

European High Yield & Leveraged Loan Report

European Leveraged Finance

Q2: 2017



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Highlights and Market Environment

Highlights

Issuance Highlights

European leveraged finance issuance (leveraged loans and high yield bonds) decreased in 2Q'17 to €72.9 billion, a 19.6% decrease from €90.6 billion in 1Q'17 but a 16.3% increase from €62.6 billion issued in 2Q'16. This was, however, the second highest quarterly issuance since 2Q'14 after the record issuance in 1Q'17. The quarterly decrease in 2Q'17 was mostly driven by a 31.3% decrease in leveraged loan issuance, while high yield bond issuance decreased by 1.9%. The high yield bond share of the leveraged finance market increased to 48.7% in 2Q'17, up from 39.9% in 1Q'17 but down from 51.9% in 2Q'16.

Market and Economic Environment

According to the July 2017 European Central Bank lending survey, in the second quarter of 2017, credit standards eased slightly for loans to enterprises and to households for house purchase, while credit standards on consumer credit and other lending to households were broadly unchanged. Banks' overall terms and conditions on new loans continued to ease across all loan categories in 2Q'17, driven largely by further narrowing of margins on average loans, while margins on riskier loans remained broadly unchanged.

For loans to enterprises, credit standards eased for loans to large firms, as well as to small and medium-sized enterprises (SMEs). Across the large euro area countries, credit standards on loans to enterprises eased in Germany and Italy, while remaining unchanged in Spain, France and the Netherlands.

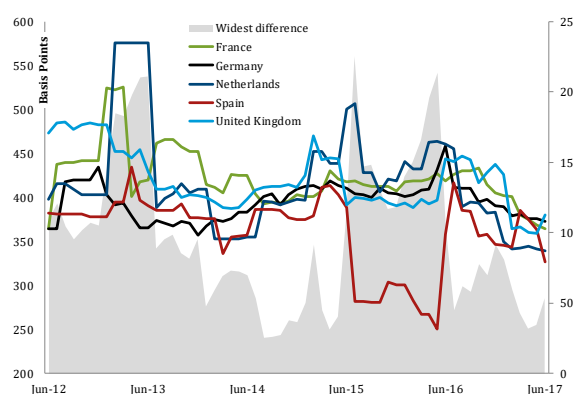
Looking ahead to the third quarter of 2017, euro banks expect continued net easing of credit standards on loans to enterprises, housing loans and consumer credit.

Net demand for loans to enterprises, housing loans, and consumer credit continued to increase in 2Q'17 and is expected to continue increasing further in 3Q'17.

“European leveraged finance issuance (leveraged loans and high yield bonds) totaled €72.9 billion in 2Q'17 ”

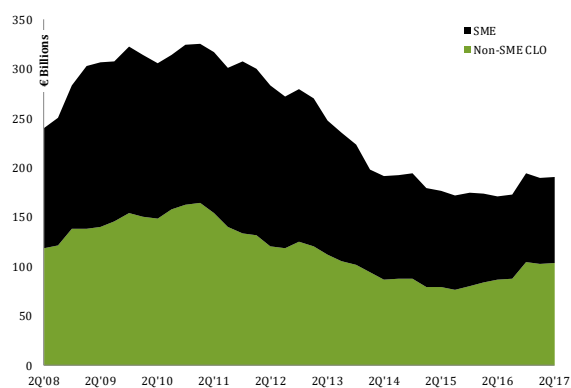
“In 2Q’17, leveraged loan issuance decreased to €37.4 billion on 60 deals”

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 €37.4 billion in the second quarter of 2017, down 31.3% q-o-q (€54.5 billion in 1Q’17) but up 24.1% y-o-y (€30.1 billion in 2Q’16).

In the second quarter of 2017, only €2.0 billion of amend-and-extend (“A&E”) loans were financed, a significant decrease from €16.3 billion in 1Q’17 but an increase from €0.3 billion in 2Q’16.

Most of the leveraged loans issued in 2Q’17 were 1st lien loans; there were no mezzanine loans and two 2nd lien loans financed. Pricing spreads for institutional loans tightened by 7 basis points (bps) q-o-q and by 37 bps y-o-y while spreads for pro rata loans tightened by 24 bps q-o-q and by 6 bps y-o-y.

The top three sectors in leveraged loan issuance in 2Q’17 accounted for almost 50% of the issuance volume; the leading sector was computers & electronics (€7.4 billion), followed by professional services (€5.7 billion), and retail (€5.6 billion), with the balance split between 18 other sectors.

The share of deals used to refinance and/or repay debt decreased to 68.0% of all deals by euro amount in the second quarter of 2017, compared to 80.8% in 1Q’17 and 49.0% in 2Q’16. Refinancing and/or repayment of debt were the largest use of proceeds in 2Q’17 with €25.4 billion, followed by leveraged buyouts with €8.6 billion or 23.1% of total, and acquisitions with €2.4 billion or 6.3% of total with the remainder €1.0 billion split between general corporate purposes, working capital and other.

European CLO outstandings, including SME deals, increased by 0.5% to €190.3 billion in 2Q’17 from €189.4 billion in 1Q’17 and by 11.3% from €171.0 billion in 2Q’16. Non-SME CLOs outstanding increased by 1.2% to €104.1 billion in 2Q’17 from €102.8 in 1Q’17 and by 20.3% y-o-y, while SME CLOs decreased by 0.4% to €86.2 billion from €86.6 billion in 1Q’17 but increased by 2.0% y-o-y.

Issuance: High Yield Bonds

Primary high yield issuance in 2Q'17 totaled €35.4 billion on 79 deals, a 1.9% decrease from 1Q'17 (€36.1 billion on 78 deals) but a 9.1% increase from 2Q'16 (€32.5 billion on 56 deals).

In the second quarter of 2017, average deal size in developed market Europe decreased by 0.3% to €443.0 million from €444.2 million in 1Q'17 and down 26.5% from €602.4 million in 2Q'16. Average deal size in emerging market Europe decreased by 14.7% to €463.5 million in 2Q'17 from €543.7 million in 1Q'17, but increased by 3.3% y-o-y (€448.5 million in 2Q'16).

High yield issuance for refinancing and/or repayment of debt in developed market Europe decreased to €8.7 billion, representing 34.5% of all issuance in 2Q'17, down from €12.1 billion (43.3% of total) in 1Q'17 and from €14.1 billion (48.8% of total) in 2Q'16. In emerging market Europe, €0.3 billion in high yield debt was issued for refinancing and/or repayment of debt in the second quarter of 2017, which was an increase from no issuance for this purpose in both 1Q'17 and 2Q'16.

Three sectors accounted for almost half of the total high yield issuance in developed market Europe in 2Q'17: the finance industry led issuance with €5.4 billion (21.5% of total), followed by the telecommunications industry with €3.8 billion (15.2% of total) and metal & steel industry with €1.8 billion (7.0% of total). In emerging market Europe the top three sectors accounted for almost three quarters of total high yield issuance: the finance industry led the issuance with €5.1 billion (49.6% of total), followed by the telecommunications industry with €1.3 billion (13.1% of total) and the mining industry with €1.2 billion (11.7% of total).

The proportion of USD-denominated issuance increased to 45.4% of all issuance in 2Q'17, compared to 39.1% in 1Q'17 but a decrease from 51.4% in 2Q'16. USD-denominated issuance in developed market Europe decreased to €6.4 billion, or 25.3% of issuance, down from €7.8 billion or 27.8% in 1Q'17 and €13.2 billion (45.8%) in 2Q'16. Of high yield bonds issued in emerging market Europe, €9.7 billion or 95.0% was denominated in USD, up from €6.4 billion (78.1% of total) in 1Q'17 and €3.5 billion (97.2% of total) in 2Q'16.

“Primary high yield issuance totaled €35.4 billion on 79 deals in 2Q'17”

Returns & Credit Quality

All but one of the asset classes analysed recorded positive returns in the second quarter of 2017. MCSI Emerging Market Index led returns with 5.5% q-o-q, followed by Euro High Yield CCC and Lower Rated (4.4% q-o-q) and Euro High Yield B Rated (2.8% q-o-q). The worst performing asset classes in 2Q'17 were EMU Covered Bonds (-0.1% q-o-q), U.S. High Yield Distressed (0.1% q-o-q) and UEMU ABS/MBS (0.4% q-o-q).

As of June 2017, S&P reported the trailing 12-month speculative-grade default rate at 2.1%, unchanged from 2.1% end-March 2017 but up from 1.8% end-June 2016. S&P expects the speculative-grade European corporate default rate to remain at about 2% through the end of March 2018, close to recent lows.

Moody's reported the trailing 12-month speculative-grade default rate in June 2017 to be 2.8% (up from 2.5% end-March 2017 and from 2.5% end-June 2016).

Seven bond-related defaults were reported in the second quarter of 2017, five in developed market Europe and two in emerging market Europe.

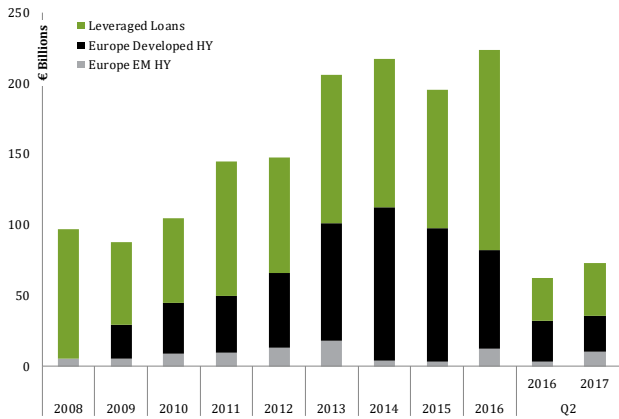
According to Standard and Poor's, in 2Q'17 upgrades exceeded downgrades in developed market Europe (29 upgrades to 26 downgrades), a slightly worse ratio than 37 upgrades to only 16 downgrades in 1Q'17 but more positive than 33 upgrades to 46 downgrades in 2Q'16. In emerging market Europe, there were 4 upgrades and 5 downgrades by S&P in 2Q'17 compared to no upgrades and 4 downgrades in 1Q'17 and two upgrades and no downgrades in 2Q'16. Three sectors accounted for over a third of the rating actions in 2Q'17: consumer products (total of 4 upgrades and 7 downgrades) followed by banks (7 upgrades and 3 downgrades) and chemicals, packaging and environmental services (4 upgrades and 1 downgrade).

“MCSI Emerging Market Index led returns in 2Q'17 with total return of 5.5% q-o-q”

“7 European high yield bond issuers defaulted in 2Q'17”

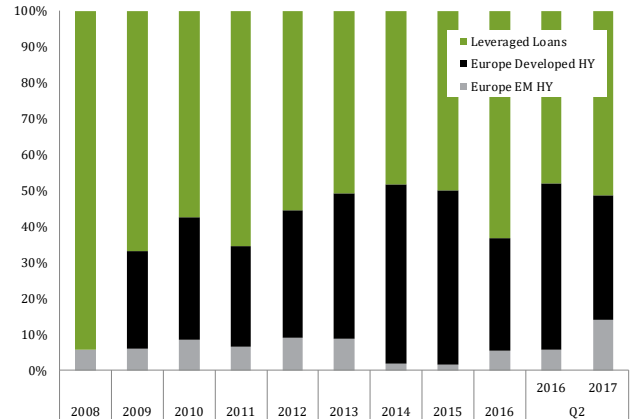
1 Leveraged Finance Overview

1.1 European Leveraged Issuance by Type



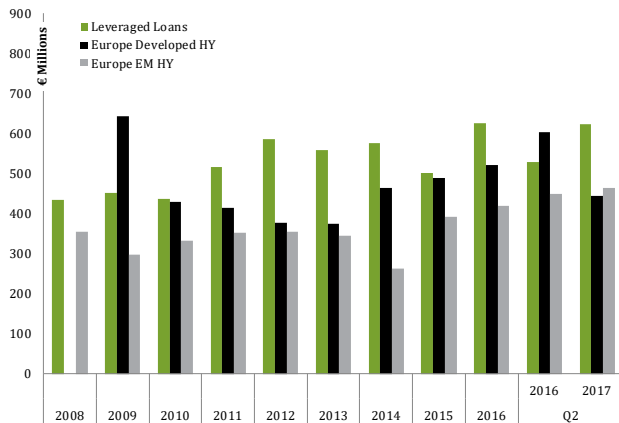
Source: Dealogic, Thomson Reuters LPC

1.2 European Leveraged Issuance Percentage



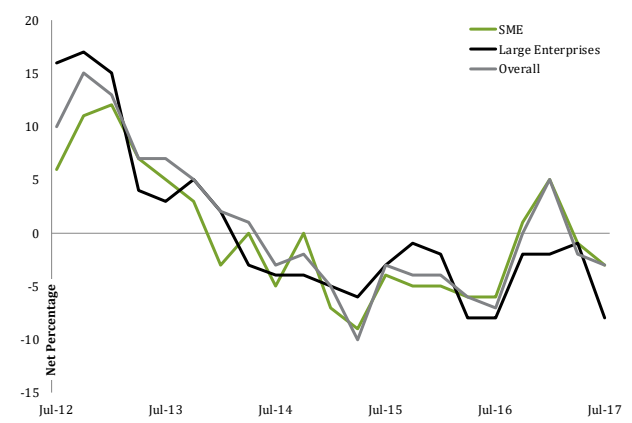
Source: Dealogic, Thomson Reuters LPC

1.3 European Leveraged Average Deal Size



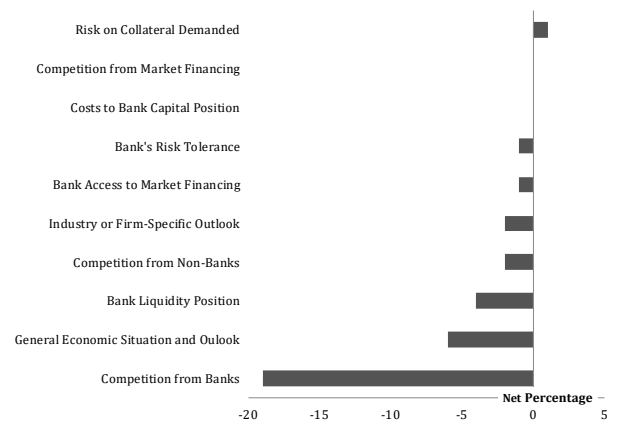
Source: Dealogic, Thomson Reuters LPC

1.4 Bank Credit Standards¹



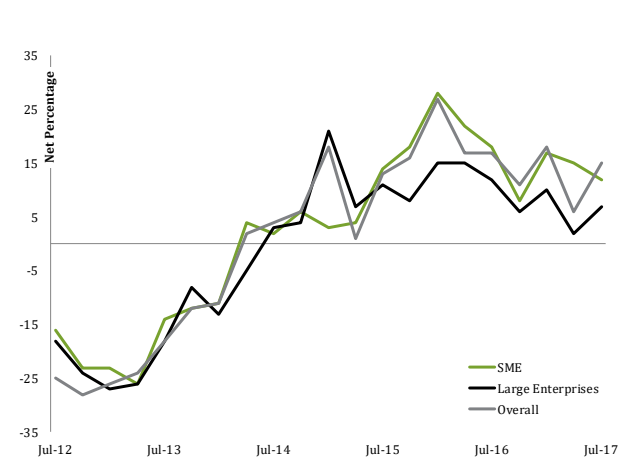
Source: European Central Bank

1.5 Factors Affecting Bank Credit Standards: July 2017²



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 2017⁴



Source: European Central Bank

1.8 Global Comparison – High Yield Issuance

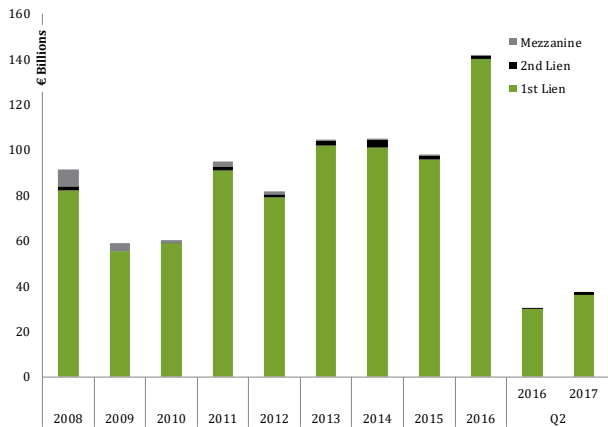
€ Billions	2017		2016					Prior Years			
	Q1	Q2	Q1	Q2	Q3	Q4	Full Year	2015	2014	2013	2012
United States	62.5	46.9	33.71	54.22	49.38	38.27	175.6	191.5	185.2	196.8	214.8
Asia Pacific	26.5	26.7	25.99	16.98	21.91	15.56	80.4	40.9	36.0	42.7	32.2
Europe	40.9	39.9	12.95	39.20	28.42	27.58	108.2	117.8	125.3	121.9	80.7

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.

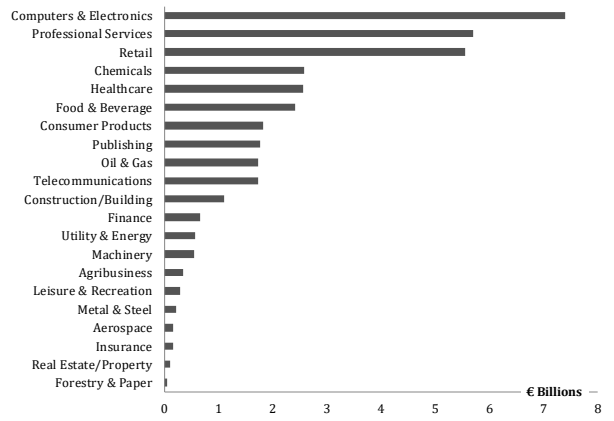
2 Issuance – Leveraged Loans

2.1 European Leveraged Loan Issuance By Type



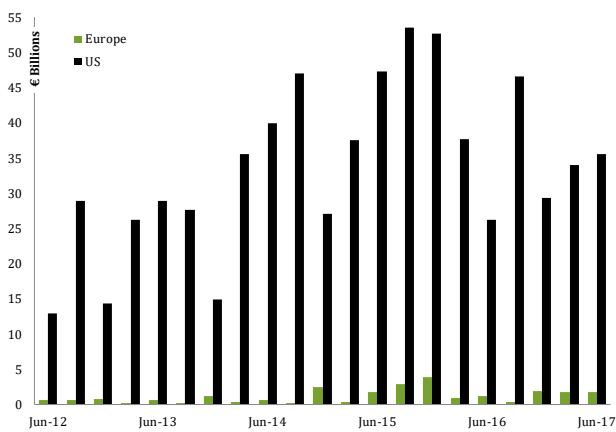
Source: Dealogic, Thomson Reuters LPC

2.2 European Leveraged Loan Issuance by Industry



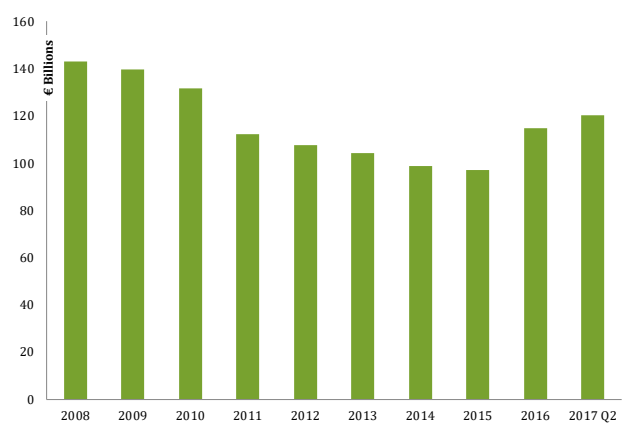
Source: Dealogic

2.3 Forward Pipeline of Leveraged Loan Market



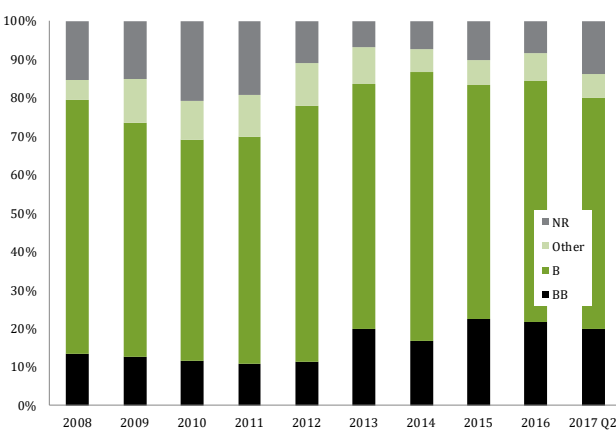
Source: Standard & Poor's LCD

2.4 ELLI Total Institutional Loans Outstanding



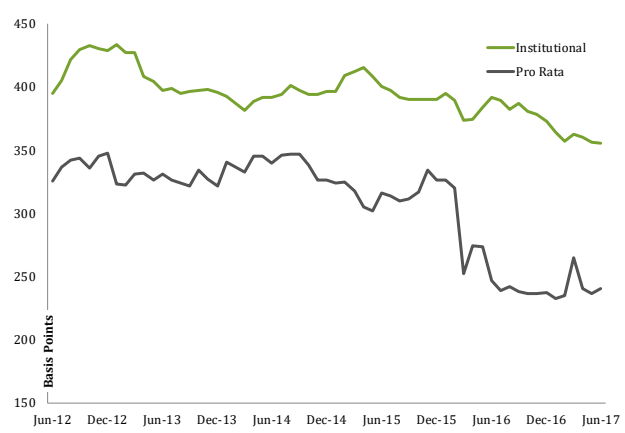
Source: Standard & Poor's LCD

2.5 ELLI Ratings Diversification



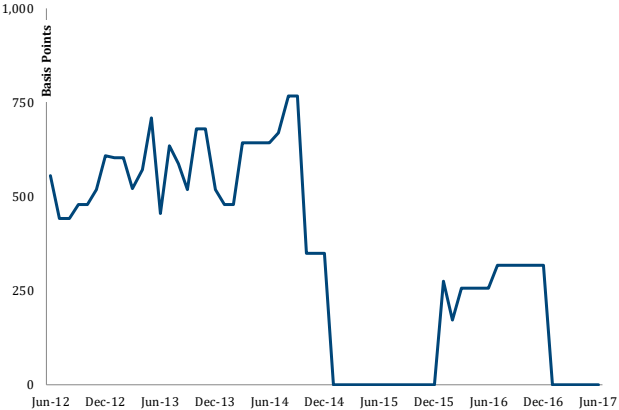
Source: Standard & Poor's LCD

2.6 Institutional and Pro Rata Spreads



Source: Dealogic, AFME, SIFMA

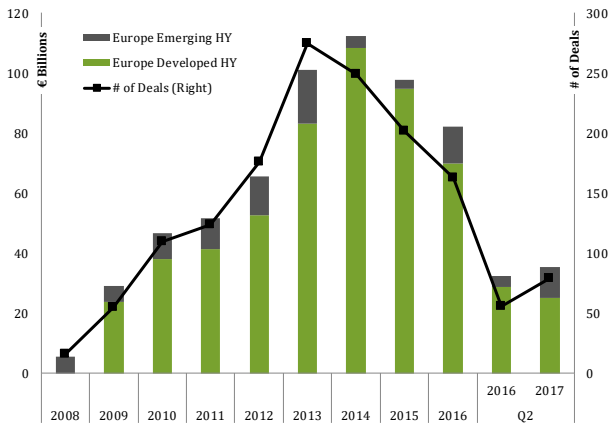
2.7 Mezzanine Spreads



Source: Dealogic, AFME, SIFMA

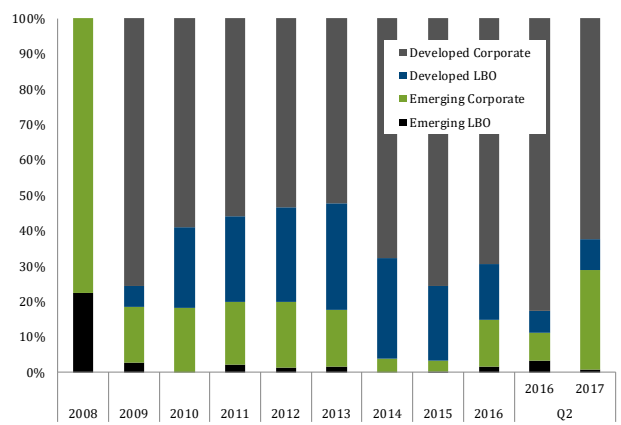
3 Issuance – High Yield Bonds Overview

3.1 European High Yield Issuance



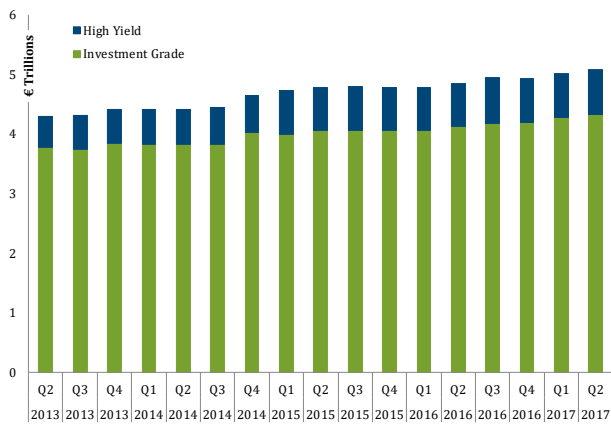
Source: Dealogic, Thomson Reuters LPC

3.2 European High Yield Issuance by Sponsor



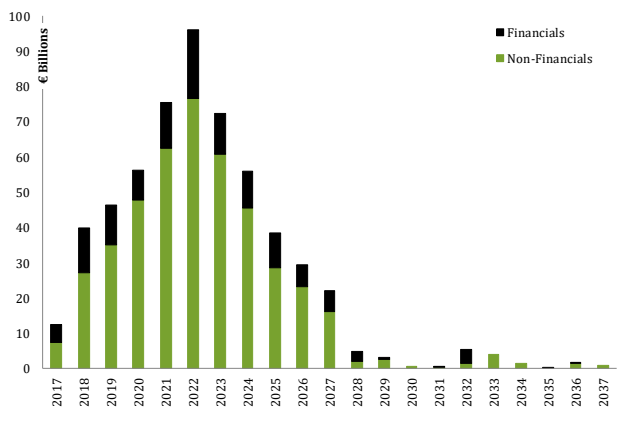
Source: Dealogic, Thomson Reuters LPC

3.3 European Corporate Bonds Outstanding (IG and HY only)



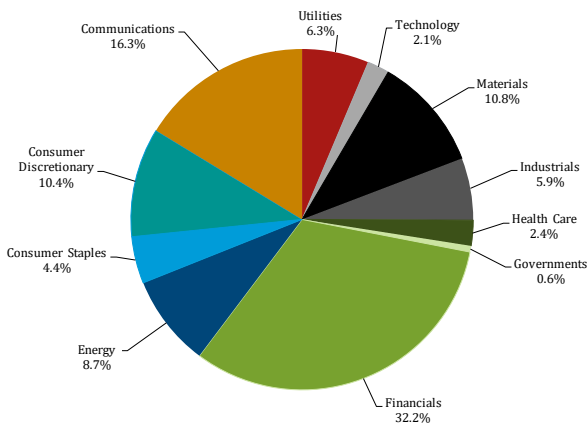
Source: Bloomberg, AFME, SIFMA

3.4 European Corporate Bonds HY Maturity Wall: July 2017



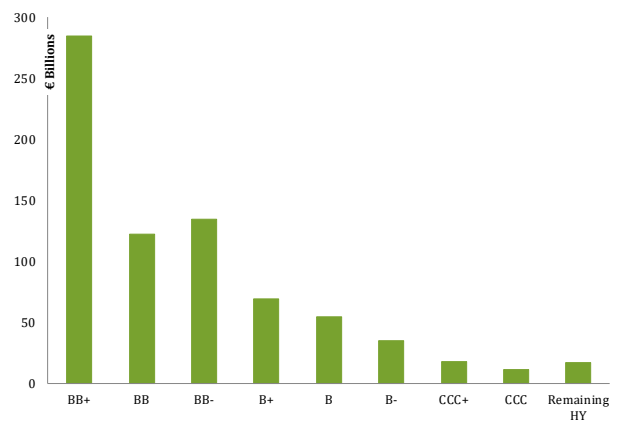
Source: Bloomberg, AFME, SIFMA

3.5 European Corporate HY Bonds Outstanding by Sector: 2Q 2017



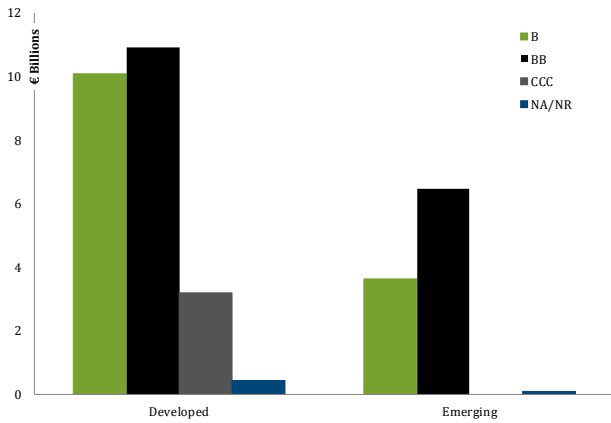
Source: Bloomberg, AFME, SIFMA

3.6 European Corporate HY Bonds Outstanding by Current Rating: June 2017



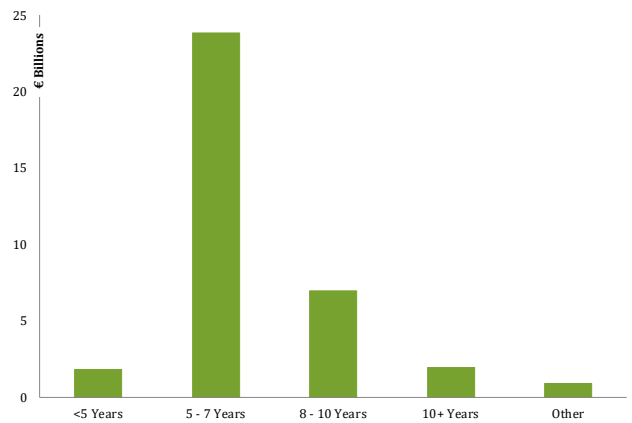
Source: Bloomberg, AFME, SIFMA

3.7 European Corporate Bond Issuance by Rating: 2Q 2017



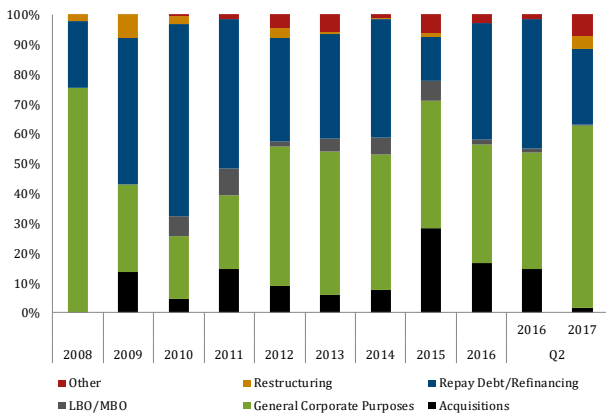
Source: Dealogic, AFME, SIFMA

3.8 European Corporate Bond Issuance by Tenor: 2Q 2017



Source: Dealogic, AFME, SIFMA

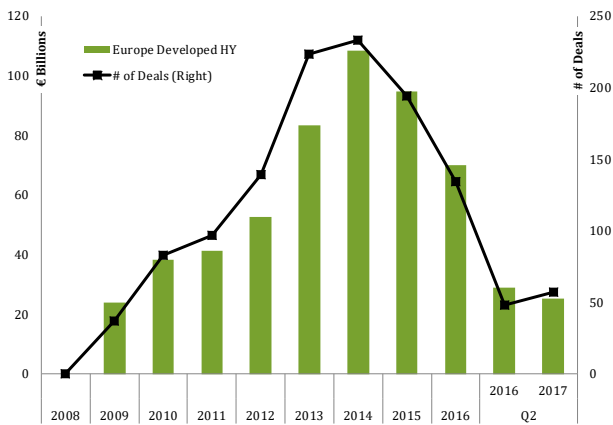
3.9 European HY Use of Proceeds



Source: Dealogic, AFME, SIFMA

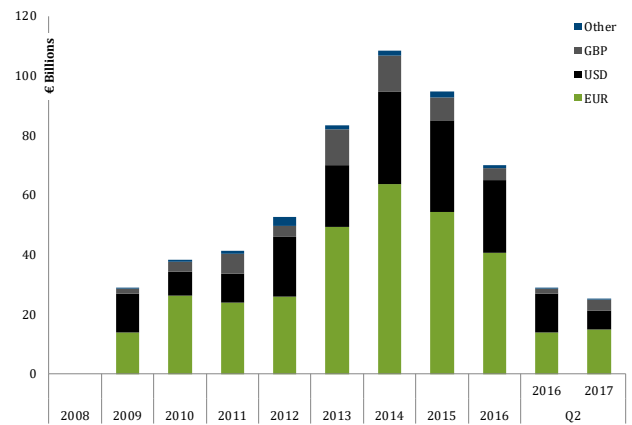
4 Issuance – European Developed Market High Yield Bonds

4.1 European Developed Market HY Bond Issuance



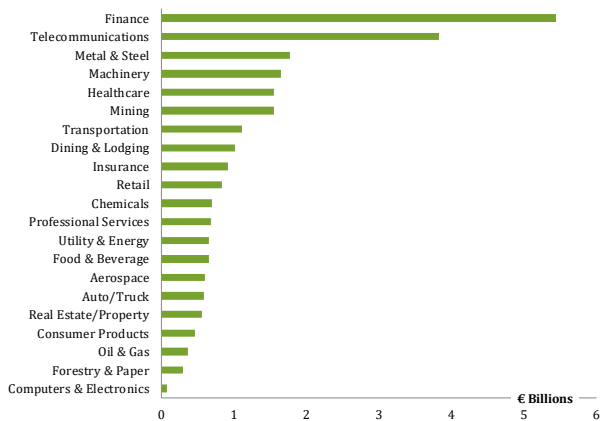
Source: Dealogic, Thomson Reuters LPC

4.2 European Developed Market HY Issuance by Currency



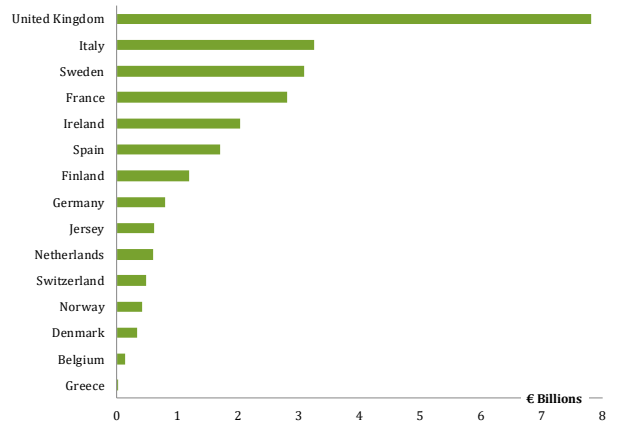
Source: Dealogic, Thomson Reuters LPC

4.3 European Developed Market HY Issuance by Industry: 2Q 2017



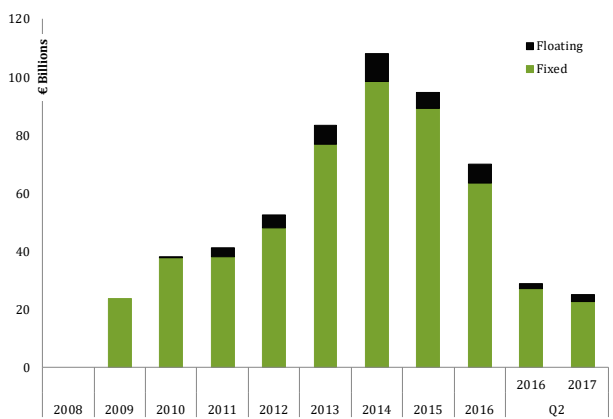
Source: Dealogic

4.4 European Developed Market HY Issuance by Country of Risk: 2Q 2017



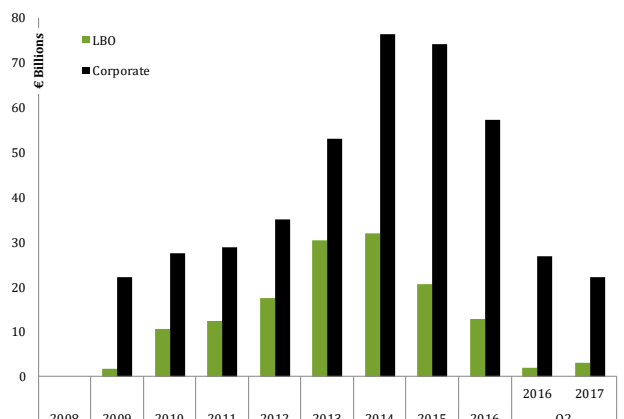
Source: Dealogic

4.5 European Developed Market HY Issuance, Fixed vs. Floating



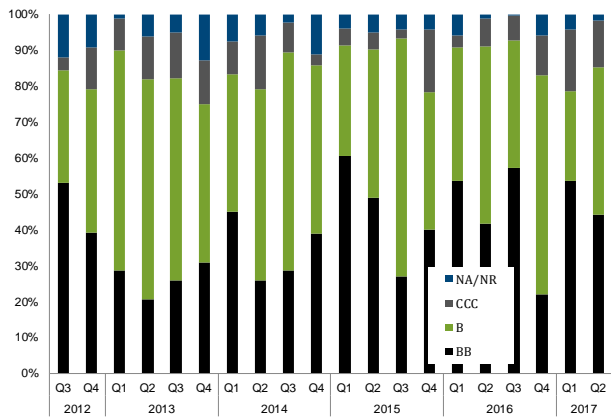
Source: Dealogic, Thomson Reuters LPC

4.6 European Developed Market HY Issuance, Sponsored vs. Corporate



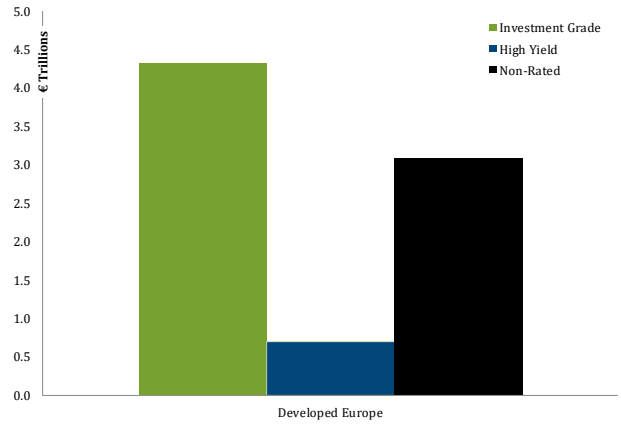
Source: Dealogic, Thomson Reuters LPC

4.7 European Developed Market HY Rating Distribution at Issuance



Source: Dealogic, AFME, SIFMA

4.8 European Developed Market Corporate Bonds Outstanding: July 2017



Source: Bloomberg, AFME, SIFMA

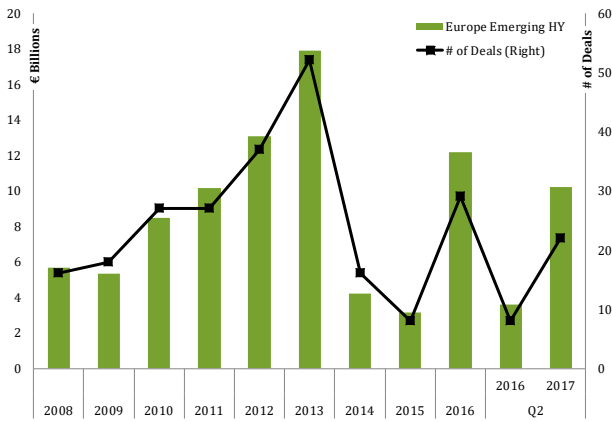
4.9 European Developed Market HY Bond Issuance

Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Anglo American Capital plc	Mining	03/04/2017	USD	700		4.75 Ba1	NA	NA
			USD	300		3.75 Ba1	NA	NA
CNH Industrial Capital LLC	Finance	05/04/2017	USD	500		4.38 Ba1	BB	NA
Credito Valtellinese Scarl - Creval	Finance	05/04/2017	EUR	150		8.25 NA	NA	BB-
Petra Diamonds US\$ Treasury plc	Mining	05/04/2017	USD	650		7.25 B2	B+	NA
Grupo Antolin-Irausa SA	Auto/Truck	06/04/2017	EUR	400		3.25 Ba3	NA	NA
Schmolz + Bickenbach Luxembourg SA	Metal & Steel	06/04/2017	EUR	200		5.63 B2	B+	NA
DDM Debt AB	Finance	10/04/2017	EUR	35		9.50 NA	NA	NA
Burger King France SAS	Dining & Lodging	12/04/2017	EUR	315		6.00 B3	B-	NA
			EUR	250	3M EURIBOR +525	B3	B-	NA
Grifols SA	Healthcare	12/04/2017	EUR	1,000		3.20 B2	NA	NA
SPCM SA	Chemicals	12/04/2017	USD	500		4.88 Ba2	BB+	NA
ARD Finance SA	Metal & Steel	13/04/2017	USD	770		7.88 Caa2	B-	
			EUR	845		7.38 Caa2	B-	
Autodis SA	Auto/Truck	13/04/2017	EUR	80	3M EURIBOR +437.5	B2	B	
Garfunkelux Holdco 3 SA	Finance	19/04/2017	EUR	175	3M EURIBOR +550	B2	B+	NA
TVL Finance plc	Dining & Lodging	19/04/2017	GBP	165	3M LIBOR +487.5	B3	B-	NA
Drax FinCo plc	Utility & Energy	21/04/2017	GBP	350		4.25	BB+	BB+
			GBP	200	3M LIBOR +400		BB+	BB+
Nomad Foods BondCo plc	Food & Beverage	21/04/2017	EUR	400		3.25 B1	BB-	
Unilabs SubHolding AB	Healthcare	21/04/2017	EUR	250		5.75 Caa2	CCC+	
Voyage Care BondCo plc	Healthcare	21/04/2017	GBP	35		10.00 Caa1		B-
			GBP	215		5.88 B2		BB-
La Financiere Atalian SAS	Professional Services	26/04/2017	EUR	625		4.00 B2	B+	
Senvion Holding GmbH	Machinery	27/04/2017	EUR	400		3.88 B2	B+	
Travellex Financing plc	Finance	27/04/2017	EUR	360		8.00 B3	B-	
Cognita Financing plc	Professional Services	28/04/2017	GBP	50		7.75 B3	B	
Amigo Luxembourg SA	Finance	03/05/2017	GBP	50		7.63 B1	B+	
Norican A/S	Machinery	05/05/2017	EUR	340		4.50 B2	B	
Barolo Bidco SpA	Computers & Electronics	08/05/2017	EUR	80	3M EURIBOR +625	B2	NA	
Saga plc	Finance	09/05/2017	GBP	250		3.38 Ba1	BB+	
CNH Industrial Finance Europe SA	Machinery	15/05/2017	EUR	500		1.38 Ba2	BBB-	
Euronav Luxembourg SA	Transportation	15/05/2017	USD	150		7.50 NA	NA	NA
Hoist Kredit AB	Finance	16/05/2017	EUR	80		3.88 Ba3	NA	
K+S AG	Chemicals	17/05/2017	EUR	225		2.63 NA	NA	NA
Premier Foods Finance plc	Food & Beverage	18/05/2017	GBP	210	3M LIBOR +500	B2	B	B
Peugeot SA	Auto/Truck	22/05/2017	EUR	100		2.00 Ba2		BB+
BPER Banca SpA	Finance	23/05/2017	EUR	500		5.13 B1		BB-
Heathrow Finance plc	Transportation	24/05/2017	GBP	275		3.88 Ba3		BB+
Casino Guichard-Perrachon SA	Retail	30/05/2017	EUR	550		1.87	BB+	BB+
Banco de Credito Social Cooperativo - BCC	Finance	31/05/2017	EUR	300		7.75 NA		B+
Stora Enso Oyj	Forestry & Paper	31/05/2017	EUR	300		2.50 Ba2	BB	
Leonardo SpA	Aerospace	01/06/2017	EUR	600		1.50 Ba1	BB+	BB+
Ardagh Packaging Finance plc	Consumer Products	02/06/2017	GBP	400		4.75 B3	B	
Nokia Oyj	Telecommunications	05/06/2017	USD	500		3.38 Ba1	BB+	
			USD	500		4.38 Ba1	BB+	
KIRS Midco 3 plc	Insurance	06/06/2017	GBP	400		8.38 B3		B
			USD	520		8.63 B3		B
UPC Holding BV	Telecommunications	07/06/2017	EUR	635		3.88 B2	B	B
Ship Finance International Ltd	Transportation	09/06/2017	NOK	500	3M NIBOR +475	NA	NA	NA
Globalworth Real Estate Investments Ltd	Real Estate/Property	13/06/2017	EUR	550		2.88 Ba2	BB+	
Ocado Group plc	Retail	14/06/2017	GBP	250		4.00 Ba3		BB
UPCB Finance VII Ltd	Telecommunications	14/06/2017	EUR	600		3.63 Ba3	BB	BB
Nuovo Trasporto Viaggiatori SpA	Transportation	15/06/2017	EUR	550	3M EURIBOR +350	B1	B+	BB
ERB Hellas plc	Finance	16/06/2017	EUR	1	6M EURIBOR +250	NA	NA	NA
			EUR	4	6M EURIBOR +250	NA	NA	NA
Intrum Justitia AB	Finance	16/06/2017	EUR	900		3.13 Ba2		BB
			EUR	1,500		2.75 Ba2		BB
			EUR	300	3M EURIBOR +262.5	Ba2		BB
			SEK	3,000	3M STIBOR +275	Ba2	NA	
Intelsat Jackson Holdings SA	Telecommunications	19/06/2017	USD	1,500		9.75 Caa2	CCC+	
N&W Global Vending SpA	Machinery	22/06/2017	EUR	40		7.00 B2	B	
Aker BP ASA	Oil & Gas	27/06/2017	USD	400		6.00 Ba3	BB+	
WFS Global Holding SAS	Transportation	27/06/2017	EUR	50		9.50 B3	B-	
Wagamama Finance plc	Dining & Lodging	28/06/2017	GBP	225		4.13 B2	B	
Banjay Group SAS	Telecommunications	29/06/2017	EUR	365		4.00 B1		BB
CMF SpA	Machinery	29/06/2017	EUR	360		9.00 B2	B	

Source: Dealogic

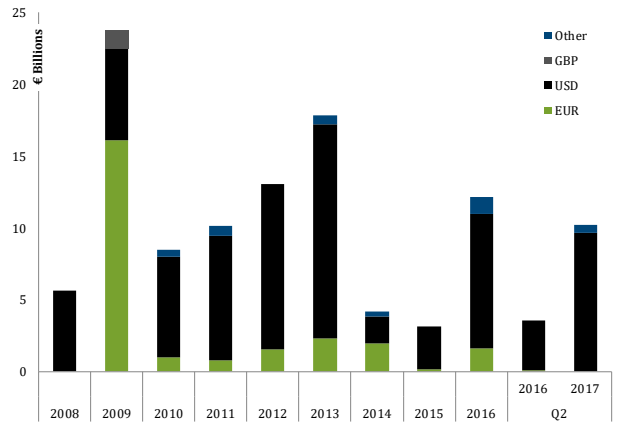
5 Issuance – European Emerging Market High Yield Bonds

5.1 European Emerging Market HY Bond Issuance



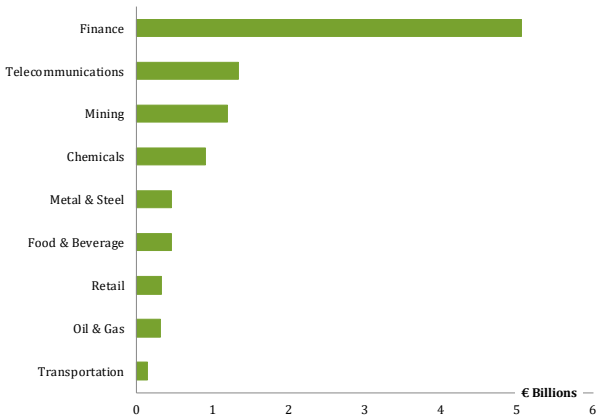
Source: Dealogic, Thomson Reuters LPC

5.2 European Emerging Market HY Bond Issuance by Currency



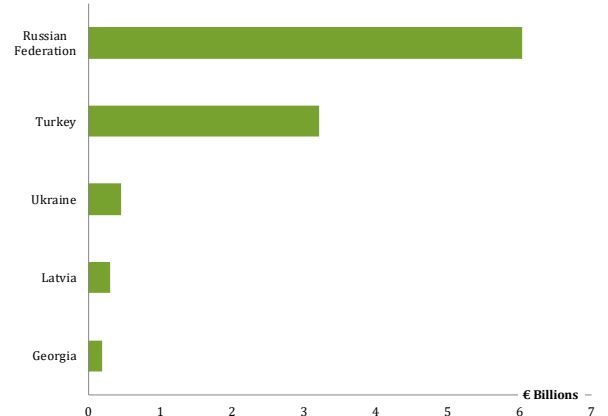
Source: Dealogic, Thomson Reuters LPC

5.3 European Emerging Market HY Issuance by Industry: 2Q 2017



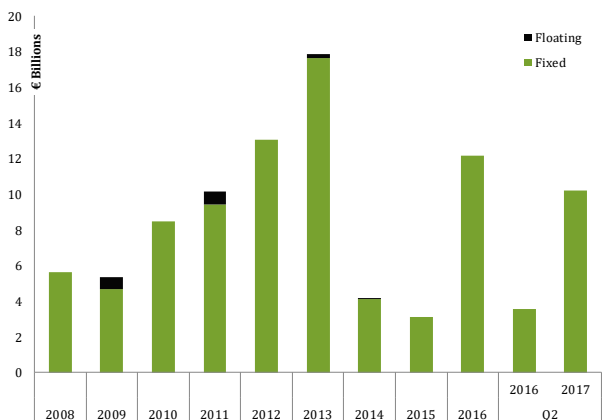
Source: Dealogic

5.4 European Emerging Market HY Issuance by Country of Risk: 2Q 2017



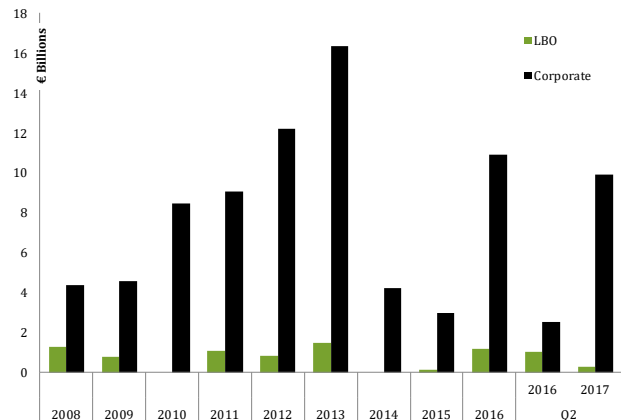
Source: Dealogic

5.5 European Emerging Market HY Issuance, Fixed vs. Floating



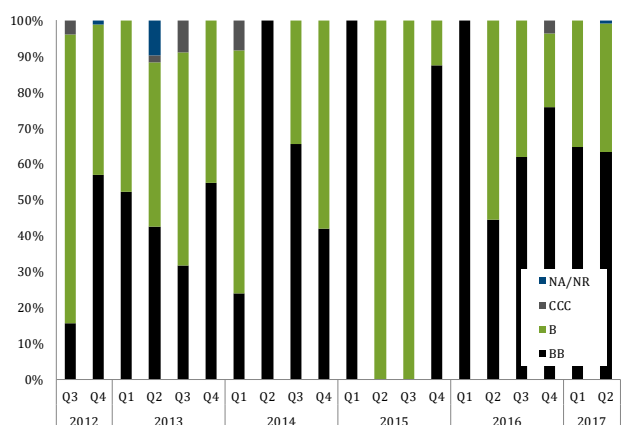
Source: Dealogic, Thomson Reuters LPC

5.6 European Emerging Market HY Issuance, Sponsored vs. Corporate



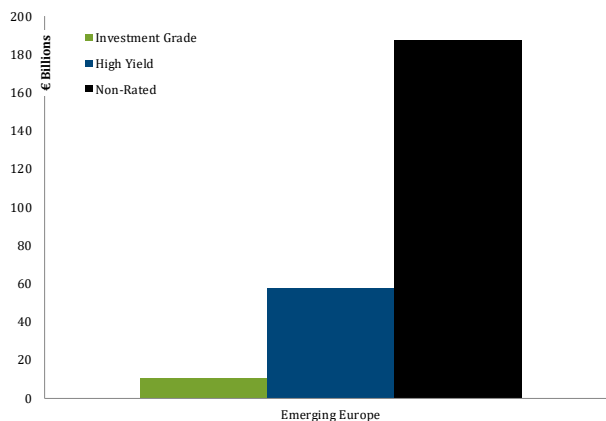
Source: Dealogic, Thomson Reuters LPC

5.7 European Emerging Market HY Rating Distribution at Issuance



Source: Dealogic, AFME, SIFMA

5.8 European Emerging Market Corporate Bonds Outstanding: June 2017



Source: Bloomberg, AFME, SIFMA

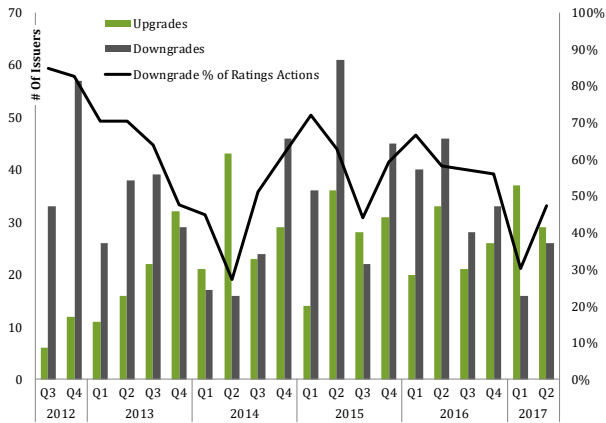
5.9 European Emerging Market HY Bond Issuance

Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moodys	S&P	Fitch
SCF Capital DAC	Transportation	03/04/2017	USD	150	5.375	Ba2	BB	BB
Borets Finance Ltd	Oil & Gas	04/04/2017	USD	330	6.500	B1	BB-	NA
X5 Finance BV	Retail	11/04/2017	RUB	20,000	9.250	NA	BB	BB
4Finance Holding SA	Finance	12/04/2017	USD	325	10.750	B3	B+	
Turkiye Is Bankasi AS - Isbank	Finance	20/04/2017	USD	750	6.125	Ba1		BB+
Metalloinvest Finance DAC	Mining	25/04/2017	USD	800	4.850	Ba2	BB	BB
TC Ziraat Bankasi AS	Finance	25/04/2017	USD	600	5.125	Ba1		BB+
Credit Bank of Moscow OAO - MKB	Finance	26/04/2017	USD	700	8.875	NA		B-
PJSC PhosAgro OAO	Chemicals	26/04/2017	USD	500	3.950	Ba1	BBB-	BB+
Rusal Capital DAC	Metal & Steel	26/04/2017	USD	500	5.300	B1		B+
Koks OAO	Mining	27/04/2017	USD	500	7.500	B2	B-	B
MHP SA	Food & Beverage	02/05/2017	USD	500	7.750		B	B-
Fibabanka AS	Finance	03/05/2017	USD	300	7.750	NA		B+
Aktif Yatirim Bankasi AS	Finance	10/05/2017	USD	118	7.000	NA	NA	NA
Turkiye Garanti Bankasi AS	Finance	16/05/2017	USD	750	6.125	Ba3		BB+
Turkiye Vakiflar Bankasi TAO - VakifBank	Finance	23/05/2017	USD	500	5.625	Ba1		BB+
BGEO Group plc	Finance	24/05/2017	GEL	500	11.000	Ba3		BB-
GTLK Europe dac	Finance	24/05/2017	USD	500	5.125	Ba3		BB
Tinkoff Bank AO	Finance	08/06/2017	USD	300	9.250	B1		B-
VimpelCom Holdings BV	Telecommunications	13/06/2017	USD	900	4.950	Ba2	BB	BB+
			USD	600	3.950	Ba2	BB	BB+
Turkiye Is Bankasi AS - Isbank	Finance	22/06/2017	USD	500	7.000	B1		BB
EuroChem Finance dac	Chemicals	27/06/2017	USD	500	3.950	BB-		BB

Source: Dealogic

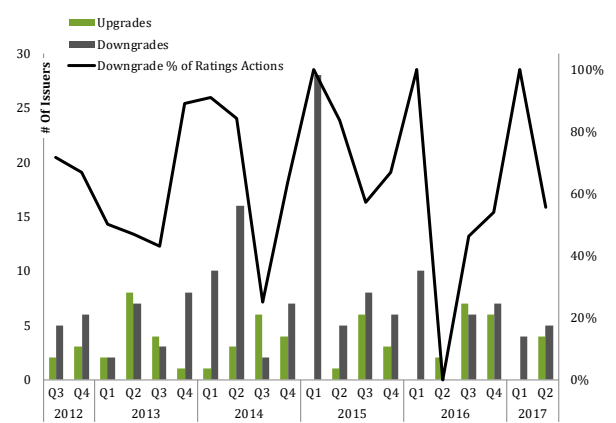
6 Credit Quality

6.1 Developed Europe Issuer Rating Actions⁵



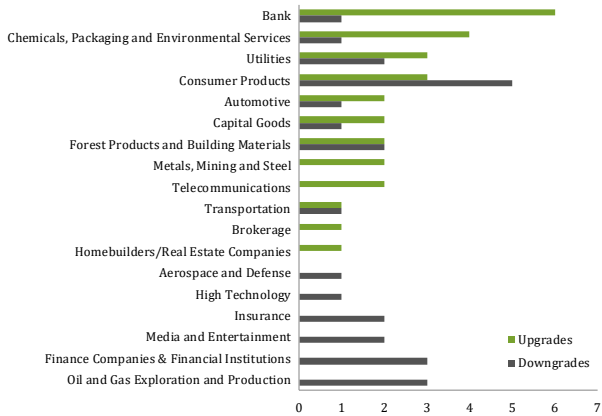
Source: Standard and Poor's

6.2 Emerging Europe Issuer Rating Actions⁶



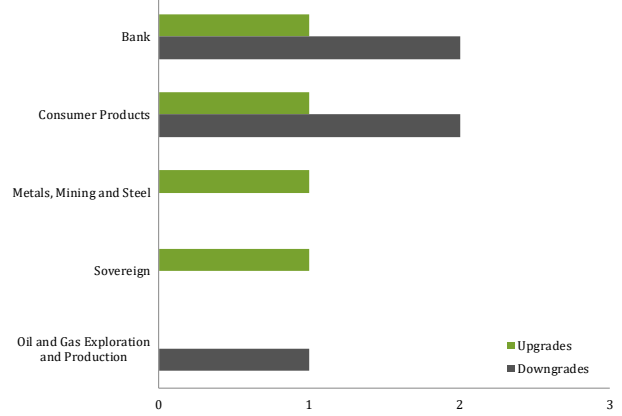
Source: Standard & Poor's

6.3 Developed European Industry Rating Actions by Number of Ratings: 2Q 2017



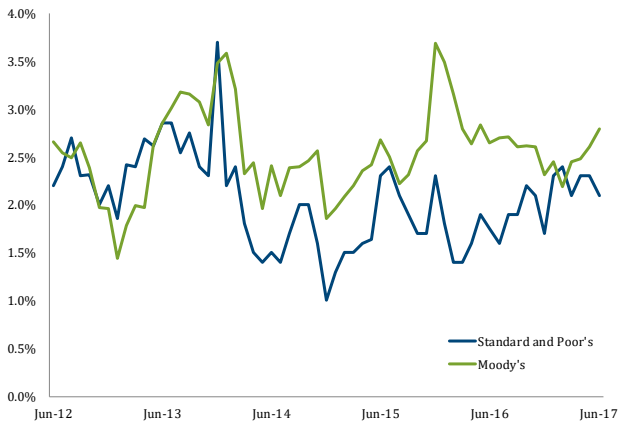
Source: Standard & Poor's

6.4 Emerging European Industry Rating Actions by Number of Ratings: 2Q 2017



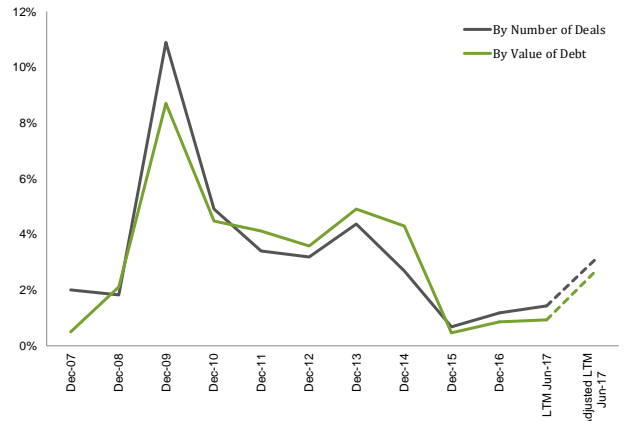
Source: Standard & Poor's

6.5 European High Yield Default Rates



Source: Standard & Poor's, Moody's

6.6 European Leveraged Loan Default Rates⁷



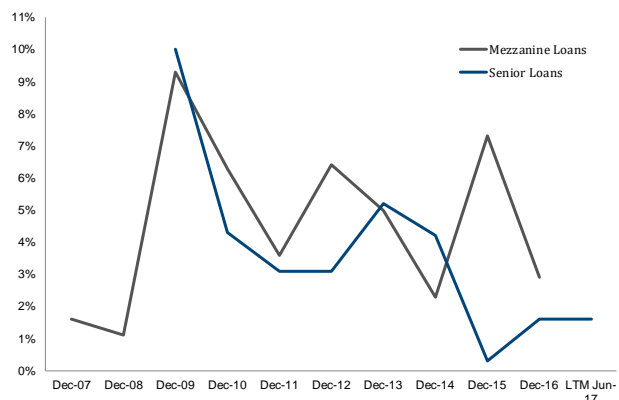
Source: Fitch Leveraged Credit Database

⁵ Numbers include both corporate and sovereigns.

⁶ Numbers include both corporate and sovereigns.

⁷ Includes c* and cc* rated issuers as if those had already defaulted

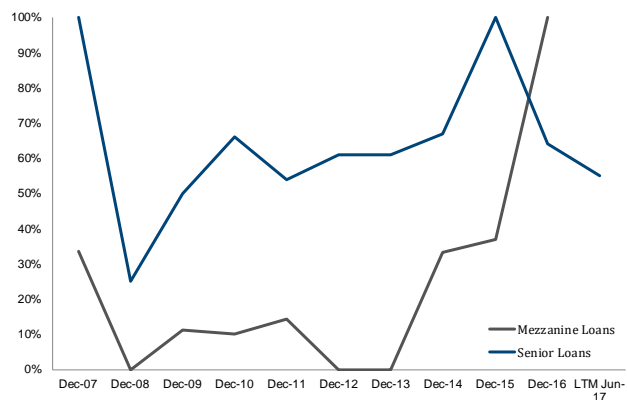
6.7 Mezzanine and Senior Loan Default Rate



Note: There were no mezzanine defaults or mezzanine loans outstanding in LTM Jun-17.

Source: Fitch Leveraged Credit Database

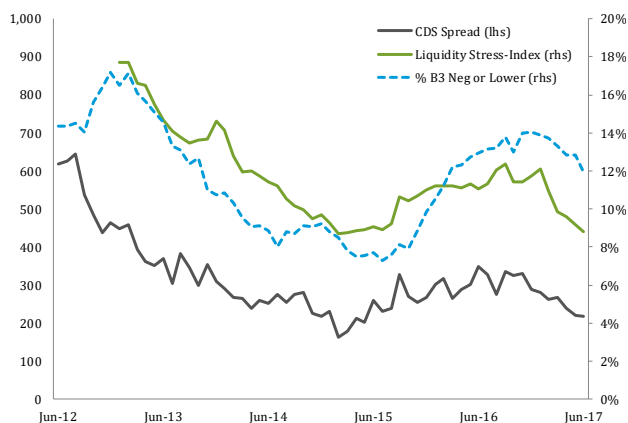
6.8 Mezzanine and Senior Loan Recovery Rates



Note: There were no mezzanine defaults or mezzanine loans outstanding in LTM Jun-17.

Source: Fitch Leveraged Credit Database

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



Source: Moody's

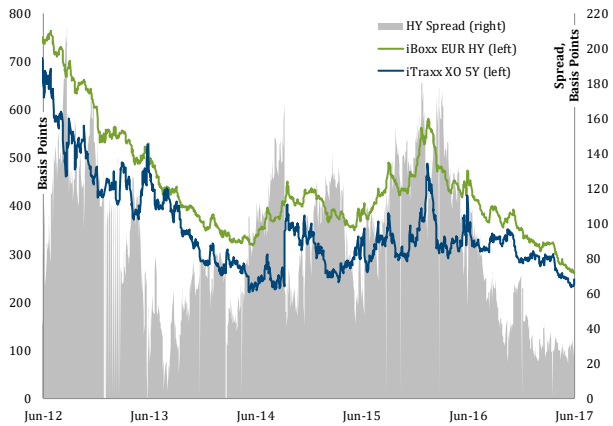
6.10 European Defaults

Issuer	Industry Group	Country	Date	Reported By	Reason
Eastcomtrans LLP	Transportation	Kazakhstan	April 2017	Moody's	Distressed exchange
Agrokor D.D.	Retail	Croatia	May 2017	Moody's, S&P	Missed interest payment
CGG Holding (U.S.) Inc.	Energy	France	June 2017	Moody's	Bankruptcy
CGG SA	Energy	France	June 2017	Moody's, S&P	Bankruptcy
Frigoglass SAIC	Manufacturing	Greece	June 2017	Moody's, S&P	Missed interest payment
Vivarte	Retail	France	June 2017	Moody's	Distressed exchange
Novartex	Consumer Products	France	June 2017	S&P	Distressed exchange

Source: Standard & Poor's, Moody's

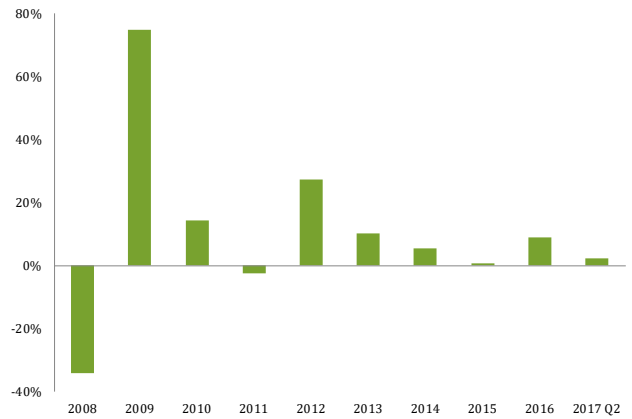
7 Relative Value and Total Return

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



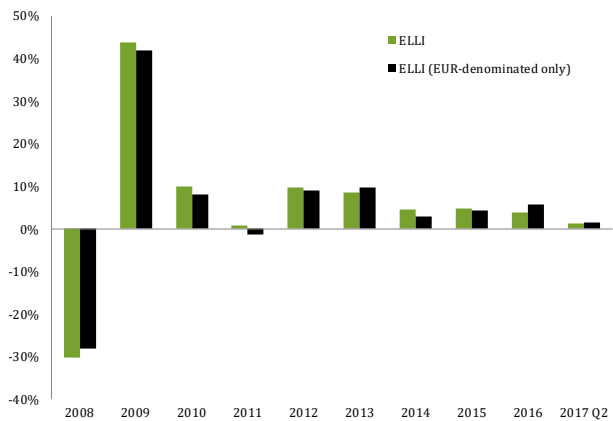
Source: Thomson Reuters Eikon, Markit

7.2 European HY Bond Total Return



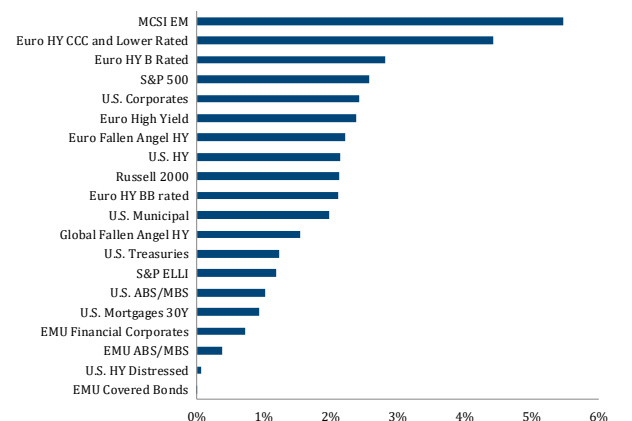
Source: BAML

7.3 European Leveraged Loan Total Return



Source: Standard & Poor's LCD

7.4 Asset Class Total Return, 2Q 2017



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 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

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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