



Federal Deposit Insurance Corporation

550 17th St. NW Washington DC, 20429

Division of Supervision and Consumer Protection

January 10, 2003

VIA FACSIMILE AND BY CERTIFIED RETURN RECEIPT REQUESTED

Board of Directors
Keystone Savings Bank
90 Highland Avenue
Bethlehem, Pennsylvania 18002

Board of Directors:

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 mutual to stock form filed on behalf of Keystone Savings Bank, Bethlehem, 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 the 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. 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 New York Regional Office.

Sincerely,

/s/

Michael J. Zamorski
Director

cc: John P. Soukenik, Esq.
Elias, Matz, Tiernan, & Herrick, LLP
12th Floor
734 15th Street, NW
Washington, DC 20005

FEDERAL DEPOSIT INSURANCE CORPORATION

In Re: Keystone Savings Bank
Bethlehem, Northampton 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 Keystone Savings Bank, Bethlehem, Pennsylvania ("Mutual Institution"), currently a Pennsylvania-chartered mutual savings bank and Savings Association Insurance Fund ("SAIF") member with total resources of \$993,755,000 and total deposits of \$774,117,000 as of September 30, 2002, for the FDIC's consent to merge with Keystone Interim Two ("Interim Two"), Bethlehem, Pennsylvania, a proposed new interim federally-chartered stock savings bank.

The transaction is the result of Mutual Institution's Plan of Reorganization, which includes the establishment of a federally-chartered mutual holding company, Keystone Mutual Holding Company, Bethlehem, Pennsylvania ("MHC"), which will be capitalized with \$50,000. MHC will wholly own a mid-tier federal stock holding company, Keystone Bancorp, Inc., Bethlehem, Pennsylvania ("Stock Holding Company"), which will be capitalized with another \$50,000. Applications for the establishment of MHC, for Stock Holding Company to acquire Keystone Savings Bank subsequent to its conversion to a stock savings bank, and for Keystone Savings Bank to be deemed a "savings association" for purposes of section 10(1) of the Home Owners' Loan Act, as amended, were filed with the Office of Thrift Supervision ("OTS"). Mutual Institution will exchange its mutual savings bank charter for a Pennsylvania stock savings bank charter, and will become a wholly-owned subsidiary of MHC after a merger with Interim Two. MHC will then contribute 100% of the outstanding stock of the resultant bank to Stock Holding Company, which will in turn be a wholly-owned subsidiary of MHC. The resultant bank will continue to operate with the title of Keystone Savings Bank, Bethlehem, Pennsylvania. 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 markets served by Mutual Institution. The resultant bank's main office will be at 90 Highland Avenue, Bethlehem, Pennsylvania. 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 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 communities 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 OTS, or 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 Keystone Savings Bank shall not issue any shares of its stock to any persons other than Keystone Bancorp, Inc., without prior written notification to and non-objection from the FDIC;
2. That, prior to the sale, transfer, or other disposition of any shares of Keystone Bancorp, Inc. by MHC to any person (including any Employee Stock Ownership Plan), or a conversion of the mutual holding company to stock form, Keystone 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 such sale, transfer, disposition, or conversion;
3. That should any shares of the stock of Keystone Savings Bank or Keystone Bancorp, Inc. be issued to persons other than MHC, any dividends waived by MHC must be retained by Stock Holding Company or Keystone Savings Bank and segregated, earmarked, or otherwise identified on the books and records of Stock Holding Company or Keystone 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 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 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 Pennsylvania officials, and its holding companies, Keystone Mutual Holding Company and Keystone Bancorp, Inc., are granted approval by the OTS to become holding companies for Keystone Savings Bank;
5. 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
6. 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 10th day of January, 2003

/S/

By: _____
Michael J. Zamorski

Director

Division of Supervision and Consumer Protection