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Financial Center Frankfurt and Asia – A Growing Relationship

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Editorial



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

Dear readers,

Everyone is talking about Asia, and not only because China will be hosting the Olympic Games this summer. The Olympic motto "Faster-Higher-Further" plays an important role also in the Asian financial and commodities markets, which means that it is very important, from the perspective of the financial center Frankfurt, to take a closer look at the disciplines that one can observe in these markets.

Olympic Games of the Asian Financial Centers

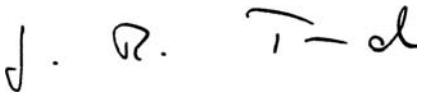
The present study therefore analyses the ways in which the German financial center Frankfurt is intertwined with Asia. In contrast to our 2006 study "Frankfurt: The Financial Center – A City on the Move," where Europe's large financial centers competed against each other, this time we are letting the Asian financial centers fight for the medals. A central question answered by the present study is therefore this: Which Asian financial centers have future potential and are especially attractive to actors in the German financial center? To that end we created the "Helaba Financial Center Ellipse Asia" to visualize the potential of Asian metropolises as financial centers. This entails a forecast of the future gold, silver, and bronze centers in Asia.

Frankfurt as the place to be

In addition, we will take a look at Frankfurt from an Asian perspective. In keeping with the Chinese saying "You measure a tower by its shadow," we have carried out a survey among Asian banks in Frankfurt with cooperation from the Goethe University. The central finding is that the local Asian actors in the financial center see the metropolis on the Main as a place to be in the European financial world. Frankfurt was able to score in various respects: starting with the unique advantage of being the seat of the European Central Bank, to the excellent transportation infrastructure, to its favorable geographical location in the heart of Germany and Europe. And so it comes as no surprise that from the perspective of the Asians, Frankfurt was able to win the most gold medals when it comes to the choice of a financial center within Germany. And Frankfurt garnered additional medals for its favorable starting position for opening up other European markets.

Recommendations

And since the competition is taking place not only in the Asian markets, but the European cities are also continuing to compete for the best rankings as financial centers, the study offers the financial center Frankfurt recommendations in the spirit of Mahatma Gandhi: "Be the change you wish to see in the world."



Content

		Page
1	**Focus of the Study**	**5**
1.1	Why Asia?	5
1.2	Selection of Eleven Asian Countries	5
2	**Asian Players on the Main**	**7**
2.1	Asian living in the Main metropolis	7
2.2	Asian Companies on the Frankfurt Stock Exchange	8
2.3	Presence of Asian banks in Frankfurt	9
2.4	Survey by Helaba and Goethe University among Asian Banks	11
2.4.1	Business Development	11
2.4.2	Evaluation of the Community	11
2.4.3	Geographic Base	12
2.4.4	Frankfurt's Qualities as a Location	13
2.4.5	Prospects for the Financial Center	14
3	**Financial Center Frankfurt in Asia**	**15**
3.1	Foreign Trade	15
3.2	Helaba Financial Center Ellipse Asia	16
3.3	Ranking of the attractive banking and stock market locations in Asia	17
3.3.1	Hong Kong	17
3.3.2	Singapore	18
3.3.3	Japan	18
3.3.4	China	19
3.3.5	Malaysia	20
3.3.6	India	20
3.3.7	Korea	21
3.3.8	Vietnam	21
3.3.9	Thailand	21
3.3.10	Indonesia	22
3.3.11	The Philippines	22
4	**Recommendations**	**23**

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An expanded version of the study is available in German.

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1 Focus of the Study

1.1 Why Asia?

Given the increasing globalization of economic and financial processes, a well thought-out strategy of internationalization is indispensable for the success of a financial center. That is why Helaba, in its 2006 study "Frankfurt: The Financial Center – A City on the Move," emphasized internationality as a central criterion of success for a financial center.

The present study makes the international ties of the German financial center the primary focus of its examination – more specifically, its ties to the dynamic region of Asia. That successfully emerging economic region is playing a growing role in the global economy, and the energetic development of this, the most populous part of the world, offers promising opportunities for international investors and participants in the financial market. This raises two central questions: To what extent is there Asian interest in the financial center Frankfurt? Which Asian countries have financial centers with potential for the future and are attractive to actors here in the German financial center?

1.2 Selection of Eleven Asian Countries

The focus of this study rests on eleven countries from the Asia/Pacific region. The countries were chosen for their overall economic importance and/or high dynamism. In that sense this is the "booming" Asia that is the focus of worldwide attention. Thus, in addition to mainland China and India as the two large emerging markets, we have also looked at the regional hubs of Hong Kong and Singapore, as well as a number of smaller countries that are part of the ASEAN economic community. In addition, two industrialized countries are included in the analysis with Japan and the Republic of South Korea. In what follows we will dispense with the qualifiers "mainland" when talking about China and "Republic of/South" when talking about Korea.

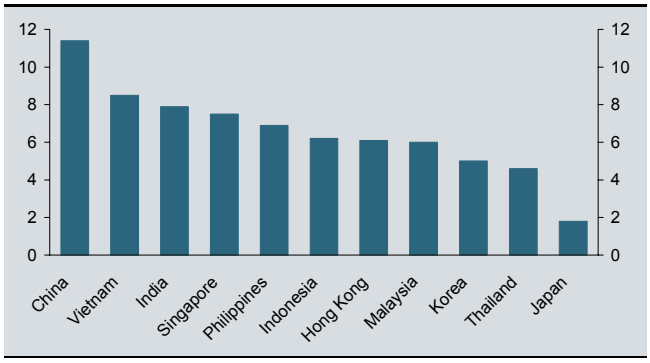
The importance of Asian economies

	Share of global GDP*	Population**
Japan	10.3	127.5
China	5.1	1,323.1
Korea	1.8	49.0
India	1.8	1,110.4
Indonesia	0.7	234.7
Hong Kong	0.4	7.0
Thailand	0.4	66.5
Malaysia	0.3	27.2
Singapore	0.3	4.5
Philippines	0.2	91.1
Vietnam	0.1	85.9

* %, nominal in $ (new data of the World Bank available only for 2005);
** Million (EIU, for 2007)
Sources: EIU, World Bank, Helaba Research

China with the strongest GDP dynamic, Japan with the weakest

2007, % real yoy



Sources: EIU estimates, Helaba Research

Combined share of global GDP 21%

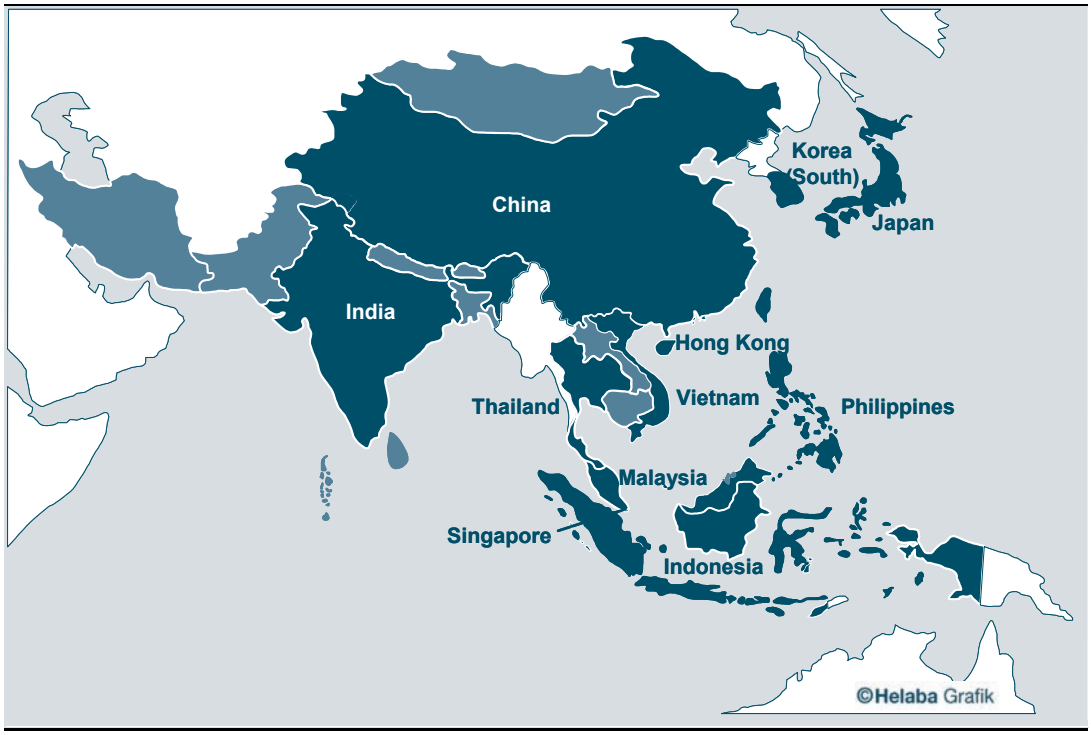
In the present study, "Asia" is used as a synonym for these eleven countries. Together, these countries generate a good 21 % of nominal global GDP. The other countries of the Asia/Pacific region contribute only around 2 %. Within the region, Japan has by far the largest GDP share at 10 %. After all, it is the second-largest economy in the world. In part as a result of its enormous population of over 1.3 billion, China has a 5 % share of global GDP.[1] India follows with a contribution to

[1] At the end of 2007, the World Bank, in its publication "2005 International Comparison Program," published updated

Respectable GDP share in Japan, China, India, and Korea

global GDP of just under 2 % and a population of 1.1 billion. Even if these two "population heavyweights" show similarities with respect to the overal dynamism of their economies (China with 11 % and India with 8 % real GDP growth in 2007 over the previous year), one should not throw the two into one pot, since there are striking differences. For example, China's focus is on the industrial sector, while India is more strongly specialized in service industries. India's GDP share is the same as that of Korea, although the latter country has a population of only 49 million.

Countries of the Asia/Pacific region*



* delineation of the region according to World Bank; the countries that form the basis of the present study are shaded dark blue.
Source: Helaba Research

Other countries with small share of global GDP

That the share of global GDP held by less-developed Indonesia is not that far off with just under 1 % is explained also by that country's larger population of just under 235 million. The other ASEAN states Malaysia, the Philippines, Thailand, and Vietnam each account for 0.1-0.4 % of global GDP, with populations ranging in each case between 30 and 90 million. Hong Kong and Singapore with limited populations of 7 and 4 million are also generating 0.4 % and 0.3 % of total global GDP, respectively.

High GDP dynamic in the region – with the exception of the industrialized countries

The economic dynamism in the region is generally high: the group of countries with particularly strong growth last year included, alongside China and India, also Vietnam and Singapore with slightly over and just under 8 % growth in GDP, respectively. Likewise, the Philippines (around 7 %) as well as Indonesia and Malaysia (each around 6 %) achieved noticeable economic growth. In the industrialized country of Japan, starting from a fairly high GDP volume, the overall economic expansion in 2007 was only around 2 %, and in economically developed Korea (5 %) it was also lower than in the other countries.

calculations of 2005 GDP based on purchasing power parities, using a new basket of commodities. For China, this new value of nominal GDP in purchasing power parities stood at 5,333 billion Dollars in 2005, which is 40% lower than the previous calculation. In the present study we therefore generally use the new GDP volume calculations of the World Bank for 2005.

2 Asian Players on the Main

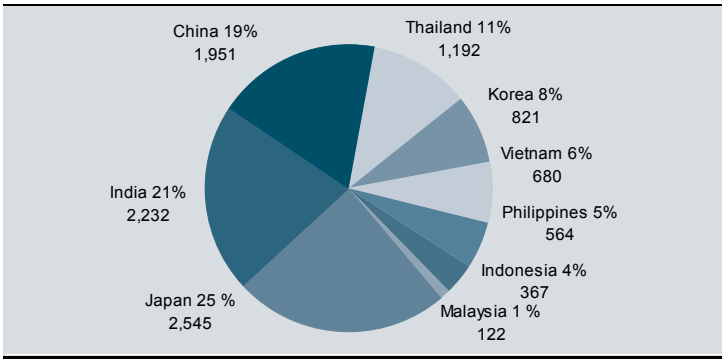
2.1 Asian living in the Main metropolis

Frankfurt is home especially to the Japanese, Indians, and Chinese

The city of Frankfurt has international flair: 25 % of its residents are foreigners, and 12 % are German inhabitants with indication of migration. It is also home to a larger number of Asians. Nationals from the eleven countries in question make up 7 % of Frankfurt's foreign population (2 % of total population). In the wake of Asian banks taking up residence in the German financial center, an especially large number of Japanese, Indians, Chinese, and Koreans live and work in Frankfurt.

Asian population groups in Frankfurt

Absolute numbers and share of total number of resident Asians at the end of 2007



Sources: Statistisches Jahrbuch Frankfurt, Helaba Research

Multi-faceted Asian community

The varied activities of the Asian population groups contribute to Frankfurt's internationalization: for one, most countries have official representations in the form of consulates and chambers of commerce. For another, some informal organizations and advocacy groups have emerged, such as economic clubs, cultural and athletic clubs, religious institutions, and schools.

Active lifestyles of the Japanese, Koreans, Chinese, and Indians

Asian institutions in Frankfurt

	General consulates*	Business organizations/ Chambers of commerce	Economic clubs**	Cultural/ athletic clubs**	Religious institutions***	Schools**
China	x	x	x	x	--	x
Hong Kong	--	x	--	x	--	--
India	x	x	x	x	--	--
Indonesia	x	--	--	--	--	--
Japan	x	x	x	x	x	x
Korea	x	x	x	x	x	x
Malaysia	--	--	--	--	--	--
Philippines	x	--	--	--	--	--
Singapore	--	x	--	--	--	--
Thailand	x	x	--	--	--	--
Vietnam	x	--	--	--	--	--

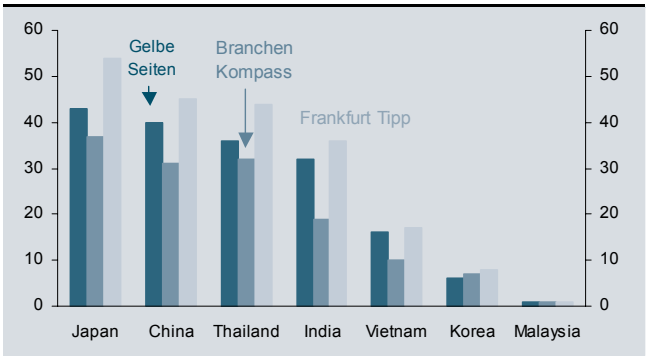
* largest Chinese consulate in Europe, exception the Philippines with Honorary Consulate; ** in addition to country-specfic institutions also supra- or international ones; *** distinct communities can be identified only for the Japanese and Koreans.
Sources: Wirtschaftsförderung Frankfurt, Internet-Wissensportal Konsulate (as of the end of 2007), Helaba Research

A variety of Asian restaurants

That especially Japanese, Chinese, and Indian influences are hard to miss in Frankfurt is also evident from the comparatively high number of restaurants representing these ethnicities. While there are few Korean restaurants, the culinary scene in Frankfurt is also characterized by a multitude of Thai and Vietnamese establishments. These restaurants are patronized not only by Asians, but also by many Germans and other nationalities.

Many Asian restaurants in the Main metropolis

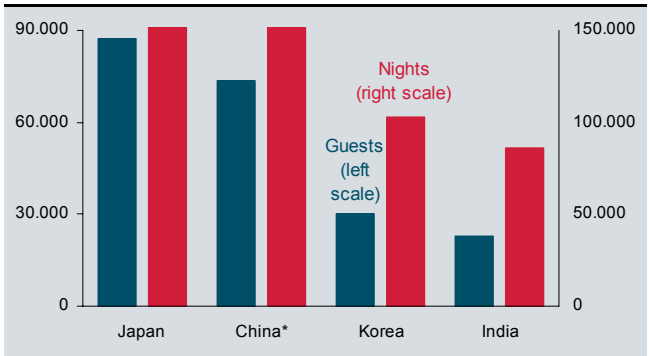
Number (end of 2007)



Sources: Gelbe Seiten, Branchen Kompass, Frankfurt Tipp, Helaba Research

Frankfurt 2007 a popular destination for Asian tourists

Number of guests | Number of nights



* incl. Hong Kong

Sources: Tourismus+Congress GmbH, Statistisches Jahrbuch Frankfurt, Helaba Research

Many Asian tourists and business travelers visit Frankfurt

Because of the city's status as an internationally renowned place for fairs, many business travelers from Asia make their way to Frankfurt. And it is not unusual for Asian companies that have successfully exhibited at several Frankfurt fairs to settle in the region. The Main metropolis is a popular destination especially for Japanese, Chinese, Koreans, and Indians: in 2007, around 87,000 tourists came from Japan, 73,000 from China, 30,000 from Korea, and 23,000 from India. Together, they accounted for about 15 % of foreign tourists in Frankfurt.

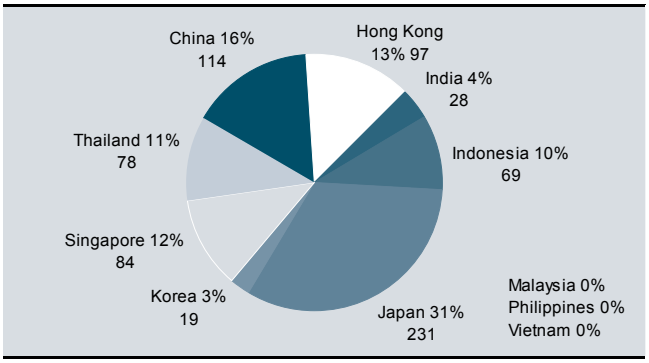
2.2 Asian Companies on the Frankfurt Stock Exchange

Deutsche Börse: trading in more than 700 Asian stocks

Asian companies are making their presence felt on the Frankfurt stock exchange: more than 700 Asian stocks are traded on the Frankfurt Open Market, with the trade in stocks from China, Hong Kong, and Japan accounting for the largest turnover volume. The comparison with the Top 10 of the respective Asian stock index reveals that it is especially also the large companies that are represented here.

Trade in many large Asian companies on the Deutsche Börse

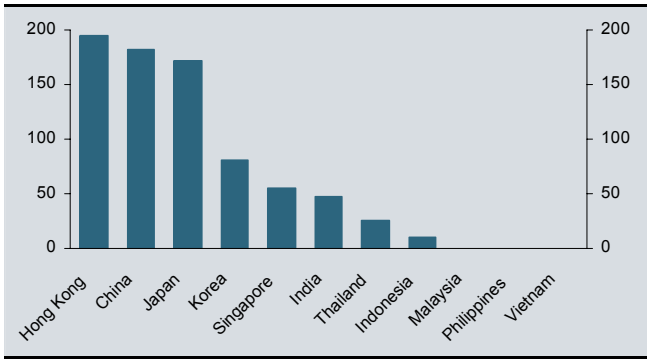
Number and share of traded stocks in the open market (end of 2007)



Sources: Deutsche Börse, Helaba Research

Turnover concentrated in stocks from Hong Kong, China, and Japan

Turnover with all stocks of a country in million € (end of 2007)



Sources: Deutsche Börse, Helaba Research

Intensive IPO marketing in China

Chinese companies have started to discover the Frankfurt stock exchange as a suitable place to launch their IPOs. The vigor in the Chinese corporate landscape favors the IPO marketing that the Deutsche Börse has been actively pursuing in China. And there have been initial successes: in 2007 a total of seven Chinese companies chose Frankfurt for their IPO. That the Main metropolis is able to successfully win private companies from the new "economic miracle country" early on for their debut in the stock market is promising; after all, so far these companies have no preferred

foreign stock exchange. Considerations regarding the peer group[2] play a role in the choice of Frankfurt to launch an IPO, as do financial aspects. Costs of an IPO in the Frankfurt stock market are comparatively low in international terms and are noticeably below those in Hong Kong, in particular. This suggests that there will be additional IPOs by Chinese companies, and plans in that direction are already on the drawing board.

2.3 Presence of Asian banks in Frankfurt

Asian banks have been coming to the Main for more than fifty years – Asian crisis leaves traces

Foreign banks from Asia have been present in the German financial center for more than fifty years. A few Asian banks have also newly settled in Frankfurt over the last few years, most recently the Indian ICICI. Of course, over the years there have also been Asian institutions that have reduced or terminated their activities in Frankfurt. Thus, the Asia crisis and especially the banking crises in Japan and Korea in the 1990s led to a reduced foreign presence of credit institutions from those countries.

Frankfurt: a favored location

All told, 31 of the 360 foreign credit institutions in Germany are from Asia. Of those, 24 or three-quarters have their seat on the Main. This makes Frankfurt by far the most favored location for Asian banks that are coming to Germany.[3] Japanese banks have a kind of division of labor within Germany: institutions focused on Japanese industry traditionally prefer Düsseldorf, while the larger number – with a stronger focus on non-Japanese customers or stock market activities – are located in Frankfurt. For the five Korean banks, Frankfurt is the only banking center of importance within Germany. The same holds true for Chinese and Indian institutions, even if their number in the German financial center is still fairly limited at five and two, respectively. Still, a growing interest in the German financial center is evident, as banks from China and India are expanding their activities on the Main.

Countries of origin: Japan, China, Korea, India

Three types of banks with different foci

When it comes to types of banks, one must distinguish between national central banks (3), state development banks (4), and the majority of commercial banks in the broader sense (17). On average, Asian commercial banks have around 30 local and foreign employees (central and development banks around five). They are very different in their orientation and area of activity: the commercial banks are active in various sectors – a few even as all-purpose banks, most with an emphasis on certain areas of business (e.g., foreign trade, payment transactions, structured financing, stock sales). In addition, a few are active as specialized institutions: two brokers, one capital investment company, and two automotive financers with Asian background. The Asian central and development banks focus on economic analysis of Germany and other European countries. For central banks this is joined by the intensive cultivation of contacts especially to the ECB, the Bundesbank, and in part also the EU Commission in Brussels or the Bank for International Settlements (BIS) headquartered in Basel. The state development banks in Germany serve as an interface for companies from the home country and devote themselves in this way to promoting investment by their home country.

[2] Meaning the extent to which the Deutsche Börse already has companies that are comparable with respect to sector, size, or core activities.

[3] These figures were calculated on the basis of information supplied in the survey by Helaba and Goethe University (see 2.4) as well as on the basis of company profiles; the clear outlier of around 400 employees in one bank (specialized insitution) was not included. In the case of these commerical banks, we are looking almost exclusively at active presence in the form of branch offices or credit institutions with a majority Asian ownership; there is only one representative office.

Asian banks in the German financial center at the end of 2007

Country of origin	Name of bank	Bank type			Type of presence		
		Comm. bank*	Develop. bank	Central bank	Branch	Foreign majority ownership	Represen-tative office
China	Bank of China Limited Zweigniederlassung Frankfurt am Main Frankfurt Branch	x			x		
	Bank of Communications Co., Ltd. Frankfurt Branch	x			x		
	China Construction Bank Corporation Niederlassung Frankfurt	x			x		
	Industrial and Commercial Bank of China Limited Frankfurt Branch	x			x		
	People's Bank of China Repräsentanz			x			x
India	ICICI Bank UK Ndl.**	x			x		
	State Bank of India (Indische Staatsbank) Zweigniederlassung	x			x		
Japan	Daiwa Securities SMBC Europe Limited Niederlassung Frankfurt am Main	x			x		
	Development Bank of Japan Repräsentanz Frankfurt am Main		x				x
	Honda Bank GmbH	x				x	
	Japan Bank for International Cooperation Repräsentanz in Frankfurt		x				x
	Maintrust Kapitalanlagegesellschaft mbH	x				x	
	MCE Bank GmbH	x				x	
	Mitsubishi UFJ Securities International plc, Frankfurt Branch	x			x		
	Mizuho Corporate Bank (Germany) AG	x				x	
	Nomura Bank (Deutschland) GmbH	x				x	
	Shinsei International Limited Zweigniederlassung Frankfurt am Main / Frankfurt Branch	x			x		
	The Bank of Japan Repräsentanz			x			x
Korea	Korea Exchange Bank (Deutschland) AG	x				x	
	Shinhan Bank Europe GmbH	x				x	
	The Bank of Korea Repräsentanz			x			x
	The Export-Import Bank of Korea Repräsentanz	x					x
	The Korea Development Bank Frankfurt Representative Office		x				x
Supra-national	Asian Development Bank European Representative Office		x				x

* incl. broker, capital investment company, automotive financers; ** licence of BaFin since March 2007, business activity since in February 2008.
Sources: Deutsche Bundesbank, Bundesanstalt für Finanzdienstleistungsaufsicht, Helaba Research

Chinese bank card in the German financial system

The importance of the German financial center for the Chinese financial system is being bolstered by the activities of China Union Pay (CUP), the only Chinese issuer of debit and credit cards. Thanks to the intensive collaboration between CUP and the Frankfurt service company B+S Card Service, it has been possible since the end of 2005 to pay with the Chinese card also in Germany. The goal of the two partners in the venture is to increase the acceptance of the CUP card in Germany and other European countries. In addition, since the end of 2005, as a result of a cooperation between CUP and Eufiserv (European Savings Banks Financial Service – joint enterprise of European savings banks), the ATMs of European savings banks also accept the CUP bank card.

2.4 Survey by Helaba and Goethe University among Asian Banks

The survey conducted by Helaba in cooperation with Professor Dr. Michael H. Grote (Johann Wolfgang Goethe University) has yielded many interesting insights into the Asian perception of the Main metropolis. Apart from 20 personal interviews in Frankfurt, two more managers from Asian banks located in other German towns were phoned. With that procedure a comprehensive picture of the sentiment concerning the qualities and role of Frankfurt for Asian banks was obtained.

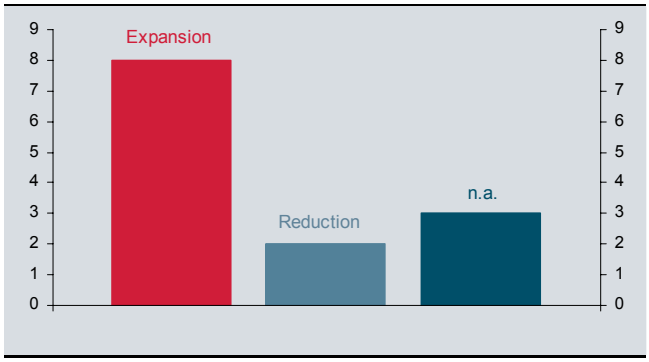
2.4.1 Business Development

Good growth opportunities at the financial center Frankfurt

The foreign Asian banks view the development of their business in the German financial center positive – both in the past and looking ahead. Nearly two-thirds of the commercial banks can look back on an expansion in Frankfurt. The majority of institutions already present on the Main are optimistic about their prospects for future expansion – good advertisement for additional market participants from Asia.

Past business actitivity in Frankfurt

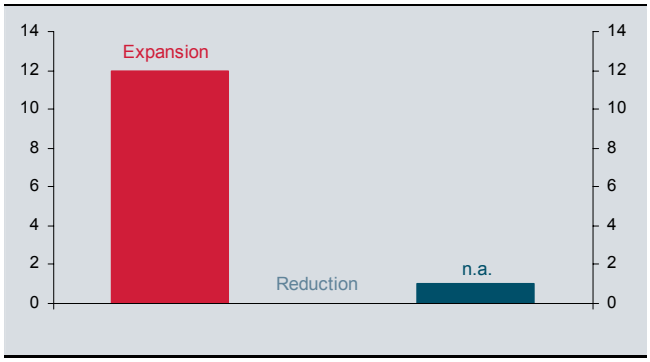
Number of commercial banks



Sources: Survey Helaba Research & University of Frankfurt

Assessment of future prospects in Frankfurt

Number of commercial banks



Sources: Survey Helaba Research & University of Frankfurt

Increased future activities by Chinese, Indian, and possibly Korean banks in Frankfurt

Chinese and Indian credit institutions are already in the process of expanding their activities in the German financial center by either setting up new offices in Frankfurt or converting existing ones into fully operating banks. Bank representatives from these two countries were optimistic that this was a trend that would continue for the time being. Korean bank representatives were equally positive and pointed to the trend to set up an international network. Against this background it is quite conceivable that an expansion of business in Germany and Europe will crystalize once again, bringing in its wake also an expansion of activities by Korean banks in the German financial center.

Long-term several Japanese banks also conceivable in Frankfurt

The situation is different among Japanese institutions, especially since the wave of mergers in the Japanese banking sector has visibly reduced the number of large banks. However, a new movement of consolidation is apparent in the Japanese banking sector, this time among the small and medium-sized institutions. Such mergers could mean increased competition for Japan's large banks both at home and abroad. Moreover, it is conceivable that if the interest of Japanese industrial companies in the Frankfurt airport as an attractive distribution center continues to grow, more Japanese financiers will be coming to the city on the Main over the long term.

2.4.2 Evaluation of the Community

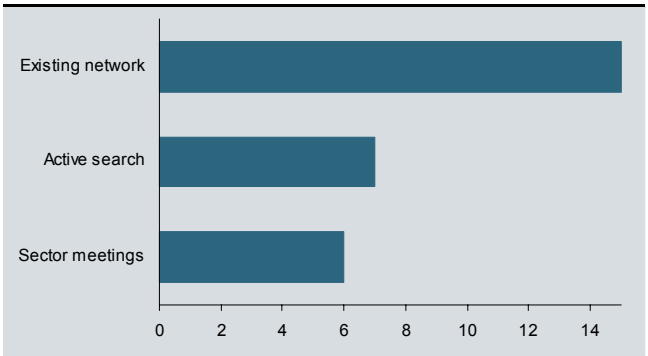
Active banking community for contacts and cooperation

Of those surveyed, 95 % affirmed the existence of an active banking community in Frankfurt. In fact, many Asian banks felt that it was a very dynamic community, even if they themselves did not necessarily seem to be among the most active players. Nevertheless, many Asian banks clearly

benefit from the financial community in Frankfurt: sector meetings and an institution's already existing network often serve to establish new business contacts; in addition, numerous institutions are also engaged in an active search for new business contacts, for example via the Internet. When asked about cooperation with other institutions in the German financial center, three-quarters of the Asian banks answered in the affirmative.

"How do you establish new business contacts?"

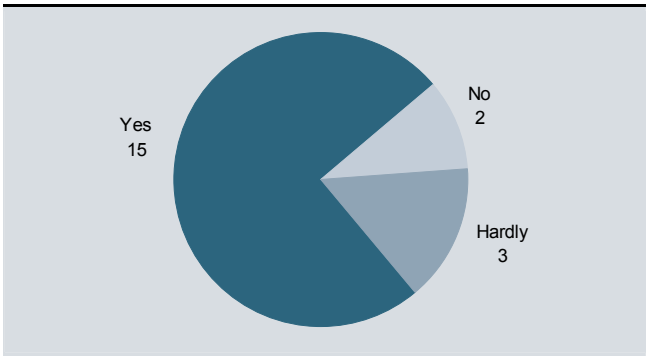
Number (multiple answers possible)



Sources: Survey Helaba Research & University of Frankfurt

Cooperation with other banks in Frankfurt

Number



Sources: Survey Helaba Research & University of Frankfurt

Japanese, Korean, and Chinese communities

Those surveyed were all agreed that there is no active, pan-Asian union; instead, it is more formal in nature. After all, the various nationalities are too different and form their own communities, though these are limited in size compared to other large cities around the world. Thus, the financial center Frankfurt is home to a Japanese, Korean, and Chinese community. There are regular meetings on both the professional and private levels.

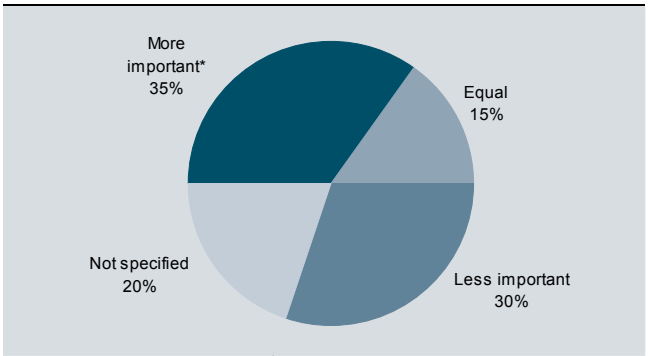
2.4.3 Geographic Base

Asian focus in Germany clearly on Frankfurt

For Asian banks, Frankfurt holds an important place on the European continent since it has numerous advantages as a location. Nearly all of the Asian banks surveyed are concentrating their activities within Germany on Frankfurt; only two maintain an additional office in Düsseldorf with emphasis in a different area of activities. In general this is no disadvantage for the minority of Asian institutions that are active in German cities outside the Rhine-Main region. After all, a decisive argument for their choice of a location is direct customer contact, for example to the shipping sector in Hamburg or Japanese corporate clients in Düsseldorf.

Role of the Frankfurt office in relationship to London

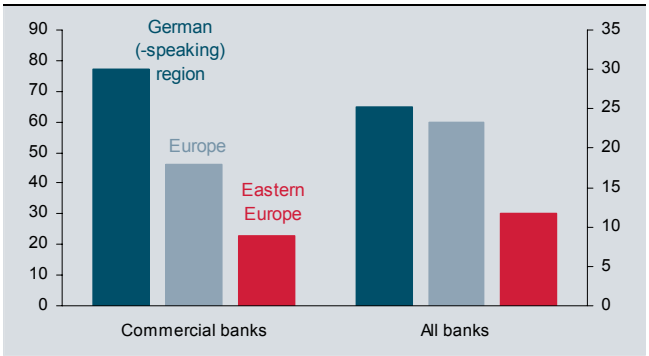
Percentages



* incl. only European office on the Main
Source: Survey Helaba Research & University of Frankfurt

Geographical focus of Asian banks on the Main

% share (multiple answers possible)



Source: Survey Helaba Research & University of Frankfurt

For many an office on the Main more important than one on the Thames

As a location, Frankfurt plays an important role not only in Germany but also within Europe: for 35 % of those polled, their institution's office on the Main is the most important in Europe –

among them also three banks who felt no need to be present in London. In fact the percentage of those who placed stronger weight on their office on the Thames was even a little lower at 30 %.[4]

Extensive market coverage in Europe with the Frankfurt office

The Asian institutions service a multitude of countries from their office in the German financial center. Their Frankfurt activities concern, in addition to the German-speaking region, many other European countries, such as Scandinavia, the Benelux states, larger member countries of the Euro-zone, and most recently also Eastern Europe to a growing extent.

2.4.4 Frankfurt's Qualities as a Location

Main reasons for a branch on the Main: proximity to the community, infrastructure and location, and the German economy

As the primary reason for their decision in favor of Frankfurt, two-thirds mentioned the possibility of contact with financial market place actors like the ECB and the Bundesbank, commercial banks, and the stock market. With some frequency the metropolis on the Main was seen as the place to be in the (German) financial system. In addition, for 40 % of respondents Frankfurt's attractive infra-structure in the heart of Europe played an important role, and they pointed in this regard especially to its airport as an international hub. For one third the German economy was also a motivating fac-tor behind their presence in Frankfurt. Because of the overall size of its economy (in third place globally) and its reputation for quality ("Made in Germany"), Germany is seen in Asia as an inter-esting market, the economic relationships with which should be strengthened.

Cultivation of personal contacts indispensable for business success

The response to the question of whether the activities pursued in Fankfurt could be done from a different location reveals just how important proximity to their business and cooperation partners is to the Asian banks. Three-quarters answered emphatically in the negative on the grounds that the networks in Frankfurt were indispensable to them. In addition, they pointed to the time differ-ence between Germany and Asia – a clear limitation on the practicality and efficiency of activities pursued only from their home country. Moreover, around 70 % of the Asian banks indicated that their presence in Frankfurt was expected from their customers and that they were taking active advantage of the possibility of direct contact. This confirms the thesis put forth in the Helaba study of 2006 that proximity to the community is not rendered obsolete by increasing technology. On the contrary: it would seem, especially in view of the diversified possibilities of contact across geo-graphic distance, that the face-to-face conversation is becoming increasingly important as a way of expanding business contacts.

Feeling comfortable in Frankfurt: many personal pluses

Asian bank representatives also expressed their personal opinion about the Main metropolis. Near-ly all those surveyed liked living and working in the Frankfurt region. In part this can be attributed to the politeness of the participants in the poll, though it also speaks to a positive view of Frankfurt from an Asian perspective, especially since the responses highlighted special pluses: an excellent transportation infrastructure with short distances, a professional work atmosphere with good career prospects, attractive cultural offerings, nature close by, a high living standard, internationality and cosmopolitanism, and a pronounced feeling of safety.

Asian Financial Center Star Frankfurt: 14 positive attributes

On the whole, the surveyed representatives of Asian banks perceived all the strengths of the Ger-man financial center that Helaba had identified in its last study; in addition, they brought up further positive aspects of Frankfurt. The spectrum of all attributes is visualized by the Asian Financial Center Star Frankfurt. All told, there are fourteen characteristics of the German financial center that are essential in making Frankfurt attractive to Asian actors.

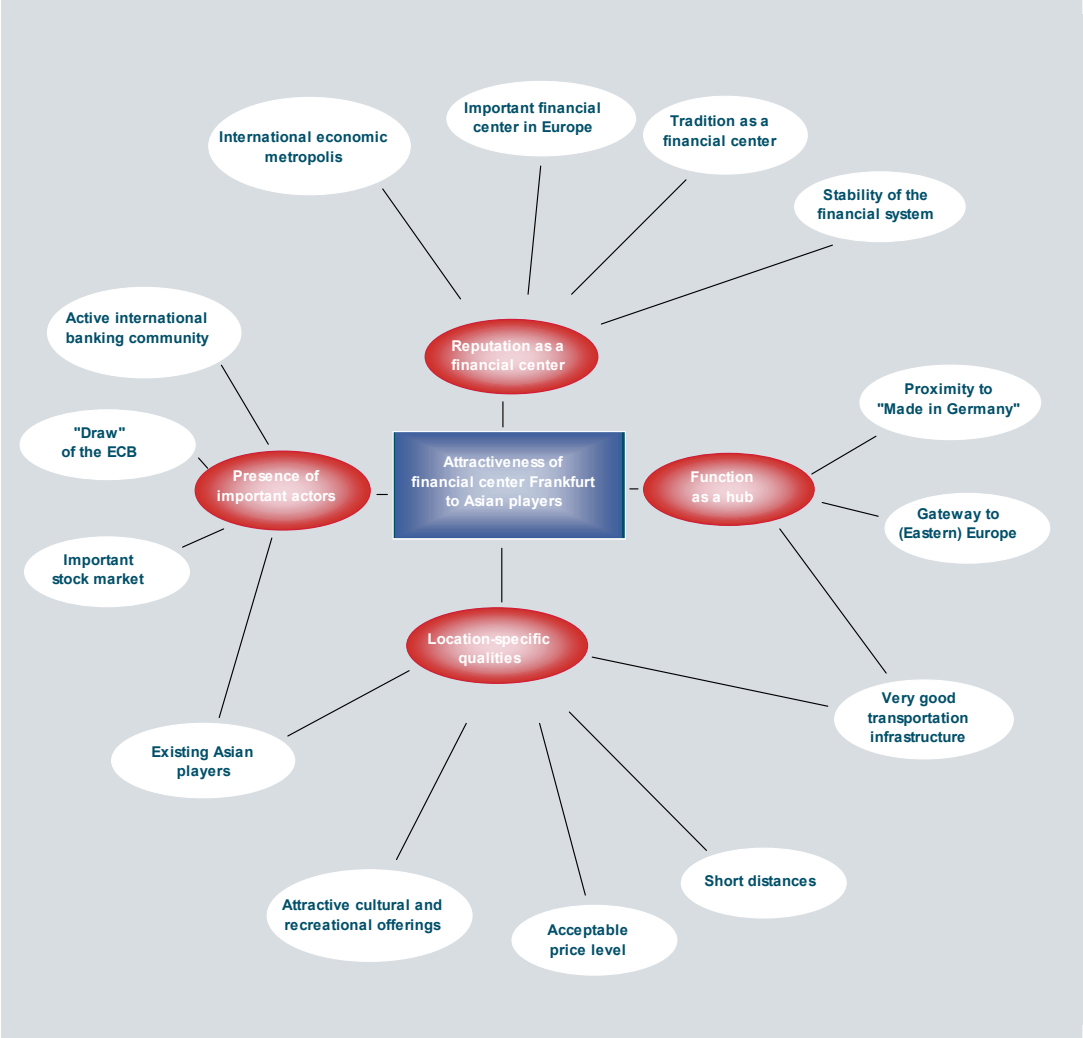
Occasional mention of Frankfurt's weaknesses

Occasionally those surveyed also pointed to weaknesses of the financial center Frankfurt. This was not a general view, but only individual opinions, some of which were contradicted by other state-ments. For one, the three widely known weaknesses of Frankfurt were confirmed: respondents

[4] Since the survey was conducted among Asian banks in the financial center Frankfurt, it did not include those institutions with offices only in London.

faulted the limited size of the financial center and its surrounding region, inner-German competition from regional financial centers with negative repercusions on the international positioning of Frankfurt and Germany, and the marketing of Frankfurt. For another, respondents mentioned aspects they felt needed improvement, especially in the private sphere: communication in English was often cumbersome in private everyday life and at times still not a given even at business meetings.

Asian Financial Center Star Frankfurt



The fourteen factors that make Frankfurt attractive from an Asian perspective are grouped into four main categories (red ovals); in two cases there is overlap in the allocation of the factors.
Source: Helaba Research

2.4.5 Prospects for the Financial Center

Frankfurt remains No. 1 in the German financial system

The outlook for the financial center Frankfurt within Germany is clear to those surveyed: The city will continue to hold the top spot unchallenged. This was expressed almost unamiously by the managing directors and representatives, in fact some were puzzled by the question itself. After all, Frankfurt is seen as the "symbol of modern Germany," for example, with which other cities cannot compete in the area of the financial system. However, when it comes to the future role of the German financial center within Europe, most of those surveyed found it difficult to articulate an opinion. Many justified this by saying that they were not in a position to assess central factors, such as the macroeconomic development and political support. Respondents felt that the starting position of the "City of the Euro" were good, but that Frankfurt had to make better use of its opportunities.

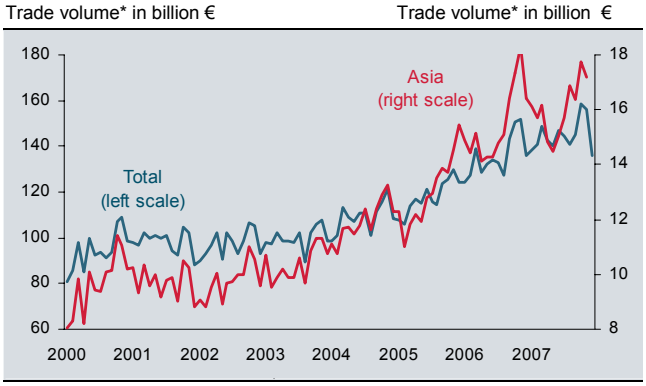
3 Financial Center Frankfurt in Asia

3.1 Foreign Trade

Foreign trade linkages pave the way for financial institutions

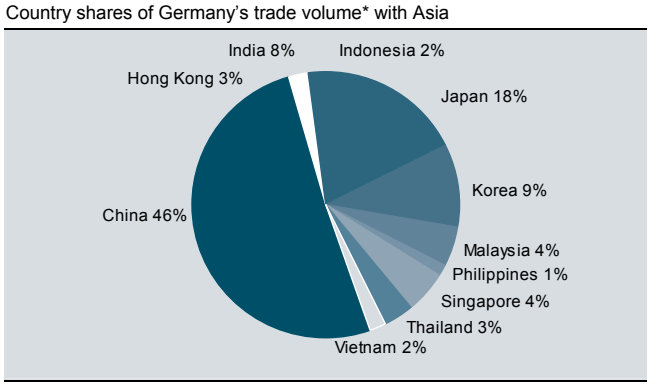
The extent of the economic linkages between Germany and Asia can be measured, for one, by the flow of goods across the borders. For another, direct German investments in Asia provide a good starting point for credit institutions with plans to expand in that region.

German foreign trade intensifies especially with Asia



* Sum of exports and imports
Sources: Destatis, Ecowin, Helaba Research

German trade with major focus in Chinas

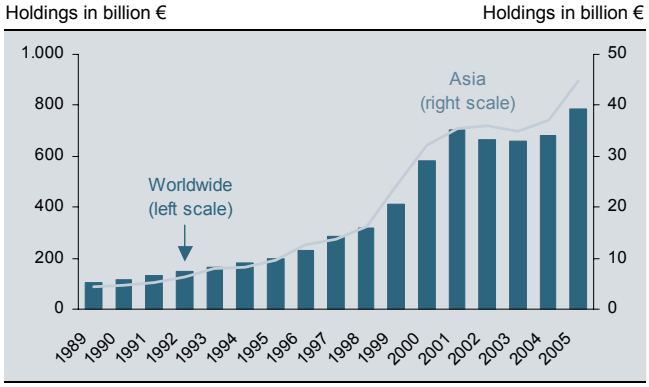


* Sum of exports and imports, end of 2007
Source: Destatis, Ecowin, Helaba Research

Dynamic development of trading links – China, Japan, Korea, and India as important partners for Germany

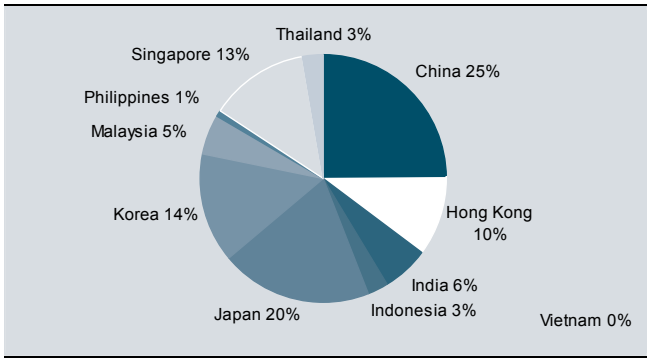
Germany's foreign trade as a whole has shown a dynamic development in the last years, and especially so with Asia. Compared to the beginning of 2002, when the trade of commodities began to pick up steam, the trade volume with Asia was around 90 % higher at the end of 2007 (worldwide it was higher by "only" 70 %). At around 17 billion Euro, 11 % of Germany's foreign trade activity involved the Asian countries examined in this study. Of that, about 40 % were German exports into this region, while the largest share represented goods imported to Germany. Within Asia, China plays the most important role for German foreign trade (around 8 billion Euro; 45 %), followed by Japan (20 %) and then Korea and India (10 % each). India and China were able to notch up the largest growth between 2002 and 2007 (260 % and 200 %, respectively). German-Vietnamese trading links also developed robustly and were able to rise by around 130 % in this period, although they started from a much lower level.

German direct investments in Asia are expanding . . .



Sources: Deutsche Bundesbank, Helaba Research

. . . and are visibly diversified



Sources: Deutsche Bundesbank, Helaba Research

Similar to trading links, Germany's direct investments in Asia have also intensified noticeably during the last years. In 2005 these investments amounted to around 45 billion € , 6 % of all German investment holdings abroad. Alongside industrial enterprises, German credit institutions are

Alongside large trading partners, Singapore and Hong Kong also important recipients of direct investments

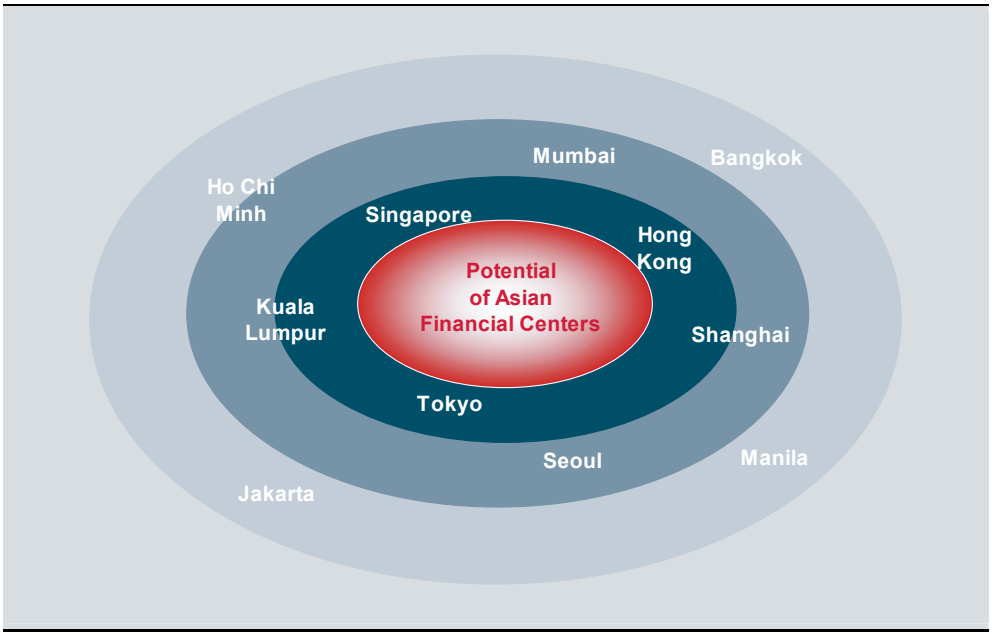
also visibly engaged in this way (share of more than 10 % of direct investment holdings). Analogously to foreign trade, the focus of German direct investments is also on China, which was the recipient of 25 % of the money that flowed to Asia. Japan and Korea also stand out at 20 % and 14 %, respectively. Different from the flow of goods, however, Singapore and Hong Kong are also important destinations of direct German investments in Asia (13 % and 10 %, respectively).

3.2 Helaba Financial Center Ellipse Asia

Intense competition among Asia's financial centers

Rankings by Mastercard, Corporation of London, and the Securities & Futures Commission Hong Kong confirm the uncontested leadership position of Hong Kong and Singapore as international economic and financial metropolises, and Japan's position as one of Asia's premier financial centers. However, in the wake of the economic boom, the competition among the region's financial centers is becoming more and more intense. Many Asian cities see themselves as 'the" financial center and are emphatically wooing participants in the financial market.

Helaba Financial Center Ellipse Asia:
Categories of the potential of Asian metropolises as financial centers*



* The closer to the center a city is located, the greater its projected potential as a financial center:
The innermost, dark blue area around the core of the ellipse forms the first category of financial centers that will be internationally successful in the future, the second category of financial centers that continue to have only national importance is medium blue, and the outer, light blue ring comprises cities without a pronounced characteristic as a financial center also in the future.
Source: Helaba Research

Ranking according to long-term success potential of the various centers

But which countries in Asia have financial centers with potential and are attractive to the nucleus of the financial center Frankfurt? The **Helaba Financial Center Ellipse Asia** answers this question by offering a concrete vision of what the Asian financial center region will look like in the future. From this one can derive the following ranking of Asian's various financial centers: we continue to see Hong Kong, Singapore, and Tokyo as top international locations. Next are the dynamic newcomers Shanghai and Kuala Lumpur as well as Mumbai, followed by Seoul in the middle of the pack. Ho Chi Minh with its long-term potential for advancement is placed in front of the cities with the lowest potential as financial centers, which include Bangkok, Jakarta, and Manila.

3.3 Ranking of the attractive banking and stock market locations in Asia

The general ranking from the ellipse is concretized and modified in the **Helaba Smiley Table Asia** by means of special assessment criteria.[5] Alongside business considerations specific to various institutions, this represents an important decision-making basis for actors of the German financial center on their way to Asia.[6] In the case of the Deutsche Börse this is more a long-term prospect, for while a process of opening has begun in the Asian stock market system, real consolidation is for now still impeded by the national perspectives that prevail at the various stock exchanges.

Helaba Smiley Table Asia

Ranking Helaba Financial Center Elipse Asia		Stock Market*	Banking location		
			Quality of the banking sector	Latitude for foreign banks	Economic and supply aspects
Top international locations	Hong Kong	☺	☺	😐	😐
	Singapore	😐	☺	😐	😐
	Japan	☺	☺	☺	😐
Dynamic newcomers	China	☺	😐	☺	☺
	Malaysia	😐	😐	😐	😐
	India	☺	😐	☺	☺
Nationally important financial center	Korea	😐	😐	😐	😐
Rise to a national financial center	Vietnam	☹	☹	☺	😐
Lowest potential as a financial center	Thailand	☹	😐	☺	😐
	Indonesia	☹	☹	☹	☺
	Philippines	☹	☹	☹	😐

The detailed analysis of the various banking and stock market locations which leads to the smiley assessments can be found in the expanded German version of the study.
☺ indicates that an Asian economic location is well positioned for this criterion and is thus highly attractive to actors in the Frankfurt financial center. ☹ indicates that deficits in a certain area are pronounced at this time, which means that the attractiveness is rather low in this area. 😐 indicates a ranking in the middle of the range.
Source: Helaba Research

3.3.1 Hong Kong

World class financial center – limited opportunities for German banks

Thanks to its strong competitiveness, good strategic location, and importance to Chinese companies for capital procurement, this flourishing regional hub is a top international location in the financial system – and is likely to remain so. Starting from its growing reputation and roots in the global financial activities, Hong Kong is likely to be a preeminent financial center of world rank also for the long term. This also makes Hong Kong attractive as a cooperation partner for the

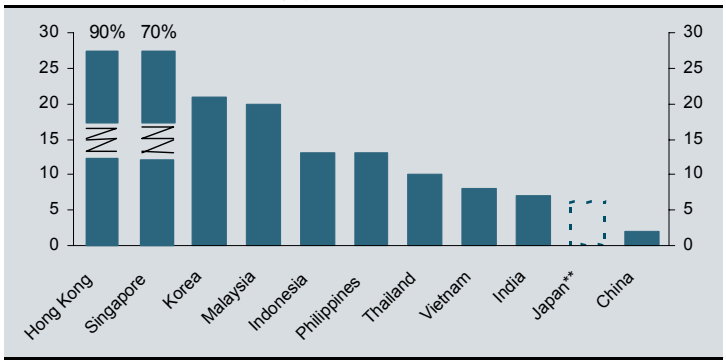
[5] The Helaba Smiley Table Asia is sorted in accoradance to the ranking list of Asian financial locations.

[6] The various countries are given as synomyms for their financial capitals, since the latter are relevant to a foreign actor's entry into the market and are under the influence of the country-specific general economic conditions.

Deutsche Börse (☺). However, to date these two international stock market heavyweights are linked only technologically via Clearstream: this international securities administrator and provider of post-trade services with an international focus launched its business in Asia at the beginning of the 1990s with a branch in Hong Kong. The banking sector of the renowned financial center is considered healthy (☺). As a result, many foreign banks are already represented here, which points to rather limited leeway for credit institutions that are new to Hong Kong (😐). The economic and supply indicators also suggest only average opportunities for institutions entering the market (😐). Because of limited possibilities of expansion in the Chinese Special Administrative Zone, even banks that are already present in Hong Kong are increasingly directing their business activities toward mainland China.

Market share foreign banks

Share of the assets of the banking system in %*



* various points in time (2004-2007), ** survey-based value
Sources: National Central Banks and Banking Organisations, BIS, Fitch, World Bank, Helaba Research

3.3.2 Singapore

Comparative assessment of Singapore and Hong Kong

Like Hong Kong, Singapore is already a successful financial center of world rank and is likely to retain that role also in the future. The city state's acknowledged status as a regional hub with extensive connections in the financial world and its prominence in certain areas, ship financing and private banking, for example, make it attractive. Still, Singapore is of limited interest to the Deutsche Börse, since its stock market has only a fairly small volume and there is no recourse to any meaningful contacts (😐). Singapore's banking sector is characterized by high stability and a competitive orientation, which makes it next to Hong Kong the "healthiest" in the region (☺). Nevertheless, the chances of success for newly arriving foreign banks are not likely to be all that good at this offshore location, either. This is indicated by the limited leeway for new foreign banks (😐) as well as the good supply of bank-specific services (😐).

3.3.3 Japan

Financial center Tokyo with good future prospects also for German banks

In addition to the two regional hubs of the region, the Japanese financial center will also be among the top international locations in the future. Its weight as an international stock market location and as the financial center of the world's second-largest economy guarantee that Tokyo will be highly important in global financial activities. The better the opportunities will be used or politically supported, and the more Tokyo opens itself to international market currents, the greater the importance of the Japanese financial center for Asian and international financial activities will be. The stock market heavyweight Tokyo is thus an attractive partner for alliances (☺), although to date the Deutsche Börse maintains only a technological link via Clearstream – exactly as it does with the other top financial centers of Hong Kong and Singapore. The chances of success for German banks should be slightly better overall in the Japanese capital than in the two regional hubs, with a comparable quality of the banking sector (☺) and bank-specific services (😐). The crucial difference is, however, that the penetration of foreign banks is less pronounced in Japan than in Hong

Kong and Singapore. This points to maneuvering room for foreign banks in Japan's highly developed financial system (☺), especially since the interlocking shareholding in that country's banking and corporate sector is being dismantled.

Assessment of Asian banking systems

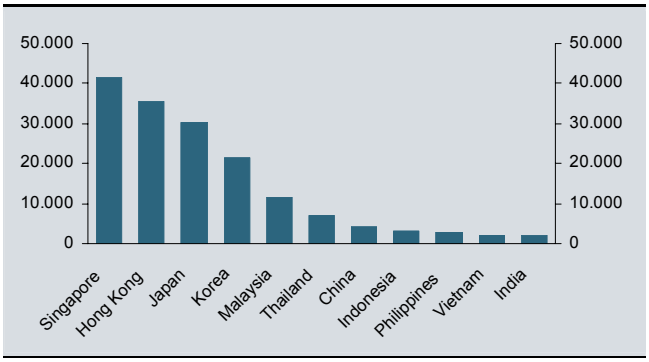
Rating classes

	EIU	S&P
China	B	6
Hong Kong	A	2
India	BB	6
Indonesia	B	8
Japan	A	3
Korea	BBB	4
Malaysia	BBB	4
Philippines	B	8
Singapore	AA	2
Thailand	BB	6
Vietnam	B	9

Sources: EIU "Banking Sector Risk", S&P "Banking Industry Country Risk Assessment" (both August 2007), Helaba Research

Ranking of Asian countries according to per capita GDP

$ in purchasing power parities, 2005*



* new assessment basis available only for 2005 (see Section 1.2)
Sources: World Bank, Helaba Research

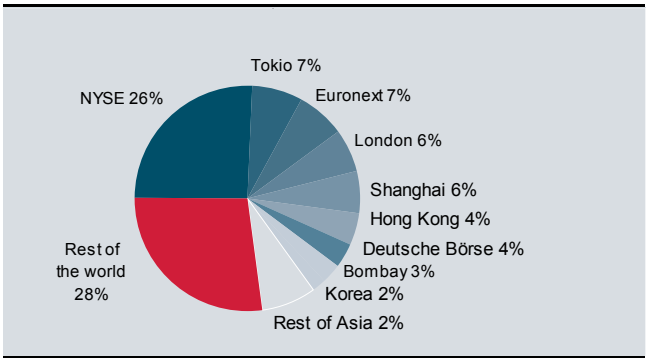
3.3.4 China

Opportunity for advancement as a financial center, promising prospects for German stock market and banks

The emerging location of Shanghai has good chances to become a future newcomer among Asia's internationally important financial centers, as its position in the Helaba Financial Center Ellipse Asia at the boundary to the top 3 of the region indicates. Its vigorous "domestic" competititon with the Chinese special administrative zone of Hong Kong, given a concentration on a division of labor, harbors advantages for both locations, in keeping with the principle "One country, two systems". Finally, promising possibilities of development exist for both Shanghai and its economically potent hinterland, and for Hong Kong with its international focus. These prospects of the financial center Shanghai are part of the reason why a stronger link between the Chinese and the German stock markets seems attractive. The Frankfurters have already taken steps in that direction. For one, various cooperation agreements were signed (including the trading system Xetra in Shanghai), for another the intensive advertising of the Frankfurt stock exchange in China has led to Chinese IPOs on the Main. All this leads to the positive overall assessment for the stock market location China from a German perspective (☺).

Global market capitalization of the main stock markets

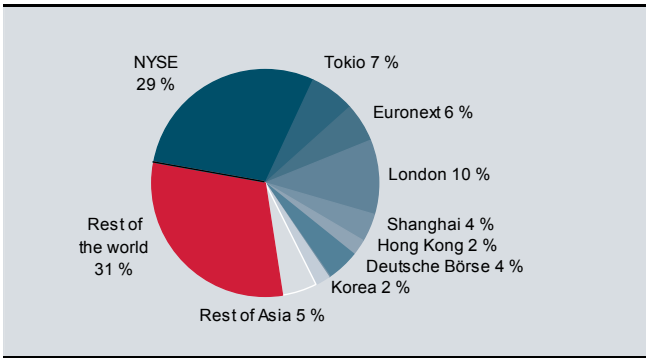
Share in %, end of 2007



Sources: World Federation of Exchanges, Helaba Research

Volume of traded stocks worldwide

Share in %, end of 2007



Sources: World Federation of Exchanges, Helaba Research

Something similar holds for China's attractiveness as a location for German banks, as the three bank-specific criteria indicate: crucial to the rather good prospects for German banks are the limited availability of banking services (☺) in the "growth giant", and the relatively low market share of foreign banks, which means that there is room for more foreign institutions (☺). Although that

can also be attributed to negative structural aspects, over the medium term improved competitive conditions in the banking sector are foreseeable, provided the reform process that has already been initiated is consistently continued. Thus there is still need for improvement in the quality of the banking system (😐). China is the only one of the eleven countries in question that is fairly well positioned in all three assessment categories as a financial, stock market, and banking location, and it thus has promising potential overall in the medium term for actors in the Frankfurt financial world.

3.3.5 Malaysia

Strategy of specializing in Islamic Banking is promising for Malaysia – but it reduces the atttractiveness for German credit institutions

The positive outlook for the financial location Malaysia overall must be separated from the limited attractiveness it holds for German actors in the foreseeable future: like Shanghai, Kuala Lumpur has significant potential to catch up to Asian's financial centers of international importance, which is why it is located in the Helaba Financial Center Elipse Asia on the border to the the region's three leading financial centers. Among other reasons, Kuala Lumpur is quite high on the ranking of Asian financial centers because of its international connections, and both in ethnological and geographic respects it provides a fundamentlly good starting point in terms of a financial penetration of the region. The critical advantage that the Malaysian financial center has over many others in the region is a clear focus: Kuala Lumpur has committed itself to the strategy of specializing in Islamic Banking and is resolutely pursuing its goal of developing from a regional into a global center in this area. To that extent Malaysia as a business area offers few prospects to the majority of German banks, especially since the assessment of the three bank-specific criteria is only average (😐). At the same time, Malaysia holds only average attractiveness as a partner for the Deutsche Börse (😐), whereby the still small-volume stock market is somewhat upgraded as a whole through the very promising prospects of the financial center.

3.3.6 India

Nationally important financial center – potential for Frankfurt stock market and banks

Even though it will rank only as a nationally important financial location also in the future, India offers interesting prospects for German financial players. Mumbai (formerly Bombay) clearly needs a thorough modernization in terms of economic policies and infrastructure before it can attain greater importance in the Asian financial world. Nevertheless, the Bombay Stock Exchange (BSE) is an interesting partner for the Frankfurt exchange. The share that Deutsche Börse has of the BSE and its role as the exclusive world-wide distribution partner for all indices of the main Indian stock exchange form a good basis for a stronger collaboration in the future (☺). And the prospects are also promising for German banks over the medium term. The dynamic, populous economy has only limited banking services (☺) and room for more foreign banks (☺). However, there are aspects of the domestic banking system that are in need of improvement (😐).

Availability of banking services

	Branches			ATMs		
	total	per 100,000 population	per 1,000 km²	total	per 100,000 population	per 1,000 km²
China	17,083	1	2	49,000	4	5
Hong Kong	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
India	67,097	6	23	n.a.	n.a.	n.a.
Indonesia	18,107	8	10	10,387	5	6
Japan	12,692	10	35	144,700	114	397
Korea	6,419	13	65	43,133	90	437
Malaysia	2,427	10	7	4,074	16	12
Philippines	6,381	8	21	4,328	5	15
Singapore	388	9	636	1,612	38	2,643
Thailand	4,452	7	9	10,572	17	21
Vietnam	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: World Bank (2001-2005), Helaba Research

3.3.7 Korea

Nationally important financial center Korea: average rating

The Korean financial center ranks behind the leaders and newcomers of the region, but at the same time it stands out positively against the other Asian metropolises: Seoul should remain a financial location of only national importance for the foreseeable future, even if reforms in the financial market are undertaken. With respects to the possibility of a more intense collaboration with the Deutsche Börse, the industrialized countries receives an average ranking as a result of the "Memorandum of Understanding" it has already entered into with Frankfurt (😐). At the same time, Korea receives consistently average ratings also on the banking-specific criteria of the Helaba Smiley Table Asia (😐), which does not really suggest an entry into the market by German banks. The rating of the banking system is modest, foreign penetration of the market is already strong, and the availability of banking services is quite extensive. All in all, the Korean financial center appears to have limited attractiveness for players in Frankfurt's financial market.

3.3.8 Vietnam

Vietnam: good prospects for growing importance in the financial system, room for foreign banks with risks

So far, Vietnam is not a financial center and still has a long way to go before it can carve out to identity as one. However, the good overall economic development, in tandem with political stability, entails a growing global importance for Vietnam, and, if the process of regulatory adjustment continues, promising prospects for the financial industry of this "rising star" over the long term. In contrast to the metropolises of Indonesia, the Philippines, and Thailand, the chances are fairly good that Ho Chi Minh City (or possibly Hanoi) could emerge as a nationally important financial center within Asia. Since this is a long-term forecast, the country's "young", small-volume stock market is for now not an attractive cooperation partner from a German perspective (☹). For newly arriving foreign credit institutions there is still room in the Vietnamese banking sector (☺), since its foreign penetration to date is limited. However, one must not neglect the high default risk in the banking sector (☹) and the fundamental factors that are moving forward only to a limited extent (😐).

Foreign presence* of German banks in various Asian countries

	German banks overall			Top 10** of German banks
	Branch	Subsidiary	Representative office	
China	10	0	16	9
Hong Kong	7	0	4	7
India	3	0	8	6
Indonesia	2	1	4	4
Japan	6	1	4	8
Korea	0	0	0	4
Malaysia	2	1	1	2
Philippines	1	0	1	1
Singapore	9	5	2	8
Thailand	1	0	4	2
Vietnam	1	0	9	5

* presence defined as a branch, a subsidiary, or a representative office; ** as measured by Tier One Capital end of 2006
Sources: Deutsche Bundesbank, The Banker, Homepages of banks, Helaba Research

3.3.9 Thailand

Bangkok: room for banks, but default risks exist

Up to now, there are no indications that Bangkok will boost its importance and gain a foothold in the financial sector in the future. Given this outlook and the low market capitalization of the Thai stock exchange, a cost-benefit analysis suggest no active partnership with the Deutsche Börse (☹) beyond the already existing technical linkage. Since the foreign penetration of the Thai banking system is limited to date, there is still room for new foreign banks (☺). However, this must be

balanced against the high default risk the banking sector (☹), and the fundamental environment is also not sufficiently (😐). As a result, the sensible approach for German banks is a careful weighing of the opportunities and risk of conducting business in Thailand.

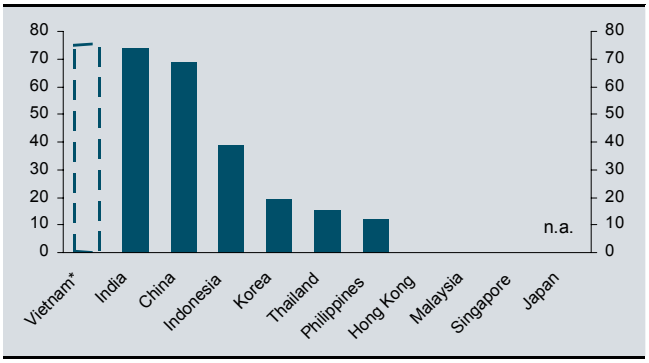
3.3.10 Indonesia

Indonesia: market potential for banks with appreciable risks

The Indonesian capital, as well, shows no pronounced character as a financial location and is thus among the region's financial locations that are not likely to stand out as a financial center in the future. Indonesia does fairly poorly both in the Helaba Financial Center Ellipse Asia and in the Helaba Smiley Table. With Jakarta a small stock market location without international reputation, the "cost-benefit analysis" does not exactly suggest active ties with the Deutsche Börse (☹). There are certain opportunities for Frankfurt banks, though against a backdrop of appreciable risks. Indonesia does well on the economic and services indicators (☺), since the size of the population and the GDP, as well as the limited availability of credit points to customer potential for foreign banks. However, the fairly high possibility that the Indonesian banking system will fail must not be neglected (☹). Moreover, there are visible shortcomings in the background conditions of the banking markets, including the evident corruption, which has a negative effect on the opportunities for foreign banks (☹).

Pronounced state influence, esp. in India, China, and Vietnam

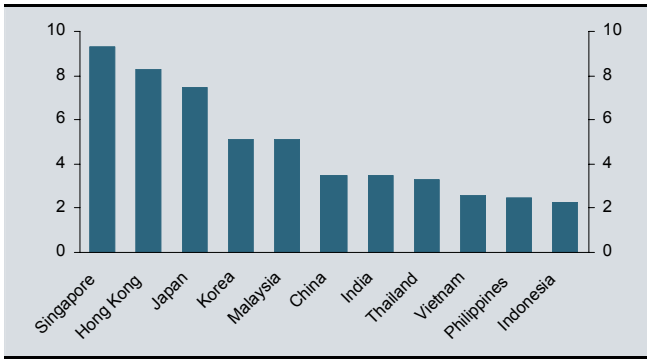
Share of assets of banking system held by state banks, in %



Sources: World Bank (survey-based data bank "Bank Regulation & Supervision", end of 2005), * Fitch, Helaba Research

Corruption Index Transparency International*

Index 2007



* The lower the index value (scale of 0-10), the more strongly corruption is perceived as a problem in the respective country.
Sources: Transparency International, Helaba Research

3.3.11 The Philippines

Philippines ranks at the bottom

Similar to Thailand and Indonesia, the Philippines is among the locations with the least potential as a financial center. Because the small stock market in Manila is not a particularly interesting partner for the Deutsche Börse (☹), not even technical linkages have been established to date. The banking system of the Philippines is characterized by a fairly high default risk (☹) and average economic and services aspects (😐). In addition, negative background conditions (including corruption) limit the maneuvering room for foreign banks (☹). For all these reasons, the Philippines are in last place on the rankings.

4 Recommendations

Good prospects for growing relationship

The positive perception of the financial center Frankfurt from the Asian perspective and the ties it has already established with Asia constitute a good foundation for a growing, continent-spanning relationship among the financial centers. The chances that this bond between Germany and Asia will intensify is the better, the more actively the Main metropolis pursues it. After all, the perceived strengths of Frankfurt as noted by Asian bank representatives do not guarantee a permanent attractiveness; rather, there is need for a continuous development in the competition. Market players and politicans therefore need to preserve the strengths of the German financial center and take on the weaknesses. The following seven recommendations should be front and center.

- A consistent **internationalization strategy** is a crucial precondition for the success of a financial center. The global position of the financial location Germany is tied direcly to the success of its center on the Main. Frankfurt is the central financial location of the largest European economy and the world's largest export nation. To that extent, the efforts within the federal system of West Germany, which are also supported by federal policy, to replace the parochical intra-German competition with a division of labor focused on specific themes and actively marketed internationally are very significant.

- The bundling of the essential forces for a uniform marketing of the financial center is starting to happen and represents a welcome new approach with high potential. After all, it requires the active and **focused location marketing by all players in the financial market** to make a broad public aware of Frankfurt's multifarious strengths: with the unique advantage of being the seat of the European Central Bank, Frankfurt is an important location for financial market players who operate internationally, especially against the backdrop of the Euro's growing role as an investment and reserve currency. The globally important Deutsche Börse AG with its many activities is also an essential asset of the city.

- In view of the economic dynamism and high liquidity of the Asian continent, the financial center Frankfurt should pursue a **focused Asia strategy**: in the process, preference should be given to those Asian countries that are active in Frankfurt and at the same time constitute attractive expansion targets for domestic players. The previous advertising activities (events, visits by delegations, informational brochures) should be intensified and focused especially on Japan, China, and India. Moreover, Korea and the "rising star" Vietnam could be included in this kind of marketing strategy. Another target of Frankfurt's marketing should be Asian investors, who are becoming increasingly important in international financial markets.

- For the sustained development of the German financial center and its international attractiveness, further **promotion** of its **finance-related education and research** is indispensable. In this regard, Frankfurt is already on the right track with the House of Finance (incl. the Center for Financial Studies) and the Frankfurt School of Finance and Management.

- The more German **financial market place legislations** deals with international trends in a timely fashion and adjusts the regulatory framework to market needs in a flexible manner, the greater Frankfurt's innovative power will be. The future division of labor in banking oversight recently agreed upon by BaFin and the Deutsche Bundesbank also strengthens the financial center Frankfurt.

- As an international **hub**, the Frankfurt **airport** is linked to many Asian countries, and a number of air routes were further expanded last year. That thrust needs to be sustained. After all, the excellent transportation infrastructure of the Main metropolis is a crucial foundation for the growth of ties between Germany and Asia in the financial market.

- Many Asians appreciate the **quality of life** in Frankfurt. The metropolis on the Main can make itself even more attractive also to Asians through further architectual projects, the promotion of a vibrant life in the heart of the "City of the Euro", and active marketing of its manifold cultural and recreational offerings. Given the great success of the Frankfurt Book Fair's concept of emphasizing one particular country every year, it is worth considering how to give Asian themes broader cultural prominence. For example, one could organize "Asian cultural weeks" focusing on different countries.

If these measures are consistently implemented, there is reason to believe that the financial center Frankfurt can further boost its attractiveness to Asian market participants and that more players from that dynamic economic region will head for the city on the Main. ■

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