

European Securitized Products Weekly

Euro ABS CDO: Rare and Attractive Sighting

- **Rare Public Sighting in Out-of-favor Sector** — Despite the stigma associated with the ABS CDO market and its role in the US subprime crisis, there are pockets of solid credit quality as evidenced in the high cash price offered in a recent Euro ABS CDO BWIC.
- **FAXT 2004-1 A-2 Attractive Versus Peer Assets** — Even at a high cover price of 97, we estimate that the single-A rated bond offers 208bp DM for a relatively short 2.3yr WAL, 60–110bp wider than other assets with comparable ratings and WALs, such as peripheral RMBS and legacy CLOs.
- **Abundant Asset Coverage but Mind Tail Risks** — A-1 and A-2 tranches are three-times covered by par value of collateral and about 1.9 times covered, based on our conservative market value estimate. About 62% of the bonds, though, are rated below investment grade and many are illiquid too, resulting in significant tail risks for junior tranches.
- **Europe Less Distressed than US** — Greater diversification and much lower credit losses than the relatively homogenous US sub-prime CDO sector can lead to better ratings and performance for Euro ABS CDOs, except for shelves with significant legacy CRE exposure.
- **Primary Pipeline Builds Up** — Five new deals from UK and Dutch RMBS, and Italian ABS and RMBS sectors joined the already active primary pipeline comprising four other deals, providing investors ample opportunities to buy bonds in an otherwise shrinking European ABS market.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Contents

A Fleeting Glance at a Silent Sector	3
A Rare Public Appearance	3
Sizing the Legacy Sector – Different from US	3
Sovereign and Deleveraging Upside	4
Drilling into FAXT 2004-1	5
A-2 bond provides value at cost of liquidity	6
New Issuance	7
European ABS Outstanding and Technicals	8
BWIC Tracker	9
Housing Markets and Mortgage Lending	11
CMBS Loan Tracker	13
Sovereign Ratings and Economics Forecasts	16
Core RMBS Spreads and Relative Value	17
Peripheral RMBS and Relative Value	18
CMBS and CLO Spreads and Relative Value	19
Auto and Credit Card ABS Spreads and Relative Value	20
Rating Actions and Trends	21
Recent Key Publications	22
Appendix A-1	25

A Fleeting Glance at a Silent Sector

A Rare Public Appearance

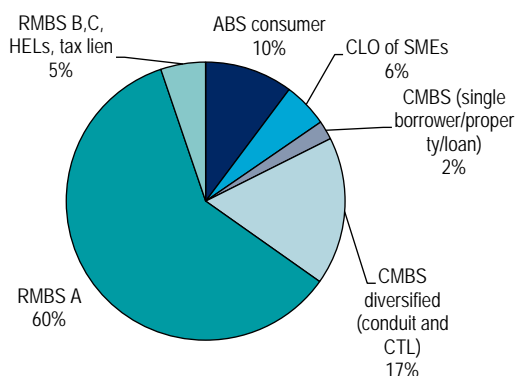
For the broader public, and even for many investors, the ABS CDO market has little significance today except as the epitome of the excesses of the structured finance industry. After all, CDOs backed by US subprime mortgage bonds are the most visible example of a product whose losses brought down many financial institutions during the financial meltdown. They also triggered a policy change at Basel where risk weights for resecuritizations were significantly increased, based on the experience that such products show much more correlated risk because of the overlap between the underlying ABS within the CDO. Many would therefore be surprised to hear that the first pay bond of a Euro ABS CDO (FAXT 2004-1X A-2) was in a BWIC last week and covered a higher than 97 price. Not only that, we believe the bond represents relative value for Euro ABS investors.

Sizing the Legacy Sector – Different from US

Though the construction of Euro ABS CDOs is not different from the US version, there are some significant differences. Most pools were more diversified, by country and by sector, than the homogeneous US sub-prime CDOs. This is also true for FAXT 2004-1X (Figure 1 and Figure 2). The diversification meant that all bonds did not default together, as happened with the US product. Second, most European RMBS did not suffer as much credit losses as US subprime securities. Second- and third-pay bonds (the type of securities in mezz ABS CDOs such as FAXT 2004-1) of the main US subprime index are in the mid-50s or lower, whereas similar bonds in Europe of 2006 vintage are usually not far from par. However, the diversification also hurt many Euro ABS CDOs with high concentrations in legacy European commercial real estate, a sector that has performed poorly. As a result, all bonds need to be analyzed in their own right.

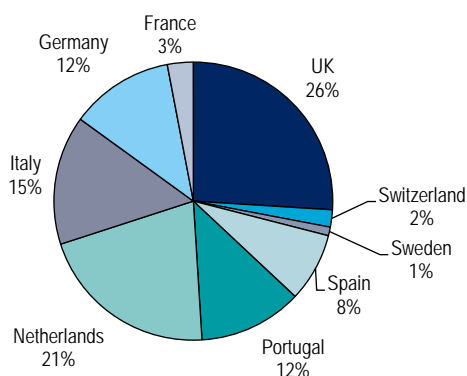
The good news is that unlike the widespread downgrade of subprime-backed CDOs, one can find highly rated Euro ABS CDOs such as the FAXT 2004-1X A-2 (Aa3). For example, a similar 2004 vintage US ABS CDO on the same BWIC as FAXT 2004-1 had a single-B rating on its senior-most tranche, compared to the triple-A rating of the A-1 tranche from the FAXT 2004-1 shelf. In both US and European products, though, deleveraging is helping senior tranches, such as the FAXT 2004-1 bond under discussion.

Figure 1. FAXT 2004-1 Closing Portfolio Sector Breakdown



Source: S&P

Figure 2. FAXT 2004-1 Closing Portfolio Country Breakdown



Source: S&P

Euro ABS CDOs should also not be confused with Euro CRE CDOs, which are exclusively comprised of commercial real estate whole loans or CMBS. The European CMBS sector has had a poor record with over-leveraged loans. As a result, the credit performance of mezzanine bonds from European securitizations often trade at distressed levels.

Sovereign and Deleveraging Upside

The ABS CDO universe, in US and in Europe, is seeing some stabilization after widespread downgrades, events of default (EoD), and several liquidations. Moody's data shows, for example, only 15 new EoDs for the US product in 2013 compared to 221 in 2008, and 110 in 2009. Stabilization is occurring because pools are continuing to deleverage in both products, helping senior overcollateralization (OC) ratios. We believe there is another upside to European ABS. Many of the rating downgrades, even for senior tranches (Figure 3), are due, according to Moody's, "to credit deterioration or the heightened risk of a decline in creditworthiness of the countries in which they are domiciled"¹. As both pool performance and sovereign ratings improve, ABS CDOs should benefit. However, we stress the sector's idiosyncratic nature which is evidenced, among other features, in the dispersion in the cushion between senior OC levels and their triggers in the figure below.

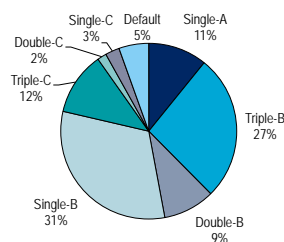
Figure 3. Senior Tranches from Euro ABS CDO Universe

Deal	Tranche	Original Balance	Current Balance	CUSIP	Tranche Size	Moody's WARF	% Defaulted	% <CCC	Tranche Rating	Senior OC	Senior OC Trigger
Aurelius Euro CDO 2008-1	A	120.1	95.8	AURFRRPT0	54.6	3018	12.8	27.60	N/A	138.2	117.7
Brooklands 2004-1 (Synth)	A1A	187.5	68.9	BROK41A2	33.8	1838	0.0	14.31	CC	0.0	0.0
Brooklands 2005-1 (Synth)	A1	200.0	26.1	BROOK51D1	13.5	1376	0.0	7.77	C	0.0	0.0
Bruckner CDO I	A1	256.5	103.6	116790AA4	17.0	3591	5.7	33.05	AA	112.7	107.0
Carnuntum High Grade I	A1	1000.0	907.8	CARJBV0F0	727.8	637	1.8	2.78	BBB	109.5	103.8
Cavendish Square Funding	A1N	257.5	188.4	CAV2RKJN0	125.1	1869	11.9	8.77	BBB	118.5	107.4
Cavendish Square Funding 2	A1N	202.5	323.4	CAVKT9EQ0	93.2	1189	10.2	4.89	A	121.6	109.1
Danube Delta	A2	809.3	241.9	23642RAC0	130.4	1836	28.8	9.46	CCC-	109.1	106.0
Dureve Series 2010-1	A1	181.6	93.7	DURR2HDP0	24.1	6500	0.0	100.00	BBB	0.0	0.0
Euromax III MBS	A1	195.2	71.7	EUOMAX3A1	38.3	5510	0.0	55.05	B	83.2	105.0
Euromax V ABS	A1	307.5	187.6	EUROXWVX0	94.6	3795	20.9	30.34	CCC	63.8	114.0
Euromax VI ABS	A	430.0	190.2	EUREF0F80	98.2	3238	6.1	31.05	CCC	81.5	107.4
F.A.B. CBO 2002-1	A1	309.5	79.2	FAB021A1V	15.3	1181	20.3	7.20	A	115.9	103.0
FAB CBO 2003-1 B.V.	A1E	308.8	115.3	FAB031A1E	26.0	2233	11.3	18.65	A	118.4	103.5
FAB CBO 2005-1 B.V.	A1	305.6	128.8	FAB051A1V	55.0	2572	23.2	21.50	BB	78.6	101.0
FAXTOR ABS 2003-1	A1E	308.0	92.4	FAXT31A1E	3.0	2519	8.4	25.24	AAA	130.0	103.5
FAXTOR ABS 2004-1	A1	293.7	100.5	31210XAA6	6.0	1963	3.2	14.42	AAA	159.4	103.5
FAXTOR ABS 2005-1 B.V.	A1	242.8	136.9	FAXJCYNG0	47.5	2170	11.9	16.44	BBB	121.4	109.0
House of Europe Funding III	A	1000.0	466.9	HOU1AIK00	336.9	688	24.8	4.09	CCC	75.8	104.0
House of Europe Funding IV	A1	1000.0	506.1	HOU0NAZN0	247.0	857	17.9	5.45	BBB	74.7	104.0
House of Europe Funding V	A1	1000.0	572.6	HOU7L5IZ0	353.0	1018	10.3	9.38	B	75.9	103.5
House of Europe Funding I	A	1000.0	349.7	HOU2GFCH0	229.7	1488	13.7	16.32	CCC	57.9	104.8
Ivory CDO	A1	200.0	89.8	IVOLQGJ00	35.8	4264	8.3	34.75	B	52.3	110.0
Monte 2008-I	A	468.7	201.2	MONAQSOA1	102.5	1386	7.7	2.76	BBB	172.6	120.5
Odeon ABS 2007-1	A1	755.5	320.1	ODEIBPKI0	15.0	1296	18.8	7.04	C	80.2	102.0
Pallas CDO II	A1D	455.0	328.0	69644AAB0	181.5	1354	1.6	8.05	BBB	108.0	104.4
Pangaea ABS 2007-1	A	309.2	251.7	PANDNK8Z0	149.0	2789	10.7	18.48	CCC	97.2	110.0
Proventus European ABS CDO	A	2000.0	800.2	PRO7D64Y0	12.0	857	0.0	4.35	BB	0.0	0.0
Renoir CDO	A	280.0	136.9	RENDLKR70	85.0	1716	11.9	10.79	BBB	117.6	107.0
Rhodium 1	A	304.4	61.2	RHODIUM1A	18.4	751	18.4	0.00	AA	130.5	104.0
Stanton MBS I	A1T	297.3	126.3	STNTM1A1T	37.5	1809	10.9	12.61	AA	112.2	112.3
ZOO ABS II B.V.	A1	255.5	163.8	989763AB3	99.2	1617	11.2	11.24	A	111.7	105.0
ZOO ABS 4	A1A	485.8	437.3	ZOOZ56ZM0	134.8	835	2.4	3.70	BBB	119.4	106.2

Source: INTEx and Citi Research

¹ 2013 Year-in-Review: Global Structured Credit, Moody's Investors Service, 19 Feb 2014

Figure 4. Distribution of minimum ratings of ABS within FAXT 2004-1 pool

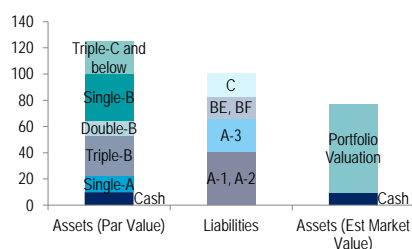


Source: Intex, Citi Research

Drilling into FAXT 2004-1

Getting comfortable with FAXT 2004-1X A-2 requires some knowledge of how ABS CDOs work. ABS CDOs are, in some respects, structurally simpler than European ABS. There is no pro-rata optionality as tranches pay down sequentially. Cashflows can get diverted away from mezz to senior tranches if over-collateralization triggers (based on ratio of performing assets, here the underlying ABS, to the CDO liabilities) are breached. There are also Event of Default (EoD) triggers, if breached, that sweep all cash to senior tranches. This has happened with many ABS CDOs when there has not been enough interest to pay interest on the senior tranches. Depending on the deal documentation, the EoD can also trigger a collateral liquidation by the controlling party (usually the senior-most class). As an example, there were about 350 EoDs but only about half that many liquidations among ABS CDOs globally between 2008 and 2010, according to Moody's. One significant difference between ABS CDOs and the underlying ABS is that many of the CDOs have synthetic credits (or a 'hybrid' of cash and synthetic credits). We do not propose to get into the detailed workings of a hybrid ABS CDO in this weekly, but investors will need to study deal indentures carefully to understand the difference between the loss or wind-down of a credit swap versus the payoff in a cash bond and its impact on the CDO tranche. As it happens, the FAXT 2004-1 deal comprises only cash assets and is not close to any EoD event.

Figure 5. Assets and Liabilities of FAXT 2004-1

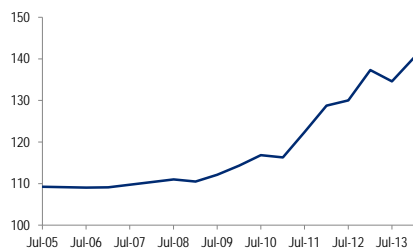


Source: INTEx, Markit, Bloomberg and Citi Research

The next step is the analysis of the underlying ABS portfolio, and stressing their cashflows to work out the average-life and spread of the CDO bond. We use Intex to analyze the portfolio and calculate an expected yield and average life for the A-2 tranche. The portfolio was initially of average triple-B quality, but as Figure 4 shows, only 38% of the minimum ratings (where ratings are split) are investment-grade. Twenty-two percent of the assets are triple-C and below. Therefore, there is significant tail-risk in the portfolio. Looking at the composition of the assets and liabilities, however, we see that the A-1 and A-2 are well covered by the cash and investment-grade assets within the portfolio (Figure 5), implying low risk of principal loss for the bonds.

We also looked at the net asset value of the pool to estimate the market value coverage of the A-2 tranche. We estimate the market value of the underlying portfolio at about €77 million (including €10 million cash), which implies about 1.9 times coverage for the A-2 tranche and about 1.2 times coverage for the A-3 tranche. Many of the bonds are illiquid, and so we have had to make assumptions. We use the most recent cash prices reported by Markit, where available, and for the remaining bonds we use the prices reported by the Bloomberg Valuation Service. However, for many bonds no recent pricing is available from both these sources and for such bonds we check if they appeared on BWICs in the last one year. If the BWIC covers are available, we use them even if they are old — we think this is a conservative assumption given the extent by which European ABS markets have rallied during the past year. Finally, for the remaining bonds for which no price history or BWIC covers are available (about 31% of the portfolio), we assign zero value. Again, this is a very conservative assumption because none of these bonds are in default and have lowest ratings between single-B and triple-B, implying that they are likely to receive some principal recoveries.

Figure 6. Senior OC ratio improves



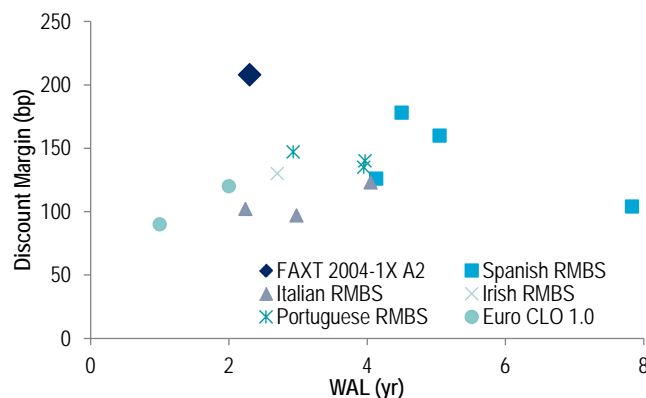
Source: Intex, Citi Research

The shelf is also deleveraging, assuring the A-2 tranche of relatively early redemption. The OC ratio is high, reflecting the tranche subordination, and rising, reflecting the paydown of the collateral (Figure 6). When we look at the projected cashflows, moreover, we find that the sources of cashflows for the A-2 tranche are the bonds that are currently amortizing and a few other second pay bonds that will soon become first pay because their senior notes have factored down significantly. The fact that more speculative subordinate bonds in the collateral are not contributing to the A-2 cashflows gives us confidence about the estimated WAL of the tranche. We estimate that at the cash price of 97, the A-2 tranche offers a discount margin of 208bp for about 2.3 year WAL.

A-2 bond provides value at cost of liquidity

The Euro ABS CDO market is illiquid, and investors who buy bonds such as the FAXT 2004-1X A-2 will be wise to hold it for its short WAL. However, from a relative value perspective it stacks up well against mainstream securitized sectors such as Euro CLOs and peripheral RMBS. Our estimated DM of 208bp for FAXT 2004-1X A2 compares favorably versus other assets in the figure below (Figure 7).

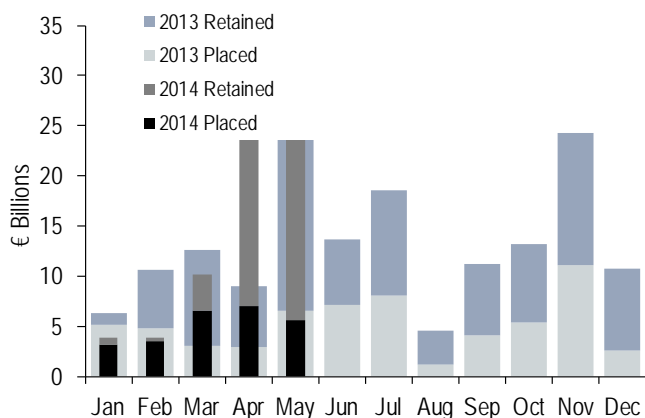
Figure 7. Relative Value of FAXT 2004-1X A2 Versus Other Comparable Bonds



Source: INTEx and Citi Research

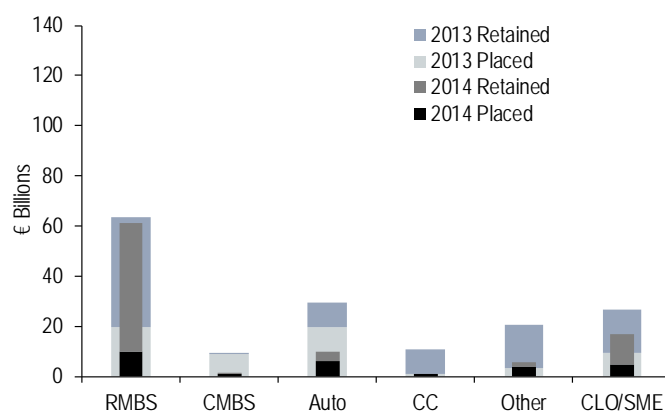
New Issuance

Figure 8. Placed and Retained Issuance by Month, 2013–2014YTD (€ billions)



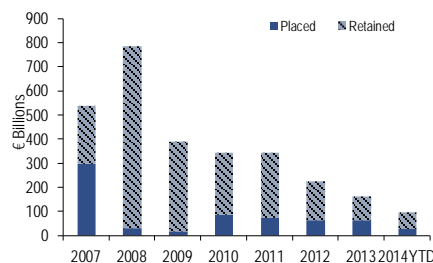
Source: Concept ABS, IFR, Informa and Citi Research

Figure 9. Placed and Retained Issuance by Sector, 2013–2014YTD (€ billions)



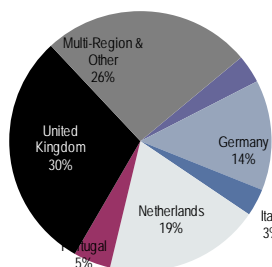
Source: Concept ABS, IFR, Informa and Citi Research

Figure 10. Annual Historical Placed and Retained Issuance, 2007–2014YTD (€ billions)



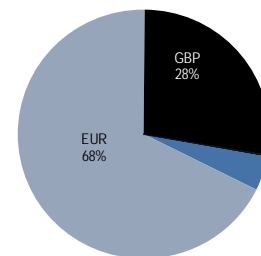
Source: Concept ABS, IFR, Informa and Citi Research

Figure 11. Placed Issuance by Region, 2014YTD (% of Total, € Equivalent)



Source: Concept ABS, IFR, Informa and Citi Research

Figure 12. Placed Issuance by Currency, 2014YTD (% of Total, € Equivalent)



Source: Concept ABS, IFR, Informa and Citi Research

Figure 13. Placed and Retained Issuance by Sector, 2013* and 2014YTD (€ million)

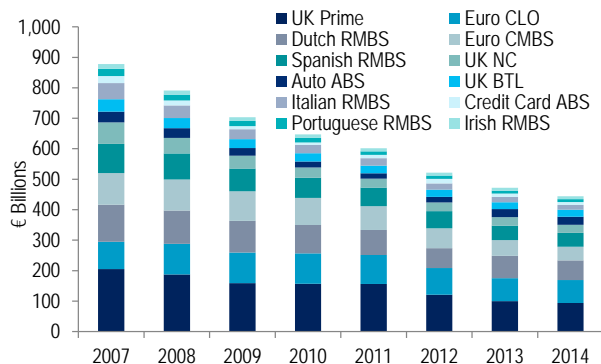
	RMBS(MM)		CMBS(MM)		Autos(MM)		Credit Card ABS(MM)		CLO/SME(MM)		Other(MM)		Total(MM)	
	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013
Placed	9,569	19,507	905	9,081	6,119	19,825	780	1,122	4,771	9,250	3,680	3,336	25,825	62,120
Retained	51,452	44,189	611	202	3,731	9,465	-	9,650	12,167	17,383	2,050	17,147	70,011	98,036
Total	61,021	63,696	1,517	9,282	9,850	29,289	780	10,772	16,938	26,633	5,731	20,483	95,836	160,156

* 2013 complete year

Source: Concept ABS, IFR, Informa and Citi Research

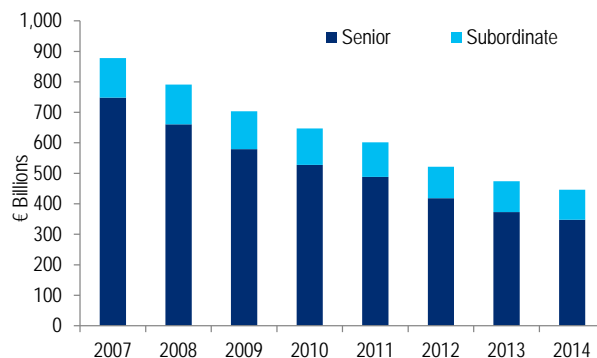
European ABS Outstanding and Technicals

Figure 14. European Securitized Products Outstanding Balance by Sectors, 2007 – 2014 (€ eq billion)



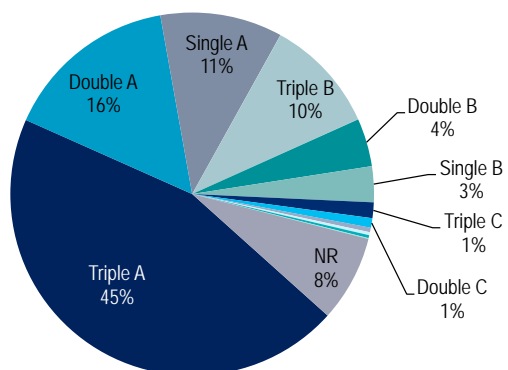
Source: Bloomberg, INTEX and Citi Research

Figure 15. European Securitized Products Outstanding Balance by Senior and Subordinate Notes, 2007 – 2014 (€ eq billion)



Source: Bloomberg, INTEX and Citi Research

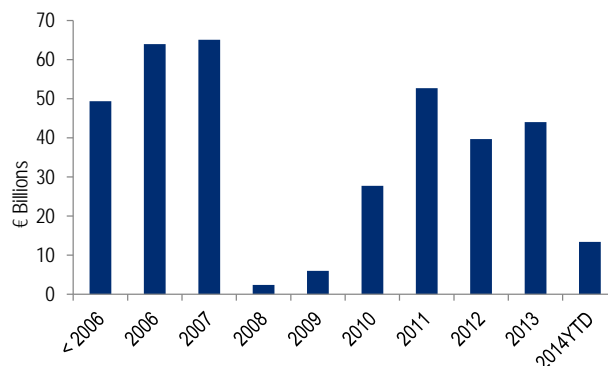
Figure 16. European Securitized Products* Current Placed Outstanding by Rating#



#Bloomberg composite rating, *Excludes Euro CLO

Source: Bloomberg, INTEX and Citi Research

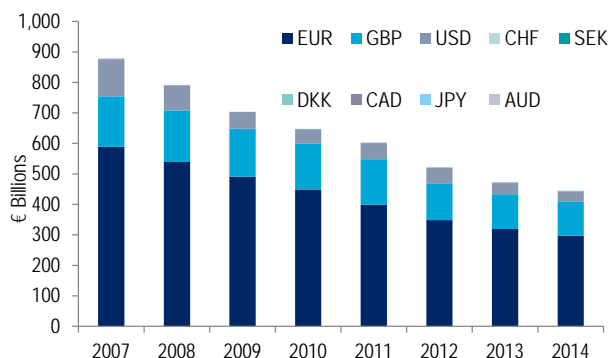
Figure 17. European Securitized Products* Current Placed Outstanding by Vintage (€ eq billion)



*Excludes Euro CLO

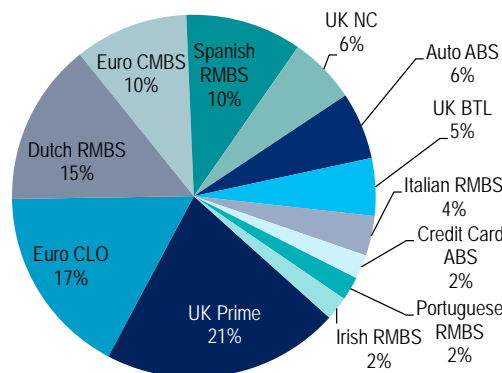
Source: Bloomberg and Citi Research

Figure 18. European Securitized Products Outstanding Balance by Currency, 2007 – 2014 (€ eq billion)



Source: Bloomberg, INTEX and Citi Research

Figure 19. European Securitized Products Current Placed Outstanding by Sector

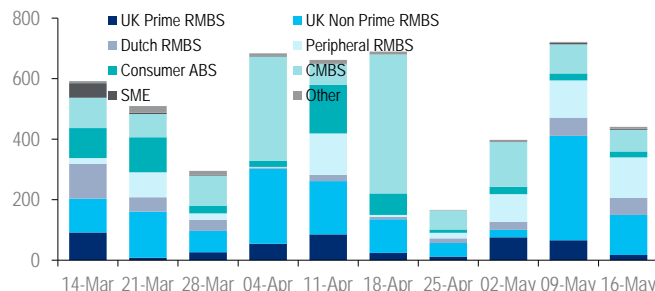


Source: Bloomberg, INTEX and Citi Research

BWIC Tracker

Weekly and Monthly BWIC Volume

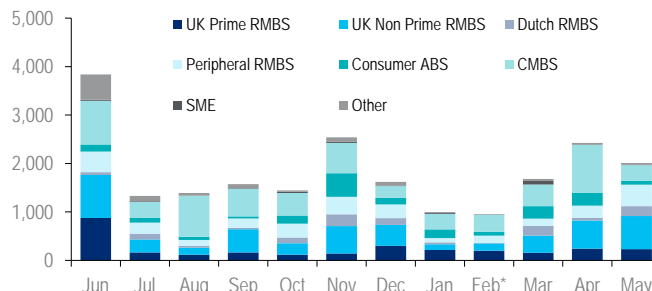
Figure 20. Weekly BWIC Volume by Sector, Mar 2014–May 2014* (\$ eq. million)



* Data until 29 May

Source: Citi Research

Figure 21. Monthly BWIC Volume by Sector, Jun 2014 – May 2014 (\$ eq. million)

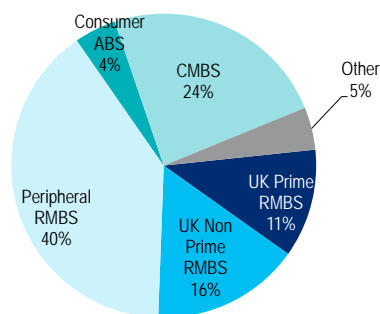


* Data until 29 May

Source: Citi Research

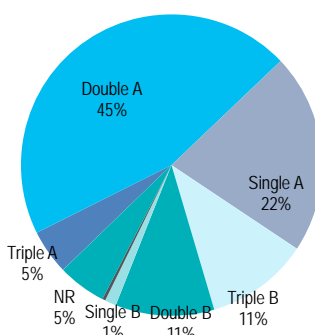
Last Week's BWIC Distribution by Sector, Rating and Currency

Figure 22. BWIC Volume Distribution by Sector, 23 May – 29 May 2014 (%)



Source: Citi Research

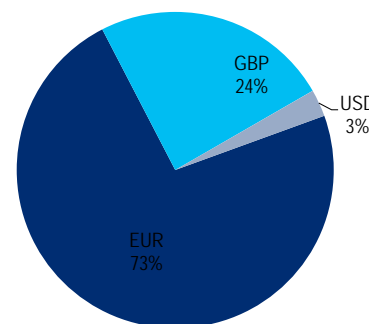
Figure 23. BWIC Volume Distribution by Current Rating*, 23 May – 29 May 2014 (%)



* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

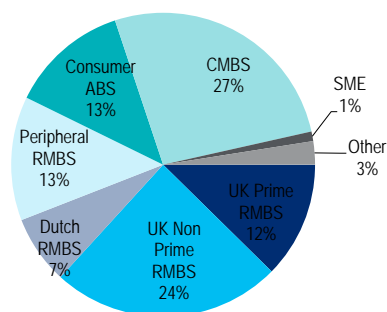
Figure 24. BWIC Volume Distribution by Currency 23 May – 29 May 2014 (%)



Source: Citi Research

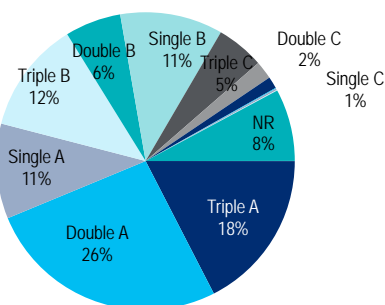
YTD BWIC Distribution by Sector, Rating and Currency

Figure 25. BWIC Volume Distribution by Sector, 2014YTD (%)



Source: Citi Research

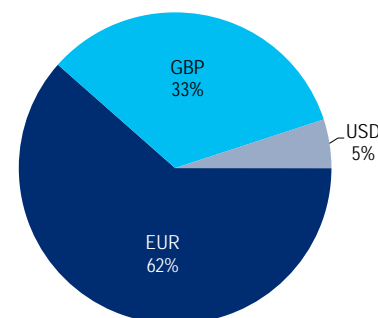
Figure 26. BWIC Volume Distribution by Current Rating*, 2014YTD (%)



* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

Figure 27. BWIC Volume Distribution by Currency, 2014YTD (%)



Source: Citi Research

Figure 28. BWIC Volume and Number of Bonds by Sector and Current Rating*, 09 May – 15 May 2014 and 2014 YTD

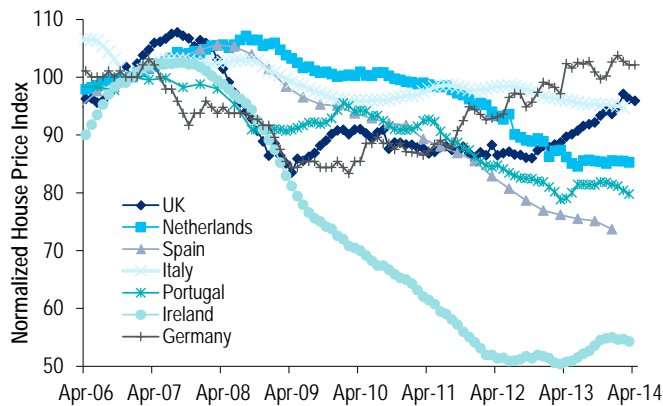
Sector	Rating*	YTD			
		Volume (MM USD EQ)	Number of Bonds	Volume (MM USD EQ)	Number of Bonds
UK Prime RMBS	Triple A	7.4	4	402	147
	Double A	30.6	8	493	208
	Single A	-	-	54	18
	Lower and Not Rated	9.3	1	99	18
	Total	47.3	13	1,048	391
UK Non Prime RMBS	Triple A	-	-	136	20
	Double A	13.6	3	1,166	113
	Single A	48.3	6	167	39
	Lower and Not Rated	2.8	1	415	79
	Total	64.6	10	1,884	251
Dutch RMBS	Triple A	-	-	465	97
	Double A	-	-	18	5
	Single A	-	-	19	9
	Lower and Not Rated	-	-	15	6
	Total	-	-	517	117
Peripheral RMBS	Double A	136.1	1	192	16
	Single A	1.8	1	140	30
	Triple B	13.4	3	307	49
	Double B	-	-	23	7
	Single B	-	-	177	21
	Triple C	1.4	1	56	10
	Lower and Not Rated	10.8	3	183	32
	Total	163.4	9	1,078	165
CMBS	Triple A	-	-	20	4
	Double A	-	-	124	14
	Single A	38.2	3	377	58
	Lower and Not Rated	60.6	6	1,911	251
	Total	98.7	9	2,431	327
Consumer ABS	Triple A	12.4	5	363	166
	Double A	5.8	2	92	23
	Single A	-	-	13	18
	Lower and Not Rated	-	-	394	42
	Total	18.2	7	861	249
SME	Double A	-	-	15	8
	Single A	-	-	32	9
	Triple B	-	-	1	1
	Double B	-	-	8	2
	Single B	-	-	12	3
	Lower and Not Rated	-	-	31	7
	Total	-	-	100	30
Other	Triple A	-	-	25	26
	Double A	-	-	20	14
	Single A	-	-	32	9
	Triple B	-	-	19	5
	Double B	16.3	2	29	5
	Single B	2.3	1	5	3
	Triple C	-	-	3	1
	Lower and Not Rated	-	-	21	11
	Total	18.6	3	155	74
Grand Total		410.9	51	8,073	1,604

* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

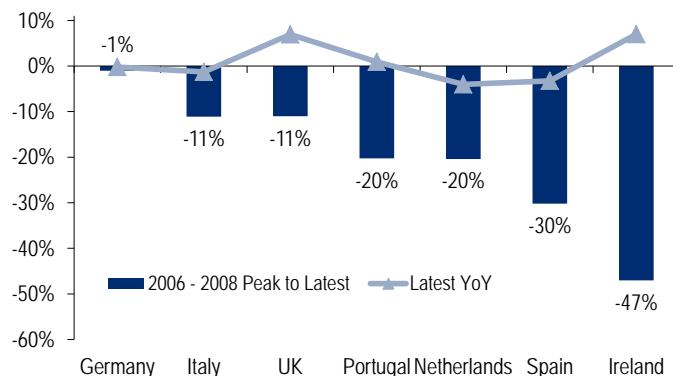
Housing Markets and Mortgage Lending

Figure 29. Normalized House Price Indexes, Apr 06 – Apr 14 (Dec 2006 = 100)



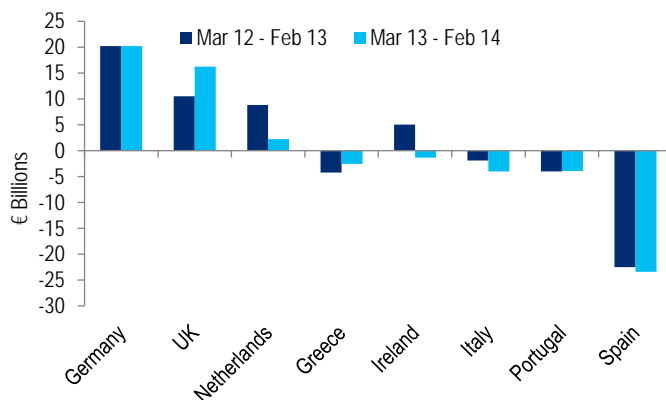
Source: Lloyds, Central Statistics Office Ireland, CBS Statline, Fotocasa, INE Portugal, Scenari Immobiliari Spa and Citi Research

Figure 30. Euro Area 2006 – 2008 Peak to Latest House Price Change and Latest Y-o-Y Change



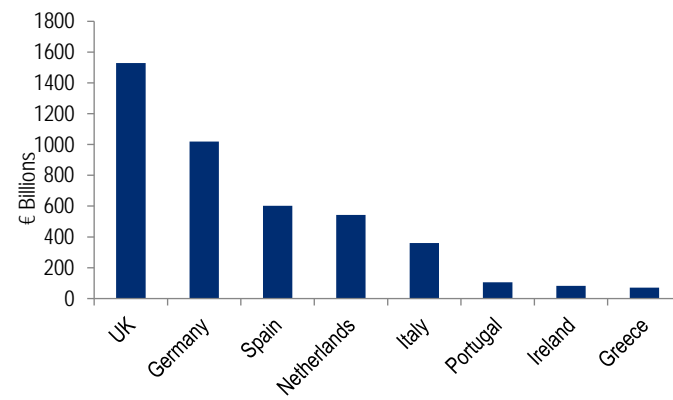
Source: Lloyds, Central Statistics Office Ireland, CBS Statline, Fotocasa, INE Portugal, Scenari Immobiliari Spa and Citi Research

Figure 31. Net lending Rolling Year Totals (€ eq billion)



Source: ECB, BOE and Citi Research

Figure 32. Outstanding Mortgages as of Feb 2014 (€ eq billion)



Source: DNB, BOE, ECB and Citi Research

Figure 33. Recent Housing News and Market Data Releases

Country	Indicator	Period	Current Value	Y-o-Y	2005 - 2012 Peak to Current	Comment
UK	House Prices (Rightmove)	May-14	£272,003	8.9%		Asking prices for London homes rose to a record this month as all 32 of the capital's boroughs recorded increases, according to Rightmove Plc. Values climbed 3.3% from April to an average £592,763. Across England and Wales, prices rose 3.6%, the most for this time of year since 2002, reaching an all-time high of £272,003.
UK	Hometrack Housing Survey	Mar-14	0.5%			UK house prices rose for a 15 th month and consumer confidence increased to a nine-year high on an improving outlook for the economy. It added that home prices in England and Wales increased 0.5% in May after a 0.6% jump in April.
Spain	Mortgage Approvals	Mar-14	16,625	2.0%		Spanish mortgage approvals for dwellings rose in March for the first time in almost four years, adding to signs that the property market is stabilizing. The number of residential loan approvals rose 2% from a year earlier, the first increase since April 2010, INE reported.
Spain	House Price Index	Mar-14	87.5	-3.5%		House prices in the country fell 3.5% from a year ago in the first quarter, the smallest decline in over three years, separate data from the Public Works Ministry showed.
Spain	Mortgage Lending	Mar-14	€3.6bn	16%		Total amount of mortgages constituted in Spain rose by 16%, the first year-on-year gain since 2007.
Ireland	House Price Index	Apr-14	€70.1	8.5%		Houses prices across the State rose by 8.5% per cent in the 12 months to the end of April, the latest figures from the Central Statistics Office show.
Netherlands	House Price Index	Apr-14	€85.7	0.1%	-19.9%	The average house price in the Netherlands rose by a marginal 0.1% in April, compared with April 2013, the national statistics office CBS said. The house prices are still down 19.9% on August 2008, when they reached a peak. Almost 40,000 homes were sold between January and the end of April, a rise of 34% on the same period in 2013.

Source: INE Spain, CBS Netherlands, CSO Ireland, RightMove, Bloomberg and Citi Research

CMBS Loan Tracker

Figure 34. CMBS Loan Update

Date	CMBS Deal	Loan Name	Current Loan Size(MM)	Loan as a % of the Deal	Action	Comments
28-May-14	WTOW 2007-1	Heron City	€ 106	100.0%	Property Tour	An informal tour of the Spanish Property, convened by Hatfield Philips will take place on 11 June 2014.
28-May-14	DECO 2007-E5X				Call with note holders	A conference call with noteholders, convened by special servicer will be held on 3 June 2014 at 2 pm (London time) to discuss the progress of the current loan work-out strategies relating to CGG loan, Arcadia loan, Mansford Nord Bayern loan, DD Karstadt Hilden loan.
27-May-14	TITN 2006-3X				Document inconsistencies lead to confusion over Class X repayment	The confusion prevails over principal repayment to class X notes following the occurrence of the note event of default, due to document inconsistencies. The class X notes are payable now and will accrue interest at a hyper-inflated rate until not repaid fully. The class A note holders propose that the X notes should be repaid at once using the deposit in Class X account while the X note holders argue that they should not be paid until all other classes are repaid in full.
27-May-14	EPICP BROD				Replacement of Account Bank and Cash Deposit Bank	Effective from 27 May 2014, the role of both Account Bank and Cash Deposit Bank were novated from BNP Paribas to HSBC Bank.
27-May-14	EPICP CULZ				Replacement of Account Bank and Cash Deposit Bank	Effective from 27 May 2014, the role of both Account Bank and Cash Deposit Bank were novated from BNP Paribas to HSBC Bank.
27-May-14	EPICP DRUM				Replacement of Account Bank and Cash Deposit Bank	Effective from 27 May 2014, the role of both Account Bank and Cash Deposit Bank were novated from BNP Paribas to HSBC Bank.
27-May-14	PROUL 1				Paid off	The remaining outstanding of notes has been repaid and trading of notes has been cancelled with effect from 27th May 2014.
27-May-14	TITN 2007-CT1X	Stade Loan	€ 8	1.6%	Standstill Extension	Standstill period has been extended until 30 July 2014 for the borrower to enable further discussions between the special servicer agent and the borrower in respect of the Stade Loan and the related property.
23-May-14	TMAN 7	Mozart Loan	€ 310	51.4%	Sale of Properties	The sale and purchase agreement was entered into for two properties Goseriede and Lutzowstr at gross sales price of €11,200,000 (latest valuation €13,000,000 as of 31 October 2013) and €1,200,000 (latest valuation €1,620,000 as of 31 October 2013) respectively. The net disposal proceeds from sale will be applied according to finance documents.
23-May-14	DECO 8-C2X	Lea Valley Loan	£216	43.7%	Partial Disposal of Properties	At the request of borrower, sub servicer consented to partial disposal of certain Lea Valley tranche A & G mortgaged properties for the aggregate net price of £2,353,043. Also sub servicer agreed for a sub-lease of unit for a one off net leasing fee of £93,600. Of total £2,446,643 net proceeds, £1,834,982 will be applied in prepayment of loan in July IPD and sub-servicer will transfer the balance of £611,661 into the Lea Valley property expenditure account.
22-May-14	TMAN 6	Apple Whole Loan	€ 47	6.0%	Standstill Extension	Standstill period has been further extended until 13 June 2014 in order to allow further discussions on consensual workout strategy for Apple loan.
22-May-14	WINDM VII-X	Nordostpark	€ 43	31.8%	Restriction on Lenders' Right to Demand Payment	The special servicer has agreed to further extend the Restricted Payment Demand Period until and including 30 June 2014.

Source: Investor Notices and Citi Research

Figure 34. CMBS Loan Update Continued

Date	CMBS Deal	Loan Name	Current Loan Size(MM)	Loan as a % of the Deal	Action	Comments
22-May-14	TITN 2007-1X				Restructuring Proposal	The highlights of the proposal are 1)Crystallisation of the forward swap MTM at 70% of the amount that would be due under the terms of the swap documents 2) The immediate sale would be postponed to allow creditors to benefit over time from the continued improvement in the business 3) Prior to a sale of the business, all surplus amounts from net rental income after payment of structure costs and interest on the A and X Notes would go towards amortising the A notes as opposed to paying the forward swap 4) To address the current ambiguity regarding the ranking of payments on the forward swap, a lockbox arrangement would be put in place that would effectively subordinate all payments on the forward swap and reallocate them for the benefit of the A noteholders until they are paid in full, thus protecting them against the potential of further subordination from the build-up of prior ranking unpaid periodic payments.
22-May-14	TMAN 7	Hof Loan	€ 7	1.2%	Appraisal Reduction	Appraisal reduction amount has been calculated at €2,637,797 for the Hof property based on new valuation in November 2013.
22-May-14	TAURS 4				Change in Controlling Class	After April IPD, the controlling class is the class B noteholders and have the right to appoint a controlling class representative.
22-May-14	DECO 2007-E6X	Main Loan & Plus Retail Loan	€ 82	20.6%	Special Servicer Replacement	The special servicer for the Main loan and the Plus Retail loan will be replaced to Solutus Advisers after satisfaction of certain pre-conditions set out in servicing agreement with current servicer Hatfield Phillips.
21-May-14	TITN 2007-CT1X	Star Loan	€ 6	1.3%	Standstill Extension	Due to a draft SPA not materializing with respect to remaining properties, the special servicer has agreed to enter into a new standstill with the borrower under until 18 July 2014 for the purposes of continuing the consensual sales process.
21-May-14	ECLIP 2007-1X	Workspace Portfolio Loan	£26	10.7%	Sale of Properties & Updated Valuation	The sales of 3 properties were completed and proceeds were £1.8m. The valuation of the remaining 5 Properties has taken place and that the current new valuation is £9.7m.
21-May-14	LEMES 2006-1				Investors Meeting on updated restructuring plan	Investors meeting will take place on June 6 on updated restructuring plan as borrower IEF announced additional features in an notice on 12 May 2014
20-May-14	TAURS 4	Iron Mountain Loan			Interest Rate Swap Breakage Charges	Pursuant to late termination of Interest rate swap due to prepayment of the Iron Mountain loan, the servicer has made demand to the borrower for an amount equal to £994,917 in relation to the swap breakage amounts. The servicer is currently taking steps to recover such payment from the borrower
19-May-14	DECO 2007-C4X				Changes in Liquidity Facility Agreement	Issuer is expected to make changes to the liquidity facility agreement citing a flaw in the appraisal reduction mechanism where an appraisal reduction on a single property within a loan could have a disproportionate effect on the liquidity facility.

Source: Investor Notices and Citi Research

Figure 34. CMBS Loan Update Continued

Date	CMBS Deal	Loan Name	Current Loan Size(MM)	Loan as a % of the Deal	Action	Comments
15-May-14	PROUD 1				Repayment of Notes	Following full repayment of Paris properties loans for an amount 238 506 630,95 euros on the 14th May 2014, issuer will repay in full Class A and Class B. Class C will be partially repaid (repayment of €1,847,488). Proudreed France borrowers are intended to repay full amount of the remaining loans (€83,352,506) on the next 3 months.
15-May-14	PPCRE 2006-1X				Repayment of unpaid interests	Following an amicable settlement with the loan borrower, issuer has recovered funds and can repay on 22 May 2014 unpaid interests for Class D and for Class E notes.
14-May-14	EURO 28X	EuroCastle Office Portfolio Loan	€ 40	7.8%	Standstill Agreement	Standstill agreement has been reached until 9 June 2014 between borrower and special servicer.

Source: Investor Notices and Citi Research

Sovereign Ratings and Economics Forecasts

Figure 35. Citi Euro-Area Economic Forecasts, 2014F – 2017F

	Real GDP (% , YY)				Unemployment Rate (% , Annual Average)				Policy Rate (% , Annual Average)				10 YR Yields (% , Annual Average)			
	2014F	2015F	2016F	2017F	2014F	2015F	2016F	2017F	2014F	2015F	2016F	2017F	2014F	2015F	2016F	2017F
UK	3.5	3.6	2.5	2.0	6.6	5.1	-	-	0.54	1.67	2.5	2.71	3.05	3.60	3.75	3.90
Euro-Area	1.3	1.8	1.9	1.9	11.8	11.3	-	-	0.16	0.1	0.11	0.42	1.63	1.75	2.00	2.25
Germany	2.2	2.4	2.4	2.1	5.0	4.7	-	-	*	*	*	*	1.63	1.75	2.00	2.25
France	1.0	1.5	1.8	2.0	9.8	9.5	-	-	*	*	*	*	2.14	2.15	2.40	2.65
Spain	1.0	1.6	2.0	1.9	24.9	23.5	-	-	*	*	*	*	3.19	2.95	3.05	3.15
Italy	0.6	1.1	1.0	1.1	13.1	13.0	-	-	*	*	*	*	3.13	2.75	2.85	2.95
Portugal	1.5	2.0	1.7	1.7	14.7	13.5	-	-	*	*	*	*	-	-	-	-
Netherlands	1.3	1.4	1.8	2.1	8.8	8.6	-	-	*	*	*	*	1.90	2.00	2.25	2.50
Ireland	1.8	3.1	2.8	2.9	11.4	10.6	-	-	*	*	*	*	-	-	-	-
Greece	-0.8	1.2	1.6	1.5	27.5	26.4	-	-	*	*	*	*	-	-	-	-

* Same Euro-area policy rate

Source: Citi Research

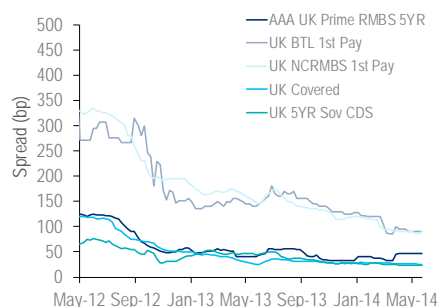
Figure 36. Advanced Economies — Sovereign Long-Term Debt Ratings and Citi Ratings Forecasts

Country	S&P Ratings				Moody's Ratings			
	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook
US	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Canada	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Japan	AA-	Neg	AA- (Neg)	A+ ↓	Aa3	Stable	Aa3 (Stable)	A1 ↓↓
Germany	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
France	AA	Stable	AA (Stable)	AA	Aa1	Neg	Aa1 (Neg)	Aa1 ↓
Italy	BBB	Neg	BBB (Neg)	BBB-	Baa2	Stable	Baa2 (Stable)	Baa2
Spain	BBB-	Stable	BBB- (Stable)	BBB ↑	Baa2	Pos	Baa2 (Pos)	Baa1 ↑
Austria	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Belgium	AA	Stable	AA (Stable)	AA	Aa3	Stable	Aa3 (Stable)	Aa3
Finland	AAA	Neg	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Greece	B-	Stable	B- (Stable)	B-	Caa3	Stable	Caa3 (Stable)	Caa3
Ireland	BBB+	Positive	A- (Stable) ↑	A- ↑	Baa3	Positive	Baa2 (Stable)	A3 ↑↑↑↑
Netherlands	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Portugal	BB	Neg	BB+ (Pos) ↑	BBB-↑↑	Ba3	Stable	Ba2 (Pos)	Baa3 ↑↑↑
UK	AAA	Neg	AAA (Stable)	AAA	Aa1	Stable	Aa1 (Pos)	Aaa ↓↑
Switzerland	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Sweden	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Denmark	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Norway	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa

Note: Arrows denote expected ratings changes from the current rating. (Neg) denotes negative outlook. (Neg W) denotes negative watch. SD means Selective Default. (P) means Provisional. The number of arrows denotes the expected change in ratings notches from the current level. We show a maximum of five arrows even for countries where we expect more than five notches of ratings change. NA Not available. Sources: Moody's, S&P and Citi Research

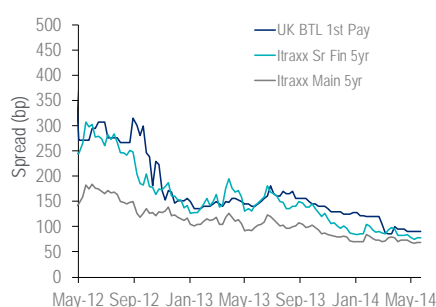
Core RMBS Spreads and Relative Value

Figure 37. UK RMBS Seniors Versus Indexes, May 12 – May 14



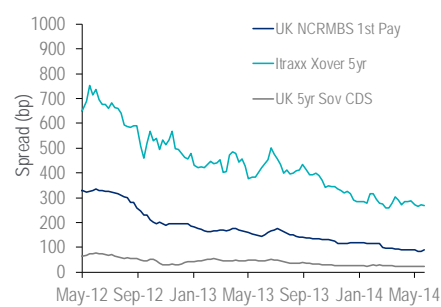
Source: Markit and Citi Research

Figure 38. UK BTL RMBS Seniors Versus Indexes, May 12 – May 14



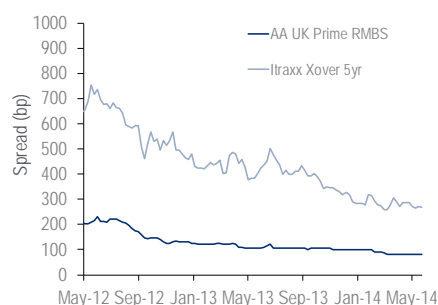
Source: Markit and Citi Research

Figure 39. UK NCRMBS Seniors Versus Indexes, May 12 – May 14



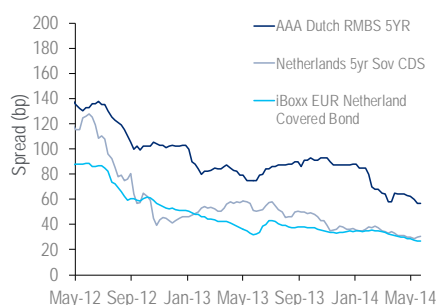
Source: Markit and Citi Research

Figure 40. UK Prime RMBS Subordinates Versus Index, May 12 – May 14



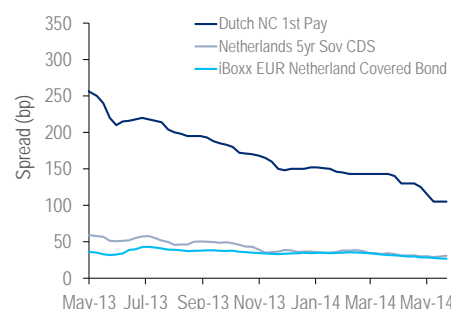
Source: Markit and Citi Research

Figure 41. Dutch RMBS Seniors Versus Indexes, May 12 – May 14



Source: Markit and Citi Research

Figure 42. Dutch NC 1st Pay Versus Indexes, May 13 – May 14



Source: Markit and Citi Research

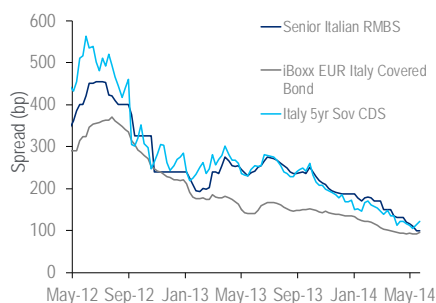
Figure 43. UK Prime, UK NC, UK BTL, Dutch Prime and Dutch NC Spread Changes and Statistics, 2014YTD

Country	Product	Product Detail	Current	Δ1-week	Δ1-month	Δ1-quarter	Δ1-year	2013 Low	Δ From Low	2013 High	Δ From High
UK	Prime RMBS	AAA 1YR	21	0	-1	0	-2	20	1	38	-17
		AAA 3YR	30	0	-1	1	-2	27	3	47	-17
		AAA 5YR	47	1	1	11	7	32	15	56	-9
		Mezz	80	0	0	-8	-25	80	0	125	-45
	Buy to Let	PARGN 1st Pay	90	0	0	-15	-50	85	5	180	-90
		PARGN 2nd Pay	110	0	0	-80	-130	110	0	275	-165
		PARGN 3rd Pay	145	0	-5	-145	-185	145	0	375	-230
		AIREM AAA	68	-3	-10	-18	-54	68	0	160	-92
		AIREM AA	110	0	-13	-40	-110	110	0	250	-140
		AIREM BBB	200	0	200	-50	-95	175	25	350	-150
Netherlands	Non-Conforming RMBS	NC 1st Pay	90	5	0	-5	-58	85	5	183	-93
		NC 2nd Pay	125	0	-10	-40	-97	125	0	315	-190
	Covered Bonds	iBoxx EUR UK	25	0	-1	-2	1	24	1	50	-25
		Sovereign CDS	23	0	0	-2	-21	23	0	53	-30
	Prime RMBS	AAA 1YR	32	0	-5	-9	-6	32	0	55	-23
		AAA 3YR	44	0	-4	-11	-10	44	0	76	-32
		AAA 5YR	57	0	-6	-8	-18	57	0	100	-43
		Mezz	80	0	0	-10	-105	80	0	200	-120
	Non-Conforming	NC 1st Pay	105	0	-20	-38	-115	105	0	320	-215
		NC 2nd Pay	150	0	-30	-55	-125	150	0	365	-215
		NC 3rd Pay	260	10	-45	-85	-220	208	52	675	-415
	Covered Bonds	iBoxx EUR Netherland	27	0	-2	-8	-5	27	0	51	-24
	Sovereign CDS	Sovereign 5YR	31	1	1	-4	-20	29	2	59	-28

Source: Markit and Citi Research

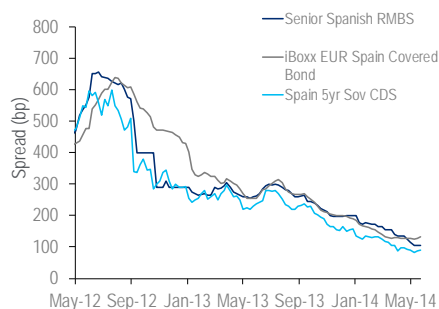
Peripheral RMBS and Relative Value

Figure 44. Italian RMBS Seniors Versus Indexes, May 12 – May 14



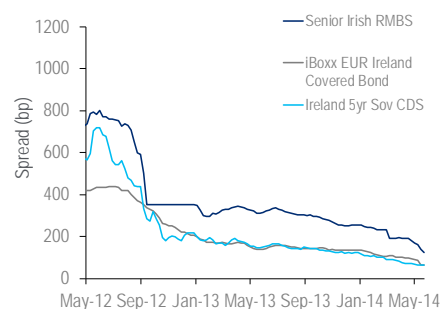
Source: Markit and Citi Research

Figure 45. Spanish RMBS Seniors Versus Indexes, May 12 – May 14



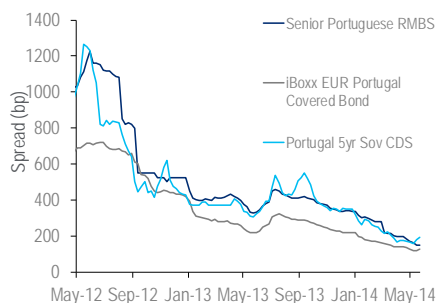
Source: Markit and Citi Research

Figure 46. Irish RMBS Seniors Versus Indexes, May 12 – May 14



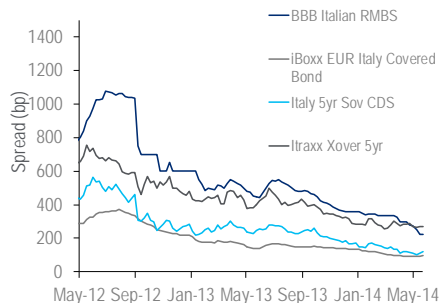
Source: Markit and Citi Research

Figure 47. Portuguese RMBS Seniors Versus Indexes, May 12 – May 14



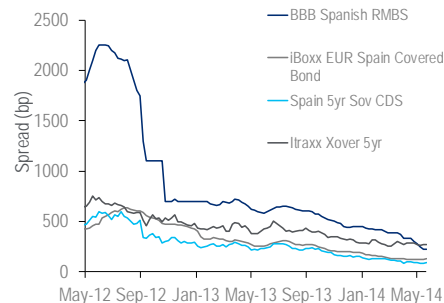
Source: Markit and Citi Research

Figure 48. Italian RMBS Subordinates Versus Indexes, May 12 – May 14



Source: Markit and Citi Research

Figure 49. Spanish RMBS Subordinates Versus Indexes, May 12 – May 14



Source: Markit and Citi Research

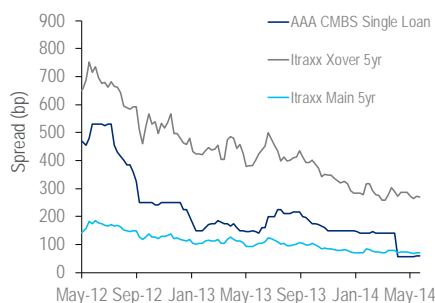
Figure 50. Peripheral RMBS Spread Changes and Statistics, 2014YTD

Country	Product	Product Detail	Current	Δ1-week	Δ1-month	Δ 1-quarter	Δ1-year	2013 Low	Δ from Low	2013 High	Δ from High
Italy	RMBS	AAA Italy	100	0	-20	-70	-138	100	0	275	-175
		AA Italy	130	0	-20	-105	-142	130	0	325	-195
		A Italy	150	0	-35	-135	-173	150	0	440	-290
		BBB Italy	225	0	-55	-110	-220	225	0	600	-375
	Covered Bonds	iBoxx EUR Italy	96	5	4	-12	-44	91	5	211	-115
	Sovereign CDS	Italy Sovereign 5YR	121	8	5	-25	-124	104	17	300	-179
Spain	RMBS	AAA Spain	105	0	-20	-60	-153	105	0	305	-200
		AA Spain	140	0	-35	-120	-228	140	0	410	-270
		A Spain	200	0	-90	-150	-308	200	0	690	-490
		BBB Spain	225	0	-75	-165	-365	225	0	725	-500
	Covered Bonds	iBoxx EUR Spain	133	7	6	-8	-120	124	8	401	-269
	Sovereign CDS	Spain Sovereign 5YR	89	2	-3	-36	-141	82	7	296	-206
Portugal	RMBS	AAA Portugal	150	0	-35	-130	-178	150	0	460	-310
		AA Portugal	225	0	-50	-135	-205	225	0	595	-370
		A Portugal	300	0	-80	-140	-215	300	0	740	-440
		BBB Portugal	325	0	-75	-165	-270	325	0	840	-515
	Covered Bonds	iBoxx EUR Portugal	125	8	-9	-36	-93	116	8	392	-267
	Sovereign CDS	Portugal Sovereign 5YR	192	14	22	-35	-112	155	37	548	-356
Ireland	RMBS	AAA Ireland	125	-15	-55	-108	-187	125	0	349	-224
		AA Ireland	250	-15	-65	-190	-298	250	0	600	-350
		A Ireland	400	0	-50	-150	-290	400	0	750	-350
		BBB Ireland	425	0	-175	-360	-515	425	0	1000	-575
	Covered Bonds	iBoxx EUR Ireland	65	1	-28	-41	-72	64	1	200	-135
	Sovereign CDS	Ireland Sovereign 5YR	65	2	-6	-26	-79	63	2	197	-132

Source: Markit and Citi Research

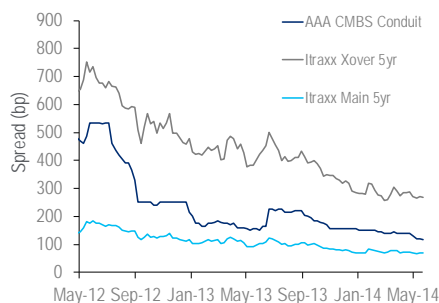
CMBS and CLO Spreads and Relative Value

Figure 51. AAA CMBS Single Loan Versus Indexes, May 12 – May 14



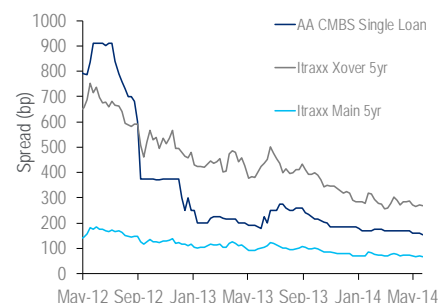
Source: Markit and Citi Research

Figure 52. AAA CMBS Conduit Versus Indexes, May 12 – May 14



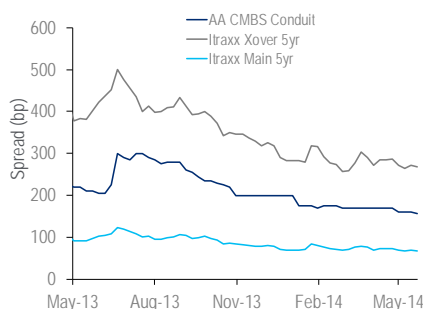
Source: Markit and Citi Research

Figure 53. AA CMBS Single Loan Versus Indexes, May 12 – May 14



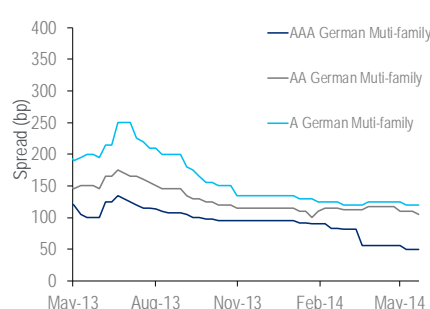
Source: Markit and Citi Research

Figure 54. AA CMBS Conduit Versus Indexes, May 13 – May 14



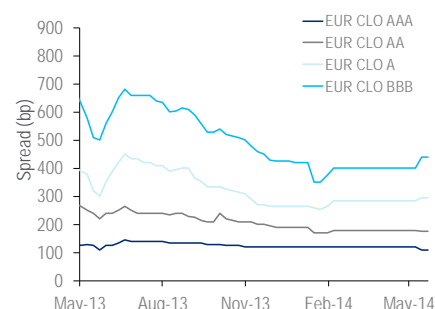
Source: Markit and Citi Research

Figure 55. German Multifamily Spreads, May 13 – May 14



Source: Citi Research

Figure 56. EUR CLO Spreads, May 13 – May 14



Source: Citi Research

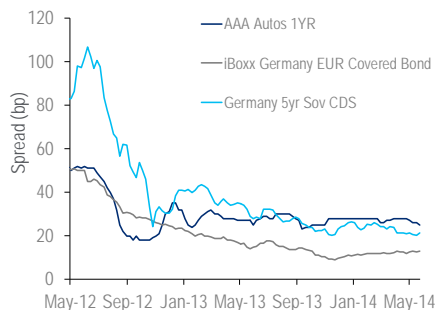
Figure 57. CMBS, WBS and CLO Spread Changes and Statistics, 2014YTD

Country	Product	Product Detail	Current	Δ1-week	Δ1-month	Δ 1-quarter	Δ1-year	2013 Low	Δ from Low	2013 High	Δ from High
Europe	CMBS	AAA German Multi	50	0	-6	-31	-50	50	0	150	-100
		AAA Single Loan	60	0	4	-80	-85	56	4	225	-165
		AAA Conduit	117	-3	-23	-23	-38	117	0	225	-108
		AAA Fixed	85	0	-5	-15	-25	85	0	225	-140
		AA German Multi	105	-5	-12	-7	-45	100	5	225	-120
		AA Single Loan	155	-5	-15	-15	-30	155	0	275	-120
		AA Conduit	157	-3	-13	-13	-53	157	0	300	-143
		AA Fixed	110	0	-5	10	-45	90	20	250	-140
		A German Multi	120	0	-5	0	-80	120	0	350	-230
		A Single Loan	300	-5	-20	-20	45	250	50	450	-150
		A Conduit	315	0	-5	-10	40	270	45	475	-160
		A Fixed	160	0	-10	-25	-50	160	0	495	-335
	CLO	AAA	110	0	-10	-10	0	110	0	150	-40
		AA	175	0	-5	-5	-45	170	5	300	-125
		A	295	0	10	10	-5	255	40	460	-165
		BBB	440	0	40	40	-60	350	90	800	-360
	WBS	AAA	105	0	-10	-20	-70	105	0	300	-195
		AA	115	0	-5	-10	-90	115	0	350	-235
		A	165	0	-5	-25	-115	165	0	425	-260
		BBB	300	0	-20	-25	-95	300	0	600	-300

Source: Markit and Citi Research

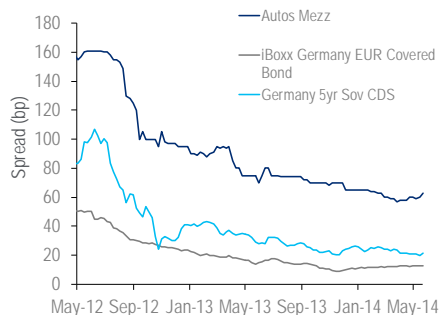
Auto and Credit Card ABS Spreads and Relative Value

Figure 58. European Auto Seniors Versus Indexes, May 12 – May 14



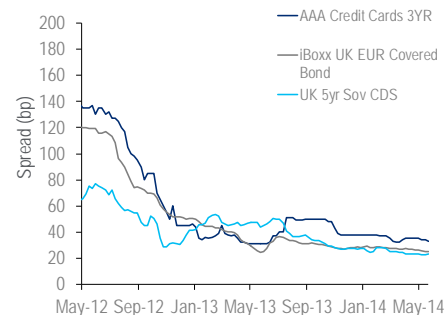
Source: Markit and Citi Research

Figure 59. European Auto Mezz Versus Indexes, May 12 – May 14



Source: Markit and Citi Research

Figure 60. UK Credit Card ABS Versus Indexes, May 12 – May 14



Source: Markit and Citi Research

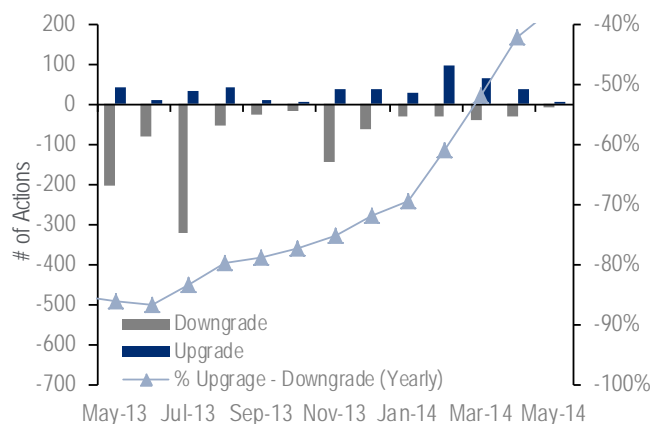
Figure 61. European Autos and UK Credit Card ABS Spread Changes and Statistics, 2014YTD

Country	Product	Product	Current	Δ1-week	Δ1-month	Δ1-quarter	Δ1-year	2013 Low	Δ from Low	2013 High	Δ from High
Europe	Autos	1YR	25	-1	-3	-1	-2	23	2	32	-7
		3YR	36	-1	-3	-3	-5	36	0	45	-9
		5YR	48	1	0	0	-11	46	2	63	-15
		Mezz	63	3	3	3	-12	57	6	95	-32
Germany	Automobile and Parts Index	iBoxx EUR Automobile & Parts	84	0	1	16	30	47	36	91	-7
	Covered Bonds	iBoxx EUR Germany	13	0	1	1	-1	9	4	23	-10
	Sovereign CDS	Sovereign 5YR	21	1	0	-3	-8	20	1	43	-22
UK	Credit Cards	1YR	23	-1	-2	-4	-2	23	0	38	-15
		3YR	33	-1	-2	-2	2	31	2	51	-18
		5YR	40	1	0	3	-2	34	6	63	-23
		Mezz	80	0	0	-10	-14	80	0	127	-47
	Covered Bonds	iBoxx EUR UK	25	0	-1	-2	1	24	1	50	-25
	Sovereign CDS	Sovereign 5YR	23	0	0	-2	-21	23	0	53	-30

Source: Markit and Citi Research

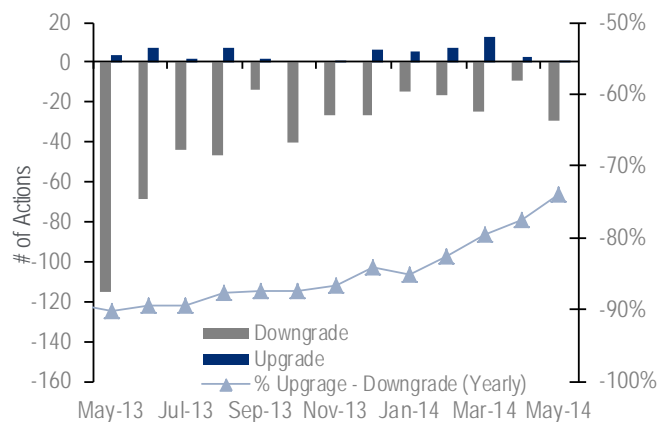
Rating Actions and Trends

Figure 62. European RMBS Rating Upgrades and Downgrades, May 13 – May 14



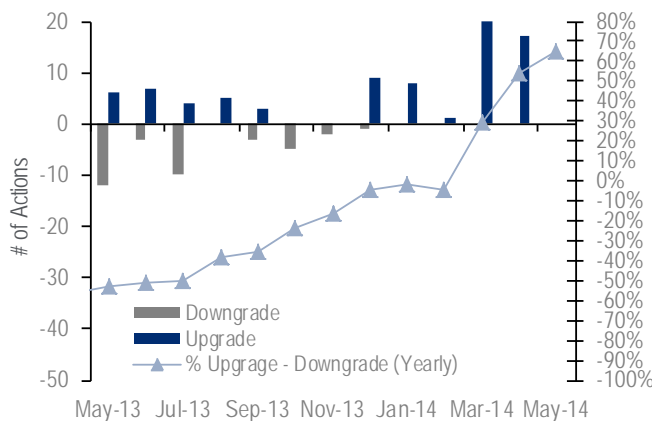
Source: Moody's, S&P and Fitch

Figure 63. European CMBS Rating Upgrades and Downgrades, May 13 – May 14



Source: Moody's, S&P and Fitch

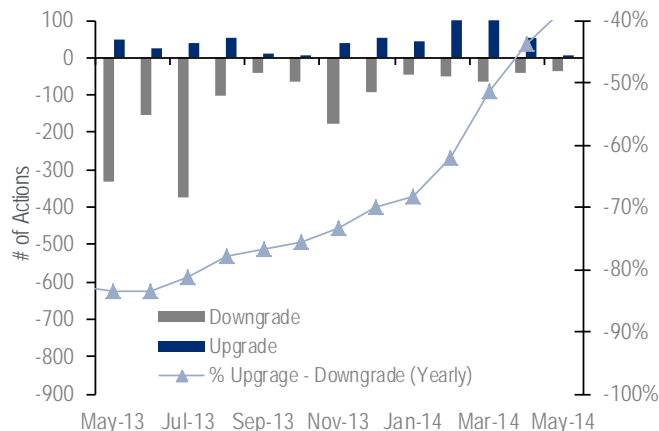
Figure 64. European ABS* Rating Upgrades and Downgrades May 13 – May 14



* 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 65. European Total Securitized Products Rating Upgrades and Downgrades, May 13 – May 14



Source: Moody's, S&P and Fitch

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Notes

Notes

Appendix A-1

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