

Ductilibility, LLC

Crisis Sentiment Index:

*An updated assessment of the
current financial crisis by
senior risk executives*

February 21, 2009

NOT FOR EXTERNAL DISTRIBUTION

© Copyright, 2009, Ductibility, LLC

All Rights Reserved

Ductibility, LLC
401 Division Street South
Suite B
Northfield, MN 55057
USA

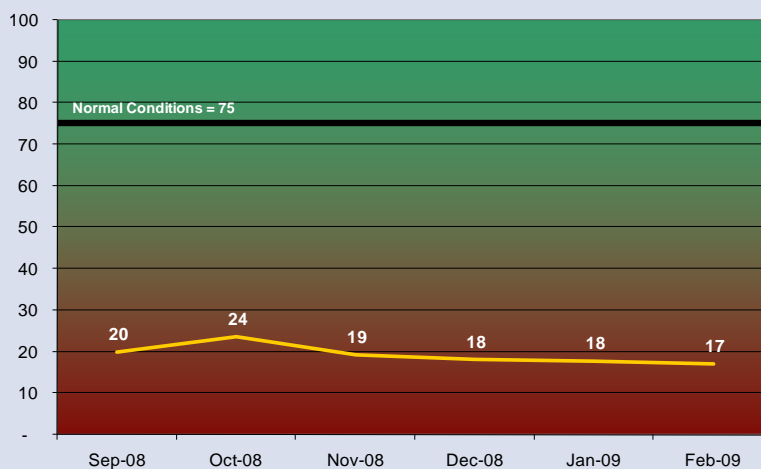
+1-507-301-3149

Executive Summary

The *Crisis Sentiment Index (CSI)* is a monthly assessment of the status of the current financial crisis by senior risk executives around the world. Reported on a scale of 0 to 100, a reading of 75 indicates normal conditions.

The Crisis Sentiment Index (CSI) for February 2009 reached a new low of 17, down from 18 in January. The transition of the crisis to the real economy, with impacts yet to be realized, seems to be a major factor contributing to the broad deterioration in sentiment. Sub-indices of the CSI indicate that a renewal of accelerating fear was an additional negative factor, with disappointment in testimony by US Treasury Secretary Geithner being cited frequently in comments left by respondents. Sentiment towards financial institutions generally remains highly negative.

Crisis Sentiment Index (CSI)



The CSI-Banking sub-index rose slightly to a reading of 10, from last month's reading of 7. The CSI-Insurance index rose to 15, up from 13, the month prior, but at its lowest level of any month except January 2009. The CSI-Hedge Funds sub-index remains mired in the single digits, falling back to a reading of 7, from a level of 8 the month prior. The least-pessimistic assessment applies to money market funds, with CSI-Money Markets at 26, up from 24 the month prior. Normal is 75.

This month we asked for comments on what has been most surprising in terms of the crisis, versus expectations of six months ago. We asked what worries respondents most. And, with a quest for positive news, we ask what gives them hope. Our respondents had much to say.

Full details are included in the body of the main report, which follows. Should you have any questions, please don't hesitate to contact me.

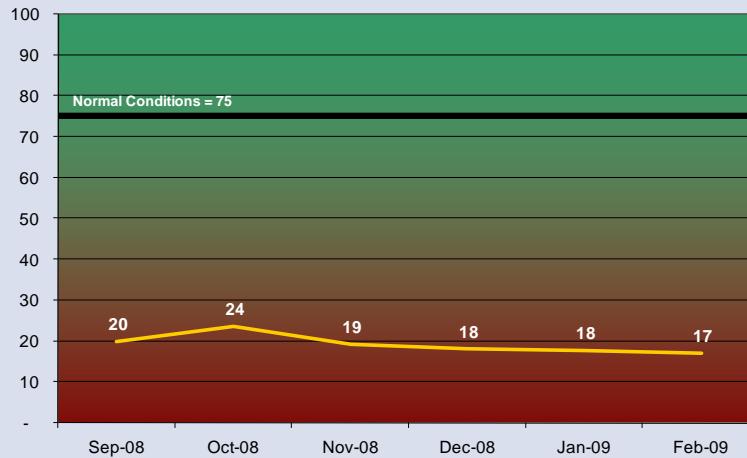
David R. Koenig

The survey was conducted between Wednesday February 18, 2009 and Friday February 20, 2009. Survey participants typically hold the titles of Chief Risk Officer / Heads of Risk Management, Board Director or other C-Level title. 103 firms are represented in this month's sample set and are typically among the largest 25% of firms in their industries. The sample set is primarily financial service firms, but also includes a number of non-financial companies. Respondents come from 21 countries, 50% from the Americas, 39% from EMEA and 11% from the Asia-Pacific region.

Credit Crisis Status

The Crisis Sentiment Index (CSI) is a weighted average of the results from standard questions being asked each month. The core assessment asks respondents to choose whether they feel the crisis is nearly over, that there are signs of improvement, that they are planning for a continuation of the crisis for the foreseeable future or that they expect the crisis to get worse.

Crisis Sentiment Index (CSI)



Sixty-three percent of respondents are planning for a continuation of the crisis for the foreseeable future, while 16% expect a worsening of the crisis. Both figures are higher than last month. Only one respondent felt that the crisis was nearly over, while just 1 in 5 said that there are signs of improvement, but risks that the crisis will worsen again.

Respondents cited risks to non-financial companies that are only just beginning to be realized, with fears of continued reverberations among financial companies and consumers. “The impact on the real economy, especially on defaults within the corporate and industrial sector, as real demand is adjusted to lower structural levels of credit and higher savings rates, have not yet begun and will become much worse,” said one European Chief Risk Officer. We note the article from the Economist earlier this month about the [collapse in the manufacturing sector](#) to-date.

Several comments were made indicating that early actions from the new US administration have not reduced uncertainty, and may, in fact, have made matters worse. Said one North American Chief Risk Officer, “Until details of the various Obama plans are communicated, the markets will be in a state of flux”. Another North American Chief Risk Officer concurred, saying “The [US] administration needs to move decisively before it loses any further momentum.” Singling out the new Treasury Secretary, this CRO continued, “Geithner’s lack of specifics and uncertainty about GM and Ford have not generated a sense of confidence.”

A Chief Investment Officer from the Asia/Pacific region indicates that “the perceived slowness of policy response in Washington and a reluctance to ‘bite the bullet’ on bad banks has caused risk aversion to rise again.” The Economist magazine was more [directly critical in its lead editorial last week](#), leading one to conclude that the sentiment is strong, and global, that the policy implementation in the US has disappointed. We note that since the Geithner press conference, equities around the world have fallen another 10% +/- a few percentage points.

Additional comments:

“Our position is stable, but it is clear that some of the larger [banking] institutions may yet see further significant losses. This could lead to further crises of confidence.” – European Head of Operational Risk

“The interbank crisis has stabilized for the moment. My biggest concern now is a deepening downturn in the real global economy, with a subsequent increase in default rates for corporate. This, in turn, will put more pressure on bank capital ratios.” – North American Credit Executive

“Improvements around the edges, but political actions are disconnected from the economic realities—that is a worry.” – North American Board Member

“The economic and firm-specific data are not only accelerating to the downside, but expanding geographically...government intervention is causing private investors to remain on the sidelines.” – North American Chief Risk Officer

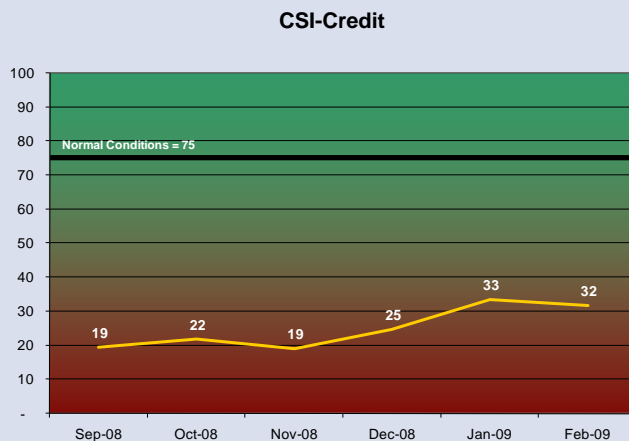
“With the exception of the two largest banks [in the US], other banks are not suffering from ‘toxic assets’ as much as the fallout from the economic downturn. In most cases, they have the capacity to lend. However, credit standards have, by necessity, been more selective.” – North American Board Member

“Commercial real estate problems are yet to be fully felt by banks, which may worsen the situation.” – North American Board Member

“...the crisis will end with a rebuilding of balance sheets with fundamentals and transparency.” – North American Chief Risk Officer

Availability of Credit

Our survey asks both credit providers and demanders of credit to tell us the extent to which they agree that credit has been made more available in the most recent weeks leading up to our survey. Conditions are generally unchanged from last month. While still quite far from a reading of 75, which would indicate normal availability of credit, the CSI-Credit sub-index fell only slightly to a reading of 32, down from 33 in January.



A Board Member from the Asia/Pacific region said “In our national market funds are still available to good projects and companies, but costs have got higher and scrutiny more rigorous.” A European Chief Risk Officer noted that his “business is expanding our offering of credit...in the Far East, whilst in the developed markets and Eastern Europe, credit is being tightened.”

One North American Board Member said “we are clearly ready to lend, but

credit quality is an issue as the downturn has affected more individual and corporate financial positions.” Another North American Board Member notes that “community banks continue to lend and to see strong demand.”

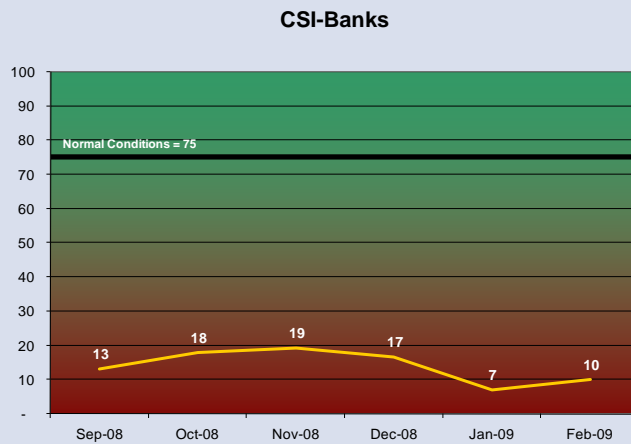
Finally, one European Head of Operational Risk said “there’s still a squeeze. [It’s] not improving, but it isn’t getting any worse though.”

In our study, 14% of users of credit report that conditions have improved, while 38% say that they have not. Of those providing credit, 17% report expanding the credit which they make available, while slightly more than one-quarter say that they are not making credit more available. These numbers are modest improvements from last month. However, the overall negative sentiment in the study’s core question still drew down the CSI-Credit sub-index.

Industry-Specific Assessments

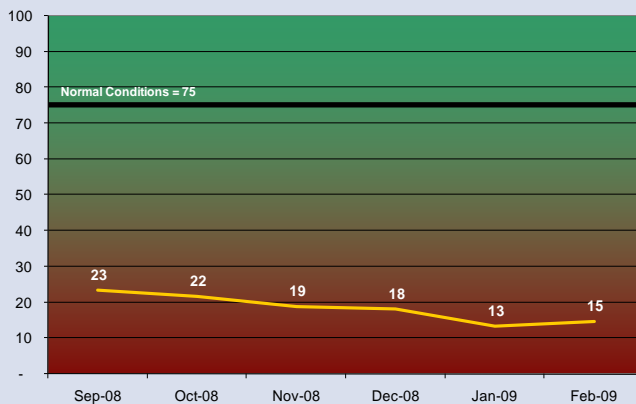
The CSI-Banking sub-index is a weighted index of sentiment as expressed via a specific question about the likelihood that at least one major bank will fail or be taken over as a result of the crisis and the primary question of the survey.

Everyday seems to bring a new headline about the imminent nationalization of a major bank, or surprising losses affecting the stability of individual institutions. Given this environment, it is of little surprise that the CSI-Banking sub-index remains mired at extremely low levels. In February, it registered a reading of 10, up from 7 in January, but lower than all other months since this study began.



More than 85% of respondents expect that “at least one more major bank will fail or be taken over as a result of the crisis”, while 8% disagreed.

CSI-Insurance



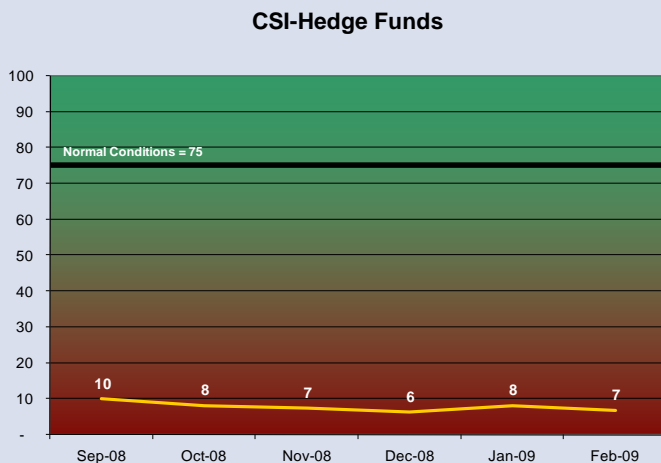
Said one Chief Risk Officer in the Asia/Pacific region “Nationalization of at least Citi, BofA, RBS, Barclays, Commerzbank, Santander, Credit Suisse/UBS looks almost inevitable.”

Similarly, the CSI-Insurance sub-index is a weighted index of sentiment as expressed via a specific question about the likelihood that at least one major insurance company will fail or be taken over as a result of the crisis and the study’s primary question.

This sub-index has been in decline

every month through January, but up-ticked modestly in February to a reading of 18, still well below a ‘normal conditions’ reading of 75, and clearly reflecting a high degree of pessimism about insurance company prospects.

The percentage of respondents who agree or strongly agree with the statement that “*at least one major insurance company will fail or be taken over as a result of the crisis*” is close to 80%. Just 10% of respondents disagree.



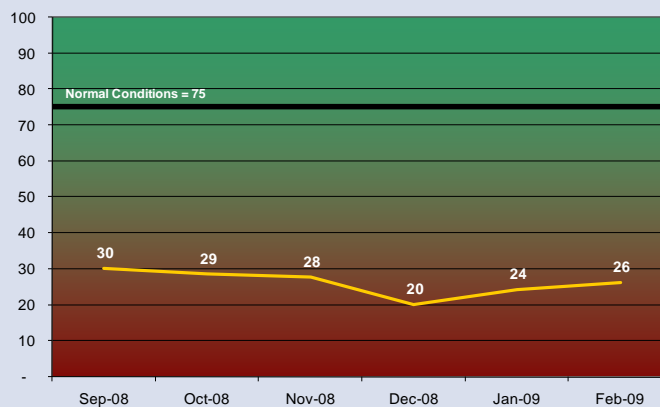
In February, the CSI-Hedge Fund sub-index remains extraordinarily negative at 7. That reading puts the subindex below 10 for the fifth month in a row.

Sentiment regarding the likelihood that another money market fund will “break the buck” has improved for the second month in a row. The CSI-Money Markets sub-index rose to a reading of 26 in February.

One North American Board Member believes “the liquidity crisis is past for [money market funds]”.

To no surprise, comments left by respondents regarding financial institutions are highly negative. One North American Chief Operating Officer stated “there still exists profound ignorance among both industry professionals and public officials as to how deep this problem is.” In agreement, a European Chief Investment Officer notes “most pros are living in a state of denial, discounting 2008 as another tsunami-style outlier. At the outset of 2009, few pros would have called this year as another back-to-back down one and recovery was viewed as due by divine birthright.”

CSI-Money Market Funds

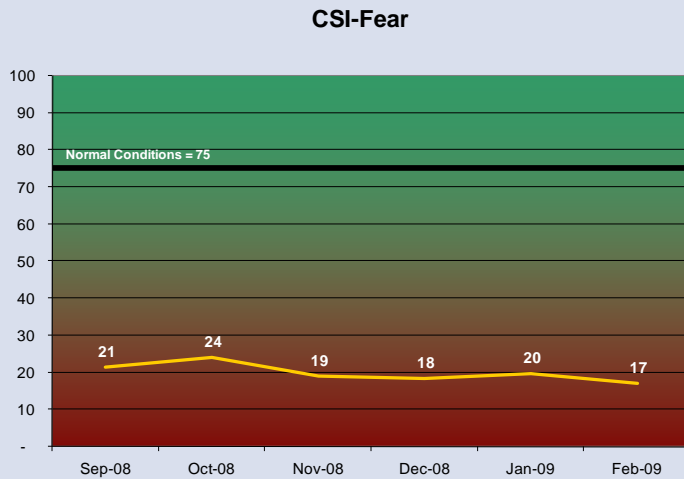


Fear

Each month we ask whether fear is growing among market professionals and the public. The assessments indicate a return to the faster acceleration of fear among professionals and the public that had been seen late in 2008. After having risen slightly in January, the CSI-Fear sub-index has fallen to a new low of 17.

Fully 87% of respondents strongly agreed or agreed that fear is growing among the public. A strong majority, 58%, felt that fear was still growing among professionals as well.

As with the industry-specific sub-indices, a reading of approximately 75 on the CSI-Fear sub-index would indicate normal conditions in the market. As noted in previous months CSI-Fear and CSI-



Credit are expected to be two indices which need to improve first before there will be a general improvement in sentiment towards the crisis.

A cry for help from one North American Chief Risk Officer was logged, saying “the cycle of fear must be broken and someone who is fearless must step up to the plate and instill courage and confidence in our system of markets.” Continuing on that theme, “we need leaders – real leaders in whom the public and the markets can

believe.”

A North American Board Member said “I think the public is plenty worried, but that concern is probably more related to loss of jobs than to the condition of the financial sector.”

If a reduction in fear, or even a slowing of its acceleration is needed for a rebound, responses this month suggest that we are a long way from the end of the crisis.

“Delta” Crisis

We asked respondents this month to reflect back on their expectations for the path the crisis would take six months ago, thinking about what has most surprised them, what causes them the most worry and what might be giving them hope.

Perhaps there is a need for some cathartic exercise like this as nearly 75% of respondents shared a comment with us on this subject. All responses are contained in the Appendix.

Conclusion

What more can be said than to note that the CSI has reached a new low? It is clear from the comments left by participants that there is great disappointment with the political leadership in this crisis with many seeing some of their hope for true leadership from the new US administration lost following the press conference by Treasury Secretary Geithner.

Some respondents have given us items in which we might find other hope. But, it is fair to say that most are done hoping and want to see some real evidence that the crisis has bottomed.

We will update our assessment again in one month’s time to see if things are better then.

In the meantime, you can discuss this report online in the [LinkedIn Directors and Chief Risk Officers Group](#).

Appendix

Questions in the Survey include the following:

1. As you prepare for your work, which one statement below best characterizes your approach regarding the current credit crisis:

- I believe the crisis is nearly over
- Conditions are improving, but, there is a chance that the crisis will worsen again.
- I am planning our risk management activities for a continuation of the credit crisis for the foreseeable future.
- I am expecting a worsening of the crisis.

2. Please tell us your agreement or disagreement with the following statements about the next stages of the current credit crisis (Strongly Agree, Agree, No Opinion, Disagree, Strongly Disagree):

- At least one more major bank will fail or be taken over
- At least one more major insurance company will fail or be taken over
- A major hedge fund will close
- Another major money market fund will "break the buck"
- Fear among market professionals is growing
- Fear among the public is growing

3. My company is a credit provider and we have been expanding our offering of credit to customers over the last few weeks (Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree)

4. My company is a user of credit and we have experienced an improvement in the availability of credit to us over the last few weeks (Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree)

5. Reflecting back six months or so on your expectations for the path this crisis might have taken, what about the current state of affairs is most surprising to you? What is of most concern? What gives you the most hope? (Feel free to address any of these, or all three)

Responses to Question 5

"Most surprising - level of sanguinity still around some Asian financial institutions. Most concern - level of denial among some Asian bankers. Most hope - new Government in the US (but only a glimmer)"

"Governments have not learned from History of how to fix the problem is both the most surprising and of most concern."

"concern: the lack of confidence from consumers and corporations and the lack of ability and/or willingness of banks to finance new investments"

"Banks are only just beginning to feel the pain from the downturn in the real economy. There is also real concern in W. Europe over bank exposures to Eastern Europe. "

"Governments have shown they are willing to support banks at almost any cost, but can Governments really afford to keep injecting capital as losses continue to mount?"

"The level of uncertainty that remains over the losses that some firms may yet experience is a concern. However falling interest rates and house prices should help to stimulate borrowing and spending over the course of the year - providing that unemployment does not rise too high."

"The search by politicians and regulators for scapegoats!"

"Current state: Despite all the money poured in by several governments, no improvement seen whatsoever. Most concern: The swinging of statement by politicians, 3M ago in Europe it was mild economic downturn, and we are well positioned. Now they ring alarm bells quite hard, people losing faith in their leaders. Eastern Europe shows major downturn, currencies fall, will this become the next wave of serious bad news for Banks?"

"The deterioration of the economy is worse than expected. Lack of visibility in terms of the outlook of the public policies is still uncertain. Another leg is possible in the next two quarter."

"Rising unemployment is the biggest issue."

"The inability of governments to start project spending quickly."

"The time it has taken for the market to fall has been longer due to the lack of liquidity. The distance that it has fallen has been subdued due to lack [of] liquidity, which has made this crisis prolonged and will continue to do so. The volatility and frequency in FX movements is absolutely surprising."

"My hope: The change in the US improved the future outlook significantly and was as expected. It's a pleasure to see how the measures are implemented and improve the markets outside of the UK already. The share values of companies reflect the effective values and give investors a good point for medium and long term investments in the future industrial landscape. The innovative program in the US will drive the related industries and early investors will be rewarded."

My concern: The UK government showed in agreed bonus payments to privatized UK bankers that the people involved in the Government in all levels are to remote to the processes in the financial industry. It documents again the missing willingness to cooperate with 'mainland Europe' (especially Germany and France) and to follow the European ideas to tackle the post crisis period in Europe.

Unfortunately will that effect Europe as a whole and it will be required to increase political pressure on the country to achieve a political change. --- I am depressed if I need to think about the outlook for the UK."

"There will be a need to set up a 'bad bank' system in order to address the issues in the banking sector - equity infusions will not be the answer due to continued deterioration and dilution caused by the de-leveraging."

"My greatest hope is that a generation of younger people learn that they cannot always count on job security, a steady 3% GDP growth rate, high asset returns and leverage. My other greatest hope is that the investment banking model is finally put to rest."

“The most surprising thing is that the banking industry has yet to fully address their balance sheet issues. They are afraid of what their troubled assets might actually be worth. I had thought by this time the major bankers and the government would have gotten together to come up with a comprehensive plan. This is a lack of leadership and will have negative consequences.”

"Most surprising is the speed with which it has happened - I expected the crisis two years ago but not to develop as quickly as this. Most concern comes from the potential for socio-political unrest fomented by decimated economies. Most hope, if there is any, comes from the new US administration giving a justification for 'new' talks with all countries and interest groups without being burdened by recent history."

"Areas of most concern: nationalizing banking and auto industries, out of control government spending, continued lack of consumer and investor confidence. I am concerned by the spiraling effect of the credit crisis. Washington seems to have little regard for economic history and how fiscal and monetary policies have helped or hurt in the past. The negative rhetoric from the President is alarming, serving to politicize this financial situation rather to provide leadership.”

“I am surprised that so many companies’ financial conditions were so precarious. I guess many companies were as over-leveraged as individuals.”

“It is difficult to have hope except that we do know that at some point, we will come out of this crisis. No leadership has been provided by any government or business person and until someone steps up and takes clear, decisive action we will remain in a state of doom and gloom.”

“Very surprised to see Federal Home Loan Banks in the current state of peril. Their MBS holdings were considered more sound than Fannie & Freddie six months ago.”

“The country -- and the world -- is desperately seeking the ‘floor’ of this financial crisis. Once the market agrees that we've hit it, we can start building from there.”

"The [severity] and pace of the crisis, due to transparency + information (technology) + free capital flows + globalisation. Most concern is the huge liquidity in the market creating immense risk of inflation in the near future. Impairments will come to an end this year."

“I am most surprised by the extent to which the interbank crisis has spread to the global economy. This is further exacerbated by what I believe to be excessive layoffs. Corporations are trying to remain earnings positive at all costs - even if it means cutting into the bone.”

"Lack of leadership - someone(s) to be fearless and instill same in the public and markets. Also a concrete, well thought out plan of attack without over regulation and its related cycle of regulate for the past crisis and not anticipate the future. Also, the concept of paying bonuses to those who caused the problem for fear that they will lose these employees. Where are they going to go? They have jobs now so that should be enough."

“I do not mind regulation, but fear over regulation is fast approaching. It should be more of efficient regulation than just regulating for the sake of having regulations.”

"Most surprising: Credit tightening still from Banks having received bailout funds. Most concern: Resistance from major banks to ease their lending to commercial customers. Most hope: Banking executives with curtailed income will move out and find another industry to ravage."

“The poor response of the US Treasury in both the Bush and Obama administrations.”

"I am surprised at the depth of the cutback by retail customers at all socioeconomic levels. I am surprised that we are months into the crisis and there is still no plan to remove tainted assets from bank balance sheets. My greatest concern is that the administration seems to have no plan to deal with the bank balance sheets and the availability of credit. The downsizing of American consumer appetite is overdue and will eventually lead to a more balanced and productive society."

"Most concern -- the government is 'in charge', but doesn't seem to understand the issues or how to resolve them. Most hope -- the resiliency of the markets and the American people."

"I am concerned about the cost of the bailout package on the debt level of the US. I do not believe anyone has really thoroughly considered this. I am also concerned with the impact that the media has on sensationalizing this crisis. On a positive note I see Warren Buffett buying a lot of debt and I see fundamentals in local markets relatively steady."

"The continuation of political disconnection from economic realities is disconcerting (and potentially very expensive in several dimensions)."

"First, the country's lurch toward socialism. Newsweek's recent cover titled "'We're All Socialists Now'" speaks volumes. Second, the revelation that public officials really have no idea what they're doing. Congressional banking committees are ignorant as to either the roots of or solutions to the crisis; and, Fed and Treasury officials are clearly improvising. Third, the rush to judgment. Rather than a 'first, do no harm approach' Congress is adopting the attitude that Something Must Be Done. Passing the TARP when the great majority of the public was against it and passing the stimulus bill without having even read it are but two examples of a Congress with little accountability to the American people they claim to represent."

"Reactions are relatively slow, and lacked credibility. In Europe, it looks like that all count on the US because excess government spending reach around a third of US government spending. The economic crisis has not reached its peak yet and will develop until at least end of semester. Financial markets remain disrupted: Look for oil prices, very low, and forward contracts are being rolled over each month, expecting a rebound, which does not occur, creating a decorrelation between spot and forwards. The consensus on equity markets is for a downside at least until end of month, probably again in March."

"No good news, only bad news"

"What is most surprising to me? Probably such polarization of opinions regarding to the crisis. First extreme opinion says: 'The crisis will not come to us, as our economy will stay there as the Island of Safety' and second one says: 'There is nothing to do, because the crisis will come to us and will be such fury, almost any company will not survive.' Only minimum of opinions say the crisis will mean something between (some economy damages but some opportunities as well)."

"Most surprising: impact of consumers on downturn; how much deleveraging of consumer credit is taking wind out of economy. Most concern: stabilization of confidence at all levels. Most hope: it can only go basically up....."

"Surprising: how little people - particularly politicians - have learned from past crises (or maybe it should not be so surprising, after all!). Concern: haphazard announcements and programs worth billions as if announced by mostly headless chickens going around. Hope: Risk is finally being re-priced and expectations are being readjusted, albeit very slowly."

“I was not surprised that credit was easy and that some countries (especially the US and UK) were experiencing a massive housing and consumer credit bubble. But it's been surprising that the problems spread around the world and has seriously affected countries like Japan, South Korea, and China. It's also been surprising at how slowly everything has happened. I first started reading about easy credit and subprime mortgages in 2005-2006 and it took until the fall of 2008 before global equities had a significant reaction. My primary concern is that the duration in years of this crisis will dwarf anything we've ever seen before including the Great Depression. My hope is that government will switch gears and allow housing prices to fall and banks to fail so that private capital will assist in a faster recovery.”

"1. I anticipated a major recession, but the trajectory has been deeper and faster than anyone I know anticipated. 2. Biggest concern is how the government handles the financial sector. With the exception of Citi and Merrill (BofA), the primary contributors of toxic assets have disappeared. However, the prospect of punitive bailout measures (e.g. forcing the cancellation of dividends), government regulation, and FAS 140 treatment could make the problem very much worse. The potential savior of the banking system could turn into it's destroyer. 3. Of most hope is that the adjustment problem is well underway. If we could only hit bottom, we could probably live with lower activity for awhile before things recover."

"Surprising: 1).To date the Treasury has yet to quantify the losses still held at financial institutions. 2). No movement toward removing the toxic assets; the actual cost of saving the banking system. Concern: 1). The actual cost of the banking system might far exceed the money approved to stimulate the economy.2). From my math, if no additional stimulus is needed, I am only able to account for buyers of \$1.6b of treasury supply, leaving another \$400b (the amount of 2008's previous record funding needs) to be absorbed by who? Hope: Hillary proves to be an excellent emissary to China & talk of protectionism dies down."

“No model to restart growth”

“It has been a contributor to a recession which may not rebound as has been the historical norm. Thus, consumer spending could be in the tank much longer. Access to credit continues to be problematic for consumers and companies. Lending (credit availability) is still frozen in many cases.”

“The pace at which things have deteriorated and the fact that Governments appear to be helpless in curtailing this crisis. What is of most concern is the vicious circle of job losses, lack of consumption leading to more job losses. Falling house prices (and depleted savings) are not helping either. The “little” hope that I have is that just like none of the experts saw this crisis coming, perhaps none are seeing the recovery that might just have started somewhere on a remote island in the Pacific ocean!”

“The most surprising thing remains the 'safe haven' status of the dollar despite the crippling debt issuance still to come to finance the bailouts. This appears to be being driven by a race to the bottom in terms of interest rate policy. Unfortunately there are worrying signs that the unraveling of globalization and populist trade barriers are next with potentially disastrous consequences. Ultimately the dollar will have to depreciate by at least 50% over the next 5 years.”

“Most surprising and of most concern is the lack of detail concerning government actions to address the market and economic issues that has been made available from the new administration.”

“The wide spreads are more of an opportunity than a risk but do we have the [guts] to take advantage of them?”

“Surprised by the extreme measures being taken by our Government - and I'm concerned that we're only prolonging the pain.”

What surprises me is the fact that the bailout money does not seem to have had any effect on the investing public's outlook. One of the purposes was to shore up confidence, and I don't think that has happened yet.”

“Key to the crisis is the US housing market where continuing increases in foreclosures pressure housing values down and leave the mortgage market largely frozen. The current Housing Plan should help halt new foreclosures, which should help stabilize values, bring new buyers into the market, and help MBS valuations. However, a big concern is the discussions around changing mortgage contractual terms. Allowing courts to modify contractual terms leaves investors with unpredictable outcomes and could seriously damage the future of MBS and all securitization markets.”

“Beyond Credit, liquidity, and real estate, i believe it is a crisis of integrity and trust.”

“I continue to worry most about the governmental response. The government needs to find ways to facilitate a functioning private market, especially for the severely stressed assets. Until a private-market clearing price mechanism is found, the credit crisis is unlikely to be alleviated.”

“The government's current approach, which appears to be ‘scare the hell out of people in order to restore confidence’, would seem at best logically flawed. At worst, it would seem that some in government saw an incentive in making the crisis worse (at least temporarily).”

"Most surprised with the speed with which it hit. Most concerned about the time needed to recover from this (maybe decades).Most hopeful about the possible outcome given the extensive coordination across the G10 for monetary and fiscal stimulus."

"It has passed the tabloid newspaper test. Once a macro economic issue is being discussed in the tabloid media daily you know that it has engaged not only those for whom it is their job to analyze the credit crisis but has engaged every corner of society.The same could not be said for the Asian financial crisis or the 1987 stock market crash."

“I see no ‘unfreezing’ of credit despite cash-hording and thus available resources to lend all government rescue-programs have so far not shown the expected results. Contrary, a large portion of these funds have evaporated. Therefore, I could imagine, that in the months to come we will see major turmoil & changes in the finance industry - strong impact to the real economy following.”

“What is of greatest concern is that there is still a great deal of denial.”

“That banks have continued to find more toxic loans rather than declare all the bad news at once - for example the BofA announcement of losses in Merrill Lynch”

"Of most concern: Governments have yet to find a solution to clean up the balance sheets of the banks, without which the sordid state of affairs will likely continue.”

"Of most hope: The worst of the liquidity crisis appears to be over and markets are just about beginning to function normally, with equity markets trading on fundamentals and not technicals."

"Most Concern: The lack of government leadership in the UK to the extent that we are heading towards depression like conditions and Gordon Brown is not seen enough demonstrating positive messages to the people and inspiring the confidence which is lacking in these times."

"Hope: Banking clients of ours are now hiring, they are reporting to us that they have great Q1 figures so far and that they believe that prices have stabilized at the bottom. I also know of a number of distressed funds that believe this to be the case and are poised to invest in May."

"Surprising (partially, because it is in human nature to be like this): blindness of most market participants, both regulators, banks, insurance companies, commercial companies and individuals. Of concern: deepness of mistrust between market participants and of market participants of market recovery, misuse of TARP and similar funds in the exactly the similar way that led to actual crisis. Hope: market will self adjust while governments will pass laws and inject funds, and cash rich entrepreneurs (individuals, funds and companies) will speculate opportunities."

"Most concern: would be that we have not yet seen the bottom of this crisis, and would expect it to get worst in most countries before it get better."

"Most hope: some coordinated Gov't responses to the recession, although not as strong as it should be in the EU,"

"Most concern = Credit card. US gov need to nationalised 2 banks"

"6 months ago: I thought that the credit crisis would be a lot worse than the way events unfolded to date. Fears: Rescue packages and plans may take longer before we see any affect/impact. - Profit taking by scrupulous investors in this uncertain times. Hope: Actions taken in terms of the rescue packages and plans will start to improve the current situation."

"A wave of sovereign defaults would really upset the applecart now ... provided that doesn't happen (or is managed), we could actually be through the worst from the financial asset perspective, although the underlying economies will take 2-3 years to recover, some of them longer."

"I am from Spain and the only thing that I am sure is that the crisis in our country will continue until 2012, at least, and Spain completely is going to be very, very affected to this, so fear is growing in almost all the sectors."

"1. Experts do not know what buttons to push. The integrated nature of the global economy has destroyed all known models and the new ones are still under development!!! 2. Continued political emotional manipulations. If the establishment continues to predict crisis, crisis will be. 3. The markets pessimism will actually drive the self correction. The sooner the bottom is reached, the faster the turnaround will begin."

"Somewhat unfounded fears (fueled by media coverage eg: CNBC) are metastasizing into real negative impacts on economy. Surprised there is not more support for the bad bank concept, that (or similar activities) have worked before."

"The situation is of gigantic proportions and complicated. I suppose I should not be too surprised that the effort or achievement of politicians in understanding it all and helping lead our way out has been so poor."

"The scale and speed of decline of the industrial sector is unprecedented. Banks have spent most of their time on their own near-term recapitalizations. If insufficient time is spent by banks on how best to assist in the survival of industry, it may well be cast as the next failure of banks in their traditional role as advisors to business."

"Inappropriate use of 'bailout' money."

"The speed of the decline and the breath of the financial distress is the biggest surprises. Given the small percentage of distressed home mortgages the only cause must be leverage in excess of the underlying assets as collateral."

"Surprising: Lack of coherent government action; unwillingness to let losses hit capital all at once. Concern: Short term impact on the economy of inevitable bank failures and difficulty of reversing the economic death spiral. Hope: We are one year into a three year recession already"

"Deleveraging will take time."

"Things will get worse before they get better. It is not yet over for banks more investment is required or banks are nationalized."

"The continued collapse in the stock market and the significantly faster deterioration in unemployment are the two biggest surprises to me."

"I am equally surprised and concerned at the number of well run businesses that are affected by secondary issues (especially lack of credit). I am hopeful because there are signs of increased capital raising activity and renewed equity inflows. I have no idea how to view the investments by Chinese government owned firms in overseas economies (other than as a novelty)."

"- most surprising: how deep and widespread the crisis is. Most concern: disorganized answer by governments. Most hope: the cyclical nature of economies ie it knowledge that it will last only for so long"

"There seems to be no normal news for the newspapers to report on. Financial Times seems to hope the crisis will get worse and worse."

"Surprise and concern: the sharp decline of international trade, which has not been triggered by protectionist measures. No hope yet. Politicians do their best in these circumstances, but don't have a golden bullet either. A change in expectations is what is ultimately needed, but few leaders have the credibility to make that happen. Hence, it will have to be a bottom-up process, but that takes time."

Ductibility, LLC

A private research initiative serving the governance needs of Boards of Directors and senior executives.

Contact:

David R. Koenig
Principal

email) david.koenig@ductibility.com

telephone) +1-507-301-3149

fax) +1-480-247-4773

skype) [david.r.koenig](https://www.skype.com/people/david.r.koenig)

videoconference) <http://199.199.129.246>

web) <http://www.ductibility.com>

NOT FOR EXTERNAL DISTRIBUTION