COMMISSION de SURVEILLANCE du SECTEUR FINANCIER

Annual Report 2002

***Jean-Nicolas SCHAUS**, Director General*

Before mentioning some events that marked the year 2002, I would like to salute the memory of Mr Pierre Werner, who left his mark on the political and economical history of his country. Justly considered as one of the fathers of the single currency, Pierre Werner is perhaps even more the father of the Luxembourg financial centre. It was Mr Werner who laid the foundations for the banking supervision in the Grand Duchy by drafting the grand-ducal order of 17 October 1945 and who, a lesser-known fact, was the first to manage the *Commissariat au contrôle des banques* from 1945 to 1953. The history of the financial centre cannot be dissociated from his work, marked by a prudent as well as an innovative attitude.

As far as the financial centre is concerned, the year that came to an end leaves an ambivalent impression. The economic slowdown at a global level, combined with a continuous decline in the stock markets, created an economic situation all the more difficult for the financial sector as it seems to be lasting. Owing to the existence and enforcement of strict regulations, the stability of the international financial system is however not being jeopardised for the time being.

Faced with this tense situation, we are pleased to note that the financial centre did reasonably well. Despite these difficult times, the financial centre is still able to generate substantial profits. It is not, strictly speaking, in a crisis situation, contrary to what certain comments might insinuate.

The net profit of all the banks remained relatively high, recording a decrease of 7% compared to 2001. The number of investment funds kept increasing while the sector of the other professionals of the financial sector consolidated. We should however not misjudge less positive signs. Having been stable for a long time, employment in the financial sector has been falling for several months now, as if credit institutions had imposed themselves a deadline before adjusting the number of their personnel to declining activities. Final results of Luxembourg's credit institutions were greatly influenced by extraordinary elements, such as the sale of shareholdings. Finally, the moderate decline of activities conceals disparate developments within the sector. While banks specialised in private banking are severely hit by the difficulties experienced by the sector of private asset management, banks with more diversified activities, such as cash management, loans and activities linked to investment funds, often record positive results.

Like the other financial centres, Luxembourg impatiently watches out for any sign of recovery, especially as certain resistances could founder if the stagnation lasted. To my mind, the economic factor is far from explaining a certain number of developments announcing more far-reaching structural changes affecting the financial centre. Indeed, the latter entered a new phase of its development.

For instance, the more and more frequent practice of banking groups, some of them undergoing serious difficulties, to draw upon the current profitability of their Luxembourg presence based on revenue-sharing contracts, reveals a new practice. Henceforth, competition seems to take place between entities within the same group.

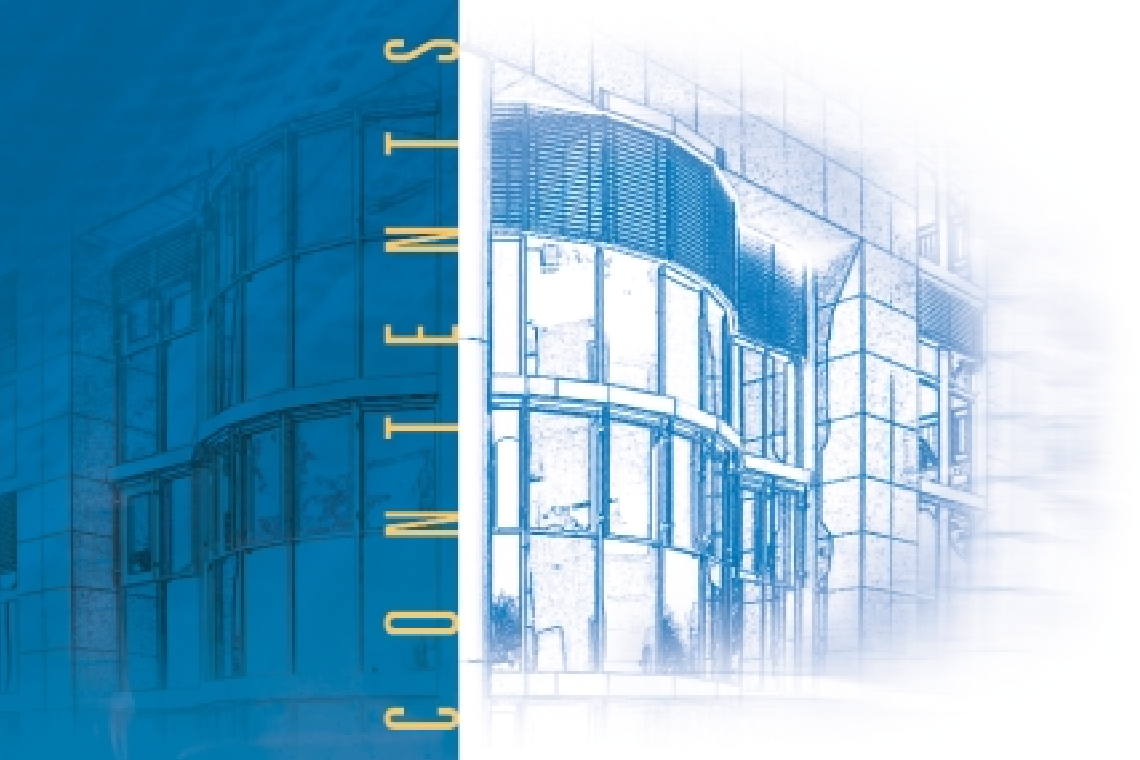
The expected upturn of the financial situation will not be able to solve all the problems. The impact of the potential rise in interest rates, the regulatory costs stemming from the introduction of the IAS accounting and the Basel II standards, the consequences of more and more complex procedures regarding the fight against money laundering and particularly the increasing loss of investors' confidence faced with the progressive decline of financial markets are all challenges facing the financial centre, which, in the short run, will also be confronted with European rules on the harmonisation of the taxation on savings.

Anyway, continuing past recipes, however successful they might have been, will not suffice to ensure future development.

As far as the institution, which I am honoured to manage, is concerned, I would like to point out the results of the assessment of the stability of the Luxembourg financial system conducted by the International Monetary Fund ("Luxembourg's financial sector is robust, efficient and well supervised"), which confirmed our approach as regards prudential supervision. This approach of flexibility and comprehension regarding the financial players is not at all synonymous with laxity. During these times of re-assessment, strict enforcement of regulations is more important than ever. Certain unacceptable behaviours induced us to impose sanctions on their perpetrators, notably disciplinary fines. This does not change the substance of our policy, but I think that it sets a clear signal indicating that we will not hesitate to sanction any serious breach by professionals of the financial sector of their obligations.

Finally, I am pleased to mention that we have successfully accomplished an important recruitment campaign of 24 persons during the year in order to adjust the number of staff to the new responsibilities. Indeed, the interdependence and increasing complexity of the financial sector bring about new requirements. With 203 agents, the CSSF is properly equipped to contribute to a well-balanced development of the Luxembourg financial sector, currently undergoing a major transformation.

Jean-Nicolas SCHAUS
Director General



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Corporate governing bodies of the Commission de Surveillance du Secteur Financier

Board of Directors

Chairman	Jean GUILL *Treasury director, Ministry of Finance*
Vice-chairman	Gaston REINESCH *General administrator, Ministry of Finance*
Members	Rafik FISCHER *Member of the Board of Directors of Association Luxembourgeoise des Fonds d'Investissement*
	Jean FUCHS *President of the Association Luxembourgeoise des Professionnels du Patrimoine*
	Paul MEYERS *President of the Administration des Biens de S.A.R. le Grand-Duc*
	Etienne REUTER *Premier Conseiller de Gouvernement, Ministry of Finance*
	Claude WIRION *Member of the Executive Committee of the Commissariat aux Assurances*
Secretary	Danielle MANDER

Executive Board

Director General	Jean-Nicolas SCHAUS
Directors	Arthur PHILIPPE, Charles KIEFFER

***Arthur PHILIPPE**, Director*

***Charles KIEFFER**, Director*