

FINANCIAL CENTRE OF FRANKFURT: UPWARDS WITH CHINA

Helaba Research



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Dr. Gertrud R. Traud, Chief Economist/Head of Research
Editor: Dr. Stefan Mitropoulos
MAIN TOWER
Neue Mainzer Straße 52-58, 60311 Frankfurt am Main
phone: +49 69/91 32-20 24, fax: +49 69/91 32-22 44

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Editorial



Dear reader,

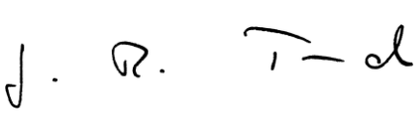
“Rather than watching the river and wishing for a fish, it would be better to go home and make a net.” This ancient Chinese proverb still applies today to Frankfurt’s financial centre: commitment is a prerequisite in achieving your goals. In this respect, good networking can prove a decisive advantage.

A variety of connections already exist between the German and Chinese banking sectors. Meanwhile, the largest Chinese banks are represented in the most prominent location in Frankfurt’s banking district. They are in close contact to one another and are reaching out more and more to the local banking community. The German financial centre is predestined to benefit from China’s rise in the world of finance. This strategic focus will not be sufficient in itself, but instead will also require the determined involvement of local financial players so that Frankfurt can position itself as an attractive location for business from China.

As an integrated universal bank with a strong regional focus and international presence, Helaba actively supports the increasing ties between German and Chinese financial centres. In Frankfurt, we maintain a lively discourse with Chinese banks, focusing is on the segments of capital markets and trade finance. In the scope of this study, we conducted in-depth personal interviews with the managing directors of Chinese banks with an office in Frankfurt. Furthermore, Helaba is represented in the financial centre of Shanghai in order to foster contacts on the ground and support the activities of our customers.

The decision to choose Frankfurt as the first offshore clearing location outside of Asia is a strong signal to the financial community. However, there is still a long way to go before a real renminbi hub is established. Currently, it is more of a stylish-looking feature on Frankfurt’s Chinese outfit. Assuming local players in the financial centre continue consistently pulling together on this issue, the German financial centre has good chances in the long term of attaining a particular significance for the Chinese currency. If the ties between German and Chinese financial centres continue to be supported with such commitment, Frankfurt will move upwards together with China.

Yours



Dr. Gertrud R. Traud
Chief Economist/Head of Research

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Foreword



Author:
Ulrike Bischoff

phone +49 69/91 32-52 56
research@helaba.de

Links with real economy an unbeatable advantage

The internationalisation of China provides a variety of opportunities for the leading German financial centre, which is open to establishing deeper links. Frankfurt enjoys an excellent reputation in the financial world and acts as a powerful magnet to international players – and to those from China, too. In this regard, Frankfurt has the unbeatable advantage of being the financial centrepiece of a globally significant economy, which is closely intertwined with the People's Republic. The intense exchange in the real economy between both economic heavyweights is the centrepiece around which their financial centre relationship revolves. With a total volume of trade amounting to almost EUR 154 billion, last year Germany was by far the most important trading partner for China in Europe and the trend is growing. Vice versa, China is the most important trading partner for Germany in Asia.

Variety of interdependencies enhances financial centre relationship

Diplomatic ties, which have been deepened again and again for more than 40 years, foster this relationship. In addition, Frankfurt's financial centre region, in particular, has maintained good relations to China for a number of years now. Prestigious Sino-German conferences and visits by delegations take place here; partnerships and treaties strengthen co-operation in the same way as the economic promotion offices located here. On top of that, the German stock exchange, Deutsche Börse, has been seeking to intensify cross-border links between the German and Asian markets by carrying out years of marketing for China. With their branches in Frankfurt and Shanghai/Beijing, a variety of commercial banks also make a significant contribution towards fostering closer ties between the financial centres. Overall, 14 German banks are currently represented in China, with the majority operating one representative office. The five largest state-owned banks and the Chinese central bank all have a presence in Frankfurt, the former maintaining operational branches.

Helaba survey among Chinese banks in Frankfurt

Helaba conducted interviews with the managing directors of these six banks in order to find out what the principal qualities of Frankfurt's location are as well as its significance for Chinese players. The journey of Chinese banks to the German financial centre began as early as 25 years ago. In the meantime, each of them employs around 30 to 150 people. Their operations are focussed on trade finance activities between the two large economies. By following their customers, the Frankfurt offices are indispensable for their business. Chinese banks want to be active at the heart of the banking district as well as in immediate vicinity to other institutions from their home country. They principally compete with each other but, from time to time, they also act in concert. After all, there are more than enough business opportunities and growth potential for Chinese banks in Germany. The various qualities Frankfurt possesses as a location, which had emerged from previous financial centre surveys, were confirmed.

Frankfurt's long-term opportunities with China

The German financial centre is positioning itself more and more as an attractive location for Chinese businesses and financial services and this is strengthening links that had already been established. Thanks to the relationship between the financial centres, which is expanding on many levels, Frankfurt is predestined to benefit from the rise of the People's Republic in the world of finance. The development of Frankfurt as the first renminbi-trading centre in the euro area could well prove to be of enormous long-term value for the region. As successful as the launch of the Frankfurt clearing operations were, there is still a long way to go before a real renminbi hub is established. With regards to the renminbi, the crucial factor in the success of the German financial centre will ultimately be the volume generated on the local platform. The more the players in Frankfurt's financial centre join forces to encourage the pioneering future development of the location, the better the chances for this will be.

1 Growing relationship between financial centres of Germany and China

China and its currency on the rise

The internationalisation of China as an appealing location for business and finance provides a variety of opportunities for Frankfurt, the leading German financial centre, which is open to creating closer links. In view of the rapid development and on-going process of liberalisation, the People's Republic of China is moving towards a place among the leading global economies. As a measurement of its nominal gross domestic product, today the country's dynamic economy already ranks in second place behind the United States on a global comparison, followed by Japan and Germany. Just as China supplanted Germany as the export champion of the world a few years ago, achieving the pinnacle of success to become the largest economy is within reach.

The globalisation of the Chinese currency plays a critical role in this ascendency.[1] With a burst of energy, the renminbi, which had hitherto not been freely convertible, is gaining in importance. This process, however, is long term and has been politically masterminded. The renminbi is increasingly becoming a global trading currency and, meanwhile, also an investment currency; it even has the potential of evolving into a global reserve currency. In order to achieve resounding international success, though, full convertibility as well as the liberalisation of the movement of capital will be required. The more China's currency becomes embedded in the financial community, the more important relations between the financial centres will be.

Frankfurt predestined to benefit from China

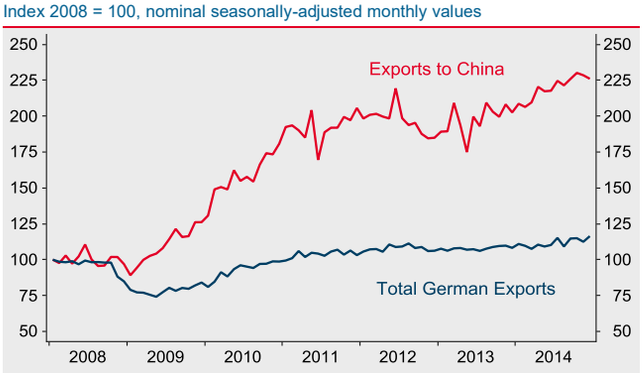
Frankfurt enjoys an excellent reputation in the financial world and acts as a powerful magnet to international players – and to those from China, too. The German financial centre welcomes China with open arms and is seeking to create closer, long-term relationships from the ties it has established. Frankfurt is predestined to contribute to and, in the long run, to benefit from the dynamic rise of China and the globalisation of its financial market. There are already numerous connections between the German financial centre and the Chinese financial sector, with its primary centres of Shanghai, Beijing and Hong Kong, and this financial centre relationship will continue to grow in the course of time. In this regard, Frankfurt has the unbeatable advantage of being the financial centrepiece of a globally significant economy, which is closely intertwined with China.

1.1 Vigorous trade – and growing

Last year, with a volume of trade of almost EUR 154 billion, Germany was China's most important trading partner in Europe by far. By this measure, the extent of Sino-German trade was almost equal to that of Great Britain, France and Italy combined.

Strong growth of German exports to China

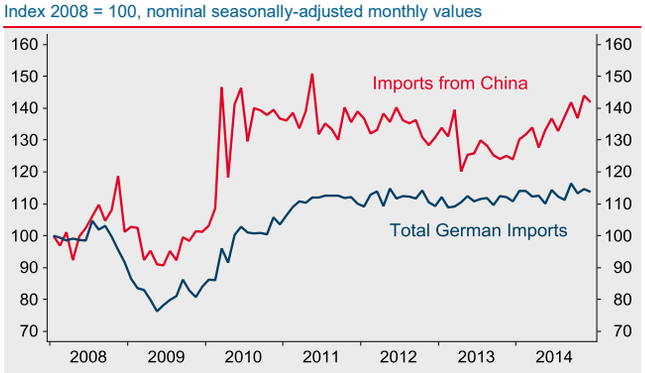
Index 2008 = 100, nominal seasonally-adjusted monthly values



Sources: Macrobond, Helaba Research

German imports from China also see recent increase

Index 2008 = 100, nominal seasonally-adjusted monthly values



Sources: Macrobond, Helaba Research

[1] Unit of currency is yuan. Renminbi is used when talking about the currency itself.

This success is due in no small part to the fact that the products traded between Germany and China complement each other well. While goods imported from China to Germany primarily comprise electronics and textiles, Germany, as a centre for the automotive industry, particularly supplies vehicle (parts) and machines to China. In this way, exports from Germany to China have grown considerably over the last years, in a similar vein to recent imports (volumes of around EUR 75 billion and over EUR 79 billion in 2014, respectively). From a German perspective, China is among the top five countries both from imports and exports. Accordingly, China is the most important trading partner for Germany in Asia.

Boost for Sino-German renminbi payments

The intense exchange in the real economy between both economic heavyweights is the centrepiece around which their financial centre relationship revolves. In conjunction with this, monetary transactions settled in renminbi are showing buoyant increases, especially in Germany, albeit from a low starting point. Germany occupies a special position with regards to trade settlements in renminbi even if the local share of the global volume of these transactions is still limited.

1.2 Intense discourse between politics and financial players

The interdependencies in the Sino-German financial community are furthered by diplomatic ties, which were established as early as 40 years ago and, since then, have been repeatedly strengthened. In the meantime, political collaboration has created a broad basis for more than 60 types of permanent dialogue and co-operation formats. In particular, intergovernmental consultations, which have been taking place at regular intervals since 2011, assume centre stage and are flanked by official, high-ranking visits by delegations between the two countries. Bilateral co-operation in economic and financial affairs is an important aspect in this strategic partnership.

In the middle of March 2015, the first Sino-German financial dialogue is set to take place under the auspices of the ministries of finance of both countries and will involve the participation of central banks and supervisory authorities. Anyway, these institutions have been working together since as early as the turn of the millennium. The Sino-German Financial Stability Forum, which is jointly organised by the People's Bank of China and Deutsche Bundesbank, is already held on a regular basis. Both central banks also jointly chair the Board of Trustees of the Sino-German Center of Finance and Economics, which was recently founded at Frankfurt's Goethe University to provide intellectual nourishment to the financial centre relationship. This has made a neutral platform available for bilateral exchange between the economic areas and for both countries to broaden their specific understanding of each other on a scientifically prestigious level.

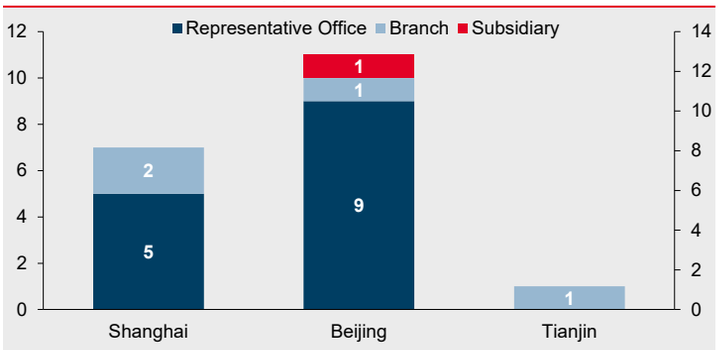
Good relationship between China and Frankfurt's financial centre region

Frankfurt's financial centre region, in particular, has maintained good relations to China for a number of years now. The city of Frankfurt plays host to high-level conferences on the issue of the renminbi as well as to the Hesse-Shanghai Business Forum. In addition to visits by delegations, economically motivated partnerships promote the cross-border exchange between cities (1988: Frankfurt/Guangzhou, 1997: Offenbach/Yangzhou). Frankfurt and the State of Hesse have concluded a number of agreements to bolster co-operation with Chinese economic and financial centres (2006: Shenzhen, 2007: Tianjin, 2007/2012: Beijing). Furthermore, there are various offices in each city dedicated to the promotion of economic development, in order to support companies both in their relocation needs and in the development of their business. On top of that, the German stock exchange, Deutsche Börse, has been seeking to intensify the cross-border links between the German and Asian markets by carrying out years of marketing for China.

With their branches in Frankfurt and Shanghai/Beijing, a variety of commercial banks also make a significant contribution towards fostering closer ties between the financial centres. Overall, 14 German banks are currently represented in China, with the majority operating one representative office. The five largest state-owned banks all maintain an office in Frankfurt, and meanwhile even have operational branches (compare details in Helaba survey).

German banks primarily in Shanghai and Beijing

Number of German banks in China by location, end of 2014



Sources: Deutsche Bundesbank, Helaba Research

Thus, the interdependencies, both on a political as well as financial level, are becoming noticeably stronger and a multiplicity of connections is flourishing between players in both financial locations. Naturally, the Sino-German financial centre relationship will take time to mature, not least because the conventions of business are largely shaped by cultural values.

1.3 Renminbi clearing as a long-term opportunity

Successful start to Frankfurt clearing

The renminbi clearing system in the German financial centre is a particular case in point that will take time to develop. In November 2014, Frankfurt became the first continental European settlement location for the Chinese currency. Some market participants took advantage of this immediately on the initial day of trading, for example the four largest banks by workforce in Frankfurt's financial centre (Commerzbank, Deutsche Bank, DZ Bank and Helaba).[2] The Bank of China, acting in Germany as the clearing bank, has meanwhile signed appropriate co-operation agreements with many other credit institutions. A new set of statistics from the Deutsche Bundesbank should soon create greater transparency in respect of renminbi settlements in Frankfurt.

Clearing process from Frankfurt's financial centre



Sources: Helaba Research based on Deutsche Bundesbank and Bank of China

Detour via other financial centres only partially eliminated

Sino-German trade can now be directly settled via the Frankfurt clearing bank and is processed through the global Bank of China Group and the Chinese payment transaction system. However, a detour via other financial centres in other time zones has only been partially eliminated since the Bank of China's office in Frankfurt does not have direct access to the Chinese clearing system. If the payment, after being thoroughly verified, is forwarded from Germany to China by 10 am CEST (or 9 am CET), the advantage of real-time finality of payments is ensured. In any case, it is no longer necessary to make a detour via other currencies, which facilitates price negotiations by companies with their business partners. For good measure, German industry can now conduct

[2] See ranking in Helaba Research "The largest banks in Frankfurt financial centre" (2013)

trade with Chinese firms which had previously been focussed on their own currency. In this respect, a positive interplay between Sino-German trade and the increasing renminbi usage via Frankfurt can be expected. Further contributing to this is a not inconsiderable psychological aspect, which the possibility of direct currency settlement in Frankfurt brings with it. Companies in the region feel a closer proximity and sense of security, since they are able to conduct their business with a local point of contact in their own language and within a German legal framework.

Renminbi clearing as a strong signal for the German financial centre

The decision to choose Frankfurt as the first offshore clearing location outside of Asia is a strong signal to the financial community and offers major opportunities in the long term for the German financial centre, which is increasingly sharpening its profile as an attractive place for Chinese companies and financial services to do business. Local players in the financial centre have displayed more unity than ever before in joining forces and, with considerable élan, are acting in unison to advance the renminbi initiative established by the Hessian Ministry of Economics.[3] With the clearing bank having successfully begun operations, various action groups are now working on the future development of a clearing house model. The aim is that, in the medium term, a central clearing house for the Chinese currency in Frankfurt will be set up, in which market participants will be able to take part as members and receive a say in how it is run. This would give Frankfurt the chance of advancing to become the clearing hub in the central European time zone and, longer-term, to position itself as an offshore market for the renminbi by offering various financial products. This will strengthen the position of the German financial centre, especially upon the full flotation of the renminbi in a few years when the international allocation of currency trading locations will be at stake.

Ultimately, volume on settlement platform as decisive factor

For all the euphoria about the successful launch of the Frankfurt clearing, it should not be forgotten that there is still a long way to go before the goal of a true renminbi hub is reached. Currently, it is more of a stylish-looking feature on Frankfurt's Chinese outfit, albeit worthy of emphasis and irreplaceable. Ultimately, the crucial factor in the success of the German financial centre with regards to the renminbi will be the volume generated on the local platform. The offer of an initially complimentary settlement process in Frankfurt has created a good basis for this; future conditions valid from summer 2015 will be point the way forward. After all, intense competition surrounds the promising currency. In line with the Chinese strategy of globalisation, there are meanwhile numerous locations across the world with their own renminbi clearing centres. Frankfurt is competing with London, Paris, Luxembourg and Zurich, and they are only in the immediate vicinity. Let alone the fact that it is no easy task enticing renminbi business away from the prominent financial and clearing centres of Hong Kong and Shanghai.

Finally, due to their internal systems, the large German banks do not really have any fundamental requirement for a clearing house in Germany. First and foremost, it is interesting for credit institutions that, up to now, have not had any direct access to settlement on Mainland China nor in the Special Administrative Region of Hong Kong. Despite this, large banks have been on board from the outset and process renminbi payments directly via Frankfurt, as an additional product for their corporate customers from Germany and Europe. Beyond that, it is conceivable that they will transfer some of their business to the leading German financial centre, which would be conducive to its development into a renminbi hub. If local players in the financial centre continue consistently pulling together on this issue, Frankfurt has good chances in the long term of attaining a particular significance for the Chinese currency.

[3] Apart from the Hessian Ministry of Economics, Energy, Transport and Regional Development, a number of other governmental institutions are involved (Deutsche Bundesbank, the German Federal Financial Supervisory Authority, the German Federal Ministry of Finance) as well as companies from the financial sector and the real economy, mainly from China and Germany. Furthermore, support was provided by organisations active in the Rhine-Main region involved in location marketing and economic promotion as well as by associations and academic institutions.

2 Helaba survey among Chinese banks in the financial centre of Frankfurt

Aim of Helaba's survey: Qualities of location and significance for China

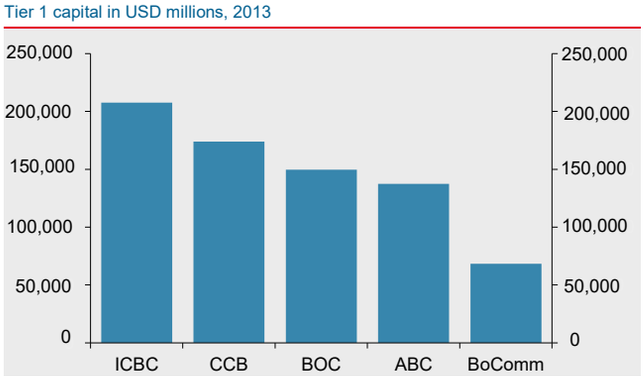
At the turn of the year 2014/2015, we conducted a survey among all Chinese banks in the financial centre of Frankfurt. The basis for the personal interviews was a concept that had already been used with financial centre surveys for Helaba's studies in 2008 and 2011 and was now complemented by questions specific to China.[4] In particular, the focus was on the central qualities the German financial centre has as a location and its significance for Chinese players. The interviews with the five Chinese commercial banks were carried out with their German managing directors in each case; those with the central bank took place with deputies of the representative office management. We would like to extend our gratitude to all participants for their helpful co-operation and their readiness to provide us with so much information.

2.1 All large Chinese banks in the German financial centre

The financial centre of Frankfurt plays host to by far the largest credit institutions from China, flanked by the People's Bank of China (PBoC). As a measurement of global Tier 1 capital in 2013, the Industrial and Commercial Bank of China (ICBC), with around USD 208 billion, is the biggest, followed by China Construction Bank (CCB) with approximately USD 174 billion, Bank of China (BOC) with USD 150 billion, the Agricultural Bank of China (ABC) with more than USD 137 billion and Bank of Communications (BoComm) with over USD 68 billion. These institutions are thus among the world's most important banks. The four largest heavyweights, which are in state ownership, rank among the top 10 in the global banking sector and BoComm takes the 19th spot. The other Chinese banks, which are not nearly as significant, are not represented in Frankfurt.[5]

Great significance of Chinese banks globally,…

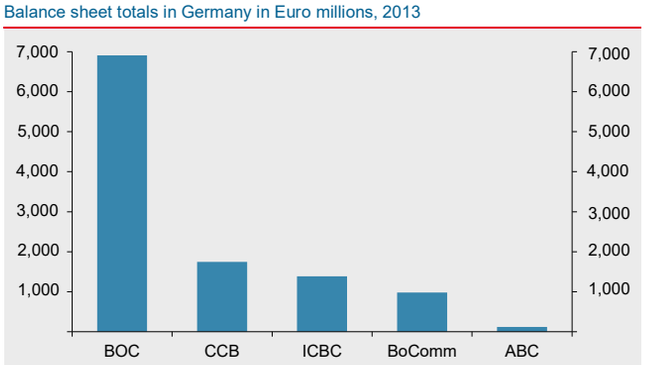
Tier 1 capital in USD millions, 2013



Sources: The Banker, Helaba Research

…scope for expansion in Germany

Balance sheet totals in Germany in Euro millions, 2013



Sources: Hoppenstedt, register of companies, Helaba Research

State backing for the largest Chinese banks

In Germany the big five banks are not yet among the most important players. In 2013 BOC, for example, which is the largest Chinese bank in Germany and the first Chinese bank to establish a presence here (see chapter 2.3), had a balance sheet total of around EUR 7 billion. Two years ago, the aggregated balance sheet total of all five Chinese banks in Germany was less than 10 % of Helaba's balance sheet (2013: over EUR 178 billion). Despite their hitherto limited size in Germany, the Chinese commercial banks have one asset, however, that they can really leverage – their state backing. By using the state, as their largest owner, to boost their equity they are constantly able to raise fresh capital. This provides them with impressive financial resources and thus gives them a decisive competitive edge in the German market.

[4] See Helaba Research: "Financial Centre Frankfurt: A Magnet for Foreign Banks" (2011) and "Financial Centre Frankfurt and Asia – A Growing Relationship" (2008)

[5] The following institutions China Merchants Bank, China Citic Bank, Shanghai Pudong Development Bank, China Minsheng Bank and Industrial Bank are nevertheless among the global top 50.

2.2 Cluster of firms attracts banks to Frankfurt

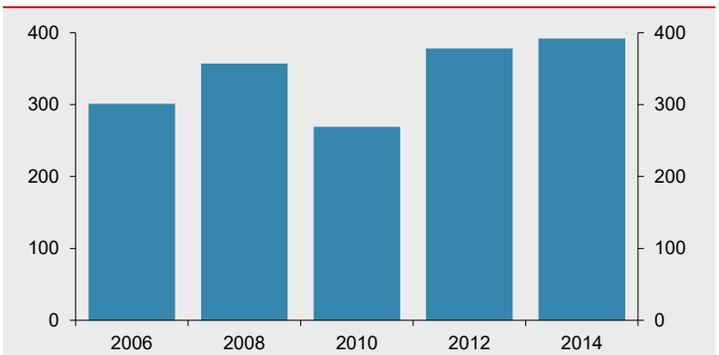
The focus of Chinese commercial banks' operations in the German financial centre is financing trade between the two large economies, which is rounded off by other business activities such as clearing or lending. The prerequisites for trade finance are good: A myriad of German companies want to participate in China's dynamic rise. Together with an experienced bank, which has the relevant contacts to China and is highly familiar with conventional business practices, hurdles in the form of bureaucratic constraints and controls on capital movements, can be overcome more easily.

German virtues highly regarded in China

Vice versa, companies from China aspiring to do business in Germany also need support at their location. In the meantime, there are approximately 400 Chinese companies in the Frankfurt area, which has led to the formation of a cluster. In China, it is not only products "Made in Germany" that are popular – this seal of quality also applies, as it were, to entrepreneurial activities in the German economy. After all, the Chinese appreciate German virtues like hard work, discipline, reliability and thoroughness. Accordingly, the "follow your customer" principle plays an important part for banks located in Frankfurt and this was expressed in our survey.

More and more companies coming to Frankfurt from China

Number in chamber of commerce district of Frankfurt*



* City of Frankfurt in addition to districts of Hochtaunus and Main-Taunus

Sources: IHK Frankfurt, Helaba Research

Office in Frankfurt indispensable

An office in the Main metropolis is de rigueur for the large Chinese banks since it enables them to build bridges between both countries, which are closely intertwined in terms of foreign trade. In any case, the fact is that customers of the banks surveyed expect them to have a presence in the German financial centre in order to have a direct contact person in their own language and time zone and to be able to benefit from their local expertise.

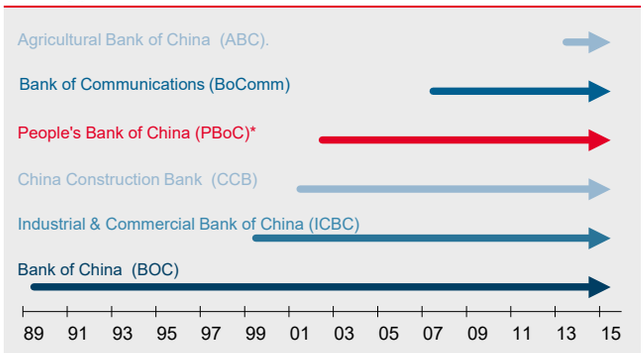
2.3 Frankfurt office with long-term prospects

The journey of Chinese banks to the German financial centre began as early as 25 years ago, one after another established an office in Frankfurt. The top management of the commercial banks, with joint Sino-German leadership, was formed of a manager seconded from the parent company and an experienced insider from Frankfurt's banking community.

Initially founded as a representative office with a handful of staff, in most cases a full banking license was obtained and a fully operational branch was opened a few years later. By taking advantage of the various contacts that had already been made, they grew their business in Germany and successively increased capacity at their Frankfurt offices. Behind this lies a long-term plan by the Chinese. Events in Frankfurt are not the only factors that play an important role in consistently expanding their network but also additional personnel capacity from the parent company.

More and more Chinese banks in Frankfurt

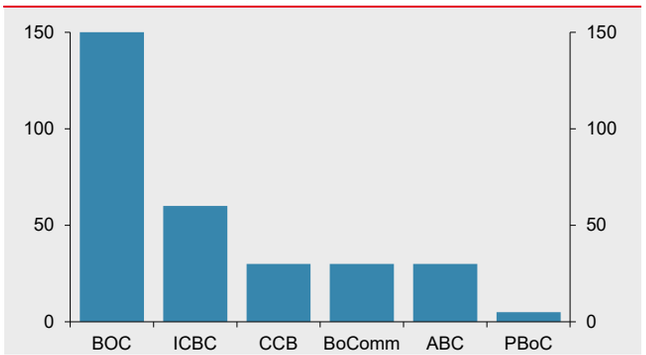
Founding year of branch



Source: Helaba Research *Representative Office

Expansion of Chinese banks in Frankfurt

Number of employees (rounded)



Source: Helaba Research

Chinese banks: between 30 and 150 employees

Meanwhile, at BOC, which arrived in Frankfurt as early as the late 1980s, there is a workforce of around 150 and at ICBC, which followed in the former's footsteps a decade later, a total of 60 people are employed. CCB's Frankfurt office, which was opened soon afterwards, currently has around 30 staff members, as does that of BoComm and ABC (branches founded in 2007 and 2013, respectively). At the moment, the representative tasks of the Chinese central bank, which has been located on the river Main since 2002, are carried out by six people, each of whom are seconded from China for one year at a time. The focus of its activities is an intensive exchange of information with other central banks, such as the European Central Bank, Deutsche Bundesbank and the Bank for International Settlements.

2.4 Chinese community in the German financial centre

All survey participants were unanimous in their responses that when it came to choosing office space, the only suitable area was a central, inner-city location. This is because it is important for Chinese banks to operate at the heart of Frankfurt's financial community and to "fly the flag" with their logo in the middle of the banking district. In this regard, a significant aspect is the immediate proximity to other institutions from their home country. Consequently, in the style of the well-known pop song, they are sometimes jokingly referred to as "West End Boys", as one of the managing directors told us, tongue-in-cheek, in the scope of our survey.

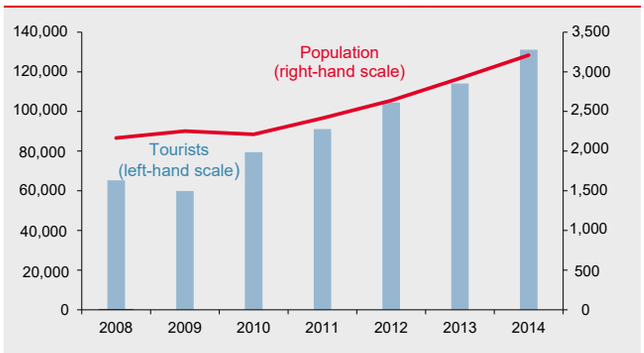
Competitors and "allies" at the same time

Although essentially competitors, at the same time they are also "allies" – a sentiment expressed in the interviews. They are all familiar with each other and it is not uncommon for them to act in unison when the issue is related to regulation or supervision, for example. In this way, they operate as their own small circle in Frankfurt's financial centre, which is increasingly expanding its footprint and gaining in importance. For instance, they work with German banks on the issuance of promissory notes. Furthermore, they are all members of the Association of Foreign Banks in Germany, which they consider to be important for the lively banking community in Frankfurt.

Through the activities of special corporate, cultural and sporting associations, there is something of a Chinese community in Frankfurt, which attracts more and more Chinese. There is a clear upward trend, both in terms of the numbers of inhabitants as well as tourists. At the end of 2014, around 3.200 Chinese were living in Frankfurt and more than 131,000 visitors came from China, including Hong Kong, which represents an increase of 15 % and 10 %, respectively, compared to the year before. All of this contributes to the increasing diversification of the Chinese "infrastructure" in Frankfurt.

Frankfurt is attractive for many Chinese

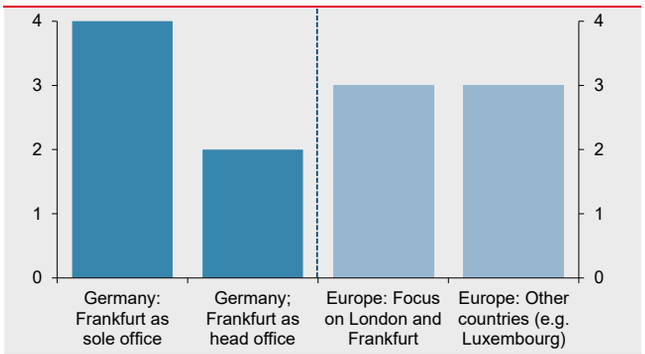
Number of Chinese visitors — Chinese population with main residence



Sources: City of Frankfurt, Helaba Research

Organisation in Germany and Europe

Locations of Chinese banks



Source: Helaba Research

2.5 Frankfurt as the hub of continental Europe

Frankfurt as a hub

Chinese banks operate within a large catchment area from the German financial centre. Their activities are not limited to doing intensive business with numerous local German and Chinese companies, but they also cover the entire German-speaking region from here. On top of that, Frankfurt, which has excellent transport connections, serves as a basis from which they can be active in selected European countries. The Chinese central bank uses Frankfurt to have an eye on events in the whole eurozone. For China, Germany acts as the gateway to Europe.

Against this backdrop, the organisational structure of the six surveyed banks looks like this: within Germany, most of them only have one single office in Frankfurt. This is also the focus for those companies that have a few additional branches in other German cities (BOC and ICBC). This also reflects the concentration of their staff at the head office in the German financial centre.

Within Europe, half of Chinese banks have opted for two pillars – one in London and one in Frankfurt as a gateway to continental Europe. There is practically no serious competition between these two branches due to the different focus of the business activities carried out in each location. The other three institutions additionally maintain offices at other European financial locations (e.g. Paris or Luxembourg). In this respect, regulatory considerations play an important part in Luxembourg, whereas Frankfurt stands out as the financial centre of a significant industrialised country.

2.6 Frankfurt's diverse qualities as a location confirmed

Suggestions for improvement: Foreigners Registration Office and regulation

What are the principal qualities that the German financial centre possesses as a location from the perspective of Chinese banks? Our survey brought to light a number of Frankfurt's advantages: the most common reasons why Chinese banks have an office here are listed in the following table on the left. On the right, you will see the main arguments why the Frankfurt area offers pleasant working and living conditions. Furthermore, the managing directors made some suggestions for improvements. For example, issues relating to a simplified approval process for new employees by the local Foreigners Registration Office or aspects of regulation were mentioned.

"Why is your bank represented in Frankfurt?"

Main arguments

- ✓ **Germany as an important trading partner for China**
- ✓ **Significance in financial and economic affairs**
- ✓ **Regional clustering of Chinese companies**
- ✓ **Gateway to eurozone / continental Europe**
- ✓ **Dual function of ECB**
- ✓ **Concentration of banks and institutions**

Source: Helaba Research

"What do you personally appreciate about Frankfurt?"

Main arguments

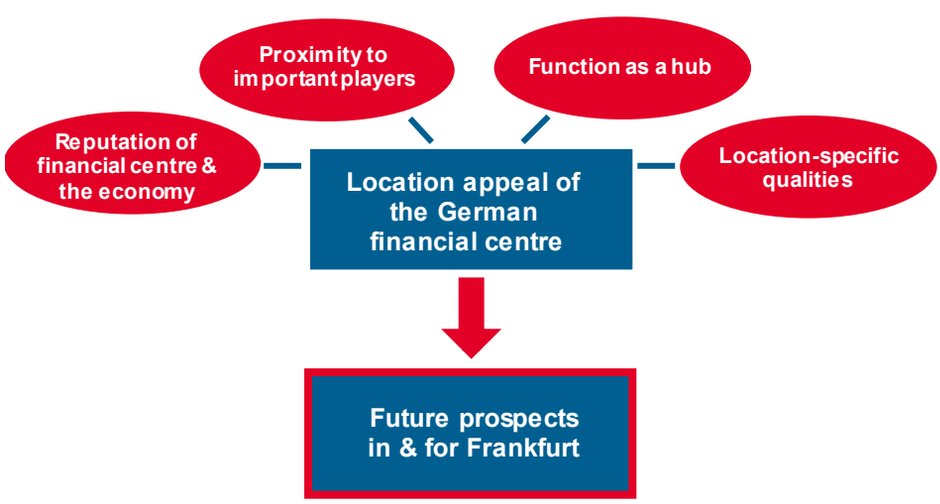
- ✓ **International character**
- ✓ **Safety**
- ✓ **Infrastructure**
- ✓ **Short distances**
- ✓ **Nature & cultural activities**
- ✓ **Quality of life**

Source: Helaba Research

Stronger emphasis on international character and safety

The various qualities Frankfurt possesses as a location, which had emerged from previous financial centre interviews in 2008 and 2011, were confirmed in our most recent survey. This time, however, the regional clustering of Chinese companies as a motivation for establishing a branch in Germany was mentioned as well. Moreover, the positive aspects of the city's international character and safety were more strongly emphasised. Overall, the responses can once again be summarised into four proven categories which subsume all the advantages that Frankfurt offers both professionally and privately: reputation of the financial centre and the economy, proximity to important players, function as a hub as well as location-specific qualities.

Survey-based location synopsis of the financial centre of Frankfurt



Source: Helaba Research (2011)

3 Opportunities for the financial centre of Frankfurt with Chinese banks

With its qualities as a location, the German financial centre is an attractive place to do business for a number of domestic and international players. The more players conduct business from here, the livelier the Frankfurt community will become and the better its future prospects will be. This also increases the appeal for the Chinese, who traditionally plan for the long term. Whether additional Chinese banks will come to Frankfurt in the near future remains to be seen, however, at least for the time being. Ultimately, it will probably be largely a political or regulatory decision, especially since by far the largest banks from China are already present in the German financial centre. All the managers surveyed were unanimous in their opinion that, in any case, there are sufficient business opportunities for Chinese banks in Frankfurt.

Chinese banks: Growth potential in Frankfurt

Without exception, banks from China represented in Frankfurt are all satisfied with their development to date and anticipate a further noticeable expansion in the years to come. This is consistent with the growth in the international significance of China and the financial backing of the institutions on the part of the state. Both in terms of their business volume as well as of the number of employees, the banks discern considerable potential for growth in the financial centre of Frankfurt. Along with the expansion of their business activities, the range of products they offer will become broader and more specifically tailored to the requirements of their Sino-German client base. In addition to that, banks from China, which are increasingly making a name for themselves in Germany, will be able to act more aggressively in the competition for German companies. This is not only limited to business with China. After all, the five biggest Chinese banks are well networked, not only among one another. They are reaching out more and more into the German banking and corporate landscape. Hence, the optimism that the managing directors expressed in our survey in relation to the prospects of their own banks is more than understandable.

The prospects for Frankfurt's financial centre also received a positive assessment. It remains the undisputed number one in the German financial sector. So taken for granted is Frankfurt's position in the banking community that some interviewees even found the question puzzling. The German financial centre's future position within Europe is viewed by most in a similar way as today – the leading location behind London. Instead of an excessive rivalry, the German financial centre should rather emphasise its strong basis in the real economy as well as take a restrained approach in terms of its regulation. Certainly, Frankfurt is considered capable of achieving a significant growth in importance. In this regard, the dynamic rise of China and the closely intertwined nature of its foreign trade with the renowned Germany economy have important roles to play.

Further pooling of resources will support opportunities for growth

The German financial centre is positioning itself more and more as an attractive location for Chinese businesses and financial services and this is strengthening links that had already been established. The development of Frankfurt as the first renminbi-trading centre in the euro area could well prove to be of enormous long-term value for the region. Thanks to the relationship between the financial centres of Germany and China, Frankfurt is predestined to benefit from the rise of the People's Republic in the world of finance. The more the players in Frankfurt's financial centre pool their resources and pull together to encourage the pioneering future development of the location, the better the opportunities for growth will be. ■

Helaba publications: Financial Centre of Frankfurt

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Financial Centre Focus
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Frankfurt: Hub of finance and supervision
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Addresses of Landesbank Hessen-Thüringen

Headquarters

Frankfurt am Main
MAIN TOWER
Neue Mainzer Straße 52–58
60311 Frankfurt am Main
phone +49 69/91 32-01
fax +49 69/29 15 17

Erfurt
Bonifaciusstraße 16
99084 Erfurt
phone +49 3 61/2 17-71 00
fax +49 3 61/2 17-71 01

Bausparkasse

Offenbach am Main
Strahlenbergerstraße 15
63067 Offenbach am Main
phone +49 69/91 32-02
fax +49 69/91 32-29 90

Erfurt
Bonifaciusstraße 19
99084 Erfurt
phone +49 3 61/2 17-60 2
fax +49 3 61/2 17-70 70

Development bank

Wirtschafts- und Infrastrukturbank Hessen
Strahlenbergerstraße 11
63067 Offenbach am Main
phone +49 69/91 32-01
fax +49 69/91 32-24 83

Branches

Düsseldorf
Uerdinger Straße 88
40474 Düsseldorf
phone +49 2 11/3 01 74-0
fax +49 2 11/3 01 74-92 99

Kassel
Ständeplatz 17
34117 Kassel
phone +49 5 61/7 06-60
fax +49 5 61/7 06-8 65 72

London
3rd Floor
95 Queen Victoria Street
London EC4V 4HN
Großbritannien
phone +44 20/73 34-45 00
fax +44 20/74 89-03 76

New York
420, Fifth Avenue
New York, N.Y. 10018
USA
phone +1 212/7 03-52 00
fax +1 212/7 03-52 56

Paris
118, avenue des Champs Elysées
75008 Paris
Frankreich
phone +33 1/40 67-77 22
fax +33 1/40 67-91 53

Representative offices

Madrid
(für Spanien und Portugal)
General Castaños, 4
Bajo Dcha.
28004 Madrid
Spanien
phone +34 91/39 11-0 04
fax +34 91/39 11-1 32

Moskau
Novinsky Boulevard 8
Business Centre Lotte,
20th Floor
121099 Moskau
Russland
phone +7 495/2 87-03-17
fax +7 495/2 87-03-18

Shanghai
Unit 022, 6th Floor
Hang Seng Bank Tower
1000 Lujiazui Ring Road
Shanghai, 200120
China
phone +86 21/68 77 77 07
fax +86 21/68 77 77 01

Real Estate Offices

Berlin
Joachimsthalerstraße 12
10719 Berlin
phone +49 30/206 1879-13 14
fax +49 30/2 06 18 79-69

München
Lenbachplatz 2a
80333 München
phone +49 89/5 99 88 49-0
fax +49 89/5 99 88 49-10 10

S-Group Bank offices

Düsseldorf
Uerdinger Straße 88
40474 Düsseldorf
phone +49 2 11/3 01 74-0
fax +49 2 11/3 01 74-92 99

München
Lenbachplatz 2a
80333 München
Phone +49 89/5 99 88 49-1014
fax +49 89/5 99 88 49-10 10

Stuttgart
Theodor-Heuss-Straße 11
70174 Stuttgart
phone +49 7 11/2 80 40 4-0
fax +49 7 11/2 80 40 4-20

Berlin
Joachimsthalerstraße 12
10719 Berlin
phone +49 30/2061879-13 10
fax +49 30/2 06 18 79-69

Selection of subsidiaries

Frankfurter Sparkasse
Neue Mainzer Straße 47–53
60311 Frankfurt am Main
phone +49 69/26 41-0
fax +49 69/26 41-29 00

1822direkt Gesellschaft der Frankfurter Sparkasse mbH
Borsigallee 19
60388 Frankfurt am Main
info@1822direkt.com
phone +49 69/9 41 70-0
fax +49 69/9 41 70-71 99

Frankfurter Bankgesellschaft (Deutschland) AG
JUNGHOF
Junghofstraße 26
60311 Frankfurt am Main
phone +49 69/1 56 86-0
fax +49 69/1 56 86-1 40

Frankfurter Bankgesellschaft (Schweiz) AG
Börsenstrasse 16, Postfach
8022 Zürich
Schweiz
phone +41 44/2 65 44 44
fax +41 44/2 65 44 11

Selection of subsidiaries

Helaba Invest
Kapitalanlagegesellschaft mbH
JUNGHOF
Junghofstraße 24
60311 Frankfurt am Main
phone +49 69/2 99 70-0
fax +49 69/2 99 70-6 30

GWH
Wohnungsgesellschaft mbH
Hessen
Westerbachstraße 33
60489 Frankfurt am Main
phone +49 69/9 75 51-0
fax +49 69/9 75 51-1 50

OFB
Projektentwicklung GmbH
Speicherstraße 55
60327 Frankfurt am Main
phone +49 69/9 17 32-01
fax +49 69/9 17 32-7 07

Helaba
Landesbank Hessen-Thüringen

MAIN TOWER
Neue Mainzer Straße 52-58
60311 Frankfurt am Main
phone +49 69/9132-2024
fax +49 69/9132-2244

Bonifaciusstraße 16
99084 Erfurt
phone +49 3 61/217-7100
fax +49 3 61/217-7101

www.helaba.de