

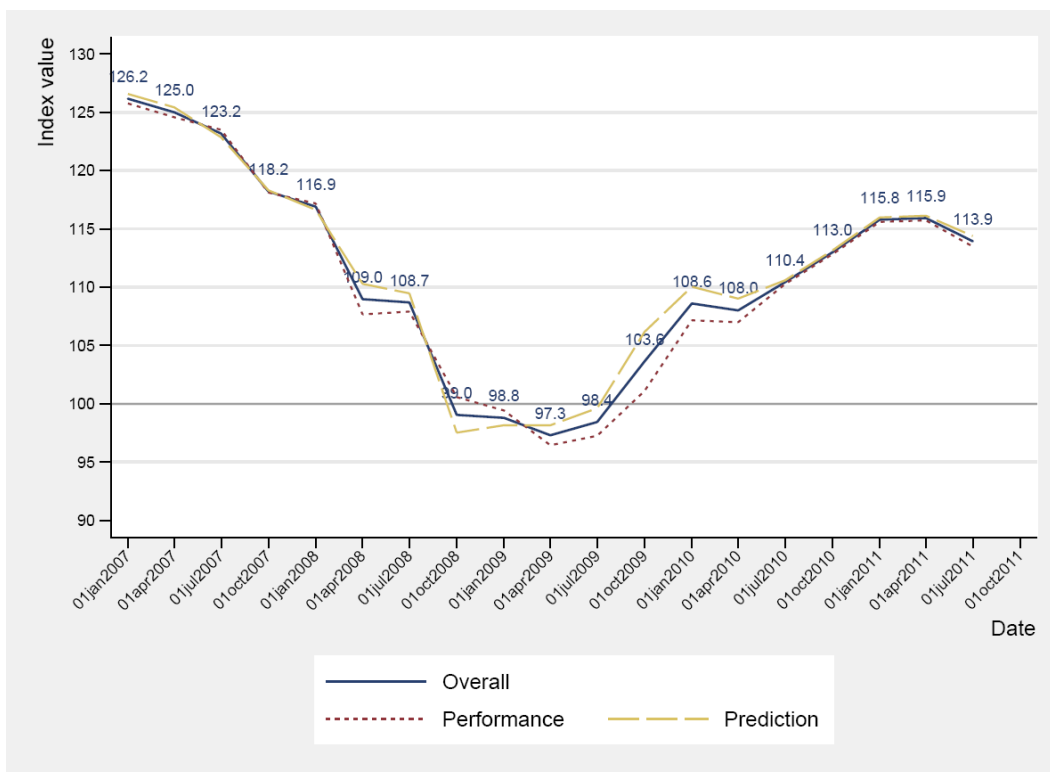
Press release

CFS Financial Center Index decreases

Banks and financial service providers more cautious / Financial sector opposes EU Commission's financial transaction tax

FRANKFURT, 20 July. The business climate of the German financial sector has clouded in the second quarter compared to the last quarter. The CFS Financial Center Index has dropped by 2 points. Reaching 113.9 points, the sentiment, however, is still positive on average, while the expectations ("Prediction") for the coming quarter are slightly better than the current business situation ("Performance").

Figure 1:



All groups of participants in the survey are affected by the downward trend, albeit to differing degrees. The *supervisory and academic institutions* and the *connected enterprises* encounter a considerable contraction of their business (-7.6 points). The sentiment of the *financial institutions* (the "nucleus" of the financial sector) decreases to a smaller degree (-0.4 points) and the *financial sector service providers* lose 1.8 points.

Financial sector loses momentum

The business situation of the group of *financial institutions* (111.5 points) has weakened in the last quarter, driven almost exclusively by declining profits (-7.1 points). Revenues, employment figures, and investment have gone down only moderately. The group remains confident expecting revenue to rise by 3.9 points, however, abstains from hiring more staff.

The *financial sector service providers* (121.2 points) have increased the number of staff. Despite falling short of their expectations for their overall business situation, yet again (-5.4 points), they envisage revenue and profits to rise. The outlook is slightly more conservative (122.3 points expected for Q3 2011 compared to 125.5 for Q2 2011), but still on a very high level.

The considerably clouded business situation of the two other groups – the *supervisory and academic institutions* and the *connected enterprises* (107.4 points) – results from revenue and investment numbers falling substantially. Participants of these groups are more cautious as their overall expectations lie below the current situation, mainly due to weaker prospects for revenue and profits.

“The decline of profits intensifies, while the gap between banks and service providers has also grown. This trend is possibly to be seen in light of regulating measures that are already decided or yet to be passed and that will affect the two groups in very different ways”, explains CFS Director Jan Pieter Krahn.

Financial sector not in favor of European financial transaction tax

The plan of the European Commission to introduce a financial transaction tax on the European level faces opposition among the participants of the special survey. Especially the financial institutions are against the tax. A majority of the participants (51%) objects the introduction, 22% are indifferent and only 16% are in favor of the European financial transaction tax.

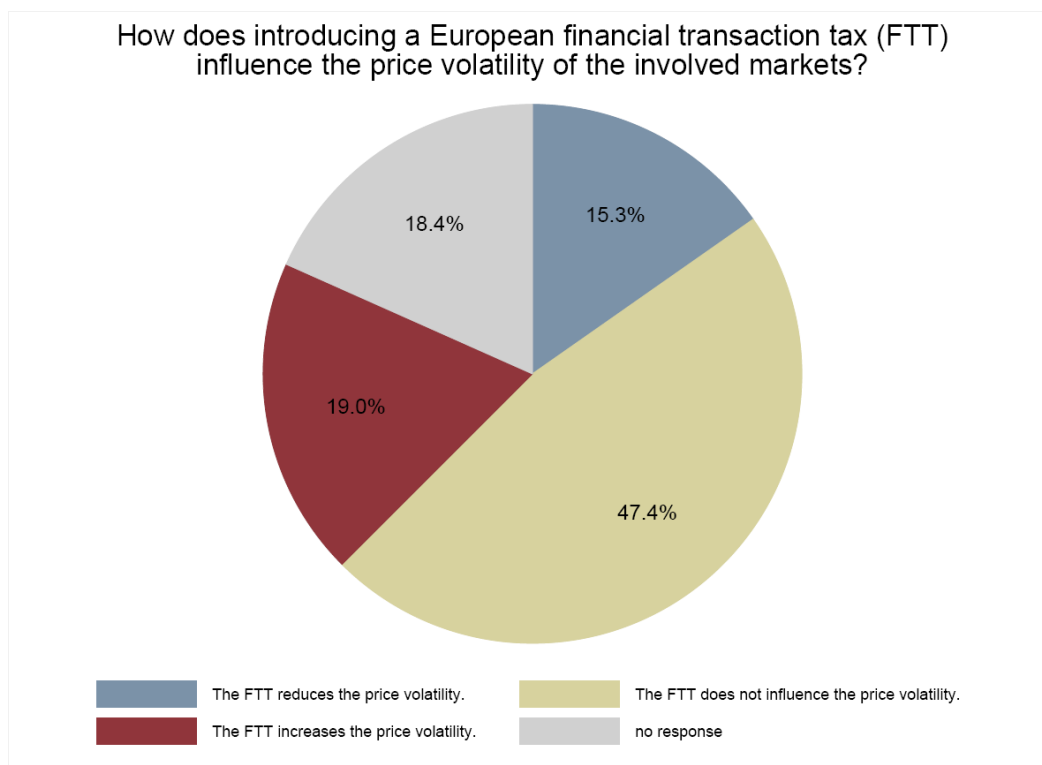
The opposition of the financial sector is in line with the widespread expectation that the financial transaction tax will not affect the price volatility of the financial markets. 47% of the respondents do not expect the tax to have any volatility reducing effects, as intended by the EU Commission. Only 15% believe price volatility will go down, however almost the same

amount of participants of the survey expect prices to become more volatile (see Figure 2). The survey also shows that those that expect prices to become less volatile as a consequence to the introduction of a European financial transaction tax also propose the tax. Respondents that do not back the tax are mostly – but not exclusively – those that expect price volatility in the financial markets to increase.

The panel also opposes the plan of the Commission to use the revenue generated by the financial transaction tax to partly finance the EU budget and, therefore, also provide the EU with some tax autonomy (52%). 18% of the respondents regard this as either neutral or positive.

“The responses show that the arguments in favor of the introduction of a European financial transaction tax have yet to be explained by the authorities. Only a minority are convinced by the argument that financial markets would become less volatile”, says Krahn.

Figure 2:



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 Krahen, 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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