



**SUPERVISORY AGREEMENT**

This Supervisory Agreement ("Agreement") is made and is effective this 4th day of December, 1997 ("the Effective Date"), by and between Richard F. Hall, Jr., Virginia B. Hall, Richard F. Hall, III, Cynthia D. Hall, Erin F. Hall (or her custodian, named below), and Lee Ashley Shannon Wright ("the Hall Group" or "the Group"), stockholders of Shore Bank, Onley, Virginia, OTS No. 06681 ("Shore Bank" or "the Institution"), a federally chartered, stock savings bank, and the Office of Thrift Supervision ("the OTS"), an Office within the United States Department of the Treasury, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C., acting through its Southeastern Regional Director or his designee ("Regional Director"). For purposes of this Agreement, all references to the Hall Group's stock shall include any corporate or partnership entities that own shares of stock in Shore Bank and that are themselves owned or controlled by one or more members of the Hall Group.

**WHEREAS**, the OTS is the primary federal regulator of the Institution; and

**WHEREAS**, based upon information available to the OTS in its capacity as the primary federal regulator of the Institution, the OTS is of the opinion that the Hall Group has engaged in acts and practices that have resulted in violations of certain of the laws and regulations to which the the Hall Group is subject; and

**WHEREAS**, the OTS is of the opinion that grounds exist for the initiation of administrative proceedings against the Hall Group; and

**WHEREAS**, the OTS is of the view that it is appropriate to take measures to ensure that the Hall Group will comply with all applicable laws and regulations; and

**WHEREAS**, the Hall Group, without admitting or denying that such grounds exist, except those as to jurisdiction, which are admitted, wishes to cooperate with the OTS and to evidence its intent to comply with all applicable laws and regulations.

**NOW THEREFORE**, in consideration of the above premises, the mutual undertakings set forth herein, the Parties hereto agree as follows:

Compliance With Laws And Regulations

1. The Hall Group shall comply with the provisions of Section 7(j) of the Federal Deposit Insurance Act, 12 U.S.C. § 1817(j)<sup>1</sup> and 12 C.F.R. Part 574 (1997).

Increase in Ownership

2. As of the Effective Date of this Agreement:
  - a. no member of The Hall Group may increase his or her ownership in any class of voting securities of the Institution unless and until the OTS has issued its notice of intent not to disapprove the Group's Notice of Change in Control or its approval of the Group's Holding Company Application:
    - 1) for purposes of this Agreement, the Notice of Change in Control will be referred to as the "Notice";
    - 2) the Holding Company Application will be referred to as the "Application";
    - 3) the OTS's notice of intent not to disapprove the Notice or its approval of the Application will be hereafter collectively referred to as the "Application Approval";
    - 4) the Notice or Application referred to above are those required to be submitted by the Hall Group pursuant to Paragraph 3 of this Agreement;
  - b. all shares of the Institution's stock that are owned or controlled by the Hall Group, directly or indirectly, that are in excess of 9.9 percent of the total outstanding shares of stock of the Institution are considered to be Excess Shares ("Excess Shares"); and
  - c. the Hall Group may not vote more than a total of 180,481 shares, or 9.9 percent of the Institution's outstanding stock, on any issue put to a shareholder vote, unless and until the Hall Group has received the Application Approval.

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1. All references to the United States Code ("U.S.C.") are as amended, unless otherwise indicated.

Filing of Notice; Divestiture

3. a. Within 30 days of the Effective Date of this Agreement, the Hall Group shall file with the OTS the appropriate Application or Notice that is required by 12 C.F.R. Part 574, to permit the Group to own or control shares in excess of 9.9 percent of the total outstanding shares of stock of the Institution (hereafter referred to as "the Application"). If the Hall Group receives notice that the OTS has disapproved the Application, objected to the Notice or that the OTS has deemed the Application withdrawn (hereafter referred to as "Application Denial"), the Excess Shares shall be transferred to a trust in accordance with Paragraph 5 below.
- b. If the Hall Group fails to make the appropriate filing required by Paragraph 3.a. above, Richard F. Hall, Jr. shall, sell, transfer, or otherwise divest of a number of shares equal to the Excess Shares, within 60 days of the Effective Date of this Agreement.
- c. No member of the Hall Group may sell, transfer, or otherwise divest of Excess Shares, pursuant to the instructions in Paragraph 3.b. above, to any party with whom he, she, or any other member of the Group is acting in concert, pursuant to the provisions of 12 C.F.R. § 574.4(d) and 12 C.F.R. § 574.2(c).

Control By The Hall Group

4. For so long as any Excess Shares are subject to the provisions of Paragraph 3 of this Agreement, the Hall Group, and each member therein, shall not, directly or indirectly:
  - a. seek or accept representation by more than one director on the Board of Directors of the Institution;
  - b. have or seek to have more than one representative serve on an executive or similar committee of the Board of Directors of the Institution;
  - c. engage in any transactions with the Institution provided, however, that members of the Hall Group may maintain pre-existing deposit or lending arrangements on terms and conditions no more favorable than those provided to the general public;

- d. influence or attempt to influence in any respect the lending or credit decisions or policies of the Institution, except that any member of the Hall Group who is serving as a director of the Institution may continue to influence such decisions in a manner consistent with his or her fiduciary duty to the Institution;
- e. influence or attempt to influence the dividend policies and practices of the Institution, or any decision or policy of the Institution as to the offering or exchange of any shares of stock, except that a member of the Hall Group who is serving as a director of the Institution may continue to influence such decisions in a manner consistent with his or her fiduciary duty;
- f. have or seek to have any representative serve as an officer, agent, or employee of the Institution, excluding any member of the Hall Group who is serving as a director of the Institution;
- g. propose a director or slate of directors in opposition to a nominee or slate of nominees proposed by Management or the Board of Directors of the Institution;
- h. solicit proxies or participate in any solicitation of proxies with respect to any matter presented to the stockholders of the Institution, except that a member of the Hall Group who is serving as a director of the Institution may participate in any solicitations conducted by Management of the Institution; or
- i. seek to amend, or otherwise take action to change, the bylaws, articles of incorporation, or charter of the Institution, except that a member of the Hall Group who is serving as a director of the Institution may participate in any amendment or change sought by Management of the Institution, consistent with his or her fiduciary duty to the Institution.

Transfer to Trust

- 5. a. If the Hall Group files the Application or Notice pursuant to Paragraph 3.a. above, and the Group receives an Application Denial, within 30 days of written

notification from the OTS of the Application Denial, the Group shall transfer all of the Excess Shares to a trust, in accordance with the provisions of Paragraph 5.c. below.

- b. If the Hall Group fails to make the Application or Notice filing pursuant to Paragraph 3.a. above, and the Group fails to divest of the Excess Shares pursuant to Paragraphs 3.b. and 3.c. above, then at the end of the 60 days provided in Paragraph 3.b., the members of the Group shall transfer all of the Excess Shares to a trust ("Trust"), in accordance with the provision of Paragraph 5.c. below.
- c. Excess Shares transferred to the Trust shall be properly endorsed for transfer or accompanied by fully endorsed stock powers. The Hall Group shall obtain the prior written approval of the Regional Director for the trust terms and the trustee. Such approval shall be granted by the Regional Director in his sole discretion. While the trustee has possession of the Excess Shares, the Hall Group shall not exercise any control, directly or indirectly, over the Excess Shares, and shall not exercise any control, directly or indirectly, over said trust or trustee, except that any member of the Hall Group may direct the trustee to sell all or a portion of his or her interest in the Excess Shares. The trustee shall sell or otherwise dispose of the Excess Shares no later than one year (365 days) after the date of transfer of the Excess Shares to the Trust.

#### Action of the Trustee

6. The trustee shall vote the Excess Shares on a pro-rata basis in accordance with the votes of the Holding Company's other common stockholders. To effect this requirement, the trustee shall provide written instructions to the Holding Company's Secretary that the Excess Shares shall be voted on this basis and shall furnish a copy of such instructions to the Regional Director within 30 days of the date the Excess Shares are transferred to the Trust. The Hall Group shall take all steps necessary to enable the trustee to take such actions.

Control by the Trustee

7. The trustee shall not exercise or attempt to exercise, directly or indirectly, control or a controlling influence over the management or policies of the Holding Company. While the trustee has possession of the Excess Shares, he or she shall not directly or indirectly engage in any of the prohibited activities listed in subparagraphs (a) through (i) of Paragraph 4 of this Agreement.

Dissolution of the Trust

8. If, for any reason, the aggregate stock ownership of the Hall Group in the Holding Company shall fall below 9.9 percent of the total outstanding shares of the Holding Company, or upon receipt of the Application Approval, the Trust may be dissolved, the voting instructions to the Secretary of the Holding Company may be rescinded, and the Excess Shares still held by the Trust may be returned to the appropriate members of the Hall Group according to their interests in the stock.

Definitions

9. All technical words or terms used in this Agreement for which meanings are not specified or otherwise provided by the provisions of this Agreement shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, HOLA, FDIA or OTS Memoranda. Any such technical words or terms used in this Directive and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

Successor Statutes, Regulations, Guidance, Amendments

10. Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

Notices

11. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Agreement to be made

upon, given or furnished to, delivered to, or filed with the  
OTS or the Hall Group shall be in writing and mailed, first  
class or overnight courier, or by means of electronic  
transmission, or physically delivered, and addressed as  
follows:

OTS: R. Wayne Mercer, Review Examiner  
Office of Thrift Supervision - Southeast Region  
1475 Peachtree Street, N.E.  
Atlanta, Georgia 30309

The Hall Group:

Richard F Hall, Jr., Esq.  
Court Green  
Accomac, Virginia 23301

with a copy provided to:

Alfred J. T. Byrne, Esq.  
LeClair Ryan  
11th Floor  
707 East Main St.  
Richmond, Virginia 23219

Duration, Termination or Suspension of Agreement

12. This Agreement shall: (i) become effective upon its execution by the OTS, through its authorized representative whose signature appears below and (ii) remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).
13. The Regional Director in his or her sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

Time Limits

14. Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted. Such time limitations may be extended by the Regional Director, in his sole discretion, upon written application by the Hall Group.

Effect of Headings

15. The Section headings herein are for convenience only and shall not affect the construction hereof.

Separability Clause

16. In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his sole discretion determines otherwise.

No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted; Relation To State Law

17. Nothing in this Agreement shall be construed as: (i) allowing the Hall Group to violate any law, rule, regulation, or policy statement to which they are subject or (ii) restricting the OTS from taking such action(s) that are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, any type of supervisory, enforcement or resolution action that the OTS determines to be appropriate.

Successors in Interest/Benefit

18. The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto, the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

Integration Clause

19. This Agreement represents the final written agreement of the Parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to such subject matter.

Enforceability of Agreement

20. This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Hall Group. The Group acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of 12 U.S.C. §1818.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, and the Hall Group hereby execute this Agreement as of the Effective Date.

~~The Hall Group:~~

15/	15/
Richard F. Hall, Jr.	Richard F. Hall, III
15/	15/
Virginia B. Hall	Cynthia D. Hall
15/	15/
Erin F. Hall by her Custodian: 15/	Lee Ashley Shannon Wright

OFFICE OF THRIFT SUPERVISION

By:

15/

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John E. Ryan  
Regional Director