

Press release

Signs of a sustained recovery of the financial industry: CFS Financial Center Index at pre-crisis levels

Banks expect job growth / Amount of loans issued expected to fall / doubts about the effectiveness of government intervention to prevent a credit crunch

FRANKFURT, 20 January 2010. The CFS Financial Center Index has currently increased by 5.0 points to a value of 108.6. This increase corresponds to the upward trend persisting since Q2 2009. For the first time, the index value reaches again the level prior to the insolvency of the U.S. investment bank Lehman Brothers which highlighted the entry into the global financial crisis (Q2 2008: 108.7).

Both the assessment of the performance in the last quarter (107.2) and the evaluation of the development in early 2010 (110.0) show an improved business environment across all sectors of the financial industry. Regarding the forecast for the current quarter, the positive assessments predominate in all areas that the index covers (transaction volume, profits, employment and investment in product- and process innovations). Among those, revenue and employee development have increased the largest at +7.6 and +6.3, respectively.

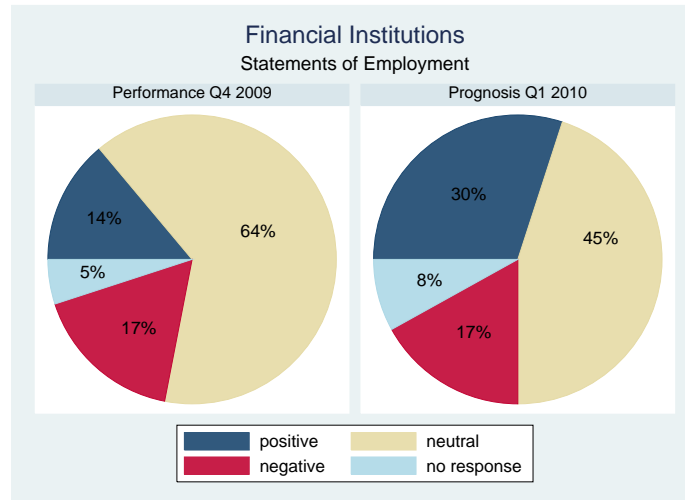
The survey is indicative of more optimistic banks. After the feared massive job cuts did not occur at year end, now even 30% of banks in the financial sector - and thus twice as many respondents as before - expect rising employment figures for the current quarter:

Financial service providers, particularly accountants and consultants confirm the optimistic view expressed in the previous survey, showing even significantly increased earnings expectations for the current quarter (+15.5).

However, the positive business climate did not translate into the respondents' beliefs regarding the future importance of the financial marketplace Germany (-2.9) in an international comparison.

"After the sustainability of the expected business success seemed uncertain at the beginning of the 4th Quarter of last year, now a positive attitude has established itself throughout Germany's financial center, which makes the financial crisis become forgotten for the time being.", explains CFS Director Professor Dr. Jan Pieter Krahn. "However, that does not mean that the crisis is over and the stability of our financial system has been restored."

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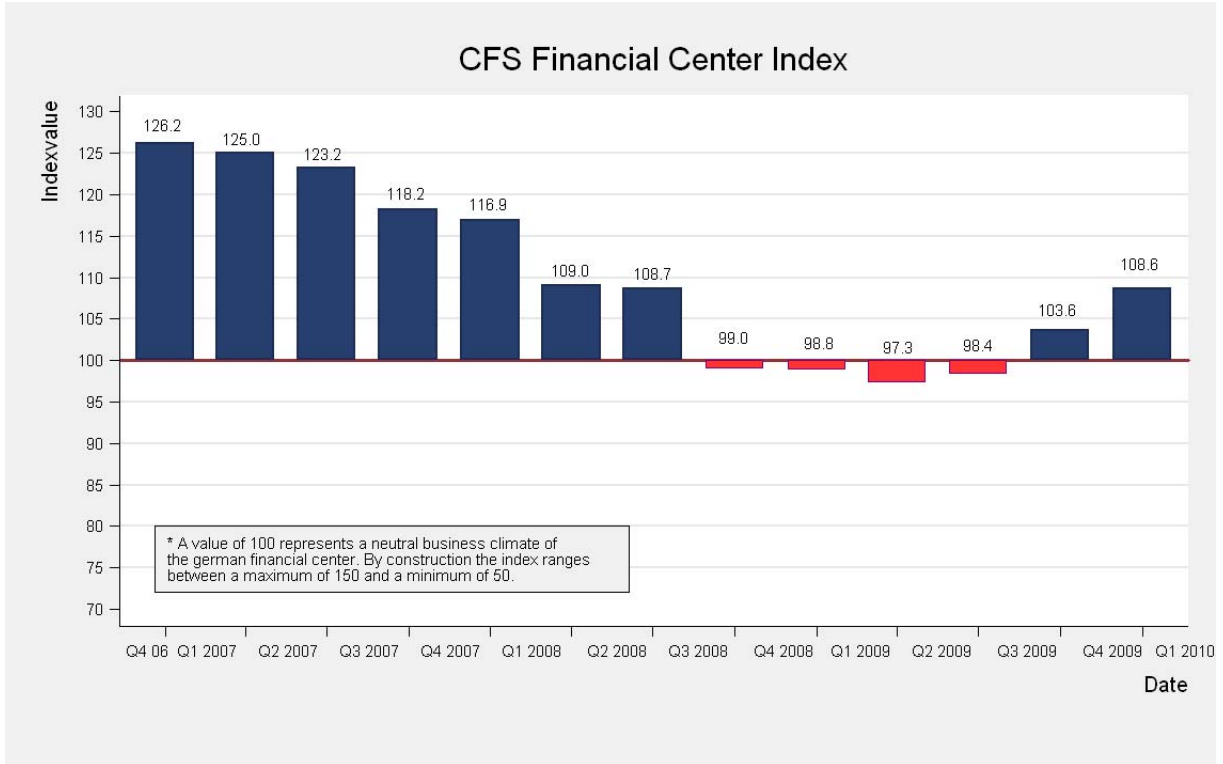
Reduced availability of loans at higher costs predicted

On a less positive note, a majority of respondents expect a reduction of lending in Germany this year - 61% of banks expect a reduction of lending, while 53% of other financial institutions expect the amount to fall. An unenforceable risk premium and the low capital adequacy of financial institutions are considered as limiting factors in credit supply by the respondents. By contrast, limited access to funding plays a minor role. This could indicate an easing on the interbank market, but is probably because participants do not expect the central bank to raise interest rates. Furthermore, more than two thirds of all respondents expect that the costs associated with the risk of debt will rise permanently.

Government measures to strengthen loan supply judged controversially

The vast majority of survey participants believe that the federal government's attempt to increase the issuance of loans through the use of a credit mediator will have little effect. Subsequently, more than three quarters of the respondents do not view public guarantees for individual sectors (such as ship building) as adequate means to stimulate credit permanently. However, there is no consensus among the financial market participants on whether this reduction in lending will lead to a reduction in output growth. "For the anticipated shortage of loans in 2010, it will not be the required risk premiums, but the bearing strength of the banks' equity that will be seen as the real Achilles heel of the German financial system.", says Krahenen.

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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 Krahenen.

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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