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European Leveraged Finance 3Q’10: Return of LBOs?

**Highlights and Market Environment**

**Highlights**

- European leveraged finance issuance, which includes leveraged loans and high yield bonds, totalled €26.6 billion in the third quarter of 2010, an increase of 42.8 percent from the second quarter’s €18.6 billion. While a significant percentage of proceeds continue to still be used for refinancing and debt restructuring, short-term refinancing risks have abated relative to prior quarters. Notably, proceed use towards LBO/MBOs have eclipsed refinancing/restructuring for the third quarter, particularly among leveraged loans.

**Market and Economic Environment**

- According to the October ECB bank lending survey, banks reported, on net, a continued tightening of standards in third quarter, although to a lesser extent than during second quarter. In particular, short-term loan credit standards eased as near-term debt needs and credit risks remain minor, whereas long-term loan standards continue to remain tight. An industry and/or firm outlook remains the paramount factor in bank credit standards.

- On the flip side, the October survey marked the first time since January 2008 that loan demand has increased overall on net. Debt restructuring and need for working capital remains primary factors for loan demand.

**Issuance**

**Issuance: Leveraged Loans**

- Leveraged loan issuance, which includes first lien, second lien, and mezzanine financing, totalled €16.0 billion in 3Q’10, an increase of 58.2 and 1.1 percent respectively in 2Q’10 and 3Q’09. Mezzanine financing continues to remain anaemic at €0.4 billion in 3Q’10, whereas 2nd lien continues to remain flat with no issuance since 2008. Some of the loan pickup is in evidence from S&P’s European forward pipeline, which ended at €1.78 billion end-September, up from nothing end-March.

- According to Dealogic data, leading sectors in leveraged loan issuance in 3Q’10 were construction (€3.3 billion) and food & beverage (€2.8 billion). Iglo Birds Eye Frozen Food’s €1.9 billion deal is the largest leveraged deal in 3Q’10, primarily aimed to amend and add on to their €1.5 billion facility, initially signed in 2006.

- Although deals aimed to refinance and/or amend and extend continued to take a significant market share of leveraged loan deals by dollar amount (39.8 percent), a number of LBO/MBO deals emerged in 3Q’10 (42.5 percent of all deals by dollar amount). However, a fair number of these deals (6 out of 16) were in the form of secondary buyouts, with a private equity firm buying from another firm. Moody’s noted that these “pass-the-parcel” transactions were generally limited to better quality names and were therefore unlikely to be an alternative funding mechanism for more stressed names.1

- European CLO market activity picked up in 3Q’10, with 3 CLO deals (excluding SME) totalling €26.1 billion closed in 3Q’2010. The structure-to-retain mentality continued to remain in place in the third quarter, however, as only 1 deal was placed in the market (ICG EOS Loan Fund I, a leveraged loan deal from RBS). On net, however, the universe of European CLOs continue to shrink: according to AFME / ESF data, CLO outstanding, excluding SME, was at €127.7 billion end-September; including SME deals (largely issued in the past few years for repo), CLO outstanding ended at approximately €290 billion.

**Issuance: High Yield Bonds**

- Primary issuance in the third quarter, excluding emerging market issuance, totalled €9.4 billion on 19 deals, led by auto (€3.3 billion) and consumer products (€1.7 billion). From emerging market Europe, high yield issuance was €1.3 billion on 4 deals in 3Q’10, led by finance (€1.0 billion).

- While year-to-date total high yield issuance (€29.8 billion) is on pace to fall slightly short of the 2006 peak

---

(€41.9 billion), much of that can be attributed to the sharp drop in emerging market issuance. The developed European markets, on the flip side, have embraced bond issuance as an alternative funding tool; and are well on pace to exceed 2006 issuance, with €24.7 issued billion year-to-date in 2010, compared to €27.5 billion in 2006. However, the market continues to remain hampered by factors that contribute to its illiquidity; e.g., biannual financial corporate filings versus the U.S. quarterly; limited secondary market activity, and lack of covenant transparency, among others.2

- Near-term debt concerns continued to abate, as reflected by the third quarter refi share of 46.4 percent, compared to 63.5 percent and 48 percent, respectively, in 2Q’10 and 3Q’09. Unlike the leveraged loan sector, use of proceeds in the high yield bond markets continue to remain predominantly for refinancing or repayment of debt.

Returns & Credit Quality

Returns

- European high yield outperformed leveraged loans in 3Q’10 and year-to-date: Bank of America-Merrill Lynch’s HY total return for 3Q’10 was 8.9 percent (14.4 percent YTD), compared to S&P ELLI’s total return of 3.0 percent in 3Q’10 (7.4 percent YTD). Equities rallied in 3Q’10 to regain ground lost in the second quarter, although all asset classes generally reported positive returns in the third quarter. On a risk-adjusted basis, U.S Treasuries continued to remain a clear winner (YTD total return of 10.9 percent), outperforming on an absolute basis to European leveraged loans.

Credit Quality

- According to S&P data, 25 actions were reported in 3Q’10, 13 of which were upgrades, 12 downgrades. By dollar amount, downgrades exceeded upgrades primarily due to the downgrade of the Republic of Ireland; excluding sovereigns, upgrades exceeded downgrades by dollar amount, led by the chemicals, packaging and environmental services sector (3 upgrades) and telecommunications (2 upgrades). By dollar amount, chemicals, packaging and environmental services also led, followed by media and entertainment.

- Emerging market credit enjoyed a relatively quiet quarter, with 1 upgrade and 2 downgrades in total as the spotlight remained focused on border eurozone sovereigns.

- High yield default rates continued to decline, with Moody’s and S&P’s HY trailing 12-month default rate ending at 2.6 and 2.7 percent respectively end-September, down from 3.4 and 6 percent end-June.

- Only one default was reported in Q3’10 by S&P, from emerging market Europe (International Industrial Bank), due to a missed payment. Relatively low near-term debt refinancing needs in both the investment-grade and high-yield world plus general extensions of debt maturities out to 2014 and beyond will most likely play the largest factors in contributing to a low default rate in the near-term.

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1. Leveraged Finance Overview

1.1. European Leveraged Issuance by Type

1.2. European Leveraged Issuance by Percentage

1.3. European Leveraged Issuance Average Deal Size

1.4. Bank Credit Standards

1.5. Factors Affecting Bank Credit Standards

1.6. Loan Demand

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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.
1.7. Factors Affecting Loan Demand

Factors Affecting Loan Demand
Oct. 2010

- Debt/Restructuring
- Inventories, Working Capital
- Loans from Non-Banks
- Loans from Other Banks
- Equity Issuance
- Internal Financing
- Debt Issuance
- M&A, Restructuring
- Fixed Investment

Net Percentage

Source: ECB

1.8. Global Comparison – High Yield Issuance

<table>
<thead>
<tr>
<th>€ Billions</th>
<th>2010</th>
<th>2009</th>
<th>Prior</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
<td>United States</td>
<td>39.9</td>
<td>28.4</td>
<td>47.5</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>8.0</td>
<td>10.5</td>
<td>10.8</td>
</tr>
<tr>
<td>Europe</td>
<td>14.0</td>
<td>13.5</td>
<td>15.7</td>
</tr>
</tbody>
</table>

A positive net percentage signifies a factor that contributed to higher demand; a negative net percentage signifies a factor that contributed to lower demand.
2. Issuance – Leveraged Loans

2.1. European Leveraged Loan Issuance By Loan Type

2.2. European Leveraged Loan Issuance by Industry Sector

2.3. Forward Pipeline of Leveraged Loan Market

2.4. S&P ELLI Total Institutional Loans Outstanding

2.5. S&P ELLI Ratings Diversification

2.6. European Leveraged Loan Ratios

---

5 Fitch data are as of 2010 Q1 and may be delayed.
2.7. Institutional and Pro Rata Spreads

**Institutional and Pro Rata Spreads**

Sep. 2005 - Sep. 2010

Source: Dealogic, AFME / EHYA, SIFMA

2.8. Mezzanine Spread

**Mezzanine Spread**

Sep. 2005 - Sep. 2010

Source: Dealogic, AFME / EHYA, SIFMA
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3.1. European HY Bond Issuance, Developed and Emerging Market

3.2. European HY Bond Issuance, Sponsored vs. Corporate

3.3. European Corporate Bonds ex Banks and Financials, Outstanding

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

3.5. European HY Use of Proceeds

3.6. European HY Issuance, Senior Secured Share
4. Issuance – European Developed Market High Yield Bonds

4.1. European Developed Market HY Bond Issuance

4.2. European Developed Market HY Issuance by Currency

4.3. European Developed Market HY Issuance by Industry

4.4. European Developed Market HY Issuance by Country of Risk

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

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

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Industry Group</th>
<th>Date</th>
<th>Currency</th>
<th>Amount (Millions)</th>
<th>Coupon</th>
<th>Moodys</th>
<th>S&amp;P</th>
<th>Fitch</th>
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<tbody>
<tr>
<td>Conti-Gummi Finance BV</td>
<td>Auto/Truck</td>
<td>09/07/2010</td>
<td>EUR</td>
<td>750</td>
<td>8.500</td>
<td>B1</td>
<td>BB-</td>
<td>B</td>
</tr>
<tr>
<td>NXP BV</td>
<td>Computers &amp; Electronics</td>
<td>13/07/2010</td>
<td>USD</td>
<td>1,000</td>
<td>9.750</td>
<td>Caa1</td>
<td>NA</td>
<td>CCC+</td>
</tr>
<tr>
<td>Care UK Health &amp; Social Care plc</td>
<td>Healthcare</td>
<td>15/07/2010</td>
<td>GBP</td>
<td>250</td>
<td>9.750</td>
<td>B2</td>
<td>NA</td>
<td>B+</td>
</tr>
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<td>Cegedim SA</td>
<td>Computers &amp; Electronics</td>
<td>20/07/2010</td>
<td>EUR</td>
<td>300</td>
<td>7.000</td>
<td>NA</td>
<td>NA</td>
<td>BB+</td>
</tr>
<tr>
<td>Codere Finance (Luxembourg) SA</td>
<td>Leisure &amp; Recreation</td>
<td>22/07/2010</td>
<td>EUR</td>
<td>100</td>
<td>8.250</td>
<td>B2</td>
<td>NA</td>
<td>B</td>
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<td>DFS Furniture Holdings plc</td>
<td>Retail</td>
<td>22/07/2010</td>
<td>GBP</td>
<td>240</td>
<td>9.750</td>
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<td>B</td>
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<td>DSG International plc</td>
<td>Retail</td>
<td>23/07/2010</td>
<td>GBP</td>
<td>150</td>
<td>8.750</td>
<td>Ba3</td>
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<td>NA</td>
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<td>International Personal Finance plc</td>
<td>Finance</td>
<td>30/07/2010</td>
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<td>225</td>
<td>11.500</td>
<td>NA</td>
<td>BB+</td>
<td>NA</td>
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<td>Stora Enso Oyj</td>
<td>Forestry &amp; Paper</td>
<td>24/08/2010</td>
<td>SEK</td>
<td>1,300</td>
<td>5.750</td>
<td>Ba2</td>
<td>NA</td>
<td>BB</td>
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<td>Stora Enso Oyj</td>
<td>Forestry &amp; Paper</td>
<td>24/08/2010</td>
<td>SEK</td>
<td>1,000</td>
<td>3M Other + 370</td>
<td>Ba2</td>
<td>NA</td>
<td>BB</td>
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<td>Conti-Gummi Finance BV</td>
<td>Auto/Truck</td>
<td>02/09/2010</td>
<td>EUR</td>
<td>1,000</td>
<td>7.500</td>
<td>B1</td>
<td>NA</td>
<td>B</td>
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<tr>
<td>Renault SA</td>
<td>Auto/Truck</td>
<td>13/09/2010</td>
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<td>250</td>
<td>5.625</td>
<td>Ba1</td>
<td>BB</td>
<td>BB</td>
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<tr>
<td>Picard Bondco SA</td>
<td>Food &amp; Beverage</td>
<td>22/09/2010</td>
<td>EUR</td>
<td>300</td>
<td>9.000</td>
<td>B3</td>
<td>B-</td>
<td>B-</td>
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<td>Rhodia SA</td>
<td>Chemicals</td>
<td>22/09/2010</td>
<td>USD</td>
<td>400</td>
<td>6.875</td>
<td>B1</td>
<td>NA</td>
<td>BB</td>
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<td>Conti-Gummi Finance BV</td>
<td>Auto/Truck</td>
<td>28/09/2010</td>
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<td>625</td>
<td>6.500</td>
<td>B1</td>
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<td>Conti-Gummi Finance BV</td>
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<td>28/09/2010</td>
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<td>Ardagh Glass Group plc</td>
<td>Consumer Products</td>
<td>30/09/2010</td>
<td>EUR</td>
<td>825</td>
<td>7.375</td>
<td>Ba3</td>
<td>NA</td>
<td>BB-</td>
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<tr>
<td>Ardagh Glass Group plc</td>
<td>Consumer Products</td>
<td>30/09/2010</td>
<td>USD</td>
<td>350</td>
<td>7.375</td>
<td>Ba3</td>
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<td>BB-</td>
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<tr>
<td>Ardagh Glass Group plc</td>
<td>Consumer Products</td>
<td>30/09/2010</td>
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<td>275</td>
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<td>Ardagh Glass Group plc</td>
<td>Consumer Products</td>
<td>30/09/2010</td>
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<td>450</td>
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<td>B3</td>
<td>NA</td>
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</tbody>
</table>

Source: Bloomberg, Dealogic
5. Issuance – European Emerging Market High Yield Bonds

5.1. European Emerging Market HY Bond Issuance

5.2. European Emerging Market HY Bond Issuance by Currency

5.3. European Emerging Market HY Issuance by Industry

5.4. European Emerging Market HY Issuance by Country of Risk

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

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

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Industry Group</th>
<th>Date</th>
<th>Currency</th>
<th>Amount (Millions)</th>
<th>Coupon</th>
<th>Moodys</th>
<th>S&amp;P</th>
<th>Fitch</th>
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<tbody>
<tr>
<td>New Moscow Bank ZAO - Nomos Bank</td>
<td>Finance</td>
<td>14/04/2010</td>
<td>USD</td>
<td>350</td>
<td>8.750</td>
<td>B1</td>
<td>B+</td>
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<tr>
<td>New World Resources NV</td>
<td>Mining</td>
<td>20/04/2010</td>
<td>EUR</td>
<td>475</td>
<td>7.875</td>
<td>Ba3</td>
<td>BB-</td>
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<tr>
<td>TVN Finance Corporation II AB</td>
<td>Telecommunications</td>
<td>20/04/2010</td>
<td>EUR</td>
<td>100</td>
<td>10.750</td>
<td>B1</td>
<td>B+</td>
<td></td>
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<td>MHP SA</td>
<td>Agribusiness</td>
<td>22/04/2010</td>
<td>USD</td>
<td>330</td>
<td>10.250</td>
<td>B3</td>
<td>B</td>
<td></td>
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<td>Credit Europe Bank (Russia) Ltd</td>
<td>Finance</td>
<td>12/05/2010</td>
<td>USD</td>
<td>300</td>
<td>7.750</td>
<td>Ba3</td>
<td>BB-</td>
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<td>Metinvest BV</td>
<td>Metal &amp; Steel</td>
<td>14/05/2010</td>
<td>USD</td>
<td>500</td>
<td>10.250</td>
<td>B3</td>
<td>B</td>
<td></td>
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<td>Mobile TeleSystems OAO - MTS</td>
<td>Telecommunications</td>
<td>15/06/2010</td>
<td>USD</td>
<td>750</td>
<td>8.625</td>
<td>Ba2</td>
<td>BB</td>
<td>BB+</td>
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<td>Promsvyazbank OAO</td>
<td>Finance</td>
<td>02/07/2010</td>
<td>USD</td>
<td>200</td>
<td>11.250</td>
<td>Ba3</td>
<td>B-</td>
<td>NR</td>
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<tr>
<td>Georgian Railway Ltd</td>
<td>Transportation</td>
<td>15/07/2010</td>
<td>USD</td>
<td>250</td>
<td>9.875</td>
<td>NA</td>
<td>B+</td>
<td>B+</td>
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<tr>
<td>PrivatBank ZAT</td>
<td>Finance</td>
<td>16/09/2010</td>
<td>USD</td>
<td>200</td>
<td>9.375</td>
<td>B1</td>
<td>B</td>
<td>NA</td>
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<tr>
<td>Alfa Bank OAO</td>
<td>Finance</td>
<td>17/09/2010</td>
<td>USD</td>
<td>1,000</td>
<td>7.875</td>
<td>Ba1</td>
<td>BB</td>
<td>B+</td>
</tr>
</tbody>
</table>

*Source: Bloomberg, Dealogic*
6. Credit Quality

6.1. European HY Default Rate

European HY Default Rate (LTM) Sep. 2003 - Sep. 2010

Source: Standard & Poor's

6.2. European Issuer Rating Actions

S&P European Issuer Rating Actions 2008 - 2010:Q3

Source: Standard & Poor's

6.3. European Industry Rating Actions by $ Amount

S&P European Issuer Rating Actions by $ Amount ex Sovereign & Banks 2010:Q3

Source: Standard & Poor's

6.4. European Loan Default Rate

European Loan Default Rate (LTM) 2004:Q1 - 2010:Q1

Source: Fitch Ratings

---

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

2 Fitch data are as of 2010 Q1 and future data may be delayed.
7. Relative Value

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

![Graph showing relative value of European HY Bonds, Cash vs. Synthetic from Oct 2008 to Sep 2010.](image)

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

![Graph showing relative value of European Leveraged Loans, Cash vs. Synthetic from Oct 2008 to Sep 2010.](image)

8. Total Return

**8.1. European HY Bond Total Return**

![Graph showing European High Yield Total Return from 2001 to 2010:Q3.](image)

**8.2. European Leveraged Loan Total Return**

![Graph showing European Leveraged Loan Total Return from 2003 to 2010:Q3.](image)

8.3. Asset Class Total Return

**Asset Class Total Returns**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>2009:Q3</th>
<th>2010:Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Mortgages 30Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMBI Covered Bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMU Covered Bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMU ABS/WBS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S&amp;P ELLI</td>
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<tr>
<td>U.S. ABS/MBS</td>
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<tr>
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*Source: Bank of America-Merrill Lynch, Thomson Reuters LPC, Markit, Standard and Poor’s LCD.*

ELLI EUR-denominated only unavailable for 2003 and 2004.
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 a debt/EBITDA ratio across Fitch’s shadow rated universe. Transactions included in the ratio include new as well as existing transactions and ratings may be assigned at various points in time throughout the year.

2.7. – 2.8. Loan Spreads
Loan spread data are sourced from Dealogic under our criteria for leveraged loans (see Section 1). For purposes of loan spread calculations, deals marketed in the US are excluded. Spreads are a weighted average of spread margin on new leveraged issuance on a rolling twelve months basis, and are typically benchmarked to LIBOR or EURIBOR. Institutional loan spread data are inclusive of 2nd lien; pro rata spreads include all revolvers and term loan A (Tla).

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

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

Emerging market Europe and developed market European issuance are defined by nationality of risk, rather than nationality of deal, and although primarily sourced from Dealogic, are ultimately subject to EHYA’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.
3.2. European HY Issuance by Sponsor
Data for high yield issuance by sponsor are sourced from Dealogic. LBO deals are defined as all high yield transactions whose issuer parent is a public or private finance entity (i.e., a financial sponsor), regardless of use of proceeds.

3.3. – 3.4. European Corporate Bonds Outstanding
Data for European corporate outstanding are sourced from Bloomberg and AFME/SIFMA estimates. Criteria for European corporate bonds are: bonds must be placed in the euro, foreign, and global markets (domestically placed issues are excluded) with a nationality of issue and risk from a European developed or emerging market country as defined by AFME / EHYA. Corporate bonds exclude all issuance from banks and financials, and additionally excludes all covered bonds, warrants, deposit notes, receipts, and certificates of deposit. No currencies are excluded in this analysis and all non-EUR currencies are converted to EUR at end-quarter exchange rates.

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

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

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

3.6. European HY Issuance, Senior Secured Share
Data for HY issuance by seniority are sourced from Dealogic and Bloomberg. “Senior Unsecured” totals include all bonds that are senior but not senior secured.

4. Issuance – European Developed Market High Yield Bonds
4.1. – 4.7.
High yield bond issuance data are sourced from Dealogic. For further criteria on how high yield issuance are defined, please refer to section 3.

Developed European issuance are deals predominantly from western Europe and includes deals from Andorra, Austria, Belgium, Bulgaria, Cyprus, Switzerland, Germany, Denmark, Spain, Estonia, Finland, France, Faroe Islands, United Kingdom, Guernsey, Gibraltar, Greenland, Greece, Isle of Man, Ireland, Iceland, Italy, Jersey, Liechtenstein, Luxembourg, Monaco, Malta, Montenegro, Netherlands, Norway, Portugal, San Marino, and Sweden.

5. Issuance – European Emerging Market High Yield Bonds
5.1. – 5.7.
High yield bond issuance data are sourced from Dealogic. Criteria for all high yield issuance are found in section 3.

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

6. Credit Quality
6.1. European HY Default Rate
European HY bond default rates are sourced from S&P and are on a trailing 12 month basis.

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

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

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

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

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

7. Cash and Synthetic
7.1. – 7.2. Loans and Bonds, Cash and Synthetic
Data are sourced from Markit and Thomson Reuters LPC. High yield bond cash and synthetic spreads from Markit; European leveraged loan cash bid prices from Thomson Reuters LPC, and European leveraged loans synthetic prices from Markit.

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

8.2. European Leveraged Loan Total Return
Total return data are provided by S&P LCD and are total returns from S&P’s ELLI index, both ELLI and EUR-denominated ELLI. Total returns for ELLI EUR-denominated data are unavailable for 2003 and 2004.

8.3. Asset Class Total Return (Cash Basis)
Total returns are sourced from respective index owners and Bank of America-Merrill Lynch’s indices.

Disclaimer
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