PRESS RELEASE 12/18

PUBLICATION OF THE ANNUAL REPORT 2011 OF THE CSSF

In a year marked by problems related to public finances and eurozone governance and by traces of the financial crisis, the Luxembourg financial centre continued to offer a stable environment and to inspire confidence in financial players as well as investors and savers. In a difficult context, the banking sector and the investment fund industry managed to maintain a constant sum of assets under management and to realise satisfactory year-end results. These results also show a succeeded transition in the financial sector, and particularly banks, towards an onshore approach and a greater diversification of the financial centre which allows seizing development opportunities, among others, in the use of new technologies regarding financial and payment services.

The 2011 trends for the different financial centre segments may be summarised as follows.

International aspects of supervision

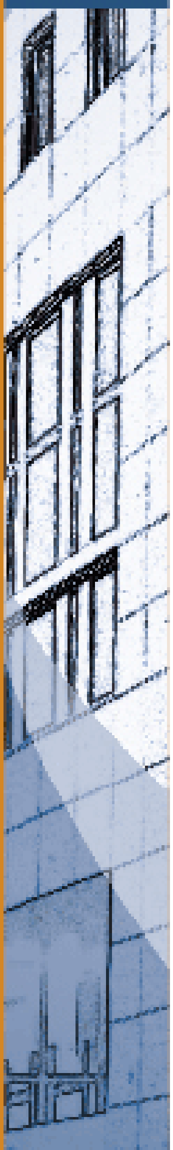
The harmonisation of existing regulations remains of utmost importance at international level, notably as regards risk management and coverage. Moreover, the activity of the new European supervisory authorities EBA, ESMA and EIOPA and the functioning of the colleges of supervisors for cross-border banking groups has strengthened the cooperation between the national supervisory authorities and enhanced the European and international dimensions of prudential supervision.

143 credit institutions
Balance sheet total: EUR 794.0 billion
Net profit: EUR 2,828 million

The number of banks decreased by four entities and reached 143 entities as at 31 December 2011. During the year, three banks started their activities while three banks merged with other banks of the financial centre and three banks terminated their activities. One bank changed its status for that of electronic money institution.

The aggregate balance sheet total reached EUR 794.0 billion at the end of 2011, i.e. an increase of 4.2% compared to 2010. The main part of the increase is explained by the establishment or reinforcement of specific competence centres that several banks have in Luxembourg on behalf of their group. However, 40% of the financial centre's banks registered a decrease in the balance sheet total year-on-year, notably in a context of restructuring of the activities in response to the financial crisis.

Net profit of the Luxembourg banking sector reached EUR 2,828 million (-25.9%) in 2011. This significant decline is nevertheless to be qualified. Indeed, in a difficult economic and financial context, Luxembourg banks succeeded in increasing their recurrent operational income. However, despite the growth in the interest rate margin and in the net commission income, banking income decreased, notably due to an extraordinary effect, namely value adjustments taking place at the same time as the participation of the banking sector in the restructuring of the Greek debt. It is also important to point out that 46% of banks ended their financial year with an increased net result compared to the previous year.



322 PFS (116 investment firms, 118 specialised PFS, 88 support PFS)
Balance sheet total: EUR 12.96 billion
Net profit: EUR 693.6 million

With 38 new entities authorised during 2011 and 17 withdrawals, the PFS sector continued to attract new promoters. The net development in the number is positive for investment firms, specialised PFS and support PFS, the latter registering the most important increase.

The aggregated total balance sheet of PFS reached EUR 12.96 billion as at 31 December 2011, as against EUR 11.42 billion at the end of 2010. This increase of 13.46% mainly results from the development of the activities of one professional performing securities lending newly authorised in 2011 and from the important increase in the balance sheet total of an investment firm authorised in 2010. The CSSF notices that support PFS registered a slight contraction of their aggregate balance sheet total during 2011 whereas the investment firms and the specialised PFS experienced an upward trend in their aggregate balance sheet totals.

The PFS' net results significantly declined (-54.34%). However, this development conceals differences between the PFS categories: the aggregate net results of investment firms decreased by 17.9% whereas those of support PFS slightly rose (+5.2%). The negative development of the specialised PFS' results is attributable to one sizeable player and does not reflect a general trend noticed for this PFS category.

4 payment institutions
1 electronic money institution

Following the entry into force of the law of 10 November 2009 introducing the new status of financial institution allowed exercising the activity of payment services, three Luxembourg payment institutions and one branch of a German payment institution established themselves in Luxembourg.

Since the entry into force of the related law of 20 May 2011, the electronic money institutions are no longer assimilated to credit institutions but are considered as a separate category of financial sector players. One electronic money institution is registered in the official list as at 31 December 2011.

3,845 UCIs
13,294 units
Total net assets: EUR 2,096.5 billion
179 management companies

In 2011, the UCI sector recorded a decrease of 4.7% in net assets under management mainly due to the negative effect of the performances of the main financial markets. The net capital investment in Luxembourg UCIs, amounting to EUR 5.3 billion in 2011, remained positive but did not renew the inflow of new capital of 2010.

The number of UCIs grew by 4.9% during the year. This growth largely results from the continuing boom of the specialised investment funds which represent 35.8% of the total number of UCIs (assets managed by SIFs total 11.4%). Taking into account umbrella funds, a total of 13,294 economic entities were active on 31 December 2011, which represents a new record.

The number of management companies authorised pursuant to Chapter 15 of the law of 17 December 2010 relating to UCIs remained stable with 179 active entities. The 11 new authorisations were counterbalanced by 11 withdrawals due to restructuring or rationalisation of the Luxembourg structures initiated by the promoters.

276 SICARs
Balance sheet total: EUR 30.6 billion

The number of investment companies in risk capital (SICAR) continued to grow with 43 new authorisations against 14 withdrawals during 2011. Most initiators of SICARs are from France, followed by Switzerland, Germany and Luxembourg. As regards the investment policy, the SICARs prefer private equity.

28 authorised securitisation undertakings

The slow but ongoing development of the securitisation activity, at least as regards the part subject to authorisation and supervision, continued with three new securitisation undertakings authorised in 2011.

15 pension funds

The pension funds sector stagnated in 2011 since no new pension fund was authorised during the year.

Total employment in the supervised establishments: 43,428 people
(of which banks: 26,695 people, PFS: 14,217 people, management companies: 2,516 people)

Total employment in the financial sector improved by 1.6%, i.e. 676 people. However, depending on the category of financial players, the situation diverges.

After two consecutive years of decline, employment in the banking sector increased by 1.7% in 2011. However, this growth does not mean a net creation of jobs in the whole financial sector. Indeed, the banking employment decreased throughout 2011, except in the third quarter where banking staff increased when a bank took over a specialised PFS. This takeover had no impact on the number of jobs in the financial sector as a whole, but only changes the distribution by decreasing the PFS staff in favour of the banking staff. Without the above-mentioned effect, employment in the banking sector would have remained almost unchanged over a year.

The number of jobs in PFS slightly rose (+0.4%). The positive development in investment firms (+2.2%) and support PFS (+5.2%) was counterbalanced by the decrease in employment in specialised PFS following the transfer of a specialised PFS in the banking sector (cf. above). However, the CSSF would like to point out that the increase in support PFS employment does not correspond to the creation of as many jobs. Indeed, a large part of this rise is attributable to support PFS newly authorised in 2011, among which are companies already active before. The existing staff of these companies is included, as from the date of the authorisation, in the statistics regarding support PFS.

Employment in management companies increased in 2011 (+7.6%).

1,446 prospectuses, base prospectuses and other approved documents
678 supervised issuers
1.1 million reported transactions in financial instruments

The number of files submitted in Luxembourg for the approval of prospectuses to be published when securities are offered to the public or admitted to trading on a regulated market slightly rose compared to 2010 (+4.03%).

The CSSF supervises issuers whose transferable securities are admitted to trading on a regulated market and for which Luxembourg is the home Member State for the purposes of the Transparency Law. Their number reached 678, of which 248 Luxembourg issuers. The supervision involves a general follow-up of regulated information to be published by issuers as well as the enforcement of the financial information, i.e. the assessment of compliance of the financial information with the relevant reporting framework, namely the applicable accounting standards.

As regards its supervision of markets and market operators, the CSSF received about 1.1 million transaction reports in 2011 which allow following the market trends and detecting possible offences. In the framework of the law on market abuse, the CSSF opened six investigations in relation to insider dealing and/or market manipulation and dealt with 61 requests from foreign authorities.

Public oversight of the audit profession

The public oversight of the audit profession covered 65 *cabinets de révision agréés* (approved audit firms) and 224 *réviseurs d'entreprises agréés* (approved statutory auditors) as at 31 December 2011. The oversight also includes 53 third-country auditors and audit firms duly registered in accordance with the law of 18 December 2009 concerning the audit profession.

As regards missions performed in the framework of statutory audits and other missions exclusively entrusted to them by the law, the *réviseurs d'entreprises agréés* and *cabinets de révision agréés* are subject to a quality assurance review, organised according to the terms laid down by the CSSF in its capacity as supervisory authority.

443 customer complaints

By virtue of its specific task of mediating as regards handling of customer complaints, the CSSF received 443 complaints in 2011. Most of the complaints concerned e-banking. Complaints in relation to private banking also represented a great part of the files dealt with by the CSSF.

406 agents
Operating costs of the CSSF in 2011: EUR 46.1 million

2011 was marked by the ongoing increase in the CSSF's staff (+44 agents) in order to face the growing workload resulting notably from the introduction of new prudential requirements, the cooperation between supervisory authorities, the active participation in international forums and, in general, the increase in volume and complexity of the financial products. In addition, numerous on-site inspections, which became an important part of the prudential supervision exercised by CSSF, are carried out.

The 2011 Annual Report is available free of charge at the CSSF, L-2991 Luxembourg, email: direction@cssf.lu on request. It is also available for download on the website www.cssf.lu. An English version of the report will be published on the website in July 2012.

Luxembourg, 4 May 2012