

**FURTHER DEFINING A  
MODERN MUTUAL**

**Piedmont**<sup>®</sup>  
**FEDERAL**  
**SAVINGS BANK**



**2022**  
**ANNUAL REPORT  
TO STAKEHOLDERS**

**EST. 1903**





DOWNTOWN WINSTON-SALEM BRANCH - CIRCA 1950



STRATFORD RD. WINSTON SALEM BRANCH - 2022

## DEFINING A MODERN MUTUAL

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**defining** VERB /di-'fɪn -eng/

1. To discover and set forth the meaning; to create with establishing parameters

**modern** ADJECTIVE /mä-'d rɪ/

1. Involving recent techniques, methods, or ideas: up-to-date

**mutual** NOUN /myü-'ch -w / ə

1. Directed by each other toward the other; shared in common

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# WELCOME



**Scott E. Cawood**  
Chairman



**David P. Barksdale**  
Chief Executive  
Officer

## Stakeholders of Piedmont Federal Savings Bank:

Last year, we introduced “Defining a Modern Mutual” in our annual report. We emphasized the importance of being relevant to our clients and communities. We remained committed to expanding this definition and further defining the modern mutual throughout a volatile 2022.

This past year continued to be one of dramatic change for the national and global economy. After rates were substantially reduced during the pandemic, the Federal Reserve raised its benchmark fed funds rate seven times, for a total of 425 basis points, during 2022. More rate hikes are forecasted for the current (2023) year. These rate hikes dramatically impacted our mortgage loan volume, as many buyers were pushed out of the market due to affordability.

In spite of these rate increases, our mortgage production remained strong at over \$82 million. We supplemented our growth through our business banking team, which originated over \$90 million in new loans. The Bank also experienced solid deposit growth, even as liquidity began to shift in the banking industry and competition for deposit accounts grew tremendously.

Several years ago, we set a goal to reach \$1 billion in assets by the end of 2023. While we are not about growth just for growth’s sake, we do believe a larger balance sheet supports new initiatives, allows us to serve more clients, and moves us to become more efficient. We are pleased that we crossed this threshold in March 2022, twenty-one months ahead of schedule.

We also took an important governance step in establishing a Mutual Holding Company, formed in September 2022. This structure, a single-tier holding company, provides us flexibility for the future—flexibility for growth, capital, and new lines of business. We continue to be committed to mutuality, and no publicly-owned stock was issued in the formation of the holding company.

Technology will continue to evolve and play an important role for banking. A major initiative for 2022 was the migration of our mobile and online platform to a new provider, Q2 out of Austin, TX. This new platform provides a better client experience and allows us to offer new tools for our clients to manage their finances. We supplemented this new platform with other enhancements to improve the efficiency of our support teams.

Our teammates are the key for us to become best in class—culturally, strategically, financially, and socially. We continue to offer development programs to grow our skill sets and leadership skills. Teammate engagement, which nationally is running at all-time lows, is an area we take very seriously. Teammate input, task forces, and a series of conversations help us identify and implement a world-class culture. We re-launched our Inclusion Council to ensure that our teammates feel welcome and included in their work environment.

We end with a success story that demonstrates our commitment to our clients and community. The Do School is a recently-formed non-profit organization designed to teach construction skills, especially for those citizens who need a second chance. Through a collaboration with The Do School, the Winston-Salem Foundation, and many local businesses, Piedmont Federal was able to provide construction financing to rehabilitate a house in the Boston-Thurmond neighborhood of Winston-Salem. In early 2023, The Do School finished the house and sold it to a family seeking a home. While the dollar amount of this transaction was small, the impact—for the homebuyer, the cohort of The Do School participants, and the neighborhood—was tremendous. Opening Doors for You is our Purpose, and this is a great example of that Purpose in action.

Thank you for your partnership with Piedmont Federal. With your continued support, we will continue to provide financial solutions while making our neighborhoods better places to live.

**Scott E. Cawood**  
Chairman

**David P. Barksdale**  
Chief Executive Officer



# FURTHER DEFINING A MODERN MUTUAL

Defining a Modern Mutual involves extensive ongoing efforts and has no end point. We continue to examine every aspect of our company, including our culture, products, delivery channels and community responsibility. In 2022, we made some significant strides in our seven development categories outlined below.

## SCOPE OF SERVICES

The ways clients manage their finances, conduct transactions, and interact with financial services firms continue to change and evolve. Piedmont Federal made a number of moves in 2022 to expand our Scope of Services to enhance our relevance and relationships with personal and business clients. Providing a diverse suite of services, meeting clients at their points of need, vision, and aspiration are critical to this evolution.

**Business Banking** continued its growth in 2022 with expanded offerings in Treasury Services and the launch of our Lake Norman Loan Production Office. Our suite of business deposit services grew in 2022, with the addition of Positive Pay, Sweep Accounts, Public Funds and IOLTA Checking. In Lake Norman, the business banking team generated over \$31 million in loans, after launching in second quarter. The Greensboro Loan Production Office experienced a strong year, generating \$42 million in loans. We continue to analyze the most promising cities in which to expand our business banking footprint.

On the consumer-side of our banking operations, the second year of our **Construction-To-Permanent** loan program generated over \$13 million in new loan closings. In a rapidly rising rate environment, we were able to shift focus to help our clients with \$18 million in Home Equity Lines, when home improvement was more viable than purchasing a new property. Our new consumer loan platform, MeridianLink, allowed us to streamline our home equity line process and to offer unsecured loans and savings-secured loans. We continue to introduce products and services to meet client needs by leveraging our core set



of competencies. Piedmont Plus Bank @ Work launched in 2022, with 36 companies enrolling in the program and more than 20 financial wellness sessions delivered. In second quarter of 2023 we will begin offering Smart Start Student banking, designed to provide a holistic financial experience tailored specifically for our students.

## CLIENT EXPERIENCE

We are committed to continuous improvement with our Client Experience. In fact, we now refer to our patrons as “clients” instead of “customers.” Merriam-Webster defines a “customer” as one who purchases a commodity or service; someone who pays for goods and services and engages in a transaction. A “client” is defined as a person who engages the professional advice or services of another. Clients purchase advice and solutions, and their relationships are forged and strengthened over time. We deliver an outstanding Client Experience in a number of ways. We are subject matter experts, providing information and insights when clients are making financial decisions. We are stewards of their accounts, ensuring their funds are protected, and providing them a solid return. We anticipate needs and fill in gaps to ensure a seamless experience.

Clients need an efficient loan process in which we continue to enhance. As mentioned earlier, we partnered with MeridianLink in 2022 resulting in expanded loan offerings and a streamlined approval process.

We also launched **1903 Title Insurance Company**, a joint venture to provide home and loan closing insurance services, further enhancing the loan process and its speed.

**MeridianLink** and **1903 Title Insurance Company** are components of integrated offerings. These components assist clients with transactions, reduce the number of service providers in their lives, and again, enhance our relevance with them.



## ACCESS AND REACH

At Piedmont Federal, we want to be the bank for the people in the communities we serve. Doing so requires diligent and intentional efforts to increase Access and Reach. We must have the products, accounts, and services they need. Those may be entry points for some clients welcoming them into the banking system or they may be products and services

to meet new and existing clients at their new points of need with housing, savings, and business development. We can't wait for them to come to us. We must provide Access and Reach within our communities.

Our **PF Boost Account** provides access to a safe, straightforward, and affordable account, with no overdraft or non-sufficient fund fees, a low-cost, client-friendly alternative to predatory check cashing companies.



The First-Time Homebuyers Program has provided loan access to clients for many years, offering favorable terms and added assistance and support along the way. The **Homebuyers Dream Program** expanded our Access and Reach with loan terms, a defined process, and a credit review platform built to work better for new homebuyers. The result is a new home owner, building equity and credit.



Other times Access and Reach is about being in the right place. Our **New Downtown Winston-Salem Office** opened in early 2022 in the ROAR Building, positioning Piedmont Federal in an area with growing residential and business opportunities. This branch features a completely new physical design for banking. Barriers between our teammates and clients are gone, the atmosphere is casual, and the interior design is forward-leaning. The new office experiments with thinking differently about financial services and providing Access and Reach to clients who may not prefer traditional banking.

## TECH FOUNDATION

Technology impacts everything we do and also provides strategic advantages. Some of those advantages are behind the scenes, but our clients benefit from them, whether it saves them time, or opens new delivery channels for



them. Still, other strategic advantages provided by our Tech Foundation are front and center for clients using that technology. Capital spending and organizational efforts with technology remain clear priorities for Piedmont Federal.

In 2022, we implemented a new Mobile and Online Banking System, which allows more functionality, the ability to consolidate all services in one app and overall greater ease of use. This technology provides clients with improved financial planning and spending insights, improved security, and organizes CardSwap, which allows clients to apply new debit or credit cards across their favorite subscriptions, such as Netflix, Amazon, and more. This innovative platform will open still other doors, allowing integration with other technologies, fintech firms, and web-based applications. Early Pay Access was also recently introduced, providing our clients peace of mind, with access to direct deposits up to two days early.

A number of important supporting technologies were rolled out to reduce manual tasks, eliminate paper, and expedite automation, saving time for our teammates, which in turn saves time for our clients. The more efficient and effective our internal systems are, the better we are in every way for our clients. Much of Piedmont Federal is built on our Tech Foundation and the work in that area is continuous.



## TEAMMATE DEVELOPMENT

Our Teammates are more than the face and voice of Piedmont Federal. They are also our sources of trusted consultation, organizational memory, cultural strength, and the most important “product” we offer any client.

**Teammate Development** is the most important investment that we make.

We continued administering bi-annual **Teammate Engagement Instruments** this year to hear from all of our teammates. This process helps us to learn from one



another, share feedback, and further align in our way forward to enhance our culture and Piedmont Federal. We distributed **Pulse Surveys** to further gather insights around major rollouts and initiatives. Listening and understanding is informing our way forward and positively impacting our growth.

New programs are also components of our Teammate Development efforts. Our second cohort of **Leadership 360** teammates graduated in 2022 after a series of training, teamwork, and strategy sessions and opportunities. The second group in the **GPS Banker Development Program** graduated in 2022 as well, after gaining knowledge of all aspects and departments in banking. We developed a certification program for our Client Care Associates to further develop their skills in the role.

In addition, we engaged more teammates across our organization with participation in a variety of task forces, designed to improve processes and products, as well as the teammate and client experience. Having this diversity represented enables us to utilize teammate insights in important initiatives that impact our teams, clients and communities.

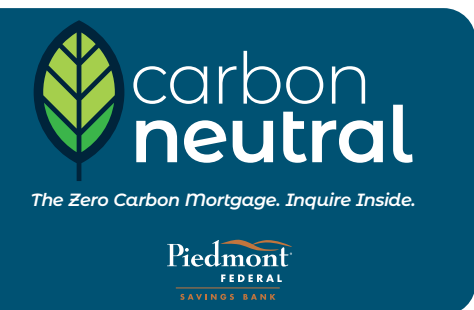
These programs recognize the need to develop future leaders from within Piedmont Federal. Our growth depends on it. These programs and many other efforts are delivering.

## LOCAL AND GLOBAL RESPONSIBILITY

The independence afforded Piedmont Federal by its mutual organizational structure and our Values guide our thinking with Local and Global Responsibility. Our strategic planning defined the scope of our work in this area around four pillars including:

- **Accessible housing** people want to call home
- **Bridges across the digital divide**, providing connections to needed resources
- Pathways to **economic mobility** and opportunity
- **Sustainability** efforts measured by our impacts on people, the planet, and prosperity

Defining the pillars of our Local and Global Responsibility initiatives brings clarity and focus, allowing resources to be concentrated for greater effect. Doing so also aligns our efforts with our Values, expertise, and spheres of influence. In the fourth quarter of 2022, we engaged a **Director of Community Impact** to better structure our giving and service programs. As a result, a framework was





built, allowing more teammates to be engaged in helpful volunteerism with community non-profit organizations, truly adding benefit beyond a financial donation.

Our commitments to **Accessible Housing** and **Economic Mobility** continued with our investment in **The Do School** and our support of **S.G. Atkins Community Development Corporation**. The Do School skills-development program resulted in a successful renovation of a distressed property while training members of low-wealth neighborhoods. Our partnership with S.G. Atkins involved financing the construction of houses within the East End Master Development Plan. Our work with Do School and S.G. Atkins aligns well with who we are and what we do, activating those competencies within our Local and Global Responsibility efforts.

## STRATEGIC RELEVANCE

Clients' needs, goals, and expectations constantly shift and adapt. We must meet them where they are, anticipate where they will go next, and make the moves necessary to be in that new place with them as well. When we are present and equipped to meet the client's needs in the moment, we are relevant. The scope and extent of our abilities to assist the client in that moment, define the degree of our relevance.

Maintaining a posture of Strategic Relevance requires that we regularly step outside of our daily operations and commitments to think about where we should go to meet the client at their new point of need. Further Defining the Modern Mutual will be a continuous process without end, but when done diligently, will yield continuous benefits and rewards to Piedmont Federal, our clients, and all of our stakeholders.

**Piedmont Financial Holding Company** was formed in the third quarter of 2022, affording a more flexible structure to raise capital, hold subsidiaries under its umbrella, and to facilitate potential acquisitions of other banks by Piedmont Federal in the future.

Our discussion of our efforts in **Further Defining a Modern Mutual** indicate the comprehensive nature of this work and the breadth of efforts required to meet the continuously evolving goal for client and stakeholder relevance. The pace of our efforts must move quickly to position us to be the bank as defined by clients and communities at their future points of need.



**Piedmont**<sup>®</sup>  
**FINANCIAL**  
**HOLDING COMPANY**



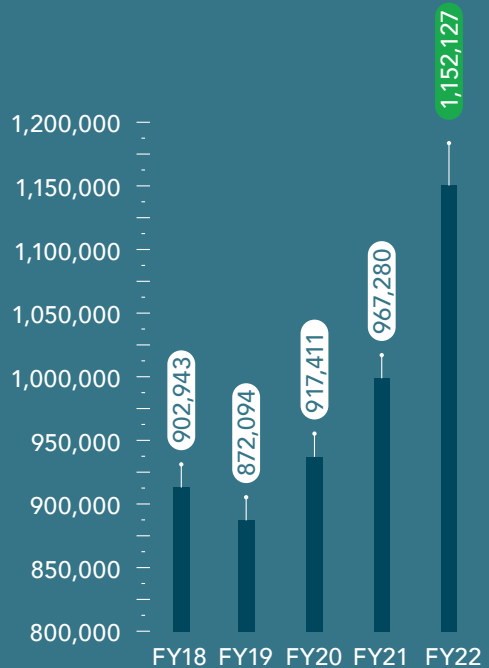
## OPERATIONS AND FINANCIAL HIGHLIGHTS

# FINANCIAL REPORT 2022 – THE RESULTS

2022 began with an effective Fed Funds rate of .08% and ended at 4.33%, representing a dramatic 425 basis point swing.

The rate hikes impacted mortgage loans, causing consumers to pull back on home buying due to decreased affordability. Despite these challenges, our team was successful throughout the year, posting solid results. Mortgage loan production was \$82 million, representing a decrease from the higher production levels during the prior two years. However, overall gross loans increased over 2021 and 2022 levels, with a boost from commercial loan production. Assets, loans, deposits, net interest income, and net income experienced solid growth. In addition, Piedmont Federal implemented a balance sheet strategy to reduce our interest rate risk and increase earnings in this challenging rate environment. Piedmont Federal adjusted to perform well during a volatile period.

### Assets (\$000)



\$184.8 million (19.1%) increase in Assets over 2021.

\$234.4 million (25.5%) increase in Assets over 2020.

Core banking activities fueled asset growth.

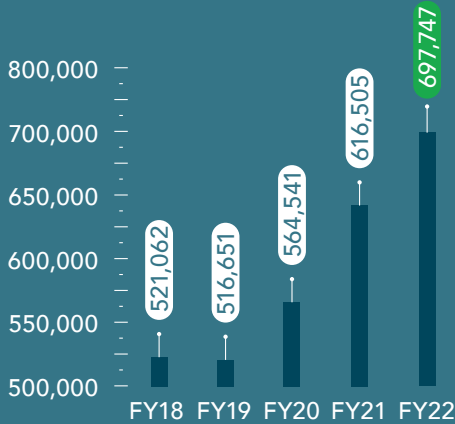
New commercial loans led asset growth drivers.



# \$184.8 MILLION

(19.1%) INCREASE IN ASSETS OVER 2021

## Gross Loans (\$000)



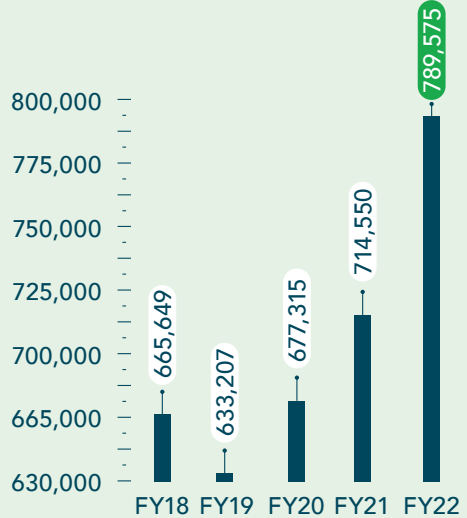
Gross Loans continued to grow in 2022, aided by strong commercial loan growth.

\$81.2 million (13.2%) increase in Gross Loans over 2021.

\$133.2 million (23.6%) increase in Gross Loans over 2020.

\$3.5 million of new net loans added per week in 2022.

## Total Deposits (\$000)



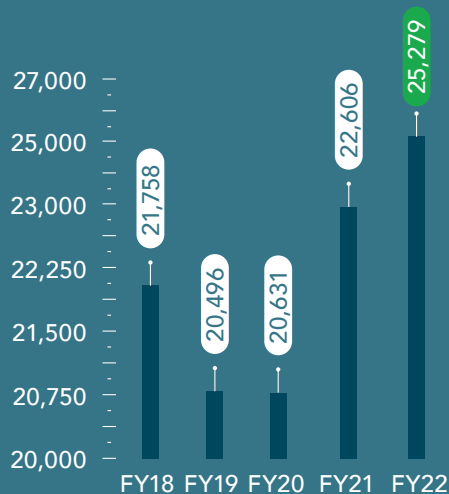
New deposits increased, providing funds for loan growth.

\$75 million (10.5%) increase in Total Deposits over 2021.

\$112.2 million (16.6%) increase in Total Deposits over 2020.

100% of new deposits flowed into new loans.

## Net Core Revenue (\$000)



Revenue continued a positive trajectory with Net Core Revenue\* of \$25.3 million.

\* Net Core Revenue is net revenue less gains on sales of securities and real estate.

\$2.7 million (11.8%) increase in Net Core Revenue over 2021.

Growth in Net Core Revenue positions the bank to fund its development plans.



## OPERATIONS AND FINANCIAL HIGHLIGHTS

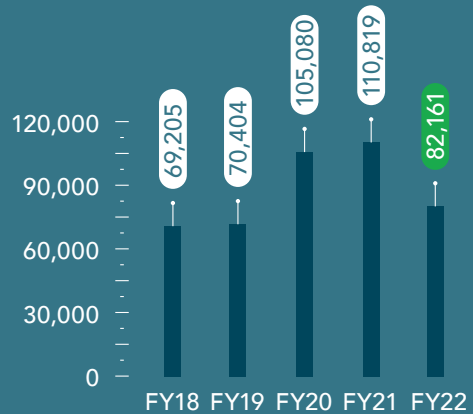
# THE FINANCIAL IMPACT OF FURTHER DEFINING A MODERN MUTUAL

Expansions in our **Scope of Services** produced strong results during 2022. Our **Greensboro and Lake Norman Business Loan Production Offices** generated \$73 million of our total \$96 Million in loans for the bank.

The **Construction-to-Permanent Loan** product made up more than 16% of mortgage loan production.

These two **Scope of Services** areas demonstrated their ability to meet clients at their points of need with outstanding relevance demonstrated by their financial results.

### Mortgage Loan Production (\$000)



\$28.7 million (-25.9%) decrease in Mortgage Loan Production from 2021 due to rapidly rising interest rates and home prices.

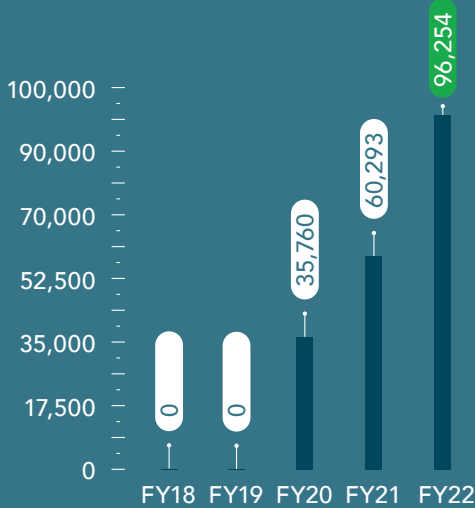
Overall mortgage loans outstanding increased by \$7.2 million (1.4%) to \$524.8 million at 2022's year end .



# COMMERCIAL LOAN TOTAL GREW BY

# \$73.9 MILLION

## Commercial Loan Production (\$000)

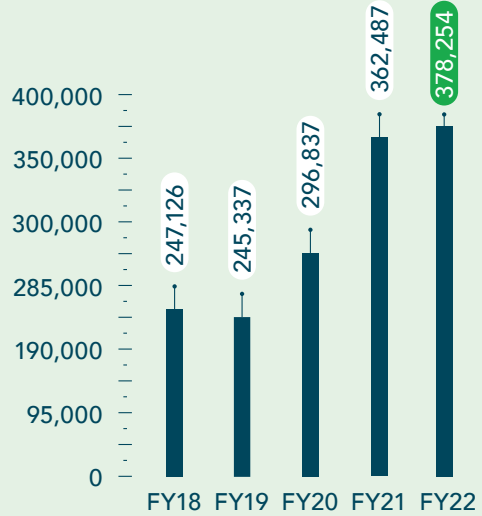


\$35.9 million (59.6%) increase in Commercial Loan Production over 2021.

Overall commercial loan total grew by \$73.9 million (74.8%) over 2021's year end.

Commercial loans made up \$172.8 million (25.0%) of Gross Loans at 2022's year end.

## Non-Maturity Deposits (\$000)

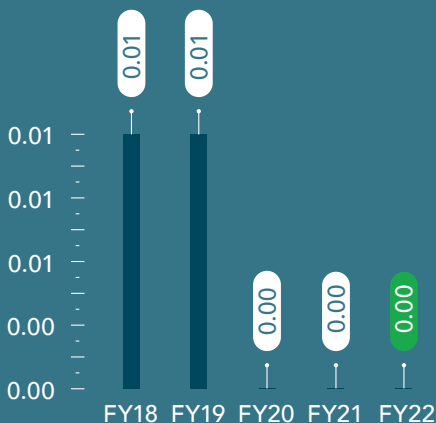


Non-Maturity Deposits rose by \$15.8 million over 2021, an increase of 4.3%.

Non-Maturity Deposits represented 47.9% of Total Deposits in 2022.

Client Experience and our Access and Reach efforts and innovations will be critical to continuing growth in Non-Maturity Deposits.

## Net Charge-Offs / Average Loans (%)



The quality of the loan portfolio was clearly demonstrated by a third year of charge offs of statistically 0%.

Industry-leading credit review processes support the writing of new loans - meticulous and ongoing loan performance and impairment reviews guide servicing and accounting during the life of the loans.



## OPERATIONS AND FINANCIAL HIGHLIGHTS

# PROFITS FOR A MODERN MUTUAL IMPROVE BANKING

The performance of Piedmont Federal's operations is in part measured by profitability and return on average assets. As a mutual, our decision-making is not tied to earnings reports and a stock price, but profitability and strong asset returns do directly enhance our ability to perform better, improving banking and lives for clients and stakeholders. Building out our Tech Foundation, engaging in Teammate Development, enhancing Client Experience, expanding our Access and Reach, and so much more are linked to our financial performance.

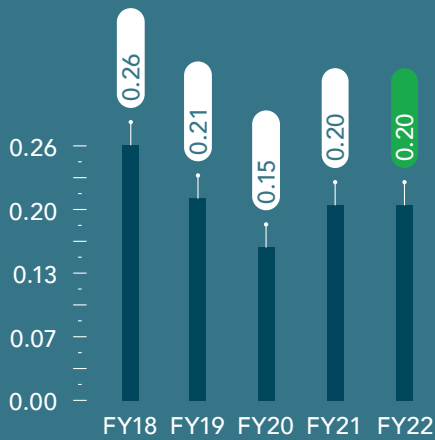
### Net Interest Margin (%)



Net Interest Margin declined slightly in 2022, driven by the rapid increase in interest rates during the year.



### ROAA (\$000)



Return on average assets remained at .20% in 2022.

Net income increased \$206,780 (10.8%) to \$2.1 million in 2022 from \$1.9 million in 2021.





# OUR EFFORTS TO FURTHER DEFINE A MODERN MUTUAL PAVES OUR WAY FORWARD

Piedmont Federal continues to define the parameters for being a modern mutual. We seized on the factors which differentiate us from the sameness of the banking industry, including that of being organized as a mutual. We formed a mutual holding company, which positions us well for adding subsidiaries to better meet our clients' financial needs and to allow expansion through acquisition of other banks. We invested in our most important resource- our teammates, with better onboarding, training and engagement opportunities. This process is about looking forward to where we are heading and to the points in the future where our clients and communities will be. We must be at those points with our constituents, relevant in each moment with each financial decision and service needed. It is a creative and innovative process where we must think and act differently. Our current and future clients and communities are depending on us. We are eager to be of service now and in the future. **Together, we will define the way forward.**



# FINANCIAL STATEMENTS

## Summary Balance Sheets As of December 31, 2022 and 2021

Assets (in Thousands)	2022	2021
Cash and due from banks	\$38,178	\$26,294
Securities and other investments	338,526	267,816
Gross loans	697,747	616,505
Less: allowance	(2,215)	(1,850)
Net loans	695,532	614,655
Other assets	79,891	58,515
Total assets	<u>\$1,152,127</u>	<u>\$967,280</u>
Liabilities and Capital (in Thousands)	2022	2021
Total deposits	\$789,575	\$714,550
Borrowed funds	145,236	10,251
Other liabilities	9,817	9,365
Total liabilities	944,628	734,166
Capital	207,499	233,114
Total liabilities and capital	<u>\$1,152,127</u>	<u>\$967,280</u>

## Summary Income Statements

### For the years ending December 31, 2022 and 2021

(in Thousands)	2022	2021
Interest income	\$30,916	\$26,010
Interest expense	<u>7,185</u>	<u>4,672</u>
Net interest income	23,731	21,338
Provision expense	<u>368</u>	<u>335</u>
Net interest income after provision	23,363	21,003
Noninterest income	1,763	1,503
Noninterest expense	<u>22,719</u>	<u>20,378</u>
Pretax profit	2,408	2,128
Income taxes	<u>287</u>	<u>214</u>
Net income	<u><u>\$2,121</u></u>	<u><u>\$1,914</u></u>

**Note** These summary financial statements were extracted from the audited financial statements of Piedmont Federal Savings Bank.

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