



The logo for the Asian Development Bank (ADB), consisting of the letters 'ADB' in white serif font on a dark blue square background.

Current Market Turmoil

Where Are We and Where Are We Headed?

Asian Development Bank – Investors' Roundtable
May 4, 2008

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The Major Forces at Work in the Coming Years: Snapshot

- We are about nine months into what has become the **most challenging period of financial distress** in the United States since the 1980s and perhaps longer
 - Banks' **constrained capital and loss of confidence in securitized finance** are at the epicenter
 - Aggressive policy action may be helping financial markets find a floor, but **further deleveraging is expected**.
- The economic outlook has darkened; the **depth and duration of the recession in the United States remain uncertain**
 - Despite **marginally positive growth in the first quarter**, the US economy was and will continue to be weak for some time
 - Inflation remains a key risk to the forecast
- Linkages in the world economy mean **some spillover from US weakness is likely**, but net effects will vary and are unlikely to derail growth
 - Global growth will slow, but only moderately
- **Misaligned exchange rates** will be with us for some time
- **Commodity prices** are likely to remain high due to demand in the emerging world – we could see a recurring global constraint from commodities for a number of years
- The **Asian economies** should come through the current US weakness relatively well
 - Looking ahead, Asia and other emerging markets will continue to dominate global growth

*The global economic and financial outlook is complex and uncertain.
Optionality should remain at a premium.*

US Financial Distress: The Headlines Tell The Story...

- “The Collapse of Major Investment House: Symbol of Wall St. Era Is Dismantling”
- “Facing Unfortunate Facts; It’s Time to Separate the Recession from the Euphemisms”
- “End of ‘Leveraged’ Era”
- “Leveraged Buy-Out Funds Are High-Fliers No Longer”
- “Anti-LBO Bill Introduced in Congress”
- “SEC Wants Brokers to Give Warnings on Capital”
- “Middle East Investor Buys Major Stake in U.S. Bank”

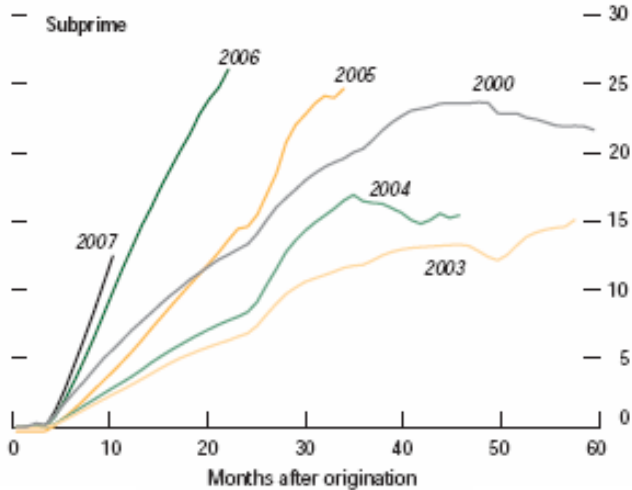
US Financial Distress: The Headlines Tell The Story...

1990

- “The Collapse of Major Investment House: Symbol of Wall St. Era Is Dismantling”
 - New York Times, 1990
- “Facing Unfortunate Facts; It’s Time to Separate the Recession from the Euphemisms”
 - Washington Post, 1991
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 - Wall Street Journal, 1990
- “Middle East Investor Buys Major Stake in U.S. Bank”
 - The Associated Press, 1991

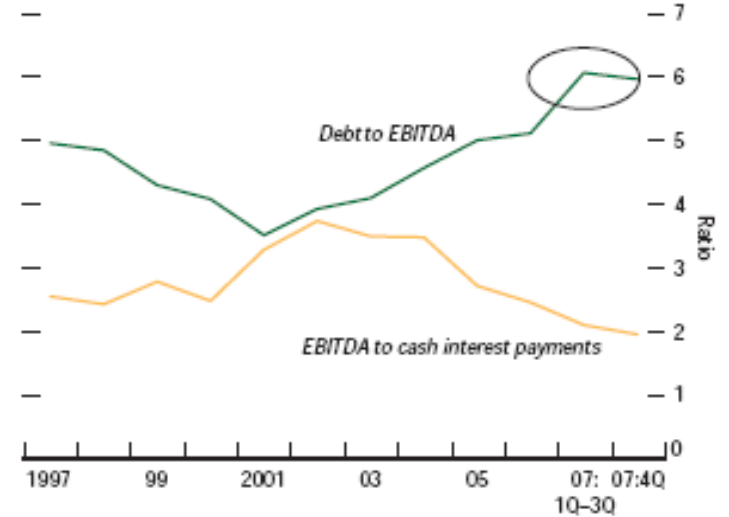
US Financial Problems Followed Excess

Mortgage Delinquencies by Vintage Year
(60+ day delinquencies, in percent of balance)



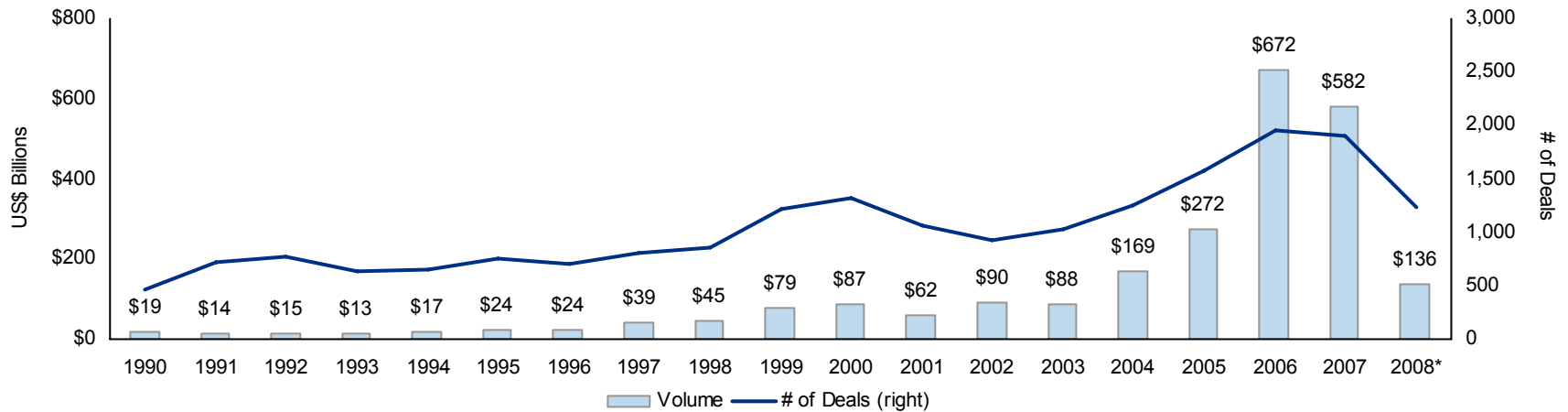
Source: IMF Financial Stability Report, April 2008.

US LBO Loans: Credit Quality Indicators



Source: IMF Financial Stability Report, April 2008.

Global LBO Activity



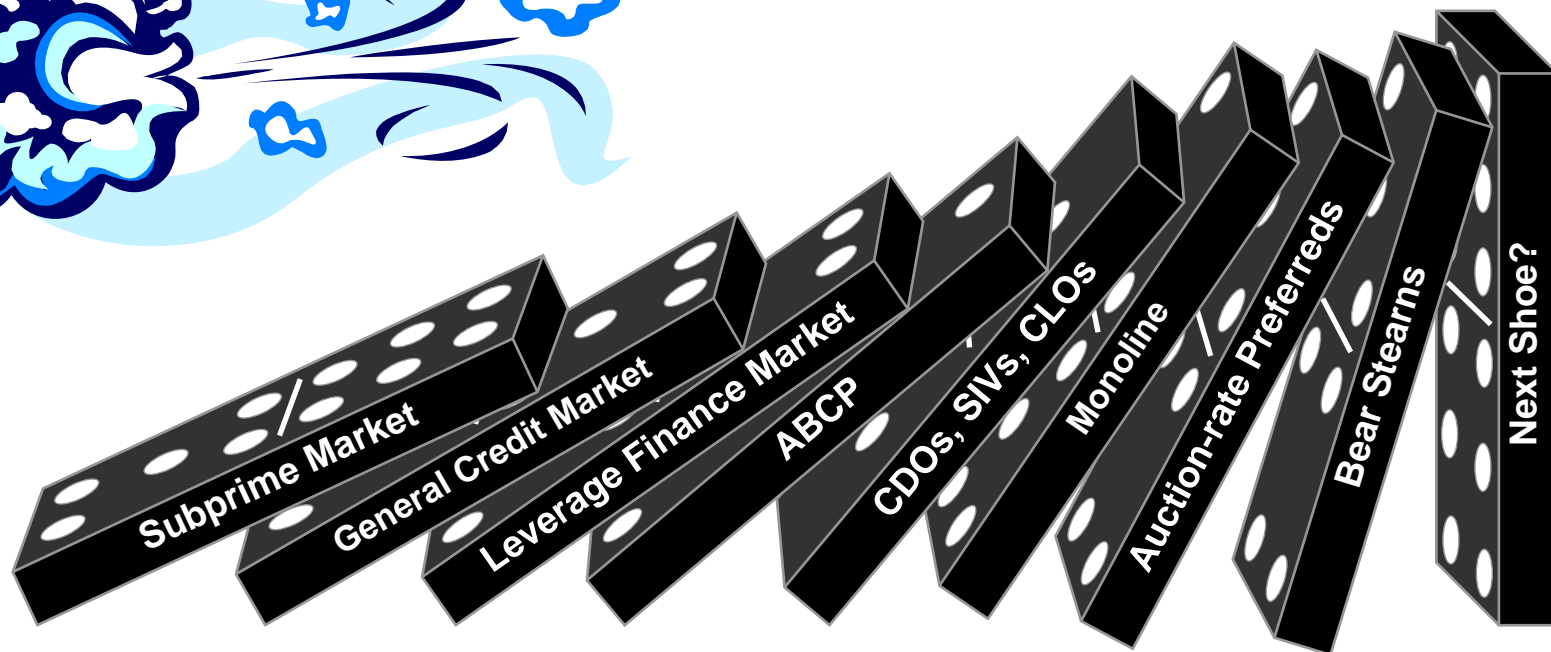
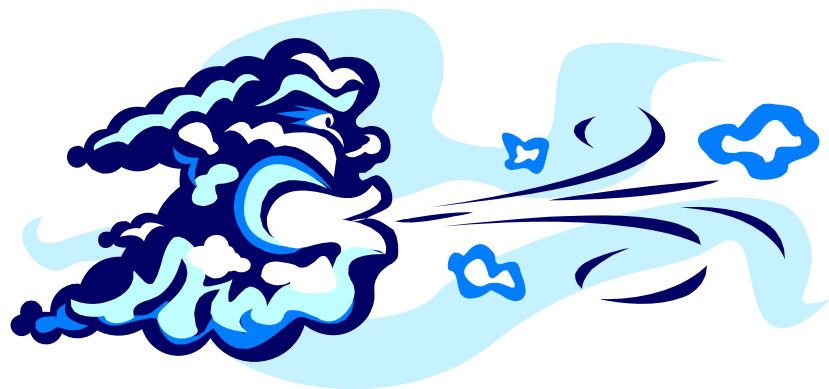
Source: Security Data Company through March 31, 2008.
* 2008 figures presented on an annualized basis.

The Perfect Storm for Financial Institutions

Reduced lending standards

Covenant-lite transactions

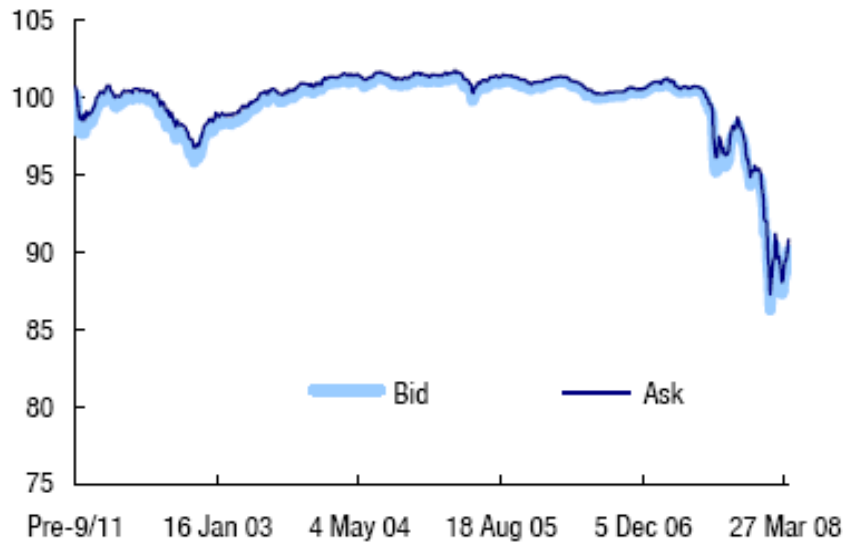
Tight spreads



A Large Overhang of Unsold Loans Led to Price Collapse

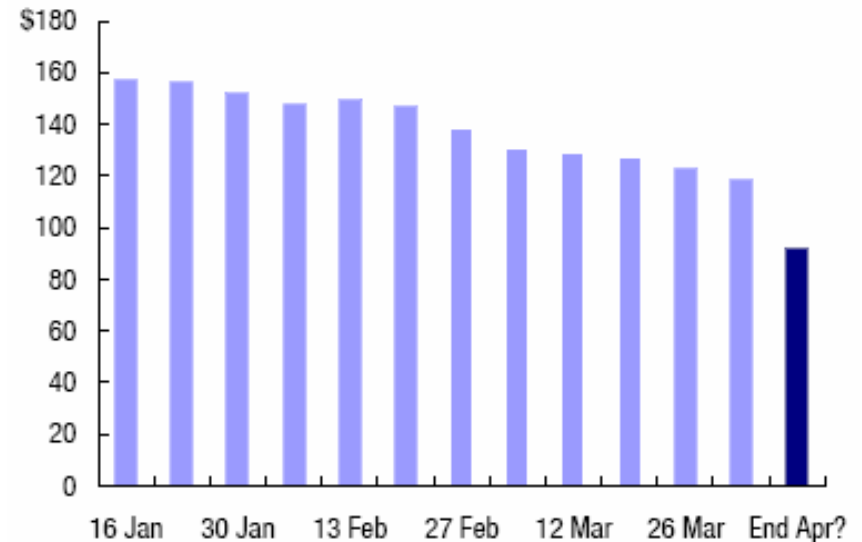
The inventory is being worked off.

Cash Loan Prices — Average Bid and Ask



Source: Citi Global Structured Credit Strategy, April 15, 2008.

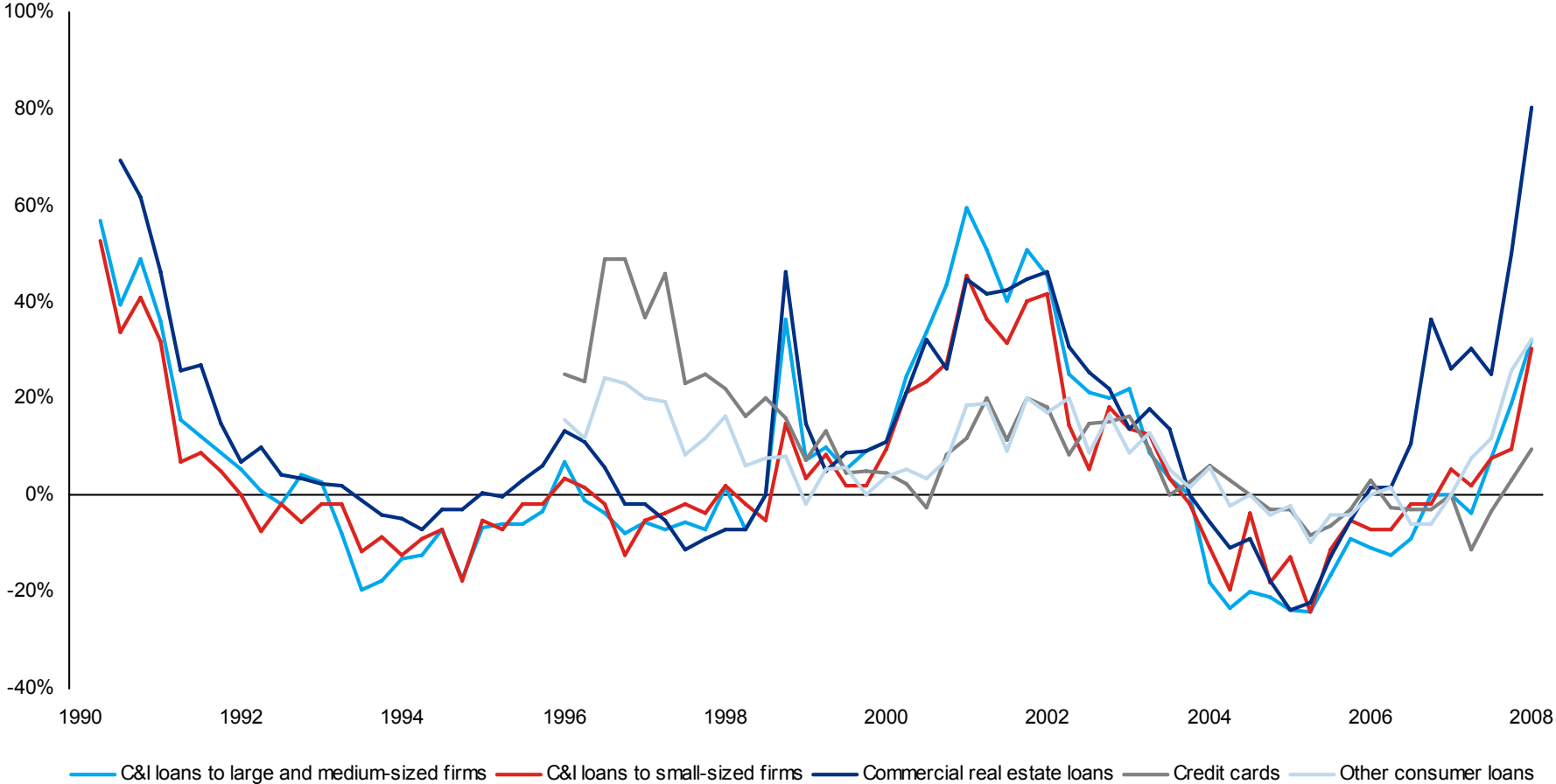
Institutional Loan Pipeline (US\$ in Billions)



Sources: LCD and Citi via Citi Global Structured Credit Strategy, April 15, 2008.

Note: End of April includes potential loan sale of an estimated \$27 billion of institutional loan tranches by Citi and Deutsche Bank.

Credit Standards Tightened



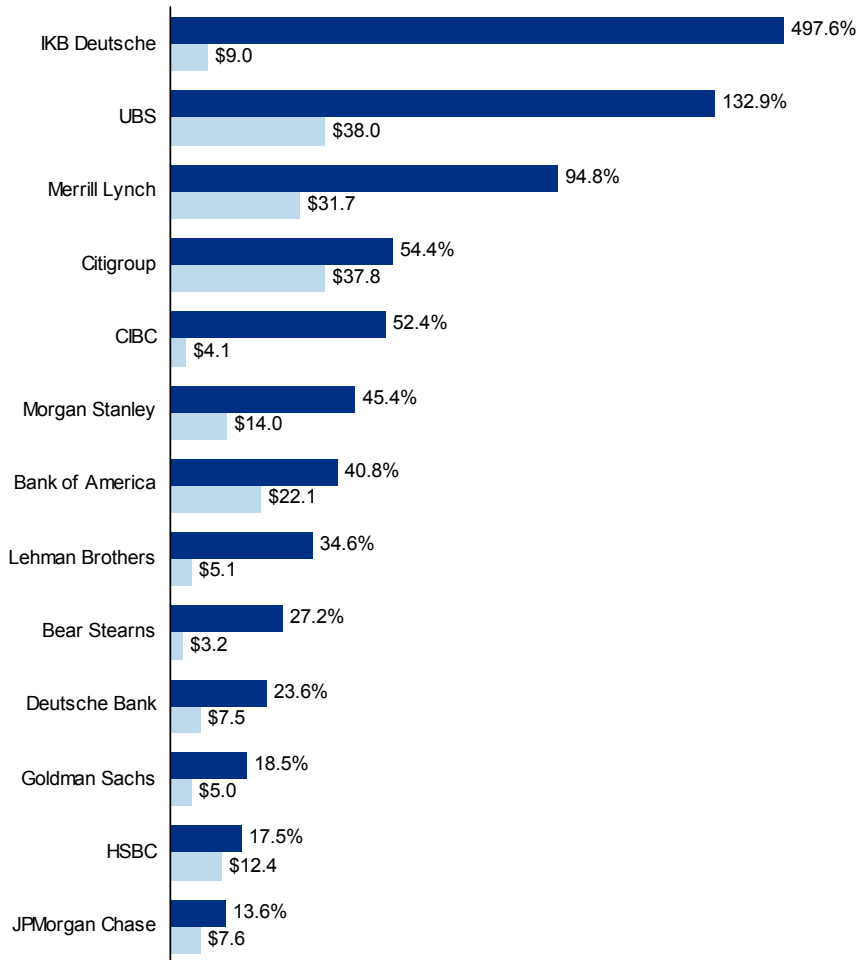
Source: US Federal Reserve Board website, "Senior Loan Officer Opinion Survey on Bank Lending Practices Chart Data" (www.federalreserve.gov accessed on May 1, 2008).
 Note: Data shows net percentage of US survey respondents who expressed tightening credit standards.



Capital & Confidence Disappeared from the US Financial Sector

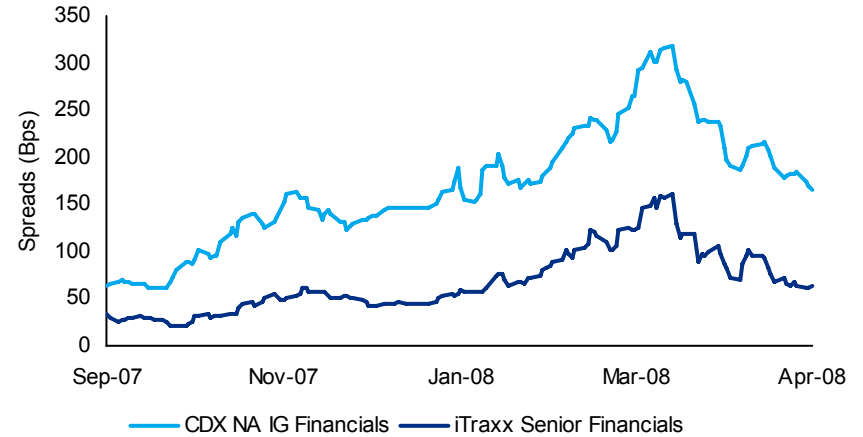
Enormous Capital Drained Out of the System...

Cumulative Writedowns and Declared Credit Losses Since Beginning of 2007

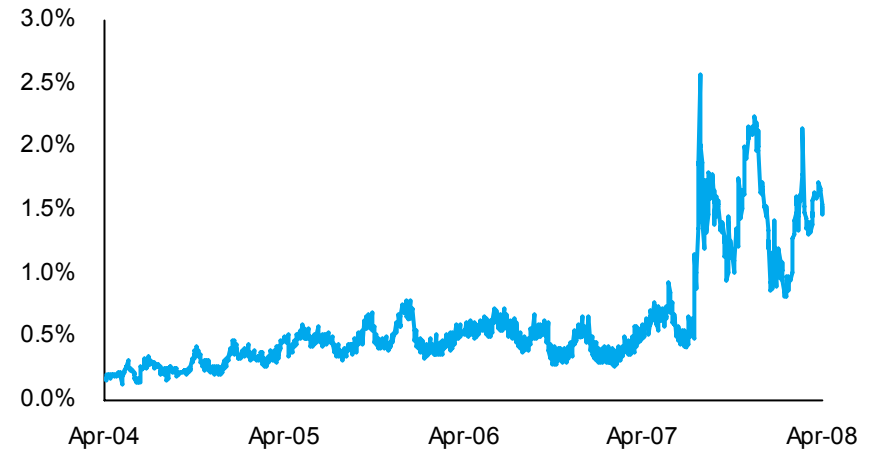


■ Pre-Tax Declared Losses (US\$ bn) ■ % of 2006 Tangible Book Value

iTraxx Senior Financials & CDX Financials (5-Yr Spreads)



Widening TED-Spread (3-Month Yields)



Banks Continue to Tap New Sources of Fresh Capital

A1

MARKETS & FINANCE HEADLINES

“Washington Mutual, the largest US savings and loan, raised \$7 billion from an investor group led by TPG Inc.”

- AP (April 8, 2008)

“Singapore GIC: Investment In Citi to Bring Holding To About 4%”

- Dow Jones (Jan. 15, 2008)

“Royal Bank of Scotland said today it would sell \$24 billion of shares in Europe’s largest rights offering and cut its 2008 dividend to rebuild capital eroded by writedowns”

- Bloomberg (Apr. 25, 2008)

“Bad mortgage timing leads Wachovia to post loss, cut dividend, seek \$7 billion in new capital”

- AP (April 14, 2008)

“Temasek takes 4.4 billion dollar stake in Merrill Lynch”

- Agence France Press (Dec. 23, 2007)

“Citi investment lifts market; Abu Dhabi casts \$7.5 billion vote of confidence for battered bank”

- Times Union (Nov. 28, 2007)

“Singapore banks higher on GIC's cash infusion into UBS”

- AFX Asia (Dec. 11, 2007)

“GIC Likely To Participate In UBS Capital Increase”

- Dow Jones (April 14, 2008)

“Foreign funds, domestic investors to pump a combined \$6.6 billion in Merrill Lynch”

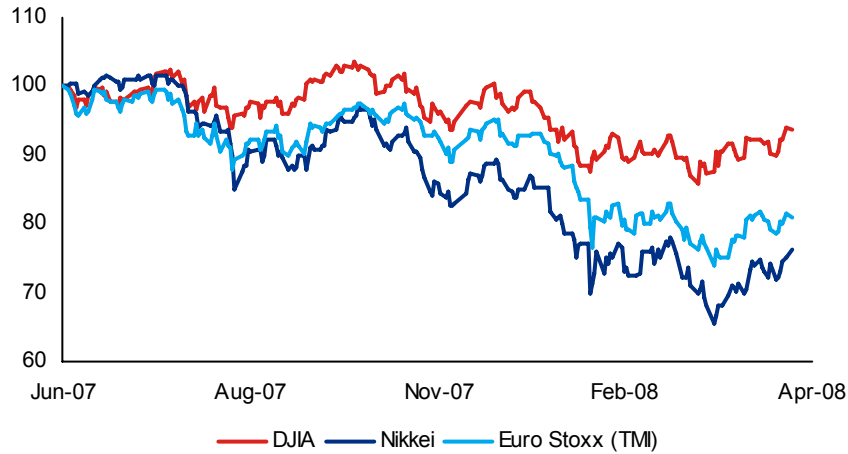
- AP (Jan. 15, 2008)

“China's CIC Confirms \$5B Investment in Morgan Stanley”

- Dow Jones (Dec. 19, 2007)

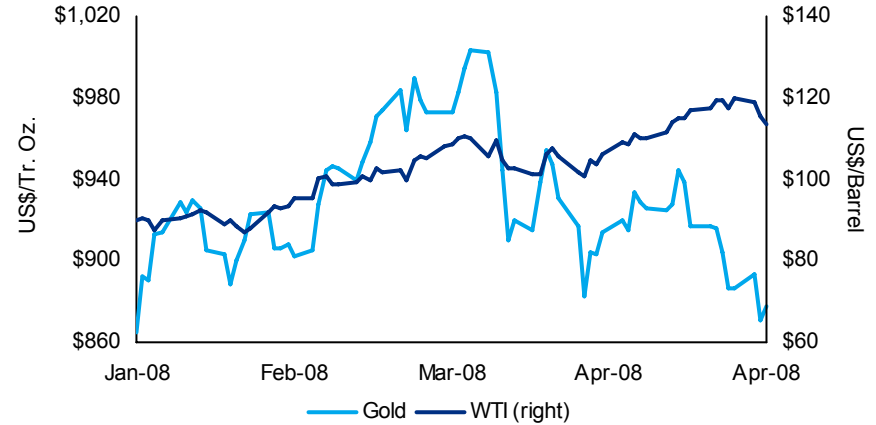
Financial Markets: Deleveraging Taking its Toll in Some Markets More than Others

Stock Market Evolution



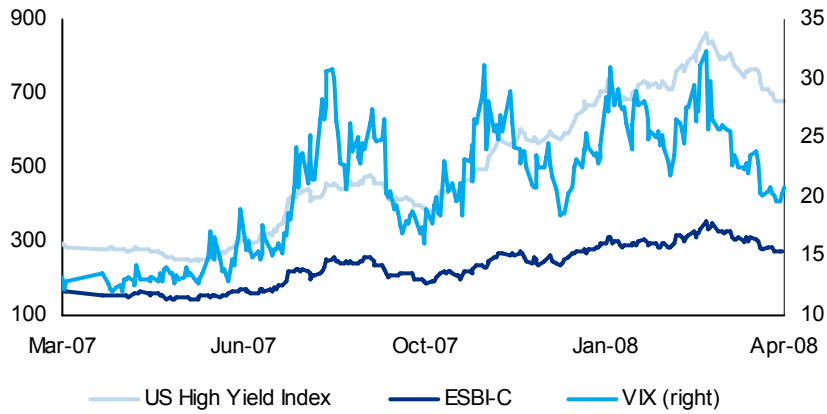
Source: Factset (accessed May 1, 2008).

Gold and WTI Spot Prices



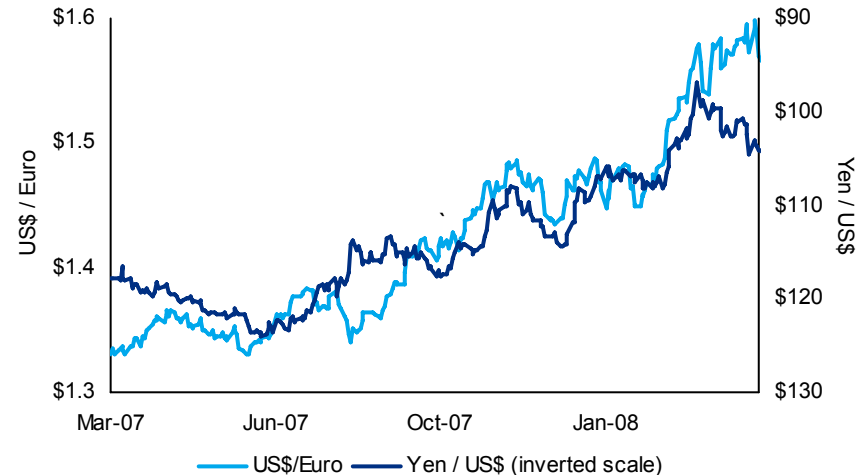
Source: Bloomberg (accessed May 1, 2008).

HY & ESBI-C Spreads and VIX - Daily



Source: Citi Fixed Income Yieldbook, Citi FI Direct – Index database, VIX database (accessed May 1, 2008).
 Note: VIX measures market expectations of near-term volatility conveyed by S&P 500 stock index option prices. The ESBI-C, or ESBI-Capped, is a measure of emerging market sovereign spreads.

US Dollar versus Euro and Japanese Yen



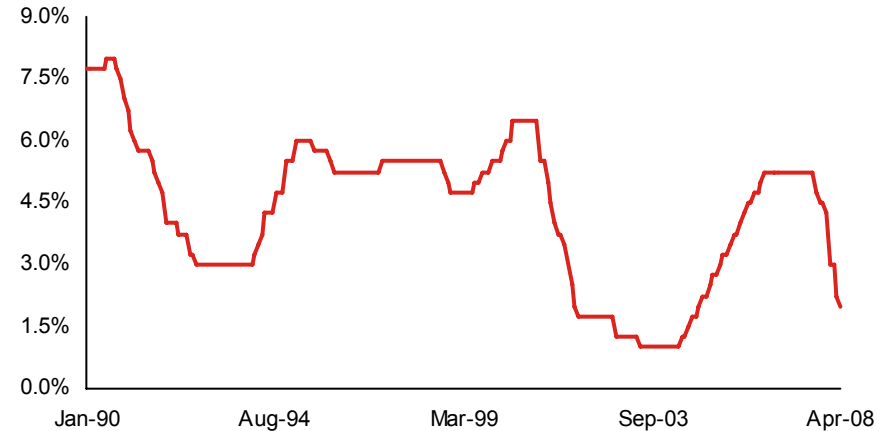
Source: Factset (accessed May 1, 2008).

Policy Environment: Helping Markets Find a Bottom

Recent Policy Moves

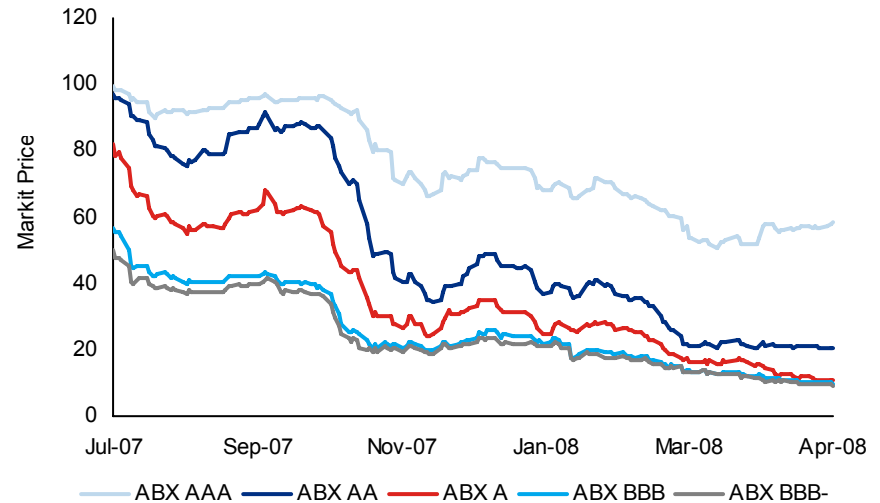
- **Federal Reserve:**
 - Creation of Primary Dealer Credit Facility allowing Fed to provide direct loans to primary dealers (bank and non-bank) against a broad array of capital
 - Creation of Term Security Lending Facility: Fed will lend up to US\$200bn in Treasury securities in exchange for wider range of collateral
 - Extension of maturity for primary credit loans from 30 to 90 days
 - The Fed funds rate has been cut from 5.25% in August 2007 to 2% last week, including an extraordinary 75 basis point cut in March
 - Provision of US\$30bn in special financing for JPMorgan Chase acquisition of Bear Stearns
- **Fiscal Policy:**
 - Congress acted with record speed to enact fiscal stimulus program
 - First rebate checks reached households last week
- **Mortgage Market:**
 - Office of Federal Housing Enterprise Oversight reduces surplus regulatory capital requirements for Fannie Mae and Freddie Mac from 30% to 20%. Lifts caps on total size of mortgage portfolios. Cleared to provide US\$200bn additional liquidity to MBS market
 - Congress is considering mortgage rescue liberalization

Federal Funds Rate



Source: US Federal Reserve (accessed May 1, 2008).

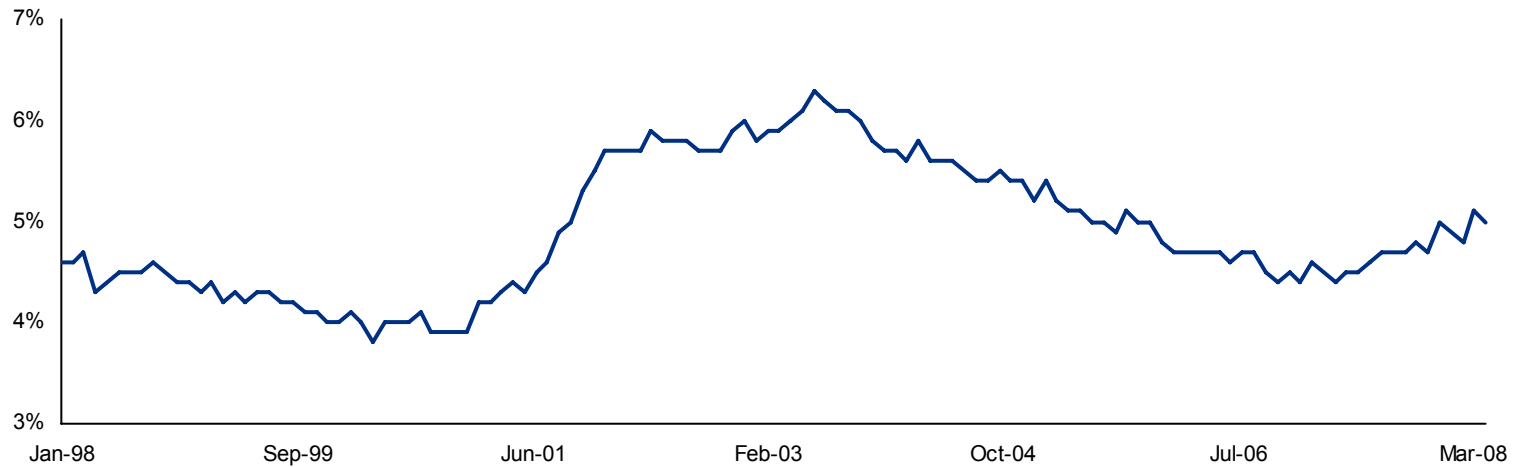
Asset-Backed Securities Indices (ABX)



Source: Markit via Reuters CreditViews (accessed May 1, 2008).

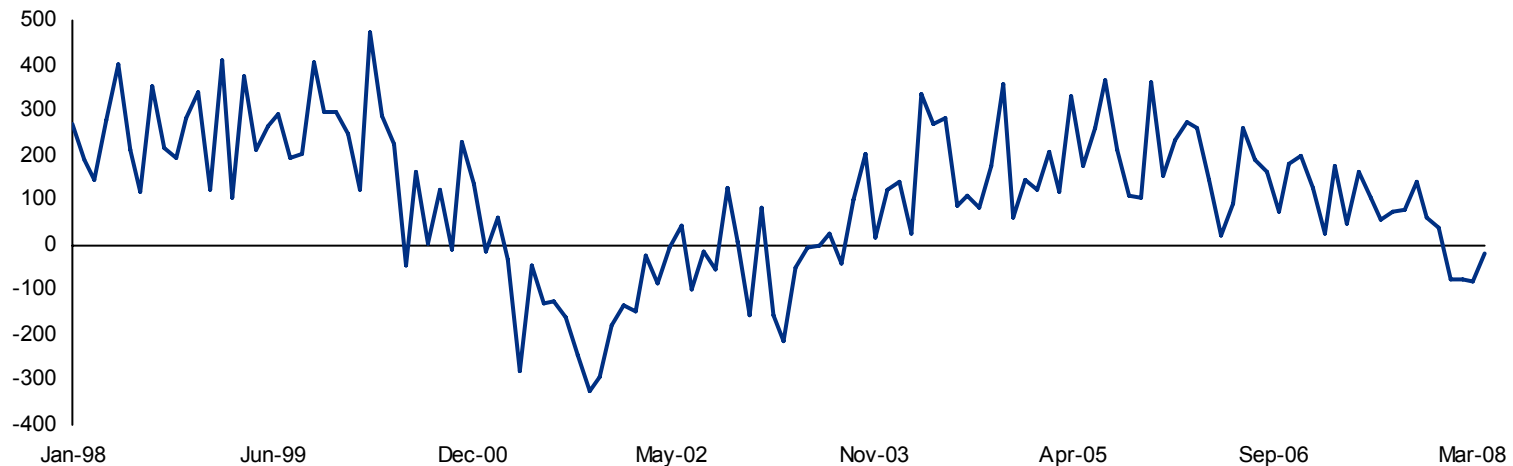
The Real Economy is Only Just Beginning to Feel the Effects

US Unemployment Rate, Seasonally Adjusted



Source: US Bureau of Labor Statistics website (www.bls.gov accessed May 2, 2008).

US Payroll Employment – 1 Month Change, Seasonally Adjusted (All employees in 000s)

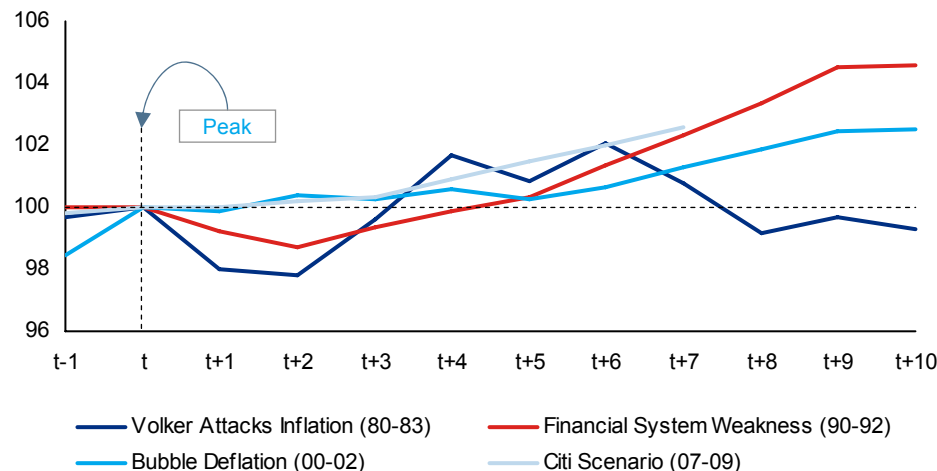


Source: US Bureau of Labor Statistics website (www.bls.gov accessed May 2, 2008).
Note: February and March 2008 figures are preliminary.

The US Economic Outlook for This Year Is Uncertain

- The US economy has stalled
- The depth and length of the downturn remain uncertain
- Citi forecasts project a long, but shallow recession path
- Housing will remain a noticeable drag on growth over the forecast horizon
- Inflation remains a key risk to the forecast

Recessions Come in Different Shapes & Sizes



Source: US Bureau of Economic Analysis website (www.bea.gov accessed April 14, 2008); Citi EMA, "Global Economic Outlook and Strategy," April 24, 2008.

Citi Economists' Forecasts: US

	Historical			Forecast				Annual Change (YoY)		
	2Q 2007	3Q 2007	4Q 2007	1Q 2008	2Q 2008	3Q 2008	4Q 2008	2007F	2008F	2009F
GDP (SAAR)	3.8%	4.9%	0.6%	0.8%	(0.1%)	0.9%	0.6%	2.2%	1.3%	1.6%
Consumption (SAAR)	1.4	2.8	2.3	0.4	1.2	2.5	(0.2)	2.9	1.5	1.4
Business Investment (SAAR)	11.0	9.3	6.0	(2.5)	(3.5)	(4.4)	(4.4)	4.7	0.7	(1.5)
Housing Investment (SAAR)	(11.8)	(20.5)	(25.2)	(20.7)	(17.8)	(8.2)	(3.4)	(17.0)	(18.1)	(2.6)
Unemployment Rate (%)	4.5	4.7	4.8	4.9	5.2	5.6	5.8	4.6	5.4	6.3

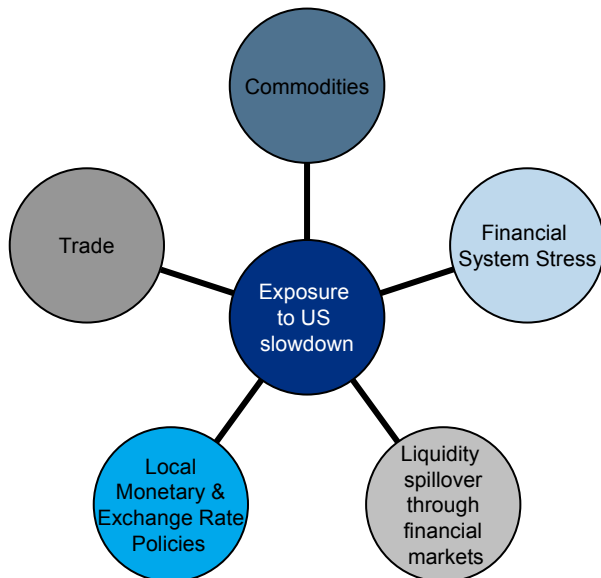
Source: Citi EMA, "Global Economic Outlook and Strategy," April 24, 2008.

Note: For all data, % change from preceding quarter at an annual rate, except for the unemployment rate.

Coupled or Decoupled World Economies?

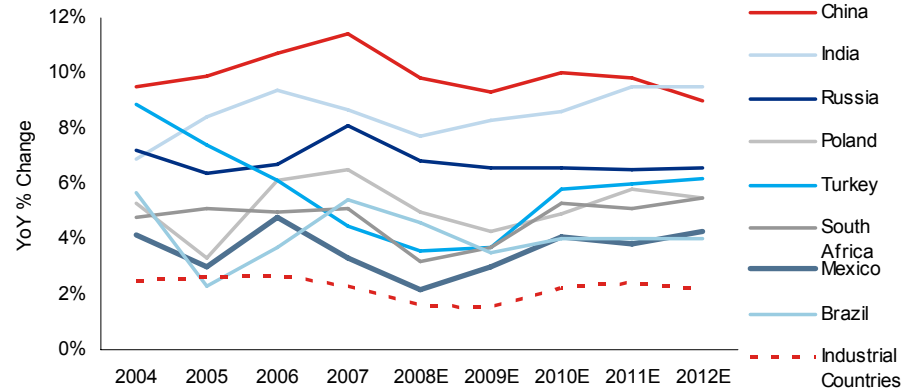
- Economies are more closely linked than ever
- But a US slowdown does not necessarily slow others
 - Linkages can be see-saws, with beneficiaries too
 - Fast-growing emerging markets have been resilient and are likely to remain so
 - The net effect of economic interdependence must be analyzed to assess exposure to a US slowdown

Five Links Determine Vulnerability to a US Slowing:



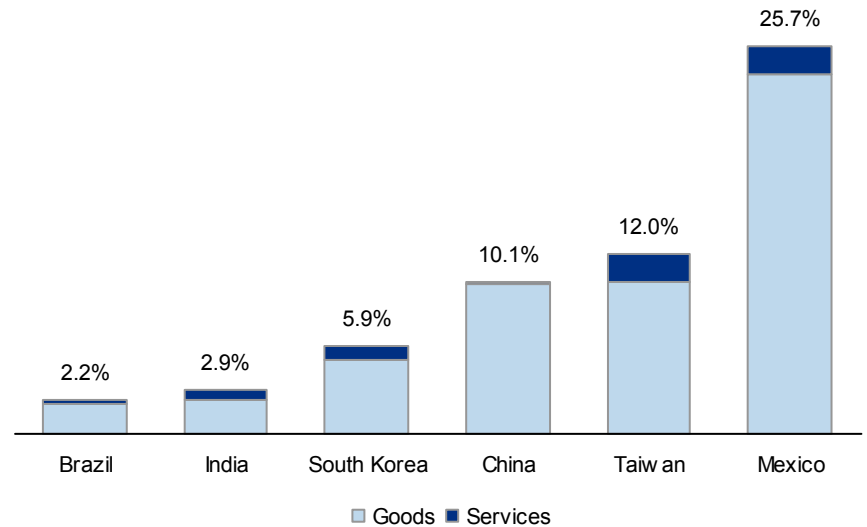
Strength in Emerging Markets is Likely to Last

China, India, and Russia alone accounted for more than one-half of global growth in 2007



Source: Institute of International Finance; Citi Economist Forecasts, April 24, 2008.

Exports to the US as a Share of GDP - 2007



Source: US Bureau of Economic Analysis Website.

Global Growth Will Slow, but Only Moderately

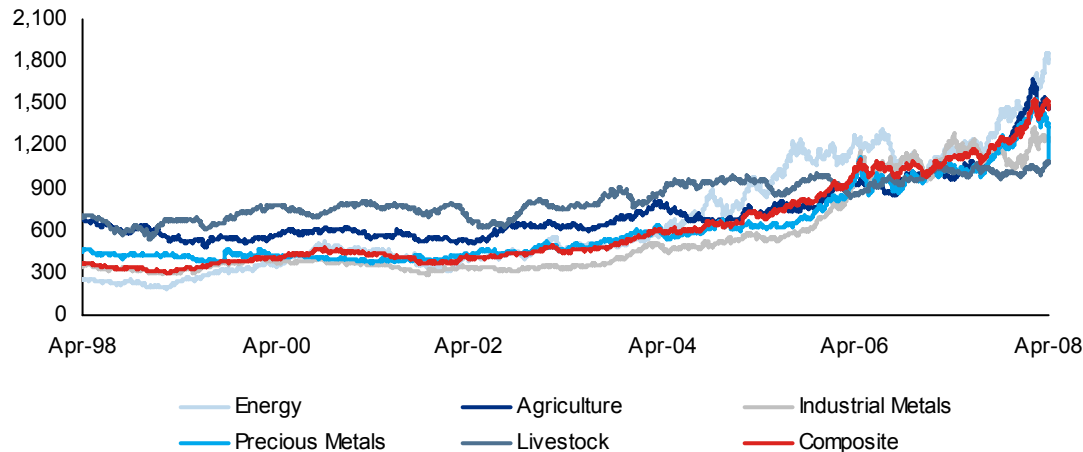
- The Euro area will feel the affects of U.S. financial distress most strongly
- Emerging markets will slow but continue to strongly outperform
 - China and India are not likely to slow by more than enough to reduce overheating
 - Latin America could slow more
- A deeper U.S. recession would have only limited further spillover
- Inflation from global commodity supply constraints and domestic overheating set the limits to growth

	GDP Growth			CPI Inflation		
	2007	2008F	2009F	2007	2008F	2009F
World	3.9%	2.9%	2.8%	3.1%	4.3%	3.0%
United States	2.2	1.3	1.6	2.9	4.0	2.1
Euro Area	2.6	1.4	1.2	2.1	3.0	1.8
Japan	2.1	1.7	1.4	0.0	0.8	0.3
Emerging Markets	7.2%	6.1%	5.9%	5.3%	7.0%	5.6%
Asia	8.7	7.5	7.4	4.1	5.1	3.4
China	11.4	9.8	9.3	4.8	5.8	3.0
India	8.7	7.7	8.3	4.5	4.3	4.0
Latin America	5.4	4.3	3.4	5.2	6.9	7.2
Europe	6.7	5.5	5.4	7.3	11.0	9.0
Africa/Middle East	5.7	5.0	4.6	6.9	8.6	6.2

Source: Citi EMA, "Global Economic Outlook and Strategy," April 24, 2008.

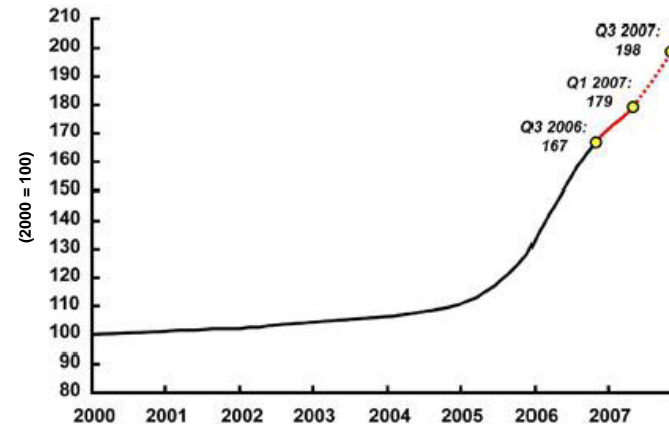
Demand is Likely to Keep Commodity Prices High

Commodity Prices Over the Last 10 Years



Source: UBS Bloomberg Constant Maturity Commodity Index Family via Bloomberg (accessed May 1, 2008).

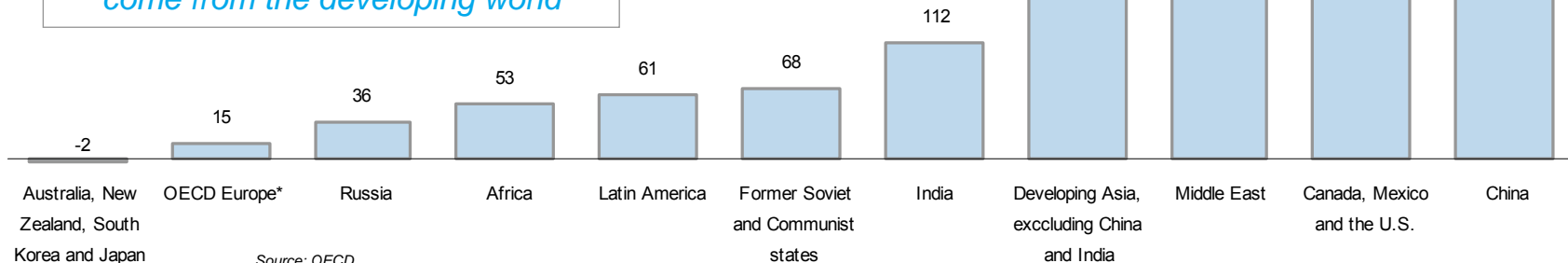
IHS/CERA Upstream Capital Costs Index



Source: IHS / Cambridge Energy Research Associates.

Average Annual Change in Consumption of Crude Oil and Natural Gas (2005-2015 Forecast in thousands of barrels per day)

Energy demand will increase by 53% between 2006 and 2030. More than 70% of this increase is expected to come from the developing world



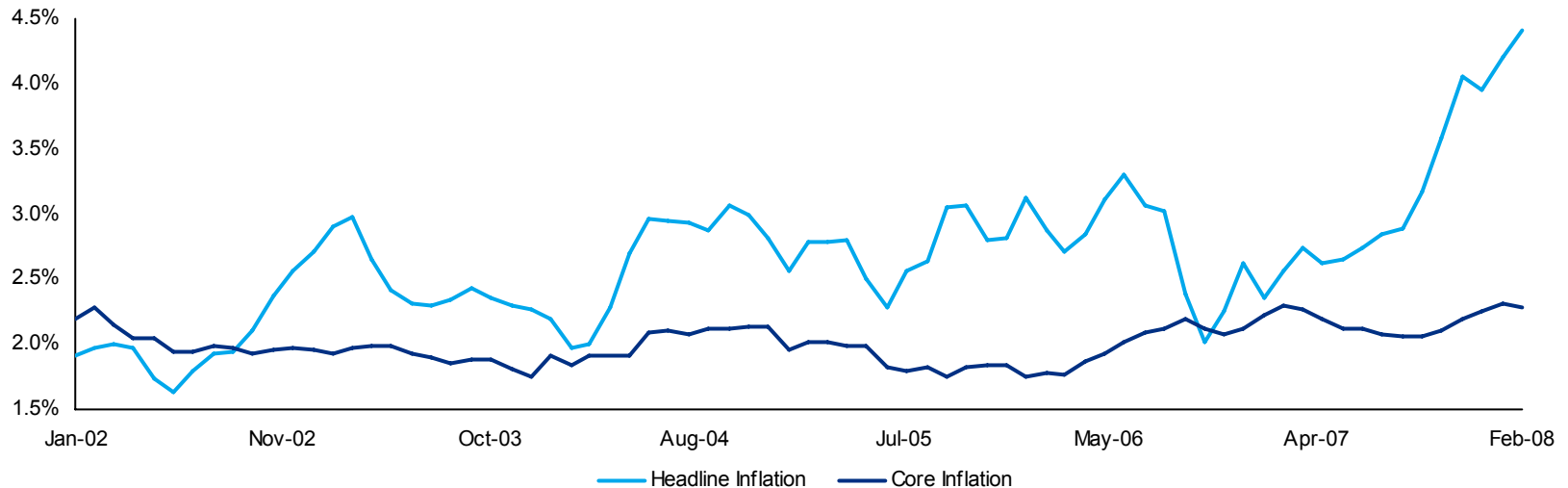
Source: OECD.

Inflation May Be as Big a Risk to the Global Economy as Financial Distress

- Inflation has been on the rising globally
 - Commodity prices across the board have been the drivers
 - Core inflation has only edged up and most forecasters and central banks believe it will recede as global demand softens
 - But there is a risk of continued pressure on prices and greater pass-through of cost of living increases into wages

World Inflation

(Twelve-month change of the consumer price index)



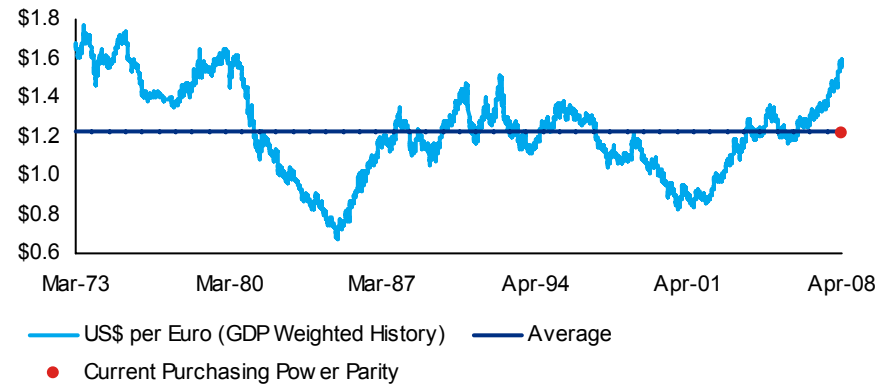
Misaligned Exchange Rates Will Be With Us for Some Time

The US dollar is undervalued against the Euro, but still has a long way to rise against Asian currencies.

- The Euro has risen dramatically against the US dollar since 2002, and now looks overvalued on either a historical basis or relative to GDP, but cycles of the dollar against the Euro are long
- A weak US economy and financial system could lead to further depreciation
- But the Chinese Yuan and other Asian currencies are moving up only slowly against the dollar despite large trade surpluses and foreign exchange reserve accumulation

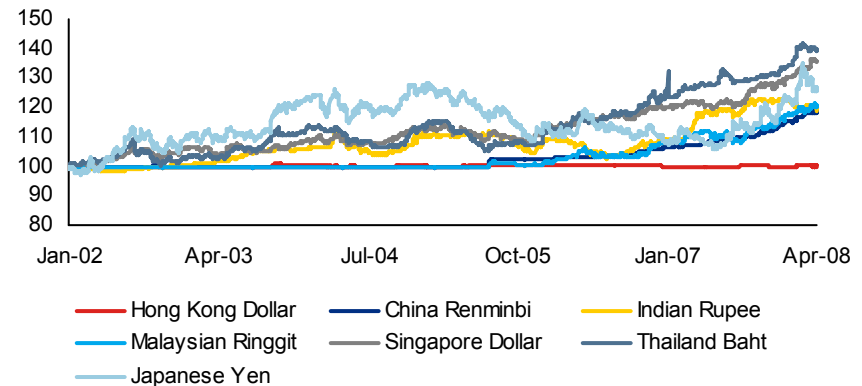
On March 17, the US Dollar Index traded to its lowest level since the dollar floated in 1973 on ICE Futures in New York, which measures the dollar against the currencies of six major trading partners

Euro Versus US Dollar



Source: WM / Reuters Exchange Rates database via Factset (accessed May 1, 2008).

Asian currencies are appreciating, but still have a long way to go



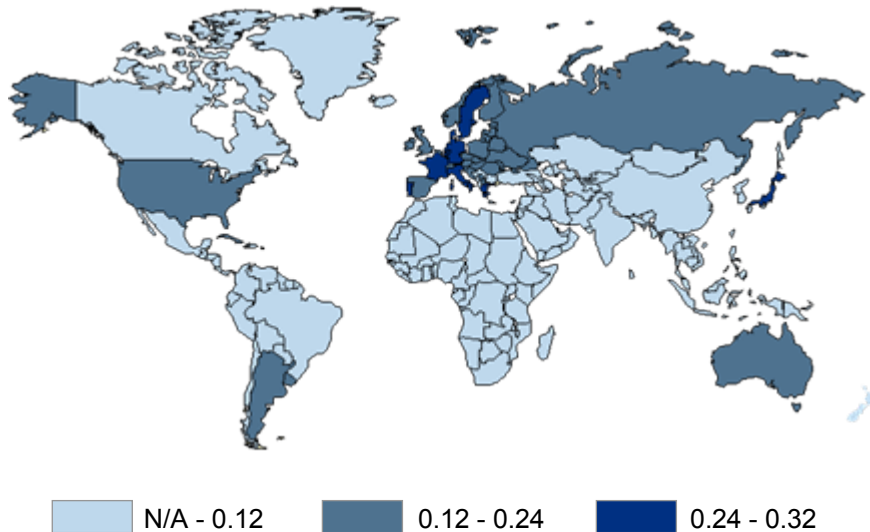
Source: WM / Reuters Exchange Rates database via Factset (accessed May 1, 2008).

Demographic Trends Favor Asia

- The developed world is aging rapidly, with faster growth of non-working dependents than workers
- Most emerging markets in Asia and elsewhere have relatively young populations and will enjoy a surge of workers and consumers
- Labor forces are also being augmented by movement of young people out of rural subsistence
- Young working populations present large consumer bases for many industries, including retail, technology, media and telephony, among others
- Business opportunity will arise from aging in the US, Japan, and Europe – pharma, healthcare, real estate, travel and financial services

Dependency Ratio Today

(Old Dependents as Proportion to Working Age Population)



Source: World Bank, 2007 World Development Indicators (web.worldbank.org accessed on November 23, 2007).

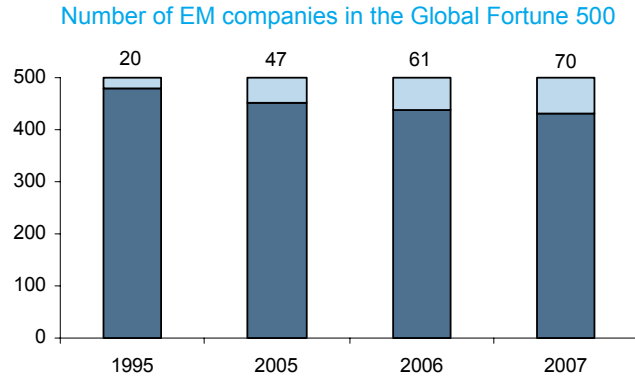
Growth in Global Labor Force

Region	All Workers (millions)		Unskilled Workers	Skilled Workers
	2001	2030	% of World Growth	% of World Growth
World Total	3,077	4,144	100.0%	100.0%
High-income countries	481	459	(2.1%)	14.9%
Emerging Markets	2,596	3,684	102.0	85.1
East Asia & the Pacific	1,060	1,279	20.5	23.6
China	773	870	9.1	10.8
South Asia	632	1,005	35.0	20.0
India	473	712	22.4	13.8
EM Europe & Cent. Asia	236	233	(0.3)	0.0
Middle-East & N. Africa	119	205	8.1	14.9
Sub-Saharan Africa	313	617	28.5	12.3
Latam & the Caribbean	236	345	10.2	15.4

Source: World Bank, "Global Economic Prospects 2007."

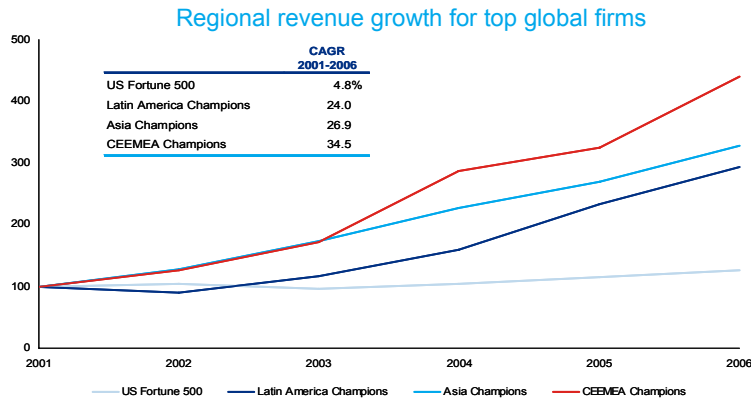
A New Generation of Multinationals is Emerging in the EMs

Large EM firms are going global...



Source: Fortune, Global 500; Accenture, "The Rise of the Emerging Market Multinational." January 2008.

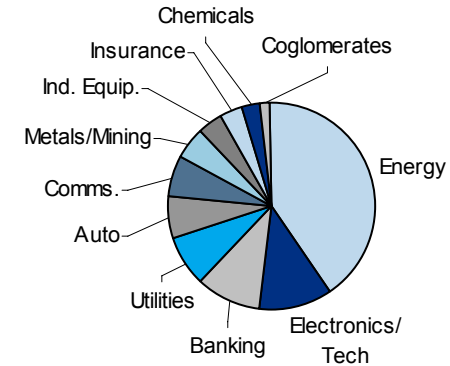
Revenues for EMs have begun to take off



Source: US Fortune Global 500, accessed on 12 December 2007.

...And they span the industry map

Distribution by industry of EM firms' total revenues in 2007



Source: Fortune, Global 500; Accenture, "The Rise of the Emerging Market Multinational." January 2008.

In 1990, foreign direct investment (FDI) flows from emerging markets countries were just 5% of the world total. By 2006, that share had reached 14%, worth US\$175bn in that year alone

What Investors Need to Focus On



Liquidity will remain at a premium for some time



Inflation risk and low yields make G-3 bonds unattractive



Oversold credits will be snapped up as confidence builds that the system threat is fading



Look for more transparent approaches to securitization that will revive this intermediation channel



Growth investments will be found in Asia, other emerging markets, and western companies that are focused there

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