

Note: This is a sample prospectus. We have changed the information provide here. This prospectus is for information purposes only. It is not intended to be legal advice. You should not act or abstain from acting based upon such information without first consulting a legal professional.

XXXXX MUTUAL HOLDING COMPANY

XXXXX Mutual Holding Company will be formed as a federal mutual holding company and will at all times own a majority of the outstanding shares of XXXXXX Bancorp's common stock. Persons who had membership rights in XXXXXX Savings Bank as of the date of the reorganization will continue to have membership rights, however, these membership rights will be in XXXXXX Mutual Holding Company.

XXXXX Mutual Holding Company's principal assets will be the common stock of XXXXXX Bancorp it receives in the reorganization and \$100,000 cash in initial capitalization which will be paid in by XXXXXX Savings Bank. Presently, it is expected that the only business activity of XXXXXX Mutual Holding Company will be to own a majority of XXXXXX Bancorp's common stock. XXXXXX Mutual Holding Company will be authorized, however, to engage in any other business activities that are permissible for mutual holding companies under federal law, including investing in loans and securities.

XXXXX Mutual Holding Company will neither own nor lease any property, but will instead use the premises, equipment and furniture of XXXXXX Savings Bank. It is anticipated that XXXXXX Mutual Holding Company will employ only persons who are officers of XXXXXX Savings Bank to serve as officers of XXXXXX Mutual Holding Company. Those persons will not be separately compensated by XXXXXX Mutual Holding Company.

XXXXX BANCORP, INC.

XXXXX Bancorp will be formed as a federal corporation and will own 100% of XXXXXX Savings Bank's common stock. We have not engaged in any business to date. We will retain up to 50% of the net proceeds from the offering. We will use our initial capital as discussed in *"How Our Net Proceeds Will Be Used."* Our cash flow will depend upon earnings from the investment of the portion of net proceeds we retain and any dividends we receive from XXXXXX Savings Bank.

Immediately after the reorganization and offering, it is expected that our only business activities will be to hold all of the outstanding common stock of XXXXXX Savings Bank. We will be authorized to pursue other business activities permitted by applicable laws and regulations for savings and loan holding companies, which may include the issuance of additional shares of common stock to raise capital or to support mergers or acquisitions and borrowing funds for reinvestment in XXXXXX Savings Bank. There are no plans for any additional capital issuance, merger or acquisition or other diversification of the activities of XXXXXX Bancorp at the present time.

Initially, XXXXXX Bancorp will neither own nor lease any property, but will instead use the premises, equipment and furniture of XXXXXX Savings Bank. At the present time, we intend to employ only persons who are officers of XXXXXX Savings Bank to serve as officers of XXXXXX Bancorp. We also may use the support staff of XXXXXX Savings Bank from time to time. These persons will not be separately compensated by XXXXXX Bancorp. We will hire additional employees, as appropriate, to the extent we expand our business in the future.

BUSINESS OF XXXXXX SAVINGS BANK

General. XXXXXX Savings is a federally chartered community-oriented savings bank which was originally organized in 1887 and is headquartered in Our City, United States. The bank currently conducts its business from its headquarters office and six additional financial centers.

We are primarily engaged in attracting deposits from the general public and using those funds to invest in loans and investment securities. Our principal sources of funds are deposits, repayments of loans and investment securities, maturities of investments and interest-bearing deposits, other funds provided from operations and wholesale funds borrowed from outside sources such as the Federal Home Loan Bank of Pittsburgh. These funds are primarily used for the origination of various loan types including single-family residential mortgage loans, commercial real estate mortgage loans, construction and development loans, home equity loans and lines of credit and other consumer loans. The bank derives its income principally from interest earned on loans, investment securities and, to a lesser extent, from fees received in connection with the origination of loans and for other services. XXXXX Savings Bank's primary expenses are interest expense on deposits and borrowings and general operating expenses. Funds for activities are provided primarily by deposits, amortization of loans, loan prepayments and the maturity of loans, securities and other investments and other funds from operations.

We are an active originator of residential home mortgage loans in our market area. Historically, XXXXX Savings was a traditional thrift with an emphasis on originating various resident loan products to hold in its portfolio. Approximately four years ago, we determined to shift the emphasis on the loan products we offer and increased our efforts to originate commercial real estate loans, construction and development loans and consumer loans. We determined to originate greater amounts of commercial real estate loans, construction and development loans and consumer loans because we believed we could compete effectively as a niche lender in our market area for such loans given management's knowledge of, and its extensive network of contacts in, the small to mid-sized businesses community in southeastern United States. In addition, commercial real estate loans, construction and development loans and consumer loans are deemed attractive due to their generally higher yields and shorter anticipated lives compared to single-family residential mortgage loans. Following consummation of the reorganization and offering, we intend to continue our emphasis on commercial real estate lending, construction and development lending and consumer lending. We also continue, however, to be an active originator of single-family residential mortgage loans.

Our headquarters office is located at street, Our City, United States, and our telephone number is (610) 644-9400. We maintain a website at www.malvernfederal.com and we provide our customers with on-line banking and telephone banking services.

Our Market Area

We conduct business from our seven financial centers located throughout County, United States. Our headquarters office is in Our City, United States, approximately 25 miles west of the City of State's capital. In addition to County, our lending efforts are focused in neighboring Montgomery County and Delaware County, both of which are also in southeastern United States. To a lesser extent, XXXXX Savings Bank provides services to other areas in the greater State's capital market area.

The population of County, United States is approximately 491,000 persons and it has increased approximately 13.1%, or 1.8% on an annual basis, since 2000. By comparison, the annual growth rate for the Commonwealth of United States and the entire United States was 0.4% and 1.2%, respectively, during that period. The estimated annual growth rate for County is expected to continue to exceed both the United States and United States growth rates through 2012. The population growth in County reflects, in part, the movement of people from the City of State's capital to suburban markets surrounding the city. County is relatively affluent, with per capita income of \$43,177 in 2007, which is 54.7% higher than the per capita income for the entire United States and 56.4% higher than the per capita income for United States as a whole in 2007. Median household income was \$85,956 in County in fiscal 2007, compared to \$53,154 for the United States and \$51,375 for United States as a whole. Approximately 43% of all County households had income levels in excess of \$100,000 in 2007, compared to 21% for the nation as a whole and 19% for United States as whole. The annual growth rate of per capita income for County during 2000-2007 was 4.5% compared to 3.7% for the entire United States and 4.1% for United States. The economy in our market area is relatively diverse with trade, transportation and utilities being the most prominent sectors as well as education and health services, financial services, bio-technology and pharmaceutical companies, health care and science and technology. The list of the largest employers in our market area includes Merck & Co., Vanguard Group, Boeing, Siemens, QVC, Inc. and Aetna U.S. Healthcare. The September 2007 unemployment rate for County was 3.1%, compared to 4.5% and 4.1%, respectively, for the United States and the Commonwealth of United States.

XXXXX Savings Bank faces significant competition in originating loans and attracting deposits. This competition stems primarily from commercial banks, other savings banks and savings associations and mortgage-banking companies. Within XXXXX Savings Bank's market area, we estimate that more than 75 other banks, credit unions and savings institutions are operating. XXXXX Savings Bank faces additional competition for deposits from short-term money market funds and other corporate and government securities funds, mutual funds and from other non-depository financial institutions such as brokerage firms and insurance companies.

Lending Activities

General. At September 30, 2007, our net loan portfolio totaled \$466.2 million or 84.5% of total assets. In addition, at September 30, 2007, we had \$9.3 million of single-family residential mortgage loans held for sale. Historically, our principal lending activity has been the origination of loans collateralized by one- to four-family, also known as "*single-family*" residential real estate loans located in our market area. We have increased our emphasis on originating commercial real estate loans, construction and development loans and consumer loans in recent years. Our consumer loans consist primarily of home equity loans and lines of credit.

The types of loans that we may originate are subject to federal and state law and regulations. Interest rates charged by us on loans are affected principally by the demand for such loans and the supply of money available for lending purposes and the rates offered by our competitors. These factors are, in turn, affected by general and economic conditions, the monetary policy of the federal government, including the Federal Reserve Board, legislative tax policies and governmental budgetary matters.

Loan Originations, Purchases and Sales. Our lending activities are subject to underwriting standards and loan origination procedures established by our board of directors and management. Loan originations are obtained through a variety of sources, primarily existing customers as well as new customers obtained from referrals and local advertising and promotional efforts. In addition, we rely on a network of approximately six mortgage brokers with respect to production of new single-family residential mortgage loans and home equity loans and lines of credit. We receive applications from such brokers on standardized documents meeting Freddie Mac and Fannie Mae guidelines and, if we determine to acquire loans from such brokers, are underwritten and approved pursuant to the policies and procedures of XXXXX Savings Bank. Depending upon our arrangements with the particular broker, loans obtained from our broker network are classified either as "*purchased*," when the broker provides the loan funds at closing and closes the loan in its name, or as "*originated*," when XXXXX Savings Bank disburses the loan funds at closing and the documents reflect the bank as the lender. Single-family residential mortgage loan applications and consumer loan applications are taken at any XXXXX Savings Bank branch office. We also accept internet applications submitted to our website. Applications for other loans typically are taken personally by our loan officers or business development officers, although they may be received by a branch office initially and then referred to one of our loan officers or business development officers. All loan applications are processed and underwritten centrally at our main office.

All of our single-family residential mortgage loans are written on standardized documents used by Freddie Mac and Fannie Mae. We also utilize an automated loan processing and underwriting software system for our new single-family residential mortgage loans. Property valuations of loans secured by real estate are undertaken by an independent third-party appraiser approved by our board of directors.

In addition to originating loans, we occasionally purchase participation interests in larger balance loans, typically commercial real estate or construction or development loans, from other financial institutions in our market area. Such participations are reviewed for compliance with our underwriting criteria before they are purchased. We actively monitor the performance of such loans through the receipt of regular reports from the lead lender regarding the loan's performance, physically inspecting the loan security property on a periodic basis, discussing the loan with the lead lender on a regular basis and receiving copies of updated financial statements from the borrower. From October 1, 2004 through September 30, 2007, we purchased three loan participation interests from other institutions. At September 30, 2007, the outstanding balance of such participation interests to XXXXX Savings was approximately \$4.8 million and all were current and performing in accordance with their terms.

In addition, XXXXX Savings Bank also occasionally sells whole loans or participation interests in loans it originates. From October 1, 2004 through September 30, 2007, we sold a participation interest in one construction and development loan in fiscal 2006. We generally have sold participation interests in loans only when a loan would exceed our loans-to-one borrower limits. Our loans-to-one borrower limit, with certain exceptions, generally is 15% of our unimpaired capital and surplus or \$7.2 million at September 30, 2007. The reorganization and net proceeds received in the offering will increase our loans-to-one borrower limit and will permit us to originate and retain for our portfolio larger balance loans. We expect to take advantage of the increased limit in order to originate larger loans consistent with our current practices and procedures. At September 30, 2007, our five largest outstanding loans to one borrower and related entities amounted to \$6.5 million, \$6.2 million, \$5.8 million, \$5.5 million and \$5.3 million, respectively, and all of such loans were performing in accordance with their terms. In addition, in an effort to improve its interest rate risk exposure, the bank has sold long-term (20 or 30 year term) fixed-rate single family residential mortgage loans to Freddie Mac and Fannie Mae while retaining the loan servicing rights for such loans. At September 30, 2007, we had \$9.3 million in loans held for sale, and such loans were sold in October 2007. We receive a fee for continuing to service such loans when they are sold, and such fees are recorded as non-interest income.

The following table shows our loan origination, purchase and repayment activities for the periods indicated.

Year Ended September 30,

	2007	2006	2005
(In Thousands)			
Originations by type:			
Adjustable rate:			
Mortgage:			
One- to four-family	\$ 463	\$ 5,906	\$ 3,982
Multi-family	—	1,908	—
Commercial real estate	36,974	15,415	16,415
Construction or development	28,196	57,406	48,837
Land loans	116	2,700	98
Other:			
Commercial	2,001	2,855	—
Home equity lines of	8,674	12,208	10,878

credit			
Second mortg ages	—	—	—
Other	—	—	—
Total adjustable- rate	76,424	98,398	80,210
Fixed rate:			
Mortgage:			
One- to four- famil y	23,907	16,805	20,615
Multi- famil y	—	—	—
Comme rcial real estate	2,587	4,141	4,792
Constru ction or devel opme nt	—	1,375	—
Land loans	—	2,962	—
Other:			
Comme rcial	9,750	11,498	14,756
Home equity lines of credit	—	—	—
Second mortg ages	10,715	11,599	11,472
Other	1,022	2,289	2,610
Total fixed- rate	47,981	50,669	54,345
Total loans originat ed	124,405	149,067	134,455
Purchases⁽¹⁾:			
Mortgages:			
One- to four- famil	7,303	7,263	20,292

Construction or development	7,606	4,772	—
Other:			
Second mortgages	19,533	25,572	22,102
Total purchased	34,442	37,607	42,394
Sales:			
Mortgages:			
One- to four-family	—	20,627	14,553
Construction or development	—	1,862 ⁽²⁾	—
Other	—	—	—
Total sales	—	22,489	14,553
Principal Repayments:			
Mortgage:			
One- to four-family	24,973	24,899	31,515
Multi-family	26	38	103
Commercial real estate	25,193	5,936	4,054
Construction or development	44,765	42,347	22,388
Land loans	1,126	1,113	304

(Table continued)

Year Ended September 30,

	2007	2006	2005
(In Thousands)			
Other:			
Commercial	12,487	14,343	18,005
Home equity lines of credit	9,565	13,639	12,358
Second mortgages	19,258	18,993	13,168
Other	1,118	1,929	2,658
Total principal repayments	138,511	123,237	104,553
Total deductions	138,511	145,726	119,106
Increase (decrease) in other items, net			
Net increase (decrease)	\$ 20,336	\$ 40,948	\$ 57,743

- (1) Includes purchase of participation interests in loans and purchases of loans from our network of loan brokers.
- (2) Reflects the sale of a participation interest in one loan.

One-to Four-Family Residential Mortgage Lending. One of our primary lending activities continues to be the origination of loans secured by first mortgages on one- to four-family residences in our market area. At September 30, 2007, \$193.5 million, or 40.4%, of our total loans (including loans held for sale) consisted of single-family residential mortgage loans. While the aggregate amount of our single-family residential mortgage loans has not changed significantly over the past five fiscal years, as a result of our increased emphasis on construction, commercial real estate and consumer loans, our single-family residential real estate loans as a percentage of total loans have decreased from 59.5% at September 30, 2003 to 40.5% at September 30, 2007.

Our single-family residential mortgage loans generally are underwritten on terms and documentation conforming with guidelines issued by Freddie Mac and Fannie Mae. Applications for one-to four-family residential mortgage loans are taken by our Business Development Officer and are accepted at any of our banking offices and are then referred to the lending department at our main office in order to process the loan, which consists primarily of obtaining all documents required by Freddie Mac and Fannie Mae underwriting standards, and complete the underwriting, which includes making a determination whether the loan meets our underwriting standards such that the bank can extend a loan

commitment to the customer. We generally have retained for portfolio a substantial portion of the single-family residential mortgage loans that we originate. We currently originate fixed-rate, fully amortizing mortgage loans with maturities of 15 or 30 years. We also offer adjustable rate mortgage (“ARM”) loans where the interest rate either adjusts on an annual basis or is fixed for the initial one, three or five years and then adjusts annually. However, due to local market conditions, we have not originated a significant amount of ARM loans in recent years. At September 30, 2007, \$30.0 million, or 15.5%, of our one- to four-family residential loans consisted of ARM loans. We also offer “balloon” loans which are amortized on a 30 year schedule but become due at the fifth or seventh anniversary, bi-weekly mortgage loans and, for borrowers with credit scores exceeding 700, no income/no asset (“NINA”) loans. Our NINA loans, which amounted to less than 1.0% of the total loan portfolio at September 30, 2007, are underwritten primarily based upon the borrower’s credit history, as we do not obtain documentation on personal income or net worth. However, the loan-to-value ratio for NINA loans must be not more than 70% at the time of origination.

We underwrite one- to four-family residential mortgage loans with loan-to-value ratios of up to 95%, provided that the borrower obtains private mortgage insurance on loans that exceed 80% of the appraised value or sales price, whichever is less, of the secured property. We also require that title insurance, hazard insurance and, if appropriate, flood insurance be maintained on all properties securing real estate loans. We require that a licensed appraiser from our list of approved appraisers perform and submit to us an appraisal on all properties secured by a first mortgage on one- to four-family first mortgage loans. Our mortgage loans generally include due-on-sale clauses which provide us with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property. Due-on-sale clauses are an important means of adjusting the yields of fixed-rate mortgage loans in portfolio and we generally exercise our rights under these clauses.

Commercial Real Estate, Multi-family Residential Real Estate and Land Loans. At September 30, 2007, our loans secured by commercial real estate amounted to \$108.5 million and constituted 22.7% of our total loans at such date. In addition, at such date we had \$6.7 million of loans secured by unimproved real estate and lots (“land loans”) and \$2.3 million of loans secured by multi-family (more than four units) residential real estate, constituting 1.4% and 0.5%, respectively, at September 30, 2007.

XXXXX Savings Bank’s commercial real estate loan portfolio consists primarily of loans secured by office buildings, retail and industrial use buildings, strip shopping centers, mixed-use and other properties used for commercial purposes located in its market area. XXXXX Savings Bank’s commercial real estate loans tend to be originated in an amount less than \$3.0 million but will occasionally exceed that amount. At September 30, 2007, the average commercial real estate loan size was \$424,000. The five largest commercial real estate loans outstanding were \$4.8 million, \$3.9 million, \$3.5 million, \$3.5 million and \$2.8 million at September 30, 2007. With the exception of one loan with an outstanding balance of \$3.5 million at September 30, 2007 which was more than 60 but less than 90 days past due and was classified as impaired and substandard, all of such loans were performing in accordance with their terms. During the year ended September 30, 2007, the commercial real estate loan portfolio grew as the result of originations, and the conversion of loans from construction to permanent status, by \$14.4 million, or 15.31%. Our commercial real estate loans have grown steadily over each of the past five fiscal years. We have increased our emphasis on originating commercial real estate terms due to the higher average yields they provide and the shorter terms compared in each case to single-family residential mortgage loans. During the year ended September 30, 2007, the average yield on our commercial real estate loans was 7.0% compared to 5.8% for our single-family residential mortgage loans. At September 30, 2007, approximately 89.4% of our commercial mortgage loans had remaining terms to maturity of 10 years or less. In addition to their relatively shorter terms to maturity, which reduces some of the interest rate risk in our loan portfolio, commercial real estate loans are much more likely to have adjustable interest rates than single-family residential mortgage loans, which adds to the interest rate sensitivity of commercial real estate loans and makes them attractive. At September 30, 2007, approximately 67.7% of our commercial real estate loans had adjustable interest rates compared to 15.5% of our single-family residential mortgage loans with adjustable rates at such date.

Although terms for commercial real estate and multi-family loans vary, XXXXX Savings Bank’s underwriting standards generally allow for terms up to 10 years with the interest rate being reset in the fifth year and with monthly amortization not greater than 20 years loan and loan-to-value ratios of not more than 85%. Interest rates are either fixed or adjustable, based upon the prime rate plus a margin, and fees ranging from 0.5% to 1.50% are charged to the borrower at the origination of the loan. Prepayment

fees are charged on most loans in the event of early repayment. Generally, XXXXX Savings Bank obtains personal guarantees of the principals as additional collateral for commercial real estate and multi-family real estate loans.

At September 30, 2007, our loan portfolio included \$6.7 million of land loans. Two loans, with outstanding balances of \$3.7 million and \$1.6 million, respectively, at September 30, 2007, comprised 80.0% of our land loans at such date. Both of these loans are to local developers for the purpose of acquiring raw land in County, United States, subdividing and improving such land and then selling the developed lots to nationally known homebuilders. Both of such loans have performed in accordance with their terms since their originations in 2005 and 2004, respectively. We had no non-performing or classified land loans at September 30, 2007.

Loans secured by commercial real estate, unimproved land and multi-family real estate lending involves different risks than single-family residential lending. These risks include larger loans to individual borrowers and loan payments that are dependent upon the successful operation of the project or the borrower's business. These risks can be affected by supply and demand conditions in the project's market area of rental housing units, office and retail space, warehouses, and other commercial space. XXXXX Savings Bank attempts to minimize these risks by limiting loans to proven businesses, only considering properties with existing operating performance which can be analyzed, using conservative debt coverage ratios in its underwriting, and periodically monitoring the operation of the business or project and the physical condition of the property. As of September 30, 2007, \$661,000 or 0.6% of XXXXX Savings Bank's commercial real estate mortgage loans were on non-accrual status and an aggregate of \$4.2 million of our commercial real estate loans were classified at such date (all of which were classified substandard and none of which were classified doubtful or loss). One loan, with an aggregate balance of \$3.5 million at September 30, 2007, which was more than 60 days but less than 90 days past due at such date, accounted for most of our classified commercial real estate loans. See "*Asset Classification.*" As of September 30, 2007, \$1.8 million, or 39.5% of XXXXX Savings Bank's allowance for loan losses was allocated to commercial real estate mortgage loans. During the past five fiscal years, our charge-offs of commercial real estate mortgage loans amounted to \$77,000 in the aggregate.

Various aspects of a commercial and multi-family loan and land loan transactions are evaluated in an effort to mitigate the additional risk in these types of loans. In XXXXX Savings Bank's underwriting procedures, consideration is given to the stability of the property's cash flow history, future operating projections, current and projected occupancy levels, location and physical condition. Generally, XXXXX Savings Bank imposes a debt service ratio (the ratio of net cash flows from operations before the payment of debt service to debt service) of not less than 125%. XXXXX Savings Bank also evaluates the credit and financial condition of the borrower, and if applicable, the guarantor. Appraisal reports prepared by independent appraisers are obtained on each loan to substantiate the property's market value, and are reviewed by us prior to the closing of the loan.

Construction or Development Loans. XXXXX Savings Bank originates construction loans for residential and, to a lesser extent, commercial uses within its market area. XXXXX Savings Bank generally limits construction loans to builders and developers with whom it has an established relationship, or who are otherwise known to officers of the bank. At September 30, 2007, XXXXX Savings Bank had \$58.9 million, or 12.3% of total loans, in outstanding construction or development loans. The amount of our outstanding construction or development loans has increased significantly over the past five fiscal years. At September 30, 2003, our construction or development loan portfolio amounted to \$11.7 million or 3.9% of total loans. We have targeted the origination of construction or development loans as a growth area due to the relatively higher yields and shorter terms to maturity compared to long-term, single-family residential mortgage loans. In addition, our construction or development loans typically have variable rates of interest tied to the prime rate which improves the interest rate sensitivity of our loan portfolio. At September 30, 2007, approximately 85.3% of our construction loans had variable rates of interest and 65.0% of such loans had three years or less in their remaining terms to maturity at such date.

We have concentrated on originating construction loans with several local builders and developers in our market area with whom we have existing relationships. Our construction loans generally have variable rates of interest, a maximum term to maturity of one year (for individual, owner-occupied dwellings), and loan-to-value ratios less than 80%. Residential construction loans to developers are made

on either a pre-sold or speculative (unsold) basis. Limits are placed on the number of units that can be built on a speculative basis based upon the reputation and financial position of the builder, his/her present obligations, the location of the property and prior sales in the development and the surrounding area. Generally a limit of two unsold homes (one model home and one speculative home) is placed per project.

Prior to committing to a construction loan, we require that an independent appraiser prepare an appraisal of the property. Each project also is reviewed and inspected at its inception and prior to every disbursement of loan proceeds. Disbursements are made after inspections based upon a percentage of project completion. Monthly payment of interest is required on all construction loans and we often establish interest reserves on construction loans to developers, which helps ensure interest payments are received during the construction period.

We also make construction loans for the acquisition and development of land for sale (i.e. roads, sewer and water lines). We typically make these loans only in conjunction with a commitment for a construction loan for the units to be built on the site. These loans are secured by a lien on the property and are limited to a loan-to-value ratio of 80% of the appraised value. The loans have a variable rate of interest and require monthly payments of interest. The principal of the loan is repaid as units are sold and released. We limit loans of this type to our market area and to developers with whom we have established relationships. In most cases, we also obtain personal guarantees from the borrowers.

Our construction or development loans also include loans made to consumers for the construction of their individual homes underwritten on a construction/permanent basis. During the initial or construction phase, these loans require payment of interest only, which generally is tied to prime rate, as the home is being constructed. Upon the earlier of the completion of construction or one year, these loans automatically convert to long-term (generally 30 years), amortizing, fixed-rate single-family mortgage loans.

Construction and development loans generally are considered to involve a higher level of risk than single-family residential lending, due to the concentration of principal in a limited number of loans and borrowers and the effect of economic conditions on developers, builders and projects. At September 30, 2007, the amounts outstanding on our five largest construction or development loans were \$4.0 million, \$3.9 million, \$3.4 million, \$1.5 million and \$1.4 million. The average size of our construction or development loans was approximately \$1.1 million at September 30, 2007. Additional risk is also associated with construction lending because of the inherent difficulty in estimating both a property's value at completion and the estimated cost (including interest) to complete a project. The nature of these loans is such that they are more difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not pre-sold and thus pose a greater potential risk than construction loans to individuals on their personal residences.

In order to mitigate some of the risks inherent to construction lending, we inspect properties under construction, review construction progress prior to advancing funds, work with builders with whom we have established relationships, require annual updating of tax returns and other financial data of developers and obtain personal guarantees from the principals. At September 30, 2007, \$673,000, or 14.8%, of our allowance for loan losses was attributed to construction or development loans. We have charged off a total of \$66,000 in construction or development loans over the past five fiscal years and, at September 30, 2007, we had no non-performing construction or development loans.

Commercial Business Loans. At September 30, 2007, we had \$15.8 million in commercial business loans (3.3% of gross loans outstanding). Our commercial business loans generally are made to small to mid-sized businesses located in our market area. We originate commercial business loans as these types of loans assist us in our asset/liability management since they generally provide shorter maturities and/or adjustable rates of interest in addition to generally having higher rates of return which are designed to compensate for the additional credit risk associated with these loans.

The commercial business loans which we originate may be either a revolving line of credit or for a fixed term of generally 10 years or less. Interest rates are either adjustable, indexed to a published prime rate of interest, or fixed. Generally, equipment, machinery, real property or other corporate assets secure the loans. Personal guarantees from the business principals are generally obtained as additional collateral. At September 30, 2007, the average balance of our commercial business loans was \$137,000.

Generally, commercial business loans are characterized as having higher risks associated with them than single-family residential mortgage loans. As of September 30, 2007, we had \$780,000 of non-accrual commercial business loans. At such date, \$385,000 of the allowance for loan losses was allocated to commercial business loans. During the past five fiscal years, we have charged off an aggregate of \$27,000 of commercial business loans.

Consumer Lending Activities. In our efforts to provide a full range of financial services to our customers, we offer various types of consumer loans. Our consumer loans amounted to \$92.1 million or 19.3% of our total loan portfolio at September 30, 2007. The largest components of our consumer loans are second mortgages, consisting primarily of home equity loans, which amounted to \$78.7 million at September 30, 2007, and home equity lines of credit, which amounted to \$11.8 million at such date. Our consumer loans also include automobile loans, unsecured personal loans and loans secured by deposits. Consumer loans are originated primarily through existing and walk-in customers and direct advertising and, with respect to second mortgages and home equity lines of credit, through our broker network.

Our home equity lines of credit are variable rate loans tied to the prime rate. Our second mortgages may have fixed or variable rates, although they generally have had fixed rates in recent periods. Our second mortgages have a maximum term to maturity of 20 years. Both our second mortgages and our home equity lines of credit generally are secured by the borrower's primary residence. However, our security generally consists of a second lien on the property. Our lending policy provides that our home equity loans have loan-to-value ratios, when combined with any first mortgage, of 95% or less, although the preponderance of our home equity loans as well as all of our lines of credit have combined loan-to-value ratios of 90% or less. We offer home equity lines on a revolving line of credit basis, with interest tied to the prime rate. At September 30, 2007, the unused portion of our home equity lines of credit was \$18.9 million.

Consumer loans generally have higher interest rates and shorter terms than residential loans, however, they have additional credit risk due to the type of collateral securing the loan or in some cases the absence of collateral. In the year ended September 30, 2007, we charged-off \$160,000 of consumer loans.

Loan Approval Procedures and Authority. Our Board of Directors establishes the bank's lending policies and procedures. Our Lending Policy Manual is reviewed on at least an annual basis by our management team in order to propose modifications as a result of market conditions, regulatory changes and other factors. All modifications must be approved by our Board of Directors.

All loans must be approved by at least two bank officers. Loans in amounts exceeding \$400,000 must be approved by the Commercial Loan Committee, whose members include the Chief Lending Officer and two directors of XXXXX Savings Bank, and loans in amounts exceeding \$600,000 must be approved by the full board of directors of the bank.

Asset Quality

General. One of our key objectives has been, and continues to be, maintaining a high level of asset quality. In addition to maintaining credit standards for new originations which we believe are sound, we are proactive in our loan monitoring, collection and workout processes in dealing with delinquent or problem loans.

When a borrower fails to make a scheduled payment, we attempt to cure the deficiency by making personal contact with the borrower. Initial contacts are made as soon as five days after the date the payment is due, and late notices are sent approximately 16 days after the date the payment is due. In most cases, deficiencies are promptly resolved. If the delinquency continues, late charges are assessed and additional efforts are made to collect the deficiency. All loans which are delinquent 30 days or more are reported to the Board of Directors of XXXXX Savings on a monthly basis.

On loans where the collection of principal or interest payments is doubtful, the accrual of interest income ceases ("*non-accrual*" loans). It is our policy, with certain limited exceptions, to discontinue accruing additional interest and reverse any interest accrued on any loan which is 90 days or more past

due. On occasion, this action may be taken earlier if the financial condition of the borrower raises significant concern with regard to his/her ability to service the debt in accordance with the terms of the loan agreement. Interest income is not accrued on these loans until the borrower's financial condition and payment record demonstrate an ability to service the debt.

Real estate which is acquired as a result of foreclosure is classified as real estate owned until sold. Real estate owned is recorded at the lower of cost or fair value less estimated selling costs. Costs associated with acquiring and improving a foreclosed property are usually capitalized to the extent that the carrying value does not exceed fair value less estimated selling costs. Holding costs are charged to expense. Gains and losses on the sale of real estate owned are charged to operations, as incurred.

We account for our impaired loans under generally accepted accounting principles. An impaired loan generally is one for which it is probable, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Loans collectively evaluated for impairment include smaller balance commercial real estate loans, residential real estate loans and consumer loans. These loans are evaluated as a group because they have similar characteristics and performance experience. Larger commercial and construction loans are individually evaluated for impairment. As of September 30, 2007 and 2006, our impaired loans amounted to \$3.5 million and \$1.5 million, respectively.

Asset Classification. Federal regulations and our policies require that we utilize an internal asset classification system as a means of reporting problem and potential problem assets. We have incorporated an internal asset classification system, substantially consistent with Federal banking regulations, as a part of our credit monitoring system. Federal banking regulations set forth a classification scheme for problem and potential problem assets as "*substandard*," "*doubtful*" or "*loss*" assets. An asset is considered "*substandard*" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "*Substandard*" assets include those characterized by the "*distinct possibility*" that the insured institution will sustain "*some loss*" if the deficiencies are not corrected. Assets classified as "*doubtful*" have all of the weaknesses inherent in those classified "*substandard*" with the added characteristic that the weaknesses present make "*collection or liquidation in full*," on the basis of currently existing facts, conditions, and values, "*highly questionable and improbable*." Assets classified as "*loss*" are those considered "*uncollectible*" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated "*special mention*."

When an insured institution classifies one or more assets, or portions thereof, as "*substandard*" or "*doubtful*," it is required that a general valuation allowance for loan losses be established for loan losses in an amount deemed prudent by management. General valuation allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies one or more assets, or portions thereof, as "*loss*," it is required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge off such amount.

A savings institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by Federal bank regulators which can order the establishment of additional general or specific loss allowances. The Federal banking agencies, have adopted an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management analyze all significant factors that affect the collectibility of the portfolio in a reasonable manner; and that management establish acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Our management believes that, based on information currently available, its allowance for loan losses is maintained at a level which covers all known and inherent losses that are both probable

and reasonably estimable at each reporting date. However, actual losses are dependent upon future events and, as such, further additions to the level of allowances for loan losses may become necessary.

We review and classify assets on a monthly basis and the Board of Directors is provided with monthly reports on our classified assets. We classify assets in accordance with the management guidelines described above. At September 30, 2007 and 2006, we had \$5.3 and \$2.6 million, respectively, in assets classified as “*substandard*” and \$483,000 and \$220,000, respectively, in assets classified doubtful. We had no assets classified as loss at either date. We had no assets designated as “*special mention*” at September 30, 2007 or 2006, respectively.

At September 30, 2007, our classified loans were comprised primarily of the two relationships described below.

- A \$3.5 million commercial real estate loan secured by a mixed-use (medical offices and residential) building located in State’s capital, United States. In September 2007, management became aware that the cash flows on the property were below our coverage ratios and we ordered a new appraisal. Upon receipt of the new appraisal, we classified the loan as substandard and impaired, increased our allowance for loan losses by \$852,000 and contacted the borrowers regarding the status of the loan. As of September 30, 2007, this loan was more than 60 but less than 90 days past due and was still accruing interest. Management continues to monitor this loan closely.
- A commercial real estate and two commercial loans with an outstanding balance of \$1.1 million at September 30, 2007. These loans, which are secured by a restaurant and other property in Malvern, United States, equipment and a liquor license, were more than 120 days past due, were on non-accrual status and were classified substandard at September 30, 2007. We are pursuing foreclosure and do not anticipate losses on this loan.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses. We maintain the allowance at a level believed, to the best of management’s knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the allowance for loan losses on no less than a quarterly basis in order to identify those inherent losses and to assess the overall collection probability for the loan portfolio. Our evaluation process includes, among other things, an analysis of delinquency trends, non-performing loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of our loans, the value of collateral securing the loan, the borrower’s ability to repay and repayment performance, the number of loans requiring heightened management oversight, local economic conditions and industry experience. Such risk ratings are periodically reviewed by management and revised as deemed appropriate. The establishment of the allowance for loan losses is significantly affected by management judgment and uncertainties and there is a likelihood that different amounts would be reported under different conditions or assumptions. Various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require it to make additional provisions for estimated loan losses based upon judgments different from those of management.

We made a provision for loan losses of \$1.3 million in the year ended September 30, 2007. Approximately \$852,000 of our provision for loan losses in fiscal 2007 was attributable to one commercial real estate loan secured by a mixed use building in State’s capital which loan was classified “*substandard*” and which was considered impaired at September 30, 2007. See “*Asset Quality – Asset Classification.*”

We will continue to monitor and modify our allowances for loan losses as conditions dictate. No assurances can be given that our level of allowance for loan losses will cover all of the inherent losses on our loans or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses. The allowance consists of specific,

general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Investment Activities

General. We invest in securities pursuant to our Investment Policy, which has been approved by our board of directors. The Board's ALCO Committee monitors our investment activity and ensures that the bank's investments are consistent with the Investment Policy. The Board of Directors of XXXXX Savings reviews all investment activity on a monthly basis.

Our investment policy is designed primarily to manage the interest rate sensitivity of our assets and liabilities, to generate a favorable return without incurring undue interest rate and credit risk, to complement our lending activities and to provide and maintain liquidity.

At September 30, 2007, our investment and mortgage-backed securities amounted to \$30.6 million in the aggregate or 5.5% of total assets at such date. Our securities portfolio is comprised of mortgage-backed securities, which amounted to \$13.7 million or 44.9% of the securities portfolio at September 30, 2007, and U.S. government and agency obligations, municipal securities, corporate debt obligations and other securities. Our agency debt securities often have call provisions which provide the agency with the ability to call the securities at specified dates. We typically invest in securities with relatively short terms to maturity (less than 10 years). At September 30, 2007, \$15.4 million of our investment securities had contractual maturities of one year or less and the estimated duration of our mortgage-backed securities portfolio was 4.0 years at such date.

At September 30, 2007, we had an aggregate of \$525,000 in gross unrealized losses on our investment securities portfolio. Such unrealized losses reflect a decline in market value of securities as a result of changes in market rates of interest. Because the decline in market value is not attributable to credit quality and because we have the ability and intent to hold these investments until a recovery of fair value occurs, which may be at maturity, we did not consider these investments to be other-than-temporarily impaired.

Pursuant to SFAS No. 115, our securities are classified as available for sale, held to maturity, or trading, at the time of acquisition. Securities classified as held to maturity must be purchased with the intent and ability to hold that security until its final maturity, and can be sold prior to maturity only under rare circumstances. Held to maturity securities are accounted for based upon the historical cost of the security. Available for sale securities can be sold at any time based upon needs or market conditions. Available for sale securities are accounted for at fair value, with unrealized gains and losses on these securities, net of income tax provisions, reflected in retained earnings as accumulated other comprehensive income. At September 30, 2007, we had \$29.1 million of securities classified as available for sale, \$1.5 million of securities classified as held to maturity and no securities classified as trading account.

We do not purchase mortgage-backed derivative instruments that would be characterized "*high-risk*" under Federal banking regulations at the time of purchase, nor do we purchase corporate obligations which are not rated investment grade or better.

Our mortgage-backed securities consist primarily of mortgage pass-through certificates issued by the Government National Mortgage Association ("*GNMA*" or "*Ginnie Mae*"), Fannie Mae or Freddie Mac. At such date, all of our mortgage-backed securities were issued by the GNMA, FNMA or FHLMC and we held no mortgage-backed securities from private issuers.

Investments in mortgage-backed securities involve a risk that actual prepayments will be greater than estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby changing

the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or in the event such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

Ginnie Mae is a government agency within the Department of Housing and Urban Development which is intended to help finance government-assisted housing programs. Ginnie Mae securities are backed by loans insured by the Federal Housing Administration, or guaranteed by the Veterans Administration. The timely payment of principal and interest on Ginnie Mae securities is guaranteed by Ginnie Mae and backed by the full faith and credit of the U.S. Government. Freddie Mac is a private corporation chartered by the U.S. Government. Freddie Mac issues participation certificates backed principally by conventional mortgage loans. Freddie Mac guarantees the timely payment of interest and the ultimate return of principal on participation certificates. Fannie Mae is a private corporation chartered by the U.S. Congress with a mandate to establish a secondary market for mortgage loans. Fannie Mae guarantees the timely payment of principal and interest on Fannie Mae securities. Freddie Mac and Fannie Mae securities are not backed by the full faith and credit of the U.S. Government, but because Freddie Mac and Fannie Mae are U.S. Government-sponsored enterprises, these securities are considered to be among the highest quality investments with minimal credit risks.

Investment Securities Portfolio, Maturities and Yields. The following table sets forth the scheduled maturities, amortized cost and weighted average yields for our investment portfolio, with the exception of equity securities, at September 30, 2007. Due to repayments of the underlying loans, the average life maturities of mortgage-backed and asset-backed securities generally are substantially less than the final maturities.

Sources of Funds

General. Deposits, loan repayments and prepayments, proceeds from sales of loans, cash flows generated from operations and Federal Home Loan Bank advances are the primary sources of our funds for use in lending, investing and for other general purposes.

Deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposits consist of checking, both interest-bearing and non-interest-bearing, money market, savings and certificate of deposit accounts. At September 30, 2007, 38.1% of the funds deposited with XXXXX Savings were in core deposits, which are deposits other than certificates of deposit.

The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. Our deposits are obtained predominantly from the areas where our branch offices are located. We have historically relied primarily on customer service and long-standing relationships with customers to attract and retain these deposits; however, market interest rates and rates offered by competing financial institutions significantly affect our ability to attract and retain deposits.

XXXXX Savings uses traditional means of advertising its deposit products, including broadcast and print media and we generally do not solicit deposits from outside our market area. In recent years, we have emphasized the origination of core deposits.

We do not actively solicit certificate accounts in excess of \$100,000, known as “*jumbo CDs*,” or use brokers to obtain deposits. At September 30, 2007, our jumbo CDs amounted to \$84.7 million, of which \$64.3 million are scheduled to mature within twelve months. At September 30, 2007, the weighted average remaining maturity of our certificate of deposit accounts was 11 months.

At September 30, 2007, we had \$84.7 million in certificates of deposit and other time deposits with balances of \$100,000 or more maturing as follows:

Maturity Period	Amount
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	(In Thousands)	
Three months or less	\$	16,299
Over three months through six months		19,886
Over six months through 12 months		28,119
Over twelve months		20,377
Total	\$	84,681

The following table presents our time deposit accounts categorized by interest rates which mature during each of the periods set forth below and the amounts of such time deposits by interest rate at each of the periods indicated.

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XXXXX BANCORP, INC.
(Proposed holding company for XXXXX Savings Bank)

The following table sets forth our savings flows during the periods indicated.

Year Ended September 30,

	2007		2006		2005
	(In Thousands)				
Opening balance	\$ 402,078	\$	385,045	\$	364,910
Deposits	1,161,631		1,004,775		961,286
Withdrawals	1,143,863		999,025		949,874
Interest credited	13,642		11,283		8,723
Ending balance	\$ 433,488	\$	402,078	\$	385,045
Net increase (decrease)	\$ 31,410	\$	17,033	\$	20,135
Percent increase (decrease)	7.81%		4.42%		5.52%

Borrowings. We utilize advances from the Federal Home Loan Bank of Pittsburgh as an alternative to retail deposits to fund its operations as part of its operating strategy. These FHLB advances are collateralized primarily by certain of our mortgage loans and mortgage-backed securities and secondarily by its investment in capital stock of the Federal Home Loan Bank of Pittsburgh. FHLB advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. The maximum amount that the Federal Home Loan Bank of Pittsburgh will advance to

member institutions, including XXXXX Savings, fluctuates from time to time in accordance with the policies of the Federal Home Loan Bank. At September 30, 2007, we had \$63.4 million in outstanding FHLB advances and \$244.2million of additional FHLB advances and other borrowings available. In addition, we have established a \$50.0 million line of credit with the FHLB, of which \$8.0 million was outstanding at September 30, 2007. All amounts drawn on our FHLB line of credit are considered short-term borrowings. At September 30, 2007, \$3.0 million of our FHLB advances were scheduled to mature within one year. Subsequent to the reorganization, it is likely that we will increase such limit to permit moderately increased utilization of FHLB advances.

The following table sets forth the maximum month-end balance and average balance of FHLB long-term advances, and short-term borrowings, consisting solely of our FHLB line of credit, for the periods indicated.

Year Ended September 30,

	2007	2006	2005
(In Thousands)			
Maximum Balance:			
FHLB advances (long-term)	\$ 63,387	\$ 63,370	\$ 57,000
Short-term borrowings	8,000	7,500	4,500
Average Balance:			
FHLB advances (long-term)	\$ 63,379	\$ 60,185	\$ 56,195
Short-term borrowings	7,750	6,000	2,250

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At September 30, 2007, \$3.0 million of our FHLB advances were short-term (maturities of one year or less). Such short-term borrowings had a weighted average interest rate of 5.30% at September 30, 2007. In addition, at September 30, 2007, we had \$8.0 million outstanding on our line of credit with the FHLB which is payable on demand.

Properties

We currently conduct business from our headquarters and six additional full-service financial center offices. The following table sets forth the net book value of the land, building and leasehold improvements and certain other information with respect to the our offices at September 30, 2007. We maintain automated teller machines (“ATMs”) at each of our branch offices.

Description/Address	Leased/Owned	Date of Lease Expiration	Net Book Value of Property	Amount of Deposits
Our City Financial Center and Headquarters 34 East Lancaster Avenue Our City, PA 19301	Owned	N/A	\$ 4,194	\$ 159,375
Malvern Financial Center 100 West King Street Malvern, PA 19355	Owned	N/A	73	50,942
Exton Financial Center 109 North Pottstown Pike	Owned	N/A	549	58,225

Exton, PA 19341					
Coventry Financial Center 1000 Ridge Road Pottstown, PA 19465	Owned	N/A	527	68,224	
Berwyn Financial Center 650 Lancaster Avenue Berwyn, PA 19313	Owned	N/A	814	44,439	
Lionville Financial Center 537 West Uwchlan Avenue Downingtown, PA 19335	Owned	N/A	1,074	35,075	
Westtown Financial Center 100 Skiles Boulevard West Chester, PA 19382	Leased	2014	330	17,178	

Subsidiaries

XXXXXX Savings Bank has one subsidiary, Strategic Asset Management Group, Inc. (“SAM”), a United States corporation and insurance brokerage engaged in sales of property and casualty insurance, commercial insurance and life and health insurance. At September 30, 2007, SAM’s total assets amounted to \$36,000 and its net income for the year ended September 30, 2007 was \$2,000.

Employees

At September 30, 2007, we had 77 full-time and 16 part-time employees, compared to 74 full-time and 11 part-time and 76 full-time and nine part-time employees, at September 30, 2006 and 2005, respectively. None of such employees are represented by a collective bargaining group, and we believe that its relationship with its employees is excellent.

Legal Proceedings

We are not presently involved in any legal proceedings of a material nature. From time to time, we are a party to legal proceedings incidental to our business to enforce our security interest in collateral pledged to secure loans made by XXXXXX Savings.

REGULATION

Set forth below is a brief description of certain laws relating to the regulation of XXXXXX Bancorp, XXXXXX Mutual Holding Company and XXXXXX Savings Bank. This description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

General

XXXXXX Savings Bank, as a federally chartered savings and loan association, is subject to federal regulation and oversight by the Office of Thrift Supervision extending to all aspects of its operations. XXXXXX Savings Bank also is subject to regulation and examination by the Federal Deposit Insurance Corporation, which insures its deposits to the maximum extent permitted by law, and requirements established by the Federal Reserve Board. Federally chartered savings institutions are required to file periodic reports with the Office of Thrift Supervision and are subject to periodic examinations by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. The investment and lending authority of savings institutions are prescribed by federal laws and regulations, and such institutions are prohibited from engaging in any activities not permitted by such laws and regulations. Such regulation and supervision primarily is intended for the protection of depositors and not for the purpose of protecting shareholders.

Federal law provides the federal banking regulators, including the Office of Thrift Supervision and Federal Deposit Insurance Corporation, with substantial enforcement powers. The Office of Thrift Supervision's enforcement authority over all savings institutions and their holding companies includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the Office of Thrift Supervision. Any change in such regulations, whether by the Federal Deposit Insurance Corporation, Office of Thrift Supervision or Congress, could have a material adverse impact on XXXXX Mutual Holding Company, XXXXX Bancorp and XXXXX Savings Bank and our operations.

Regulation of XXXXX Bancorp, Inc. and XXXXX Mutual Holding Company

Holding Company Acquisitions. XXXXX Bancorp and XXXXX Mutual Holding Company are savings and loan holding companies under the Home Owners' Loan Act, and are registered with the Office of Thrift Supervision. Federal law generally prohibits a savings and loan holding company, without prior Office of Thrift Supervision approval, from acquiring the ownership or control of any other savings institution or savings and loan holding company, or all, or substantially all, of the assets or more than 5.0% of the voting shares of the savings institution or savings and loan holding company. These provisions also prohibit, among other things, any director or officer of a savings and loan holding company, or any individual who owns or controls more than 25.0% of the voting shares of such holding company, from acquiring control of any savings institution not a subsidiary of such savings and loan holding company, unless the acquisition is approved by the Office of Thrift Supervision.

The Office of Thrift Supervision may not approve any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (1) the approval of interstate supervisory acquisitions by savings and loan holding companies; and (2) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Holding Company Activities. Following the reorganization, XXXXX Bancorp and XXXXX Mutual Holding Company will operate as unitary savings and loan holding companies. Although savings and loan holding companies are not subject to specific capital requirements or specific restrictions on the payment of dividends or other capital distributions, federal regulations do prescribe such restrictions on subsidiary savings institutions, as described below. XXXXX Savings Bank must notify the Office of Thrift Supervision 30 days before declaring any dividend. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the Office of Thrift Supervision and the agency has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

Waivers of Dividends by XXXXX Mutual Holding Company. It is the policy of a number of mutual holding companies to waive the receipt of dividends declared by their subsidiary companies. Office of Thrift Supervision regulations will require XXXXX Mutual Holding Company to notify the Office of Thrift Supervision of any proposed waiver of its receipt of any dividends. The Office of Thrift Supervision reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to any such waiver if the waiver of cash dividends would not be detrimental to the safe and sound operation of the subsidiary institution. If XXXXX Bancorp determines to pay dividends, we anticipate that XXXXX Mutual Holding Company will waive the receipt of all its dividends paid by XXXXX Bancorp. Under Office of Thrift Supervision regulations, public shareholders are not diluted because of any dividends waived by XXXXX Mutual Holding Company would not be considered in determining an appropriate exchange ratio in the event XXXXX Mutual Holding Company converts to stock form.

Federal Securities Laws. XXXXX Bancorp will register its common stock with the Securities and Exchange Commission under Section 12(b) of the Securities Exchange Act of 1934. XXXXX Bancorp will be subject to the proxy and tender offer rules, insider trading reporting requirements and restrictions, and certain other requirements under the Securities Exchange Act of 1934. Pursuant to Office of Thrift Supervision regulations and our plan of stock issuance, we have agreed to maintain such registration for a minimum of three years following completion of the reorganization.

The Sarbanes-Oxley Act. As a public company, XXXXX Bancorp will be subject to the Sarbanes-Oxley Act of 2002, which implements a broad range of corporate governance and accounting measures for public companies designed to promote honesty and transparency in corporate America and better protect investors from corporate wrongdoing. The Sarbanes-Oxley Act's principal legislation and the derivative regulation and rule-making promulgated by the Securities and Exchange Commission includes:

- auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients;
- additional corporate governance and responsibility measures, including the requirement that the principal executive officer and principal financial officer certify financial statements;
- a requirement that companies establish and maintain a system of internal control over financial reporting and that a company's management provide an annual report regarding its assessment of the effectiveness of such internal control over financial reporting to the company's independent accountants and that such accountants provide an attestation report with respect to management's assessment of the effectiveness of the company's internal control over financial reporting;
- the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;
- an increase in the oversight of, and enhancement of certain requirements relating to audit committees of public companies and how they interact with the company's independent auditors;
- the requirement that audit committee members must be independent and are absolutely barred from accepting consulting, advisory or other compensatory fees from the issuer;
- the requirement that companies disclose whether at least one member of the audit committee is a "*financial expert*" (as such term is defined by the Securities and Exchange Commission) and if not, why not;
- a prohibition on insider trading during pension blackout periods;
- a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions; and
- a range of enhanced penalties for fraud and other violations.

Although XXXXX Bancorp anticipates that it will incur additional expense in complying with the provisions of the Sarbanes-Oxley Act and the resulting regulations, management does not expect that such compliance will have a material impact on its results of operations or financial condition.

XXXXX Savings Bank

General. As the primary federal regulator of XXXXX Savings Bank, the Office of Thrift Supervision has extensive authority over the operations of federally-chartered savings institutions. As part of this authority, XXXXX Savings Bank is required to file periodic reports with the Office of Thrift Supervision and is subject to periodic examinations by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. The investment and lending authorities of savings institutions are prescribed by federal laws and regulations, and such institutions are prohibited from engaging in any activities not permitted by such laws and regulations. Such regulation and supervision is primarily intended for the protection of depositors and the Deposit Insurance Fund, administered by the Federal Deposit Insurance Corporation.

The Office of Thrift Supervision's enforcement authority over all savings institutions and their holding companies includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the Office of Thrift Supervision.

Insurance of Accounts. The deposits of XXXXX Savings Bank are insured to the maximum extent permitted by the Deposit Insurance Fund and are backed by the full faith and credit of the U.S. Government. As insurer, the Federal Deposit Insurance Corporation is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the Federal Deposit Insurance Corporation. The Federal Deposit Insurance Corporation also has the authority to initiate enforcement actions against savings institutions, after giving the Office of Thrift Supervision an opportunity to take such action.

Each Federal Deposit Insurance Corporation-insured institution is assigned to one of three capital groups which are based solely on the level of an institution's capital— "*well capitalized*," "*adequately capitalized*," and "*undercapitalized*." These capital levels are defined in the same manner as under the prompt corrective action system discussed below. These three groups are then divided into three subgroups which reflect varying levels of supervisory concern, from those which are considered to be healthy to those which are considered to be of substantial supervisory concern. Assessment rates for insured institutions are determined semi-annually by the Federal Deposit Insurance Corporation and currently range from zero basis points for well-capitalized healthy institutions, such as XXXXX Savings Bank, to 27 basis points for undercapitalized institutions with substantial supervisory concern.

In addition, all institutions with deposits insured by the Federal Deposit Insurance Corporation are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the Deposit Insurance Fund. The annual assessment rate set for the third quarter of 2007 was 0.00285% of insured deposits and is adjusted quarterly. These assessments will continue until the Financing Corporation bonds mature in 2019.

The Federal Deposit Insurance Corporation may terminate the deposit insurance of any insured depository institution, including XXXXX Savings Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the Federal Deposit Insurance Corporation. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the Federal Deposit Insurance Corporation. Management is aware of no existing circumstances which would result in termination of XXXXX Savings Bank's deposit insurance.

On February 8, 2006, President George W. Bush signed into law legislation that merged the Bank Insurance Fund and the Savings Association Insurance Fund to form the Deposit Insurance Fund, eliminated any disparities in bank and thrift risk-based premium assessments, reduced the administrative burden of maintaining and operating two separate funds and established certain new insurance coverage limits and a mechanism for possible periodic increases. The legislation also gave the Federal Deposit Insurance Corporation greater discretion to identify the relative risks all institutions present to the Deposit Insurance Fund and set risk-based premiums.

Major provisions in the legislation include:

- Merging the Savings Association Insurance Fund and Bank Insurance Fund, which became effective March 31, 2006.

- Maintaining basic deposit and municipal account insurance coverage at \$100,000 but providing for a new basic insurance coverage for retirement accounts of \$250,000. Insurance coverage for basic deposit and retirement accounts could be increased for inflation every five years in \$10,000 increments beginning in 2011.
- Providing the FDIC with the ability to set the designated reserve ratio within a range of between 1.15% and 1.50%, rather than maintaining 1.25% at all times regardless of prevailing economic conditions.
- Providing a one-time assessment credit of \$4.7 billion to banks and savings associations in existence on December 31, 1996. The institutions qualifying for the credit may use it to offset future premiums with certain limitations.
- Requiring the payment of dividends of 100% of the amount that the insurance fund exceeds 1.5% of the estimated insured deposits and the payment of 50% of the amount that the insurance fund exceeds 1.35% of the estimated insured deposits (when the reserve is greater than 1.35% but no more than 1.5%).

Regulatory Capital Requirements. Federally insured savings institutions are required to maintain minimum levels of regulatory capital. The Office of Thrift Supervision has established capital standards consisting of a “*tangible capital requirement*,” a “*leverage capital requirement*” and “*a risk-based capital requirement*.” The Office of Thrift Supervision also is authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

Current Office of Thrift Supervision capital standards require savings institutions to satisfy the following capital requirements:

- tangible capital requirement – “*tangible*” capital equal to at least 1.5% of adjusted total assets;
- leverage capital requirement – “*core*” capital equal to at least 3.0% of adjusted total assets; and
- risk-based capital requirement – “*total*” capital (a combination of core and “*supplementary*” capital) equal to at least 8.0% of “*risk-weighted*” assets.

Core capital generally consists of common stockholders’ equity (including retained earnings). Tangible capital generally equals core capital minus intangible assets, with only a limited exception for purchased mortgage servicing rights. XXXXX Savings Bank had no intangible assets at September 30, 2007. Both core and tangible capital are further reduced by an amount equal to a savings institution’s debt and equity investments in subsidiaries engaged in activities not permissible to national banks (other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies). These adjustments do not affect XXXXX Savings Bank’s regulatory capital.

In determining compliance with the risk-based capital requirement, a savings institution is allowed to include both core capital and supplementary capital in its total capital, provided that the amount of supplementary capital included does not exceed the savings institution’s core capital. Supplementary capital generally consists of general allowances for loan losses up to a maximum of 1.25% of risk-weighted assets, together with certain other items. In determining the required amount of risk-based capital, total assets, including certain off-balance sheet items, are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights range from 0% for cash and securities issued by the U.S. Government or unconditionally backed by the full faith and credit of the U.S. Government to 100% for loans (other than qualifying residential loans weighted at 80%) and repossessed assets.

Savings institutions must value securities available for sale at amortized cost for regulatory capital purposes. This means that in computing regulatory capital, savings institutions should add back any unrealized losses and deduct any unrealized gains, net of income taxes, on debt securities reported as a separate component of GAAP capital.

At September 30, 2007, XXXXX Savings Bank exceeded all of its regulatory capital requirements, with tangible, core and risk-based capital ratios of 8.03%, 8.03% and 11.43%, respectively.

Any savings institution that fails any of the capital requirements is subject to possible enforcement actions by the Office of Thrift Supervision or the Federal Deposit Insurance Corporation. Such actions could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution's operations, termination of federal deposit insurance and the appointment of a conservator or receiver. The Office of Thrift Supervision's capital regulation provides that such actions, through enforcement proceedings or otherwise, could require one or more of a variety of corrective actions.

Prompt Corrective Action. The following table shows the amount of capital associated with the different capital categories set forth in the prompt corrective action regulations.

Capital Category	Total Risk-Based Capital	Tier 1 Risk-Based Capital	Tier 1 Leverage Capital
Well capitalized	10% or more	6% or more	5% or more
Adequately capitalized	8% or more	4% or more	4% or more
Undercapitalized	Less than 8%	Less than 4%	Less than 4%
Significantly undercapitalized	Less than 6%	Less than 3%	Less than 3%

In addition, an institution is "*critically undercapitalized*" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Under specified circumstances, a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category (except that the Federal Deposit Insurance Corporation may not reclassify a significantly undercapitalized institution as critically undercapitalized).

An institution generally must file a written capital restoration plan which meets specified requirements within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. A federal banking agency must provide the institution with written notice of approval or disapproval within 60 days after receiving a capital restoration plan, subject to extensions by the agency. An institution which is required to submit a capital restoration plan must concurrently submit a performance guaranty by each company that controls the institution. In addition, undercapitalized institutions are subject to various regulatory restrictions, and the appropriate federal banking agency also may take any number of discretionary supervisory actions.

Capital Distributions. Office of Thrift Supervision regulations govern capital distributions by savings institutions, which include cash dividends, stock repurchases and other transactions charged to the capital account of a savings institution to make capital distributions. A savings institution must file an application for Office of Thrift Supervision approval of the capital distribution if either (1) the total capital distributions for the applicable calendar year exceed the sum of the institution's net income for that year to date plus the institution's retained net income for the preceding two years, (2) the institution would not be at least adequately capitalized following the distribution, (3) the distribution would violate any applicable statute, regulation, agreement or Office of Thrift Supervision-imposed condition, or (4) the institution is not eligible for expedited treatment of its filings. If an application is not required to be filed, savings institutions which are a subsidiary of a savings and loan holding company (as well as certain other institutions) must still file a notice with the Office of Thrift Supervision at least 30 days before the board of directors declares a dividend or approves a capital distribution.

Qualified Thrift Lender Test. All savings institutions are required to meet a qualified thrift lender, or QTL, test to avoid certain restrictions on their operations. A savings institution can comply with the QTL test by either qualifying as a domestic building and loan association as defined in the Internal Revenue Code or meeting the Office of Thrift Supervision QTL test.

Currently, the Office of Thrift Supervision QTL test requires that 65% of an institution's "*portfolio assets*" (as defined) consist of certain housing and consumer-related assets on a monthly average basis in nine out of every 12 months. To be a qualified thrift lender under the IRS test, the savings institution must meet a "*business operations test*" and a "*60 percent assets test*," each defined in the Internal Revenue Code.

If the savings institution fails to maintain its QTL status, the holding company's activities are restricted. In addition, it must discontinue any non-permissible business, although the Office of Thrift Supervision may grant a grace period up to two years for good cause. Nonetheless, any company that controls a savings institution that is not a qualified thrift lender must register as a bank holding company within one year of the savings institution's failure to meet the QTL test.

Statutory penalty provisions require an institution that fails to remain a QTL to either become a national bank or be prohibited from the following:

- Making any new investments or engaging in any new activity not allowed for both a national bank and a savings association;
- Establishing any new branch office unless allowable for a national bank; and
- Paying dividends unless allowable for a national bank.

Three years from the date a savings association should have become or ceases to be a QTL, by failing to meet either QTL test, the institution must comply with the following restriction:

- Dispose of any investment or not engage in any activity unless the investment or activity is allowed for both a national bank and a savings association.

At September 30, 2007, XXXXX Savings Bank met the requirements to be deemed a QTL.

Affiliate Transaction Restrictions. Federal laws strictly limit the ability of savings institutions to engage in transactions with their affiliates, including their savings and loan holding companies. Except for certain exceptions set forth in the Office of Thrift Supervision regulations, a savings association must comply with sections 23A and 23B of the Federal Reserve Act and Regulation W which implements those statutory provisions. Those statutory and regulatory provisions apply to transactions between a subsidiary institution and its parent company or the non-savings institution subsidiaries of the savings and loan holding company and are limited to 10% of a savings institution's capital and surplus and, with respect to such parent company and all such non-savings institution subsidiaries, to an aggregate of 20% of the savings institution's capital and surplus. Further, loans and extensions of credit generally are required to be secured by eligible collateral in specified amounts. Federal law also requires that all transactions between a savings institution and its affiliates be on terms as favorable to the savings institution as transactions with non-affiliates. XXXXX Savings Bank believes that all transactions between it and its affiliates at September 30, 2007 were on terms as favorable to it as its transactions with non-affiliates.

Privacy Requirements of the Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act of 1999 provided for sweeping financial modernization for commercial banks, savings banks, securities firms, insurance companies, and other financial institutions operating in the United States. Among other provisions, the Gramm-Leach-Bliley Act places limitations on the sharing of consumer financial information with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "*opt out*" of the sharing of personal financial information with unaffiliated third parties.

Anti-Money Laundering. On October 26, 2001, in response to the events of September 11, 2001, the President of the United States signed into law the Uniting and Strengthening America by Providing

Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (referred to as the USA PATRIOT Act). The USA PATRIOT Act significantly expands the responsibilities of financial institutions, including savings and loan associations, in preventing the use of the U.S. financial system to fund terrorist activities. Title III of the USA PATRIOT Act provides for a significant overhaul of the U.S. anti-money laundering regime. Among other provisions, it requires financial institutions operating in the United States to develop new anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations. XXXXX Savings Bank has established policies and procedures to ensure compliance with the USA PATRIOT Act's provisions, and the impact of the USA PATRIOT Act on our operations has not been material.

Federal Home Loan Bank System. XXXXX Savings Bank is a member of the Federal Home Loan Bank of Pittsburgh, which is one of 12 regional Federal Home Loan Banks that administers the home financing credit function of savings institutions. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the Board of Directors of the Federal Home Loan Bank. At September 30, 2007, XXXXX Savings Bank had \$63.4 million of Federal Home Loan Bank advances and \$8.0 million outstanding on its line of credit with the FHLB.

As a member, XXXXX Savings Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Pittsburgh in an amount equal to at least 1.0% of its aggregate unpaid residential mortgage loans or similar obligations at the beginning of each year. At September 30, 2007, XXXXX Savings Bank had \$4.6 million in Federal Home Loan Bank stock, which was in compliance with this requirement.

The Federal Home Loan Banks are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of Federal Home Loan Bank dividends paid in the past and could do so in the future. These contributions also could have an adverse effect on the value of Federal Home Loan Bank stock in the future.

Federal Reserve System. The Federal Reserve Board requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. Because required reserves must be maintained in the form of vault cash or a noninterest-bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce an institution's earning assets. At September 30, 2007, XXXXX Savings Bank had met its reserve requirement.