

■ ANNUAL REPORT 2009 OF THE COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER (CSSF):

SATISFACTORY RESULTS OF THE FINANCIAL CENTRE DESPITE THE CRISIS

In the 2009 Annual Report, the CSSF notes that, overall, the Luxembourg financial centre ended the financial year 2009 with satisfactory results despite the direct and indirect effects of the financial and economic crisis which did not spare the Grand Duchy. However, this improvement does not mean that the difficult times are over. Now, the lessons learned from the crisis must be applied and solid and diversified bases shall be put in place in order that the financial centre reaches a sustainable growth again.

The 2009 trends for the different segments of the financial centre may be summarised as follows.

438 international meetings

The preparation of new prudential rules which take into account the acquired experience, mainly in relation to the financial crisis and the standardisation of the existing regulations remain the main objectives of the international meetings in the framework of European (CEBS, CESR, CEIOPS, etc.) and international (Basel Committee on banking supervision, OICV, etc.) forums. Greater emphasis is also given to enhanced cooperation between competent authorities with the implementation of colleges of supervisors.

Therefore, the supervisory work on the international level requires more and more resources which is proved, among others, by the increasing number of meetings in which the CSSF participates.

149 credit institutions

Balance sheet total: EUR 792.6 billion

Net profit: EUR 2.740 million

The number of banks decreased by 3 entities to 149 as at 31 December 2009. During the year, five banks started their activities while two banks merged with other banks of the financial centre and six banks terminated their activities.

As a consequence of the financial crisis, the banks adapted and consolidated the structure of their balance sheet and reduced the risk-weighted assets which resulted in a 17.9% drop in the aggregated balance sheet total of the financial centre. Net profit of the Luxembourg banking sector reached EUR 2,740 million in 2009. This remarkable improvement compared to the historically low results of the previous year is mainly explained by the substantial decline in the creation of provisions. However, it should be borne in mind that there are great differences between the banks, 47% of which suffered a decrease in their net profit at the end of their financial year compared to 2008.

3,463 UCIs

12,232 units

Total net assets: EUR 1,841.0 billion

In 2009, the UCI sector registered an 18.04% growth in net assets managed originating for 30% from the net issues and for 70% from the increase in stock exchanges. The net capital investments in Luxembourg UCIs which amounted to EUR 84.4 billion in 2009 reflect the return of investors' confidence in the markets.

The number of UCIs grew by 2.73% during the year. This growth mainly results from the continuing boom of the specialised investment funds which represent 28.0% of the total number of UCIs (as regards assets managed, they represent 8.4%). When considering umbrella funds, a total of 12,232 economic entities were active on 31 December 2009, i.e. a 0.8% decrease compared to the end of 2008 due to a consolidation trend.

192 management companies

The number of management companies authorised in accordance with chapter 13 of the law of 20 December 2002 relating to undertakings for collective investment increased from 189 as at 31 December 2008 to 192 at the end of 2009. The management companies focus more on the activity of collective management and abandon slowly the ancillary activities set out in the law.

15 pension funds

The pension funds sector registered a slight improvement after several years of stagnation, following the authorisation of two new pension funds in 2009. However, the cross-border activities of Luxembourg pension funds did not develop further yet.

236 SICARs

Balance sheet total: EUR 18.09 billion

The number of investment companies in risk capital (SICAR) continued to increase, but there was, nevertheless, a downturn in the growth in 2009. As regards the investment policy, the SICARs were slightly more inclined towards private equity.

23 authorised securitisation undertakings

The slow but ongoing development of the securitisation activity continued with 4 new securitisation undertakings authorised in 2009. Since the role of securitisation techniques was put forward several times in the context of the financial crisis, the CSSF will include the lessons learned from the crisis for the authorisation and supervision of securitisation undertakings.

286 PFS (110 investment firms, 102 other PFS, 74 support PFS)

Balance sheet total: EUR 22.46 billion

Net profit: EUR 1,577.04 million

With 42 new entities and 22 withdrawals in 2009, the PFS sector continued attracting new promoters. The positive development in the number is mainly attributable to PFS other than investment firms and, to a lesser extent, to support PFS.

The balance sheet total of PFS reached EUR 22,456 million as at 31 December 2009 against EUR 62,676 million at the end of 2008, i.e. an annual decrease of 64.17%. This important fall mainly results from the withdrawal, in 2009, of a professional performing securities lending which had a significant balance sheet total.

However, the net profit of PFS substantially rose by 77.07% over a year. The recovery of the financial markets is one element which allowed investment firms to register an overall increase in net results. This positive development in the difficult context of 2009 was also influenced by a significant rise in the results of an entity active as a professional performing credit offering. Support PFS suffered more and registered a decrease in net results compared to 2008.

Total employment in the supervised establishments: 42,213 people

(of which banks: 26,420 people, PFS: 13,485 people, management companies: 2,308 people)

The employment fell by 2.3%, i.e. by 983 people due to the crisis. However, depending on the category of actors of the financial centre, the situation diverges.

Almost 80% of the decrease is attributable to banking employment which fell to 26,420 people (-785 jobs or -2.9%) following the economic restructuring and the measures to reduce the costs generated by the financial crisis. Nevertheless, 61.1% of the banks maintained or even increased their staff in 2009. Indeed, the current market state offers opportunities to fill vacancies needed internally which was difficult to do during the previous months.

The number of staff for PFS also suffered a slight decrease (-120 jobs or -0.9%). These job losses concerned some support PFS and could not be compensated by the creation of employment in the PFS newly authorised during the year.

Employment in management companies remained, however, stable in 2009.

1.2 million of trades reported

1,406 prospectuses, base prospectuses and other documents approved

750 supervised issuers

In 2009, the CSSF received, among others, 1.2 million trade reports in the context of the supervision of securities markets.

Moreover, under the law on market abuse, the CSSF received eight suspicious transaction reports and dealt with eleven suspicious transaction reports transmitted by foreign authorities.

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 decreased by 40.6% in 2009 due, among others, to the financial crisis. However, in the light of the increasing complexity of the transaction structures and of the relevant deposited documents and due to the increasing number of files relating to structured products, the amount of work did not lessen.

The CSSF exercises the supervision of 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 750, of which 233 Luxembourg issuers.

Public oversight of the audit profession

The law of 18 December 2009 confers to the CSSF the mission of public oversight of the audit profession. This mission includes the implementation of a quality assurance system which shall apply to all "réviseurs d'entreprises agréés" [approved statutory auditors] and approved audit firms for the statutory audit of accounts and for all other missions which are exclusively conferred to them by the law.

284 customer complaints

By virtue of its specific task of mediating as regards handling of customer complaints, the CSSF received 284 complaints during 2009, i.e. a substantial increase of 22.4% compared to 2008. A great part of these complaints concerned transactions relating to transferable securities resulting from the crisis which affected investors.

The 2009 Annual Report is available free of charge at the CSSF, L-2991 Luxembourg, e-mail: 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 2010.

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