Press release

Recovery of the financial sector in sight: CFS Financial Center Index continues upward trend

Financial industry expects higher transaction volume and profit/ G20 world finance summit: Doubts about the effectiveness of decisions

FRANKFURT, 15 October 2009. For the first time since mid-2008, the CFS Financial Center Index has reached a positive level at a current value of 103.6 (+5.2 points). The previous quarter had already indicated a turnaround. Hence, the first signs of recovery in the financial sector of an increasing value creation can be confirmed for the time being.

In the cross-section of all surveyed areas of the financial industry, the business climate is viewed much more positively. Whereas the performance of the previous quarter (Q3) was still more cautiously evaluated, the positive effect is revealed by the forecast of Q4 2009, particularly concerning transaction volumes (+8.9 points) and profits (+6.6 points) over the whole financial sector. The view among the subgroup “supervisory and academic institutions”, such as supervisory authorities, universities and research institutes, which was notably negatively affected by the impact of the financial crisis in the last survey, has swiftly brightened up again. Accountants and consultants even assume a small rise of employment and an increase in investment figures. Facing the end of the year, they therefore appear to be more optimistic as well. Still, according to a majority of respondents, the economic and financial crisis will continue - as already observed in the survey conducted one year ago – for up to three years. "Despite the strong increase of the index value, reflecting a significant recovery of the financial sector, the sustainability of expected business success is put into question by an additional business uncertainty, due to the possible duration of the crisis.“, explains the CFS Director Professor Dr. Jan Pieter Krahnen the latest results.

Concerns about the economic costs of bank regulation

More than three quarters of all respondents (78 per cent) believe that the major result of the G20 summit in Pittsburgh, to strengthen the regulatory capital ratio for the core and total capital of banks, will have a stabilizing effect on the financial system. By contrast, the proposed stricter requirements for the quality of the regulatory core capital (such as non-consideration of hybrid capital and dormant deposits of banks), is only considered by a small extent (56 per cent) as an effective way to stabilize the financial system. The majority of

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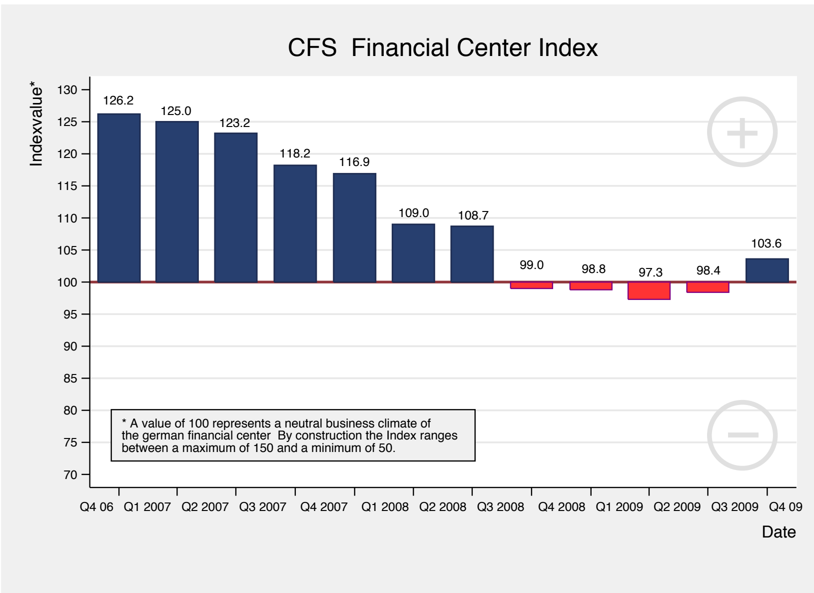
participants identifies the economic costs of increased capital standards as a lower risk-taking of banks and reduced lending activities, which subsequently will result in a declining profitability of the banking sector. "Should the decisions of the summit be implemented in the intended manner, a reduced contribution of the financial industry to overall economic growth can be expected in a long run.", says Krahnen.

Effectiveness of the limitation of executive compensation remains questionable

For an overwhelming number of respondents, the measures adopted in Pittsburgh to control executive compensation are not the adequate means to prevent future financial crises. 51 per cent of participants judge this G20 decision as ineffective, an additional 9 per cent even consider it to be counterproductive in increasing financial stability. This view is complemented by the observation, that only a small minority (12 per cent of respondents from banks and 7 per cent of all participants) regards their own income as being affected by the planned Pittsburgh restrictions on executive compensation - even though the panel exclusively consists of executives. "Although comprehensible from a political perspective, the regulation on managers' salaries is predominately seen to be an inappropriate instrument to reduce the risk of future financial crises.", remarks Krahnen.



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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. 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 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 director Prof. Dr. Jan Pieter Krahnen.

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. As of October 15, 2009, Frankfurt Main Finance has 27 members: Bankhaus Metzler, Commerzbank, Corealcredit Bank, Crédit Agricole Cheuvreux, Deutsche Bank, Deutsche Börse, Dresdner Bank, 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,
Helaba Landesbank Hessen-Thüringen, House of Finance, ICF Kursmakler, KDB Krall Demmel Baumgarten, the State of Hesse, Morgan Stanley, P. Keppler Verlag, the City of Frankfurt, Tata Consultancy Services Deutschland, vwd Vereinigte Wirtschaftsdienste, White & Case , WHU – Otto Beisheim School of Management and (starting from January 1, 2010) Wolfgang Steubing AG.

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