





Governor's foreword

"A year of challenges,
but also a year of pride"

François Villeroy de Galhau



ITS MISSIONS

The year 2020 will remain the year of the Covid shock. Threatened by the epidemic, our societies and their leaders reacted with determination: emergency measures were followed by stimulus packages. The *Annual Report* presents the actions taken by the Banque de France to continue to perform its missions, maintain confidence in the currency and ensure the smooth financing of the economy. For the 9,500 staff of the Banque de France, 2020 was a year of challenges but also a year of pride. The challenge was to switch massively to telework within two days in mid-March, and be present on all the “fronts” and in all the areas where we were expected. But pride because we did our duty in the service of the country and were recognised for it; and pride for having completed our “Ambitions 2020” transformation plan on time despite the crisis. I would like to express my warmest thanks to all the managers and staff of the Banque de France.

The Banque de France is indeed a bedrock of stability that has helped to cushion the severity of the crisis. In the euro area, the recession was 6.8% in 2020. In France, the loss of activity was dramatic during the first lockdown in the spring, but limited to 8.2% for the year, thanks to the exceptional rebound observed in the third quarter. Public support made a massive contribution to building a “financing bridge” for all companies and preserving the overall purchasing power of households. As a result, French government debt exceeded 115% of GDP at the end of 2020. Can such a high level be sustainable? Yes, if the economy recovers and if a more controlled public spending path creates additional leeway. The European Union’s exceptional recovery plan announced in July 2020 amounting to EUR 750 billion will be a cornerstone, the quality of which depends on the quality of the investments for the future.

2020 was a very difficult year for both health and at the human level, as well as in terms of loss of activity. But it was also the year in which previous trends gained momentum: digitisation and the use of technology for an innovative economy; greening and efforts to make the economy more responsible and sustainable. The Banque de France has contributed to this: our network of central banks and supervisors comprising the Network for the Greening of the Financial System (NGFS) has grown to over 80 members, including the US Federal Reserve, since 12 December 2020. It enhanced its responsible investment policy and committed to phasing out coal-related investments completely by 2024.

Above all, we are striving to be an increasingly efficient, resilient and accessible public service. Support functions – including HR, property management and logistics, and IT – were key players in this drive in 2020. The Banque de France continued its internal transformation in order to prioritise the allocation of public money to the best service for the community, where the needs are greatest. It reduced its management costs and its operating expenses, while continuing to recruit, with over 380 new hires in 2020. By meeting or exceeding all of the targets of the Ambitions 2020 plan, it has shown that it is possible to achieve a triangle of success for the benefit of all: lower costs, more services and a maintained nationwide branch network.

This fundamental work, which is undeniably demanding, and this contribution to the common good have been accomplished through our three core tasks of monetary strategy, financial stability and services to the economy and society, which we call the “3S’s”.

In terms of **monetary strategy**, the Banque de France actively participated, within the Eurosystem, in developing and implementing a monetary policy strategy to combat the crisis; it responded immediately, massively and effectively – through banks and markets – to refinance households, companies and the government at low rates, thus preventing the financing of the economy from being impeded. Banque de France economists, market operators and staff in the regions joined forces to achieve this. State-guaranteed emergency loans, totalling EUR 130 billion, were successfully channelled to SMEs. Credit Mediation was offered to more than 14,000 companies, fifteen times more than usual, thus helping to preserve nearly 80,000 jobs. High-quality banknotes were made available throughout the country, even at the height of the lockdown.

As regards **financial stability**, the successes were also achieved through joint efforts, notably by the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) and the experts of the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability). If we have managed to avoid a financial crisis this time, it is also thanks to the enhanced soundness of our banks and insurance companies, which are well supervised and subject to strict minimum capital requirements. At both the macro- and microprudential levels, staff monitored institutions, anticipated risks and subjected banks to stress tests. The Banque de France is preparing for the future, with the necessary completion of the Basel III agreement for banks and the review of Solvency II for insurance companies. The future is being shaped by exploratory work on a possible central bank digital currency, aimed at preserving security, modernity and the freedom of choice of payment means.

With **services to the economy and society**, the Banque de France has remained close to citizens throughout France thanks to the development of online services to individuals and SMEs. The network has been remarkably active in each *département*. The fight against household overindebtedness, economic and financial education, and the right to a bank account are grassroots efforts that have protected the most vulnerable and paved the way for more sound economic and financial decisions. We are keenly looking forward to the reopening of our beautiful *Cité de l'économie* – Citéco – to welcome the public in the heart of Paris. The sensitive company rating exercise was carried out with credibility and flexibility; our VSE-SME correspondents processed more than 12,000 requests.

We have started to develop new formats to inform the economic debate. The success of our blogs, experts' views, shared on social networks, testifies to the high demand for information from all audiences, including less specialised audiences. We are therefore going to step up these initiatives, in order to explain and share even more: our new project "*La Banque de France à votre écoute*" is both a tool for efficiency and a democratic requirement, and covers more than just monetary policy.

The health and economic crisis has highlighted the exemplary commitment of Banque de France employees. It also reminded us, if this were necessary, that we are only legitimate when in the service of our fellow citizens and the economy, in France and in Europe.

We will mobilise both technology AND people, because these are the ways in which we can rebuild a better economy: more sustainable, fairer and more skilled. This is the goal of our next strategic plan, to build the Banque de France of 2024 together.



KEY FIGURES

IN 2020,
THE BANQUE DE FRANCE
COMPRISED...

105 permanent sites

9,535 full-time equivalent employees



-22%
in greenhouse gas emissions compared with 2014

€ 4.97 BN
profit before tax

€ 137 M
reduction in operating expenses compared with 2015

The health crisis triggered a massive supply and demand shock. Manufacturing output and the provision of services fell, consumption contracted, especially in services. As companies feared their cash position would deteriorate, their confidence fell sharply.

WHAT HAS THE BANQUE DE FRANCE DONE TO ADDRESS THE CRISIS?



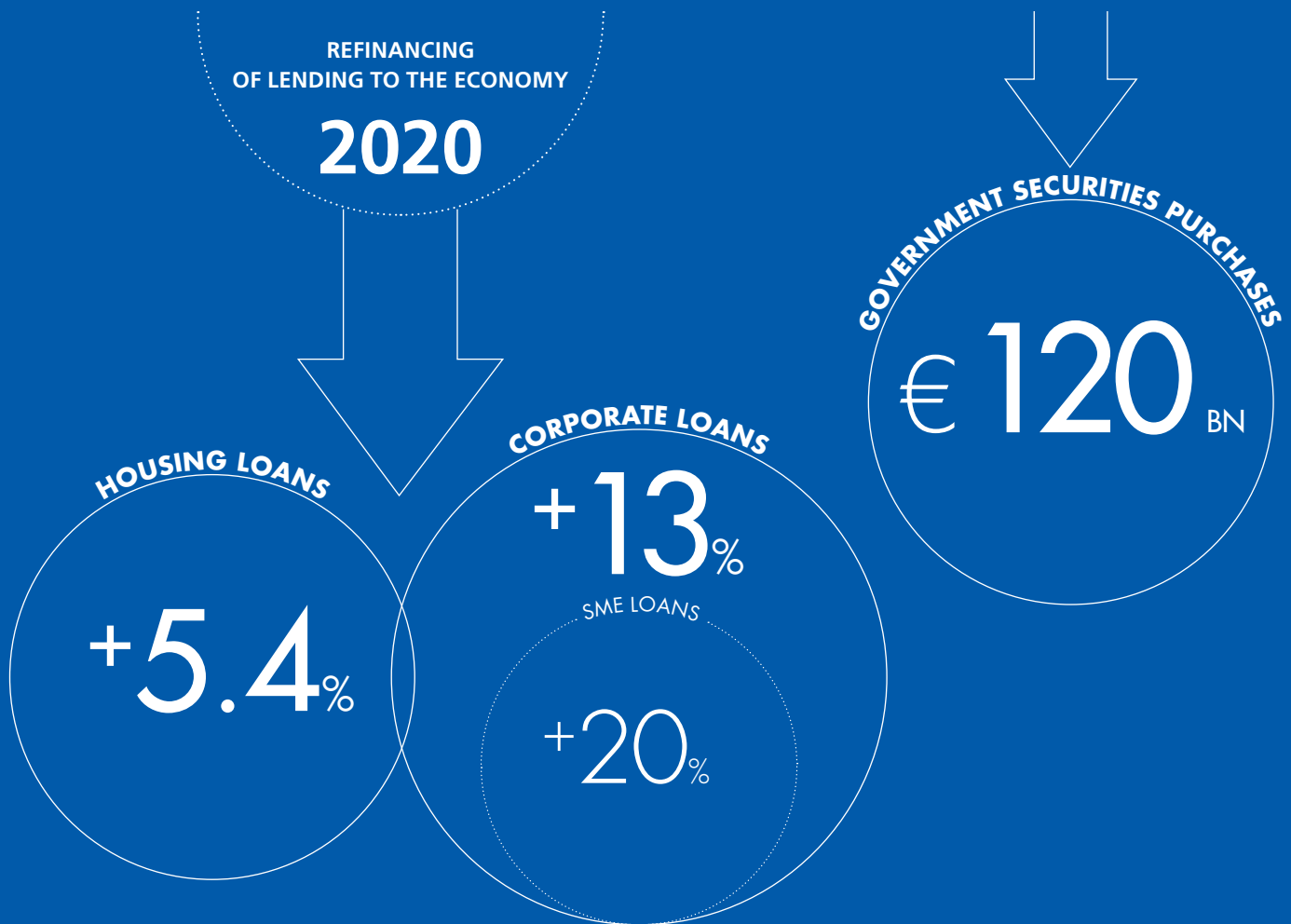
➔ **THE BANQUE DE FRANCE ACTED IMMEDIATELY TO ENSURE THE FINANCING** needed to support the economy, in order to prevent bankruptcies and redundancies:

- It participated, together with the ECB and all national central banks, in the deployment of a **financing bridge**
- Together with the HCSF and the ECB, it eased some of the regulatory requirements affecting banks to increase their ability to lend to businesses

➔ **EUR 400 billion were injected by the Banque de France** to encourage banks to grant loans to companies and individuals (including state-guaranteed loans)

➔ **MORE FAVOURABLE FINANCING CONDITIONS**

- EUR 120 billion of government securities were purchased from banks by the Banque de France as part of the pandemic emergency purchase programme
- The Eurosystem's key policy rate is 0%
- Banks can refinance certain loans at -1%
- The state borrows at negative rates to finance its aid programme



➔ **THE BANQUE DE FRANCE ANALYSED AND CLOSELY MONITORED THE ECONOMIC EFFECTS OF THE CRISIS** in order to provide reliable, up-to-date economic information that is accessible to all, enabling it to:

- calibrate monetary policy at the European level
- implement it at the national level
- assess the effects of the support measures

➔ **WITH THE ACPR, IT CONSTANTLY MONITORED THE SOUNDNESS OF THE FINANCIAL SYSTEM**

- it monitored the continuity plans of financial institutions and market infrastructures
- it analysed financial risks in the banking and insurance sectors
- it prepared the financial sector's exit from the crisis to ensure its robustness and resilience:
 - adjusting timetables for implementing regulatory changes
 - integrating climate change issues

THE LOSS OF ACTIVITY IN 2020 REDUCED



8,500

companies interviewed
for the monthly business survey

657

banks supervised

683

insurance firms
and mutual insurers
supervised

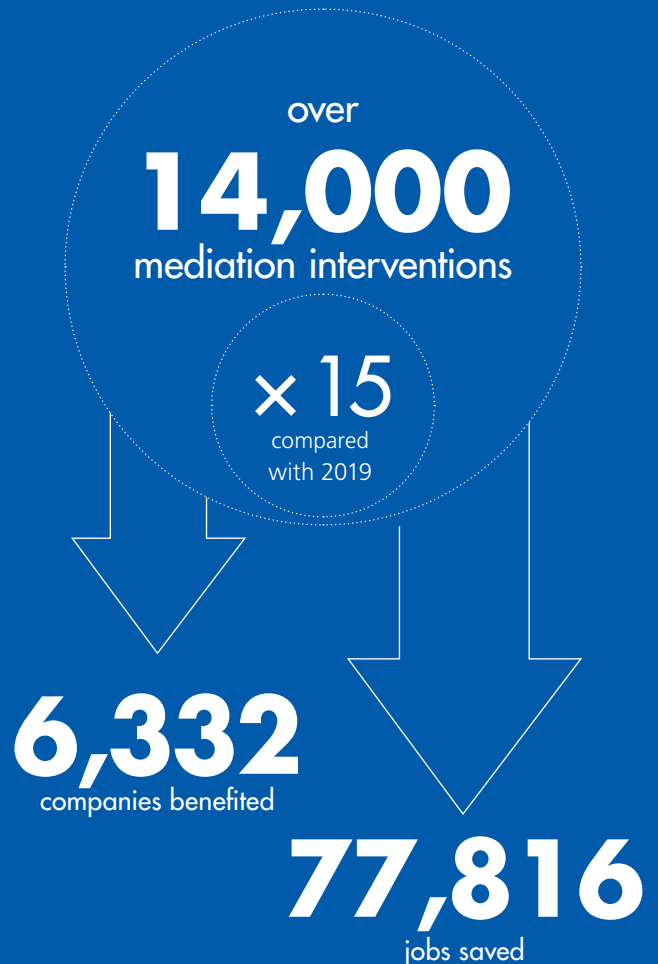
➔ IT ENSURED THE CONTINUITY OF ALL ITS MISSIONS AND EXPANDED ITS SERVICES TO THE ECONOMY AND SOCIETY FOR THOSE WHO NEED THEM MOST

- it extended its support for VSEs and SMEs to all companies
- it enhanced its role as **Credit Mediator** by speeding up the procedure and increasing its number of interventions fifteenfold
- it participated in a crisis committee set up to deal with the lengthening in payment times
- it ensured the continuity of the cash circuit and the smooth functioning of payments
- it adapted its services and assistance to individuals: continuity of reception and introduction of online filing of overindebtedness files
- it participated in major solidarity initiatives

12,047

entrepreneurs assisted
by SME-VSE correspondents

1.27 MILLION
interactions with
the general public



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MONETARY STRATEGY



THE MONETARY STRATEGY IN 2020



MISSIONS

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

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

At the heart of the Eurosystem, the Banque de France helps to design and implement monetary policy with the aim of **safeguarding monetary stability in the interest of the public**

- participation in Governing Council monetary policy decisions
- implementation of exceptional measures to ensure price stability
- production of economic statistics and forecasts to provide valuable insight

The Banque de France **maintains confidence in the currency in all its forms:**

- printing of the Europa series of banknotes with innovative security features
- putting banknotes into circulation and maintaining banknotes and coins
- security and innovation in all payment instruments

€ **400** BN

in loans granted by the Banque de France to banks in the context of targeted longer-term refinancing operations

-8.2%

decline in France's GDP in 2020

€ **134** BN

in French government securities purchased under the pandemic emergency purchase programme at end-January 2021, including purchases by the Banque de France and the ECB

+26

PERCENTAGE POINT
upturn in activity between April (-31%) and December (-5%)

1 BN

in €20 and €50 banknotes manufactured in 2020

2022

year when France's GDP is expected to return to its pre-Covid-19 level

last review of the Eurosystem strategy

2003-2021

current review of the Eurosystem

MONETARY POLICY AND CONFIDENCE IN THE EURO: the Banque de France helped support the economy during the health crisis

The Covid-19 health crisis, and the measures taken to deal with it, led to a sharp fall in activity. The public policy response was rapid and massive in order to support the economy and underpin the recovery. The Banque de France's experts assessed the impacts of the health crisis and helped lay the groundwork for the recovery.

1

Measuring the crisis

Statistical surveys provided reliable insights into the spring recession, the ensuing summer rebound and the setbacks experienced at the year-end

An unexpected and severe recession, with a heterogeneous impact by sector

Throughout 2020, the health situation and the measures implemented to contain the epidemic caused major swings in economic activity. Companies had to deal with an unprecedented situation involving mandatory temporary closures, the widespread use of teleworking and the implementation of health protocols.

The Banque de France economic survey made it possible to reliably estimate the historical decline in activity and the strong rebound in the third quarter of 2020. The contraction in GDP at the peak of the health crisis in the spring was estimated at around -30% versus the pre-crisis level, before it returned to only -3% in September. Activity declined again in November as lockdown measures were reactivated. The Banque de France economic survey shows contrasting trends in activity between sectors, with particularly strong

contractions in those sectors that were most exposed to the health measures (in particular retail, accommodation and catering).



↑ Conference on the Île-de-France economy on 13 February 2020, hosted by Jean-François Prevet, Regional Director, Île-de-France

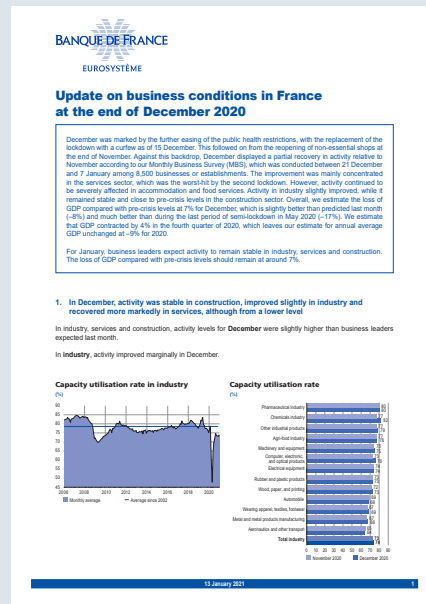
↓ Retail activity at end-December 2020 (<https://www.youtube.com/watch?v=qyUtjwScMU> – in French)



ECONOMIC SITUATION DURING THE CRISIS: SHOCK AND RECOVERY

The monthly business survey conducted across 8,500 manufacturing, service and construction companies was a vital tool in monitoring the crisis throughout the year. Faced with a heightened need for public information, communication around the survey was stepped up, with the publication each month of an update on business conditions in France presenting the situation and outlook of each sector, as well as an estimate of the overall loss of activity compared with pre-crisis levels.

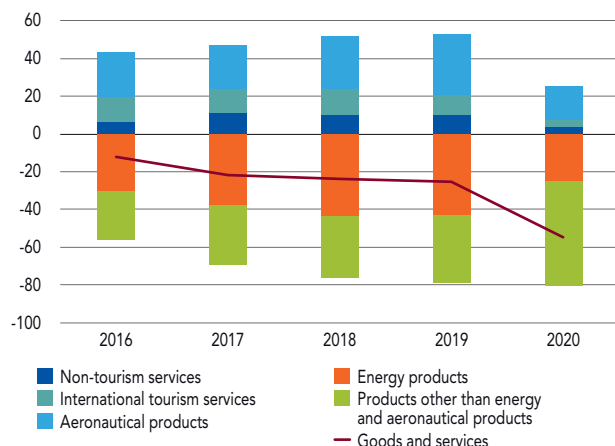
The unprecedented nature of the shock called for adjustments to our economic monitoring tools and methods. Firstly, new questions were added to the survey in March. These notably covered the level of activity compared with normal, the use of teleworking, and the expected date of a return to normal activity. An additional short-term forecasting methodology had to be developed to anticipate changes in GDP. This method is based on a sectoral approach, with the aim in particular of distinguishing between sectors facing very significant constraints from those whose business loss was more moderate.



↑ Update on business conditions in France at end-December 2020
<https://www.banque-france.fr/en>

Trade balance in goods and services by type

(in EUR billions)



Source: Banque de France.



The consequences for the current account deficit and trade balance

In 2020, the current account deficit widened sharply due to a EUR 30 billion deterioration in the trade balance. While domestic demand in France for goods and services weakened, its exports suffered even more as a result of the Covid-19 crisis. France's specialisation in aeronautics and international tourism was disadvantageous in the context of the crisis as these two sectors were particularly affected. Nevertheless, the lifting of travel restrictions in summer 2020 led to a rebound in tourism that benefited France. More broadly, the general upturn in global trade during the summer enabled France to reduce its trade deficit at the end of the year compared with its most critical point during the spring.

The use of high-frequency data helped in obtaining a more rapid and detailed assessment

The health crisis called for real-time monitoring of activity. For this reason, high-frequency data were used in conjunction with the economic survey. The work centred on the daily data for electricity consumption by companies and the use of bank cards, which helped to monitor changes in company production and household consumption, particularly during the lockdown periods.

Other high-frequency indicators, such as those relating to ambient noise and gas consumption, were also used. Similarly, to measure international tourism, the usual inputs from airports, ports and train stations were replaced by foreign credit card payment data.

2

The Banque de France's key role in the public policy response

Exceptional emergency measures

Europe's public authorities, including governments, central banks and prudential supervisory authorities, took concerted proactive measures to deal with this unprecedented crisis. The Banque de France helped to devise and implement the response to the Covid crisis in order to ensure the financing of the economy and effective cooperation around public policy.

Monetary action: bold measures

The Eurosystem put in place essential measures to support the financing of the economy. Firstly, banks were able to borrow from the Eurosystem under better

THE USE OF OPEN DATA IN ANALYSING THE CRISIS

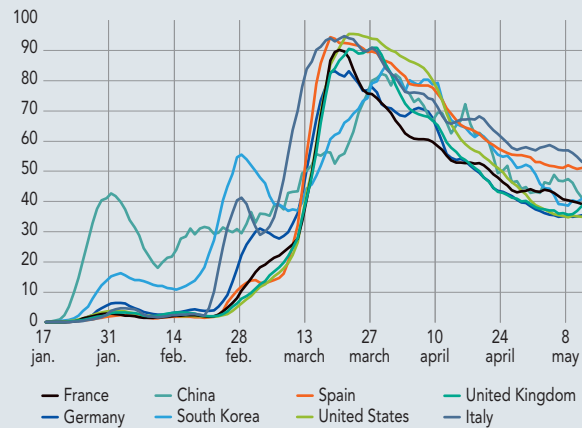
To obtain a more in-depth analysis of the impact of the Covid-19 crisis, the usual economic monitoring measures were supplemented by new indicators from so-called “open” data (pollution, electricity, data from Google Trends and Twitter). This helped to assess the impact of the shock in real time. The Banque de France designed new dashboards incorporating indicators from open data.¹

While open data proved useful in the context of the crisis, too many questions remain unresolved for that data to be used with the same guarantees as the usual statistics. This reflection is included in the ongoing formulation of the Banque de France’s “Data” strategy.



Popularity index of Google keyword searches of “coronavirus” and variants, by country, from 17 January to 11 May 2020

(base 100 = maximum number of daily searches over the period)

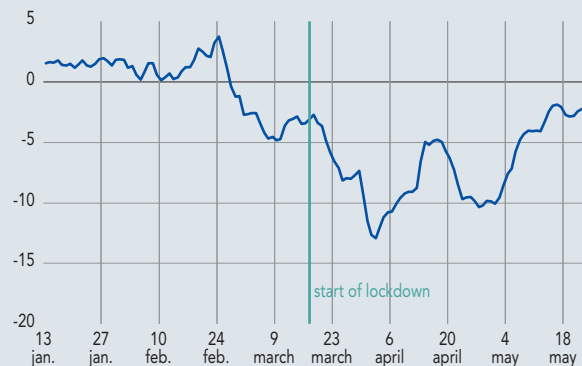


Source: Google Trends.

Notes: A drop in the index means that the relative popularity of the keyword is decreasing. It does not necessarily mean that the total number of searches has decreased (simply its popularity relative to other searches). The data represented are weekly (arithmetic averages of daily data).

Nitrogen dioxide pollution in Paris

(difference in the normalised air pollution index compared with the same date in 2019, 14-day moving average, corrected for weather data)



Source: World Air Quality Index.

Note: The data are collected from national operators and standardised by the World Air Quality Index teams according to the standard AQI scale of the United States Environmental Protection Agency.

¹ See article on high frequency indicators in *Banque de France Bulletin* No. 231/5 (<https://publications.banque-france.fr/en>).



↑ Christine Lagarde, President of the European Central Bank

conditions than before the crisis. The conditions of the third series of targeted longer-term refinancing operations (TLTRO III) were significantly relaxed to support credit to the economy, with the launch of new operations until December 2021, an increase in drawdown rights, and a decrease in the interest rate to -1% for two years, from June 2020, based on the achievement of a loan volume target. In addition, the Eurosystem implemented new non-targeted longer-term refinancing operations (bridge LTROs) between March and June 2020 as well as pandemic emergency longer-term refinancing operations (PELTROs). The Eurosystem only grants loans to commercial banks against collateral in the form of assets. To facilitate banks' access to Eurosystem loans, the collateral framework was expanded by including, for example, state-guaranteed loans (PGE), or by removing the minimum amount required for the mobilisation of private loans.

These measures were very successful, with targeted longer-term refinancing operations reaching EUR 1,765.1 billion in the euro area at the end of 2020, including EUR 397.5 billion in France.

Moreover, the Eurosystem strengthened its asset purchasing programmes to maintain favourable financing conditions in the euro area and limit the risk of fragmentation.

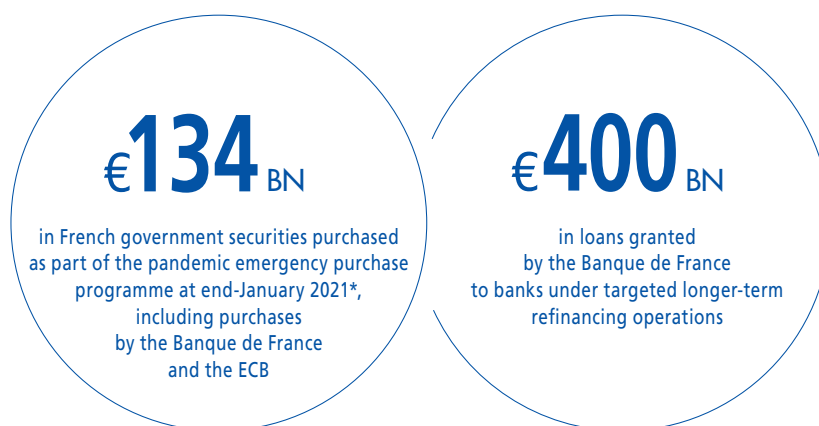
An additional EUR 120 billion was allocated as part of the asset purchase programme (APP), followed by a new pandemic emergency purchase programme (PEPP) that may reach EUR 1,850 billion by the end of March 2022. The PEPP also includes the option to purchase short-term corporate securities, including negotiable debt securities due in less than one year.

The Banque de France is actively involved in drawing up the Eurosystem's policy

Despite the lockdown measures, the Banque de France continued its market activities without interruption. Its continuity plan was robust and solutions were found to balance teleworking with a minimum level of presence on site for the most critical activities. This high degree of responsiveness was all the more crucial as the scale of the health crisis required rapid intervention by the Eurosystem. The PEPP was operational just one week after its announcement on 18 March.

Endorsement of prudential leeway

On 12 March 2020, the European Central Bank (ECB) Supervisory Board, which works with the *Autorité de contrôle prudentiel et de résolution* (ACPR – France's Prudential Supervisory and Resolution Authority), informed the banks it supervises that they could use their liquidity and capital buffers to help finance the economy. The ECB thus authorised banks to operate temporarily below the



* Bi-monthly statistic.

Pillar 2 capital requirement and capital conservation buffer. It also authorised institutions to use the liquidity buffer covering the liquidity ratio.

In parallel, at its meeting on 18 March, the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability) decided, at the proposal of the Governor of the Banque de France, to relax the countercyclical capital buffer. On 20 March, the ECB clarified the prudential treatment of state-guaranteed loans (*PGE – prêt garanti par l'État* in France) and urged banks not to include pro-cyclical assumptions in their reserve models.

This temporary easing of prudential rules, made possible by the various reforms implemented since the 2007-08 financial crisis, combined with the monetary policy easing, enabled banks to respond quickly to the massive demand for financing from companies and still be in a position to absorb any losses that could subsequently arise.

Fiscal policy efforts

The scale of the health and economic crisis led the government to make unprecedented fiscal efforts. To help drive an economic recovery from 2021, it put in place a EUR 100 billion recovery plan, mainly earmarked for 2021-22 (France Relance). The scale of the emergency measures and the stimulus plan is unprecedented. Coupled with a marked decline in GDP, these fiscal measures will

lead to a sharp deterioration in both the government deficit and public debt in 2020. The impact of the EUR 100 billion stimulus package on public finances will nevertheless be smaller than EUR 100 billion given that nearly EUR 40 billion will be financed through transfers from the European Union (Next Generation EU). At the end of 2020, the debt-to-GDP ratio surpassed 115%, compared with just under 100% at the end of 2019.

THE MAIN MONETARY POLICY MEASURES TAKEN BY CENTRAL BANKS IN 2020

- Interest rates (short and long-term) were kept low
- Refinancing of banks so they could provide liquidity to their customers, SMEs in particular
- Support for companies seeking financing via capital markets
- Effective monetary policy transmission to all stakeholders and in all countries



EUROPEAN CENTRAL BANK*



FEDERAL RESERVE



BANK OF JAPAN



BANK OF ENGLAND

2020

MARCH

- Asset purchase programme (APP): additional purchases of assets totalling **€120 bn** (1% of euro area GDP) by end-2020
- Pandemic emergency purchase programme (PEPP)** of **€750 bn** (6% of GDP): flexible purchases of private and public assets to end-2020
- Exceptional liquidity supply to banks: new LTRO *** and cut in TLTRO **** III rates with an amount of up to **€2,900 bn** (23% of GDP)
- Extension of eligible collateral
- Additional purchases of corporate bonds as part of the PEPP and purchase of short-term commercial paper

APRIL

- New PELTROs then cut in TLTRO III rates

- Cut in key interest rates from 1.5-1.75% to 0-0.25%
- Resumption of quantitative easing (QE) on an open-ended basis
- Purchases of corporate bonds
- Facilities to ensure the operation of money markets
- Extended repo transactions

- Purchases of short-term debt securities issued by states, counties and cities (municipal lending facility)
- Loan refinancing for SMEs (Main Street Lending Programme)

- Increase in purchases of exchange-traded funds and corporate bonds
- Repo transactions using corporate debt as collateral

- Increase in purchases of Treasuries with no quantitative limit to control the yield curve
- Additional purchases of corporate bonds

- Cut in key rate from 0.75% to 0.1%
- Increase in purchase programme (by 8% of GDP)
- Provision of liquidity to banks with incentives to lend to SMEs (Term Funding Scheme with additional incentives for SMEs – TFSME)
- Unlimited purchases of commercial paper
- Repo transactions with three-month term

- Possible increase in the size of the government's account with the Bank of England (Ways and Means – W&M – facility)



EUROPEAN CENTRAL BANK



FEDERAL RESERVE



BANK OF JAPAN



BANK OF ENGLAND

MAY

● Subsidised loans to banks to finance SMEs

JUNE

● Increase in asset purchases as part of the PEPP totalling **€600 bn** (5% of GDP) until mid-2021

● Increase from **JPY 75 trn to 110 trn** in the financing facility backing “Covid-19” loans to SMEs

● Increase in the asset purchase programme (by approximately 4.5% of GDP)

JULY

● ● ● Extension of facilities targeting money markets, loan refinancing for businesses (Main Street) and corporate bond purchases

NOVEMBER

● ● Extension of certain facilities targeting money markets and loan refinancing for SMEs

● Special Deposit Facility remunerating the deposits of regional banks so they can strengthen their resilience and support the economy

● Increase in the asset purchase programme (by approximately 6.9% of GDP)

DECEMBER

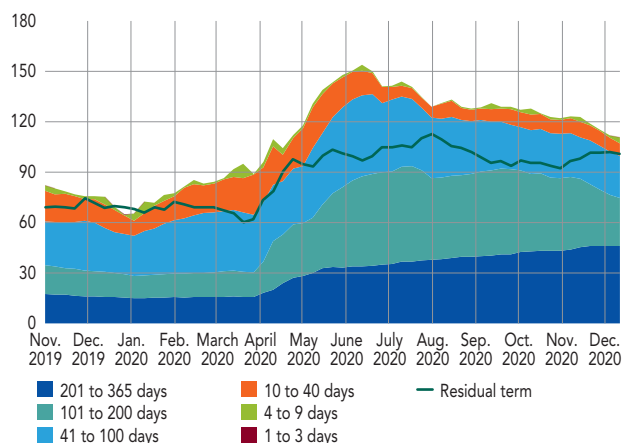
● Increase in the PEPP amount by **€500 bn** (5% of GDP)

● TLTRO III: 3 new operations, extension of period of lower rates in line with deposit facility rate, increase in total amount to **€3,190 bn**
PELTROs: 4 new operations in 2021

* The forward guidance on interest rate expectations and the tiering system remain in place.
** The PEPP programme also has an impact on interest rates but, thanks to its flexibility, its primary objective remains to maintain a monetary transmission mechanism.
*** LTROs, longer-term refinancing operations.
**** TLTROs, targeted longer-term refinancing operations.

Short-term debt market outstandings (NEU CP) – non-financial corporations and public sector

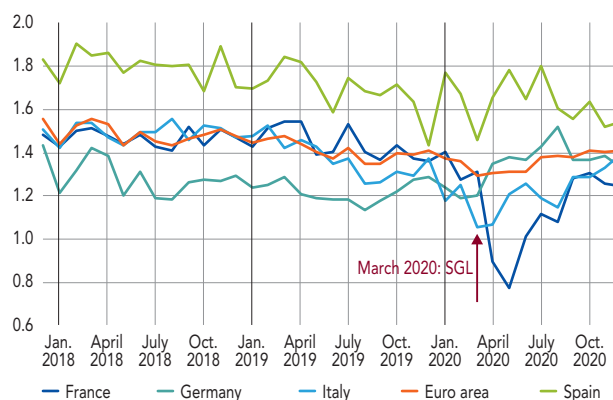
(amount in EUR billions, residual term in days)



Source: Banque de France.
Note: NEU CP – Negotiable European Commercial Paper.

Average interest rate of loans to non-financial corporations in the main euro area countries

(%)



Source: Banque de France.
Note: SGL – state-guaranteed loans.

The first effects of the measures

Access by the corporate sector to the financial markets was maintained

The launch of the PEPP in March was a major factor in restoring favourable financing conditions and limiting the risk of fragmentation within the euro area. As an illustration, the spread between Italian and German 10-year yields tightened from 278 basis points (bp) at the height of the crisis and returned to around 120 bp at the end of December. The intervention by the Eurosystem therefore enabled market conditions to return to normal by the summer.

In 2020, the short-term debt securities market (Negotiable European Commercial Paper – NEU CP) was significantly impacted by the effects of the pandemic. Purchases of these securities under the PEPP enabled companies to continue to obtain financing in this market.

Favourable interest rates underpinned good momentum in loans to companies

Thanks to state-guaranteed loans and monetary policy, French companies were able to obtain financing under unprecedented conditions. The average interest rate on new contracts in France fell to a low of 0.77% in May 2020, before rising to 1.25% at the end of the year, lower than the euro area average of 1.41%.

Public policies accentuated the momentum on the credit market. The average annual growth rate of loans to euro area companies reached 7.0% in December. France had the highest rate of growth among the four major countries in the region, with an increase of 13.1% in December (7.8% in Spain, 8.2% in Italy and 4.1% in Germany).

However, a simultaneous increase in deposits by French companies limited growth in their debt, which over the last twelve months remained at an equivalent rate to that observed since 2013.

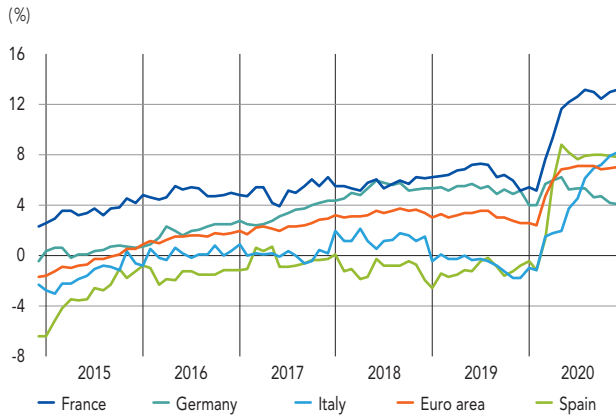
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Recovery forecasts

A gradual recovery in activity in the euro area in 2021-23

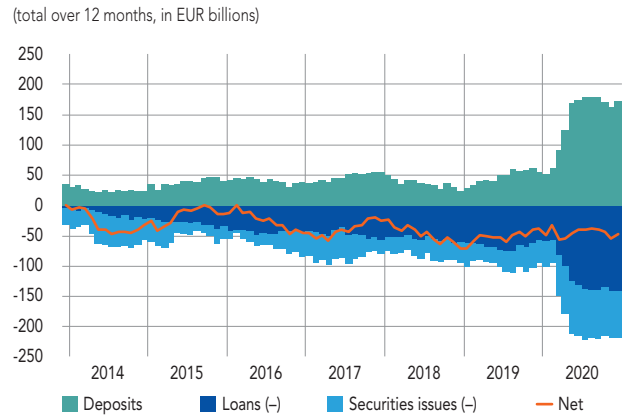
GDP fell by 6.8% in the euro area in 2020. The rebound in the third quarter did not make up for the loss of activity in the first half of the year, and the euro area subsequently faced a second wave of the epidemic from October. In addition to this crisis, there was economic uncertainty linked to Brexit. According to the Eurosystem's projections in December 2020, the gradual roll-out of vaccination, public

Average annual growth rate of loans to resident non-financial corporations



Source: European Central Bank.

Loans, deposits and securities issues of French non-financial corporations



Source: European Central Bank.

policy measures and the recovery in global demand should enable a rebound in activity in 2021 and 2022 (around +4% each year), with GDP returning to its pre-crisis level by mid-2022.

Average annual inflation in the euro area, as measured by the Harmonised Index of Consumer Prices (HICP), was 0.3% in 2020, down sharply from 2019 due to the economic recession, the temporary VAT cut in Germany and the fall in oil prices. Inflation is expected to recover to 1.0% in 2021 and then, gradually with the economic recovery, to 1.1% in 2022 and 1.4% in 2023.

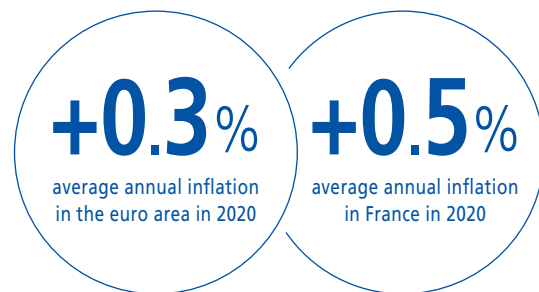
In the baseline scenario for France, by mid-2022 activity will have recovered to the level seen at the end of 2019.

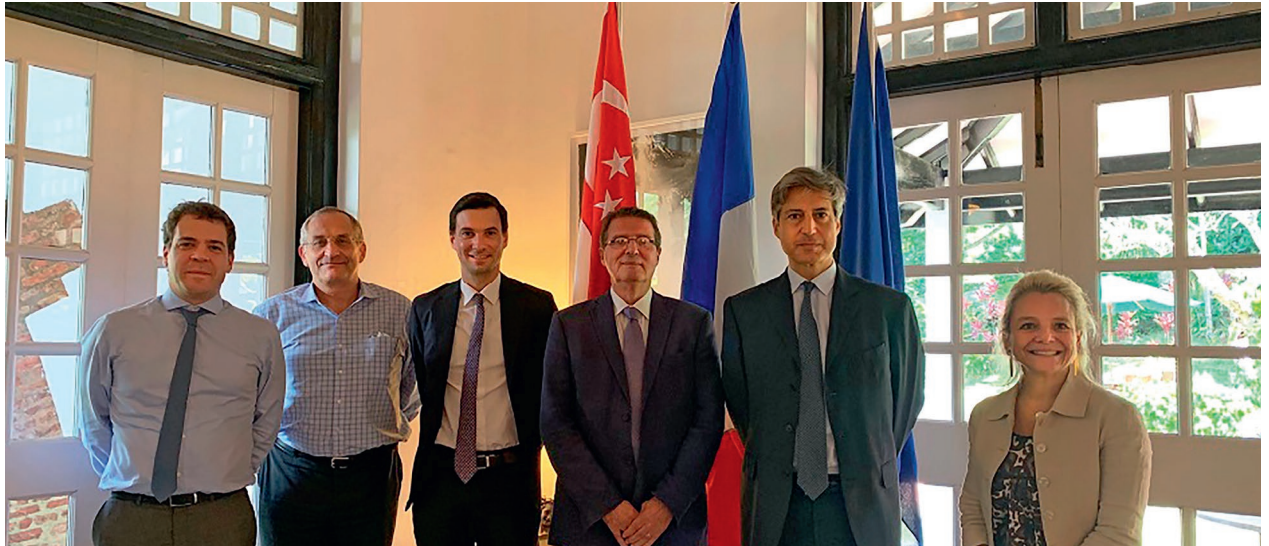
GDP in France fell by 8.2% in 2020 as a result of the shock of the pandemic. Based on the assumption that vaccines will not have been fully rolled out until the end of 2021, there will be a catch-up in 2021 and 2022, with vigorous growth of 5% in both these years. However, it will be mid-2022 before we see a return to the activity levels recorded at the end of 2019.

Uncertainty around this baseline scenario is high, with the possibility, on the one hand, of a favourable scenario in which the health situation improves markedly from the start

of 2021 and, on the other hand, a severely negative scenario in which the virus is still circulating strongly worldwide in 2021 and 2022. In the favourable scenario, GDP would rebound more strongly in 2021 (+7%). However, in the negative scenario, it would not recover in 2021 (-1%) but rather in 2022-23.

Average annual inflation (HICP) in France was 0.5% in 2020. In the baseline forecast scenario, it will gradually recover in 2021 and 2022 while remaining very moderate.





↑ Singapore office fully operational

4

Preparing for the future to strengthen our monetary policy

Drawing on innovation and high-level experts to be even more effective

The ECB's strategic review

The ongoing "strategic review" initiated in January 2020 is an in-depth examination of all elements of the ECB's monetary policy to ensure that it deals effectively with current and future challenges. After a suspension of work due to the Covid-19 crisis, it should be completed in the second half of 2021. Its three main areas of focus are:

- The definition of price stability (currently "a rate of inflation below, but close to, 2% over the medium term"): in a situation of low interest rates and low inflation expectations, it is important that this definition is perceived as symmetrical and flexible and covers the medium term. In other words, the numerical inflation target should not be seen as a cap.
- Communication: the central banks in the Eurosystem must engage with all citizens, not just a select group

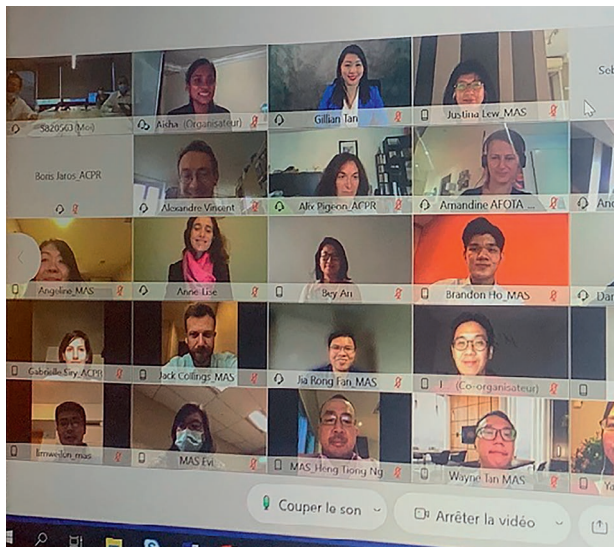
of specialists. Their messages must be well understood, as households and companies play an active role in the transmission of monetary policy. In this context, the ECB needs to clarify how activity and employment align with its treaty mandate, which focuses mainly on "price stability".

- Climate change and financial stability: how should these be taken into account in monetary policy?

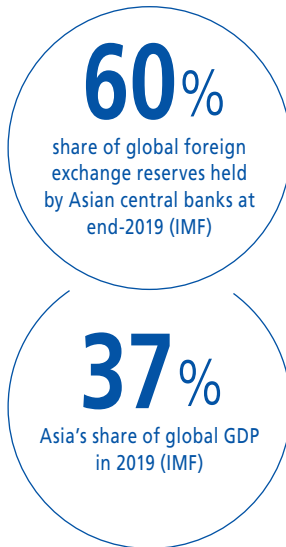
The Banque de France adapts to market trends geographically and technologically

In December 2019, the Banque de France opened a new representation in Asia, in Singapore, reflecting the growing importance of this continent. In September 2020, it opened a dealing room in the Singapore office, the second abroad after the one in New York. This has strengthened its ability to develop relations in Asia.

In technological terms, its extensive expertise in money markets and financial markets enables the Banque de France to remain at the leading edge of this space and to adapt its resources and methods to changing needs. In the foreign exchange market, the execution of market transactions using algorithms grew significantly in 2020. Drawing on very broad liquidity and the constant search for the best available price, these tools enable advanced automation of market order management.



↑ Virtual workshop on green finance organised between Singapore and Paris



Recognised research activities

Through its research activity, the Banque de France is one of the most active and influential central banks. Its experts are highly rated and it is ranked fourth in the Eurosystem under RePEc (Research Papers in Economics). Over the years, the Banque de France has formed economic research partnerships with internationally recognised institutions to further develop the knowledge and skills of its teams. In 2020, the Banque de France had nine partnerships with French foundations and universities. These close ties with academic research bodies have enhanced the Banque de France’s expertise and ability to carry out ambitious research. This is borne out in the vigour of its *Working Paper Series*, which saw the publication of 51 documents in 2020. This research is also used in the context of the Banque de France economic blog, *Eco Notepad*,¹ and the *Banque de France Bulletin*.²

1 <https://blocnotesdeleco.banque-france.fr/en>

2 <https://publications.banque-france.fr/en/liste-chronologique/le-bulletin-de-la-banque-de-france>

5

**Secure and current:
ensuring confidence in the euro
in all its forms**

Currency in circulation that is secure and innovative

The Banque de France produces secure banknotes at the cutting edge of innovation. In 2020, the Banque de France was once again the Eurosystem’s leading public printer of euro banknotes, with a total of one billion €20 and €50 banknotes produced over the year.

In the context of the Covid-19 crisis, demand for banknotes increased sharply from March 2020 for precautionary reasons, in particular €20 and €200 banknotes. The Eurosystem central banks therefore anticipated the production of those banknotes. Despite the health constraints, the Banque de France printing works was able to produce a large volume of €20 banknotes for the entire euro area between May and September 2020. Europafi, for its part, was able to manufacture secure paper for the production of €200 banknotes within the required timeframe.



↑ Site of the paper mill that supplies banknote paper, Vic-le-Comte (Puy-de-Dôme)



↑ The raw material for banknote paper: cotton

The Banque de France also continues to be the main supplier of banknotes issued for the French overseas territories and for some 20 foreign central banks, in particular within the African monetary areas.

Public access to cash in mainland France

With 99% of the French metropolitan population residing in a municipality equipped with at least one automatic teller machine (ATM) or less than a 15-minute drive from the nearest municipality with an ATM, accessibility to cash in France is very high. While there has been a decline in the number of ATMs (down by 4% between 2018 and 2019), this has not hampered access to cash. This decline is due to the optimisation of existing facilities: certain underused ATMs are closed while new ATMs are opened in areas of higher demand.

At the same time, there has been continued growth in complementary cash distribution services, particularly in rural areas. The number of shops and tobacconists delivering cash increased by 10% between the end of 2018 and the end of 2019.

Central bank “digital” currency project

The Banque de France launched a test issuance of a central bank digital currency (CBDC) in 2020. Given the developments in currency usage, a digital currency would, where necessary, enable the central bank currency to remain the reference currency in all circumstances in increasingly digitised payment systems. After a successful first pilot in May, further tests continued in order to assess whether a CBDC could facilitate interbank settlements. The Bank also contributes to the work of the Eurosystem to create a CBDC for the public.



2020 HIGHLIGHTS

MARCH

12 March: Announcement of an easing of the conditions for targeted longer-term refinancing operations (TLTRO III) to support lending to the economy.

17 March: First national lockdown in France.

18 March: Announcement of the pandemic emergency purchase programme (PEPP).

23 March: Announcement of payment by the State of compensation for short-time working and the implementation of state-guaranteed loans to businesses.

25 March: Creation of a solidarity fund for companies particularly affected by the consequences of the epidemic and the measures taken to counter its spread.

APRIL

8 April: Banque de France present its first monthly *Update on business conditions in France* in which it provides details of economic developments for each major sector, in addition to its monthly business survey.

MAY

11 May: Partial lifting of the first national lockdown.

SEPTEMBER

24 September: Start of operation of the Banque de France trading room in Singapore to bolster its presence in Asia.

25 September: Governor's speech – "Reflections on the symmetry of the inflation target" – at the Official Monetary and Financial Institutions Forum (OMFIF).

OCTOBER

19 and 26 October: Internal webinars at the Banque de France: dialogue on the review of the European Central Bank's strategy.

30 October: Second national lockdown.

NOVEMBER

28 November: Partial lifting of the second national lockdown.

DECEMBER

10 December: The ECB announces a EUR 500 billion increase in the PEPP and additional easing of the conditions for TLTRO III.

13 December: *Eco Notepad* celebrates four years in operation, with nearly 200 posts.





FINANCIAL STABILITY

FINANCIAL STABILITY IN 2020



MISSIONS

As well as securing confidence in the money, the Banque de France guarantees another essential public good: **a sound financial sector**

- inspections at the European level to maintain an international standard for bank resilience
- protection of customer interests

The Banque de France anticipates and prevents risks:

- assessment of new risks
- contribution to changes in regulations
- support for banks in their digital transformation

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

- prevention of systemic risks
- smooth functioning of payment systems and market infrastructures

657
banks supervised

683
insurance firms and mutual insurers supervised

165
on-site inspections of insurance firms and banks (excl. SSM inspections) and their business practices

+

26
inspections on behalf of the ECB as part of the Single Supervisory Mechanism (SSM)

15.35%
the core tier one capital ratio of the six main French banking groups (provisional data)

1,037
ACPR employees (full-time equivalent)

€ **30.3** _{BN}

average daily flows processed by retail payment systems in France in December 2020

€ **344** _{BN}

average daily settlement flows processed by Target2 (large value payments) in France in December 2020

Faced with growing risks, THE BANQUE DE FRANCE AND THE ACPR ARE STEPPING UP THEIR MONITORING and drawing lessons for the future

The Banque de France, together with the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability), is responsible for safeguarding the stability of the financial system. The *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority), an administrative authority attached to the Banque de France, pursues this objective by supervising banks and insurers and strengthening customer protection.

1

During the crisis, priority was given to the close monitoring and support of financial players and markets

In March-April 2020, the Banque de France and the ACPR gave priority to managing the Covid-19 crisis and its impact on the economy.

Mobilised early on in the face of the rising epidemic risk, the two authorities deployed all their resources to preserve financial stability, guarantee the continuity of all their missions in order to ensure the financing of the economy and preserve the soundness of the financial system.

Close and appropriate monitoring of banks and insurers

In February, the Paris Robustesse Group (which is steered by the Banque de France) was activated to monitor the implementation of the business continuity plans of the most significant financial institutions and market infrastructures in the face of the spread of the Covid-19 epidemic. The financial risks for banks and insurers were also analysed.

In response to the crisis, the European authorities quickly adopted pragmatic regulatory solutions to enable the financial sector to continue steadily financing the economy, thereby contributing to cushioning the shock for businesses and households. The ACPR participated in developing these solutions. By mid-March, the ECB's Single Supervisory Mechanism (SSM) at the European level and the HCSF in France announced the easing of a number of capital and liquidity requirements (*see the chapter on Monetary Strategy*). The competent authorities (SSM, ACPR) also called for the suspension of dividend payments during the most acute phase of the crisis in order to preserve capital resources. At the beginning of April, the European Banking Authority (EBA) clarified the way in which moratoria on certain loans should be taken into account in terms of accounting and provisioning rules. At the end of April, the European Commission issued a "package" of texts: an interpretative communication on the European Union's accounting and prudential frameworks and a legislative proposal for targeted and temporary changes to capital requirements (Capital Requirements Regulation, CRR). After adoption by the European Council and Parliament, the package came into force at the end of June.

At the same time, in order to enable banks and finance companies to concentrate on managing the crisis, the dates for submitting reporting statements were adjusted and the ongoing investigations conducted on behalf of the



↑ The TARGET team (real-time gross settlement system managed by the Eurosystem) of the Banque de France

ACPR (operating jointly with the SSM in the case of significant institutions (SIs) were suspended from mid-March.¹ Thematic on-site inspections were also suspended and replaced by close monitoring, making it possible to oversee on a daily basis the implementation of the business continuity plan, the evolution of the liquidity situation and the deployment of crisis measures, in particular moratoria and state-guaranteed loans (*prêts garantis par l'État* – PGE).

As regards insurance companies, the ACPR also initiated close monitoring in mid-March to oversee the implementation of business continuity plans and to assess the impact of the health crisis on activity (premium collection, claims) and solvency. It was also decided to make the reporting dates more flexible. As in the banking sector, the ACPR called for a suspension of dividend payments. Lastly, it launched a thematic investigation into insurance coverage for operating losses and, in particular, in the framework of its monitoring of commercial practices, called on insurers to pay close attention to their customer relations.

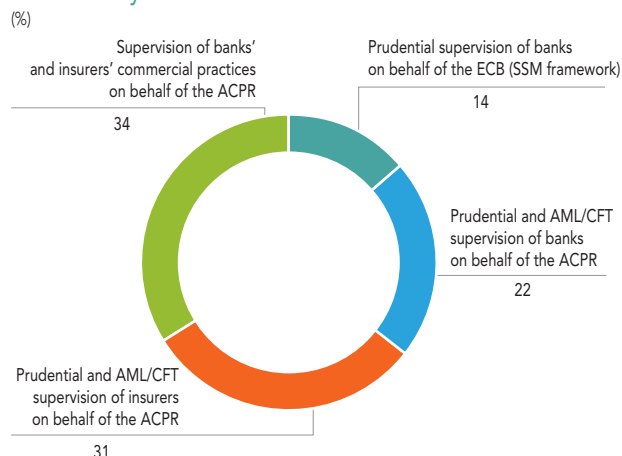
Heightened supervision of market infrastructures

The supervision of market infrastructures, for which the Banque de France is responsible, was stepped up from the start of the health crisis to ensure that the business continuity of these critical entities in the financial system – and their sound risk management – was not affected.

Particular attention was paid to central clearing counterparties (CCPs), whose systemic nature has increased in recent years alongside their growing role in reducing counterparty risk and optimising liquidity flows between players. The large market fluctuations observed at the beginning of the crisis, in particular on the equity and commodities markets, impacted the margin calls required by CCPs. Given their effect on the liquidity of the financial system, these margin calls were therefore closely monitored to ensure that such requirements did not contribute to increasing the vulnerability of the system. The Banque de France, as well as the *Autorité des marchés financiers* (AMF – Financial Markets Authority) and the ACPR as the competent authorities, ensured that the measures to reduce the procyclicality of margin calls implemented by the CCPs under their supervision were effective. Given both their critical role and the fact that they reflect economic activity, payment systems were also closely monitored.

¹ The surveys conducted on behalf of the ACPR were resumed as soon as health circumstances and access to institutions permitted.

Breakdown of on-site prudential inspections and inspections of commercial practices in the banking and insurance sectors carried out by the ACPR in 2020 (%)



Note: AML/CFT, anti-money laundering/combating the financing of terrorism.



↑ Head office of the ACPR, Paris

Recovery of the commercial paper market

Under the pressure of massive investor redemption, monetary mutual funds (MMFs) experienced a significant outflow of funds, which, from mid-March onwards, led to strong tensions on the negotiable European commercial papers (NEU CP) market: interest rates rose as demand for these securities dried up.

In application of the Eurosystem's decisions, in particular the implementation of the Pandemic Emergency Purchase Programme (PEPP), which includes the purchase of short-term securities issued by non-financial corporations, the Banque de France purchased corporate NEU CP on the primary and secondary markets. This intervention played a key role in the market's recovery. The easing of the rules on the mobilisation of short-term securities issued by banks as collateral for Eurosystem credit operations also had a very positive effect on the secondary market for bank NEU CP.

Close monitoring of bank liquidity

The ACPR and the Banque de France worked closely with the treasurers of the main institutions to monitor changes in deposits, funding and market liquidity conditions, securities issuance on the primary market, and the outstanding amount of securities and credit claims posted

or available as collateral to secure financing transactions with various counterparties, including central banks and the Banque de France.

Increased coordination between authorities

During the most acute period of the crisis, the Banque de France and the ACPR were in daily contact with other French authorities as well as with their European and international counterparts.

In European forums, coordination was strengthened, both between Eurosystem central banks, under the aegis of the SSM with numerous crisis meetings, and through the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA).

A close dialogue was also maintained within the framework of the Financial Stability Board (FSB) and the various committees responsible for regulating banks and market infrastructures (Basel Committee on Banking Supervision (BCBS); Committee on Payments and Market Infrastructures (CPMI)).



↑ ACPR-AMF Fintech Forum on 12 October 2020

2

Learning the lessons of the crisis, by monitoring and anticipating risks

Banks' resilience, and that of the financial system as a whole, to the economic shock of the pandemic was largely the result of the strengthening of financial regulation in the aftermath of the 2008 crisis. By contributing to robust credit supply to the economy, the financial system rapidly accommodated the unprecedented surge in corporate financing needs. However, this episode highlighted the persistence of weaknesses in the system, which the Banque de France and the ACPR, under the aegis of the HCSF, set out very early on to identify in order to propose appropriate reforms.

While at the height of the crisis priority was given to the identification and monitoring of the most immediate risks to the financial system, work on analysing the risks that existed prior to the crisis was continued.

Risks related to household and corporate debt required even greater vigilance as the economic crisis made them even more prominent. While the HCSF decided, on a proposal of the Governor of the Banque de France, to relax the

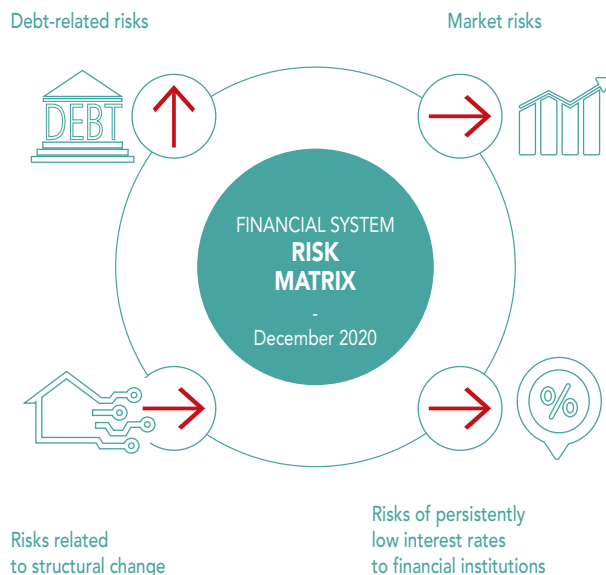
countercyclical capital buffer to enhance banks' ability to finance the economy and absorb losses, it also decided to retain the measure limiting the exposure of the largest banks to the most highly indebted companies (in June 2020) and confirmed, while adjusting it, its recommendation on lending standards for housing loans (in December 2020).

The analysis of other risks, which had already been identified prior to the crisis, also continued: the consequences of the environment of persistently low interest rates (the outlook for which became more pronounced following the crisis), risks related to climate change (*see below*), and those related to the United Kingdom's exit from the European Union (*see box on the implications of Brexit*).

In addition to the risks identified above, further work was undertaken to better understand the possible consequences of the Covid-19 pandemic crisis. This work focused on the financial situation of non-financial corporations, but also, under the aegis of the European Systemic Risk Board (ESRB), on the risks related to the deterioration of financial market liquidity, margin calls and the liquidity requirements that these entail, as well as the possible downgrading of the credit rating of a large number of bond issuers.

The Banque de France, together with the AMF and the ACPR, conducted an ex post review of the tensions that affected the liquidity of money market funds and short-term

financing markets in March in order to identify the reforms that would be needed to increase their robustness. These analyses contributed to the international work undertaken on the subject, notably within the FSB. This international body is preparing a reform agenda aimed at strengthening the resilience of investment funds to liquidity risk (see box on the regulatory framework for the non-bank financial sector) and improving the functioning of short-term funding markets. The procyclical dynamics which would be triggered by a massive and rapid downgrading of credit ratings, or certain accounting provisions, were also the subject of in-depth analyses. This work was taken up in the semi-annual reports on risks to the French financial system published in June 2020 and January 2021.



Note: The arrow indicates the expected evolution of each risk in the short term.

PREPARING FOR BREXIT AND MANAGING ITS CONSEQUENCES

The French authorities prepared very early on for the potential consequences of the United Kingdom's exit from the European Union (EU), despite the uncertainties surrounding the framework of the future relationship. The exit agreement negotiated at end-December 2020 has no impact on financial services, which were outside the limited scope of the trade negotiations. Thus, the principal contingency measures set up at the EU level and in France to deal with the risks of non-continuity linked to Brexit remained relevant. Finally, and in particular under the impetus of the supervisory authorities, the French financial sector was well prepared for the end of the transition period on 1 January 2021.

At the same time, the ACPR and the AMF simplified and sped up their authorisation procedures to enable UK financial players wishing to continue their activity in the EU to establish themselves in France. By end-2020, 43 entities had been authorised to continue their activities in France and 31 entities, mainly investment firms, had applied for a licence in France. In total, by end-2020 these UK players and the UK branches of French players had relocated around EUR 150 billion of assets to France.

Alongside these decisions, which will ensure business continuity in the short term, there is a need to adapt the functioning of the financial markets in the medium term to take account of the new reality of a United Kingdom that has become a third country to the EU.

This implies a change in financial players' practices, to which the supervisors are particularly attentive and which they already recalled at the beginning of 2021.

From the point of view of financial stability, the main issue is the location of clearing activities in euro. In the short term, the equivalence and recognition decisions of the European Commission and the European Securities and Markets Authority (ESMA) in September 2020 have removed the risks associated with the high degree of dependence of European financial players on UK clearing houses. However, in the medium term, given the financial stability issues related to these activities, their relocation to the EU appears necessary.



↑ Assessment of the risks to the French financial system
https://www.youtube.com/watch?v=Y5T_0gxfxQQ (in French)

STRENGTHENING THE REGULATORY FRAMEWORK OF NON-BANK FINANCIAL INTERMEDIATION

Non-bank financial intermediation covers a range of players involved in the debt financing of economic players which, taken as a whole, play a role similar to that of the banking sector (with, in particular, risk and maturity transformations). In this ecosystem, funds (especially money market and bond funds, as well as debt funds), and mainly open-end funds (whose managers must ensure the liquidity of their shares), play a key role.

In March 2020, money market funds in particular experienced significant outflows while the markets in which they had invested were under severe strain. The decisions taken by fund managers in response to these withdrawals may have had procyclical effects on the underlying asset markets, thus amplifying liquidity pressures.

European legislation regulates these funds' assets by imposing eligibility requirements on credit quality, portfolio composition constraints and limits on the average maturity and life of the portfolio, as well as requirements of daily and weekly maturity asset buffers, which guarantee a certain level of liquidity. On the liabilities side, asset managers have the possibility of using liquidity management tools to limit repurchase requests, so that they may be met in a more orderly manner. However, these tools seem to be hardly used. Finally, money market fund managers

must be able to identify, through stress tests, possible future changes in economic conditions or events that could have an adverse effect.

This set of microprudential requirements was not sufficient to prevent the tensions observed in March 2020 from spreading, particularly because of the interconnections between the various players in the short-term financing market (non-financial corporations, banks and money market funds), but also because of the influence of money market funds on these markets. It seems necessary to set up a macroprudential framework for the activity of money market funds (i.e. to consider funds not individually but as part of an ecosystem) in order to better address risks, in particular liquidity risk, and to ensure that central bank interventions, such as those implemented in spring 2020, remain exceptional so as to avoid any moral hazard and any complacency in the management of this liquidity risk.

Aware of the need to improve the ex ante regulatory framework, European and international bodies have started to analyse the vulnerabilities associated with non-bank financing and its role in managing liquidity in the financial system. This work could lead to adjustments in the regulation of non-bank funding, in particular by money market funds.

Helping the financial sector exit the crisis

The crisis has confirmed the importance of the early set-up of prudential frameworks to ensure the robustness and resilience of the sector.

The timetable for the implementation of Basel III and that of the review of the Solvency II Directive have been put back because of the crisis. However, the crisis has demonstrated the relevance of these reforms, which should therefore be completed. It has also highlighted the importance of the work conducted on measuring climate risk for the financial sector.

Completing the implementation of Basel III

The agreement reached by the BCBS in December 2017 was expected to translate into a legislative proposal by the European Commission by mid-2020. After the BCBS decided to postpone by one year the entry into force of the agreement (January 2023) and the end of its implementation (2028), the Commission put back the timetable for the implementation of Basel III in the European regulatory framework. It is due to publish its draft regulation in the first half of 2021, but not before hearing the EBA's opinion on the impact assessment conducted in 2019 and revised in light of the lessons learned from the crisis. The ACPR took part in the preparation of this opinion. In their report to the G20 on the implementation of Basel III (November), the central bank governors and heads of supervisory authorities who are members of the BCBS unanimously reiterated their commitment to a full, timely and consistent implementation in each of the jurisdictions involved in the agreement reached in December 2017.

In addition, in spring 2020, the BCBS launched a Task Force on Evaluation (TFE), with the dual aim of assessing the overall impact of Basel III and its interactions with financial regulation as a whole, on the one hand, and the lessons to be learned from the current crisis, on the other. This work should be completed by early 2022.

Review of Solvency II

In the framework of the European Commission's request to EIOPA for an opinion with a view to undertaking a substantial review of Solvency II, two public consultations

were initiated in late 2019 and early 2020. While EIOPA's final opinion was initially expected in June, it was put back to end-2020 due to the Covid-19 pandemic and a complementary impact study was launched.

The final opinion was based on three impact studies (individual effects of the measures under consideration, overall impact of the planned changes and update of the assessment of the overall impact in light of market developments since March following the health crisis), which the APCR steered for the insurers under its supervision. In October, the European Commission also conducted a public consultation to which the ACPR responded.

The ACPR's involvement helped to ensure that the proposals contained in EIOPA's final opinion formed a balanced package providing a solid basis for the legislative discussions that were about to begin. In particular, the ACPR ensured that the prudential framework was simple and that the role of insurers as long-term investors was properly addressed.

Incorporating climate issues

Priority continued to be given to pursuing the work on the consequences of climate change for the financial sector. Although the Banque de France and the ACPR, like their counterparts, lightened the operational burden of the institutions under their supervision as much as possible, they maintained the pilot stress test exercise on assessing climate risk for the banking and insurance sectors. The methodological framework and assumptions of the exercise were submitted for public consultation in May. The exercise, launched in mid-July, took place during the second half of the year. The results will be communicated in early 2021.

At the same time, the analysis of institutions' climate risk management practices and the monitoring of their commitment in this area continued. Together with the AMF, the ACPR published two reports, the first on French financial institutions' "coal policies" (in October) and the second on their "climate commitments" (in December). On this basis, the two authorities formulated several recommendations on the reporting and governance of these institutions' commitments, the precise definition of objectives and their monitoring, and the transparency of methodologies and indicators.

The Banque de France and the ACPR also made headway in analysing the risks related to biodiversity loss and considered this initial work sufficiently convincing to draw the attention of financial institutions to these issues.

At the international level, the Banque de France and the ACPR were particularly active in numerous international forums (FSB, BCBS, ECB and ESRB, in particular) to further the financial sector's understanding and consideration of climate issues. At the same time, within the framework of the Network for Greening the Financial System (NGFS), for which it provides the secretariat, the Banque de France supported the activities of the working groups. It published eight reports or guides contributing to the dissemination of best practices and the advancement of understanding of climate change issues with regard to the mandates of central banks and supervisors.

30

research seminars
on financial stability
and regulation

42

published studies
and research papers
on financial stability
and regulation



↑ On 12 December, to mark the fifth anniversary of the Paris Agreement, the President of the French Republic brought together at the Élysée Palace representatives of the six most important coalitions launched at the One Planet Summit in December 2017, including the Governor of the Banque de France on behalf of the Network of Central Banks and Supervisors for the Greening of the Financial System (NGFS)

↓ Conference "Investment to support digitalisation and the climate transition in France" organised with the European Investment Bank (EIB) on 2 March 2020

HIGHLIGHTS

2020

MARS

18 March: The *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability) decides to relax the countercyclical buffer. This decision complements the ECB’s decision of 12 March to temporarily ease capital requirements.

27 March: The Banque de France starts purchasing securities on the short-term debt securities market (NEU CP) within the framework of the temporary pandemic emergency purchase programme (PEPP).

30 March: The *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) calls on credit institutions under its direct supervision and finance companies to refrain from distributing dividends.

APRIL

3 April: The ACPR calls on insurers under its supervision to refrain from distributing dividends.

JUNE

11 June: The ACPR launched a public consultation on the governance of artificial intelligence algorithms in the financial sector.

24 June: Entry into force of the European legislative package to adapt capital requirements and the prudential framework in response to the Covid-19 pandemic.

JULY

16 July: Launch by the ACPR of the climate pilot exercise in which the main French banking and insurance groups will simulate the impact of climate scenarios on their balance sheets.

SEPTEMBER

21 September: The European Commission adopts a decision on the temporary equivalence of the UK regulatory framework for central clearing counterparties (CCPs) for a period of 18 months from 1 January 2021.

OCTOBER

12 October: Fintech Forum organised at the Banque de France by the ACPR and the *Autorité des marchés financiers* (AMF – Financial Markets Authority), bringing together fintech players and public authorities.

DECEMBER

9 December: 5th edition of the annual academic conference dedicated to green finance research advances, co-organised by the Banque de France and the Institut Louis Bachelier, and award of the third “Young Researchers in Green Finance” prize.

17 December: The HCSF announces an adjustment to its December 2019 recommendation on lending standards for housing loans.

BANQUE DE FRANCE
EUROSYSTEME



STRATÉGIE MONÉTAIRE
STABILITÉ FINANCIÈRE
SERVICES À L'ÉCONOMIE



SERVICES TO THE ECONOMY
AND SOCIETY



SERVICES TO THE ECONOMY AND SOCIETY IN 2020



Promoting the understanding of the economy:

- national steering body for France's economic and financial education strategy
- large-scale initiatives and partnerships

Listening to consumers, especially those that are vulnerable:

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

Acting as banker to the French state:

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

Providing help and guidance to businesses, especially small businesses:

- guidance for VSEs and SMEs
- credit mediation

36,056

bank accounts opened at the Banque de France's behest under the right to a bank account procedure

122,076

cases of overindebtedness handled by the Household Debt Commissions

160,000

calls handled by the Assurance Banque Épargne Info Service (ABEIS) telephone platform

8,500

businesses surveyed each month for the Banque de France's economic surveys

12,047

referrals to our 102 VSE-SME Correspondents

237,797

ratings assigned to non-financial corporations (mainly SMEs)

77,816

jobs saved in 6,332 companies in 2020 thanks to credit mediation

THE BANQUE DE FRANCE REMAINED COMMITTED TO SERVING ALL OF SOCIETY, in particular vulnerable households and businesses

The health crisis and the measures adopted by the public authorities to protect the population have had significant economic and financial impacts on companies, their employees, the self-employed and individuals. The Banque de France promptly adjusted to the situation in order to continue providing support and guidance to all those who sought its services. Thanks to its country-wide presence, it was able to provide local support to meet their needs as effectively as possible.

1

Services continued to be delivered to private individuals and businesses

The Bank continued to receive requests from the public and to provide guidance to address their significant needs during the health crisis

Its modern multi-channel approach enhanced the Bank's ability to listen to customers and support the public

By adapting the channels through which it receives customer requests, the Banque de France was able to guarantee access to its services. It enabled all requests to be handled by facilitating online queries via the *accueil.banque-france.fr* website and setting up a special hotline and call-back system. The share of requests handled through the internet and phone channels naturally increased, making it possible to reserve and prioritise in-branch appointments for those who genuinely needed them, by appointment only and in accordance with the necessary hygiene practices. These arrangements enabled the Banque de France's branches to adapt their services to the situation created by the crisis. During lockdown periods, adjustments were made to the handling of applications for the right to a bank account procedure, in agreement with credit

institutions. The Household Debt Commissions continued to hold meetings, adapting the practical arrangements as needed.

ABEIS: handling incoming requests, combating the rise in fraud

Assurance Banque Épargne Info Service (ABEIS – site *abe-infoservice.fr*) plays a crucial role amid the increasing complexity and technicality of the economy and the financial sector. Its tasks include providing practical, reliable, unbiased information on banking and insurance products and helping customers to navigate the procedures involved in these areas. Moreover, given the current surge in phone and online financial scams, people need to be increasingly vigilant: the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority), the *Autorité des marchés financiers* (AMF – Financial Markets Authority) and the Banque de France have stepped up their efforts so as to better help the public to protect themselves, by issuing warnings, publishing blacklists, and releasing preventive videos on the ABEIS YouTube channel.¹

Ensuring country-wide access to cash

At the beginning of the crisis, the Banque de France set up a robustness group made up of cash industry players (banks, cash-in-transit companies, merchants, etc.) to ensure that cash distribution points across the country were kept replenished with banknotes. No malfunctions were identified and cash supplies continued to be maintained country-wide.



↑ Online request: <https://accueil.banque-france.fr/index.html#/accueil>



↑ EDUCFI information meeting on 28 February 2020

Communicating with professionals and individuals throughout the crisis

The Banque de France developed a website, “Covid-19 et économie, les clés pour comprendre” (“Covid-19 and the economy – the keys to understanding”) dedicated to explaining the economic implications of the crisis in order to answer citizens’ questions (what measures has the ECB taken? What is the economic cost of the crisis?).

The content of the site is regularly updated. The Bank’s website for businesses (*entreprises.banque-france.fr*) also provides information on the measures taken by the Banque de France to support and assist companies.

Facilitating understanding of an unprecedented economic situation

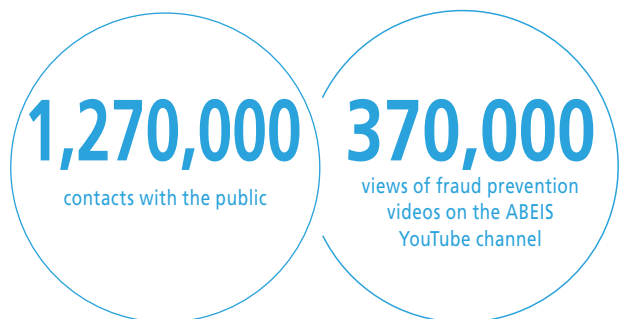
The task of increasing the public’s understanding of this unprecedented economic situation is all the more crucial because the crisis accentuates inequalities and vulnerabilities.

The Banque de France is the national steering body for France’s financial education strategy

The purpose of economic, budgetary and financial education (EDUCFI) is to provide all citizens with the basic knowledge needed to make informed decisions. The national strategy

adopted by the public authorities is based on five pillars (see diagram below).

As the steering body for this strategy, the Banque de France implements actions reaching a wide range of audiences and promotes initiatives launched by the bodies involved in EDUCFI: public authorities, consumer groups, associations for the protection of vulnerable people, professional organisations, etc. The initiatives rolled out educate people on the management of individual or household budgets, banking and insurance tools (accounts and means of payment, credit, savings, insurance), and economic concepts, through the provision of training or educational resources.



1 Viewed by over 370,000 people in 2020: “Adoptez aussi des gestes barrières contre les escrocs!”, “Arnaques financières :

attention aux fausses promesses!”, “Arnaques financières : les placements miracles n’existent pas!”.

THE 5 PILLARS of the national financial education strategy

Provide **young people** with better education on budget management and finance

Provide social actors with the skills they need to assist **those who are financially vulnerable**

Support lifelong **learning in budget management and finance**

Ensure all audiences have the **basic skills and knowledge to understand economic debates**

Help **entrepreneurs** improve their economic and financial skills

A WEBSITE AREA FOR ALL AUDIENCES, WITH MORE THAN 3.8 MILLION PAGES VIEWED IN 2020

The section of the Banque de France website for private individuals provides comprehensive information on the Bank's financial inclusion services and associated contact details.

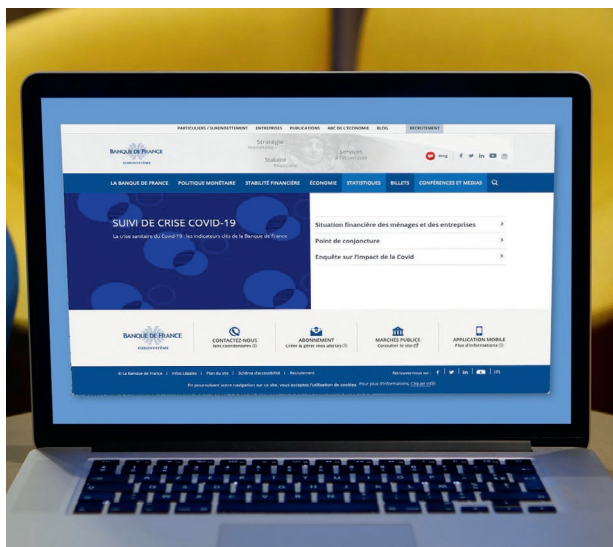
- Are you looking for information on the overindebtedness procedure or how to submit an application? The Banque de France provides the information you need.
- Do you have no bank account and are unable to open one? Learn about the right to a bank account procedure implemented by the Banque de France.
- Are you "fiché Banque de France" (registered in the Bank's payment incident file) or "interdit bancaire" (barred from issuing cheques)? The Banque de France provides right of access and explanations.
- Do you have problems with payment incident fees? The Banque de France provides information on the capping system for payment incident fees that banks are obliged to apply.
- Are you generally looking for simple, practical information to better understand a banking or insurance product or to find out what steps to take if you are experiencing difficulties? The Banque de France provides the answers you need.

Many processes can be completed online on our website or by telephone. Applicants can also contact our branches – there is at least one in every department – or write to us (by post or email), or call us. To contact us, click here or use the "contact us" section of our website.

The Banque de France is here to help you!



<https://particuliers.banque-france.fr/>



↑ The keys to understanding: <https://covid19-economie.banque-france.fr/>

Financial education priorities have been adapted to the crisis

In times of crisis, understanding economic, budgetary and financial mechanisms is a major challenge. The Covid-19 crisis and the measures taken to contain it have caused a shock to both supply and demand. This has created uncertainty on both fronts for economic agents: what impact will it have on their environment and what are the implications for their economic and financial situation? In this context, EDUCFI helps to build resilience for households and businesses and contributes to the continuity of education for young people.

The Banque de France has endeavoured to provide the general public and business owners affected by the crisis with accessible unbiased information free of charge. Covid-19 information pages were created on its financial education websites, setting out the financial support measures put in place by the public authorities. The main measures introduced for the general public are listed on the *Mes questions d'argent* (MQDA) internet portal, the national economic, budgetary and financial education strategy website. Measures brought in specifically for businesses are listed on a dedicated page on the *Mes questions d'entrepreneur* portal (see also the box below). These two websites give members of the public and business owners access to relevant information, with direct links to the official websites of the authorities and the public and private partners of the EDUCFI strategy. A video (*Comprendre*

4,354,501

pages and videos viewed on the
Mes questions d'argent, *Mes questions d'entrepreneur*, *Citéco* and *ABC de l'économie* websites

la crise économique liée au Covid-19 – Understanding the economic crisis relating to Covid-19) was produced to explain the mechanism of the economic crisis. Initiatives were also rolled out among high-school students and teachers.

In 2020, as every year, the Banque de France was present at the *Journées de l'économie* (Jéco – Economics Days), which took place wholly online on the theme of “Reinventing progress together”. From 17 to 19 November, 50 talks and roundtables enabled participants to become more familiar with the economy. The Banque de France presented the results of the survey *Les Français et l'économie* and participated in a dozen events focusing in particular on digital currency, Europe's responses to the crisis and finance in the face of new risks.

Citéco strengthened its educational offering

Faced with the health crisis, Citéco, or the *Cité de l'Économie* (Museum of Economics), located in Paris's 17th arrondissement, offset the lower visitor numbers in its building by expanding the virtual offering on its website (*citéco.fr*) and introducing new educational products relating to financial education, notably videos released on its YouTube channel.

The temporary exhibition “Largo Winch, aventurier de l'économie”, based on a cartoon character and addressing numerous economic and financial concepts, was opened on 16 October by the Governor of the Banque de France.

THE TRANSFORMATION OF THE NETWORK WAS COMPLETED

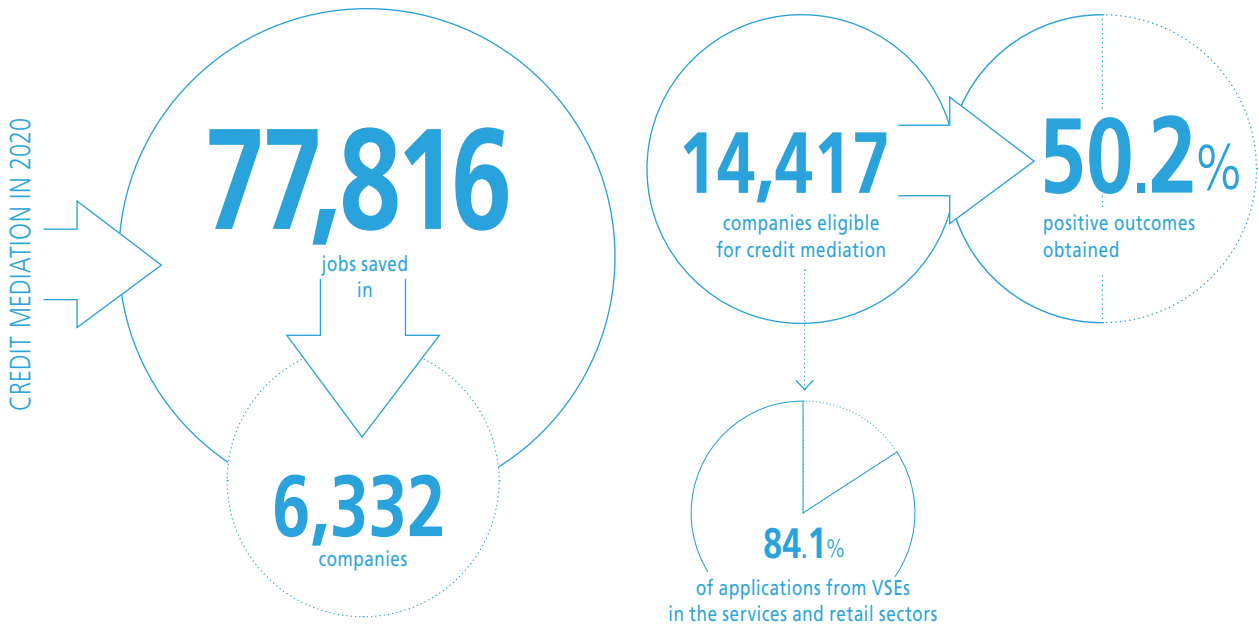
The transformation of the Banque de France network, launched in 2015 and completed in 2020, made it possible to optimise the Bank's cash activities and services to the economy.

- Processes were redesigned on the back of a major IT system upgrade. The deployment of new internal tools and digital services open to the public significantly changed the Bank's working practices. It meant that resources could be used more efficiently, which in turn led to more fluid interaction, extended the reach of the new mission to provide economic and financial education for the public (EDUCFI), and broadened the services provided to users with the addition of new support services. The handling of requests from the public has been completely overhauled, with new more suitable premises (currently being rolled out in several dozen branches) and a multi-channel approach (internet platform, portals, call centres, etc.). The new organisation draws a distinction between activities involving contact with the public and the processing of applications, with several branches in the same region sharing the workload to reduce processing times.

- The regional organisation of the Bank's premises was adjusted to meet the needs of the local economic structure, with 105 permanent units: 13 regional directorates with increased management autonomy, 95 departmental branches including the 13 regional head offices, and 10 economic centres. In addition, there are 87 non-permanent offices located outside the department capitals, whose activity is proportional to the frequency of contact with customers.



Érick Lacourrège,
Director General of Services to
the Economy and Branch Network
Activities, at a meeting of branch
managers on 30 January 2020



2

Stronger relations with companies to support them during the crisis

Increased use of credit mediation

A large number of credit mediation applications were handled in 2020 to support companies facing financing difficulties and facilitate their access to government cash flow support schemes, working in close collaboration with banks and credit insurers. In 2020, 14,417 companies were deemed eligible for credit mediation, mainly following the rejection of their applications for state-guaranteed loans (*prêts garantis par l'État* – PGE). The vast majority of applications came from VSEs (84.1%) in the services and retail sectors, and 50.2% of applications were approved.

Adjustment to Banque de France ratings

The ratings assigned by the Banque de France are based on assessments by expert analysts of the short to medium-term (1 to 3 years) financial outlook of companies with turnover equal to or greater than EUR 750,000.

In view of the Covid-19 crisis and its economic consequences, the rating process was adjusted in order to reflect the fundamentals of the productive fabric as accurately as possible while factoring in the impact of government support measures and preventing credit ratings from being automatically and systematically downgraded when this is not warranted.

The rating exercise was postponed to September 2020 so as to provide a more stable outlook for companies and allow as much qualitative information as possible to be gathered by sending out 260,000 questionnaires to company managers.

The final rating was determined by looking beyond the financial statements to identify factors likely to influence a company's situation going forward in the cycle: the environment (market growth, competitive intensity, visibility), the company's positioning in its environment (competitive advantages, relations with customers and suppliers), and the consistency of its strategy (outlook for business development, ability to bounce back). Analysts also gave fresh attention to the financial dimension (available internal resources, access to markets, bank support, specific support measures).

THE ROLE OF CREDIT MEDIATION AND THE CRISIS COMMITTEE FOR PAYMENT TIMES

The Crisis Committee for Payment Times was established on 23 March 2020 by the Governor of the Banque de France and the Minister for the Economy and Finance to address the most difficult cases and counteract the tendency for companies to suspend or delay payments. Co-chaired by the National Credit Mediator and the Business Mediator, the committee brings together key socio-professional organisations (*Association française des entreprises privées* – AFEP, *Confédération des petites et moyennes entreprises* – CPME, *Mouvement des entreprises de France* – Medef, *Union des entreprises de proximité* – U2P), as well as consular chambers (French Chamber of Commerce and Industry – CCI France –, French Chamber of Trade and Craft Industries – CMA France) and the Directorate General for Competition, Consumer Affairs and the Prevention of Fraud (DGCCRF).

The measures taken by the committee, which convened once a week at the height of the crisis, made it possible to respond very quickly to reports of unusual behaviour from major buyers and to avoid any problems that would have affected the cash flow of their suppliers, most often VSEs and SMEs. Thanks to the direct intervention of credit mediators and business mediators and dialogue with the companies concerned, the committee also resolved difficulties resulting from unaccommodating behaviour, organisational adjustments and lockdown procedures, and tense financial situations.

The crisis committee also endeavoured to recognise exemplary practices adopted during this period by major buyers, notably to speed up payments to their suppliers. For that purpose, it published a list of 16 “solidarity” companies.

Support for VSEs and SMEs extended to all companies

The role of the Bank’s 102 VSE-SME correspondents is to take questions from entrepreneurs, make a rapid assessment of their situation, and then direct them towards one or more professional bodies equipped to deal with their needs. Their approach involves finding an in-depth solution and putting entrepreneurs in touch with the relevant contacts as quickly as possible (within 48 hours in 80% of cases). Initially offered to VSEs and then to SMEs, this support was extended to all companies in April 2020. Demand for support increased threefold compared with the previous year. Over four years, the Banque de France supported more than 23,000 project developers and business leaders.

Statistical monitoring of state-guaranteed loans on behalf of the government

The Banque de France carried out statistical monitoring of state-guaranteed loans (PGE), an exceptional guarantee mechanism implemented to provide financial support for businesses. Every week, it produced a dashboard of PGEs showing their breakdown by size, credit rating, business sector and region, based on data from the *Fichier bancaire des entreprises* (FIBEN – a reference database for the banking industry) and available on the website economie.gouv.fr.

Companies’ equity needs during and after the crisis

The economic consequences of the Covid-19 crisis hit SMEs hard in 2020. Previously, these companies had been increasingly strengthening their equity and deleveraging. The share of equity in total financial resources had risen from 37.8% in 2007 to 44% in 2019,² thus improving the “debt-to-equity” ratio, i.e. reducing financial leverage.³ This meant that SMEs had greater flexibility to take on debt in order to obtain sufficient liquidity to absorb the immediate impact of the crisis. Indeed, SMEs substantially increased their bank debt in 2020, notably by taking out PGEs: EUR 95 billion in PGEs was granted to VSEs and SMEs, representing 75% of loans approved as at 4 December 2020.⁴

While the average increase in debt net of cash investments remains limited among SMEs, a long-term deterioration in the balance sheet structure increases the risk of a company defaulting over time.⁵ SMEs therefore need to strengthen their equity to allow them to reduce their debt and resume the investment and development projects that are currently on hold. When it is difficult to raise funds in the financial markets or through private equity firms, SMEs tend to increase their equity by allocating their profits to reserves, a process that can be very slow. In view of this, quasi-equity financing is worth considering. For this purpose, the government wishes to mobilise EUR 20 billion in quasi-equity to support business investment and development,



↑ Start-up correspondents at Station F on 3 February 2020



↑ The Banque de France's stand at the *Salon des entrepreneurs*; presentation of the #Aventure Entrepreneur game on 12 March 2020

by extending the legal framework for equity loans financed by the *Fonds de développement économique et social* (Economic and Social Development Fund) through the *loi de finances pour 2021* (2021 Budget Law).



THE NEW MES QUESTIONS D'ENTREPRENEUR PORTAL

Just over a year after the portal first went live, the Banque de France unveiled a new version of the MQDE portal (mesquestionsdentrepreneur.fr). The new portal uses an AI-driven natural language search engine to provide appropriate content for the issue described by the user. It is also more user-friendly to enable entrepreneurs to make the most of this feature. Available to the public since 10 December 2020, it provides a collection of content to inform, train and assist entrepreneurs with all aspects of business management.

2 Gaignon (M.) (2020), "Les PME ont abordé la crise de la Covid-19 avec une structure financière renforcée", *Banque de France Bulletin*, No. 232/1, November-December.

3 This observation for SMEs on file in FIBEN is cross-referenced with a specific study by Insee on VSEs: Morénillas (N.) and Sklénard (G.) (2020), "The low level of capital in VSEs increases their fragility", *Insee Références*, December.

4 Vinas (F.) (2020), "Outstanding loans to enterprises increased sharply in France in the first half of 2020", *Banque de France Bulletin*, No. 232/7, November-December.

5 Dietsch (M.) and Gonzalez (O.) (2020), "Do late customer payments impact companies' probability of default?", *Banque de France Bulletin*, No. 227/8, January-February.



↑ Conference on 6 February 2020: "30 years preventing and dealing with overindebtedness: the French model"

3

Protecting financially vulnerable households

The Banque de France supports vulnerable customers

Points conseil budget: identifying financial difficulties earlier

Points conseil budget (PCB – Budget Management Advice Offices) were set up as part of a project led by the Ministry of Solidarity and Health Care under the national strategy for preventing and combating poverty. The Banque de France participates in steering committees at national, regional and departmental levels. A dedicated section of the *Mes questions d'argent* internet portal provides information on PCBs. The 150 PCBs certified in 2019 will be joined by 250 new members in 2021.

Tackling overindebtedness: targeted action to support highly vulnerable households

The overindebtedness procedure allows any individual who can no longer repay their non-professional debts to file an application with their *département's* Household Debt Commission. The Commission assesses the person's situation and actual circumstances and seeks a solution. The Banque de France

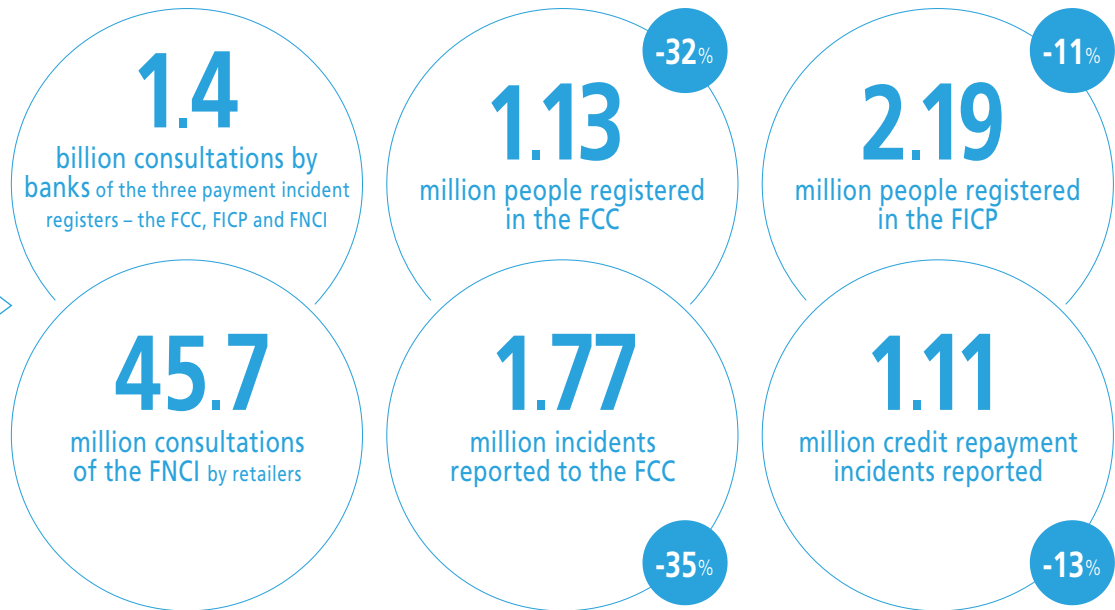
provides secretariat services for these Commissions: its staff inform the public about the procedure, receive individuals wishing to submit an application, assess applications, contact lenders, establish debt settlement measures, present the application to the Commission and implement the solutions decided on. The procedure is free of charge and confidential.

Management of payment incident registers: a risk prevention tool

As part of the tasks entrusted to it by the Government, the Banque de France manages three major payment incident registers. Populated by credit institutions, these databases help to make means of payment more secure and prevent overindebtedness.

The *Fichier central des chèques* (FCC – Central Cheque Register) contains the names of people who have written cheques on accounts with insufficient funds. Individuals included in this database are barred from issuing cheques on all of their bank accounts. The register also includes some individuals who have been legally banned from issuing cheques or have had their bank card disabled due to improper use.

The *Fichier national des chèques irréguliers* (FNCI – National Register of Irregular Cheques) lists the bank details of closed or banned accounts, as well as the numbers of cheques stopped due to loss or theft. This information is accessible to subscribers to the file consultation service – mainly merchants



and retailers – which allows them to verify the validity of cheques presented by customers. The FCC and FNCI serve to enhance cheque security.

The *Fichier national des incidents de remboursement des crédits aux particuliers* (FICP – National Register of Household Credit Repayment Incidents) records payment incidents related to credit granted to private individuals and payment incidents relating to overindebted individuals. It enables banks to better assess the risk involved when customers apply for loans.

Promoting banking inclusion and microcredit

The Banque de France continues to assist financially vulnerable households by supporting individuals facing difficulties and participating in the work of the *Observatoire de l'inclusion bancaire* (OIB – Observatory for Banking Inclusion).

The capping of payment incident fees

Approximately 250,000 additional customers were identified as “vulnerable” in the first half of 2020, notably due to the implementation of measures recommended in connection with the OIB. The impact of the cap on payment incident costs (EUR 25 per month, or EUR 20 per month and EUR 200 per year for beneficiaries of the “specific offering” for vulnerable customers) has been monitored since mid-2020 as part of the process of collecting quarterly statistics from the main banking groups.

EXECUTION OF THE PUBLIC SERVICE CONTRACT IN 2020

Under the Public Service Contract signed between the French state and the Banque de France, the Bank’s branch network is responsible for receiving members of the public and providing them with information on issues concerning overindebtedness, payment incident registers, the right to a bank account, and bank transactions and practices. In 2020, the Banque de France network responded to 1.27 million requests from individuals, including 264,000 requests received at its branches and information offices. The network also handled 504,000 telephone calls and answered 498,000 emails and letters. In line with its commitment to modernise and diversify the way it communicates with users of its services, the Bank also responded to 242,000 requests transmitted via personal spaces on its website. Experts from the branch network participated in over 3,000 meetings of different bodies set up by the state in the framework of its economic activities.



↑ *Cellule alerte inclusion* (Inclusion Alert Unit)
<https://www.youtube.com/watch?v=dpDXtyZ0b5I> (in French)



↑ The right to a bank account procedure
<https://www.youtube.com/watch?v=9yqQORCRAHw> (in French)

THE INCLUSION ALERT UNIT

Since May 2020, the *Points conseil budget* (PCB – Budget Management Advice Offices), the *centres communaux d'action* (CCAS – social action community centres) and associations supporting people in need have been provided with a dedicated interface with the Banque de France: the *Cellule alerte inclusion* (Inclusion Alert Unit).

This unit reports to the Banque de France’s Consumer Affairs Directorate and to the secretariat of the *Observatoire de l’inclusion bancaire* (OIB – Observatory for Banking Inclusion). It can be called upon to handle cases where a social actor believes that an individual is facing unusual bank charges, which could be an indication that they are in a vulnerable situation yet to be identified or that the cap on bank fees has not been complied with.

The alert unit is neither a complaints handling service nor a mediator. Cases cannot be referred to it by private individuals and it is not involved in processing ongoing applications. On the basis of the cases reported, it analyses difficulties encountered in the practical implementation of procedures, identifies common issues and contributes, within the OIB, to developing comprehensive responses.

Approximately 70 cases were referred to the unit in 2020. The *Cellule alerte inclusion* can be contacted by email at: cellulealerteinclusion@banque-france.fr

This capping system continues to directly benefit nearly one million people each quarter. It helps to control the average cost of payment incident fees, which remained under EUR 15 per month in the third quarter of 2020. New subscriptions to the “specific offering” for vulnerable customers continued to show strong momentum in 2020. The number of beneficiaries of this protective service now exceeds 550,000, representing a 57% increase over three years.

The right to a bank account procedure

Any individual who does not have a bank account and who, despite their efforts, is unable to open one, can apply for the right to a bank account procedure: the Banque de France is authorised to appoint a bank to open an account for them and provide them with basic banking services.

Continuing growth in microcredit

The Banque de France helps to promote microcredit through a direct contribution to the Social Cohesion Fund, together with its support for associations. Microcredit is a lever for economic and social integration and promotes employment. The steady increase in the production of new microcredit (6.3% a year on average over the last five years) reflects the success of this financing method. To support this trend, the *Rencontres du microcrédit* (microcredit meetings) organised from November 2020 by the Banque de France in partnership with Bpifrance launched a selection of projects in each region with a view to competing for the 2021 Banque de France “personal” and “professional” microcredit awards.

A DEDICATED PORTAL FOR THE FRENCH TREASURY

The Banque de France provides public finance administrators with a dedicated portal enabling them to carry out their individual transactions and monitor their account position in real time. The portal is directly connected to the IT system of the Directorate General of Public Finances (DGFIP) for retail payments.

The Bank's IT processing operations are regularly tailored to the Treasury's needs (such as deductions at source) and the Bank assists the Treasury with new developments and the modernisation of its payment means, notably the development of instant transfers.

In 2020, the single Treasury account, held at the Bank, centralised nearly one billion payment transactions initiated and received by public accountants through 4,000 transaction accounts.

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

4

Acting as a banker to the French state

Under an agreement signed with the French state, the Banque de France manages the Treasury's accounts. It gives the Treasury the means to manage its cash flow, and provides it with an IT system to carry out all its banking transactions.

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

On behalf of *Agence France Trésor* (AFT), the Banque de France holds auctions of government securities on a weekly (Treasury bills) and monthly (OATs and OATis) basis. In 2020, these auctions raised EUR 627.52 billion



↑ The Banque de France EvolMPPM team

2020 HIGHLIGHTS

FEBRUARY

2 February: The conference “Thirty years preventing and dealing with overindebtedness: the French model” is held in the presence of leading figures including Véronique Neiertz, the former Secretary of State behind the Neiertz law, and voluntary-sector, institutional and private partners.

“France: 30 years fighting overindebtedness”, paper:
<https://particuliers.banque-france.fr/surendettement/etudes-sur-le-surendettement>

3 February: Station F in Paris hosts the launch of the “start-up correspondents” scheme, which provides a modernised local service to assist with the essential procedures and information involved in developing innovative companies. The scheme aims to provide a support network in 13 regional “French Tech” capitals.
<https://entreprises.banque-france.fr/startup>

MARCH

19 March: The Minister of the Economy and Finance and the Governor of the Banque de France set up a crisis committee to address the deterioration in payment times. Under the aegis of the Business Mediator and the Credit Mediator, the committee brings together business federations (AFEP, CPME, MEDEF, U2P), consular chambers and the DGCCRF.

APRIL

8 April: The crisis caused by the Covid-19 pandemic prompts the Banque de France to adjust its rating procedure for 2020 on an exceptional basis.

JULY

27 July: Based on an initial assessment, the credit mediation service is shown to have provided significant support for companies from the start of the crisis.

SEPTEMBER

10 September: Launch of the *Rendez-vous de l'épargne*, a series of conferences arranged as part of EDUCFI's national strategy and held in 40 French cities by the ACPR and the AMF, with the support of the Banque de France. The opportunities and risks associated with various financial investments are presented to the general public.

OCTOBER

9 October: Extension of the VSE-SME Correspondents scheme to all companies, enabling the 102 correspondents in the Banque de France's branches to welcome and assist any company wishing to use their services.
<https://entreprises.banque-france.fr/page-sommaire/mon-correspondant-tpe-pme-dans-chaque-departement>

NOVEMBER

5 November: The annual VSEs-SME convention is held in the form of a webinar by the Banque de France in the presence of its Governor and the Minister for Public Accounts. It attracts 500 participants from the world of entrepreneurship: business leaders and participants from professional networks and public institutions.

DECEMBER

7 December: Launch of the option to file online applications for the overindebtedness procedure through a secure personal space on the Banque de France website. As well as this option, applications can still be handed in at Bank branches or submitted by post.

31 December: More than 3.8 million pages viewed in the personal space on the Banque de France website for all audiences: right to a bank account procedure, overindebtedness procedure, payment incident registers, and general information on banking and insurance products.
<https://particuliers.banque-france.fr/>



● ● BANQUE DE FRANCE

EUROSYSTEME





BANQUE DE FRANCE



EUROSYSTÈME

**TRANSFORMATION
STRATEGY**



THE TRANSFORMATION STRATEGY IN 2020



**TO CONSTRUCT
A BANQUE DE FRANCE THAT IS**

MORE Efficient
Visible
Innovative

10 KEY TARGETS MET OR EXCEEDED IN 2020



FOR OUR STAFF	FOR OUR PERFORMANCE	FOR OUR INFLUENCE
<p>At least 1,000 new hires by end-2020 and 500 block-release contracts</p> <p>▶ 1,527 new hires (cumulative total at end-2020)</p> <p>717 block-release contracts (cumulative total at end-2020)</p>	<p>Around EUR 1 billion of investment over five years, including nearly EUR 400 million for Ambitions 2020 and the modernisation of the network</p> <p>▶ Cumulative total of EUR 964 million invested by end-2020, of which EUR 362 million for Ambitions 2020 and the modernisation of the network</p>	<p>Steady increase in</p> <ul style="list-style-type: none"> the Banque de France's visibility "customer" satisfaction <p>▶ 47% in 2020</p> <p>86% customer satisfaction in 2020</p>
<p>200 internal promotions to professional/higher category roles by end-2020,^{a)} with the aim of raising the proportion of staff in professional and higher categories to 35%</p> <p>▶ 209 new professional/higher category staff (cumulative total in 2020)</p> <p>39% of staff in professional and higher categories</p>	<p>Ensure all our pension commitments are fully covered in 2020, thanks to a strong financial performance</p> <p>▶ 100% coverage</p>	<p>Number of people benefiting from economic and financial education^{b)}</p> <p>▶ 10,412 teachers and social workers trained in 2020</p> <p>3,168,208 MQDA and Citéco web pages viewed;</p> <p>1,033,037 visits to the <i>Covid-19 et économie</i> website</p>
<p>9,720 full-time equivalent (FTE) staff by end-2020</p> <p>▶ 9,535 FTE staff at end-2020</p>	<p>10% reduction in the net expenditure of our activities</p> <p>▶ 13% reduction in the net expenditure of our activities</p>	<p>Ensure confidence in the euro in France is at least in line with the European average and always greater than 60%^{c)}</p> <p>▶ 72% in July 2020 in France (68% in November 2016)</p> <p>75% on average in Europe (70% in November 2016)</p>
<p>Increase in staff confidence in the Banque de France's future to more than the 50% indicated in the 2014 BVA survey</p> <p>▶ 2020 BVA survey: 60% (42% in 2018)</p>		

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

b) The measurement tools for this indicator were introduced in 2018.

c) As a reminder, in December 2015, 67% of French people were in favour of the euro, compared with a European average of 68%.

The decision to prioritise **PERFORMANCE, VISIBILITY** and **INNOVATION** proved relevant

The public health crisis, coming as it did at the end of the 2016-20 strategic cycle, made it clear that we had been right to prioritise performance, visibility and innovation. The agility and transformation yielded by the strategy were put to the test in a real-life scenario, and allowed the Bank to better weather the challenges of the crisis without disruption to its services or missions.

1

The end-phase of the Ambitions 2020 plan

An overall positive assessment

The year 2020 was a turbulent and unexpected one, but at the same time, for many of our activities, one that was packed with achievements and innovations – as demonstrated in the other chapters of this report. The crisis took us by surprise but it did not throw us off course. All the transformations set out in the Ambitions 2020 plan were completed. The ten targets used to gauge the success of the strategy were all reached and, in most cases, exceeded, and 55 of the 59 actions making up the foundation of the plan were fully implemented.

Outside the Banque de France, this strict adherence to our commitments gave our institution even greater legitimacy. Inside the Bank, it helped to bolster confidence among staff, pushing it to its highest level since 2016. Ultimately, the Bank finished 2020 with its resilience, identity, unity and missions all reinforced, marking a successful end to the strategic cycle and the start of a new one.

The Bank strengthened its missions and met its commitments thanks to three transformation levers

Since 2016, the Banque de France has been comprehensively transforming its activities with the aim of boosting its performance and visibility and becoming more innovative. Its achievements in these three areas left it better prepared to handle the health crisis, both internally and externally.

The Ambitions 2020 plan consolidated the changes already begun before 2016 and amplified them via three transformation levers.

Performance

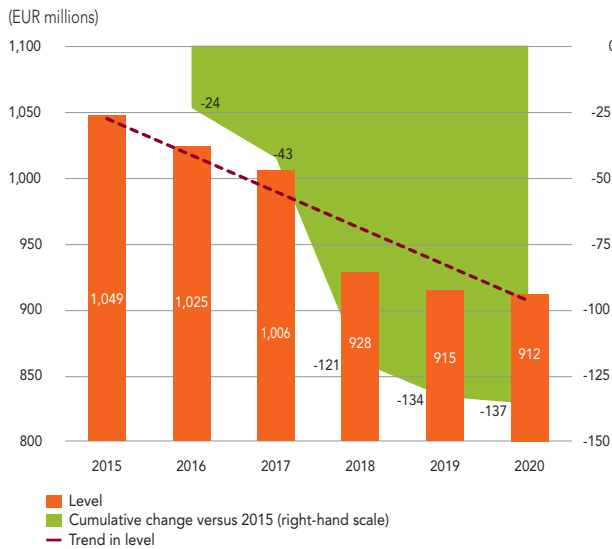
Performance as a lever for transformation means meeting the requirement that we be exemplary in our management of public money, in exchange for our monopoly over issuance, and to safeguard public trust. With average profits of EUR 6 billion per year, the majority of which is paid into the public purse, and a cumulative reduction of 13% in net expenditure over five years, the Bank has clearly delivered on the promise made in its 2016 transformation plan, to provide the nation with the best possible service at the best possible price.

We have succeeded in carrying out our missions more effectively and more productively. Through natural attrition, we have lowered our headcount over the past five years

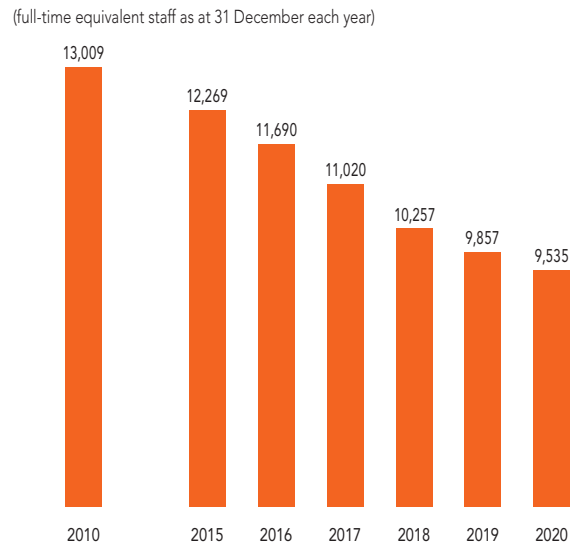


↑ Open day for students on 3 February 2020

Net expenditure: level and cumulative change

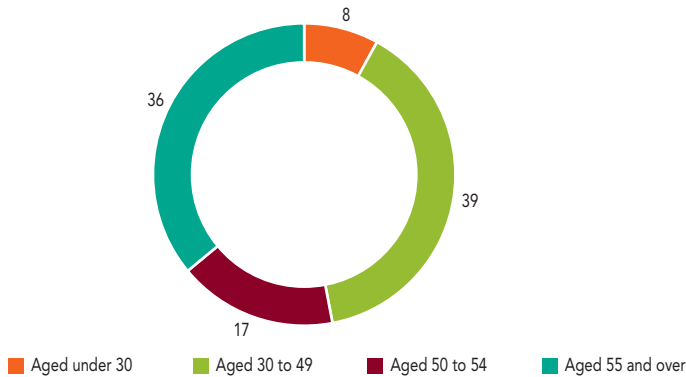


Total headcount

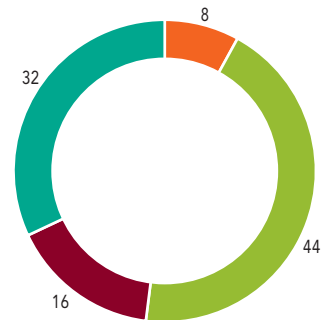


Breakdown of headcount by age bracket (% of all staff)

a) End-2015



b) End-2020



from 12,269 full-time equivalent staff to 9,535, a reduction of 22%. At the same time, the Bank has met its commitment to invest EUR 1 billion and recruit at least 1,500 staff over the duration of the plan, significantly lowering the average age of our teams. The reduction in operating expenses has given us additional room to invest. These investments, combined with the recruitment of new skills, have boosted our performance.

Visibility

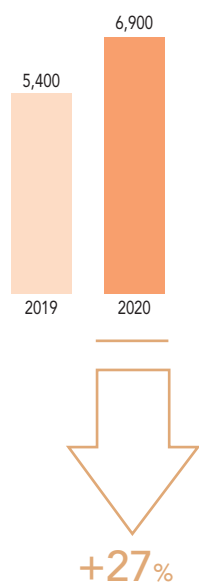
The Banque de France's three core missions – monetary strategy, financial stability and services to the economy and society, also known as the "3S's" – have all been reasserted. Together they make up the Bank's *raison d'être*, both in Europe and throughout national territory. Whether it be the conduct of monetary policy, micro- and macroprudential supervision, or relations with businesses and individuals at the heart of the economy and society, each of these

missions now forms the foundations for a single structure and a shared vision. The Banque de France has continuously increased the visibility of its missions over the past five years.

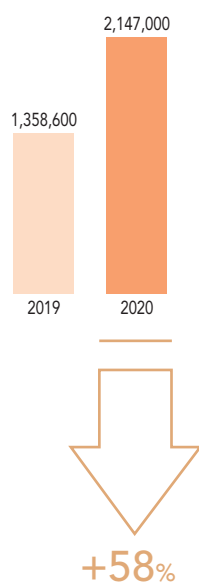
Innovation

The Banque de France has transformed its culture and operating methods. A large share of its investment has gone towards innovation and future-facing projects. The digitalisation of processes and workstations, and the creation of its innovation "Lab" are just a few of the many initiatives taken in the transition to a digital bank. But innovation has not just been restricted to the digital universe. It has also extended to methods of organisation, with the restructuring of the branch network and the creation of a Directorate General for Information Systems. Other examples of innovation include the creation of a "junior" committee of young professionals and managers, which is tasked with questioning our operating methods and projects.

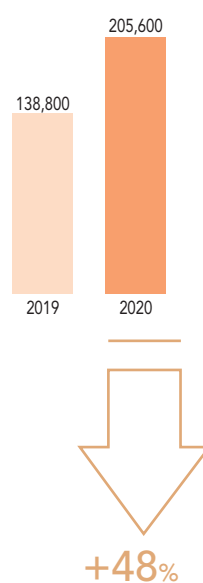
Press coverage



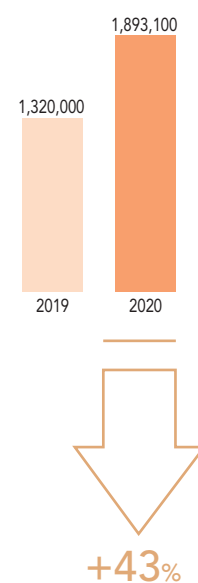
Mes questions d'argent website: page views



ABC de l'économie website: page views



Citéco website: page and video views



108,900

Number of page views for the *Mes questions d'entrepreneur* website

1,033,000

Number of page views for the *Covid-19 et l'économie, les clés pour comprendre* website

45,300

Number of views of the *Banque de France Bulletin*

THE OPEN INNOVATION LAB AS ACTIVE AS EVER

In 2020, despite the public health crisis, the Lab continued its exploration and experimentation activities as part of the final stretch of the Ambitions 2020 strategic plan.

The Lab enabled the Bank to conduct “intrapreneurial”¹ projects and to develop new tools for ACPR inspections, based, for example, on the use of artificial intelligence (AI). For the intrapreneurial projects, the Lab conducted experiments with external partners on this type of management model, with a view to rolling it out more broadly in the future via an incubator approach. It also assisted on projects relating to corporate social and environmental responsibility (CSER), which helped to increase the involvement of our staff in this field, on both a concrete and operational level.

In 2020, some ten experiments were launched, ranging from the use of web data to enrich our research and analysis or to access new information sources, to the adoption of AI for real-time

compliance checks, or of blockchain technology to facilitate and decentralise processes. This work offers new and innovative capabilities for the Banque de France’s activities, as well as providing opportunities for new partnerships, challenges and competitions within our ecosystem (start-ups, large corporations, students, financial sector).

The Lab also strengthened its ability to assist the Bank in exploring key topics for the future, for example by supporting experimental work on a central bank digital currency.

Alongside the Bundesbank, the Banque de France was chosen through a Eurosystem tender process to host one of the innovation network centres for the Bank for International Settlements (BIS). This success is testament to the recognition the Bank has earned from its peers for its capacity for innovation. It will help the Bank to conduct future innovation projects at the international level.

¹ An intrapreneurial approach aims to encourage in-house entrepreneurs to conduct projects/look at topics in a different way, and to give teams more autonomy and encourage them to have a go.



↑ Eurochain Hackathon 2020 at the Lab on 31 January 2020



↑ Visit to Citéco by Eurochain Hackathon 2020 participants on 28 January 2020

The actions of the Ambitions 2020 plan helped the Bank to better tackle the health crisis

The public health crisis proved the relevance of the transformations made in the Bank's three core missions. It also highlighted the crucial benefits gained from the modernisation of the support functions and the increase in our teams' ability to adapt.

In monetary strategy

The actions taken under the Ambitions 2020 plan increased the Bank's involvement in European projects and strengthened its role as a leading central bank for financial markets. They helped it to position itself in the Eurosystem's monetary decision-making process, and consolidated the Bank's influence within the Eurosystem and with the European Central Bank (ECB), whose robust and rapid responses proved decisive in the crisis.

At the national level, the Banque de France asserted its role in informing public decision-making, thanks to the quality of the economic analysis, forecasts and data that we provide to our external partners (including our research).

Our efforts towards modernisation, combined with the strength of our sorting capabilities, ensured the continuing supply of banknotes to the nation, including to the overseas territories.

In financial stability

The Banque de France safeguarded the resilience of the financial sector by preventing the health crisis and ensuing economic crisis from escalating into a financial crisis. Our supervisory capabilities, which were reinforced under the strategic plan, demonstrated the relevance of the prudential reforms introduced in response to the previous financial crisis. The flexibilities permitted for crisis management (notably under Basel III) were activated in concertation with financial industry participants, using mechanisms for closer coordination between national and European authorities.

In services to the economy and society

Through its network, which has been completely transformed and renewed under the strategic plan, the Banque de France played a central role in tackling the health crisis and in helping firms and individuals that were experiencing difficulties. Its credit mediation, its assistance for very small enterprises (VSEs) and small and medium-sized enterprises (SMEs), its on-the-ground presence, and its handling of overindebted applications were all welcomed as essential services for the sound functioning of the French economy. The Bank was able to remain open to the public and maintain a high standard of service, all thanks to its progress in digitalising and modernising the network's processes, and to the reorganisation of its back and front offices.

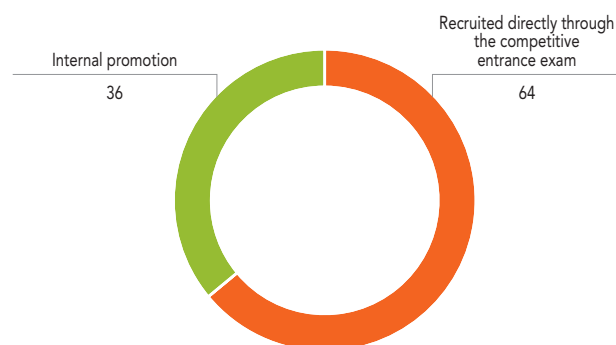
Beyond the crisis, the Banque de France stepped up its efforts to improve financial literacy, which is key to ensuring that the most fragile segments of the population can better weather subsequent crises.

Modernised support functions and the increased capacity of staff to adapt all proved decisive in the face of the crisis

The health crisis made it clear that the transformation plan had been a success. In just a few days, staff and managers successfully adapted their working methods to continue carrying out their activities remotely. This remarkable agility is the result of the comprehensive transformation of the Bank's corporate culture. The digitalisation of workstations and processes, renewal of managerial models – helped by training and better prospects for internal promotion – and the support sent to teams under pressure, all proved key in ensuring this success. In 2020, the entire training catalogue was made available remotely.

Share of tenured staff promoted internally to professional/higher category roles

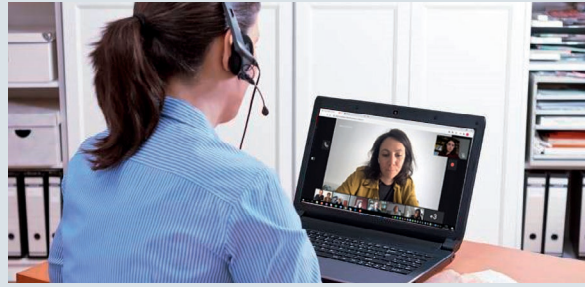
(% of all staff as at 31 December 2020)



THE RISE OF REMOTE WORKING DURING THE CRISIS

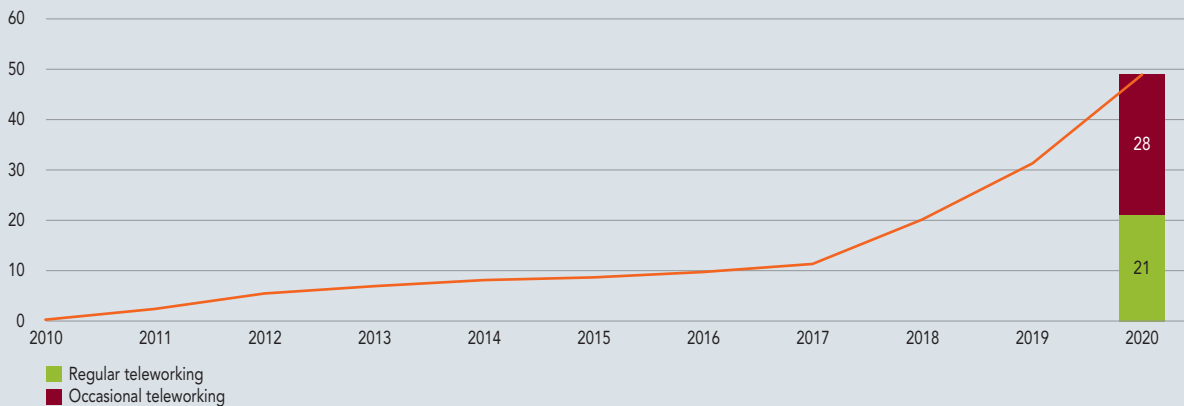
Use of teleworking had already risen considerably at the end of 2019 as a result of the nationwide transport strikes.

With the outbreak of the health crisis, the Banque de France reacted quickly by putting in place the technical means for the vast majority of staff to work full-time from home. In total, in 2020, 21% of staff worked at least one day a week from home, and 28% did so occasionally under the scheme made available to all staff in 2019.



Change in the number of teleworkers since 2010

(% of staff as at 31 December each year)



Note: Launched in 2015, the scheme for occasional teleworking was initially only available to professional and higher category staff. It was extended to all staff in 2019.

RESILIENCE

The term resilience comes from the Latin *resilio* meaning “to rebound”. Although it now applies to various fields, it was originally borrowed from physics where it described a body or material’s ability to resist an impact or deformation. In human and social sciences, resilience refers to the dynamic processes that enable an individual or organisation to adapt to a significant shock.

With the onset of the public health crisis, the Bank’s decision-making bodies mobilised more strongly than ever before around the institution’s central governing authorities. The model put in place combined:

- reinforced governance: appointment of a Deputy Secretary General in charge of resilience, the mobilisation of the Executive Committee to set the Bank’s priorities, take rapid decisions, communicate regularly and organise direct reporting, in collaboration with a mobilisation team that has access to the business continuity plan and to reliable data enabling it to assess the situation;

- a decentralised approach enabling collective action to be taken, and that simplifies and reduces decision-making channels while also encouraging internal and external cooperation.

The robustness of the Banque de France’s information system and acceleration of its digital transition, which was one of the major focuses of the Ambitions 2020 plan, proved decisive in ensuring its resilience during the health crisis. However, these strengths can also be regarded as vulnerabilities in the sense that all activities are now reliant on information systems. To reduce this weakness and increase its overall resilience, the Banque de France has invested heavily in the prevention of cyber-risk. This expenditure increased throughout the duration of the strategic plan, in the form of tangible and intangible investments, the recruitment of expert skills and regular action to increase awareness among all staff.

Preparation of the next strategic plan, “Building 2024 Together”

A plan put together with the participation of staff and which has evolved with the health crisis

The process of drawing up the next strategic plan, which will cover the period 2021-24, was launched in January 2020. It began with a broad stock-taking exercise to which all Banque de France staff were invited to contribute.

This appraisal included a first assessment of the results of the Ambitions 2020 plan, a comparative study of other central banks, and an analysis of the defining challenges that our institution will face in the future.

Feedback and suggestions from staff were also incorporated, along with the lessons learned from the public health crisis. The strategic plan, “Building 2024 Together”, will address six types of challenges facing our business lines and staff:

- Economic, monetary and European challenges
- Financial stability challenges
- Climate-related challenges
- Technological challenges
- Societal and local challenges
- Employer attractiveness challenges

30 actions grouped into four strategic areas, all rooted in the Bank’s core values

Work on the next strategic plan continued throughout the first phase of the public health crisis. Between July and November, 14 multidisciplinary working groups, comprising over 250 staff, proposed a range of innovative, operational and transformation-focused initiatives to meet the challenges raised by the Bank’s missions. Thirty actions were chosen, which can be grouped into four strategic areas (*see over*).



↑ The Governor at the launch of the strategic plan at the Palais Brongniart on 30 January 2020



↑ Roundtable for the launch of the strategic plan at the Palais Brongniart on 30 January 2020



↑ Launch of the strategic plan at the Palais Brongniart on 30 January 2020

Building 2024 Together

Through our expertise and independence

STRENGTHEN THE ECONOMY

- “*La Banque de France à votre écoute*” (“The Banque de France Listens”), a Q&A session for all audiences on monetary policy
- Measure and take better account of households’ and firms’ inflation expectations
- Adapt monetary policy operations to climate risks
- Increase the accessibility and security of payment instruments, including cash
- Commit to the success of the European Payments Initiative
- Prepare for the issuance of a central bank digital currency (CBDC)
- Modernise the printing works to increase our competitiveness
- Penetrate new banknote paper markets (EUROPAFI)
- Implement our SUPTECH strategy for enhanced supervision
- Improve the assessment and prevention of risks to the financial system
- Ensure the financial sector takes better account of climate-related risk, notably via the NGFS
- Assess the feasibility of incorporating climate risk into our company ratings process

Through our openness

SERVE SOCIETY AND EUROPE

- Roll out, via our branch network, a complete financial inclusion offering
- Innovate to better guide entrepreneurs out of the crisis
- Enable all staff to learn more about our missions and spread that knowledge outside the Bank
- Support the strategy of the IEDOM and IEOM for the development of the overseas economies
- Identify the key themes for tomorrow’s Eurosystem and multilateral agendas
- Define an HR policy to increase our influence at the European and international levels

Through our sustainable performance

SECURE THE FUTURE

- Reinforce and renew our collective resilience
- Modernise all premises and the working environment in the branch network by the end of the decade
- Simplify workstations and adapt them to new modes of working, including teleworking
- Actively commit to a target of carbon neutrality by 2030
- Aim for digital sobriety in all our digital uses
- Capture more innovations with the business lines and their ecosystems, and accelerate their implementation
- Improve the governance and exploitation of our data, starting in three target areas (companies, financial stability, supervision)

Through our solidarity

BE AN ATTRACTIVE EMPLOYER

- Support our managers: more sharing of managerial best practices, more help in facing day-to-day challenges, more autonomy
- Ensure assistant roles are more valued: renewed recruitment methods, lifelong skills development and prospects for promotion
- Provide better financial recognition for staff contributions, including for experts
- Introduce an income protection scheme for all staff
- Simplify our processes and our culture





CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

INCREASED EMPHASIS ON CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY amid the health crisis

The corporate social and environmental responsibility (CSER) strategy introduced in 2016 drove activities in 2020 around three key areas: responding to the urgent need for action on climate change; stepping up adjustments to our working methods; and looking after our communities and our employees.

1

Our environmental commitment in the face of the climate emergency

Promoting the energy transition

In 2020, the Banque de France kept up its efforts to improve understanding and recognition of the financial risks associated with climate risks. It drew up a series of climate transition scenarios applied to France,¹ which were used by the ACPR in its climate resilience test, the results of which are expected in spring 2021. It also provided input to international discussions on ways to integrate climate risks into monetary policy.²

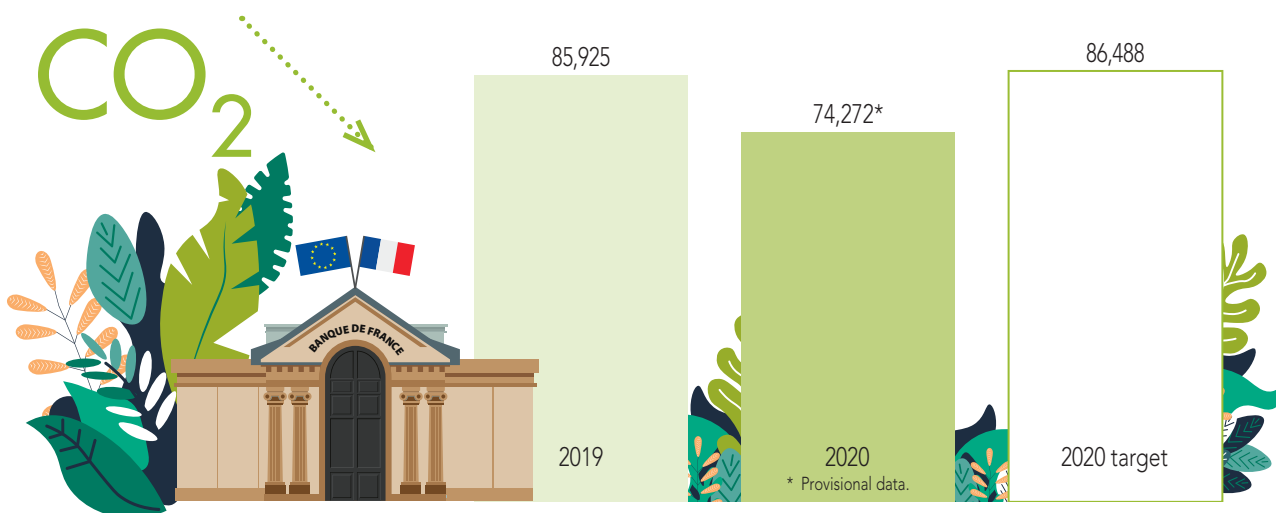
The Network of Central Banks and Supervisors for Greening the Financial System (NGFS), for which the Banque de France acts as secretariat, continued to grow. At end-2020, the network had 83 active members and 13 observers. Together, these participants are responsible for supervising all of the global systemically important banks. The NGFS published ten reports in 2020, helping to raise awareness within the financial system and inspiring real-life measures to drive the ecological transition.

The Bank plays an active role in climate and green finance research, maintaining regular dialogue with academic and institutional researchers, particularly within the NGFS. For the third year, it awarded its Prize for “Young Researchers in Green Finance”³ at the “Green Finance Research Advances” academic conference that it co-organised with the Louis Bachelier Institute and the Institute for Climate Economics (I4CE).⁴ It also contributes to research on the energy transition and climate risks through original work exploring their effects on the economy and finance and identifying lessons for monetary policy and financial stability.

The Banque de France is also committed to protecting the environment and promoting the energy and ecological transition through its role as an institutional investor. It tracks the climate, environmental, social and governance performances of its own funds and pension liabilities investment portfolios, and reports on these performances in its annual responsible investment report, which covers aspects such as carbon footprint and intensity, the green share of investments and exposure to climate risks (see section 3).

Reducing our environmental footprint

(tCO₂eq)



Monitoring the Bank's environmental footprint

As part of its commitment to the environment, the Bank is determined to continually reduce its footprint. In this regard, 2020 was a pivotal year, as both the final year of the Ambitions 2020 plan, whose goal was to lower greenhouse gas (GHG) emissions by 9% between 2014 and 2020, and as the review year for the next GHG emissions assessment. The unusual situation in 2020 also materially affected the Bank's GHG emissions, especially those relating to energy, business travel and commuting. By 2019, the Bank had hit its goal of a 9% reduction, recording a 9.6% reduction compared with 2014. By end-2020, the reduction far exceeded the original target, with a 22% decrease compared with 2014, notably reflecting the 16.8% decline over 2020 alone in emissions linked to energy consumption.

Greenhouse gas (GHG) emissions linked to energy consumption

A portion of the activity usually conducted in person was reduced due to the lockdown. This definitely added to the expected decrease in the Bank's energy consumption,⁵ even if the associated impact cannot be precisely quantified.

- Electricity (56%) and gas (30% of the total) continued to account for the lion's share of the Bank's energy consumption, which decreased by 8.3% relative to 2019

after being relatively stable since 2017. The largest decreases were in heating-related energy consumption: –31.3% for fuel oil (continued drive to replace fuel oil boilers with gas boilers) and –9.4% for gas. Electricity consumption fell by 7.6%.

- Associated CO₂ emissions fell by 16.8% compared with 2019. The breakdown was unchanged, with gas accounting for 69% and electricity for just 6%, even though the latter is responsible for over half of the energy consumed by the Bank. This reflects differences in the emission factors used to calculate emissions from energy consumption (242.8 gCO₂eq/kwh for gas, compared with just 10.8 for electricity from renewable sources).

1 Allen (A.), Dees (S.), Boissinot (J.) et al. (2020), "Climate-related scenarios for financial stability assessment: an application to France", *Working Paper Series*, Banque de France, No. 774, July (<https://publications.banque-france.fr/en/>).

2 Oustry (A.), Erkan (B.), Svartzman (R.) and Weber (P.-F.) (2020), "Climate-related risks and central banks' collateral policy: a methodological experiment", *Working Paper Series*, Banque de France, No. 790, December (<https://publications.banque-france.fr/en/>).

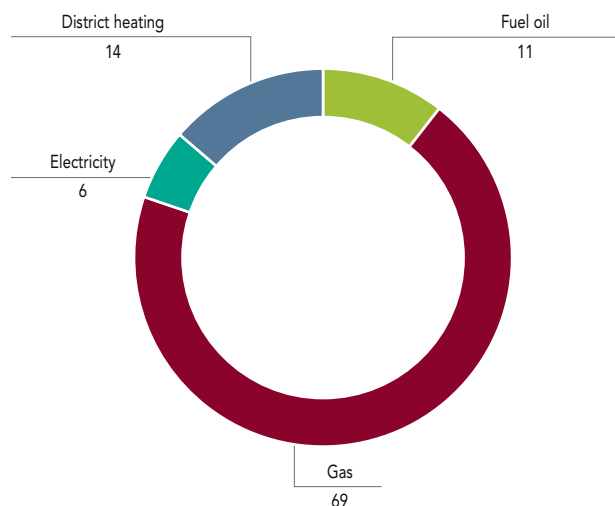
3 <https://www.banque-france.fr/stabilite-financiere/>

4 English-language conference: "Green Finance Research Advances".

5 Based on provisional figures for 2020, estimated for the fourth quarter of 2020, measured using 2020 emission factors.

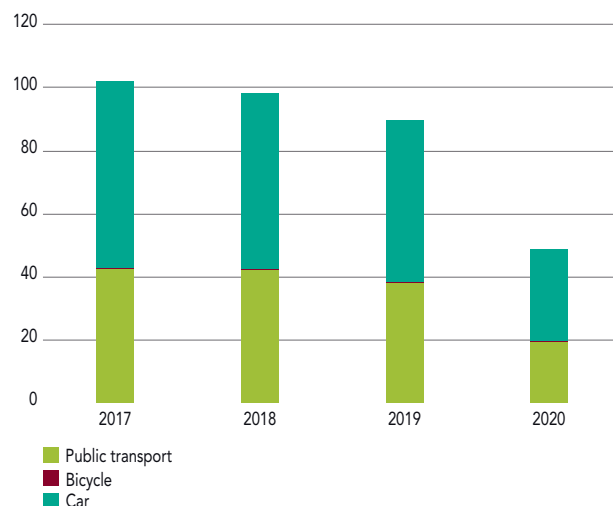
GHG emissions by energy source

(%)



Commuting methods used

(in millions of km)



GHG emissions linked to commuting and business travel

In 2020, GHG emissions linked to commuting and business travel fell by 48.6% compared with 2019, with commuting responsible for 75% of total travel and business trips accounting for the remaining 25%.

- The steady decline in the distance travelled for commuting purposes since 2016 (–21.5% between 2016 and 2019) became significantly more pronounced. Lockdowns and massive use of teleworking from March onwards drove a 45.5% decrease in the number of kilometres travelled in 2020. All methods of transport were significantly impacted. Car travel (98% of GHG emissions for this item) fell by 42.8%, decreasing from 50.8 to 29.1 million kilometres between 2019 and 2020. When considering the 49.4% reduction in distance travelled by public transport, it is important to remember that the decline in the number of travel passes observed during the lockdowns may have been partially offset by unreported purchases of single use or weekly tickets. The associated emissions for all commuting-related travel decreased by 42.9% compared with 2019.
- The health crisis severely curtailed business travel, which was already set to go down following changes to the travel policy made at the end of 2019. In 2020, the distance travelled plummeted by 57.7%. Short and long-haul air travel fell especially steeply, the former

by 73% and the latter by 71%. Travel by train and public transport also decreased sharply (–58%), as did car travel, albeit to a lesser extent (–35%). Reflecting these exceptional developments, for the first time car travel became the number-one source of GHG emissions for business travel, accounting for 52% of the total. Air travel, previously the number-one emitter, saw its share decrease from 67% to 47%. Overall, business travel totalled 15.8 million kilometres in 2020, compared with 37.3 million in 2019, causing CO₂ emissions to decrease by 60.3%.

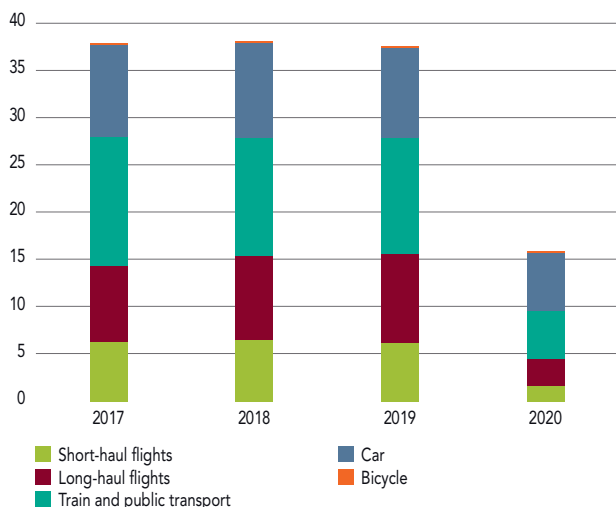
GHG emissions linked to fixed assets

GHG emissions linked to the Bank's fixed assets fell by 0.8% in 2020 compared with 2019.

- Buildings remain the leading source of emissions for this item (74%), notwithstanding the 1% decline linked to continued application of the policy to rationalise building space.
- Emissions linked to IT equipment also fell slightly, shrinking by 1%, in particular owing to the ongoing drive to replace mini-PCs with portable computers (net decreasing effect of 8 tCO₂eq). Continuing efforts to pool photocopiers also had a beneficial impact in this regard (28 tCO₂eq reduction). The number of physical servers was steady overall.

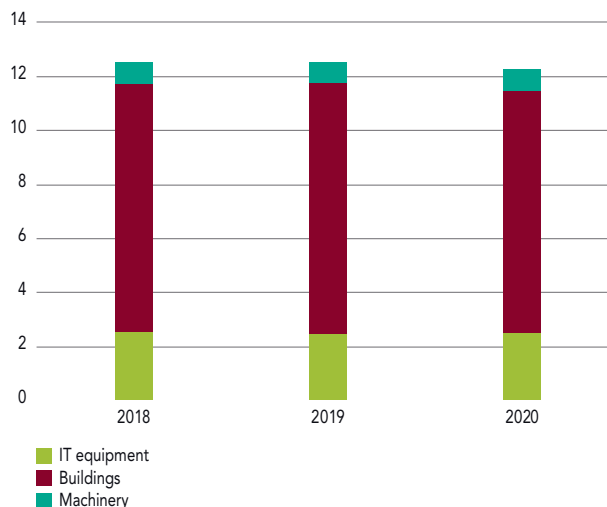
Business travel methods used

(in millions of km)



Fixed asset GHG emissions

(in thousands of tCO₂eq)



In the unprecedented environment created by Covid-19 and in particular by the lockdowns, the Bank's 2020 environmental footprint was atypical and also considerably smaller than in 2019.

Measures and practices aimed at reducing our environmental footprint

A guide to commitments and measures to promote sustainability

To promote measures that support green finance, the energy transition and environmentally friendly behaviour, a guide was co-written with affected business lines covering key topics such as energy efficiency, green computing, staff travel, purchasing policies, waste sorting and recycling, and responsible banknote manufacturing. Intended to be both accessible and eco-conscious, the guide will be expanded to include new measures that are implemented.

Projects that bring people together

Five projects put forward by employees and selected in 2019 as part of the Sustainability Challenge (*Défi Développement durable*) led to trials in 2020 spanning a range of initiatives. These included building test gardens to approach gardening like a living laboratory (a place for meetings, learning and social change), improving recognition of the environmental impact of digital practices, trying out the principles of the circular economy by setting up an online exchange

platform, promoting charitable initiatives through a dedicated online platform, and organising a campaign based on nudges to raise awareness and encourage people to adopt environmentally friendly behaviour.

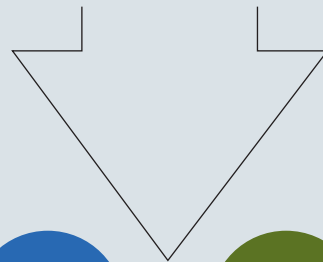
Despite the unusual context created by the lockdowns, these trials provided an opportunity to get staff together behind sustainability, opening the way to new methods of working together and an innovative approach aimed at fostering greater accountability.

A responsible real estate policy

Two branches (Rennes and Dijon) took part in the nationwide Contest for Better Usage and Building Efficiency (*Concours usages bâtiment efficace – CUBE 2020*) to raise staff awareness about energy efficiency and environmentally friendly behaviour. In addition, under its responsible real estate policy, the Bank continues to build spaces for electric vehicles and sustainable transport options and to create working spaces that are tailored to new needs, such as the Les Bouleaux co-working space in the Marne-la-Vallée administrative centre, in an effort to bring home and working environments closer together.

10

SUSTAINABILITY TOPICS



Social innovation
5 trials by and for employees



Tasks carried out in the general interest
Focus on green finance and the sustainable economy

Environmental responsibility
Encourage eco-conscious individual choices



A sustainable real estate policy
Efficient energy use, environmentally designed work spaces

Responsible procurement
A driver of responsible practices



THE GUIDE TO COMMITMENTS AND MEASURES



A sustainable transport policy
Travel less, travel better

Green spaces and biodiversity
Conservation and awareness-raising



Green computing
More eco-conscious digital services

Banknote manufacturing
Responsible manufacturing facilities



Waste management
Reduce, reuse, recycle

DIGITAL SOBRIETY

As part of the Sustainability Challenge, which was opened up to all Banque de France employees and which was aimed at improving our corporate environmental responsibility, two staff members suggested exploring and trialling a digital sobriety approach within the Bank's information system.

The trial, which lasted approximately one year, raised awareness among Bank employees about the environmental impact of their personal and professional digital practices.

To measure employees' actual engagement on these issues, various awareness-raising activities were conducted with participant panels. For example, the Bank tested several approaches to reduce digital storage spaces and promote sensible use of email.

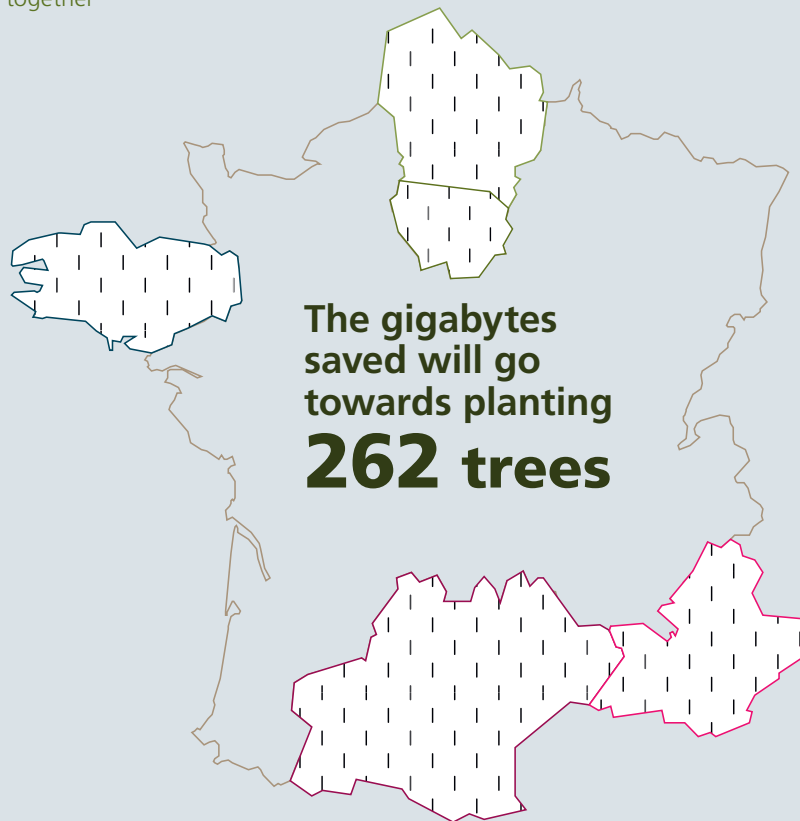
At the same time, a life-cycle analysis was performed to measure the information system's environmental impact. The results were compared against those of other companies and used to identify areas of improvement to reduce our environmental footprint.

The Bank also introduced an eco-design approach to IT projects. This is expected to become standard in coming years.

Given the positive results of these efforts and the interest shown by Banque de France staff, DG Information System adopted a mode of organisation geared to boost these approaches and establish digital sobriety as a strategic focus area.

DIGITAL CLEANING

Digitally responsible together



↑ Digital spring cleaning challenge, 9 March to 15 June, taken on by the Brittany, Hauts-de-France, Occitanie and Provence-Alpes-Côte d'Azur regions and by the head office – Branch Network Directorate, Risk Management and Permanent Control Division, Head of Information Security



↑ Students from André-Provots vocational secondary school, a partner institution, build a living laboratory garden in Le Mans, assisted by a Banque de France team



↑ Staff up and down the country did their part for the environment by collecting polluting waste during World CleanUp Day 2020



↑ In 2020, the Banque de France took part for the first time in the CUBE contest. It was represented by the Rennes and Dijon branches

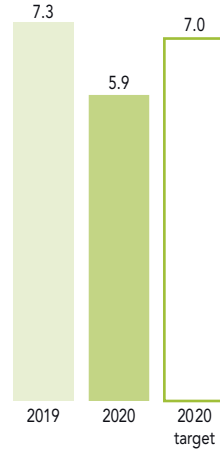


↑ Initiative by the winner of the Sustainability Challenge, the Banque de France Lab and the corporate environmental responsibility taskforce aimed at promoting the circular economy within the Bank

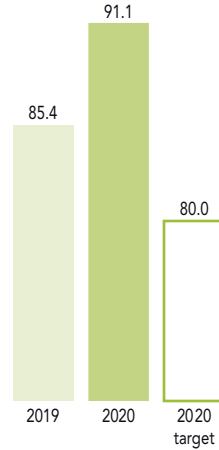
Percentage of women in management positions



Share of the wage bill allocated to training (%)



Percentage of employees with access to training (%)



Rate of employment of people with disabilities (%)



2

Our commitment towards staff during a time of crisis

A strong response to protect employees, stay attuned to the risks, while taking care of well-being at work

Working methods adjusted almost immediately

The Bank responded vigorously when the health crisis struck, providing the technical resources to enable the vast majority of employees to telework full-time. A number of measures made it possible for work to continue safely more or less immediately. These included the company agreement on telework signed in 2019, the ability to check a wide range of apps remotely, the swift distribution of equipment to those who did not yet have it, a larger digital component in signing procedures, and increased videoconferencing to manage and steer activities remotely.

Using digital training to answer staff questions

Remote training in a variety of formats was provided from the end of March onwards to support managers and their teams across a range of topics, such as remote

management in a health crisis, teleworking best practices and approaches to managing the exit from lockdown. The Bank also posted a series of inspiring podcasts to support staff in this unprecedented period.

Promoting gender equality, diversity and inclusion of people with disabilities

Fostering gender equality

Against the challenging backdrop of the health crisis, the Bank kept up its efforts to foster equality and diversity. The new Diversity and Inclusion Charter promotes equal opportunities, diversity in all forms and non-discrimination, and supports a working environment that is respectful of difference. The new charter was accompanied by a video with a strong anti-discrimination message, which called on all employees to uphold this commitment, and a new inclusive management training initiative.

The Bank's *Talentu'elles* collaborative network now boasts more than 900 members, 30% of whom are men.⁶ Its

⁶ <https://www.banque-france.fr/talentuelles>

activities included organising the second annual “Tech Your Place” conference, which looked at bias in artificial intelligence, along with an introduction to coding workshop for the daughters of bank employees (following the success of the 2019 workshop for female staff members).

Special attention was paid during hiring. In the Directorate General Information System (DGSI) for example, women accounted for 24% of the 2020 hires in technical positions. A second round of the Bank’s mentoring programme saw 58 mentoring pairs set up, with women making up about 55% of the total. This initiative is aimed at supporting women with a view to increasing their share of management positions, which rose from 23% in 2017 to 30.4% in 2020. The gender pay gap is small, as illustrated by the Bank’s score of 92/100 on the wage gap index.

The Banque de France put on numerous webinars, which tackled issues such as coping with mental stress during lockdown, public speaking and dealing with harassment on the street.

Improving the integration of people with disabilities

Since 2017, the Banque de France has exceeded its baseline of having 6% of Bank positions filled by people with disabilities. In 2020, with many people switching to telework, the Bank’s disability taskforce kept up its efforts to adapt the IT workstations of employees working from home. The Bank also conducted specific support measures to enable people with hearing impairments to attend conferences and meetings remotely.

The company agreement covering people with disabilities was renewed at the end of the year. Its primary purpose is to help people with disabilities stay in the workplace.

Encouraging skills acquisition, vocational adjustments and career development

Quick pivot to digital training formats

Banque de France University had an extremely busy year. Due to the lockdowns, in-person training was suspended to prevent the spread of the virus, but the Bank swiftly implemented a skills acquisition continuity plan within BDF University, covering technical, digital and behavioural training courses. In response to the circumstances, the digitalisation of these training courses was stepped up. The Bank put particular emphasis on the new data professions. It also endeavoured to promote high-level scientific training and diversity, enabling several jury-selected staff members to earn master’s level qualifications following training.

The Banque de France’s commitment to training remains exemplary and significant, both in terms of its scale and the rate of access: close to 6% of the wage bill is earmarked for training, while over nine out of ten employees received training in 2020, a record level.

Encouraging skills acquisition and reaching out to young people

The Banque de France maintained its presence on the job market throughout the crisis by quickly adjusting its hiring process. The written components of competitive entrance exams were postponed, while orals were adjusted to comply with health rules so that they could be held in person. All hiring of contract staff was done remotely, from interview to electronic signature. The Bank used innovative measures, particularly for employer branding events, organising “Chatlive” online conversations, virtual job fairs, escape rooms and more.

THE BANQUE DE FRANCE SUPPORTS RECENT GRADUATES AND BLOCK-RELEASE PROGRAMMES

During a challenging year, the Banque de France sought to provide support to students and recent graduates, who were especially hard hit by the crisis.

In June, the Banque tried something new by holding a major drive to recruit recent graduates on contracts. This resulted in 80 recent graduates taking up positions at the Banque de France. The Banque also answered the call from schools and universities, accepting 150 students on block-release contracts in 2020 and giving them the opportunity to continue their studies under optimal conditions.



← Signature of the Diversity and Inclusion Charter by the Governor, 29 June 2020. On his left: Emmanuelle Assouan, Head of Workplace Equality, and Hervé Gonsard, Director General of Human Resources

SKILLS SPONSORSHIP

Since 2018, two skills sponsorship schemes have allowed staff members to put their skills to work for non-profit associations either on a short-term basis (five days a year), or as part of a 6- to 24-month secondment before the end of their career. The schemes give employees an additional sense of purpose in their work, while the associations gain from the skills supplied by motivated and experienced personnel. These are win-win arrangements that enable the Bank to follow through on its community-related CSER commitments.

The aim is to support non-profit projects as well as initiatives designed to promote inclusion through areas such as social action, professional and financial inclusion, equal opportunities (dropout prevention, literacy, command of digital tools), microcredit and access to housing.

The short-term sponsorship scheme saw around 200 work days provided in 2020 to non-profit associations to carry out their projects, stage events, such as food drives, and carry out specific tasks in areas ranging from audit and accounting to financial literacy, budgeting, language literacy and coaching for disadvantaged groups.





↑ The Governor presents a cheque from the Bank to Jacques Leray, Head of Events at Restos du cœur, a charity, accompanied by Didier Besseyre, Secretary of the Bank's Social and Economic Committee (CSE), during the food drive organised by the CSE on 29 February 2020

3

Caring more, investing responsibly

Responding to the needs created by the crisis

Every year, the Bank allocates a budget of around EUR 6 million to its sponsorship activities, although it may also contribute to one-off initiatives in various ways, depending on the specific needs and situation. In 2020, it stepped up its activities in three areas: support for the health sector, support for the microcredit sector, and protection of vulnerable groups against the increased risk of marginalisation.

As soon as the health crisis began, the Bank acted to make its stores of masks in different regions available to healthcare workers. It also made a EUR 1 million donation to the *Tous unis contre le virus* campaign (Staying United Against the Coronavirus) spearheaded by the Fondation de France.

Employees showed their generosity as well, making EUR 96,000 in personal donations, which were matched by the Bank, and participating in large numbers in the

No Finish Line run and walk. The funds raised went to a number of charities and initiatives, including *Samu social*, *La Chaîne de l'Espoir* and the Staying United Against the Coronavirus campaign.

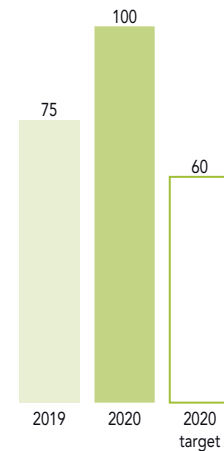
Continuing to act on its commitment to support microcredit and promote economic activity in the regions, the Bank conducted specific measures in the shape of financial and skills sponsorship arrangements to help the main nationwide microcredit providers and participants engaged in an ecological transition approach. Capital strengthening contributions totalling EUR 1 million were provided along with support resources to assist microentrepreneurs in achieving a sustainable and inclusive rebound built on sound foundations. The *Association pour le droit à l'initiative économique* (Adie), a microfinance institution, and the *Initiative France* and *France Active* networks, which support entrepreneurs, benefited from the expertise of 11 Bank employees, who were seconded on a part-time or full-time basis in different parts of the country to aid these organisations in their efforts to work with very small enterprises (VSEs) and project contributors hard hit by the lockdowns.

Helping vulnerable groups and promoting their social and professional inclusion is a key focus of the sponsorship programme and one that has become even more pressing



↑ Workshop in the Lab during the Sustainability Challenge

Number of staff non-profit projects supported, total since 2016



as a result of the health crisis. The Bank's goal was to provide backing for non-profit initiatives geared to promote professional inclusion, narrow the digital gap and prevent students from dropping out of school. As part of this, it made premises available to provide emergency housing for families during the winter and stepped up its skills sponsorship programme to support some of France's major non-profit networks, including the Red Cross, *Les Restos du cœur*, *Le Secours populaire français*, *Emmaüs* and *ATD Quart monde*.

The Bank also continued to provide backing for non-profit projects proposed by staff as part of the Charitable Initiatives Awards. Each year, these awards recognise 25 projects in which Bank employees are personally involved. During 2016-20, the Bank supported 100 projects, far exceeding the target that it set for itself.

Contributing to responsible investment

Since 2018, the Banque de France has pursued a responsible investment (RI) approach⁷ for the asset portfolios for which it has full responsibility (own funds and pension fund, totalling EUR 23 billion). Its RI Charter provides for the integration of climate issues and, more generally, of environmental, social and governance (ESG) issues, into the management of these portfolios. It follows a three-pronged strategy.

- It aligns its portfolios with the climate commitments made by France under the Paris Agreement, targeting a global warming trajectory of well below 2°C and making a contribution to financing the energy and ecological transition (EET) by investing in green bonds and funds with an EET focus.
- It integrates ESG factors into its investment decisions by excluding 20% of companies present in its equity investment universe on the basis of these criteria. In particular, in 2020, the Banque de France decided to exit the coal sector completely by 2024 and to cap its exposure to other fossil fuels, i.e. oil, gas and unconventional hydrocarbons.
- As a shareholder, the Banque de France has adopted a voting policy that includes extra-financial provisions: for example, it expects companies to publish information about the environmental impact of their activities.

⁷ See *Banque de France Responsible Investment Report 2020* (<https://www.banque-france.fr/en/>).

CSER DASHBOARD

12 PRIORITY ACTIONS	INDICATORS	2020 INDICATORS	TARGETS FOR 2020
EDUCATIONAL AND CULTURAL COMMITMENT			
1. Improving the economic and financial literacy of the general public	Composite indicator		
	* Portal visits (number of pages viewed)	2,146,975 (MQDA portal)	1,300,000 pages
	* Number of teachers who received awareness training	1,833	3,000 teachers ⁹⁾
	* Number of social workers trained	8,579	18,000 social workers
	2016 baseline: zero portal visits, 1,147 teachers reached, no social workers trained		
2. Supporting research through sponsorship	Number of conferences, seminars and workshops organised with all the partner universities of the Bank as defined in the partnership agreements, including those organised within the framework of the Banque de France Foundation 2016 baseline: 83 events organised	49	At least 100 organised events ⁹⁾
3. Diversifying our cultural sponsorship	Number of people admitted to the Bank's headquarters and regional heritage sites (in compliance with health restrictions) 2015 baseline: 15,000 visitors	3,600	Between 15,000 and 20,000 visitors
ECONOMIC AND CIVIC COMMITMENT			
4. Preventing and dealing with overindebtedness	Percentage of second-time applications for household debt resolution ⁹⁾ 2016 baseline: 45% of files in 2016 were second-time applications	44.7%	37%
5. Promoting banking inclusion and microcredit	Total outstanding microcredit in France End-2015 baseline: EUR 1.2 billion	EUR 1.5 billion	EUR 2 billion in outstanding "assisted" microcredit
	Banking inclusion: target at the end of 2019 measuring the rate of application of the commitments undertaken by banks at the end of 2018 on capping banking fees	Average monthly banking incident fees below EUR 15 in the third quarter	Banking incident fees for all vulnerable customers capped at EUR 25 per month and EUR 200 per year for customers subscribing to the "specific services offering"
	Number of customers benefiting from the "specific services offering"	550,000	500,000 "specific services offering" customers
6. Fostering regional development and business growth	Number of VSEs assisted annually by VSE correspondents 2016 baseline: 560 VSEs assisted	12,047	4,000 VSEs ⁹⁾

7. Contributing to responsible investment	Objective at the end of 2019: 100% of the Bank's investments in equity ^{a)} comply with the SRI label ^{b)} pillar III requirements	The own funds equity portfolio is compatible with a global warming trajectory of 2°C or less	The own funds equity portfolio is compatible with a global warming trajectory of 2°C or less
	8. Supporting charitable initiatives	Number of staff non-profit projects supported (financial support and skills sponsorship), total since 2016 <i>2016 baseline: no projects supported</i>	100 projects supported

ENVIRONMENTAL COMMITMENT

9. Taking account of climate-related risks	Share of banks (by percentage of bank assets) and insurance companies (by percentage of technical reserves) made aware of climate risk (within the framework of the monitoring committee set up in 2017 and the conference scheduled for 2018) <i>End-2016 baseline: 0%</i>	Banks: 85% of assets ^{a)} Insurers: 76% of technical reserves	Banks: at least 90% of assets Insurers: at least 70% of technical reserves
	10. Reducing our environmental footprint	Annual CO ₂ emissions <i>2014 baseline: 95,041 tCO₂eq</i>	74,272 (provisional data)

COMMITMENT TOWARDS BANK STAFF

11. Fostering gender equality and diversity	Percentage of women in management positions <i>End-November 2016 baseline: 23.25%</i>	30.4%	30%
	Rate of employment of people with disabilities <i>2016 baseline: 5.94%</i>	6.48%	Maintain rate of employment at 6%
12. Encouraging skills acquisition and career development	Share of the wage bill devoted to training <i>2017 baseline: 7.6%</i>	5.9% ^{h)}	Maintain at a minimum of 7% on average
	Percentage of employees with access to training <i>2017 baseline: 74.8%</i>	91.1%	Maintain at a minimum of 80% on average

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

b) Scope and target redefined.

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

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

e) Excluding index funds.

f) The companies invested in must comply with the environmental, social and governance criteria of the "Socially Responsible Investment" label.

g) The pilot was conducted on schedule despite the health and economic crisis. However, some institutions had to restructure and were unable to participate despite having initially signed up to do so.

h) Lockdowns reduced the number of face-to-face training courses provided in 2020, while a major effort was made to organise remote training options.

HIGHLIGHTS

2020

FEBRUARY

5 February: First circular economy trial at the Banque de France: the Resource Recycling (*Ressorcerie*) team is one of the 5 winners of the Sustainability Challenge with its “gratifieria” (free market) initiative.

10 February: As part of the Sustainability Challenge, the Banque de France kicks off its life-cycle analysis of the information system and takes part in a benchmarking exercise by Green IT, an organisation putting forward responsible digital projects. The initial findings are to be presented on 29 June.

MARCH

4 March: The Banque de France publishes its GHG emissions reduction action plan.

6 March: As part of its skills sponsorship scheme for volunteer staff, the Banque de France takes part in a nationwide food drive for the *Restos du cœur* charity.

12 March: The Banque de France drafts a guide to commitments and measures to promote sustainability

JUNE

Launch of a campaign to hire recent graduates and help them get their careers started, following the disruption caused by the health crisis. Around 80 young people join the Bank as part of this initiative.

10-14 June: Over 1,000 people – including Bank staff, spouses and others – take part in the No Finish Line run or walk to raise funds for the *Samu social* and *La Chaîne de l’Espoir* charities.

26 June: *Banque de France Responsible Investment Report 2019*.

JULY

7 July: 4th annual Charitable Initiatives awards ceremony: over four years, Banque de France staff have sponsored and supported 100 non-profit projects covering areas from social action to disability, inclusion and sustainability.

SEPTEMBER

18 September: Launch of virtual tours of the Golden Gallery.

18 September - 8 October: Participation in European Sustainability Week.

DECEMBER

12 December: Meeting at the Élysée Palace of the representatives of the six largest coalitions launched at the One Planet Summit in December 2017. The Governor of the Banque de France attends, representing the Network of Central Banks and Supervisors for Greening the Financial System (NFGS).





GOVERNANCE



GOVERNANCE

1

Executive bodies

Governor and Deputy Governors

The Banque de France is managed by the Governor with the aid of two Deputy Governors. The Governor chairs the General Council and prepares and implements its decisions. Both the Governor and Deputy Governors are appointed by decree by the Council of Ministers for a six-year term, which is renewable once.

François Villeroy de Galhau was appointed Governor of the Banque de France on 1 November 2015. He is supported by two Deputy Governors: Denis Beau, who was appointed on 23 July 2017, and Sylvie Goulard, who was appointed on 17 January 2018.

The Governor is also Chairman of the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority), the *Observatoire de la sécurité des moyens de paiement* (Observatory for the Security of Payment Means), and the *Observatoire de l'inclusion bancaire* (Observatory for Banking Inclusion). He is also a member of the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability).

The Executive Committee

The Executive Committee is the Banque de France's main organ of operational governance. Chaired by the Governor, it is composed of the Deputy Governors and the Directors General. The Chairman of the *Institut d'émission des départements d'outre-mer* (IEDOM – the Delegated Central Bank for the French Overseas Departments and Territories) and of the *Institut d'émission d'outre-mer* (IEOM – the Central Bank for the French Overseas Territories in the Pacific Region) is also a member. The Executive Committee's secretarial functions are managed by the Director of Strategy.

Operational management bodies

Three bodies play a central role in the conduct of investment policies and market operations: the Assets-Liabilities Committee, the Risk Committee and the Pension Plan Strategic Committee (CS2R – *Comité stratégique du régime des retraites*).

The Assets-Liabilities Committee, which is chaired by the Governor, examines the Bank's investment strategy for all its portfolios (both euro and foreign currency denominated), with the exception of the Employee Reserve Fund investment portfolios. The latter are monitored by the CS2R, which was set up in April 2018 and is chaired by one of the Deputy Governors. The Risk Committee, which is also chaired by one of the Deputy Governors, defines the risk management framework for market operations applicable to all the Bank's portfolios.

Governor and Deputy Governors



Denis Beau
First Deputy Governor



François Villeroy de Galhau
Governor



Sylvie Goulard
Second Deputy Governor

Members of the Executive Committee

(in addition to the Governor
and Deputy Governors,
as at 1 March 2021)



Gilles Vaysset
Secretary General



Nathalie Aufauvre
Director General Financial Stability
and Operations



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



Olivier Garnier
Director General Statistics,
Economics and International



Didier Elbaum
Comptroller General



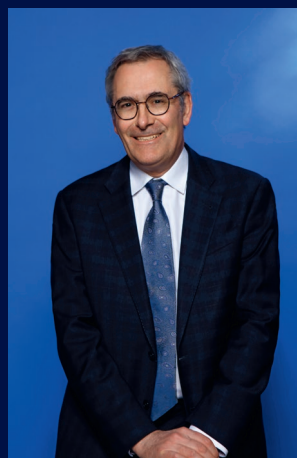
Vincent Bonnier
Director General
Banknote Manufacturing



Hervé Gonsard
Director General
Human Resources



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



Dominique Laboureix
Secretary General of the Prudential
Supervision and Resolution Authority



Thierry Bedoin
Director General
Information Systems

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

The branch network and the Network Executive Committee

The Banque de France branch network is organised into 13 regional directorates. It currently comprises 95 departmental branches, which include the 13 regional directorates (see box on the transformation of the network in Chapter 3) and ten economic centres. Services related to currency management are carried out at 33 of these establishments and at two specialised centres (see map of the Banque de France network in Appendix 1).

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

2

Decision-making and control bodies

The General Council

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

As at 1 March 2021, the General Council was made up of the Governor, the Deputy Governors, Catherine Barthélémy, Jean-Roger Davin, Jean-Paul Faugère, Vice-Chairman of the ACPR, Anne Laure Delatte, Élisabeth Ducottet, Élisabeth Lamure, Gilles Savary and Yannick Guillemaud, the Banque de France Staff Representative.

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

In 2020, the General Council met eight times.

The Audit Committee

The Audit Committee reports to the General Council on issues relating to financial reporting, external and internal auditing, internal control and risk management. It was thus informed of the conclusions of the external auditors' work relating to the 2020 financial year.

The Committee also examined:

- the main findings of the internal audits and their recommendations;
- the progress made on the action plans drawn up by the audited entities in response to the recommendations;
- the audit programme for 2021;
- the main developments in the field of permanent control and risk management.

3

Internal audit and operational risk management

The Internal Audit

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

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

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

The Internal Audit also operates within the framework of the ESCB. The Comptroller General and the Director of the Head Office Audit are permanent members of the ESCB Internal Auditors Committee (IAC). Together with their counterparts at the other national central banks and

the ECB, they draw up the Eurosystem's audit programme and oversee audits conducted under the aegis of the IAC.

With regard to both the organisation and conduct of audit missions, the Banque de France's Internal Audit complies with the international standards for the professional practice of internal auditing as defined by the Institute of Internal Auditors (IIA).

In 2020, the Internal Audit carried out some 50 inspections, paying particular attention to the steering of the Bank's activities, its organisational efficiency, the security of its information systems and the management of projects.

Risk management

In line with the model proposed by the Committee of Sponsoring Organizations of the Treadway Commission, the Banque de France has implemented a three-pronged internal control system, comprised of operational staff and their managers, professional risk management and permanent control officers, and the Internal Audit. The system assesses all operational risks as well as the methods and action plans in place to mitigate them, and checks that existing controls are relevant and efficient, using industry best practices as a benchmark.

In 2020, the Bank took the following steps to improve the calibre of its internal control:

- it maintained the functional links between the Risk Prevention Directorate, which manages the overall system, and local participants in the directorates general and network branches (risk managers, heads of permanent control, business line heads of security);
- it awarded certified qualifications to a third cohort of "Risk Management and Permanent Control" officers, and began a fourth round of training;
- it enhanced its tools, especially the risk management software implemented in 2018 to which two new modules were added.

The Banque de France also strives to ensure it has a state-of-the-art system in place to manage its cyber-risk. The levels of security in its most sensitive applications comply with the rules and best practices recommended by the French national cyber-security agency (ANSSI – *Agence nationale pour la sécurité des systèmes d'information*).

Compliance with the GDPR

The Banque de France continued its work to comply with the EU General Data Protection Regulation (GDPR), which came into effect on 25 May 2018. This involved identifying how personal data are processed at the Bank, its subsidiaries and the ACPR, ensuring these data are protected, and enhancing staff awareness of the regulations, notably through online training. All new IT projects now have to incorporate the GDPR by design.

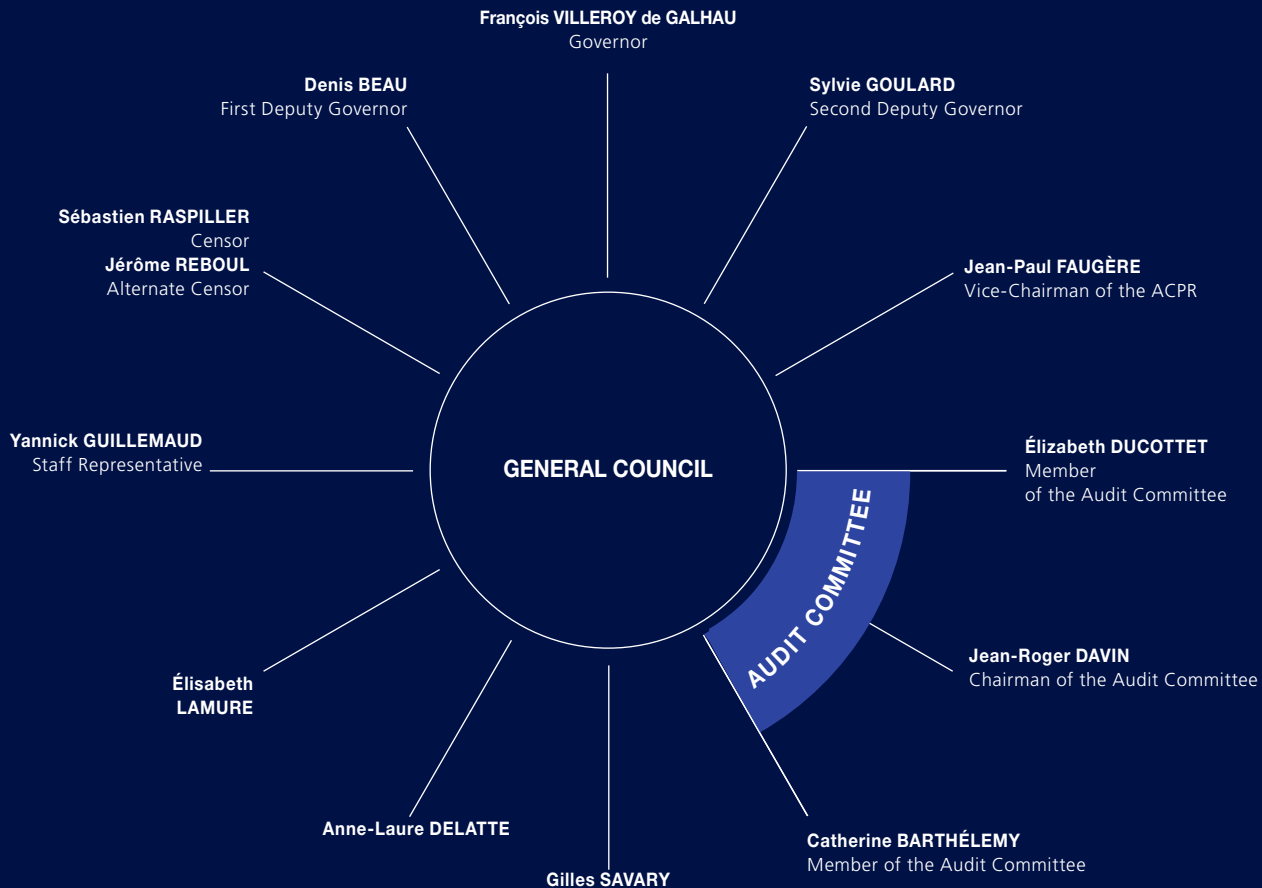
CYBER-RISK

Cyber-attacks were already frequent in 2019, but increased exponentially across the world in 2020 as attackers took advantage of the switch to remote working practices caused by the pandemic. As for all financial players, cyber-risk is one of the biggest operational risks that the Banque de France has to protect itself against.

To tackle the ever-changing and multifaceted nature of cyber-threats, the Banque de France has developed a cyber-security strategy to continuously enhance the protection of its IT systems, and ensure staff at all levels are fully aware of the risks. It has also reinforced the system of governance for cyber-risk, to better coordinate the work of the different stakeholders within the Bank, ensure they follow the relevant security rules, especially those applicable to the Bank's public service role, and guarantee that new IT projects incorporate appropriate security mechanisms.

Alongside these measures, the Banque de France has set up an internationally certified computer emergency response team (CERT), which is tasked with detecting and responding to cyber-attacks. Its experts also contribute to numerous cyber-security working groups at national, European and international level.

The General Council and the Audit Committee







FINANCIAL MANAGEMENT AND ACCOUNTS



FINANCIAL MANAGEMENT AND ACCOUNTS

Annual financial statements of the Banque de France

The Banque de France General Council approved the financial statements for the year ended 31 December 2020 at its meeting of 15 March 2021.

The Banque de France's balance sheet grew from EUR 1,142 billion at 31 December 2019 to EUR 1,741 billion at 31 December 2020. The monetary policy measures taken by the Governing Council in 2020 against the backdrop of the health crisis mainly explain this change. The growth in the balance sheet reflects changes in the implementation of monetary policy, with both the increase in the volume of loans granted to credit institutions for refinancing (whose outstandings increased by EUR 300 billion in 2020) and the increase in the amount of euro-denominated securities purchased under purchase programmes (these increased by EUR 228 billion due to the intensification of net asset purchase programmes with the launch of the pandemic emergency purchase programme – PEPP). On the liabilities side, this provision of liquidity led to a sharp rise in deposits from credit institutions, while Banque de France euro banknotes in circulation also continued to rise (up EUR 27 billion between end-2019 and end-2020).

Net income from activities amounted to EUR 6,417 million in 2020, down EUR 2,230 million year-on-year, due mainly to the decline in income derived from securities held for monetary policy purposes, despite the increase in outstandings, and the increase in expenses relating to

refinancing operations, which were only partly offset by the increase in negative interest levied on credit institutions in respect of sums deposited in excess of minimum reserve requirements. The replacement of TLTRO II operations with TLTRO III operations that bear interest as from June 2020 at a rate lower than that of the deposit facility constitutes an expense for the Banque de France. After operating expenses, which were down EUR 708 million compared with 2019, profit before tax came in at EUR 4,971 million, down EUR 1,522 million. Against a backdrop of increased potential risks carried on its balance sheet and linked to the new monetary policy measures implemented in 2020, the fund for general risks intended to cover the financial risks borne by the Bank, excluding exchange rate risk, received an allocation of EUR 1,150 million, thereby increasing it to EUR 9.15 billion. After recognition of this allocation and corporate income tax, net profit for 2020 was EUR 2,190 million, down EUR 1,656 million compared with 2019.

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

- allocation to the general reserve of EUR 110 million, i.e. 5% of the net profit;
- the payment of a dividend to the state of EUR 1,913 million;
- allocation to the Employee Reserve Fund of EUR 164 million for pension rights acquired during 2020;
- allocation to the provision for investment of EUR 3 million.

The balance sheet and profit and loss account

Balance sheet at 31 December 2020

(EUR millions)

Notes to the balance sheet	ASSETS	At 31 Dec. 2020	At 31 Dec. 2019	Notes to the balance sheet	LIABILITIES	At 31 Dec. 2020	At 31 Dec. 2019
1 A1	Gold	120,926	106,053	12 L1	Banknotes in circulation	269,552	242,693
2 A2	Foreign currency assets (excl. relations with the IMF)	51,420	52,965	4 L2	Euro-denominated liabilities to euro area credit institutions related to monetary policy operations	937,800	518,291
	2.1 Foreign currency assets held with non-euro area residents	46,716	45,954		2.1 Current accounts	725,715	411,081
	2.2 Foreign currency assets held with euro area residents	4,703	7,011		2.2 Other liabilities	212,085	107,210
3 A3	Relations with the IMF	17,144	16,073	13 L3	Other euro-denominated liabilities to euro area credit institutions	5,668	1,845
5 A4	Euro-denominated claims on non-euro area residents	853	973	14 L4	Euro-denominated liabilities to non-euro area residents	48,202	46,599
4 A5	Euro-denominated loans to euro area credit institutions related to monetary policy operations	395,714	95,274	2 L5	Foreign currency liabilities	1	1,355
5 A6	Other euro-denominated loans to euro area credit institutions	18,038	13,287	3 L6	Counterpart to SDR allocations	11,946	12,521
6 A7	Euro-denominated securities issued by euro area residents	812,316	589,552	15 L7	Relations within the Eurosystem	842	754
	7.1 Securities held for monetary policy purposes	769,294	541,592	16 L8	Euro-denominated liabilities to other euro area residents	178,522	65,760
	7.2 Other securities	43,023	47,960		8.1 Liabilities vis-à-vis the state and government agencies	136,139	32,390
	A8 Relations within the Eurosystem	170,251	129,972		8.2 Other liabilities	42,383	33,370
11	8.1 Participating interest in the ECB	1,652	1,634	17 L9	Items in the course of settlement	38	79
7	8.2 Claims arising on the transfer of reserve assets to the ECB	8,240	8,233	18 L10	Banking transactions	125,024	99,064
	8.3 Claims on the Eurosystem for euro banknotes in circulation	101,805	91,356	19 L11	Other items	8,929	8,034
7	8.4 Other claims on the Eurosystem	58,554	28,750	20 L12	Provisions for liabilities and charges	719	947
8 A9	Advance to the IEDOM	6,782	6,110	21 L13	Revaluation accounts	108,855	97,984
A10	Claims on the French Treasury	0	0	22 L14	Fund for general risks and tax-regulated provisions	9,234	8,085
9 A11	Other euro and foreign currency denominated financial assets	132,256	116,965	23 L15	Revaluation reserve for state gold and foreign exchange reserves	22,182	22,354
10 A12	Other items	13,083	12,367	24 L17	Capital, reserves and retained earnings	11,058	11,332
11 A13	Fixed assets	1,977	1,952	L18	Net profit	2,190	3,846
	13.1 Tangible and intangible fixed assets	1,291	1,265				
	13.2 Participating interests other than the ECB	686	686				
	TOTAL ASSETS	1,740,760	1,141,544		TOTAL LIABILITIES	1,740,760	1,141,544

NB: Each item of the balance sheet and profit and loss account is rounded up or down to the nearest one million euro. For this reason, discrepancies between totals or sub-totals and their components may arise. This also applies to the figures presented in the notes to the financial statements.

Profit and loss account for 2020

(EUR millions)

Notes to the P&L		2020	2019
1	Net income from Banque de France activities	6,417	8,647
29	1.1 Net interest income	5,986	8,128
	1.1.1 Interest and related income	6,480	10,367
	1.1.2 Interest and related expenses	-494	-2,239
30	1.2 Net income from financial transactions	107	152
	1.2.1 Net realised gains/losses and unrealised losses on foreign exchange	-172	69
	1.2.2 Net allocations to/reversals from the foreign currency revaluation reserve	172	-69
	1.2.3 Other income and expenses on financial transactions, net	107	152
	1.3 Commission	6	6
	1.3.1 Commission income	45	43
	1.3.2 Commission expenses	-39	-37
31	1.4 Income from equity securities and participating interests	464	406
32	1.5 Net result of pooling of monetary income	-824	-740
33	1.6 Other income and expenses, net	677	694
2	Operating expenses	-1,446	-2,154
34	2.1 Staff costs and related expenses	-885	-875
	2.2 Pensions and related expenses	-34	-502
	2.3 Taxes other than income tax	-46	-46
	2.4 Provisions, depreciation and amortisation	-162	-152
	2.5 Other operating income and expenses, net	-319	-579
	Profit before tax and exceptional items (1 + 2)	4,971	6,493
22	3 Net additions to fund for general risks and tax-regulated provisions	-1,149	4
4	Exceptional items	0	0
	4.1 Exceptional income	0	0
	4.2 Exceptional expenses	0	0
35	5 Corporate income tax	-1,633	-2,650
	Net profit for the year (1 + 2 + 3 + 4 + 5)	2,190	3,846

Notes to the financial statements

Accounting principles and valuation methods

Legal framework

The annual financial statements of the Banque de France are presented in accordance with a format decided by its General Council and with the provisions of the Order of the Minister of the Economy, Finance and Industry of 7 February 2000, which was amended on 16 November 2010. Their structure is designed to reflect the specific nature of the tasks carried out by the Banque de France as part of the European System of Central Banks (ESCB) and its diverse range of activities. The financial statements are expressed in millions of euro.

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

- For all activities carried out within the ESCB framework, the Banque de France must comply with the accounting and valuation methods laid down by the European Central Bank (ECB) in its Guideline of 11 November 2010¹ on the legal framework for accounting and financial reporting in the ESCB (ECB/2010/20), amended by the Guidelines of 24 January 2012 (ECB/2011/27), 22 December 2012 (ECB/2012/29), 15 December 2014 (ECB/2014/57), 13 March 2015 (ECB/2014/54), 21 July 2015 (ECB/2015/24),²

3 November 2016 (ECB/2016/34) and 28 November 2019 (ECB/2019/34).³ This Guideline establishes in particular the accounting rules applicable to refinancing operations for the banking sector, securities, foreign currency transactions carried out in the course of foreign exchange reserve management, and the issue of banknotes.

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

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

General accounting principles

The accounting rules are applied in accordance with the principles of prudence, going concern, consistency (of methods between reporting periods), accruals, matching and revenue recognition (independence of reporting periods), cost (economic reality), full disclosure, and recognition of post-balance sheet events.

Valuation methods

Foreign currency transactions and resulting gains and losses

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

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

Foreign currency gains and losses on gold and foreign exchange reserves
Realised gains and losses are calculated for each currency. A weighted average price is calculated every day, firstly on inflows (spot or forward purchases on the trade date and foreign currency denominated income, in particular daily accrued interest), and secondly on outflows (spot or forward

sales on the trade date and foreign currency denominated expenses). The realised gain or loss is calculated by applying the difference between these average prices to the lower of the day's inflows or outflows.

When outflows exceed inflows, a second realised gain or loss is calculated, which equates to the difference between (i) the net outflows of the day valued at the average outflow price and (ii) the net outflows of the day valued at the average price of the day's opening position. When inflows exceed outflows, the net inflow is added to assets held at the beginning of the day, thereby changing the average price of the position.

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

The agreement also stipulates that:

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

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

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

¹ Official Journal of the European Union of 9 February 2011, L35, page 31.

² An unofficial consolidated version was published in the Official Journal of the European Union on 21 July 2015.

³ The clarifications set out in the November 2019 amendment have no impact on the accounting principles and valuation methods applied by the Banque de France.

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

Securities portfolios

Securities held by the Bank are recorded in the following balance sheet items:

- A2 for foreign currency denominated securities held in connection with foreign exchange reserve management;
- A7.1 for securities held for monetary policy purposes;
- A11 for euro-denominated securities earmarked against the Banque de France's own funds, provisions and customer deposits recorded in items L4 or L10;
- A12 for securities held in the Banque de France Employee Reserve Fund;
- A4 or A7.2 for other euro-denominated securities depending on whether they are issued by non-residents or residents.

Securities held for monetary policy purposes

Debt securities held for monetary policy purposes (item A7.1) are valued at amortised cost, regardless of the holding intention. They may therefore be sold before maturity if the Governing Council so recommends. Impairment tests are conducted annually.

Other securities

Other securities are recognised as follows.

- Debt securities that the Banque de France has decided to hold to maturity are recognised in the financial statements at amortised cost. They are tested for impairment annually and may be written down if there is a risk of non-recovery.
- Debt securities that may be sold before maturity and equities (or similar securities) are marked to market on a line-by-line basis on the last business day of the year. Unrealised gains are recorded as liabilities in the revaluation accounts (item L13). Unrealised losses are recorded in profit and loss item 1.2.3 as financial transaction expenses. Unrealised gains and losses are not offset. Gains and losses arising from sales carried

out during the year are calculated on the basis of the weighted average price of each line of securities and are recorded in profit and loss item 1.2.3, "Other income and expenses on financial transactions, net".

For all debt securities, differences between the acquisition price and the redemption price are spread over their remaining lives on a discounted basis. Implicit options that may be included in these securities are not valued separately.

Lastly, marketable investment fund units, held for investment purposes without the Banque de France intervening in the decisions on the purchase or sale of the underlying assets, are recognised at their year-end net asset value. No offsetting is performed between unrealised gains and losses on the various units of the marketable investment funds held.

Specific treatment of Banque de France Employee Reserve Fund securities
The rules described in the note on "Other securities" (see above) apply to the securities held in the *Caisse de réserve des employés* (CRE – the Banque de France Employee Reserve Fund). However, unrealised losses recognised on debt securities that can be sold, equities and units of marketable investment funds in connection with their mark-to-market, as well as the gains and losses on disposal of these securities, are booked to the CRE's equity capital. Consequently, there is no impact on the Banque de France's profit and loss account (see Note 28).

Financial futures

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

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

Currency option premiums are recorded on the asset side of the balance sheet if they relate to purchases and on the liabilities side if they relate to sales. In the event that the option is exercised, the premium is included in the price of the currency purchased. If the option is not exercised,

at its expiry date the premium is recorded in profit and loss item 1.2.1, "Net realised gains/losses and unrealised losses on foreign exchange". At year-end, the premium amounts booked to the profit and loss account during the year are transferred to the state gold and foreign exchange revaluation reserve (RRRODE) in the same way as realised foreign currency gains and losses (*see above*).

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

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

Eurosystem claims and liabilities

Eurosystem claims and liabilities arise on cross-border euro payments made within the European Union and settled in central bank money. These payments are allocated to Target2 – the Trans-European Automated Real-time Gross settlement Express Transfer system – and give rise to bilateral balances in the Target2 accounts of the ESCB central banks. All these bilateral claims and liabilities are netted out on a daily basis within the Target2 system so that each national central bank (NCB) has a single net bilateral position vis-à-vis the ECB. The Banque de France's net position in Target2 along with other euro-denominated liabilities to the Eurosystem are carried on its balance sheet either as a net liability to the Eurosystem in item L7 (*see Note 15*) if it is a creditor or as a net claim on the Eurosystem in item A8 (*see Note 7*) if it is a debtor.

The Banque de France's participating interest in the ECB is recorded in balance sheet item A8.1 (*see Note 11*). This item also includes the net amounts paid by the Banque de France in connection with an increase in the proportion of its subscription of the ECB's equity value resulting from a change in the capital key.

The Banque de France's claim on the ECB resulting from the transfer of a part of reserve assets is recorded in item A8.2; the claim resulting from interim dividends and accrued income receivable from the ECB in respect of the allocation of the balance of monetary income (*see Note 7*) is recorded in item A8.4; and lastly the claim resulting from the shared responsibility for issuing euro banknotes among NCBs and the ECB is recorded in item A8.3.

Tangible and intangible fixed assets

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

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

In accordance with Article 322-1 of the *plan comptable général* (French General Chart of Accounts), the depreciation period for each fixed asset is determined on the basis of its probable useful life. The Banque de France's property assets are therefore depreciated over 10, 20, 33 or 50 years, depending on the asset type. Computer equipment is depreciated over 2 to 10 years and other equipment is depreciated over periods ranging from 3 to 12 years. Purchased software is amortised over 3 to 6 years. Most fixed assets are depreciated using the straight-line method. In accordance with ANC Regulation 2014-03, the useful life of fixed assets is reviewed regularly and modified as required.

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

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

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

Banknotes in circulation

The ECB and the 19 euro area NCBs that together make up the Eurosystem issue euro banknotes. The total value of euro banknotes in circulation in the Eurosystem is allocated on the last business day of each month in accordance with the banknote allocation key.⁴ The ECB has been allocated an 8% share of euro banknotes in circulation, with the remaining 92% allocated between NCBs according to their share in the ECB's paid-up capital.

⁴ ECB decision of 6 December 2001 on the issue of euro banknotes (ECB/2001/15) amended by ECB decision ECB/2010/29 of 13 December 2010.

The share of banknotes in circulation allocated to the Banque de France is disclosed in liability item L1, "Banknotes in circulation".

The difference between the value of banknotes in circulation allocated to each NCB in accordance with the banknote allocation key and the value of banknotes actually put into circulation by the NCB gives rise to an interest-bearing intra Eurosystem position presented in item A8.3 if it is a debt and in item L7 if it is credit. This position is remunerated⁵ at the main refinancing operation rate. The corresponding interest income and expenses are included in profit and loss item 1.1, "Net interest income".

A mechanism to smooth any adjustments that may arise during the first five years following a country's entry into the euro area has been implemented. In 2020, this mechanism concerned only Lithuania, for which the adjustment came to an end on 31 December 2020.⁶

Dividend paid by the ECB

The ECB's seigniorage income arising from the 8% share of euro banknotes in circulation, as well as the income generated on its monetary policy securities purchased under the SMP, CBPP3, ABSPP, PSPP and PEPP programmes,⁷ are distributed in January of the following year in the form of an interim dividend unless the ECB Governing Council decides otherwise.⁸ This income is distributed in full unless it exceeds the ECB's profit. The Governing Council may decide to transfer all or part of this income to a provision for financial risks. It can also decide to deduct the total expenses paid by the ECB for the issuing and handling of euro banknotes from the total income from euro banknotes in circulation to be issued in January.

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

Fund for general risks

The *fonds pour risques généraux* (FRG – fund for general risks) is intended to cover the possible risks to which the Banque de France is exposed through its activities, except for the exchange rate risk on gold and foreign exchange reserves, which is covered by the relevant revaluation accounts and by the RRRODE (see above). Its amount is determined on a discretionary basis based on exposures at the balance sheet closing date and an analysis of the attendant risks using a forward-looking approach. It is

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

Pension scheme

See Note 28.

Key events in 2020

United Kingdom's departure from the European Union
Following the United Kingdom's departure from the European Union and the consequent withdrawal of the Bank of England from the ESCB, the impacts on the Banque de France's financial statements are recognised in items A8.1 (see Note 11) and A8.2 (see Note 7).

New monetary policy measures in the context of the coronavirus (Covid-19) epidemic

In order to deal with the economic impacts of the coronavirus (Covid-19) health crisis, the Governing Council has ramped up certain already-existing monetary policy measures (in particular a temporary EUR 120 billion increase at the Eurosystem level of the envelope for the asset purchase programmes and a change in the interest rates applied to the TLTRO III operations) and taken new specific measures such as the implementation of an emergency asset purchase programme (pandemic emergency purchase programme – PEPP) as well as dedicated refinancing operations (pandemic emergency longer-term refinancing operations – PELTRO). These various measures (see Notes 4 and 6) notably resulted in growth in the Banque de France's total assets of around 52% compared with the end of 2019.

Post-balance sheet events

No significant events occurred after the balance sheet date.

Balance sheet

Note 1: Gold

At 31 December 2020, the Banque de France held 78 million ounces (2,436 tonnes) of fine gold. The increase in the equivalent euro value of these reserves is due to the rise in the market price of gold.

Note 2: Foreign currency assets and liabilities

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

Foreign exchange reserves are invested in overnight deposits, fixed-term deposits, reverse repo transactions, and fixed-rate and index-linked bonds. The Banque de France may also borrow foreign currencies through repo transactions recorded in liability item L5.

Breakdown of holdings by main currency

(%)

US dollar (USD)	76
Australian dollar (AUD)	7
Canadian dollar (CAD)	5
Net assets vis-à-vis the IMF (SDR)	9
Other	3

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

Asset item A2 and liability item L5

(EUR millions)

	2020	2019
ASSETS – Foreign currency assets		
Overnight deposits	213	51
Fixed-term deposits	8,539	7,180
Foreign currency liquidity provision to Eurosystem counterparties	0	0
Securities received under repurchase agreements	438	2,501
Fixed-rate or index-linked bonds	42,027	42,954
<i>o/w recognised at amortised cost</i>	25,632	27,062
<i>o/w marked to market line-by-line</i>	16,395	15,892
Accrued interest receivable	202	279
TOTAL	51,420	52,965
LIABILITIES – Foreign currency liabilities		
Securities delivered under repurchase agreements	0	1,343
Accrued interest payable	1	12
TOTAL	1	1,355

Note 3: Relations with the IMF

The increase in the reserve tranche position in 2020 is the result of the increased utilisation of France's quota in euro (drawdowns net of repayments).

Net repayments of loans granted under New Arrangements to Borrow (NAB) amounted to SDR 46 million. Other changes are mainly due to SDR exchange rate fluctuations.

At the end of 2020, loans to the Poverty Reduction and Growth Trust (PRGT) granted by the Banque de France amounted to SDR 1,322 million (EUR 1,559 million), an increase of SDR 359 million over the year.

Relations with the IMF

Asset item A3 and liability item L6

(EUR millions)

	2020	2019
ASSETS		
Receivables from the IMF		
Reserve tranche position	5,606	3,996
Loans as part of the NAB	522	602
SDR holdings	9,455	10,266
Loans as part of the PRGT	1,559	1,189
Accrued interest receivable	3	20
TOTAL	17,144	16,073
LIABILITIES		
Counterpart to SDR allocations	11,944	12,505
Accrued interest payable	2	16
TOTAL	11,946	12,521

5 Decision of the ECB of 3 November 2016 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (ECB/2016/36).

6 For a five-year period from the year of adoption of the euro, intra-Eurosystem balances resulting from euro banknote allocation are adjusted to avoid significant changes in the NCBS' profit positions compared to previous years. These adjustments are made by taking into account the differences between (i) the average value of banknotes in circulation of each NCB during a reference period commencing 30 months before the introduction of the euro in the country concerned and (ii) the value of banknotes that would have been allocated to them during that period under the ECB's banknote

allocation key. These adjustment amounts are reduced each year until the first day of the sixth year following the adoption of the euro, after which income on banknotes is allocated fully between the NCBS in proportion to their share of the ECB's paid-up capital.

7 SMP: securities markets programme; CBPP: covered bond purchase programme; ABSPP: asset-backed securities purchase programme; PSPP: public sector purchase programme; PEPP: pandemic emergency purchase programme.

8 ECB decision of 15 December 2014 (ECB/2014/57) on the interim distribution of the income of the ECB.

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

On the asset side:

- the reserve tranche position is equal to the proportion of the IMF quota (France's share in the IMF's capital) settled in gold and foreign currencies plus or minus the net utilisation of the quota in euro. Since 2016, France's quota has been SDR 20.2 billion;

- special drawing rights (SDRs) allocated to IMF member countries in proportion to their quota, or which can also be acquired under voluntary swap agreements with IMF-designated member countries;
- loans granted to the IMF within the framework of the New Arrangements to Borrow (NAB) and the Poverty Reduction and Growth Trust (PRGT) set up under the auspices of the IMF for low income countries, or drawdowns on the quota.

The cumulative SDR allocations by the IMF to France are recorded in liabilities (item L6). The last entry as regards this item was made in 2009 following which it totalled SDR 10 billion. Since that date, any changes in the item have resulted from movements in the SDR/euro exchange rate.

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

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

On the asset side, item A5 includes loans granted to credit institutions of EUR 396 billion. The risks related to these transactions are shared within the framework of the Eurosystem on the basis of a Eurosystem key, which is calculated for each NCB as the proportion of its subscription of the ECB's capital (its capital key) compared with the total capital keys for all euro area NCBs (see Note 11). The Banque de France thus bears the risks on 20.42% of loans to credit institutions granted by the Eurosystem NCBs, which amounted to EUR 1,793 billion at 31 December 2020. As loans to credit institutions are secured by collateral, losses can occur only in the event of counterparty default when the sums from the sale of collateral are insufficient to cover the loans granted.

Loans to credit institutions cover the following.

- Main refinancing operations, which are short-term open market operations conducted by the Eurosystem. They play a key role in steering interest rates, managing bank liquidity and signalling monetary policy stances. They are conducted through weekly tenders in the form of temporary sales of assets (repurchase agreements) with a

one-week maturity. Since October 2008, these operations have been conducted as fixed-rate tender procedures.

- Longer-term refinancing operations (LTROs) and targeted longer-term refinancing operations (TLTROs) with maturities of up to 48 months. In 2016, the Governing Council launched a new series of targeted longer-term refinancing operations (TLTRO II) that had a 48-month maturity, with the possibility of repayment after two years. In addition, in 2019 the Governing Council introduced a new series of seven quarterly operations (TLTRO III) with a three-year maturity and a possibility of repayment either after two years or, as from September 2021, after one year. The interest rate applicable to TLTRO III operations will depend on the outstanding amount of lending granted to the real economy by the borrowing institutions and can be as low as the average interest rate on the deposit facility prevailing over the life of the operation. Furthermore, in response to the Covid-19 shock, in 2020 the Governing Council decided that for the period between 24 June 2020 and 23 June 2022 – referred to as the special interest rate period – the interest rate applicable can be as low as 50 basis points below the average interest rate on the deposit facility prevailing over the same period, but in any case may not become higher than –1%. Given that the actual interest rates will only be known at the maturity of each operation and that a reliable estimate is not possible until that time, the deposit facility rate minus 50 basis points, with a ceiling of –1% is used

for calculating the TLTRO III interest over the special interest period, and the deposit facility rate is used for calculating the TLTRO III interest over the rest of the life of an operation.

Additionally, on 30 April 2020, in response to the Covid-19 crisis, the Governing Council decided to conduct a new series of longer-term refinancing operations which mature in the third quarter of 2021, called pandemic emergency longer-term refinancing operations (PELTROs). These operations provide liquidity support to the euro area financial system and contribute to preserving the smooth functioning of money markets by providing an effective backstop; these operations follow on from the exceptional weekly long-term refinancing operations (LTROs) that were conducted between March 2020 and June 2020. The PELTROs are conducted as fixed rate tender procedures with full allotment. The interest rate is 25 basis points

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

Asset item A5 and liability item L2

(EUR millions)

	2020	2019
LOANS		
Main refinancing operations	5	200
Longer-term refinancing operations	397,777	96,031
Fine-tuning operations (a)	0	0
Structural operations	0	0
Marginal lending facilities (b)	0	0
Margin calls paid	0	0
Accrued interest receivable	-2,068	-957
TOTAL	395,714	95,274
LIABILITIES		
Current accounts	725,787	411,101
Other liabilities	212,085	107,210
Deposit facilities	212,085	107,210
Collection of fixed-term deposits (a)	0	0
Repurchase agreements	0	0
Margin calls received	0	0
Accrued interest payable	-72	-20
TOTAL	937,800	518,291

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

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

below the average rate applied in the main refinancing operations over the life of the respective PELTRO.

Deposits from credit institutions related to monetary policy operations held by the Banque de France are recorded in liability item L2, and include the following:

- Credit institutions' current accounts held by the Banque de France and recorded in liability item L2.1. Current account amounts are made up of minimum reserve requirements (calculated as 1% of the reserve base⁹ since January 2012) and sums in excess of minimum reserve requirements. Minimum reserve requirements bear interest at the average MRO rate over the period during which the reserves are built up. Deposits in excess of minimum reserve requirements bear interest at the deposit facility rate, which is negative. On 30 October 2019, the Governing Council introduced a two-tier system for reserve remuneration, exempting part of credit institutions' excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from negative remuneration at the rate applicable on the deposit facility. For each institution, the volume of exempt reserve holdings – the exempt tier – is determined as a multiple of six times its minimum reserve requirements.¹⁰ The exempt tier will be remunerated at an annual rate of 0%. The non-exempt tier of excess liquidity holdings continues to be remunerated at the lower of 0% or the deposit facility rate.
- Deposit facilities (liability item L2.2), which enable Banque de France counterparties to make overnight deposits, remunerated at a rate set by the Governing Council (-0.50% since 18 September 2019).

⁹ The reserve base includes liabilities corresponding to "deposits", "debt securities" and "money market paper" (denominated in euro or foreign currencies, with regard to residents or non-residents) as defined within the framework of the ECB provision on the collection of monetary and banking statistics. However it excludes interbank liabilities between institutions that are

themselves subject to the minimum reserve system and liabilities vis-à-vis other participating national banks and the ECB.
<https://www.banque-france.fr/politique-monetaire/>

¹⁰ The multiplier may be adjusted by the Governing Council in line with changing levels of excess liquidity holdings.

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

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

Euro-denominated claims on non-residents and residents of the euro area

Asset items A4 and A6

(EUR millions)

	2020	2019
Securities held to maturity	796	904
Other claims	41	50
Accrued interest receivable	16	19
Total euro-denominated claims on non-euro area residents	853	973
Securities received under repurchase agreements	13,165	8,576
Other including loans	4,872	4,711
Accrued interest receivable	1	0
Total other euro-denominated loans to euro area credit institutions	18,038	13,287

Note 6: Euro-denominated securities issued by euro area residents

A7.1, "Securities held for monetary policy purposes"

This item includes securities purchased by the Banque de France under the asset purchase programmes organised by the Eurosystem as from 2009 in addition to conventional monetary policy measures. These are bonds purchased within the scope of the three covered bond purchase programmes (CBPP),¹¹ the securities markets programme (SMP),¹² the public sector purchase programme (PSPP)¹³ and the corporate sector purchase programme (CSPP).¹⁴ Since March 2020, this item also includes securities purchased within the scope of the pandemic emergency purchase programme (PEPP).¹⁵ The ECB is responsible for the asset-backed securities purchase programme (ABSPP).¹⁶

In respect of 2020, the Eurosystem had originally planned to continue its net purchases of securities under the asset purchase programme (APP) at a monthly pace of EUR 20 billion on average. However, due to the health crisis, the ECB Governing Council decided to add a temporary envelope of additional net asset purchases of EUR 120 billion until the end of 2020. The Governing Council expects net purchases to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it started raising these rates. The Governing Council also intends to continue

Programme	Programme start date	Programme end date	Risk-sharing between NCBs and the Eurosystem	Eligibility of securities
Completed programmes				
CBPP1	June 2009	June 2010	No risk-sharing	Covered bonds of euro area residents
CBPP2	October 2011	October 2012	No risk-sharing	Covered bonds of euro area residents
SMP	May 2010	September 2012	Risk-sharing based on the key for subscription of the ECB's capital	Public and private debt securities issued in the euro area
Asset purchase programme (APP)				
ABSPP	October 2014	In progress	Risk-sharing based on the key for subscription of the ECB's capital Purchases borne by ECB	Purchases of asset-backed securities
CBPP3	October 2014	In progress	Risk-sharing based on the key for subscription of the ECB's capital	Covered bonds of euro area residents
PSPP	January 2015	In progress	Risk-sharing based on the key for subscription of the ECB's capital on securities issued by supranational bodies No risk-sharing on government bonds acquired by NCBs	Euro area public sector bonds
CSPP	January 2016	In progress	Risk-sharing based on the key for subscription of the ECB's capital	Euro area corporate bonds
Pandemic emergency purchase programme (PEPP)				
PEPP	March 2020	In progress	Follows APP asset rules	All asset categories eligible under the APP

Securities held for monetary policy purposes

Asset item A7.1

(EUR millions)

	2020		2019		Variation	
	Amortised cost	Market price	Amortised cost	Market price	Amortised cost	Market price
Completed programmes						
SMP	6,284	6,514	10,654	11,379	-4,370	-4,865
CBPP1	0	0	442	446	-442	-446
CBPP2	984	1,025	1,018	1,097	-34	-72
Asset purchase programme (APP)						
CBPP3	57,921	60,326	51,421	52,973	6,500	7,353
PSPP	480,893	513,222	418,202	437,149	62,690	76,073
CSPP	77,956	82,242	55,565	57,828	22,391	24,413
Total APP	616,770	655,790	525,189	547,950	91,581	107,839
Pandemic emergency purchase programme (PEPP)						
PEPP-PSPP	120,674	122,765	0	0	120,674	122,765
PEPP-CSPP	18,430	18,681	0	0	18,430	18,681
PEPP-CBPP	1,046	1,075	0	0	1,046	1,075
Total PEPP	140,150	142,521	0	0	140,150	142,521
Accrued interest receivable	5,105		4,289		816	
TOTAL	769,294		541,592		227,702	

the reinvestments for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Additionally, in March 2020 the Eurosystem launched a new pandemic emergency purchase programme (PEPP), with an initial envelope of EUR 750 billion, to counter the severe risks to the monetary policy transmission mechanism and the economic outlook for the euro area posed by the Covid-19 pandemic. Purchases included all the asset categories eligible under the APP and were initially foreseen until the end of 2020. In June 2020 the Governing Council increased the envelope for the PEPP by EUR 600 billion and then by a further EUR 500 billion in December 2020 to reach a total of EUR 1,850 billion by the end of 2020. The horizon for net purchases was also extended to at least the end of March 2022, and in any case until the Governing Council judges that the coronavirus crisis is over. Furthermore, the Governing Council intends to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2023.

The amortised cost of securities held by the Banque de France for monetary policy purposes and their market value¹⁷ (which is not recognised in the balance sheet or in the profit and loss account and is provided for information purposes only) are presented in the following table.

These securities are tested for impairment at the Eurosystem level on the basis of available information and an estimate of recoverable amounts at the balance sheet closing date. Based on these tests, no impairment loss in respect of the portfolios held by the Eurosystem for monetary policy purposes was recognised in the financial statements.

11 Covered bond purchase programme
– ECB decisions No. 2009/16 of 2 July 2009 and No. 2020/8 of 3 February 2020.

12 Securities markets programme
– ECB decision No. 2010/5 of 14 May 2010.

13 Public sector purchase programme
– ECB decision No. 2020/9 of 3 February 2020.

14 Corporate sector purchase programme
– ECB decision No. 2016/16 of 1 June 2016.

15 Pandemic emergency purchase programme
– ECB decision No. 2020/17 of 24 March 2020.

16 Asset-backed securities purchase programme
– ECB decision No. 2014/45 of 19 November 2014.

17 Market values are indicative and have been calculated on the basis of market quotations.

The provision, which had been set up in 2018 and partially maintained at the end of 2019 for securities held by a Eurosystem central bank in the CSPP portfolio, was reversed following the disposal of the securities in 2020 (see Note 20).

A7.2, "Other securities"

This item includes euro-denominated securities issued by euro area residents, other than those held for monetary policy purposes or for the Banque de France Employee Reserve Fund, or those that are specifically earmarked against the Banque de France's own funds or against customer deposits that are recorded in asset items A7.1, A11 and A12 (see Notes 6, 9, 10 and 26).

Just as for portfolios of securities held for monetary policy purposes, impairment tests were also carried out on the Banque de France's other portfolios. Based on these tests, it was concluded that no impairment was needed.

Euro-denominated securities issued by euro area residents

Asset item A7.2

(EUR millions)

	2020	2019
Securities held to maturity (a)	38,617	45,898
Other bonds	3,806	1,390
Accrued interest receivable	600	672
TOTAL	43,023	47,960

(a) In 2020, securities held to maturity amounting to EUR 473 million were sold as a result of exceeding the holding limits established by the ECB.

Note 7: Claims arising on the transfer of reserve assets to the ECB and other claims on the Eurosystem

A8.2, "Claims arising on the transfer of reserve assets to the ECB"

Pursuant to Article 30.2 of the Statute of the ESCB, the euro area NCBs transferred foreign reserve assets to the ECB in proportion to their share in the ECB's subscribed capital. Item A8.2 corresponds to the Banque de France's claim against the ECB resulting from this transfer. It is remunerated at the marginal rate applied to main refinancing operations, adjusted to reflect a zero return on the gold component of the transferred reserve assets.

Following (i) the increase in the weighting of the euro area NCBs in the ECB's subscribed capital resulting from the Bank of England's withdrawal from the ESCB (see Note 11) and (ii) a decision of the Governing Council to maintain at the current level the total amount of foreign reserve assets already transferred by the euro area NCBs, the

claim equivalent to this transfer was marginally adjusted at the Eurosystem level. This resulted in an increase of EUR 7.4 million in the Banque de France's claim, which was paid to the ECB at the start of February 2020.

Claims arising on the transfer of reserve assets to the ECB

Asset item A8.2

(EUR millions)

	2020	2019
Claims arising on the transfer of reserve assets to the ECB	8,240	8,233
Accrued interest receivable	0	0
TOTAL	8,240	8,233

A8.4, "Other claims on the Eurosystem"

This item was mainly made up of the Banque de France's net claim on the Eurosystem generated by transfers via the Target2 payment system with other NCBs in the ESCB.

Item A8.4 also includes the claim on the interim dividend paid by the ECB. Based on 2020 earnings, the ECB Governing Council decided to distribute an interim dividend of EUR 1,260.2 million to the Eurosystem NCBs. The Banque de France received EUR 257 million.

Other claims on the Eurosystem

Asset item A8.4

(EUR millions)

	2020	2019
Claims on the Eurosystem (Target2)	58,296	28,458
ECB interim dividends	257	292
Other claims	0	0
TOTAL	58,554	28,750

Note 8: Advance to the IEDOM

The circulation of banknotes in the French overseas departments and the French overseas collectivities of Saint Pierre and Miquelon, Saint Barthélemy and Saint Martin is managed by the *Institut d'émission des départements d'outre-mer* (IEDOM – the French overseas departments' note-issuing bank) in the name of, on behalf of and under the authority of the Banque de France.

To this end, the Banque de France grants the IEDOM a non-interest-bearing advance for an amount equivalent to a percentage of France's euro banknote allocation, which, since 1 July 2007, has been calculated according to the allocation mechanism in force within the Eurosystem.

Note 9: Other euro and foreign currency denominated**financial assets**

Asset item A11 notably includes securities and other assets linked to the Banque de France's own funds, to provisions and to customer deposits recorded in liability items L4 and L10.

Other euro and foreign currency denominated financial assets**Asset item A11**

(EUR millions)

	2020	2019
Debt securities held to maturity (a) (b)	70,120	58,276
Other securities	7,489	7,488
Other transactions	54,650	51,203
Accrued interest	-3	-2
TOTAL	132,256	116,965

(a) In 2020, none of these securities were transferred to another portfolio and none of these securities were sold before maturity.

(b) Collateralised securities earmarked against customer deposits: EUR 68,672 million of which EUR 58,381 million of foreign currency denominated securities.

Securities portfolios**Extract from asset item A11**

(EUR millions)

	2020	2019
Debt securities held to maturity		
Euro-denominated securities	11,740	6,421
Foreign currency denominated securities	58,381	51,855
Accrued interest	-17	-16
Net balance sheet value	70,104	58,260
Equities and investment fund units (a)		
Collective investment funds	6,661	6,676
Other variable-yield securities	373	325
Net balance sheet value	7,034	7,001

(a) The revalued securities are marked to market at 31 December. The cost price of these securities at the end of 2019 and 2020 was EUR 5,342 million.

Fixed assets**Asset items A8.1 and A13**

(EUR millions)

	At 31 Dec. 2020	Increase (a)	Decrease (a)	At 31 Dec. 2019
Participating interest in the ECB (balance sheet value)	1,652	18		1,634
Participating interests other than the ECB (gross value)	686			686
<i>Intangible fixed assets (gross value)</i>	835	183	98	749
<i>Amortisation and impairment</i>	540	73	6	472
Net value of intangible fixed assets	295	110	92	277
<i>Tangible fixed assets (gross value)</i>	2,548	235	329	2,642
<i>Depreciation and provisions</i>	1,552	88	190	1,654
Net value of tangible fixed assets	996	147	139	988
Total tangible and intangible fixed assets (net balance sheet value)	1,291	257	231	1,265

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

Note 10: Other items

Asset item A12, "Other items", includes all the securities portfolios held in the *Caisse de réserve des employés* (CRE – the Banque de France Employee Reserve Fund), whose investments are reported at their year-end market value.

Other items**Asset item A12**

(EUR millions)

	2020	2019
Miscellaneous including CRE portfolios	12,792	11,700
Accruals and deferred expenses	290	667
Accrued income	264	640
Prepaid expenses	29	26
Other adjustment accounts	-3	1
TOTAL	13,083	12,367

Note 11: Fixed assets and participating interest in the ECB

The Banque de France has not granted any loans or advances to its subsidiaries with the exception of the IEDOM, which has received an advance of EUR 6.8 billion as part of its euro banknote circulation activity on behalf of the Banque de France in the French overseas departments and collectivities that fall within its scope of intervention (see Note 8). Furthermore, the Banque de France has not provided any securities or guarantees to these entities.

Following a review of the materiality criteria for these subsidiaries at Banque de France level, none of these entities have been consolidated since 2019.

Information relating to subsidiaries and participating interests at 31 December 2020

Asset items A8.1 and A13.2

(EUR millions)

Name	Headquarters	Asset item	Capital	Share of capital held (%)	Reserves and retained earnings before appropriation of net profit (c)	Net profit	Book value (d)	Pre-tax turnover for the period or equivalent (e)	Dividends received in 2020
European Central Bank (a)	Frankfurt (Germany)	A8.1	10,825	20,42	35,876	1,643	1,652	2,017	483
IEDOM	Paris	A13.2	33,5	100,00	123	2	149	50	3
Bank for International Settlements (b)	Basel (Switzerland)	A13.2	880	8,96	25,881	206	405	475	0
Europafi	Vic-le-Comte	A13.2	133	99,00	18	6	132	81	2
La Prévoyance immobilière	Paris	A13.2	<0,1	98,00	na	na	ns	na	0
Banque de France Gestion	Paris	A13.2	0,6	99,99	7	11	ns	29	8

ns: not significant; na: not available.

(a) The share of capital held (capital key) referred to above corresponds to the Banque de France's share out of all of the euro area member NCBs. Dividends are allocated on the basis of this key.

(b) Last financial year-end at 31 March 2020, accounts prepared in SDR, euro/SDR conversion rate as at 31 March 2020.

(c) Including revaluation accounts and provisions equivalent to reserves for the IEDOM, the European Central Bank and the Bank for International Settlements.

(d) Gross and net book value of the securities held as no provision has been recorded.

(e) Net interest income for the IEDOM, the European Central Bank and the Bank for International Settlements. Production sold for Banque de France Gestion.

Participating interest in the ECB

Pursuant to Article 28 of the Statute of the ESCB, the capital of the ECB is held solely by ESCB NCBs. The key for subscription of the ECB's capital is set under the conditions defined in Article 29 of the Statute of the ESCB, based on the various countries' share in the total population and gross domestic product of the European Union. These two determinants have equal weighting. The ECB adjusts this capital key every five years (the last five-yearly adjustment took place on 1 January 2019) and each time there is a change in the composition of the ESCB.

As a result of the departure of the United Kingdom from the European Union and consequent withdrawal of the Bank of England from the ESCB, the weightings assigned to the remaining NCBs in the key for subscription to the ECB's capital – unchanged at EUR 10,825 million – were adjusted with effect from 1 February 2020. The impacts were as follows:

- The share of the Bank of England in the ECB's subscribed capital, which stood at 14.3%, was reallocated among both the euro area NCBs and the non-euro area NCBs. Consequently, the Banque de France's share in the ECB's subscribed capital has, since 1 February 2020, been 16.61%;
- the year of the United Kingdom's withdrawal from the European Union, the ECB's paid up capital also remained unchanged at EUR 7,659 million; in 2020 therefore the remaining NCBs covered the Bank of England's paid-up capital of EUR 58 million. In addition, euro area NCBs will be required to pay up in full their increased subscriptions to the ECB capital following the Bank of England's withdrawal, in two annual instalments in 2021 and 2022.¹⁸ As a result, the Banque de France transferred to the ECB EUR 11.1 million in 2020 and will transfer to it EUR 124.6 million in 2021 and EUR 124.6 million in 2022.

The Banque de France's key for subscription of the ECB's capital

(%)

Until 31 Dec. 2003	From 1 May 2004 to 31 Dec. 2006	From 1 Jan. 2007 to 31 Dec. 2008	From 1 Jan. 2009 to 30 June 2013	From 1 July 2013 to 31 Dec. 2013	From 1 Jan. 2014 to 31 Dec. 2018	From 1 Jan. 2019 to 31 Jan. 2020	From 1 Feb. 2020
16.8337	14.8712	14.3875	14.2212	14.1342	14.1792	14.2061	16.6108

Thus, during 2020, the Banque de France's participating interest in the ECB increased by EUR 18 million to EUR 1,652 million. The participating interest includes:

- the Banque de France's key for subscription of the ECB's capital, EUR 249 million of which is not paid up;
- the net amounts paid by the Banque de France due to the increase in its share in the ECB's equity value¹⁹ resulting from all previous ECB capital key adjustments.

Participating interest in the IEDOM

Since 1 January 2017, the Banque de France has held 100% of the capital of the IEDOM. The IEDOM is responsible, on behalf of the Banque de France, for implementing its missions of monetary strategy, financial stability and services to the economy and society in the regions that fall within the scope of its intervention.

The IEDOM is thus notably responsible for issuing and managing the circulation of banknotes and coins, rating companies so that private loans can be mobilised as part of Eurosystem refinancing operations, supervising payment systems and means, providing the secretariat of the household debt commissions, managing local interbank registers and providing services of general interest to public or private bodies.

Participating interest in Europafi

In 2015, the Banque de France spun off its paper business within Europafi. At 31 December 2020, the Banque de France had a 99% holding in Europafi; the Banca d'Italia, the Oesterreichische Nationalbank, and the Banco de Portugal had stakes of 0.5%, 0.25% and 0.25%, respectively.

Note 12: Banknotes in circulation

Euro banknotes in circulation increased by 11% from 2019 to 2020.

Note 13: Other euro-denominated liabilities

to euro area credit institutions

Liability item L3 is made up of securities purchased for monetary policy purposes delivered under repurchase agreements.

Other euro-denominated liabilities to euro area credit institutions

Liability item L3

(EUR millions)

	2020	2019
Euro-denominated liabilities to euro area residents	5,668	1,845
Accrued interest payable	0	0
TOTAL	5,668	1,845

Note 14: Euro-denominated liabilities

to non-euro area residents

This item comprises euro credit balances and fixed-term deposits (excluding Target2) with non-euro area central banks, commercial banks and non-financial customers in non-Eurosystem member countries. In most cases the assets matching these liabilities are included in asset items A4 or A6 (see Note 5) or in asset item A11 (see Note 9), depending on whether they are invested in the same currency or are covered by cross-currency swaps (see Note 26).

Euro-denominated liabilities to non-euro area residents

Liability item L4

(EUR millions)

	2020	2019
Euro-denominated liabilities to non-euro area residents	48,202	46,599
Accrued interest payable	0	0
TOTAL	48,202	46,599

Note 15: Euro-denominated liabilities to the Eurosystem

In 2020, euro-denominated liabilities to the Eurosystem corresponded to accrued liabilities of EUR 842 million in respect of the pooling of monetary income.

Euro-denominated liabilities to the Eurosystem

Liability item L7

(EUR millions)

	2020	2019
Euro-denominated liabilities to the Eurosystem (Target2)	0	0
Accrued liabilities in respect of the pooling of monetary income	842	754
Accrued interest payable	0	0
TOTAL	842	754

Note 16: Euro-denominated liabilities

to other euro area residents

Liability item L8.1, "Liabilities vis-à-vis the state and government agencies" consists of the following:

- The Treasury's account, which, up to a capped amount,²⁰ earns interest at the Eonia rate. Above this amount, it earns 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.

¹⁸ This results in an increase in the ECB's paid-up capital from EUR 7,659 million in 2020 to EUR 8,270 million in 2021 and EUR 8,880 million in 2022.

¹⁹ The ECB's capital includes all reserves, revaluation accounts and provisions equivalent

to reserves less losses relating to prior years. In the event of a capital key adjustment arising during a reporting period, the capital also includes the net profit (or loss) at that date.

²⁰ The cap applied for the entire 2020 financial year was EUR 819.8 million.

- The accounts of other government agencies, as well as deposits from certain international bodies.

Liability item L8.2, "Other liabilities" includes the euro-denominated current accounts of resident institutional customers (other than the state and government agencies) and individuals, and also the IEDOM's current account.

Euro-denominated liabilities to other euro area residents

Liability item L8

(EUR millions)

	2020	2019
L8.1 Liabilities vis-à-vis the state and government agencies	136,139	32,390
L8.2 Other liabilities	42,383	33,370
Accrued interest payable	0	0
TOTAL	178,522	65,760

Deposits made by certain international bodies to the Banque de France were included in the 2019 annual financial statements under item L8.2, "Other liabilities". As Eurostat amended the statistical classification of these bodies from "Other financial intermediaries" to "Public administrations" with effect from 1 July 2020, said bodies' deposits were included under item L8.1, "Liabilities vis à vis the state and government agencies" at 31 December 2020.

Reconciliation table following the statistical reclassification of certain international bodies

(EUR millions)

	Amounts published in 2019	Adjustment further to the statistical reclassification	Adjusted 2019 amounts
L8.1 Liabilities vis-à-vis the state and government agencies	32,390	+16,009	48,399
L8.2 Other liabilities	33,370	-16,009	17,361
TOTAL	65,760	-	65,760

Note 17: Items in the course of settlement

Balance sheet item L9, "Items in the course of settlement" includes items (primarily cheques) debited or credited to a customer's account, but not yet credited or debited to a credit institution's account, and vice versa.

Note 18: Banking transactions

This item mainly comprises overnight and fixed-term foreign currency denominated deposits from French or foreign public bodies, or foreign central banks. The management of

these foreign currency transactions is totally separate from the management of foreign exchange reserves. The assets offsetting these liabilities, which may be hedged by cross-currency swaps, are included either in asset item A11 (see Note 9), or in items A4 or A6 (see Note 5), depending on whether they are invested in a foreign currency or in euro.

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

Banking transactions

Liability item L10

(EUR millions)

	2020	2019
Customer deposits	902	2,546
Other banking transactions o/w fixed-term deposits	124,023	96,084
Accrued interest payable	99	434
TOTAL	125,024	99,064

Note 19: Other items

This item mainly includes:

- the capital of the Banque de France Employee Reserve Fund (see Note 28);
- miscellaneous creditors and the impact of off-balance sheet foreign exchange positions in relation to retail banking operations.

Other items

Liability item L11

(EUR millions)

	2020	2019
CRE capital	7,255	6,891
Accrued expenses	274	299
Other adjustment accounts	0	0
Miscellaneous	1,400	844
TOTAL	8,929	8,034

Note 20: Provisions for liabilities and charges

Provisions for liabilities and charges mainly include employee-related provisions:

- provisions for restructuring, relating to the "cash activities" and "banknote manufacturing" plans, and plans to adapt the Banque de France's branch network, to discontinue

retail banking activities, and to modernise cash services, as well as provisions corresponding to the full coverage of additional seniority credited under early retirement schemes;

- provisions for changing the age pyramid, relating to an early retirement incentive scheme for employees reaching the end of their working life;
- provisions for retirement benefits;
- a provision covering the Banque de France's commitment to fund part of retirees' supplementary health insurance contributions;
- provisions for various social liabilities for working employees (death benefits, long-service medals, end-of-career leave, extended sick leave and pensions for industrial injuries);
- provisions to cover various social obligations granted to retired employees (death benefits, etc.);
- other provisions, particularly for major repairs (such as façade repairs, renovations, etc.).

For discounted social security provisions, the parameters used (unchanged from 2019) are as follows: a discount rate of 2.25% and pension and salary revaluation assumptions based on a long-term inflation of 1.75%.

The reduction in the provision for supplementary health insurance is the result of a new company agreement, which will come into force in 2022.

At the Eurosystem level, a provision relating to monetary policy operations intended to cover credit risks on the CSPP

portfolios was established in 2018 by all the NCBs as a result of impairment tests. This provision was then adjusted in 2019 to total EUR 89 million, of which EUR 18 million was recognised in Banque de France's financial statements. During 2020, an amount of EUR 64 million was used to cover the loss recognised following the sale of impaired securities by the Eurosystem central bank that held them. The provision was used to the extent necessary to cover this loss; for the Banque de France, the amount used was EUR 13 million.

The unused balance of the provision after coverage of the realised loss (EUR 26 million at the Eurosystem level) was the subject of a reversal recognised in the financial statements of the Eurosystem central banks in proportion to their subscribed capital key shares in the ECB prevailing in 2018 (the year when the initial impairment occurred). For the Banque de France, this amount was EUR 5 million.

Note 21: Revaluation accounts

Gold and foreign currency assets and liabilities were revalued at the reference prices indicated by the ECB on 31 December 2020.

The revaluation rates used at 31 December 2020 for gold and the main currency holdings were:

- EUR 49,637 per kilogram of fine gold (compared with EUR 43,535 per kilogram at end-2019);
- EUR 1 = USD 1.2271 (compared with USD 1.1234 at end-2019);
- EUR 1 = SDR 0.8485 (compared with SDR 0.8104 at end-2019);

Provisions for liabilities and charges

Liability item L12

(EUR millions)

	2020	Increase	Decrease	2019
Provisions for restructuring and changing the age pyramid	134	0	6	140
Provisions for retirement benefits	137	4	12	145
Provisions for supplementary health insurance	168	0	184	352
Other miscellaneous provisions – current employees	93	13	17	97
Other miscellaneous provisions – retirees	161	1	6	166
Provision related to monetary policy operations	0	0	18	18
Other	25	13	16	29
TOTAL	719	31	259	947

- EUR 1 = AUD 1.5896 (compared with AUD 1.5995 at end-2019);
- EUR 1 = CAD 1.5633 (compared with CAD 1.4598 at end-2019).

The increase in the balance of item L13 is mainly the result of a sharp rise in the price of gold and unrealised gains on variable-yield securities.

Revaluation accounts

Liability item L13

(EUR millions)

	2020	2019
Revaluation accounts – gold	101,549	86,686
Revaluation accounts – foreign currency	2,919	7,284
Revaluation accounts – securities and financial futures	4,386	4,014
TOTAL	108,855	97,984

Note 22: Fund for general risks

An allocation of EUR 1,150 million was made to the fund for general risks in respect of 2020 based on an analysis of the potential risks associated with exposures at the balance sheet closing date.

Note 23: Revaluation reserve for state gold and foreign exchange reserves

See Note 30 and the comments on the RRRODE in the section on valuation methods.

Note 24: Capital, reserves and retained earnings

Capital, reserves and retained earnings

Liability item L17

(EUR millions)

	2020	2019
Capital	1,000	1,000
Reserves	10,058	10,332
Statutory reserve (a)	1,467	1,274
Long-term capital gains	100	100
Special pension reserve fund (see Note 28)	5,237	5,709
Other reserves (b)	3,253	3,249
Retained earnings	0	0
TOTAL	11,058	11,332

(a) In accordance with Article R. 144-4 of the French Monetary and Financial Code, 5% of the net profit for the year is allocated to a special pension reserve fund that ceases to be funded when it reaches an amount equal to double the Banque de France's capital.

(b) Other reserves include the investment reserve and the insurance fund to cover claims against the Banque de France. In accordance with Article R. 144-2, the Banque de France must maintain reserves to finance its investments. The Banque de France is also its own insurer with respect to civil liability risks, claims on property it owns and damages to this property by third parties.

Off-balance sheet

Note 25: Interest rate financial futures and securities commitments

Notional amount of financial futures

(EUR millions)

	2020	2019
Outright transactions on organised markets		
Foreign currency denominated interest rate contracts		
Purchases	114	17,174
Sales	62	18,491
Euro-denominated interest rate contracts		
Purchases	97	198
Sales	382	1,176
Over-the-counter market operations		
Foreign currency denominated interest rate swaps		
	158	172
Euro-denominated interest rate swaps		
	0	0

At the end of 2020, the Banque de France had also committed EUR 95 million to subscriptions for investment fund units in connection with the investment of its equity.

Note 26: Forward foreign currency transactions

As part of its forward foreign currency transactions with customers, the Banque de France collects euro-denominated deposits from non-euro area residents, in particular foreign central banks and international bodies, which are recorded in liability item L4. The Banque de France also collects foreign currency denominated deposits, mainly from non-resident institutions, which are recorded in liability item L10.

These euro or foreign currency denominated deposits are invested either in the same currency or in a different currency (euro-denominated investments are recorded in asset items A4 or A6 depending on the counterparty's area of residence, while foreign currency investments are recorded in item A11). When appropriate, foreign currency risk is neutralised by cross-currency swaps of the same amount and maturity as the deposits. These foreign currency deposits and investments, and the related spot and forward foreign currency transactions, form part of an activity that is separate and independent from the management of foreign exchange reserves. Consequently, they are recorded in dedicated accounts separate from those used for the management of foreign exchange reserves, and are valued in accordance with the standards issued by the ANC (see *the valuation methods section above, "Foreign currency gains and losses other than on gold and foreign exchange reserves"*).

Amounts of foreign currency receivables and deliverables in respect of transactions carried out with customers are detailed in the following table.

Foreign currency receivables and deliverables on transactions with customers

(EUR millions)

	2020	2019
Euro to be received against foreign currency to be delivered		
<i>Euro receivable</i>	20,663	23,327
<i>Foreign currency deliverable</i>	20,242	23,235
Foreign currency to be received against euro to be delivered		
<i>Foreign currency receivable</i>	30,585	17,440
<i>Euro deliverable</i>	31,182	17,408
Foreign currency to be received against foreign currency to be delivered	108,632	96,172
Foreign currency to be delivered against foreign currency to be received	109,118	95,803

The amounts of foreign currency receivables and deliverables resulting from foreign reserve asset management operations each amounted to EUR 6.6 billion.

Note 27: Off-balance sheet commitments given or received in respect of operations with the IMF

Commitments given by the Banque de France

The commitment in respect of France's quota in the IMF's capital amounts to SDR 20.2 billion. The reserve tranche position stood at SDR 4.8 billion at 31 December 2020, meaning that additional drawing rights of SDR 15.4 billion are still available.

The credit line granted to the IMF within the framework of the New Arrangements to Borrow (NAB) amounts to SDR 9.5 billion, SDR 0.4 billion of which was drawn down at 31 December 2020. Additional drawdowns of up to SDR 9.1 billion can still be made.

A bilateral loan agreement between France and the IMF was signed in October 2012 and has since been renewed. Under this agreement, France undertakes to provide further financing of EUR 31.4 billion. This credit line has not been used.

In addition, the Banque de France grants loans to the Poverty Reduction and Growth Trust (PRGT) under the IMF's "Poverty Reduction and Growth Facility" and "Exogenous Shocks Facility" (PRGF-ESF). The first loan agreement for SDR 1.3 billion came to an end on 31 December 2018.

In February 2018 and then in July 2020, two new loan agreements were put in place for a total of SDR 4 billion. At the end of December 2020, the additional drawdowns that could be made amounted to SDR 3.4 billion.

Commitments received by the Banque de France

In the 2009, 2018 and 2020 supplementary budget acts, the state extended its guarantee to the loans granted by the Banque de France to the PRGT.

Note 28: Pension liabilities

Banque de France employees benefit from a pension scheme, governed by Decree 2007-262 of 27 February 2007, which entered into force on 1 April 2007, and was subsequently amended by Decrees 2008-1514, 2012-701, 2012-847 and 2014-1702 to align it with that of the civil service.

The Employee Reserve Fund

The Banque de France pension fund, known as the *Caisse de réserve des employés de la Banque de France* (CRE – the Banque de France Employee Reserve Fund), is designed to service the pensions of its statutory employees. The CRE does not have a legal personality distinct from that of the Banque de France. It constitutes, as the French Council of State set out in its decisions of 5 November 1965 and 28 April 1975, "a means for the Banque de France to manage itself assets that are assigned to a special purpose and whose separate financial identity has been recognised with the sole purpose of showing the results of this management in a special account".

Consequently, the CRE is subject to separate accounting treatment but its assets, liabilities, income and expenses form an integral part of the Banque de France's financial statements.

The securities posted in assets on the CRE's balance sheet are recorded in asset item A12 of the Banque de France balance sheet and are recognised in accordance with the rules set out in the section on valuation methods used for securities portfolios.

CRE capital is shown in liability item L11, "Other items". Realised gains and losses, unrealised losses and contributions paid that are recognised in the profit and loss account require a matching allocation to or reversal from CRE capital. On the liabilities side, item L13 also includes revaluation differences for CRE securities that have been revalued. The special pension reserve fund (see below) is shown under item L17, "Capital, reserves and retained earnings".

Pension expenses not financed by a deduction from the special pension reserve fund or from the CRE's capital (see below) are included in profit and loss item 2.2, "Pensions and related expenses". Income from the CRE's securities portfolios is recorded in profit and loss item 1.6, "Other income and expenses, net".

Various sources of pension financing

Pensions paid to retired employees are funded as follows:

- by interest income and dividends from the CRE's securities portfolio;
- by a deduction from the special pension reserve fund established in 2007 by the Banque de France's General Council to ensure the progressive financing of the unfunded portion of pension liabilities;²¹
- by the use of CRE capital;
- by a balancing subsidy paid by the Banque de France.

Articles 3 and 4 of General Council Order No. A-2017-10 of 20 December 2017 on the CRE's financial management provide that use of the special pension reserve fund and CRE capital to finance the pensions to be paid during a year shall be decided by the General Council when voting on the Banque de France budget. In addition, pursuant to Article 4 of the appendix to Decree No. 2007-262 of 27 February 2007, CRE capital may be drawn on to service pensions only if the pension liabilities are fully covered and only if the special pension reserve fund has previously been cleared.

Up to and including the financial year 2019, the share of pensions not covered by income from securities portfolios was fully funded by a subsidy paid by the Banque de France. However, at the end of 2019, as pension commitments were fully covered by CRE securities portfolios, the statutory pensions paid in 2020 were funded by income from the securities portfolios as well as by a deduction from the special pension reserve fund in the amount of EUR 471 million; the other benefits paid by the CRE,²² meanwhile, were covered by a subsidy paid by the Banque de France.

In addition, liabilities in respect of the additional seniority granted as part of restructuring plans (see Note 20) are provisioned in full.

Actuarial assumptions

Total pension liabilities have been calculated in accordance with actuarial standards (using the projected unit credit method), taking into account all current employees, retirees and their dependants. Liabilities to current employees were determined using a prospective method with assumptions concerning future career and salary developments.

The TGH-TGF 2005 statutory mortality tables applicable to life insurance contracts were used to calculate pension liabilities at 31 December 2020.

Calculations of pension liabilities and the underlying assumptions used are validated and monitored by the Banque de France's actuaries. A discount rate of 2.25% was applied in 2020, as in 2019. Pension and salary revaluation assumptions based on long-term inflation will stand at 1.75% with effect from 2023 (see Note 20).

Pension liabilities and funding

(EUR millions)

	Liabilities			Funding	
	2020	2019		2020	2019
Pension liabilities	14,229	14,443	Funding	12,502	12,599
			<i>o/w to Employee Reserve Fund</i>	7,265	6,890
			<i>o/w to special pension reserve fund</i>	5,237	5,709
<i>o/w to current employees</i>	4,569	4,852			
<i>o/w to retirees</i>	9,660	9,591			
Liabilities in respect of the additional seniority granted as part of restructuring plans	134	140	Provision	134	140
			Revaluation accounts	2,417	2,140
Total gross liabilities	14,363	14,583	Total funding	15,053	14,879
Net liabilities			Net funding	690	296

Profit and loss account

Note 29: Net interest income

Net interest income for 2020 amounted to EUR 6.0 billion, down year-on-year from EUR 8.1 billion.

This decrease was due to the volume of monetary policy operations put in place to counter the economic impacts of the health crisis: expenses arising from negative interest paid by the Banque de France in respect of bank refinancing operations, whose average outstandings have increased significantly compared with 2019, while income from negative interest calculated on deposits of

Net interest income

Profit and loss item 1.1

(EUR millions)

	2020	2019
Interest on foreign currency assets	1,037	1,370
<i>o/w interest on held-to-maturity securities</i>	668	656
Interest on receivables from the IMF	32	154
Interest on euro-denominated claims on non-residents	0	0
Net income from monetary policy operations (excluding securities) (b)	194	1,415
Interest on euro-denominated securities	3,709	4,697
<i>o/w interest on held-to-maturity securities</i>	1,215	1,482
<i>interest on securities held for monetary policy purposes</i>	2,494	3,215
Interest on claims arising on the transfer of reserve assets to the ECB	0	0
Interest on net claims on the Eurosystem (a)	0	0
Interest on the net euro banknote position	0	0
Interest on other euro and foreign currency denominated financial assets	1,509	2,731
<i>o/w interest on available-for-sale securities</i>	2	7
<i>interest on held-to-maturity securities</i>	-113	-120
<i>other interest</i>	1,620	2,844
Total interest and related income (A)	6,480	10,367
Interest on non-monetary policy euro-denominated liabilities to monetary financial institutions in the euro area (c)	1	3
Interest on euro-denominated liabilities to non-euro area residents	-852	-2,056
Interest on foreign currency liabilities	-24	-52
Interest on counterpart to SDR allocations	-25	-124
Interest on net debt to the Eurosystem (a)	0	0
Interest on the Treasury's account and related interest	520	200
Other interest	-114	-210
Total interest and related expenses (B)	-494	-2,239
Net interest income (A + B)	5,986	8,128

(a) Interest on the Banque de France's net position within the Target2 system (see Notes 7 and 15).

(b) Net income from monetary financial institution (MFI) current accounts, deposit facilities and TLTRO II and III (negative interest).

(c) Interest on pensions.

financial institutions (sums in excess of minimum reserve requirements and in deposit facilities) increased to a lesser extent. In addition, income from securities held for monetary policy purposes decreased, particularly that from inflation-indexed securities.

Income from foreign currency and euro reserve assets also declined compared with 2019.

Note 30: Net income from financial transactions

This profit and loss item includes the net gains and losses resulting from sales of financial instruments held by the Banque de France as well as unrealised losses on gold, foreign currency and financial instrument revaluations. It also includes net foreign currency gains and losses arising on foreign currency denominated transactions.

In 2020, net realised gold and foreign currency gains and losses represented a net loss of EUR 172 million. In accordance with the agreement of 2 February 2011 between the state and the Banque de France on the management of and accounting for state foreign exchange reserves, this net balance was allocated to the RRRODE, with the corresponding entry taken to the profit and loss account (item 1.2.2).

Other income and expenses on financial transactions, net

Profit and loss item 1.2.3

(EUR millions)

	2020	2019
Net gain/loss on foreign currency denominated securities (a) (b) (c)	94	37
Net gain/loss on euro-denominated securities recorded in items A7.1 and A7.2 (b) (c)	2	75
Net gain/loss on available-for-sale securities recorded in item A11 (b)	0	30
Net foreign currency gains and losses (excluding foreign exchange reserve management)	11	10
TOTAL	107	152

(a) Excluding the impact of foreign exchange fluctuations, recorded in profit and loss item 1.2.1.

(b) These items include realised gains and losses, and unrealised losses at year-end.

(c) These items also include margin calls on interest rate financial futures, and profits and losses on synthetic instruments.

21 In accordance with Article R. 144-4, paragraph 3, of the French Monetary and Financial Code.

22 In particular additional seniority, travel allowances and death benefits.

Note 31: Income from equity securities and participating interests

For 2020, the Governing Council decided to distribute the ECB's share of seigniorage income and income from its SMP, CBPP3, ABS, PSPP and PEPP securities holdings to the NCBs. As a result, after increasing its provision for financial risks, the ECB paid an interim dividend totalling EUR 1,260.2 million, of which Banque de France received EUR 257 million.

Income from equity securities and participating interests

Profit and loss item 1.4

(EUR millions)

	2020	2019
ECB dividend (final for the previous financial year and interim dividend for the current financial year)	448	369
Dividends from other participating interests	13	24
Dividends from available-for-sale securities	3	13
Other income	0	0
TOTAL	464	406

Note 32: Net result of pooling of monetary income

This item contains the net result of pooling of monetary income, recognised in profit and loss item 1.5. For 2020, it amounted to an expense of EUR 830 million. This item also contains:

- the Banque de France's share of the realised loss recognised by the Eurosystem in relation to the sale in 2020 of securities held by an NCB in its CSPP portfolio that had been written down in 2018, as well as the release of the provision established to cover credit risk in monetary policy operations carried out by the Eurosystem (see Note 20).
- prior-year adjustments that mainly relate to revisions made by other Eurosystem central banks to their 2018 and 2019 financial statements.

Net result of pooling of monetary income

Profit and loss item 1.5

(EUR millions)

	2020	2019
Monetary income pooled by the Banque de France	-1,713	-3,057
Monetary income allocated to the Banque de France	883	2,306
Net result of pooling of monetary income in 2020	-830	-751
Other expenses and income arising from the pooling of monetary income	-12	-3
Sub-total	-842	-754
Net provisions/reversals related to monetary policy operations	18	14
TOTAL	-824	-740

The monetary income pooled by the Eurosystem is allocated between national central banks (NCBs) in proportion to their subscription of the ECB's capital.

The monetary income of each NCB reflects the income derived from the earmarkable assets held against its liability base.

The liability base includes banknotes in circulation, euro-denominated liabilities to euro area credit institutions related to monetary policy operations, intra-Eurosystem liabilities resulting from Target2 transactions, and net intra-Eurosystem liabilities on euro banknotes in circulation within the Eurosystem. Any interest accruing on liabilities included in the liability base is deducted from pooled monetary income.

Earmarkable assets include euro-denominated lending to euro area credit institutions related to monetary policy operations, securities held for monetary policy purposes, claims arising on the transfer of reserve assets to the ECB (excluding the gold component), net intra-Eurosystem claims resulting from Target2 transactions, net intra-Eurosystem claims arising on the distribution of euro banknotes within the Eurosystem, claims on the central banks that are not members of the Eurosystem relating to euro liquidity provision, accrued interest on securities held for monetary policy purposes whose risks and income are pooled and which have been written down and a limited amount of gold in proportion to each NCB's subscription of the ECB's capital (capital key). Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the amount of monetary income is determined by multiplying the difference by the marginal rate applied to main refinancing operations.

Note 33: Other income and expenses, net

This balance includes income and expenses generated by service activities carried out on behalf of third parties. These activities mainly relate to public service activities entrusted to the Banque de France by law or by agreements signed with the state and, to a lesser extent, activities carried out in support of the economy, for which the cost is re-invoiced.

Income includes levies for supervisory expenses by the *Autorité de contrôle prudentiel et de résolution* (ACPR – the French Prudential Supervisory and Resolution Authority), which was established by Order 2010-76 of 21 January 2010

merging the licensing and supervisory authorities of the banking and insurance sectors. The ACPR is a financially autonomous, independent administrative authority without legal personality, chaired by the Governor of the Banque de France, and as such its budget is a sub-budget of the Banque de France. The expenses and income of the ACPR are recognised in the financial statements of the Banque de France. Expenses are booked as operating expenses according to their nature, and income consists of levies raised from the organisations under ACPR supervision. In 2020, levies for supervisory expenses generated income of EUR 205 million.

Other income and expenses, net Profit and loss item 1.6

(EUR millions)

	2020	2019
Remuneration for services provided to the state	230	241
Payments for ACPR supervisory expenses	205	198
Miscellaneous income (a)	288	282
Total other income (A)	723	721
Total other expenses (B)	-46	-27
Other income and expenses, net (C = A + B)	677	694

(a) This item mainly includes fees charged for use of the databases managed by the Banque de France (FNCI, FICP, FCC and FIBEN).

Services provided by the Banque de France to the state – particularly the operation of the departmental commissions for handling cases of household overindebtedness and the management of the Treasury's account – are remunerated on a full-cost basis.

Note 34: Staff costs and related expenses

Staff costs and related expenses Profit and loss item 2.1

(EUR millions)

	2020	2019
Salaries and wages	583	585
Taxes on salaries and wages	100	94
Social security contributions	167	160
Profit-sharing and incentive plans	36	36
Total staff costs and related expenses	885	875

Profit and loss item 2.2

(EUR millions)

	2020	2019
Pensions and related expenses	34	502
Total pensions and related expenses	34	502

The decrease in pension expenses impacting the Banque de France's profit and loss account results from the financing of statutory pensions by deduction from the special pension reserve fund previously established to cover pension liabilities (see Note 28). The amount deducted for this purpose from the special pension reserve fund during the 2020 financial year amounted to EUR 471 million.

Remuneration of management bodies

(EUR millions)

	2020	2019
Total remuneration paid to management bodies (a)	3.1	2.8

(a) The Banque de France's management bodies are made up of members of the General Council and the Executive Committee. Remuneration comprises gross remuneration plus any payments in kind. The Banque de France staff representative and the censor are not remunerated for the duties they perform in the General Council.

The Governor's total gross remuneration for 2020 was EUR 287,956. The First and Second Deputy Governors received EUR 232,941 and EUR 231,486, respectively. No employee accommodation is made available to them but they each receive a gross housing allowance of EUR 5,867 per month, which is subject to tax. These provisions are governed by Article R. 142-19 of the French Monetary and Financial Code.

Note 35: Corporate income tax

According to Article 8 of Law 2007-212 of 20 February 2007 on various measures concerning the Banque de France, the taxable profit of the Banque de France is calculated using accounting rules defined in accordance with Article L. 144-4 of the French Monetary and Financial Code and the agreement referred to in Article L. 141-2 of the said Code.

Corporate income tax Profit and loss item 5

(EUR millions)

	2020	2019
Income tax expense	1,633	2,650
On profit before exceptional items	1,633	2,650

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STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Year ended 31 December 2020

Opinion

In compliance with the engagement entrusted to us by your General Council, we have audited the accompanying annual financial statements of the Banque de France for the year ended 31 December 2020. These annual financial statements were approved by the General Council on 15 March 2021 based on the information available at this date in the evolving context of the Covid-19 health crisis.

In our opinion, the annual financial statements give a true and fair view of the assets and liabilities and of the financial position of the Banque de France as at 31 December 2020 and of the results of its operations for the year then ended in accordance with accounting principles from Article R. 144-6 of the French Monetary and Financial Code (*Code monétaire et financier*).

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' responsibilities for the audit of the financial statements section of our report.

Independence

We conducted our audit engagement in compliance with independence requirements of the French Commercial Code (*Code de commerce*) and the French Code of Ethics (*Code de déontologie*) for Statutory Auditors rules applicable to us, for the period from 1 January 2020 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

Emphasis of matter

We draw attention to the following matters:

- The introduction to the Notes to the annual financial statements describes the accounting principles and valuation methods applicable to the Banque de France, some of which are specific to the European System of Central Banks;
- The General Council has determined the level of detail of the published financial information in accordance with its right provided for in Article R. 144-6 of the French Monetary and Financial Code (*Code monétaire et financier*).

Our opinion is not modified in respect of these matters.

.../...

Justification of assessments

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of health emergency induce multiple consequences for companies, particularly on their operations and their financing, as well as increased uncertainties on their future prospects. Some of these measures, such as travel restrictions and remote working, have also had an impact on the internal organisation of companies and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the following matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.

These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Valuation of securities at amortised cost

Your Institution holds securities portfolios that are recognised at amortised cost. An impairment loss is recorded in the event of risk of non-recovery, in accordance with the methods described in the Note "Valuation methods – Securities Portfolios" to the annual financial statements.

Our work consisted in reviewing the impairment tests put in place by the Banque de France to assess the risk of non-recovery, in order to evaluate the assumptions used and to examine the management procedures in place to approve these estimates.

Assessment of social obligations

Your Institution calculates its social obligations in accordance with the methods described in Note 28 to the annual financial statements. These obligations were assessed by an actuary.

Our work consisted in examining the data used and the assumptions applied when making these estimates.

Responsibilities of management and those charged with governance for the annual financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles from Article R. 144-6 of the French Monetary and Financial Code (*Code monétaire et financier*) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the entity or to cease operations.

The financial statements were approved by the General Council.

Statutory Auditors' responsibilities for the audit of the annual financial statements

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the entity or the quality of management of the affairs of the entity.

.../...

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the entity to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Paris La Défense, on 15 March 2021

The Statutory Auditors

KPMG S.A.

Marie-Christine Jolys
Partner

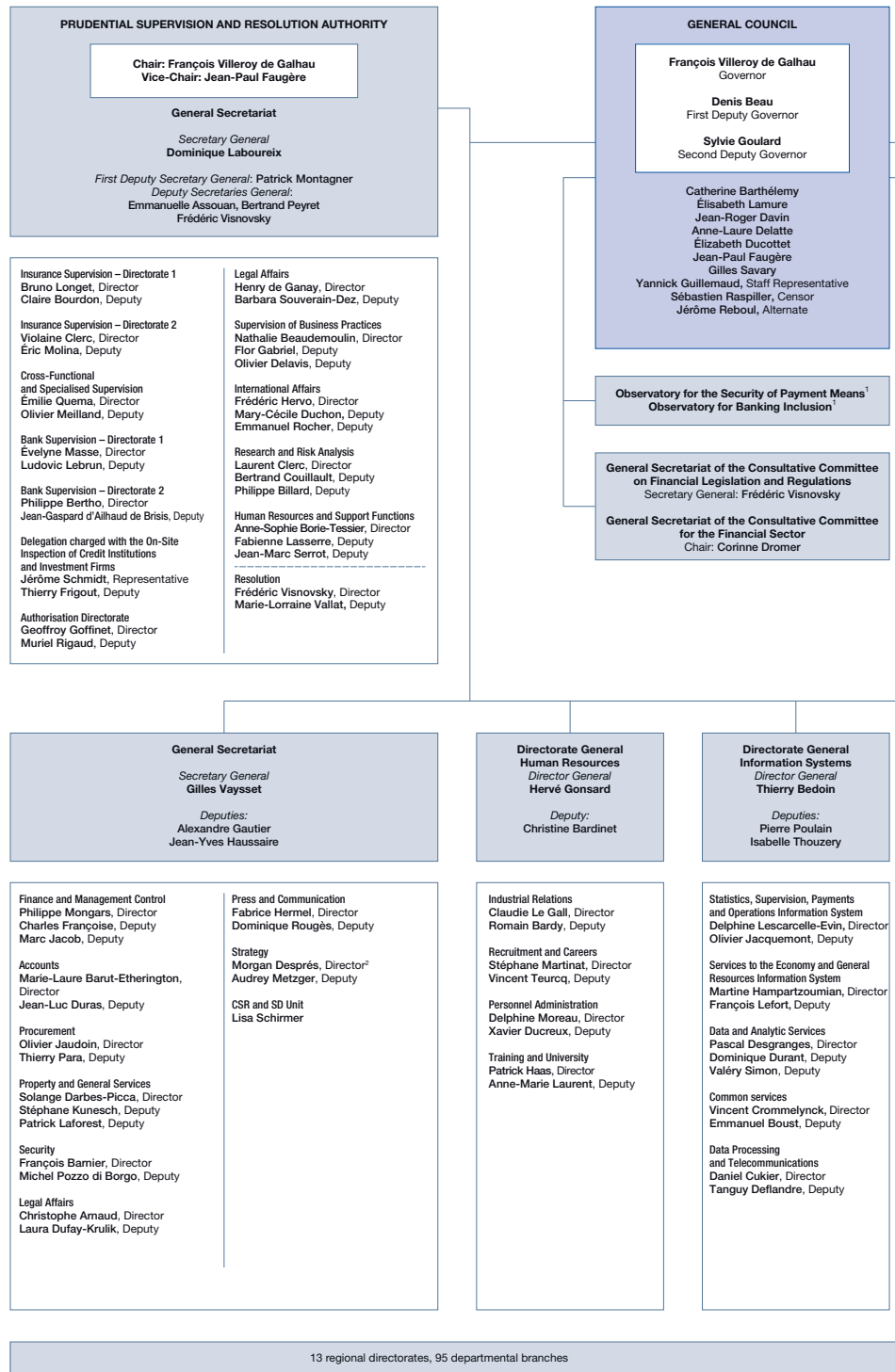
Mazars

Hervé Hélias Franck Boyer
Partner Partner

APPENDICES

APPENDIX 1

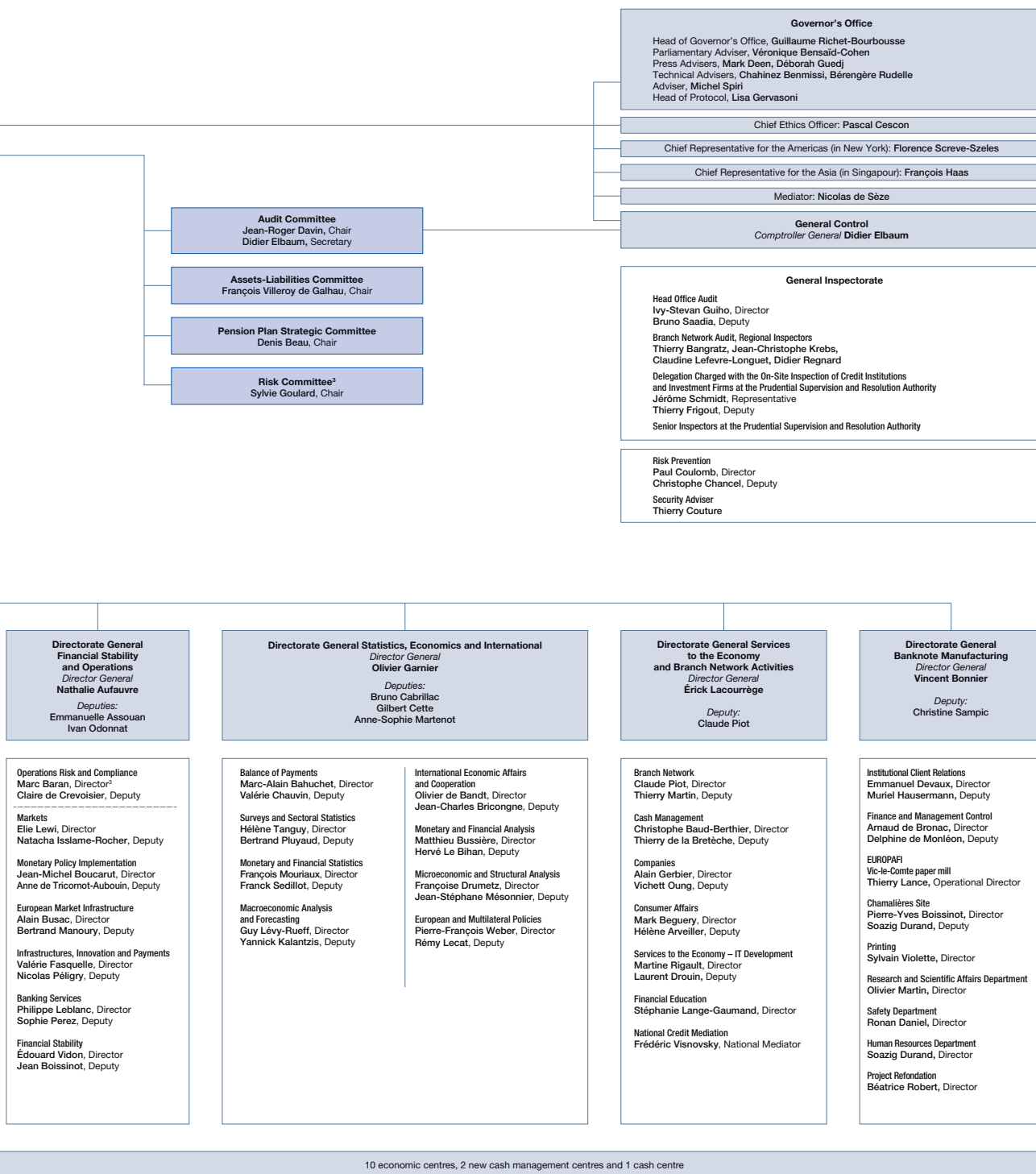
Organisation of the Banque de France as at 1 March 2021



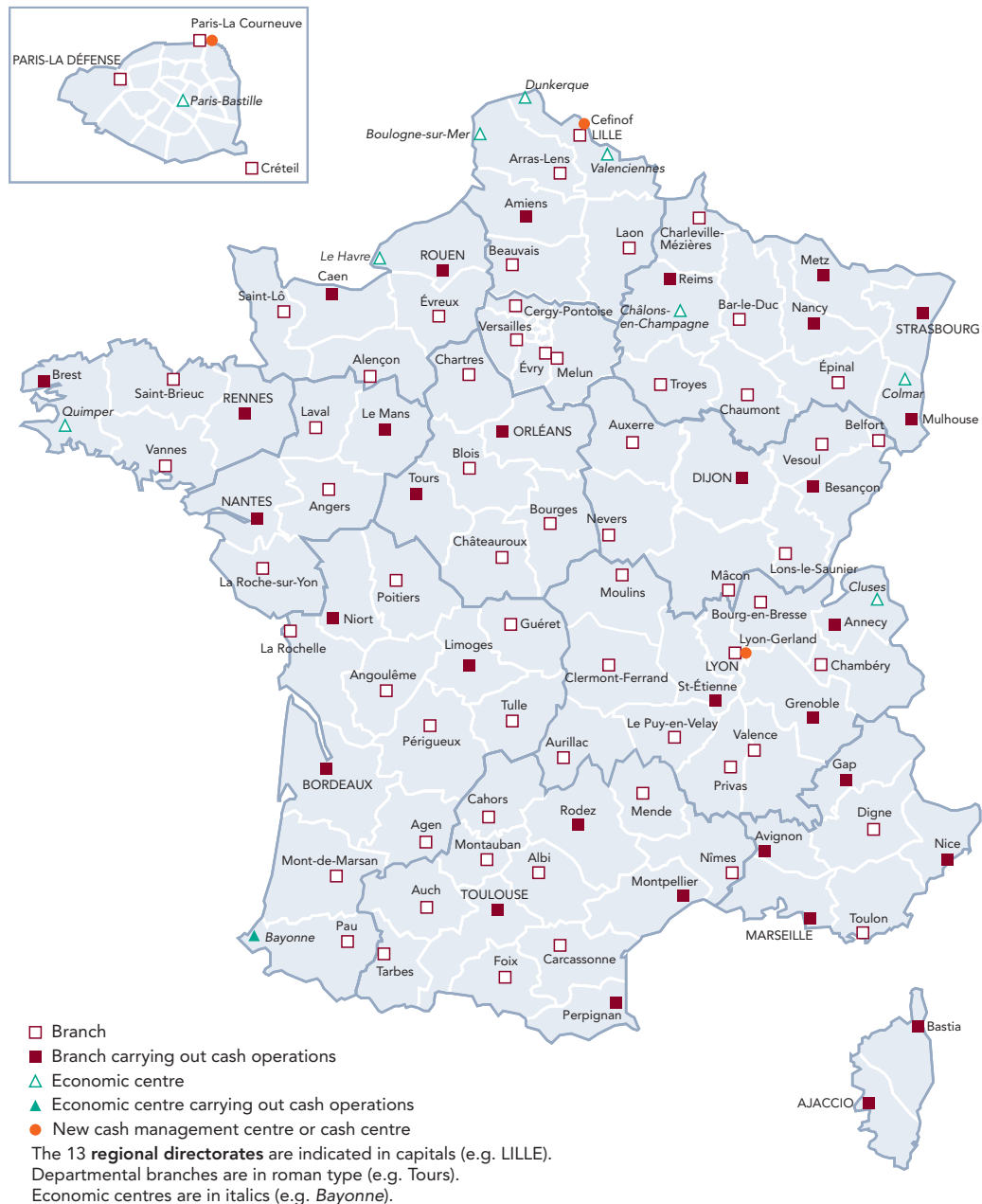
¹ The Governor chairs the Observatory for the Security of Payment Means and the Observatory for Banking Inclusion.

² Position held by Delphine Lescarcelle-Evin at the time of writing of this report.

³ The Director of Operations Risk and Compliance reports to both the Chair of the Risk Committee and the Director General Financial Stability and Operations.



THE BANQUE DE FRANCE BRANCH NETWORK AS AT 1 JANUARY 2021



APPENDIX 2

THE SCOPE

OF THE BANQUE DE FRANCE



The Law of 8 November 2016 on transparency, the fight against corruption and the modernisation of the economy transformed the *Institut d'émission des départements d'outre-mer* (IEDOM – the Delegated Central Bank for the French Overseas Departments and Territories) into a wholly-owned subsidiary of the Banque de France, with effect as of 1 January 2017. Its missions consist primarily in the provision of central bank functions to the French overseas departments and collectivities, under the aegis of the Banque de France.



Victoires Paiements was created on 22 May 2012 and is an economic interest grouping combining the Banque de France and the Caisse des Dépôts et Consignations (CDC). Its mission is to process retail payments (i.e. large volumes of small payments). The structure consists of a shared transaction processing platform, which allows the Banque de France and CDC to pool their investments and reduce costs. Flows between the two banks are also processed via the intrabank channel, outside the usual exchange systems.



Europafi was created on 27 October 2015 to set up a public paper manufacturing unit within the Eurosystem. The aim is to make the paper mill in Vic-le-Comte the leading publicly-owned producer of banknote paper in the euro area. Three central banks are shareholders alongside the Banque de France.



Created on 27 December 1995, BDF Gestion is the Banque de France's asset management subsidiary. It manages 38 collective investment schemes (dedicated, open to the public, employee savings), as well as a number of individual mandates for institutional investors.

APPENDIX 3

THE RECIRCULATION OF EURO BANKNOTES AND COINS BY PRIVATE OPERATORS IN 2020

Under Article L. 141-5 of the French Monetary and Financial Code, the Banque de France is tasked with maintaining the quality and fitness of the banknotes and coins in circulation within French national territory. Article R. 122-8 of the Code requires operators (credit institutions, cash-in-transit companies and retail sector operators) contributing to the processing and recirculation of banknotes that have not come from a Eurosystem central bank to sign an agreement with the Banque de France before undertaking such activities. At the end of 2020, 89 credit institutions had signed agreements with the Banque de France authorising them to recirculate banknotes to the public via customer operated machines; 148 operators had signed processing agreements setting out criteria for sorting banknotes; and 21 operators had signed an agreement authorising them to process coins.

The most common logistical set-up for distributing recirculated banknotes in 2020 was via bank ATMs replenished with banknotes recirculated by cash-in-transit firms.

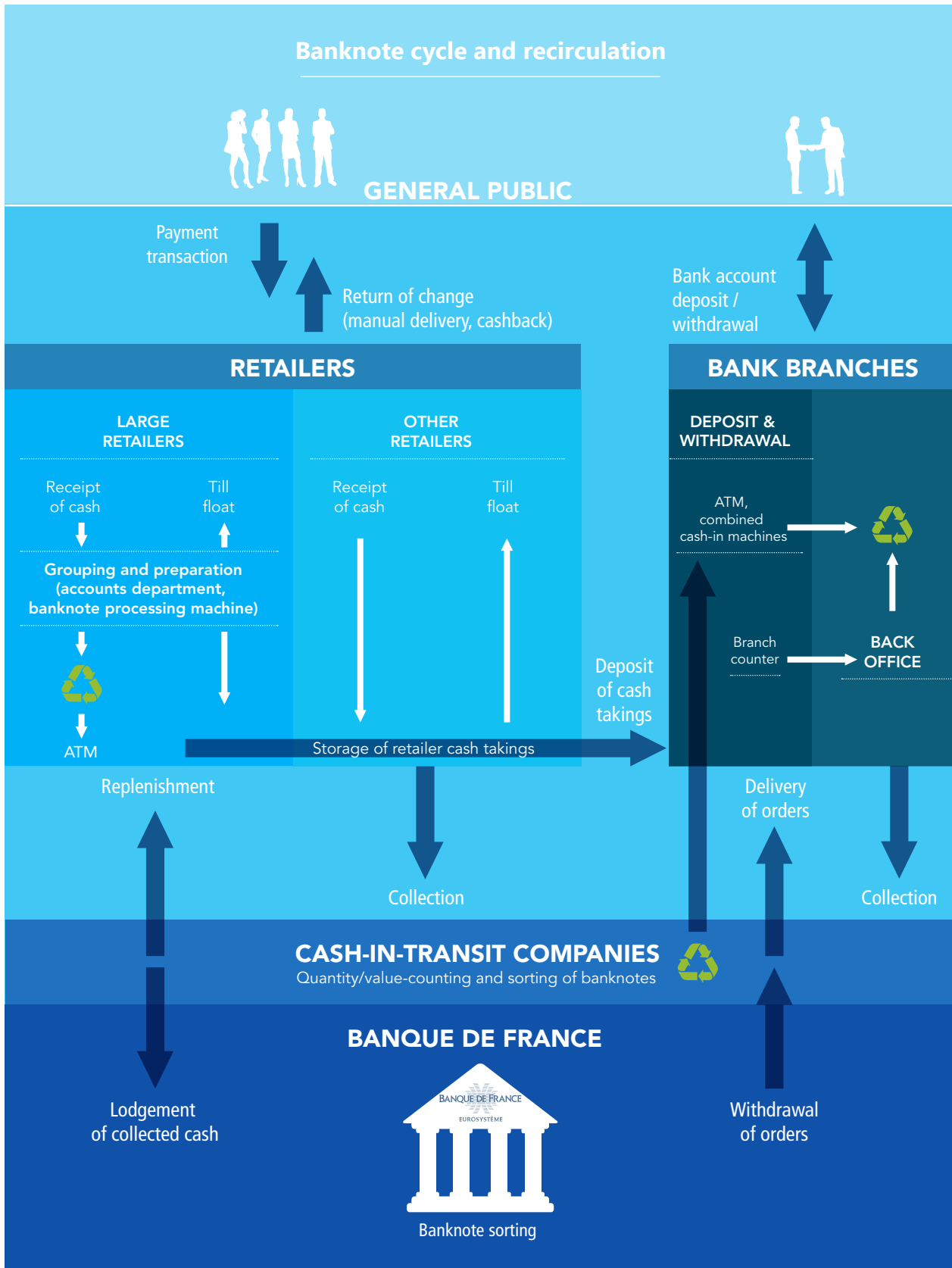
In the first half of 2020, 33.5% of the banknotes collected and recognised as valid by private operators (last known figures) were put back into circulation, representing a decrease of 1.9 percentage points compared with end-2019 (this development is due to

a change in methodology for calculating the recirculation rate). Of these, the share recirculated by cash-in-transit firms has stabilised since end-2019 at around half (53%), slightly higher than the proportion recirculated by credit institutions.

1

Banque de France inspections of operators

All operators processing banknotes that have not come from a central bank and recirculating them via cash machines are subject to inspections by the Banque de France. In 2020, the Bank carried out 398 on-site inspections of bank branches (244 fewer than in 2019, due to the health crisis) and workshops processing banknotes for customer-operated machines, of which 234 (i.e. 58.8% of inspections) were conducted entirely independently by staff from the branch network. Of the machines inspected, 11% were found to be non-compliant and required intervention by the manufacturers' maintenance teams. Across all the sites inspected (bank branches and cash centres), ten temporary suspensions of banknote handling machines were issued.



Agreements signed with private operators in 2020

Type of agreement	Type of operator	Number of agreements signed in 2020	Number of agreements terminated in 2020	Total number signed as at 31 December 2020
Coins				21
	Professional operators	0	0	11
	Non-professional operators	0	3	10
Banknotes				238
Distribution agreements	Credit institutions	1	0	89
Processing agreements	Credit institutions	0	0	56
	Cash-in-transit companies	0	0	8
	Retailers providing recirculation services	1	4	83
	Other professional cash-handlers	0	0	1

2

Banque de France inspections of coin-processing sites

In 2020, the Banque de France performed 17 on-site inspections of coin-processing sites.

3

Banknote recirculation and coin processing in the overseas departments

The Banque de France has charged the IEDOM with managing the recirculation activities of firms based in the overseas departments and collectivities. At the end of 2020, six agreements had been signed for the recirculation of banknotes via customer-operated machines, as well as six for the processing of banknotes. The IEDOM did not conduct any inspections at the 78 sites concerned, due to the health crisis. In addition, eight

agreements on automatic coin processing had been signed, covering a total of ten production sites. Two of these sites were inspected.

4

Banknote authentication training for bank employees

In accordance with the provisions of Article R. 122-6 of the Monetary and Financial Code, the Banque de France continued to assist banks in training their staff on the manual distribution of banknotes in branches. As part of this task, in 2020, it provided banknote authentication training to 331 banking sector employees.

APPENDIX 4

SUMMARY OF THE HOUSEHOLD DEBT COMMISSIONS' ACTIVITY REPORTS FOR THE YEAR 2020

In accordance with the provisions of Article R. 712-12 of the French Consumer Code, each Household Debt Commission draws up an annual activity report setting out the number of cases processed, the measures taken, the *type of debt involved* and the difficulties encountered. These reports are submitted to the Banque de France, which is responsible for summarising and disclosing them in its annual report.

1

New cases declined for the eighth consecutive year, falling well below the level in 1990

In 2020, the Household Debt Commissions received 108,731 overindebtedness applications. Overall, this represents a 24% decline relative to 2019. While a downward trend in the number of applications submitted has been observed for several years (–9% per year on average between 2014 and 2019), the decline recorded in 2020

is exceptionally steep. This atypical performance over the past year can largely be attributed to the health crisis. The overall downturn in 2020 encompasses contrasting infra-annual trends: applications plummeted in the first half-year, when the first lockdown brought submissions to a halt in mid-March, before gradually picking up from the summer to reach levels close to those observed over the same period in 2019. Applications submitted in December 2020 even slightly exceeded those recorded in December 2019.

The number of new cases in 2020 fell by 20,000 versus 2019, to a total of around 60,000, meaning that first-time applications were well below the levels seen at the start of the 2000s, and substantially lower than in 1990 when the overindebtedness procedure was first introduced.

Despite the health crisis, overindebted individuals were able to apply throughout 2020, including during periods of lockdown. Application processing also continued without interruption, thanks to the commitment of the departments and commissioners involved and the immediate implementation of remote access solutions to facilitate commission meetings.

Key data on the commissions' activity

(number of applications)

	2019	2020
Applications filed	143,080	108,731
<i>o/w resubmissions (%)</i>	44.35	44.66
Admissible applications	133,826	104,460
Non-admissible applications (A)	7,349	5,084
Directed towards a debt restructuring programme	75,469	59,186
Directed towards a personal recovery procedure	59,743	46,218
Directed towards a personal recovery procedure without judicial liquidation (B)	61,360	48,102
Agreement by the debtor to a personal recovery procedure with judicial liquidation (C)	1,147	459
Agreement on a debt repayment plan (D)	12,019	11,058
Measures imposed by the commissions (E)	62,073	50,206
<i>o/w measures imposed immediately</i>	54,905	44,224
Cases closed (F)	9,505	7,167
Cases handled (A + B + C + D + E + F)	153,453	122,076

Notes: An overview of the household overindebtedness procedure is provided in Appendix 2 of the 2020 Typological Survey (<https://particuliers.banque-france.fr/surendettement/etudes-sur-le-surendettement>).

The applications processed in a given year do not consist only of applications submitted that year, and all the applications submitted during the course of the year are not necessarily processed before 31 December of that year.

2

During the ongoing health crisis, moratoria negotiated with banks helped to prevent a rise in overindebtedness

A number of orders issued by the government in the spring of 2020 helped to limit the pandemic's impact on vulnerable populations by introducing a period of legal protection and measures to suspend the effects of termination clauses, extend the deadlines for appeals and disputes, and suspend enforcement procedures and evictions.

Furthermore, the Banque de France sought a consensus with the main lenders in the Paris financial centre to protect the interests of the most financially vulnerable populations. To this end, at the beginning of June it sent out a letter to over 500 creditors inviting them to accept applications from individuals subject to debt repayment plans for an extension of their payment deadlines. This resulted in completion dates for debt repayment plans being pushed back a month for every monthly repayment deferred and, importantly, it limited the number of reapplications filed in this crisis situation. The situation was in fact close to that of 2019, with reapplications representing 44.8% of cases in 2020, versus 44.1% the previous year.

The number of cases settled in 2020 (122,076) was naturally much lower than in 2019 (153,453), due to the fall in applications received in 2020.

The share of cases resulting in permanent solutions, personal recovery procedures and permanent debt rescheduling plans has been stable since 2018. It represents more than 76% of cases handled, versus 60% in 2014. The share of cases directed towards a personal recovery plan was virtually stable in 2020; it remained above 43% of cases handled, underscoring the extent of the social and personal difficulties that applicants find themselves in.

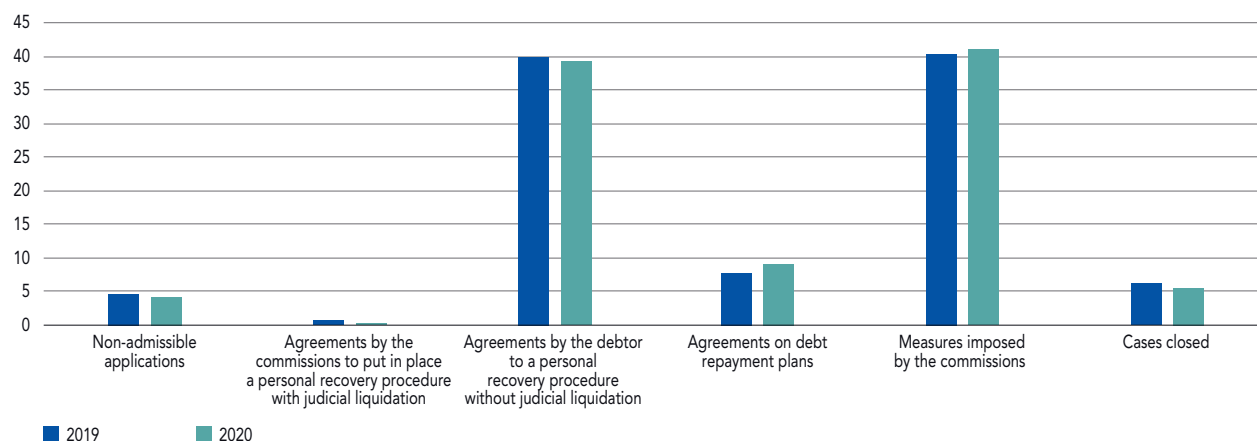
3

Legislative changes are making it possible to standardise the treatment of professional debt

Pursuant to Article 39 of Law No. 2020-734 of 17 June 2020 on various provisions related to the health crisis, other urgent measures and the United Kingdom's withdrawal from the European Union, the personal recovery procedure results in the complete write-off of all the personal and professional debts of the debtor concerned. These provisions amended Articles L. 741-2 and L. 742-22 of the French Consumer Code.

Breakdown of outcomes found for all applications processed

(% of total applications processed)



To determine the admissibility of an overindebtedness application, only non-professional debts due and falling due are taken into account. With confirmed cases of personal overindebtedness, while professional debts are not included in the assessment of the overindebtedness situation, they must be taken into account when deciding on the measures to be taken. This was already the case for cases directed towards measures imposed by the commission. Since the entry into force of Law No. 2020-734 of 17 June 2020, the personal recovery procedure, with or without judicial liquidation, also results in the write-off of all the individual's personal and professional debts.

4

A more accessible overindebtedness procedure

At the conference on 6 February 2020 marking the 30th anniversary of the overindebtedness procedure, the Governor, François Villeroy de Galhau, announced the Banque de France's intention to include online applications as part of its services for individuals and to clarify its letters on the overindebtedness procedure to make them easier for debtors to understand.

On 7 December 2020, the Banque de France began to accept *online applications for overindebtedness procedures*. This option was initially offered to individuals filing alone (with no joint applicants), who represent more than 75% of total cases.

Prior to that, applications had to be made by completing official paper forms (Cerfa forms) and posting them to the Banque de France or handing them in at one of its branches. This method can still be used. Online applications supplement the *submission methods available*, providing greater accessibility, flexibility, availability and simplicity. The security of the online process is ensured by requiring applicants to use their FranceConnect identifiers. Applying online is a highly flexible solution: forms can be completed in stages 24/7 using any computer, tablet or smartphone. Individuals have up to six months to complete and validate their application and attach the required supporting documents.

As at 31 December 2020, nearly 950 people had started the online application procedure and 440 had validated their forms and submitted them to the Banque de France for processing.

Alongside this innovation, the Banque de France clarified its letters regarding the overindebtedness procedure to make them easier for debtors to understand. This involved revising more than 20 standard letters, representing over 95% of

the correspondence sent to applicants, working closely with representatives of the social sector and associations in close contact with users experiencing difficulties.

5

Efforts to provide better social support have continued

Overindebted individuals are often very vulnerable and need better support and guidance throughout all stages of the debt resolution procedure.

The implementation of appropriate support structures has continued: 150 *Points conseil budget* (PCB – Budget Management Advice Offices) were set up in 2019, a further 250 members joined the scheme in 2020 and 500 more are expected to join by the end of 2021.

These structures should enable individuals in financial difficulty to be identified at an earlier stage and, in some cases, avoid the need to file an overindebtedness application. The PCBs can provide advice on how to better manage the household budget, and inform individuals of their rights. Individuals can sometimes be unaware of some social support schemes.

There is also a need to provide greater support throughout the overindebtedness procedure, as the commissions noted that applicants sometimes had difficulty understanding the different steps and even the letters received from the commissions. It was also fairly common for debtors not to know exactly how much debt they owed, as new debts were often declared after the procedure had been opened.

Support needs to be provided right up to the end of the procedure, to make it easier to implement measures with creditors and avoid resubmissions being made almost immediately due to a failure by the applicant to understand his/her role and responsibilities at this final stage.

In order to fulfil their mission as effectively as possible, the PCBs must meet a set of specifications that detail the expertise they need to acquire. As part of its missions of managing household overindebtedness and financial inclusion, the Banque de France participates in PCB steering committees and, via its network, provides information and directs potential users to these services.

All the information on overindebtedness and financial inclusion procedures, such as the right to access banking services, the “specific offering” and the capping of payment incident charges, are available in the “*personal area*” of the *Banque de France website*. This section also includes online services, such as filing overindebtedness applications, requesting access to banking services and submitting questions.

In addition, as part of its mission to educate the general public on economic, budgetary and financial matters, the Banque de France provides training sessions on many of the themes defined in the PCB specifications, including overindebtedness and banking inclusion.

6

Stakeholders in the procedure took major steps to improve economic and financial literacy among the general public

Despite the health crisis, educational and training campaigns to improve economic, budgetary and financial literacy continued across the country in 2020, in particular through webinars.

The educational resources made available to Banque de France branches help to keep social actors better informed, thus facilitating their role of supporting financially vulnerable people and their efforts to combat overindebtedness.

In total, the commissions met more than 8,500 social actors and representatives of welfare groups, social action centres, family benefits offices, consumer or family associations and charities in 2020, to advise them on how to better guide individuals with their overindebtedness applications and throughout the procedure.

A new training module focusing mainly on online overindebtedness applications has been available to social actors since December 2020.

The financial support measures introduced by the government and public authorities in 2020 are set out on the *Mes questions d'argent* internet portal to provide information for the general public affected by the health crisis.

Regular communication with magistrates remains vital

In 2020, virtually all the commissions held at least one meeting with the district court judges or registrars in their region with a view to harmonising practices and finding appropriate solutions for the overindebted. These meetings, together with regular informal reviews, also provided an opportunity to discuss the procedures for handling cases during the health emergency and the implications of the ordinances issued in the spring, in particular concerning deadlines for appeals and disputes.

The commissions noted that they still encountered difficulties in implementing personal recovery procedures with judicial liquidation. Despite the recruitment of a few legal representatives in certain districts, the procedures remain very lengthy overall.

Some commissions highlighted the risk that imposed measures might be wrongly approved if the decision was appealed or challenged directly via the court, without informing the commissions.

Coordination between insolvency proceedings and the overindebtedness procedure remains a real source of difficulty, particularly for individuals who, due to their professional status, are subject to bankruptcy proceedings governed by the French Commercial Code, even though they have only personal debt. The courts frequently refuse to open commercial bankruptcy proceedings or a professional recovery procedure in these cases, as the individual in question, who is not eligible for the overindebtedness procedure, has no professional debts. This can also occur in the case of individuals who have ceased their business activity but have outstanding social security debts (to the social security scheme for self-employed workers): the debts are deemed to be professional under the overindebtedness procedure, but are classified as personal by the courts for the purposes of commercial bankruptcy proceedings. Work carried out with social security organisations, the *Agence centrale des organismes de sécurité sociale* (ACOSS) and the *Mutualité sociale agricole* (MSA), established that these bodies share a similar point of view on this matter. Common terminology and wording was subsequently disseminated to all branches at the national level, opening up the possibility of processing these debts as part of the

procedure while protecting the debtor's ability to recover their pension rights should their unpaid contributions be settled, or even written off.

The procedure is now deemed to be balanced, but it is still important to monitor how it is implemented and adopted by the parties involved

The commissions are continuing to encounter difficulties with the complexity or specific features of certain cases, especially those involving professional debts, the division of property (usufruct, bare ownership), or the valuation of shares in *sociétés civiles immobilières* (SCI – real estate investment companies). Similarly, it can be hard to measure the precise impact of a request to sell a property with a low value or that is located in an undesirable area, or to fully appreciate the effect of rehousing the debtor, particularly since debtors sometimes challenge the decision taken by the commission. In addition, applicants are increasingly seeking detailed explanations of the standard amounts and methods used to calculate their ability to repay their debt. Some are reluctant to tighten their budgets and fail to understand the benefits of social support. Notaries and lawyers also regularly question the commissions, suggesting that they are not completely familiar with the procedure and are unaware that the information involved may be subject to professional secrecy.

The commissions also highlighted issues in dealing with cases where debt recovery has been outsourced to a specialised agency – in particular a failure by these agencies to suspend proceedings while the overindebtedness application is being examined. In cases where debts have been sold, the commissions also noted that it is sometimes difficult to identify the exact owner of the claim. The increasing digitalisation of information exchanges with creditors is also leading to occasional errors, as users are still adapting to the new systems. Similarly, particular vigilance is required when these regular upgrades are accompanied by changes to the exchange protocol.

One area that still needs to be monitored closely is the referral of cases for a personal recovery procedure without judicial liquidation, which can result in a complete write-off of debts. Some creditors, whether or not they are mentioned in the application, ignore the debt write-off ruling and

resume their debt recovery procedure regardless. Similarly, some debtors had stopped paying their day-to-day expenses in the belief that these debts would be written off under the procedure.

Finally, taking account of underlying changes in society and modes of consumption will have to be considered: dual employment (where individuals combine a job contract with self-employment, or retirement with self-employment); alternation between periods of temporary work, unemployment and training; presence among debts of long-term lease contracts or lease purchase arrangements, where a vehicle repossession can pose a threat to the debtor's job. In the most precarious cases, the only possible response under the procedure is to write off unpaid day-to-day expenses as part of successive personal recovery procedures.

The continuity plan implemented by the Banque de France from the first days of the March 2020 lockdown to ensure that meetings of the commissions continued to be held and applications continued to be processed worked well overall. The points requiring vigilance raised by the commissions relate to difficulties encountered by some applicants in putting together their submissions, particularly due to support from a social worker being temporarily discontinued, and to the suspension of court activity during this same period.

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Banque de France
Press and Communication Directorate

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July 2021

ISSN 1240-6813

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