

UNITED STATES OF AMERICA

BEFORE

THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D.C.

Written Agreement by and between)
ARAB AMERICAN BANK)
New York, New York) Docket No. 99-029-WA/RB-SM
and)
FEDERAL RESERVE BANK)
OF NEW YORK)
New York, New York)
_____)

WHEREAS, in recognition of their common goal to maintain and improve the financial soundness of the Arab American Bank, New York, N.Y. (“AAB”), formerly UBAF Arab American Bank, New York, N.Y., a state-chartered bank which is a member of the Federal Reserve System, the Federal Reserve Bank of New York (the “Reserve Bank”) and AAB have mutually agreed to amend the October 31, 1996 Written Agreement (the “1996 Agreement”) between AAB and the Reserve Bank by adding certain provisions (the “1999 Amendment”);

WHEREAS, the 1999 Amendment is being executed in accordance with the Rules Regarding Delegation of Authority of the Board of Governors of the Federal

Reserve System (the “Board of Governors”), specifically 12 C.F.R. 265.11(a)(15), and the Reserve Bank has received the prior approval of the Director of the Division of Banking Supervision and Regulation and the General Counsel of the Board of Governors to enter into the 1999 Amendment with AAB; and

WHEREAS, on November 30, 1999, the board of directors of AAB, at a duly constituted meeting, adopted a resolution authorizing and directing Fakhruddin Khalil to enter into this 1999 Amendment, and thereby amend the 1996 Agreement, on behalf of AAB and consented to compliance with each and every provision of this 1999 Amendment by AAB and its institution-affiliated parties, as such term is defined in Section 3(u) of the Federal Deposit Insurance Act, as amended (The “FDI Act”) (12 U.S.C. 1813 (u)).

NOW, THEREFORE, before the taking of any testimony or adjudication of, or any finding on, any issue of fact or law herein, and without this 1999 Amendment constituting an admission of any allegation made or implied by the Board of Governors and solely for the purpose of settlement of this matter without further proceedings, AAB and the Reserve Bank hereby agree to amend the 1996 Agreement as follows:

- 1. Management, Directors, and Staff.** Within sixty (60) days of this 1999 Amendment, AAB shall conduct a review and critique and upon completion of the review and critique AAB shall submit a copy of the findings and any recommendations therein, together with a discussion of any action the directors

deem appropriate in connection with the findings and recommendations, to the Reserve Bank, with regard to the following:

- (a) The performance of its current management, with specific focus on:
 - (i) management's competency and its resolve to implement a business strategy that produces visible, sustained, positive results for the institution;
 - (ii) management depth;
 - (iii) management succession;
 - (iv) the appointment of the senior loan officer; and
 - (v) the loan review office;
- (b) the performance of its current directors, with specific focus on the frequent changes in its directors; and
- (c) its overall staffing resources and needs.

2. Business Plan. Within sixty (60) days of this 1999 Amendment, AAB shall develop and submit to the Reserve Bank a written business plan that, at a minimum, shall address, consider or include:

- (a) The customer base AAB expects to service;
- (b) the types of loans AAB expects to make;
- (c) the types of banking and nonbanking services AAB plans to offer its customers;
- (d) the geographic area AAB intends to serve;

- (e) for 1999 and 2000, a comprehensive evaluation of the income and expenses that will be generated by AAB's operations, including pro forma balance sheets and monthly profit and loss projections; and
 - (f) AAB's plans to achieve its objectives together with time frames and milestones for assessing its progress.

- 3. **Correction of Deficiencies.** Within sixty (60) days of this 1999 Amendment, AAB shall develop and submit to the Reserve Bank an acceptable written plan to correct the risk management and credit risk deficiencies identified in the Report of Examination of AAB, as of June 30, 1999.

- 4. **New Products/Business Activities.** AAB shall not engage, directly or indirectly, in any new product/business activity including, specialized lending, leasing, and private banking, without prior written notification to the Reserve Bank of the intention to engage in any such activities.

- 5. **Customer Due Diligence.** AAB shall ensure that appropriate written documentation is contained within all customer files to ensure compliance with AAB's policies and procedures regarding customer profiles and bank references.

- 6. **Asset and Liability Management.** Within forty-five (45) days of this 1999 Amendment, AAB shall update and submit to the Reserve Bank acceptable written asset and liability management policies and procedures that provide for:

- (a) Limits and tenors for each type of investment; and
- (b) an approval process to reduce interest rate risks when internal guidelines have been exceeded.

7. Approval of Findings, Recommendations and Plans. The findings, recommendations and plans required by this 1999 Amendment shall be submitted to the Reserve Bank for review and approval. Acceptable findings, recommendations and plans shall be submitted to the Reserve Bank within the required time periods. AAB shall adopt and implement the approved findings, recommendations and plans within 10 days of receipt of approval by the Reserve Bank and then shall fully comply with them. During the term of this 1999 Amendment, the approved findings, recommendations and plans shall not be amended or rescinded without the prior written approval of the Reserve Bank.

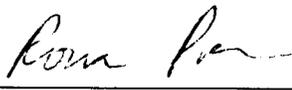
8. Progress Reports. Within 30 days of the end of each quarter (December 31, March 31, June 30 and September 30) following the date of this 1999 Amendment, AAB shall furnish to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with this 1999 Amendment and the 1996 Agreement and the results thereof.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed on this 30th day of November, 1999.

ARAB AMERICAN BANK

**FEDERAL RESERVE BANK
OF NEW YORK**

By: 
Fakhruddin Khalil
Chairman, President and CEO

By: 
Rona Pocker
Senior Vice President

The undersigned members of the board of directors of AAB each acknowledges that he has read the foregoing 1999 Amendment and approves of the consent thereto by AAB.



~~_____~~
Kazem Barakat



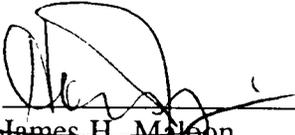
~~_____~~
Mohamed Riad Hakim
MAHMOUD MISKAL



~~_____~~
Sayed Mohamed M. Kamar
Abbas Samaha

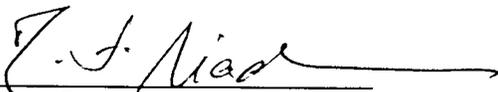


~~_____~~
Fakhruddin Khalil

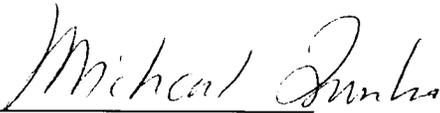


~~_____~~
James H. Malon
Hani Firdaby

~~_____~~
Mohamed Segat



~~_____~~
Albert J. Tahmoush
Maged F. Riad



~~_____~~
Emad A. Zikry - MICHAEL IUVENKO