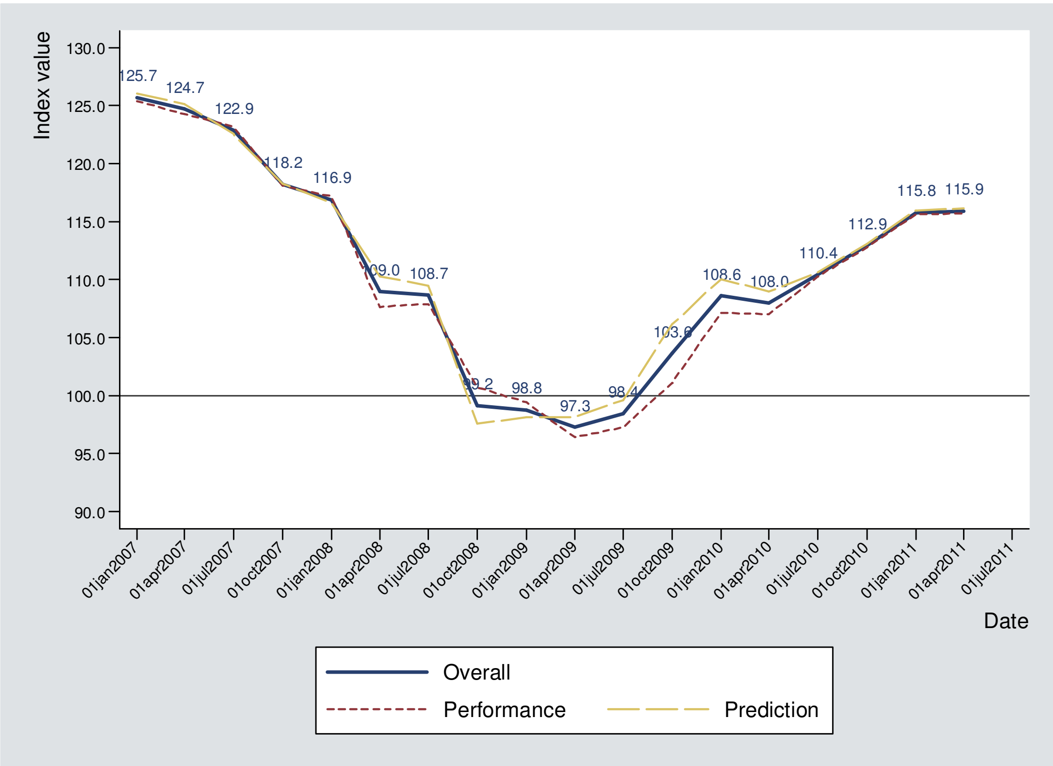
Press release

CFS Financial Center Index maintains its high level

Financial services providers remain optimistic / Banks slightly more hesitant / End to Euro crisis not expected

FRANKFURT, 19 April. The business sentiment in Germany's financial sector continues to be positive. The CFS Financial Center Index stayed flat in the second quarter, gaining a mere 0.1% compared to last quarter's value (115.9 points vs. 115.8 points).

Figure 1:



The different groups of participants in the survey (financial institutions and brokerage firms, financial sector service providers, supervisory and academic institutions, connected enterprises) demonstrate diverging trends in the four index components (transaction volume, profits, employment, investments).

The situation of the *financial sector service providers* continues to be very good. Despite falling short of their expectations, they report a further rise by 2.9 points. Especially investments and employment have considerably increased (+7.2 points and +3.9 points). Concerning the next quarter, the outlook is bright, as well (125.5 points expected for Q2 2011 compared to 120.5 points for Q1 2011).

The *financial institutions*, however, are less optimistic. After substantial rise in the last quarter, the figures have slightly (-2.6 points) declined, with revenue going down by 4.2 points, yet investments showing a minor increase. With 111.6 points the expectations for the second quarter are just below the performance of the first quarter (112.3 points).

The two other groups – the supervisory and academic institutions and the connected enterprises – have surpassed their expectations by 7.4 points, particularly as investments have risen considerably.

In addition, the sentiment about the importance of Germany as an international financial center has weakened significantly (-12.5 points). "To a great deal this could be related to both the discussion about the upcoming stock exchange merger and the uncertainty concerning the structure of the German banking sector," explains CFS Director Jan Pieter Krahnen.

EU resolutions not sufficient

In the special survey, the majority of the participants (80 %) continues to believe that the Euro crisis will last beyond 2011 and is yet to be resolved (see Figure 2). However, compared to the previous survey, there has been a substantial change in the thinking on the further course of the crisis: whereas in January an almost equal high percentage of panelists envisaged the crisis to continue or deepen further (40% and 39% respectively), there has now been a shift in sentiment towards continuation (now 54%) and away from crisis deepening (23%). "One of the reasons why the financial sector remains cautious could be the lack of credible sanction measures", explains Krahnen. A majority regards the penalty mechanism as not sufficiently automatic (70%) and as politically not enforceable (65%).

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Haircut could affect both banks and the taxpayer

When confronted with the question, who would and who should pay in case one of the EU member states is enforcing a haircut on its bonds, the answers from the panelists show considerable differences in their expectations and their personal preferences (see Figure 3). About 2/3 of the panel believe that banks should cover the costs. This applies – albeit to a lesser extent (55%) - also to pension funds, private investors and insurance companies. Only 1 out of 5 respondents was of the opinion that the taxpayer should step in. “According to the panelists, banks and other institutional investors should step in to prevent the taxpayer from being shackled with costs,” explains Krahnen. However, if a haircut would indeed be enforced by an EU member state in distress, the majority of the panelists expects the taxpayer to cover the costs (60%), while only a narrow majority foresees that banks will be making write-offs. According to the panel, pension funds, insurance companies and private investors are least likely to cover the costs (35-40%).

Figure 2:

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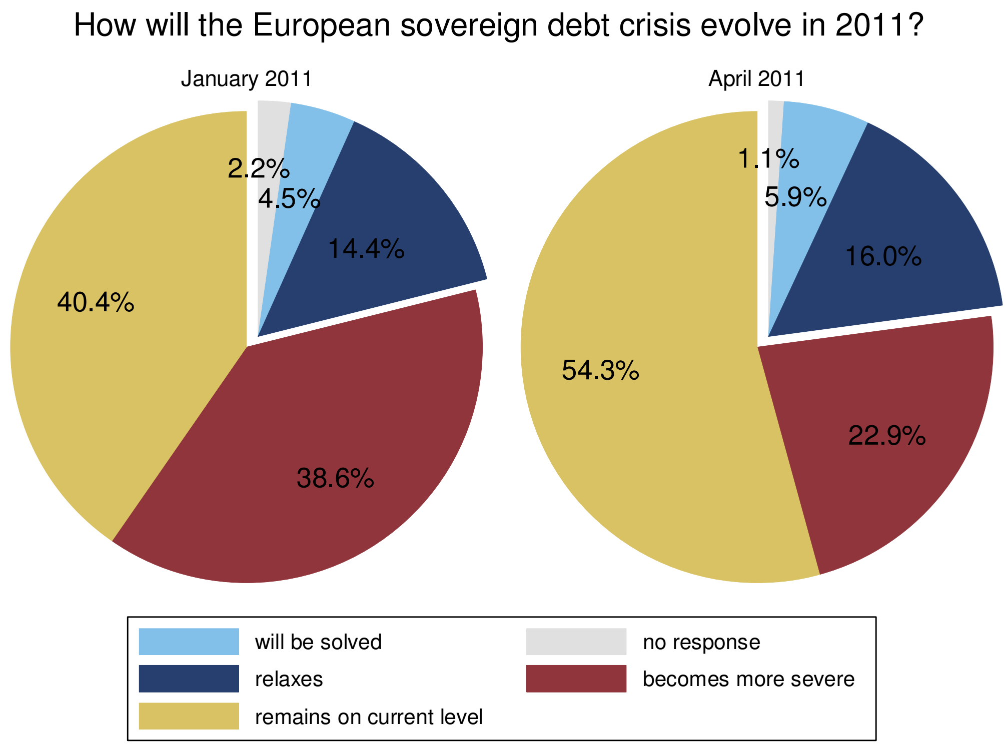

Figure 3:

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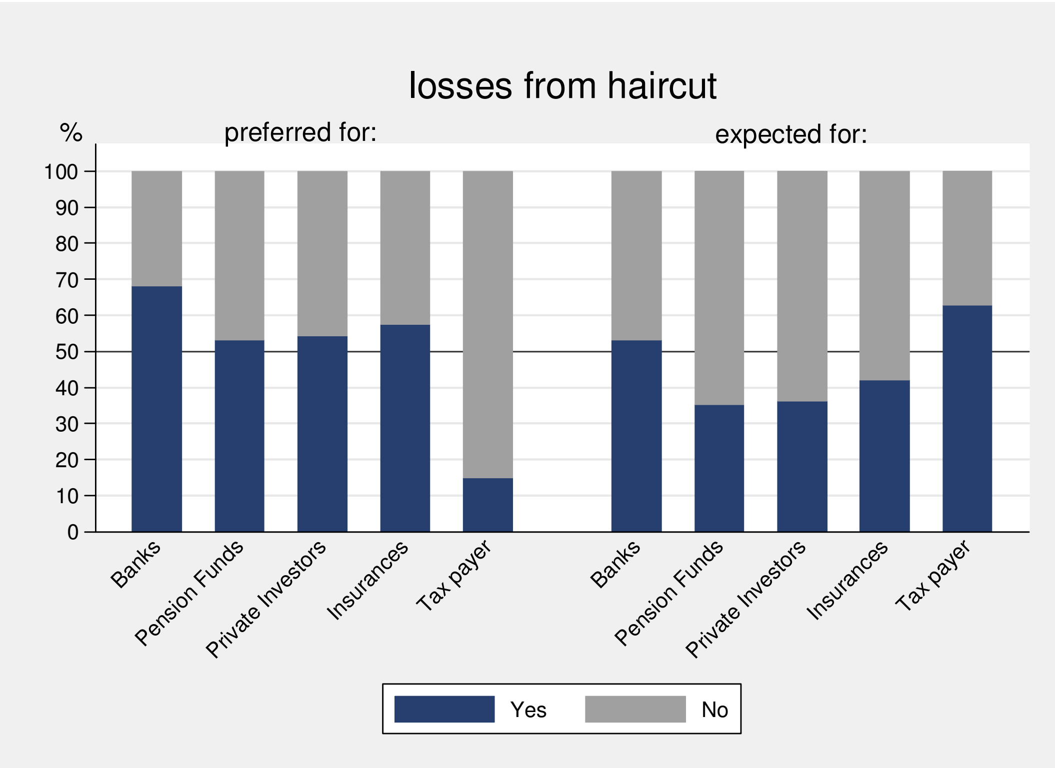

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CENTER FOR FINANCIAL STUDIES

Press release

Index calculation of the CFS Financial Center Index

The CFS Financial Center Index is based on a quarterly management survey of currently 400 enterprises of the financial center of Germany. The survey contains four questions about the participant's view on different business parameters (transaction volume, profits, employment and investment in product- and process innovations). The answers to the questions may be given as "positive", "neutral", or "negative" and a response is requested for the previous and the current quarter. The index is compiled from different sub-indices, as all participants are allocated to branch-specific groups. Within each group, a balance of the share of positive and negative responses is evaluated and transformed into performance data. These performance data are then aggregated in order to constitute the CFS Financial Center Index. Due to construction, the maximum index value is 150, the minimum index value is 50; a value of 100 signalizes a neutral business sentiment. The survey-panel consists of enterprises and institutions of the financial industry and selected companies, which profit from the financial sector.

History and Future prospects

The CFS Financial Center Index is part of the Hessian project "Financial Center Monitoring", which is to measure the competitiveness of the financial center of Germany in a European context. The project is supported by Helaba, the Landesbank Hessen-Thüringen. More information about the CFS Financial Center Index, e.g. an overview of the survey and a broad definition of the German financial center can be found at: www.financialcenterindex.com.

Profile CFS

The Center for Financial Studies (CFS) is a financially independent research institute, affiliated to Goethe University Frankfurt. CFS conducts independent and internationally-oriented research on financial markets, financial intermediaries and monetary economics and interacts as the German partner with other international research centers specifically on the subject of financial market architecture and the role played by banks and stock exchanges. President of CFS is Prof. Dr. Dr. h.c. mult. Otmar Issing. Chairman of the supporting association: Dr. Rolf-E. Breuer. Overall management of the institute is conducted by the directors Prof. Michael Haliassos, Ph.D., Prof. Dr. Jan Pieter Krahnen, Prof. Dr. Uwe Walz.

Profile Frankfurt Main Finance

In Frankfurt Main Finance, the financial industry, the State of Hesse, the City of Frankfurt, as well as scientific institutions and the services sector have joined forces in order to strengthen Frankfurt's position in competition among the world's financial centres. Frankfurt Main Finance has 27 members: Bankhaus Metzler, Commerzbank, Corealcredit Bank, Crédit Agricole Cheuvreux, Close Brothers Seydler Bank, Deutsche Bank, Deutsche Börse, Deka Investments, Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA), DWS Investments, DZ Bank, Fides Falk Financial Services, Frankfurter Sparkasse, Frankfurt School of Finance and Management, Frankfurter Volksbank, GFT Technologies, Helaba Landesbank Hessen-Thüringen, House of Finance, ICF Kursmakler, Interxion, the State of Hesse, Lupus Alpha, Morgan Stanley, dr P. Keppler Verlag, Roland Berger Strategy Consultants, Royal Bank of Scotland, the City of Frankfurt, Steigenberger Frankfurter Hof, Tata Consultancy Services Deutschland, UBS Deutschland, vwd Vereinigte Wirtschaftsdienste, White & Case, WHU – Otto Beisheim School of Management and Wolfgang Steubing AG.

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For further information, please contact:

Florian Hense Center for Financial Studies Goethe-Universität Frankfurt House of Finance Grüneburgplatz 1, HPF H5 60323 Frankfurt am Main	Tel.: +49 69 798-30090 Fax: +49 69 798-30077 E-Mail: hense@ifk-cfs.de www.finanzplatzindex.de www.financialcenterindex.com
Josef Schießl Frankfurt Main Finance e.V. c/o NewMark Finanzkommunikation Main Triangel Zum Laurenburger Hof 76 60594 Frankfurt	Tel.: +49 69 94 41 80 26 Fax: +49 69 94 41 80 19 E-Mail: josef.schiessl@frankfurt-main-finance.com www.frankfurt-main-finance.com