

# European High Yield & Leveraged Loan Report



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# European Leveraged Finance, First Quarter 2015

## Highlights and Market Environment

### Highlights

European leveraged finance issuance (leveraged loans and high yield bonds) more than doubled in 1Q'15 to €57.7 billion, a 112.8% increase quarter-over-quarter (q-o-q) and a 25.2% increase year-over-year (y-o-y). The increase q-o-q stems from the large rise in high yield bond issuance, which more than quadrupled in the first quarter of 2015; the high yield share of the leveraged finance market increased to 61.2%, up from 30.4% in 4Q'14.

### Market and Economic Environment

According to the April 2015 European Central Bank lending survey, credit standards for loans to enterprises, consumer credit and loans to households other than for house purchase continued to ease in net terms in the first quarter of 2015, while the credit standards for loans to households for house purchase tightened slightly in net terms. Despite the easing in most categories during the quarter the European Central Bank stated that the level of credit standards is still relatively tight in historical terms. In 1Q'15, euro area banks reported a net easing of credit standards on loans to enterprises for the fourth consecutive quarter driven in particular by banks' cost of funds and balance sheet constraints and competition. Across firm size, credit standards were eased on loans to both large firms and small and medium-sized enterprises (SMEs). Credit standards on loans to enterprises have improved in all large euro area countries except for Spain, in particular in Italy, and switched from a net tightening to a net easing in the Netherlands.

Net loan demand continued to be positive for loans to enterprises, but fell back from the high level reported in the fourth quarter of 2014. Net demand for loans to enterprises continued to improve, however at a slower pace. The net increase in demand was 6% in 1Q'15, down from 18% in the previous quarter. Net demand for housing loans continued to increase at a fast pace (29%, up from 24% in the previous quarter), while it remained broadly stable for consumer credit (13%, after 14%).

## Issuance

### Issuance: Leveraged Loans

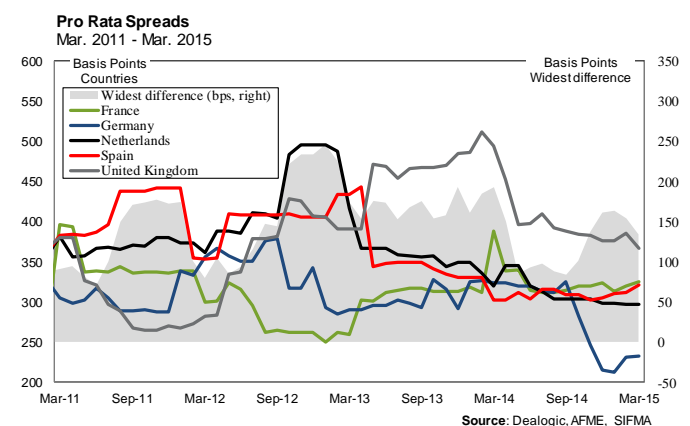
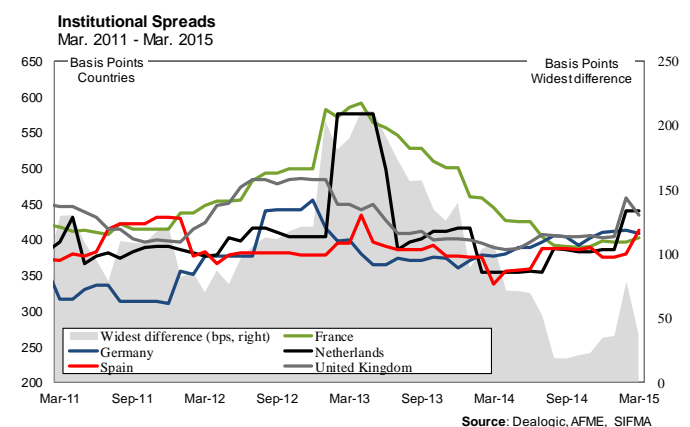
Leveraged loan issuance, including first lien, second lien, and mezzanine financing, increased in the first quarter of 2015 to €22.4 billion, up 18.7% q-o-q (€18.9 billion) and up 10.8% y-o-y (€20.2 billion). Amend-and-extend ("A&E") transactions continue to take place, with slightly more than a quarter of deals in the first quarter of 2015 structured as such (€6.0 billion or 27.0% by euro amount), a slight increase from the fourth quarter's €5.8 billion.

In 1Q'15, no mezzanine loans and €0.3 billion in second liens were financed. Pricing spreads for institutional loans widened by 15.8 basis points (bps) while spreads for pro

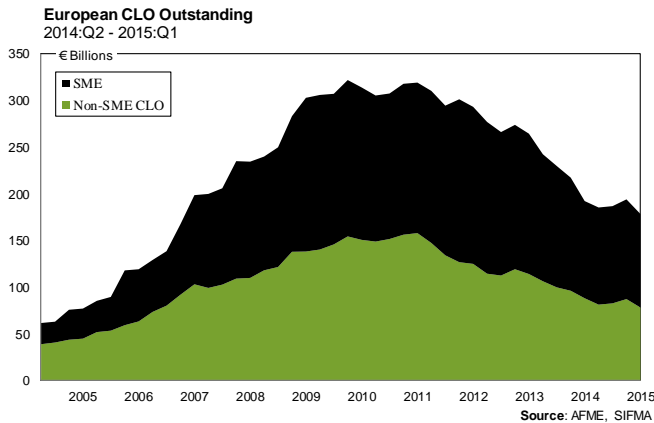
rata loans widened by 6.2 bps. Mezzanine loan spreads remained at 0 bps in the first quarter of 2015 as no mezzanine loans were financed so far in 2015.

According to Dealogic, the leading sector in leveraged loan issuance for the first quarter of 2015 was construction/building (€3.54 billion), followed by telecommunications (€3.30 billion) and computers & electronics (€3.28 billion).

The share of deals aimed to refinance and/or repay debt decreased q-o-q and y-o-y, dropping to 44.2% of all deals by euro amount in the first quarter of 2015, compared to 56.4% in 4Q'14 and 62.0% in 1Q'14.



European CLO outstandings, including SME deals, decreased by an annualized rate of 28.6% in 1Q'15, ending March 2015 at €178.4 billion. Non-SME CLOs fell at an annualized rate of 35.5% in 1Q'15 while SME CLOs decreased by an annualized 22.6%.



## Issuance: High Yield Bonds

Primary issuance in 1Q'15 totalled €35.3 billion on 61 deals, an increase of 327.9% and 125.9%, respectively, q-o-q and y-o-y. Issuance from developed market Europe increased in the first quarter of 2015 while the issuance from emerging market Europe fell.

Primary issuance in developed market Europe in the first quarter of 2015 was €35.2 billion on 60 deals, a sharp increase of 365.6% and 42.1% by euro amount, respectively, q-o-q (€4.6 billion on 23 deals) and y-o-y (€24.8 billion on 61 deals). In emerging market Europe primary issuance in 1Q'15 was €0.07 billion on 1 deal, a decline of 90.2% and 93.8% by euro amount, respectively, q-o-q (€0.68 billion on 4 deals) and y-o-y (€1.08 billion on 3 deals).

In first quarter 2015, average deal sizes from developed market Europe increased by 15.2% to an average of €658.6 million per deal (€571.5 million in 4Q'14). Average deal sizes for emerging market Europe fell for the fourth consecutive quarter to €66.7 million in 1Q'15, down 60.9% from €170.5 million in 4Q'14.

High yield issuance for refinancing and/or repayment of debt in developed market Europe decreased q-o-q and y-o-y, representing 14.9% of all issuance by euro amount in 1Q'15, compared to 34.1% in 4Q'14 and 27.7% in 1Q'14. In emerging market Europe, no debt was issued for refinancing and/or repayment of debt purposes in the first quarter of 2015.

Two sectors accounted for almost half of the total high yield issuance in 1Q'15: telecommunications with €12.4 billion issued (35.1% of total) and leisure & recreation (€4.9 billion, 13.8%). Finance sector ranked third with €3.2 billion (9.0% of total) with the remainder of the issuance in the first quarter split among many industries.

The proportion of USD-denominated issuance decreased in 1Q'15, representing 28.6% of all issuance by euro

amount, compared to 53.4% in 4Q'14 but increased y-o-y (17.2% in 1Q'14). USD-denominated issuance in developed market Europe decreased to 28.5% of all issuance by euro amount from 50.3% in 4Q'14, while USD-denominated issuance in emerging market Europe rose to represent 100% by euro amount, compared to 87.5% in 4Q'14.

## Returns & Credit Quality

Euro B-rated high yield bonds led returns in the first quarter of 2015 (4.57%) followed by Russell 2000 (3.99%) and global fallen angel high yield bonds (3.56%). U.S. distressed high yield, however, performed poorly, returning negative 0.72% as the worst performing asset class.

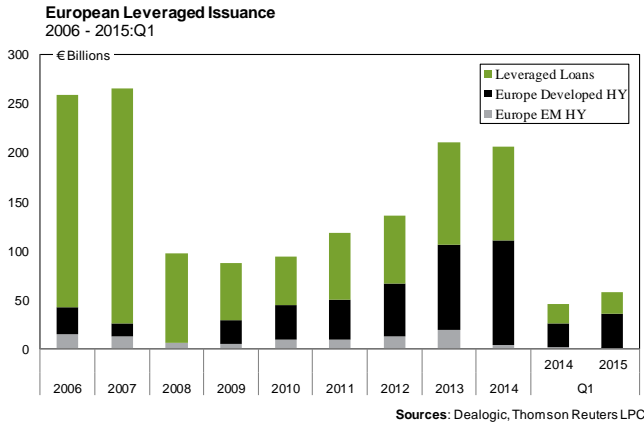
High-yield bond default rates increased in March 2015, with S&P reporting 1.5% (up from 1.0% end-December 2014). Five bond-related defaults were reported in the first quarter, three in developed market Europe and two in emerging market Europe (Talon PIKco, Afren, Commercial Bank Sudostraitelny Bank, Bank Tavridhesky and Norske Skogindustrier).

According to S&P, in 1Q'15 downgrades exceeded upgrades in developed market Europe and emerging market Europe, with 36 downgrades to 14 upgrades and 28 downgrades to zero upgrades, respectively. Both upgrades and downgrades were distributed across the sector spectrum. The sector with the most rating actions in first quarter 2015 was banks with 9 downgrades in developed market Europe and 9 downgrades in emerging market Europe.

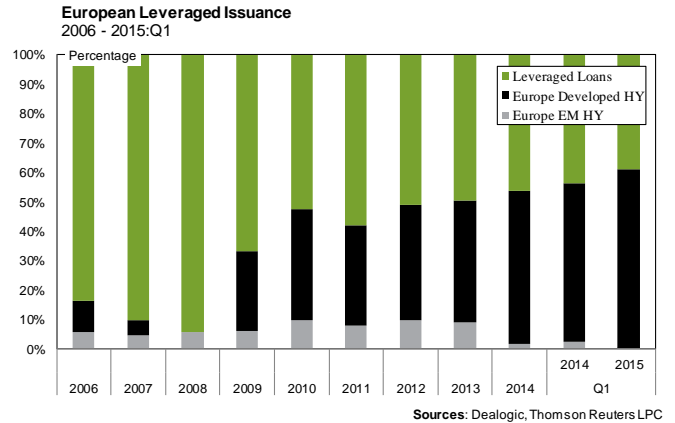
# ISSUANCE

## 1. Leveraged Finance Overview

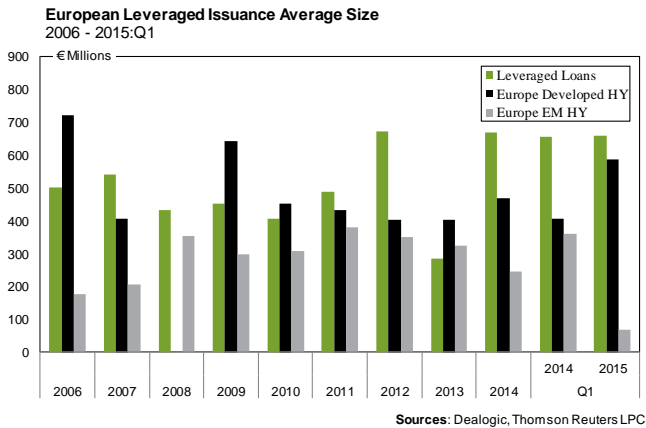
### 1.1. European Leveraged Issuance by Type



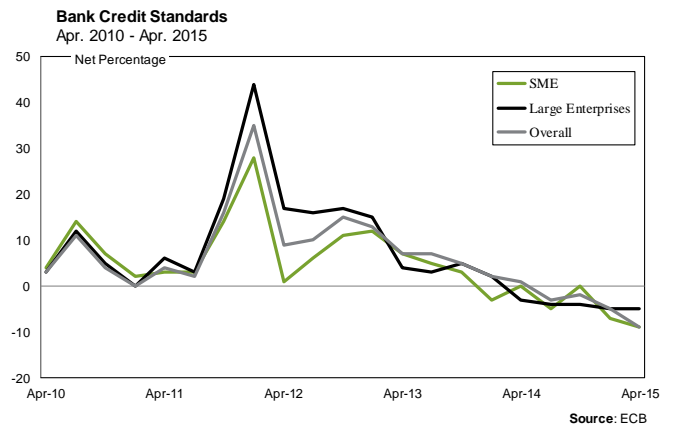
### 1.2. European Leveraged Issuance by Percentage



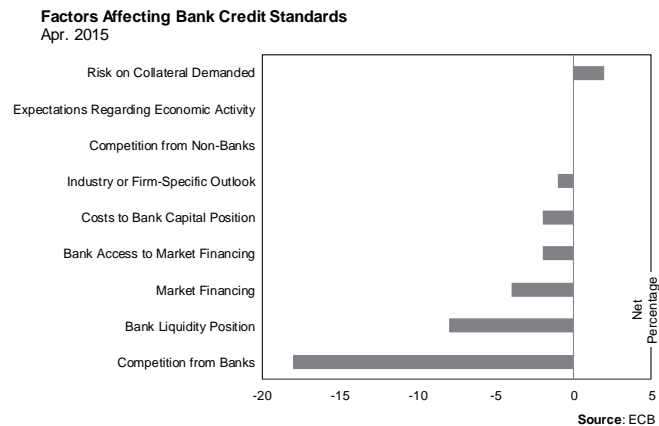
### 1.3. European Leveraged Issuance Average Deal Size



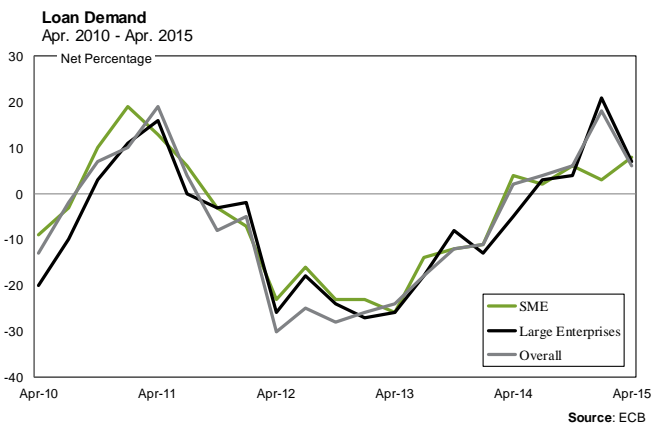
### 1.4. Bank Credit Standards<sup>1</sup>



### 1.5. Factors Affecting Bank Credit Standards<sup>2</sup>



### 1.6. Loan Demand<sup>3</sup>



<sup>1</sup> A positive net percentage number signifies tightening bank credit; a negative net percentage number signifies easing credit.

<sup>2</sup> A positive net percentage signifies the factor contributed to tightening credit standards; a negative net percentage signifies the factor contributed to easing credit standards.

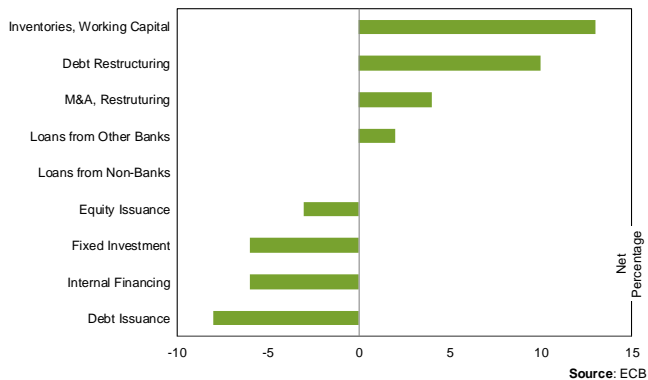
<sup>3</sup> A positive net percentage signifies increased demand; a negative net percentage signifies decreased demand.

## ISSUANCE

### 1.7. Factors Affecting Loan Demand<sup>4</sup>

#### Factors Affecting Loan Demand

Apr. 2015



### 1.8. Global Comparison – High Yield Issuance

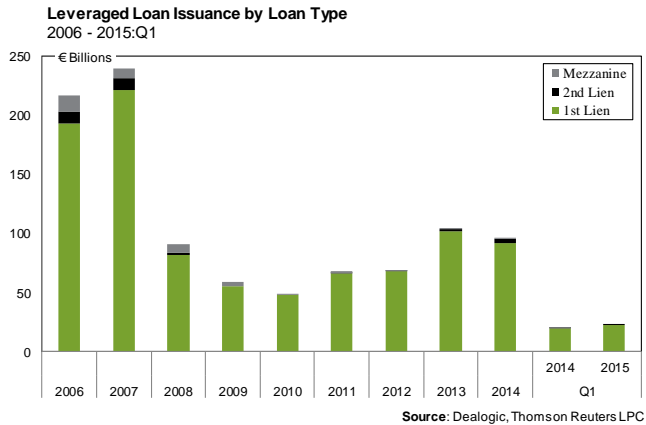
€ Billions	2015	2014					Prior	
	Q1	Q1	Q2	Q3	Q4	Full Year	2013	2012
<b>United States</b>	63.0	44.7	51.0	48.5	42.9	187.0	197.0	212.9
<b>Asia Pacific</b>	9.2	8.6	8.1	9.0	8.9	34.6	41.5	30.2
<b>Europe</b>	38.7	28.8	61.7	21.8	10.8	123.0	120.9	82.8

<sup>4</sup> A positive net percentage signifies a factor that contributed to higher demand; a negative net percentage signifies a factor that contributed to lower demand.

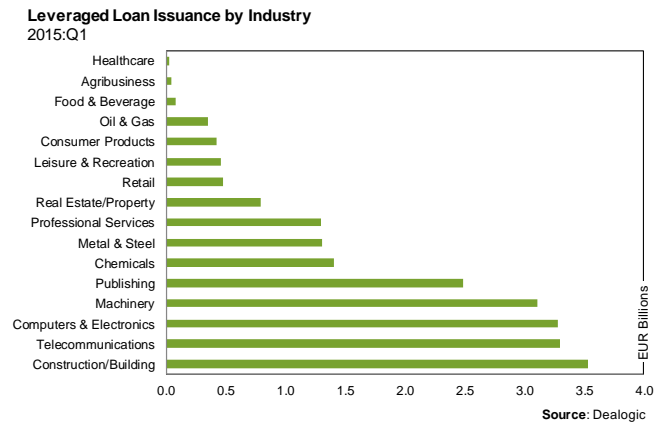
## ISSUANCE

### 2. Issuance – Leveraged Loans

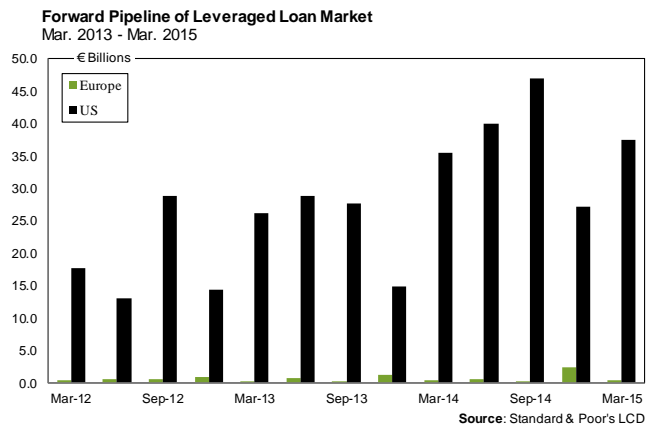
#### 2.1. European Leveraged Loan Issuance By Loan Type



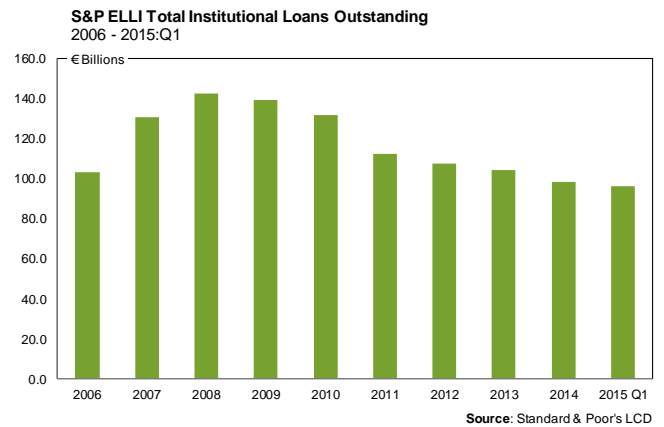
#### 2.2. European Leveraged Loan Issuance by Industry Sector



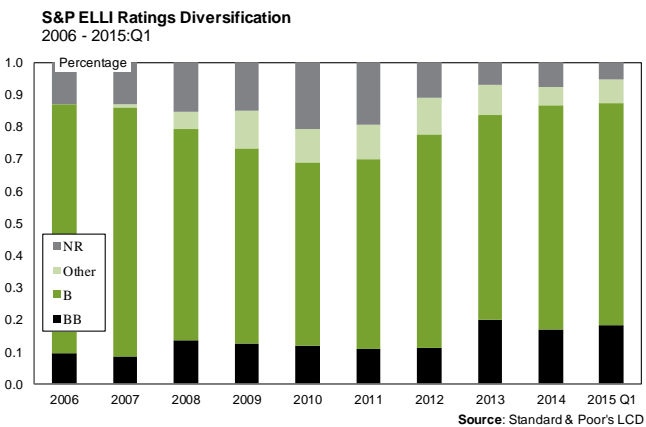
#### 2.3. Forward Pipeline of Leveraged Loan Market



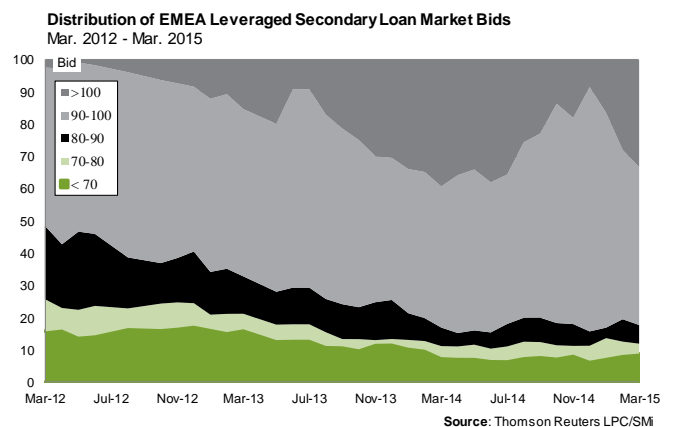
#### 2.4. S&P ELLI Total Institutional Loans Outstanding



#### 2.5. S&P ELLI Ratings Diversification

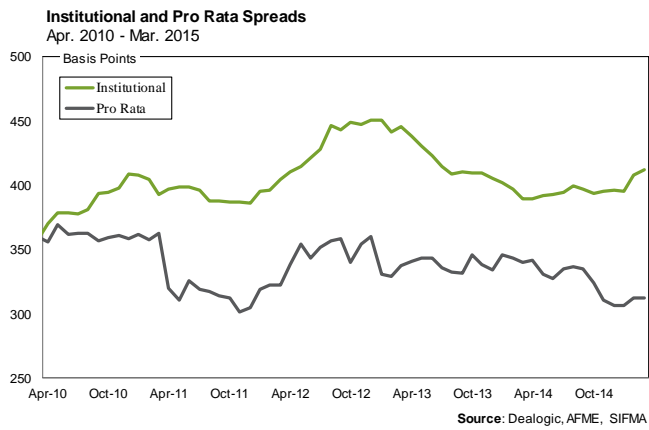


#### 2.6. Distribution of Leveraged Loan Secondary Market Bids

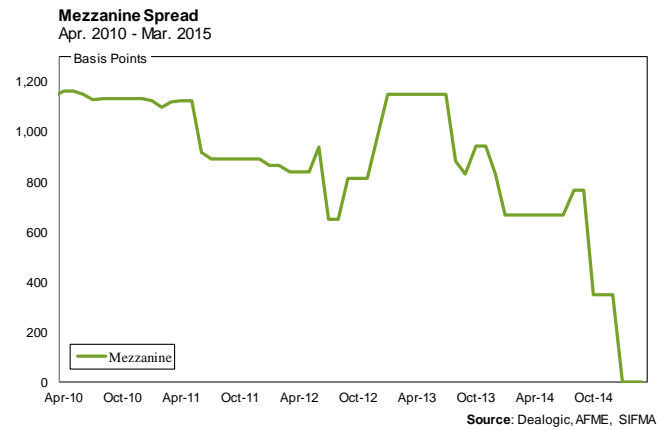


## ISSUANCE

### 2.7. Institutional and Pro Rata Spreads



### 2.8. Mezzanine Spread

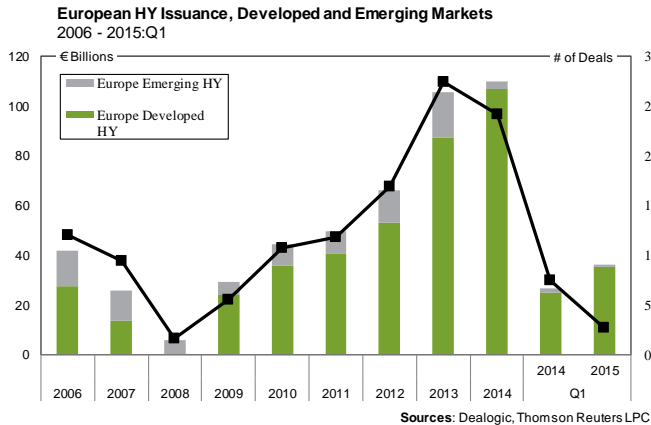




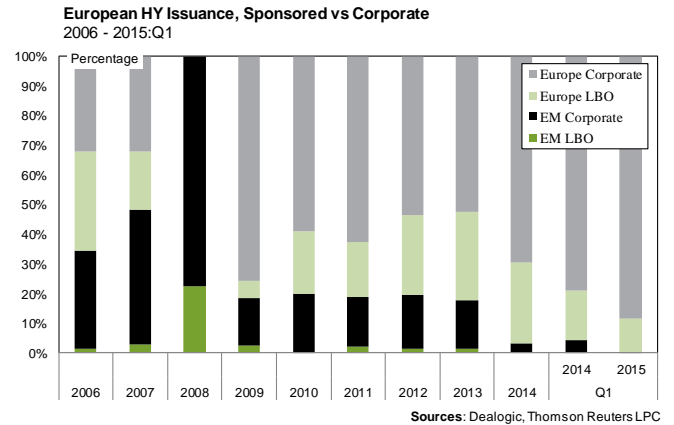
## ISSUANCE

### 3. Issuance – High Yield Bonds Overview

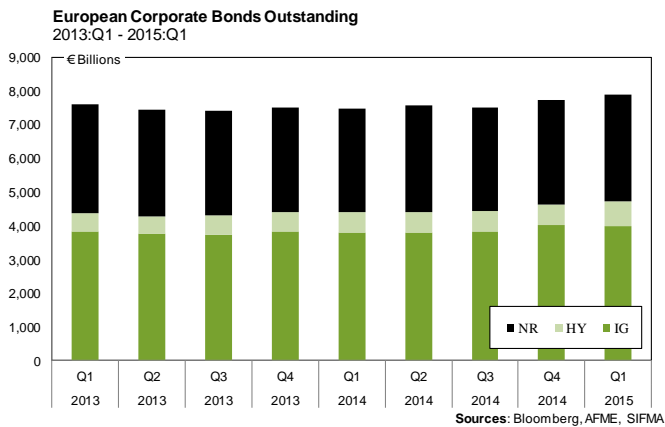
#### 3.1. European HY Bond Issuance, Developed and Emerging Market



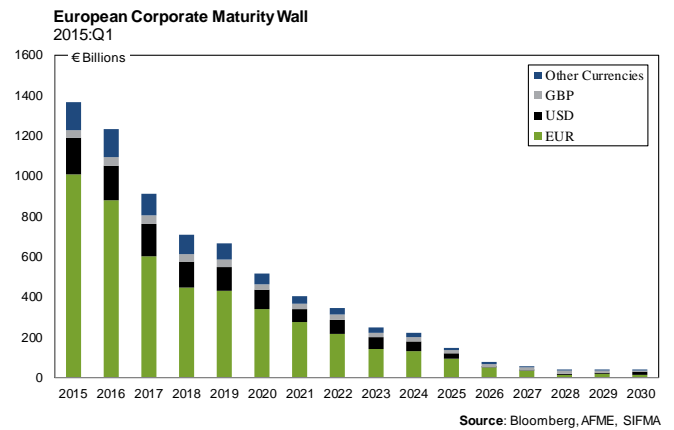
#### 3.2. European HY Bond Issuance, Sponsored vs. Corporate



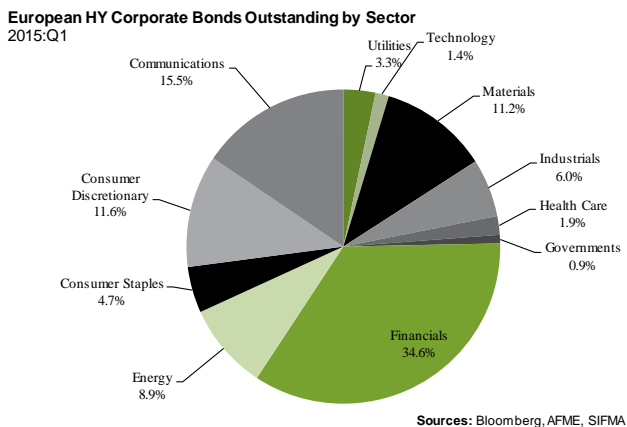
#### 3.3. European Corporate Bonds Outstanding



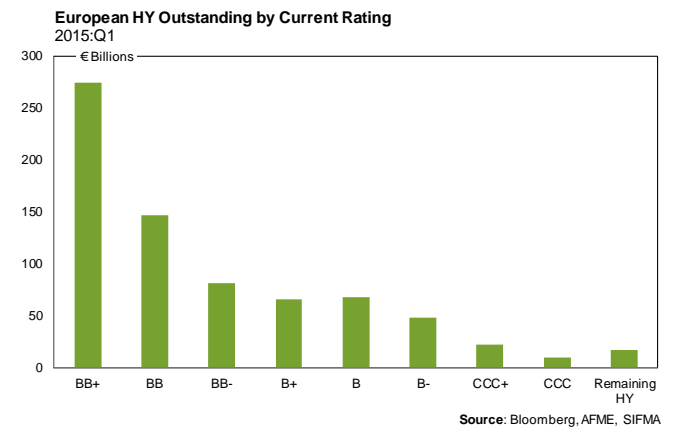
#### 3.4. European Corporate Bonds Maturity Wall



#### 3.5. European Corporate HY Bonds Outstanding By Sector

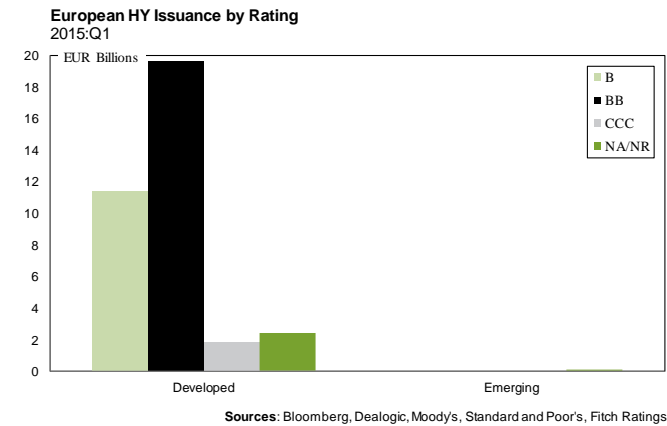


#### 3.6. European Corporate HY Bonds Outstanding by Current Rating

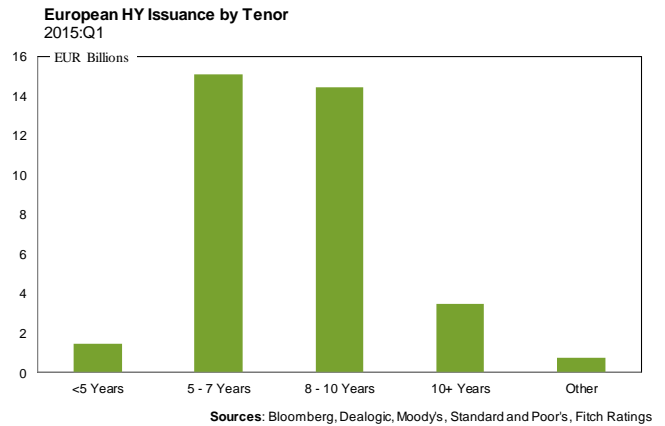


## ISSUANCE

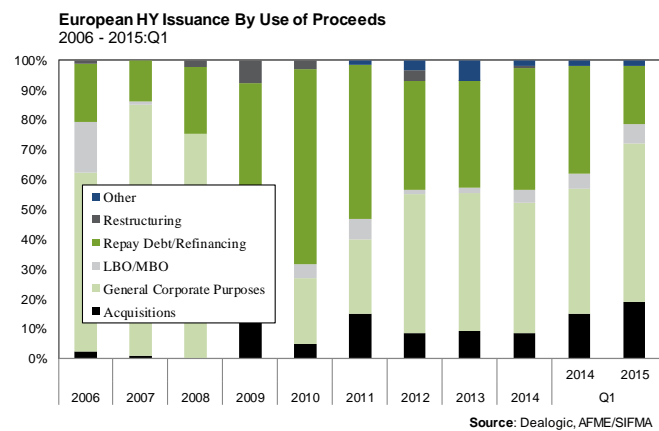
### 3.7. European Corporate Bond Issuance by Rating



### 3.8. European Corporate Bond Issuance by Tenor

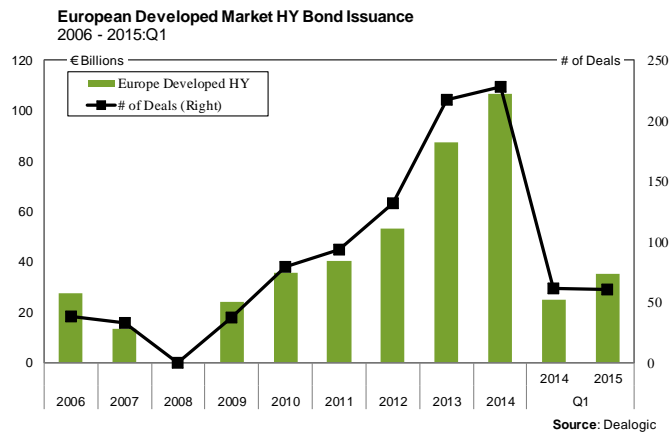


### 3.9. European HY Use of Proceeds

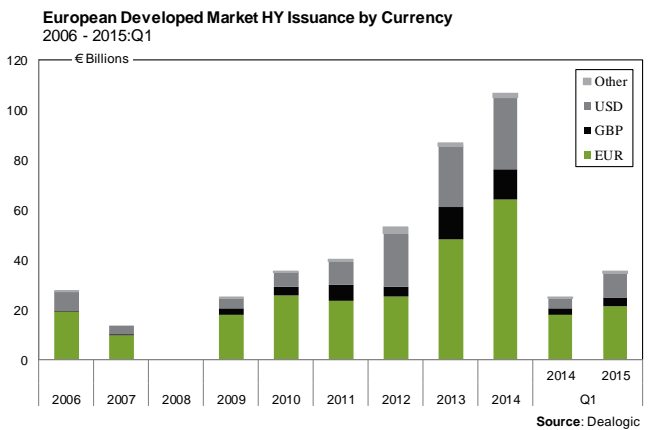


## 4. Issuance – European Developed Market High Yield Bonds

### 4.1. European Developed Market HY Bond Issuance

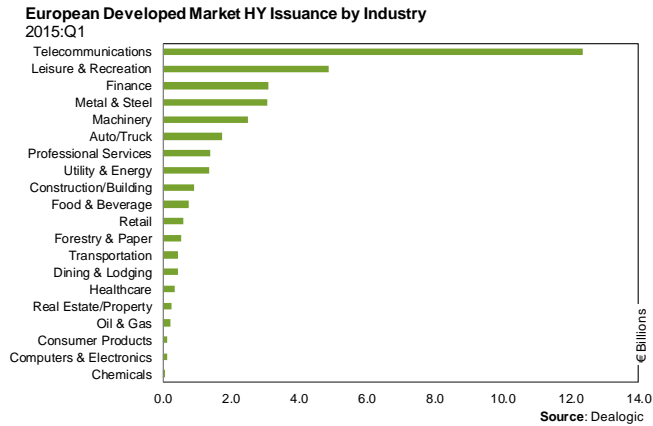


### 4.2. European Developed Market HY Issuance by Currency

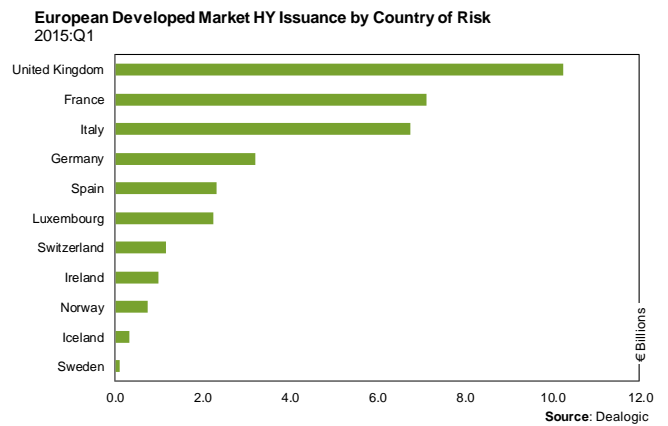


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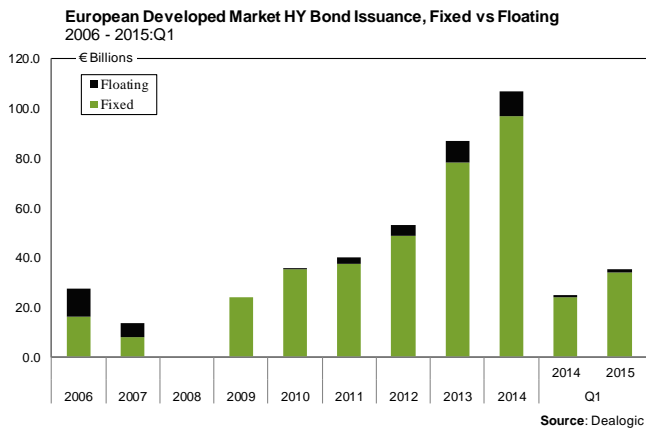
### 4.3. European Developed Market HY Issuance by Industry



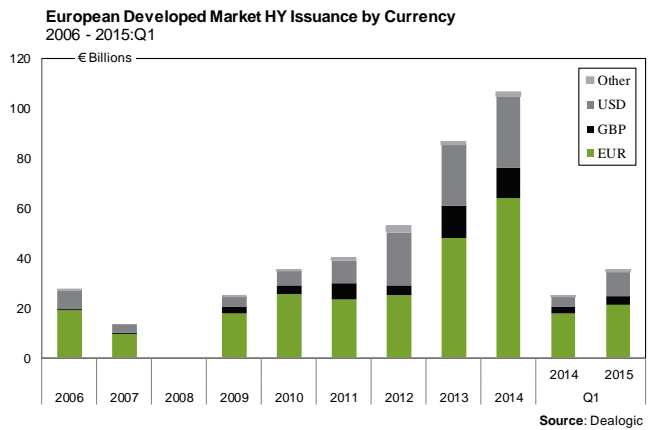
### 4.4. European Developed Market HY Issuance by Country of Risk



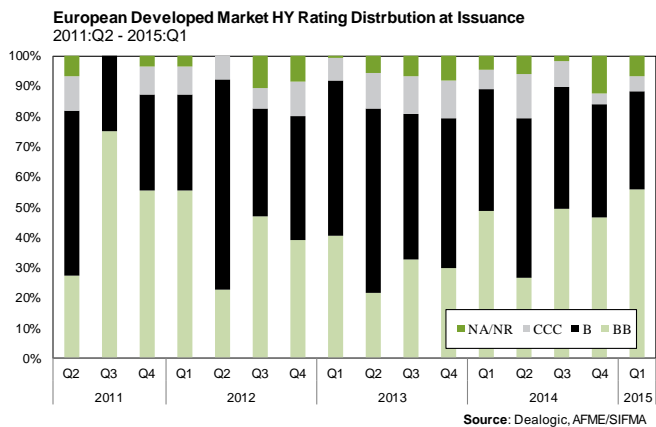
### 4.5. European Developed Market HY Issuance, Fixed vs. Floating



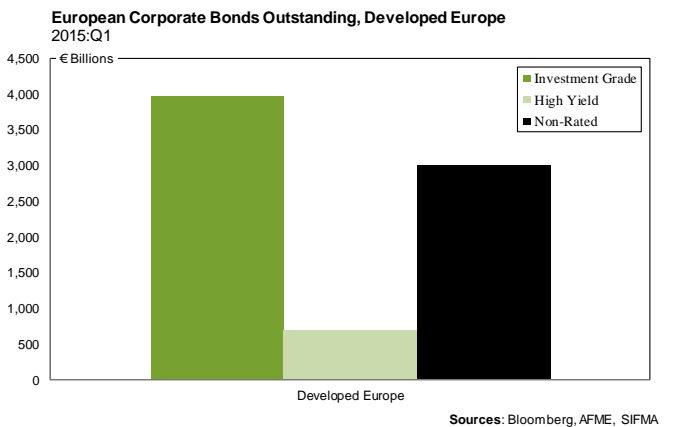
### 4.6. European Developed Market HY Issuance, Sponsored vs. Corporate



### 4.7. European Developed Market HY Rating Distribution at Issuance



### 4.8. European Developed Market Corporate Bonds Outstanding



# ISSUANCE

## 4.9. European Developed Market HY Bond Issuance

Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
ArcelorMittal SA	Metal & Steel	08/01/2015	EUR	750	3.125 Ba1	BB	BB+	
Hipercor SA	Retail	09/01/2015	EUR	500	3.875 NA	NA	NA	
BPE Financiaciones SA	Finance	12/01/2015	EUR	500	2.000 Ba3	NA	BB+	
Virgin Media Secured Finance plc	Telecommunications	13/01/2015	USD	400	5.750 B2	B	B-	
			EUR	460	4.500 B2	B	B-	
			GBP	300	5.125 Ba3	BB-	BB+	
Ziggo Bond Finance BV	Telecommunications	14/01/2015	USD	400	5.875 B2	BB-	NA	
			EUR	400	4.625 B2	B	NA	
HP Pelzer Holding GmbH	Auto/Truck	15/01/2015	EUR	50	7.500 B2	B+	BB	
Thomas Cook Finance plc	Professional Services	16/01/2015	EUR	400	6.750 NA	B	B+	
Hipercor SA	Retail	16/01/2015	EUR	100	3.875 NA	NA	NA	
ThyssenKrupp AG	Metal & Steel	16/01/2015	USD	100	4.130 Ba1	BB	NA	
Landsvirkjun	Utility & Energy	20/01/2015	USD	30	4.304 NA	NA	NA	
Ziggo Secured Finance BV	Telecommunications	21/01/2015	EUR	800	3.750 Ba3	NA	NA	
Wagamama Finance plc	Dining & Lodging	21/01/2015	GBP	150	7.875 B2	B-	NA	
Albea Beauty Holdings SA	Chemicals	27/01/2015	EUR	45	8.750 NA	B	NA	
MEIF Renewable Energy UK plc	Utility & Energy	29/01/2015	GBP	190	6.750 Ba2	NA	BB	
Silk Bidco AS	Transportation	30/01/2015	EUR	455	7.500 NA	B2	B	
Prima Industrie SpA	Machinery	30/01/2015	EUR	40	5.875 NA	NA	NA	
Altice SA	Telecommunications	30/01/2015	EUR	750	6.250 NA	B3	B	
			USD	1,480	7.625 NA	B3	B	
Cerba European Lab	Healthcare	30/01/2015	EUR	145	8.250 Caa1	B-	NA	
			EUR	85	7.000 B2	B+	BB-	
Altice Finco SA	Telecommunications	30/01/2015	USD	385	7.625 B3	B-	NA	
Altice Financing SA	Telecommunications	30/01/2015	EUR	500	5.250 NA	B1	BB-	
			USD	2,060	6.625 NA	B1	BB-	
Norske Skogindustrier ASA	Forestry & Paper	02/02/2015	EUR	290	11.750 B3e	NA	NA	
SIG Combibloc Holding SCA	Machinery	03/02/2015	EUR	675	7.750 Caa1	B-	NA	
Viridian Group FundCo II Ltd	Utility & Energy	04/02/2015	EUR	600	7.500 B2	NA	B+	
Veneto Banca ScpA	Finance	04/02/2015	EUR	51	6.950 NA	NA	NA	
Labco SAS	Healthcare	04/02/2015	EUR	100	8.500 B3	B+	BB-	
Banco Popular Espanol SA	Finance	05/02/2015	EUR	750	8.250 Caa1u	NA	NA	
Georgia Worldwide plc	Leisure & Recreation	09/02/2015	EUR	850	4.750 Ba2	BB+	NA	
			EUR	700	4.125 Ba2	BB+	NA	
			USD	1,100	6.500 Ba3	BB+	NA	
			USD	1,500	6.250 Ba2	BB+	NA	
			USD	600	5.625 Ba2	BB+	NA	
Sunrise Communications Holdings SA	Telecommunications	10/02/2015	CHF	500	2.125 Ba2	BB+	BBB-	
Paternoster Holding III GmbH	Machinery	10/02/2015	EUR	225	8.500 B3	CCC+	NA	
Picard Bondco SA	Food & Beverage	10/02/2015	EUR	428	7.750 B3	B-	CCC	
Picard Groupe SAS	Food & Beverage	10/02/2015	EUR	342	3M EURIBOR + 425 B1	B+	BB-	
Smurfit Kappa Acquisitions	Forestry & Paper	11/02/2015	EUR	250	2.750 Ba1	BB+	BB+	
Lar Espana Real Estate Socimi SA	Real Estate/Property	12/02/2015	EUR	140	2.900 NA	NA	NA	
ThyssenKrupp AG	Metal & Steel	18/02/2015	EUR	600	2.500 Ba1	BB	BB+	
			EUR	750	1.750 Ba1	BB	BB+	
Jaguar Land Rover Automotive plc	Auto/Truck	19/02/2015	GBP	400	3.875 Ba2	BB	BB-	
Unitymedia Hessen GmbH & Co KG	Telecommunications	25/02/2015	EUR	500	3.500 Ba3	BB-	NA	
Unitymedia KabelBW GmbH	Telecommunications	02/03/2015	EUR	700	3.750 B3	B	NA	
Jaguar Land Rover Automotive plc	Auto/Truck	03/03/2015	USD	500	3.500 Ba2	BB	NA	
Bank of Ireland Mortgage Bank	Finance	03/03/2015	EUR	750	1.250 Ba1	BB+	NA	
Arion Banki hf	Finance	03/03/2015	EUR	300	3.125 NA	BB+	NA	
Faurecia SA	Auto/Truck	10/03/2015	EUR	500	3.125 B1	NA	BB-	
Merlin Entertainments plc	Leisure & Recreation	11/03/2015	EUR	500	2.750 Ba2	BB	NA	
Moto Finance plc	Dining & Lodging	11/03/2015	GBP	175	6.375 NA	NA	B+	
Millicom International Cellular SA	Telecommunications	11/03/2015	USD	500	6.000 Ba2	NA	BB+	
Play Finance 2 SA	Telecommunications	12/03/2015	EUR	125	5.250 B1	B	BB-	
Autostrada Brescia Verona Vicenza Padova SpA	Construction/Building	12/03/2015	EUR	600	2.375 NA	BBB-	BB+	
Wind Acquisition Finance SA	Telecommunications	12/03/2015	EUR	400	3M EURIBOR + 412.5 Ba3	NA	BB-	
			EUR	375	4.000 NA	BB	BB-	
Banca Popolare di Vicenza Scarl	Finance	12/03/2015	EUR	750	2.750 NA	NA	BB	
Vizrt Ltd	Computers & Electronics	13/03/2015	USD	113	3M LIBOR + 712.5 NA	NA	NA	
Virgin Media Secured Finance plc	Telecommunications	17/03/2015	USD	500	5.250 Ba3	BB-	BB-	
			GBP	525	4.875 Ba3	BB-	BB-	
Obrascon Huarte Lain SA - OHL	Construction/Building	17/03/2015	EUR	325	5.500 B1	NA	BB-	
Beni Stabili SpA SIHQ	Real Estate/Property	17/03/2015	EUR	125	2.125 NA	NA	NA	
Paprec France SAS	Utility & Energy	20/03/2015	EUR	185	7.375 B2	B-	NA	
			EUR	295	5.250 B1	B+	NA	

\*PIK (Payment in Kind); #Debut issue

Source: Bloomberg, Dealogic

## ISSUANCE

Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Intercos SpA	Consumer Products	23/03/2015	EUR	120	3.875	NA	NA	NA
Genel Energy Finance 3 Ltd	Oil & Gas	26/03/2015	USD	230	7.500	NA	NA	NA
AA Bond Co Ltd	Professional Services	27/03/2015	GBP	735	5.500	NA	BB-	NA
Schaeffler Finance BV	Machinery	27/03/2015	USD	600	4.750	Ba2	BB-	NA
			EUR	600	3.250	Ba2	NA	NA
			EUR	400	2.500	Ba2	NA	NA
			EUR	500	3.000	Ba1	BB	BB+
ArcelorMittal SA	Metal & Steel	30/03/2015	EUR	400	3M EURIBOR + 203	Ba1	BB	BB+
			USD	800		Ba3	BB	NA
UPCB Finance IV Ltd	Telecommunications	31/03/2015	USD	800	5.375	Ba3	BB	NA
Faurecia SA	Auto/Truck	31/03/2015	EUR	200	3.125	B1	NA	BB-

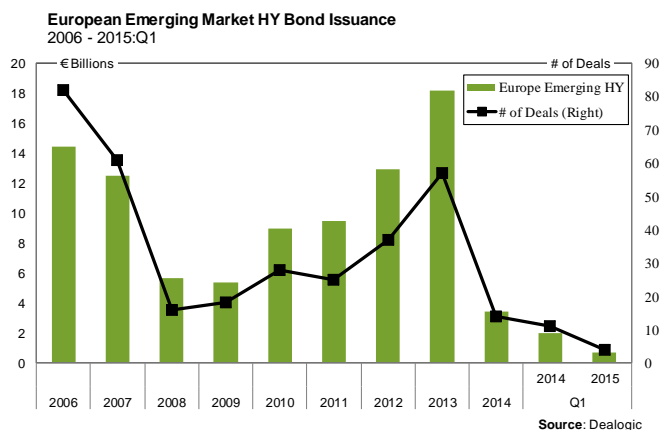
†PIK (Payment in Kind); ‡Debut issue

Source: Bloomberg, Dealogic

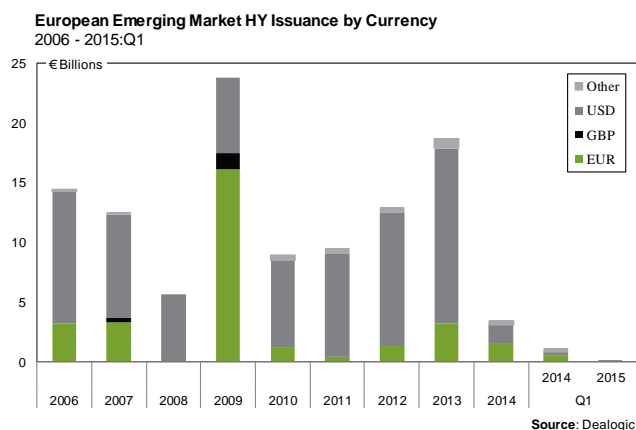
## ISSUANCE

### 5. Issuance – European Emerging Market High Yield Bonds

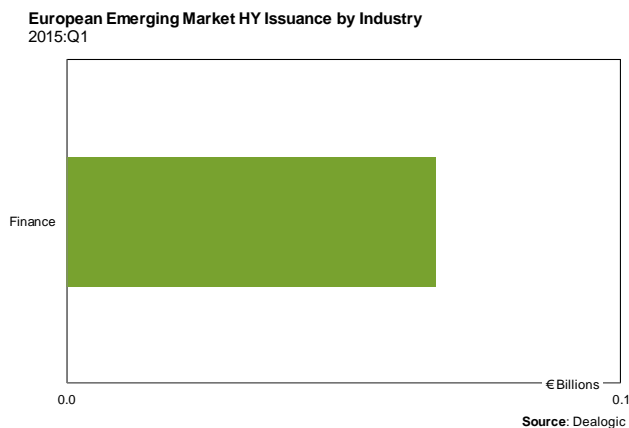
#### 5.1. European Emerging Market HY Bond Issuance



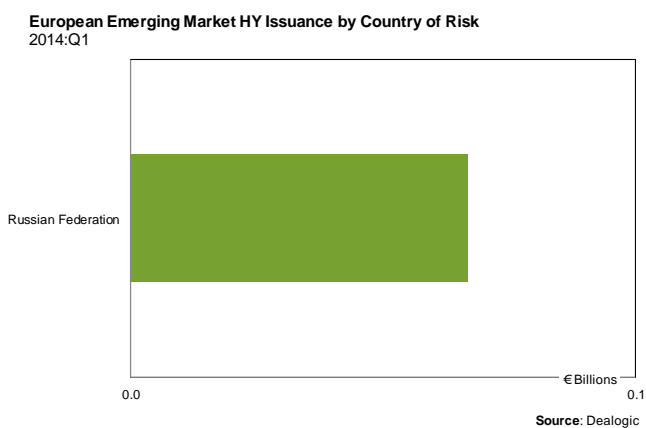
#### 5.2. European Emerging Market HY Bond Issuance by Currency



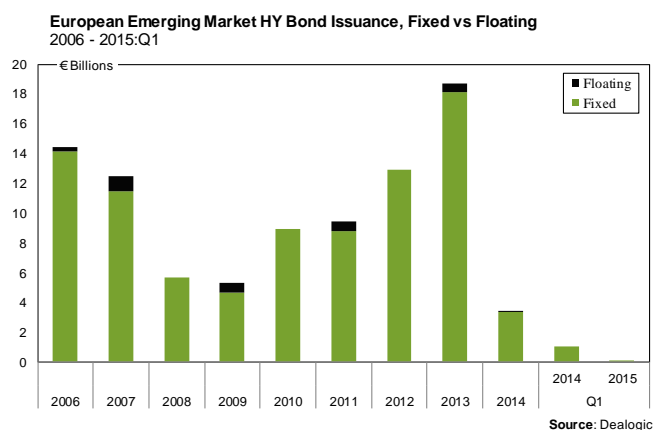
#### 5.3. European Emerging Market HY Issuance by Industry



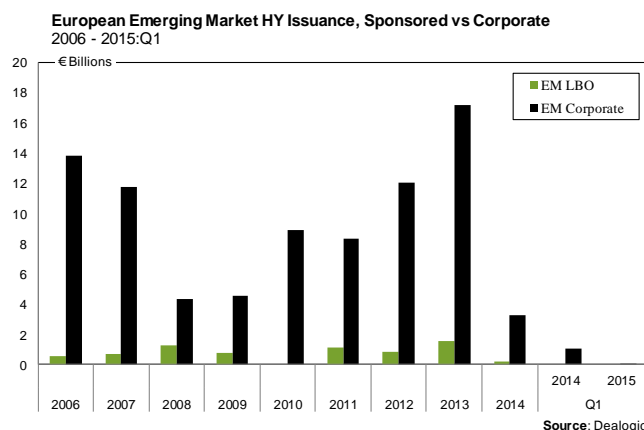
#### 5.4. European Emerging Market HY Issuance by Country of Risk



#### 5.5. European Emerging Market HY Issuance, Fixed vs. Floating

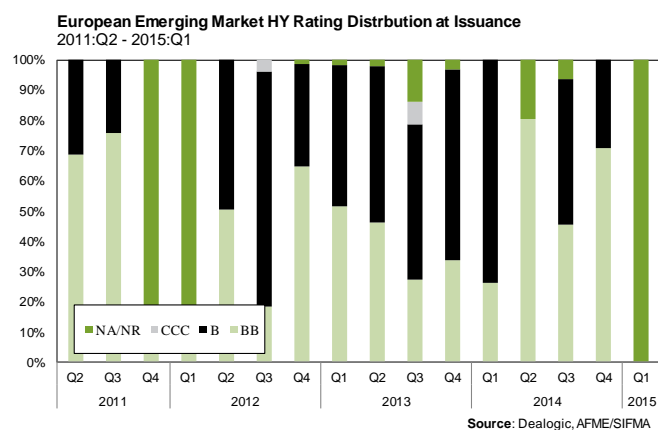


#### 5.6. European Emerging Market HY Issuance, Sponsored vs. Corporate

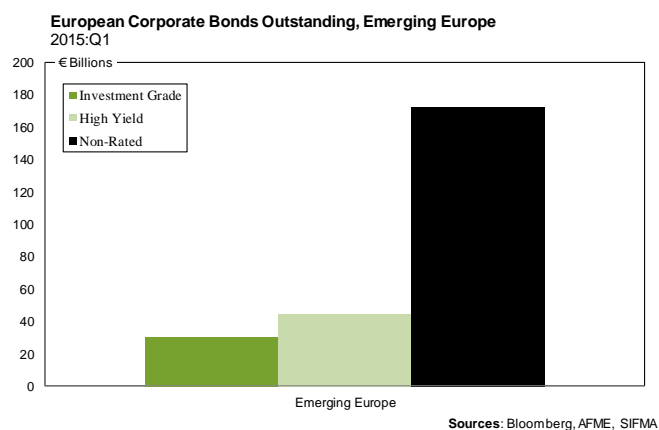


## ISSUANCE

### 5.7. European Emerging Market HY Rating Distribution at Issuance



### 5.8. European Emerging Market Corporate Bonds Outstanding



### 5.9. Emerging Market HY Bond Issuance

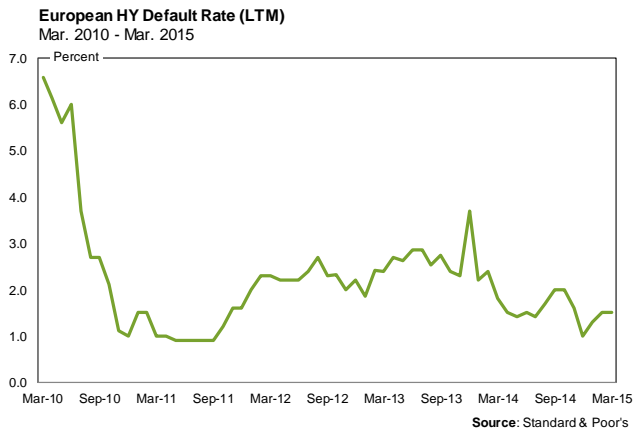
Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Bank URALSIB OAO	Finance	22/1/2015	USD	77	10.500	NA	NA	NA

†PIK (Payment in Kind); ‡Debut issue

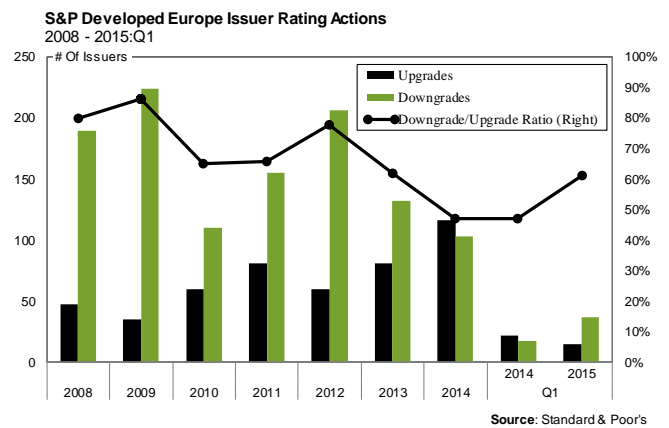
Source: Bloomberg, Dealogic

## 6. Credit Quality

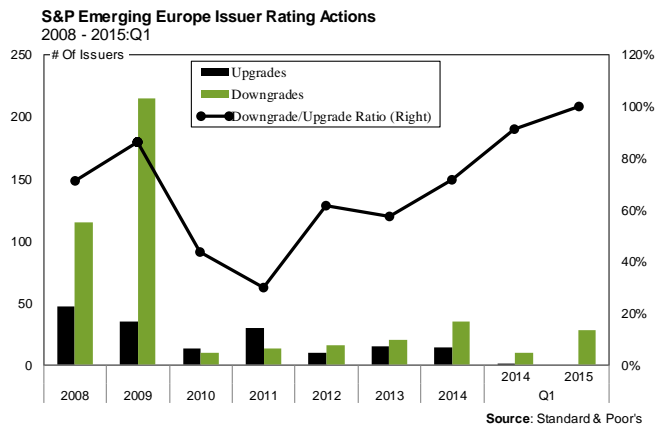
### 6.1. European HY Default Rate



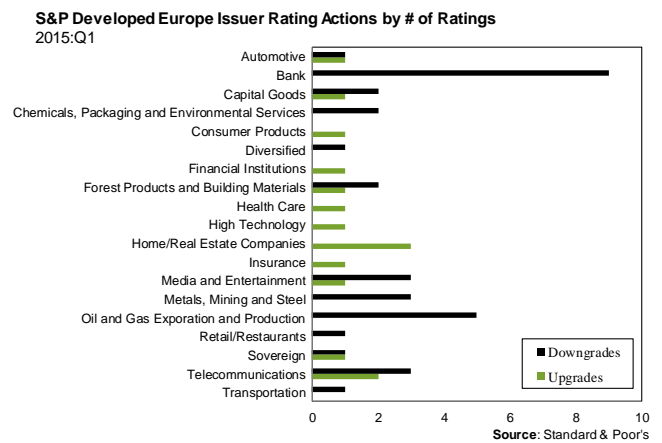
### 6.2. Developed Europe Issuer Rating Actions<sup>1</sup>



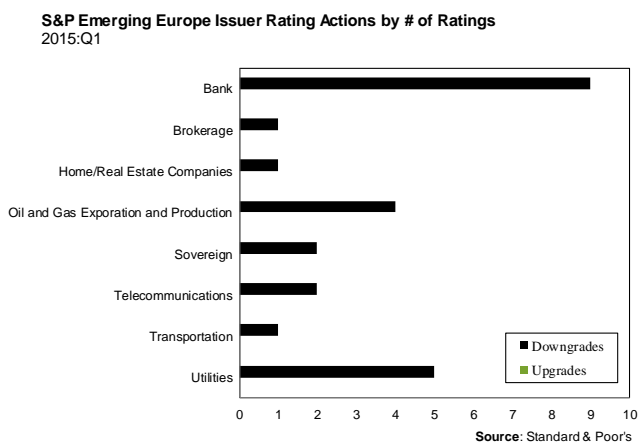
### 6.3. Emerging Europe Issuer Rating Actions<sup>2</sup>



### 6.4. Developed European Industry Rating Actions by # of Ratings



### 6.5. Emerging European Industry Rating Actions by # of Ratings



<sup>1</sup> Numbers include both corporate and sovereigns.

<sup>2</sup> Numbers include both corporate and sovereigns.



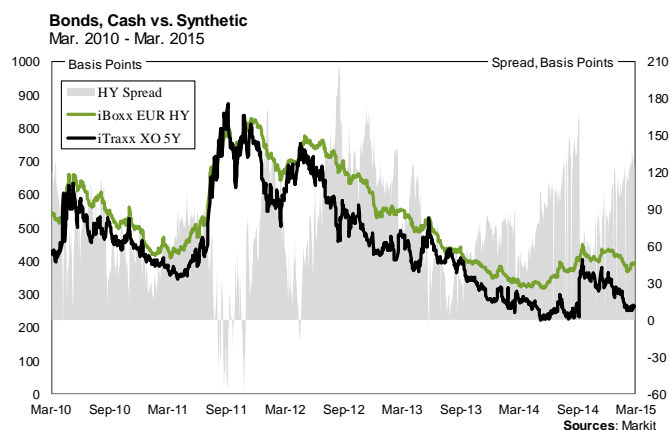
## 6.6. European Defaults

Issuer	Industry Group	Country	Date	Reported By	Reason
Talon PIKco N.V.	Entertainment/Media	Belgium	January 2015	S&P	Distressed Exchange
Afren PLC	Energy and Natural Resources	U.K.	February 2015	S&P	Missed amortization payment
Commercial Bank Sudostraitelny Bank LLC	Bank	Russia	February 2015	S&P	Regulatory Intervention
Bank Tavridhesky	Bank	Russia	February 2015	S&P	Regulatory Intervention
Norske Skogindustrier ASA	Forest Products and Building Materials	Norway	February 2015	S&P	Debt Exchange

Source: Moody's, Standard & Poor's

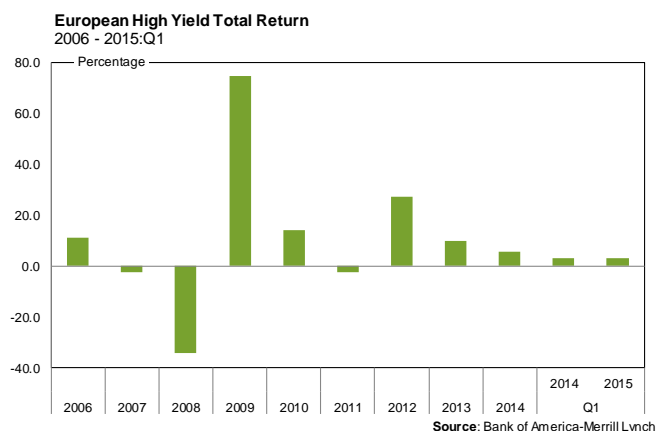
## 7. Relative Value

### 7.1. European HY Bonds, Cash vs. Synthetic

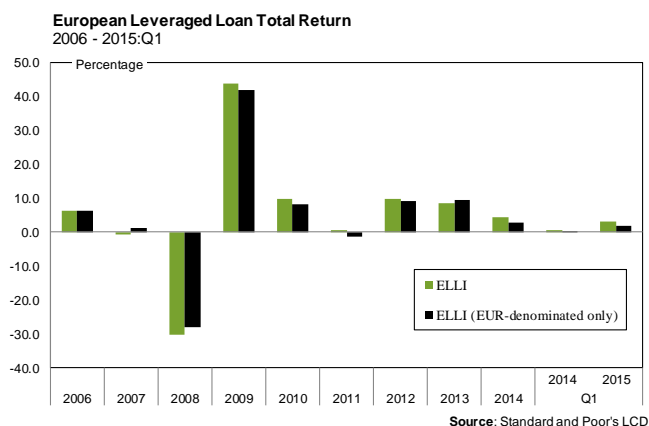


## 8. Total Return

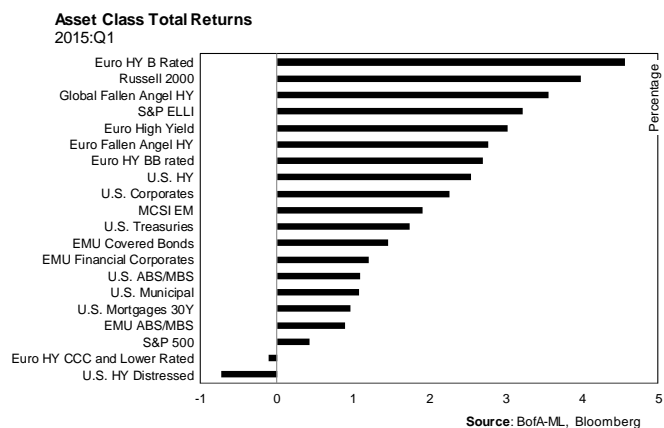
### 8.1. European HY Bond Total Return



### 8.2. European Leveraged Loan Total Return



### 8.3. Asset Class Total Return, Quarter



# Summary of the Methodologies Adopted for this Report

## 1. Leveraged Issuance – Overview

### 1.1. – 1.3. Leveraged Loans and High Yield

#### Bonds

Leveraged loan data are sourced from Thomson Reuters LPC and Dealogic.

Leveraged loan data from Thomson Reuters LPC are defined primarily as having sub-investment grade ratings and/or a margin spread minimum of 200 basis points (spread minimums will vary from year to year to make Thomson LPC's cutoff). Leveraged loan aggregates will include first lien, second lien, and mezzanine financing. Discrepancies in Thomson Reuters LPC data are due to rounding and/or currency rate of exchange.

Leveraged loan data from Dealogic are defined primarily as coming from a leveraged or highly leveraged European deal; loan tranches must have sub-investment grade ratings, or, if unrated, a margin spread minimum of 125 basis points over a benchmark (e.g., Euribor, LIBOR). Under these guidelines, sub-investment grade-rated loans with a margin spread of less than 125 basis points are included. Deals must be European and are inclusive of both developed and emerging market Europe as defined in high yield criteria in Section 3. Deals must also be marketed either in Europe or in the United States. Loans not EUR-denominated are converted to EUR as of credit date for purposes of aggregation. Aggregates include new money as well as non-new money deals.

Criteria for high yield bond transactions can be found in Section 3, 4, and 5.

### 1.4. – 1.7. Bank Lending Surveys

Data for loan demand and credit standards are sourced from the ECB's bank lending survey. Graph numbers are net percentages of reporting banks.

### 1.8. Global Comparison – High Yield Issuance

Data for global high yield issuance are sourced from Dealogic. Asian deals are inclusive of Japan and Australia.

## 2. Issuance – Leveraged Loans

### 2.1. – 2.2.

Leveraged loan issuance data are sourced primarily from Dealogic and Thomson Reuters LPC. For more details on qualifying criteria, please refer to section 1.

### 2.3. Forward Pipeline of Leveraged Loan Market

Forward leveraged loan pipeline data are sourced from S&P LCD.

### 2.4. S&P ELLI Total Institutional Loans Outstanding

Total institutional loan outstanding data are sourced from S&P LCD and are outstanding loans in the S&P ELLI index.

### 2.5. S&P ELLI Ratings Diversification

S&P ELLI ratings diversification are the percentages of currently outstanding loans in S&P's ELLI index that are rated accordingly. Data are provided by S&P LCD.

### 2.6. Leveraged Loan Secondary Market Bids

European leveraged trading volumes are sourced from Thomson Reuters LPC and are percentage of volume by bid price.

### 2.7. – 2.8. Loan Spreads

Loan spread data are sourced from Dealogic under our criteria for leveraged loans (see Section 1). For purposes of loan spread calculations, deals marketed in the US are excluded. Spreads are a weighted average of spread margin on new leveraged issuance on a rolling twelve months basis, and are typically benchmarked to LIBOR or EURIBOR. Institutional loan spread data are inclusive of 2<sup>nd</sup> lien; pro rata spreads include all revolvers and term loan A (Tla).

## 3. Issuance – High Yield Bonds Overview

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

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

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

European emerging market bonds are further defined with having a minimum deal size of €75.0 million; deals on the same day from the same issuer are aggregated for the purpose of meeting this minimum. Russian ruble (RUB)-denominated issuance are excluded due to differences in

terms and documentation; as of 4Q'10 this criteria no longer applies and may be included on a case by case basis.

### 3.2. European HY Issuance by Sponsor

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

### 3.3. – 3.6. European Corporate Bonds Outstanding

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

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

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

### 3.7. European Corporate Bond Issuance by Rating

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

### 3.8. European Corporate Bond Issuance by Tenor

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

### 3.10. European HY Issuance, Senior Secured Share

Data for HY issuance by seniority are sourced from Dealogic and Bloomberg. "Senior Unsecured" totals include all bonds that are senior but not senior secured.

## 4. Issuance – European Developed Market High Yield Bonds

### 4.1. – 4.7., 4.9

High yield bond issuance data are sourced from Dealogic. For further criteria on how high yield issuance are defined, please refer to section 3.

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

### 4.8. European Developed Market Corporate Bonds Outstanding

Data for corporate bonds outstanding are sourced from Bloomberg. Please refer to Section 3 for criteria and methodology.

## 5. Issuance – European Emerging Market High Yield Bonds

### 5.1. – 5.7., 5.9.

High yield bond issuance data are sourced from Dealogic. Criteria for all high yield issuance are found in section 3.

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

### 5.8. European Emerging Market Corporate Bonds Outstanding

Data for corporate bonds outstanding are sourced from Bloomberg. Please refer to Section 3 for criteria and methodology.

## 6. Credit Quality

### 6.1. European HY Default Rate

European HY bond default rates are sourced from S&P and are on a trailing 12 month basis.

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

### 6.2. – 6.3. European Issuer Rating Actions

European issuer upgrades and downgrades are sourced from S&P. The breakdown by emerging market and developed Europe are from AFME's definition of developed and emerging markets and would be, under S&P's guide-

lines, a combination of both European and EMEA rating actions. Multiple downgrades of a single issuer are counted separately. Rating actions are inclusive of both corporate (both credit and merger-related) as well as sovereign ratings.

#### **6.4. – 6.5. European Issuer Rating Actions by # of Rating Actions**

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.

#### **6.6. 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. – 7.2. Loans and Bonds, Cash and Synthetic**

Data are sourced from Markit and Thomson Reuters LPC. High yield bond cash and synthetic spreads from Markit; European leveraged loan cash bid prices from Thomson Reuters LPC, and European leveraged loans synthetic prices from Markit.

### **8. Total Return**

#### **8.1. European HY Bond Total Return**

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

#### **8.2. European Leveraged Loan Total Return**

Total return data are provided by S&P LCD and are total returns from S&P's ELLI index, both ELLI and EUR-denominated ELLI. Total returns for ELLI EUR-denominated data are unavailable for 2003 and 2004.

#### **8.3. Asset Class Total Return (Cash Basis)**

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

### Disclaimer

The information and opinion commentary in this High Yield and Leveraged Loan Report (Report) was prepared by the leveraged finance division of the Association for Financial Markets in Europe (AFME) and the Securities Industry and Financial Markets Association (SIFMA). AFME and SIFMA believe that the information in the Report, which has been obtained from multiple sources believed to be reliable, is reliable as of the date of publication. In no event, however, does either of AFME and SIFMA make any representation as to the accuracy or completeness of such information. AFME and SIFMA have no obligation to update, modify or amend the information in this Report or to otherwise notify readers if any information in the Report becomes outdated or inaccurate. AFME and SIFMA will make every effort to include updated information as it becomes available and in subsequent reports. As information is collected from multiple sources and estimates by the individual sources may differ from one another, estimates for similar types of data could vary within the Report.

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