

European High Yield & Leveraged Loan Report

European Leveraged Finance

Q2: 2018



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Highlights and Market Environment

Highlights

Issuance Highlights

European leveraged finance issuance (leveraged loans and high yield bonds) decreased to €48.3 billion in 2Q'18, a 31.9% decrease from €70.9 billion in 1Q'18 and a 41.1% decrease from €82.0 billion in 2Q'17. The issuance volume for 2Q'18 was the lowest quarterly total since 1Q'16. This quarterly decrease was driven by a 48.3% decrease in leveraged loan issuance, while issuance of high yield bonds decreased by 0.6%. The high yield bond share of leveraged finance market issuance increased to 50.2% in 2Q'18, up from 34.4% in 1Q'18 and from 42.1% in 2Q'17.

Market and Economic Environment

According to the July 2018 European Central Bank lending survey, credit standards continued to ease and demand increased for all loan categories.

Credit standards for all three loans categories: loans to enterprises, housing loans and consumer credit eased during the second quarter of 2018. Banks reported that competitive pressure from other banks, as well as risk perceptions regarding the general economic and industry or firm-specific situation and outlook, continued to be the main factors contributing to easing of credit standards in 2Q'18.

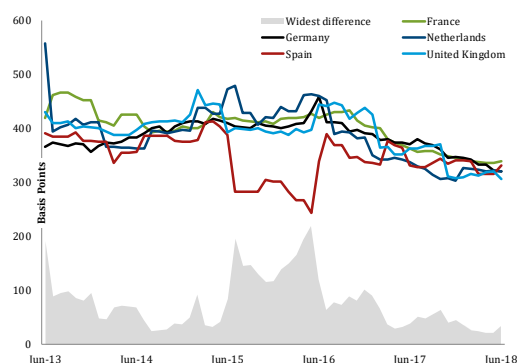
Banks' overall terms on new loans continued to ease across all loan categories in 2Q'18, driven mainly by a narrowing of margins on average loans.

Net demand for loans to enterprises, housing loans and consumer credit continued to increase in the second quarter of 2018. The general level of interest rates, inventories & working capital, and M&A activity were the main drivers in increasing demand for loans to enterprises. Net demand for housing loans continued to be driven mainly by the low general level of interest rates, favourable housing market prospects, and consumer confidence.

“European leveraged finance issuance (leveraged loans and high yield bonds) totaled €48.3 billion in 2Q'18”

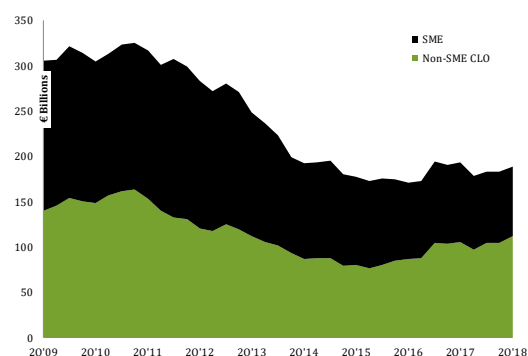
“Leveraged loan issuance totaled €24.1 billion on 44 deals in 2Q’18”

Institutional Spreads



Source: Dealogic, AFME, SIFMA

European CLO Outstanding



Source: AFME, SIFMA

Issuance

Issuance: Leveraged Loans

Leveraged loan issuance, including first lien, second lien, and mezzanine financing, decreased to €24.1 billion in the second quarter of 2018, a 48.3% decrease from €46.6 billion in 1Q'18 and a 49.3% decrease from €47.4 billion in 2Q'17.

Most of the leveraged loans issued in 2Q'18 were 1st lien loans (€23.4 billion or 97.1% of total). Four 2nd lien loans (€0.7 billion) and no mezzanine loans were financed in 2Q'18.

Pricing spreads for institutional loans tightened by 3 basis points (bps) q-o-q and by 32 bps y-o-y, while spreads for pro rata loans remained unchanged q-o-q and tightened by 53 bps y-o-y.

Only €1.0 billion of amend-and-extend (“A&E”) loans were financed in 2Q'18, a 75.1% decrease from €3.9 billion in 1Q'18 and down 29.0% from €1.4 billion in 2Q'17. In addition to A&E loans, €3.6 billion of loans had been amended to reduce pricing in the second quarter of 2018, a 98.6% increase from €1.8 billion in 1Q'18 but a 33.7% decrease from €5.5 billion in 2Q'17.

The top three sectors in leveraged loan issuance in 2Q'18 accounted for approximately 60% of leveraged loan issuance; the leading sector was telecommunications (€5.4 billion or 22.3% of total), followed by oil & gas with €5.2 billion, 21.6%), and computers & electronics (€3.9 billion, 16.2%), with the balance split between 15 other sectors.

Over a third (35.3%) of deals financed in the second quarter of 2018 were to refinance and/or repay debt, up from 25.2% in 1Q'18 but down from 62.9% in 2Q'17. Refinancing and/or repayment of debt were the largest use of proceeds in 2Q'18 with €8.5 billion, followed by leveraged buyouts with €8.3 billion or 34.6% of total, and acquisitions with €6.9 billion or 28.7% of total.

European CLO outstandings, including SME deals, increased by 3.0% to €189.1 billion in 2Q'18 from €183.5 billion in 1Q'18 but decreased by 2.0% from €193.0 billion in 2Q'17. Non-SME CLOs outstanding increased to €112.5 billion in 2Q'18, up 7.1% from €105.0 billion in 1Q'18 and up 6.1% from €106.0 in 2Q'17. SME CLOs decreased to €76.6 billion in 2Q'18, down 2.4% from €78.5 in 1Q'18 and down 12.0% from €87.0 billion in 2Q'17.

“Primary high yield issuance totaled €24.2 billion on 58 deals in 2Q’18”

Issuance: High Yield Bonds

Primary high yield issuance totaled €24.2 billion on 58 deals in 2Q’18, a 0.6% decrease from €24.4 billion on 68 deals in 1Q’18 and a 29.9% decrease from €34.5 billion on 86 deals in 2Q’17. In developed market Europe, €22.4 billion of high yield bonds were issued, up 19.0% from €18.8 billion in 1Q’18 but down 5.7% from €23.8 billion in 2Q’17. High yield bond issuance in emerging market Europe decreased to €1.8 billion in 2Q’18, down 67.7% from €5.5 billion in 1Q’18 and down 83.3% from a record €10.7 billion in 2Q’17.

In the second quarter of 2018, average deal size in developed market Europe increased by 14.6% to €415.4 million from €362.4 million in 1Q’18 and also increased 10.0% from €377.7 million in 2Q’17. Average deal size in emerging market Europe increased by 29.4% to €447.7 million in 2Q’18 from €346.1 million in 1Q’18 but decreased 4.2% from €467.2 million in 2Q’17.

High yield issuance for refinancing and/or repayment of debt in developed market Europe increased to €5.4 billion in 2Q’18, representing 24.0% of all issuance, an increase of 2.8% from €5.2 billion (27.8% of total) in 1Q’18 and up 7.0% from €5.0 billion (21.1% of total) in 2Q’17. In emerging market Europe, €0.3 billion (14.0% of total) in high yield debt was issued for refinancing and/or repayment of debt in the second quarter of 2018, a 38.8% decrease from €0.4 billion (7.4% of total) in 1Q’18 and unchanged from €0.3 billion issued for this purpose in 2Q’17.

Three sectors accounted for over 40% of the total high yield issuance volume in 2Q’18: the finance sector led issuance with €4.6 billion (18.9% of total), followed by leisure & recreation with €2.88 billion (11.9% of total), and telecommunications with €2.86 billion (11.8% of total), all of such issuance being in developed market Europe. In emerging market Europe the top three sectors were: metal & steel (€1.1 billion or 61.3% of total), followed by utility & energy (€0.3 billion, 14.0%) and real estate/property (€0.2 billion, 13.5%).

The proportion of USD-denominated issuance decreased to 20.0% of all issuance in 2Q’18, down from 44.0% in 1Q’18 and from 42.7% in 2Q’17. USD-denominated issuance in developed market Europe decreased to €3.5 billion, or 15.7% of issuance, down 35.9% from €5.5 billion (29.1% of total) in 1Q’18 and down 30.6% from €5.1 billion (21.3% of total) in 2Q’17. Of high yield bonds issued in emerging market Europe, €1.3 billion (74.9% of total) was denominated in USD, down 29.6% from €5.3 billion (94.9% of total) in 1Q’18 and down 86.2% from €9.7 billion (90.1% of total) in 2Q’17.

Returns & Credit Quality

Only four of the analysed asset classes recorded positive returns in the second quarter of 2018. U.S. High Yield Distressed Index led quarterly returns with an increase of 9.7% in 2Q'18, followed by Russel 2000 Index with a 7.4% gain and S&P 500 Index with a 2.9% gain. The worst performing asset class was MCSI Emerging Market Index with a decrease of 8.7% in 2Q'18, followed by EMU ABS/MBS Index with a 3.1% decline, and European High Yield CCC and Lower Rated Index with a 1.7% decline.

As of June 2018, S&P reported the trailing 12-month speculative-grade default rate at 1.8%, a decrease from 2.1% end-March 2018 and from 2.1% end-June 2017. Moody's reported the trailing 12-month speculative-grade default rate in June 2018 to be 2.2%, down from 2.8% end-March 2018 and from 2.8% end-June 2017.

Six bond-related defaults were reported in the second quarter of 2018, four in developed market Europe and two in emerging market Europe. The most common reason for default in 2Q'18 was distressed exchange.

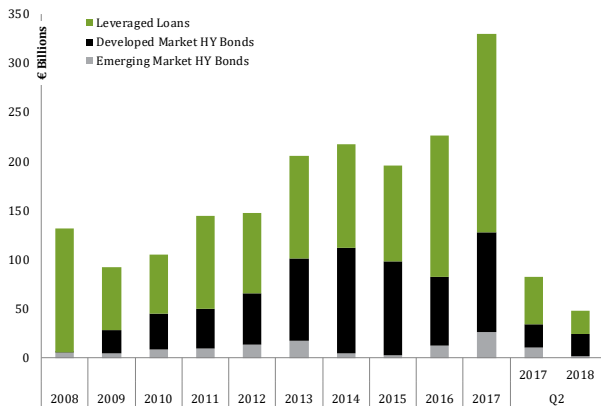
According to Standard and Poor's, in 2Q'18 upgrades exceeded downgrades in developed market Europe (31 upgrades to 26 downgrades), a slightly better ratio than 22 upgrades to 20 downgrades in 1Q'18 and compared to 29 upgrades to 26 downgrades in 2Q'17. In emerging market Europe, there were 4 upgrades and 5 downgrades by S&P in 2Q'18 compared to 11 upgrades and no downgrades in 1Q'18 and 4 upgrades and 5 downgrades in 2Q'17. Three sectors accounted for over a third of all the rating actions in 2Q'18: banks led the number of rating actions (total of 12 upgrades and 1 downgrade), followed by capital goods (2 upgrades and 4 downgrades) and telecommunications (1 upgrade and 5 downgrades).

“U.S. High Yield Distressed Index led returns in 2Q'18 with 9.7% q-o-q”

“Six European high yield bond issuers defaulted in 2Q'18”

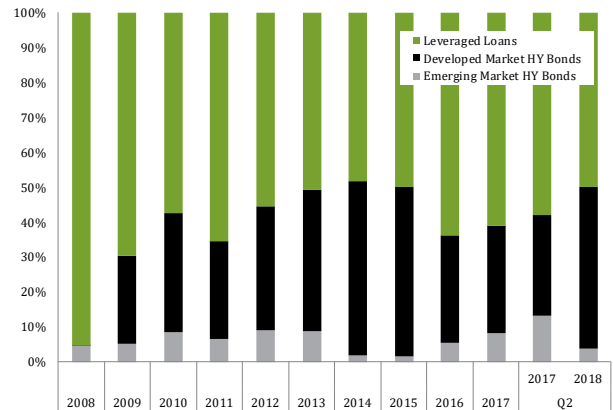
1 Leveraged Finance Overview

1.1 European Leveraged Issuance by Type



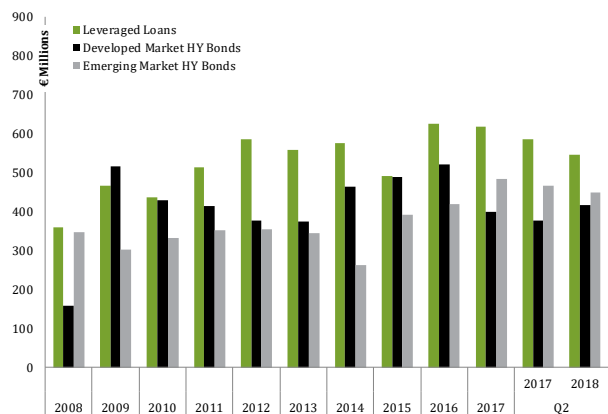
Source: Dealogic, Thomson Reuters LPC

1.2 European Leveraged Issuance Percentage



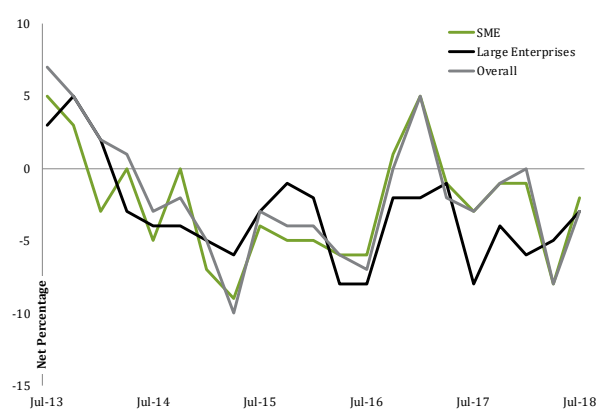
Source: Dealogic, Thomson Reuters LPC

1.3 European Leveraged Average Deal Size



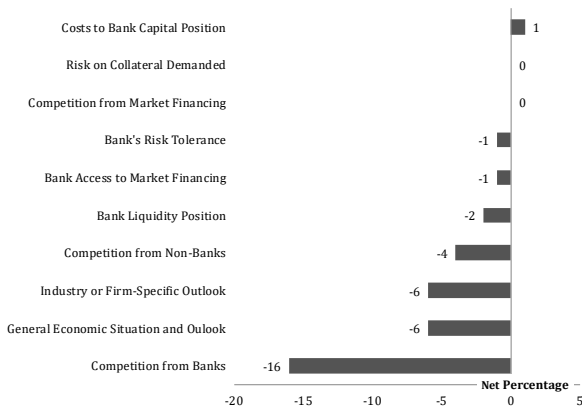
Source: Dealogic, Thomson Reuters LPC

1.4 Bank Credit Standards¹



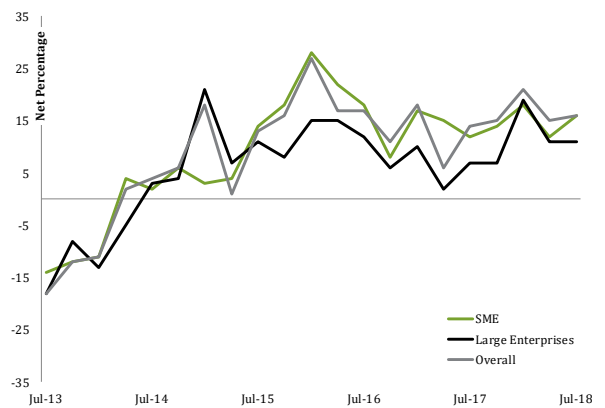
Source: European Central Bank

1.5 Factors Affecting Bank Credit Standards: July 2018²



Source: European Central Bank

1.6 European Leveraged Issuance Percentage³

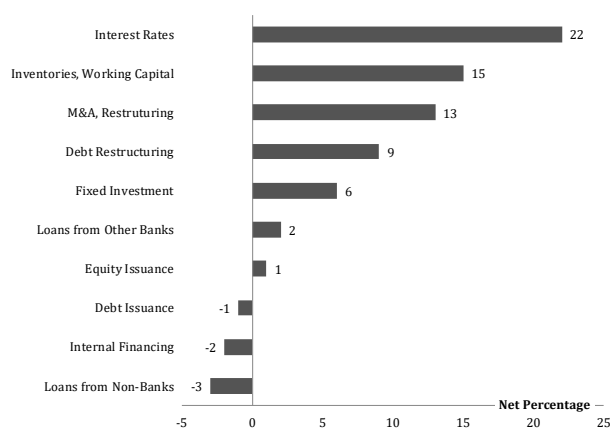


Source: European Central Bank

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: July 2018⁴

Source: European Central Bank

1.8 Global Comparison – High Yield Issuance

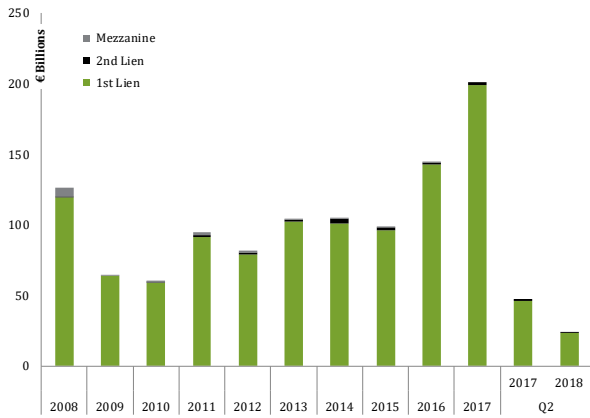
€ Billions	2018		2017					Prior Years			
	Q1	Q2	Q1	Q2	Q3	Q4	Full Year	2016	2015	2014	2013
United States	38.4	32.1	58.5	62.6	51.2	48.0	220.3	192.0	187.6	164.4	180.1
Europe	24.4	24.2	35.3	34.5	19.4	38.6	127.9	82.1	97.8	112.4	101.1
Asia Pacific	18.5	12.6	20.2	23.2	21.7	11.2	76.3	27.1	25.2	27.1	31.2

Source: Dealogic

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.

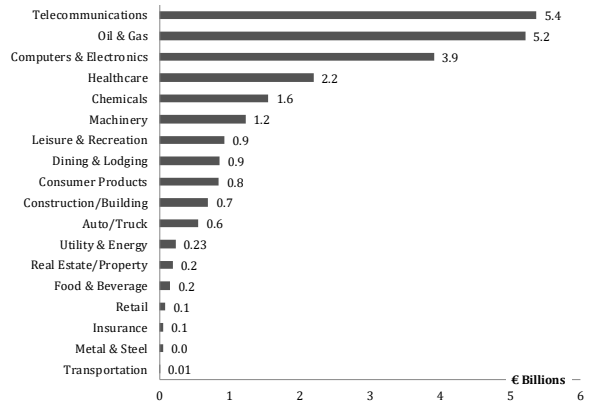
2 Issuance – Leveraged Loans

2.1 European Leveraged Loan Issuance By Type



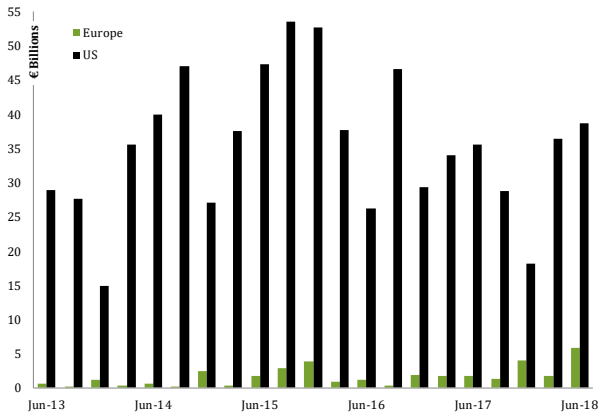
Source: Dealogic

2.2 European Leveraged Loan Issuance by Industry: 2Q 2018



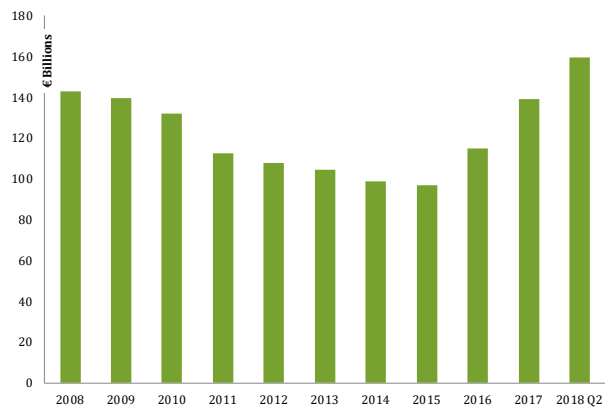
Source: Dealogic

2.3 Forward Pipeline of Leveraged Loan Market



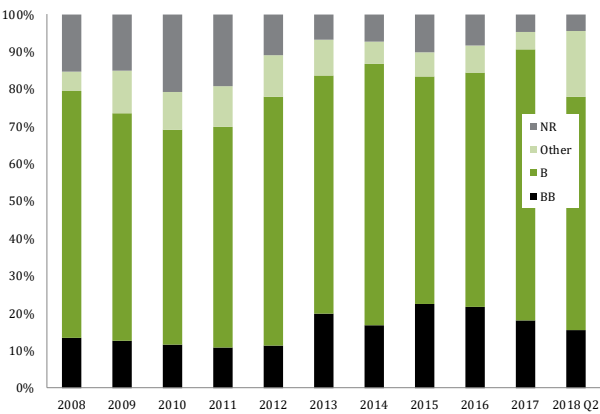
Source: Standard & Poor's LCD

2.4 ELLI Total Institutional Loans Outstanding



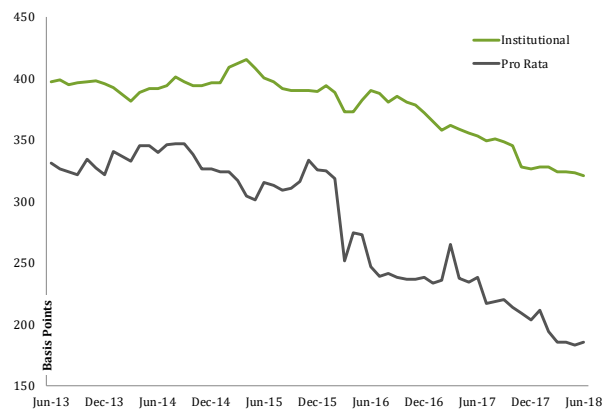
Source: Standard & Poor's LCD

2.5 ELLI Ratings Diversification



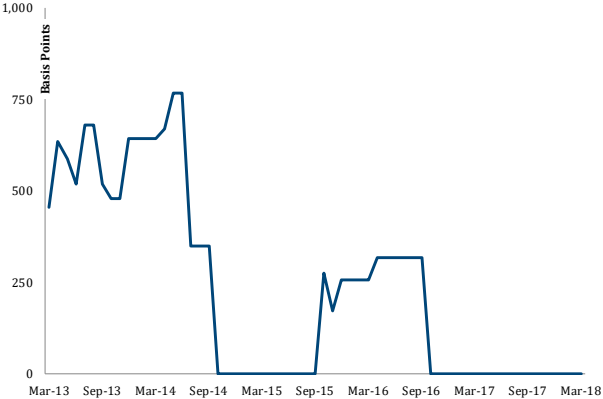
Source: Standard & Poor's LCD

2.6 Institutional and Pro Rata Spreads



Source: Dealogic, AFME, SIFMA

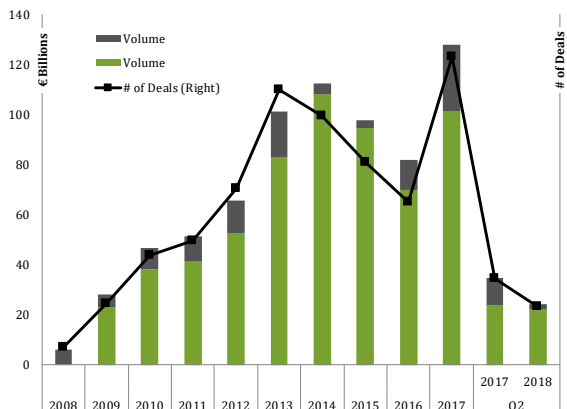
2.7 Mezzanine Spreads



Source: Dealogic, AFME, SIFMA

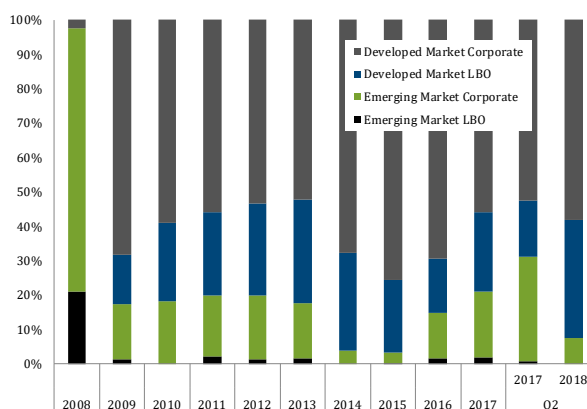
3 Issuance – High Yield Bonds Overview

3.1 European High Yield Issuance



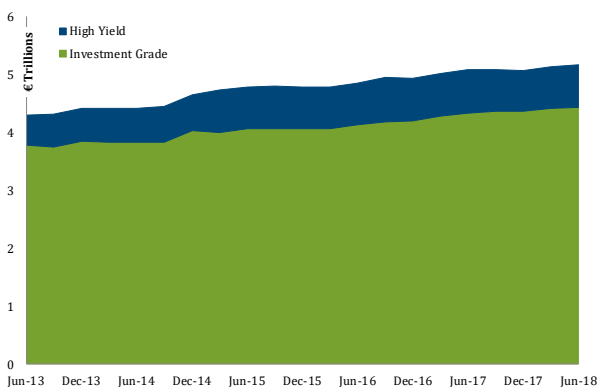
Source: Dealogic

3.2 European High Yield Issuance by Sponsor



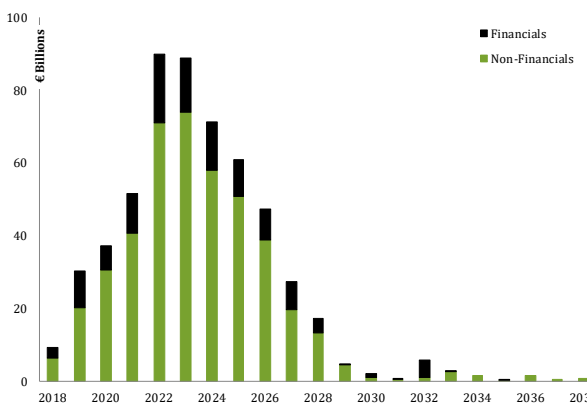
Source: Dealogic

3.3 European Corporate Bonds Outstanding (IG and HY only)



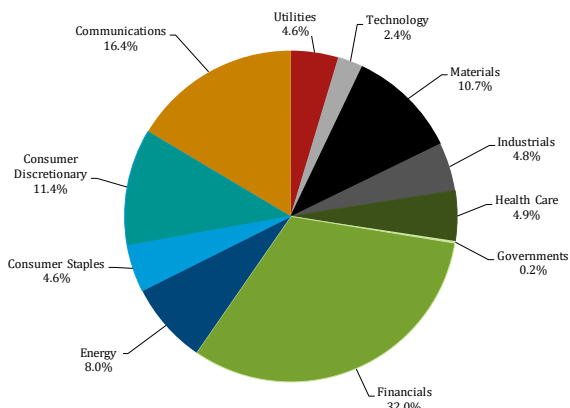
Source: Bloomberg, AFME, SIFMA

3.4 European Corporate Bonds HY Maturity Wall: 2Q 2018



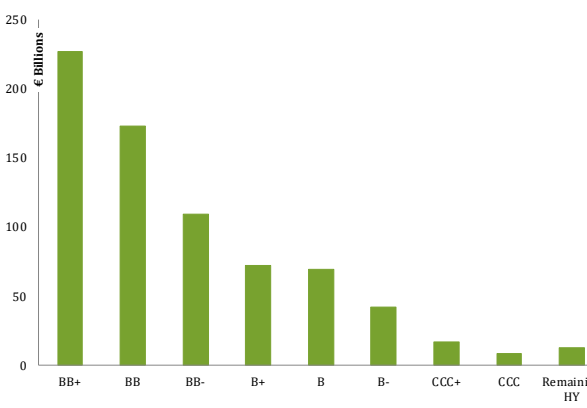
Source: Bloomberg, AFME, SIFMA

3.5 European Corporate HY Bonds Outstanding By Sector: 2Q 2018



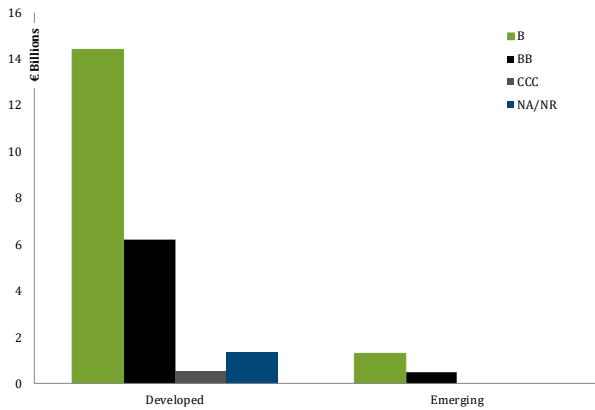
Source: Bloomberg, AFME, SIFMA

3.6 European Corporate HY Bonds Outstanding by Current Rating: 2Q 2018



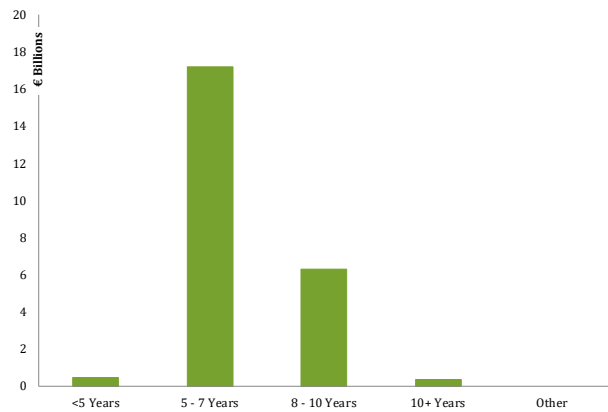
Source: Bloomberg, AFME, SIFMA

3.7 European Corporate Bond Issuance by Rating: 2Q 2018



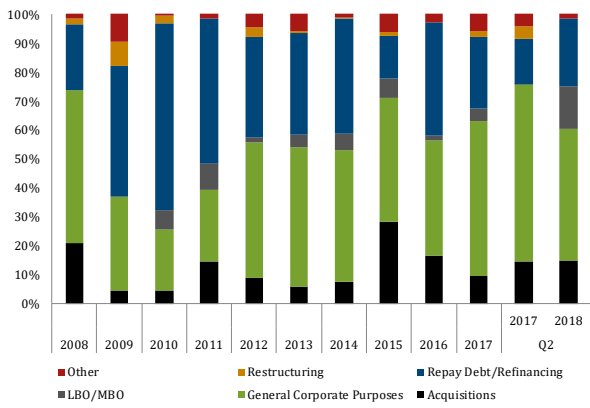
Source: Dealogic, AFME, SIFMA

3.8 European Corporate Bond Issuance by Tenor: 2Q 2018



Source: Dealogic, AFME, SIFMA

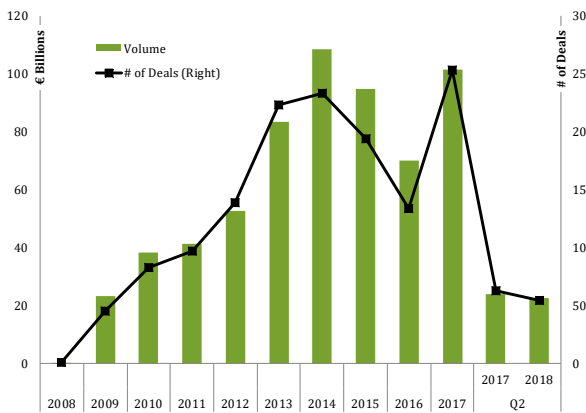
3.9 European HY Use of Proceeds



Source: Dealogic, AFME, SIFMA

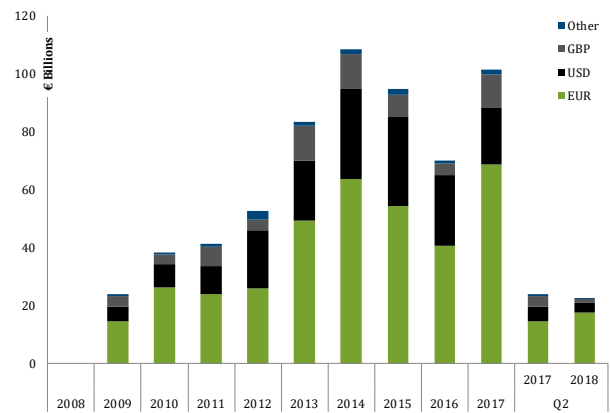
4 Issuance – European Developed Market High Yield Bonds

4.1 European Developed Market HY Bond Issuance



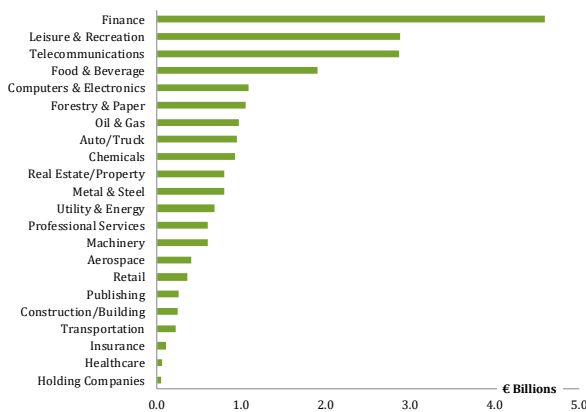
Source: Dealogic, Thomson Reuters LPC

4.2 European Developed Market HY Issuance by Currency



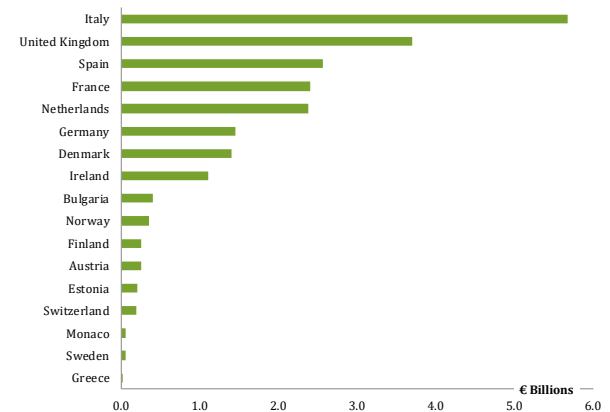
Source: Dealogic, Thomson Reuters LPC

4.3 European Developed Market HY Issuance by Industry: 2Q 2018



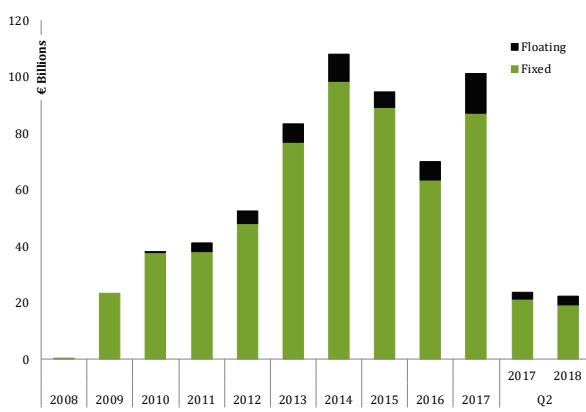
Source: Dealogic

4.4 European Developed Market HY Issuance by Country of Risk: 2Q 2018



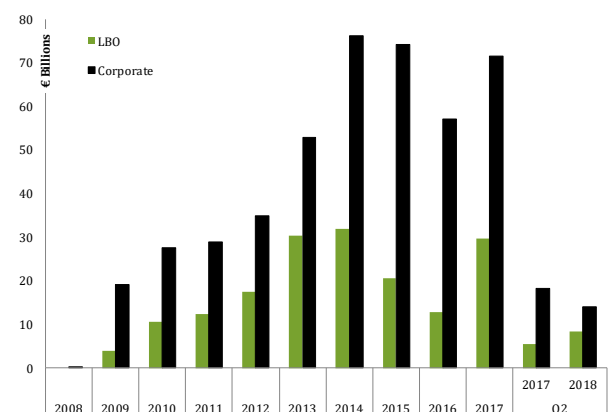
Source: Dealogic

4.5 European Developed Market HY Issuance, Fixed vs. Floating



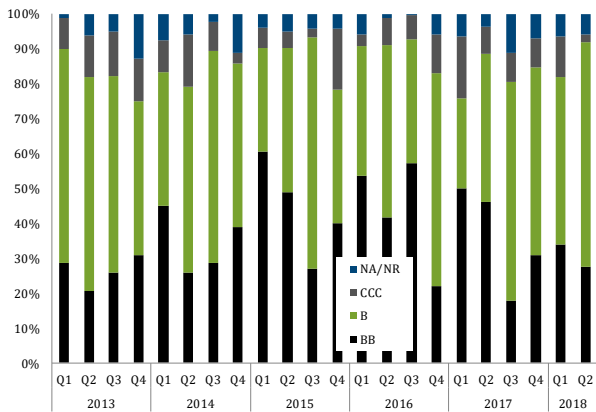
Source: Dealogic

4.6 European Developed Market HY Issuance, Sponsored vs. Corporate



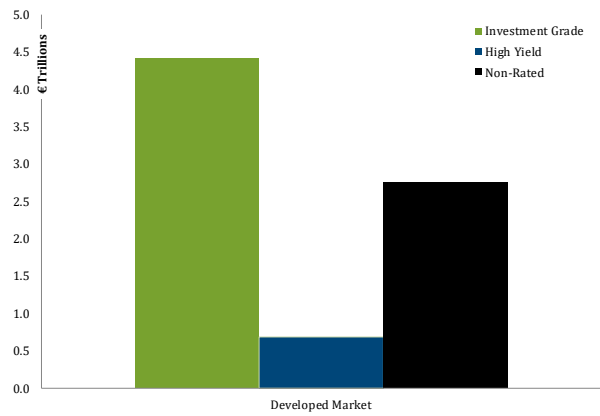
Source: Dealogic

4.7 European Developed Market HY Rating Distribution at Issuance



Source: Dealogic, AFME, SIFMA

4.8 European Developed Market Corporate Bonds Outstanding: 2Q 2018



Source: Bloomberg, AFME, SIFMA

4.9 European Developed Market HY Bond Issuance

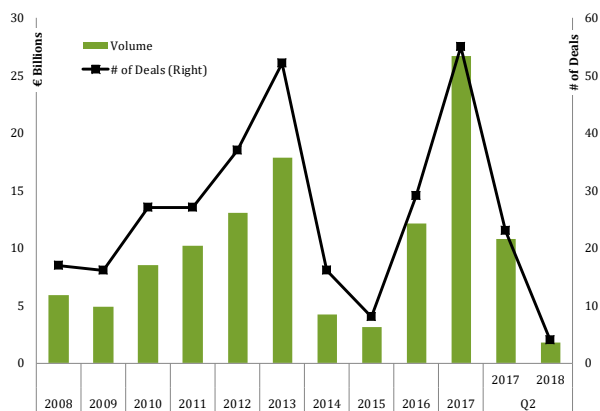
Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Ibercaja Banco SAU	Finance	03/04/2018	EUR	350	7.00 NA	B-	B	B
Grenadier Holdings plc*	Computers & Electronics	04/04/2018	EUR	33	4.50 NA	NA	NA	NA
Grenadier Holdings plc*	Computers & Electronics	04/04/2018	EUR	21	4.50 NA	NA	NA	NA
UBI Banca	Finance	05/04/2018	EUR	500	1.75 Ba3	BB+	BBB-	BBB-
Silversea Cruise Finance Ltd	Leisure & Recreation	10/04/2018	USD	70	7.25 B2	BB-	NA	NA
Vallourec SA	Metal & Steel	12/04/2018	EUR	400	6.38 NA	B	NA	NA
Novafives SAS*	Machinery	12/04/2018	EUR	325	5.00 B3e	B+	NA	NA
Novafives SAS*	Machinery	12/04/2018	EUR	275	3M EURIBOR +450 B3e	B+	NA	NA
Drax FinCo plc	Utility & Energy	12/04/2018	USD	300	6.63 NA	NA	BB+e	BB+e
Jewel UK Bondco plc	Retail	13/04/2018	GBP	265	8.50 B2	B-	NA	NA
CGG Holding (US) Inc*	Oil & Gas	13/04/2018	EUR	280	7.88 B2	B	NA	NA
CGG Holding (US) Inc*	Oil & Gas	13/04/2018	USD	300	9.00 B2e	B	NA	NA
Banco BPM SpA	Finance	16/04/2018	EUR	500	1.75 Ba2	NA	NA	NA
OCI NV*	Chemicals	17/04/2018	USD	650	6.63 B1	NA	BB-e	BB-e
OCI NV*	Chemicals	17/04/2018	EUR	400	5.00 B1e	NA	BB-e	BB-e
Banca IFIS SpA	Finance	17/04/2018	EUR	300	2.00 NA	NA	BB+	BB+
Piaggio & C SpA*	Auto/Truck	18/04/2018	EUR	168	3.63 B1e	BB-	NA	NA
Piaggio & C SpA*	Auto/Truck	18/04/2018	EUR	82	3.63 B1e	BB-	NA	NA
Grupo Antolin-Irausa SA	Auto/Truck	18/04/2018	EUR	250	3.38 Ba3	BB-	NA	NA
Gamenet Group SpA	Leisure & Recreation	19/04/2018	EUR	225	3M EURIBOR +375 B1e	B	NA	NA
Gestamp Automocion SA	Auto/Truck	20/04/2018	EUR	400	3.25 Ba3	BB+	NA	NA
BBA US Holdings Inc	Aerospace	20/04/2018	USD	500	5.38 Ba2	BB	NA	NA
ADLER Real Estate AG*	Real Estate/Property	20/04/2018	EUR	500	1.88 NA	NA	NA	NA
ADLER Real Estate AG*	Real Estate/Property	20/04/2018	EUR	300	3.00 NA	NA	NA	NA
Yell Bondco plc	Publishing	23/04/2018	GBP	225	8.50 B3	B-	NA	NA
Wienerberger AG	Construction/Building	23/04/2018	EUR	250	2.00 Ba1e	NA	NA	NA
Sigma Holdco BV*	Food & Beverage	25/04/2018	EUR	685	5.75 B3	B-	NA	NA
Sigma Holdco BV*	Food & Beverage	25/04/2018	USD	525	7.88 B3	B-	NA	NA
Constantin Investissement 3 SAS	Healthcare	25/04/2018	EUR	60	5.38 Caa1	CCC+	NA	NA
Sunshine Mid BV	Food & Beverage	26/04/2018	EUR	445	5.00 Caa1	B-	NA	NA
La Financiere Atalian SAS*	Professional Services	26/04/2018	EUR	350	5.13 B2	B+	NA	NA
La Financiere Atalian SAS*	Professional Services	26/04/2018	GBP	225	6.63 B2	B+	NA	NA
Fabric BC SpA	Forestry & Paper	26/04/2018	EUR	455	3M EURIBOR +412.5 B2	B+	NA	NA
Tele Columbus AG	Telecommunications	27/04/2018	EUR	650	3.88 B2	NA	BB-	BB-
Neptune Energy Bondco plc	Oil & Gas	01/05/2018	USD	550	6.63 B2	BB-	NA	NA
Merlin Entertainments plc	Leisure & Recreation	02/05/2018	USD	400	5.75 Ba2	BB	NA	NA
Picard Groupe SAS	Retail	03/05/2018	EUR	60	3M EURIBOR +300 B2	B	BB	BB
Odyssey Europe Holdco SARL	Leisure & Recreation	04/05/2018	EUR	200	8.00 B2	B	NA	NA
Nexi SpA*	Finance	04/05/2018	EUR	1,375	3M EURIBOR +362.5 B1	B+	BB-e	BB-e
Nexi SpA*	Finance	04/05/2018	EUR	825	4.13 B1	B+	BB-e	BB-e
B2Holding ASA	Finance	09/05/2018	EUR	200	3M EURIBOR +475 NA	NA	NA	NA
Ocean Yield ASA	Transportation	16/05/2018	NOK	750	3M NIBOR +365 NA	NA	NA	NA
ERB Hellas plc	Finance	17/05/2018	EUR	16	3.00 NR	NA	NA	NA
Premier Foods Finance plc	Food & Beverage	18/05/2018	GBP	300	6.25 B2	B	Bu	Bu
Opus Group AB	Auto/Truck	24/05/2018	SEK	500	3M STIBOR +375 NA	NA	NA	NA
Grenadier Holdings plc	Computers & Electronics	29/05/2018	EUR	35	4.50 NA	NA	NA	NA
Aker ASA	Holding Companies	29/05/2018	NOK	500	3M NIBOR +265 NA	NA	NA	NA
Kistefos AS	Finance	01/06/2018	NOK	200	3M NIBOR +600 NA	NA	NA	NA
Etrion Corp	Utility & Energy	01/06/2018	EUR	40	7.25 NA	NA	NA	NA
Ardonagh Midco 3 plc	Insurance	01/06/2018	GBP	98	8.38 B3	NA	B+	B+
InterXion Holding NV	Computers & Electronics	08/06/2018	EUR	1,000	4.75 B1	BB-	NA	NA
Outokumpu Oyj	Metal & Steel	11/06/2018	EUR	250	4.13 Ba3	NA	NA	NA
Virgin Media Receivables Financing Notes II dac	Telecommunications	13/06/2018	GBP	50	5.75 B1	B	B+	B+
EC Finance plc	Transportation	15/06/2018	EUR	150	2.38 B1	BB-	NA	NA
Schmolz + Bickenbach Luxembourg SA	Metal & Steel	18/06/2018	EUR	150	5.63 B2	B+	NA	NA
Telecom Italia SpA	Telecommunications	21/06/2018	EUR	750	2.88 Ba1	BB+	BBB-	BBB-
International Game Technology plc	Leisure & Recreation	21/06/2018	EUR	500	3.50 Ba2	NA	NA	NA
DKT Finance ApS*	Telecommunications	21/06/2018	EUR	1,050	7.00 B3	B-	B-	B-
DKT Finance ApS*	Telecommunications	21/06/2018	USD	410	9.38 B3	B-	B-	B-
Bulgarian Energy Holding EAD	Utility & Energy	21/06/2018	EUR	400	3.50 Ba2	NA	BB	BB
LHMC Finco SARL*	Leisure & Recreation	22/06/2018	EUR	663	6.25 B2	NA	NA	NA
LHMC Finco SARL*	Leisure & Recreation	22/06/2018	USD	550	7.88 B2	B+	NA	NA
LHMC Finco SARL*	Leisure & Recreation	22/06/2018	EUR	425	3M EURIBOR +575 B2	NA	NR	NR
Smurfit Kappa Acquisitions Unlimited Co	Forestry & Paper	25/06/2018	EUR	600	2.88 Ba1	BB+	BB+	BB+
AIB Group plc	Finance	26/06/2018	EUR	500	2.25 Ba2	BB+	BBB-	BBB-

* denotes different tranches of the same deal

Source: Dealogic

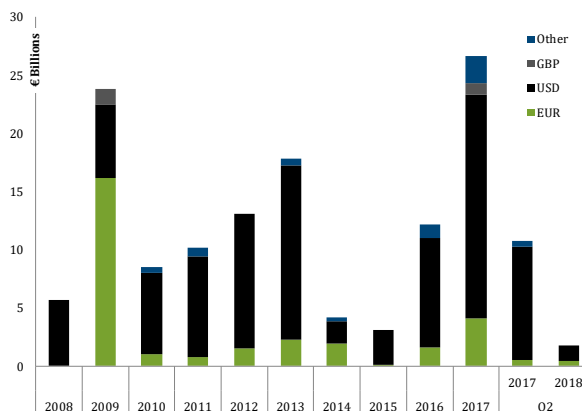
5 Issuance – European Emerging Market High Yield Bonds

5.1 European Emerging Market HY Bond Issuance



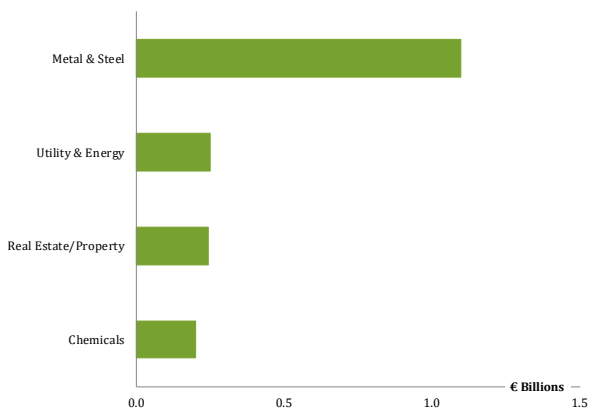
Source: Dealogic

5.2 European Emerging Market HY Bond Issuance by Currency



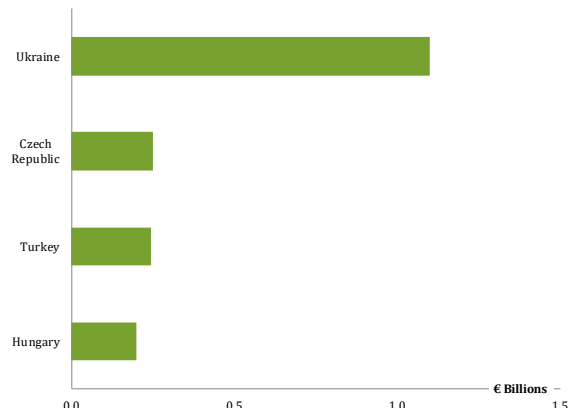
Source: Dealogic

5.3 European Emerging Market HY Issuance by Industry: 2Q 2018



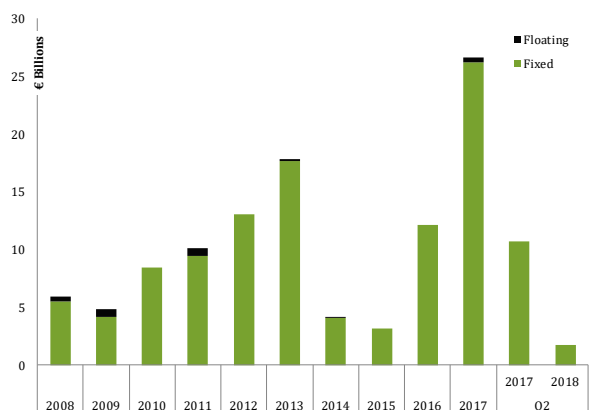
Source: Dealogic

5.4 European Emerging Market HY Issuance by Country of Risk: 2Q 2018



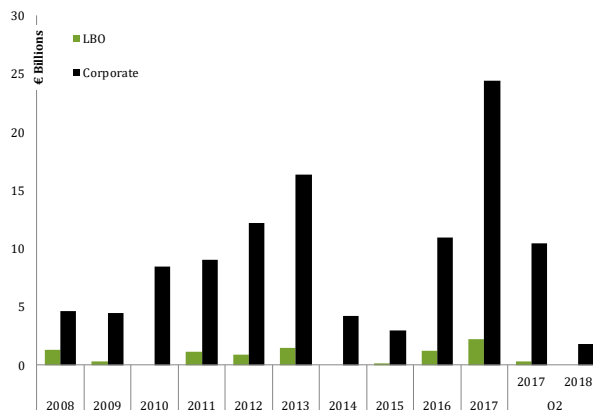
Source: Dealogic

5.5 European Emerging Market HY Issuance, Fixed vs. Floating



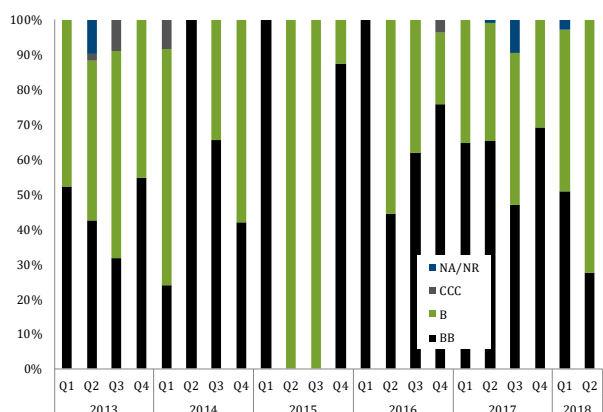
Source: Dealogic

5.6 European Emerging Market HY Issuance, Sponsored vs. Corporate



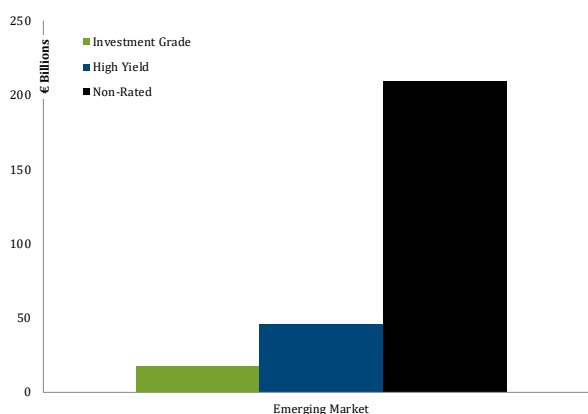
Source: Dealogic

5.7 European Emerging Market HY Rating Distribution at Issuance



Source: Dealogic, AFME, SIFMA

5.8 European Emerging Market Corporate Bonds Outstanding: 2Q 2018



Source: Bloomberg, AFME, SIFMA

5.9 European Emerging Market HY Bond Issuance

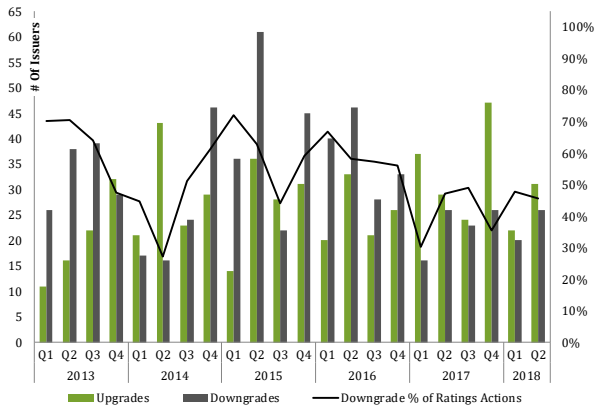
Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moodys	S&P	Fitch
Metinvest BV*	Metal & Steel	04/04/2018	USD	825	7.750	NA	B-	B
Metinvest BV*	Metal & Steel	04/04/2018	USD	525	8.500	NA	B-	B
Ronesans Gayrimenkul Yatirim AS	Real Estate/Property	19/04/2018	USD	300	7.250	Ba2	NA	BB+
Energo-Pro AS	Utility & Energy	27/04/2018	EUR	250	4.500	NA	BB-	BB
Nitrogenmuvek Zrt	Chemicals	04/05/2018	EUR	200	7.000	NA	B	B+

* denotes different tranches of the same deal

Source: Dealogic

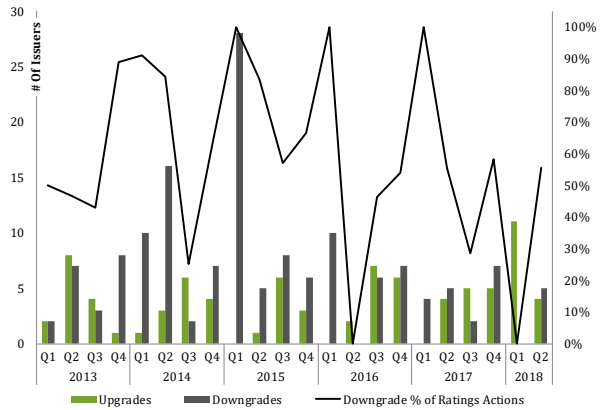
6 Credit Quality

6.1 Developed Europe Issuer Rating Actions



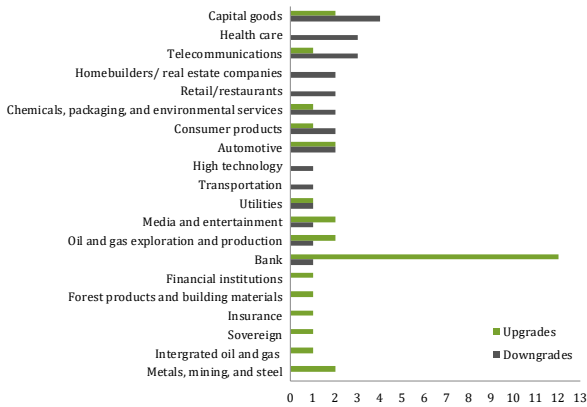
Source: Standard and Poor's

6.2 Emerging Europe Issuer Rating Actions



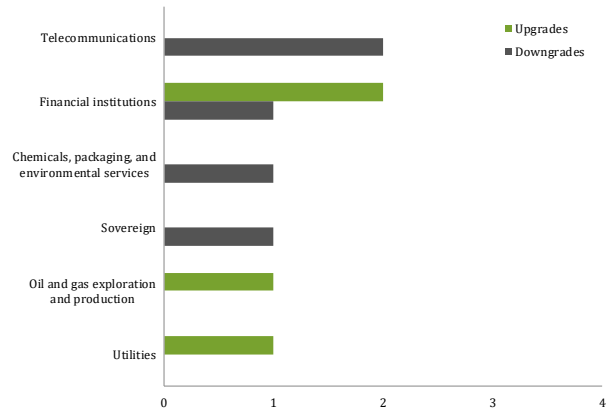
Source: Standard & Poor's

6.3 Developed European Industry Rating Actions by Number of Ratings: 2Q 2018



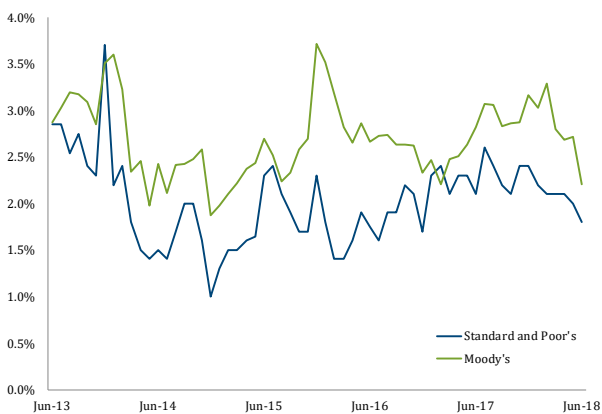
Source: Standard & Poor's

6.4 Emerging European Industry Rating Actions by Number of Ratings: 2Q 2018



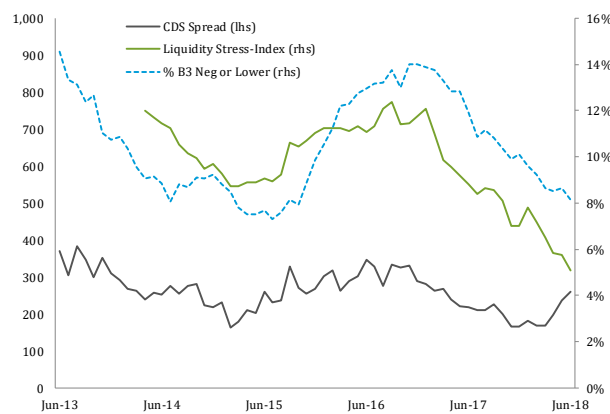
Source: Standard & Poor's

6.5 European High Yield Default Rates



Source: Standard & Poor's, Moody's

6.6 High-Yield bond CDS spreads vs. liquidity-stress index and HY bonds rated B3 neg and lower in Europe



Source: Moody's

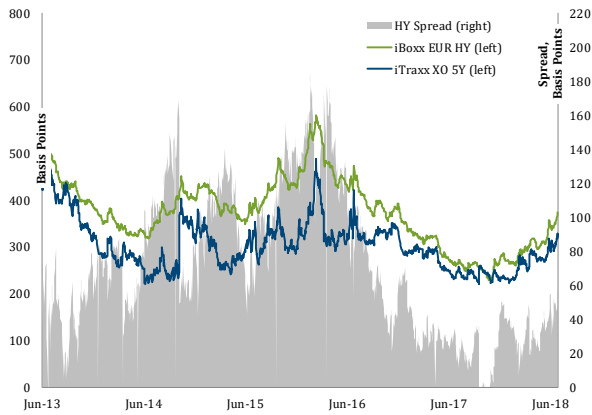
6.7 European Defaults

Issuer	Industry Group	Country	Date	Reported By	Reason
Ideal Standard International S.A.	Consumer Durables	Luxembourg	April 2018	Moody's	Distressed exchange
CEVA Group plc	Transportation	U.K.	May 2018	Moody's	Distressed exchange
Bank of Astana JSC	Bank	Kazakhstan	May 2018	S&P	Default on financial obligations
QGOG Constellation S.A.	Oil and gas	Luxembourg	May 2018	S&P	Missed interest payment
GetBack S.A.	Finance companies	Poland	May 2018	S&P	Missed principal and interest payment
Proserv Operations Limited	Oil and gas	U.K.	May 2018	S&P, Moody's	Distressed exchange

Source: Standard & Poor's, Moody's

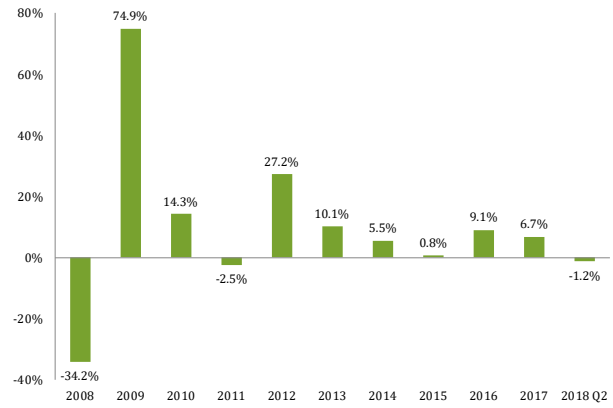
7 Relative Value and Total Return

7.1 Relative value: European HY Bonds, Cash vs. Synthetic



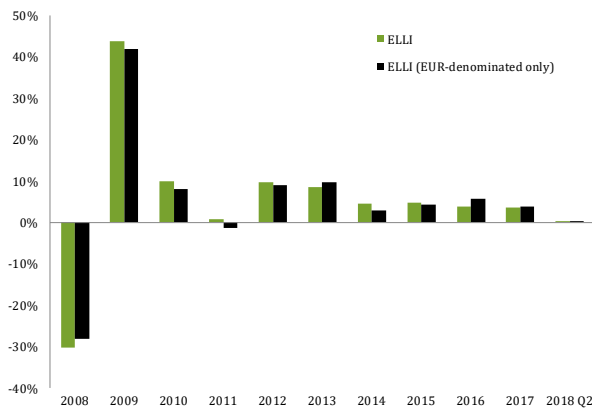
Source: Thomson Reuters Eikon, Markit

7.2 European HY Bond Total Return



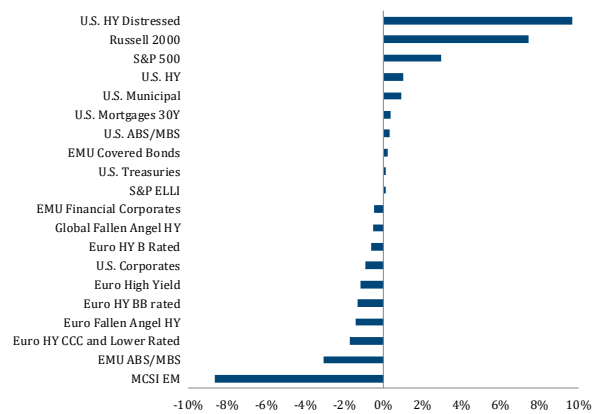
Source: BAML

7.3 European Leveraged Loan Total Return



Source: Standard & Poor's LCD

7.4 Asset Class Total Return: 2Q 2018



Source: BAML, 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 Dealogic. Leveraged loan data 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. Totals include issues having a Dealogic "deal nationality/region" as well as "nationality/region of risk" within US, Europe or Asia Pacific. Sovereign, sub-sovereign, and supranational parent issuers are excluded from issuance, as well as ABS/MBS issuers.

2. Issuance – Leveraged Loans

2.1. – 2.2. Leveraged Loan Issuance

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. – 2.7. 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 (T1a).

3. Issuance – High Yield Bonds Overview

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

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

Emerging market Europe and developed market European issuance are defined by nationality of risk, rather than nationality of deal, and although primarily sourced from Dealogic, are ultimately subject to AFME's discretion. Emerging and developed market issuances 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. Deals are shown in EUR amount but

include deals originated in other currencies and are converted to EUR at the exchange rate on the day of the deal. 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 non-Bloomberg verified securities, 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. Excludes unrated securities.

3.7. European Corporate Bond Issuance by Rating

Data for HY issuance by rating are sourced from Dealogic, Bloomberg, and the three rating agencies. The composite rating is determined by the lowest rating assigned by either Moody's, Standard and Poor's, or Fitch Ratings.

3.8. European Corporate Bond Issuance by Tenor

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

3.9. European HY Issuance By Use of Proceeds

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

4. Issuance – European Developed Market High Yield Bonds

4.1. – 4.7., 4.9 European Developed Market HY Bond Issuance

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. European Emerging Market HY Bond Issuance

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. – 6.2. 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.

6.3. – 6.4. European Issuer Rating Actions by # of Ratings

Rating actions are sourced from S&P. Breakdown by emerging market and developed Europe are from AFME's definition of developed and emerging markets and would be, under S&P's guidelines, a combination of both European and EMEA rating actions.

6.5. European High Yield Default Rate

European HY bond default rates are sourced from Standard and Poor's and Moody's, calculated 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.

6.6. – 6.7. European Leveraged Loan Default Rate

European LL default rates are sourced from Fitch Leveraged Credit Database, calculated on a trailing 12 month basis.

6.8. Leveraged Loan Recovery Rates

European LL recovery rate are sourced from Fitch Leveraged Credit Database, calculated on a trailing 12 month basis. Recovery rates are based on median cash realised (cash or cash-pay debt received) recoveries for senior loans and on average cash realised recoveries (excluding any equity/warrants given in a debt exchange) for mezzanine loans.

6.9. HY CDS spreads vs. liquidity-stress index and HY bonds rated B3 negative and lower in Europe

The liquidity stress index is calculated by Moody's Investor Services as the percentage of speculative

grade companies with the weakest liquidity profile in EMEA. Speculative grade liquidity is categorised in one of four ways: SGL 1: Very good liquidity.

Most likely to meet obligations over the coming 12 months through internal resources without relying on external sources of committed financing. SGL 2: Good liquidity. Likely to meet obligations during the coming 12 months through internal resources but may rely on external sources of committed financing. The issuer's ability to access committed financing is highly likely, based on Moody's evaluation of near term covenant compliance.

SGL3: Adequate liquidity. Expected to rely on external sources of committed financing. Based on Moody's evaluation of near term covenant compliance there is only a modest cushion, and the issuer may require covenant relief in order to maintain orderly access to funding lines. SGL4: Weak liquidity. Relies on external sources of financing and the availability of that financing is, in Moody's opinion, highly uncertain.

The percentage of bonds rated B3 negative or lower is sourced from Moody's

6.10. European Defaults

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

7. Cash and Synthetic

7.1. 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.

7.2. 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.

7.3. 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.

7.4. Asset Class Total Return (Cash Basis)

Total returns are sourced from respective index owners and Bank of America-Merrill Lynch's indices.

Annex

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