

CORNERSTONE BANCSHARES INC

FORM 10QSB (Quarterly Report of Financial Condition)

Filed 5/15/2000 For Period Ending 3/31/2000

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Fiscal Year	12/31

U.S. Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended MARCH 31, 2000

**TRANSITION REPORT PURSUANT SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 333-26699

CORNERSTONE BANCSHARES, INC.

(Exact name of small business issuer as specified in its charter)

TENNESSEE
(State of other jurisdiction of
incorporation or organization)

62-1173944
(IRS Employer
Identification No.)

6401 SUITE B
LEE CORNERS

CHATTANOOGA, TENNESSEE 37421
(Address of principal executive offices)

(423) 385-3000
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 1,166,629 SHARES OF COMMON STOCK AS OF MARCH 31, 2000.

Transitional Small Business Disclosure Format (check one):

Yes [] No [X]

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CORNERSTONE BANCSHARES**

PRESENTATION OF FINANCIAL INFORMATION

The 2000 financial information in this report has not been audited. The information included herein should be read in conjunction with the notes to consolidated financial statements included in the 1999 Annual Report to Shareholders which was furnished to each shareholder of the Company in March 2000. The consolidated financial statements presented herein conform to generally accepted accounting principles and to general industry practices.

Consolidation

The accompanying consolidated financial statements include the accounts of Cornerstone Bancshares Inc. (The "Company") and its sole subsidiary Cornerstone Community Bank.

Substantially all intercompany transactions, profits and balances have been eliminated.

Accounting Policies

During interim periods, Cornerstone Bancshares follows the accounting policies set forth in its 10-K for the year ended December 31, 1999, as filed with the Securities and Exchange Commission. Since December 1999, there have been no changes in any accounting principles or practices, or in the method of applying any such principles or practices.

Interim Financial Data (Unaudited)

In the opinion of the Company management, the accompanying interim financial statements contain all material adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial condition, the results of operations, and cash flows for the interim period. Results for interim periods are not necessarily indicative of the results to be expected for a full year.

Earnings Per Common Share

Basic earnings per share ("EPS") is computed by dividing income available to common shareholders (numerator) by the number of common shares outstanding (denominator). Diluted EPS is computed by dividing income available to common shareholders (numerator) by the adjusted number of shares outstanding (denominator). The adjusted number of shares outstanding reflects the potential dilution occurring if securities or other contracts to issue common stock were exercised or converted into common stock resulting in the issuance of common stock that share in the earnings of the entity.

Forward-Looking Statements

Certain written and oral statements made by or with the approval of an authorized executive officer of the Company may constitute "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995. Words or phrases such as "should result, are expected to, we anticipate, we estimate, we project" or similar expressions are intended to identify forward-looking

statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from the Company's historical experience and its present expectations or projections. These risks and uncertainties include, but are not limited to, unanticipated economic changes, interest rate movements and the impact of competition. Caution should be taken not to place undue reliance on any such forward-looking statements since such statements speak only as of the date of making such statements.

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CONDITION	Unaudited March 31,	December 31,	Unaudited March 31,
ASSETS	2000	1999	1999
Cash and due from banks	5,997,383	7,721,701	5,454,637
Federal funds sold	500,000	0	6,445,000
Investment securities available for sale	15,106,432	13,339,306	8,524,813
Investment securities held to maturity	5,286,376	5,723,320	8,024,303
Loans, less allowance for loan loss	78,006,363	71,323,878	67,174,147
Premises and equipment, net	2,215,250	2,231,179	1,940,085
Accrued interest receivable	727,002	656,159	570,966
Excess cost over fair value of assets acquired	2,693,963	2,722,651	2,806,331
Other assets	2,372,991	2,084,033	1,568,554
	-----	-----	-----
Total assets	112,905,761	105,802,227	102,508,835
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits			
Non interest bearing	11,342,594	12,411,939	10,396,679
NOW accounts	18,495,979	12,626,200	13,749,522
Savings deposits and money market accounts	10,985,321	10,254,825	9,315,445
Time deposits of \$100,000 or more	13,844,691	16,129,350	15,677,132
Time deposits of less than \$100,000	43,752,236	39,923,313	40,517,135
	-----	-----	-----
Total deposits	98,420,822	91,345,627	89,655,913
Other Borrowings	2,184,893	2,179,363	210,626
Accrued interest payable	180,043	189,870	913,699
Other liabilities	160,035	193,108	1,250,000
Note Payable	--	--	--
	-----	-----	-----
Total Liabilities	100,945,793	93,907,968	92,030,238
	-----	-----	-----
Redeemable common stock	--	237,504	237,504
Stockholders' Equity			
Common stock	1,166,629	1,166,629	1,009,561
Additional paid-in capital	11,321,776	11,128,234	9,260,418
Undivided profits (deficit)	(353,851)	(454,818)	(44,978)
Net unrealized gain in securities available for sale	(174,586)	(183,290)	16,092
	-----	-----	-----
Total Stockholders' Equity	11,959,968	11,894,259	10,478,597
	-----	-----	-----
Total liabilities and stockholders equity	112,905,761	105,802,227	102,508,835
	=====	=====	=====

CONSOLIDATED STATEMENTS OF INCOME

Unaudited
Three months ended
March 31,

	2000	1999
INTEREST INCOME		
Interest and fees on loans	1,844,549	1,577,138
Interest on investment securities	329,145	275,936
Interest on federal funds sold	2,517	38,533
Interest on other earning assets	253	--
Total interest income	2,176,465	1,891,607
INTEREST EXPENSE		
Interest bearing demand accounts	62,587	60,781
Money market accounts	60,097	52,070
Savings accounts	29,949	26,629
Time deposits of less than \$100,000	548,856	555,771
Time deposits of \$100,000 or more	205,302	238,067
Federal funds purchased	21,586	732
Securities sold under agreements to repurchase	21,091	1,678
Other borrowings	--	24,219
Total interest expense	949,467	959,947
Net interest income	1,226,998	931,660
Provision for loan losses	158,500	50,000
Net interest income after the provision for loan losses	1,068,498	881,660
NONINTEREST INCOME		
Service charges on deposit accounts	93,016	91,178
Net securities gains (losses)	--	--
Other income	66,574	37,031
Total noninterest income	159,591	128,209
NONINTEREST EXPENSE		
Salaries and employee benefits	559,637	480,345
Occupancy and equipment expense	125,468	128,183
Other operating expense	417,785	382,756
Total noninterest expense	1,102,890	991,284
Income before provision for income taxes	125,198	18,585
Provision for income taxes	24,224	21,868
NET INCOME	100,974	(3,283)
Basic net income per common share	0.09	(0.00)
Diluted net income per common share	0.08	(0.00)
Dividends declared per common share	--	--

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31

	Unaudited Three months ended March 31,	
	2000	1999
Cash flows from operating activities:		
Net income	100,974	(3,283)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for possible loan losses	158,500	50,000
Net Charge-offs	(131,471)	--
Provision for depreciation and amortization	87,282	--
Accrued interest receivable	(70,843)	67,475
Accrued interest payable	(9,827)	(60,008)
Changes in other assets and liabilities:	(322,032)	(225,449)
Net cash used in operating activities	(187,416)	(171,265)
	=====	=====
Cash flows from investing activities:		
Purchase of investment securities: AFS	(1,963,125)	(2,316,702)
Purchase of investment securities: HTM	--	--
Proceeds from security transactions: AFS	192,876	4,086,501
Proceeds from security transactions: HTM	440,643	--
Net increase in loans	(6,709,521)	5,318,402
Purchase of bank premises and equipment	(34,539)	(32,312)
Net cash used in investing activities	(8,073,665)	7,055,889
	=====	=====
Cash flows from financing activities:		
Net increase in deposits	7,075,195	(8,343,937)
Net increase in repurchase agreements	5,530	663,135
Net increase of notes payable	--	--
Issuance of common stock	(43,962)	1,848
Net cash provided by financing activities	7,036,763	(7,678,954)
	=====	=====
Net increase in cash and cash equivalents	(1,224,318)	(794,330)
Cash and cash equivalents beginning of period	7,721,701	12,693,967
Cash and cash equivalents end of period	6,497,383	11,899,637
	=====	=====

CORNERSTONE BANCSHARES, INC. AND SUBSIDIARY
CHANGES IN STOCKHOLDERS' EQUITY
MARCH 31, 1999

Unaudited
Three months ended
March 31,

	COMPREHENSIVE INCOME -----	COMMON STOCK -----	ADDITIONAL PAID-IN CAPITAL -----	RETAINED EARNINGS (DEFICIT) -----	ACCUMULATED OTHER COMPREHENSIVE INCOME -----	TOTAL STOCKHOLDERS' EQUITY -----
BALANCE, DECEMBER 31, 1999		1,166,629	11,128,234	(454,818)	(183,290)	11,656,755
REDEMPTION OF COMMON STOCK		(14,844)	(222,660)			(237,504)
INSURANCE OF EXISTING COMMON STOCK		14,844	178,698			193,542
ISSUANCE OF NEWLY AUTHORIZED COMMON STOCK		0	0			0
DECREASE IN REDEEMABLE COMMON STOCK			237,504			237,504
COMPREHENSIVE INCOME: NET INCOME	100,967			100,967		100,967
OTHER COMPREHENSIVE, NET OF TAX: UNREALIZED HOLDING GAINS (LOSSES) ON SECURITIES AVAILABLE FOR SALE, NET OF RECLASSIFICATION ADJUSTMENT	8,704				8,704	8,704
TOTAL COMPREHENSIVE INCOME	109,671 =====					
BALANCE, MARCH 31, 2000		1,166,629 =====	11,321,776 =====	(353,851) =====	(174,586) =====	11,959,968 =====

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

OVERVIEW

The company ended the first three months of 2000 with total assets of \$113 million, a 6.7% increase from December 31, 1999, and a 10.1% increase from March 31, 1999. The company reported net income for the third quarter ending March 31, 2000 of \$100,974, or \$0.09 basic earnings per share, compared to \$(3,283) or \$0.00 basic earnings per share, for the same period in 1999. The increase in earnings represents a 3100.5% increase from the first quarter 1999 compared to the first quarter of 2000.

The increase in net income from first quarter 1999 to first quarter 2000 is primarily due to improvement in the quality of the loan portfolio and the steady growth in core customer relationships, which bring low cost deposits and quality loans to the balance sheet. The Company has completed an extensive reorganization and purged a net \$1.3 million of bad loans from the balance sheet during 1999. Concurrently the Company made the strategic decision to place a priority on raising core deposits which caused a large number of large depositors with only high yield certificates of deposit leave the Bank to other financial institutions willing to pay higher rates. The result has been a dramatic increase in the Bank's net interest margin to 5.13% in first quarter of 2000 from 3.92% in the first quarter of 1999. This represents an increase of 120 basis points over the net interest margin during the first quarter of 1999. Going forward the Bank expects the net interest margin to fall into line with their peer group and will focus on improving the Bank's efficiency ratio to create further increases to net income of the Company. The Company expects net income to materially increase over the next several quarters as the loan portfolio quality continues to improve and the Bank efficiency ratio's fall inline with other peer banks.

The Strategic plan of the company is to provide a competitive footprint (convenient branches) to the Chattanooga MSA (Metropolitan Statistical Area) which would allow Cornerstone Bancshares to compete with the three major regional banks located in the area. The Bank will focus its efforts in the suburb branch network and not on a central Hub Bank located in downtown Chattanooga. The customer base will consist of small businesses and individual consumers.

Cornerstone Community Bank is operating under a Memorandum of Understanding with the Tennessee Department of Financial Institutions and the Federal Deposit Insurance Corporation. Among other things, the Memorandum provides the following:

- The Board of Directors must develop a written management plan that addresses Cornerstone Community Bank's plans for size, structure, growth, earnings, services, information systems, personnel, accounting, financial reporting and operating matters;
- Cornerstone Community Bank must maintain a Tier I leverage capital ratio of equal to or greater than 8%;
- Cornerstone Community Bank may not pay dividends without the prior approval of the FDIC; and
- Cornerstone Community Bank must report its progress on the actions required by the Memorandum to the FDIC on specific dates.

At September 30, 1999, Cornerstone Community Bank reported to the FDIC that it was

in compliance with all provisions of the Memorandum. However, because of the increased regulatory scrutiny required by the Memorandum, the activities of Cornerstone Community Bank and Cornerstone are more restricted, and these restrictions may affect the flexibility of Cornerstone in conducting its business operations.

FINANCIAL CONDITION

Earning Assets. Average earning assets for three months ending March 31, 2000 increased \$3.0 million or 3.2% above the three months ending March 31, 1999, while actual earning assets increased \$8.5 million or 9.4% during the same time period. The average balance increase was due to strong loan demand and a steady growth in core deposits during the period. Management expects average earning assets to steadily increase during the rest of 2000 and expects a 15.0% growth for the year and anticipates similar growth in 2001.

Loan Portfolio. Cornerstone's average loans for the first three months of 2000 were \$75.8 million, an increase of \$4.0 million or 5.5% from the first quarter in 1999, while actual balances increased to \$79.0 million, an increase of 15.6% above \$68.4 million in loans in the first quarter of 1999. Management is anticipating increased loan growth for the remainder of the year in average balances, with a smaller increase in actual balances. This is due primarily to the Bank loan to asset ratio's reaching industry norm and as a result loan growth will be restricted to the percentage of asset growth going forward. However, the amount of such growth, if any, will depend upon general economic conditions.

Investment Portfolio. Cornerstone's investment securities portfolio increased by 23.2% or \$3.8 million from March 31, 1999 to March 31, 2000. The growth was a timing issue as the bank remained liquid (holding \$6.4 million in Fed Funds) as management made its transition and allowed expensive deposits to terminate. Cornerstone maintains an investment strategy of making prudent investment decisions with active management of the portfolio to optimize, within the constraints of established policies, an adequate return and value. Investment objectives include Gap Management, Liquidity, Pledging, Return, and Local Community Support in that order of priority. Cornerstone maintains two classifications of investment securities: "Held to Maturity" (HTM) and "Available for Sale" (AFS). The "Available for Sale" securities are carried at fair market value, whereas the "Held to Maturity" securities are carried at book value. As of March 31, 2000, unrealized losses in the "Available for Sale" portfolio amounted to \$264,523 or 1.7% decrease in value.

Deposits. Cornerstone's average deposits increased \$0.4 million or 0.5% from March 31, 1999 to March 31, 2000, while actual deposit balances increased \$8.8 million or 9.8%. The actual deposit growth has been broad based with the exception of certificates of deposit over \$100,000, which decreased 11.7% during the same time period. Management will continue to focus its efforts on attracting core deposits and expects average deposit growth in the 10% level for the next several quarters. Transaction accounts will be continuously solicited from new customers and existing customers. Transaction accounts are the Bank's highest priority and will provide the Bank with an increased net interest margin.

Capital Resources. Stockholders' average equity increased \$1.4 million or 13.7% to \$11.9 million for the three months ending March 31, 2000, compared with \$10.5 million during the same three months ending March 31, 1999. Actual equity increased \$1.5 million or 14.1% from March 31, 1999 to March 31, 2000. This increase was primarily due to a capital program to encourage warrant holders to exercise their warrants with net proceeds of approximately \$2 million. The balance represents current year losses sustained from operations and unrealized losses in the bond portfolio. The Company has approved a stock offering of 150,000 shares of common stock at \$13 per share (\$1.9 million). The Company will initiate the offering during the 2nd quarter of 2000.

**CONSOLIDATED AVERAGE BALANCE SHEET
INTEREST INCOME/EXPENSE AND YIELD/RATES
TAXABLE EQUIVALENT BASIS
(IN THOUSANDS)**

THREE MONTHS ENDED
MARCH 31,

ASSETS	2000			1999		
	AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE
EARNING ASSETS:						
LOANS, NET OF UNEARNED INCOME	75,760	1,845	9.79%	71,792	1,555	8.71%
INVESTMENT SECURITIES	20,404	332	6.55%	21,402	314	5.91%
OTHER EARNING ASSETS	--	--	--	--	--	--
TOTAL EARNING ASSETS	96,164	2,177	9.10%	93,194	1,870	8.07%
ALLOWANCE FOR LOAN LOSSES	(984)			(1,361)		
CASH AND OTHER ASSETS	12,897			12,832		
TOTAL ASSETS	108,077			104,665		
LIABILITIES AND STOCKHOLDERS' EQUITY						
INTEREST BEARING LIABILITIES:						
INTEREST BEARING DEMAND DEPOSITS	15,066	63	1.67%	13,154	61	1.86%
SAVINGS DEPOSITS	10,694	90	3.39%	9,907	79	3.19%
TIME DEPOSITS	39,847	549	5.54%	41,640	556	5.37%
TIME DEPOSITS OF \$100,000 OR MORE	15,242	205	5.42%	16,494	238	5.81%
FEDERAL FUNDS AND SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE	3,235	43	5.31%	142	2	6.83%
OTHER BORROWINGS	--	--	--	1,250	24	7.79%
TOTAL INTEREST BEARING LIABILITIES	84,084	949	4.54%	82,587	960	4.67%
NET INTEREST SPREAD		1,227			910	
NONINTEREST BEARING DEMAND DEPOSITS	11,525			10,744		
ACCRUED EXPENSES AND OTHER LIABILITIES	556			860		
STOCKHOLDERS' EQUITY	11,913			10,475		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	108,077			104,665		
NET INTEREST MARGIN ON EARNING ASSETS			5.13%			3.93%
NET INTEREST SPREAD ON EARNING ASSETS			4.56%			3.39%

RESULTS OF OPERATIONS - QUARTER ENDED MARCH 31, 2000 COMPARED TO QUARTER ENDED MARCH 31, 1999

Net Interest Income. Net interest income is the principal component of a financial institution's income stream and represents the spread between interest and fee income generated from earning assets and the interest expense paid on deposits. The following discussion is on a fully taxable equivalent basis.

Net interest income after loan loss provision for the first three months of 2000 increased \$186,838 or 21.2% above net interest income after provision earned as of first three months of 1999. The increase in net interest income as of March 31, 2000 is primarily due to an increase in the Bank's net interest margin on earning assets, which rose from 3.93% to 5.13% in first three months of 2000 as compared to the first three months of 1999. A larger loan loss provision offset what would result in an even larger growth. The increased margin was a result of management's efforts to change the deposit mix from certificate of deposit based to a transaction account deposit base and the collection of interest from non-accrual loans written off in the previous year. The strategic direction has produced material improvements in the net interest margin and should continue to assist the Bank's earnings in the future. The larger provision represents a continued purging of substandard loans and should continue throughout the year 2000.

Interest income increased \$284,858 or 15.1% as of March 31, 2000 compared to March 31, 1999. Interest income produced by the loan portfolio increased \$267,411 or 17.0% from March 31, 1999 to March 31, 2000 due to the increase in average loans outstanding for the period and the collection of interest from non-accrual loans and loan fees for loan origination. Management estimates the average balances will increase, but will restrain origination of these loans to insure quality standards and documentation are maintained. Interest income on investment securities and federal funds increased \$17,428 or 5.5% from March 31, 1999 to March 31, 2000, due primarily to reduced prepayments of mortgage backed securities that were purchased at a premium and a fully invested cash position.

Total interest expense decreased \$10,480 or 1.1% from March 31, 1999 to March 31, 2000. The interest expense increase from the first quarter of 1999 to the first quarter of 2000 is primarily due to the active management of the ALCO committee to reduce certificate of deposit exposure, but were mostly offset by increased market rates caused by the Federal Reserve's five 25 basis point rate increases of Fed Funds over the last 6 months.

The trend in net interest income is commonly evaluated in terms of average rates using the net interest margin and the interest rate spread. The net interest margin, or the net yield on earning assets, is computed by dividing fully taxable equivalent net interest income by average earning assets. This ratio represents the difference between the average yield on average earning assets and the average rate paid for all funds used to support those earning assets. The net interest margin at March 31, 2000 was 5.13%. The yield on earning assets increased 103 basis points to 9.10% at March 31, 2000 from 8.07% at March 31, 1999.

The interest rate spread measures the difference between the average yield on earning assets and the average rate paid on interest bearing sources of funds. The interest rate spread eliminates the impact of noninterest bearing funds and gives a direct perspective on the effect of market interest rate movements. As a result of changes in the asset and liability mix during late 1999

and recaptured interest during the current period, the interest rate spread was 4.56%, an increase of 117 basis points from March 31, 1999 to March 31, 2000.

Allowance for Loan Losses. The allowance for possible loan losses represents management's assessment of the risks associated with extending credit and its evaluation of the quality of the loan portfolio. Management analyzes the loan portfolio to determine the adequacy of the allowance for possible loan losses and the appropriate provisions required to maintain a level considered adequate to absorb anticipated loan losses. Management believes that the \$158,500 for March 31, 2000 in the allowance for loan loss account reflects the full known extent of credit exposure. The Bank anticipates similar provisions in the future as the loan portfolio grows and unanticipated loan losses occur. No assurances can be given, however, that adverse economic circumstances will not result in increased losses in the loan portfolio, and require greater provisions for possible loan losses in the future.

Non-performing Assets. Non-performing assets include non-performing loans and foreclosed real estate held for sale. Non-performing loans include loans classified as non-accrual or renegotiated. Cornerstone's policy is to place a loan on non-accrual status when it is contractually past due 90 days or more as to payment of principal or interest. At the time a loan is placed on non-accrual status, interest previously accrued but not collected may be reversed and charged against current earnings. As of March 31, 2000 Cornerstone had \$581,986 in non-accrual loans and \$1,235,826 in non-performing assets.

Non-interest Income. Non-interest income consists of revenues generated from a broad range of financial services and activities including fee-based services and profits and commissions earned through credit life insurance sales and other activities. In addition, gains or losses realized from the sale of loans are included in non-interest income. Total non-interest income increased by \$31,382 or 24.5% from March 31, 1999 to March 31, 2000.

Non-interest Expense. Non-interest expense for the first three months of 2000 increased by \$111,606 or 11.3% as compared to the first three months in 1999. Salaries and employee benefits increased by \$79,292 or 16.5% in March 31, 2000 over March 31, 1999. Occupancy expense as of March 31, 2000 decreased by \$2,715 or 2.1% over the same period in 1999. All other non-interest expenses at March 31, 2000 increased \$35,029 or 9.2% over the non-interest expenses as of March 31, 1999.

ALLOWANCE FOR LOAN LOSSES

QUARTER ENDING	2000		1999		
	MARCH 31	DECEMBER 31	SEPTEMBER 30	JUNE 30	MARCH 31
BALANCE AT BEGINNING OF PERIOD	1,001,809	985,234	1,030,243	1,208,311	1,400,000
LOANS CHARGED-OFF	(170,891)	(123,631)	(225,363)	(858,844)	(304,209)
LOANS RECOVERED	39,240	45,206	75,354	75,777	62,520
NET CHARGE-OFFS (RECOVERIES)	(131,471)	(78,425)	(150,009)	(783,068)	(241,689)
PROVISION FOR LOAN LOSSES CHARGED TO EXPENSE	158,500	95,000	105,000	605,000	50,000
BALANCE AT END OF PERIOD	1,028,838	1,001,809	985,234	1,030,243	1,208,311
ALLOWANCE FOR LOAN LOSSES AS A PERCENTAGE OF AVERAGE LOANS OUTSTANDING FOR THE PERIOD	1.358%	1.390%	1.438%	1.545%	1.679%
ALLOWANCE FOR LOAN LOSSES AS A PERCENTAGE OF NONPERFORMING ASSETS AND LOANS 90 DAYS PAST DUE OUTSTANDING FOR THE PERIOD	83.251%	73.523%	78.287%	76.738%	125.368%
ANNUALIZED QTD NET CHARGE-OFFS AS A PERCENTAGE OF AVERAGE LOANS OUTSTANDING FOR THE PERIOD	-0.694%	-0.435%	-0.876%	-4.698%	-1.344%
ANNUALIZED YTD NET CHARGE-OFFS AS A PERCENTAGE OF AVERAGE LOANS OUTSTANDING FOR THE PERIOD	-0.915%	-1.001%	-2.686%	-3.352%	-1.687%
YTD AVERAGE OUTSTANDING LOANS	75,760,000	69,731,000	68,922,000	69,396,000	72,150,000
QTD AVERAGE OUTSTANDING LOANS	75,760,000	72,065,598	68,513,772	66,670,912	71,950,537
NONPERFORMING ASSETS AND LOANS 90 DAYS PAST DUE	1,235,826	1,362,582	1,258,493	1,342,538	963,808

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There are various claims and lawsuits in which the Bank is periodically involved incidental to the Bank's business. In the opinion of management, no material loss is expected from any of such pending claims or lawsuits.

Item 2. Changes in Securities

None

Item 3. Defaults on Senior Securities

N/A

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and reports on Form 8-K

(a) Exhibits:

Financial Data Schedule (For SEC Use Only)

(b) There have been no Current Reports on Form 8-K during the quarter ended March 31, 2000.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 12, 2000

/s/Gregory B. Jones, President & CEO

Date: April 12, 2000

/s/Nathaniel F. Hughes, EVP & CFO

ARTICLE 9

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF CORNERSTONE BANCSHARES, INC. FOR THE THREE MONTHS ENDED MARCH 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 2000
PERIOD START	JAN 01 2000
PERIOD END	MAR 31 2000
CASH	5,997
INT BEARING DEPOSITS	0
FED FUNDS SOLD	500
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	15,106
INVESTMENTS CARRYING	5,286
INVESTMENTS MARKET	5,225
LOANS	79,035
ALLOWANCE	1,029
TOTAL ASSETS	112,906
DEPOSITS	98,421
SHORT TERM	2,185
LIABILITIES OTHER	340
LONG TERM	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	11,960
OTHER SE	0
TOTAL LIABILITIES AND EQUITY	112,906
INTEREST LOAN	1,845
INTEREST INVEST	332
INTEREST OTHER	0
INTEREST TOTAL	2,176
INTEREST DEPOSIT	907
INTEREST EXPENSE	949
INTEREST INCOME NET	1,227
LOAN LOSSES	159
SECURITIES GAINS	0
EXPENSE OTHER	1,103
INCOME PRETAX	125
INCOME PRE EXTRAORDINARY	101
EXTRAORDINARY	0
CHANGES	0
NET INCOME	101
EPS BASIC	0.09
EPS DILUTED	0.08
YIELD ACTUAL	5.13
LOANS NON	582
LOANS PAST	4
LOANS TROUBLED	0
LOANS PROBLEM	0
ALLOWANCE OPEN	1,002
CHARGE OFFS	171
RECOVERIES	39
ALLOWANCE CLOSE	1,029
ALLOWANCE DOMESTIC	1,029
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	0

End of Filing

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