



Banque de France

Annual Report

2017





The Governor's Foreword

At the heart of Europe, at the service of French citizens

» 2017 was a turnaround year: beyond the uncertainties surrounding the new US administration and Brexit, growth in France and Europe thankfully picked up pace. But this renewed confidence does not mean that we should drop our guard. The Banque de France demonstrated exceptional diligence in its monitoring of remaining and emerging risk factors, its support for the French economy and its reforms, and in maintaining the highest degree of confidence in the euro.

This Annual Report for 2017 presents the Banque de France's achievements in the performance of its tasks relating to monetary strategy, financial stability and the provision of services to the economy. In an ever-changing world, the Banque de France's independence is a guarantee to all our fellow citizens 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. When the Banque de France actively contributes to the net creation

of 280,000 jobs in 2017 through monetary policy; when it plays a decisive role alongside the *Autorité de contrôle prudentiel et de résolution* on the Basel III agreement in December for safer and more secure banking regulations; when it successfully creates the *Mes questions d'argent* portal; then it is safe to say that the Banque de France is at the heart of Europe, and at the service of French citizens.

Looking at these achievements, I would first and foremost like to pay tribute to the women and men working at the Banque de France, the 11,000 employees who, through their professionalism,

serve our country and make a decisive contribution to the Eurosystem. Photographs of them illustrate these pages. And their dedication deserves even more credit as together we are undertaking an ambitious transformation. We have made three commitments: first, in Europe, to be the central bank for financial markets, to set the standard for supervision and to be a leading player in the cash industry; second, in France, to be a trusted and outstanding public service provider; and third, for managers and all our employees, to modernise and simplify working life.

Today, we are half way towards completing our strategic Ambitions 2020 plan, which aims to improve our services while bringing down our spending – the EUR 43 million reduction in costs in 2017 compared with 2015 represents our contribution to the French community. We are building a Banque de France that is more efficient, more innovative, more visible and more open, proud of its 218 years of

history, but striving to be a key 21st century institution. And so we are streamlining our organisation, boosting technological innovation, modernising our branch network and opening up even further to the outside world.

A Banque de France that is better known to French citizens is also a Banque de France that more closely serves them, including those that are most in need.

The Banque de France is dedicated to remaining an attractive employer for all its employees, encouraging career development and further education and training (through the creation of the *Université Banque de France*). The Banque de France also continues to strengthen its commitment to corporate social responsibility through its charitable and sponsorship initiatives.

This twofold effort – on our day-to-day work as well as our long-term transformation – is demanding, but it makes the rewards even sweeter.

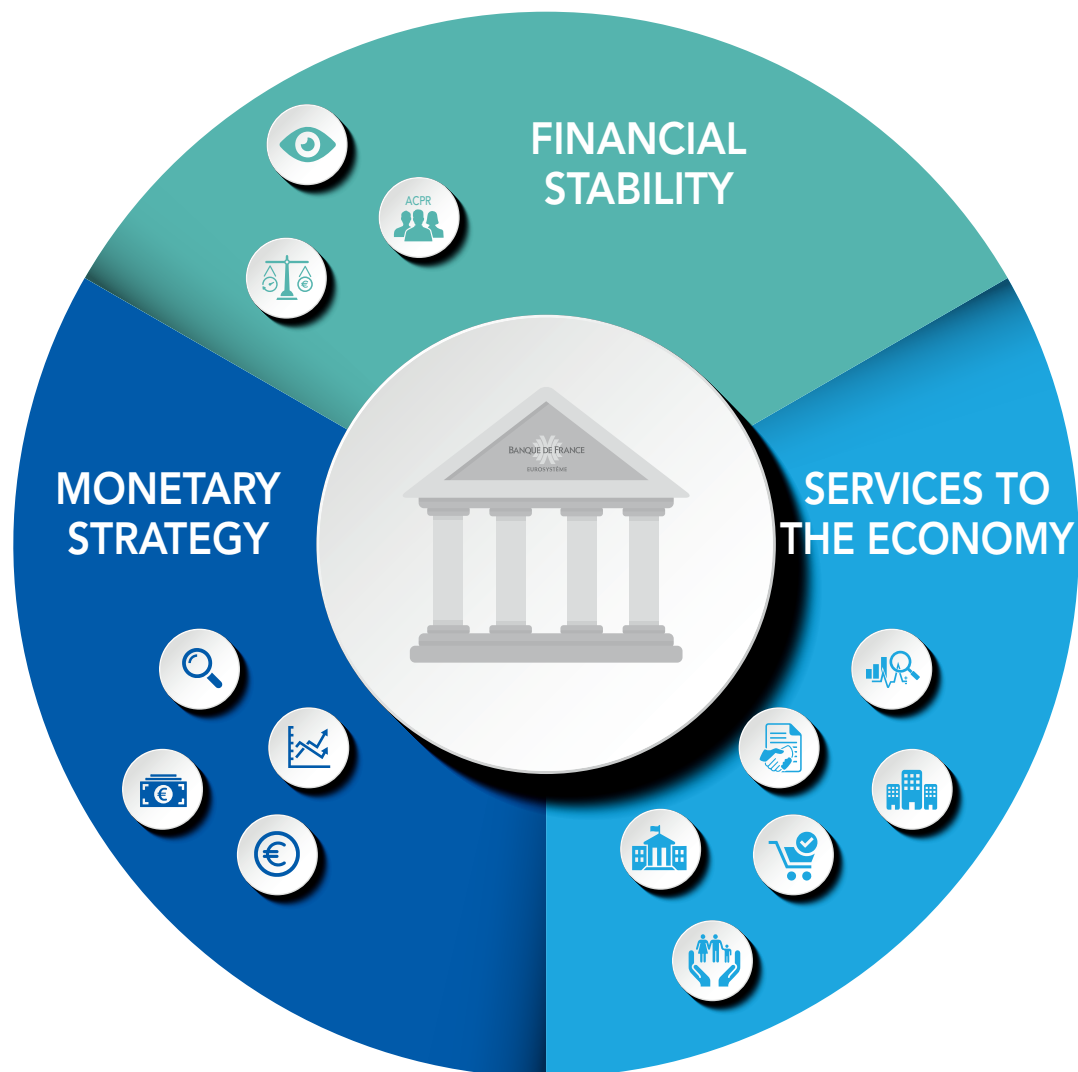
The Banque de France's teams can be proud. Their work deserves admiration and respect.

I would like to finish by mentioning certain officials that left the Banque de France in 2017. The Deputy Governors, Robert Ophèle, who became Chairman of the *Autorité des marchés financiers* in July, and Anne Le Lorier, whose term of office drew to a close at the beginning of January 2018, made an outstanding contribution to these achievements. We are also delighted with the appointments of Denis Beau and Sylvie Goulard as their replacements. Within our General Council, I would like to thank Philippe Auberger, Michel Felce and Marianne Laigneau for their commitment, and welcome Jean-Roger Davin, Yannick Guillemaud and Anne-Laure Delatte. With them, and with all the Bank's staff, the Banque de France is hitting the ground running in 2018.



François Villeroy de Galhau

2017 in figures



DELIVERING OUR THREE CORE MISSIONS



11,021 full-time equivalent employees



95 branches

6.0 billion euro: profit before tax and exceptional items
(of which 5 billion euro paid to the community in income tax and dividends)



26 agreements signed with local education authorities
to encourage economic and financial literacy



11,320 secondary school children instructed in economic,
budgetary and financial issues



176.1 tonnes of coins collected and sorted
for the 2017 *Pièces jaunes* national charity campaign

2,142 entrepreneurs assisted
by VSE correspondents



1.1% reduction in energy-related
greenhouse gas emissions



Monetary strategy in 2017



492.6

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



97.6

billion euro of private sector securities purchased since the beginning of the related purchase programmes (CBPP3, ABSPP and CSPP)



133

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



48.6

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



84.7

billion euro: total value of France's gold reserves



2,436

tonnes: weight of France's gold reserves, the 4th largest holding in the world



1.4

billion new euro banknotes manufactured and distributed



6.4

billion banknotes distributed at Banque de France counters



730

million individual items of data accessible via the Open Data Room



39

articles published in peer-reviewed journals



3rd

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

Tasks

The Banque de France's monetary policy decisions are based on in-depth economic analyses supported by high-level research:

- expert appraisals, studies and modelling
- assessments, analyses and forecasts
- preparation of meetings (ECB, BIS, IMF, G20)
- production and dissemination of economic data



The Banque de France implements monetary policy to ensure the smooth financing of the economy:

- forecasting French banking sector's liquidity requirements
- refinancing French banks
- purchasing securities as part of the ECB's non-standard monetary policy operations

The Banque de France's operational activities, supervision of market infrastructures and management of gold and foreign exchange reserves make it a leading player in the financial markets:

- market operations
- piloting of the Target2 Securities settlement system



The Banque de France, as a member of the Eurosystem, maintains confidence in the currency:

- note-issuing bank
- largest printer of euro banknotes
- oversight of payment instruments

JANUARY

The joint Banque de France-Collège de France conference on "Secular stagnation and growth measurement"

The Banque de France's reverse auction system is extended to securities issued by public agencies

MARCH

The fourth and final TLTRO II operation, amounting to EUR 234 billion

Three out of four French citizens state that they are opposed to leaving the euro in a national poll

APRIL

Launch of the new €50 note (the third most used note in France after the €20 and €10 notes)

JULY

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

OCTOBER

The Governing Council decides to reduce net asset purchases by 50% from EUR 60 billion to EUR 30 billion as from January 2018

Financial stability in 2017



185

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



48

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



ACPR

1,027

ACPR employees



138

individuals seconded to the ECB as part of the SSM



737

authorised banks



742

authorised insurance firms and mutual insurers



13.6%

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



23

billion euro: average daily flows processed by retail payment systems in France in December 2017



291

billion euro: average daily flow of large-value payments processed by Target2 in France in December 2017

Tasks



The *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) is responsible for supervising the financial sector:

- licensing and supervising banks and insurers
- participating in the European Single Supervisory Mechanism
- contributing to work at the international level on the development and implementation of regulatory changes
- preventing money laundering and terrorist financing
- providing information to and protecting depositors



The Banque de France ensures the smooth operation and security of the payment systems and market infrastructures under its supervision:

- implementing European and international standards
- monitoring the management of credit and liquidity risk



The Banque de France strives to safeguard financial stability and prevent systemic risks:

- analysing systemic risks and weaknesses in the French financial system
- contributing to the work of international committees on systemic risks and the macroprudential framework
- coordinating with the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability)
- carrying out resilience tests and crisis management exercises

APRIL

Publication of the Banque de France's *Financial Stability Review* on "The impact of financial reforms"

SEPTEMBER

The ACPR organises the first *Matinée Fintech*, devoted to licensing procedures in the payment sector

NOVEMBER

Creation of a resolution regime for the insurance sector

Successful completion of the major operational crisis simulation conducted by the Paris Resilience Group

DECEMBER

Agreement finalising the Basel III reforms

Creation of the eight country-member Network of Central Banks and Supervisors for Greening the Financial System announced at the One Planet Summit in Paris

Publication of the *Assessment of risks to the French financial system* stressing the need to monitor non-financial sector debt levels in France; and the HCSF announces a project to develop a macroprudential measure aimed at limiting systemic bank exposure to the most indebted large enterprises

Services to the economy in 2017



62,300

basic bank accounts
opened at the
Banque de France's
request



179,481

overindebtedness
cases in mainland
France fully resolved
by Household Debt
Commissions



370,000

calls received via the
*Assurance Banque
Épargne Info Service*
(ABE IS) telephone
platform



15,000

companies
participated
in business surveys



100,000

subscribers
to regional and national
business surveys



35,000

statistical series
disseminated on
webstat.banque-france.fr



7.6

million businesses
listed in the FIBEN
database
(14 million consultations)



261,516

non-financial
corporations
(mainly SMEs)
assigned a rating



909

businesses assisted
by the credit mediation
service, with 11,172 jobs
saved or secured

Tasks



The Banque de France's economic services to individuals are aimed primarily at protecting consumers:

- supervision of business practices
- the ABE IS website (a public service site informing banking customers of potential risks)



The Banque de France is entrusted by law with a number of tasks aimed at preventing overindebtedness and promoting financial inclusion:

- right to a basic bank account
- banking and financial inclusion



The Banque de France provides secretariat functions for the Household Debt Commissions, one of the most important tasks carried out by the branch network:

- solutions for overindebted individuals
- typological survey of household debt



The Banque de France produces business surveys and statistics that provide a detailed assessment of the health of the economy:

- national surveys
- regional surveys
- *Stat Info*



The Banque de France's teams use their expertise to carry out detailed assessments of non-financial corporations:

- monitoring financing
- assigning company ratings
- assisting VSEs
- performing credit mediation

JANUARY

Launch of *Mes questions d'argent*, the Banque de France's new web portal for economic, budgetary and financial education

MARCH

Launch of the Banque de France's OPALE service, a tool for the online positioning and analysis of businesses

JUNE

Publication of the report by the *Observatoire de l'inclusion bancaire* (Observatory for Banking Inclusion)

At the third European Microfinance Day, the Banque de France organises the *Rencontres européennes et régionales du microcrédit* (regional and European microcredit conference) at Paris-La Défense

OCTOBER

The Banque de France signs a partnership agreement on financial literacy for primary and secondary school children with the Education Ministry and the *Institut pour l'éducation financière du public* (Institute for Public Financial Information)

First assessment of the VSE correspondents initiative, one year after its launch (2,129 business managers assisted, satisfaction rating of 88%)

NOVEMBER

Several speakers from the Banque de France take part in the *Journées de l'économie* conference in Lyon



The Banque de France also acts as banker to the French government

- holding the French Treasury's bank account
- managing government debt auctions

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Monetary strategy

refinancing
issuing bank
research
markets
foreign currency
reserves
projections
monetary policy
securities
purchases
liquidity
Eurosystem
means of payment



Price stability and confidence in the currency

In Europe, the Banque de France aims to be the central bank for markets and a major player in the cash industry

The Banque de France has strengthened its contribution to the design and implementation of the Eurosystem's monetary policy

The Banque de France's mandate, like that of the ECB and the other Eurosystem national central banks, is to "maintain price stability" and, "without prejudice to the objective of price stability, to support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union".

The Banque de France has therefore been heavily involved in the preparation and implementation of the Governing Council's monetary policy decisions and in the development of the cash industry in Europe in which it is a major player.

Cutting-edge research and analysis underpins monetary policy decisions

Decisions of the ECB Governing Council are based on the analysis provided by Eurosystem central

bank experts. Research papers and workshops promote debate and enable Banque de France staff to provide a comprehensive and reasoned economic assessment. This analysis and the associated forecasts provide solid support for the decision-making process for Eurosystem monetary policy and in international fora.



Key figures for 2017



3rd

ranking Eurosystem central bank for research (by number of listed publications); ranked in the top 1% of global institutions for the quality and quantity of research



39

articles published in peer-reviewed international journals



18

editions of *Rue de la Banque* published



164

seminars organised at the Banque de France



1,101

individuals trained by IBFI

CONFERENCE ON SECULAR STAGNATION AND GROWTH MEASUREMENT

On 16 January 2017, the Collège de France and the Banque de France organised a conference in Paris on secular stagnation, which brought together leading academics as well as high-ranking representatives from national and international institutions.



Per capita GDP growth has slowed in most developed economies since the 1970s and has reached historically low levels since the mid-2000s, raising fears of prolonged stagnation.

Central bankers need to be particularly attentive to this risk: a persistent slowdown in growth can make the economy more vulnerable to shocks that push the natural interest rate below the effective lower bound. Weak growth and inflation reduce the efficiency of standard monetary policy tools, while affecting the sustainability of public and private debt.

Measurement problems were addressed: statistical biases and difficulties in locating production and value added in a global economy do not alter the assessment that there has been a slowdown in productivity growth since the 2000s.

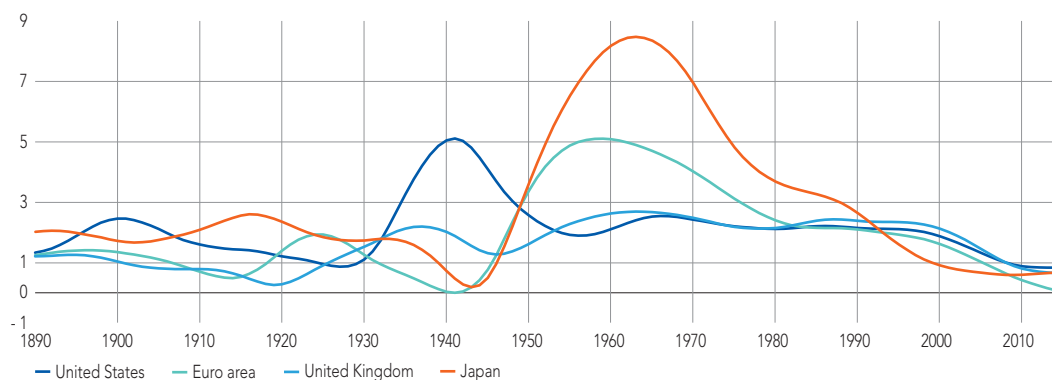
The conference explored and quantified the causes of weak demand, reflected in low interest rates: deleveraging, slowing population growth and a decline in the labour force, increased productivity, risk aversion and inequality.

.../...



Per capita GDP growth

(%)



Notes: annualised growth; Hodrick-Prescott filter where $\lambda = 500$.

Source: Bergeaud (A.), Cetto (G.) and Lecat (R.) (2016), data available at www.longtermproductivity.com

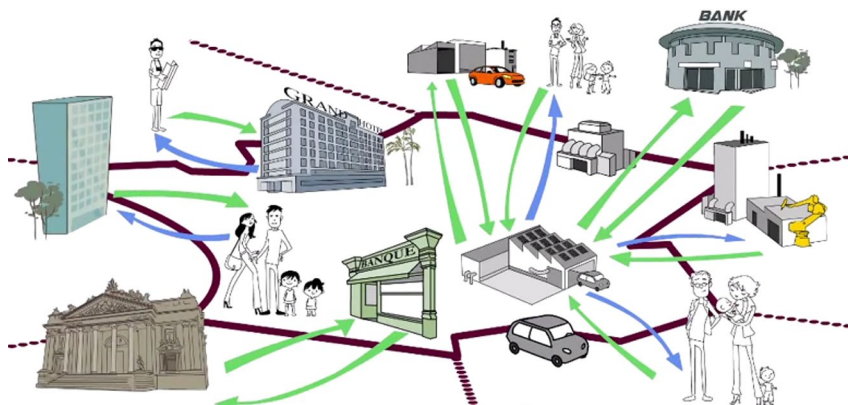
On the supply side, the contribution of new technologies to productivity growth was discussed. Several points were highlighted: the most recent innovations, such as driverless cars or artificial intelligence, are evolutionary, not revolutionary, and will not significantly improve productivity. Today's technologies start by depressing productivity, and then increase it. Beyond the improvements in the quality of production factors and the diffusion of technologies, it is necessary, in order to understand growth better, to look at other factors such as the allocation of production factors, production processes and management practices.

The roundtable discussion addressed possible solutions to the risk of secular stagnation. A prolonged period of weak aggregate demand can lead to a decline in potential growth, but sufficiently large subsidies for innovation can pull an economy out of stagnation and restore full employment, and well-targeted public investments can help to lift potential growth. Points of vigilance were emphasised: a fiscal stimulus financed by money creation has a greater impact than one financed by debt. A misallocation of resources is likely to cast a long shadow after the crisis, as well as lead to a considerable debt overhang. Policies must avoid protecting the least productive firms.

In conclusion, it was emphasised that monetary policy is not and should not be the only game in town. Of course this requires that central banks stick firmly to their mandate.

High-quality statistics to inform the economic debate

The Banque de France has developed a system for collecting monetary, financial, balance of payments and business financing data, which helps to provide a very comprehensive picture of the state of the economy. These statistics are made available to researchers and economic decision-makers on the website of the Banque de France and in the Open Data Room (ODR). In 2017, the Banque de France developed a series of statistics to better measure the phenomenon of globalisation, thus contributing to the work on French competitiveness.



Measuring French competitiveness

The Banque de France makes a significant contribution to the work of the OECD – for which it chairs the working group on international trade in goods and services – and the International Monetary Fund (IMF).

It hosted the annual meeting of the IMF Committee on Balance of Payments Statistics in Paris, which is preparing a global standard for balance of payments statistics. Progress was made at this meeting in the measurement of “global value chains” which structure the activity of many sectors essential to our economy today, such as pharmaceuticals, aeronautics and the automotive industry.



Key figures for 2017



730

million individual items of data accessible via the Open Data Room



35,000

statistical series published on webstat.banque-france.fr



The Banque de France published work on this subject in its bulletin and made available online a set of entirely new data, which better captures the internationalisation of services by breaking them down by “supply mode”. It also finalised a major work programme in coordination with INSEE to improve the measurement



of international tourism, especially from countries outside the European Union, and to enhance consistency between the balance of payments and the national accounts.

The Open Data Room supplies Banque de France data for research

The Open Data Room provides access to 730 million individual pieces of data, notably on financial organisations and businesses. The data supplied are anonymised to preserve their confidentiality.

Thirty research proposals have been validated since end-2016 by a committee made up of academic figures and Banque de France representatives. The data are made available to researchers free of charge, in a room equipped with the computing power and statistical software needed to process large volumes. The researchers are assisted by Bank experts to facilitate data management. The main research topics are corporate lending, international capital flows and financial market liquidity.

The Banque de France also supplies banks' published accounts on its interactive statistical series website,

THE BANQUE DE FRANCE SEIZES THE OPPORTUNITIES OF BIG DATA

The Banque de France is fully committed to integrating big data into its central banking activities, including the technical and organisational advances that it brings about.

In the framework of its Ambitions 2020 strategic plan, the Banque de France has engaged in the process of developing a transversal data lake based on this technology. The purpose of a data lake is to establish a multidisciplinary granular data space and offer flexible and innovative services to internal users. In 2018, it will be used to collect new granular information on loans from banks.

Integrating mass data into Banque de France activities also requires training its staff. Dozens of Bank employees have followed certifying courses in data science and statistical analysis, enabling them to come to grips not only with the collection and storage technologies specific to big data, but also with the statistical and machine learning tools necessary for exploiting big data.

Webstat,¹ in a format compatible with calculation software.

Being at the heart of monetary policy decisions and facilitating the financing of the economy

The four monetary policy measures implemented by the Eurosystem since June 2014, i.e. the targeted longer-term refinancing operations (TLTROs), the expanded

asset purchase programme (APP), lowering the interest rate on the deposit facility into negative territory and forward guidance, contributed to boosting growth in the euro area by creating particularly favourable financing conditions and by supporting domestic demand (see box on monetary policy decisions).

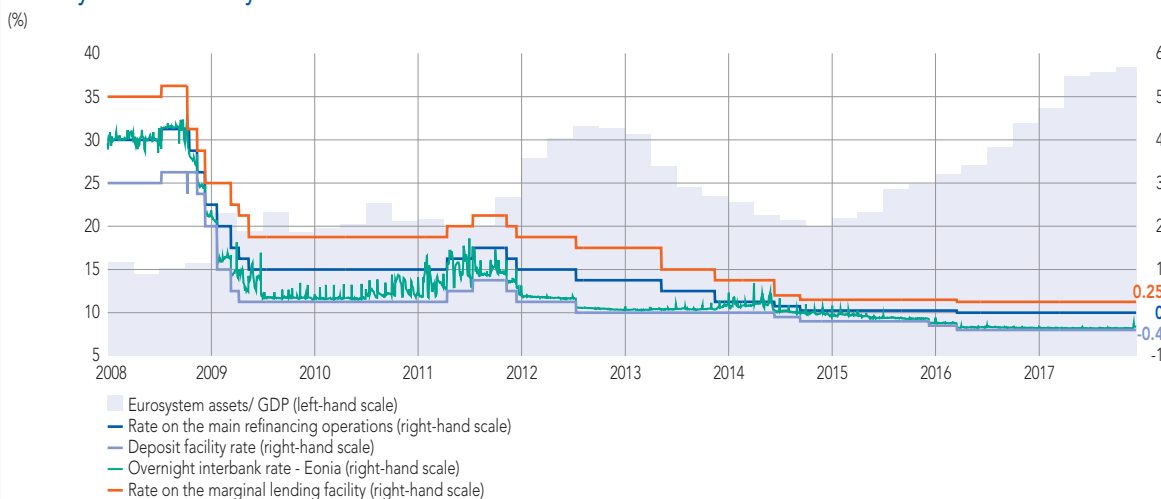
¹ <http://webstat.banque-france.fr/en/>

MONETARY POLICY DECISIONS

Further quantitative easing in the context of a very accommodative monetary policy

In accordance with the ECB Governing Council decision of December 2016, the Eurosystem cut back the volume of its monthly asset purchases from EUR 80 billion to EUR 60 billion from April 2017, while adjusting some of the parameters of the expanded asset purchase programme (APP) to facilitate its implementation. In particular, the minimum remaining maturity of public sector securities eligible for its public sector purchase programme (PSPP) component was reduced from two years to one year. Moreover, the Governing Council permitted "to the extent necessary" purchases of government securities with a yield to maturity below the interest rate on the deposit facility. In addition to the liquidity injections made in the framework of the APP programme, the fourth and final TLTRO II (targeted longer-term refinancing operation) took place in March 2017. Following on from the EUR 507 billion injected during the first three TLTRO II in 2016, the allocation amounted to EUR 234 billion for all Eurosystem banks. As a consequence of all these actions, the size of the Eurosystem's balance sheet increased to EUR 4,471 billion at end-2017. The two other components of the quartet (taking the deposit facility rate into negative territory and forward guidance) remained unchanged (see chart).

ECB key rates and Eurosystem assets



Source: European Central Bank.

In a context of gradual economic recovery in the euro area, but also of still low underlying inflationary pressures, a very accommodative monetary policy stance has been maintained with the extension and recalibration of net purchases of securities as well as the allocation of very long-term refinancing at attractive rates. This is essential to ensure the lasting convergence of the HICP inflation rate towards levels below, but close to, 2% in the medium term.

.../...



The ECB adjusted its communication following the dissipation of deflation risks

In mid-2017, the euro area economy showed increasingly tangible signs of recovery. Real GDP grew by 0.6% quarter-on-quarter in the first quarter of 2017, following a 0.7% increase in the fourth quarter of 2016, and the Eurosystem's macroeconomic growth projections were revised upwards in June 2017 for the entire projection horizon (2017 to 2019). Core inflation remained weak, but the risk of deflation gradually subsided. As a result, the ECB Governing Council adjusted its communication on the path of future interest rates (forward guidance) in June 2017, stating that key rates would remain "at their present levels for an extended period of time and well past the horizon of the net asset purchases", while removing the reference to the possibility of a further cut in the deposit facility rate below its current level of -0.40%. With this communication adjustment, the ECB was able both to respond to the dissipation of deflation risks and to maintain the very favourable financing conditions necessary to return inflation to its objective. Indeed, the negative deposit facility rate and the forward guidance policy help keep rates at historically low levels along the yield curve, which has a positive impact on companies' demand for credit, and hence on demand and employment. Thus, over 7 million jobs have been created in the euro area since 2013, including 280,000 in France in 2017 alone.

Monetary policy started to normalise in response to the growth in activity

The Eurosystem projections published in September 2017 pointed to widespread economic growth in the euro area. Nevertheless, core inflation, excluding energy and food products, remained at levels deemed insufficient, justifying a significant degree of monetary support.

In October 2017, the ECB Governing Council decided to halve net asset purchases, which would continue at a monthly pace of EUR 30 billion from January 2018, until the end of September 2018 or beyond if necessary. It also reaffirmed its commitment made in December 2015 to reinvest the principal payments from maturing securities purchased under the APP "for an extended period of time after the end of its net asset purchases". This decision sends out a strong signal as it implies that 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 and that the Eurosystem will remain a major purchaser of euro-denominated bonds over the long term, which will continue to put downward pressure on the yield curve. The ECB Governing Council also decided that the main refinancing operations and the three-month longer-term refinancing operations would continue to be conducted as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the last reserve maintenance period of 2019. The other components of the quartet of measures (key rates and forward guidance) remained unchanged.

Monetary policy has thus contributed to improving the economic situation

The accommodative monetary policy conducted by the Eurosystem in 2017 has contributed to improving macroeconomic conditions and the dissipation of deflation risks in the euro area. According to the latest macroeconomic projections, GDP growth is expected to reach 2.5% in 2017 (after 1.8% in 2016). Favourable developments in terms of inflation were recorded, with the annual increase in the Harmonised Index of Consumer Prices (HICP) reaching 1.5% in 2017. This result remains below the inflation objective, but well above the level recorded in 2016 (HICP inflation of 0.2%). Continued accommodative monetary conditions should support the transmission of economic growth with a rise in wages necessary for the convergence of inflation to

levels below, but close to, 2% in the medium term.

The Banque de France continued to be strongly involved in the implementation of the asset purchase programmes

The Banque de France continued to play an active role in the implementation of the APP, participating both in the public sector purchase programme (PSPP) component and in the three private sector purchase programmes (CBPP3,

CSPP and ABSPP).² To this end, it again called upon its expertise and capacity to innovate, notably by extending its reverse auction system to the PSPP, then by setting up a daily auction system for its PSPP securities lending facility.

² CBPP: covered bond purchase programme; CSPP: corporate sector purchase programme; ABSPP: asset-backed securities purchase programme.



Key figures for 2017



234

billion euro, amount of the 4th and last TLTRO II in March 2017



280,000

jobs created in France in 2017



A POWERFUL BANQUE DE FRANCE SECURITIES PURCHASE AND LENDING SYSTEM TO ENSURE MARKET LIQUIDITY AND EQUAL TREATMENT: EXTENSION OF REVERSE AUCTIONS TO SECURITIES ISSUED BY PUBLIC AGENCIES, AND THE ESTABLISHMENT OF DAILY AUCTIONS OF OAT LOANS

As part of the implementation of the public sector purchase programme (PSPP), the Banque de France has developed an effective and innovative auction system for purchasing bonds. Initially restricted to securities of supranational issuers, this system was extended in early 2017 to securities issued by French public agencies (*Caisse d'amortissement de la dette sociale* – CADES, *Union nationale interprofessionnelle pour l'emploi dans l'industrie et le commerce* – Unedic, *Agence française de développement* – AFD, BpiFrance Financement, SNCF Réseau). Once a week, the managers of the portfolio held for monetary policy purposes provide the market with a list of securities that may be purchased by the Banque de France at the best price available in the auction. As a result, Banque de France counterparties have a well-identified "window" every week to communicate their selling interests, while being guaranteed perfectly equal access and treatment. These auctions are known as reverse auctions because they enable the Banque de France to purchase securities in the most competitive conditions. Since the beginning of the year, the total amount of bids was close to EUR 38 billion for auctions dedicated to purchases of securities issued by supranational entities and public agencies, for a total allotted amount of more than EUR 12 billion.

In the second half of 2017, the Banque de France added a daily auction mechanism to its PSPP securities lending facilities in order to avoid tensions in the repo market. The managers of the portfolio held for monetary policy purposes inform the market on a daily basis of all OAT lines held under the PSPP; it is then up to the interested counterparties to bid competitively to borrow these securities against a cash guarantee. These daily auctions provide market participants with an effective solution to prevent excessive increases in the rate on OAT borrowings in the repo market. This tool has proved particularly useful, especially when nearing the delivery dates of OAT futures and the end-of-quarter and year-end deadlines.



Key figures for 2017



492.6

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



7,423

securities purchases in 2017

The Banque de France has innovated and mobilised high-level expertise to strengthen its position as the central bank for markets

Initiatives in favour of collateral

The Banque de France supports initiatives that promote the development of a single collateral market in the euro area, notably the Elixium project, a multilateral trading facility (MTF) for collateral and secured deposits. This electronic platform, endowed with intelligent trading tools and analytics that meet the needs of market participants, will make it possible, for example, to trade individual securities against standard collateral baskets, using an automated process based on Euroclear's "triparty repo" modules. Furthermore, this platform will be gradually opened up to asset managers, in addition to credit

institutions, to increase liquidity between market participants with different profiles. A clearing solution developed by LCH SA will be made available to secure transactions. With Elixium, the Paris financial sector is expanding its supply of collateral management services, offering, alongside Euro GC+, a centrally cleared service for the triparty repo market which has been available since 2015.

Further market harmonisation in Europe: migration to T2S

Following the migration of the Paris financial market to Target2 Securities³ on 12 September 2016, further integration of the European post-trade market was achieved in 2017. The completion of migration to T2S has been a success, with the connection of six central securities depositories during the first migration wave on 6 February 2017 (Austria,

Germany, Hungary, Luxembourg, Slovakia and Slovenia) and four depositories during the final wave on 18 September 2017 (Spain, Estonia, Latvia and Lithuania). In September 2017 close to 510,000 transactions on average were settled each day on the platform for an amount of EUR 780 billion.

By helping to reduce the barriers that hampered the development of European markets, T2S has thus achieved what it was set up to do: create uniform rules governing the European post-trade sector, do away with national operational differences to offer a simplified, efficient and competitive platform, and contribute to European financial integration. The entire project has been managed by the Banque de France, the Deutsche Bundesbank, the Banca d'Italia and the Banco de España, in close collaboration with the ECB.



Highlights

6 February 2017
six central depositories migrate to T2S

³ Target2 Securities (T2S) is a platform developed by the Eurosystem which offers European central securities depositories a harmonised delivery-versus-payment settlement service in central bank money.



The Banque de France has bolstered confidence in the currency

The Banque de France, the leading public printer of euro banknotes, also guarantees the quality and security of all means of payment

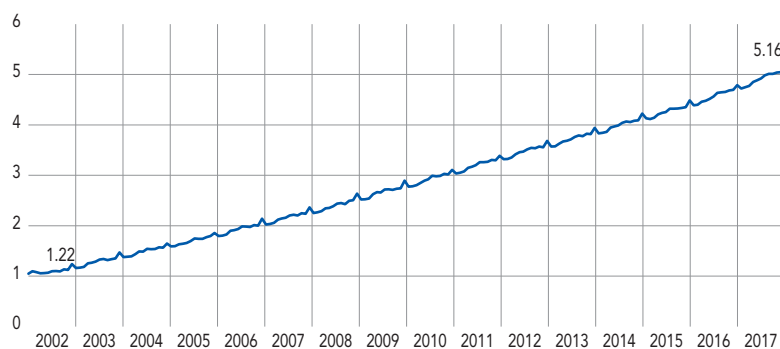
The Banque de France issues euro banknotes in France, organises their regular sorting, and puts good-quality banknotes back into circulation while withdrawing counterfeits and those that have become unfit for use. It monitors the sorting activities carried out by private operators (see Appendix 3). It also puts into circulation and withdraws euro coins on behalf of the state. It thus enables everyone to choose their means of payment.

The Banque de France is a major player in the cash industry. It manufactures, on behalf of the Eurosystem, a large portion of euro area banknotes. It also manufactures



Growth in net banknote issuance

(in billions of banknotes)



Note: Net issuance is gross issuance (new banknotes) minus banknotes withdrawn from circulation.



Key figures for 2017



1.4

billion euro banknotes manufactured and distributed



6.4

billion banknotes distributed at Banque de France counters



129

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

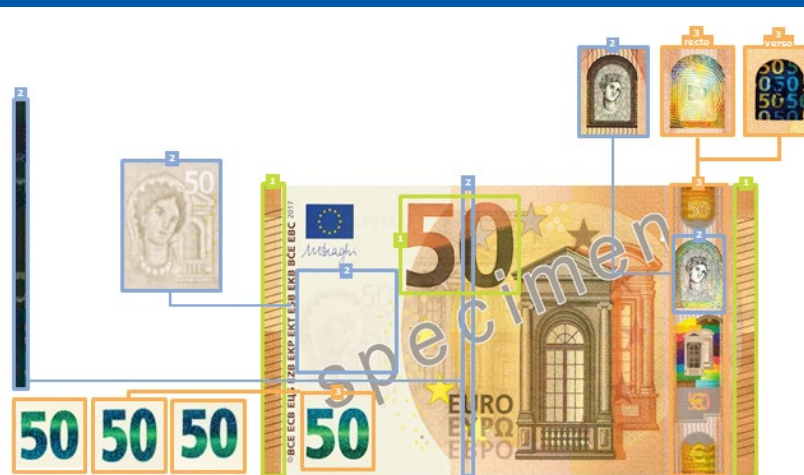
THE BANQUE DE FRANCE AND THE FIGHT AGAINST COUNTERFEITING

In 2017, the Banque de France provided training in banknote authentication to over 22,000 professionals handling cash in various capacities (bank staff, retailers, police, etc.). In addition, on its website it offers an e-learning tool, which enables visitors to discover banknotes' security features and test their knowledge.

The Banque de France smartphone application presents banknotes' security features based on the Feel-Look-Tilt method. A second "Genuine or counterfeit" application makes it possible to visually check the authenticity of physical banknotes, thanks to the smartphone's camera function.

Feel-Look-Tilt method
for checking the
authenticity
of a banknote

- 1 Feel
- 2 Look
- 3 Tilt



banknotes issued in the French overseas territories and in several foreign countries, in particular within African currency areas. In the Puy-de-Dôme department, it has a paper-manufacturing subsidiary, Europafi, in Vic-le-Comte, and printing works in Chamalières.

In 2017, the Banque de France continued to produce the €20 and €50 denominations. It is one of

the three printers selected for the production of the new €100 and €200 banknotes, and carried out the pilot production project.

In 2017, the strategic and industrial partnership initiated in 2015 with the creation of the Europafi subsidiary moved one step further when it opened up its capital to four other central banks (Ireland, Austria, Italy and Portugal). The production

facilities were modernised, in particular with the launch of a new three-format M3F paper machine. Thanks to the investments made, Europafi's production capacity is now sufficiently large to meet the needs of its customers and partners. Europafi will thus be the leading public producer of banknote paper in the euro area, with a production capacity of around 5,000 tonnes a year.



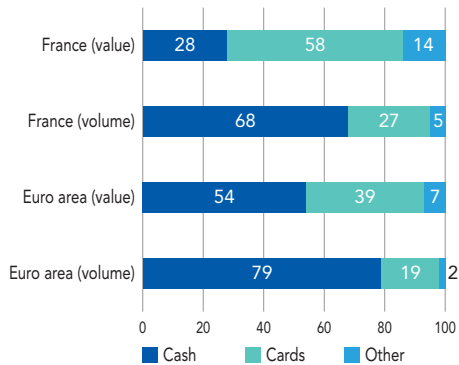
HOUSEHOLDS' USE OF CASH IN THE EURO AREA

In 2015 and 2016, the Eurosystem conducted a major study of the use of cash by households in the euro area. The results, published at end-2017, show that cash remains the principal payment instrument used in Europe: it accounts for 79% of all purchases made at points of sale and 54% of payments in value terms.

In France, 68% of transactions are made at points of sale, but only 28% of payments in value terms are settled in cash. Cash is mainly used for small payments: the average value of a cash payment in France is EUR 7.5.

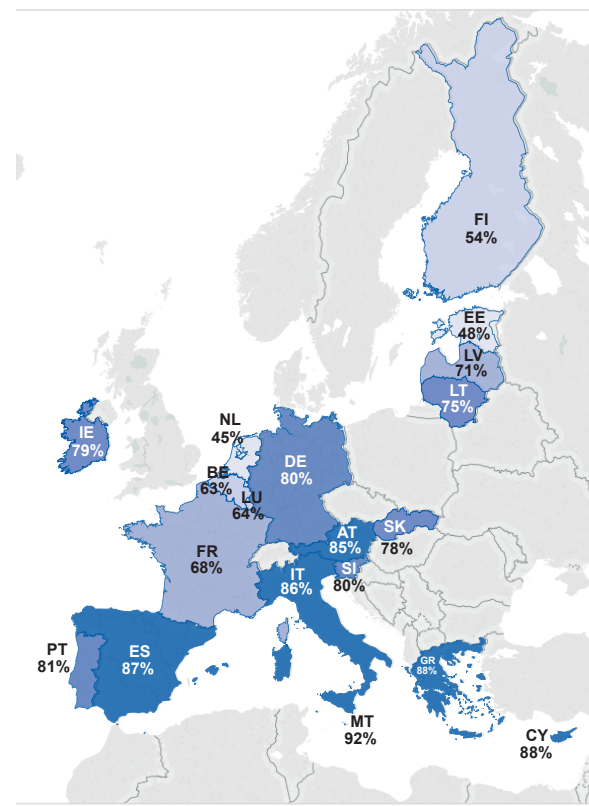
At the same time, 66% of French respondents, the highest rate in the euro area, prefer to pay for their purchases by card. The results of the survey thus confirm both the widespread use of cards in France and the predominance of cash for small daily purchases.

Respective share of cash and cards in payments at points of sale (%)



Source: European Central Bank.

Share of cash transactions (volume) at points of sale (average in %)



Source: European Central Bank.

LAUNCH OF THE NEW €50 BANKNOTE ON 4 APRIL 2017

The introduction of the new range of euro banknotes continued with the issuance of the new €50, the fourth banknote in the Europa series. In France, it is the third most widely used denomination (accounting for 20% of banknotes returned or delivered by the Banque de France), after the €20 and the €10.

Throughout the year, the Banque de France helped cash industry professionals adapt the 60,000 ATMs used in France, included the new banknote in its training sessions on banknote authentication and prepared the distribution of several hundred thousand communication materials aimed at the public.

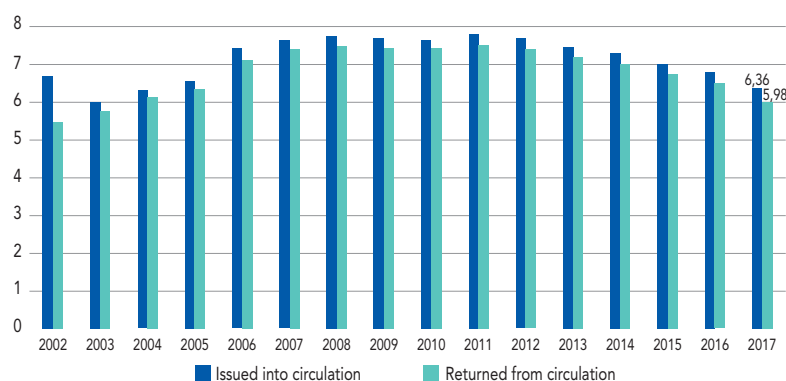
– Observatory for the Security of Payment Means; see box overleaf).

In consultation with all the players concerned, the Banque de France ensures a maximum level of security that is also economically viable for each of the means of payment considered (cards, mobile phones, contactless payments).

Oversight of payment instruments

Flow of banknotes at Banque de France and IEDOM counters

(in billions of banknotes)



Note: Flow statistics cover all banknotes in circulation.

The security of means of payment

Promoting innovative solutions, combining robustness, security, ease of use for users and interoperability

at the European level: the Banque de France is a catalyst for the development of the payments market. It provides the secretariat for the *Observatoire de la sécurité des moyens de paiement* (OSMP

Fully operational payment systems and secure and efficient payment instruments are essential to the entire economy: their smooth functioning helps to strengthen users' confidence in the currency and facilitates the implementation of monetary policy. The Banque de France thus has a broad remit with respect to the oversight of payment systems and cashless means of payment (see "The sound functioning of payment systems and financial market infrastructures" in the chapter entitled "Financial stability").



OBSERVATORY FOR THE SECURITY OF PAYMENT MEANS

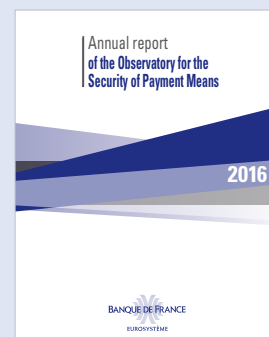
The *Observatoire de la sécurité des moyens de paiement* (OSMP – Observatory for the Security of Payment Means) took over the tasks previously assigned to the *Observatoire de la sécurité des cartes de paiement* (OSCP – Observatory for Payment Card Security) – monitoring the security measures taken by issuers, retailers and companies, compiling statistics on fraud and maintaining a technology watch in the field of payment means – but its remit was extended to include cashless means of payment. The OSCP, created by the law of 15 November 2001, was already a consultative body representing all parties concerned with the security of payment cards, on the supply side (banks, card payment systems) and the demand side (consumers, retailers and companies) as well as public agencies. The OSCP has made a major contribution to strengthening the security of card payments in France, notably by:

- collecting and publishing annual statistics on payment card fraud;
- promoting strong cardholder authentication solutions during payment;
- securing innovative solutions with respect to contactless payments and payments by mobile phone and accepting payments by mobile phone.

Data collection and OSCP recommendations have been integrated into the tools used by the Banque de France to monitor card payments since the beginning. The work of the OSCP has thus enabled the Banque de France to strengthen its expertise with respect to card security and spearhead proposals at the European level regarding regulatory requirements and applicable supervisory frameworks. Drawing on the success of the OSCP, and in accordance with the national payments strategy launched in October 2015 by the Minister of Finance and Public Accounts, the Law of 9 December 2016 on transparency, the fight against corruption and the modernisation of the economy extended the OSCP's mandate to include all cashless means of payment. This expansion will enable it to perform the security analyses that are crucial for the work carried out by the *Comité national des paiements scripturaux* (CNPS – National Cashless Payments Committee), which is in charge of ensuring the implementation of the national payments strategy.

The members of the OSMP were appointed on 20 June 2017 by order of the Minister of the Economy and Finance, based on the principle of a balanced representation of supply and demand that was already in force within the OSCP. The OSMP is chaired by the Banque de France, which also provides its secretariat.

So far, the OSMP's work has focused on the harmonisation of the methods used for collecting fraud statistics on the different means of payment. Its first annual report, published on 18 July 2017 and available on its website,¹ provides a statistical analysis of fraud involving cashless payments in France in 2016. Its future work will focus on the implementation of strong authentication for means of payment other than payment cards, as provided for in the second Payment Services Directive.



<https://www.banque-france.fr/en/liste-chronologique/annual-activity-report>

¹ <https://www.banque-france.fr/en/financial-stability/observatory-security-payment-means>

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, it plays a major role in international markets.

French support for the euro

While the crisis sowed a seed of doubt in the minds of some Europeans, and the French in particular, confidence in the euro and support for the single currency picked up in 2017. In March 2017, in a national survey, three out of four

French citizens declared themselves hostile to leaving the euro.

In 2017, according to the European Eurobarometer, more than 70% of French people supported "an economic and monetary union with one single currency, the euro". This is the highest level since June 2009.



Key figures for 2017



57

million: daily number
of cashless payments



23.3

billion euro: daily value of cashless
payments (processed by retail
payment systems in France)



52%

share of bank card payments
in total number of transactions,
compared to 37% for direct debits
and transfers and 10% for cheques



133

billion euro: total amount
of France's gold and foreign
exchange reserves net
of forex liabilities (incl. SDRs)



48.6

billion euro: total foreign exchange
reserves net of forex liabilities
(incl. SDRs)



84.7

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





Financial stability

Risks Infrastructures
Supervision
Banks Insurers
Customer protection
Prevention
Anti-money laundering
Diagnosis ACPR



The Banque de France's work to ensure financial stability has created favourable conditions for growth and employment

The Banque de France wants to be the benchmark in Europe in the field of supervision

The task of safeguarding financial stability – both at an individual and systemic level – falls to the Banque de France and the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority), working in coordination with the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability). The Banque de France and ACPR play a pivotal role in supervising financial institutions and market infrastructures, as well as contributing to necessary changes in national, European and global regulation. They thus work to safeguard the stability of the financial system as a whole.

2017 was marked by the adaptation of existing regulations and supervision

to technological innovations and global risks, and by efforts in France to promote green finance. The Banque de France and ACPR both played a decisive role in defining financial regulations and measures to protect financial stability.

Guaranteeing a sound financial sector, protecting savers

The ACPR, which is the administrative authority attached to the Banque de France, is tasked with ensuring the soundness of the financial system



Key figures for 2017



185

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

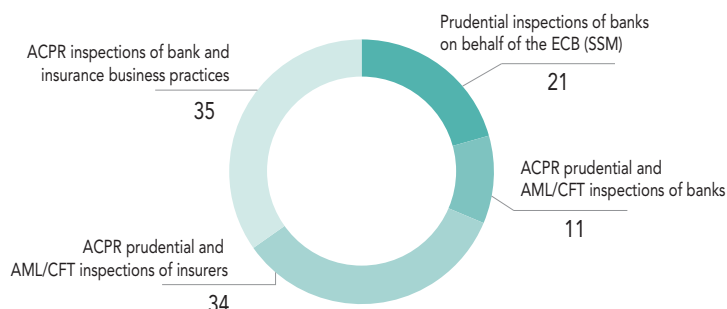


48

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

Breakdown of on-site inspections conducted by the ACPR in 2017 in the banking and insurance industries

(%)



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

and protecting the customers of institutions under its direct supervision.

Prudential oversight of the banking and insurance industries

In 2017, our bank supervision teams contributed regularly to working groups set up by the ECB (on prudential internal models, information systems, accounting controls, control methods for credit,

market and liquidity risk, etc.), by the European Banking Authority (EBA) and by the Basel Committee. They were also kept busy conducting on-site inspections and ensuring the ongoing supervision of banks.

Protecting the interests of customers

As part of its customer protection role, the ACPR conducts regular

inspections to check that institutions comply with the legislation in force. It pays particular attention to situations that can lead to a heightened risk of misselling – conflicts of interest, distance selling and sales by foreign entities under EU freedom of services rules, and sales practices with regard to vulnerable populations (see also section entitled “Protecting bank and insurance customers” in the chapter on “Services to the economy”).

Contributing to changes in prudential standards

In 2017, France increased its influence in shaping changes to prudential standards. ACPR experts helped to draft technical standards for the EBA and European Insurance and Occupational Pensions Authority (EIOPA), which will form the basis for a harmonised set of rules for financial institutions. Work was begun on preparing for the consequences of Brexit, to define exactly what will be expected of



Highlight

2017

Sanctions were imposed on six entities operating in the banking industry for failures to comply with anti-money laundering and combating the financing of terrorism (AML/CFT) requirements.

The ACPR Sanctions Committee found against all six entities and imposed fines totalling just under EUR 18 million. This included one fine of EUR 10 million, the highest ever imposed by the committee for an AML/CFT infraction.



market participants. The ACPR also contributed to two EIOPA reports on the Solvency II review, which is due to be published in 2018. In the banking industry, it helped to revise the CRD IV package, working in conjunction with the EBA and, at national level, with the French Treasury.

The Banque de France and ACPR played a key role in finalising the Basel III Accord (see box opposite), which sets global minimum standards for levels of bank capital. The ACPR also contributed to the International Association of Insurance Supervisors' technical preparations for a capital standard for large global insurers – a category that includes several major French firms.

The ACPR took on greater responsibilities in the field of insurance in 2017. Following on from the implementation of the bank resolution framework, a similar scheme was introduced for insurers under the Ordinance of 27 November 2017. Its purpose is to comply with international standards (the "Key Attributes" defined by the Financial Stability Board or FSB) and respect the commitment made at the G20 meeting of February 2015 to put in place the final elements of the financial sector reforms. The

framework gives the ACPR greater and more immediate powers to prevent insurer failures and limit their negative consequences, and

thus protect policyholders and financial stability, maintain critical economic functions and safeguard public finances.

FINALISATION OF THE BASEL III ACCORD, AN ESSENTIAL STEP TOWARDS FINANCIAL STABILITY

The Basel III Accord announced on 7 December 2017 marks the culmination of an unprecedented regulatory effort that began in 2009.

The first Basel III agreements in 2010 increased the quantity and quality of own funds and introduced a new capital standard – a leverage ratio – as well as two liquidity ratios. These reforms have had a largely positive impact on the soundness of banks, both in terms of their ability to withstand liquidity shocks and in terms of their solvency. The own funds of the largest French banks have more than doubled since the crisis, from EUR 132 billion in 2008 to EUR 296 billion in 2016.

The accord finalising Basel III includes revisions to capital requirements (or the calculation of risk-weighted assets) for credit, operational and market risk. The aim is to enhance the robustness of the results generated using internal models, and to increase the relevance of the standardised approaches. The agreement also introduces an output floor, which establishes that a measurement of risk-weighted assets calculated using internal models can be no lower than a set percentage of the value that would result if standardised approaches were applied. This is intended to limit variations in capital requirements, which were considered too significant, while preserving the overall framework's risk sensitivity, which France considers essential to ensure sound risk management by banks. The new regulations will come into force in 2022, and the output floor will be increased gradually to 72.5% in 2027.

The European Commission must now prepare a legislative proposal amending the regulation implementing Basel III in Europe.

In 2017, the ACPR was given responsibility for supervising a new form of entity, known as *fonds de retraite professionnel supplémentaire* or complementary occupational pension funds. These are privately run companies whose sole business is the coverage of supplementary workplace pension commitments and related activities, and which are subject to a prudential regime similar to Solvency I.

Continuing the creation of the Banking Union

Throughout 2017, the Single Supervisory Mechanism (SSM) fulfilled its task of ensuring the integrated, harmonised supervision of the euro area banking industry. The ACPR took part in meetings of the SSM Supervisory Board, which brings together representatives of euro area national supervisors, and participated in inspections conducted by Joint Supervisory Teams.

A new round of individual bank assessments was conducted in the euro area as part of the Pillar 2 supervisory review and evaluation process. All assessments were carried out using a harmonised methodology.



As part of the SSM, authorities also conducted a review of bank business models and profitability drivers. These are a major focus area for supervisors, given the low interest rate environment, the emergence of new technologies, the high volume of non-performing loans in some euro area countries, the increase in risk monitoring within institutions, and the need to prepare for the impact of Brexit.

Adapting our regulatory and supervisory activities to new risks

Our supervisory model is a benchmark in the European Union, and the ACPR

is very much a driving force in the region for new proposals and action.

The Banque de France and ACPR are guiding the French banking industry through the digital revolution

In June 2016, in response to the changes taking place with the digital revolution, the ACPR set up a new division dedicated to fintechs and financial innovation. In 2017, this Fintech Innovation Unit stepped up its initiatives to support new entrants and incumbent players in the market.

The Fintech Innovation Unit

The unit hosted more than 200 market participants specialising in payment systems, crowdfunding, automated financial advice and other technological fields such as blockchain, e-signatures, biometrics and artificial intelligence.

It launched several new initiatives for professionals – including the first *Matinées Fintech* conference held in the autumn of 2017, which brought together over 90 start-ups to discuss best practices in payment licensing. It also worked with fintech incubators (such as Station F), which





are dedicated hubs for meeting and exchanging with innovators.

One of the main challenges of the digital revolution is the issue of security. With this in mind, the ACPR carried out an in-depth, cross-sector survey to pinpoint the risks facing banks and insurers. Banks and other incumbent

players highlighted difficulties identifying customers remotely, and stressed the need for a modernisation of the French regulatory framework and the introduction of a national digital identity system.

Alongside the *Autorité des marchés financiers* (AMF – Financial Markets

Authority), the Financial Innovation Unit is responsible for running the Fintech Forum, which has been involved in discussions over the entry into force, in January 2018, of the second European Payment Services Directive (PSD 2). With the increasing emergence of multi-service financial intermediation platforms,



innovators often struggle to deal with multiple layers of statutory regulation and potential conflicts between rules.

The *Agence nationale de la sécurité des systèmes d'information* (Anssi – the French national cybersecurity agency), the *Commission nationale de l'informatique et des libertés* (Cnil – the French data protection agency) and Tracfin (the French financial intelligence agency) are now all permanent members of the forum. This enables it to hold valuable discussions on cyber-risk, data protection and the prevention of money laundering and terrorist financing, which are among the core challenges posed by financial digitalisation.

Contributing to European and international regulatory efforts

Inspired by its experience of the challenges faced by innovators, the Fintech Innovation Unit has consistently argued the case for proportionate regulation in its contributions to European and international deliberations. At the European level, it contributed to the European Commission's consultation on fintechs (see box opposite), while at the global level, it took part in the

THE TEN PRINCIPAL PROPOSALS SUBMITTED BY THE ACPR TO THE EUROPEAN COMMISSION IN RESPONSE TO ITS FINTECH CONSULTATION

1. Ensure the harmonised and secure implementation of the second European Payment Services Directive (PSD 2) in order to avoid regulatory arbitrage and facilitate the European expansion of French fintechs.
2. Launch an overall reflection on the European regulation of multi-service financial intermediation platforms.
3. Implement a common EU regulatory framework for alternative financing models such as crowdfunding.
4. Develop a common EU regulatory framework for peer-to-peer insurance to avoid disparities between countries.
5. Further assess the merits of adopting a sequenced approach in the licensing of credit institutions, to facilitate the creation of new banks.
6. Harmonise regulatory requirements for remote customer identification due to the rise in online and telephone banking and differences in regulations between EU countries.
7. Apply the European Banking Authority (EBA) recommendations on the use of cloud computing to the entire financial sector, to ensure that financial service providers have effective control over cloud service providers.
8. Ensure the consistent application of EU regulation on the protection of personal data, as the proper exploitation of data is vital in finance in today's digital era.
9. Set up a sound EU regime for testing disruptive projects that do not fit with the existing regulatory framework.
10. Define a common EU taxonomy for cyberincidents to facilitate information sharing between public authorities in the face of rising cyber-risks.



FSB's assessment⁴ of the financial stability implications of artificial intelligence (AI) and machine learning. The FSB report notably concluded that AI would gradually affect all financial services and would be a catalyst for profound change. It also highlighted three main risks for financial sector participants and supervisors: the risk of failure of a third-party algorithm provider; the risk of "black boxes", that is algorithms that are too complex to understand; and the risk of an inadequate governance structure. The ACPR regards algorithm transparency as of critical importance, given its implications for customer protection and for risk monitoring and management.

Encouraging industry participants to take better account of climate-related risks

The Banque de France's financial stability mandate requires it to evaluate medium and long-term threats that fall outside the realm of standard financial sector risk management. This involves examining the risks posed by climate change and their possible implications for financial stability,

and ensuring that they are properly taken into account at micro- and macroprudential level. In 2017, the Banque de France and ACPR continued the work begun in 2016 on implementing bank stress tests for climate-related risks – in accordance with Title V, Article 173 of the Law of 17 August 2015 on energy transition for green growth. They also held meetings with banks and insurers to define the methodology for assessing climate risk exposure, and to facilitate information exchange between the two industries.

Promoting green finance

Part of the Banque de France's mission is to ensure the adequate financing of the economy, which includes helping to finance the transition to a low-carbon economy. In keeping with this goal, it aims to play a role in defining a framework for green financing, which will foster its development while at the same time safeguarding financial stability. In 2017, the Bank took part in national discussions and other forums organised as part of the "Finance for Tomorrow" initiative launched by Paris Europlace.

At the global level, the Banque de France continued its involvement in the G20 Green Finance Working Group, which in 2017 focused on the application of environmental risk analysis in the financial industry, and the use of publicly available environmental data for risk analysis and decision-making.

To strengthen international cooperation on these issues, on 12 December 2017, at the Paris One Planet Summit, the Governor of the Banque de France announced the creation of a Network for Greening the Financial System. The body comprises the central banks and supervisors of eight countries, with the Banque de France acting as secretariat.⁵ Its mandate is to coordinate and build on the initiatives of its members in the fields of climate-related risk, the scaling up of green financing and the transparency of central bank investment portfolios.

⁴ FSB (2017), *Artificial intelligence and machine learning in financial services*, November, <http://www.fsb.org/2017/11/artificial-intelligence-and-machine-learning-in-financial-service/>

⁵ In addition to the Banque de France and the ACPR for France, the network comprises the Banco de Mexico, the Bank of England, De Nederlandsche Bank, the Deutsche Bundesbank, the Finansinspektionen (Swedish FSA), the Monetary Authority of Singapore and the People's Bank of China.

Safeguarding the stability of the financial system as a whole

Mitigating systemic risk

The Banque de France is responsible for the macroprudential supervision of the financial system, and twice a year conducts an assessment of its main risks and vulnerabilities. The latest report highlighted the need to monitor debt levels in France's non-financial sector (households and non-financial corporations), which are rising at a faster rate than the euro area average (see box opposite).

Macroprudential authorities have a number of tools they can use to mitigate risks, including countercyclical capital or liquidity buffers for financial system participants. In France, the national macroprudential authority, the HCSF, decided in 2017 to maintain its countercyclical buffer at 0%, while also indicating that it stood ready to act further in 2018 if the cyclical risks were confirmed. At its meeting of 15 December 2017, the HCSF announced that, as of 1 July 2018, it would adopt a macroprudential measure to limit systemic banks' exposure to highly leveraged resident corporations (see box below).

ASSESSMENT OF RISKS TO THE FRENCH FINANCIAL SYSTEM DECEMBER 2017

In its latest half-yearly review of the risks and vulnerabilities in the French financial system, published in December 2017, the Banque de France stressed that the growth outlook for France had improved (GDP growth forecast of 1.7% for 2018) in the context of a global economic recovery (global growth forecast of 3.7% for 2018 according to the IMF). The French economy appears on the whole better able to withstand future macro-financial shocks. However, the financial cycle is accelerating more than might be expected on the basis of the economic improvement, raising concerns about levels of non-financial sector debt which are already growing faster than in the rest of the euro area (see box on trends in private sector debt).

Regarding financial markets, volatility levels are currently very low, liquidity is abundant and valuations are high, both in US and European equity markets and in European credit markets. Under these conditions, there is a high risk of a sudden upward correction in risk premiums, notably in the event of an unexpected change in economic or monetary policies.

Against a backdrop of record low interest rates and a strengthening economic recovery, French financial institutions remain resilient, as demonstrated by the improvement in their solvency and liquidity ratios. However, they are still exposed to the risk of an abrupt rise in long-term rates and an ensuing correction in asset prices. Banks have reported solid performances and are benefiting from the end of the regulatory uncertainty linked to the finalisation of the Basel III Accord, which was completed on 7 December 2017. That said, a number of risks remain, notably the threat of a global fragmentation of banking regulation, and potential operational risks linked to the implementation of European market regulations.



TRENDS IN PRIVATE SECTOR DEBT

In 2017, the Banque de France compiled a report on debt levels in the private non-financial sector, based on data collected as part of its regular assessment of risks and vulnerabilities in the French financial system, and on interviews with French banks and corporate chief financial officers.

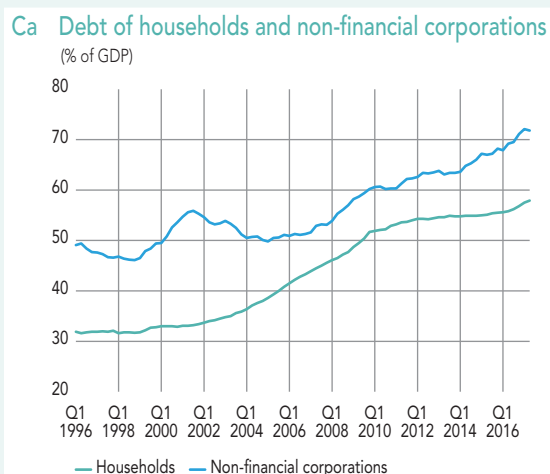
The report, published by the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability) in December 2017, stressed the continuous rise in private non-financial sector borrowing (by households and firms). Debt levels have gone from 100% of gross domestic product (GDP) in 2008, to 129.6% in the second quarter of 2017 (see Chart a), and now stand above their long-term trend – as shown by the “Basel gap” or “bank gap” (see Charts b and c).¹ Credit growth is also outstripping activity growth, with the bank-credit-to-GDP ratio rising by 2.7 percentage points year-on-year in the second quarter of 2017.

Non-financial corporations (NFCs) are playing a major role in fuelling this rise: their outstanding debt has grown by an average of 4.7% per year since 2010, reaching a total of around EUR 1,610 billion in the second quarter of 2017. The increase contrasts markedly with trends in other European countries, where NFC debt levels have remained stable or even fallen. Similarly, market-based borrowing has increased at a sharper pace in France than in neighbouring countries.

Household debt is also rising at a rapid pace, growing by an average 3.9% per year since 2008, to EUR 1,302 billion at end-June 2017. Outstanding household debt is now equivalent to 57.9% of GDP, just below the euro area average of 58.1%, and consists largely of borrowing for house purchases.

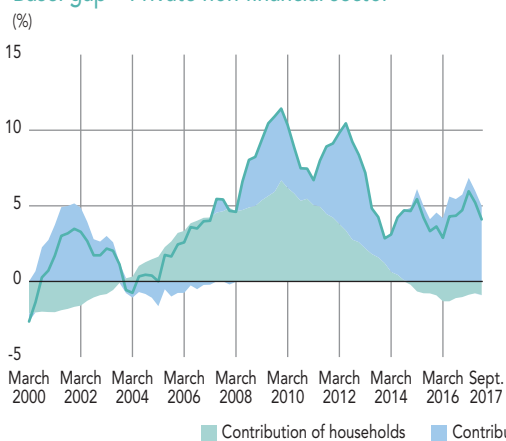
Household leverage ratios are continuing to increase (average of 90.3% of gross disposable income), particularly among the most vulnerable borrowers. The trend reflects the easing in credit standards since 2016, with an increase in loan sizes and maturities, as well as in debt-service-to-income ratios (loan repayments as a percentage of household income). The financial cycle is thus accelerating, potentially to a greater extent than suggested by economic fundamentals, and this could in turn lead to a rise in the risks to financial stability. As a result, on 15 December 2017, the HCSF – which can

¹ Gap indicators measure the difference between credit-to-GDP ratios (broad credit-to-GDP ratio for the Basel gap, and bank credit-to-GDP ratio for the bank gap) and their long-run trend.



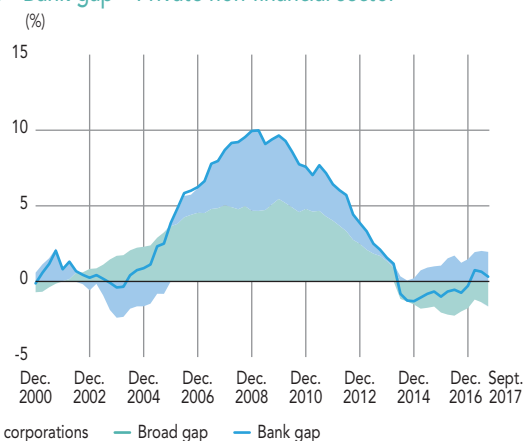
implement macroprudential tools to address systemic risk, on the proposal of the Governor of the Banque de France – announced that it was adopting a new macroprudential measure. The move is intended to strengthen bank resilience to the risks posed by the rise in NFC leverage, which is being fuelled in particular by large corporations. In line with European requirements on large exposures, the measure sets a limit of 5% of own funds on the exposure of large systemic banks to highly leveraged resident corporations. The latter are defined as those companies with a leverage ratio in excess of 100% and an interest coverage ratio of less than 3. The measure will be implemented once it has been approved by the European authorities, and is the first binding macroprudential tool activated in France.

Cb Basel gap – Private non-financial sector



Sources: Insee, Banque de France.

Cc Bank gap – Private non-financial sector



Highlight

April

Publication of the Banque de France's latest *Financial Stability Review* on the impact of the programme of financial reforms begun a decade ago.

Banque de France (2017), "The impact of financial reforms", FSR, No. 21, April

https://www.banque-france.fr/sites/default/files/medias/documents/rsf21_web.pdf

Press release from the HCSF

https://www.banque-france.fr/sites/default/files/medias/documents/communique_presse-rsf-21-20042017.pdf



The sound functioning of payment systems and financial market infrastructures

Any malfunctioning within payment and securities settlement systems can have a significant impact on the stability of the financial system. Industry participants are therefore subject to prudential supervision, and means of payment and payment systems are subject to oversight. The Banque de France has a broad remit with respect to the oversight of financial market infrastructures (payment systems, central counterparties and securities settlement systems). It ensures that financial market infrastructures comply with the European Market Infrastructure Regulation (EMIR) which is the EU transposition of the Principles for Financial Market Infrastructures, published in April 2012 by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO). The European Commission recently proposed two separate revisions to EMIR.

PROPOSED REVISION OF EMIR

On 13 June 2017, the European Commission published a set of proposed revisions to EMIR, the regulation governing over-the-counter derivatives markets and central counterparties (CCPs). The measures would overhaul the supervisory arrangements for CCPs established inside and outside the EU.

With regard to EU CCPs, the reforms would increase the direct supervisory powers of the European Securities and Markets Authority (ESMA) and central banks of issue as part of the framework for recognising third-country CCPs, with a distribution of responsibilities between national competent authorities.

For third-country CCPs, the Commission is proposing a reinforced supervisory system, based on a proportionate approach that differentiates requirements according to each CCP's systemic importance for the EU. Third-country CCPs deemed systemically important would be obliged to comply strictly with the prudential requirements of EMIR, and with any additional requirements set by the central banks of issue.

In light of the future withdrawal of the United Kingdom from the EU in March 2019, the Banque de France strongly supports this initiative. It will allow EU authorities to fulfil their financial stability mandate by ensuring that third-country CCPs wishing to provide financial services in the EU comply with European regulations.

- The first, known as EMIR REFIT,⁶ was published on 4 May 2017 and contains proposals for a reduction in clearing and reporting obligations, especially for non-financial counterparties, and a provision allowing for the

⁶ REFIT: regulatory fitness and performance programme.



Key figures for 2017



23.7

billion euro: average daily flows processed by retail payment systems in France in December 2017



291

billion euro: average daily flow of large-value payments processed by Target2 in France in December 2017

temporary suspension of the clearing obligation. Final discussions on the draft text took place at the end of 2017, for a possible adoption by the end of 2018.

- The second, known as EMIR II, aims to reinforce the supervisory framework for EU and third-country central counterparties (CCPs), by modifying the regulation establishing the European Securities and Markets Authority (ESMA) and the EMIR rules on over-the-counter derivatives markets and CCPs (see box entitled "Proposed revision of EMIR").



Anti-money laundering and combating the financing of terrorism (AML/CFT)

Safeguarding financial stability also means mitigating the risk of

money laundering and terrorist financing, as well as protecting the interests of consumers. With regard to AML/CFT, which remains the responsibility of national supervisors, the ACPR continued

to ensure that companies under its supervision comply strictly with the rules on prevention, and worked to adapt existing regulations to the ever-changing face of fraud.



Key figures for 2017



3

international conferences on financial stability and regulations organised by the Banque de France-ACPR Financial Stability Unit, and as part of the partnership with the Toulouse School of Economics



21

seminars and events, including 10 organised in conjunction with the ACPR



18

research projects and studies launched



2

editions of the *Assessment of risks to the French financial system*, published in July and December 2017



14

studies and research papers published in academic journals



The ACPR also took part in global efforts to clarify due diligence requirements for cross-border banking services (i.e. services provided by a so-called “correspondent” bank on behalf of another bank – known as the “respondent” bank). In view of the heightened money-laundering and terrorist-financing risk they pose, cross-border correspondent banking relationships are now subject to enhanced or complementary due diligence measures – in particular, the requirement for the correspondent bank to obtain approval from its senior management before establishing a new relationship.

Financial centre resilience

The Banque de France carries out regular crisis management exercises with financial centre participants (banks, market infrastructures, regulators, etc.) to test the resilience of the markets, the cash cycle, payment instruments and communications.

July 2017 saw the entry into force of CPMI-IOSCO guidance on cyber-resilience for financial market infrastructures. The growing scale, number and sophistication of cyberattacks, combined with the systemic implications of a successful

breach in today’s increasingly interconnected world, mean concerted action is needed on several fronts: reinforcement of the governance framework, increase in the ability to detect and respond to attacks and restore critical functions as quickly as possible. Within the Eurosystem, work has been continuing for several years to strengthen the existing systems and ensure greater consistency between the actions of stakeholders.

SUCCESSFUL COMPLETION OF THE PARIS RESILIENCE GROUP'S ANNUAL SIMULATION EXERCISE

On 7 November 2017, the Paris Resilience Group conducted its annual crisis simulation with the participation of the main French banks and financial market infrastructures, the French Banking Federation, and several Banque de France directorates and government departments. The aim was to test the functioning of the crisis management framework coordinated by the Banque de France, and its interaction with government departments in the event of a major operational crisis involving widespread strikes and a paralysis of public transport. Banque de France branch managers from across the Paris region and local prefects were also invited to participate, in order to examine any issues related to the cash cycle.

The results of the simulation were highly satisfactory: the Paris Resilience Group and crisis units were mobilised promptly and efficiently, all banks were well prepared, effective solutions were implemented and interaction with government departments ran smoothly.

With the spotlight now falling on the fight against cyber-risks, the Group will focus its next exercise on testing interaction with the French national cybersecurity agency, Anssi, in the event of a cyberattack on the financial sector.

These national initiatives will contribute to the work being carried out at a global level by the G7. After adopting common guidelines on cybersecurity for the financial sector in October 2016, G7 Finance Ministers and Central Bank Governors decided on 12 October 2017 to organise a crisis exercise simulating a major cybersecurity incident affecting the global financial system. The Banque de France is tasked with coordinating preparations for this exercise, which is due to take place in 2019.





Services to the economy

assessment companies
branch network individuals
economic surveys
banking inclusion
mediation right to an account
overindebtedness
consumer protection
support



The Banque de France provides high-quality services to firms, individuals and the community

It aspires to be a trusted and outstanding public service provider, and is adapting its services and organisation

The protection of customers in the bank and insurance sectors

The *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) is responsible for supervising business practices in the banking and insurance sectors and identifying the main risks for customers in both sectors. To achieve this, it notably uses the information it collects from the public and professionals, as well as the inspections it performs in the companies concerned. When necessary, the ACPR requests that they correct their practices. It may also initiate proceedings for the application of disciplinary procedures. In 2017, two sanctions were handed out.

The ACPR also shapes market practices by publishing recommendations on good practices and a brief summary of its main findings.

Lastly, it provides information to the public via press releases on the



Assurance Banque Épargne Info Service (ABE IS) website and issues an alert if it identifies a danger related to a product or player. This website is managed in close cooperation with the *Autorité des marchés financiers* (AMF – Financial Markets Authority) and the Banque de France.

In order to conduct its inspections and its oversight, the ACPR collaborates

with the AMF via a **joint unit** to ensure a fully coordinated approach vis-à-vis the financial intermediaries subject to supervision in France. It is also supported by the Banque de France, in particular by its branch network via regional supervision units.

The ACPR also cooperates with the *direction générale de la Concurrence, de la Consommation et de la*

Répression des fraudes (DGCCRF – General Directorate for Competition, Consumer Affairs and Prevention of Fraud) of the Ministry of the Economy and Finance.

The ACPR recommends good practices for payment protection insurance

The freedom of choice principle for payment protection insurance introduced in 2010 by the Lagarde Law, has since been strengthened by a number of pieces of legislation.

In 2017, the ACPR published a recommendation of good practices aiming to improve the implementation

of this principle by markets. It has three objectives: improving customer information, streamlining the processing of requests for third-party insurance and ensuring the traceability of processing the requests.

Particular focus on protected adults

As part of its work on vulnerable populations, the joint ACPR-AMF unit studied and deemed satisfactory the relations between banks and the legal representatives of protected persons (under guardianship or curatorship). A number of avenues for improvement were nevertheless

identified. Also, concerns were expressed as to the risks of exclusion that could stem from the growing digitalisation of customer relations.

Overhaul of the Assurance Banque Épargne Info Service website

The ABE IS website, jointly managed by the ACPR, the AMF and the Banque de France, was designed to provide practical information on banking, insurance and financial investment products and to help the general public in its dealings with professionals in the event of difficulties. In 2017, the site was completely overhauled: news, articles, alerts and videos are now



Highlights

7 February 2017

Disciplinary sanction for poor knowledge of the obligations applicable to mergers between different life insurance funds: insurers must comply with management strategies provided for by law to protect policyholders in the event of contracts being changed.

22 December 2017

Publication of a recommendation of good practices and a position for crowdfunding intermediaries, in order to ensure that the public is better informed (notably about the default rates of funded projects) and to implement a run-off management process (to ensure that funding operations can be completed in the event that a platform ceases its activity).



Key figures for 2017



370,000

calls taken on the ABE IS telephone platform



6,300

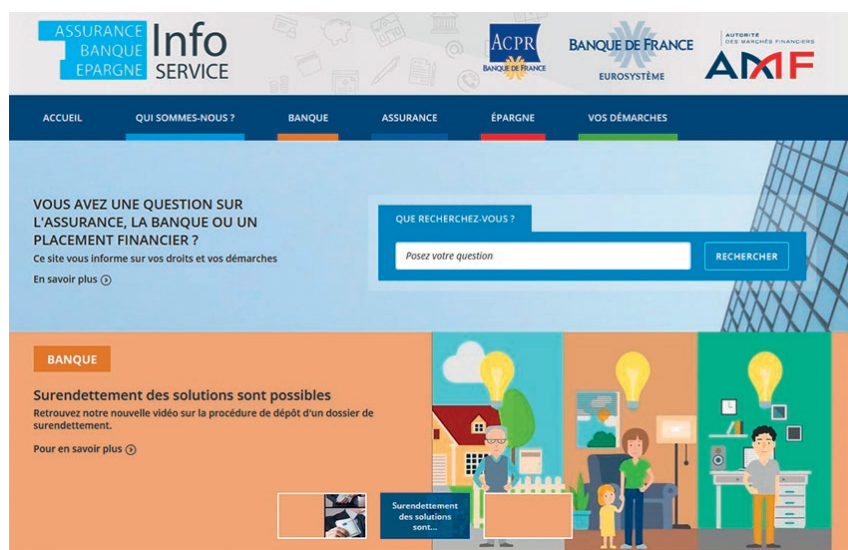
letters received from the public and analysed



2,700

advertisements examined





more easily accessible thanks to the new structure and search engine.

Communication of the ACPR's main findings in 2017

The ACPR held a conference on 27 November 2017, during which it announced the findings of its inspections in 2017, and notably

drew attention to the recent implementation of the law on unclaimed banking assets. It also recapped the work to be carried out by the professionals involved in the distribution of life insurance products ahead of the entry into force in 2018 of a European directive. Lastly, as it does each year, it presented its main observations on the letters received from the public.

Prevention of financial vulnerability

Managing large databases: a risk mitigation tool

The government has charged the Banque de France with managing several registers aimed at preventing overindebtedness and making payment instruments more secure.

The Central Cheque Register (FCC) centralises all payment incidents relating to cheques and bank cards, with a view to combating the issuance of bad cheques and the misuse of bank cards.

The National Register of Household Credit Repayment Incidents (FICP) records payment incidents related to credit granted to private individuals, as well as information relating to measures for handling cases of



Key figures for 2017



1.02

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



77

million consultations of the FNCI by merchants



FCC 1.4

million individuals recorded in the FCC



FICP 2.5

million individuals recorded in the FICP

household overindebtedness. The Banque de France worked with financial institutions to find a solution for providing proof that this register has been consulted in cases where it is compulsory. This solution should be rolled out in 2018.

The National Register of Irregular Cheques (FNCI) compiles and disseminates data to merchants and service providers seeking to verify the validity of cheques (details on stopped, lost or stolen cheques, and cheques drawn on closed accounts).

Reduce case processing times by departmental Household Debt Commissions

Under the task entrusted by the government to the Banque de France, the Bank's branches provide the secretariats for the departmental Household Debt Commissions. The latter are collegiate administrative bodies that work under the supervision of the courts to draw up and propose solutions for individuals facing serious financial problems. The government and the Bank acted together to reduce processing times.

The overindebtedness procedure is now simplified by law

Important legislative changes, requiring the expertise of the Banque de France, came into force on 1 January 2018.

- Law No. 2016 1691 of 9 December 2016, known as the Sapin II Law, which simplifies and expedites the procedure by reserving the out-of-court phase to cases in which the debtor is the owner of a property. It also improves its efficiency by dealing with the cause of most setbacks currently observed during the out-of-court phase.

- Law No. 2016-1547 of 18 November 2016 on the modernisation of French law for the 21st century, which speeds up the implementation of measures by allowing commissions to directly impose debt write-off plans without prior approval by the district judge. At the same time, it increases the involvement of magistrates in the event of disputes by lengthening appeal and challenge deadlines.

These regulatory changes should make it possible to significantly reduce the processing times for cases of overindebtedness submitted to Household Debt Commissions.



The procedure is more efficient thanks to the dematerialisation of exchanges

Indeed, the dematerialisation of exchanges with the Bank's external partners is increasing. Since 2016, the Banque de France has offered a household debt portal with two sections which will gradually be made accessible to all parties participating in the procedure:

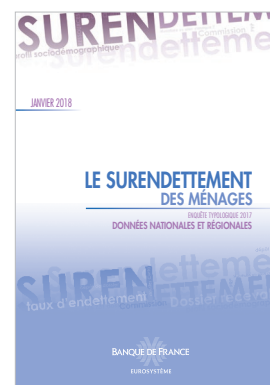
- the "commissioners" portal for the examination of cases under review;
- the "creditors" portal offering a complete dematerialisation of exchanges for creditors who have opted for this service. It is used by some credit institutions as well as by treasuries and four pilot courts before being extended

to all courts in 2018.

Moreover, for greater efficiency, the Banque de France is gradually dematerialising all overindebtedness applications in order to simplify and expedite processing.

In accordance with the provisions of Article L331-12-12 of the French Consumer Code, each Household Debt Commission writes an annual activity report on the number of cases processed, the measures taken or recommended, the type of debt involved and all difficulties encountered (see Appendix 4).

Each year, the Banque de France also conducts a survey on household overindebtedness. The 2017 report was published at the end of January 2018.



<https://particuliers.banque-france.fr/enquete-typologique-2017-sur-le-surendettement-des-menages>

Initiatives to promote banking and financial inclusion

The Banque de France continually promotes banking inclusion, improving access to suitable banking services for people in financial difficulty while ensuring best practices



Key figures for 2017



343

cases of overindebtedness per 100,000 inhabitants aged 15 and over



6.7%

decline compared with 2016 in the number of overindebtedness applications submitted to Household Debt Commissions



170,000

applications directed towards debt recovery or restructuring



In **2** out of **3** cases debtors do not have partners or are separated from them



27,862

average amount of debt in euro (excluding property loans which were present in 14.4% of cases)



75%

share of financial debt



6,286

average amount in euro of arrears on current expenses



https://publications.banque-france.fr/sites/default/files/medias/documents/inclusion_bancaire_rapport_2016.pdf

A solid expertise in the area of companies and support services

The use of statistical and survey data for the in-depth analysis of business conditions

The Banque de France collects, analyses and disseminates millions of items of data on monetary developments, financing, investments, credit and

the balance of payments. These data are published and accessible to researchers (Open Data Room).

In particular, the Banque de France conducts economic surveys, including the national and regional Monthly Business Survey which:

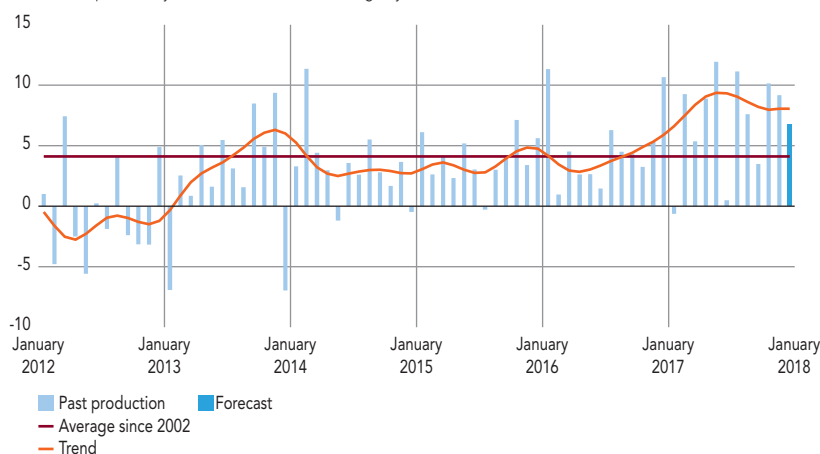
- summarises the work carried out on monitoring and analysing business conditions, and provides

are implemented by credit institutions (see chapter entitled “Corporate social responsibility”).

The Bank is responsible for the “right to an account” procedure, which was set up in 1984 for individuals or organisations that have been refused a bank account. Under the system, applicants can ask the Banque de France to designate a high street credit institution to provide them with basic banking services, free of charge.

Opinion on trends in industrial production

(Balance of opinions adjusted for seasonal and working-day variations)



Key figures for 2017



62,300

basic bank accounts opened by credit institutions at the Banque de France's request (under the right to an account procedure)



9.5%

reduction in the number of basic bank accounts opened between 2015 and 2017



85%

of basic bank accounts opened were for individuals





an assessment of the French economy to the European Central Bank (ECB), national and regional public authorities and any other interested parties;

- is conducted through the Bank's branch network across a broad panel of business leaders;
- focuses on manufacturing, market services and construction (activity levels and business outlook), as well

as on retail trade at the national level, with indices in sales volumes in brick-and-mortar and e-commerce;

- is published on the website of the Banque de France, with national series made available on the Webstat portal which provides access to the Banque de France's interactive database.

The Banque de France also conducts and publishes a quarterly survey

on public works and an annual survey on companies in each region (assessment and outlook). Around 50,000 firms are surveyed for this publication. The results are presented to companies and local players.

In 2017, the panels of respondents for the surveys were broadened to include over 200 additional companies in the services and retail sectors.

Company ratings: a reference for prudential and monetary policy needs

The Banque de France keeps a unique database, FIBEN. With over 7 million companies listed, and 250,000 companies rated, this database sheds light on the French economy. Thanks to its branch network, it garners in-depth information on France's economic fabric, which it then makes available to banks, firms and regulators. The number of data consultations



Key figures for 2017



15,000

firms participated in business surveys



100,000

subscribers to regional and national business surveys



190

Stat Info published on the Banque de France website

and the recognition of the Eurosystem are a testament to the quality of this statistical analysis tool. The Banque de France has Eurosystem In-House Credit Assessment System (ICAS) status and is a recognised External Credit Assessment Institution (ECAI). 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.

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 a shared, recognised point of reference.

The Banque de France adopts an expert approach based on an individual and in-depth analysis of the

financial and non-financial position of companies (mainly SMEs) or groups, looking notably at their financial statements, and at environmental, governance and social factors. It rates more non-financial companies on the basis of their financial statements than any other central bank within the Eurosystem. Companies with a turnover exceeding EUR 750,000 can be rated.

RATINGS ARE ASSIGNED BY THE BANK'S BRANCH NETWORK

The Banque de France rating system does not involve any automatic processes. Rather, it is based on a financial analysis of companies' accounts (earning power, financial autonomy, solvency or liquidity, etc.) and a qualitative assessment made by financial analysts in the branch network. Analysts work directly with thousands of business leaders to rate firms (38,272 rating meetings were held at end-November 2017, or 15% of the population of rated companies). "Qualitative" data are also collected, allowing analysts to draw up a qualitative profile of companies (trends in firms' market sectors, their market position, their medium-term outlook, etc.). The collection and analysis of all these data enable the Bank to assign a rating to a little over 260,000 firms.

The Banque de France rating is a composite indicator made up of two main elements:

- the turnover rating, which is only awarded if the amount of turnover is known, significant and sufficiently recent, and which ranges from A (turnover of EUR 750 million or more) to M (turnover of less than EUR 100,000);
- the credit rating, which is an assessment of the solvency risk. In decreasing order of quality, the ratings are 3++, 3+, 3, 4+, 4, 5+, 5, 6, 7, 8, 9 and P. A rating of 0 is awarded if there are no recent financial statements available, and no unfavourable information. Ratings 7 to 9 reflect the existence of trade bill payment incidents and the P rating is assigned to companies undergoing insolvency proceedings (turnaround procedure or judicial liquidation).



Monitoring the financing of companies

Pursuant to Article 169 of the Law of 6 August 2015 for growth, activity and equal economic opportunities, Ordinance No. 2016-1022 of 27 July 2016 broadened the scope of the core tasks of the Banque de France to include the monitoring of corporate financing.

In order to fulfil this responsibility, the Banque de France is authorised to request access to any documents and information it deems necessary. Tax administration officers may contribute to the accomplishment of these tasks by communicating any relevant information they have in their possession.

This broadening of its tasks allows the Banque de France to improve its knowledge of outstanding loans, which it has been centralising since 1947, and of companies' financing methods, for both statistical and financial risk monitoring purposes.

Credit mediation: engaging in dialogue to help save jobs

This service involves the Banque de France branch directors, in their capacity as credit mediators for their particular department, facilitating dialogue between companies and credit institutions and identifying solutions for companies experiencing financing difficulties.

Since the system was put in place in November 2008, over 53,000 companies have submitted applications for credit mediation, of which 78% were declared eligible for the procedure. More than 22,000 businesses have been able to obtain financing after an initial rejection, which has helped to save or secure nearly 400,000 jobs.

Monitoring and accompanying very small enterprises (VSEs)

Since 29 September 2016, the 102 VSE correspondents of the Banque de France provide free assistance to the managers of VSEs during all stages of the life of their company:



Key figures for 2017



261,516

non-financial corporations (mainly SMEs) rated by the Banque de France on the basis of their individual accounts and consolidated statements.



61%

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



96%

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



7.6

million businesses listed in the FIBEN database at 31 December 2017



14

million FIBEN consultations

creation, development, management, financing, transfer, prevention and treatment of difficulties. This service, which is offered in mainland France and its overseas departments (IEDOM branches in Guadeloupe, Martinique, French Guiana, Mayotte, Réunion, and Saint Pierre and Miquelon), is available to companies with fewer than ten employees and with a turnover of less than EUR 2 million.

The Banque de France acts as a facilitator between VSE managers looking for assistance and professional organisations willing to help them. 28 such partnership agreements were signed with chambers of commerce, financing organisations (traditional or crowdfunding), surety and credit insurance firms, association networks, employers' federations and accountancy firms.

Business leaders benefiting from this framework are provided with customised assistance. As soon as they explain their needs to a local correspondent, they are very rapidly

TO CONTACT THE VSE CORRESPONDENT IN EACH DEPARTMENT

A single national number

0800 08 32 08 (service and calls free of charge)

Email address

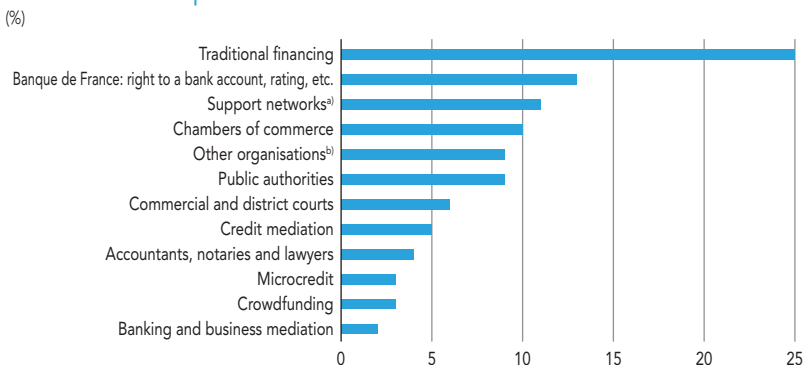
TPEnumérodédépartement@banque-france.fr



given the name of a contact person in one of the organisations. This service is essential to help business leaders who are caught up in their work and confused by the multitude

of existing mechanisms. It is also vital since there are over 3 million VSEs which constitute a significant labour and investment pool.

Referral of VSEs to professional networks (%)



a) Microcredit provided by associations such as Initiative France, France Active, Réseau Entreprendre and ADIE.

b) "Other organisations" refers to the Fédération des centres de gestion agréés (FCGA – Federation of Chartered Management Centres), surety and credit insurance firms, employers' federations, information and prevention centres.



Key credit mediation figures for 2017



2,302

requests received (down 17% of which 66% declared eligible (68% in 2016))



65%

success rate (64% in 2016)



909

businesses assisted by the credit mediation service (1,048 in 2016)



11,172

jobs saved or secured (12,768 in 2016)



Among the assisted VSEs, a certain profile emerges: 57% of the requests are submitted by business leaders whose turnover is below EUR 200,000, 76% of them have fewer than four employees and 60% of the assistance requests concern the retail, construction or services sectors.

This nascent service is greatly appreciated by VSEs:

- a satisfaction survey, conducted by an organisation outside the Banque de France, shows that 88% of the business leaders assisted by VSE correspondents are satisfied with this new service;
- thematic round tables organised by the local branches of the Banque de France were highly appreciated by professional networks and directors of VSEs;
- business leaders and entrepreneurs also greatly appreciated the presence of VSE correspondents at trade fairs.



The Banque de France has developed an innovative digital service, mainly for VSEs/SMEs. This online product for the positioning and analysis of business, gradually made available in the first quarter of 2017 under the name OPALE, completes the Bank's range of financial analysis tools.

OPALE is easy for business managers to access and use and has two independent components. The "Analysis" tool provides an overall assessment of the company's financial position and its position in the sector over the past two years, using data specific to the Banque de France, such as the distribution of credit ratings, payment delinquencies and outstanding bank loans. The "Simulation" tool allows business managers to make financial forecasts using forward-looking data.

An initial assessment was made during a day of discussions at the head office of the Banque de France. This meeting gathered the main partners and the VSE correspondents.

In addition to the appointment of correspondents, the Banque de France has developed for them an online financial assessment tool called OPALE (see box).

Provision of financial services to the state

Under an agreement signed with the government, the Banque de France manages the Treasury's accounts: it makes available to the Treasury the means to manage its cash flow, as well as an IT system that enables it to carry out all of its banking transactions (notably the payment of public sector wages and collection of taxes).



Key figures concerning the assistance of VSEs for 2017



2,142

entrepreneurs assisted by VSE correspondents (after 560 in the fourth quarter of 2016)



47%

of requests centred on financing



88%

of entrepreneurs satisfied with the service provided

The Treasury's single bank account is held at the head office of the Bank in Paris. This account centralises the transactions sent and received by the public accountants, established in mainland France and its overseas departments, via 6,000 transaction accounts. In addition to the payments in and supply of coins and banknotes, these transactions include, each year, almost one billion payment transactions. For transactions in and settlement of these payment instruments, the Bank 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.

The Bank makes an internet portal available to public finance administrators allowing them to carry out their individual transactions and monitor their account position in real time. Moreover, it is directly connected to the IT system of the Directorate

General of Public Finances (DGFIP) for retail payment transactions. The IT processing operations of the Bank are regularly tailored to the Treasury's needs and it assists the Treasury with developments such as banking mobility and the modernisation of its payment means (national payment means strategy).

Agence France Trésor (AFT), whose role it is to manage 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 the day. Several times a month, the Banque de France organises auctions⁷ of Treasury securities (OATs, Treasury bills).

EXECUTION OF THE PUBLIC SERVICE CONTRACT IN 2017

In the framework of the Public Service Contract signed between the state and the Banque de France, in 2017 the Bank's branch network welcomed and provided information to over 700,000 members of the public. In this context, it processed over 1 million requests regarding overindebtedness, Banque de France databases, the right to a bank account, or general questions about banking operations and practices. They also processed requests made by post (over 150,000), by telephone (294,000 calls received via the *Assurance Banque Épargne Info Service* (ABE IS) telephone platform, or via the internet space recently made available to the public (1,883 requests in December 2017).

Experts from the branch network participated in the 2,583 meetings of different bodies set up by the state in the framework of its economic activities.

⁷ A debt security auction is conducted as a "Dutch auction", or "multi-unit sealed-bid auction". Before each auction, AFT announces the amount it wishes to borrow. Then, each *spécialiste en valeurs du Trésor* (primary dealer) conducts its auction indicating the amount it wishes to buy and the price at which it is willing to buy.



Key figures for 2017



525

billion Treasury securities sold at auction



900

million transactions processed on behalf of the Treasury.





Transformation strategy

mobilisation
digital bank
ambitions modernisation
innovation
proximity management
exemplarity **visibility**
offering performance
public service



A transformation strategy centred on the women and men that make up the Banque de France

For managers and staff: a simpler, more modern working environment

Following the definition of the transformation plan in 2016, 2017 saw the delivery of the first milestones

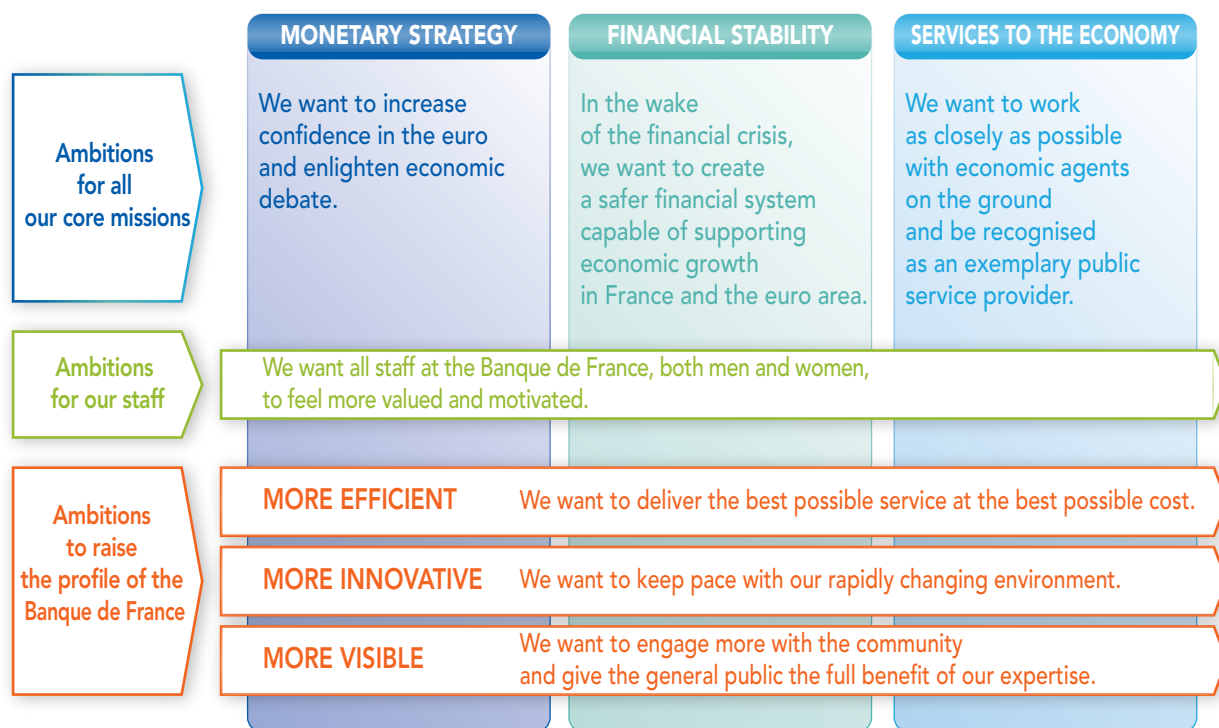
2018 will be marked by the broadening of the transformation and increased efforts to raise the Bank's profile.

strengthen the Bank's position in its areas of excellence and cement its reputation for trust in a world undergoing profound change.

The Banque de France has been evolving for a number of years, and recently gave the process new impetus with the roll-out of its Ambitions 2020 strategic plan. The aim is to

Launched last year, Ambitions 2020 comprises 59 targeted actions which set the direction for the Banque de France's strategy over a five year horizon.

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
2016-17 achievements: **568** new hires; **275** block-release contracts
- 2 200 internal promotions to professional/managerial roles by end-2020,^{a)} with the aim of raising the proportion of staff in professional and higher categories to 35%
2016-17 achievement: **100** promotions (**31%**)
- 3 9,720 FTE (full-time equivalent) staff by end-2020
2016: 11,690; 2017: **11,021**
- 4 Increase in staff confidence in the Banque de France's future to more than the 50% indicated in the 2014 BVA survey
2016 survey: 50%

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
2016-17 achievement: EUR **448** 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%** covered
- 7 10% reduction in our net operating expenses
2016-17 achievement: **-4.1%**

Our influence



- 8 Steady increases in^{b)}
 - the Banque de France's visibility
 - levels of customer satisfaction
- 9 Number of people benefiting from economic and financial education^{b)}
[Indicator currently being validated]
- 10 Ensure confidence in the euro in France is at least in line with the European average and always greater than 60%^{c)}
2016: 68%; 2017: **71%**
[European average: 74% in 2017]

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

b) There are no starting figures for these two targets, and measurement systems need to be put in place.

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%.



Covering the three core missions – monetary strategy, financial stability and services to the economy – it sets out a series of transformation levers which will make the Bank more efficient, more innovative and more visible.

It also establishes ten key performance targets which are monitored regularly to measure the Bank's progress in its turnaround (see previous table).

In 2017, the Banque de France decided to change the presentation of its transformation plan and targets, structuring them into **three major commitments** that better reflect its ambition.

In Europe: the central bank for financial markets, the benchmark in supervision and a leading player in the cash industry

This ambition concerns the Bank's role in safeguarding financial stability and supplying cash to the economy. Innovation is key in these areas, as demonstrated by the achievements described in previous chapters (see chapter entitled "Monetary strategy": boxes on the opportunities provided by big data and on reverse auctions; and chapter entitled "Financial stability": the Fintech Innovation Unit).

In 2018 the Banque de France will set up a new electronic execution system for its foreign exchange orders. The tool is a first in the Eurosystem, and will considerably simplify trading activities (see box below on the modernisation of trading).

Drawing on its expertise and past successes (notably Target2 and T2S), the Banque de France will also help put in place the new Eurosystem Collateral Management System (ECMS) – see box opposite.

The Banque de France is also taking major steps forward in the field of financial stability. Safeguarding stability in the euro area means diversifying the economy's sources of financing, which in turn calls for concerted efforts to create a capital markets union (CMU). Among the initiatives underway to deepen European financial market integration, the new rules adopted in 2017 for simple, transparent and standardised securitisation should help to increase investment opportunities. The Banque de France is also pushing for the creation of a Financing Union for Investment and Innovation, which would better channel Europe's savings surplus into productive investment.

MODERNISATION OF OUR TRADING OPERATIONS

The Banque de France operates in the financial markets as part of the Eurosystem's monetary policy framework and for the management of the ECB's foreign currency reserves. It also carries out a large number of proprietary transactions, as well as transactions on behalf of foreign central banks as part of its investment services offering.

To increase its operational efficiency, the Banque de France is modernising its trading infrastructure in the foreign exchange market. Over 60% of trades are now handled on an electronic platform, of which 20% are executed using algorithms. These innovative trading tools ensure optimal transaction execution for the Bank's proprietary and client orders, all at the best possible cost and with minimal impact on the market.

THE EUROSISTEM COLLATERAL MANAGEMENT SYSTEM (ECMS) PROJECT

On 6 December 2017, the Eurosystem Governing Council approved the offer submitted by the Deutsche Bundesbank, the Banque de France, the Banca d'Italia and the Banco de España for the development of the Eurosystem Collateral Management System (ECMS) from 2018 to 2022. The decision followed a detailed assessment by Eurosystem committees of all functional, technical and operational aspects of the project.

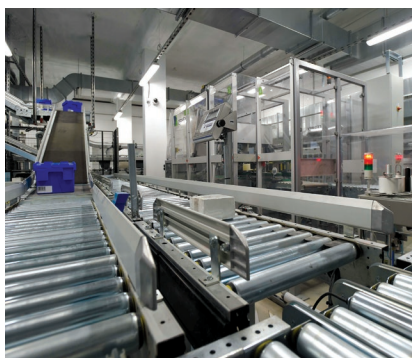
The ECMS will provide the 19 Eurosystem national central banks with a shared collateral management tool for monetary policy and refinancing operations. It complements the Target2 and Target2 Securities projects, and is designed to meet three strategic objectives:

- to contribute to the unification of euro area capital markets by making it easier for monetary policy counterparties to mobilise collateral, and simplifying the procedure for mobilising assets in other euro area countries;
- to standardise the implementation of monetary policy decisions in euro area countries and guarantee that all monetary policy counterparties have access to refinancing operations under identical conditions, irrespective of the country in which they are based;
- to optimise the cost of the information systems used in the implementation of monetary policy decisions, and shorten implementation times.

In the cash industry, the Banque de France has already strengthened its role as a leading player by forging partnerships between its paper-making subsidiary and four national central banks via Europafi. It is now taking its ambition a step further with

its **Refondation** project, designed to shore up its number one position in the Eurosystem. Under the plan, the Bank is completely modernising its industrial apparatus and will construct a state-of-the-art printing works alongside its new paper mill in

Vic-le-Comte (in the Puy-de-Dôme department). The investment will allow it to unlock synergies across its cash activities, helping to boost the performance and competitiveness of its production site.



In France: a trusted and outstanding public service provider

The Banque de France is committed to providing individuals, businesses and the community with high quality services, tailored to their needs. Its offering includes debt resolution and



OPTIMISING OUR NETWORK

The network transformation has a twofold objective – to maintain a durable and visible presence across France by strengthening our foothold in the departments, and to enhance the efficiency of our operations. Individual branches will no longer carry out all file-processing (back office) activities for their local customer base, but will instead shift these tasks to specialised sites serving several departments simultaneously.

In practice, this means that each department will have a single front-office branch dedicated exclusively to customer-facing activities and external relations (relations with businesses, credit mediation, secretariat functions for the Household Debt Commissions, financial literacy initiatives, etc.). Other sites will be equipped with processing centres and converted into shared back-offices, handling business files, overindebtedness applications or both.

Activities are gradually being transferred over a period of several years, with some branches (around 40) moving from their historical sites into more modern offices that are better equipped to serve the public. In 2017, the sites at Le Havre, Cholet, Nevers and Châteauroux all reopened in new premises.



credit mediation services, as well as the attribution of ratings to businesses.

Among our main achievements, 2017 marked the first anniversary of our VSE correspondent network (see section entitled “Monitoring and accompanying VSEs” in the “Services to

the economy” chapter). The Bank was also entrusted with a new mandate, as operator for France’s national financial literacy strategy, part of which involved launching a new online information portal called *Mes questions d’argent* (see section entitled “Improving the financial and economic education of the

general public” in the chapter entitled “Corporate social responsibility”).

The Banque de France is striving to increase public interest in the economy and its challenges, and already offers a range of learning resources via its website Citéco.



For our managers and staff: a simpler, more modern working environment

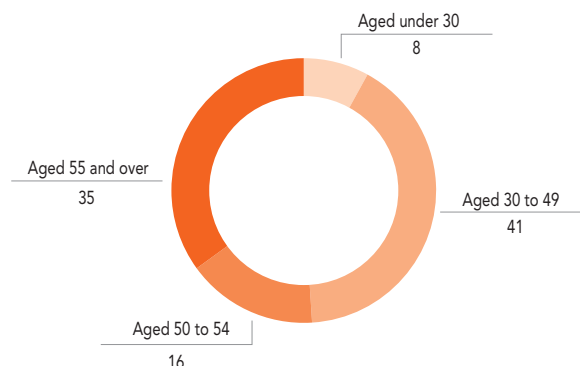
This commitment forms part of the Bank's plan to guide the natural renewal of its workforce, replace only one in two retirees and transform its core activities.

Changes in headcount

As at 31 December 2017, the Banque de France had 11,021 full-time equivalent staff (FTEs), of whom 84% were tenured and 16% on contracts. Some 50% of the workforce is based at the headquarters in Paris, with a further 43% working at the

Breakdown of headcount by age bracket

(% of full-time equivalent staff at 31 December 2017)

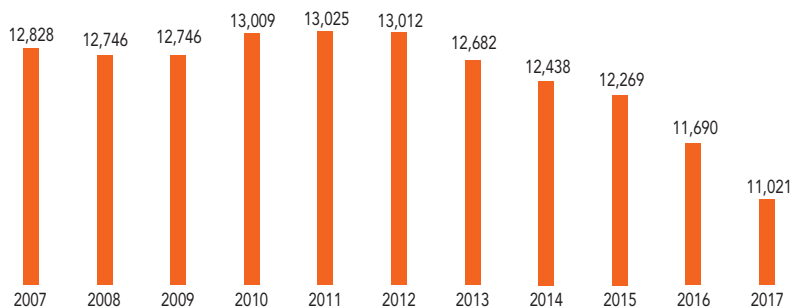


In parallel, it is putting the final touches to its new museum of economics and money, the *Cité de l'économie et de la monnaie*, which will provide interactive educational exhibits targeted at the general public and notably the young.

Being an outstanding public service provider also means optimising our efficiency. To achieve this, the Bank is overhauling its branch network by digitalising and centralising activities, modernising its customer service centres, and adapting its communication tools and network density to the changing national landscape.

Change in total headcount

(full-time equivalent staff at 31 December 2017)



branches or cash centres and 7% at the banknote manufacturing sites.

In 2017, total headcount declined by 5.7%, equivalent to 669 FTEs. The reduction was largely a result of the Bank's demographic structure as some 35% of staff are aged 55 and above. A total of 784 staff took retirement in 2017 and close to 2,000 are due to follow suit between 2018 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.

Gender equality

The gender distribution of the Banque de France's workforce is on the whole balanced, with women accounting for 47.9% of staff, and men for 52.1%. However, disparities still exist within certain business lines, with some activities, such as technical or manual roles, remaining predominantly male and others predominantly female. By way of example, 79% of staff in banknote manufacturing and 70% in IT are male, while 74% of human resources staff are female.

RECRUITMENT OF CANDIDATES WITH A SCIENTIFIC BACKGROUND

The Bank's main method of recruitment is via the competitive entrance exam, which is open to candidates of all ages. To attract a more mixed pool of talent, in 2017 it launched a new intermediate-level exam, targeted at candidates with a scientific background. Applicants must already have or be in their final year of a Bac+3-level degree in a scientific subject. Successful recruits will join one of the three core missions of the Bank – monetary strategy, financial stability and services to the economy – working as actuaries, bank and insurance auditors, economists/researchers, financial risk analysts, computer engineers, etc.

The Bank's policy is to promote gender diversity in all of its activities. The competitive entrance test for tenured staff does not itself ensure equality, but efforts are being made to encourage more women to sit the exam, in particular those from scientific backgrounds which is one area where the Bank still has a skill shortage (see box on recruitment). In 2017, the Bank recruited 62 women and 94 men (i.e. 39.7% women).

Women also account for 41.5% of staff in professional and higher categories. The Bank has made it a priority to increase the share of women in positions of responsibility, and the new equality officer and Talentu'elles support network for women are both taking active steps towards this goal

(see section entitled "A commitment towards staff" in the "Corporate social responsibility" chapter).

Renewing our management model and ensuring knowledge transfer

The Banque de France places particular emphasis on its management. It is working hard to decentralise its structure and make it less hierarchical by encouraging senior staff to take on greater responsibilities, and providing them with improved tools to coordinate their teams. It is also optimising its system of internal mobility to make the workforce more fluid (enhanced forward planning for changes such as retirements, greater visibility for job offers).

Increasing qualification levels, improving career prospects and attracting high calibre recruits with offers of engaging work

The Banque de France is reviewing its training offering to increase staff

qualifications and provide better career prospects as part of the ongoing transformation. One of the main tools for achieving this will be the newly created Banque de France University.

Since 2013, the Banque de France has also been working to increase

the number of tenured staff with a recognised professional qualification or diploma. Its goal is to have 1,200 fully certified staff by 2020.

THE BANQUE DE FRANCE UNIVERSITY

The Banque de France University is open to all staff, and is organised into a series of schools, each offering a range of courses and teaching methods (distance, online and classroom learning). It was set up with a fourfold objective:

1. To accompany staff throughout the transformation of our activities and working methods (collaborative working, dematerialisation and centralisation of back office processing, modernised working environment), both at the head office and across the network.
2. To provide all staff with new, simple and freely available training courses, regardless of their position within the Bank. The training offering will place a focus on innovation and digitalisation, and will include a range of resources for management and for foreign language learning;
3. To group together all training for the Bank's business lines in one place, and structure it into 13 schools, to be opened between 2017 and 2019, which will offer a set learning and qualification path for each job carried out at the Banque de France.
4. To simplify the procedure for accessing and enrolling on training courses by creating a dedicated web portal.



Managing change

Staff can communicate and exchange ideas via the enterprise social network, Agora, which now comprises 9,500 members across 91 communities.

In 2017, the Bank focused on accompanying its change process. It set up a dedicated change management unit, attached to the Director General of Human Resources, which is tasked with guiding and assisting the management community, and coordinating the overall transformation framework.

Helping managers to successfully roll out their transformation projects

Over the year, the unit helped to steer several large-scale change projects, notably the modernisation of the network and cash centres, the creation of the Paris-La Courneuve site and the programme of human resources reforms. It also helped to define and monitor the change management missions entrusted to external contractors, and organised co-construction and change facilitation workshops. In conjunction with the *Observatoire social*

(Social Observatory), it set up the *Fabrique du manager* or management factory, to collect feedback from managers and their experiences of the major transformations underway (modernisation of the cash centres, creation of the Nord de France cash management centre or Cefinof, centralised handling of files on businesses and individuals and overhaul of the annual staff appraisal system).

Giving managers the opportunity to share their experiences

Managers are invited to attend regular, informal get-togethers (*Petits déjeuners du changement*, *Cafés du management* or *Parenthèse du management*) where they can discuss their experiences of change management, occasionally with contributions from outside specialists.

Each month, teaching content, reference sheets and other information resources are posted on the *Manager ensemble* (managing together) section of the Agora network, covering topics such as motivation, recognition, ongoing improvement and breaking down stereotypes.

Accompanying managers

This takes a number of different forms: promoting the existing in-house support tools, encouraging the development of cross-business communities to facilitate informal exchanges, organising workshops or providing individual coaching.

As well as helping managers, the training tools put in place are being used to accompany staff directly impacted by the transformation. In addition to traditional courses, staff are being offered specific training on themes such as the quality of life in the workplace, stress management and conflicts of values. The Bank also regularly organises workshops for managers involved in branch closures to help them better manage the transition and take full account of the human impact.



Key figure for 2017



9,500

members of the enterprise social network, Agora (91 communities)

Preventing psychosocial risks

Following on from the surveys in 2013 and 2017, the Bank conducted a third survey of psychosocial risks among its workforce in September and October 2017. 51% of staff took part. The results and main focal points were presented at the end of the year to the *Observatoire paritaire de prévention des risques de santé au travail* (Observatory for Equal Opportunities and the Prevention of Health Risks at Work), which was created on 21 December 2011

The findings of the survey will be used to determine the initiatives that need to be put in place in 2018 to better accompany staff throughout the ongoing transformation.

Simplifying our working methods, improving cross-business management

Modernising the workplace environment for our staff means simplifying their day-to-day tasks. In addition to the cross-business initiatives being implemented, mainly in the support functions and for the benefit of all, individual business lines

are also looking at ways to simplify their activities and adopt more fluid, user-friendly tools. With this in mind, the budgeting process was recently overhauled with the establishment of overall expenditure “envelopes” rather than fully itemised budgets.

Asserting our ambition to be a digital bank by changing our culture and operating methods through the use of digital tools

The Banque de France is implementing a digital strategy with three main focuses:

- encouraging new working methods that are more collaborative and more agile;

- digitalising business processes to increase efficiency and the quality of our service offering;
- facilitating innovation by opening up to new actors (start-ups, fintechs, innovators), and conducting experiments in the Lab, the Banque de France’s innovation laboratory.

This strategy will allow the Banque de France to fully exploit the transformation potential offered by new technologies, in order to redefine its activities, upgrade its services and prepare for future evolutions in its business lines.

DEVELOPMENT OF TELEWORKING

The Banque de France introduced its teleworking scheme in 2010. In 2017, nearly 1,500 staff or over 11% of the workforce regularly worked from home, and the figure is steadily rising. The majority of those using the scheme are branch staff who spend one day a week working from home. Senior staff can also work occasionally from home, for up to a maximum of three days per month. In 2017, the Bank also introduced a specific scheme where staff can telework or distance work (where an employee works from the office or branch closest to their home) for up to four days per week, to help those required to relocate as part of the Ambitions 2020 plan.



AN INNOVATION LABORATORY TO SUPPORT OUR DIGITAL STRATEGY

In June 2017, the Banque de France opened its Innovation Laboratory or Lab. The facility is designed as a test centre where directorates can examine innovations in their field and assess the risks and opportunities posed by new technologies. The Lab is a future-facing initiative, open to innovators, start-ups and fintechs, and will allow the Bank to prepare for changes in its core activities. In the six months since it opened, the Lab has already carried out around a dozen experiments, launched its first call for project tenders and forged numerous ties with institutions and innovators.



USING BLOCKCHAIN TECHNOLOGY TO ASSIGN SEPA CREDIT IDENTIFIERS



In conjunction with several French banks, the Banque de France launched an experiment in its Lab to test the use of distributed ledger or blockchain technology in attributing National Issuer Numbers (NINs) and SEPA Creditor Identifiers (SCIs). Based on the positive results of the tests, the Bank and its partners decided to launch an interbank blockchain on 15 December 2017, to enable the fully digitalised, shared management of the NIN-SCI framework.

As well as being a major technological and security challenge, this interbank blockchain is the product of close collaboration between the Banque de France and the other participating banks. Four major financial institutions will sign up to the system in the first half of 2018.

*Opening up our data to users,
giving prominence to our
research and informing the
economic debate*

The Banque de France wants to increase the exploitation of the data collected as part of its activities, and share this resource more with outside users.

It has already opened up its data to a wider audience via the Webstat portal, which provides access to 35,000 economic data series, and via the Open Data Room, which is targeted at researchers and contains some 730 million data items.

Through these efforts, it helps to promote high-quality economic debate.

CREATION OF A DATA LAKE

The Banque de France is in the process of developing a data lake, a vast repository that will gather, store and provide access to highly granular, multidisciplinary data (very detailed information stemming from a wide range of activities). The data lake will offer flexible and innovative services to users, including tools to present and analyse huge volumes of information. In 2018, it will be used to collect new, granular data on bank lending.





BANQUE DE FRANCE

Governance

audit committee
executive bodies
risk management
control bodies
branch network governor
executive committee
regions operational management



Governance

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. Alongside the Deputy Governors, he is appointed by decree by the Council of Ministers for a six-year term, renewable once. François Villeroy de Galhau was appointed Governor of the Banque de France⁸ on 1 November 2015. He is supported by two Deputy Governors: Denis Beau, who was appointed on 28 July 2017 to replace Robert Ophèle, who became Chairman of the *Autorité des marchés financiers* (AMF – Financial Markets Authority); and Sylvie Goulard, who was appointed on 17 January 2018 to replace Anne Le Lorier.

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),



François Villeroy de Galhau
Governor

the *Observatoire de la sécurité des moyens de paiement* (Observatory for the Security of Payment Means), the *Observatoire de l'épargne réglementaire* (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).

⁸ By the Decree dated 30 September 2015. Article 13 of the French Constitution provides that henceforth the power of appointment of the President of the Republic shall be exercised after public consultation with the relevant standing committee in each of the houses of parliament. Under Organic Law No. 2010-837 of 23 July 2010, the nomination of the Governor of the Banque de France is subject to this procedure.

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, the Deputy Secretary General and the Director of Legal Affairs. The Chairman of the *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

Two bodies play a central role in the conduct of investment policies and market operations: the Assets-Liabilities Committee and the Risk Committee. 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). The Risk Committee, which is chaired by one of the



Denis Beau
First Deputy Governor



Sylvie Goulard
Second Deputy Governor

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 of 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.

Decision-making and control bodies

The General Council

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 two household debt centres. Services related to currency management are carried out at 45 of these establishments and at four specialised centres (see map of the Banque de France network in Appendix 1). In order to facilitate user access to the public services provided by the Banque de France (household debt resolution, access to payment incident databases, right to a bank account procedure), 74 customer service and information offices have been opened in towns where the Bank does not operate permanent branches.

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. Three members relinquished



Members of the Executive Committee (at 1 March 2018)

1 **Nathalie Aufauvre**

Director General
Financial Stability and Operations

2 **Érick Lacourrègue**

Director General
Services to the Economy
and Branch Network Activities

3 **Olivier Garnier**

Director General
Economics and International Relations

4 **Jacques Fournier**

Director General
Statistics

5 **Hervé Gonsard**

Director General
Human Resources

6 **Édouard Fernandez-Bollo**

Secretary General
ACPR

7 **Marie-Anne Poussin-Delmas**

Chairman of the IEDOM
Director General of the IEOM

8 **Vincent Bonnier**

Director General
Banknote Manufacturing

9 **Gilles Vaysset**

Secretary General

10 **Didier Elbaum**

Comptroller General

11 **Michel Cardona**

Deputy Secretary General
Committee Secretary

12 **Jacques Milleret**

Director
Legal Affairs



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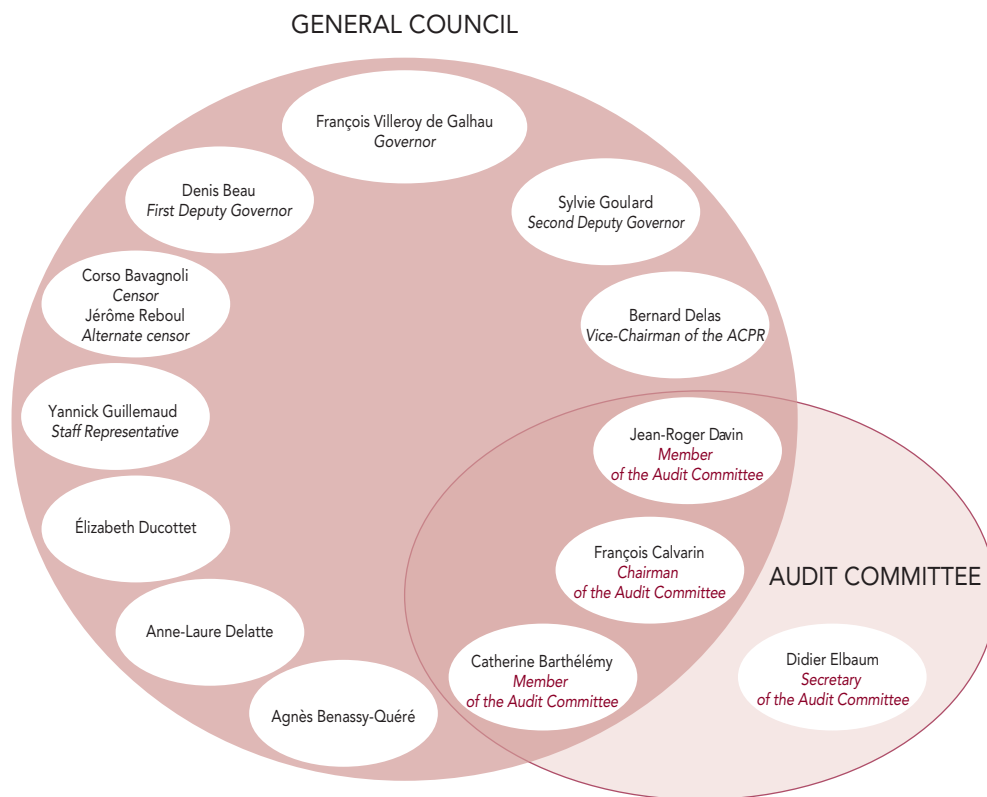
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3



The General Council and the Audit Committee



their mandate at end-2017 after serving actively on the council for several years: Philippe Auberger, Michel Felce and Marianne Laigneau.

Meetings of the General Council are attended by the censor, Corso Bavagnoli, who is appointed by the Minister of the Economy, or by his alternate, Jérôme Reboul.

In 2017, the General Council met seven times.

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 2017 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 2018;
- developments in the field of permanent control and risk management.
- 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 ethical rules.

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 mainly 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 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 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.

In 2017, the Internal Audit carried out some 40 inspections, including seven as part of the IAC framework. During the course of its work, it paid particular attention to how the Bank's three lines of control are implemented, and to the rising risks linked to information security, notably the threat of cyberattacks.

Risk management

The Banque de France has implemented a three-pronged internal control system, in line with the model proposed by the Committee of Sponsoring Organizations of the Treadway Commission. 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 2017, the Bank took the following steps to improve the calibre of its internal control:

- It adopted a new organisational structure, with functional links between the Risk Prevention Division, which manages the overall system, and local participants in the directorates general and network



branches (risk managers, business line heads of security).

- It introduced a new training path for all internal control staff, leading to a certified qualification in "Risk management and permanent control".

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 cybersecurity agency, Anssi.

July 2017 saw the entry into force of CPMI-IOSCO guidance on

cyber-resilience for financial market infrastructures (see section entitled "Financial centre resilience" in the "Financial stability" chapter). The growing scale, number and sophistication of cyberattacks on these structures, combined with the systemic implications of a successful breach in today's increasingly interconnected world, mean concerted action is needed on several fronts: reinforcement of the governance framework, increase in the ability to detect and respond to attacks, and restore critical functions as quickly as possible. Within the Eurosystem, work has been continuing for several years to strengthen existing systems

and ensure greater consistency between the actions undertaken by stakeholders.

In 2017, the Banque de France began preparations for the entry into force of the EU regulation on the protection of personal data on 25 May 2018. This mainly involves identifying and describing how personal data are used in the Bank's in-house information systems, and then defining procedures to ensure they are protected. These efforts are expected to be stepped up in 2018 as the deadline approaches.



CYBER-RISKS A KEY FOCUS FOR ACTION AT THE BANQUE DE FRANCE

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

To tackle the ever-changing nature of cybercrime, the Banque de France has equipped itself with a dedicated system of governance, consisting of an information security policy, updated in 2017, and an array of state-of-the-art IT security systems. The Bank also has procedures in place to keep staff permanently informed of the risks, and in 2017 organised an internal conference on cybersecurity.

The Banque de France has set up a nationally and internationally certified computer emergency response team (CERT), that is tasked with detecting and responding to cyberattacks. The team works actively with other CERTs at national and global level, and within the ESCB. It keeps a constant eye on the Banque de France's information systems and mobilises staff as quickly as possible in the event of a suspected cyberincident. It also monitors changes in the nature of cyberthreats (threat intelligence) as well as gathering information on cyberattackers and their methods. In 2018, the Banque de France will host the annual conference for the main central bank CERTs.





TROPHÉE CITOYEN 2017



TROPHÉE CITOYEN 2017

BANQUE DE FRANCE

TROPHÉE CITOYEN 2017

BANQUE DE FRANCE



Corporate social responsibility

microcredit partnerships
commitments
integration ABC de l'économie
environment
economic and financial
sponsorship education
parity skills
solidarity



Corporate social responsibility

The Banque de France's corporate social responsibility (CSR) policy and its wider environment saw significant advances in 2017. Following the integration of the European Directive on Non-Financial Reporting⁹ into French law, companies have strengthened communication and transparency on the climate change impact of their activities, and on their social engagement and efforts to prevent discrimination and promote diversity. Meanwhile, Article 173 of the 2015 Energy Transition Law¹⁰ extended to institutional investors the obligation to provide disclosures concerning the recognition of ESG¹¹ criteria in their investment policies and the resources that they implement to support the energy and environmental transition.

The financial sector took action in 2017 to tackle climate change.

⁹ Ordinance No. 2017-1180 of 19 July 2017 and Decree No. 2017-1265 of 9 August 2017 on the reporting of non-financial performances by certain large corporations.

¹⁰ Enacting Decree of 29 December 2015.

¹¹ Environmental, social and governance factors.



Corporate social responsibility:
four commitments and 12 priority actions



Following the One Planet Summit held on 12 December 2017 in Paris, and at the initiative of the Banque de France, eight central banks and supervisors established a Network for Greening the Financial System. The network plans to help strengthen the global response required to meet the goals of the Paris agreement and to enhance the financial system's role in managing risks and raising capital for green and low-carbon investments.

These new requirements and powerful social trends are reflective of a paradigm shift that paves the way for a CSR approach that is both more proactive and more closely integrated within the Bank's corporate strategy.

After taking steps in late 2016 to strengthen its CSR policy by

integrating it into its Ambitions 2020 strategic plan as a "reaffirmed objective at the service of society", in 2017 the Banque de France began deploying its CSR strategy through four commitments and 12 priority actions.

Consistent with its values and CSR strategy, and to support the energy and environmental transition, the Banque de France added a new priority action – contributing to responsible investment – to its economic and civic commitment. Guided by the belief that recognising environmental, social and governance questions in its investment policy will contribute to the balanced and sustainable development of the economy and society, the Bank also decided to create a Responsible Investment Charter, whose operating procedures will be applied in 2018.

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

Following its appointment as national steering body for France's economic and financial education strategy on 20 December 2016, the Banque de France rolled out a series of actions on financial literacy in 2017, centred on four main priorities:

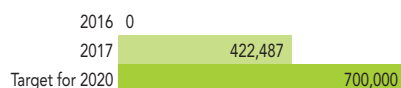
- provide young people with better education on budget management and finance;



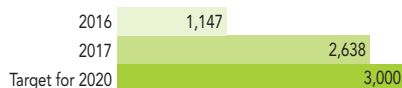
2017 indicator

Improving the economic and financial education of the general public

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



Number of teachers informed



Number of social workers trained





- provide social workers with the skills they need to assist those who are financially vulnerable;
- support lifelong learning in budget management and finance;
- ensure all audiences have the basic skills and knowledge needed to understand economic debates.

The *Mes questions d'argent*¹² (MQDA) portal, which has been up and running since 24 January 2017, provides a gateway to selected information on a range of money-related topics. Eight different sections, 100 themes and over

1,400 links offer access to unbiased and up-to-date educational information from over 168 selected sources, all free of charge.

In October 2017, the Banque de France, the Education Ministry and the *Institut d'éducation financière du public* (IEFP – Institute for Public Financial Information) signed a partnership agreement aimed at improving budgeting skills and financial literacy among primary and secondary school pupils. As part of this, the partners published 20 different sets of teaching materials for primary and secondary school teachers.

Training for social workers was enhanced in 2017 with the addition of new materials covering seven different topics to the “Social workers” area of the MQDA portal. Banque de France employees provided 1,055 training sessions to over 14,000 social workers.

For young people, a financial education (EDUCFI) programme was set up based around “introduction to business” internships leading to the award of an EDUCFI passport. More than 2,000 secondary school pupils took part through the internships or in-school sessions. In 2017, activities to build awareness about economic and financial literacy reached 31,129 people, including 11,320 schoolchildren, over the course of 1,666 sessions.

The Bank continued to strengthen its ties to the academic world thanks to the commitment of the regional



¹² <https://www.mesquestionsdargent.fr>

directors and their teams. A total of 26 agreements were signed with local education authorities aimed at informing secondary school teachers and pupils about economic and monetary developments and prudential supervision.

Citéco, the Cité de l'économie et de la monnaie

In early 2017, the Banque de France teamed up with the *Institut d'émission des départements d'outre-mer* (IEDOM – the note-issuing bank for the French overseas departments) to set up the Citéco association, which will be in charge of running the future *Cité de l'économie et de la monnaie*. As part of getting ready to welcome the first visitors at end-2018, the association appointed a director.



In all, 918 participants attended educational workshops led by Banque de France experts to teach school and university groups about what the Banque de France does.

Journées de l'économie in Lyon

As it does each year, the Banque de France took part in the *Journées de l'économie* (JECO) conference, which celebrated its tenth anniversary with an event entitled "Understanding the past to build the future" held from 7 to 9 November 2017 in Lyon. Around 50,000 people attended the conference, which was an opportunity to present current economic topics in an accessible way to a large number of people through 63 lectures and panel discussions involving 266 presenters.

The results of a survey commissioned by the Banque de France about French people and the economy were presented at the opening session. The survey found that 56% of French people take an interest in the economy and that the proportion of people who expect the economic situation to improve in the coming months is rising sharply.



The Banque de France was involved in over ten lectures. The Governor gave a talk that explored whether creating the euro was the right thing to do. Other lectures covered a broad range of topics, from Brexit to secular stagnation and financial literacy. The Bank also organised two lectures in partnership with the Education Ministry: one on microcredit and financial exclusion and another on the frontier between market and non-market activity within households. Around 300 students and school children attended.



Supporting research through sponsorship

Banque de France – Sciences Po partnership

On 20 December 2017, the Banque de France and Sciences Po Paris renewed their sponsorship agreement for a three-year term. First established in March 2012, the partnership is designed to promote French economic research at the top international level. Among other things, it has provided some of the resources needed for the institution's economics department to grow swiftly. Although established relatively recently (2009), the Sciences Po economics department is now one of France's top-three university economic research departments, according to RePEc¹³ citation rankings. In addition to helping to stage international academic conferences and joint research

seminars, the partnership has also provided a platform to increase scientific exchanges between the Banque de France and the staff of the economics department, thereby helping to enhance the quality and raise the profile of research produced at the Banque de France.

Renewed partnership with TSE

The partnership between the Banque de France and the Toulouse School of Economics (TSE) was renewed for three years in October 2017, and will continue to pursue the goal of supporting economic research in France and placing it at the forefront of economic discussion and expertise at the global level. The Banque de France hopes in this way to strengthen its position within the Eurosystem and internationally, while TSE is looking to establish a permanent place in the world's top-ten economic research schools.

With these objectives in mind, the Banque de France and TSE are continuing their long-term scientific partnership, which comprises exchanges and research organised around regular monetary macroeconomic research seminars and financial stability workshops.

Launch of DB.nomics

With most institutions embracing open data, a huge volume of information is now freely available to economists. However, the wide diversity of formats employed can make it challenging to harness the data. The DB.nomics project, launched in September 2017 with financial backing from the Banque de France, seeks to take the international macroeconomic data available on the websites of statistics offices around the world and bring them together in a single database. The idea is to rationalise access to the data and provide automatic procedures to make them easier to use. The project is supported by an external initiative that is being taken forward by the *Centre pour la recherche économique et ses applications* (CEPREMAP – Centre for Economic Research and its Applications) and France Stratégie, which have already created a prototype using data from 11 suppliers. With the support of the Banque de France, it should be possible to add a further 54 data providers.

2017 indicator Supporting research through sponsorship

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



¹³ Research Papers in Economics.



Diversifying our cultural sponsorship

Since the European Heritage Days were first created back in 1983, the Banque de France has opened its doors to the public for the annual event. While initially it provided access to its architectural and historical heritage, over the years it has increasingly placed emphasis on providing information

2017 indicator Diversifying our cultural sponsorship

Number of people admitted
to the Bank's heritage sites



about its role and tasks. In 2017, in addition to touring the Bank's exceptional heritage sites, including the Golden Gallery, with its carved wood panelling and frescoes, and the Governor's chambers, the 8,800 visitors got the chance to talk with Bank employees and learn about a variety of topics, including banknote manufacturing and authentication, the gold reserves held in the underground vault, the Bank's CSR approach, educational publications such as *ABC de l'économie*,¹⁴ the MQDA portal and Citéco's online resources.¹⁵

Elsewhere in the country, the Lille branch, which is housed in the Hôtel d'Hespel, a fine old *hôtel particulier*

on rue Royale, welcomed group visits during the European Heritage Days as well as during meetings held in Lille and at the request of cultural and artistic groups.

The Banque de France loaned Fragonard's *La fête à Saint-Cloud* for the *Jardins* exhibition held at the Grand Palais from 15 March to 24 July. More than quarter of a million people came to admire the masterpiece.

¹⁴ <https://abc-economie.banque-france.fr>

¹⁵ <https://www.citeco.fr>



An economic and civic commitment

Preventing overindebtedness

In 2017, workshops with representatives from the non-profit sector and social workers were used to identify the teaching resources needed to assist people in financially vulnerable situations. In response, as part of its task of improving economic and financial literacy, the Banque de France worked over the first six months of the year to create a structured collection of teaching resources. The "Social workers" area on the MQDA portal provides quick and free access to these resources, which are constantly being updated. Presentations were made around the country in the first half to spread the word about these educational resources.



2017 indicator Preventing and resolving overindebtedness

Percentage of second-time applications
for household debt resolution



At the same time, the Banque de France stepped up its research into overindebtedness, exploring questions such as typology and how to prevent people from falling back into debt. It strengthened its partnership with the *Union nationale des centres communaux d'action sociale* (UNCCAS – National Union of Social Action Community Centres) when the two parties renewed their agreement in July 2017.

The Banque de France also provided backing for the trial scheme involving budget advice offices. Each of these offices dispensed overindebtedness training in 2017.

Initiatives to support social workers

The Banque de France continued work aimed at raising awareness among social workers nationwide and significantly increased its interaction with the social sector. A total of 1,055 overindebtedness training sessions were organised with social workers, and the number of social workers trained climbed by around 20% in the space of a year.

Promoting banking inclusion and microcredit

The Banque de France is resolutely committed to supporting banking inclusion. Accordingly, it is working to promote microcredit through the *Observatoire de l'inclusion bancaire* (OIB – Observatory for Banking Inclusion), which devotes a portion of its annual report to this issue.

In 2017, the Banque de France went further still by organising gatherings over the year and across the country to highlight the benefits of microcredit and support initiatives in the area. These events featured panel discussions involving over 120 speakers from the sector, and attracted 1,300 participants from the public, social and non-profit sectors, banks, support networks and very small enterprises (VSEs). Discussions highlighted the usefulness of microcredit in



2017 indicator Promoting banking inclusion and microcredit

Total outstanding microcredit in France



CONFERENCE ON REGIONAL AND EUROPEAN MICROCREDIT

Paris-La Défense – 20 October 2017

On 20 October, the Banque de France took part in the third European Microfinance Day organised by the European Microfinance Network on the theme of "Fair Finance for All" by staging a conference in Paris-La Défense on regional and European microcredit. Some 20 presenters took part in the discussions, which covered innovation in the field of microcredit (digital platforms, partnerships, developments in products and services) and its impact on job creation. A panel discussion moderated by Michel Camdessus, President of the *Comité de suivi et de l'orientation de l'emploi des fonds* (COSEF – Fund Monitoring and Steering Committee) for France's *Fonds de Cohésion Sociale* (Social Cohesion Fund), talked about challenges and ways to grow microcredit in Europe. Participants included Maria Nowak, Chair and founder of the *Association pour le droit à l'initiative économique* (ADIE – Association for the Right to Create Economic Initiatives), senior executives of associations representing European microfinance organisations, and representatives from European institutions.



the journey towards social and professional inclusion and the importance of individualised support for those proposing projects.

On 20 October 2017, the Banque de France took part in the third European Microfinance Day, organised by the European Microfinance Network on the theme of "Fair Finance for All", and held a conference on regional and European microcredit (see box).

In addition, as part of the national strategy to promote public economic and financial literacy, the Banque de France conducted initiatives to raise awareness among social workers.

The MQDA portal offers a way to let potential microcredit recipients know about the existence and benefits of this type of financing.

The network of departmental VSE correspondents set up within the Banque de France in September 2016 is also being used to guide micro-entrepreneurs to the right talking partners and microfinance organisations.

In 2017, the Banque de France coordinated a bold initiative aimed at doing a better job of spotting people in financially vulnerable situations and developing a specific range of products and



services to assist them.¹⁶ This prompted the Bank to engage in sustained discussions with the major banking networks and non-profit organisations, and led the OIB, which is chaired by the Governor, to issue recommendations in five areas on 19 December 2017:

- reliability of statistics provided to the Banque de France;
- governance arrangements covering the assistance provided to affected customers;
- census of the eligible population;
- visibility, accessibility and content of services;
- training for bank personnel and social workers.

Fostering regional development and business growth

Welcoming, listening to, understanding and guiding the managers of VSEs

The Banque de France's 102 VSE correspondents are located across metropolitan France and overseas. They work to support the founders and managers of VSEs at every stage

in company lifecycles. Business leaders are often at a loss when faced with the constantly changing array of schemes on offer. VSE correspondents can guide them to the right talking partner at the professional organisations that are best placed to answer their questions.

Since the launch of this new initiative, 28 partnership agreements have been signed with professional networks, enabling VSE correspondents to provide guidance to some 3,000 VSEs (see chapter entitled "Services to the economy").

Contributing to responsible investment

As an institution of the French Republic and a member of the Eurosystem, the Banque de France takes part, through the execution of its tasks, in the development of a sound and sustainable economy. Accordingly, it has a duty to set an example, and in 2017 a Banque de France internal taskforce explored ways to discharge this duty in relation to the management of assets for which the Banque de France has direct responsibility, namely its

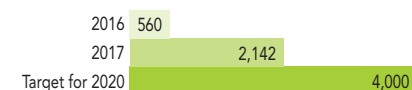
own funds and pension liabilities, excluding those subject to monetary restrictions (see box).

The Banque de France also conducted several initiatives to promote responsible finance. This included supporting fair finance through a partnership with Finansol, a non-profit organisation, to mark the 20th anniversary of Finansol's fair finance label. Fair finance is an important area for the Banque de France because it has considerable overlap with the Bank's own public service tasks in relation to individuals and businesses. In 2017, Finansol published a report celebrating the 20th anniversary of its label,

¹⁶ Article L312-1-3 of the French Monetary and Financial Code states that "Credit institutions shall offer persons not acting for professional reasons who find themselves in a vulnerable situation, notably with regard to their financial resources, a specific set of products, comprising payment instruments including at least two cheques per month, and services that are appropriate to their situation and likely to limit the expenses borne in the event of an incident".

2017 indicator **Fostering regional development and business growth**

Number of VSEs assisted annually by VSE correspondents



LAUNCH OF A RESPONSIBLE INVESTMENT APPROACH

Drawing on the experience acquired by the Bank's own asset management teams and those of numerous public and private institutional investors, and guided by the belief that environmental, social and governance factors affect the value of investments, a Banque de France taskforce recently drafted a Responsible Investment Charter together with a set of commitments and priority actions.

With this move, the Bank is acting in line with its responsibility as a long-term investor, with its statutory tasks, which include safeguarding the stability of the financial system and promoting sustainable development, and with the vision of corporate responsibility set out in its CSR Charter.

which looked back on the results of two decades of innovation in fair finance, while considering future prospects and challenges. The Banque de France also hosted a lecture organised by *Labo de*

l'économie sociale et solidaire, a social economy research centre, to coincide with the release of a report on the fair finance ecosystem entitled *L'alchimie de l'écosystème financier solidaire*.

Supporting citizenship and charitable initiatives

Encouraging staff to get involved in charitable initiatives

In 2017, the Banque de France implemented its staff community action and engagement programme, defined in its CSR strategy, which has three main components:

- The provision of direct financial support for projects put forward by employees engaged in a cause within a non-profit organisation.
- A skills sponsorship scheme allowing Bank employees to volunteer five days a year at a

1st FORUM FOR CHARITABLE INITIATIVES 2017 prizes for the best charity project proposals



On 9 October 2017, at the Forum for Charitable Initiatives held at the Banque de France's head office, the Governor announced the winners of the annual call for charity project proposals. The competition attracted a large number of submissions from staff who are personally involved in charity work. The annual prize budget of EUR 50,000 was shared between 25 projects, run by social inclusion and humanitarian charities, and by organisations for the professional insertion of people with disabilities.



2017 PIÈCES JAUNES CAMPAIGN LED BY LE PETIT NICOLAS

The Banque de France has supported the *Fondation Hôpitaux de Paris-Hôpitaux de France* foundation since 1989 and is a long-time backer of the *Pièces jaunes* (small change) fundraising campaign. In 2017, Bank employees got involved by leading coin collection drives, taking part in programmes in hospitals and, most importantly, sorting and counting 176 tonnes of small change. The 2017 campaign raised EUR 1.9 million, which will go towards funding 200 projects to improve the daily lives of hospitalised children and teens.



non-profit organisation of their choice working in inclusion, community projects or social action. The scheme will help to channel the energy and expertise of employees towards charitable initiatives.

- The organisation of teambuilding “charity” days at the request of the divisions. In 2017, around 200 employees took part in these original teambuilding sessions and participants said they were very happy to be involved with charitable associations.

d’Auteuil, an organisation that helps disadvantaged youths, as well as in sports events to raise money for good causes, including *les Foulées de l’assurance*, *Odyssée* and *la Course de la diversité*.

Contributing to professional integration

Since 2010, the Bank has partnered the Créteil Education Authority to assist secondary school students up to the BTS qualification. The agreement between the two parties, which was renewed in 2016 for a



2017 indicator
Supporting charitable initiatives

Number of staff projects supported



As part of this overall approach, more and more employees are taking part alongside the Bank in initiatives organised by the likes of *Restaurants du cœur*, a soup kitchen programme, and *Apprentis*

HALL 32, AN INFORMATION AND TRAINING CENTRE FOR INDUSTRY JOBS IN THE PUY-DE-DÔME DEPARTMENT

Proposed by the Banque de France, the Caisse des Dépôts Group, Limagrain, Michelin, Opcalia, Viameca and the Clermont-Ferrand Education Authority, HALL 32 has financial backing from the Caisse des Dépôts et Consignations through the *Programme d'investissements d'avenir* (PIA – Investment for the Future Programme) and from the Auvergne-Rhône-Alpes region. The aim is to create an innovative information and training centre devoted to industry-related jobs that can meet the skill needs of major groups, with support from central and regional government and the Education Ministry.

Specifically, the project aims to provide outstanding vocational training to 300 students annually, including young people and adults from a wide range of backgrounds.

It will also provide information and guidance on industry jobs as well as a pilot integration scheme to assist young people who have dropped out of the education system.

HALL 32 has funding of EUR 30 million over five years, provided by participating companies and government partners.

three-year term, is aimed at improving economic and financial education and fostering initiatives to support the professional integration of young people. In 2017, over 500 young people benefited from the Bank's commitment in this area, through methodological support sessions, individual mentorship by Bank staff, lectures by Bank experts and a job fair that gave students a taste of the professional world.

An environmental commitment

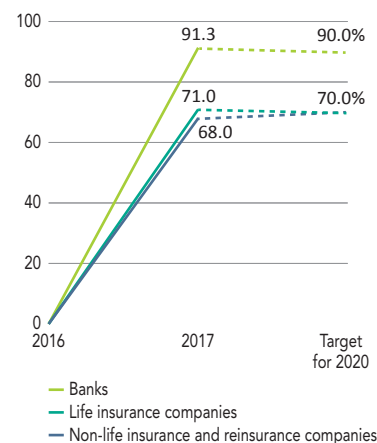
Taking account of climate-related risks

In 2017, the staff of the Banque de France and the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) continued efforts to address climate-related

risk by alerting banks and insurers to the need to integrate climate change into their risk management procedures. Internationally, the Banque de France spearheaded the creation by eight central banks and supervisors of a Network for Greening the Financial System (see chapter entitled "Financial stability").

2017 indicator Taking account of climate-related risks

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



Note: Share based on percentage of bank assets for banks and percentage of technical reserves for insurance companies. The framework for raising climate risk awareness is that of the monitoring committee set up in 2017 and the conference scheduled for 2018.



Ambitious objectives to reduce the Bank's environmental footprint

In accordance with the goal in its CSR strategy, the Banque de France is committed to reducing its greenhouse gas (GHG) emissions by 9% between 2014 and 2020, with an intermediate target of 3.8% by 2017 compared with 2014.¹⁷ This is consistent with the longer-term goal of France's Energy Transition Law, which requires GHG emissions to be cut by 40% between 1990 and 2030.

These commitments cover the three scopes covered by GHG emissions reporting, namely direct emissions (scope 1), indirect emissions linked to consumption

of electricity, heating and cooling (scope 2), and other indirect emissions (scope 3) linked especially to purchased goods and services, fixed assets and business trips. The last category is not subject to regulatory requirements but the Bank has chosen to include it in its monitoring since it accounts for the majority of its emissions.

In addition, in line with Grenelle Laws I and II, the Bank is pursuing its objective of reducing the energy consumption of its buildings (excluding industrial and IT centres) by 38% by 2020 compared with 2008. The intermediate target of a 30% reduction set for 2017 was met and exceeded, with the Bank achieving a 32.3% decrease.

Monitoring GHG emissions

GHG emissions linked to energy consumption

In 2017, the Bank's GHG emissions linked to energy consumption¹⁸ (all activities combined) totalled 20,360 tonnes of CO₂ equivalent, down 1.1% relative to 2016. The overall decline was attributable to reduced consumption of gas and fuel oil (milder weather than the previous year, Marne-la-Vallée recycled heating system back online,¹⁹ boiler room upgrade policy), despite a pick-up in industrial activity and increased district heating (consumption reporting carried over from 2016 to 2017).

Electricity was again the most heavily consumed energy source, accounting for 51% of the total, ahead of gas at 32%. The various energy sources are ranked differently for CO₂ emissions, however, owing to differences in their emission factors. Electricity has

RATIONALISING PRINTER USAGE

The profit-sharing agreement for 2016-18 set the goal of halving paper consumption in 2018 compared with 2015 across all Bank units, with an intermediate target of a 40% reduction in 2017. By end-2017, printing had been cut by 43.8% compared with 2015 as the Bank met and exceeded its goal for 2017. This impressive result was achieved on the back of a continued improvement from the network, which reported a 55.2% decline in paper consumption in 2017 relative to 2015. Meanwhile, headquarters posted a 17.2% reduction over the same period.

¹⁷ To determine whether the target set in the 2014 GHG emissions assessment (BEGES) has been met, the 2014 emissions will have to be recalculated. This will be done in 2018.

¹⁸ Scopes 1 and 2.

¹⁹ System used to heat the administrative centre in Marne-la-Vallée by recovering heat generated by the IT centre servers.

come from 100% renewable sources since 2014 and carries a very low emission factor, so its related CO₂ emissions make up a mere 5% of the total, while gas accounts for 64% of energy-related emissions due to its high emission factor.

GHG emissions linked to fixed assets

GHG emissions linked to computer equipment came to 8,511 tonnes of CO₂ equivalent in 2017, up 6.7% on 2016. The main types of GHG-emitting hardware, whose emissions increased in 2017, include flat screens and laptops, each of which account for one-third of emissions in this category. The growth

is attributable to a rise in the number of computers, in connection with the digitalisation of business processes and the working environment of Bank employees.

In 2017, the Bank pursued its policy of rationalising printer use and started a new project that will allow employees to use their badges to print materials from any printer. This should help to bring down the number of printers in the long run. The introduction of low-power mini-PC type workstations when replacing amortised devices will help to cut CO₂ emissions even further. These devices already accounted

for over 60% of all workstations by late 2017.

Building fixed assets occupy a total surface area of almost 800,000 m², corresponding to GHG emissions of 7,144 tonnes of CO₂ equivalent, or 0.1% less than in 2016. Although the impact on GHG emissions was not yet very pronounced in 2017, the Bank's real estate policy remains focused on rationalising buildings over the medium term through a renovation programme (see below).

GHG emissions linked to purchased goods and services

Purchased goods and services²⁰ represented the Bank's largest GHG emissions item at 19,345 tonnes of CO₂ equivalent, unchanged compared with 2016. These emissions mainly reflect purchased IT services but are also linked to industrial activity (papermaking and printing for banknotes).

GHG emissions linked to business travel

In 2017, business travel amounted to around 37.3 million kilometres travelled, broken down as

GHG emissions

(tonnes of CO₂ equivalent; % change)

	2016	2017	Change 2017/2016
Stationary combustion sources	16,817	16,204	-4
Sub-total, Direct emissions (scope 1)	16,817	16,204	-4
Electricity consumption	873	936	7
Steam consumption	2,865	3,182	11
Cooling consumption	35	37	7
Sub-total, Indirect emissions (scope 2)	3,773	4,155	10
Purchased goods and services	19,332	19,345	0
Building fixed assets	7,148	7,144	0
IT fixed assets	7,974	8,511	7
Business trips	8,244	7,155	-13
Commuting	19,275	17,384	-10
Other	11,360	11,946	5
Sub-total, Other emissions (scope 3)	73,333	71,485	-3
Total	93,923	91,844	-2

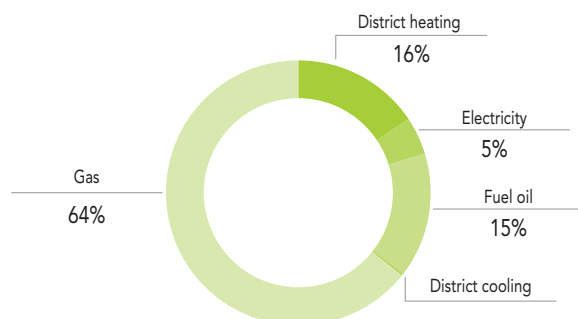
Note: 2017 data are provisional, with the exception of the "Other" item, which is calculated from estimated data.

²⁰ Excluding purchases of energy whose emissions are already recognised elsewhere.



GHG emissions by energy source in 2017

(tonnes of CO₂ equivalent)



follows: 38% by plane, 33% by train, 25% by car and 4% by public transport. Kilometres travelled by plane fell by 14% in 2017 compared with 2016, owing to reduced long-haul trips, particularly to Washington, New York and Beijing in connection with international meetings attended by the Bank.

The Bank's CO₂ emissions reduction policy also resulted in the acquisition of 16 hybrid vehicles in 2017. Hybrids

now make up 13% of the fleet. Overall CO₂ emissions linked to business travel fell by 13.2% between 2016 and 2017.

GHG emissions linked to commuting

GHG-generating commuter travel amounted to just over 109 million kilometres in 2017, down 10.4% relative to 2016, with passenger car journeys accounting for 62% of the total and public transport for 38%. This corresponded to GHG emissions of 17,384 tonnes of CO₂ equivalent for 2017, a 10.4% decrease relative to 2016. Both public transport and passenger car travel declined (falls of 11.4% and 9.8% respectively). The emission factors used to determine the GHG emissions of cars and public transport were unchanged at 254 and 7 g/km CO₂ respectively.

Increased teleworking

The share of Bank employees who are teleworking is steadily rising and now stands at 12.6% of the workforce. This new working method is another way to reduce commuting-related GHG emissions.

A real estate policy focused on energy efficiency and environmental quality

In 2017, the Banque de France continued its commitment towards a responsible real estate policy with a focus on delivering environmental quality. In its real estate decisions, it prioritises buildings offering high environmental value. For example, in Paris, ACPR staff will be housed from summer 2018 in the In Town building, which comprises 20,000 m² of office space and which was certified as an "exceptionally sustainable building – design phase" in 2015 and received a "Very Good" BREEAM²¹ rating in 2017. In Poitiers, the Bank acquired modern "BBC-Effinergie® 2005" certified premises that have housed staff from the administrative centre and the local branch since the start of 2018.

In parallel, the Banque de France is pursuing efforts to improve energy



2017 indicator
Reducing our
environmental footprint

Net GHG emissions by the Banque de France

2016	93,922
2017	91,843
Target for 2020	87,000 tonnes of CO ₂ eq.

²¹ BRE Environmental Assessment Method.

efficiency at headquarters and in the network. As part of the branch modernisation programme, 33% of boiler rooms in network buildings have been upgraded since 2014, which has helped to cut GHG emissions. At headquarters, 95% of windows had been replaced by the end of 2017 as part of the window renovation programme begun in 2012. Alongside this project, the Bank is also insulating 20,000 m² of façades and installing smart lighting systems.

Dematerialised collection of balance sheets

Around 218,000 balance sheets were remotely transmitted in 2017 to the FIBEN company database. Moreover, as part of the FIBEN overhaul, the balance sheet digitisation programme introduced in 2016 resulted in the dematerialisation, through a third party provider, of about 60,000 balance sheets received in hardcopy form or as email attachments. Of the 298,000 balance sheets handled in 2017, just 6.8% were processed manually. The constant emphasis on dematerialisation is another way in which the Banque de France is reducing its environmental footprint.

A commitment towards Bank staff

Fostering gender equality and diversity

Getting different generations working together

Attracting young people, promoting adaptability, assisting employees throughout their careers and easing the transition to retirement were the main objectives of the four-year intergenerational agreement signed with social partners on 24 December 2013. The agreement expired on 31 December 2017. The review of its results will provide a useful basis on which to begin negotiating a new agreement in early 2018.

With over 450 young people taken on during the 2014-17 period, the Bank's block release training programme policy is now well established. At end-2017, 183 young people were working at the Bank under these programmes, and a number of them have sat the Bank's entrance examination.

As regards the transition to retirement, over the 2014-17 period,

475 employees took advantage of the part-time work scheme for seniors set up under the intergenerational agreement, enabling them to reduce their hours three or more years before retiring. In 2017 alone, a total of 309 staff members were enrolled on this scheme.

Promoting gender equality in the workplace

The Bank's ongoing equality policy was restated in the company agreement signed on 6 May 2014. Its **two priority areas** are striking a **balance between work and family life** and ensuring career-long equality.

Numerous schemes are in place to ensure a healthy work/life balance, such as longer maternity leave than the statutory requirement, voluntary part-time work arrangements, the option of having a set reduced number of working days, and increased teleworking, which especially benefits women, who account for 68% of teleworkers. The Bank has also been a signatory of the Corporate Parenthood Charter since 2009. In terms of **career-long equality**, one major target of the policy is to increase the proportion of women holding senior management positions, i.e. director general or



deputy, director or deputy at the headquarters or in the branch network, from 23% to 30% by 2020.

Efforts to promote gender equality are organised around several key people, including the professional equality officer, with support from equality ambassadors, the Talentu'elles network and the CSR Taskforce. In 2017, International Women's Day on 8 March was used as an opportunity to bring stakeholders together through innovative workshops at the Bank's headquarters on three themes: gender diversity, gender stereotypes and work/life balance.

The Talentu'elles network, launched in October 2016 thanks to the engagement of female staff members and with the backing of the Banque de France, aims to enhance workplace gender equality and nurture talent in all its

forms. The network already boasts over 500 members, 27% of whom are men. In 2017, Talentu'elles stepped up its presence in the Bank's divisions by organising awareness-raising and information initiatives, both internally, in a variety of innovative formats (afterwork sessions and outside speakers) and externally, by using Twitter and LinkedIn.

Promoting the integration of people with disabilities

Since 1988, when it signed its first company-wide agreement on the topic, the Bank has pursued a proactive policy to integrate people with disabilities. In 2017, it signed its tenth agreement, demonstrating its determination to continue promoting the integration and employment of people with disabilities. *Mission Handicap*, the bank's disability taskforce, kept up efforts to raise staff awareness about disabilities, which included communication activities at its headquarters and around the country. Approximately 600 disabled employees working within the company are currently covered by the agreement's provisions.

The new agreement also provides for increased recourse to the sheltered



sector by significantly raising the targets for collaboration with *établissements et services d'aide par le travail* (ESATs – centres that provide work opportunities for people with disabilities) and *entreprises adaptées* (EAs – sheltered companies). The Banque de France's own ESAT, which opened in 1979, continues to be the primary beneficiary of this measure, employing 22 people with cognitive impairment who work for different divisions within the Bank.

Encouraging skill acquisition and career development

Professional training forms part of the Bank's corporate strategy and is incorporated into the guidelines and initiatives of the Ambitions 2020 strategic plan. Training and skill development are key components



2017 indicator Fostering gender equality and diversity

Percentage of women
in top management positions

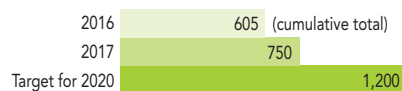


of the human resources policy, as a transformation tool to make the Bank more efficient, innovative and agile. The Bank's ambitious goals are reflected in its elevated level of training expenditure: in 2017, 7.9% of the wage bill was earmarked for training, placing the Banque de France among the highest-spending companies in this area.



2017 indicator
Encouraging skill acquisition
and career development

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



The Banque de France has committed itself to holding spending at 7% or more on average through to 2020.

One of Ambitions 2020's flagship projects, the Banque de France University (see chapter entitled "Transformation strategy") was inaugurated by the Governor on 20 November 2017. This virtual university, which is part of the company's training strategy, draws on existing training structures while adding a new digital dimension. Open to all staff members, it facilitates access to a set of innovative educational resources and groups together all operational training programmes into a series of virtual "schools", three of which were opened in 2017. The goal of the University is to provide the same

amount of training as previously, while at the same time improving its effectiveness and making it more attractive and accessible to everyone.

In addition, the Banque de France has been working since 2013 to increase the number of tenured staff with a recognised professional qualification or diploma. Its goal is to have 1,200 fully certified staff by 2020.

Quality of life at work

As part of its transformation plan, the Banque de France put the emphasis in 2017 on supporting change (see chapter entitled "Transformation strategy").



CSR dashboard

Priority actions	Indicators	2017 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 Baseline: zero portal visits in 2016 1,147 teachers informed in 2016 zero social workers trained in 2016	422,487 2,638 14,840	* 700,000 pages * 3,000 teachers ^{a)} * 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 Baseline: 83 events organised in 2016	94	100 events organised ^{b)}
3. Diversifying our cultural sponsorship	Number of persons admitted to the Bank's heritage sites at headquarters and in the regions Baseline: 15,000 visitors in 2015	13,962	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 ^{c)} Baseline: 45% of files in 2016 were second-time applications	46%	37%
5. Promoting banking inclusion and microcredit	Total outstanding microcredit in France Baseline: EUR 1.2 billion at the end of 2015	EUR 1.4 billion at end-2016 (the indicator for end-2017 will be available in May 2018)	EUR 2 billion outstanding amount of assisted microcredit
6. Fostering regional development and business growth	Number of VSEs assisted annually by VSE correspondents Baseline: 560 VSEs assisted in 2016	2,142	4,000 VSEs ^{d)}
7. Contributing to responsible investment	The indicator will be defined in 2018		
8. Supporting charitable initiatives	Number of staff projects supported per year (financial support and skills sponsorship) Baseline: no funding projects supported in 2016.	25	At least 60 projects

CSR dashboard

Priority actions	Indicators	2017 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) Baseline: 0% at end-2016	Banks: 91.03% Insurers: 71% Non-life insurers and reinsurers: 68%	Banks: at least 90% Insurance: at least 70%
10. Reducing our environmental footprint	Annual CO ₂ emissions Baseline: 93,922 tonnes of CO ₂ equivalent in 2016	91,843 tonnes of CO ₂ equivalent	87,000 tonnes of CO ₂ equivalent
A 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 Baseline: 23.2% at end-November 2016	21.9%	30%
12. Encouraging skill acquisition and career development	Number of employees who have obtained a certified qualification via the Banque de France University (cumulative total) Baseline: 605 employees in 2016 (end-Nov. 2016)	750	1,200 certified employees

a) Target revised upwards (initially set at 2,000 in 2016).

b) Scope and target reset.

c) 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.

d) Target revised downwards (initially set at 6,000 in 2016).



Financial management and accounts

capital shares
performance
transactions net worth
portfolios
gold securities valuation
balance sheet liabilities
currencies



Report on assets, liabilities and performance

The Banque de France General Council approved the financial statements for the year ended 31 December 2017 at its meeting of 12 March 2018.

Assets and liabilities

A key development during the year 2017 was the 25% increase in the Banque de France's balance sheet to EUR 1,054 billion at 31 December 2017. This corresponds to a EUR 208 billion rise and resulted from the Bank's active participation in the implementation of the quantitative easing monetary policy decided by the Governing Council of the European Central Bank. On the assets side, the asset purchase programmes were reflected in a EUR 150 billion year-on-year increase in euro-denominated securities held for monetary policy purposes in the Banque de France balance sheet. Loans to credit institutions related to monetary policy operations were also up year-on-year by EUR 43 billion. On the liabilities side, there was a EUR 160 billion year-on-year increase in deposits from credit institutions related to monetary policy operations.

In addition, euro banknotes in circulation recorded in the Banque de France's liabilities continued to grow, up 4.0% at EUR 217 billion.

Breakdown of profit

Net income from activities grew as a result of these balance sheet increases to reach EUR 8,187 million in 2017. After covering operating expenses, which were down 1.1% year-on-year, profit before tax came in at EUR 6,018 million, up EUR 463 million compared with 2016.

Corporate income tax was also up at EUR 2,690 million, largely due to the new 30% surtax applied to companies with gross revenues of more than EUR 5 billion. As a result, net profit declined in 2017 to EUR 3,328 million from EUR 3,522 million in 2016.

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

- allocation to the general reserve of EUR 166.4 million, i.e. 5% of net profit;
- dividend payment to the state of EUR 2,306.2 million;

- allocation to the Employee Reserve Fund of EUR 169.7 million, equivalent to the 2017 net current service cost;
- allocation to the provision for investment of EUR 15.7 million;
- allocation to the general reserve fund of EUR 10.6 million;
- allocation to the special pension reserve fund of EUR 659.1 million.

The total amount paid to the state in taxes and dividends came to EUR 4,996.5 million for 2017.



Individual financial statements of the Banque de France

The balance sheet and profit and loss account

Balance sheet at 31 December 2017

(EUR millions)

Notes to the balance sheet	ASSETS	At 31 Dec. 2017	At 31 Dec. 2016	Notes to the balance sheet	LIABILITIES	At 31 Dec. 2017	At 31 Dec. 2016
1	A1 Gold	84,733	85,993	14	L1 Banknotes in circulation	216,957	208,710
2	A2 Foreign currency assets (excl. relations with the IMF)	47,815	51,295	4	L2 Euro-denominated liabilities to euro area credit institutions related to monetary policy operations	488,750	328,789
	2.1 Foreign currency assets held with non-euro area residents	31,472	39,238		2.1 Current accounts	227,307	181,597
	2.2 Foreign currency assets held with euro area residents	16,343	12,057		2.2 Other liabilities	261,443	147,192
3	A3 Relations with the IMF	14,227	16,071	15	L3 Other euro-denominated liabilities to euro area credit institutions	14,609	3,953
	3.1 Financing provided to the IMF	3,260	4,894	16	L4 Euro-denominated liabilities to non-euro area residents	53,424	36,447
	3.2 Acquisitions of SDRs	10,967	11,177	2	L5 Foreign currency liabilities	1,398	976
5	A4 Euro-denominated claims on non-euro area residents	1,335	3,778	3	L6 Counterpart to SDR allocations	12,050	12,922
4	A5 Euro-denominated loans to euro area credit institutions related to monetary policy operations	113,709	70,625	17	L7 Relations within the Eurosystem	509	14,123
5	A6 Other euro-denominated loans to euro area credit institutions	13,513	15,379	18	L8 Euro-denominated liabilities to other euro area residents	66,947	23,288
6	A7 Euro-denominated securities issued by euro area residents	553,614	408,589		8.1 Liabilities vis-à-vis the state and government agencies	25,212	13,882
	7.1 Securities held for monetary policy purposes	486,463	335,299		8.2 Other liabilities	41,735	9,406
	7.2 Other securities	67,151	73,290	19	L9 Items in the course of settlement	150	125
	A8 Relations within the Eurosystem	127,953	98,822	20	L10 Banking transactions	76,078	87,609
13	8.1 Participating interest in the ECB	1,545	1,545	21	L11 Other items	6,159	5,831
7	8.2 Claims arising on the transfer of reserve assets to the ECB	8,217	8,218	22	L12 Provisions for liabilities and charges	912	916
8	8.3 Claims on the Eurosystem for euro banknotes in circulation	87,949	88,864	23	L13 Revaluation accounts	72,526	79,246
9	8.4 Other claims on the Eurosystem	30,241	195	24	L14 Fund for general risk and tax-regulated provisions	8,094	8,094
10	A9 Advance to the IEDOM	5,462	5,251	25	L15 Revaluation reserve for state gold and foreign exchange reserves	22,377	22,340
	A10 Claims on the French Treasury	0	0	26	L17 Capital, reserves and retained earnings	9,252	8,368
11	A11 Other euro and foreign currency denominated financial assets	83,976	79,669		L18 Net profit	3,328	3,522
12	A12 Other items	5,289	8,097				
13	A13 Fixed assets	1,893	1,687				
	13.1 Tangible and intangible fixed assets	1,207	1,147				
	13.2 Participating interests other than the ECB	686	541				
	TOTAL ASSETS	1,053,520	845,258		TOTAL LIABILITIES	1,053,520	845,258

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 2017

(EUR millions)

Notes to the P&L	2017	2016
1 Net income from Banque de France activities	8,187	7,748
31 1.1 Net interest income	7,632	6,773
1.1.1 Interest and related income	8,478	7,094
1.1.2 Interest and related expenses	-846	-320
32 1.2 Net income from financial transactions	62	305
1.2.1 Net realised gains/losses and unrealised losses on foreign exchange	37	281
1.2.2 Net allocations to/reversals from the foreign currency revaluation reserve	-37	-281
1.2.3 Other income and expenses on financial transactions, net	62	305
1.3 Commission	2	16
1.3.1 Commission income	40	46
1.3.2 Commission expenses	-38	-30
33 1.4 Income from equity securities and participating interests	290	299
34 1.5 Net result of pooling of monetary income	-521	-321
35 1.6 Other income and expenses, net	722	675
2 Operating expenses	-2,169	-2,193
36 2.1 Staff costs and related expenses	-949	-954
2.2 Pensions and related expenses	-475	-467
2.3 Taxes other than income tax	-49	-49
2.4 Provisions, depreciation and amortisation	-148	-137
2.5 Other operating income and expenses, net	-548	-585
Profit before tax and exceptional items (1 + 2)	6,018	5,555
3 Net additions to fund for general risks and tax-regulated provisions	-1	4
4 Exceptional items	0	0
4.1 Exceptional income	0	0
4.2 Exceptional expenses	0	0
37 5 Corporate income tax	-2,690	-2,038
Net profit for the year (1 + 2 + 3 + 4 + 5)	3,328	3,522

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 R144-6 of the French Monetary and Financial Code, which specifies the following provisions.

- For all activities carried out within the framework of the ESCB, the Banque de France must comply with the accounting and valuation methods laid down by the ECB in its Guideline of 11 November 2010²² on the legal framework for accounting and financial reporting in the European System of Central Banks (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)²³ and 3 November 2016 (ECB/2016/34). This Guideline 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.

²² Official Journal of the European Union of 9 February 2011, L35, page 31.

²³ An unofficial consolidated version was published in the Official Journal of the European Union on 21 July 2015.

- The accounting rules established by the *Autorité des normes comptables* (ANC – 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.

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.

Where 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 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).

Other foreign currency gains and losses

The Banque de France applies ANC Regulation 2014-03 to foreign currency transactions that are not connected to its main responsibilities as a national 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 Note 30);
- A4 or A7.2 for other euro-denominated securities depending on whether they are issued by non-residents or residents.

Securities held for monetary policy purposes (item A7.1) are now recognised at amortised cost, irrespective of their intended holding period. 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 continue to be recognised as before.

- Fixed-income securities that the Banque de France has decided to hold to maturity are recognised in the financial statements at amortised cost. They are tested for impairment annually and may be written down in the event of 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 profit and loss item 1.2.3 as financial transaction expenses. 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.

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 profit and loss item 1.2.3 as financial transaction expenses. 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 accruals 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 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.

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 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 17) 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 13); the claim resulting from the transfer of a part of reserve assets is recorded in item A8.2 (see Note 7); 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 9) is recorded in item A8.4; and



finally the claim resulting from the shared responsibility for issuing euro banknotes among national central banks and the ECB (see Note 14) 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 lives of fixed assets are reviewed regularly and modified as required.

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

See Note 14

Fund for general risks

See Note 24

Pension scheme

See Note 30

Key events in 2017

During 2017, the Banque de France's balance sheet was mainly impacted by the continued implementation of non-standard monetary policy measures, which

resulted in a marked increase in the items concerned and in the balance sheet as a whole.

The *Institut d'émission des départements d'outre-mer* (IEDOM – the note-issuing bank for the French overseas departments) became a wholly owned subsidiary with effect from 1 January 2017.

Post-balance sheet events

None.

Balance Sheet

Note 1: Gold

In 2014, the Eurosystem central banks, the Swiss National Bank and Sveriges Riksbank renewed the agreement capping their sales of gold for a five-year period.

At 31 December 2017, the Banque de France held 2,436 tonnes of gold.

Note 2: Foreign currency assets and liabilities

Foreign exchange reserves are invested in overnight deposits, fixed-term deposits, reverse repo transactions with received securities, and fixed-income

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

Asset item A2 and liability item L5

(EUR millions)

	2017	2016
ASSETS		
Foreign currency assets		
Overnight deposits	50	795
Fixed-term deposits	9,393	6,906
Foreign currency liquidity provision to Eurosystem counterparties	0	0
Securities received under repurchase agreements	6,125	2,439
Fixed-income securities	32,051	40,915
Accrued interest receivable	195	241
TOTAL	47,815	51,295
LIABILITIES		
Foreign currency liabilities		
Securities delivered under repurchase agreements	1,394	974
Accrued interest payable	4	2
TOTAL	1,398	976

securities. The Bank may also borrow foreign currencies in the form of repurchase agreements with delivered securities, recorded in liability item L5.

Foreign currency denominated fixed-income securities comprise securities that the Bank has the intention of holding to maturity and securities that may be sold. These two portfolio categories are subject to different valuation rules that are described in the accounting principles and valuation methods section above. Securities intended to be held to maturity totalled EUR 21,444 million at

31 December 2017 compared with EUR 22,147 million at 31 December 2016.

Note 3: Relations with the IMF

Financing provided to the International Monetary Fund (IMF) amounts to the euro value of:

- drawing rights under the reserve tranche that corresponds to the proportion of France's share in the IMF's capital that is settled in gold and other foreign currency assets, plus the IMF's net utilisation of euro, notably in the form of euro-denominated drawings and repayments by member

countries on France's account (since 2016, France's share in the IMF's capital has stood at SDR 20.2 billion, and in return, France's commitment to lend amounted to SDR 9.5 billion at end-2017);

- loans granted to the IMF as part of the agreement that came into effect on 2 December 2009 (see below);
- loans granted to the Poverty Reduction and Growth Trust (PRGT) set up under the auspices of the IMF.

The "Acquisitions of SDRs" (Special Drawing Rights) item includes the euro equivalent of the SDRs held by France and mainly comprises SDRs allocated to France as part of the IMF's general SDR allocations to member countries, and SDRs purchased as part of voluntary swap agreements with IMF-designated member countries.

France's net SDR position is the balance of SDRs acquired and amounts recorded in liability item L6, "Counterpart to SDR allocations".



Changes in financing provided to the IMF in 2017 are due to:

- a net repayment by the IMF of EUR 742 million on France's quota (excess of repayments over drawings);
- a net repayment of SDR 490 million (equivalent to EUR 620 million) in 2017 under the loan agreement between the Banque de France and the IMF that came into effect on 2 December 2009;
- for the remainder, SDR depreciation against the euro.

The variation in asset item A3.2, "Acquisitions of SDRs", arises from the payment of interest relating to receivables and liabilities in SDRs, purchases of SDRs under voluntary swap agreements with other central banks and the year-on-year change in the price of SDRs. The net amount related to voluntary swap agreements resulted in an increase of SDR 451 million, or EUR 547 million. "Acquisitions of SDRs" also include loans granted to the PRGT. In 2017, the amount of loans granted net of repayments was practically nil.

Relations with the IMF

Asset item A3 and liability item L6
(EUR millions)

	2017	2016
ASSETS		
Financing provided to the IMF	3,256	4,894
Acquisitions of SDRs	10,954	11,171
Accrued interest receivable	17	6
TOTAL	14,227	16,071
LIABILITIES		
Counterpart to SDR allocations	12,035	12,917
Accrued interest payable	15	5
TOTAL	12,050	12,922

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.

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

Total claims on the Eurosystem excluding the ECB related to monetary policy operations amounted to EUR 764,310 million, of which EUR 114,228 million were recorded on the Banque de France's balance sheet. With the exception of certain decisions made by the Governing Council, any risks that may materialise as a result of monetary policy

operations are ultimately to be shared in full by the Eurosystem NCBs, in proportion to their shares in the capital of the ECB.

Asset item A5 and liability item L2.2 record transactions carried out by the Banque de France within the framework of the Eurosystem's monetary policy.

The main refinancing operations in volume terms are short-term open market operations conducted by the Eurosystem, which 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) are carried out through monthly tenders for loans with maturities of up to 48 months.

As of December 2011, the Governing Council decided

to conduct LTROs within the framework of enhanced credit support measures to support bank lending and liquidity in the euro area money market. All these operations were fully allotted.

In March 2016, the Governing Council decided to launch new TLTRO II operations with a maturity of 48 months for which the rate has not been fixed definitively and which will, upon their maturity, depend on the increase in the loans that borrowing institutions grant to the real economy. The rate will be set in 2018 and will fall between the main refinancing operation (MRO) rate and the deposit facility rate. In the meantime, the Eurosystem's committee of accounting and finance directors has agreed that interest for 2017 will be recognised at the deposit facility rate of -0.40%.

Four TLTRO II operations were set up between June 2016 and March 2017 totalling EUR 740.3 billion, of which EUR 113.4 billion was for France.

Marginal lending facilities are overnight facilities granted in the form of reverse transactions to Banque de France counterparties

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

Asset item A5
(EUR millions)

	2017	2016
Main refinancing operations	40	117
Longer-term refinancing operations	114,188	70,613
Fine-tuning operations	0	0
Structural operations	0	0
Marginal lending facilities	0	0
Margin calls paid	0	0
Accrued interest	-518	-104
TOTAL	113,709	70,625

at their request. Interest is paid on these facilities at a rate fixed by the Eurosystem.

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. The outstanding balance on these operations was nil at 31 December 2017.

Credit institutions' current accounts held by the Banque de France are recorded in liability

item L2.1. The current accounts are made up of minimum reserve requirements, calculated on a 1% base since January 2012, and unconditional deposits made by the institutions. Minimum reserve requirement holdings bear interest at the average MRO rate over the period during which the reserves are built up. Since June 2014, deposits in excess of minimum reserve requirements have borne interest at the negative deposit facility rate.

Deposit facilities enable Banque de France counterparties to make overnight deposits. The interest rate on the deposit facility is set by the Eurosystem and normally acts as a floor for the interbank market rate. This rate has been



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

Liability item L2
(EUR millions)

	2017	2016
Current accounts	227,307	181,597
Other liabilities	261,443	147,193
Deposit facilities	261,443	147,191
Collection of fixed-term deposits	0	0
Repurchase agreements	0	0
Margin calls received	0	2
Accrued interest payable	0	-1
TOTAL	488,750	328,789

negative since 2014, settling at -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”

Euro-denominated claims on non-euro area residents

Asset item A4
(EUR millions)

	2017	2016
Securities held to maturity	900	1,174
Other claims	415	2,582
Accrued interest receivable	19	22
TOTAL	1,335	3,778

These items include euro-denominated investments earmarked against euro-denominated deposits recorded in liability item L4 (see Note 16). 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 ECB has launched a series of asset purchase programmes as part of its non-standard monetary policy. 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),²⁴ the securities markets programme

(SMP),²⁵ the public sector purchase programme (PSPP)²⁶ and the corporate sector purchase programme (CSPP).²⁷

The full amount of covered bond purchases set in the first programme (CBPP1) was reached at end-June 2010 and CBPP2 was completed in October 2012.

The risks generated by CBPP1 and CBPP2 are not shared between the Eurosystem’s national central banks, as the selection criteria have not been harmonised within the Eurosystem.

Under the securities markets programme (SMP), the ECB and NCBs purchased debt instruments issued by public or private entities incorporated in the euro area. Any risks that may materialise as a result of holding securities under the SMP – in accordance with the decisions of the Governing Council – are ultimately to be

²⁴ ECB decision No. 2009/16 of 2 July 2009 and No. 2014/40 of 15 October 2014.

²⁵ ECB decision No. 2010/5 of 14 May 2010.

²⁶ ECB decision No. 2015/10 of 4 March 2015.

²⁷ ECB decision No. 2016/16 of 1 June 2016.

Main programme securities held for monetary policy purposes

(EUR billions)

	2017		2016	
	Eurosystem NCB holdings	Banque de France holdings	Eurosystem NCB holdings	Banque de France holdings
Securities held under the securities markets programme (SMP)	82.5	18.1	94.8	20.6
Securities held under the third covered bond purchase programme (CBPP3)	221	45.5	187	38
Securities held under the public sector purchase programme (PSPP)	1,712	376.7	1,142.3	253.4
Securities held under the corporate sector purchase programme (CSPP)	131.6	39.1	51	15.6

shared in full by the Eurosystem NCBs, in proportion to their ECB capital key shares. This programme was completed in September 2012.

In October 2014, the Governing Council decided to implement two new purchase programmes, an asset-backed securities purchase programme (ABSPP)²⁸ and a third covered bonds purchase programme (CBPP3), to improve monetary policy transmission and

support the supply of credit to the euro area economy. Risks on these securities are shared within the Eurosystem. ABSPP purchases are backed by the ECB.

In January 2015, the Governing Council decided to implement a new public sector purchase programme (PSPP) for purchases of bonds issued by euro area central governments, agencies or European institutions on the

secondary market. Government bonds, unlike “international” bonds, are not subject to a regime of risk sharing within the Eurosystem.

In January 2016, the Governing Council decided to implement a new corporate sector purchase programme (CSPP) for purchases of high-quality private sector bonds on

²⁸ ECB decision No. 2014/45 of 19 November 2014.

Securities held for monetary policy purposes

Asset item A7.1

(EUR millions)

	2017		2016		Variation	
	Amortised cost	Market price	Amortised cost	Market price	Amortised cost	Market price
Securities held under the securities markets programme (SMP)	18,122	20,341	20,662	24,365	-2,540	-4,024
Securities held under the first covered bond purchase programme (CBPP1)	1,417	1,497	2,858	3,082	-1,441	-1,585
Securities held under the second covered bond purchase programme (CBPP2)	1,401	1,560	1,725	1,980	-324	-420
Securities held under the third covered bond purchase programme (CBPP3)	45,509	46,037	37,954	38,769	7,555	7,268
Securities held under the public sector purchase programme (PSPP)	376,718	379,698	253,248	256,922	123,470	122,776
Securities held under the corporate sector purchase programme (CSPP)	39,122	39,122	15,600	15,392	23,522	23,730
Accrued interest receivable	4,174	-	3,252	-	922	-
TOTAL	486,463		335,299			



the secondary market. 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 EUR 80 billion until March 2017 and EUR 60 billion from April 2017 until the end of the year.²⁹

With effect from December 2014, all fixed-income securities held for monetary policy purposes 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.

Following impairment testing carried out on the CSPP portfolio in 2017, it was decided that one of the securities held by an NCB should be written down.

Pursuant to Article 32.4 of the ESCB Statute, any losses resulting from holdings acquired within the framework of the corporate sector

purchase programme (CSPP) are shared in full by the Eurosystem NCBs in proportion to their shares in the capital of the ECB. In accordance with the principle of prudence, the Governing Council deemed it appropriate to set aside a provision for losses on monetary policy operations (see Note 22). The security concerned was sold in January 2018.

Based on the impairment tests performed for 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”

Item A7.2 includes euro-denominated securities issued by euro area residents, other than those that are specifically

Euro-denominated securities issued by euro area residents

Asset item A7.2

(EUR millions)

	2017	2016
Securities held to maturity	62,721	68,506
Other fixed-income securities	3,455	3,746
Accrued interest receivable	974	1,039
TOTAL	67,151	73,290

earmarked against the Bank's own funds, the Employee Reserve Fund and customer deposits that are recorded in asset items A11 and A12 (see Notes 11 and 28).

Just as for portfolios of securities held for monetary policy purposes, impairment tests were also performed on the Banque de France's other portfolios. The result of these tests did not reveal any need to recognise an impairment.

Note 7: Claims arising on the transfer of reserve assets to the ECB

This claim held by the Banque de France results from the transfer of

Claims arising on the transfer of reserve assets to the ECB

Asset item A8.2

(EUR millions)

	2017	2016
Claims arising on the transfer of reserve assets to the ECB	8,217	8,217
Accrued interest receivable	0	1
TOTAL	8,217	8,218

²⁹ In accordance with the October 2017 decision of the Governing Council, these purchases are planned to run at a monthly pace of EUR 30 billion from January 2018 to September 2018, and beyond, if necessary. These net purchases will operate in conjunction with the reinvestment of principal payments from maturing securities purchased under the asset purchase programme.

foreign exchange reserve assets to the ECB. The claim is denominated in euro and is equivalent to the euro value of the transferred foreign exchange reserves as at the date of the transfer. It is remunerated at the marginal rate applied to main refinancing operations, adjusted to reflect a zero return on the gold component of the transferred assets.

Note 8: Claims on the Eurosystem for euro banknotes in circulation

The intra-ESCB claim arising from the allocation of euro banknotes within the Eurosystem and the liability to the ECB relating to the 8% share of euro banknotes in circulation are shown as a net amount in item A8.3, "Claims on the Eurosystem for euro banknotes in circulation", along with accrued interest receivable at 31 December 2017. Interest on this net claim is shown in profit and loss item 1.1.1, "Interest and related income" (see Note 14 on banknotes in circulation).

Note 9: Other claims on the Eurosystem

This item mostly comprises a net claim on the Eurosystem arising on transfers via Target with other NCBs in the ESCB. In 2016, these transfers had generated a net debt

Other claims on the Eurosystem

Asset item A8.4
(EUR millions)

	2017	2016
Claims on the Eurosystem (Target2)	30,040	0
ECB interim dividends	199	195
Other claims	2	0
TOTAL	30,241	195

that was recognised in liability item L7.

This item also includes any income receivable from the ECB in respect of the allocation of the balance of monetary income (where it is positive – see Note 34 to the profit and loss account) as well as the ECB's interim dividend (see Note 14 on banknotes in circulation).

In 2017, the ECB Governing Council decided to distribute an interim dividend of EUR 987.7 million to the Eurosystem NCBs. The Banque de France received EUR 198.96 million.

Note 10: 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 IEDOM 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 the estimated value of the banknotes in circulation in the territories concerned.

Note 11: Other euro and foreign currency denominated financial assets

Asset item A11 notably includes collateralised securities linked to customer deposits (recorded in liability items L4 and L10), the Bank's own funds and provisions.

Other euro and foreign currency denominated financial assets

Asset item A11
(EUR millions)

	2017	2016
Fixed-income securities held to maturity (a) (b)	52,730	49,035
Other fixed-income securities and variable-yield securities	11,706	11,066
Other transactions	19,549	19,572
Accrued interest	-10	-5
TOTAL	83,976	79,669

(a) In 2017, none of these securities were transferred to another portfolio and none of these securities were sold before maturity.

(b) Of which foreign currency denominated securities: EUR 44,286 million. Of which collateralised securities linked to customer deposits: EUR 52,715 million (see Note 28).



Securities portfolios

Extract from asset item A11

(EUR millions)

	2017	2016	
Fixed-income securities held to maturity	Other securities	Total	Total
Fixed-income securities and government securities	52,724	52,724	48,830
Securities issued by public bodies	6	6	6
Other issuers	0	0	199
Accrued interest	-19	-19	-41
Net balance sheet value	52,711	52,711	48,995
Equities and other variable-yield securities			
French and foreign mutual funds	1,515	1,515	1,540
Capitalisation mutual funds	7,015	7,015	6,733
Other variable-yield securities	29	29	28
Net balance sheet value	8,559	8,559	8,301

Note 12: Other items

In 2016, "Other adjustment accounts" reflected the revaluation impact of off-balance sheet foreign currency positions held in relation to retail banking transactions (see Note 20). Their impact on the profit and loss account is cancelled out by the revaluation of foreign currency positions in the balance sheet, the overall foreign currency position from these activities being close to zero.

Other items

Asset item A12

(EUR millions)

	2017	2016
Accruals and deferred expenses	673	3,213
Accrued income	627	461
Prepaid expenses	23	25
Other adjustment accounts	22	2,727
Miscellaneous	4,616	4,884
TOTAL	5,289	8,097

The portfolios of the Employee Reserve Fund (see Note 30) are classified under "Miscellaneous" in item A12.

Note 13: Fixed assets

External costs for IT projects that correspond to integration costs directly related to software packages are capitalised.

Fixed assets

Asset items A8.1 and A13

(EUR millions)

	At 31 Dec. 2017	Increase (a)	Decrease (a)	At 31 Dec. 2016
Participating interest in the ECB (balance sheet value)	1,545			1,545
Participating interests other than the ECB (gross value)	686			538
Intangible fixed assets (gross value)	633	173	105	565
Amortisation and impairment	347	69	0	279
Net value of intangible fixed assets	285	104	105	286
Tangible fixed assets (gross value)	2,537	252	136	2,420
Depreciation and provisions	1,616	80	23	1,560
Net value of tangible fixed assets	920	173	113	860
Total tangible and intangible fixed assets (net balance sheet value)	1,206	277	217	1,146

(a) Increases and decreases also include transfers between fixed asset accounts.

The Banque de France recognises its share – as defined at the Eurosystem level – of capitalised European project costs in its assets in accordance with the full cost accounting methodology set down by the Eurosystem (the COMCO method).

Participating interest in Europafi

On 27 October 2015, the Banque de France spun off its paper business by creating a *société par actions simplifiée* (SAS – simplified joint stock company) with capital of EUR 133 million (a contribution in kind of EUR 41 million with the EUR 92 million balance contributed in cash).

Information relating to subsidiaries and participating interests at 31 December 2017

Asset items A8.1 and A13.2

(EUR millions)

	Asset item	Listed	Share of capital held (%)	2017 share-holders' equity	2017 net profit	2017 book value
European Central Bank (a)	A8.1	No	20.14	38,612	1,257	1,545
IEDOM	A13.2	No	100	153	3	149
Bank for International Settlements	A13.2	No	8.96	22,680	983	405
Europafi	A13.2	No	98.75	140	4	131
La Prévoyance immobilière	A13.2	No	98.4	na	na	ns
Banque de France Gestion	A13.2	No	99.99	7	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".

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%.

Participating interest in the ECB

At 31 December 2017, 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 weighting (capital key) for each NCB's subscription of the ECB's capital is defined in Article 29.3 of the ESCB Statute and adjusted every five years. A further five-year adjustment will take effect 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. In this respect, the Banque de France's share fell from 20.3199% to 20.2623% on 1 January 2014 following Latvia's entry into the euro area and the impact of the five-year adjustment, then to 20.1433% on 1 January 2015 with Lithuania's entry into the euro area.

Participating interest in the IEDOM

On 1 January 2017, the Banque de France acquired 100% of the capital of the IEDOM from the state. The IEDOM carries out tasks relating to monetary policy, financial stability and the provision of services to the economy in the French overseas departments.

Note 14: 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.³⁰

The Banque de France's share of the ECB's subscribed 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
16.8337	14.8712	14.3875	14.2212	14.1342	14.1792

³⁰ 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.



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 ECB capital key weightings. 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 gives rise to an interest-bearing intra-Eurosystem position (see asset item A8.3).

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 currently only concerns Latvia and Lithuania.³¹

Interest income and expenses on these balances are cleared through the accounts of the ECB and included in profit and loss item 1.1, "Net interest income".

The ECB Governing Council decided that the ECB's seigniorage income arising

from the 8% share of euro banknotes in circulation,³² as well as the income generated on its holdings under the securities markets programmes (SMP, CBPP3, ABSPP and PSPP), is due to the NCBs in the same year it accrues and is distributed to them at the beginning of the following year in the form of an interim dividend. 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.

Note 15: Euro-denominated liabilities to euro area residents

Securities delivered under repurchase agreements shown in item L3 are mainly monetary policy securities.

Euro-denominated liabilities to euro area residents

Liability item L3
(EUR millions)

	2017	2016
Euro-denominated liabilities to euro area residents	14,609	3,953
Accrued interest payable	0	0
TOTAL	14,609	3,953

Note 16: Euro-denominated liabilities to non-euro area residents

This item comprises euro credit balances (excluding Target) with

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 asset item A11 (see Note 11), depending on whether they are invested in the same currency or are covered by cross-currency swaps (see Note 28).

Euro-denominated liabilities to non-euro area residents

Liability item L4
(EUR millions)

	2017	2016
Euro-denominated liabilities to non-euro area residents	53,424	36,405
Accrued interest payable	0	42
TOTAL	53,424	36,447

31 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 state 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 will be allocated fully between the NCBs in proportion to their paid-up shares in the capital of the ECB. The adjustment period for Latvia will end on 1 January 2019 and for Lithuania on 1 January 2020.

32 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).

Note 17: Euro-denominated liabilities to the Eurosystem

Euro-denominated liabilities to the Eurosystem in 2016 mainly corresponded to France's net debt arising on cross-border transfers via Target with other NCBs in the ESCB. In 2017, cross-border transfers with other NCBs in the ESCB generated a net claim on the Eurosystem for France, which is recognised in asset item A8.4.

Euro-denominated liabilities to the Eurosystem

Liability item L7
(EUR millions)

	2017	2016
Euro-denominated liabilities to the Eurosystem (Target2)	0	13,803
Accrued interest payable		
Accrued expenses in respect of monetary income	509	320
TOTAL	509	14,123

Note 18: Euro-denominated liabilities to other euro area residents

Liability item L8.1 consists of:

- the Treasury's account, which as of 1 July 2017, bears interest at the Eonia rate up to a balance of EUR 588.7 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 current account with the IEDOM. The assets matching this liability are recorded mainly in asset item A9, "Advance to the IEDOM" (see Note 10).

Euro-denominated liabilities to other euro area residents

Liability item L8
(EUR millions)

	2017	2016
Liabilities vis-à-vis the state and government agencies	25,215	13,886
Other liabilities	41,735	9,407
Accrued interest payable	-3	-4
TOTAL	66,947	23,288

Note 19: Items in the course of settlement

Balance sheet item L9, "Items in the course of settlement", includes only 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 20: Banking transactions

This item mainly comprises overnight and fixed-term foreign currency denominated deposits from French or foreign public bodies,

or foreign national 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 11), or in items A4 or A6 (see Note 5), depending on whether they are invested in a foreign currency or in euro.

Banking transactions

Liability item L10
(EUR millions)

	2017	2016
Customer deposits	1,829	3,623
Other banking transactions	74,017	83,817
Accrued interest payable	232	169
TOTAL	76,078	87,609

For the record, euro-denominated deposits made by institutional customers (other than monetary and financial institutions) and private customers are recorded in liability item L8.2.

Note 21: Other items

This item mainly includes:

- the capital of the Banque de France Employee Reserve Fund (see Note 30);
- miscellaneous creditors.



Other items

Liability item L11

(EUR millions)

	2017	2016
Accruals and deferred income	273	280
Accrued expenses	273	280
Other adjustment accounts	0	0
Miscellaneous	5,886	5,551
TOTAL	6,159	5,831

Note 22: 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;
- 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.) that are not funded by the pension scheme;

- 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.

Following impairment testing carried out on the CSPP portfolios, the Governing Council deemed it appropriate to set aside a provision of EUR 68.9 million for losses on monetary policy operations on a security held by a Eurosystem NCB. The provision

Provisions for liabilities and charges

Liability item L12

(EUR millions)

	2017	Increase	Decrease	2016
Provisions for restructuring and changing the age pyramid	142	5	8	145
Provisions for retirement benefits	159	9	15	166
Provisions for supplementary health insurance	297	9	0	288
Other miscellaneous provisions – current employees	106	18	25	112
Other miscellaneous provisions – retired employees	159	2	23	180
Provision related to monetary policy operations	14	14	0	0
Other	35	18	7	25
TOTAL	912	74	79	916

calculation took account of the sale of the security concerned in January 2018, in accordance with the ESCB's accounting framework for post-balance sheet events. 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 shares in the capital of the ECB in 2017. Consequently, in 2017 the Banque de France recorded a provision for EUR 13.9 million, or 20.14% of the total provision.

Note 23: Revaluation accounts

Gold and foreign currency assets and liabilities were revalued at the reference prices indicated by the ECB on 31 December 2017.

The revaluation rates used at 31 December 2017 for gold and the main currencies held were the following:

- EUR 34,783 per kilogram of fine gold (compared with EUR 35,303 per kilogram at end-2016);
- EUR 1 = USD 1.1993 (compared with USD 1.0541 at end-2016);

Revaluation accounts

Liability item L13

(EUR millions)

	2017	2016
Revaluation accounts – gold	65,367	66,633
Revaluation accounts – foreign currency	4,614	10,314
Revaluation accounts – securities	2,545	2,299
TOTAL	72,526	79,246

- EUR 1 = SDR 0.8420 (compared with SDR 0.78456 at end-2016).

Note 24: Fund for general risks

The *fonds pour risques généraux* (FRG – fund for general risks) is booked as a liability in item L14. Corresponding entries for charges to and releases from the fund are recorded through item 3 of the profit and loss account.

It 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 the section on valuation methods). Its amount is determined at the basis of the volume of outstanding operations at the balance sheet

closing date and an analysis of the attendant risks. The allocation to the FRG is not a deductible expense for corporate income tax purposes, and therefore the reversal of the FRG is also not subject to tax. No allocations were made to the FRG in 2017.

Note 25: Revaluation reserve for state gold and foreign exchange reserves

See the comments on the RRRODE in the section on valuation methods.

Note 26: Capital, reserves and retained earnings

Capital, reserves and retained earnings

Liability item L16

(EUR millions)

	2017	2016
Capital	1,000	1,000
Reserves	8,252	7,362
Statutory reserve (a)	877	701
Long-term capital gains	100	100
Special pension reserve fund (see Note 30)	4,060	3,347
Other reserves (b)	3,215	3,214
Retained earnings	0	6
Total	9,252	8,368

(a) In accordance with Article R114-4 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 R144-2, 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 27: Interest rate financial futures

Notional amount of financial futures

(EUR millions)

	2017	2016
Outright transactions on organised markets		
Foreign currency denominated interest rate contracts		
Purchases	35,719	
Sales	23,201	5,980
Euro-denominated interest rate contracts		
Purchases		
Sales	1,374	1,490
Over-the-counter market operations		
Foreign currency denominated interest rate swaps	246	390
Euro-denominated interest rate swaps		

Note 28: 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 area of residence of the counterparty, while foreign currency investments are recorded in item A11). Where 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

Foreign currency receivables and deliverables

(EUR millions)

	2017	2016
Euro to be received against foreign currency to be delivered		
Euro receivable	13,258	5,946
Foreign currency deliverable	11,406	6,202
Foreign currency to be received against euro to be delivered		
Foreign currency receivable	24,563	34,362
Euro deliverable	24,961	34,030
Foreign currency to be received against foreign currency to be delivered	54,382	55,754
Foreign currency to be delivered against foreign currency to be received	52,700	52,527

in accordance with the standards issued by the ANC (see above – the valuation methods section, “Other foreign currency gains and losses” and Note 20).

Amounts of foreign currency receivables and deliverables in respect of transactions carried out with customers (see Note 2) are detailed in the table above.

Note 29: Off-balance sheet commitments given or received in respect of operations with the IMF

Commitments given by the Banque de France

Following the various financing commitments signed by France since 2010 and the increase in France’s share in the IMF’s capital in 2016, the total amount of the credit line on which the IMF can draw down is SDR 9.5 billion. At the end of 2017, total loans granted stood at SDR 1.05 billion compared with SDR 1.54 billion at the end of 2016. The balance of this financing commitment totalled SDR 8.4 billion (EUR 10 billion) at 31 December 2017.

A bilateral loan agreement between France and the IMF was signed in October 2012. Under this

agreement, France undertakes to provide further financing of EUR 31.4 billion (SDR 26.4 billion at 31 December 2017). No funds have been drawn down under this agreement.

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). These loans form part of a commitment made by France at the annual general meeting of the IMF on 4 October 2009 to grant loans to the PRGT as part of an SDR 1,328 million loan agreement. When the loan is drawn down, this amount is converted into SDRs at the dollar rate for the day. The repayment schedule is also denominated in SDRs. Drawdowns on the Banque de France were made from 2011 to 2017 for a total amount of SDR 1,200 million.

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 under the PRGF-ESF.

Note 30: 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 – 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 pensions provided by the CRE to retirees are partly funded by the income on a securities portfolio, which has been set up over time and is specifically devoted to this purpose. The securities acquired by the CRE are recorded in asset item A12, "Other items". The CRE's capital is shown in liability item L11, "Other items".

Securities purchased by the CRE are recorded as available-for-sale or held-to-maturity when they are fixed-income securities. Differences between the acquisition and redemption price of held-to-maturity fixed-income securities are spread over the remaining life of the securities using the internal rate of return method. Unrealised losses on available-for-sale securities are provided for on a line-by-line basis. However, realised gains and losses, unrealised losses and contributions paid recognised in the profit and loss account require a matching allocation to or reversal from the CRE's capital.

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 accordance with the third paragraph of Article R144-4 of the French Monetary and Financial Code, in 2007. 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 L16, "Capital, reserves and retained earnings".

In addition, liabilities in respect of the additional seniority granted as part of restructuring plans (see Note 22) are provisioned in full.

The resources constituted by these reserve funds and provisions have been invested in a securities portfolio that is recorded in asset

Pension liabilities and funding

(EUR millions)

Liabilities			Funding		
	2017	2016		2017	2016
Special pension scheme liabilities	13,303	13,209	Funding	9,775	8,701
			<i>o/w to Employee Reserve Fund</i>	5,715	5,354
			<i>o/w to special pension reserve fund</i>	4,060	3,347
<i>o/w to current employees</i>	4,926	5,170			
<i>o/w to retirees</i>	8,377	8,039			
Liabilities in respect of the additional seniority granted as part of restructuring plans	140	141	Provision	140	141
Total gross liabilities	13,443	13,350	Total funding	9,915	8,842
Net liabilities	3,528	4,508			

item A11. This portfolio is recorded in accordance with the rules set out in the section on the valuation methods used for securities portfolios. Income from this portfolio is recorded, as appropriate, in items 1.1, "Net interest income", 1.2.3, "Other income and expenses on financial transactions, net" or 1.4, "Income from equity securities and participating interests" of the profit and loss account.

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 2017.

With the new reform that entered into force on 1 January 2016, the required number of quarterly periods is being steadily increased to 172, and the retirement age is being gradually raised to 62 years and the upper limit for the pension to 67.

In addition, a system of supplements or reductions has progressively been put in place from 1 January 2009 and applies to employees who start drawing their pension with a greater or smaller number of quarters than that required to obtain a full pension.

Pension levels are adjusted on 1 October every year with reference to projected developments in the household consumer price index excluding tobacco.

Calculations of pension liabilities and the underlying assumptions used are validated and monitored by the Bank's actuaries. The discount rate remained stable at 2.75% in 2017. Revaluation assumptions based on long-term inflation will rise to 1.75% with effect from 2020 (see Note 22).

Profit and loss account

Note 31: Net interest income

Net interest income of EUR 7.6 billion includes significant interest income due to negative interest rates on deposit facilities, on deposits in excess of minimum reserve requirements and on the Treasury's account.

Net interest income

Profit and loss item 1.1

(EUR millions)

	2017	2016
Interest on foreign currency assets	974	865
<i>o/w interest on held-to-maturity securities</i>	415	432
Interest on claims on the IMF	77	13
Interest on euro-denominated claims on non-residents		
Interest on lending to credit institutions	1,112	844
Interest on euro-denominated securities	4,891	4,536
<i>o/w interest on held-to-maturity securities</i>	2,096	2,373
<i>interest on securities held for monetary policy purposes</i>	2,795	2,152
Interest on claims arising on the transfer of reserve assets to the ECB	0	1
Interest on net claims on the Eurosystem (a)	0	0
Interest on the net euro banknote position	0	9
Interest on other euro and foreign currency denominated financial assets	1,425	826
<i>o/w interest on available-for-sale securities</i>		
<i>interest on held-to-maturity securities</i>	-139	-67
<i>other interest</i>	1,564	893
Total interest and related income (A)	8,478	7,094
Interest on euro-denominated liabilities to monetary financial institutions in the euro area	21	-1
<i>o/w interest on minimum reserves</i>	0	-1
Interest on euro-denominated liabilities to non-euro area residents	-854	-466
Interest on foreign currency liabilities	-42	-13
Interest on counterpart to SDR allocations	-65	-11
Interest on net debt to the Eurosystem (a)	0	-6
Interest on the Treasury's account	147	104
Other interest	-52	73
Total interest and related expenses (B)	-846	-320
Net interest income (C = A + B)	7,632	6,773

(a) Interest on the Banque de France's net position within the Target system (see Notes 9 and 17).

Note 32: 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.

In 2017, the net of realised gold and foreign currency gains and losses (EUR 93 million) and unrealised foreign currency losses (EUR 56 million) represented total income of EUR 37 million. In accordance with the agreement of 2 February 2011 between the state and the Banque de France on the management of and accounting



Other income and expenses on financial transactions, net

Profit and loss item 1.2.3

(EUR millions)

	2017	2016
Net gain/loss on foreign currency denominated securities (a) (b) (c)	2	191
Net gain/loss on euro-denominated securities recorded in item A7.2 (b) (c)	17	60
Net gain/loss on available-for-sale securities recorded in item A11 (b)	22	46
Net foreign currency gains and losses (excluding foreign exchange reserve management)	21	8
TOTAL	62	305

(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.

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).

The net balance from sales and revaluations concerning financial instruments (primarily securities) that are unrelated to monetary policy operations is broken down in the table above.

Note 33: Income from equity securities and participating interests

For 2017, the Governing Council decided to distribute the ECB's share of seigniorage income and income from SMP, CBPP3, ABS, PSPP and CSPP securities to the national central banks. The Banque de France received EUR 198.9 million of the ECB's EUR 987.7 million interim dividend, and a further EUR 45.7 million from an additional dividend in respect of 2016.

Income from equity securities and participating interests

Profit and loss item 1.4

(EUR millions)

	2017	2016
ECB dividend	245	249
Dividends from other participating interests	32	37
Dividends from available-for-sale securities	14	14
Other income	0	0
TOTAL	290	299

Note 34: Net result of pooling of monetary income

This item comprises the annual net result of the pooling of monetary income, which in 2017 corresponded to a EUR 509 million expense (compared with a EUR 321 million expense in 2016).

The monetary income pooled by the Eurosystem is allocated between NCBs in proportion to their shares in the capital of the ECB. The net result of the pooling of monetary income recorded in profit and loss

item 1.5 is the difference between the monetary income pooled by the Banque de France (EUR 2,682 million) and that allocated to the Bank (EUR 2,173 million).

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 share in the ECB's subscribed capital key.³³ 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.

The net result of the pooling of monetary income at 31 December 2017 also includes an allocation to the provision related to monetary policy operations of EUR 13.9 million (see Note 22).

It also includes a EUR 2 million income adjustment in respect of the 2016 financial year.

Note 35: 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 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 – Prudential Supervision 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. It 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 2017, levies for supervisory expenses generated EUR 192 million, unchanged from 2016, recorded in profit and loss 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 the management of the Treasury's account – are remunerated on a full-cost basis.

Other income and expenses, net

Profit and loss item 1.6

(EUR millions)

	2017	2016
Remuneration for services provided to the state	249	250
Payments for ACPR supervisory expenses	192	192
Miscellaneous income (a)	361	316
Total other income (A)	802	758
Total other expenses (B)	-80	-83
Other income and expenses, net (C = A + B)	722	675

(a) This item mainly includes fees charged for use of the databases managed by the Banque de France (FNCI, FICP, FCC and FIBEN).

Note 36: Staff costs and related expenses

Staff costs and related expenses

Profit and loss item 2.1

(EUR millions)

	2017	2016
Salaries and wages	622	639
Taxes on salaries and wages	107	105
Social security contributions	185	181
Profit-sharing and incentive plans	35	29
Total staff costs and related expenses	949	954

Profit and loss item 2.2

(EUR millions)

	2017	2016
Pensions and related expenses	475	467
Total pensions and related expenses	475	467

The Governor's total gross remuneration for 2017 was EUR 285,538. Each of the two Deputy Governors received EUR 224,496.³⁴

³³ Gold is deemed to generate no income.

³⁴ On a full-year basis; Denis Beau replaced Robert Ophèle on 28 July 2017.



Remuneration of management bodies

(EUR millions)

	2017	2016
Total remuneration paid to management bodies	3.1	3.1

The Banque de France's management bodies are made up of members of the General Council and the Executive Committee.

Remuneration comprises gross remuneration plus any payments in kind.

The Banque de France staff representative and the censor are not remunerated for the duties they perform on the General Council.

No employee accommodation is made available to them; they all receive a gross housing allowance of EUR 5,643 per month, which is subject to tax. These provisions are governed by Article R142-19 of the French Monetary and Financial Code.

Note 37: 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 L144-4 of the French Monetary and Financial Code and the agreement in Article L141-2 of the said Code.

The 2012 supplementary budget act introduced a 3% contribution on amounts distributed on or after 1 August 2012. In October 2017, the French Constitutional Council ruled that this was unconstitutional.

Profit and loss item 5 therefore includes the expected refund of this contribution for 2015 to 2017 (EUR 73.9 million for 2017 and a total amount of EUR 91.4 million for 2015 and 2016) plus interest (EUR 9.3 million).

The supplementary budget act of 1 December 2017 put in place two new contributions to finance the

Corporate income tax

Profit and loss item 5

(EUR millions)

	2017	2016
Income tax expense for the year	2,690	2,038
On profit before exceptional items	2,243	2,038
Exceptional contribution	621	
Expected refund of 3% contribution	-174	

reimbursement of the 3% contribution that was ruled unconstitutional:

- an exceptional contribution amounting to a 15% surtax on corporate income tax;
- an additional contribution, on top of the exceptional contribution, of a further 15% surtax on corporate income tax.

In total, this added EUR 621.4 million to the Banque de France's corporate income tax expense for 2017.

Statutory auditors' report on the annual financial statements of the Banque de France

KPMG S.A.
2 avenue Gambetta
92066 Paris-La Défense Cedex

Deloitte & associés
185 avenue Charles de Gaulle
92524 Neuilly-sur-Seine Cedex

STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Year ended 31 December 2017

Opinion

In accordance with the engagement entrusted to us by the Banque de France's General Council, we have audited the accompanying annual financial statements of the Banque de France for the year ended 31 December 2017.

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 2017 and of the results of its operations for the year then ended, in accordance with Article R144-6 of the French Monetary and Financial Code.

Basis of our 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 described in the "Statutory Auditors' responsibilities for the audit of the annual 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 2017 to the date of our report and specifically we have not provided any services prohibited by the *Code de déontologie de la profession de commissaire aux comptes* (the French Code of Ethics for Statutory Auditors).

Observations

Without qualifying our opinion, we draw your 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.
- The General Council has determined the level of detail of the published financial information in accordance with its right provided for in Article R144-6 of the French Monetary and Financial Code.

.../...



Justification of assessments

In accordance with the requirements of Articles L823-9 and R823-7 of the French Commercial Code relating to the justification of our assessments, we draw your attention to the key audit matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the year ended 31 December 2017.

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 "Valuation methods, securities portfolios" section of the Notes to the 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 30 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.

These assessments were made as part of our audit of the annual financial statements as a whole, and contributed to the opinion we formed, which is expressed in the first part of this report. We do not express an opinion on specific items of the annual financial statements.

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 the accounting rules and principles set out in Article R144-6 of the French Monetary and Financial Code, and for such internal control as management deems necessary to enable the preparation of annual 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, and, as applicable, disclose matters related to going concern and use 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

It is our responsibility 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 performed 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 L823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability of the entity or the quality of management of the entity's affairs.

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 the audit 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 the audit report. However, subsequent 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 or refuse to certify the financial statements.
- Evaluates the overall presentation of the annual financial statements and assesses whether these statements represent the underlying transactions and events in a manner that provides a fair presentation.

Paris-La Défense and Neuilly-sur-Seine, 12 March 2018

The Statutory Auditors

KPMG S.A.
Pascal Brouard
Partner

Deloitte & associés
Pascal Colin Marjorie Blanc Lourme
Partner Partner



Consolidated financial statements

The consolidated balance sheet and profit and loss account

Consolidated balance sheet at 31 December 2017

(EUR millions)

Notes	ASSETS	At 31 Dec. 2017	At 31 Dec. 2016	Notes	LIABILITIES	At 31 Dec. 2017	At 31 Dec. 2016
A1	Gold	84,733	85,993	L1	Banknotes in circulation	216,957	208,710
A2	Foreign currency assets (excl. relations with the IMF)	47,815	51,295	L2	Euro-denominated liabilities to euro area credit institutions related to monetary policy operations	488,750	328,789
	2.1 Foreign currency assets held with non-euro area residents	31,472	39,238		2.1 Current accounts	227,307	181,596
	2.2 Foreign currency assets held with euro area residents	16,343	12,057		2.2 Other liabilities	261,443	147,192
A3	Relations with the IMF	14,227	16,071	L3	Other euro-denominated liabilities to euro area credit institutions	14,609	3,953
	3.1 Financing provided to the IMF	3,260	4,894	L4	Euro-denominated liabilities to non-euro area residents	53,424	36,447
	3.2 Acquisitions of SDRs	10,967	11,177	L5	Foreign currency liabilities	1,398	976
A4	Euro-denominated claims on non-euro area residents	1,335	3,778	L6	Counterpart to SDR allocations	12,050	12,922
A5	Euro-denominated loans to euro area credit institutions related to monetary policy operations	113,709	70,625	L7	Relations within the Eurosystem	509	14,124
A6	Other euro-denominated loans to euro area credit institutions	13,513	15,378	L8	Euro-denominated liabilities to other euro area residents	63,606	20,033
A7	Euro-denominated securities issued by euro area residents	553,614	408,589		8.1 Liabilities vis-à-vis the state and government agencies	25,212	13,882
	7.1 Securities held for monetary policy purposes	486,463	335,299	2	8.2 Other liabilities	38,394	6,151
	7.2 Other securities	67,151	73,290	L9	Items in the course of settlement	150	125
A8	Relations within the Eurosystem	127,953	98,822	L10	Banking transactions	76,078	87,609
	8.1 Participating interest in the ECB	1,545	1,545	L11	Other items	6,172	5,853
	8.2 Claims arising on the transfer of reserve assets to the ECB	8,217	8,218	L12	Provisions for liabilities and charges	938	941
	8.3 Claims on the Eurosystem for euro banknotes in circulation	87,949	88,864	L13	Revaluation accounts	72,526	79,246
	8.4 Other claims on the Eurosystem	30,241	195	L14	Fund for general risks	8,000	8,000
2	A9 Claims on the French Treasury in respect of coins	0	0	L15	Revaluation reserve for state gold and foreign exchange reserves	22,377	22,340
	A10 Other euro and foreign currency denominated financial assets	83,976	79,673	1	L17 Capital, reserves and retained earnings	10,145	9,528
1	A11 Other items	8,390	11,110		17.1 Minority interests, reserves and IEDOM retained earnings	2	0
	A12 Fixed assets	1,753	1,663		17.2 Capital, reserves and Banque de France retained earnings	10,143	9,528
	12.1 Tangible and intangible fixed assets	1,348	1,255	L18	Net profit	3,329	3,402
	12.2 Participating interests other than the ECB	405	408				
	TOTAL ASSETS	1,051,018	842,999		TOTAL LIABILITIES	1,051,018	842,999

NB: Each item of the consolidated 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.

2017 consolidated profit and loss account

(EUR millions)

Notes	2017	2016
1 Net income from Banque de France activities	8,238	7,778
1.1 Net interest income	7,678	6,820
1.1.1 Interest and related income	8,524	7,140
2 1.1.2 Interest and related expenses	-846	-320
1.2 Net income from financial transactions	62	305
1.2.1 Net realised gains/losses and unrealised losses on foreign exchange	37	281
1.2.2 Net allocations to/reversals from the foreign currency revaluation reserve	-37	-281
1.2.3 Other income and expenses on financial transactions, net	62	305
1.3 Commission	2	16
1.3.1 Commission income	40	46
1.3.2 Commission expenses	-38	-30
2 1.4 Income from equity securities and participating interests	285	286
1.5 Net result of pooling of monetary income	-521	-321
1.6 Other income and expenses, net	732	672
2 Operating expenses	-2,216	-2,219
2.1 Staff costs and related expenses	-971	-973
2.2 Pensions and related expenses	-475	-469
2.3 Taxes other than income tax	-51	-50
2.4 Provisions, depreciation and amortisation	-158	-145
2.5 Other operating expenses	-561	-583
Profit before tax and exceptional items (1 + 2)	6,022	5,559
3 Net additions to fund for general risks		
4 Exceptional items		
4.1 Exceptional income		
4.2 Exceptional expenses		
1 5 Corporate income tax	-2,693	-2,157
Net profit for the year (1 + 2 + 3 + 4 + 5)	3,329	3,402

NB: Each item of the consolidated 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 2017, the Banque de France held participating interests in six undertakings (see Note 13

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, which was created on 27 October 2015 as a simplified joint stock company and wholly owned subsidiary of the Banque de France, is fully consolidated.

During 2017, 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. The agreement was signed on 21 September 2017 in the presence of the ECB at the time of a Governing Council meeting.

Europafi thus became a joint venture with the Banque de France as majority shareholder. The new partners will purchase a substantial proportion of the paper they require from Europafi, which is now the most modern banknote paper mill in Europe and the leading producer of banknote paper in the euro area in terms of deliveries to European banknote paper mills.

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 IEDOM came under the control of the Banque de France as from 1 July 2000, without the Bank holding a participating interest in the IEDOM.³⁵

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) 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.

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

A net deferred tax asset of EUR 782 million is included in item A11, “Other items”, in the consolidated

³⁵ The IEDOM is responsible for the five French overseas departments and the French overseas collectivities of Saint Pierre and Miquelon, Saint Barthélemy and Saint Martin.

Deferred tax assets and liabilities

(EUR millions)

	Deferred tax assets	Deferred tax liabilities
Income temporarily exempted from taxation		4
Tax on mutual fund unrealised gains and losses	516	
Other deferred tax relating to securities	0	
Provisions not deductible for tax purposes	296	
Other recurring timing differences	6	
Deductions for tax purposes not yet recognised in the financial statements		32
TOTAL	818	36

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 2017 was EUR 1 million higher than in the individual financial statements;

- liability item L16, "Capital, reserves and retained earnings", which includes a balance of EUR 783 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 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 individual balance sheet of the Banque de France);
- the IEDOM's current account with the Banque de France (included in liability item L8.2 in the individual balance sheet);

- interest paid on the IEDOM current account (included in item 1.1.2, "Interest and related expenses", in the individual profit and loss account);

- provision of services between the Banque de France and the IEDOM;

- the dividend paid by the IEDOM (included in item 1.4 "Income from equity securities and participating interests" in the individual profit and loss account) and the related ongoing management expenses and income.

Europafi

Elimination of inter-institutional transactions relates to:

- sales of paper for producing banknotes;
- 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 of the Banque de France

KPMG S.A.

2 avenue Gambetta
92066 Paris-La Défense Cedex

Deloitte & associés

185 avenue Charles de Gaulle
92524 Neuilly-sur-Seine Cedex

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

Opinion

In accordance with the engagement entrusted to us by the Banque de France's General Council, we have audited the accompanying consolidated financial statements of the Banque de France for the year ended 31 December 2017.

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 entities within the consolidation scope as at 31 December 2017 and of the results of their operations for the year then ended, in accordance with Article R144-6 of the French Monetary and Financial Code.

Basis of our 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 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 2017 to the date of our report and specifically we have not provided any services prohibited by the *Code de déontologie de la profession de commissaire aux comptes* (the French Code of Ethics for Statutory Auditors).

Observations

Without qualifying our opinion, we draw your 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.
- As discussed in the Notes 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 R144-6 of the French Monetary and Financial Code.

.../...

Justification of assessments

In accordance with the requirements of Articles L823-9 and R823-7 of the French Commercial Code relating to the justification of our assessments, we draw your attention to the key audit matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2017.

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 "Valuation methods, securities portfolios" section of the Notes to the 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 30 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 taxes

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.

These assessments were made as part of our audit of the consolidated financial statements as a whole, and contributed to the opinion we formed, which is expressed in the first part of this report. We do not express an opinion on specific items of the consolidated financial statements.

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 the accounting rules and principles set out in Article R144-6 of the French Monetary and Financial Code, and for such internal control as management deems 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, and, as applicable, disclose matters related to going concern and use 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

It is our responsibility 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 performed 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 L823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability of the entity or the quality of management of the entity's affairs.

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 the audit 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 the audit report. However, subsequent 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 or refuse to certify the financial statements.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that provides a fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities within the consolidation scope 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 and Neuilly-sur-Seine, 12 March 2018

The Statutory Auditors

KPMG S.A.
Pascal Brouard
Partner

Deloitte & associés
Pascal Colin Marjorie Blanc Lourme
Partner Partner





APPENDICES

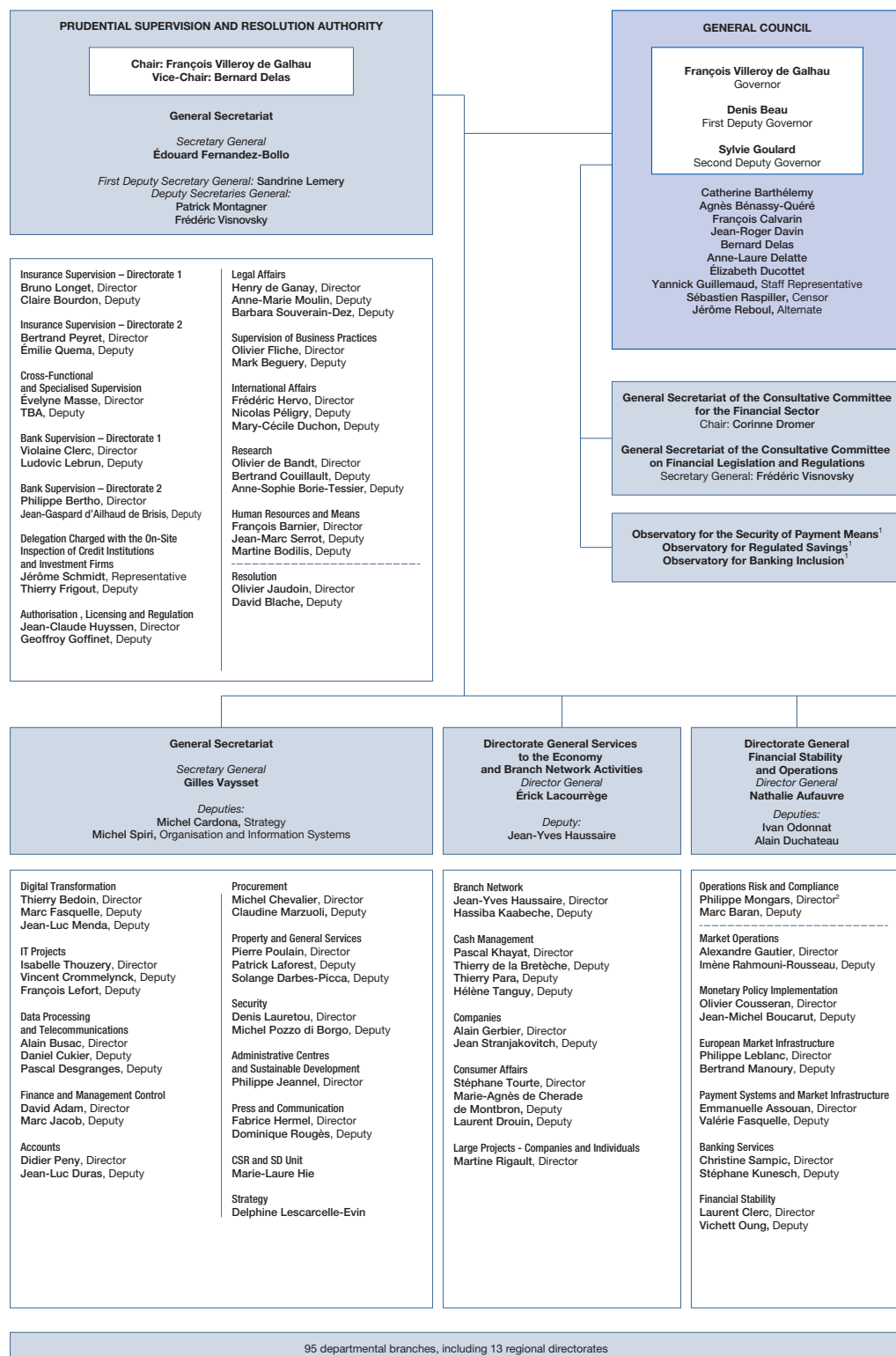
organisation chart
recirculation
of banknotes and coins
household debt
commissions
supervision

measures



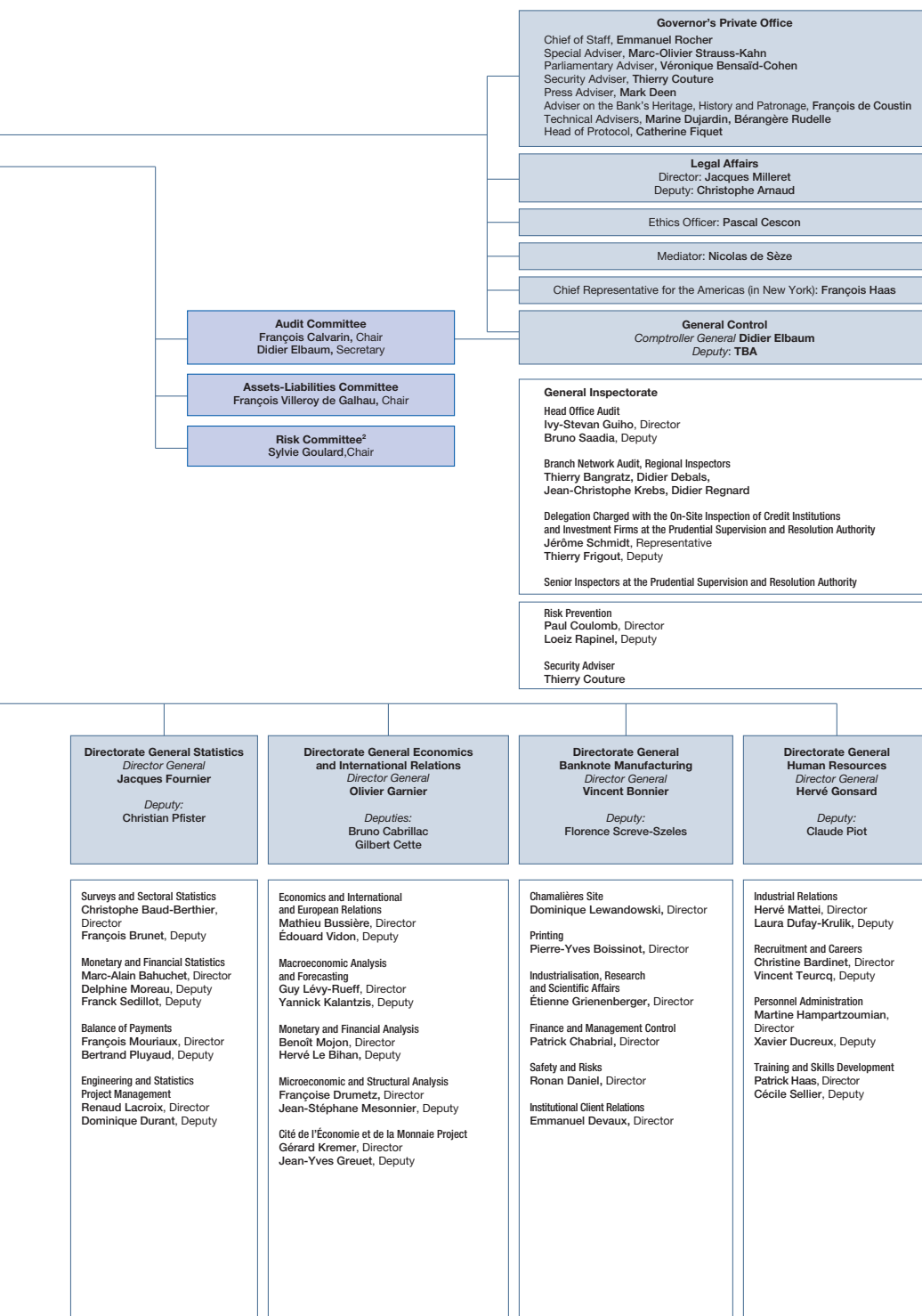
Appendix 1

Organisation of the Banque de France as at 22 May 2018



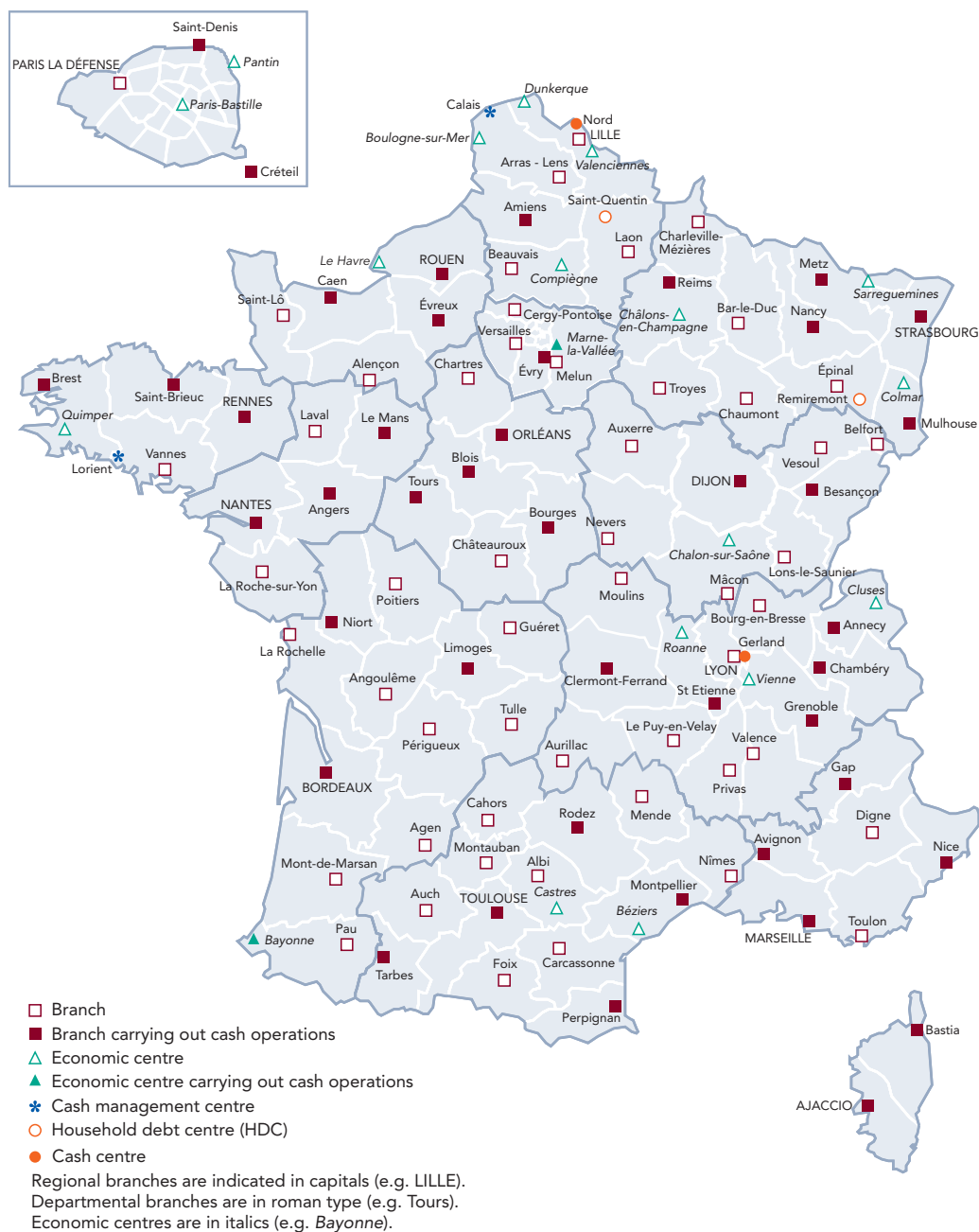
¹ The Governor chairs the Observatory for the Security of Payment Means, the Observatory for Regulated Savings and the Observatory for Banking Inclusion.

² The Director of Operations Risk and Compliance reports to both the Chair of the Risk Committee and the Director General Financial Stability and Operations.



19 economic centres, 2 local centres, 2 household debt centres, 2 cash centres and 2 cash management centres

The Banque de France branch network as at 1 January 2018



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 partner central banks acquired stakes in its capital in 2017.



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 2017

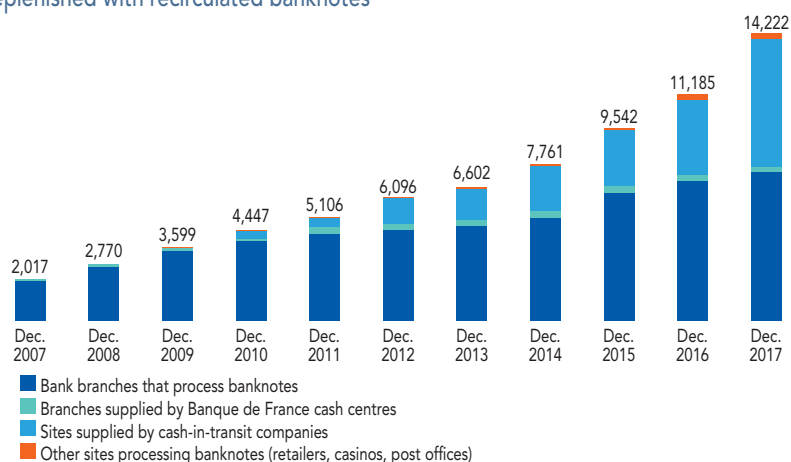
Under Article L141-5 of the French Monetary and Financial Code, the Banque de France is tasked with maintaining the quality of the banknotes and coins in issuance and ensuring their effective circulation within French national territory. Article R122-8 of the Code requires operators (credit institutions, 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 2017, 88 credit institutions had signed agreements with the Banque de France authorising them to recirculate banknotes to the public via customer operated machines; 265 operators had signed processing agreements setting out criteria for sorting banknotes; and 29 operators had signed an agreement authorising them to process coins.

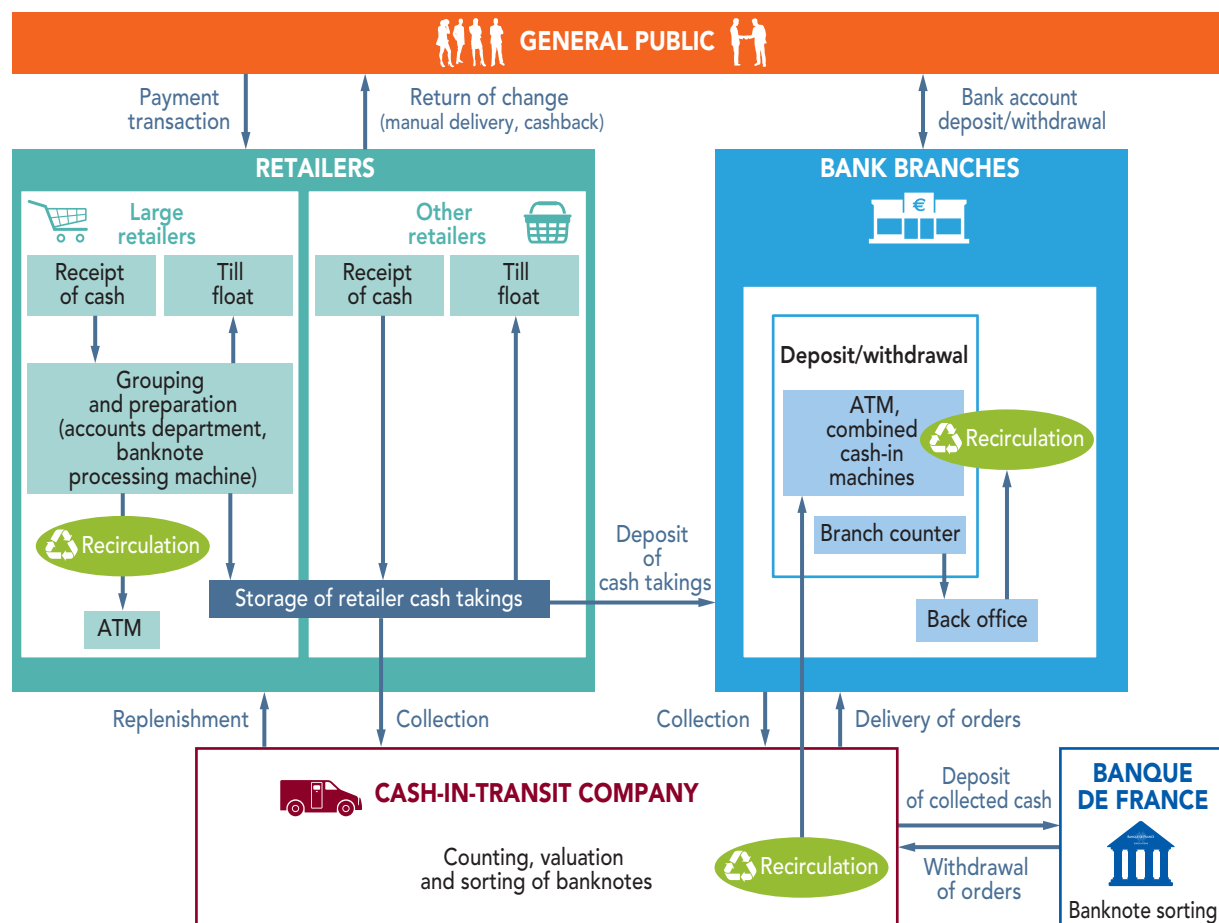
Agreements signed with private operators

Type of agreement	Type of operator	Number of agreements signed in 2017	Total number signed as at 31 December 2017
Coins			29
	Professional operators	0	14
	Non-professional operators	0	15
Banknotes			265
Distribution agreements	Credit institutions	9	88
Processing agreements	Credit institutions	2	55
	Cash-in-transit companies	0	8
	Retailers providing recirculation services	5	113
	Other professional cash-handlers	0	1

Number of bank branches or similar with ATMs replenished with recirculated banknotes



The cash cycle and recirculation of banknotes



In 2017, the number of bank branches recirculating banknotes continued to rise, reaching 7,397 by the end of the year. 52% of the equipment used was made up of customer-operated cash recycling machines, with back

office automated sorting machines accounting for 39%. Recirculation by cash-in-transit companies (CITs) continued to grow, with the number of bank branches supplied via this channel rising by 27%.

In total, 22.7% of all banknotes put into circulation in the first half of 2017 (last known figures) were processed by private operators.

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 by the Banque de France. In 2017, the Bank carried out 447 on-site inspections of bank branches and workshops processing banknotes for customer-operated machines, of which 93 were conducted entirely by staff from the cash centre network (increase of 28% relative to 2016). 798 cash recycling machines were inspected as part of these missions, of which 13% were found to be non-compliant, leading to repairs by the manufacturer. Only one sanction was imposed – on a retailer who received a temporary suspension due to the suspected recirculation of counterfeit banknotes.

Document checks conducted by the Bank revealed one case of unauthorised banknote processing (i.e. where an agreement had not been signed). Four requests had

also been sent to operators asking for an explanation as to why they had failed to comply with their contractual obligations.

Banque de France inspections of coin-processing sites

In 2017, the Banque de France performed 37 on-site inspections of coin-processing sites.

Banque de France inspections of auxiliary coin deposits

Since 2014, the Banque de France has allowed CITs to operate local auxiliary coin depositories. Under this system, they are given responsibility for the custody and management of a stock of coins, which nonetheless remains the property of the Bank. Since 2017, inspections of these companies have been carried out by the local cash centres to which they are attached, as part of the permanent control framework.

Banknote recirculation and coin processing in the overseas departments

The Banque de France has charged the IEDOM with managing the recirculation activities of firms based in the overseas departments and collectivities. In 2017, the IEDOM inspected ten of the 86 sites concerned. Moreover, eight agreements on automatic coin processing had been signed, covering a total of nine production sites. Seven of these sites were inspected.

Banknote authentication training for bank employees

In accordance with the provisions of Article R122-6 of the Monetary and Financial Code, the Banque de France assists banks in training their staff in the manual distribution of banknotes. In 2017, it provided banknote authentication training to 1,698 credit institution employees.

Appendix 4

Summary of the Household Debt Commissions' activity reports for the year 2017

In accordance with the provisions of Article R712-12 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.

Overindebtedness applications continued to fall in 2017

The number of overindebtedness applications declined for the third consecutive year in 2017, falling by 6.7% relative to 2016, to a total of 181,123. This followed declines of 10.6% in 2016 and 5.9% in 2015. The number of second-time applications also continued to fall, albeit at a slower rate.

Increase in the number of cases definitively resolved

Public authorities have made it a priority to ensure overindebtedness is handled more effectively.

In line with this objective, in 2017 the commissions and their secretariats found definitive solutions to 85.8% of cases, up from 82% the previous year. The number of cases handled was nonetheless down on the previous year, at 179,481, as certain applications were put on hold pending the entry into force on 1 January 2018 of new legislation on overindebtedness.

Key data on the commissions' activity

(in number of applications)

	2017	2016
Applications filed	181,123	194,194
<i>o/w second-time applications (%)</i>	46.7	45.5
Admissible applications	166,939	175,098
Non-admissible applications (A)	13,441	14,704
Directed towards a debt restructuring programme	94,564	101,946
Directed towards a Personal Recovery Procedure	75,578	76,892
Recommended for personal recovery without judicial liquidation	63,952	73,686
Agreement by a debtor to a Personal Recovery Procedure with judicial liquidation (C)	1,861	1,633
Agreement on a debt repayment plan (D)	20,171	22,530
Measures imposed or recommended by the commissions	63,901	79,248
<i>o/w measures imposed or recommended for immediate application</i>	42,127	53,630
Cases closed (F)	14,129	15,978
Other outcomes (including cases found non-admissible by a court) (G)	2,026	1,969
Cases handled (A+B+C+D+E+F+G)	179,481	209,748

The proportion of debt write-off recommendations remained more or less stable at 37% of total cases handled (compared with 36% in 2016).

The removal of the maximum time limit on debt resolution measures for applicants who are homeowners led to an increase in the number of cases where debtors were able to keep their main residence (6,178 cases).

Decisive impact of legislative and regulatory changes

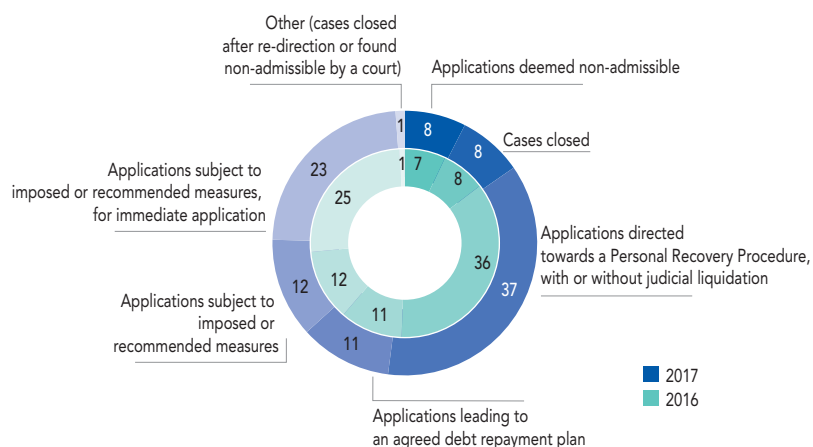
In 2016, two new laws were introduced as part of ongoing efforts to simplify and speed up resolution measures, which were begun in 2010.

Law No. 2016-1547 of 18 November 2016 on the modernisation of French law for the 21st century reduced the judicial aspects of the overindebtedness procedure. All measures decided by debt commissions can now be applied without the prior approval of a district judge, thereby reducing the time taken to implement them. The judge only intervenes in the event of an appeal or objection, or if the case involves a judicial restructuring combined with a liquidation.

Law No. 2016-1691 of 9 December 2016 on transparency, the fight against corruption and the modernisation of the economy got rid of the conciliation phase between the debt commission, creditors and debtors for cases where no real estate is involved. Moreover, in order to maximise the chances of reaching an amicable settlement in cases where the debtor does own real estate, the proposed repayment schedule drawn up by the debt commission

Breakdown of commissions' decisions in 2016 and 2017

(% of total applications processed)



is deemed to have been accepted if no objections are received from the creditors within 30 days.

The commissions' reports stressed that the entry into force of these laws on 1 January 2018 will significantly reduce processing times for overindebtedness applications.

A necessary improvement in guidance for overindebted individuals

The commissions noted that one of the keys to the success of their mission is providing upstream support and guidance to vulnerable individuals to prevent them from getting into debt in the first place. This means implementing

systems and structures to allow people in financial difficulty to get support and advice, and, if needed, financial help.

The majority of reports noted that there was a lack of correspondents within departmental councils and at family benefits offices, even though this is a specific requirement of the legislation. Recommendations sent by the commissions to the local judges calling for the introduction of a financial advice and support system have not been followed up.

Increased cooperation with all stakeholders

In 2017, the commissions took steps to ensure closer and more

constructive cooperation between stakeholders, with the aim of better identifying cases of financial difficulty.

Following the launch of the *Mes questions d'argent* web portal¹ in January 2017, the Banque de France conducted a financial literacy information and training campaign across France, to ensure social workers are better equipped to assist those in difficulty and thus prevent overindebtedness. In total, the commissions met 14,731 social workers and representatives of welfare groups, social action centres, family benefits offices, consumer associations and charities in 2017, to help them provide improved guidance to individuals when submitting overindebtedness applications.

In 44% of cases submitted in 2017, the applicant was being supported by a social worker.

The need to reinforce the prevention of tenant evictions

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

debt commissions were better able to identify vulnerable situations. However, a significant number of reports highlighted cases where tenants had been evicted following a Personal Recovery Procedure (PRP) and were struggling to find accommodation. Eviction procedures can indeed be resumed even if rental debts have been written off as part of the PRP, which can in turn lead to a deterioration in the debtor's finances and even a resubmission of an overindebtedness application.

The commissions stressed the need to improve coordination on these cases, particularly when a repayment agreement has been signed between the tenant and lessor (a *protocole de cohésion sociale*), or where a court has ordered that the payment of rental arrears be rescheduled. This can create difficulties as, once an overindebtedness application has been declared admissible, the debtor is not allowed to repay any debts accumulated prior to this decision. One solution would be to introduce a principle whereby court rulings or agreements signed between tenants and lessors are automatically cancelled and replaced by the debt commissions' measures.

Regular exchanges with legal services to help develop a common approach

In 2017, all the commissions held at least one meeting with the district court judges and/or registrars in their region to try to harmonise practices and find appropriate solutions for overindebted families.

Several commissions flagged up differences of opinion with certain judges over appeals regarding admissibility, notably concerning the notion of good faith. They also highlighted divergences over whether or not a debtor's situation qualifies as "irretrievable", as illustrated by judges' systematic refusal to direct cases to a PRP without ordering a judicial liquidation. In these specific cases, the debtor's age is often cited as a reason.

The commissions also noted that there can be significant delays in the approval of their recommendations, which can lengthen the resolution procedure.

Law No. 2016-1547 of 18 November 2016, which came into effect on 1 January 2018, should help to resolve these problems as it allows

¹ <https://www.mesquestionsdargent.fr/>

commissions to directly impose write-off measures.

The majority of the commissions noted difficulties regarding debtors who are ineligible for the overindebtedness procedure due to their professional status (mainly microentrepreneurs), but at the same time may not qualify for commercial court bankruptcy proceedings as they are not deemed to have 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 RSI – the social security scheme for self-employed workers): these debts are deemed to be professional under the overindebtedness procedure, but are classified as personal debts by commercial courts for the purposes of collective bankruptcy proceedings. Proposals have been made for a change in the law to ensure greater consistency between the two frameworks.

A large number of commissions said they had encountered problems in implementing PRPs with a judicial

liquidation. One of the main obstacles the reports mentioned was finding agents to carry out the liquidation procedure, which can lead to significant delays in court proceedings.

The need to strengthen dialogue with creditors to improve debt resolution

Creditors are also represented on the commissions, and are vital partners in ensuring the indebtedness procedure goes smoothly, in particular with the increased digitalisation of information exchanges.

A decision by a creditor to sell its receivables to a third party during the procedure can make it harder to handle cases effectively. The debtors and commissions are often unaware that the debts have been sold, which can lead to a breakdown in negotiations.

Numerous reports also noted that there were still too many cases where talks failed due to a lack of response on the part of certain creditors (telecoms operators, insurers, etc.). Law No. 2016-1691 of

9 December 2016, which came into effect on 1 January 2018, will go a long way towards resolving these difficulties.

A procedure that needs to be adapted to take into account changes in society

The commissions' reports regularly highlight increases in the number of applications where real estate assets are owned jointly, which creates problems such as how to value the assets and how to separate ownership.

There has also been a rise in the number of long-term leases and lease contracts with a purchase option, which can be difficult to deal with via a standard debt restructuring plan or resolution measure. In particularly problematic cases, returning the vehicle to the creditor could lead to a loss of employment and increased social exclusion.

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Émilie ALBERT - Aurélia BLANC - Christophe MORIN

Printed by Groupe des Imprimeries Morault

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