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European Leveraged Finance, Third Quarter 2011

Highlights and Market Environment

Highlights
- European leveraged finance issuance (leveraged loans and high yield bonds) totalled €20.3 billion in the third quarter of 2011, a decline of 53.2% and 23.8%, respectively, from Q2'11 (€43.3 billion) and Q3'10 (€26.6 billion). The ongoing sovereign debt crisis contributed to extremely low issuance levels, particularly with respect to high yield bonds, in the third quarter. During the first three quarters of 2011, leveraged finance issuance has reached €109.3 billion, compared to €76.4 billion during the first three quarters of 2010.
- Market share of high yield bond issuance declined sharply to 22% in Q3'11 (compared to 46% in Q2'11). Use of senior secured structures also dropped, representing 12.3% of all high yield issuance in Q3'11, compared to 44.7% in Q2'11.
- On July 21, a second set of measures for Greece were agreed upon in order to stabilize the euro area. The provisions included lengthening the maturity of European Financial Stability Fund (EFSF) loans to Greece to the allowable maximum, as well as lowering lending rates (provisions that were also applied to aid for Portugal and Ireland); expanding the flexibility of the EFSF program; and private sector involvement, which largely consisted of a voluntary haircut of Greek bond holdings (so as to not trigger a CDS event).1,2 Shortly after the end of the third quarter of 2011, the enhanced EFSF became fully operational after ratification by Slovakia.

Market and Economic Environment
- The European sovereign debt crisis continued to cause credit deterioration in the third quarter.
- According to the October European Central Bank (ECB) bank lending survey, banks reported, on net, a large tightening of lending standards in the third quarter for both small- and medium-sized enterprises (SMEs) and large enterprises. Standards for short-term loans, unlike prior quarters, tightened dramatically in the third quarter as European banks lost access to the dollar funding market and investors withdrew or cut European exposures. Factors contributing to tightening standards were industry specified outlooks, bank access to market financing, and dim views on future economic activity. Conversely, competition from other banks and capital markets financing contributed an extremely modest amount (on net) to easing standards. Loan demand dropped in the third quarter and any demand were primarily for restructuring debts.

Issuance
Issuance: Leveraged Loans
- Leveraged loan issuance, which includes first lien, second lien, and mezzanine financing, totalled €15.8 billion in Q3'11, a decline of 32.3% and 0.8%, respectively, from the prior quarter (€23.4 billion) and the same period in the prior year (€16.0 billion). Unlike the prior quarter, original issue discounts ranging from 94 to 99.5 were offered in several deals. According to S&P, the loan pipeline at the end of September 2011 dropped to €0.1 billion.
- As in the prior quarter, approximately €0.1 billion of second lien loans and €0.5 billion of mezzanine loans were issued in the third quarter. The twelve month weighted average mezzanine spread dropped to 738 basis points from a high of 1,165 basis points in May 2010, in part due to few mezzanine deals pricing and the wide range that mezzanine loans are being priced at (from 400 basis points to 1,350).
- According to Dealogic data, the leading sector in leveraged loan issuance was telecommunications (€4.6 billion), followed by construction/building (€2.0 billion). The largest deal was an amend-and-extend (“A&E”) transaction from ProSiebenSat.1 Media AG, extending loan maturities signed in 2007 out to 2016.

More generally, A&E deals continued to represent a significant portion of the loan issuance, representing 30.7% (by euro amount) in the third quarter. In the last four quarters, 27.6% of all deals, or €19.0 billion, have been of the A&E variety, reducing near-term maturity wall concerns.
- Continuing a trend last seen in the first quarter, approximately a third of deals (34.1%) were sponsored secondary buyouts. Two secondary buyout deals were structured with payment-in-kind (PIK) loan facilities.

(Com Hem AB and RBG Ltd); both facilities were oversubscribed.

- The share of deals aimed to refinance and/or repay debt decreased to 45.3% market share in the third quarter of all deals, by euro amount, compared to 83.4% in 2Q’11, while LBO/MBO deals increased to 48%, compared to 16% in the second quarter.

- The primary CLO market continued to remain silent in the third quarter. One CLO issue (Madrid Activos Corporativos 2011-1, a corporate & SME loan CDO) was issued in 3Q’11 but retained; an additional €7.0 SME CDOs were also issued, with only the senior notes of one deal privately placed (Sandown Gold 2011-1).

- European CLO outstandings, including SME deals, shrank 16.8% on an annualized basis in the third quarter, ending in September 2011 at €281.5 billion, down from €294.8 billion at the end of Q2’11. Non-SME outstandings shrank fivefold (29.1% annualized decline) to that of SMEs (6.1% annualized decline).

- Primary issuance in Q3’11, excluding emerging market issuance, totalled €3.3 billion on 7 deals, a sharp decline from the second quarter (€16.2 billion on 46 deals). The heavy volatility in the capital markets, combined with the seasonal summer lull, resulted in virtually no primary deals being brought to market from the finalisation of the second Greek bailout package in late July to the last week of September.

- Primary issuance in emerging markets Europe in the third quarter totalled €1.2 billion on 4 deals, led by mining (€0.5 billion).

- High yield issuance for refinancing and/or repayment of debt represented 30.6% of all deals in Q3’11, down from the 70% in Q2’11.

- Use of senior secured debt structures decreased slightly in 3Q’11 to 12.3% by euro amount, compared to 44.7% in the second quarter. All senior secured structures were for developed Europe.

- Given the dwindling presence of both banks (and CLOs for leveraged finance) in the loan marketplace, European mutual funds have stepped into the space to fund corporates, both in the investment grade and high yield bond space. Fitch Ratings estimated that approximately 1 trillion of assets in mutual funds consisted of non-financial bonds, with an additional 1.5 trillion for financial credits. Credit-focused European funds have increased their footprint in the marketplace, doubling in size from end-2008 (~€150 billion) to end-2010 (~€326 billion).\(^3\)\(^4\)

### Returns & Credit Quality

- Both European high-yield and leveraged loans gave up their returns from the first and second quarter in the third quarter, returning on an absolute basis (10.6%) and (4.25%) respectively. The second bailout package for Greece did little to assuage fears in the marketplace, and combined with heavy uncertainty from last-minute negotiations over the U.S. debt ceiling, investors dumped equities and other relatively risky assets en masse and fled into Treasuries. According to Treasury TIC data, the European region purchased $67.3 billion in Treasuries in the month of August (Treasury TIC data), compared to an average of net $21.1 billion purchased since the end of 2008.

- According to S&P, downgrades continue to exceed upgrades in developed market Europe, with 23 downgrades and 17 upgrades. The bulk of the downgrades were concentrated in sovereign and bank credits. Italian banks were the main focus of downgrades among banks in the third quarter, with 4 of the 5 downgrades for Italian banks. Upgrades were concentrated in the chemicals/environmental services sector (3 upgrades) as well as retail/restaurants (3 upgrades).

- Emerging market Europe, on the other hand, continued to remain a relatively quiet but solid sector, with more upgrades than downgrades (eight to two).

- High yield bond and loan default rates continue to decline in the third quarter, with the 12-month trailing default rate for bonds by S&P and Moody’s at 0.9% and 1.4% respectively. Two defaults were reported by Moody’s in the third quarter: Irish Life &Permanent, which was determined to be a distressed exchange; and Novasep Holdings SAS, for a missed interest payment.

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\(^4\) Fitch Ratings, “European Corporate Funding Disintermediation,” 19 October 2011.
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

---

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.

Source: Dealogic, Thomson Reuters LPC

Source: ECB
1.7. Factors Affecting Loan Demand

Factors Affecting Loan Demand
Oct. 2011

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

Net Percentage

Source: ECB

1.8. Global Comparison – High Yield Issuance

<table>
<thead>
<tr>
<th>€ Billions</th>
<th>2011</th>
<th>2010</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>47.0</td>
<td>43.9</td>
<td>13.8</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>14.9</td>
<td>12.2</td>
<td>4.8</td>
</tr>
<tr>
<td>Europe</td>
<td>28.0</td>
<td>26.8</td>
<td>5.7</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

Source: Dealogic, Thomson Reuters LPC

Source: Dealogic

Source: Standard & Poor’s LCD

Source: Fitch Ratings

YTD is as of September 30, 2011.
2.7. Institutional and Pro Rata Spreads

<table>
<thead>
<tr>
<th>Year</th>
<th>Institutional</th>
<th>Pro Rata</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep-06</td>
<td>100</td>
<td>150</td>
</tr>
<tr>
<td>Mar-07</td>
<td>200</td>
<td>250</td>
</tr>
<tr>
<td>Sep-07</td>
<td>250</td>
<td>300</td>
</tr>
<tr>
<td>Mar-08</td>
<td>300</td>
<td>350</td>
</tr>
<tr>
<td>Sep-08</td>
<td>350</td>
<td>400</td>
</tr>
<tr>
<td>Mar-09</td>
<td>400</td>
<td>450</td>
</tr>
</tbody>
</table>

Source: Dealogic, AFME, SIFMA

2.8. Mezzanine Spread

<table>
<thead>
<tr>
<th>Year</th>
<th>Mezzanine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep-06</td>
<td>700</td>
</tr>
<tr>
<td>Mar-07</td>
<td>750</td>
</tr>
<tr>
<td>Sep-07</td>
<td>800</td>
</tr>
<tr>
<td>Mar-08</td>
<td>850</td>
</tr>
<tr>
<td>Sep-08</td>
<td>900</td>
</tr>
<tr>
<td>Mar-09</td>
<td>950</td>
</tr>
<tr>
<td>Sep-09</td>
<td>1000</td>
</tr>
<tr>
<td>Mar-10</td>
<td>1050</td>
</tr>
<tr>
<td>Sep-10</td>
<td>1100</td>
</tr>
<tr>
<td>Mar-11</td>
<td>1150</td>
</tr>
<tr>
<td>Sep-11</td>
<td>1200</td>
</tr>
</tbody>
</table>

Source: Dealogic, AFME, SIFMA
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 ex Banks and Financials, Outstanding

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

Sources: Dealogic, Thomson Reuters LPC

Sources: Dealogic

Sources: Bloomberg, AFME, SIFMA

Sources: Bloomberg, AFME, SIFMA

Sources: Bloomberg, AFME, SIFMA
3.6. European HY Use of Proceeds

European HY Issuance By Use of Proceeds
2003 - 2011:Q3

Source: Dealogic, AFME/SIFMA

3.7. European HY Issuance, Senior Secured Share

European HY Issuance, Senior Secured and Unsecured
2006 - 2011:Q3

Sources: 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:Q3

Source: Dealogic

4.2. European Developed Market HY Issuance by Currency

European Developed Market HY Issuance by Currency
2003 - 2011:Q3

Source: Dealogic

4.3. European Developed Market HY Issuance by Industry

European Developed Market HY Issuance by Industry
2011:Q3

Source: Dealogic

4.4. European Developed Market HY Issuance by Country of Risk

European Developed Market HY Issuance by Country of Risk
2011:Q3

Source: Dealogic
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>Moody's</th>
<th>S&amp;P</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiat Finance &amp; Trade Ltd SA</td>
<td>Auto/Truck</td>
<td>05/07/2011</td>
<td>EUR</td>
<td>600</td>
<td>7.375</td>
<td>Ba1</td>
<td>BB+</td>
<td>BB</td>
</tr>
<tr>
<td>Nara Cable Funding Ltd</td>
<td>Telecommunications</td>
<td>06/07/2011</td>
<td>EUR</td>
<td>300</td>
<td>8.875</td>
<td>B2</td>
<td>BB-</td>
<td>B-</td>
</tr>
<tr>
<td>Dynacast International Ltd</td>
<td>Metal &amp; Steel</td>
<td>12/07/2011</td>
<td>USD</td>
<td>350</td>
<td>9.250</td>
<td>B2</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>Bormioli Rocco Holdings SA</td>
<td>Consumer Products</td>
<td>26/07/2011</td>
<td>EUR</td>
<td>250</td>
<td>10.000</td>
<td>B1</td>
<td>BB-</td>
<td></td>
</tr>
<tr>
<td>Fresenius Medical Care AG &amp; CO KGaA</td>
<td>Healthcare</td>
<td>08/09/2011</td>
<td>EUR</td>
<td>400</td>
<td>6.500</td>
<td>Ba2</td>
<td>BB</td>
<td>BB</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>USD</td>
<td>400</td>
<td>6.500</td>
<td>Ba2</td>
<td>BB</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</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>Metalkinvest Finance Ltd</td>
<td>Mining</td>
<td>14/07/2011</td>
<td>USD</td>
<td>750</td>
<td>6.500</td>
<td>Ba3</td>
<td>BB-</td>
<td></td>
</tr>
<tr>
<td>SeverStal OAO</td>
<td>Metal &amp; Steel</td>
<td>19/07/2011</td>
<td>USD</td>
<td>500</td>
<td>6.250</td>
<td>Ba2</td>
<td>BB-</td>
<td>BB</td>
</tr>
<tr>
<td>Credit Bank of Moscow OAO - MKB</td>
<td>Finance</td>
<td>28/07/2011</td>
<td>USD</td>
<td>200</td>
<td>8.250</td>
<td>B1</td>
<td>B+</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bloomberg, Dealogic
6. Credit Quality

6.1. European HY Default Rate

![European HY Default Rate (LTM) Jan. 2010 - Sep. 2011](chart1)

Source: Standard & Poor's

6.2. European Loan Default Rate

![European Loan Default Rate (LTM) 2006:Q1 - 2011:Q2](chart2)

Source: Fitch Ratings

6.3. Developed Europe Issuer Rating Actions¹

![S&P Developed Europe Issuer Rating Actions 2008 - 2011:Q3](chart3)

Source: Standard & Poor's

6.4. Emerging Europe Issuer Rating Actions²

![S&P Emerging Europe Issuer Rating Actions 2008 - 2011:Q3](chart4)

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:Q3](chart5)

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:Q3](chart6)

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

Bonds, Cash vs. Synthetic
Sep. 2009 - Sep. 2011

Sources: Markit

7.2. European Leveraged Loans, Cash vs. Synthetic

Loans, Cash vs. Synthetic
Sep. 2009 - Sep. 2011

Sources: Thomson/Reuters LPC, Markit

8. Total Return
8.1. European HY Bond Total Return

European High Yield Total Return
2003 - 2011:Q3

Source: Bank of America-Merrill Lynch

8.2. European Leveraged Loan Total Return

European Leveraged Loan Total Return
2003 - 2011:Q3

Source: Standard and Poor's LCD

ELLIEUR-denominated only unavailable for 2003 and 2004.

8.3. Asset Class Total Return

Asset Class Total Returns
2010:Q3 v 2011:Q3

Source: BofA/ML, Bloomberg
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.

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

4. Issuance – European Developed Market High Yield Bonds
4.1. – 4.7.
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 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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