



press release

**Downward trend stopped
CFS Financial Center Index nearly unchanged at 98.8
Turnover and earnings exceed expectations /
But further reduction of jobs expected /
Concept of Bad Bank is controversial**

Frankfurt, 2nd of February. In the first quarter of 2009, the CFS Financial Center Index remained nearly unchanged compared to the previous index value produced in the fall of 2008 (99). At 98.9, the business sentiment prevailing in the German financial markets has stabilized at a low level, reflecting the ongoing financial crisis. Although the turnover-subindex remained negative (98.7), the transaction volume has exceeded last quarter's expectations considerably (+4.9). The same holds for the level of earnings (+4.7), resulting in a rise of the earnings-subindex to 95.3, which is still a negative level. The majority of the executives expect that employment in the financial sector – and more specifically in credit institutions - will decline further: every fifth bank of the financial center reports plans to cut back jobs. Particularly asset managers judged their business climate to be deteriorating in the last quarter. For the first time since the survey has started, accountants and advisory companies also expect a drop in earnings. "Although the transaction volume of credit institutions has not collapsed, as expected in October, profitability still remains under great pressure. The stabilization of turnover and profits will be accompanied by further job reductions." summarizes CFS Director Professor Dr. Jan Pieter Krahen the results for the banking sector.

Assessment of Bad Bank: Disagreement within the Financial Center

The special survey questions of the CFS Financial Center Index covered the crisis-management of the German government, the possible founding of a Bad Bank and the direct consequences of the crisis on the working environment of the financial industry. Most of the respondents are convinced that the German government will be able to restore financial stability in Germany, but a slight majority of 51% judges the current measures as too limited. The survey also shows a high approval rating for linking federal capital assistance to an increased influence on business decisions (e.g. through equity shareholding), especially among bank managers: almost two-thirds of the participating bankers agree to this form of state support, as it was practiced for the first time in the case of Commerzbank. Compared to the U.S. model of forced state capitalization, the EU-commission requirements concerning

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such actions are not seen as a competitive disadvantage in the process of stabilizing European banks.

There is no consensus amongst the participants about the founding of a Bad Bank (through which the state buys toxic assets from banks). Even the banking sector itself signalizes a 43% approval vs. a 36% rejection rate. The majority of those who turn down the idea of a Bad Bank believe that this could lead to an issue of moral hazard.

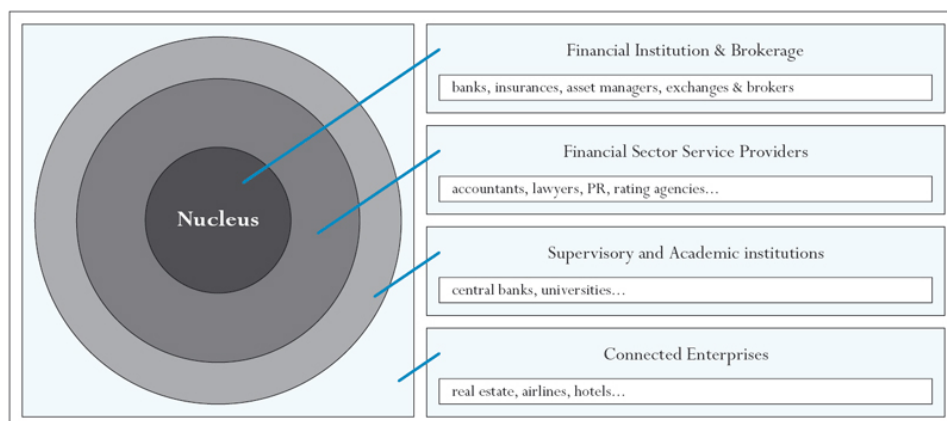
Consequences of the financial crisis: Declining orders and budget cuts

Three-quarters of all respondents face consequences, which are directly related to the financial crisis. Especially the evaluation of financial risk and the organizational structures of the enterprises undergo changes. Accountants and advisory companies report a decline in orders and in budget volume, which will induce a reduction in investments and personnel. "The business climate of the financial industry in Germany is still tense. Even financial service providers, which have profited from the situation so far, are being caught by the consequences of the crisis." comments CFS Director Krahenen.



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:



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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. Further partners of the project are Landesbank Hessen-Thüringen (Helaba), Frankfurt Main Finance e.V. and Frankfurt School of Finance and Management. More Information about 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 the University of Frankfurt (Goethe-Universität). 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 centres 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 by the directors Prof. Dr. Jan Pieter Krahen und Prof. Volker Wieland Ph.D.

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