FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. 0000905729-99-000064

(HTML Version on secdatabase.com)

FILER

SHORELINE FINANCIAL CORP

CIK:**822697**| IRS No.: **382758932** | State of Incorp.:**MI** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **000-16444** | Film No.: **99574413**
SIC: **6021** National commercial banks

Mailing Address
823 RIVERVIEW DR
BENTON HARBOR MI 49022

Business Address
823 RIVERVIEW DR
BENTON HARBOR MI 49022
6169272251

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1998

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ________ to __________

Commission File Number: 0-16444

SHORELINE FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

MICHIGAN	38-2758932
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

823 RIVERVIEW DRIVE BENTON HARBOR, MICHIGAN	49022
(Address of principal executive offices)	(Zip Code)

(616) 927-2251
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK
(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No _____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

State the aggregate market value of the common stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing.

Aggregate Market Value as of March 16, 1999: $178,385,104

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock outstanding at March 16, 1999: 8,990,023 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its May 13, 1999, annual meeting of shareholders are incorporated by reference in Part III.

FORWARD-LOOKING STATEMENTS

This Form 10-K Annual Report and the documents incorporated in this report by reference contain forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates, and projections about the financial services industry, the economy, and about Shoreline itself. Words such as "anticipates," "believes," "estimates," "expects," "plans," "projects," variations of such words and similar expressions are intended to identify such forward-looking statements. Year 2000 related remediation, cost and risk assessments are necessarily statements of belief as to the outcome of future events, based in part on information provided by vendors and others that Shoreline has not independently verified. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood, and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed, implied, or forecasted in such forward-looking statements.

Future factors that could cause a difference between an ultimate actual outcome and a preceding forward-looking statement include changes in interest rates and interest rate relationships; demand for products and services; the degree of competition by traditional and non-traditional competitors; changes in banking regulations; changes in tax laws; changes in prices, levies, and assessments; the impact of technological advances; governmental and regulatory policy changes; the outcomes of pending and future litigation and contingencies; trends in customer behaviors as well as their ability to repay loans; the ability of the companies on which Shoreline relies to make their computer systems Year 2000 compliant; the ability to locate and convert all relevant computer codes and data; the vicissitudes of the national economy; the possibility that expected cost savings from mergers might not be fully realized within the expected time frame; and similar uncertainties. Shoreline undertakes no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events, or otherwise.

PART I

ITEM 1. BUSINESS OF SHORELINE FINANCIAL CORPORATION

GENERAL

Shoreline Financial Corporation (referred to as Shoreline or the Corporation) is a bank holding company headquartered in Benton Harbor, Michigan. Its principal activity consists of owning and supervising its subsidiary bank, which operates general, commercial banking businesses from 30 offices and facilities located in Michigan and Indiana. At December 31, 1998, Shoreline had assets of $955 million, deposits of $796 million and shareholders' equity of $87 million.

The Corporation has responsibility for the overall conduct, direction and performance of Shoreline Bank. Shoreline derives its income principally from dividends upstreamed from its principal subsidiary, Shoreline Bank.

Shoreline recognizes the need to ensure its operations will not be adversely impacted by Year 2000 software failures. Potential software failures due to processing errors arising from calculations using the Year 2000 date are a known risk. Further discussion of this issue is presented within "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing later in this document.

In July 1998, Shoreline completed the acquisition of The State Bank of Coloma, Coloma, Michigan in exchange for 242,299 shares of Shoreline Common Stock, with a market value of $7 million. The acquisition was accounted for as a purchase. The excess of the purchase price over the fair value of the net assets acquired was $3.7 million. The acquisition of The State Bank of Coloma is not considered material to the consolidated financial position or results of operations of Shoreline, therefore, no pro forma information is considered necessary.

Shoreline Bank

Shoreline's business is concentrated exclusively in the commercial banking industry segment. Shoreline's primary subsidiary is Shoreline Bank. Shoreline Bank is a general commercial bank with 29 offices in southwestern

Michigan and one loan production office in Indiana. Shoreline has no material foreign assets or income. At December 31, 1998, Shoreline Bank had total assets of $955 million, $635 million in loans and $798 million in deposits. Shoreline Bank offers a broad range of lending, depository and related financial services to individual, commercial, industrial, financial, and governmental customers. The range of services offered includes, among others, the following:

- Time, savings and demand deposits
- Commercial, consumer and real estate financing
- Letters of credit
- Money transfers
- Trust services
- Cash management services
- Investment services
- Safe deposit services
- Automated transaction machine services
- Electronic and telephone banking services
- Other banking services

The business of Shoreline is mildly seasonal due to the recreational and agricultural components of the local economy. No material part of the business of Shoreline and its subsidiary, Shoreline Bank, is dependent upon a single customer, or a very few customers, where the loss of any one would have a materially adverse effect on the Corporation.

The principal source of revenue for Shoreline is interest and fees on loans. On a consolidated basis, interest and fees on loans accounted for 79.1%, 73.7% and 74.5% of Shoreline's total revenues in 1998, 1997 and 1996, respectively. Interest on investment securities accounted for 16.0%, 15.8% and 16.6% of Shoreline's total revenues in 1998, 1997 and 1996, respectively.

Shoreline and Shoreline Bank employed 341 full-time equivalent persons at December 31, 1998.

COMPETITION

The business of banking is highly competitive. Banks face significant competition from other commercial banks and, in some product lines, savings and loan associations, credit unions, finance companies, insurance companies and investment and brokerage firms. The principal forms of competition for financial services are price (interest rates paid on deposits, interest rates charged on borrowings and fees charged for services) and the convenience and quality of services rendered to customers.

Shoreline Bank has 28 automated teller machines (ATMs) located on bank premises and on off-premise sites located in high volume retail and service locations.

SUPERVISION AND REGULATION

Shoreline and its subsidiary, Shoreline Bank, are subject to supervision, regulation and periodic examination by federal banking regulatory agencies, including, primarily, the Board of Governors of the Federal Reserve System (FRB) and the Federal Deposit Insurance Corporation (FDIC).

The following is a summary of certain statutes and regulations affecting Shoreline and Shoreline Bank. This summary is qualified in its entirety by such statutes and regulations, which are subject to change based on pending and future legislation and actions by regulatory agencies.

BANK HOLDING COMPANIES - As a bank holding company, Shoreline is subject to regulation under the Bank Holding Company Act of 1956, as amended (BHCA) and by the FRB. Among other things, the BHCA imposes requirements for the maintenance of capital adequate to support a bank holding company's operations. The BHCA also restricts the product range of bank holding companies by circumscribing the types of institutions bank holding

companies may own or acquire. The BHCA limits bank holding companies to owning and managing banks or companies engaged in activities determined by the FRB to be closely related to banking. The BHCA requires bank holding companies to obtain the prior approval of the FRB before acquiring substantially all of the assets of any bank or bank holding company or direct or indirect ownership or control of more than 5% of the voting shares of a bank or bank holding company.

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the Riegle-Neal Act), bank holding companies were allowed to acquire banks located in any state in the United States without regard to geographic restrictions or reciprocity requirements imposed by state law. The Riegle-Neal Act also provided for the nationwide interstate branching of banks. Under the Riegle-Neal Act both national and state chartered banks were also allowed to merge across state lines (thereby creating interstate branches) commencing June 1, 1997. States were permitted to "opt out" of the interstate branching authority by taking action prior to the commencement date. The states of Michigan and Indiana did not opt out of the Riegle-Neal Act provisions.

BANKS - Shoreline Bank is chartered under state law and is supervised, examined and regulated by both the Financial Institutions Bureau (FIB) of the Michigan Department of Consumer and Industry Services and the FDIC. The business activities of Shoreline Bank are significantly limited in a number of respects by federal and state laws governing banks.

DEPOSIT INSURANCE ASSESSMENTS AND OTHER FEDERAL REGULATION - Deposits held by Shoreline Bank are insured, to the extent permitted by law, by the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) of the FDIC.

A substantial portion (78%) of the deposits of Shoreline Bank are insured by the BIF, with the remaining portion (22%) insured by the SAIF. Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991, the FDIC is required to set deposit insurance rates at a level that will maintain the BIF and SAIF reserve ratio at a mandated level and has implemented a risk-based assessment scheme. Under this arrangement, each depository institution is assigned to one of nine categories (based upon three categories of capital adequacy and three categories of perceived risk to the applicable insurance fund). For 1998, the effective BIF and SAIF assessment rates ranged from 0 basis points for well-capitalized institutions displaying little risk, to 27 basis points for undercapitalized institutions displaying high risk. Both BIF insured banks and SAIF insured banks and thrifts are required to pay interest on Financing Corporation (FICO) bonds issued in connection with the federal government's bailout of the thrift industry.

ECONOMIC CONDITIONS AND GOVERNMENTAL POLICY - Shoreline's earning are affected not only by the extensive regulation described above, but also by general economic conditions. These economic conditions influence and are influenced by the monetary and fiscal policies of the United States government and its various agencies, particularly the FRB. Shoreline cannot predict changes in monetary policies or their impact on its operations and earnings.

CAPITAL ADEQUACY - Reference is made to Note 16 of the Notes to Consolidated Financial Statements included under "Item 8. Financial Statements and Supplementary Data" appearing later in this document.

STATISTICAL INFORMATION - The statistical information contained in the tables appearing or incorporated by reference in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and the descriptive text accompanying those tables, is incorporated herein by reference.

ITEM 2. PROPERTIES

Shoreline is headquartered in Benton Harbor, Michigan.

Shoreline's subsidiary, Shoreline Bank, operates 29 banking offices in southwestern Michigan and one loan production office in Indiana. Of these offices, 28 are owned and two are leased. All of the offices are considered by management to be well maintained and adequate for the purpose intended.

ITEM 3. LEGAL PROCEEDINGS

Shoreline and its subsidiary, Shoreline Bank, are parties to routine litigation arising in the normal course of their respective businesses. In the opinion of management after consultation with counsel, liabilities arising from these proceedings, if any, are not expected to be material to Shoreline's financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the three months ended December 31, 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Shoreline common stock is traded on The Nasdaq Stock Market under the symbol SLFC. The range of high and low bid prices on a quarterly basis as reported on that system appear under the subcaptions "Market Price of Common Stock" under the caption "Supplementary Quarterly Financial and Common Stock Data" included in "Item 8. Financial Statements and Supplementary Data" appearing later in this document. That information is incorporated herein by reference in this Item.

Common stock dividends, payable in cash, were declared on a quarterly basis during 1998 and 1997. The dividends declared per common share totaled $.66 during 1998 and $.57 during 1997. Restrictions on Shoreline's ability to pay dividends are described in Note 17 of the Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" and after Table XVII in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included later in this document. Dividends paid, by quarter, are included within "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Table XVII" appearing later in this document. That information is incorporated herein by reference in this Item.

At December 31, 1998, there were 1,520 shareholders of record.

ITEM 6. SELECTED FINANCIAL DATA

Reference is made to the information included in "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations - Table I" appearing later in this document.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides further information about the financial condition and results of operations of Shoreline Financial Corporation. It should be read in conjunction with the financial statements included elsewhere in this annual report.

1998 HIGHLIGHTS

Shoreline's net income for 1998 was $12.1 million, up 10.0% from last year's $11.0 million while diluted earnings per share were $1.34 compared with the $1.24 earned last year. The main reason for the increase was a 33.9% increase in non-interest income as net interest income, on a tax equivalent basis, was up only 5.1% and non-interest expenses were higher for 1998 compared with 1997. The return on average assets was 1.33% for 1998 and 1.37% for 1997. The return on average equity ratio was 14.46% and 15.08%, respectively.

Total assets were $955.3 million at December 31, 1998, an increase of 11.4% from the $857.8 million reported at December 31, 1997. The increase was the result of the purchase of The State Bank of Coloma on July 31, 1998 and general growth within earning assets. Growth in the loan and investment securities portfolios of $15.5 million and $52.0 million, respectively, accounted for the increase in earning assets.

Asset quality strengthened during 1998 with non-performing assets decreasing to $1.9 million, or .29% of loans from $2.6 million, or .41% of loans at year end 1997. In addition, the allowance for loan losses at year end 1998 was 1.24%, up from 1997's ratio of 1.22%, and coverage of non-performing assets by the allowance was 423% compared with 350%.

At December 31, 1998, shareholders' equity was $87.2 million, $10.3 million higher than at year end 1997 mainly due to net earnings retention and the shares issued for the acquisition of The State Bank of Coloma. On July 31, 1998, Shoreline completed its acquisition of The State Bank of Coloma, a state-chartered commercial bank with assets of $29 million. The transaction was accounted for as a purchase under Generally Accepted Accounting Principles and, accordingly, the bank's assets, liabilities and operations have been included since the date of acquisition.

<TABLE>

Table I

FINANCIAL HIGHLIGHTS

(In thousands except financial ratios and per share data)
<CAPTION>

	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
At Year End:					
Total assets	$955,264	$857,843	$716,095	$671,173	$633,854
Net loans	627,276	612,048	493,696	459,395	430,577
Total deposits	795,842	722,664	616,478	592,300	566,096
FHLB advances	49,478	45,176	18,000	5,000	5,000
Shareholders' equity	87,211	76,882	69,418	64,360	56,208
Tier I risked-based capital	12.29%	11.90%	15.10%	14.56%	13.62%
For The Year:					
Net interest income	$33,991	$32,193	$29,083	$27,126	$25,263
Provision for loan losses	(600)	(600)	(600)	(750)	(750)
Other income	7,651	5,713	4,347	4,082	4,686
Other expense	(23,452)	(21,521)	(19,433)	(18,720)	(19,721)
Income before income taxes	17,590	15,785	13,397	11,738	9,478
Income tax expense	(5,476)	(4,774)	(3,792)	(3,131)	(2,280)
Net income	$12,114	$11,011	$9,605	$8,607	$7,198
Financial Ratios:					
Return on average Shareholders' equity	14.46%	15.08%	14.37%	14.28%	13.02%
Net interest margin	4.17%	4.47%	4.69%	4.70%	4.63%
Return on average assets	1.33%	1.37%	1.38%	1.33%	1.16%
Efficiency	54.83%	54.89%	56.09%	56.88%	62.03%
Average equity capital to Average assets	9.15%	9.09%	9.60%	9.30%	8.91%
Dividend payout ratio	49.29%	45.48%	45.47%	43.39%	44.19%
Per Share Data:					
Basic earnings per share	$1.35	$1.25	$1.10	$0.99	$0.83
Diluted earnings per share	1.34	1.24	1.10	0.98	0.83
Cash dividends declared per share	0.66	0.57	0.50	0.43	0.37
Book value per share (year end)	9.63	8.66	7.94	7.42	6.48

</TABLE>

All per share data adjusted to reflect stock splits and stock dividends.

The acquisitions of The State Bank of Coloma (July, 1998) and SJS Bancorp, Inc. (June, 1997) were accounted for as purchases. Results of these acquired companies are included from their dates of acquisition.

SUMMARY OF OPERATING RESULTS

NET INTEREST INCOME

The largest component of Shoreline's operating income is net interest income. Net interest income is the difference between interest and fees earned on earning assets and the interest paid on deposits and other borrowed funds. A number of factors influence net interest income, such as changes in the volume and mix of interest-earning assets and interest-bearing liabilities, market interest rates, governmental monetary and fiscal policies, and customer preference.

Net interest income on a fully taxable equivalent basis was $35.2 million in 1998, an increase of $1.7 million, or 5.1% over 1997's net interest income of $33.5 million. Net interest income (FTE) for 1996 was $30.5 million. Shoreline's annual increases in net interest income resulted primarily from growth in the volume of earning assets. Average earning assets increased 12.6% and 15.3% for 1998 over 1997 and 1997 over 1996, respectively, mainly from acquisitions completed during 1998 and 1997.

Table II details the impact that the changes in volume and rate had on net interest income. Changes due to both volume and rate were allocated to volume and rate in proportion to the relationship of the absolute dollar amount of the change in each. Net interest income (FTE), average balance amounts and the corresponding yields and costs for 1998, 1997 and 1996 are presented in Table III.

<TABLE>

Table II

<CAPTION>

(In thousands)	98 COMPARED TO 97 INCREASE/(DECREASE) DUE TO VOLUME	DUE TO RATE	NET	97 COMPARED TO 96 INCREASE/(DECREASE) DUE TO VOLUME	DUE TO RATE	NET
Interest-earning assets:						
Interest-earning deposits	$ 612	$ (23)	$ 589	$ 511	$ 31	$ 542
Fed funds sold	(5)	(4)	(9)	24	9	33
Securities:						
Taxable	2,217	(632)	1,585	1,009	220	1,229
Tax-exempt	(222)	(159)	(381)	(179)	(46)	(225)
Loans-net of unearned income	4,657	(1,059)	3,598	6,885	(197)	6,688
Change in interest income	7,259	(1,877)	5,382	8,250	17	8,267
Interest-bearing liabilities:						
Demand deposits	577	(43)	534	469	337	806
Savings deposits	340	(118)	222	(23)	71	48
Time deposits	1,772	(245)	1,527	3,337	(238)	3,099
Short-term borrowings	276	(5)	271	100	11	111
FHLB advances	960	154	1,114	1,158	39	1,197
Change in interest expenses	3,925	(257)	3,668	5,041	220	5,261
Change in net interest income	$3,334	$(1,620)	$1,714	$3,209	$(203)	$3,006

</TABLE>

<TABLE>

Table III

AVERAGE CONSOLIDATED BALANCE SHEETS / INTEREST RATES

The following table presents interest income from average earning assets, expressed in dollars and yields on a fully tax equivalent basis and interest expense on average interest-bearing liabilities expressed in dollars and rates.

<CAPTION>

YEARS ENDED DECEMBER 31 (IN THOUSANDS)	1998 AVERAGE BALANCE	1998 INTEREST	1998 AVERAGE RATE	1997 AVERAGE BALANCE	1997 INTEREST	1997 AVERAGE RATE	1996 AVERAGE BALANCE	1996 INTEREST	1996 AVERAGE RATE
INTEREST-EARNING ASSETS									
Interest bearing deposits	$ 29,786	$ 1,611	5.41%	$ 18,485	$ 1,022	5.53%	$ 9,214	$ 480	5.21%
Federal funds sold	8,426	448	5.32%	8,511	457	5.37%	8,066	424	5.26%
Securities:									
Taxable	151,957	10,171	6.69%	119,327	8,586	7.20%	105,229	7,358	6.99%
Tax-exempt <F2>	33,347	2,971	8.91%	35,783	3,352	9.37%	37,691	3,577	9.49%
Loans - net of unearned income <F1> <F2>	620,745	54,121	8.72%	567,528	50,523	8.90%	490,200	43,835	8.94%

Total interest-earning assets	844,261	69,322	8.21%	749,634	63,940	8.53%	650,400	55,674	8.56%
NON-EARNING ASSETS									
Cash and due from banks	34,547			30,478			28,606		
Other assets	37,374			30,501			21,800		
Allowance for loan losses	(7,732)			(7,367)			(6,764)		
Total assets	$908,450			$803,246			$694,042		
INTEREST-BEARING LIABILITIES									
Demand deposits	$122,471	$ 3,615	2.95%	$102,956	$ 3,081	2.99%	$ 86,450	$ 2,275	2.63%
Savings deposits	179,378	5,998	3.34%	169,264	5,776	3.41%	169,959	5,729	3.37%
Time deposits	368,651	20,858	5.66%	337,382	19,331	5.73%	279,235	16,234	5.81%
Short-term borrowed funds	14,220	599	4.21%	7,674	328	4.27%	5,327	216	4.05%
Long-term debt	50,872	3,043	5.98%	34,668	1,929	5.56%	13,800	731	5.30%
Total interest-bearing liabilities	735,592	34,113	4.64%	651,944	30,445	4.67%	554,771	25,185	4.54%
NON-INTEREST-BEARING LIABILITIES									
Demand deposits	83,833			72,968			68,621		
Other liabilities	5,264			5,303			3,988		
Shareholders' equity	83,761			73,031			66,662		
Total liabilities and shareholders' equity	$908,450			$803,246			$694,042		
NET INTEREST INCOME		$35,209			$33,495			$30,489	
NET INTEREST INCOME AS A PERCENT OF INTEREST-EARNING ASSETS			4.17%			4.47%			4.69%

<FN>
<F1> Nonaccrual loans are included in the daily average loans outstanding for purposes of this calculation. See Note 1 to the Consolidated Financial Statements regarding recognition of loan fee income. Included in interest on loans are fees in the amount of $1,000,000, $1,098,000 and $667,000 for 1998, 1997 and 1996, respectively.
<F2> Yields are computed on a fully tax-equivalent basis using a federal income tax rate of 34 percent for all years presented
</FN>
</TABLE>

NET INTEREST MARGIN
The net interest margin is calculated by dividing net interest income (FTE) by average earning assets. Management continually monitors Shoreline's

balance sheet and employs other methods of analysis to protect net interest income from fluctuations caused by interest rate volatility. These methods have produced net interest margins of 4.17%, 4.47% and 4.69% for 1998, 1997 and 1996, respectively. The net interest margin for 1998 was lower than 1997's margin as the lower interest rate environment of 1998 caused both the yields on earning assets and the rates paid on interest bearing liabilities to decline. For 1997 compared with 1996, the net interest margin was negatively impacted by the acquisition of SJS Bancorp. SJS, like many thrift institutions, had a net interest margin substantially below that of the commercial banking industry due to its mix of earning assets and rate sensitive liabilities.

PROVISION FOR LOAN LOSSES
The provision for loan losses is the amount added to the allowance for loan losses to absorb losses that are currently anticipated. The loan loss provision is based on historical loss experience and such other factors, which, in management's judgment, deserve current recognition in maintaining an adequate allowance for loan losses. The provision for loan losses was $600,000 for 1998, 1997 and 1996. Continued overall strength in asset quality measures along with another year of relatively modest levels of net charge-offs helped to support the consistent level of provision for loan losses. At year-end 1998, the ratio of the allowance for loan losses to non-performing loans was strong at 423% compared with year end 1997's ratio of 350%. The same ratio for year end 1996 was 424%.

Additional information on the provision for loan losses, net charge-offs and non-performing assets is provided in Tables IX and XII presented later in this discussion

OTHER INCOME
Non-interest income for 1998 was 33.9% higher than last year as gains realized on the sale of mortgages were significantly higher than in 1997, and fees for trust, investments and deposit services continued to grow. For 1997 compared with 1996, non-interest income increased 31.4%. The components of other income are shown in Table IV.

<TABLE>
<CAPTION>

Table IV

YEARS ENDED DECEMBER 31 (In thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Service charges on deposit accounts	$2,190	$2,081	$1,820
Trust income	1,985	1,673	1,500
Net gain on security sales	65	171	191
Net gain/(loss) on loan sales	1,633	526	(21)
Other	1,777	1,262	857
Total other income	$7,650	$5,713	$4,347

</TABLE>

Service charges on deposit accounts, which increased 5.2% from 1997, remained the largest component of non-interest income in 1998.

Trust income increased 18.6% from a year ago as trust assets under management increased to $439.8 million from $375.5 million.

Gains on the sale of mortgages increased $1.1 million over 1997's reported gains of $.5 million as a favorable interest rate environment kept new originations as well as refinancings high. During 1998, $178.0 million of mortgage loans were originated with $87.0 million being sold servicing released and $30.2 million servicing retained. The remaining loans originated were retained by Shoreline for its mortgage portfolio.

Other income increased 40.1% primarily from gains on the sale of other assets, Business Manager income, ATM fees, investment services income and insurance agency income. The Business Manager program, an accounts-receivable management program was introduced in 1998. This product helps cement relationships with customers while they improve their cash flows and avoids billing hassles.

The increase in other income for 1997 over 1996 was due primarily to gains on the sale of loans, an 11.5% increase in trust income and a 14.3% increase in service charge income. Other income also increased year over year due to a higher level of mortgage loan servicing fees.

OTHER EXPENSE

Non-interest expense was up $1.9 million, or 9.0% compared with 1997. Of this increase, approximately $.5 million was directly attributable to the ongoing operating costs added as a result of the acquisitions made in mid 1997 and 1998. Excluding these costs from both 1998 and 1997, non-interest expense would have increased 6.9%.

<TABLE>
<CAPTION>

Table V

YEARS ENDED DECEMBER 31 (In thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Salaries	$ 9,519	$ 8,970	$ 8,215
Employee benefits	2,852	2,539	2,435
Occupancy	1,613	1,459	1,329
Equipment	2,165	2,150	1,920
Insurance	345	293	572
Professional fees	1,486	1,454	1,007
Other taxes	683	620	541
Goodwill amortization	899	549	266
Other	3,890	3,487	3,148
Total other expense	$23,452	$21,521	$19,433
KEY RATIOS:			
Efficiency Ratio	54.83%	54.89%	56.09%
Other expense as a percent of average assets	2.58%	2.68%	2.80%
Salary and employee benefits as a percent of average assets	1.36%	1.43%	1.53%

</TABLE>

Personnel costs, the largest category of non-interest expense was up 7.5% including the staffing costs added from acquisitions (5.0% excluding these costs). The primary reasons for the increase was normal compensation and fringe benefit cost adjustments, additional staff necessitated by new and expanded business opportunities and, as mentioned, acquisitions.

Two ratios that measure internal efficiencies are the number of full time equivalent employees per one million dollars of average assets and net income per FTE employee. For 1998, there were .36 FTE employees per one million dollars of average assets compared with .41 a year ago and $35,500 of net income per FTE employee versus $33,600 a year ago. These ratios were .41 and $29,900 for 1996.

The remaining categories within non-interest expense were up basically due to acquisitions and the investments made in technology during 1998 to better serve an expanding customer base and to resolve year 2000 issues.

The efficiency ratio measures non-interest expense as a percent of the sum of net interest income (fully taxable equivalent) and non-interest income. The lower the ratio, the more efficiently a company's resources produce revenue. Table V includes the efficiency ratio over the past three years. In 1998, the efficiency ratio was 54.83% compared with 56.09% in 1996. This 137 basis point improvement was mainly the result of steady growth in non-interest income.

The burden ratio measures the relationship of non-interest expense, net of non-interest income, to average assets. The burden ratio improved 22 basis points since 1996.

INCOME TAX EXPENSE

Income tax expense was $5.5 million for 1998 compared with $4.8 million in 1997 and $3.8 million in 1996. A summary of significant tax components is provided in Note 11 of the Notes to Consolidated Financial Statements included later in this document.

INVESTMENT PORTFOLIO

<TABLE>
<CAPTION>

Table VI

AVAILABLE FOR SALE AT DECEMBER 31,	1998	1997	1996
		(in thousands)	
U.S. Treasury and agencies	$ 66,716	$ 55,801	$37,514
States and political subdivisions	26,489	27,710	29,895
Mortgage-backed:			
U.S. Government agencies	91,658	37,636	18,816
Collateralized mortgage obligations	1,010	27	1,290
Other	4,862	4,360	2,739
Total	$190,735	$125,534	$90,254

</TABLE>

<TABLE>
<CAPTION>

HELD TO MATURITY AT DECEMBER 31,	1998	1997	1996
		(in thousands)	
U.S. Treasury and agencies	$ 2,000	$ 13,999	$15,000
States and political subdivisions	6,472	6,883	7,664
Mortgage-backed:			
U.S. Government agencies	16,431	16,939	22,129
Collateralized mortgage obligations	263	565	2,789
Total	$ 25,166	$ 38,386	$47,582

</TABLE>

<TABLE>
<CAPTION>

Table VII

AVAILABLE FOR SALE

(IN THOUSANDS)	MATURING WITHIN ONE YEAR AMOUNT	YIELD	AFTER ONE BUT WITHIN FIVE YEARS AMOUNT	YIELD	AFTER FIVE BUT WITHIN TEN YEARS AMOUNT	YIELD	AFTER TEN YEARS AMOUNT	YIELD
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. Treasuries	$ 9,123	6.83%	$ 15,365	5.95%	$ 0	N/A	$ 0	N/A
Agencies	0	N/A	13,073	6.10%	29,155	6.66%	0	N/A
States and political subdivisions	3,158	10.67%	6,684	9.42%	11,367	9.02%	6,873	8.17%
Mortgage-backed securities:								
U.S. Government agencies	13,481	6.42%	63,827	6.42%	7,506	5.87%	5,251	6.49%
Collateralized mortgage obligations	0	N/A	1,010	6.10%	0	N/A	0	N/A
Other	0	N/A	502	6.00%	0	N/A	4,360	8.03%
Total	$25,762		$100,461		$48,028		$16,484	

</TABLE>

<TABLE>
<CAPTION>
HELD TO MATURITY

(IN THOUSANDS)	MATURING WITHIN ONE YEAR AMOUNT	YIELD	AFTER ONE BUT WITHIN FIVE YEARS AMOUNT	YIELD	AFTER FIVE BUT WITHIN TEN YEARS AMOUNT	YIELD	AFTER TEN YEARS AMOUNT	YIELD
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. Treasuries	$ 0	N/A	$ 0	N/A	$ 0	N/A	$ 0	N/A
Agencies	0	N/A	0	N/A	2,000	7.92%	0	N/A
States and political subdivisions	250	9.99%	1,908	9.58%	3,106	9.47%	1,209	9.90%
Mortgage-backed securities:								
U.S. Government agencies	607	6.29%	15,823	7.65%	0	N/A	0	N/A
Collateralized mortgage obligations	263	6.07%	0	N/A	0	N/A	0	N/A
Other	0	N/A	0	N/A	0	N/A	0	N/A
Total	$ 1,120		$ 17,731		$ 5,106		$ 1,209	

</TABLE>

At December 31, 1998, the aggregate book value of the securities of no issuer exceeded 10% of Shoreline's shareholders' equity.

CREDIT RISK

LOAN PORTFOLIO

Shoreline's management understands that credit risk is a fundamental element of its business. Conservative lending philosophies supported by comprehensive policies and administrative functions help Shoreline lenders adhere to strict credit underwriting standards. Shoreline concentrates its lending efforts primarily in the communities in which Shoreline Bank branches are located and maintains a diversified loan portfolio of commercial, real estate and consumer loans. Shoreline Bank has no foreign loans. Exposures to any single borrower, as well as industry concentrations, are continually monitored by management.

<TABLE>
<CAPTION>

Table VIII

DECEMBER 31, (In thousands)	1998 AMOUNT	% OF TOTAL	1997 AMOUNT	% OF TOTAL	1996 AMOUNT	% OF TOTAL	1995 AMOUNT	% OF TOTAL	1994 AMOUNT	% OF TOTAL

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial, financial and agricultural	$264,807	41.69%	$230,338	37.17%	$211,953	42.34%	$191,437	41.08%	$179,850	41.20%
Residential real estate mortgage	247,454	38.96%	273,241	44.10%	214,201	42.79%	194,784	41.80%	175,912	40.30%
Real estate construction	18,169	2.86%	14,765	2.38%	10,243	2.05%	18,704	4.01%	26,679	6.11%
Consumer	104,729	16.49%	101,292	16.35%	64,194	12.82%	61,070	13.11%	54,088	12.39%
Total loans	$635,159	100.00%	$619,636	100.00%	$500,591	100.00%	$465,995	100.00%	$436,529	100.00%
Total loans, net of allowance for loan losses	$627,276		$612,048		$493,696		$459,395		$430,577	

</TABLE>

Shoreline's commercial portfolio is comprised primarily of loans to small and mid-size businesses within its local markets. At December 31, 1998, 41.7% of the total loan portfolio was classified commercial, up from 37.2% a year ago. The maturity and rate sensitivity for commercial and other selected loan categories is presented in Table VII.

At December 31, 1998, residential mortgage loans totaled $247.5 million compared with $273.2 million at year-end 1997. The decrease was the result of management's decision to sell more mortgages in the secondary market. This decision was influenced in part by the borrower's preference for long term fixed rate loans.

Consumer loans, which make up 16.5% of the total portfolio, increased $3.4 million between December 31, 1997 and December 31, 1998. Included in consumer loans are direct and indirect auto loans, home equity loans and other secured and unsecured personal loans.

<TABLE>
<CAPTION>

Table IX

	DECEMBER 31, 1998			DECEMBER 31, 1997		
	DUE IN ONE YEAR OR LESS	DUE IN ONE TO FIVE YRS	DUE AFTER FIVE YRS.	DUE IN ONE YEAR OR LESS	DUE IN ONE TO FIVE YRS	DUE AFTER FIVE YRS.
<S>	<C>	<C>	<C>	<C>	<C>	<C>
(in thousands)						
Commercial, financial and Agricultural	$46,618	$154,747	$63,442	$44,777	$133,332	$52,230
Real estate construction	8,727	2,780	6,662	8,144	6,133	488
Total	$55,345	$157,527	$70,104	$52,921	$139,465	$52,718
Loans due after one year:						
with fixed rates		$127,440	$32,827		$99,967	$15,260
with floating rates		$30,087	$37,277		$39,498	$37,458

</TABLE>

ASSET QUALITY

Non-performing assets, including non-accrual loans, accruing loans past due 90 days or more, restructured loans and other real estate owned, totaled $1.9 million or .29% of total assets. Non-performing loans were .41% and .38% of total assets at year end 1997 and 1996, respectively. The breakdown of non-performing assets for the past five years is detailed in Table X.

<TABLE>
<CAPTION>

Table X

DECEMBER 31, (In thousands)	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Non-accrual loans	$1,080	$1,301	$ 524	$ 235	$ 802
Accruing loans past due 90 days or more	427	868	1,104	1,204	856
Restructured loans	0	0	0	0	2
Other real estate owned	356	387	273	170	552
Total non-performing assets	$1,863	$2,556	$1,901	$1,609	$2,212
AS A PERCENTAGE OF TOTAL LOANS:					
Non-accrual loans	0.17%	0.21%	0.11%	0.05%	0.18%
Accruing loans past due 90 days or more	0.06%	0.14%	0.22%	0.26%	0.20%
Restructured loans	0.00%	0.00%	0.00%	0.00%	0.00%
Other real estate owned	0.06%	0.06%	0.05%	0.04%	0.13%
Total non-performing assets	0.29%	0.41%	0.38%	0.35%	0.51%

</TABLE>

If all loans had been current in accordance with their original terms throughout the period, an additional $97,300 in pretax interest income would have been recorded. During 1998, no interest income on non-accrual loans was included in net income. See also Note 1 of the Notes to Consolidated Financial Statements incorporated herein by reference.

ALLOWANCE FOR LOAN LOSSES

Management considers such factors as historical charge-off experience, problem loan levels, current and projected economic conditions, portfolio mix and specific loan reviews in determining its allowance for loan losses. Quarterly, management evaluates the adequacy of the allowance for loan losses with a detailed written analysis. Management's allocation of the allowance for loan losses over the past five years is shown in Table XI. The amounts indicated for each loan type include amounts allocated for specific loans as well as general allocations.

<TABLE>
<CAPTION>

Table XI

DECEMBER 31, (In thousands)	1998 ALLOWANCE	1998 % OF LOANS TO TOTAL LOANS	1997 ALLOWANCE	1997 % OF LOANS TO TOTAL LOANS	1996 ALLOWANCE	1996 % OF LOANS TO TOTAL LOANS	1995 ALLOWANCE	1995 % OF LOANS TO TOTAL LOANS	1994 ALLOWANCE	1994 % OF LOANS TO TOTAL LOANS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial, financial and agricultural	$1,571	41.69%	$1,742	37.17%	$2,491	42.34%	$2,361	41.08%	$2,044	41.20%
Real estate mortgage	1,043	38.96%	1,328	44.10%	743	42.79%	698	41.80%	559	40.30%
Real estate construction	35	2.86%	130	2.38%	115	2.05%	107	4.01%	100	6.11%
Consumer	2,090	16.49%	2,073	16.35%	1,166	12.82%	1,111	13.11%	995	12.39%
Unallocated	3,145		2,315		2,380		2,323		2,254	
Total	$7,884	100.00%	$7,588	100.00%	$6,895	100.00%	$6,600	100.00%	$5,952	100.00%

</TABLE>

Net charge-offs in 1998 represented only .08% of average total loans and marked the sixth consecutive year this ratio was below 10 basis points. The allowance for loan losses at December 31, 1998 was $7.9 million, an increase of $295,000 over year-end 1997. Included in the increase was the addition of $189,000 from the acquisition of The State Bank of Coloma. At December 31, 1998, the allowance for loan losses as a percentage of non-performing loans was 423%. Table XII summarizes loan and allowance information for the past five years. Information on impaired loans is included in Note 6 of the Notes to Consolidated Financial Statements included later in this report.

<TABLE>
<CAPTION>

Table XII

DECEMBER 31, (In thousands)	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Loans outstanding, end of period	$635,159	$619,636	$500,591	$465,995	$436,529
Daily average of loans outstanding for the period	$620,745	$567,528	$490,200	$447,329	$428,478
ALLOWANCE FOR LOAN LOSSES					
Balance at beginning of period	$7,588	$6,895	$6,600	$5,952	$5,586

Additions from acquisition	189	540	0	0	0
Charge-offs:					
Commercial, financial and agricultural	121	379	240	151	391
Real estate mortgage	67	535	35	70	105
Real estate construction	0	0	0	0	0
Consumer	602	44	318	271	517
Total charge-offs	790	958	593	492	1,013
Recoveries:					
Commercial, financial and agricultural	33	302	97	200	367
Real estate mortgage	46	184	57	14	0
Real estate construction	0	0	0	0	0
Consumer	217	25	134	176	262
Total recoveries	296	511	288	390	629
Net charge-offs	494	447	305	102	384
Provision charged to income	600	600	600	750	750
Balance at end of period	$7,883	$7,588	$6,895	$6,600	$5,952

KEY RATIOS:					
Net charge-offs to average loans	0.08%	0.08%	0.06%	0.02%	0.09%
Recoveries to total charge-offs	37.39%	53.30%	48.57%	79.27%	62.09%
Allowance to total loans at end of period	1.24%	1.22%	1.38%	1.42%	1.36%
Allowance to total non-performing loans at end of period	423.13%	349.84%	423.52%	458.65%	358.55%
Provision to average loans	0.10%	0.11%	0.12%	0.17%	0.17%

</TABLE>

FUNDING, LIQUIDITY AND INTEREST RATE RISK

Liquidity is measured by a financial institution's ability to raise funds through deposits, borrowed funds, capital or the sale of assets. Funding is achieved through growth in deposits and accessibility to the money and capital markets.

DEPOSITS

Shoreline's primary source of funding is its deposits. The average deposit balances outstanding and the rates paid on those deposits for the three years ended December 31, 1998 are presented as part of Table II, appearing earlier in this document.

The time remaining until maturity of time certificates of deposit of $100,000 or more at December 31, 1998 is as follows:

Table XIII

TIME UNTIL MATURITY	(IN THOUSANDS)
Three months or less	$ 65,269
Over three through six months	13,755
Over six through twelve months	11,627
Over twelve months	15,519
Total	$106,170

In addition to deposits, Shoreline's sources of funding include both short and long term debt. Additional information regarding Shoreline's debt is included in Note 10 of the Notes to Consolidated Financial Statements included later in this document.

ASSET/LIABILITY MANAGEMENT

Asset/liability management involves developing, implementing and monitoring strategies to maintain sufficient liquidity, maximize net interest income and minimize the impact significant fluctuations in market interest rates have on earnings. Shoreline's Asset/Liability Committee is responsible for managing this process. Much of this committee's efforts are focused on minimizing Shoreline's sensitivity to changes in interest rates. One method of gauging sensitivity is a static gap analysis. Shoreline's static gap position at December 31, 1998 is shown in Table XIV.

Table XIV

	REPRICEABLE OR MATURING WITHIN:				
(In thousands)	0-90 Days	91-365 Days	1 to 5 Years	Over 5 Years	Total
Interest-earning assets:					
Loans	$ 24,557	$ 85,832	$ 324,020	$200,750	$635,159
Securities	2,608	24,274	118,193	70,827	215,902
Federal funds sold	15,775	0	0	0	15,775
Interest-earning deposits	20,301	0	0	0	20,301
Total interest-earning assets	63,241	110,106	442,213	271,577	887,137

Interest-bearing liabilities:					
Time deposits	$ 109,219	$ 142,201	$ 116,503	$ 158	$368,081
Demand and savings accounts	334,610	0	0	0	334,610
Other	21,191	0	18,478	28,000	67,669
Total interest-bearing liabilities	465,020	142,201	134,981	28,158	770,360
Asset(liability) gap	$(401,779)	$ (32,095)	$ 307,232	$243,419	$116,777
Cumulative asset(liability) gap	$(401,779)	$(433,874)	$(126,642)	$116,777	

</TABLE>

At December 31, 1998, Shoreline had a cumulative liability gap position of $433.9 million within the one-year time frame. This position suggests that if market interest rates decline in the next 12 months, Shoreline has the potential to earn more net interest income. A limitation of the traditional static gap analysis, however, is that it does not consider the timing or magnitude of noncontractual repricing. In addition, the static gap analysis treats demand and savings accounts as repriceable within 90 days, while experience suggests that these categories of deposits are actually comparatively resistant to rate sensitivity. Because of these and other limitations of the static gap analysis, Shoreline's Asset/Liability Committee utilizes simulation modeling as its primary tool to project how changes in interest rates will impact net interest income. These models indicate, and management believes, Shoreline is properly positioned against significant changes in rates without severely altering operating results. However, management recognizes that, at the present time, Shoreline's net interest margin may decline slightly under either a modest increase or decrease in interest rates from the current levels. As discussed elsewhere, Shoreline's net interest margin was negatively impacted by the decline in interest rates experienced during 1998.

INTEREST RATE RISK

Shoreline's primary market risk exposure is interest rate risk and, to a lesser extent, liquidity risk. All of Shoreline's transactions are denominated in U.S. dollars with no specific foreign exchange exposure. Shoreline has only limited agricultural loan assets and, therefore, has no significant exposure to changes in commodity prices. Any impact that changes in foreign exchange rate and commodity prices would have on interest rates is assumed to be insignificant.

Interest rate risk (IRR) is the exposure of a banking organization's financial condition to adverse movements in interest rates. Accepting the risk can be an important source of profitability and shareholder value, however, excessive levels of IRR could pose a significant threat to Shoreline's earnings and capital base. Accordingly, effective risk management that maintains IRR at prudent levels is essential to Shoreline's safety and soundness.

Evaluating a financial institution's exposure to changes in interest rates includes assessing both the adequacy of the management process used to control IRR and the organization's quantitative level of exposure. When assessing the IRR management process, Shoreline seeks to ensure that appropriate policies, procedures, management information systems and internal controls are in place to maintain IRR at prudent levels with consistency and continuity. Evaluating the quantitative level of IRR exposure requires Shoreline to assess the existing and potential future effects of changes in interest rates on its consolidated financial condition, including capital adequacy, earnings, liquidity, and, where appropriate, asset quality.

Various techniques may be used by an institution to measure and manage IRR. Recognizing the limitations of static gap analysis, Shoreline utilizes simulation analysis as the primary method of measuring its interest rate risk. These simulation techniques involve changes in interest rate relationships and levels on all interest rate sensitive assets and liabilities, prepayment assumptions inherent in financial instruments, as well as changes in interest rate levels in order to quantify risk potential.

Table XV illustrates the projected change in Shoreline's net interest income during the next twelve months if all market rates were to uniformly and gradually increase or decrease by as much as 2.0% (over the same time period) compared to results under a flat rate environment. These projections, based on Shoreline's balance sheet as of December 31, 1998, were prepared using the simulation analysis model and assumptions that Shoreline was using for asset/liability management purposes. As of this date, Shoreline had no derivative financial instruments, or trading portfolio. The table indicates that if rates were to gradually and uniformly increase or decrease by 2.0%, net interest income would be expected to remain essentially flat under a rising rate scenario and increase by 2.7% under a declining rate scenario compared to results forecasted under a current rate environment. This relatively modest projected exposure to interest rate risk is consistent with management's desire to limit the sensitivity of net interest income to changes in interest rates in order to reduce risk to earnings. The model is based solely on gradual, uniform changes in market rates and does not reflect the levels of interest rate risk that may arise from other factors such as changes in the spreads between key market rates or in the shape of the treasury yield curve. The expected maturity date values for loans receivable, mortgage-backed securities, and investment securities were calculated by adjusting the instrument's contractual maturity date for expectations of prepayments and call dates. Expected maturity date values for interest-bearing core deposits were not based upon estimates of the period over which the deposits would be outstanding, but rather the opportunity for repricing. Similarly, with respect to its variable rate instruments, Shoreline believes that repricing dates, as opposed to expected maturity dates may be more relevant in analyzing the value of such instruments. Borrowings from the FHLB are reported based on repricing dates if variable rate in nature.

<TABLE>
<CAPTION>

Table XV

Projected Effect on Net Interest Income
(In thousands)

DECEMBER 31, 1998	EXISTING	FLAT RATE	DECREASE IN RATE	INCREASE IN RATE
<S>	<C>	<C>	<C>	<C>
Change in Interest Rate from current (existing) level	N/A	0.0%	-2.0%	2.0%
Net interest income	$35,209	$36,621	$36,177	$35,202
% Change in net interest income from existing level	N/A	4.0%	2.7%	N/A

</TABLE>

<TABLE>
<CAPTION>

DECEMBER 31, 1997	EXISTING	FLAT RATE	DECREASE IN RATE	INCREASE IN RATE
<S>	<C>	<C>	<C>	<C>
Change in Interest Rate from current (existing) level	N/A	0.00%	(2.00)%	2.00%
Net interest income	$33,134	$32,644	$32,742	$32,268
% Change in net interest income from existing level	N/A	(1.5)%	(1.2)%	(2.6)%

</TABLE>

For comparison purposes, Table XV also presents the comparable simulation analysis as of December 31, 1997. This comparison suggests that Shoreline is somewhat more sensitive to a decrease in rates, but considerably less sensitive to an increase in rates, at December 31, 1998 than at December 31, 1997.

Shoreline is also subject to liquidity risk. Certain portions of an institution's liabilities may be short-term or due on demand, while most of its assets may be invested in long-term loans or investments. Accordingly, Shoreline seeks to have in place sources of cash to meet short-term demands. These funds can be obtained by increasing deposits, borrowings, or selling assets. Also, Federal Home Loan Bank (FHLB) advances and short-term borrowings provide additional sources of liquidity for Shoreline.

CAPITAL RESOURCES

At December 31, 1998, total equity capital of Shoreline was $87.2 million. This includes an unrealized gain of $1.7 million for Shoreline's available for sale securities portfolio. Total equity capital was $76.9 million at December 31, 1997 with an unrealized gain of $1.6 million from available for sale securities. During 1998, Shoreline issued 242,299 shares for the purchase of The State Bank of Coloma and retired 166,102 shares under its current repurchase program.

Management monitors its capital levels to comply with regulatory requirements and to provide for current and future business opportunities. As shown in Table XVII, Shoreline's capital ratios were well in excess of regulatory standards for classification as "well-capitalized." Being considered "well-capitalized" is one condition for being assessed insurance premiums by the Federal Deposit Insurance Corporation at its lowest available rate.

<TABLE>
<CAPTION>

Table XVI

DECEMBER 31	REGULATORY MINIMUM	WELL-CAPITALIZED	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>
Risk based:					
Tier I capital	4.00%	6.00%	12.3%	11.9%	15.1%
Total capital	8.00%	10.00%	13.5%	13.1%	16.3%
Tier I leverage	4.00%	5.00%	7.6%	8.0%	9.3%

</TABLE>

CASH DIVIDENDS

Cash dividends paid increased 15.8% to $.66 per share in 1998. 1997's cash dividends totaled $.57 per share, an increase of 14.0% over 1996. Table XVIII summarizes the quarterly cash dividends per share paid to common shareholders during the last three years, adjusted for stock dividends and stock splits.

<TABLE>
<CAPTION>
Table XVII

Quarter	1998	1997	1996
<S>	<C>	<C>	<C>
1st	$0.16	$0.14	$0.12
2nd	0.16	0.14	0.12
3rd	0.17	0.14	0.13
4th	0.17	0.15	0.13
Total	$0.66	$0.57	$0.50

</TABLE>

Shoreline's principal source of funds to pay cash dividends is the earnings of its subsidiary bank. State and federal laws and regulations limit the amount of dividends that banks can pay. Cash dividends are dependent upon the earnings, capital needs, regulatory constraints and other factors affecting the bank. Based on projected earnings, management expects Shoreline to declare and pay regular quarterly dividends on its common shares in 1999.

IMPACT OF INFLATION
Reported earnings are affected by inflation, indirectly through changing interest rates, and directly by increased operating expenses. However, in the opinion of management, the effects of general price level inflation have not had a material effect on the information presented in this report.

YEAR 2000 READINESS DISCLOSURE

STATE OF READINESS
Shoreline does not develop or write its own software systems and programs. It utilizes off-the-shelf systems developed by third-party vendors. In addition, it relies on third-party vendors for various hardware and other services in executing daily operations. A total inventory of all third-party systems and services has been prepared. Using this inventory, Shoreline has asked for and received responses from all third-party software, hardware and service providers as to their Year 2000 readiness and an assessment of those responses has been completed. In the majority of cases, Shoreline's vendors have indicated their systems or services to be Year 2000 compliant. Shoreline has successfully completed its first phase of testing on its mainframe software system, and believes that the favorable response received from the third-party provider was appropriate. During the first quarter of 1999, testing of other systems management considered critical to its state of readiness was completed satisfactorily.

COSTS
Shoreline has incurred expenses throughout 1998 related to this project and will continue to incur expenses over the next year. Based on available information, these expenses are not expected to have a materially adverse impact on operating results, financial condition, or liquidity. Existing staff that has been redeployed represents a significant portion of these expenses to this project. Through December 31, 1998, total expenses accrued for remediation and testing relating to the Year 2000 issue were $67,000. Estimates of incremental costs for remediation over the remaining period of this project is projected to be between $300,000 and $400,000, which will be recorded as expense when and as accrued.

RISKS
Shoreline believes its management has taken, and will continue to take, all prudent actions needed to address Year 2000 issues. In addition, it is acting to comply with directives provided by its regulators with respect to Year 2000 and has received on-site examinations from its regulators to determine its readiness. While management anticipates successful implementation of its Year 2000 Readiness Plan and believes its current estimates of cost reasonable, it can not guarantee actual results will not materially differ from those anticipated, and it can not assure that all third parties upon which Shoreline relies will not have business interruptions due to Year 2000 issues.

CONTINGENCY PLANS
Shoreline currently has a disaster recovery plan for its information technology system. Additional contingency plans for other mission critical or high risk systems not covered in the current Disaster Recovery Plan are expected to be completed by April 30, 1999.

In addition to reviewing its own computer operating systems and applications, Shoreline has initiated formal communications with its significant suppliers and large customers to determine the extent to which Shoreline's interface systems are vulnerable to those third parties' failure to resolve their Year 2000 issues. There is no assurance that the systems of other companies on which Shoreline's systems rely will be timely converted. If such modifications and conversions are not made, or are not completed in a timely manner, the Year 2000 issue could have an adverse impact on the operations of Shoreline.

The costs of the project and the date on which Shoreline believes it will complete the Year 2000 modifications are based on management's best estimates. There can be no guarantee that these estimates will be achieved and actual results could differ from those anticipated. Specific factors that might cause differences include, but are not limited to, the ability of other companies on which Shoreline's systems rely to modify or convert their systems to be Year 2000 compliant, the ability to locate and correct all relevant computer codes, and similar uncertainties.

This Year 2000 Readiness Disclosure is based upon and partially repeats information provided by Shoreline's outside consultants, vendors and others regarding the Year 2000 readiness of Shoreline and its customers, vendors and other parties. Although Shoreline believes this information to be accurate, it has not in each case independently verified such information.

The Year 2000 statements contained in this report and in other reports and materials filed with the Securities and Exchange Commission by Shoreline are "Year 2000 Readiness Disclosures" under the Year 2000 Information and

Readiness Disclosure Act

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information presented under the subcaptions "Asset/Liability Management" and "Interest Rate Risk" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation of Shoreline's consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present Shoreline's financial position and results of operations and was prepared in conformity with generally accepted accounting principles. Management also has included in Shoreline's financial statements amounts that are based on estimates and judgments that management believes are reasonable under the circumstances.

Shoreline maintains a system of internal controls designed to provide reasonable assurance that all assets are safeguarded and financial records are reliable for preparing the consolidated financial statements. Shoreline complies with laws and regulations relating to safety and soundness which are designated by the FDIC and other appropriate federal banking agencies. The selection and training of qualified personnel and the establishment and communication of accounting and administrative policies and procedures are elements of this control system. The effectiveness of internal controls is monitored by an internal audit program and annual review by our independent certified public accountants. Management recognizes that the cost of a system of internal controls should not exceed the benefits derived and that there are inherent limitations to be considered in the potential effectiveness of any system. Management believes that Shoreline's system provides the appropriate balance between costs of controls and the related benefits.

The independent auditors have audited Shoreline's consolidated financial statements in accordance with generally accepted auditing standards to provide an objective, independent review of the fairness of the reported operating results and financial position. The Board of Directors of Shoreline has an Audit Committee composed of four non-management Directors. The Committee meets periodically with the internal auditors and the independent auditors.

s/ Dan L. Smith	s/ Wayne R. Koebel
Dan L. Smith Chairman, President and Chief Executive Officer	Wayne R. Koebel Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

SHAREHOLDERS AND BOARD OF DIRECTORS
SHORELINE FINANCIAL CORPORATION
BENTON HARBOR, MICHIGAN

We have audited the accompanying consolidated balance sheets of SHORELINE FINANCIAL CORPORATION as of December 31, 1998 and 1997 and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years ended December 31, 1998, 1997 and 1996. 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 generally accepted auditing standards. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 SHORELINE FINANCIAL CORPORATION as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years ended December 31, 1998, 1997 and 1996 in conformity with generally accepted accounting principles.

s/ Crowe Chizek and Company LLP
Crowe Chizek and Company LLP

South Bend, Indiana
February 12, 1999

<TABLE>
SHORELINE FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
<CAPTION>

DECEMBER 31	1998	1997
<S>	<C>	<C>
ASSETS		
Cash and due from banks	$ 35,813,823	$ 29,961,993
Interest-earning deposits	20,300,564	6,344,447
Federal funds sold	15,775,000	8,675,000
Total cash and cash equivalents	71,889,387	44,981,440
Securities available for sale (carried at fair value)	190,735,213	125,534,904
Securities held to maturity (fair values of $26,180,495 and $39,572,300 in 1998 and 1997, respectively)	25,166,431	38,385,568
Loans, net of allowance for loan losses ($7,882,967-1998;$7,588,127-1997)	627,276,457	612,048,028
Premises and equipment, net	13,728,130	13,560,859
Intangible assets, net	14,928,455	11,901,520
Other assets	11,540,291	11,430,483
Total Assets	$955,264,364	$857,842,802
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest-bearing	$ 93,151,433	$ 78,971,373
Interest-bearing	702,690,404	643,692,981
Total deposits	795,841,837	722,664,354
Securities sold under agreements to repurchase	18,191,030	7,526,582
Federal Home Loan Bank (FHLB) Advances	49,478,214	45,175,892
Other liabilities	4,542,157	5,593,571
Total Liabilities	868,053,238	780,960,399

Shareholders' Equity		
Preferred stock, no par value; 1,000,000 shares authorized; none issued or outstanding	0	0
Common stock; no par value, 15,000,000 shares authorized in 1998 and 10,000,000 in 1997; 9,056,769 and 8,882,264 issued and Outstanding at December 31, 1998 and 1997, respectively	0	0
Additional paid-in capital	69,759,199	65,273,177
Unearned stock incentive plan shares	(903,119)	(495,095)
Unrealized gain on securities available for sale, net	1,717,608	1,604,270
Retained earnings	16,637,438	10,500,051
	------------	------------
Total Shareholders' Equity	87,211,126	76,882,403
	------------	------------
Total Liabilities and Shareholders' Equity	$955,264,364	$857,842,802
	============	============

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>
SHORELINE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
<CAPTION>

YEARS ENDED DECEMBER 31	1998	1997	1996
	-----------	-----------	-----------
<S>	<C>	<C>	<C>
INTEREST INCOME			
Loans, including fees	$53,933,701	$50,361,000	$43,646,323
Securities:			
Taxable	10,171,094	8,586,235	7,357,686
Tax-exempt	1,961,239	2,211,790	2,361,306
Federal funds sold	447,620	456,747	423,787
Deposits with banks	1,610,616	1,022,486	480,410
	-----------	-----------	-----------
Total interest income	68,124,270	62,638,258	54,269,512
	-----------	-----------	-----------
INTEREST EXPENSE			
Deposits	30,490,714	28,188,914	24,237,818
Short-term borrowings	599,503	327,422	216,501
FHLB advances	3,042,848	1,928,503	731,463

Total interest expense	34,133,065	30,444,839	25,185,782
NET INTEREST INCOME	33,991,205	32,193,419	29,083,730
Provision for loan losses	600,000	600,000	600,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	33,391,205	31,593,419	28,483,730
OTHER INCOME			
Service charges on deposit accounts	2,190,194	2,080,888	1,819,736
Trust fees	1,985,026	1,673,189	1,500,147
Net gain on security sales	64,913	171,373	190,717
Net gain/(loss) on loan sales	1,633,430	525,549	(20,618)
Other	1,776,754	1,262,033	857,037
Total other income	7,650,317	5,713,032	4,347,019
OTHER EXPENSES			
Salaries and employee benefits	12,371,335	11,509,005	10,650,227
Occupancy	1,613,138	1,458,661	1,328,968
Equipment	2,164,888	2,149,917	1,920,303
Insurance	345,242	293,045	572,090
Professional fees	1,485,430	1,454,412	1,006,897
Other taxes	683,093	619,819	540,738
Amortization of intangibles	899,346	548,736	265,782
Other	3,889,086	3,487,387	3,148,092
Total other expenses	23,451,558	21,520,982	19,433,097
INCOME BEFORE INCOME TAXES	17,589,964	15,785,469	13,397,652
FEDERAL INCOME TAX EXPENSE	5,476,250	4,774,200	3,792,223
NET INCOME	$12,113,714	$11,011,269	$ 9,605,429
BASIC EARNINGS PER SHARE	$ 1.35	$ 1.25	$ 1.10
DILUTED EARNINGS PER SHARE	$ 1.34	$ 1.24	$ 1.10

</TABLE>

See accompanying notes to consolidated financial statements

<TABLE>
SHORELINE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
<CAPTION>

YEARS ENDED DECEMBER 31	1998	1997	1996
<S>	<C>	<C>	<C>
NET INCOME	$12,113,714	$11,011,269	$ 9,605,429
Other comprehensive income:			
Unrealized gains/losses on securities arising During the year	106,811	170,965	(1,375,681)
Reclassification adjustment for accumulated Gains/losses included in net income	64,913	171,373	190,717
Tax effect	(58,386)	(116,395)	402,888
Other comprehensive income	113,338	225,943	(782,076)
COMPREHENSIVE INCOME	$12,227,052	$11,237,212	$ 8,823,353

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>
SHORELINE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
<CAPTION>

THREE YEARS ENDED DECEMBER 31, 1998	ADDITIONAL PAID-IN CAPITAL	UNEARNED STOCK INCENTIVE PLAN SHARES	NET UNREALIZED GAIN/(LOSS) ON SECURITIES AVAILABLE FOR SALE	RETAINED EARNINGS	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT JANUARY 1, 1996	$50,147,966	$ -	$2,160,403	$12,051,474	$64,359,843
Net income for year				9,605,429	9,605,429
Cash dividends declared:					
$0.50 per common share				(4,368,023)	(4,368,023)
5% stock dividend-fractional shares	5,629,933			(5,637,558)	(7,625)
Shares issued under dividend reinvestment plan	824,889				824,889
Shares issued under stock option plan	140,490				140,490
Change in unrealized gain on securities available for sale, net of tax effect			(782,076)		(782,076)
Common stock retired	(354,725)				(354,725)
BALANCE AT DECEMBER 31, 1996	56,388,553	0	1,378,327	11,651,322	69,418,202
Net income for year				11,011,269	11,011,269
Cash dividends declared: $0.57 per common share				(5,008,864)	(5,008,864)
5% stock dividend-fractional shares	7,144,743			(7,153,676)	(8,933)
Shares issued under dividend reinvestment plan	981,292				981,292
Shares issued under stock option plan	152,339				152,339
Shares awarded under stock incentive plan	606,250	(606,250)			0
Shares earned under stock incentive plan		111,155			111,155
Change in unrealized gain on securities available for sale, net of tax effect			225,943		225,943

BALANCE AT DECEMBER 31, 1997	65,273,177	(495,095)	1,604,270	10,500,051	76,882,403
Net income for year				12,113,714	12,113,714
Cash dividends declared:					
$0.66 per common share				(5,970,946)	(5,970,946)
Three-for-two stock split-fractional shares				(5,381)	(5,381)
Shares issued under dividend reinvestment plan	1,275,831				1,275,831
Shares issued under stock option plan	81,157				81,157
Shares awarded under stock incentive plan	570,000	(570,000)			-
Shares earned under stock incentive plan		161,976			161,976
Shares issued for The State Bank of Coloma	7,000,000				7,000,000
Change in unrealized gain on securities available for sale, net of tax effect			113,338		113,338
Common stock retired	(4,440,966)				(4,440,966)
BALANCE AT DECEMBER 31, 1998	$69,759,199	$(903,119)	$1,717,608	$16,637,438	$87,211,126

</TABLE>
See accompanying notes to consolidated financial statements

<TABLE>
SHORELINE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
<CAPTION>

YEARS ENDED DECEMBER 31	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
<S>	<C>	<C>	<C>
NET INCOME	$ 12,113,714	$11,011,269	$ 9,605,429
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	1,644,655	1,596,601	1,495,103
Provision for loan losses	600,000	600,000	600,000
Stock incentive expense	161,976	111,155	0
Net amortization and accretion on securities	345,296	229,778	534,548
Amortization of goodwill and related core deposit intangibles	899,346	548,736	265,782

(Gain)/loss on sales, calls and maturities of securities	(64,913)	(171,373)	(190,717)
Mortgage loans originated for sale	(121,254,675)	(39,750,896)	(17,241,221)
Proceeds from sale of mortgage loans	118,692,008	39,020,657	19,428,338
(Gain)/loss on sale of mortgage loans	(1,633,430)	(525,549)	26,895
Gains on sale of credit card and student loan portfolios	0	0	(6,277)
Increase in other assets	(165,022)	(919,753)	(222,147)
Increase in other liabilities	(1,320,911)	(871,018)	210,464
	------------	-----------	-----------
NET CASH FROM OPERATING ACTIVITIES	10,018,044	10,879,607	14,506,197
	------------	-----------	-----------
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net increase in loans	(1,561,314)	(5,524,670)	(37,664,188)
Proceeds from sale of credit card and student loan portfolios	0	0	424,687
Securities available for sale:			
Purchase	(104,117,621)	(46,455,854)	(20,049,790)
Proceeds from sales	3,241,013	17,796,416	9,843,773
Proceeds from maturities, calls and principal reductions	44,951,428	22,604,556	21,453,835
Securities held to maturity:			
Purchase	(4,954,285)	(4,276,335)	(13,682,208)
Proceeds from maturities, calls and principal reductions	18,128,284	13,433,846	10,404,637
Premises and equipment expenditures	(1,510,178)	(2,008,722)	(2,326,735)
Net cash (paid)/received in acquisitions	7,389,275	(20,436,447)	0
	------------	-----------	-----------
NET CASH FROM INVESTING ACTIVITIES	(38,433,398)	(24,867,210)	(31,595,989)
	------------	-----------	-----------
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	49,416,835	(4,555,726)	24,177,513
Net increase in securities sold under agreements to repurchase	10,664,448	360,019	2,475,745
Proceeds from FHLB advances	30,000,000	19,500,000	13,000,000
Repayment of FHLB advances	(25,697,678)	(14,009,754)	0
Dividends paid	(5,976,327)	(5,008,864)	(4,368,023)
Proceeds from shares issued	1,356,989	1,124,698	957,754
Payments to retire common stock	(4,440,966)	0	(354,725)
	------------	-----------	-----------
NET CASH FROM FINANCING ACTIVITIES	55,323,301	(2,589,627)	35,888,264
	------------	-----------	-----------
NET CHANGE IN CASH AND CASH EQUIVALENTS	26,907,947	(16,577,230)	18,798,472
Cash and cash equivalents at beginning of year	44,981,440	61,558,670	42,760,198
	------------	-----------	-----------
Cash and cash equivalents at end of year	$ 71,889,387	$44,981,440	$61,558,670
	============	===========	===========
CASH PAID DURING THE YEAR FOR:			
Interest	$ 34,051,885	$30,151,004	$25,174,339
Income taxes	$ 5,935,000	$ 4,677,000	$ 3,777,000

</TABLE>

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF ACCOUNTING POLICIES

The accounting and reporting policies and practices of Shoreline Financial Corporation and its subsidiaries conform with generally accepted accounting principles. Significant accounting and reporting policies employed in the preparation of these financial statements are described below.

NATURE OF BUSINESS AND INDUSTRY SEGMENTS
Shoreline Financial Corporation is a single bank holding company. Shoreline's business is concentrated in the commercial banking industry segment. Since the business of commercial and retail banking accounts for more than 90% of its revenues, operating income and assets, and internal financial information is primarily reported and aggregated along this line of business, no special segment reporting has been presented. Shoreline's subsidiary bank, Shoreline Bank, offers individuals, businesses, institutions and government agencies a full range of commercial banking services primarily in the southwestern Michigan communities in which the bank is located and in areas immediately surrounding these communities.

Shoreline Bank grants commercial, real estate and consumer loans to customers. The majority of these loans are secured by residential properties; however, other business and consumer assets are sometimes used to collateralize loans. Shoreline Bank has no foreign loans.

PRINCIPLES OF CONSOLIDATION
The accompanying consolidated financial statements include the accounts of Shoreline Financial Corporation and its wholly owned subsidiary, Shoreline Bank, together referred to as "Shoreline," after elimination of significant inter-company accounts and transactions.

USE OF ESTIMATES
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

SECURITIES
Shoreline designates an investment security as held to maturity or available for sale at the time of acquisition. The held to maturity classification includes securities, which are carried at amortized cost, that the company has the positive intent and ability to hold to maturity. These securities are written down to fair value only when a decline in fair value is considered not temporary. The available for sale classification includes securities which are carried at estimated fair value. Unrealized gains or losses on securities available for sale are reported in other comprehensive income and are included as a separate component of shareholders' equity, net of tax. Realized gains or losses on the sale of securities are recognized by the specific identification method and recorded in investment securities gains, net.

Securities included as trading account assets are held to benefit from short-term changes in market prices and carried at market value. Gains or losses on trading account activities, including market value adjustments, are reported as trading account profits/losses.

LOANS HELD FOR SALE
Loans originated with the intent to sell are carried at the lower of cost or estimated market in the aggregate. Net unrealized losses are provided for in a valuation allowance created through charges to operating income.

LOANS
Loans are reported at the principal balance outstanding, net of deferred loan fees and costs, the allowance for loan losses and charge-offs. Interest on loans is accrued over the term of the loans based on the principal amount outstanding and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt (typically when payments are past due 90 days or more) unless the loan is both well secured and in the process of collection. Payments received on such loans are reported as principal reductions.

Loan impairment is reported when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage and consumer loans and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is 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 the underlying collateral if repayment is expected solely from the collateral. Loans are evaluated for impairment when payments are delayed, 90 days or more, or when it is probable that all principal and interest amounts will not be collected according to the original terms of the loan.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is a valuation allowance for probable credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Estimating the risk of loss and the amount of loss on any loan is necessarily subjective. Accordingly, management estimates the allowance balance required based on past loan loss experience, known and inherent risks in the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other such factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. A problem loan is charged-off by management as a loss when it is deemed uncollectible, although collection efforts continue and future recoveries may occur.

MORTGAGE SERVICING RIGHTS

Servicing rights represent both purchased rights and the allocated value of servicing rights retained on loans sold. Servicing rights are amortized in proportion to, and over the period of, the estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates and then, secondarily, as to geographic and prepayment characteristics. Any impairment of a grouping is reported as a valuation allowance.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using a combination of straight-line and accelerated methods with useful lives ranging from 10 to 40 years for bank premises, and 3 to 10 years for furniture and equipment. These assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur. Major improvements are capitalized. The carrying values of Shoreline's long-lived assets are periodically evaluated for impairment. At December 31, 1998, no impairment write-downs were deemed necessary.

OTHER REAL ESTATE

Other real estate represents properties acquired in collection of a loan through foreclosure or acceptance of a deed in lieu of foreclosure. Other real estate owned is reported in other assets and is recorded at the lower of cost or estimated fair value less estimated costs to sell the property.

Any write-down of the loan balance to fair value when the property is acquired is charged to the allowance for possible loan losses. Subsequent market write-downs, operating expenses, and gains or losses on the sale of other real estate owned are charged or credited to other operating expense. Other real estate amounted to $356,000 and $387,000 at December 31, 1998 and 1997, respectively.

INTANGIBLES
Goodwill is the excess of the purchase price over identified net assets in business acquisitions and is amortized, using the straight-line method, over no more than 25 years. Core deposit intangibles, which represent the value of purchased depositor relationships, are amortized using an accelerated method over 10 years. Goodwill and core deposit intangibles are periodically assessed for impairment based on estimated undiscounted cash flows. Goodwill was $11,479,000 and $8,812,000, and core deposit intangibles were $3,449,000 and $3,089,000 at December 31, 1998 and 1997, respectively.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE
Securities sold under agreements to repurchase represent amounts advanced by customers, and are secured by securities owned, as they are not covered by federal deposit insurance.

EMPLOYEE BENEFITS
Shoreline has a noncontributory pension plan covering substantially all of its employees. It funds the plan based on annual actuarial computations. Expense for this plan is reported by spreading the expected contributions to the plan less long-term earnings on plan assets over the employees' service period. In addition, Shoreline has a profit sharing plan and 401(k) salary reduction plan for which contributions are made and expensed annually. Also, Shoreline has a post-retirement health care plan that covers both salaried and nonsalaried employees. Retiree contributions approximate the premium expense determined exclusively on the loss experience of the retirees in the plan.

Expense for employee compensation under stock option plans is reported only if options are granted below market price on the grant date. Additional stock option information is presented in Note 12, Employee Benefits.

INCOME TAXES
Income tax expense is based on the asset and liability method. Shoreline records income tax expense based on the amount of taxes due on its tax return plus deferred taxes computed based on the expected future tax consequences of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

STATEMENT OF CASH FLOWS
For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, demand deposits and interest-earning deposits in other institutions, and federal funds sold with a maturity of 90 days or less. Net cash flows are reported for customer loan and deposit transactions and securities sold under agreements to repurchase.

COMPREHENSIVE INCOME
Comprehensive income consists of net income and unrealized gains and losses on securities available for sale, which are also recognized as a separate component of equity. The accounting standard that requires reporting comprehensive income first applies for 1998, with prior information restated for comparability.

RECLASSIFICATIONS
Some items in prior financial statements have been reclassified to conform to the current presentation.

NOTE 2. ACQUISITIONS

In June 1997, Shoreline completed the acquisition of SJS Bancorp, Inc. and its principal subsidiary, St Joseph Savings and Loan, located in St. Joseph, Michigan for approximately $24.8 million in cash. The excess of the purchase price over the fair value of the net assets acquired was $10.6 million.

The following pro-forma information assumes SJS Bancorp, Inc. had been acquired at the start of 1997 or the start of 1996 (dollars in thousands, except per share data):

	1997	1996
Interest income	$33,569	$32,570
Net income	9,667	9,018
Basic earnings per share	1.10	1.04
Diluted earnings per share	1.09	1.03

NOTE 3. RESTRICTIONS ON CASH AND DUE FROM BANKS

A summary of Shoreline's subsidiary bank's legal reserve requirements established by the Federal Reserve System follows:

DECEMBER 31	1998	1997
Portion of requirement satisfied by non-interest earning vault cash	$ 9,322,000	$ 8,336,000
Additional balances maintained with the Federal Reserve	7,303,000	4,447,000
Total reserve requirements	$16,625,000	$12,783,000

NOTE 4. SECURITIES

The amortized cost and fair value of securities follows:

<TABLE>
<CAPTION>

<S>	AMORTIZED COST <C>	GROSS UNREALIZED GAINS <C>	GROSS UNREALIZED LOSSES <C>	FAIR VALUE <C>
AVAILABLE FOR SALE AT DECEMBER 31, 1998				
U.S. Treasury and agencies	$ 66,043,106	$ 736,759	$ (63,707)	$ 66,716,158
States and political subdivisions	24,732,778	1,756,116	0	26,488,894
Mortgage-backed:				
U.S. Government agencies	91,475,805	533,847	(351,328)	91,658,324
Collateralized mortgage obligations	1,021,386	0	(11,386)	1,010,000
Other	4,859,700	2,137	0	4,861,837
Total	$188,132,775	$3,028,859	$(426,421)	$190,735,213
HELD TO MATURITY AT DECEMBER 31, 1998				
U.S. Treasury and agencies	$2,000,000	$ 19,469	$ 0	$ 2,019,469
States and political subdivisions	6,472,474	636,257	0	7,108,731
Mortgage-backed:				
U.S. Government agencies	16,430,955	358,999	(1,654)	16,788,300
Collateralized mortgage obligations	263,002	993	0	263,995
Total	$ 25,166,431	$1,015,718	$ (1,654)	$ 26,180,495

</TABLE>

<TABLE>
<CAPTION>

<S>	AMORTIZED COST <C>	GROSS UNREALIZED GAINS <C>	GROSS UNREALIZED LOSSES <C>	FAIR VALUE <C>
AVAILABLE FOR SALE AT DECEMBER 31, 1997				
U.S. Treasury and agencies	$ 55,232,215	$ 588,349	$ (19,119)	$ 55,801,445
States and political subdivisions	26,148,844	1,561,700	(194)	27,710,350
Mortgage-backed:				
U.S. Government agencies	37,336,123	448,188	(148,312)	37,635,999
Collateralized mortgage obligations	27,308	102	0	27,410
Other	4,359,700	0	0	4,359,700
Total	$123,104,190	$2,598,339	$(167,625)	$125,534,904
HELD TO MATURITY AT DECEMBER 31, 1997				
U.S. Treasury and agencies	$ 13,998,757	$ 101,599	$ (3,488)	$ 14,096,868
States and political subdivisions	6,882,781	606,992	(136)	7,489,637
Mortgage-backed:				
U.S. Government agencies	16,939,025	469,236	(688)	17,407,573
Collateralized mortgage obligations	565,005	13,217	0	578,222
Total	$38,385,568	$1,191,044	$ (4,312)	$ 39,572,300

</TABLE>

Information regarding the amortized cost and fair value of securities by contractual maturity at December 31, 1998 is presented below. Maturity information is based on contractual maturity for all securities other than mortgage-backed securities. Actual maturities of mortgage-backed securities may differ from contractual maturities because the borrowers have the right to prepay the underlying obligation without prepayment penalty.

<TABLE>
<CAPTION>

	AVAILABLE FOR SALE DECEMBER 31,1998		HELD TO MATURITY DECEMBER 31,1998	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Due in one year or less	$ 12,076,561	$ 12,281,319	$ 250,000	$ 255,967
Due after one year through five years	34,866,335	35,642,188	1,907,639	2,016,514
Due after five years through ten years	39,442,466	40,521,796	5,105,603	5,482,284
Due after ten years	9,239,512	9,610,875	1,209,232	1,373,434
Subtotal	95,624,874	98,056,178	8,472,474	9,128,199
Mortgage-backed	92,507,901	92,679,035	16,693,957	17,052,296
Total	$188,132,775	$190,735,213	$25,166,431	$26,180,495

</TABLE>

Proceeds, gross gains and gross losses from sales and calls of securities follows:

<TABLE>
<CAPTION>

YEARS ENDED DECEMBER 31	1998	1997	1996
<S>	<C>	<C>	<C>
AVAILABLE FOR SALE			
Proceeds from sales	$3,241,013	$17,796,416	$9,843,773
Gross gains from sales	$ 34,660	$ 169,290	$ 156,041
Gross losses from sales	0	(39,985)	(22,468)
Net gains/(losses) from sales	34,660	129,305	133,573
Net gains from calls	27,050	27,518	38,379
Net gain/(loss)	$ 61,710	$ 156,823	$ 171,952
HELD TO MATURITY			
Net gains from calls/maturities	$ 3,203	$ 14,550	$ 18,765

</TABLE>

Securities having an amortized cost of $35,952,000 at December 31, 1998 were pledged to secure public trust deposits and securities sold under agreements to repurchase.

NOTE 5. LOANS

The composition of the loan portfolio follows:

DECEMBER 31	1998	1997
Commercial, financial and agricultural	$264,806,716	$230,338,334
Residential real estate	247,454,303	273,240,696
Real estate construction	18,168,965	14,764,756
Consumer	104,729,440	101,292,369
Total loans	635,159,424	619,636,155
Allowance for loan losses	(7,882,967)	(7,588,127)
Net loans	$627,276,457	$612,048,028

Loans held for sale at year-end 1998 and 1997 were approximately $5,624,000 and $1,653,000.

Certain directors, executive officers and principal shareholders of Shoreline, including associates of such persons, were loan customers of Shoreline Bank during 1998. A summary of aggregate related party loan activity, for loans aggregating $60,000 or more to any one related party, is as follows for the year ended December 31:

DECEMBER 31	1998	1997
Balance at January 1	$ 6,913,000	$10,644,000
New loans	9,884,000	7,224,000
Repayments	(10,220,000)	(6,551,000)
Other changes, net	(59,000)	(4,404,000)
Balance at December 31	$ 6,518,000	$ 6,913,000

NOTE 6. ALLOWANCE FOR LOAN LOSSES

A summary of the activity in the allowance for loan losses follows:

	1998	1997	1996
Balance, at beginning of year	$7,588,127	$6,894,945	$6,600,119

Additions from acquisitions	188,900	540,595	0
Provision charged to operating expense	600,000	600,000	600,000
	8,377,027	8,035,540	7,200,119
Loan charge-offs	(789,626)	(957,926)	(593,350)
Loan recoveries	295,566	510,513	288,176
Net loan charge-offs	(494,060)	(447,413)	(305,174)
Balance, at end of year	$7,882,967	$7,588,127	$6,894,945

</TABLE>
Impaired loans were as follows:
<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Year-end loans with allowance for loan losses allocated	$210,471	$706,362
Year-end loans with no allowance for loan losses allocated	0	0
Total impaired loans	$210,471	$706,362
Amount of the allowance allocated	$105,236	$228,454
Average of impaired loans during the year	$672,711	$902,255
Interest income recognized during impairment	$ 13,507	$ 87,085
Cash-basis interest income recognized	$ 14,272	$ 81,566

</TABLE>

Loans with carrying values of approximately $459,300 and $653,200 were transferred to foreclosed real estate in 1998 and 1997.

NOTE 7. SECONDARY MORTGAGE MARKET ACTIVITIES

Loans serviced for others, which are not reported as assets, totaled $107,954,000 and $106,609,000 at year end 1998 and 1997.

Activity for capitalized mortgage servicing rights and the related valuation allowance was as follows.
<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Servicing Rights:			
Beginning of year	$773,341	$126,807	$ -
Additions from acquisitions	0	482,679	0
Additions	277,468	224,191	126,807
Amortized to expense	(174,220)	(60,336)	0
End of year	$876,589	$773,341	$126,807

</TABLE>
A valuation allowance for mortgage servicing rights was not considered necessary for 1998, 1997 and 1996.

NOTE 8. PREMISES AND EQUIPMENT

A summary of premises and equipment follows:
<TABLE>
<CAPTION>

DECEMBER 31	1998	1997
<S>	<C>	<C>

Land	$ 1,484,143	$ 1,450,179
Building and improvements	13,422,475	13,433,856
Furniture and equipment	14,874,647	13,823,178
	29,781,265	28,707,213
Accumulated depreciation and amortization	(16,053,135)	(15,146,354)
Net premises and equipment	$13,728,130	$13,560,859

</TABLE>

Depreciation and amortization expense charged to operations was $1,644,655, $1,596,601 and $1,495,103 in 1998, 1997 and 1996, respectively.

NOTE 9. DEPOSITS

Time deposit accounts individually exceeding $100,000 approximated $106,170,000 and $99,719,000 at year-end 1998 and 1997.

At year-end 1998, stated maturities of time deposits for the next five years and thereafter is as follows:

<TABLE>
<CAPTION>

<S>	<C>	<C>
	1999	$251,419,230
	2000	46,265,744
	2001	20,215,056
	2002	12,775,258
	2003	37,247,756
	Thereafter	157,656
		$368,080,700

</TABLE>

Brokered deposits totaled approximately $6,575,700 and $20,900,000 at year-end 1998 and 1997. At year-end 1998, brokered deposits had interest rates ranging from 4.5% to 6.5% and maturities ranging from five days to 36 months.

Related party deposits totaled approximately $6,616,500 and $6,449,000 at year-end 1998 and 1997.

NOTE 10. OTHER BORROWINGS

REPURCHASE AGREEMENTS AND OTHER SHORT TERM BORROWINGS
Federal funds purchased, securities sold under agreements to repurchase, and treasury tax and loan deposits are financing arrangements. Shoreline's primary use of these types of financing arrangements has been limited to securities sold under agreements to repurchase, which are all one-day retail repurchase agreements. Shoreline retains custody of the securities pledged. Summarized information concerning securities sold under agreements to repurchase follows:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Average daily balance during the year	$14,219,500	$7,673,700
Average interest rate during the year	4.21%	4.27%
Maximum month-end balance during the year	$18,191,000	$8,883,840

</TABLE>

Securities underlying these agreements at year-end follow:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Carrying value	$23,717,775	$15,992,700
Fair value	$24,075,104	$16,171,300

</TABLE>

FEDERAL HOME LOAN BANK (FHLB) ADVANCES
At December 31, 1998 and 1997, Shoreline had advances from the FHLB of Indianapolis as follows:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
FIXED RATE		
5.23%, due January 1998	$ -	$ 1,000,000
5.88%, due February 1998	0	750,000
5.97%, due March 1998	0	5,000,000
6.07%, due June 1998	0	1,000,000
6.28%, due August 1998	0	500,000
5.05%, due September 1998	0	5,000,000
6.05%, due October 1998	0	1,500,000
5.87%, due November 1998	0	2,000,000
5.45%, due November 1998	0	500,000
5.44%, due December 1998	0	1,000,000
5.26%, due February 1999	3,000,000	3,000,000
6.23%, due June 2000	1,000,000	1,000,000
6.61%, due August 2000	995,208	1,146,995
6.33%, due September 2000	1,345,830	1,548,659
6.35%, due October 2000	1,809,551	2,033,021
5.77%, due January 2001	827,625	947,217
	8,978,214	27,925,892
CONVERTIBLE FIXED RATE		
5.57%, due August 2000	2,500,000	2,500,000
5.21%, due January 2001	2,000,000	0
5.82%, due September 2002	5,000,000	5,000,000
5.68%, due September 2002	3,000,000	3,000,000
5.42%, due January 2003	3,000,000	0
5.53%, due January 2008	5,000,000	0
4.88%, due February 2008	5,000,000	0
5.33%, due March 2008	5,000,000	0
4.99%, due July 2008	5,000,000	0
4.99%, due December 2008	5,000,000	0
	40,500,000	10,500,000

VARIABLE RATE		
5.56%, due March 1997	0	0
5.50%, due November 1997	0	0
5.85%, due March 1998	0	1,000,000
5.91%, due March 1998	0	450,000
5.88%, due March 1998	0	4,800,000
5.74%, due April 1998	0	500,000
	0	6,750,000
Total	$49,478,214	$45,175,892

</TABLE>

Interest on the advances is payable monthly. The convertible fixed rate advance due August 2000 was subject to conversion by the FHLB to a variable rate advance in August 1998 or quarterly thereafter. Various convertible fixed rate advances due January 2001 through July 2008 are subject to conversion by the FHLB to variable rate advances beginning in January 1999 or quarterly thereafter. If converted, these convertible fixed rate advances will carry an interest rate equal to the three month London Interbank Offered Rate (LIBOR) and adjust quarterly. The variable rate advances carry an interest rate equal to the three month LIBOR rate less 3 basis points and adjust quarterly. Several of the advances are subject to various prepayment penalties as disclosed in the agreements with the FHLB.

The FHLB advances are collateralized by a blanket lien on qualified 1-to-4 family whole mortgage loans and U.S. Government agency mortgage-backed securities with a combined approximate carrying value of $382 million at December 31, 1998.

At year-end 1998, scheduled principal reductions on these advances are as follows:

<TABLE>
<CAPTION>

<S>	<C>	<C>
	1999	$ 3,000,000
	2000	7,650,589
	2001	2,827,625
	2002	8,000,000
	2003 and thereafter	28,000,000
		$49,478,214

</TABLE>

NOTE 11. INCOME TAXES

Components of the provision for federal taxes on income are as follows:

<TABLE>
<CAPTION>

YEARS ENDED DECEMBER 31	1998	1997	1996
<S>	<C>	<C>	<C>
Taxes currently payable	$5,560,127	$4,609,241	$3,524,196
Deferred tax expense/(benefit)	(83,877)	164,959	268,027
Total	$5,476,250	$4,774,200	$3,792,223

</TABLE>

Taxes allocated to securities transactions were $22,070 in 1998, $58,267 in 1997 and $64,844 in 1996.

The difference between the provision in these financial statements and amounts computed by applying the statutory federal income tax rate to pre-tax income is as follows:

<TABLE>
<CAPTION>

YEARS ENDED DECEMBER 31	1998	1997	1996

Statutory federal tax rate	34%	34%	34%
Income computed at the statutory federal tax rate	$5,980,588	$5,367,059	$4,555,202
Add(subtract) tax effect of:			
Tax-exempt securities income	(657,635)	(686,323)	(728,495)
Tax-exempt loan income	(123,717)	(162,077)	(189,082)
Non-deductible interest expense	99,517	88,759	88,757
Goodwill amortization	176,383	89,713	13,536
Other	1,114	77,069	52,305
Total	$5,476,250	$4,774,200	$3,792,223

The components of the net deferred tax asset recorded in the balance sheet are as follows:

DECEMBER 31	1998	1997
Deferred tax assets		
Provision for loan losses	$2,466,871	$2,401,029
Net deferred loan fees	142,943	114,500
Deferred compensation	286,448	286,158
Mark-to-market adjustment for securities held for sale	860,449	832,961
Other	272,796	227,314
Total deferred tax assets	4,029,507	3,861,962
Deferred tax liabilities		
Accretion of bond discount	(90,888)	(98,130)
Depreciation	(270,351)	(241,314)
Pension	(86,323)	(129,334)
Net unrealized gains on securities available for sale	(884,828)	(826,444)
Purchase accounting adjustments	(746,500)	(347,241)
Mortgage servicing rights	(169,094)	(110,547)
Total deferred tax liabilities	(2,247,984)	(1,753,010)
Valuation allowance	0	0
Net deferred tax asset	$1,781,523	$2,108,952

NOTE 12. EMPLOYEE BENEFITS

PENSION PLAN

Shoreline has a defined benefit, noncontributory pension plan that provides retirement benefits for essentially all employees. In addition, Shoreline has a supplemental deferred compensation plan for certain former Citizens Trust and Savings Bank employees and a supplemental executive retirement plan for certain executive officers of Shoreline Bank. The following sets forth, on a combined basis, the plans' funded status and amounts recognized in the financial statements.

DECEMBER 31	1998	1997
CHANGE IN BENEFIT OBLIGATION:		
Benefit obligation at beginning of year	$5,164,959	$5,006,090
Service cost	326,811	258,334

Interest cost	386,267	374,393
Actuarial loss/(gain)	17,344	0
Benefits paid	(253,204)	(491,664)
Benefit obligation at end of year	$5,642,177	$5,147,153
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year	$5,293,488	$4,425,345
Actual return on plan assets	993,647	956,302
Employer contributions	72,712	403,505
Benefits paid	(253,204)	(491,664)
Fair value of plan assets at end of year	$6,106,643	$5,293,488
NET AMOUNT RECOGNIZED:		
Funded status	$464,466	$146,335
Unrecognized prior service cost	(57,889)	(54,544)
Unrecognized transition asset	(71,273)	(73,307)
Unrecognized net actuarial loss/(gain)	(448,643)	107,836
Prepaid (accrued) benefit cost	($113,339)	$126,320

WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31:		
Discount rate	7.5%	7.5%
Expected return on plan assets	8.0%	8.0%
Rate of compensation increase	4.5%	4.5%
COMPONENTS OF NET PERIODIC BENEFIT COST:		
Service cost	$326,811	$258,334
Interest cost	386,267	374,393
Expected return on plan assets	(426,510)	(358,473)
Amortization of prior service cost	8,558	8,558
Amortization of transition (asset)/obligation	(7,247)	(7,247)
Recognized net actuarial loss/(gain)	24,492	22,406
Net periodic benefit cost	$312,371	$297,971

</TABLE>

The net periodic pension benefit cost for 1996 was $313,054.

STOCK OPTION PLAN

A stock option plan exists under which options may be issued at market prices to employees. The right to exercise the options vests over a four year period, with 20% vesting on the date of the grant and 20% vesting each year after. The options outstanding at December 31, 1998 are as follows:

<TABLE>
<CAPTION>

ISSUE DATE	EXPIRATION DATE	PRICE PER SHARE	NUMBER OF OPTIONS OUTSTANDING
<S>	<C>	<C>	<C>
December 1, 1990	December 1, 2000	$ 4.88	16,164
January 1, 1994	January 1, 2004	$11.04	10,999
November 22, 1996	November 22, 2006	$13.17	37,400
August 12, 1998	August 12, 2008	$26.75	1,500
			66,063

</TABLE>

The weighted-average remaining contractual life of options outstanding at December 31, 1998 was six years. The following pro forma information presents net income and earnings per share had the fair value method been used to measure compensation cost for stock option plans. The exercise price of options granted is equivalent to the market value of underlying stock at the grant date. Accordingly, compensation cost actually recognized for stock options was $0 for 1998, 1997 and 1996.

<TABLE>
<CAPTION>

	1998	1997	1996
Net income as reported	$12,113,714	$11,011,269	$9,605,429
Pro forma net income	$12,056,505	$10,903,560	$9,542,225
Basic earnings per share as reported	$1.35	$1.25	$1.10
Pro forma basic earnings per share	$1.34	$1.24	$1.10
Diluted earnings per share as reported	$1.34	$1.24	$1.10
Pro forma diluted earnings per share	$1.33	$1.23	$1.09

</TABLE>

No options were granted during 1997. The weighted-average fair values of options granted in 1998 and 1996 were $8.86 and $5.95. The fair value of options granted during 1998 and 1996 was estimated using the following weighted-average information: risk-free interest rates of 5.42% and 6.51%, expected lives of 8 years, expected quarterly volatilities of stock price of 30.0% and 53.6%, and expected dividends of 2.6% and 3.5% per year. In future years, the pro forma effect of applying this standard is expected to increase as additional options are granted.

The following is a summary of the option transactions for the period January 1, 1996 through December 31, 1998:

<TABLE>
<CAPTION>

	AVAILABLE FOR GRANT	OPTIONS OUTSTANDING	WEIGHTED-AVERAGE EXERCISE PRICE
Balance at January 1, 1996	53,338	141,331	$5.53
Options issued	(45,262)	45,262	13.17
Options exercised	0	(31,843)	4.88
Balance at December 31, 1996	8,076	154,750	7.91
Options exercised	0	(45,263)	5.36
Balance at December 31, 1997	8,076	109,487	8.96
Options issued	(1,500)	1,500	26.75
Options exercised	0	(43,034)	6.10
Options forfeited	1,890	(1,890)	13.17

Balance at December 31, 1998	8,466	66,063	$11.10

</TABLE>
Options exercisable at year-end are as follows:

<TABLE>
<CAPTION>

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
1996	113,034	$6.07
1997	79,613	$7.44
1998	46,578	$9.89

</TABLE>

OTHER EMPLOYEE BENEFIT PLANS

Shoreline maintains a profit-sharing plan for qualified employees with at least two years of service. Contributions to the profit sharing plan are determined at the discretion of the Board of Directors and equaled 3% of profits before federal income taxes and securities gains or losses in 1998, 1997, and 1996. Under this plan, $542,102, $482,942 and $409,633 was expensed in 1998, 1997, and 1996, respectively.

Participants in Shoreline's 401(k) salary reduction plan may make deferrals up to 15% of compensation. Shoreline matches 50% of elective deferrals on the first 4% of the participants' compensation. Expense under this plan was $156,851, $145,919 and $111,050 in 1998, 1997 and 1996, respectively.

A stock incentive plan is maintained for key members of management. In January of 1997, 39,375 shares were awarded under the restricted stock provisions of the plan. The shares were awarded at the market price of Shoreline's stock on the date of award and vest in accordance with Shoreline's achievement of predetermined performance measures, as approved by the Board. Shares are earned and compensation expense is recorded over the expected vesting period of the awards. During 1998 and 1997, 9,231 and 7,220 shares were earned under the plan, resulting in compensation expense of $161,976 and $115,155, respectively. All shares have been restated for stock dividends and stock splits.

NOTE 13. EARNINGS PER SHARE

The accounting standard for computing earnings per share was revised for 1997. As a result of this change, all previously reported earnings per share information has been restated. A reconciliation of the numerators and denominators of the basic earnings per share and diluted earnings per share computations is presented below:

On December 31, 1998 and 1997, there were 9,056,769 and 8,882,264 common shares outstanding, respectively. For the same dates a maximum of 15,000,000 and 10,000,000 shares of no par value common stock was authorized.

On February 17, 1998, the Board of Directors declared a three for two stock split, effected as a 50% stock dividend, effective April 3, 1998, to shareholders of record on March 31, 1998. Additionally, during 1997 and 1996 a 5% stock dividend was declared and paid. Dividends per share were restated for these events.

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Basic earnings per share:			
Net income available to common shareholders	$12,113,714	$11,011,269	$9,605,429
Weighted average common shares outstanding	9,023,302	8,835,564	8,701,094
Less: Non-vested stock incentive plan shares	(41,924)	(32,155)	0
Weighted-average common shares outstanding For basic earnings per share	8,981,378	8,803,409	8,701,094
Basic earnings per share	$1.35	$1.25	$1.10
Diluted earnings per share:			
Net income available to common shareholders	$12,113,714	$11,011,269	$9,605,429
Weighted-average common shares outstanding for basic earnings per share	8,981,378	8,803,409	8,701,094
For basic earnings per share			
Add: Dilutive effect of assumed exercise of stock options	40,032	58,374	61,527
Add: Dilutive effect of non-vested stock Incentive plan shares	11,028	6,351	0

Weighted-average common and potentially Dilutive common shares outstanding	9,032,438	8,868,134	8,762,621
Diluted earnings per share	$1.34	$1.24	$1.10

</TABLE>

NOTE 14. COMMITMENTS, OFF-BALANCE-SHEET RISK AND CONTINGENCIES

There are various contingent liabilities that are not reflected in the financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on Shoreline's financial condition or results of operations.

Shoreline is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet financing needs of its customers. These financial instruments include commitments to make loans, unused lines of credit and standby letters of credit. Shoreline's exposure to credit loss in the event of non-performance by the other party to financial instruments for commitments to make loans, unused lines of credit and standby letters of credit is represented by the contractual amount of those instruments. Shoreline follows the same credit policy to make such commitments as it uses for on-balance-sheet items. Since many commitments to make loans expire without being used, the amount of commitments shown below do not necessarily represents future cash commitments. No losses are anticipated as a result of these transactions. Collateral obtained upon exercise of commitments is determined using management's credit evaluation of the borrowers and may include real estate, business assets, deposits and other items.

Shoreline has the following commitments outstanding:

<TABLE>
<CAPTION>

DECEMBER 31	1998	1997
<S>	<C>	<C>
Unfunded loan commitments	$ 33,394,000	$ 33,110,000
Unused lines of credit	98,759,000	74,633,000
Standby letters of credit	9,456,000	7,799,000
Total	$145,609,000	$115,542,000

</TABLE>

Fixed rate loan commitments have interest rates ranging from 6.00% to 8.75% and terms ranging from 6 months to 30 years.

NOTE 15. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table shows the estimated fair value and the related carrying amount of the Shoreline's financial instruments at December 31, 1998 and 1997. Items that are not financial instruments are not included.

<TABLE>
<CAPTION>

	1998		1997	
DECEMBER 31	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Cash and cash equivalents	$71,889,387	$71,889,000	$44,981,440	$44,981,000
Securities available for sale	190,735,213	190,735,000	125,534,904	125,535,000
Securities held to maturity	25,166,431	26,180,000	38,385,568	39,572,000

Loans, net of allowance for loan losses	627,276,457	634,368,000	612,048,028	614,277,000
Demand and savings deposits	(427,761,137)	(427,761,000)	(355,574,075)	(355,574,000)
Time deposits	(368,080,700)	(372,784,000)	(367,090,279)	(369,041,000)
Securities sold under agreements to repurchase	(18,191,030)	(18,191,000)	(7,526,582)	(7,527,000)
FHLB advances	(49,478,214)	(49,442,000)	(45,175,892)	(45,033,000)

</TABLE>

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 1998 and 1997. The estimated fair value for cash and cash equivalents is considered to approximate cost. The estimated fair value for securities held to maturity and securities available for sale is based on quoted market values for the individual securities or for equivalent securities. The estimated fair value for commercial loans is based on estimates of the difference in interest rates Shoreline would charge the borrowers for similar loans with similar maturities made at December 31, 1998 and 1997, applied for an estimated time period until the loan is assumed to reprice or be paid. The estimated fair value for other loans is based on estimates of the rate Shoreline would charge for similar loans at December 31, 1998 and 1997, applied for the time period until estimated repayment. The estimated fair value for demand, savings deposits and securities sold under agreements to repurchase is based on their carrying value. The estimated fair value for time deposits and long-term debt is based on estimates of the rate that Shoreline would pay on such deposits or borrowings at December 31, 1998 and 1997, applied for the time period until maturity. The estimated fair value for other financial instruments and off-balance-sheet loan commitments approximate cost and are not considered significant to this presentation.

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that if Shoreline had disposed of such items at December 31, 1998, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at December 31, 1998 should not necessarily be considered to apply at subsequent dates.

In addition, other assets and liabilities of Shoreline that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. Also, non-financial instruments typically not recognized in financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the earnings potential of loan servicing rights, the earnings potential of Shoreline's subsidiary bank's trust department, the trained work force, customer goodwill and similar items.

NOTE 16. REGULATORY MATTERS

Shoreline Financial Corporation and Shoreline Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly under capitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required.

Shoreline Bank capital levels approximate the consolidated capital levels of Shoreline Financial Corporation. At year end, consolidated actual capital levels (in millions) and minimum required levels were:

1998	ACTUAL AMOUNT	ACTUAL RATIO	MINIMUM REQUIRED FOR CAPITAL ADEQUACY PURPOSES AMOUNT	MINIMUM REQUIRED FOR CAPITAL ADEQUACY PURPOSES RATIO	MINIMUM REQUIRED TO BE WELL CAPITALIZED AMOUNT	MINIMUM REQUIRED TO BE WELL CAPITALIZED RATIO
Total capital to risk assets	$77.6	13.5%	$45.9	8.0%	$57.4	10.0%
Tier 1 capital to risk assets	70.5	12.3%	23.0	4.0%	34.4	6.0%
Tier 1 capital to average assets	70.5	7.6%	37.2	4.0%	46.5	5.0%
1997						
Total capital to risk assets	$70.0	13.1%	$42.7	8.0%	$53.4	10.0%
Tier 1 capital to risk assets	63.3	11.9%	21.4	4.0%	32.1	6.0%
Tier 1 capital to average assets	63.3	8.0%	31.8	4.0%	39.7	5.0%

At year-end 1998, Shoreline was categorized as well capitalized.

NOTE 17. CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

The condensed financial information of the parent company, Shoreline Financial Corporation, is summarized below.

CONDENSED BALANCE SHEETS

DECEMBER 31	1998	1997
ASSETS		
Cash	$ 1,833,667	$ 1,144,727
Investment in subsidiary	85,351,303	75,808,453
Other assets	87,148	0
Total Assets	$87,272,118	$76,953,180
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities	$ 60,991	$ 70,777
Shareholders' equity	87,211,127	76,882,403

Total Liabilities and Shareholders' Equity	$87,272,118	$76,953,180

</TABLE>

<TABLE>
CONDENSED STATEMENTS OF INCOME
<CAPTION>

YEARS ENDED DECEMBER 31	1998	1997	1996
<S>	<C>	<C>	<C>
INCOME			
Dividends from subsidiary - cash	$ 9,953,587	$ 4,461,491	$3,817,098
EXPENSE			
Total expense	403,004	414,416	317,498
Income before income tax and undistributed Subsidiary income	9,550,583	4,047,075	3,499,600
Income tax benefit	132,750	132,500	97,000
Equity in undistributed net income of subsidiary	2,430,381	6,831,694	6,008,829
NET INCOME	$12,113,714	$11,011,269	$9,605,429

</TABLE>

<TABLE>
CONDENSED STATEMENTS OF CASH FLOWS
<CAPTION>

YEARS ENDED DECEMBER 31	1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net Income	$12,113,714	$11,011,269	$9,605,429
Adjustments:			
Equity in undistributed income of subsidiary	(2,430,381)	(6,831,694)	(6,008,829)
Other	65,911	315,581	(97,805)
Total adjustments	(2,364,465)	(6,516,113)	(6,106,634)
Net cash from operating activities	9,749,244	4,495,156	3,498,795
Cash flows from financing activities:			
Dividends paid	(5,976,327)	(5,008,864)	(4,368,023)
Proceeds from shares issued	1,356,989	1,124,698	957,754
Payments to retire common stock	(4,440,966)	0	(354,725)
Net cash from financing activities	(9,060,304)	(3,884,166)	(3,764,994)
Net change in cash and cash equivalents	688,940	610,990	(266,199)
Cash and cash equivalents at beginning of year	1,144,727	533,737	799,936
Cash and cash equivalents at end of year	$ 1,833,667	$ 1,144,727	$ 533,737

</TABLE>

Shoreline Financial Corporation's primary source of revenue is its wholly owned subsidiary, Shoreline Bank. The payment of dividends by Shoreline Bank is restricted to net profits, as defined by the Michigan Banking Code, then on hand after deducting losses and bad debts, as also defined by the Michigan Banking Code. Accordingly, in 1999, the subsidiary bank may distribute to Shoreline, in addition to 1999 net profits, approximately $36.6 million in dividends without prior approval from bank regulatory agencies.

NOTE 18. IMPACT OF NEW ACCOUNTING STANDARDS

Effective for fiscal periods (both years and quarters) beginning after June 15, 1999 Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" establishes accounting and reporting standards for derivative instruments, including derivative instruments that are embedded in other contracts, and hedging activities, by standardizing the accounting for derivative instruments, including those imbedded in other contracts, and by requiring the recognition of all derivatives (both assets and liabilities) in the statement of financial position at fair value. The adoption of SFAS No. 133 is not expected to have an impact of Shoreline's financial position or results of operations as the company does not at this time engage in the type of activities covered by the Statement.

Statement of Financial Accounting Standards No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise" amends Statement of Financial Accounting Standard No. 65, "Accounting for Certain Mortgage Banking Activities" and requires that after the securitization of a mortgage loan held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage backed security as a trading security. This Statement further amends SFAS No. 65 to require that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage backed securities or other retained interests based on its ability and intent to sell or hold those investments. This Statement conforms the subsequent accounting for securities retained after the securitization of mortgage loans by a mortgage banking entity with the subsequent accounting for securities retained after the securitization of other types of assets by nonmortgage banking enterprises. This means that such securities can be classified as held to maturity if they conform to the requirements of SFAS No. 115. The Statement is effective for the first fiscal quarter beginning after December 15, 1998. The adoption of SFAS No. 134 is not expected to have a material impact on the results of operations or financial condition of the company.

<TABLE>
SUPPLEMENTARY QUARTERLY FINANCIAL AND COMMON STOCK DATA
<CAPTION>
$ in Thousands,
Except per share data

1998	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
<S>	<C>	<C>	<C>	<C>
Interest income	$16,676	$16,892	$17,270	$17,286
Net interest income	8,212	8,376	8,608	8,795
Provision for loan losses	150	150	150	150
Income before income taxes	4,337	4,394	4,403	4,456
Net income	3,032	3,016	3,010	3,056
Basic earnings per share	$ 0.34	$ 0.34	$ 0.33	$ 0.34
Diluted earnings per share	$ 0.34	$ 0.34	$ 0.33	$ 0.33
Market Price of Common Stock<F1>:				
High	$ 29.83	$ 34.50	$ 31.12	$ 29.38
Low	$ 23.33	$ 28.50	$ 24.50	$ 25.38

</TABLE>

1997	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
Interest income	$13,878	$14,788	$16,967	$17,005
Net interest income	7,317	7,692	8,541	8,643
Provision for loan losses	120	120	180	180
Income before income taxes	3,536	3,756	4,142	4,351
Net income	2,542	2,649	2,853	2,967
Basic earnings per share	$ 0.30	$ 0.30	$ 0.32	$ 0.33
Diluted earnings per share	$ 0.30	$ 0.30	$ 0.32	$ 0.32
Market Price of Common Stock[F1]:				
High	$ 16.51	$ 19.50	$ 23.17	$ 25.67
Low	$ 14.60	$ 15.75	$ 19.00	$ 20.33

[F1] These are the high and low bid prices reported on The Nasdaq Stock Market for each quarterly period. These prices are interdealer prices, without retail mark-ups, mark-downs or commissions, and may not necessarily represent actual transactions.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF SHORELINE

The information set forth under the captions "Directors and Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in Shoreline's Definitive Proxy Statement for its May 13, 1999, annual meeting of shareholders is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the caption "Compensation of Executive Officers and Directors" in Shoreline's Definitive Proxy Statement for its May 13, 1999, annual meeting of shareholders is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the caption "Voting Securities" in Shoreline's Definitive Proxy Statement for its May 13, 1999, annual meeting of shareholders is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the caption "Certain Relationships and Related Transactions" in Shoreline's Definitive Proxy Statement for its May 13, 1999, annual meeting of shareholders in hereby incorporated by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) Financial Statements - The following consolidated financial statements, notes to consolidated financial statements and independent auditors' report of Shoreline Financial Corporation are filed as part of this report:

Consolidated Balance Sheets - December 31, 1998 and 1997

Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996

Consolidated Statements of Comprehensive Income for the years ended December 31, 1998, 1997 and 1996

Consolidated Statements of Shareholders' Equity for the years ended December 31, 1998, 1997 and 1996

Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996

Notes to Consolidated Financial Statements

Report of Independent Auditors dated February 12, 1999

(2) Financial Statement Schedules - Not Applicable

(3) Exhibits - The following exhibits are filed as part of this report

NO.	EXHIBIT
3.1	Restated Articles of Incorporation. Previously filed as Exhibit 3.1 to Shoreline's Quarterly Report on Form 10-Q for the period ended June 30, 1998. Herein incorporated by reference.
3.2	Bylaws. Previously filed as Exhibit 3(b) to Shoreline's Form S-1 Registration Statement filed March 23, 1990. Herein incorporated by reference.

4 Long term debt. Shoreline has outstanding long term debt which at the time of this report does not exceed 10% of Shoreline's total consolidated assets. Shoreline agrees to furnish copies of the agreements defining the rights of holders of such long term indebtedness to the Securities and Exchange Commission upon request.

10.1 Form of Indemnity Agreement. Previously filed as Exhibit 10(d) to Shoreline's Form S-4 Registration Statement filed September 25, 1987. Herein incorporated by reference.

10.2 Employment Agreements.<F*> Previously filed as Exhibit 10(b) to Shoreline's 1995 Form 10-K Annual Report filed March 28, 1996. Herein incorporated by reference.

10.3 1989 Stock Option Plan.<F*> Previously filed as Exhibit 28 to Shoreline's Form S-8 Registration Statement filed May 31, 1989. Herein incorporated by reference.

10.4 Deferred Compensation Agreements.<F*>

10.5 Bonus Program - 1998.<F*>

10.6 Stock Incentive Plan of 1996.<F*> Previously filed as an appendix to Shoreline's Definitive Proxy Statement for its May 1, 1996, annual meeting of shareholders. Herein incorporated by reference.

10.7 Directors' Deferred Compensation Plan.<F*> Previously filed as Exhibit 10(g) to Shoreline's 1996 Form 10-K Annual Report filed March 26, 1997. Herein incorporated by reference.

11 Statement Regarding Computation of Earnings per Common Share. The computation of earnings per common share is fully described in Note 13 to the Consolidated Financial Statements contained in Item 8 of this report.

21 List of Subsidiaries. Previously filed as Exhibit 21 to Shoreline's 1997 Form 10-K Annual Report filed March 31, 1998. Herein incorporated by reference.

23 Consent of Independent Auditors

24 Powers of Attorney

27 Financial Data Schedule for Year Ended December 31, 1998

<F*>These agreements are management contracts or compensation plans or arrangements required to be filed as exhibits to this Form 10-K.

Shoreline will furnish a copy of any exhibit listed above to any shareholder of Shoreline without charge upon written request to Mr. Wayne R. Koebel, Executive Vice President and Chief Financial Officer, Shoreline Financial Corporation, 823 Riverview Dr., Benton Harbor, Michigan 49022

(b) Reports on Form 8-K

Shoreline filed no Current Reports on Form 8-K during the last quarter of the period covered by this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SHORELINE FINANCIAL CORPORATION
(Registrant)

Date: March 26, 1999

/S/ Dan L. Smith
Dan L. Smith
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/S/ Dan L. Smith Dan L. Smith	Director, Chairman, President and Chief Executive Officer	March 26, 1999
/S/ Wayne R. Koebel Wayne R. Koebel	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 26, 1999

*DIRECTORS

Louis A. Desenberg	Merlin J. Hanson
Thomas T. Huff	James E. LeBlanc
L. Richard Marzke	James F. Murphy
Robert L. Starks	Jeffery H. Tobian
Ronald L. Zile	

*By /S/ Wayne R. Koebel
Wayne R. Koebel
Attorney-in-Fact

EXHIBIT INDEX

NO. EXHIBIT

3.1	Restated Articles of Incorporation. Previously filed as Exhibit 3.1 to Shoreline's Quarterly Report on Form 10-Q for the period ended June 30, 1998. Herein incorporated by reference.
3.2	Bylaws. Previously filed as Exhibit 3(b) to Shoreline's Form S-1 Registration Statement filed March 23, 1990. Herein incorporated by reference.
4	Long term debt. Shoreline has outstanding long term debt which at the time of this report does not exceed 10% of Shoreline's total consolidated assets. Shoreline agrees to furnish copies of the agreements defining the rights of holders of such long term indebtedness to the Securities and Exchange Commission upon request.
10.1	Form of Indemnity Agreement. Previously filed as Exhibit 10(d) to Shoreline's Form S-4 Registration Statement filed September 25, 1987. Herein incorporated by reference.
10.2	Employment Agreements.<F*> Previously filed as Exhibit 10(b) to Shoreline's 1995 Form 10-K Annual Report filed March 28, 1996. Herein incorporated by reference.
10.3	1989 Stock Option Plan.<F*> Previously filed as Exhibit 28 to Shoreline's Form S-8 Registration Statement filed May 31, 1989. Herein incorporated by reference.
10.4	Deferred Compensation Agreements.<F*>
10.5	Bonus Program - 1998.<F*>
10.6	Stock Incentive Plan of 1996.<F*> Previously filed as an appendix to Shoreline's Definitive Proxy Statement for its May 1, 1996, annual meeting of shareholders. Herein incorporated by reference.
10.7	Directors' Deferred Compensation Plan.<F*> Previously filed as Exhibit 10(g) to Shoreline's 1996 Form 10-K Annual Report filed March 26, 1997. Herein incorporated by reference.
11	Statement Regarding Computation of Earnings per Common Share. The computation of earnings per common share is fully described in Note 13 to the Consolidated Financial Statements contained in Item 8 of this report.
21	List of Subsidiaries. Previously filed as Exhibit 21 to Shoreline's 1997 Form 10-K Annual Report filed March 31, 1998. Herein incorporated by reference.
23	Consent of Independent Auditors
24	Powers of Attorney
27	Financial Data Schedule for Year Ended December 31, 1998

<F*>These agreements are management contracts or compensation plans or arrangements required to be filed as exhibits to this Form 10-K.

EXHIBIT 10.4

AMENDED AND REAFFIRMED
DEFERRED COMPENSATION PLAN

This Agreement made this 23rd day of August, A.D. 1991, by and between SHORELINE FINANCIAL CORPORATION, a Michigan Corporation, of 823 Riverview Drive, Benton Harbor, Michigan 49022, hereinafter referred to as "Corporation", and RONALD L. ZILE, of 77329 Pinewood Lane, South Haven, Michigan 49090, hereinafter referred to as "Employee".

WITNESSETH, That:

WHEREAS, The Employee is a key senior administrative officer of the Corporation and a participant in a deferred compensation program adopted by the Board of Directors of Citizens Trust & Savings Bank, a wholly owned subsidiary of Corporation.

WHEREAS, the Corporation wishes to consolidate at the Corporate level the Deferred Compensation Agreements of its senior administrative officers, amend certain provisions thereof, and to ratify said arrangements as currently exist pursuant to action of said Board of Directors taken August 16th, 1983.

Now, therefore, in consideration of the promises and covenants herein contained, Corporation and Employee hereby executed this Amended and Reaffirmed Deferred Compensation Agreement to be effective as of August 16th, 1983, and the date of this Agreement as follows:

1. CONTINUATION OF EMPLOYMENT. The Employee shall remain an employee of the Corporation until the age of sixty (60) years or the date of his retirement as mutually agreed between the Employee and the Corporation as to continued service and subject to the policies of the Corporation. Until such time as specified above, the Employee shall continue to devote his time and attention to the service of the Corporation, at the rate of compensation as established pursuant to the Compensation Committee of the Corporation, from time to time. Any change in the compensation shall not be deemed a violation or waiver of any of the provisions of this Agreement.

The Employee has entered into an agreement contract under which he may be entitled to certain benefits or severance payments. It is not the intent of this Agreement to cancel or amend such employment contract and payments may be made under both contracts simultaneously depending on the circumstances.

Nothing contained in this Agreement shall be deemed to give the Employee any right to be retained by the Corporation as an Employee.

2. PAYMENT UPON RETIREMENT. The benefits, based on Employee's

participation in the Plan as originally adopted by the Board of Directors

of Citizens Trust & Savings Bank, on August 16th, 1983, shall be paid as Deferred Compensation as follows:

(a) The Compensation Committee hereby accepts the insured participation plan previously approved and accepted by the Board of Directors of Citizens Trust & Savings Bank on August 16th, 1983, for the Employee which provides for fixed compensation to the Employee for a fixed period of years. In the event the Employee retires from the Corporation pursuant to the policies of the Corporation related to retirement at or after age sixty (60), the Employee shall have fully accrued deferred compensation credit. At the election of the Employee; but in no event later than six (6) months from the date of retirement, the Corporation shall pay to the Employee the sum of Two Hundred Fifty Thousand and No/100s ($250,000.00) Dollars, in equally monthly installments of Two Thousand Eighty-three and 33/100s ($2,083.33) Dollars, payable on the first business day of each month for a period not to exceed one hundred twenty (120) months from date of commencement. If Employee so retires, but dies before receiving one hundred twenty (120) monthly payments, the Corporation shall continue to make such monthly payments to the beneficiary designated in Paragraph 5 herein, until the total payments made to Employee or his beneficiary equal Two Hundred Fifty Thousand and No/100s ($250,000.00) Dollars.

(b) If the Employee's employment hereunder is terminated for any reason other than death, but before the Employee shall have attained the age of sixty (60) years, then the amount in the Deferred Compensation Program shall continue to be invested as the Compensation Committee shall so direct in its sole discretion, and no payments shall be made until the Employee shall have attained the age of sixty (60), at which time payments shall be made in the manner and to the same extent as herein set forth above. Notwithstanding the foregoing, or if prior to attaining said age, the Employee should die, then payments shall be made in the manner and to the same extent as set forth in paragraph (a) above.

3. PAYMENT UPON DISABILITY. If the Employee's employment is terminated because of disability before he has obtained the age of sixty (60), and while he is serving in the employment of the Corporation, then the Board may make monthly or annual payments of substantially equal amounts to the Employee (in the event of his disability) in the same manner and to the same extent as provided in paragraph (a) above; provided, however, said benefits shall be actuarially reduced for a sum equivalent to the benefit if received at age sixty (60) and shall be payable only for a period of one hundred twenty (120) months from the date of commencement.

4. PAYMENT UPON DEATH. If such Employee should die before receiving any of the deferred compensation or before receiving the entire amount of

the deferred compensation payments set forth in paragraph 2, then the

entire balance of such deferred compensation shall be paid to the designated beneficiary pursuant to paragraph 2.

If at the date of death of the Employee, none of the payments have been made and the designated beneficiary is deceased, then such amount shall be paid to the estate of such Employee or as designated in a power of appointment in the Last Will of the Employee or under a separate power of appointment.

If the named beneficiary has become entitled to the monthly payments and such named beneficiary should die before receiving the entire balance of such payments, then the entire balance shall be paid to the estate of such beneficiary or as designated in a power of appointment in such beneficiary's Will or by separate exercise of such power of appointment.

5. BENEFICIARY. Payments of the monthly sums herein provided in paragraphs 2, 3, and 4, shall be made to the Employee, if living, and otherwise to GRACE W. ZILE, if living; otherwise as specified in paragraph 4. The beneficiary named herein may be changed at any time by the Employee, with the agreement of the Corporation, by written amendment.

6. "TOTAL DISABILITY" DEFINED. For purposes of this Agreement, "total disability" shall be deemed to have occurred if the Compensation Committee shall find on the basis of medical evidence satisfactory to it that the Employee is so totally mentally or physically disabled as to be unable to engage in further employment by the Corporation and that such disability shall be permanent and continuous during the remainder of his life.

7. ACCELERATION OF PAYMENTS. The Employee may request and the Corporation may grant an acceleration of the payments or any of the sums specified in paragraphs 2, 3 and 4 above; provided, however, the benefits shall be actuarially reduced based on employee's age at the date benefits are to begin to a sum equivalent to the benefit amount if received at age sixty (60).

8. RESTRICTIVE COVENANT. Employee expressly agrees, as a condition to the performance by the Corporation of its obligations hereunder, that during the term of this Agreement and during the period for which monthly payments are to be made, the Employee will not, directly or indirectly, render any service of an advisory nature or otherwise, to, or become employed by, or participate or engage in, any business competitive with the business of the Corporation, without the prior written consent of the Corporation.

9. PROHIBITION OF ASSIGNMENT. Except as otherwise provided in this Agreement, the Employee agrees on behalf of himself, his heirs, executors

and assigns, and any other person claiming benefits under him by virtue of this Agreement, that this Agreement, the rights, interest and benefits

hereunder, shall not be assigned, transferred, pledged or hypothecated in any way by Employee or other person claiming under him by virtue of this Agreement and shall not be subject to execution, attachment or similar process. Any attempt at assignment, transfer, pledge or hypothecation or other disposition of this Agreement or of such rights, interests and benefits contrary to the foregoing provision, or the levy or any attachment or similar process thereupon, shall be null and void and without effect.

10. EMPLOYMENT RIGHTS. This Agreement creates no right in the Employee to continue in the Corporation's employ for any specific length of time nor does it create any other rights in the Employee or obligations on the part of the Corporation except those set forth in this Agreement.

11. RELEASE. Employee acknowledges that this Amended and Reaffirmed Deferred Compensation Agreement is the sole and only Agreement between Employee and Corporation, whether written or oral, concerning Deferred Compensation and stands instead, substitution and place of any said Agreements, either written or oral, with the subsidiaries of the Corporation, excluding valid written employment contracts, pension or profit sharing plans.

12. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of any successor of the Corporation under the terms of this Agreement. As used in this Agreement, the term "successor" shall include any person, firm, corporation, or other business entity which at any time, whether by merger, purchase or otherwise, acquires all or substantially all of the assets or business of the Corporation. It shall also be binding upon the beneficiaries, heirs, executors and administrators of the Employee.

13. CONSTRUCTION. This Agreement shall be construed by and under the laws of the State of Michigan.

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed in its corporate name by its corporate officers, duly authorized, and the Employee has set his hand and seal, as of the day and year above written.

SHORELINE FINANCIAL CORPORATION, a
Michigan Corporation, "Corporation"

By: /s/ James F. Murphy
Its: Chairman of The Board

/s/ Ronald L. Zile
Ronald L. Zile, "Employee"

AMENDED AND REAFFIRMED
DEFERRED COMPENSATION PLAN

This Agreement made this 23rd day of August, A.D. 1991, by and between SHORELINE FINANCIAL CORPORATION, a Michigan Corporation, of 823 Riverview Drive, Benton Harbor, Michigan 49022, hereinafter referred to as "Corporation", and DAN L. SMITH, of 12157 North Red Bud Trail, Buchanan, Michigan 49107, hereinafter referred to as "Employee".

WITNESSETH, That:

WHEREAS, The Employee is a key senior administrative officer of the Corporation and a participant in a deferred compensation program adopted by the Board of Directors of Inter-City Bank, a wholly owned subsidiary of Corporation.

WHEREAS, the Corporation wishes to consolidate at the Corporate level the Deferred Compensation Agreements of its senior administrative officers, amend certain provisions thereof, and to ratify said arrangements as currently exist pursuant to action of said Board of Directors taken June 16, 1983 and amended May 20th, 1986.

Now, therefore, in consideration of the promises and covenants herein contained, Corporation and Employee hereby executed this Amended and Reaffirmed Deferred Compensation Agreement to be effective as of June 16th, 1983, and the date of this Agreement as follows:

1. CONTINUATION OF EMPLOYMENT. The Employee shall remain an employee of the Corporation until the age of sixty (60) years or the date of his retirement as mutually agreed between the Employee and the Corporation as to continued service and subject to the policies of the Corporation. Until such time as specified above, the Employee shall continue to devote his time and attention to the service of the Corporation, at the rate of compensation as established pursuant to the Compensation Committee of the Corporation, from time to time. Any change in the compensation shall not be deemed a violation or waiver of any of the provisions of this Agreement.

The Employee has entered into an agreement contract under which he may be entitled to certain benefits or severance payments. It is not the intent of this Agreement to cancel or amend such employment contract and payments may be made under both contracts simultaneously depending on the circumstances.

Nothing contained in this Agreement shall be deemed to give the Employee any right to be retained by the Corporation as an Employee.

2. PAYMENT UPON RETIREMENT. The benefits, based on Employee's participation in the Plan as originally adopted by the Board of Directors

of Inner-City Bank on June 16th, 1983, shall be paid as Deferred Compensation as follows:

(a) The Compensation Committee hereby accepts the insured participation plan previously approved and accepted by the Board of Directors of Inter-City Bank on June 16th, 1983 and amended May 20th, 1986, for the Employee which provides for fixed compensation to the Employee for a fixed period of years. In the event the Employee retires from the Corporation pursuant to the policies of the Corporation related to retirement at or after age sixty (60), the Employee shall have fully accrued deferred compensation credit. At the election of the Employee; but in no event later than six (6) months from the date of retirement, the Corporation shall pay to the Employee the sum of Two Hundred Fifty Thousand ($250,000.00) Dollars, in equally monthly installments of Two Thousand Eighty Three and Thirty Three Cents ($2,083.33) Dollars, payable on the first business day of each month for a period not to exceed one hundred twenty (120) months from date of commencement. If Employee so retires, but dies before receiving one hundred twenty (120) monthly payments, the Corporation shall continue to make such monthly payments to the beneficiary designated in Paragraph 5 herein, until the total payments made to Employee or his beneficiary equal Two Hundred Fifty Thousand ($250,000.00) Dollars.

(b) If the Employee's employment hereunder is terminated for any reason other than death, but before the Employee shall have attained the age of sixty (60) years, then the amount in the Deferred Compensation Program shall continue to be invested as the Compensation Committee shall so direct in its sole discretion, and no payments shall be made until the Employee shall have attained the age of sixty (60), at which time payments shall be made in the manner and to the same extent as herein set forth above. Notwithstanding the foregoing, or if prior to attaining said age, the Employee should die, then payments shall be made in the manner and to the same extent as set forth in paragraph (a) above.

3. PAYMENT UPON DISABILITY. If the Employee's employment is terminated because of disability before he has obtained the age of sixty (60), and while he is serving in the employment of the Corporation, then the Board may make monthly or annual payments of substantially equal amounts to the Employee (in the event of his disability) in the same manner and to the same extent as provided in paragraph (a) above; provided, however, said benefits shall be actuarially reduced for a sum equivalent to the benefit if received at age sixty (60) and shall be payable only for a period of one hundred twenty (120) months from the date of commencement.

4. PAYMENT UPON DEATH. If such Employee should die before receiving any of the deferred compensation or before receiving the entire amount of the deferred compensation payments set forth in paragraph 2, then the

entire balance of such deferred compensation shall be paid to the designated beneficiary pursuant to paragraph 2.

If at the date of death of the Employee, none of the payments have been made and the designated beneficiary is deceased, then such amount shall be paid to the estate of such Employee or as designated in a power of appointment in the Last Will of the Employee or under a separate power of appointment.

If the named beneficiary has become entitled to the monthly payments and such named beneficiary should die before receiving the entire balance of such payments, then the entire balance shall be paid to the estate of such beneficiary or as designated in a power of appointment in such beneficiary's Will or by separate exercise of such power of appointment.

5. BENEFICIARY. Payments of the monthly sums herein provided in paragraphs 2, 3, and 4, shall be made to the Employee, if living, and otherwise to PATRICIA JEAN SMITH, if living; otherwise as specified in paragraph 4. The beneficiary named herein may be changed at any time by the Employee, with the agreement of the Corporation, by written amendment.

6. "TOTAL DISABILITY" DEFINED. For purposes of this Agreement, "total disability" shall be deemed to have occurred if the Compensation Committee shall find on the basis of medical evidence satisfactory to it that the Employee is so totally mentally or physically disabled as to be unable to engage in further employment by the Corporation and that such disability shall be permanent and continuous during the remainder of his life.

7. ACCELERATION OF PAYMENTS. The Employee may request and the Corporation may grant an acceleration of the payments or any of the sums specified in paragraphs 2, 3 and 4 above; provided, however, the benefits shall be actuarially reduced based on employee's age at the date benefits are to begin to a sum equivalent to the benefit amount if received at age sixty (60).

8. RESTRICTIVE COVENANT. Employee expressly agrees, as a condition to the performance by the Corporation of its obligations hereunder, that during the term of this Agreement and during the period for which monthly payments are to be made, the Employee will not, directly or indirectly, render any service of an advisory nature or otherwise, to, or become employed by, or participate or engage in, any business competitive with the business of the Corporation, without the prior written consent of the Corporation.

9. PROHIBITION OF ASSIGNMENT. Except as otherwise provided in this Agreement, the Employee agrees on behalf of himself, his heirs, executors and assigns, and any other person claiming benefits under him by virtue of this Agreement, that this Agreement, the rights, interest and benefits

hereunder, shall not be assigned, transferred, pledged or hypothecated in any way by Employee or other person claiming under him by virtue of this

Agreement and shall not be subject to execution, attachment or similar process. Any attempt at assignment, transfer, pledge or hypothecation or other disposition of this Agreement or of such rights, interests and benefits contrary to the foregoing provision, or the levy or any attachment or similar process thereupon, shall be null and void and without effect.

10. EMPLOYMENT RIGHTS. This Agreement creates no right in the Employee to continue in the Corporation's employ for any specific length of time nor does it create any other rights in the Employee or obligations on the part of the Corporation except those set forth in this Agreement.

11. RELEASE. Employee acknowledges that this Amended and Reaffirmed Deferred Compensation Agreement is the sole and only Agreement between Employee and Corporation, whether written or oral, concerning Deferred Compensation and stands instead, substitution and place of any said Agreements, either written or oral, with the subsidiaries of the Corporation, excluding valid written employment contracts, pension or profit sharing plans.

12. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of any successor of the Corporation under the terms of this Agreement. As used in this Agreement, the term "successor" shall include any person, firm, corporation, or other business entity which at any time, whether by merger, purchase or otherwise, acquires all or substantially all of the assets or business of the Corporation. It shall also be binding upon the beneficiaries, heirs, executors and administrators of the Employee.

13. CONSTRUCTION. This Agreement shall be construed by and under the laws of the State of Michigan.

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed in its corporate name by its corporate officers, duly authorized, and the Employee has set his hand and seal, as of the day and year above written.

SHORELINE FINANCIAL CORPORATION, a
Michigan Corporation, "Corporation"

By: /s/ James F. Murphy
Its: Chairman of the Board

/s/ Dan L. Smith
Dan L. Smith, "Employee"

AMENDED AND REAFFIRMED
DEFERRED COMPENSATION PLAN

This Agreement made this 23rd day of August, A.D. 1991, by and between SHORELINE FINANCIAL CORPORATION, a Michigan Corporation, of 823 Riverview Drive, Benton Harbor, Michigan 49022, hereinafter referred to as "Corporation", and JAMES F. MURPHY, of 1557 North Bonny Bruce Drive, Stevensville, Michigan 49127, hereinafter referred to as "Employee".

WITNESSETH, That:

WHEREAS, The Employee is a key senior administrative officer of the Corporation and a participant in a deferred compensation program adopted by the Board of Directors of Inter-City Bank, a wholly owned subsidiary of Corporation.

WHEREAS, the Corporation wishes to consolidate at the Corporate level the Deferred Compensation Agreements of its senior administrative officers, amend certain provisions thereof, and to ratify said arrangements as currently exist pursuant to action of said Board of Directors taken June 16th, 1983 and amended May 20th, 1986.

Now, therefore, in consideration of the promises and covenants herein contained, Corporation and Employee hereby executed this Amended and Reaffirmed Deferred Compensation Agreement to be effective as of June 16th, 1983, and the date of this Agreement as follows:

1. CONTINUATION OF EMPLOYMENT. The Employee shall remain an employee of the Corporation until the age of sixty (60) years or the date of his retirement as mutually agreed between the Employee and the Corporation as to continued service and subject to the policies of the Corporation. Until such time as specified above, the Employee shall continue to devote his time and attention to the service of the Corporation, at the rate of compensation as established pursuant to the Compensation Committee of the Corporation, from time to time. Any change in the compensation shall not be deemed a violation or waiver of any of the provisions of this Agreement.

The Employee has entered into an agreement contract under which he may be entitled to certain benefits or severance payments. It is not the intent of this Agreement to cancel or amend such employment contract and payments may be made under both contracts simultaneously depending on the circumstances.

Nothing contained in this Agreement shall be deemed to give the

Employee any right to be retained by the Corporation as an Employee.

2. PAYMENT UPON RETIREMENT. The benefits, based on Employee's participation in the Plan as originally adopted by the Board of Directors of Inter-City Bank on June 16, 1983, shall be paid as Deferred Compensation as follows:

(a) The Compensation Committee hereby accepts the insured participation plan previously approved and accepted by the Board of Directors of Inter-City Bank on June 16, 1983, and amended May 20th, 1986, for the Employee which provides for fixed compensation to the Employee for a fixed period of years. In the event the Employee retires from the Corporation pursuant to the policies of the Corporation related to retirement at or after age sixty (60), the Employee shall have fully accrued deferred compensation credit. At the election of the Employee; but in no event later than six (6) months from the date of retirement, the Corporation shall pay to the Employee the sum of Two Hundred and Fifty Thousand and No/100s ($250,000.00) Dollars, in equally monthly installments of Two Thousand and Eighty Three and thirty three cents ($2,083.33) Dollars, payable on the first business day of each month for a period not to exceed one hundred twenty (120) months from date of commencement. If Employee so retires, but dies before receiving one hundred twenty (120) monthly payments, the Corporation shall continue to make such monthly payments to the beneficiary designated in Paragraph 5 herein, until the total payments made to Employee or his beneficiary equal Two Hundred and Fifty Thousand and No/100s ($250,000.00) Dollars.

(b) If the Employee's employment hereunder is terminated for any reason other than death, but before the Employee shall have attained the age of sixty (60) years, then the amount in the Deferred Compensation Program shall continue to be invested as the Compensation Committee shall so direct in its sole discretion, and no payments shall be made until the Employee shall have attained the age of sixty (60), at which time payments shall be made in the manner and to the same extent as herein set forth above. Notwithstanding the foregoing, or if prior to attaining said age, the Employee should die, then payments shall be made in the manner and to the same extent as set forth in paragraph (a) above.

3. PAYMENT UPON DISABILITY. If the Employee's employment is terminated because of disability before he has obtained the age of sixty (60), and while he is serving in the employment of the Corporation, then the Board may make monthly or annual payments of substantially equal amounts to the Employee (in the event of his disability) in the same manner and to the same extent as provided in paragraph (a) above; provided, however, said benefits shall be actuarially reduced for a sum equivalent to the benefit if received at age sixty (60) and shall be payable only for a period of one hundred twenty (120) months from the date of commencement.

4. PAYMENT UPON DEATH. If such Employee should die before receiving any of the deferred compensation or before receiving the entire amount of the deferred compensation payments set forth in paragraph 2, then the entire balance of such deferred compensation shall be paid to the designated beneficiary pursuant to paragraph 2.

If at the date of death of the Employee, none of the payments have been made and the designated beneficiary is deceased, then such amount shall be paid to the estate of such Employee or as designated in a power of appointment in the Last Will of the Employee or under a separate power of appointment.

If the named beneficiary has become entitled to the monthly payments and such named beneficiary should die before receiving the entire balance of such payments, then the entire balance shall be paid to the estate of such beneficiary or as designated in a power of appointment in such beneficiary's Will or by separate exercise of such power of appointment.

5. BENEFICIARY. Payments of the monthly sums herein provided in paragraphs 2, 3, and 4, shall be made to the Employee, if living, and otherwise to FRANCES J. MURPHY, if living; otherwise as specified in paragraph 4. The beneficiary named herein may be changed at any time by the Employee, with the agreement of the Corporation, by written amendment.

6. "TOTAL DISABILITY" DEFINED. For purposes of this Agreement, "total disability" shall be deemed to have occurred if the Compensation Committee shall find on the basis of medical evidence satisfactory to it that the Employee is so totally mentally or physically disabled as to be unable to engage in further employment by the Corporation and that such disability shall be permanent and continuous during the remainder of his life.

7. ACCELERATION OF PAYMENTS. The Employee may request and the Corporation may grant an acceleration of the payments or any of the sums specified in paragraphs 2, 3 and 4 above; provided, however, the benefits shall be actuarially reduced based on employee's age at the date benefits are to begin to a sum equivalent to the benefit amount if received at age sixty (60).

8. RESTRICTIVE COVENANT. Employee expressly agrees, as a condition to the performance by the Corporation of its obligations hereunder, that during the term of this Agreement and during the period for which monthly payments are to be made, the Employee will not, directly or indirectly, render any service of an advisory nature or otherwise, to, or become employed by, or participate or engage in, any business competitive with the business of the Corporation, without the prior written consent of the Corporation.

9. PROHIBITION OF ASSIGNMENT. Except as otherwise provided in this Agreement, the Employee agrees on behalf of himself, his heirs, executors

and assigns, and any other person claiming benefits under him by virtue of this Agreement, that this Agreement, the rights, interest and benefits hereunder, shall not be assigned, transferred, pledged or hypothecated in any way by Employee or other person claiming under him by virtue of this

Agreement and shall not be subject to execution, attachment or similar process. Any attempt at assignment, transfer, pledge or hypothecation or other disposition of this Agreement or of such rights, interests and benefits contrary to the foregoing provision, or the levy or any attachment or similar process thereupon, shall be null and void and without effect.

10. EMPLOYMENT RIGHTS. This Agreement creates no right in the Employee to continue in the Corporation's employ for any specific length of time nor does it create any other rights in the Employee or obligations on the part of the Corporation except those set forth in this Agreement.

11. RELEASE. Employee acknowledges that this Amended and Reaffirmed Deferred Compensation Agreement is the sole and only Agreement between Employee and Corporation, whether written or oral, concerning Deferred Compensation and stands instead, substitution and place of any said Agreements, either written or oral, with the subsidiaries of the Corporation, excluding valid written employment contracts, pension or profit sharing plans.

12. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of any successor of the Corporation under the terms of this Agreement. As used in this Agreement, the term "successor" shall include any person, firm, corporation, or other business entity which at any time, whether by merger, purchase or otherwise, acquires all or substantially all of the assets or business of the Corporation. It shall also be binding upon the beneficiaries, heirs, executors and administrators of the Employee.

13. CONSTRUCTION. This Agreement shall be construed by and under the laws of the State of Michigan.

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed in its corporate name by its corporate officers, duly authorized, and the Employee has set his hand and seal, as of the day and year above written.

SHORELINE FINANCIAL CORPORATION, a
Michigan Corporation, "Corporation"

By: /s/ James F. Murphy
Its: Chairman of the Board

/s/ James F. Murphy
James F. Murphy, "Employee"

EXHIBIT 10.5

SHORELINE FINANCIAL CORPORATION
ANNUAL INCENTIVE COMPENSATION PLAN
1998

STATEMENT OF EXECUTIVE COMPENSATION OBJECTIVES

BUSINESS GOALS AND OBJECTIVES

Shoreline is a "super community bank" operating in Southwestern Michigan. The Company has enjoyed good growth and has produced above average results as measured by various indices of financial performance.

The Company identifies superior financial performance as one of its primary business objectives. Relative total return to stockholders (i.e. dividends plus market appreciation) is Shoreline's most important long-term financial objective. In this context "relative" is indicative of measurement against similar super community banking organizations.

OBLIGATION TO SHAREHOLDERS

Shoreline's primary obligation to its shareholders is to provide a competitive "total return." However, due to factors beyond the influence of management (e.g. overall movement of the stock market, public "favor" or "disfavor" of industries within the market), relative total return to stockholders is difficult to control.

On the other hand, return on equity, which has a high degree of correlation with stock price, especially for banks, is a factor that can be controlled by management. Based on the relationship of ROE to stock price, Shoreline focus on improving its ROE as a means by which to ensure the highest possible relative total return to shareholders.

To attract and retain quality management talent, the Company should provide base salaries that are at the 50th percentile. Any additional compensation above and beyond the 50th percentile will be provided through the Company's annual (and long-term) incentive programs. However, above average incentives will be paid only if the Company's performance is above average.

Finally, a corporate performance threshold should be established, below which no incentive awards would be paid. This will help contain compensation costs and prevent negative shareholder reactions to paying a bonus in a year of poor performance.

SPECIFICATIONS FOR THE ANNUAL INCENTIVE PLAN
1998

CONCEPT: An annual incentive plan for key officers of the Company. Performance objectives and award opportunities will be specified and communicated prior to the beginning of each plan year (the calendar year).

PURPOSE: The primary purpose of the Plan is to reward the outstanding performance of key officers. Specific objectives include:

- reward executives for achieving specific predetermined goals

- motivate participants to work more effectively

- focus the attention of officers and key managers on items of major importance to their lines of business

PLAN GOVERNANCE: The Organization, Compensation, Stock Option Committee (OCS) will be responsible for the governance of the Plan. The OCS will be responsible for final determination of eligibility, participation, award opportunity and earned awards under the Plan. The determination of the OCS shall be conclusive and binding on all participants.

ELIGIBILITY: The OCS has determined the following individuals to be eligible for participation in the Plan in 1998:

<TABLE>
<CAPTION>

<S>	<C>	<C>
	Dan L. Smith	Chairman, CEO & President
	Richard D. Bailey	Executive Vice President
	Robert K. Burch	Executive Vice President
	Wayne R. Koebel	Executive Vice President, CFO
	James R. Milroy	Executive Vice President, Cashier
	Hilda Banyon	First Vice President, Human Resources
	Joseph Calvaruso	Senior Vice President, Loan Administration
	Michael Doherty	First Vice President, Commercial Loans
	Gary Dolezan	Senior Vice President, Mortgage Loans
	Ken Johnson	Vice President, Regional Manager
	Al Newcomb	Vice President, Operations
	Ron Sonneman	Senior Vice President, Trust
	Gary Teske	Vice President, Consumer Loans
	Eileen Toney	Vice President, Regional Manager

</TABLE>

PARTICIPATION: Each individual's participation in the Plan will be subject to annual approval by the OCS.

PERFORMANCE ASSESSMENT: Performance will be assessed at three levels:

- corporate

- business unit (or position function)
- individual

The weighting of each level of assessment for each participant will be approved annually by the OCS. For 1998, levels of assessment for eligible participants are as follows:

PARTICIPANT	CORPORATE	BUSINESS UNIT	INDIVIDUAL
Smith	100%	---	---
Bailey	60%	30%	10%
Burch	60%	30%	10%
Koebel	60%	30%	10%
Milroy	60%	30%	10%
Banyon	60%	30%	10%
Calvaruso	60%	30%	10%
Doherty	50%	40%	10%
Dolezan	50%	40%	10%
Johnson	50%	40%	10%
Newcomb	60%	30%	10%
Sonneman	50%	40%	10%
Teske	50%	40%	10%
Toney	50%	40%	10%

AWARD DETERMINATION: At the beginning of each plan year, a target award will be established for each participant. Target awards are expressed as a percent of annual base pay.

Target awards for participants in the 1998 Plan are:

	Smith	50%	Newcomb	27%
	Bailey	40%	Sonneman	27%
	Burch	40%	Banyon	10%

Koebel	40%	Doherty	10%
Milroy	40%	Johnson	10%
Calvaruso	27%	Teske	10%
Dolezan	27%	Toney	10%

</TABLE>

Performance factors (goals) will be established at the beginning of each plan year. The corporate performance factor will be established by the Chief Executive Officer and approved by the OCS.

Business unit (or position function) and individual performance factors will be established and discussed and agreed to by each participant at the beginning of each plan year.

These corporate, business unit (or position function), and individual performance factors (goals) will be used by the Chief Executive Officer and the OCS for assessing corporate, business unit (or position function) and individual results under the Plan.

During the plan year, at least one mid-year review will be conducted with participants to assess progress toward corporate, business unit (or position function) and individual objectives.

At the end of each plan, the Chief Executive Officer and the OCS assess corporate, business unit (or position function) and individual results using the performance factors set at the beginning of the year.

The award payable to each participant will be the total of the three performance assessments. An illustration follows:

ILLUSTRATION:

<TABLE>
<CAPTION>

COMPONENT	WEIGHTING	ASSESSMENT	FACTOR
<S> <C>	<C>	<C>	<C>
Corporate	50%	100%	50%
Business Unit	40%	90%	36%

Individual	10%	110%	11%

Total			97%
			===
Base Pay	$70,000		
Target	25%		

</TABLE>

Award Earned:
$70,000 x 25% (Target) x 97% (Weighted Score) = $16,975

MINIMUM LEVEL OF CORPORATE PERFORMANCE: The OCS will specify a minimum level of corporate performance below which no award will be paid for the applicable plan year.

MAXIMUM AWARD: A cap will be placed on individual awards payable to participants. Even when performance exceeds predetermined levels, no individual's total award will exceed 150% of target.

NOTE: As 1998 is the first year of the plan, an initial cap of 125% will be used.

VESTING OF AWARDS: Awards under the Plan will vest as of the last day of each plan year. Participants who leave the employ of the Company during a plan year forfeit any rights to an award for that year. The OCS may, in its sole discretion, make a partial award to a participant who leaves the employ of the Company during a plan year due to death, total and permanent disability, or retirement.

PAYMENT OF AWARDS: The payment of awards will be made as soon as practicable after the Chief Executive Officer and the OCS complete their assessment of performance and approve individual awards.

TERMS OF EMPLOYMENT: Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any participant's employment at any time, nor confer on any participant any right to continue in the employ of the Company.

EXHIBIT 23

[CROWE, CHIZEK LOGO]

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference and use of our report, dated February 12, 1999, on the consolidated financial statements of Shoreline Financial Corporation which appears on page 23 of Shoreline Financial Corporation's Form 10-K for the year ended December 31, 1998, in Shoreline Financial Corporation's previously filed registration statements for its 1989 Stock Option Plan (Registration No. 33-29052), Dividend Reinvestment Plan (Registration No. 33-34008), 401(k) Profit Sharing Plan (Registration No. 333-10629) and Stock Incentive Plan of 1996 (Registration No. 333-09819).

s/Crowe, Chizek and Company LLP
Crowe, Chizek and Company LLP

South Bend, Indiana
March 16, 1999

EXHIBIT 24

LIMITED POWER OF ATTORNEY

The undersigned, in his or her capacity as a director or officer, or both, as the case may be, of Shoreline Financial Corporation, does hereby appoint DAN L. SMITH and WAYNE R. KOEBEL, or either of them, his or her attorneys or attorney, with full power of substitution, to execute in his or her name an Annual Report of Shoreline Financial Corporation on Form 10-K for its fiscal year ended December 31, 1998, and any amendments to that report, and to file it with the Securities and Exchange Commission. Each attorney shall have power and authority to do and perform in the name and on behalf of the undersigned, in any and all capacities, every act to be done in the premises as fully and to all intents and purposes as the undersigned could do in person, and the undersigned hereby ratifies and approves the acts of such attorneys.

Dated: 2/17/99 /S/ JEFF TOBIAN
(signature)

JEFF TOBIAN
(type or print name)

LIMITED POWER OF ATTORNEY

The undersigned, in his or her capacity as a director or officer, or both, as the case may be, of Shoreline Financial Corporation, does hereby appoint DAN L. SMITH and WAYNE R. KOEBEL, or either of them, his or her attorneys or attorney, with full power of substitution, to execute in his or her name an Annual Report of Shoreline Financial Corporation on Form 10-K for its fiscal year ended December 31, 1998, and any amendments to that report, and to file it with the Securities and Exchange Commission. Each attorney shall have power and authority to do and perform in the name and on behalf of the undersigned, in any and all capacities, every act to be done in the premises as fully and to all intents and purposes as the undersigned could do in person, and the undersigned hereby ratifies and approves the acts of such attorneys.

Dated: 2/17/99

/S/ ROBERT L. STARKS
(signature)

ROBERT L. STARKS
(type or print name)

LIMITED POWER OF ATTORNEY

The undersigned, in his or her capacity as a director or officer, or both, as the case may be, of Shoreline Financial Corporation, does hereby appoint DAN L. SMITH and WAYNE R. KOEBEL, or either of them, his or her attorneys or attorney, with full power of substitution, to execute in his or her name an Annual Report of Shoreline Financial Corporation on Form 10-K for its fiscal year ended December 31, 1998, and any amendments to that report, and to file it with the Securities and Exchange Commission. Each attorney shall have power and authority to do and perform in the name and on behalf of the undersigned, in any and all capacities, every act to be done in the premises as fully and to all intents and purposes as the undersigned could do in person, and the undersigned hereby ratifies and approves the acts of such attorneys.

Dated: 2/17/99

/S/ L. RICHARD MARZKE
(signature)

L. RICHARD MARZKE
(type or print name)

LIMITED POWER OF ATTORNEY

The undersigned, in his or her capacity as a director or officer, or both, as the case may be, of Shoreline Financial Corporation, does hereby appoint DAN L. SMITH and WAYNE R. KOEBEL, or either of them, his or her attorneys or attorney, with full power of substitution, to execute in his or her name an Annual Report of Shoreline Financial Corporation on Form 10-K for its fiscal year ended December 31, 1998, and any amendments to that report, and to file it with the Securities and Exchange Commission. Each attorney shall have power and authority to do and perform in the name and on behalf of the undersigned, in any and all capacities, every act to be done in the premises as fully and to all intents and purposes as the undersigned could do in person, and the undersigned hereby ratifies and approves the acts of such attorneys.

Dated: 2/25/99

/S/ JAMES F. MURPHY
(signature)

JAMES F. MURPHY
(type or print name)

LIMITED POWER OF ATTORNEY

The undersigned, in his or her capacity as a director or officer, or both, as the case may be, of Shoreline Financial Corporation, does hereby appoint DAN L. SMITH and WAYNE R. KOEBEL, or either of them, his or her attorneys or attorney, with full power of substitution, to execute in his or her name an Annual Report of Shoreline Financial Corporation on Form 10-K for its fiscal year ended December 31, 1998, and any amendments to that report, and to file it with the Securities and Exchange Commission. Each attorney shall have power and authority to do and perform in the name and on behalf of the undersigned, in any and all capacities, every act to be done in the premises as fully and to all intents and purposes as the undersigned could do in person, and the undersigned hereby ratifies and approves the acts of such attorneys.

Dated: 3/05/99

/S/ JAMES E. LEBLANC
(signature)

JAMES E. LEBLANC
(type or print name)

LIMITED POWER OF ATTORNEY

The undersigned, in his or her capacity as a director or officer, or both, as the case may be, of Shoreline Financial Corporation, does hereby appoint DAN L. SMITH and WAYNE R. KOEBEL, or either of them, his or her attorneys or attorney, with full power of substitution, to execute in his or her name an Annual Report of Shoreline Financial Corporation on Form 10-K for its fiscal year ended December 31, 1998, and any amendments to that report, and to file it with the Securities and Exchange Commission. Each attorney shall have power and authority to do and perform in the name and on behalf of the undersigned, in any and all capacities, every act to be done in the premises as fully and to all intents and purposes as the undersigned could do in person, and the undersigned hereby ratifies and approves the acts of such attorneys.

Dated: 2/19/99

/S/ THOMAS T. HUFF
(signature)

THOMAS T. HUFF
(type or print name)

LIMITED POWER OF ATTORNEY

The undersigned, in his or her capacity as a director or officer, or both, as the case may be, of Shoreline Financial Corporation, does hereby appoint DAN L. SMITH and WAYNE R. KOEBEL, or either of them, his or her attorneys or attorney, with full power of substitution, to execute in his or her name an Annual Report of Shoreline Financial Corporation on Form 10-K for its fiscal year ended December 31, 1998, and any amendments to that report, and to file it with the Securities and Exchange Commission. Each attorney shall have power and authority to do and perform in the name and on behalf of the undersigned, in any and all capacities, every act to be done in the premises as fully and to all intents and purposes as the undersigned could do in person, and the undersigned hereby ratifies and approves the acts of such attorneys.

Dated: 2/24/99

/S/ LOUIS A. DESENBERG
(signature)

LOUIS A. DESENBERG
(type or print name)

LIMITED POWER OF ATTORNEY

The undersigned, in his or her capacity as a director or officer, or both, as the case may be, of Shoreline Financial Corporation, does hereby appoint DAN L. SMITH and WAYNE R. KOEBEL, or either of them, his or her attorneys or attorney, with full power of substitution, to execute in his or her name an Annual Report of Shoreline Financial Corporation on Form 10-K for its fiscal year ended December 31, 1998, and any amendments to that report, and to file it with the Securities and Exchange Commission. Each attorney shall have power and authority to do and perform in the name and on behalf of the undersigned, in any and all capacities, every act to be done in the premises as fully and to all intents and purposes as the undersigned could do in person, and the undersigned hereby ratifies and approves the acts of such attorneys.

Dated: 2/20/99

/S/ RONALD L. ZILE
(signature)

RONALD L. ZILE
(type or print name)

LIMITED POWER OF ATTORNEY

The undersigned, in his or her capacity as a director or officer, or both, as the case may be, of Shoreline Financial Corporation, does hereby appoint DAN L. SMITH and WAYNE R. KOEBEL, or either of them, his or her attorneys or attorney, with full power of substitution, to execute in his or her name an Annual Report of Shoreline Financial Corporation on Form 10-K for its fiscal year ended December 31, 1998, and any amendments to that report, and to file it with the Securities and Exchange Commission. Each attorney shall have power and authority to do and perform in the name and on behalf of the undersigned, in any and all capacities, every act to be done in the premises as fully and to all intents and purposes as the undersigned could do in person, and the undersigned hereby ratifies and approves the acts of such attorneys.

Dated: 2/24/99

/S/ MERLIN J. HANSON
(signature)

MERLIN J. HANSON, DIRECTOR
(type or print name)

<TABLE> <S> <C>

<ARTICLE> 9
<LEGEND> THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE AUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS OF SHORELINE FINANCIAL CORPORATION, INC. AND SUBSIDIARIES FOR THE PERIOD ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
</LEGEND>
<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	12-MOS
<FISCAL-YEAR-END>	DEC-31-1998
<PERIOD-START>	JAN-01-1998
<PERIOD-END>	DEC-31-1998
<CASH>	35,814
<INT-BEARING-DEPOSITS>	20,301
<FED-FUNDS-SOLD>	15,775
<TRADING-ASSETS>	0
<INVESTMENTS-HELD-FOR-SALE>	190,735
<INVESTMENTS-CARRYING>	25,166
<INVESTMENTS-MARKET>	26,180
<LOANS>	635,159
<ALLOWANCE>	7,883
<TOTAL-ASSETS>	955,264
<DEPOSITS>	795,842
<SHORT-TERM>	21,191
<LIABILITIES-OTHER>	4,542
<LONG-TERM>	46,478
<COMMON>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<OTHER-SE>	87,211
<TOTAL-LIABILITIES-AND-EQUITY>	955,264
<INTEREST-LOAN>	53,934
<INTEREST-INVEST>	12,132
<INTEREST-OTHER>	2,058
<INTEREST-TOTAL>	68,124
<INTEREST-DEPOSIT>	30,491
<INTEREST-EXPENSE>	34,133
<INTEREST-INCOME-NET>	33,991
<LOAN-LOSSES>	600
<SECURITIES-GAINS>	65
<EXPENSE-OTHER>	23,452
<INCOME-PRETAX>	17,590
<INCOME-PRE-EXTRAORDINARY>	17,590
<EXTRAORDINARY>	0
<CHANGES>	0

<NET-INCOME>	12,114
<EPS-PRIMARY>	1.35
<EPS-DILUTED>	1.34
<YIELD-ACTUAL>	2.50
<LOANS-NON>	1,080
<LOANS-PAST>	427
<LOANS-TROUBLED>	0
<LOANS-PROBLEM>	3,556
<ALLOWANCE-OPEN>	7,588
<CHARGE-OFFS>	790
<RECOVERIES>	296
<ALLOWANCE-CLOSE>	7,883
<ALLOWANCE-DOMESTIC>	4,739
<ALLOWANCE-FOREIGN>	0
<ALLOWANCE-UNALLOCATED>	3,145

</TABLE>