

## European Securitized Products Weekly

### Market Colour, Issuance, BWIC Volume, and Spreads Charts

- **BWIC Volumes Surge as Markets Rally** — Trading volumes picked up significantly as spreads across all securitized sectors tightened in May, a recurring trend this year. Weekly BWIC volumes averaged \$522 million in May, more than twice that of \$231 million in April.
- **RMBS Resilient After Co-op Bank Downgrade** — LEEK and SLKRD senior RMBS prices, which depend on optional redemption by Co-op Bank, have fallen only modestly even as the bank's unsecured bonds tanked. The bank's plan to sell assets including £2.1 billion of non-performing property loans may help in improving its capital ratios and strengthen its ability to honor the RMBS put/call options.
- **France Proposes Securitization Plan as ECB Ponders on ABS Buying** — The Bank of France is working on creating a SPV by 2013 Q3 to package SME loans and potentially issue ECB repo eligible securities. On ECB's ABS purchases, Citi economists think that ECB is unlikely to start an ABS buying programme soon and would only indirectly assist other institutions in reviving SME funding.
- **CMBS Primary Market Gaining Momentum** — Improved market conditions have motivated Gagfah to upsize its planned CMBS issuance by about 50% to €1.04 billion. The recent Taurus deal seniors priced at tight EURIBOR+105bp and subordinates were heavily oversubscribed. 2013 YTD CMBS placed supply registers roughly €3.5 billion.
- **Token UK Prime RMBS Supply After Long Hiatus** — Kenrick 2 from West Bromwich Building Society inaugurates UK prime RMBS supply after a long pause of six months. The deal is currently road-showing and includes a £380 million triple-A tranche. The sterling-denominated pipeline will also benefit from Firstmac Series 1E-2013 Australian RMBS.

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*With thanks to*  
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#### See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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# Noteworthy News and Events

## Regulation and Policy

- **ECB May Take an ABS Backseat Despite Draghi.** ECB president Mario Draghi said that ECB is “still looking” at an ABS programme, but “it’s only one of many options” and then went on to add that the ECB was better placed to assist other EU institutions rather than take a leading role itself, describing it as “mostly catalytic.” In Citi economists’ opinion, however, ECB is not about to embark on an ABS buying program.<sup>1</sup>
- **German FinMin Signals Opposition to ABS Buying.** According to German magazine Spiegel, Germany’s finance minister Wolfgang Schaeuble said that any move by ECB to buy ABS would amount to “covert state financing,” signaling his opposition to any such move.
- **Bank of France Proposes Securitization Plan for SME Credit.** Bank of France is proposing the creation of a special purpose vehicle (SPV) to help banks securitize SME loans. The plan involves banks taking an equal share in the SPV and issuing bonds that are simple in structure. Bloomberg reported that, Alexandre Gautier, head of the French central bank’s markets division, is in talks with the Frankfurt-based ECB and other central banks about this plan, which would ideally create ECB refinancing eligible securities.

## Housing and Rental Markets

### UK

- **UK RICS House Price Balance Improves.** RICS house price balance increased to 1% in April from -2% in the previous month. This is the first positive print since June 2010 when it registered 5% and fell to -11% in the following month. RICS attributes this improvement to government initiatives such as help-to-buy and funding-for-lending.
- **UK Mortgage Approvals Drop from Last Year.** According to CML, 42,000 loans amounting to £6.2 billion were advanced for house purchases in the UK in March 2013. The number of loans for house purchase registered an increase of 14.8% month-over-month and a decline of 19.2% year-over-year in March 2013.
- **First-Time Buyer Activity Increased in March.** The number of first time buyers in the UK increased 20% month-over-month in March, CML said. A total of 19,100 loans amounting to £2.4 billion were advanced to first time buyers at an average loan to value of 80%.
- **Aviva to Enter UK BTL Market.** The rising rents, low housing supply, and growing interest of institutional investors underscores the value in the BTL sector. Aviva is in advanced negotiations with A2Dominion, one of the UK’s largest social housing providers. Financial Times said that A2Dominion owns 34,000 houses in and around London and the South East. This move follows last month’s announcement by Prudential that it would get exposure to 500 rented properties.

### Italy

- **Bank of Italy Housing Survey Shows Weakness.** While house prices in Italy have fallen much less (11% from 2008 peak) than other European countries, the bottom is not near, because of weak income and increase in property taxes. The

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<sup>1</sup> [Euro Area: Sovereign Debt Crisis Update](#) - ECB Could Do More on Rates, Rather than Buy ABS Securities?, Citi, 13 May 2013

proportion of real estate agents reporting house price drop rose to 83.1% from 79.3% in January, reports Bank of Italy. Also, the stock of unsold properties increased further and LTV ratios of new loans continued to decline.

- **Foreign Interest in Italian Housing Market Rising.** Investors from Germany, Russia, and the UK are buying holiday homes in Italy, according to Bloomberg. Even as house sales dropped 26% last year, non Italians spent €2.1 billion in 2012, a 14% year-over-year increase and the average transaction size was €500,000 according to Scenari Immobiliari.

## Spain

- **Spanish Banks Sell 15k Houses in 2013 Q1 at Huge Discounts.** Spanish banks sold 15,000 houses in Q1 2013, reported Fotocasa. Santander accounted for 30% of the transactions and sold properties at 40-50% discount, these properties were concentrated in coastal regions.
- **Andalucía Passes Decree to Expropriate Foreclosed Properties.** The regions of Canary Islands and Andalucía are planning to expropriate foreclosed properties to house displaced families for as long as 3 years. The European commission has asked the Spanish government about details of these plans and according to a recent publication by Fotocasa, "The commission doubts that these regional regulations are consistent with the commitments made by Spain for EU financial aid."

## Commercial Real Estate

- **Gagfah Upsizes Planned CMBS.** CMBS primary market is gaining momentum as year-to-date placed supply totals roughly €3.5 billion. Informa reported that Gagfah will refinance €1 billion (up from earlier planned €600 million) of the underlying loan in GRF 2006-1 through a CMBS deal.
- **Non-bank CRE Lending Rising.** Non bank CRE lending increased to €34 billion in 2012 from €19 billion in 2011, an 80% year-over-year increase, DTZ said in a recent report. DTZ expects the growth in CRE lending to continue into 2013 as net 11% of surveyed bank respondents expect an increase.
- **Strong Refinancing Activity in German multi-family: Fitch.** The outlook for the German multifamily issuance is positive due to strong refinancing activity and increasing investor interest, in our opinion. In a recently published report Fitch noted that there is considerable refinancing activity in the German multifamily sector over the past year.
- **Blackstone's Chiswick Park Secures £600 million Refinancing.** The DECO 2011-CSPK transaction will be redeemed in full on May 22, 2013 as the underlying loan was recently refinanced raising prospects of a new CMBS deal. Bloomberg reported that Blackstone group obtained £600 million of debt to refinance Chiswick Park, a west London office complex which it purchased for £480 million in 2011. Deutsche Bank provided a £400 million senior loan and Apollo Global Management arranged a £200 million mezzanine facility.
- **Norway's Oil Fund Expanding CRE Investments.** Increasing investor interest in CRE is encouraging given the sector is facing a huge funding gap. Norway's oil fund increased its property purchases by more than ten times in the last six months compared to a year before, according to the FT. The fund has been focused on buying office properties in Germany, France, Switzerland, the UK,

and the US. The fund recently also invested €2.4 billion on European warehouse and industrial properties.

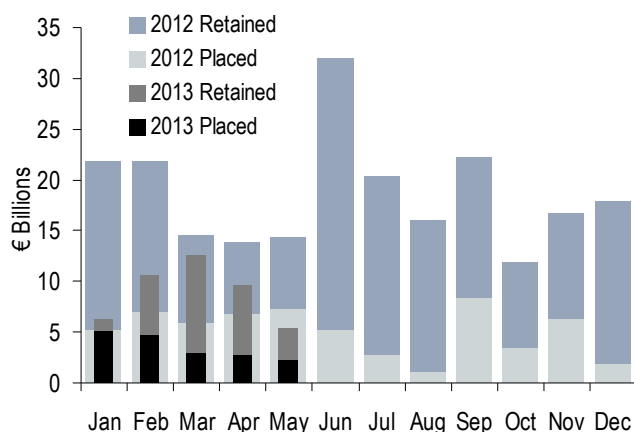
- **Deutsche Bank Plans to Sell €2.5 billion UK Commercial Portfolio.** Deutsche Bank is assessing the disposal of its Postbank subsidiary's €2.5 billion UK commercial property loan book, according to CoStar. The loan book consists of €2.1 billion in UK loans and €400 million in Continental loans and less than 10% of the book is non-performing. The planned sale is part of the bank's "2015 and beyond" strategy to dispose non-core assets and reduce its risk weighted assets.
- **Co-op Bank Considering Selling £2.1 billion UK NPL Loans.** CoStar reported that Co-op Bank is considering selling off £2.1 billion non-performing UK property loan portfolio to improve its capital ratios. The portfolio consists of £1.74 billion in CRE loans and £300 million in residential loans.

## Macroeconomic News

- **Bank of England Raises UK Growth Forecasts.** The MPC raised their UK GDP growth forecasts to 1.3% (from 0.9%) in 2013 and 1.8% (from 1.7%) in 2014 and cut their inflation forecasts a little. The committee now expects GDP will regain its pre-recession peak in 2014 Q2 and inflation will fall back to the 2% target in 2015 Q1. Please see Citi economists' [UK: BoE Inflation Report](#) for further details.
- **German Economy Grows Modestly in 2013 Q1.** German GDP registered a growth of 0.1% quarter-over-quarter in Q1 2013 well below the consensus expectations of 0.3%. Citi economists expect German GDP to register a growth of 0.8% year-over-year in 2013 and 2014.
- **Dutch GDP Falls and Unemployment Rises.** The economic situation in the Netherlands continues to worsen although the rate of deterioration is slowing down. The Dutch economy contracted 0.1% quarter-over-quarter and 1.3% year-over-year in 2013 Q1 and unemployment rate rose to 8.2%. Citi economists predict 1% and 0% GDP growth in 2013 and 2014, respectively.
- **France Enters Triple-Dip Recession Club.** France entered into triple dip recession territory in 2013 Q1 and Citi economists predict zero GDP growth in 2013 Q2 in their baseline scenario. French GDP registered a decline of 0.2% quarter-over-quarter in Q1 2013 pushing the year-over-year GDP growth rate to -0.4% from -0.3% in Q4 2012.
- **Italian GDP Contracts 0.5% in 2013 Q1.** Italian GDP contracted by 0.5% in 2013 Q1, weaker than both consensus and Citi forecasts of -0.4% and -0.3%, respectively. The contraction was less than the previous quarter's 0.9%.
- **Italian Banks' NPL Rose to 6.6% in March.** In contrast to the Italian FinMin, Citi economists think that Italian banks would require some form of government financial support. Italian banks' NPL ratio rose to 6.6% in March from 6.3% in February 2013.

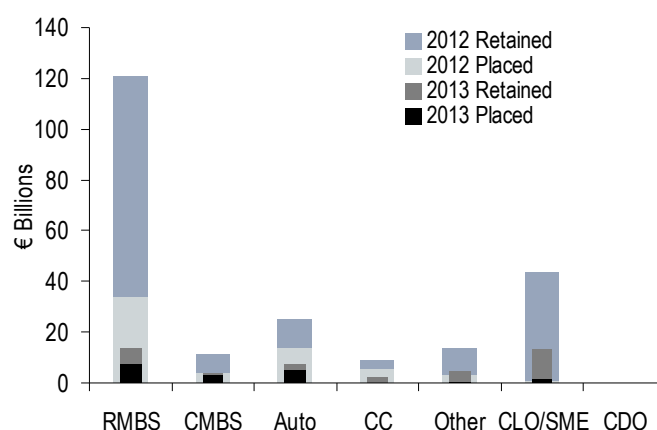
## New Issuance

Figure 1. Placed and Retained Issuance by Month, 2012–2013YTD (€ billions)



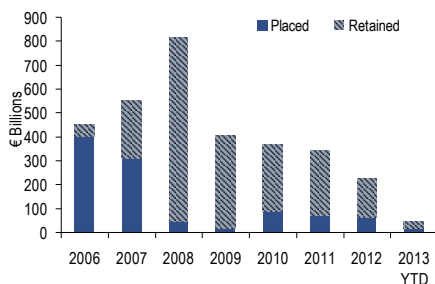
Source: Concept ABS, IFR, Informa and Citi Research

Figure 2. Placed and Retained Issuance by Sector, 2012–2013YTD (€ billions)



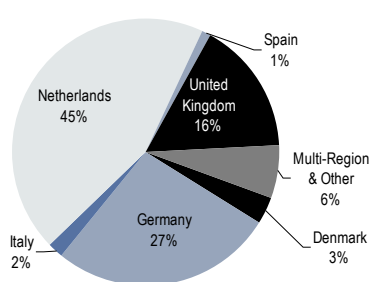
Source: Concept ABS, IFR, Informa and Citi Research

Figure 3. Annual Historical Placed and Retained Issuance, 2006–2013YTD (€ billions)



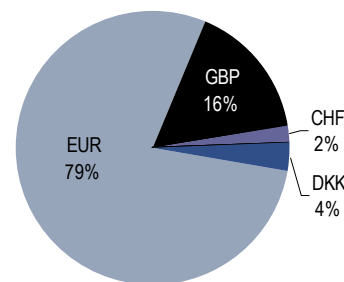
Source: Concept ABS, IFR, Informa and Citi Research

Figure 4. Placed Issuance by Region, 2013YTD (% of Total, € Equivalent)



Source: Concept ABS, IFR, Informa and Citi Research

Figure 5. Placed Issuance by Currency, 2013YTD (% of Total, € Equivalent)



Source: Concept ABS, IFR, Informa and Citi Research

Figure 6. Placed and Retained Issuance by Sector, 2012\* and 2013YTD (€ million)

	RMBS(MM)		CMBS(MM)		Autos(MM)		Credit Card ABS(MM)		CLO/SME(MM)		Other(MM)		Total(MM)	
	2013YTD	2012	2013YTD	2012	2013YTD	2012	2013YTD	2012	2013YTD	2012	2013YTD	2012	2013YTD	2012
Placed	7,695	33,928	3,462	3,936	5,018	13,921	156	5,591	1,354	990	348	3,459	18,032	61,825
Retained	5,825	87,137	143	7,460	2,471	11,364	2,084	3,067	11,587	42,879	4,441	10,145	26,551	162,052
Total	13,520	121,065	3,605	11,395	7,489	25,285	2,240	8,658	12,941	43,869	4,789	13,604	44,583	223,877

\* 2012 complete year

Source: Concept ABS, IFR, Informa and Citi Research

Figure 7. Recent Placed Issuance, 10 Apr — 8 May 2013

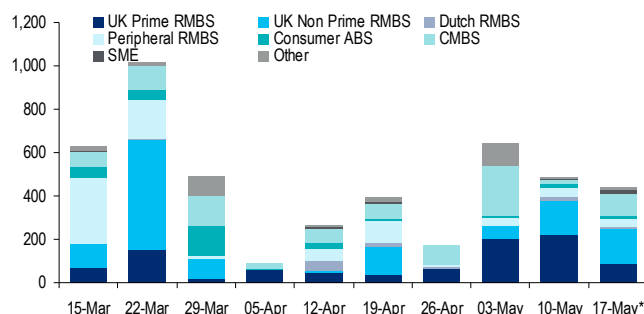
Deal Name	BBG	Originator	Transaction Type	Tranche	Currency	Size(MM)	Fitch/Moodys/S &P/DBRS	WAL	Index	Margin	CE	Closing Date
Grand Harbour - I BV	Blackstone	CLO - Arbitrage Pan-Europe		A1	EUR	240	AAA-/AAA/-		6mE	130bp	40.00%	15-May
				A2	EUR	15	N/A-/AA/-		6mE	160bp	36.25%	
				B	EUR	35	N/A-/A/-		6mE	260bp	27.50%	
				C	EUR	22.5	N/A-/BBB/-		6mE	365bp	21.88%	
				D	EUR	32.5	N/A-/BB/-		6mE	425bp	13.75%	
				E	EUR	10	N/A-/B/-		6mE	550bp	11.25%	
Red & Black Auto Lease Germany 1 SA	RNBLG 1	Societe Generale	Auto ABS Germany	Equity	EUR	48.35	N/A-/NR/-		N/A	N/A	0.00%	14-May
				A	EUR	400	AAA-/ AAA/-	1.86YR			31.00%	
Taurus 2013 (GMF 1) plc	TAURS 2013- GMF1	Bank of America	CMBS - Single Usage Collateral Germany	B	EUR	171.4	NR/- NR/-	3.47YR			1.00%	8-May
				A	EUR	710	AAA-/ AAA/-	4.9 yrs	3mE	105bp	33.90%	
				B	EUR	130	AA-/ AA/-	4.9 yrs	3mE	150bp	21.80%	
				C	EUR	120	A/-/A/-	4.9 yrs	3mE	200bp	10.70%	
				D	EUR	95	BBB/-/BBB	4.9 yrs	3mE	275bp	1.80%	
Auto ABS FCT COMP Compartment 2013-1 2013-1	Banque PSA	Auto ABS Germany		E	EUR	19.8	BBB/-/BBB (lo)	4.9 yrs	3mE	350bp	0.00%	2-May
				A	EUR	361.2	AAA/Aaa/-/-	2.7 yrs	1mE	80bp	24.40%	
Monviso 2013 Srl	MONVI 2013-1	Banca Sella	Consumer ABS Italy	B	EUR	116.4	NR/NR/-/-	N/A	Fixed	N/A	0.00%	19-Apr
				A	EUR	347.9	-/-AA+/AA	0.93YR		cpn = 1.85%	39.50%	
Virgil Mortgage No.1 plc	VIRGL 1	GMAC-RFC, Paratus AMC	RMBS - Non Conforming United Kingdom	J	EUR	221.6	-/-NR/NR	N/A		cpn = 3.00%	1.50%	17-Apr
				A	GBP	70.6	-/-AA/-		3mL	225bp / IP 100	45.00%	
ALME Loan Funding 2013- 1	ALME 2013-1A	Apollo	CLO-Arbitrage Europe	B	GBP	54.4	-/-NR/-		3mL	375bp/ IP 100	0.00%	12-Apr
				A1	EUR	195	-/Aaa/AAA/-		6mE	130bp	-	
				A2	EUR	27	-/N/A/AA/-		6mE	185bp	-	
				B	EUR	27	-/N/A/A/-		6mE	285bp	-	
				C	EUR	15.2	-/N/A/BBB/-		6mE	390bp	-	
				D	EUR	11	-/N/A/BB/-		6mE	475bp	-	
				E	EUR	12	-/N/A/B/-		6mE	600bp	-	
Storm 2013-II	STORM 2013-2	Obvion	RMBS Prime Netherlands	Equity	EUR	39.5	-/N/A/NR/-		N/A	N/A	-	11-Apr
				A1	EUR	150	AAA/Aaa/AAA/-	1.9YR	3mE	40bp	7.00%	
				A2	EUR	550	AAA/Aaa/AAA/-	4.8YR	3mE	83bp	7.00%	
				B	EUR	17.1	AA-/Aa1/AA+/-	4.8YR	3mE	TBD	4.70%	
				C	EUR	13.1	BBB+/Aa2/AA/-	4.8YR	3mE	TBD	3.00%	
				D	EUR	14.5	BB/A1/A/-/-	4.8YR	3mE	TBD	1.00%	
Dryden CLO XXVII - Euro CLO 2013 Plc	DRYD 2013-27X	Primerica	CLO - Arbitrage	E	EUR	7.5	BB/Baa3/NR/-	4.8YR	3mE	TBD	0.00%	10-Apr
				A-1A	EUR	69	AAA-/AAA/-		MidSwa ps	135bp	41.75%	
				A-1B	EUR	100.5	AAA-/AAA/-		6mE	135bp	41.75%	
				B-Flt	EUR	21.6	NR/-/AA/-		6mE	190bp	31.10%	
				B-Fxd	EUR	9.4	NR/-/AA/-		MidSwa ps	190bp	31.10%	
				C-Flt	EUR	6.4	NR/-/A/-		6mE	290bp	24.90%	
				C-Fxd	EUR	11.6	NR/-/A/-		MidSwa ps	290bp	24.90%	
				D	EUR	13	NR/-/BBB/-		6mE	400bp	20.45%	
Equity				E	EUR	17.5	NR/-/BB+/-		6mE	475bp	14.40%	0.00%
				Equity	EUR	51	NR/-/NR/-		N/A	N/A	0.00%	

Source: Concept ABS, IFR, Informa and Citi Research

## BWIC Tracker

### Weekly and Monthly BWIC Volume

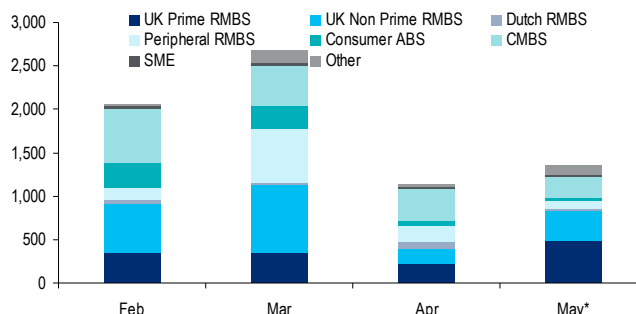
Figure 8. Weekly BWIC Volume by Sector, Mar 13–May 13 (\$ eq. million)



\* Data until 16 May 2013

Source: Citi Research

Figure 9. Monthly BWIC Volume by Sector, 2013YTD (\$ eq. million)

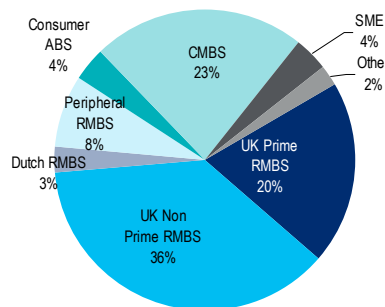


\* Data until 16 May 2013

Source: Citi Research

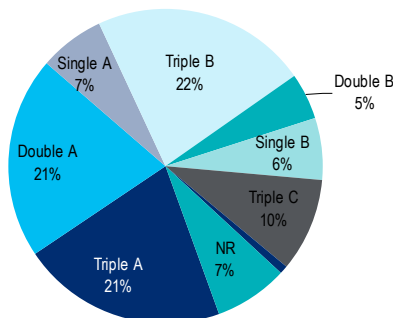
### Last Week's BWIC Distribution by Sector, Rating and Currency

Figure 10. BWIC Volume Distribution by Sector, 10 May – 16 May 2013 (%)



Source: Citi Research

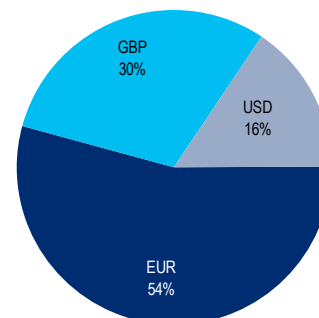
Figure 11. BWIC Volume Distribution by Current Rating\*, 10 May – 16 May 2013 (%)



\* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

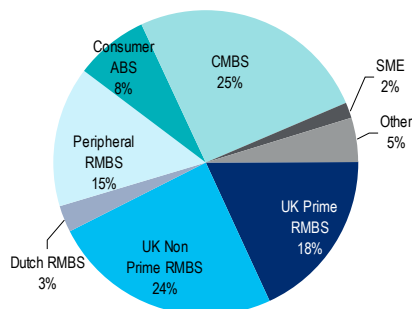
Figure 12. BWIC Volume Distribution by Currency, 10 May – 16 May 2013 (%)



Source: Citi Research

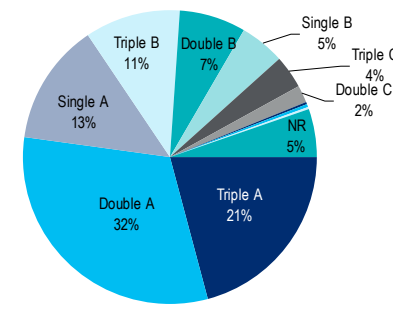
### YTD BWIC Distribution by Sector, Rating and Currency

Figure 13. BWIC Volume Distribution by Sector, 2013YTD (%)



Source: Citi Research

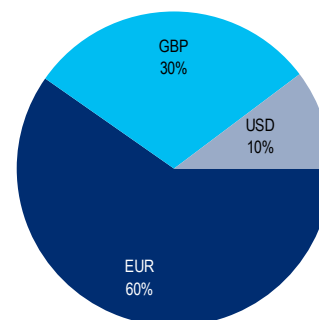
Figure 14. BWIC Volume Distribution by Current Rating\*, 2013YTD (%)



\* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

Figure 15. BWIC Volume Distribution by Currency, 2013YTD (%)



Source: Citi Research



Figure 16. BWIC Volume and Number of Bonds by Sector and Current Rating\*, 10 May – 16 May 2013 and 2013 YTD

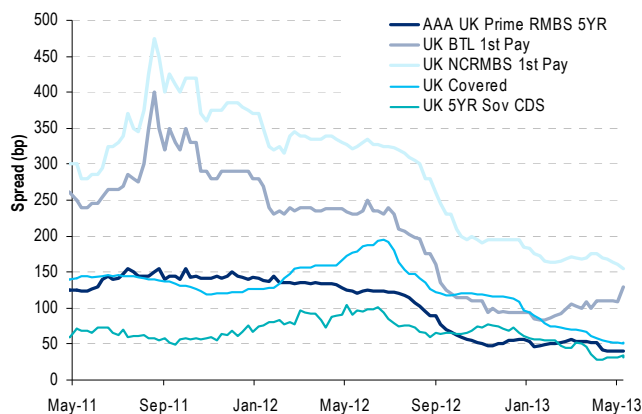
Sector	Rating*	10 May – 16 May		YTD	
		Volume (MM USD EQ)	Number of Bonds	Volume (MM USD EQ)	Number of Bonds
UK Prime RMBS	Triple A	62.3	20	797.1	181
	Double A	10.3	3	673.0	184
	Single A	-	-	44.9	5
	Lower and Not Rated	13.3	3	96.0	23
	<b>Total</b>	<b>85.9</b>	<b>26</b>	<b>1611.1</b>	<b>393</b>
UK Non Prime RMBS	Triple A	19.0	3	179.3	23
	Double A	61.7	10	1121.9	141
	Single A	16.1	3	375.2	43
	Lower and Not Rated	67.2	14	515.1	115
	<b>Total</b>	<b>163.9</b>	<b>30</b>	<b>2191.5</b>	<b>322</b>
Dutch RMBS	Triple A	-	-	149.3	62
	Double A	-	-	29.0	3
	Single A	-	-	10.2	5
	Lower and Not Rated	12.3	6	70.3	17
	<b>Total</b>	<b>12.3</b>	<b>6</b>	<b>258.9</b>	<b>87</b>
Peripheral RMBS	Double A	-	4	332.0	32
	Single A	0.1	1	383.4	64
	Triple B	28.8	4	259.1	61
	Double B	0.5	1	112.9	23
	Single B	1.9	2	48.2	15
	Triple C	1.5	2	45.4	20
	Lower and Not Rated	0.4	1	155.1	62
	<b>Total</b>	<b>33.1</b>	<b>15</b>	<b>1336.1</b>	<b>277</b>
CMBS	Triple A	-	-	43.0	2
	Double A	18.6	2	435.1	39
	Single A	1.4	1	293.6	54
	Lower and Not Rated	80.5	10	1522.9	237
	<b>Total</b>	<b>100.5</b>	<b>13</b>	<b>2294.5</b>	<b>332</b>
Consumer ABS	Triple A	9.9	4	425.7	110
	Double A	-	-	187.0	20
	Single A	5.8	1	32.0	9
	Lower and Not Rated	1.0	1	50.1	28
	<b>Total</b>	<b>16.7</b>	<b>6</b>	<b>694.8</b>	<b>167</b>
SME	Double A	-	-	4.8	1
	Single A	0.8	2	25.8	13
	Triple B	1.2	2	22.5	12
	Double B	0.1	1	19.8	14
	Single B	3.7	2	33.5	13
	Lower and Not Rated	10.5	2	48.6	26
	<b>Total</b>	<b>16.2</b>	<b>9</b>	<b>155.0</b>	<b>79</b>
Other	Triple A	1.5	1	277.5	67
	Double A	-	-	19.2	9
	Single A	4.9	1	25.7	7
	Triple B	-	-	19.1	3
	Double B	2.6	1	16.5	5
	Single B	0.2	1	5.9	2
	Triple C	-	-	10.3	3
	Lower and Not Rated	-	-	41.8	10
	<b>Total</b>	<b>9.2</b>	<b>4</b>	<b>416.1</b>	<b>106</b>
<b>Grand Total</b>		<b>438.0</b>	<b>109</b>	<b>8957.9</b>	<b>1763</b>

\* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

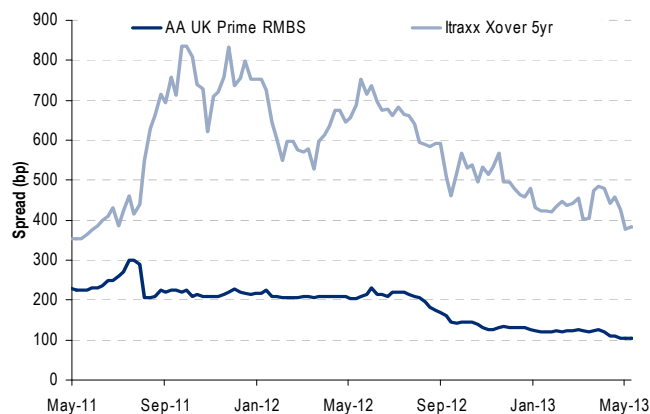
## Relative Value Charts

Figure 17. UK RMBS Seniors Versus Indexes, May 11 – May 13



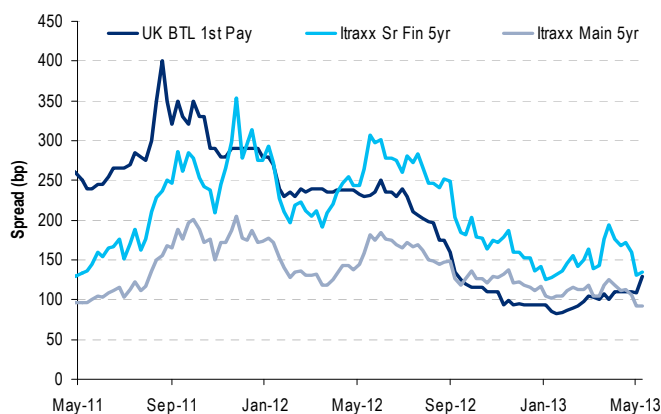
Source: Markit and Citi Research

Figure 18. UK Prime RMBS Subordinates Versus Index, May 11 – May 13



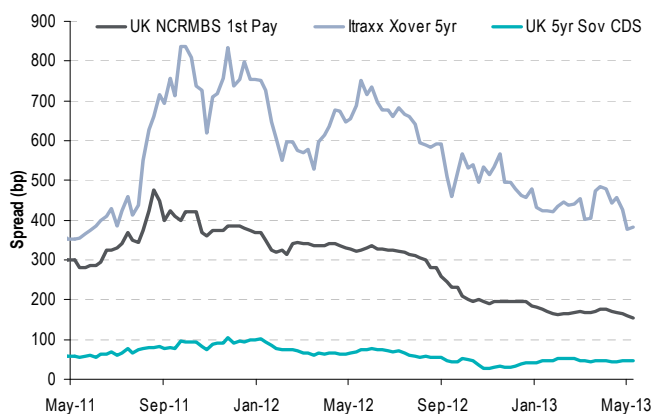
Source: Markit and Citi Research

Figure 19. UK BTL RMBS Seniors Versus Indexes, May 11 – May 13



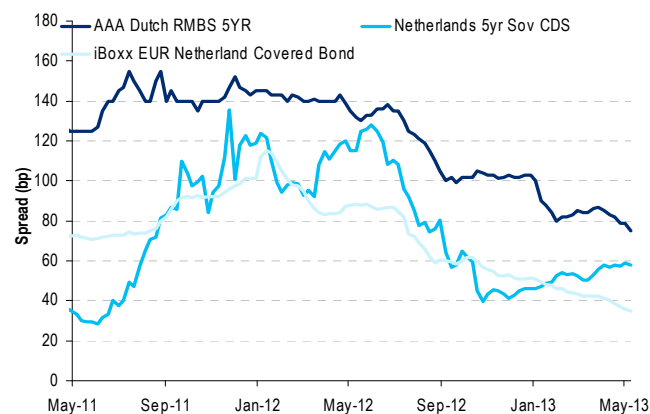
Source: Markit and Citi Research

Figure 20. UK NCRMBS Seniors Versus Indexes, May 11 – May 13



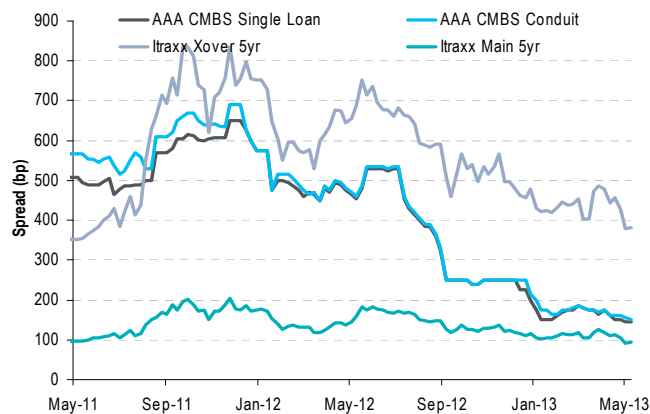
Source: Markit and Citi Research

Figure 21. Dutch RMBS Seniors Versus Indexes, May 11 – May 13



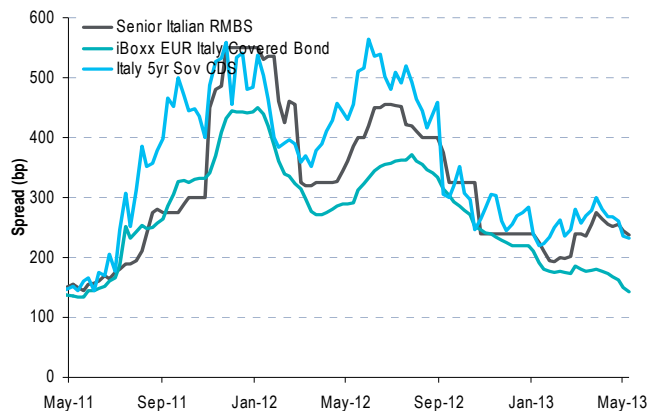
Source: Markit and Citi Research

Figure 22. CMBS Senior Spreads Versus Indexes, May 11 – May 13



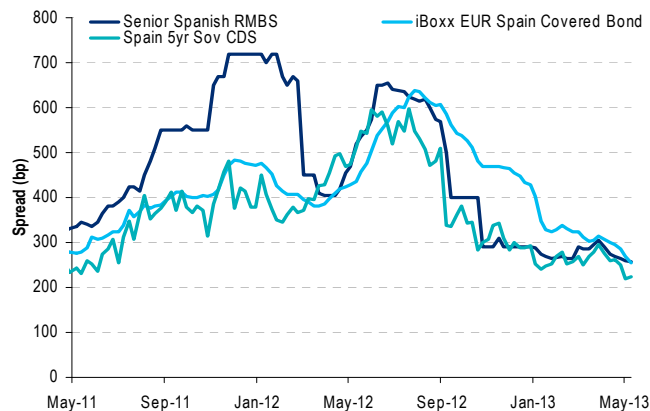
Source: Markit and Citi Research

Figure 23. Italian RMBS Seniors Versus Indexes, May 11 – May 13



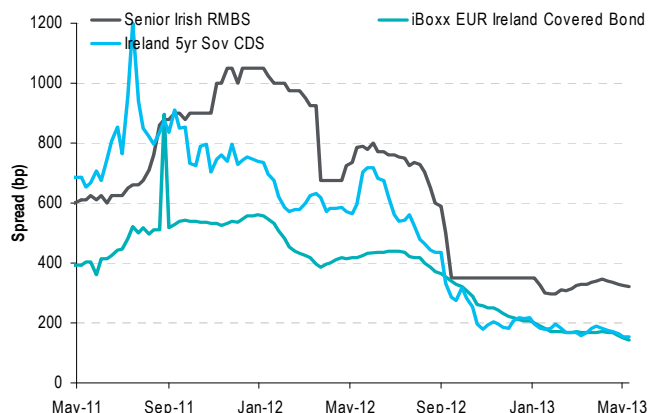
Source: Markit and Citi Research

Figure 24. Spanish RMBS Seniors Versus Indexes, May 11 – May 13



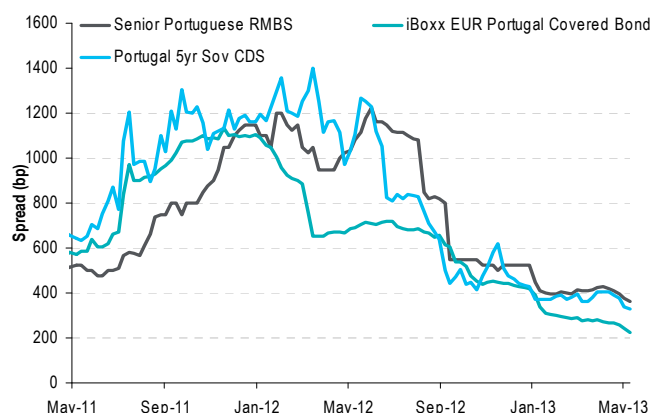
Source: Markit and Citi Research

Figure 25. Irish RMBS Seniors Versus Indexes, May 11 – May 13



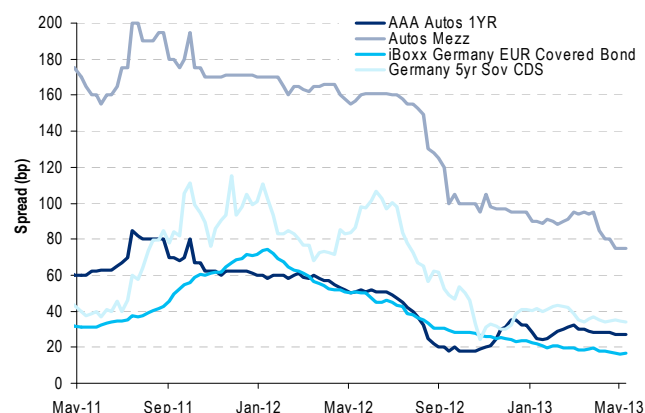
Source: Markit and Citi Research

Figure 26. Portuguese RMBS Seniors Versus Indexes, May 11 – May 13



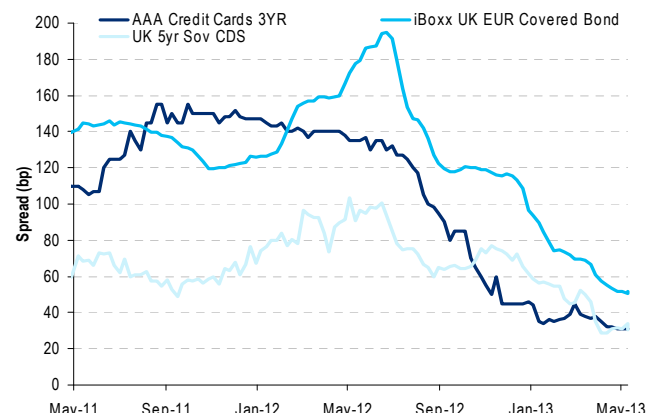
Source: Markit and Citi Research

Figure 27. Auto ABS Spreads Versus Indexes, May 11 – May 13



Source: Markit and Citi Research

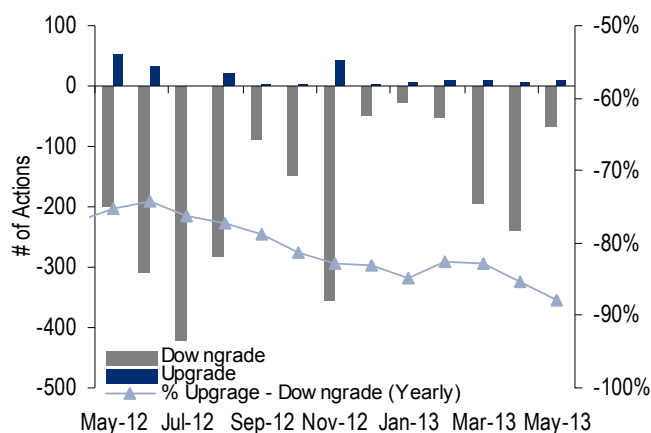
Figure 28. Credit Card ABS Spreads Versus Indexes, May 11 – May 13



Source: Markit and Citi Research

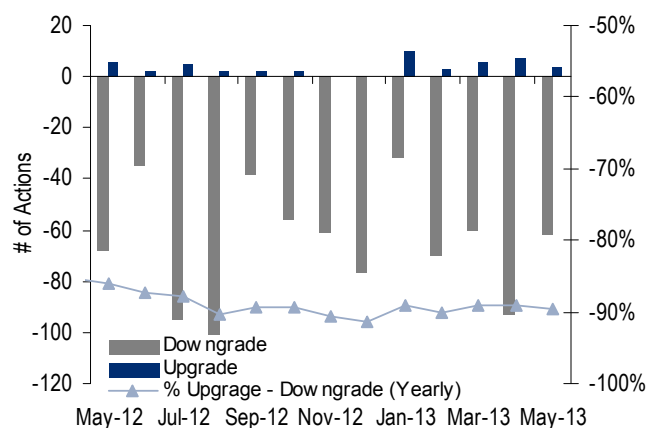
## Rating Actions and Trends

Figure 29. European RMBS Rating Upgrades and Downgrades, May 12 – May 13



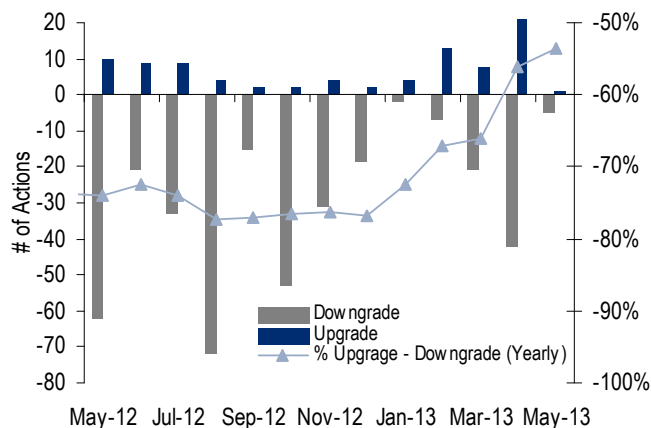
Source: Moody's, S&P and Fitch

Figure 30. European CMBS Rating Upgrades and Downgrades, May 12 – May 13



Source: Moody's, S&P and Fitch

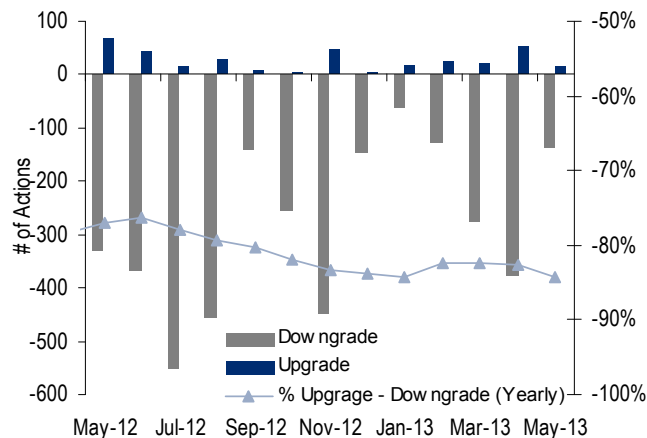
Figure 31. European ABS\* Rating Upgrades and Downgrades, May 12 – May 13



\* ABS includes – European Lease ABS, European Consumer ABS, SME ABS, Auto ABS, UK Credit Card ABS, NPL ABS

Source: Moody's, S&P and Fitch

Figure 32. European Total Securitized Products Rating Upgrades and Downgrades, May 12 – May 13



Source: Moody's, S&P and Fitch

## Appendix A-1

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