

November 5, 1997

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

Board of Trustees  
Franklin Savings Bank  
81 Main Street  
Farmington, Maine 04938

Dear Board of Trustees:

The applications for approval of federal deposit insurance for two interim institutions and a merger to facilitate a conversion from a mutual to stock form, and notice of intent to convert from mutual to stock form filed on behalf of Franklin Savings Bank, Farmington, Maine ("Franklin") have been reviewed by the Federal Deposit Insurance Corporation ("FDIC") pursuant to 12 C.F.R. section 303.15 and other pertinent FDIC regulations. Based on the information and representations presented, we do not object to the proposal.

Enclosed is our Order and Basis for Corporation Approval for the applications filed on behalf of Franklin in connection with the conversion transaction, including considerations of deposit insurance and the proposed merger.

Please furnish the FDIC's Boston Regional Office with satisfactory evidence of the bank's compliance with the conditions stated in the enclosed Order, and notify that office in writing when the proposed transaction has been consummated. If an extension of the time limitation included in the Order is required, a letter requesting a specific extension of the limitation, including reasons therefore, should be submitted to the Boston Regional Office.

Sincerely,

/s/

Keith W. Seibold  
Acting Associate Director

Enclosure

cc: John J. Gorman, Esquire  
Luse, Lehman, Gorman, Pomerenk & Schick, P.C.  
5335 Wisconsin Avenue, N.W.  
Suite 400  
Washington, D.C. 20015

FEDERAL DEPOSIT INSURANCE CORPORATION

Franklin Savings Bank  
Farmington, Franklin County, Maine

Applications for Federal Deposit Insurance and Consent to Merge

ORDER AND BASIS FOR CORPORATION APPROVAL

Pursuant to Sections 5 and 18(c) and other provisions of the Federal Deposit Insurance Act ("FDI Act"), an application has been filed on behalf of Franklin Savings Bank, Farmington, Maine ("Mutual Institution"), currently a mutually-owned, Bank Insurance Fund ("BIF") member, state-chartered institution with total resources of \$234,883,000 and total deposits of \$195,349,000 as of June 30, 1997, for the FDIC's consent to merge with Franklin Interim Two Savings Bank, Farmington, Maine ("Interim Two"), a proposed new, interim, investor-owned, Maine universal bank. Also, applications for federal deposit insurance for Interim Two and for Franklin Interim One Savings Bank, Farmington, Maine have been filed.

This transaction is the result of Mutual Institution's plan of reorganization which, solely to facilitate this undertaking, includes:

- 1) Mutual Institution will organize Franklin Interim One Savings Bank, an interim investor-owned universal bank ("Interim One"), as a wholly-owned subsidiary and will transfer a substantial part of its assets and liabilities to Interim One.
- 2) Interim One will organize FSB Bancorp, a Delaware stock corporation ("Stock Holding Company") as a wholly-owned subsidiary.
- 3) Interim One will organize Interim Two as a separate wholly-owned Maine universal bank subsidiary and will transfer the former assets and liabilities of the Mutual Institution to Interim Two.
- 4) Mutual Institution will convert to the capital stock form of organization by exchanging its charter for that of a Maine investor-owned universal bank (the "Stock Bank").
- 5) Interim Two will merge with the Stock Bank, with the Stock Bank charter surviving. The assets and liabilities that were transferred to Interim Two will become the assets and liabilities of the Stock Bank by virtue of the merger. Simultaneously, Interim One will exchange its charter for a mutual holding company charter to become FSB Bancorp, MHC ("Mutual Holding Company"). The Mutual Holding Company will become the sole stockholder of the Stock Bank by virtue of the merger.

- 6) The Mutual Holding Company will contribute the capital stock of the Stock Bank to the Stock Holding Company, and the Stock Bank will become a wholly-owned subsidiary of the Stock Holding Company.

At the conclusion of the transactions, Mutual Holding Company will wholly own the Stock Holding Company, which in turn will wholly own the Stock Bank. Due to the structure of the transaction, specifically the transfer of assets and deposit liabilities, federal deposit insurance is required by statute for Interim One and Interim Two.

Mutual Holding Company and Stock Holding Company will each be capitalized with up to \$50,000. Applications for the establishment of Mutual Holding Company and Stock Holding Company have been filed and conditionally approved by the Federal Reserve Bank of Boston. The resultant bank will operate with the title of Franklin Savings Bank, Farmington, Maine. Following consummation of the merger, the resultant bank will operate the same banking business, with the same management, at the same locations now being served by Mutual Institution. The proposed transaction, per se, will not alter the competitive structure of banking in the market served by Mutual Institution. The resultant bank's principal office will be at 81 Main Street, Farmington, Maine. 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 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, 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 all 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 judgement that the applications should be and hereby are approved, subject to the following conditions:

1. That the transaction may not be consummated unless the Plan of Reorganization receives prior approval by an affirmative vote of at least a majority of the total votes eligible to be cast by the Mutual Institution's depositors;

2. That, unless prior notice is provided to and non-objection is received from the FDIC, no shares of the stock of Franklin Savings Bank shall be sold, transferred or otherwise disposed of, to any persons (including any Employee Stock Ownership Plan) other than FSB Bancorp, nor shall Franklin Savings Bank issue any equity securities or any securities that would accord the holder the right to acquire equity securities or that would bestow upon the holder an interest in the retained earnings of the issuer to any persons other than FSB Bancorp;
3. That, prior to a sale, transfer or other disposition of any shares of FSB Bancorp by Mutual Holding Company to any person (including any Employee Stock Ownership Plan), or a conversion of the Mutual Holding Company to stock form, Franklin Savings 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 any such sale, transfer, disposition, or conversion;
4. That, should any shares of the stock of Franklin Savings Bank or FSB Bancorp be issued to any persons other than the Mutual Holding Company, any dividends waived by Mutual Holding Company must be retained by the Stock Holding Company or the savings bank and segregated, earmarked, or otherwise identified on the books and records of the Stock Holding Company or the savings 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 Mutual Holding Company 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;
5. That any changes in proposed management, including the board of directors or proposed ownership (ten per cent or more of the stock and new acquisitions of or subscriptions to ten per cent or more of the stock), will render this approval null and void unless such proposal is approved by the Regional Director (Supervision) of the FDIC's Boston Regional Office prior to the consummation of the proposed transaction;
6. That the transaction shall not be consummated less than fifteen calendar 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 Associate Director of the Division of Supervision, pursuant to authority delegated by the Board of Directors of the Federal Deposit Insurance Corporation.

Dated at Washington, D.C., this 5th of November, 1997.

/s/

Keith W. Seibold  
Acting Associate Director  
Division of Supervision