

UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

OFFICE OF THE STATE BANK COMMISSIONER  
TOPEKA, KANSAS

Written Agreement by and among

CORNERSTONE BANCSHARES, INC.  
Overland Park, Kansas

CORNERSTONE BANK  
Overland Park, Kansas

FEDERAL RESERVE BANK OF  
KANSAS CITY  
Kansas City, Missouri

and

OFFICE OF THE STATE BANK  
COMMISSIONER  
Topeka, Kansas

Docket Nos. 09-0193-WA/RB-HC  
09-0193-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Cornerstone Bancshares, Inc., Overland Park, Kansas (“Bancshares”), a registered bank holding company, and its subsidiary bank, Cornerstone Bank, Overland Park, Kansas (the “Bank”), a state member bank, Bancshares, the Bank, the Federal Reserve Bank of Kansas City (the “Reserve Bank”), and the Kansas Office of the State Bank Commissioner (the “Commissioner”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on January 8, 2010, the boards of directors of Bancshares and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing John K. Doull to enter into this Agreement on behalf of Bancshares and the Bank, and consenting to compliance with

each and every provision of this Agreement by Bancshares, the Bank, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)).

NOW, THEREFORE, Bancshares, the Bank, the Reserve Bank, and the Commissioner agree as follows:

### **Source of Strength**

1. The board of directors of Bancshares shall take appropriate steps to fully utilize its financial and managerial resources to assist the Bank in functioning in a safe and sound manner, pursuant to Regulation Y of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. §225.4).

### **Credit Risk Management**

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to strengthen credit risk management practices.

The plan shall, at a minimum, address, consider, and include:

- (a) Policies and procedures to strengthen management of commercial real estate (“CRE”) loan concentrations consistent with Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Policies, dated December 12, 2006 (SR 07-1);
- (b) policies and procedures regarding the appropriate use of interest reserves;
- (c) procedures for monitoring acquisition, development and construction loan projects and determining whether to permit the continued use of interest reserves; and
- (d) measures to improve the timeliness and accuracy of internal loan grading and the timely recognition of losses.

## **Asset Improvement**

3. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the report of examination of the Bank conducted by the Reserve Bank that commenced on July 27, 2009 (the "Report of Examination") or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the Bank's risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank's interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit and that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the meetings of the board of directors or its committee, as appropriate, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent

supervisory review. For purposes of this Agreement, the term “related interest” is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

4. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan designed to improve the Bank’s position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$ 250,000, including other real estate owned (“OREO”), that: (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank’s problem loan list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$ 250,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank’s problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to improve the Bank’s position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Commissioner to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank’s current problem loan list, extension report, and past due/non-accrual report. The board of directors shall review the progress reports before submission to the Reserve Bank and the Commissioner, and shall document the review in the minutes of the board of directors’ meetings.

#### **Allowance for Loan and Lease Losses**

5. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified “loss” in the Report

of Examination that have not been previously collected in full or charged off. Thereafter, the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified “loss” unless otherwise approved in writing by the Reserve Bank and the Commissioner.

(b) Within 60 days of this Agreement, the Bank shall review and revise its allowance for loan and lease losses (“ALLL”) methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank and the Commissioner. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank’s loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank’s loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectibility.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income,

by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of the ALLL for that quarter.

### **Capital Plan**

6. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(a) Compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the volume of adversely classified assets;

(c) the adequacy of the loan loss reserve;

(d) any planned asset growth;

(e) the anticipated level of retained earnings;

(f) anticipated and contingent liquidity needs; and

(g) the source and timing of additional funds to fulfill the future capital and loan loss reserve needs of the Bank.

7. The board of directors shall monitor and review the sufficiency of the Bank's capital on a monthly basis and shall reflect such reviews in the minutes of the board of directors'

meetings.

### **Earnings Plan and Budget**

8. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner a written business plan for 2010 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

- (i) a realistic and comprehensive budget for calendar year 2010, including income statement and balance sheet projections; and
- (ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A business plan and budget for each calendar year subsequent to 2010 shall be submitted to the Reserve Bank and the Commissioner at least 30 days prior to the beginning of that calendar year.

### **Liquidity/Funds Management**

9. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan designed to reduce reliance on short-term wholesale funding, including brokered deposits.

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written contingency funding plan that, at a minimum, identifies available sources of liquidity and includes adverse scenario planning.

## **Dividends and Distributions**

11. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the “Director”), and the Commissioner.

(b) Bancshares shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director.

(c) Bancshares and its nonbank subsidiaries shall not directly or indirectly take dividends or any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(d) Bancshares and its nonbank subsidiaries shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(e) All requests for prior written approval shall be received at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information on Bancshares’ capital, earnings, and cash flow; the Bank’s capital, asset quality, earnings, and ALLL needs; and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, Bancshares and the Bank must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors’ Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323).

### **Debt and Stock Redemption**

12. (a) Bancshares and its nonbank subsidiaries shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Bancshares shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

### **Cash Flow Projections**

13. Within 60 days of this Agreement, Bancshares shall submit to the Reserve Bank a written statement of its planned sources and uses of cash for debt service, operating expenses, and other purposes (“Cash Flow Projection”) for 2010. Bancshares shall submit to the Reserve Bank a Cash Flow Projection for each calendar year subsequent to 2010 at least one month prior to the beginning of that calendar year.

### **Compliance with Laws and Regulations**

14. (a) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, Bancshares and the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 et seq.).

(b) Bancshares and the Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation’s regulations (12 C.F.R. Part 359).

## **Approval and Implementation of Plans and Program**

15. (a) The Bank shall submit written plans and a program that are acceptable to the Reserve Bank and the Commissioner within the applicable time periods set forth in paragraphs 2, 4, 5 (c), 6, 9 and 10 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Commissioner, the Bank shall adopt the approved plans and program. Upon adoption, the Bank shall implement the approved plans and program and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans and program shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Commissioner.

## **Progress Reports**

16. Within 30 days after the end of each calendar quarter following the date of this Agreement, Bancshares and the Bank shall submit to the Reserve Bank and the Commissioner written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

## **Communications**

17. All communications regarding this Agreement shall be sent to:

- (a) Ms. Susan E. Zubradt  
Vice President  
Federal Reserve Bank of Kansas City  
1 Memorial Drive  
Kansas City, Missouri 64198
- (b) Mr. J. Thomas Thull  
Commissioner  
Office of the State Bank Commissioner  
700 S.W. Jackson, Suite 300  
Topeka, Kansas 66603

- (c) Mr. John K. Doull  
President  
Cornerstone Bancshares, Inc., and Cornerstone Bank  
9120 W. 135<sup>th</sup> Street  
Overland Park, Kansas 66221

**Miscellaneous**

18. Notwithstanding any provision of this Agreement, the Reserve Bank and the Commissioner may, in their sole discretion, grant written extensions of time to Bancshares and the Bank, as appropriate, to comply with any provision of this Agreement.

19. The provisions of this Agreement shall be binding upon Bancshares, the Bank, and their institution-affiliated parties, in their capacities as such, and their successors and assigns.

20. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the Commissioner.

21. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Commissioner, or any other federal or state agency from taking any other action affecting Bancshares, the Bank or any of their current or former institution-affiliated parties and their successors and assigns.

22. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 14th day of January, 2010.

CORNERSTONE BANCSHARES, INC.

FEDERAL RESERVE BANK  
OF KANSAS CITY

By: /s/ John K. Doull

By: /s/ Susan E. Zubradt  
Susan E. Zubradt  
Vice President

CORNERSTONE BANK

OFFICE OF THE STATE BANK  
COMMISSIONER

By: /s/ John K. Doull

By: /s/ J. Thomas Thull  
J. Thomas Thull  
Commissioner