

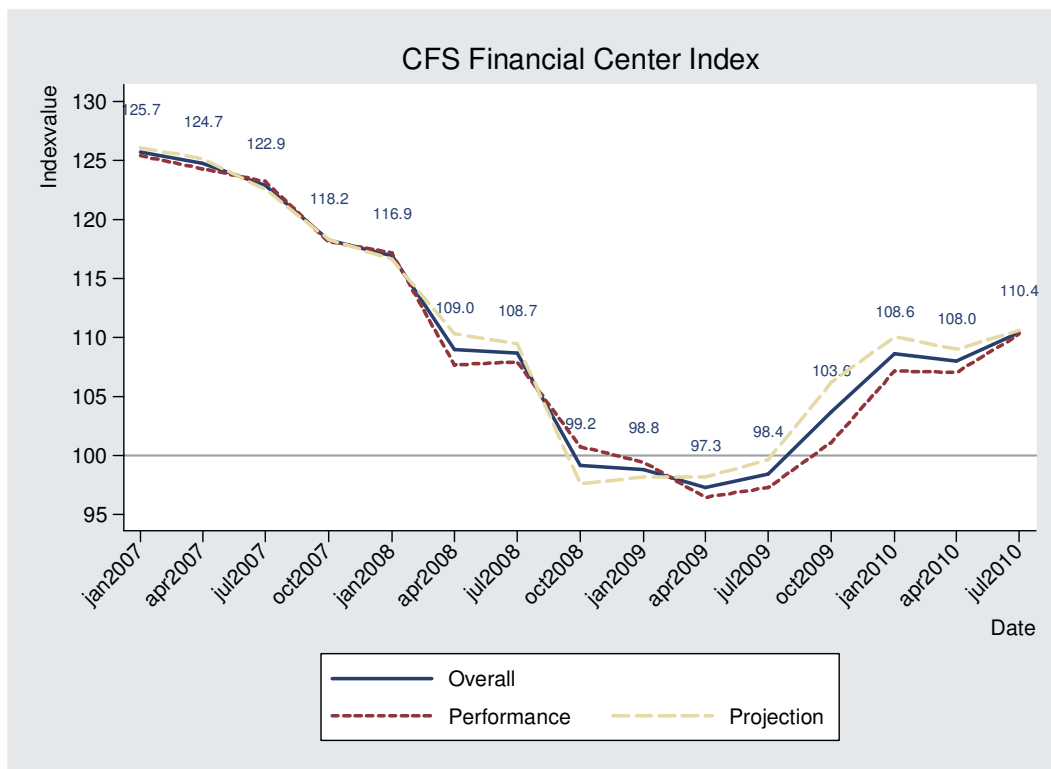
Press release

CFS Financial Center Index up by 2.4 points

Uncertainty about publication of stress tests

FRANKFURT, 19 July. The CFS Financial Center Index for the third quarter in 2010 has increased by 2.4 points compared to the last quarter and has reached 110.4 points. The subindices “performance” and “projection”, the evaluation of the last quarter and the forecast of the upcoming quarter, respectively, have converged once more and for the first time since the beginning of 2009 they are now at the same level.

Figure 1:



The groups of the survey (Financial Institutions and Brokerage, Financial Sector Service Providers, Supervisory and Academic Institutions, Connected Enterprises) record a positive trend not only on the aggregate level, but also on the individual group level. This trend is with +5.3 points larger for the Financial Sector Service Providers than for the Financial Institutions with +1.5 points. To a great extent this growth is due to rising revenue and employment figures. Returns and investments have remained relatively constant. Within the group of

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Financial Institutions one has to differentiate between two types. While banks register a decreasing amount of jobs (-4.8), the rest of the group of the Financial Institutions (e.g. asset manager, insurance companies) see them rise exceptionally (+11.5). The banks, however, record return figures rise by +4.0 points, while the rest of the group of the Financial Institutions see them go down by -10.0 points. Looking at the banks, revenues and returns are trending upwards, while jobs and investments point in the other direction.

“The results show that unlike the other financial institutions the banks do not invest, but rather concentrate on better utilising their capacity. This hesitation seems to be in line with the uncertainty about the planned regulatory reforms”, explains CFS Director Professor Dr. Jan Pieter Krahen.

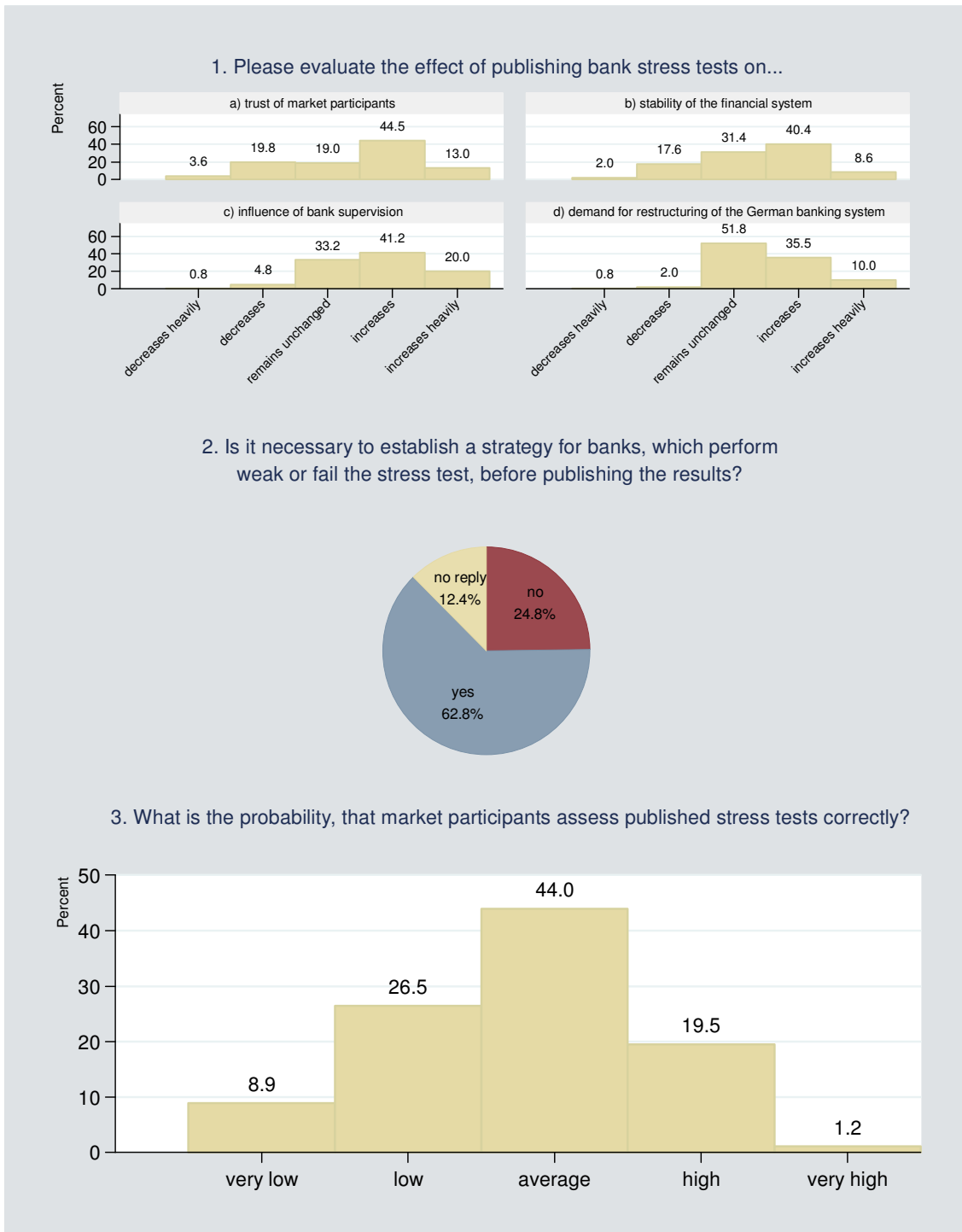
Publication of stress tests: Both support and scepticism

The panellists agree on the fact that the publication of the stress tests could increase the trust of the market participants, the stability of the financial system and the influence of the bank supervision. Almost half of the panellists believe, in addition, that there will be growing demand for restructuring the German banking system (see Figure 2). This view is shared not only on the aggregate level, but also on the individual group level.

Whether the market participants will correctly assess published stress tests is controversial. 21 % regard the probability that they will be assessed correctly as high or very high. 35 % think this probability is low or very low and expect misinterpretations. Professor Krahen comments: “Unless transnational comparability is guaranteed many argue the calculation and interpretation of the test results will not be of any use. The uncertainty about the actual design of the tests seems to be highly relevant, also with respect to a possible recapitalisation strategy.” Most of the panellists (roughly 63 %) regard it as essential to establish a strategy for banks which perform weak or fail the stress test, before publishing the results. A quarter, however, opposes this view. Among asset managers and insurance companies the number of supporters and opponents is roughly equal.

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Figure 2:



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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. 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. As of October 15, 2009, Frankfurt Main Finance has 27 members: Bankhaus Metzler, Commerzbank, Corealcredit Bank, Crédit Agricole Cheuvreux, Deutsche Bank, die Deutsche Börse, 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, Interxion, KDB Krall Demmel Business Consulting, the State of Hesse, Morgan Stanley, P. Keppler Verlag, Royal Bank of Scotland, the City of Frankfurt, Tata Consultancy Services Deutschland, vwd Vereinigte Wirtschaftsdienste, White & Case, WHU – Otto Beisheim School of Management and Wolfgang Steubing AG.

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