

COMMISSION de SURVEILLANCE
du SECTEUR FINANCIER

Press release

The CSSF is confident about the future of the financial centre.

On the occasion of the traditional year-end celebration gathering the personnel of the Commission de Surveillance du Secteur Financier (CSSF), its Director General, Mr Jean-Nicolas SCHAUS, drew the first conclusions from a year in which the transformation started by the financial centre began to bear fruit.

The **banking sector** closes 2004 with balanced results. The year 2004 was characterised by the absence of major trends, entailing that all in all activities, employment and results remained stable at aggregated level.

Until the end of the year, the number of banks is expected to decrease to 162 entities against 169 entities at the end of 2003. The drop in the number of banks is due, as in the past, to the international banking consolidation and the pressure on the profitability of banking activities. However, the aggregate figures conceal disparities. Thus, two branches (Hypo Real Estate Bank International and Northern Trust Global Services Ltd) have been added to the official list in 2004. Furthermore, three new credit institutions have just been authorised, namely the branches of ABN AMRO Mellon Global Securities Services and of Crédit Suisse, as well as a Luxembourg-incorporated bank, Nord Europe Private Bank S.A.. The two last-mentioned will start their activities on 1 January 2005. These new authorisations bear witness to the persisting attractiveness of the Luxembourg financial centre.

Despite the decrease in the number of banks, the industry's business activities, in terms of balance sheet total and risk assets, have not weakened. The decrease in the number of banks is thus accompanied by changes of status or transfers of business assets allowing to retain the business in Luxembourg. For other banks, such as Unicredito Italiano, the change from branch into subsidiary is synonymous with a strengthening of activities in Luxembourg. After a burst in the spring, activities kept up at a sustained level. The stabilisation of banking activities was favourable to employment, which had decreased by 780 persons (-3.3%) in 2003. Indeed, in 2004, banking employment seems to stabilise around 22,500 persons, which corresponds to its level of December 2003.

As far as the results for 2004 are concerned, the CSSF expects profits before provisions to decrease by 8%. This decrease, although seemingly substantial, has to be kept in perspective, as it results for up to three-quarters from considerable non-recurring capital gains the industry has realised in 2003 and which affect the year-on-year comparison. Without these non-recurring effects, the banking income remains constant on an annual basis. The cost/income ratio remains reasonable (47%), even though it increased compared to 2003.

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Benefiting from the recovery of the financial markets and the restoration of investor confidence in these markets, the total net assets of **undertakings for collective investment** kept going up on the positive momentum gained in the previous year and recorded an increase of over 10% compared to 2003. The amount of net capital investment came close to 100 billion euros, bearing witness to the intact attractiveness of the Luxembourg fund industry, while the number of undertakings for collective investment returned to its 2002 level after a slight drop in 2003.

The number of management companies authorised under Chapter 13 of the law of 20 December 2002 transposing into national law the third European Directive on undertakings for collective investment in transferable securities (UCITS) should total 23 entities by the end of the year.

As regards the **other professionals of the financial sector** (PFS), the number of undertakings under the supervision of the CSSF should rise from 142 entities as at 31 December 2003 to 165 by the end of this year. This boost is mainly linked to the implementation of the law of 2 August 2003 which introduces new categories of PFS in order to further innovation and extend the range of products in the financial centre. Given the technical progress made notably in the field of data processing and outsourcing, it is not surprising to note that among the new categories, those of IT systems and communication networks operators of the financial sector and client communication agents aroused the most interest with respectively 11 and 8 newly authorised entities in 2004.

As regards the CSSF from an internal point of view, the Director General stressed the substantial recruitment of 15 persons in 2004 in order to adapt the workforce to the supplementary needs induced in particular by the introduction of new prudential regulations, including, among others, the new Basel Accord and the IAS accounting standards, and the increasing importance of the multilateral co-operation between supervisory authorities due to the global banking consolidation.

Having confidence in the experience the CSSF agents have been able to acquire in the performance of their duties over the years, the new executive board of the CSSF, in office from 1 January 2005 onwards and made up of Mr Jean-Nicolas Schaus, Mr Arthur Philippe and Mrs Simone Delcourt, assures that it is ready to take up the challenges that arise in a changing financial environment and that it will continue to promote a constructive dialogue with the participants in the financial centre in order to allow the latter to develop in favourable conditions within an international framework. The Director General summarised the 2005 prospects for the financial centre with the words “stable evolution”.

Finally, Mr Schaus thanked Mr Charles Kieffer, who decided to retire as from 1 January 2005, for his excellent work accomplished during his six-year term of office as Director of the CSSF.

Luxembourg, 16 December 2004