

FEDERAL RESERVE SYSTEM

The Desjardins Group
Montreal, Canada

Federation des caisses Desjardins du Quebec
Levis, Canada

La Caisse centrale Desjardins du Quebec
Montreal, Canada

Desjardins FSB Holdings, Inc.
Wilmington, Delaware

Order Approving the Formation of Bank Holding Companies

The Desjardins Group, Montreal; Federation des caisses Desjardins du Quebec, Levis (“The Federation”); La Caisse centrale Desjardins du Quebec, Montreal (“CCD”), all in Canada; and Desjardins FSB Holdings, Inc., Wilmington, Delaware (“Desjardins Holdings”), have requested the Board’s approval under section 3 of the Bank Holding Company Act (12 U.S.C. § 1842) (“BHC Act”) to become bank holding companies. Applicants propose to convert their wholly owned subsidiary federal savings bank, Desjardins Federal Savings Bank, Hallandale, Florida (“Desjardins FSB”), to a national bank that would operate as Desjardins Bank, N.A. (“Desjardins Bank”), also in Hallandale.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (68 Federal Register 39,091 (2003)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

The Desjardins Group is a cooperative network of financial institutions operating primarily in the province of Quebec, Canada, that functions in many respects as a single financial organization. It includes approximately 750 depository institutions (“caisses”); the Federation and CCD, also depository institutions under Quebec law; and nonbanking companies engaged in securities, asset management, and insurance activities in Canada. Quebec law controls the structure and supervision of the Desjardins Group, The Federation and CCD, and the caisses.

The caisses are autonomous depository institutions chartered as savings and credit cooperatives and are required by Quebec law to be members of The Federation.¹ Together, the caisses control all the shares of The Federation, and the boards of directors of The Federation are elected by the caisses.² Quebec law requires The Federation to act as the coordinating and supervisory body for all the caisses. The Federation is responsible for the auditing and inspection of the caisses and is the regulatory authority for the caisses, particularly with respect to their capital adequacy, general reserves, liquid assets, and credit and investment activities. The Federation also is the holding company for CCD and the nonbanking companies of the Desjardins Group. CCD primarily provides clearing services and funding for the caisses

¹ The principal activity of the caisses is accepting deposits from members of the caisses and investing in designated assets, including extensions of credit to those members, primarily through mortgage loans. Membership is typically based on geographical areas or common workplaces or professions.

² Approximately 80 of the 750 caisses are located outside Quebec and are auxiliary, nonvoting members of The Federation.

and The Federation, and it directly holds all the shares of Desjardins Holdings, the parent company of Desjardins FSB.

The Desjardins Group prepares consolidated financial statements and has total consolidated assets equivalent to approximately \$67 billion. It is the largest financial organization in Quebec and the sixth largest in Canada.³ Desjardins Bank would be the 200th largest banking organization in Florida, controlling total deposits of \$74.6 million, which represents less than 1 percent of total deposits in depository institutions in the state.⁴ On consummation of the proposed conversion, the Desjardins Group would be a qualifying foreign banking organization.

Competitive and Convenience and Needs Considerations

The BHC Act prohibits the Board from approving an application under section 3 of the BHC Act if the proposal would result in a monopoly. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effects of the proposal in meeting the convenience and needs of the community to be served.⁵

The proposal involves a charter conversion from a savings association to a bank. The proposed charter conversion would result in neither

³ Asset data are as of June 30, 2003, and are based on exchange rates then in effect.

⁴ Deposit and ranking data are as of June 30, 2002. In this context, depository institutions include commercial banks, savings banks, and savings associations.

⁵ 12 U.S.C. § 1842(c).

an expansion of operations nor the acquisition of an additional depository institution in the United States. Based on all the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market, and that competitive considerations are consistent with approval.

The Board also is required to consider the convenience and needs of the community to be served by the depository institutions involved in a proposal, including their records of performance under the Community Reinvestment Act (“CRA”).⁶ Desjardins FSB received an “outstanding” CRA performance rating from the Office of Thrift Supervision (“OTS”) at its most recent examination, as of September 2001. Based on this rating and other facts of record, the Board concludes that considerations related to the convenience and needs of the communities to be served are consistent with approval of this proposal.

Financial, Managerial, and Supervisory Considerations

The BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in a bank acquisition proposal. In assessing the financial and managerial strength of the Desjardins Group and its affiliates, the Board has reviewed information concerning the proposal and the condition of the Desjardins Group and the entities that comprise the Desjardins Group, including information described below, from the appropriate home country authority that supervises the Desjardins Group, The Federation, and CCD; financial information from the

⁶ 12 U.S.C. § 2901 et seq.

Desjardins Group, The Federation, CCD, Desjardins Holdings, and Desjardins FSB; and reports of examination from the OTS assessing the financial and managerial resources of the organizations' U.S. operations. The Desjardins Group's capital levels exceed the minimum levels that would be required under the Basel Capital Accord and are considered equivalent to the capital levels that would be required of a United States banking organization under similar circumstances. Based on all the facts of record, the Board concludes that the financial and managerial resources and future prospects of the organizations involved in this proposal are consistent with approval.

Section 3 of the BHC Act also provides that the Board may not approve an application involving a foreign bank unless the bank is "subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in the bank's home country."⁷ As provided in Regulation Y, the Board determines whether a foreign bank is subject to consolidated home country supervision under the standards set forth in Regulation K.⁸ The Board's Regulation K provides that a foreign bank may be considered to be subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the home country supervisor receives sufficient information on the foreign bank's worldwide operations, including the bank's relationship to any affiliate, to assess the bank's overall

⁷ 12 U.S.C. § 1842(c)(3)(B).

⁸ 12 C.F.R. 225.13(a)(4).

financial condition and compliance with law and regulation.⁹ For purposes of the proposal, this determination is being made for The Federation and CCD.

The Inspector General of Financial Institutions in Quebec, an agency official under the jurisdiction of Quebec's Ministry of Finance, is the supervisor for The Federation and CCD.¹⁰ In this capacity, the Inspector General directly supervises and examines The Federation and CCD and oversees The Federation's direct supervision and examination of the caisses. The Inspector General is responsible for developing regulations to govern The Federation and CCD, and The Federation, with the concurrence of the Inspector General, is responsible for developing standards for the caisses. Prudential

⁹ In making this determination, the Board considers, among other factors, the extent to which the home country supervisor: (a) ensures that the bank has adequate procedures for monitoring and controlling its activities worldwide; (b) obtains information on the condition of the bank and its subsidiaries and offices outside the home country through regular reports of examination, audit reports, or otherwise; (c) obtains information on the dealings and relationships between the bank and its affiliates, both foreign and domestic; (d) receives from the bank financial reports that are consolidated on a worldwide basis, or comparable information that permits analysis of the bank's financial condition on a worldwide, consolidated basis; (e) evaluates prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. See 12 C.F.R. 211.24(c)(1)(ii).

¹⁰ As noted above, Quebec law governs the establishment, operation, and activities of the caisses, The Federation, and CCD. These entities are supervised by the Inspector General, and Canada's federal supervisor of financial institutions, the Office of the Supervisor of Financial Institutions ("OSFI"), has no role in supervising the caisses, The Federation, or CCD. Certain of the nonbanking subsidiaries in the Desjardins Group, however, are regulated by both OSFI and the authorities of the various Canadian provinces in which they operate.

regulations and standards address capital adequacy,¹¹ asset classification and provisioning, single-borrower exposures, liquidity, equity investments, and transactions with affiliates.¹² Quebec law vests the Inspector General with a range of enforcement powers to ensure compliance with these regulations and standards.¹³

The Inspector General conducts annual on-site examinations of The Federation and CCD that include risk management systems, financial condition, policies and practices, internal control systems, and regulatory compliance. The examinations of The Federation also include an assessment of its responsibility for supervising and auditing the caisses. The examinations of CCD focus on asset quality, earnings, capital, and information systems. The Inspector General

¹¹ Quebec law requires the Desjardins Group on a consolidated basis to meet Basel capital guidelines as set forth by the Inspector General, which require a total risk-based capital ratio of 8 percent. The caisses have agreed to maintain CCD's total risk-based capital ratio at 8.5 percent and its capital-to-liabilities ratio at a minimum of 5 percent, whichever is higher. Each caisse is required by The Federation to maintain capital levels at least equal to the greater of 5.5 percent of growth assets or 8.8 percent of risk-weighted assets.

¹² Regulations and standards generally require that transactions with affiliates be on arm's-length terms.

¹³ As of February 1, 2004, the entities of the Desjardins Group supervised by the Inspector General will be supervised by a newly created single financial regulator, the National Agency for Regulation of the Financial Sector. This entity was created under a Quebec statute enacted in December 2002 that mandates the merger of five administrative bodies, including the Inspector General, into a new agency under the auspices of the Quebec Ministry of Finance. The functions now performed by the Inspector General will be performed by the Solvency Regulation Directorate, one of seven directorates that will report to the new agency head. Inspector General personnel are to be transferred to the new agency.

may conduct additional targeted examinations of The Federation or CCD as the Inspector General deems necessary.

The Federation and CCD provide the Inspector General with annual financial statements. In addition, The Federation files with the Inspector General quarterly reports on its capital adequacy and liquidity, as well as financial results on a stand-alone basis and as consolidated with the caisses. CCD also files with the Inspector General quarterly reports on related-party and affiliate transactions.

The Bureau of Supervision and Financial Security, a bureau in The Federation, evaluates the operations and financial condition of the caisses through on-site examinations and off-site reviews. On-site examinations of each caisse are conducted at least every 18 months and focus on a review of financial policies and practices, asset quality and capital adequacy, management, internal control systems, and compliance with governing laws and standards. Examination results are reported to the Inspector General and to the board of directors of the caisse. The Federation also receives periodic reports from each caisse, including information relating to interest-rate-risk exposure, major loans and other significant risks acquired by the caisse, loan loss provision, credit management, and annual and monthly financial statements. Inspector General and Federation representatives meet periodically to discuss financial and supervisory information on the caisses.

The Federation oversees and coordinates the operations of all the entities that comprise the Desjardins Group in various other ways, including director interlocks, policies and procedures, regular internal reporting requirements, conduct of internal audits, reviews of internal and external audit results, and on-site examinations. The Federation uses and would continue to use these means for overseeing the activities and operations of Desjardins Bank.

The Federation establishes internal audit policies, procedures, and plans for the entities that comprise the Desjardins Group, which are subject to review by the Inspector General. An office of the Bureau of Supervision and Financial Security conducts audits of the caisses, verifying financial statements and assessing, among other things, the adequacy of internal controls. Another office of the bureau audits The Federation and ensures that the activities, products, and services of the Desjardins Group's entities are consistent with The Federation's operational and strategic plans. CCD and the nonbanking subsidiaries of The Federation have their own internal auditors. All internal audit results are provided to the Inspector General. In addition, The Federation provides the Inspector General with periodic reports on the activities of auditing staff.

The Desjardins Group, The Federation, and CCD also undergo annual external audits. External auditors must be members in good standing of a professional association of accountants and must comply with the auditing standards of the Canadian Institute of Chartered Accountants. External auditors must attest to the accuracy of financial statements and report on situations or transactions contrary to sound and prudent management or applicable laws or regulations. All external audit results are provided to the Inspector General. External auditors, internal auditors, and Inspector General representatives meet periodically to share information.

The Inspector General assesses the Desjardins Group through its direct supervision of The Federation and CCD and through a review of information, including examination reports, developed by The Federation on the individual caisses. The Desjardins Group regularly provides the Inspector General with financial information, on a consolidated and unconsolidated basis, as well as with a copy of the Desjardins Group's annual report and business

plans, bylaws, and similar corporate information on entities comprising the Desjardins Group.

The Inspector General has direct supervisory responsibility for the insurance and trust subsidiaries of The Federation. The securities-related subsidiaries are supervised by a separate Quebec securities regulator. For purposes of supervising The Federation, the Inspector General may examine or investigate any subsidiary of The Federation, if deemed necessary, and has the authority to require special audits and may appoint an external auditor. The Inspector General shares supervisory information with other regulators that exercise jurisdiction over the subsidiaries of The Federation.

For the reasons set forth above, and based on all the facts of record, the Board concludes that The Federation and CCD are subject to comprehensive supervision on a consolidated basis by their home country supervisors, and that supervision of the Desjardins Group is consistent with approval.

Section 3 of the BHC Act also requires the Board to determine that a foreign bank has provided adequate assurances that it will make available to the Board such information on its operations and activities and those of its affiliates that the Board deems appropriate to determine and enforce compliance with the BHC Act.¹⁴ The Board has reviewed the restrictions on disclosure in relevant jurisdictions in which the entities that comprise the Desjardins Group operate and has communicated with relevant government authorities concerning access to information. In addition, the Desjardins Group, The Federation, and CCD have committed to make available to the Board such information on the operations of the Group, including all affiliated entities, that the Board deems

¹⁴ See 12 U.S.C. § 1842(c)(3)(A); 12 C.F.R. 225.13(a)(3).

necessary to determine and enforce compliance with the BHC Act and other applicable federal law and to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable these entities to make such information available to the Board. In addition, subject to certain conditions, the Inspector General may share information on the Desjardins Group's operations with other supervisors, including the Board.

In light of the commitments provided by the Desjardins Group, The Federation, and CCD, and other facts of record, the Board concludes that the Desjardins Group has provided adequate assurances of access to any necessary information the Board may request. For these reasons, and based on all the facts of record, the Board concludes that the supervisory factors it is required to consider under section 3(c)(3) of the BHC Act are consistent with approval.

Conclusion

Based on the foregoing, the Board has determined that the applications should be, and hereby are, approved. In reaching this conclusion, the Board considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes.

The Board's approval is conditioned on compliance by the Desjardins Group, The Federation, CCD, and Desjardins Holdings with all commitments made in connection with the applications, and specifically the commitments on access to information and on the Board's receiving access to information on the operations or activities of the Desjardins Group and the entities that comprise the Desjardins Group that the Board determines to be appropriate to determine and enforce compliance with applicable federal statutes. All the commitments and conditions on which the Board has relied in granting its approval, including the commitments and conditions specifically described above, are conditions imposed in writing by the Board in connection

with its findings and decisions and, as such, may be enforced in proceedings under applicable law.

The transaction shall not be consummated before the fifteenth calendar day after the effective date of this order or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Atlanta, acting pursuant to delegated authority.

By order of the Board of Governors,¹⁵ effective December 4, 2003.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁵ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn