

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

AND

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
OLYMPIA, WASHINGTON

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)	
In the Matter of)	ORDER TERMINATING
)	CONSENT ORDER
)	AND
SHOREBANK, PACIFIC)	AMENDMENT TO CONSENT
ILWACO, WASHINGTON)	ORDER
)	
(STATE CHARTERED)	FDIC-09-513b
INSURED NONMEMBER BANK))	
_____)	

IT IS HEREBY ORDERED, that the CONSENT ORDER issued against ShoreBank, Pacific, Ilwaco, Washington ("Bank") on March 10, 2010, and the AMENDMENT TO THE CONSENT ORDER issued against the Bank on August 10, 2010, by the Federal Deposit Insurance Corporation pursuant to section 8(b) of the Federal Deposit Insurance Act, 12 U.S.C. § 1818(b), and by the Director of Banks for the Washington Department of Institutions pursuant to the Revised Code of Washington, Anno. § 30.04.450 ("RCW"), be and hereby are terminated.

Pursuant to delegated authority.

Dated this 28th day of November, 2011.

/s/ Richard M. Riccobono
Director of Banks
Department of Financial
Institutions
State of Washington

/s/ M. Anthony Lowe
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

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SHOREBANK, PACIFIC)	AMENDMENT TO THE
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The Federal Deposit Insurance Corporation ("FDIC") and the State of Washington Department of Financial Institutions ("WDFI") issued a CONSENT ORDER ("ORDER") on March 10, 2010 against Shorebank, Pacific, Ilwaco, Washington ("Bank"). The FDIC and the WDFI have determined that it is necessary to amend the ORDER.

The Bank, having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the additional unsafe or unsound banking practices alleged to have been committed by the Bank, and of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C.

§ 1818(b), and Revised Code of Washington, Anno. § 30.04.450 ("RCW"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN AMENDMENT TO THE CONSENT ORDER ("STIPULATION TO AMENDMENT") with representatives of the FDIC and the WDFI dated July 9, 2010, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices, the Bank consented to the issuance of an AMENDMENT TO THE CONSENT ORDER ("AMENDMENT TO THE ORDER") by the FDIC and the WDFI.

The FDIC and the WDFI considered the matter and determined that the requirements for issuance of an Order under 12 U.S.C. § 1818(b) and RCW § 30.04.450 have been met. The FDIC and the WDFI therefore accepted the STIPULATION TO AMENDMENT and HEREBY ORDER, that the ORDER be and is hereby amended to add the following affirmative actions. The Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns shall take affirmative action as follows:

SALE OR MERGER

1. (a) Within 10 days from the effective date of this AMENDMENT TO THE ORDER, the Bank shall develop, adopt, and implement a plan to sell or merge itself into an insured depository institution that is not controlled by The Shorebank Corporation, Chicago, Illinois, or otherwise recapitalize the

Bank so that the Bank is no longer controlled by The Shorebank Corporation.

(b) The plan required by this paragraph shall be acceptable to the Regional Director of the FDIC Chicago Regional Office ("Regional Director") and the Director of Banks for the WDFI ("Director").

PROGRESS REPORTS

2. Within 30 days from the end of each calendar quarter following the effective date of this AMENDMENT TO THE ORDER, the Bank shall furnish to the Regional Director and Director written progress reports signed by each member of the Bank's board of directors, detailing the actions taken to secure compliance with the AMENDMENT TO THE ORDER and the results thereof.

NOTIFICATION TO SHAREHOLDER

3. Following the effective date of this AMENDMENT TO THE ORDER, the Bank shall send to its shareholder a copy of this AMENDMENT TO THE ORDER: (1) in conjunction with the Bank's next shareholder communication; or (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting.

This AMENDMENT TO THE ORDER shall be effective upon its issuance by the FDIC and the WDFI.

The provisions of this AMENDMENT TO THE ORDER shall be binding upon the Bank, its institution-affiliated parties, and

any successors and assigns thereof.

The provisions of this AMENDMENT TO THE ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the FDIC and the WDFI.

This AMENDMENT TO THE ORDER does not modify, terminate, suspend, or set aside any provision of the ORDER.

Pursuant to delegated authority.

Dated: August 10, 2010

/s/

/s/

M. Anthony Lowe
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

Brad Williamson
Director of Banks
Department of
Financial Institutions
State of Washington

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF WASHINGTON

DEPARTMENT OF FINANCIAL INSTITUTIONS

OLYMPIA, WASHINGTON

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In the Matter of)	CONSENT ORDER
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SHOREBANK, PACIFIC)	
ILWACO, WASHINGTON)	FDIC-09-513b
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(STATE CHARTERED)	
INSURED NONMEMBER BANK))	
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ShoreBank, Pacific, Ilwaco, Washington ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices alleged to have been committed by the Bank, and of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and Revised Code of Washington, Anno. § 30.04.450 ("RCW"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with a representative of the Federal Deposit Insurance Corporation ("FDIC") and the Director

of Banks ("Director") for the Washington Department of Financial Institutions ("WDFI"), dated February 24, 2010, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices relating to capital, asset quality, and liquidity, the Bank consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC and WDFI.

The FDIC and WDFI considered the matter and determined to accept the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and RCW § 30.04.450, have been satisfied, the FDIC and WDFI **HEREBY ORDER** that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns take affirmative action as follows:

MANAGEMENT

1. (a) During the life of this ORDER, the Bank shall have and retain qualified management. Management shall be provided the necessary written authority to implement the provisions of this ORDER. The qualifications of management shall be assessed on its ability to:

- (i) Comply with the requirements of this ORDER;
- (ii) Operate the Bank in a safe and sound manner;
- (iii) Comply with applicable laws, rules, and regulations; and

(iv) Restore all aspects of the Bank to a safe and sound condition, including capital adequacy, asset quality, management effectiveness, earnings, liquidity, and sensitivity to interest rate risk.

(b) During the life of this ORDER, prior to the addition of any individual to the board of directors or the employment of any individual as a senior executive officer, the Bank shall request and obtain the written approval of the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Director. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act ("section 32"), 12 U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

BOARD PARTICIPATION

2. (a) As of the effective date of this ORDER, the board of directors shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following

areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged off, and recovered loans; investment activity; adoption or modification of operating policies; individual committee reports; audit reports; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 60 days from the effective date of this ORDER, the Bank's board of directors shall have in place a program that will provide for monitoring of the Bank's compliance with this ORDER.

CAPITAL

3. (a) Within 90 days from the effective date of this ORDER, the Bank shall have and maintain its level of Tier 1 capital as a percentage of its total assets ("capital ratio") at a minimum of 8.5 percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of 12 percent. Within 180 days from the effective date of this ORDER, the Bank shall have and maintain its capital ratio at a minimum of 9 percent. For purposes of this ORDER, Tier 1 capital, qualifying total capital, total assets, and risk-weighted assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) If, while this ORDER is in effect, the Bank increases capital by the sale of new securities, the board of directors of the Bank shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held by or controlled by them in favor of said plan. Should the implementation of the plan involve public distribution of Bank securities, including a distribution limited only to the Bank's existing shareholders, the Bank shall prepare detailed offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and other material disclosures necessary to comply with federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 days prior to the dissemination of such materials, the materials used in the sale of the securities shall be submitted to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429 and to the WDFI, P.O. Box 41200, Olympia Washington, 98504-1200, for their review. Any changes requested to be made in the materials by the FDIC or the WDFI shall be made prior to their dissemination.

(c) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of Bank securities written notice of any planned or

existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 calendar days of the date any material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber of the Bank's original offering materials.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

4. (a) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who is already obligated in any manner to the Bank on any extensions of credit (including any portion thereof) that has been charged off the books of the Bank or classified "Loss" in the ROE, so long as such credit remains uncollected. Notwithstanding the preceding sentence, additional funds may be advanced for the purpose of protecting or preserving the Bank's interest in collateral underlying an extension of credit or to protect the collectability of the existing indebtedness if the advance is given prior written approval by a committee of the board of directors known as the "Compliance Committee" which shall be comprised of a majority of independent directors.

(b) As of the effective date of this ORDER, the Bank

shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower whose loan or other credit has been classified "Substandard", "Doubtful", or is listed for Special Mention in the ROE, and is uncollected unless the Compliance Committee has adopted, prior to such extension of credit, a detailed written statement giving the reasons why such extension of credit is in the best interest of the Bank. A copy of the statement shall be incorporated in the minutes of the applicable committee meeting and placed in the appropriate loan file.

(c) An Independent Director is a party who: is not an officer of the Bank or any subsidiary of the Bank or any of its affiliates; does not own more than 5 percent of the outstanding shares of the Bank; is not related by blood or marriage to an officer or other director of the Bank or to any shareholder owning more than 5 percent of the Bank's outstanding shares, or otherwise shares a common financial interest with such officer, director or shareholder; and who is not indebted to the Bank directly or indirectly by blood, marriage or common financial interest, including the indebtedness of any entity in which the individual has an equity interest of 10 percent or more, in an amount exceeding 5 percent of the Bank's total Tier 1 capital and allowance for loan and lease losses; or who is deemed to be an Independent Director for purposes of the ORDER by the

Regional Director and the Director.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to a written plan to reduce the Bank's risk position in each asset in excess of \$1,000,000 which is more than 90 days delinquent or classified "Substandard" or "Doubtful" in the ROE. The plan shall include, but not be limited to, provisions which:

- (i) Prohibit an extension of credit for the payment of interest, unless the Board provides, in writing, a detailed explanation of why the extension is in the best interest of the Bank;
- (ii) Provide for review of the current financial condition of each delinquent or classified borrower, including a review of borrower cash flow and collateral value;
- (iii) Delineate areas of responsibility for loan officers;
- (iv) Establish dollar levels to which the Bank shall reduce delinquencies and classified assets within 6 and 12 months from the effective date of this ORDER; and
- (v) Provide for the submission of monthly

written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors.

(b) As used in this paragraph, "reduce" means to: (1) collect; (2) charge off; (3) sell; or (4) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and the WDFI.

(c) A copy of the plan required by this paragraph shall be submitted to the Regional Director and Director.

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become more than 90 days delinquent after the effective date of this ORDER or are adversely classified at any subsequent examinations.

LIQUIDITY PLAN

6. (a) Within 30 days of the effective date of this ORDER, the Bank shall adopt an updated written contingency funding plan ("Liquidity Plan"). The Liquidity Plan shall identify sources of liquid assets to meet the Bank's contingency funding needs over time horizons of one month, two months, and three months. At a minimum, the Liquidity Plan shall be prepared in conformance with the Liquidity Risk Management Guidance found at FIL-84-2008 and include provisions to address the issues identified on pages 7 through 8 of the ROE.

DIVIDEND RESTRICTION

7. As of the effective date of this ORDER, the Bank shall not declare or pay any dividend without the prior written consent of the Regional Director and Director.

ALLOWANCE FOR LOANS AND LEASE LOSSES

8. (a) After the effective date of this ORDER, and prior to the submission of all Reports of Condition and Income required by the FDIC, the board of directors of the Bank shall review the adequacy of the Bank's ALLL, provide for an adequate ALLL, and accurately report the same. The minutes of the board meeting at which such review is undertaken shall indicate the findings of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of ALLL provided. In making these determinations, the board of directors shall consider the FFIEC Instructions for the Reports of Condition and Income and any analysis of the Bank's ALLL provided by the FDIC or WDFI.

(b) ALLL entries required by this paragraph shall be made prior to any capital determinations required by this ORDER.

PROFIT PLAN AND BUDGET

9. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2010 and

2011. The plans required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, to reduce discretionary expenses and to improve the Bank's overall earnings, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written profit plan shall address, at a minimum:

- (i) Realistic and comprehensive budgets;
- (ii) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;
- (iii) Identification of major areas in, and means by which, earnings will be improved; and
- (iv) A description of the operating assumptions that form the basis for and adequately support major projected income and expense components.

(c) Within 60 days from the end of each calendar quarter following completion of the profit plans and budgets required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the board of

directors' meeting at which such evaluation is undertaken.

(d) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect.

(e) Copies of the plans and budgets required by this paragraph shall be submitted to the Regional Director and Director.

STRATEGIC PLAN

10. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a realistic, comprehensive strategic plan. The plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components. The written strategic plan shall address, at a minimum:

- (i) Strategies for pricing policies and asset/liability management; and
- (ii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(b) Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank's board of directors shall evaluate the Bank's actual performance

in relation to the strategic plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the board of directors' meeting at which such evaluation is undertaken.

(c) The strategic plan required by this ORDER shall be revised 30 days prior to the end of each calendar year during which this ORDER is in effect. Thereafter, the Bank shall approve the revised plan, which approval shall be recorded in the minutes of a board of directors' meeting, and the Bank shall implement and adhere to the revised plan.

(d) Copies of the plan and revisions thereto required by this paragraph shall be submitted to the Regional Director and Director.

NOTIFICATION TO SHAREHOLDER

11. Following the effective date of this ORDER, the Bank shall send to its shareholder a copy of this ORDER: (1) in conjunction with the Bank's next shareholder communication; or (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting.

PROGRESS REPORTS

12. Within 45 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and Director written progress reports signed by each member of the Bank's board of directors,

detailing the actions taken to secure compliance with the ORDER and the results thereof.

The effective date of this ORDER shall be upon issuance by the FDIC and the WDFI.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the FDIC and the WDFI.

Pursuant to delegated authority.

Dated: March 10, 2010.

/s/

M. Anthony Lowe
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

/s/

Brad Williamson
Director of Banks
Washington Department of
Financial Institutions