

**RESOLUTION OF THE BOARD OF DIRECTORS  
CORNERSTONE BANCSHARES, INC.  
February 22, 2010**

**WHEREAS**, the Board of Directors (the “Board”) of Cornerstone Bancshares, Inc. (the “Company”) desires to fulfill its oversight responsibilities with regard to managing the affairs of the Company, its only affiliate Cornerstone Community Bank (the “Bank”); and,

**WHEREAS**, the Board desires to establish standing Board committees, for both the Company and the Bank, to accomplish its oversight responsibilities more efficiently, and since the formation of such committees is not in contradiction to the charter or by-laws of the Company or Bank, or any state or Federal law; and,

**WHEREAS**, the Board desires to review and implement changes to the standing committees, from time to time, to accommodate and better align the Board’s oversight of the Company’s activities;

**THEREFORE THE BOARD RESOLVES AND APPROVES**, the following changes to the standing committees, and approves their respective charters, duties and membership rules as described in the attached addendums:

- Addendum 1 ALCO/Strategic Planning Committee
- Addendum 2 Audit/Compliance Committee
- Addendum 3 Directors Loan Committee (Bank Only)
- Addendum 4 Human Resources/Compensation Committee
- Addendum 5 Executive/Board Governance & Nominating Committee

Signed By \_\_\_\_\_ Date \_\_\_\_\_  
Chairman of the Board

Signed By \_\_\_\_\_ Date \_\_\_\_\_  
Secretary of the Board

## ADDENDUM 1

### ALCO/STRATEGIC PLANNING COMMITTEE

**Charter:** Under a Board resolution dated February 22, 2010 the ALCO/Strategic Planning Committee (the “ALCO Committee”) serves at the pleasure of the Board and will conduct its affairs as described under “Duties” below until the Board declares the dissolution of this committee by subsequent resolution. The Board may, from time to time, change, alter or amend the duties, meeting schedule or membership rules of the ALCO Committee by subsequent Board resolution. The Chairman of the Board, or his designee, will appoint current directors to this committee as membership rules dictate, or as membership vacancies occur. With a majority of the Board the selections made by the Chairman, or his designee, will be approved. The Secretary of the ALCO Committee will be required to take the meeting minutes and supply the original signed copy of the minutes to the Board’s Secretary as a permanent record. A simple majority of the directors present at any duly called meeting will be sufficient to approve any order of business.

**Duties:** The Board at its next regularly scheduled meeting must review any resolutions approved by the ALCO Committee. The ALCO Committee will oversee, approve and report to the Board management’s budget, financial statement reporting, investment and asset/liability management processes for the Company and the Bank. The ALCO Committee will require management to submit annually, by the January meeting date, a one-year financial budget (next fiscal year) and a five-year projected financial budget. Management will submit to the committee member’s monthly progress reports on all oversight processes. The format, content and discussion will be at the member’s discretion. The ALCO Committee will oversee, approve and report to the Board management’s strategic planning process. The strategic planning process includes major expansion, merger, acquisition or ventures into regulatory approved non-banking activities. The ALCO Committee will require management to submit annually, by the January meeting date, a one-year strategic plan (current year) and a five-year strategic plan. Management will submit, at least quarterly, progress reports by the meeting date following each calendar quarter-end. The format, content and discussion will be at the member’s discretion.

**Meeting Schedule:** The ALCO Committee will meet at least four (4) times annually. The ALCO Committee may also be called to meet by order of the Chairman of the Board on an as needed basis at any time.

**Membership:** Membership on the ALCO Committee will require Board approval. Vacancies will be filled by appointment to the unexpired term being filled. The ALCO Committee will be composed of four independent directors and three management representatives. All independent directors will rotate in four-year terms. The Chairman and Secretary of the ALCO Committee will be elected annually by the ALCO Committee members at the first meeting following each January 31<sup>st</sup>. The current rotation is as follows:

Independent Directors

Term expires 1/31/10 – Miller Welborn  
Term expires 1/31/11 – Billy Wiggins  
Term expires 1/31/12 – Ken Driver (Committee Chair)  
Term expires 1/31/13 – David Fussell

Management

CEO (Voting Director)  
CFO (Voting Director)  
SLA (Voting Director)  
Operations Manager

**ADDENDUM 2**  
**SUMMARY**  
**AUDIT/COMPLIANCE COMMITTEE**

\*\*\*Refer To The Audit Committee Charter For Specific Details\*\*\*

**Charter:** Under a Board resolution dated February 22, 2010 the Audit/Compliance Committee (the “Audit Committee”) serves at the pleasure of the Board and will conduct its affairs as described under “Duties” below until the Board declares the dissolution of this committee by subsequent resolution. The Board may, from time to time, change, alter or amend the duties, meeting schedule or membership rules of the Audit Committee by subsequent Board resolution. The Chairman of the Board, or his designee, will appoint current directors to this committee as membership rules dictate, or as membership vacancies occur. With a majority of the Board the selections made by the Chairman, or his designee, will be approved. The Secretary of the Audit Committee will be required to take the meeting minutes and supply the original signed copy of the minutes to the Board’s Secretary as a permanent record. A simple majority of the directors present at any duly called meeting will be sufficient to approve any order of business.

**Duties:** The Board at its next regularly scheduled meeting must review any resolutions approved by the Audit Committee. The Audit Committee will oversee, approve and report to the Board the engagement proposals for the external management audit program, the internal operational audit program and the corporate tax return preparation for the Company and the Bank. The Audit Committee will require the auditing firm to submit annually, for approval by the 1<sup>st</sup> meeting date after January 1<sup>st</sup> of each year, a one (1) year audit plan (current year). The internal auditor and loan review officer will submit periodic progress reports by each meeting date. The format, content and discussion will be at the members’ discretion. The Audit Committee will oversee, approve and report to the Board management’s activities in ensuring the Bank is in conformity with all Community Reinvestment Act requirements. In addition the Audit Committee will be responsible for ensuring the Bank is in conformity with all state and federal consumer compliance laws and regulations. The Audit Committee will require management to provide periodic reports by each meeting date. The format, content and discussion will be at the members’ discretion.

**Meeting Schedule:** The Audit Committee will meet at least four (4) times annually at a date and time as established by the Committee Chairman. The Audit Committee may also be called to meet by order of the Chairman of the Board on an as needed basis at any time.

**Membership:** Membership on the Audit Committee will require Board approval. Vacancies will be filled by appointment to the unexpired term being filled. The Audit Committee will be composed of four independent directors, management and representatives as required from the external audit firm, the internal auditor and/or the corporate tax preparer. The Board will make its best efforts to include at least one independent director who is qualified as a “Financial Expert.” All independent directors will rotate in four-year terms. The Chairman and Secretary of the Audit Committee will be elected annually by the Audit Committee members at the first meeting following the January Board meeting. The current rotation is as follows:

Independent Directors

Term expires 1/31/10 – Doyce Payne (Committee Chair)  
Term expires 1/31/11 – Frank McDonald  
Term expires 1/31/12 – Lawrence Levine  
Term expires 1/31/13 – David Fussell

Management

Outside Auditing Consultant  
CEO  
CFO  
Operations Manager  
Internal Auditor

## ADDENDUM 3

### DIRECTORS LOAN COMMITTEE

- Charter: Under a Board resolution dated February 22, 2010 the Directors Loan Committee (the “Loan Committee”) serves at the pleasure of the Board and will conduct its affairs as described under “Duties” below until the Board declares the dissolution of this committee by subsequent resolution. The Board may, from time to time, change, alter or amend the duties, meeting schedule or membership rules of the Loan Committee by subsequent Board resolution. The Chairman of the Board, or his designee, will appoint current directors to this committee as membership rules dictate, or as membership vacancies occur. With a majority of the Board the selections of the Chairman, or his designee, will be approved. The Secretary of the Loan Committee will be required to take the meeting minutes and supply the original signed copy of the minutes to the Board’s Secretary as a permanent record. A simple majority of the directors present at any duly called meeting will be sufficient to approve any order of business.
- Duties: The Board at its next regularly scheduled meeting must review any resolutions approved by the Loan Committee. The Loan Committee will be responsible for ensuring the following:
1. The Loan Committee will be accountable to the Board for the oversight and execution of the strategic plan as it relates to the Bank’s loan portfolio.
  2. The Loan Committee will provide oversight and advice on management’s compliance with all state and federal lending laws and regulations pertaining to the Company and the Bank.
  3. The Loan Committee will be responsible for ensuring the completeness of the Bank’s loan policy, and will require management to advise the Loan Committee of changes to the loan policy and to receive approval from the Loan Committee for those changes.
  4. The Loan Committee will consider approving and subsequently report to the Board, any actions taken, with regard to loan requests submitted that are within the Loan Committee’s authority.
  5. The Loan Committee will review and consider all Regulation O loans for recommendation to the Board and their subsequent consideration for approval.
  6. The Loan Committee will review and consider approving Loan Policy exceptions that are within their jurisdiction for approving, as established by the Loan Policy.
  7. The Loan Committee will review all regulatory, SOX 404 or audit exam reports and oversee the implementation of management’s corrective actions.
  8. The Loan Committee will review and consider approving the following quarterly reports:
    - a. the analysis for the calculation of the Allowance for Possible Loan Losses
    - b. the analysis of the FDIC Part 365 requirement
    - c. the Analysis of the Commercial Real Estate Loan portfolio
  9. The Loan Committee will review, at a minimum, the following monthly reports:
    - a. the calculation of the allowance for possible loan losses
    - b. the watch-list, impaired loan reserve and the classified asset ratio
    - c. listing of overdrafts, as of each month-end, over \$1,000
    - d. listing of all letters of credit outstanding at month-end
    - e. analysis and calculation of the past due ratios, non-performing loan ratio and the non-performing asset ratio
    - f. listing of the loans over \$25,000 that are past due greater than 30-days
    - g. listing of the repossessed assets and other real estate owned
    - h. analysis of the construction and development section of the loan portfolio
    - i. analysis of the home equity loan portfolio
    - j. summary of the loan commitments outstanding

- k. summary of the loan Policy limits and goals to actual performance
  - l. current status of all Regulation O borrowers
  - m. summary of all loan participations; purchase and sold
  - n. summary and analysis of the asset based lending portfolio
  - o. summary and analysis of all lending relationships greater than \$4 million
  - p. review all loans approved by the Officers' Loan Committee since the previous Directors' Loan Committee meeting
10. The Loan Committee will review and provide oversight and advice to management on the activities of the special assets committee and any reporting functions generated from the special asset committee.
11. The Loan Committee will review and consider recommending to the Board for their consideration for approval all loan charge-offs.

**Meeting**

**Schedule:** The Loan Committee will meet regularly each month. The Loan Committee may also be called to meet by order of the Chairman of the Board on an as needed basis at any time.

**Membership:** Membership on the Loan Committee will require Board approval. Vacancies will be filled by appointment to the unexpired term being filled. The Loan Committee will be composed of five independent directors and three management representatives. All independent directors will rotate in five-year terms. The Chairman and Secretary of the Loan Committee will be elected annually by the Loan Committee members at the February meeting. The current rotation is as follows:

<u>Independent Directors</u>	<u>Management</u>
Term expires 1/31/10 – Doyce Payne	CEO (Voting Director)
Term expires 1/31/11 – Miller Welborn	CCO (Voting Director)
Term expires 1/31/12 – Frank McDonald	SLA ( Non-Voting Director)
Term expires 1/31/13 – Billy Wiggins (Committee Chair)	

**ADDENDUM 4**  
**HUMAN RESOURCE/COMPENSATION COMMITTEE**  
\*\*\*Refer To The Committee Charter For Specific Details\*\*\*

**Charter:** Under a Board resolution dated February 22, 2010 the Human Resource/Compensation Committee (the “HR Committee”) serves at the pleasure of the Board and will conduct its affairs as described under “Duties” below until the Board declares the dissolution of this committee by subsequent resolution. The Board may, from time to time, change, alter or amend the duties, meeting schedule or membership rules of the HR Committee by subsequent Board resolution. The Chairman of the Board, or his designee, will appoint current directors to this committee as membership rules dictate, or as membership vacancies occur. With a majority of the Board the selections made by the Chairman, or his designee, will be approved. The Secretary of the HR Committee will be required to take the meeting minutes and supply the original signed copy of the minutes to the Board’s Secretary as a permanent record. A simple majority of the directors present at any duly called meeting will be sufficient to approve any order of business.

**Duties:** The Board at its next regularly scheduled meeting must review any resolutions approved by the HR Committee. The HR Committee will oversee, approve and report to the Board management’s activities in ensuring the Company and the Bank are in compliance with all state and federal employment laws and regulations. In addition the HR Committee will be responsible for the directors’ oversight of the employee benefit plans, including the insurance, 401(K) and employee/director stock option plans. The HR Committee will annually evaluate the performance of the CEO (“executive officer”). The HR Committee, with subsequent Board approval, will recommend changes to the executive officer’s total compensation package by the January meeting. From time to time the HR Committee will appoint an Executive Search Subcommittee, reporting directly to the Board, for the purpose of hiring executive officer(s) of the Company or the Bank. The HR Committee will require management to provide progress reports by the meeting date. The format, content and discussion will be at the members’ discretion.

**Meeting Schedule:** The HR Committee will meet when called by the Committee Chairman. The HR Committee may also be called to meet by order of the Chairman of the Board on an as needed basis at any time.

**Membership:** Membership on the HR Committee will require Board approval. Vacancies will be filled by appointment to the unexpired term being filled. The HR Committee will be composed of four independent directors and four management representatives. All independent directors will rotate in four-year terms. The Chairman and Secretary of the HR Committee will be elected annually by the HR Committee members at the first meeting following the January Board meeting. The current rotation is as follows:

Independent Directors

Term expires 1/31/10 – Karl Fillauer  
Term expires 1/31/11 – Marsha Yessick (Committee Chair)  
Term expires 1/31/12 – Lawrence Levine  
Term expires 1/31/12 – Ken Driver

Management

CEO  
Human Resource Officer

## ADDENDUM 5

### EXECUTIVE/BOARD GOVERNANCE & NOMINATING COMMITTEE

**Charter:** Under a Board resolution dated February 22, 2010 the Executive/Board Governance & Nominating Committee (“the Committee”) serves at the pleasure of the Board and will conduct its affairs as described under “Duties” below until the Board declares the dissolution of this committee by subsequent resolution. The Board may, from time to time, change, alter or amend the duties, meeting schedule or membership rules of the Committee by subsequent Board resolution. The Chairman of the Board, or his designee, will appoint current directors to this committee as membership rules dictate, or as membership vacancies occur. With a majority of the Board the selections made by the Chairman, or his designee, will be approved. The Secretary of the Committee will be required to take the meeting minutes and supply the original signed copy of the minutes to the Board’s Secretary as a permanent record. A simple majority of the outside directors present at any duly called meeting will be sufficient to approve any order of business.

**Duties:** The Board at its next regularly scheduled meeting must review any resolutions approved by the Committee. The Committee will have the authority of the Board during periods where the Board is unable to meet to conduct the Board’s affairs between Board meetings. The Committee will oversee the state and federal requirements for appropriate Board governance. The Committee will develop guidelines and selection criteria for recommending nominees for directorship in the Bank or the Company. The Committee will recommend and report to the Board the selection of nominees to replace unfilled director’s positions on the Board for the Company and the Bank. The Committee will oversee the initial and continuous training activities of the directors in their regulatory duties as bank directors.

**Meeting Schedule:** The Committee will meet at least once annually or when called by the Committee Chairman. The Committee may also be called to meet by order of the Chairman of the Board on an as needed basis at any time.

**Membership:** Membership on the Committee will require Board approval. Vacancies will be filled by appointment to the unexpired term being filled. The Committee will be composed of four independent directors and representatives from management. All independent directors will rotate in four-year terms. The Committee members at the first meeting called will elect the Chairman and Secretary of the Committee. The current rotation is as follows:

Independent Directors

Term expires 1/31/10 – Marsha Yessick

Term expires 1/31/11 – Karl Fillauer

Term expires 1/31/12 – Ken Driver

Term expires 1/31/13 – Miller Welborn (Committee Chair)

Management

CEO (Voting Director)