

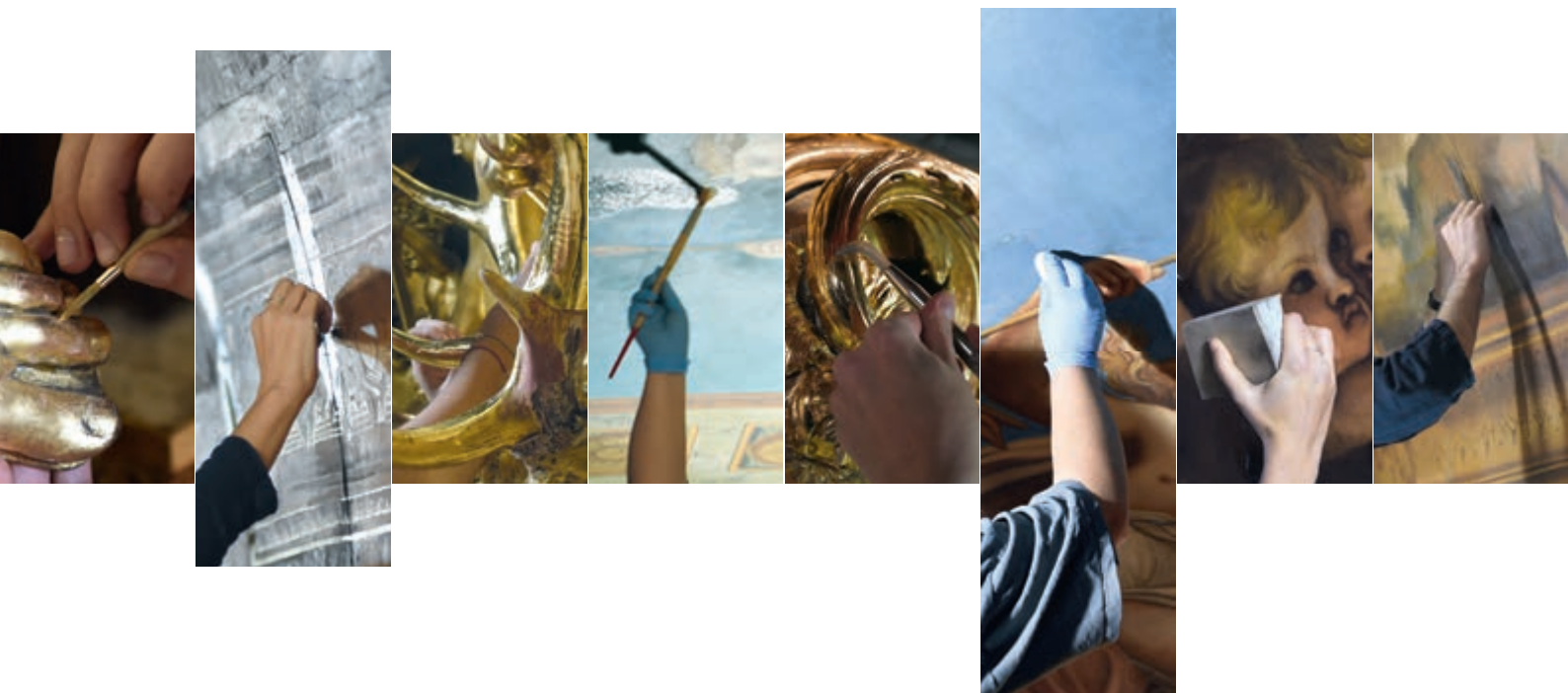
2014 | ANNUAL REPORT **BANQUE DE FRANCE**

To
The President of the Republic
And Parliament

By Governor Christian Noyer



Contents



The Banque de France commissioned a team of specialists to restore its architectural and artistic heritage.

Photographs of their painstaking work, by Pascal Assailly and Jean Derennes, were used to illustrate this Annual Report.

The photographs of the governors and other members of the Executive Committee are by Marthe Lemelle.

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Monetary policy, measures to promote financial stability

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First part

Report on monetary policy **and financial stability**

Monetary policy, measures to promote financial stability



In 2014, the main regions of the global economy reported mixed trends. Overall, industrialised countries saw a pick-up in economic growth, with a confirmed recovery in the United States and the United Kingdom and a return to a positive growth rate in the euro area. In Japan, however, economic activity slowed sharply. Growth also cooled on average in emerging countries, with an especially pronounced slowdown in Russia and Brazil, as well as in China, albeit to a lesser degree. Oil prices experienced a steep decline in 2014, which should ultimately provide support to the global economy, although the expected effects vary considerably from one country to another. The decline in the price of oil and the less pronounced fall in other commodity prices made a substantial contribution to the low level of inflation in most countries, and notably in the euro area. In response the Governing Council of the European Central Bank (ECB) reduced policy rates on two occasions in 2014, reiterated its forward guidance and stepped up non-standard measures.

The following analyses and commentaries are based on economic data updated on 8 April 2015.

1| INTERNATIONAL ENVIRONMENT

1|1 Economic activity outside the euro area

Industrialised countries

In the United States, over 2014 as a whole, economic growth was slightly higher than in 2013, as real gross domestic product (GDP) rose by 2.4% in 2014, after 2.2% in 2013. Harsh weather conditions caused US GDP to decline by 2.1% on an annualised quarterly basis in Q1 but activity rebounded strongly thereafter, driven notably by business investment (6.3% growth on average in 2014, after 3.0% in 2013) and private consumption (2.5% increase, after 2.4% in 2013). Consumer confidence, which was undermined in 2013 by fiscal uncertainty and low levels of disposable income, returned to its highest level since 2008, with the Conference Board's confidence index climbing 14 points over the year. The substantial

upturn, coupled with gains in purchasing power and a marked improvement on the labour market, stimulated household consumer spending. Meanwhile, residential investment slowed considerably in 2014, with average annual growth of just 1.6%, compared with 12% in 2013.

Overall, 2014 was a mixed year for the property market. After increasing for three years in a row, sales of existing homes fell back in 2014. Sales of new homes continued to rise, but at a slow pace. Although transactions were down, property prices continued to increase, whether measured by the Federal Housing Finance Agency index or the S&P/Case-Shiller national index, which gained 5.8% and 7.2% respectively.

The labour market had an outstanding year in 2014, with over three million jobs created, the highest since 1999. As in 2013, the unemployment rate fell steeply, easing by 1.0 point over the year to sit at 5.6% by end-2014, while the participation rate continued to decline, but less quickly than before, contracting by 0.3 of a point between January and December 2014. Other indicators compared less favourably, however, such as the long-run unemployment rate (over 27 weeks), which did fall, but nevertheless remained above its long-run average, reflecting substantial unused resources on the labour market. Furthermore, the decline in the unemployment rate was not accompanied by a surge in wages, which rose by 2.4% in 2014 in nominal terms and 0.8% in real terms.

The consumer price index rose by 1.6% on an annual average in 2014, after 1.5% in 2013, although the slight pick-up concealed diverse sub-annual patterns, which included a steady decline in inflation over the second half owing to the fall in oil prices. Stripping out energy and food, inflation fell slightly from 1.8% in 2013 to 1.7% in 2014.

In monetary policy, forward guidance took on a more qualitative tone from March onwards, as the 6.5% threshold for unemployment was replaced by an indication that the level of official rates would be maintained "for a considerable time" after the end of the asset purchase programme. Following the October meeting of the Federal Open Market Committee (FOMC), the US Federal Reserve System (Fed),

after tapering its asset purchases, concluded its third quantitative easing programme. In December, the FOMC said that it would be “patient in beginning to normalise the stance of monetary policy”.

The goods and services deficit rose slightly to just over USD 500 billion or approximately 2.9% of GDP in 2014 after a USD 475 billion deficit in 2013 (2.8% of GDP). US competitiveness was affected in the second part of the year as the dollar strengthened against other currencies.

The federal deficit was reduced again during the 2014 fiscal year (FY), which ran from 1 October 2013 to 30 September 2014, although the decrease was smaller than in 2013. The deficit thus came out at 2.8% of GDP in 2014, after 4.1% in 2013 and 6.8% in 2012. According to estimates by the Congressional Budget Office (CBO), outstanding federal debt was equivalent to 74.1% of GDP by the end of FY2014, compared with 72.3% in 2013.

In **the United Kingdom**, despite a second-half deceleration, economic activity was solid throughout 2014, with GDP expanding by 2.8% on average over the year. Private consumption acted as the chief driver, while the growth contribution from private investment was positive only in the first half and exports remained weak.

Activity on the property market cooled in the second half of the year as demand-curbing institutional measures caused the number of transactions and new loans to decline. At the same time, the difference between demand and available supply on the property market continued to drive a sharp run-up in housing prices across the country, although this trend waned in the second half.

The labour market continued to recover throughout 2014. Job creations enabled the unemployment rate to fall quickly, contracting by 1.5 points over the year to reach 5.7% in December. The decline in real wages, reflecting the post-crisis labour market adjustment, broke off at the end of the year without fuelling inflationary strain.

The consumer price index slowed steadily throughout 2014, reaching 0.5% year-on-year

in December, the lowest level ever recorded in the United Kingdom. Disinflation was principally due to outside factors, notably the steep fall in the contribution from food and energy prices, plus sterling appreciation, as the nominal effective exchange rate climbed by approximately 3.6% over the year. Domestic factors, especially low wages and unit labour costs, also helped to curb inflation.

In 2014, the Bank of England pursued a highly accommodative monetary policy, holding the bank rate at 0.5% and keeping GBP 375 billion in assets (essentially gilts) on its balance sheet. In February, it changed its forward guidance, which had previously set a 7% threshold for the unemployment rate, and said it would leave monetary policy unchanged (rates and balance sheet assets), adopting a more qualitative approach based on several labour market indicators.

The goods and services deficit remained large, at GBP 34.8 billion or 1.9% of GDP in 2014, after GBP 33.7 billion in 2013 (1.9% of GDP).

The government deficit, according to the Maastricht definition, shrank in FY2013-2014 to approximately 5.8% of GDP, down from 7.6% of GDP in 2012-2013. Government debt, again as defined by Maastricht, stood at 87.9% of GDP in FY2013-2014, compared with 85.4% of GDP in 2012-2013.

In **Japan**, Prime Minister Shinzo Abe continued to deploy his “Abenomics”¹ policy in 2014. Also, VAT was raised from 5% to 8% on 1 April. The negative impact of the VAT hike turned out to be more severe than expected, and activity contracted in the third quarter. Over the year, Japanese GDP shrank by 0.1% compared with 2013.

Weak economic activity and downside pressure on consumer prices in connection with lower oil prices prompted the central bank to intervene again. On 31 October, the Bank of Japan announced an extension to its quantitative and qualitative

¹ Set of measures introduced by the Prime Minister since taking office in December 2012, aimed at combining fiscal and monetary stimulus with structural reforms.

monetary easing policy (QQE). The decision to extend QQE caught the markets off guard, causing the yen to depreciate sharply against the dollar, which partly cushioned the impact on prices of lower oil. Overall, mainly owing to the effect of the VAT hike, consumer prices increased by 2.4% year-on-year in December 2014 (after peaking at 3.7% in May 2014), while core inflation stood at 2.1%.

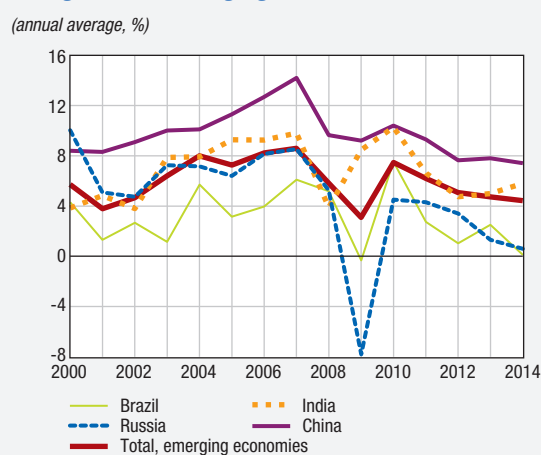
In 2014, the Japanese trade deficit widened because of stronger domestic demand in the first quarter ahead of the VAT hike, which stimulated real imports. The yen's sharp depreciation made imports more expensive while allowing an increase in export volumes. But all in all, growth in import values outstripped that of exports, with the result that the trade deficit, which had already deteriorated substantially in 2013, widened further to JPY 12,816 billion in 2014, after JPY 11,468 billion in 2013.

Emerging countries

The pace of economic growth continued to ease in emerging countries in 2014. Average growth dipped to 4.4% in 2014 compared with the previous year's 4.7% and was sharply lower than the ten-year average of 6% (see Chart 1). The outlook for 2015 suggests that this trend will continue.

Several factors are behind the weaker growth in emerging countries: the slowdown in China and its

Chart 1
GDP growth in emerging economies



negative impact, especially on growth in Emerging Asia and Latin America, mounting geopolitical strains (Russia being one of the most affected countries), and dimmer medium-term growth prospects in commodity-exporting countries, particularly in Latin America. Moreover, although the steep drop in oil prices from autumn 2014 had a broadly positive effect on the global economy, it had a more mixed impact on the growth of emerging economies, which include many oil-exporting countries (see Box 1). Finally, expectations of higher interest rates in the United States fuelled fears about potential difficulties for emerging countries and their large companies with

Economic indicators for the main emerging countries

	Brazil		Russia		India		China	
	2013	2014	2013	2014	2013	2014	2013	2014
Nominal gross domestic product (GDP) (USD billions)	2,246	2,244	2,097	2,057	1,877	2,048	9,469	10,355
GDP growth (%)	2.5	0.1	1.3	0.6	5.0	5.8	7.8	7.4
Inflation growth (%)	6.2	6.3	6.8	7.4	9.5	7.8	2.6	2.3
Fiscal balance (% of GDP)	-3.3	-3.9	-1.3	-0.9	-7.2	-7.2	-0.9	-1.0
Gross government debt (% of GDP)	66.2	65.8	13.9	15.7	61.5	60.5	39.4	40.7
Current account (% of GDP)	-3.6	-3.5	1.6	2.7	-1.7	-2.1	1.9	1.8
Official foreign exchange reserves (USD billions)	358.8	363.5	509.7	385.4	298.1	324.7	3,880.4	3,899.3
Change in foreign exchange reserves (%)	-3.8	1.3	-5.3	-24.4	-0.8	8.9	14.5	0.5

Sources: GDP growth: IMF, World Economic Outlook (January 2015 update); reserves: IMF, international financial statistics; other data: IMF, World Economic Outlook (October 2014).

Box 1

The decline in oil prices: why it happened and the impact on the global economy

One of the highlights of the year was the 43% fall in oil prices between June and December 2014, which prompted revisions to growth forecasts across all economies.

The decline can be seen as good news for the global economy, because it increases disposable income for households and reduces production costs for companies. But an assessment of its impact on real GDP will depend on the underlying cause of the change in oil prices, that is, the respective roles of supply and demand. On the one hand, global demand for oil weakened in 2014. This was partly because of reduced demand from China, reflecting that country's efforts to rebalance its domestic economy, but also muted growth in Europe and Japan. On the other hand, the supply of oil remained plentiful in 2014, actually increasing by 2.3% compared with 2013, whereas demand increased by just under 1%. This created excess daily supply of approximately 0.8 million barrels, which put downside pressure on prices. The United States became the world's largest producer of hydrocarbons in 2014 because of shale oil, whose production was supported by prices prior to the second half of 2014, which reached levels that made more operations profitable. Furthermore, the members of OPEC decided at their Vienna meeting on 27 November to keep their production target at 30 million barrels/day. Despite an emerging consensus that supply was the strongest factor, the respective shares of supply and demand in the sudden fall in prices are hard to measure precisely.¹ The fact that demand plays a significant role could be reflected in a reduction in the expected positive impact on real GDP, at least in the short term. Moreover, past experience shows that the response of macroeconomic variables to a change in oil prices is not fixed. Changes in the structure of the economy, such as reduced energy intensity, could thus help to lessen the economic impact of oil shocks.

Taking all these factors into account, the IMF estimates that the decline in oil prices should have a positive overall impact on global growth in 2015 (between 0.3 and 0.7 percentage point of GDP)² although this will conceal asymmetries between countries, especially between countries that import and export oil. For importers with high levels of inflation, mainly emerging economies, low oil prices make it possible to moderate inflationary pressures and boost household disposable income. In importer countries with low inflation and policy rates close to zero, the decline in oil prices could push up real interest rates and curb the positive effect of lower energy prices, at least in the short term. Exporter countries will need to adjust fiscal policies if oil prices remain below the fiscal breakeven level for a protracted period. The adjustment will notably be vital for countries with sizeable external vulnerabilities.

The decline in oil prices has also had an impact on financial stability. In the case of emerging economies, for example, currency depreciation relative to the US dollar has led to increased balance sheet vulnerabilities in both importing and exporting countries. Moreover, some countries could face debt repayment problems.

1 See for example Kilian (L.), "Why did the price of oil fall after June 2014?", VoxEU, 25 February 2015.

2 IMF estimate by Arezki (R.) and Blanchard (O.), "Seven questions about the recent oil price slump", IMF blog, 22 December 2014.

balance sheet vulnerabilities² and high foreign currency exposure. The previous table shows the main economic indicators for the principal emerging economies.

In **Brazil**, growth plummeted to 0.1% in 2014. The country entered a technical recession in the first half of 2014 due to a decline in investment, which contracted by 7.9% over the first six months of the year. Domestic factors played a role, including weaker consumer confidence, a gloomier business climate and the end of the accommodative monetary and fiscal policies cycle, as did external factors, notably cooling growth in China and Argentina and lower commodity prices. Since exiting

recession in the third quarter, Brazil has continued to post weak growth, notably due to base effects connected with the World Cup investment programme and government spending in the lead-up to elections.

In **Russia**, growth fell to 0.6% in 2014. The economic situation was affected by two major external shocks, namely the fall in oil prices and the international sanctions related to the geopolitical conflict with

2 Asymmetries between currencies in which assets and liabilities are denominated (currency mismatches) or between maturities (maturity mismatches).

Ukraine, which put pressure on Russia's balance of payments and caused the sharp depreciation of the rouble. Inflationary pressure mounted and confidence fell quickly amid major capital flight. The sustainability of public finances remains uncertain if the low level of oil prices persists.

The **Chinese** economy is in the midst of a structural slowdown. Growth came to 7.4% in 2014, after 7.7% in 2012-2013 and an average of approximately 10% during the 2000s. The factors that are most likely to drive a steady slowdown in the pace of growth include less favourable demographic factors and smaller productivity gains connected with the reallocation of labour force to services. External imbalances have been partly mitigated, but the internal imbalance between investment and consumption persists. The authorities look determined to push ahead with the internal rebalancing of the economy and are seeking to lay the foundations for sustainable long-term growth.

Bucking the trend among emerging countries, **India** recorded a sharp rebound in economic activity in 2014, with growth climbing to 5.8% from 5% in 2013 and reversing the trend after a two-year slowdown. Prices increased by just 7.8% owing to a steep decline in food prices (compared to an average of 10.4% over the last five years), as international commodity prices softened, helping to contain inflationary pressures. The government measures taken in 2013 in order to support investment, combined with the end of the wait-and-see attitude that characterised the lead-up to the elections in May 2014, began to take effect from Q2 2014 onwards.

1|2 Capital and commodity markets

Capital markets

In 2014, financial market trends were heavily influenced by announcements from the main central banks. In the United States, the Fed tapered its securities purchase programme, cutting its purchases by USD 10 billion a month between January and October, divided between government securities and mortgage-backed securities (MBS). This first stage in the Fed's strategy to exit its highly accommodative monetary policy did not

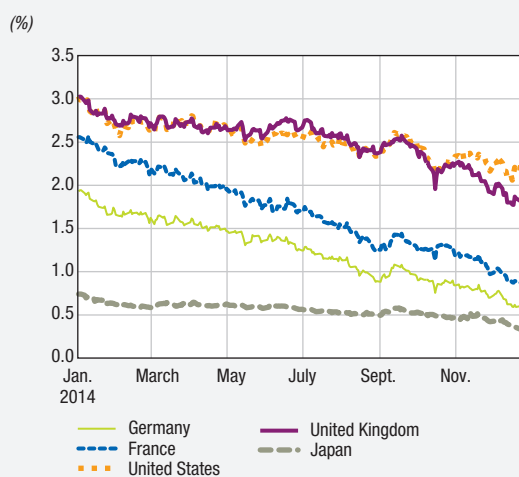
prevent US rates from remaining at historically low levels. In the euro area, the compression of peripheral yield spreads that began in mid-2012 gathered momentum in 2014, while interest rates recorded a historical decline as the ECB eased monetary policy and implemented programmes to buy asset-backed securities (ABS) and covered bonds. Continued monetary stimulus in Japan, with the launch of a new QQE purchase programme by the Bank of Japan to stimulate the economy and boost inflation, shaped the performance of the yen (which trended downwards, especially against the dollar) and Japanese asset prices (equity market up at historically moderate levels, low sovereign yields).

Whereas the end of 2013 featured higher rates at the middle and end of the curve, yields declined throughout 2014. Tighter credit spreads were also seen amid efforts to generate returns in the low-yield environment.

Capital continued to flow out of emerging markets. Risk premia rose in 2014 and there was increased differentiation between the most vulnerable countries and those with a large trade surplus, such as China. Overall, against a backdrop of disinflation and economic slowdown, the main emerging countries eased monetary policy.

Whereas asset price volatility remained weak on average on markets in 2014 (see Box 2), there were a few peaks during bouts of geopolitical stress, especially

Chart 2
Ten-year sovereign yields



Source: Bloomberg.

Box 2

Volatility on capital markets in 2014

Volatility is an indicator of market risk. It can be “historical”, i.e. based on the observed change in the price of an asset over a given period, or “implied”, meaning that it is estimated by the market based on the prices of options, which are derivative instruments whose price depends on the value of underlying financial instruments.

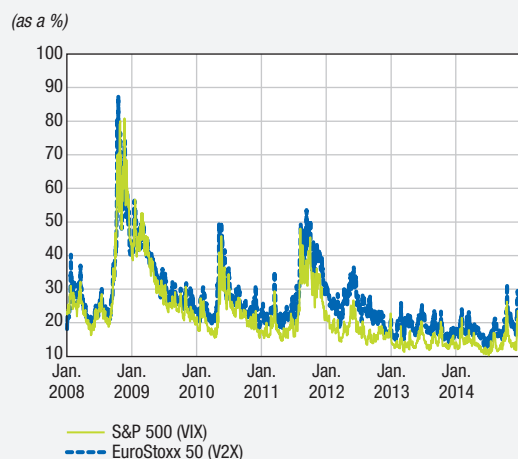
Although volatility picked up in 2014, especially towards the end of the year, it nevertheless remained below levels seen in 2012 (see Chart A). On fixed income markets, weak volatility partly reflects the anchoring of expectations regarding monetary policy measures owing to forward guidance from major central banks.

Mounting volatility and risk aversion, i.e. a preference for less risky assets, such as bonds, at the end of the period was driven particularly by three main factors: continued geopolitical risk (Russia, Syria), a sharp acceleration in the oil price decline and renewed questions about Greece.

On 15 October, equities reacted swiftly and sharply, as did other financial assets, to a broad set of economic news, including a dimmer economic outlook in Germany, uncertainties over growth in emerging countries, uncertainties over the results of the asset quality review (AQR)¹ and expectations of US monetary policy normalisation. This caused volatility indices to rebound sharply but temporarily in Europe and the United States.

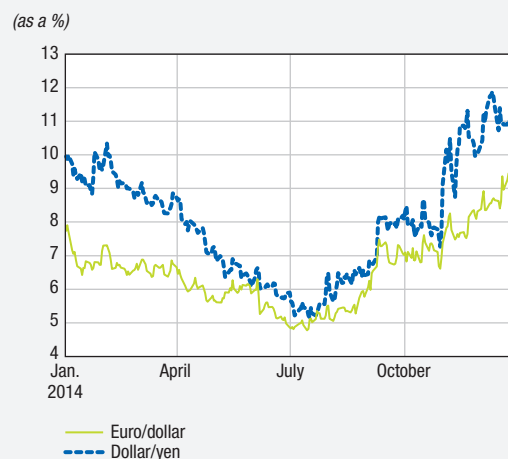
On the foreign exchange market, renewed volatility forms part of a trend that has been ongoing since mid-2014, linked in particular to a massive shift by investors into the dollar and higher risk premia for emerging currencies (hardest hit by lower commodity prices), against the backdrop of a global macroeconomic slowdown (see Chart B).

Chart A
Volatility of US and European stock indices



Source: Bloomberg.

Chart B
Three-month implied volatility on the foreign exchange market



Source: Bloomberg.

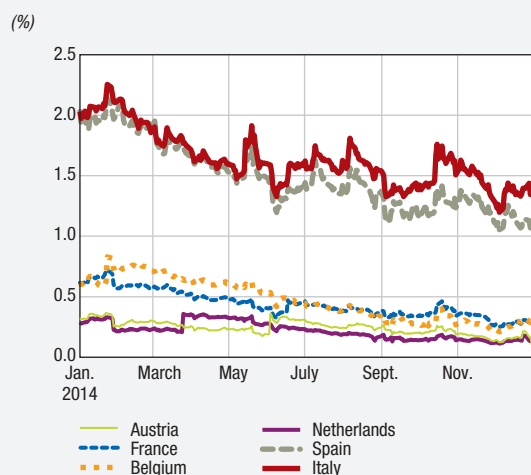
¹ Review by the ECB of the quality of assets held by euro area banks as part of the central bank's comprehensive assessment.

in Ukraine and the Middle East, particularly towards the end of the period.

Long-term interest rates came down overall in 2014 in developed economies (see Chart 2), although the reasons for this varied from region to region. While the yield on US ten-year Treasuries fell from 3.03%

at the beginning of the year to 2.20%, reflecting changing expectations on the pace and scale of future monetary tightening, Japanese ten-year yields fell from 0.74% to a record low 0.32% at end-2014 as the country pursued its expansionary economic policy and especially following the Bank of Japan's decision in October to step up its monetary stimulus. In Europe,

Chart 3
Spreads of euro area ten-year sovereign securities over German government securities



Source: Bloomberg.

reflecting expectations that accommodative monetary policy would be maintained with further non-standard measures, German yields declined significantly across all maturities throughout the year, as ten-year sovereign yields decreased from 1.93% to 0.54% at the end of the year; French ten-year yields followed a similar trend but on an even larger scale, going from a peak of 2.56% at the start of the year to a year-end low of 0.82%.

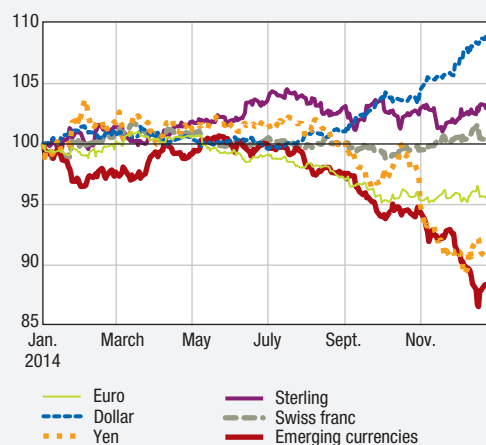
Bond spreads between peripheral and core euro area countries continued to contract overall during the year, with the process accelerating after the speech made on 22 August 2014 by ECB President Mario Draghi at the Jackson Hole central bank symposium on “Re-Evaluating Labor Market Dynamics” (see Chart 3). During his speech, which explored the repercussions of unemployment on euro area economies, President Draghi called on Member States to make a bigger contribution to the recovery by using the flexibility of European fiscal rules and undertaking structural reforms, while strengthening the coordination of national fiscal stances to obtain a more growth-friendly overall fiscal stance. The sovereign yields of Portugal, Spain

and Italy reached historically low levels, primarily reflecting more accommodative measures by the ECB (TLTROs,³ lower policy rates, and the eagerly awaited large-scale quantitative easing programme), the improving fundamentals and brightening economic prospects of some peripheral countries, along with progress in the Banking Union. At the end of the year, after Greece called early presidential elections on 9 December and no definitive winner emerged on 29 December, there was a wave of distrust that remained largely confined to Greek assets, with euro area markets increasingly expecting the Eurosystem to introduce quantitative easing. Furthermore, financing conditions for euro area companies improved markedly over the course of the year.

On the foreign exchange market, the euro began depreciating in May (see Chart 4), with its nominal effective exchange rate⁴ declining by 4.56% on average over 2014. In parallel, the dollar's nominal effective exchange rate rose by 9.73%, chiefly from July onwards. These movements reflect diverging expectations on growth and monetary policy for the two economic zones. At the end of the year, the euro/dollar was at 1.21, compared with 1.36 at the beginning. Emerging currencies were affected by the fall in oil prices and the stronger US dollar. Russia was especially hard hit, and the rouble surrendered almost half of its value, as the collapse in oil prices

Chart 4
Nominal effective exchange rates of the main currencies

(1 January 2014 = 100)



Sources: Bloomberg, ECB.

³ Targeted longer-term refinancing operations; see part 3 on the Eurosystem's monetary response.

⁴ The effective exchange rate of a currency area is a synthetic measure of exchange rates with trade partners and competitors. The nominal effective exchange rate (NEER) is based on nominal exchange rates, while the real effective exchange rate (REER) takes account of price indices and their movements.

combined with the impact of the sanctions imposed by the United States and the European Union.

After falling sharply in 2013, gold was relatively stable in 2014 against the dollar, giving up 1.79% over the year. While gold prices began the year by climbing in US dollar terms, expectations of muted inflation and US dollar appreciation against the main currencies caused gold to depreciate. Flat Asian demand, particularly in India and China, also depressed gold prices, which ended the year at a four-year low. The price of an ounce of gold fluctuated between USD 1,383 on 14 March and USD 1,140.5 on 5 November 2014.

Global stock markets grew moderately in 2014, with the MSCI World index putting on 2.9% (see Chart 5). US equities reported the strongest performances (S&P 500: +12.4%; Dow Jones: +8.4%) to reach record levels. Japan's Nikkei 225 gained 7.2% over the year. In Europe, the Eurostoxx 50 rose by 2.8%, with the German and French indices increasing by 4.3% and 1.1% respectively. The MSCI Emerging index contracted by 4.6%.

In the United States and Japan, bank stocks outperformed the broad indices, rising by 16.8% and 14.9% respectively.⁵ By contrast, in Europe, bank stocks shed 3.5%⁶ in 2014, including 3.2% on 27 October following publication of the results of the ECB's comprehensive assessment of

euro area banks, as financial markets fretted temporarily about questions of methodological clarification and recapitalisation demands.

Commodity markets

In 2014, the main commodity indices fell steeply on the unexpected second-half slowdown in global demand coupled with supply-side factors.

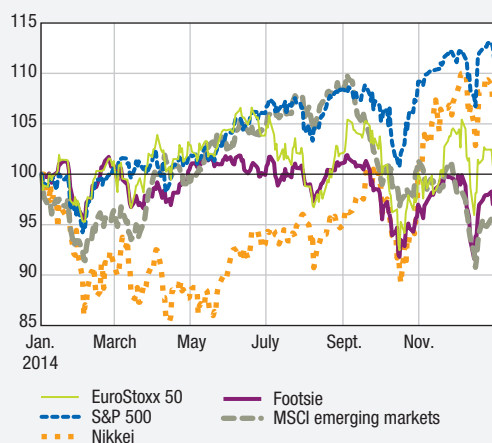
The price of Brent crude fell by 43% between June and December 2014, reaching USD 55.8 a barrel on 31 December (see Chart 6). That said, the average annual price was actually down just 9% in 2014 because oil prices were relatively stable in the first half and close to the previous year's average, which was USD 108.9 a barrel. At the end of June, Brent hit its peak for the year before embarking on a deep decline in the second half attributable to a combination of demand- and supply-side factors (see Box 1). The prices of other energy commodities also fell steeply: the price of natural gas as measured by the London Natural Gas Index fell by 22% between December 2013 and December 2014, while Australian coal lost 25%.

⁵ The Japanese index of bank stocks is derived from the Nikkei 500 (up 13.2% over 2014).

⁶ The European index of bank stocks is derived from the Eurostoxx 600 (up 5.1% over 2014).

Chart 5
Stock indices in 2014

(1 January 2014 = 100)



Sources: Bloomberg, Morgan Stanley.

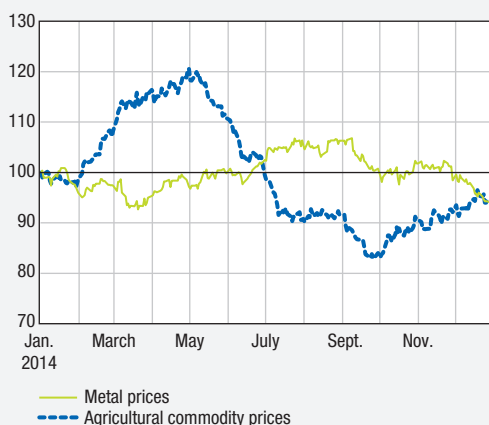
Chart 6
Brent oil price



Source: Datastream.

Chart 7
Metal and agricultural commodity price indices

(prices in dollars, January 2014 = 100)



Source: S&P GSCI.

In agricultural commodities, the Ukrainian crisis boosted cereal prices in the first part of the year, but the shock rapidly faded on expectations of bumper harvests. Wheat prices then rebounded in November from a four-year low in October, lifted by fears over bad weather conditions in the United States and the impact of the Russian crisis at the end of the year. The index of agricultural commodity prices fell by 13% as an annual average in 2014 (see Chart 7).

In non-precious metals, nickel prices rose in the first half (+30% in June 2014 compared with December 2013) following Indonesia's ban on exporting unprocessed ore. Investors were also worried that tension between Russia and Ukraine and international sanctions might affect the supply of nickel, since Russia is one of the largest producers of the metal. Overall, metal prices decreased in the second half, pulled down by signs of slowing global demand, particularly from China. Between December 2013 and December 2014, copper gave up 10%. The global index of metal prices compiled by S&P GSCI⁷ lost 6% between January and December 2014 and 1.3% on an annual average over 2014 (see Chart 7).

⁷ Standard and Poor's Goldman Sachs Commodity Index.

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

2|1 Growth and inflation

Muted growth once again in 2014

The euro area showed signs of recovery throughout 2014: GDP rose by 0.9%, after contracting by 0.5% in 2013 and 0.8% in 2012. The upturn that began in the second quarter of 2013 thus continued in 2014. While growth was up in most euro area economies, situations varied from country to country. Ireland (4.8%) and to a lesser extent Germany (1.6%) posted growth rates that beat the euro area average, while France reported slower growth (0.4%). Spain enjoyed a fairly robust expansion (1.4%) after five years of negative growth. Conversely, growth was negative once again in Italy (−0.4%).



Industrial production picked up less vigorously than GDP, with a 0.7% increase in the euro area on average over 2014. Moreover, this essentially reflected carryover effects following a brisk end to 2013, since production was flat overall in the final three quarters of 2014. However, major listed groups from the sector reported strong operating income in H1 2014 (see Box 5), and euro area confidence indicators also advanced. The European Commission's economic sentiment indicator, which draws on business and consumer surveys, continued to climb in 2014, rising by 8.3%, after dropping by 11.4% in 2012 and increasing by a moderate 3.3% in 2013.

Total investment and household consumer spending in the euro area both rose by 1.0% in 2014, after contracting by 2.5% and 0.7% respectively over 2013. Government consumption also rose in 2014, increasing by 0.7%, after 0.3% growth in 2013, while exports and imports increased smartly, gaining 3.7% and 3.8% respectively.

However, current account imbalances persisted in the euro area. While countries with current account deficits before the crisis reduced them substantially, countries with surpluses did not make the opposite adjustment. Portugal and Greece moved from having very large current account deficits in 2009 (10.4% and 13.6% of GDP respectively) to surpluses of 0.8% and 1.4% respectively in 2014. Italy and Spain did likewise, reporting positive balances of 1.7% and 0.0% of GDP in 2014. Conversely, Germany and the Netherlands already had sizeable surpluses in 2009, at 5.8% and 5.7% of GDP respectively and these widened to 7.6% and 10.1% respectively in 2014. France has run a current account deficit since 2005;

French GDP and its components

(chain-linked volumes; % quarterly changes and annual averages;
data adjusted for seasonal and working day variations)

	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2013	2014
GDP	-0.1	-0.1	0.3	0.1	0.4	0.4
Imports	0.8	0.7	1.7	1.7	1.9	3.9
Household consumption	-0.3	0.4	0.3	0.2	0.3	0.6
GG consumption ^{a)}	0.3	0.5	0.6	0.5	2.0	1.9
Total GFCF	-0.7	-0.8	-0.6	-0.5	-0.8	-1.6
o/w NFCs ^{b)}	-0.3	-0.2	0.0	-0.2	-0.6	0.7
o/w households	-1.7	-1.6	-1.6	-1.5	-3.1	-5.9
o/w GG ^{a)}	-0.8	-1.7	-1.7	-0.1	1.1	-3.3
Exports	0.6	0.2	1.0	2.5	2.4	2.9
Contributions from components						
External trade	-0.1	-0.2	-0.2	0.2	0.1	-0.3
Household consumption	-0.2	0.2	0.2	0.1	0.2	0.3
GG consumption ^{a)}	0.1	0.1	0.2	0.1	0.5	0.4
Total investment	-0.2	-0.2	-0.1	-0.1	-0.2	-0.4
NFC ^{b)} investment	0.0	0.0	0.0	0.0	-0.1	0.1
Household investment	-0.1	-0.1	-0.1	-0.1	-0.2	-0.3
GG investment ^{a)}	0.0	-0.1	-0.1	0.0	0.0	-0.1
Domestic demand excluding inventory	-0.2	0.1	0.2	0.1	0.4	0.4
Change in inventory	0.3	-0.1	0.4	-0.2	-0.2	0.3

a) GG: general government.

b) NFC: non-financial companies.

Source: Insee.

its deficit stood at 1% of GDP in 2014, after 1.4% in 2013. Better coordination of economic policies would help to promote symmetrical adjustments and support domestic demand in the euro area.

French growth came to 0.4% on an average annual basis in 2014, the same as in 2013 (see Table above).

Box 3

External trade in goods and France's competitiveness

France's trade deficit stood at EUR 54 billion in 2014, down from EUR 61 billion in 2013, reflecting the EUR 11 billion decrease in the energy bill. Stripping out energy, France posted a small deficit in 2014 after a small surplus in 2013.

France's exports of goods¹ to partners were flat (see Table). This was partly due to weak demand from the rest of the euro area, which is the number-one export market for French businesses. Exports to the rest of the European Union were stronger, while exports outside the European Union fell overall.

.../...

¹ For a more complete picture of France's international trade, see Annual Report on the French Balance of Payments: <https://www.banque-france.fr/en/economics-statistics/balance-of-payments-and-other-international-statistics/balance-of-payments-and-international-investment-position/the-french-balance-of-payments-and-international-investment-position-annual-report.html>

France's total imports fell slightly in 2014. This essentially reflected the decline in the value of energy imports, as global prices tumbled, although the effect was partly offset by higher imports in other goods categories.

France's global share of trade in goods² has been stable since early 2013, after contracting continuously from the beginning of the 2000s.³ However, it dipped slightly at end-2014 (see Chart A). Relative to its main euro area partners, France has lost market shares, while German and Spanish exports in particular have performed strongly.

However, France's cost competitiveness improved, reflecting the effect of the new CICE tax credit from 2013. The CICE lowers labour costs (on wages up to 2.5 times the minimum wage) through a tax credit for businesses. Once the impact of the CICE on compensation is factored in, the level of unit labour costs in France was unchanged in 2014 (see Chart B). The decline in labour costs should help French businesses to rebuild margins, which have been hard hit since the beginning of the crisis. The effects of the CICE on investment and exports are more uncertain, as France's improved cost-competitiveness is running up against the small increase in unit labour costs elsewhere in the euro area (rapid decline in Spain since the start of the crisis and moderate increase in Germany especially). The improvement in France's cost-competitiveness, against the backdrop of the necessary adjustment to current account balances in Europe, would be facilitated by a faster increase in unit labour costs in economies running surpluses.

Other external factors affected France's external trade in 2014. As mentioned above, the fall in oil prices sharply reduced the share of the energy bill in imports.

The depreciation in the euro's effective exchange rate in 2014 was a supportive factor – albeit to different degrees depending on the importance of the price factor in purchasing decisions – for French exports outside the euro area, which made up one-half of the total value of exports in 2014. Assuming unchanged corporate profit margins, currency effects could favour exports to the United States, the United Kingdom and China, whose currencies appreciated against the euro, while euro appreciation against the yen should be detrimental to French exports to Japan.⁴ However, the impact on French exports could be delayed and might depend on the size of the depreciation in the effective exchange rate and on whether the depreciation is temporary or permanent.

² France's global market share of trade in goods is defined as the total value of French goods exports relative to the total value of global goods exports.

³ All euro area countries saw their global market shares shrink in the 2000s, mainly owing to a catch-up by emerging economies.

⁴ For a discussion of these effects, see for example Bussière (M.), Gaulier (G.) and Jean (S.), Lettre du CEPII, December 2014 or Berthou (A.), ECB Working Paper No. 920, July 2008.

France's external trade

(12-month cumulative total in EUR billions; year-on-year % change)

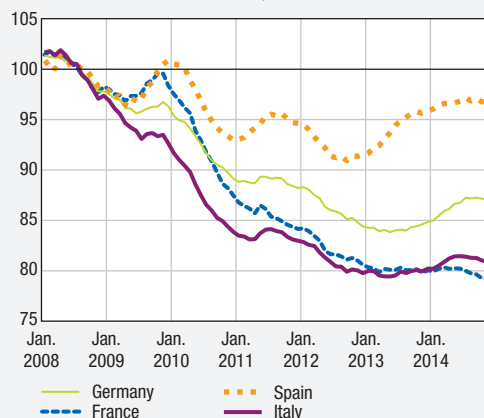
	2013		2014	
	Total	Year-on-year	Total	Year-on-year
Exports	436.8	-1.2	437.3	0.1
Imports	497.6	-2.3	491.1	-1.3
Balance	-60.8	–	-53.8	–
Euro area balance	-40.8	–	-37.8	–
Balance excl. energy	2.1	–	-1.4	–

Note: FOB/FOB gross data, including military equipment.

Sources: Customs, Banque de France calculations.

Chart A Shares of global export market

(12-month cumulative total, 2008 = 100)

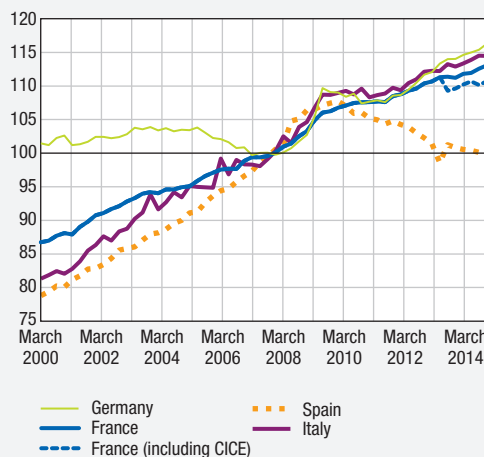


Notes: The market share of each country is the ratio of its exports to the global total. In 2008 (base 100 in the chart), France's market share was 4.3%, Germany's was 10.2%, Italy's was 3.8% and Spain's was 2%. By 2014, the respective shares were 3.2% for France, 8.2% for Germany, 2.9% for Italy and 1.8% for Spain.

Source: World Trade Organisation (WTO, most recent statistics in December 2014).

Chart B Unit labour costs

(France in 2007 = 100)



Sources: Eurostat, Banque de France calculations (most recent statistics: September 2014).

Box 4

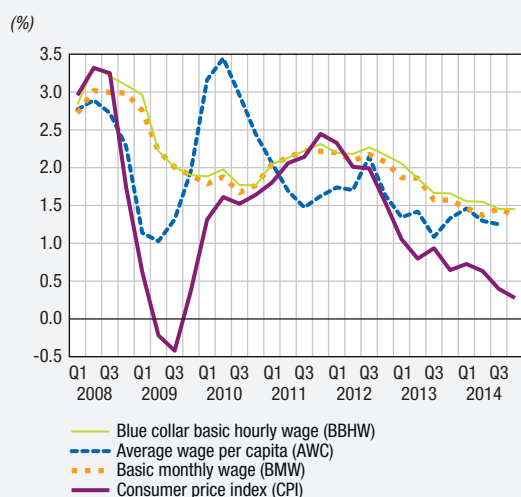
Wage developments in France since the crisis

Wage growth slowed in 2014 but still far outstripped the change in prices despite the historically high level of unemployment. Accordingly, in the fourth quarter of 2014, annual growth in the basic monthly wage (BMW) and the blue collar basic hourly wage (BBHW)¹ was close to 1.4%, a full percentage point higher than inflation (see Chart A). Over the longer term, i.e. between 2008 and 2014, the BMW and BBHW increased by 4.9% and 5.5% respectively overall.

The weak adjustment to real wages, given the level of unemployment, contrasts with the change observed in the euro area since the beginning of the crisis. Cumulatively, since the first quarter of 2008, real wages have fallen sharply in Spain (-3.5%) and Italy (-5.0%). In Germany, where unemployment is at a record low, wages have increased (5.4%) similarly to those in France (see Chart B). Outside the euro area, UK real wages have undergone a significant adjustment, declining by 6.9%, partly because of higher inflation. The hourly cost of labour in France compared with its trade partners, which was already elevated,² has thus increased further in recent years, especially since it has not been offset by stronger growth in productivity.

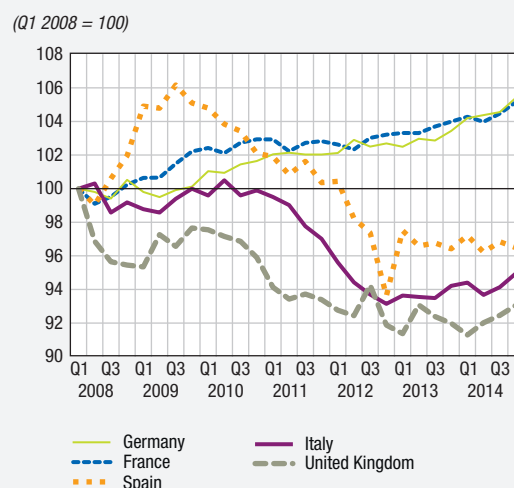
Labour market regulations are partly responsible for faster wage growth in France. The French minimum wage scheme guarantees that approximately 10% of wages will be adjusted regularly and at least in line with past inflation.³ On 1 January 2015, the French minimum wage was automatically adjusted upwards by 0.8%, without an additional boost, whereas inflation was virtually zero. The minimum wage also has knock-on effects that support wage growth; it especially affects the basic wages set under industry agreements, which cover almost 90% of private sector wages. Nominal wage increases negotiated under industry agreements in 2014 were thus mostly close to 1% (0.5% in real terms), reflecting the adjustment to the minimum wage on 1 January 2014. In 2013, negotiated increases were generally between 1.5% and 2% (0.5% to 1% in real terms), reflecting the 2.3% increase in the minimum wage over the previous year.⁴

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



Sources: Dares, Insee.

Chart B
Real wages, per employee



Source: OECD.

1 The blue collar basic hourly wage is calculated on the basis of a like-for-like skills structure. It does not include bonuses, gratuities or overtime payments. The average wage per capita expresses the change in wages relative to the total working population. It takes into account very small enterprises and integrates structural effects such as skills and the proportion of part-time jobs. It also factors in cyclical (overtime) and seasonal (bonuses) effects.

2 Marc (B.) and Rioux (L.), 2012, "Le coût de la main-d'œuvre: comparaison européenne 1996-2008", Emploi et Salaires, 2012 Edition, Insee References.

3 Martinel (L.) and Vincent (L.), 2014, "Les bénéficiaires de la revalorisation du SMIC au 1^{er} janvier 2014", Dares Analyses, No. 87.

4 Data gathered by the Banque de France based on industry-level wage agreements.

Household consumption rose by 0.6% in 2014 after 0.3% in 2013, while general government consumption was up 1.9% after 2% in 2013. Investment declined over the year and fell by an average of 1.6% in 2014, after contracting by 0.8% in 2013. This chiefly reflected the 5.9% decrease in household investment, following a 3.1% decline in 2013, and the 3.3% decline in general government investment, after the 1.1% increase in 2013. Exports rose by 2.9% while imports were up by 3.9%. While the growth rate was milder overall in France in 2014, the second half was more vigorous, with growth of 0.3% in the third quarter and 0.1% in the fourth, as compared with a small contraction in the first half.

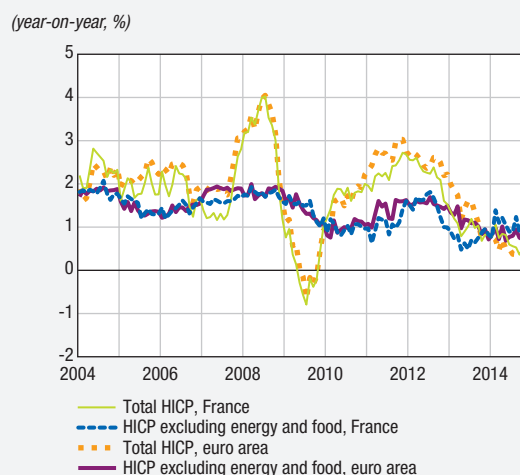
Taking a longer view, France's GDP at end-2014 was up 1.5% on its pre-crisis level in the first quarter of 2008, compared with a 1.9% decline for the euro area.

Inflation declined in 2014

As in 2013, euro area inflation continued to decline sharply in 2014. The harmonised index of consumer prices (HICP) rose by only 0.4% on an annual average, after 1.4% in 2013 (see Chart 8). The year-on-year change in the HICP slowed throughout 2014 to reach -0.2% in December after a 0.8% increase during the same month in 2013. This decline is particularly due to the steep fall in energy prices (down 1.9% on an annual average, after a 0.6% increase in 2013), linked above all to the second-half slump in oil prices and the slowdown in food prices (up 0.5% on an annual average, after 2.7% in 2013). Core inflation, which excludes energy and food prices, fell more moderately in the euro area to 0.8% on an annual average (0.7% year-on-year in December), after 1.1% in 2013. The decline primarily reflected a more muted increase in manufactured goods prices, which rose by just 0.1%, after 0.6% in 2013. The services price index was relatively stable, reporting a 1.2% increase after 1.4% in 2013.

In France, inflation came to just 0.6% on an annual average in 2014, after 1.0% in 2013. Year-on-year, HICP inflation fell from 0.8% in December 2013 to 0.1% in December 2014. As in the euro area, the decline was attributable to the slump in energy prices (-0.8%, after a 0.9% increase in 2013) and slower

Chart 8
Harmonised index of consumer prices



growth in food prices (0.1%, after 1.9% in 2013). Manufactured goods prices also fell, by 0.3%, after rising 0.2% in 2013, particularly because of slower price increases for imported products. By contrast, services prices rose to an annual average of 1.8% in 2014 on an annual average after 1.0% in 2013. Core inflation rose to an annual average of 1.0% in 2014 (0.7% year-on-year in December), after 0.7% in 2013.

2|2 Monetary and financial developments in 2014

Similar patterns in monetary aggregates for the euro area and France

The annual growth rate of the euro area M3 broad monetary aggregate climbed to 3.8% in 2014, up from 1.0% in 2013 and 3.3% in 2012 (see Table below). Growth in the French component of euro area M3 behaved similarly and came to 3.6% in 2014, after 0.8% in 2013.

Growth in overnight deposits accelerated in the euro area to 8.2% after 5.9%, as rock-bottom interest rates lowered the opportunity cost of holding these deposits. By contrast, other money market deposits continued to contract, shrinking by 2.4% after 1.8%, while marketable instruments grew by 5.5%, partly correcting their 16.4% decline in 2013.

Monetary aggregates, euro area and France

(outstandings in EUR billions; % growth rate; seasonally adjusted data)

Monetary aggregates or main monetary assets ^{c)}	Euro area ^{a)}				France ^{c)}			
	Outstandings	Annual growth rate ^{b)}			Outstandings	Annual growth rate ^{b)}		
		2012	2013	2014		2012	2013	2014
Currency in circulation	967	2.5	5.3	6.4				
+ Overnight deposits	4,949	7.0	5.9	8.2	656	2.8	3.4	8.6
= M1	5,916	6.2	5.8	7.9	656	2.8	3.4	8.6
+ Other money market deposits	3,732	2.1	-1.8	-2.4	775	7.1	1.5	-0.5
o/w: deposits redeemable at notice of up to 3 months	2,130	5.9	2.0	0.2	616	9.4	2.2	-1.5
deposits with an agreed maturity of up to 2 years	1,602	-1.9	-6.2	-5.7	159	-1.1	-1.1	3.6
= M2	9,648	4.4	2.5	3.6	1,431	5.2	2.3	3.5
+ Marketable instruments	683	-7.6	-16.4	5.5	344	-5.6	-14.7	-0.3
o/w: money market fund shares/units	430	-4.4	-10.5	1.6	245	-0.0	-13.2	-5.9
repos	122	-11.2	-9.3	0.6	29	-17.2	-0.7	-4.6
debt securities issued with a maturity of up to 2 years ^{d)}	130	-13.1	-38.1	37.5	69	-16.8	-24.3	30.0
= M3	10,330	3.3	1.0	3.8	1,774	2.4	-1.7	2.8
+ Gross monetary liabilities vis-à-vis the rest of the euro area					184	17.5	18.6	8.7
- Gross monetary assets vis-à-vis the rest of the euro area					44	36.5	-23.1	-10.0
French component of M3 ^{d)}					1,914	2.4	0.8	3.6

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 resident MFIs with other French residents.

d) French resident MFI liabilities maturing in less than two 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.

Sources: European Central Bank, Banque de France.

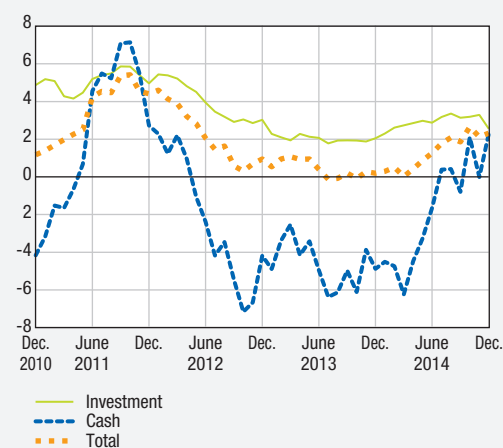
As in the euro area, growth in the French contribution to M3 was chiefly driven by overnight deposits, which were up 8.6% in 2014, after 3.4% in 2013, while total outstandings in passbook accounts (included under deposits redeemable at notice of up to three months in European statistics) shrank by 1.5%, after previously increasing by 2.2%, and money market fund shares/units continued to slide, falling by 5.9%, after a 13.2% drop in 2013.

Credit distribution was brisker in France than in other large euro area countries. The annual growth rate of loans to non-financial companies (NFCs) picked up from 0.2% in 2013 to 2.3% in 2014 (see Chart 9). After contracting for two years, cash loans grew positively, increasing by 2.3% following a 4.9% decline in 2013. Investment loans increased at a slightly faster pace, rising by 2.6% in 2014 after 2.0% in 2013. This set France apart from the other main euro area economies, where NFC lending contracted, notably in Spain (-6.7% in 2014, after -10.1% in 2013) and Italy (-2.2%, after -5.4%).

The annual growth rate of outstanding debt securities issued by French NFCs climbed to 10.9% in 2014 after 4.5% in 2013 and 13.0% in 2012. Growth of

Chart 9
Loans to NFCs, France

(annual % growth rate)



Source: Banque de France.

Box 5

Situation of large listed groups in the first half of 2014

A recent Banque de France study¹ conducted an in-depth financial analysis of the 80 main French industrial and commercial groups listed on the A Compartment of Euronext Paris. The study, which drew on published half-yearly accounts, pointed to relatively vigorous organic growth among these large groups (1% in H1 2014) despite a pronounced 5% revenue contraction connected with recent changes to accounting standards and unfavourable currency effects.

The profitability of large listed groups, measured by operating income, held up overall, thanks to a strong showing in manufacturing, while other sectors, including energy, services, trade, information and communication, had a more difficult time. The operating margin of the main listed groups margin increased by one percentage point to 9% owing to the contraction in revenues.

While bolstering their cash position by boosting their stock of cash and equivalents (EUR 13 billion increase, or 9.4% year-on-year), the large groups also pursued dividend payout policies. This suggests that the main French groups are basically heading in the right direction in terms of their financial position.

As in 2013, the main French listed groups seized liability management opportunities, notably by taking advantage of better financing conditions. By converting a portion of their bond debt into quasi equity, they cut their financial debt by EUR 15 billion over the space of a year.

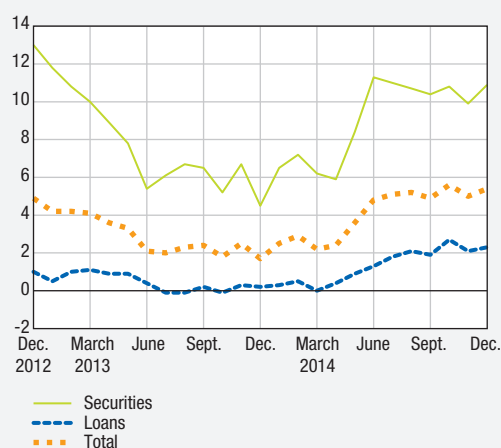
Shareholders' equity stood at a record EUR 628 billion. The combination of a strengthened cash position and sharply reduced debt prompted the markets to estimate the capitalisation of the main groups at EUR 1,193 billion at end-June 2014.

Given the uncertainty in the global economy, the large groups therefore opted to maintain a sound financial structure, supported by dynamic management of liabilities, with a view to attracting the available capital and supporting their share prices.

¹ See Carlino (L.), Dairay (G.) and Servant (F.), "La situation financière des principaux groupes français au premier semestre 2014: entre précaution et désendettement", Bulletin de la Banque de France No. 198, Q4 2014.

Chart 10
NFC debt by instrument, France

(annual % growth rate)



Source: Banque de France.

NFC debt through the issuance of debt securities and bank loans stood at 5.4% in 2014 after 1.7% in 2013 (see Chart 10).

Continued growth in lending to households

The annual growth rate of lending to households was virtually unchanged in France in 2014 at 2.2% after 2.5% in 2013. The slower pace of growth in home loans, which fell back to 2.2% in 2014 after 3.3% in 2013, was offset by an upturn in consumer loans, which rose by 2.2% after contracting by 2.0% (see Chart 11).

As in past years, France reported stronger lending to households than in Germany (1.6% growth), while lending continued to contract in Spain and Italy, falling by 3.8% and 0.5% respectively.

Box 6

French households' financial behaviour in 2014

In 2014, households stepped up their investments in life insurance

Total household financial investment flows totalled EUR 74.0 billion in 2014, slightly less than the previous year's EUR 77.1 billion. Flows into overnight deposits remained sustained while the decline in bank investments was offset by a continued upturn in life insurance.

Responding to low interest rates, which limit the incentive to invest liquid holdings at very low rates of return, households continued to increase overnight deposits and cash assets, which climbed by EUR 22.4 billion in 2014, after EUR 20.8 billion in 2013. Conversely, they once again reduced the flow of bank investments, which fell to EUR 4.2 billion in 2014 down from EUR 11.8 billion in 2013 and EUR 56.3 billion in 2012. Money flowed out of different categories of regulated savings passbooks and taxable passbooks, while outstanding amounts held in home savings plans, whose return has been unchanged since 2003¹ and comfortably exceeds market rates, increased by EUR 18.2 billion, compared with EUR 9.5 billion the previous year.

Net flows of securities investments remained modest. In 2014, French households sold a net EUR 10.8 billion of debt securities (up from net sales of EUR 6.4 billion in 2013), and a net EUR 9.0 billion of CIS securities (again up from net sales of EUR 6.1 billion in 2013). Meanwhile, they were once again net buyers of listed shares (net purchases of EUR 6.4 billion, after net sales of EUR 4.8 billion in 2013) and slowed their investments in unlisted equities and other equity interests.

The upturn in life insurance investments continued in 2014, with a EUR 50.2 billion increase, after EUR 38.3 billion in 2013. The 2014 Budget provided stability for the tax treatment of life insurance, which may have removed uncertainty among some investors about taking on exposure to this kind of long-term investment. Households continued to concentrate their investments in non-unit linked contracts, which benefit from capital protection.² However, the decline in rates earned on these contracts and the expected future path of share prices seemingly fuelled renewed interest in unit-linked contracts, which saw flows more than double in 2014.

Use of debt remains measured

As with financial investments, new lending to households declined slightly versus the previous year (EUR 21.5 billion of new loans in 2014, compared with EUR 23 billion in 2013). Compared with the previous year, with an increase of EUR 21.5 billion in 2014 after EUR 23 billion in 2013. Property loans slowed in connection with the declines in housing investment and, on the existing homes market, in the number of transactions and in prices. By contrast, cash loans showed a positive increase as they kept step with the pick-up in consumption of manufactured products.

Financial investments of French households

(annual flows in EUR billions)

	2012	2013	2014
Financial investments	96.9	77.1	74.0
Overnight deposits and cash	0.4	20.8	22.4
Bank investments	56.3	11.8	4.2
<i>Livret A, Livret Bleu and LDD passbooks</i>	<i>55.6</i>	<i>24.6</i>	<i>-2.5</i>
<i>Taxable passbooks</i>	<i>-7.3</i>	<i>-10.5</i>	<i>-2.9</i>
<i>Other passbooks</i>	<i>-1.7</i>	<i>-5.2</i>	<i>-4.1</i>
<i>Home savings plans</i>	<i>1.6</i>	<i>9.5</i>	<i>18.2</i>
<i>Time deposit accounts and popular savings plans</i>	<i>8.1</i>	<i>-6.6</i>	<i>-4.5</i>
Securities	19.3	6.2	-2.8
<i>Debt securities</i>	<i>4.4</i>	<i>-6.4</i>	<i>-10.8</i>
<i>Listed equities</i>	<i>-6.3</i>	<i>-4.8</i>	<i>6.4</i>
<i>Unlisted equities and other equity interests</i>	<i>24.2</i>	<i>23.5</i>	<i>10.6</i>
<i>CIS securities</i>	<i>-3.0</i>	<i>-6.1</i>	<i>-9.0</i>
Life insurance contracts	20.9	38.3	50.2
Debt	27.0	23.0	21.5

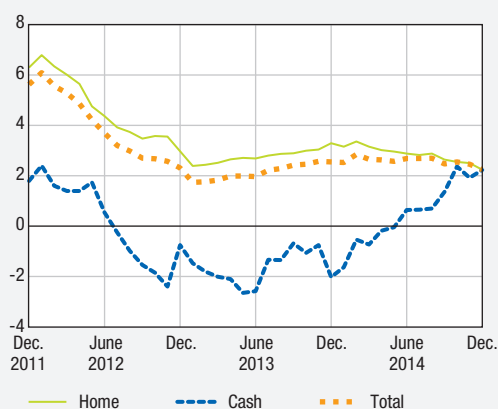
Source: Banque de France.

¹ On 1 February 2015, the return on home savings plans was lowered by half a point to 2%.

² In the current low-rate setting, firms have since 2014 been marketing "euro growth" contracts, which offer a capital guarantee at maturity rather than at any time as with traditional non-unit linked contracts. This allows them to invest more in equity products to offer returns that slightly beat those of non-unit linked contracts.

Chart 11
Lending to households, France

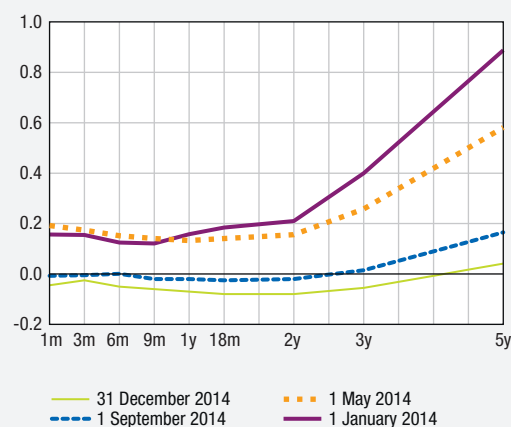
(annual % growth rate)



Source: Banque de France.

Chart 12
Eonia forward curves

(%)



Source: Bloomberg.

3| THE EUROSISTEM'S MONETARY RESPONSE

3|1 Eurosystem monetary policy decisions

With inflation slowing (-0.2% in December 2014) and expected to remain weak in the medium-term – well below the 2% threshold set in the ECB's mandate – a prolonged period of low euro area inflation began to look more likely in 2014, warranting further reductions in policy rates and new non-standard measures.

Interest rate decisions

The ECB Governing Council cut rates twice, lowering them by 10 basis points in June and in September 2014, bringing the interest rate on the main refinancing operations (MROs) first to 0.15% and then to 0.05% , with a symmetric corridor of 50 basis points. Accordingly, the rate on the deposit facility was lowered to below zero for the first time, first to -0.10% in June then -0.20% in September. These measures brought down the overnight interbank interest rate (Eonia), which became regularly slightly negative, averaging 0.2% before the first rate cut (1 January to 10 June), just above zero between June and September 2014 and slightly below zero from September 2014 onward.

The Governing Council repeatedly reaffirmed its forward guidance, reiterating throughout the year its commitment to leave rates unchanged for a prolonged period. It backed up this commitment from June onwards by extending its highly accommodative refinancing conditions and by introducing TLTROs, which will run until June 2016 (see 3|2). By providing liquidity at a fixed rate over four years, TLTROs considerably reduced the level of long-term interest rates. They also appeared to begin supporting a reduction in bank lending rates to companies, including on the periphery of the euro area. The ECB's determination to ease monetary policy for as long as is necessary to bring inflation back to 2% translated into further compression of Eonia forward curves (see Chart 12).

Non-standard monetary policy decisions

The deviation of actual and expected inflation from the ECB mandate warranted additional non-standard measures during the second half of 2014. Beginning in June, the ECB announced preparations for the purchase of asset-backed securities.

From September onwards, ECB President Mario Draghi mentioned the size of the ECB's balance sheet as a possible benchmark before providing details, saying that the Governing Council intended to get it back to levels seen in early 2012, i.e. EUR 3 trillion,

compared with approximately EUR 2 trillion at the end of third-quarter 2014.

Monetary easing is to be achieved through a combination of refinancing operations (TLTROs, see 3|2) and securities purchases (see Box 7), whose size, composition and pace can be adjusted in the event of increased downside risks to inflation.

The Governing Council said that it had agreed unanimously to step up non-standard measures within the framework of its mandate where necessary. While securities purchases in 2014 concentrated on private assets (see Box 7), the scenario of purchases of sovereign securities on the secondary market became more probable over the final quarter and was looking highly likely by the start of 2015.

Box 7

Arrangements for the asset purchase programmes introduced in 2014

Two asset purchase programmes, the Covered Bond Purchase Programme 3 (CBPP3) and the Asset-Backed Securities Purchase Programme (ABSPP), were launched respectively in October and November 2014. They are scheduled to last at least two years (see Box 20 in the Activities chapter) and are intended to improve the transmission of monetary policy by freeing up credit conditions in the real economy and to increase the size of the ECB's balance sheet (see Chart).

How do the purchases work?

Central bank asset purchase programmes can use a variety of transmission channels:

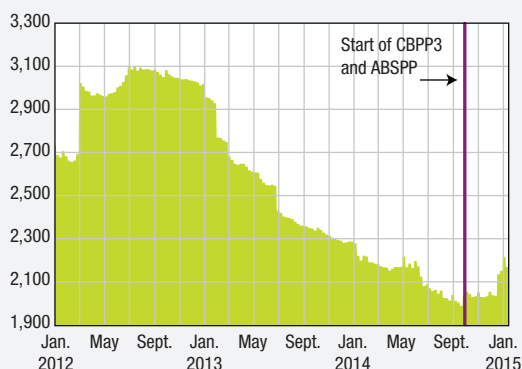
- portfolio rebalancing: securities purchases reduce holdings of private agents, creating a scarcity effect that pushes up prices. Agents then adjust their portfolios, reinvesting the reserves exchanged by the central bank against these securities, boosting demand for other securities with very similar features and putting upside pressure on their prices, while reducing their yields;
- improved credit conditions: asset-backed securities may be secured by loans; by lowering the rate of return required on the markets for these categories of securities, purchase programmes lower the cost of refinancing the underlying assets for banks that granted the loans. Accordingly, private asset purchases by the Eurosystem, as well as its commitment to buy a significant share of new issues in the future, should act as an incentive for financial institutions to grant new loans;
- signalling effect: securities purchases signal the central bank's determination to fulfil its mandate and indicate a time horizon during which the balance sheet expansion will guarantee an environment of ample liquidity and low rates.

Chart

Eurosystem balance sheet and contribution of non-standard measures from September to December 2014

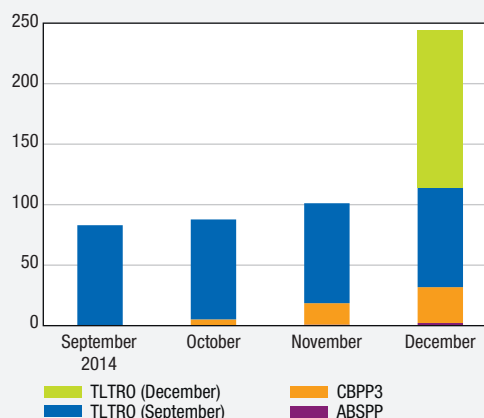
(EUR billions)

a) Eurosystem balance sheet



Source : ECB.

b) Contribution of non-standard measures



3|2 Implementation of Eurosystem monetary policy decisions

As rates fell to record lows and the deposit facility rate moved into negative territory, the Eurosystem maintained accommodative refinancing conditions. Monetary policy instruments consisted of main refinancing operations (MROs), longer-term refinancing operations (LTROs), standing facilities and mandatory reserve requirements. Non-standard measures were also deployed, including TLTROs and the CBPP3 and ABSPP. These measures seek in particular to stimulate credit to the economy and improve the conditions for the transmission of monetary policy. They were supplemented in early 2015 by the launch of the massive public sector purchase programme (PSPP).

Accommodative refinancing conditions maintained

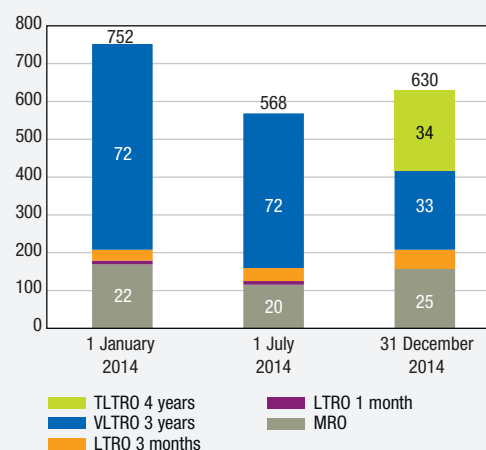
The Eurosystem also maintained an accommodative approach in terms of its procedures for providing liquidity to credit institutions, reflected in the decision to continue conducting MROs and LTROs as fixed-rate tender procedures with full allotment for as long as necessary and at least until December 2016. The Eurosystem also decided in June 2014 to stop sterilising liquidity injections made under the Securities Markets Programme (SMP). Furthermore, to permit a wide range of assets to be posted as collateral for Eurosystem refinancing operations, the eligibility of additional assets (especially additional credit claims) was extended until at least September 2018. The amount of collateral posted with all Eurosystem central banks totalled EUR 1,848 billion at end-2014.

This accommodative policy eased the strain on liquidity and was accompanied by substantial early repayment of VLTROs. These variable rate operations were introduced at end-2011 and in early 2012 when bank liquidity was severely stressed. Early repayments by credit institutions in 2014 reduced total outstanding VLTROs by EUR 334 billion to EUR 210 billion by the end of the year. French banks paid back virtually all of their outstanding VLTROs in 2014.

As regards liquidity operations in foreign currencies, Eurosystem operations in USD decreased markedly and ceased to be used from September onwards.

Chart 13
Composition of outstanding refinancing provided by the Eurosystem

(EUR billions; % shares)



Note: Marginal lending facility amounts are not significant.
Source: ECB.



Launch of new non-standard measures

New non-standard measures were implemented in 2014 to stimulate lending to the economy, improve the transmission of monetary policy, and significantly increase the balance sheets of Eurosystem central banks in a setting of low inflation. These measures took the form of TLTROs and private asset purchase programmes.

The unprecedented TLTRO programme announced on 5 June 2014 by the Eurosystem consists of a series of eight targeted longer-term fixed-rate refinancing operations that will mature in September 2018. TLTROs are designed to stimulate the distribution of credit to private economic agents (excluding residential property). The Eurosystem will monitor growth in the loans distributed by participating banks and require early repayment by banks that fail to reach the credit distribution target.

The first two operations were conducted in September and December 2014 and allotted EUR 212 billion to Eurosystem credit institutions (see Box 19 in the

Activities chapter) to enable them to boost lending to private economic agents. In terms of the impact on the Eurosystem's balance sheet, although TLTROs are intended to stimulate lending while VLTROs were designed to provide liquidity, TLTROs conducted in 2014 partly offset early VLTRO repayments made in 2014.

Finally, the CBPP3 and ABSPP phased in during Q4 2014 targeted covered bonds and ABS, two segments that play a key role in financing the economy (see Box 7).

4| MEASURES TO CONSOLIDATE THE RECOVERY

4|1 Measures to promote financial stability

Financial stability

Since the financial crisis of 2007-2008, financial stability has been a fundamentally important concern for the financial system and the economy as a whole. Preserving financial stability is one of the central tasks assigned to the Banque de France and the Eurosystem.

In France, the Law of July 2013 on the Separation and Regulation of Banking Activities, supplemented by the November 2014 order transposing CRD IV, established the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability), which met for the first time in June 2014 (see 3|3 in the Activities chapter). The new body is empowered to use a number of instruments, including countercyclical buffers and measures to mitigate systemic risk, based on proposals by the Governor of the Banque de France. In 2014, the HCSF kept a close eye on the risks linked to property prices and the low interest-rate environment.

Prudential supervision

It was a busy year for prudential supervision in 2014 in France with the review of bank balance sheets (see Box 24 in the Activities chapter), but also the implementation and preparation of new regulations (see Boxes 23 and 25 in the Activities chapter).



For banks, one of the year's key events was the review of balance sheets organised by the ECB ahead of the establishment of the Single Supervisory Mechanism (SSM) on 4 November 2014. In France, the *Autorité de contrôle prudentiel et de résolution* (ACPR) carried out the review, which corroborated the quality of the assets of French banks and their ability to stand up to severe shocks. The results support the business model followed by France's universal banks. However, in a tough macroeconomic environment featuring muted growth and persistently low interest rates, the ACPR will continue to closely monitor the risks to French banks, particularly in terms of their income, solvency and refinancing.

The ACPR also monitored proper application of Europe's new banking rules (CRR/CRD IV). By the first quarter of 2014, France's six main banking groups were already posting Common Equity Tier 1 ratios of over 10%, thereby complying with the solvency requirements that will come into force in 2019. Even so, rules that are currently under discussion on the loss-absorbing capacity of systemically important banks could result in additional capital requirements for affected French banks. The six main French banking groups also substantially improved their liquidity ratios in 2014 even if progress still remains to be made before the two new ratios come into force. Since 4 November 2014, the ACPR has supervised banks in conjunction with the ECB as part of the SSM.

The ACPR continued to closely supervise the insurance sector. As part of this, it participated in stress-testing by the European Insurance and Occupational Pensions Authority (EIOPA), which made a detailed examination of how entities would fare in adverse market conditions or during a prolonged period of low interest rates. Special attention was also paid to customer protection through a review of unclaimed life insurance contracts.

4|2 Measures to promote financing of the economy

Weak credit in the euro area has had a bearing on the slack recovery, with negative growth in lending to the private sector since mid-2012 (see Chart 14).

On the demand side, uncertainty may have led agents to shelve major investment and consumption plans as they wait for a firmer economic recovery, translating into weak demand for credit from NFCs and households.

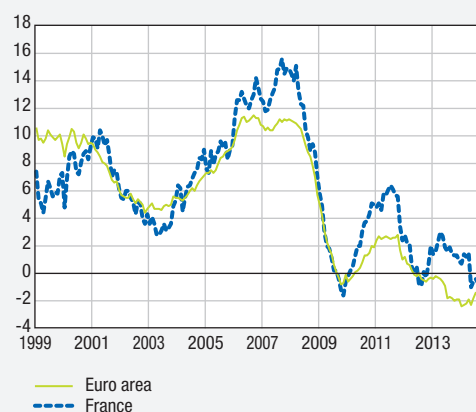
On the supply side, transposition of the Basel III Accords through CRD IV in Europe and the ECB's review of the quality of bank balance sheets may have affected banks' models. Recapitalisation measures were required and were essentially carried out by retaining dividends, while other constraints, such as the future introduction of liquidity ratios, may have encouraged banks to optimise asset management, notably by favouring liquid securities over more capital-intensive lending activities.

In addition to the TLTRO programme (see Box 19 in the Activities chapter), in November 2014 the ECB launched its ABSPP programme (see Box 7), which seeks to stimulate business on the securitisation market and thus boost credit production by easing the pressure on bank balance sheets.

In France, the change in real business GFCF became slightly positive in 2014, recording a 0.3% increase following a 0.6% contraction in 2013, while NFC investment loans grew by 2.6% year-on-year after 2.0% the previous year. In addition, French NFCs are making increasing use of disintermediated finance by issuing debt securities on financial markets (see Box 8). Whereas market financing accounted for 25% of the debt finance of NFCs at end-2007,

Chart 14
Lending to the private sector

(year-on-year, %)



Source: Banque de France.

Box 8

Take-up of alternative financing by mid-tier enterprises

Amid uncertainty over the future supply of bank credit linked to current and future changes to the procedures for bank intermediation (regulatory changes, market environment featuring very low interest rates), there is a growing need to develop alternative funding sources for companies to ensure that they have appropriate resources to cover their short-term funding needs and long-term investment plans.

Because of its substantial growth potential, commercial paper – negotiable debt securities with a maturity ranging from one day to one year – has developed into a preferred tool for disintermediated short-term financing. Commercial paper can complement more traditional sources of funding, offering flexibility (in terms of maturity for example) and availability to a broad selection of issuers. Commercial paper is traded on a regulated market, with financial documentation published by the Banque de France and mandatory ratings for issuers from authorised agencies. Largely left to the initiative of large companies in the past, take-up of commercial paper was the subject in 2014 of increased communications targeting mid-tier enterprises (MTEs), including an educational brochure. Programme size is likely to play an important role in attracting investors and ensuring success.

In medium and long-term financing, Euro PP placements, which are granted by a small number of institutional issuers based on negotiated documentation, have emerged as an alternative source to intermediated finance. Euro PP placements are particularly appealing to MTEs, as they struggle to access bond markets, which are chiefly intended for large rated companies. The response to the Euro PP initiative reflects the ability of this instrument to support financing for MTEs and to meet the needs of institutional investors. When it was launched in 2012, the market consisted of 21 placements totalling EUR 3.2 billion. By 2014, this had increased to 55 placements in a total amount of EUR 3.3 billion. The average size of transactions has fallen from EUR 152 million to EUR 60 million in two years, in evidence of growing popularity among MTEs. In addition, the share of issues by companies with revenues of less than EUR 1.5 billion (including unlisted issues by family firms) went from 20% to 65% between 2012 and 2014.

To support the strong growth seen on the Euro PP market, the Paris financial centre took a consensual, overall and balanced approach, gathering all stakeholders (investors, companies, intermediaries) to draft the Euro PP Charter (April 2014). Prepared at the initiative of the Paris Île-de-France Chamber of Commerce and Industry, with the backing of public institutions (Banque de France, Treasury), the charter provides a non-binding master framework of good practices (contractual terms can be adjusted depending on the needs and restrictions of issuers and investors). This work also provided input to efforts at European level by the International Capital Market Association (ICMA) to create a pan-European PP market. These initiatives have helped to expand the market both in France and within Europe and to create a brand that offers participants a guarantee of quality.

this ratio had risen by ten percentage points to close to 35% by end-2014.

Yet if these developments go unregulated or unsupervised, they could potentially be a source of risk for the economic recovery and financial stability. Debt finance should not be the sole engine of growth, and equity issuance should be encouraged. Moreover, changes in financing approaches are going hand in hand with the rise of new forms of non-bank finance (insurers, asset managers, hedge funds, peer-to-peer lending) that need to be monitored. The Banque de France has taken part in market-wide initiatives, including publication of the Euro Private Placement (PP) Charter and the creation of Euro Secured Notes Issuer (ESNI), a new securitisation entity, aimed at promoting a sound, safe and growth-friendly financing system.

4|3 Keeping government finances under control in the euro area

While the fiscal position of the euro area improved overall compared with 2013, the pace of fiscal consolidation slackened in the main Member States in 2014. Fiscal efforts made since 2010 and stronger economic conditions made it possible to close the euro area's deficit to 2.6% of GDP in 2014, after 2.9% in 2013. Countries under financial assistance programmes – Cyprus, Spain, Greece, Ireland and Portugal – mostly achieved significant and encouraging results: Spain continued to quickly cut its deficit, reducing it from 10.3% of GDP in 2012 and 6.8% in 2013 to 5.6% in 2014 according to the European Commission's winter forecasts. Greece, meanwhile,

Box 9

France's government finances in 2014

Government finances in 2014

After falling steadily since 2009, France's government deficit contracted slightly in 2014 to 4.0% of GDP, or EUR 85 billion, compared with 4.1% in 2013.

Consolidation efforts relied primarily on cutting spending compared with past trends and were borne mainly by central government but also local government (EUR 1.5 billion decrease in allocations) and health insurance. The growth rate of nominal government spending fell from 1.8% in 2013 to 1.6% in 2014. However, owing to the low level of inflation, real spending changed by much more than expected.

The ratio of government spending to GDP (excluding tax credits) was stable at 57.2%, compared with 57% in 2013. After increasing by 0.9 of a percentage point in 2013, the fiscal burden was unchanged at 44.7% in 2014, notably reflecting the increased impact of the CICE tax credit, which reduces the levies paid by companies.

The ratio of government debt to GDP continued to increase, climbing to 95% in 2014 after 92.3% in 2013, representing total outstanding debt of EUR 2,038 billion. The issuance yield on French debt remains historically low, however, despite the downgrade of France's sovereign debt rating by Fitch, a credit rating agency, in December.

Commitments made within the European fiscal governance framework

The deficit exceeded the target of 3.8% of GDP set in the April 2014 Stability Programme, which is designed to enable compliance with the target of 3% in 2015 under the European excessive deficit procedure.

Pursuant to the provisions of the European "Two Pack" regulations (see Box 10), which are intended to bolster the oversight of fiscal policy, the European Commission issued its opinion on France's draft budget for 2015. The Commission said that France needed to build on savings and structural reforms announced by the government and step up efforts to ensure that it met all its commitments.

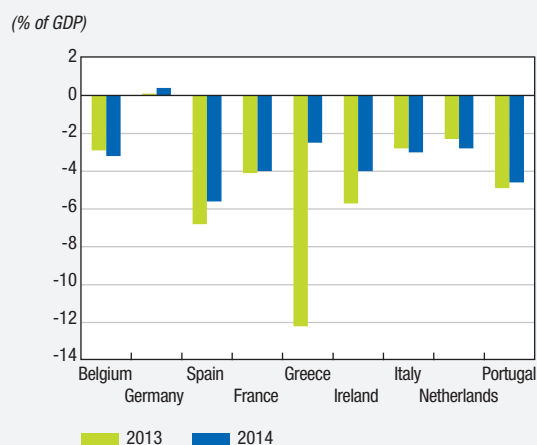
posted the largest reduction in its public deficit, which went from 12.2% to 2.5% in 2014. France stabilised its deficit at 4% (see Box 9). By contrast, some countries, particularly those in compliance with the 3% objective such as Italy, Belgium and the Netherlands, saw their nominal deficits increase slightly.

Germany was the only large country to post a surplus fiscal position and actually increased its surplus from 0.1% in 2013 to 0.4% of GDP in 2014.

Despite these efforts, the euro area government debt ratio continued to grow, albeit at a slower pace than before, rising to more than 94% of GDP, after 93.1% in 2013. Debt levels in the main euro area countries (see Chart 16) are above 90% of GDP everywhere except Germany, which, with its fiscal surplus, actually managed to reduce its debt-to-GDP ratio by more than two points compared with 2013. In Greece, Italy and Portugal, debt ratios exceed 120% (176%

in Greece's case), particularly reflecting weak growth and assistance to the financial sector in recent years.

Chart 15
Government deficits



Sources: European Commission and Insee for France.

Box 10

Implementation of European governance in the euro area under “Two Pack” regulations

The Two Pack comprises two European regulations that establish a common fiscal timetable to allow the European Commission and the Eurogroup to make sure that national budgets comply with European commitments. The arrangements, which came into force in May 2013, introduce stricter rules for the fiscal policies of euro area Member States, and especially of countries subject to excessive deficit procedures. The Two Pack also enhances the quality of fiscal surveillance of euro area Member States by the Commission under the Stability and Growth Pact (SGP) through more reliable and thorough information sharing.¹

The Two Pack is structured around three requirements that structure dialogue between the Commission and euro area Member States: submission by Member States of medium-term national fiscal plans by 30 April; a harmonised timeline for preparing and adopting annual national budgets, which must be published by 15 October; and provision or assessment by an independent entity of the macroeconomic forecasts underlying the budget.

Now that a full budget cycle has been completed, the initial assessment of the new governance system is broadly positive,² although Member States still have work to do to fully meet the timing and content requirements set down in the regulations.

On 30 April 2014, euro area Member States published their medium-term national fiscal plans. Countries can use their stability programme, which contains all the items required by the Two Pack for this purpose. Ten Member States, including France, took this option. The Commission judged that all countries had provided the requisite information. However, no Member State provided “indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact” in 2014. Addressing this shortcoming is one of the improvements expected for 2015.

Last autumn, the Commission issued an opinion on the draft fiscal plans submitted on 15 October by euro area Member States, some of which were late because of election timing issues. In its opinion issued on 28 November 2014, the Commission said that seven countries³ presented a risk of non compliance with SGP targets. Of these, France, which is subject to the corrective arm of the SGP, and Italy and Belgium, which are covered by the preventive arm, will be subject to a new review by the Commission after a three-month period.⁴

In addition to the shared deadlines for all euro area Member States, the Two Pack introduces new obligations in particular for States subject to an excessive deficit procedure. These supplement the corrective arm of the SGP and require affected Member States, namely Malta, Cyprus, Portugal, Slovenia, France, Ireland, Greece and Spain, to submit an economic partnership programme to the Commission and the Council that will act as a roadmap, “describing the policy measures and structural reforms that are needed to ensure an effective and lasting correction of the excessive deficit”.⁵

Last, in accordance with a new requirement introduced by the Two Pack, 11 Member States based their budgets on macroeconomic forecasts produced or assessed by an independent body. France was a case in point, with the *Haut Conseil pour les finances publiques* (HCFP – High Council for Public Finance) ruling in 2014 that some of the forecasts included in the budget documents were overly optimistic. In seven other countries, including Germany, efforts are still needed to ensure better compliance with the procedures for the independent assessment of economic forecasts.

1 See Article 5 of Regulation 473/2013: “Independent bodies monitoring compliance with fiscal rules”. France’s HCFP issues a public opinion on the realistic nature of France’s macroeconomic forecasts.

2 “A preliminary stocktaking of the implementation of the two-pack requirements regarding the common budgetary timeline”, published on 30 January 2015 by the European Commission.

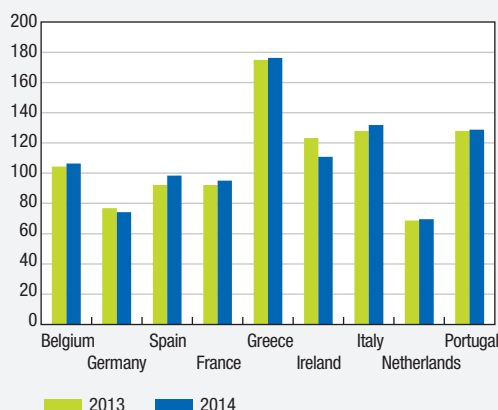
3 France, Spain, Portugal, Austria, Malta, Italy and Belgium.

4 The Commission published its conclusions on 25 February 2015: http://europa.eu/rapid/press-release_IP-15-4504_en.htm

5 See Article 9 of Regulation 473/2013 “Economic partnership programmes”.

Chart 16
Government debt

(% of GDP)



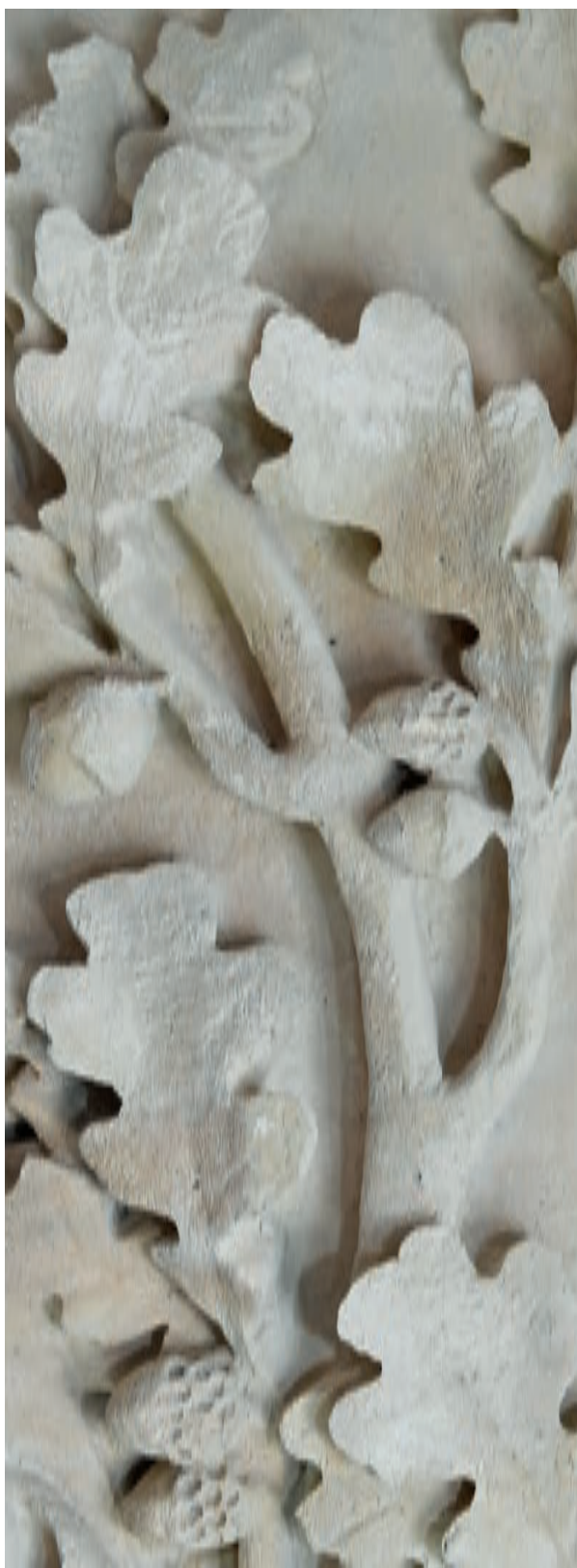
Sources: European Commission and Insee for France.

4|4 International coordination of economic policies

After the Washington summit in November 2008, the Group of 20 (G20) emerged as the main forum for international economic and financial cooperation. Australia took over the G20 presidency from Russia in 2014, with the aim of pursuing its predecessor's efforts to support the global economic recovery, especially by strengthening the macroeconomic coordination of G20 members and paying special attention to investment as an engine of growth.

The Summit Meeting of Heads of State and Government held in Brisbane in November 2014 led to the adoption of an action plan for growth and jobs based on more consistent, structured and comprehensive national strategies in economic policy and structural reform. The main objective is to lift the G20's cumulative GDP growth by at least 2% by 2018 compared with the IMF's 2013 baseline scenario.

Already a highlight during Russia's presidency, work on the theme of financing long-term investment was continued by Australia. The Brisbane Summit endorsed a multi-year work programme to promote investment and agreed to establish a Global Infrastructure Hub with a four-year mandate. Based in Sydney, the Hub will contribute to developing a knowledge-sharing platform and network between



governments, the private sector, development banks and other international organisations. The Hub will foster collaboration among these groups to improve the functioning and financing of infrastructure markets.

The 2010 reforms to IMF governance and quotas could not be carried out in 2014 because they had not been ratified by the United States. Without questioning the commitment of members to implement the 14th General Review of Quotas, several options should be explored in 2015 with a view to making headway towards achieving the goals of the 2010 reforms and completing the work on the 15th General Review by the year's end. Other subjects relating to the international financial architecture were also broached in 2014, including

sovereign debt restructuring and measures to strengthen financial safety nets.

In terms of financial regulation, the Australian presidency moved ahead with implementation of the reform agenda adopted after the crisis, focusing particularly on bolstering bank capitalisation and liquidity (G20 members agreed to a proposed standard on additional capital requirements to enhance the loss-absorbing capacity of systemically important banks in resolution), and the functioning of OTC derivatives markets and the shadow banking system. However, progress in these areas remains modest.

In tax cooperation, significant strides were made in the OECD-G20 action plan to prevent base erosion and profit shifting, which is designed to combat unfair tax optimisation practices among multinational companies. The plan, which seeks to modernise international tax cooperation, is expected to be finalised and adopted by the G20 before the end of 2015. In terms of preventing tax evasion, G20 Members States agreed to begin automatically exchanging information by 2018 at the latest. The Brisbane Summit also endorsed the 2015-2016 anti-corruption action plan.

Turkey took over from Australia in December 2014 and identified three priorities: i) strengthen the inclusive nature of growth strategies with a focus on SMEs, gender equality and youth unemployment; ii) implement commitments made under previous presidencies, particularly in the areas of growth and jobs, financial regulation, international tax and international financial architecture; iii) finance investment. Special emphasis will be placed on low-income and developing countries.

The G20 countries also embarked on a programme aimed at enhancing statistics to better assess the interconnections between economies and sources of imbalance. The Banque de France is heavily involved in implementing this programme. The progress report published in September 2014 by the IMF and the Financial Stability Board (FSB) ranked France among the countries that had reached all the expected targets to date.



4|5 Implementation of structural reforms to stimulate growth

The crisis had a severe impact on the potential growth of euro area economies. According to the Banque de France's most recent estimates, potential growth in the euro area and France averaged approximately 2% a year over the 2000-2007 period, but fell to 0.6% in 2014 for the euro area as a whole, and to 1.1% for France and Germany.

Against this background, which also features persistent imbalances in government finances, implementing structural reforms on goods and labour markets can play a vital role in lifting the capacity of Europe's economies to create an environment that will support economic activity. Necessary reforms have been introduced in recent months; they need to be pursued and extended

to unlock major growth gains and preserve the sustainability of government finances.

Given the low level of inflation in Europe and France, the price declines that might result from certain structural reforms raise concerns about anchoring deflationary expectations. However, these declines enable competitiveness gains within the euro area. Furthermore, structural policies mainly affect relative prices, while monetary policy ultimately determines the overall level of prices.

The adoption of the Employment Protection Act of 14 June 2013 represented a major stride forward for the labour market. Even so, the market remains affected by the crisis, with a large share of long-term unemployment. To prevent lasting effects, steps are needed to limit skill loss in the labour force

Box 11

Macroeconomic impact of structural reforms

Structural reforms modify legal or contractual frameworks or the material structures of the economy and society to boost potential growth. The simultaneous execution of several reforms, coupled with the highly specific nature of certain changes or their complexity, make it hard to assess the resulting economic impact. Various methods can be used to get round these problems. Ex ante studies consider the effects of a reform prior to implementation while ex post studies measure outcomes to inform future policymaking.¹

One study by the Banque de France² proposes a two-part ex ante assessment method. Using estimates for 14 countries over the 1987-2007 period, the study characterises the direct and indirect impact of regulations on the goods and services market, the labour market, productivity and prices. These regulations directly impact production prices, wages and productivity; indirectly, they generate rents by lowering competition. The study estimates that goods and labour market reforms between 2008 and 2013 in France lifted long-term growth by 1.2% overall. The increase stemmed essentially from reforms to services and networks and to a lesser extent from labour market reforms. The following chart shows the overall long-term impact on total productivity of reforms when regulations are aligned with those of the three countries with the lightest practices. The impact is estimated at around 6% in France, as France's economy is heavily regulated compared with other OECD countries.

Dynamic stochastic general equilibrium (DSGE) models can also be used to make an ex ante assessment of the impact on the economy of structural reforms. For this, production, consumption, trade and financial markets are integrated into a theoretical structure that represents the economy being studied. Shocks representing the reforms are then applied to the model, which predicts their macroeconomic impact through its fluctuations. DSGE models are used, for example, to examine the coordination of structural reforms across different countries.³

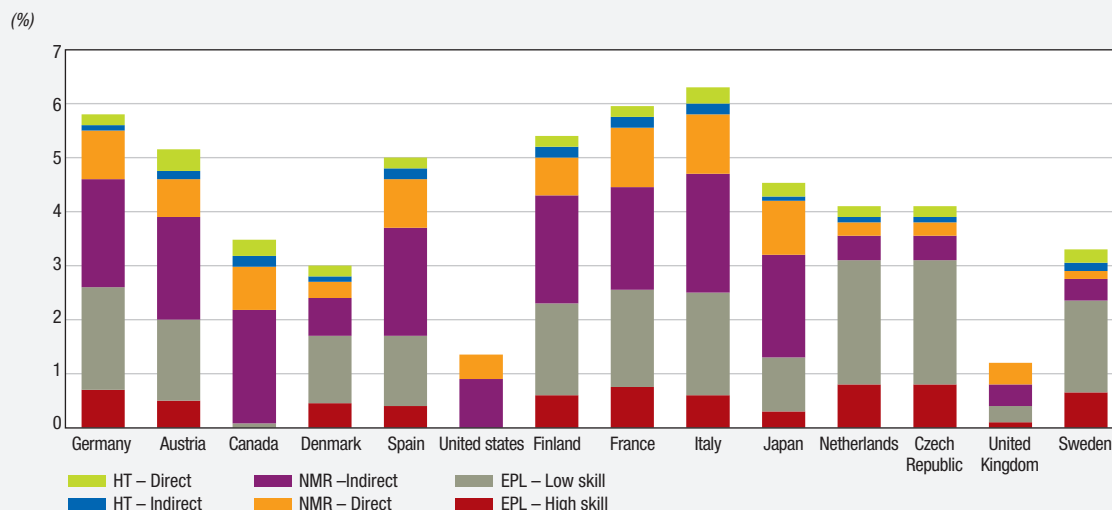
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1 The report by the commission set up to study the impact of the French Growth and Activity Act, chaired by Anne Perrot, proposes studies and assessments to help understand the macroeconomic impact of structural reforms included in the legislation.

2 Cetté (G.), Lopez (J.) and Mairesse (J.), "Product and labor market regulations, production prices, wages and productivity", NBER Working Paper 20563 and Banque de France Working Paper, No. 514, October 2014.

3 Everaert (L.) and Schule (W.), 2006, "Structural Reforms in the Euro Area: Economic Impact and Role of Synchronisation across Markets and Countries", IMF Working Paper, WP/06/137.

Long-term impact on MFP from the adoption of the lightest regulatory practices



Explanation: Long-run impact: impact over ten years, MFP: multi-factor productivity, HT: harmonised tariffs, NMR: Non-manufacturing regulations for services markets and networks, EPL: employment protection legislation.

Source: Cette (G.), Lopez (J.) and Mairesse (J.), 2014, "Les effets macroéconomiques sur la productivité et les prix de vastes réformes structurelles sur les marchés des biens et du travail", Working Paper, Banque de France.

Ex post studies look at the impact of reforms after the fact. They compare the situation of agents with and without the reform, making econometric adjustments to correct bias using methods such as differences in differences, discontinuity regressions and statistical matching techniques. For example, the Banque de France is conducting a study to make an ex post assessment of the macroeconomic impact of the research tax credit.⁴

4 See the Banque de France Working Paper by Bozio (A.), Irac (D.) and Py (L.), "Impact Of Research Tax Credit on R&D and Innovation: evidence from the 2008 French reform", December 2014, which uses a difference in differences method to measure the impact of a public policy to promote R&D.

resulting from restructuring by making it easier for people to change location or job. For now, it is necessary to prioritise employment over wages, notably by reviewing the minimum wage indexing arrangements, and to enable changes to be made based on individual situations by giving more decision-making power to collective agreements, especially on headcount thresholds and hours worked.

Structural reforms are being carried out at a time of budget restrictions. However, many reforms have a limited budgetary impact but a lasting effect on growth. Strengthened competition in retail trade and regulated professions, made possible by the Activity, Growth and Equal Opportunities Act, should have a positive impact on consumers and businesses alike. Continued streamlining efforts through legislation passed on 9 January and 30 October 2014 should likewise have a beneficial impact provided that other

new pieces of legislation do not introduce greater complexity for individuals and companies.

Public spending needs to be more efficient during a time of budget restrictions. Three Acts were passed in 2014 on France's territorial organisation⁸ that will help to limit spending and improve government action at the local level. However, they leave the fate of the *départements* undecided and maintain the general responsibility of *communes*, raising concerns about redundancies that could undermine the necessary control of territorial government finances. Another way to improve the efficiency of public spending would be to reform housing assistance, which has a high cost for often limited social effectiveness.

8 Act of 27 January 2014 on Modernising Territorial Public Action and Strengthening Metropolitan Areas; Act of 16 January 2015 on Regional Boundaries, Regional and Departmental Elections and Amending the Schedule of Elections; Act on the New Territorial Organisation of the Republic presented to Parliament on 18 June 2014.

Second part

Report on activities

Activities



*Assessing
the economy
and its financing*

- Business surveys
- Business observatories

The Banque de France's activities and achievements in 2014 reflected the tasks assigned to it, which can be divided into three core categories: provision of services to the national community, Eurosystem-related tasks, and measures to safeguard financial stability.

Provision of services to the national community

Monitoring companies

- Corporate credit ratings
- Credit mediation

Consumer protection and access to banking services

- Supervision of business practices
- Database management
- Access to banking services

Handling of household over-indebtedness

- Role of the network branches

Holding general government accounts and managing Treasury auctions

Eurosystème-related tasks

Monetary policy

- Economic and inflation forecasts
- Preparation and implementation of monetary policy
- Compiling the balance of payments
- Research and publications

Market operations

- Proprietary activities
- Management of foreign exchange reserves
- Activities for institutional customers

Banknotes and coins

- Banknote manufacturing
- Circulation and maintenance of banknotes and coins

Measures to safeguard financial stability

Prudential supervision and oversight of financial institutions

- Adapting the financial system to regulatory developments

Security of means of payment and oversight of market infrastructures

Mitigation of systemic risks

- National framework
- International framework

1| PROVISION OF SERVICES TO THE NATIONAL COMMUNITY

1|1 Assessing the economy and its financing

Business surveys supply a regular assessment of the French economy

The Banque de France conducts monthly nationwide and regional surveys of business conditions.

The nationwide survey:

- summarises the work done on monitoring and analysing business conditions, and provides an assessment of the French economy to the European Central Bank (ECB), public authorities and any other interested parties;
- is conducted through the Bank's branch network across a broad panel of business managers;
- covers:
 - manufacturing, market services and construction (level and prospects),
 - retail trade, including turnover indices;

Box 12

Access to credit for SMEs

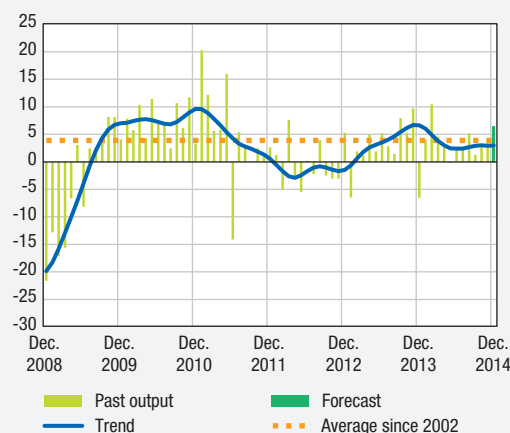
In 2014, the Banque de France expanded its quarterly analysis of access to credit for small and medium-sized enterprises (SMEs) and mid-tier firms (MTFs) by developing a partnership with the National Federation of Approved Management Centres to better capture the views of the smallest companies.

The survey on access to credit for SMEs, which offers frequency and statistical depth that are unmatched in Europe, is an extremely useful tool for assessing bank lending.

Chart 17

Balance of opinion on manufacturing output

(balance of opinion, seasonally adjusted and adjusted for working day variations)



Source: Banque de France, Monthly business survey, December 2014.

- is published on the website of the Banque de France, with the series made available in Banque de France Webstat, an interactive database.

The Banque de France also conducts and publishes quarterly surveys of the wholesale trade and public works sectors, along with a survey of the financial situation in manufacturing.

In 2014:

- the construction survey was incorporated into the manufacturing and services survey to give readers a more comprehensive view;
- the method used to measure the survey's business climate indicators was refined.

An agreement with the National Distance-Selling Federation made it possible to include online purchases in 2014.

Expertise in business financing

The Banque de France has built up considerable expertise in business financing. Accordingly, in addition to carrying out its own work, it participates in that of several business observatories.

- The *Observatoire des délais de paiement* (Trade Credit Observatory), set up in 1991, comprises representatives of professional organisations and government entities.

In its latest report, published in February 2014, the Trade Credit Observatory highlighted complacency in efforts to reduce payment times between companies and within the public sector.

- The *Observatoire du financement des entreprises* (Business Financing Observatory), set up in 2010, comprises the main players in business financing and publishes an annual report on the financial situation of SMEs.

- The *Observatoire du financement des entreprises par le marché* (Observatory of Market Financing for Businesses) was also set up in 2010. It noted a recent upsurge in equity and debt fund-raising.

Box 13

Studies on large listed groups

The Banque de France is invited to take part in various business-focused working groups and has its own Companies Observatory, whose purpose is to provide an assessment of the activity and financing of French businesses.

The Banque de France bases its company analyses on data from the FIBEN banking database on companies while also drawing on other information sources to produce in-depth studies on current economic developments.

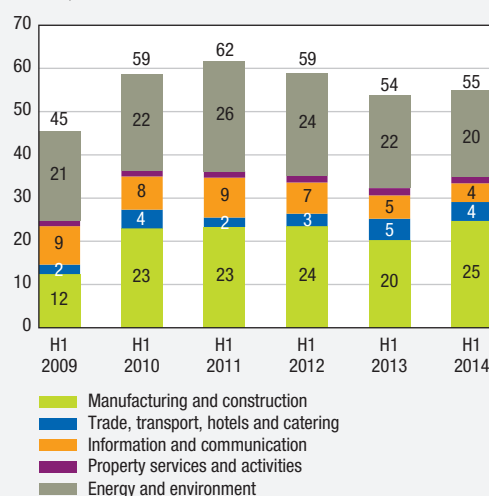
- Twice a year, it carries out a study of the main French listed groups, based on their consolidated half-yearly or annual accounts. These firms have major international operations, play a leading role in the French economy and are key commercial partners for a huge number of smaller companies.
- To assess their level of activity, the Banque de France uses data taken from the annual and half-yearly reports posted online by these groups.
- Once gathered, the data are harmonised and aggregated by Banque de France economists. Next, revenues, profitability, debt and cash are analysed, with consolidated reviews by sector of activity.

The first-half study in 2014 looked at the financial situation of 80 French groups listed on Compartment A of Euronext Paris, extending its scope beyond the population of firms included in the CAC40 index.

This approach enables the Banque de France to quickly prepare analyses covering the previous half-year for this population. With the half-yearly study, information is available from the third quarter on the general trend in the financial health of large groups, giving an idea of the overall results for the current year. The studies are posted on the Banque de France website and in its *Bulletin*.

Operating income by sector of activity

(EUR billions)



Source: Financial reports of the 80 largest French groups, July-August 2014.
Banque de France calculations, September 2014.

1|2 Monitoring companies

Corporate credit ratings

The Banque de France has In-House Credit Assessment System (ICAS) status within the Eurosystem and is also a recognised external credit assessment institution.

Accordingly, its credit ratings may be used:

- to assess the quality of assets pledged as collateral for bank refinancing operations;
- by credit institutions to determine their regulatory capital requirements;
- by banks as a decision-making tool to assess the quality of their credit exposures, and by company managers as an external analysis of their creditworthiness.



Box 14

Ratings offer a synoptic assessment

Ratings comprise two components:

- the turnover rating, which indicates the company's level of turnover, if known, material and recent. Ratings range from A (EUR 750 million or more) to M (EUR 100,000 or less);
- the credit rating, which represents an assessment of the company's solvency risk. In descending order of quality, the categories are: 3++, 3+, 3, 4+, 4, 5+, 5, 6, 7, 8, 9 and P. Ratings of 7 to 9 are given to companies that have been delinquent in paying bills. P ratings are given to companies undergoing insolvency proceedings, such as a turnaround procedure or judicial liquidation. This applied to 584,251 entities without valid financial statements and 1,213 entities that provided a balance sheet.

The Banque de France applies an “expert assessment” approach based on an individual and in-depth analysis of the financial and non-financial situation of the company or group under consideration. Within the Eurosystem, it is the central bank that rates the largest number of non-financial companies on the basis of accounting records.

- In 2014, 250,000 non-financial companies with turnover of EUR 750,000 or more were assigned credit ratings by Banque de France branches based on an analysis of their parent-company or consolidated accounting records.
- At end-December 2014, 95% of companies whose ratings were eligible for refinancing transactions (3++ to 4) had turnover of less than EUR 50 million.

Credit mediation

Banque de France branch directors, in their capacity as credit mediators for their *département*, are tasked with facilitating dialogue between financial institutions (banks, credit insurers and factoring companies) and business managers.

Applications for mediation in 2014 involved smaller companies than in the previous year, which explains the decline in the volume of loans made available and in the number of jobs saved.

Since the system was created in November 2008:

- over 45,000 troubled companies have applied for credit mediation;
- around 80% (79.8%) have been admitted to the procedure;
- 19,000 companies have been able to obtain financing after an initial rejection;
- some EUR 6 billion in loans have been granted, helping to save or preserve more than 360,000 jobs.

Mediation key figures in 2014

- 3,565 applications (-18.7%), of which 72% were deemed eligible (74% in 2013)
- 2,184 applications processed and closed (2,682 in 2013)
- 1,258 enterprises kept in business (1,530 in 2013)
- 20,033 jobs saved or preserved (47,725 in 2013)
- EUR 371.7 million in loans made available (EUR 1.4 billion in 2013)
- The success rate in 2014 was steady compared with 2013 (58%)

1|3 Consumer protection and access to banking services

Supervision of business practices

The General Secretariat of the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) is responsible for supervising business practices in the banking and insurance sectors.

This task covers the entire product and service marketing process, from advertising through to when contracts mature or are terminated.

- The ACPR has appropriate powers to discharge its responsibilities, including disciplinary penalties, which are adjusted to reflect the seriousness of the offence and which are usually made public.
- The goal is to complete the process of setting up an effective system that spans all approaches to marketing and advertising financial products and that provides enhanced vigilance to ensure that consumers are properly protected.

Box 15

Penalties issued in 2014

In 2014, five disciplinary penalties were issued, all including fines.

- Three of them, which included fines of EUR 10 million, EUR 40 million and EUR 50 million respectively, involved unclaimed life insurance policies.
- The other two involved the right to a bank account in one case and fitness and proprietary requirements in the other. In the latter case, the Sanctions Committee issued a ten-year ban on carrying on any business in insurance brokerage.

Database management

France's lawmakers have entrusted the Banque de France with the task of managing several databases

aimed at preventing over-indebtedness and improving the security of payment instruments:

- The Central Cheque Register (FCC) centralises information about payment incidents involving cheques and bankcards, to prevent bad cheques and misuse of bankcards.
- The National Register of Irregular Cheques (FNCI) compiles information about stolen and lost cheques and disseminates it to merchants and service providers, enabling them to verify the lawfulness of cheques.
- The National Register of Household Credit Repayment Incidents (FICP) records serious repayment incidents related to personal loans, along with measures to deal with over-indebtedness.

A service charter drafted in collaboration with the banking industry established indicators for monitoring the FICP's performance. These revealed that the real-time data availability rate was close to 100% in 2014.

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Access to banking services

As part of its efforts to promote banking and financial inclusion, the Bank upholds the right to an account. Accordingly, if it receives an application from an individual or organisation that has been refused a bank account, it will appoint a bank that is required to open an account for the applicant and provide a number of free basic banking services. In 2014, the Bank made more than 60,000 such designations.

In partnership with the *Autorité des marchés financiers* (AMF – Financial Markets Authority) and the ACPR, the Banque de France fielded more than 300,000 queries over the *Assurance Banque Épargne Info Service* (ABEIS) helpline. Most of the questions

concerned banking services and over-indebtedness. Meanwhile, the Infobanque service dealt with more than 262,000 written questions about bank accounts, payment instruments or disputes with credit institutions.

Because of its long-standing expertise in microfinance, the Banque de France has been given the statutory task of maintaining the secretariat of the *Observatoire de l'inclusion bancaire* (Observatory for Banking Inclusion). In this capacity, it plans to draw on its statistical resources to develop precise monitoring of access to banking services.

Box 16

The Observatory for Banking Inclusion

The establishment of the Observatory for Banking Inclusion is a flagship measure in the plan to combat poverty and promote social inclusion. It is based on Article 56 of Law 2013-672 of 26 July 2013 on the Separation and Regulation of Banking Activities, which defines the Observatory's three tasks, and on Decree 2014-737 of 30 June 2014.

Its members are representatives of credit institutions and associations. The Observatory's task is to gather information about access to and use of banking services and on credit institutions' initiatives in the field of banking inclusion. It is notably tasked with:

- defining indicators to assess changes in credit institutions' practices in this area,
- producing these indicators, and
- analysing them.

To perform its tasks, the Observatory relies on information provided to it by banks and benefits from work by the Scientific Board created by the same decree.

The Observatory held its first meeting on 11 September 2014, with Christian Noyer, Governor of the Banque de France, in the chair. Ségolène Neuville, Secretary of State for Disabled People and the Prevention of Exclusion, attended the inaugural meeting.

1|4 Handling of household over-indebtedness

Under the task entrusted by the government to the Banque de France, the Bank's branches provide the secretariats for Household Debt Commissions, which are collegial administrative bodies that work under the supervision of the courts to draw up and propose solutions for individuals facing serious financial problems.

The new procedures for processing over-indebtedness cases, introduced by the Banking Law of 26 July 2013, came into effect on 2 January 2014. These simplify and speed up the process, and had a significant bearing on the type of solutions provided (see Appendix 3 for a summary of the Household Debt Commissions' activity reports).

The impact of the Banking Law led to a 2% year-on-year increase in the number of cases that were definitively resolved, to a total of 246,538 cases.

The 3.5% increase in the number of over-indebtedness applications reflected a change in the way re-examined cases are counted, following a procedural amendment. On a like-for-like basis (green area in Chart 18), filings were actually down compared with the previous year.

The commissions' activity reports stressed that greater commitment is needed to improving the personal budgeting and financial education of at-risk

In 2014, 230,935 over-indebtedness applications were submitted to Household Debt Commissions.

populations and social workers. Mindful of this need, the Banque de France and its secretariats continued to organise large numbers of training and information sessions throughout 2014:

- some 800 sessions were held for social workers and various social services;
- close to 13,000 people took part (from social action community centres, district social services, benefits offices, housing solidarity funds, etc.).

This approach reflects the Bank's determination to improve coordination between existing support services in order to promote social inclusion and help fight poverty.

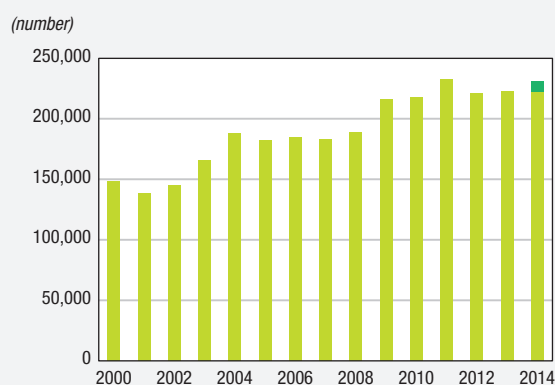
1|5 Holding general government accounts and managing Treasury auctions

Holding general government accounts

Under the agreement signed with the government on 25 July 2011, the Banque de France offers:

- real-time information to Agence France Trésor (AFT), the government agency tasked with public debt and treasury management, to allow it to better track its treasury management, and supervisory services for large payments made from the 7,000 government accountants' accounts;
- online banking services for government accountants;
- European payment instruments (SEPA credit transfers and direct debits), which are processed via Victoires Paiements, a partnership set up in 2012 with Caisse des Dépôts et Consignations;
- reduced collection times for cheques of less than EUR 5,000, which account for 98% of the total number of cheques cashed by the government.

Chart 18
Number of cases submitted to debt commissions



Source: Banque de France.

The account holding approach was overhauled in 2014. It is now more technically standardised and user-friendly. Proprietary developments mean the system is more upgradable, and it has also been made more robust owing to the automation of certain processes and new flow supervision arrangements. The new portal introduced in October 2014 is more secure, offers an expanded range of services and is separate from the account holding side. The overall system delivers enhanced responsiveness and forward-looking treasury monitoring, which is additionally provided to AFT.

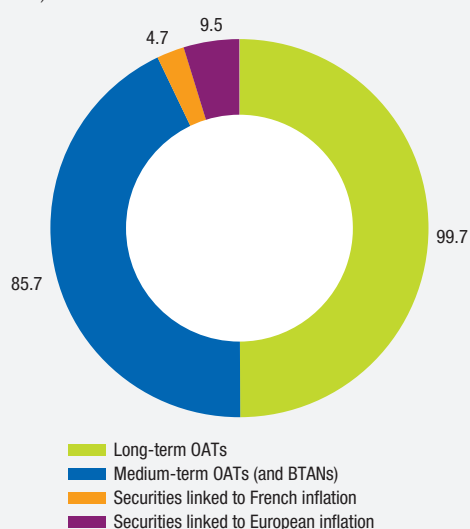
Managing Treasury auctions

As in previous years, the Banque de France took charge in 2014 of organising weekly and monthly auctions of government securities on the primary government bond market, including:

- fixed-rate short-term discount Treasury bills (BTFs) in a nominal amount of EUR 408 billion;
- fungible Treasury bonds (OATs) and notes (BTANs) in a nominal amount of EUR 200 billion (see Chart 19).

Chart 19
Auctions of medium and long-term Treasury securities in 2014

(EUR billions)



Source: Banque de France.

2| EUROSISTEM-RELATED TASKS

2|1 Monetary policy

Economic and inflation forecasts

The Banque de France helps to prepare the Eurosystem's monetary policy decisions, notably:

- by compiling statistics and data on the French economy;
- by contributing to the production of growth and inflation forecasts and economic analyses, notably over a two-year horizon, in coordination with the other national central banks;
- by participating in the work of the Eurosystem's Monetary Policy Committee.

Based on this work, it publishes a forecast of GDP growth over the next three months. These analyses provide the Banque de France with its own economic assessment for France and the euro area, which is especially useful during periods of economic turmoil.

Compiling the balance of payments and the international investment position

The Banque de France compiles:

- France's balance of payments, which records the French economy's economic and financial transactions with the rest of the world, including:
 - trade in goods and services,
 - income received or paid,
 - inward and outward foreign investment,
 - cross-border loans,
 - variation in foreign exchange reserves.

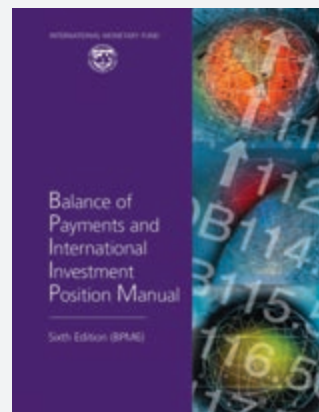
The balance of payments is an important tool for making economic and financial assessments. It is used to determine other national aggregates, such as GDP, and international aggregates, such as the euro area balance of payments. In 2014, a new methodology was introduced to compile the balance of payments (see Box 17).

Box 17

The balance of payments and new international standards

In 2014, the Banque de France began publishing statistics on the balance of payments and international investment position in accordance with the new international standards contained in the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (BPM6).

- The new manual seeks to establish consistency between balance of payments and national accounting principles. In particular, the concept of economic ownership has been given a central role. Measurement of international trade must be conducted in a uniform manner to ensure that every country provides information on its international transactions that is as accurate and comparable as possible.
- Another goal of BPM6 is to adjust the balance of payments to reflect international trends in production methods, as well as the diversification and growing complexity of financial transactions. The previous edition was released in 1993.
- To inform the public about the main issues arising in connection with the methodological changes and their impact on French data, the Banque de France communicated extensively:
 - in March, when the balance of payments was published for the first time in the new format (*Stat Info* publication on balance of payments data for January 2014);
 - in June, when the 2013 annual report on the balance of payments was released;
 - in December, through an article published in the Banque de France's *Bulletin*.¹



¹ Collès (B.), Pavot (J.) and Uri (J.), "Preparing France's balance of payments in accordance with the new international standards: a statistical response to economic globalisation", Quarterly Selection of Articles, No. 37, Spring 2015, https://www.banque-france.fr/fileadmin/user_upload/banque_de_france/publications/BDF198_10_Balance-paiements-Fr.pdf

- The international investment position, which records France's foreign liabilities and assets.

Research to support decision-making

Economic research conducted at the Banque de France seeks to:

- inform monetary policy decisions and discussions at European and international gatherings (ECB, G20, G7, BIS, IMF, etc.);
- contribute to economic policy debates and financial stability assessments.

These research activities are used to support decisions by the authorities, while also helping to develop economic assessment and macroeconomic forecasting tools which can be used to evaluate the impact of monetary policy,

estimate potential growth and measure the growth impact of structural reforms.

Research in 2014 focused on both the real economy and the financial sector, exploring, for example:

- weak growth during periods of very low inflation;
- wage and price rigidity;
- non-standard monetary policies.

This research work benefits from the various programmes conducted by the Banque de France Foundation for Research into Monetary, Financial and Banking Economics, and from the research partnerships put in place since 2008. These include partnerships with:

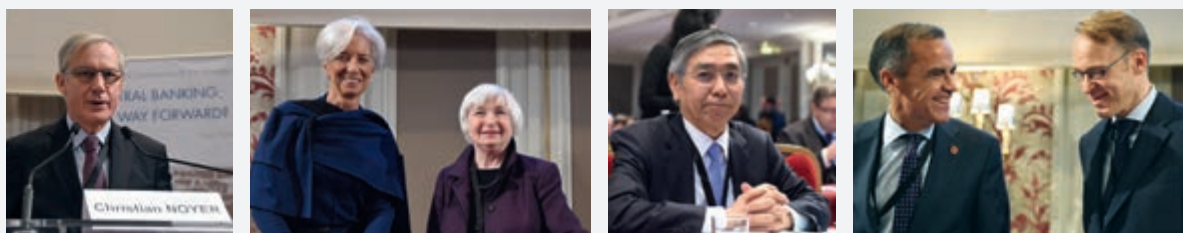
- Toulouse School of Economics (TSE), led by Jean Tirole, winner of the 2014 Nobel prize for economics;

Box 18

International symposium on 7 November 2014 “Central Banking: The Way Forward?”

The Bank organised an international symposium on 7 November in Paris, gathering more than 300 people to discuss ways to exit the recent economic crisis and limit future financial turbulence.

- The audience included around 120 representatives of some 80 foreign central banks, and some 60 academics and members of think-tanks from around the world. Also in attendance were a similar number of representatives of financial institutions, governments and international organisations.



From left to right: Christian Noyer, Christine Lagarde, Managing Director of the IMF, Janet Yellen, Chair of the US Federal Reserve, Haruhiko Kuroda, Governor of the Bank of Japan, Mark Carney, Governor of the Bank of England, Jens Weidmann, President of the Bundesbank

- Speakers included the governors of the world's leading central banks, the IMF's Managing Director, a Nobel prize-winner in economics, upcoming academics and leaders of finance, including the Chairman and CEO of Blackrock. Media coverage was unprecedented, and the online streaming of the symposium attracted around 5,000 unique visitors.
- The symposium addressed four topics:
 - conducting monetary policy with large public debts;
 - adapting to changes in financial intermediation;
 - reconciling international capital flows and policy autonomy;
 - shaping the future of the macroeconomic policy-mix.



- Paris School of Economics (PSE);
- Sciences Po university;
- Foundation for International Development Studies and Research (FERDI) in Clermont-Ferrand;
- Aix-Marseille School of Economics.

Since 2013, the ACPR has also organised monthly research seminars as part of a partnership with GENES, a public institution of higher education and research attached to the Ministry of Economy and Finance, and with HEC.

Implementation of monetary policy

The Banque de France is responsible for implementing the Eurosystem's monetary policy in France by:

- ensuring that French banks meet their mandatory reserve requirements;
 - ensuring that the Eurosystem's collateral eligibility criteria are met and delivery rules are respected;
 - implementing securities purchase programmes and executing refinancing operations with the credit institutions established in France that are Eurosystem eligible monetary policy counterparties.
- New standard and non-standard monetary policy measures were announced in 2014, aimed at improving monetary policy transmission by encouraging banks to lend to the real economy.
- Refinancing rates were cut to historically low rates, namely 0.05% for the main refinancing operations, while the deposit facility rate was lowered into negative territory, first to -0.1%, then -0.2%.
 - Targeted Long-Term Refinancing Operations (TLTROs) were launched: these fixed-rate four-year refinancing operations are designed to encourage banks to lend to non-financial corporations

Box 19

Targeted Long-Term Refinancing Operations (TLTROs)

- In 2014, the rate on TLTROs was set at 0.15%, and operations conducted in 2014 for the overall Eurosystem totalled EUR 212 billion. Euro area credit institutions can take part in TLTROs either individually or by setting up a dedicated group.
- The Banque de France determined the drawing rights of French TLTRO groups for the September and December operations after a consolidated analysis of their outstanding loans for the entire euro area.
- This consolidated approach enabled French banking groups to centralise all TLTRO operations with the Banque de France on behalf of their euro area subsidiaries and branches. The Banque de France will use the outstandings identified in 2014 to establish benchmarks for credit distribution and to determine the drawing rights of French banks in additional quarterly TLTROs through to mid 2016 (or to demand full repayment of the borrowed amounts in September 2016 in the event of insufficient credit distribution).

and households (excluding loans for house purchases) (see Box 19).

- The Covered Bond Purchase Programme 3 (CBPP3) and the Asset-Backed Securities Purchase Programme (ABSPP) were launched in 2014 for a minimum period of two years, again with a view to supporting the provision of credit to the economy. These programmes were complemented by the launch of a Public Sector Purchase Programme in January 2015.

The Banque de France is especially active in the last two programmes, which seek to facilitate the provision of credit to the euro area economy and bolster alternative modes of financing to complement bank lending. The Bank played a driving role in the ABSPP by taking part in its execution (see Box 20 on securities purchase programmes).

Box 20

Securities purchase programmes

On 4 September 2014, the Eurosystem launched two securities purchase programmes, a Covered Bond Purchase Programme (CBPP3) and an Asset-Backed Securities Purchase Programme (ABSPP) targeting simple, transparent securitisations of loan portfolios (property and consumer loans, loans to SMEs, etc.).

As with previous purchase programmes, the covered bond purchases, which began on 20 October, were conducted on a decentralised basis by Eurosystem national central banks (NCBs). By 31 December 2014, EUR 29.6 billion in securities had been acquired via the programme, which is designed to work alongside other measures implemented by the Eurosystem, including forward guidance and targeted long-term refinancing operations, to improve monetary policy transmission mechanisms and the provision of credit to the real economy.

The ABSPP, which began on 21 November 2014, is another measure decided by the Governing Council to facilitate the extension of credit to the euro area economy. The programme also seeks to promote the development of a simple and transparent securitisation market which can provide a powerful tool to finance the economy.

In 2014, the ECB appointed five asset managers to carry out this purchase programme. The Banque de France was the only NCB to take part in the programme's execution, working alongside four private fund managers (Amundi, Deutsche Asset & Wealth Management, ING Investment Management and State Street Global Advisors).



Market operations

The Banque de France:

- conducts market operations on its own account and on behalf of the ECB;
- trades on the markets for the purposes of foreign exchange reserve management and the services it provides to its institutional customers;
- carries out market analyses.

The Banque de France's market activities cover:

- management of proprietary bond portfolios;
- management of the Banque de France's foreign exchange reserves and delegated management of some of the ECB's foreign exchange reserves;
- spot foreign exchange in connection with transactions carried out for the purposes of managing the foreign exchange reserves;
- management and hedging of term deposits: the Banque de France receives term deposits from its institutional customers and reinvests the funds in the markets on their behalf.

2|2 Banknotes and coins

Banknote manufacturing

The Banque de France operates two factories in the Puy-de-Dôme *département* that are dedicated to producing banknotes:

- a paper mill in Vic-le-Comte;
- a printing works in Chamalières.

Employing more than 900 people, the Bank is a major industrial player in the Auvergne region.

With over 1.2 billion euro banknotes delivered in 2014, the Bank confirmed its operational capabilities as a producer of euro banknotes for the Eurosystem. Despite a downturn in orders, export markets continue to account for a substantial share of output.

The two locations marshalled their resources to produce the new euro range (€10 and €20 banknotes) and overcome difficulties posed by the technical complexity of the specifications for the new €20 note.

The Bank will continue to invest in research and development in 2015 to maintain its high level of expertise. As part of this, it has begun the process of modernising its paper mill and spinning it off into a separate entity. This project will include the acquisition of new machinery and construction of a new building at Vic-le-Comte.

Volume of banknotes delivered between 2010 and 2014

Data	2012	2013	2014
Annual volume delivered (billions of banknotes)	2.30	3.07	2.64
Headcount	944	931	941

Circulation and maintenance of banknotes and coins

The Banque de France issues banknotes and coins and maintains the quality of currency in circulation throughout France. The central bank acts as a wholesaler: its branches supply banks with new banknotes or recycled banknotes that have been sorted, authenticated and deemed fit for circulation. It signs distribution and processing agreements with private operators (see Appendix 2).

Key data	Volume (billions of banknotes)	Value (EUR billions)
Net banknote issuance	4.22	108.31
Net coin issuance	17.94	3.10
Banknotes withdrawn from Banque de France and IEDOM branches over the year	7.27	176.49
Banknotes deposited at Banque de France and IEDOM branches over the year	6.99	170.19
Banknotes sorted at the Banque de France and IEDOM in the year	6.94	ns

Chart 20
Growth of net banknote issuance in France

(%, 12-month average)



Source: Banque de France.

Box 21

The new €20 banknote and pilot €50 notes

The Banque de France began producing a new €20 note (ES2 20) in spring 2014. Paper manufacturing got underway in May, and the first notes were printed in June.

Technical difficulties encountered during the new bill's industrialisation phase, linked particularly to the enhanced security features, were gradually resolved, allowing the Bank to reach its productivity and quality targets.

ES2 20 production will continue in 2015, making the Banque de France the foremost printer of €20 notes in the Eurosystem. The new bill is scheduled to be released to the public at the end of 2015.

The Banque was also selected alongside several other Eurosystem central banks to take part in the pilot scheme for the ES2 50. For this, it will manufacture a first batch of 20 million banknotes, which will be used to fine-tune the industrial production process and to test the sorting machines. Mass production will begin after this round of technical tests.

Box 22

Launch of the Europa series €10 banknote on 23 September 2014

The €10 note occupies a bigger place in France than in other euro area countries:

- It is in wide demand, accounting for around 30% of notes distributed by ATMs.
- More than 200 million €10 notes leave the branches of the Banque de France every month. Overall, since 2002, the Bank has issued 39% of all €10 notes in the euro area. Accordingly, the launch of the €10 note from the new Europa series on 23 September 2014 was a major event for France.



Intense preparations to get hardware and software ready

The Banque de France upgraded all its equipment to handle the new €10 note. All participants in the chain were also involved in efforts to ready the 60,000 automated machines and other equipment used in France.

- The Banque de France organised 30 days of tests on its testing platform for equipment manufacturers and loaned them new banknotes from 14 January 2014, eight months ahead of the issue date, to allow them to update their software.
- It held regular briefing sessions on its premises with manufacturers and the main equipment users, which include banks, large retailers and cash-in-transit firms, to monitor their efforts over the months to ready their equipment for the new €10 note.

A major campaign to train professionals and inform the public

Around 28,000 professionals received training from Banque de France trainers on recognising the new note.

- Brochures presenting the new note were sent to 600,000 French retailers, and hundreds of thousands of flyers were distributed to Banque de France branches so that they could be handed out to the public three months before the launch.

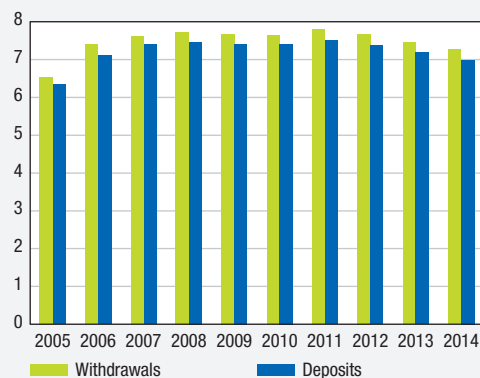
A successful launch

As one of the nine printers selected to manufacture the new €10 note, the Banque de France's printing works delivered 1.1 billion of the 4.5 billion banknotes, or 25% of the total volume forecast for the entire Eurosystem.

- All Banque de France branches were supplied ahead of time with the new €10 banknotes so that they could provide them to banks and ATMs across the country from 23 September 2014.
- The launch was a success thanks to the efforts of the entire chain. The new bill was soon widely distributed and by the end of December 2014 already accounted for around 40% of notes in circulation in France.

Chart 21
Flows of banknotes at Banque de France
and IEDOM branches

(billions of banknotes)



Source: Banque de France.

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 support banks in training staff responsible for the manual distribution of banknotes in bank branches. In 2014, the Banque de France trained 3,476 credit institution employees.

3| MEASURES TO SAFEGUARD FINANCIAL STABILITY

3|1 Prudential supervision and oversight of financial institutions

The ACPR issues the necessary legal and regulatory licences and authorisations to the entities under its supervision, and constantly monitors their financial situation and operating conditions. It is currently playing a key role in setting up the bank resolution system (Law of 26 July 2013). It exercises its responsibilities with respect to credit institutions within the framework of the banking union, either under the Single Resolution Mechanism (SRM) or under the Single Supervisory Mechanism (SSM).

Two major pieces of European legislation adopted in 2014 concerned the prevention and resolution of banking crises (see Box 23):

- Directive 2014/59/EC establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD), adopted in May 2014;

Box 23

BRRD adoption and establishment of the Single Resolution Mechanism

The Bank Recovery and Resolution Directive (BRRD), which entered into force on 1 January 2015, establishes a common approach to bank resolution in the 28 European Union countries and comprises two main aspects: on the one hand, the prevention of banking crises and, on the other, their resolution.

- On the prevention side, the BRRD requires banks to draw up a recovery plan. The resolution authority prepares a resolution plan for these same entities.
- If a bank runs into trouble, the directive allows the supervisory authority to take early intervention measures, which include requiring the institution to implement its recovery plan, dismissing senior managers or requesting changes to the bank's legal or operational structures.
- If the institution's situation continues to deteriorate, the resolution authority can draw on a set of resolution tools (sell the business, set up a bridge bank, separate assets and bail-in through conversion or cancellation of liabilities) to preserve critical functions (access to deposit accounts or payment services) and avoid contagion effects.

The SRM regulation entrusts a new European agency, the Single Resolution Board (SRB), with tasks relating to the resolution of cross-border credit institutions and groups established in the 19 euro area countries. The regulation also created a Single Resolution Fund (SRF), financed by bank contributions, that the SRB may draw on when resolving an institution.

- Regulation 806/2014 on the SRM, adopted in July 2014.

The ACPR is preparing the transposition into French law of this new European framework.

The adoption on 25 April 2014 of the SSM framework regulation was an essential step forward in strengthening the supervision of European banks and implied major changes to the ACPR's supervisory framework and missions.

Specifically, since 4 November 2014, the ECB has been in charge of:

- direct supervision of banking groups that are recognised as significant institutions (SIs), which make up the lion's share of the European banking system (123 groups at 1 January 2015);
- indirect supervision of less significant institutions (LSIs), for which responsibility lies primarily with national competent authorities.

The ACPR plays an extremely active role in monitoring large systemically important institutions as the staff in charge of supervising these groups now form part of joint prudential supervision teams, coordinated centrally by the ECB. These teams automatically include experts from the national competent authorities of the countries in which each banking group has a significant presence.

The ACPR also continues to have sole responsibility for a number of tasks relating to the entities under its supervision, including:

- anti-money laundering and counter-terrorist financing;
- supervision of business practices;
- consumer protection;
- implementation of the Law on the Separation of Banking Activities.

In 2014, the ACPR conducted a comprehensive assessment of bank balance sheets prior to implementation of the SSM (see Box 24).

- Phase one from January to August entailed a review of the quality of the assets of 13 French

Box 24

Key figures in the comprehensive assessment of bank balance sheets

- The assessment covered 13 French banking groups and two groups supervised by foreign authorities.
- Total assets of EUR 6.713 trillion, or 96.4% of the assets of the French banking system and 30% of the assets of euro area banks were included in the scope of the exercise.
- The 120 most significant loan portfolios were subject to an in-depth audit covering more than 50% of credit risks.
- 15,500 individual files were reviewed.
- 5,000 collateral positions were reassessed.
- 41 valuation models for complex products were reviewed.
- 51,500 man-days were devoted to the assessment at the ACPR, with the help of outside consultants.
- Up to 800 people were mobilised on the project at any one time.
- The assessment included an in-depth quality control (20% of the time allocated to the entire exercise).

banking groups and two groups supervised by foreign authorities.

- Phase two involved the execution of a complete round of stress tests.

This exercise, which was carried out on an unprecedented scale, used a strict, unified methodology established by the ECB.

The ECB published the results on 26 October 2014. These demonstrated the quality of the assets of French banks and their ability to stand up to severe stress tests.

The ACPR also represents France's prudential supervision structure at European and international insurance and banking gatherings, working closely with the Banque de France and the relevant government

Box 25

Preparing the market for Solvency II – 2014 results

The ACPR organised a comprehensive Solvency II preparation exercise in 2014. Affected French insurance entities were required to submit a set of prudential statements, a methodological memo, a qualitative questionnaire and an ORSA report.¹

Participation was extremely high, covering 99% of the life market and 89% of the non-life market.

Around 200 participants used the new XBRL transmission format already in place for credit institutions.

The results of the questionnaires pointed to further progress on all aspects of the new rules, although some areas, such as governance or reporting preparations, are less advanced than quantitative aspects.

The findings of the preparation exercises were presented to the insurance industry at a public conference on 18 December 2014.

¹ Own Risk and Solvency Assessment.

bodies. In this context, the ACPR plays an active part in defining supranational standards and strives to achieve financial stability objectives in France and in Europe.

Work done by the ACPR in 2014 to adapt the financial sector to European regulations covered:

- implementation in France of Basel III and CRR/CRD IV reporting;
- preparation of French insurance undertakings for Solvency II (see Box 25);

⁹ Regulation (EU) 260/2012, which came into effect on 31 March 2012, set 1 February 2014 as the date for the migration of credit transfers and direct debits to Single Euro Payments Area (SEPA) standards. However, Regulation (EU) 248/2014 adopted on 26 February 2014 introduced an additional six-month transitional period to reflect the pace of migration across Member States and to minimise the risks of disruption for laggard companies that had not yet migrated.

¹⁰ The 28 EU countries plus Monaco, Switzerland, Liechtenstein, Norway, Iceland and San Marino.

- the systemic aspect of insurance, with a list of nine insurers considered to be of global systemic importance, including AXA, a French company;
- efforts to establish a common framework for supervising groups, led by the International Association of Insurance Supervisors (IAIS);
- monitoring the introduction of resolution plans for the main insurance groups.

3|2 Security of means of payment and oversight of market infrastructures

Migration to SEPA payment instruments

On 1 August 2014, SEPA direct debits and credit transfers definitively replaced their national equivalents.⁹ The migration to SEPA went smoothly for users thanks in particular to the efforts of the Banque de France and other stakeholders. A number of national “niche” payment instruments still have to be migrated by 2016.

Following the euro cash changeover in 2002, implementation of SEPA credit transfers and direct debits is a further step towards deeper economic integration within Europe. The euro area now shares non-cash payment instruments with unified formats and operating rules, enabling companies and individuals to carry out domestic and cross-border credit transfers and direct debits in euros using the same procedures throughout the area.

At the end of 2014, SEPA included 34 countries.¹⁰

The end of the migration to SEPA credit transfers and direct debits does not signal the end of the SEPA project:

- Countries whose currency is not the euro have extra time (until 31 October 2016) to complete their

migration to SEPA credit transfers and direct debits for payments in euro.

- Several euro area countries still have until 1 February 2016 to organise the migration of niche products whose operating procedures are similar to those of credit transfers and direct debits. In France, this concerns interbank payment orders (TIPs) and electronic payment orders.
- The push towards integrated payments in Europe will continue through SEPA 2.0, with the goal of harmonising practices in cards and innovative payment instruments, such as mobile and contactless payments, instant payments and electronic invoicing.

3|3 Mitigation of systemic risks

The Banque de France makes a major contribution to discussions and initiatives to ensure financial stability:

- by conducting research into financial stability, to enhance its analytical capabilities and toolkit;
- internationally, by participating actively in work aimed at reducing the risks of financial instability, working within an increasingly harmonised regulatory framework (Financial Stability Board, Basel Committee, European Systemic Risk Board);
- within the Eurosystem, by taking part in decisions on ECB measures to support the euro area's exit from recession while limiting macrofinancial imbalances;
- at home, by sitting on the *Haut conseil de stabilité financière* (HCSF – High Council for Financial Stability),¹¹ proposing macroprudential policy measures and implementing them as required. Twice a year, the Banque de France produces a general assessment of financial risk that is discussed internally and presented to the HCSF. Furthermore, as part of the HCSF's work programme, the Bank prepares instruments (systemic risk buffer, countercyclical buffer, instruments to prevent property risk) needed to apply HCSF decisions.

The HCSF, which meets at least four times a year, defines and implements France's macroprudential policy, in an

- 1 issue of the *Financial Stability Review* devoted to macroprudential policies
- 2 reports examining the risks to the French financial system
- First 3 meetings of the HCSF
- 10 research projects launched on topics ranging from the analytical framework for macroprudential policy to market circuit breakers.

effort to limit systemic risk and safeguard financial stability. It was established, in particular, to meet the requirements set down by EU legislation (CRD IV and CRR)¹² and met for the first time in June 2014.

The HCSF has a number of macroprudential tools at its disposal, which were defined by the Law of 26 July 2013 on the Separation and Regulation of Banking Activities and specified¹³ in 2014. It can take three types of action, separately or in combination: communication, formulation of opinions/recommendations and binding decisions. The HCSF can only apply binding measures on the proposal of the Governor of the Banque de France, notably those imposing additional capital requirements on credit institutions.¹⁴

In 2014, the HCSF did not deem it necessary to impose any binding measures. Its main areas of focus were:

- changes in property prices;

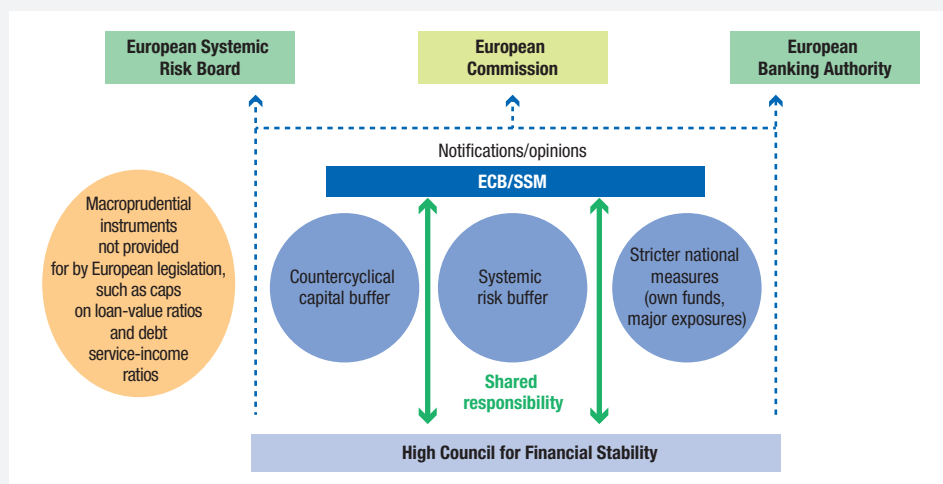
¹¹ Comprised of the French Minister of the Economy and Finance, the Governor of the Banque de France, the Vice-Chairman of the ACPR, the Chairman of the AMF, the Chairman of the Autorité des normes comptables (ANC – National Accounting Standards Authority), as well as three qualified persons. The French Treasury and the Banque de France are jointly responsible for running its secretariat.

¹² Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV) and Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR). The CRR/CRD IV package transposes the Basel III accords into EU law.

¹³ Order 2014-158 of 20 February 2014 and the Executive Order of 3 November 2014 on capital buffers for providers of banking services and investment firms other than portfolio management companies.

¹⁴ For more information about France's macroprudential strategy, see <http://www.tresor.economie.gouv.fr/hcsf>

Diagram
The HCSF's place in Europe's macroprudential framework




Source: Banque de France.

- excessive financial risk-taking in a low interest rate environment. The HCSF noted the importance for insurers of adjusting rates of return on life insurance policies in line with market conditions.

The HCSF's work includes close collaboration with European institutions and other national macroprudential authorities (see diagram). Where measures are provided for under European legislation,

the HCSF sends notification of its intention to implement to the European institutions, which issue an opinion on each decision. Within the framework of the SSM, the ECB is notified of all measures and may propose making them stricter. The HCSF also reviews the reciprocity conditions for measures taken by other macroprudential authorities of EU Member States or other States party to the European Economic Area Agreement.

Strategy



The Bank is engaged in a long-term 2020 strategic plan with three core objectives: assert its influence in France, Europe and the world; guarantee its financial independence; and prepare the Bank for 2020 and beyond.

Assert the Bank's influence in France, Europe and the world

Strengthen the Bank's position within the Eurosystem

- Be a driving force in key central bank activities

Play a central role in safeguarding financial stability

- Deliver financial supervision
- Contribute to international, European and national work on financial stability

Promote the smooth functioning of the economy

- Via the activities conducted on behalf of public authorities and the general public

Guarantee the Bank's financial independence

Strengthen the Bank's capital position

Ensure it can meet its pension liabilities

Tighten cost control

Prepare the Bank for 2020 and beyond

Be more efficient and better equipped

- Modernise the tools and resources used in our activities
- Rethink the way the Bank operates

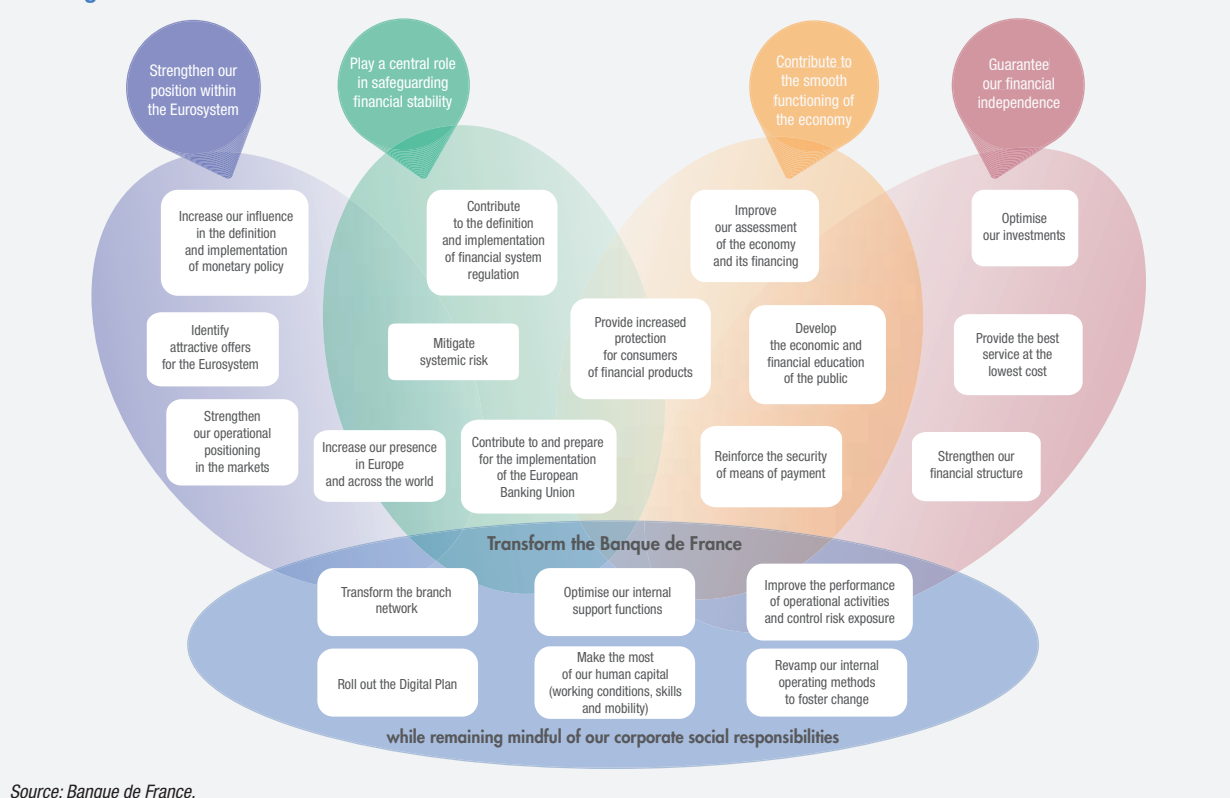
Improve relationships with customers and partners, who are themselves undergoing profound change

- Update the Bank's methods of interaction
- Improve its standing with both customers and partners

Ensure the successful delivery of the transformation plan

- A programme of actions and projects launched in 2012 and stretching to 2020
- All the main goals form part of the Bank's Strategic Roadmap

Building a Bank for the 2020s



1| ASSERT THE BANK'S INFLUENCE

The Banque de France has made it a strategic priority to maintain its influence in the field of monetary policy, financial stability and the financing of the economy. Among the notable steps it has taken to bring its ideas and analyses to the forefront are: the expansion of its economic research capacity, with the aim of playing a key role in the preparation of monetary policy; the implementation of major infrastructure projects to improve the security of means of payment; the provision of support to the Paris financial centre in the field of securitisation; the creation of a public banknote manufacturing division; and the delivery of prudential supervision and systemic risk mitigation.

its credibility and increase its influence in monetary policy and in the national and global economic debate.

- In 2010, the Bank took the decision to expand its research capabilities. This has led over the past few years to targeted hirings and to the launch of ambitious partnerships (with the Toulouse School of Economics, the Paris School of Economics and Sciences Po). The Bank has thus managed to boost its position in the international economic research rankings. The quality of its economic research was also recognised in the external evaluation conducted in 2013 and 2014 (see Box 26).

1|1 Developing top-quality economic research

- In today's information age, the Bank needs to provide incisive, cutting-edge research if it is to secure

1|2 Strengthening its leadership in the security of payment means and systems

The Banque de France has played an active role in major infrastructure projects, allowing it to showcase its expertise and assert its leadership both within the Eurosystem and in European financial markets.

Box 26

The quality of the Bank's economic research

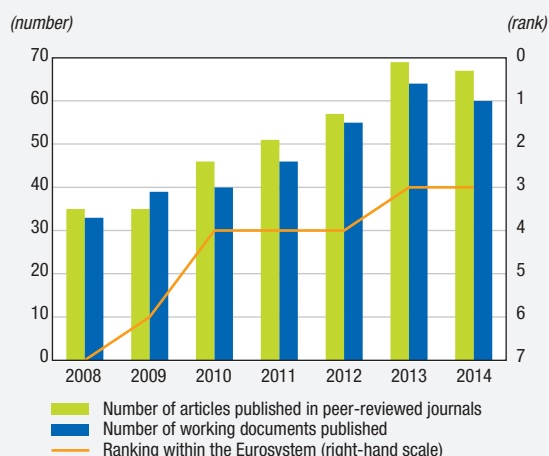
Like other central banks and international institutions, the Banque de France has its own in-house economic research department. It currently employs some 80 qualified researchers, and the standard of its publications can be illustrated by two significant achievements:

- The Banque de France ranks 3rd in the Eurosystem, 10th among global central banks and 10th among French institutions in the globally recognised RePEc rankings.
- The dramatic increase in the quantity and quality of the Bank's publications was recently highlighted in an external evaluation conducted by three independent and world-renowned professors.

The evaluation report, submitted in October 2014, also included 10 recommendations on three core themes: communication and research priorities; the valorisation of human capital; and data and forecasting models.

The report stressed that the high-quality work produced by the Bank's researchers has increased its influence both in the Eurosystem and in international policy forums.

Economic research



Source: Bolton (P.), Cecchetti (S. G.) and Reichlin (L.), External Evaluation of Research at the Banque de France, September 2014.

One notable example is its work with other national central banks to deliver the Target2 Securities project – the future cross-border settlement-delivery platform which will increase the integration of euro area capital markets and harmonise operating methods in the European financial sector.

The security of means of payment also represents a major challenge for the Bank at national level:

- Reducing card payment fraud is a core priority, especially given the rapid rise of mobile payments which require changes to existing security systems.
- As part of this goal, continuing efforts are needed to alert users and engage them in the fight against fraud, notably via the *Observatoire de la sécurité des cartes de paiement* (French Observatory for Payment Card Security).

Box 27

Target2 Securities

The Target2 Securities project (T2S) aims to create a single pan-European technical platform for the settlement of securities transactions. It will handle all settlement-delivery functions already carried out by central securities depositories (CSDs) and will be rolled out in phases from 22 June 2015.

The entry into force on 17 September 2014 of the European regulation on central securities depositories marks a major step forward in the harmonisation of post-trading services and simplification of cross-border transactions. T2S will provide the operational and technical framework to support this transition.

With regard to the IT infrastructure, the T2S platform developed by the Banque de France, Deutsche Bundesbank, Banca d'Italia and Banco d'Espana was delivered to the ECB for internal tests at the start of April 2014. Since 1 October 2014 it has been accessible to all future users: central securities depositories and national central banks can now validate the platform and test how it interacts with their own in-house systems.

1|3 Increasing the resilience and activities of the Paris financial centre

The Banque de France is actively involved in developing initiatives to promote the financing of economic participants in the euro area. As part of this work, it was instrumental in setting up a new securitisation vehicle for loans to SMEs, in conjunction with the Paris financial sector. The vehicle relies in part on the Banque de France's in-house company rating system (see Box 28), and adds to the existing range of market instruments available to channel financing to the real economy. Banks can use it to refinance

loans to non-financial and public sector companies at a reduced cost, while at the same time meeting strict criteria for legal security and the underlying loan quality.

1|4 Creating a public banknote manufacturing division for the Eurosystem

The Banque de France's unique expertise in banknote manufacturing makes it one of the Eurosystem's leading public-sector players in the field. It has extensive operating capacity, as demonstrated by the successful production of the new ES2-series €20 banknote (see previous chapter).

In 2014 the Eurosystem gave its agreement in principle for the Banque de France to set up a public banknote manufacturing division within the single currency bloc (see Box 29).

Box 28

Euro Secured Notes Issuer (ESNI)

In April 2014, with the active support of the Banque de France, the French banking industry created a new vehicle called Euro Secured Notes Issuer (ESNI) which can be used to securitise private credit claims without removing them from the originating bank's balance sheet.

- Set up by the main French banking groups, ESNI is open to all European and French banks.
- It issues securities backed exclusively by private loans eligible for Eurosystem refinancing operations.

The issuance of these securities makes the underlying loans highly liquid, thereby encouraging the market financing of businesses and local authorities. In 2014, the outstanding amount of securities issued under the scheme stood at EUR 3.65 billion.

ESNI meets high standards of security, simplicity and transparency, in order to ensure high-quality securitisation. As the underlying assets are assessed on a loan-by-loan basis using the Banque de France's company rating system and the banks' own internal assessment models, the scheme also goes towards meeting the G20 objective of reducing overreliance on rating agencies.

In light of this initiative, and on the proposal of the Banque de France, the Eurosystem looked into the possibility in 2014 of accepting ESNI-issued securities as collateral in its refinancing operations. A favourable decision is expected in 2015.

Box 29

Spin-off of the Bank's paper mill

In partnership with the other euro area central banks, the Banque de France has launched a project to spin off its Vic-le-Comte paper mill and incorporate it into a new Eurosystem public banknote manufacturing division, to be set up in compliance with EU law.

The project, which is currently being examined by the European Commission, is a strategic and large-scale initiative with three main goals:

- make the paper mill the leading manufacturer of banknote paper in the euro area;
- guarantee its financial viability;
- preserve the integrated production model which is one of the Bank's strengths within the Eurosystem.

The modernisation of the paper mill will require major investment on the part of the Bank, notably for the purchase of a new paper manufacturing machine and the construction of new premises. From a legal point of view, the project will consist in the creation of a new private corporation, owned jointly by the Banque de France and its partner central banks, with the Banque de France holding the majority of the capital.

1|5 Playing a central role in safeguarding financial stability

The Banque de France is pursuing a three-tiered strategy to consolidate its role in the supervision of financial institutions:

- assert the position and influence of the *Autorité de contrôle prudentiel et de résolution* (ACPR – French Prudential Supervision and Resolution Authority) within the future European banking union: the Bank and the ACPR are closely involved in preparations for the Single Supervisory Mechanism (SSM). They have also launched a major initiative to increase their influence within the new European structures (see Box 30);
- prepare for the implementation of the European Commission's new bank resolution structures (the Single Resolution Mechanism) and bolster the role of the ACPR's Resolution Directorate;

Box 30

Representation of the Banque de France at the ECB as part of the SSM

In total, 95 Banque de France staff have been recruited by the ECB as part of the SSM project. This figure accounts for 15% of the ECB's supervisors and includes 2 of the ECB's total of 7 deputy directors general and 5 of its 28 departmental heads.

The Banque de France's representation at the ECB has thus tripled in the space of just a year; moreover, with some 100 positions still to be filled, its presence is likely to increase even further.

The rise in the Bank's influence is largely the result of determined efforts in 2013 to alert staff to job openings at the ECB and build up a broad pool of potential candidates.

- Throughout the year, potential candidates were provided with regular updates on the recruitment process.
- In addition to targeted training, candidates received ongoing guidance on all aspects of the process (selection process, terms of employment at the ECB, moving to Frankfurt, etc.).

- be instrumental in the negotiation and implementation of new prudential regulations, notably Solvency II for insurers.

Alongside its supervisory mission, the Banque de France is actively engaged in the mitigation of systemic risk. It intends to continue adding to its actions and proposals in this area, via three main channels:

- reinforcement of the Bank's research and analysis capabilities in the field of financial stability, to ensure it has adequate decision-making tools and can defend its positions at international policy forums;
- ongoing assessment of financial sector risks and development of macroprudential instruments to counter these threats;
- intervention by the Bank's Governor at meetings of the *Haut Conseil de stabilité financière* (HCSF – French High Council for Financial Stability) and as a fully-fledged member of international and European bodies (Financial Stability Board, European Systemic Risk Board and ECB Governing Council).



2| GUARANTEE THE BANK'S FINANCIAL INDEPENDENCE

One of the Bank's major challenges for the years ahead is to strengthen its financial structure to ensure it has the means to carry through its transformation plan. There are three main focuses of action:

- increasing the Bank's capital, particularly its fund for general risks, which is designed to cover the risk of adverse changes in the value of its balance sheet (the fund was increased by EUR 590 million in 2014, after a rise of EUR 1.25 billion in 2013);
- continuing to ensure the bank can meet its pensions liabilities, with the contribution of an additional EUR 725 million of funding in 2014;
- tightening cost control to be able to continue with the major transformation projects underway. As part of this third objective, the Bank recently improved the steering of its IT projects (for instance, the systematic use of a business case for each new project) to better identify those initiatives that are really necessary and limit the rise in IT expenditure.

3| PREPARE THE BANK FOR 2020 AND BEYOND

3|1 Transformation challenges

The transformation plan comprises actions targeting all the Bank's fields of activity and designed to streamline its organisation and methods so it can better meet the challenges of the 2020s. The actions can be broken down into three main focuses: modernising the branch network; optimising the support functions; and the Digital Plan.

The plan to modernise the branch network has three objectives

- Improve service quality for the Bank's counterparties and customers.

- Improve staff working conditions.
- Reduce the cost of the Bank's operations for the broader community.

These can be split into two main focuses: the industrialisation of cash management activities and the modernisation of the Bank's service activities.

Industrialisation of cash management activities

The Bank's network of cash centres is to be completely revamped, with the introduction of increased automation and the concentration of processing at those sites with the highest volumes. The project relies on the use of standardised, high-capacity sorting equipment and optimised internal logistics, which will mean changing existing working methods at the Bank's sorting centres.

The main stages completed since 2012 are:

- closure of 11 non-viable cash centres which were handling very small volumes;
- selection of next-generation sorting equipment;
- preparations for the creation of two new currency management centres (see Box 31);
- identification of the Bank's IT and video-surveillance needs.

The new management methods will initially be introduced as pilot experiments to ensure close collaboration with cash centre staff. The first experiments are scheduled for 2015.

Modernisation of management methods in service activities

This will focus on three core areas (see Box 32):

- improving the efficiency and quality of the services provided to individual and business customers;
- using the full range of communication tools to facilitate dialogue and external relations;

Box 31

Construction of the new currency management centres

As part of the project to transform the cash management network by 2020, the Bank plans to open two new currency management centres.

- The first centre, comprising 5,100 square metres of space, is located to the south of Lille and will group together the activities of the existing Roubaix, Calais and Arras cash centres.
- The second site, covering 16,300 square metres, will be located near Paris in the town of La Courneuve (*département* of Seine-Saint-Denis). It will group together the activities currently carried out at the institutional cash centre at the Bank's Paris headquarters and those of the other cash centres in the Paris region (Saint-Denis, Nanterre, Créteil and Marne-la-Vallée). Together, these sites account for around a quarter of total national flows. The Cash Management Directorate will also be housed at the site, in a specific building dedicated to service activities.
- The new centres will be highly automated and will use technology of the highest international standards to optimise output and improve working conditions. The building architecture, functioning of the premises and landscape have all been designed to the strictest environmental standards (French *Haute Qualité Environnementale* or HQE certification).
- Work on the centre in the Nord region began in 2014 and the premises are scheduled for delivery, secure and fully equipped, at the end of 2015. The site will become operational in 2016, while the centre in La Courneuve is due to start operating in 2018.

• increasing expertise and optimising management methods. Shared processing centres will be set up to pool activities related to business customers and over-indebtedness (at least one centre per region). The Bank will also set up local front-office sites to handle contacts with businesses, individuals and local authorities.

Box 32

Major projects in service activities

These projects mainly involve the electronification and simplification of file handling for the company ratings and over-indebtedness systems.

- The projects come under the umbrella of the Bank's overall Digital Plan, which is designed to equip the operational functions with a state-of-the-art IT system and the highest standards of technology. The IT overhaul should also facilitate the implementation of the new functional and geographical structure for the Bank's future branch network. Both programmes will be rolled out over the period 2015-2020.
- Optimising the geographical structure of the network will also mean taking advantage of the full range of communication tools in order to improve the quality of service: the management and monitoring of over-indebtedness cases will be simplified and made more direct; interaction with businesses will be made largely internet-based; and all client-facing functions will be reworked into an integrated "multi-channel" approach.

Box 33

The Paris-La Défense site

As part of the transformation of the Île-de-France branch network, a number of existing sites are being grouped together on a single premises at La Défense in Paris.

- The new site will house the regional management and the cross-functional support services, and will take over all or part of the activities currently carried out by entities in central or suburban Paris and which are scheduled for closure or are to be turned into specialist sites or "front offices".
- It will comprise 5,000 square metres of floor space distributed over three floors at the Tour EQHO at La Défense. Some 300 staff will eventually work there. The regional management is currently preparing for the opening of the new branch, which is scheduled for early 2016.



Optimising the support functions

The Banque de France has made it a key priority to streamline its support functions in order to make them more reliable and efficient. There are three main focuses for action:

- increased automation (to reduce the costs associated with manual processing) and electronification (to eliminate a large number of processes and reduce paper archiving);
- increased pooling of needs to build up higher volumes of activity that can be managed more efficiently;
- outsourcing of activities where this offers the best value for money.

The Digital Plan

The Digital Plan forms an integral part of the Bank's overall transformation plan and comprises projects to help modernise the network and optimise the support or operational functions:

- electronification and enhancement of relationships with partners and customers via increased internet access (including mobile phone access);
- improvements in the staff working environment through upgrades to existing tools and the creation of new tools such as the Agora enterprise social network launched in 2014;
- incorporation of standardised and shared components into the Bank's information system.

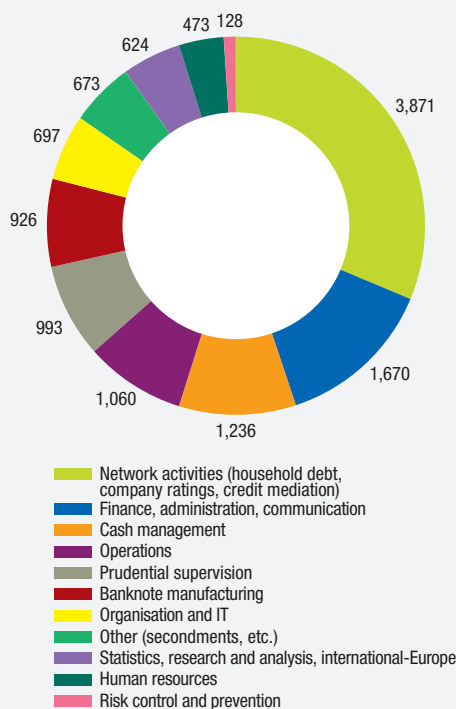
3|2 Human resources policy

Some 48.4% of staff will be affected in central services, 44.1% in the branch network and 7.5% at banknote manufacturing sites.

The Bank is being hit by a wave of staff retirements just as it is seeking to implement its transformation plan. To counter these difficulties, it has stepped up

Chart 22
Breakdown of staff by activity

(average monthly full-time equivalent employees over 2014)



Source: Banque de France.

the number of hirings and is providing substantial training to existing staff.

Change in headcount and in recruitment

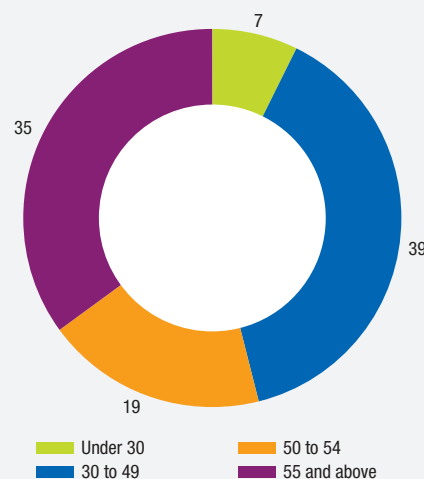
Total headcount at the Bank has fallen by 16.6% over the past 10 years and is continuing to decline. At 31 December 2014, there were 12,438 full-time equivalent employees, of whom 84.2% were tenured staff, 15.5% contract staff and 0.3% public sector employees.

- The decline in headcount stems from the Bank's particular demographic structure – 54% of its staff are aged 50 and above. In 2014, 650 staff took retirement and a further 4,300 are expected to follow suit between 2015 and 2020. Not all of these departures will be replaced like-for-like, as they are coinciding with efforts to streamline the Bank's business operations.

Chart 23
Age breakdown of Bank staff

(paid full-time equivalent employees at 31 December 2014)

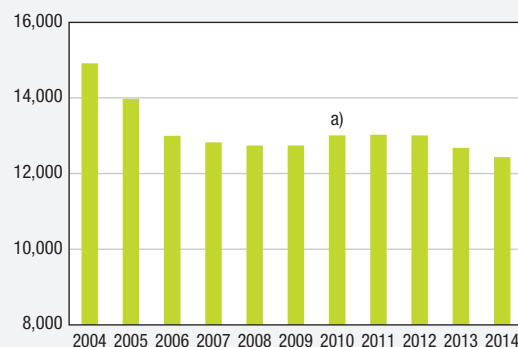
(%)



Source: Banque de France.

Chart 24
Change in total number of staff

(paid full-time equivalent employees at 31 December 2014)



a) 2010 includes the incorporation of the ACAM as part of the creation of the Autorité de contrôle prudentiel.

Source: Banque de France.

- Nonetheless, the Banque de France will still need to recruit at a much sharper rate than in the last 10 years to keep pace with the rise in retirements. Attrition is expected to accelerate as of 2017 or 2018, but the Bank will hire replacements in advance of these departures to smooth its recruitment flow. By doing so, it will also facilitate knowledge transfer and the

Box 34

Recruitment policy

In response to the growing number of retirements, the Bank has been pursuing an active recruitment policy:

- There were 550 recruitments in 2014 and a further 600 are expected in 2015. The rise in the share of professionals among new hires reflects the growing need for highly qualified staff, particularly those with scientific backgrounds for banking and insurance supervision, statistical analysis, economics and IT.
- The managerial-level exam has been adapted to take into account these changes: from the first half of 2015 onwards, it will include a section specifically designed for candidates with a scientific background.
- The Bank has taken steps to improve its image as an employer. For the past three years it has featured in the top 100 in the Universum Most Attractive Employer rankings for business school students (58th in 2014), and it recently came 92nd in the rankings for engineering students.
- The number of internships and work-study programmes at the Bank keeps on rising. These allow students to become more familiar with the Bank's activities and find out more about the career opportunities on offer. In 2014, 205 internship contracts and 99 work-study contracts were signed.
- To attract candidates, the Banque de France holds open days for undergraduates and organises an economic forum in partnership with the Essec business school. It also holds conferences and presentations on its activities on university campuses, as well as taking part in job fairs.

Box 35

Training and change management

To accompany the reorganisation of its cash management and service activities, the Bank has launched two major training initiatives targeted at network staff. These have four main focuses:

- guidance for those delivering the change process: managerial staff (change management, team building, one-on-one or team coaching, workshops to share best practices), HR staff (workshops to share best practices, how to interview job candidates), mentors;
- guidance and training for staff who will need to change department and/or activity (introduction to the Bank's other activities, help preparing a career plan, skills assessment, new job training);
- mentoring and work-study programmes;
- knowledge transfer and establishment of professional retraining plans.

- **Training for cash management activities:**
130 beneficiaries,
2,100 hours of training.
- **Training for service activities:**
1,040 beneficiaries,
10,400 hours of training.



Box 36

Transforming working conditions in the network

The improvement of staff working conditions is one of the core objectives of the 2020 network transformation project. Making full use of available technologies, all units will be modernised by the start of the next decade and brought up to the required standards of efficiency.

The projects to transform the cash centres include the optimisation of logistics and banknote sorting functions, and the installation of new equipment to cut the weight load handled by staff by more than 60%. In service activities, the projects will focus on ways to make the information systems more user friendly and on revamping customer reception areas.

gradual reorganisation of its network (see Box 34 on recruitment policy).

Change management

No transformation of the Bank would be complete without taking into account its human capital. Only by doing so can the Bank be sure of achieving a sustainable transition that meets its commitments and the aspirations of its staff.

To better understand the impacts of the transformation, a dedicated platform has been set up to:

- provide managers with a shared framework of reference;
- enhance dialogue with staff and increase their engagement in the process;
- provide access to internal and external resources that can be used to ease the transition for staff.

Governance



1| EXECUTIVE BODIES

1|1 Governor and Deputy Governors

The Governor, assisted by two Deputy Governors, is responsible for the management of the Banque de France. 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.

The Governor is also Chairman of the *Autorité de contrôle prudentiel et de résolution* (ACPR – the Prudential Supervisory and Resolution Authority), the Banking Mediation Committee, the Observatory for Payment Card Security, the Observatory for Regulated Savings and the Observatory for Banking Inclusion. He is also a member of the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability).



Christian Noyer
Governor



Anne Le Lorier
First Deputy Governor

Robert Ophèle
Second Deputy Governor

NB: The permanent features of governance bodies and audit and control functions are described in the 2013 Annual Report:
<https://www.banque-france.fr/publications/rapport-dactivite-de-la-banque-de-france.html>

MEMBERS OF THE EXECUTIVE COMMITTEE (AT 13 MARCH 2015)

2 – **Michel Cardona**
Deputy Secretary General,
and **Jacques Milleret**
Director Legal Affairs



1 – **Nathalie Aufauvre**
Secretary General



3 – **Frédéric Peyret**
Director General
Human Resources



4 – **Didier Elbaum**
Comptroller General



5 – **Denis Beau**
Director General Operations



6

6 – Marc-Olivier Strauss-Kahn
Director General Economics
and International Relations



7

7 – Nicolas de Sèze
Director General of the IEDOM and the IEOM



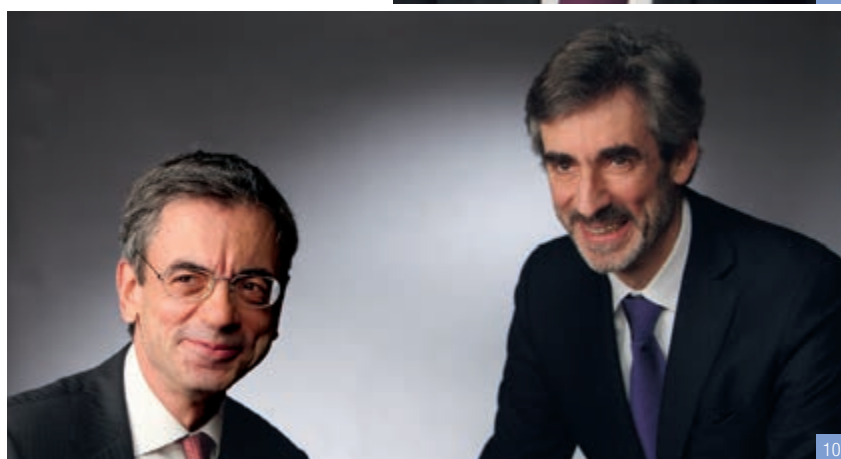
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8 – Édouard Fernandez-Bollo
Secretary General of the ACPR



9

9 – Érick Lacourrège
Director General Banknote Manufacturing



10

10 – Jacques Fournier
Director General Statistics,
and **Gilles Vaysset**
Director General Cash Management and Branch Network Activities

1|2 The Executive Committee

The Executive Committee is at the heart of the operational functioning of the Banque de France. 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. 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.

1|3 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, chaired by the Governor, advises the latter on the Bank's portfolio investment strategy (both for euro and foreign currency denominated portfolios).

The Risk Committee, chaired by a Deputy Governor, sets out the risk framework under which market operations are conducted for the Bank's portfolios as a whole.

The Transformation Committee, chaired by a Deputy Governor, manages the implementation of the Bank's transformation plan. It ensures compliance with the objectives, budgets and schedules of the projects comprising the transformation plan.

Three other committees placed under the authority of the Secretary General: the IT Strategy Group, the Real Estate Strategy Group, and the Procurement Strategy Group.

1|4 The branch network and the College of Regional Managers

The Banque de France network currently has 96 departmental branches (including 22 regional

head offices), to which are linked 21 economic centres and 7 household debt centres. Services related to currency management are carried out in 56 of these establishments and 3 specialised centres.⁷

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), 75 customer service and information offices have been opened in towns where the Banque de France has neither an economic centre nor a centre for processing overindebtedness cases.

2| DECISION-MAKING AND CONTROL BODIES

2|1 The General Council

The General Council performs the main functions of a board of directors. It deals with issues relating to the management of activities that are not within the remit of the ESCB.

At 24 March 2015 the General Council was made up of the Governor, the Deputy Governors, and Philippe Auberger, Agnès Benassy-Quéré, Catherine Barthélemy, François Calvarin, Élisabeth Ducottet, Michel Felce, representative of Banque de France staff, Marianne Laigneau, Delphine d'Amarzit, censor, and Corso Bavagnoli, alternate censor.

In 2014 the General Council met nine times.

2|2 The Audit Committee

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.

⁷ In 2014, the second year of the 2013-2015 cash centre transformation plan, 7 sites were closed.

The Banque de France network at end-2014



Bernard Maris, a member of the General Council of the Banque de France, was assassinated in the terrorist attack on the newspaper *Charlie Hebdo* on 7 January 2015.

He was a professor of international economics at the Institut d'Études Politiques de Toulouse and at the University of Paris VIII. He was the author of many books, and he worked as a journalist at *Charlie Hebdo* as of 1992 under the pen name Uncle Bernard. He was appointed member of the General Council of the Banque de France in December 2011 by the President of the Senate. He was also a member of the Scientific Council of the Banque de France's Historical Research Unit.

When his death was announced, Christian Noyer published the following statement: "It is a cowardly and barbaric attack against the freedom of the press and those who stand for it. People with convictions including our friend and colleague Bernard Maris were killed in it. Bernard Maris was a man of heart, culture and great tolerance. He will be sorely missed."



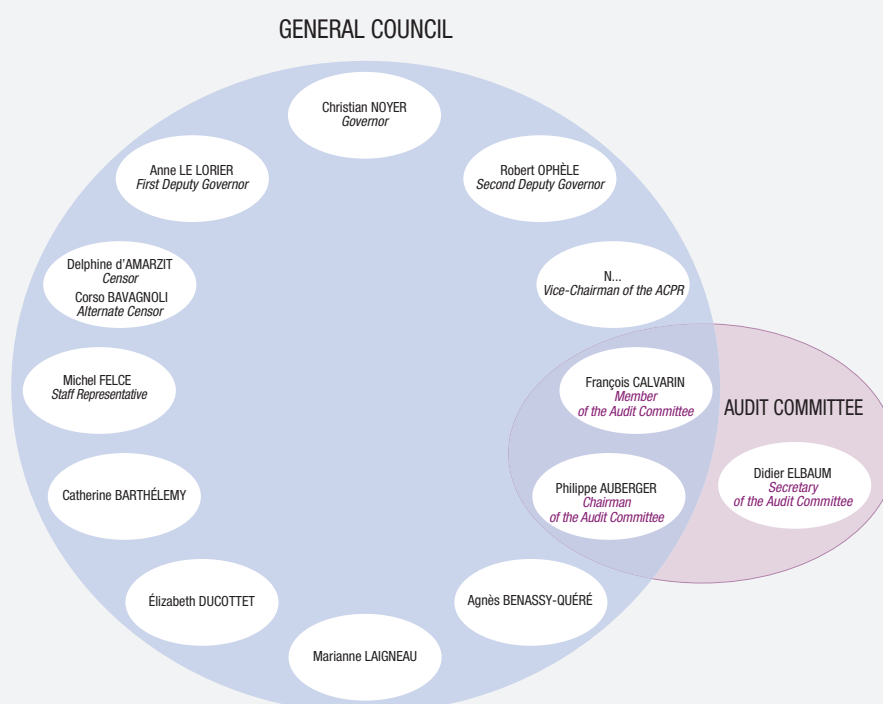
Crédit photo : Sipa Press

In 2014 the Audit Committee met five times. It focused on the following areas:

- financial reporting: the Bank's auditors presented their report on the 2013 annual accounts to the members of the Audit Committee;

- internal auditing: the Audit Committee took note of the main conclusions of the 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 2015;

The General Council and the Audit Committee



- internal control and risk management: the Audit Committee took note of the latest changes to the Bank's risk management system, the annual report on the effectiveness of its internal control procedures, and the main findings of the procedure for identifying operational risks, in particular those related to market operations.

2|3 Compensation Committee

The Compensation Committee is responsible for reviewing the remuneration of the Bank's senior management.

3| INTERNAL AUDIT AND RISK MANAGEMENT

3|1 Internal Audit

All of the Bank's units, processes and activities fall within the remit of the Internal Audit. It conducts its missions at the Bank's head offices, at the regional administrative centres and throughout the branch network.

The Internal Audit establishes its annual work programme on the basis of risk priorities. Its primary mission is to oversee the implementation and the effectiveness of management, risk control and internal audit processes within the Bank, while ensuring that its operations are conducted to the highest standard and providing advice on improvements to be made. By helping the Bank to reach its objectives, the Internal Audit contributes to enhancing its corporate governance.

With regard to both the organisation and the conduct of audit missions, the Banque de France's Internal Audit complies with the international standards for the professional practice of internal auditing as defined by the Institute of Internal Auditors (IIA). An external evaluation carried out in 2013 confirmed that it complied with these standards.

The work of the Internal Audit is also carried out in accordance with ESCB guidelines. 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 IAC submits the findings of its work to the Audit Committee and the ECB Governing Council.

3|2 Risk management

Since 2006, the Banque de France has been using an operational risk control approach with a twofold 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 among those in place in the ESCB and those recommended by the Basel Committee in this area.

Corporate social responsibility



The Banque de France has launched an ambitious business transformation project. It is carrying out this transformation in accordance with its social commitments which are consistent with the institution's values.

By acting within the framework of its corporate social responsibility policy, the Bank reaffirms its intention to respect all parties involved, both internally (its staff) and externally (its partners and clients).

The Bank's commitments to society express themselves most particularly in the institution's relations with its stakeholders:

- developing economic and financial education for the public;
- implementing citizen actions in the fields of professional integration and training of social workers;
- promoting a sponsorship policy in the areas of economic research, solidarity and culture;

Box 38

The values of the Banque de France

Independence and accountability

Carry out our tasks in an impartial, ethical and neutral manner, in a spirit of transparency vis-à-vis French citizens and their representatives.

Service mindedness and efficiency

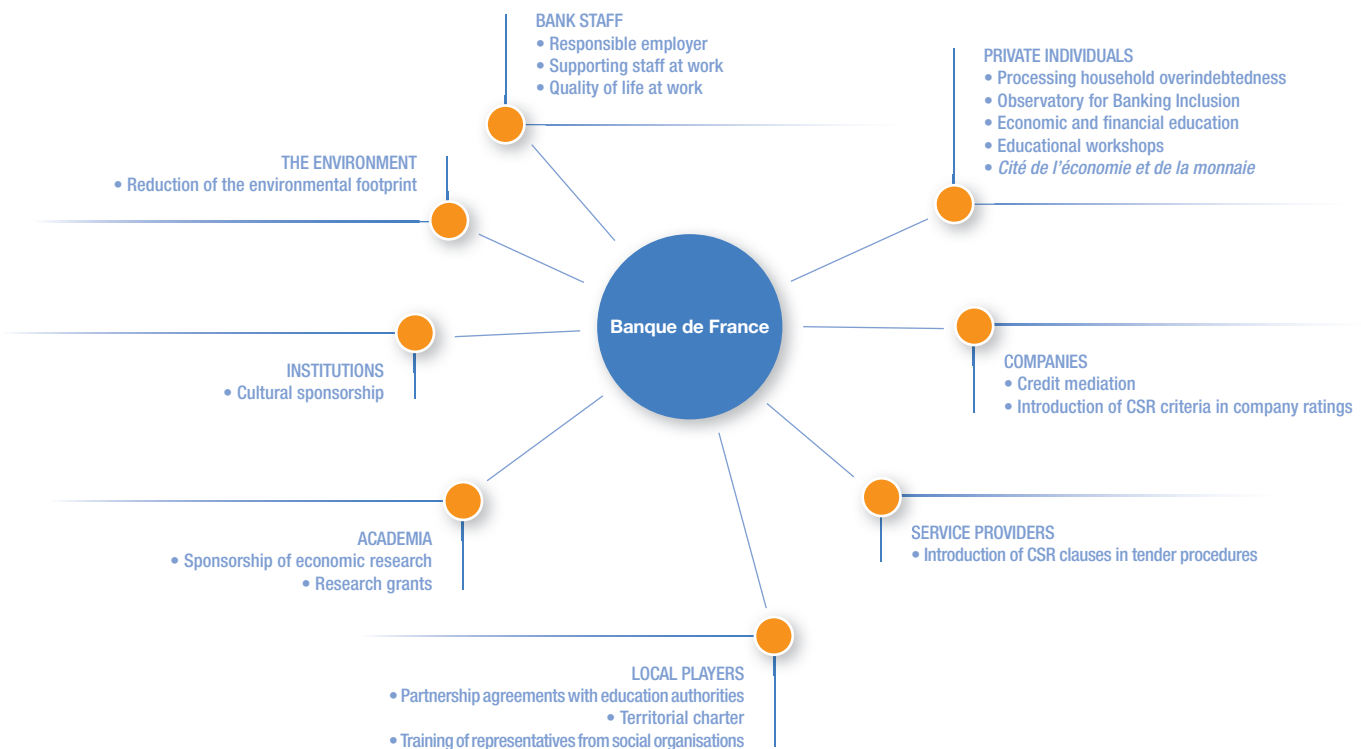
Seek, in all our actions, to meet the general interest and to satisfy our partners by conducting our activities competently and rigorously in order to provide the best service at the lowest cost.

Reliability and adaptability

Promote quality, professionalism and expertise by focusing on knowledge diversity and skills development and by encouraging the periodical review of our methods of functioning.

Openness and cooperation

Act at the national, European and international level in a spirit of constructive cooperation.



“Corporate social responsibility is a comprehensive and iterative process for the Bank attuned to its partners that should result in a complete review of its tasks.”
Christian Noyer, ICAA-EABH Symposium, October 2008.

- being a responsible employer by promoting diversity, combating discrimination and ensuring a healthy and fair work environment;
- acting on all environmental impacts by improving the energy efficiency of the real estate stock and reducing greenhouse gas (GHG) emissions from travel.

1| ECONOMIC AND FINANCIAL EDUCATION FOR THE PUBLIC

Developing its action in the field of economic and financial education has become one of the Bank's strategic priorities. In 2014, it pursued its initiatives aimed at teachers, schoolchildren and the general public.

1|1 The *Cité de l'économie et de la monnaie*

The future *Cité de l'économie et de la monnaie* (City of Economics and Money) which is scheduled to open at the start of 2018, aims to improve the public's knowledge of economics, particularly among young people. It will present the main concepts and issues of economics and money in an interactive form.

Several public and educational events, often intended for young people, took place in 2014, including:

- the third *Rencontres des sciences économiques et sociales* (Economic and Social Science Conference), organised in partnership with the Paris education authority, on the subject of “Businesses and production”;

Box 39

A photographic illustration of the economy at the JECO

For the second year running, the *Cité de l'économie* set up, in the framework of the *Journées de l'économie* (JECO), a unique educational project in partnership with the Lyon education authority. This project, on the theme of the 2014 JECO (“Does social progress have a future?”), involved 183 junior and senior year high school students in the Lyon region.

In order to prepare this event, the students worked with their teachers and a professional photographer. The photographs were exhibited at the venue of the JECO and were put together in an album available for consultation online. Their work also served as the basis for the fourth conference organised by the *Cité de l'économie* at the JECO, which was designed to create a dialogue between students and participants, including economists

This action is part of the research conducted by the *Cité de l'économie* on the means of making the economy attractive and accessible to the widest audience, by promoting an exchange of views, by organising interdisciplinary events between economics and the arts and by directly involving young people.



Photo credit: Banque de France – Lycée Condorcet, Saint-Priest

- a workshop and a conference at the *Rendez-vous de l'histoire* in Blois;
- an exhibition on the banknotes created by Pierrette Lambert;

- a diversified offer at the *Journées de l'économie* conference in Lyon.

In addition, the *Cité de l'économie* presented its project at various events specifically aimed at education and mediation professionals:

- a seminar on informal education at the *Conservatoire national des arts et métiers*;
- a conference on economics in museums at the annual meeting of the European Network of Science Centres and Museums;
- speeches at the OECD conference on financial education for youth;
- a workshop and a conference at the 2014 congress of the Association of European Economics Education.

The exhibition "All you need to know about economics" held at the *Cité des sciences et de l'industrie* in Paris up until early January 2014 will be touring France in 2015 and 2016.

The educational offer already online has been regularly enriched (notably with videos and games), both on the website of the *Cité de l'économie* (www.citedeleconomie.fr) and via its social networks.

The *Cité de l'économie* has, among others, posted on its website the interactive tools "See the world differently" and "Get data to talk", as well as a new enhanced version of its timeline "10,000 years of economy."

In 2014, two new partnerships were signed, one with the museum of the *Arts et Métiers*, the other with the *Institut national de l'audiovisuel* (INA), to contribute to the development and dissemination of French heritage, in particular that related to economic history.

1|2 Partnerships with education authorities and educational workshops

Partnerships with education authorities

Following the cooperation agreement signed in 2013 by the Bank's regional directorate for Auvergne, the regional directorates for Aquitaine and Limousin signed an agreement with the education authorities of Bordeaux and Limoges in 2014. That same year, twelve other regional managers launched similar initiatives.

These agreements focus on the continuing education of teachers and, to a lesser extent, on direct interventions

Box 40

Conferences aimed at teachers in Auvergne

In the framework of the agreement signed in 2013 with the Clermont-Ferrand education authority, the Bank's regional directorate for Auvergne organised a series of information conferences for a hundred high school teachers in 2014. These conferences which gave rise to a large number of exchanges with the participants focused on three main themes:

- the review of the French economy as presented in the annual letter of the Banque de France Governor to the President of the French Republic and the ensuing avenues for reform;
- the regulation policies implemented since 2008 (Basel III, monetary policies, global imbalances, etc.)
- the history of exchange rates from the end of the Bretton Woods system to the euro.

This agreement also gave rise to several conferences on topical subjects held by the regional manager and the departmental directors for several hundreds of students from preparatory classes for *grandes écoles* and students on vocational training courses.

While similar initiatives are being set up in several other regions, these workshops and conferences contribute to strengthening the Bank's citizen action in favour of society.

among senior high school students and students on vocational training courses.

Educational workshops

These educational workshops, run by Banque de France experts and organised on the Bank's premises, are aimed at schools, universities and associations. Primary and secondary school students, students on vocational training courses, and future banking, accounting and management professionals are thus invited to attend free interactive workshops which explain in a lively and concrete manner the role of the Bank and other issues such as money, overindebtedness, inflation and the Eurosystem. In 2014, a total of 1,500 participants of all ages attended fifty workshops.

2| PROMOTING PROFESSIONAL INTEGRATION AND TRAINING OF SOCIAL WORKERS

2|1 Contributing to young people's integration into the workforce

Partnership agreements in favour of high school students

The aim of these partnership agreements is to welcome and support young people from disadvantaged backgrounds. The three-year partnership agreement with the Créteil education authority (2010-2013) was renewed at end-2013 and extended to include students taking vocational training courses. The initiatives launched with two high schools continued with the aim of enhancing the employability of young people from Priority Education Areas (ZEP). These involved:

- extending the teaching sessions on methodology to high school students and BTS students. Thus, 243 students attended these sessions in 2014 (compared with 156 in 2013);
- renewing the sponsorship by voluntary Banque de France staff (33 sponsors, compared with 26 in September 2013);

- presenting economic topics and/or the Bank's missions (186 high school students attended these workshops in 2014, compared with 129 last year);

- the increased participation of Bank professionals in panels to help prepare students for oral exams and in mock job or internship interviews;

- organising internships for students on "Accounting" and "Organisation management" BTS courses in partner schools;

- offering one-week intensive English courses for junior year high school students at the Banque de France.

Scalable and effective partnerships

Since the introduction of the framework in 2010, the Bank has stepped up its actions to facilitate young people's entry into the workforce: in addition to providing advice on CVs, covering letters and job interviews, the Bank introduced several new training sessions, notably on good practices on the Internet and social networks as well as know-how (teamwork and individual reporting).

The initiatives carried out by Banque de France staff in high schools were renewed in 2014 and will take the form of conference cycles in the coming years.

The track record for these past four years is positive. Since the partnerships with the two high schools Samuel de Champlain in Chennevières-sur-Marne and Jean Moulin in Torcy were set up, the two headmasters have welcomed the positive developments in *baccalauréat* results for the STMG (management science) section: 95% of students passed their exam in 2014, i.e. 10% more than the average for the other schools under the Créteil education authority. Sponsoring also turned out to be effective as 100% of sponsees passed their exam in June 2014.

A lasting partnership firmly established in the economic and educational landscape

This partnership has gradually become an integral part of the educational landscape. The sponsorship programme is now being presented to new Bank staff.

Those who commit themselves to sponsor a student may now include their sponsor function in their job description.

High schools are also keen to promote this partnership, in particular during the open days that they organise and in which they systematically involve Bank representatives.

Local initiatives of partnership agreements with other education authorities or other schools are developing (Paris, Poitiers) with the support of the pilot team that initially worked with the Creteil education authority.

2|2 Training social workers

Following on from its consumer protection mission, the Banque de France contributes to the training of social workers and to the information of the public by developing partnerships with the institutional players involved in consumer protection and the fight against social exclusion.

In 2014, the Banque de France stepped up its training activities by inviting 150 social workers to find out about the procedures for processing household debt files. The Bank hosted close to 800 talks with the aim of keeping social workers informed of regulatory developments and providing them with training in procedures for handling excessive debt. In total, roughly 13,000 social workers benefited from this training.

The agreement between the Banque de France and the *Union nationale des centres communaux d'action sociale* (National Union of Social Action Community Centres) has contributed to reinforcing the Bank's actions in favour of social workers in charge of assisting overindebted or vulnerable households.

Throughout 2014, the partnership with the *Crédit municipal de Paris* enabled the Bank to assist overindebted households in implementing the solution decided on by the Paris household debt commission.

Lastly, the Banque de France joined the association *Point d'information médiation multiservices* of the



Grand Longwy to improve the conditions for receiving the public at the information centre that it manages in the Lorraine region.

3| SPONSORSHIP POLICY

For many years, the Banque de France has set up partnership and sponsorship programmes, which constitute a coherent policy in line with its missions. It focuses on the economic and social spheres. The first area involves support for research but also teaching activities and activities related to the business world, while the second includes solidarity and culture.

Sponsorship of economic research has been the central pillar of the Banque de France's sponsorship activities in recent years. As part of its drive to develop its own research activities, the Bank has established strong partnerships with three research centres in the framework of three-year support programmes: the Paris School of Economics (PSE), the Toulouse School of Economics (TSE) and the *Fondation nationale des*

sciences politiques. The Banque de France also continues to support the Banque de France Foundation. It is also worth noting that, in addition to economic research, the *Mission historique* of the Banque de France pursues its historical research based on the study of archives. In 2014, it thus launched a new project on the history of the franc zone in cooperation with the University of Rouen.

The Bank's flagship initiative in the field of **solidarity sponsorship** is its partnership with the Foundation Hôpitaux de Paris-Hôpitaux de France. Since 1992, Banque de France staff have taken on the task of counting and sorting all the coins collected thanks to the *Pièces jaunes* campaign. The Banque de France is also a long-standing partner of *Restos du coeur*.

As regards **cultural sponsorship**, the Banque de France has chosen to help France's major governmental institutions in acquiring cultural assets classified as national treasures or works of major interest from a heritage point of view. In 2014, it thus enabled the *musée de Cluny - musée national*

du Moyen Âge to add to its collection an ivory panel from Trebizond (leaf of a diptych) of the first half of the sixth century. The Bank will pursue this policy in 2015.

The Banque de France has started to restore the decorations of the *Chancellerie d'Orléans* with a view to subsequently reinstalling them in the Paris site of the *Archives nationales*. The work is scheduled to be completed in 2015. The Bank also responds to ad hoc requests from museums regarding the loan of works in its possession. The painting by Fragonard, *La fête à Saint-Cloud*, was lent to the *musée Jacquemart-André* in the framework of the exhibition "*De Watteau à Fragonard - Les fêtes galantes*", while two Boulle barometers-thermometers were showcased in Versailles during the exhibition "*18th Century, Birth of Design, Furniture Masterpieces 1650-1789*".

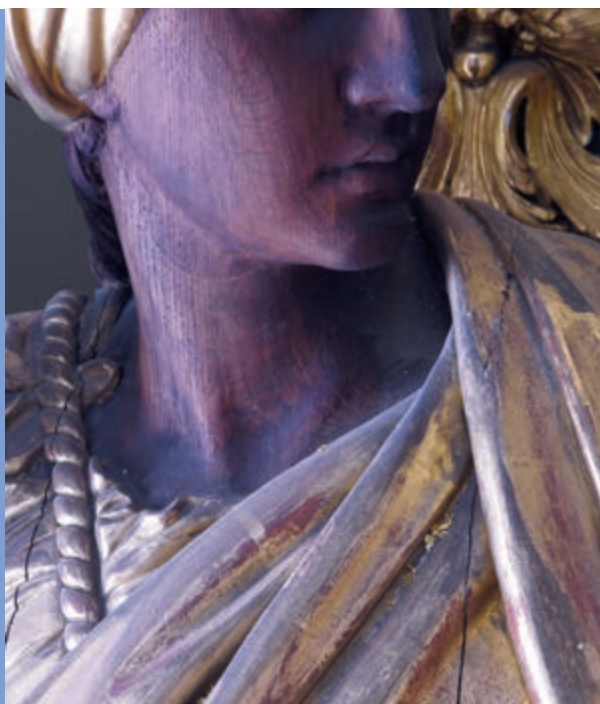
4| A RESPONSIBLE EMPLOYER

4|1 Supporting staff throughout their career

Getting different generations to work together

This is the aim of the intergenerational agreement signed with employee representatives on 24 December 2013.

- Attracting young people: in 2014, special emphasis was placed on recruiting young people on a block-release training course since 98 training contracts were signed. More than 120 block-release students are currently at the Banque de France. At the end of their training, if they wish to take part in a Bank competitive exam, they will benefit from free preparation provided by the National Centre for Distance Education and be exempted from sitting the aptitude tests of the clerical staff competitive exam.
- Supporting staff at mid-career: in 2014, 275 second tier career interviews (staff aged 45), and 540 third tier career interviews (55+) were conducted to enable employees to anticipate and enhance their career prospects. In order to better



help staff in their career choices, the Bank has set up a joint observatory for professions and skills; its aim is to identify the growing and the declining professions and thereby improve employees' visibility of their future career moves.

- Organising employees' career end: 110 staff members have asked to benefit from the three-year part-time scheme for seniors introduced by the agreement, of which 30 under the improved part-time scheme that enables employees having carried out arduous jobs to receive a higher pay.

4|2 Promoting gender equality in the workplace

A second corporate agreement was signed on 6 May 2014, giving new impetus to the first agreement signed in 2009. Its aim is to establish gender equality in the workplace as a permanent feature of the Bank's HR strategy. Building on the foundations already laid in the field of gender equality at the Bank, the agreement lists 36 actions and commitments whose implementation shall be discussed by the Observatory for workplace equality, a joint body set up in 2009.

Emphasis is placed on reconciling work and family life. Following the Corporate Parenthood Charter, the Bank, which is now a member of the Parenthood Observatory, is expected to sign, in the wake of other major companies, 15 commitments on "Better work-life balance" put forward by the Ministry of Women's Rights, including: scheduling meetings between 9 am and 6 pm, limiting emails outside office hours and on weekends, etc. Among the innovative provisions of the agreement is the possibility for staff members to transfer their additional days off acquired under the 35-hour week to colleagues whose relatives are suffering from major health problems. Objectives in terms of raising the number of women in senior positions have also been defined.

In order to embody this momentum and promote these measures, Jeannine Rogue, Regional Manager for Burgundy, has been appointed manager of gender equality in the workplace at the Banque de France.

4|3 Promoting the integration of disabled people

A ninth agreement promoting the employment of disabled people (2014-2016) was signed on 5 February 2014 with the trade union organisations to increase the Bank's efforts regarding the recruitment, welcome and integration of disabled employees, as well as the adjustment of working conditions.

In 2014, the Bank recruited 24 disabled people, raising the number of disabled staff to close to 600.

The first Disability Forum at the Bank was organised during the week for the employment of disabled people and was attended by around 150 people – disabled staff, referents, HR, health care and social welfare staff, and managers. This event offered an opportunity to discuss different topics (disability and employment, mental disability) and present the achievements of the Work Adjustment and Rehabilitation Centre of the Banque de France.

4|4 Improving the quality of life at work

Facilitating exchanges between managers

The main objectives of the Bank's management community, set up on 4 April 2014, are to facilitate exchanges between managers to promote the sharing of experiences and the development of new practices, to assist in changing methods of functioning and to prevent situations of isolation. Since the morning of its launching, which brought together 350 managers from all backgrounds to share their practices and creativity in several workshops, the community has been steadily growing.

The community runs a dedicated section on the Bank's internal social network Agora (this tool, introduced in 2014, promotes exchanges between staff and communities and contributes to reinforcing their social and professional link to the Bank; in 2014, it brought together close to 6,000 staff members and over 50 communities).

It also organises thematic workshops at the Bank's head office and across France, in the framework of manager conventions, thanks to the close involvement of around fifty "ambassadors", as during the national convention which brought together 450 managers.

Overall, in 2014, the community enabled over 500 managers to take part in one of its workshops. This community also represents a space where managers can discuss and exchange information with participants from different business environments facing similar managerial challenges.

Preventing psychosocial risks

Psychosocial risk prevention also ranks among the Bank's major concerns; it is embodied in the corporate agreement of 21 December 2011.

In 2014, following a survey conducted to measure psychosocial risks, a segmented analysis of the results was carried out to draw up action plans tailored to local problems. A procedure for assessing and better managing the workload was set up and is currently being tested.

Beyond psychosocial risk prevention, the Bank intends to adopt a comprehensive approach for improving the quality of life at work. An ambitious training programme has been set up to this effect.

The Banque de France has appointed a facilitator to accompany the changes linked to its modernisation process. In addition to guaranteeing good practices, the facilitator is responsible for promoting the change management plan, advising and supporting those in charge of implementing these changes, interfacing with external and internal resources and ensuring a methodological and training watch in this area.

Preventing arduous work

In the framework of the in-depth transformation of its cash management activities, the Banque de France is making considerable efforts to improve working conditions and prevent psychosomatic risks. To this effect, it has taken several measures to significantly reduce load carrying, equip sites with logistical tools to facilitate handling, increase rotation on workstations to balance physical stress and mental workload,



Box 41

Prevention on the banknote manufacturing site

For several years, efforts have been made to improve the quality of life on the banknote manufacturing site. The actions taken are monitored via the PAPRI Pact programme (Annual programme for occupational risk prevention and the improvement of working conditions), which analyses the risks on the site. In this framework, training sessions for the prevention of musculoskeletal disorders (MSDs) were set up across the printing site. All staff members were made aware of these issues by an osteopath and physiotherapist. In order to boost the process, a number of volunteers appointed as MSD referents received one-week training on MSD risk prevention.

In addition, arduous jobs have been identified and prioritised. As a result, several actions have been taken: adjustment of workstations, maintenance of several machines, adjustment of the guillotine workstation, and improvement of traceability. Attention has also been paid to the raw materials store and the packaging line.

adopt new gestures and postures with the introduction of more ergonomic and modernised workstations in the cash management departments.

This programme is accompanied by substantial investments and increased training up until 2020.

5| THE BANK'S ENVIRONMENTAL STRATEGY

For many years, the Banque de France has been working on controlling its environmental impacts. Its main environmental objectives are to lower the energy consumption of its buildings and to cut back the CO₂ emissions stemming from energy consumption and employee travel.

Its environmental strategy translates into quantifiable objectives. As regards the reduction of CO₂ emissions, three-year commitments (2011-2014) have been defined¹⁶ in the framework of the action plan derived from the *Bilan carbone*[®] (carbon footprint assessment) conducted by the Bank.

As regards the reduction in energy consumption of its buildings, the Bank's strategy is in line with the Grenelle 1 and Grenelle 2 Acts (in particular the

objective of reducing the energy consumption of its buildings by 38% by 2020). The Bank also used the European objectives of the "Climate and Energy Package" as a guide when setting its own objectives.

5|1 The Bank's environmental strategy translated into actions: 2014 highlights

Throughout the year, the Banque de France pursued its efforts to control its environmental impacts. A CSR booklet, available on the Banque de France website, has been drawn up for third parties to inform them of the Bank's sustainable development approach.

Systematic recourse to electricity from renewable sources

Following the signing in 2013 of a contract for the supply of electricity entirely from renewable sources for the three most energy-consuming sites (banknote manufacturing, IT sector and head office), the Bank reaffirmed its commitment to renewable energy by drawing up a new framework agreement for electricity supply, this time extended to a hundred delivery points across the country.

A search for energy efficiency at the heart of the Bank's real estate policy

Combining environmental protection with the sustainable development of real estate assets is one of the central pillars of the CSR policy of the Banque de France. In 2014, the Bank made headway in its systematic search for energy and environmental performance in its construction projects, while continuing to apply its environmental quality strategy to its operating modes.

The two new cash management centres under construction have been through a High Environmental Quality (HQE) certification process for construction and renovation work. The centre in the north of France obtained an HQE design certification with an "Excellent" environmental profile. As for the centre in La Courneuve, which obtained an HQE pre-development certification

The Bank's objectives: reduction in CO₂ emissions

(reference year 2011; %)

	2014	2015
Energy	- 14	
Business trips and commuting	- 11	
Total	- 13	- 15

The Bank's objectives: reduction in energy consumption in its buildings

(reference year 2008; %)

	2013	2014	2015
Energy consumption	- 20	- 23	- 26

¹⁶ http://www.banque-france.fr/uploads/tx_bdfgrandesdates/Bilan_Carbone_2011_Rapport_GES_PREFET_internet.pdf

Box 42

Cutting back the number of printers: performance objective achieved

In 2013, the Bank signed a three-year profit-sharing agreement setting targets for reducing the number of printers and photocopiers. This equipment was cut back by 12% in 2014 relative to 2013. The performance objective has thus been achieved for the second year in a row.

These good results were achieved thanks to an educational approach vis-à-vis all head office and network departments. In order to make headway towards reaching a ratio of four users per printer, an awareness campaign for eco-responsible printing and additional initiatives will be carried out.



in April 2014, it should obtain an HQE design certification in the summer of 2015.

The Banque de France has also launched an HQE certification process in the operation of its new branch in Lyon Confluence, in the three areas of certification (buildings, management and use).

As regards its rental agreements, it continued to sign “green” leases and an environmental annex has been appended to the 4-year leases of its Parisian buildings. Moreover, in October 2014, the Banque de France signed a lease on the HQE renovation and BREEAM¹⁷ certified EQHO tower, with a view to opening its future Paris La Défense branch at end-2015.

Throughout its branch network, the Bank made headway on the boiler project, initiated in 2011, which aims at replacing old energy-intensive boilers with more efficient models. On eight sites, gas and oil fired boilers were replaced by high efficiency gas boilers or condensing gas boilers, thus contributing to the reduction of greenhouse gas emissions. Lastly, thanks to the Bank’s thermal renovation programme, which started in 2012, 52% of window frames in the new head office building have so far been replaced.

WWF and Riposte verte survey: the Banque de France recognised for its paper policy

In 2014, the Banque de France ranked second among the companies covered by the PAP50 survey

organised by the World Wide Fund for Nature (WWF) and the *Riposte verte* association. The aim of this study is to assess the “paper policy” of 50 large banking and insurance sector organisations and to put forward avenues for improvement. The survey examined practices in terms of eco-responsible paper consumption, ranging from paper ream purchases to recycling.

The rank obtained resulted mainly from the Bank’s “recycling policy” and “paper policy”, more specifically the 2007-2009 incentive scheme.

Over half of the Bank’s regional offices covered by a Workplace Travel Plan

The reduction in greenhouse gas emissions (GHG) is also reliant on the implementation of workplace travel plans. In 2014, the Lyon and Toulouse branches, in turn, launched such plans. Following an assessment phase, a series of action plans were implemented; these are based in particular on the establishment of an eco-mobility area (which limits the use of vehicles) and on incentives to use alternative modes of transportation such as cycling (provision of repair kits, dedicated parking spaces, etc.) and to have recourse to inter-company carpooling. Alongside these measures, the Banque de France has carried

¹⁷ Building Research Establishment Environmental Assessment Method, design and assessment method for sustainable buildings.

out a number of other actions: reimbursement of two-thirds of public transport travel card costs, development of teleworking, setting up of a travel policy and introduction of “eco-responsible” bonuses to encourage staff to purchase bicycles or use vehicles emitting less than 110 g of CO₂ per kilometer.

Continued search for IT efficiency

IT-related activities account for almost 20% of the Bank's total electricity consumption. In order to reduce its carbon footprint, the Bank built its new Michèle Bergsten IT centre, delivered in 2014, to state-of-the-art level in terms of energy consumption, thanks in particular to its high energy performance (HPE) label which ensures optimal electricity consumption. This involved the use of less energy intensive IT equipment, the virtualisation of servers and an optimised urbanisation of the lay-out of equipment to adjust the circulation of fluids in the building.

The Bank continued to develop innovative technical solutions to facilitate exchanges and reduce travelling, for example by setting up equipment for conducting video conferences using workstations equipped with webcams.

In 2014, close to 183,000 balance sheets were received by electronic transmission under the BilanDirect-FIBEN system, an increase of approximately 8% compared to 2013. Almost two-thirds of the balance sheets were sent electronically in the course of the past year. This dematerialisation, while contributing to the Bank's “Digital Plan”, also helps to reduce its carbon footprint.

Cash management activities reduce their carbon footprint

In the framework of its relation with the cash industry, the Banque de France has set out to reduce its carbon footprint by phasing out the use of plastic bags in favour of (recyclable) cardboard boxes for securely packaging banknotes and reusable wooden boxes for coins.

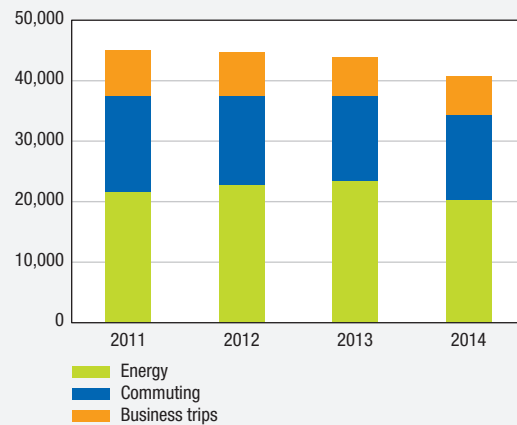
These guidelines, which were confirmed in summer 2014, can be attributed to two years of joint work and exchanges with the cash industry. The resulting actions will be gradually rolled out from 2015 to 2020 on all sites.

5|2 The Bank's environmental strategy: 2014 results and outlook

CO₂ emissions from energy consumption and travel recorded a decline of only 9% compared to 2011, the reference year of the Bank's last carbon footprint assessment.¹⁸ The CO₂ reduction target set in the carbon footprint assessment (– 13% for 2014) was not achieved.

Chart 25
Changes in CO₂ emissions from energy consumption and travel

(in tonnes of CO₂ equivalent)



Source: Banque de France.

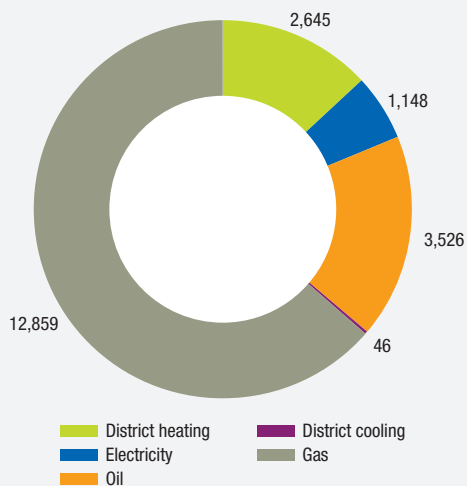
Reduction in greenhouse gas emissions from energy consumption

This reduction results essentially from the increased purchases of electricity from renewable sources and the gradual replacement of oil fired boilers. However, CO₂ emission levels remain closely linked to the volume of activity in banknote manufacturing.

¹⁸ Provisional data.

Chart 26
Greenhouse gas emissions by energy source in 2014

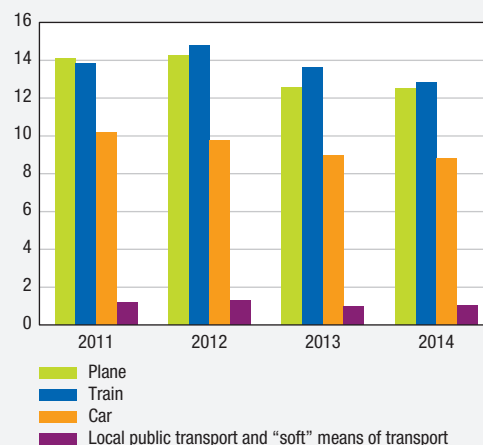
(in tonnes of CO₂ equivalent)



Source: Banque de France.

Chart 28
Business trips by mode of transport

(in millions of kilometres)



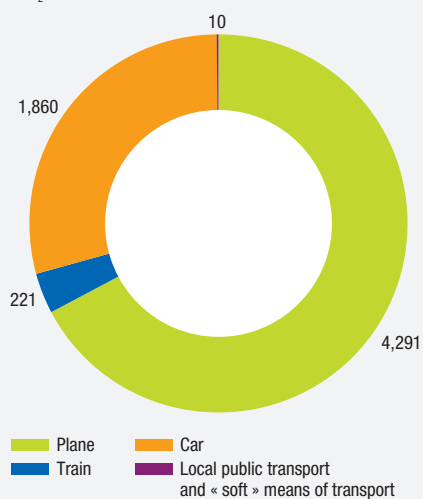
Source: Banque de France.

Reduction in greenhouse gas emissions from travel

Greenhouse gas emissions from travel have been reduced by almost 12% since 2011. This can be attributed both to business trips and commuting.

Chart 27
Greenhouse gas emissions by mode of transport in 2014

(in tonnes of CO₂ equivalent)



Source: Banque de France.

Emissions from business trips have been cut by over 15% since 2011. In terms of kilometres, air travel has decreased by 11% since 2011, travel by train by 7% and by car by 14%. Efforts have focused most specifically on business class travel (down by 31% compared to 2011), whose use has been restricted by the Bank's new circular on travel policy (see Box 43).

Emissions from commuting, over 90% of which are attributable to the use of cars, have fallen by 10% since 2011. Commuting by car now accounts for less

Box 43

The positive effect of the Bank's circular on travel policy

The Bank's travel policy, revised in 2013, holds that journeys under three hours and a half are to be done by train, with a second class ticket for journeys under two hours. As regards air travel, business class is now reserved for trips over six hours.

The CO₂ emissions avoided thanks to the travel policy are estimated at 8% of emissions from business travel by plane or train.

than half of the 100 million kilometres covered by Bank staff every year.

Reduction in the energy consumption of office buildings

The objective of reducing the energy consumption of operating activities, i.e. excluding industrial and IT centres, has been achieved, with a 23% decrease compared to 2008.

Outlook

Environmental issues are an integral part of the Bank's transformation plan for 2020 and are taken into account in all of its projects, both in the exercise of its missions and in its internal operation.

In accordance with the legal obligation to carry out an assessment of greenhouse gas emissions, the Bank will update its *Bilan carbone*[®] (carbon footprint assessment) in 2015 and draw up new action plans that will involve setting new targets for reducing greenhouse gas emissions for 2017. These plans will focus on the carbon footprint from energy consumption and travel, but also on other aspects such as fixed assets, waste and freight.



Financial management and the accounts



1| REPORT ON ASSETS, LIABILITIES AND RESULTS

The Banque de France General Council approved the accounts for the year ended 31 December 2014 at its meeting of 24 March 2015. Net profit for the year came in at EUR 2,066 million, down EUR 375 million relative to 2013.

Low yields in the main economic regions caused net income from activities to fall to EUR 7,013 million in 2014, down 16% relative to 2013. After covering operating expenses, up 0.7% relative to 2013, profit before exceptional items and tax came in at EUR 4,809 million.

In conjunction with the implementation of new unconventional monetary policy measures, the Bank is continuing efforts to strengthen its financial structure begun in 2007. It allocated EUR 592 million to the fund for general risks (FRG) and to regulated provisions, compared with EUR 1,252 million in 2013. Distributable profit totalled EUR 2,066 million after deducting corporate income tax of EUR 2,151 million.

For clarity, items appearing in the published accounts have been grouped in the presentation below. On the balance sheet, negative figures indicate net sources of funds or liabilities, while positive figures indicate net uses of funds or assets. 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

The Bank's net sources of funds increased year on year, rising from EUR 308 billion at end-2013 to EUR 317 billion at end-2014.

This increase was mainly driven by growth in the volume of banknotes in circulation. At the year-end, amounts deposited with the Banque de France by credit institutions continued to exceed the amount of loans extended to them. The decline in the Bank's net position with customers was driven by a year-on-year decline in liabilities vis-à-vis the French Treasury and deposits by institutional customers.

Financial position

(Year-end amounts and change, EUR millions)

	2014	2013 (pro forma)	Change 2014/2013
Net sources of funds (–)	-317,227	-308,294	-8,932
Net sources of funds from banknote operations	-184,799	-174,515	-10,284
Deposits by banks for monetary policy purposes	-109,955	-106,980	-2,975
Operations with institutional customers	-5,216	-10,291	5,075
Own funds and other items	-17,257	-16 508	-748
Net uses of funds (+)	317,227	308,294	8,932
Net bank refinancing	76,054	74,251	1,803
Securities portfolios held for monetary policy purposes	42,483	45,139	-2,656
Net position with the Eurosystem	72,717	69,235	3,482
Gold and foreign exchange reserves (net)	35,388	32,343	3,045
Other euro-denominated securities	90,585	87,326	3,259

The value of securities portfolios held for monetary policy purposes decreased in 2014, with purchases under the new covered bonds purchase programme (CBBP3) in the year amounting to less than the total value of securities maturing in 2014. The Bank increased the size of its other euro-denominated securities portfolios and its foreign currency assets.

Banknotes

The Eurosystem issues euro banknotes. In 2014, growth in the value of notes accelerated, at 6.3% year on year and 5.6% as an annual average, compared with average annual growth of 2.6% in 2013.

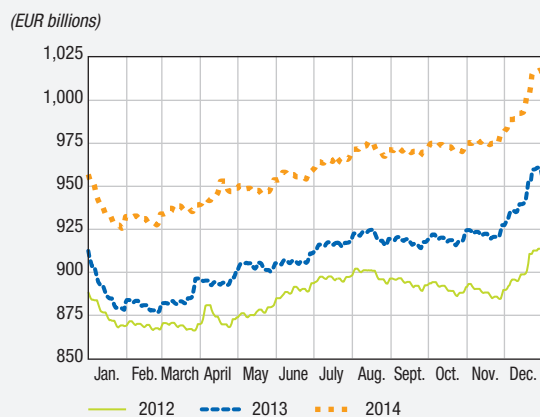
In accordance with the Eurosystem's allocation mechanism, the Banque de France records as a liability the share in the total value of Eurosystem banknotes corresponding to its holding in the ECB's paid-up capital (20.26% in 2014), after deducting banknotes allocated to the ECB in the amount of 8% of total notes put into circulation.

Banknotes in circulation

(Year-end amounts and change, EUR millions)

	2014	2013	Change 2014/2013
Net sources of funds from banknote operations (euro banknotes)	-184,799	-174,515	-10,284
Banknotes allocated to the Banque de France	-189,498	-178,754	-10,744
Advance to the IEDOM	4,699	4,239	460

Chart 29
Total euro banknotes put into circulation
by the Eurosystem



Source: BCE.

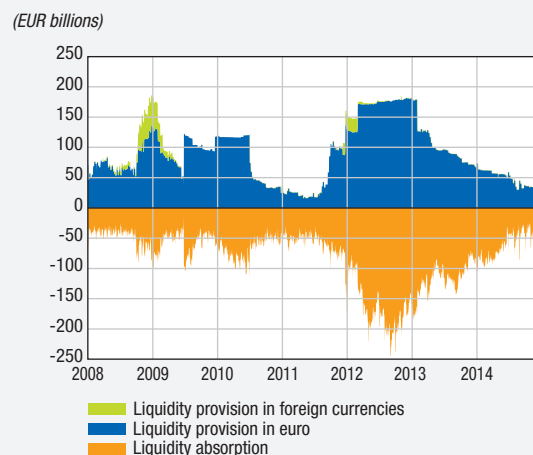
The IEDOM (*Institut d'émission des départements d'outre-mer* – the French overseas departments note-issuing bank) acts on behalf of the Banque de France in managing banknote circulation in France's five overseas departments and in its overseas territorial communities of Saint Pierre-et-Miquelon, Saint-Barthélemy and Saint-Martin. It receives a non-interest bearing advance in return for the notes it distributes. This advance amounted to EUR 4.7 billion in 2014 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.

Total euro banknotes allocated to the Banque de France, net of the amount of the interest-free advance granted to the IEDOM, make up the Banque de France's net sources of funds from banknote operations.

Net bank refinancing and bank deposits

As a member national central bank (NCB) of the Eurosystem, the Banque de France makes loans to authorised credit institutions that apply for funding. This liquidity provision is reported as an asset, while deposits by banks, corresponding to the minimum reserves they are required to hold,

Chart 30
Liquidity provision and absorption
by the Banque de France



Source: Banque de France.

are carried as liabilities. Other deposits that credit institutions choose to make are added to those institutions' current accounts, and correspond to liquidity absorption.

The liquidity surplus, which had been very pronounced in 2012, lessened in the euro area in 2013 and 2014: total outstanding refinancing continued to exceed the liquidity requirements of banks to finance the value of banknotes put into circulation and to make up their minimum reserves. This led to extensive use of the marginal deposit facility and, from July 2012, to excess reserves on top of the minimum reserves. It should be noted that, for the first time, the deposit facility rate became negative, falling to -0.10% in June 2014 and then to -0.20% in September 2014, while the rate applied to main refinancing operations was lowered to 0.05% .

Furthermore, the first targeted long-term refinancing operations announced by the ECB in June 2014 were carried out, totalling EUR 212 billion for the Eurosystem as a whole. These operations mature in 2018 and bear interest at a fixed rate of 0.15% ; credit institutions will have the option of repaying these loans early after 24 months. They will be forced to repay them in full if they do not comply with the stipulated credit distribution terms.

Euro-denominated securities portfolios held for monetary policy purposes

These portfolios include:

- securities from Covered Bond Purchase Programmes (CBPP) 1, 2 and 3 launched in 2009, 2011 and 2014 respectively;
- securities from the Securities Markets Programme (SMP) launched in 2010.

No transactions were conducted under the Outright Monetary Transactions (OMT) programme announced in September 2012.

With no new purchases, the outstanding amount in the CBPP 1 and 2 and SMP portfolios held for monetary policy purposes declined by the amount of maturing securities.



Like the targeted long-term refinancing operations, the CBPP3 programme, announced on 4 September 2014, is intended to ease monetary conditions and encourage the financing of economic activity. Securities purchases under this programme commenced in October 2014. A new programme of asset-backed securities purchases was also launched by the Eurosystem. At this stage, the programme is carried directly in the ECB's accounts.

Net position with the Eurosystem

The Banque de France has several claims and liabilities with the Eurosystem, including in particular the following:

- a claim arising on adjustments to banknotes, corresponding to the difference between banknotes allocated to the Banque de France in accordance with its share in the ECB's capital and the banknotes it puts into circulation;
- a claim arising from gold (15%) and foreign exchange (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% portion corresponding to transfers of gold;
- a liability relating to the operation of the Target2 payment system, which corresponds to the balance of payments initiated by the Bank, on its own behalf and for entities whose accounts it holds, to other Eurosystem central banks;
- accrued income resulting from interim ECB dividends (EUR 170 million) and the pooling of monetary income (EUR 129 million in 2014, compared with EUR 100 million in 2013).

Net position with the Eurosystem

(Year-end amounts and change, EUR millions)

	2014	2013	Change 2014/2013
Net position with the Eurosystem	72,717	69,235	3,483
Claims on the Eurosystem for banknotes	81,199	76,822	4,377
Claims on the ECB for gold and foreign exchange assets transferred	8,229	8,230	-1
Other claims on the Eurosystem	300	378	-78
Liability towards the Eurosystem related to Target2	-17,010	-16,195	-815

These positions, whether on the assets or liabilities side, bear interest at the Eurosystem's main refinancing operations rate, with the exception of the 15% portion of the claim on the ECB corresponding to transferred gold assets.

Gold and foreign exchange reserves

The Banque de France manages gold and foreign exchange reserves. These are recorded as an asset pursuant to the agreement between the State and the Banque de France on the management and accounting of the State foreign exchange reserves, published in the Official Journal of 2 February 2011. The reserves are partly backed by the revaluation reserve for State gold and foreign exchange reserves, which covers foreign exchange risk, in accordance with the same agreement.

The Banque de France's gold reserves were unchanged at 2,435 tonnes. The euro value of the reserves rose by EUR 9.1 billion due to the appreciation in the value of gold against the euro. The gold revaluation account was increased accordingly.

Foreign exchange assets, which were increased in 2014, are mainly invested in dollar-denominated short-term investment securities and money market instruments. To a lesser extent, they are invested in long-term investment portfolios in order to generate returns while continuing to meet the security objective.

Chart 31
Gold price per ounce

(EUR)



Source: Banque de France.

Gold and foreign exchange reserves

(Year-end amounts and change, EUR millions)

	2014	2013	Change 2014/2013
Gold and foreign exchange reserves	35,388	32,343	3,045
Gold	77,343	68,217	9,126
Net assets in reserve currencies	38,689	31,104	7,585
SDR assets (relations with the IMF)	17,198	17,023	175
Counterpart to SDR allocations	-12,085	-11,335	-750
Revaluation accounts (gold, foreign currency and securities denominated in foreign currencies)	-63,627	-50,765	-12,862
Revaluation reserve for State gold and foreign exchange reserves	-22,130	-21,901	-229

Positions in Special Drawing Rights (SDRs) reflect relations with the IMF. These positions are recorded on the Banque de France's balance sheet pursuant to a 2011 agreement with the State. After increasing for three years between 2010 and 2012, the net SDR position has declined slightly since 2013, reflecting the IMF's reduced financing requirements.

The Banque de France's other euro-denominated assets

In addition to the portfolios established for monetary policy programmes, the Bank holds portfolios to invest its monetary resources as part of the framework adopted by the Eurosystem in 2003, which allows NCBs to hold euro-denominated portfolios unrelated to the implementation of monetary policy within annually reviewed limits. Accordingly, the Bank holds a short-term available-for-sale (AFS) portfolio, which has been scaled down in view of the low level of returns, as well as an own-account held-to-maturity portfolio intended to make financial income less sensitive to the policy rate cycle.

Other euro-denominated assets

(Year-end amounts and change, EUR millions)

	2014	2013	Change 2014/2013
Other euro-denominated securities	90,585	87,326	3,259
Euro-denominated money market portfolios	80,100	80,669	-570
Available-for-sale	4,178	7,371	-3,193
Held-to-maturity	75,922	73,299	2,623
Own funds investment portfolio and provisions	10,485	6,658	3,827
<i>o/w share in ECB capital</i>	<i>1,545</i>	<i>1,535</i>	<i>10</i>

Other euro-denominated securities held by the Banque de France correspond to own funds investment portfolios (capital, reserves and provisions), as well as participating interests held by the Bank, notably in the ECB's capital. The slight increase in the Bank's participating interest in the ECB's capital is a result of the revision of the ECB's capital allocation key on 1 January 2014.

Operations with institutional customers

The Banque de France offers banking services such as current account-keeping to institutional customers, mainly central banks outside the European Union. Non-euro area central banks and international organisations have access to a range of services allowing them, *inter alia*, to invest a portion of their foreign reserve assets and carry out foreign currency transactions.

Outstanding liabilities vis-à-vis the French Treasury and other government bodies remained marginal compared with outstanding deposits by international institutional customers, falling from EUR 3.3 billion at 31 December 2013 to EUR 2.4 billion at 31 December 2014.

Operations with institutional customers			
<i>(Year-end amounts and change, EUR millions)</i>			
	2014	2013	Change 2014/2013
Operations with institutional customers	-5,216	-10,291	5,075
Assets	132,108	127,316	4,792
<i>o/w lending to the French Treasury</i>	<i>0</i>	<i>0</i>	<i>0</i>
Liabilities	-137,324	-137,607	283
<i>o/w liabilities vis-à-vis the State</i>	<i>-2,438</i>	<i>-3,266</i>	<i>828</i>

Own funds and other items

The balance in "Own funds and other items" is a resource whose growth, after stripping out net profit for the year, reflects the Banque de France's strengthened capital structure.

This is mainly the result of allocations to reserves from 2013 profits.

Own funds and other items			
<i>(Year-end amounts and change, EUR millions)</i>			
	2014	2013	Change 2014/2013
Other items	17,257	16,508	749
Capital, reserves and retained earnings	7,440	6,838	601
Provisions for liabilities and charges	927	924	3
Fund for general risks	7,500	6,910	590
Fixed assets	-982	-900	-82
Other	306	294	11
Net profit	2,066	2,441	-375

A total of EUR 590 billion was transferred to the fund for general risks, bringing it to EUR 7.5 billion, to improve coverage of the financial risks to which the Bank is exposed in the course of its operations. These risks have substantially increased as a result of the financial and sovereign crises that began in 2008. With operating profit declining in a low interest rate period, the fund must enable the Banque de France to cover any exceptional losses.

1|2 Breakdown of profit

The fall in profit before exceptional items and tax reflects the decline in net income from activities, which fell from EUR 8,331 million to EUR 7,013 million.

This decline reflects the reduction in outstanding amounts in securities portfolios held for monetary policy purposes, as well as low bond yields in the main economic regions, which lessened the profit earned from AFS portfolios in euro and foreign exchange. In the case of held-to-maturity portfolios, maturing securities could not be reinvested at the same rates as when they were purchased.

These factors explain the decline in the rate of return earned on net interest-bearing assets, which fell from 3.9% in 2013 to 3.1% in 2014 and remained above break-even (0.73%).

After recognition of corporate income tax plus surcharges, the Bank's net profit for the year was EUR 2,066 million, down EUR 375 million relative to 2013.

Net income from activities

Net income from the Banque de France's activities contracted by 16% from EUR 8,331 million in 2013 to EUR 7,013 million in 2014.

An analysis of the breakdown of net income from activities mainly shows a decline in interest received (and paid) in connection with monetary policy operations with banks, and lower returns on securities portfolios resulting from secularly low interest rates in the main economic regions.

In 2014, the ECB paid a dividend of EUR 12 million to the Banque de France in respect of income generated in 2013. The ECB also paid seigniorage income and income generated by the securities it holds for monetary policy purposes, after deducting the allocation to the provision for foreign currency, interest rate and credit risks, representing an interim dividend of EUR 170 million for the Bank.

As regards other non-monetary income, the amount paid by the State for services provided by the Bank fell by EUR 15 million.

Net income from activities			
<i>(Year-end amounts and change, EUR millions)</i>			
	2014	2013	Change 2014/2013
NET INCOME FROM ACTIVITIES	7,013	8,331	-1,318
Net income in connection with monetary policy	2,268	3,350	-1,082
Interest received on refinancing operations	100	771	-671
Interest paid on bank deposits	-51	-139	88
Income from securities held for monetary policy purposes	2,011	2,353	-343
Net interest on positions with the Eurosystem	79	201	-122
Net result of pooling of monetary income	129	100	29
Reversal of monetary policy provision	0	64	-64
Income from foreign currency and SDR assets	739	653	85
Net income from other euro-denominated assets	4,006	4,327	-321
Income from euro-denominated securities earmarked against the liability base (excluding monetary policy)	2,728	2,790	-62
ECB and IEDOM dividends	189	378	-190
Net income from operations with institutional clients	224	244	-21
Other non-monetary income	865	914	-49

The contribution from entities subject to the supervision of the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority), which is part of the Banque de France, covered the cost of the resources allocated to supervision and did not affect the Bank's income.

Operating expenses

Operating expenses totalled EUR 2,204 million in 2014, up 0.7% relative to 2013.

Within operating expenses, pension expenses payable under the special pension scheme increased as a result of demographic trends. Additions to provisions for employee obligations increased as a result of the reduction in the discount rate used to measure these liabilities (see Note 21 to the annual accounts).

Operating expenses

(Year-end amounts and change, EUR millions)

	2014	2013	Change 2014/2013
Operating expenses	-2,204	-2,188	-16
Personnel and related expenses	-1,006	-1,006	0
Pensions and related expenses	-455	-450	-5
Taxes other than income tax	-39	-38	-1
Depreciation charges on fixed assets	-115	-111	-4
Other operating expenses	-589	-584	-5

Spending controls stabilised the Banque de France's breakeven point at 0.73%, representing the minimum return that has to be generated on net interest-bearing assets to cover net recurring expenses.

Net profit

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 for 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.

Net profit*(Year-end amounts and change, EUR millions)*

	2014	2013	Change 2014/2013
Net profit from activities	7,013	8,331	-1,318
Operating expenses	-2,204	-2,188	-15
Profit before exceptional items and tax	4,809	6,142	-1,333
Net additions to fund for general risks and accelerated tax depreciation	-592	-1,252	660
Corporate income tax	-2,151	-2,449	298
Profit for the year	2,066	2,441	-375

The increase in the volume of operations conducted as part of monetary policy since 2007, which is set to accelerate over the coming months, and the risks associated with the exceptional measures taken in response to the financial crisis prompted the Bank to continue increasing the FRG. In doing so, it was pursuing a policy put in place in 2007 and stepped up in 2009. An additional EUR 590 billion was transferred to the FRG in 2014, bringing the value of the fund to EUR 7.5 billion.

Corporate income tax

The Banque de France is liable for corporate income tax and a number of additional tax contributions. For 2014, the Banque de France's income tax commitment totalled EUR 2,151 million, including the 10.7% (201 millions) addition to corporate income tax introduced by Supplementary Budget Act 2011-1978 of 28 December 2011, as amended by Supplementary Budget Act 2013-1279 of 29 December 2013, and the dividend tax introduced by the 2012 Supplementary Budget Act (EUR 51 million).

After consolidation of the Bank's fund for general risks, a provision of EUR 2 million for accelerated tax depreciation charges and payment of the Bank's income tax commitment, net profit for the Bank declined by EUR 375 million in 2014 to EUR 2,066 million.

The Bank's General Council approved the 2014 accounts at its meeting of 24 March 2015. As in previous years, these accounts were certified by the auditors, who issued an unqualified opinion.

2| INDIVIDUAL ACCOUNTS OF THE BANQUE DE FRANCE

2|1 Balance sheet and profit and loss account

Balance sheet at 31 December 2014

(EUR millions)^{a)}

Notes to annual accounts	Item	Description	2014	2013
ASSETS				
1	A1	Gold	77,343	68,217
2	A2	Foreign exchange assets (excl. relations with the IMF)	39,859	34,257
		2.1 Foreign exchange assets held with non-euro area residents	23,751	20,046
		2.2 Foreign exchange assets held with euro area residents	16,108	14,212
3	A3	Relations with the IMF	17,198	17,023
		3.1 Financing provided to the IMF	4,777	5,785
		3.2 Acquisitions of Special Drawing Rights	12,421	11,238
5	A4	Euro-denominated claims on non-euro area residents	3,226	6,363
4	A5	Euro-denominated loans to euro area credit institutions in the framework of monetary policy operations	76,054	74,250
5	A6	Other euro-denominated loans to euro area credit institutions	44,144	38,038
6	A7	Euro-denominated securities issued by euro area residents	121,039	124,183
		7.1 Securities held for monetary policy purposes	42,483	45,139
		7.2 Other securities	78,557	79,043
	A8	Relations within the Eurosystem	91,282	86,965
13		8.1 Participating interest in the ECB	1,545	1,535
7		8.2 Claims arising on the transfer of reserve assets to the ECB	8,229	8,230
8		8.3 Claims arising on the Eurosystem for euro banknotes in circulation	81,199	76,822
9		8.4 Other claims on the Eurosystem	309	378
10	A9	Advance to the IEDOM	4,699	4,239
	A10	Claims on the French Treasury	0	0
11	A11	Other euro- and foreign currency-denominated financial assets	90,763	87,770
12	A12	Miscellaneous	10,742	7,396
13	A13	Fixed assets	1,389	1,305
		13.1 Tangible and intangible fixed assets	982	900
		13.2 Participating interests (other than interest in the ECB)	407	405
		TOTAL ASSETS	577,737	550,006
LIABILITIES				
14	P1	Banknotes in circulation	189,498	178,754
4	P2	Euro-denominated liabilities to euro area credit institutions within the framework of monetary policy operations	109,955	106,980
		2.1 Current accounts	95,753	68,174
		2.2 Other liabilities	14,202	38,806
	P3	Other euro-denominated liabilities to euro area credit institutions	15	20
15	P4	Euro-denominated liabilities to non-euro area residents	28,472	28,067
2	P5	Foreign exchange liabilities	1,170	3,154
3	P6	Counterpart to SDR allocation	12,085	11,335
16	P7	Relations within the Eurosystem	17,020	16,195
17	P8	Euro-denominated liabilities to other euro area residents	6,612	7,617
		8.1 Treasury's account	2,438	3,266
		8.2 Other liabilities	4,174	4,351
18	P9	Items in the course of settlement	157	90
19	P10	Banking transactions	102,224	101,903
20	P11	Miscellaneous	5,037	4,748
21	P12	Provisions for liabilities and charges	927	924
22	P13	Revaluation accounts	65,335	52,037
23	P14	Fund for general risks and accelerated tax depreciation	7,594	7,002
24	P15	Revaluation reserve for State gold and foreign exchange reserves	22,130	21,901
25	P17	Capital, reserves and retained earnings	7,440	6,838
	P18	Profit for the year	2,066	2,441
		TOTAL LIABILITIES	577,737	550,006

a) Each balance sheet item is rounded up or down to the nearest one million euro. For this reason, discrepancies may arise between totals or sub-totals and their constituents.

2014 profit and loss account(EUR millions)^{a)}

Notes to annual accounts	Item	Description	2014	2013
	1.	Net income from activities of the Banque de France	7,013	8,331
30	1.1	Net interest income	5,792	6,804
	1.1.1	Interest and related income	6,386	7,872
	1.1.2	Interest and related expenses	-594	-1,068
31	1.2	Net income/loss on financial transactions	94	123
	1.2.1	Net realised gains/losses and unrealised losses on foreign exchange	+229	-106
	1.2.2	Net charges to/releases from the revaluation reserve for State foreign exchange reserves	-229	+106
	1.2.3	Net other income and expenses on financial transactions	94	123
	1.3	Commission	18	-8
	1.3.1	Commission (income)	40	43
	1.3.2	Commission (expense)	-22	-51
32	1.4	Income from equity securities and participating interests	224	420
33	1.5	Net result of pooling of monetary income	129	164
34	1.6	Net other income and expenses	755	829
	2.	Operating expenses	-2,204	-2,188
35	2.1	Personnel and related expenses	-1,006	-1,006
	2.2	Pensions and related expenses	-455	-450
	2.3	Taxes other than income tax	-39	-38
	2.4	Provisions, depreciation and amortisation	-114	-111
	2.5	Net other operating income and expenses	-589	-584
		PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS (1 + 2)	4,809	6,142
	3.	Net charge to the fund for general risks and accelerated tax depreciation	-592	-1,252
	4.	Exceptional items	-	-
	4.1	Exceptional income	-	-
	4.2	Exceptional expenses	-	-
36	5.	Corporate income tax	-2,151	-2,449
		PROFIT FOR THE YEAR (1 + 2 + 3 + 4 + 5)	2,066	2,441

a) Each profit and loss account item is rounded up or down to the nearest one million euro. For this reason, discrepancies may arise between totals or sub-totals and their constituents.

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, which was amended slightly on 16 November 2010. 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.

¹⁹ OJEU of 9 February 2011, L35 page 31.

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 by the Governing Council of the ECB in its 11 November 2010 Guideline,¹⁹ amended in particular by the 15 December 2014 Guideline, for all activities carried out within the framework of the ESCB. 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 Accounting Standards Authority (*Autorité des normes comptables* – ANC) 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 Bank's General Council 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, subsequently by that of 11 November 2010 and finally by that of 15 December 2014) 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. This second realised gain/loss equates 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 for gold and foreign exchange reserves

The agreement between the State and the Banque de France dated 2 February 2011 neutralises the impact on the Bank's profit and loss account of realised 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.²⁰ 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 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, up to a maximum of 20% of net profit.

Other foreign currency gains/losses

The Banque de France applies Regulation 2014-03 of the Accounting Standards Board (*Autorité des normes comptables* – ANC) 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 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.

²⁰ *Revaluation reserve for gold and foreign exchange reserves.*

Securities portfolio (excluding pension fund)

Fixed-income securities and variable-yield securities are recorded under the following items:

- A2 of the balance sheet for securities denominated in foreign currencies held in connection with foreign currency reserve management;
- A7.1 for securities acquired for monetary policy purposes;
- A11 for euro-denominated securities earmarked against the Bank's own funds, provisions and customer deposits recorded in items P4 or P10;
- A12 for securities held in the Bank's Employee Reserve Fund (see Note 29);
- A4 or A7.2 for other securities denominated in euro depending on whether they are issued by non-residents or residents.

The recognition method applied to securities held for monetary policy purposes (item A7.1) was changed in 2014: these securities are recognised at amortised cost, irrespective of their intended holding period. They may therefore be sold ahead of maturity if the Governing Council so recommends. They are tested for impairment annually. The accounting Guideline was amended on 15 December 2014 to reflect this new accounting framework. This change has no impact on the 2014 accounts.

Other fixed-income securities continue to be recognised as before:

- fixed-income securities that the Banque de France has decided to hold to maturity are recognised in the accounts at amortised cost but may be subject to impairment in the event of a risk of non-recovery ;
- other fixed-income securities that may be sold before their maturity, and variable-yield securities, are marked to market line by line 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 1.2.3. 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 item 1.2.3 of the profit and loss account, "Net other income and expenses on financial transactions".

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 for 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 of the profit and loss account, "Net other income and expenses on financial transactions".

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 recognised 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.

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 29.

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 2014, the Eurosystem central banks, the 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 27 September 2014, annual sales by the 20 central banks concerned may not exceed 400 tonnes.

The gold stock of the Banque de France (2,435 tonnes) remained unchanged in 2014.

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.

²¹ Initially established by the Eurosystem on a temporary basis, these swap lines became permanent in 2013.

Foreign exchange assets and liabilities (excl. relations with the IMF)

Asset item A2 and Liability item P5

(EUR millions)

	2014	2013
ASSETS		
Foreign currency assets		
Overnight deposits	134	259
Fixed-term deposits	5,551	8,919
Provision of US dollar liquidity to Eurosystem counterparties	–	–
Securities received under repurchase agreements	6,786	966
Fixed-income securities	27,178	23,915
Accrued interest receivable	209	198
TOTAL	39,859	34,257
LIABILITIES		
Foreign currency liabilities		
Securities delivered under repurchase agreements	1,161	3,144
Accrued interest payable	9	10
TOTAL	1,170	3,154

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 10,537 million at 31 December 2014, compared with EUR 9,587 million at 31 December 2013.

In 2012, "Foreign currency assets" also included claims on euro area residents in the form of securities repurchase agreements. 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.²¹ In 2012, these back-to-back swap transactions resulted in non-interest-bearing intra-Eurosystem balances between the ECB and the

NCBs, reported under liability item P7, “Relations within the Eurosystem”. In 2014, as in 2013, no French bank entered bids in the context of these swap lines.

Note 3: Relations with the IMF

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.

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 repayment by the IMF of EUR 1,164 million on France’s quota (excess of repayments over drawings);
- net repayment of SDR 163.9 million (equivalent to EUR 196.6 million) in 2014 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 remainder of the change is due to SDR appreciation relative to the euro.

Relations with the IMF

Asset item A3 and Liability item P6

(EUR millions)

	2014	2013
ASSETS		
Financing provided to the IMF	4,777	5,785
Acquisitions of Special Drawing Rights	12,420	11,235
Accrued interest receivable	1	3
TOTAL	17,198	17,023
LIABILITIES		
Counterpart to SDR allocations	12,084	11,333
Accrued interest payable	1	2
TOTAL	12,085	11,335

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. Voluntary swap agreements in 2014 totalled SDR 363 million (EUR 371 million). The counterpart of loans granted to the PRGT is the “SDR assets” item. In 2014, loans granted in this respect totalled SDR 181.6 million (equivalent to EUR 206.8 million).

The last entry under liability item P6, “Counterpart to SDR allocations”, was made in 2009 with 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: Loans to and deposits received from credit institutions in connection with monetary policy operations

Total receivables held by the Eurosystem in relation to monetary policy operations amounted to EUR 630,341 million, of which EUR 76,054 million recorded on the Banque de France’s balance sheet. In accordance with decisions made by the Governing Council, 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 under the Eurosystem’s single monetary policy.

Short-term open market operations conducted by the Eurosystem were the **main refinancing operations** in volume terms until 2008, and 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.

Long-term refinancing operations (LTROs) are carried out through monthly tenders for loans with a maturity of 3, 6, 12, 36 or 48 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 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 these operations is equal to the average rate applicable to main refinancing operations over the life of the long-term refinancing operation concerned. Interest is paid when each operation matures. The first operation was allotted on 21 December 2011 (EUR 109 billion from a total EUR 489.2 billion for the Eurosystem) and the second was allotted on 1 March 2012 (EUR 60 billion from a total EUR 529.5 billion for the Eurosystem). Virtually all these operations (94%) were repaid early in 2013 and 2014 (balance at 31 December 2014: EUR 9 billion).

In connection with the enhanced credit support measures to support bank lending to the euro area non-financial private sector, the ECB's Governing Council decided in June 2014 to conduct two targeted long-term refinancing operations (TLTROs) with a maturity of 48 months and the option of early repayment after two years. These operations are conducted as tender procedures with full allotment.

The interest rate applicable throughout the term of each TLTRO is the rate in force for main refinancing operations at the date when the tender for the TLTRO in question is announced, plus a fixed margin of 10 basis points. Interest is payable in arrears at maturity or, where applicable, at the

early repayment date as laid down in Articles 6 and 7.

Two operations were conducted in 2014 totalling EUR 212.4 billion, of which EUR 48.5 billion for France.

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 2013 to neutralise the liquidity provided through the SMP portfolio, and increased sharply until end-December 2013 to reach EUR 10,589 million. In June 2014, the Governing Council decided to suspend weekly fine-tuning operations to sterilise liquidity injections in connection with the Securities Markets Programme. The outstanding balance on these operations was nil at 31 December 2014. Interest is paid on the collection of deposits at a variable rate close to Eonia.

Euro-denominated loans to euro area credit institutions within the framework of monetary policy operations
Asset item A5

(EUR millions)

	2014	2013
Main refinancing operations	11,691	11,875
Long-term refinancing operations	64,208	61,525
Fine-tuning operations	0	0
Structural operations	–	–
Marginal lending facility	–	–
Margin calls paid	–	–
Accrued interest receivable	155	850
TOTAL	76,054	74,250

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 bear interest at a negative rate with effect from 13 June 2014. The minimum reserve base was reduced from 2% to 1% in January 2012.

Euro-denominated liabilities to euro area credit institutions within the framework of monetary policy operations

Liability item P2

(EUR millions)

	2014	2013
Current accounts	95,752	68,169
Other liabilities	14,202	38,806
Deposit facilities	14,202	28,217
Fixed-term deposits	–	10,589
Repurchase agreements	–	–
Margin calls received	–	–
Accrued interest payable	1	5
TOTAL	109,955	106,980



Deposit facilities enable Banque de France counterparties to make overnight deposits. The interest rate on the deposit facility is set by the Eurosystem and normally acts as a floor for the interbank market rate. This rate became negative on 13 June 2014 (–0.10%, falling to –0.20% on 4 September 2014). The amount of the deposit facility continued to decrease in 2014 as a result of the repayment of virtually all 36-month LTROs at end-2014 and the impact of negative interest rates. The Governing Council decided to no longer offset SMP liquidity via the collection of deposits.

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

These items include euro-denominated investments earmarked against euro-denominated deposits recorded in liability item 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 all Emergency Liquidity Assistance (ELA) of any type (purchase of investment fund units, collateralised loans). All ELA was repaid in 2013.

Euro-denominated claims on non-euro area residents

Asset item A4

(EUR millions)

	2014	2013
Securities held until maturity	1,656	1,704
Other claims	1,536	4,625
Accrued interest receivable	34	34
TOTAL	3,226	6,363

Euro-denominated claims issued by euro area residents

Asset item A6

(EUR millions)

	2014	2013
ELA loans	0	0
Other loans excluding ELA	44,144	38,038
TOTAL	44,144	38,038

Note 6: Item A7, “Euro-denominated securities issued by euro area residents”*A7.1, “Securities held for monetary policy purposes”*

Asset item 7.1 includes securities acquired within the scope of the three Covered Bond Purchase Programmes (CBPPs)²² and the Securities Markets Programme (SMP).²³

The amount of covered bond purchases established in the first programme (CBPP1) 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 (CBPP2). 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.

²² See the ECB press releases of 4 June 2009 and 6 October 2011.

²³ See the ECB press release of 10 May 2010.

Lastly, under the Securities Markets Programme (SMP), the ECB and NCBs purchased 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 144,263 million at 31 December 2014, compared with EUR 178,836 million in 2013. The Banque de France's share totalled EUR 27,310 million at end-2014, compared with EUR 33,243 million in 2013. In accordance with the decisions of the Governing Council, 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. This programme was completed in October 2012.

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

In October 2014, the Governing Council decided to implement two new programmes to purchase asset-backed securities (ABS) and covered bonds (CBPP3) to improve monetary policy transmission and support the supply of credit to the euro area economy. It was decided that ABS purchases would initially be undertaken and carried by the ECB.

Total covered bond purchases under this third programme stood at EUR 6 billion at 31 December 2014.

At 31 December 2014, the ECB had purchased simple and transparent ABS backed by underlying assets consisting of claims on the euro area non-financial private sector totalling EUR 1.7 billion.

With effect from December 2014, all fixed-income securities held for monetary policy purposes are carried at amortised cost (see the valuation methods applicable to “securities portfolios”); they are tested for impairment on the basis of available information and an estimate of recoverable amounts at the balance sheet date.

Securities held for monetary policy purposes

Asset item A7.1

(EUR millions)

	2014		2013	
	Amortised cost	Market price	Amortised cost	Market price
Held under the Securities Markets Programme (SMP)	27,310	32,828	33,243	36,381
Held under the first Covered Bond Purchase Programme	5,805	6,327	7,926	8,515
Held under the second Covered Bond Purchase Programme	2,676	3,024	3,098	3,360
Held under the third Covered Bond Purchase Programme	5,978	6,059	0	0
Accrued interest receivable	713		872	
TOTAL	42,483		45,139	

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 2 January 2015, 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"

Asset 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, the Employee Reserve Fund and customer deposits that are recorded in asset item A11 (see Notes 11 and 27). In addition to fixed-income securities, this item also includes a fixed income fund.

As with portfolios of securities held for monetary policy purposes, the Banque de France's other portfolios were tested for impairment. No impairment was recognised as a result of these tests.

Euro-denominated securities issued by euro area residents

Asset item A7.2

(EUR millions)

	2014	2013
Securities held until maturity	73,108	70,415
Other fixed-income securities	4,240	7,419
Accrued interest receivable	1,209	1,209
TOTAL	78,557	79,043

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

This claim held by the Banque de France results from the transfer of 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 bears interest at the marginal rate applied to main refinancing operations, adjusted to reflect a zero return on the gold component. It was amended when Latvia joined the euro area on 1 January 2014.

Claims arising on the transfer of reserve assets to the ECB

Asset item A8.2

(EUR millions)

	2014	2013
Claims arising on the transfer of reserve assets to the ECB	8,217	8,191
Accrued interest receivable	12	39
TOTAL	8,229	8,230

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

The intra-ESCB claim arising from the allocation of euro banknotes within the Eurosystem and the liability to the ECB relating to the 8% share of euro banknotes in circulation are shown as a net amount in item A8.3, "Claims arising on the Eurosystem for euro banknotes in circulation", along with accrued interest receivable as at 31 December 2014. Interest on this net claim is shown in profit and loss item 1.1.1, "Interest and related income" (see Note 14 on banknotes in circulation).

Note 9: Other claims on the Eurosystem

This item includes any income receivable from the ECB in respect of the distribution of the balance of

Other claims on the Eurosystem

Asset item A8.4

(EUR millions)

	2014	2013
Other claims on the Eurosystem	139	100
ECB interim dividends	170	278
TOTAL	309	378

monetary income (see Note 34 to the profit and loss account) as well as the ECB's interim distribution of profit (see Note 14 on banknotes in circulation.)

In 2014, the ECB Governing Council decided to distribute an interim dividend of EUR 840.7 million to the Eurosystem NCBs, of which EUR 170.4 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 Saint-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**Other euro- and foreign currency-denominated financial assets**

Asset item A11

(EUR millions)

	2014	2013
Fixed-income securities held until maturity ^{a), b)}	69,650	71,322
Other fixed-income securities and variable-yield securities	9,778	5,628
Other operations	11,404	10,747
Accrued interest receivable	31	74
TOTAL OTHER EURO- AND FOREIGN CURRENCY-DENOMINATED FINANCIAL ASSETS	90,763	87,770

a) In 2014, 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 56,749 million. Of which EUR 69,525 million in collateralised securities (see Note 28).

Securities portfolios

Extract from Asset item A11

(EUR millions)

	2014		2013
	Fixed-income securities held until maturity	Other securities	Total
Fixed-income securities and government securities	69,352	69,352	70,986
Securities issued by public bodies	70	70	85
Other issuers	230	230	253
Accrued interest receivable	31	31	66
NET BALANCE SHEET	69,683	69,683	71,390
Equity and other variable-yield securities			
French and foreign mutual funds		1,366	1,366
Capitalisation mutual funds		6,739	2,986
Other variable-yield securities		27	24
NET BALANCE SHEET VALUE	8,132	8,132	4,226

Asset item A11 notably includes securities linked to customer deposits, recorded in liability Items P4 and P10, the Bank's own funds and provisions.

Note 12: Miscellaneous

"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.

Miscellaneous

Asset item A12

(EUR millions)

	2014	2013
Deferred income, accrued expenses, etc.	6,027	3,011
Accrued income	258	221
Prepaid expenses	28	20
Other items	5,741	2,769
Miscellaneous	4,715	4,385
TOTAL	10,742	7,396

Note 13: Fixed assets

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

In 2010, the ECB increased its subscribed capital by EUR 5,000 million to 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. France's share of the ECB's capital changed as a result of the five-year review and Latvia's entry into the euro area.

Consequently, the subscribed and paid-up capital of the Banque de France in the ECB has changed (see table).

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 28 December 2011	1,293,273,899.48
Paid-up capital at 27 December 2012	1,530,293,899.48
Paid-up capital from 21 December 2014	1,539,975,726.19

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

Fixed assets at 31 December 2014*Asset item A8.1 and A13**(EUR millions)*

	2014	Increase	Decrease	2013
Participating interest in the ECB (gross value)	1,540	10	–	1,530
FX translation difference on participating interest in the ECB	5	–	1	6
Participating interest in the ECB (balance sheet value)	1,545	10	1	1,536
Participating interest excluding ECB (gross value)	405	–	–	405
Intangible fixed assets (gross value)	408	156	55	307
Amortisation	178	31	–	147
Net value of intangible fixed assets	230	125	55	160
Tangible fixed assets (gross value)	2,286	243	168	2,211
Depreciation and provisions	1,533	83	21	1,471
Net value of tangible fixed assets	753	160	147	740
Total tangible and intangible fixed assets (net value)	983	285	202	900

Note: increases and decreases also include transfers between fixed asset accounts.

Information relating to subsidiaries and participating interests at 31 December 2014*Asset items A8.1 and A13.2**(EUR millions, % share)*

	Asset item	Listed	Share of capital held	2014 share-holders' equity	2014 profit/loss equity	2014 book value
Bank for International Settlements	A 13.2	No	8.96	21,155	500	405
European Central Bank ^{a)}	A 8.1	No	20.26	35,424	989	1,539
La Prévoyance immobilière	A 13.2	No	98.20	na	na	ns
Banque de France Gestion	A 13.2	No	99.99	6	8	ns

ns: not significant

na: not available

a) The interest in the capital is the Bank's share in all of the NCBs that are members of the euro area. Dividends are allocated on this basis.

of each NCB to the ECB (the “capital key”) is defined in Article 29.3 of the ESCB Statute and adjusted every five years. A further five-year adjustment became effective on 1 January 2014. Latvia’s entry into the euro area on 1 January 2014 changed the ECB’s capital allocation key. This change coincided with the five-year review of the capital key based on ESCB member states’ populations and GDP.

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.

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
Since 1 July 2013	14.1342
From 1 January 2014	14.1792

Monetary income and ECB dividends in respect of monetary and seigniorage income are allocated using a different key that is determined solely on the basis of the participating interests of NCBs that have adopted the euro. The Banque de France’s share in this regard fell to 20.2623% on 1 January 2014 (previously 20.3199%) reflecting Latvia’s entry into the euro area and the impact of the five-year adjustment. It fell to 20.1433% on 1 January 2015, reflecting Lithuania’s entry into the euro area.

Note 14: Banknotes in circulation

The ECB and the 18 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.²⁴

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,²⁵ intra-Eurosystem balances resulting from euro banknote allocation are adjusted to avoid significant changes in the NCBs’ profit positions compared to previous years. These adjustments are 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 period²⁶ 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 ended on 1 January 2013 and that for Slovakia ended on 1 January 2014. The adjustment period for Estonia will end on 1 January 2017, for Latvia on 1 January 2019 and for Lithuania on 1 January 2020.

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

The ECB Governing Council decided that the ECB’s seigniorage income arising from the 8% share of euro banknotes in circulation allocated to it,²⁷ as well as the income generated on the securities that

²⁴ ECB decision of 6 December 2001 on the issue of euro banknotes (ECB/2001/15).

²⁵ The year of adoption of the euro corresponds to the year in which euro banknotes became legal tender in the member country concerned: 2008 for Cyprus and Malta, 2009 for Slovakia, 2011 for Estonia and 2014 for Latvia.

²⁶ The reference period is the 24-month period that commences 30 months before the date on which the euro banknotes have legal tender in the member countries concerned.

²⁷ 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.

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. 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.

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 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 27).

Euro-denominated liabilities to non-euro area residents Liability item P4

(EUR millions)

	2014	2013
Euro-denominated liabilities to non-euro area residents	28,465	28,060
Accrued interest payable	7	7
TOTAL	28,472	28,067

Note 16: Euro-denominated liabilities to the Eurosystem

Euro-denominated liabilities to the Eurosystem comprise France's net debt arising on cross-border transfers via Target with other NCBs in the ESCB.

Euro-denominated liabilities to the Eurosystem Liability item P7

(EUR millions)

	2014	2013
Euro-denominated liabilities to the Eurosystem	17,009	16,188
Accrued interest payable	2	7
Accrued expenses in respect of monetary income	9	–
TOTAL	17,020	16,195

Note 17: Euro-denominated liabilities to other euro area residents

Liability item P8.1 consists of:

- the Treasury's account, which bore interest at the rate applied to main refinancing operations up to EUR 300 million from 1 May 2002 to 1 December 2014, at which date Eonia became the reference rate; above this amount, it bears interest at the deposit facility rate, which has been negative since 13 June 2014. Interest is credited (or debited) to the Treasury's account on the last business day of the month;
- the accounts of other government agencies.

Liability item 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)

	2014	2013
Liabilities vis-à-vis the State	2,442	3,266
Other liabilities	4,174	4,351
Accrued interest payable	-4	1
TOTAL	6,612	7,617

Note 18: Items in the course of settlement

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 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.

Banking transactions

Liability item P10

(EUR millions)

	2014	2013
Customer deposits	13,154	12,247
Other banking transactions	88,908	89,492
Accrued interest payable	162	164
TOTAL	102,224	101,903

Note 20: Miscellaneous

In 2014, this item mainly included:

- the capital of the Banque de France Employee Reserve Fund (See Note 29);
- miscellaneous creditors (State, etc.).

Miscellaneous

Liability item P11

(EUR millions)

	2014	2013
Deferred income, accrued expenses, etc.	283	360
Accrued expenses	277	351
Other items	6	9
French franc banknotes in circulation	0	0
Miscellaneous	4,754	4,388
TOTAL	5,037	4,748

Note 21: Provisions for liabilities and charges

Provisions for liabilities and charges mainly include employee-related provisions:

- provisions for restructuring, relating to the “cash activities” and “banknote manufacturing” plans, the 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 an early retirement incentive scheme for employees reaching the end of their working life;
- provisions for retirement benefits;

- a provision covering the Bank’s commitment to fund a portion of the supplementary health insurance plan for employees and retirees;

- 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.

The EUR 13 million decrease in the provision for supplementary health insurance (driven by a decline in both the contribution rate and the number of members relative to 2013) offset the increase in employee-related provisions, mainly driven by a decrease in the discount rate from 4% to 3.5%.

Revaluation assumptions based on long-term inflation were also reduced slightly (1.9% with effect from 2020).

The EUR 5,736 million provision for counterparty risk relating to monetary policy operations, established in 2008 for transactions with a number of defaulting counterparties, notably Lehman Brothers, and distributed among the NCBs of the Eurosystem in proportion to their respective share in the ECB’s

Provisions for liabilities and charges

Liability item P12

(EUR millions)

	2014	Increase	Decrease	2013
Provisions for restructuring	117	10	7	114
Provisions for changing the age pyramid	25	2	1	24
Provisions for retirement indemnities	168	10	8	166
Provisions for the supplementary health insurance plan	295	5	19	309
Other miscellaneous provisions in relation to current employees	116	36	29	109
Other miscellaneous provisions in relation to retired employees	169	11	7	165
Provision relative to monetary policy operations	—	—	—	—
Other	37	15	15	37
TOTAL	927	89	86	924

capital as at the date when the default occurred, was reversed in full in 2013. As such, there is no longer any provision for counterparty risk.

Other provisions include, inter alia, provisions for major repairs (such as façade repairs).

Note 22: Revaluation accounts

Gold and foreign currency assets and liabilities are revalued at the reference prices indicated by the ECB on 31 December 2014. The unrealised gain on gold was calculated using a price of EUR 31,757.51 per kilogram of fine gold, compared with EUR 28,010.37 per kilogram at end-2013.

The revaluation rates used at 31 December 2014 for the main currencies held were the following:

- 1 euro = 1.2141 US dollars (compared with 1.3791 at end-2013);
- 1 euro = 0.8386 SDRs (compared with 0.8942 at end-2013).

Revaluation accounts

Liability item P13

(EUR millions)

	2014	2013
Revaluation account – gold	57,998	48,872
Revaluation account – foreign exchange	5,575	1,860
Revaluation account – securities	1,761	1,303
Revaluation account – forward financial instruments	1	2
TOTAL	65,335	52,037

Note 23: Fund for general risks

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; conversely, the reversal of the FRG is not subject to tax. The 2014 allocation amounted to EUR 590 million.

Note 24: Revaluation reserve for gold and foreign exchange reserves

See the notes on the RRRODE in the section describing the valuation methods.

Note 25: Capital, reserves and retained earnings

Capital, reserves and retained earnings

Liability item P17

(EUR millions)

	2014	2013
Capital	1,000	1,000
Reserves	6,371	5,827
Statutory reserves ^{a)}	486	364
Long-term capital gains	100	100
Special pension reserve fund (see Note 29)	2,578	2,191
Other reserves ^{b)}	3,207	3,172
Retained earnings	69	11
TOTAL	7,440	6,838

a) In accordance with Article R114-4 of the Monetary and Financial Code, 5% of profit for the year is earmarked for a special reserve that ceases to receive allocations when it reaches an amount equal to twice capital.

b) Other reserves include the investment reserve and the insurance fund to cover claims against the Bank. In accordance with Article R144-2, the Banque de France must maintain reserves to finance its investments. The Bank is also its own insurer with respect to civil liability risks, claims on property it owns and damages to this property by third parties.

Off balance sheet items

Note 26: Interest rate futures contracts

Notional amount of financial futures contracts

(EUR millions)

	2014	2013
Outright transactions on organised markets		
Interest rate contracts denominated in foreign currency		
Purchases	66	627
Sales	626	1,104
Interest rate contracts denominated in euro		
Purchases		
Sales		
Over-the-counter markets		
Interest rate swaps denominated in foreign currency	540	705
Interest rate swaps denominated in euro	–	–

Note 27: 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 valuation methods for “Other foreign currency gains/losses” and Note 20).

Amounts of foreign currency receivable and deliverable in respect of transactions carried out with customers and the ECB (See Note 2) are detailed in the following table.

Amounts of foreign currency receivable and deliverable in respect of transactions carried out with customers

(EUR millions)

	2014	2013
Euro to be received against foreign currency to be delivered		
Euro to be received	18,452	12,591
Foreign currency to be delivered	18,963	11,401
Foreign currency to be received against euro to be delivered		
Foreign currency to be received	49,315	45,858
Euro to be delivered	48,596	46,884
Foreign currency to be received against foreign currency to be delivered	49,647	51,430
Foreign currency to be delivered against foreign currency to be received	45,559	48,511

Note 28: Commitments given or received in respect of operations with the IMF

Commitments given by the Banque de France

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 2014, total loans granted stood at SDR 2,230 million (SDR 2,394 million at end-2013), or EUR 2,486 million (EUR 2,677 million at end-2013), with the balance of the financing commitment totalling EUR 16.427 billion (SDR 19.588 billion) at 31 December 2014.

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 2014).

In addition, the Bank grants loans under the IMF's Poverty Reduction and Growth Facility and Exogenous Shocks Facility (PRGF-ESF). These loans form part of a commitment made by France at the annual general meeting of the IMF on 4 October 2009 to grant Special Drawing Right (SDR) loans 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, 2013 and 2014 totalled SDR 339 million (EUR 406 million), SDR 329 million (EUR 376 million) and SDR 182 million (EUR 207 million) respectively.

Commitments received by the Bank

In the Supplementary Budget Act for 2008, the State provided its guarantee for loans granted by the Banque de France under the PRGF-ESF.

Note 29: 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 Decrees 2008-1514 of 30 December 2008, 2012-701 of 7 May 2012, 2012-847 of 2 July 2012 and, most recently, 2014-17 of 30 December 2014, 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".

Fixed-income securities purchased by the CRE are recorded as available-for-sale and held-to-maturity securities. Differences between the acquisition and redemption price of fixed-income securities are spread over the remaining life of the securities using the internal rate of return method. Unrealised losses on available-for-sale securities are provisioned on a line-by-line basis. However, 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 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

Pension liabilities and funding

(EUR millions)

Liabilities			Funding		
	2014	2013		2014	2013
Liabilities in respect of the special retirement scheme	11,827	11,264	Funding	7,079	6,359
o/w To current workforce	4,760	4,544	o/w Employee Reserve Fund	4,501	4,168
To retirees	7,067	6,720	Special Reserve Fund	2,578	2,191
Liabilities in respect of the additional seniority granted as part of restructuring plans	136	131	Provision	136	131
Total gross liabilities	11,963	11,395	Total funding	7,215	6,490
NET LIABILITIES	4,748	4,905			

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 provisioned in full. The corresponding provisions appear in liability item P12, “Provisions for liabilities and charges”.

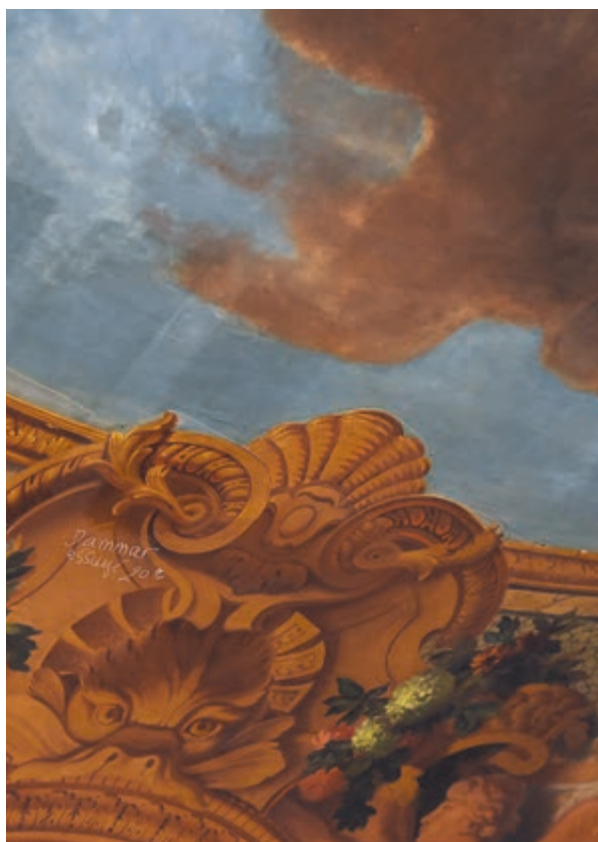
The resources constituted by this reserve fund and these provisions have been invested in a securities portfolio that appears in asset item A11. This portfolio is recorded in accordance with the rules set out in the section on the valuation methods used for securities portfolios. The income from this portfolio is shown, as appropriate, in profit and loss account items 1.1, “Net interest income”, 1.2.3, “Net other income and expenses on financial transactions”, and 1.4, “Income from equity securities and participating interests”.

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 2014. 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 was applied gradually at the rate of one quarter per half-year to reach 165 quarters in the second half of 2014 (compared with 150 until 2006). The retirement age and the upper age limit (60 and 65 respectively)



are being raised in parallel 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 on 1 October every year with reference to projected developments in the household consumer price index excluding tobacco.

Calculations of pension liabilities and the underlying assumptions used are validated and monitored by the Bank’s actuary. The discount rate applied was reduced from 4% to 3.5% in 2014. The revaluation assumptions were adjusted to reflect the decline in inflation (see Note 21).

Profit and loss account

Note 30: Net interest income

Net interest income		
Profit and loss item 1.1		
(EUR millions)		
	2014	2013
Interest on foreign exchange assets	734	740
<i>o/w: Interest on held-to-maturity securities</i>	457	470
Interest on claims on the IMF	34	14
Interest on euro-denominated claims on non-residents		
Interest on lending to credit institutions	103	655
Interest on euro-denominated securities	4,695	5,106
<i>o/w: Interest on held-to-maturity securities</i>	2,655	2,695
<i>o/w: interest on securities held for monetary policy purposes</i>	2,011	2,353
Interest on claims arising on the transfer of reserve assets to the ECB	12	39
Interest on net claims on the Eurosystem ^{a)}	0	0
Interest on the net euro banknote position	126	413
Interest on other euro and foreign currency denominated financial assets	703	906
<i>o/w Interest on available-for-sale securities</i>		
<i>Interest on held-to-maturity securities</i>	113	127
<i>Other interest</i>	590	779
Total interest and related income (1)	6,386	7,872
Interest on euro-denominated liabilities to monetary financial institutions in the euro area	-73	-160
<i>o/w: Interest paid on minimum reserves</i>	-32	-106
Interest on euro-denominated liabilities to non-euro area residents	-390	-590
Interest on foreign exchange liabilities	-7	-11
Interest on counterpart to SDR allocations	-10	-9
Interest on the net liability to the Eurosystem ^{a)}	-58	-251
Interest paid on the Treasury account	16	-2
Other interest	-72	-45
Total interest and related expenses (2)	-594	-1,068
NET INTEREST INCOME (3 = 1 + 2)	5,792	6,804

a) Interest on the Banque de France's net position within the Target system (see Notes 9 and 16).

Note 31: Net income/loss on financial transactions

In 2014, the net balance of realised gold and foreign exchange gains and losses and unrealised foreign currency losses was a gain of EUR 229 million.

Net other income and expenses on financial transactions		
Extract from profit and loss item 1.2.3		
(EUR millions)		
	2014	2013
Net gain/loss on foreign currency denominated securities ^{a), b), c)}	7	-55
Net gain/loss on euro-denominated securities included in item A72 ^{b), c)}	42	159
Net gain/loss on available-for-sale securities included in item A11 ^{b)}	32	0
Net foreign exchange gain/loss (excluding foreign exchange reserve management)	13	20
TOTAL	94	123

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 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, realised gains on gold and on foreign currency amounting to EUR 283 million were allocated to the RRRODE, with the matching entry taken to the profit and loss account (item 1.2.2). Year-end unrealised losses of EUR 54 million were taken to the RRRODE.

Note 32: Income from equity securities and participating interests

For 2014, the Governing Council decided to distribute the ECB's share of seigniorage income and income from SMP securities to the national central banks, as in 2013. The ECB made an interim profit distribution of EUR 841 million, of which EUR 171 million to the Banque de France. In 2014, it distributed an additional dividend in respect of 2013, of which EUR 12 million to the Banque de France.

Income from equity shares and participating interests

Profit and loss item 1.4

(EUR millions)

	2014	2013
ECB dividend	183	364
Dividends from other participating interests	24	43
Dividends from available-for-sale securities	17	12
Other income	0	0
TOTAL	224	420

Note 33: Net result of pooling of monetary income

This item includes:

- the net result of pooling of monetary income for 2014, corresponding to a EUR 9 million expense, compared with income of EUR 100 million in 2013;
- in 2014, an extraordinary net gain of EUR 138 million arising from interest income recovered from underlying assets following the collapse of Lehman Brothers, carried on the books of the German central bank.²⁸

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 2,025 million) and that reallocated to the Bank (EUR 2,154 million) constitutes the net result of pooling of monetary income recorded in profit and loss item 1.5.

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 consists 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.

²⁸ The EUR 64 million provision for counterparty risk in relation to Eurosystem monetary policy operations was reversed in full in 2013 (see Note 21).

²⁹ Gold is deemed to generate no income

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.²⁹ 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.

Note 34: Net other income and expenses

The *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution 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 ACPR 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 ACPR. In 2014, levies for supervisory expenses generated EUR 184 million (EUR 181 million in 2013), recorded in profit and loss account item 1.6, "Net other income and expenses".

Services provided by the Banque de France to the State are remunerated at full cost.

Net other income and expenses

Profit and loss item 1.6

(EUR millions)

	2014	2013
Remuneration for services rendered to the State	290	305
Payments for ACPR's supervisory expenses	184	181
Other income ^{a)}	305	357
Total other income (1)	779	843
Total other expenses (2)	-24	-14
NET OTHER INCOME AND EXPENSES (3 = 1 + 2)	755	829

^{a)} This item notably includes fees charged for use of the databases managed by the Banque de France (FNCL, FICP, FCC, FIBEN).

Note 35: Personnel and related expenses**Personnel and related expenses***Profit and loss item 2.1**(EUR millions)*

	2014	2013
Salaries and wages	-661	-670
Taxes on salaries and wages	-111	-111
Social security contributions	-194	-192
Profit-sharing and incentive plans	-39	-33
TOTAL PERSONNEL EXPENSES	-1,006	-1,006

*Profit and loss item 2.2**(EUR millions)*

	2014	2013
Pensions and related expenses	-455	-450
TOTAL PENSION EXPENSES	-455	-450

Note 36: Corporate income tax

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 L144-4 of the Monetary and Financial Code and the agreement referred to in Article L141-2 of that same Code.

The 2011 Supplementary Budget Act provided for an exceptional contribution to corporate income tax amounting to 5% of statutory corporate income tax in 2011 and 2012 and 10.7% in 2013. The Supplementary Budget Act for 2012 introduced a 3% tax on amounts distributed on or after 1 August 2012.

Corporate income tax*Profit and loss item 5**(EUR millions)*

	2014	2013
Income taxes for the year	2,151	2,449
<i>on profit before exceptional items</i>	<i>2,151</i>	<i>2,449</i>
<i>on exceptional items</i>	<i>–</i>	<i>–</i>

Other information

Remuneration of management bodies*(EUR millions)*

	2014	2013
Total remuneration paid to management bodies	3.1	3.1

Notes: The members of the General Council and the Executive Committee constitute the Bank's management bodies. Remuneration includes any payment in kind. The Staff Representative and the Censor are not remunerated for positions they hold in the General Council.

2|3 Auditor's report on the annual accounts of the Banque de France

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Deloitte & associés
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92524 Neuilly-sur-Seine Cedex

AUDITORS' REPORT ON THE ANNUAL ACCOUNTS

Year ended 31 December 2014

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 2014, 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 annual accounts give a true and fair view of the results of operations for the year ending 31 December and of the Banque de France's 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 29 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, 24 March 2015
The Auditors

KPMG Audit
A division of KPMG S.A.
Pascal Brouard
Partner

Deloitte & associés
José-Luis Garcia
Partner

3| THE COMBINED ACCOUNTS

3|1 Combined balance sheet and profit and loss account

Combined balance sheet at 31 December 2014

(EUR millions)^{a)}

Notes to combined annual accounts	Item	Description	2014	2013
ASSETS				
	A1	Gold	77,343	68,217
	A2	Foreign exchange assets (excl. relations with the IMF)	39,859	34,257
		2.1 Foreign exchange assets held with non-euro area residents	23,751	20,046
		2.2 Foreign exchange assets held with euro area residents	16,108	14,212
	A3	Relations with the IMF	17,198	17,023
		3.1 Financing provided to the IMF	4,777	5,784
		3.2 Acquisitions of Special Drawing Rights	12,421	11,238
	A4	Euro-denominated claims on non-euro area residents	3,226	6,363
	A5	Euro-denominated loans to euro area credit institutions in the framework of monetary policy operations	76,054	74,250
	A6	Other euro-denominated loans to euro area credit institutions	44,144	38,038
	A7	Euro-denominated securities issued by euro area residents	121,039	124,183
		7.1 Securities held for monetary policy purposes	42,483	45,139
		7.2 Other securities	78,557	79,043
	A8	Relations within the Eurosystem	91,282	86,965
		8.1 Participating interest in the ECB	1,545	1,535
		8.2 Claims arising on the transfer of reserve assets to the ECB	8,229	8,230
		8.3 Claims arising on the Eurosystem for euro banknotes in circulation	81,199	76,822
		8.4 Other claims on the Eurosystem	309	378
2	A9	Claims on the French Treasury in respect of coins	0	0
	A10	Other euro and foreign currency denominated financial assets	90,767	87,773
1	A11	Miscellaneous	13,836	9,327
	A12	Fixed assets	1,430	1,346
		12.1 Tangible and intangible fixed assets	1,023	930
		12.2 Participating interests (other than interest in the ECB)	407	416
		TOTAL ASSETS	576,178	547,746
LIABILITIES				
	P1	Banknotes in circulation	189,498	178,754
	P2	Euro-denominated liabilities to euro area credit institutions within the framework of monetary policy operations	109,955	106,980
		2.1 Current accounts	95,753	68,174
		2.2 Other liabilities	14,202	38,806
	P3	Other euro-denominated liabilities to euro area credit institutions	15	20
	P4	Euro-denominated liabilities to non-euro area residents	28,472	28,067
	P5	Foreign currency liabilities	1,170	3,154
	P6	Counterpart to SDR allocations	12,085	11,335
	P7	Relations within the Eurosystem	17,020	16,195
	P8	Euro-denominated liabilities to other euro area residents	4,015	4,573
		8.1 Treasury's account	2,484	3,363
2		8.2 Other liabilities	1,531	1,210
	P9	Items in the course of settlement	194	144
	P10	Banking transactions	102,224	101,903
	P11	Miscellaneous	5,049	4,758
	P12	Provisions for liabilities and charges	949	1,156
	P13	Revaluation accounts	65,335	52,037
	P14	Fund for general risks	7,500	6,910
	P15	Revaluation reserve for State gold reserves	22,130	21,901
1	P17	Capital, reserves and retained earnings	8,279	7,627
		17.1 IEDOM capital grant, reserves and retained earnings	147	149
		17.2 Capital, reserves and retained earnings of the Banque de France	8,132	7,478
	P18	Profit for the year	2,288	2,499
		TOTAL LIABILITIES	576,178	547,746

a) Each balance sheet item is rounded up or down to the nearest one million euro. For this reason, discrepancies may arise between totals or sub-totals and their constituents.

2014 combined profit and loss account(EUR millions)^{a)}

Notes to combined annual accounts	Item	Description	2014	2013
	1.	Net income from activities of the Banque de France	7,069	8,383
	1.1	Net interest income	5,838	6,853
	1.1.1	Interest and related income	6,427	7,905
2	1.1.2	Interest and related expenses	-589	-1,052
	1.2	Net income/loss on financial transactions	94	123
	1.2.1	Net realised gains/losses and unrealised losses on foreign exchange	229	-106
	1.2.2	Net charges to/releases from the revaluation reserve for State foreign exchange reserves	-229	106
	1.2.3	Net other income and expenses on financial transactions	94	123
	1.3	Commission	18	-8
	1.3.1	Commission (income)	40	43
	1.3.2	Commission (expense)	-22	-51
2	1.4	Income from equity securities and participating interests	218	406
	1.5	Net result of pooling of monetary income	129	164
	1.6	Net other income and expenses	772	846
	2.	Operating expenses	-2,256	-2,242
	2.1	Personnel and related expenses	-1,023	-1,023
	2.2	Pensions and related expenses	-457	-452
	2.3	Taxes other than income tax	-40	-39
	2.4	Provisions, depreciation and amortisation	-119	-115
	2.5	Other operating expenses	-618	-614
	PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX (1 + 2)		4,813	6,141
	3.	Net charge to the fund for general risks (FRG)	-590	-1,250
	4.	Exceptional items	-	-
	4.1	Exceptional income	-	-
	4.2	Exceptional expenses	-	-
1	5.	Corporate income tax	-1,934	-2,392
	PROFIT FOR THE YEAR (1 + 2 + 3 + 4 + 5)		2,288	2,499

a) Each profit and loss account item is rounded up or down to the nearest one million euro. For this reason, discrepancies may arise between totals or sub-totals and their constituents.

3|2 Notes to the combined annual accounts

Scope of consolidation

Undertakings excluded from the consolidation

At 31 December 2014, the Banque de France held a participating interest in four undertakings (see Note 13 to the balance sheet of the Banque de France). The Banque de France holds an interest of over 20% in three of these undertakings.

The interests held in *Banque de France Gestion* and *La Prévoyance immobilière* 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 18 members since 2011 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 2000-347 of 19 April 2000, amending Order 59-74 of 7 January 1959 reforming issuance arrangements in the overseas departments of Guadeloupe, French Guiana, Martinique, Mayotte and 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 seven members, three 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 use of private loans as part of Eurosystem refinancing operations; supervision of systems and means of payment; acting as an intermediary between national authorities (ACPR, AMF) and European authorities (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 individual items in the combined balance sheet and profit and loss account

Note 1: Deferred taxes

A net deferred tax asset of EUR 811 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 expense for the year, which in 2014 is EUR 217 million lower than in the individual annual accounts;
- item P17, "Capital, reserves and retained earnings", which includes a balance of EUR 594 million

Deferred tax assets and liabilities

(EUR millions)

	Deferred tax assets	Deferred tax liabilities
Income temporarily exempted from taxation		6
Tax on unrealised gains and losses on mutual funds	507	
Other deferred tax relating to securities	0	
Provisions not deductible for tax purposes	340	
Other recurring timing differences	7	
Charges deducted for tax purposes but not yet recognised in the accounts		36
TOTAL	854	42

representing the net deferred tax asset at the start of 2014.

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

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AUDITORS' REPORT ON THE COMBINED ANNUAL ACCOUNTS

Year ended 31 December 2014

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 2014 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 combined annual accounts. It also includes assessing the accounting principles used and significant estimates made as well as evaluating the overall presentation of the 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 describes the accounting principles and valuation methods applicable to the Banque de France, some of which are specific to the European System of Central Banks (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 29 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.

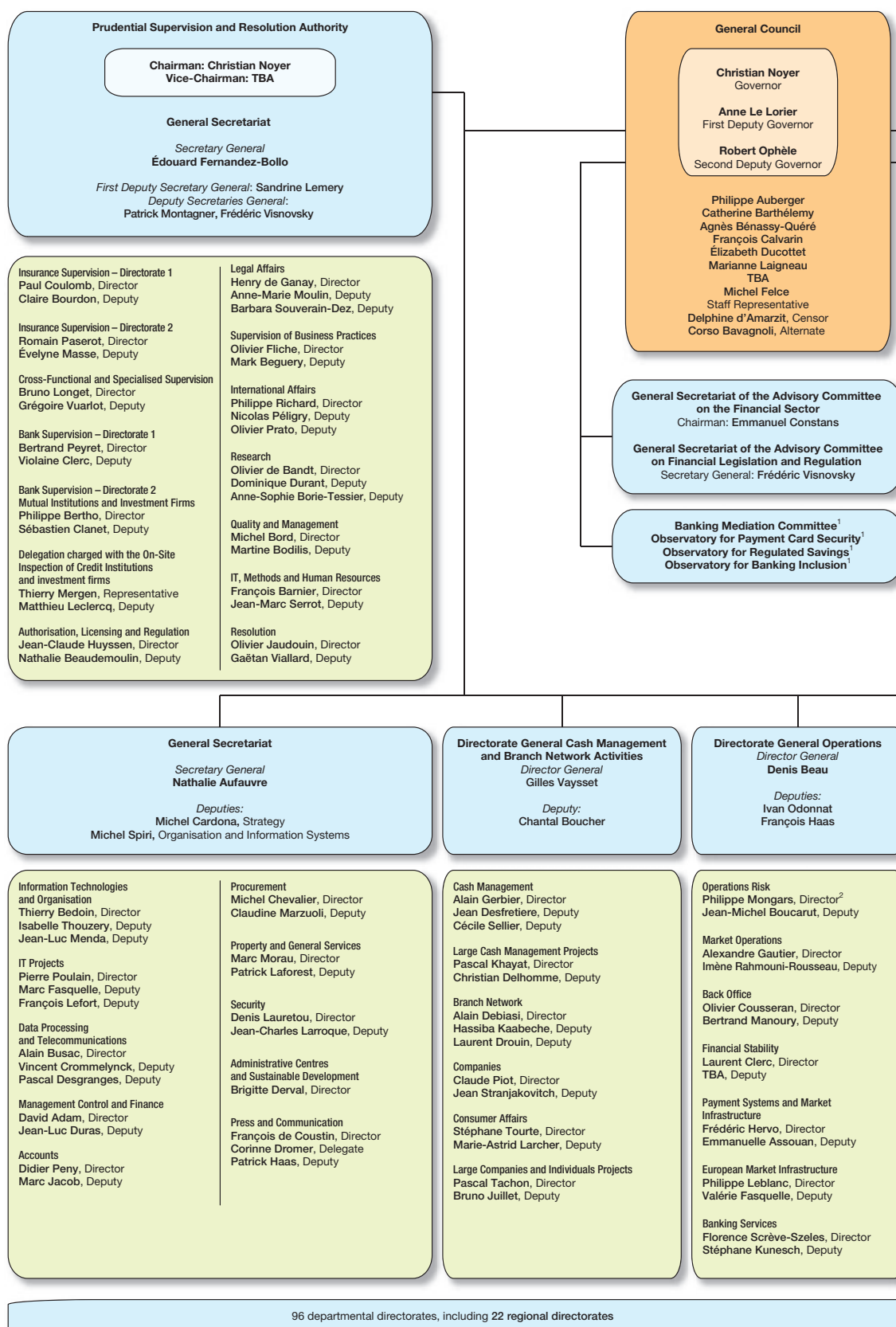
Our assessments of these issues were made within the context of our audit approach to the combined annual accounts taken as a whole, and contributed to our opinion expressed in the first part of this report.

Paris La Défense and Neuilly-sur-Seine, 24 March 2015
The Auditors

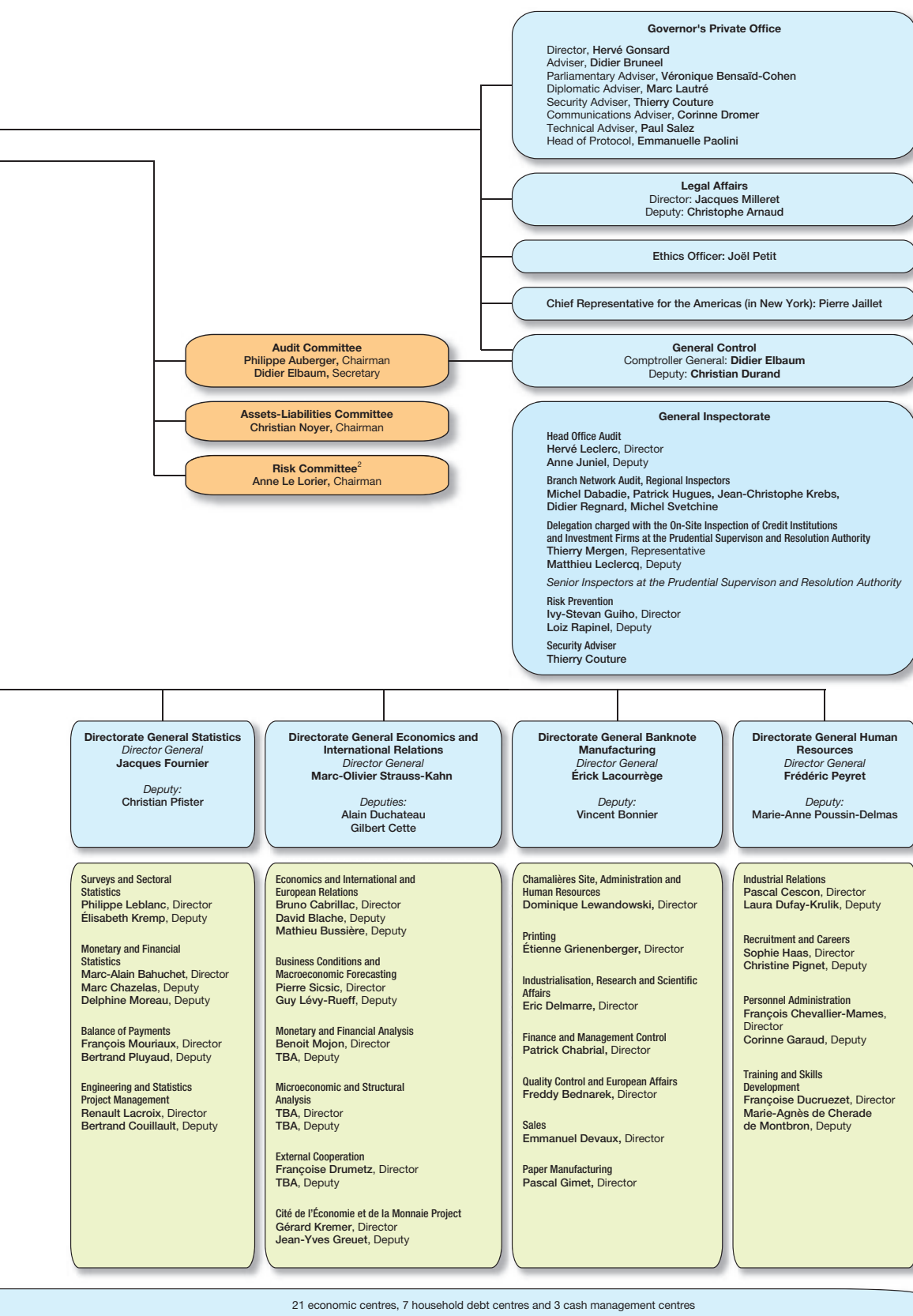
KPMG Audit
A division of KPMG S.A.
Pascal Brouard
Partner

Deloitte & associés
José-Luis Garcia
Partner

Appendix 1



¹ The Governor chairs the Banking Mediation Committee, the Observatory for Payment Card Security, the Observatory for Regulated Savings and the Observatory for Banking Inclusion.
² The Director of Operations Risk reports to both the Chairman of the Risk Committee and the Director General of Operations.



Appendix 2

THE RECYCLING OF EURO BANKNOTES AND COINS BY PRIVATE OPERATORS IN 2014

Under Article L141-5 of the French Monetary and Financial Code, the Banque de France is tasked with maintaining the quality of the banknotes and coins in circulation within French national territory.

Article R122-8 of the Code requires operators (credit institutions, cash-in-transit companies, non-professional service providers) contributing to the processing and recirculation of banknotes that have not come from a central bank to sign an agreement with the Banque de France before undertaking such activities.

As at end-2014, 162 operators had signed agreements with the Banque de France authorising them to distribute and process banknotes, and 136 sites in Metropolitan France had been authorised to process coins.

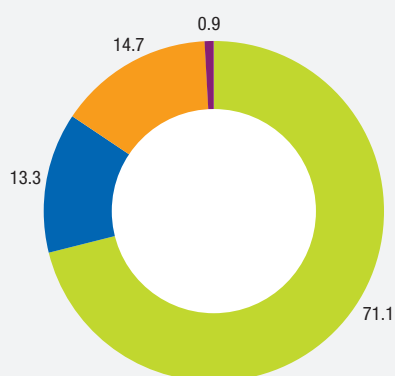
Table

Type of agreement	Type of operator	Number of agreements signed in 2014	Total number signed as at 31 December 2014
Coins			
	Professional operators	2	14
	Non-professional operators	2	20
Banknotes			
Distribution agreements	Credit institutions	5	66
Processing agreements	Credit institutions and cash-in-transit companies	4	56
	Non-professional service providers	21	87

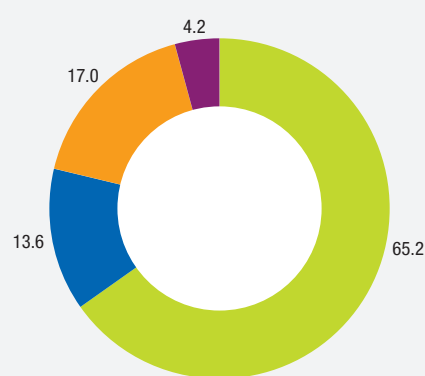
Share of machines used in banknote recycling in 2013 and 2014

(%)

a) At 31 December 2013



b) At 31 December 2014



Banknote processing + authentication machines
Teller assistant recycling machines

Cash-in machines with fitness sorting
Self-service cash recycling machines

NB: Statistics produced pursuant to Article R123-3 of the French Monetary and Financial Code.

The recycling of euro banknotes and coins by private operators in 2014

In 2014, the volume of recycling activities carried out by bank branches continued to rise (up 9.3% versus the previous year). The vast majority of these activities are still carried out using banknote processing equipment and authentication machines; however, in 2014, this share declined by just over 5 percentage points while the proportion carried out via self-service recycling machines increased by close to 4 points.

The volume of recycling carried out by cash-in-transit companies rose sharply over the year (the number of bank branches replenished in this way rose by 48.3% year-on-year).

Banque de France inspections of operators processing banknotes that have not come from a central bank and recirculating them via ATMs

In 2014, the Banque de France carried out 289 on-site inspections at bank branches and workshops processing banknotes for the replenishment of ATMs.

One formal notice was issued requiring an operator to remedy a non-compliant situation. However, this did not lead to a suspension of recycling activities as the necessary corrective measures were taken within the required deadline.

Similarly, all anomalies detected in the documents operators are required to submit to the Banque de France under the terms of their agreements were promptly corrected.

Banque de France inspections of coin processing

In 2014, the Banque de France conducted on-site inspections at 52 sites. All problems identified were quickly remedied by the operators concerned.

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

The Banque de France has made the French overseas note-issuing bank (IEDOM) responsible for signing agreements with credit institutions headquartered in the overseas departments and collectivities and controlling their implementation.

As at end-2014, 10 agreements had been signed authorising the delivery of recycled banknotes via ATMs. IEDOM conducted inspections at 3 of the 73 sites concerned. In addition, 10 agreements on automatic coin processing had been signed, covering a total of 10 production sites. Six of these sites were inspected.

Appendix 3

SUMMARY OF THE HOUSEHOLD DEBT COMMISSIONS' ACTIVITY REPORTS FOR THE YEAR 2014

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 communicated to the Banque de France, which publishes a summary thereof in its annual report.

Positive first results from the introduction of the French Banking Law – procedures have been simplified and case handling optimised

Law 2013-672 of 26 July 2013 on the Separation and Regulation of Banking Activities, which entered into force on 1 January 2014, introduced new provisions designed to simplify and accelerate the handling of over-indebtedness cases. The results registered at end-December 2014 showed significant advances, both in the application of the new measures in the handling of dossiers (measures imposed or recommended for immediate application), and in the solutions offered for different cases of over-indebtedness.

In 2014, 230,935 over-indebtedness applications were submitted to the Household Debt Commissions, representing a rise of 3.55% compared with 2013. Using comparable methodology, however, the figure was actually down by 2.12% year-on-year – the difference is due to the elimination of the re-examination phase under the new Banking Law.

The application of the Banking Law led to a rise in the number of cases effectively resolved: in 2014, 246,538 cases were closed, up 2% versus 2013.

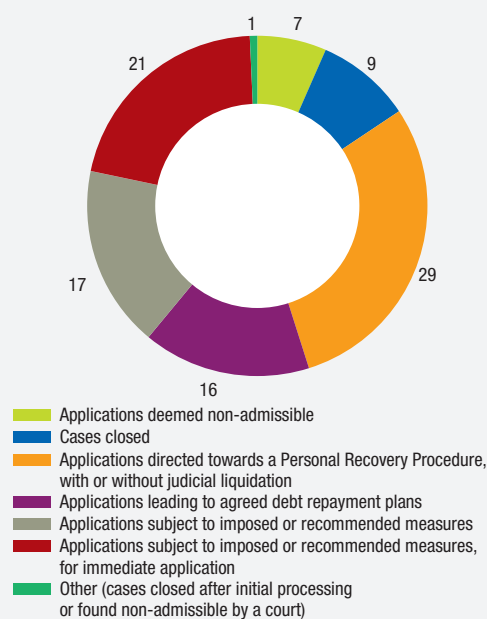
Table
Key data on the commissions' activity

(in number of applications)

	2014	2013
Applications filed	230,935	223,012
<i>o/w re-files (as a %)</i>	42.1	39.0
Admissible applications	205,787	195,219
Non-admissible applications (A)	16,222	16,059
Directed towards amicable resolution	135,914	133,432
Directed towards a Personal Recovery Procedure	73,183	71,187
Recommended for Personal Recovery Procedure without judicial liquidation (B)	71,164	66,889
Agreement by debtor to Personal Recovery Procedure with judicial liquidation (C)	1,458	1,346
Agreed debt repayment plans (D)	39,266	66,601
Measures imposed or recommended by the commissions (E)	94,379	58,883
<i>o/w measured imposed or recommended for immediate application</i>	51,789	
Cases closed (F)	22,314	30,144
Other outcomes (including cases found non-admissible) (G)	1,735	1,970
Cases handled (A+B+C+D+E+F+G)	246,538	241,892

Breakdown of commissions' decisions in 2014

(as a % of total applications processed)



In 2014, the largest share of cases (21%) were resolved through the imposition or recommendation of measures for immediate application – an option introduced under the Banking Law.

1| The need for greater support for over-indebted individuals

Although the new legislative framework introduced by the Banking Law has addressed the main problems linked to the handling of over-indebtedness cases, the commissions' reports highlighted the need for greater cooperation between all participants in the procedure, to better respond to the difficulties encountered by debtors.

Over-indebted individuals need assistance throughout the procedure, from the submission of their application to the establishment and monitoring of debt resolution measures

Some reports noted that, in certain complex situations, debtors needed personalised assistance with budget management and social issues throughout the process, and notably when preparing their initial over-indebtedness application. The reports highlighted that advice on budgeting would be particularly useful in the first months after the implementation of a debt resolution plan, as this would help make the plan more viable and reduce the number of unjustified re-applications.

Personalised budgeting and social guidance would also limit the need for re-applications and for repeated debt cancellations.

Similarly, the appointment of a correspondent on the General Council and at the *Caisse d'allocations familiales* (French benefits office), which is also one of the measures introduced by law, should ensure greater coordination in the provision of guidance to those in debt.

Improved detection of financial vulnerabilities to prevent over-indebtedness

The activity reports stressed that greater commitment is needed to improving the budgeting and financial education of vulnerable segments of the population and of social workers. Mindful of this need, the Banque de France and its secretariats continued to organise large numbers of training and information sessions throughout 2014:

- some 800 sessions were held for social workers and various social services;
- close to 13,000 people took part (from social action community centres, district social services, benefits offices, housing solidarity funds, etc.).

The approach reflects the Bank's determination to improve coordination between existing support services in order to improve social inclusion and help fight poverty.

In the last quarter of 2014, these efforts were backed up with the introduction of new legislation for facilitating access to banking and financial services. The measures are designed to better identify financially vulnerable customers and offer them targeted banking products, and provide ongoing guidance and solutions to stop their financial situation from deteriorating.

2| The need for better coordination between the debt resolution scheme and housing-related provisions

Helping debtors who own their principal residence to remain in their home

Some commissions said in their reports that the current limit of 96 months on debt resolution plans might force debtors who own their principal residence to sell their home. This could be avoided in some cases by extending the period for repaying all the debts (property and non-property loans)¹ beyond the maximum limit.

The legislative measures due to be introduced on 1 July 2016 should help resolve this issue.

Helping debtors living in rented property to remain in their home

To help prevent the eviction of tenants experiencing serious financial difficulties, the Banking Law has made it possible for debtors who have signed a “social cohesion protocol” with their landlord² to replace this protocol agreement with their debt resolution plan. Some Household Debt Commissions recommend extending this measure, under the same conditions, to debt clearance agreements (or repayment agreements) signed between landlords and individuals receiving housing benefit. This would mean that:

- once an individual's over-indebtedness application has been deemed admissible, all payments due under the debt clearance agreement are suspended;
- the repayments initially scheduled under the debt clearance agreement are replaced with those due under the debt resolution plan.

Personal Recovery Procedures and cancellation of rental arrears

A number of reports described the difficulties encountered by tenant debtors following the implementation of a Personal Recovery Procedure (PRP) and cancellation of rental arrears. In certain cases, tenants were evicted after the PRP decision was announced and found it hard to obtain a new lease, creating a risk of social exclusion. In cases where the debtor's bank account had also been closed, this was accompanied by a risk of banking exclusion, which could potentially force the debtor to exercise his/her basic right to an account.

Finding ways to improve the prevention of tenant evictions

The appointment of CCAPEX³ correspondents under the terms of the ALUR Law (French law on access to housing and urban renewal) has improved dialogue between the Household Debt Commissions and the CCAPEX, and is helping to prevent evictions and improve tenant protection.

¹ Where the debtor has sufficient repayment capacity.

² Under Article L442-6-5 of the Code de la construction et de l'habitat (Code on the Construction of Residential Property).

³ Commission de coordination des actions de prévention des expulsions locatives (Eviction Prevention Coordination Commission).

3| The need to maintain dialogue with creditors and debt collectors

One of the keys to the success of the new legislative framework has been the attitude of creditors, who have, on the whole, proved understanding of its main aims. Nonetheless, a number of difficulties raised in last year's reports were once again highlighted by the commissions.

One notable issue raised was the need to ensure that creditors effectively notify their mandated debt collectors (notably bailiffs) when an over-indebtedness application has been accepted; failure to do so can lead to proceedings continuing against the debtor even after the case has been deemed admissible.

Some reports also noted that creditors failed to add their own comments or observations when measures were imposed or recommended for immediate application. This made it harder to implement the required solutions or to get debtors to respect their commitments.

A number of commissions cited difficulties processing receivables that have been sold to third parties during the procedure. This practice increased significantly over the course of 2014. In these cases, debtors and commissions are often unaware that the receivables have been sold, making it harder to process the dossier and raising the risk that the debt resolution measures will fail or that the solutions proposed might be unsuitable.

Certain commissions also noted the need for improvements in the application of the professional standard⁴ on banks' relationships with over-indebted clients; a number of cases were highlighted where bank accounts had been closed or frozen following the implementation of a debt resolution procedure.

Difficulties were occasionally encountered with third parties to the procedure, notably lawyers and notaries. Under the legal texts, the commissions and Bank secretariats cannot disclose confidential details of cases to these third parties, which can at times lead to misunderstandings or make it harder to process the dossier.

Finally, the commissions suggested a number of ways in which the procedure could be simplified:

- set a deadline of one month for creditors to respond to the proposed debt resolution plan; beyond this deadline, the plan could be deemed to have been accepted;
- allow certain cases where the amount owed is low – consisting only of a few debts on current expenses – to be directed towards other, more appropriate schemes (e.g. the housing solidarity fund).

⁴ Order of 24 March 2011 approving the professional standard regarding relationships between banks and their over-indebted clients.

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