May 27, 2004

VIA FACSIMILE AND BY CERTIFIED RETURN RECEIPT REQUESTED

Board of Trustees  
First Savings Bank of Perkasie  
1211 North Fifth Street  
Perkasie, Pennsylvania 18944

Dear Board Members:

The notice of intent to convert from mutual to stock form filed on behalf of First Savings Bank of Perkasie, Perkasie, Pennsylvania, has been reviewed by the Federal Deposit Insurance Corporation (FDIC) pursuant to the FDIC’s regulations at 12 C.F.R. Sections 303.163 and 333.4. Based on the information provided and representations made, the FDIC poses no objection to the proposed conversion transaction.

Please notify our New York Regional Office in writing when the proposed transaction has been consummated.

Sincerely,

/S/

John M. Lane  
Deputy Director

cc: John F. Breyer, Jr., Esquire  
Breyer & Associates PC  
8180 Greensboro Drive, Suite 785  
McLean, Virginia 22102-3888
FEDERAL DEPOSIT INSURANCE CORPORATION

First Savings Bank of Perkasie
Perkasie, Bucks County, Pennsylvania

Application for Consent to Merge

ORDER AND BASIS FOR CORPORATION APPROVAL

Pursuant to Section 18(c) and other provisions of the Federal Deposit Insurance Act (FDI Act), an application has been filed on behalf of First Savings Bank of Perkasie, Perkasie, Pennsylvania (Mutual Institution), currently a Pennsylvania-chartered mutual savings bank and Savings Association Insurance Fund (SAIF) member with total resources of $856,064,000 and total deposits of $554,489,000 as of December 31, 2003, for the FDIC's consent to merge with Perkasie Interim Merger Savings Bank (In Organization) (Interim Two), Perkasie, Pennsylvania, a proposed new interim Pennsylvania-chartered stock savings bank.

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

- Mutual Institution will organize an interim Pennsylvania-chartered stock savings bank, Perkasie First Interim Savings Bank (Interim One), as a wholly-owned subsidiary.

- Interim One will organize a Pennsylvania stock corporation, FSB Bankshares Corporation, Perkasie, Pennsylvania, and an interim Pennsylvania-chartered stock savings bank, Perkasie Interim Merger Savings Bank (Interim Two), each as a wholly-owned subsidiary. FSB Bankshares Corporation will be capitalized with $250,000.

- Mutual Institution will convert to stock form and exchange its articles of incorporation and bylaws for those of a Pennsylvania-chartered stock savings bank (the Stock Bank).

- Interim One will cancel the outstanding shares of its stock and exchange its charter for a Pennsylvania mutual holding company charter under the name of FSB Mutual Holdings, Inc., which will be capitalized with $100,000.

- Interim Two will merge with and into the Stock Bank, with the Stock Bank as the surviving entity (the Resultant Bank) and a wholly-owned subsidiary of FSB Mutual Holdings, Inc.; and

- FSB Mutual Holdings, Inc. will transfer the stock of the Resultant Bank to FSB Bankshares Corporation. The Resultant Bank will become a wholly-owned subsidiary of FSB Bankshares Corporation, which in turn will be a wholly-owned subsidiary of FSB Mutual Holdings, Inc.
The Resultant Bank will continue to operate with the title of First Savings Bank of Perkasie, Perkasie, Pennsylvania, and its deposits will continue to be insured under the SAIF. Following consummation of the merger, the Resultant Bank will operate the same banking business, with the same management, and at the same locations as Mutual Institution. The proposed transaction will not alter the competitive structure of banking in the market served by Mutual Institution. The Resultant Bank's main office will be at 1129 North Fifth Street, Perkasie, Pennsylvania.

Applications for reorganization and conversion of Mutual Institution and the subsequent merger of the Stock Bank with Interim Two were approved by the Commonwealth of Pennsylvania Department of Banking. Applications for the establishment of FSB Mutual Holdings, Inc. and for FSB Bankshares Corporation to acquire First Savings Bank of Perkasie subsequent to its conversion to a stock savings bank were filed with the Federal Reserve Bank of Philadelphia (Federal Reserve).

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 Mutual Institution, discloses no inconsistencies with the purposes of the CRA. The Resultant Bank 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 application, the FDIC has taken into consideration the financial and managerial resources and future prospects of the proponent banks and the Resultant Bank, and the convenience and needs of the community to be served. 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 application should be and is hereby approved, subject to the following conditions:

1. That, except for the proposed transfer of stock to FSB Bankshares Corporation, no shares of the stock of the Resultant 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-object is received from, the FDIC;

2. That, prior to the sale, transfer, or other disposition of any shares of FSB Bankshares Corporation by FSB Mutual Holdings, Inc., to any person (including any Employee Stock Ownership Plan), or a conversion of the mutual holding company to stock form, Resultant Bank will provide written notification to the FDIC and provide the FDIC with copies of all documents filed with state and federal banking and/or securities regulators in connection with such sale, transfer, disposition, or conversion;

3. That should any shares of the stock of Resultant Bank or FSB Bankshares Corporation be issued to persons other than FSB Mutual Holdings, Inc., any dividends waived by FSB Mutual Holdings, Inc., must be retained by FSB Bankshares Corporation or Resultant Bank and segregated, earmarked, or otherwise identified on the books and records of FSB Bankshares Corporation or Resultant...
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 FSB Mutual Holdings, Inc. 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 the proposed transaction may not be consummated unless and until FSB Mutual Holdings, Inc. and FSB Bankshares Corporation, are granted approval by the Federal Reserve to become holding companies for the Resultant Bank;

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.

Pursuant to delegated authority.

Dated at Washington, D.C., this 15th day of March, 2004

By: /S/

Lisa K. Roy
Associate Director
Division of Supervision and Consumer Protection