

FEDERAL RESERVE SYSTEM

Treetops Acquisition Group LP

Treetops Acquisition Group Ltd.

Treetops Acquisition Group II LP

Treetops Acquisition Group II Ltd.

All in Grand Cayman, Cayman Islands

Edgar M. Bronfman IDB Trusts A through G
Quebec, Canada

Cam-Discount, Ltd.
Grand Cayman, Cayman Islands

Order Approving the Formation of Bank Holding Companies
and Acquisition of a Bank

Treetops Acquisition Group LP (“Treetops LP”), Treetops Acquisition Group Ltd. (“Treetops Ltd.”), Treetops Acquisition Group II LP (“Treetops II LP”), Treetops Acquisition Group II Ltd. (“Treetops II Ltd.”), Edgar M. Bronfman IDB Trusts A through G (“EMB IDB Trusts”), and Cam-Discount, Ltd. (“Cam-Discount”) (collectively, “Applicants”) have requested the Board’s approval under section 3 of the Bank Holding Company Act¹ (“BHC Act”) to become bank holding companies, acquire up to 51 percent of the voting shares of Israel Discount Bank Ltd., Tel Aviv, Israel (“IDB”),² a foreign bank that is a

¹ 12 U.S.C. § 1842.

² The State of Israel currently owns 57 percent of the voting shares of IDB through M.I. Holdings; the remaining outstanding shares are publicly traded on the Tel Aviv Stock Exchange. In 2004, M.I. Holdings established a formal bidding process for privatizing a portion of its ownership interest in IDB. Treetops LP and Treetops II LP were the successful bidders in the privatization process and on February 1, 2005, the State of Israel entered into an agreement with the Applicants to sell 26 percent of the shares of IDB to the Applicants and to grant the Applicants

bank holding company within the meaning of the BHC Act, and acquire control of Israel Discount Bank of New York (“IDBNY”), New York, New York.³

Notice of the proposal, affording interested persons an opportunity to comment, has been published (70 Federal Register 20,373 (2005)). The time for filing comments has expired, and the Board has considered the applications and all comments received in light of the factors set forth in section 3 of the BHC Act.

IDB, with total consolidated assets of approximately \$33 billion, is the third largest banking organization in Israel. IDBNY is the 79th largest depository organization in the United States, with total U.S. assets of \$8.7 billion. It controls approximately \$3.5 billion in deposits, which represents less than 1 percent of the total amount of deposits of insured depository institutions in the United States.⁴

In considering the factors required to be reviewed under the BHC Act in this case, the Board has had extensive consultations with the New York State

an option to acquire an additional 25 percent of IDB’s shares. Treetops LP and Treetops II LP would own 60 percent and 40 percent, respectively, of the Applicants’ proposed total investment in IDB. Treetops Ltd. and Treetops II Ltd. are general partners of Treetops LP and Treetops II LP, respectively. The seven EMB IDB Trusts each owns 6.45 percent of the limited partnership interests of Treetops LP and owns the same percentage of the voting shares of Treetops Ltd. Cam-Discount is the only shareholder of Treetops II Ltd. As a result, on consummation of the proposal, Treetops LP, Treetops II LP, Treetops Ltd., Treetops II Ltd., Cam-Discount, and the EMB IDB Trusts would all be considered to control IDB. Each of the Applicants would be a qualifying foreign banking organization under Regulation K. See 12 CFR 211.23.

³ IDB is a foreign bank within the meaning of the International Bank Act (“IBA”). 12 U.S.C. § 3101(7). IDB indirectly holds all the shares of IDBNY through a wholly owned subsidiary bank holding company, Discount Bancorp, Inc., Wilmington, Delaware.

⁴ Worldwide asset and ranking data are as of December 31, 2004. U.S. asset and deposit data are as of September 30, 2004, and national ranking is as of June 30, 2004. The data and rankings are adjusted to reflect exchange rates then in effect.

Banking Department (“NYSBD”) and the Federal Deposit Insurance Corporation (“FDIC”), the primary supervisors of IDBNY, about this proposal and the financial and managerial resources, risk-management systems, and compliance efforts and programs of IDBNY, including those involving Bank Secrecy Act/anti-money-laundering (“BSA/AML”) compliance. The Board also has consulted with the Israeli Supervisor of Banks regarding the structure, financing, and timing of the proposal. The Board has taken account of the fact that this proposal represents the privatization of a foreign bank after an extensive bidding process conducted by a foreign government. The Board has also considered the time schedule imposed on this transaction by the privatization process in Israel and by the purchase contract between the State of Israel and Applicants, which contemplates completion of the privatization during 2005.

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has considered carefully these factors in light of all the facts of record, including confidential reports of examination, other supervisory information received from the international, federal, and state banking supervisors of the organizations involved, publicly reported and other financial information, and information provided by the Applicants.

In evaluating the financial factors in proposals involving the formation of new bank holding companies, the Board reviews the financial condition of both the applicants and the target depository institutions. The Board also evaluates the financial condition of the pro forma organization, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

IDB NY is well capitalized and would remain so on consummation of the proposal, and the capital levels of IDB would continue to exceed the minimum levels that would be required under the Basel Capital Accord. Furthermore, IDB's capital levels are considered equivalent to the capital levels that would be required of a U.S. banking organization and would remain so after consummation of this proposal. The proposed transaction would be funded from cash and promissory notes, and Applicants have sufficient resources to effect the transaction as proposed. In addition, Applicants have represented that they were formed solely to hold this investment in IDB and that they will not engage in activities other than holding the shares of IDB.

The Board also has considered the managerial resources of IDB and IDB NY and the effect of the proposal on these resources. In reviewing the proposal, the Board has assembled and considered a broad and detailed record that includes the supervisory experience of the other relevant banking supervisory agencies with the organizations and their records of compliance with applicable banking laws. In particular, the Board has reviewed the assessments of the organizations' management and risk-management systems by the FDIC and the NYSBD, the primary regulators of IDB NY. In addition, the Board has reviewed confidential supervisory information on the anti-money-laundering programs at IDB and IDB NY, including the assessment of those programs by the relevant federal supervisory agencies, state banking agencies, and the Bank of Israel.⁵

⁵ The Board notes that Israel has substantially modified and strengthened its legal framework to combat money laundering since 2001, thereby addressing deficiencies that had been noted previously by the Financial Action Task Force, an intergovernmental body that develops and promotes policies to combat money laundering. In 2004, the Israeli Parliament adopted additional legislation to enhance Israel's ability to combat terrorist financing and to cooperate with other countries on such matters.

The Board has also considered that, on December 16, 2005, IDBNY entered into consent cease and desist orders issued by the NYSBD and the FDIC which obligate it to remedy deficiencies in compliance, internal controls, and risk-management practices, including deficiencies with respect to BSA/AML compliance. The orders require IDBNY to establish enhanced due diligence with respect to customer accounts, institute new policies and procedures to ensure compliance with BSA/AML requirements, undertake a detailed review of existing customer accounts to determine whether any should be closed, and review customer account information on an annual basis. IDBNY must also submit to the regulators a plan designed to ensure compliance with the terms of the consent orders. In addition, IDBNY has entered into a settlement and cooperation agreement with the New York County District Attorney (“NYCDA”) relating to these deficiencies. This agreement obligates IDBNY to comply fully with the consent orders issued by the FDIC and the NYSBD. In connection with these actions, the various authorities have indicated that IDBNY may also be subject to money penalties of up to \$25 million.⁶

The Board has reviewed the proposals by IDBNY and IDB to address these matters. The Board also has considered the plans and abilities of Applicants to address these matters and has relied on commitments made by Applicants and IDB to cause IDBNY to correct deficiencies identified by any state or federal regulator, and to work to ensure that IDBNY will in the future remain in compliance with U.S. laws and regulations. As noted, the Board also has consulted with the NYSBD and the FDIC about the proposed transaction, and neither agency objected to the proposal.

⁶ The various authorities that may assess the penalties are the NYSBD, the FDIC, the NYCDA, and the U.S. Department of the Treasury’s Financial Crimes Enforcement Network.

Based on these and all other facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval, as are the other supervisory factors under the BHC Act.

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 The Supervisor of Banks, who heads the Banking Supervision Unit of the Bank of Israel, is the primary regulator of Israeli banks, including IDB. The Board has previously determined in an application under the BHC Act involving Bank Hapoalim B.M., Tel Aviv, that Bank Hapoalim was subject to comprehensive consolidated supervision by the Supervisor of Banks.⁸ In this case, the Board has determined that IDB is supervised on substantially the same terms and conditions as Bank Hapoalim. Based on all the facts of record, the Board has concluded that IDB is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisor.⁹

⁷ 12 U.S.C. § 1842(c)(3)(B). Under Regulation Y, the Board uses the standards enumerated in Regulation K to determine whether a foreign bank is subject to consolidated home country supervision. See 12 CFR 225.13(a)(4). Regulation K provides that a foreign bank will be considered subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the bank is supervised or regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the bank, including its relationship with any affiliates, to assess the bank’s overall financial condition and its compliance with laws and regulations. See 12 CFR 211.24(c)(1).

⁸ See Bank Hapoalim B.M., 87 Federal Reserve Bulletin 327 (2001).

⁹ As a condition of approving the acquisition of IDB, Israeli law requires Applicants to obtain prior approval for any changes in the holding company

In addition, section 3 of the BHC Act requires the Board to determine that an applicant 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.¹⁰ The Board has reviewed the restrictions on disclosure in the relevant jurisdictions in which the Applicants and IDB operate and has communicated with relevant government authorities concerning access to information. In addition, the Applicants have committed to make available to the Board such information on the operations of IDB and its affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act, the IBA, and other applicable federal law. The Applicants also have committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable IDB and its affiliates to make such information available to the Board. In light of the Board's review of the restrictions on disclosure and these commitments, the Board concludes that the Applicants have provided adequate assurances of access to any appropriate information the Board may request. Based on these and all other facts of record, the Board has concluded that the supervisory factors it is required to consider are consistent with approval.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant banking market. Section 3 also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market

structure and prohibits the holding companies from conducting activities other than holding the shares of IDB.

¹⁰ See 12 U.S.C. § 1842(c)(3)(A).

unless the Board finds that the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.¹¹

This proposal involves only the formation of new bank holding companies. Applicants are all newly organized entities that do not control any depository institutions in the United States. Accordingly, the Board concludes, based on all the facts of record, 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.

Convenience and Needs Considerations

In acting on this proposal, the Board also is required to consider the effects of the transaction on the convenience and needs of the communities to be served and to take into account the records of the relevant insured depository institutions under the Community Reinvestment Act (“CRA”).¹² An institution’s most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution’s overall record of performance under the CRA by its appropriate federal supervisor.¹³

The Board has considered carefully the convenience and needs factor and the CRA performance record of IDBNY in light of all the facts of record. As provided in the CRA, the Board has evaluated the convenience and needs factor

¹¹ 12 U.S.C. § 1842(c)(1).

¹² 12 U.S.C. § 2901 *et seq.*

¹³ See Interagency Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620 and 36,639 (2001).

in light of the evaluations by the appropriate federal supervisor of the CRA performance record of IDBNY. IDBNY received an “outstanding” rating at its most recent CRA performance evaluation by the FDIC, as of December 1, 2004. Applicants have indicated that after consummation of the proposal, they expect to continue the CRA and lending programs at IDBNY and, as appropriate, to consider expanding the lending activities and broadening the range of deposit and other customer services of the bank to provide additional services to the community that IDBNY serves.

Based on these and all the facts of record, the Board concludes that considerations relating to the convenience and needs factor, including the CRA performance record of IDBNY, are consistent with approval.

Conclusion

Based on the foregoing and all facts of record, the Board has determined that the applications should be, and hereby are, approved. In reaching its conclusion, the Board has 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 specifically conditioned on compliance by the Applicants with the conditions imposed in this order; the commitments made to the Board in connection with the applications, including commitments made by IDB; and receipt of all other regulatory approvals, including approvals by the NYSBD and the Israeli Supervisor of Banks. For purposes of this action, these conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The proposed transaction may 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 the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors,¹⁴ effective December 16, 2005.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁴ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Bies, Olson, and Kohn.