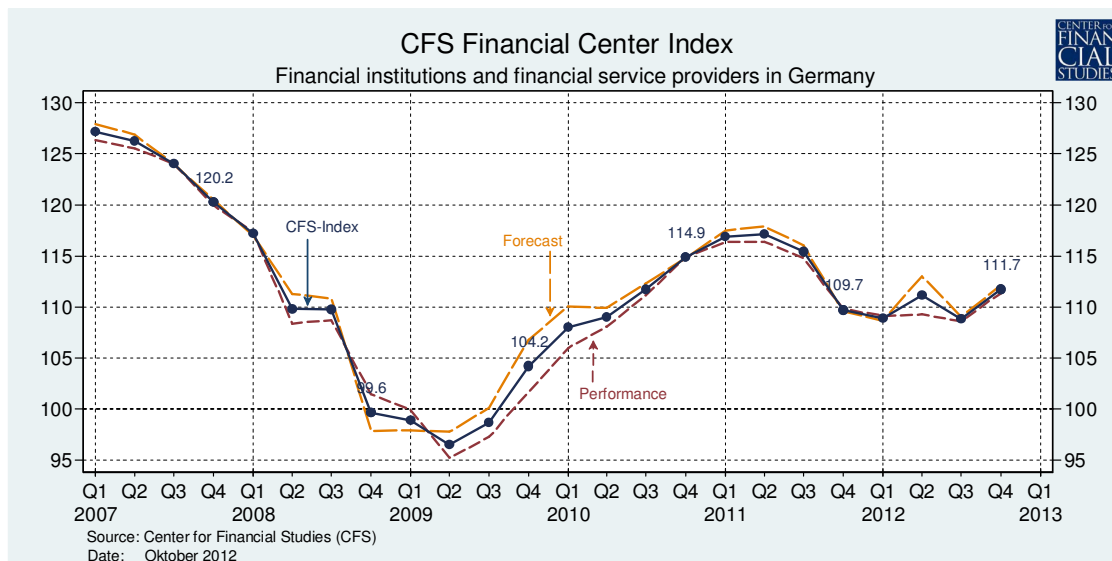


Press release

CFS Financial Center Index returns to positive after a good third quarter

Revenues and earnings increased in Q3 / Optimistic expectations for the fourth quarter / Special survey: Liikanen-Report on EU banking sector reforms

FRANKFURT, 14 October. The CFS Financial Center Index increased by 2.9 points at the beginning of the fourth quarter of 2012 to 111.7 points. Thus, the business climate in the German financial industry has recovered from the negative sentiment which was reported at the start of the third quarter. In April, at the beginning of the second quarter of 2012, the index stood at 111.1 points before suffering a setback at the start of the third quarter. The current increase in the index is due to higher revenues and earnings of financial institutions and service providers in the third quarter and is based on positive earnings expectations for the fourth quarter. The CFS Financial Center Index is based on a survey of about 400 companies in the financial center of Germany by the Center for Financial Studies Frankfurt.



Quarter Year	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
CFS-Index	104,2	108,0	109,0	111,7	114,9	116,9	117,1	115,4	109,7	108,9	111,1	108,8	111,7
Performance	101,6	106,0	108,1	111,2	114,9	116,3	116,4	114,8	109,8	109,1	109,3	108,6	111,3
Forecast	106,8	110,0	109,9	112,3	114,8	117,5	117,9	116,0	109,6	108,7	113,0	109,1	112,1

Source: Center for Financial Studies (CFS)

Financial institutions and service providers increase revenues and earnings

After a weak second quarter of 2012, both financial institutions as well as service providers in the financial center managed to increase their revenues and earnings in the third quarter. Financial institutions improved their **revenues** by 5.5 points and service providers by 3.6 points. Financial institutions met their expectations from the beginning of the quarter, while the increased revenues among service providers significantly exceeded their expectations. Financial institutions expect a further increase in transaction volume for the fourth quarter. Service providers, on the other hand, anticipate the level to remain steady.

With an increase of their **earnings** by 12 points, financial institutions have exceeded their positive expectations for the third quarter once again. Nevertheless, the sub-index “Financial Industry Earnings”, positioned currently at 108.9 points, remains almost 5 points lower than in April. For the fourth quarter, financial institutions continue to show optimism. Service providers were slightly short of their expectations with a yield increase of 2.3 points. They also expect their earnings to continue to rise in the fourth quarter.

Investments among financial institutions during the third quarter remained on a nearly constant level (-0.1 points), an improvement upon negative expectations. For the fourth quarter, a slight increase is expected. Service providers in the financial center invested slightly more in the third quarter than in the previous quarter (+1.8 points), and significantly more than they had expected. Their forecast for the fourth quarter is once again rather cautious.

Contrary to the very negative expectations, the **employment level** among financial institutions remained constant (+0.3 points). Moreover, they expect further employment in the fourth quarter. Among service providers, there was a slight decline in employment (-0.9 points), and a further decline is also expected for the fourth quarter.

Special survey: Results of the Liikanen-Report on EU banking sector reform

In a special survey, the panel participants expressed their opinion about the findings of the Liikanen-Report, which was issued on 2 October 2012 in Brussels. The goal set by the EU Commission to the Liikanen group was to develop recommendations to stabilize the financial system, leading to a more appropriate ratio of prices and risks, thus preventing further bailouts with taxpayers' money.

Regarding the recommendation of the Liikanen-Report that financial institutions should separate their trading entities larger than a specified size from other banking activities, half of the respondents expect no negative impact on the German universal banking model, while about 40 percent fear a negative impact. 78 percent of respondents find that private banks will be severely affected by the recommendation. Cooperative and public sector banks are believed by more than two thirds of the respondents to be only slightly affected. According to most respondents, implementing the proposal will have no effect on the four indicators constituting the CFS Financial Center Index (revenue, earning, investment, employment). Of those who see an effect, more respondents expect a negative impact for their companies, rather than a positive.

38% of respondents describe the proposal of the Liikanen group to require banks to issue "bail-in" bonds, which make the bondholders the first ones liable in the case of a crisis as "appropriate", whereas 35% reject such a requirement. Among the respondents, financial institutions expressed themselves in this regard particularly negative ("appropriate": 31%; "not appropriate": 40%, not specified: 29%), while service providers consider the proposal appropriate for the most part ("appropriate": 44%, "not appropriate": 30%, not specified: 26%). A relative majority of respondents believe that there can be a sufficient market for "bail-in" instruments (41% "sufficient" vs. 33% "not sufficient"). Financial institutions in turn show more scepticism (27% "sufficient") as compared with service providers (54% "not sufficient").

The proposal to pair the performance-based management compensation (bonuses) with "bail-in" instruments instead of stock compensation, was rejected by only 17% of respondents ("agree": 33%; "indifferent": 44%; no answer: 17%).

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, earnings, 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. 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.

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.

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