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European Leveraged Finance, Second Quarter 2011

Highlights and Market Environment

Highlights
- European leveraged finance issuance (leveraged loans and high yield bonds) totalled €43.3 billion in the second quarter of 2011, an increase of 11.4% from Q1 2011 (€38.9 billion) and an increase of 132.3% from Q2 2010 (€18.6 billion). The pickup in loan issuance contributed to the uptick in issuance, although a significant portion of proceeds were used to refinance and/or restructure existing facilities (83.4%). High yield issuance continues to enjoy another stellar quarter; with year-to-date high yield issuance totalling €41.1 billion, the high yield market is well underway on exceeding the prior issuance high in 2010 (€44.6 billion).

- Market share of high yield bond issuance declined further to 46% in Q2 2011, down from 54.1% in Q1 2011, but flat from the Q2 2010 (45.8%). Use of senior secured structures ticked up slightly in share (48.6%) from the prior quarter (46.4%).

Market and Economic Environment
- The European sovereign debt crisis continued to play out in the second quarter 2011, with continued downgrades of sovereigns underway by the rating agencies. Credit deterioration of sovereigns, in turn, led to further credit weakness in financials.

- According to the July European Central Bank (ECB) bank lending survey, banks reported, on net, a small tightening of lending standards in Q2 2011 for both small- and medium-sized enterprises (SMEs) and large enterprises. Standards for short-term loans, as in prior quarters, continued to ease. Factors contributing to tightening standards were industry specific outlooks, expectations on future economic activity, and, owing to the sovereign crisis and the vulnerability of banks, both bank access to market financing and bank liquidity. Conversely competition from other banks contributed to easing standards.

- Loan demand continued to increase in the second quarter primarily for working capital needs and debt restructuring.

- Shortly after the end of the second quarter, the results of EU-wide stress tests on the banking industry were published by the European Banking Authority.1 Allowing for capital raising measures in 2011 to be accounted for, some €2.5 billion shortfall in Tier 1 capital (set at 5% risk-weighted assets) was identified. Both sovereign and securitisation exposures were reported for the first time in stress tests.

- Standard and Poor’s noted in its recent refunding study2 that $3.9 trillion ($2.6 billion at a June 30 USD to EUR conversion rate) of debt was due to mature from 2011 to 2015 in Europe, approximately half of all debt coming due globally. Of this amount, approximately €184.4 billion is speculative grade debt scheduled to come due. Given a 10-year average of €1.3 trillion issued annually in the European bond and loan space, it would appear that the market should be able to cope with upcoming refinancing needs.

- S&P noted, however, that given the level of unrated activity in the European leveraged markets, its estimates led to risks “not evident when looking at just the rated universe.” Although a gross simplification, we note that within our estimates of the European bond universe, the amount of non-rated debt outstanding has consistently been approximately twice that of rated high yield debt outstanding; assuming a similar maturing breakdown as that of the rated high yield universe in both bonds and loans would yield an additional €369 billion of non-rated debt to come due from 2011 to 2015.

Issuance

Issuance: Leveraged Loans
- Leveraged loan issuance, which includes first lien, second lien, and mezzanine financing, totalled €23.4 billion in Q2 2011, an increase of 31.0% from the prior quarter (€17.9 billion). Approximately €0.1 billion of second lien loans and €0.5 billion of mezzanine loans were done in the second quarter. Deals were generally oversubscribed early in the quarter, with reverse flex exercised some deals. According to S&P, the loan pipeline at the end of June 2011 was €3.9 billion, a significant jump from the average of €1.2 billion in the prior four quarters but still a far cry from the €27.5 billion quarterly average in 2008.

---


According to Dealogic data, the leading sector in leveraged loan issuance in Q2 2011 was professional services (€5.27 billion), followed by telecommunications (€4.73 billion). The largest deal was also from the professional services, an sponsored amend-and-extend (“A&E”) transaction from ISS A/S, extending several facilities signed in 2008 from 1.4 to 2.5 years.

More generally, A&E deals continued to remain a trend, with a third of deals (by euro amount) in the second quarter constituting some form of amend & extend, down slightly from the first quarter (35.5%).

The share of deals aimed to refinance and/or repay debt picked up considerably in Q2 2011 (83.4% by dollar amount from Q1 2011 (45.4%), which cut LBO/MBO deals considerably (16.3% in Q2 2011, down from 43.9%).

The primary CLO market continued to remain quiet as well in Q2 2011. Outside of the SME space, a single deal closed at the end of Q2 2011, a partially retained arbitrage European CLO backed by European second liens and mezzanine loans (€864 million, ECAS 2011-1 Loan BV), with the senior notes placed at 320 basis points to 3M Euribor.

Moody’s noted that among sponsored European leveraged loans, which typically are invested by CLOs, average recoveries were 80% for first liens, 59% for second liens, and 35% for mezzanine debt (39% for all junior debt, inclusive of both second lien and mezzanine).

Fitch noted, however, that given relatively limited collateral for CLO managers to choose from, secondary buyouts generally led to reinvestments of the prepayments by CLO managers, albeit in credits with higher leverage multiples as a result of the buyout.

In the SME space, €10.4 billion SME CLOs were issued in Q2 2011, with collateral from Spain, Portugal, and the Netherlands. All SME deals were retained, presumably for repo.

European CLO outstanding, including SME deals, shrank 13.9% annualized rate, ending in June at €293.2 billion, down from €304.4 billion end-March. Non-SME CLO deals, due to lack of primary market activity in the last few years, shrunk at twice the rate (18.8% annualized) to that of SMEs (9.7% annualized).

Issuance: High Yield Bonds

Primary issuance in Q2 2011, excluding emerging market issuance, totalled €16.2 billion on 46 deals. Issuance was led by the auto sector (€2.2 billion), food and beverage (€2.2 billion) and leisure & recreation (€1.3 billion).

Primary issuance in emerging markets in Q2 2011 totalled €3.8 billion on 7 deals, led by telecommunications (€1.5 billion).

High yield issuance for refinancing and/or repayment of debt represented 70% of all deals in Q2 2011, up from 44.1% in Q1 2011 and 63.5% in Q2 2010.

Use of senior secured debt structures increased slightly in Q2 2011 to 44.7%, up from 39.7% in Q1 2011. The structure continues to remain prevalent in developed Europe (48.6% in developed market Europe, 27.7% in emerging market Europe).

Similar to the leveraged loan space, strong investor appetite was evidenced by generally weaker covenants as well as the emergence of more aggressive funding structures. By dollar amount, CCC-rated bonds ticked up in the second quarter (12% of all developed market Europe issuance, up from 10% in Q1 2011 and 5% of all issuance in 2010). More notably, the first payment in kind (PIK) bonds in several years were issued in the second quarter (€202 million senior PIK notes from Frostbite 1 AB/Dometic International AB; €425 million secured notes ARD Finance/Ardagh Group S.A.).

Returns & Credit Quality

Both European high yield and leveraged loans were among the worst performing asset classes in the second quarter, returning on an absolute basis 0.71% and (0.39%) respectively in Q2 2011. The deteriorating sovereign credit situation in Europe played the largest factor to poor performance and record outflows, particularly after the second bailout of Greece in June 2011.

---

3 Moody’s, European Leveraged Loans: Robust Recoveries in the Downturn,” 27 July 2011.
5 Although a fair number of sovereigns bucketed under developed Europe are no longer investment grade as of Q2 2011, we nonetheless continue to use the developed/emerging breakdown (more broadly a western/eastern Europe bias) as established in the annex for the sake of continuity.
MARKET HIGHLIGHTS AND COMMENTARY

• According to S&P, downgrades continued to exceed upgrades in developed market Europe. Emerging market Europe, on the other hand, continued to remain relatively quiet, with more upgrades than downgrades (six to four).

• In developed market Europe, the bulk of downgrades were from banks (12 of 34 downgrades), stemming largely from the downgrade of Greece (eight of 12 bank downgrades). Upgrades were concentrated in the chemicals, packaging and environmental services sector (seven of 28).

• High yield bond and loan default rates continue to decrease in the second quarter, with the 12-month trailing default rate for bonds by S&P and Moody’s 0.9% and 1.4% respectively. According to Fitch, the default rate on senior leveraged loans and mezzanine loans by euro amount fell from 3.9% and 4.7%, respectively, at the end of June 2011, down from 5% and 8.1% respectively end-September 2010.

• One corporate default was reported by S&P for developed market Europe (Novasep Holdings) and one for emerging market Europe (Sotsgorbank).
1. Leveraged Finance Overview

1.1. European Leveraged Issuance by Type

European Leveraged Issuance 2003 - 2011:Q2

Sources: Dealogic, Thomson Reuters LPC

1.2. European Leveraged Issuance by Percentage

European Leveraged Issuance 2003 - 2011:Q2

Percentage

Sources: Dealogic, Thomson Reuters LPC

1.3. European Leveraged Issuance Average Deal Size

European Leveraged Issuance Average Size 2003 - 2011:Q2

Sources: Dealogic, Thomson Reuters LPC

1.4. Bank Credit Standards

Bank Credit Standards Jul. 2006 - Jul. 2011

Net Percentage

Source: ECB

1.5. Factors Affecting Bank Credit Standards

Factors Affecting Bank Credit Standards

Expectations Regarding Economic Activity
Industry or Firm-Specific Outlook
Bank Access to Market Financing
Bank Liquidity Position
Risk on Collateral Demanded
Costs to Bank Capital Position
Competition from Non-Banks
Market Financing
Competition from Banks

Net Percentage

Source: ECB

1.6. Loan Demand

Loan Demand Jul. 2006 - Jul. 2011

Net Percentage

Source: ECB

---

A positive net percentage number signifies tightening bank credit; a negative net percentage number signifies easing credit.
A positive net percentage signifies the factor contributed to tightening credit standards; a negative net percentage signifies the factor contributed to easing credit standards.
A positive net percentage signifies increased demand; a negative net percentage signifies decreased demand.
1.7. Factors Affecting Loan Demand

Factors Affecting Loan Demand
Jul. 2011

-5 0 5 10 15 20
Source: ECB

1.8. Global Comparison – High Yield Issuance

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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

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2.5. S&P ELLI Ratings Diversification

2.6. European Leveraged Loan Ratios
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2.8. Mezzanine Spread
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3.4. European Corporate Bonds ex Banks and Financials, Outstanding (EUR-Denominated Securities Only)

3.5. European Corporate Bonds ex Banks and Financials, Average Deal Size
3.6. European HY Use of Proceeds

European HY Issuance By Use of Proceeds
2003 - 2011:Q2

Source: Dealogic, AFME/SIFMA

- Restructuring
- Repay Debt/Refinancing
- LNG/NBD
- General Corporate Purposes
- Acquisitions

3.7. European HY Issuance, Senior Secured Share

European HY Issuance, Senior Secured and Unsecured
2006 - 2011:Q2

Source: Bloomberg, Dealogic

4. Issuance – European Developed Market High Yield Bonds
4.1. European Developed Market HY Bond Issuance

European Developed Market HY Bond Issuance
2003 - 2011:Q2

Source: Dealogic

4.2. European Developed Market HY Issuance by Currency

European Developed Market HY Issuance by Currency
2003 - 2011:Q2

Source: Dealogic

4.3. European Developed Market HY Issuance by Industry

European Developed Market HY Issuance by Industry
2011:Q2

Source: Dealogic

4.4. European Developed Market HY Issuance by Country of Risk

European Developed Market HY Issuance by Country of Risk
2011:Q2

Source: Dealogic
4.5. European Developed Market HY Issuance, Fixed vs. Floating

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

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Source: Bloomberg, Dealogic
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<td>4.625</td>
<td>Ba1</td>
<td>BB+</td>
<td></td>
</tr>
<tr>
<td>Gala Electric Casinos plc</td>
<td>Leisure &amp; Recreation</td>
<td>23/05/2011</td>
<td>GBP</td>
<td>275</td>
<td>11.500</td>
<td>Caa2</td>
<td>CCC+</td>
<td>CCC</td>
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<tr>
<td>Gala Group Finance plc</td>
<td>Leisure &amp; Recreation</td>
<td>23/05/2011</td>
<td>GBP</td>
<td>350</td>
<td>8.875</td>
<td>B2</td>
<td>B+</td>
<td>BB-</td>
</tr>
<tr>
<td>House of Fraser (Funding) plc</td>
<td>Retail</td>
<td>23/05/2011</td>
<td>GBP</td>
<td>250</td>
<td>8.875</td>
<td>B3</td>
<td>B+</td>
<td></td>
</tr>
<tr>
<td>Rexel SA</td>
<td>Computers &amp; Electronics</td>
<td>24/05/2011</td>
<td>EUR</td>
<td>500</td>
<td>7.000</td>
<td>Ba3</td>
<td>BB-</td>
<td>BB-</td>
</tr>
<tr>
<td>Compagnie Generale de Geophysique-Veritas</td>
<td>Oil &amp; Gas</td>
<td>25/05/2011</td>
<td>USD</td>
<td>650</td>
<td>6.500</td>
<td>Ba3</td>
<td>BB-</td>
<td>BB-</td>
</tr>
<tr>
<td>International Automotive Components Group</td>
<td>Auto/Truck</td>
<td>26/05/2011</td>
<td>USD</td>
<td>300</td>
<td>9.125</td>
<td>B3</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>Xefin Lux SCA</td>
<td>Construction/Building</td>
<td>26/05/2011</td>
<td>EUR</td>
<td>300</td>
<td>8.000</td>
<td>Ba3</td>
<td></td>
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<tr>
<td>Global Rig Company ASA</td>
<td>Oil &amp; Gas</td>
<td>07/06/2011</td>
<td>USD</td>
<td>60</td>
<td>13.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norske Skogindustrier ASA</td>
<td>Forestry &amp; Paper</td>
<td>07/06/2011</td>
<td>EUR</td>
<td>150</td>
<td>11.750</td>
<td>B2</td>
<td>B-</td>
<td></td>
</tr>
<tr>
<td>Telnet Finance Luxembourg IV SCA</td>
<td>Telecommunications</td>
<td>08/06/2011</td>
<td>EUR</td>
<td>400</td>
<td>3M EURIBOR + 387.5</td>
<td>Ba3</td>
<td>BB-</td>
<td></td>
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<tr>
<td>Kabel Deutschland Vertrieb und Service GmbH &amp;</td>
<td>Telecommunications</td>
<td>10/06/2011</td>
<td>EUR</td>
<td>500</td>
<td>6.500</td>
<td>Ba2</td>
<td>BB-</td>
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<td>Kinove German Bondco GmbH</td>
<td>Chemicals</td>
<td>17/06/2011</td>
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<td>355</td>
<td>10.000</td>
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<td></td>
<td></td>
<td></td>
<td>USD</td>
<td>350</td>
<td>9.625</td>
<td>B2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

†PIK (Payment in Kind) 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>
</tr>
</thead>
<tbody>
<tr>
<td>PSB Finance SA</td>
<td>Finance</td>
<td>14/04/2011</td>
<td>USD</td>
<td>500</td>
<td>6.200</td>
<td>Ba2</td>
<td>BB-</td>
<td>B</td>
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<tr>
<td>Tinkoff Credit Systems</td>
<td>Finance</td>
<td>14/04/2011</td>
<td>USD</td>
<td>175</td>
<td>11.500</td>
<td>B2</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>Alfa Bank OAO</td>
<td>Finance</td>
<td>19/04/2011</td>
<td>USD</td>
<td>1,000</td>
<td>7.750</td>
<td>Ba1</td>
<td>BB-</td>
<td>B</td>
</tr>
<tr>
<td>Evraz Group SA</td>
<td>Metal &amp; Steel</td>
<td>19/04/2011</td>
<td>USD</td>
<td>850</td>
<td>6.750</td>
<td>B2</td>
<td>B+</td>
<td>BB-</td>
</tr>
<tr>
<td>Kazkommertsbank OAO</td>
<td>Finance</td>
<td>05/05/2011</td>
<td>USD</td>
<td>300</td>
<td>8.500</td>
<td>B2</td>
<td>B</td>
<td>BB-</td>
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<tr>
<td>Koks OAO</td>
<td>Mining</td>
<td>16/06/2011</td>
<td>USD</td>
<td>350</td>
<td>7.750</td>
<td>B3</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>VimpelCom Holdings BV</td>
<td>Telecommunications</td>
<td>22/06/2011</td>
<td>USD</td>
<td>500</td>
<td>6.255</td>
<td>Ba3</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>USD</td>
<td>1,500</td>
<td>7.504</td>
<td>Ba3</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>USD</td>
<td>200</td>
<td>3M LIBOR + 400</td>
<td>Ba3</td>
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<td></td>
</tr>
</tbody>
</table>

Source: Bloomberg, Dealogic
6. Credit Quality

6.1. European HY Default Rate

European HY Default Rate (LTM)
Nov. 2009 - Jun. 2011

Source: Standard & Poor’s

6.2. European Loan Default Rate

European Loan Default Rate (LTM)
2006:Q1 - 2011:Q2

Source: Fitch Ratings

6.3. Developed Europe Issuer Rating Actions¹

S&P Developed Europe Issuer Rating Actions

Source: Standard & Poor’s

6.4. Emerging Europe Issuer Rating Actions²

S&P Emerging Europe Issuer Rating Actions

Source: Standard & Poor’s

6.5. Developed European Industry Rating Actions by $ Amount

S&P Developed Europe Issuer Rating Actions by $ Amount ex Sovereign & Banks
2011:Q2

Source: Standard & Poor’s

6.6. Emerging European Industry Rating Actions by $ Amount

S&P Emerging Europe Issuer Rating Actions by $ Amount ex Sovereign & Banks
2011:Q2

Source: Standard & Poor’s

¹ Numbers include both corporate and sovereigns.
² Numbers include both corporate and sovereigns.
7. Relative Value
7.1. European HY Bonds, Cash vs. Synthetic

![Chart showing basis points for European HY Bonds, Cash vs. Synthetic from June 2009 to June 2011.](chart)

Sources: Markit

7.2. European Leveraged Loans, Cash vs. Synthetic

![Chart showing price/Bid for European Leveraged Loans, Cash vs. Synthetic from June 2009 to June 2011.](chart)

Sources: Thomson Reuters LPC, Markit

8. Total Return
8.1. European HY Bond Total Return

![Chart showing European High Yield Total Return from 2003 to 2011:Q2.](chart)

Source: Bank of America-Merrill Lynch

8.2. European Leveraged Loan Total Return

![Chart showing European Leveraged Loan Total Return from 2003 to 2011:Q2.](chart)

Source: Standard and Poor’s LCD

ELL/EUR-denominated only unavailable for 2003 and 2004.

8.3. Asset Class Total Return

![Chart showing Asset Class Total Returns for 2010:Q2 vs 2011:Q2.](chart)

Source: BofA-MML, Bloomberg

Q2 2011
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 (Tla).

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

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

Emerging market Europe and developed market European issuance are defined by nationality of risk, rather than nationality of deal, and although primarily sourced from Dealogic, are ultimately subject to AFME’s discretion. Emerging and developed market issuance are mutually exclusive and will contain no overlap unless otherwise mentioned.

European emerging market bonds are further defined with having a minimum deal size of €75.0 million; deals on the same day from the same issuer are aggregated for the purpose of meeting this minimum. Russian ruble (RUB)-denominated issuance are excluded due to differences in terms and documentation; as of 4Q’10 this criteria no longer applies and may be included on a case by case basis.
3.2. European HY Issuance by Sponsor
Data for high yield issuance by sponsor are sourced from Dealogic. LBO deals are defined as all high yield transactions whose issuer parent is a public or private finance entity (i.e., a financial sponsor), regardless of use of proceeds.

3.3. – 3.7. European Corporate Bonds Outstanding
Data for European corporate outstanding are sourced from Bloomberg and AFME/SIFMA estimates. Criteria for European corporate bonds are: bonds must be placed in the euro, foreign, and global markets (domestically placed issues are excluded) with a nationality of issue and risk from a European developed or emerging market country as defined by AFME. Corporate bonds exclude all issuance from banks and financials, and additionally excludes all covered bonds, warrants, deposit notes, receipts, and certificates of deposit. No currencies are excluded in this analysis and all non-EUR currencies are converted to EUR at end-quarter exchange rates.

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

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

3.7. 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.

5.1. – 5.7.
Bonds

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, Kazakstan, Turkmenistan, Uzbekistan, Tajikistan, Azerbijan, and Kyrgyzstan. Certain sub-investment grade countries are not included in the emerging market total, including, among others, Iceland and Greece.

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

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

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

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

6.3. – 6.4. European Issuer Rating Actions
European issuer upgrades and downgrades are sourced from S&P. The breakdown by emerging market and developed Europe are from AFME’s definition of developed and emerging markets and would be, under S&P’s guidelines, a combination of both European and EMEA rating actions. Multiple downgrades of a single issuer are counted separately. Rating actions are inclusive of both corporate (both credit and merger-related) as well as sovereign ratings.

6.5. – 6.6. European Issuer Rating Actions by $ Amount
Rating actions by US dollar amount, industry, and country are sourced from S&P. Breakdown by emerging market and developed Europe are from AFME’s definition of developed and emerging markets and would be, under S&P’s guidelines, a combination of both European and EMEA rating actions.
7. Cash and Synthetic
7.1. – 7.2. Loans and Bonds, Cash and Synthetic
Data are sourced from Markit and Thomson Reuters LPC. High yield bond cash and synthetic spreads from Markit; European leveraged loan cash bid prices from Thomson Reuters LPC, and European leveraged loans synthetic prices from Markit.

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

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

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

Disclaimer
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