

# 2012 | ANNUAL REPORT **BANQUE DE FRANCE**

To  
The President of the Republic  
And Parliament

By Governor Christian Noyer



# Contents



To mark the issue of the new five euro banknote, the illustrations in this Annual Report represent over two centuries of banknotes printed by the Banque de France starting with the number five (see table of banknote illustrations on page 152).

The photos of the General Council and the members of the Executive Committee were taken by Marthe Lemelle.

Monetary policy, financial stability and support for the economy	6
<b>1  INTERNATIONAL ENVIRONMENT</b>	<b>7</b>
1 1 Capital and commodity markets	7
1 2 Economic activity outside the euro area	10
<b>2  ECONOMIC AND MONETARY SITUATION IN THE EURO AREA AND FRANCE</b>	<b>14</b>
2 1 Weakened growth	14
2 2 Monetary and financial developments in 2012	18
<b>3  THE EUROSISTEM'S MONETARY POLICY RESPONSE</b>	<b>22</b>
3 1 Eurosystem monetary policy decisions	22
3 2 Non-standard measures	22
<b>4  MEASURES TO SUPPORT RECOVERY FROM THE CRISIS</b>	<b>26</b>
4 1 Measures to promote financial stability	26
4 2 Fiscal consolidation	28
4 3 Stimulating growth through structural reforms	31
4 4 International coordination of economic policies	32
Tasks and activities of the Banque de France in 2012	34
<b>1  SERVICES TO THE NATIONAL COMMUNITY</b>	<b>35</b>
1 1 Assessing the economy and its financing	35
1 2 Monitoring companies	37
1 3 Consumer protection and management of general interest databases	38
1 4 Processing of household debt cases	41
1 5 Holding accounts for general government and management of tender procedures	42
<b>2  EUROSISTEM TASKS</b>	<b>43</b>
2 1 Activity and inflation forecasts in support of monetary policy	43
2 2 Research, statistics and publications	43
2 3 Market operations activities	46
2 4 Banknotes and coins	47
<b>3  THE BANQUE DE FRANCE'S ROLE SERVING FINANCIAL STABILITY</b>	<b>51</b>
3 1 Prudential supervision	51
3 2 Security of means of payment and market infrastructures	52
3 3 Banque de France actions to preserve financial stability	53
3 4 Participation in international regulatory bodies	55
3 5 International cooperation	58
Governance, strategy and management	60
<b>1  GOVERNANCE</b>	<b>61</b>
1 1 Executive bodies	61
1 2 Decision-making and control bodies	63
1 3 Internal Audit and risk management	65
<b>2  BUSINESS STRATEGY</b>	<b>67</b>
2 1 Transform the Bank by 2020	67
2 2 Continue efforts to strengthen the Bank's capital structure	70
2 3 Strengthen the Bank's influence	70

<b>3 </b>	<b>HUMAN RESOURCES MANAGEMENT</b>	<b>76</b>
3 1	Harnessing demographic changes within the Bank to modernise its organisation	76
3 2	Prevention of psychosocial risks as a key element in preparing and accompanying change	77
3 3	Learning and adapting	78
3 4	As an institution of the French Republic, integrate social responsibility within the HR policy	79
<b>4 </b>	<b>FINANCIAL MANAGEMENT: THE BANK'S BALANCE SHEET AND PROFIT REFLECT THE ONGOING FINANCIAL CRISIS</b>	<b>79</b>
4 1	Non-standard monetary policy measures continued	79
4 2	A marked rise in financial income	81
4 3	Efficient control of operating expenses in a context of robust activity	82
4 4	Strengthening the capital structure and maintaining a high level of payments to the State	82
	<b>Sustainable development: a corporate responsibility</b>	<b>84</b>
<b>1 </b>	<b>SUSTAINABLE FINANCE AND GREEN GROWTH</b>	<b>85</b>
1 1	Microfinance	85
1 2	Green growth and economic growth	85
<b>2 </b>	<b>REDUCTION OF THE ENVIRONMENTAL FOOTPRINT</b>	<b>87</b>
2 1	Reducing our impact on the environment	87
2 2	A marked reduction in greenhouse gas emissions	90
2 3	Improving the Bank's energy performance and preserving the environment	90
2 4	Green IT	91
<b>3 </b>	<b>ECONOMIC AND FINANCIAL EDUCATION OF THE PUBLIC</b>	<b>93</b>
3 1	Economic and financial education initiatives	93
3 2	The <i>Cité de l'économie et de la monnaie</i>	95
<b>4 </b>	<b>LEVERS FOR ACTION</b>	<b>96</b>
4 1	Quality approach	96
4 2	Procurement policy	96
4 3	Sustainable development information system	97
4 4	Communication	97
	<b>The accounts of the Banque de France</b>	<b>100</b>
<b>1 </b>	<b>REPORT ON ASSETS, LIABILITIES AND RESULTS</b>	<b>101</b>
1 1	Assets and liabilities	101
1 2	Breakdown of profit	104
<b>2 </b>	<b>THE INDIVIDUAL ACCOUNTS OF THE BANQUE DE FRANCE</b>	<b>108</b>
2 1	The balance sheet and profit and loss account	108
2 2	Notes to the annual accounts	109
2 3	Auditors' report on the annual accounts of the Banque de France	130
<b>3 </b>	<b>COMBINED ACCOUNTS</b>	<b>132</b>
3 1	The combined balance sheet and profit and loss account	132
3 2	Notes to the combined annual accounts	133
3 3	Auditors' report on the combined annual accounts	136

Appendix	139
1  Summary of the household debt commissions' activity reports for the year 2012	139
2  Organisation of the Banque de France at 1 august 2013	146
List of illustrations	149
Table of banknote illustrations	152
Reply form	153

## BOXES

1	Current account transactions in France's balance of payments	14
2	Change in housing starts in France and effect on GFCF	15
3	Wage developments since the crisis	17
4	Household financial behaviour	21
5	Impact of non-standard measures on the real economy and private bond yields in the euro area	25
6	Transition from EFSF to ESM	27
7	Ratification of the Treaty on Stability, Coordination and Governance and transposition into French domestic law	29
8	France's public finances in 2012	30
9	Euro area labour market reforms	32
10	New survey on mid-tier enterprises	35
11	The Banque de France rating system: a synoptic assessment comprising two elements	37
12	Banque de France rating system: Key data at 31 December 2012	37
13	GEODE 2013: An updated support service for companies	38
14	Household payment incident databases managed by the Banque de France	39
15	Main messages in the first report of the Monitoring Committee for the Reform of Usury	40
16	Make-up of the household debt commissions	41
17	Typological survey of household debt – 2011	42
18	The Banque de France Foundation for monetary, financial and banking economic research	45
19	Securitisation of credit claims as a source of collateral	46
20	TARGET2 and its role in the implementation of monetary policy	47
21	Common Eurosystem Pricing Hub (CEPH)	47
22	Recycling of euro banknotes and coins in 2012	50
23	Exchange of French franc banknotes	51
24	Contribution to the work of the FSB	54
25	Contribution to the work of the ESRB	54
26	the CRD IV "package"	55
27	Changes in French banks' liquidity in 2012	57
28	IMF FSAP stress tests	57
29	The Banque de France in 2012	62
30	Programmes to modernise the branch network	68
31	Re-engineering information systems for banking services	69
32	A development strategy to ensure an overall level of competitiveness within Banknote Manufacturing	69
33	TARGET2 Securities project	72
34	MAPS project	72
35	The Financial Stability Council	73
36	Measures in the Economic Modernisation Act paved the way for more refined assessment of enterprises	74
37	Implementation of the Single Euro Payments Area (SEPA)	75
38	Hiring at the Banque de France	77
39	Symposium on assisted microcredit	86
40	Banque de France greenhouse gas emissions in 2011	90
41	HPE IT centres: Application of the European Union Code of Conduct on Data Centre	92
42	The French and the economy	94



Monetary policy,  
financial stability  
and support  
for the economy



**E**uro area growth was weak or non-existent in 2012 amid pressures on sovereign and private debt and market fragmentation.

However, the strain eased in the second half of the year thanks to decisive measures by the Eurosystem to prevent extreme risk premia from forming and steps by Member States to keep government finances under control, bolster growth potential and develop tools to prevent and manage crises.

At international level, initiatives by the G20 and the bodies in charge of work in the area of financial stability helped to strengthen international coordination of economic policies and financial regulation.

*The following analyses and commentaries are based on economic data updated at 15 April 2013.*

## 1| INTERNATIONAL ENVIRONMENT

### 1|1 Capital and commodity markets

#### Capital markets

Central banks played a prominent role in 2012. In the euro area, the European Central Bank (ECB) carried out a second very long-term refinancing operation (VLTRO) and then announced its outright monetary transactions (OMT) mechanism, which was instrumental in the second half in bringing down the risk premia associated with extreme scenarios of a euro area exit by some countries.

Central banks in the main economic zones adopted new non-standard monetary policy measures. In the United States, Japan and the United Kingdom, policy rates were held at historically low levels and asset purchasing programmes were stepped up. To promote financing for the real economy, the Bank of England introduced a Funding for Lending Scheme. The US Federal Reserve (Fed) modified its approach to communication and began linking its interest rate policy to the labour market situation and inflation. In the euro area, the Eurosystem provided

a gross EUR 1,019 billion in liquidity in euros through two three-year refinancing operations and cut key rates. The reduction in the deposit facility rate to 0% caused a trend decline in the Eonia overnight rate that continued throughout the second half. Financing conditions for euro area banks in euros and dollars improved, as reflected by the reopening of primary bond markets and a narrower 3-month euro-dollar basis swap, which went from -114 basis points (bps) on 2 January to -20 bps on 31 December.

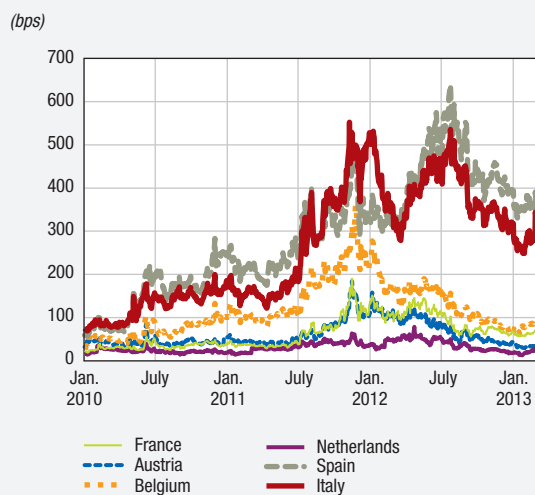
Faced with persistent market segmentation and mounting stress on peripheral bond markets, the ECB Governing Council announced its intention, where necessary and under certain conditions, to intervene on sovereign debt markets to ensure the proper transmission of monetary policy. The announcement of the OMT mechanism, combined with the adoption of the European Stability Mechanism (ESM) by Member States and the entry into force of the Treaty on Stability, Coordination and Governance, brought about a pronounced decline in risk premia linked to extreme scenarios as well as tighter yield spreads over German sovereign securities (see Chart 1). Non-domestic investors returned to Spanish and Italian markets. Greece, Portugal and Ireland, which were placed under European Union (EU)/International Monetary Fund (IMF) assistance programmes, saw yields ease considerably.

However, illustrating the continued perception of pronounced risk in the euro area, some countries were able to issue at negative rates on the very short end of the curve and even up to the two-year segment on the German market.

US sovereign bond yields fluctuated greatly in 2012. They initially increased in connection with firming macroeconomic conditions, but mounting pressures in the euro area, purchases by investors looking for safe haven securities and the extension of the Fed's asset purchase programme subsequently pushed them towards record lows (1.39% in July). The fiscal cliff debate had a minor impact on yield levels.

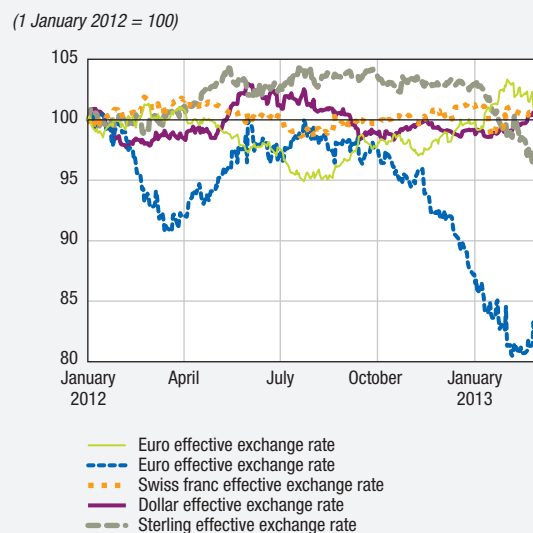
UK sovereign bond yields moved in step with those in the USA. The extension of the asset purchase

**Chart 1**  
**Spreads over German government securities**  
**since 2010**



Source: Bloomberg.

**Chart 2**  
**Effective nominal exchange rate**



Source: Bloomberg.

programme (the target was raised from GBP 275 billion to GBP 375 billion) and the hunt by investors for safe haven securities caused UK yields to fall to record lows despite weak economic fundamentals.

Japanese long yields followed the same trend as US and UK yields: the 10-year yield fell to 0.791% on 28 December, compared with a year-long high of 1.052% in mid-March.

On currency markets, the deepening sovereign debt crisis in the euro area weakened the euro in the first half and boosted the US dollar, which played the safe haven role. The trend reversed after the ECB's announcements in the summer. Over the year, the nominal effective exchange rate of the euro was stable, while the effective exchange rate of the US dollar depreciated by slightly less than 1%.

The yen's nominal effective exchange rate depreciated by 13% over the year, with an especially pronounced trend from September onwards, when the Bank of Japan caught the market off-guard by extending its asset purchase programme.

After hitting a record high in September 2011 against a backdrop of euro area stress and globally

accommodative monetary policies, gold moved in a range of USD 1,525 to USD 1,800 per ounce in 2012. As sovereign pressures eased in the euro area and signs of a US economic upturn emerged at the end of the year, gold began heading down again in the last quarter of 2012.

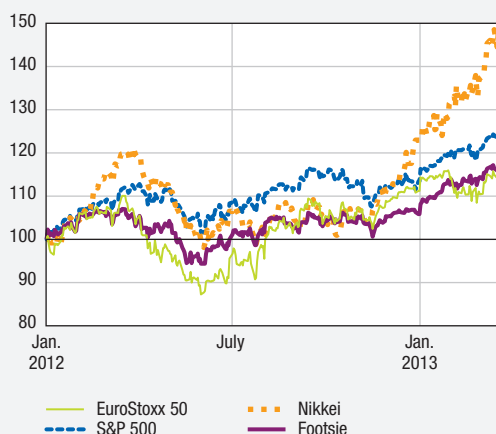
In emerging countries, central banks continued to ease monetary policy in 2012 and economies rebounded, beginning in Q3 in Brazil and Q4 in China and India. Emerging bond markets continued to see inflows of funds. The EMBI global index compiled by JPMorgan, which measures the yield spreads of emerging sovereign securities over US government securities, narrowed sharply, from 416 bps to 265 bps at the end of the year, wiping out the deterioration observed in 2011. On the currency market, the Chinese yuan appreciated against the US dollar after the fluctuation band was widened to 1% around the rate set daily by the authorities.

Global stockmarkets made gains in two phases in 2012, with US markets getting back to their highs of 2007. The MSCI world index put on 12.7% over the year while US markets went higher, with the S&P 500 up 13.4% and the Dow Jones up 7.3%. While the Eurostoxx increased by 13.1% over



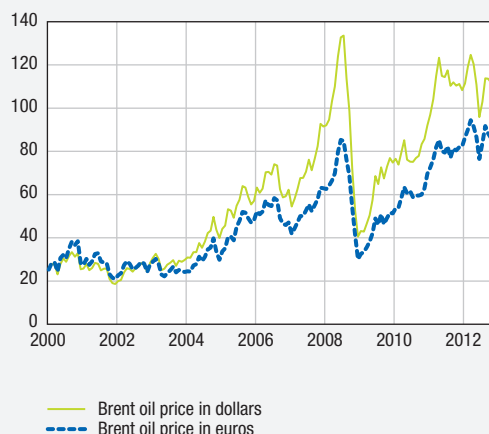
**Chart 3**  
**Stock indices**

(1 January 2012 = 100)



Source: Bloomberg.

**Chart 4**  
**Brent oil price**



Source: Datastream.

the year, European stockmarkets put in contrasting performances, ranging from a 25.3% increase for the German index and 13% for the French index, to a 6.4% fall for the Spanish index. Japan's Nikkei jumped 22.9%, while emerging stockmarkets also gained ground, with a 15.1% increase for the MSCI emerging markets index. Bank stocks were lifted by the rising stockmarkets: MSCI bank indices increased by 20.6% in the USA and 26.4% in Europe (including the UK).

## Commodity markets

The price of crude oil remained at record high levels in 2012. Brent prices averaged USD 112 a barrel in 2012, after USD 111.5 in 2011. In the first quarter of the year, oil prices increased sharply in response to an anticipated dislocation of Iranian crude oil following the approval of the EU embargo on Iran. Moreover, Iran's threat to block the Strait of Hormuz, through which a third of the world's seaborne oil trade passes, contributed to increased market volatility.

Over the year, numerous supply disruptions in Southern Sudan, Yemen, Syria and the North Sea caused a substantial tightening in the world oil market. Spare crude oil production capacity was also

quite modest by historical standards, in particular if considered in the context of the existing geopolitical uncertainties.

On the demand side, global oil consumption continued to increase in 2012, by 0.9 million barrels per day (bbl/d) according to the International Energy Agency, despite concerns about the pace of economic



recovery, particularly in European countries. Non-OECD countries, led by China, accounted for virtually all the increase in consumption.

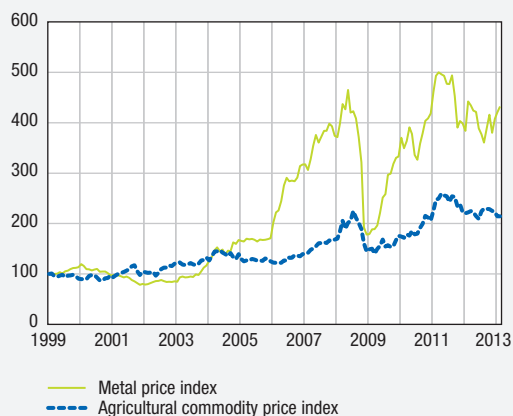
According to the US Energy Information Administration (EIA), US crude oil production rose by an estimated 8.5 million bbl/d in 2012 – the largest annual increase ever seen. This resulted in record high inventory levels from April to December in Cushing, Oklahoma, which is a major pricing point for North American crude oil. As a result, the spread between the price of WTI crude (the US benchmark) and the price of North Sea Brent in Europe widened.

The most severe drought in the last fifty years damaged prospects for cereal markets in the US. As a result, agricultural commodity prices increased over the summer before beginning a slow correction in the last quarter of 2012.

Non-precious metal prices fell in 2012 due to investor fears about the deepening of the euro area crisis in the first half of the year and slowing growth in China. Metal prices picked up again in the second half of 2012 supported by positive Chinese data together with a recovery in financial markets.

**Chart 5**  
**Metal and agricultural commodity price indices**

(january 1999 = 100)



Note: The materials used to calculate the metal price index are copper, lead, steel, tin and zinc.

Source: Commodity Research Bureau (CRB), US Department of Agriculture.

## 1|2 Economic activity outside the euro area

### Industrialised countries

In the United States, the pick-up in economic activity accelerated in 2012, with GDP growing by 2.2%, after 1.8% in 2011. However, amid major uncertainty linked to the presidential elections and the looming fiscal cliff, the quarterly growth pattern was uneven: after moderate growth in the first half, GDP increased by 0.8% quarter-on-quarter in the third quarter and was flat in the fourth.

The labour market continued to recover, creating a net 2,193,000 jobs in 2012, after 2,103,000 in 2011. The unemployment rate thus fell by half a point between January and December 2012, reaching 7.8% at end-2012, although this was helped by the falling participation rate.

The housing market showed signs of a more solid upturn. Residential investment increased by 12.1% in 2012, after contracting 1.4% in 2011. House sales increased for the first time since 2005 in both existing and new housing. House prices, as measured by the S&P Case Shiller index, rose by 0.9% after falling 3.9% in 2011.

The improvements in the labour and housing markets helped to support household spending, which increased by 1.9% on average in 2012.

The deficit on trade in goods and services amounted to USD 540 billion in 2012, or 3.4% of GDP, compared with a USD 560 billion deficit in 2011 (3.7% of GDP).

As energy prices eased, the consumer price index rose by 2.1% in 2012, after 3.1% in 2011. Core inflation increased from 1.7% in 2011 to 2.1% in 2012.

In 2012, the Fed stepped up the exceptional measures applied since 2008 to support the economic recovery. In September, it launched a third round of quantitative easing (QE3), via a monthly programme of open-ended purchases of USD 40 billion of mortgage debt. In December, the Fed introduced an additional

USD 45 billion-a-month programme to purchase Treasuries in order to offset the end of Operation Twist (aimed at replacing short-term securities with long-term bonds on the Fed balance sheet), and continued its mortgage purchase programme. As a result, the Fed's balance sheet increased to around USD 3,000 billion at the end of 2012, or 18.6% of GDP, up from 17.3% in 2011. The Fed also moved away from a "forward guidance" policy based on a calendar date to one based on several macroeconomic thresholds, which states that policy rates will be kept exceptionally low as long as the unemployment rate remains above 6.5%, 1 to 2-year ahead inflation forecasts are below 2.5%, and longer-term inflation expectations remain well-anchored.

The federal deficit fell during the 2012 fiscal year (1 October 2011 to 30 September 2012) to 6.9% of GDP compared with 8.7% in 2011. Outstanding federal debt continued to increase, climbing to 72.5% of GDP at the end of 2012.

In the UK, GDP growth slowed in 2012 to an annual average of 0.3% after 1.0% in 2011. The uneven pattern of quarterly growth (only the third quarter was in positive territory) reflected the influence of one-off factors, such as the additional bank holiday for the Queen's Jubilee in Q2 and the Olympic Games in Q3. The UK's modest performance was due both to internal factors reflecting an unchanged environment from 2011 – budget rigour, household deleveraging and economic uncertainty, which depressed domestic demand and particularly investment – and to external conditions that were dominated by the crisis and the recession in the euro area, which put a drag on UK exports and prevented external rebalancing.

In contrast with 2011, domestic demand excluding inventories contributed positively to growth (+1.5 points, compared with -1.0 point in 2011), driven by government and private consumption spending. However, external trade contributed negatively to growth, to the tune of 0.9 of a point, after contributing a positive 1.4 points in 2011, owing to a slight upturn in imports (+2.7% after

zero growth in 2011) and a fall in exports (–0.2% after growth of 4.5% in 2011).

Despite weak growth, the labour market held up well in 2012, creating approximately 600,000 jobs, with a record 29.7 million people in employment. Unemployment fell as a result to 7.8% at the end of the year compared with 8.4% at end-2011.

Inflation, measured by the change in the consumer price index, came to 2.8% on average in 2012 after 4.5% in 2011. The decline was due primarily to the subsidence of temporary factors that dominated in 2011, notably the VAT increase and higher commodity prices. However, inflation remained above the 2% target, sustained particularly by the increase in regulated prices (electricity and gas) and university registration fees.

The Bank of England continued its policy of monetary easing in 2012, holding its key rate at 0.5% and expanding its asset purchase programme in February and July 2012 to a total GBP 375 billion by the end of the year (approximately 25% of GDP). In summer 2012, against the backdrop of a renewed recession and tighter lending conditions, the Bank of England and the Treasury launched a new program, the Funding for Lending Scheme, to promote bank lending to the private sector by lowering refinancing costs for UK financial institutions.

The government deficit fell in 2012 to 6.3% of GDP after 7.8% in 2011<sup>1</sup>. Government debt (as defined by Maastricht) reached 87.6% of GDP in 2012 after 85.3% in 2011.

Japan recorded average annual GDP growth in 2012 of 2.0%, after –0.5% in 2011. The increase was essentially due to the strong economic performance in the first quarter (1.5% quarterly increase), stimulated by government incentives to purchase energy-efficient vehicles and public reconstruction investments. From Q2, the country entered a slowdown, with quarterly growth rates sitting at –0.2%, –0.9% and 0.0% in the second, third and fourth quarters respectively. With the exception of the first quarter, net exports contributed negatively to GDP growth, confirming the deterioration in Japan's external trade since 2011 owing, on the one hand,

<sup>1</sup> Two exceptional cash payments helped to reduce the 2012 budget deficit, including the transfer of assets from the Royal Mail pension scheme which accounted for 1.8 GDP point.

to worsening global economic conditions and the appreciation of the yen, and, on the other hand, to increased fossil fuel demand resulting from the shutdown of virtually all nuclear power stations. Consequently, the annual trade balance was negative in 2012, at JPY -6,930.3 billion, after JPY -2,564.7 billion in 2011.

Inflation, measured by the year-on-year change in the consumer price index, was zero in 2012, after -0.3% in 2011. Core inflation reached -0.6% in 2012. To fight deflation and revitalise the economy, the Bank of Japan increased its asset purchase programme five times in 2012, from JPY 65,000 billion (12.5% of GDP) in February to JPY 101,000 billion in December (19.5% of GDP) and announced the creation of a new Stimulating Bank Lending Facility in October.

Japan's fiscal situation remains difficult. At end-2012, the government deficit and gross government debt amounted to 9.9% and 214% of GDP respectively. To meet commitments made within the G20 (halve the primary government deficit by 2015, achieve primary surplus by 2020, regularly reduce the debt-to-GDP ratio from 2021), in August 2012 Parliament approved an increase in the consumption tax, which is to be raised from 5% to 8% in April 2014 and from 8% to 10% in October 2015. This should raise an additional JPY 13,500 billion in tax revenues annually (2.6 points of GDP).

## Emerging countries

Growth in emerging economies remained much higher overall than that of most advanced countries. Emerging economies are now the main engine of global growth; even so, their growth showed signs of faltering in 2012, falling to 5.3% in 2012, compared with 6.2% in 2011. The slowdown was partly the result of cooler demand in advanced countries, but many internal factors, which varied from country to country, also played a part.

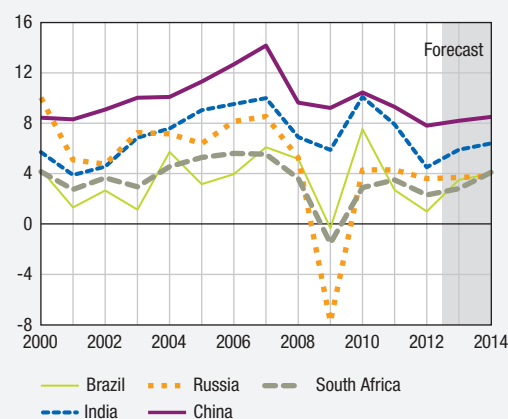
Amid moderate movements in commodity prices and with core inflation under control overall, many central banks maintained accommodative monetary policies and further easing was implemented in most countries in 2012.

Financing conditions generally improved for emerging economies in the second half of 2012, reflecting better financing conditions on global financial markets and a relatively stronger macroeconomic outlook. Meanwhile, portfolio inflows to emerging economies overtook those of 2011.

In Asia, economic growth slowed sharply, falling from 7.8% on average in 2011 to 6.7% in 2012. Exports moderated with global demand. In early 2012, signs of a slowdown were noticeable in China, with economic growth easing from 8.9% in the last quarter of 2011 to 7.4% in the third quarter of 2012. The slowdown was partly due to measures taken from 2010 onwards to combat inflation and rein in the property market. However, the rebound to 7.9% in the last quarter of 2012 and strong economic indicators at the end of the year support the notion of a soft landing. It may be that the Chinese model has reached certain limits between growing dependence on investment (debt-financed), the inevitable catch-up in labour costs, environmental constraints and the coming demographic challenges. In India, 2012 growth was just 4.5%, well below the 7.9% recorded in 2011.

**Chart 6**  
**BRIC GDP growth rates<sup>a)</sup>**

(annual average, %)



a) long-run series since 2000.

Note: The term BRICS is used to refer to a group of fast-growing countries made up of Brazil, Russia, India, China and South Africa.

Source: IMF.



**Table 1**  
**Main economic indicators for BRICS**

	Brazil		Russia		India		China		South Africa	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Nominal gross domestic product (GDP) (USD billions)	2,493	2,425	1,850	1,954	1,827	1,947	7,298	8,250	409	391
GDP growth (%)	2.7	1.0	4.3	3.6	7.9	4.5	9.3	7.8	3.5	2.3
Inflation growth (%)	6.6	5.2	8.4	5.1	8.9	10.2	5.4	3.0	5.0	5.6
Fiscal balance (% of GDP)	-2.6	-2.1	1.6	0.5	-9.0	-9.5	-1.2	-1.3	-4.6	-5.0
Current account (% of GDP)	-2.1	-2.6	5.3	5.2	-3.4	-3.8	2.8	2.3	-3.3	-5.5
Public debt (% of GDP)	64.9	64.1	12.0	11.0	67.0	67.6	25.8	22.2	38.8	41.2
Official foreign exchange reserves (USD billions)	352.0	373.1	499.0	538.0	263.7	262.3	3,181.2	3,311.6	49.3	50.8
Change in foreign exchange reserves (%)	22.0	6.0	4.0	7.8	16.7	2.6	11.7	4.1	36.9	8.3

*Note: The term BRICS is used to refer to a group of fast-growing countries made up of Brazil, Russia, India, China and South Africa.*

*Sources: GDP growth: World Economic Outlook Update (January 2013). Reserves: national sources.*

*Other data: World Economic Outlook (October 2012).*

Reflecting a downturn in external demand and weaker domestic demand, growth also slowed significantly in Latin America, from 4.5% in 2011 to 3.2% in 2012, although there were substantial cross-country differences. Brazilian growth shrank to 1% in 2012: while consumption remains the mainstay of the Brazilian economy, investment continued to contract and industrial production was flat. But some other economies, such as those of Chile and Mexico, reported growth rates that were barely lower than in 2011, sustained by stronger macroeconomic fundamentals.

Emerging Europe also saw a slowdown in 2012, mainly explained by the weak domestic and external demand, against the backdrop of the euro area sovereign debt crisis in the first part of the year. However, the situation was mixed: economic growth rates remained high in the Baltic states (5.3% in Latvia and 3.6% in Lithuania), while in the Czech Republic and Hungary they contracted by 1.1% and 1.7% respectively. Inflation fell overall compared with 2011. Moreover, structural unemployment remains high, making it even more urgent to introduce reforms aimed to attract foreign direct investment and to improve both the business climate and competitiveness. Growth

in domestic lending to the private sector was weak or negative (Hungary and Latvia), owing to a combination of factors on the supply side (tighter lending conditions) and, in the case of Hungary, on the demand side (reduced private consumption, uncertainty about the future economic situation).





## 2| ECONOMIC AND MONETARY SITUATION IN THE EURO AREA AND FRANCE

### 2|1 Weakened growth

#### Financial turmoil and uncertainty weighed on growth in 2012

Activity in the euro area contracted by 0.5% in 2012, after expanding 1.5% in 2011. The decline in GDP was particularly pronounced during the last quarter of the year, coming out at 0.6% q-o-q. Germany and, to a lesser degree, Austria, Ireland, Slovakia and Estonia all contributed positively to activity in the euro area in 2012, while Italy, Spain and Greece had a negative impact. The contribution of the French economy was zero.

Financial markets' perception of the euro area outlook deteriorated markedly in 2012, pushing

the bond yields of some member countries towards unsustainable levels. The measures taken in response by European authorities during the summer of 2012 alleviated the financial pressures and reduced the disparities in financing costs across the euro area. But the turmoil affected the confidence and behaviour of non-financial agents, as shown by the downturn in opinion surveys over the year and the 1.6% decline in domestic demand excluding inventories.

Total investment and consumer spending contracted by 3.9% and 1.3% respectively in 2012. Fiscal consolidation measures translated into a 7.9% fall in government investment in the first nine months of 2012 compared with the same period in 2011, and a 0.3% reduction in government consumption over the year as a whole. But private investment also fell in 2012. Flat markets and unfavourable financing conditions caused the decline in investment by non-financial companies (–2.9% year-on-year in the first nine months of 2012) and the negative growth contribution from changes in inventories (–0.6 percentage point off GDP growth in 2012).

#### Box 1

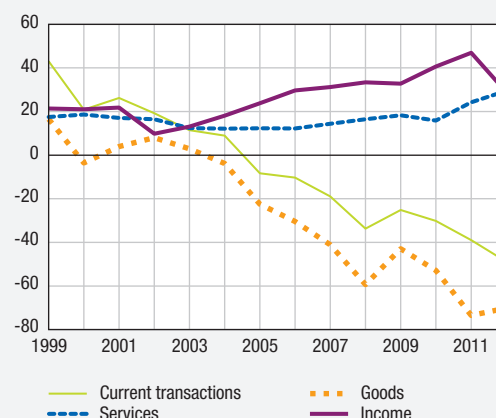
#### Current account transactions in France's balance of payments

The current account data (particularly income data) should be interpreted with caution because of its strong volatility and its provisional nature at this stage. In 2012, France posted a current account deficit of EUR 46.7 billion (preliminary data), after a deficit of EUR 38.9 billion in 2011, owing to the sharp decline in the income balance, which fell to EUR 30.4 billion in 2012 from EUR 46.9 billion in 2011, after increasing for nine years in a row. The goods deficit improved slightly from EUR 73.5 billion in 2011 to EUR 70.2 billion in 2012.

The deterioration recorded during the upswing in international trade between Q3 2009 and Q1 2011 (record deficit) halted and was followed by a pick-up in the goods trade balance, which still remains close to its low of 2011. The services surplus (EUR 30.3 billion) continued an upturn that began in 2011 after a period of relative stability since the early 2000s. The current transfer deficit stood at EUR 37.2 billion in 2012, continuing the long-term negative trend.

#### Principal current account balances

(EUR billion)



Source: Banque de France (Directorate General Statistics)

1 General government transfers (tax, subsidies, social benefits, France's contribution to the European Budget), workers' remittances and other operations (mainly insurance premiums and compensations).

## Box 2

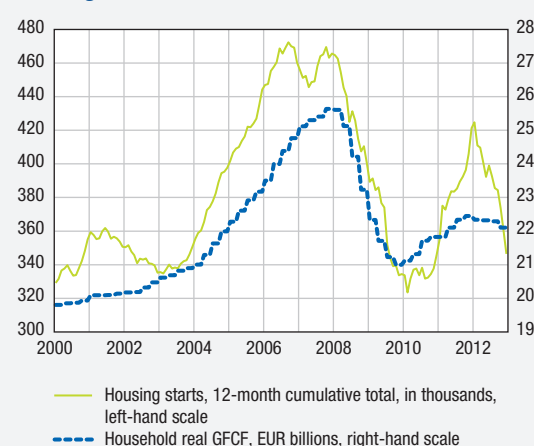
### Change in housing starts in France and effect on GFCF

In 2012, approximately 346,000 new housing starts were recorded, after 421,000 in 2011, giving an average annual decline of 18%. The fall reflected the sharp contraction in demand: 86,000 new houses were sold in 2012, or 18% less than in 2011. Several factors may explain these changes. First, the slowdown in economic activity was accompanied by a slowdown in household income, with the purchasing power of gross disposable income falling compared with 2011, after increasing slightly in 2011. Rising prices in previous years may also have put off buyers: prices for existing homes in metropolitan France barely came down in 2012 (–0.4%), after two years of large increases (5.1% in 2010 and 5.9% in 2011). The increase in home lending rates between end-2010 (3.4% in December 2010) and early 2012 (4.0% in March 2012), may also have affected households' ability to buy, even if rates remain historically low and the increase was followed by a decline over the rest of 2012 (back to 3.4% in December).

Furthermore, more restrictive terms were introduced for several government assistance and property tax treatment mechanisms. Beginning on 1 January 2012, the PTZ + (0% interest rate) subsidised loan system was made subject to means testing and restricted to new housing. The Scellier scheme, which provides support for buy-to-rent investment, was restricted to housing meeting energy efficient building standards and the tax reduction rate was cut to 13% from 22% previously. Tax treatment was also tightened for property disposals. The impact of these changes was felt from early 2012, with developers and individuals given an incentive to begin housing starts before end-2011 to benefit from more advantageous government schemes.

Mirroring the decline in housing starts, household investment slowed sharply in 2012, with an increase of just 0.4%, after 3.2% in 2011. In the national accounts, a substantial proportion of household investment, approximately 60%, is directly calculated from previous months' housing starts (the remainder corresponds to housing maintenance).

#### Housing starts and household investment



Sources: Insee, Ministry of Ecology, Sustainable Development and Energy

In the first three quarters of 2012, household purchasing power declined by 1.6% compared with the same period in 2011. However, consumption fell by just 1.3% in volume, as households cushioned the decline in income by scaling back their saving rate to 12.8% of gross disposable income on average over the first three quarters of 2012, compared with 13.0% in the same period in 2011. The labour market worsened, with a 0.6% decline in total employment in 2012, while unemployment surged to a record high of 11.8% of the labour force at end-2012.

Overall, only external trade made a positive contribution to euro area growth in 2012 (+1.6 percentage points to GDP growth), helped by vibrant demand in large emerging countries and the contraction in domestic demand.

The picture was the same in France, where activity in 2012 was driven by net exports (positive contribution of 0.7 percentage point) amid weaker domestic demand (negative contribution of 0.8 percentage point, including changes in inventories).

Consumption by French households declined by 0.1% and total investment was flat on average over the year (see Box on the decline in housing starts), while the pace of inventory reduction picked up over the year (negative contribution of 1 percentage point to growth). At end-2012, the level of French GDP was 1.1% below its pre-crisis peak in Q1 2008, while the unemployment rate in Metropolitan France stood at 10.2% in the last quarter of 2012, close to the record high of 10.8% reached in 1994 and 1997.

The slowdown in income from activity and the increase in tax and social security contributions impacted household purchasing power, which fell by 0.4% in 2012. Household consumer spending declined only slightly, however, leading to a small fall in the saving rate, which averaged 16% over the year. Faced with declining employment and rising unemployment, households sharply curtailed their investment spending, which rose by 0.4% after 3.2% in 2011. The bleak outlook for demand and the challenging financial situation saw non-financial enterprises cut investment spending by 0.5%. The profit margin of non-financial corporations (NFCs) was 27.9% in 2012, or 0.6 of a point less than in 2011.

Government spending was more sustained than in the euro area, with consumption and investment increasing by 1.4% and 0.2% respectively in 2012. In terms of external trade, exports suffered as a result of the decline in demand directed towards France, notably from Spain and Italy. In real terms, French exports increased by just 2.5% in 2012, after 5.5% in 2011.

Activity in Italy and Spain declined in 2012, by 2.4% and 1.4% respectively. Italy was particularly affected by the mounting strain on financial markets during the summer of 2012, which undermined confidence and prompted a downturn in domestic demand. Meanwhile, in Spain, fiscal consolidation efforts caused government spending to decline, with a 3.7% decline in consumption. In the first three quarters of 2012, household purchasing power decreased by 4.1% in Italy and 5.0% in Spain compared with the same period in 2011, impacting consumption (-4.2% and -2.1% respectively over full-year 2012) and investment. The productive sector was hurt by difficult financing conditions, notably in Italy, where NFC investment declined by 9.1%. Total employment fell more steeply in Spain (4.5%) than in Italy (0.3%), where reduced productivity combined with flat compensation per employee to increase unit labour costs, in contrast with Spain.

Overall, Germany was the main engine of growth in the euro area in 2012. German GDP rose by 0.9% in 2012, compared with 3.1% in 2011. Despite the slowdown, German GDP at end-2012 was

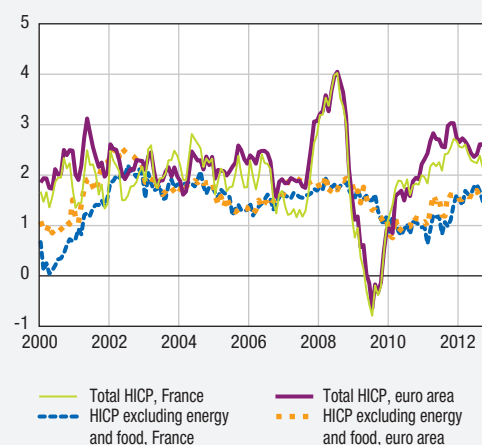
1.4% higher than its pre-crisis level. The sources of the German slowdown were exports and, in turn, corporate investment. German exports increased by just 4.3% in 2012, after 7.9% in 2011. However, because imports slowed even more (2.2% in 2012 after 7.5% in 2011), external trade still made a positive contribution to growth (1.2 points). According to preliminary data, corporate investment declined in 2012. Growth in German household consumption eased to 0.6% after 1.7% in 2011, in connection with declining household purchasing power. Meanwhile, total employment increased by 0.8% and the unemployment rate fell to 5.5% of the labour force.

### Inflation fell at the end of 2012

Average annual inflation in the euro area was more or less the same in 2012 as in 2011. The harmonised index of consumer prices (HICP) posted an average increase of 2.5% in 2012, after 2.7% in 2011. Over 2012, the year-on-year change decreased from 2.7% in January 2012 to 2.2% in December. The downturn stemmed largely from the slowdown in energy price inflation, which went from a year-on-year increase of 9.2% in January to 5.2% in December 2012. Euro area inflation excluding energy and food stood at an annual average of 1.5% in 2012, after 1.4% the year before, with sub-annual patterns stable around this value.

**Chart 7**  
**Harmonised index of consumer prices (HICP)**

(year-on-year, %)



Source: Insee.

Box 3

### Wage developments since the crisis

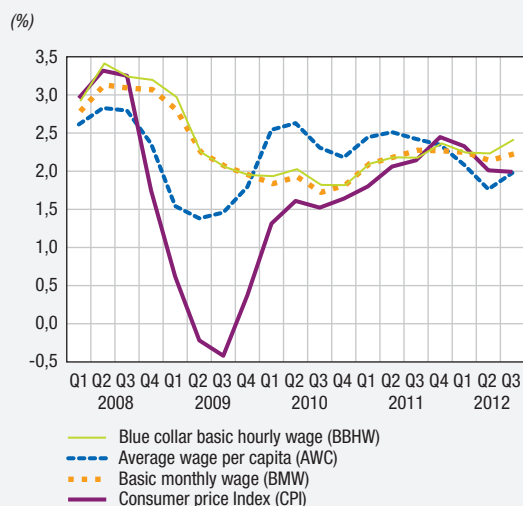
Despite the large and persistent increase in unemployment, average wages have held up relatively well since the early part of the crisis. In 2009, while GDP fell by 3.1%, real wages real increased strongly (2%), mainly because of the decline in inflation (0.1% between 2008 and 2009 compared with a 3.2% increase between 2007 and 2008). Thereafter, following a marked slowdown until end-2010, moderate nominal wage growth resumed. In Q4 2012, annual growth in the basic monthly wage (BMW) and the blue collar basic hourly wage (BBHW) was slightly higher than inflation and stood at 2.1% and 2.2% respectively.<sup>1</sup>

Over the period, the greater variability in the average wage per capita (AWC), which includes bonuses, compared with the basic monthly wage shows that companies used the variable portion of wages to adjust their costs. In 2009, the average executive wage, which comprises a substantial variable portion, fell by 1.5%, while the average wage of blue collar workers increased by 1.5%. The wage bill was also adjusted down by reducing the number of hours worked per employee. This decrease was relatively moderate in France, which makes less widespread use than other countries of flex-work schemes such as partial unemployment. While the average number of hours worked annually fell by 2.7% in Germany and 2.5% in Italy in 2009, it fell by just 0.9% in France over the same period.

France's labour cost compared with other European countries<sup>2</sup> remained relatively high following the crisis, with the gap widening in certain sectors.

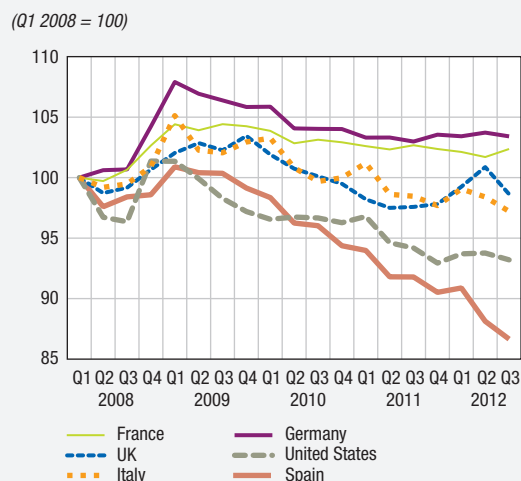
The faster change in wages in France is also linked to the fact that the French minimum wage scheme guarantees that low wages will be adjusted at least in line with inflation. On 1 July 2012, the minimum wage was thus raised by 2%, o/w 1.4% to reflect inflation observed since the previous adjustment in January 2012 plus an additional 0.6% "boost".

**Chart A**  
Year-on-year % change in BBHW, BMW, AWC and CPI



Source: Insee.

**Chart B**  
Real unit labour costs



Source: OECD.

<sup>1</sup> All non-farm sectors. The blue collar basic hourly wage is calculated on the basis of a like-for-like qualification structure. It does not include bonuses, gratuities or overtime payments. The average wage per capita expresses the evolution of wages for the total working population. It takes into account very small enterprises and integrates structural effects such as the evolution of qualifications and the proportion of part-time jobs. It also integrates cyclical (overtime levels) and seasonal (bonuses) effects.

<sup>2</sup> See B. Marc, L. Rioux 2012, "Le coût de la main-d'œuvre: comparaison européenne 1996-2008", Emploi et Salaires Édition 2012, Insee Référence.

The pattern of French inflation was close to that of the euro area. On average in 2012, the French HICP increased by 2.2% compared with 2011, after growing by 2.3% in 2011. Inflation moved on a downward trajectory over 2012, going from a year-on-year increase of 2.6% in January 2012 to 1.5% in December.

As for the euro area index, the slower pace of growth in French HICP was due in large part to a moderation in energy price inflation from 12% in 2011 to 5.2% in 2012. This was the result of weaker growth in international oil prices. Consequently, despite successive phases of euro depreciation last year, Brent import prices in euro increased by 9% on average in 2012, compared with an average increase of 33% between 2010 and 2011. The energy component's reduced contribution to headline inflation was partly offset by increased inflation in unprocessed foods. Reflecting the surge in international wheat prices (16% on average in 2012), the year-on-year increase in unprocessed food prices went from 2.6% in January to 4% in December 2012.

In France, the average annual growth rate of the HICP excluding energy and food was higher in 2012 (1.5%)

than in 2011 (1.1%). But the year-on-year change in the index moved on a downward trajectory in 2012 that steepened towards the end of the year. Accordingly, the year-on-year increase in the HICP excluding energy and food fell from 1.5% to 1% between September and December 2012. Over the same period, inflation for manufactured products declined from 1.5% to 0.9%, while services inflation went from 1.5% to 1.1%.

## 2|2 Monetary and financial developments in 2012

### Growth in monetary assets picked up in the euro area

Growth in euro area M3 picked up, reaching an annual rate of 3.5% in 2012, after 1.6% in 2011 (see Table 1). France's contribution to M3<sup>2</sup> increased by 2.4% in 2012, after 2.7% in 2011.

The upturn in euro area M3 mainly reflected strong growth in overnight deposits (7.4%, after 1.0% in 2011), notably in Germany.

**Table 2**  
**Monetary aggregates, euro area and France**

(outstandings in EUR billion, % growth rate)

		Euro area <sup>a)</sup>				France <sup>b)</sup>		
Monetary aggregates (seasonally-adjusted) or main money market investments <sup>c)</sup>	Out- standings December 2012	Annual growth rate <sup>b)</sup>			Out- standings December 2012	Annual growth rate <sup>b)</sup>		
		December 2010	December 2011	December 2012		December 2010	December 2011	December 2012
Currency in circulation	863	5.0	6.2	2.3				
+ Overnight deposits	4,242	4.2	1.0	7.4	575	8.6	5.7	2.9
= M1 / French resident assets included in M1	5,105	4.3	1.9	6.5	575	8.6	5.7	2.9
+ Other money market deposits	3,886	-0.3	1.9	2.0	765	3.1	8.1	7.2
= M2/ French resident assets included in M2	8,991	2.2	1.9	4.4	1,340	5.5	7.0	5.3
+ Marketable instruments	782	-8.1	-0,9	-6.9	429	4.3	-7.1	-5.6
= M3/ French resident assets included in M3	9,773	1.1	1.6	3.5	1,770	5.1	2.8	2.4
French contribution to M3 <sup>e)</sup>					1,839	6.7	2.7	2.4

a) Transactions of euro area monetary financial institutions (MFIs) with other euro area residents.

b) Changes adjusted for reclassifications and other valuations.

c) Transactions of French MFIs with other French residents.

d) French resident MFI liabilities maturing in less than 2 years (excl. currency in circulation) towards the euro area money-holding sector (euro area residents excl. MFIs, central government and CCP) and, by extension, the deposits held by this sector with central government.

Source: Banque de France.



The surge in overnight deposits in the euro area was mainly due to the low level of interest rates. Meanwhile, outstanding deposits with agreed maturity up to two years, which are included in M2-M1, contracted in 2012. Outstanding marketable instruments and short-term securities fell 6.9% during the past year.

In France, the short-term deposits included in M2-M1 saw the largest growth in 2012 (7.2%, after 8.1% in 2011). This was driven mainly by the increase in regulated savings passbooks, following measures in October 2012 to raise the ceiling for Livret A passbooks (from EUR 15,300 to EUR 19,125) and sustainable development passbooks (from EUR 6,000 to EUR 12,000). With Livret A and sustainable development passbooks offering highly attractive qualities (inflation-beating return, government backing, special tax treatment, liquidity), regulated savings saw an increase at the expense of overnight deposits, which increased by considerably less than elsewhere in the euro area.

Meanwhile, the decline in certificates of deposit and other debt securities maturing in up to two years, most of which are issued by banks, accounted for the decline of M3-M2 in 2012.

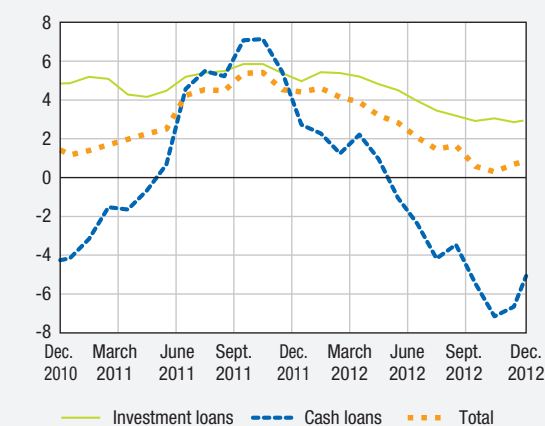
### Lending to non financial companies slowed in France and fell in the euro area

In France, the annual growth rate of loans to non-financial companies (NFCs) reached 1% in 2012, compared with 4.4% in 2011 (see Chart 8). Investment loans continued to increase at a relatively sustained pace (3.0%, after 5.0% in 2011) while cash loans contracted (-4.2%, after rising by 2.7% in 2011). Lending to NFCs thus did better in France than the euro area average, where outstandings declined in 2012 by 1.3%, after increasing 1.3% in 2011.

The pace of growth of the outstanding amounts of drawn credit over EUR 25,000<sup>3</sup> stood between 2% and 4% in the main company categories but contracted by 10% in the holding company segment (cf. Chart 9). In the case of holding companies and large firms, these

**Chart 8**  
**Loans to NFCs adjusted for securitisation, France**

(annual % growth rate)



Source: Insee.

developments also reflect a shift from bank financing to market financing (cf. below). In all companies, undrawn credit, corresponding to the undrawn but available portion of confirmed credit lines, fell by 4.7%

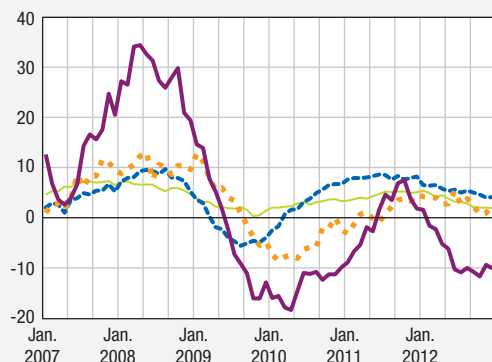


<sup>2</sup> I.e. the monetary assets of resident non-financial agents, to which is added the positive or negative balance of monetary liabilities and claims of French banks vis-à-vis euro area customers outside France.

## Charts 9 and 10 Drawn credit exceeding EUR 25,000

G9 Total outstanding drawn credit

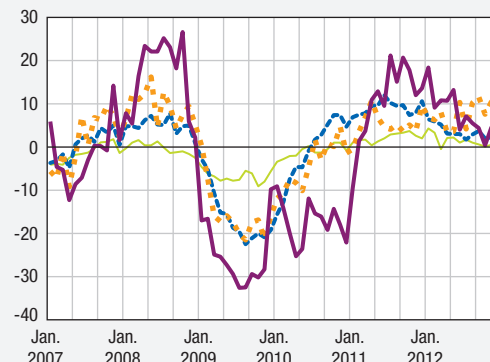
(% change in outstanding amount, year-on-year)



— Independent SMEs and VSEs  
- - - SMEs belonging to groups  
... Large enterprises  
— Holdings and/or business administrators

Source: Central Credit Register (Companies Directorate, Banque de France).

G10 Outstanding drawn credit maturing in less than one year



year-on-year. Total outstanding drawn and undrawn credit thus contracted by 0.5% in 2012.

Large companies and some mid-sized firms with market access stepped up their issuance of securities (commercial paper, medium term negotiable notes and bonds) in 2012. While the increase in outstanding bank loans eased over the year, especially on the long-term

segment, the annual growth rate in total outstanding securities issued went from 7.7% in 2011 to 12.5% in 2012. The increased use of market financing notably reflected the decline in 2012 in the cost of issuing private bonds, which stood at 2.2% in December 2012. Overall, NFC debt increased by 4.8% in 2012, after 5.5% in 2011 (see Chart 11).

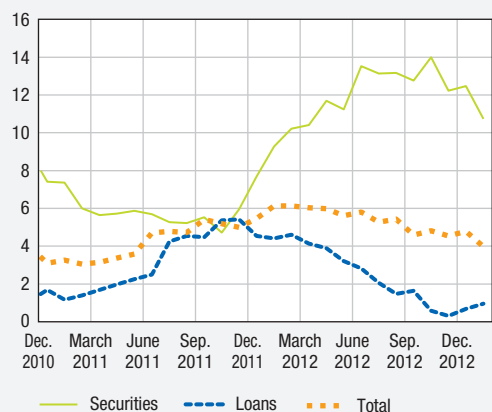
### Lending to households also fell

From mid-2011, the annual growth rate of household lending gradually fell in France. The slowdown in home loans combined with the contraction in consumer lending, as the annual growth rate fell from 7.3% in May 2011 to 2.3% at end-2012. Even so, in the last two years, the increase in lending to households has remained higher in France than in the other major euro area countries.

The annual growth rate of home loans peaked in France at 9.3% in May 2011, before easing to 6.3% at end-2011, then 3% at end-2012. The slowdown

## Chart 11 NFC debt by instrument, France

(annual % growth rate)



Source: Banque de France.

3 Data on drawn and undrawn credit are taken from the Central Credit Register run by the Companies Directorate of the Banque de France. They do not include individual entrepreneurs and real estate activities.

Box 4

## Household financial behaviour

### Savings passbooks captured the major share of household financial investments in 2012.

French households allocated an increasing share of their savings to bank investments, which saw annual inflows of EUR 56.7 billion in 2012 after EUR 49.7 billion in 2011. This increase reflected high inflows into savings passbooks (EUR 46.3 billion in 2012, after EUR 37.6 billion in 2011) and particularly the enhanced appeal of Livret A and sustainable development passbooks (LDD), whose maximum deposit levels were raised over the year and which continued to offer attractive characteristics, including an inflation-beating return, government backing, special tax treatment and liquidity. At the same time, households further scaled back the amounts allocated to overnight deposits and cash (increase of EUR 0.3 billion in 2012, after EUR 9.3 billion in 2011).

They also showed less appetite for life insurance, with the decline in net subscriptions and returns being reflected in a further fall in the annual inflow of underwriting reserves, which decreased to EUR 16.9 billion in 2012 from EUR 28.8 billion in 2011. Households continued to divest themselves of securities in collective investment schemes (EUR –11.7 billion, after EUR –12.1 billion in 2011) and trimmed their portfolios of debt securities and listed equities (EUR –3.5 billion).

As a result, overall inflows of financial investments remained substantial but declined (EUR 77.2 billion after EUR 93.1 billion), as increased bank investments failed to offset the decline in other financial investments.

### Household use of bank financing fell in 2012

Net flows of new household debt, mainly in the shape of property loans, fell sharply (EUR 27.0 billion in 2012 after EUR 49.2 billion in 2011). The decreased use of credit compared with what was seen in 2010 and 2011 took place amid a slowdown on the property market: the household investment rate in new housing was virtually unchanged and deal volume on the existing housing market fell substantially.

### Reallocations by households to regulated savings curtailed the liquidity available to credit institutions

The funds deposited in Livret A and LDD in Q4 2012 (EUR 16.6 billion and EUR 20.3 billion respectively) came mainly from transfers from overnight deposits and standard passbooks.

But 65% of the funds deposited in Livret A and LDD and 70% of the funds placed in popular savings passbooks are centralised in the savings fund managed by Caisse des Dépôts et Consignations, while the funds from standard savings products remain on bank balance sheets. Because the exceptional inflow into Livret A and LDD in the last quarter of 2012 came out of households' other bank investments, the liquidity available to credit institutions fell by more than EUR 20 billion overall.

Furthermore, as at 31 December 2011, according to information gathered by the Regulated Savings Monitoring Unit, just 8.5% of the Livret A passbooks held by individuals had a balance of more than EUR 15,300 (owing to capitalisation of interest) but the total amount deposited in these passbooks accounted for 43.2% of the total outstanding amount in passbooks. Since they hold diversified financial investments (according to INSEE's 2009-2010 wealth survey), most of these households were able to redirect their savings to regulated passbooks, instead of increasing life insurance and securities investments.<sup>1</sup>

The annual report of the Regulated Savings Monitoring Unit, which is available on the Banque de France website, contains lots of other information on this topic.

<sup>1</sup> It seems unlikely however that the sharp increases in Livret A outstandings are solely attributable to passbook holders who had reached the deposit ceiling.

took place as tax incentives for property investments were rolled back, tighter requirements were introduced for obtaining zero-rate loans, and property prices remained high in certain urban areas.

Outstanding consumer loans fell by 0.8% in 2012, after rising by 1.8% in 2011. This development reflected implementation of the Lagarde Act of 1 July 2010, which introduced tighter rules on revolving loans.

### 3| THE EUROSISTEM'S MONETARY POLICY RESPONSE

#### 3|1 Eurosystem monetary policy decisions

In 2012, the monetary policy instruments used by the Eurosystem consisted of the main refinancing operations (MROs), very long term refinancing operations (VLTROs), expansions to the scope of collateral eligible for central bank refinancing, standing facilities and reserve requirements. In early September, the ECB also announced the technical characteristics of outright monetary transactions (OMTs, see Box 5).

##### Standard monetary policy decisions

The Governing Council cut its key interest rate by 25 bps on 5 July 2012, bringing it to a record low of 0.75% (see Chart 12). It also cut interest rates on marginal lending and deposit facilities by 0.25%. The interest rate corridor was thus kept at 150 bps (75 points on either side of the MRO rate).

This decision was taken as mounting pressures on financial markets and their impact on lending conditions, together with the high level of unemployment, looked set to depress growth. Meanwhile, inflationary

pressures abated further and inflation expectations remained solidly anchored at a level consistent with the Eurosystem's objective of maintaining inflation at a level below but close to 2% over the medium term.

##### Non-standard monetary policy decisions

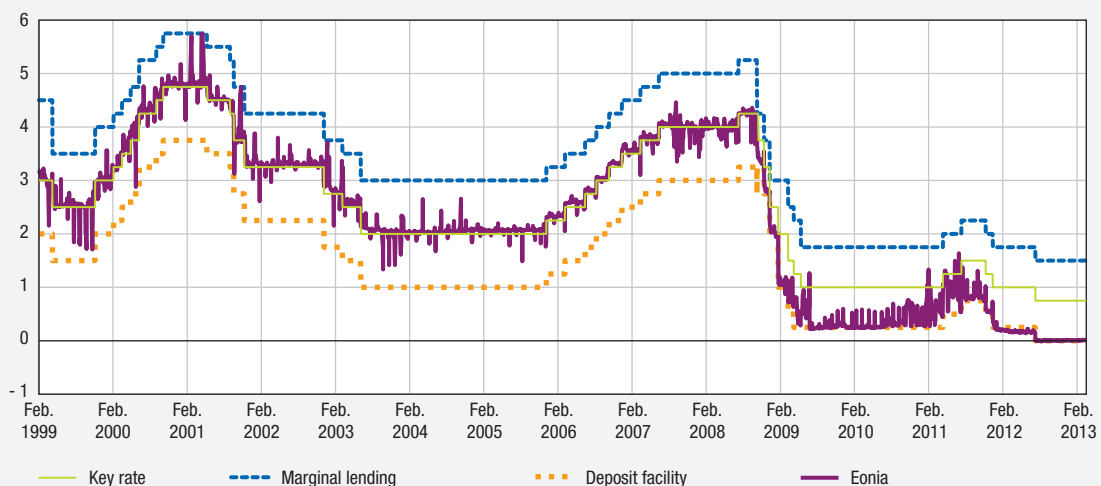
In early 2012, the banking system's financing difficulties raised the threat of a credit crunch. If this risk had materialised, it could have had damaging consequences for many companies and households, obstructing their access to bank financing. Meanwhile, the fragile state of some banks, notably in Spain, caused the sovereign debt crisis to escalate amid fears that bank bailouts would further undermine the government finances of some Member States. Against this backdrop, and with a key rate close to zero – and hence reduced room for manoeuvre in conventional monetary policy – the Eurosystem introduced new non-standard measures. These took two main forms: VLTROs and OMTs.

#### 3|2 Non-standard measures

##### A massive effort to provide liquidity support

To alleviate the pressures seen on markets from end-2011 and ensure that monetary policy was

**Chart 12**  
**Eurosystem key rates**



Source: BCE.

transmitted efficiently to the banking system and the real economy, the Eurosystem decided in December 2011 to inject massive amounts of liquidity. These measures, which were put into practice in early 2012, were designed to counter the pressures seen on sovereign debt markets, the growing risk for euro area banks of a liquidity squeeze in EUR and USD and the increased risk of a credit crunch. Banks' financing difficulties were exacerbated by the fact that they took place in a setting where financial institutions were having to shore up their capital ratios.

To prevent the real economy from being impacted by the increased strain on bank financing and to immediately provide credit institutions with some room to manoeuvre, the reserve ratio was halved from 2% to 1% on 18 January 2012 following the Eurosystem's decision of 8 December 2011. This immediately allowed banks to free up additional liquidity of more than EUR 100 billion at the level of the Eurosystem and around EUR 20 billion in France.

In addition, the Eurosystem's supply of credit with longer maturities, first introduced in 2009, was continued and renewed according to procedures and

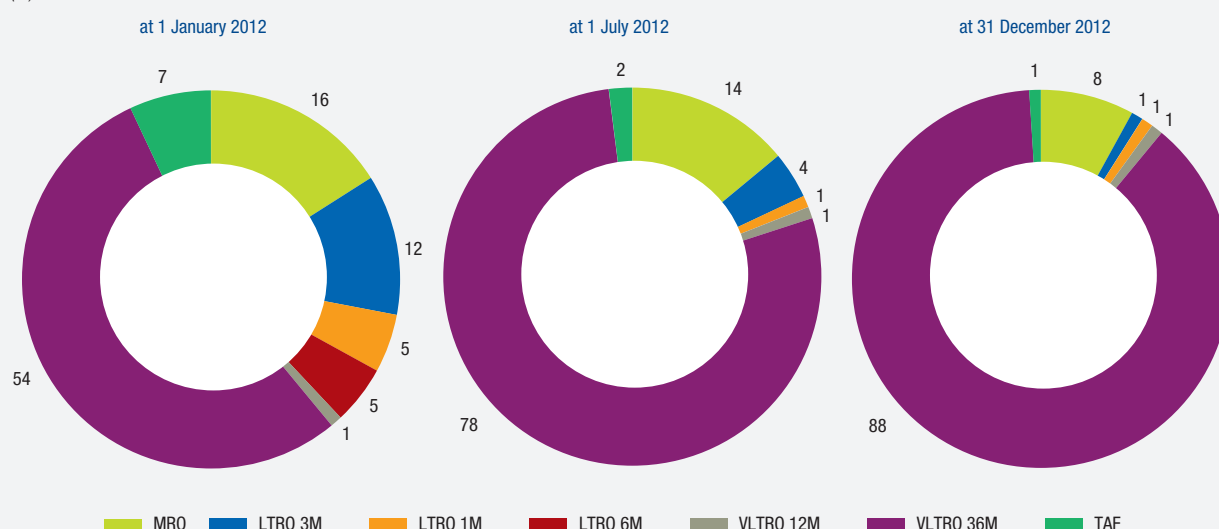
on an unprecedented scale. Following the decision by Governing Council on 8 December 2011, two very long term refinancing operations (VLTROs) were conducted with a maturity of three years. These operations, which took place on 22 December 2011 and 1 March 2012 amid increased liquidity needs, made it possible to provide EUR 489 billion and EUR 530 billion respectively to the Eurosystem's credit institutions. These operations represented the bulk of outstanding refinancing provided by Eurosystem central banks (88%) at 31 December 2012 (see Chart 13).

At the same time, the persistent difficulties of euro area banks to refinance in USD led the Eurosystem, beginning at end-2011, to extend the maturity of US dollar liquidity providing operations to three months (compared with a week previously) and price them more attractively. Outstandings for these operations averaged EUR 26.2 billion in 2012, but fell steadily over the year, in a sign of gradually abating pressure on refinancing in USD.

Mirroring the increase in outstanding refinancing, the need for assets used as collateral for Eurosystem credit operations increased proportionately for

**Chart 13**  
**Composition by maturity of outstanding refinancing provided by Eurosystem central banks**

(%)



MRO: main refinancing operation (weekly duration).

(V)LTRO: long and very long term operation (effective maturities in 2012: 1 month, 3 months, 6 months, 1 year and 3 years).

TAF (Term Auction Facility): provision of liquidity in USD to Eurosystem counterparties.

Source: European Central Bank, 2012.



euro area banks. To address the risk that a shortage of assets might constrain credit institutions' access to refinancing operations, the Eurosystem expanded the list of eligible assets. The Governing Council broadened the spectrum of assets accepted as collateral to maximise the impact of the Eurosystem's measures on the real economy. As part of this, the Governing Council took several decisions at end-2011 and in 2012 on asset classes (securitised products and additional credit claims) and the requirements for accepting assets (reduced rating thresholds, debt instruments in USD, GBP and JPY).



Furthermore, in 2012 the Eurosystem continued its second covered bond purchase programme (CBPP2), which it launched on 6 October 2011. Aimed at revitalising a key segment in banking sector refinancing, and similar to the first programme launched in 2009, purchases went through to the end of October 2012, with total purchases of EUR 16.4 billion – less than the EUR 40 billion initially planned because the conditions for accessing bond markets had improved for bank issuers in the intervening period.

These standard and non-standard measures ultimately caused outstanding refinancing to double in 2012 compared with 2011 (average outstandings of EUR 1,131 billion in 2012, or around EUR 614 billion more than 2011). They were reflected in a decline in the overnight interbank interest rate (Eonia), which went below the key rate while holding steady at around 7 to 10 points above the deposit facility rate. The Eurosystem's assertive interventions made it possible to provide a substantial and stable liquidity cushion to credit institutions, limit the risks of a credit crunch, address the major distortions on government bond markets and help to restore more effective transmission of monetary policy.

#### Announcement of decisive measures to counter major pressures on sovereign debt

While the massive injections of liquidity enabled the situation to improve considerably, the announcement of the OMT programme was a decisive factor in easing strains on markets.

The programme to purchase government securities, officially called the outright monetary transactions (OMT) programme, was announced on 2 August 2012, with technical details released by the Governing Council on 6 September 2012. This constituted the Eurosystem's final response to the sovereign debt crisis within the euro area. The programme, which allows for unlimited purchases, may be applied at the request of a country that is covered by EFSF/ESM or EU/IMF programmes and that complies with the attached conditionality. The OMT programme was designed to correct the serious

Box 5

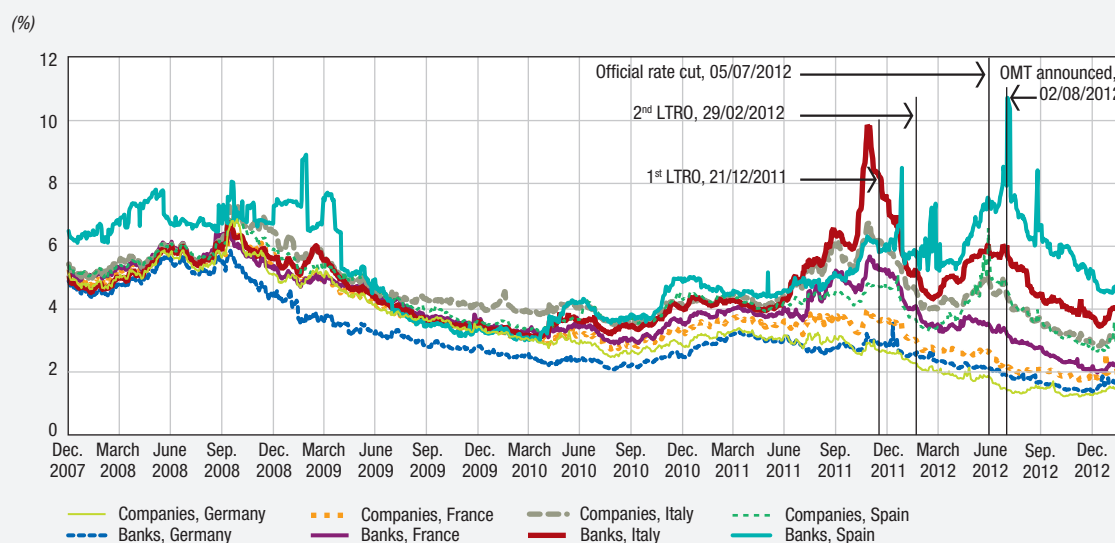
### Impact of non-standard measures on the real economy and private bond yields in the euro area

A study by the Banque de France quantified the positive impact of VLTROs on the euro area's real economy. At a one-year horizon, the two combined VLTROs caused industrial production to increase by between 0.4% and 1.3%. Meanwhile, the volume of lending to the private sector rose by between 0.2% and 1%, ceteris paribus. By making it easier for the banking sector to obtain financing, the long-term liquidity injection thus helped to prevent an abrupt contraction in loans to the private sector.

French banks were among the main beneficiaries of the collateral extensions, including as counterparties in claims in USD and loans covered by Coface guarantees, which finance the export business of French companies.

Although OMTs have yet to be carried out, the success of the announcement was evident as pressure on financial markets eased in the aftermath, including for private borrowers. As the following chart shows, interest rates on the bonds issued by European companies and banks fell sharply after OMTs were announced in August 2012. In-depth studies have corroborated this analysis (cf. Szczerbowicz, 2012). This success helped to restore a more normal transmission of Eurosystem's monetary policy stance, highlighting the effectiveness of the non-standard measures adopted in the euro area.

#### Rates on bonds issued by French, German, Spanish and Italian companies and banks



Source: Gilchrist and Mojon, 2012.

1 Additional claims that do not respect the minimum credit rating threshold usually applied to collateral eligible for Eurosystem refinancing operations are subject to deeper discounts.

distortions on euro area government bond markets, stemming particularly from unfounded fears among investors about a euro area break-up. By eliminating extreme risk premia, the programme was intended to safeguard the monetary policy transmission mechanism in all euro area countries and preserve the singleness of monetary policy. With the introduction of the OMT programme,

the Securities Markets Programme (SMP) was terminated. Outstandings under the SMP totalled EUR 209 billion at end-2012, after reaching a high of EUR 220 billion in early March 2012.

Overall, the standard and non-standard measures taken by the Eurosystem helped to improve the monetary and financial environment in the euro area.



## 4| MEASURES TO SUPPORT RECOVERY FROM THE CRISIS

The financial crisis highlighted the decisive role played by central banks in correcting financial imbalances, not only through monetary policy actions, but also through their contribution to the coordinated development of mechanisms to regulate systemic risk. Central banks played a particularly important part in this regard in the euro area, led by the Banque de France among others. But despite their effectiveness, central bank measures alone were not enough to ensure a lasting recovery from a crisis that was additionally fuelled by major imbalances in government finances and un conducive conditions to a pick-up in growth. For its part, France introduced a policy to consolidate government finances, enhance competitiveness and make the structural reforms that the Banque de France has been long lobbying for.

### 4|1 Measures to promote financial stability

Within the framework of the ESCB, the Banque de France fully supported the ECB's decisions and measures to address the euro area's financial difficulties as well as its calls to governments to introduce structural reforms to fix the weaknesses exposed by the crisis. The Banque de France and the *Autorité de Contrôle Prudentiel* (ACP) also made a substantial contribution to international work aimed at reducing the risks of financial instability by creating a more complete and harmonised regulatory framework to help the global economy achieve a financially sound recovery.

#### New instruments to bolster financial stability

In 2012, the risks linked to financial stability mainly materialised in sovereign debt and contagion risks in the euro area. Following massive injections of long-term liquidity by the ECB in the first quarter of 2012, the strain on refinancing for European banks eased. But the Greek, Portuguese and Spanish banking systems experienced major difficulties, putting investors on their guard. For this reason, in summer 2012, Spain asked the EU for help in consolidating its banking system. A few months previously, Greece successfully restructured its sovereign debt to get back on a sustainable trajectory.



Faced with these difficulties and the associated risks, alongside the non-standard measures adopted by the ECB (see 3.1.2), the European institutions established new instruments, which proved effective:

- existing European support mechanisms were strengthened and their scope expanded (to banks notably);
- the European Union started on the road to a banking union, aiming in particular to establish a single European banking supervisor to break the circle of sovereign/bank risks.

#### Strengthening control of global risks

In 2012, international work aimed at strengthening financial stability continued, building on previous initiatives.

In addition to identifying financial vulnerabilities, the Banque de France contributed to efforts to develop the international and European regulatory framework for shadow banking, over-the-counter derivatives trading and systemically important institutions (especially identification and resolution) within the working groups

Box 6

## Transition from EFSF to ESM

### EFSF

The European Financial Stability Facility (EFSF) was established in June 2010, alongside the European Financial Stabilisation Mechanism (EFSM), to safeguard financial stability in Europe by providing financial assistance to euro area Member States. It was set up as a private company owned by the Member States.

The EFSF is authorised to act in the following areas:

- provide loans to states in financial difficulty;
- intervene on primary and secondary government bond markets;
- act on the basis of programmes negotiated through the troika (IMF, ECB, European Commission) that require economic consolidation measures to be undertaken in exchange for financial aid;
- finance the recapitalisation of financial institutions through loans to Member States (may be granted to a Member State that is not covered by a macroeconomic programme).

To carry out these tasks, it issues bonds and other debt instruments on capital markets, with backing from Member States. The European Council of 24 June 2011 decided to increase the Facility's effective lending capacity to EUR 440 billion from an initial EUR 250 billion. The amount of overcollateralisation provided by Member States increased at the same time from 120% to 165%, bringing the total amount of guarantee commitments to EUR 780 billion compared with EUR 440 billion initially.<sup>1</sup> The funds raised by the EFSF are recorded in the gross government debt (as defined by Maastricht) of euro area Member States in accordance with their share as guarantor of each debt issue. France's share is approximately 21%.

### ESM

From the outset, the EFSF was designed as a provisional instrument to be replaced by a permanent mechanism known as the European Stability Mechanism (ESM), which replaced the two initial stabilisation facilities (EFSF and EFSM). The Treaty establishing the ESM was signed on 2 February 2012<sup>2</sup> and the mechanism came into force on 27 September 2012 after Germany ratified it following the decision by the Karlsruhe Constitutional Court on 12 September. The inaugural meeting of the ESM Board took place on 8 October, on the fringes of a Eurogroup meeting.

EFSF loans were ranked *pari passu* (equal treatment of all parties) but the ESM will have senior status (behind the IMF) except as regards the plan to recapitalise Spain's banking sector. The Spanish government requested this exception to reassure investors.

The ESM carried out its first issue on 5/12 (EUR 39.5 billion) as part of the plan to recapitalise the Spanish banking sector.

### EFSF-ESM transition

Even after the entry into force of the ESM, the EFSF is continuing to manage the aid programmes for Ireland, Greece and Portugal. However, the financial assistance provided to recapitalise Spanish banks has been transferred to the ESM. The EFSF may undertake new programmes until July 2013 if necessary to maintain the ESM's maximum lending capacity (EUR 500 billion). But in March 2012, the Eurogroup decided to cap the consolidated lending capacity of the EFSF and ESM at EUR 700 billion. From a legal point of view, the EFSF will continue to exist until all the debt is repaid.

<sup>1</sup> The share of the guarantee paid by each Member State is based on their share in the paid-up capital of the ECB (20.31% for France). But countries that were already enrolled in an assistance programme at the time of the EFSF extension (Greece, Portugal, Ireland) could not be guarantors. The effective amount of the guarantees provided to the EFSF by the 14 other Member States was thus EUR 726 billion, or 165 % of its lending capacity. If a new country were to benefit from the programme, the other countries would therefore increase their share of the guarantees to ensure that total guarantees were always equal to 100 % of the agreed amount.

<sup>2</sup> After the European Council of 25 March 2011 decided to amend the Article 136 of the TFEU by inserting a new paragraph: "Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality".

and decision-making bodies of the Financial Stability Board (FSB), Basel Committee, European Systemic Risk Board and ECB.

Particularly within the framework of the Basel Committee, the ACP and the Banque de France contributed to work aimed at refining aspects of the documents published in 2010 on enhancing bank resilience. These efforts focused on the one-month liquidity coverage ratio (LCR), since the guidelines established at end-2010 had to be revised, notably at the request of France's authorities, to more effectively reconcile the goal of improving the regulatory framework with the equally important objective of preserving banks' ability to finance the economy. The initial conclusions of these discussions were reported in a document published in early 2013.

Work was also done on clarifying and enhancing the prudential treatment of two risks that played a material role in the emergence and spread of the financial crisis, namely counterparty risk and the risk associated with securitisation activities.

The ACP and the Banque de France also played a driving role in work to ensure that Basel Committee standards are effectively implemented by member countries. The initiative, which is supported by various levels of analysis, is designed to stress that proper application is just as important as the intrinsic quality of standards. The first results of these analyses led to publications in 2012; more will follow in 2013 as the work advances.

The ACP and the Banque de France were closely involved in international discussions aimed at more effectively preventing risks relating to systemically important banks, whether large groups or smaller institutions. Similar discussions were also undertaken within the International Association of Insurance Supervisors, in which the ACP is very active.

At home, the Banque de France and the ACP participated jointly in preparing the sections of new banking legislation dealing with segregating activities and macroprudential oversight. The Banque de France and the ACP also participated actively in the three meetings held in 2012 by the Financial Regulation and Systemic Risk Board (COREFRIS) and were involved in drafting the board's annual report.

## 4|2 Fiscal consolidation

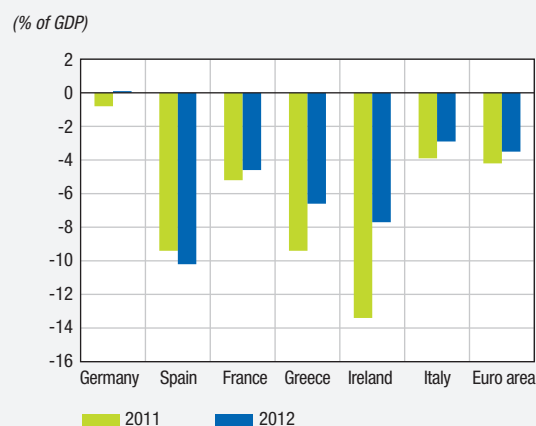
The recovery in euro area public finances continued in 2012, as the government deficit was cut to 3.7% of GDP, after 4.2% in 2011.

As consolidation measures were stepped up, all euro area countries, with the notable exception of Spain<sup>4</sup>, improved their fiscal position in 2012 (see Chart 14).

Ireland posted the largest reduction in its government deficit (5.8 points of GDP in 2012), thanks to the continued recovery policy conducted within the framework of the financial assistance programme provided by the European Union and the IMF since November 2010 and temporary measures on the revenue side. Ireland's government deficit (7.6% of GDP) is below the target set by the programme (8.6% of GDP)<sup>5</sup>.

Among the main countries, only Germany posted a positive fiscal balance in 2012 (0.2% of GDP).

**Chart 14**  
Government deficit as a % of GDP



<sup>4</sup> The deterioration in the total public deficit of Spain (10.6% in 2012 versus 9.4% in 2011) followed Eurostat's reclassification of part of the non-recoverable bank sector recapitalisations as public debt. Without this reclassification, Spain's public deficit stood at 7.0% of GDP in 2012 corresponding to an underlying structural improvement of 1.5 GDP percentage points versus the previous year.

<sup>5</sup> As for all countries benefitting from financial assistance programmes, these good results should nevertheless be interpreted cautiously. In fact the underlying structural improvement in Ireland between 2011 and 2012 is only 0.3 of a GDP percentage point.



Box 7

### Ratification of the Treaty on Stability, Coordination and Governance and transposition into French domestic law

The Treaty on Stability, Coordination and Governance (TSCG), also known as the European fiscal compact, was signed on 2 March 2012 in Brussels by 25 of the 27 EU Member States (the UK and the Czech Republic chose not to sign). Its entry into force, scheduled for 1 January 2013, was subject to ratification by at least 12 of the 17 euro area Member States by this date. This condition has been fulfilled.

The Treaty's main objective is to strengthen fiscal discipline in order to ensure sound and sustainable public finance. It establishes the principle that general government budgetary positions should be balanced or in surplus and requires signatory Member States to adopt a balanced budget rule (commonly referred to as the "golden rule") and an automatic mechanism to correct any deviation from the target. The thresholds given in the Stability and Growth Pact are maintained (3% of GDP for the general government deficit and 60% of GDP for general government debt) but if the excessive deficit procedure (EDP) is activated, virtually automatic sanctions will apply. A qualified majority is now required not for the Council to activate an EDP but to block it, under reverse qualified majority voting arrangements. Countries subject to EDPs must establish a "budgetary and economic partnership programme" with the European institutions (Commission and Council) and describe the structural reforms that they commit to implementing to correct the imbalance.

The Treaty also sets a maximum level of 0.5% of GDP for the annual cyclically-adjusted structural deficit of general government, except in exceptional circumstances detailed in the Treaty. Each country must thus ensure rapid convergence towards its respective medium-term objective (multi-year adjustment trajectory). For this, in the year following the Treaty's entry into force, all signatory states must adopt a balanced budget rule, preferably in their national constitutions or through other provisions, to ensure that the Treaty is adhered to in the annual budgetary process. This obligation is subject to the jurisdiction of the EU Court of Justice. Failure to transpose the rule may result in a penalty not exceeding 0.1% of GDP.

In France, the institutional act adopted by Parliament on 22 November 2012 and approved by the Constitutional Council on 13 December implemented the TSCG. The new legislation completely overhauls every stage of the budgetary process, from the preparation of draft budget legislation to monitoring execution, to improve control of public finances and ensure compliance with European commitments throughout the process. In particular, the new legislation:

- formalises the content of public finance planning acts to establish a medium-term target, i.e. a structural balance target, as well as a trajectory to achieve it, in accordance with France's European commitments;
- provides for the creation of a High-Level Council on Public Finances. This is an independent body responsible for giving opinions on growth forecasts to ensure their credibility and for verifying application of quantitative fiscal rules provided for in public finance planning acts. The make-up of the Council was announced on 28 February 2013. It is led by Didier Migaud, who chairs France's Court of Auditors (*Cour des Comptes*);
- organises the mechanism for making automatic corrections in the event of a deviation from the target trajectory; the Council will be responsible for publicly alerting Parliament and the Government about the possible need for corrective measures to maintain the trajectory;
- enhances draft budget legislation with a summary table covering all of general government to give Parliament an overall view of the structural balance and enable it to annually check compliance with France's European commitments and public finance planning acts.

Italy's government deficit was below 3% of GDP, reflecting consolidation efforts since 2010.

Despite these efforts, the euro area government debt ratio grew from 88.1% of GDP in 2011 to 93.1% in 2012.

Debt levels in the main euro area countries (see Chart 15) are in some cases over 90% of GDP, but the situations are very different. Germany, with its budget surplus, held government debt at virtually the same level in 2012. Conversely, Spanish government debt increased by approximately 19.1 points of GDP,

Box 8

## France's public finances in 2012

### Public finance developments in 2012

In 2012, the government deficit calculated by the Insee (French National Statistics Institute) stood at 4.8% of GDP, or EUR 98.2 billion, down EUR 7.2 billion compared with 2011 (EUR 105.4 billion, or 5.3% of GDP). Despite this improvement, it was still slightly higher than the forecast in the draft 2013 finance law notwithstanding the additional measures adopted by the government under the supplementary budget act of summer 2012. The excess versus the forecast of 4.5% of GDP was notably due to the recapitalisation of Dexia and the revised European budget adopted at the end of the year.

The improvement in the public finances compared with 2011 reflected a slight decline in the debt burden (2.7% of GDP, after 2.8%) as well as a reduction in the primary deficit (2.1% of GDP in 2012, after 2.5% in 2011). This resulted mainly from the increase in government revenues, with, in particular, a sharp hike in tax and social security contributions, which rose to 44.9% in 2012, after 43.7% in 2011, chiefly stemming from the rise in income and wealth taxes (up 0.7 of a point to 11.9% of GDP in 2012). Meanwhile, the ratio of spending to GDP rose to 56.6% of GDP in 2012, compared with 55.9% in 2011, despite the freeze on nominal spending and efforts to curb health expenditures. The rise in this ratio was primarily due to weak GDP growth (denominator effect) and to exceptional public expenditure items. Excluding these exceptional items, public expenditure increased by 0.7% in volume terms, corresponding to a much lower pace of increase than the average level over the previous five years (+1.7%).

The government debt to GDP ratio reached 90.2% in 2012, up 4.4 points compared with the previous year and representing total outstanding debt of EUR 1,833.8 billion, of which EUR 191.6 billion is in short-term securities. The nominal interest rate on French debt (interest paid on debt) is trending downwards, and reached 3.0% in 2012, after 3.3% in 2011.

### 2012-2017 Multi-Year Planning Act

The Act 2012-1558 of 31 December 2012 on Public Finance Planning for the 2012 to 2017 period (hereafter the LPFP) adopted the governance framework established by the Institutional Act on Public Finance Governance and Planning, which transposed the TSCG into domestic law (cf. Box).

Articles 2 and 3 define the medium-term target for France and present the trajectory of public finances in terms of the effective balance and the structural (i.e. cyclically-adjusted) balance, and the trajectory of spending, tax and social security contributions and debt.

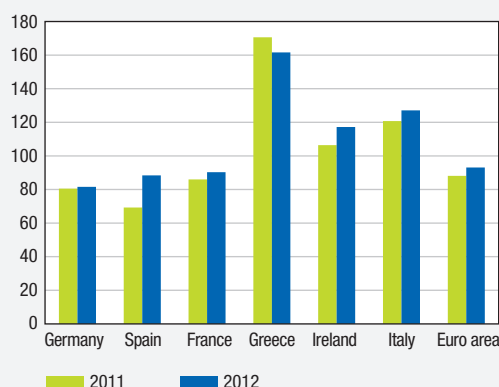
The LPFP also provides a correction mechanism that enhances the credibility of the adjustment trajectory: in the event of a deviation of more than half a point (or a quarter of a point two years running) from the structural trajectory set by the act, the government is obliged to propose corrective measures in the next draft budget legislation.

The procedures to consolidate the public finances and restore balance set out in the LPFP are as follows:

- measures should be fairly distributed between spending and revenues, except in 2013 when revenues should account for two-thirds of consolidation and spending for one-third. Tax and social security contributions are supposed to decline from 2016;
- the spending reduction strategy is intended to cover all public entities:
  - at central government level, the main measures include holding nominal spending excluding debt and pensions at the same level, keeping total spending growth below the zero volume rule and not increasing headcount;
  - spending cuts for public-sector operators should be based on controlling central government funding, not increasing headcount and capping tax allocations;
  - local government spending will be curbed as central government funding is stabilised in 2013, then reduced in 2014 and 2015 by EUR 750 million a year (–1.5%);
  - at the level of social security funds, the LPFP restricts spending growth for core mandatory social security regimes, particularly health insurance spending, which is required to increase by an average of 2.6% over the 2013-2017 period.

**Chart 15**  
**Public debt**

(% of GDP)



Source: European Commission.

reflecting the increased cost of market refinancing and the financial assistance provided to Spanish banks.

### 4|3 Stimulating growth through structural reforms

Recent assessments by the Banque de France show that the euro area's current annual potential growth is around 0.8% on average (2011-2012), lower than the 2% pre-crisis average (2000-2007). Driven downwards by the potential growth of countries such as Spain and Italy (0.2% and 0.3% in 2012), it remains below the potential growth of Germany and France (1.4% and 1.0% in 2012). The marked downturn in the euro area's potential growth is mainly due to the slowdown in total factor productivity (TFP) resulting from recognition of the financial crisis's impact on potential TFP. TFP's contribution (0.4 of a point in 2012) is weaker than before the crisis (0.9 of a point in 2007), reflecting contributions from capital and labour (0.5 of a point and -0.1 of a point in 2012 respectively), which have fallen because of ageing capital stock caused by declining investment and a higher equilibrium unemployment rate, notably in Spain and Italy. Weaker potential growth makes it harder to achieve the necessary consolidation of government finances.

Implementing structural reforms is vital to improving the growth outlook and facilitating the consolidation of government finances. Structural reforms have beneficial effects that generally appear over the medium-long term but that may be limited in the short term because of the costs of reallocating resources and potential social costs. For example, the impact on employment of productivity gains resulting from a more flexible labour market are beneficial in the medium and long term but may be harmful in the short term, leading to job losses. However, even the announcement of sensible structural reforms may help to stimulate growth, including in the short term, if investors and consumers expect future gains and react immediately by stepping up investment and consumption.

The academic literature shows that some constraints that curb competition on the goods and services market or labour market flexibility have a negative impact on mobilising labour or productivity growth. In particular, regulations for market services tend to strengthen the market power of companies producing intermediate goods and services, which can then capture a share of the economic rents of user firms; the companies that use intermediate goods and services thus have less incentive to generate performance gains because these may be partly siphoned off by companies further up the production chain. Similarly,



Box 9

### Euro area labour market reforms

Between 2003 and 2006, Germany launched a series of reforms to make its labour market more flexible, notably in terms of job protection and by encouraging bargaining and adjustments at struggling companies. Italy and Spain also embarked on major reforms in 2012 to reduce the contrast on the labour market between workers on open-ended contracts, who enjoy considerable job protection, and workers on temporary contracts, who are afforded little protection.

The two countries increased the cost of temporary job contracts, with Italy raising the social security contributions for certain contracts and Spain increasing termination bonuses. Spain also placed restrictions on renewing short-term contracts and required them to be turned into open-ended contracts after two years; at the same time, it created a new kind of open-ended work contract featuring a longer trial period for companies with fewer than 50 employees.

Dismissal procedures were also substantially amended in Italy and Spain to create more flexibility in the event of economic difficulties. The procedures for dismissal on economic grounds were simplified in Italy, where employees no longer have to be taken back if dismissal is cancelled. In Spain, redundancies were made more straightforward by measures to streamline administrative authorisations and strengthen the potential role of company agreements to provide greater legal certainty. In addition, costs were considerably reduced for dismissals on economic grounds and unfair dismissals.

In France, various measures were adopted or are still under discussion to improve the employment rate among 15-24 year-olds, which stands at around 30% compared with 40% on average in the OECD. In October 2012, it was decided to create a programme applicable from 2013 to help jobseekers aged between 16 and 25 and holding few or no qualifications to get into the workplace and obtain skills. In December 2012, the government also presented a proposal for a work contract aimed at promoting youth employment while at the same time keeping senior employees in work.

In addition, labour and employers in the euro area's four largest countries are allowed, subject to certain limits, to sign company agreements that deviate from the provisions of agreements signed at a higher level. These agreements were authorised in 2004 in Germany and France, in 2011 in Italy and in 2012 in Spain. The national inter-professional agreement signed in France on 11 January 2013 proposes strengthening the role of company agreements, changing their relationship to the regulations, sector agreements and employment contracts to enable companies to weather economic hard times without resorting to dismissals.

a lack of flexibility on the labour market may reduce the quality of the match-up between workers and productive positions; this could lead to an increase in the unemployment rate, particularly in the long term, reduce the activity rate and hinder the growth of the most productive firms.

Reducing some of the constraints on services and the labour market could therefore generate relatively sizeable economic gains. But experience shows that reforms must be balanced to be effective in the long run. For example, the contrast in conditions on the labour market may be reduced by simultaneously strengthening protection for workers in temporary jobs, lessening unfair use of these types of arrangements, while introducing greater job flexibility for people on open-ended employment contracts.

## 4/4 International coordination of economic policies

Since the summit meeting held in Washington in November 2008, the G20 has emerged as a key forum for international economic and financial cooperation, working closely with other bodies such as the IMF, which provides major support in terms of technical assistance. In 2012, Mexico took over the G20 presidency from France, promising to strive to support the recovery of the global economy while continuing to find solutions for the strain on financial markets.

The summit meeting of heads of state and government held in Los Cabos in June 2012 adopted an action



plan to promote growth and employment, which built on the plan adopted during France's G20 presidency at the Cannes summit meeting in November 2011. G20 members agreed to specific measures and a common monitoring framework to assess the implementation of commitments by countries, on which basis an initial report was presented and adopted. Support was also provided for the measures taken by Europe to preserve the integrity and the stability of the euro area.

The Mexican Presidency also reaffirmed its determination to continue reforming the international financial architecture. The summit meeting in Los Cabos enshrined the commitment by different countries to increase the IMF resources and capacity to prevent and resolve financial crises: 38 bilateral borrowing agreements were signed in 2012 with the IMF for a total amount of USD 461 billion. France signed a borrowing agreement of EUR 31.4 billion in October 2012. Furthermore, the IMF surveillance framework was improved with the adoption in July 2012 of a new integrated surveillance decision, which aims at better integrating bilateral and multilateral surveillance. In addition, IMF governance and quota reforms continue to strengthen the institution's legitimacy and hence its ability to promote more effective international cooperation.

Regarding financial regulation, the Mexican Presidency of the G20 worked to guide and oversee work within the Financial Stability Board on implementation of Basel III, regulation of OTC derivatives markets, creation of a harmonised system for identifying and regulating systemically important domestic banks and revising the list of systemically important international banks. The framework for the institutional reform aiming to increase the FSB independence was clarified. G20 member states also approved the FSB new charter, which strengthens the FSB coordination role in terms of defining international standards and monitoring implementation by countries.

Russia took over from Mexico in November 2012 and expanded its work programme to include a new discussion topic introduced in 2012 on financing long-term investment.





## Tasks and activities of the Banque de France in 2012



The Banque de France's tasks are centred on three core areas: services provided to the national community, Eurosystem and financial stability.

- Services provided to the national community: these include a wide range of activities such as assessment of the economy and its financing (including credit mediation, a task that the Bank took on following the onset of the financial crisis and for which it relies on its branch expertise), monitoring firms via its rating system, consumer protection and management of general interest databases, processing of household debt cases, holding of general government accounts and management of tender and allotment procedures.

- Eurosystem tasks: as a Eurosystem national central bank, the Banque de France is responsible, with the European Central Bank and the other 16 Eurosystem national central banks, for euro area monetary stability.

- Actions to preserve financial stability: these take the form of firstly, prudential supervision, and secondly, the Bank's participation in a number of national, European and international organisations in cooperation with other relevant bodies such as central banks, prudential authorities, finance ministries, international institutions, etc.

## 1 SERVICES TO THE NATIONAL COMMUNITY

### 1|1 Assessing the economy and its financing

#### Monthly business survey

Each month, the Banque de France monitors and analyses business conditions and provides the Eurosystem and policy-makers with an assessment of the French economy comprised of indicators, forecasts and structural studies. Banque de France branches conduct broad-based monthly surveys of business managers on the following areas:

- industry and market services, with monthly balances of opinion;
- retail sales, with turnover indices.

Monthly business surveys are published on the Banque de France's website.

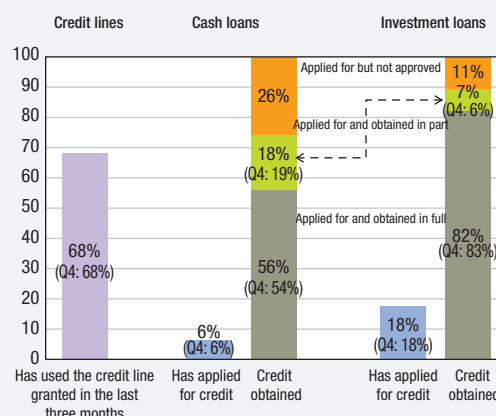
The national overview is complemented by regional summaries published each month.

In addition, the Banque de France conducts and publishes quarterly opinion surveys on the wholesale and construction sectors, on the financial situation in industry and on small and medium-sized enterprises' (SMEs) and mid-tier companies' (MTEs) access to funding.

#### Box 10

### New survey on mid-tier enterprises

#### SMEs' access to credit Q1 2013



In July 2012, the Banque de France launched a new quarterly survey of SMEs' and MTEs' access to credit. The aggregate results of this data collection exercise were first released in December 2012 for Q2 and Q3 2012 in *Stat Info* "Quarterly Survey on the Access to Bank Financing of SMEs".<sup>1</sup> The survey was subsequently extended to MTEs in January 2013 for Q4 2012.

This paper complements two *Stat Info* publications on financing of SMEs<sup>2</sup> and VSEs,<sup>3</sup> as well as the bank lending survey. It makes it possible to better assess whether changes in outstanding bank lending to SMEs and MTEs are due to differences in loan supply or loan demand.

<sup>1</sup> <http://www.banque-france.fr/economie-et-statistiques/stats-info/detail/enquete-trimestrielle-aupres-des-pme-et-eti-sur-leur-acces-au-credit-en-france.html>

<sup>2</sup> <http://www.banque-france.fr/economie-et-statistiques/stats-info/detail/financement-des-pme-en-france.html>

<sup>3</sup> <http://www.banque-france.fr/economie-et-statistiques/stats-info/detail/financement-des-micro-entreprises.html>

### Credit mediation

Using the structure put in place in 2008 under the national mediation framework, Banque de France branch directors, in their capacity as departmental credit mediators, continued to facilitate dialogue between financial institutions (bankers, credit insurers and factoring companies) and business managers.

Working with national mediation analysts, departmental credit mediation units processed almost as many cases as in 2011. A monthly average of 340 applications was submitted in 2012, compared to 378 in 2011.

With companies facing a growing number of structural problems as a result of the business slowdown, cases were increasingly complex. 58% of mediations were nonetheless successful in 2012, i.e. barely four points less than the average rate of success since 2008. SMEs continued to benefit the most from the mediation procedure, with close to 95% of applications accepted in 2012 concerning companies with fewer than 50 employees and almost 80% companies with fewer than 10 employees (VSEs). Overall, in 2012, credit mediation resulted in EUR 543 million worth of loans being made available.

Since the system was put in place in November 2008, over 37,000 ailing companies have submitted applications for credit mediation. 80% of these applications were declared eligible for the procedure. Mediation has enabled close to 17,000 companies to overcome initial refusals of funding and to pursue and develop their businesses. Over EUR 4 billion in loans were thus granted, enabling almost 300,000 jobs to be saved or consolidated.

The mechanism has been prolonged to end-2014 and the sectoral agreement renewed for two more years.

#### Mediation in figures – 2012

- 4,080 applications received, of which 78% were declared to be eligible
- 3,200 applications processed
- 1,550 companies' business consolidated
- 34,574 jobs saved

### Monitoring companies

The Banque de France contributes to work conducted by a number of observatories that monitor companies.

- One of the most long-lived is the *Observatoire des délais de paiement* (Trade Credit Observatory), established in 1991. The Banque de France provides the secretariat to this Observatory. In its 2012 Report, the Observatory highlighted the positive impact of the maximum time limits imposed by the Economic Modernisation Act (LME), while emphasizing the efforts that local and social services need to make, and the adverse effects on companies whose existence may be threatened by late payments.

- The *Observatoire du financement des entreprises par le marché* (Observatory for Market Financing of SMEs) was created more recently, in 2010. Improving SMEs and MTEs' access to capital markets was the focus of several initiatives implemented in 2012. Recommendations defined by the Rameix-Giami taskforce included improving the business model for financial market professionals and creating a stock exchange for SMEs and MTEs.

### Observatory for Regulated Savings

The *Observatoire de l'épargne réglementée* (Observatory for Regulated Savings) was set up on 4 August 2008 by the Economic Modernisation Act. It is chaired by the Governor of the Banque de France. The Observatory's task is to monitor the implementation of the reform of the "A" passbook savings account distribution network, and the impact this reform may have on household savings, the financing of social housing and expansion of banking accessibility. The Banque de France also conducts a quarterly survey of the banks that distribute regulated savings accounts. In cooperation with the *Caisse des dépôts et consignations* (CDC), the Bank uses the survey findings to provide accurate analyses of the main characteristics of these instruments.

The data collected in the survey was enhanced by new indicators in 2012, and provides more detailed information on banks' performance in terms of accessibility: provision of basic banking services and payment cards with systematic authorisation, opening



of accounts under the “right to an account” procedure and establishment of branches in disadvantaged urban areas and in rural communities.

The Observatory for Regulated Savings monitors credit institutions’ use of the funds saved in “A” passbooks and sustainable development passbooks that are not centralised in the CDC savings fund. The ratios regulating the use<sup>6</sup> of these savings, which require banks to set aside 80% of the funds to finance small and medium-sized enterprises (SMEs), and 75% of additional savings for one year for new loans to SMEs, are generally satisfied.

## 1|2 Monitoring companies

At end-2012, over 280,000 companies were rated by the Banque de France on the basis of their accounts and consolidated statements. The ratings system reflects the Banque de France’s overall assessment of the company’s ability to meet its financial commitments. Without using fully automated processes (scoring), the Banque de France applies an “expert assessment” approach based on the individual and in-depth analysis of the financial and non-financial situation of the company or group under consideration. This three-year analysis method tends, insofar as possible, to limit the impact of short-term factors.

The Banque de France’s rating system has been approved as an ICAS (In-House Credit Assessment System) within the Eurosystem. This means that its company ratings may be used to gauge the quality of assets pledged as collateral for bank refinancing operations. Assets of companies rated 3++ to 4+, or even 4 temporarily, are deemed to be eligible as collateral.

<sup>6</sup> Ratios defined by the Banking and Financial Regulation Act of 22 October 2010.

<sup>7</sup> A debtor is in “default” when one or both of the following two conditions have occurred:

- the credit institution considers that, without taking steps such as realising collateral (where such collateral exists), the debtor will be unable to meet its credit obligations towards the credit institution, its parent company or one of its subsidiaries;
- the debtor is more than 90 days late on a significant credit obligation towards the credit institution, its parent company or one of its subsidiaries.

### Box 11

#### The Banque de France rating system: a synoptic assessment comprising two elements

- The turnover rating represents a turnover category (where the latter is known, significant and sufficiently recent), represented by a letter, from A (turnover of EUR 750 million or more) to M (turnover of less than EUR 100,000).
- The credit rating assesses the solvency risk that, by decreasing order of quality, is represented by the values: 3++, 3+, 3, 4+, 4, 5+, 5, 6, 7, 8, 9 and P. A rating of 0 is awarded if there is no negative information or recent financial statement. Ratings 7 to 9 reflect the existence of trade bill payment incidents. The P rating is assigned to companies undergoing insolvency proceedings (turnaround procedure or judicial liquidation).

### Box 12

#### Banque de France rating system: Key data at 31 December 2012

- 279,819 balance sheets of resident non-financial companies (or alike) analysed
- Approximately 4,600 consolidated accounts analysed

Rating	Number of companies at 31/12/2012	Breakdown at 31/12/2012 (%)	Outstanding amounts filed with the Central Credit Register (EUR billion)
3++	9,615	3.44	16,723
3+	22,135	7.91	80,230
3	30,503	10.90	87,429
4+	39,980	14.29	64,237
<b>Sub-Total</b>	<b>102,233</b>	<b>36.54</b>	<b>248,619</b>
4	66,845	23.89	81,793
<b>TOTAL</b>	<b>169,078</b>	<b>60.43</b>	<b>330,412</b>

Source: Banque de France

The Eurosystem regularly assesses ICAS’ compliance with eligibility criteria relating to pre-defined credit quality thresholds (i.e. a probability of default within one year). Since 2012, the “Basel default” notion, defined in Basel II,<sup>7</sup> has replaced the notion of “failure” as the fundamental criterion of a default. Credit quality thresholds however remain unchanged. With this new requirement, the Banque de France has set up a

Box 13

### GEODE 2013: An updated support service for companies

The launch of the new version of the GEODE diagnostic services tool for business managers of SMEs in industry, trade, services and construction, reaffirms the Banque de France's commitment to assist and support companies that require an in-depth analysis of their financial situation.

GEODE is based on a comprehensive assessment of the company, with a financial analysis component that has been updated to take account of new issues in company financing and management. The new analysis is performed by specially trained financial analysts, and assesses, based on an interactive dialogue with company managers, the risks to and opportunities for growth and profitability for the company within its sector of activity. In an uncertain environment, GEODE's analysis of the sector gives company managers real visibility on the positioning of their companies and enables them to better communicate with their financial partners on their current situation as well as expected developments. The new sector analysis is enhanced with exclusive Banque de France data (outstanding loans, financial rating, restructuring, failures, strategic surveys, size, etc.) and provides company managers with information on the analysis of their companies' behaviour. The assessment identifies performance niches and weak spots. It also offers a unique comparative analysis of the company's performance that is based on three benchmarks updated in real time: from the benchmark that most closely mirrors the company's economic characteristics, to the most aggregated benchmark.

Following the assessment, GEODE offers company managers a forecast analysis, using scenarios based on assumptions. The scenarios in the new GEODE service put greater emphasis on financing issues, to assist company managers in decision-making and in developing future strategies for their companies.

In addition to enhanced analysis and greater interactivity, the new GEODE has a more attractive pricing policy that facilitates support to company managers over the long term.

The Banque de France's proven financial expertise, the customised assessment services provided by its branch network financial analysts, the rich databases used and the regular revision of GEODE in response to company managers' concerns make this system a high-performance tool that creates the basis for a real partnership dialogue with companies.

system to collect statistics from banks on proven "Basel defaults" and adapted its methodology.

As the Banque de France is also recognised as an external credit assessment institution (ECAI), its rating system may be used by credit institutions to calculate their regulatory capital requirements. This recognition also shows that the Bank meets all the international criteria for credit risk assessment: objectivity and independence in assigning ratings, regular ratings reviews, transparency and communication on its methodology.

The Banque de France's rating system can also be used by banks in their decision-making process. For companies, the rating is also an external assessment that enables them to determine where they stand on a risk scale. It may therefore be used by company managers in their dealings with banks. It also enhances transparency, which facilitates their access to credit.

## 1/3 Consumer protection and management of general interest databases

### Managing national databases

The Banque de France is legally responsible for managing several databases set up to prevent situations of household debt distress and improve payment instrument security.

2012 saw the consolidation of the impact of the important legislative measures passed in 2010.

For the FICP, the new functioning methods with regard to both data entry (new data entered as received), and consultation by credit institutions (permanent access, when processing loan applications as well as when granting a means of payment and for



Box 14

### Household payment incident databases managed by the Banque de France

The National Register of Household Credit Repayment Incidents (FICP) records manifest payment incidents related to credit granted to private individuals as well as measures for handling cases of household debt.

The Central Cheque Register (FCC) records payment incidents related to the use of cheques and bank cards, with the aim of preventing the issuance of cheques with insufficient funds and the fraudulent use of bank cards.

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

#### 2012 Key Data

- the FCC was consulted 57.5 million times
- 1.87 million individuals were listed for passing unpaid cheques and for bank card fraud
- the FICP was consulted 923.4 million times
- 2.6 million individuals were listed in the FICP
- the FNCI was consulted 123 million times

managing customers' portfolio risks), are now tracked using performance indicators that are monitored under the terms of a service charter between the Banque de France and the banking industry.

#### Other consumer relations duties

The Banque de France is legally responsible for managing the "right to an account" procedure. Under this procedure, the Banque de France shall designate, for all individuals who do not have deposit accounts, a credit institution, which will be required to open an account with a number of free basic services. This procedure eliminates the risk of total lack of access to banking services and benefitted 40,000 individuals in 2012.

The Banque de France provides the secretariat to the Banking Mediation Committee chaired by the Governor. Its mission is to oversee the system implemented in 2003 and to release an annual mediation report.



It also provides the secretariat of the Advisory Committee on the Financial Sector (CCSF), whose role is to study issues linked to relations between credit institutions, investment firms and insurance companies and their respective customers, and to propose appropriate measures in this area, mainly in the form of general opinions or recommendations.

#### Supervision of business practices

The *Autorité de contrôle prudentiel* (ACP) ensures compliance, by the institutions and companies it supervises, with the rules defined to protect their customers. These are in the areas of advertising, pre-contractual information and duty of advice from contract execution through to settlement. The ACP also ensures that adequate procedures and resources are implemented for this purpose.

In 2012, the Supervision of Business Practices Directorate of the ACP conducted several supervisory inspections in credit institutions, insurance firms and intermediaries, some in association with the *Autorité des marchés financiers* (Financial markets authority – AMF). These inspections brought to light areas of progress related to compliance with the right to an account procedure, conformity of sales and advertising material, handling of complaints, remote banking services, functioning of accounts and, for life insurance contracts, the gathering of customer-related information in order to provide good quality advice as well as the marketing of unit-linked life insurance policies based on complex financial instruments.

In addition, for the second consecutive year, credit institutions and insurance companies were asked to fill in a questionnaire on the application of rules

aimed at ensuring customer protection (internal control system, handling of complaints and other topics relating to business practices). A summary of findings is published in the ACP's annual report. An instruction adopted by the ACP College on 13 December 2012, made the questionnaire on customer protection mandatory for 2013.

In 2012, the ACP also acted in two areas:

- **Systematic non-payment of life insurance policies that have become payable because they have matured, or by reason of the death of the policyholder.** Inspections revealed that identification of deceased policyholders was not systematic or was at times delayed, that post mortem re-appraisal clauses were problematic and that procedures for processing unclaimed funds were not wholly satisfactory.
- **The legal framework for mobile phone insurance policies.** A survey was conducted on the most representative insurance companies and intermediaries on this market following the large number of complaints and telephone calls received by the ACP. The findings will be used to draw conclusions on market practices.

The ACP has published three recommendations since the start of 2012, which can be consulted online:

- recommendation 2012-R-01 on the marketing to private individuals of loans bearing an exchange risk (6 April 2012);
- recommendation 2012-R-02 on the marketing of time deposit accounts (12 October 2012);
- recommendation 2013-R-01 on gathering customer information with regard to the duty of advice on life insurance policies (8 January 2013).

As a member of the European Insurance and Occupational Pensions Authority (EIOPA) and the European Banking Authority (EBA), the ACP is actively involved in work conducted by these European supervisory authorities and backs France's position aimed at guaranteeing a very high level of consumer protection. The ACP chairs a committee responsible for consumer protection and financial innovation (CCPFI).

In 2012, work carried out at the European level led to the adoption of guidelines on the handling of complaints by insurance companies and a methodology for identifying major consumer trends. Discussions also took place on a proposed European regulation on key information documents relating to investment products (PRIIPs) and a draft revision of the European insurance mediation directive (IMD 2).

### Monitoring Committee for the Reform of Usury

The Lagarde Act on Consumer Credit (Act 2010-737 of 1 July 2010) set up a committee charged with "monitoring and analysing, particularly with regard to the fixing of usury rates, the level and changes in interest rates on loans to private individuals". This committee, chaired by the Governor of the Banque de France, proposed a simplified system for usury ceilings, based solely on the amounts of loans granted. The Committee's first report was released in November 2012.

#### Box 15

##### Main messages in the first report of the Monitoring Committee for the Reform of Usury

Term or personal loans, which ensure predictable and long-term financing of investments by households, are gradually becoming the leading options for credit distribution. Overdrafts and renewable loans may cover one-off liquidity needs for small amounts, according to flexible and quick procedures that respect consumer rights.

The definition of a transition period made it possible to avoid the prospect of a sharp adjustment of the distribution of consumer credit. There is a trend toward the gradual replacement of renewable loans by personal loans and average interest rates on renewable credit continue to drop in France, although they are increasing in the other large euro area countries.

With a view to informing the public, the Committee recommends the annual publication of detailed statistical data on interest rates on loans to households and usury rates, following on from the data published in the report. The Banque de France will thus continue to inform the public and analyse changes in loans to households.

## 1|4 Processing of household debt cases

The Banque de France has been charged by the government with the specific task of processing cases of household debt. The Bank's network branches thus provide the secretariats for the household debt commissions, which are administrative, collegial bodies whose role is to define and propose solutions, which are validated judicially, to the significant financial difficulties faced by certain households.

### Box 16

#### Make-up of the household debt commissions

There are currently 98 household debt commissions in metropolitan France.

The commissions each have seven members. In addition to the *préfet*, who chairs the commission, the Public Finances management director for the *département*, who is vice-chair, and the local Banque de France representative, each commission includes four members appointed by order of the *préfet*:

- a representative of credit institutions;
- a representative of family and consumer organisations;
- a member with proven legal experience;
- an expert in social and family economics.

#### Number of cases filed: a significant drop versus 2011, but still high

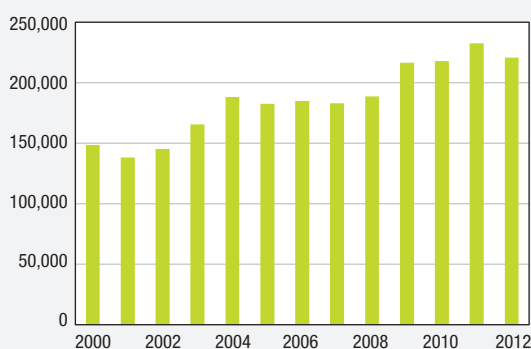
In 2012, household debt commissions received 220,836 applications, i.e. a 5% decrease from 2011 and a 1.2% increase from 2010.

#### Consolidation of case processing procedures

The changes ensuing from the Lagarde Act that were observed in 2011 continued in 2012. Personal recovery plans, which address the most difficult situations (which were on the increase as shown by the most recent typological survey presented below) and lead to the writing-off of almost all debts following the possible

<sup>8</sup> Re-files are cases filed by individuals who have already applied to the commission, irrespective of the result of the previous application.

**Chart 16**  
Number of cases submitted to the commissions



Source: Banque de France

sale of assets, saw their relative share increase to 27% of all the debt solutions employed. Another element that confirms this trend is the decrease in the relative share of out-of-court settlements, which was offset by an increase in the number of measures imposed or recommended.

#### Continued harmonisation of practices and the search for increased efficiency

The structure provided by the Lagarde Act enabled commissions, via their secretariats, to pursue the improvement measures initiated in 2011 as part of the strategy defined by the government. They tended to strengthen the harmonisation of practices, limit solutions leading to re-filing of applications<sup>8</sup> and enhance coordination with government services. In 2012, cooperation between the various parties concerned by excessive household debt led to several training and awareness-raising initiatives aimed at social workers and, in general, all structures working to help individuals facing financial difficulties. Over 11,000 social workers participated in these training and awareness-raising exercises in the course of the year.

#### Commissions' activity reports

In accordance with the provisions of Article L331-12 of the French *Consumer Code*, each household debt commission writes an annual activity report on the number of cases processed, the measures taken, the type of debt involved and all difficulties encountered. These reports are submitted to the Banque de France, which is responsible for summarising them in its annual report. The national overview of commissions' activity

## Box 17

### Typological survey of household debt – 2011

The Banque de France conducts an annual study to analyse the socio-demographic profile, level and nature of resources, as well as the characteristics of households with excessive debt. In 2012, a typological survey was carried out based on cases declared to be eligible by the household debt commissions in 2011.<sup>1</sup>

#### Socio-demographic and professional characteristics

In 2011, the population of overindebted households continued to be characterised by:

- a predominance (64.2% of cases) of single-person households;<sup>2</sup>
- a trend towards older households: in 23.6% of cases the individuals in debt were aged 55 and above;
- a large majority of renters (78.6%), even though the share of homeowners is on the rise (9.3% in 2011 compared to 7.5% in 2010);
- precarious employment situations: 25.6% of individuals in debt were unemployed;
- income below or equal to EUR 2,000 (78.5% of households);

#### Debt structure

An analysis of structures and levels of household debt shows that these debts are mixed in nature, combining mostly consumer debt with arrears in payment of ordinary expenses.

In 2011, the debt of overindebted households was characterised by:

- an increase in average total debt per case, from EUR 34,460 in 2010 to EUR 36,800 in 2011;
- an increase in the share of cases including real estate debt (8.7% in 2011 compared to 7.2% in 2010), which explains the increase in average debt;
- a predominance of consumer debt (89.5% of cases), as well as of renewable loans in almost 78% of cases. There was however a decrease in the share in value terms of renewable loans in total debt, which slid from 40.1% in 2010 to 34.6% in 2011, and a simultaneous increase in the relative share of personal loans from 20.8% in 2010 to 22.7% in 2011.

#### Regional socio-economic context

A mapping of the regional breakdown of cases of overindebtedness, which compares socio-economic indicators in the regions considered, was undertaken to further elucidate changes in and types of household debt distress.

<sup>1</sup> The typological survey of household debt in 2011 was posted on the Banque de France's website in February 2013 and can be found by following the link below: <http://www.banque-france.fr/la-banque-de-france/missions/protection-du-consommateur/surendettement/enquete-typologique.html>

<sup>2</sup> Single, widowed or divorced persons.

reports for the year 2012 is presented as an appendix to this Annual Report.

## 1|5 Holding accounts for general government and management of tender procedures

### Holding general government accounts

The holding of general government accounts is governed by the agreement signed on 25 July 2011 between the

ministries of the Economy and Budget and the Banque de France, which took effect on 1 October 2011.

It amends the previous agreement signed in April 2002 and updates the services provided to the government:

- it provides *Agence France Trésor* (AFT), the government treasury, with real-time information with a view to enhancing its treasury management;
- it specifies the services provided to government accountants in the field of online banking;



- it organises the migration from the French to the new European payment instruments (SEPA credit transfers and direct debits);
- it makes it possible to reduce collection time, by one day, for cheques of less than EUR 5,000, which account for 98% of the total number of cheques cashed by the government.

The management of the Treasury's suspense account has evolved in recent years towards the real-time monitoring of operations, in accordance with the fundamental principles governing the functioning of the Treasury account: by virtue of Article L141-3 of the French *Monetary and Financial Code*, the Banque de France cannot grant advances to government organisations, which means that the Treasury account must always be in credit.

Since 2002, rates of interest paid on the Treasury account balance have been modified in order to take account of legislative requirements with regard to the management of the government treasury, and Eurosystem constraints. Conversely, the Banque de France has committed to improving the quality of banking services: new services related to security, information and financial neutrality. In this regard, the Bank offers the AFT a supervisory service for large settlements from the 7,700 public accounts, and real-time traceability of financial flows for each major transaction category. Quality indicators were defined and monitored by the monthly *BDF-Trésor* steering committee.

### Managing tender procedures

The government's negotiable debt is made up of three categories of short, medium and long-term standardised government securities: BTFs (fixed rate discount Treasury bills), BTANs (annual interest Treasury notes) and OATs (fungible Treasury bonds). The "bid price" system, dubbed "*à la hollandaise*" in France, which ensures perfect competition among subscribers, is the preferred form of issuance for these three categories of Treasury bills.

The Banque de France manages the computerised auction system TELSAT for AFT. France currently has one of the shortest auction times among the major sovereign issuers: the time between the deadline for

handing in bids at the Banque de France and the publication of results has been cropped to less than ten minutes. The Banque de France reports bids proposed to the AFT, withholding the names of bidders. The Agence determines the amount to be allocated on each line and then publishes the results.

## 2| EUROSYSTEM TASKS

### 2|1 Activity and inflation forecasts in support of monetary policy

The Banque de France prepares the Eurosystem's monetary policy decisions by collecting statistics and data on France's economy, and by producing economic forecasts and analyses. Chief among these are the publication of the monthly business survey and the monthly index of business activity, which is a GDP growth forecast with a three-month horizon. Additionally, coordinating with the other Eurosystem central banks, the Banque de France contributes to the work of the Eurosystem's Monetary Policy Committee by generating growth and inflation forecasts for France at a two-year horizon. These forecasts provide data for the euro area forecasts.

The Banque de France therefore has the tools to conduct its own economic assessment for France and the euro area. This has been particularly useful in the difficult economic environment of the last few years.

### 2|2 Research, statistics and publications

#### Production and publication of monetary and financial statistics

Preparation of Eurosystem monetary policy decisions is based on the analysis of a wide range of economic indicators on investments and financing by the non-financial sector of the euro area. Particular focus is placed on the broad monetary aggregate M3, its components and its counterparts, the biggest of which is an aggregate of all loans granted to the private sector

by euro area monetary financial institutions (MFIs). The rates used by MFIs, for loans as well as deposits, are also taken into consideration, as are the responses banks provide to the Bank lending survey.

The Banque de France collects and analyses data relative to the operations of institutions doing business in France. The European Central Bank centralises national data and calculates and publishes euro area aggregates.

Monetary and credit aggregates monitored on a monthly or quarterly basis are developed based on data from balance sheets of banks, including Eurosystem central banks, other credit institutions and money-market UCITS.

In accordance with ECB regulations, whose application procedures in France were established by a Governor's decision, the Banque de France's respondent base comprises French MFIs as well as branches and subsidiaries of credit institutions of other European Union countries. To complement its analysis of financial circuits and behaviours, the Banque de France, like other Eurosystem national central banks, also collects information on financial intermediaries that are not MFIs, for instance non-money market UCITS, financial vehicle corporations and insurance companies.

In 2012, the Banque de France decided to expand the dissemination of its analyses on the insurance sector by publishing a quarterly *Stat Info* on investments by insurance companies as well as the corresponding historical data.

Access to a large number of data series from the Banque de France and its major international partner organisations such as the ECB and Eurostat has been facilitated by the launch of the Webstat portal. Webstat is an interactive database that can be accessed directly or via the Banque de France's website. It has an online help function with practical examples to enable users to rapidly access the required information.

### Balance of payments

The Banque de France compiles France's balance of payments and its international investment position.



These statistical documents assemble all the economic and financial transactions between the French economy and the rest of the world. They provide an assessment of France's integration in the world economy. France's balance of payments is also used to compile other national (GDP, national income) and international (euro area balance of payments) statistical aggregates. Since 2011, it has also contributed to statistical indicators used to detect macro-economic imbalances, in the context of measures taken by the European Council in response to the crisis.

The Banque de France constantly revises the methodology it uses to compile the balance of payments in line with economic, technological and normative changes, the latter of which are primarily set by the International Monetary Fund. As such, it now conducts an annual survey on international trade in services, which samples a wide range of companies in order to assess the increasing contribution of services to France's trade balance. The Bank has also begun to gather statistics on export credit from the main banking groups in order to better apprehend changes in the financing of export credit. The findings in this area will be released in 2013.

### Research and publications

The economic research conducted by the Banque de France contributes to developing monetary policy decisions, preparing international gatherings such as G20, G7, BIS and IMF meetings, the national

economic policy debate and assessing financial stability. This research provides the means for developing business analysis and medium-term macro-economic forecast tools, and models for assessing the impact of monetary policy, as well as estimates of potential growth and the impact of structural reforms on medium-term growth.

In 2012, Banque de France research focused on the financial and real economies, and on the interaction between the two, particularly against the backdrop of the crisis. Topics studied were the impact of credit constraints on corporate behaviour and on international trade; using financial factors as leading indicators; the impact of banking crises; price rigidity and structural reforms, etc.

Banque de France economists published some 60 papers in academic journals in 2012. The Banque de France ranks 9th nationally among institutions that publish economic articles – this includes universities, international institutions, central banks, etc. – and in the top 5% internationally, according to the IDEAS

ranking established by the Federal Reserve Bank of Saint-Louis.

Ten or so high-level conferences were organised, bringing together academics such as D. Cohen, R. Engle, J. Gali, P. de Grauwe, J. Hamilton, J. Hausman, T. Sargent and J. Tirole, and officials from various institutions.

### Research partnerships

Partnerships with universities were strengthened via formal agreements with the Banque de France Foundation (see box) and spontaneous collaboration efforts. The Banque de France has agreements with France's top three economics institutes: Toulouse School of Economics (agreement in 2008), Paris School of Economics (2009) and Sciences Po (2012), as well as with the Foundation for International Development Study and Research in Clermont-Ferrand. The Bank has in addition initiated a partnership with the Aix-Marseille School of Economics. Relations with universities are also developing on research projects, with Banque de France

#### Box 18

### **The Banque de France Foundation for monetary, financial and banking economic research**

In 2012, The Banque de France Foundation organised around 20 seminars, two macro-economic workshops and its *Journées*, a bi-annual event. It hosted some ten visiting scholars, including Nobuhiro Kiyotaki (Princeton University), Julio Rotemberg (Harvard Business School) and Andrew Siegel (University of Washington). Visiting scholars had active exchanges with Banque de France research teams and developed collaboration arrangements.

The 9th Banque de France Foundation *Journées* for research took place on 24 and 25 May 2012 at the Banque de France. The *Journées* organised by the Foundation are an opportunity for economic researchers who have obtained a research grant from the Foundation to present the results of their research at an international conference. Presentations in 2012 centred on three subjects: "monetary policy and prices", "financial markets" and "financial stability in the global economy". Papers were presented by Robert King, Olivier Jeanne, Marco Pagano and Francesco Lippi. The panel discussion, which was chaired by Deputy Governor Anne Le Lorier, focused on the definition of price stability.

Two joint macro-economics workshops organised in partnership with Crest/Polytechnique, Paris School of Economics, Toulouse School of Economics, and Sciences Po were held in May and November 2012. The workshops featured "frontier research" papers in macro-economics on subjects such as monetary policy and economic fluctuations, fiscal policies and debt, financial stability and systemic crises, and the international macro-economy.

The Foundation awarded four research grants of EUR 30,000 each to international research teams working inter alia on market liquidity issues and the macro-economic effects of price rigidity.

The Foundation awarded three prizes in the form of a release of teaching obligations, to young economics researchers. It also, exceptionally, granted two awards for theses of excellence in monetary, financial and banking economics at the annual conference of the *Association française de sciences économiques* held in July 2012.

economists participating in university conferences and exchanges of personnel.

## 2|3 Market operations activities

### Front office activities

The Banque de France conducts market operations for itself, and on behalf of the ECB, as part of the reserve management activity. It offers services to its international institutional customers. It is in addition responsible for implementing the Eurosystem's monetary policy in France and carries out market analyses with specific focus on issues of bank refinancing.

The Banque de France conducts various market activities:

- fixed income management, including Banque de France foreign reserve portfolios, part of the ECB's foreign reserve assets as agent and management of euro-denominated portfolios;
- participation in securities purchase programmes within the scope of the non-standard measures implemented within the Eurosystem: the Securities Markets Programme (SMP) for government and private debt instruments, and Covered Bond Purchase Programmes (CBPP1 and CBPP2) to restore liquidity

in these markets and ensure the smooth functioning of monetary policy transmission mechanisms;

- foreign currency transactions. This activity covers both operations conducted in liaison with the management of the Banque de France's foreign reserve assets, the implementation of the Eurosystem's foreign exchange policy (foreign exchange interventions) and international investor services;

- management of fixed-term deposits. As part of the services offered to its global institutional customers, the Banque de France collects fixed-term deposits and reinvests these funds in the market;

- implementation of monetary policy. The Banque de France ensures the application of the Eurosystem's operational framework for monetary policy using a set of instruments and procedures. This includes ensuring that French credit institutions fulfil minimum reserve requirements and comply with the eligibility rules governing assets pledged as collateral. It also consists in analysing changes in banking liquidity and the refinancing of French banks on a daily basis. The analyses carried out by the Banque de France enable it to actively contribute to Eurosystem deliberations (within the Market Operations Committee) on changes in the monetary policy framework. These deliberations focus, on the one hand, on the monetary and financial context,

#### Box 19

### Securitisation of credit claims as a source of collateral

As part of an overall examination of collateral (the assets that may be pledged in credit operations carried out by central banks or among banks, or within a delivery-versus-payment system), the Banque de France supports a market initiative to promote the use of loans to non-financial corporations (NFCs) as collateral in interbank transactions. This asset class has proved to be especially resilient since the start of the economic crisis and is a source of collateral that remains underused in France and other euro area countries. Specifically, the project aims to put in place in 2013 a vehicle to securitise loans to NFCs, which would then be issued by a market vehicle. These securities could then be used as collateral in interbank transactions. Studies are currently underway to analyse their eligibility as collateral for Eurosystem loans in the framework of monetary policy. Lastly, making bank financing to NFCs more liquid would help to enhance credit distribution and support corporate, and particularly SME, activity.

The year 2012 also saw the implementation, under the aegis of Euroclear France, of the new Triparty collateral management system, which enables monetary policy counterparties to benefit from the automated management of their pool of collateral. While this service was rolled out progressively, the number of counterparties making use of it and the amounts pledged through this system saw a steady increase.



Box 20

### TARGET2 and its role in the implementation of monetary policy

TARGET2 is the real-time gross settlement system (RTGS) for the euro, developed and jointly managed by the Banque de France, the Bundesbank and the Banca d'Italia. TARGET2 settles payments only in euro. As a real-time gross settlement system, TARGET2 settles payment transactions one by one on a continuous basis, without netting. Transactions are settled in central bank money. Settlements are irrevocable and unconditional, ensuring payment finality continuously throughout the day. Most transactions processed in TARGET2 are linked to monetary policy or to the interbank market as well as the settlement of operations of all securities settlement systems and net payment systems operating in euro.

To participate in central bank refinancing operations, credit institutions must open a TARGET2 account with the Banque de France. Currently, 123 banks hold one or more accounts with TARGET2-BF, the French component of TARGET2. It is on, and from, these accounts that participants maintain their reserve requirements and, where necessary, use the standing facilities offered by the Eurosystem (deposit facility and marginal lending facility). In 2012, the drop to 0% in the rate of the deposit facility significantly reduced the use of this facility.

and on the other, on adjustments to the operational framework for the eligibility of monetary policy counterparts, the instruments used to manage bank liquidity and also assets accepted as collateral for Eurosystem loans.

In addition, the Banque de France monitors financial market developments and analyses market

participants' expectations on the different market segments – from commodities to foreign exchange.

### Managing monetary policy operations in 2012

The collateral expansion measures decided on in June 2012 by the ECB Governing Council enabled the Banque de France to extend the range of assets accepted as collateral in refinancing operations (non-marketable credit claims, debt securities mobilised through Euroclear France or through the correspondent central banking model) to several additional categories of credit claims. The expansion measures mainly covered debt securities related to credit extended to the real economy: loans to companies, including export credit or US dollar-denominated loans, residential real estate loans and auto loans.

Box 21

### Common Eurosystem Pricing Hub (CEPH)

In response to a call for applications launched by the Eurosystem, the Banque de France, the Bundesbank, the Banca d'Italia and the Banco de España developed a common platform to value eligible assets pledged as collateral in Eurosystem credit operations.

This new tool was put into service in September 2011 under the joint management of the Bundesbank and the Banque de France and marked an important step in the implementation of the single monetary policy. It provides euro area national central banks with a unique price for each of the 40,000 eligible marketable assets that can be submitted as collateral by credit institutions making use of Eurosystem refinancing operations. To define this price, the CEPH selects a reliable market price from a collection of market prices, or, where there is no reliable market price, calculates a theoretical price.

## 2|4 Banknotes and coins

### Banknote production

Two industrial centres in the *département* of Puy-de-Dôme are fully devoted to banknote production: a printing works in Chamalières and a paper mill in Vic-le-Comte. The Bank is in consequence an industrial force in Puy-de-Dôme and the Auvergne region as a whole. These two industrial activities have

**Table 3**  
**Banknote production**  
Results 2011 to 2012

(annual volumes in billion banknotes, full-time equivalent staff at 31 December)

	Annual volumes produced and delivered	Staff numbers
Results 2011	2.25	924
Results 2012	2.30	944

Source: Banque de France

high technological content, and tap significant annual investment flows, which also has an impact on local subcontracting industries. The Banque de France is the largest producer (whether private or public) of euro banknotes in the Eurosystem.

The year 2012 was characterised by the step-up in production of the future euro banknote series, and the strengthening of all export markets.

Activity in the Chamalières printing works focused in 2012 on the production of the new 5 euro banknote, which is scheduled to be issued on 2 May 2013. Chamalières was the largest producer of this note, which it printed not only for the Banque de France but also for other Eurosystem central banks. It also mobilised resources to produce banknotes for foreign central banks with which the Banque de France has a close partnership, such as the Central Bank of West African States, the Bank of Central African States, and the Central Bank of Madagascar.

The Vic-le-Comte paper mill's activity centred not only on producing paper for the printing works, but also on contributing to the development of the different denominations of the future euro banknote series, many of whose technological innovations are reliant on the paper produced. To this end, a significant investment was made in a new security machine. The acquisition of this machine places the paper mill at the forefront of plants authorised to produce the new euro banknote series. The European Central Bank thus selected the Vic-le-Comte mill as the Eurosystem's "Paper Test Centre".

Overall, in addition to the mass production of the EUR 5 note of the future series, both centres worked on preparing the next denominations of EUR 10, EUR 20 and EUR 50.

As in previous years, the operational priorities are based on three main strategic areas:

- sustain state-of-the-art production facilities in order to continue to be the primary public producer of euro banknotes, to remain matchless in the face of technical competition while maintaining profitability, and to be an effective partner for foreign central banks that place their trust in these facilities;
- continue to systematically improve productivity;
- work to reduce costs, particularly by optimising supplies through systematic competitive bidding between suppliers and curbing operating costs.

### Managing banknotes and coins in circulation

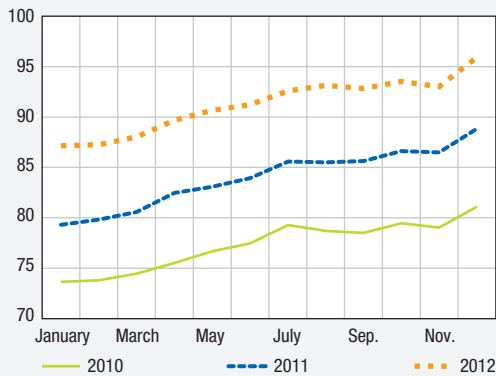
One of the Banque de France's primary tasks is to manage the circulation of banknotes and coins over the whole of the country. This consists in:

- putting euro banknotes and coins into circulation via its branch network (the Bank delivers the funds to credit institutions who ensure that they are distributed to the public);
- maintaining banknotes and coins, i.e. the Central Bank ensures the quality of banknotes and coins in circulation. The 71 cash centres and the 6 IEDOM branches sort the banknotes that are handed in to them in order to detect and withdraw counterfeit bills as well as worn, torn and stained banknotes.

The Banque de France provides banknotes to the public by issuance – new banknotes – and by recycling notes that are deemed fit to be circulated at its counters. Banknotes that cannot be recirculated are destroyed. In 2012, the Banque de France thus removed from circulation 1.36 billion unfit banknotes corresponding to a value of EUR 28.4 billion. Concurrently, credit or settlement institutions that operate ATMs may, subject to the existence of a previously signed agreement with the Banque de France, replenish their ATMs with banknotes received from their customers that they have checked for authenticity and fitness. This is known as "external recycling", as opposed to the replenishment of ATMs with notes drawn from the

**Chart 17**  
**Net French issuance of banknotes**

(EUR billion)



Source: CIS

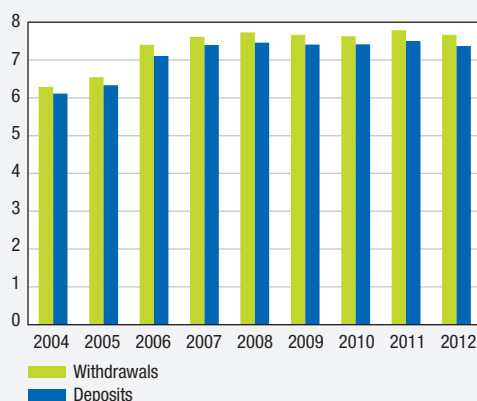
Banque de France (see Box *Recycling of banknotes and coins in 2012*).

### Banknotes and coins in circulation

From 2008 to 2012, net issuance<sup>9</sup> of banknotes in France increased by 40.2% in volume terms, climbing from 2.62 billion to 3.67 billion notes, and by 37.2% in

**Chart 18**  
**Banknote flows at Banque de France and IEDOM counters**

(No. of banknotes, in billion)



Source: CIS

<sup>9</sup> Since 1 January 2002, the term "circulation" has been used to describe all euro banknotes issued within the Eurosystem. For national statistics, it is replaced by the concept of "net issuance", defined as the difference between total withdrawals and total deposits recorded at the counters of the national central bank from the first issue of each denomination.

### 2012 Key Data

- Banknotes withdrawn from the Banque de France 7.67 billion notes
- Banknotes deposited with the Banque de France 7.37 billion notes
- Banknotes sorted 7.57 billion notes

value terms. In 2012, it increased by 296 million notes, EUR 7.1 billion worth of banknotes. This growth was fuelled mainly by demand for denominations used for transaction purposes: EUR 5, EUR 10, EUR 20 and EUR 50. Over 7 billion banknotes were withdrawn and handed in at the Banque de France counters by banks.

Net issuance of coins also increased in 2012 from 2011: it grew by 5.8% in volume terms and by 3.6% in value terms. Almost 80% of net outflows (the difference between total withdrawals and deposits) may be traced to copper coins (1c, 2c, and 5c) due to the low rate of return of these coins to the Banque de France.

### Preparation of the second series of euro banknotes

On 8 November 2012, Mario Draghi, ECB President, announced the launch of the second series of euro banknotes (ES2), the Europa series. The new banknotes will be put into circulation from May 2013 starting with the EUR 5 banknote, to be followed over several years by the other denominations in ascending order of value. To this end, the Banque de France has produced a significant volume of EUR 5 banknotes for the Eurosystem and has assisted professional cash handlers in preparing for this launch.



Box 22

### **Recycling of euro banknotes and coins in 2012<sup>1</sup>**

#### **Agreements regarding the processing of coins to be deposited with the Banque de France and inspections conducted by the Banque de France**

At end-2012, 36 processing agreements were in force between the Banque de France, credit institutions, cash-in-transit companies and companies operating ATMs. There were 146 sites in France handling coins for delivery to the Banque de France.

Banque de France teams conducted inspections at 60 sites over the year. These inspections identified a number of weak points (inadequate equipment, operating and internal control procedures, etc.) that were rapidly set right.

#### **Agreements regarding the automatic distribution of banknotes not drawn from a central bank and inspections conducted by the Banque de France**

The European Central Bank decision ECB/2010/14 of 16 September 2010 on the authenticity and fitness checking and recirculation of euro banknotes was amended by the decision ECB/2012/19 of 7 September 2012. The latter decision notably incorporates provisions on the launch of the new ES2 banknotes, requirements for equipment used for recycling, strengthening the principle of ongoing inspections and the easing of certain reporting requirements. The French regulatory texts are therefore being amended; a new decision by the Governor of the Banque de France will be published in 2013.

At end-2012, 58 agreements concerning “the distribution by ATMs of banknotes not directly drawn from a Eurosystem central bank” had been signed between the Banque de France and credit institutions. 6,096 bank counters were distributing banknotes that were not drawn from the central bank via ATMs. These banknotes were generally processed by the credit institutions themselves. A sharp increase in processing of banknotes for ATMs by service providers such as cash-in-transit companies was noted over the year. At the end of the year these accounted for roughly 20% of sites replenished with recycled banknotes.

In 2012, the Banque de France conducted 228 on-site inspections of bank branches and workshops processing banknotes for ATMs. One inspection resulted in the immediate suspension of recycling; the situation was rapidly rectified by the operator concerned. Inadequacies brought to light by ongoing monitoring resulted in letters of formal notice for failure to comply with regulations. At end-2012, only one case was still being processed.

#### **Training bank employees in banknote authentication**

In accordance with the provisions of Article R122-6 of the French *Monetary and Financial Code*, the Banque de France continued to provide support to banks that requested it in the training of staff responsible for the manual distribution of banknotes in bank branches. In 2012, 2,388 bank staff members were trained by the Banque de France.

#### **Implementation of banknote recycling and coin processing in the overseas departments (Guadeloupe, French Guiana, Martinique, La Reunion and Mayotte) and overseas communities (Saint-Barthelemy, Saint-Pierre and Miquelon and Saint-Martin)**

The Banque de France charged the French overseas note-issuing bank (IEDOM) with the administration of the system for credit institutions headquartered in the overseas departments and communities. At end-2012, 7 agreements on the delivery by ATMs of recycled banknotes had been signed. IEDOM conducted inspections at 3 of the 46 sites.

As part of the training of IEDOM staff in banknote checking, 7 on-site inspections were conducted in the overseas departments by Banque de France teams.

In addition, 10 agreements on “automatic processing of coins” were implemented at a total of 10 production sites.

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<sup>1</sup> Statement prepared in line with Article R123-3 of the French *Monetary and Financial Code*.



Box 23

### Exchange of French franc banknotes

The exchange of the last series of French franc banknotes for euro banknotes came to an end on 17 February 2012. The run-up to the deadline for exchanging these notes has always led, irrespective of the series of notes, to a pick-up in volumes of notes exchanged, which varies depending on the denomination.

Almost 100,000 exchange transactions, 35,000 of which were in the last week, took place from 1 September 2011 to 17 February 2012. Approximately 1,581,000 banknotes worth close to 378 million French francs or EUR 57.6 million were exchanged. The average volume of exchanges was 16 banknotes worth an average of 3,797 French francs, or EUR 579, per transaction.

As the deadline approached, exchange volumes virtually doubled month to month. Just under 200,000 notes were exchanged in December 2011, compared to almost 367,000 in January 2012 and 733,000 from 1 to 17 February.

On 17 February 2012, the volume of unreturned francs amounted to almost 55 million banknotes, with varying face values, worth over EUR 726 million. From this non-tax revenue must be deducted two pre-payments made in 2003 and 2005 (EUR 120 million and EUR 80 millions respectively). The government Treasury account was therefore credited with EUR 525 million.

The Banque de France has made available its test platform to verify banknote authentication and fitness-checking equipment used by third parties and has initiated a training programme on the authentication of the new security features included on the banknote for in-house trainers in banks and retail companies.

## 3| THE BANQUE DE FRANCE'S ROLE SERVING FINANCIAL STABILITY

### 3|1 Prudential supervision

#### Tasks of the *Autorité de contrôle prudentiel*

Article L612-1 of the French *Monetary and Financial Code* provides for “the *Autorité de contrôle prudentiel*,

*an independent administrative authority, to safeguard the stability of the financial system and protect customers, insurance policyholders, members and beneficiaries of the institutions under its supervision”*. The ACP must ensure that the entities under its supervision comply with all the legal and regulatory provisions that apply to them throughout their institutional life.

The ACP is first of all responsible for delivering the approvals and authorisations laid down by the laws and regulations to the entities under its supervision. It carries out ongoing supervision of their financial situation and operating conditions, notably with regard to existing solvency requirements and liquidity rules. Particular attention was focused for instance on insurance companies that had experienced sharp growth due to the intensive use of broking, which was out of control in some cases. The ACP observed that the companies failed to properly define the contracts they sold through this channel and did not place sufficient emphasis on rates and claims ratios. The ACP pointed out, in addition, that delegating the claims handling process did not relieve these companies of their responsibility vis-à-vis policyholders.

The annual programme of supervision is drawn up by taking into account the guidelines defined each year by the ACP College, which sets the parameters based on the individual situations of the entities supervised, cross-cutting issues common to the sector as a whole or to some sectors of activity and the general macro-economic environment. The calendar for these tasks is adjusted over the year based on regulatory developments, and emerging observations that may call for heightened vigilance. For instance, the ACP kept a watchful eye, through on-site inspections, analyses, interviews, etc., on the consequences on the welfare sector of firstly, legal changes relating to retirement age, which increase periods for the payment of invalidity/disability pensions, and secondly, increasingly fierce competition that has led to mergers. The supervisory framework for insurance companies in France was strengthened with the setting up of a permanent insurance company survey group. This group is responsible for conducting on-site checks on specific insurance issues.

The ACP represents French prudential supervision in international and European insurance and banking



institutions, in close collaboration with Banque de France departments and the relevant government bodies. In a context in which regulations are largely a result of supranational standards and norms, the ACP, together with the Banque de France, very actively participates in international work in its different areas of competence. Both authorities thus contribute to achieving financial stability objectives in Europe and to aligning national and European supervision practices.

#### *The role of the *Autorité de contrôle prudentiel* during the crisis*

In 2012, the ACP's activities were carried out in a business environment that remained difficult for financial institutions, which continued to contend with the consequences of the crisis and most economic agents' growing risk aversion.

While lending conditions for French banks improved significantly from 2011, access to market liquidity remained tenuous, especially as the vulnerabilities stemming from the sovereign debt crisis had not been completely overcome. The ACP thus continued to closely monitor the funding conditions of French banking groups.

The banking sector also continued to prepare for Basel III. In this regard, the ACP continued its regular reviews of French banks' individual situations with

regard to solvency and liquidity. The measures taken to strengthen their capital base enabled them to comply with the objective fixed on 30 June 2012 by the European Banking Authority (EBA), i.e. a Core Tier 1 ratio of 9%, as of 31 March 2012. The banks also committed to strategies for the structural adjustment of their balance sheets with a view to adapting to the new liquidity requirements. For instance, in line with the course of action adopted in 2010, they reduced the activities of the corporate and investment banks that use up the most capital and liquidity.

At end-2011 and in early 2012, the ACP focused particular attention on insurance entities holding Greek sovereign bonds and which would therefore be affected by the restructuring of Greek government debt. It also closely monitored how entities recognised the drop in stock market values in their 2011 accounts, by opting or not to set aside provisions (the entities may use, where applicable, line by line depreciation, and must make provision for liability risk if necessary). The 2011 results were analysed in depth and particular attention was paid to the life insurance revaluation rates in order to ensure the correct match with returns on insurers' assets. Against a backdrop of sharp fluctuations in net subscriptions in life insurance, the tools that insurance supervisors put in place to closely monitor flows for individual prudential purposes were also used across the board. The analysis highlighted the continuation in 2012, albeit to a lesser extent, of the decrease in net inflows observed at end-2011. The ACP General Secretariat focused its attention on all the companies using retirement point systems (branch 26), which were especially affected by the trend decline in returns on assets in 2011.

### **3|2 Security of means of payment and market infrastructures**

#### *Security of means of payment*

In accordance with Article L141-4 of the *Monetary and Financial Code*, the Banque de France ensures the security of cashless means of payment. In order to do so, the Banque de France makes assessments and collects any useful information on these means of payment or related technical facilities.

At the national level, the Banque de France persevered in its actions to prevent fraudulent bank card payments: though they account for only 8.4% of national transactions, online bank card payments now make up 61% of fraudulent transactions. The Banque de France assessed the implementation by credit institutions of its recommendations and continued its work carried out with retailers within the Observatory for Payment Card Security,<sup>10</sup> for which it provides the secretariat. In October 2012, the Observatory organised a national seminar on online card payment security which brought together all players actors of the payment chain. The seminar allowed for experience sharing on the ways to prevent fraud more effectively. An outcome of the seminar was the publication of a brochure to raise retailers' awareness on, among other things, the measures they can use to reduce fraud in online payments.

In 2012, the Banque de France actively contributed to the work of the European Forum on the Security of Retail Payments, known as "SecuRe Pay",<sup>11</sup> which sought to make its recommendations on this issue known at the European level. A first report on the security of online payments was published in early 2013. The Forum also tackled the subjects of security of overlay banking services<sup>12</sup> and mobile telephone payments.

The Banque de France continued its technology watch in an environment characterised by increased innovation in the field of contactless payments, prepaid cards, and mobile payments, with mobile phones

being used not only to initiate payments, but also as payment terminals.

### Oversight of market infrastructures

The Banque de France is also responsible for overseeing market infrastructures, whose safety and robustness are prerequisites for financial stability (see below).

In 2012, in collaboration with the competent bodies of the Coordination Committee on the Clearing of Euronext Markets, the Banque de France completed the assessment of the clearing house LCH.Clearnet SA against ESCB/CESR recommendations for central counterparties. It also worked with the International Monetary Fund team assessing France's financial system, and, notably, LCH.Clearnet SA.

In addition, the Banque de France monitored the implementation of the recommendations that it made as a result of its 2011 assessment of the French retail payment system, CORE (FR), managed by STET. CORE (FR) is the largest European retail payment system, in both volume and value terms. As part of the European development of CORE, the Banque de France is also working with the relevant European authorities to put in place cooperative oversight arrangements.

In 2012, as part of the Eurosystem's cooperative oversight, the Banque de France helped to monitor the implementation by EURO1 – a European large-value settlement system – of recommendations issued in line with the core principles for systemically-important payment systems. These recommendations resulted from the assessment of EURO1, which was finalised in 2011.

The Banque de France published in 2012 its report on the oversight of means of payment and financial market infrastructures for the 2009 to 2011 period.<sup>13</sup>

## 3|3 Banque de France actions to preserve financial stability

Enhanced oversight of financial actors, infrastructures and markets enables the Banque de France to fulfil its duties in the area of financial stability.

<sup>10</sup> The Observatory for Payment Card Security was set up by virtue of Act No. 2001-1062 of 15 November 2001 on everyday security. The legal provisions relating to the Observatory are laid down in Article L141-4 of the Monetary and Financial Code. The Observatory's duties make it a body that fosters the exchange of information and consensus between all parties concerned (consumers, retailers, issuers and government authorities) for the smooth functioning of card payment systems.

<sup>11</sup> The "SecuRe Pay" Forum brings together European Union central banks and supervisors with a view to issuing harmonised European security recommendations on the main means of payment risks. These recommendations are then transposed into the national regulatory frameworks of the competent authorities.

<sup>12</sup> Overlay banking services may be services providing access to account data of customers who use multibanking services, or payment services provided by a third-party intermediary.

<sup>13</sup> <http://www.banque-france.fr/stabilite-financiere/infrastructures-des-marches-financiers-et-moyens-de-paiement-scripturaux/missions-de-surveillance/rapports-de-surveillance.html>

Maintaining financial stability requires the analysis and assessment of weaknesses as well as active participation in work to reform prudential regulations and international financial supervision.

Tasks performed by the Banque de France in this area include:

- precise mapping and assessment of financial risks (banking systems, markets, risk of contagion of pressures on sovereign debt, etc.) and their potential consequences on the real economy;
- participating in European and international working groups on regulations, knowledge of financial systems and risk analysis;
- close collaboration with other national (*Autorité des marchés financiers*, etc.) and international (EBA, etc.) regulatory bodies;

- close monitoring of changes in French short-term securities markets;

- oversight of payment systems and means;

- publication of research papers and organisation of academic seminars on financial stability-linked topics;

- annual publication of a thematic *Financial Stability Review* (on public debt in 2012);

- making research accessible and informing the general public, a notable case in point of this is the special issue of *Documents et débats* entitled “The sovereign debt crisis” that was hugely successful.

The Banque de France contributes to the work of the *Conseil de régulation financière et du risque systémique* (Financial Regulation and Systemic Risk Board – COREFRIS), which is chaired by the minister

#### Box 24

##### Contribution to the work of the FSB

The Financial Stability Board (FSB) was set up in April 2009 as a successor to the Financial Stability Forum in order to assess the vulnerabilities of the financial sector at the international level, consider measures to address these vulnerabilities and co-ordinate work by national financial authorities and international institutions.

- In 2012, the FSB continued to execute the reform of OTC derivative markets that was initiated by the G20 to extend the scope of central counterparty clearing, define the prudential system applicable to uncleared transactions and make it easier for them to be supervised by authorities by defining a legal entity identifier participating in these transactions and by requiring mandatory declaration to trade repositories.
- The FSB conducted extensive work on the oversight of the “shadow banking system” (SBS), especially on money market funds, other SBS entities and repos and securities lending. The Banque de France contributed directly to this work.
- The FSB updated the identification system for systemically important institutions and the implementing conditions for the principles of recovery and liquidation of these institutions.

#### Box 25

##### Contribution to the work of the ESRB

The European Systemic Risk Board (ESRB) was set up in December 2010. It is a collegial body that assembles a number of technical sub-groups, supervised by its technical assistance committee and its scientific committee. The Banque de France is represented in all the sub-groups. Thanks to its expertise, it makes proposals on issues addressed by these committees.

- In 2012, the ESRB worked on the shadow banking sectors and on certain specialised financial practices. This work aimed to enhance knowledge of these potentially risk-bearing issues. The Banque de France participated actively in the execution of this work and the analysis of the data collected. In addition, the ESRB mapped the major risks at the European level in detail. The Banque de France made its expertise available to the Committee for this exercise.
- The ESRB highlighted several areas to strengthen financial stability in Europe: need to pursue fiscal consolidation, balance between decreasing risks recorded in banks’ balance sheets and continuing to finance the real economy, and strengthening banks’ financial structure.



of the Economy and was set up to ensure the smooth coordination of the different French institutions dealing with financial stability. COREFRIS' work focused more particularly this year on the reform of banking structures, which was incorporated into the bill on the separation and regulation of banking activities, on the review of the assessment of the French financial sector performed by the International Monetary Fund and on the taxation of savings and the impact that this has on financial stability. The Banque de France and the ACP contributed significantly to the preliminary analyses carried out on these topics and to the actions taken subsequent to the analyses.

The Banque de France is an active participant in international work to restore a financial stability framework that will make it possible in the future to anticipate and contend with the imbalances that led to the financial crisis or amplified its effects. It is therefore at the forefront in developing the guidelines set by the G20 that have been carried forward by the Financial Stability Board since 2009. It is closely associated with the work on financial stability issues conducted by the

Committee on the Global Financial System (CGFS) of the Bank for International Settlements.

At the EU level, the Banque de France and the *Autorité de contrôle prudentiel* both participate in the college of supervisors of the European Systemic Risk Board and also ensure the necessary linkage between prudential supervision requirements and financial stability issues.

### 3|4 Participation in international regulatory bodies

#### European negotiations on the transposition of Basel III (CRD IV)

The year 2012 saw a build-up in European negotiations on the two texts, a Directive and a Regulation (CRD IV “package”), transposing Basel III into European law. Even though the negotiations were not conclusive at the end of 2012,

#### Box 26

#### the CRD IV “package”

Basel III will be implemented in Europe by way of two complementary pieces of draft legislation:

- Capital Requirements Regulation, with direct application in Members States, that covers all Pillar 1 (minimum capital requirements) and Pillar 3 (disclosure requirements) provisions, i.e. the main Basel III rules;
- Capital Requirements Directive, that covers the provisions closely linked to national laws: national governments' powers and responsibilities (authorisation, exercise of freedom of establishment and free movement of services, organisation of prudential supervision, capital buffers and sanctions); requirements on internal control and corporate governance arrangements and remuneration. Unlike the regulation, the directive will have to be transposed into domestic law before it is directly applicable.

As a general rule, both draft texts largely follow Basel III while adapting it to European particularities and issues, such as remuneration frameworks, implementation procedures for various capital buffers (systemic risk buffer, contra-cyclical capital buffer, etc.) or the possibility of enhancing existing capital requirements for counterparty credit risk. Similarly, for the liquidity coverage requirement (LCR) in particular, the draft regulation provides for a first observation period – the Commission will subsequently have a delegated power to publish, following an impact study led by the European Banking Authority, a directly applicable regulation implementing LCR as a binding standard from 2015.

This legislative change marks a crucial step in the strengthening of the European regulatory framework. The date of application of both draft texts will be 1 January 2014. They will be phased in gradually from this date up to full implementation in 2019.

they progressed enough to pave the way for an agreement in the first half of 2013.

In 2012, the ACP, which in 2011 was an active participant in the Commission's technical work preparative to the publication of the draft texts, continued to play a very active role in the discussions in the Council (direct participation by experts in open meetings and technical advice proposed to the Directorate General of the Treasury prior to the Council's policy meetings and the three-way Council/Commission/Parliamentary debates.

Concurrently, the ACP took part in the technical work carried out by the EBA to prepare the many regulatory standards and guidelines that specify some provisions of the Regulation and the Directive and enable the common application of these laws throughout the European Union. While the focus of this work was determining the best prudential solutions, it also took fully into account the particularities of the French banking sector, by way of a wide consultation with the banking industry.

### Preparing for the implementation of the liquidity regulation

In 2012, the ACP conducted quarterly quantitative impact studies within a European framework and on this basis organised regular information sharing with French banks in order to monitor their ongoing adaptation to the future liquidity coverage ratio (LCR). These monitoring exercises highlighted a sharp improvement in the average LCR ratio of French credit institutions since 2010.

In addition, on 6 January 2013 following the intervention of several G20 governors, including the Governor of the Banque de France, the Basel Committee decided to make significant amendments to the LCR.<sup>14</sup> The broadening of the range of assets eligible under the ratio's numerator as well as some slowdown in deposit flight should ease the adjustment constraints weighing down bank balance sheets, while the gradual phasing-in of the ratio<sup>15</sup> should ensure a smooth transition to the new rule over time. The aim of these changes, driven by proactive proposals from the Banque de France and the ACP, is to take better account of credit institutions' real

liquidity and particularly the potential interaction of this ratio with the implementation of monetary policy. It is however possible that the markets could demand an adjustment that is more rapid than the regulation requires.

### Identifying systemically-important financial institutions

Participants at the G20 summit in London in 2009 requested that a framework be defined to identify and supervise systemically important financial institutions (SIFIS). The first step in implementation was the publication by the FSB of a preliminary list of global systemically important banks (G-SIB) at the G20 summit in Cannes in November 2011.

The General Secretariat of the ACP (SGACP) and the Banque de France participate actively in work carried out by the Basel Committee and the International Association of Insurance Supervisors (IAIS) under the aegis of the FSB. They contribute to developing methodologies to identify systemically important institutions as well as to the definition and adjustment of supervisory measures that the different G20 member states are to implement. They also work in collaboration to analyse and compare data collected from the main global financial institutions. In 2012, the SGACP and the Banque de France thus participated in updating the list of G-SIBs published by the FSB on 1 November 2012.<sup>16</sup> They helped to draft "A framework for dealing with domestic systemically important banks".<sup>17</sup> The SGACP also contributed to work on identifying global systemically important insurance companies.

<sup>14</sup> For example: expanding assets eligible for the LCR numerator (BBB corporate bonds, large cap stocks, etc.), slowdown in flight of retail deposits that have a guarantee system (from 5% to 3%) and slowdown in flight of "non-operational" deposits (from 75% to 40%).

<sup>15</sup> The regulatory threshold will be set at 60% as of 1 January 2015, with an annual 10-point increase to reach 100% in 2019.

<sup>16</sup> [http://www.financialstabilityboard.org/publications/r\\_121031ac.pdf](http://www.financialstabilityboard.org/publications/r_121031ac.pdf)

<sup>17</sup> <http://www.bis.org/publ/bcb233.pdf>

Box 27

### Changes in French banks' liquidity in 2012

In 2012, French banks' financing structure progressively evolved towards greater compliance with LCR requirements. The re-opening of the medium-term securities market enabled institutions to finance assets eligible under the LCR numerator with stable resources. French banks, mainly players in corporate and investment banking, also undertook strategies for the structural adjustment of their balance sheets. The implementation of these deleveraging plans thus progressively reduced financing requirements, mainly for US dollar-denominated business, while economic agents' growing preference for liquid assets in times of financial uncertainty led to an increase in deposits from retail customers and made it possible to reduce the share of market financing, which is intrinsically more volatile.

The credit to deposit ratio also continued to drop to a more balanced level due to the aforementioned increase in deposits, combined with a slight contraction in lending in 2012. The ratio reached a 10-year record low, giving French credit institutions more leeway to build liquidity reserves.

Box 28

### IMF FSAP stress tests

On 21 December 2012, the IMF published the results of the assessment of the stability of the French financial system carried out as part of the Financial Sector Assessment Program (FSAP).<sup>1</sup> This assessment, which had been previously performed in 2005, included a stress test exercise conducted by the ACP. The objective was to gauge the resilience of banks and insurance companies in particularly poor macro-economic and financial conditions, at the height of the European sovereign debt crisis.

In practice, the IMF defined the framework for the exercise; the Banque de France specified the macro-economic scenario and the ACP developed the stress test methodology. The exercise itself was then carried out based on banks' and insurance companies' internal models, known as a "bottom-up" exercise, and on SGACP stress models for banks, the "top-down" exercise.

Eight banking groups,<sup>2</sup> representing over 97% of the sector by balance sheet size, took part in the stress test. The results show their ability to withstand a significant deterioration in the economic environment, with all the institutions posting CET1<sup>3</sup> CRD 4 solvency ratios of over 8% under the adverse scenario. In terms of liquidity, the stress test highlighted the relative vulnerability of market financing ("wholesale funding") and also the existence of significant collateral reserves that enable these institutions, by turning to the ECB, to weather long crisis periods (over one year).

In the insurance sector, the 25 companies in the sample accounted for 70% of the life insurance market and 50% of the non life insurance market, with 12 and 13 companies each respectively. The insurance companies assessed the impact over a one-year horizon of liquidity, market and insurance stress on their solvency margins. The findings show that life insurance companies are only slightly affected under the adverse scenario due to their significant ability to absorb losses through profit-sharing mechanisms. For general insurance companies, which do not have these mechanisms, the greater impact of the adverse scenario did not jeopardise their solvency, due to their generally high initial solvency ratios.

<sup>1</sup> <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40187.0>

<sup>2</sup> BNP Paribas, Société Générale, Crédit Agricole Group, BPCE Group, Crédit Mutuel Group, La Banque Postale, HSBC France, and Caisse des Dépôts et Consignations. The Caisse des Dépôts et Consignations was not included in the findings published.

<sup>3</sup> Common equity Tier 1.

### Oversight of financial market infrastructures

The financial crisis highlighted the lack of transparency of OTC derivative markets and the benefit of using central counterparty clearing, which helps to lower counterparty risk, for these types of transactions. In line with G20 commitments of September 2009, central counterparty clearing was made mandatory for all standardised derivatives in the European Union, in accordance with rules defined in the European Market Infrastructure Regulation (EMIR) and adopted in July 2012.

EMIR includes rules on reporting and clearing requirements for eligible derivatives, supervision, risk management and governance of clearing houses and trade repositories. In 2012, the Banque de France contributed to the working groups that developed the technical standards on financial clearing houses and mandatory registering of transactions in trade repositories under the aegis of the European Securities and Markets Authority (ESMA) and in cooperation with the ESBC. The technical standards were finalised in September 2012.

At the international level, the Banque de France participated in work to strengthen the norms applicable to all financial market infrastructures (central counterparties, central securities depositories, securities settlement systems, payment systems and trade repositories). This work, carried out with the Committee on payment and settlement systems and the International Organisation of Securities Commissions (CPSS-IOSCO), led to the enactment of Principles for Financial Market Infrastructures (PFMIs), published in April 2012.

With the *Autorité des marchés financiers du Québec*, the Banque de France co-chaired the CPSS-IOSCO working group charged by the Financial Stability Board to define the principles on access by regulatory authorities to data on OTC derivatives transactions stored in trade repositories. The Banque de France is also a member of the OTC Derivatives Regulators' Forum. The Forum was set up in 2009 and is comprised of central banks, banking supervisors and market regulators from several countries which cooperate to develop consistent approaches to regulation of OTC derivatives.

### 3|5 International cooperation

The Banque de France's international cooperation covers two main areas:

- technical assistance;
- training employees of foreign central banks and supervisory authorities.

There are three strands of technical assistance:

- bilateral action through the hosting of foreign visitors in France and the dispatching of Banque de France expert missions to central banks and supervisory bodies abroad;
- participation in assistance programmes on European financing for countries acceding to the EU or as part of the European Neighbourhood Policy. The Banque de France is for instance heading a European twinning programme with the Central Bank of Tunisia. The aim of this programme is to equip the Central Bank of Tunisia with updated analysis and forecast tools for conducting monetary policy;
- participation in missions led by the IMF or the World Bank.

The Banque de France's technical assistance activities (5 missions, 31 study visits in 2012 and 122 visitors hosted) focused mostly on French-speaking countries in the Maghreb and sub-Saharan Africa, and on central and eastern Europe. The areas of activity covered were monetary policy, prudential supervision, security of payment means and financial stability.

In addition, in 2012, the Banque de France organised 17 training seminars in France and 22 abroad for 556 employees of central banks and foreign supervisory authorities. Training course participants came almost equally from French-speaking countries, new European Union Member States, large G20 emerging economies and the rest of the world. Training topics were monetary policy, statistics, financial stability, prudential supervision and central bank management.







# Governance, strategy and management

MEMBERS OF THE EXECUTIVE COMMITTEE (ON 15 MARCH 2013)

*From top to bottom:*

**Michel Cardona**

*Deputy Secretary General, Committee Secretary*

**Hervé Le Guen**

*Director Legal Affairs*

**Nicolas de Sèze**

*Director General of the IEDOM  
and the IEOM*

**George Peiffer**

*Director General  
Banknote Manufacturing*

**Frédéric Peyret**

*Director General  
Human Resources*

**Jacques Fournier**

*Director General Statistics*

**Danièle Nouy**

*Secretary General of the Autorité  
de contrôle prudentiel*

**Didier Elbaum**

*Comptroller General*

**Marc-Olivier Strauss-Kahn**

*Director General Economics  
and International Relations*

**Anne Le Lorier**

*First Deputy Governor*

**Christian Noyer**

*Governor*

**Robert Ophèle**

*Second Deputy Governor*

**Nathalie Aufauvre**

*Secretary General*

**Henri Jullien**

*Director General  
Cash Management  
and Branch Network Activities*

**Denis Beau**

*Director General Operations*

**Pierre Jaillet**

*Director General,  
Governor's Special Advisor*



## 1| GOVERNANCE

### 1|1 Executive bodies

#### The 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. The Governor and the Deputy Governors are appointed by decree by the Council of Ministers for a six-year term, which may be renewed once. At the Council of Ministers meeting of 28 October 2009, Christian Noyer was reappointed as Governor of the Banque de France upon a proposal by the Prime Minister for a second six-year term starting on 1 November 2009.

The Banque de France's independence is reflected in the independence of its Governor (who is also a member of the Governing Council of the European Central Bank – ECB) and of its Deputy Governors. In accordance with Article L 141-1 of the *Monetary and Financial Code*, the Banque de France, represented by its Governor and Deputy Governors, shall neither seek nor accept instructions from the government or any other body in the performance of the tasks arising from its participation in the European System of Central Banks (ESCB).

The Governor is responsible for the executive management of the Banque de France. He chairs the Executive Committee, which is composed of the heads of the different business areas, and the Careers Committee, which gives its opinion on the appointment of the Bank's senior executives.

The Governor is also Chairman of the *Autorité de contrôle prudentiel* (ACP – the Prudential Supervisory Authority), the Banking Mediation Committee, the Observatory for Payment Card Security and the Observatory for Regulated Savings.

#### The Executive Committee

Both in its plenary and reduced form, the Executive Committee is at the heart of the Banque de France's operational functioning. It constitutes the

forum in which the Bank's managers exchange their viewpoints on all subjects of common interest in order to facilitate the collegial decision-making process. The Executive Committee, which is chaired by the Governor, is composed of the Deputy Governors, the Directors General, the Deputy Secretary General for Strategy and the Legal Affairs Director. With a view to increasing integration with the Banque de France, the Director General of the *Institut d'émission des départements d'outre-mer* (IEDOM – the French overseas departments note-issuing bank) and of the *Institut d'émission d'outre-mer* (IEOM – the French overseas note-issuing bank) is also a member of the Executive Committee.

The Executive Committee examines issues relating to the Bank's strategy and internal management. Its meetings may be prepared, if necessary, by smaller committees involving the managerial staff directly concerned. It may also meet as a Careers Committee to express an opinion on the appointment of head office managers and regional managers.

#### Operational management bodies

Two bodies play a crucial 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, advises the latter on the Bank's portfolio investment strategy (for both euro- and foreign currency denominated portfolios). In particular, it examines the volume of investments, their allocation by asset class and their investment horizons.

The Risk Committee, chaired by a Deputy Governor, lays down the risk framework under which market operations are conducted for the Bank's portfolios as a whole. In this regard, it maintains the list of authorised issuers, countries and instruments, validates the methodologies for measuring risk and the performance of market activities, ensures that the risk limits for these operations are complied with and examines the audit, control and activity reports relevant to its field of competence.

The Bank's support functions are also managed on a collegial basis, through two committees placed under

Box 29

## The Banque de France in 2012





the aegis of the Secretary General: the IT Strategy Group, which is responsible for defining the Bank's short-and medium-term policy with respect to IT investment, and the Real Estate Investment Committee, which is in charge of managing the Bank's property assets.

### The branch network and College of Regional Managers

The Banque de France network currently has 96 departmental branches (including 22 regional head offices), linked to which are 21 economic centres and seven household debt centres. Services related to managing currency in circulation are carried out at 66 of these facilities and at four specialised centres.

To facilitate user access to the public services provided by the Banque de France (household debt, access to payment incident databases, right to a bank account), 85 customer service and information offices have been opened in towns where the Banque de France does not operate permanent units that are open to the public. These offices, operating on a non permanent basis, are typically located on the premises of other public institutions, such as *sous-préfectures* and town halls.

Individuals wishing to contact the Bank about these services may also do so by writing, calling and, in some municipalities, using interactive kiosks.

The Banque de France's branch network has two organisational levels:

- the regional level, with a regional manager (i.e. the manager of the branch in the region's administrative capital) coordinating and supervising the activities of the branches in the region's various *départements*, and ensuring the consistency and quality of the work carried out;
- the *département* level comprising the departmental branch and, in some cases, other associated specialised units, which are responsible for implementing the objectives assigned to the branch network, working closely with the Banque de France's usual partners (banks, companies, private individuals, local authorities and administrative bodies).

The regional manager is also in charge of HR and budget management and is responsible for management control for the region. Regional managers are assisted by centres of expertise and a specific unit in charge of supervising operations and procedures called the Regional Risk Monitoring and Control Division.

In view of their responsibilities, the regional managers are the primary contacts for the Bank's senior executives regarding questions relating to the branch network. The College of Regional Managers, chaired by the Director General of Cash Management and Branch Network Activities and his Deputy, holds meetings every two months, which are also attended by the five regional inspectors.

## 1|2 Decision-making and control bodies

### The General Council

Pursuant to Article L142.3 of the *Monetary and Financial Code*, the General Council comprises the Governor and the two Deputy Governors, two members appointed by the President of the Senate, two members appointed by the President of the National Assembly, two members appointed in the Council of Ministers upon a proposal by the Minister of the Economy, the Vice-Chairman of the ACP and a representative elected by Banque de France staff.

A Censor, or his/her alternate, appointed by the Minister of the Economy, represents the French State. The Censor attends the General Council's meetings and may submit proposals and block any decisions.

The General Council performs the main functions of a board of directors at the Banque de France. It deals with issues relating to the management of activities that are not within the remit of the ESCB. It defines the terms of employment of the Bank's staff, which are submitted for approval to the relevant ministers, and it determines the rules applicable to the Bank's staff in areas where the provisions of the French *Labour Code* are incompatible with the Bank's statutes or the public service tasks for which it is responsible. The General Council decides on the use of the Bank's own funds.

It also draws up the Bank's budgets and annual accounts and makes proposals for the allocation of profits and the State's share of the dividends.

In accordance with the above-mentioned principles, the General Council is notably responsible for discussing the Banque de France's short- and medium-term strategy. Each year, it examines the business plan for the following year and reviews the progress of the major projects underway. It ensures that the Banque de France has the resources it needs to perform the tasks with which it has been entrusted in the framework of its participation in the ESCB.

As is the case for the Bank's Governor and Deputy Governors, the other members of the General Council are also independent: Article L142.3 stipulates that the General Council shall ensure that the professional activities performed by its members are consistent with the principle of the independence of the Banque de France.

## The Audit Committee

The Banque de France's Audit Committee was created by a decision taken on 22 October 2004. Its Chairman is appointed by the General Council upon a proposal of the Governor and its Secretariat is provided by the Comptroller General.

In accordance with Directive 2006/43/EC of 17 May 2006, the Audit Committee is charged with informing the General Council about issues relating to financial reporting, external and internal auditing, internal control and risk management. In all of these fields, the Audit Committee may interview any Banque de France manager and the Bank's auditors.

In 2012, the Audit Committee met four times. It focused most of its attention on the following areas:

- financial reporting: the Bank's auditors presented their report to the members of the Committee on the 2011 annual accounts;

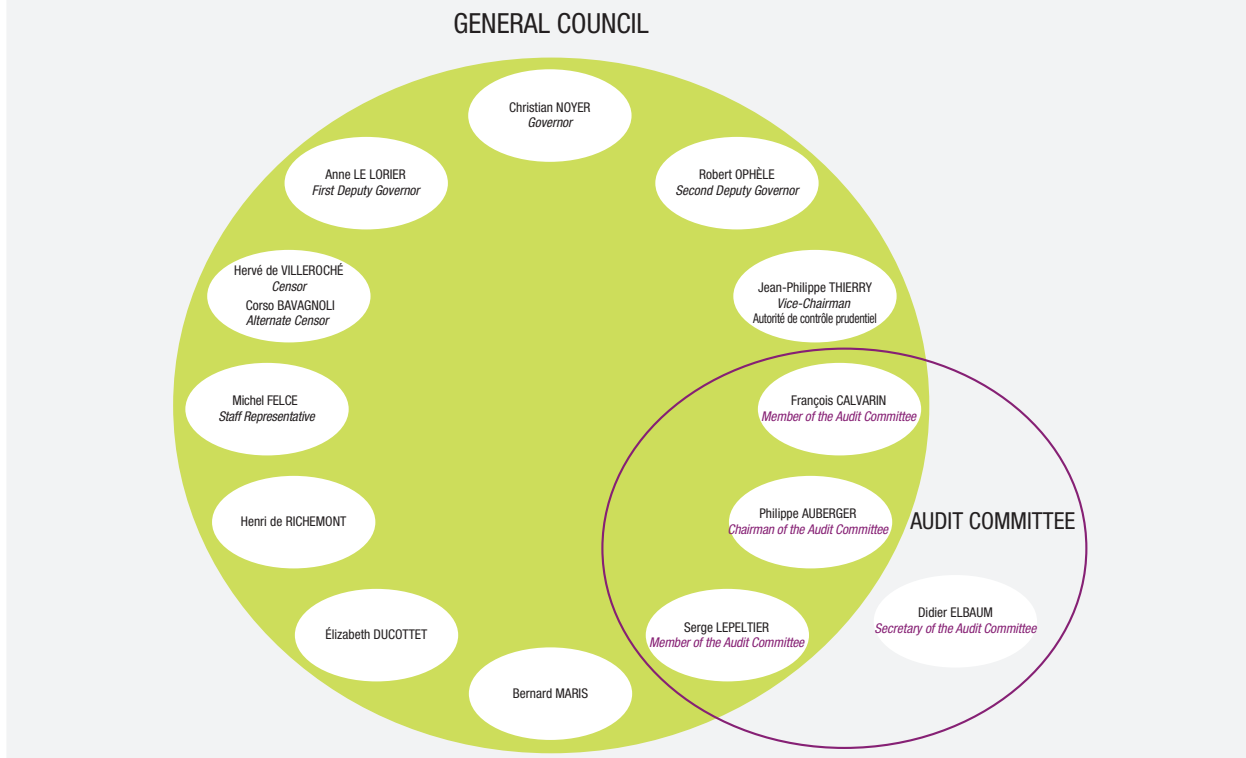


THE GENERAL COUNCIL (ON 15 MARCH 2013)

*From left to right:*

Michel Felce ; Henri de Richemont ; François Calvarin ; Serge Lepeltier ; Anne Le Lorier ; Christian Noyer ; Robert Ophèle ; Jean-Philippe Thierry ; Philippe Auberger ; Hervé de Villeroché ; Élisabeth Ducottet ; Bernard Maris

### The General Council and the Audit Committee



- internal auditing: the Audit Committee took note of the main conclusions of internal audits and the progress report on the action plans drawn up by the audited units. It also examined and approved the audit programme for 2013;

- internal control and risk management: the Audit Committee took note of the main findings of the procedure for the identification of operational risks and examined the risk management system implemented for several activities or processes, mainly within the Directorate General Operations.

#### Compensation Committee

Created by a General Council decision dated 12 March 2010, the Compensation Committee comprises two members of the General Council appointed by the Bank's Governor. Its task is to examine the remuneration received by the Bank's senior management.

## 1|3 Internal Audit and risk management

### Internal Audit

Internal Audit has competence for all of the Bank's units, processes and activities. It conducts its tasks at the Bank's head office, at the regional administrative centres and throughout the branch network, and its organisation is structured accordingly. Internal Audit establishes its annual work programme using a risk-based approach. Its primary task, in accordance with the terms of its charter, is to ensure the quality and efficiency of management, risk control and internal control processes within the Bank. By helping the Bank to attain its objectives, Internal Audit contributes to enhancing corporate governance. With regard to both the organisation and conduct of its audit missions, Internal Audit complies with the international standards for the professional practice of

internal auditing as defined by the Institute of Internal Auditors (IIA).

The work of Internal Audit is also conducted 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), which meets several times a year at the ECB. Together with their counterparts at the other national central banks (NCBs) and the ECB, they draw up the ESCB's audit programme and oversee the conduct of audits. The Banque de France continues to chair the working group responsible for defining the risk control framework applied to the Eurosystem's activities. The IAC sends the findings of its work to the Audit Committee and the ECB Governing Council.

A large number of delegations of internal auditors from issuing banks in French-speaking countries attend training sessions in Paris, while Banque de France inspectors conduct technical assistance missions abroad.

The Banque de France's Comptroller General plays an important role in coordinating the network of internal audit managers of the central banks of French-speaking countries. After organising conferences in Paris

in 2008, Rabat in 2009, Beirut in 2010, and Dakar in 2011, the network met once again in Paris in 2012.

## Risk management

Since 2006 the Banque de France has been using a system for the control of operational risk (the AMARIS method) that satisfies a twin objective:

- strengthening internal control by assessing all operational risks as well as the internal control mechanisms and action plans aimed at reducing these risks;
- adopting the best practices in place within the ESCB and those recommended by the Basel Committee in this area.

In addition, for risks relating to its information system the Bank has adopted organisational procedures, a methodology and assessment procedures similar to those adopted by the ESCB.

The risk management organisation is decentralised and is structured as follows:

- within the Risk Prevention Directorate, which reports to the Comptroller General, one unit is responsible for structuring a common approach to risk analysis and management for all the directorates general; another unit performs the role of IT system security manager;
- in each directorate general, a risk manager is in charge of updating the mapping of operational risks and assisting in the implementation of risk-reduction action plans; similarly, in each regional branch, a risk management and control unit contributes to these efforts;
- the Internal Control Coordination Committee supervises the functioning of the operational risk management system. It is chaired by the Comptroller General and comprises the Directors General, the Legal Affairs and Audit Directors and risk managers;
- each year, the report on consolidated operational risks is presented to the Executive Committee and the Audit Committee.





## 2| BUSINESS STRATEGY

The Treaty on European Union, the Statute of the European System of Central Banks (ESCB) and French national legislation provide a robust and lasting foundation for the tasks of the Banque de France. However, these tasks are conducted in an ever-changing environment: economic globalisation, changes in the financial sector, European integration, and the enlargement of the Eurosystem are all having a profound impact on the exercise of these tasks.

The Bank's Executive Committee conducted discussions to decide how the Banque de France might look in 2020. These talks aimed to establish a framework for the Bank's future strategic plans, and particularly the 2013-2015 three-year plan. Significant steps were taken in this direction in 2012.

The Executive Committee identified three key challenges that will play a decisive role in shaping the Bank's medium-term future:

- transform the Bank's organisation and operating methods by 2020;
- continue efforts to strengthen the Bank's capital structure;
- consolidate the Bank's influence in France, Europe and the rest of the world.

### 2|1 Transform the Bank by 2020

The Banque de France of the 2020s needs to be a flexible and responsive institution. It must be more efficient in its internal operating and collaboration methods. And it must be a modern Bank that embraces the digital era and harnesses the formidable development of new technologies to focus the actions and expertise of its employees on the activities that represent the Bank's real value added for external counterparties and customers.

The Executive Committee has expressed confidence in maintaining the Bank's extended scope of missions;

these constitute a coherent and robust whole that has proven its value in the financial crisis.

Changes in the Bank's demographic profile over the next decade will be a key factor in the institution's development: between the start of 2012 and the end of 2020, more than 40% of current staff will leave the Bank. This represents a challenge for the Bank to undertake a major overhaul of its organisation, processes and methods of operation and collaboration. It will also have to recruit at levels not seen in recent years to secure the personnel needed to build the Bank's future, considerably rejuvenating its workforce in the process.

Some measures have already been set in train to modernise the network, optimise operating processes and methods and implement the "Digital Plan".

#### Modernise the network

In mid-September 2012, the Governor outlined the main principles of the project to optimise the Bank's territorial organisation, which include:

- maintaining a permanent presence in each département, in principle in the administrative capital. Departmental coverage has proved both necessary and effective during the crisis. Regional branches will continue to handle operational management of the network;
- promoting networking and increased specialisation of the Bank's sites to meet the need for expertise and optimise management. Each region has at least one shared business centre and one household debt centre;
- harnessing the resources provided by communication technologies to enhance the services provided: household debt files can be directly entered in a database and people can track progress in their case; more and more exchanges with companies will be conducted online.

The reorganisation project has three main goals for cash services:

- take account of changes to cash circuits and the forecast decline in processing volumes for the Bank

owing to the steady increase in the size of denominations used (particularly EUR 50 notes) and the controlled increase in banknote recycling by the cash industry;

- pave the way for effective industrial processing, with the replacement of sorting equipment and the creation of new currency management centres (NCMCs) in custom-built facilities;
- maintain sufficiently close-knit coverage to deliver the Banque de France's currency management services nationwide; this warrants keeping more remote cash centres open in exceptional cases, despite lower volumes of business.

These principles acted as the basis for consultations with labour representatives in the context of negotiations

within the Central Works Committee, Health & Safety Committees and the Local Works Committees in the regions. These talks are expected to lead to the signature of a company agreement in 2013 on the changes to be introduced over the next three years (2013 to 2015), which include:

- shrinking the branch network and supporting affected staff through a job protection plan;
- introducing mobility incentives to facilitate plans to consolidate currency management activities in the coming years;
- establishing long-term temporary staffing teams to manage workforce imbalances across different units during the transition.

### Box 30

#### Programmes to modernise the branch network

##### New currency management centres programme

The new currency management centre (NCMC) project is designed to introduce an industrial model for currency management processes by building modern, highly-automated facilities devoted to the maintenance of banknotes and coins. Two new centres are scheduled to open: one in the Île-de-France region and the other in the Nord-Pas-de-Calais region.

In the Nord-Pas-de Calais region, the project is underway, with delivery of a secure facility at the Sainghin-en-Mélantois location (south of Lille) scheduled for end-2015. In the Île-de-France region, a site in the Courneuve municipality (near Paris) was acquired in early August 2012. The programme was approved at end-2012 to go into the implementation phase, with final delivery scheduled for early 2017.

##### Programme to modernise sorting activities

This project is intended to modernise the Banque de France's banknote maintenance activities, which handle some seven billion notes annually through currency management facilities located nationwide.

The goal is to overhaul and modernise the existing equipment and upgrade banknote sorting processes to make them more industrially and logistically efficient, while also seeking to significantly enhance employee working conditions.

In 2012, the main focus was to carry out the preliminary studies, which resulted in broad recommendations on budgets, equipment and organisation. A Europe-wide call for bids is now being prepared to acquire sorting equipment and the main peripherals, with a view to replacing virtually all the machines between 2015 and 2020.

##### Programme to modernise currency management IT

Building on the Interop project, which introduced traceability for cash exchanges with cash-in-transit firms, the Banque de France is working via the TROCAD€ project to enable end-to-end logistics traceability of cash during processing at currency management centres. In 2012, TROCAD€ entered the general design phase; stage one saw the introduction of traceability for new banknotes and pooling between central banks, which is required as part of the release of the new series of euro banknotes beginning in 2013.

## Optimise operating processes and methods

Network activities are not the only ones in which substantial changes must be considered. Among the support functions, several projects have been initiated to

### Box 31

#### Re-engineering information systems for banking services

##### Atena project

This project forms part of the drive to modernise the banking services provided to the Bank's institutional customers, and particularly the Treasury, which is its main customer in this area. To meet ambitious objectives in terms of scalability, quality of service provided and control of the overall information system, it was decided to overhaul the current application used to keep accounts in euro and the associated online banking solution.

The Atena project is divided into three applications:

- an application for keeping accounts in euro, which is used to offer value added cash management services that are tailored to customer needs (time deposits, end-of-day investments, end-of-day account pooling and central cash management in real time);
- an online banking solution offering a broad range of services including interactive order placement by customers;
- centralised and cross-functional management of information returns and billing items for customers.

This new service will be gradually deployed in 2014.

##### Trefle project

Modelled on the systems introduced by most commercial banks, Trefle is designed to modernise the Bank's platform for banking communications with its institutional customers by centralising exchanges of payment instrument flows, irrespective of the technical channel used.

The new system will allow the Bank to improve the services provided to its customers, particularly by making it easier to monitor and take action on remittances (modification or cancellation before presentation to exchange systems). It will be gradually phased in through to early 2015.

streamline and optimise the Bank's internal operations. Examples include administrative management of human resources, which has an ongoing paperless project, and centralised paperless processing for invoice management. In both cases, the aim is to streamline the processes linked to purely administrative tasks to allow support functions to concentrate on services with greater value added.

Likewise, re-engineering measures are under consideration or underway in most operational business areas. These initiatives are chiefly focused on outsourcing tasks with low value added, identifying ways to simplify administrative processes, and

### Box 32

#### A development strategy to ensure an overall level of competitiveness within Banknote Manufacturing

The Banknote Manufacturing strategy has two objectives:

- manage a technologically and financially outstanding industrial unit, under the supervision of the Banque de France;
- remain the number-one manufacturer of euros and ensure the resilience of the new banknote supply chain within the Eurosystem.

Specifically, the strategy is based around three key areas:

- at the industrial level:
  - on the printing side, complete the automation of industrial processes and take advantage of large numbers of retirements scheduled for the coming years to achieve industry-leading productivity levels,
  - on the paper manufacturing side, optimise management and results following a new approach based on modernising production facilities;
- at the economic level: ensure that the cost of supplying banknotes is structurally equivalent to market prices for the Banque de France and its partner central banks;
- at European level: be the lynchpin in consolidation efforts by public institutions involved in printing banknotes within the Eurosystem.

integrating new technologies. Banking services and banknote manufacturing offer two emblematic examples of an approach that is to be rolled out on a Bank-wide basis.

### Implement the Digital Plan

The Digital Plan is a central plank in the plan to transform the Bank, providing the technological and organisational base for the initiatives needed to restructure the network, re-engineer support functions and rationalise operating activities. Above all, it is designed to promote changes in internal operating methods and, in so doing, transform the Bank's corporate culture. There are multiple challenges:

- go beyond simply automating processes to ensure genuine value creation in the services provided to the community and outside partners/customers;
- respond more effectively to the growing demands of our environment in terms of flexibility, responsiveness and local presence;
- improve overall efficiency and achieve expected productivity gains;
- promote independence, collaborative approaches, cross-functional operation and better circulation of information, with more ergonomic and open workstations.

These objectives are necessary to mobilise stakeholders and achieve the ambitious transformation that will be set in train to consolidate the Bank's position through to 2020. The Digital Plan was launched in the first half of 2013 and will be gradually implemented during execution of the Bank's transformation plan.

## 2|2 Continue efforts to strengthen the Bank's capital structure

Strengthening the Bank's capital structure was one of the strategic objectives for the 2008-2012 period. This will remain a strategic priority over the coming years as the financial crisis has amply demonstrated the importance of resilience.

There are three aspects to the drive to strengthen the capital structure:

- bolster own funds, particularly the fund for general risks (to keep step with the increase in risks linked to monetary policy operations, in a context of persistent stress; cf. 4|4|1 Strengthening the capital structure)
- cover pension liabilities;
- control expenses.

The coming changes will require major investments. Thanks to rigorous management of its resources over recent years, the Bank is in a position to invest in building its future and to ensure that these changes occur in the best possible conditions.

A stronger capital structure is also a necessary condition for the Banque de France to keep the implicit pact with employees and ensure the sustainability of a social model that has proved its efficacy, with a consolidated pension scheme and employee welfare system and long-term financing for social activities managed by works councils.

## 2|3 Strengthen the Bank's influence

Being an influential central bank that makes its voice heard in discussions, that makes proposals and that is active is an ambition included in the first three areas of the Bank's strategic framework, which are to buttress our position in the Eurosystem, be a major player in financial stability and contribute to the smooth functioning of the economy. Strengthening influence will remain a key challenge in the years ahead to ensure that the Bank continues to play its full role in a setting that has been radically changed by the crisis.

### Buttress the Bank's position in the Eurosystem

The need for efficient management of the Eurosystem's resources, together with increasing European integration, raises the question of the position of each of the national central banks. As the



central bank of the second-largest economy in the euro area, the Banque de France has chosen to be an influential central bank, making its voice heard in the decisions of the Eurosystem and playing an active part in its main projects.

### Wielding influence in monetary policy decisions

The Banque de France has set itself the goal of being influential in the monetary policy decision-making process. Within the Eurosystem, as in economic discussions at national and international level, the Banque de France's positions on monetary policy, structural reforms or international regulation will be all the more robust if they are underpinned by internationally-recognised research work that enables the Bank to develop an autonomous capacity for analysis and effective assessment, analysis and forecasting tools. This independence is combined with partnerships with some of French foremost research centres, including Toulouse School of Economics, Paris School of Economics and Sciences Po.

This capacity for analysis and research is reflected in the Banque de France's rating in the Eurosystem, where it ranks third behind the ECB and the Banca d'Italia according to the Ideas ranking, which looks at the quality of publications by institutions in leading reviews.

### Contributing to the implementation of European projects

Since the creation of the Eurosystem, the Banque de France has constantly been involved in the major shared infrastructure projects. Some of these projects have already been completed, including the TARGET2 system project, which the Banque de France co-led with Deutsche Bundesbank and Banca d'Italia, and, more recently, delivery of the Common Eurosystem Pricing Hub (CEPH, see the Chapter on "Tasks and activities of the Banque de France in 2012").

This strategy of being part of the Eurosystem's major technical achievements is being pursued through other common projects, including banner initiatives such as TARGET2 Securities and efforts with Banco de



España to develop a common platform for managing market operations (MAPS project).

### Be a major player in financial stability

The financial crisis has underscored the need for central banks and supervisors to play a greater role in ensuring the stability of the global financial system. With the establishment of the *Autorité de contrôle prudentiel* under the aegis of the Banque de France, France now has a solid supervisory framework and a high level of visibility on the potential systemic risks facing financial systems. From these strong foundations, the Banque

Box 33

### **TARGET2 Securities project**

The TARGET2 Securities (T2S) project seeks to create a single pan-European technical platform for settlement of securities transactions. T2S covers the settlement function currently provided by central securities depositories (CSDs). It is intended to address the current fragmentation of settlement infrastructures in Europe. With an integrated model (securities and dedicated cash accounts on the same platform) for securities settlement in central bank money in euro and some other European currencies, the platform is to be launched, in several waves, by mid-2015.

The ECB Governing Council, which is the senior governance body, decides on the project's strategic guidelines. The T2S Programme Board, the project's steering committee, submits proposals to the Governing Council on strategic guidelines and manages relations with market participants. The T2S stakeholders are represented in several bodies: the Advisory Group, which includes representatives from banks, CSDs and NCBs and aims to ensure that T2S fully meets the needs of the market; National User Groups (NUGs), which act as the local contacts for the project; and the CSD Steering Group, which supports the decision-making process by providing the Eurosystem with the CSDs' common position on T2S matters.

2012 was given over to finalising the framework agreement between the Eurosystem and CSDs. The agreement was signed before the 30 June 2012 deadline by 22 CSDs belonging to 19 European Union (EU) countries. Furthermore, the Currency Participation Agreement between the Eurosystem and the central banks of participating non-euro area countries, governing the rights and obligations of the Eurosystem and non-euro area central banks regarding the settlement in T2S of trades in currencies other than the euro, was signed by the Danish central bank, thus rendering Denmark's national currency, the krone, eligible from 2018.

Also in 2012, work was stepped up on harmonising post-trade procedures among European countries, which is necessary to reap all the benefits of T2S, notably with respect to cross-border operations. In addition, NUGs were involved more closely to prepare for the migration process.

At the IT level, by the end of 2012, the four NCBs (Banque de France, Deutsche Bundesbank, Banca d'Italia and Banco de España) in charge of building and operating the platform had developed more than 95% of the software. Functional testing began on schedule.

Box 34

### **MAPS project**

The Bank's Executive Committee gave the go-ahead to launch the Market Activities Processing System (MAPS) project in early December 2012. This project, which is being conducted by the Banque de France in partnership with the Banco de España, with shared development and operating costs, aims to replace the systems currently used by the two central banks to process market operations.

As part of an agreement signed by both institutions at end-November 2012, the Banque de France is responsible for managing the project and coordinating the functional teams, while the Banco de España coordinates the technical teams. During the project's preparation phase, the Bank will be responsible for conducting the tender in order to select the software supplier of the future system on behalf of the two central banks.

The new system is scheduled to go live in Q1 2016 at the Banco de España and in Q3 2016 at the Banque de France. Subsequently, it is intended to be used by other ESCB central banks.

de France must continue to put forward regulatory proposals and seek to ensure a sound balance between the security of financial systems and the financing of the economy.

### An institutional response to financial stability challenges

Increased international work on financial stability, the establishment of the G20's Financial Stability Board (FSB) as an association, the creation of new European institutions such as the European Systemic Risk Board (ESRB) in 2011 and the future Single Supervisory Mechanism (SSM), and France's Bill on Separating and Regulating Banking Activities<sup>18</sup> are going to have a major impact on the Banque de France's activities in the area of financial stability.

The Bill on Separating and Regulating Banking Activities amends the tasks of the Banque de France to give it an explicit mandate in the area of financial stability. As part of this, the Bank will formally contribute, alongside the new Financial Stability Council (CSF), to the stability of the financial system, to the identification and monitoring of risks to the financial system and to the implementation of measures required by the CSF. The Governor of the Banque

de France may also make proposals relating to capital requirements and credit standards.

### Prudential supervision challenges

Laying the groundwork to implement the new CRD 4 package and Solvency II regulations is vitally important both in the banking and insurance sectors, with the success of any prudential reforms riding on the quality of regulatory standards, but also on the ability of participants to which they apply to comply with them once they are in force. In the banking sector, which now has a stable prudential framework following the adoption of the CRD 4 package, the ACP will be responsible for building on measures taken in recent years to make sure that credit institutions maintain capital and liquidity trajectories that can ensure full compliance with the future rules. In the insurance sector, while pursuing long-standing efforts to raise awareness and prepare the market, the ACP will contribute to the European work needed to finalise the measures linked to Solvency II, including on the calibration of margin requirements for long-term guarantees.

The implementation of provisions contained in the draft legislation on separating and regulating banking activities will be another key challenge for the ACP, which is set to become the ACPR (authority for prudential supervision and resolution), with extended powers in crisis resolution and governance oversight consistent with international standards. The ACPR will play a central role in ensuring that banks properly apply provisions covering the separation of market activities that are not conducted to meet customer needs. Similarly, the Banque de France and the ACP plan to play an active part in the future arrangements for systemic risk prevention provided for by law.

As regards the SSM, which marks the first step on the way to establishing a European Banking Union, the Banque de France and the ACP will continue to be extremely active in the preparatory projects conducted under the supervision of the Commission and the ECB (covering areas such as establishing a regulatory framework for the different roles performed by the ECB and national authorities, drafting an operational guide to the organisation of supervisory activities, and setting up data flows) to ensure that the system is successfully established in 2014.

#### Box 35

#### The Financial Stability Council

The new Banking Bill is designed to establish the Financial Stability Council (*Conseil de stabilité financière* – CSF) as France's national macroprudential authority. The new council will have powers to issue binding measures,<sup>1</sup> including on capital requirements and credit standards, and will be entrusted with monitoring and preventing systemic risk by issuing opinions and recommendations. It will also ensure cooperation and information-sharing between the institutions whose representatives sit on the council. The CSF will cooperate with equivalent authorities in other EU Member States and competent European institutions.

<sup>1</sup> The current body, COREFRIS, can issue opinions and recommendations but does not have binding powers.

<sup>18</sup> Presented in the Council of Ministers on 19 December 2012.





### Enhanced assessment of the French economy

To ensure that it always has adequate data to inform its decisions on monetary policy and financial stability, the Banque de France regularly upgrades its statistical apparatus, particularly to accommodate changes requested at the level of the Eurosystem.

Concrete measures to expand data collection to new areas are providing the Bank with an extensive assessment of all economic sectors. Priority targets have been identified, including in online retailing, property and market financing. Once this work is complete, the Bank will be able to offer targeted statistical assessments that are useful both to it and to national public policymakers (see Box 36).

### Contribute to the orderly operation of the economy

Credit mediation and the extended powers granted to household debt commissions are tokens of confidence in the expertise of the Banque de France and in its ability to promptly carry out new tasks for the benefit of non-financial economic agents. The Banque de France must make itself worthy of this confidence, by pursuing its efforts to serve the nation in a range of areas, including protecting and modernising payment

#### Box 36

##### **Measures in the Economic Modernisation Act paved the way for more refined assessment of enterprises**

The Economic Modernisation Act stipulates that the notion of an enterprise should not be conflated with that of a legal unit, but should comply with the definition given in Council Regulation (EEC) of 15 March 1993, namely the smallest combination of legal units that is an organisational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources.

For the implementation of the law, a decree<sup>1</sup> states that the data used to determine business categories should comprise headcount, revenues and total assets. Based on thresholds set for these variables, enterprises are classified as small and mid-sized enterprises (SMEs, including very small enterprises), mid-tier firms and large enterprises.

The Bank has undertaken statistical work to bring the national credit statistics to be published from May 2013 onwards into line with these definitions. The new definitions, and the introduction of the new category of mid-tier firm, will lead to a revision of the current scope of SMEs and large enterprises, phase out the notions of “SMEs belonging to a group” and “holdings and/or business administrators” and circumscribe the notion of “property activity”.

<sup>1</sup> Decree 2008-1354 of 18 December 2008 on criteria used to classify enterprises for the purposes of statistical and economic analysis.

instruments, enhancing its assessment of the economy and strengthening ties to citizens through communication and financial literacy initiatives targeting the general public.

### Protecting and modernising payment instruments

Efforts to protect and modernise payment instruments are key to ensuring orderly currency circulation and represent an important area of development for the Bank.

Measures covering banknotes and coins are focused mainly on improving the quality of notes and coins in circulation. In this regard, the phased-in introduction of a new, more secure, range of banknotes that are harder to forge is a major initiative for the Bank and the Eurosystem as a whole.



## Box 37

### Implementation of the Single Euro Payments Area (SEPA)

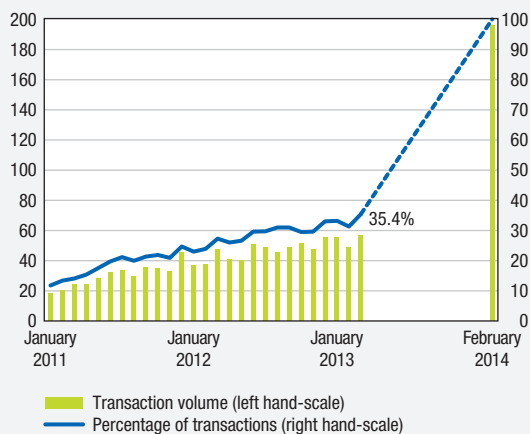
The Regulation (EU) n°260/2012 establishing 1 February 2014 as the deadline for migrating to SEPA credit transfers and SEPA direct debits and replacing existing equivalent national instruments was adopted on 14 March 2012. France applied for one waiver under the regulation to enable its two niche products<sup>1</sup> – interbank payment orders and electronic payment orders – to be maintained until 1 February 2016.

As co-chair of the National SEPA Committee,<sup>2</sup> the Banque de France has observed that migration by companies is still insufficient. In January 2013, only 33.2% of credit transfers in France were carried out in the SEPA format (Chart A) and were mainly issued by general government. Meanwhile, volumes of SEPA direct debits (Chart B) remain low both at French and European level. Less than 1% of all direct debits processed on the French retail payment system are conducted in SEPA format.

Measures to raise awareness among businesses about the need to comply with the European deadline have been organised since mid-2012 across the country, supervised by the National SEPA Committee, with major backing from the branches of the Banque de France. To ensure that the migration to the SEPA payment instruments is a success, these efforts need to be supported and extended by all stakeholders.

**Chart A**  
Take-up of SEPA credit transfers in France

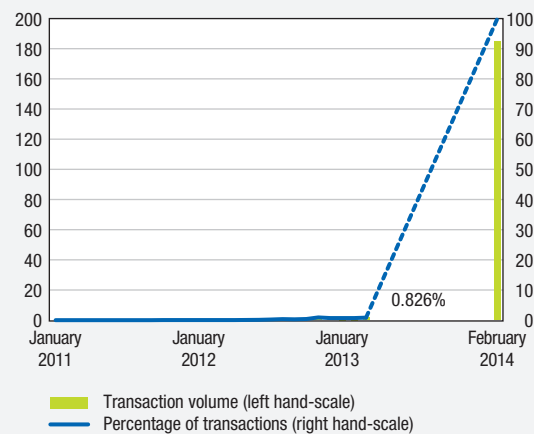
(volume in millions; transactions in %)



Source: Banque de France

**Chart B**  
Take-up of SEPA direct debits in France

(volume in millions; transactions in %)



Source: Banque de France

- 1 Niche products are products that account for less than 10% of the total number of credit transfers or direct debits recorded in a Member State according to official ECB statistics. In 2011, interbank payment orders and electronic payment orders accounted for 2.99% and 0.60% respectively of the total volume of direct debits issued.
- 2 The National SEPA Committee is in charge of coordinating the implementation of European payment instruments in France. It is jointly chaired by the Banque de France and the French Banking Federation and brings together representatives of all stakeholder groups: banks, public administrations, companies, merchants and consumers, together with members of Parliament, a representative of the Economic, Social and Environmental Council, and a representative of the French Mayors Association.

In non-cash payment instruments, too, measures aim at making transactions – especially online transactions – more secure. The Banque de France is working to raise awareness among commercial banks and online retailers to promote the use of secure systems that maintain the confidentiality of consumer transactions.

At the same time, the Banque de France is keeping a close watch on and helping to shape developments in payment instruments, including the emergence of new products, such as contactless payments with NFC chips, and European integration projects such as SEPA implementation (see Box 37).

### Bank initiatives to promote financial literacy

Beyond the strategic objectives aimed at building up its operational activities, the Banque de France is also an institution that wants to nurture its sense of social responsibility. In this respect, it has three constant concerns in terms of its role in educating the public about economic and financial issues. For a detailed description of this strategic guideline, see Chapter 4 on “Sustainable Development: a Corporate Responsibility”.

## 3| HUMAN RESOURCES MANAGEMENT

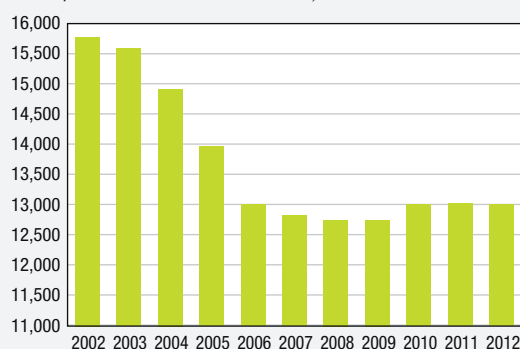
### 3|1 Harnessing demographic changes within the Bank to modernise its organisation

At 31 December 2012, the Bank's total full-time equivalent headcount was 13,012 employees, approximately the same as at end-2011 (down 0.1%). Of this number, 85.8% were tenured staff and 14.2% were contract staff, including around 80 civil servants on secondments. Over the last ten years, the Bank's headcount has been reduced by more than 17%.

The average age was 48, up slightly compared with 2011 despite significant hiring in 2012. Staff aged 55 and over accounted for about one-third of the total headcount. Between now and 2020, about 5,000 employees will retire, with between 450 and 750 departures each year.

**Chart 19**  
**Headcount**

(full-time equivalent headcount at 31 December)



Source: Banque de France

The Bank's human resources policy for the coming years is closely correlated to the demographic changes in its staff, which will play a decisive role in the Bank's development and which offer an opportunity to rethink the Bank's organisation and methods of functioning and collaboration.

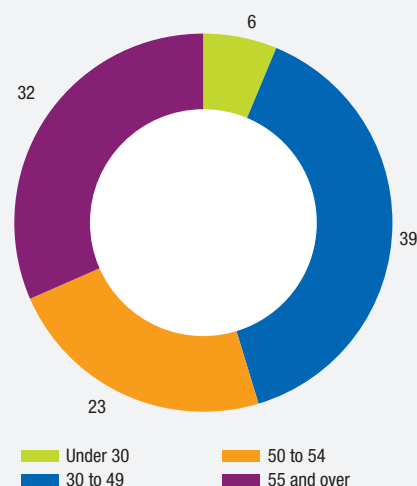
Assuming no changes in the scope of the Bank's missions and activities, this evolution will need to be actively managed with innovation playing a key role. In this perspective, the project to restructure the network by 2020 should make it possible to couple a headcount reduction with enhanced efficiency.

The need to hire some 2,500 employees with the appropriate skills over eight years represents a challenge for the Bank. At the same time, the transformation of the institution will rely on its existing staff, with redeployments, development of new skills and the dissemination of new collaborative working methods and tools that enhance collective efficiency. Building motivation and commitment among employees aged over 45, who represent 70% of the total headcount, constitutes a key factor in the success of the Bank's transformation and the integration of younger personnel.

While 48% of the Bank's employees work in its head office, 45% work in the branch network and 7% work at the banknote manufacturing facilities.

**Chart 20**  
**Breakdown of headcount by age bracket**

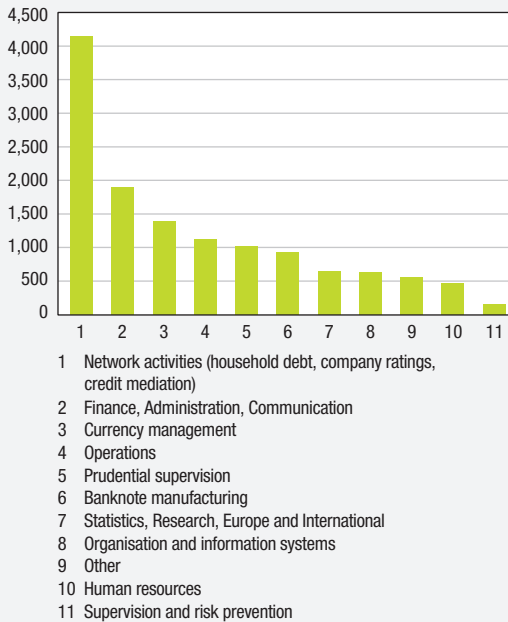
(staff remunerated in FTE at 31 December 2012, %)



Source: Banque de France

**Chart 21**  
**Breakdown by area of activity**

(average monthly FTE headcount)



Source: Banque de France

In 2012, the Bank pursued its policy of seconding personnel and making staff available to outside organisations. At the end of the year:

- 57 employees were on secondment in France with a variety of institutions, including the AMF, IEDOM and various ministries,
- 111 employees had been sent abroad to embassies, European institutions and international organisations, including the ECB (42 employees), European prudential supervisors, the International Monetary Fund and the Bank for International Settlements.

### 3|2 Prevention of psychosocial risks as a key element in preparing and accompanying change

Implementation of the agreement on the prevention of psychosocial risks, which was signed with three labour unions on 21 December 2011, resulted in numerous concrete initiatives over the course of 2012.

#### Box 38

##### Hiring at the Banque de France

To take on the hiring challenges of the next five years, the Banque de France has identified three key areas:

**1) A set of measures to significantly enhance the Banque de France's appeal.**

**2) A bold shift in communication tools to raise the profile of the recruitment function.**

A new visual was created and used with a variety of innovative materials and media to launch the campaign to promote the 2012 round of competitive examinations.

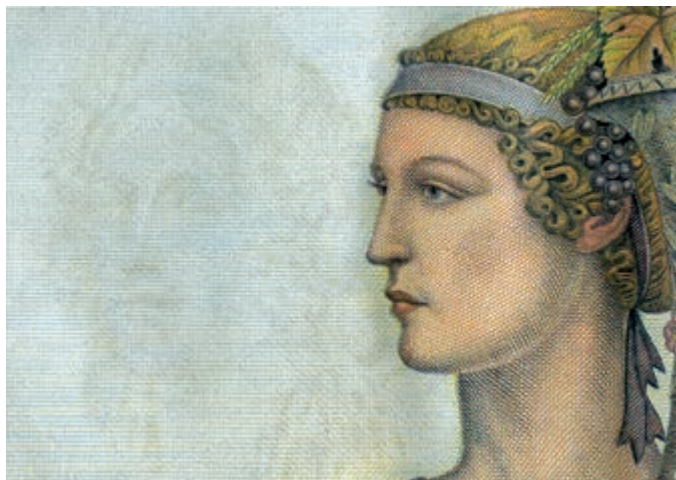
To promote the Bank's business areas, the recruitment website includes links to videos that describe different jobs, such as ACP supervisor, IT staff and positions in financial stability. To promote the competitive examinations to hire specialised assistants in February 2012, the conventional online media campaign was supplemented by a four-week poster campaign in the Paris underground, a video posting on the Pôle Emploi jobseekers website and an advertisement in *20 minutes*, a daily paper.

The Bank used social networks, including Twitter, LinkedIn and Viadeo, to announce the competitive examination for managers. On 7 June, the Deputy Director General of Human Resources facilitated a webinar with students from leading educational institutions, which was organised in conjunction with an international consultancy specialising in employer branding. For the first time, the Bank featured in the consultancy's ranking of ideal companies.

**3) Efforts to target students of leading engineering and business schools**

Aided by alumni, who played an important role as ambassadors, the recruitment department went out to meet with students and tell them the Bank's business areas and values. Thanks to the commitment shown by network directors, round tables and conferences were organised around the country. Managerial employees with teaching roles were asked to tell their students about the competitive examinations being organised to find executive managers for a company "at the heart of economic and financial current affairs".

These bold efforts paid off: the number of candidates in the competitive examinations to recruit specialised assistants, junior management employees and managers increased by 75%, 108% and 50% respectively. In 2012, 261 tenured staff and 117 contractual employees (essentially managers) were taken on.



To communicate more effectively about the Bank's approach, numerous meetings were held over the course of the year to present the agreement and the policy on preventing psychosocial risks to head office and network employees. More than 800 employees were informed through around 50 meetings.

Communication about the Bank's strategy was stepped up with intranet briefings on the Bank's positions on topical issues, articles in the inhouse newsletter about the Bank's values and bi-weekly email bulletins to employees reviewing the main news stories from the Bank.

A set of fact sheets was prepared to tell managers and employees about best practices in leading meetings and using email, and to give recommendations on conducting employee reviews. Posters recapping simple ideas were sent out to all departments.

A comments box on preventing psychosocial risks was set up to receive suggestions on reducing red tape so that managers can concentrate on managing.

The Resources Person, who was appointed in April 2012 and reports directly to the Director General of Human Resources, acts as a non-hierarchical point of contact for employees and managers in urgent situations, supplementing the existing HR and occupational health warning system. The Resources Person was contacted by more than 60 employees or work units and directed them to the right person or helped to resolve conflict situations.

The multi-year programme to provide training in preventing psychosocial risks continued in 2012. More than 1,000 employees (managers, non-managers, occupational health staff, health & safety committee members) took part in a session (1-3 days), for a total of 107 sessions representing 279 training days. Since these placements were introduced in 2010, 1,891 managers and 935 non-managers have been trained. This programme will continue in 2013 and 2014 to ensure that all managers are trained in the prevention of psychosocial risks at the Banque de France.

In 2013, measures will also cover the establishment of a management community, which will provide a space for professional discussions (comparing feedback, spreading best practices, etc.), the Bank-wide survey of psychosocial risks and the deployment of a new procedure to prevent and deal with moral and sexual harassment.

### 3|3 Learning and adapting

Against a backdrop of massive retirements over the 2012-2020 period and the ongoing transformation of the business areas, the continuity of the Banque de France's missions and activities very much depends on the existing teams. The Bank's staff will need to develop the behavioural skills that will allow them to embrace change and facilitate professional mobility. The adaptability of the Bank's personnel will be key to the success of the human resources policy, largely determining how well the institution can match the needs of its different activities with available resources. This will entail giving employees scope to use their initiative and work autonomously, and setting up collaborative networks that provide individual support to pool knowledge, skills and best practices. The Bank will pursue an ambitious policy of accompanying change through training, and efforts will continue to develop interdepartmental skills at both staff and management levels. Lastly, the Banque de France plans to foster occupational mobility using "professional navigation" mechanisms such as function mapping, professional development paths, capitalising on professional experience and internal promotion.



### 3|4 As an institution of the French Republic, integrate social responsibility within the HR policy

The Banque de France has been committed to a socially responsible human resources policy for many years now. This commitment is particularly strong in three areas: professional equality, the integration of disabled workers and the employment of young people from disadvantaged backgrounds.

Since the signature in May 2009 of the first agreement on professional equality, the Bank has implemented numerous concrete measures to promote gender equality. To encourage the appointment of women to positions of responsibility, the Bank has set an ambitious growth target for the number of women occupying director or deputy director positions at the head office and in the network.

Many measures were continued in 2012 to promote a better work-home life balance. The Bank's commitment was reflected in the organisation of the second Parenthood Day in June 2012.

The Bank also has an active policy of encouraging disabled workers' access to employment, which it conducts chiefly through the Work Adjustment and Rehabilitation Centre. In addition, numerous measures were implemented to support disabled workers and adjust their work stations and working conditions.

## 4| FINANCIAL MANAGEMENT: THE BANK'S BALANCE SHEET AND PROFIT REFLECT THE ONGOING FINANCIAL CRISIS

For the second year in a row, the Bank's balance sheet swelled considerably, increasing to EUR 732 billion. At the same time, profit before taxes and exceptional items jumped to EUR 8.1 billion compared with EUR 5.6 billion in 2011. After the allocation of a EUR 1.85 billion provision to the fund for general risks and EUR 3.11 billion in corporate income tax,

the Bank's net profit amounted to EUR 3.14 billion, up EUR 1.45 billion on 2011.

The international financial crisis and its associated developments within the euro area were responsible for these changes. Beginning in 2010, the Eurosystem was led to take major non-standard measures that caused a huge increase in the Eurosystem's overall balance sheet. This included two three-year refinancing operations worth more than EUR 1,000 billion overall that were carried out at end-2011 and in early 2012. Similarly, the final purchases of euro area sovereign securities under the Securities Market Programme (SMP) launched in 2010 took place in early 2012, which added to the volume of these securities on the Eurosystem's balance sheet. Meanwhile, problems on the money market led to a structural liquidity surplus. Credit institutions left a portion of the surplus as liabilities on the Eurosystem balance sheet, over and above their reserve requirements.

All in all, the volume of refinancing operations conducted with the banking system and the entry of riskier assets with higher rates of return pushed up income in 2012.

Mirroring this, the risks borne on the Bank's balance sheet have increased greatly since the onset of the crisis, prompting the Bank to continue efforts in 2012 to improve coverage of these risks through a substantial allocation to the fund for general risks.

### 4|1 Non-standard monetary policy measures continued

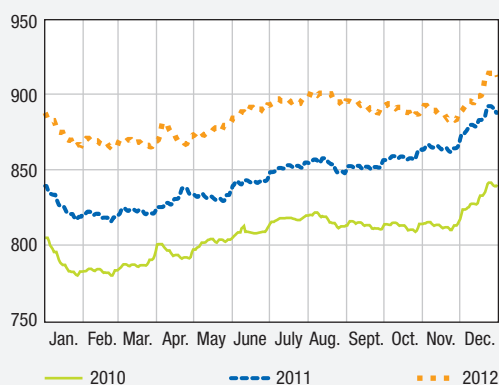
Assets in the form of bank refinancing operations, with the second three-year refinancing operation on 1 March 2012, exceeded liabilities in the form of banknotes. Banks put the excess liquidity into deposits recorded as central bank liabilities, particularly through use of the marginal deposit facility.

#### Continued growth of banknote circulation

Against the backdrop of a weak upturn in economic activity, total banknotes put into circulation by the Eurosystem continued to grow in 2012 (by 4.7% in 2012 compared with 4.8% in 2011 as an annual average).

**Chart 22**  
**Total euro banknotes in circulation**

(outstanding amounts in EUR billions)



Source: ECB

In accordance with the Eurosystem's allocation mechanism, the Banque de France books a share in the total value of banknotes in circulation corresponding to its percentage stake in the ECB's capital as a liability. This share amounted to EUR 171 billion at end-2012, up EUR 4.4 billion versus end-2011, generating additional resources to invest of EUR 7.5 billion (in annual average terms).

### Non-standard measures to support market liquidity

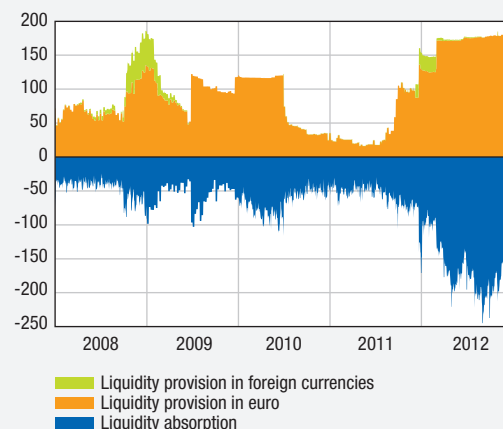
Following the first three-year refinancing operation, which provided EUR 489 billion in liquidity in December 2011, the Eurosystem carried out a second operation, providing EUR 530 billion in liquidity on 1 March 2012. In addition, one-week, one-month and three-month refinancing operations were maintained. On average, liquidity provided to banks via Eurosystem refinancing operations exceeded EUR 1,100 billion in 2012.

In total, outstanding euro-denominated refinancing provided by the Banque de France to French credit institutions amounted to EUR 192 billion at end-2012.

With liquidity provision exceeding the total liquidity requirements of the banking sector, institutions made substantial deposits recorded as liabilities by Eurosystem NCBs. These deposits were made via the deposit facility, but after the deposit facility rate was lowered to 0% on 11 July 2012, banks also kept funds as excess reserves on current accounts, as there was no difference between using the facility and holding non-interest-bearing excess

**Chart 23**  
**Liquidity provision and absorption by the Banque de France**

(outstanding amounts in EUR billions)



Source : Banque de France

reserves. At end-December 2012, monetary policy-related bank deposits recorded as liabilities by the Banque de France amounted to approximately EUR 190 billion.

Furthermore, USD liquidity swap arrangements with the US Federal Reserve, the Bank of Canada, the Bank of Japan, the Bank of England and the Swiss National Bank were continued throughout 2012, although French banks did not make use of these operations.

### Continuation of non-standard securities purchase operations

The Securities Market Programme (SMP) resulted in securities purchases in early 2012. After a period when there were no purchases, the Governing Council decided to close down the programme on 6 September 2012. Weekly liquidity absorption operations sterilised the impact of the SMP on interbank liquidity insofar as the programme was not designed to inject additional liquidity but to restore the monetary policy transmission mechanism, which had been disrupted by the sovereign debt crisis. NCBs' average SMP outstandings reached EUR 195 billion in 2012, compared with EUR 98 billion in 2011, following the purchases at end-2011 and, to a lesser extent, in early 2012. The net income generated by these assets therefore increased in 2012 compared with 2011.

The discontinuation of purchases through the SMP was the corollary to the launch on 6 September of a

new programme of purchases of sovereign securities on the secondary market known as Outright Monetary Transactions (OMTs). This programme is focused on securities with residual maturity of one to three years. Implementation is linked, for each issuer, to compliance with the conditionality attached to aid programmes of the European Financial Stability Facility or the European Stability Mechanism. The Eurosystem will be treated *pari passu* with private creditors and the liquidity impact of purchases will be sterilised. No purchases had been conducted under the new programme as at 31 December 2012.

On a smaller scale, the Eurosystem also undertook a second Covered Bond Purchase Programme (CBPP), buying EUR 16.4 billion in securities between November 2011 and October 2012, including EUR 3.2 billion by the Banque de France. This programme, which is intended to improve financing conditions for the banking sector and encourage banks to provide funding for the economy, was halted before reaching its target ceiling of EUR 40 billion, owing to sustained demand from private investors and reduced supply of covered bonds.

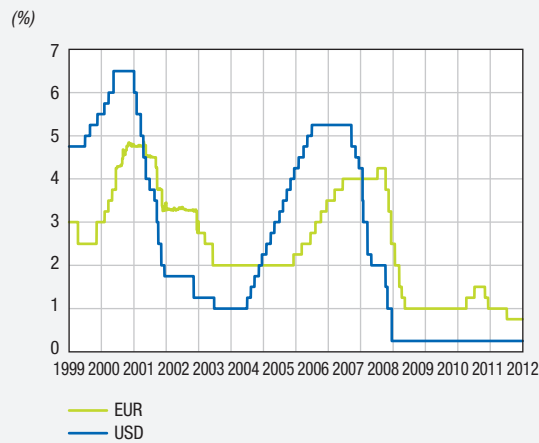
Also, notwithstanding the coordinated acquisition of securities within the framework of monetary policy, the Banque de France holds proprietary portfolios of long-term securities denominated in euro and foreign currencies that also contribute to its earnings and help to reduce the sensitivity of its annual profits to policy rates.

## 4|2 A marked rise in financial income

Despite historically low key interest rates in the world's major economies, the Banque de France's total financial income and net earnings from activities surged to EUR 10.4 billion in 2012 from EUR 7.8 billion in 2011.

<sup>19</sup> Five counterparties of three Eurosystem central banks defaulted in 2008 whilst participating in refinancing operations. The depreciation risk associated with securities lodged as collateral by defaulting counterparties (mainly illiquid structured securities) led the Eurosystem's central banks to make appropriate provisions, in proportion to their respective shares in the ECB's capital key, pursuant to Article 32.4 of the Statute of the ESCB. The value of the total provision amounted to EUR 5.7 billion and was recognised as an expense of EUR 1.18 billion in the 2008 accounts of the Banque de France. Since then, provision reversals have been EUR 356 million in 2009, EUR 372 million in 2010 and EUR 260 million in 2011.

**Chart 24**  
Rates of main monetary policy operations



Sources: ECB, US Federal Reserve

### Rise in monetary income

The bulk of the Bank's financial income is composed of 'monetary income', i.e. derived from the investment of assets held against banknotes in circulation arising from operations with banks or the purchase of securities. This income amounted to EUR 8.8 billion in 2012, up sharply (EUR 2.5 billion) compared with 2011.

This rise in monetary income stems from income derived from the volume of refinancing operations and from securities portfolios in euros, whose average outstandings increased substantially in 2012 following purchases under the SMP at end-2011. The cut in the key rate from 1% to 0.75% on 11 July 2012 had little impact on monetary income because the rate on the deposit facility was simultaneously reduced from 0.25% to 0%.

At the same time, in a context of persistently low key interest rates in the world's main economies other than the euro area, the Bank's income derived from holding foreign exchange reserves amounted to EUR 1 billion in 2012, roughly the same as in 2011. Diversification of reserve placements limited the impact of low bond yields from US dollar portfolios.

As in 2009, 2010 and 2011, the Bank recorded exceptional financial income in 2012 from the partial release of a provision allocated in 2008 to cover risk on monetary policy operations with the Eurosystem's counterparties that defaulted during the financial crisis.<sup>19</sup> This provision reversal, recognised

simultaneously by the Eurosystem NCBs in proportion to their shares in the ECB capital key, resulted from the divestment and upward revaluation of securities and debt instruments deposited as collateral for their operations by failing counterparties and still held by the Eurosystem. In the case of the Banque de France, this income totalled EUR 132 million in 2012.

### ECB and IEDOM dividends

The dividends received from the IEDOM and the ECB in 2012 were down EUR 40 million to EUR 151 million. As in 2011, the ECB retained part of its annual earnings to further increase its provisions for exposure to foreign exchange, interest rate and credit risk in line with its increasing exposure to risk.

### Growth of other non-monetary income

In addition to its monetary income, the Banque de France is also remunerated for services provided to different institutional bodies. The bulk of this income originates from foreign central banks that use the Banque de France's services to invest their foreign exchange reserves or for the production of banknotes. The Banque de France also provides services to the French State (notably management of household debt commission secretariats) for which it is remunerated.

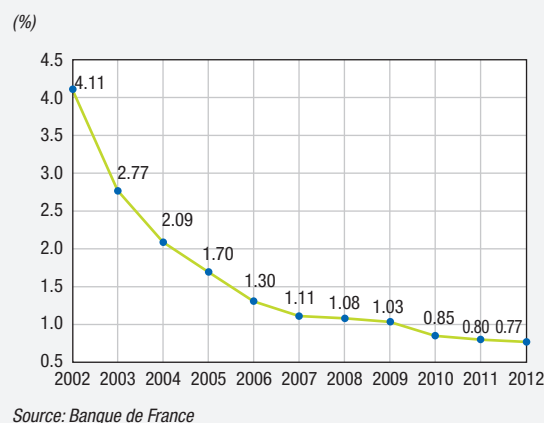
Net profit from other non-monetary activities totalled EUR 1,458 million, an increase of EUR 126 million compared with 2011.

## 4|3 Efficient control of operating expenses in a context of robust activity

Reflecting the heavy workload throughout 2011 as the Bank responded to the consequences of the financial crisis at local, national and European level, staff costs (excluding pensions) rose by 0.9%, owing to increased tax and social security contributions.

The Bank's break-even point stood at 0.77%.

**Chart 25**  
**Break-even point**



## 4|4 Strengthening the capital structure and maintaining a high level of payments to the State

In an economic setting still marked by stress, and amid increased financial risks, efforts continued to strengthen the Bank's capital structure.

### Strengthening the capital structure

At year-end 2012, the Bank's own funds stood at EUR 11.9 billion, up EUR 2.2 billion compared with end-2011. This strengthening of the Bank's own funds, which is indispensable given the expansion of the institution's risk profile, can be broken down into several elements.

First, the fund for general risks (FGR) was raised by an additional EUR 1.85 billion to take it to EUR 5.7 billion. The FGR is aimed at covering all possible risks to which the Bank is exposed in the framework of its activities, except currency risk on gold and foreign exchange reserves, which is covered by the State's revaluation reserve for gold and foreign exchange reserves. The FGR is a fund that is intended to cover all the risks for which operating profits may prove insufficient. The growth of the FGR over several



financial years is intended to keep step with the growth of the Banque de France's balance sheet and the rise of risks linked to monetary policy operations, against a backdrop of persistent stress.

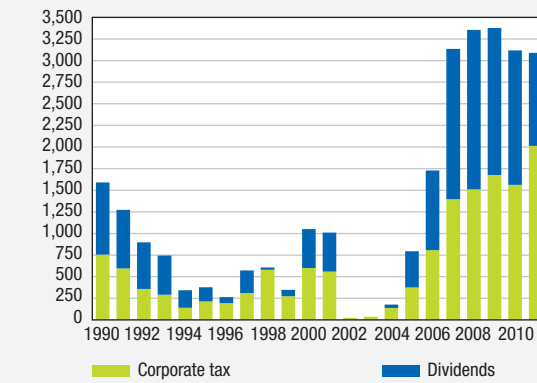
### Corporate income tax

The Banque de France is subject to corporate income tax and a number of additional tax contributions. For 2012 the Bank's tax obligation to the French State amounted to a total of EUR 3.1 billion, representing an increase of EUR 1.1 billion versus 2011.

Comprehensive information on the annual accounts is provided in the Appendix and preceded by the report on the Bank's assets, liabilities and results.

**Chart 26**  
**Payments to the State**

(EUR millions)



Source: Banque de France



# Sustainable development: a corporate responsibility





In recent years, the Banque de France has adopted a structured approach to corporate social responsibility (CSR) designed to take account of existing environmental constraints and targets and develop actions that benefit society. After the initial roll-out of the Bank's sustainable development strategy, 2012 saw the ongoing consolidation and reinforcement of the CSR approach, and the start of a new phase with the implementation of an innovative system for monitoring environmental performance.

The work carried out in 2012 focused on three main areas: analysing the emergence of a green economy that places greater emphasis on the long-term, the reduction of the Bank's environmental footprint and the implementation of civic responsibility initiatives, notably relating to the economic and financial education of the general public.

The results obtained reflect the Banque de France's determination to meet its commitments towards society and anchor sustainable development in its internal structure and in the performance of its tasks.

## 1| SUSTAINABLE FINANCE AND GREEN GROWTH

In 2012, the Banque de France continued its transition towards a less carbon-intensive growth model that is more mindful of the environment and of society. Its approach centred on two major areas: microfinance, and the shift towards a more sustainable growth paradigm that is conducive to lasting competitiveness.

### 1|1 Microfinance

The microfinance projects implemented around the world are part of broader policies to support growth, encourage entrepreneurship and promote the social inclusion of the most vulnerable populations. The microfinance sector has grown significantly in recent years and has rightly earned recognition.

<sup>20</sup> Banque de France Bulletin No. 190 – 4<sup>th</sup> Quarter 2012 « Croissance verte et croissance économique » (*Green growth and economic growth*).

Inspired by practices in the southern hemisphere and in particular by the initiatives of Muhammed Yunus, founder of the Grameen Bank and recipient of the 2006 Nobel Peace Prize, it is a natural extension of age-old European theories such as mutualism.

The Banque de France's Microfinance Observatory, set up in 2006, published its fourth annual report in November 2012, covering the year to end-2011.

With microfinance gaining widespread recognition as a tool for economic integration and social and financial inclusion, the report looked at the main features of the sector in France and in Europe, covering microfinance, micro-insurance and solidarity-based finance.

From the experiences observed, it appears that the structures implemented have proved efficient and socially and economically useful. The bulk of personal microcredits have been granted to improve the beneficiary's employability and mobility (77% of outstanding loans at end-2011, according to the data collection procedure recently introduced by the Banque de France). Meanwhile, impact studies show that the vast majority of borrowers have seen an improvement in their personal circumstances, while rates of unemployment have fallen among beneficiaries. The issues at stake justify a high level of commitment from all parties to developing ways to promote social cohesion.

On 12 December 2012, the Banque de France held a symposium on the theme of "assisted microcredit", in conjunction with the *Comité consultatif du secteur financier* (CCSF – Advisory Committee on the Financial Sector) (see Box 39).

### 1|2 Green growth and economic growth

The term "green growth" is used widely but not always with the same meaning.<sup>20</sup> For some it refers to economic growth stimulated by innovation in the field of environmental protection. For others, it primarily refers to an environmentally friendly development model, in which economic growth plays a secondary role. Both of these terms, "green" and "growth", when

Box 39

### Symposium on assisted microcredit

On 12 December 2012, the Banque de France held a symposium on the theme of “assisted microcredit”, in conjunction with the *Comité consultatif du secteur financier* (CCSF – Advisory Committee on the Financial Sector). The event brought together leaders from microfinance associations and credit institutions and representatives of public authorities, administrations and the academic community.

In his introduction, the Governor of the Banque de France stressed the importance of assisted microcredit as a tool for financial inclusion and reasserted the Bank’s determination to continue its promotion:

- first by ensuring greater visibility of the various features of this mode of financing. Building on the work of the *Conseil national de l’information statistique* (French National Council for Statistical Information) the Banque de France and the *Fonds de cohésion sociale* (Social Cohesion Fund), managed by the *Caisse des Dépôts et Consignations*, began a large-scale project at the end of 2011 to collect quantitative data. This should provide a comprehensive insight into the different forms of microcredit available, their purpose, cost and results, and will provide all parties with ideas for future research and projects;
- from autumn 2013 onwards, the Banque de France will award two prizes to beneficiaries of a personal microcredit or to micro-entrepreneurs who have received an assisted professional microcredit, to recognize the exemplary nature and quality of their projects. The winners of these prizes, amounting to 3,000 and 5,000 euro respectively, will be chosen by a selection committee chaired by the Governor of the Banque de France and comprising representatives from associations and from the banking sector.

The debates took the form of three round tables:

- one on the nature, performance and regulation of assisted microcredit and micro-insurance, chaired by Catherine Barbaroux, Chairwoman of the *Association pour le droit à l’initiative économique* (Adie);
- a second round table on the role of assisted microcredit in preventing overindebtedness, chaired by René Didi, Director of Social Commitment, Governance and History at the *Fédération nationale des Caisses d’épargne*;
- a third, co-chaired by Michel Camdessus, Chairman of the Microfinance Observatory and the Steering and Monitoring Committee responsible for the allocation of funds in the *Fonds de cohésion sociale*, and Emmanuel Constans, Chair of the CCSF, examined the links between assisted microcredit and access to banking resources.

Lastly, François Bourguignon, director of the Paris School of Economics, closed the event with a talk on the economic microcredit model in developing countries.

taken individually, have their own specific meaning: economic “growth”, as measured by the national accounts, is the increase in the wealth generated by an economy, while the adjective “green” in this context refers to the environment. Used together, however, they convey a more complex idea, hence the ambiguity. According to the OECD<sup>21</sup> “green growth means fostering economic growth and development, while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies”. Therefore green growth consists in finding the right balance between respect for the environment, growth and well-being, and ensuring this balance is long-lasting. Preserving the environment is important, not only because it is an integral part of our well-being, but also because a deterioration in

the natural assets we leave for future generations risks hampering their development. Consequently, a green growth policy must (according to the OECD) “catalyse investment and innovation that will underpin sustained growth and give rise to new opportunities”. Economic growth policy should thus take a long-term view and place strong emphasis on innovation and investment.

How can we reconcile dynamic economic growth with the preservation of the environment, in a way that looks beyond present generations, as green growth requires? Is economic growth inevitably harmful to the environment? Is preserving the environment necessarily a hindrance to economic growth? While there is no

<sup>21</sup> “Towards green growth. A summary for policymakers”, OECD, May 2011.



obvious link between the two ideas, there is a trade-off to be made between the short-term costs and long-term gains: the economic benefits of any efforts in favour of the environment are likely to come in the long term, while the costs associated with the restrictions are borne earlier and can weigh on short-term growth.

The term green growth is sometimes used with the idea that there are economic growth opportunities in sectors associated with environmental protection. However there is no logical reason to assume that these sectors are more likely than others to stimulate innovations capable of generating economic growth. Investment in new environmental technologies can nonetheless be justified by the path-dependence of growth. Switching to green technology is particularly difficult at present because the productive capital already accumulated is adapted to polluting technology. However, over the long term, the gradual depletion of fossil fuels and damage to the environment will make it necessary to develop less polluting technology, and this transition will prove less costly if conversion to the technology takes place early, thanks to endogenous growth mechanisms: growth-generating innovations are more likely to emerge in the most advanced sectors.

At present, there is no single indicator that can be used to measure all the different aspects of green growth. However, a rough indication of the costs and benefits of a public environmental policy can be obtained by assessing its impact on short and long-term economic growth. GDP growth is a synthetic and easily legible indicator which is useful for measuring the costs and benefits of the choices made. However, when looking at GDP growth for a given period it is important to also take into account the impact for periods ahead.

In this context, the most economically efficient policy for meeting a given climate objective would appear to be the use of a “price signal” which increases the cost of fossil fuels. If used on a continuous basis and with a long-term perspective, it is capable of modifying behaviour and encouraging the development of the necessary innovations at a reasonable cost. Policies of direct support to certain sectors and to research can also be useful, but they are difficult to target as it is hard to identify which innovations will ultimately prove most profitable. If applied widely across the economy, the price signal can be used to take advantage

of a broad range of opportunities. The socio-economic consequences of the price shock should not be neglected. But they should be dealt with separately from the question of overall efficiency, which provides a strong case for implementing this long term signal.

## 2| REDUCTION OF THE ENVIRONMENTAL FOOTPRINT

In order to reduce its impact on the environment, the Banque de France launched an Environmental Footprint Reduction Master Plan (*Schéma de réduction de l'empreinte environnementale – SDREE*) aimed at lowering its consumption of natural resources and its greenhouse gas emissions.

### 2|1 Reducing our impact on the environment

The Environmental Footprint Reduction Master Plan implemented by the Bank in 2009 was completed at the end of 2012. The 3-year plan had four targets:

- reducing energy consumption (electricity, gas, district heating and cooling);
- increasing the share of renewable energy in the energy mix;



**Table 4**  
**SDREE 2010-2012**

<b>Energy</b>	
• Consumption (in kWh)	-20% compared with 2008 (Bank departments, excl. Banknote Manufacturing) -4% compared with 2008 (Banknote Manufacturing)
• Share of renewable energy	20% of the mix (Bank as a whole) 30% of the mix (Banknote Manufacturing)
<b>Drinking water (in m3)</b>	
	-15% compared with 2008 (Bank departments, excl. Banknote Manufacturing) -10% compared with 2008 (Banknote Manufacturing)
<b>CO<sub>2</sub> emissions (generated by employee travel)</b>	
	-15% compared with 2009 (Bank departments, excl. Banknote Manufacturing) -10% compared with 2009 (Banknote Manufacturing)

- lowering water consumption;
- optimising employee travel to reduce CO<sub>2</sub> emissions.

### Reducing energy consumption

The targets set for end-2012 were partially achieved.

The production sites exceeded their target, reducing energy usage by 5% relative to 2008, notably by switching production to cut-sheet printing, which is less energy-intensive than continuous printing, and by constantly improving techniques.

The other Bank departments, however, fell short of their target of a 20% reduction. In particular, the steady rise in the number of computer servers (between 15% and 20% per year) and continuous increase in their processing capacity, meant that the overall reduction in energy use was limited to -11.2%. Excluding the data centre, to which heating regulations do not apply, the reduction was still significant at -16.2% compared with 2008, albeit short of the -20% objective.

This performance was the result of the global approach implemented since 2010, which involves changes both in structure and in behaviour:

- gradual improvement in the energy performance of the Bank's real estate;

- reduction in the consumption of heating through the installation of thermostatic taps and variable displacement pumps and the replacement of older boilers;

- increase in staff awareness, with the introduction of new communication tools (dedicated sustainable development intranet site, monthly newsletter, news updates, etc.).

### Increasing the share of renewable energy

In 2008, all of the Bank's electricity contracts were with a regulated supplier, with the exception of those for the Banknote Manufacturing sites (43% of the Bank's overall electricity consumption) which comprised 25% renewable energy.

As these electricity contracts have come up for renewal, the Banque de France has tried, where possible, to gradually increase the share of green energy in its mix. Thus, by the second half of 2011, it had signed contracts including 75% renewable energy for the head office, the administrative centre in Marne-la-Vallée and its Banknote Manufacturing sites, which together accounted for nearly three quarters of total electricity use in 2012. As of 1 January 2013, the proportion of renewable energy in these contracts rose to 100%.

In addition, wherever the option is available or compatible, the Bank tries to use the district heating network as an alternative to gas or domestic fuel. Since December 2010, for example, the Mende branch has been connected to its local district heating network, which has been certified a "Rural Centre for Excellence" for the development of bio resource valorisation (waste from the wood industry) and cogeneration.

Overall, the share of renewables in the Bank's energy mix had risen sharply by the end of 2012, to 35.1% compared with 28.7% in 2011 and 15% in 2010.

### Reducing water consumption

The Bank managed to meet its overall three-year targets for reducing water consumption as the sharp drop in the service units (-21%) more than offset the more limited reduction in the Banknote Manufacturing unit (-6.7%).

Water consumption at the service units was cut using three main methods:

- implementation of alerting systems: monitoring of monthly consumption, systematic analysis of peaks in consumption;
- faster preventive and curative maintenance of water fittings and the installation of water-saving bathrooms;
- improvement of the air conditioning system at the administrative centre in Marne-la-Vallée.

At the industrial sites, consumption was essentially cut over the three-year period by optimising installations. However, 2012 saw a rise in water usage due to the unfavourable weather conditions: the extremely cold winter led to a rise in steam usage to maintain hygrometry levels, and temperatures exceeded 30°C in the summer, meaning compressors had to be cooled.

### Optimising employee travel

In 2012, the Banque de France continued to roll out its employee travel policy, which takes a two-pronged approach:

- optimising employee travel: setting up professional carpooling, development of video conferencing, car-sharing, teleworking, etc;
- encouraging the use of public transport or environmentally-friendly transport whenever this is possible, and the use of the train instead of the plane for business journeys of less than three and a half hours by train.

Greenhouse gas emissions linked to employee travel fell for the first time in 2012, to 7,200 tonnes CO<sub>2</sub> equivalent (from 7,500 tonnes CO<sub>2</sub> equivalent in 2011). As the actual number of kilometres travelled increased slightly (40 million kilometres in 2012 compared with 39.5 million in 2011), the fall in emissions stemmed primarily from a switch to cleaner modes of transport. The share of Paris-Frankfurt journeys, the main route travelled by employees, made by train rather than plane increased to 39% in 2012 from 26% in 2011.

In order to limit the environmental impact of car journeys, the Banque de France tries to opt for cleaner vehicles when renewing its car fleet. Average CO<sub>2</sub> emissions for passenger cars in the fleet continued to decline, falling to 128g/km on average in 2012 from 136g/km in 2011.

Under a pilot project at its head offices, the Banque de France has gradually equipped itself with 21 electric bicycles since 2010, and in 2012 these were used for journeys totaling 26,800 km.

Together, these measures are beginning to deliver results but have not yet proved sufficient to offset the rise in travel linked to the expansion of the Bank's activities. Excluding road convoys and journeys by trainees at the International Banking and Financial Institute (IBFI), the overall number of kilometres travelled in fact increased by 20% compared with 2009, while CO<sub>2</sub> emissions rose by 22%.

To support greener commuting in 2012, the Bank extended its Workplace Travel Plan to all branches with more than 100 employees and with access to public transport networks.



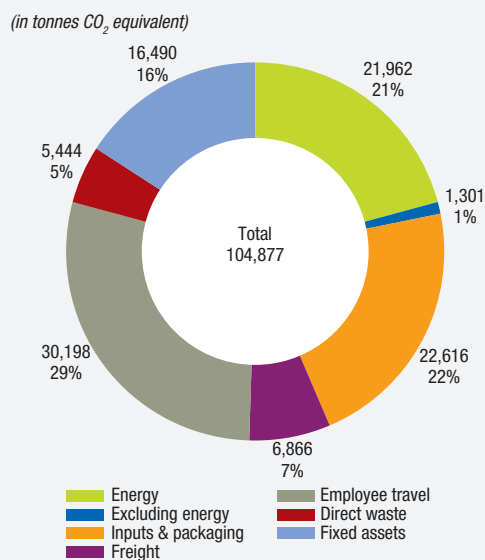
## 2|2 A marked reduction in greenhouse gas emissions

In 2012, in accordance with Decree No. 2011-829, the Banque de France carried out an audit of its total greenhouse gas emissions for 2011. The results showed a 16% drop compared with 2008, which can be attributed to the implementation of the sustainable development strategy. The Bank will continue to roll out this policy going forward, with the aim of cutting emissions by 8% by 2014.

### Box 40

#### Banque de France greenhouse gas emissions in 2011

In accordance with Decree No. 2011-829 of 11 July 2011, the Banque de France carried out an audit of its 2011 greenhouse gas emissions using the Bilan Carbone® method, and posted the results on its internet site. Total emissions for the year came to 104,877 tonnes CO<sub>2</sub> equivalent, primarily from employee travel, inputs and packaging and energy consumption.



The audit showed a drop of over 16% in the Banque de France's emissions compared with 2008, notably in energy consumption and employee travel. This decline was essentially attributable to efforts on the part of the Bank's staff, initiatives aimed at cutting energy use, an increase in the share of renewable energy and changes in employee travel rules.

## 2|3 Improving the Bank's energy performance and preserving the environment

The property sector is changing at a rapid pace and has become a primary source of energy savings. As a result, the Banque de France has decided to make "sustainable" construction a central focus of its sustainable development policy.

### Renovation, a major challenge for the Bank's real-estate stock

Over the past three years, the Bank has invested in an extensive programme of thermal renovations at its buildings, aimed in part at reducing on-site energy usage.

### Continuing the renovation work

In 2009 and 2010, the Banque de France carried out an energy performance assessment on the majority of its real-estate portfolio. The results underlined the high proportion of total energy consumption that goes towards heating and producing hot water (on average more than 60%). Based on these results, the Bank decided to launch two major national programmes to improve its energy performance in these areas.

The first consisted in the installation of thermostatic taps and variable displacement pumps in the heating systems at around a hundred units in the network.

The second, which runs until 2018, involves the renovation of boilers at certain units.

### Incorporating environmental quality criteria into building restoration work

After completing the renovation of the oldest section of its head office, the Banque de France embarked on two other major restoration projects.

The first is a project to insulate and replace the windows in an occupied building at the Bank's head offices. By the end of 2015, 20,000 m<sup>2</sup> of facades will have been insulated internally and 1,476 double-glazed windows will have been installed to replace the old



frames. The new windows will be equipped with interior/exterior blinds that can be operated individually or with a centralized remote control that allows whole walls of blinds to be opened and closed simultaneously.

The second project, finished in 2012, saw the complete renovation of one of the head office's outlying buildings.

In addition to these major works, the Bank has also made a number of modifications to its tertiary buildings. Intelligent lighting systems have been installed, and the Bank has favoured natural, certified, recycled and recyclable materials in its choice of building products (partitions, paint, flooring etc.) and office furniture.

### New, more energy-efficient buildings

The Banque de France has launched a number of construction projects that comply with the environmental quality standards that have emerged in the building sector in recent years (HQE, LEED, BREAM, MINERGIE, etc.).

One of these is the construction of a high energy performance IT centre, begun in 2009, which is part of a broader project to equip the Bank with two state-of-the-art IT production platforms by 2017. The second platform will be constructed by renovating an existing site.

The entire project is designed to comply with HQE® (High Environmental Quality) standards of eco-construction and eco-management and the Bank has set itself an ambitious PUE (power usage effectiveness) indicator target of 1.6-1.7 for the two sites. The new Centre Michele Bergsten, scheduled for completion mid-2013, has also been audited several times by the French certification body CERTIVEA, with a view to obtaining HQE certification.

At the start of 2010, the Bank began construction on two currency management centres, one in Sainghin-en-Mélantois in northern France, and one in La Courneuve just outside Paris, which will house highly automated banknote handling activities. Both these strategic projects will be completed to high environmental quality standards.

Lastly, at the end of 2012, the Bank inaugurated its first Minergie-certified building to house its Lyon

branch, an original architectural design with green walls on the upper section and copper cladding on the middle. The building is equipped with photovoltaic panels, a Canadian well ventilation system, solar thermal panels which heat the water for the staff canteen and a centralised control system for heating and lighting. It is currently being certified by CERTIVEA and has already won a number of awards in the field of eco-design.

### Sustainable construction and changes in working methods in the building sector

The Banque de France is fully aware of the necessary changes underway in the building sector, with the emergence of new skills and working methods, as well as shifts in analysis methods and in the way projects are carried out. In response to these new challenges, some thirty specialist staff were trained in environmental regulations in 2012.

### Biodiversity

The Bank helped to adapt the “biodiversity awareness” tool EBEvie, designed for public bodies. For the second year in a row, the Bank harvested honey from the beehive located on the roof of its administrative centre in Marne-la-Vallée.

It also took more steps to promote the eco-friendly management of its green spaces, notably by introducing differentiated management techniques at some of its gardens.

## 2|4 Green IT

The drive towards sustainable development, initiated several years ago by the IT Department in conjunction with the Bank's other business areas, consists of a dual approach:

- “Green for IT” actions which directly concern the Bank's energy efficiency;
- “IT for Green” actions which provide support to the business units in the dematerialisation of their processes and exchanges with the Bank's ecosystem.

### Green for IT: improving the Bank's energy efficiency

As part of the project to reduce the IT department's environmental footprint, staff have been given access to communication tools such as the instant messaging system MOCS or videoconferencing rooms and have been increasingly allowed to work from home in order to reduce travel.

The construction of the new IT centre is also a concrete response to the Bank's environmental challenges.

### IT for Green: dematerialising processes and improving interactions within the ecosystem

The Bank has implemented various solutions to encourage the dematerialisation of documents, for example the installation of the DematRH application for the digitalisation of employee management documents in the HR department, along with GEFORM which handles training documents.

Under the BilanDirect FIBEN service for electronic balance sheet transmission, some 136,400 balance sheets were received electronically from companies and accountants at the end of 2012, up 59% on 2011, and accounting for 38.4% of the total volume of balance sheets in the FIBEN database. In 2013, the campaign will benefit indirectly from the introduction of new legislation in the 2011 supplementary budget act, making it compulsory for companies liable for corporation tax to submit electronic tax returns to the Public Finances General Directorate (DGFIP) as of 1 January 2013. With the Banque de France continuing to work closely with the French Institute of Chartered Accountants (*Ordre national des experts-comptables*) and its regional branches, the new law should help to boost electronic transmission so that more than half of all balance sheets are collected via the BilanDirect FIBEN system. As the service develops, electronic transmission should increasingly become the method of choice for document exchanges, generating substantial savings in paper.

In currency management services, the secure banking portal INTEROP, first launched in November 2011, was rolled out to all customers in 2012, thanks to the efforts and commitment of operators in the cash industry.

#### Box 41

##### **HPE IT centres: Application of the European Union Code of Conduct on Data Centre**

The Banque de France has opted to follow best practices in the management of its data centres and, on 10 April 2011, became the first French bank to sign the European Union's Code of Conduct on Data Centres. To date, it is the only bank in the ESCB to have chosen to integrate this document into its sustainable development policy.

This document contains recommendations for the sustainable and energy-efficient management of "data factories", a sector which consumes the same amount of energy as the global air transport industry.

The recommendations cover all data management processes:

- transversal management, involving all data centre operators;
- the strategy for cooling IT rooms and server rooms;
- proactive energy management;
- monitoring technical installations in order to optimise energy usage;
- regular comparison of results with pre-defined targets;
- complete shut-down of unused hardware and freeing-up of space;
- purchase of energy-efficient hardware;
- pooling of computer hardware to generate economies of scale.

All of these recommendations were taken into account in the design of the Data Processing and Telecommunications Directorate's (DIT) Centre Michele Bergsten which is due to be completed mid-2013. They will also be used in the forthcoming renovation of the Noisiel data centre. The DIT has already implemented the recommendations on the management of IT rooms and equipment.

Several thousand transactions are now carried out each day in metropolitan France (and in the French overseas territories as of December 2012), leading to a sharp drop in the use of paper documents (elimination of more than 400,000 transaction receipts). In addition, packages are now given an individual barcode to simplify handling and improve working conditions for both Bank staff and cash industry professionals. The project has helped to speed up cash handling

at Banque de France branches, reducing the amount of time transport vans spend parked outside.

The project to reduce the number of printers and photocopiers, launched two years ago, has led to a full review and optimisation of the Bank's office equipment. Existing machines are gradually being replaced with multi-functional models, helping to cut the overall amount of equipment and the use of consumables. At the same time, IT staff are working to raise awareness of how to use the machines efficiently, while the Organisation and Data Processing Directorate carries out regular technical audits, particularly for departments that are moving or restructuring their premises, to help identify ways to optimise equipment.

The Bank has also made a conscious effort to choose suppliers that share its social and environmental values. For example, for the collection, recycling, destruction and traceability of its depreciated IT equipment, the Bank chose a supplier which meets strict criteria in the field of social responsibility, notably in the employment of disabled workers and sustainable development. The Mission Handicap initiative helped to raise awareness of this issue, and proposed companies meeting the criteria throughout the country.

### 3| ECONOMIC AND FINANCIAL EDUCATION OF THE PUBLIC

#### 3|1 Economic and financial education initiatives

Drawing on its experience in the field of financial communication and information, the Banque de France stepped up its economic and financial education initiatives in 2012 for teachers, students and the general public.

##### Educational workshops at the Bank

The Press and Communication Directorate has designed an educational programme for the general public and regularly organises workshops and conferences for primary and secondary school children,



senior citizens and students from French and foreign universities. Media used include brochures, multiple choice questionnaires and videos. Staff from the Bank give practical and interactive presentations on major economic themes and on the Banque de France's economic and financial role, to make them more accessible to the public. The workshops, held primarily at the Bank's information centre in Paris, proved a great success in 2012, attracting close to 2,000 visitors over the year.

For students on BTS courses (advanced vocational diploms), the workshops aim to provide a fun approach to themes covered in their coursework such as loans to individuals and overindebtedness, the euro and Eurosystem monetary policy. Three schools took part in the pilot scheme: Roger Verlomme Technical College, the Business, Management and Communication College and the Simone Veil General and Technical

Box 42

## The French and the economy

A poll presented by the Banque de France at the *Journées de l'économie* conference in Lyon showed there was still some room for improvement in the level of economic awareness of the French public and in their understanding of economic data. 59% of those surveyed said the French had average knowledge of economic subjects, while 32% said it was weak or very weak. In addition, 60% said they did not find economic data understandable. The survey also showed differing levels of knowledge in the field of finance, but there were some good answers on a number of practical economic questions relating to loans.

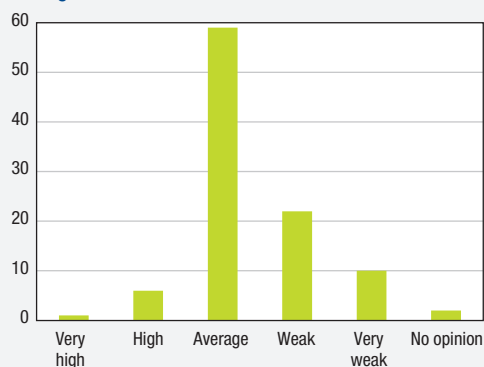
Nearly half the survey respondents overestimated the rate of inflation. 48% said prices in France had risen more than 3% in the 12 previous months, whereas the consumer price index published by national statistics agency Insee last September showed a 1.9% rise.

The survey also showed that the French public is generally apprehensive about the economic environment. In particular, 82% said they were worried about the size of France's public deficit and its level of debt.

**Chart A**  
**Knowledge of economics among the French public**

(%)

How would you personally evaluate the French public's knowledge of economics?

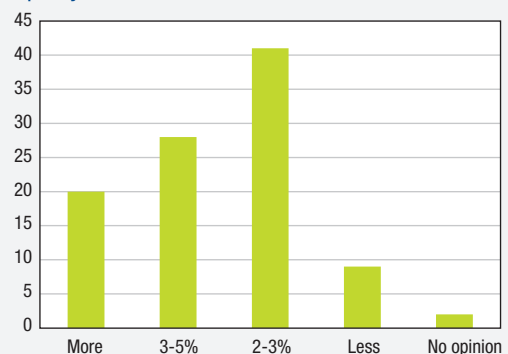


Sources: Banque de France – TNS Sofres

**Chart B**  
**Assessment of the level of inflation**

(%)

By how much do you think prices have risen in France over the past year?

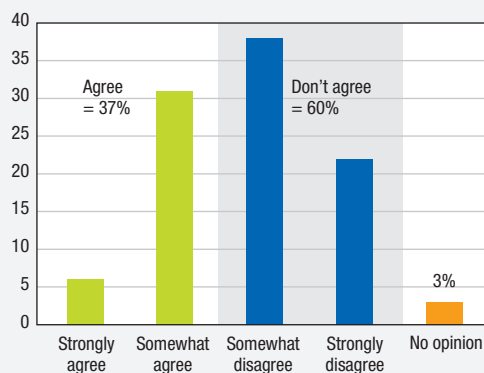


Sources: Banque de France – TNS Sofres

**Chart C**  
**Understanding of economic data**

(%)

Would you say you strongly agree, somewhat agree, somewhat disagree or strongly disagree with the following statement? "Economic data is understandable"

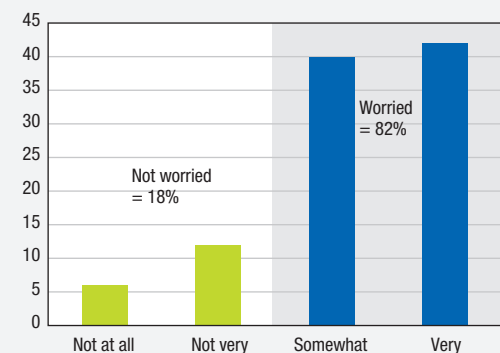


Sources: Banque de France – TNS Sofres

**Chart D**  
**Concerns about the public deficit and debt**

(%)

Would you say you are very worried, somewhat worried not very worried or not worried at all about France's public deficit and debt?



Sources: Banque de France – TNS Sofres



college which is closely associated with the Truffaut Professional College.

A number of initiatives were also conducted throughout the Bank's branch network, such as work experience for around 500 secondary school pupils and the involvement of tutors in the provinces to assist students on apprenticeship and vocational contracts.

### Partnership agreements with the Créteil and Paris education authorities

The agreements were designed to welcome and provide support for underprivileged children. The three-year contract signed with the Créteil education authority (2010-2013) was implemented throughout 2012, with the Bank continuing to develop partnerships with two secondary schools in Créteil in order to help teenagers in educational priority areas. This resulted in:

- methodological support courses for 5<sup>th</sup> and 6<sup>th</sup> form pupils; 154 secondary school pupils benefited from these courses during the 2012-2013 school year (92 in the previous year) over a total of 560 hours, up 30% versus the previous year;
- renewal of the mentoring programme under which Bank staff can volunteer to provide guidance to secondary school pupils;
- organisation of educational workshops to present economic themes and/or Bank missions to secondary school pupils (101 pupils took part in 2012);
- participation of Bank staff in panels to help prepare secondary school pupils or students for oral exams;
- internships for BTS students from partner schools.

Inspired by the success of this partnership, the Banque de France signed a second youth training agreement with the Paris educational authority on 20 June 2012. This new contract reflects the Bank's strong commitment to social responsibility, with a particular focus on the following areas:

- enhancing economic and financial education,
- ensuring equal opportunities and promoting diversity,

- developing civic responsibility initiatives for improving young people's employability.

## 3|2 The *Cité de l'économie et de la monnaie*

The aim of the future *Cité de l'économie et de la monnaie* (City of Economics and Money), due to be inaugurated in 2015, is to help improve the general public's knowledge of economics, in particular that of young people. It will present the main concepts of economics and money in interactive form, and will also exhibit part of the Bank's collections of coins, banknotes, professional equipment and furniture.

In 2012, the team of architects/museographers selected at the start of 2011 following a 2010 competition, carried out detailed studies of the proposed architecture and museum layout, in close cooperation with the project team. The Bank obtained the necessary construction permits in September 2012 and work should start on the building in July 2013. The museographic layout will be finalised in September 2013 and opened up for tenders shortly afterwards. Work should then begin on actually creating the museographic elements of the *Cité*.

Working in partnership with Universcience, the Banque de France also helped to organise a temporary exhibition on economics, entitled "*L'économie : krach, boom, mue ?*" (The economy: crash, boom, transformation?). Opened on 26 March 2013 at the Paris Science Museum (*Cité des sciences et de l'industrie*) and due to run until 5 January 2014, the exhibition showcases some of the teaching tools that should be used at the future *Cité de l'économie*.

In 2012, the Banque de France signed six new partnership agreements for the *Cité de l'économie* project, with the French National Library, the *Monnaie de Paris*, Mexico's *Museo Interactivo de Economia*, the *Journées de l'économie* of Lyon, the *Rencontres des Sciences économiques et sociales de l'Académie de Paris* and the *Petites conférences du Nouveau Théâtre de Montreuil*.

The project's website ([www.citedeleconomie.fr](http://www.citedeleconomie.fr)) was also updated with new pedagogical content (games, videos, bibliographies, etc.).

## 4| LEVERS FOR ACTION

The Bank's main levers for change are the strengthening of its quality approach and pursuit of the highest standards of certification, the integration of CSR concerns into its procurement strategy, the implementation of the sustainable development information system and, lastly, internal and external communication. The Bank's initiatives for improving staff well-being are outlined in Chapter 3 on human resources management.

### 4|1 Quality approach

The Banque de France has been striving for over a decade to obtain the highest level of certification for quality and social and environmental standards. This effort continued in 2012. The Bank worked towards gaining increasing ISO 9001 certification (quality management), as well as ISO 14001 (environmental management) and OHSAS 18001 (occupational health and safety), all as part of its ongoing efforts to improve, adapt and innovate its methods in order to better meet the needs of its stakeholders.

In 2012, the Bank capitalised on the experience gained with the roll-out of ISO 9001 certification at its branches and in its external recycling monitoring activities. Using this knowledge, it developed ways of improving working conditions and safety at the branches.

In industrial activities, the Banknote Manufacturing Directorate General (DGFB) once again gained triple certification: ISO 9001 (quality management), ISO 14001 (environmental management) and OHSAS 18001 (occupational health and safety). It also obtained 1000 NR sustainable development certification ("Maturity" level) from AFNOR. There was no assessment for AFAQ 26000 certification as this is only carried out once every 18 months. The DGFB continued to work on the following areas:

- strengthening its presence in France's different *départements*: signature of a partnership agreement with the regional council of Auvergne, the French

National Communication and Printing Union and the Romagnat secondary school. This agreement focused on three areas:

- improving reciprocal knowledge of the worlds of business and education;
  - strengthening existing ties and encouraging new initiatives to improve training and recruitment;
  - encouraging in-depth dialogue between partners and mutual assistance between the business and education sides.
- improving working conditions:
    - improving the ergonomics of certain work stations to reduce the risk of musculoskeletal disorders;
    - appointing an external specialist to teach different techniques for avoiding injury;
    - implementation of a system for monitoring and assessing jobs deemed to be high-risk.
  - improving the environment by carrying out a carbon footprint assessment.

### 4|2 Procurement policy

In 2012, the Procurement Directorate continued to encourage its partners, notably those ordering supplies, to incorporate environmental and social concerns into the purchasing process. Specifications for tenders now include social and environmental requirements and, in some cases, applicants are rated on specific criteria.

On 27 November 2012 the Procurement Directorate took part in a convention organised by the Paris Chamber of Industry and Commerce, aimed at facilitating access to public tenders for SMEs. The Banque de France held meetings with around 20 different companies at this event, at which it outlined its procurement policy and environmental and social concerns.

It also entrusted some of its archiving and recording jobs to the *Centre d'adaptation et de réinsertion*

*par le travail* (CART – Work Adjustment and Rehabilitation Centre).

The Directorate continued to encourage the use of electronic transmission in its purchasing processes, generating significant savings in paper. By the end of 2012, some 93% of tender offers were received in electronic form, up from 75% the previous year.

### 4|3 Sustainable development information system

In 2012, the Bank set up a Sustainable Development Information System, SDIS, to manage its overall sustainable development strategy and reinforce its CSR approach.

The system covers a number of functions:

- measuring and monitoring the reduction in the Bank's environmental footprint and the evolution of other sustainable development indicators;
- analysing the results of the company's sustainable development policy;
- steering action plans.

General, regional and local directorates all have shared access to the information system, enabling them to fine-tune and monitor the Bank's overall sustainable development policy. It is also used to comply with regulatory CSR reporting requirements: production of a greenhouse gas emissions assessment and monitoring of the main social and environmental indicators.

### 4|4 Communication

Internal communication, awareness-raising and training initiatives

A new sustainable development intranet site

In terms of internal communication, the sustainable development intranet site, accessible from the



Bank's homepage, has been expanded with new content, including regulatory texts, a carpooling site and research documents.

The Bank has also developed a series of educational materials to keep staff informed of sustainable development issues: presentation of the various loans and subsidies available to companies for sustainable development (environmental support, support for innovation in the field of sustainable development, tools and documentation from the Chamber of Industry and Commerce, etc.), presentation of the roadmap for France's ecological transition. These are accompanied by two magazines, *Actions DD* (SD Initiatives) and *La lettre du DD, comprendre les enjeux* (Sustainable Development Letter, Understanding the Challenges).

Together, these materials provide a clearer vision of the institution's overall sustainable development approach, with information on its targets for reducing its environmental footprint and the results of its initiatives. More broadly, they also underline the importance of the climate and energy challenges we currently face, and help to explain how these issues are being incorporated into economic policy.

Dedicated training programmes

This initiative comprises a new training programme, "Sustainable development: social, economic and environmental responsibility", that helps staff to develop skills deemed strategic by the Bank. Six sessions were held in 2012, attended by 71 staff.

At the end of the year another training programme was introduced to teach the main sustainable development regulations applicable to the Bank and best practices in the field of environmental responsibility. The first sessions were held at the start of 2013.

#### External communication and collective work

Since joining the Sustainable Development Club of Public Institutions and Enterprises in April 2011, the Banque de France has helped draft a series of operational guides to assist publicly-owned companies and institutions in incorporating CSR principles into their governance. The Bank thus helped produce four guides on the values and principles of governance, dialogue with stakeholders, CSR assessment and performance indicators and a summary for chief executives of publicly-owned bodies.

The Club held a plenary session at INRA on 20 June 2012, at which an economist from the Banque de France's Sustainable Development Division presented the results of the 2011 survey "The economic and financial implications of SD and climate change for industrial companies".

The external consultative committee, set up under the Banque de France's Sustainable Development Charter and comprising representatives of the world of business, the financial sector and independent bodies, held a meeting on 29 May that was chaired by the Secretary General. Representatives of the Bank's stakeholders were invited to give their opinion on the Environmental Footprint Reduction Master Plan and on the sustainable development survey carried out with industrial companies. They found that the results of the

survey provided some valuable lessons and underlined the quality of the Bank's SD policy, while reasserting their desire to maintain dialogue.

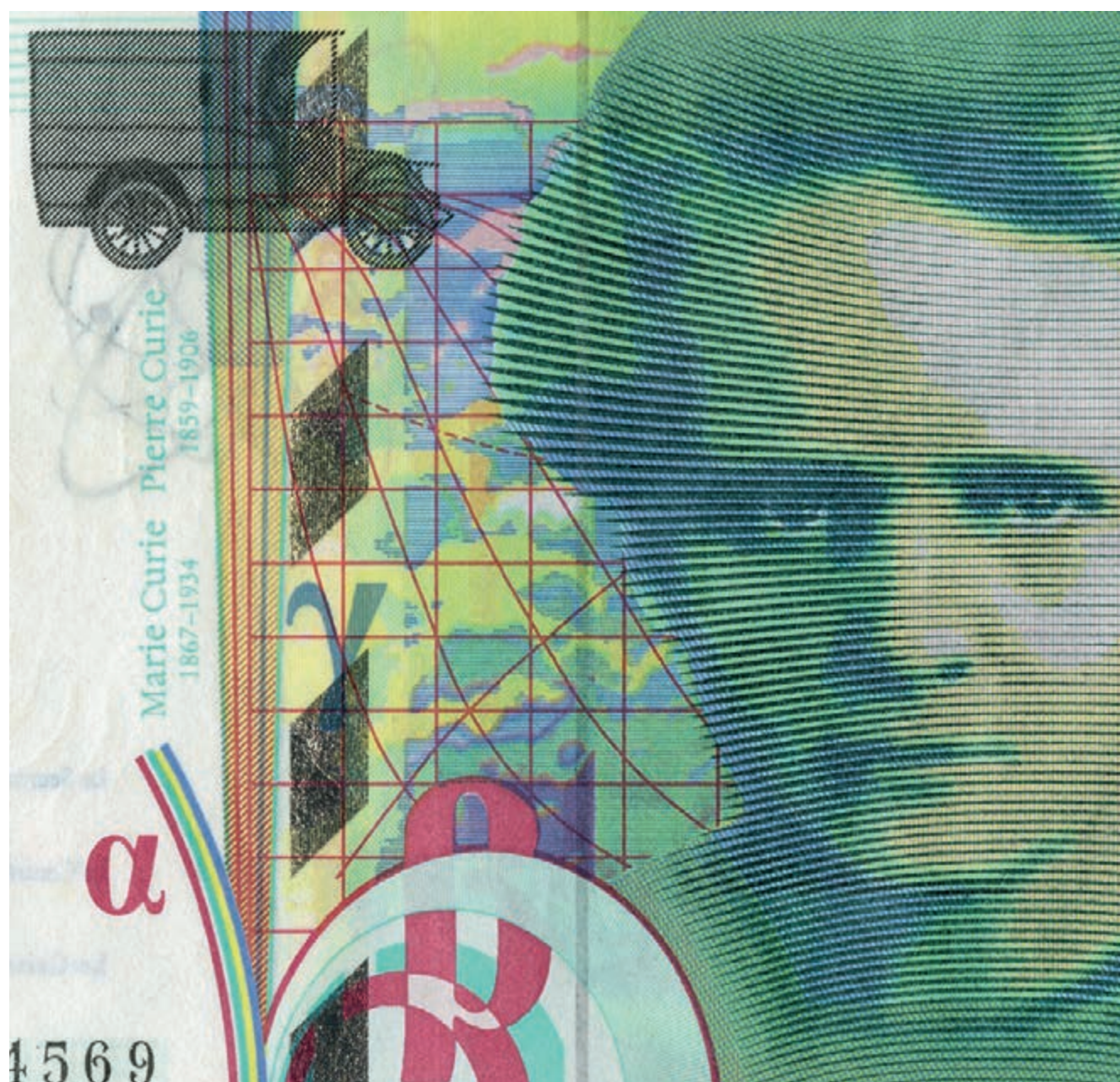
As part of an initiative to exchange good practices and benchmarking with a growing network of European partners, the Banque de France welcomed a delegation from the National Bank of Serbia in January 2012. The visit was part of a programme organised by the International Banking and Finance Institute (IBFI) and was devoted to public relations management and to the Banque de France's SD policy.

The Banque de France also took part in various national and European events which gave it the opportunity to inform and educate a broader audience:

- 1-7 April: 10<sup>th</sup> anniversary of Sustainable Development Week. For this event, the Sustainable Development Division added a "Good Practices" section to the SD intranet site, devoted to the subject of "Environmental Labelling". The new section covers four main themes: improving consumption habits, managing electrical appliances, new energy labelling and how to choose the right lighting;
- 17-25 November: European Week for Waste Reduction. The Bank took part in a communication campaign to alert people to the problems of waste and provide techniques for reducing the amount they produce.

This global and cross-sectoral approach reflects the Bank's determination to keep pace with the new legal framework being created under the Grenelle II Act, which requires companies to be increasingly transparent on social and environmental issues.





# The accounts of the Banque de France





## 1| REPORT ON ASSETS, LIABILITIES AND RESULTS

The accounts for the year ending 31 December 2012 were approved by the General Council of the Banque de France at its meeting of 28 March 2013. The Bank's net profit stood at EUR 3,146 million, a sharp EUR 1,576 million rise on 2011.

The non-standard monetary policy measures taken by the Eurosystem in response to the economic and financial crisis in the euro area contributed to a very steep rise in net income to EUR 10,367 million. After covering operating expenses, profit before tax and exceptional items amounted to an exceptional EUR 8,104 million.

Accordingly, the Bank can continue comfortably to strengthen its balance sheet, which is necessary in view of its risk profile and persistent tensions in the economic climate. It allocated EUR 1,850 million to the fund for general risks (FRG), following a EUR 2,065 million allocation in 2011. Distributable profit totalled EUR 3,146 million after corporate income tax of EUR 3,110 million.

*For clarity, items appearing in the published accounts have been grouped in the presentation below. Details of the accounting principles used by the Banque de France are provided in the Notes to the annual accounts.*

### 1|1 Assets and liabilities

Year-on-year, outstanding loans granted to credit institutions through monetary policy operations grew faster than deposits by banks, carried in liabilities. As a result, the net refinancing shown as a net source of funds in the balance sheet at 31 December 2011 appears as a net use of funds at 31 December 2012.

The Bank recorded an increase in its other resources, both in terms of euro banknotes allocated to France and deposits from institutional customers.

Overall, the Bank's net resources fell by 5.8% year-on-year, to around EUR 202 billion at 31 December 2012.

#### Financial position

(year-end amounts and change, EUR millions)

	2012	2011 (pro forma)	Change 2012/2011
<b>NET SOURCES OF FUNDS</b>	<b>201,733</b>	<b>214,121</b>	<b>-12,388</b>
Net sources of funds from banknote operations	166,570	162,752	3,818
Net banking refinancing <sup>a)</sup>	0	22,921	-22,921
Net position with customers	19,709	15,950	3,759
Other	15,454	12,498	2,956
<b>NET USES OF FUNDS</b>	<b>201,733</b>	<b>214,121</b>	<b>-12,388</b>
Gold and net foreign exchange position	31,894	32,449	-555
Euro-denominated portfolio	138,987	148,567	-9,580
Net position with Eurosystem <sup>a)</sup>	28,777	33,105	-4,328
Net banking refinancing <sup>a)</sup>	2,075	0	2,075

<sup>a)</sup> The intra-SEBC positions related to the operations of the Target2 payment system are now aggregated with the Bank's position vis-à-vis the Eurosystem instead of being included in the net banking refinancing aggregate (2011 pro forma)

#### Banknotes

##### Euro banknotes

The total value of euro banknotes put into circulation by the Banque de France continued to increase between end-2011 and end-2012. This item rose 8%, outpacing the growth in banknotes put into circulation across the euro area, up 2.7%.

As a result, the claim arising on the adjustment to banknotes decreased. This claim is equal to the difference between the share in banknotes allocated to France in proportion to its share in the ECB's capital and the banknotes actually put into circulation in France.

The IEDOM (*Institut d'émission des départements d'outre-mer* – the French overseas departments' note-issuing bank) acts on behalf of the Banque de France

#### Banknotes in circulation

(year-end amounts and change, EUR millions)

	2012	2011 (pro forma)	Change 2012/2011
<b>Euro banknotes</b>	<b>166,570</b>	<b>162,185</b>	<b>4,384</b>
Banknotes put into circulation by the Banque de France	95,937	88,838	7,100
Adjustment of banknotes allocated by the Eurosystem	74,704	77,322	-2,619
Advance to the IEDOM	-4,071	-3,975	-96
<b>French franc banknotes</b>	<b>0</b>	<b>567</b>	<b>-567</b>
<b>NET SOURCES OF FUNDS FROM BANKNOTE OPERATIONS</b>	<b>166,570</b>	<b>162,752</b>	<b>3,818</b>

in managing banknote circulation in France's five overseas departments and in its overseas territorial communities of Saint-Pierre-et-Miquelon, Saint-Barthélemy and Saint-Martin. It receives a non-interest bearing advance in return for the notes it distributes. This advance amounted to EUR 4 billion in 2012 and corresponds to a percentage of France's euro banknote allocation, which, since 1 July 2007, has been calculated according to the allocation mechanism in force within the Eurosystem. This advance is eliminated in the Banque de France/IEDOM combined accounts.

#### Payment of outstanding balance on French franc banknotes

French franc legacy banknotes were exchangeable at the Banque de France until 17 February 2012. The equivalent value in euros of the franc banknotes not been presented for exchange by that date (EUR 726 million) was paid over to the State in the form of an advance of EUR 199 million paid in 2003 and 2005, with the outstanding balance paid in June 2012 for EUR 527 million. The exchange transactions that took place between December 2011 and 17 February 2012 concerned total EUR 40 million.

#### Bank refinancing operations

This aggregate item groups most operations with credit institutions conducted in the monetary policy framework; it does not include operations carried out with banks as part of the Banque de France's activities with institutional customers.

<b>Net bank refinancing</b>			
<i>(year-end amounts and change, EUR millions)</i>			
	2012	2011	Change
	(pro forma)	(pro forma)	2012/2011
<b>Assets</b>	<b>191,908</b>	<b>172,368</b>	<b>19,540</b>
Euro-denominated loans in the framework of monetary policy operations	191,908	148,071	43,837
Foreign currency loans in the framework of monetary policy operations	0	24,297	-24,297
<b>Liabilities</b>	<b>189,832</b>	<b>195,288</b>	<b>-5,456</b>
Current account of banks subject to minimum reserves, deposit facilities and deposits collected	189,832	170,992	18,841
Counterpart of foreign exchange lending (non-interest bearing debt with the ECB)	0	24,297	-24,297
<b>NET BANK REFINANCING</b>	<b>-2,075</b>	<b>22,921</b>	<b>-24,996</b>

The year-end figures show an increase in euro financing granted to the banking sector compared to 2011. This is partly due to the ECB's second three-year long-term financing operation in March 2012 (following the first in December 2011). At 31 December 2012, credit institutions no longer had access to US dollar liquidity from the Banque de France.

In an interbank market that had still not returned to normal, deposits by French credit institutions on the books of the Banque de France continued to increase. They rose from EUR 171 billion at end-2011 to EUR 190 billion at end-2012, despite the decline in the minimum reserve ratio as from 18 January 2012.

Overall, the net resource resulting from outstanding monetary policy operations with credit institutions, shown in both assets and liabilities, fell by EUR 25 billion and became negative, since loans to credit institutions increased more than their deposits.

#### Operations with institutional customers

<b>Operations with institutional customers</b>			
<i>(year-end amounts and change, EUR millions)</i>			
	2012	2011	Change
	(pro forma)	(pro forma)	2012/2011
<b>Assets</b>	<b>151,096</b>	<b>136,698</b>	<b>14,398</b>
Lending to the French Treasury (advance in respect of coins)	0	0	0
Back-to-back investment of customer deposits (other than the French Treasury)	151,096	136,698	14,398
<b>Liabilities</b>	<b>170,805</b>	<b>152,648</b>	<b>18,157</b>
Liabilities vis-à-vis the State	4,883	8,937	-4,053
Customer deposits	165,921	143,711	22,210
<b>NET POSITION WITH CUSTOMERS</b>	<b>19,709</b>	<b>15,950</b>	<b>3,758</b>

#### Operations with the French Treasury

Outstanding liabilities vis-à-vis the French Treasury and other government bodies fell from EUR 8.9 billion at 31 December 2011 to EUR 4.9 billion at 31 December 2012.

#### Other operations with institutional customers

The Banque de France offers institutional customers banking services such as current account keeping.



Balances in these accounts have increased as a result of the low interest rate environment. The Bank also provides non-euro area central banks with a range of services that allow them, inter alia, to invest a proportion of their foreign reserve assets and carry out foreign currency transactions. Institutional customers' deposits and the related back-to-back operations are recorded in dedicated balance sheet (see above) and off-balance sheet accounts.<sup>22</sup>

The volume of business conducted with institutional customers increased by 15% in 2012 reaching EUR 166 billion by the end of 2012.

## Gold and foreign currency reserves

<b>Gold and foreign exchange reserves</b>			
<i>(year-end amounts and change, EUR millions)</i>			
	2012	2011	Change
		<i>(pro forma)</i>	2012/2011
<b>Assets</b>	<b>155,530</b>	<b>156,314</b>	<b>-784</b>
Gold	98,751	95,282	3,469
Foreign exchange assets and investments	38,660	43,428	-4,768
Relations with the IMF	18,119	17,604	515
<b>Liabilities</b>	<b>123,636</b>	<b>123,865</b>	<b>-229</b>
Foreign exchange liabilities	5,863	8,910	-3,047
Counterpart to SDR allocations	11,815	12,030	-215
Revaluation accounts (gold, foreign currency and securities denominated in foreign currencies)	83,951	81,055	2,896
Revaluation reserve of State gold and foreign exchange reserves	22,007	21,869	137
<b>TOTAL GOLD AND FOREIGN EXCHANGE RESERVES</b>	<b>-31,894</b>	<b>-32,449</b>	<b>555</b>

Net gold and foreign currency reserves remained stable in 2012, at EUR 32 billion.

## Gold reserves

The Banque de France's gold reserves were unchanged at EUR 2,435 tonnes. The euro value of the Bank's gold

assets at the end of 2012 increased by EUR 3.5 billion compared to end-2011 due to the 3.6% rise in gold prices.

The gold revaluation account opened on 1 January 1999, which books unrealised capital gains on gold as of that date, stood at EUR 79.4 billion at the end of 2012.

## Foreign currency assets and operations with the International Monetary Fund

The Bank's foreign currency reserves excluding Special Drawing Rights (SDRs), net of liabilities and revaluation adjustments, remained stable at EUR 29 billion. Reallocations of assets and sales of foreign currency revenues generated foreign currency gains of EUR 137 million. This sum was allocated to the revaluation reserve of State gold and foreign currency reserves (RRRODE).

The claim on the IMF continued to increase and stood at EUR 18.1 billion after additional financing granted to the Institution by France as part of continued international efforts to stem the financial crisis.

## The Banque de France's euro-denominated portfolios

These include "monetary portfolios" and own-resources portfolios.

<b>Euro-denominated portfolios</b>			
<i>(year-end amounts and change, EUR millions)</i>			
	2012	2011	Change
		<i>(pro forma)</i>	2012/2011
<b>Euro-denominated monetary portfolios</b>	<b>132,515</b>	<b>142,356</b>	<b>-9,841</b>
Available-for-sale	8,850	20,505	-11,655
Held-to-maturity	123,665	121,851	1,814
<b>Own funds investment portfolio</b>	<b>6,472</b>	<b>6,212</b>	<b>260</b>
Available-for-sale	3,947	3,707	240
Held-to-maturity	554	801	-247
Participating interests	1,971	1,704	267
<i>o/w share in ECB capital</i>	<i>1,536</i>	<i>1,299</i>	<i>237</i>
<b>EURO-DENOMINATED SECURITIES</b>	<b>138,987</b>	<b>148,567</b>	<b>-9,580</b>

## Euro-denominated monetary portfolios<sup>23</sup>

The Banque de France holds portfolios to invest its monetary resources (i) as part of monetary policy programmes adopted in 2009, 2010 and 2011,

<sup>22</sup> See Note 27 to the annual accounts.

<sup>23</sup> From an accounting standpoint, this aggregate comprises balance sheet item A7 "Euro-denominated securities issued by euro area residents", and the portion of item A4 "Euro-denominated claims on non-euro area residents" consisting of securities issued by non-euro area entities. Available-for-sale portfolios are stated net of revaluation accounts, which are shown on the liabilities side of the balance sheet in item P13.2.

and (ii) in the framework adopted by the Eurosystem in 2003, which allows national central banks (NCBs) to hold portfolios not related to the implementation of monetary policy within annually reviewed limits.

With interest rates low and falling throughout the year, the monetary available-for-sale portfolio was scaled back, while held-to-maturity portfolios, and particularly those related to monetary policy, increased by EUR 1.8 billion overall.

### Own funds investment portfolios

These portfolios, which stood at EUR 6.5 billion at end-December 2012, remained largely unchanged in the year. The third and final EUR 237 million tranche of the ECB's capital increase was paid on 27 December 2012.

### Net position with the Eurosystem

#### Net position with the Eurosystem

(year-end amounts and change, EUR millions)

	2012	2011	Change
	(pro forma)	(pro forma)	2012/2011
Claim on the Eurosystem for banknotes in circulation	74,845	77,576	-2,730
Claim on the ECB for gold and foreign exchange assets transferred	8,255	8,281	-26
Other claims on the Eurosystem	527	467	60
Liability towards the Eurosystem related to Target2	-54,850	-53,218	-1,631
<b>NET POSITION WITH THE EUROSISTEM</b>	<b>28,777</b>	<b>33,105</b>	<b>-4,327</b>

The Banque de France has several claims and liabilities with the Eurosystem, notably:

- a claim arising on adjustments to banknotes (see above);
- a claim arising from gold (15%) and foreign currency (85%) assets transferred to the ECB. This claim is denominated in euro and 85% of it bears interest, with the remaining non-interest bearing 15% corresponding to the gold transfer;
- a liability relating to the functioning of the Target2 payment system;

- interim dividends and accrued income resulting from the pooling of monetary income (EUR 410 million in 2012, including prior year adjustments, after EUR 334 million in 2010).

These items bear interest at the Eurosystem's main refinancing operations rate.

### Other items

#### Other items

(year-end amounts and change, EUR millions)

	2012	2011	Change
		(pro forma)	2012/2011
Capital, reserves and retained earnings	6,200	5,832	368
Provisions for liabilities and charges	932	1,015	-84
Fund for general risks	5,660	3,810	1,850
Fixed assets	-853	-892	39
Other	370	1,162	-793
Net profit for the year	3,147	1,570	1,577
<b>TOTAL</b>	<b>15,455</b>	<b>12,498</b>	<b>2,957</b>

The net balance of the line "Other items" rose EUR 3.0 billion in 2012.

The reduction in provisions for liabilities and charges is principally explained by the partial reversal of the provision for monetary policy operations established in 2008, pursuant to Article 32.4 of the ESCB Statute. The total amount of the provision, initially established at EUR 5.7 billion for the entire Eurosystem, was reduced at the end of 2012 for the fourth consecutive year, by EUR 310 million. As a result, the Banque de France booked a provision reversal of EUR 132 million, thereby reducing the provision to EUR 64 million.

The fund for general risks was raised to around EUR 5.7 billion by a provision of EUR 1.85 billion in order to take into account the overall increase in the risks to which the Banque de France is exposed in the course of its operations.

## 1|2 Breakdown of profit

Net profit for 2012 was up EUR 1,576 million on 2011, at EUR 3,146 million.

## Net income from activities

<b>Net income from activities</b>			
<i>(year-end amounts and change, EUR millions)</i>			
	<b>2012</b>	<b>2011</b>	<b>Change</b>
		<i>(pro forma)</i>	<b>2012/2011</b>
<b>NET INCOME ON ACTIVITIES</b>	<b>10,367</b>	<b>7,759</b>	<b>2,607</b>
<b>Euro monetary income</b>	<b>7,751</b>	<b>5,241</b>	<b>2,510</b>
Income from available-for-sale and held-to-maturity portfolios	5,517	4,188	1,329
Net income from refinancing of the banking system	1,550	74	1,476
Net income on positions with the Eurosystem	261	460	-199
Pooling of monetary income	542	594	-52
Other interest-bearing accounts	-118	-74	-44
<b>Foreign currency monetary income</b>	<b>1,007</b>	<b>996</b>	<b>11</b>
<b>ECB and IEDOM dividends</b>	<b>151</b>	<b>190</b>	<b>-40</b>
<b>Net income from non-monetary activities</b>	<b>1,458</b>	<b>1,332</b>	<b>126</b>

In 2012, the Banque de France saw a sharp 33.6% rise in net income from activities, to EUR 10,367 million from EUR 7,759 million in 2011.

The growth of euro-denominated monetary income resulting from the investment of banknote resources was the largest contributor to the increase in the Bank's net income from activities in 2012. Foreign currency monetary income was stable against a backdrop of low bond yields in the main reserve currencies.

### Euro-denominated monetary income

Net monetary income from euro transactions is the largest component of the Banque de France's income. It includes (i) income on securities, (ii) net income from bank refinancing corresponding to the difference between the interest received on bank loans granted under monetary policy and the remuneration on deposits by credit institutions (minimum reserve requirements, deposit facilities, and the collection of deposits), (iii) interest on intra-Eurosystem balances corresponding

mainly to adjustments made to the monetary income from banknotes in circulation, to the transfer of foreign currency reserves to the ECB and to positions related to the Target2 payment system, and (iv) the net revenue in respect of the pooling of monetary income. This latter element includes the balance of the Eurosystem's income distribution mechanism<sup>24</sup> and allocations as well as reversals of provisions for monetary policy operations.

The rise in euro-denominated monetary income chiefly reflects the increase in the size of the Securities Market Programme (SMP) as well as purchases of securities in late 2011 and early 2012. The return on these securities is higher than the portfolio's financing rate by weekly deposits, thereby neutralising its impact on liquidity. Monetary income was also boosted by the growth in outstanding refinancing transactions. The reduction in the ECB's policy rates from 1% to 0.75% in July 2012 did not have a significant impact on the Banque de France's financial income.

### Foreign currency monetary income

In 2012, foreign currency portfolios financed by monetary liabilities generated a profit of EUR 1 billion, up slightly (EUR 11 million) on the previous year. Persistently low interest rates in the United States reduced the return on the Bank's dollar-denominated assets, but this was offset by income generated by a diversification of the Bank's foreign currency reserves.

### ECB and IEDOM dividends

In 2012, the ECB paid a dividend of EUR 15 million to the Banque de France in respect of income generated in 2011. The ECB also settled the balance of its seigniorage income after deducting the allocation to the provision for foreign currency, interest rate and credit risks, representing an advance on dividends of EUR 117 million for the Bank.

In addition, the dividend paid by the IEDOM in 2012 in respect of 2011 was EUR 19 million.

### Net income from non-monetary activities

The Bank's non-monetary activities generated total net income of EUR 1.46 billion in 2012, up EUR 126 million on the previous year.

<sup>24</sup> The net result of the pooling of monetary income corresponds to the year-end adjustment for the difference between income originating from the Eurosystem for a national central bank and the income from operations generated by the bank in question and subsequently pooled. In the case of the Banque de France, the pooling of monetary income generated additional income of EUR 392 million in 2012, compared with EUR 334 million in 2011 (excluding provision reversals). This amount is increased by EUR 18 million in income arising on prior-year adjustments.

Net income from operations with institutional customers continued to increase, while the amount paid by the State in respect of services provided by the Bank remained stable.

The contribution from entities subject to the supervision of the ACP (*Autorité de contrôle prudentiel* – Prudential Supervisory Authority, which is under the auspices of the Banque de France) financed the ACP's operating costs thereby obviating the need for any contribution from the Bank.

Lastly, income from the portfolios in which the Bank's own funds and the Employee Reserve Fund are invested increased EUR 34 million compared with 2011 to EUR 206 million, driven by the rise in equity markets.

### Operating expenses

Operating expenses stood at EUR 2,263 million in 2012, up by EUR 154 million compared with 2011.

Pension expenses increased as a result of demographic trends and pension indexing, while personnel and related expenses edged up 0.9%.

The EUR 72 million variation in income in respect of capitalised production and most of the "Depreciation charges on fixed assets" and "Other operating expenses" accounts results from a change in accounting policies applied to capitalised expenditures on IT assets. This led to recognition of an exceptional depreciation charge at end-2012 on IT projects under development, and IT applications subject to depreciation.



### Operating expenses

(year-end amounts and change, EUR millions)

	2012	2011 (pro forma)	Change 2012/2011
<b>OPERATING EXPENSES</b>	<b>-2,263</b>	<b>-2,109</b>	<b>-154</b>
Personnel and related expenses	-1,013	-1,004	-9
Pension expenses	-440	-428	-12
Taxes other than income tax	-38	-38	0
Depreciation charges on fixed assets	-187	-144	-43
Capitalised production	0	13	-13
Other operating expenses	-586	-508	-77

### Profit for the year

#### Fund for general risks

The fund for general risks (FRG) is intended to cover all possible risks to which the Bank is exposed in the course of its activities, except currency risk on gold and foreign currency reserves, which is covered by the revaluation reserve of State gold and foreign currency reserves. The fund represents a provision that is intended to cover any risks that could not be adequately covered by operating profit.

The increase in the volume of operations conducted as part of monetary policy and the risks associated with the exceptional measures taken in response to the financial crisis prompted the Bank to raise its fund for general risks by an additional EUR 1.85 billion in 2012. The total value of the fund at end-2012 stood at EUR 5.66 billion.

#### Corporate income tax

The Banque de France is subject to corporate income tax and a number of additional tax contributions. For 2012, the Banque de France's income tax commitment increased by EUR 1,096 million to EUR 3,110 million, including the exceptional 5% addition to corporate income tax introduced by the Supplementary Budget Act No. 2011-1978 dated 28 December 2011 (EUR 143 million) and the dividend tax introduced by the Supplementary Budget Act for 2012 (EUR 6 million).



## Net profit

### Main income statement balances

(year-end amounts and change, EUR millions)

	2012	2011 (pro forma)	Change 2012/2011
Net income on activities of the Banque de France	10,367	7,759	2,607
Operating expenses	-2,263	-2,109	-154
<b>Profit before tax and exceptional items</b>	<b>8,104</b>	<b>5,650</b>	<b>2,454</b>
Net transfer to fund for general risks and accelerated tax depreciation	-1,848	-2,067	219
Exceptional items	—	—	0
Corporate income tax	-3,110	-2,014	-1,096
<b>PROFIT FOR THE YEAR</b>	<b>3,146</b>	<b>1,570</b>	<b>1,576</b>

After consolidation of the Bank's fund for general risks, a reversal of EUR 2 million in accelerated tax depreciation charges and payment of the Bank's income tax commitment, net profit for the Bank was up EUR 1,576 million in 2012 to EUR 3,146 million.

The Bank's General Council approved the 2012 accounts at its meeting of 28 March 2013.

As in previous years these accounts were certified by the auditors, who issued an unqualified opinion.

After taking into account retained earnings of EUR 103 million from 2011 profits, the General Council decided on the following appropriation of total distributable profits of EUR 3.249 billion:

- a regulatory appropriation to the general reserve of EUR 157 million, i.e. 5% of net profit;
- the payment of a dividend of EUR 1.937 billion to the State;
- an appropriation to the Employee Reserve Fund of EUR 121 million in respect of entitlements acquired during 2012;
- an appropriation to the special pension reserve amounting to EUR 573 million;
- a contribution to the provision for investment amounting to EUR 0.3 million.

The balance of EUR 461 million was carried forward as retained earnings.

## 2| THE INDIVIDUAL ACCOUNTS OF THE BANQUE DE FRANCE

### 2|1 The balance sheet and profit and loss account

#### Balance sheet at 31 December 2012

(EUR millions)<sup>a)</sup>

Notes to annual accounts	Item	Description	2012	2011
<b>Assets</b>				
1	A1	Gold	98,751	95,282
2	A2	Foreign exchange assets (excl. relations with the IMF)	38,660	67,725
		2.1 Foreign exchange assets held with non-euro area residents	30,589	23,116
		2.2 Foreign exchange assets held with euro area residents	8,072	44,609
3	A3	Relations with the IMF	18,119	17,604
		3.1 Financing provided to the IMF	6,432	6,027
		3.2 Acquisitions of Special Drawing Rights	11,687	11,577
5	A4	Euro-denominated claims on non-euro area residents	6,539	10,113
4	A5	Euro-denominated loans to euro area credit institutions in the framework of monetary policy operations	181,933	129,336
5	A6	Other euro-denominated loans to euro area credit institutions	45,182	51,420
6	A7	Euro-denominated securities issued by euro area residents	130,427	139,294
		7.1 Securities held for monetary policy purposes	51,802	48,756
		7.2 Other securities	78,625	90,538
	A8	Relations within the Eurosystem	85,163	87,622
13		8.1 Participating interest in the ECB	1,536	1,299
7		8.2 Claims arising on the transfer of reserve assets to the ECB	8,255	8,281
8		8.3 Claims arising on the Eurosystem for euro banknotes in circulation	74,845	77,576
9		8.4 Other claims on the Eurosystem	527	467
10	A9	Advance to the IEDOM	4,071	3,975
	A10	Claims on the French Treasury	0	0
11	A11	Other euro and foreign currency denominated financial assets	112,660	100,964
12	A12	Miscellaneous	8,987	4,618
13	A13	Fixed assets	1,289	1,297
		13.1 Tangible and intangible assets	853	892
		13.2 Participating interests (other than interest in the ECB)	436	405
<b>TOTAL ASSETS</b>			<b>731,781</b>	<b>709,250</b>
<b>Liabilities</b>				
14	P1	Banknotes in circulation	170,641	166,160
4	P2	Euro-denominated liabilities to euro area credit institutions in the framework of monetary policy operations	189,832	171,001
		2.1 Current accounts	104,368	53,163
		2.2 Other liabilities	85,464	117,838
	P3	Other euro-denominated liabilities to euro area credit institutions	926	1,874
15	P4	Euro-denominated liabilities to non-euro area residents	35,593	18,699
2	P5	Foreign exchange liabilities	5,863	8,901
3	P6	Counterpart to SDR allocation	11,815	12,030
16	P7	Relations within the Eurosystem	54,850	77,515
17	P8	Euro-denominated liabilities to other euro area residents	10,135	13,151
		8.1 Treasury's account	4,883	8,937
		8.2 Other liabilities	5,252	4,214
18	P9	Items in the course of settlement	206	102
19	P10	Banking transactions	124,151	118,924
20	P11	Miscellaneous	4,683	4,996
21	P12	Provisions for liabilities and charges	932	1,015
22	P13	Revaluation accounts	85,050	81,709
23	P14	Fund for general risks and accelerated tax depreciation	5,750	3,902
24	P15	Revaluation reserve of State gold and foreign exchange reserves	22,007	21,869
25	P17	Capital, reserves and retained earnings	6,200	5,832
	P18	Profit for the year	3,146	1,570
<b>TOTAL LIABILITIES</b>			<b>731,781</b>	<b>709,250</b>

a) Each item of the 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.

## 2012 profit and loss Account

(EUR millions)<sup>a)</sup>

Notes to annual accounts	Item	Description	2012	2011
	<b>1.</b>	<b>Net income on activities of the Banque de France</b>	<b>10 367</b>	<b>7 759</b>
31	1.1	Net interest income	8 369	6 216
	1.1.1	Interest and related income	10 475	8 878
	1.1.2	Interest and related expenses	- 2 106	- 2 663
32	1.2	Net income/loss on financial transactions	432	- 48
	1.2.1	Net of realised gains/losses and unrealised losses on foreign exchange	137	47
	1.2.2	Net of charges to/releases from the revaluation reserve of State foreign exchange reserves	- 137	- 47
	1.2.3	Net of other income and expenses on financial transactions	432	- 48
	1.3	Commission	16	12
	1.3.1	Commission (income)	48	44
	1.3.2	Commission (expense)	- 32	- 32
33	1.4	Income from equity securities and participating interests	185	222
34	1.5	Net result of pooling of monetary income	542	594
35	1.6	Net of other income and expenses	823	763
	<b>2.</b>	<b>Operating expenses</b>	<b>- 2 263</b>	<b>- 2 109</b>
36	2.1	Personnel and related expenses	- 1 013	- 1 004
	2.2	Pensions and related expenses	- 440	- 428
	2.3	Taxes other than income tax	- 38	- 38
	2.4	Provisions, depreciation and amortisation	- 187	- 144
	2.5	Net of other operating income and expenses	- 586	- 495
		<b>PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS (1 + 2)</b>	<b>8 104</b>	<b>5 650</b>
	<b>3.</b>	<b>Net charge to the fund for general risks and accelerated tax depreciation</b>	<b>- 1 848</b>	<b>- 2 067</b>
	<b>4.</b>	<b>Extraordinary items</b>		
	4.1	Extraordinary income	-	-
	4.2	Extraordinary expenses	-	-
37	<b>5.</b>	<b>Corporate income tax</b>	<b>- 3 110</b>	<b>- 2 014</b>
		<b>PROFIT FOR THE YEAR (1 + 2 + 3 + 4 +5)</b>	<b>3 146</b>	<b>1 570</b>

a) Each item of the 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.

## 2|2 Notes to the annual accounts

### Accounting principles and valuation methods

#### Legal framework

The annual accounts of the Banque de France are presented in accordance with the Order of the Minister of the Economy, Finance and Industry of 7 February 2000. Their structure is designed to reflect the specific nature of the tasks carried out by the Bank as part of the ESCB and its diverse range of activities. The accounts are expressed in millions of euro.

The accounting and valuation methods applied by the Banque de France are defined in Article R 144-6 of the *Monetary and Financial Code*, which specifies that:

- the Banque de France must comply with the accounting and valuation methods laid down

<sup>25</sup> OJEU of 9 February 2011, L35 page 31.

by the Governing Council of the ECB in its 11 November 2011 Guideline for all activities carried out within the framework of the ESCB.<sup>25</sup> 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 currency reserve management, and the issue of banknotes;

- the accounting rules established by the ANC (*Autorité des normes comptables* – Accounting Standards Authority) apply to all the Bank's other activities. However, the Bank's General Council may also decide to apply the accounting and valuation rules recommended by the ECB to its other activities.

With effect from 1 January 2003, the Banque de France extended the accounting methods laid down by the Governing Council of the ECB in its 5 December 2002 Guideline (since replaced by the Guideline of 10 November 2006, and subsequently

by that of 11 November 2011) to cover the securities portfolios recorded in asset item A11.

### Valuation methods

#### Foreign currency gains/losses

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

##### *Foreign currency gains/losses on State gold and currency reserves*

Realised gains/losses are computed for each currency. Every day, a weighted average price is calculated, 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 expenses in foreign currencies, in particular accrued interest in foreign currencies). The realised gain/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/loss is calculated, equating to the difference between the net outflows of the day valued at the average outflow price on the one hand, and at the average price of the day's opening position on the other. Where inflows exceed outflows, the net inflow is added to the assets held at the beginning of the day, thus changing the average price of the position.

Gold and foreign currency positions are valued at year-end on the basis of the rates/prices prevailing on the last business day of the year. Unrealised gains are recorded as liabilities in revaluation accounts (item P13). Unrealised losses are taken to the profit and loss account in item 1.2.1. Unrealised gains and losses are not netted.

##### *Revaluation reserve of State gold and foreign currency reserves*

Pursuant to the new agreement between the State and the Banque de France which came into force on 2 February 2011 and replaces the agreement of 31 March 1999, the revaluation reserve of State gold reserves (*réserve de réévaluation des réserves en or de l'État – RRROE*) and the revaluation reserve of State foreign currency reserves (*réserve de réévaluation des réserves en*

*devises de l'État – RRRDE*) – were merged into a single reserve called the revaluation reserve of State gold and foreign currency reserves (*réserve de réévaluation des réserves en or et en devises de l'État – RRRODE*).

Like the 1999 agreement, the new agreement of 2011 neutralises the impact on the Bank's profit and loss account of realised gains and losses and of unrealised losses at year-end, thanks to a mechanism whereby the counterpart in the profit and loss account is symmetrically offset against the RRRODE. However, as before, the amount of net foreign currency gains taken to the RRRODE is limited to the net profit for the year before the transfer to the reserves.

The new agreement also stipulates that:

- the amount of the RRRODE must henceforth be equal to at least 12% of the gold and foreign currency position; it must also be sufficient to cover the losses that would arise from a fall in prices equivalent to that of the worst of the past ten years;
- if the RRRODE falls below its minimum amount as defined above, it is supplemented from profits for the financial year, without exceeding 20% of net profit.

##### *Other foreign currency gains/losses*

The Banque de France applies Regulation 89-01 of the Banking and Financial Regulation Committee (*Comité de la réglementation bancaire et financière – CRBF*) to foreign currency operations that are not connected to its main responsibilities. 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 posted to the profit and loss account in item 1.2.3 "Net of other income and expenses on financial transactions". 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 portfolio (excluding pension fund – see Note 30)

Fixed-income securities and variable-yield securities are recorded under:

- item A2 of the balance sheet for securities denominated in foreign currencies held in connection with foreign currency reserve management;



- item A7.1 for securities acquired for monetary policy purposes;
- item A11 for euro-denominated securities earmarked against the Bank's own funds, provisions and customer deposits recorded in items P4 or P10;
- item A12 for securities held in the Bank's Employee Reserve Fund (see Note 30);
- item A4 or A7.2 for other securities denominated in euro depending on whether they are issued by non-residents or residents.

Fixed-income securities that the Banque de France has decided to hold to maturity are recognised in the accounts at amortised cost but may be subject to impairment in the event of a risk of non-recovery.

The other fixed-income securities that may be sold before their maturity, and variable-yield securities, are revalued line by line at their market price on the last business day of the year. Unrealised gains are recorded as liabilities in revaluation accounts (item P13). Unrealised losses are booked as expenses on financial transactions (profit and loss account item 1.2.3). Unrealised gains and losses are not netted. Gains and losses arising from sales realised during the year are calculated on the basis of the weighted average price of each line of securities; they are booked in profit and loss item 1.2.3 "Net of other income and expenses on financial transactions" of the profit and loss account.

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

### 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 item 1.2.3 of the profit and loss account.

Interest rate swaps are revalued at market value at 31 December. Unrealised gains are recorded as liabilities in revaluation accounts (item P13). Unrealised losses are booked as expenses on financial transactions (profit and loss account item 1.2.3). Unrealised gains and losses are not netted. Unrealised

losses are amortised over the remaining life of the contract. The interest is recorded in item 1.1 of the profit and loss account on an accruals basis.

Currency option premiums are recorded on the asset side of the balance sheet if they relate to currency purchases and on the liabilities side if they relate to currency 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 item 1.2.1 of the profit and loss account "Net of realised gains/losses and unrealised losses on foreign currency". At the end of the year, the premium amounts booked to the profit and loss account during the year are transferred to the revaluation reserve of State gold and foreign currency reserves in the same way as realised foreign currency gains and losses.

Open positions on currency options at the balance sheet date are valued at their market price. Unrealised gains are recorded as liabilities in revaluation accounts (item P13). Unrealised losses are booked in item 1.2.3 of the profit and loss account. Unrealised gains and losses are not netted.

### Synthetic instruments

A synthetic instrument is a financial instrument created artificially by combining two or more instruments with the aim of replicating the cash flows and valuation patterns of another instrument.

At the end of the year, a synthetic instrument that replicates a fixed-income security that is not intended to be held to maturity is marked to market using the market prices of its component instruments. The unrealised gain or loss on the synthetic instrument is calculated based on the net amount of the unrealised gains and losses on its component instruments.

Unrealised gains are recorded as liabilities in revaluation accounts (item P13). Unrealised losses are booked as expenses on financial transactions (profit and loss account item 1.2.3). Unrealised gains and losses on different synthetic instruments are not netted. Where appropriate, gains and losses arising from sales realised during the year are booked in item 1.2.3 "Net of other income and expenses on financial transactions" of the profit and loss account.

### Eurosystem claims and liabilities

Net claims on or liabilities to the Eurosystem arise on cross-border transfers between the ESCB's national central banks and the ECB via Target. These cross-border operations give rise to bilateral claims and liabilities between national central banks. All such bilateral claims and liabilities are netted on a daily basis within the Target system so that only one position is shown for each NCB vis-à-vis the ECB. The Banque de France's net position in Target vis-à-vis the ECB along with other euro-denominated liabilities to the Eurosystem are carried on the Bank's balance sheet as a net liability to the Eurosystem in item P7 (see Note 16).

The Bank has other Eurosystem claims and liabilities due to its stake in the ECB's capital (Note 13), the transfer of a portion of reserve assets (Note 7), interim dividends and accrued income receivable from the ECB in respect of the distribution of the balance of monetary income (Note 9), and the allocation of banknotes among national central banks and the ECB (Note 14).

### Tangible and intangible fixed assets

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

Land is valued at acquisition cost. Buildings and equipment are carried at historical cost, less depreciation or provisions for impairment booked since they were brought into service. Up to 31 December 2011, costs incurred in developing major computer applications intended to be used over a number of years were capitalised. Costs directly attributable to developing the new software were reported in "Operating expenses", while intangible assets were increased by the same amount, with the counterpart entry recorded in item 2.5 "Net of other operating income and expenses". In 2012, the Banque de France changed the accounting methods applicable to in-house IT projects (see Note 13 below).

In accordance with Article 322-1 of the French General Chart of Accounts (*Plan comptable général* – PCG), the depreciation period for each asset is determined on the basis of its probable useful life. Components of the Bank's property assets are depreciated over 50, 33, 20 or 10 years, depending on the type of asset. Computer equipment is depreciated over 2 to 10 years,

and most other equipment 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 CRC Regulation 2002-10, the useful lives of long-term assets are reviewed regularly and modified as required.

Accelerated tax depreciation is applied for 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 23.

### Pension scheme

See Note 30.

### Post-balance sheet events

None.

### Information on balance sheet, off-balance sheet and profit and loss items

A certain amount of confidential information relating to operations carried out in the exercise of the Banque de France's core operations is not disclosed, in accordance with decisions taken by the General Council and pursuant to Article R144-6 of the *Monetary and Financial Code*.

### Balance sheet

#### NOTE 1: GOLD

In 2009, the Eurosystem central banks, Swiss National Bank and the Sveriges Riksbank renewed the agreement capping their sales of gold. Under the agreement, entered into for a five-year period commencing on 27 September 2009, annual sales by the 19 central banks concerned may not exceed 400 tonnes.

The gold stock of the Banque de France (2,435 tonnes) remained unchanged in 2012.

#### NOTE 2: FOREIGN CURRENCY ASSETS AND LIABILITIES

Foreign currency reserves are invested in overnight deposits, fixed-term deposits, reverse repo transactions

with delivery of securities, and fixed-income securities. The Bank may also borrow foreign currencies in the form of repurchase agreements with delivery of securities, recorded in liability item P5.

Fixed-income securities denominated in foreign currencies 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 section above on accounting principles and valuation methods. Securities intended to be held to maturity totalled EUR 10,842 million at 31 December 2012 compared to EUR 11,650 million at 31 December 2011.

In 2011, the item “foreign currency assets” also included claims on euro area residents in the form of securities repurchase agreements, for an equivalent euro value of EUR 25,118 million (USD 32.5 billion). At 31 December 2012, the full amount of these loans had been settled. The loans had been granted under the temporary reciprocal currency arrangement (swap lines) put in place by the US Federal Reserve System and the ECB. Under this programme, the US Federal Reserve System provided the dollars to the ECB through a EUR/USD swap. The ECB simultaneously entered into back-to-back swap

transactions with NCBs that have adopted the euro, which used the resulting funds to conduct US dollar liquidity-providing operations with Eurosystem counterparties. In 2011, these back-to-back swap transactions resulted in non-remunerated intra-Eurosystem balances between the ECB and the NCBs, reported under liability item P7 “Relations within the Eurosystem”.

### NOTE 3: RELATIONS WITH THE IMF

#### Relations with the IMF Asset item A3 and Liability item P6 (EUR millions)

	2012	2011
<b>ASSETS</b>		
Financing provided to the IMF	6,431	6,025
Acquisitions of Special Drawing Rights	11,685	11,574
Accrued interest receivable	3	6
<b>TOTAL</b>	<b>18,119</b>	<b>17,604</b>
<b>LIABILITIES</b>		
Counterpart to SDR allocations	11,814	12,026
Accrued interest payable	1	4
<b>TOTAL</b>	<b>11,815</b>	<b>12,030</b>

The amount of financing provided to the IMF is equivalent to the euro value of:

- drawing rights under the reserve tranche that corresponds to the fraction 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;
- 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 Special Drawing Rights” item includes the euro equivalent of the SDRs held by France, and chiefly comprises SDRs allocated to France as part of the IMF’s general SFR allocations to member countries, along with purchases of SDRs as part of voluntary swap agreements with member countries designated by the IMF.

#### Foreign exchange assets and liabilities (excl. relations with the IMF) Asset item A2 and Liability item P5 (EUR millions)

	2012	2011
<b>ASSETS</b>		
<b>Foreign currency assets</b>		
Overnight deposits	707	100
Fixed-term deposits	11,666	14,360
Provision of US dollar liquidity to Eurosystem counterparties	–	25,118
Securities received under repurchase agreements	507	504
Fixed-income securities	25,560	27,345
Accrued interest receivable	220	298
<b>TOTAL</b>	<b>38,660</b>	<b>67,725</b>
<b>LIABILITIES</b>		
<b>Foreign exchange liabilities</b>		
Securities delivered under repurchase agreements	5,850	8,896
Accrued interest payable	13	6
<b>TOTAL</b>	<b>5,863</b>	<b>8,901</b>

The amount of acquisitions of SDRs should be considered together with that recorded in liability item P6 “Counterpart to SDR allocations” to determine France’s net SDR position.

Changes in financing provided to the IMF stem from:

- net drawings by the IMF of EUR 175 million on France’s quota (excess of drawings over repayments);
- the net drawing of SDR 293 million (equivalent to EUR 368 million) in 2012 under the loan agreement between the Banque de France and the IMF of December 2009. This agreement provides for a maximum of EUR 21,178 million since the bilateral loan agreements were merged with the New Arrangements to Borrow of February 2011.

The change in asset item A3.2 “Acquisitions of Special Drawing Rights” (SDR assets) arises from the payment of interest relating to receivables and liabilities in SDRs as well as the purchases of SDRs under voluntary swap agreements with other central banks and the change

in the price of SDRs from one year-end to the next. The counterpart of loans granted to the PRGT set up under the auspices of the IMF is the “SDR assets” item. In 2012, loans granted in this respect totalled SDR 339 million (equivalent to EUR 406 million).

The liability item P6 “Counterpart to SDR allocations” was last changed in 2009 when there was a general allocation and a special allocation of SDRs by the IMF for a total of SDR 9 billion. The change in the item results from movements in the SDR/euro exchange rate.

#### NOTE 4: MONETARY POLICY OPERATIONS

Total receivables held by the Eurosystem in relation to monetary policy operations amounted to EUR 1,128,794 million, of which EUR 181,933 million recorded on the Banque de France’s balance sheet. In accordance with Article 32.4 of the ESCB Statute, any risks that may materialise as a result of monetary policy operations are eventually to be shared in full by the Eurosystem NCBs, in proportion to their prevailing ECB capital key shares.

Asset item A5 and liability item P2.2 show operations carried out by the Banque de France as part of the single monetary policy of the Eurosystem.

**Short-term open market operations** conducted by the Eurosystem were the main refinancing operations in volume terms until 2008 and they play a key role in steering interest rates, managing bank liquidity and signalling the stance of monetary policy. They are conducted through weekly tenders in the form of temporary sales of assets (repurchase agreements) for a one-week maturity. Since October 2008, these operations have been conducted as fixed-rate tender procedures.

**Longer-term refinancing operations** (LTROs) are carried out through monthly tenders for loans with a maturity of 3, 6 or 12 months.

In connection with the enhanced credit support measures to support bank lending and liquidity in the euro area money market, the Governing Council decided in December 2011 to conduct two longer-term refinancing operations (LTROs) with a maturity of 36 months and the option of early repayment after one year. These operations are conducted as tender procedures with full allotment. The rate applicable to





**Euro-denominated loans to euro area credit institutions within the framework of monetary policy operations**

Asset item A5

(EUR millions)

	2012	2011
Main refinancing operations	7,611	6,098
Longer-term refinancing operations	172,879	123,140
Fine-tuning operations	0	0
Structural operations	—	—
Marginal lending facility	—	—
Margin calls paid	—	—
Accrued interest receivable	1,443	98
<b>TOTAL</b>	<b>181,933</b>	<b>129,336</b>

these operations is equal to the average rate applicable to the main refinancing operations over the life of the longer-term refinancing operation concerned. Interest is paid when each operation matures. The first operation was allotted on 21 December 2011 (EUR 489.2 billion for the Eurosystem) and the second was allotted on 1 March 2012 (EUR 529.5 billion for the Eurosystem).

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

**Fine-tuning operations and the collection of deposits** are executed on an ad-hoc basis with the aim of managing the liquidity situation in the market and steering interest rates. Fine-tuning operations take the

form of reverse transactions, outright foreign currency swaps or the collection of deposits. These operations are generally executed by means of quick tenders or bilateral procedures. They were used throughout 2012 in counterpart to the liquidity provided through SMPs, but decreased sharply at end-December 2012 to stand at EUR 894 million.

Liability item P2.1 comprises the **current accounts** opened by credit institutions in the books of the Banque de France. These accounts mainly comprise minimum reserves. The minimum reserve build-up period begins on the main refinancing operation settlement date following the Governing Council meeting at which the monthly assessment of monetary policy direction is made (Article 7 of EC Regulation 1745/2003 of the ECB, dated 12 September 2003). Holdings of minimum reserves bear interest at the average rate of the main refinancing operations over the period the reserves are built up. Deposits exceeding minimum reserves do not bear interest. The minimum reserve base was reduced from 2% to 1% in January 2012.

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 (0% since 11 July 2012), which explains why a portion of the excess liquidity was maintained in IMF current accounts at 31 December 2012 (these accounts are only remunerated to the extent of minimum reserves). The high level of the deposit facility observed at 31 December 2012 can be attributed to the three-year refinancing operations of 21 December 2011 and 1 March 2012 described above.

**Euro-denominated liabilities to euro area credit institutions within the framework of monetary policy operations**

Liability item P2

(EUR millions)

	2012	2011
<b>Current accounts</b>	<b>104,354</b>	<b>53,135</b>
<b>Other liabilities</b>	<b>85,464</b>	<b>117,827</b>
Deposit facilities	84,570	51,262
Fixed-term deposits	894	66,565
Repurchase agreements	—	—
Margin calls received	—	—
<b>Accrued interest payable</b>	<b>14</b>	<b>39</b>
<b>TOTAL</b>	<b>189,832</b>	<b>171,001</b>

**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)

	2012	2011
Securities held until maturity	2,299	3,142
Other claims	4,189	6,899
Accrued interest receivable	51	72
<b>TOTAL</b>	<b>6,539</b>	<b>10,113</b>

### Other euro-denominated loans to euro area credit institutions

Asset item A6

(EUR millions)

	2012	2011 (pro forma)
ELA loans	3,977	18,735
Other ELA commitments <sup>a)</sup>	5,998	8,000
Other loans excluding ELA	35,207	32,685
<b>TOTAL</b>	<b>45,182</b>	<b>59,420<sup>a)</sup></b>

a) To improve transparency, EUR 8 billion in mutual funds previously recorded under item A7 were transferred to item A6 on 18 April 2012 (see Note 6).  
Excluding this EUR 8 billion adjustment, the 2011 amount was EUR 51,420.

These items include euro-denominated investments earmarked against euro-denominated deposits recorded in liability item P4 (see Note 15). These claims and loans, which do not relate to monetary policy operations, are split between these two asset items A4 and A6, according to whether the counterparty is located within or outside the euro area.

In response to the ECB's request, since April 2012 item A6 has also included any Emergency Liquidity Assistance (ELA) of any type. In 2011, investment funds units subscribed in this respect were shown in asset item A7.2 (see Note 6: "Other securities"). The total amount of ELA (EUR 10 billion) is backed by collateral.

### NOTE 6: ITEM A7 "EURO-DENOMINATED SECURITIES ISSUED BY EURO AREA RESIDENTS"

**A7.1 "Securities held for monetary policy purposes"**  
Item A7.1 includes securities acquired within the scope of the two covered bond purchase programmes<sup>26</sup> and the Securities Markets Programme (SMP).<sup>27</sup>

The amount of covered bond purchases established in the first programme was reached at end-June 2010.

On 6 October 2011, the Governing Council of the ECB decided to launch a second covered bond purchase programme. It provides for the purchase by NCBs and the ECB of euro-denominated covered bonds issued in the euro area with a view to improving the financing conditions of credit institutions and companies and encourage banks to maintain and step up customer lending. This programme was completed in October 2012.

### Euro-denominated securities issued by euro area residents

Asset item A7

(EUR millions)

	2012	2011 (pro forma)
<b>A7.1 Securities held for monetary policy purposes</b>	<b>51,802</b>	<b>49,732</b>
Securities of the securities markets programme (SMP)	37,661	36,946
Securities held under the first covered bond purchase programme	9,890	11,073
Securities held under the second covered bond purchase programme	3,234	737
Accrued interest receivable	1,017	976
<b>A7.2 Other securities</b>	<b>78,625</b>	<b>89,562</b>
Securities held until maturity	68,319	68,404
Other fixed-income securities	9,025	11,784 <sup>a)</sup>
Accrued interest receivable	1,281	1,374
<b>TOTAL</b>	<b>130,427</b>	<b>131,294<sup>a)</sup></b>

a) To improve transparency, EUR 8 billion in mutual funds previously recorded under item A7 were transferred to item A6 on 18 April 2012 (see Note 5).  
Excluding this EUR 8 billion adjustment, the amounts in question were EUR 19,184 million and EUR 139,294 million, respectively (see Note 5 item A6).

Lastly, under the Securities Markets Programme (SMP), the ECB and NCBs may purchase debt instruments issued by public or private entities incorporated in the euro area with a view to correcting the severe tensions in certain euro area security market segments and to restoring the proper functioning of the monetary policy transmission mechanisms. Total securities held by Eurosystem NCBs under the SMP amounted to EUR 208,114 million in 2012, compared with EUR 194,155 million in 2011. The Banque de France's share totalled EUR 37,661 million in 2012 and EUR 36,946 million in 2011. Pursuant to Article 32.4 of the ESCB Statute, any risks that may materialise as a result of holding securities under the SMP are ultimately to be shared in full by the NCBs of the Eurosystem in proportion to their ECB capital key shares.

All securities held for monetary policy purposes are fixed-income securities held to maturity and valued at amortised cost; they are subject to impairment tests carried out on the basis of the available information and an estimate of the recoverable amounts at accounts closing date.

<sup>26</sup> See the ECB press releases of 4 June 2009 and 6 October 2011.

<sup>27</sup> See the ECB press release of 10 May 2010.

In February 2012, Eurosystem central banks swapped Greek bonds held in the SMP monetary policy portfolio and, where appropriate, in other portfolios, for new Greek bonds. These newly acquired bonds have exactly the same characteristics as the bonds they replace in terms of their nominal amount, interest rate, coupon payment dates and final redemption date. They were not included in the list of assets eligible for Greek debt restructuring conducted under the private sector involvement (PSI) initiative.

Based on the final impairment tests performed on 4 January 2013, the Governing Council decided that no impairment losses needed to be recognised in the accounts in respect of the portfolios held by the Eurosystem in connection with monetary policy.

#### A7.2 "Other securities"

Item 7.2 includes euro-denominated securities issued by residents of the euro area, other than those that are specifically earmarked against the Bank's own funds, to the Employee Reserve Fund and to customer deposits that are recorded in asset item A11 (see Notes 11 and 28). In addition to fixed-income securities, this item also includes a bond fund. A total of EUR 8 billion in bond funds was reclassified to item A6 in 2012 in connection with Emergency Liquidity Assistance (see Note 5).

Regarding portfolios of securities held for monetary policy purposes, impairment tests were performed on the Banque de France's other portfolios. No impairment was recognised as a result of these tests.

#### NOTE 7: CLAIMS ARISING ON THE TRANSFER OF RESERVE ASSETS TO THE ECB

<b>Claims arising on the transfer of reserve assets to the ECB</b> Asset item A8.2 (EUR millions)		
	2012	2011
Claims arising on the transfer of reserve assets to the ECB	8,192	8,192
Accrued interest receivable	63	89
<b>TOTAL</b>	<b>8,255</b>	<b>8,281</b>

This claim held by the Banque de France results from the transfer of foreign reserve assets to the ECB. The claim is denominated in euro and is equivalent

to the euro value of the transferred foreign currency reserves as at the date of the transfer. It is remunerated at the marginal rate applied to the main refinancing operations, adjusted to reflect a zero return on the gold component.

#### NOTE 8: CLAIMS ON THE EUROSISTEM 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 arising on the Eurosystem for euro banknotes in circulation", along with accrued interest receivable as at 31 December 2012. The remuneration of 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 EUROSISTEM

<b>Other claims on the Eurosystem</b> Asset item A 8.4 (EUR millions)		
	2012	2011
Other claims on the Eurosystem	410	334
ECB interim dividends	117	133
<b>TOTAL</b>	<b>527</b>	<b>467</b>

This item includes any income receivable from the ECB in respect of the distribution of the balance of monetary income (see Note 34 of the profit and loss account) as well as the ECB's interim distribution of profit (see Note 14 on banknotes in circulation).

In 2012, the ECB Governing Council decided to distribute an interim dividend of EUR 575 million to the Eurosystem NCBs, of which EUR 117 million for the Banque de France.

#### NOTE 10: Advance to the IEDOM

The circulation of banknotes in the overseas departments and the territorial units of St Pierre-et-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

corresponding to an estimate of the value of the banknotes in circulation in the territories concerned.

**NOTE 11: OTHER EURO AND FOREIGN CURRENCY DENOMINATED FINANCIAL ASSETS**

<b>Other euro and foreign currency denominated financial assets</b> Asset item A11 (EUR millions)		
	2012	2011
Fixed income securities held until maturity <sup>a), b)</sup>	71,431	71,470
Other fixed-income securities and variable-yield securities	4,931	4,403
Other operations	36,219	24,901
Accrued interest receivable	79	190
<b>TOTAL OF OTHER EURO AND FOREIGN CURRENCY DENOMINATED FINANCIAL ASSETS</b>	<b>112,660</b>	<b>100,964</b>
a) In 2012, 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 52,040 million. Of which EUR 70,940 million in collateralised securities (see Note 28).		

Asset item A11 notably includes securities linked to customer deposits, recorded in liability Items P4 and P10, the Bank's own funds and provisions.

<b>Securities portfolios</b> Extract from Asset item A11 (EUR millions)				
	2012		2011	
	Fixed income securities held until maturity	Other securities	Total	Total
<b>Fixed-income securities and government securities</b>	<b>71,082</b>		<b>71,082</b>	<b>71,003</b>
Securities issued by public bodies	94		94	104
Other issuers	256		256	364
Accrued interest receivable	76		76	169
<b>NET BALANCE SHEET VALUE</b>	<b>71,508</b>		<b>71,508</b>	<b>71,640</b>
<b>Equities and other variable-yield securities</b>				
French and foreign mutual funds	1,489		1,489	1,347
Capitalisation mutual funds	3,203		3,203	2,780
Other variable-yield securities	94		94	81
<b>NET BALANCE SHEET VALUE</b>	<b>4,786</b>		<b>4,786</b>	<b>4,208</b>

**NOTE 12: MISCELLANEOUS**

<b>Miscellaneous</b> Asset item A12 (EUR millions)		
	2012	2011
<b>Deferred income, accrued expenses, etc.</b>	<b>4,912</b>	<b>818</b>
Accrued income	339	435
Prepaid expenses	26	23
Other items	4,547	360
<b>Miscellaneous</b>	<b>4,075</b>	<b>3,800</b>
<b>TOTAL</b>	<b>8,987</b>	<b>4,618</b>

“Other items” reflect the revaluation impact of off-balance sheet foreign currency positions held in relation to retail banking operations (see Note 19). 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.

**NOTE 13: FIXED ASSETS**

The EUR 31 million increase in participating interests (excluding the interest in the ECB) is due to the Banque de France's acquisition of BEH SAS, the owner of land in La Courneuve on which a new currency management centre is to be built.

As from 2012, internal development costs for the Banque de France's IT projects are no longer capitalised but expensed in full. Development costs relating to European projects continue to be capitalised in accordance with current accounting methods.

As a result of the revised accounting policy for these internal IT projects, the amounts carried in fixed assets have been written down in full and removed from intangible assets.

*Participating interest in the ECB*

Pursuant to Article 28 of the ESCB Statute, the capital of the ECB is held solely by the NCBs of the ESCB. The formula for determining the capital subscription of each NCB to the ECB (the “capital key”) is defined in Article 29.3 of the ESCB Statute and adjusted every five years. The most recent adjustment took effect on 1 January 2009.



## Fixed assets

Asset item A8.1 and A13

(EUR millions)

	2012	Increase	Decrease	2011
Participating interest in the ECB (gross value)	1,530	237,	–	1,293
FX translation difference on participating interest in the ECB	6	,		6
Participating interest in the ECB (balance sheet value)	1,536			1,299
Participating interest excluding ECB (gross value)	436	31		405
Intangible fixed assets (gross value)	238	56	334	516
Amortisation	119	62	251	308
Net value of intangible fixed assets	119	-6	83	208
Tangible fixed assets (gross value)	2,237	193	135	2,180
Depreciation and provisions	1,504	84	76	1,496
Net value of tangible fixed assets	734	109	59	684
<b>Total tangible and intangible fixed assets (net value)</b>	<b>853</b>	<b>103</b>	<b>142</b>	<b>892</b>

Note: Increases and decreases also include transfers between fixed asset accounts.

In 2010, the ECB increased its subscribed capital by EUR 5,000 million to stand at EUR 10,760,652,402.58. The Eurosystem NCBs paid up their additional capital contribution in three equal annual instalments starting in 2010 (EUR 237 million for France). The second instalment was made on 29 December 2011 and the last on 27 December 2012.

Consequently, the subscribed and paid-up capital of the Banque de France in the ECB has changed as follows:

## Subscribed capital and paid-up capital

(EUR)

Subscribed capital since 29 December 2010	1,530,293,899.48
Paid-up capital at 31 December 2010	1,056,253,899.48
Paid-up capital at 1 January 2011	1,293,273,899.48
Paid-up capital as of 28 December 2012	1,530,293,899.48

The share in the capital of the ECB recorded on the assets side of the balance sheet corresponds to the net amount of the subscribed and paid-up capital (subscription minus the unpaid capital subscription).

Pursuant to Council Decision 2010/416/EU of 13 July 2010 taken in accordance with Article 140(2) of the Treaty on the Functioning of the European Union, Estonia adopted the euro on 1 January 2011. This resulted in a change in the Banque de France's share in the capital key of the ECB, determined solely on the basis of the participating interests of the euro area NCBs. In particular, this is the key used to establish the allocation of monetary income and dividends by the ECB. At 1 January 2011, the Banque de France's share in the capital key of the ECB fell to 20.3246% (compared with 20.3767% previously).

## Information relating to subsidiaries and participating interests at 31 December 2012

Asset item A8.1 and A13.2

(EUR millions, part in %)

	Asset item	Listed	Share capital held	2012 Shareholders' equity	2012 profit/loss equity	2012 book value
European Central Bank <sup>a)</sup>	A 8.1	No	20.32	38,718	998	1,536
Bank for International Settlements	A 13.2	No	8.96	21,225	884	405
La Prévoyance immobilière	A 13.2	No	98.20	na	na	ns
Banque de France Gestion	A 13.2	No	99.99	6	10	ns
BEH SAS	A 13.2	No	100.00	6	0	ns

ns: not significant

na: not available

a) The interest in the capital is the BdF's share in all of the NCBs that are members of the euro area. It is this key that is used for the allocation of dividends.

**Share of the Banque de France  
in the capital of the ECB**

(%)

Up to 31 December 2003	16.8337
From 1 May 2004 to 31 December 2006	14.8712
From 1 January 2007 to 31 December 2008	14.3875
Since 1 January 2009	14.2212

**NOTE 14: BANKNOTES IN CIRCULATION**

The ECB and the 17 euro area NCBs which together make up the Eurosystem issue euro banknotes. The total value of euro banknotes in circulation in the Eurosystem is allocated on the last business day of each month in accordance with the banknote allocation key.<sup>28</sup>

The ECB has been allocated an 8% share of the total value of euro banknotes in circulation, with the remaining 92% allocated to euro area NCBs according to their weightings in the ECB's capital key. The share of banknotes in circulation allocated to each NCB is disclosed in the liability item "Banknotes in circulation".

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes actually put into circulation also gives rise to remunerated intra-Eurosystem balances (see asset item A8.3).

For a five-year period from the year of adoption of the euro,<sup>29</sup> intra-Eurosystem balances resulting from euro banknote allocation are adjusted in order to avoid significant changes in the NCBs' profit positions compared to previous years. These adjustments are effected by taking into account the differences between, on the one hand, the average value of banknotes in circulation of each NCB in the reference period<sup>30</sup> 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 will be 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 share in the ECB's capital. The adjustment period for Cyprus and Malta will end on 1 January 2013, for Slovakia on 1 January 2014 and Estonia on 1 January 2017.

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

The ECB Governing Council decided that the ECB's seigniorage income arising from the 8% share of euro banknotes in circulation allocated to it,<sup>31</sup> as well as the income generated on the securities that it holds under the Securities Markets Programme, is due to the NCBs in the same year it accrues and distributed to them at the beginning of the following year in the form of an interim dividend. This income is distributed in full unless the ECB's profit is lower. The Governing Council may also decide to reduce the redistribution of seigniorage income by the amount of the costs incurred by the ECB on the issuance and storage of euro banknotes. Lastly, the Governing Council may decide to transfer all or part of this income to a provision for foreign currency rate, interest rate and gold price risks (see Note 33).

French franc banknotes, which ceased to be legal tender on 17 February 2002, were able to be exchanged until 17 February 2012. Prior to that date, French franc banknotes in circulation but not remitted to the Treasury continued to be recorded as a liability of the Banque de France. This liability was shown in balance sheet item P11 "Miscellaneous" as of 1 January 2003 (see Note 20). Since 11 June 2012, the amounts concerned were paid over to the Treasury and are no longer carried in the Banque de France's accounts at 31 December 2012.

**NOTE 15: EURO-DENOMINATED LIABILITIES  
TO NON-EURO AREA RESIDENTS**

This item comprises credit balances in euro (excluding Target) with central banks, commercial banks and non-financial customers in non-Eurosystem member countries. In most cases, the assets matching

<sup>28</sup> ECB decision of 6 December 2001 on the issue of euro banknotes (ECB/2001/15).

<sup>29</sup> The year of adoption of the euro corresponds to the year in which euro banknotes became legal tender in the member country concerned: this was in 2008 for Cyprus and Malta, 2009 for Slovakia and 2011 for Estonia.

<sup>30</sup> The reference period is the 24 months that commence 30 months before the date on which the euro banknotes have legal tender in the member countries concerned.

<sup>31</sup> ECB decision of 17 November 2005 (ECB/2005/11) on the distribution of the income of the ECB on euro banknotes in circulation to the NCBs of participating member countries.

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 P4

(EUR millions)

	2012	2011
Euro-denominated liabilities to non-euro area residents	35,592	18,684
Accrued interest payable	1	15
<b>TOTAL</b>	<b>35,593</b>	<b>18,699</b>

**NOTE 16: EURO-DENOMINATED LIABILITIES TO THE EUROSISTEM**

Euro-denominated liabilities to the Eurosistem comprise France's net debt arising on cross-border transfers via Target with other NCBs in the ESCB.

**Euro-denominated liabilities to the Eurosistem**  
Liability item P7

(EUR millions)

	2012	2011
Euro-denominated liabilities to the Eurosistem	54,800	77,424
Accrued interest payable	50	91
Accrued expenses in respect of monetary income	–	–
<b>TOTAL</b>	<b>54,850</b>	<b>77,515</b>

These liabilities fell sharply in 2012 as foreign currency swaps with the ECB were unwound through the dollar-denominated temporary Term Auction Facility (see Notes 2 and 29). Non-interest bearing debt owed to the ECB amounted to EUR 24,613 million at 31 December 2011.

**NOTE 17: EURO-DENOMINATED LIABILITIES TO OTHER EURO AREA RESIDENTS**

Liability item P8.1 comprises:

- the Treasury's account which, since 1 May 2002, has been remunerated at the rate applied to main refinancing operations up to EUR 300 million; above this amount, it is remunerated at the deposit facility rate. Interest is credited to the Treasury's account on the last business day of the month;



- the account of other government agencies.

Liability item P8.2 "Other liabilities" mainly comprises 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 P8

(EUR millions)

	2012	2011
Liabilities vis-à-vis the State	4,883	8,938
Other liabilities	5,250	4,211
Accrued interest payable	2	2
<b>TOTAL</b>	<b>10,135</b>	<b>13,151</b>

**NOTE 18: ITEMS IN THE COURSE OF SETTLEMENT**

In compliance with banking rules, balance sheet item P9 "Items in 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 19: BANKING TRANSACTIONS**

This item mainly comprises overnight and fixed-term deposits denominated in foreign currencies by French or foreign public bodies, or foreign national central banks. The management of such foreign currency transactions is totally separate from the management of the State's foreign currency reserves. The assets matching these

### Banking transactions

Liability item P10

(EUR millions)

	2012	2011
Customer deposits	18,029	19,834
Other banking transactions	105,862	98,722
Accrued interest payable	260	368
<b>TOTAL</b>	<b>124,151</b>	<b>118,924</b>

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.

For the record, euro-denominated deposits made by institutional customers (other than monetary and financial institutions) and private customers are recorded in liability item P8.2.

### NOTE 20: MISCELLANEOUS

### Miscellaneous

Liability item P11

(EUR millions)

	2012	2011
Deferred income, accrued expenses, etc.	368	393
Accrued expenses	368	393
Other items	0	0
French franc banknotes in circulation	0	567
Miscellaneous	4,315	4,036
<b>TOTAL</b>	<b>4,683</b>	<b>4,996</b>

In 2012, this item mainly included:

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

French franc banknotes still in circulation at end-2011 (see Note 14) were paid over to the Treasury in June 2012.

### NOTE 21: PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges mainly comprise:

- provisions for restructuring, relating to the “cash activities” and “banknote manufacturing” plans, the

### Provisions for liabilities and charges

Liability item P12

(EUR millions)

	2012	Increase	Decrease	2011
Provisions for restructuring	110		5	115
Provisions for changing the age pyramid	23			23
Provisions for retirement indemnities	161	3		158
Provisions for the complementary health plan	279	27		252
Other miscellaneous provisions in relation to current employees	101	11		90
Other miscellaneous provisions in relation to retired employees	158			158
Provisions relative to monetary policy operations	64		132	196
Other	35	12		23
<b>TOTAL</b>	<b>932</b>	<b>53</b>	<b>137</b>	<b>1,015</b>

plan to adapt the Banque de France’s branch network, and the plan to discontinue retail banking activities;

- provisions for changing the age pyramid, relating to the early retirement incentive scheme for employees reaching the end of their working life;
- provisions for retirement benefits;
- provisions for various social liabilities for working employees (death benefits, long-service medals, end-of-career leave, extended sick leave, pensions for industrial injuries, unemployment benefits);
- provisions to cover various social obligations granted to retired employees (death benefits, complementary health funds, etc.) that are not funded by the pension scheme;
- other provisions, notably provisions for major repairs.

Pursuant to Article 32.4 of the ESCB Statute, the provision for counterparty risk relating to monetary policy operations is distributed among the NCBs of the Eurosystem in proportion to their respective share in the ECB’s capital as at the date when the default occurred. Pursuant to the



general prudence principle, the Governing Council re-examined the amount of this provision, initially established in 2008, and decided to reduce it from EUR 2,207 million at end-2010 to EUR 949 million at end-2011 and EUR 310 million at end-2012. The Banque de France's share in this provision at 31 December 2012 stood at EUR 64 million. This led to a provision reversal of EUR 132 million, which impacts item 1.5 "Net result of pooling of monetary income" in the profit and loss account (see Note 34).

The allocation of EUR 27 million to the provision covering the Bank's commitment to fund a portion of the complementary health plan for retirees partly results from changes in mortality tables.

#### NOTE 22: REVALUATION ACCOUNTS

<b>Revaluation accounts</b> Liability item P13 (EUR millions)		
	2012	2011
Revaluation account – gold	79,407	75,937
Revaluation account – foreign exchange	4,482	5,047
Revaluation account – securities	1,161	725
Revaluation account – forward financial instruments	0	0
<b>TOTAL</b>	<b>85,050</b>	<b>81,709</b>

Gold and foreign currency assets and liabilities are revalued at the reference prices indicated by the ECB on 31 December 2012. The unrealised gain on gold was calculated using a price of EUR 40,547.8 per kilogram of fine gold, compared with EUR 37,848.7 per kilogram at end-2011.

The revaluation rates used at 31 December 2012 for the main currencies held were the following:

- 1 euro = 1.3194 US dollars (compared with 1.2939 at end-2011);
- 1 euro = 0.8578 SDRs (compared with 0.8427 at end-2011).

#### NOTE 23: FUND FOR GENERAL RISKS (FRG)

The fund for general risks (FRG) is booked as a liability in item P14; with counterparty entries for charges to and releases from this fund recorded through item 3 of the profit and loss account.

The FRG 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 currency reserves, which is covered by the relevant revaluation accounts and by the RRRODE (see paragraph on valuation methods). The amount of the FRG is reviewed each year on the basis of the volume of outstanding operations at the accounts closing date and an analysis of the attendant risks, based notably on past losses or stress tests. In order to calculate corporate income tax, the allocation to the FRG is not a deductible expense and vice versa: the reversal of the FRG is not subject to tax.

The 2012 allocation (EUR 1.85 billion) can mainly be attributed to the rise in the volume of monetary policy operations and associated risks.

#### NOTE 24: REVALUATION RESERVE OF STATE GOLD AND FOREIGN CURRENCY RESERVES

See the notes on the RRRODE in the section describing the valuation methods.

#### NOTE 25: CAPITAL, RESERVES AND RETAINED EARNINGS

<b>Capital, reserves and retained earnings</b> Liability item P17 (EUR millions)		
	2012	2011
<b>Capital</b>	<b>1,000</b>	<b>1,000</b>
<b>Reserves</b>	<b>5,097</b>	<b>4,706</b>
Statutory reserves	206	128
Long-term capital gains	100	100
Special pension reserve fund (see Note 30)	1,618	1,472
Other reserves <sup>a)</sup>	3,173	3,006
<b>Retained earnings</b>	<b>103</b>	<b>126</b>
<b>TOTAL</b>	<b>6,200</b>	<b>5,832</b>

*a) Under the Decree of 3 December 1993, the Bank 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. The "Other reserves" item chiefly comprises these two types of reserves.*

Decree 2011-256 of 9 March 2011 raised the Banque de France's capital to EUR 1 billion through the incorporation into the capital of EUR 457,347,051.71 taken from the specific reserve fund and of EUR 85,305,896.58 taken from the general reserve fund.

## Off-balance sheet items

### NOTE 26: SECURITIES COMMITMENTS

#### Securities commitments

(EUR millions)

	2012	2011
Securities to be received	–	592
Securities to be delivered	–	–

### NOTE 27: INTEREST RATE FUTURES CONTRACTS

#### Notional amount of financial futures contracts

(EUR millions)

	2012	2011
<b>Outright transactions on organised markets</b>		
Interest rate contracts denominated in foreign currency		
Purchases	13,996	28,495
Sales	19,243	40,052
Interest rate contracts denominated in euro		
Purchases		14,917
Sales		17,395
<b>Over-the-counter markets</b>		
Interest rate swaps denominated in foreign currency	945	768
Interest rate swaps denominated in euro	–	–

### NOTE 28: FORWARD FOREIGN CURRENCY TRANSACTIONS WITH CUSTOMERS AND THE ECB

The Banque de France collects euro-denominated deposits from non-euro area residents, in particular foreign central banks and international bodies; these deposits are recorded in liability item P4. The Banque de France also collects foreign currency denominated deposits, mainly from non-resident institutions; these deposits are recorded in liability item P10.

These euro-denominated 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 necessary, 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 totally separate and independent from the management of foreign currency reserves. Consequently, they are recorded in dedicated accounts separate from those used for the management of foreign currency reserves, and are valued in accordance with the standards issued by the ANC (see “Other foreign currency gains/losses” in section 2|2 “Accounting principles and valuation methods”, and Note 20).

#### Amounts of foreign currency receivable and deliverable in respect of transactions carried out with customers

(EUR millions)

	2012	2011
<b>Euro to be received against foreign currency to be delivered</b>		
Euro to be received	18,126	2,149
Foreign currency to be delivered	16,707	2,231
<b>Foreign currency to be received against euro to be delivered</b>		
Foreign currency to be received	49,739	39,852
Euro to be delivered	50,242	38,341
<b>Foreign currency to be received against foreign currency to be delivered</b>	<b>69,655</b>	<b>77,382</b>
<b>Foreign currency to be delivered against foreign currency to be received</b>	<b>65,622</b>	<b>77,128</b>

### NOTE 29: COLLATERAL RECEIVED FROM THE STATE

#### IN RELATION TO BANQUE DE FRANCE OPERATIONS WITH THE IMF

In the Supplementary Budget Act for 2008, the State extended its guarantee to the loan granted by the Banque de France to the IMF's “Poverty Reduction and Growth Facility and the Exogenous Shocks Facility (PRGF-ESF)” account. This loan corresponds to a commitment taken by France at the annual general meeting of the IMF on 4 October 2009 to grant a Special Drawing Right (SDR) loan for a maximum amount equivalent to USD 2 billion. When the loan is drawn down, this amount is converted into SDRs at the dollar rate for the day and the repayment schedule will also be denominated in SDRs.

A first drawdown on the Banque de France was made in 2011 for SDR 194 million (EUR 230 million). Drawdowns on the Banque de France in 2012 totalled SDR 339 million (EUR 406 million).

Moreover, in 2010, the Banque de France had a bilateral loan financing commitment of EUR 11.060 billion. The financing commitment was merged with that of the New Arrangements to Borrow (NAB), signed by France on 4 April 2011. Since that date, all bilateral loans come under the NAB. The total amount of the credit line that the IMF can draw on is taken off the balance sheet and initially totalled SDR 18,657 million. At 31 December 2012, total loans granted stood at SDR 632 million (SDR 1,145 million at end-2011), or EUR 681 million (EUR 1,313 million at end-2011), with the balance of the financing commitment totalling EUR 20.066 billion (SDR 17.213 billion) at 31 December 2012.

A new 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 26.425 billion at 31 December 2012).

#### NOTE 30: PENSION OBLIGATIONS

Banque de France employees benefit from a pension scheme set up by an Imperial Decree of 16 January 1808. This scheme is currently governed by Decree 2007-262 of 27 February 2007, which entered into force on 1 April 2007, amended by Decree 2008-1514 of 30 December 2008, 2012-701 of 7 May 2012 and 2012-847 of 2 July 2012, which

aligned the Banque de France's pension scheme with that of the civil service.

#### *The Employee Reserve Fund (CRE)*

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 *Conseil d'État* 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."

As a consequence, the CRE is subject to separate accounting treatment. However, its assets, liabilities, income and expenses are an integral part of the Bank's accounts.

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 appear in balance sheet item A12 "Miscellaneous". The CRE's capital is shown in liability item P11 "Miscellaneous".

In accordance with CRBF Regulation 90-01, securities purchased by the CRE are recorded as available-for-sale and held-to-maturity securities. Differences between the acquisition and redemption

#### Pension liabilities and funding

(EUR millions)

Liabilities			Funding		
	2012	2011		2012	2011
Liabilities in respect of the special retirement scheme	10,405	9,834	Funding	5,594	5,244
<i>o/w To current workforce</i>	<i>4,150</i>	<i>4,052</i>	<i>o/w Employee Reserve Fund</i>	<i>3,976</i>	<i>3,772</i>
<i>o/w To retirees</i>	<i>6,255</i>	<i>5,783</i>	<i>o/w Special Reserve Fund</i>	<i>1,618</i>	<i>1,472</i>
Liabilities in respect of the additional seniority granted as part of restructuring plans	123	121	Provisions	123	121
<b>Total gross liabilities</b>	<b>10,528</b>	<b>9,955</b>	<b>Total funding</b>	<b>5,717</b>	<b>5,365</b>
<b>NET LIABILITIES</b>	<b>4,811</b>	<b>4,590</b>			

price are spread over the remaining life of the securities according to the internal rate of return method. Unrealised losses on available-for-sale securities are provided for on a line-by-line basis. However, under the CRE's rules, realised gains and losses and unrealised losses recognised in the profit and loss account require a matching charge to or withdrawal from the CRE's capital.

Pension expenses are included in profit and loss account item 2.2 "Pensions and related expenses". The income from the CRE's securities portfolios is recorded in profit and loss account item 1.6 "Net of other income and expenses".

#### *Other sources of financing for pensions*

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, in 2007 the General Council set up a **Special Reserve Fund**, in accordance with the third indent of Article R144-4 of the French *Monetary and Financial Code*. This reserve fund is regularly replenished, within the limits permitted by the gross income of the Banque de France and the payment to the State of the predominant share incumbent on it. The special reserve fund for pensions appears in liability item P17 "Capital, reserves and retained earnings".

As part of the restructuring programmes implemented since 1999 ("cash activities" and "banknote manufacturing" plans, the plan to adapt the Banque de France's branch network and the plan to discontinue retail banking activities), early retirement schemes were set up, with additional seniority granted to retirees. This additional seniority, including that resulting from the neutralisation of the effects of the pension scheme's reform on employees benefiting from the early retirement scheme at the date of the reform's entry into force have been entirely provisioned. The corresponding provisions appear in liability item P12 "Provisions for liabilities and charges".

The resources constituted by this reserve fund and these provisions have been invested in a securities portfolio that appears in asset item A11. This portfolio is recorded in accordance with the rules set out in the section on the valuation methods used for securities portfolios. The income from this portfolio is shown,

as appropriate, in items 1.1 "Net interest income", 1.2.3 "Net of other income and expenses on financial transactions" or 1.4 "Income from equity securities and participating interests" of the profit and loss account.

#### *Actuarial assumptions*

The amount of pension liabilities has been calculated in accordance with actuarial standards (using the projected unit credit method), taking into account all current employees, retirees and their dependants. The amount of obligations vis-à-vis current employees was 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 2012. These tables take into account the increase in the working lives of the employees concerned and as in previous years, are mortality experience tables by gender.

Since the reform of the pension system with effect from 1 April 2007, pension entitlements may be accessed between 60 and 65. The increase in the number of quarters required to obtain a full pension will take place gradually at the rate of one quarter per half-year to reach 164 quarters in the second half of 2013 (as against 150 until 2006). The pensionable age is being raised in parallel (from 60 to 65) to allow employees to acquire the requisite number of quarters to obtain a full pension. In addition, a system of supplements/reductions has progressively been put in place from 1 January 2009 and applies to employees who start drawing their pension with a greater/smaller number of quarters than that required to obtain a full pension.

With the new reform that should come into force on 1 January 2016, the retirement age will be raised to 62 and the upper limit for the pension age to 67.

The level of pensions is adjusted at the beginning of 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 actuary. The discount rate applied was the same as in previous years.



## Profit and loss account

### NOTE 31: NET INTEREST INCOME

#### Net interest income

Profit and loss item 1.1

(EUR millions)

	2012	2011
Interest on foreign exchange assets	985	1,009
<i>o/w: Interest on held-to-maturity securities</i>	515	516
Interest on claims on the IMF	19	60
Interest on euro-denominated claims on non-residents	–	–
Interest on lending to credit institutions	1,863	750
Interest on euro-denominated securities	5,447	4,288
<i>o/w: Interest on held-to-maturity securities</i>	2,930	2,978
<i>o/w: Interest on securities held for monetary policy purposes</i>	2,517	1,310
Interest on claims arising on the transfer of reserve assets to the ECB	62	88
Interest on net claims on the Eurosystem <sup>a)</sup>	0	0
Interest on the net euro banknote position	674	950
Total of other euro and foreign currency denominated financial assets	1,424	1,733
<i>o/w: Interest on available-for-sale securities</i>	1	0
<i>Interest on held-to-maturity securities</i>	229	366
<i>Other interest</i>	1,196	1,367
<b>Total interest and related income (1)</b>	<b>10,475</b>	<b>8,878</b>
Interest on euro-denominated liabilities to monetary financial institutions in the euro area	-550	-711
<i>o/w: Interest paid on minimum reserves</i>	-185	-517
Interest on euro-denominated liabilities to non-euro area residents	-874	-953
Interest on foreign exchange liabilities	-78	-62
Interest on counterpart to SDR allocations	-13	-45
Interest on the net liability to the Eurosystem <sup>a)</sup>	-477	-578
Interest paid on the Treasury account	-35	-6
Other interest	-79	-307
<b>Total interest and related expenses (2)</b>	<b>-2,106</b>	<b>-2,663</b>
<b>NET INTEREST INCOME (3 = 1 + 2)</b>	<b>8,369</b>	<b>6,216</b>

a) Interest on the Banque de France's net position within the Target system (see Notes 9 and 16).

### NOTE 32: NET INCOME/LOSS ON FINANCIAL TRANSACTIONS

#### Net of other income and expenses on financial transactions

Extract from profit and loss item P1.2.3

(EUR millions)

	2012	2011
Net gain/loss on foreign currency denominated securities <sup>a), b), c)</sup>	95	36
Net gain/loss on euro-denominated securities included in item A72 <sup>b), c)</sup>	273	-117
Net gain/loss on available-for-sale securities included in item A11 <sup>b)</sup>	47	18
Net foreign exchange gain/loss (excluding foreign exchange reserve management)	17	16
<b>TOTAL</b>	<b>432</b>	<b>-48</b>

(a) Excluding the impact of foreign exchange fluctuations, shown 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 futures and profits and losses on synthetic instruments.

In 2012, the net balance of realised gold and foreign currency gains and losses and unrealised foreign currency losses was a gain of EUR 137 million.

In accordance with the agreement of 2 February 2011 between the State and the Banque de France on the management of and accounting for State foreign currency reserves, the realised gains on gold and on foreign currency amounting to EUR 137 million were allocated to the RRRODE, with the matching entry taken to the profit and loss account (item 1.2.2).

### NOTE 33: INCOME FROM EQUITY SECURITIES AND PARTICIPATING INTERESTS

For 2012, the Governing Council decided to raise the ECB's provision for foreign currency rate, interest rate, credit and gold price risks to its maximum allowed ceiling. The ECB made an interim profit distribution of EUR 575 million, of which EUR 117 million to

**Income from equity shares and participating interests**  
Profit and loss item 1.4

(EUR millions)

	2012	2011
ECB dividend	132	167
Dividends from other participating interests	39	44
Dividends from available-for-sale securities	14	11
Other income	0	0
<b>TOTAL</b>	<b>185</b>	<b>222</b>

the Banque de France. In 2012, it distributed an additional dividend in respect of 2011, of which EUR 15 million to the Banque de France.

**NOTE 34: NET RESULT OF POOLING OF MONETARY INCOME**

This item includes the net result of pooling of monetary income for 2012, corresponding to income of EUR 410 million compared with income of EUR 334 million in 2011, as well as the Banque de France's share in the reversal of the provision for counterparty risk in relation to Eurosystem monetary policy operations amounting to EUR 132 million, against a reversal of EUR 260 million in 2011 (see Note 21).

The monetary income of each NCB is determined by measuring the actual annual income derived from the earmarkable assets held against its liability base.

The liability base is composed of the following items: banknotes in circulation; liabilities to credit institutions in connection with euro-denominated monetary policy operations; intra-Eurosystem liabilities arising from Target transactions; and net intra-Eurosystem liabilities arising from the allocation of euro banknotes within the Eurosystem. Any interest accruing on liabilities included in the liability base is deducted from the monetary income to be pooled.

Earmarkable assets consist of the following items: euro-denominated lending to euro area credit institutions in the framework of monetary policy operations; securities held for monetary policy purposes, claims arising on the transfer of reserve assets to the ECB; the net intra-Eurosystem claim arising from Target transactions; the net intra-Eurosystem claim arising from the allocation of euro banknotes within the Eurosystem; and a limited amount of gold

in proportion to each NCB's interest in the ECB's capital under the capital key. Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference is offset by applying to the value of the difference the marginal rate of main refinancing operations.

The monetary income pooled by the Eurosystem is allocated between NCBs according to their share in the ECB's capital. The difference between the monetary income pooled by the Banque de France (EUR 4,365 million) and that reallocated to the Bank (EUR 4,775 million) constitutes the net result of pooling of monetary income recorded in profit and loss item 1.5.

**NOTE 35: NET OF OTHER INCOME AND EXPENSES**

**Net of other income and expenses**

Profit and loss item 1.6

(EUR millions)

	2012	2011
Remuneration for services rendered to the State	317	317
Payments for ACP's supervisory expenses	179	162
Other income <sup>a)</sup>	336	292
<b>Total other income (1)</b>	<b>832</b>	<b>771</b>
<b>Total other expenses (2)</b>	<b>-9</b>	<b>-8</b>
<b>NET OF OTHER INCOME AND EXPENSES (3 = 1 + 2)</b>	<b>823</b>	<b>763</b>

<sup>a)</sup> This item notably includes fees charged for use of the databases managed by the Banque de France (FNCL, FICP, FCC, FIBEN).

The *Autorité de contrôle prudentiel* (ACP – Prudential Supervisory Authority), established by Order 2010-76 of 21 January 2010 merging the licensing and supervisory authorities of the banking and insurance sectors, is a financially autonomous, independent administrative authority without legal personality. It is chaired by the Governor of the Banque de France and its budget is a sub-budget of the Banque de France. The expenses and income of the ACP are recognised in the accounts 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 the supervision of the ACP. In 2012, levies for supervisory expenses generated EUR 179 million (EUR 162 million in 2011), recorded in profit and loss account item 1.6 “Net of other income and expenses”.

Services provided by the Banque de France to the State are remunerated at full cost.

### NOTE 36: PERSONNEL AND RELATED EXPENSES

#### Personnel and related expenses

Profit and loss item 2.1

(EUR millions)

	2012	2011
Salaries and wages	-678	-684
Taxes on salaries and wages	-108	-100
Social security expenses	-193	-187
Profit-sharing and incentive plans	-34	-33
<b>TOTAL PERSONNEL EXPENSES</b>	<b>-1,013</b>	<b>-1,004</b>

#### Profit and loss item 2.2

(EUR millions)

	2012	2011
Pensions and related expenses	-440	-428
<b>TOTAL PENSION EXPENSES</b>	<b>-440</b>	<b>-428</b>

### NOTE 37: CORPORATE INCOME TAX

#### Corporate income tax

Profit and loss item 5

(EUR millions)

	2012	2011
Income taxes for the year	3,110	2,014
on profit before exceptional items	3,110	2,014
on exceptional items	—	—

According to Article 8 of Act 2007-212 of 20 February 2007 on various measures concerning the Banque de France, the taxable profit or loss of the Banque de France is calculated using accounting rules defined in accordance with Article L.144-4 of the *Monetary and Financial Code* and the agreement in Article L.141-2 of the said *Code*.



The Supplementary Budget Act for 2011 provided for an exceptional contribution to corporate income tax amounting to 5% of statutory corporate income tax. In principle, this contribution is temporary since it only applies to financial years ending between 31 December 2011 and 30 December 2013.

The Supplementary Budget Act for 2012 introduced a 3% tax on amounts distributed on or after 1 August 2012.

#### Other information

#### Remuneration of management bodies

(EUR millions)

	2012	2011
<b>Total remuneration paid to management bodies</b>	<b>3.1</b>	<b>3.0</b>

*Notes: The members of the General Council and the Executive Committee constitute the Bank's management bodies. Remuneration comprises gross remuneration plus payment in kind, where relevant. The Staff Representative and the Censor are not remunerated for positions they hold in the General Council.*

## 2|3 Auditors' report on the annual accounts of the Banque de France

**KPMG Audit**  
1, cours Valmy  
92923 Paris La Défense Cedex

**Deloitte & associés**  
185, avenue Charles de Gaulle  
92524 Neuilly-sur-Seine Cedex

### AUDITORS' REPORT ON THE ANNUAL ACCOUNTS

*Year ended 31 December 2012*

In accordance with the assignment entrusted to us by the Banque de France's General Council, we hereby report to you for the year ended 31 December 2012 on:

- our audit of the accompanying annual accounts of the Banque de France;
- the basis for our assessments;
- the specific procedures required by Article R144-8 of the *Monetary and Financial Code*.

The annual accounts have been approved by the Governor. Our responsibility is to express an opinion on these annual accounts based on our audit.

#### 1| Opinion on the annual accounts

We conducted our audit in accordance with professional standards applicable in France; these standards require that we plan and perform the audit in such a way as to obtain reasonable assurance that the annual accounts are free from material misstatement. An audit includes examining, on a test basis or via other selection methods, evidence supporting the figures and disclosures in the annual accounts. It also includes assessing the accounting principles used and significant estimates made as well as evaluating the overall presentation of the annual accounts. We believe that the information we have collected provides a reasonable basis for our opinion.

In our opinion, the combined annual accounts of the Banque de France and IEDOM give a true and fair view of the results of their operations for the year ending 31 December and of their financial position, assets and liabilities at that date, in accordance with the accounting rules and principles set out in Article R144-6 of the *Monetary and Financial Code*.

Without prejudice to our opinion, we draw your attention to the following points:

- the introduction to the Notes to the annual accounts describes the accounting principles and valuation methods applicable to the Bank, some of which are specific to the European System of Central Banks (ESCB);
- the General Council has determined the level of detail of the financial information published in accordance with its right provided for in Article R144-6 of the *Monetary and Financial Code*.

#### 2| Basis for our assessments

In accordance with Article L823-9 of the French *Commercial Code* regarding the basis for our assessments, we draw your attention to the following matters:

- the section on valuation methods and Note 6 to the annual accounts describe the methods used to value the securities held by the Banque de France and in particular, the impairment methods applicable to held-to-maturity securities. We reviewed the processes put in place by management in order to assess the risk of non-recovery of securities carried at amortised cost and also reviewed the assumptions used and documentation held in relation to these estimates;

.../...



- Note 21 to the annual accounts describes the methods used to set aside provisions for liabilities and charges. Our work consisted in reviewing the documentation and checks performed by the Banque de France or ESCB and assessing the data and assumptions on which the related estimates were based;

- Note 30 to the annual accounts sets out the method for assessing pension obligations and other related liabilities. These obligations were assessed by actuaries. Our work consisted in examining the data used, evaluating the assumptions applied, and checking the calculations made.

Our assessment of these issues was made within the context of our audit approach to the annual accounts taken as a whole, and contributed to the opinion expressed in the first part of this report.

### 3| Specific procedures

In accordance with the standards of the profession applicable in France, we have also carried out the specific procedures required by law.

We have no comment to make as to the fair presentation and consistency with the annual accounts of the information given in the report on the Bank's assets, liabilities and results.

Paris La Défense and Neuilly-sur-Seine, 28 March 2013  
The Auditors

**KPMG Audit**  
A division of KPMG S.A.  
Pascal Brouard

**Deloitte & associés**  
José-Luis Garcia

.../...

### 3| COMBINED ACCOUNTS

#### 3|1 The combined balance sheet and profit and loss account

##### Combined balance sheet at 31 december 2012

(EUR millions)<sup>a)</sup>

Notes to combined annual accounts	Item	Description	2012	2011
<b>ASSETS</b>				
	A1	Gold	98,751	95,282
	A2	Foreign exchange assets (excl. relations with the IMF)	38,660	67,725
		2.1 Foreign exchange assets held with non-euro area residents	30,589	23,116
		2.2 Foreign exchange assets held with euro area residents	8,072	44,609
	A3	Relations with the IMF	18,119	17,604
		3.1 Financing provided to the IMF	6,431	6,026
		3.2 Acquisitions of Special Drawing Rights	11,686	11,577
	A4	Euro-denominated claims on non-euro area residents	6,539	10,113
	A5	Euro-denominated loans to euro area credit institutions in the framework of monetary policy operations	181,933	129,336
	A6	Other euro-denominated loans to euro area credit institutions	45,183	51,421
	A7	Euro-denominated securities issued by euro area residents	130,427	139,294
		7.1 Securities held for monetary policy purposes	51,802	48,756
		7.2 Other securities	78,625	90,538
	A8	Relations within the Eurosystem	85,163	87,622
		8.1 Participating interest in the ECB	1,536	1,299
		8.2 Claims arising on the transfer of reserve assets to the ECB	8,255	8,281
		8.3 Claims arising on the Eurosystem for euro banknotes in circulation	74,845	77,576
		8.4 Other claims on the Eurosystem	527	467
2	A9	Claims on the French Treasury in respect of coins	0	0
	A10	Other euro and foreign currency denominated financial assets	112,663	100,967
1	A11	Miscellaneous	10,925	6,127
	A12	Fixed assets	1,326	1,333
		12.1 Tangible and intangible assets	880	919
		12.2 Participating interests (other than interest in the ECB)	446	414
<b>TOTAL ASSETS</b>			<b>729,689</b>	<b>706,823</b>
<b>LIABILITIES</b>				
	P1	Banknotes in circulation	170,641	166,160
	P2	Euro-denominated liabilities to euro area credit institutions in the framework of monetary policy operations	189,832	171,001
		2.1 Current accounts	104,368	53,163
		2.2 Other liabilities	85,464	117,838
	P3	Other euro-denominated liabilities to euro area credit institutions	926	1,874
	P4	Euro-denominated liabilities to non-euro area residents	35,593	18,699
	P5	Foreign exchange liabilities	5,863	8,901
	P6	Counterpart to SDR allocation	11,815	12,030
	P7	Relations within the Eurosystem	54,850	77,515
	P8	Euro-denominated liabilities to other euro area residents	7,249	10,116
		8.1 Treasury's account	5,015	9,061
2		8.2 Other liabilities	2,234	1,055
	P9	Items in the course of settlement	272	132
	P10	Banking transactions	124,151	118,924
	P11	Miscellaneous	4,693	5,005
	P12	Provisions for liabilities and charges	952	1,033
	P13	Revaluation accounts	85,050	81,709
	P14	Fund for general risks	5,660	3,810
	P15	Revaluation reserve of State gold reserves	22,007	21,869
	P16	Revaluation reserve of State foreign exchange reserves		
1	P17	Capital, reserves and retained earnings	6,843	6,489
		17.1 IEDOM capital grant, reserves and retained earnings	149	141
		17.2 Capital, reserves and retained earnings of the Banque de France	6,694	6,348
	P18	Profit for the year	3,292	1,556
<b>TOTAL LIABILITIES</b>			<b>729,689</b>	<b>706,823</b>

a) Each item of the 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.

## 2012 Combined profit and loss account

(EUR millions)<sup>a)</sup>

Notes to combined annual accounts	Item	Description	2012	2011
	1.	<b>Net income from activities of the Banque de France</b>	<b>10,421</b>	<b>7,816</b>
	1.1	Net interest income	8,425	6,276
	1.1.1	Interest and related income	10,504	8,902
	1.1.2	Interest and related expenses	-2,080	-2,625
2	1.2	Net income/loss on financial transactions	432	-48
	1.2.1	Net of realised gains/losses and unrealised losses on foreign exchange	137	47
	1.2.2	Net of charges to/releases from the revaluation reserve of State foreign exchange reserves	-137	-47
	1.2.3	Net of other income and expenses on financial transactions	432	-48
	1.3	Commission	15	12
	1.3.1	Commission (income)	48	44
	1.3.2	Commission (expense)	-32	-32
2	1.4	Income from equity securities and participating interests	167	199
	1.5	Net result of pooling of monetary income	542	594
	1.6	Net of other income and expenses	840	782
	2.	<b>Operating expenses</b>	<b>-2,316</b>	<b>-2,160</b>
	2.1	Personnel and related expenses	-1,029	-1,021
	2.2	Pensions and related expenses	-442	-430
	2.3	Taxes other than income tax	-38	-38
	2.4	Provisions, depreciation and amortisation	-190	-148
	2.5	Other operating expenses	-617	-524
		<b>PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS (1 + 2)</b>	<b>8,105</b>	<b>5,655</b>
	3.	<b>Net charge to the fund for general risks and accelerated tax depreciation</b>	<b>-1,850</b>	<b>-2,065</b>
	4.	<b>Extraordinary items</b>	<b>-</b>	<b>-</b>
	4.1	Extraordinary income	-	-
	4.2	Extraordinary expenses	-	-
1	5.	<b>Corporate income tax</b>	<b>-2,962</b>	<b>-2,034</b>
		<b>PROFIT FOR THE YEAR (1 + 2 + 3 + 4 + 5)</b>	<b>3,292</b>	<b>1,556</b>

a) Each item of the 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.

## 3|2 Notes to the combined annual accounts

### Scope of consolidation

#### Undertakings excluded from the consolidation

At 31 December 2012, the Banque de France held a participating interest in five undertakings (see Note 13 to the balance sheet of the Banque de France). The Banque de France holds an interest of over 20% in four of these undertakings.

In 2012, the Banque de France acquired BEH Holding, itself a holding company for its wholly-owned subsidiary BEH SAS, owner of land in La Courneuve on which a new currency management centre is to

be built. On 24 December 2012, BEH Holding was consolidated in the accounts of Banque de France following a universal asset transfer (*transmission universelle de patrimoine*). As a result, the Bank became the direct shareholder of BEH SAS.

The interests held in Banque de France Gestion, La Prévoyance immobilière and BEH SAS are excluded from the consolidation as they are not material.

Under the Statute of the ESCB and 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 17 members since 2010 on the basis of the “one man, one vote” principle, in compliance with Article 10.2 of the Statute.

### Consolidation of the *Institut d'émission des départements d'outre-mer* (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 overseas departments of Guadeloupe, French Guiana, Martinique, Mayotte and La Réunion, the French overseas departments note-issuing bank (IEDOM) came under the control of the Banque de France as from 1 July 2000. The Banque de France does not, however, hold an equity interest in the IEDOM.

The IEDOM is a national, financially autonomous, public institution with legal personality. It receives a capital grant from the State.

It is administered by a supervisory board composed of 15 members, seven of whom are appointed by the Governor of the Banque de France for a four-year term. The Governor, or his representative, chairs the supervisory board.

The Director General of the IEDOM is appointed by the chairman of the supervisory board.

The IEDOM pays the balance of its net profits, after the constitution of reserves, to the Banque de France. Any losses are borne by the Banque de France.

Article 9 of the aforementioned Order states that the accounts of the IEDOM are to be consolidated with those of the Banque de France.

### Activities of the IEDOM

The IEDOM's catchment area is the five overseas departments and the territorial units of Saint-Pierre-et-Miquelon, Saint-Barthélemy and Saint-Martin.

The role of the IEDOM can be split into three categories:

- central banking tasks: issuing and managing the circulation of banknotes; the rating of companies for the issue of private loans as part of Eurosystem refinancing operations; supervision of systems and means of payment; acting as an intermediary between

national authorities (the *Autorité de contrôle prudentiel* and *Autorité des marchés financiers*) and European authorities (the ECB);

- the provision of public services in compliance with national law: putting coins into circulation; managing relations with the Treasury, providing the secretariat for household debt commissions, managing local interbank registers (the FICOM or overseas territories accounts register, the FCC or central cheque register and the FICP or register of household credit repayment incidents); providing information to the public (rights of access to these registers, rights of access to banking services); monitoring banking fees;

- the provision of services of general interest to public or private bodies: acting as an economic and financial observatory; providing credit mediation for businesses; managing information on businesses; producing information for the banking community.

### Accounting principles and valuation methods used in the combined accounts

The same accounting principles and valuation methods apply to both the combined accounts and the individual annual accounts of the Banque de France, except in the computation of corporate income tax which, in the combined accounts, takes into account all temporary timing differences arising for tax purposes.

### Information on items in the combined balance sheet and profit and loss account

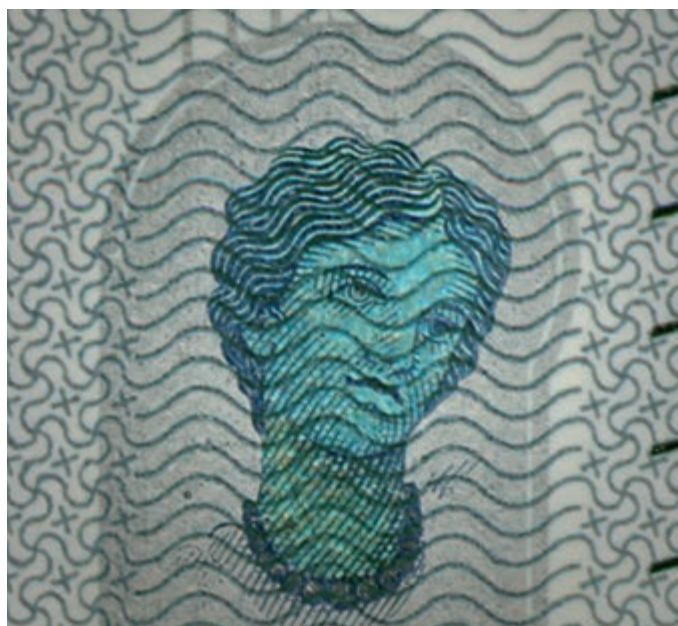
#### NOTE 1: DEFERRED TAXES

##### Deferred tax assets and liabilities

(EUR millions)

	Deferred tax assets	Deferred tax liabilities
Income temporarily exempted from taxation		19
Tax on unrealised gains and losses on mutual funds	272	
Other deferred tax relating to securities	0	
Provisions not deductible for tax purposes	308	
Other recurring timing differences	7	
Charges deducted for tax purposes but not yet recognised in the accounts		32
<b>TOTAL</b>	<b>587</b>	<b>51</b>





A net deferred tax asset of EUR 535 million is included in item A11 “Miscellaneous” in the combined 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 below.

The matching entry for this deferred tax asset is split between:

- the tax charge for the year, which in 2012 is EUR 148 million lower than in the individual annual accounts;

- item P17 “Capital, reserves and retained earnings”, which includes a balance of EUR 388 million representing the net deferred tax asset at the start of 2012.

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 related charges to/releases from the profit and loss account.

**NOTE 2: ELIMINATION OF INTER-INSTITUTIONAL TRANSACTIONS**  
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 P8.2 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);
- 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.

### 3|3 Auditors' report on the combined annual accounts

**KPMG Audit**  
1, cours Valmy  
92923 Paris La Défense Cedex

**Deloitte & associés**  
185, avenue Charles de Gaulle  
92524 Neuilly-sur-Seine Cedex

#### **AUDITORS' REPORT ON THE COMBINED ANNUAL ACCOUNTS**

*Year ended 31 December 2012*

In accordance with the assignment entrusted to us by the Banque de France's General Council, we hereby report to you for the year ended 31 December 2012 on:

- our audit of the accompanying combined annual accounts of the Banque de France and the *Institut d'Émission des départements d'outre-mer* – IEDOM (French overseas departments note-issuing bank), prepared in accordance with Article 9 of Order No. 2000-347 of 19 April 2000;
- the basis for our assessments.

The combined annual accounts have been approved by the Governor. Our responsibility is to express an opinion on these annual accounts based on our audit.

#### **1| Opinion on the combined annual accounts**

We conducted our audit in accordance with professional standards applicable in France; these standards require that we plan and perform the audit in such a way as to obtain reasonable assurance that the combined annual accounts are free from material misstatement. An audit includes examining, on a test basis or via other selection methods, evidence supporting the figures and disclosures in the annual accounts. It also includes assessing the accounting principles used and significant estimates made as well as evaluating the overall presentation of the combined annual accounts. We believe that the information we have collected provides a reasonable basis for our opinion.

In our opinion, the combined annual accounts of the Banque de France and IEDOM give a true and fair view of the results of their operations for the year ending 31 December and of their financial position, assets and liabilities for the year then ended, in accordance with the accounting rules and principles set out in Article R144-6 of the *Monetary and Financial Code*.

Without prejudice to our opinion, we draw your attention to the following points:

- for a description of the accounting rules and valuation methods used to prepare the combined accounts, the Notes to the combined annual accounts refer back to the Notes to the annual accounts. The introduction to the Notes to the annual accounts describe the accounting principles and valuation methods applicable to the Banque de France, some of which are specific to the European System of Central Banks (ESCB);
- As explained in the Notes to the annual accounts, the General Council of the Banque de France has determined the level of detail of the financial information published, in accordance with its rights under Article R144-6 of the *Monetary and Financial Code*.

#### **2| Basis for our assessments**

In accordance with the provisions of Article L823-9 of the French *Commercial Code* regarding the basis for our assessments, we bring to your attention the following matters:

- the section on valuation methods and Note 6 to the annual accounts describe the methods used to value the securities held by the Banque de France and in particular, the impairment methods applicable to held-to-maturity

.../...

securities. We reviewed the processes put in place by management in order to assess the risk of non-recovery of securities carried at amortised cost and also reviewed the assumptions used and documentation held in relation to these estimates;

- Note 21 to the combined annual accounts describes the method used to set aside provisions for liabilities and charges. Our work consisted in reviewing the documentation and checks performed by the Banque de France or ESCB and assessing the data and assumptions on which the related estimates were based;
- Note 30 to the annual accounts sets out the method for assessing pension obligations and other related liabilities. These obligations were assessed by actuaries. Our work consisted in examining the data used, evaluating the assumptions applied, and checking the calculations made;
- as indicated in Note 1 to the combined accounts, the Banque de France recognised deferred tax assets. We reviewed the main estimates and assumptions resulting in the recognition of these deferred taxes.

Our assessments of these issues were made within the context of our audit approach to the combined annual accounts taken as a whole, and contributed to our opinion expressed in the first part of this report.

Paris La Défense and Neuilly-sur-Seine, 28 March 2013  
The Auditors

**KPMG Audit**  
A division of KPMG S.A.  
Pascal Brouard

**Deloitte & associés**  
José-Luis Garcia



# Appendix 1

## SUMMARY OF THE HOUSEHOLD DEBT COMMISSIONS' ACTIVITY REPORTS FOR THE YEAR 2012

In accordance with the provisions of Article L331-12 of the French *Consumer Code*, each Household Debt Commission draws up an annual activity report on the number of applications processed, the measures applied, the types of debt involved and all the difficulties encountered. These reports are communicated to the Banque de France, which publishes a summary thereof in its annual report.

### A significant decrease versus 2011 in the number of applications filed, but nevertheless a high level and slightly above that of 2010

During 2012, Household Debt Commissions received a total of 220,836 applications, down 5% compared with 2011, but up 1.2% versus 2010.

### A sustained level of activity in 2012

With 247,368 applications processed by the end of December 2012, the Commissions and their secretariats experienced a sustained level of activity throughout 2012 (+2.83% versus 2011)<sup>1</sup> with an increase in the number of imposed and recommended measures initiated.

Compared with 2011, the Commissions initiated fewer amicable debt resolution plans (down 5%) and a higher number (+5%) of imposed or recommended measures, and measures implemented, or submitted to the Courts, at the debtor's request. There was also a substantial increase in the number of Personal Recovery Procedures (PRP) initiated (+15%). These procedures are adopted in cases where insolvency is accompanied by an absence of any medium-term outlook for improvement. The growth in the number of PRPs reflects the Commissions' will to limit the adoption of provisional solutions for such cases, in accordance with the guidelines they have received from the public authorities.

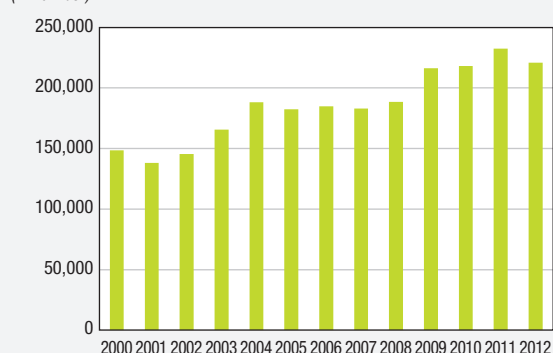
**Table**  
**Key data for the Commissions' activity**

(in number of applications)

	2012	2011
Applications filed	220,836	232,493
<i>o/w re-files (%)</i>	37.8	38.7
Admissible applications	194,866	202,900
Non-admissible applications	14,693	14,647
Steered towards amicable resolution	133,268	145,821
Steered towards Personal Recovery Procedure	71,838	65,776
Recommended for Personal Recovery Procedure without judicial liquidation	66,059	57,162
Debtor agrees to Personal Recovery Procedure with judicial liquidation	1,352	1,034
Agreed debt repayment plans (between debtor and creditors)	70,531	73,945
Measures imposed or recommended by the Commissions	60,399	57,371
<i>o/w measures imposed by the Commissions</i>	31,291	31,049
<i>o/w measures recommended by the Commissions</i>	29,108	26,322
Cases closed	32,133	33,357
Other outcomes (including cases deemed non-admissible by a court)	2,201	2,131

**Number of applications filed with the Commissions**

(in number)



Source: Banque de France

<sup>1</sup> <http://www.banque-france.fr/la-banque-de-france/missions/protection-du-consommateur/surendettement.html>



## Towards harmonisation and greater efficacy

The structuring effect of the “Lagarde” Act allowed the Commissions and their secretariats to continue optimising their practices and to pursue the actions initiated in 2011 in compliance with the priorities defined by the government regarding the further harmonisation of practices, the reduction of solutions leading to re-files, and an enhancement of cooperation with the different State services and all parties concerned.

## Better cooperation with the parties concerned

In 2012, cooperation between the different parties involved in debt resolution procedures resulted in a number of training and awareness raising campaigns intended for social workers and various social services such as the Social Action Community Centres, District Social Services, family allowance schemes, Housing Solidarity Funds (FSL), etc.

These initiatives reflect a strong commitment by the Commissions' secretariats to cooperate with the public authorities and to search for synergies and partnerships in order to explain the procedures and identify ways of enhancing coordination between the different existing mechanisms.

## Main difficulties encountered by Household Debt Commissions and their secretariats in processing applications

The activity reports underscore that, as the legal framework has evolved, the debt resolution mechanism has become cumbersome and complex, with tribunals playing an increasing role in the Commission's work. This evolution has made it more difficult to reconcile the need for rapid processing of substantial volumes of applications with the need to examine each case individually.

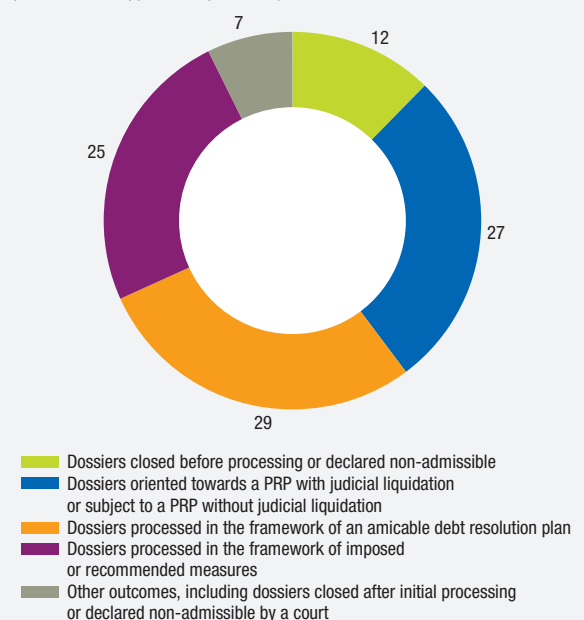
## Calls for simplification

### Simplification of the “liability totalling date”

As already noted in 2011, many of the Commissions would like to see a simplification of the liability totalling procedure. In effect, a clarifying measure allowing the liability totalling date to be determined as the date on which an application is accepted by a Commission would simplify the negotiation of amicable repayment plans, enhance comprehension of the mechanism for all parties and reduce the weight of dossier processing for the secretariats.

### Breakdown of Commissions' decisions in 2012

(as a % of total applications processed)



### What is liability totalling?

Under the provisions of Act 2010-737 of 1 July 2010 the Household Debt Commission must fix a liabilities totalling date. After that date, no additional interest or further penalties may be charged to the debtor until the implementation of the debt resolution plans/measures.

The liabilities are totalled after the creditors have notified the Commission of their outstanding claims. This notification must be made within 30 days of the application admissibility date. In practice, in view of the time required for the necessary correspondence, the liability totalling occurs after this period.

The proposed solution would require a change in the law allowing all claims to be frozen as of the application admissibility date; this would clarify the amounts involved for all parties, substantially reducing the grounds for disagreement and enhancing the clarity of the subsequent procedures.

### Extend the duration of the debt repayment suspension period to beyond one year

A number of Commissions observe that the processing of certain over-indebtedness situations takes longer than one year from the admissibility date mainly due to appeals and challenges filed with the Courts and the time taken to process them. As a result, debtors often find themselves being pursued again by their creditors at the end of the debt repayment suspension period. The Commissions suggest that the effects of admissibility be extended until the dossier processing is terminated, including beyond twelve months where necessary, thereby maintaining debtor protection throughout the entire procedure.

### Simplify the situation review phase.

The systematic review by the Commissions of debtors' situations at the end of their debt repayment suspension periods complicates the procedure and represents a substantial amount of additional work for the secretariats. In effect, at the end of the debt repayment suspension period, the Commission is obliged to automatically review the debtors' situations (whereas the other aspects of the procedure are not automatic...) and perform a series of particularly lengthy administrative tasks (including the sending of a questionnaire and of recorded delivery letters, followed by registration on the *Fichier des incidents de remboursement des crédits aux particuliers* [FICP – National Register of Household Credit Repayment Incidents]), even if a debtor's situation has changed and no longer warrants review. Some Commissions propose eliminating this automatic review phase and leaving it to the debtors themselves to determine whether at the end of debt repayment suspension period they wish to re-submit their situation to the Commission for review.

### Limiting failure of the amicable resolution procedure

A large proportion of the negotiation failures are related to the almost systematic refusal by creditors of proposals involving cancellation of part of the debt. However, these same proposals, when represented in the context of recommended measures are often accepted without dispute by the same creditors. This obligatory passage via an out-of-court settlement phase that invariably fails substantially increases the procedure's duration and cost, producing an end-result that is identical to that initially proposed.

A certain number of Commissions therefore propose a simplification of the processing of situations where out-of-court settlement looks bound to fail; this modification would consist in providing for the possibility of recourse to imposed or recommended measures from the outset of the procedure, without any obligation to attempt an out-of-court settlement.

## The need for greater coherency between the household debt resolution mechanism and the legal provisions relating to housing

### Maintain housing for debtors who are owners of their principal residence

The activity reports of the Household Debt Commissions show that determining the limit for the amount of reimbursements by reference to the distrainable portion can be a source of difficulty for debtors who own their principal residence or are first-time home buyers; this limitation can, in effect, lead certain debtors to sell their principal residence when they would have preferred and could have managed to maintain ownership of their homes.

#### What is the distrainable portion?

The amount left available to the debtor by reference to the “distrainable portion scale” is calculated on the basis of total distrainable and non-distrainable resources (including family allowances, unemployment benefits, alimony, etc.).

The distrainable portion is defined by Articles L3232-2 and L3253 of the French *Labour Code*.

Thus in order to allow owners to keep their homes and avoid the sale of their property assets, a certain number of Commissions propose planning – with the debtor's agreement – a repayment amount that exceeds the limit fixed by reference to the distrainable portion, while ensuring that this amount remains compatible with the debtor's financial capacity.

Other Commissions point out that a reduction of the maximum duration of debt resolution procedures to eight years can also lead to the sale of a debtor's owned principal residence, whereas an extension of the duration of the debt resolution procedure for all the debts in the dossier beyond the current maximum limit in cases where the debtor has a sufficient capacity to repay all of the residual debt over the extended period, would avoid, in certain cases, the sale of the principal residence.

### Maintaining tenant debtors in their homes

In the case of tenant debtors covered by a Social Cohesion Agreement,<sup>2</sup> the effects of admissibility to the household debt resolution mechanism have led to a certain number of delicate and complex situations involving eviction risk. Such an agreement, signed by the social housing landlord, allows the debtor to remain in the rented property in exchange for a gradual reimbursement of the outstanding rent. When a debtor files an application to a Household Debt Commission and the application is deemed admissible, the Commission prohibits the debtor from paying his debts autonomously. This prevents the tenant from respecting the terms of his Social Cohesion Agreement and prompts the landlord to recommence eviction procedures, a situation that is counter to the objectives sought in the framework of the debt resolution process.

Numerous Commissions suggest changing the law so that:

- admissibility automatically suspends rental payments under Social Cohesion Agreements,
- payments provided for by the debt resolution procedures will subsequently settle the amounts scheduled under the Social Cohesion Agreement.

<sup>2</sup> Provided for by Article L442-6-5 of the Construction and Housing Code.

Certain Commissions have pointed to the difficulties that some tenant debtors have encountered following the implementation of a Personal Recovery Procedure (PRP) and the cancellation of rental arrears. In fact, such tenants are sometimes subject to eviction procedures after the decision to initiate an PRP is declared.

Lastly, some Commissions suggest that the rules of communication with the CCAPEX (*commissions de coordination des actions de prévention des expulsions* – Eviction Prevention Coordination Commissions) should be relaxed in order to improve coordination between the various existing services.

## Debtor's need guidance throughout the debt resolution procedure

The Commissions have highlighted the fact that certain complex situations require tailored social assistance throughout the implementation of the debt resolution procedure and particularly for the constitution of the initial application.

In fact, certain Commissions note that numerous applications are substantially incomplete, necessitating large quantities of follow-up work for the secretariats and sometimes leading to dossiers being closed for an absence of the necessary documents indispensable for processing the application. The Commissions and their secretariats nevertheless try to ensure a fair balance between the accessibility of the debt resolution mechanism and a necessary degree of discipline in the examination of the applications filed.

Likewise, the difficulty that certain debtors encounter in implementing debt resolution measures is frequently mentioned in the Commission's reports. On this point, the Commissions indicate that during the initial months of implementation of debt resolution measures, debtors often need constant assistance in order to enhance the viability of the measures and limit the risk of another unnecessary application being filed.

## Need for regular dialogue with creditors throughout the procedure

Certain difficulties highlighted in the Commissions' 2011 activity reports have again been mentioned in the 2012 reports:

- certain cases of non respect of the repayment suspension on debts incurred before the debtor's dossier admissibility date in the form of continued deductions from the debtor's account and difficulties recovering the sums erroneously deducted;
- no response or late response from creditors to the Commissions' proposals, leading to the failure of negotiations. Some Commissions suggest that after a certain deadline, non-response from creditors should be interpreted as agreement to the proposals that have been addressed to them;
- recurrent demands from credit institutions for monthly "contact" payments,<sup>3</sup> despite their being prohibited by the regulatory provisions;
- demands for debt moratoria for periods less than 18 months. Such demands are contrary to the regulatory provisions and incompatible with the objectives of the debt resolution mechanism;

<sup>3</sup> Monthly payments of very small sums (less than 10 euro), the primary of objective of which is not to repay the debt but to maintain contact with the debtor.



- the persons responsible for recovering outstanding funds (notably the bailiffs) are systematically unaware that the debtor's case has been accepted by the creditors that have mandated them to recover the outstanding funds, leading to continued proceedings against the debtor after the dossier has been accepted as admissible by the Household Debt Commission;
- a certain increase in objections to decisions to implement Personal Recovery Procedures,<sup>4</sup> notably by social housing landlords and certain public authorities.

In the 2012 activity reports, the Commissions have highlighted difficulties encountered in processing receivables that have been sold to third parties during the procedure. Such sales of receivables are becoming increasingly common. Often unknown to the debtors themselves and to the Commissions, they complicate the processing of the dossiers and lead to the failure of the debt resolution procedures underway.

Certain reports mention cases where utilities such as water and electricity have been cut off after the decision to implement a PRP has been confirmed by a judge.

With respect to non-bank creditors, some Commissions mention the difficulty encountered by debtors in obtaining a receipt for payment of their debts. Debtors need this receipt to obtain early removal of their name from the over-indebtedness procedures list of the FICP.

Lastly, the Commissions have pointed out that the banks do not always respect their obligation to maintain an over-indebted person's bank account open in order to allow that person access to means of payment that are appropriate for his/her situation of over-indebtedness: the Commissions have noted, for example, that the banks have been fixing meetings beyond the deadlines defined by the professional standards, as well as cases of accounts

**Order of 24 March 2011 approving the professional standards regarding  
relations between banks and their over-indebted clients  
(i.e. whose debt dossiers have been referred to a Household Debt Commission)**

The aim of these standards is to encourage banks to provide better support for their over-indebted clients during the examination of their debt dossiers and during the implementation of the subsequent debt resolution plans/measures. These standards include:

- the obligation to inform the debtor of the consequences of the implementation of a debt resolution plan/measure on the way his/her account will function and the obligation to invite the debtor to a meeting within six weeks of a Household Debt Commission's decision to accept that person's debt dossier;
- maintaining the debtor's account open and operational throughout the dossier examination phase and throughout the entire duration of the subsequent debt resolution plan/measure;
- maintaining the provision of means of payment and services adapted to the over-indebted person's situation;
- suspension of the repayment of all credits as of the date on which the debtor's dossier is accepted as admissible by a Household Debt Commission;
- possibility of maintaining an overdraft authorisation.

<sup>4</sup> In this respect, the Commissions have again underscored the fact that the possibility to contest either the decision regarding the type of procedure to implement or the recommendation to proceed with a PRP without judicial liquidation, or both, has contributed to the increase in appeals.

being blocked. Also mentioned are difficulties regarding the provision of appropriate means of payment and the initiation of direct debits after the debt resolution procedure has commenced.

## Different interpretations of the legal texts remain

Some Commission reports have pointed out that Commissions and magistrates do not always have concordant appreciations of certain situations. In effect, a number of commissions have observed continued differences of interpretation with the Courts with respect to the irremediably compromised nature of debtors' situations, and notably the refusal to accept PRPs for dossiers presenting a very low repayment capacity.

Because of their professional status and their professional activity, certain over-indebted persons are bound by collective procedures that are governed by the French *Code of Commerce* and, therefore, their over-indebtedness cannot be resolved in the framework of a debt resolution procedure. And yet certain natural persons, who are ineligible for a personal debt resolution procedure due to their status, also find themselves denied access to the implementation of a collective procedure by the Commercial Court due to the absence of "professional" debts.<sup>5</sup>

In addition, the Commissions have mentioned certain difficulties regarding relations with third parties in the debt resolution procedures, particularly lawyers and solicitors. In fact, the law obliges the Commissions and their secretariats to respect the confidentiality of these professionals, a fact which often leads to misunderstandings and difficulties in the processing of debt dossiers.

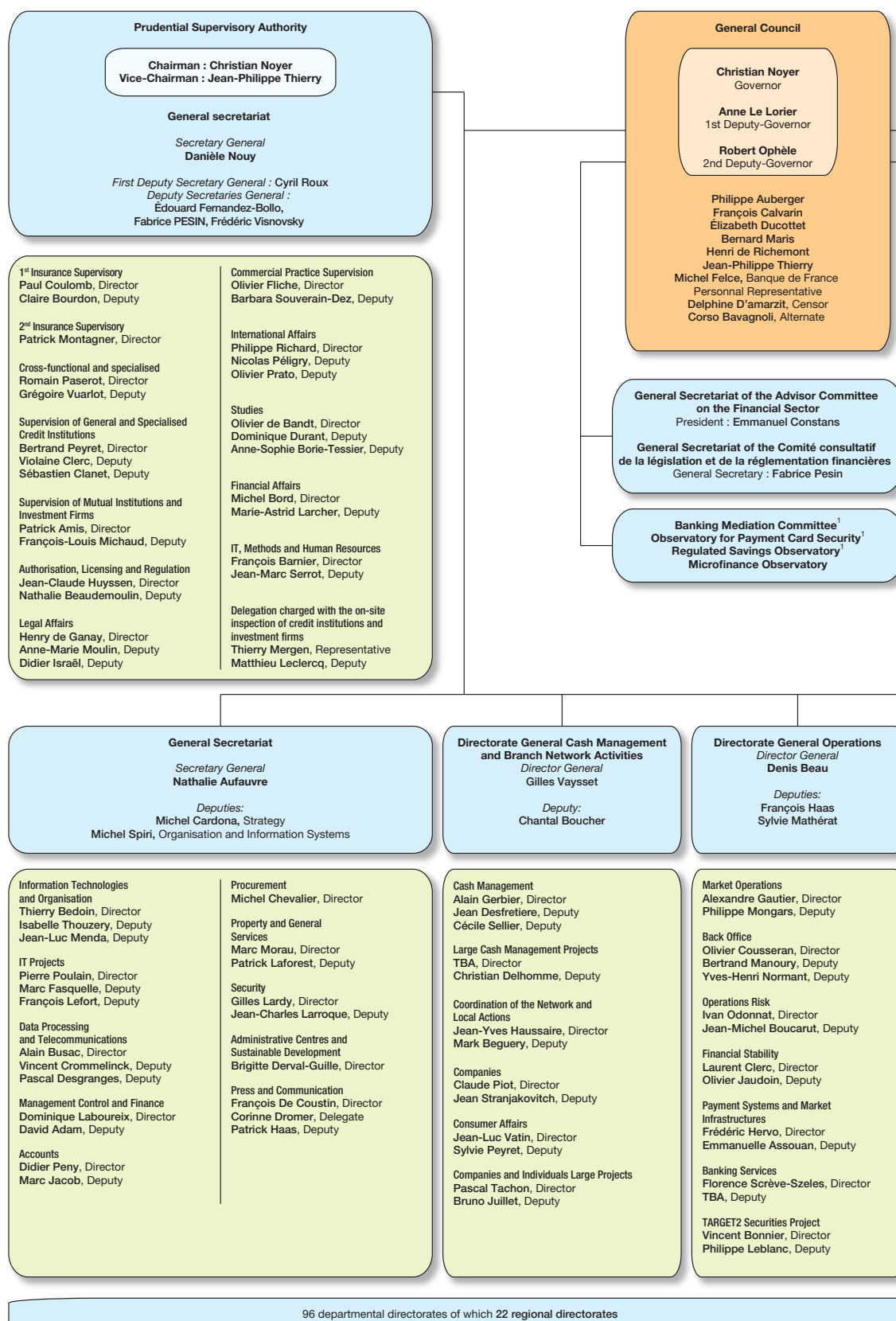
Lastly, some Commission reports have raised the question of the duration of inscriptions on the FICP debt resolution procedure list. Two proposals have been put forward:

- the first concerns the duration of the inscription on the FICP register for a debt resolution measure that involves the full or partial cancellation of debts. It is proposed that a person benefiting from a partial debt cancellation should be inscribed on the FICP register for the duration of the repayment period that accompanies the partial debt cancellation measure for a minimum of five years. This duration is coherent with the duration of the inscription that accompanies a PRP;
- the second concerns the automatic delisting of the debt resolution measure after five years if no other payment incident has been declared. In effect, only payment incidents involving bank debt are reported for FICP inscription and allow maintenance of the inscription of the debt resolution measure on the FICP register beyond the 5-year period. Payment incidents involving non-bank debt could also be reported, but are not currently taken into account.

<sup>5</sup> The same observation can also be made regarding natural persons who have ceased their activity with social debts (Régime social des indépendants – RSI).

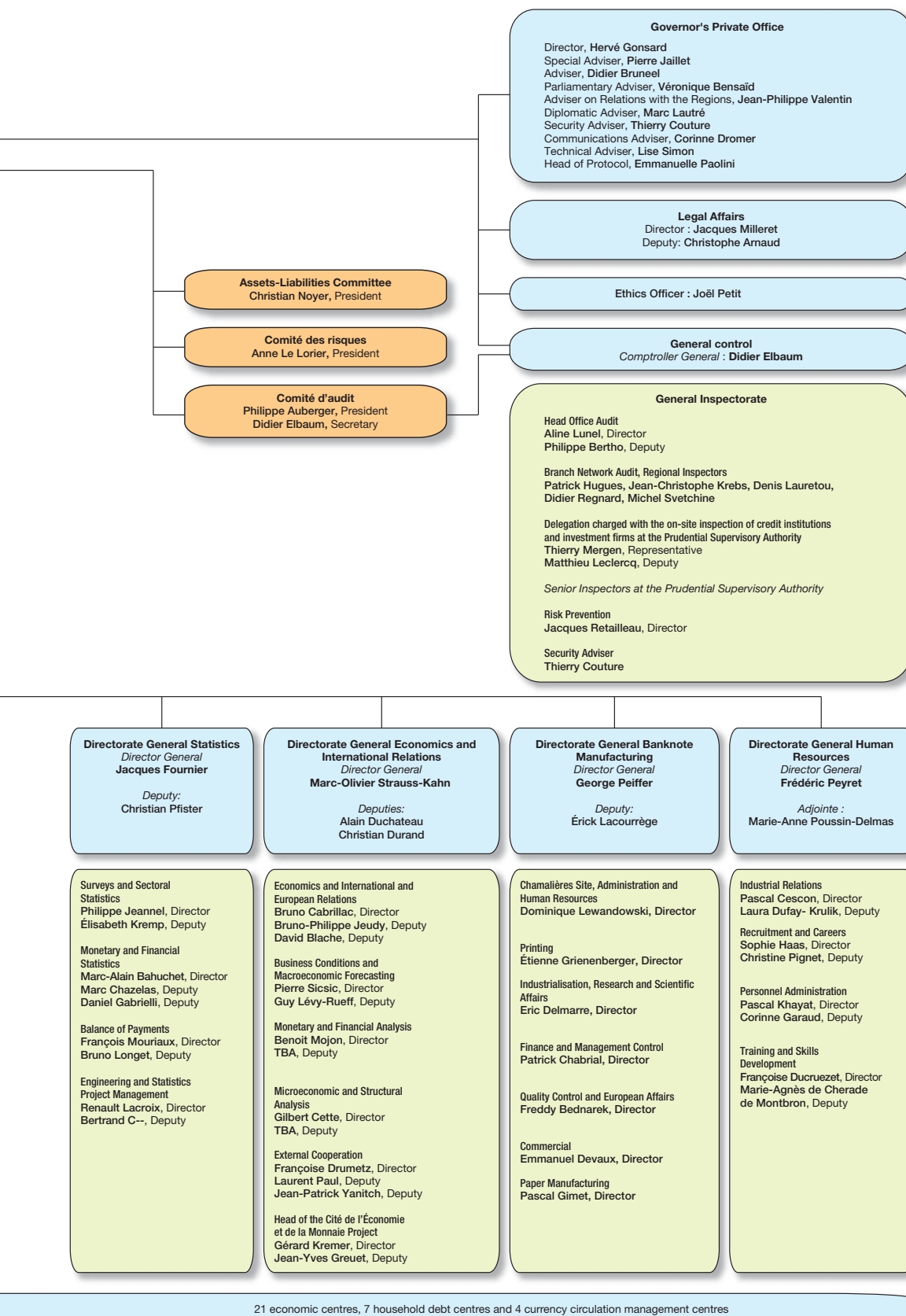
# Appendix 2

## ORGANISATION OF THE BANQUE DE FRANCE



<sup>1</sup> The Governor chairs the Banking Mediation Committee, the Observatory for Payment Card Security and the Regulated Savings Observatory .

AT 1 AUGUST 2013





# List of illustrations

## Tables

Main economic indicators for BRICS	13
Monetary aggregates, euro area and France	18
Banknote production – Results 2011 to 2012	48
SDREE 2010-2012	88
Financial position	101
Banknotes in circulation	101
Net bank refinancing	102
Operations with institutional customers	102
Gold and foreign exchange reserves	103
Euro-denominated portfolios	103
Net position with the Eurosystem	104
Other items	104
Net income from activities	105
Operating expenses	106
Main income statement balances	107
Balance sheet at 31 December 2012	108
2012 profit and loss Account	109
Foreign exchange assets and liabilities (excl. relations with the IMF)	113
Relations with the IMF	113
Euro-denominated loans to euro area credit institutions within the framework of monetary policy operations	115
Euro-denominated liabilities to euro area credit institutions within the framework of monetary policy operations	115
Euro-denominated claims on non-euro area residents	115
Other euro-denominated loans to euro area credit institutions	116
Euro-denominated securities issued by euro area residents	116
Claims arising on the transfer of reserve assets to the ECB	117
Other claims on the Eurosystem	117
Other euro and foreign currency denominated financial assets	118
Securities portfolios	118
Miscellaneous	118
Fixed assets	119
Subscribed capital and paid-up capital	119
Information relating to subsidiaries and participating interests at 31 December 2012	119
Share of the Banque de France in the capital of the ECB	120
Euro-denominated liabilities to non-euro area residents	121
Euro-denominated liabilities to the Eurosystem	121
Euro-denominated liabilities to other euro area residents	121
Banking transactions	122
Miscellaneous	122
Provisions for liabilities and charges	122
Revaluation accounts	123
Capital, reserves and retained earnings	123
Securities commitments	124
Notional amount of financial futures contracts	124
Amounts of foreign currency receivable and deliverable in respect of transactions carried out with customers	124

Pension liabilities and funding	125
Net interest income	127
Net of other income and expenses on financial transactions	127
Income from equity shares and participating interests	128
Net of other income and expenses	128
Personnel and related expenses	129
Corporate income tax	129
Remuneration of management bodies	129
Combined balance sheet at 31 december 2012	132
2012 Combined profit and loss account	133
Deferred tax assets and liabilities	134
Key data for the Commissions' activity	139

## Charts

Spreads over German government securities since 2010	8
Effective nominal exchange rate	8
Stock indices	9
Brent oil price	9
Metal and agricultural commodity prices indices	10
BRIC GDP growth rates	12
Principal current account balances	14
Housing starts and household investment	15
Harmonised index of consumer prices (HICP)	16
Year-on-year % change in BBHW, BMW, AWC and CPI	17
Real unit labour costs	17
Loans to NFCs adjusted for securitisation, France	19
Drawn credit exceeding EUR 25,000 – Total outstanding drawn credit	20
Drawn credit exceeding EUR 25,000 – Outstanding drawn credit maturing in less than one year	20
NFC debt by instrument, France	20
Eurosysteem key rates	22
Composition by maturity of outstanding refinancing provided by Eurosysteem central banks	23
Rates on bonds issued by French, German, Spanish and Italian companies and banks	25
Government deficit as a % of GDP	28
Public debt	31
SMEs' access to credit	35
Number of cases submitted to the commissions	41
Net French issuance of banknotes	49
Banknote flows at Banque de France and IEDOM counters	49
Take-up of SEPA credit transfers in France	75
Take-up of SEPA direct debits in France	75
Headcount	76
Breakdown of headcount by age bracket	76
Breakdown by area of activity	77
Total euro banknotes in circulation	80
Liquidity provision and absorption by the Banque de France	80
Rates of main monetary policy operations	81

Break-even point	82
Payments to the State	83
Banque de France greenhouse gas emissions in 2011	90
Knowledge of economics among the French public	94
Assessment of the level of inflation	94
Understanding of economic data	94
Concerns about the public deficit and debt	94
Number of applications filed with the Commissions	139
Breakdown of Commissions' decisions in 2012	140

## Diagrams

The General Council and the Audit Committee	65
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# Table of banknote illustrations

5 € “Europa series”	2
500 F “type ancien”, Messidor an VIII (June-July 1800)	6
500 F “type 1842”, detail [1]	9
50 F “type 1870 – Clermont-Ferrand”, detail	13
500 F “type 1888 – bleu et rose”, detail	19
500 F “type 1842”, detail [2]	24
5,000 F “type 1846”, detail	26
50 F “type 1889 – bleu et rose”, detail	31
5 F “type 1871”, detail	33
5 F “type 1917”	34
50 F “type 1927 Luc-Olivier Merson”, detail	39
5,000 F “type 1934 – Victoire”, detail	44
500 F “type 1939 – La Paix”, detail	49
50 F “type 1933 – Cérès”, detail	52
50 F “type 1941 – Jacques Cœur”, detail	59
500 F “type 1945 – Chateaubriand”, detail	66
50 F “type 1946 – Le Verrier”, detail	71
500 F “type 1953 – Victor Hugo”, detail	74
5,000 F “type 1949 – Terre et Mer”, detail	78
50 F “type 1962 – Racine”, detail	83
5 F “type 1966 – Pasteur”	84
500 F “type 1968 – Pascal”, detail	87
50 F “type 1976 – Quentin de La Tour”, detail	89
50 F “type 1992 – Saint-Exupéry”, detail [1]	93
50 F “type 1992 – Saint-Exupéry”, detail [2]	97
500 F “type 1993 – Pierre et Marie Curie”, detail	99
5 €	100
50 €, detail	106
500 €, detail	114
5 € “Europa series”, detail [1]	121
5 € “Europa series”, detail [2]	129
5 € “Europa series”, detail [3]	135
5 € “Europa series”	137

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