



**Federal Deposit Insurance Corporation**

550 17<sup>th</sup> Street NW, Washington, D.C. 20429-9990

Division of Risk Management Supervision

January 13, 2012

**CERTIFIED MAIL RETURN RECEIPT REQUESTED**

Board of Trustees  
Stoneham Savings Bank  
359 Main Street  
Stoneham, Massachusetts 02180

Dear Members of the Board:

The notice of intent to effect a mutual holding company reorganization with the organization of interim institutions and a merger to facilitate a conversion from a mutual to stock form filed on behalf of Stoneham Savings Bank (Bank) 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 presented and the representations made, the FDIC poses no objection to the proposed conversion transaction.

Enclosed is our Order and Basis for Corporation Approval (Order) for the applications filed on behalf of the 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 requested, in accordance with 12 C.F.R. Section 303.162(a)(2), a waiver of certain provisions of the FDIC's regulations pertaining to mutual-to-stock conversions, specifically, the depositor vote requirement of 12 C.F.R. Section 333.4(c)(2). We have reviewed the Bank's request and have found that a sufficient number of independent corporators voted in favor of the proposed conversion. Therefore, the Bank's request for a waiver is granted.

Please notify 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, and the reasons for the extension, should be submitted to the Boston Area Office.

Sincerely,

/s/

Christopher J. Spoth  
Senior Deputy Director

Enclosure

cc: Gary A. Lax  
Luse Gorman Pomerenk & Schick  
5335 Wisconsin Avenue, NW  
Suite 780  
Washington, D.C. 20015-2035

David J. Cotney - Commissioner  
Massachusetts Division of Banks  
1000 Washington Street  
10<sup>th</sup> Floor  
Boston, Massachusetts 02118

Maureen B. Savage – Vice President  
Federal Reserve Bank of Boston  
600 Atlantic Avenue H-3  
Boston, Massachusetts 02210

**FEDERAL DEPOSIT INSURANCE CORPORATION**

Stoneham Savings Bank  
Stoneham, Middlesex 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 (FDI) Act, an application has been filed on behalf of Stoneham Savings Bank, Stoneham, Massachusetts (Mutual Institution), currently a state-chartered, mutually-owned Deposit Insurance Fund (DIF) member with total resources of \$336,594,000 and total deposits of \$257,745,000 as of September 30, 2011, for the FDIC's consent to merge with Stoneham Interim Stock Bank, Stoneham, Massachusetts, a proposed new interim, state-chartered stock bank. In addition, applications have been filed for federal deposit insurance for an interim Massachusetts-chartered mutual savings bank (a *de novo* mutual savings bank to be subsequently organized into a mutual holding company) and an interim Massachusetts-chartered stock savings bank (Stoneham Interim Stock Bank).

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

- Mutual Institution will organize a new *de novo* interim Massachusetts-chartered mutual savings bank, Stoneham De Novo Savings Bank, and subsequently reorganize it into a Massachusetts mutual holding company, under Massachusetts law, to be known as Stoneham Bancorp, Mutual Holding Company (MHC);
- Stoneham Bancorp, MHC will establish a new, wholly-owned Massachusetts-chartered stock savings bank subsidiary to be known as Stoneham Interim Stock Bank (Subsidiary Bank); and
- Mutual Institution will merge into Subsidiary Bank, with Subsidiary Bank as the legally surviving entity under the name of Stoneham Savings Bank (Resultant Bank);

Upon consummation of the reorganization, the deposits of the Resultant Bank (or Stoneham Savings Bank) will continue to be insured under the DIF. On the effective date of the reorganization, Stoneham Savings Bank will be a stock bank that is wholly-owned

by Stoneham Bancorp. The Federal Reserve Bank of Boston *is expected* to approve the application establishing Stoneham Bancorp in the near-term. Additionally, the Commonwealth of Massachusetts has granted Stoneham Savings Bank the authority to conduct banking business and *is expected* to approve the stock savings bank in the near-term. Following consummation of the merger, Stoneham Savings Bank will operate the same banking business, with virtually 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. Stoneham Savings Bank's main office will continue to be located at 359 Main Street, Stoneham, 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. Stoneham Savings Bank is expected to continue to meet the credit needs of its community, consistent with the safe and sound operation of the institution.

In connection with the merger application, the FDIC has taken into consideration the financial and managerial resources and future prospects of the proponent banks and the Resultant Bank, the convenience and needs of the community to be served, and the effect of the proposed transaction on competition. 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, and the risk posed by the transaction to the stability of the U.S. banking or financial system.

In addition, the FDIC has fully considered all available facts and information relevant to the factors of Section 6 of the FDI Act relating to the applications for federal deposit insurance for Stoneham Bancorp De Novo Savings Bank and Stoneham Interim Stock Bank.

Having found favorably on all statutory factors, it is the FDIC's judgment that the applications for Consent to Merge and for federal deposit insurance should be and are hereby approved, subject to the following conditions, some of which are continuing in nature:

1. That the conversion of the Bank to a stock form of ownership, and the associated formation of Stoneham Bancorp (Stoneham Bancorp) exclusively to hold newly-issued shares of Stoneham Savings Bank, is contingent upon the consummation of the Plan of Affiliation by and among the Bank, Salem Five Bancorp, and Salem Five Cents Savings Bank;
2. The Bank shall acknowledge that any letter of non-objection from the FDIC is conditioned on the facts and circumstances as currently known to the FDIC; and to notify the FDIC Boston Area Office Director as soon as the Bank becomes aware of, or should have become aware of, any material events prior to the consummation of the Plan of Affiliation;
3. That, except for the proposed contribution of the Bank stock by Stoneham Bancorp, no shares of the stock of the 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 a sale, transfer or other disposition of any shares of or by Stoneham Bancorp to any person (including any Employee Stock Ownership Plan) or a conversion of Stoneham Bancorp to stock form, the 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 sale, transfer, disposition or conversion;
5. That, should any shares of stock of the Bank be issued to persons other than Stoneham Bancorp, any dividends waived by Stoneham Bancorp must be retained by the Bank and segregated, earmarked or otherwise identified on its books and records. 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 Stoneham Bancorp 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, 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, for a period of three (3) years after the close of the conversion, any material change or deviation from the business plan will require notice to and approval by the FDIC Area Office Director prior to making the change;
8. That, the Bank shall receive all relevant regulatory approvals;
9. That the proposed transaction may not be consummated later than six months after the date of this Order unless such period is extended for good cause by the FDIC; and
10. 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 the delegated authority of the Board of Directors.

Dated at Washington, D.C. this 13<sup>th</sup> day of January, 2012.

/s/

Christopher J. Spoth  
Senior Deputy Director  
Division of Risk Management Supervision