

Banking Industry Performance.

Ups and Downs in the 2009 Banking Year.

The climate in the banking industry was largely shaped by two factors in 2009. On the one hand, the financial markets stabilized continuously following the extensive measures taken at the level of central banks and governments. On the other hand, economic downturns, in some cases severe, were seen all over the world.

In this environment, many institutions were able to reverse impairment losses on their securities portfolios. The situation also improved for trading profits in particular. Many institutions also obtained a profit from the steep yield curve. At the same time, the risk of the total lendings to customers rose as the economic situation deteriorated, which meant that banks had to increase their allowances for losses considerably. This development placed an increasing burden not only on results, but also on the equity of the institutions.

No General Credit Crunch.

In this context, fears spread throughout Germany in particular that banks could bring about a general credit crunch by reducing risk positions and restricting lending. These fears were not confirmed. Although there was friction in individual areas, such as transaction plans with very large volumes, there was no proof of a general credit crunch that would have had a lasting negative impact on economic development. On the contrary, demand from customers was lower in many cases, given the negative overall economic environment. A deterioration in the credit rating of individual borrowers also had to be taken into account.

Restructuring Process Continued.

Restructuring and redimensioning measures and the reduction of risk positions, which in many cases had begun the previous year, continued to preoccupy many market players to a considerable extent in 2009. State support measures intensified this effect. For the institutions that had received state support in the European Union, this resulted in state aid proceedings at the EU competition commission. As a rule, these are linked to significant conditions involving a reduction in risk positions and in the size of the institutions over the next few years.

The market environment was generally unfavorable last year towards major consolidation measures in the sector, particularly as the aspect of size is being judged more critically from an overall economic viewpoint, in view of experience of the financial market crisis.

Sector Facing Extensive New Regulation.

A new international financial market structure is to be created in response to the financial market crisis. It became increasingly clear in 2009 that the banking industry is facing extensive new regulations, of which a key element will be increased requirements in terms of the equity of institutions.