

## European Securitized Products Weekly

### Stick to UK Prime Issuance Guns Despite Last FLS Shot

- **Big Lenders Binge on Last Night of FLS Party** — UK lenders borrowed nearly 44% of the total FLS drawdown in 2013 Q4 alone, the last quarter to use the scheme for mortgage lending. We believe top lenders' motivation is to pre-fund their future mortgage lending and hence we do not expect them to issue RMBS this year.
- **...But Others Still Need RMBS** — We maintain our UK RMBS issuance forecast of €15 billion as we think there is little overlap between the users of the FLS money and the potential RMBS issuers. Smaller and lower-rated lenders did not borrow much from FLS and should prefer RMBS funding over unsecured and covered debt.
- **Upgrades and Paragon Deal Strike Positive Note** — Upgrades outnumbered downgrades among European ABS and RMBS for the first time since the crisis, with upgrades driven mainly by UK RMBS. Last week's 85bp pricing of around 3yr first-pay Paragon 19 BTL RMBS notes bodes well for future UK prime RMBS pricing.
- **Tale of Two German CMBS Cities** — The recent sale of 18 properties in TITN 2007-CT1X portfolio has achieved prices higher than valuation and benefited the deal. Conversely, the most current event in CMBS concerns TMAN 4 where Class B has dropped from low 80s last week to near zero following disclosure by the sponsor about the post workout recovery amount on the two underlying loans.
- **Draghi Blames Inappropriate ABS Capital Charges** — The ECB President did not promise new measures in his monthly conference but hit out at Basel bank capital charges on Euro assets based on US historical experience. We find analogies between his criticism and inefficiencies in the recent Solvency II proposal.

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

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# Draghi and FLS Strike Again

## Draghi Criticizes Excessive Securitization Capital Charges

Figure 1. 1-year Structured Finance Rating Downgrade Transition

	2012	2011	Historical 1-year
U.S. ABS ex HEL	9.4%	9.2%	6.7%
U.S. RMBS/HEL	11.5%	23.4%	19.9%
U.S. CMBS	16.3%	11.1%	14.3%
U.S. CDOs ex CLOs	1.9%	2.7%	23.4%
U.S. CDOs of ABS	1.7%	0.6%	30.2%
U.S. SME CLOs	1.0%	2.6%	14.5%
U.S. TRUP CDOs	1.8%	9.1%	26.2%
U.S. CLOs	0.4%	0.3%	14.7%
EMEA Structured Finance	21.3%	12.5%	13.2%
Global Structured Finance	11.6%	17.9%	17.0%
Global Corporate	20.1%	15.9%	14.0%

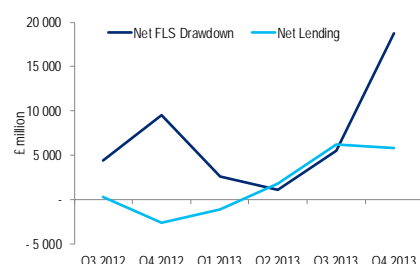
Source: Moody's

In yesterday's press conference Draghi used a question about the lack of visible supportive action for ABS from the ECB to hit out at the Basel regulation for ABS which is not calibrated to the European experience. However, he did not promise any action beyond saying that the ECB was looking at the subject. A major part of the problem, according to Draghi, lay with the capital charge system which discriminated ABS unfavorably versus other instruments with a similar risk profile. According to him, European ABS had a more benign experience than the US and was "a much simpler, transparent, unstructured form". We do not disagree with Draghi's views about the underperformance of US assets as Moody's data shows that the average rating downgrade rate across European structured finance was less than half (Figure 1) of the more distressed US experience, notably CDOs of ABS and even sub-prime mortgage securitizations (RMBS/HEL).

Despite the better performance of European ABS, we do not expect a more benign treatment for Euro ABS versus its US peers. However, we do hope that financial regulators take note of the comments about the unfavorable treatment. The desire from Basel to penalize higher-quality assets in the name of correcting the "ratings cliff" ([Securitization Greetings, Not Gift, From Basel And The Fed](#)) further reduces the incentives of banks to buy high-quality senior tranches and provide funding for credit portfolios. The revised Solvency II proposal for insurance companies from the EIOPA may have the result that investing in the least-risk first-pay bonds may be significantly less efficient than buying more junior mezz bonds, again pulling investors away from participating in a meaningful way in Europe's ABS markets. As with the BIS proposal, many of EIOPA's conclusions about senior tranches were drawn based on the large number of distressed original triple-A from US mortgage securitizations (many of which such as CDOs of ABS were re-securitizations).

## Maintain UK Issuance Forecast Despite FLS Usage Spike

Figure 2. Quarterly FLS Usage and Net Lending Data, 2012 Q3 – 2013 Q4



Source: Bank of England and Citi Research

Despite a recent spike in the usage of the Funding-for-Lending Scheme (FLS) by UK banks (Figure 2) possibly arguing for lower RMBS issuance this year, we maintain our issuance forecast of €15 billion. We believe there is little overlap between the users of the FLS money, and the potential issuers of new RMBS this year.

UK lenders borrowed £18.8 billion from FLS in the four months ending January 2014 (£13 billion more than their net lending of £5.8 billion in 2013 Q4), an amount more than three times the £5.5 billion drawdown in 2013 Q3 and almost 44% of the £42 billion cumulative amount drawn till date since the scheme started in mid-2012. This was the last opportunity for lenders to fund their mortgages using FLS because loans to households are no longer eligible for funding using the FLS programme. One would think this indicates that as lenders pre-funded their funding needs for rest of the year using the FLS scheme, they would not be expected to tap the wholesale funding markets. A closer look at the scheme's users, however, shows that many RMBS issuers have not used FLS extensively and may tap the RMBS markets in the year ahead.

We analyze the most recent FLS drawdown figures of major UK RMBS issuers and compare them with their recent net lending data and upcoming RMBS maturities to identify the most likely RMBS issuance candidates for 2014. As can be seen in Figure 3, most lenders that achieved positive net lending in 2013 borrowed roughly equivalent amount through FLS except Barclays, Virgin Money and Leeds Building Society. Barclays drew £6 billion in 2013, more than two times the £2.4 billion they lent, while Leeds Building Society and Virgin Money drew much less than their net

lending. We do not expect Barclays to issue any RMBS in 2014 because we think they have already pre-funded a good portion of their future lending. The issuers that did not draw in excess will need to fund at least a portion of their future lending and scheduled RMBS maturities in wholesale markets, in our view. However, the decision to issue RMBS or unsecured or covered bonds will depend on the economics of these funding sources.

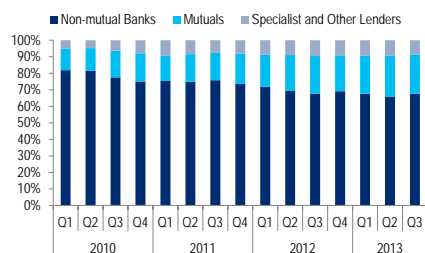
Figure 3. FLS Drawdown and Net Lending Data of Top RMBS Issuers

Originator	RMBS Shelf	Last Public Issue	RMBS Maturities	2013 Q4		2013 Full Year	
				Net Lending	FLS Drawdown	Net Lending	FLS Drawdown
Lloyds Banking Group	ARKLE, PERMM, HEAD	Apr-13	5,600	4,187	4,150	7,733	7,150
Virgin Money	GFUND	Sep-12	0	431	0	2,600	650
Barclays	GMFM	Jun-12	0	1,443	6,000	2,402	6,000
Yorkshire Building Society	BRASS	Sep-13	0	950	1,600	2,137	2,350
Coventry Building Society	LEOFR	Apr-12	0	270	0	2,107	1,250
Leeds Building Society	ALBIN	Jul-13	0	291	0	967	50
Skipton Building Society	DRWBY	May-12	0	205	390	873	800
Principality Building Society	FRIAR	Aug-11	0	91	143	396	350
West Bromwich Building Society	KENRI	May-13	0	-38	137	-164	207
RBS Group	ARRMF	Oct-11	0	-2,303	-750	-6,471	-750
Santander	HMI, FOSSM	May-13	3,494	-1,390	0	-7,588	-900

Source: Bank of England, Investor Reports, Bloomberg and Citi Research

A total of £12.4 billion in RMBS from three mainstream is scheduled to mature in 2014. These issuers may find it more economical to issue covered or unsecured bonds because of their high ratings (single-A). Lloyds and Santander already issued £1 billion and £750 million in covered bonds in January at spreads of 25bp and 35bp, respectively. These spread levels are significantly tighter than current secondary market spreads of 5YR Sterling-denominated RMBS paper (around 50bp), making covered bonds cheaper funding source for big issuers. As such we do not expect much issuance from top tier issuers this year and predict around £1 billion token issuance from those issuers who wish to maintain RMBS market presence.

Figure 4. Share of Different Lender Types in UK Mortgage Lending, 2010 Q1 – 2013 Q3 (%)



Source: CML and Citi Research

The second source of RMBS issuance is smaller building societies and specialist lenders. As shown in the table above (shaded in grey), these smaller players lent a net £9.1 billion in 2013 and drew around £5.5 billion from FLS. We expect them to lend more in 2014 because overall mortgage lending in the UK is increasing and the share of smaller lenders in new lending is also rising (Figure 4). Such smaller lenders, which are generally not highly rated, should find it cheaper to issue RMBS over unsecured or covered bonds. However, we do appreciate that these lenders may still issue unsecured and covered debt to maintain a diverse funding mix. Therefore, although we understand that it is very difficult to come up with a precise projection on issuance, we think that a total of £10 billion in primary issuance from small lenders is not too optimistic. Moreover, we have not considered the possibility of new issuers entering the RMBS market.

The third and the final source of RMBS issuance is those lenders who wish to decrease their seller's share in RMBS master trusts. Current seller's shares in most master trusts are significantly higher than the minimum requirement. Some issuers (especially those with high funding costs) may use tight RMBS spreads as an opportunity to reduce seller's share. One UK prime RMBS issuer issued new series of notes from its master trust last year despite shrinking mortgage portfolio and decreased its seller share. We expect such issuers may issue some new RMBS notes this year and attribute around £1–2 billion RMBS issuance in 2014 from such opportunistic lenders.

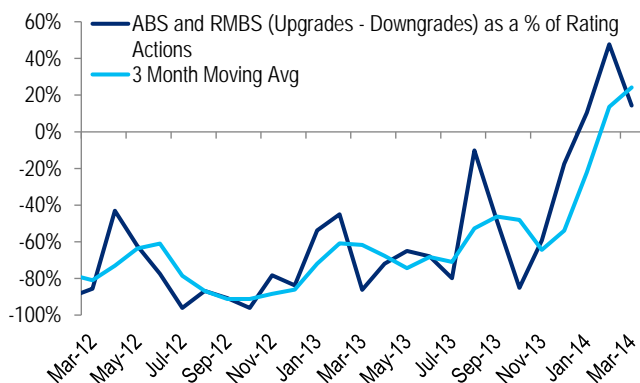
To summarize, we reinforce our earlier projection of around £12–13 billion (€15 billion) in UK prime RMBS issuance this year. We think that a good chunk of this year's issuance will come from smaller building societies and specialist lenders while the mainstream issuers should be largely absent in the RMBS primary market.

## Rating Upgrades Exceed Downgrades in February

The proportion of upgrades in the European RMBS and ABS sectors is trending up for the past two years and February was the first month since the crisis when number of upgrades outnumbered downgrades (Figure 7). The increase in upgrades in February was primarily driven by the UK RMBS sector, which accounts for 74% of all upgrades this year (Figure 8). Moody's attributed these upgrades, which were concentrated in Granite and Aire Valley shelves, to positive collateral outlook, performance improvement and increasing credit enhancement of the notes.

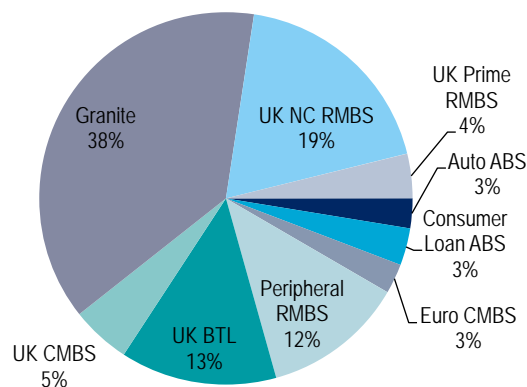
Around 12% of upgrades came from peripheral RMBS notes and the rating agencies attributed the upgrades to improving asset performance and deleveraging of structures. We have highlighted in our previous report ([Upbeat Sentiment at Citi Securitized and CLO Conferences](#)) that more RMBS and ABS bonds are likely to be upgraded because of recent positive sovereign rating actions on Spain, Ireland and Italy. Since the maximum achievable ratings on structured finance assets are linked to the underlying sovereign rating, any upgrade in sovereign rating should have a knock on effect on the securitized bonds ratings, in our view.

Figure 5. Upgrade – Downgrades in ABS\* and RMBS Rating Actions, Mar 12 – Mar 14



Source: Fitch, Moody's, S&P and Citi Research

Figure 6. Rating Upgrades by Sector, 2014YTD



Source: Fitch, Moody's, S&P and Citi Research

## Primary Pipeline Update

- **Dutch RMBS — Cartesian Residential Mortgages.** Venn partners, a UK private equity firm bought the underlying collateral for Cartesian Residential Mortgages from GE Artesia bank in December 2013. This deal is only the second Dutch RMBS deal to come to market following the €1 billion STORM deal in 2014. Only bottom two tranches out of six tranches in the structure are confirmed to be retained and as many as four of the top tranches totaling €457.2 million could be marketed (Figure 9). The loan pool has a weighted average seasoning of 8.7 years, an original LTFV of 95.35% and current loan to market value of 86.8%.
- **Auto ABS — SC Germany Auto 2014.** Santander has announced a new deal SC Germany Auto 2014 from its SCGA platform. The collateral for the deal would be sized at €600 million of which €553.5 million triple-A's would be placed,

according to Concept ABS. The deal's provisional pool contains 77,993 loans and has an average loan size of €7.69k. The pool has a weighted average seasoning of 13.6 months and 94.6% of the pool consists of car loans, rest are motorbikes. About 34 % of the loans have a balloon payment with an average 52% final residual and excess spread is estimated at 440bps. The previous SC Germany deal, SCGA 2013-2 priced 1.68YR triple-A's at 1mE+48bp.

Figure 7. Primary Pipeline Update\*

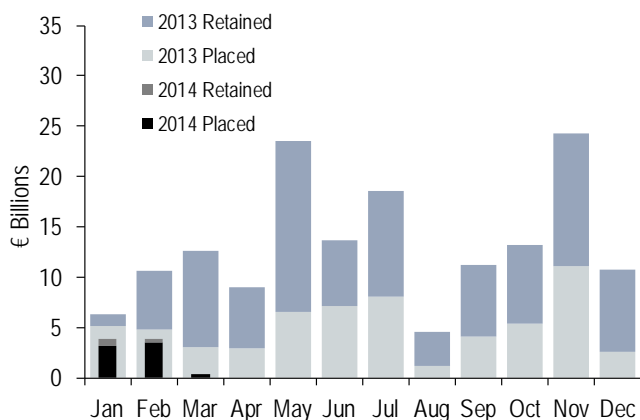
Deal	Originator	Asset Type	Tranche	Currency	Amount (mm)	Fitch	Moody's	S&P	CE	Call/Step up	WAL	Index	Status
SC Germany Auto 2014-1	Santander	Auto ABS	A	EUR	553.5	AAA	Aaa	AAA	8.75%	-	1.57YR	1mE	Offered
			B	EUR	46.5	NR	NR	NR	1%	-	3.87YR	Fixed rate	Retained
Cartesian Residential Mortgages 1	Venn Partners	Dutch RMBS	A	EUR	421.3	AAA	-	AAA	14.80%	Apr-19	-	3mE	Offered
			B	EUR	12.04	AA-	-	AA	10%	Apr-19	-	3mE	Offered
			C	EUR	12.04	A	-	A+	7.50%	Apr-19	-	3mE	Offered
			D	EUR	12.04	NR	-	NR	5%	Apr-19	-	3mE	TBC
			E	EUR	24.08	NR	-	NR	2.30%	Apr-19	-	3mE	Retained
			S	EUR	11.07	NR	-	NR	0%	-	-	N/A	Retained

\*Preliminary Data

Source: Concept ABS and Citi Research

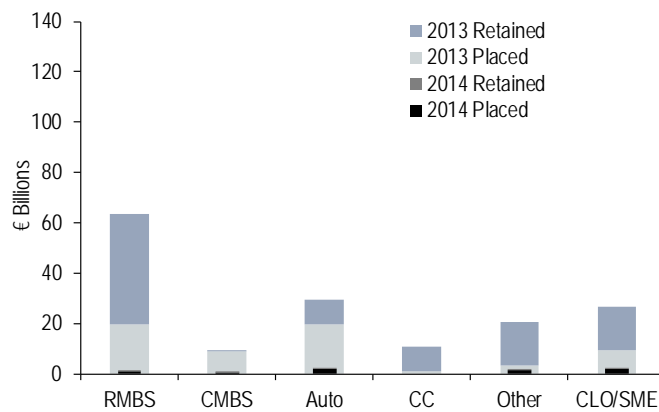
## New Issuance

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



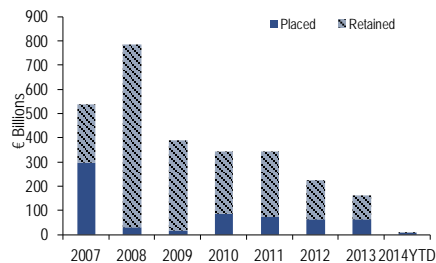
Source: Concept ABS, IFR, Informa and Citi Research

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



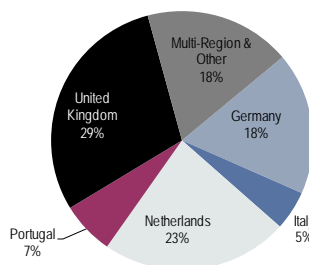
Source: Concept ABS, IFR, Informa and Citi Research

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



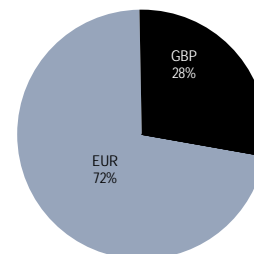
Source: Concept ABS, IFR, Informa and Citi Research

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)

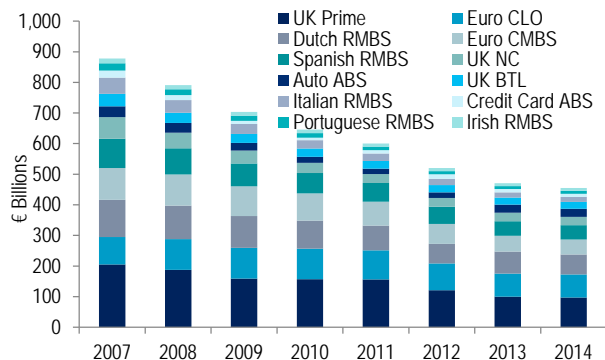
	RMBS(MM)		CMBS(MM)		Autos(MM)		Credit Card ABS(MM)		CLO/SME(MM)		Other(MM)		Total(MM)	
	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013
Placed	1,000	19,507	665	9,081	1,723	19,825	-	1,122	1,640	9,250	1,610	3,336	6,638	62,120
Retained	75	44,189	121	202	53	9,465	-	9,650	449	17,383	386	17,147	1,084	98,036
Total	1,075	63,696	787	9,282	1,776	29,289	-	10,772	2,089	26,633	1,996	20,483	7,722	160,156

\* 2013 complete year

Source: Concept ABS, IFR, Informa and Citi Research

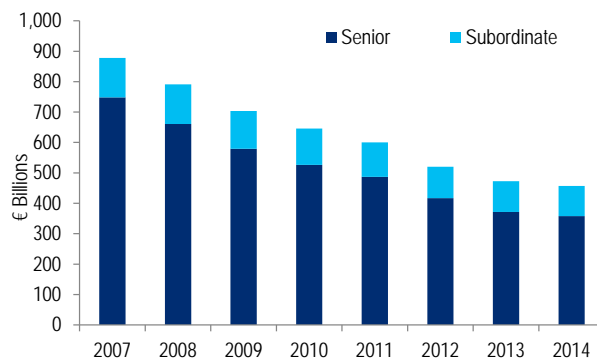
## European ABS Outstanding and Technicals

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



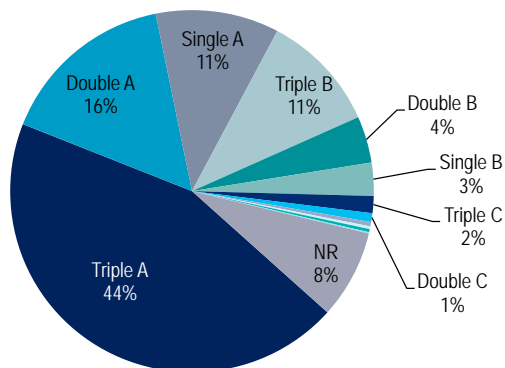
Source: Bloomberg, INTEX and Citi Research

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



Source: Bloomberg, INTEX and Citi Research

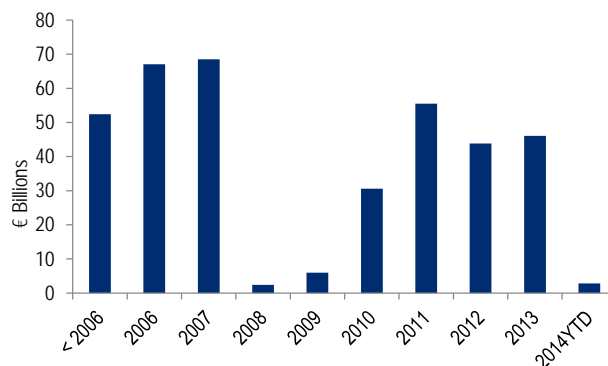
Figure 16. European Securitized Products\* Current Placed Outstanding by Rating#



#Bloomberg composite rating, \*Excludes Euro CLO

Source: Bloomberg, INTEX and Citi Research

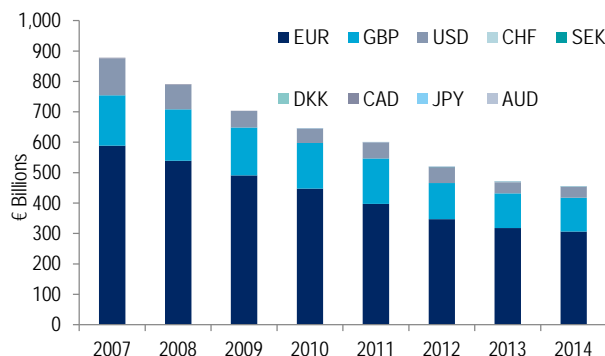
Figure 17. European Securitized Products\* Current Placed Outstanding by Vintage (€ eq billion)



\*Excludes Euro CLO

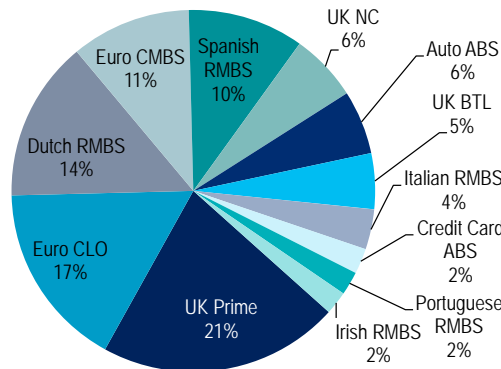
Source: Bloomberg and Citi Research

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



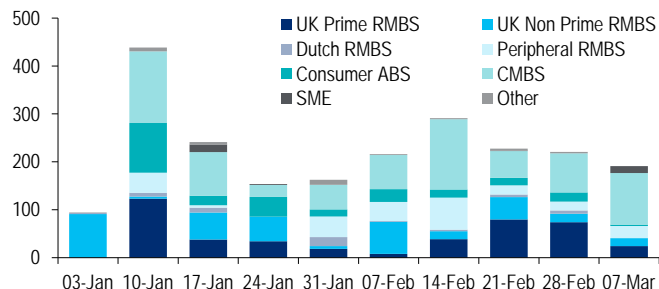
Source: Bloomberg, INTEX and Citi Research



## BWIC Tracker

### Weekly and Monthly BWIC Volume

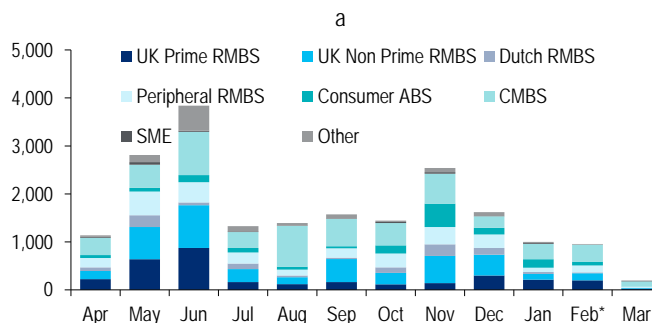
Figure 20. Weekly BWIC Volume by Sector, Jan 14–Mar 14\* (\$ eq. million)



\* Data until 07 Mar

Source: Citi Research

Figure 21. Monthly BWIC Volume by Sector, Apr 2013 – Mar 2014 (\$ eq. million)

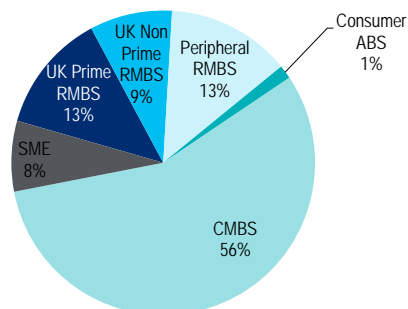


\* Data until 07 Mar

Source: Citi Research

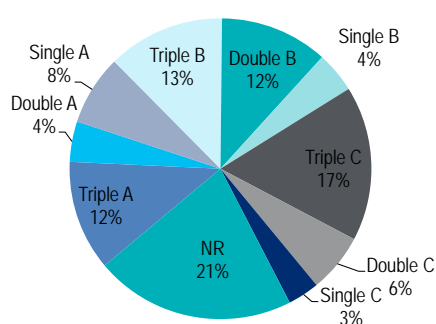
### Last Week's BWIC Distribution by Sector, Rating and Currency

Figure 22. BWIC Volume Distribution by Sector, 28 Feb –07 Mar 2014 (%)



Source: Citi Research

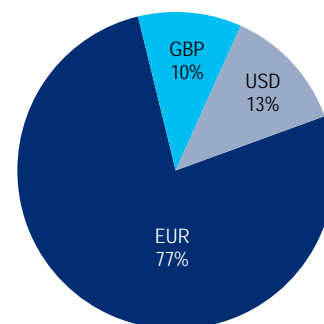
Figure 23. BWIC Volume Distribution by Current Rating\*, 28 Feb –07 Mar 2014 (%)



\* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

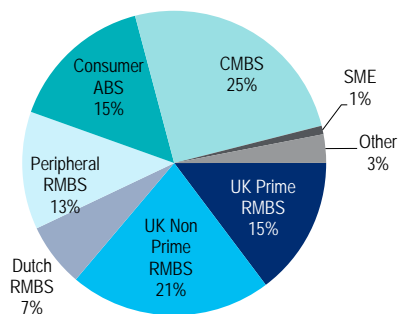
Figure 24. BWIC Volume Distribution by Currency 28 Feb –07 Mar 2014 (%)



Source: Citi Research

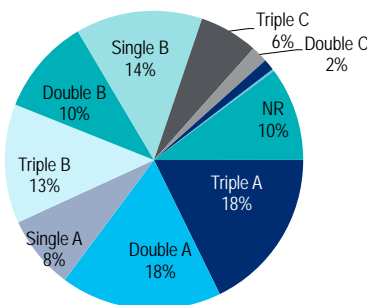
### YTD BWIC Distribution by Sector, Rating and Currency

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



Source: Citi Research

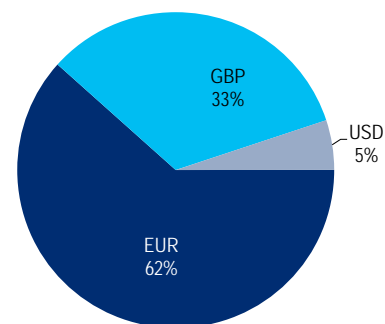
Figure 26. BWIC Volume Distribution by Current Rating\*, 2014YTD (%)



\* 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\*, 28 Feb –07 Mar 2014 and 2014 YTD

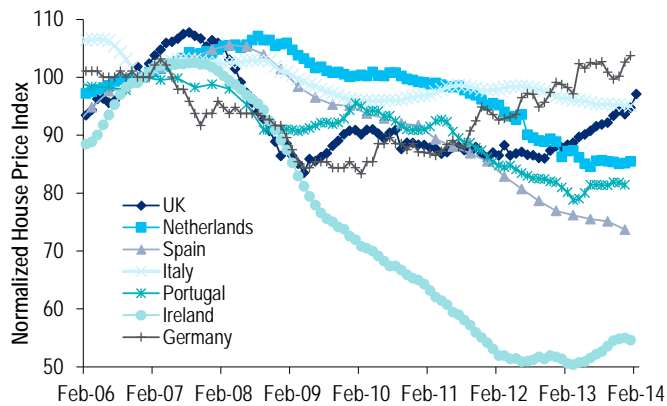
Sector	Rating*	28 Feb –07 Mar		YTD	
		Volume (MM USD EQ)	Number of Bonds	Volume (MM USD EQ)	Number of Bonds
UK Prime RMBS	Triple A	22.6	2	138	61
	Double A	1.7	5	239	106
	Single A	-	-	8	5
	Lower and Not Rated	-	-	53	10
	<b>Total</b>	<b>24.3</b>	<b>7</b>	<b>439</b>	<b>182</b>
UK Non Prime RMBS	Triple A	-	-	14	7
	Double A	-	-	79	26
	Single A	-	-	20	6
	Lower and Not Rated	16.8	3	170	30
	<b>Total</b>	<b>16.8</b>	<b>3</b>	<b>283</b>	<b>69</b>
Dutch RMBS	Triple A	-	-	44	29
	Double A	-	-	1	1
	Single A	-	-	12	6
	Lower and Not Rated	-	-	-	-
	<b>Total</b>	<b>-</b>	<b>-</b>	<b>56</b>	<b>36</b>
Peripheral RMBS	Double A	2.1	1	24	5
	Single A	-	-	9	10
	Triple B	16.6	2	60	14
	Double B	-	-	2	1
	Single B	2.8	1	69	6
	Triple C	-	-	4	1
	Lower and Not Rated	3.8	1	91	10
	<b>Total</b>	<b>25.2</b>	<b>5</b>	<b>259</b>	<b>47</b>
CMBS	Triple A	-	-	-	-
	Double A	-	-	-	-
	Single A	3.4	1	101	20
	Lower and Not Rated	104.3	21	679	89
	<b>Total</b>	<b>107.7</b>	<b>22</b>	<b>780</b>	<b>109</b>
Consumer ABS	Triple A	-	-	173	70
	Double A	-	-	25	9
	Single A	2.8	1	3	1
	Lower and Not Rated	-	-	60	14
	<b>Total</b>	<b>2.8</b>	<b>1</b>	<b>260</b>	<b>94</b>
SME	Double A	4.6	1	6	2
	Single A	8.3	1	8	1
	Triple B	1.5	1	1	1
	Double B	-	-	7	1
	Single B	-	-	9	1
	Lower and Not Rated	-	-	1	1
	<b>Total</b>	<b>14.3</b>	<b>3</b>	<b>33</b>	<b>7</b>
Other	Triple A	-	-	12	8
	Double A	-	-	-	-
	Single A	-	-	10	5
	Triple B	-	-	11	4
	Double B	-	-	-	-
	Single B	-	-	1	1
	Triple C	-	-	-	-
	Lower and Not Rated	-	-	2	1
	<b>Total</b>	<b>-</b>	<b>-</b>	<b>36</b>	<b>19</b>
<b>Grand Total</b>		<b>191.0</b>	<b>41</b>	<b>2,145.7</b>	<b>563</b>

\* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

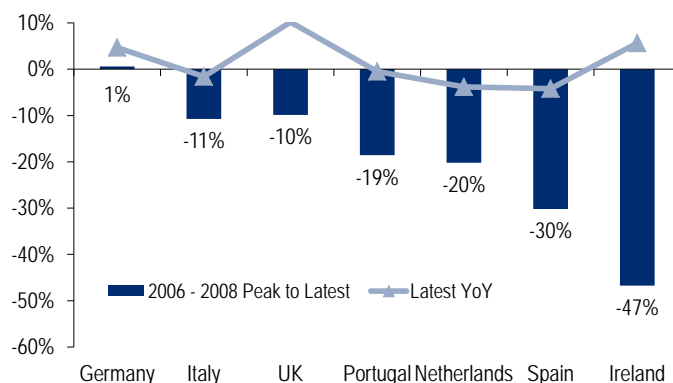
## Housing Markets and Mortgage Lending

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



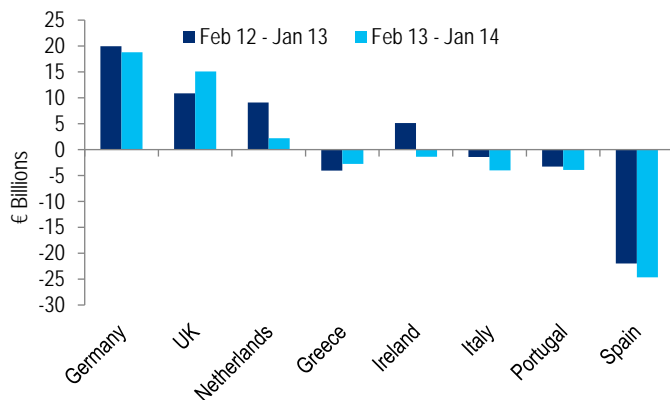
Source: Lloyds, Central Statistics Office Ireland, CBS Statline, Fotocasa, INE Portugal, Scenari Immobiliari Spa and Citi Research

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



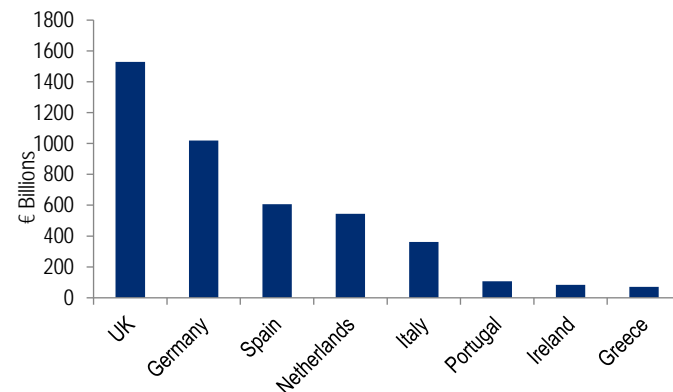
Source: Lloyds, Central Statistics Office Ireland, CBS Statline, Fotocasa, INE Portugal, Scenari Immobiliari Spa and Citi Research

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



Source: ECB, BOE and Citi Research

Figure 32. Outstanding Mortgages as of Dec 2013 (€ eq billion)



Source: DNB, BOE, ECB and Citi Research

Figure 33. Recent Housing Market Data Releases

Country	Indicator	Period	Current Value	Y-o-Y	2005 - 2012 Peak to Current	Comment
UK	Nationwide Average House Price	Feb-14	£177,846	9.4%	-4.4%	Nationwide average house prices increased to £177,846 in February from £176,491 in the previous month. Average house prices increased 0.6% month-over-month and 9.4% year-over-year in February 2014.
UK	Net Lending Secured on Dwellings	Jan-14	£1.421 billion	278.9%	-86.3%	UK Net lending secured on dwellings declined to £1.421 billion in January 2014 from £1.708 billion in the previous month. Net lending has more than doubled (2.78x) year-over-year but still remains 86% below the level of the pre-crisis peak in October 2006.
UK	Mortgage Approvals	Jan-14	76,947	42.4%	-40.3%	Bank of England mortgage approvals increased to 76,947 in January 2014 from 72,798 in the previous month. Mortgage approvals increased 42.4% year-over-year but still remain 40% below the pre-crisis peak of November 2006.
UK	Halifax House Price Index	Feb-14	577.4	10.1%	-11.3%	Halifax house price index increased to 577.4 in February from 560.2 in the previous month. House prices increased 10.1% year-over-year but remain 11.3% below their pre-crisis peak of August 2007.
Ireland	Mortgage Approvals	Q4 2014	€276 million	10.0%	-	1,587 mortgages (€276 million) were approved in Q4 2013 representing a 10% year-over-year increase. 96% of these mortgages were granted for house purchases whereas 4% were approved for remortgaging or topup. Irish mortgage approvals for the whole year of 2013 increased 33% compared to 2012 approvals.

Other Developments

Country	Event	Detail
Italy	Increase in Delinquencies : S&P Index	Total and 90+ delinquencies increased to 3.86% and 1.95% in Q4 2013 from 3.57% and 1.71% respectively in the previous quarter. S&P expects Italian house prices to decline by 1% in 2014 and increase 1% in 2015 due to modestly improving economic growth.
Spain	Increase in Severe Delinquencies : S&P Index	Severe delinquencies including repossessions increased to a new high of 6.05% in Q4 2013 from 5.82% in the previous month according to the Spanish RMBS Index report by S&P. S&P attributes this deterioration of credit quality to "persistently difficult macroeconomic conditions".
Portugal	Decline in 90+ Delinquencies : S&P Index	90+ Delinquencies declined to 4.61% in Q4 2013 from 4.68% in the previous quarter. S&P attributes this improvement in delinquencies to servicer forbearance measures which it projects to continue into Q1 2014.
Ireland	Decline in Severe Arrears	The proportion of owner occupied loan balances in 90+ day arrears declined to 17.0% in Q4 2013 from 17.4% in the previous quarter according to the Irish Central Bank. This is the first decline in 90+ day arrears since 2009.

Source: Citi Research

## CMBS Loan Tracker

Figure 34. CMBS Loan Update

Date	CMBS Deal	Loan Name	Current Loan Size(MM)	Loan as % of the Deal	Action	Comments
6-Mar-14	INFIN SOPR	EHE Pool 1A loan	€ 369	62%	Sale Completed	The sale of the Frankfurt property (excluded three plots of land that will be marketed separately) was completed for €14.0 million on 3 Mar 2014. The previous valuation (excluding the land) was €14.2 million in Nov 2012.
6-Mar-14	DECO 2006-E4X	Lubeck Retail Loan	€ 14	4%	Pledge over borrower shares enforced	Hatfield Philips (Special servicer), on behalf of the security agent on the Loan, has enforced the pledge granted over the shares in the borrower after the work-out negotiations failed. The shareholders of the borrower are therefore no longer permitted to exercise voting rights, the previous management has been dismissed and new management of the borrower appointed.
5-Mar-14	TITN 2007-CT1X	German Retail Portfolio III Loan	€ 76	14%	Sale of Property/Conversion of Land Charge	18 of the 36 properties in the loan have been sold for € 27.8 million against the latest valuation of € 26.4 million (15 July 2013). The comprehensive land charge encumbering the properties will be converted from a certificated land charge to a non-certificated land charge to facilitate the sale of the properties and future sale of the remaining properties of the loan.
4-Mar-14	WINDM XIV-X	Fortezza II Loan	€ 252	64%	Standstill Extension	The loan has been extended after the requirements set out in the restructuring plan were achieved.
4-Mar-14	WINDM X-X	Fortezza I Loan	€ 104	14%	Standstill Extension	The loan has been extended after the requirements set out in the restructuring plan were achieved.
4-Mar-14	TITN 2006-3	-	-	-	Committee formed	An ad-hoc committee of Class A noteholders has been formed, and is inviting other investors to join to facilitate communication following the note event of default declared on Oct 30 2013. The deal had been relying on the liquidity facility and principal payments on the loans to make full interest payments on the Class A and X notes. Target Loan, the largest loan in the pool, stopped paying interest last July following a court debt service moratorium.
4-Mar-14	EMC 6	EPIC Rhino and EPIC Horse loans	€ 58	18%	Standstill Extension	The standstills on the EPIC Rhino and EPIC Horse loans have been extended again to 30 Apr 2014. The loans are € 34.45 million and € 26.85 million in size, respectively.
4-Mar-14	DECO 9-E3X	Treveria I Loan	€ 186	51%	Appraisal reduction-Liquidity Commitment	Liquidity Facility Provider has not agreed to increase the Liquidity Commitment to the amount it would be if it was calculated using the 2010 Appraisal Reduction Factor. Hence, The Liquidity Commitment shall remain € 31.49 million (instead of € 34.85 million as stated in the most recent statement)
4-Mar-14	EPICP DRUM	Irus Poland Reference Obligation	€ 21	2%	Prepayment	The Obligation prepaid in full on 3 Mar 2014, ahead of its maturity date of 20 Jan 2017. The proceeds, just over €21 million, will be applied in part redemption of the notes on the next IPD of Apr 2014.
4-Mar-14	WINDM X-X	-	-	-	Investor Meeting	An investor meeting has been convened on 11 Mar 2014 for an update on the progress of the work-out of the Bridge Loan and a general update on the other specially serviced loans.
3-Mar-14	TITN 2007-CT1X	Star Whole Loan	€ 6	1%	Standstill Extension	The standstill on the loan has been extended to 18 Apr 2014 to continue with the consensual sale process on two assets.
3-Mar-14	EURO 27X	CityPoint	£429	100%	Investor Meeting	Junior tranche investor meeting has been called for 24 Mar 2014, in order to appoint Cheyne Capital Management (UK) LLP as operating adviser on the single loan. Quorum required is two or more holders with more than 50% of the Class E outstanding amount (£ 11 million).
3-Mar-14	WINDM VIII-X	Amadeus Portfolio Mortgaged Loan	£24	32%	Sale of Property	The property known as Rede house has been sold at a sales price of £1.35 million.

Source: Investor Notices, Investor Reports and Citi Research

Figure 35. CMBS Loan Update Continued

Date	CMBS Deal	Loan Name	Current Loan Size(MM)	Loan as % of the Deal	Action	Comments
28-Feb-14	EPICP DRUM	Project Magnum	€ 72	8.3%	Credit Event	The outstanding principal balance was not paid on 20 Jan 2014 and on 26 Feb 2014, the issuer received a credit event notice from the Swap Counterparty.
28-Feb-14	WINDM X-X	-	-		Investor Meeting	An investor meeting for Class E has been called for March 24 to appoint Brookland Partners as controlling class representative in relation to the Tresforte Loan, the Built Loan, the Lightning Dutch Loan and the Bridge Loan all currently in special servicing. The resolution will also include any loans that will become specially serviced in the future.
28-Feb-14	TITN 2007-2X	Toy Box Loan	€ 10	1.6%	Standstill Extension	The standstill agreement has been extended until 18 Apr 2014.
28-Feb-14	EURO 25X	Orazio Portfolio Senior Term Loan	€ 137	25.6%	Standstill Extension	The standstill agreement has been extended until 07 May 2014.
27-Feb-14	DECO 7 – E2X	Karstadt Kompakt	€ 120	33.6%	Sale of Property	Since the Special Servicing Transfer Event, Hatfield Philips International (the Special Servicer) has approved the disposal of the Berlin-Moabit, Datteln, Köln-Chorweiler, Detmold, Elmshorn, Husum, Peine, Cuxhaven, Gelsenkirchen, Stade, Tuttlingen, Bocholt, Görlitz, Kamen, Lünen and Gronau properties, all of which have completed. The disposal of Mölln, Bingen, Itzehoe and Meschede will complete as soon as the land charges are released at the respective land registers, two of which are expected to be by the upcoming April 2014 IPD. Most completed sales have been concluded at prices > prevailing valuation. Efforts are on-going to convert one more indicative offer for properties into a contract and further sales are under negotiation.
26-Feb-14	FOX 1	-	-		Standstill Extension	The standstill agreement, whereby the lenders have agreed to suspend and not exercise certain of their rights under the Loan Agreements, has been extended until 11 March 2014.
26-Feb-14	TMAN 7	Mozart whole loan	€ 310	48.5%	Sale of Property	Asset sales were agreed earlier this month for assets backing the loan. Total consideration for Wiesbaden SPA was €20.5 million, of which the Wiesbaden property went for €19.68 million and the Hotel Operation for €0.82 million. The closing dates will be 30 Jun 2014 and 30 Jun 2015 with down payments of €1.968 million and €82k, respectively. Also, the Augsburger Strasse 361 Stuttgart property was sold on 12 Feb 2014 for €1.28 million.

Source: Investor Notices, Investor Reports and Citi Research

## Sovereign Ratings and Economics Forecasts

Figure 36. 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	3.3	3.2	2.7	2.2	6.7	5.5	-	-	0.5	1.6	2.0	2.2	3.1	3.6	3.8	3.9
Euro-Area	1.1	1.3	1.5	1.6	11.9	11.6	-	-	0.1	0.1	0.1	0.4	1.7	1.9	2.2	2.4
Germany	2.0	2.1	2.0	1.8	5.1	4.8	-	-	*	*	*	*	1.7	1.9	2.2	2.4
France	0.9	1.1	1.5	1.7	10.6	10.3	-	-	*	*	*	*	2.4	2.6	2.8	3.1
Spain	0.9	1.1	1.5	1.4	25.5	24.7	-	-	*	*	*	*	3.4	3.2	3.5	3.7
Italy	0.3	0.3	0.6	0.6	12.7	12.6	-	-	*	*	*	*	3.5	3.5	3.7	4.0
Portugal	1.5	1.2	1.1	1.2	14.7	13.9	-	-	*	*	*	*	-	-	-	-
Netherlands	1.0	0.9	1.2	1.6	8.6	8.5	-	-	*	*	*	*	2.0	2.2	2.5	2.7
Ireland	2.2	2.3	2.6	2.7	11.1	10.0	-	-	*	*	*	*	-	-	-	-
Greece	-1.0	0.4	0.9	1.4	28.0	26.9	-	-	*	*	*	*	-	-	-	-

\* Same Euro-area policy rate

Source: Citi Research

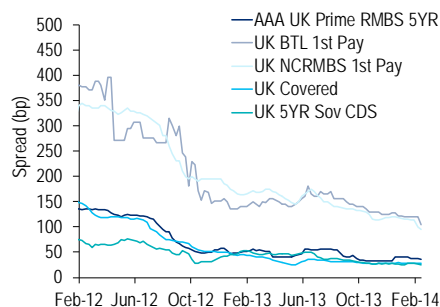
Figure 37. Advanced Economies — Sovereign Long-Term Debt Ratings and Citi Ratings Forecasts

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)	A aa
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	Neg	Aaa (Stable)	Aaa
France	AA	Stable	AA (Stable)	AA	Aa1	Neg	Aa1 (Neg)	Aa2 ↓
Italy	BBB	Neg	BBB (Neg)	BBB- ↓↓	Baa2	Stable	Baa2 (Stable)	Baa3 ↓↓
Spain	BBB-	Stable	BBB- (Stable)	BBB ↑	Baa2	Pos	Baa2 (Pos)	Baa1 ↓↓
Austria	AA+	Stable	AA+ (Stable)	AA+	Aaa	Neg	Aaa (Neg)	Aaa
Belgium	AA	Neg	AA (Neg)	AA	Aa3	Neg	Aa3 (Neg)	Aa3
Finland	AAA	Stable	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	Neg	Aaa (Neg)	Aa1 ↓↓
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

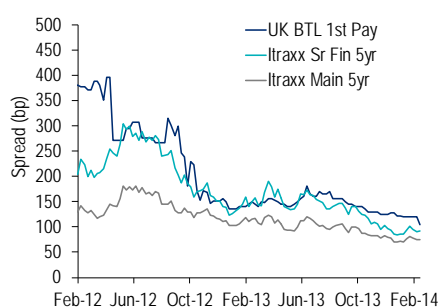
## Core RMBS Spreads and Relative Value

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



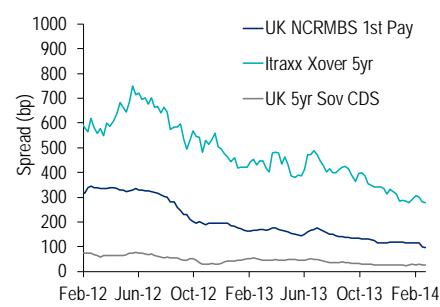
Source: Markit and Citi Research

Figure 39. UK BTL RMBS Seniors Versus Indexes, Feb 12 – Feb 14



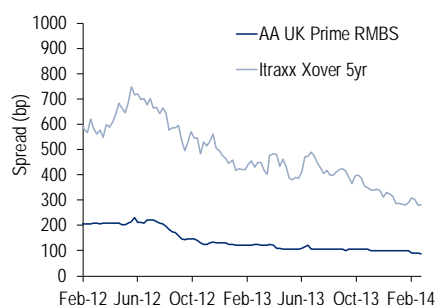
Source: Markit and Citi Research

Figure 40. UK NCRMBS Seniors Versus Indexes, Feb 12 – Feb 14



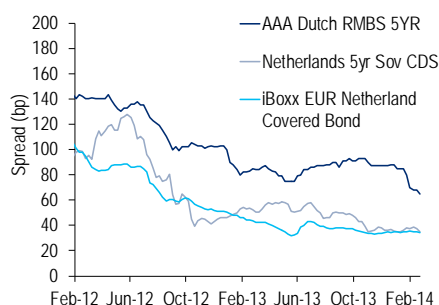
Source: Markit and Citi Research

Figure 41. UK Prime RMBS Subordinates Versus Index, Feb 12 – Feb 14



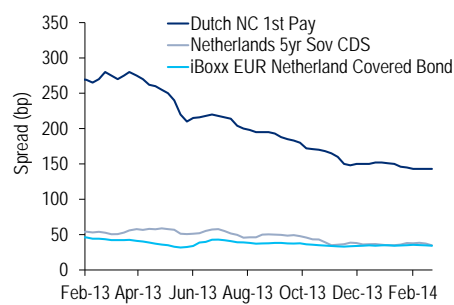
Source: Markit and Citi Research

Figure 42. Dutch RMBS Seniors Versus Indexes, Feb 12 – Feb 14



Source: Markit and Citi Research

Figure 43. Dutch NC 1st Pay Versus Indexes, Feb 13 – Feb 14



Source: Markit and Citi Research

Figure 44. UK Prime, UK NC, UK BTL, Dutch Prime and Dutch NC Spread Changes and Statistics, 2014YTD

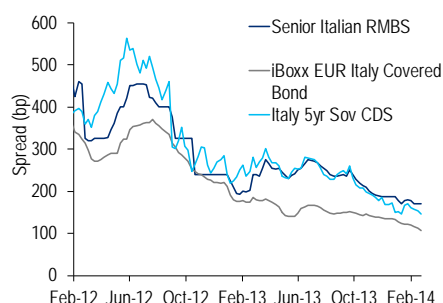
Country	Product	Product Detail	Current	Δ1-week	Δ1-month	Δ1-quarter	Δ1-year	2013 Low	Δ From Low	2013 High	Δ From High
UK	Prime RMBS	AAA 1YR	21	-1	-4	-7	-15	21	0	38	-17
		AAA 3YR	29	-1	-1	-1	-13	29	0	47	-18
		AAA 5YR	36	-2	-4	4	-20	32	4	56	-20
		Mezz	88	-2	-12	-12	-37	88	0	125	-37
	Buy to Let	PARGN 1st Pay	105	-15	-15	-20	-45	105	0	180	-75
		PARGN 2nd Pay	190	-20	-30	-40	-70	190	0	275	-85
		PARGN 3rd Pay	290	-10	-30	-45	-50	290	0	375	-85
		AIREM AAA	86	-4	-14	-19	-49	86	0	160	-74
		AIREM AA	150	-10	-10	-15	-52	150	0	250	-100
		AIREM BBB	250	-20	-25	-35	-61	250	0	350	-100
Netherlands	Non-Conforming RMBS	NC 1st Pay	95	-5	-20	-21	-76	95	0	183	-88
		NC 2nd Pay	165	-10	-20	-29	-95	165	0	315	-150
	Covered Bonds	iBoxx EUR UK	28	0	-1	0	-14	24	3	50	-22
		Sovereign CDS	25	-2	-3	-2	-22	24	1	53	-28
	Prime RMBS	AAA 1YR	41	-2	-9	-11	3	33	8	55	-14
		AAA 3YR	55	-3	-13	-15	-11	54	1	76	-21
		AAA 5YR	65	-3	-15	-22	-20	65	0	100	-35
		Mezz	90	0	-5	-15	-95	90	0	200	-110
	Non-Conforming	NC 1st Pay	143	0	-2	-7	-137	143	0	320	-177
		NC 2nd Pay	205	-5	-8	-3	-120	205	0	365	-160
		NC 3rd Pay	345	-8	-12	137	-230	208	137	675	-330
	Covered Bonds	iBoxx EUR Netherland	34	-1	-1	0	-9	32	2	51	-17
		Sovereign CDS	35	-3	-3	-3	-18	35	0	59	-24

Source: Markit and Citi Research



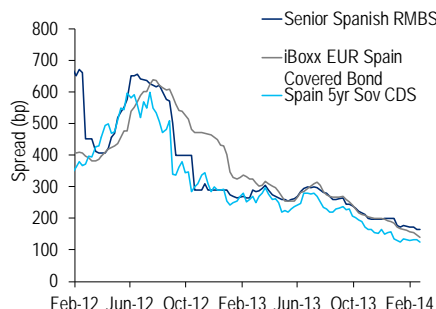
## Peripheral RMBS and Relative Value

Figure 45. Italian RMBS Seniors Versus Indexes, Feb 12 – Feb 14



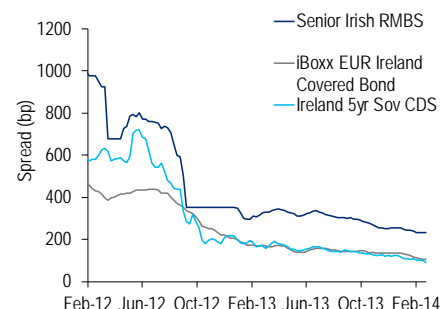
Source: Markit and Citi Research

Figure 46. Spanish RMBS Seniors Versus Indexes, Feb 12 – Feb 14



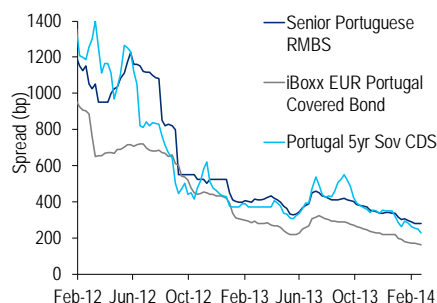
Source: Markit and Citi Research

Figure 47. Irish RMBS Seniors Versus Indexes, Feb 12 – Feb 14



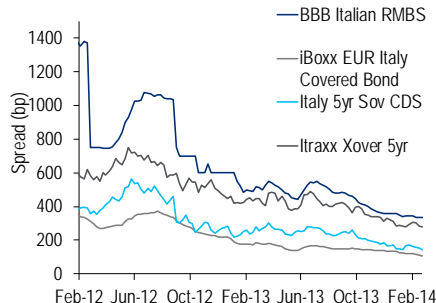
Source: Markit and Citi Research

Figure 48. Portuguese RMBS Seniors Versus Indexes, Feb 12 – Feb 14



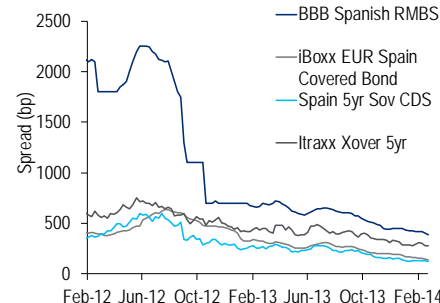
Source: Markit and Citi Research

Figure 49. Italian RMBS Subordinates Versus Indexes, Feb 12 – Feb 14



Source: Markit and Citi Research

Figure 50. Spanish RMBS Subordinates Versus Indexes, Feb 12 – Feb 14



Source: Markit and Citi Research

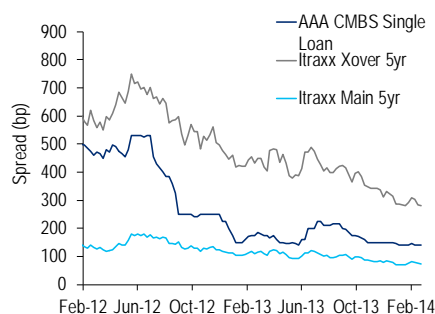
Figure 51. Peripheral RMBS Spread Changes and Statistics, 2014YTD

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	170	0	-10	-17	-70	170	0	275	-105
		AA Italy	235	0	-11	-10	-45	235	0	325	-90
		A Italy	285	0	-12	-15	-90	285	0	440	-155
		BBB Italy	335	0	-10	-25	-180	335	0	600	-265
	Covered Bonds	iBoxx EUR Italy	107	-5	-13	-30	-78	107	0	211	-104
	Sovereign CDS	Italy Sovereign 5YR	146	-7	-25	-38	-134	146	0	300	-154
Spain	RMBS	AAA Spain	165	0	-10	-33	-125	165	0	305	-140
		AA Spain	260	-10	-35	-45	-125	260	0	410	-150
		A Spain	350	-10	-38	-55	-250	350	0	690	-340
		BBB Spain	390	-10	-32	-55	-310	390	0	725	-335
	Covered Bonds	iBoxx EUR Spain	141	-7	-21	-59	-184	141	0	401	-261
	Sovereign CDS	Spain Sovereign 5YR	125	-8	-7	-38	-143	124	2	296	-170
Portugal	RMBS	AAA Portugal	280	0	-15	-57	-135	280	0	460	-180
		AA Portugal	360	0	-35	-40	-125	360	0	595	-235
		A Portugal	440	0	-32	-50	-170	440	0	740	-300
		BBB Portugal	490	0	-35	-60	-220	490	0	840	-350
	Covered Bonds	iBoxx EUR Portugal	160	-6	-13	-60	-130	160	0	392	-231
	Sovereign CDS	Portugal Sovereign 5YR	226	-24	-56	-129	-146	226	0	548	-321
Ireland	RMBS	AAA Ireland	233	0	-5	-19	-92	233	0	349	-116
		AA Ireland	440	0	-12	-35	-80	440	0	600	-160
		A Ireland	550	0	-15	-50	-120	550	0	750	-200
		BBB Ireland	785	0	-17	-45	-140	750	35	1000	-215
	Covered Bonds	iBoxx EUR Ireland	105	-1	-11	-30	-65	105	0	200	-94
	Sovereign CDS	Ireland Sovereign 5YR	91	-8	-18	-32	-77	91	0	197	-106

Source: Markit and Citi Research

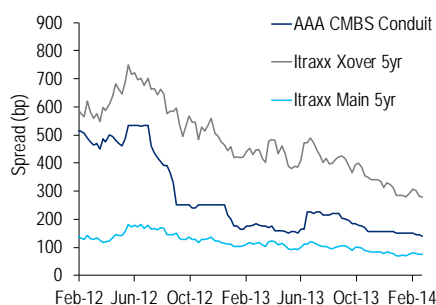
## CMBS and CLO Spreads and Relative Value

Figure 52. AAA CMBS Single Loan Versus Indexes, Feb 12 – Feb 14



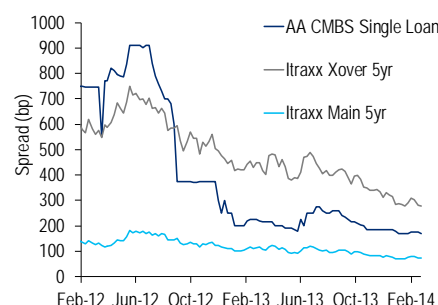
Source: Markit and Citi Research

Figure 53. AAA CMBS Conduit Versus Indexes, Feb 12 – Feb 14



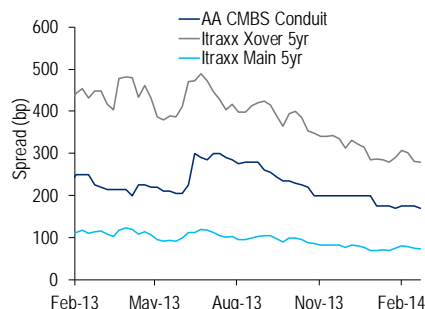
Source: Markit and Citi Research

Figure 54. AA CMBS Single Loan Versus Indexes, Feb 12 – Feb 14



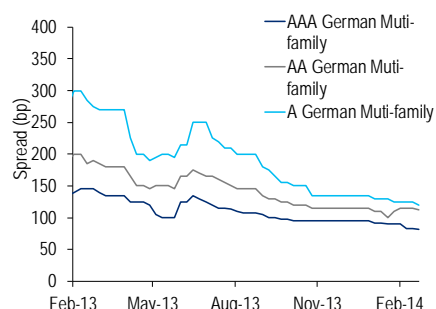
Source: Markit and Citi Research

Figure 55. AA CMBS Conduit Versus Indexes, Feb 13 – Feb 14



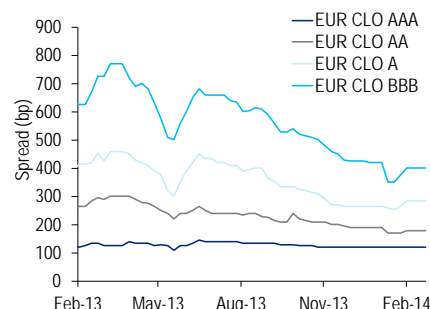
Source: Markit and Citi Research

Figure 56. German Multifamily Spreads, Feb 13 – Feb 14



Source: Citi Research

Figure 57. EUR CLO Spreads, Feb 13 – Feb 14



Source: Citi Research

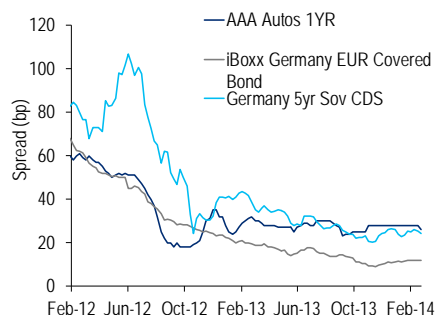
Figure 58. CMBS, WBS and CLO Spread Changes and Statistics, 2014YTD

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	81	-2	-9	-14	-64	81	0	150	-69
		AAA Single Loan	140	0	0	-10	-45	140	0	225	-85
		AAA Conduit	140	-5	-10	-15	-45	140	0	225	-85
		AAA Fixed	100	0	5	0	-75	90	10	225	-125
		AA German Multi	112	-3	2	-3	-78	100	12	225	-113
		AA Single Loan	170	-5	0	-15	-55	170	0	275	-105
		AA Conduit	170	-5	0	-30	-55	170	0	300	-130
		AA Fixed	100	0	5	0	-100	90	10	250	-150
		A German Multi	120	-5	-5	-15	-155	120	0	350	-230
		A Single Loan	320	-5	0	-40	-5	250	70	450	-130
		A Conduit	325	-25	-25	-70	0	270	55	475	-150
	CLO	A Fixed	185	0	5	-10	-115	175	10	495	-310
		AAA	120	0	0	0	-15	110	10	150	-30
		AA	180	0	10	-10	-115	170	10	300	-120
		A	285	0	20	20	-170	255	30	460	-175
	WBS	BBB	400	0	25	-25	-325	350	50	800	-400
		AAA	125	0	0	-5	-95	120	5	300	-175
		AA	125	0	0	-8	-145	120	5	350	-225
		A	190	0	0	-10	-180	180	10	425	-235
		BBB	325	0	-5	-5	-170	315	10	600	-275

Source: Markit and Citi Research

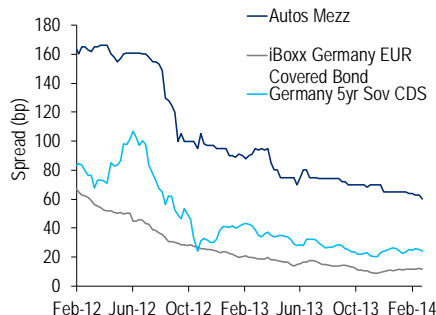
## Auto and Credit Card ABS Spreads and Relative Value

Figure 59. European Auto Seniors Versus Indexes, Feb 12 – Feb 14



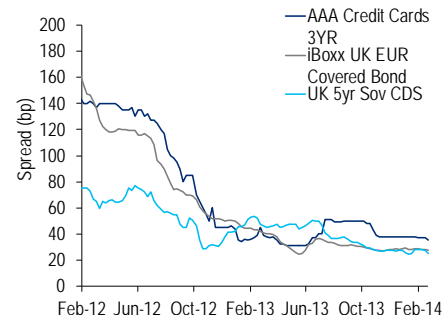
Source: Markit and Citi Research

Figure 60. European Auto Mezz Versus Indexes, Feb 12 – Feb 14



Source: Markit and Citi Research

Figure 61. UK Credit Card ABS Versus Indexes, Feb 12 – Feb 14



Source: Markit and Citi Research

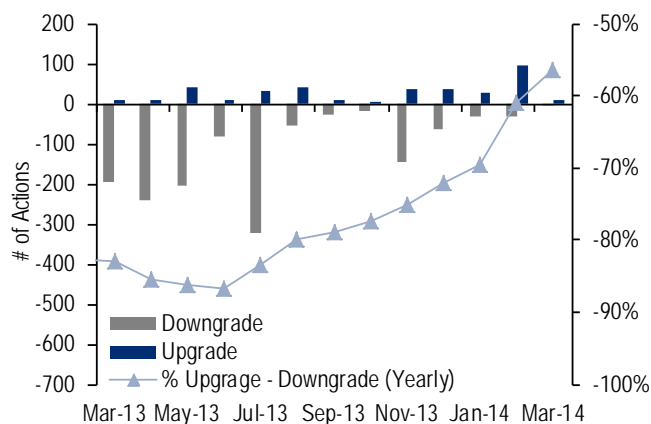
Figure 62. European Autos and UK Credit Card ABS Spread Changes and Statistics, 2014YTD

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	26	-2	-2	-2	-6	23	3	32	-6
		3YR	39	-1	0	-1	-6	38	1	45	-6
		5YR	48	-2	-2	-2	-15	48	0	63	-15
		Mezz	60	-3	-4	-5	-35	60	0	95	-35
Germany	Automobile and Parts Index	iBoxx EUR Automobile & Parts	68	-3	0	-6	-5	47	21	91	-23
	Covered Bonds	iBoxx EUR Germany	12	0	0	2	-7	9	3	23	-11
	Sovereign CDS	Sovereign 5YR	24	-1	-1	0	-15	20	4	43	-19
UK	Credit Cards	1YR	27	-1	-1	-2	-8	25	2	38	-11
		3YR	35	-2	-3	-3	-10	31	4	51	-16
		5YR	37	-3	-5	-6	-26	37	0	63	-26
		Mezz	90	-10	-10	-15	-5	89	1	127	-37
	Covered Bonds	iBoxx EUR UK	28	0	-1	0	-14	24	3	50	-22
	Sovereign CDS	Sovereign 5YR	25	-2	-3	-2	-22	24	1	53	-28

Source: Markit and Citi Research

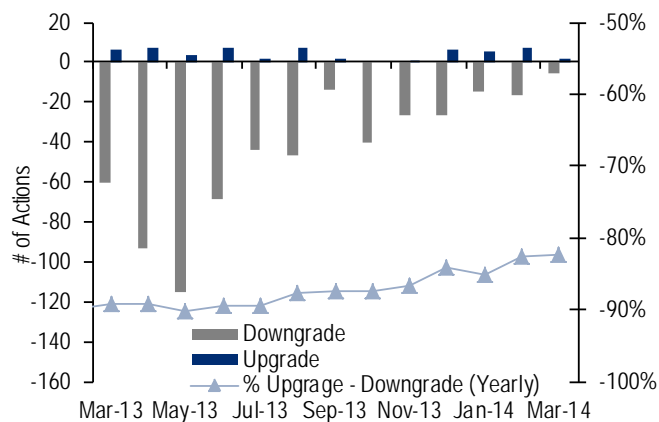
## Rating Actions and Trends

Figure 63. European RMBS Rating Upgrades and Downgrades, Feb 13 – Feb 14



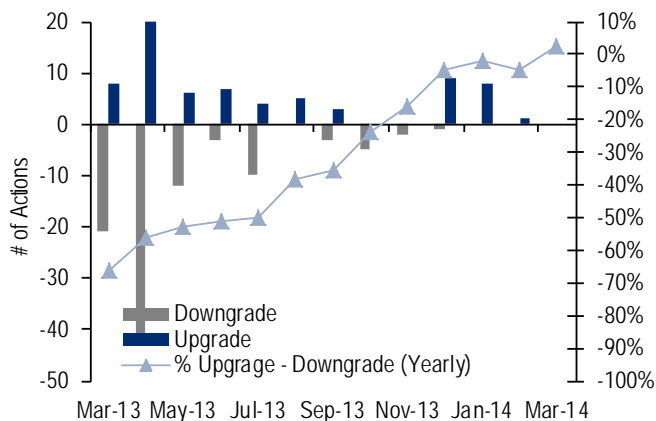
Source: Moody's, S&P and Fitch

Figure 64. European CMBS Rating Upgrades and Downgrades, Feb 13 – Feb 14



Source: Moody's, S&P and Fitch

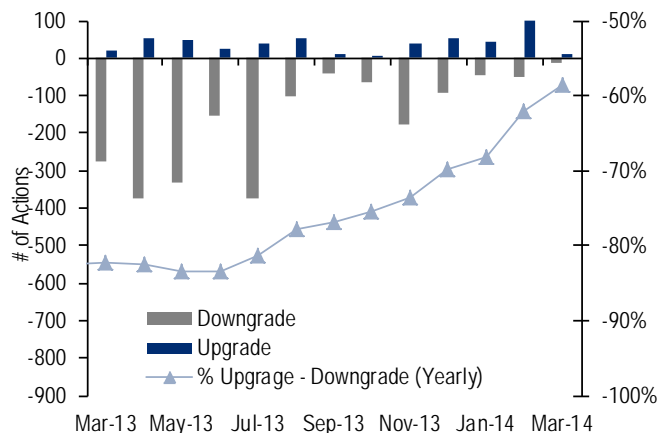
Figure 65. European ABS\* Rating Upgrades and Downgrades, Feb 13 – Feb 14



\* 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 66. European Total Securitized Products Rating Upgrades and Downgrades, Feb 13 – Feb 14



Source: Moody's, S&P and Fitch

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[European ABS 2014 Outlook: The Times They Are a-Changin'](#), Jan 10 2014  
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[UK CMBS: A Collection of Ten Short \(Investment\) Stories](#), Dec 4 2013  
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**Notes**

**Notes**

**Notes**



## Appendix A-1

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