1Q'14, down from 34.6% in 4Q'13 and up from 22.4% in 1Q'13.

Senior secured structures returned to a minor extent in the first quarter 2014 in developed market Europe, although secured structures remain prevalent, representing 17.28% of deals by euro amount in 1Q'14. Secured structures were absent in emerging market Europe in 1Q'14.

The proportion of USD-denominated issuance continued to fall in 1Q'14, representing 17.2% of all issuance by euro amount, compared to 31.0% in 4Q'13 and 37.0% in

1Q'13. USD-denominated issuance in emerging market Europe fell to represent 27.4% by euro amount, compared to 41.1% in the previous quarter, while USD-denominated issuance in developed market Europe also fell to 16.7% of all issuance by euro amount from 29.8% in the prior quarter.

**Returns & Credit Quality**

US municipals led returns in the first quarter of 2014, followed by European high yield (3.0%) and US high yield (3.0%). European leveraged loans, however, performed poorly, returning (0.15)%, second only to emerging market equities as the worst performing asset class.

High-yield bond default rates fell in the first quarter of 2014, with S&P reporting 1.8% (down from 3.7% end-December). Three defaults were reported in the first quarter, two bond-related, the third loan-related: Cognor S.A., Alliance Bank JSC, and Codere S.A. (loan).

According to S&P, upgrades exceeded downgrades in developed market Europe, with 21 upgrades and 17 downgrades. Upgrades were concentrated largely in the media and entertainment (4 upgrades), with the balance distributed across the sector spectrum. Downgrades were concentrated among metals, mining & steel (3 downgrades), while the remainder also distributed across sectors.

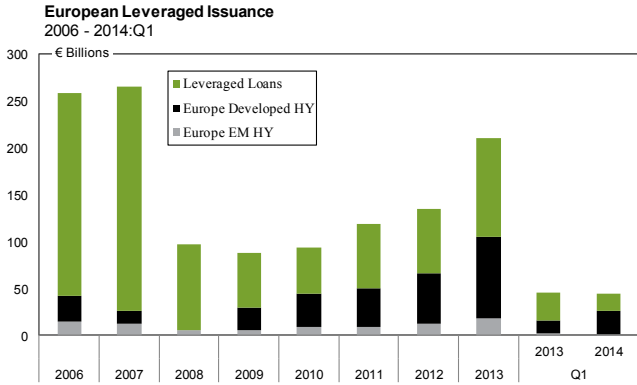
Conversely, downgrades exceeded upgrades in emerging market Europe, with one upgrade and 10 downgrades. Two sovereigns, four banks, and four consumer product companies were downgraded in the first quarter of 2014.

<sup>1</sup> Standard and Poor's, Europe Refinancing Study, \$4 Trillion of Corporate Debt Maturing by 2018, March 17, 2014.

# ISSUANCE

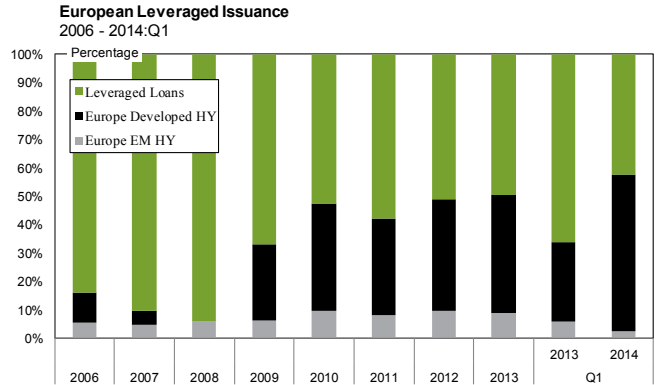
## 1. Leveraged Finance Overview

### 1.1. European Leveraged Issuance by Type



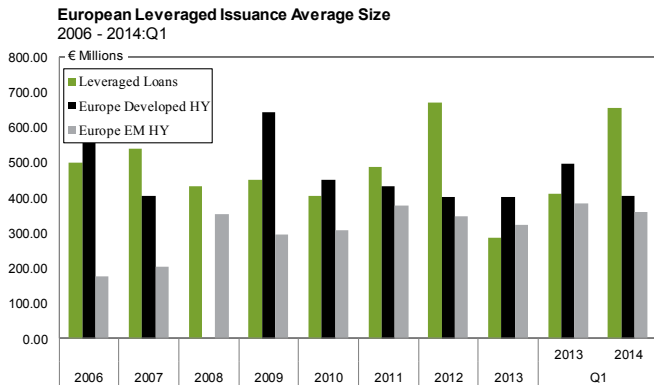
Sources: Dealogic, Thomson Reuters LPC

### 1.2. European Leveraged Issuance by Percentage



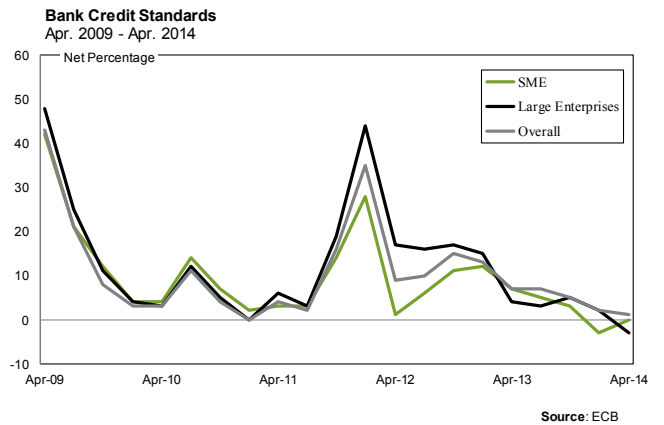
Sources: Dealogic, Thomson Reuters LPC

### 1.3. European Leveraged Issuance Average Deal Size



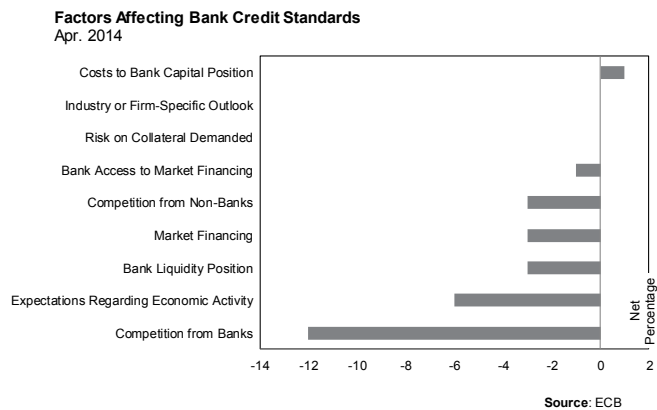
Sources: Dealogic, Thomson Reuters LPC

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



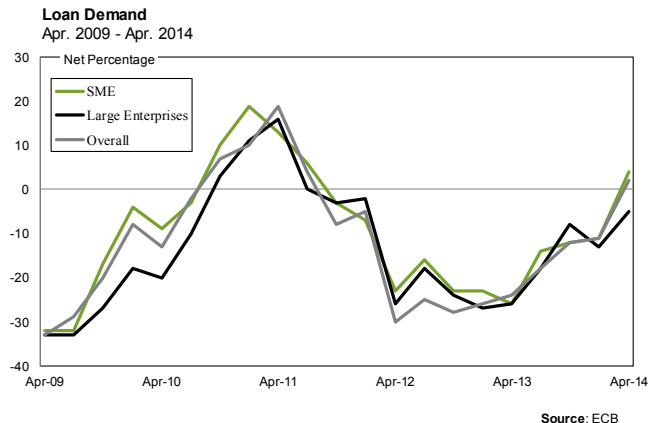
Source: ECB

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



Source: ECB

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



Source: ECB

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

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

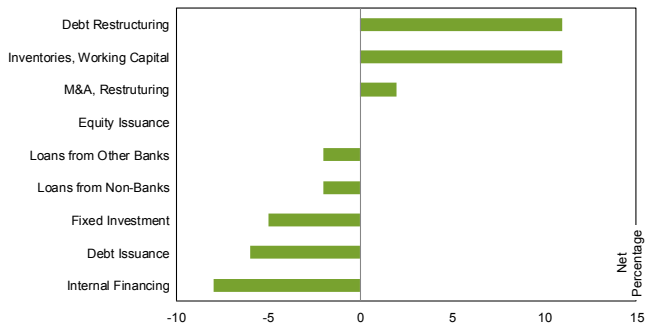
<sup>3</sup> A positive net percentage signifies increased demand; a negative net percentage signifies decreased demand.

# ISSUANCE

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

### Factors Affecting Loan Demand

Apr. 2014



Source: ECB

## 1.8. Global Comparison – High Yield Issuance

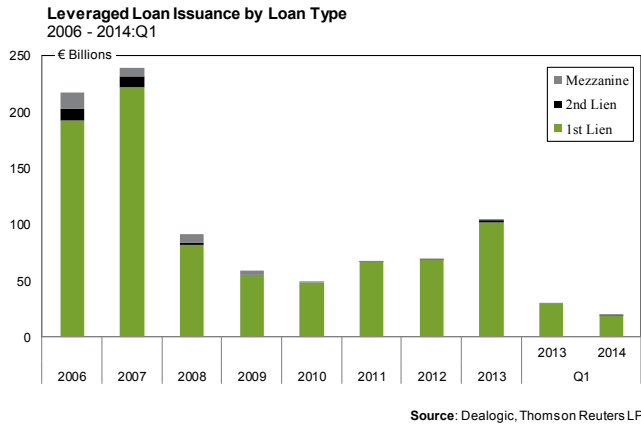
€ Billions	2014					2013					Prior
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	Full Year	2012
<b>United States</b>	44.2				44.2	57.9	48.7	51.9	38.0	196.5	212.9
<b>Asia Pacific</b>	8.0				8.0	15.6	10.8	4.8	10.1	41.2	30.2
<b>Europe</b>	27.5				27.5	36.9	34.4	23.5	27.0	121.8	82.8

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

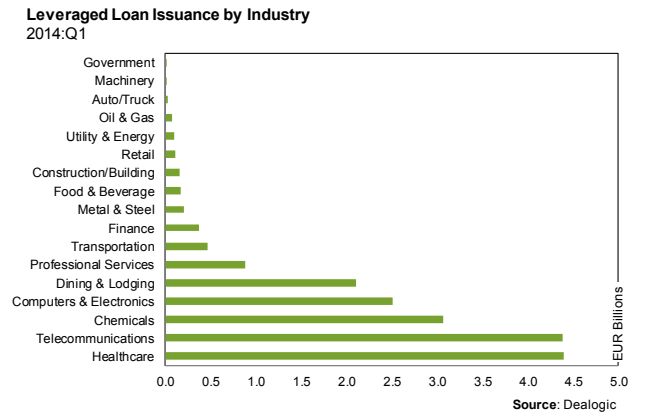
# ISSUANCE

## 2. Issuance – Leveraged Loans

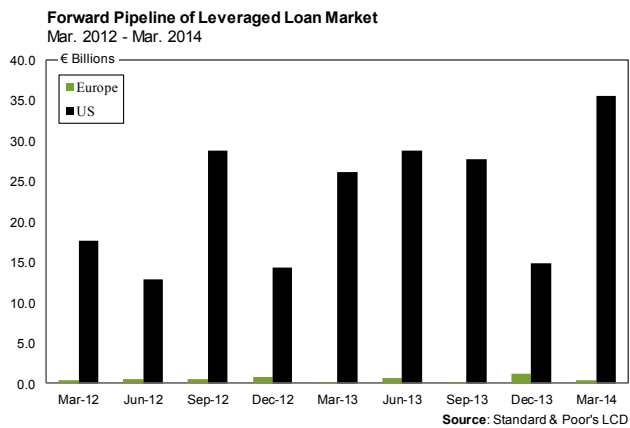
### 2.1. European Leveraged Loan Issuance By Loan Type



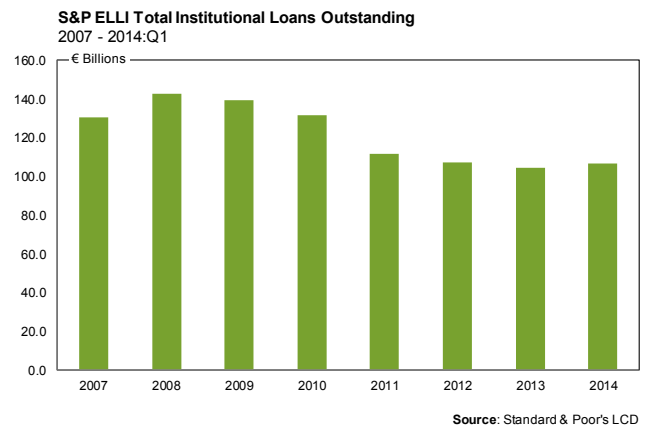
### 2.2. European Leveraged Loan Issuance by Industry Sector



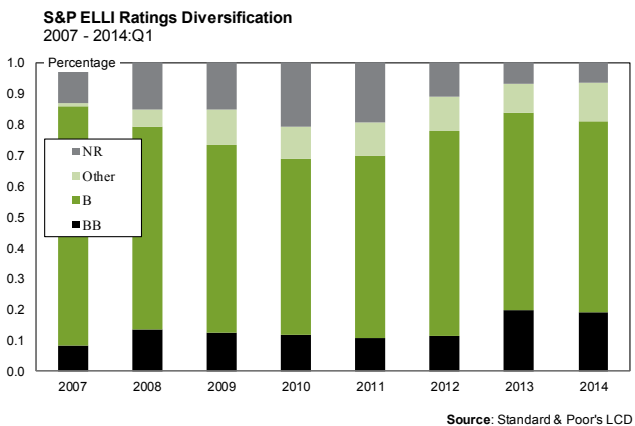
### 2.3. Forward Pipeline of Leveraged Loan Market



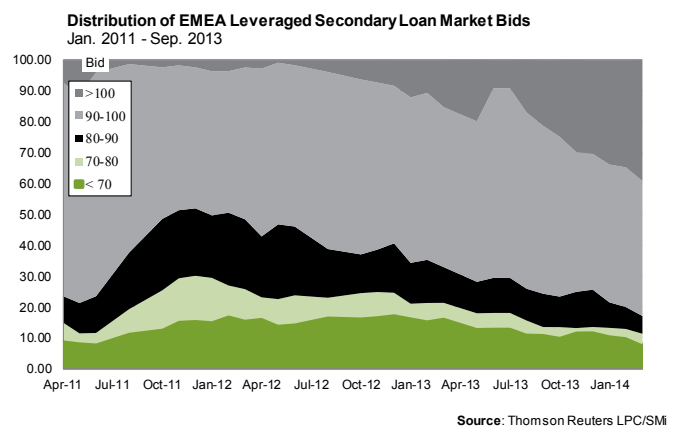
### 2.4. S&P ELLI Total Institutional Loans Outstanding



### 2.5. S&P ELLI Ratings Diversification

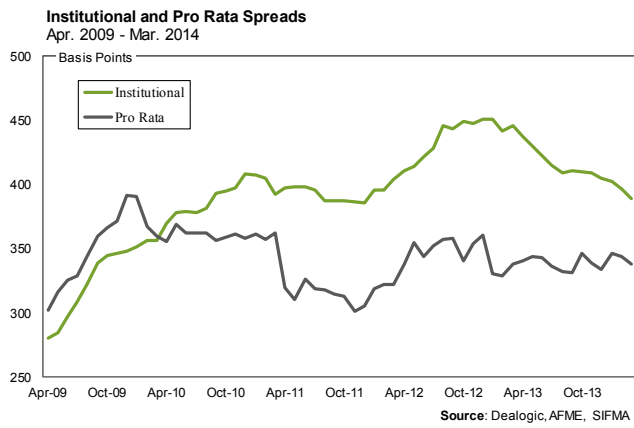


### 2.6. Distribution of Leveraged Loan Secondary Market Bids

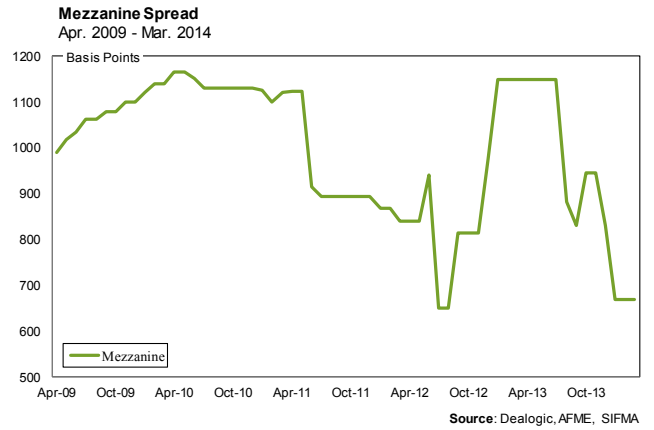


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## 2.7. Institutional and Pro Rata Spreads



## 2.8. Mezzanine Spread

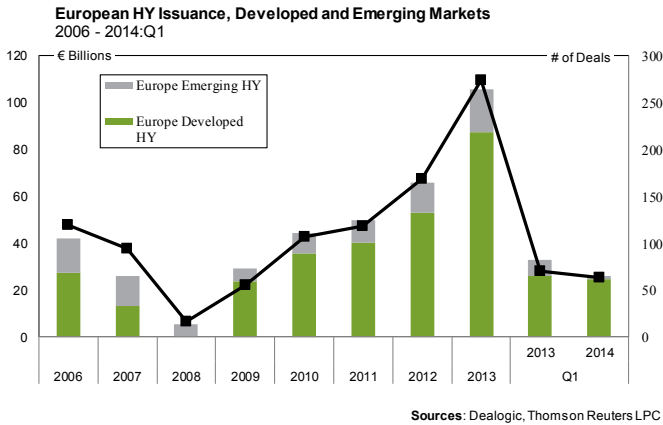




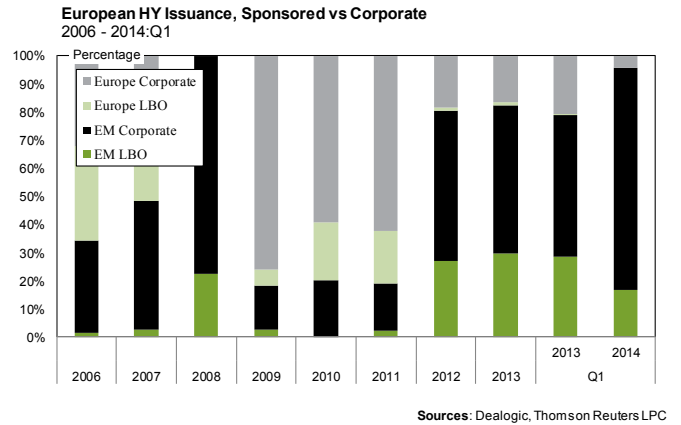
# ISSUANCE

## 3. Issuance – High Yield Bonds Overview

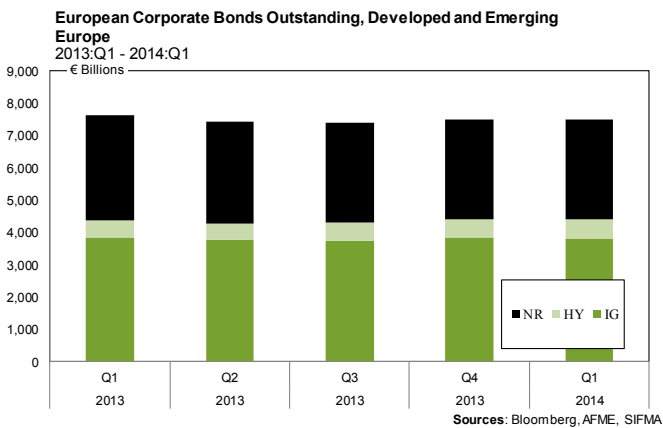
### 3.1. European HY Bond Issuance, Developed and Emerging Market



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



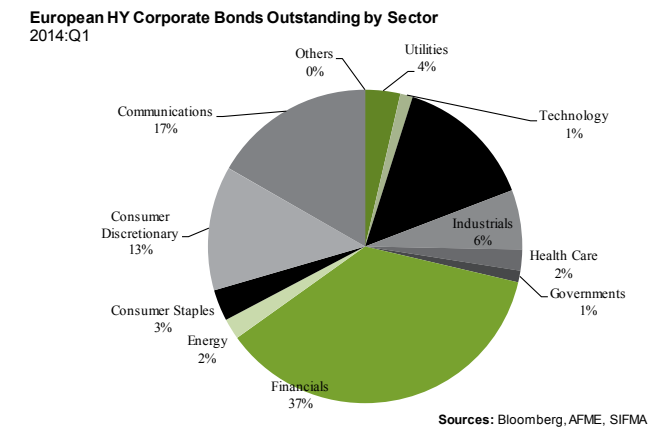
### 3.3. European Corporate Bonds Outstanding



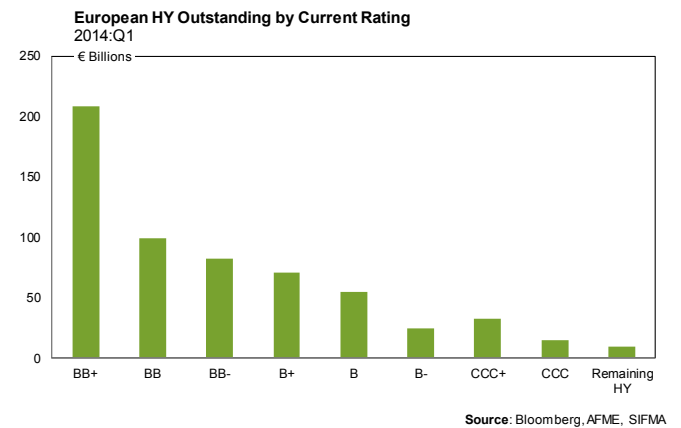
### 3.4. European Corporate Bonds Maturity Wall



### 3.5. European Corporate HY Bonds Outstanding by Sector

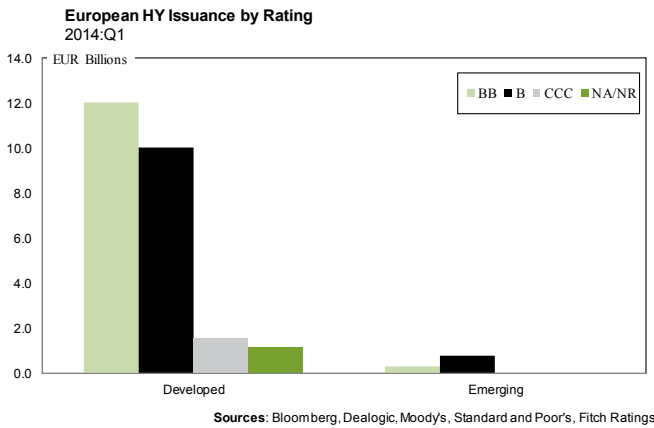


### 3.6. European Corporate HY Bonds Outstanding by Current Rating

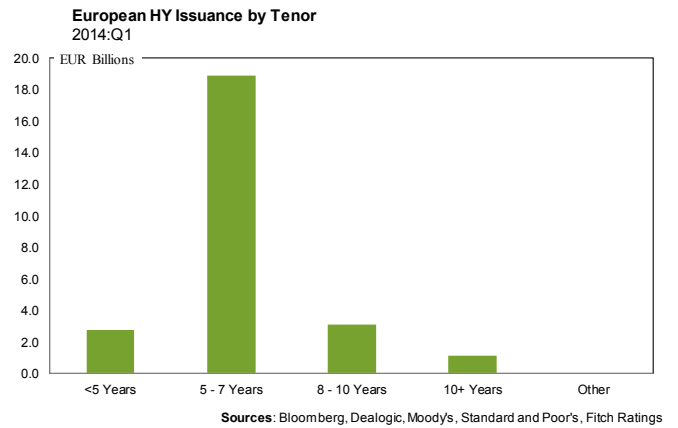


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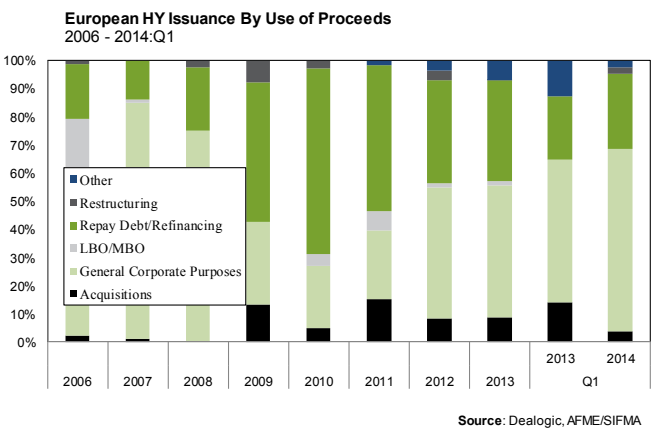
## 3.7. European Corporate Bond Issuance by Rating



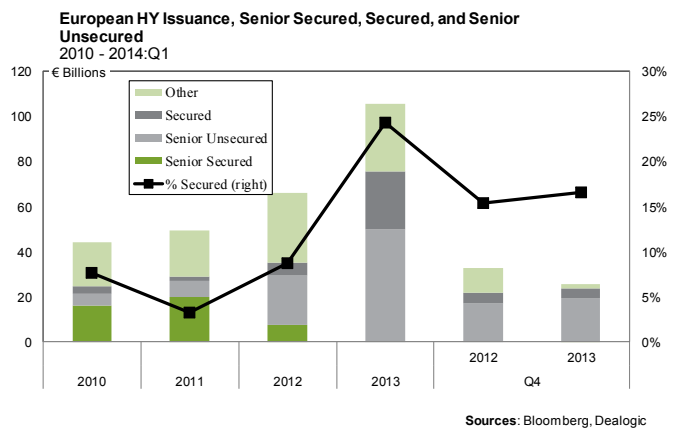
## 3.8. European Corporate Bond Issuance by Tenor



## 3.9. European HY Use of Proceeds

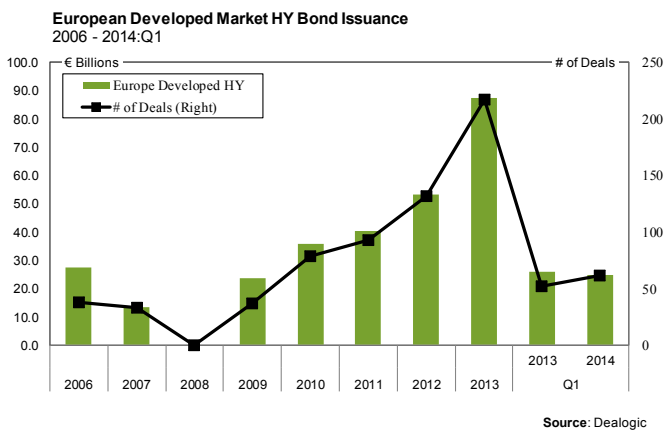


## 3.10. European HY Issuance, Secured Share

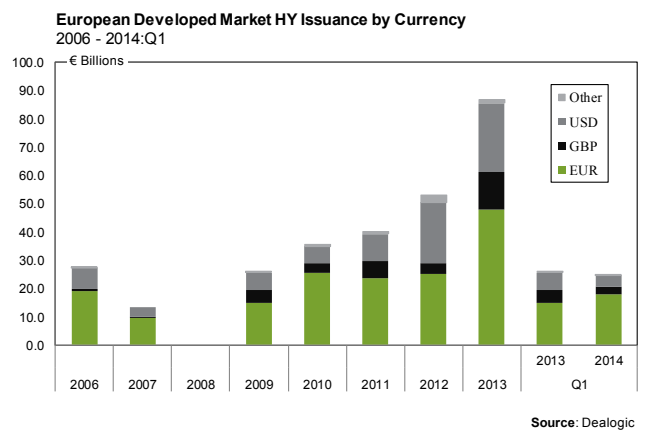


## 4. Issuance – European Developed Market High Yield Bonds

### 4.1. European Developed Market HY Bond Issuance

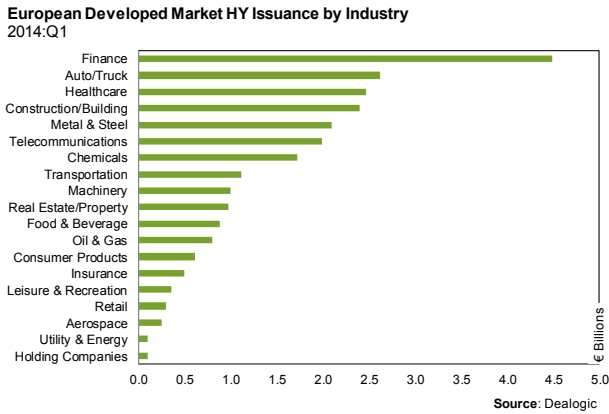


### 4.2. European Developed Market HY Issuance by Currency

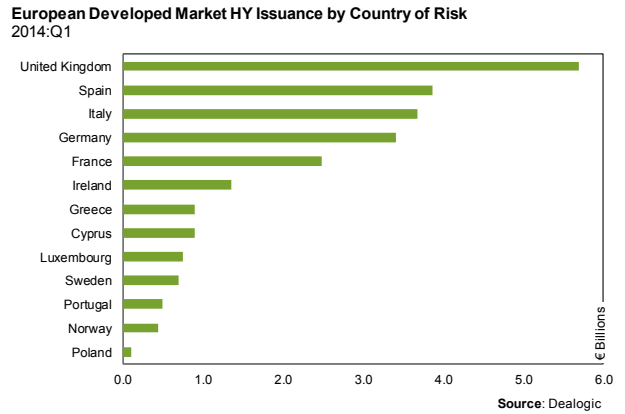


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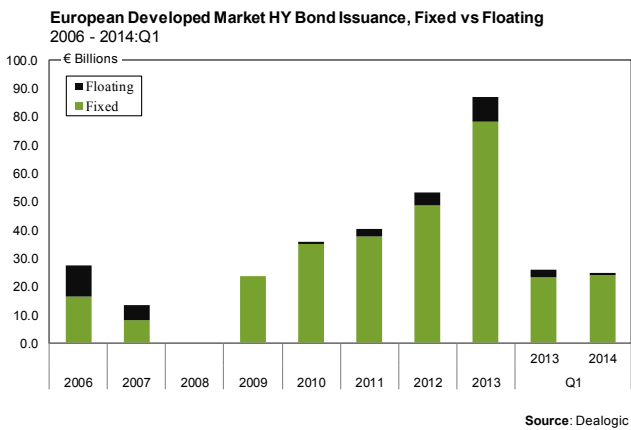
## 4.3. European Developed Market HY Issuance by Industry



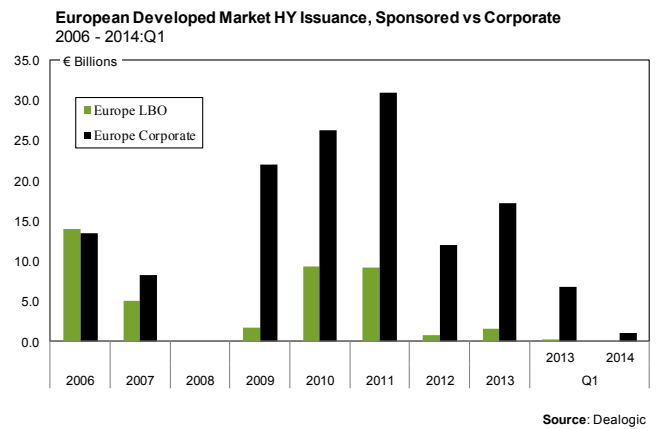
## 4.4. European Developed Market HY Issuance by Country of Risk



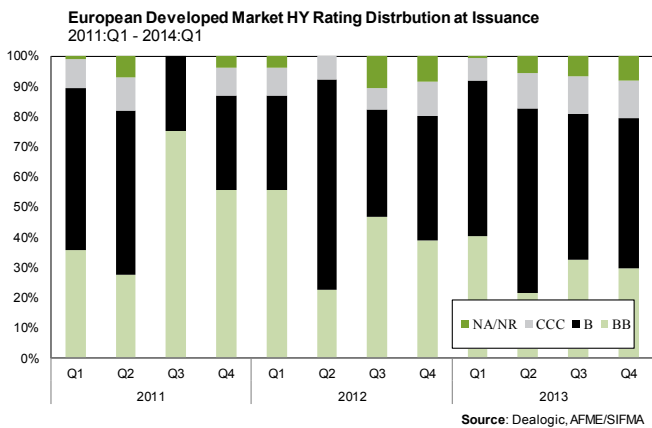
## 4.5. European Developed Market HY Issuance, Fixed vs. Floating



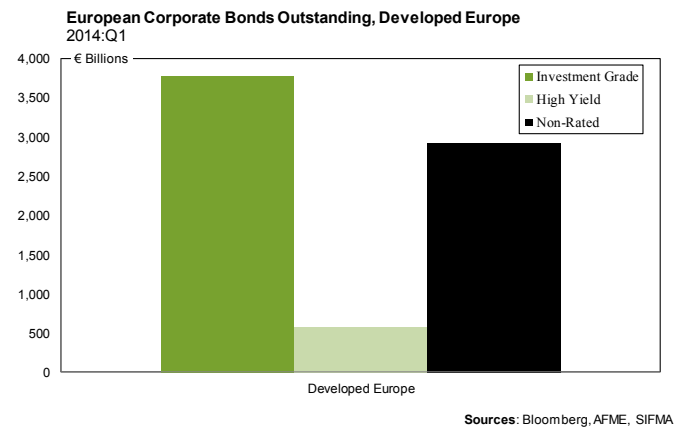
## 4.6. European Developed Market HY Issuance, Sponsored vs. Corporate



## 4.7. European Developed Market HY Rating Distribution at Issuance



## 4.8. European Developed Market Corporate Bonds Outstanding



## ISSUANCE

### 4.9. European Developed Market HY Bond Issuance

Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Cirsa Funding Luxembourg SA	Leisure & Recreation	07/01/2014	EUR	120	8.750	B3	B+	
Bank of Ireland (Governor & Co of)	Finance	08/01/2014	EUR	750	3.250	Ba3	BB+	
Fresenius Finance BV	Healthcare	09/01/2014	EUR	300	2.375	Ba1	BB+	BB+
			EUR	450	3.000	Ba1	BB+	BB+
Veneto Banca ScpA	Finance	09/01/2014	EUR	350	4.000		BB	
BPE Financiaciones SA	Finance	13/01/2014	EUR	500	2.500	Ba3	BB+	
Wendel SA	Finance	13/01/2014	EUR	400	3.750		BB+	
Beni Stabili SpA	Real Estate/Property	15/01/2014	EUR	350	4.125			
Finmeccanica Finance SA	Aerospace	17/01/2014	EUR	250	4.500	Ba1	BB+	BB+
Stena AB	Transportation	17/01/2014	USD	600	7.000	B2	BB	
Banca Popolare di Milano Scarl	Finance	23/01/2014	EUR	500	4.250	B1	BB-	BB+
Autodis SA	Auto/Truck	24/01/2014	EUR	240	6.500	B3	B+	
Play Finance 1 SA	Telecommunications	24/01/2014	EUR	270	(blank)	B2	B-	B-
Play Finance 2 SA	Telecommunications	24/01/2014	EUR	600	5.250	B1	B+	BB-
			PLN	130	3M OTHER + 350	B1	B+	BB-
Bond Mission Critical Services plc	Transportation	27/01/2014	GBP	60	3M EURIBOR + 575	B2	B	
Fresenius Finance BV	Healthcare	28/01/2014	EUR	450	4.000	Ba1	BB+	BB+
Jaguar Land Rover Automotive plc	Auto/Truck	28/01/2014	GBP	400	5.000	Ba2	BB	BB-
North Atlantic Drilling Ltd	Oil & Gas	28/01/2014	USD	600	6.250			
Ardagh Packaging Finance plc	Consumer Products	29/01/2014	USD	415	6.250	Caa1	CCC+	
HSS Financing plc	Finance	29/01/2014	GBP	200	6.750	B2	B	
IREN SpA	Utility & Energy	03/02/2014	EUR	100	3.000			
Cognor International Finance plc	Metal & Steel	04/02/2014	EUR	100	7.500	Caa2	CCC+	
Safari Holding Verwaltungs GmbH	Leisure & Recreation	06/02/2014	EUR	235	8.250	B2	B	
Fresenius US Finance II Inc	Healthcare	11/02/2014	USD	300	4.250	Ba1	BB+	BB+
Ineos Group Holdings SA	Chemicals	11/02/2014	EUR	600	5.750	B3	B-	
			USD	590	5.875	B3	B-	
SPCM SA	Holding Companies	11/02/2014	EUR	100	5.500		BB+	

†PIK (Payment in Kind); ‡Debut issue

Source: Bloomberg, Dealogic

## ISSUANCE

Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Stena International SARL	Transportation	11/02/2014	USD	350		5.750 B2	BB+	
BPE Financiaciones SA	Finance	13/02/2014	EUR	50	3M EURIBOR + 0	Ba3		BB+
Innovia Group (Finance) plc	Chemicals	13/02/2014	EUR	342	3M EURIBOR + 500	B2	B	
Astaldi SpA	Construction/Building	14/02/2014	EUR	150		7.125 B1	B+	B+
Banco Comercial Portugues SA - Millennium BCP	Finance	19/02/2014	EUR	500		3.375 B1	B	BB+
Darty Financements SAS	Retail	19/02/2014	EUR	250		5.875	BB-	
ThyssenKrupp AG	Metal & Steel	19/02/2014	EUR	1,250		3.125 Ba1	BB	BB+
Veneto Banca ScpA	Finance	19/02/2014	EUR	150		4.000	BB	
Renault SA	Auto/Truck	25/02/2014	EUR	500		3.125 Ba1	BB+	BB+
Unipol Gruppo Finanziario SpA	Insurance	26/02/2014	EUR	119		4.375 Ba2	BB+	
			EUR	381		4.375 Ba2	BB+	
Kerneos SA	Chemicals	27/02/2014	EUR	150	3M EURIBOR + 475		B+	
			EUR	200		5.750	B+	
Lowell Group Financing plc	Finance	04/03/2014	GBP	115		5.875 B1	BB	
Grifols Worldwide Operations Ltd	Healthcare	05/03/2014	USD	1,000		5.250 B1	B+	
HeidelbergCement Finance Luxembourg SA	Construction/Building	05/03/2014	EUR	500		2.250 Ba1		BB+
Labeyrie Fine Foods	Food & Beverage	05/03/2014	EUR	275		5.625	B	B+
Obrascon Huarte Lain SA - OHL	Construction/Building	05/03/2014	EUR	400		4.750 Ba3		BB-
Premier Foods Finance plc	Food & Beverage	06/03/2014	GBP	175	3M LIBOR + 500	B2	B	B
			GBP	325		6.500 B2	B	B
Global Ship Lease Inc	Transportation	11/03/2014	USD	420		10.000 B3	B	
CNH Industrial Finance Europe SA	Machinery	13/03/2014	EUR	1,000		2.750 Ba2	BB+	
Grupo Antolin Dutch BV	Auto/Truck	13/03/2014	EUR	400		4.750 Ba3	BB-	
Grupo Isolux Corsan Finance BV	Construction/Building	13/03/2014	EUR	600		6.625	B	B+
Virgin Media Secured Finance plc	Telecommunications	14/03/2014	GBP	225		6.250 Ba3	BB-	BB+
			GBP	430		5.500 Ba3	BB-	BB+
			USD	425		5.500 Ba3	BB-	BB+
Navios Maritime Acquisition Corp	Transportation	17/03/2014	USD	60		8.125 B3	B	
ArcelorMittal SA	Metal & Steel	18/03/2014	EUR	750		3.000 Ba1	BB+	BB+
Fiat Finance & Trade Ltd SA	Auto/Truck	18/03/2014	EUR	1,000		4.750 B2	BB-	BB-
Piraeus Group Finance plc	Finance	18/03/2014	EUR	500		5.000 Caa1	CCC	CCC
Almirall SA	Healthcare	19/03/2014	EUR	325		4.625 Ba3	BB-	
Ocean Rig UDW Inc	Oil & Gas	20/03/2014	USD	500		7.250 Caa1	CCC+	
Abengoa Finance SAU	Construction/Building	21/03/2014	EUR	500		6.000 B2	B	B
Cabot Financial (Luxembourg) SA	Finance	21/03/2014	GBP	175		6.500 B2	B+	
Banca Popolare di Vicenza Scarl	Finance	24/03/2014	EUR	200		3.745		BB+
Beni Stabili SpA	Real Estate/Property	24/03/2014	EUR	250		3.500		
IVS group SA	Retail	25/03/2014	EUR	50		7.125	BB-	
Financiere Gaillon 8 SA	Real Estate/Property	26/03/2014	EUR	370		7.000	B	B-
Aldesa Construcciones SA	Construction/Building	27/03/2014	EUR	250		7.250 B2		B

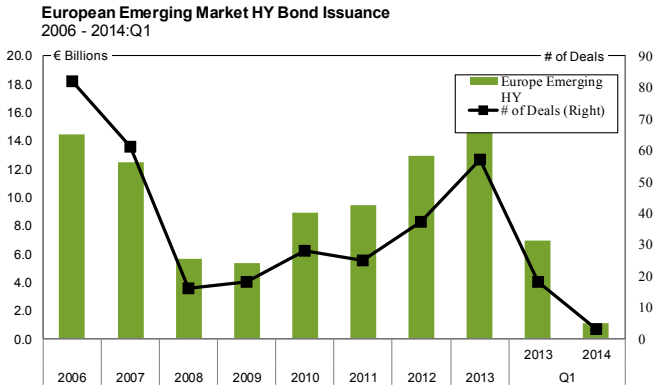
†PIK (Payment in Kind); ‡Debut issue

Source: Bloomberg, Dealogic

# ISSUANCE

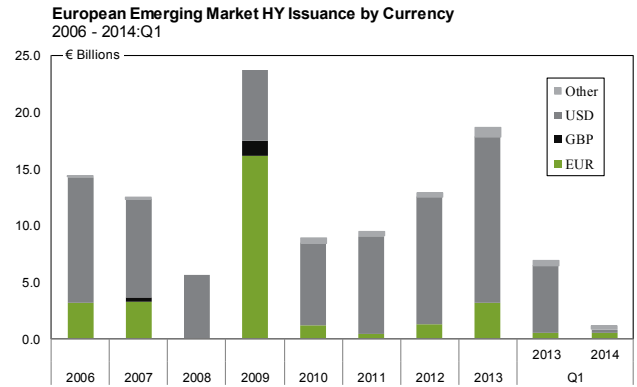
## 5. Issuance – European Emerging Market High Yield Bonds

### 5.1. European Emerging Market HY Bond Issuance



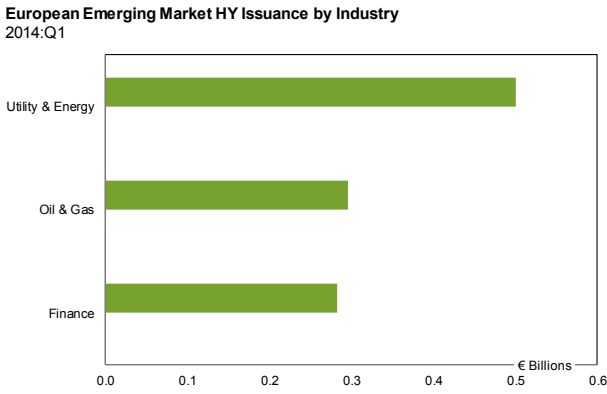
Source: Dealogic

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



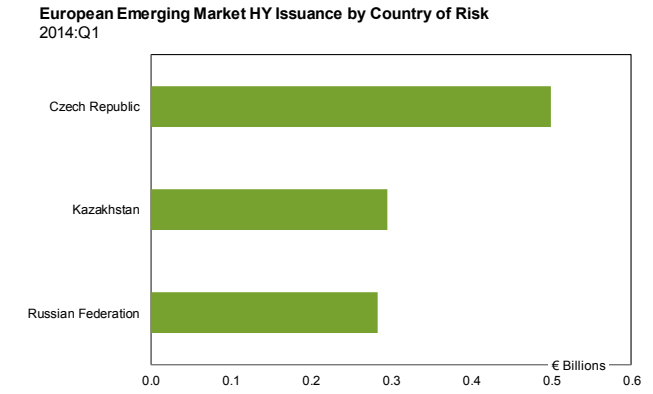
Source: Dealogic

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



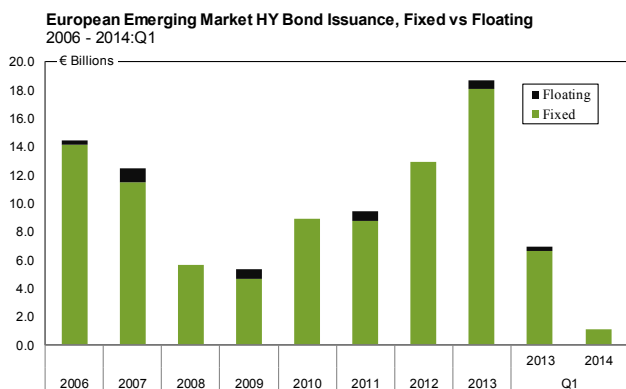
Source: Dealogic

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



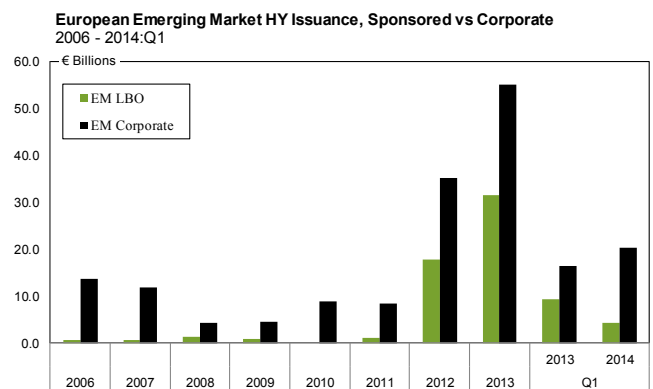
Source: Dealogic

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



Source: Dealogic

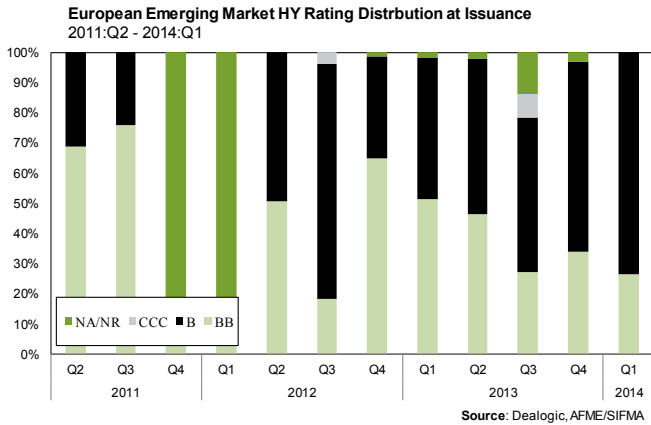
### 5.6. European Emerging Market HY Issuance, Sponsored vs. Corporate



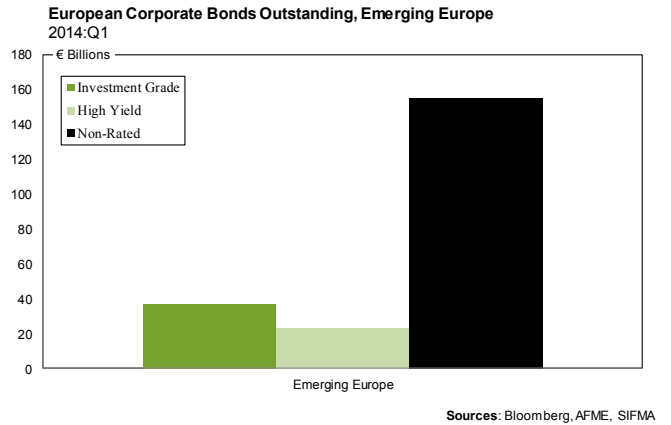
Source: Dealogic

## ISSUANCE

### 5.7. European Emerging Market HY Rating Distribution at Issuance



### 5.8. European Emerging Market Corporate Bonds Outstanding



### 5.9. Emerging Market HY Bond Issuance

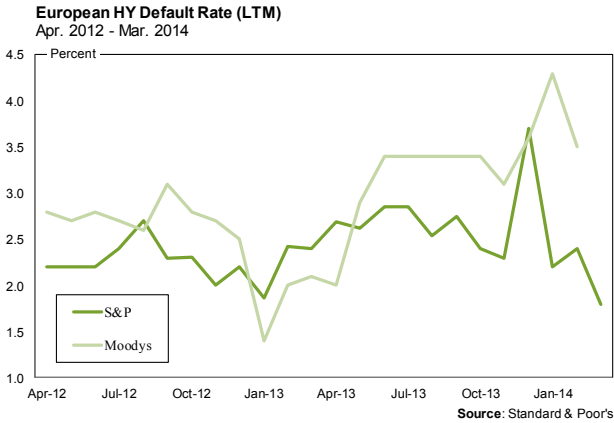
Issuer	Industry Group	Date	Currency	Amount		Coupon	Moody's	S&P	Fitch
				(Millions)					
Gazprombank OAO	Finance	16/01/2014	CHF	350		5.125	NA	NA	BB-
CE Energy as	Utility & Energy	31/01/2014	EUR	500		7.000	B1	NA	B+
Nostrum Oil & Gas Finance BV	Oil & Gas	10/02/2014	USD	400		6.375	B2	B+	NA

†PIK (Payment in Kind); ‡Debut issue

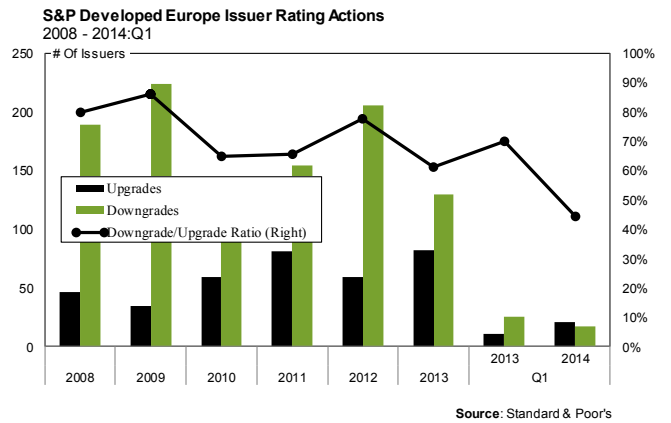
Source: Bloomberg, Dealogic

## 6. Credit Quality

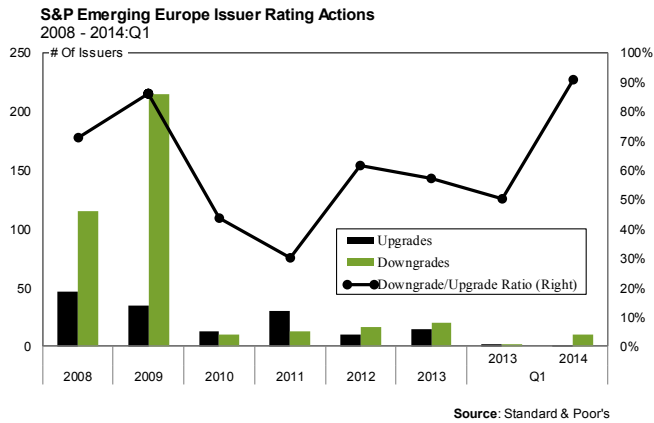
### 6.1. European HY Default Rate



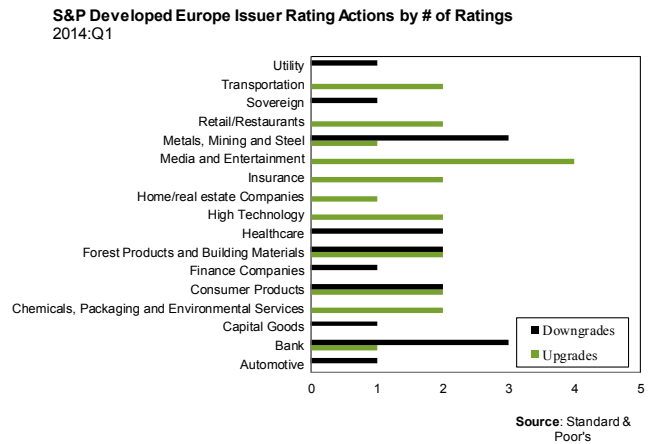
### 6.2. Developed Europe Issuer Rating Actions<sup>1</sup>



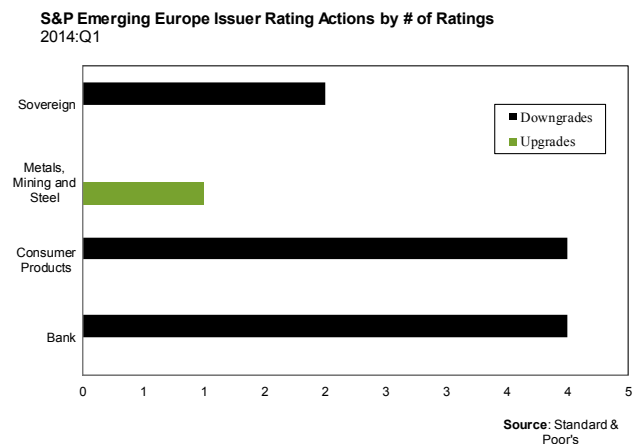
### 6.3. Emerging Europe Issuer Rating Actions<sup>2</sup>



### 6.4. Developed European Industry Rating Actions by # of Ratings



### 6.5. Emerging European Industry Rating Actions by \$ Amount



### 6.6. European Defaults

Issuer	Industry Group	Country	Date	Reported By	Reason
Cognor S.A.	Metals, Mining and Steel	Poland	February 2014	S&P	Distressed Exchange
Alliance Bank JSC	Bank	Kazakhstan	February 2014	S&P	Missed Interest Payment
Codere S.A. (Loan)	Hotel, Gaming & Leisure	Spain	February 2014	Moodys	Missed interest payment

Source: Moody's, Standard & Poor's

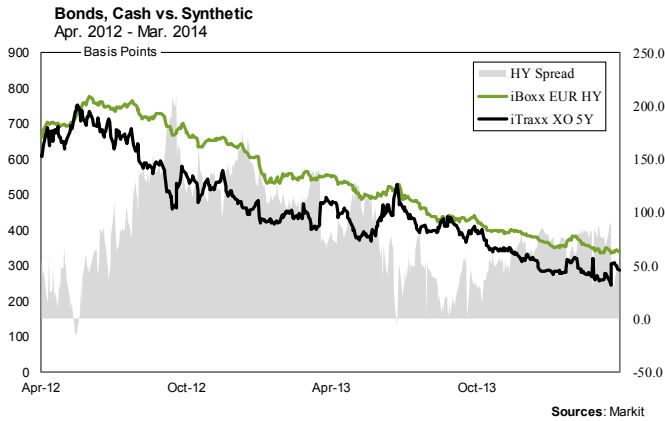
<sup>1</sup> Numbers include both corporate and sovereigns.

<sup>2</sup> Numbers include both corporate and sovereigns.

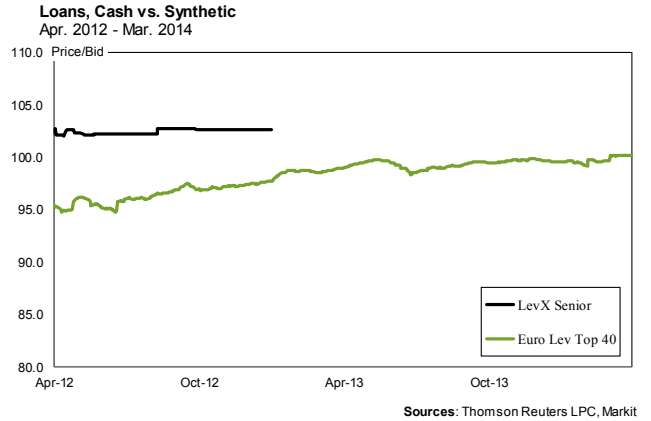


7. Relative Value

7.1. European HY Bonds, Cash vs. Synthetic

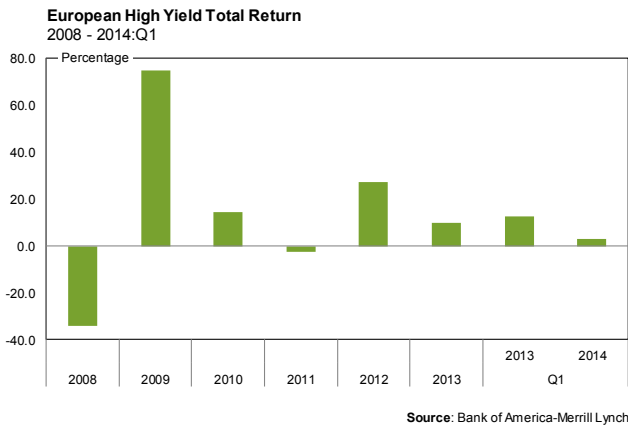


7.2. European Leveraged Loans, Cash vs. Synthetic

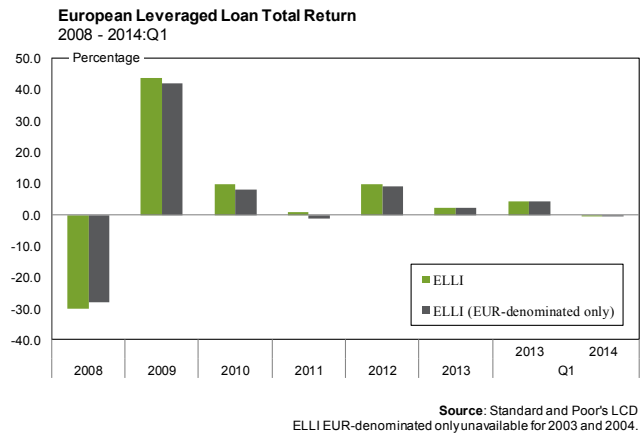


8. Total Return

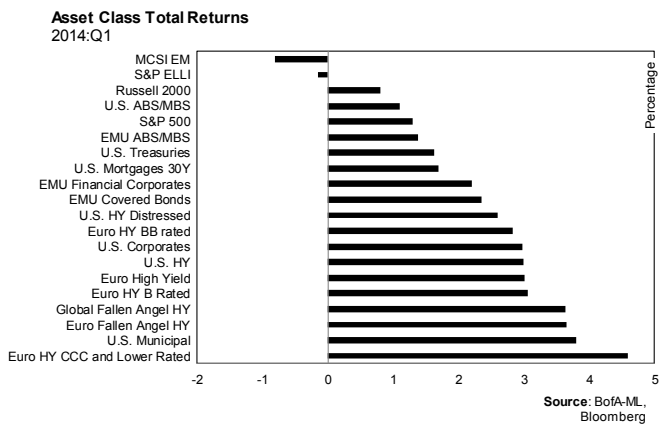
8.1. European HY Bond Total Return



8.2. European Leveraged Loan Total Return



8.3. Asset Class Total Return, Quarter



# 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. Leveraged Loan Secondary Market Bids

European leveraged trading volumes are sourced from Thomson Reuters LPC and are percentage of volume by bid price.

### 2.7. – 2.8. Loan Spreads

Loan spread data are sourced from Dealogic under our criteria for leveraged loans (see Section 1). For purposes of loan spread calculations, deals marketed in the US are excluded. Spreads are a weighted average of spread margin on new leveraged issuance on a rolling twelve months basis, and are typically benchmarked to LIBOR or EURIBOR. Institutional loan spread data are inclusive of 2<sup>nd</sup> lien; pro rata spreads include all revolvers and term loan A (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. – 3.6. 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 nationality of incorporation from a European developed or emerging market country as defined by AFME. Corporate bonds exclude all structured notes, covered bonds, warrants, deposit notes, receipts, and certificates of deposit. All currencies are included and have been converted to EUR at time of pricing and/or issue.

High-yield ratings are sourced from Bloomberg's composite rating, which is an average of all available ratings from four rating agencies: Moody's, Standard and Poor's, Fitch Ratings, or DBRS. Split-rated securities may be included in high yield numbers due to this.

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.

### 3.7. 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.

### 3.8. European Corporate Bond Issuance by Tenor

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

### 3.9. 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.

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

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

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

### 4.1. – 4.7., 4.9

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.

### 4.8. European Developed Market Corporate Bonds Outstanding

Data for corporate bonds outstanding are sourced from Bloomberg. Please refer to Section 3 for criteria and methodology.

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

### 5.1. – 5.7., 5.9.

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.

### 5.8. European Emerging Market Corporate Bonds Outstanding

Data for corporate bonds outstanding are sourced from Bloomberg. Please refer to Section 3 for criteria and methodology.

## 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. – 6.3. 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 guide-

lines, 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.

#### **6.4. – 6.5. European Issuer Rating Actions by # of Rating Actions**

Rating actions 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.

#### **6.6. European Defaults**

Defaults reported by either Moody's or Standard and Poor's in the European bond markets and loan 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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