



May 27, 2005

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

Board of Trustees  
North Penn Bank  
216 Adams Street  
Scranton, Pennsylvania 18503-1692

Dear Members of the Board:

The notice of intent to convert from mutual to stock form filed on behalf of North Penn Bank, Scranton, Pennsylvania, 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 provided and representations made, the FDIC poses no objection to the proposed conversion transaction.

Pursuant to condition six of the FDIC's Order and Basis for Corporation Approval dated March 28, 2005, we received the information submitted on April 22, 2005, regarding the appointment of Philip O. Farr as Senior Vice President, Chief Financial Officer, and Treasurer of North Penn Bank and North Penn Bancorp, Inc. Based on our review of the information provided, we approve of the appointment of Mr. Farr as Senior Vice President, Chief Financial Officer, and Treasurer of North Penn Bank and North Penn Bancorp, Inc.

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

Sincerely,

*/s/*

John M. Lane  
Deputy Director

cc: Corey D. O'Brien, Esquire  
425 Spruce Street  
Suite 300  
Scranton, Pennsylvania 18503

**FEDERAL DEPOSIT INSURANCE CORPORATION**

North Penn Bank  
Scranton, Pennsylvania

Application for Consent to Merge  
to facilitate a conversion from a  
Mutual Savings Bank to a Stock Savings Bank

**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 the North Penn Bank, Scranton, Pennsylvania (Mutual Institution), currently a Pennsylvania-chartered mutual savings bank and Savings Association Insurance Fund (SAIF) member with total resources of \$92,990,000 and total deposits of \$77,342,000 as of December 31, 2004, for the FDIC's consent to merge with NPB Interim Stock Bank, Scranton, Pennsylvania, a proposed new 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 as a wholly-owned subsidiary (NPB Interim MHC Stock Bank);
- NPB Interim MHC Stock Bank will organize an interim Pennsylvania-chartered stock savings bank as a wholly-owned subsidiary (NPB Interim Stock Bank);
- NPB Interim MHC Stock Bank will organize a state stock corporation, North Penn Bancorp, Inc, Scranton, Pennsylvania, as a wholly-owned subsidiary;
- Mutual Institution will amend and restate its articles of incorporation to Pennsylvania stock form (the Stock Bank) and NPB Interim MHC Stock Bank will convert to a Pennsylvania mutual holding company charter to become North Penn Mutual Holding Company, Scranton, Pennsylvania;
- Simultaneously with the above step, the Stock Bank will merge with and into NPB Interim Stock Bank, with the Stock Bank as the surviving entity (North Penn Bank). All of the outstanding shares of North Penn Bank will be transferred to North Penn Mutual Holding Company.
- North Penn Mutual Holding Company will transfer all of the outstanding shares of North Penn Bank to North Penn Bancorp, Inc. and North Penn Bank will become a wholly-owned subsidiary of North Penn Bancorp, Inc.; and

- Contemporaneously with the reorganization, North Penn Bancorp, Inc. will sell a minority interest of its shares of common stock in a public offering. North Penn Mutual Holding Company will retain a majority of North Penn Bancorp, Inc.'s common stock.

At the conclusion of the reorganization, the deposits of North Penn Bank will continue to be insured under the SAIF. Following consummation of the merger, North Penn Bank will operate the same banking business, with the same management, and at the same locations as the Mutual Institution. The proposed transaction will not alter the competitive structure of banking in the market served by Mutual Institution. North Penn Bank's principal office will continue to be located at 216 Adams Street, Scranton, Pennsylvania.

Applications for the conversion and reorganization of Mutual Institution and the subsequent merger of the Stock Bank with NPB Interim Stock Bank were filed with the Commonwealth of Pennsylvania Department of Banking. Applications for the establishment of North Penn Mutual Holding Company and North Penn Bancorp, Inc. will be filed with the Federal Reserve Bank of Philadelphia.

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 applications, the FDIC has taken into consideration the financial and managerial resources and future prospects of the proponent bank and the resultant bank, the convenience and needs of the community to be served, and the effectiveness of any insured depository institution involved in the proposed merger transaction in combating money laundering activities. 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 the transaction may not be consummated unless the Plan of Reorganization from Mutual Savings Bank to Mutual Holding Company receives prior approval by an affirmative vote of at least a majority of the total votes eligible to be cast by Mutual Institution's depositors;
2. That the proposed transaction may not be consummated unless and until North Penn 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, North Penn Mutual Holding Company and North Penn Bancorp, Inc., are granted approval by the Board of Governors of the Federal Reserve System to become holding companies for North Penn Bank;

3. That, except for the proposed transfer of stock to North Penn Bancorp, Inc., no shares of the stock of North Penn 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;
4. That, prior to the sale, transfer, or other disposition of any shares of North Penn Bancorp, Inc. by North Penn Mutual Holding Company to any person (including any Employee Stock Ownership Plan), or a conversion of the mutual holding company to stock form, North Penn Bank will provide written notification to the FDIC and will 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;
5. That should any shares of the stock of North Penn Bank or North Penn Bancorp, Inc. be issued to persons other than North Penn Mutual Holding Company, any dividends waived by North Penn Mutual Holding Company must be retained by North Penn Bancorp, Inc. or North Penn Bank and segregated, earmarked, or otherwise identified on the books and records of North Penn Bancorp, Inc. or North Penn 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 North Penn 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;
6. That any change in proposed management, including the board of directors or proposed ownership (10 percent or more of the stock and new acquisitions of or subscriptions to 10 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;
7. 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
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.

Pursuant to delegated authority.

Dated at Washington, D.C., this 28<sup>th</sup> day of March, 2005

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By: \_\_\_\_\_

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