



**Conditional Approval #1112
December 2014**

November 12, 2014

Joel Rappoport, Esq.
Kilpatrick Townsend & Stockton LLP
607 14th Street, NW, Suite 900
Washington, D.C. 20005

Re: Madison Bank of Maryland, Forest Hill, Maryland (Savings Association)
Conversion Application, Capital Distribution Filing, and Request to Establish a Stock
Information Center
Charter No. 708152; OCC Control Nos. R2-2014-0071 and 0073

Dear Mr. Rappoport:

The Office of the Comptroller of the Currency (OCC) hereby conditionally approves the applications filed on behalf of the Savings Association to convert to a Federally chartered stock savings association and to make a capital distribution, and hereby does not object to the establishment of a stock information center. These approvals are granted based on a thorough review of the applications and other information available to the OCC, including commitments and representations made in the applications by representatives of the Savings Association during the application process, and are subject to the condition set forth herein.

The Savings Association has filed with the OCC an application (the Conversion Application) for approval to convert from a Federally chartered mutual savings association to a Federally chartered stock savings association (Conversion), pursuant to section 5(i)(2) of the Home Owners' Loan Act, and 12 C.F.R. Part 192 (Conversion Regulations). The Savings Association has created MB Bancorp, Inc., Forest Hill, Maryland (Holding Company), a Maryland-chartered company, which will hold all of the stock of the Savings Association at the conclusion of the transaction. The Holding Company will offer shares of its common stock based on the appraised value of the Savings Association. The Savings Association requests approval to make a capital distribution of 50 percent of the net proceeds to the Holding Company, pursuant to 12 C.F.R. Part 163 (Capital Distribution Filing). By letter of September 12, 2014, the Savings Association also requests non-objection to the establishment of stock information centers in its offices.

Conversion Application

The Conversion Regulations provide that the OCC may approve an application for conversion only if: (i) the plan of conversion adopted by the savings association's board of directors complies with 12 C.F.R. Part 192; (ii) after the conversion, the savings association will meet its

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regulatory capital requirements; and (iii) the conversion will not result in a taxable reorganization of the association under the Internal Revenue Code (IRC). In addition, 12 C.F.R. § 192.200(c) provides that the OCC, in reviewing an application for conversion under 12 C.F.R. Part 192, will review a savings association's compliance with the Community Reinvestment Act (CRA), and will consider the extent to which the conversion will affect the convenience and needs of the community, and may deny or condition the application on the basis of this review. Furthermore, the Conversion Regulations provide that a plan of conversion shall contain no provision that the OCC shall determine to be inequitable or detrimental to the applicant, its savings account holders or other savings associations or to be contrary to the public interest.¹

The OCC has considered the Savings Association's Plan of Conversion (Plan), and has concluded that the Plan contains the required provisions, and that the Plan is in accordance with the relevant regulatory requirements, provided the Savings Association complies with the condition set forth below, which is necessary in order to ensure the Savings Association complies with the post-approval requirements of the conversion regulations and to help ensure the safe and sound operation of the Savings Association following the conversion. In particular, we conclude that the purchase priorities in the subscription offering and the provisions related to stock benefit plans are consistent with the Conversion Regulations.

The proposed transaction complies with the provisions addressing designation of a "local community." A preference in the community offering for natural persons (and trusts of natural persons) residing in the area constituting the "local community" is required by 12 C.F.R. § 192.390(b). The local community is defined in section 192.25 as including the counties in which the Savings Association has its offices. Here, the Savings Association has offices located in Baltimore and Harford Counties, Maryland. The Savings Association has designated Baltimore and Harford Counties, Maryland, as the Savings Association's local community. We conclude that the Plan, including the community offering section of the Plan, satisfies the Conversion Regulations.

With respect to the remaining approval criteria, the Conversion would not cause the Savings Association, which is currently well capitalized, to fail to meet its regulatory capital requirements, and the Conversion will not result in a taxable reorganization of the Savings Association under the IRC.

Based on the Savings Association's CRA rating of "Outstanding," and the business plan, OCC concludes that the Conversion Application meets the convenience and needs requirement set forth at 12 C.F.R. § 192.200(c).

The Conversion Regulations provide that a plan of conversion shall contain no provision that OCC determines to be inequitable or detrimental to the applicant, its savings account holders or other savings associations or to be contrary to the public interest. The foregoing condition

¹ 12 C.F.R. § 192.130.

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helps ensure the fairness of the conversion and helps ensure that the transaction is consistent with the public interest.

Capital Distribution

The Savings Association has requested OCC approval, pursuant to 12 C.F.R. § 163.143, to make a capital distribution to the Holding Company of between \$5.9 million at the minimum and \$8.16 million at the maximum, or \$9.47 million at the super-maximum. The OCC's regulations provide that a capital distribution application may be denied if, generally, the proposed capital distribution would: (i) cause the institution to become undercapitalized; (ii) raise safety and soundness concerns; or (iii) violate any statute, regulation, agreement with the OCC or condition of approval.² The OCC does not object to the capital distribution. The proposed distribution does not raise safety and soundness concerns, it will not violate any prohibition contained in law, agreement with the OCC, or condition of approval, and the resulting institution, the Savings Association, will remain "well capitalized" after the distribution. Accordingly, the OCC concludes that the Savings Association's capital distribution is consistent with approval.

Establishment of Stock Information Center

The Savings Association also requests OCC non-objection, pursuant to 12 C.F.R. § 163.76, to establish a stock information center in designated areas of the Savings Association's offices for the purpose of selling conversion stock offered by Holding Company. At the stock information center, the Savings Association's customers will be able to subscribe for conversion shares, obtain offering materials and ask questions related to the offering.

OCC regulations, pursuant to 12 C.F.R. Section 163.76, state that the sale of conversion stock at an office of a Federal Savings Association is permissible, subject to certain criteria. The regulation specifies that an institution may establish the stock center provided; (i) OCC does not object on supervisory grounds; (ii) non-registered bank or affiliate employees do not receive commissions, bonuses or other form of compensation in connection with the sale of securities; (iii) bank tellers do not participate in the stock sale process; (iv) the offering activity is restricted to a designated area; (v) offers and sales are made by regular, full time employees or by securities personnel subject to supervision by a registered broker-dealer; (vi) purchasing customers must acknowledge that the securities are not an insured deposit; (vii) the securities include a legend to state they are uninsured; and (viii) the institution will meet its capital requirements following completion of the offering.

Keefe, Bruyette and Woods, Inc. (KBW), the Savings Association's financial advisor, will manage the stock information center. KBW will employ and supervise all staff. Employees distributing offering material, taking orders and responding to customer inquiries will be registered securities representatives and Savings Association employees may provide

² 12 C.F.R. § 192.146.

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ministerial administrative support such as depositing checks or delivering documents. The materials demonstrate that the offer and sale of securities will comply with the requirements in 12 C.F.R. § 163.76.

Loan to the Employment Stock Ownership Plan

The Savings Association also requests OCC non-objection for the Holding Company to loan funds to the Savings Association's Employee Stock Ownership Plan (ESOP) so that the ESOP may purchase up to 8 percent of the stock in the conversion offering. The Holding Company also requested the non-objection of the Federal Reserve Bank of Richmond (Federal Reserve) to loan funds to the ESOP. The OCC has reviewed the proposed loan from the Holding Company to the ESOP and does not object to the loan.³

Section 1818(b) Condition

The approval of the Conversion Application is subject to the following condition:

No later than three (3) business days after consummation of the Conversion, the Savings Association shall enter into a written Operating Agreement with the OCC on terms and conditions acceptable to the OCC. The Savings Association shall thereafter implement and adhere to the terms of the Operating Agreement.

The condition of this approval is a condition "imposed in writing by a Federal banking agency in connection with any action on any application, notice, or other request" within the meaning of 12 U.S.C. § 1818. As such, the condition is enforceable under 12 U.S.C. § 1818.

Consummation Requirements

The approvals and non-objection set forth herein are granted based on our understanding that other regulatory approvals, non-objections or waivers with respect to the proposed transaction will have been received prior to consummation of the transactions. Unless a timeframe is otherwise stated below, please submit the following information to the attention of the Senior Licensing Analyst in Washington D.C. prior to consummation of the transaction:

- Copies of all related regulatory approvals not previously submitted;
- On the business day prior to the date of consummation of the proposed transaction, the chief financial officer of the Savings Association must certify in writing to the Senior Licensing Analyst that no material adverse changes have occurred with respect to the financial condition or operation of the Savings Association as disclosed in the applications. If additional information having a material adverse bearing on any feature

³ The Federal Reserve's non-objection to the proposed loan will be subject to certain commitments.

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of the applications is brought to the attention of the Savings Association, or OCC since the date of the financial statements submitted with the applications, the transaction must not be consummated unless the information is presented to the Deputy Comptroller for Licensing (Deputy Comptroller), and the Deputy Comptroller provides written non-objection to the consummation of the transaction;

- Promptly after the completion of the sale of all the shares of capital stock to be sold in connection with the Conversion, the Savings Association must submit to the OCC's Senior Licensing Analyst: (a) a certification by the Savings Association's chief executive officer stating that all the shares proposed to be sold have been sold, the price at which they were sold, and the date of completion of the offering; (b) executed copies of the Savings Association's federal stock charter, the appropriate form of bylaws as prescribed by 12 C.F.R. § 152.5 and as approved herein, and a certification by the Savings Association's secretary that the copies are in conformity with the proposal of the board of directors adopted by the Savings Association's members; and (c) a statement by the Savings Association's independent appraiser that, to the best of his/her knowledge and judgment, nothing of a material nature has occurred (taking into account all of the relevant factors including those which would be involved in a change in the maximum subscription price) which would cause him/her to conclude that the sale price was not compatible with his/her estimate of the Savings Association's total pro forma market value at the time of sale; and
- The Savings Association must, within five calendar days after the effective date of the proposed transaction, advise in writing: (a) of the effective date of the proposed transaction; and (b) that the transaction was consummated in accordance with all applicable laws and regulations, the applications and this approval.

If the transaction is not consummated within 120 calendar days of the approval date, the approval shall automatically terminate, unless the OCC grants an extension of the time period for good cause.

This approval and the activities and communications by OCC employees in connection with the filings do not constitute a contract, express or implied, or any other obligation binding upon the OCC, the United States, any agency or entity of the United States, or any officer or employee of the United States, and do not affect the ability of the OCC to exercise its supervisory, regulatory and examination authorities under applicable law and regulations. Our approval is based on the Savings Association's representations, submissions, and information available to the OCC as of this date. The OCC may modify, suspend or rescind this decision if a material change in information on which the OCC relied occurs prior to the date of the transaction to which this decision pertains. The foregoing may not be waived or modified by any employee or agent of the OCC or the United States.

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If you have any questions, you may contact Senior Licensing Analyst Crystal Maddox at (202) 649-6260 or at Crystal.Maddox@occ.treas.gov.

Sincerely,

signed

Stephen A. Lybarger
Deputy Comptroller for Licensing