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PUBLICATION OF THE ANNUAL REPORT 2013 OF THE COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER (CSSF)

For the Luxembourg financial centre, 2013 represented a consolidating as well as a transitional year with a positive end.

Indeed, the number and the results of banks established in the centre increased as did the volume of assets entrusted to the management of the different types of Luxembourg undertakings for collective investment including specialised investment funds, SICARs, pension funds and securitisation undertakings. The well-being of the whole financial sector also influenced positively the development of the PFS (investment firms, specialised PFS and support PFS) as well as the financial markets' performance.

In a future characterised by a harmonisation of the supervision and regulation and by an intensification of innovation and transparency in the financial services, the success of the financial centre will mainly depend on a good governance and on the quality of the products and services provided.

The 2013 trends for the different financial centre segments may be summarised as follows.

International aspects of supervision

2013 was characterised, on the one hand, by works at European level in order to put in place the Single Supervisory Mechanism and the Single Resolution Mechanism and, on the other hand, by the intensification of the activity of the European supervisory authorities (the EBA, ESMA and EIOPA) in order to harmonise the regulations and implement regulatory and implementing technical standards. The cooperation between national authorities within supervisory colleges for banking groups operating on a cross-border basis consumed a significant amount of the CSSF's resources. It should also be noted that in September 2013, the 38th Annual Conference of IOSCO was held in Luxembourg which gathered about 700 representatives of the authorities for the regulation of securities markets and futures markets as well as members of the international financial community from 113 jurisdictions around the world.

147 credit institutions
Balance sheet total: EUR 713.38 billion
Net profit: EUR 3,565 million

The number of banks increased by six entities and reached 147 entities as at 31 December 2013. Nine banks started their activities whereas three banks ceased their activities during the year.

The aggregated balance sheet total reached EUR 713.4 billion at the end of 2013, i.e. a decrease of 2.9% compared to 2012. This decrease was shared by 42% of the banks of the financial centre, a majority of which belong to the banking groups established in the euro area. The decreases in the activities reflect the necessity for certain European banks to adapt their risks and structures of the balance sheet to their capacity to manage and support these risks (deleveraging). However, the increase in the balance sheet total of certain banks resulted, among others, from the takeover of activities or development of new activities. In the latter case, the banks concerned generally originated from non-EU countries.

Net profit of the Luxembourg banking sector reached EUR 3,565 million (-0.9% compared to 2012). This result is the conjugation of two opposite developments: the decrease of the interest margin which results from the decrease of the balance sheet and of the very low level of interest rates and the increase of the net commissions received and in the wake of the good stock market performance which positively influenced the value of banking assets and assets under management. It should be noted that the downward trend in 2013 does not concern all banks of the financial centre, as shown by the 44% of banks whose net result increased over one year.

314 PFS (107 investment firms, 126 specialised PFS, 81 support PFS)

Balance sheet total of investment firms: EUR 3.09 billion; specialised PFS: EUR 10.88 billion; support PFS: EUR 1.09 billion

Net profit: investment firms: EUR 157.3 million; specialised PFS: EUR 219.3 million; support PFS: EUR 42.9 million

With 20 new entities authorised in 2013 and 24 which gave up their authorisation, the number of all categories of PFS decreased in 2013. The net development in the number thus turned negative for the investment firms (-2 entities) and support PFS (-4 entities) whereas the rising trend of the number of specialised PFS was maintained with +2 entities.

The aggregated balance sheet total of investment firms reached EUR 3.09 billion as at 31 December 2013, as against EUR 3.62 billion at the end of 2012. This decrease of 14.4% mainly results from the transformation of two investment firms with a significant balance sheet total into management companies (authorised under Chapter 15 of the law of 17 December 2010 relating to UCIs). The aggregated balance sheet total of specialised PFS increased from EUR 9.46 billion at the end of 2012 to EUR 10.88 billion at the end of 2013 (+15%), due, among others, to the increase in the volume of activities as regards lending operations and securities lending. The aggregated balance sheet total of support PFS also increased from EUR 1.01 billion at the end of 2012 to EUR 1.09 billion as at 31 December 2013 (+7.8%).

Net results of investment firms dropped by 50.7% largely due to the transformation of two significant players into management companies. However, the majority of investment firms reported a stable net result compared to the previous year. Some even reported a slight increase. The aggregated net result of specialised PFS registered a considerable decrease of 39.1%, 90% of which is attributable to one big entity. Except for the development of this entity, the majority of specialised PFS reported an increase in net results compared to 2012. For support PFS, the net results increased by 19.8% and amounted to EUR 42.9 million at the end of 2013.

6 payment institutions

5 electronic money institutions

The number of payment institutions and electronic money institutions registered on the official list slightly increased in an emerging market which seeks its cruising speed. The CSSF noticed a certain interest from several players to establish themselves in Luxembourg to benefit from this market opportunity.

3,902 UCIs

13,685 units

Total net assets: EUR 2,615.4 billion

195 management companies

12 alternative investment fund managers (AIFMs)

In 2013, the UCI sector registered a 9.7% growth in net assets under management, originating for 83.6% from net subscriptions and for 16.4% from the positive performance of financial markets.

After a slowdown in 2012, the number of UCIs improved again by 1.6% (i.e. +61 entities). Taken separately, the number of specialised investment funds (SIFs) increased by 5.2% (+77 entities). SIFs now represent 40.0% in terms of number of UCIs; in terms of managed assets, their share totals 11.7%. When taking into account umbrella funds, a total of 13,685 economic entities were active on 31 December 2013, which represents a new record.

With 195 active entities, the number of management companies authorised pursuant to Chapter 15 of the law of 17 December 2010 relating to UCIs increased by 15 entities following 21 new authorisations and six deregistrations mainly due to the restructuring of different groups resulting in mergers and cessation of business.

On the regulatory level, it is important to mention the entry into force of the law of 12 July 2013 on alternative investment fund managers (AIFM Law) which transposes the AIFM Directive into Luxembourg law. The aim is to submit the managers of alternative investment funds to a harmonised regulatory framework at the European level and, at the same time, to introduce a European passport which will enable these managers to provide their management services and to distribute the alternative investment funds they manage in all EU Member States. Following the entry into force of the AIFM Law, twelve entities were authorised as alternative investment fund manager during the year.

279 SICARs

Balance sheet total: EUR 30.4 billion

With 22 new entities authorised in 2013 and 19 deregistrations, the number of investment companies in risk capital (SICARs) slightly increased compared to the previous year (+3 entities). When taking into account umbrella SICARs, a total of 363 economic entities were active on 31 December 2013. As regards the investment policy, SICARs showed a clear preference for private equity.

31 authorised securitisation undertakings

In the light of one new authorisation and two deregistrations, the number of authorised securitisation undertakings fell by one entity during the year. However, the balance sheet total of authorised securitisation undertakings increased by EUR 3.7 billion and amounted to EUR 19.6 billion at the end of the year.

14 pension funds

Whereas the number of pension funds remained the same with 14 entities authorised as at 31 December 2013, the activities and the volume of the pension funds slowly improved during the year.

Total employment in the supervised entities: 44,222 people
(of which banks: 26,237 people, investment firms: 2,560 people, specialised PFS: 3,201 people, support PFS: 8,971 people, management companies: 3,253 people)

Total employment in the financial sector improved by 0.5%, i.e. 218 people, during 2013. However, depending on the category of financial players, the situation diverges.

Employment in the banking sector dropped by 1.1% due mainly to staff cuts in twelve banks. Another major factor which explains the decrease in employment is the ongoing restructuring and consolidation of the activities following mergers and acquisitions. Other banks, active in investment funds, preferred to rationalise processes by increasingly using automation and by outsourcing certain functions to financial centres with lower costs, due to control in staff costs. Finally, the three banks which ceased their activities in 2013 also contributed to the decrease in the banking employment. This decrease was not compensated by the creation of jobs in the nine banks which started their activities during the year.

The number of jobs in investment firms decreased by 3.8%. This decrease is mainly due to three investment firms with a high number of staff which were transformed into management companies. However, the staff of specialised PFS increased by 5.1% as a result of a transfer of activities and of the relevant personnel from a bank to a specialised PFS. These developments show that there is a transfer of activities between the different categories of professionals with no impact on the total number of staff in the financial sector.

The staff of support PFS slightly decreased by 0.5%.

The positive development of staff in management companies (+18.6% in 2013) is mainly due to the change of status of three investment firms resulting in a transfer of personnel as well as to the reorganisation of certain big groups in Luxembourg with, as a consequence, the internal assignment of personnel to the management companies. The efforts made by the management companies to continuously enhance their organisational environment is also a factor to be taken into account in this context.

1,630 prospectuses, base prospectuses and other approved documents
631 supervised issuers
0.96 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 rose compared to 2012 (+9.2%).

The CSSF supervises issuers whose securities are admitted to trading on a regulated market and whose home Member State is Luxembourg for the purposes of the Transparency Law. Their number reached 631, of which 229 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 the supervision of markets and market operators, the CSSF received about 0.96 million reports on transactions in financial assets which allow the observation of market trends and the identification of possible offences. In the framework of the law on market abuse, the CSSF opened three 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 69 *cabinets de révision agréés* (approved audit firms) and 227 *réviseurs d'entreprises agréés* (approved statutory auditors) as at 31 December 2013. The oversight also includes 47 third-country auditors and audit firms duly registered in accordance with the law of 18 December 2009 concerning the audit profession.

As regards the missions performed in the framework of statutory audits and other missions exclusively entrusted to them by 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.

611 customer complaints

Pursuant to its specific competence as regards consumer complaint handling, laid down in CSSF Regulation N° 13-02 relating to the out-of-court resolution of complaints, the CSSF received 611 complaints last year, a majority (52%) of which concerned payment service issues. Complaints related to private banking come second with 12% of the total of complaints handled.

493 agents
Operating costs of the CSSF in 2013: EUR 56.4 million

2013 was marked by the ongoing increase in the CSSF's staff (+58 agents) in order to face the growing workload resulting notably from the implementation of the Single Supervisory Mechanism at European level, the introduction of new prudential requirements and, in general, the increase in the volume and complexity of financial products. The workload is also supplemented by numerous on-site inspections, which became an important pillar of the prudential supervision exercised by the CSSF.

The 2013 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 at www.cssf.lu. An English version of the report will be published later on the website.

Luxembourg, 9 May 2014