# Table of Contents

**Market Highlights and Commentary** .................................................. 1

1. **Leveraged Finance Overview** .................................................. 3
   1.1. European Leveraged Issuance by Type ............................ 3
   1.2. European Leveraged Issuance by Percentage .................. 3
   1.3. European Leveraged Issuance Average Deal Size .......... 3
   1.4. Bank Credit Standards .............................................. 3
   1.5. Factors Affecting Bank Credit Standards ...................... 3
   1.6. Loan Demand ....................................................... 3
   1.7. Factors Affecting Loan Demand ................................. 4
   1.8. Global Comparison – High Yield Issuance ................... 4

2. **Issuance – Leveraged Loans** .................................................... 5
   2.1. European Leveraged Loan Issuance By Loan Type .......... 5
   2.2. European Leveraged Loan Issuance by Industry Sector .... 5
   2.3. Forward Pipeline of Leveraged Loan Market ................. 5
   2.4. S&P ELLI Total Institutional Loans Outstanding .......... 5
   2.5. S&P ELLI Ratings Diversification ................................ 5
   2.6. Loan Trading Volume ............................................... 5
   2.7. Institutional and Pro Rata Spreads ............................ 6
   2.8. Mezzanine Spread ................................................... 6

3. **Issuance – High Yield Bonds Overview** ................................... 7
   3.1. European HY Bond Issuance, Developed and Emerging Market ................................................................. 7
   3.2. European HY Bond Issuance, Sponsored vs. Corporate ... 7
   3.3. European Corporate Bonds Outstanding ...................... 7
   3.4. European Corporate Bonds Maturity Wall ................. 7
   3.5. European Corporate HY Bonds Outstanding By Sector .... 7
   3.6. European Corporate HY Bonds Outstanding by Current Rating .......................................................... 7
   3.7. European Corporate Bond Issuance by Rating .............. 8
   3.8. European Corporate Bond Issuance by Tenor .............. 8
   3.9. European HY Use of Proceeds .................................... 8
   3.10. European HY Issuance, Senior Secured Share ............ 8

4. **Issuance – European Developed Market High Yield Bonds** ............................................................................. 8
   4.1. European Developed Market HY Bond Issuance .......... 8
   4.2. European Developed Market HY Bond Issuance by Currency .... 8
   4.3. European Developed Market HY Issuance by Industry .... 9
   4.4. European Developed Market HY Issuance by Country of Risk .......................................................... 9
   4.5. European Developed Market HY Issuance, Fixed vs. Floating .......................................................... 9
   4.6. European Developed Market HY Issuance, Sponsored vs. Corporate ................................................... 9
   4.7. European Developed Market HY Rating Distribution at Issuance ..................................................... 9
   4.8. European Developed Market Corporate Bonds Outstanding .......................................................... 9
   4.9. European Developed Market HY Bond Issuance .......... 10

5. **Issuance – European Emerging Market High Yield Bonds** ............................................................................. 12
   5.1. European Emerging Market HY Bond Issuance .......... 12
   5.2. European Emerging Market HY Bond Issuance by Currency .......................................................... 12
   5.3. European Emerging Market HY Issuance by Industry ... 12
   5.4. European Emerging Market HY Issuance by Country of Risk .......................................................... 12
   5.5. European Emerging Market HY Issuance, Fixed vs. Floating .......................................................... 12

6. **Credit Quality** ......................................................................... 14
   6.1. European HY Default Rate ............................................ 14
   6.2. Developed Europe Issuer Rating Actions ..................... 14
   6.3. Emerging Europe Issuer Rating Actions ...................... 14
   6.4. Developed European Industry Rating Actions by $ Amount .......................................................... 14
   6.5. Emerging European Industry Rating Actions by $ Amount .......................................................... 14
   6.6. European Defaults ..................................................... 15

7. **Relative Value** ......................................................................... 16
   7.1. European HY Bonds, Cash vs. Synthetic ....................... 16
   7.2. European Leveraged Loans, Cash vs. Synthetic ........... 16

8. **Total Return** ........................................................................... 16
   8.1. European HY Bond Total Return .................................. 16
   8.2. European Leveraged Loan Total Return ....................... 16
   8.3. Asset Class Total Return ............................................. 16

**Annex** ............................................................................................. 17

**Disclaimer** ..................................................................................... 20
European Leveraged Finance, First Quarter 2013

Highlights and Market Environment

**Highlights**

- European leveraged finance issuance (leveraged loans and high yield bonds) increased in Q1’13, with €59.5 billion issued, a 46.8% and 30.7% increase, respectively, quarter-over-quarter (q-o-q) and year-over-year (y-o-y). The increase stems largely from the continued surge in the European bond market, but the return of the European CLO market in 2013, with several deals put together in quick succession, have continued to give the European loan market a relatively deep pool of liquidity even in the face of declining bank holdings. High yield share of the leveraged market increased slightly to 55.3%, up from 53.7% in Q4’12.

- The revisions to Basel III liquidity coverage ratio in early January alleviated some of the more onerous requirements for banks holding long-term loans and undrawn commitments, most notably by decreasing the percentage of assets required to be held and extending the phase-in period.

**Market and Economic Environment**

- According to the April 2013 European Central Bank lending survey, banks reported, on net, a continued tightening of lending standards in the first quarter, both in long- and short-term loans. The net tightening, however, is to a much lesser degree than the tightening in previous quarters. Industry outlooks and expectations regarding economic activity continue to contribute the most to net tightening, as they had in the prior quarter.

- Loan demand has continued to plummet in the first quarter, especially for long-term loans. Debt restructuring continues to be the key driver of continued loan demand, while fixed investment and M&A have contributed to reduced loan demand.

**Issuance**

**Issuance: Leveraged Loans**

- Leveraged loan issuance increased from the fourth quarter, although it remained largely in line with seasonal issuance last year of 2012. Issuance, which includes first lien, second lien, and mezzanine financing, totalled €26.6 billion, an increase of 41.6% q-o-q but a slight decline of 1.0% y-o-y. While amend-and-extend (“A&E”) transactions continue to take place, a fifth of deals in the first quarter were simply repricing existing facilities and shave margins. According to S&P, the loan pipeline at the end of March 2013 was €16 million.

- Approximately €20 million of mezzanine loans were financed in the first quarter, and no second liens.

- Spreads at pricing for institutional loans tightened by 6.7 basis points (bps) while spreads for pro rata loans tightened by 25.1 bps. Mezzanine loans widened by 174.5 bps, but given continued light supply, this widening is reflective of the characteristics of one or two mezzanine loans.

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The European primary CLO market came to life in the first quarter for the first time since 2007, with Cairn Capital leading the way with the first European CLO since 2007 in 1Q’13 (Cairn CLO), followed by, in relatively rapid succession, deals from Pramerica (Dryden XXVII); GS O (Grand Harbour I, the largest CLO to date at €403.7 million), Apollo (ALME Loan Funding 2013-1) and Alcentra (deal name unknown). The sector has taken a relatively long amount of time to bounce back compared to the U.S., hampered in part by CRD3 Article 122a’s “skin-in-the-game” rules that required the retention of an economic interest no less than 5 percent. It was reported that in Cairn Capital’s deal a U.S. pension fund was lined up as a partner in the retention of the equity tranche.  

Outside the primary CLO market, €9.1 billion of SME deals were completed in the first quarter, all retained, with the exception of Clock Finance 2013-1, a synthet-ic securitisation of Swiss SME loans structured for regulatory relief purposes for Credit Suisse.

European CLO outstandings, including SME deals, declined by 12.8% on an annualized basis in the first quarter, ending March 2013 at €262.4 billion. Non-SME CLOs declined slightly faster than SMEs, declining 16.9% on an annualized basis, compared to a decline of 9.8% for SMEs.

**Issuance: High Yield Bonds**

- Primary issuance in 1Q’13 totaled €32.9 billion on 70 deals, a 51.4% and 75.9% increase, respectively from 4Q’12 (€21.7 billion) and 1Q’12 (€18.7 billion). The pickup in volumes were stronger in developed market European issuance.

- Primary issuance in developed market Europe in the first quarter was €25.9 billion on 52 deals, while in emerging market Europe primary issuance was €7.0 billion on 18 deals. Several new debut issuances were brought to market in the first quarter (Arrow Global Finance, Cerved Group, La Financiere Atalian SA, Labco SAS, Ontex IV SA, Sibur Holding ZAO, and Ukrlandfarming plc), as well as the first PIK issue in Europe for 2013 (Mobile Challenger Intermediate Group SA).

- High yield issuance for refinancing and/or repayment of debt fell to a new low of 22.4% by euro amount in 1Q’13, compared to 33.1% and 48.0%, respectively, quarter-over-quarter and year-over-year.

- Senior secured structures remained absent for a fourth consecutive quarter among high yield bonds.

- The proportion of USD-denominated issuance fell in 1Q’13, representing 37.0% of all issuance by euro amount, compared to 61.9% in Q4’12 and 40.4% in Q1’12. While USD-denominated issuance continues to be favoured in emerging market Europe, less than a quarter of transactions in developed market Europe was denominated in USD by euro amount, more in line with pre-crisis norms.

**Returns & Credit Quality**

- European high yield returned 1.49% in the first quarter, falling somewhere in the middle of the pack compared to other asset classes. European leveraged loans returned 2.05% in 1Q’13, while equities led returns.

- High-yield bond default rates were mixed in the first quarter, with S&P reporting 2.4% (up from 2.2% end-December) and Moody’s reporting 1.8% (down from 2% end-December).
1. Leveraged Finance Overview

1.1. European Leveraged Issuance by Type

![European Leveraged Issuance by Type Chart]

Sources: Dealogic, Thomson Reuters LPC

1.2. European Leveraged Issuance by Percentage

![European Leveraged Issuance by Percentage Chart]

Sources: Dealogic, Thomson Reuters LPC

1.3. European Leveraged Issuance Average Deal Size

![European Leveraged Issuance Average Deal Size Chart]

Sources: Dealogic, Thomson Reuters LPC

1.4. Bank Credit Standards

![Bank Credit Standards Chart]

Source: ECB

1.5. Factors Affecting Bank Credit Standards

![Factors Affecting Bank Credit Standards Chart]

Source: ECB

1.6. Loan Demand

![Loan Demand Chart]

Source: ECB

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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 are illustrated in the chart below. A positive net percentage signifies a factor that contributed to higher demand; a negative net percentage signifies a factor that contributed to lower demand.

1.8. Global Comparison – High Yield Issuance

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Source: ECB

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

2.1. European Leveraged Loan Issuance By Loan Type

![Graph](image1)

Source: Dealogic, Thomson Reuters LPC

2.2. European Leveraged Loan Issuance by Industry Sector

![Graph](image2)

Source: Dealogic

2.3. Forward Pipeline of Leveraged Loan Market

![Graph](image3)

Source: Standard & Poor's LCD

2.4. S&P ELLI Total Institutional Loans Outstanding

![Graph](image4)

Source: Standard & Poor's LCD

2.5. S&P ELLI Ratings Diversification

![Graph](image5)

Source: Standard & Poor's LCD

2.6. Loan Trading Volume
2.7. Institutional and Pro Rata Spreads

2.8. Mezzanine Spread
3. Issuance – High Yield Bonds Overview

3.1. European HY Bond Issuance, Developed and Emerging Markets

Europe Emerging HY
Europe Developed HY

3.2. European HY Bond Issuance, Sponsored vs. Corporate

3.3. European Corporate Bonds Outstanding

3.4. European Corporate Bonds Maturity Wall

3.5. European Corporate HY Bonds Outstanding by Sector

3.6. European Corporate HY Bonds Outstanding by Current Rating

Sources: Dealogic, Thomson Reuters LPC
3.7. European Corporate Bond Issuance by Rating

3.8. European Corporate Bond Issuance by Tenor

3.9. European HY Use of Proceeds

3.10. European HY Issuance, 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 Rating Distribution at Issuance

4.8. European Developed Market Corporate Bonds Outstanding
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<td></td>
</tr>
<tr>
<td>DFS Furniture Holdings plc</td>
<td>Retail</td>
<td>01/03/2013</td>
<td>GBP 200</td>
<td>7.625</td>
<td>B2</td>
<td>B</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peugeot SA</td>
<td>Auto/Truck</td>
<td>28/02/2013</td>
<td>EUR 1,000</td>
<td>7.375</td>
<td>B1</td>
<td>BB-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Navios South American Logistics Inc</td>
<td>Transportation</td>
<td>07/03/2013</td>
<td>USD 90</td>
<td>9.250</td>
<td>B3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Koninklijke KPN NV</td>
<td>Telecommunications</td>
<td>07/03/2013</td>
<td>EUR 1,100</td>
<td>6.125</td>
<td>Ba1</td>
<td>BB</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nwen Finance plc</td>
<td>Utility &amp; Energy</td>
<td>14/03/2013</td>
<td>GBP 400</td>
<td>6.875</td>
<td>Ba1</td>
<td>BB</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile Challenger Intermediate Group SA†</td>
<td>Telecommunications</td>
<td>14/03/2013</td>
<td>CHF† 300</td>
<td>8.750</td>
<td>B-</td>
<td>B-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiat Finance &amp; Trade Ltd SA</td>
<td>Auto/Truck</td>
<td>12/03/2013</td>
<td>EUR 1,250</td>
<td>6.625</td>
<td>B1</td>
<td>BB-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cegedim SA</td>
<td>Computers &amp; Electronics</td>
<td>14/03/2013</td>
<td>EUR 300</td>
<td>6.750</td>
<td>B</td>
<td>B+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Talko Luxembourg 2 SCA</td>
<td>Retail</td>
<td>22/03/2013</td>
<td>EUR 145</td>
<td>3M EURIBOR + 700</td>
<td>B3</td>
<td>B-</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

†PIK (Payment in Kind)

Source: Bloomberg, Dealogic

ISSUANCE

4.9. 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>
</tr>
</thead>
<tbody>
<tr>
<td>Rexel SA</td>
<td>Computers &amp; Electronics</td>
<td>20/03/2013</td>
<td>EUR</td>
<td>650</td>
<td>5.125</td>
<td>Ba3</td>
<td>BB</td>
<td>BB</td>
</tr>
<tr>
<td>Koninklijke KPN NV</td>
<td>Telecommunications</td>
<td>21/03/2013</td>
<td>USD</td>
<td>600</td>
<td>7.000</td>
<td>Ba1</td>
<td>BB</td>
<td>BB</td>
</tr>
<tr>
<td>Nokia Siemens Networks Finance BV</td>
<td>Telecommunications</td>
<td>22/03/2013</td>
<td>EUR</td>
<td>450</td>
<td>6.750</td>
<td>B2</td>
<td>B+</td>
<td>B+</td>
</tr>
<tr>
<td>Renaul SA</td>
<td>Auto/Truck</td>
<td>26/03/2013</td>
<td>CNY</td>
<td>750</td>
<td>4.650</td>
<td>Ba1</td>
<td>BB+</td>
<td></td>
</tr>
<tr>
<td>IVS group SA</td>
<td>Retail</td>
<td>26/03/2013</td>
<td>EUR</td>
<td>200</td>
<td>7.125</td>
<td></td>
<td></td>
<td></td>
</tr>
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</table>

Note: 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. European Emerging Market HY Rating Distribution at Issuance

5.8. European Emerging Market Corporate Bonds Outstanding

5.9. 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>New World Resources NV</td>
<td>Mining</td>
<td>16/01/2013</td>
<td>EUR</td>
<td>275</td>
<td>7.875</td>
<td>B3</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>Credit Europe Bank NV</td>
<td>Finance</td>
<td>17/01/2013</td>
<td>USD</td>
<td>400</td>
<td>8.000</td>
<td>Ba3</td>
<td>BB-</td>
<td>BB-</td>
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<tr>
<td>Sibur Holding ZAO</td>
<td>Oil &amp; Gas</td>
<td>24/01/2013</td>
<td>USD</td>
<td>1,000</td>
<td>3.914</td>
<td>Ba1</td>
<td>BB+</td>
<td></td>
</tr>
<tr>
<td>Bité Finance International BV</td>
<td>Telecommunications</td>
<td>30/01/2013</td>
<td>EUR</td>
<td>200</td>
<td>3M EURIBOR + 750</td>
<td>B3</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>VimpelCom Holdings BV</td>
<td>Telecommunications</td>
<td>07/02/2013</td>
<td>RUB</td>
<td>12,000</td>
<td>9.000</td>
<td>Ba3</td>
<td>BB</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>USD</td>
<td>600</td>
<td>5.200</td>
<td>Ba3</td>
<td>BB</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>USD</td>
<td>1,000</td>
<td>5.950</td>
<td>Ba3</td>
<td>BB</td>
<td></td>
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<tr>
<td>Promsvyazbank OAO</td>
<td>Finance</td>
<td>15/02/2013</td>
<td>USD</td>
<td>200</td>
<td>10.200</td>
<td>Ba3</td>
<td>B+</td>
<td></td>
</tr>
<tr>
<td>Russian Standard Bank ZAO</td>
<td>Finance</td>
<td>13/03/2013</td>
<td>CNY</td>
<td>750</td>
<td>8.000</td>
<td>Ba3</td>
<td>B+</td>
<td>B+</td>
</tr>
<tr>
<td>SeverStal OAO</td>
<td>Metal &amp; Steel</td>
<td>13/03/2013</td>
<td>USD</td>
<td>600</td>
<td>4.450</td>
<td>Ba1</td>
<td>BB+</td>
<td>BB</td>
</tr>
<tr>
<td>State Savings Banks of Ukraine</td>
<td>Finance</td>
<td>13/03/2013</td>
<td>USD</td>
<td>500</td>
<td>8.875</td>
<td>B3</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>Ukrlandfarming plc</td>
<td>Agribusiness</td>
<td>21/03/2013</td>
<td>USD</td>
<td>275</td>
<td>10.875</td>
<td>B-</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>Ak Bars Bank OAO</td>
<td>Finance</td>
<td>20/03/2013</td>
<td>RUB</td>
<td>5,000</td>
<td>9.200</td>
<td>NR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MHP SA</td>
<td>Food &amp; Beverage</td>
<td>22/03/2013</td>
<td>USD</td>
<td>750</td>
<td>8.250</td>
<td>B</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>PrivatBank ZAT</td>
<td>Finance</td>
<td>22/02/2013</td>
<td>USD</td>
<td>175</td>
<td>10.875</td>
<td>B3</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>Asya Sukuk Company Ltd</td>
<td>Finance</td>
<td>21/03/2013</td>
<td>USD</td>
<td>250</td>
<td>7.500</td>
<td>Ba3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arcelik AS</td>
<td>Consumer Products</td>
<td>25/03/2013</td>
<td>USD</td>
<td>500</td>
<td>5.000</td>
<td>BB+</td>
<td>BB+</td>
<td></td>
</tr>
<tr>
<td>DTEK Finance plc</td>
<td>Utility &amp; Energy</td>
<td>27/03/2013</td>
<td>USD</td>
<td>600</td>
<td>7.875</td>
<td>B3</td>
<td>AN</td>
<td>B</td>
</tr>
<tr>
<td>TMK OAO - Pipe Metallurgical Works OAO</td>
<td>Metal &amp; Steel</td>
<td>26/03/2013</td>
<td>USD</td>
<td>500</td>
<td>6.750</td>
<td>B1</td>
<td>B+</td>
<td></td>
</tr>
</tbody>
</table>

†PIK (Payment in Kind)

Source: Bloomberg, Dealogic

AFME High Yield Division
Q1 2013
6. Credit Quality

6.1. European HY Default Rate

6.2. Developed Europe Issuer Rating Actions

6.3. Emerging Europe Issuer Rating Actions

6.4. Developed European Industry Rating Actions by $ Amount

6.5. Emerging European Industry Rating Actions by $ Amount

1 Numbers include both corporate and sovereigns.
2 Rating data are a quarter behind.
3 Numbers include both corporate and sovereigns.
4 Rating data are a quarter behind.
5 Rating data are a quarter behind.
6 Rating data are a quarter behind.
## 6.6. European Defaults

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Industry Group</th>
<th>Country</th>
<th>Date</th>
<th>Reported By</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEAT PagineGialle SpA</td>
<td>Media and Entertainment</td>
<td>Italy</td>
<td>February 2013</td>
<td>S&amp;P, Moodys</td>
<td>Missed Interest Payment</td>
</tr>
<tr>
<td>SNS Bank N.V.</td>
<td>Bank</td>
<td>Netherlands</td>
<td>February 2013</td>
<td>Moodys</td>
<td>Distressed Exchange</td>
</tr>
<tr>
<td>SNS Reaal N.V.</td>
<td>Insurance</td>
<td>Netherlands</td>
<td>February 2013</td>
<td>Moodys</td>
<td>Distressed Exchange</td>
</tr>
<tr>
<td>Irish Bank Resolution Corporated Limited</td>
<td>Bank</td>
<td>Ireland</td>
<td>February 2013</td>
<td>Moodys</td>
<td>Liquidation</td>
</tr>
<tr>
<td>Norske Skogindustrier ASA</td>
<td>Forest Products and Building Materials</td>
<td>Norway</td>
<td>February 2013</td>
<td>S&amp;P</td>
<td>Subpar Bond Buybacks</td>
</tr>
<tr>
<td>Yioula Glassworks SA</td>
<td>Packaging and Environment</td>
<td>Greece</td>
<td>February 2013</td>
<td>S&amp;P</td>
<td>Distressed Exchange</td>
</tr>
<tr>
<td>Bank of Cyprus Public Co Ltd</td>
<td>Bank</td>
<td>Cyprus</td>
<td>March 2013</td>
<td>Moodys</td>
<td>Administration</td>
</tr>
<tr>
<td>Central European Distribution Corp</td>
<td>Beverage, Food &amp; Tobacco</td>
<td>Poland</td>
<td>March 2013</td>
<td>Moodys</td>
<td>Missed principal payment</td>
</tr>
<tr>
<td>Cyprus Popular Bank Public Co Ltd</td>
<td>Bank</td>
<td>Cyprus</td>
<td>March 2013</td>
<td>Moodys</td>
<td>Administration</td>
</tr>
<tr>
<td>Hibu PLC</td>
<td>Media and Entertainment</td>
<td>UK</td>
<td>March 2013</td>
<td>S&amp;P</td>
<td>Missed Interest Payment</td>
</tr>
<tr>
<td>Northland Resources A.B.</td>
<td>Metals, Mining and Steel</td>
<td>Sweden</td>
<td>March 2013</td>
<td>S&amp;P, Moodys</td>
<td>Missed Interest Payment</td>
</tr>
</tbody>
</table>

Source: Moody's, Standard & Poor's
7. Relative Value

7.1. European HY Bonds, Cash vs. Synthetic

7.2. European Leveraged Loans, Cash vs. Synthetic

8. Total Return

8.1. European HY Bond Total Return

8.2. European Leveraged Loan Total Return

8.3. Asset Class Total Return

Source: Markit

Source: ThomsonReuters LPC, Markit

Source: Bank of America-Merrill Lynch

Source: Standard and Poor's LCD

ELL1 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.

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 high yield bond 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 Loan Trading Volume
European leveraged trading volumes are sourced from Thomson Reuters LPC and are total volumes traded in the secondary market.

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, subsovereign, and supranational parent issuers are excluded from issuance, as well as ABS/MBS issuers.

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

European emerging market bonds are further defined with having a minimum deal size of €75.0 million; deals on the same day from the same issuer are aggregated for the purpose of meeting this minimum. Russian ruble (RUB)-denominated issuance are excluded due to differences in terms and documentation; as of 4Q’10 this criteria no longer applies and may be included on a case by case basis.

3.2. European HY Issuance by Sponsor
Data for high yield issuance by sponsor are sourced from Dealogic. LBO deals are defined as all high yield transactions
whose issuer parent is a public or private finance entity (i.e., a financial sponsor), regardless of use of proceeds.

3.3. – 3.6. European Corporate Bonds Outstanding
Data for European corporate outstanding are sourced from Bloomberg and AFME/SIFMA estimates. Criteria for European corporate bonds are: bonds must be placed in the domestic, euro, foreign, and global markets with nationality of incorporation from a European developed or emerging market country as defined by AFME. Corporate bonds exclude all structured notes, covered bonds, warrants, deposit notes, receipts, and certificates of deposit. All currencies are included and have been converted to EUR at time of pricing and/or issue.

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

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

3.7. European Corporate Bond Issuance by Rating
Data for HY issuance by rating are sourced from Dealogic, Bloomberg, and the three rating agencies. The composite rating is determined by the lowest rating assigned by either Moody’s, Standard and Poor’s, or Fitch Ratings.

3.8. European Corporate Bond Issuance by Tenor
Data for HY issuance by tenor are sourced from Dealogic. “Other” includes perpetuities.

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

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

4. Issuance – European Developed Market High Yield Bonds
4.1. – 4.7.4.9
High yield bond issuance data are sourced from Dealogic. For further criteria on how high yield issuance are defined, please refer to section 3.

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

4.8. European Developed Market Corporate Bonds Outstanding
Data for corporate bonds outstanding are sourced from Bloomberg. Please refer to Section 3 for criteria and methodology.

5. Issuance – European Emerging Market High Yield Bonds
5.1. – 5.7., 5.9.
High yield bond issuance data are sourced from Dealogic. Criteria for all high yield issuance are found in section 3.

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

5.8. European Emerging Market Corporate Bonds Outstanding
Data for corporate bonds outstanding are sourced from Bloomberg. Please refer to Section 3 for criteria and methodology.

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

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

6.2. – 6.3. European Issuer Rating Actions
European issuer upgrades and downgrades are sourced from S&P. The breakdown by emerging market and developed Europe are from AFME’s definition of developed and emerging markets and would be, under S&P’s 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.

6.4. – 6.5. European Issuer Rating Actions by $ Amount
Rating actions by US dollar amount, industry, and country are sourced from S&P. Breakdown by emerging market and developed Europe are from AFME’s definition of developed and emerging markets and would be, under S&P’s guidelines, a combination of both European and EMEA rating actions.
6.6. European Defaults
Defaults reported by either Moody’s or Standard and Poor’s in the European bond markets and loans markets, when available.

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

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

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

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

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