

**CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
SHOREBANK CORPORATION AND SUBSIDIARIES
DECEMBER 31, 2004 AND 2003**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Shareholders and Board of Directors
ShoreBank Corporation

We have audited the accompanying consolidated balance sheets of ShoreBank Corporation and Subsidiaries (the "Corporation") as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ShoreBank Corporation and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Chicago, Illinois
April 1, 2005

Grant Thornton LLP

ShoreBank Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS
December 31,
(In thousands)

ASSETS	<u>2004</u>	<u>2003</u>
Cash and due from banks	\$ 23,327	\$ 28,375
Federal funds sold	<u>6,700</u>	<u>975</u>
Total cash and cash equivalents	30,027	29,350
Securities available-for-sale	528,177	489,543
Securities held-to-maturity	31,082	31,162
Federal Home Loan Bank and Federal Reserve Bank stock	24,409	22,927
Other investments	1,755	1,808
Loans, net	991,227	886,035
Land, buildings and equipment, net	20,804	22,256
Accrued interest receivable	8,972	8,557
Goodwill	8,118	8,118
Core deposit intangible	1,495	2,004
Cash surrender value of life insurance	3,686	3,508
Other assets	<u>13,041</u>	<u>10,589</u>
TOTAL ASSETS	<u><u>\$ 1,662,793</u></u>	<u><u>\$ 1,515,857</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest bearing	\$ 101,367	\$ 94,772
Interest bearing	<u>1,045,885</u>	<u>950,555</u>
Total deposits	1,147,252	1,045,327
Federal Home Loan Bank advances	259,371	234,400
Federal funds purchased and other borrowings	101,213	89,904
Notes payable	36,436	36,896
Accrued interest payable and other liabilities	<u>22,163</u>	<u>16,775</u>
Total liabilities	1,566,435	1,423,302
Commitments and contingencies		
Shareholders' equity		
Preferred stock	3,053	3,318
Common stock	14	14
Additional paid-in capital	61,231	62,376
Retained earnings	32,990	25,806
Accumulated other comprehensive (loss) income	<u>(930)</u>	<u>1,041</u>
Total shareholders' equity	<u>96,358</u>	<u>92,555</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 1,662,793</u></u>	<u><u>\$ 1,515,857</u></u>

The accompanying notes are an integral part of these statements.

ShoreBank Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31,
(In thousands, except per share amounts)

	<u>2004</u>	<u>2003</u>
Interest and dividend income		
Loans, including fees	\$ 64,141	\$ 59,819
Securities		
Taxable	21,621	21,529
Tax exempt	3,469	3,295
Federal funds sold and other	<u>164</u>	<u>229</u>
Total interest and dividend income	89,395	84,872
Interest expense		
Deposits	22,088	21,578
Borrowed funds	<u>14,029</u>	<u>13,102</u>
Total interest expense	<u>36,117</u>	<u>34,680</u>
Net interest income	53,278	50,192
Provision for loan losses	<u>4,843</u>	<u>5,389</u>
Net interest income after provision for loan losses	48,435	44,803
Non-interest income		
Deposit service fees	5,396	6,089
Consulting income	6,487	7,126
Gain on sales of securities, net	1,115	2,106
Gain on sales of unconsolidated ventures	590	-
Bank Enterprise Award earned	230	-
Other non-interest income	<u>3,861</u>	<u>3,733</u>
Total non-interest income	17,679	19,054
Non-interest expense		
Salaries, wages and employee benefits	34,236	30,758
Occupancy expense	3,016	3,121
Equipment and data processing expense	3,571	3,658
Professional fees	2,252	2,195
Marketing expense	1,159	1,427
Provision for impairment loss on premises and equipment	437	69
Amortization of core deposit intangible	509	509
Provision for impairment of real estate projects	874	1,536
Other non-interest expenses	<u>10,691</u>	<u>11,705</u>
Total non-interest expense	<u>56,745</u>	<u>54,978</u>
Income before income taxes	9,369	8,879
Provision for income taxes	<u>1,873</u>	<u>1,837</u>
NET INCOME	<u>\$ 7,496</u>	<u>\$ 7,042</u>
Basic earnings per common share	\$ 480.77	\$ 444.91
Diluted earnings per common share	\$ 471.96	\$ 437.62

The accompanying notes are an integral part of these statements.

ShoreBank Corporation and Subsidiaries
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Two years ended December 31, 2004
(In thousands, except per share amounts)

	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at January 1, 2003	\$ 3,620	\$ 14	\$ 63,442	\$ 19,093	\$ 5,232	\$ 91,401
Comprehensive income						
Net income	-	-	-	7,042	-	7,042
Net decrease in fair value of securities available-for-sale, net	-	-	-	-	(4,191)	(4,191)
Total comprehensive income						2,851
Cash dividends declared on common stock (\$10.00 per share)	-	-	-	(155)	-	(155)
Cash dividends declared on preferred stock	-	-	-	(174)	-	(174)
Redemption of common stock	-	-	(1,066)	-	-	(1,066)
Redemption of preferred stock	(302)	-	-	-	-	(302)
Balance at December 31, 2003	3,318	14	62,376	25,806	1,041	92,555
Comprehensive income						
Net income	-	-	-	7,496	-	7,496
Net decrease in fair value of securities available-for-sale, net	-	-	-	-	(1,971)	(1,971)
Total comprehensive income						5,525
Cash dividends declared on common stock (\$10.00 per share)	-	-	-	(152)	-	(152)
Cash dividends declared on preferred stock	-	-	-	(160)	-	(160)
Redemption of common stock	-	-	(1,145)	-	-	(1,145)
Redemption of preferred stock	(265)	-	-	-	-	(265)
Balance at December 31, 2004	<u>\$ 3,053</u>	<u>\$ 14</u>	<u>\$ 61,231</u>	<u>\$ 32,990</u>	<u>\$ (930)</u>	<u>\$ 96,358</u>

The accompanying notes are an integral part of this statement.

ShoreBank Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31,
(In thousands)

	2004	2003
Cash flows from operating activities		
Net income	\$ 7,496	\$ 7,042
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	4,843	5,389
Depreciation and amortization	2,224	2,244
Amortization of core deposit intangible	509	509
Gain on sales of securities, net	(1,115)	(2,106)
Gain on sales of unconsolidated ventures	(590)	-
Net discount accretion on securities	(2,568)	(3,876)
Federal Home Loan Bank stock dividends	(1,404)	(1,199)
Deferred income taxes	604	(1,652)
Provision for impairment loss on premises and equipment	437	69
Provision for impairment of real estate projects	874	1,536
Increase in cash surrender value of bank-owned life insurance	(178)	(162)
Change in assets and liabilities		
Accrued interest receivable	(415)	69
Accrued interest payable	1,094	(600)
Other assets	(1,692)	3,154
Other liabilities	2,878	(2,205)
Net cash provided by operating activities	12,997	8,212
Cash flows from investing activities		
Activity in securities available-for-sale		
Sales and calls	306,179	334,952
Maturities and prepayments	71,364	187,896
Purchases	(414,840)	(567,490)
Activity in securities held-to-maturity		
Maturities and prepayments	163	411
Purchases	-	(5,573)
Redemption of Federal Reserve Bank stock	7	-
Purchases of Federal Home Loan Bank stock	(85)	(5,277)
Change in other investments	53	(489)
Net increase in loans	(110,706)	(113,094)
Capital expenditures, net	(1,581)	(1,741)
Net cash used in investing activities	(149,446)	(170,405)

ShoreBank Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
Years ended December 31,
(In thousands)

	2004	2003
Cash flows from financing activities		
Net change in deposits	\$ 101,925	\$ 83,343
Proceeds from advances on notes payable	300	16,000
Repayments of notes payable	(653)	(391)
Increase in deferred loan costs	-	(207)
Net change in borrowings under lines of credit	-	(3,450)
Proceeds from Federal Home Loan Bank advances	111,035	57,450
Repayments of Federal Home Loan Bank advances	(86,064)	(46,990)
Net change in Federal funds purchased	900	(552)
Net change in reverse repurchase agreements	10,000	60,500
Net change in TT&L note payable	409	(1,706)
Preferred stock dividends	(160)	(174)
Common stock dividends	(152)	(155)
Redemption of common stock	(414)	(730)
Net cash provided by financing activities	<u>137,126</u>	<u>162,938</u>
Change in cash and cash equivalents	677	745
Cash and cash equivalents at beginning of year	<u>29,350</u>	<u>28,605</u>
Cash and cash equivalents at end of year	<u>\$ 30,027</u>	<u>\$ 29,350</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	\$ 35,023	\$ 35,280
Income taxes	2,132	2,100
Supplemental disclosures of non-cash investing and financing activities		
Series B1 preferred stock exchanged for notes payable	\$ 107	\$ 107
Series D preferred stock exchanged for notes payable	138	138
Series B2 preferred stock exchanged for notes payable	20	57
Real estate acquired through foreclosure	(671)	(57)
Real estate transferred in exchange for cancellation of mortgage note payable	(372)	-
Due to broker for purchases of securities	(685)	-
Due to shareholders for redemption of common stock	(731)	(336)

The accompanying notes are an integral part of these statements.

ShoreBank Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003
(Table amounts in thousands)

NOTE A - NATURE OF OPERATIONS

ShoreBank Corporation (which includes its subsidiaries and is referred to collectively as the "Corporation") is America's first and leading community development and environmental banking corporation. The Corporation is committed to building vibrant communities by providing financial services and information to create economic equity and a healthy environment. The Corporation is a pioneering leader developing models and services that catalyze economic opportunity, social equity and environmental sustainability. As a business that focuses on creating social and environmental change, the Corporation provides innovative financial services and knowledge. The Corporation believes that investing in individuals and their communities enables them to leverage their entrepreneurship and hard work to create wealth, revitalize neighborhoods, and meet both environmental and economic needs.

The Corporation is a multi-bank holding company organized under the laws of the State of Illinois. The Corporation is headquartered in Chicago, Illinois, and has banks and affiliated not-for-profit entities in Chicago; Cleveland, Ohio; Detroit, Michigan; Ilwaco, Washington; and Portland, Oregon. Additionally, the Corporation offers business development services in Michigan and consulting services around the world.

The Corporation's banking subsidiaries, ShoreBank, ShoreBank, Cleveland and ShoreBank, Pacific, provide a broad range of financial services and offer various types of financial consulting services to customers in their market areas. The banks' primary deposit products are checking, savings and time deposit accounts, and their primary lending products are single and multi-family residential mortgage, commercial and faith-based organization loans.

The Corporation's wholly-owned subsidiaries are as follows:

- ShoreBank (a bank organized under the laws of the State of Illinois);
- ShoreBank Capital Corporation (a specialized small business investment company (SBIC) licensed by the U.S. Small Business Administration ("SBA") under Section 301);
- ShoreBank Development Corporation, Chicago (rehabilitation, construction and resale of residential properties for the benefit of low and moderate income families);
- ShoreBank Advisory Services, Inc. ("SAS") (consulting for programs designed to promote community welfare through economic rehabilitation and development of underinvested low income communities, both domestically and internationally);

ShoreBank Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2004 and 2003
(Table amounts in thousands)

NOTE A - NATURE OF OPERATIONS - Continued

- Shorebank Cleveland Corporation (a bank holding company, which wholly owns ShoreBank, Cleveland and ShorePlace Development Corporation, a real estate development company);
- ShoreBank Development Corporation, Detroit (a real estate development company);
- ShoreBank Pacific Corporation (a bank holding company, which wholly owns ShoreBank, Pacific);
- ShoreCap Management, Ltd. (provides investment management services to ShoreCap International, Ltd., a specialized investment company, founded by the Corporation in 2003, in which the Corporation has an 11.1% ownership interest at December 31, 2004); and
- Shorebank Capital Trusts I, II and III.

Certain employees and directors of the Corporation sit on the Boards of Directors of the Corporation's not-for-profit affiliates, which include: ShoreBank Enterprise, Detroit; ShoreBank Enterprise, Cleveland ("SEC"); ShoreBank Enterprise Group, Pacific; ShoreCap Exchange Corporation; ShoreBank Neighborhood Institute ("SNI"); and Northern Initiatives. These entities seek to promote the social and economic welfare of low-to-moderate income residents and under-invested communities, both domestically and internationally. Additional related parties include: TNI Development Corporation, a for-profit subsidiary of SNI established to develop residential properties for the benefit of low-to-moderate income families; Shore Staffing Works, another for-profit subsidiary of SNI that provides temporary and permanent employment services; and ShoreBridge Capital, a for-profit limited liability company partially owned by SEC that provides mezzanine financing to companies in and around Cleveland. The Corporation does not have any ownership interest in these entities. Accordingly, the accounts of these affiliated entities are not consolidated with those of the Corporation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and all of its wholly-owned subsidiaries. Significant intercompany balances and transactions have been eliminated in consolidation.

ShoreBank Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2004 and 2003
(Table amounts in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. The allowance for loan losses, fair values of financial instruments, the fair value of derivative contracts, interest income recognition on certain investment securities held-to-maturity, goodwill, core deposit intangible, fair values of unconsolidated limited partnership interests, real estate held for development and sale, and the status of contingencies are particularly subject to change in the near term. Actual results could differ from those estimates.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise from transactions and other events from non-shareholder sources. Comprehensive income includes net income and other changes in equity that bypass the statement of income and are reported as a separate component of shareholders' equity. For the years ended December 31, 2004 and 2003, other comprehensive loss includes only one component, which is the change in unrealized gains (losses) on available-for-sale investment securities.

Other comprehensive loss for the years ended December 31 is as follows:

	<u>2004</u>	<u>2003</u>
Unrealized holding losses on securities available-for-sale	\$(1,844)	\$(4,867)
Less reclassification adjustment for net gains realized in net income	<u>1,115</u>	<u>2,106</u>
Net unrealized losses	(2,959)	(6,973)
Income tax effect	<u>(988)</u>	<u>(2,782)</u>
Other comprehensive loss	<u>\$(1,971)</u>	<u>\$(4,191)</u>

Securities

Securities are classified as available-for-sale when management may decide to sell those securities in response to changes in market interest rates, liquidity needs, changes in yields on alternative investments and for other reasons prior to maturity. They are carried at fair value.

ShoreBank Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2004 and 2003
(Table amounts in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Securities - Continued

Unrealized gains and losses on securities available-for-sale are a component of comprehensive income and included as a separate component of shareholders' equity, net of income taxes. Realized gains and losses on disposition are based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method. Securities are written down to fair value when a decline in fair value is not temporary. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Interest income includes amortization and accretion of purchase premiums and discounts recognized on the interest method over the terms of the securities.

Securities are classified as held-to-maturity when management has the positive intent, and the Corporation has the ability, to hold those securities to maturity. They are stated at cost, adjusted for amortization of premiums and accretion of discounts.

Federal Home Loan Bank and Federal Reserve Bank stock, which are restricted equity securities, are carried at cost. Other investments consist primarily of investments in mezzanine loan funds, which are carried at cost, and an investment in a mutual fund, which is carried at fair value.

Loans

Loans are stated at the principal amount outstanding, net of unearned interest and deferred loan fees and costs. Loan fees and direct loan origination costs are deferred and amortized over the term of the loan as a yield adjustment.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent, unless the credit is well secured and in process of collection. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not received, for loans placed on non-accrual and impaired loans is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost recovery method, until the loans qualify for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

ShoreBank Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2004 and 2003
(Table amounts in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable unidentified credit losses, increased by the provision for loan losses and decreased by charge-offs, net of recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the loan portfolio, information about specific borrower situations and estimated collateral valuations, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that is charged off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

A loan is impaired when full payment under the loan terms is not expected. Multi-family mortgage, faith-based organization, commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral, including SBA guarantees. Large groups of smaller-balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment and, accordingly, are not separately identified for impairment disclosures.

Revenue Recognition and Deferred Revenue

Fees for consulting services are recognized on the accrual basis at the time services are rendered after an estimated provision for unbillable amounts. Fees received in advance of services performed are recorded as deferred revenue.

Real Estate Held for Development and Sale

Rehabilitation and construction costs, and other project-related costs, are capitalized as project costs. Project fee revenues are recognized under the percentage-of-completion method for long-term construction contracts. Under this method, revenues are recognized when there is available evidence of the ultimate proceeds and when the costs of completion estimates are reasonably dependable. Losses on projects are recognized at the time that such losses can be reasonably estimated. It is reasonably possible that these estimates of revenue and losses could change in the near term and the effect of the change could be material.

