INTERNATIONAL CO-OPERATIVE BANKING ASSOCIATION

SEMINAR

"A CAPITAL CO-OPERATIVE MARKET: UTOPIA OR POSSIBLE REALITY?"

OPERATIVE
ON

ICBA MISSION

The International Co-operative Banking Association (ICBA) is a specialised organisation of the International Co-operative Alliance (ICA). The ICBA was set up by national co-operative banks and financial organisations:

- To exchange information;
- To promote co-operation among co-operative banks;
- To promote the development of new co-operative banks through advice and assistance
- To research and study projects of common interest, i.e. capital formation, co-operative values as applied to banking, etc.

Membership is open to all banks and central thrift and credit organisations through one of the eight Regional Committees or by direct membership of the Central Executive Committee.

Our membership brings together representatives of co-operative banks and financial institutions worlwide, including the International Raiffeisen Union, European Association of Co-operative Banks, and the World Council of Credit Unions. The Association is, therefore, a true global and democratically-elected specialized organisation of the ICA, representing the views of co-operative financial institutions all over the world.

This Journal contains the presentations made on the occasion of the International Co-operative Banking Association Seminar held in Paris, France, October 19, 1998

INTERNATIONAL CO-OPERATIVE
BANKING ASSOCIATION

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MR. CLAUDE BÉLAND, PRESIDENT
INTERNATIONAL CO-OPERATIVE BANKING ASSOCIATION

A WORD FROM THE PRESIDENT

Opening address of the Seminar of the International Co-operative Banking Association (ICBA): "*A Capital Co-operative Market: Utopia or Possible Reality?*"

Paris, October 19, 1998

Ladies and Gentlemen:

I bid you a most cordial welcome to this Seminar of the International Co-operative Banking Association whose theme is: "*A Capital Co-operative Market: Utopia or Possible Reality?*"

Before presenting the different speakers to you, allow me to give you some background information on the Seminar's program:

1. A few moments ago, a directory called "*Profil des institutions bancaires coopératives dans le monde*" was officially launched. This is an ICBA initiative, spearheaded by Mr. Daniel Côté, Professor at the École des Hautes Études Commerciales in Montréal. The directory is the outcome of consultations, and especially responses, obtained by Mr. Côté from the various financial co-operative institutions around the world.
   Until now, it was impossible to have access to such a body of information, and I warmly thank Mr. Côté for the quality of his endeavour. It is of course a first edition with all its imperfections since, first of all, some co-operative banks and associations did not see it fitting to provide the data requested, so it is incomplete and, secondly, since a few typographical or language-related errors went undetected. We apologize for this, and assume they will be corrected for the next edition.
   The documentation provided in the directory is of great interest to us,

and we are proud of it. It will certainly be useful in underlining the scope and vitality of financial co-operatives around the globe.

2. This morning, we will be hearing from several speakers who have come here from different countries: the Netherlands, Argentina, Great Britain and Canada.
3. The conferences will be followed by a luncheon you are invited to join.
4. This afternoon, Mr. Étienne Pflimlin, from the Crédit Mutuel de France, will present a summary of the different conferences, along with his comments. The presentation will be followed by a question-and-answer period.
5. During the break following our afternoon discussions, we will be screening a video that was produced subsequent to the catastrophe that befell one of our members — the Cooperative Bank of Kenya. The head office of that bank is located in Nairobi, right beside the American Embassy which, as you know, was the target of an extremely violent act of terrorism. The entire building of the US Embassy was destroyed by powerful explosives, and the building beside it was also seriously damaged — as you will see in the video. Several bank employees lost their lives on this occasion and the damage was extensive. The Cooperative Bank of Kenya asked for the assistance of ICBA members and this request was submitted yesterday to the members at a meeting of the Association's Central Executive Committee. We are reiterating the same request of assistance to you. Our colleague, Mr. Mureithi, General Manager of the bank, will be in a position this afternoon to give you all the information you need.
6. Following that, we will be holding our plenary workshop where the current affairs of our Association will be presented to members.

I hereby declare this Seminar of the ICBA open, and thank you for having registered in such a great number.

At the outset of the meeting, I announced the publication of a directory of financial co-operative banks or associations, and I said that the directory illustrated the scope and vitality of the financial co-operative movement around the globe.

However, we must acknowledge that the winds of globalization have greatly changed the landscape of the finance industry. In North America, and particularly in the United States and Canada, we have been witness to mergers and associations of major financial institutions which, in order to better cope with new competition on an international scale, are joining forces for increased strength. Lately, City Corp., already one of the major banks in the US and one of the rare banks that can be considered to be "global" in almost all the sectors of banking activity, announced its merger with a heavyweight insurance company — Traveler's — thereby forming a financial conglomerate whose assets will top $700 billion US.

Changes are transpiring at such a fast pace that, unfortunately, we can see in certain instances where the co-operative movement is struggling or even disintegrating. In certain cases, the government will be going so far as to issue an ultimatum to co-operative banks so that they convert to a limited liability company by year end.

We have also seen other co-operative banks considerably alter their legal and financial structures, to the extent where it is becoming difficult to reconcile the new structures with those of the cooperative movement. Indeed, certain co-operatives must act quickly to be able to appropriately face the competition of capital stock firms. Often isolated in their country or region, and not being able to count on partnerships with other organizations motivated by the same cooperative values, they are facing two very difficult alternatives: either disappearing both as a co-operative and a financial institution or, by completely transforming itself — that is, disappearing as a co-operative but surviving as a financial institution turned into a limited liability company or a capital stock firm.

For we must be realistic: on some continents, the existing network of co-operatives does not have the critical mass necessary to withstand the current challenges of a financial world in upheaval. Existing co-operatives therefore cannot hope to merge with other co-operatives stronger than themselves — as the smaller limited liability companies can do, as such stronger co-operatives do not exist, at least, not on their territory. Even in wealthy countries such as Canada, the mergers of big banks would create competitors of a much more imposing size — and the globalization of markets will eventually allow for the introduction of new and more numerous forms of competition on our territories.

How do we go about uniting the forces of cooperation? Can the financial co-operative community intervene? Can it foster a more global vision in a brave new world without borders?

These matters take on crucial importance at a time in history where, shaken by the major upheavals of the world economy, boundless liberalization and globalization are called into question, re-examined, and sometimes even dubbed "villains". The issues take on utmost importance at a time when, for many observers of trends in the global economy, the road to cooperative endeavours appears to be a solution for the future. Literature on the subject, as you know, is becoming more prolific. Since the economy has become the new master, defenders of civil society are pleading in favour of a return to a system that places priority on the latter — that is, an economic and social system that places the people at the heart of all its concerns and agrees that the economy is but a means and not the be-all and end-all!

Can we take advantage of this context today to strengthen the financial co-operative movement? Are the tools we currently have at our disposal adapted to our specific needs? What can we invent together to better control our future and support movements moving toward maturity or those experiencing difficulty?

I believe these are questions of current pertinence. In addition to being current, they appeal to those people interested in the co-operative movement and who see finance as being a tool for the good of the community. Such are the questions that are of utmost importance to the members and officers of the International Co-operative Banking Association.

These topics do merit discussion under various angles, and that is exactly what we are going to do today.

Now, allow me to briefly present each of the five speakers you will be hearing from this morning.

First of all, we will be hearing from Mr. Douglas McDonald, from Canada. Armed with an MBA from the University of Western Ontario, Mr. McDonald has held several positions of authority both in Canada and the United Kingdom in big business banks or professional services firms. Mr. McDonald is currently the Co-head of Deloitte & Touche's Corporate Finance department. In recent years, his advice has been sought by many co-operative firms in Canada.

After Mr. McDonald's speech, and a short, 20-minute break, we will be hearing from the following speakers:

- Mr. Dick Schijf from the Netherlands, who is secretary to the Board of the Rabobank. After studying law at the University of Utrecht, Mr. Schijf held, from 1971 to 1992, different positions at Shell International Petroleum. He was their legal advisor, in charge of the concessions in the Far East and Malaysia, advisor for corporate structures matters, finance, joint ventures, mergers, acquisitions, groupings and disposals. Mr. Schijf has been in the employ of the Rabobank since 1993, where, in addition to his duties on the board, he is in charge of the legal and tax department.
- The following speaker will be Mr. Carlos Heller, from Argentina. Mr. Heller has been active in the field of co-operatives since 1963. After taking on the job of manager at a savings and loans association and at the regional office of Buenos Aires of the Institute for the Mobilization of Cooperative Funds, he was designated to look after the creation of a co-operative bank uniting the credit unions affiliated with the Institute. It was out of that process that the Credicoop Cooperative Bank Ltd. was born, of which Mr. Heller has been General Manager since 1979.
- Mr. Heller will give the floor to Mr. Jean-Guy Langelier, from Canada, who is the President and Chief Executive Officer of Caisse centrale Desjardins, as well as the Senior Executive Vice-President of Finance of the Confédération des caisses Desjardins. Mr. Langelier studied in

the field of international financing and operations as well as management in several universities of Canada and the United States. He has held several managerial positions in international services, first at the Provincial Bank of Canada and the National Bank of Canada from 1968 to 1981, the year when he joined Caisse centrale Desjardins.

- Mr. Hans Dahlberg, from the United Kingdom, President and Chief Executive Officer of the International Co-operative and Mutual Insurance Federation (ICMIF), will be our last speaker. Mr. Dahlberg devoted the better part of his career to a major co-operative insurance firm in Sweden, *The Folksam Group*, where he held several positions over the years, including that of Executive Secretary for international affairs and General Manager. Mr. Dahlberg acted as Chair of the Board of Directors of the ICMIF from 1989 to 1992 and, on January 1, 1993, he became its President and C.E.O.

I will now ask Mr. McDonald to take the floor.

DOUGLAS McDONALD
PARTNER AND CO-HEAD OF CORPORATE FINANCE
DELOITTE & TOUCHE (TORONTO, CANADA)

CAPITAL & COOPERATIVE BANKS

Mr. President, distinguished representatives, thank you for the opportunity to speak to you regarding "A Capital Co-operative Market: Utopia or Possible Reality?"

While Utopia may exist only in the mind, we should define the characteristics of a capital markets Utopia for co-operatives and seek means to make it possible. In my mind, a capital markets Utopia for co-operatives would be where permanent capital is symbiotic with co-operative principles. It would allow co-operatives to expand, not for the sake of expansion, but in order to provide more comprehensive and competitive services to their members and their respective communities. To establish this Utopia, it is essential to first understand the dynamics that are at work in the capital markets and then develop a framework or process that can make this a reality. It is on this last point that I wish to focus my discussion for today by providing you with:

- a brief overview of capital markets trends;
- an understanding of the key financing issues which co-operatives face and the range of capital structuring options that are available; and
- three alternatives that may help financial co-operatives access the capital markets.

I stand before you having survived 12 months of most unco-operative capital markets as reflected in turmoil, upheaval and volatility on an unprecedented level. Since the Asian crisis first erupted in October 1997, we have witnessed the evaporation of trillions of dollars of investment value. Currencies, commodity prices and stock prices have been subject to unprecedented volatility.

This volatility has been accompanied by a surge in Merger & Acquisition

("M&A") activity. Global competition and the drive for growth has caused a partitioning in most markets, as medium and large corporations build critical mass, in order to expand and defend their businesses. This dynamic has created both an opportunity and a threat to local market players, who have created profitable niches for themselves. Fueling the M&A wave from a capital markets perspective have been historically low interest rates in North America and parts of Europe. These rates have also provided an opportunity for local market participants to recapitalize themselves, to take advantage of these low interest rates.

These market forces provide a backdrop for the current situation facing financial co-operatives. The consolidation of large financial institutions has created giants that many consumers feel are too large to be truly sensitive to their needs. Despite the consumer backlash against these organizations, they are gaining market share at an ever-increasing rate. The primary driver for this growth is their desire to become an effective and efficient single source for a consumer's financial needs. By packaging and bundling services, banks have been able to increase margins and decrease costs. In addition, these institutions have powerful systems that allow them to drive costs down, and cross-market services to customers effectively.

The challenge for financial co-operatives is to offer their constituents a complete range of financial services within a co-operative context. In order to do this, co-operatives need to access increasing amounts of permanent capital to shore up shrinking equity and finance growth. Co-operatives today are faced with a number of challenges in their search for adequate financing. The financial co-operative market is both fragmented and heavily regulated. Operating results reflect low profitability and growth and there is a need for significant capital expenditures on technology. Finally, co-operatives are being financed through revolving equity that is inherently unstable and is illiquid for members (see illustration A). In the future, financial markets will be more open and competitive. The benefits of capital investment should increase growth and profitability. Further, through creativity and determination, increased access to the capital markets should result in equity that is more stable, more liquid, and of increased value (see illustration B).

Although capital financing needs and objectives are well understood, responding to these issues has been a major challenge for co-operatives. This difficulty is understandable when you consider the diverse factors affecting financial co-operatives today. The industry is consolidating in the face of deregulation and convergence. There is a need for faster, more sophisticated technology, just to maintain existing cost and service levels. Capital markets, however, will continue to demand performance measured in financial terms, not service levels (see illustration C).

As we move to consider financing options for co-operatives, it is apparent that there exists a vast array of debt and equity instruments, from conventional forms of financing to hybrids such as participating preferred shares and debentures with attached derivatives (see illustration D). In addition to these securities, other forms of financing such as securitizations and strategic alliances should be included in the mix.

Co-operatives need to balance membership concepts and principles with investor requirements in order to arrive at a capital structure that permits flexibility within a co-operative context. Financing options must be evaluated in relation to basic co-operative principles, namely: one person, one equitable vote, autonomy and independence, and membership in a community.

To date, Canadian co-operatives have experimented with various innovative forms of financing, including the securitization of residential mortgages, issuance of subordinated debentures in foreign markets and issuance of non-voting stock to both public and private markets (see illustration E). In his presentation at the 1997 seminar in Geneva, Mr. McVeigh, (Chairperson of Credit Union Central of Canada), reviewed the following methods by which Canadian Credit Unions have been building capital:

- accumulating retained earnings;
- increasing the minimum share investment for each member;
- issuing patronage allocations to members in shares;
- issuing non-voting preferred shares; and,
- issuing a special class of shares on the stock market.

Although this is only a sample of financing options used by co-operatives, it reflects a common theme of retaining the votes for members while still securing forms of permanent capital.

It is important to note that the financing options available to financial co-operatives vary as a function of the scale of the issuer and the issue. The larger the institution, the wider the range of alternatives available. There is a definite bias in the financial community towards size, because larger issues are inherently more liquid and are perceived to be less risky. A simple stratification between large and small issues can be useful, in understanding the implications of size on the range of financing alternatives available. Although size definitions vary across national financial markets, broadly speaking, issues in excess of US $100 million qualify as "large", are often eligible for public market distribution, and may be rated. Issue sizes less than US $50 million are considered "small" and are generally sold into the private capital markets.

In most cases, large co-operatives are able to access the public capital markets with securities that fit the context of co-operative principles, preserved by an instrument such as subordinated voting shares. For the majority of co-operatives, the public capital markets remain an unattainable dream.

It is also important to remember the other party to these transactions: the investor. Recent events in world markets have impacted the way that institutional investors view the risk/return relationship of their investments. Most investors are willing to accept higher risk for a higher return, however, given the recent performance of the financial markets it is easy to understand how that simple idea has become convoluted. If you couple the market's volatility with experiences with non-voting securities in takeovers where subordinated shareholders have been disadvantaged, you can appreciate the challenges that face investors as they seek to match their needs with yours.

At Deloitte & Touche we have given considerable thought to solutions to the capital problems facing financial co-operatives as part of our ongoing advisory assignments in the co-operative market. We have looked at a range of financing alternatives, from initial public offerings, to tax advantaged preferred shares, to project finance. We have also considered mergers with other institutions and other forms of strategic alliances. In looking at each potential solution we have evaluated the costs and benefits in relation to co-operative principles and the likely success of the financing.

In considering an initial public offering as a financing option, it is important to recognize three factors: first, capital markets are in turmoil and it appears that initial public offerings will be exceptionally difficult to market for the next six to 18 months. Second, in terms of co-operative principles, the marketability and pricing of an initial public offering will depend on whether or not investors are allowed a voice in the operation of the co-operative. If a voice is not given through an equal vote with members, the pricing and marketability of the issue will suffer. Finally, an initial public offering is generally only available to large co-operatives, as small issues are more difficult to market.

Given the wide spectrum of alternatives, we propose three financing options to improve the capital markets access of financial co-operatives. These options comprise:

- a national or international public Holding Company;
- a development trust; and,
- a strategic alliance.

The Holding Company concept is based in principle on the structure of banks in the United States, whereby a Holding Company owns the banking assets or invests in the bank operating company. It is the Holding Company, not the co-operative, which issues equity to the public. The public receives full voting privileges in the Holding Company and also receives any passive income that the Holding Company receives from its ownership in the co-operative. The Holding Company then invests in local co-operatives, usually by purchasing non-voting shares (see illustration F).

Mechanically speaking the following steps would need to be performed in order for a co-operative to receive funds from the Holding Company. The Holding Company would be mandated to invest in co-operatives that meet a certain series of tests, for example a minimum number of members, a BIS ratio greater than eight percent, and return on equity in excess of eight percent. The nature and magnitude of these hurdles would depend on criteria established before the Holding Company went public, so as to not alienate investors, and to create a fair platform for evaluating investment candidates. The Holding Company would receive a security, most likely a non-voting common or perpetual preferred share, with a cumulative dividend and voting rights in the case of a material event, such as takeover. This type of security should qualify as the highest level of capital for BIS purposes. The Holding Company would also receive board representation on the board of directors, proportionate to its economic interest on each investee board.

Once established the Holding Company would then receive applications from co-operatives that exceed the hurdle rates and want a capital injection. The capital would be used by the co-operatives to expand services, shore up equity, and initiate development programs. Several variations on the Holding Company structure are currently being debated by Canadian Credit Unions as a means of facing the challenges of bank consolidation in Canada.

The Holding Company's investment features combine a single industry focus, with diversified holdings in a number of co-operatives, to create a security with reduced risk. Couple this with an acceptable level of return and you have a successful issue. However, since the investor has control or significant influence over the Holding Company, and in turn the co-operatives, the Holding Company chooses to invest in the quality of the investments, and therefore tailors the returns to the investor's requirements. By creating an issue of significant size and quality, small and medium sized co-operatives can take advantage of public equity markets normally closed to them.

Further, by raising capital in the Holding Company and investing in individual co-operatives, the uniqueness and independence of each co-operative can be maintained while access to capital is improved.

A second financing vehicle involves the creation of a Development Trust for off-balance sheet asset, or project financing (see illustration G). The Trust would issue equity, and possibly debt, to the public. The Trust would then purchase the necessary assets for local, regional or national co-operatives, and provide an operating lease of these assets to the co-operatives.

The Development Trust would be created with a charter similar to that of the Holding Company. The assets that would be bought and leased would be assets specifically identified, on either a regional or national scale, prior to the establishment of the pool. These assets could include branch networks, ATM networks, data centres, and so on. The larger the scale of investment, the more risk mitigation. Investors would understand the Trust's investment objectives and its business.

By raising off-balance sheet financing, a co-operative can effectively free up permanent capital that would otherwise be required to finance the purchase of these assets. Investors would benefit from a secure and steady income-stream from the operating assets being used by many co-operatives and would have control, or significant influence, over the Trust. By providing the security and regularity of cash flows from a diversified pool of operating assets and co-operatives, the risk of the Trust's securities can be minimized. By investing in operating assets that could either be leased to another co-operative or sold, if necessary, it may be possible to diversify away most of the default risk of any one co-operative. The return required by investors in these Trusts, would tend to mirror that of a bond-like instrument. Again, the co-operative is left culturally intact while capital access is improved.

A final idea for today is the concept of a significant joint venture partner to the co-operative movement. A partnering financial services company, such an insurance company, would make a subordinated voting investment in a co-operative or association of co-operatives (see illustration H). The investing partner would benefit from the opportunity to distribute its products and services to a wider group of consumers, and the participating co-operatives would be able to offer a wider selection of products and services to members, while still maintaining independence. We are currently working with major financial services entities who consider the financial co-operative network to be an attractive distribution mechanism for their financial products. This solution requires consensus, probably on a national or regional scale, to achieve the critical mass essential to success.

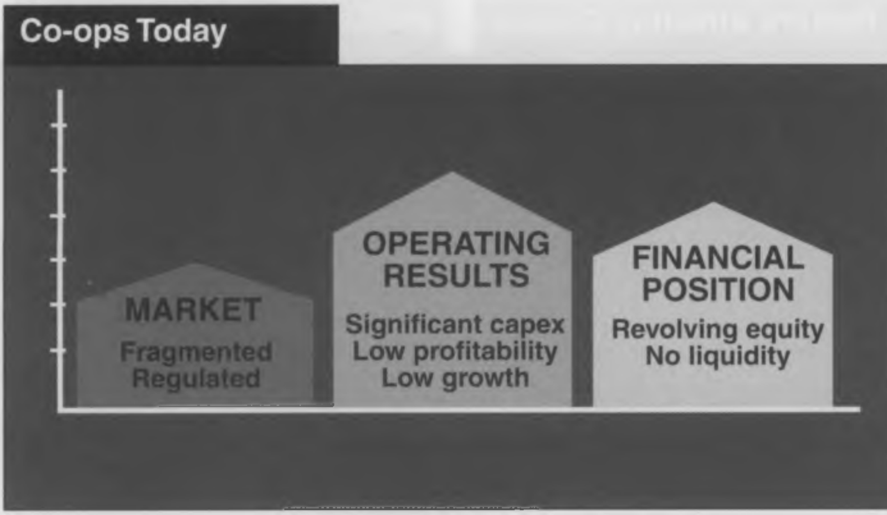
A joint venture or strategic alliance would capitalize on the surge in "M and A" activity of the 1990s, and allow financial co-operatives to provide products and services rivaling those sold by the major banks. The drive to become a one-stop financial services shop has been behind many of the recent United States banking mergers, such as the Citicorp-Traveller's Group deal. Citicorp provides retail banking strength while Traveller's provides risk management products.

Any joint venture partner must be acceptable culturally to the co-operative and must offer an incremental service or cost-saving to qualify for such a union. These opportunities are available and offer significant benefit to all parties concerned.

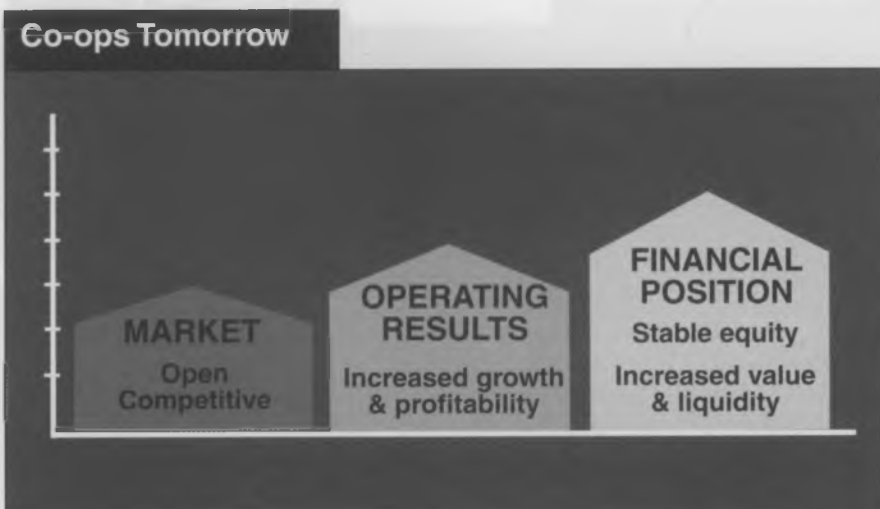
It is difficult to draw a cogent conclusion when faced with such a complex subject as the co-operative capital markets. Practically speaking, we should be aware that today's capital markets are more competitive, volatile and stratified than ever before. Further, the capital markets solutions available to financial co-operatives vary significantly with size and credit rating. Notwithstanding these market features, financial co-operatives offer unique and attractive investment opportunities to a wide range of investors (see illustration I).

When evaluating the opportunities to improve your access to the capital markets, I concluded that we should focus on those that offer benefit to a wide range of co-operative constituents. Because the options I have described involve the aggregation of groups of co-operatives, they are complex and politically challenging. However, if you rely on the founding principles of the co-operative movement, namely co-operation with other co-operatives, these options offer a realistic opportunity for realizing the Utopia that you seek.

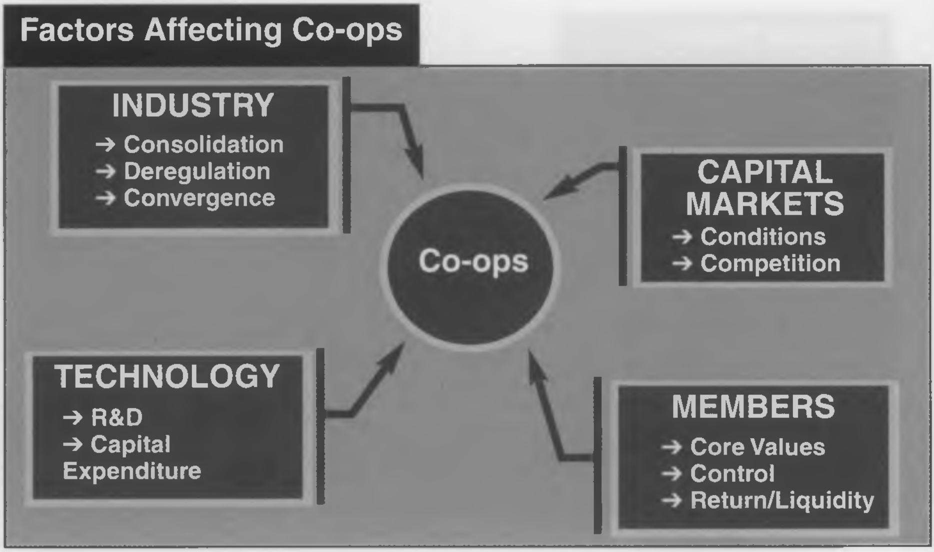
(illustration A)



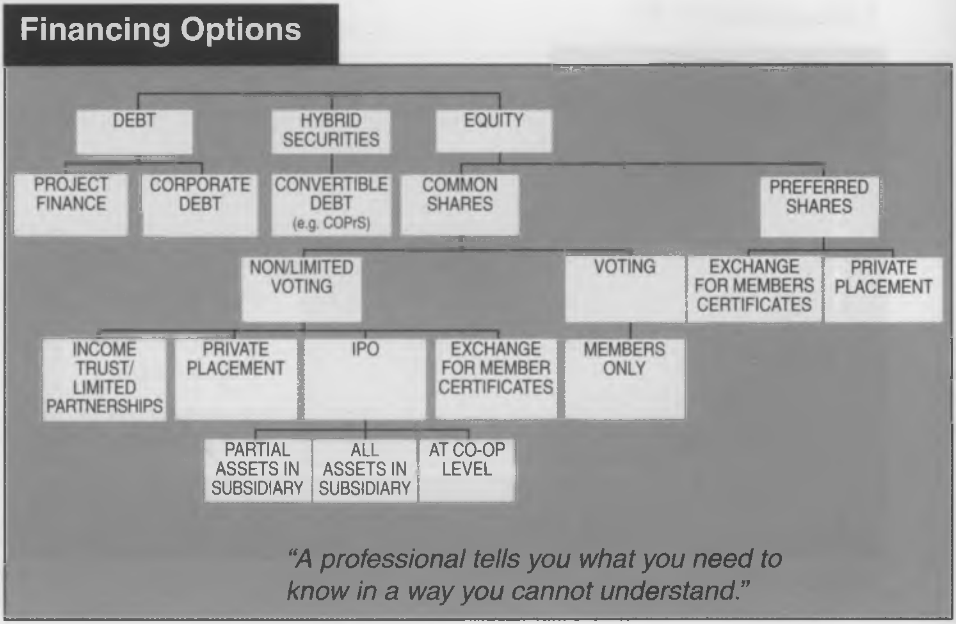
(illustration B)



(illustration C)



(illustration D)



(illustration E)

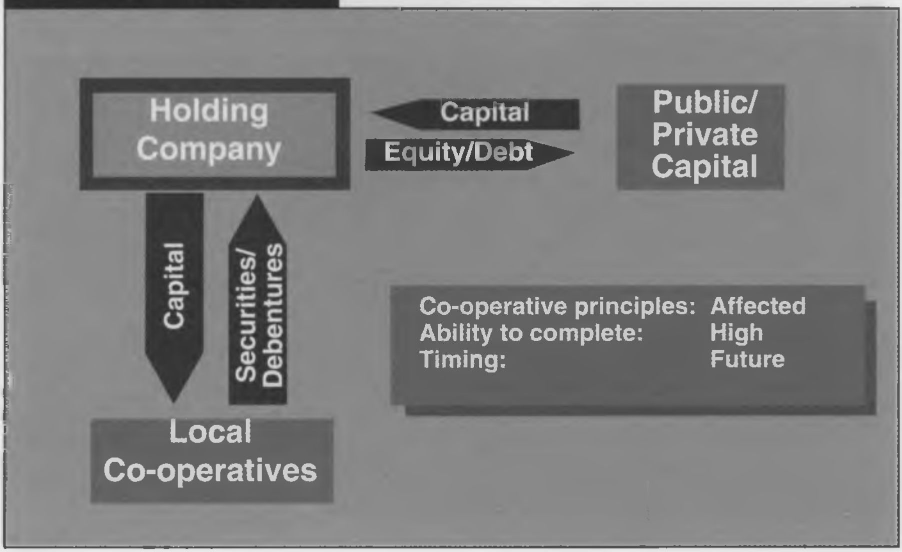
Co-operative Transactions

	Debt	Development Pool	JV & SA	Pref/ COPRS	IPO
Caisses Desjardins	●				
Credit Union Central of Canada			●		
HEPCOE			●	●	
St. Paul Bank		●	●		
Surrey Metro					●

"The most important thing in life is not to have money, but that others have it."

(illustration F)

Holding Company



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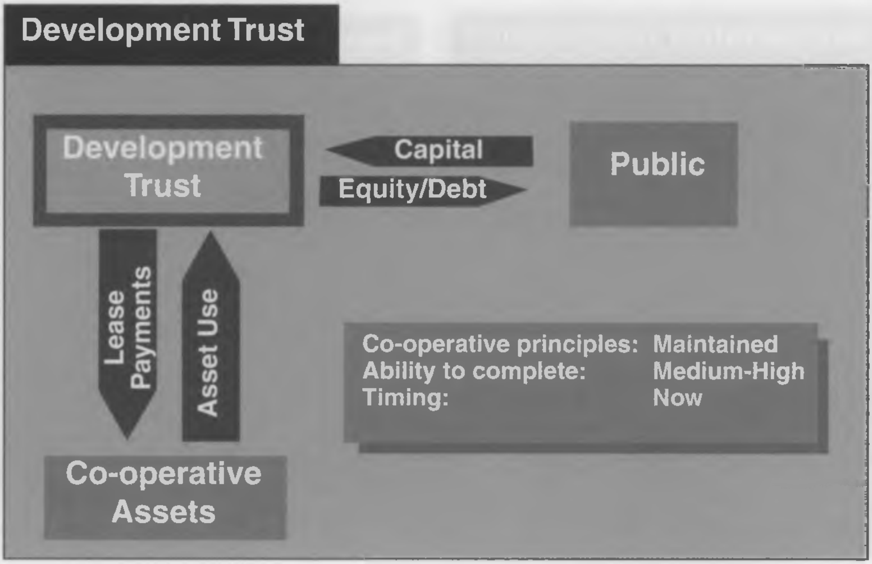
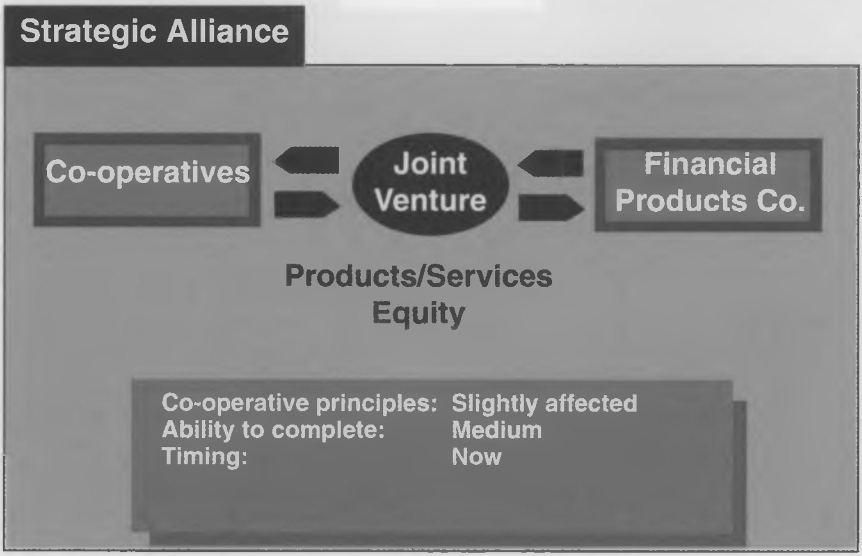
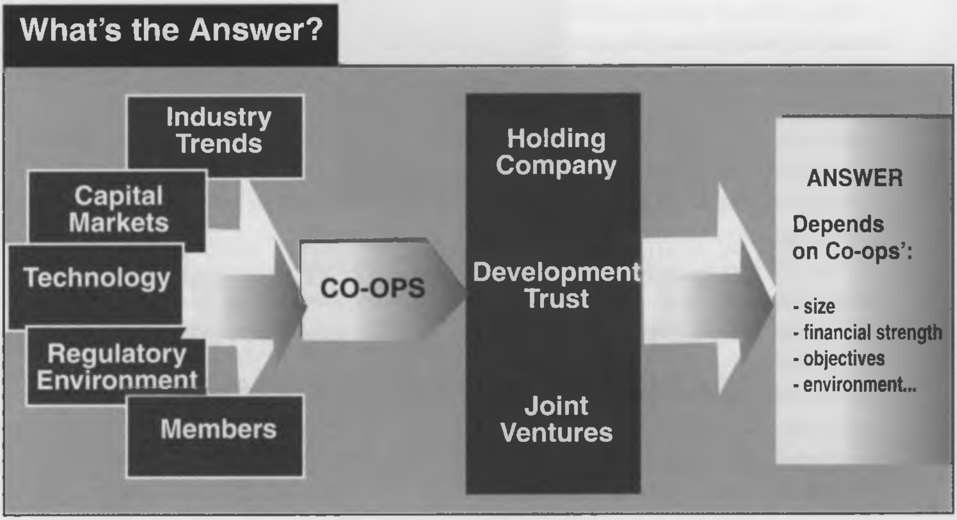


(illustration H)



(illustration I)



T.H.M. SCHIJF, GROUP GENERAL COUNSEL AND SECRETARY
TO THE BOARD OF RABOBANK (THE NETHERLANDS)

THE (IM)POSSIBILITIES OF THE CREATION OF A EUROPEAN COOPERATIVE CAPITAL MARKET

It is a pleasure to have the opportunity to speak on behalf of Rabobank at this conference.

This year Rabobank celebrates its centenary as a cooperative banking organisation. Earlier this year we concluded a three-year discussion on the bank's cooperative structure with the following main results:

- we reaffirmed our cooperative identity and orientation and brought it up-to-date;
- we have changed from what was originally a restricted credit-cooperative into an open client-cooperative, offering our full range of financial services to all our clients at identical conditions;
- customer focus is both our starting point and final goal;
- membership is no longer obligatory for corporate borrowers. All clients who entertain a meaningful relationship with the bank are eligible to become a member;
- member liability has been abolished;
- members' influence on the policies and direction of the bank continues to be safeguarded by a new partnership model for the local banks. Boards of directors, as before, will be composed of elected members. The new element is that the general manager will join the board as managing director;
- the roles of the Board of Directors and Supervisory Boards in our two-tiered governance model have been defined more clearly.

The European context

EMU will shake up the European banking industry. Although in some countries the consolidation process has only just started, and some analysts still hold the opinion that the effects of EMU will be limited to the field of wholesale banking, we at Rabobank are strongly convinced that EMU will bring European banking nothing less than an earthquake. As you will all agree, earthquakes usually result in a drastically changed landscape.

The new banking environment will require larger entities, in order to optimally benefit from economies of scale and scope. Many participants in our industry were already well aware of this, others have been woken up by the recent wave of mergers in the European, and even global banking industry.

In my address, I will deal with the way cooperative banks in Europe can combine forces, in order to benefit from economies of scale as well, without losing their cooperative identity.

After discussing our relative position in Europe, I will address the capital issue. Can Europe's cooperative banks combine forces to create a so-called "cooperative capital market", or not. And, if not, what are the alternatives?

The strength of financial cooperatives

I would like to start with some recent developments, which in my opinion put the position of cooperative banks in a somewhat different perspective than most observers tend to see it.

Until recently, we saw stock exchange indices rise with breath-taking speed.

This seemed to open an almost unlimited access to investment capital for quoted companies, including commercial banks, which gave them ample opportunity to issue shares in order to finance a rapid pace of growth in activities, international take-overs and mergers.

Cooperative banks, which by definition do not have the same access to investors as listed companies, were seen by many observers as a dull backyard of European banking, limited in growth potential by a slowly growing capital base, lacking the financial strength for major take-overs and being relatively little active in the glamorous field of investment banking, where it is all happening.

Or isn't it? Today, we are facing stock exchanges declining all over the world. Hedge funds are tumbling and several large commercial banks and investment houses already have announced huge losses for the second half of this year. Especially shares of commercial banks have nose-dived, in response to the financial crisis which is affecting large parts of the world.

However, although some cooperative banks may have to absorb losses with respect to their international exposure or loans to hedge funds, our niche of the banking industry is suffering less than many commercial banks from these adverse developments.

The lesson I have drawn from these events is the following one. Many observers tended to approach the position of Europe's financial cooperatives from their major weakness, namely the lack of access to fresh investors' capital.

I tend to start from our strength,

which sheds a different light on the discussion about the position of Europe's cooperative banks in the next century.

First, we are strong in retail banking. To put it even stronger: the cooperative banking industry is the largest force in retail banking, be it in the field of saving, mortgage lending or the financing of small and medium sized enterprises. And although these activities may appear less spectacular than more speculative kinds of financial activities, they still form the basic art of banking.

In many countries cooperative banks are a solid part of a country's banking industry, having large market shares in traditional banking activities and with a presence which is somewhat below average in some more modern activities in the financial industry. This is not to say that cooperative banks are a backward and dull niche of the industry. Many of us have developed into All-Finanz institutions, combining banking, insurance, asset management and investment banking. However, we usually operate on the conservative side of the industry, which reflects a risk-averse attitude, befitting our background. Most of us originate from small farmers and retailers, which about a century ago combined forces to create the financial environment in which they were able to fulfil their ambitions.

This attitude has paid off, which brings me to our second point of strength.

Cooperatives tend to be financially sound. In many countries, cooperative banks have been granted the highest ratings by the major rating agencies. A year ago, when the ICBA-seminar was held in Geneva, one of the speakers was Roger Taillon of Standard and Poor's. He put forward the fact that financial cooperatives, and I will quote his own words, "performed extremely well during recent recessions and have emerged among the highest rated banks in their countries or even the world". Whatever our weaknesses may be, our financial strength cannot be denied, although there are differences from bank to bank.

A second part of his analysis was the conclusion that the strongest cooperative groups are those, who impose the discipline of maintaining quality standards with respect to capital, on all of their units individually.

We should keep this conclusion in mind, when we start discussing international cooperation within our sector, as it presents an important starting point for work to be done.

This being said, one cannot deny that we indeed have our weak spots as well. Our traditional focus on retail banking has also resulted in a dense branch network, which translates into a relatively unfavourable fixed-cost structure. Indeed, in many European countries our sector can be classified as a high cost, high margin part of the banking industry, reflecting the fact that competition in the field of retail banking has remained relatively modest. However, it is an illusion to expect that this situation will remain unchanged in the future. EMU will bring more competition in the field of retail banking, and one of the main challenges, of course, is to improve operational efficiency, to increase productivity and to make optimum use of our intimate knowledge of our customers.

European cooperation

This brings me to my next subject: European cooperation. European integration will unavoidably result in the creation of larger banks. Small, or even medium-sized banks, which today may offer a full range of banking products in a local market, will rather sooner than later discover that they lack potential for economies of scale and scope to stay competitive. At that point in time, they face a fundamental choice. Either they retreat into a niche of the market, where economies of scale are basically not very important, or they seek alliances with other institutions in a similar position in order to combine forces.

Given the difficulties of merging cooperatives, especially cross-border, I expect that most of us will try to forge contractual alliances with foreign partners, rather than full blown mergers.

EMU forces us to act very rapidly in, for example, the area of cross-border payments and international cash management. These are rather technical domains and do not necessarily lead to cooperation between banks with the same background, with a shared cooperative identity.

As a result, we expect to see cooperative banks embarking on cross-border alliances with commercial banks. At the same time however, we should realise that we cannot avoid the necessity of creating economies of scale in our domestic operations as well. As an example, one can think of the creation of a shared back-office, which serves the retail operations of several otherwise independent banks.

Yet, we should realise that joint ventures with commercial banks may have far reaching consequences for our cooperative orientation. Sooner or later, I fear, it will result in the melting down of our cooperative identity and ambition. Also for this reason we think it is imperative for the cooperative banking sector to seriously explore the scope for mutual alliances.

A cooperative capital market?

Let me now turn to the so-called "cooperative capital market".

I must admit that the first time I came across this subject my reaction was one of surprise. I had no idea what was being meant by this notion. And to be honest, until today I have difficulty in coming to grips with this subject. One of the ideas put forward is that cooperative banks with a strong capital base take a stake in the equity of those of us who are more weakly capitalised. In theory, this certainly is a possibility, but I am rather sceptical about the feasibility of this model.

First of all, I think there is no such thing as a bank with surplus capital. Of course, some banks are better capitalised than others, but even banks with a very sound capital base know very well that equity is increasingly scarce. Let me use my own Rabobank, as an example. As you may know, Rabobank is currently the only private sector bank in the whole world with a triple A rating from all three major rating agencies. This rather unique position has of course something to do with our stable earnings development and our capital base, which indeed is very sound. In the middle of this year, our BIS-ratio stood at 10.5%, with a Tier 1 capital ratio of 9.7%.

However, it can not be denied that also our ratios have eroded. Only three years ago, our BIS-ratio stood at 11.5%, with a Tier 1 ratio of 10.9%. This decline, which occurred in spite of several years of healthy profits, which of course were added to our equity base, reflects the strong growth of our activities. Capital is scarce in our bank, and intensive discussions are taking place about the optimum use and allocation of solvency. I am afraid that a proposal to use part of our capital for subsidising financially weaker members of our cooperative family will receive a lukewarm response at best.

Returning to the point made by Roger Taillon of Standard & Poor's last year a more fundamental point is of course, that the strongest cooperative organisations are those, which are made up of units that each individually are very sound. So, the message should be clear. Anyone of us that has the ambition to participate in an EMU-wide cooperative banking group of some sort, should give priority to strengthening his own financial base.

Strengthening the capital base

The task of creating a stronger balance sheet can be approached from many perspectives.

The starting point, of course, lies with profitability and asset quality. We must use our intimate knowledge of our customer to assess his creditworthiness. The price we demand for our products must reflect his risk profile. This, in combination with our aim to deliver the best possible product at the lowest price available, forms the base of a sound financial operation. This is not enough however, given the desired rate of growth of our activities. Therefore, the second step comes with the attraction of new capital. The options here are many, and financial innovations are necessary indeed. Many options have been summarised by Mr. McVeigh from the Credit Union Central of Canada at last year's conference.

Apart from the well known route of accumulating retained earnings, broadening the membership base and increasing the minimum share to be invested by members, he also mentioned the issuance of preferred shares to members and the possibility of the issuance of a special class of shares on the stock market.

Of course, all such options must be considered very carefully and the optimum approach will differ from one country to another, reflecting the differences in preference of the various national memberships. However, although the use of a broader range of financial instruments might help in strengthening our equity base, it must be clear that sooner or later the limits of this approach will be reached.

Next to maximisation of profits, shareholders want influence, and in a cooperative organisation the ultimate control rests with the members. This reduces the scope of attracting capital from outside the membership base; the alternative being the issuance of more expensive Tier 2 capital such as subordinated loans.

Securitisation

Another approach, we think, offers more scope for strengthening our capital base. The solution comes with reduction of the growth rate of our balance sheet total. To be very clear, I do not say that we should limit the growth rate of our business. The idea is to use the growth rate of our on-balance sheet activities by making more use of the opportunities to securitise parts of our traditional activities.

Asset securitization is understood to be the transfer of assets (for instance loans) to a so-termed Special Purpose Vehicle and the issuance by the SPV of transferable securities backed by these assets (so called asset backed securities). Securitization offers advantages, such as an improvement of balance sheet and risk management, diversification and a reduction in solvency requirements.

Today, at Rabobank, we are packaging parts of our mortgage loans into a Special Purpose Vehicle, which we are offering to investors, both institutional and private.

The administration and management of such vehicles or SPVs, which of course are legally independent entities and which may have a quotation at the stock exchange, is being done by ourselves.

Such activities help us to improve our balance sheet structure, while at the same time offering a broader range of investment opportunities to our clients.

For our borrowers it doesn't make any difference, as Rabobank continues to take care of administration and communication. An alternative approach here, for example, may be found in the securitisation of relatively poor quality exposure on problem countries in Asia. The high provisioning requirements of our supervising authorities could make it relatively attractive to bundle such loans into a SPV and sell it to more specialised investors, using arbitraging possibilities.

In our opinion the securitisation approach offers many opportunities to strengthen our balance sheets. For many of you, I expect this not to be a new issue. In Germany, the so-called market for "Pfandbriefe", which to a large extent can be compared with an SPV, is already one of the best developed parts of the capital market, which has experienced some very interesting innovations in recent years.

For the purpose of today's subject, a more important issue could be that we are able to assist each other in this securitisation approach. It is important to realise, that as a result of EMU and its accompanying elimination of exchange rate risk within the EMU-area, the scope of investors will increasingly be pan-European. Moreover, given the current extremely low yields on government bonds, which make it increasingly difficult for institutional investors to realise their required minimum investment result, there will be much appetite for investment opportunities which offer a higher yield than public bonds, while at the same time sharing their low risk profiles. This will present us with opportunities for cooperation in our securitisation effort. Let's not forget that the cooperative banks in Europe combine a very impressive retail network, much larger than any commercial bank or banking group.

If we would be able to organise the distribution of our SPVs in such a way, that each of us offer SPVs, launched by other cooperative banks, to one's customers, the investor base would be immensely increased.

I have high expectations of this approach, as interests run parallel.

For ourselves we create a broader investment base for our SPVs and we give our investor clients access to an Europe-wide range of mortgage products. We might even consider to launch an umbrella fund which only invests in European mortgage SPVs.

If we could improve the structure and quality of our balance sheets, while at the same time offering our clients and members an opportunity to invest in the assets of other European cooperative banks as well, one might say that, in a way, we would have created a European cooperative capital market.

Conclusion

Ladies and gentlemen, I am coming to a conclusion. Although I did not elaborate on the issue, Rabobank strongly believes in alliances between cooperative banks in Europe. If this does not materialise, there is the real danger that cooperative banking will dilute and, ultimately, disappear.

This would be a fundamental loss for the banking industry, as cooperative banks have played a major role in the financing of large parts of society. In future, there is still a role to be played by financial institutions like ours, which have a different approach to life than purely market-driven commercial organisations. Our goal is to create customer value rather than shareholder value.

On the other hand, I don't think that we must be naive in our approach to the issues at hand.

Capital is scarce and it is illusory to expect that the stronger ones between us have capital available to subsidise the weaker ones.

Therefore, innovative approaches must be found to strengthen our capital base. Moreover, a European cooperative central bank, which many of us think should be the ultimate goal, will only be strong and viable if each individual member has a strong, well-capitalised balance sheet. So all our ideas about international cooperation impose an each of us the obligation to put our own house in order and strengthen our capital base. To-day I have tried to sketch some of the possible approaches and some ways in which we could help each other in reaching this goal.

I thank you for your attention.

CARLOS HELLER, GENERAL MANAGER, BANCO CREDICOOP COOPERATIVO LIMITEDO (ARGENTINA)

COOPERATIVE CAPITAL MARKETS: IS THIS A UTOPIAN OR A PRACTICABLE NOTION?

In my address to this all-important Seminar of the International Co-operative Banking Association of the International Co-operative Alliance, I would like to deal with the following issues:

1. Some facts concerning Banco Credicoop Cooperativo Limitado
2. Our Bank's presence in the capital markets
3. Some conclusions to be drawn from our experience
4. Suggestions for a joint presence of Cooperative Banks in the international capital markets

1. Some facts concerning Banco Credicoop Coop Ltdo

Banco Credicoop Coop Ltdo Argentina was organized in 1979, as a result of merger of 44 savings & loans associations ("cajas de crédito cooperativas") located in the Federal District and Greater Buenos Aires area.

Some of these institutions dated back to the early 1900's, and were boosted by the creation of an association of cooperatives (loan and otherwise), in 1958 ("Instituto Movilizador de Fondos Cooperativos").

After its creation, Banco Credicoop purchased other cooperative banks which had financial problems, in order to preserve a cooperative presence in the cities and towns where these banks operated.

Banco Credicoop has now 403,142 associates with various types of operational links. We have 195 branches (almost 4% of all branches in the financial system) located in all major Argentine cities.

Our Bank is the No. 1 cooperative bank in Argentina and Latin America from the standpoint of both transaction volume and assets owned. It is the second largest domestic equity private bank (there are 48 banks in this category altogether).

Our Bank's assets amount to 1.9 billion dollars, while deposits amount to 1.1 billion; minimum equity (according to Central Bank provisions) is 273 million and net worth is 213 million dollars.

Our main line of business is the provision of financial services to small and medium-sized companies in the manufacturing and service sectors. In recent years, we have been working on our consumer bank area, by designing and marketing financial products aimed at small firms, professionals and workers.

2. Our Bank's presence in the capital markets

While Banco Credicoop has been operating in the capital markets for a relatively short time now, I think our experience may prove useful to cooperative banks in emerging countries, where financial and capital markets are not fully developed yet.

Argentina, like most Latin American countries, has undergone a number of major economic and financial changes in the 1990's.

During the 1980's (called the "lost decade" by the United Nations Economic Committee for Latin America), high inflation rates, hyper-inflation sprouts and capital drains prevented normal operation of financial and capital markets. These markets shrank, and many capital market instruments simply did not exist.

In 1991, Argentina implemented an exchange convertibility system, liberalized foreign investment and capital access, and successfully tackled the domestic and foreign debt issue.

In this context, the country achieved price stability, which in turn boosted money demand and foreign capital investments. This promoted financial and capital markets growth.

Capital markets growth was also stimulated by other factors:

- privatization of State-owned companies, as the newly privatized companies became the largest listed companies in the market;
- enactment of new legal and tax provisions designed to facilitate the creation of new capital markets instruments, such as notes (or "negotiable obligations"), asset securitization, trusts, and others;
- deep changes in the social security system, by creating private sector pension funds which now manage significant amounts of money and which will soon become major players in the capital markets.

This newly found strength of the financial and capital markets was accompanied by a remarkable concentration of economic power in foreign hands and by a significant widening of the gap between social classes, to the detriment of several social sectors. The expansion in financial markets, and specially in capital markets, benefited almost exclusively a few foreign and local corporate conglomerates, which accumulated large amounts of assets and revenues.

The most important players in the financial and capital markets were the commercial and investment banks - mostly foreign banks - which entered the Argentine market as a result of highly positive future expectations.

Our Bank analyzed these developments and defined its position in the capital markets, with a view to the following goals:

a) obtain medium - and long-term funding in order to increase credit assistance to our associates;
b) generate conditions to obtain capital resources, in order to consolidate and increase our capitalization;
c) trade in all financial products available in the capital markets, in order to meet our associates' needs.

2.1. Medium - and long-term funding

After the inflation sprouts repeatedly suffered in the past, the Argentine financial markets still evidence a major concentration in short-term bank deposits. This seriously restricts the availability of medium - and long-term funds to finance investment and exports.

As a result, it is essential to find alternative financing sources. For that purpose, our Bank has taken the following actions:

2.1.1. Implementing a Global Medium- and Long-Term Note Program, with notes issued by our Bank

Under Argentine legislation, financial institutions (both companies and cooperatives) are authorized to issue notes (or "negotiable obligations"), whether simple or convertible into shares, subordinated or not, publicly offered and listed in the stock market.

Banks need the local SEC ("CNV") consent in order to publicly offer their securities. Such consent is only given after an in-depth analysis of the strategy, operations and financial statements of the relevant bank.

Additionally, the securities to be issued must be rated by two rating agencies selected from a list approved by the local SEC.

Our bank went public in 1992; in 1997, we secured SEC approval for a US$ 250MM Global Note Program. This program was locally rated as "AA-" by Standard & Poor's and "A+" by Duff & Phelps for senior debt issue.

We have issued two series of Notes under this Program in an outstanding amount of US$ 120MM (or 6.8% of our total liabilities), with two - to three-year maturities.

These Notes have been placed in the Argentine and Uruguayan financial markets. Local market placement was mostly made among our associates.

The Notes are listed on the Argentine over-the-counter market ("Mercado Abierto Electronico") and our Bank actively participates in their trading, in order to make sure that their market value is as close as possible to their technical value, which we have so far achieved.

2.1.2. Holding interests in institutional investors

Another source of long-term funding is by holding an interest in companies that manage this type of funds, so that a portion of those funds may be used by our Bank.

After the Argentine social security system was modified as explained above, our Bank joined other cooperative banks, cooperatives in other lines of business and workers' unions to create a pension fund management company - Previsol AFJP - and two related insurance companies - a life and retirement insurance company, and a life annuity company.

In four years, the new pension fund system has accumulated some 10 billion dollars, and is expected to reach 40 billion by 2004 and 112 billion by 2010. These figures are remarkable, specially if compared to the current US$ 75 billion deposits now held by the Argentine financial system .

Throughout that time, Previsol AFJP and its related insurance companies have accumulated US$ 242MM, a portion of which is channeled through securities issued by the member banks, within the restrictions provided by the applicable laws.

Our Bank also operates in the capitalization life insurance business, through a company organized along with the State-owned French company "CNP Assurances" in order to market this type of products.

The object of this agreement was to maximize the synergy between our strong links with our associates and the expertise and know-how of the French company, by means of the so-called "bancassurance" (or "insurance banking").

In this instance too, a part of the long-term funds included in the insurance company's reserves are issued as securities of our Bank.

2.1.3. Mortgage loans

We have reached an agreement with an international firm in order to finance long-term residential mortgage loans.

Our bank offers mortgage-backed facilities to its associates, manages the whole risk assessment process and handles loan servicing. Thus, we can provide our customers with long-term credit assistance at competitive rates, without long-term exposure of our own or third parties' funds.

2.2. Capital resources

In recent years, the Argentine Central Bank has imposed a number of strict capitalization requirements on Argentine Banks, both companies and cooperatives.

These requirements are substantially more stringent than the Basle rules, as the capital/risk asset ratio has been increased from 8% to 11.5%. Additional requirements have been created in connection with lending interest rates, financial assets volatility and fixed assets levels.

In the specific instance of our Bank, capital requirements amount to 10.9% of all assets and 23% of risk assets.

According to the monetary authorities, this Central Bank policy is justified by the fact that financial resources and other economic indicators are more volatile in emerging countries, and consequently there is greater uncertainty as to potential loss exposure for banks.

As a result, and ironically enough, banks in emerging countries - where capital is painfully scarce - are required to make greater capitalization efforts than banks located in industrial countries.

These heavy requirements are even more burdensome on cooperatives, as they find it more difficult to obtain funding from the market.

The significant capital increases required by our Bank are due not only to regulatory reasons, but also to the banking business high investment needs, in technology, systems, training and marketing, which are essential in a highly competitive environment.

Our Bank's capital base has been formed throughout the years basically by accumulating reserves derived from operational profits. After making the deductions imposed by the legal provisions governing cooperatives, most of the surplus is allocated to the Bank's reserves; thus, our net worth steadily grows.

Our associates stick with our Bank because of the advantageous financial services provided, and not because of a significant return on their shares.

On the other hand, we have carried out an intense institutional campaign to make it clear that capitalization is the only way of ensuring growth and even preservation of our legal personality as a cooperative bank. In this regard, the Central Bank has authorized and sometimes encouraged reorganization of cooperatives as companies ("sociedades anonimas"), when they have trouble meeting capitalization requirements and other technical ratios.

Although reserve accumulation has been our Bank's main capital source, in recent years we have developed another instrument, namely, subordinated debt instruments.

Under Central Bank regulations, the minimum equity of a financial institution may include indebtedness and other liabilities whose payment is contractually subordinated to payment of other liabilities.

Subordinated debt instruments should have an average weighed life of at least 5 years, and should not exceed 50% of the so-called "basic net worth" (comprised of capital stock and revenues reserves).

In the last two years, Banco Credicoop has merged with two cooperative banks, by purchasing their assets and liabilities.

This type of merger has been encouraged by the Central Bank through several mechanisms, one of which is designed to assist purchasing banks with near-capital resources. As purchasing banks assume both assets and liabilities, capital requirements imposed on them increase, as a result of an increased amount of risk assets.

Our Bank has specifically issued two Series of subordinated notes in an amount of U$S 55MM, which were fully underwritten by the Banking Capitalization Trust Fund, a governmental agency designed to support consolidation of the Argentine banking system.

Although Banco Credicoop fully meets capitalization requirements, as its minimum equity exceeds such requirements by 27%, we decided to resort to this mechanism in order to prevent a reduction in our capitalization levels and to be able to increase our risk assets in the future.

This subordinated note issue was included in the abovementioned Global Note Program, and was rated "A+" by Duff & Phelps and "A" by Standard & Poor's.

We may use this instrument again in the future, if necessary, given our expertise in the public offer of senior and subordinated notes and the familiarity of this instrument among our associates and in the market as a whole.

2.3. Capital markets product trading

In the current financial market environment, investors have become increasingly knowledgeable and sophisticated. This trend has gradually reached the small - and medium-sized investors associated with our cooperative bank, who demand proper advising and the ability to trade in all kinds of financial instruments.

Our bank has been working to meet these demands. For a number of years now, we have been operating as brokers in the Argentine OTC market, where corporate and government bonds are traded. We have recently started operating as brokers of the local "Mercado de Valores", where shares are traded. Finally, we are implementing an investment fund operation, by establishing several fixed and variable income funds.

The goal of these actions is to provide our associates with a wide range of investment alternatives, so that they do not need to go to other sources to meet certain financial needs.

3. Some conclusions to be drawn from Banco Credicoop's experience in the capital markets

- It is essential to find medium - and long-term financing sources. As these funds are basically managed by institutional investors, it seems advisable to hold an interest in, or become related to, these fund managers, such as pension funds and insurance companies.
- The asset securitization strategy seems appropriate for our Bank to provide financial services to our associates and charge service fees, without using capital resources or assuming the risk of unmatching assets and liabilities.

- In order to be able to access the capital markets by issuing non subordinated and subordinated debt instruments, the Bank needs sound creditworthiness, liquidity and profitability indicators, which will result in good ratings by the rating agencies, where advisable or necessary. A weak financial institution is not likely to obtain funds from the capital markets. All the same, rating agencies need to know the special nature of cooperative institutions, in order to avoid judgment errors, which are likely to happen if their standard guidelines and procedures are not adapted to this specific instance.
- In order to be able to access the capital markets, financial institutions sometimes need to enter into agreements or strategic alliances with other, domestic or international, institutions. This enables them to attain scale economies and to take advantage of their know-how and expertise in specific areas. In implementing this type of agreements, priority should be given to entities belonging in the cooperative or so-called "social economy" sector. It is worth mentioning that, unfortunately, the agreements reached by our Bank have not included cooperative banks from other countries.
- It is highly beneficial to have capital or near-capital instruments, such as subordinated notes, to the extent necessary. In this regard, I think it advisable to start working gradually with these instruments, so that management, staff, associates and the market as a whole become familiar with notes issued by a cooperative institution. The target market for this type of issue includes first our associates and then investors in general.

4. Suggestions for a joint presence of Cooperative Banks in the international capital markets

These suggestions are focused on the relationship between large cooperative banks in industrial countries and cooperative banks in emerging countries.

These are just a few guidelines, which should be analyzed in further detail.

i. Large cooperative banks in industrial countries could advise cooperative banks in emerging countries on capital markets alternatives, so that the latter may benefit from the expertise and know-how of the former.
ii. During the advisory stage, based on a better understanding between these two groups of financial institutions and a deeper knowledge of the local capital markets, the parties could generate improved conditions to analyze potential joint enterprises.
iii. Large cooperative banks could, either individually or through a joint Fund created for that purpose, buy debt instruments (whether subordinated or not) from emerging countries cooperative banks, provided that appropriate security and profitability assurances are given.

JEAN-GUY LANGELIER, PRESIDENT
AND C.E.O. CAISSE CENTRALE DESJARDINS (CANADA)

THE COOPERATIVE MARKET OF CAPITAL

I am pleased to take part in this seminar on the cooperative market of capital organized by the International Co-operative Banking Association. This, of course, is a subject of great importance, partly due to the fact no company, above all a cooperative, is permitted to default on its capital. Our treasured capital can allow us to sustain the growth of our activities and assume the risks associated with our industry and our markets. Furthermore, these risks, you will appreciate, are more omnipresent in an increasing global environment, one that is also complex and difficult to manage.

I must say that the thorny issue of the capitalization of a financial institution, faced with the globalization of markets, concerns both capital-stock financial institutions and savings and credit cooperatives. I would say that the challenge is even greater for us, we who belong to the financial cooperative community. We cannot conceal the fact that our organizations and structures are not very well known either on national markets or international markets.

This being said, I would like to first of all share with you several experiences of the Mouvement des caisses Desjardins — strategies we have put into practice and systems we have put into place to improve our capitalization and the conditions stemming from it. Following that, I would like to give you a few of my reflections on the challenges facing co-operatives with regard to access to different sources of capital.

Concept of capitalization

Let me point out at the outset that there is a big distinction in the way in which a holder of capital perceives his or her investment, depending on whether it is a capital-stock financial institution or a co-operative. In fact, a holder of capital stock in a company relies on either a dividend or return on his or her investment, as well as a boosted value of the initial investment. I would add that the appreciation in the individual's investment is more often than not his or her primary motivation.

Members of a co-operative who take out capital in their co-operative can also hope for a return on their investment. However, they cannot expect the value of the security held to increase as it confers no ownership right. On the other hand, if the co-operative generates more surplus earnings due to a greater level of capitalization, they could expect to receive a higher amount of "dividends", or patronage allocations.

Accumulation of reserves

Throughout its development phases, the Mouvement des caisses Desjardins has been concerned with its level of capitalization. Incidentally, the founder himself, Alphonse Desjardins, took care to adequately capitalize the savings and credit co-operatives as soon as the first *caisses populaires* were set up. He viewed capitalization as a pivotal issue around which all other planning issues were organized.

As with the various European models of the time, each member of a Desjardins caisse had to take out at least one *membership share*, as it was called. Further, to ensure the security of the members who deposited amounts, the founder set up a reserve fund which was to reach twice the amount of share capital invested. Over the years, therefore, the caisses and federations have accumulated considerable reserves which, today, still comprise the major means of capitalization for the Desjardins group. At December 31, 1997, all the reserves lumped together were worth three and one-half billion Canadian dollars, and represented more than three - quarters of the Movement's overall capital.

Reserve funds are replenished on a yearly basis, in keeping with co-operative principles, as the capital is paid into the funds by taking into account the means and often the needs of the organization. Thus, members can pool capital from a portion or all of the surplus earnings without having to pay out new monies.

For members, supplying the reserve funds is also a gesture of continuity they make toward their co-operative, a gesture which confirms its active role of participation in the economic life of the community of which it is part. By constituting the caisse's reserves, they underline the profitability of its activities and improve its competitive edge.

Later, as the Mouvement des caisses Desjardins expanded and evolved, another vital feature was added to the concept of accumulated reserves, through legislation. This change meant that the Desjardins caisses are said to be inalienable. Indeed, due to these legislative amendments, the members of a Desjardins caisse cannot divvy up the reserves of their caisse even if affairs of their co-operative should wind up.

For many years, members had the right to redeem their capital as they saw fit. The type of share capital, introduced by the founder of the Desjardins caisses, had to be adapted over time. That is why share capital was reduced to five dollars per member, with no compensation promised. This type of capital is now called a "qualifying share".

Permanent shares

During the 1980s, the Mouvement Desjardins experienced a strong growth of its deposits and assets. It became inconceivable to quickly boost the capitalization of the caisses solely through the transfer of surplus earnings to the reserve. We therefore had to rethink our ways of amassing capital.

Accordingly, in 1990 and with the permission of the legislator, we created Desjardins permanent shares which, although issued by the caisses, were owned by the members individually. The permanent shares do not entitle their holders to vote, and meet the three recognized criteria for capitalization shares:

- the legal status is subject to the rights of depositors and other creditors;
- there are no compulsory fixed fees ascribed to the gains;
- and finally, the caisse can only redeem permanent shares in very exceptional conditions, i.e., upon the retirement or death of the member, as it wishes. This helps establish the permanent nature of the capital.

To make the permanent shares easier to market, the Mouvement Desjardins guarantees holders a higher yield than they could obtain from a term deposit. This is a moral commitment, not a legal one. The Mouvement has also established a stabilization fund to guarantee a certain yield to holders if a caisse is unable to generate surplus earnings in a given year and consequently cannot pay the compensation promised.

The permanent shares may be transferred between members or to a trust fund held by the Confédération des caisses Desjardins, which gives them a certain level of liquidity. The fund temporarily purchases the permanent shares offered by members on the secondary market, until they can be transferred to other members.

Over the years, we have continued to improve the attributes of our permanent shares. For example, it has been possible since 1994 for members to automatically reinvest the interest paid on their permanent shares in new permanent shares.

In addition, each individual caisse may decide at the local level to convert the dividends payable to its members into permanent shares. In doing so, the caisse maintains the notion of patronage allocations that distinguishes us as a financial cooperative, and it raises member awareness of the importance of increasing the capitalization of their caisse.

By the end of 1997, the permanent shares were worth nearly $700 million. They were owned by approximately 130,000 caisse members, and each member held an average estimated value of $3,500.

The success of the permanent shares clearly shows that cooperative members are willing to invest in the growth of their cooperative, provided they are offered an appropriate financial vehicle.

Subordinated Debentures

The capital market offers certain stocks that do not comply fully with the three basic criteria listed earlier, but that may nevertheless form part of a company's capital structure under international capitalization standards. Such stocks are known as subordinated debentures. In Canada, the major banks have issued debentures for a number of years, and they now account for approximately 30% of bank capitalization.

These hybrid term stocks are considered to be second category stocks because their redemption is subject to the rights of depositors and other creditors. Large debenture issues often take place on the institutional market. Debentures are extremely advantageous from a fiscal standpoint, since the interest is tax-deductible. As they have a term date, their major strategic advantage is that they enable the institution to obtain adequate capitalization during the reserve accumulation period.

Historically, the Mouvement Desjardins, through its central finance facility Caisse centrale Desjardins, has also used the subordinate debenture as a way of increasing its capitalization.

For the Mouvement, however, this was not enough! We wanted every individual caisse to have access to this institutional capital market. The problem was to find a way for each of the 1,250 caisses to obtain that access at a reasonable cost.

To solve the problem and establish this type of capital in every caisse, we had to create a bridge between the caisses and the institutional capital financial markets. We therefore created the *Société de Capital Desjardins*, whose sole objective is to acquire capital on the markets in the form of subordinate debts, and redistribute the product of the offerings to the individual caisses.

In 1995, Capital Desjardins made an initial issue of US$200 million, which was sold in a few hours on the American institutional markets.

Without going into detail, it is mandatory for all the caisses to participate in the issues, pro rata to their assets. Surplus capitalization can be transferred between caisses and even between federations.

The point to remember is this: as soon as the decision to issue debentures is made, all the caisses and federations are bound by the adoption of a resolution by the board of directors of the Mouvement des caisses Desjardins.

Caisse centrale Desjardins coordinated the distribution and marketing of the issue. Its tasks included negotiating with credit rating agencies, banks and members of the issue syndicate and deciding on the timing of the issue, depending on market conditions. Research and analysis showed that, at the time, the United States market offered conditions that were more suitable overall than those prevailing on the Canadian market, and also offered more depth as regards the amount of the issue. Presentations were made to investors, to explain both the new investment vehicle and the nature and structure of the Mouvement Desjardins, since this was the first time it had ventured onto the American market.

Thanks to this approach, it was possible to reduce the costs of the initial issue and take advantage of conditions that were beneficial for Desjardins. The results achieved with the Desjardins debentures are due directly to an American credit rating agency rating that compared favourably with the ratings usually granted to the subordinate debts issued by Canada's major chartered banks.

We selected three security underwriters based on their vast distribution networks. The three firms were complementary in terms of their marketing activities, research services, performance capacity, expertise with the credit rating agencies and their commitment to provide a secondary market for the Desjardins shares.

All these elements undoubtedly helped make the issue a success, and the shares were sold within the space of just a few hours. The anticipated receptiveness of the American institutional capital market to the Desjardins debentures was therefore confirmed.

As you can see, a considerable amount of work has now been done. The bridge exists, and it will be easier for us to cross it whenever the need arises in the future.

All these efforts to increase the Mouvement's capital produced a total of $4.8 billion at December 31, 1997. This amount can be broken down as follows:

- qualifying shares: $53 million, or 1% of the total
- permanent shares: $696 million, or 14%
- subordinated debentures: $410 million, or 9%
- undistributed
- reserves & surplus earnings: $3.6 billion, or 76%

Let me add to these figures by commenting on the capitalization structure, which is as important, strategically speaking, for a financial service cooperative as it is for a capital stock bank.

In my opinion, the capital structure of a financial cooperative should be characterized by a predominance of non-refundable reserves. This creates a considerable financial advantage for the cooperative, and the inalienable nature of the reserves guarantees their sustainability.

The other capitalization instruments are directed more towards optimal capitalization management. In addition, these sources of capital must be made available in stages, as the necessary conditions are established according to market rules.

I would like to take advantage of this opportunity to talk to you about the prevailing market conditions for cooperatives wishing to obtain capital.

Capitalization Standards

Let us start by considering capitalization standards. In societies based on a market economy, it is generally agreed that the level of capitalization of a financial cooperative is established not by general assemblies of members or by a constituting Act alone, but by the capitalization standards required by the financial markets.

With the globalization of financial activities, capitalization standards are themselves influenced by international standards, such as those of the Bank for International Settlements, which has fixed the minimum level of capital required at 8% of the assets at risk.

Compliance with these international standards is the only realistic avenue, even though financial cooperatives in general, and Desjardins in particular, are not obliged to comply.

Other than the level of capitalization, there is also a notion - recognized and appreciated by the financial markets - of solidarity of capital between the components of a network. Accordingly, our Savings and Credit Unions Act states that the legal capitalization requirements apply to the cumulative capitalization of the caisses in a federation, and not to the specific capitalization of each individual caisse. It was as a result of this that the expression "network guarantee" was coined.

Although each of our eleven federations complies with the capitalization standards on a cumulative basis, a small number of individual caisses could eventually fail to do so. The collective approach enables us to be more flexible when planning development within the eleven networks, and to make better use of the capital available.

In Québec, as in other regions, some caisses operate in areas where economic development opportunities are limited, while in other areas the potential is much greater.

The notion of solidarity is also expressed in the form of an equity maintenance agreement between the federations and Caisse centrale Desjardins. The Centre, whose mandate is to supply funds to the network, is thus better able to offer stockholders a capital ratio that complies with market standards and meets the credit rating agencies' quality criteria.

Credit Rating Agencies

Second, to have recourse to the national or international capital markets, institutions must submit to an evaluation by the major credit rating agencies and specialized financial analysts.

The goal of the analyses is to identify the risks faced by an institution in its activities, in order to forecast trends. The analyses use a range of financial ratios related to the balance sheet and operating results, and also involve an evaluation of the institution's managements and projects.

The agencies do not evaluate the relevance of buying or selling an investment stock. Rather, they estimate the institution's capacity to meet its interest payments and debt repayments. They try to anticipate anything that might cause the risks to deteriorate.

Accordingly, they examine asset quality, especially the distribution, composition and diversification of the loan portfolio, attempting to anticipate any problems that might eventually affect the results. Some types of loans - for example, mortgage loans or loans guaranteed by a government body - have a positive impact on balance sheet quality. The agencies also measure the level of gross doubtful loans and their coverage ratio.

This involves examining credit policies, preferred industrial sectors, the methods used to manage difficult cases, the economic environment in the regions covered by the institution and the geographical diversification of the risks.

Too great a concentration in a same market or an industrial sector places an institution in a position of weakness should economic difficulties or political uncertainties arise. Moreover, too great a concentration on the same geographical territory can curb the growth of revenues and make the institution more vulnerable to competitors that are more diversified.

A second item carefully examined by rating agencies is the amount of liquidities maintained and the quality of securities held as such. As you know, an adequate level of liquidities enables a financial institution to react quickly to the short-term fluctuations of its deposits and allows for a certain flexibility in financial management when the economic or political climate is shaky. Furthermore, liquidities, which generate a portion of an institution's revenues, guarantee a certain stability of future revenues.

Generally speaking, a financial co-operative has at its disposal substantial amounts of liabilities/deposits of individuals that are often very well distributed. Nevertheless, these deposits have to be consolidated through an outside supply of capital from various sources, without the supply being disproportionate in relation to the amount of deposits made by members. To reach a level diversification in the supply of funds deemed safe by credit rating agencies, the setting up of supplementary lines of credit is often necessary.

An institution must also be able to count on a rigorous matching management policy which identifies the repercussion of interest rate fluctuations on its margin. In addition, the financial institution must have various sources of revenues available other than interest charges, from sources such as banking services, complementary services and derivatives and must be able to deal in cross-selling.

The loyalty of members to their co-operative, of which they are owners, is a non-negligeable advantage our institutions have over capital-stock banks, since it fosters a closer relationship between the co-operative and the member. Finally, agencies are concerned with the current or future regulatory climate, which can sometimes promote co-operative institutions and protect their market shares and profitability.

All these measures are compared with similar data in the industry. Obviously, these results are not necessarily all at the same level and, in certain cases, the greater strength of one may compensate for the weakness of another.

This being said, there exists in most industries a key component that the credit rating agencies watch out for: a firm's level of productivity as compared to its competitors, that is, its cost of production compared to the revenue generated.

On this topic, the major criticism with regard to co-operatives concerns their level of productivity. Indeed, co-cooperatives commonly have higher expenses as compared to their competitors, to arrive at the same amount of revenue.

When surplus earnings are proportionately lower than those of the competition, the specific features, advantages and costs of the co-operative structures are sometimes difficult to explain or justify.

Therefore, it is crucial that co-operatives, which would like to have access to outside capital at a reasonable cost, post or aim for a level of productivity comparable to that of their capital-stock competitors. These days, just the fact of being a cooperative is not enough to justify higher operating expenses than those of the competition, unless they are completely sheltered from the ups and downs of the financial marketplace.

Some people will most certainly object that if they are afraid they will not be able to reach market standards, financial co-operatives simply have to opt for the status quo and restrict the growth of their capital through reserve funds, so as not to lose the profile they have on outside capital markets.

To these people, I would reply that members will no longer remain loyal to their co-operatives if they can meet all their financial needs at better conditions and if they obtain a better return on their investments in capital-stock financial institutions.

In fact, member relationships with savings and credit co-operatives these days tend to be strongly influenced by the rules of competition. With a wider supply of financial services, and the mass solicitation they receive, members now exhibit less loyalty to their co-operatives.

Therefore, at Desjardins, half of our members today also do business with another financial institution. This is a phenomenon which concerns us and which we are trying to address. But, with the boom in services and the multiplication of distribution means through which financial services are offered, our members have not finished being wooed by both former and new competitors.

To evaluate the profitability and efficiency of their co-operatives, members are increasingly leaning toward factors such as customer satisfaction, a better comprehension of members' needs, staff competency and the effectiveness of their co-operative, to which we can add comparable interest rates and rates of return.

Succinctly put, members want to have a co-operative that excels both as regards services and its profitability and productivity. The challenge now facing co-operatives is therefore to retain their unique features, while catching up to the standards of capital-stock companies.

Ladies and gentlemen, I thank you for your attention and remain available for any questions or comments.

MR. HANS DAHLBERG
CEO, INTERNATIONAL CO-OPERATIVE AND MUTUAL INSURANCE FEDERATION (UK)

First of all I would like to state that I am indeed honoured to be invited to the 1998 ICBA seminar. ICBA and the organization I represent - ICMIF - are the two specialized organizations of ICA that are engaged in the financial industry sector. As we have many similar problems - capitalization being one - I look forward to possibilities for a more structured information sharing and collaboration in years to come.

Today I would like to share with you a process within the ICMIF and among its members, which started way back in 1991-1992 and where we last week at our board meeting in Tokyo decided on the first concrete action to go forward. When we first started in 1991 we were looking at finding a way of working together to solve the capital needs of our members. In retrospect, that was too ambitious at that stage. However, the decision last Monday will probably have a significant positive effect on the international co-operation between our members in the field of investment. My hope is that once we get a concrete joint activity going it will then lead to future new possibilities perhaps also in line with the original ambition.

What was decided and what are we planning to do?

Before I go into the details let me just make one point of observation which is important.

In our studies and reviews in the last few years we have found that co-operative and mutual insurers generally are doing well on their respective markets. The overwhelming majority of our members concentrate primarily on personal lines of insurance. Their results are good. The international players on the reinsurance market are keen to have our members to cede their reinsurance needs through them. We know this for sure as ICMIF Reinsurance Services - the unit within our office that work as a "broker" - constantly receive requests from these players who wish to collaborate with us and have our business.

Similarly, the investment managers of our member organizations are also doing well. Concentrating on their domestic insurance markets they have a superior localized investment skill which many times outperforms the national index. For us the question must be how we can make use of this competitive advantage on an international basis?

Last Monday we decided to set up **The ICMIF Series of Mutual Funds.** The aim is to find an investment vehicle that produces a workable solution for ICMIF members to willingly cross invest in each other's funds.

The process in arriving at this current situation was that the Strategic Review Group set up in the early 1990's identified capital issues as one of the key functions that ICMIF needed to address on behalf of its members. One of the issues was a proposal for a mutual capital fund that meet members' capital needs as well as providing investment returns.

At the annual workshop of the ICMIF Investment Network held in April this year we presented a proposal to set up a Mutual Global Fund. Let me explain this. At the ICMIF we have 6 active networks of professionals and top managers appointed by our member organizations. Besides investment and portfolio experts and vice presidents, the other networks represent reinsurance, information technology - IT, marketing, corporate strategy & intelligence, and customer satisfaction. These networks meet on a regular basis. The support for the concept was accepted by a sufficient number of investment managers to merit further investigation of the concept. A small Task Force of investment professionals were appointed to consider the proposal. It was concluded that the ideology was sound but the practical implications were fraught with problems, most of which were political and would probably cause the proposal to fail before it started.

For us at the secretariat it has all the time been a key to any success to have the blessing of the investment professionals within our member organizations. They are the ones who are responsible for the asset allocation of policyholders' funds. The chief executives and the board of directors will never go against them and consequently without the consent of their investment professional no proposal will succeed. The Task Force consequently came up with the final solution.

The ICMIF Series of Mutual Funds

Background

Here you can see the chronological development:

International Reserve Fund - IRF - was a proposal for a type of Special Drawing Right - SDR - mechanism. Members would make pledges according to a set of rules. These pledges could then be drawn upon when a developing member was in need of capital and could meet certain laid down criteria. The proposal has been shelved.

Aim

Let me dwell for a moment on the aims that were spelled out for closer collaboration during the process. Here are some of the arguments listed:

- The insurance market is becoming more global. Members' invested assets need to reflect this globalization.
- Global financial houses realize that in order to provide good returns on funds they need to have a physical presence in each market they represent and set up offices in key financial centres worldwide. The alternative is to contract the investment advice from local firms. Either of these options requires a significant cost outlay. ICMIF already has this network of fund managers in place.
- By tapping into members' own markets and ICMIF fund project can obtain access to specialist knowledge in local markets.
- There is no comparable fund project that utilizes the common principles of mutual and co-operative fund managers.
- Members on average invest less than 10 % of their invested assets overseas and even then the overseas investments are predominently in nearby countries, whose bourses are often closely linked with their own. A global project allows managers to achieve greater risk diversification.
- Many ICMIF Investment Network members have expressed an interest in investing in each other's markets; this provides a vehicle to satisfy that request.

The proposal

Members wishing to participate fall into two groups:

1. Members offering investment funds for other members to invest in, and
2. Members investing in those funds.

Functional Flow

Members can opt for participation as investors only (Group 2) or as investors and fund managers (Groups 1 and 2). This has the benefit of allowing smaller members to participate as investors. Members wishing to offer their own mutual funds for other members to invest in, do so through a centralized administration information centre and data base at the ICMIF secretariat especially designed for the ICMIF Series of Mutual Funds. Data will be collected from members about their funds in order to provide an online central information source for potential investees and investors. Those members wishing to invest in the funds can select those funds of interest to them and deal directly with the fund manager. The proposal is similar in its working to the way reinsurance business is transacted between ICMIF members, which as a 50-year proven track record.

Process of Implementation

The annual meeting of the ICMIF Investment Network, which is already attracting 26 delegates, will be utilized as a forum for investment managers and participants to discuss funds and performance and make presentations about new funds, as well as providing the usual external speakers.

A steering committee of representatives from our ICMIF members will supervise the activities of the ICMIF secretariat. The steering committee will be responsible for the number of funds, administering the rules, providing general reporting guidelines and further developing a structure. The committee would meet 3 or 4 times in a year.

It is envisaged that marketing of the ICMIF Series of Mutual Funds would be carried out by the ICMIF secretariat.

Initial investment funds offered by members would be either established funds if direct investment is permitted, or would mirror existing funds that members already offer to their policyholders. This has the benefit of providing an existing performance record and would be easier for members to manage within existing systems as well as being simpler and quick to start.

Benefits of the proposal

- Fully flexible investment
- Allows members freedom to choose where and when to invest in
- Market forces will dictate the success of each fund manager
- Set-up and administration costs are kept to a minimum
- Considerably cheaper than other global investing solutions such as through brokers
- Fast time to market
- Easily understandable
- Utilizes skills of local fund managers in overseas markets
- Fund managers are known and accessible to investors
- Existing forum for discussion between fund managers and investors already in place
- Members deal direct with each other thus stimulating member relations

The proposal has been accepted by our board. 5 member companies have already committed themselves to participate. When we start to make this known I am sure there will be yet more members who wish to participate. On the other hand it may be wise for us to not rush the marketing but concentrate to get the scheme in place and the project off the ground.

Also there are some problems that we have to look further into such as the fact that statutory and regulatory requirements differ from country to country. Another aspect is that members' tax legislation consideration may outweigh the investment opportunity.

I would like to conclude by making reference to stimulating member relations. By doing so I would also like to refer to Claude Béland's introductory comment in your 1997 seminar when he stressed the importance to develop intercooperation with the different co-operatives in the world. It was also stated that "the main reason for members to invest in their co-operatives is closely related to the way they use the servies offered by the co-operatives". We continually have to find ways to improve services. Let us as partners in a global family better explore possible benefits of international collaboration.

I would like to make an appeal. In the ICMIF we have now taken a step in the right direction. We must however look further. What measures can we take in strengthening weak co-operative members and markets? There are substantial resources and strengths in the co-operative movement world-wide.

Let me share with you some figures:

Assets of the 10 largest:

Assets of the 10 largest banks within your organization - ICBA - exceeds USD 1.2 trillion.

Annual turnover of the 10 largest consumer co-operative societies is USD 89.4 billion.

Annual turnover of the 10 largest agricultural co-operative societies is USD 453 billion.

Assets of the 10 largest ICMIF members totalled USD 296.6 billion and the premiums totalled USD 82 billion.

The ICMIF slogan is "A Global Reach For Local Strength". By working together and in a constructive way utilize one anothers' experiences our members can hopefully benefit and strengthen their market position. This is in our sector of insurance.

We have weak members as well. Similarly weak co-operative markets have the same needs as our weak members.

Could we together work out a mechanism targeted to support the development of the global co-operative sector? You as bankers have a most needed insight and professional competence.

The title of todays seminar is Utopia or Possible Reality. I don't know what I should call my proposal - if it is either of those. What I know is that in order to try to find workable solutions, the creative process has to start somewhere.

Why not here today?

Thank you.

Background

1992 Strategic Review Group "capital" as key issue

1996 Board of Directors Meeting Wiesbaden
- resolved to study capital-support mechanisms

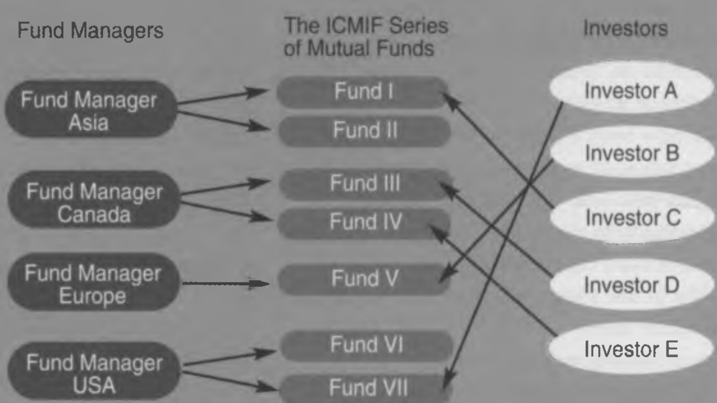
1997 Full Conference Puerto Rico
"Mutual Capital F." & "International Reserve F."

Setup of task group to study options

1998 Board of Directors Meeting Osaka
"The ICMIF Series of Mutual Funds"

ICMIF

Functional Flow



Steering Committee ICMIF
Investment Network

ICMIF

MR. ÉTIENNE PFLIMLIN
PRESIDENT, CONFÉDÉRATION NATIONALE DU CRÉDIT MUTUEL
(PARIS, FRANCE)

HIGHLIGHTS OF PRESENTATIONS

Mr. Pflimlin praised the high quality of the presentations. His summary outlines the main trends and include some remarks of his own.

- We share a common view of the environment which, in the current crisis context on financial markets, confronts us all with new challenges;
- we now have a better knowledge of the financial markets and inherent risks because we respond more specifically to our clients' needs;
- rather than concentrating financial risks in one region, we should try to diversify them;
- by mobilizing experts from different countries, we have better information about investment opportunities in these countries;
- all previous findings show that we should make use of our diversity to spread the risk of our investment capacity more effectively;
- it is essential to remain closer than ever to our markets, irrespective of the size of our organizations;
- financial reengineering should not only respond to the financing needs of banks but also be of benefit and lead to advantages for members;
- since co-operative banks now use market instruments and market analysts are interested in them and give them more credibility than before, now would be a good time for closer dialogue between the two groups and for the banks to invent performance measurements based more on their distinctive character and particular objectives;
- the quality of products combined with good management and a good fit between financial products and market make us less dependent than people might think on financial markets and access to capital;

- the four tools of capitalization suggested by the speakers could be put to work for members, namely holdings, joint ventures, partnerships with capital participation and the "bancassurance-type" crossed-sales system

In conclusion, Mr. Pflimlin stressed the essential nature of the indivisibility of reserves, which is the very foundation of co-operative banks and guarantees their solidity and independence.

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