

## Press release

### The CSSF draws its first conclusions from a contrasting year

On the occasion of the traditional year-end celebration gathering the personnel of the CSSF, the Director General, Mr Jean-Nicolas SCHAUS drew the first conclusions from a contrasting year.

Although the CSSF, strengthened by the results of the assessment of the stability of Luxembourg's financial system carried out by the International Monetary Fund ("Luxembourg's financial sector is robust, efficient and well supervised"), can justifiably express its satisfaction with the way it performed its prudential supervisory tasks, the year 2002 has nevertheless been marked by a general slowdown of market activities, which has an impact on the results of the companies of the financial sector.

1° As in the previous years, the number of **banks** decreased and will reach 177 at January 1<sup>st</sup>, 2003. This drop is mainly due to mergers resulting from restructuring within the banking groups at international level, although some credit institutions closed down owing to insufficient business or profitability.

From a general point of view, the year 2002 will not be recorded as a good banking year. On the basis of intermediary results, the CSSF expects a slight decrease of commissions received, which seem however to stabilise together with a more favourable development of stock markets over the last weeks. The last quarter should reach a similar level as the previous quarters. Interest margin will shrink more substantially. The benefits of the recent cut of the key interest rate by the European Central Bank will only become noticeable in 2003.

In order to restore their profitability, the banks have begun to cut their general expenses, a process that bears fruit. For the time being, employment in the banking sector remains stable.

However, it has to be noted that this general downward trend holds very disparate developments within the sector. The banks specialised in private banking have been severely hit by the difficulties experienced by the sector of private asset management. On the other hand, banks with more diversified activities, such as cash management, loans and activities linked to investment funds, often show positive results. Finally, as in the previous years, final results of Luxembourg credit institutions will be substantially influenced both positively and negatively by exceptional elements, notably by increases and decreases in value of holdings.

2° The almost continuous drop of stock markets seriously affected total assets of **undertakings for collective investment**, which, for the first time, decline as compared to 2001. At the same time, the increase of the number of UCIs registered on the official lists (the 2000<sup>th</sup> UCI will soon be created), the new registrations and especially the amount of net capital investment, which exceeds EUR 50 billion in 2002, show that the Luxembourg investment funds' capacity to grow remained intact.

3° As regards the **other professionals of the financial sector**, the number of companies subject to the supervision of the CSSF remained stable, increasing from 145 to 146. The domiciliation agents are the only category that increased significantly, with seven new domiciliation agents. Private portfolio managers and professionals acting for their own account have particularly suffered from the financial market situation, whereas the distributors of investment fund units/shares have known a more enviable situation.

As regards the CSSF from an internal point of view, the recruitment of 24 people that took place during the year with the aim of adjusting the number of staff to supplementary needs should be particularly stressed. The growing interdependence and complexity of the financial sector entail new requirements, such as the emergence of a more qualitative than quantitative supervision following the Basle Committee's revision of the regulation on own funds, the introduction over the next years of the new IAS accounting standards, the multilateral co-operation as regards consolidated supervision of big international financial groups as well as the attribution by law of new or broadened responsibilities to the CSSF. At this date, the CSSF employs 203 agents.

As regards the watchword for the year 2003, Mr SCHAUS indicated that the term "vigilance", stressing the necessity for a careful and faultless supervision, seemed particularly appropriate with respect to the attitude to be adopted by the CSSF agents in their daily supervisory activity as well as to the players in the financial sector currently confronted with a more exacting environment than ever.

Luxembourg, December 19<sup>th</sup>, 2002