

IN THE MATTER OF CORNERSTONE BANK) STATE OF NEW JERSEY
) DEPARTMENT OF
MOORESTOWN, NEW JERSEY) BANKING AND INSURANCE

CONSENT ORDER

TO: CORNERSTONE BANK
Board of Directors
253 W. Main Street
Moorestown, NJ 08057

BOARD OF DIRECTORS
CORNERSTONE BANK

Acknowledged:
Cornerstone Bank, Moorestown, New Jersey

By:

Mark J. Baiada, Director

Susan E. Barrett, Director

Richard J. Carnall, Director

Gaetano P. Giordano, Jr., Director

Robert A. Kennedy, Jr., Director

George W. Matteo, Jr., Director

Ronald S. Murphy, Director

Bruce E. Paparone, Director

WHEREAS, the Commissioner of Banking and Insurance of the State of New Jersey ("Commissioner") is charged with the responsibility of administering and enforcing the New Jersey Banking Act of 1948, N.J.S.A. 17:9A-1 et seq. ("the Act"); and

WHEREAS, Cornerstone Bank ("Bank") is a financial institution chartered by the Commissioner under the Act; and

WHEREAS, pursuant to N.J.S.A. 17:9A-267, the Commissioner may order a state chartered financial institution to cease any unsafe and unsound practices; and

WHEREAS, the Commissioner and the Bank having agreed to enter into this Consent Order (ORDER) pursuant to N.J.S.A. 17:9A-267, and the Bank, without admitting or denying any charges of unsafe and sound banking practices and violations of law or regulation, hereby consent to the following provisions;

NOW THEREFORE, it is on this 22nd day of October, 2012, ORDERED AND AGREED that:

MANAGEMENT

1. (a) Within 60 days from the effective date of this ORDER, the Board, or a committee appointed by the Board, shall analyze and assess the Bank's management, staffing performance, and needs. The analysis and assessment shall be summarized in a written report ("Management Report").

(b) At a minimum, the Management Report shall:

- (i) identify the type and number of officer positions needed to manage and supervise the affairs of the Bank, detailing any vacancies or additional needs and giving appropriate consideration to the size and complexity of the Bank;
- (ii) identify the type and number of staff positions needed to carry out the Bank's strategic plan, detailing any vacancies or additional needs;
- (iii) present a clear and concise description of the relevant knowledge, skills, abilities, and experience necessary for each position, including delegations of authority and performance objectives;
- (iv) identify training and development needs; and

(v) identify and establish Bank committees needed to provide guidance and oversight to management.

BOARD PARTICIPATION

2. (a) The Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size.

(b) This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged off, and recovered loans; investment activity; liquidity levels and funds management; adoption or modification of operating policies; individual committee reports; audit reports; internal control reviews including managements' responses; reconciliation of general ledger accounts; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(c) The Bank shall notify the Commissioner of the New Jersey Department of Banking and Insurance ("Commissioner") and the Regional Director of the FDIC's New York Regional Office ("Regional Director") in writing of any resignations or terminations of any members of its Board or any of its "senior executive officers" (as that term is defined in section 303.101(b) of the FDIC's Rules and Regulations, 12 C.F.R. § 303.101(b)) within 10 days of the event. Any notification required by this subparagraph shall include a description of the background(s) and experience of any proposed replacement personnel and must be received at least 30 days prior to the individual(s) assuming the new position(s). The Bank shall also

establish procedures to ensure compliance with section 32 of the Federal Deposit Insurance Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC's Rules and Regulations, 12 C.F.R. Part 303.

LOSS CHARGE-OFF

3. The Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" by the Department of Banking and Insurance ("Department") or the FDIC in the current report of examination that have not been previously collected or charged off. Elimination or reduction of such assets with the proceeds of other Bank extensions of credit shall not be considered "collection" for purposes of this paragraph. Thereafter, within 30 days after the receipt of any report of examination of the Bank from the Department or the FDIC, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in any report of examination that have not been previously collected or charged off.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

4. (a) Within 45 days from the effective date of this ORDER, the Bank shall formulate and submit for review as described in subparagraph (c), a written plan ("Delinquent and Classified Asset Plan") to reduce the Bank's risk position in each asset in excess of \$250,000 which is more than 90 days delinquent or classified "substandard," "doubtful" or listed for "special mention" in the current report of examination. Thereafter, the Delinquent and Classified Asset Plan shall be revised to reduce the Bank's risk position in each asset in excess of \$250,000 which becomes more than 90 days delinquent or classified "substandard," "doubtful" or listed for "special mention" in any subsequent report of examination. For purposes of this provision,

“reduce” means to collect, charge off, or improve the quality of an asset so as to warrant its removal from adverse classification by the Commissioner and the Regional Director.

(b) The Delinquent and Classified Asset Plan shall include, at a minimum, the following:

(i) an action plan to review, analyze and document the current financial condition of each delinquent or classified borrower including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank’s collateral position;

(ii) a schedule for reducing the outstanding dollar amount of each delinquent or adversely classified asset, including timeframes for achieving the reduced dollar amounts (at a minimum, the schedule for each delinquent or adversely classified asset must show its dollar balance on a quarterly basis);

(iii) specific action plans intended to reduce the Bank’s risk exposure in each delinquent or classified asset;

(iv) delineate areas of responsibility for loan officers; and

(v) provide for the submission of monthly written progress reports to the Board for review and notation in minutes of the Board meetings.

(c) The Delinquent and Classified Asset Plan shall be submitted to the Commissioner and the Regional Director for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Commissioner and the Regional Director, and after incorporation and adoption of all comments, the Board shall approve the Delinquent and Classified Asset Plan, which approval shall be recorded in the minutes of the Board meeting.

Thereafter, the Bank shall implement and fully comply with the Delinquent and Classified Asset Plan.

(d) The Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who is already obligated in any manner to the Bank on any extensions of credit (including any portion thereof) that has been charged off the books of the Bank or classified "loss" in the current or any future report of examination, so long as such credit remains uncollected. If the Bank determines that failure to extend any additional credit would be substantially detrimental to the best interests of the Bank, a waiver may be requested from the Commissioner and the Regional Director. Such waiver request shall be made by the Board and contain a certification in writing as to the specific reasons why failure to advance additional funds would be substantially detrimental to the best interests of the Bank.

(e) The Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower whose loan or other credit is more than 90 day delinquent or has been classified "substandard," "doubtful," or is listed for "special mention" in the current or any future report of examination, and is uncollected, unless the Board or a designated committee thereof, provides in writing, a detailed explanation of why the extension is in the best interest of the Bank. Prior to extending additional credit pursuant to this subparagraph, whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Board, who shall determine that:

(i) the failure of the Bank to extend such credit would be detrimental to the best interests of the Bank, with a written explanation of why the failure to extend such credit would be detrimental;

(ii) the extension of such credit would improve the Bank's position, with a written explanatory statement of how and why the Bank's position would improve; and

(iii) an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended.

(f) The Board's determinations and approval shall be recorded in the minutes of the Board meeting and copies shall be submitted to the Commissioner and the Regional Director at such times as the Bank submits the progress reports required by this ORDER or sooner upon the written request of the Commissioner or the Regional Director.

LOAN REVIEW PROGRAM

5. (a) Within 45 days from the effective date of this ORDER, the Board shall establish a program of independent loan review that will provide for a periodic review of the Bank's loan portfolio and the identification and categorization of problem credits ("Loan Review Program").

(b) At a minimum, the Loan Review Program shall provide for:

(i) prompt identification of loans with credit weaknesses that warrant the special attention of management, including the name of the borrower, amount of the loan, reason why the loan warrants special attention; and assessment of the degree of risk that the loan will not be fully repaid according to its terms;

(ii) prompt identification of all outstanding balances and commitments attributable to each obligor identified under the requirements of subparagraph (i), including outstanding balances and commitments attributable to related interests of such obligors, including the obligor of record, relationship to the primary obligor identified under subparagraph (i), and an assessment of the risk exposure from the aggregate relationship;

- (iii) identification of trends affecting the quality of the loan portfolio and potential problem areas;
- (iv) assessment of the overall quality of the loan portfolio;
- (v) identification of credit and collateral documentation exceptions;
- (vi) identification and status of violations of laws, rules, or regulations with respect to the lending function;
- (vii) identification of loans that are not in conformance with the Bank's Loan Policy;
- (viii) identification of loans to directors, officers, principal shareholders, and their related interests; and
- (ix) a mechanism for reporting periodically, but in no event less than quarterly, the information developed in (i) through (viii) above to the Board.

(c) The Loan Review Program shall be submitted to the Commissioner and the Regional Director for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Commissioner and the Regional Director, and after incorporation and adoption of all comments, the Board shall approve the Loan Review Program, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Loan Review Program.

LOAN POLICY

6. (a) Within 60 days from the effective date of this ORDER, the Bank shall conduct a review of the Bank's loan policies and procedures for adequacy and, based upon such review, shall make all appropriate revisions to the loan policies and procedures ("Loan Policy") necessary to address the lending deficiencies identified in the current report of examination. The

revised Loan Policy shall be submitted for review as described in subparagraph (c). The Board shall also establish review and monitoring procedures to ensure that all lending personnel adhere to the Loan Policy, and that the Board receives timely and fully documented reports on loan activity, including reports that identify deviations from the Loan Policy.

(b) The Loan Policy shall, at minimum:

(i) require that all extensions of credit originated or renewed by the Bank, including loans purchased from a third party (loan participations):

1. have a clearly defined and stated purpose;

2. have a predetermined and realistic repayment source and schedule, including secondary source of repayment;

3. are supported by complete loan documentation, including lien searches, perfected security interests, and collateral valuations; and

4. are supported by current financial information, profit and loss statements or copies of tax returns, and cash flow projections, which shall be maintained throughout the term of the loan; and are otherwise in conformance with the Loan Policy;

(ii) incorporate limitations on the amount that can be loaned in relation to established collateral values, require the source of collateral valuations to be identified, require that collateral valuations be completed prior to the commitment to lend funds, and require that collateral valuations be performed on a periodic basis over the term of the loan;

(iii) require accurate reporting of past due loans to the Board or the Bank's loan committee at least monthly;

(iv) require the individual reporting of loans granted as exception to the Loan Policy and aggregation of such loans in the portfolio;

(v) prohibit the capitalization of interest or loan-related expenses unless the Board or the Bank's loan committee provides, in writing, a detailed explanation of why such action is in the best interest of the Bank; and

(vi) establish review and monitoring procedures for compliance with the FDIC's appraisal regulation, 12 C.F.R. Part 323, and the *Interagency Appraisal and Evaluation Guidelines* (FIL-74-94, issued November 11, 1994).

(c) The Loan Policy shall be submitted to the Commissioner and the Regional Director for non-objection or comment. Within 30 days from receipt of non-objection or comments from the Commissioner and the Regional Director, and after incorporation and adoption of all comments, the Board shall approve the Loan Policy, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Loan Policy.

CAPITAL

7. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop a written plan ("Capital Plan"), subject to review and approval of the Commissioner and the Regional Director, that details the manner in which the Bank will meet and maintain a Tier 1 Capital at least equal to 8 percent of total assets; a Tier 1 risk-based Capital at least equal to 10 percent of total risk-weighted assets; and a Total risk-based Capital at least equal to 12 percent of total risk-weighted assets (as such terms are defined in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325). At a minimum, the Capital Plan shall include specific benchmark Tier 1 Capital Ratios, Tier 1 Risk-Based Capital Ratios and Total Risk-Based Capital Ratios to be met at each calendar quarter end until the required capital levels are achieved. The

Bank shall comply with the FDIC's Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, App. A.

(b) In the event any required capital ratio falls below the minimum required by the approved Capital Plan, the Bank shall immediately notify the Regional Director and the Department, and:

(i) within 45 days shall increase capital in an amount sufficient to comply with the capital ratios as set forth in the approved Capital Plan; or

(ii) within 45 days submit to the Commissioner and the Regional Director a contingency plan for the sale, merger, or liquidation for the Bank in the event the capital ratios are not met as set forth in the approved Capital Plan.

(c) The Capital Plan shall be submitted to the Commissioner and the Regional Director for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Commissioner and the Regional Director, and after incorporation and adoption of all comments, the Board shall approve the Capital Plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Capital Plan.

(d) The Board shall review the Bank's adherence to the Capital Plan, at minimum, on a monthly basis. Copies of the reviews and updates shall be submitted to the Commissioner and the Regional Director as part of the progress reports required by this ORDER, and any material changes to the Capital Plan shall be submitted to the Commissioner and the Regional Director no later than 10 days after completion.

PROFIT AND BUDGET PLAN

8. (a) Within 90 days from the effective date of this ORDER, and within the first 45 days of each calendar year thereafter, the Bank shall formulate and submit for review as described in subparagraph (c), a written profit and budget plan ("Profit Plan") consisting of goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by this ORDER.

(b) The Profit Plan shall include, at a minimum:

(i) a description of the operating assumptions that form the basis for, and adequately support, material projected revenue and expense components;

(ii) specific goals to maintain appropriate provisions to the ALLL;

(iii) realistic and comprehensive budgets for all categories of income and expense;

(iv) an executive compensation plan, addressing any and all salaries, bonuses and other benefits of every kind or nature whatsoever, both current and deferred, whether paid directly or indirectly, which plan incorporates qualitative as well as profitability performance standards for the Bank's senior executive officers;

(v) a budget review process to monitor the revenue and expenses of the Bank whereby actual performance is compared against budgetary projections not less than quarterly; and

(vi) recording the results of the budget review and any actions taken by the Bank as a result of the budget review in the Board minutes.

(c) The Profit Plan shall be submitted to the Commissioner and the Regional Director for non-objection or comment. Within 30 days from receipt of non-objection or any

comments from the Commissioner and the Regional Director, and after incorporation and adoption of all comments, the Board shall approve the Profit Plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Profit Plan.

(d) Within 30 days following the end of each calendar quarter following completion of the Profit Plan required by this paragraph, the Board shall evaluate the Bank's actual performance in relation to the Profit Plan, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the Board meeting at which such evaluation is undertaken. A copy of the evaluation, including any action taken, shall be submitted to the Commissioner and the Regional Director at such times as the Bank submits the progress report required by Paragraph 14 of this Order.

STRATEGIC PLAN

9. (a) Within 90 days from the effective date of this ORDER, the Bank shall develop and submit for review as required by subparagraph (c), a written strategic plan ("Strategic Plan") supported by an operating budget and consisting of goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by this ORDER. The Strategic Plan shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The Strategic Plan shall include, at a minimum:

(i) identification of the major areas in and means by which the Bank will seek to improve operating performance;

(ii) specific goals to improve the net interest margin, increase interest income, reduce discretionary expenses;

(iii) financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and

(iv) coordination of the Bank's loan, investment, funds management, and operating policies, profit and budget plan, and ALLL methodology with the Strategic Plan.

(c) The Strategic Plan shall be submitted to the Commissioner and the Regional Director for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Commissioner and the Regional Director, and after incorporation and adoption of all comments, the Board shall approve the Strategic Plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Strategic Plan.

(d) The Strategic Plan required by this ORDER shall be revised 30 days prior to the end of each calendar year, and approved by the Board, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and adhere to the revised Strategic Plan.

CORRECTIVE ACTIONS

10. The Bank shall take all steps necessary, consistent with other provisions of this ORDER and safe and sound banking practices, to eliminate or correct and prevent unsafe or unsound banking practices, and all contraventions of regulatory policies or guidelines cited in the current report of examination.

SHAREHOLDER DISCLOSURE

11. Within 30 days from the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its parent holding company. The description shall fully describe the ORDER in all material respects.

COMPLIANCE COMMITTEE

12. (a) Within 30 days from the effective date of this ORDER, the Board shall establish a compliance committee ("Compliance Committee"), composed of at least 3 directors who are not now, and have never been, involved in the daily operations of the Bank, and whose composition is acceptable to the Commissioner and the Regional Director, to monitor compliance with this ORDER.

(b) The Compliance Committee shall monitor compliance with this ORDER and submit a written report monthly to the entire Board, and a copy of the report and any discussion related to the report or this ORDER shall be part of the minutes of the Board meeting. Copies of the monthly report shall be submitted to the Commissioner and the Regional Director as part of the progress reports required by this ORDER. Nothing contained herein shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

DIVIDEND RESTRICTION

13. The Bank shall not declare or pay any dividend without the prior written consent of the Commissioner and the Regional Director.

PROGRESS REPORTS

14. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Commissioner and the Regional Director written progress reports detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. All progress reports and other written responses to this ORDER shall be reviewed by the Board and made a part of the Board minutes.

The provisions of this ORDER shall not bar, estop, or otherwise prevent the Department or the FDIC, or any other federal or state agency or department, from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER shall be effective on the date of issuance.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the Commissioner.

This agreement may be executed in several counterparts, each of which shall be deemed an original, and all of such counterparts together shall constitute one and the same instrument.

In the event any paragraph of this CONSENT ORDER is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining paragraphs hereof shall not in any way be affected or impaired thereby.

This CONSENT ORDER is entered into under the Commissioner's authority under the New Jersey Banking Act of 1948 and shall have the full force of law as provided in N.J.S.A. 17:9A-267 and 268.



Kenneth E. Kobylowski, Acting Commissioner
Department of Banking and Insurance

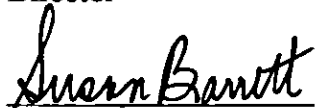
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Consented to as to form, content and entry:

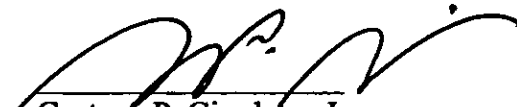
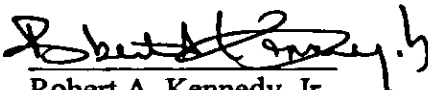
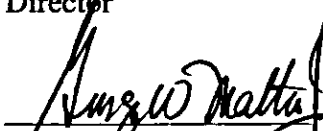
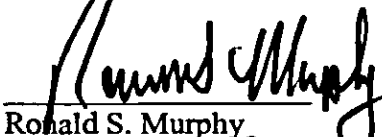
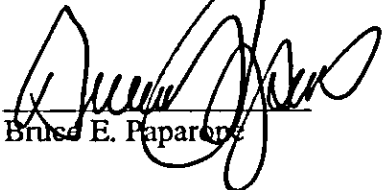
Cornerstone Bank



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