



Federal Deposit Insurance Corporation  
550 17th St. NW Washington DC, 20429

Division of Supervision and Consumer Protection

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August 23, 2006

**VIA FACSIMILE AND CERTIFIED MAIL RETURN RECEIPT REQUESTED**

Board of Directors  
Cape Cod Co-operative Bank  
121 Main Street  
Yarmouth Port, Massachusetts 02675

Dear Members of the Board:

The Notice to effect a mutual holding company reorganization with the organization of an interim institution and a merger to facilitate a conversion from mutual form to stock form filed on behalf of Cape Cod Co-operative Bank, Yarmouth Port, Massachusetts (Bank) has been 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 representations made, we do not object to the proposal.

Enclosed is our Order and Basis for Corporation Approval (Order) for the applications filed on behalf of Cape Cod Co-operative Bank in conjunction with the conversion transaction, including considerations of deposit insurance and the proposed merger. 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 has requested, in accordance with 12 C.F.R. Section 333.4(a), a limited waiver of certain provisions of the FDIC's regulations pertaining to mutual-to-stock conversions, specifically, the depositor voting requirement imposed by 12 C.F.R. Section 333.4(c)(2). The FDIC acknowledges the Bank's extraordinary efforts to inform depositors about the special meeting and about the purpose of the special meeting, and appreciates the Bank's dilemma in trying to satisfy the laws and rules of both the Commonwealth of Massachusetts and the FDIC. For these reasons, the FDIC has granted the limited waiver pursuant to 12 C.F.R. Section 303.162(a) (2).

Please advise the Boston Area Office in writing when the proposed transaction has been consummated. If an extension of the time limit included in the Order is 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: Richard A. Schaberg  
Thacher Proffitt & Wood  
1700 Pennsylvania Avenue, NW  
Suite 800  
Washington, DC 20006

FEDERAL DEPOSIT INSURANCE CORPORATION

Cape Cod Co-operative Bank  
Yarmouth Port, Barnstable 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 Act (FDI Act), an application has been filed on behalf of Cape Cod Co-operative Bank, Yarmouth Port, Massachusetts, (Mutual Institution), currently a state-chartered mutually-owned Deposit Insurance Fund member with total resources of \$470,313,000 and total deposits of \$364,967,000 as of June 30, 2006, for the FDIC's consent to merge with Cape Cod Co-operative Bank (Stock Bank), Yarmouth Port, Massachusetts, a proposed new state-chartered stock co-operative bank, the Resultant Bank. In addition, an application has been filed for Federal deposit insurance for "Cape Cod De Novo Co-operative Bank" (Interim Mutual) and Stock Bank.

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

- the bank to establish a de novo Massachusetts chartered mutual co-operative bank, to be known as Interim Mutual ;
- the Interim Mutual to reorganize into a Massachusetts chartered mutual holding company to be known as "Coastal Affiliates, MHC" (MHC); and simultaneously establish a wholly-owned stock co-operative bank to be known as Stock Bank;
- the bank to immediately merge with and into the Stock Bank, with the Stock Bank as the surviving entity under the name of "Cape Cod Co-operative Bank" which will be a Massachusetts stock co-operative bank (Resultant Bank).

At the conclusion of the reorganization, the deposits of the Mutual Institution will continue to be insured under the Deposit Insurance Fund. The Application for the establishment of MHC has been approved by the Federal Reserve Bank of Boston. Following the consummation of the merger, the Resultant Bank will operate the same 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. The Resultant Bank's principal office will continue to be located at 121 Main Street, Yarmouth Port, 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 prospects of the proponent banks and the Resultant Bank, and the convenience and needs of the community to be served. The FDIC has also taken into consideration the effectiveness of the insured depository institutions involved in the proposed merger transaction in combating money-laundering activities. In connection with the application for deposit insurance, the FDIC has taken into consideration the financial history and condition, adequacy of the capital structure, 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 all reports on competitive factors furnished by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Director of 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 Coastal Affiliates, MHC, no shares of the stock of Cape Cod Co-operative 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 Coastal Affiliates, MHC to any person (including any Employee Stock Ownership Plan), or a conversion of Coastal Affiliates MHC to stock form, Cape Cod Co-operative 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 such sale, transfer, disposition or conversion;
3. That should any shares of the stock of Cape Cod Co-operative Bank be issued to persons other than Coastal Affiliates, MHC, any dividends waived by Coastal Affiliates MHC must be retained by Cape Cod Co-operative Bank and segregated, earmarked, or otherwise identified on the books and records of Cape Cod Co-operative Bank. 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 Coastal Affiliates, MHC, 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 or proposed ownership (ten percent or more of the stock and new acquisitions of, or subscriptions to, ten percent or more of the stock), 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 the proposed transaction may not be consummated unless and until Resultant Bank has the authority to conduct banking business, and that its establishment and operation as a stock co-operative bank has been fully approved by appropriate Commonwealth of Massachusetts officials.
6. That the transaction shall not be consummated within less than fifteen days after the date of this Order, or later than six months after the date of this Order, unless such period is extended for good cause by the FDIC; and
7. 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 Acting 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 23rd day of August, 2006.

/s/

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John M. Lane  
Deputy Director