

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

OHIO DIVISION OF FINANCIAL INSTITUTIONS
COLUMBUS, OHIO

Written Agreement by and between

SHOREBANK, CLEVELAND
Cleveland, Ohio

FEDERAL RESERVE BANK OF CLEVELAND
Cleveland, Ohio

and

OHIO DIVISION OF
FINANCIAL INSTITUTIONS
Columbus, Ohio

Docket No. 98-022-WA/RB-SM

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of the ShoreBank, Cleveland, Cleveland, Ohio (the "Bank"), a state chartered bank which is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Cleveland (the "Reserve Bank"), and the Ohio Division of Financial Institutions (the "Division") have mutually agreed to enter into this Written Agreement (the "Agreement");

WHEREAS, this Agreement is being executed in accordance with the Rules Regarding Delegation of Authority of the Board of

Governors of the Federal Reserve System (the "Board of Governors"), specifically 12 C.F.R. 265.11(a)(15), and the Reserve Bank has received the prior approval of the Director of the Division of Banking Supervision and Regulation (the "Director") and the General Counsel of the Board of Governors to enter into this Agreement with the Bank;

WHEREAS, this Agreement is being executed in accordance with Chapter 1121 of the Ohio Revised Code, and the Deputy Superintendent for Banks is acting under his own authority and on behalf of the Superintendent and the Division in entering this Agreement; and

WHEREAS, on August 21, 1998, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing George P. Surgeon, CEO to enter into this Agreement on behalf of the Bank and consented to compliance with each and every provision of this Agreement by the Bank and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. 1813(u)).

NOW, THEREFORE, before the taking of any testimony or adjudication of or finding on any issue of fact or law herein, and without this Agreement constituting an admission of any allegation made or implied by the Board of Governors, the Reserve Bank, or the Division, and solely for the purposes of settling this matter without further proceedings, the Bank, the Reserve Bank and the Division hereby agree as follows:

1. (a) Within 40 days of this Agreement, the board of directors of the Bank shall conduct a complete review of the Bank's implementation of its current operating policies and procedures and of the performance of the Bank's personnel (the "Review") and forward to the Reserve Bank and the Division a written report detailing its findings and recommendations. The Review shall include, at a minimum, the following:

(i) The identification of the type and number of officer positions needed to manage and supervise the affairs of the Bank adequately;

(ii) the identification and establishment of the Bank's board of directors' committees that are needed to provide guidance and oversight to Bank management;

(iii) an assessment of the supervision of the Bank's management by the Bank's board of directors, including the scope, frequency and sufficiency of information provided to the board of directors by Bank management, and recommendations to correct or eliminate any deficiencies that are found;

(iv) an evaluation of each Bank officer, as well as each staff member with lending authority or responsibility for a major area of the Bank's operations, to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including adherence to the Bank's policies and procedures and maintenance of the Bank in a safe and sound condition; and

(v) a plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications that are necessary to fill

Bank officer and staff member positions consistent with the findings of the Review.

(b) The primary purpose of the Review shall be to aid in the development of a management structure suitable to the Bank's needs that is adequately staffed by qualified and trained personnel. At a minimum, the qualifications of management shall be determined by its ability to: (i) restore and maintain all aspects of the Bank, including asset quality and capital adequacy, to a safe and sound condition, and (ii) comply with the requirements of this Agreement and all applicable laws and regulations.

(c) Within 20 days after the completion of the written report required by paragraph 1(a) hereof, the Bank shall submit a written management plan (the "Management Plan") to the Reserve Bank and the Division describing specific actions that the board of directors proposes to take in order to strengthen Bank management and to improve the board of directors' supervision over the Bank's officers. The Management Plan shall fully address the findings and recommendations contained in the written report.

2. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a written plan to achieve and, thereafter, maintain an adequate capital position. The plan shall, at a minimum, address and consider:

(a) The Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines of the Board of Governors for State Member Banks: Risk Based Measures and Tier 1 Leverage Measure (12 C.F.R. Part 208, App. A and B);

(b) the volume of the Bank's adversely classified assets;

(c) the growth in the Bank's assets and its relationship to the Bank's capital ratios;

(d) the Bank's anticipated levels of retained earnings;

(e) the source and timing of additional funds to fulfill the Bank's future capital and the loan loss reserve requirements; and

(f) procedures for the Bank to notify the Reserve Bank and the Division, in writing, within 5 days of the end of any calendar month that the Bank's Tier 1 leverage ratio falls below 10 percent and to submit to the Reserve Bank and the Division a written plan that details the steps the Bank will take to increase its Tier 1 leverage ratio to no less than 10 percent within 60 days.

3. The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director, and the Division. Requests for approval shall be received by the Reserve Bank and the Division at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on earnings, cash flow, capital levels and asset quality of the Bank.

4. (a) The Bank's board of directors shall maintain the responsibility for monitoring compliance with the Bank's written loan policies and procedures and shall review, on a monthly basis, the current status of all loans in excess of \$20,000 that are past due as to principal or interest for 90 days or more or on nonaccrual status as of the date of the directors' meeting, or that are adversely classified or listed for special mention by federal or state examiners in the Bank's latest report of examination or visitation. The board of directors shall specifically address whether the extension of credit was made in accordance with the Bank's written loan policies and procedures, the collection actions undertaken by Bank management to reduce the volume of past due loans, and whether such actions were in full compliance with the Bank's collection procedures as set forth in its written loan policies and procedures.

(b) The board of directors shall maintain accurate written minutes of its loan discussions and meetings, which shall be available for subsequent supervisory review.

5. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a written plan

designed to improve the Bank's position on each loan in excess of \$50,000 that was past due as to principal or interest in excess of 90 days or on nonaccrual status as of the date of this Agreement and on each asset in excess of \$50,000, including other real estate, that was adversely classified or listed as special mention by Reserve Bank and Division examiners in the most recent report of examination of the Bank, dated May 11, 1998 (the "Examination Report"), cited as a problem loan by any of the Bank's consultants, or included on the Bank's problem loan watchlist, through amortization, repayment, liquidation, additional collateral or other means, whichever may be appropriate. This plan shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Division, except that the plan shall be amended periodically to cover loans or other assets in excess of \$50,000 that have been adversely classified or listed for special mention in any subsequent report of examination or visitation of the Bank or loans that are past due as to principal or interest for more than 90 days or on nonaccrual status as of the date of each subsequent examination or visitation. Each amendment to the plan shall be submitted to the Reserve Bank and the Division within 30 days after the Bank's receipt of each new report of examination or visitation. Amended

plans based on loans or other assets that are classified or listed for special mention or overdue in subsequent examinations or visitations shall be submitted to the Reserve Bank and the Division with the next progress report, required by paragraph 13 hereof, following each subsequent examination or visitation.

(b) Quarterly progress reports on classified and past due assets in excess of \$50,000, required by paragraph 13 hereof, shall include, at a minimum: (i) the carrying values of such assets (book and nonbook) as of the date of the plan; (ii) the nature and value of supporting collateral; (iii) plans for improvement, reduction, or elimination of the asset; (iv) source of funds for changes in status of the assets; (v) specific target levels and timetables for achievement; and (vi) a copy of the Bank's most current internal watch list.

6. (a) Unless otherwise approved in writing by the Reserve Bank and the Division, the Bank shall, within 10 days from the receipt of any federal or state report of examination or visitation, charge-off 100 percent of all assets classified "Loss" in such report of examination or visitation that have not been previously collected in full or charged-off.

(b) Within 30 days of this Agreement, the Bank shall achieve and, thereafter, continue to maintain, through charges to current operating income, an adequate valuation reserve for loan losses. The adequacy of the reserve shall be determined in light of the volume of weighted classified loans, the current level of nonperforming loans, past loss experience, evaluation of the potential for loan losses in the Bank's portfolio, current economic conditions, other criticisms contained in the Bank's most recent report of examination, and the requirements of the Interagency Policy Statement on the Allowance for Loan and Lease Losses, dated December 21, 1993 (the "Interagency Policy Statement"). A written record shall be maintained indicating the methodology used in determining the amount of the reserve needed. This record shall be submitted to the Reserve Bank and the Division within 60 days of this Agreement. Thereafter, the Bank shall conduct, at a minimum, a quarterly assessment of its loan loss reserve and its nonperforming loans and shall submit documentation of each quarterly assessment to the Reserve Bank and the Division within 30 days of the end of each quarter.

7. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division written loan review procedures. The loan review procedures shall be designed to identify and categorize problem credits and to assess the overall quality of the Bank's loan portfolio. These procedures shall, at a minimum, include the following:

- (a) A description of the risk grades to be assigned to each loan;
- (b) the designation of the individuals who will be responsible for determining loan grades;
- (c) a description of when loans will be graded;
- (d) a description of what loans will be graded;
- (e) the requirements outlined in Attachment I of the Interagency Policy Statement addressing the minimum requirements relating to "Loan Review Systems" and "Credit Grading Systems";

(f) procedures to confirm the accuracy of all risk grades assigned by the Bank's loan officers;

(g) for each loan identified as a watch list loan, a written statement, maintained in the appropriate credit file, of the reason(s) why such loan merits special attention;

(h) the development of an adequate internal loan review grading report; and

(i) a mechanism for reporting periodically to the Bank's board of directors the status of the loan reviews and the action(s) taken by management to improve the Bank's position on each loan adversely graded.

8. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a written plan for 1998 and 1999 consisting of goals and strategies for improving the earnings of the Bank. The written plan shall include, but not necessarily be limited to, the following:

(a) Identification of the major areas in and means by which the board of directors will seek to improve the Bank's operating performance;

(b) realistic and comprehensive budgets that, at a minimum, provide for: (i) monthly estimates of all material income and expense items; (ii) establishment of a review process to monitor the actual income, expenses and net cash flow of the Bank in comparison to budgetary projections on at least a quarterly basis; and (iii) semiannual revision of projected financial statements, including projected annual budgets and cash flow statements and year-end balance sheet and income statements for the Bank;

(c) a description of the operating assumptions that form the bases for, and adequately support, major projected income and expense components, including the compensation level and bonuses (if any) of senior officers and directors, the Bank's deferred tax position, and provisions needed to establish and maintain adequate loan loss reserves; and

(d) a complete analysis of the Bank's overhead expenses with a complete description of the steps to be taken to reduce overhead expenses to peer levels or below.

9. (a) Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a written funds management plan and procedures to provide for the maintenance of an adequate liquidity position. The plan and procedures shall, at a minimum, address and consider:

(i) A contingency funding plan to identify potential sources of liquidity if the Bank were to experience an erosion of its deposit base;

(ii) establishment of contingency plans for meeting large, unexpected withdrawals, which shall include, at a minimum (A) the sale of assets, and (B) establishing lines of credit with other financial institutions which will advance funds on short notice; and

(iii) a monthly review by the Bank's board of directors to determine how best to allocate the Bank's available

funding sources among various asset categories after reviewing:
(A) the Bank's liquidity position, (B) outstanding commitments such as loan commitments and letters of credit, and (C) the Bank's rate-sensitivity position and net interest margin.

(b) The funds management plans shall be coordinated with the Bank's loan, investment, operating, and budget and profit planning policies.

10. The Bank shall immediately take all necessary steps consistent with sound banking practices, to eliminate and/or correct all violations of law set forth in the Examination Report and any subsequent report of examination or visitation.

11. (a) The Bank shall not, directly or indirectly, enter into, participate, or in any other manner engage in any transaction with ShoreBanc Cleveland Corporation, Cleveland, Ohio, or ShoreBank Corporation, Chicago, Illinois, or any nonbank subsidiary thereof (collectively, the "Corporation"), without the prior written approval of the Reserve Bank and the Division.

(b) For the purposes of this Agreement, the terms

(i) "transaction" shall include, but not be limited to, the transfer, sale or purchase of any asset, including cash, or the direct or indirect payment of any expense or obligation of Corporation, the payment of a management or service fee of any nature, or any extension of credit, including overdrafts; and

(ii) "extension of credit" shall be defined as set forth in section 215.3 of Regulation O of the Board of Governors (12 C.F.R. 215.3) and section 1301:1-3-04 of the Ohio Administrative Code.

12. The plans, policies, and procedures required by paragraphs 2, 5(a), 7, and 9(a) hereof shall be submitted to the Reserve Bank and the Division for review and approval. Acceptable plans, policies, and procedures shall be submitted to the Reserve Bank and the Division within the required time periods set forth in this Agreement. The Bank shall adopt the approved plans, policies, and procedures within 10 days of receipt of approval by the Reserve Bank and the Division and then fully comply with them. During the term of this Agreement, the approved plans, policies, and procedures shall not be amended or

rescinded without the prior written approval of the Reserve Bank and the Division.

13. Within 30 days after the end of each calendar quarter (September 30, December 31, March 31, and June 30) following the date of this Agreement, the Bank shall furnish to the Reserve Bank and the Division written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof, including updated reports on all asset improvement plans required by paragraph 5 hereof. Such reports may be discontinued when the corrections required by this Agreement have been accomplished and the Reserve Bank and the Division have, in writing, released the Bank from making further reports.

14. All communications regarding this Agreement shall be sent to:

(a) R. Chris Moore
Senior Vice President
Federal Reserve Bank of Cleveland
1455 East Sixth Street
Cleveland, Ohio 44114

(b) Richard L. Hardgrove
Deputy Superintendent for Banks
Ohio Division of Financial Institutions
77 South High Street, 21st Floor
Columbus, Ohio 43266-0121

(c) George P. Surgeon
Chief Executive Officer
ShoreBank, Cleveland
540 E. 105th Street
Cleveland, Ohio 44108

15. The provisions of this Agreement shall be binding upon the Bank and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

16. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated or suspended by the Board of Governors and the Division.

17. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank and Division may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

18. If the Bank and its board of directors fail, in the reasonable judgment of the Division, to substantially fulfill any requirements of this Agreement, the board of directors of the Bank shall cause the Bank to consent to the issuance of, and compliance with, a cease and desist order by the Division addressing all matters for which the requirements of this Agreement were not substantially fulfilled.

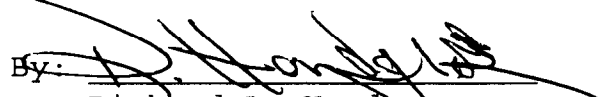
19. The provisions of this Agreement shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank, the Division or any federal or state agency or department from taking any other action affecting the Bank or any of its current or former institution-affiliated parties.

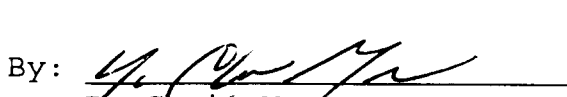
20. This Agreement is a "written agreement" for the purposes of section 8 of the FDI Act (12 U.S.C. 1818).

IN WITNESS HEREOF, the parties have caused this Agreement to be executed as of the 21st day of August, 1998.

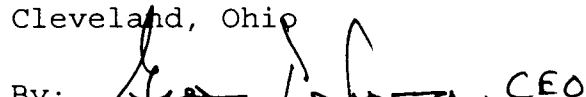
Ohio Division of
Financial Institutions

Federal Reserve Bank
of Cleveland

By: 
Richard L. Hardgrove
Deputy Superintendent
for Banks

By: 
E. Chris Moore
Vice President


ShoreBank, Cleveland
Cleveland, Ohio

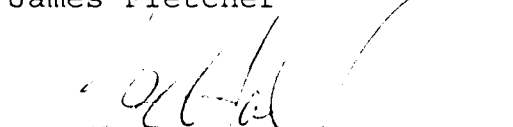
By: 
Greg Young, CEO


The undersigned directors of the Bank each acknowledges having read the foregoing Agreement and approves of the consent thereto by the Bank.



Warren Anderson

James Fletcher


Ronald A. Grzywinski


Brian E. Hall


Stuart Kohl



John Shields

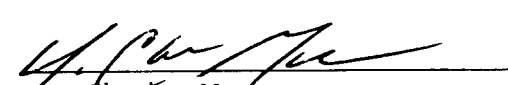
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Ohio Division of
Financial Institutions

Federal Reserve Bank
of Cleveland

By: 
Richard L. Hardgrove
Deputy Superintendent
for Banks

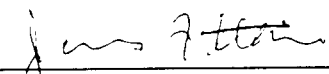
By: 
R. Chris Moore
Vice President

ShoreBank, Cleveland
Cleveland, Ohio

By: _____

The undersigned directors of the Bank each acknowledges having read the foregoing Agreement and approves of the consent thereto by the Bank.

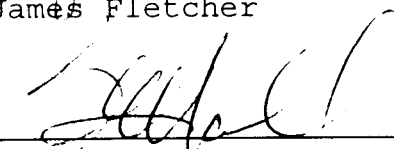
Warren Anderson



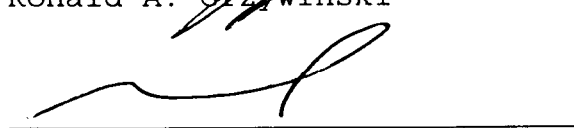
James Fletcher



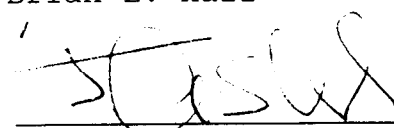
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