

## Near-Term Strategic Plan

Historically, Cherokee Bank has operated according to conservative banking principles, avoiding risky practices like subprime lending. However, the collapse of the housing and real estate markets has presented the bank with serious challenges relating to outstanding loans to real estate developers and builders. This situation has affected community banks across the Metropolitan Atlanta area, where housing and real estate have been especially hard hit.

Though Cherokee Bank made sound loans, properly underwritten, to creditworthy borrowers, even the best real estate-related customers are finding it difficult to withstand the market downturn. Some have defaulted on their loans, and as the economy continues to stagnate, many are in increasing danger of falling behind on their loan obligations.

Cherokee Bank's management team recognized the signs of the coming downturn early on and began work with a well-respected banking industry consultant to carefully develop and implement a strategic plan aimed at correcting existing problems and improving ongoing practices to ensure that it remains a safe and sound institution.

Since June 2008, the bank has been working diligently to achieve the goals laid out in our strategic plan and believes this plan has already begun to show signs of success. While the bank lost money in the last three quarters of 2008 for a total annual loss of \$1.1 million, the bank operated without a loss in the first quarter of 2009. Combined with its ability to adapt quickly to changing market conditions, Cherokee Bank's strategic plan better positions it to weather the recession and emerge to take advantage of its inherent market and demographic advantages.

The bank's renewed Vision is that of a sound bank in 2011 that successfully managed through a severe downturn in the real estate market and rewarded shareholders of its holding company for their loyalty and support.

To achieve this Vision, the bank's 3-year plan includes raising capital over and above its current well-capitalized level, increasing earnings and reducing problem assets. These initiatives are based on the particular challenges facing Cherokee Bank, as well as a study done by the Office of the Comptroller of the Currency (OCC) that identified the commonalities of banks that were successful in overcoming problems related to the recession of the early 1990s.

The OCC study demonstrated that the successful banks complied with regulatory actions and recommendations and revised their banking philosophy toward more conservative lending and controlled growth. They improved banking practices and in most cases had an injection of capital.

## **Details of Cherokee Bank's strategic plan include the following:**

### **Raise Capital and Enhance Liquidity**

- Increase the bank's Risk-Based Capital from 10.6% to 12% or more.
- Reduce brokered deposits to 10% at the end of 2011. Brokered deposits will be used as part of the bank's contingency funding plan to provide liquidity by allowing access to funding up to our internal maximum of 20% of deposits when necessary.
- Improve the liquidity ratio from the current level to 18% by allocating a larger percentage of the balance sheet to unpledged securities instead of to the loan portfolio and lowering our risk profile.

### **Increase Earnings**

- Develop and execute a Core Deposit Program aimed at growing core deposits through a greater emphasis on remote deposit and an aggressive calling program.
- Increase interest income by increasing loan yield through risk-based pricing.
- Reduce overall expenses through renegotiating major vendor contracts.
- A reduction in personnel expense from 1.76% of average assets in the first quarter of 2008 to 1.56% in 2009; maintain at this level through 2011.
- Achieve a 1.0% ROA by the end of 2011.
- Increase Net Interest Margin from current level to at least 4.0% by end of 2011.

### **Reduce Problem Assets**

- Identify every problem loan and every watch loan and apply conservative quality grades.
- Reallocate the loan portfolio to concentrate on small-business and commercial and industrial (C&I) lending.
- Reduce problem assets from the current level to less than 25% of Tier 1 Capital plus Loan-Loss Reserve by the end of 2011.
- Reduce Commercial Real Estate (CRE) loan concentration from the current level to 150% of capital by the end of 2010. Maintain this level thereafter.
- Reduce delinquent and nonaccrual loans to 2% or less by the end of 2010.

In sum, Cherokee Bank's Strategic Plan is designed to return the bank to a strong capital position and ensure its future as a highly successful bank.