



# Banque de France

## Annual Report

### 2018







## The Governor's Foreword

# A trusted institution at the service of all

» In 2018, there was a rise in uncertainty in Europe and throughout the world. French GDP growth stood at 1.5%, slowing from its strong pace in 2017. This figure is still relatively satisfactory, but the Banque de France remains particularly vigilant given the current international slowdown. This decline is notably due to geopolitical uncertainties stemming from US protectionist postures and Brexit. Restoring confidence is therefore a priority for political leaders.

In this uncertain world, the Banque de France's independence is a guarantee to all our fellow citizens. It ensures that, with an eye to the long term, we are committed to our objectives: price stability and therefore a robust currency; financial stability and therefore the smooth financing of the economy. But this independence brings with it a requirement: accountability for our performance.

This 2018 *Annual Report* shows what we have achieved: As regards **Monetary strategy**, we met our price stability objective with an inflation rate of 1.9% at end-2018. The euro, which has just turned 20, is a stable currency that protects purchasing power. Along

with the European Central Bank and the whole of the Eurosystem, we have started normalising monetary policy by ending our net asset purchases in December. Over the last three years, there have been 770,000 net job creations in France and monetary policy has contributed to this achievement. As regards **Financial stability**, our financial institutions have improved solvency and liquidity ratios, and the ACPR has coordinated their preparations for the fallout from Brexit. The Central Banks and Supervisors Network for Greening the Financial System (NGFS), launched by the Banque de France in early 2018, now has 28 participants from five continents.

Lastly, we have developed **Services to the economy** thanks to our drive to promote an inclusive finance. Throughout the country, the Banque de France network has provided support to households and firms, in particular those most in need. Thanks to the help offered to overindebted individuals and the implementation of the right to basic banking services, we helped 223,000 families to escape financial exclusion in 2018. The Banque de France offered support to SMEs and VSEs through credit mediation, which is now unified under its aegis. It has developed its training in economic and financial literacy for all citizens.

These results have been obtained thanks to the women and men of the Banque de France. They work with professionalism and a sense of public service. Along with the two Deputy Governors Denis Beau and Sylvie Goulard, I personally wish to pay tribute to them. Their commitment is particularly remarkable

in the light of the ongoing demanding transformation of our institution.

The Banque de France has placed great importance on becoming increasingly efficient, innovative, visible and open. It is more efficient: while increasing its range of services and maintaining its nationwide network, it lowered its headcount by over 6% in 2018. This translated into a decrease of over 11%, or EUR 120 million, in our annual operating expenses, and is one of our contributions to the national community. More innovative too: the Banque de France has better organised its branch network while continuing to receive the public in good conditions across the country and has consolidated the processing of requests. It created a laboratory dedicated to innovation, “the Lab”, which works closely with financial start-ups, and is the first European central bank to use blockchain technology. Lastly, it is more visible and more open: our presence in

the economic debate has been enhanced; our role and our activities are better known and recognised by our fellow citizens.

We conduct all of these actions to serve French and European citizens. Attachment to the euro reached an all-time high, with the support of 72% of French citizens and 75% of Europeans. 86% of French citizens are satisfied with the quality of the services we offer throughout France, but we are continuing to strive to improve it further. The confidence of our fellow citizens obliges us to do so. In the following pages, you will see a breakdown of our 2018 results. And rest assured, with the ten thousand members of the Banque de France’s staff, that we will do our utmost to remain a trusted and outstanding public service provider.

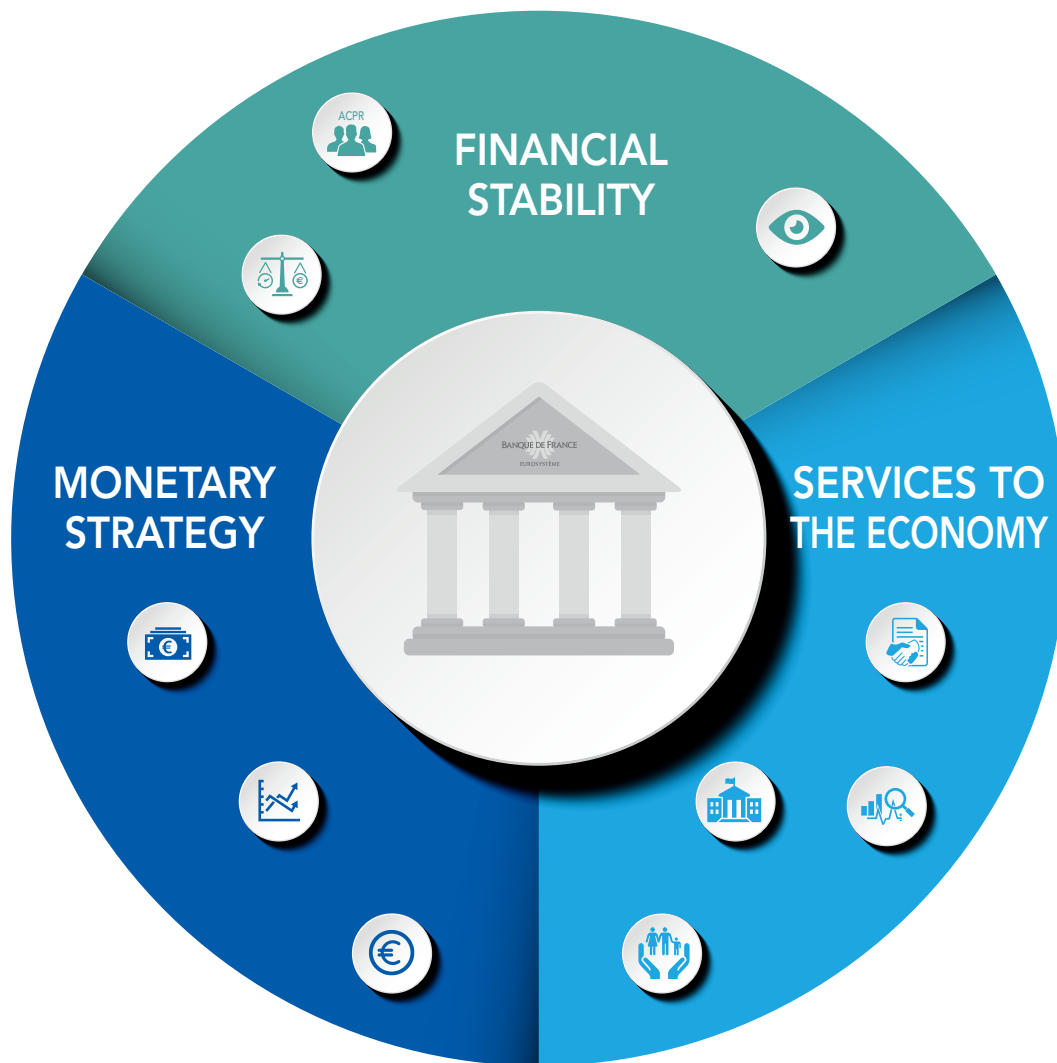


**François Villeroy de Galhau**



## 2018 in figures

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**OUR THREE CORE MISSIONS**



**10,257** full-time equivalent employees



**95** branches

**7.0** billion euro: profit before tax and exceptional items  
(of which 5.6 billion euro paid to the community in income tax and dividends)



**121** million euro: reduction in net operating expenses  
versus 2015



**13,567** secondary school pupils instructed in economic, budgetary  
and financial issues



**177** tonnes of coins collected and sorted  
for the 2018 *Pièces jaunes* national charity campaign

**3,877** entrepreneurs assisted  
by VSE correspondents



**1.9%** reduction in energy-related greenhouse  
gas emissions





# Monetary strategy in 2018



**580.3**

billion euro of securities purchased by the Banque de France since the implementation of the CBPP3, ABSPP, PSPP and CSPP programmes



**123.5**

billion euro of private sector securities purchased since the launch of the private sector asset purchase programmes (CBPP3, ABSPP, CSPP)



**140.0**

billion euro: total value of France's net gold and foreign exchange reserves



**52.2**

billion euro: total value of France's net foreign exchange reserves



**87.8**

billion euro: total value of France's gold reserves



**2,436**

tonnes: weight of France's gold reserves (4<sup>th</sup> largest holding in the world)



**1**

billion euro banknotes manufactured and distributed



**5.7**

billion banknotes distributed at Banque de France counters



**789**

million individual items of data accessible via the Open Data Room



**29**

articles published in peer-reviewed journals



**3<sup>rd</sup>**

ranking Eurosystem central bank for research, by number of listed publications

# Tasks



As a member of the Eurosystem, the Banque de France designs and implements monetary policy with the aim of safeguarding a major public good: monetary stability

- participation in Governing Council monetary policy decisions
- gradual exit from non-conventional monetary policy to keep inflation and growth on track
- production of economic statistics and forecasts to provide valuable insight



The Banque de France's cutting-edge expertise consolidates its position as the central bank for markets and ensures the Paris financial centre is efficient and secure:

- secure financing environment
- increased capital market liquidity
- management of foreign exchange reserves



The Banque de France maintains confidence in the currency:

- printing and circulation of banknotes
- security and innovation in payment instruments
- strong attachment to the euro among the French public

## MARCH

The Banque de France increases the frequency of its macroeconomic projections for France to quarterly

## APRIL

Innovation in monetary policy operations: auction system for securities lending transactions

## JULY

Publication of the 2017 report by the *Observatoire de la sécurité des moyens de paiement* (Observatory for the Security of Payment Means)

## SEPTEMBER

The ECB unveils the new €100 and €200 banknotes

## NOVEMBER

Launch of an Open Data Room at the Banque de France's offices in New York

## DECEMBER

The ECB Governing Council decides to end net asset purchases as of 2019

# Financial stability in 2018



192

on-site inspections of insurance firms, banks (excl. SSM inspections) and business practices



50

inspections on behalf of the ECB as part of the Single Supervisory Mechanism (SSM)



967

ACPR employees



128

staff seconded to the ECB as part of the SSM



802

banks authorised or inspected



789

authorised insurance firms and mutual insurers



13.6%

the core tier one capital ratio of the six main French banking groups



24

billion euro: average daily flows processed by retail payment systems in France in December 2018



250

billion euro: average daily flow of large-value payments processed by Target2 in France in December 2018

# Tasks



As well as securing confidence in the currency, the Banque de France guarantees another essential public good: the solidity of the financial sector

- European inspections to ensure banks meet international standards of resilience
- protection of customers



The Banque de France anticipates and prevents risks:

- evaluation of new risks
- contribution to changes in regulation
- provision of guidance to banks in their digital transformation



The Banque de France ensures the sound functioning and security of payment instruments:

- prevention of systemic risks
- sound functioning of payment and market infrastructures

## MAY

At the proposal of the Governor of the Banque de France, the HCSF adopts a measure capping systemic banks' exposure to large, highly indebted French corporations at 5% of their capital

## JUNE

At the proposal of the Governor of the Banque de France, the HCSF raises the countercyclical capital buffer to 0.25% for French banks

## SEPTEMBER

Inauguration of the ACPR's new premises, in the presence of Mario Draghi and Danielle Nouy

Conference on European banking supervision

## OCTOBER

Paris financial centre cyber-crisis simulation exercise

## Services to the economy in 2018



**55,979**

basic bank accounts opened at the Banque de France's request (under the right to a bank account procedure)



**177,591**

overindebtedness cases handled by Household Debt Commissions



**235,000**

calls handled by the Assurance Banque Épargne Info Service (ABE IS) telephone service, the AMF and the ACPR



**13,000**

companies participating monthly in Banque de France business surveys



**2,500**

subscribers to Banque de France business surveys



**37,300**

statistical series disseminated via [webstat.banque-france.fr](http://webstat.banque-france.fr)



**7.9**

million companies listed in the FIBEN database (13.3 million consultations)



**266,730**

non-financial corporations (mainly SMEs) assigned a Banque de France rating



**757**

businesses assisted by the credit mediation services (10,565 jobs saved or secured)



# Tasks



We also have a duty to help the public understand the economy:

- the Banque de France – operator for France’s national financial literacy strategy
- major initiatives and partnerships



The Banque de France provides advice and guidance for individuals, especially the financially vulnerable:

- help for the overindebted, right to an account procedure
- maintenance of payment incident registers, monitoring of bank fees



The Banque de France assists and guides companies, especially small businesses:

- guidance for VSEs and SMEs
- credit mediation



The Banque de France provides financial services to the French government:

- holding of the French Treasury’s bank account
- management of government debt auctions

## MAY

Inauguration of the new premises of the Lab, a laboratory and co-working space for testing innovative technologies of interest to the Banque de France

## JULY

Renewal of the *Accord de Place sur la médiation du crédit* (national credit mediation agreement), attachment of all national credit mediation services to the Banque de France and appointment of a new national credit mediator, Frédéric Visnovsky

## SEPTEMBER

European Heritage Days – visitors take part in a Citizen’s Forum on “Our currency, the euro”, with the Governor François Villeroy de Galhau

## OCTOBER

The Banque de France holds its annual VSE correspondents’ convention

## NOVEMBER

Inauguration of the new, fully automated and ultra-secure cash centre in Paris-La Courneuve, and of the economic centre in Seine-Saint-Denis

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# Monetary strategy

markets  
means of payment  
forecasts  
**monetary policy**  
refinancing  
Eurosystem  
research  
money





## Price stability and confidence in the currency

Monetary policy is a key factor in the country's economic success.

The Banque de France is the guarantor of a sound and reliable currency

### 1 At the heart of the Eurosystem, the Banque de France designs and implements monetary policy

The mandate of the Banque de France and the other central banks of the Eurosystem is clear: it is to ensure price stability and, without jeopardising this objective, to support the economic policy objectives of the European Union. In 2018, thanks to its active role in the implementation of monetary policy decisions and to its research and preparatory work, the Banque de France facilitated the financing of the economy.

#### Monetary policy prepares the exit from exceptional measures

In the euro area, the year 2018 was marked by still solid economic growth and a gradual rise in inflation, in an economic environment characterised however by strong

uncertainties linked to geopolitical factors, protectionist threats and the volatility of commodity and financial markets. In this context, the Eurosystem started to normalise its monetary policy by gradually phasing out its net asset purchases, while maintaining a high degree of monetary support.

The decision of the ECB Governing Council, taken at its meeting of 13 December 2018, to discontinue net asset purchases from 2019, in line with the announcement that had been previously made, does not, however, mean the end of the monetary stimulus as three of the instruments in the "quartet" of non-standard measures implemented by the Eurosystem since 2014 will remain in place (see box below on monetary policy decisions).

The ECB adjusted its communication to the changes in economic and financial conditions that occurred

in 2018. For example, forward guidance on key interest rates evolved after the meeting of 14 June 2018: the horizon up to which key interest rates were to be maintained at their present levels was thus set at "through the summer of 2019". The previous formulation was "for an extended period of time and well past the horizon of the net asset purchases". Similarly, at the December meeting, the Governing Council provided guidance on the sequence of monetary policy normalisation in the euro area, stating that the phase of reinvestment, in full, of maturing securities will be maintained "for an extended period of time past the date when the ECB begins to raise key interest rates".

Communication, which is an essential dimension of monetary policy for central banks, has also helped to guide economic agents' expectations and strengthen the degree of monetary accommodation.

## Monetary policy decisions

Non-standard measures implemented by the Eurosystem maintained very accommodative monetary conditions in 2018

The first instrument is the provision of liquidity and credit to banks. The Targeted Longer-Term Refinancing Operations (TLTRO) launched in 2016 and 2017 for a four-year period and the Fixed Rate Full Allotment (FRFA) procedure are still in place. In total, TLTRO outstandings amounted to EUR 762 billion in 2017, for all Eurosystem banks, and still stood at EUR 719 billion at end-2018.

The second instrument is the Asset Purchase Programme (APP), which has been implemented since 2015. The net volume of asset purchases was cut back in January 2018 to a monthly rate of EUR 30 billion (against EUR 60 billion previously). In a context of robust

economic growth, the Governing Council considered that this adjustment would maintain a high degree of monetary support. **In December 2018, it announced the end of net asset purchases.** This decision was underpinned by stronger pressures on prices (with inflation in the euro area at 1.9% in November, after 2.2% in October and forecasted at 1.8% for 2018, after 1.5% in 2017) and, more generally, by still favourable economic conditions (annual GDP growth forecasted at 1.9% in 2018, after 2.5% in 2017).

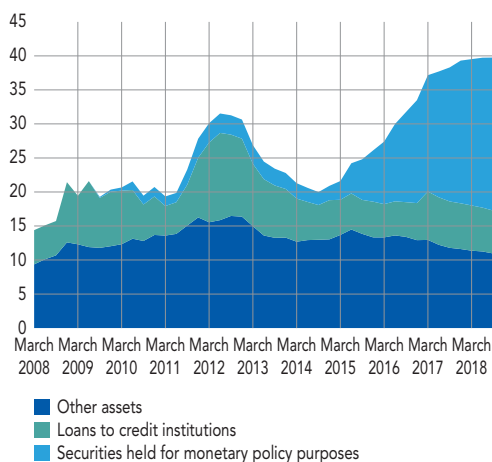
The reinvestment of the stock of assets acquired, the third instrument of the quartet of measures, will continue: in October 2017, the Governing Council reaffirmed its commitment made from the outset to reinvest the principal payments from maturing securities purchased under the APP. As a result of the Eurosystem reinvestment policy, the size of the asset portfolio acquired under the APP will be maintained at the level reached at the end of the net purchases “for an extended period of time”. The Eurosystem will therefore remain a major purchaser of euro-denominated bonds over the long term, which will help maintain favourable liquidity conditions and a high degree of monetary accommodation.

The fourth instrument is maintaining one of the key rates in negative territory. The deposit facility rate remained at -0.4% in 2018, a level unchanged since 2016. The rate of the main refinancing operations remained at 0%.

.../...

### Eurosystem assets

(as a % of annual GDP)

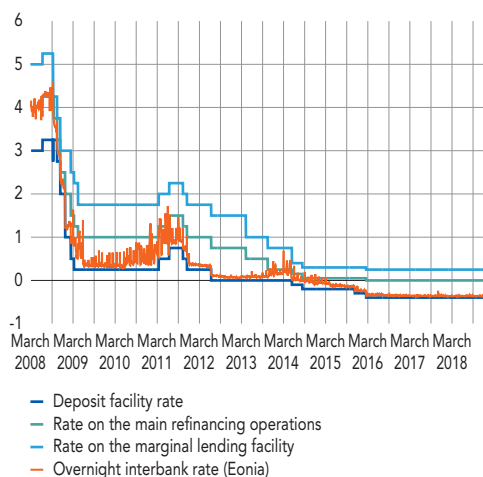


Source: European Central Bank.



### ECB key rates

(annualised %)



Source: European Central Bank.

Forward guidance also helped to guide economic agents' expectations and thereby strengthen the degree of monetary accommodation. While until April 2018, the Governing Council had indicated that key interest rates should be maintained at their present levels "for an extended period of time, and well past the horizon of

the net asset purchases", it adjusted its communication at the meeting of 14 June 2018, when it stated "at least through the summer of 2019".

The Eurosystem's monetary stimulus remains in place

The high degree of uncertainty that continues to weigh on the global economy requires a significant level of monetary support to continue reinforcing domestic price pressures. The discontinuation of net asset purchases does therefore not mean the end of monetary stimulus, which will continue to provide a high degree of accommodation. The phase of reinvestment, in full, of the principal payments from maturing securities will be maintained for an extended period of time past the date when the Governing Council starts raising key interest rates. Forward guidance, together with the reinvestment of the large volume of securities acquired, will therefore continue to support the sustainable convergence of inflation towards levels below, but close to, 2% over the medium term.



#### Highlight

13 December 2018

Decision of the ECB Governing Council to end net asset purchases as of 2019

<https://www.banque-france.fr/sites/default/files/medias/documents/ecb.mp181213.en-3.pdf>



#### Key figures for 2018



580.3

billion euro of securities purchased by the Banque de France since the implementation of the CBPP3, ABSPP, PSPP and CSPP programmes



123.5

billion euro of private sector securities purchased since the launch of the private sector asset programmes (CBPP3, ABSPP, CSPP)



The Banque de France made almost a quarter of Eurosystem securities purchases

The Banque de France continued to actively participate in the implementation of the APP programme, both in its Public Sector Purchase Programme (PSPP) component and in the three private sector purchase programmes (CBPP3, CSPP and ABSPP).<sup>1</sup> It also successfully contributed to making the repo market more fluid through its daily securities lending, particularly towards the end of each quarter.

The Banque de France actively contributed to the methodological work on the calculation of €STR, the euro area's new money market overnight index

Together with the Eurosystem and financial market professionals, the Banque de France participated in defining the methodology for calculating a new money market overnight index. This index, known as €STR (Euro Short Term Rate), was announced on 28 June 2018 and

## Benchmark indices on money markets

A reform of benchmark indices on money markets has been launched, following a series of disputes in recent years over how certain interbank market rates were set. As of 1 January 2020, the indices used in the European Union will in principle have to comply with the Benchmark Regulation (BMR), which came into force on 1 January 2018. A new benchmark rate known as €STR (Euro Short Term Rate) was created by the ECB, which will be responsible for calculating it and administering it. This rate, which will be calculated based on daily transaction data collected by the ECB from a wide range of euro area banks, is intended to replace the Eonia as an overnight benchmark and should start to be published at the latest in October 2019. In anticipation of this rate, the ECB regularly publishes a series of daily data on a "pre-€STR" indicator.

As regards Euribor rates, the European Money Markets Institute (EMMI), as administrator, has begun overhauling their calculation methodology in order to bring them in line with the BMR Regulation before 1 January 2020.

will be published by October 2019 at the latest (see box). The Banque de France is contributing to the implementation of the new index by adapting the European Money Market Statistical Reporting (MMSR) platform and its local Money Market French Reporting (MMFR) platform.

**Cutting-edge studies and research to consolidate monetary policy decisions and strengthen the Banque de France's influence in France and abroad**

The decisions of the ECB Governing Council draw on the analyses of Eurosystem central bank experts. Original scientific research fuels debate and enables the Banque de France to contribute to the decision-making process both at the

<sup>1</sup> CBPP: Covered Bond Purchase Programme; CSPP: Corporate Sector Purchase Programme; ABSPP: Asset Backed Securities Purchase Programme.



European monetary policy level and within international organisations.

The Banque de France encourages economic research and makes it more visible thanks to a diversified dissemination policy aimed at all types of public. Thanks to its publications and the organisation of conferences and seminars, it has

extended its influence, in France and abroad, and its reputation in the field of research. The hosting of researchers in an Open Data Room in Paris and the opening of an Open Data Room at the Banque de France offices in New York contribute to promoting research by offering secure access to anonymous data from the Banque

de France, in compliance with the current legislation. In 2018, the Banque de France still ranked third among Eurosystem central bank for the quality and quantity of research work and publications.<sup>2</sup>

<sup>2</sup> Source: *Research Papers in Economics (RePEc)*.



### Highlight

9 November 2018

Launch of an Open Data Room at the Banque de France offices in New York

<https://www.banque-france.fr/en/communique-de-presse/banque-de-france-opens-open-data-room-new-york>



### Key figures for 2018



**3<sup>rd</sup>**

ranking among Eurosystem central banks, by number of listed publications; ranked in the top 1% of global institutions for the quality and quantity of research work and publications



**29**

articles published in peer-reviewed international journals



**152**

seminars organised at the Banque de France



**19**

editions of *Rue de la Banque* published



**1,110**

individuals trained by the Institut bancaire et financier international (IBFI)



**112**

researchers welcomed in the Open Data Room



**46**

working papers published

## Growth and inflation forecasts contribute to making the most appropriate monetary policy decisions

In 2018, the Banque de France increased the frequency of publication of its macroeconomic projections for France

The Banque de France, together with the other Eurosystem central banks, assesses the economic situation of the euro area. In particular, every quarter, it prepares detailed macroeconomic projections for France over a period of three to four years. This work is based on the combination of various areas of expertise, integrating the contributions of macroeconomists, modellers, public finance specialists and the exploitation of business surveys. These analyses contribute significantly to the Eurosystem's monetary policy decision-making process.

3 <https://publications.banque-france.fr/en/liste-chronologique/macro-economic-projections>



Since 2018, the Banque de France has published its forecasts<sup>3</sup> for France on a quarterly basis (instead of a half-yearly basis previously). The [forecast note](#) presents its analysis of the macroeconomic outlook for France over the short and medium term, and contains two or three boxes on important specific topics. For example, in December 2018, the topics covered were "Changes in Purchasing Power in France", "Job

Creation and Unemployment" and "The Outlook for the Government Debt Burden".

According to the forecasts of the Banque de France and the Eurosystem published in December 2018, GDP is expected to continue growing at a faster pace than that of potential growth until 2021, both in France and in the euro area, despite a highly uncertain economic environment.



### Highlight

15 March 2018

First quarterly publication by the Banque de France of its macroeconomic projections for France



## Statistics shed light on the country's economic and monetary situation

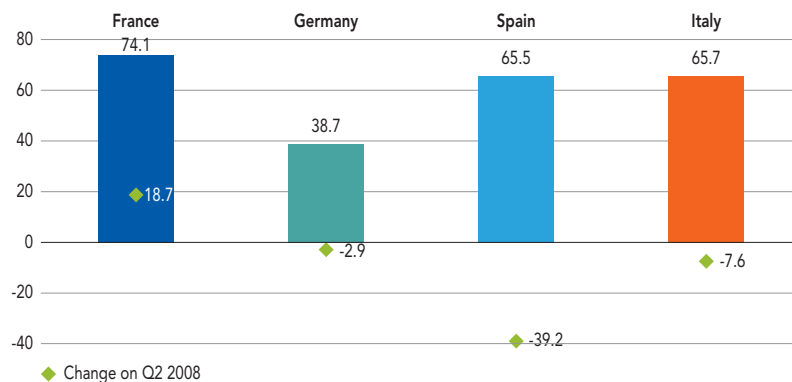
### Careful monitoring of loans to businesses and households

The debt level of non-financial private agents in France, in particular that of non-financial corporations and households, is carefully monitored given that its growth rate is significantly higher than that of economic growth. This is a singular situation among the major economies of the euro area (see the [December 2018 report](#) on the risk assessment of the French financial system).<sup>4</sup> An increase in the debt burden (the amount to be repayed each year) could weaken borrowers, with potentially negative consequences for medium-term economic growth.

Monetary statistics are used to monitor loans granted by credit institutions and their loan securitisations on a monthly basis. The Banque de France can thus assess both the dynamics of loans recorded on the balance sheets of credit institutions and that of securitised loans. Thanks to the European harmonisation of these statistics, it is possible to easily

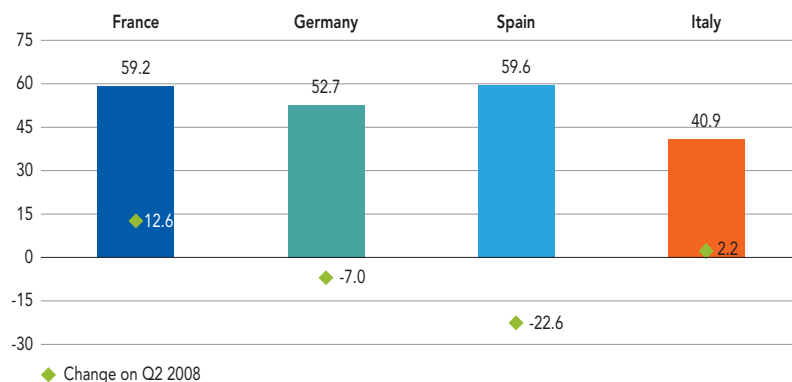
### Debt of non-financial corporations at 3rd quarter 2018

(as a % of GDP)



### Debt of households at 3rd quarter 2018

(as a % of GDP)



compare the French situation with that of its partners. In addition to the monetary statistics, statistics on securities issuance are used to monitor the debt of non-financial corporations in the financial markets.

The financial centralisation of loans and deposits, which lists transactions processed by about 300 banks affiliated to the French

<sup>4</sup> <https://publications.banque-france.fr/en/liste-chronologique/assessment-risks-french-financial-system>

Banking Federation, provides indications on the role played by banks in credit distribution and deposit collection at the regional level.

The key results of these statistical collections are published in statistical releases (*Stat Info*) and downloadable series ("[Webstat](http://webstat.banque-france.fr/en/)" portal<sup>5</sup>).

### Business surveys are used to rapidly assess the economic situation

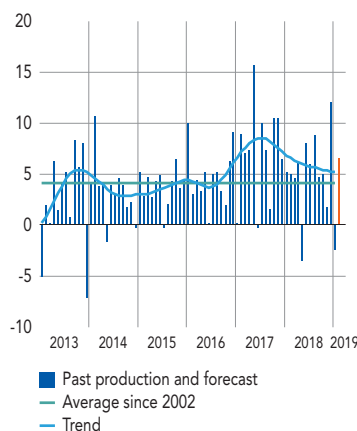
Business surveys conducted by the Banque de France are a valuable tool both for the monetary policy stance and for public information, as they are used to rapidly establish an assessment of economic developments.

<sup>5</sup> <http://webstat.banque-france.fr/en/>

<sup>6</sup> <https://www.banque-france.fr/en/statistics/business-surveys/business-surveys>

### Opinion on trends in industrial production

(balance of opinions adjusted for seasonal and working day variations)



NB: A positive (negative) balance corresponds to an increase (a decrease).

Data are collected directly from companies by the Banque de France via its branch network. Each month, over 13,000 companies are surveyed across France, providing data representative of the entire French economy.

The monthly business survey covers industry, market services and construction, and is supplemented by a monthly survey on retail trade (brick-and-mortar and e-commerce). The Banque de France also conducts a quarterly survey on public works. The results are published about ten days after the end of the month under review on the Bank's website<sup>6</sup> and the national series are available on the "Webstat" portal for accessing the Banque de France interactive database. They are presented in an aggregate form at the national level, but also in a disaggregated form in the *Regional Trends*.

### Measuring foreign trade using the balance of payments

The Banque de France, which is charged with establishing France's balance of payments, pays particular



### Key figures for 2018



13,000

companies surveyed each month



2,500

subscribers to business surveys



100,000

recipients of national and regional publications on business conditions



attention to the measurement of global economic trends. It has taken part, within the OECD, in developing a set of new statistical standards in order to gain a clearer picture of the different forms of international digital commerce and to group them under a harmonised framework.

The Banque de France has also continued to improve its international tourism statistics, adding more and more precise information on the profile of travelers, in order to better reflect the dynamics of one of the leading sectors of the French economy. It has thus adapted its surveys to take into account countries further afield (China, India, Japan) and exploits some big data and “mirror” data. According to revised figures released in early 2018, France’s annual receipts from international tourism amount to more than EUR 50 billion, which strengthens France’s position among the world’s main tourist destinations.

## 2 The Banque de France’s financial innovations for the Paris financial centre consolidates its position as the central bank for markets

### A presence on the foreign exchange market that meets several objectives

The Banque de France plays an active role in the foreign exchange market for several reasons. First, it must be able to

intervene in the foreign exchange market, within the decentralised framework of the Eurosystem. Second, it manages foreign exchange reserves in the form of bond portfolios invested in foreign currencies and therefore conducts purchases and sales of foreign currencies. Finally, the Banque de France offers its expertise and know-how to its institutional clients by carrying out foreign exchange transactions on behalf of its clients.



### Key figures for 2018



**789**

million items of data accessible via the Open Data Room



**37,300**

statistical series published on [webstat.banque-france.fr/en/](http://webstat.banque-france.fr/en/)



**The Banque de France, the central bank for markets, at the cutting edge of technology in Europe**

The Banque de France has consolidated its position as the central bank for markets by setting up, together with the Banco d'Espana, a common market operations management platform (Maps), which is also open to the other central banks of the European System of Central

Banks (ESCB), and by investing in an aggregator that enables it to perform its tasks in this renewed environment (see box on algorithmic trading). This tool mainly makes it possible to pit about forty different trading systems against one another and thus to carry out transactions at the best prices available at every moment. The tool also provides access to sophisticated algorithmic tools for executing foreign exchange



orders and to market data with a maximum granularity.

## A deeply changing foreign exchange market

Technology has caused deep-seated changes in the structure and organisation of the foreign exchange market, both spatial – the market is more fragmented – and temporal – the speed of execution of transactions has increased. As the currency market is an over-the-counter market, which is by nature decentralised, technological advances have led to a multitude of electronic systems for conducting foreign exchange transactions.

Nowadays, 90% of transactions are carried out electronically (source BIS, 2016). In order to obtain the best execution prices, an operator wishing to conduct a transaction now compares the prices displayed on about fifty different electronic platforms.

This “electronification” of the market has led to a significant increase in the speed of transactions, which has caused profound changes in the interactions between market participants. For example, while the first electronic trading systems published price updates every tenth of a second, in recent years this frequency has increased almost twentyfold, with the exchange rate being updated every five milliseconds (i.e. 200 updates per second). Speed having become a comparative advantage in this financial ecosystem, new technological players have emerged, beyond the traditional sphere of historical banking players. In order to be able to respond at such high speeds, participants have developed new tools such as aggregators or execution algorithms.



## Algorithmic trading

Algorithmic trading is a concept that encompasses the execution of financial market transactions using computer programmes. It thus covers very different types of behaviour,<sup>1</sup> various typologies of players and very uneven levels of sophistication.<sup>2</sup> Initially, non-bank disruptive players focused on the speed of execution by capitalising on innovative technologies in order to penetrate a market largely dominated by banks.

### "Static" algorithms

The first algorithmic strategies were relatively simple. These were mainly weighted averages (Time Weighted Average Price – TWAP – or Volume Weighted Average Price – VWAP). The objective is to divide a large order into smaller tranches to obtain a final execution price that is more representative of the initial state of the market by reducing the impact on liquidity. Thanks to other relatively simple algorithms, certain repetitive

tasks have been automated, such as the hedging of currency option portfolios through a fully automated management of the underlying market exposure.

### "Smart" algorithms

The fragmentation of the market then led to the rise of algorithms seeking the greatest liquidity<sup>3</sup> among the multitude of available electronic trading systems. The computer programmes involved had to improve their internal flexibility to become increasingly "smart" agents, attentive to the environment around them via different indicators and adjusting their behaviour accordingly. More recently, the tools used have been further enhanced with the emergence of algorithms capable of instantly interpreting published economic indicators or speeches delivered by world decision-makers.

1 Although it is often used as a synonym, high frequency trading is only a small part of the algorithmic universe in financial markets. A high frequency trader will use algorithms, but not all users of algorithms are high frequency. High frequency trading is characterised by the ability to send an extremely large number of orders extremely rapidly.

2 For more details, see Box 4 in the June 2016 ERS publication: [https://publications.banque-france.fr/sites/default/files/medias/documents/ers\\_06\\_16\\_envf.pdf](https://publications.banque-france.fr/sites/default/files/medias/documents/ers_06_16_envf.pdf)

3 The criterion used for defining the quality of liquidity will depend on the objective of the participant. It may be, among other things, an objective of minimising the impact on the market or maximising profits.

## The Banque de France supports initiatives to develop a single collateral market in the euro area

Unlike cash and securities that circulate almost instantaneously between different financial markets thanks to Target2 and T2S, collateral

management, in particular that of monetary policy, is imperfect in the euro area where the players and the trading terms remain fragmented. For several years, the Banque de France has been supporting initiatives that promote the development of a single

collateral market in the euro area to secure market financing methods. The Euro General Collateral Plus (Euro GC+), a tri-party basket repo clearing service, has been available to market participants since 2015. The Elixium platform, a multilateral trading facility, which



offers advanced functionalities and fluidifies the exchange of collateral, was launched in 2018. It unifies collateral trading methods, which are still largely dominated by voice trading, and integrates the specificities of certain exchanges. In order to secure transactions, a clearing solution will also have to be made available to interested participants.

### 3 As a major player in the cash industry, the Banque de France maintains confidence in the currency in all its forms

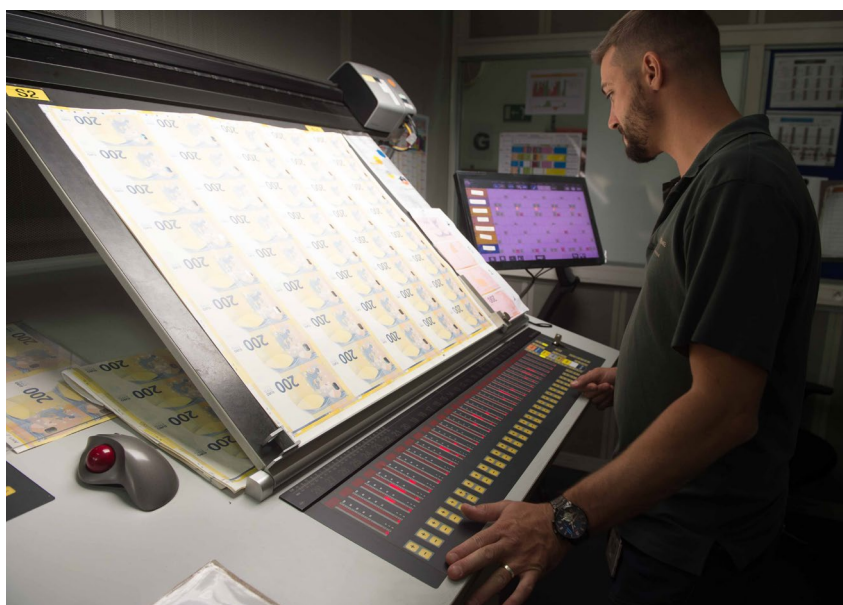
**The Banque de France, guarantor of the quality and security of all means of payment, manufactures the new secure banknotes**

The Banque de France issues and puts into circulation euro banknotes in mainland France and in the overseas departments, and organises the regular sorting of banknotes: it removes counterfeit banknotes, destroys banknotes whose quality has deteriorated, and puts back into circulation high-quality banknotes. It controls the sorting done by private operators (see Appendix 3 on the recycling of euro banknotes and coins by

private operators in 2018). It also puts into circulation and withdraws euro coins on behalf of the State. It thus enables everyone to choose their means of payment.

While cash is less used in France than in its main neighbouring countries, it is still the most widely used payment instrument: 68% of transactions at points of sale are paid in cash. It is mainly used for small daily purchases.

In 2018, the Banque de France confirmed its position as the leading public printer of euro banknotes and a major player in the Eurosystem's cash industry, relying on its Europafi paper manufacturing subsidiary and its printing works, both located in the Puy-de-Dôme department. It is also the main supplier of banknotes issued in overseas Pacific territories, in about twenty foreign countries, and especially for some African monetary areas.





In 2018, the Banque de France continued to produce the €20 and €50 denominations and started producing the new €100 and €200 denominations of the Europa series. It will produce 20.2% of the

total volume required for the first issue of the €100 banknote, as well as 46% of the total volume issued in the Eurosystem for the €200 banknote, which will be issued simultaneously in the second quarter of 2019.

The Banque de France can rely on high-capacity, state-of-the-art automated currency management centres, the last site to be opened being that at Paris-La Courneuve.



#### Key figures for 2018



1

billion euro banknotes  
manufactured and distributed



5.7

billion banknotes distributed  
at Banque de France counters



22.2

billion euro banknotes  
distributed since 2001



5.1

billion banknotes  
sorted



138.7

billion euro: value of all the banknotes  
issued by the Banque de France since  
the introduction of the euro



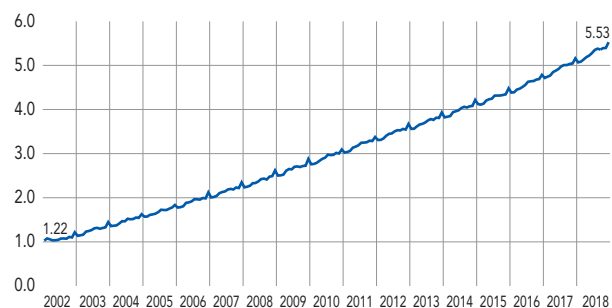
68%

share of payments in cash  
at French stores



### Growth in net banknote issuance

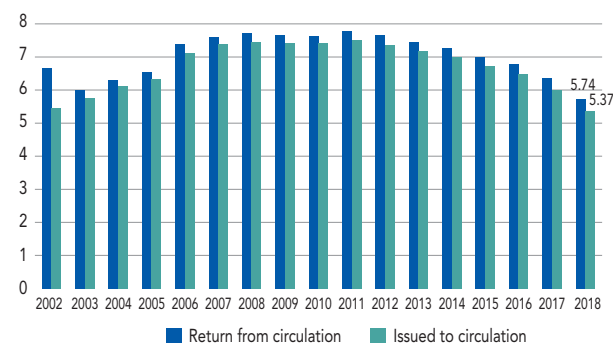
(in billions of banknotes)



Note: Net issuance is gross issuance (new banknotes) minus banknotes withdrawn from circulation  
Source: European Central Bank.

### Flow of banknotes at Banque de France and IEDOM counters

(in billions of banknotes)



Note: Flow statistics cover all banknotes in circulation.



### Highlights

#### 17 September 2018

The ECB unveils the new €100 and €200 banknotes

<https://www.banque-france.fr/sites/default/files/medias/documents/cp-bce-gb-news-200-100e-20180917.pdf>

#### 13 November 2018

Inauguration of the new automated currency management centre in La Courneuve

<https://www.banque-france.fr/sites/default/files/medias/documents/dossier-de-presse-inauguration-plc-13-novembre-2018.pdf>



## Training in banknote authentication

The Banque de France contributes actively to the fight against counterfeiting. In 2018, it provided training in banknote authentication to over 21,000 professionals (bank staff, retailers, police, etc.). The trainers in authentication are now preparing the professionals to recognise the new security features integrated in the €100 and €200 banknotes of the Europa series, which will be put into circulation in 2019.

## Security, monitoring and innovation for all means of payment

The security of means of payment is a pre-requisite for maintaining public confidence in the currency. It is therefore of utmost importance that the users of payment services, be they individuals, businesses or administrations, have efficient, reliable and secure means of payment. That is why, in addition to the manufacture of high-security banknotes, the public authorities

have also entrusted the Banque de France with the task of ensuring the security of cashless means of payment, i.e. all means of payment other than cash: credit cards, cheques, transfers, direct debits, etc. This mission also extends to certain categories of paperless payment vouchers, such as luncheon vouchers, holiday vouchers and culture vouchers.

As part of this mission, the Banque de France maintains a permanent watch on the security of means

of payment. It ensures that it is properly implemented by market players, through on site and off-site inspections. The Banque de France also provides the secretariat for the Observatory for the Security of Means of Payment (OSMP), a financial market coordinating body, which brings together representatives of all parties involved in the payments market (suppliers, users and public authorities).

Lastly, by promoting innovative solutions, combining robustness, security, ease of use for users and interoperability at the European level, the Banque de France acts as a catalyst for the development of the payments market. As such, it provides the secretariat for the National Cashless Payments Committee (CNPS), the body entrusted by the Ministry of the Economy with the task of ensuring the implementation of the national payments strategy.



### Highlights

18 July 2018

Publication of the 2017 annual report of the Observatory for the Security of Means of Payment  
<https://www.banque-france.fr/sites/default/files/medias/documents/annual-report-2017-osmp2017-gb-20181108.pdf>

12 November 2018

Validation by the National Cashless Payments Committee (CNPS) of the main points of a new national means of payment strategy



## The national payments strategy

In the second half of 2018, as part of its secretarial duties for the National Cashless Payments Committee (CNPS), the Banque de France coordinated the work of defining a new payments strategy for the period 2019-2024. This new strategy, which is the result of a series of meetings held with the players in the payments market, will replace that launched in 2015 by the Minister of the Economy, whose objectives have been met. Its main objectives will be to continue modernising payments and their ecosystem in France, while contributing to European independence in the field. It will be organised around the following three axes:

- continue, in the wake of the previous strategy, the work to promote secure electronic means of payment for the benefit of the economy;
- speed up and foster the deployment of innovations, in order to encourage the emergence of new payment practices in an environment of trust;
- contribute to European efforts to deepen the single market for payments.

The final version of the strategy, including the timetable for implementation, will be published in the course of 2019, after validation by the CNPS.

## The management of foreign exchange reserves: a key element in ensuring confidence in the currency

The Banque de France manages France's foreign exchange reserves, as well as some of those of the ECB. As a manager of gold and foreign currency reserves, the Banque de France plays a major role in international markets.

## French support for the euro

In 2018, French support for the euro continued to grow. In December 2018, according to the European Eurobarometer, 72% of French citizens supported "an economic and monetary union with one single currency, the euro". This is the highest level since June 2009.



### Key figures for 2018



66

million: daily number of cashless payments



75.5

billion euro: daily value of cashless payments



58%

share of bank card payments in total number of transactions, compared to 33% for SEPA payment means and 8% for cheques



140.0

billion euro: total amount of France's gold and foreign currency reserves net of forex liabilities including SDRs (vs 133 billion euro in 2017)



52.2

billion euro: total foreign exchange reserves net of forex liabilities including SDRs



87.8

billion euro: value of France's gold reserves (2,436 tonnes of gold)







# Financial stability

banks  
insurers  
ACPR  
infrastructures  
**supervision**  
anti-money laundering  
risks  
customer  
protection





## A sound financial sector thanks to the Banque de France

The Banque de France wants to be a reference in Europe in the field of supervision, ensuring a stable financial system, protecting customers and preventing risk

**T**he Banque de France is responsible for safeguarding financial stability at both an individual and systemic level. Working in coordination with the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability), it contributes to maintaining the stability of the financial system within a macroprudential policy

framework. Acting through the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority), an administrative authority attached to the Banque de France and responsible for microprudential supervision, it makes sure that the individual banks, financial corporations and

insurers under its supervision are financially sound. It also supervises market infrastructures.

**1 The Banque de France guarantees a sound financial sector and protects the customers of banks and insurers**



### Ensuring sound financial institutions

Supervision based on expert staff and cooperation between authorities

In banking supervision, the ACPR, which has cooperated closely with the ECB since late 2014 when the Single Supervisory Mechanism (SSM – see box below) came into effect, pursued two sets of priorities in 2018: bank business models and



The ACPR

<https://www.youtube.com/watch?v=XBcl2X2ZVZc>



## Supervision within the framework of the Banking Union

The Single Supervisory Mechanism (SSM), which came into effect at the end of 2014, gives the ECB responsibility for supervising the euro area banking sector. The ECB takes on this responsibility directly for the main banks while delegating the task of overseeing smaller institutions to national supervisors, within a framework of close cooperation between authorities.

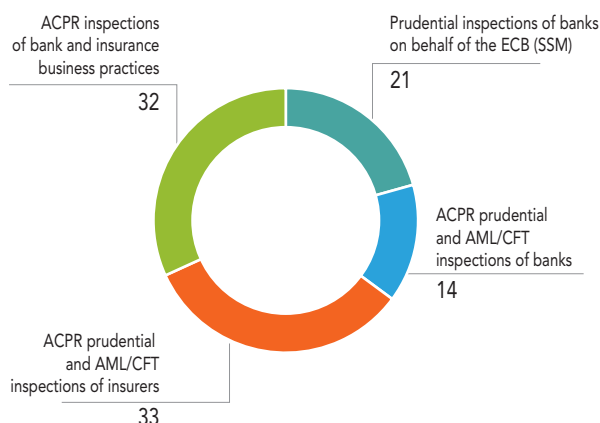
Joint supervisory teams (JST) made up of staff from the ACPR and the ECB supervise the largest credit institutions, of which there are 12 in France. The ECB also relies heavily on national authorities for on-site

inspections. In addition, the ACPR conducts direct supervision of 115 “less significant” institutions.

The SSM promotes harmonisation of national supervisory practices by leading coordination networks covering cross-cutting themes and continuing efforts to set up a shared information system for the ECB and national authorities. The ACPR takes part in SSM governance through the ECB’s Supervisory Board, attended by the national authorities, which prepares the ECB Governing Council’s supervisory decisions.

### Breakdown of prudential and business practice inspections conducted on-site by the ACPR in 2018 in the banking and insurance industries

(%)



Note: AML/CFT refers to anti-money laundering and combating the financing of terrorism.

profitability (notably sensitivity to interest rate risk); and control of credit risk and reduction of non-performing loans (NPLs). Action included publication of guidelines for dealing with NPLs. The SSM and ACPR also monitored preparations for the United Kingdom’s departure from the European Union (see box below on the prospect of Brexit).

In insurance supervision, in 2018 the ACPR oversaw the implementation of the European Solvency II framework, whose rollout is continuing after coming into force



in 2016. As part of this, the ACPR reviewed the governance practices of France's main insurance firms. It also kept a close watch on the potential consequences for financial institutions of a persistently low interest rate environment and examined emerging risks such as cybersecurity and climate change (see below).

Lastly, as France modernises its retirement savings framework, the ACPR licensed the first two *fonds de retraite professionnel supplémentaire* (FRPS – complementary occupational pension funds) in October 2018.

Beyond supervision proper, the ACPR was also heavily involved in international efforts to enhance the consistency and coordination of supervisory action, including work by the European Banking Authority (EBA), which published several

important guidelines in 2018, notably on internal governance, interest rate risk and stress testing. The ACPR also took part in work by the European Insurance and Occupational Pensions Authority (EIOPA), particularly on improving supervision of activities performed under the freedom to provide services.

#### Continuing the operational implementation of the resolution framework

The ACPR continues to draw on its experience to play a driving role in Europe in elaborating and implementing resolution plans in the banking sector. It also began implementing the insurer resolution system provided for in the ordinance of November 2017. As a result, 14 insurance groups or entities will be subject to requirements to draw up preventive plans starting in 2019.

## A broad scope of supervision and evolving practices

### Anti-money laundering and combating the financing of terrorism

The ACPR's work also extends to anti-money laundering and combating the financing of terrorism (AML/CFT), an area that remains under the purview of national supervisors and represents one of their supervisory priorities. In 2018, the ACPR published several guidelines transposing obligations arising from the fourth AML directive, including on politically exposed persons, correspondent banking and know your customer (KYC) requirements.

### Protecting the interests of bank and insurer customers

As part of its task of protecting the customers of banks and insurers, the



#### Key figures for 2018



192

on-site inspections of insurance firms and banks as part of the ACPR's national prudential oversight mandate (excluding inspections on behalf of the ECB) and its supervision of business practices



50

inspections on behalf of the ECB as part of the Single Supervisory Mechanism (SSM)

## The prospect of Brexit

Since the UK referendum on its membership of the European Union (EU) on 23 June 2016 and its activation of Article 50 of the Treaty on European Union on 29 March 2017, the Banque de France and the ACPR have regularly assessed the various exit scenarios and their potential consequences for financial stability. Heightened political uncertainty continued throughout 2018: although the United Kingdom and the EU reached a withdrawal agreement and a statement on future relations on 14 November 2018, they have not been ratified by British Parliament. Within the framework of their tasks, the ACPR and the Banque de France are monitoring the two main sets of risks linked to Brexit, namely those that could affect financial stability and those that could threaten customer protection. Accordingly, they participated actively in domestic and European work on assessing and mitigating the impact of different Brexit scenarios on the financial system and its participants.

In a no-deal situation, UK financial participants (banks and insurers) would lose their European passporting rights and access to the common market on 29 March 2019. It is up to the financial industry to prepare actively for the consequences. The ACPR has already issued authorisations and is supporting over 50 financial institutions from a range of sectors in their relocation efforts.

UK central counterparties (CCPs) would also lose their recognition under EMIR, meaning that the bulk of new OTC derivatives contracts could no longer be cleared in London. The validity of in-force OTC derivatives contracts could be called into question if events arose

during contract lifecycles. UK payment systems would become third-country systems, so deposits by French participants would no longer be protected in the event of failure.

National and European authorities have already adopted or are in the process of adopting measures to prevent and limit the impact of these risks. On 6 February 2019, France published an ordinance on preparatory measures for financial services ahead of the United Kingdom's departure from the EU. To deal with the consequences of a no-deal Brexit, the order covers, among other things:

- continued access for French entities to UK interbank payment and settlement systems;
- clarification of the rules applicable to insurance contracts entered into with UK insurers under European passporting rights before the United Kingdom's withdrawal;
- amendments to French law to accommodate International Swaps and Derivatives Association (ISDA) master agreements;
- introduction of rules to facilitate transitioning for collective investment schemes.

The European Commission, meanwhile, has already proposed a number of solutions to address the identified risks to financial stability. Temporary recognition of UK CCPs was announced on 19 December 2018, which will allow them to continue to provide their services to European participants during the scheduled one-year transition period.



## Resolution plans

The 2007-09 financial crisis, and in particular the Lehman Brothers and AIG failures, highlighted the need for a robust framework to manage the failure of a bank or financial institution while preserving the stability of the overall financial system.

A bank resolution regime was established to address this need. It seeks to ensure that banks' critical functions (particularly financing economic participants) continue to operate, while protecting customer assets and funds and limiting the need for public money. At G20 level, the FSB coordinated the design of a global framework, which the European Union implemented in the shape of its Single Resolution Mechanism (SRM).

The framework requires banks to draw up impartial recovery and resolution strategies that can be applied in the event of major and even fatal difficulties. The plans

are supplemented by minimum requirements for own funds and eligible liabilities, which represent the loss-absorbing and recapitalisation capacity of affected institutions or groups in the event of a crisis. As with the single supervisory framework, the main banks are under the direct responsibility of the Single Resolution Board, a European authority that can, if need be, intervene by drawing on the resources of the Single Resolution Fund.

As regards institutions that remain under national jurisdiction, the ACPR is tasked with drawing up preventive resolution plans for credit institutions established in France and that indirectly belong to the scope of the European mechanism.<sup>1</sup>

<sup>1</sup> The ACPR is also responsible for the resolution of credit institutions based in the non-EU overseas territories, investment firms, some financing companies and Monaco-based credit institutions.

ACPR ensures that business practices take proper account of customer interests. In particular, it checks that institutions apply the rules designed to safeguard the most vulnerable customers. Accordingly, in 2018, its work focused on monitoring financial inclusion schemes and fees earned, especially in the event of account-related incidents. Supervisory

activities also covered the effective application of regulatory changes in areas such as product governance, customer disclosures and the duty to provide advice.

The task of customer protection is shared with the *Autorité des marchés financiers* (AMF – Financial Markets Authority). As such, it is handled

by a joint unit that coordinates monitoring and supervisory assignments taken on by the two authorities. This close collaboration has paved the way to develop shared analytical frameworks to ensure consistent customer protection and take joint action to build awareness among members of the public and industry players.

## 2 The Banque de France is preparing for new risks and contributing to efforts to adapt financial system regulation accordingly

### Assessing risks and contributing to the conduct of macroprudential policy

#### Ongoing supervision to identify systemic risks

In addition to supervising financial institutions individually, the Banque de France supervises the overall financial system. Its assessments help to inform the thinking of the HCSF, which is responsible for macroprudential policy, and are used to set the supervisory priorities for financial institutions. These efforts give rise to the publication of a twice-yearly *Assessment of Risks to the French Financial System*.<sup>7</sup> They



also involve regular stress testing exercises. In 2018, the European Banking Authority (EBA) organised a stress test of the European banking sector,<sup>8</sup> which the ACPR managed on behalf of the SSM for the six largest French banking groups. EIOPA, meanwhile, conducted a stress test of the insurance sector,<sup>9</sup>

which involved the ACPR as regards the nine French insurance groups in the scope. These assessments confirmed the resilience of France's financial institutions.

This supervision is further underpinned and informed by research work, which in 2018 notably focused on developments in banks' business models, profitability and solvency, the rise of non-bank finance (see box below), contagion within the financial sector, and the risks to which households and companies are exposed and the appropriate macroprudential response (see the ACPR's *Analyses et synthèses* reports).<sup>10</sup>

<sup>7</sup> <https://publications.banque-france.fr/en/liste-chronologique/assessment-risks-french-financial-system>

<sup>8</sup> The macroeconomic and financial stress test conducted between January and November 2018 involved Europe's 48 largest banking groups (covering 70% of the European banking system's assets), including 33 groups under direct SSM supervision. Six French groups were among the 33. The results confirmed the resilience of France's banks.

<sup>9</sup> The stress test involving 42 European insurance groups (making up 75% of the market) looked especially at natural disasters and adverse financial developments, including a persistently low interest rate environment and a sudden increase in rates. While reinsurance helps to make the sector resilient to natural disasters, the tests confirmed the European sector's sensitivity to a combination of insurance and market shocks. Overall, the results showed that the sector is appropriately capitalised to absorb the tested shocks.

<sup>10</sup> <https://acpr.banque-france.fr/en/liste-chronologique/analysis-and-synthesis-analyses-et-syntheses>



## Non-bank intermediation and shadow banking

Non-bank intermediation in France accounts for 3% of the worldwide total for this sector. It consists mainly of asset management activities, which had assets under management of over EUR 1,900 billion in June 2018. While these activities are regulated, some of them may pose credit, liquidity, maturity and/or leverage risks.

The Banque de France has identified three priorities in this area:

- gather more detailed data on shadow banking participants and their activities to assess them better;
- evaluate interconnections between shadow banking participants, banks and insurers, then develop macro stress tests focused particularly on liquidity in order to gain a better appreciation of the mechanisms that spread shocks and their global impact;
- develop a proportionate regulatory framework that is internationally consistent to preserve the overall system's ability to absorb shocks.

The Banque de France contributes to the work being done at international level, especially the joint efforts of the Financial Stability Board and the International Organization of Securities Commissions (which includes market regulators and supervisors), to strengthen the supervision of liquidity and leverage risks in the asset management sector.

Lastly, as part of its supervision of the financial system, the Banque de France also participates actively in the work and discussions of international organisations.<sup>11</sup>

## Responding to the rise of cyclical risks

All these analyses inform the contributions made by the Banque de France and the ACPR to the work of the HCSF<sup>12</sup> aimed at strengthening financial stability in France. In 2018, noting the continued acceleration of the financial cycle and rising debt in

<sup>11</sup> At international level: the Financial Stability Board (FSB), the Committee on the Global Financial System (CGFS) and the Basel Committee on Banking Supervision (BCBS); in Europe, the European Systemic Risk Board (ESRB) and Eurosystem committees.

<sup>12</sup> The regulatory powers assigned to the HCSF may be exercised upon proposal by the Governor of the Banque de France.



### Highlight

Banque de France (2018) "Non-bank finance – trends and challenges", *Financial Stability Review*, No. 22, April  
[https://publications.banque-france.fr/sites/default/files/medias/documents/financial\\_stability\\_review\\_22.pdf](https://publications.banque-france.fr/sites/default/files/medias/documents/financial_stability_review_22.pdf)



the non-financial private sector, the HCSF took two decisions:

- to prevent weakness among the most heavily indebted large companies and to limit the repercussions of a possible default, the exposure of the main French banks to these companies was capped at 5% of their core equity;
- to make the banking sector more resilient and create more room for manoeuvre to deal with a potential crisis, the countercyclical capital buffer was raised to 0.25%.<sup>13</sup>

## Helping to develop prudential standards and strengthen the European framework

### Bolstering the prudential framework while implementing and assessing reforms

At the European level, the supplements and amendments to the CRD,<sup>14</sup> CRR<sup>15</sup> (which implemented the bulk of the Basel III Accord) and BRRD<sup>16</sup> (which applies the resolution principles recommended by the Financial Stability Board – FSB) were the subject of an agreement by the European Council and Parliament in December 2018. The ACPR provided technical support to the French authorities during talks on the banking package for risk reduction, which includes a set of provisions to bolster the prudential framework and resolution tools.<sup>17</sup>

In accordance with the final agreement on the Basel III reforms of December 2017, the Basel Committee, within which the Banque de France cooperates actively with its peers, reviewed the standard on market risk, conducting a public consultation in 2018 and releasing an amended standard in January 2019.<sup>18</sup> The new standard reinforces internal models and better recognises market risk.

With regard to insurance, the International Association of Insurance Supervisors (IAIS) pursued its work on the prudential framework for insurance. Work was done to establish an international capital standard (ICS 2.0), which, once adopted, is intended to be a standard that can be implemented across the different jurisdictions. Other efforts concentrated on

<sup>13</sup> *Eco Notepad*, “The four seasons of the financial cycle and the countercyclical capital buffer”, Banque de France, July.

<sup>14</sup> Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

<sup>15</sup> Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms.

<sup>16</sup> Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms.

<sup>17</sup> The reform is intended to integrate the total loss-absorbing capacity (TLAC) requirement applicable to systemically important institutions within the CRR and to amend accordingly the minimum requirement for own funds and eligible liabilities (MREL) component of the BRRD.

<sup>18</sup> The 2018 review covered financing the economy and streamlining rules. It was completed in December 2018, for entry into effect in early 2019.



### Key figures for 2018



5

international conferences on financial stability and regulation



41

seminars and scientific events, including 10 in conjunction with the ACPR-HEC Chair, 10 in partnership with Toulouse School of Economics and 10 with Paris Sciences Po





identifying systemically important participants. This work on systemic risk in insurance resulted in November 2018 in the publication of a draft holistic framework that was put out to a public consultation running until the end of January 2019.

As the phase of reshaping the regulatory framework that began in the post-crisis period draws to a close, authorities are turning their attention to analysing the framework's effectiveness and potential collateral effects. Accordingly, after coordinating the post-crisis reform agenda, the FSB stepped up its monitoring of the reforms' impact and began a major round of assessments in 2018. The Banque de France is taking active part in working groups on centralised clearing of over-the-counter derivatives, infrastructure financing and SME financing.

Likewise, Solvency II is now the subject of a series of ex-post evaluations launched by the European Commission. The ACPR is playing its part through its involvement in work by EIOPA on the prudential treatment of unrated debt and unlisted equities (the Commission followed EIOPA's advice on this topic)<sup>19</sup> and on long-term equity investments.

#### **Enhancing the Banking Union and the Capital Markets Union to promote better risk-sharing between private participants in the euro area**

The ACPR contributes on a day-to-day basis to the first two pillars of the Banking Union (see box below). It participates in both the SSM and the Single Resolution Mechanism (SRM). While the compromise at the end of 2018 on the banking package on risk reduction and the

creation of a common backstop to the Single Resolution Fund (SRF) mark significant advances, implementation of all three Banking Union pillars remains extremely important to the Banque de France.

Similarly, implementation of the European Commission's Capital Markets Union (CMU) action plan, which was presented in 2015 and expanded in 2017<sup>20</sup> and 2018<sup>21</sup> to encompass aspects such as sustainable finance and digital technology, is vital to financing the European economy. The prospect of Brexit makes this initiative doubly important. Building an integrated

<sup>19</sup> [https://eiopa.europa.eu/Publications/Consultations/EIOPA-BoS-17-280\\_First\\_set\\_of\\_Advice\\_on\\_SII\\_DR\\_Review.pdf](https://eiopa.europa.eu/Publications/Consultations/EIOPA-BoS-17-280_First_set_of_Advice_on_SII_DR_Review.pdf)

<sup>20</sup> [https://ec.europa.eu/info/sites/info/files/communication-cmu-mid-term-review-june2017\\_en.pdf](https://ec.europa.eu/info/sites/info/files/communication-cmu-mid-term-review-june2017_en.pdf)

<sup>21</sup> <https://ec.europa.eu/transparency/regdoc/rep/1/2018/EN/COM-2018-114-F1-EN-MAIN-PART-1.PDF>



#### Key figures for 2018



2

editions of the *Assessment of Risks to the French Financial System*, published in July and December 2018



11

studies and research papers published in academic journals and 27 publications in Banque de France collections

## The Banking Union and Capital Markets Union

Following the euro area crisis, the need to strengthen and harmonise the European-level framework in which banks operate became a pressing need. Steps to strengthen the rules through the Basel III reforms were supplemented by the creation of the Banking Union, which is based on three pillars:

- unified supervision with the Single Supervisory Mechanism (SSM): in operation since 4 November 2014 and led by the ECB, the SSM enables integrated prudential supervision of euro area credit institutions;
- harmonised and, ultimately, shared resolution through the Single Resolution Mechanism (SRM): the aim is to ensure that the resolution of failing banks is managed as effectively as possible, with minimum cost to taxpayers and the real economy;
- harmonisation of deposit guarantee funds, whose depositor protection role has been bolstered; discussions are being held on setting up a European deposit insurance system.

Through the Banking Union, the Economic and Monetary Union gets support from a more uniform banking sector that is developing at the euro area level. Picking up the pace of European financial integration is vital to ensuring that savings are more effectively allocated towards investment needs and to strengthening mechanisms for absorbing economic shocks across countries. Lifting all types of regulatory obstacles to consolidation (combinations, acquisitions



and mergers) of the European financial sector is a priority action area.

In banking supervision, the Banking Union needs to put more emphasis on supervision on a consolidated basis, in accordance with the principle of risk-based supervision.

Outside the banking sector but in parallel with the Banking Union, in 2014 the European Union initiated its Capital Markets Union project, which seeks to increase financial integration in Europe by promoting the development of integrated, efficient and competitive European capital markets, with the implementation of an action plan combining regulatory and market initiatives on funding innovation, unlisted companies, long-term financing and more.



capital market in Europe is key to creating a financial architecture that will serve the economy. The Banque de France supports the European Commission's efforts and hopes that the legislative proposals can be approved quickly. It is also calling for deeper integration through a "Financing and Investment Union", based on the Banking Union, the CMU and the Juncker plan.

### Taking account of new risks and future challenges

#### Cybersecurity

Cybersecurity has become a central concern for the ACPR, which is taking action at European and domestic levels.

In France, the ACPR coordinates a network of cybersecurity experts, which in March 2018 published a discussion paper on IT risk aimed at formalising and sharing best practices. Then in October, the Banque de France teamed up with the *Agence nationale de la sécurité des systèmes d'information* (ANSSI – the French national cybersecurity agency) to lead a cyber-crisis exercise for the Paris financial centre<sup>22</sup> within the framework of the Paris Resilience Group that it chairs.

Within Europe, the ACPR took part in work spearheaded by EBA to draw up new guidelines on managing IT and security risk, which were put out to a public consultation in December 2018. In addition, the Banque de France was involved in Eurosystem efforts to devise a method for assessing the cyber-resilience of market infrastructures and develop a harmonised framework for intrusion tests (published in May 2018).

#### Climate change related risks and the development of green finance

Recognising, as a growing number of central banks and supervisors are doing, that the physical and transition risks associated with climate change could affect financial stability, the Banque de France is deepening its analysis of these risks and monitoring how financial players are taking them into account. After releasing a first report assessing climate change-related risks in the banking sector (2017),<sup>23</sup> which was prepared jointly with the French Treasury, the Banque de France and the ACPR continued their micro- and macroeconomic assessments of these risks, extending their scope of analysis to include the insurance sector. They also take part in work

in the Paris financial centre as part of Paris Europlace's Finance for Tomorrow Initiative, which seeks to promote sustainable finance.

In addition, the Banque de France developed the Network for Greening the Financial System (NGFS), which was set up at its initiative in December 2017 and for which it provides the secretariat (see box below).

#### Supporting the digital transformation of the French financial sector

As a supervisor and central bank, the Banque de France is a stakeholder in the financial system and keeps a close watch on the sector's digital transformation. These monitoring activities gave rise in 2018 to three

<sup>22</sup> The test on the Paris financial centre involved the main banks and market infrastructures and various government departments. More than 350 people took part in the one-day exercise. The results were highly satisfactory: participants were able to check that the crisis management mechanism coordinated by the Banque de France and interactions with ANSSI operated smoothly in the event of a major cyber crisis.

<sup>23</sup> <https://www.tresor.economie.gouv.fr/Ressources/File/433386>

## The Central Banks and Supervisors Network for Greening the Financial System (NGFS)

Seeking to support governments, which have primary responsibility for setting appropriate climate and energy policies, the NGFS seeks to strengthen the global response needed to comply with the Paris Climate Agreement. Promoting orderly and sound development of green finance is one of the major challenges facing central banks and supervisors today. It is our “new frontier”.

The NGFS is a Banque de France initiative launched at the One Planet Summit organised in Paris on 12 December 2017. It represents a commitment that reflects two concerns.

1. Climate risks are a long-term threat to financial stability. Accordingly, the NGFS’s work consists in gaining a better understanding of how these risks interact with the financial sector and in developing tools to identify and prevent these risks.
2. The transition to a low-carbon economy is both a financial challenge, requiring a profound reallocation of capital, and a qualitative challenge, to prevent greenwashing.

The Network’s participating institutions, which in late December 2018 included 24 members and five observers spread across five continents,<sup>1</sup> work on a voluntary basis, sharing experiences and best practices to contribute to the development of climate and environmental risk management in the financial sector, and to marshal the financial resources to support the transition toward a sustainable economy.

Frank Elderson, member of the Governing Board of De Nederlandsche Bank, has been appointed to chair the Network.

The NGFS’ work is divided into three workstreams: supervisory/microprudential (WS1,<sup>2</sup> chaired by the People’s Bank of China); macrofinancial impacts (WS2,<sup>3</sup> chaired by the Bank of England); and scaling up green finance (WS3,<sup>4</sup> chaired by the Bundesbank).

The Banque de France provides the secretariat for the Network and workstreams. The NGFS’ first progress report was published in October 2018.<sup>5</sup>

1 <https://www.banque-france.fr/en/financial-stability/international-role/network-greening-financial-system/about-us>

2 <https://www.banque-france.fr/sites/default/files/mandate-ws1.pdf>

3 <https://www.banque-france.fr/sites/default/files/mandate-ws2.pdf>

4 <https://www.banque-france.fr/sites/default/files/mandate-ws3.pdf>

5 <https://www.banque-france.fr/sites/default/files/media/2018/10/11/818366-ngfs-first-progress-report-20181011.pdf>



publications on the challenges of the digital revolution and a public consultation on artificial intelligence. Acting through a network of experts, the Banque de France and the ACPR continue to dialogue with the players in these areas by taking part in industry gatherings and partnering tech incubators.

In 2018, it deepened its expertise in distributed ledger technologies, such as blockchain, and their possible applications. In a widely hailed global first, the Banque de France has begun using an interbank blockchain, known as Madre, to manage SEPA creditor identifiers.

As part of its commitment to work with innovative firms from the financial sector, the ACPR cooperates closely with the AMF to guide fintechs as they are starting out. The two authorities also co-lead a Fintech Forum, which offers a venue for dialogue between industry professionals and public institutions.<sup>24</sup> The forum, which met three times in 2018, was particularly involved in work on artificial intelligence and crowdfunding.<sup>25</sup>

## Madre, the first operational blockchain run by a central bank

The Madre application is an interbank blockchain that has been recording SEPA creditor identifiers since December 2017. It lets banks input identifier requests directly and distributes newly created identifiers in real time. Designed over several months by the Banque de France Innovation Lab and France's leading banks, the new system came online after a joint project involving IT and legal teams, steered by the departments that hold the accounts of central government and banks.

The Crédit Mutuel-CM11 and Crédit Mutuel Arkéa groups joined the blockchain in April 2018, followed by BNP Paribas in mid-October. Caisse des Dépôts et Consignations and Société Générale are expected to sign up shortly.

In September 2018, Madre won the Revue Banque Innovation prize, an annual award that recognises an innovative project or initiative in the banking, insurance or finance sector.



Madre, the Banque de France's blockchain project

<https://www.banque-france.fr/file/video/madre-le-projet-blockchain-de-la-banque-de-france>

Crypto-assets were another focus of attention for international bodies in 2018, as they considered challenges ranging from AML/CFT to consumer protection and financial

<sup>24</sup> DG Treasury, ANSSI, CNIL (the French data protection agency) and Tracfin (the French financial intelligence agency).

<sup>25</sup> Among other things, the Forum proposed legislative amendments to support the development and growth of crowdfunding participants. These proposals are currently being discussed within the framework of the draft law on the Action Plan for Business Growth and Transformation (PACTE).

stability, as well as the potential regulatory framework. The Banque de France actively contributed to the work of the FSB in setting up a supervisory framework for this new market. Although, as a recent FSB report<sup>26</sup> found, crypto-assets do not at present pose a major threat to the stability of the financial system, their links to traditional finance need to be supervised given how fast the situation is evolving.

<sup>26</sup> FSB (2018), *Crypto-asset markets: Potential channels for future financial stability implications*, October – <http://www.fsb.org/2018/10/crypto-asset-markets-potential-channels-for-future-financial-stability-implications/>

<sup>27</sup> As such, the Banque de France supervises the CORE(FR) and SEPA-EU retail payment systems, and Target2, in conjunction with other Eurosystem central banks.

<sup>28</sup> The Banque de France supervises CCP LCH SA (with the AMF and the ACPR) and the ESES France settlement system (with the AMF and Belgian and Dutch authorities).

### 3 The Banque de France ensures that financial infrastructures operate smoothly and securely

#### Smooth operation of payment and market infrastructures

As the competent supervisory authority for payment systems<sup>27</sup> and central counterparties (CCPs),<sup>28</sup> the Banque de France makes sure that financial market infrastructures comply with the requirements under European regulations governing systemically important payment systems (SIPS), European central counterparties and trade repositories (EMIR) and central securities depositories and settlement systems (CSDR). It also contributes to regulatory work in this area, including the EMIR review that has been underway

since 2017, and supports the framework mechanism proposed by the European Commission for the activities of third-country CCPs serving the EU market.

#### Promoting a resilient financial centre

Acting within the framework of the Paris Resilience Group, the Banque de France regularly leads financial centre exercises to help enhance the readiness of participants and improve their operational ability to manage crises. This included an exercise on managing a cybersecurity incident in 2018 (see above). Also in 2018, this concern to strengthen resilience was included in the framework of Brexit preparations (see box on the prospect of Brexit at the beginning of the chapter).



#### Key figures for 2018



24

billion euro: average daily flows processed by retail payment systems in France in December 2018



250

billion euro: average daily flow of large-value payments processed by Target2 in France in December 2018



#### Highlight

Banque de France (2018), *Payments and market infrastructures in the digital era*

<https://www.banque-france.fr/en/financial-stability/>







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**VOUS POUVEZ**

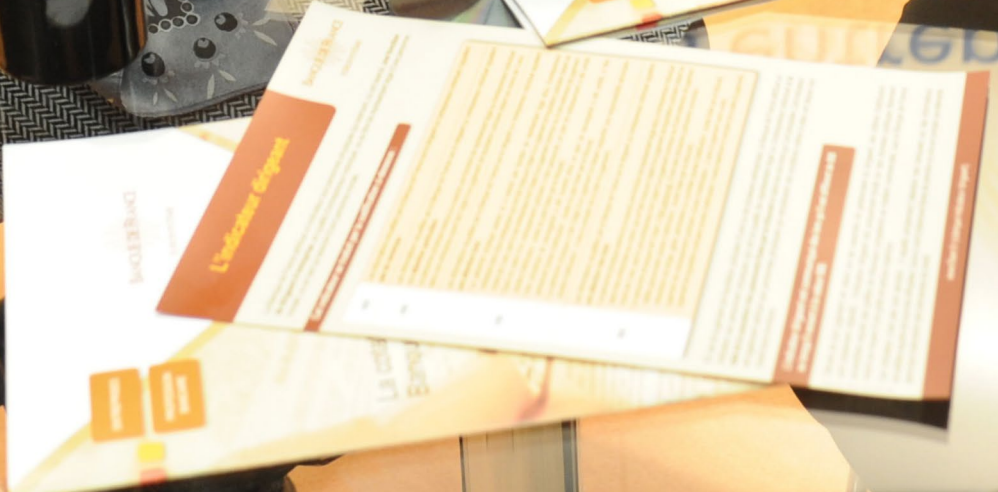
- Vérifier vos données en ligne
- Télécharger vos données
- Consulter vos données
- Imprimer vos données
- Partager vos données

**Le Fichier Central des Chèques**

**BANQUE DE FRANCE**  
EUROSISTÈME

**Mes questions d'argent**  
www.mesquestionsdargent.fr

**BANQUE DE FRANCE**  
EUROSISTÈME



# Services to the economy

network  
rating  
overindebtedness  
**banking inclusion**  
financial education  
VSEs  
credit mediation





## The Banque de France is present throughout France, serving all members of society

### In France: a trusted and outstanding public service provider

The Banque de France provides services to the economy that concern a wide range of stakeholders, including businesses, individuals, the national government, local authorities, credit institutions and associations. The scope of these activities, which aim to promote inclusive and responsible finance, includes data collection and the preparation of analyses, rendered

either in unitary form – company ratings or debt reduction plans for individuals – or aggregated as part of geographical or sector-based economic assessments and outlooks.

These services are possible thanks to the Bank's country-wide network, which gives it a firm footing in each of the administrative departments. By combining the expertise of its teams with high-performance



information systems, the Bank can offer everyone the attention and support they need.

#### Banque de France locations

The Banque de France relies on a country-wide network, with branches generally located in the administrative seat of the departments, and in some cases a secondary location. Many of the duties performed by the Bank (secretariat services for the departmental Household Debt Commissions) or to which it contributes (e.g. CODEFI – departmental committees to examine corporate financing issues) are carried out in these branches. In line with the governmental action framework, these departmental activities are coordinated

and supervised at the regional level (France is currently divided into 13 regions following the Law of August 2015 on the new territorial organisation of the Republic). In addition, some operational activities are specific to the regions, notably the regional business surveys, certain projects carried out in partnership with regional councils, and the management of resources made available to the departments (staff, budgets, IT, etc.). The regional branch directors are responsible for supervising all the Bank's activities in their respective regions.

## 1 Economic and financial education: a key mission for the Banque de France

### The Banque de France, national steering body for France's financial education strategy

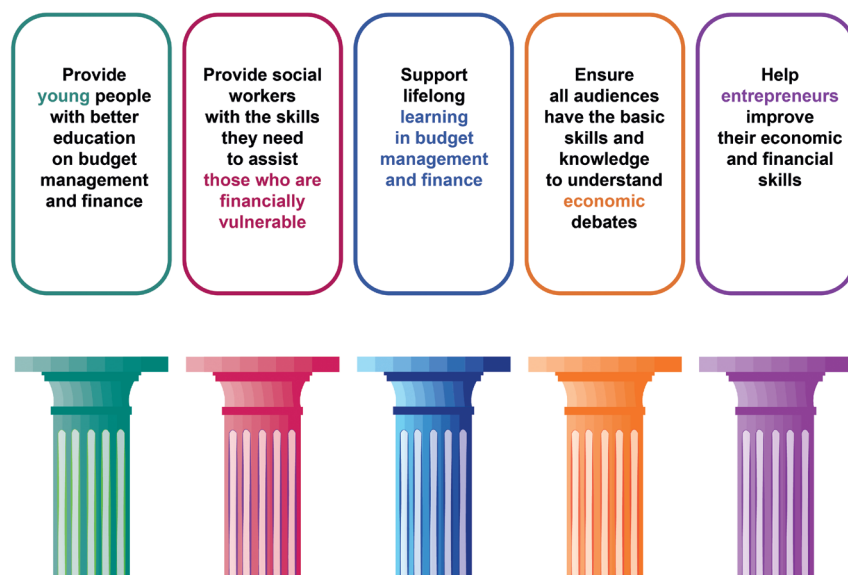
As the national steering body for the financial education strategy adopted by the French government in 2016, the Banque de France works with a vast range of beneficiaries and promotes greater cooperation among actors involved in economic, budgetary and financial education.

These include public authorities,



persons in difficulty, professional organisations, etc. In 2018, the Banque de France carried out

numerous initiatives as part of the national strategy, structured around five pillars (see diagram).



In 2018, this national strategy was extended to include small businesses and project leaders. The Banque de France plans to launch an information portal dedicated to this audience in the spring of 2019. It has also created a strategy game – *#Aventure Entrepreneur* – designed to help players better grasp certain concepts central to small businesses. Helping entrepreneurs enhance their economic and financial skills is a key issue for 2019 and 2020.



### The *Mes questions d'argent* portal

The *Mes questions d'argent* (MQDA) internet portal<sup>29</sup> selects and gathers information on economic, financial and budgetary issues for the general public, social workers, associations and teachers. It offers a range of articles, videos and games to help all audiences understand theoretical and practical subjects. In 2018, 1.3 million pages were viewed on the site.

### Awareness-raising and information for external stakeholders

The Bank works throughout the country to raise awareness of financial literacy issues. It also organises information sessions for teachers and social workers on a

variety of subjects of interest to the general public: prevention and resolution of overindebtedness, banking inclusion, microcredit, and relations with banks and insurers. In 2018, more than 16,000 volunteers and social workers benefited from such sessions.

### Economic and financial education for students and young people

The Bank is involved in the creation of "Eduscol" educational resources, particularly with regard to budgetary matters. It has developed entertaining awareness-raising tools, including a game and a financial education booklet, all of which are aimed at children aged six and over

<sup>29</sup> <https://www.mesquestionsdargent.fr>

### Partnership with the Education Ministry

The Banque de France and the French Education Ministry have signed various agreements whereby the Bank helps to provide ongoing financial literacy training to teachers. Its involvement takes the form of presentations and training sessions conducted together with teacher trainers. It may also run workshops for students, and offers internships to secondary school students, with a particular focus on those enrolled in Priority Education Network (REP) schools.





and are available free of charge via the MQDA portal. The Bank also publishes a series of educational documents entitled *ABC de l'Économie* (ABCs of Economics), targeted at teachers and students in senior-level education (baccalaureate onwards). These resources are also intended for a wider audience of non-experts looking to learn more about the economy.



ABC de l'économie  
<https://abc-economie.banque-france.fr/>

## Projects, activities and partnerships

### *Cité de l'Économie*

The *Cité de l'Économie et de la Monnaie* (Citéco), a museum project led by the Banque de France, is set to open in June 2019. Visitors of all ages will be able to learn about the fundamental aspects of economics – exchange, production, actors and markets – all in a practical and entertaining way. They will come face to face with the crises and instabilities that institutions seek to regulate. They will also be able to explore numismatic treasures in the vault room: gold, ancient and modern coins, banknotes and manufacturing



equipment. For more information on the project,<sup>30</sup> visit [citeco.fr](https://citeco.fr).

### Bank de France participation in the *Journées de l'économie* in Lyon

As it does every year, the Banque de France attended the *Journées*

*de l'économie* (Jéco) in Lyon from 7 to 9 November 2018, organised around the theme "What do we know about our future?". Over three days, visitors from all walks of life took advantage of more than 60 conferences on topics related to current economic events.



<sup>30</sup> <https://www.citeco.fr/le-projet-en-2018>



## 2 Services for private individuals: protection and prevention

### Support and advice to meet individual needs

#### Continuing decline in overindebtedness

As part of the mission entrusted to it by the French government, the Banque de France provides secretariat services via its branch network to the departmental Household Debt Commissions. These commissions are collegiate administrative bodies that work under the supervision of the courts to draw up and propose solutions for individuals facing financial problems.

In January 2018, a number of measures simplifying the debt resolution procedure were introduced under the Law on transparency, the fight against corruption and the modernisation of the economy, and the Law on the modernisation of French legislation

for the 21st century.<sup>31</sup> The aim is to reduce the time needed to implement solutions by nearly three months.

As a result of these measures:

- the “amicable settlement phase” (conciliation with creditors with a view to establishing a debt repayment plan) is now reserved for cases in which the debtor owns real estate;
- judicial involvement in the overindebtedness procedure has been reduced, with Household

Debt Commissions now entitled to write off all or part of a borrower's debts without obtaining the prior approval of a judge. In return, the time limits for appeals and disputes have been extended.

The ELAN Law of 23 November 2018 on housing, planning and digital technology provides for more effective coordination between the solutions implemented to resolve overindebtedness and the rental dispute resolution procedure.

<sup>31</sup> Law No. 2016-1547 of 18 November 2016: <https://www.legifrance.gouv.fr/>



#### Highlight



Banque de France (2019),  
*Le surendettement des ménages – Enquête typologique*, 2018  
<https://particuliers.banque-france.fr/enquete-typologique-2018-sur-le-surendettement-des-menages>



#### Key figures for 2018



**177,591**

overindebtedness cases handled by Household Debt Commissions



**29,051**

average amount of personal debt in euro (excluding property loans which were present in 14.5% of cases)



**-9.5%**

decline compared with 2017 in the number of overindebtedness applications submitted to Household Debt Commissions

These changes are designed to prevent debtor evictions. Discussions have also been held to find ways of taking better account of the difficulties faced by self-employed workers in 2019.

Two-thirds of households benefiting from a conservatory measure (moratorium, debt suspension agreement) experience renewed financial difficulties and reapply for debt resolution within two to three years. Half of these second-time applications ultimately end in a personal debt recovery procedure (total cancellation of debt). To limit second-time applications, it makes sense to direct these cases toward personal recovery at an earlier stage in the process if, upon examination, there appears to be little chance of an improvement while the conservatory measure is in place. This practice, implemented by the commissions

since 2016, reduced the number of second-time applications by 8,000 in 2018 compared to 2017.

In 2018, 166,000 cases were submitted to the secretariats of Household Debt Commissions in mainland France, 152,000 of which were deemed admissible. The number of applications filed with the secretariats decreased by 9.5% compared with the previous year, and has fallen by a total of 40% since the peak in 2014.<sup>32</sup>

In accordance with the provisions of Article R. 712-12 of the French Consumer Code, each Household Debt Commission draws up an annual activity report setting out the number of cases processed, the measures taken, the type of debt involved and the difficulties encountered (see Appendix 4 to this report).

#### Access to bank accounts

In 2018, more than 50,000 individuals and more than 5,000 legal entities



asked the Banque de France to implement the right to an account procedure. As of 2018, this request can be made via a personal space available on the Banque de France website (as well as at branches and by post).

#### Revamp of the *Assurance Banque Épargne Info Service* website

The ABE IS website, managed jointly by the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority), the *Autorité des marchés financiers*

<sup>32</sup> <https://particuliers.banque-france.fr/surendettement/chiffres-cles-et-bilan-national>

#### Key figures for 2018

 **6,810**  
average amount in euro of arrears on current expenses

 In **68%** of cases debtors are single or separated from their partners

 More than **50%** of overindebted individuals are members of households with income below the poverty level

 **55,979**  
basic bank accounts opened at the Banque de France's request under the right to an account procedure



(AMF – Financial Markets Authority) and the Banque de France, was completely redesigned in late 2017 in a question and answer format. Its search engine, accessible from the home page, has been revamped and its tree structure simplified and optimised to facilitate navigation. ABE IS offers practical information on banking, insurance and financial investment products, while providing assistance to the general public in the event of difficulties dealing with professionals. The site, which works in coordination with the MQDA portal, was visited 730,000 times in 2018.

#### Support for the *Points conseil budget* (budget advice bureaus)

Jointly run by the national government, consumer protection and anti-exclusion associations, credit institutions, public and private

creditors and the Banque de France, the *Points conseil budget* (PCBs) are local offices open to all, where individuals can get free, confidential and personalised advice on managing their budget.

The Banque de France continued its support for the PCB experiment in 2018 by organising awareness-raising sessions on overindebtedness and banking inclusion for PCB teams.

#### Risk monitoring and prevention

##### Managing payment incident registers

The Banque de France is tasked by law with managing a number of payment incident registers. These databases, which are populated by banks, are aimed at preventing overindebtedness



and making payment instruments more secure.

The Central Cheque Register (FCC) and the National Register of Irregular Cheques (FNCI) serve to enhance cheque security. The FCC centralises payment incidents related to



#### Key figures for 2018



Over **7,000**

letters received from the public



Over **2,300**

advertisements examined



**235,000**

calls received  
by the ABE IS telephone platform, the AMF  
and the ACPR (with a 90% service rate for the year)

cheques, as well as details of bank cards that have been stopped due to misuse. The FNCI lists the bank details of closed or banned accounts, as well as stopped cheques and cheques reported lost or stolen. This information is disseminated to merchants and service providers to allow them to verify the validity of cheques.

The National Register of Household Credit Repayment Incidents (FICP) helps to prevent overindebtedness by enabling banks to better assess the risk when a customer applies for a loan. The FICP records payment incidents related to credit granted to private individuals for non-professional purposes. It contains details of any measures implemented to resolve cases of household overindebtedness.

## The Banque de France and financially vulnerable populations

Regarding banking inclusion, in 2018 the Banque de France continued its efforts to develop the “specific set of services” that banking networks are required to offer to individuals in financial difficulty. The offering includes services that are adapted to their situation and that will limit the amount of fees incurred in the event of an incident. The initiatives implemented in 2017, based on discussions with banking networks and associations, resulted in an increase in the number of beneficiaries. At the end of 2017, 10% of eligible individuals had access to these specific services.

Through the framework of the Observatory for Banking Inclusion, the Banque de France actively participated in market discussions organised by the government with a view to strengthening the measures in place for the financially vulnerable. These discussions led to the following commitments by French banks:

- Banking incident fees will be capped at EUR 25 per month for financially vulnerable clients. This measure, to be implemented no later than 1 February 2019, will benefit more than three million people.
- Fees related to incidents of any kind are to be capped at EUR 20 per month and EUR 200 per year for clients subscribing to the “specific set of services” set out by law for vulnerable individuals. This measure will be implemented no later than 30 June 2019.
- The “specific set of services” for vulnerable individuals is to be expanded by at least 30% by the end of 2019.



### Key figures for 2018



1.2

billion consultations by banks of the three payment incident and cheque registers: FCC, FICP, and FNCI



69

million consultations of the FNCI by merchants



1.38

million individuals recorded in the FCC (down 4.5% versus end-2017)



2.44

million individuals recorded in the FICP (down 3.3% versus end-2017, with a 25% drop in the annual number of new entries since 2011)



1.35

million household credit repayment incidents (down 1.1% versus end-2017, with a 30% drop in the annual number of incidents reported since 2011)



## Monitoring bank charges

In June 2018, the Observatory for Banking Inclusion (OIB), which brings together banks, associations and public authorities under the chairmanship of the Governor of the Banque de France, drew attention to the high costs of banking incidents and the inadequate dissemination of the “specific set of services” intended for financially vulnerable individuals. The Banque de France has made significant efforts in this area, alongside a banking system that is itself active in the field.

## 3 Working with businesses: solid expertise and support services

### Support for SMEs and VSEs

#### The Banque de France VSE mechanism: monitoring and guiding very small enterprises

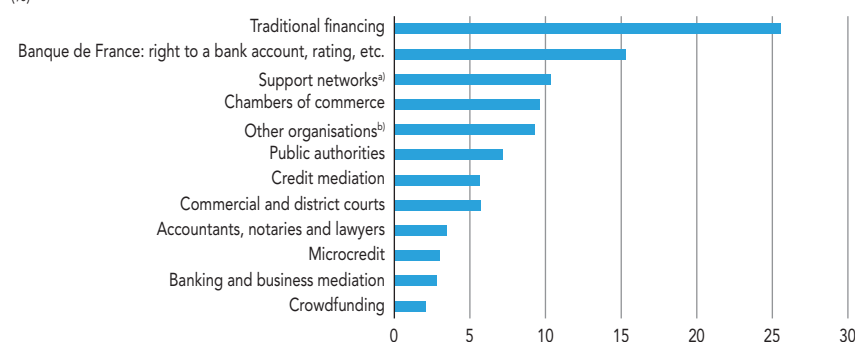
The growing number of new business creations in recent years, particularly very small enterprises (VSEs), has led to an increase in the number of entrepreneurs seeking support during this period of their company's life.

However, too few of them turn to professional networks, even though companies often require guidance during their first years of existence.

Based on this observation, in September 2016 the Banque de France set up a network of VSE correspondents in mainland France and the overseas departments. This free support service targets craftsmen, merchants, hoteliers, restaurateurs, managers of service companies, freelancers, construction professionals, start-ups, etc. managing structures with turnover of less than EUR 2 million and fewer than ten employees, as well as project leaders.

### Referral of VSEs to professional networks

(%)



a) Microcredit provided by associations such as Initiative France, France Active, Réseau Entreprendre and ADIE  
 b) Fédération des centres de gestion agréés (FCGA – Federation of Chartered Management Centres), employers' federations, surety and credit insurance firms, information and prevention centres (CIP).

Note: In total, nearly 10,000 referrals to various types of professional organisations.

The VSE system aims to identify the needs of entrepreneurs and refer them to the professional bodies best able to answer their questions throughout the life cycle of their company: creation, financing, transfer and development, prevention and resolution of difficulties. To this end, the Banque de France has reached out to the various professional networks, chambers of commerce, financing organisations (traditional or crowdfunding), surety and credit insurance firms, professional





association networks and employers' federations. It has signed national partnership agreements with these structures (35 at the end of December 2018) for the benefit of VSEs. Entrepreneurs who request support from the VSE correspondent for their region can

thus be quickly put in touch with a well-identified local representative of the organisation.

At 31 December 2018, more than 6,500 VSE managers had benefited from this mechanism since its creation. The system saw 81% growth in 2018.

employment in France. The stakes are therefore high, with some 3.9 million VSEs in the country, i.e. 96.5% of companies.

**Company ratings:**  
an essential reference for banks and  
an instrument of economic development

This support is important as the creation and development of VSEs are vectors of growth and

The Banque de France maintains a unique database, FIBEN. With nearly eight million companies on file, and

#### The role of VSE correspondents

#### Key figures for 2018

 **102**  
TPE VSE correspondents

 **6,500**  
VSE managers offered guidance since the launch of the service, including 3,877 in 2018

 **36%**  
of requests centred on financing

 **35**  
partnerships



nearly 267,000 companies rated, this database sheds light on the French economy. Thanks to its branch network, the Bank gathers in-depth information on France's economic fabric, which it makes available to banks and corporate finance organisations (credit insurance firms, intermediaries and crowdfunding advisors, asset management companies and insurance companies or mutuals that finance companies through investment funds). It also supplies the data to the supervisor (ACPR) and to companies themselves, which are informed of their rating. Since 2018, information has also been transmitted to regional councils, which have access to FIBEN for the purpose of granting public aid to companies (Decree No. 2018-246 of 5 April 2018).

The Banque de France enjoys dual status as an External Credit Assessment Institution (ECAI) and an In-House Credit Assessment

### Assigning ratings: the responsibility of Banque de France branches

The Banque de France assigns its ratings on the basis of qualitative information and a financial analysis of each company's accounts (earning power, financial autonomy, solvency, liquidity). Its financial analysts maintain direct contact with thousands of executives during the rating process: 40,000 rating interviews were conducted at the end of December 2018, accounting for 15% of all rated companies. The Bank also collects qualitative data, allowing its analysts to draw up a detailed profile of each company (trends in its market sectors, its market position and medium-term outlook, etc.). By collecting and analysing all these data, Banque de France branches are able to assign a rating to nearly 267,000 companies.

System (ICAS) within the Eurosystem. Accordingly, its rating can be used:

- within the Eurosystem, to assess the quality of assets pledged as collateral for bank refinancing operations;

- by credit institutions, to assess the quality of their credit commitments and determine their regulatory capital requirements.



#### Key figures for 2018



266,730

non-financial corporations (essentially SMEs) assigned a Banque de France rating



63%

of companies rated as "eligible for refinancing" (ratings 3++ to 4)



96%

of companies eligible for refinancing have turnover of less than EUR 50 million



13.3

million FIBEN consultations



Within a regulatory framework, and as part of its general interest missions, the Banque de France assigns a management indicator to legal representatives who have been at the head of more than one company placed in judicial liquidation over the past five years, or who have been subject to legal penalties imposed by commercial courts. Decree No. 2018-834 of 3 October 2018 made this system more flexible by getting rid of the management indicator attributed to entrepreneurs who have undergone two judicial liquidation procedures in the last five years (indicator “050”). This is intended to make it easier for these managers to set up new companies.

The rating also provides business leaders with an external analysis of their credit quality and enables them to identify the determining factors in this analysis. This improves dialogue between the bank and companies by offering the latter a shared, recognised point of reference.

The Banque de France adopts an expert approach based on an individual and in-depth analysis of companies (mainly SMEs) or groups. It examines both their financial and non-financial positions, taking into account individual and consolidated accounting documents as well as

corporate social responsibility criteria. It rates more non-financial corporations on the basis of their financial statements than any other central bank within the Eurosystem.

#### Highlight

##### 16 July 2018

The national agreement on credit mediation signed with the Ministry of the Economy and Finance, the French Banking Federation and the Association of Financial Companies, was renewed until 31 December 2020, and Frédéric Visnovsky was appointed as the new national credit mediator. The agreement **attaches all national credit mediation services to the Banque de France** with a view to simplifying the system and optimising coordination with regional mediation services, which are the responsibility of Banque de France branch directors. In cases where jobs are at risk, the agreement extends the scope of the procedure to companies operating in the social economy.



### Credit mediation for corporate financing

As part of the national credit mediation agreement, in 2018 the Banque de France continued to assist companies, particularly small businesses, facing financing or cash flow problems. This support is provided through its branch network, as well as through the national credit mediation service which is now attached to the Bank.

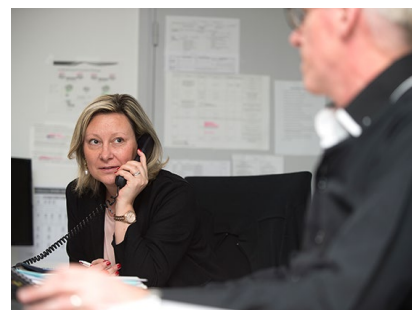
In 2018, 2,009 companies applied for credit mediation, down 13% compared with 2017. This decrease, which stems from the easing of credit conditions and the improvement in the economy, is a continuation of the downward trend observed in 2017 (–17%). The type of companies using the procedure has remained

relatively stable: VSEs account for 80% of cases, with the service (40%) and retail (25%) sectors remaining largely predominant. The success rate for mediation procedures remains unchanged at 65%.

Since the scheme was introduced in November 2008, 23,227 companies have seen their business secured and 414,139 jobs have been saved.

### The Banque de France, financial service provider to the French government

Under an agreement signed with the national government, the Banque de France manages the Treasury's accounts. It gives the Treasury the means to manage its cash flow, and provides it with an IT system to carry out all its banking transactions (including the payment of public sector wages and collection of taxes). The Treasury's single bank account is held at the Banque de France's



head office in Paris. This account centralises all transactions initiated and received by public accountants in mainland France and the overseas departments, through 6,000 transaction accounts.

In addition to payments in and the supply of coins and banknotes, these transactions include an annual volume of nearly one billion payment transactions.

For transactions in and settlement of these payment instruments, the



Corporate credit mediation  
<https://youtu.be/vnZ-BAOLh6U>



### Key figures for 2018



757

companies assisted  
through credit mediation



10,565

jobs saved  
or secured



918

million transactions  
processed on behalf  
of the Treasury



506

billion euro: total amount  
of Treasury securities sold  
at auction

Banque de France represents the government in retail interbank payment systems (STET for France and STEP2 for European cross-border transactions) and high-value payment systems (Target2), as a direct participant.

On behalf of Agence France Trésor (AFT), the Banque de France holds auctions of government securities on a weekly (Treasury bills) and monthly (OATs and OATis) basis, using a specific computer system to process such transactions.

### A portal for the French Treasury

The Banque de France provides public finance administrators with a dedicated portal enabling them to carry out their individual transactions and monitor their account position in real time. The portal is directly connected to the IT system of the Directorate General of Public Finances (DGFIP) for retail payments. The Bank regularly tailors its IT processing to the Treasury's needs (e.g. implementation of paycheck withholding), and assists the Treasury with market developments and the modernisation of its payment instruments (national cashless payment instrument strategy).

Agence France Trésor (AFT), which manages the government's cash balances, can thus monitor all financial flows on a daily basis, and ensure that the government has sufficient resources at all times to meet its financial commitments. Article 123 of the Treaty on the Functioning of the European Union prohibits euro area central banks from granting overdrafts or any other credit facilities to public bodies. The Treasury's single account at the Banque de France must therefore be in credit at the end of each day.

### Execution of the Public Service Contract in 2018

Pursuant to the Public Service Contract signed between the French government and the Banque de France, the Bank's branch network is responsible for receiving members of the public and providing them with information on issues concerning overindebtedness, payment incident registers and the right to a bank account. It also answers more general questions about banking transactions and practices.

In 2018, the Banque de France network responded to more than one million such requests from individuals, including more than 575,000 requests received at its branches and reception offices. The network also handled more than 310,000 telephone calls and answered 130,000 letters and emails. In line with its commitment to modernise and diversify the way it communicates with users of its services, the Bank also responded to the approximately 53,000 requests transmitted via personal spaces on its website.



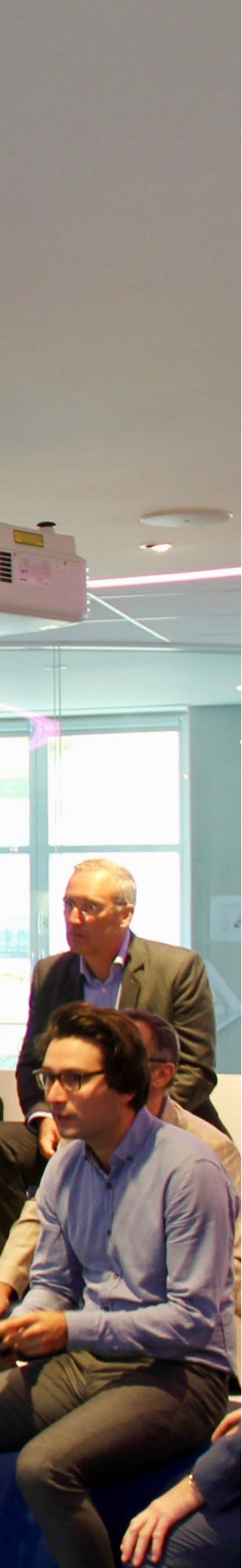






# Ambitions 2020: transformation

modernisation  
visibility  
digital banking  
**innovation**  
openness performance  
exemplarity  
public service



## The Banque de France's transformation visibly picked up pace in 2018

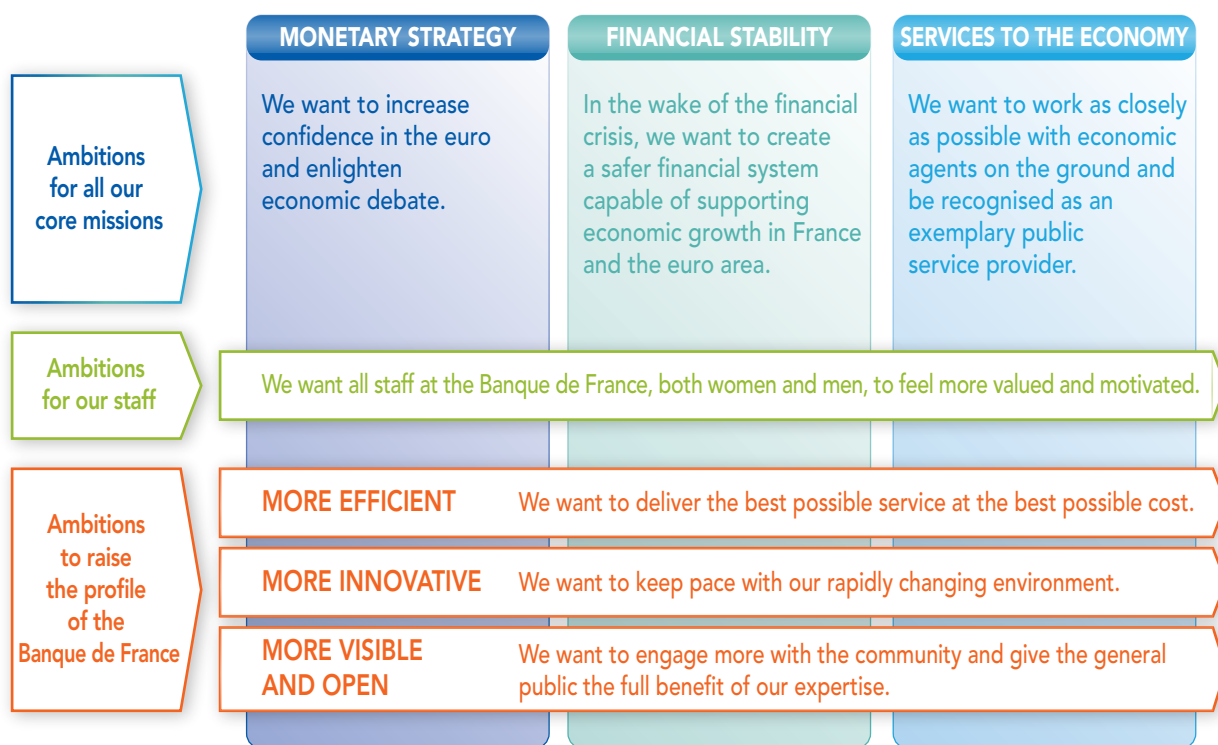
In 2018, the Bank continued to execute its Ambitions 2020 strategic plan, diligently and resolutely pursuing the plan's three major commitments, each of which is underpinned by **public service values** and a **duty of**

**exemplarity and performance when dealing with the public.**

**The Bank has kept a sustained pace of reform: 34 of the 59 actions** outlined in the strategic roadmap are now up and running and hitting

their targets. These efforts are helping to transform the activities of the Banque de France and are contributing to the broader objective of raising the level of public service, which is measured by **10 key targets**.

### Overview of the Ambitions 2020 strategic plan



## Ambitions 2020: 10 key targets for 2020

### Our staff



- 1 At least 1,000 new hires by end-2020 and 500 block-release contracts  
2016-18 achievements: **784** new hires; **408** block-release contracts
- 2 200 internal promotions to professional/managerial roles by end-2020,<sup>a)</sup> with the aim of raising the proportion of staff in professional and higher categories to 35%  
2016-2018 achievements: **149** promotions (**33%**)
- 3 9,800 full-time equivalent (FTE) staff by end-2020  
2016: 11,690; 2017: 11,021; 2018: **10,257**
- 4 Increase in staff confidence in the Banque de France's future to more than the 50% indicated in the 2014 BVA survey  
2018 survey: **42%**

### Our performance



- 5 Around EUR 1 billion in investment over five years, including nearly EUR 400 million for Ambitions 2020 and the modernisation of the network  
2016-2018 achievement: EUR **646** million invested
- 6 Ensure all our pension commitments are fully covered in 2020, thanks to a strong financial performance  
Year-end 2016: 80% covered; Year-end 2017: 88%; Year-end 2018: **91%**
- 7 10% reduction in our net operating expenses  
2016-2018 achievement: **-11.5%**

### Our influence



- 8 Steady increases in
  - the visibility of the Banque de France:  
2016: 36%; 2018: **58%**
  - customer satisfaction;  
2018 (first-time survey covering ten services): **86%**
- 9 Number of people benefiting from economic and financial education<sup>b)</sup>
  - number of teachers and social workers that received instruction or awareness raising training in 2018: **18,729**
  - number of pages visited on the MQDA and Citéco portals in 2018: **1,700,786**
- 10 Ensure confidence in the euro in France is at least in line with the European average and always greater than 60%<sup>c)</sup>  
2016: 68%; 2017: 71%; 2018: **72%**  
(European average: 75% in 2018)

a) Excluding the additional impact of the career reform plan.

b) Measurement indicators were put in place for this target in 2018.

c) Obviously, this target does not depend solely on the Banque de France and can only be regarded as a guideline. However, we believe it is important to monitor levels of confidence in our currency in France, via the half-yearly Eurobarometer survey. As a reminder, in December 2015, 67% of French people were in favour of the euro compared with a European average of 68%.



The success of the plan is also measured by the constant attention that we pay to our environment and by our ability to reconcile macroeconomic challenges, relating to **monetary strategy** and **financial stability**, with microeconomic challenges addressed through our **services to the economy**, which we deliver via our firmly established local presence.

At a time of changes to our demographic structure, characterised by numerous retirements, 14 of the 59 Ambitions 2020 targeted actions cover human resources. These actions play a part in overhauling the Bank's management model, boosting qualification levels, improving career prospects, emphasising knowledge transfer and attracting high-calibre recruits with offers of engaging work.

**With their combined effects, they are contributing to the plan's overarching goal of making staff feel more valued and motivated.**

The transformation levers applied to the three core missions of monetary strategy, financial stability and services to the economy help to make the Banque de France **more efficient, more innovative, more visible and more open**.

### 1 Ambitions for our staff: a simpler, more modern working environment for managers and staff

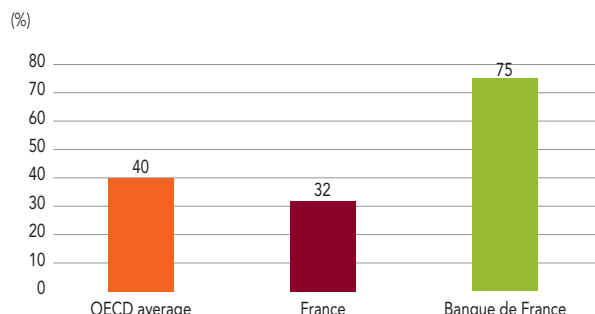
This commitment forms part of the Bank's determination to guide the natural renewal of its workforce, replace only one in two retirees and transform its core activities.

### Setting up and implementing a new HR management strategy

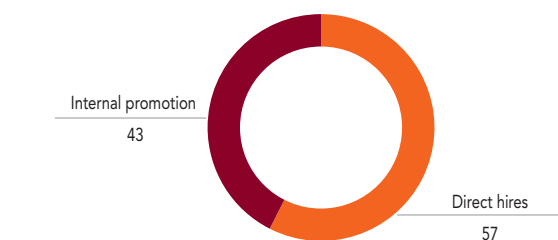
One of the commitments of the Ambitions 2020 plan is to support all the women and men working at the Banque de France to ensure that they are fully invested in the Bank's transformation. This goal coincides with calls from managers and staff for more responsibility, more autonomy and fair recognition of individual contributions. Numerous Ambitions 2020 actions were conducted with this in mind, in line with HR management guidelines and applied through several transformation levers:

- a management model overhaul, reflected in new tools for recognising staff performance;

#### Access to training



#### Proportion of tenured managers internally promoted to professional/managerial roles (% of staff at 31 December 2018)



Note: Appointed to professional/managerial roles through the internal promotion scheme or examinations.



- career-long enhancement of qualifications: the Banque de France University contributes to the development of a diverse, multimodal course offering, while staff are also encouraged to acquire professional qualifications (see chapter entitled “Corporate Social Responsibility”);

- more dynamic and proactive mobility management;

- increased internal promotion;

- career reform.

Another way in which the Bank is promoting staff skills is by concentrating resources on value added work while simultaneously simplifying processes, within

the framework of the workforce trajectory set out at the start of the plan (see below).

### Simplification efforts to boost value added

More than 430 simplification measures have been introduced since the Ambitions 2020 plan was first launched. A number of low value added or low impact reports, processes and activities have either been streamlined or scrapped as a result. Steps have also been taken to simplify the Bank’s structure and organisation and increase the delegation of responsibilities. These measures improve the working environment for all staff and free up their creativity.

### A one-off bonus payment

As part of the law to introduce emergency economic and social measures, the Banque de France paid a one-off EUR 500 bonus to all staff whose gross pay was less than three times the minimum wage.

More than 9,500 Banque de France employees received the bonus, as did staff at the Bank’s subsidiaries, including Europafi, IEDOM and BDF Gestion.





## Creating a modern working environment to promote agility

The Bank has introduced innovative changes to work spaces and working methods to improve the working environment and foster collaborative approaches. The digitalisation of processes and the move to a paperless environment have promoted and encouraged more telework and distance work, with 400 new teleworkers added in the last two years.



Visual management and agile project management approaches are deployed in all areas of activity. These are redefining the scope of collaboration to foster a more dynamic, cooperative and cross-cutting management style that suits our evolving environment.

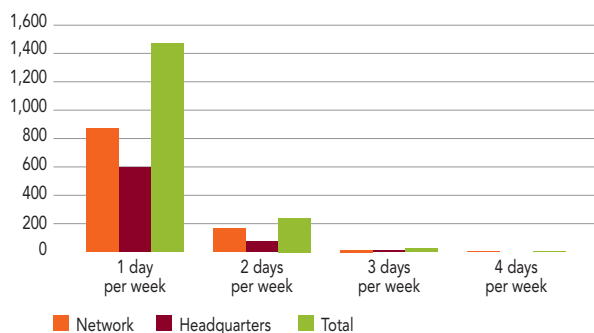
## 2 Ambitions to raise the profile of the Banque de France

The Banque de France needs to be more efficient, more innovative, more visible and more open to properly raise its profile in the performance of each of its duties.

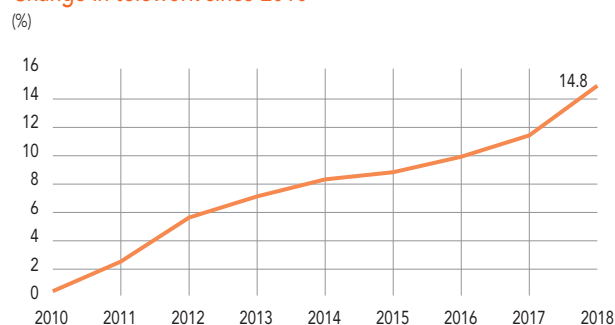
## A more efficient Banque de France

Our performance responds to the requirement to deliver the best possible service at the best possible cost to our fellow citizens. The increased pace of retirements

### Number of employees who telework and frequency



### Change in telework since 2010



since 2015 has provided an opportunity to boost efficiency, through greater use of digitalisation and simplified working processes and methods, while maintaining the quality of services provided. The reorganisation of working methods within the Banque de France branch network, made possible by new information processing and digitalisation

technologies, perfectly illustrates our ability to reconcile a strong local presence with improved services for companies and individuals.

The network is rolling out a more efficient and more professional approach to dealing with cases of overindebtedness, as provided for by the Ambitions 2020 plan. While still the norm in the

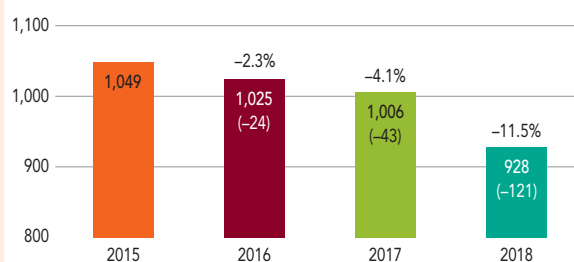
first six months of 2017, local resolution of debt cases, where each network unit looks after debtors living in its sphere of activity, is gradually being replaced by a front office/back office system. Although all Banque de France offices will continue to receive members of the public, just 35 centres will ultimately handle overindebtedness cases, each for a given geographical area.

## The reduction in net operating expenses

The Banque de France has stepped up its efforts to keep reducing its operating expenses with the goal of saving taxpayers at least EUR 100 million a year from 2020. To do this, the target of cutting the Bank's aggregate net operating expenses by 10% over five years has been adopted. Combining staff costs, overheads and income directly associated with the Bank's activities, this aggregate indicator offers the best economic view of the Bank's current operating cost.

Since 2015 net operating expenses have been cut by EUR 121 million, putting the Bank slightly ahead of the initial target two years ahead of schedule. This result can be attributed to action on three fronts, as the Bank has simultaneously reduced its headcount

Change in net operating expenses between 2015 and 2018  
(EUR million)



by not replacing all retirees, shown moderation in its remuneration policy, and kept overheads at their 2015 level.



## Improving performance by steering headcount changes

As at 31 December 2018, the Banque de France had 10,257 full-time equivalent staff (FTEs), of whom 83% were tenured and 17% were on contracts.

In 2018, total headcount declined by 6.9%, or 764 FTEs, chiefly owing to demographic changes, with employees aged 55 years and over making up 34% of staff. A total of 882 employees retired in 2018 and almost 1,200 more are due to follow suit between 2019 and 2020. By the end of 2020, the Bank aims to have a total headcount of 9,720 FTEs, representing a decline of at least 20% relative to 2015. Achieving this figure will mean recruiting at least 1,000 new staff between 2016 and 2020 to compensate for the increasing number of retirements.

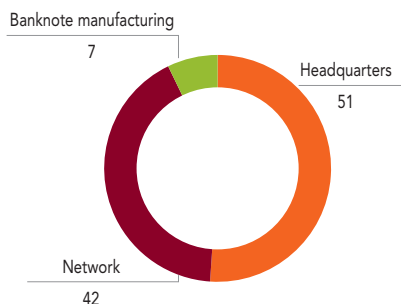
## A more innovative Banque de France

Ambitions 2020 set the goal of gradually digitalising all business processes. Project ownership and project management are now being systematically incorporated in an agile approach that is taking projects forward while shortening

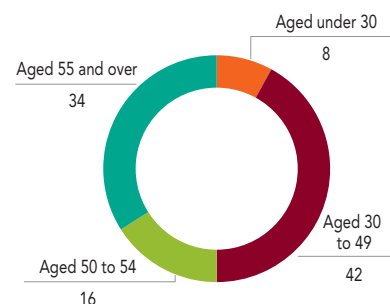
### Breakdown of headcount

(% of staff at 31 December 2018)

#### a) by broad area of activity



#### b) by age bracket



Note: The *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) accounts for 9% of headquarter activity.

timelines and catering to users' operational needs.

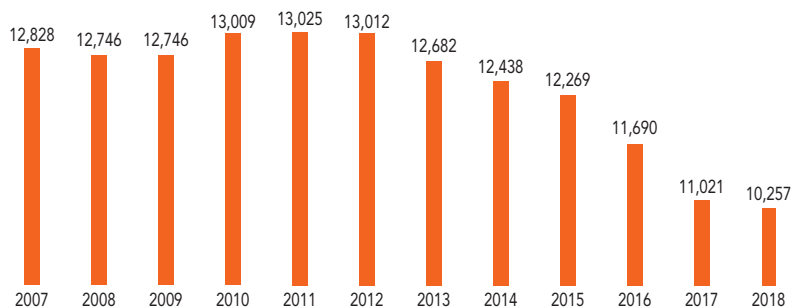
Set up in 2017, the Banque de France Innovation Laboratory, or Lab, is at the heart of an innovative ecosystem. The Lab is a space for experimentation, exchange and work that is open to the outside,

bringing together start-ups, fintechs, institutional players and educational partners to involve them in the Bank's digital transformation.

The Lab is also used to assess the opportunities and risks presented by new technologies to anticipate their impact on the Bank's business areas.

### Change in total headcount

(full-time equivalent staff at 31 December 2018)





Innovation also requires an ability to look beyond the usual working methods, and the Lab offers a place to try out new work spaces and approaches.

Elsewhere, the *Perspectives Jeunes* ("young prospects") committee made up of recently hired talents and set up in 2018 is viewed as a model within the European System of Central Banks (ESCB). The Bank's Executive Committee has asked the committee to come up with proposals to accelerate and promote the Banque de France's transformation. Following an assessment carried out in conjunction with operational and cross-cutting areas of the Bank, several of the *Perspectives Jeunes*

committee's proposals have been approved for implementation by the Banque de France's governing body.

In another example of innovation, the Banque de France has created a **"data lake"** that will radically overhaul its approach to data collection and analysis and keep it at the forefront of digital progress. The new data repository, which was set up in autumn 2018, gives the Bank a lead on other European central banks and many banking groups.

The list of data that could benefit from the data lake is endless and includes security issues, bank transactions and financial transactions. The repository will also integrate "views" from social media sites such as Twitter and Facebook or websites/digital platforms, which provide details for the Bank's economists to analyse and interpret from various and innovative angles as they monitor business conditions. Accordingly, these data



Inauguration of the Banque de France Lab's new premises  
[https://www.youtube.com/watch?v=DErdyYYqY\\_E](https://www.youtube.com/watch?v=DErdyYYqY_E)

## AnaCredit

Part of a European project adopted by the ECB Governing Council in May 2016, AnaCredit involves granular loan-by-loan data collection on credits exceeding EUR 25,000 from banks to legal entities such as companies, associations and government bodies. It has been operational since October 2018. The data cover a wider range of attributes than those in France's central credit register, since each credit line is described by numerous variables, including amount, maturity, rate and guarantee, and then checked and harnessed using data lake technology. A total of 8 million credit lines, corresponding to 2.3 million counterparties, were reported in the first round of data gathering.

The wealth of data provided will allow the Banque de France and the European Central Bank to strengthen their analysis of company financing and identify indicators to track difficulty of access to credit or risky lending criteria. Company ratings will also benefit from the new information.



go into the virtual “lake” unfiltered, to ensure that they stay fresh and relevant. Unlike aggregate data, which provide a useful overview to analyse trends, granular data supply valuable information on the diversity of individual behaviours. The lake features various tools, including special statistical procedures, to enable users to exit the data jungle with useful information.

### A more visible and open Banque de France

This goal reflects the Banque de France’s resolve to be more open, to do a better job of sharing its expertise with the general public and to affirm its CSR commitments.

The Bank has densified and diversified its involvement in economic debates, as shown by the results of surveys on its reputation and on audience and visibility obtained via various communication vectors. The Banque de France’s visibility and reputation have improved, indicating that people now have a better understanding of our role in the economy and the work we do for the country. Overall, 58% of people surveyed in 2018, compared to 36% in 2016, said that they were

familiar with the role and activities of the Banque de France, while over one-third of respondents had heard mention of the Banque de France in the last six months.

Our involvement in the economic debate takes multiple forms as we target the general public, an informed public and expert audiences. The aim is to relay the Bank’s messages about its core activities and to decipher economic and financial mechanisms. Although primarily conveyed through speeches by the Governor, the Banque de France’s presence is additionally communicated by national and regional spokespersons. The Bank also has a recognised place in the economic sphere through its publications, research and contacts with other central banks, national and international bodies and think tanks.

#### Speeches by the Governor

Governor François Villeroy de Galhau participates actively in the economic and financial debate by speaking on the Eurosystem’s monetary policy stance and also on green finance. He gave the opening address at the international climate risk conference

for supervisors held in Amsterdam in April, and in November he closed the Climate Finance Day organised in Paris. On the issue of institutions, he repeatedly stressed the need to round out Europe’s Monetary Union with a bona fide Economic Union, conveying this message in Munich in February, at the “ECB and Its Watchers” conference in March, and again at LUISS University in Rome in November. He has also repeatedly underlined the new challenges likely to affect the European financial sector in the short and medium term, such as the digital revolution, and also Brexit, which he addressed in a specific speech in November as part of a conference organised by the ACPR. Finally, the Governor sets out his main recommendations for the nation’s economic policy each year in his *Introductory letter to the Banque de France’s Annual Report*, which is sent to the President of France.

#### An appropriate range of publications

The Banque de France has raised the profile of its publications in the press and on social media, reaching out to a more diverse audience. While its *Financial Stability Review*



and *Assessment of Risks to the French Financial System* target financial sector specialists and international experts, the *Banque de France Bulletin* and the Bank's blog cater to a well-informed but broader audience. The Bank's reports, studies, surveys and analyses are available to anyone. Non-specialist members of the public, especially younger people, can also learn more about

economics through the *ABC de l'économie* portion of the website (see chapter entitled "Services to the Economy").

In addition to being assessed by financial targets, the Bank's efficiency and visibility are also gauged by measuring the quality of service provided to the public. This is the purpose of the survey of satisfaction with the Bank's services.



## The Banque de France satisfaction survey

To promote transparency and continuously improve the services that it delivers, the Banque de France has decided to regularly measure satisfaction among its partners and customers. This reflects the fact that the Banque de France offers a wide range of services whose development and longevity are largely based on the Bank's ability to satisfy all its partners and customers.

The Bank therefore published its first satisfaction survey in May 2018.<sup>1</sup> Individual and professional users of ten services that are representative of the Banque de France's activities and that relate to monetary strategy, financial stability and services to the economy were surveyed on the quality of the services offered, contacts with Banque de France staff and accessibility of information.

- 86% of respondents said they were satisfied with the services provided by the Banque de France;
- 93% said the Bank does objective and reliable work;
- 84% said the Banque de France is able to evolve and innovate to respond to the needs and demands of economic and financial participants;
- 75% of respondents said the Bank is open to its environment and communicates adequately.

These positive results were also used to identify an initial area for improvement, namely to communicate more effectively about the range of services offered by the Banque de France, in view of the fact that the public remains unaware of some of the institution's activities.

<sup>1</sup> <http://barometre-2018.banque-france.fr/>









# Corporate Social Responsibility

sponsorship  
commitments  
integration  
**environment**  
skill development  
corporate citizenship  
solidarity  
equality



## Corporate social responsibility

The Banque de France rallied its teams around its four commitments, with a stronger focus on managing climate-related risks

The primary vocation of the Banque de France is to work for the common good. In accordance with its general-interest missions, it has always relied on its expertise, its presence on the marketplace and its network of regional offices to develop corporate citizenship initiatives benefiting households, as well as companies and local authorities. Today, CSR is a fundamental value with a cross-cutting presence in all the Bank's activities.



Our corporate social responsibility: four commitments and twelve priority actions



2018 was marked by increasingly intense mobilisation of the financial sector in the field of climate-related risk management. Determined to be a player in the energy transition, the Banque de France was instrumental in creating the Network for Greening the Financial System (NGFS), which aims to strengthen the role of the financial system in risk management and mobilise capital for "green" and low-carbon investments (see chapter entitled "Financial Stability").

The Banque de France stepped up its commitment to responsible finance with the implementation of its Responsible Investment Charter,<sup>33</sup> reflected in the publication of its first report on the incorporation of environmental, social and governance (ESG) criteria into its investment decisions.<sup>34</sup>

Finally, to further strengthen its action, the Banque de France measured its contribution to the achievement of the Sustainable Development Goals (SDGs) set out by the United Nations

in its report *Transforming our World: 2030 Agenda for Sustainable Development*. It is particularly active in six of these goals.<sup>35</sup>

## 1 An educational and cultural commitment

### Improving the economic and financial education of the general public

The Banque de France, national steering body for France's financial education strategy

Since late 2016, the Banque de France has acted as the national steering body for France's economic and financial education strategy. It continues to roll out multiple actions in this field (see chapter entitled "Services to the Economy").

### Supporting research through sponsorship

Renewal of the partnership with the Paris School of Economics

The three-year rolling partnership initiated in 2009 with the Paris School of Economics (PSE), one of the world's leading academic institutions, was renewed in 2018 with the aim of consolidating this centre of excellence in economic research and training, developing synergies between PSE and the Banque de France and helping strengthen economic research in France with a view to placing both institutions at the heart of economic expertise at the international level. This partnership involves international seminars and symposia, meetings with senior managers and international researchers, and grants to young PSE researchers.

<sup>33</sup> <https://www.banque-france.fr/en/banque-de-france/corporate-social-responsibility/strategy-and-commitments>

<sup>34</sup> Based on Article 173 of the Energy Transition Law of 17 August 2015.  
2018 SRI report: <https://www.banque-france.fr/en/banque-de-france/corporate-social-responsibility/economic-and-civic-commitment/contributing-responsible-investment>

<sup>35</sup> Good health and well being (No. 3); quality education (No. 4); decent work and economic growth (No. 8); reduced inequalities (No. 10); responsible production and consumption (No. 12); and climate action (No. 13).

## 2018 indicator Improving the economic and financial education of the general public

Mes questions d'argent portal visits  
(number of pages viewed)

2017	422,487
2018	1,344,729
Target for 2020	1,350,000

Number of teachers informed

2017	2,638
2018	2,645
Target for 2020	3,000

Number of social workers trained

2017	14,840
2018	16,084
Target for 2020	18,000





## Partnership between the Banque de France and the Foundation for Studies and Research on International Development

Established in 2012, the partnership between the Banque de France and the Foundation for Studies and Research on International Development (FERDI) was renewed in 2018. The partnership harnesses the research capacities of FERDI and its sister centre (CERDI) – recognised for their excellence in the field of development economics – as well as the Banque de France's expertise in monetary and financial development issues. This sponsorship initiative helps to strengthen research while informing debate on the main challenges of sustainable development in low-income countries, and the economic and financial policies best suited to help rise to those challenges.

## Partnership with the Aix Marseille School of Economics

In December 2017, the Banque de France expanded its sponsorship activities by entering into a three-year partnership with AMSE (Aix Marseille School of Economics). AMSE stands out today as the seventh most productive economic research institution in France



according to the RePEc ranking,<sup>36</sup> and was accorded “university research school” status in 2017. A thesis grant was financed in 2018 as part of the sponsorship agreement.

### 2018 indicator Supporting research through sponsorship

Number of conferences, seminars and workshops organised with the Bank's partner universities



## Provide research economists with access to data

The Banque de France is the first central bank in Europe to provide access to its monetary, financial and economic data: researchers can use more than 780 million anonymised data series via “Webstat”,<sup>37</sup> the Banque de France's statistical portal, available in the Open Data Room in Paris and, as of recently, New York (see chapter entitled “Monetary Strategy”).

## Diversifying our cultural sponsorship

For the European Heritage Days, the Banque de France headquarters and certain branches, including those in Lille, Digne, Pau and Périgueux, opened their doors to the public.

<sup>36</sup> *Research Papers in Economics*, collaborative project intended to ensure the broadest possible dissemination of economic research.

<sup>37</sup> <http://webstat.banque-france.fr/en/>

### 2018 indicator Diversifying our cultural sponsorship

Number of people admitted to the Bank's heritage sites



## The Golden Gallery: 300 years of history



The Golden Gallery is a unique heritage site to be (re)discovered during the European Heritage Days. 2018 marked the gallery's 300th anniversary in its current layout, brought about thanks to the extension of a wing of the private residence ordered by the Count of Toulouse, the owner at the time. The sumptuous

woodwork decorations, granted historic monument status in 1926, have survived the ravages of time. The Golden Gallery is 40 metres long, 6.5 metres wide and 8 metres high. It has served as a location for several films: *Tous les matins du monde* (1991), *Vatel* (2000) and *Marie Antoinette* (2006).

for the fourth consecutive year. At the same time, greater selectivity for suspended measures has led to a substantial drop in second-time applications and made it possible to offer more rapid and lasting solutions for overindebtedness (see chapter entitled "Services to the Economy").

Banque de France branches carried out a number of initiatives with social workers: more than 1,030 awareness-raising sessions were organised to inform more than 16,000 social workers of developments in the overindebtedness procedure, with a view to facilitating their task of supporting people in difficulty.

## Promoting banking inclusion and microcredit

### Banking inclusion

Regarding banking inclusion, in 2018 the Banque de France

## 2 An economic and civic commitment

### Preventing overindebtedness

The significant and sustained decline in the number of people applying for debt resolution from local Household Debt Commissions continued in 2018

### 2018 indicator Preventing and resolving overindebtedness

Percentage of second-time applications  
for household debt resolution



 The secret of the Golden Gallery  
<https://youtu.be/BfASQueFUWw>

 <https://www.banque-france.fr/la-banque-de-france/patrimoine/journees-europeennes-du-patrimoine-15-et-16-septembre-2018>



continued its efforts to develop a specific package of low-cost services offered by banking networks to individuals in financially vulnerable situations. It has actively participated in market discussions aimed at strengthening provisions benefiting such individuals, leading to several commitments by French banks (see chapter entitled “Services to the Economy”).

### Microcredit

Microcredit is a powerful tool for the economic and social integration of financially vulnerable people. As such, the Banque de France is resolutely committed to the rapid development of microcredit in France. The Bank has also promoted this practice via the

### Exceptional EUR 5 million allocation to the Social Cohesion Fund by the Banque de France

With the consent of the Minister of the Economy and Finance, the Banque de France provided EUR 5 million in financing for the Social Cohesion Fund, a mechanism designed to promote social and economic integration for financially vulnerable people, thus removing an obstacle to the development of microcredit.

With this contribution, the Bank is helping achieve the Fund’s target of EUR 2 billion in outstandings at the end of 2020, which reflects its CSR commitment in this area.

*Observatoire de l’inclusion bancaire* (OIB – Observatory for Banking Inclusion). In 2018, the Banque de France awarded “personal” and “professional” microcredit prizes to projects exemplifying the economic and social utility of this financing tool.

throughout France. These events brought together more than 1,600 participants from a variety of sectors (public, non-profit, banking and educational sectors) to promote microcredit.

### Fostering business growth

The Banque de France has established a network of VSE correspondents in



#### Microcredit

<https://www.banque-france.fr/en/banque-de-france/corporate-social-responsibility/economic-and-civic-commitment/banking-inclusion-and-microcredit>



#### Mes questions d'argent

Le portail national de l'éducation économique, budgétaire et financière



#### 2018 indicator Promoting banking inclusion and microcredit

##### Total outstanding microcredit in France



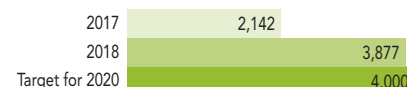
The *Mes questions d'argent* (MQDA, or “My questions about money”) web portal offers a way to let potential microcredit recipients know about this type of financing.

In 2018, the Banque de France organised microcredit conferences



#### 2018 indicator Fostering regional development and business growth

##### Number of VSEs assisted annually by VSE correspondents



## A strategy game on the market

In October 2018, a strategy game, #Aventure Entrepreneur, was released. It offers players an entertaining way to learn how to manage their sales force, make strategic investments and gain insight into the impact of their decisions on the financial structure of their company.



such a way as to make a worthwhile contribution to the energy transition and to the sustainable and balanced development of the economy and society. It is also organising its reporting disclosures with the publication, in March 2019, of its first report on the integration of ESG criteria into its investment decisions, in accordance with the recommendations of Article 173 of the Energy Transition Law of 17 August 2015.

metropolitan France and overseas (see chapter entitled "Services to the Economy"). Regional initiatives were strengthened to organise events for VSE managers throughout the year (round tables, conferences, communication actions).

the Functioning of the European Union. A focus on environmental, social and governance (ESG) issues, including those related to climate change, is now an integral part of its investment policy. The Banque de France thus directs its investments in

## Supporting charitable initiatives

The Banque de France has been involved for many years in solidarity sponsorship (in-kind, financial and skills-based contributions) through various initiatives.

## Contributing to responsible investment

In 2018, the Banque de France began implementing the principles and commitments of its Responsible Investment Charter (published in March 2018) in the management of assets for which it has direct responsibility, i.e. its own funds and pension liabilities, excluding those held in connection with the missions entrusted to the European System of Central Banks by the Treaty on





2nd Forum for Charitable Initiatives: the 2018 awards ceremony

The second annual Forum for Charitable Initiatives recognised 25 projects led by associations in the fields of social action, integration and solidarity with vulnerable populations. The Governor presented each winning project with a trophy and a cheque for EUR 2,000, highlighting the commitment of

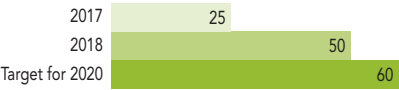
Banque de France employees to a wide range of voluntary initiatives.

In addition, volunteers collected 800 kilogrammes of clothing from Banque de France staff, which were donated to the *La Cravate Solidaire* association.



2018 indicator  
Supporting charitable initiatives

Number of staff projects supported



An historic and long-term partnership with the *Fondation Hôpitaux de Paris-Hôpitaux de France*

Since 1989, the Banque de France, an official backer of the *Pièces jaunes* (small change) fund-raising campaign, has been helping the

Foundation improve the care of hospitalised children, their families and the elderly. Bank staff participate in sorting and counting coin donations, which in 2018 amounted to 177 tonnes of small change, for a total of EUR 2.02 million.



## Launch of skills sponsorship in 2018

More and more employees have become involved in charitable initiatives during working hours thanks to the two new skills sponsorship schemes launched in 2018:

- for all employees throughout their careers, up to five days per year working with the association of their choice;
- on a secondment basis for late-career employees, volunteer assignments calling on specific professional skills with partner associations for 6 to 24 months.

## Encouraging staff to support public-interest causes

The Banque de France supports its employees in their involvement in charitable initiatives. In 2018, it established an institutional mechanism for skills sponsorship (see box).

## Contributing to professional integration

In 2018, the partnership with the Créteil Education Authority concluded in 2010 and renewed

## Hall 32, professional integration through apprenticeships



The Banque de France's participation in the creation of Hall 32, an innovative training centre dedicated to industry-related jobs and located in Auvergne, gave concrete results on 28 September 2018 with the unveiling of the future building set to host this unique institution.

The idea, a first of its kind in France, consists in bringing together on a single site the full range of industrial trades, professional training and transfer of technological know-how to SMEs and SMLs.

Located in Clermont-Ferrand, this project will be operational as of September 2019. Hall 32 will accommodate 300 young people in initial training programmes and 1,800 adults in continuing training programmes. To meet the challenges of the labour shortage in the industrial sector, it will offer professional training and a pilot integration scheme to assist young people who have left or dropped out of the education system.

for the ninth consecutive year, gave more than 600 young people the opportunity to attend methodological support sessions, receive individual mentorship from Bank staff, participate in job interview simulations, and attend a job fair that gave students a

taste of the professional world, and particularly occupations at the Banque de France.

The Banque de France also participated in the opening of the first site dedicated to promoting industry-related jobs, known as "Hall 32" (see box).



### 3 An environmental commitment

#### Taking account of climate-related risks

The Banque de France is committed to keeping global warming below 2°C by 2100 by stepping up investments geared towards a “low-carbon” economy.



#### 2018 indicator Taking account of climate-related risks

Share of banks and insurance companies made aware of climate-related risk



#### Reducing our environmental footprint

In 2018, the Banque de France continued its efforts to reduce its greenhouse gas (GHG) emissions, pursuing its strategic objective of a 9% reduction in emissions between 2014 and 2020. To this end, it has monitored its carbon footprint every year since 2008. In 2018 the Bank set up an Environmental Footprint Steering Committee covering all departments to enhance the management of its environmental policy.

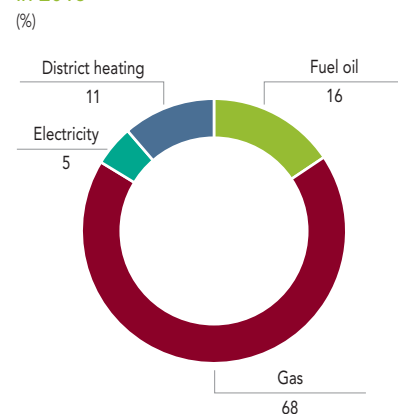
#### Monitoring of GHG emissions<sup>38</sup>

##### GHG emissions linked to energy consumption

In 2018, the Banque de France's net GHG emissions<sup>39</sup> related to energy consumption amounted to 20,186 tonnes of CO<sub>2</sub> equivalent (tCO<sub>2</sub>eq), down 1.9% from 2017. This decrease is mainly due to reduced energy consumption for heating.

The most heavily consumed energy sources remain electricity (53% of the total) and gas (32% of the total). While gas accounts for less than one-third of consumption,

#### GHG emissions by energy source in 2018



it is responsible for more than two-thirds of GHG emissions due to its high emission factor. Conversely, electricity has a very low emission factor: the electricity supply contracts, renewed in late 2018, are 100% certified from renewable sources for all volumes consumed by the Banque de France.<sup>40</sup>

##### GHG emissions linked to business travel and commuting

In 2018, estimated GHG emissions linked to travel decreased by 1%

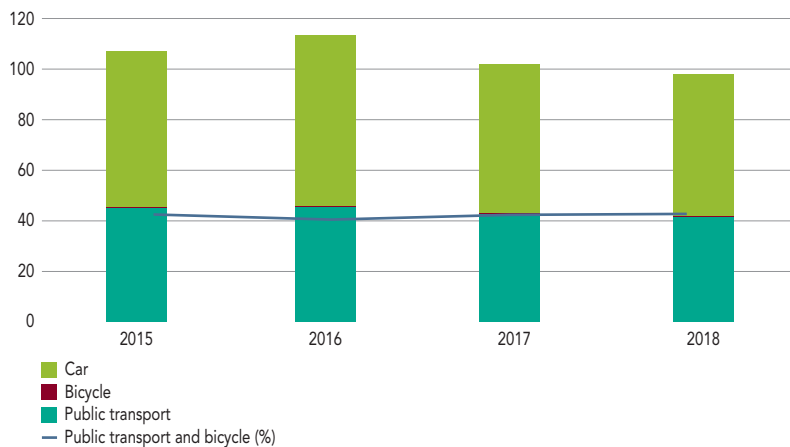
<sup>38</sup> Estimate based on provisional figures for 2018.

<sup>39</sup> Provisional data.

<sup>40</sup> Supply of 100% renewable electricity guaranteed by certificates of origin (excluding Directorate General of Banknote Manufacturing).

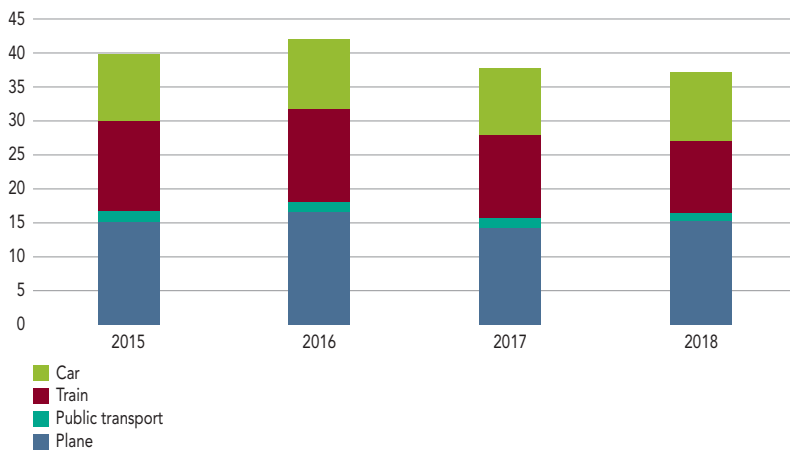
### Change in commuting since 2015

(in millions of km and %)



### Change in business travel since 2015

(in millions of km)



compared to 2017. Commuting generated 14,536 tCO<sub>2</sub>eq (down 4.5% compared to 2017) and represented 98 million kilometres: 57% by private car

and 42.9% by public transport and cycling. The number of commuting kilometres travelled has decreased continuously since 2016, while the share of public transport and cycling

is increasing (it stood at 40.6% in 2016) and car use is declining.

GHG emissions linked to business travel in 2018 amounted to 7,666 tCO<sub>2</sub>eq and the total number of kilometres travelled was down by 1.7%. Distances travelled break down as follows: 41% by plane, 28% by train and 27% by car. However, in terms of GHG emissions, air travel and cars account for 71% and 28% of CO<sub>2</sub> emissions, respectively.

The Bank also continued to renew its fleet of vehicles, favouring low-emission vehicles with the purchase of three electric vehicles and 32 hybrid vehicles.

#### Main actions

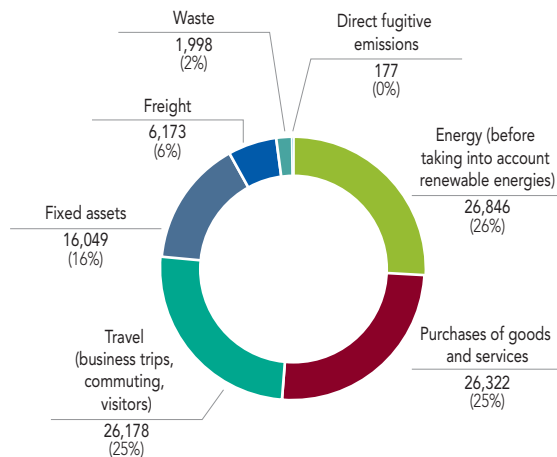
Completion of the Banque de France's 2017 GHG emissions assessment (BEGES)

Pursuant to the legal obligation for legal entities governed by public law employing more than 250 people to carry out a GHG emissions assessment every three years, the Banque de France drew up its Bilan carbone© (carbon footprint report) for the 2014-17 period. Net GHG emissions amounted



## 2017 Banque de France GHG emissions assessment

(tonnes of CO<sub>2</sub> equivalent)



to 97,479 tCO<sub>2</sub>eq in 2017, down 2.4% compared to 2014. Energy generates the most emissions (26% of the total), followed by purchases (25%) and travel (25%) (see graph).



### 2018 indicator Reducing our environmental footprint

#### Net GHG emissions by the Banque de France



To meet the Bank's strategic objective of reducing GHG emissions by 9% by 2020, a carbon footprint reduction plan was developed in late 2018. It includes several measures aimed at energy consumption and travel, notably including the continuation of the Bank's real estate policy focused on energy efficiency, development of videoconferencing meetings, increased teleworking, a policy to optimise building surfaces and rationalisation of IT equipment (computers, screens and printers).

### A real estate policy

that remains focused on energy efficiency and environmental quality

In 2018, the Banque de France continued to enhance the energy efficiency of its assets, with the replacement of 20 boiler rooms throughout the network and 1,422 windows (out of 1,476) at Bank headquarters. Alongside this vast project, which was launched in 2012, the Bank is also insulating façades and installing smart lighting systems.

In Vic-Le-Comte, the Europafi paper mill has also benefitted from major renovations and investments in high-performance, energy-efficient equipment: thermal insulation of buildings, replacement of windows, installation of LEDs equipped with motion detectors and implementation of water recycling facilities. Today, almost all waste is recycled and water consumption has been reduced by 40% per tonne of paper produced.

Recycling bins have been installed at the Paris-La Courneuve site to optimise office waste sorting and recycling.

### Reduction in office paper consumption: profit-sharing target achieved

The profit-sharing agreement for 2016-18 set the goal of halving paper consumption between 2015 and 2018, with the number of pages printed by Banque de France staff as an indicator. At the end of 2018, printing was down 56% on 2015. The 2018 target was therefore met and even exceeded. The dematerialisation of certain business processes has also helped reduce printing.

Of the more than 300,000 balance sheets handled in 2018, just 6% were processed manually.

133 block-release training contracts were concluded and the Bank welcomed 311 contractual interns.<sup>42</sup>

## 4 A commitment towards Bank staff

### Fostering gender equality and diversity

#### Getting different generations working together

Several part-time work schemes were put in place for senior employees in 2018 to help staff anticipate their departure and ease the transition to retirement. For young employees,

#### Promoting gender equality in the workplace

The Banque de France reaffirmed its commitment to career-long equality and a healthy work/life balance, particularly through the sharp rise in teleworking.

While women account for 25% of management positions, Talentu'elles, a collaborative network focusing on professional equality that has

<sup>41</sup> Provisional figures.

<sup>42</sup> According to the most recent social assessment.

### Dematerialised collection of balance sheets<sup>41</sup>

Just over 220,000 balance sheets were electronically transmitted in 2018 to the FIBEN company database. Implementation of the balance sheet digitisation programme, initiated in 2016, resulted in the dematerialisation in Banque de France branches, through a third-party provider, of more than 62,000 balance sheets in 2018. This figure represents an increase of nearly 3.5% compared to 2017.



Successful candidates in the 2018 managerial-level entrance exam





more than 650 members, 30% of whom are men, stepped up its awareness-raising and informational activities, both internally with the implementation of mentoring, and externally with "afterwork" sessions and its participation in a seminar in Rome run by the *Associazione Donne della Banca d'Italia*. Three conferences were also organised on topics related to professional equality and diversity.

#### Promoting the integration of people with disabilities

As 6.16% of positions in the Bank were filled by people with disabilities in 2018, the Banque de France was among the 18% of private sector employers and the 40% of public sector employers who exceeded the mandatory rate for companies with more than 20 employees. This figure reflects the Bank's continuing

commitment to the integration of people with disabilities.

#### Encouraging skill acquisition and career development

Professional training, which is crucial to the transmission of the skills specific to central banking, is one of the focuses of the Ambitions 2020 strategic plan. The Banque de France ranked among the top companies in terms of resources devoted to professional training in 2018, with 7.6% of its wage bill going to such initiatives.

The Banque de France University facilitates access to training opportunities, simplifies registration and groups together professional training programmes via specialised schools (see box). 890 staff members attended a certification-based training programme in 2018.



#### 2018 indicator Fostering gender equality and diversity

Percentage of women  
in top management positions



Rate of employment  
of people with disabilities



#### 2018 indicator Encouraging skill acquisition and career development

Number of employees who received a qualification  
through the Banque de France University



## Banque de France University

The in-house Banque de France University is a flagship project of the Ambitions 2020 strategic plan. Inaugurated by the Governor in November 2017, it aims to grant all staff access to the educational resources and training they require, whether digital or face-to-face.

In 2018, 90% of Bank staff members logged on to the University platform at least once.

At the end of December 2018, 10 schools were operational:

- Six schools focusing on specific professions: the Schools of Supervision, Businesses, Private Individuals, Cash Industry, Data, and Finance and Operations;
- Four cross-disciplinary schools: the Schools of Management, Digital Technologies, Languages and Personal Skills.



## CSR dashboard

Priority actions	Indicators	2018 INDICATOR	Targets for 2020
EDUCATIONAL AND CULTURAL COMMITMENT			
1. Improving the economic and financial education of the general public	Composite indicator * Portal visits (number of pages viewed) * Number of teachers informed * Number of social workers trained <i>Baseline: zero portal visits in 2016</i> <i>1,147 teachers informed in 2016</i> <i>no social workers trained in 2016</i>	1,344,729 2,645 16,084	* 1,350,000 pages * 3,000 teachers * 18,000 social workers
2. Supporting research through sponsorship	Number of conferences, seminars and workshops organised with all the partner universities of the Bank as defined in the partnership agreements, including those organised within the framework of the Banque de France Foundation <i>Baseline: 83 events organised in 2016</i>	95	100 events organised
3. Diversifying our cultural sponsorship	Number of persons admitted to the Bank's heritage sites at headquarters and in the regions <i>Baseline: 15,000 visitors in 2015</i>	14,585	Between 15,000 and 20,000 visitors
ECONOMIC AND CIVIC COMMITMENT			
4. Preventing and resolving overindebtedness	Percentage of second-time applications for household debt resolution <sup>1)</sup> <i>Baseline: 45% of files in 2016 were second-time applications</i>	47%	37%
5. Promoting banking inclusion and microcredit	Total outstanding microcredit in France <i>Baseline: EUR 1.2 billion at the end of 2015</i>  <i>Banking inclusion: indicator under review</i>	EUR 1.5 billion at end-2017 (indicator at end-2018 will be available in May 2019)  Under review	EUR 2 billion in outstandings of "assisted" microcredit
6. Fostering regional development and business growth	Number of VSEs assisted annually by VSE correspondents <i>Baseline: 560 VSEs assisted in 2016</i>	3,877	4,000 VSEs
7. Contributing to responsible investment	<i>The indicator will be defined in 2019</i>		
8. Supporting charitable initiatives	Number of staff projects supported per year (financial support and skills sponsorship) <i>Baseline: no funding projects supported in 2016</i>	50	At least 60 projects

## CSR dashboard (continued)

Priority actions	Indicators	2018 INDICATOR	Targets for 2020
ENVIRONMENTAL COMMITMENT			
9. Taking account of climate-related risks	Share of banks (by percentage of bank assets) and insurance companies (percentage of technical reserves) made aware of climate risk (within the framework of the monitoring committee set up in 2017 and the conference scheduled for 2018) <i>Baseline: 0% at the end of 2016</i>	Banks: 86.7% Life insurance companies: 80% Non-life insurance and reinsurance companies: 73%	Banks: at least 90% of assets Insurance companies: at least 70% of technical reserves
10. Reducing our environmental footprint	Annual CO <sub>2</sub> emissions <i>Baseline: 99,890 tCO<sub>2</sub>eq in 2014</i>	93,490 tCO <sub>2</sub> eq	90,900 tCO <sub>2</sub> eq
COMMITMENT TOWARDS STAFF			
11. Fostering gender equality and diversity	Share of women in a position of director general or deputy, director or deputy, at Bank headquarters and in the network <i>Baseline: 23.25% at the end of November 2016</i>	25%	30%
	Rate of employment of disabled workers <i>Baseline: 5.94% in 2016</i>	6.24%	Maintain rate of employment at 6%
12. Encouraging skill acquisition and career development	Number of employees who have obtained a certified qualification via the Banque de France University (cumulative total) <i>Baseline: 605 employees certified in 2016 (end-Nov. 2016)</i>	890	1,200 certified employees

a) Cases where a household has already applied for debt resolution once, but has had to apply a second time due to a deterioration in its financial position.





BANQUE DE FRANCE





# Governance

regions  
general council  
risk management  
**executive bodies**  
executive committee  
audit committee  
control  
bodies



# Governance

## 1 Executive bodies

### Governor and Deputy Governors

The Banque de France is managed by its Governor and two Deputy Governors. The Governor chairs the General Council and prepares and implements its decisions. Both the Governor and Deputy Governors are appointed by decree by the Council of Ministers for a six-year term that is renewable once. François Villeroy de Galhau was appointed Governor of the Banque de France on 1 November 2015. He is supported by two Deputy Governors: Denis Beau, who was appointed on 28 July 2017, and Sylvie Goulard, who was appointed on 17 January 2018.



**Sylvie Goulard**  
Second Deputy Governor

**François Villeroy de Galhau**  
Governor

**Denis Beau**  
First Deputy Governor

The Governor is also Chairman of the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority), the *Comité de médiation bancaire* (Banking Mediation Committee), the *Observatoire de la sécurité des moyens de paiement* (Observatory for the Security of

Payment Means), the *Observatoire de l'épargne réglementée* (Observatory for Regulated Savings) and the *Observatoire de l'inclusion bancaire* (Observatory for Banking Inclusion). He is also a member of the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability).

### The Executive Committee

The Executive Committee is the Banque de France's main organ of operational governance. Chaired by the Governor, it is composed of the Deputy Governors, the Directors General and a Director General Delegate. The Chairman of the



The Governor, Deputy Governors and members of the Executive Committee (as at 1 March 2019)

*From left to right*

Front

**Marie-Anne Poussin-Delmas**  
Chair of the IEDOM  
and Director General  
of the IEOM

**Sylvie Goulard**  
Second  
Deputy Governor

**Denis Beau**  
First  
Deputy Governor

**Audrey Metzger**  
Secretary of the  
Executive Committee

Back

**Gilles Vaysset**  
Secretary General

**Olivier Garnier**  
Director General  
Statistics, Economics and  
International Relations

**Érick Lacourrège**  
Director General  
Services to the Economy  
and Branch Network  
Activities

**Vincent Bonnier**  
Director General  
Banknote Manufacturing

**François Villeroy  
de Galhau**  
Governor

**Hervé Gonsard**  
Director General  
Human Resources

**Nathalie Aufauvre**  
Director General  
Financial Stability and  
Operations

**Édouard  
Fernandez-Bollo**  
Secretary General ACPR

**Alain Duchâteau**  
Director General  
Delegate Statistics,  
Economics and  
International

**Didier Elbaum**  
Comptroller General



*Institut d'émission des départements d'outre-mer* (IEDOM – the Note-issuing bank for the French overseas departments) and of the *Institut d'émission d'outre-mer* (IEOM – the French overseas note-issuing bank) is also a member.

### Operational management bodies

Three bodies play a central role in the conduct of investment policies and market operations: the Assets-Liabilities Committee, the Risk Committee and the Pension Plan Strategic Committee (CS2R). The Assets-Liabilities Committee, which is chaired by the Governor, examines the Bank's investment strategy for all its portfolios (both euro and foreign currency denominated), with the exception of the Employee Reserve Fund investment portfolios which are monitored by the CSR2 (set up in April 2018). The Risk Committee, which is chaired by one of the Deputy Governors, defines the risk management framework for the Bank's market operations.

The Bank has three other operational management committees, placed under the authority of the Secretary General: the IT Strategy Group, the Real Estate Strategy Group and the Procurement Strategy Group.

### The branch network and the network's executive committee

The Banque de France branch network is organised into 13 regional directorates. It currently comprises 95 departmental branches (including the 13 regional directorates), to which are attached 19 economic centres and 2 household debt centres. Services related to currency management are carried out at 40 of these establishments and at 2 specialised centres (see map of the Banque de France network in Appendix 1). To make it easier to access its public services (household debt resolution, access to payment incident databases, right to a bank account procedure), the Bank has set up 73 customer service and information offices and 2 local centres in towns where it does not have a permanent branch.

The regional managers and directors of the network business lines and projects (cash activities, services for companies and individuals, etc.) are answerable to the Director General Services to the Economy and Branch Network Activities. Together they make up the Network Executive Committee, which is responsible for the network's strategic management.

## 2 Decision-making and control bodies

### The General Council

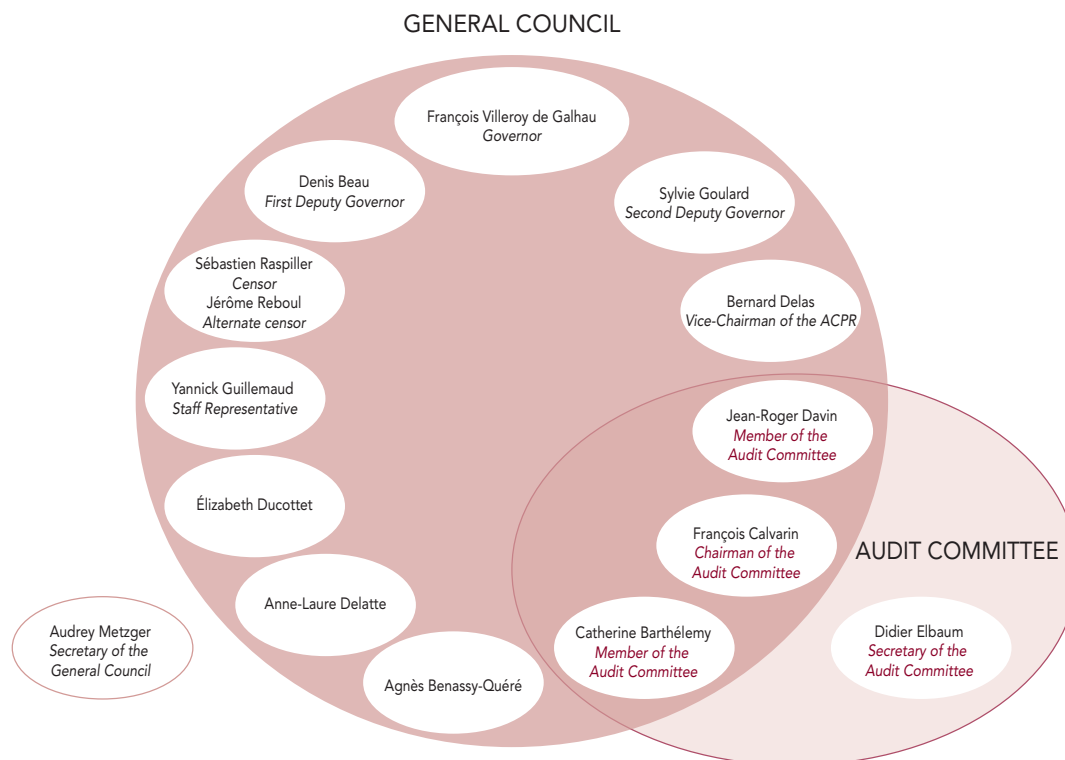
The General Council performs the main functions of a board of directors. It decides on issues relating to the management of activities that do not fall within the remit of the European System of Central Banks (ESCB).

As at 19 January 2018, the General Council was made up of the Governor, the Deputy Governors, Agnès Benassy-Quéré, Catherine Barthélémy, François Calvarin, Jean-Roger Davin, Bernard Delas, the Vice-Chairman of the ACPR, Anne-Laure Delatte, Élisabeth Ducottet and Yannick Guillemaud, the Banque de France staff representative.

Meetings of the General Council are attended by the censor, Sébastien Raspiller, who was appointed by the Minister for the Economy, or by his alternate, Jérôme Reboul.

In 2018, the General Council met eight times.

## The General Council and the Audit Committee



### The Audit Committee

The Audit Committee reports to the General Council on issues relating to financial reporting, external and internal auditing, internal control and risk management. It was thus informed of the conclusions of the external auditors' work related to the 2018 financial year.

The Committee also examined:

- the main conclusions of internal audits and the progress report on the action plans drawn up by the audited units;
- the audit programme for 2019;
- developments in the field of permanent control and risk management.

### 3 Internal audit and operational risk management

#### The Internal Audit

The Internal Audit is managed by the Comptroller General and is the Banque de France's third line of control. It has responsibility over all the Bank's units, processes and activities, including over its subsidiaries.





The Internal Audit conducts its inspections using a risk-based approach, and reports its findings to the Audit Committee, the Bank's governance bodies and the Directors General. In doing so, it provides independent and objective assurance of:

- the achievement of the Bank's strategic objectives;
- the integrity and reliability of all financial and operational information;
- the effectiveness and efficiency of all operations;
- the protection of the Bank's assets, image and reputation;
- compliance with all laws, regulations, procedures, contracts and compliance rules.

The Internal Audit also operates within the framework of the ESCB. The Comptroller General and the Director of Head Office Audit are permanent members of the ESCB Internal Auditors Committee (IAC). Together with their counterparts at the other national central banks and the ECB, they draw up the Eurosystem's audit programme and oversee audits conducted under the

aegis of the IAC. The IAC submits its findings to the ECB Audit Committee and Governing Council; those related to the Single Supervisory Mechanism (SSM) are also reported to the ECB Supervisory Board.

With regard to both the organisation and conduct of audit missions, the Banque de France's Internal Audit complies with the international standards for the professional practice of internal auditing as defined by the Institute of Internal Auditors (IIA). This compliance was confirmed in 2018 by an external audit, which underlined the audit team's "effective commitment to providing the Institution with advanced assurance and advisory services".

In 2018, the Internal Audit carried out some 40 inspections, paying particular attention to the piloting of the Bank's activities, its organisational efficiency, the implementation of permanent controls, cyber-security and information system security.

### Risk management

In line with the model proposed by the Committee of Sponsoring Organizations of the Treadway Commission, the Banque de France

has implemented a three-pronged internal control system (comprised of operational staff and their managers, professional risk management and permanent control officers, and the Internal Audit). The system assesses all operational risks as well as the methods and action plans in place to mitigate them, and checks that existing controls are relevant and efficient, using industry best practices as a benchmark.

In 2018, the Bank took the following steps to improve the calibre of its internal control:

- It reinforced the functional links between the Risk Prevention Division, which manages the overall system, and local participants in the directorates general and network branches (risk and permanent control managers, business line heads of security), notably by setting annual targets for 2019.
- It awarded certified qualifications to its first "Risk management and permanent control" officers.
- It began production of a new software application for the management of risks, controls, incidents and action plans, which will be based on a simplified process

mapping and used by all risk function staff.

The Bank also continued to roll out its framework for managing cyber-risk (see box). It notably checked levels of security in its most sensitive applications, and reinforced them by applying the rules and best practices recommended by the French national cyber-security agency, Anssi.

The Banque de France continued its work linked to the entry into force of the EU general data protection regulation (GDPR) on 25 May 2018. These tasks, which have been organised into a project, involve identifying and describing how



personal data are used in its in-house systems, and ensuring staff are up to

date on the new rules. The Bank also appointed a data protection officer.

## Cyber-risks

Data leaks, fraud using stolen data, information system sabotage... the potential fall-out of a cyber-attack is one of the most important operational risks facing the Banque de France and indeed all financial sector participants.

To tackle the multifaceted and ever-changing nature of cyber-crime, the Banque de France has updated its cyber-security strategy, made further improvements to its information system protection devices, and put in

place a permanent procedure for keeping staff alert to the risks.

Alongside its preventive systems, the Banque de France has also set up an internationally certified computer emergency response team (CERT), tasked with detecting and responding to cyber-attacks. It is also involved in numerous cyber-security working groups at national, European and international level.







# Financial management and accounts

shares  
transactions  
capital  
performance  
portfolios  
net worth  
liabilities  
reserves  
balance sheet



## 1 Report on assets, liabilities and performance

The Banque de France General Council approved the financial statements for the year ended 31 December 2018 at its meeting of 12 March 2019.

### Assets and liabilities

The Banque de France's balance sheet grew from EUR 1,054 billion at 31 December 2017 to EUR 1,088 billion at 31 December 2018. This EUR 34 billion increase is the result of the Banque de France's active participation in the continued implementation of the quantitative easing monetary policy decided by the Governing Council of the European Central Bank. The public sector purchase programme (PSPP), covered bonds purchase programme (CBPP3), and corporate sector purchase programme (CSPP) led to a EUR 57 billion year-on-year increase in euro-denominated securities held for monetary policy purposes in the Banque de France balance sheet. An increase in loans to credit institutions related to monetary policy operations was observed in counterpart to these purchase programmes, while euro banknotes in circulation recorded

in the Banque de France's liabilities continued to grow year-on-year, by EUR 11 billion.

### Breakdown of profit

Net income from activities rose to EUR 9,212 million in 2018, up EUR 1,025 million due to the increase in income derived from securities held for monetary policy purposes, in line with the growth in the holdings of these securities and the rise in the US dollar interest rate. After operating expenses, profit before tax came in at EUR 7,019 million, up EUR 1,001 million compared with 2017. Net profit was up EUR 1,296 million year-on-year at EUR 4,624 million.

After taking account of retained earnings, the Bank's General Council decided on the following appropriation of distributable profit:

- allocation to the general reserve of EUR 231 million, i.e. 5% of net profit;
- dividend payment to the state of EUR 3,222 million;
- allocation to the Employee Reserve Fund of EUR 160 million, equivalent to the 2018 net current service cost;
- to the provision for investment of EUR 21 million;
- allocation to the special pension reserve fund of EUR 990 million.





## 2 Individual financial statements of the Banque de France

### The balance sheet and profit and loss account

#### Balance sheet at 31 December 2018

(EUR millions)

Notes to the balance sheet	ASSETS	At 31 Dec. 2018	At 31 Dec. 2017	Notes to the balance sheet	LIABILITIES	At 31 Dec. 2018	At 31 Dec. 2017
1	A1 Gold	87,794	84,733	12	P1 Banknotes in circulation	228,154	216,957
2	A2 Foreign currency assets (excl. relations with the IMF)	49,373	47,815	4	P2 Euro-denominated liabilities to euro area credit institutions related to monetary policy operations	504,445	488,750
	2.1 Foreign currency assets held with non-euro area residents	42,248	31,472		2.1 Current accounts	207,098	227,307
	2.2 Foreign currency assets held with euro area residents	7,125	16,343		2.2 Other liabilities	297,347	261,443
3	A3 Relations with the IMF	15,384	14,227	13	P3 Other euro-denominated liabilities to euro area credit institutions	8,949	14,609
	3.1 Financing provided to the IMF	4,110	3,260	14	P4 Euro-denominated liabilities to non-euro area residents	50,560	53,424
	3.2 Acquisitions of SDRs	11,274	10,967	2	P5 Foreign currency liabilities	248	1,398
5	A4 Euro-denominated claims on non-euro area residents	1,030	1,335	3	P6 Counterpart to SDR allocations	12,339	12,050
4	A5 Euro-denominated loans to euro area credit institutions related to monetary policy operations	110,918	113,709	15	P7 Relations within the Eurosystem	2,844	509
5	A6 Other euro-denominated loans to euro area credit institutions	12,828	13,513	16	P8 Euro-denominated liabilities to other euro area residents	65,260	66,947
6	A7 Euro-denominated securities issued by euro area residents	602,857	553,614		8.1 Liabilities vis-à-vis the state and government agencies	35,399	25,212
	7.1 Securities held for monetary policy purposes	543,141	486,463		8.2 Other liabilities	29,861	41,735
	7.2 Other securities	59,716	67,151	17	P9 Items in the course of settlement	135	150
	A8 Relations within the Eurosystem	99,469	127,953	18	P10 Banking transactions	82,819	76,078
11	8.1 Participating interest in the ECB	1,545	1,545	20	P11 Other items	9,245	6,159
	8.2 Claims arising on the transfer of reserve assets to the ECB	8,217	8,217	20	P12 Provisions for liabilities and charges	936	912
8	8.3 Claims on the Eurosystem for euro banknotes in circulation	89,466	87,949	21	P13 Revaluation accounts	77,223	72,526
7	8.4 Other claims on the Eurosystem	240	30,241	22	P14 Fund for general risks and tax-regulated provisions	8,089	8,094
8	A9 Advance to the IEDOM	5,718	5,462	23	P15 Revaluation reserve for state gold and foreign exchange reserves	22,285	22,377
	A10 Claims on the French Treasury	0	0	24	P17 Capital, reserves and retained earnings	10,090	9,252
9	A11 Other euro and foreign currency denominated financial assets	91,239	83,976		P18 Net profit	4,624	3,328
10	A12 Other items	9,685	5,289				
11	A13 Fixed assets	1,950	1,893				
	13.1 Tangible and intangible fixed assets	1,264	1,207				
	13.2 Participating interests other than the ECB	686	686				
	<b>TOTAL ASSETS</b>	<b>1,088,245</b>	<b>1,053,520</b>		<b>TOTAL LIABILITIES</b>	<b>1,088,245</b>	<b>1,053,520</b>

NB: Each item of the individual balance sheet and profit and loss account is rounded up or down to the nearest one million euro. For this reason, discrepancies between totals or sub-totals and their components may arise.



## Profit and loss account for 2018

(EUR millions)

Notes to the P&L	2018	2017
1 Net income from Banque de France activities	9,212	8,187
29 1.1 Net interest income	8,710	7,632
1.1.1 Interest and related income	10,309	8,478
1.1.2 Interest and related expenses	-1,599	-846
30 1.2 Net income from financial transactions	-49	62
1.2.1 Net realised gains/losses and unrealised losses on foreign exchange	-92	37
1.2.2 Net allocations to/reversals from the foreign currency revaluation reserve	92	-37
1.2.3 Other income and expenses on financial transactions, net	-49	62
1.3 Commission	6	2
1.3.1 Commission income	43	40
1.3.2 Commission expenses	-37	-38
31 1.4 Income from equity securities and participating interests	336	290
32 1.5 Net result of pooling of monetary income	-566	-521
33 1.6 Other income and expenses, net	774	722
2 Operating expenses	-2,194	-2,169
34 2.1 Staff costs and related expenses	-930	-949
2.2 Pensions and related expenses	-486	-475
2.3 Taxes other than income tax	-43	-49
2.4 Provisions, depreciation and amortisation	-148	-148
2.5 Other operating income and expenses, net	-586	-548
Profit before tax and exceptional items (1 + 2)	7,019	6,018
3 Net additions to fund for general risks and tax-regulated provisions	5	-1
4 Exceptional items	0	0
4.1 Exceptional income	0	0
4.2 Exceptional expenses	0	0
35 5 Corporate income tax	-2,400	-2,690
Net profit for the year (1 + 2 + 3 + 4 + 5)	4,624	3,328

## Notes to the individual financial statements

### Accounting principles and valuation methods

### Legal framework

The annual financial statements of the Banque de France are presented

in accordance with a format decided by the Bank's General Council and with the provisions of the Order of the Minister of the Economy, Finance and Industry of 7 February 2000, which was amended on 16 November 2010. Their structure is designed to reflect the specific nature of the tasks carried out by the Banque de France as part of

the European System of Central Banks (ESCB) and its diverse range of activities. The financial statements are expressed in millions of euro.

The accounting and valuation methods applied by the Banque de France are defined in Article R. 144-6 of the French Monetary and Financial Code, which specifies the following provisions.

- For all activities carried out within the framework of the European System of Central Banks (ESCB), the Banque de France must comply with the accounting and valuation methods laid down by the European Central Bank (ECB) in its Guideline of 11 November 2010<sup>43</sup> on the legal framework for accounting and financial reporting in the ESCB (ECB/2010/20), amended by the Guidelines of 24 January 2012 (ECB/2011/27), 22 December 2012 (ECB/2012/29), 15 December 2014 (ECB/2014/57), 13 March 2015 (ECB/2014/54), 21 July 2015 (ECB/2015/24)<sup>44</sup> and 3 November 2016 (ECB/2016/34). This Guideline

<sup>43</sup> Official Journal of the European Union of 9 February 2011, L35, page 31.

<sup>44</sup> An unofficial consolidated version was published in the Official Journal of the European Union on 21 July 2015.

establishes in particular the accounting rules applicable to refinancing operations for the banking sector, securities, foreign currency transactions carried out in the course of foreign exchange reserve management, and the issue of banknotes.

- The accounting rules established by the *Autorité des normes comptables* (ANC – the French accounting standards authority) apply to all the Banque de France's other activities. However, the Bank's General Council may also decide to apply the accounting and valuation methods recommended by the ECB to these other activities.

With effect from 1 January 2003, the Bank's General Council extended the accounting methods laid down by the Governing Council of the ECB to securities portfolios recorded in asset item A11. Since 1 January 2018 and by decision of the Bank's General Council, this provision has also applied to securities portfolios held in the Banque de France's Employee Reserve Fund recorded in asset item A12.

### Valuation methods

#### Foreign currency gains and losses

Spot and forward purchases and sales of foreign currencies are recorded as off-balance sheet commitments at the trade date. They are recognised in the balance sheet at the settlement date.

#### *Foreign currency gains and losses on gold and foreign exchange reserves*

Realised gains and losses are calculated for each currency. A weighted average price is calculated every day, firstly on inflows (spot or forward purchases on the trade date and income in foreign currencies, in particular daily accrued interest), and secondly on outflows (spot or forward sales on the trade date and foreign currency denominated expenses, in particular accrued interest on foreign currencies). The realised gain or loss is calculated by applying the difference between these average prices to the lower of the day's inflows or outflows.

When outflows exceed inflows, a second realised gain or loss is calculated, which equates to the difference between (i) the net outflows of the day valued at the

average outflow price and (ii) the net outflows of the day valued at the average price of the day's opening position. Where inflows exceed outflows, the net inflow is added to assets held at the beginning of the day, thereby changing the average price of the position.

Gold and foreign currency positions are valued at year-end on the basis of the prevailing rates and prices on the last business day of the year. Unrealised gains are recorded as liabilities in the revaluation accounts (item L13). Unrealised losses are recorded in the profit and loss account as financial transaction expenses (item 1.2.1). Unrealised gains and losses are not offset.

#### *Revaluation reserve for state gold and foreign exchange reserves (RRRODE)*

The agreement between the state and the Banque de France dated 2 February 2011 neutralises the impact on the Bank's profit and loss account of realised gold and foreign currency gains and losses (including currency option premiums) and unrealised losses at year-end, thanks to a mechanism whereby the counterpart in the profit and loss account is symmetrically offset against the RRRODE. The amount



of net foreign currency gains taken to the RRRODE is limited to the net profit for the year before transfers to the reserves.

The agreement also stipulates that:

- the amount of the RRRODE must be equal to at least 12% of the gold and foreign currency position and must also be sufficient to cover the losses that would arise from prices falling to their worst level of the past ten years;
- if the RRRODE falls below its minimum amount as defined above, it is replenished by way of a deduction from profit for the financial year (not exceeding 20% of net profit).

*Foreign currency gains and losses other than on gold and foreign exchange reserves*

The Banque de France applies ANC Regulation 2014-03 to foreign currency transactions that are not connected to its main responsibilities as a central bank. Foreign currency deposits and investments are marked to market on the last business day of the year. Realised and unrealised foreign currency gains and losses are

recorded in profit and loss item 1.2.3, "Other income and expenses on financial transactions, net". Accrued income and expenses are converted into euro at the rate prevailing on the day the transaction is recorded. Forward foreign currency hedges are valued at the closing date exchange rate.

Securities portfolios

Fixed-income securities and variable-yield securities are recorded in the following balance sheet items:

- A2 for foreign currency denominated securities held in connection with foreign exchange reserve management;
- A7.1 for securities held for monetary policy purposes;
- A11 for euro-denominated securities earmarked against the Bank's own funds, provisions and customer deposits recorded in L4 or L10;
- A12 for securities held in the Banque de France's Employee Reserve Fund (see below and Note 28);<sup>45</sup>

- A4 or A7.2 for other euro-denominated securities depending on whether they are issued by non-residents or residents.

Since the 2015 reporting period, securities held for monetary policy purposes (item A7.1) have been recognised at amortised cost, irrespective of their intended holding period.<sup>46</sup> They may therefore be sold before maturity if the Governing Council so recommends. They are tested for impairment annually. The Accounting Guideline was amended on 15 December 2014 to reflect this new accounting framework.

Other fixed-income securities are recognised as follows.

- Fixed-income securities that the Banque de France has decided to

<sup>45</sup> The General Council of the Banque de France decided to transfer the portfolio earmarked for the Bank's special pension reserve fund to the assets of the Banque de France's Employee Reserve Fund as from 1 January 2018. Consequently, the portfolio was recognised in asset item A11 of the Banque de France's balance sheet prior to 31 December 2017 but was reclassified to item A12 from 1 January 2018.

<sup>46</sup> The Accounting Guideline was amended on 15 December 2014 to reflect this new accounting framework.

hold to maturity are recognised in the financial statements at amortised cost. They are tested for impairment annually and may be written down if there is a risk of non-recovery.

- Fixed-income securities that may be sold before maturity and variable-yield securities are marked to market on a line-by-line basis on the last business day of the year. Unrealised gains are recorded as liabilities in the revaluation accounts (item L13). Unrealised losses are recorded in the profit and loss account as financial transaction expenses (item 1.2.3). Unrealised gains and losses are not offset. Gains and losses arising from sales carried out during the year are calculated on the basis of the weighted average price of each line of securities and are recorded in profit and loss item 1.2.3, "Other income and expenses on financial transactions, net".

For all fixed-income securities, differences between the acquisition price and the redemption price are spread over their remaining lives on a discounted basis.

Lastly, any implicit options that may be included in these securities are not valued separately.

*Change of valuation method of the securities portfolios of the Banque de France's Employee Reserve Fund*

At its meeting held on 20 December 2017, the General Council of the Banque de France decided that the valuation rules established in the Accounting Guideline would apply to securities portfolios held in the *Caisse de réserve des employés* (CRE – the Banque de France's Employee Reserve Fund) from 1 January 2018.

The resulting change in accounting method led to:

- the line-by-line revaluation of CRE securities (fixed-income securities that may be sold before maturity, as well as variable-yield securities), marked to market on the last business day of the year with no offset between unrealised gains and losses (the portfolio was recorded at amortised cost until 31 December 2017);

- the recognition of unrealised gains by increasing the value of the related assets and recording a corresponding liability in the revaluation account (item L13);
- the recognition of unrealised losses by decreasing the value of the related assets and recording a loss at the end of the reporting period transferred to CRE capital; until the end of the 2017 reporting period, provisions were recorded for these unrealised losses.

This change in accounting method has no impact on the profit and loss account. The impact on the Banque de France's balance sheet as at 31 December 2017 is as follows:

- a EUR 906 million increase in the book value of portfolios of available-for-sale securities (item A12);
- a EUR 906 million increase in the revaluation adjustment accounts (item L13).

Furthermore, gains and losses arising on securities sales are now calculated on a weighted average cost (WAC) basis and no longer in





accordance with the first in, first out (FIFO) method.

#### Financial futures

Interest rate financial futures traded on organised markets are recorded off-balance sheet at the notional amount, while daily margin calls paid or received are recognised in profit and loss item 1.2.3.

Interest rate swaps are marked to market at 31 December. Unrealised gains are recorded as liabilities in the revaluation accounts (item L13). Unrealised losses are recorded in the profit and loss account as financial transaction expenses (item 1.2.3). Unrealised gains and losses are not offset. Unrealised losses are amortised over the remaining life of the contract. The interest is recorded in profit and loss item 1.1 on an accrual basis.

Currency option premiums are recorded on the asset side of the balance sheet if they relate to purchases and on the liabilities side if they relate to sales. In the event that the option is exercised, the premium is included in the price of

the currency purchased. If the option is not exercised, at its expiry date the premium is recorded in profit and loss item 1.2.1, "Net realised gains/losses and unrealised losses on foreign exchange". At year-end, the premium amounts booked to the profit and loss account during the year are transferred to the state gold and foreign exchange revaluation reserve (RRRODE) in the same way as realised foreign currency gains and losses.

Open positions on currency options are marked to market at the balance sheet date. Unrealised gains are recorded as liabilities in the revaluation accounts (item L13). Unrealised losses are recorded in profit and loss item 1.2.3. Unrealised gains and losses are not offset.

Forward foreign currency transactions with customers (see Note 26) are marked to market at 31 December.

#### Eurosystem claims and liabilities

Eurosystem claims and liabilities arise on cross-border euro payments made within the European Union and settled in central bank money. These

payments are allocated to Target2 – the Trans-European Automated Real-time Gross settlement Express Transfer system – and give rise to bilateral balances in the Target2 accounts of the ESCB central banks. All these bilateral claims and liabilities are netted out on a daily basis within the Target2 system so that each national central bank (NCB) has a single net bilateral position vis-à-vis the ECB. The Banque de France's net position in Target2 along with other euro-denominated liabilities to the Eurosystem are carried on the Bank's balance sheet either as a net liability to the Eurosystem in item L7 (see Note 15) if it is a creditor or as a net claim on the Eurosystem in item A8 if it is a debtor.

The Banque de France's claim on the Eurosystem due to its participating interest in the ECB is recorded in item A8.1 (see Note 11); the claim resulting from the transfer of a part of reserve assets is recorded in item A8.2; the claim resulting from interim dividends and accrued income receivable from the ECB in respect of the allocation of the balance of monetary income (see Note 7) is recorded in item A8.4;

and finally the claim resulting from the shared responsibility for issuing euro banknotes among NCBs and the ECB is recorded in item A8.3.

#### Tangible and intangible fixed assets

Tangible and intangible fixed assets are accounted for and valued in accordance with French reporting standards.

Land is carried at acquisition cost. Buildings and equipment are carried at historical cost, less depreciation or provisions for impairment booked since they were brought into service.

In accordance with Article 322-1 of the *plan comptable général* (French General Chart of Accounts), the depreciation period for each asset is determined on the basis of its probable useful life. The Bank's property assets are therefore

depreciated over 50, 33, 20 or 10 years, depending on the asset type. Computer equipment is depreciated over 2 to 10 years and other equipment is depreciated over periods ranging from 3 to 12 years. Purchased software is amortised over 3 or 6 years. Most fixed assets are depreciated using the straight-line method. In accordance with ANC Regulation 2014-03, the useful life of fixed assets are reviewed regularly and modified as required.

External expenses relating to the development and integration of computer software are capitalised.

Projects developed by one or more Eurosystem NCBs are capitalised in accordance with the full cost accounting methodology set down by the Eurosystem. The Banque de France recognises any share in those projects – as defined at the Eurosystem level – in the total amount to be capitalised.

Accelerated tax depreciation is applied for fixed assets that can be depreciated more rapidly for tax purposes than for accounting purposes.

#### Banknotes in circulation

The ECB and the 19 euro area NCBs that together make up the Eurosystem issue euro banknotes. The total value of euro banknotes in circulation in the Eurosystem is allocated on the last business day of each month in accordance with the banknote allocation key.<sup>47</sup> The ECB has been allocated an 8% share of euro banknotes in circulation, with the remaining 92% allocated to euro area NCBs according to their key for subscription of the ECB's capital. The share of banknotes in circulation allocated to each NCB is disclosed in liability item L1, "Banknotes in circulation".

The difference between the value of banknotes in circulation allocated to each NCB in accordance with the banknote allocation key and the value of banknotes actually put into circulation by the NCB gives rise to an interest-bearing intra-Eurosystem position (see asset item A8.3, "Claims on the Eurosystem for euro banknotes in circulation") remunerated at the main refinancing operation rate. Interest income and expenses on these balances are

<sup>47</sup> ECB decision of 6 December 2001 on the issue of euro banknotes (ECB/2001/15) amended by ECB decision ECB/2010/29 of 13 December 2010.



cleared through the accounts of the ECB and included in profit and loss item 1.1, "Net interest income".

A mechanism to smooth any adjustments that may arise during the first five years following a country's entry into the euro area has been implemented, which in 2018 concerned only Latvia and Lithuania.<sup>48</sup>

Interim dividend paid by the ECB

The ECB's seigniorage income arising from the 8% share of euro banknotes in circulation,<sup>49</sup> as well as the income generated on its holdings under the SMP, CBPP3, ABSPP and PSPP programmes,<sup>50</sup> are distributed in January of the following year in the form of an interim dividend unless the Governing Council of the ECB decides otherwise. This income is distributed in full unless it exceeds the ECB's profit. Lastly, the Governing Council may decide to transfer all or part of this income to a provision for risks associated with foreign exchange rates, interest rates and gold prices. It can also decide to deduct the total expenses paid by the ECB for the issuing and handling of euro banknotes from the total income from euro banknotes in circulation in January.

The amount distributed to NCBs is recorded in profit and loss item 1.4, "Income from equity securities and participating interests".

Fund for general risks

The *fonds pour risques généraux* (FRG – fund for general risks) is intended to cover all possible risks to which the Bank is exposed through its activities, except for the exchange rate risk on gold and foreign exchange reserves, which is covered by the relevant revaluation accounts and by the RRRODE (see above). Its amount is determined on a discretionary basis of the volume of outstanding operations at the balance sheet closing date and an analysis of the attendant risks.

It is booked as a liability in item L14; charges to and reversals from the fund are recorded through item 3 of the profit and loss account.

Pension scheme

See Note 28

Key events in 2018

There were no significant events during the 2018 reporting period.

Post-balance sheet events

None.

Balance Sheet

Note 1: Gold

At 31 December 2018, the Banque de France held 78 million ounces of fine gold (corresponding to 2,436 tonnes). The increase in the equivalent euro value of these reserves is due to the rise in the market price of gold.

<sup>48</sup> For a five-year period from the year of adoption of the euro, intra-Eurosystem balances resulting from euro banknote allocation are adjusted to avoid significant changes in the NCBs' profit positions compared to previous years. These adjustments are made by taking into account the differences between, on the one hand, the average value of banknotes in circulation of each NCB during a reference period commencing 30 months before the introduction of the euro in the country concerned and, on the other hand, the value of banknotes that would have been allocated to them during that period under the ECB's banknote allocation key. These adjustment amounts are reduced each year until the first day of the sixth year following adoption of the euro, after which income on banknotes is allocated fully between the NCBs in proportion to their subscribed share of the ECB's capital.

<sup>49</sup> ECB decision of 17 November 2005 on the distribution of the income of the ECB on euro banknotes in circulation to the NCBs of the participating Member States (ECB/2005/11).

<sup>50</sup> SMP: securities markets programme; CBPP: covered bond purchase programme; ABSPP: asset-backed securities purchase programme; PSPP: public sector purchase programme.

### Foreign currency assets and liabilities (excluding relations with the IMF)

Asset item A2 and liability item L5

(EUR millions)

	2018	2017
<b>ASSETS – Foreign currency assets</b>		
Overnight deposits	14	50
Fixed-term deposits	6,424	9,393
Foreign currency liquidity provision to Eurosystem counterparties	0	0
Securities received under repurchase agreements	2,345	6,125
Fixed-income securities	40,332	32,051
o/w recognised at amortised cost	23,587	21,444
o/w marked to market line-by-line	16,745	10,607
Accrued interest receivable	258	195
<b>TOTAL</b>	<b>49,373</b>	<b>47,815</b>
<b>LIABILITIES – Foreign currency liabilities</b>		
Securities delivered under repurchase agreements	247	1,394
Accrued interest payable	1	4
<b>TOTAL</b>	<b>248</b>	<b>1,398</b>

#### Note 2: Foreign currency assets and liabilities

Foreign currency assets are mainly US dollar holdings. Holdings in other currencies are mainly intended to diversify risks. A breakdown of holdings by main currencies is provided below.

#### A breakdown of holdings by main currency

(%)

US dollar (USD)	77
Australian dollar (AUD)	8
Canadian dollar (CAD)	6
Net assets vis-à-vis the IMF (SDR)	6
Other	3

#### Relations with the IMF

Asset item A3 and liability item L6

(EUR millions)

	2018	2017
<b>ASSETS</b>		
Receivables from the IMF		
Reserve tranche position	3,194	2,011
Loans as part of the NAB	910	1,245
SDR holdings	9,861	9,495
Loans as part of the PRGT	1,393	1,459
Accrued interest receivable	26	17
<b>TOTAL</b>	<b>15,384</b>	<b>14,227</b>
<b>LIABILITIES</b>		
Counterpart to SDR allocations	12,317	12,035
Accrued interest payable	22	14
<b>TOTAL</b>	<b>12,339</b>	<b>12,050</b>

Foreign exchange reserves are invested in overnight deposits, fixed-term deposits, reverse repo transactions with received securities, and securities. The Bank may also borrow foreign currencies in the form of repurchase agreements with delivered securities, recorded in liability item L5.

#### Note 3: Relations with the IMF

The last entry in liability item L6, "Counterpart to SDR allocations", was made in 2009 with a general allocation and a special allocation of SDRs by the IMF totalling SDR 9 billion. The change in The item results from movements in the SDR/euro exchange rate.



In accordance with the agreement of 20 December 2010 between the state and the Banque de France on the management of and accounting for state foreign exchange reserves, International Monetary Fund (IMF) receivables and liabilities are recognised in the Banque de France's balance sheet.

On the asset side:

- the reserve tranche position is equal to the proportion of the IMF quota (France's share in the IMF's capital) settled in gold and foreign currencies plus or minus the net utilisation of the quota in euro. Since 2016, France's quota has been SDR 20.2 billion;
- special drawing rights (SDRs) allocated to IMF member countries in proportion to their quota; they can also be acquired under voluntary swap agreements with IMF-designated member countries;

- loans granted to the IMF within the framework of the New Arrangements to Borrow (NAB) and the Poverty Reduction and Growth Trust (PRGT) set up under the auspices of the IMF for low income countries, or drawdowns on the quota.

The cumulative SDR allocations by the IMF to France are recorded in liabilities.

The increase in the reserve tranche position in 2018 is the result of the utilisation of France's quota in euro with a total of implementations net of reimbursements of EUR 1,138 million. Net repayments of loans granted as part of the agreement of 2 December 2009 amounted to SDR 299 million (or EUR 246 million). Other changes are mainly due to SDR exchange rate fluctuations.

#### Note 4: Loans to and deposits from credit institutions related to monetary policy operations

Transactions carried out by the Banque de France with credit institutions within the framework of the Eurosystem's monetary policy are recorded in asset item A5 and liability item L2.2.

On the asset side, item A5 includes loans granted to credit institutions of EUR 112 billion. The risks related to these transactions are shared within

the framework of the Eurosystem on the basis of the "Eurosystem key", which is calculated for each NCB as the proportion of its subscription of the ECB's capital (capital key) compared to all euro area NCBs' capital keys (see Note 11). The Banque de France thus bears the risks related to 20.14% of loans to credit institutions granted by the Eurosystem NCBs, which amounted to EUR 734 billion at 31 December 2018. Loans to credit institutions are secured by collateral.

Loans to credit institutions cover:

- main financing operations, which are short-term open market operations conducted by the Eurosystem. They play a key role in steering interest rates, managing bank liquidity and signalling monetary policy stances. They are conducted through weekly tenders in the form of temporary sales of assets (repurchase agreements) with a one-week maturity. Since October 2008, these operations have been



conducted as fixed-rate tender procedures.

- longer-term refinancing operations (LTROs) and targeted longer-term refinancing operations (TLTROs) with maturities of up to 48 months. It should be noted that bids for both longer-term financing operations and main financing operations, are allotted without any amount limitation at the minimum bid rate. In March 2016, the Governing Council decided to launch new TLTRO II operations with a maturity of 48 months for which the rate was only definitively fixed in 2018, as the rate depends on the increase in the loans that borrowing institutions actually granted to the real economy. In the meantime, interest was calculated at the deposit facility rate (−0.40%) for the 2016 and 2017 reporting periods.

### Euro-denominated loans and liabilities to euro area credit institutions related to monetary policy operations

Asset item A5 and liability item L2

(EUR millions)

	2018	2017
<b>Loans</b>		
Main refinancing operations	50	40
Longer-term refinancing operations	111,835	114,188
Fine-tuning operations (a)	0	0
Structural operations	0	0
Marginal lending facilities (b)	0	0
Margin calls paid	0	0
Accrued interest receivable	-967	-518
<b>TOTAL</b>	<b>110,918</b>	<b>113,709</b>
<b>Liabilities</b>		
Current accounts	207,119	227,307
Other liabilities	297,347	261,443
Deposit facilities	297,347	261,443
Collection of fixed-term deposits (a)	0	0
Repurchase agreements	0	0
Margin calls received	0	0
Accrued interest payable	-21	0
<b>TOTAL</b>	<b>504,445</b>	<b>488,750</b>

(a) Fine-tuning operations/collection of fixed-term deposits are executed on an ad-hoc basis with the aim of managing market liquidity and steering interest rates. Fine-tuning operations take the form of reverse transactions, outright foreign currency swaps or the collection of fixed-term deposits, generally executed by means of quick tenders or bilateral procedures.

(b) Marginal lending facilities are overnight facilities granted in the form of reverse transactions to Banque de France counterparties at their request. Interest is paid on these facilities at a rate fixed by the Eurosystem.

Loans to credit institutions related to monetary policy operations held by the Banque de France are recorded in liability item L2, which includes:

- credit institutions' current accounts held by the Banque de France and recorded in liability item L2.1. Current account amounts are made up of minimum reserve requirements (calculated as 1%

of the reserve base<sup>51</sup> since January 2012) and sums in excess of minimum reserve requirements. Minimum reserve requirement holdings bear interest at the average MRO rate over the period during which the reserves are built up. Deposits in excess of minimum reserve requirements bear interest at the deposit facility rate, which is negative;

<sup>51</sup> The reserve base includes liabilities corresponding to "deposits", "debt securities" and "money market paper" (denominated in euro and/or foreign currencies, with regard to residents and/or non-residents) as defined within the framework of the ECB provision on the collection of monetary and banking statistics. However it excludes interbank liabilities between institutions that are themselves subject to the minimum reserve system and liabilities vis-à-vis other participating national banks and the European Central Bank (ECB).  
<https://www.banque-france.fr/politique-monetaire/>



- deposit facilities (profit and loss item 2.2), which enable Banque de France counterparties to make overnight deposits, remunerated at a rate set by the Governing Council (–0.40% since March 2016).

Note 5: Items A4, “Euro-denominated claims on non-euro area residents”, and A6, “Other euro-denominated loans to euro area credit institutions”

These items include euro-denominated investments earmarked against euro-denominated deposits recorded in liability item L4 (see Note 14). These amounts, unrelated to monetary policy operations, are split between items A4 and A6 on the basis of

whether the counterparty is located within or outside the euro area.

Note 6: Item A7, “Euro-denominated securities issued by euro area residents”

A7.1, “Securities held for monetary policy purposes”

Since 2009, the Eurosystem has organised a series of asset purchase programmes as part of its non-standard monetary policy stance. Securities purchased by the Banque de France as part of these programmes are recorded in item A7.1. They include bonds purchased within the scope of the three covered bond purchase programmes (CBPPs),<sup>52</sup> the securities markets programme (SMP),<sup>53</sup> the

public sector purchase programme (PSPP)<sup>54</sup> and the corporate sector purchase programme (CSPP).<sup>55</sup> The ECB is responsible for the asset-backed securities purchase programme (ABSPP).<sup>56</sup>

The monthly pace of net purchases for the Eurosystem under the asset purchase programmes (CBPP3, ABSPP, PSPP and CSPP, combined) amounted to an average of

<sup>52</sup> ECB decision No. 2009/16 of 2 July 2009 and No. 2014/40 of 15 October 2014.

<sup>53</sup> ECB decision No. 2010/5 of 14 May 2010.

<sup>54</sup> ECB decision No. 2015/10 of 4 March 2015.

<sup>55</sup> ECB decision No. 2016/16 of 1 June 2016.

<sup>56</sup> ECB decision No. 2014/45 of 19 November 2014.

### Euro-denominated claims on non-euro area residents

Asset items A4 and A6  
(EUR millions)

	2018	2017
Securities held to maturity	902	900
Other claims	109	415
Accrued interest receivable	19	19
<b>Total euro-denominated claims on non-euro area residents</b>	<b>1,030</b>	<b>1,335</b>
Securities received under repurchase agreements	10,051	12,008
Other including loans	2,777	1,505
<b>Total other loans to euro area credit institutions</b>	<b>12,828</b>	<b>13,513</b>

Programme	Programme start date	Programme end date	Risk-sharing between NCB and the Eurosystem
CBPP1	June 2009	June 2010	No risk-sharing
CBPP2	October 2011	October 2012	No risk-sharing
SMP	May 2010	September 2012	Risk-sharing based on the key for subscription of the ECB's capital
ABSPP	October 2014	December 2018 (a)	Risk-sharing based on the key for subscription of the ECB's capital Purchases borne by ECB
CBPP3	October 2014	December 2018 (a)	Risk-sharing based on the key for subscription of the ECB's capital
PSPP	January 2015	December 2018 (a)	Risk-sharing based on the key for subscription of the ECB's capital on securities issued by supranational bodies No risk-sharing on government bonds acquired by NCBs
CSPP	January 2016	December 2018 (a)	Risk-sharing based on the key for subscription of the ECB's capital

(a) Phase out of asset purchase programmes and automatic reinvestment of income from 1 January 2019.

## Securities held for monetary policy purposes

Asset item A7.1

(EUR millions)

	2018		2017		Variation	
	Amortised cost	Market price	Amortised cost	Market price	Amortised cost	Market price
Securities held under the securities markets programme (SMP)	15,520	16,761	18,122	20,341	-2,602	-3,580
Securities held under the first covered bond purchase programme (CBPP1)	1,080	1,112	1,417	1,497	-337	-385
Securities held under the second covered bond purchase programme (CBPP2)	1,193	1,307	1,401	1,560	-208	-253
Securities held under the third covered bond purchase programme (CBPP3)	50,042	50,425	45,509	46,037	4,533	4,388
Securities held under the public sector purchase programme (PSPP)	417,420	421,064	376,718	379,698	40,702	41,366
Securities held under the corporate sector purchase programme (CSPP)	53,427	52,809	39,122	39,122	14,305	13,687
Accrued interest receivable	4,460		4,174		286	
<b>TOTAL</b>	<b>543,141</b>		<b>486,463</b>			

EUR 30 billion until September 2018 and EUR 15 billion from October 2018 until the end of the year.

All fixed-income securities held within the framework of the asset purchase programmes are recognised in the financial statements at amortised cost (see the section on the valuation methods used for securities portfolios above).

These securities are tested for impairment at the Eurosystem level on the basis of available information and an estimate of recoverable amounts at the balance sheet date (see Note 20).

Following impairment tests carried out on the CSPP portfolio in 2017, it was decided that one of the securities held by an NCB should be written down.

Based on the impairment testing carried out on the five other programmes, no impairment loss in respect of the portfolios held by the Eurosystem for monetary policy purposes was recognised in the financial statements.

### A7.2, "Other securities"

This item includes euro-denominated securities issued by euro area residents, other than those held for monetary policy purposes or

for the Employee Reserve Fund, or those that are specifically earmarked against the Bank's own funds or against customer deposits that are recorded in asset items A7.1, A11 and A12 (see Notes 6, 9, 10 and 26).

Just as for portfolios of securities held for monetary policy purposes, impairment tests were also carried out on the Banque de France's other portfolios. Based on these tests, it was concluded that no impairment was needed.

### Note 7: Other claims on the Eurosystem

In 2017, item A8.4 was mainly made up of the net claim on the Eurosystem arising on transfers via Target with other NCBs in the ESCB. At 31 December 2018, the debt generated by these transfers was recognised in liability item L7.

### Euro-denominated securities issued by euro area residents

Asset item A7.2

(EUR millions)

	2018	2017
Securities held to maturity (a)	55,949	62,721
Other fixed-income securities	2,952	3,455
Accrued interest receivable	815	974
<b>TOTAL</b>	<b>59,716</b>	<b>67,151</b>

(a) In 2018, securities held to maturity amounting to EUR 120.5 million were sold as a result of exceeding the holding limits established by the ECB.



### Other claims on the Eurosystem

Asset item A8.4

(EUR millions)

	2018	2017
Claims on the Eurosystem (Target2)	0	30,040
ECB interim dividends	240	199
Other claims	0	2
<b>TOTAL</b>	<b>240</b>	<b>30,241</b>

Therefore, at end-2018 only the claim on the interim dividend paid by the ECB was recorded in item A8.4.

Based on 2018 earnings, the ECB Governing Council decided to distribute an interim dividend of EUR 1,191.4 million to the Eurosystem NCBs. The Banque de France received EUR 240 million.

#### Note 8: Advance to the IEDOM

The circulation of banknotes in the French overseas departments and the French overseas collectivities of Saint Pierre and Miquelon, Saint Barthélemy and Saint Martin is managed by the *Institut d'émission des départements d'outre-mer* (IEDOM – the French overseas departments' note-issuing bank) in the name of, on behalf of and under the authority of the Banque de France.

To this end, the Banque de France grants the IEDOM a non-interest-bearing advance for an amount equivalent to a percentage of France's euro banknote allocation, which, since 1 July 2007, has been calculated according to the allocation mechanism in force within the Eurosystem.

### Securities portfolios

Extract from asset item A11

(EUR millions)

	2018	Other	Total	2017
	Fixed-income securities held to maturity	securities		Total
Fixed-income securities and government securities	56,389		56,389	52,724
Securities issued by public bodies	6		6	6
Other issuers	0		0	0
Accrued interest	-14		-14	-19
<b>Net balance sheet value</b>	<b>56,381</b>		<b>56,381</b>	<b>52,711</b>
Equities and other variable-yield securities				
French and foreign mutual funds		1,170	1,170	1,515
Capitalisation mutual funds		4,159	4,159	7,015
Other variable-yield securities		29	29	29
<b>Net balance sheet value</b>		<b>5,358</b>	<b>5,358</b>	<b>8,559</b>

### Other euro and foreign currency denominated financial assets

Asset item A11

(EUR millions)

	2018	2017
Fixed-income securities held to maturity (a) (b)	56,395	52,730
Other fixed-income securities and variable-yield securities	7,387	11,706
Other transactions	27,469	19,549
Accrued interest	-12	-10
<b>TOTAL</b>	<b>91,239</b>	<b>83,976</b>

(a) In 2018, none of these securities were transferred to another portfolio and none of these securities were sold before maturity.

(b) Collateralised securities earmarked against customer deposits: EUR 56,390 million (see Note 26) of which EUR 51,251 million of foreign currency denominated securities.

#### Note 9: Other euro and foreign currency denominated financial assets

Asset item A11 notably includes securities and other assets linked to the Bank's own funds, to provisions and to customer deposits recorded in liability items L4 and L10.

#### Note 10: Other items

The "Miscellaneous" category of asset item A12 includes all the securities portfolios held in the *Caisse de réserve des employés* (CRE – the Banque de France's Employee Reserve Fund). The year-on-year change is mainly due to:

- the revaluation of CRE securities portfolios (available-for-sale

**Other items**

Asset item A12

(EUR millions)

	2018	2017
Miscellaneous including CRE portfolios	9,149	4,616
Accruals and deferred expenses	536	673
Accrued income	504	627
Prepaid expenses	24	23
Other adjustment accounts	8	22
<b>TOTAL</b>	<b>9,685</b>	<b>5,289</b>

securities) as from the 2018 reporting period following the decision of the General Council of the Banque de France on the application of the Accounting Guideline valuation rules to CRE portfolios (see "Change of valuation method of the securities portfolios of the Banque de France's Employee Reserve Fund", above). As a result of this revaluation, the Banque de France recorded an unrealised gain of EUR 653 million at 31 December 2018.

- the EUR 3,166 million reclassification from item A11 to item A12 as a result of the General Council of the Banque de France's decision to hold the portfolio earmarked for the Bank's special pension reserve fund within the CRE as from 1 January 2018.

**Note 11: Fixed assets****Participating interest in the ECB**

At 31 December 2018, the capital of the ECB stood at EUR 10,825 million.

Pursuant to Article 28 of the ESCB Statute, the capital of the ECB is

held solely by the NCBs of the ESCB. The proportion of each NCB's subscription of the ECB's capital (capital key) is defined in Article 29.3 of the ESCB Statute, based on the various countries' share in the total population and gross domestic product of the European Union. These two

**Fixed assets**

Asset items A8.1 and A13

(EUR millions)

	At 31 Dec. 2018	Increase (a)	Decrease (a)	At 31 Dec. 2017
Participating interest in the ECB (balance sheet value)	1 545			1 545
Participating interests other than the ECB (gross value)	686			686
<i>Intangible fixed assets (gross value)</i>	701	157	89	633
<i>Amortisation and impairment</i>	416	71	2	347
Net value of intangible fixed assets	285	86	87	285
<i>Tangible fixed assets (gross value)</i>	2 602	235	170	2 537
<i>Depreciation and provisions</i>	1 623	79	72	1 616
Net value of tangible fixed assets	979	156	98	920
<b>Total tangible and intangible fixed assets (net balance sheet value)</b>	<b>1 264</b>	<b>242</b>	<b>185</b>	<b>1 206</b>

(a) Increases and decreases also include transfers between fixed asset accounts.

**Information relating to subsidiaries and participating interests at 31 December 2018**

Asset items A8.1 and A13.2

(EUR millions)

	Asset item	Listed	Share of capital held (%)	2018 share- holders' equity	2018 net profit	2018 book value
European Central Bank (a)	A 8.1	No	20.14	40,325	1,575	1,545
IEDOM	A 13.2	No	100.00	155	2	149
Bank for International Settlements	A 13.2	No	8.96	22,852	600	405
Europafi	A 13.2	No	98.75	144	8	131
La Prévoyance immobilière	A 13.2	No	98.20	na	na	ns
Banque de France Gestion	A 13.2	No	99.99	na	na	ns

ns: not significant.

na: not available.

(a) The interest in the capital is the Bank's share in all of the NCBs that are members of the euro area. Dividends are allocated on the basis of this "key".





### The Banque de France's key for subscription of the ECB's capital

(%)

Until 31 Dec. 2003	From 1 May 2004 to 31 Dec. 2006	From 1 Jan. 2007 to 31 Dec. 2008	From 1 Jan. 2009 to 30 June 2013	From 1 July 2013 to 31 Dec. 2013	From 1 Jan. 2014 to 31 Dec. 2018	From 1 Jan. 2019
16.8337	14.8712	14.3875	14.2212	14.1342	14.1792	14.2061

determinants have equal weighting. It is adjusted every five years. The most recent adjustment was agreed on 1 January 2019.

The share in the capital of the ECB recorded in assets corresponds to the net amount of the subscribed capital.

Monetary income, ECB dividends and seigniorage income are allocated using a different key that is determined solely on the basis of the participating interests of NCBs that have adopted the euro. After Lithuania's entry into the euro area on 1 January 2015, the Banque de France's share came to 20.1433% at end-2018. As a result of the recent five-yearly adjustment, this share increased to 20.4059% on 1 January 2019.

#### Participating interest in the IEDOM

Since 1 January 2017, the Banque de France has held 100% of the capital of the *Institut d'émission des départements d'outre-mer* (IEDOM – the French overseas departments' note-issuing bank).

#### Participating interest in Europafi

In 2015, the Banque de France spun off its paper business. During the second half of 2017, the Banca d'Italia, the Oesterreichische Nationalbank, the Central Bank of Ireland and the Banco de Portugal acquired stakes of 0.50%, 0.25%, 0.25% and 0.25% respectively in Europafi. The Banque de France retained its majority holding with 98.75%.

#### Note 12: Banknotes in circulation

Banknotes in circulation increased by 5% from 2017 to 2018.

#### Note 13: Euro-denominated liabilities to euro area residents

#### Euro-denominated liabilities to euro area residents

Liability item L3  
(EUR millions)

	2018	2017
Euro-denominated liabilities to euro area residents	8,949	14,609
Accrued interest payable	0	0
<b>TOTAL</b>	<b>8,949</b>	<b>14,609</b>

Liability item L3 is made up of securities purchased for monetary policy purposes delivered under repurchase agreements.

#### Note 14: Euro-denominated liabilities to non-euro area residents

This item comprises euro credit balances and fixed-term deposits (excluding Target) with non-euro area central banks, commercial banks and non-financial customers in non-Eurosystem member countries. In most cases the assets matching these liabilities are included in asset items A4 or A6 (see Note 5) or in asset item A11 (see Note 9), depending on whether they are invested in the same currency or are covered by cross-currency swaps (see Note 26).

#### Euro-denominated liabilities to non-euro area residents

Liability item L4  
(EUR millions)

	2018	2017
Euro-denominated liabilities to non-euro area residents	50,560	53,424
Accrued interest payable	0	0
<b>TOTAL</b>	<b>50,560</b>	<b>53,424</b>

### Note 15: Euro-denominated liabilities to the Eurosystem

In 2018, euro-denominated liabilities to the Eurosystem corresponded to:

- the net debt to the Eurosystem generated by transfers via the Target2 payment system with other NCBs in the ESCB. At 31 December 2017, these transfers had generated a net claim that was recognised in asset item A8.4 (see Note 7).
- expenses payable in respect of pooling of monetary income of EUR 547 million.

### Euro-denominated liabilities to the Eurosystem

Liability item L7  
(EUR millions)

	2018	2017
Euro-denominated liabilities to the Eurosystem (Target2)	2,297	0
Accrued interest payable	0	0
Accrued expenses in respect of monetary income	547	509
<b>TOTAL</b>	<b>2,844</b>	<b>509</b>

### Note 16: Euro-denominated liabilities to other euro area residents

Liability item L8.1 consists of:

- the Treasury's account, which as of 1 July 2018, bears interest at

### Euro-denominated liabilities to other euro area residents

Liability item L8  
(EUR millions)

	2018	2017
Liabilities vis-à-vis the state and government agencies	35,399	25,215
Other liabilities	29,861	41,735
Accrued interest payable	0	-3
<b>TOTAL</b>	<b>65,260</b>	<b>66,947</b>

the Eonia rate up to a balance of EUR 613.8 million. Above this amount, interest is charged at the deposit facility rate, which has been negative since 13 June 2014. Interest is credited (or debited) to the Treasury's account on the last business day of the month.

- the accounts of other government agencies.

Liability item L8.2, "Other liabilities" includes the euro-denominated current accounts of resident institutional customers other than the state and government agencies.

### Note 17: Items in the course of settlement

Balance sheet item L9, "Items in the course of settlement", includes items (primarily cheques) debited or credited to a customer's account, but not yet credited or debited to

a credit institution's account, and vice versa.

### Note 18: Banking transactions

This item mainly comprises overnight and fixed-term foreign currency denominated deposits from French or foreign public bodies, or foreign central banks. The management of these foreign currency transactions is totally separate from the management of foreign exchange reserves. The assets offsetting these liabilities, which may be hedged by cross-currency swaps, are included either in asset item A11 (see Note 9), or in items A4 or A6 (see Note 5), depending on whether they are invested in a foreign currency or in euro.

Euro-denominated deposits made by institutional customers (other than monetary and financial institutions) and private customers are recorded in liability item L8.2.

### Banking transactions

Liability item L10  
(EUR millions)

	2018	2017
Customer deposits	1,805	1,829
Other banking transactions o/w fixed-term deposits	80,693	74,017
Accrued interest payable	320	232
<b>TOTAL</b>	<b>82,819</b>	<b>76,078</b>



**Other items**

Liability item L11  
(EUR millions)

	2018	2017
CRE capital	6,377	5,758
Accrued expenses	297	273
Other adjustment accounts	0	0
Miscellaneous	2,571	128
<b>TOTAL</b>	<b>9,245</b>	<b>6,159</b>

**Note 19: Other items**

This item mainly includes:

- the capital of the Banque de France Employee Reserve Fund (see Note 28);
- miscellaneous creditors and the impact of off-balance sheet foreign exchange positions in relation to retail banking operations.

**Note 20: Provisions for liabilities and charges**

Provisions for liabilities and charges mainly include employee-related provisions:

- provisions for restructuring, relating to the “cash activities” and “banknote manufacturing” plans,

and plans to adapt the Banque de France’s branch network, to discontinue retail banking activities, and to modernise cash services. They mainly correspond to the full coverage of pensionable service credited under early retirement schemes;

- provisions for changing the age pyramid, relating to an early retirement incentive scheme for employees reaching the end of their working life;
- provisions for retirement benefits;
- a provision covering the Bank’s commitment to fund part of retirees’ supplementary health insurance contributions with the change in the provision due to fee increases;

- provisions for various social liabilities for working employees (death benefits, long-service medals, end-of-career leave, extended sick leave, pensions for industrial injuries and unemployment benefits);

- provisions to cover various social obligations granted to retired employees (death benefits, etc.);
- other provisions, particularly for major repairs (such as façade repairs, renovations, etc.).

It should be noted that the calculation bases for social security provisions remained unchanged, with a discount rate of 2.75% and revaluation assumptions based on long-term inflation of 1.75% with effect from 2020.

**Provisions for liabilities and charges**

Liability item L12  
(EUR millions)

	2018	Increase	Decrease	2017
Provisions for restructuring and changing the age pyramid	139	4	7	142
Provisions for retirement benefits	154	13	18	159
Provisions for supplementary health insurance	321	35	11	297
Other miscellaneous provisions – current employees	100	17	22	106
Other miscellaneous provisions – retirees	158	5	6	159
Provision related to monetary policy operations	32	32	14	14
Other	31	7	11	35
<b>TOTAL</b>	<b>936</b>	<b>113</b>	<b>89</b>	<b>912</b>

Following impairment testing carried out on the CSPP portfolios in December 2018, the Governing Council deemed it appropriate to set aside a provision of EUR 161 million for 2018 for credit risk on monetary policy transactions. In accordance with Article 32.4 of the ESCB Statute, this provision is shared in full by the national central banks of the participating member states in proportion to their key for subscription of the ECB's capital in 2018. Consequently, in 2018 the Banque de France recorded a provision for EUR 32.4 million, or 20.14% of the total provision. The provision for EUR 13.9 million recorded in 2017 in respect of the risk related to one of the securities held in the CSPP portfolio has been fully reversed following its sale in January 2018.

#### Note 21: Revaluation accounts

Gold and foreign currency assets and liabilities were revalued at the reference prices indicated by the ECB on 31 December 2018.

The revaluation rates used at 31 December 2018 for gold and the main currencies held were the following:

- EUR 36,040 per kilogram of fine gold (compared with EUR 34,783 per kilogram at end-2017);
- EUR 1 = USD 1.1450 (compared with USD 1.1993 at end-2017);
- EUR 1 = SDR 0.8228 (compared with SDR 0.8420 at end-2017);
- EUR 1 = AUD 1.622 (compared with AUD 1.535 at end-2017);
- EUR 1 = CAD 1.561 (compared with CAD 1.504 at end-2017).

For the first time the revaluation accounts include the impact of the revaluation of available-for-sale securities held in the Banque de France's Employee Reserve Fund portfolios (amounting to EUR 653 million at 31 December 2018), following the decision of the General Council of the Banque de France to apply the ECB's

#### Revaluation accounts

Liability item L13  
(EUR millions)

	2018	2017
Revaluation accounts – gold	68,428	65,367
Revaluation accounts – foreign currency	6,213	4,614
Revaluation accounts – securities and financial futures	2,581	2,545
<b>TOTAL</b>	<b>77,223</b>	<b>72,526</b>

Accounting Guideline valuation rules to these portfolios (see "Change of valuation method of the securities portfolios of the Banque de France's Employee Reserve Fund", below).

#### Note 22: Fund for general risks

No allocation was made to the fund for general risks in 2018.

#### Note 23: Revaluation reserve for state gold and foreign exchange reserves

See the comments on the RRRODE in the section on valuation methods.

#### Note 24: Capital, reserves and retained earnings

##### Capital, reserves and retained earnings

Liability item L17  
(EUR millions)

	2018	2017
Capital	1,000	1,000
Reserves	9,090	8,252
Statutory reserve (a)	1,043	877
Long-term capital gains	100	100
Special pension reserve fund (see Note 28)	4,719	4,060
Other reserves (b)	3,228	3,215
Retained earnings	0	0
<b>TOTAL</b>	<b>10,090</b>	<b>9,252</b>

(a) In accordance with Article R. 114-4 of the French Monetary and Financial Code, 5% of the net profit for the year is allocated to a special reserve that ceases to be funded when it reaches an amount equal to double the Banque de France's capital.

(b) Other reserves include the investment reserve and the insurance fund to cover claims against the Bank. In accordance with Article R. 144-2, the Banque de France must maintain reserves to finance its investments. The Bank is also its own insurer with respect to civil liability risks, claims on property it owns and damages to this property by third parties.



## Off-balance sheet

### Note 25: Interest rate financial futures

#### Notional amount of financial futures

(EUR millions)

	2018	2017
Outright transactions on organised markets		
Foreign currency denominated interest rate contracts		
Purchases	46,618	35,719
Sales	48,543	23,201
Euro-denominated interest rate contracts		
Purchases	1,272	
Sales	2,652	1,374
Over-the-counter market operations		
Foreign currency denominated interest rate swaps	169	246
Euro-denominated interest rate swaps		

### Note 26: Forward foreign currency transactions with customers

As part of its forward foreign currency transactions with customers, the Banque de France collects euro-denominated deposits from non-euro area residents, in particular foreign central banks and international bodies, which are recorded in liability item L4. The Banque de France also collects foreign currency denominated deposits, mainly from non-resident institutions, which are recorded in liability item L10.

These euro or foreign currency denominated deposits are invested either in the same currency or in a different currency (euro-denominated investments are recorded in asset items A4 or A6 depending on the counterparty's area of residence, while foreign currency investments are recorded in item A11). When appropriate, foreign currency risk is neutralised by cross-currency swaps of the same amount and maturity as the deposits. These foreign currency deposits and investments, and the related spot and forward foreign currency transactions, form part of an activity that is separate and independent from the management of foreign exchange reserves. Consequently, they are recorded in dedicated accounts separate from those used for the management of foreign exchange reserves, and are valued in accordance with the standards issued by the ANC (see the valuation methods section above, "Foreign currency gains and losses other than on gold and foreign exchange reserves").

Amounts of foreign currency receivables and deliverables in respect of transactions carried out with customers are detailed in the table above.

### Foreign currency receivables and deliverables

(EUR millions)

	2018	2017
Euro to be received against foreign currency to be delivered		
Euro receivable	18,108	13,258
Foreign currency deliverable	18,378	11,406
Foreign currency to be received against euro to be delivered		
Foreign currency receivable	20,624	24,563
Euro deliverable	20,517	24,961
Foreign currency to be received against foreign currency to be delivered	70,990	54,382
Foreign currency to be delivered against foreign currency to be received	72,247	52,700

### Note 27: Off-balance sheet commitments given or received in respect of operations with the IMF

Commitments given by the Banque de France

The commitment in respect of France's quota in the IMF's capital amounts to SDR 20.2 billion. The reserve tranche position stood at SDR 2.6 billion at 31 December 2018, meaning that additional drawing rights of SDR 17.5 billion are still available.

The credit line granted to the IMF within the framework of the New Arrangements to Borrow (NAB) amounts to SDR 9.5 billion, SDR 0.7 billion of which was drawn down at 31 December 2018.



Additional drawdowns of up to SDR 8.7 billion can still be made.

A bilateral loan agreement between France and the IMF was signed in October 2012 and has since been renewed. Under this agreement, France undertakes to provide further financing of EUR 31.4 billion. This credit line has not been used.

In addition, the Bank grants loans to the Poverty Reduction and Growth Trust (PRGT) under the IMF's "Poverty Reduction and Growth Facility" and "Exogenous Shocks Facility" (PRGF-ESF). The first loan made available for an amount of SDR 1,328 million formed part of a commitment made by France at the annual general meeting of the IMF on 4 October 2009. The loan package was expanded in February 2018 to SDR 2 billion. At end-2018, the total amount due from PRGT came to SDR 1.1 billion.

Commitments received  
by the Banque de France

In the 2008 supplementary budget act, the state extended its guarantee to the loans granted by the Banque de France to the PRGT.

#### Note 28: Pension liabilities

Banque de France employees benefit from a pension scheme, which is currently governed by Decree 2007-262 of 27 February 2007, which entered into force on 1 April 2007, amended by Decrees 2008-1514, 2012-701, 2012-847 and 2014-1702, which aligned the Banque de France's pension scheme with that of the civil service.

#### The Employee Reserve Fund

The Banque de France has a pension fund known as the *Caisse de réserve des employés de la Banque de France* (CRE – the Banque de France Employee Reserve Fund), which is designed to service the pensions of the Bank's statutory employees. The CRE does not have a legal personality distinct from that of the Bank; it constitutes, as the French Council of State set out in its decisions of 5 November 1965 and 28 April 1975, "a means for the Bank to manage itself assets that are assigned to a special purpose and whose separate financial identity has been recognised with the sole purpose of showing the results of this management in a special account".

Consequently, the CRE is subject to separate accounting treatment but its assets, liabilities, income and expenses form an integral part of the Bank's financial statements.

The securities posted in assets on the CRE's balance sheet are recorded in asset item A12 of the Banque de France's balance sheet and are recognised in accordance with the rules set out in the section on the valuation methods used for securities portfolios. They come for the most part from the portfolio earmarked against the special pension reserve fund (see below).

CRE capital is shown in liability item L11, "Other items". Realised gains and losses, unrealised losses and contributions paid recognised in the profit and loss account require a matching allocation to or reversal from CRE capital. On the liabilities side, item L15 also includes revaluation differences for CRE securities that have been revalued.

Pension expenses are included in profit and loss item 2.2, "Pensions and related expenses". Income from the CRE's securities portfolios is



recorded in profit and loss item 1.6, "Other income and expenses, net".

Other sources of pension financing

In order to ensure the progressive financing of the unfunded portion of liabilities in respect of pension rights vested before the entry into force of Decree 2007-262 of 27 February 2007, the General Council set up a special pension reserve fund in 2007, in accordance with Article R. 144-4, paragraph 3 of the French Monetary and Financial Code. This reserve fund is regularly replenished, within the limits permitted by the Banque de France's gross profit, the majority of which is paid to the state. The special pension reserve fund is recorded in liability item L17, "Capital, reserves and retained earnings". The special pension reserve fund was invested in a securities portfolio until end-2017, which was recorded in asset item A11. Following the transfer of this portfolio within the CRE in accordance with the General Council decision of 20 December 2017, it is now recorded in item A12.

In addition, liabilities in respect of the additional seniority granted

### Pension liabilities and funding

(EUR millions)

Liabilities			Funding		
	2018	2017		2018	2017
Special pension scheme liabilities	13,553	13,303	Funding	11,096	9,775
			o/w to Employee Reserve Fund	6,377	5,715
			o/w to special pension reserve fund	4,719	4,060
o/w to current employees	4,767	4,926			
o/w to retirees	8,786	8,377			
Liabilities in respect of the additional seniority granted as part of restructuring plans	138	140	Provision	138	140
			Revaluation accounts	1,230	*
<b>Total gross liabilities</b>	<b>13,691</b>	<b>13,443</b>	<b>Total funding</b>	<b>12,464</b>	<b>9,915</b>
<b>Net liabilities</b>	<b>1,227</b>	<b>3,528</b>	* Revaluation differences not recorded in 2017		

as part of restructuring plans (see Note 20) are provided for in full.

#### Actuarial assumptions

Total pension liabilities have been calculated in accordance with actuarial standards (using the projected unit credit method), taking into account all current employees, retirees and their dependants. Liabilities to current employees were determined using a prospective method with assumptions concerning future career and salary developments.

The TGH-TGF 2005 statutory mortality tables applicable to life insurance contracts were used

to calculate pension liabilities at 31 December 2018.

Calculations of pension liabilities and the underlying assumptions used are validated and monitored by the Banque de France's actuaries. The discount rate remained stable at 2.75% in 2018. Pension and salary revaluation assumptions based on long-term inflation will rise to 1.75% with effect from 2020 (see Note 20).

#### Profit and loss account

##### Note 29: Net interest income

Net interest income was up year-on-year from EUR 7.6 billion at end-2017 to EUR 8.7 billion at 31 December 2018.

## Net interest income

Profit and loss item 1.1

(EUR millions)

	2018	2017
Interest on foreign currency assets	1,233	974
o/w interest on held-to-maturity securities	527	415
Interest on receivables from the IMF	132	77
Interest on euro-denominated claims on non-residents		
Net income from monetary policy operations (excluding securities) (b)	1,335	1,112
Interest on euro-denominated securities	5,517	4,891
o/w interest on held-to-maturity securities	1,806	2,096
interest on securities held for monetary policy purposes	3,711	2,795
Interest on claims arising on the transfer of reserve assets to the ECB	0	0
Interest on net claims on the Eurosystem (a)	0	0
Interest on the net euro banknote position	0	0
Interest on other euro and foreign currency denominated financial assets	2,092	1,425
o/w interest on available-for-sale securities	12	0
interest on held-to-maturity securities	-105	-139
other interest	2,185	1,564
<b>Total interest and related income (A)</b>	<b>10,309</b>	<b>8,478</b>
Interest on non-monetary policy euro-denominated liabilities to monetary financial institutions in the euro area (c)	10	21
Interest on euro-denominated liabilities to non-euro area residents	-1,502	-854
Interest on foreign currency liabilities	-62	-42
Interest on counterpart to SDR allocations	-114	-65
Interest on net debt to the Eurosystem (a)	0	0
Interest on the Treasury's account	154	147
Other interest	-84	-52
<b>Total interest and related expenses (B)</b>	<b>-1,599</b>	<b>-846</b>
<b>Net interest income (C = A + B)</b>	<b>8,710</b>	<b>7,632</b>

(a) Interest on the Banque de France's net position within the Target system (see Notes 7 and 15).

(b) Net income from monetary financial institution (MFI) current accounts, deposit facilities and TLTRO II (negative interest).

(c) Interest on pensions.

programme, and a general increase in the rates of return for all portfolios;

- the negative interest rate on deposit facilities (-0.40%) applied to institutional customer deposits, Treasury account deposits, and other non-general government customer deposits, which on average were greater than in 2017.

### Note 30: Net income from financial transactions

This profit and loss item shows the net balance resulting from sales transactions and gold and foreign currency revaluations on the one hand, and financial instrument transactions that are unrelated to monetary policy operations on the other.

This growth can be explained by significant interest income resulting from:

- interest on securities held for monetary policy purposes due to larger holdings, continuing net asset purchases within the framework of the asset purchase

## Other income and expenses on financial transactions, net

Profit and loss item 1.2.3

(EUR millions)

	2018	2017
Net gain/loss on foreign currency denominated securities (a) (b) (c)	-71	2
Net gain/loss on euro-denominated securities recorded in item A7.2 (b) (c)	-1	17
Net gain/loss on available-for-sale securities recorded in item A11 (b)	12	22
Net foreign currency gains and losses (excluding foreign exchange reserve management)	11	21
<b>TOTAL</b>	<b>-49</b>	<b>62</b>

(a) Excluding the impact of foreign exchange fluctuations, recorded in profit and loss item 1.2.1.

(b) These items include realised gains and losses, and unrealised losses at year-end.

(c) These items also include margin calls on interest rate financial futures, and profits and losses on synthetic instruments.



In 2018, the net of realised gold and foreign currency gains and losses (EUR 27 million) and unrealised foreign currency losses (EUR 119 million) represented total income of EUR 92 million. In accordance with the agreement of 2 February 2011 between the state and the Banque de France on the management of and accounting for state foreign exchange reserves, this net balance was allocated to the RRRODE, with the corresponding entry taken to the profit and loss account (item 1.2.2).

#### Note 31: Income from equity securities and participating interests

For 2018 the Governing Council decided to distribute the ECB's share of seigniorage income and income from SMP, CBPP3, ABS

and PSPP securities to the national central banks. The Banque de France received EUR 240 million of the ECB's EUR 1,191.4 million interim dividend, and a further EUR 58 million from an additional dividend in respect of 2017.

#### Note 32: Net result of pooling of monetary income

This item comprises the annual net result of the pooling of monetary income (see the box below) recorded in profit and loss item 1.5. In 2018, this corresponded to a EUR 614 million expense. It also includes prior-year adjustments, mainly resulting from the TLTRO II rate being fixed in 2018. Prior to this decision, interest income had been accrued in accordance with the prudence concept at the lowest possible rate, i.e. the deposit

facility rate of -0.40%. The item is also made up of:

- the reversal of a provision for losses on monetary policy operations recorded in 2017 for an amount of EUR 13.9 million (see Note 20);
- the Banque de France's share of the provision for credit risk on monetary policy transactions, related to a security held in a Eurosystem NCB's CSPP portfolio, for an amount of EUR 32.4 million.

#### Note 33: Other income and expenses, net

This balance includes income and expenses generated by service activities carried out on behalf of third parties. These activities mainly relate to public service activities entrusted to the Banque de France

#### Income from equity securities and participating interests

Profit and loss item 1.4  
(EUR millions)

	2018	2017
ECB dividend	298	245
Dividends from other participating interests	24	32
Dividends from available-for-sale securities	14	14
Other income	0	0
<b>TOTAL</b>	<b>336</b>	<b>290</b>

#### Pooling of monetary income

Profit and loss item 1.5  
(EUR millions)

	2018	2017
Monetary income pooled by the Banque de France	-3,073	-2,682
Monetary income allocated to the Banque de France	2,459	2,173
<b>Net result of pooling of monetary income in 2018</b>	<b>-614</b>	<b>-509</b>
Adjustments for prior years	67	2
<b>Sub-total</b>	<b>-547</b>	<b>-507</b>
Net provisions/reversals related to monetary policy operations	-19	-14
<b>TOTAL</b>	<b>-566</b>	<b>-521</b>

The monetary income pooled by the Eurosystem is allocated between national central banks (NCBs) in proportion to their subscription of the ECB's capital.

The monetary income of each NCB reflects the income derived from the earmarkable assets held against its liability base.

The liability base includes banknotes in circulation, euro-denominated liabilities to euro area credit institutions related to monetary policy operations, intra-Eurosystem liabilities resulting from Target transactions, and net intra-Eurosystem liabilities on euro banknotes in circulation within the Eurosystem. Any interest accruing on liabilities included in the liability base is deducted from pooled monetary income.

Earmarkable assets include euro-denominated lending to euro area credit institutions related to monetary policy operations, securities held for monetary policy purposes, claims arising on the transfer of foreign reserve assets to the ECB, net intra-Eurosystem claims resulting from Target transactions, net intra-Eurosystem claims arising on euro banknotes in circulation within the Eurosystem and a limited amount of gold in proportion to each NCB's subscription of the ECB's capital (capital key). Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the amount of monetary income is determined by multiplying the difference by the marginal rate applied to main refinancing operations.

by law or by agreements signed with the state and, to a lesser extent, activities carried out in support of the economy, for which the cost is re-invoiced.

Income includes the contribution for the cost of supervision by the *Autorité de contrôle prudentiel et de résolution* (ACPR – the French Prudential Supervisory and Resolution Authority), which was established by Order 2010-76 of 21 January 2010 merging the licensing and supervisory authorities of the banking and insurance sectors. The ACPR is a financially autonomous, independent administrative authority

without legal personality, chaired by the Governor of the Banque de France and as such its budget is a sub-budget of the Banque de France. The expenses and income of the ACPR are recognised in the financial statements of the Banque de France. Expenses are booked as operating expenses according to their nature and income consists of levies raised from the organisations under ACPR supervision. In 2018, levies for supervisory expenses generated EUR 198 million (EUR 192 million in 2017), recorded in profit and loss account item 1.6, "Other income and expenses, net".

Services provided by the Banque de France to the state – particularly the operation of the departmental commissions for handling cases of household overindebtedness, and

#### Other income and expenses, net

Profit and loss item 1.6

(EUR millions)

	2018	2017
Remuneration for services provided to the state	244	249
Payments for ACPR supervisory expenses	198	192
Miscellaneous income (a)	367	361
Total other income (A)	809	802
Total other expenses (B)	-35	-80
Other income and expenses, net (C = A + B)	774	722

(a) This item mainly includes fees charged for use of the databases managed by the Banque de France (FNCI, FICP, FCC and FIBEN).





the management of the Treasury's account – are remunerated on a full-cost basis.

#### Note 34: Staff costs and related expenses

The Governor's total gross remuneration for 2018 was EUR 288,098.<sup>57</sup> The First and Second Deputy Governors received EUR 231,398 and EUR 210,251, respectively.<sup>58</sup> No employee accommodation is made available

#### Staff costs and related expenses

Profit and loss item 2.1  
(EUR millions)

	2018	2017
Salaries and wages	614	622
Taxes on salaries and wages	104	107
Social security contributions	181	185
Profit-sharing and incentive plans	31	35
Total staff costs and related expenses	930	949

Profit and loss item 2.2  
(EUR millions)

	2018	2017
Pensions and related expenses	486	475
Total pensions and related expenses	486	475

to them; they all receive a gross housing allowance of EUR 5,712 per month, which is subject to tax. These provisions are governed by Article R. 142-19 of the French Monetary and Financial Code.

#### Note 35: Corporate income tax

According to Article 8 of Law 2007-212 of 20 February 2007 on various measures concerning the Banque de France, the taxable profit of the Banque de France is calculated using accounting rules defined in accordance with Article L. 144-4 of the French Monetary and Financial Code and

the agreement in Article L. 141-2 of the said Code.

In 2017, this item included:

- the expected reimbursement of the 3% contribution on amounts distributed for 2015 to 2017, plus interest, after the French Constitutional Council ruled that this was unconstitutional at end-2017;
- two new exceptional contributions to finance the reimbursement of the 3% contribution that was ruled unconstitutional, for an amount of EUR 621 million.

#### Corporate income tax

Profit and loss item 5  
(EUR millions)

	2018	2017
Income tax expense for the year	2,400	2,690
On profit before exceptional items	2,400	2,243
Exceptional contribution	0	621
Expected refund of 3% contribution	0	-174

<sup>57</sup> The only increases compared with 2017 related to compensation for the rise in the CSG (general social security contribution) and the expanded health care subsidy, as was the case for all Banque de France employees.

<sup>58</sup> Sylvie Goulard took up office on 22 January 2018.

## Statutory Auditors' report on the annual financial statements

### KPMG Audit

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92066 Paris-La Défense Cedex

### MAZARS

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## STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Year ended 31 December 2018

### Opinion

In compliance with the engagement entrusted to us by the General Council, we have audited the accompanying annual financial statements of the Banque de France for the year ended 31 December 2018.

In our opinion, the annual financial statements give a true and fair view of the assets and liabilities and of the financial position of the Banque de France as at 31 December 2018 and of the results of its operations for the year then ended in accordance with accounting principles from Article R. 144-6 of the French Monetary and Financial Code (*Code monétaire et financier*).

### Basis for opinion

#### Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Statutory Auditors' Responsibilities for the Audit of the Financial Statements* section of our report.

#### Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from 1 January 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

#### Emphasis of matter

We draw attention to the following matters:

- The introduction to the Notes to the annual financial statements describes the accounting principles and valuation methods applicable to the Banque de France, some of which are specific to the European System of Central Banks.
- A change to the accounting principles related to the securities portfolios of the "Caisse de Réserve des Employés" is described in the Note "Change of valuation method of the securities portfolios of the Banque de France's Employee Reserve Fund" to the annual financial statements.

.../...



- The General Council has determined the level of detail of the published financial information in accordance with its right provided for in Article R. 144-6 of the French Monetary and Financial Code (*Code monétaire et financier*).

Our opinion is not modified in respect of these matters.

#### Justification of assessments

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the following matters that, in our professional judgement, were of most significance in our audit of the annual financial statements of the current period.

These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the annual financial statements.

#### Valuation of securities at amortised cost

Your Institution holds securities portfolios that are recognised at amortised cost. An impairment loss is recorded in the event of risk of non-recovery, in accordance with the methods described in the Note "Valuation methods – Securities Portfolios" to the annual financial statements.

Our work consisted in reviewing the impairment tests put in place by the Banque de France to assess the risk of non-recovery, in order to evaluate the assumptions used and to examine the management procedures in place to approve these estimates.

#### Assessment of social obligations

Your Institution calculates its social obligations in accordance with the methods described in Note 28 to the annual financial statements. These obligations were assessed by an actuary.

Our work consisted in examining the data used and the assumptions applied when making these estimates.

#### Responsibilities of management and those charged with governance for the annual financial statements

Management is responsible for the preparation and fair presentation of the annual financial statements in accordance with accounting principles from Article R. 144-6 of the French Monetary and Financial Code (*Code monétaire et financier*) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the entity or to cease operations.

The annual financial statements were approved by the Governor.

#### Statutory auditors' responsibilities for the audit of the annual financial statements

Our role is to issue a report on the annual financial statements. Our objective is to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement. Reasonable assurance is a

.../...

high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the entity or the quality of management of the affairs of the entity.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgement throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the annual financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the annual financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of this audit report. However, future events or conditions may cause the entity to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the annual financial statements or, if such disclosures are not provided or are inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the annual financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Paris-La Défense, on 12 March 2019

The Statutory Auditors

**KPMG Audit**  
**A division of KPMG S.A.**  
 Marie-Christine Jolys  
 Partner

**MAZARS**  
 Hervé Hélias  
 Partner  
 Emmanuel Dooseman  
 Partner



### 3 Consolidated financial statements

#### The consolidated balance sheet and profit and loss account

##### Consolidated balance sheet at 31 December 2018

(EUR millions)

Notes to the balance sheet	ASSETS	At 31 Dec. 2018	At 31 Dec. 2017	Notes to the balance sheet	LIABILITIES	At 31 Dec. 2018	At 31 Dec. 2017
A1	Gold	87,794	84,733	P1	Banknotes in circulation	228,154	216,957
A2	Foreign currency assets (excl. relations with the IMF)	49,373	47,815	P2	Euro-denominated liabilities to euro area credit institutions related to monetary policy operations	504,445	488,750
2.1	Foreign currency assets held with non-euro area residents	42,248	31,472	2.1	Current accounts	207,098	227,307
2.2	Foreign currency assets held with euro area residents	7,125	16,343	2.2	Other liabilities	297,347	261,443
A3	Relations with the IMF	15,384	14,227	P3	Other euro-denominated liabilities to euro area credit institutions	8,949	14,609
3.1	Financing provided to the IMF	4,110	3,260	P4	Euro-denominated liabilities to non-euro area residents	50,560	53,424
3.2	Acquisitions of SDRs	11,274	10,967	P5	Foreign currency liabilities	248	1,398
A4	Euro-denominated claims on non-euro area residents	1,030	1,335	P6	Counterpart to SDR allocations	12,339	12,050
A5	Euro-denominated loans to euro area credit institutions related to monetary policy operations	110,918	113,709	P7	Relations within the Eurosystem	2,844	509
A6	Other euro-denominated loans to euro area credit institutions	12,828	13,513	P8	Euro-denominated liabilities to other euro area residents	61,500	63,606
A7	Euro-denominated securities issued by euro area residents	602,857	553,614	2	8.1 Liabilities vis-à-vis the state and government agencies	35,399	25,212
7.1	Securities held for monetary policy purposes	543,141	486,463	8.2	Other liabilities	26,101	38,394
7.2	Other securities	59,716	67,151	P9	Items in the course of settlement	135	150
A8	Relations within the Eurosystem	99,469	127,953	P10	Banking transactions	82,819	76,078
8.1	Participating interest in the ECB	1,545	1,545	P11	Other items	9,255	6,172
8.2	Claims arising on the transfer of reserve assets to the ECB	8,217	8,217	P12	Provisions for liabilities and charges	959	938
8.3	Claims on the Eurosystem for euro banknotes in circulation	89,466	87,949	P13	Revaluation accounts	77,223	72,526
8.4	Other claims on the Eurosystem	240	30,241	P14	Fund for general risks	8,000	8,000
2	A9 Claims on the French Treasury in respect of coins	0	0	P15	Revaluation reserve for state gold and foreign exchange reserves	22,285	22,377
A10	Other euro and foreign currency denominated financial assets	91,239	83,976	1	P17 Capital, reserves and retained earnings	10,984	10,145
1	A11 Other items	12,403	8,390	17.1	Minority interests, reserves and IEDOM retained earnings	2	2
A12	Fixed assets	1,807	1,753	17.2	Capital, reserves and Banque de France retained earnings	10,982	10,143
12.1	Tangible and intangible fixed assets	1,402	1,348	P18	Net profit	4,402	3,329
12.2	Participating interests other than the ECB	405	405				
	<b>TOTAL ASSETS</b>	<b>1,085,102</b>	<b>1,051,018</b>		<b>TOTAL LIABILITIES</b>	<b>1,085,102</b>	<b>1,051,018</b>

NB: Each item of the individual balance sheet and profit and loss account is rounded up or down to the nearest one million euro. For this reason, discrepancies between totals or sub-totals and their components may arise.



## 2018 consolidated profit and loss account

(EUR millions)

Notes to the P&L	2018	2017
1 Net income from activities	9,293	8,238
1.1 Net interest income	8,753	7,678
1.1.1 Interest and related income	10,352	8,524
2 1.1.2 Interest and related expenses	-1,599	-846
1.2 Net income from financial transactions	-49	62
1.2.1 Net realised gains/losses and unrealised losses on foreign exchange	-92	37
1.2.2 Net allocations to/reversals from the foreign currency revaluation reserve	92	-37
1.2.3 Other income and expenses on financial transactions, net	-49	62
1.3 Commission	6	2
1.3.1 Commission income	43	40
1.3.2 Commission expenses	-37	-38
2 1.4 Income from equity securities and participating interests	336	285
1.5 Net result of pooling of monetary income	-566	-521
1.6 Other income and expenses, net	812	732
2 Operating expenses	-2,261	-2,216
2.1 Staff costs and related expenses	-955	-971
2.2 Pensions and related expenses	-486	-475
2.3 Taxes other than income tax	-46	-51
2.4 Provisions, depreciation and amortisation	-161	-158
2.5 Other operating expenses	-613	-561
Profit before tax and exceptional items (1 + 2)	7,032	6,022
3 Net additions to fund for general risks		
4 Exceptional items		
4.1 Exceptional income		
4.2 Exceptional expenses		
1 5 Corporate income tax	-2,630	-2,693
Net profit for the year (1 + 2 + 3 + 4 + 5)	4,402	3,329

NB: Each item of the individual balance sheet and profit and loss account is rounded up or down to the nearest one million euro. For this reason, discrepancies between totals or sub-totals and their components may arise.

## Notes to the consolidated financial statements

### Scope of consolidation

#### Consolidation of Banque de France subsidiaries and participating interests

At 31 December 2018, the Banque de France held participating interests

in six undertakings (see Note 11 to the individual balance sheet). The Banque de France holds an interest of over 20% in five of these undertakings.

The interests held in Banque de France Gestion and La Prévoyance immobilière are excluded from the scope of consolidation as they are not material.

### Europafi

Europafi was created on 27 October 2015 as a simplified joint stock company and was initially a wholly owned subsidiary of the Banque de France.

During the 2017 reporting period, the Banca d'Italia, the Oesterreichische Nationalbank, the Central Bank of Ireland and the Banco de Portugal acquired stakes that amounted to 1.25% of Europafi's EUR 133 million equity capital.

Europafi is fully consolidated.

### European Central Bank

Under the Statutes of the ESCB and the ECB, the ECB Governing Council functions in such a way that the Banque de France does not exert control or significant influence over the ECB. Monetary policy is defined by the Governing Council, composed of 19 members since 2015 on the basis of the "one man, one vote" principle, in compliance with Article 10.2 of these Statutes.

### IEDOM

In compliance with Order No. 2000-347 of 19 April 2000,



amending Order No. 59-74 of 7 January 1959 reforming issuance arrangements in the French overseas departments of Guadeloupe, French Guiana, Martinique, Mayotte and Réunion, the *Institut d'émission des départements d'outre-mer* (IEDOM – the French note-issuing bank for the overseas departments) came under the control of the Banque de France as from 1 July 2000, without the Bank holding a participating interest in the IEDOM.

The role of the IEDOM can be split into three categories:

- central banking tasks: issuing and managing the circulation of banknotes; rating companies so that private loans can be mobilised as part of Eurosystem refinancing operations; supervising payment systems and means; acting as an intermediary between national authorities (ACPR, AMF – The Financial Markets Authority) and European authorities (ECB);
- the provision of public services in accordance with its statutory powers: putting coins into circulation; providing the secretariat for the Household Debt Commissions; managing local

interbank registers (the FICOM overseas territories accounts register, the FCC central cheque register, and the FICP register of household credit repayment incidents); providing information to the public on rights of access to these registers or rights of access to banking services; monitoring banking fees;

- the provision of services of general interest to public or private bodies: monitoring economic and financial activities; providing credit mediation for businesses; managing information on businesses; producing information for the banking community.

In accordance with Article 711-9 of the French Monetary and Financial Code the financial statements of the IEDOM are consolidated with those of the Banque de France.

At the beginning of 2017, the IEDOM became a wholly owned subsidiary of the Banque de France as part of its transformation into a simplified joint stock company. Since this date, the IEDOM is fully consolidated.

## Accounting principles and valuation methods applied in the consolidated financial statements

The same accounting principles and valuation methods apply to both the consolidated financial statements and the individual financial statements of the Banque de France, except in the computation of corporate income tax which, in the consolidated financial statements, takes into account all temporary timing differences arising for tax purposes.

## Information on individual items in the consolidated balance sheet and profit and loss account

### Note 1: Deferred taxes

#### Deferred tax assets and liabilities

(EUR millions)

	Deferred tax assets	Deferred tax liabilities
Income temporarily exempted from taxation		3
Tax on mutual fund unrealised gains and losses	306	
Other deferred tax relating to securities	0	
Provisions not deductible for tax purposes	276	
Other recurring timing differences	5	
Deductions for tax purposes not yet recognised in the financial statements		29
<b>TOTAL</b>	<b>587</b>	<b>32</b>
<b>NET RECEIVABLE</b>	<b>555</b>	

A net deferred tax asset of EUR 555 million is included in item A11, "Other items", in the consolidated balance sheet. It arises solely on temporary timing differences between the recognition of expenses and income for accounting purposes and their recognition for tax purposes. This asset is made up of the items shown in the table above.

The corresponding entry for this deferred tax asset is split between:

- the tax expense for the year, which in 2018 was EUR 227 million higher than in the individual financial statements;
- liability item L17, "Capital, reserves and retained earnings", which includes a balance of EUR 782 million representing the net deferred tax asset at the start of the financial year.

#### Note 2: Elimination of inter-institutional transactions

Apart from recognition of deferred taxes, the principal consolidation adjustments are (i) the elimination of inter-institutional transactions with Europafi and the IEDOM and (ii) the elimination of tax-regulated provisions from the balance sheet and of the corresponding entries in the profit and loss account.

#### IEDOM

Elimination of inter-institutional transactions relates to:

- the advance to the IEDOM (asset item A9 in the Banque de France's individual balance sheet);
- the IEDOM's current account with the Banque de France (included in liability item L8.2 in the individual balance sheet);

- provision of services between the Banque de France and the IEDOM;

- related ongoing management expenses and income.

#### Europafi

Elimination of inter-institutional transactions relates to:

- sales of paper to the Banque de France's Directorate General Banknote Manufacturing;
- provision of Banque de France staff to Europafi;
- provision of services between the Banque de France and Europafi.



## Statutory Auditors' report on the consolidated financial statements

### KPMG Audit

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92066 Paris-La Défense Cedex

### MAZARS

61 rue Henri Regnault  
92075 Paris-La Défense Cedex

## STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

### Opinion

In compliance with the engagement entrusted to us by the General Council, we have audited the accompanying consolidated financial statements of the Banque de France for the year ended 31 December 2018.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2018 and of the results of its operations for the year then ended in accordance with accounting principles from Article R. 144-6 of the French Monetary and Financial Code (*Code monétaire et financier*).

### Basis for opinion

#### Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

#### Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from 1 January 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

### Emphasis of matter

We draw attention to the following matters:

- For the accounting principles and valuation methods, the Notes to the consolidated financial statements refer to the Notes to the individual annual financial statements. The introduction to the Notes to the annual financial statements describes the accounting principles and valuation methods applicable to the Banque de France, some of which are specific to the European System of Central Banks.
- A change to the accounting principles related to the securities portfolios of the "Caisse de Réserve des Employés" is described in the Note "Change of valuation method of the securities portfolios of the Banque de France's Employee Reserve Fund" to the annual financial statements.

.../...

- The General Council has determined the level of detail of the published financial information in accordance with its right provided for in Article R. 144-6 of the French Monetary and Financial Code (*Code monétaire et financier*).

Our opinion is not modified in respect of these matters.

### Justification of assessments

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the following matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

#### Valuation of securities at amortised cost

Your Institution holds securities portfolios that are recognised at amortised cost. An impairment loss is recorded in the event of a risk of non-recovery in accordance with the methods described in the Note "Valuation methods – Securities Portfolios" to the annual financial statements.

Our work consisted in reviewing the impairment tests put in place by the Banque de France to assess the risk of non-recovery, in order to evaluate the assumptions used and to examine the management procedures in place to approve these estimates.

#### Assessment of social obligations

Your Institution calculates its social obligations in accordance with the methods described in Note 28 to the annual financial statements. These obligations were assessed by an actuary.

Our work consisted in examining the data used and the assumptions applied when making these estimates.

#### Recognition of deferred tax

As indicated in Note 1 to the consolidated financial statements, the Banque de France recognised deferred tax assets. We reviewed the main estimates and assumptions resulting in the recognition of these deferred taxes.

### Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles from Article R. 144-6 of the French Monetary and Financial Code (*Code monétaire et financier*) and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the entity or to cease operations.

The consolidated financial statements were approved by the Governor.

.../...





### Statutory auditors' responsibilities for the audit of the consolidated financial statements

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the entity or the quality of management of the affairs of the entity.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgement throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of this audit report. However, future events or conditions may cause the entity to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Paris-La Défense, on 12 march 2019

The Statutory Auditors

**KPMG Audit**  
**A division of KPMG S.A.**  
 Marie-Christine Jolys  
 Partner

**MAZARS**  
 Hervé Hélias  
 Partner  
 Emmanuel Dooseman  
 Partner







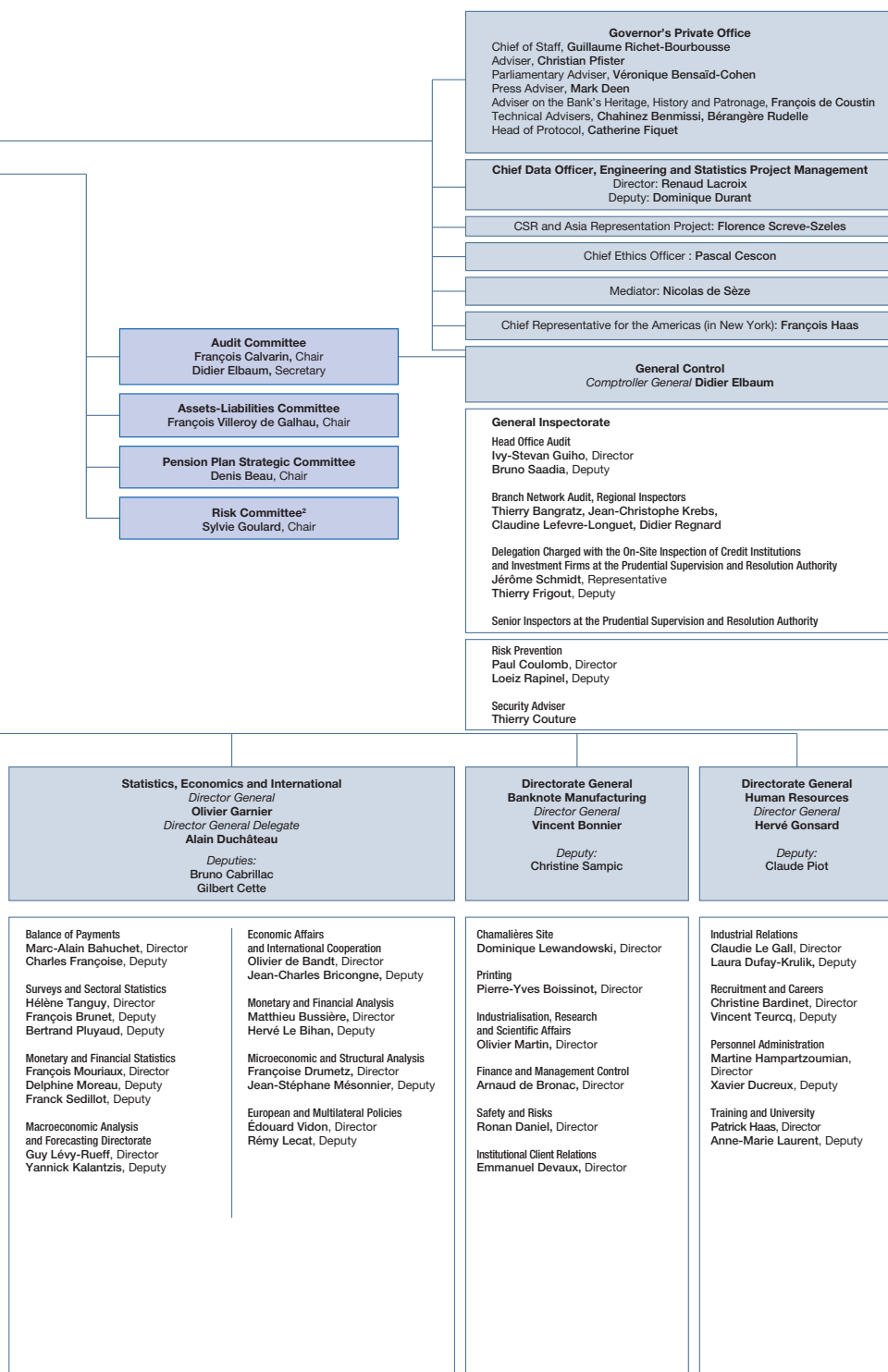
# Appendices

organisation chart  
recirculation  
of banknotes and coins  
**branch network**  
supervision  
household  
debt commissions









19 economic centres, 2 household debt centres and 2 cash centres



## Appendix 2

### The scope of the Banque de France



The Law of 8 November 2016 on transparency, the fight against corruption and the modernisation of the economy transformed the *Institut d'émission des départements d'outre-mer* (IEDOM – the note-issuing bank for the French overseas departments) into a wholly-owned subsidiary of the Banque de France, with effect as of 1 January 2017. Prior to this decision, the IEDOM was a state-owned body and, for historical reasons, was still largely controlled by the *Agence française de développement* (AFD – French Development Agency). However, following the introduction of the euro, the IEDOM began merging its operations with the Banque de France. Its missions remain unchanged and consist primarily in the provision of central bank functions to the French overseas departments and collectivities, under the aegis of the Banque de France.



Europafi was created on 27 October 2015 to set up a public paper manufacturing unit within the Eurosystem. The aim is to make the paper mill in Vic-le-Comte the leading publicly-owned producer of banknote paper in the euro area. Four central banks are shareholders alongside the Banque de France.



Victoires Paiements was created on 22 May 2012 and is an economic interest grouping combining the Banque de France and the Caisse des Dépôts et Consignations (CDC). Its mission is to process retail payments (i.e. large volumes of small payments). The structure consists of a shared transaction processing platform, which allows the Banque de France and CDC to pool their investments and reduce costs. Flows between the two banks are also processed via the intrabank channel, outside the usual exchange systems.



Created on 27 December 1995, BDF Gestion is the Banque de France's asset management subsidiary. It manages 30 collective investment schemes (dedicated, open to the public, employee savings), as well as a number of individual mandates for institutional investors.

## Appendix 3

### The recirculation of euro banknotes and coins by private operators in 2018

Under Article L. 141-5 of the French Monetary and Financial Code, the Banque de France is tasked with maintaining the quality of the banknotes and coins in issuance and ensuring their effective circulation within French national territory. Article R. 122-8 of the Code requires operators (credit institutions, cash-in-transit companies, retail sector service providers) contributing to the processing and recirculation of banknotes that have not come from a Eurosystem central bank to sign an agreement with the Banque de France before undertaking such activities.

At the end of 2018, 88 credit institutions had signed agreements with the Banque de France authorising them to recirculate banknotes to the public via customer operated machines; 173 operators had signed processing agreements setting out criteria for sorting banknotes; and 27 operators had

#### Agreements signed with private operators in 2018

Type of agreement	Type of operator	Number of agreements signed in 2018	Total number signed as at 31 December 2018
Coins			27
	Professional operators	0	13
	Non-professional operators	0	14
Banknotes			261
Distribution agreements	Credit institutions	0	88
Processing agreements	Credit institutions	2	55
	Cash-in-transit companies	0	8
	Retailers providing recirculation services	1	109
	Other professional cash-handlers	0	1

signed an agreement authorising them to process coins.

The most common logistical set-up for distributing banknotes in 2018 was via bank ATMs located in bank branches and replenished with banknotes recirculated by cash-in-transit firms. In 2018, ATMs accounted for 54% of all machines replenished with recirculated banknotes (9,507 out of a total of 16,666 machines).

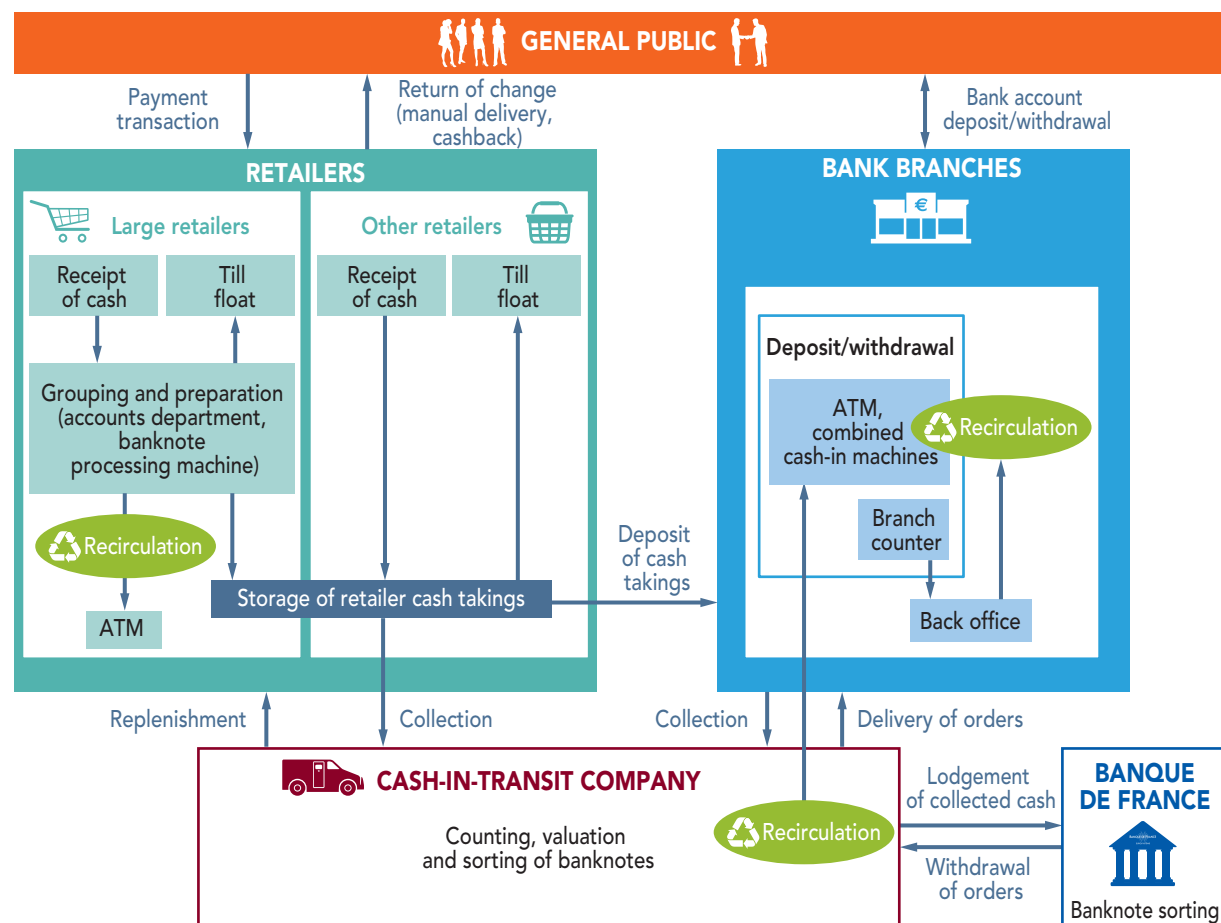
In the first half of 2018, 29.7 % of all banknotes put into circulation (last

known figures) were processed by private operators, representing a rise of 5.4% compared with 2017. Of these, 47.3% were recirculated by cash-in-transit firms, up from 37% in 2017.

#### Banque de France inspections of operators

All operators processing banknotes that have not come from a central bank and recirculating them via cash machines are subject to inspections

The cash cycle and recirculation of banknotes



by the Banque de France. In 2018, the Bank carried out 489 on-site inspections of bank branches and workshops processing banknotes for customer-operated machines, of which 156 were conducted entirely by staff from the cash centre network (increase

of 68% relative to 2017). Following the lowering of the acceptable tolerance level for fitness checks from 10% to 5%, 5% of banknote handling machines were found to be non-compliant in 2018 and required intervention by the manufacturer.

Four temporary suspensions were issued – one for a bank branch and the others for retailers providing recirculation services. Document checks also led to one operator being asked to explain why it had failed to meet its contractual obligations.



### **Banque de France inspections of coin-processing sites**

In 2018, the Banque de France performed 30 on-site inspections of coin-processing sites.

### **Banknote recirculation and coin processing in the overseas departments**

The Banque de France has tasked the IEDOM with managing the

recirculation activities of firms based in the overseas departments and collectivities. At the end of 2018, 13 agreements had been signed with private operators for the processing of banknotes, and 13 for the recirculation of banknotes via customer-operated machines. The IEDOM conducted inspections at 15 of the 86 sites concerned. Moreover, 7 agreements on automatic coin processing had been signed, covering a total of 9 production sites. 8 of these sites were inspected.

### **Banknote authentication training for bank employees**

In accordance with the provisions of Article R. 122-6 of the Monetary and Financial Code, the Banque de France assists banks in training their staff in the manual distribution of banknotes. As part of this task, in 2018 it provided banknote authentication training to 20,921 credit institution employees.

## Appendix 4

# Summary of the Household Debt Commissions' activity reports for the year 2018

In accordance with the provisions of Article R. 712-12 of the French Consumer Code, each Household Debt Commission draws up an annual activity report setting out the number of cases processed, the measures taken, the type of debt involved and the difficulties encountered. These reports are submitted to the Banque de France, which is responsible for summarising and disclosing them in its annual report.

### New cases declined for the sixth consecutive year, falling back in line with 1990's level

In 2018, the Household Debt Commissions received a total of 162,936 overindebtedness applications, representing a decline of 10% relative to 2017 and of 27% relative to 2014. The number of new cases (first-time applications) fell by 4.4% versus 2017 to a total of 91,989, which is in line with the level observed in 1990.

### Key data on the commissions' activity

(in number of applications)

	2018	2017
Applications filed	162,936	181,123
<i>o/w second-time applications (%)</i>	46.4	47.1
Admissible applications	146,353	166,939
Directed towards a debt restructuring programme	79,719	94,564
Directed towards a personal recovery procedure without judicial liquidation	65,956	75,578
Non-admissible applications (A)	8,508	13,441
Recommended for personal recovery without judicial liquidation	77,287	63,952
Agreement by the debtor to a personal recovery procedure with judicial liquidation (C)	1,995	1,861
Agreement on a debt repayment plan (D)	14,312	20,171
Measures imposed or recommended by the commissions	71,685	63,901
Cases closed (F)	12,312	16,155
Cases handled (A+B+C+D+E+F+G)	186,099	179,481

### The effectiveness of the procedure remains a priority for public authorities

In line with the target set by public authorities, the commissions' priority, wherever possible, is to find a permanent solution to the overindebtedness cases they handle.

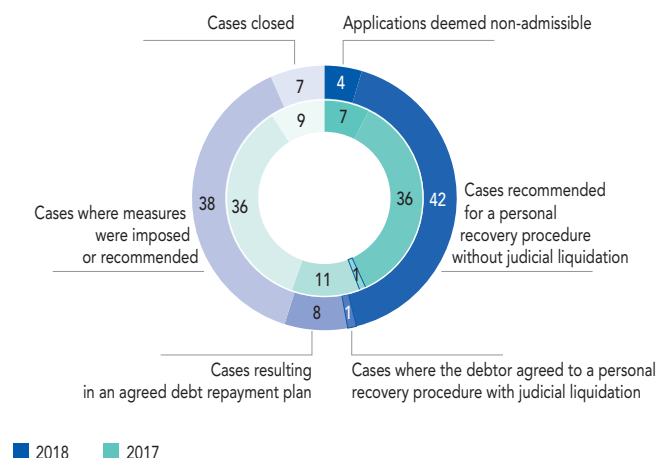
Two important measures came into effect in January 2018 that

simplify the procedure and allow commissions to impose resolution measures more rapidly (Law No. 2016-1691 of 9 December 2016, known as the Sapin 2 Law, and Law No. 2016-1547 of 18 November 2016 on the modernisation of French legislation for the 21st century).

A higher number of cases were handled in 2018 (186,099) than in the previous year as some applications

### Breakdown of commissions' decisions in 2017 and 2018

(% of total applications processed)



had been put on hold at the end of 2017 pending the entry into force of the legal changes on 1 January 2018.

In 41.5% of cases, the applicant's debts were completely written off. The share of cases directed towards a personal recovery procedure (PRP) has been rising steadily since the option was introduced in 2003, underscoring the extent of the personal and social difficulties that applicants often face.

#### A cut in processing times thanks to the legal and regulatory changes introduced in 2018

The commissions' reports highlighted the entry into force on 1 January 2018

of two new legal measures: the Law on the modernisation of French legislation for the 21st century, which reduces the legal aspects of the overindebtedness procedure; and the Sapin 2 Law on transparency, the fight against corruption and the modernisation of the economy, which got rid of the conciliation phase between the debt commission, creditors and debtors in cases where no real estate is involved. These measures appear to have reduced handling times for overindebtedness cases.

#### Insufficient recourse to welfare benefits

This refers to individuals who are entitled to benefits but fail to claim

them – a situation that, unfortunately, the debt commissions can do little to resolve. It highlights the need to improve the quality of support for overindebted consumers, and to put in place appropriate structures where they can seek advice and budgeting help.

The majority of reports noted that departmental councils and family benefits offices had failed to appoint an overindebtedness correspondent, even though this is a specific requirement of the legislation. Clearly, this stipulation has not been followed up in practice. Yet departmental councils and benefits offices both play a key role in detecting vulnerable populations and coordinating the different actors in the overindebtedness procedure. If they were represented on the Household Debt Commissions it would be easier to implement the measures cited earlier.

#### Efforts to improve economic and financial literacy among the general public

The commissions stepped up their economic and financial literacy campaigns throughout France in 2018. Social workers were given access to new resources

to help support the financially vulnerable and stop consumers getting into too much debt. In total, the commissions met more than 15,000 social workers and representatives of welfare groups, social action centres, family benefits offices, consumer associations and charities in 2018, to advise them on how to better guide individuals with their overindebtedness applications and throughout the procedure.

In 46% of cases submitted in 2018, the applicant was being supported by a social worker.

### The need for coordination between the overindebtedness procedure and housing-related measures

By maintaining regular dialogue with the *Commissions de coordination des actions de prévention des expulsions locatives* (CCAPEX – Coordination Commissions for the Prevention of Evictions), the commissions are now better able to identify individuals in particularly vulnerable situations. However, there are still some difficulties linked to the lack of coordination between the overindebtedness procedure and the procedure for rental evictions.

Law No. 2018-1021 of 23 November 2018 (known as the ELAN Law on housing, planning and digital technology), which came into effect on 1 March 2019, contains provisions relating to landlords who have obtained a court order rescheduling a tenant's rent arrears.

As of 1 March 2019, these debt repayments are no longer suspended if the tenant submits an admissible overindebtedness application. On top of his/her usual rent payments and current expenses, the tenant has to continue paying the rescheduled arrears until the Household Debt Commission has put in place measures to resolve their financial situation.

Once the tenant and landlord have been notified of the solution, they have thirty days in which to contest it, after which it cancels and replaces all debt repayments ordered by the court.

The commissions' 2018 activity reports again referred to the lack of coordination between the court debt rescheduling decision and the decision to accept the overindebtedness application. 2019 should reveal the extent to which the legal changes have made a difference.

### Regular communication with magistrates

In 2018, all commissions held at least one meeting with the district court judges and/or registrars in their region with a view to harmonising practices and finding appropriate solutions for the overindebted.

The commissions noted that they still encountered difficulties in implementing a PRP with a judicial liquidation. The procedure is long and does not really provide a solution for the debtor over the medium term. Certain commissions said they were reluctant to use it because of the length of the court proceedings, and that they preferred rescheduling a portion of the borrower's debts over the maximum allowed seven year period. At the end of this period, the commissions then declare themselves no longer competent to handle the case, even though the individual is still overindebted.

Due to their professional status, some heavily indebted individuals are considered ineligible for the individual overindebtedness procedure and have to file for commercial bankruptcy even though they only have personal debts. Unfortunately, the courts

frequently refuse to open commercial bankruptcy proceedings or a professional recovery procedure in these cases, as the individual in question has no professional debts. This can also occur in the case of individuals who have ceased their business activity but have outstanding social security debts (to the social security scheme for self-employed workers): the debts are deemed to be professional under the overindebtedness procedure but are classified as personal by the courts for the purposes of commercial bankruptcy proceedings.

Some commissions noted that judges in charge of overindebtedness proceedings were increasingly ruling applications admissible even though the commissions themselves had deemed them ineligible. The commissions said they would like to see legislative or practical changes introduced, so that individuals who currently have no solution for their financial difficulties can be given access to the overindebtedness procedure. A number of proposals for improving the process are currently being examined.

### The need to ensure the procedure is balanced

Some commissions indicated they were increasingly encountering foreign groups specialising in debt recovery among households' creditors. This can upset the balance of the overindebtedness procedure as the groups often fail to reply to letters. They may also refuse to apply the commissions' debt resolution measures as they do not consider them legally enforceable.



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