



Federal Deposit Insurance Corporation

550 17th Street NW, Washington, D.C. 20429-9990

Division of Supervision and Consumer Protection

January 26, 2006

VIA FACSIMILE AND CERTIFIED MAIL RETURN RECEIPT REQUESTED

Board of Trustees
Salem Five Cents Savings Bank
210 Essex Street
Salem, Massachusetts 01970-3793

Dear Members of the Board:

The notice of intent to effect a mutual holding company reorganization with the organization of an interim institution and a merger to facilitate a conversion from a mutual to stock form filed on behalf of Salem Five Cents Savings Bank (Bank), was reviewed by the Federal Deposit Insurance Corporation (FDIC) pursuant to the FDIC's regulations at 12 C.F.R. Sections 303.160 – 303.163 and other pertinent FDIC regulations. Based on the information presented and the representations made, the FDIC poses no objection to the proposed conversion transaction.

Enclosed is our Order and Basis for Corporation Approval (Order) for the applications filed on behalf of the Bank in conjunction with the conversion transaction, including considerations of deposit insurance and the proposed merger with the newly-formed companies established to facilitate the transaction. Our approval is subject to the conditions stated in the Order, some of which must be met on an ongoing basis.

As part of the notice, the Bank requested, in accordance with 12 C.F.R. Section 303.161(a)(2), a waiver of certain provisions of the FDIC's regulations pertaining to mutual-to-stock conversions, specifically, the depositor vote requirement of 12 C.F.R. Section 333.4(c)(2). We have reviewed the Bank's request and have found that a sufficient number of independent incorporators voted in favor of the proposed conversion. Therefore, the Bank's request for a waiver is granted.

In addition, acting on behalf of the Board of Directors of the Federal Deposit Insurance Corporation under delegated authority, I have approved the application of Bank to purchase assets and assume liabilities of Heritage Co-operative Bank, Salem, Massachusetts. The approval is subject to the conditions included in the attached Order and Basis which addresses this acquisition.

Please notify the Boston Area Office in writing when the proposed transactions have been consummated. If an extension of time limit included in the Orders are required, a letter requesting a specific extension of the limitation, including reasons therefore, should be submitted to the Boston Area Office.

Sincerely,

/S/

John M. Lane
Deputy Director

Enclosure

cc: Carol Hempfling Pratt
Foley Hoag LLP
Seaport World Trade Center West
155 Seaport Boulevard
Boston, Massachusetts 02210-2600

FEDERAL DEPOSIT INSURANCE CORPORATION

Salem Five Cents Savings Bank
Salem, Essex County, Massachusetts

Application for Federal Deposit Insurance and Consent to Merge

ORDER AND BASIS FOR CORPORATION APPROVAL

Pursuant to Section 5 and Section 18(c) and other provisions of the Federal Deposit Insurance (FDI) Act, an application has been filed on behalf of Salem Five Cents Savings Bank, Salem, Massachusetts (Mutual Institution), currently a state-chartered, mutually-owned Bank Insurance Fund (BIF) member with total resources of \$1,897,832,000 and total deposits of \$1,318,247,000 as of September 30, 2005, for the FDIC's consent to merge with Salem Five Cents Interim Stock Bank, Salem, Massachusetts, a proposed new interim, state-chartered stock savings bank. In addition, applications have been filed for Federal deposit insurance for Salem Five Cents Interim Mutual Bank (a *de novo* mutual savings bank to be subsequently organized into a mutual holding company) and Salem Five Cents Interim Stock Bank. In connection with the proposed transaction, Mutual Institution has filed an application to acquire the assets and assume the liabilities of Heritage Co-operative Bank, Salem, Massachusetts, which is being dealt with in a separate action.

The transaction is to effect the Mutual Institution's plan of reorganization which, solely to facilitate such undertaking, provides for:

- Salem Five Cents Savings Bank to organize a new *de novo* mutual savings bank under Massachusetts law to be known as Salem Five Cents Interim Mutual Bank.
- Salem Five Cents Interim Mutual Bank to reorganize its mutual savings bank to become a mutual holding company to be known as Salem Five Bancorp.
- Salem Five Bancorp to establish a Massachusetts stock corporation subsidiary to be known as Salem Five Cents Interim Stock Bank.
- Salem Five Cents Savings Bank to immediately merge with and into Salem Five Cents Interim Stock Bank, under the name of Salem Five Cents Savings Bank, but with the charter of the Salem Five Cents Interim Stock Bank surviving (Resultant Bank).

Upon consummation of the reorganization, the deposits of the Salem Five Cents Savings Bank will continue to be insured under the BIF. On the effective date of the reorganization, Salem Five Cents Savings Bank will be a stock bank that is wholly-owned by Salem Five Bancorp. Applications for the establishment of Salem Five Bancorp have been filed with the Board of Governors of the Federal Reserve System. Following consummation of the merger, Salem Five Cents Savings Bank will operate the same banking business, with the same management, at the same locations now being served by the Mutual Institution. The proposed transaction, per se, will not alter the competitive structure of banking in the market served by the Mutual Institution.

Salem Five Cents Savings Bank's main office will continue to be located at 210 Essex Street, Salem, Massachusetts.

Notice of the proposed transaction, in a form approved by the FDIC, has been published pursuant to the FDI Act. A review of available information, including the Community Reinvestment Act (CRA) Statement of the proponent, disclosed no inconsistencies with the purposes of the CRA. The Resultant Institution is expected to continue to meet the credit needs of its entire community, consistent with the safe and sound operation of the institution.

In connection with the applications, the FDIC has taken into consideration the financial and managerial resources and future prospects of the proponent banks and the Resultant Bank, the convenience and needs of the community to be served, and the effectiveness of the Resultant Bank's efforts in combating money laundering activities. In connection with the applications for deposit insurance, the FDIC has taken into consideration the: financial history and condition; adequacy of the capital structure; future earnings prospects; general character and fitness of management; risk to the insurance fund; convenience and needs of the community; and consistency of corporate powers. Having found favorably on all statutory factors and having considered other relevant information, including reports on the competitive factors furnished by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, and the Attorney General of the United States, it is the FDIC's judgment that the applications should be and hereby are approved, subject to the following conditions:

1. That, except for the proposed transfer of stock to Salem Five Bancorp, no shares of the stock of Salem Five Cents Savings Bank shall be sold, transferred or otherwise disposed of, to any person (including any Employee Stock Ownership Plan) unless prior notice is provided to, and non-objection is received from, the FDIC;
2. That, prior to a sale, transfer or other disposition of any shares of Salem Five Cents Savings Bank by Salem Five Bancorp, to any person (including any Employee Stock Ownership Plan) or a conversion of Salem Five Bancorp, to stock form, Salem Five Cents Savings Bank will provide written notification to the FDIC and provide the FDIC with copies of all documents filed with the state and Federal banking and/or securities regulators in connection with any sale, transfer, disposition or conversion;
3. That, should any shares of stock of Salem Five Cents Savings Bank be issued to persons other than Salem Five Bancorp, any dividends waived by Salem Five Bancorp must be retained by Salem Five Cents Savings Bank and segregated, earmarked or otherwise identified on its books and records; such amounts must be taken into account in any valuation of the institution and factored into the calculation used in establishing a fair and reasonable basis for exchanging shares in any subsequent conversion of Salem Five Bancorp, to stock form; such amounts shall not be available for payment to or the value thereof transferred to minority shareholders, by any means including through dividend payments or at liquidation;

4. That, any change in proposed management, including the board of directors, will render this approval null and void unless such proposal is approved by the FDIC prior to the consummation of the proposed transaction;
5. That, upon formation of the Heritage/Salem Five Charitable Foundation, the Foundation's Board of Directors shall commit to:
 - (a) The Foundation shall be subject to examination by the FDIC;
 - (b) The Foundation shall comply with all supervisory directives imposed by the FDIC;
 - (c) The Foundation shall operate in accordance with written policies adopted by the Foundation's board of directors, including the adoption of a conflicts of interest policy acceptable to the FDIC;
 - (d) The Foundation shall not engage in self-dealing, and will comply with all laws necessary to maintain its tax-exempt status under the Internal Revenue Code; and
 - (e) The Foundation shall provide to the FDIC a final operating plan, and will also provide to the FDIC annual reports describing grants made, and the grant recipients.
6. That, the proposed transaction may not be consummated unless and until the Resultant Bank has the authority to conduct banking business, and that its establishment and operation as a stock savings bank have been fully approved by appropriate Commonwealth of Massachusetts officials, and its holding company, Salem Five Bancorp, is granted approval by the Board of Governors of the Federal Reserve System to become the holding company for Salem Five Cents Savings Bank.
7. That, the transaction shall not be consummated sooner than fifteen calendar days after the date of this Order nor later than six months after the date of this Order, unless such period is extended for good cause by the FDIC; and
8. That, until the proposed transaction is consummated, the FDIC shall have the right to alter, suspend, or withdraw its approval should any interim development be deemed to warrant such action.

By Order of the Deputy Director of the Division of Supervision and Consumer Protection pursuant to the delegated authority of the Board of Directors.

Dated at Washington, D.C. this 26th day of January, 2006.

/s/

John M. Lane
Deputy Director
Division of Supervision and Consumer Protection