



ADAPTING.
SERVING.
GROWING.



2020 Annual Report

WELCOME

Members of Piedmont Federal Savings Bank:

We are pleased, on behalf of our Board of Directors and Bank Teammates, to bring you this 118th Annual Report of Piedmont Federal Savings Bank. This past year was unlike any other in our long history, as the COVID-19 pandemic completely changed how we do business. Even in the midst of these challenging times, our Bank made great progress on several fronts:

- Mortgage loan production, driven by the low rate environment, was the highest in modern history;
- Business lending was launched, including participating in the Paycheck Protection Program (“PPP”) for our small business customers;
- Several new solutions made it easier for our customers to do business with us; and,
- We continue to expand our team for new markets and new opportunities.

Our status as a long-standing, locally-based mutual continues to be our advantage to serving more customers and giving back to our communities. Taking this long-term and consistent perspective is the right thing to do for our customers and our teammates because financial success entails playing the long game, not the quick fix.

We thank you for the trust you place in us and pledge to continue fulfilling our Purpose and living our Values.

Sincerely,



Scott E. Cawood
Chairman



David P. Barksdale
Chief Executive Officer

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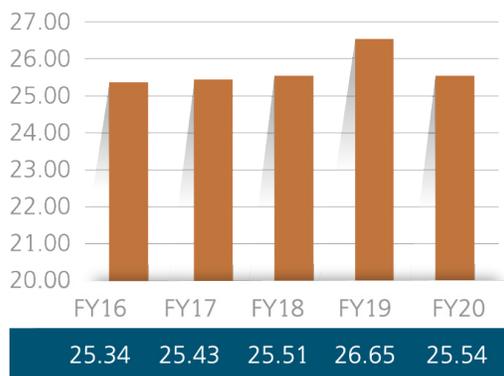
Operations and Financial Highlights

2020 In Review

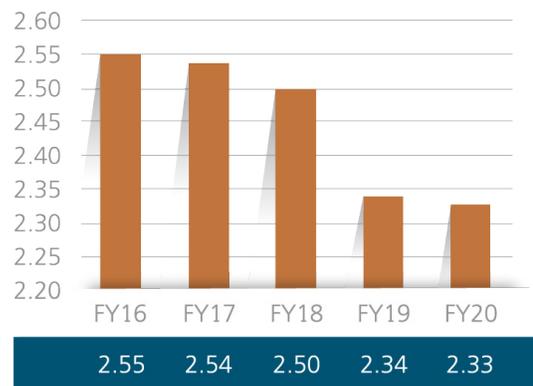
The 2020 financial year was challenging. Interest rates dropped to historic lows, driving mortgage refinance volume to all-time highs. Unemployment spiked and then partially recovered, with employment still below pre-COVID levels. The Bank made several key mid-course adjustments during the year, allowing us to exceed our Plan. We continue to demonstrate strong asset quality, fortress-like capital, and a re-positioned balance sheet that allows us to increase our earnings potential.

- Grew capital to \$234 million, providing a cushion for economic hardships and opportunities for long-term decisions
- Repositioned the investment portfolio to increase duration and earnings
- Maintained slight growth in the mortgage portfolio in spite of record payoffs (due to refinancing)
- Grew the commercial portfolio to \$45mm during the year
- Achieved non-performing assets to total assets of only 0.12%
- Lowered non-interest expense below 2019 levels while expanding business banking and loan processing
- Grew net income (adjusted for gains) 19.8% over 2019

Tangible Equity / Tangible Assets (%)



Net Interest Margin (%)



ROAA (%)



Net Charge-Offs / Average Loans (%)



Adapting

Dealing with COVID-19

As with everyone, we changed and adapted to deal with the COVID-19 pandemic. The safety and well-being of our teammates and customers drove each decision we made. Flexibility became our most important skill as we served our customers in a variety of ways:

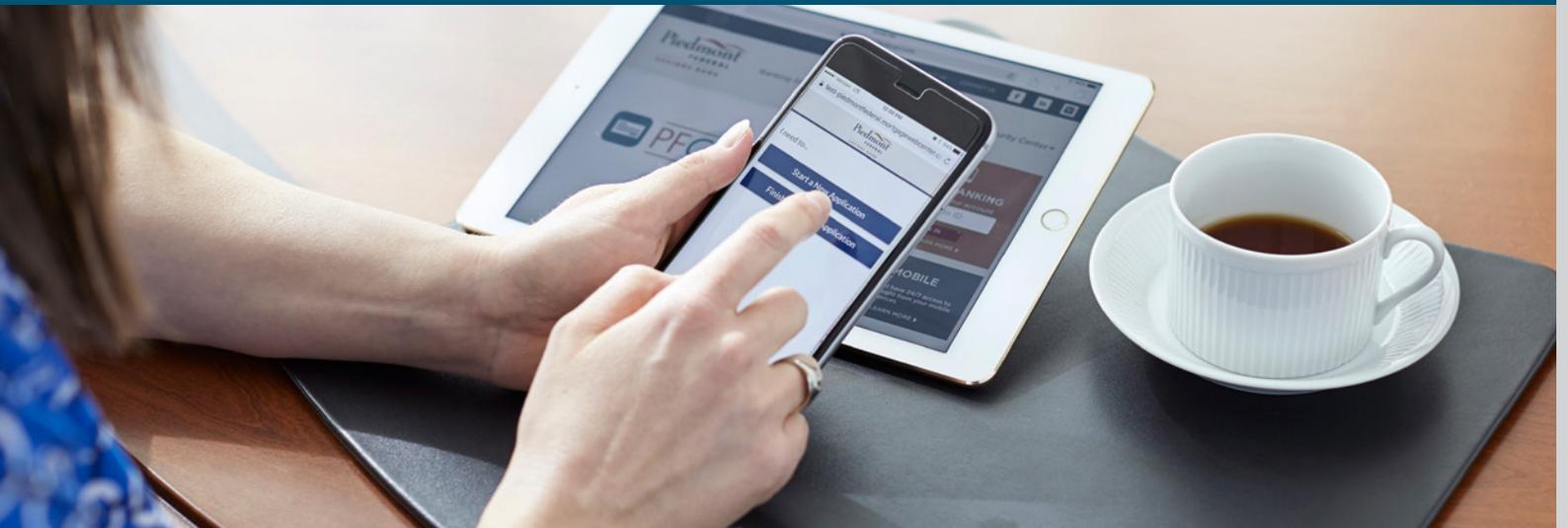
- Shifted branch operating hours
- Established distancing guidelines and safety precautions
- Shifted our workforce to remote and alternating schedules
- Launched several solutions to allow touchless banking, including:
 - Online account opening
 - Zelle® person-to-person payments
 - Notifi electronic notification system
 - Video banking (first quarter 2021)
 - Touchless debit cards (first quarter 2021)
- Became accustomed to people walking into a branch, wearing a mask, and asking for money, which is not the norm in banking
- Shifted events and bank functions to allow for social distancing



Adapting



Touchless Access to High Touch Banking Services



Serving Piedmont Federal Values in Action

Codifying our Purpose and Values

Knowing the “why” behind what your company does is the cornerstone of a strong culture. Our Purpose is simple—We Open Doors for You. We open doors for you to purchase a new home; we open doors for your business to buy a new piece of equipment; we open doors for our communities to be better places to live. The foundation of this Purpose is our Values. Not only do these values guide how we do business, we believe they are also our competitive advantage. We pledge to live these Values in our service to you:



Be Authentic



Build Caring Relationships



Do What's Right



Go All In



Move Forward

Piedmont Federal received Winston-Salem Journal Reader's Choice Awards for Best Bank, Best Mortgage Company, and Best Place to Work, winning in all categories in which the Bank competed. In addition, BauerFinancial awarded Piedmont Federal 5 stars, the top tier designation given to less than 4% of banks nationwide.



Serving Piedmont Federal Values in Action



Neighbors helping neighbors in our communities since 1903.

Below is a list of some of the organizations Piedmont Federal assists with contributions, volunteerism, and support.

- Appalachian Theatre
- Appalachian State University
- American Heart Association
- Artizens
- Associates in Christian Counseling
- Big Brothers / Big Sisters
- Boone Area Chamber of Commerce
- Blowing Rock Chamber of Commerce
- Cancer Services
- City of Winston-Salem Housing Summit
- Communities in Schools
- Crosby Scholars
- Davie County Chamber of Commerce
- Down Syndrome Association of Greater Winston-Salem
- Downtown Winston-Salem Partnership
- Financial Pathways of the Piedmont
- Forsyth Tech Foundation
- Habitat for Humanity
- Hispanic League
- Hospice of High Point
- Hunger and Health Coalition
- Kernersville Chamber of Commerce
- Leadership Winston-Salem
- Lewisville Chamber of Commerce
- NC A&T State University
- River Run Film Festival
- Rotary Clubs
- Samaritan Ministries
- Second Harvest Food Bank
- Senior Services
- Special Olympics
- United Way
- Village of Clemmons
- Wilkes Education Foundation
- Winston-Salem Chamber of Commerce
- Winston-Salem Forsyth County High Schools
- Winston-Salem Foundation
- Winston-Salem Police Foundation
- Winston-Salem Street School
- Women's Fund of Winston-Salem
- Winston-Salem Regional Association of Realtors



Serving Piedmont Federal Values in Action

Serving our Communities

As a local bank, community has a special meaning to us. Our mission to nurture a better quality of life for our communities is personal. We are proud to support over 50 organizations with contributions, volunteerism, and events. Whether we are teaching financial literacy classes, assisting with art education, supporting small business events, or collecting needed supplies for seniors, working in our community is a fundamental part of our mission.



Scan the QR codes below to see our work with Senior Services and news coverage of our Artizens event.



In 2020, The Dwelling (Church) and The United Way renovated 23 offline affordable housing units in the Northwoods (formerly Greenway) neighborhood. We engaged 200+ unique volunteers, many from Piedmont Federal Savings Bank, over the course of several months in hands-on service to generate housing that was otherwise inaccessible. By creating a community center in the neighborhood where resources can be accessed, we can build stronger neighborhoods while helping people stay housed rather than re-entering the system and crisis of homelessness.

Emily Norris with The Dwelling

Senior Services is committed to helping older adults remain at home, living with dignity and aging with purpose. A commitment we're able to fill with the support of a caring community and corporate partners like Piedmont Federal Savings Bank. For over ten years Piedmont Federal Savings Bank has partnered with us to plan and host two community item drives. We're always blown away by the generosity of their staff and customers – you can really feel that every member of their team is dedicated to making Forsyth County the best place to live and grow older!

Joel McIver with Senior Services

Kenneth Allen Moser

Kenneth Allen Moser (Ken)
1942 – 2021

We at Piedmont Federal knew Ken as a board member, advisor, general counsel, trusted colleague, and friend. His work with us was outstanding, grounded in a strength of character benefiting all those who had the pleasure to know him. Ken was a tremendous advocate for Piedmont Federal, but his work with us was just a small part of his legacy.



Ken's colleagues at Womble Bond Dickinson where he spent 43 years had the opportunity to know him well. He was a partner, manager of the Winton-Salem office, member of the Firm Management and Executive Committees, and leader of the firm's Capital Markets Practice Group. It's not surprising he received the William Pen Sandridge Award for lifetime service with the firm.

Dedication, integrity, and a fervent work ethic described Ken's legal career as he steadfastly served clients but also his colleagues, including the countless young attorneys he mentored throughout his career. Ken taught law students, authored legal texts, and was honored with induction into the American College of Real Estate Lawyers, the American College of Mortgage Attorneys, and the North Carolina Bar Association Legal Practice Hall of Fame.

A dedicated undergraduate and law school alum of Wake Forest University, Ken turned his spirit of service to the University, serving numerous of its boards, councils, and campaigns, making way for his three children which all graduated from Wake Forest. As an undergraduate, Ken was president of his senior class, earning many honors along the way and was a member of the freshman cross country and basketball teams. At Wake Forest Law School, where he graduated cum laude, Ken served as Associate Editor of the Law Review and President of Phi Delta Phi.

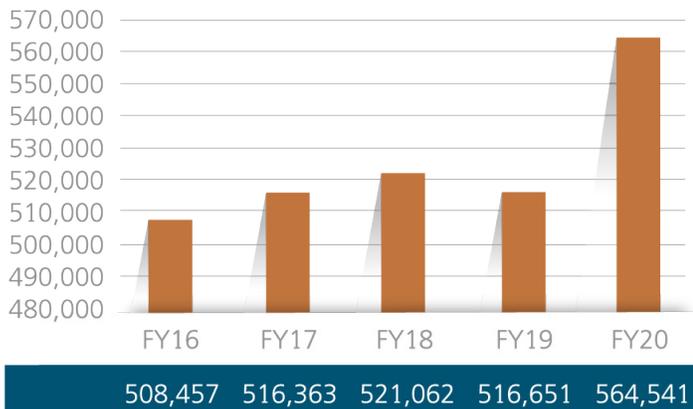
Most important at Wake Forest, Ken met Mary Nan, his beloved wife of 54 years. They are members of the Samuel Wait Legacy Society, the Hawthorne Hill Society of Wake Forest Medical Center, the Deacon Club, and Loyal Deacs. Ken's nine grandchildren who adored him knew Ken as Papa. They helped Ken add some new job titles including treat giver, joke teller, coach, cheerleader, confidant, and role model. His was a life well lived. We will miss his wisdom, counsel, and friendship.

Growing

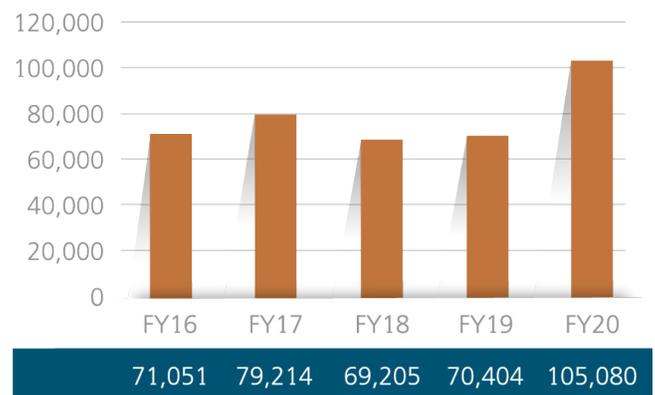
Increasing Loans

In spite of the pandemic, we experienced growth in gross loans of \$48 million (9.3%), driven mainly by our launch of Business Banking. Mortgage loan production hit a modern record due to the refinance activity and the demand for new homes. Participating in the Small Business Administration's PPP provided much needed relief for our communities' small businesses and non-profits.

Gross Loans (\$000)



Mortgage Loan Production (\$000)



PPP LOANS HELPED **86**
BUSINESSES AND NON-PROFITS

\$105 million OF MORTGAGE LOAN
PRODUCTION TOPPED ALL RECENT
YEARS' FIGURES

BEGAN A LOAN PRODUCTION OFFICE TO
SERVE **GUILFORD COUNTY**
WITH THE HIRING OF TWO EXPERIENCED
BUSINESS BANKERS

INTRODUCED A RESIDENTIAL
CONSTRUCTION/PERMANENT
LOAN PROGRAM



Whitney McHenry and Julia Brown
MawMaw's Chicken Pies • Kernersville, NC

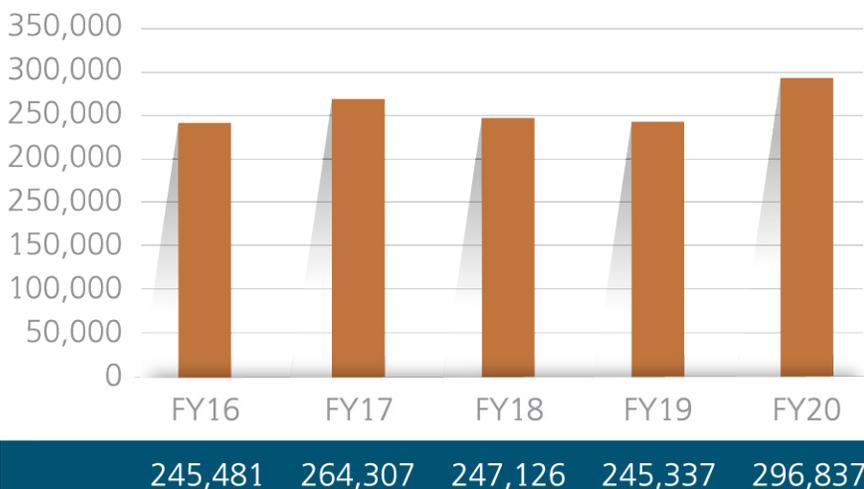
Growing

Growth in Core Deposits

Core deposits are the lifeblood of any financial institution, providing a stable and low-cost source for funding loans. Our core (non-maturity) deposits grew by over \$50 million (20%) over 2019. Better positioning our branch teams to gather retail and business deposits was a key initiative in early 2020 that led to our success.

- Branch Optimization initiative positioned Branch Managers to lead their teams in retail and business banking, freeing up time from processing mortgage loans
- Local disruption in the market, due to mergers and corporate relocations, positioned Piedmont Federal as *the* local bank
- ClickSWITCH, an automated checking account switchkit, makes switching easy
- Online account opening provides a touchless and convenient way to meet customer checking and savings needs

Non-Maturity Deposits (\$000)



KEY TAKEAWAYS AND HIGHLIGHTS

ASSET GROWTH OF

5.3%

(2019 to 2020)

GROSS LOAN GROWTH OF

9.3%

NON-MATURITY
DEPOSIT GROWTH OF

21.0%

LEVERAGE
RATIO (CAPITAL) OF

25.6%

Over 600 jobs

saved through
PPP loans

Gross charge-offs of

-0-

Net income growth
(adjusted for gains) of

19.8%

Growing

Developing our Teammates

Several of our long-tenured teammates retired during 2020, leaving vacancies we filled by promoting and hiring banking professionals. We filled critical Branch Manager roles in two Winston-Salem offices (Peace Haven and Southpark) and in High Point. We began the GPS Banker Development Program, a nine-month, intensive training program concentrating on young professionals of color. In September, two recent graduates of NC A&T State University started our inaugural program.

- Key Branch Manager positions filled in Winston-Salem and High Point
- New Director of Retail Banking to provide coaching and leadership for our retail line of business
- GPS Banker Development Program launched in September 2020



Pictured above - Cameron Berry and Jamarkus Swinson
from Piedmont Federal's GPS Banker Development Program

Growing

Future of Financial Services

The banking world, if not our entire economy, is going through rapid change—exacerbated by the COVID pandemic. Digital Transformation, in its many meanings and interpretations, is the subject of virtual conferences, webinars, and white papers. We will strive to be a leader in how we deliver our services—both digitally and in-person.

In our strategic planning process, we established a goal of attaining \$1 billion in assets by December 2023. We have never been about growth for growth's sake. Rather, attaining this milestone is a tangible indicator of our longevity, strength, and importance in our community.

- Extended our contract with our core provider in order to add services to enhance the digital experience
- Repositioned the Downtown Winston-Salem office to the Twin City Motor building in a growing and thriving part of downtown
- Strategic plan addresses how we enhance the customer experience and develop our teammates



The Twin City Motor building will undergo extensive renovation in 2021, preparing the new Piedmont Federal office space.

Financial Statements

Summary Balance Sheets

As of December 31, 2019 and 2020

Assets (in Thousands)	2019	2020
Cash and Due from Banks	\$56,114	\$42,614
Securities and Other Investments	264,365	259,122
Gross Loans	516,651	564,541
Less: Allowance	(1,035)	(1,525)
Net Loans	515,616	563,016
Other Assets	35,999	53,015
Total Assets	<u>\$872,094</u>	<u>\$917,767</u>
Liabilities and Capital (in Thousands)	2019	2020
Total Deposits	\$633,207	\$677,315
Borrowed Funds	279	265
Other Liabilities	6,389	5,735
Total Liabilities	639,875	683,315
Capital	232,219	234,452
Total Liabilities and Capital	<u>\$872,094</u>	<u>\$917,767</u>

Financial Statements

Summary Income Statements For the years ending December 31, 2019 and 2020

(in Thousands)	2019	2020
Interest Income	\$28,111	\$26,544
Interest Expense	8,188	7,069
Net Interest Income	19,923	19,475
Provision Expense	111	490
Net Interest Income After Provision	19,812	18,985
Noninterest Income	1,693	1,499
Noninterest Expense	19,155	18,999
Pretax Profit	2,350	1,485
Income Taxes	462	176
Net Income	\$1,888	\$1,309

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



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SAVINGS BANK