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Welcome

Citigroup is delighted to announce the extension of our securities lending capabilities to entities domiciled in Canada and Mexico. By leveraging Citigroup's global network and strong local market presence, we created a best-in-class framework for institutions looking to benefit from financing their securities inventory.

To accommodate all client types, we devised a flexible structure where both public- and private-sector institutions could participate in our programme on a third-party or custodial basis. Similar to our current client base, each new Canadian and Mexican client will have full access to our global network of securities lending markets, with the premier risk and control measures we are known for. Additional announcements will be made throughout 2007. For further information, please refer to the contacts listed on the last page of this newsletter.

U.S. equities

Our U.S. desk in New York saw overall average balances were down 11.89 per cent for the month of January, with average specials in demand down 6.13 per cent.

News was quiet early in the month, due to President Ford's funeral. Existing home sales rose by 0.60 per cent in November, 1.45 per cent higher than estimates. The Dow fell off its 12,500-point high to hover at 12,300 points. Standard & Poor's (S & P) averaged 1,400 and the NASDAQ averaged 2,400 points.¹

The Dow set a record high on 31 January, closing at 12,621 points, helped by renewed optimism over the strength of the economy and better-than-expected earnings reports. This high was short-lived as unease about higher interest rates, following a stronger-than-expected durable-goods number and a higher new-home sales figure, increased inflation concerns. Also dragging on the market were higher oil prices, climbing to over USD55.00 a barrel.²

Active stocks in demand

- Polaris (PIL), after record on 2 January 2007, traded as low as -10.00 per cent.
- Shares of True Religion (TRLG) traded as low as -10.50 per cent.
- Shares of Sadia (SDA) traded as low as 0.00 per cent.
- New River Pharmaceuticals (NRPH) traded as low as -1.75 per cent.
- Braskem (BAK) traded as low as 0.00 per cent.
- Shares of Crucell (CRXL) traded as low as 0.25 per cent.

Sectors in demand included autos and exchange-traded funds. Some drivers of this demand included asset valuations, downgrades, commodity prices and supply issues.

¹ Source: Bloomberg L.P., 26, 28, 29 December 2006; *Wall Street Journal (WSJ)*, 26, 28, 29 December 2006.

² Source: Bloomberg L.P., 24, 26 January 2007; *WSJ* 24, 26 December 2007.

Product update

Citigroup is delighted to introduce its Collateralised Liquidity Services, a solution that features a variety of transaction services connected by their use of collateral. In this offering, Citigroup acts as collateral agent, either on a bilateral or tri-party basis, for clients that give and/or receive cash or securities collateral in financing or other collateral-related programmes, both on domestic and global custody platforms. The demand for collateral, particularly from banks

as a risk mitigant in light of Basel II regulatory changes, is beginning to heighten the demand for these services. We are also seeing an increased requirement by investor clients for securities collateral-management services to support OTC and listed derivatives transactions. Additional announcements regarding this service will be made throughout 2007.

For further information, please contact david.j.allen@citigroup.com.

U.S. corporate bonds

Our U.S. desk in New York saw overall average balances were up 10.02 per cent for the month, while average special balances were down 2.34 per cent.

Argentina plans to sell USD500 million in USD-denominated bonds to help finance maturing debt. The bonds will have an interest rate of 7 per cent and will mature in 2013.³

The risk-premium on high-yield corporate bonds fell to a ten-year low as lower oil prices and increased consumer confidence increased optimism that the U.S. economy will grow fast enough to limit the number of defaults. The average spread to treasuries fell to 265 bps, the smallest gap since 1997. This is well below the five-year average of 517 bps.⁴

Issues in demand

- Metaldyne (CUSIP 591160AB2): 0.50 per cent
- JLG Industries (CUSIP 466210AB7): 1.00 per cent
- Bre Properties (CUSIP 05564EBH8): 2.00 per cent
- Movie Gallery (CUSIP 624581AB0): -2.00 per cent
- Abitibi (CUSIP 003669AJ7): 4.125 per cent

³ Source Bloomberg L.P., 24 January 2007

⁴ Source: Bloomberg L.P., 23 January 2007

U.S. cash and money markets

As expected at the 31 January meeting, the FOMC voted to maintain the current 5.25 per cent Federal Funds target rate. With Governor Lackey no longer a voting member, the decision was unanimous. The statement that followed the meeting was adjusted from the previous meeting to include language that was slightly more dovish with regard to inflation (“readings on core inflation have improved modestly” versus “readings on core inflation have been elevated”), and more hawkish with regard to economic growth (“recent indicators suggested somewhat firmer

economic growth” versus “economic growth has slowed over the course of the year”). The bias towards higher rates remained in place as suggested by the language that “timing and extent of additional firming” remained unchanged.

Given the uncertainty of the direction of interest rates and the lack of value offered by the money-market yield curve, we continued to invest only at the front end of the curve, concentrating on floating rate investments that protect the investor against future interest rate hikes.

U.S. treasury and agency

U.S. Treasury refunding took place on 15 February. On this date, the Fed settled approximately 16 billion three-year, 13 billion ten-year and 9 billion long bonds. Typically, as the refunding date approached during January, the demand for the soon-to-be old issues increased and therefore, traded at a premium. The ten-year and the long bond averaged 175 and 85 bps, respectively. This demand continued into January and slightly through the refunding.

European money markets

EUR rates remained unchanged in January at 3.50 per cent. The year-end rise in short-term rates returned to normal levels, and short-term rates traded between 3.50 per cent to 3.60 per cent. Market expectations are that there is another 25-bps increase due in the next three months, the timing of which is undecided. In the UK, the Bank of England's MPC once again sprang a surprise and raised rates by 25 bps to 5.25 per cent on 11 January. The minutes published a few weeks later showed this was a split decision, with the chairman's casting vote making the difference. The rate increase caught most of the market out as expectations were for a February or March increase. After the increase, short-term rates traded between 5.20 and 5.30 per cent. At the end of January, the futures markets were pricing in another rise in either February or March.

European government bonds

Our European desk in London saw European Government GC balances continue to increase through January as broker-dealers began financing their European equity dividend activity. We have also benefited from an increase in demand from Spanish financial institutions for domestic paper over January month-end and into February.

Several specials in the European repo market emerged this month, led by the DBR three and a quarter July 2015 (DE0001135283), which traded up to 250 bps. It had been widely reported that one investment bank had built a significant interest in the issue, both in the cash and repo markets, effectively restricting normal flow and increasing its repo value. Similar circumstances saw the BTPS 3 January 2010 trade up to 200 bps on an open basis. Meanwhile DBR 3.5 January 2016 (DE0001135291), the cheapest to deliver (CTD) issue in the March 10-year Bund

Futures contract, began to pick up value in the term market currently offered at around 40 bps through GC to 20 March (settlement date).

The gilt market also witnessed a “squeeze” as the UKT 4 September 2016 (GB00BOV3WX43) issue traded up to 200 bps and remained volatile throughout the last two weeks of the month.

Following the Monetary Policy Committee's (MPC) surprise rate hike at the start of the month, and unexpectedly high inflation figures, the sterling market is split on whether the Bank of England will continue the cycle of hikes in February. We have taken the opportunity to reduce our weighted average maturity as we approach the meeting date (7 or 8 February) allowing us to capitalise on a potential hike by quickly rolling investments at the new level.

U.S. issuance and credit

Our U.S. desk in New York saw the volume of the U.S. ABCP market fall 2.00 per cent from its high at year-end 2006 to USD1.054 trillion.⁵ The decrease at month end January 2007 was attributed to a strategic issuance increase to funds over year-end.

Global credit trends continued to remain strong as no significant or unexpected credit-rating downgrades occurred in January 2007. A noteworthy credit-rating

upgrade by S & P raised the long- and short-term ratings of Banque Federative du Credit Mutuel and its subsidiary, Credit Industriel et Commercial, to AA- and A1+, respectively.⁶

In late January 2007, IXIS Corporate and Investment Bank was downgraded from AAA to AA by S & P due to the scheduled loss of its guarantee from AAA-rated Caisse des Depots et Consignations (CDC).⁷

Additionally, KBC NV received a subsequent increase in its long- and short-term credit ratings, while Picaros Funding LLC, Atomium Funding and Quasar Securitisation all experienced short-term increases from A1 to A1+, by S&P.⁸

⁵ Source: www.federalreserve.gov, January 2007

⁶ Source: www.ratingsdirect.com, January 2007

⁷ Source: www.ratingsdirect.com, January 2007

⁸ Source: www.ratingsdirect.com, January 2007

European equities

Our European desk in London saw overall balances remain static for the month.

News⁹

The global hedge-fund industry grew 21 per cent in 2006 from USD1.009 trillion to USD1.223 trillion according to the 12th Annual Hennessee Hedge Fund Manager Survey. The asset growth resulted from an 11.00 per cent increase in manager performance and a 10.00 per cent growth in new capital inflows. While the number of hedge funds grew by 10.00 per cent from 8,050 to 8,900. The survey, which had 440 hedge-fund respondents, also found that individuals and family offices are still the largest source of capital for hedge funds, comprising 40.00 per cent of total industry assets. Fund of funds represent 23.00 per cent of industry assets, 18.00 per cent of corporations, 11.00 per cent of pensions and 8.00 per cent of endowments and foundations. Also, more hedge funds are registered with a regulatory agent at 86.00 per cent, up from 61.00 per cent in the previous year's survey.

Worldwide equity loan volumes increased by 40.00 per cent in 2006 according to the ASTEC Consulting Group, while lending of portfolio securities rose by more than 31.00 per cent. The demand for specials showed no signs of weakening as the year came to an end. Equity specials made up 36.00 per cent of loan volume in November and December, up from 30.00 per cent in the

same period in 2005. Spreads on securities loans collateralised with cash rebounded in 2006. Based on the most recent audited reinvestment results, November was the seventh straight month in which equity reinvestment yields rose, relative to the Federal funds rate.

Europe¹⁰

During January, European stocks dropped from a six-year high after a surge in oil prices boosted concern that increased fuel costs at chemical makers and airlines would erode earnings.

European retail sales dropped for first time in 10 months as spending in Germany slumped, adding to signs that economic growth is slowing.

The Purchasing Managers Index, measuring retail sales in the thirteen-nation euro economy, fell to a seasonally adjusted 47.90, the lowest since February 2005, from 52.10 in December.

Active stocks

Merger and acquisition news

- Statoil agreed to acquire Norsk Hydro for GBP28 billion.
- PPR – speculation over hostile bid for Suez.
- Sanofi in talks to combine with Bristol-Myers.
- Sonaecom made USD14 billion bid for Portugal Tel.

- Tui – speculation that A.P. Moeller-Maersk may bid for company's Hapag-Lloyd shipping line.

Directional (long/short)

- Alitalia, a recall name in thin supply.
- Altran, a recall name in thin supply.
- Antena 3 recorded worst rating in 13 years, end of last year, in very thin supply.
- Conergy continues to be a major recall name.
- Fast Search, a recall name in thin supply.
- Premiere AG reported a second-quarter net loss of EUR138.8 million (USD178 million).
- Option continues to be a major recall name.
- Mobilcom share price hit five-year high (directional interest).
- Tiscali, in very thin supply.

Convertible bonds issued

- Actelion
- Tandberg Data
- Karstadt
- Sogecable

Sectors and markets in demand

Sectors in demand included Spanish utilities, Exchange Traded Funds (ETFs) and Real Estate Traded Funds (REITs), South Africa and emerging markets.

⁹ Source: www.isfmagazine.com, January 2007

¹⁰ Source: Bloomberg L.P., January 2007

Asia-Pacific equities¹¹

Australia

Our Asia-Pacific desk in Hong Kong saw that in January balances were up 12.26 per cent over December 2006.

The AS51 started the month at 5669.90 points, falling to a low of 5502.00 on 8 January before recovering losses to end the month up to 5773.40 points.

Active stocks

- Boulder Steel (SEDOL 6110572)
- Copperco Limited (SEDOL 6151441)
- Jabiru Metals Ltd (SEDOL 6207430)
- Fortsecue Metals (SEDOL 6086253)
- Ten Network Holdings (SEDOL 6108373)

China

The People's Bank of China is raising banks' reserve requirements for the fourth time in seven months in an effort to remove excess liquidity from the banking sector and cool the booming mainland stock market. From

15 January, banks will have to register 9.50 per cent of their deposits with the central bank, up from 9.00 per cent. In an effort to cool the market, the China Securities Regulatory Commission has quietly halted the launch of new mutual funds in recent weeks. Retail investors have poured hundreds of billions of yuan into mutual funds in just a couple of months.

Hong Kong

Balances in January were up 22.32 per cent over December 2006, according to our desk in Hong Kong.

Hong Kong's Hang Seng Index had a roller-coaster ride, starting the month at 19,964.18 points, rising marginally before falling to a low of 19,385.37 points on the 11 January. It then hit a high of 20,821.05 points on 24 of January before falling to end marginally up for the month at 20,106.42 points.

Active stocks

- Shanghai Real Est (SEDOL 6201830)
- China Everbright (SEDOL 6455143)
- Comba Telecom Sys (SEDOL 6651576)
- F E Consortm Intl (SEDOL 6331555)
- Jiangxi Copper Co (SEDOL 6000305)

Japan

In January, balances were up 0.84 per cent over December 2006.

The Nikkei started off at 17,225.83 points, falling with limited trading days due to public holidays on 1, 2, 3 and 8 January. It hit a low of 16,838.17 points on 12 January before recovering to hit a high of 17,507.40 on 24 January and then marginally falling to end the year at 17,383.42.

Asia-Pacific equities (continued)

Active stocks

- Privee Investment (SEDOL 6673547)
- Tobishima Corp (SEDOL 6893000)
- Altech Co (SEDOL 6042028)
- Eneserve Corp (SEDOL 6280624)
- Mitsubishi Pencil (SEDOL 6596763)

Malaysia

In January, Malaysia began to allow short selling of a limited group of company shares, lifting a nine-year ban imposed in the wake of the 1997-98 Asian financial crisis. The country, which had banned short selling to halt speculative sell-offs, will allow the practice for 70 selected stocks to boost foreign interest in the market. Under the new rule, owners of stock will get a 2.00 per cent return on lending a minimum of 50,000 shares to a central lending pool, with stock-exchange operator Bursa Malaysia as the counterpart. Among the 70 permitted stocks available for short selling are low-cost carrier AirAsia, gaming firm Genting and Digi.com (the small mobile telephone operator).

Singapore

In January our Asia-Pacific desk in Hong Kong saw balances were up 52.16 per cent over December 2006.

The Straits Times Index started the month at 2,985.83 points raising marginally, slightly falling to 2,961.15 on the 10 January before rising to a high of 3,150.24 points on 24 January before falling slight to end the year up at 3,125.56 points.

Active stocks

- Genting International Plc (SEDOL 6366795)
- Wilmar International Ltd (SEDOL B17KC69)
- Noble Group (SEDOL B01CLC3)
- Mediaring Ltd (SEDOL 6194026)
- Creative Technology (SEDOL 6207582)

South Korea

In January, balances were up 9.54 per cent over December 2006.

The KRX 100 started the year at 2,954.89 points and then fell to a low of 2,809.83 on 10 January.

South Korea, seeking to stem gains in its currency, eased restrictions on individuals and companies to allow them to invest more outside the country. The country would suspend taxes on income from overseas fund investments for three years and let businesses and individuals buy more offshore property, the Ministry of Finance

announced. The won surged 8.60 per cent against the dollar last year, threatening earnings for Samsung Electronics and other exports, whose sales make up 40.00 per cent of Asia's third-largest economy.

Active stocks

- Hanmi Pham Co (SEDOL 6146083)
- Hyundai Elevator (SEDOL 6411189)
- Hankuk Paper Mfg (SEDOL 6408578)
- Ottogi Corporation (SEDOL 6658373)
- Stx Corporation (SEDOL 6743310)

Thailand

In January, balances were down 13.98 per cent over December 2006.

The Thailand SET Index started the month at 679.84 points before falling after the new bombings to a low of 616.75 on 9 January, recovering to 660.71 points on 25 January and then falling moderately to end the month at 654.04.

Active stocks

- Major Cineplex Group (SEDOL 6614159)
- Ch Karnchang (SEDOL 6713670)
- Sino Thai Engineering & Construction (SEDOL 6541473)

¹¹ Source: Bloomberg L.P., January 2007

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