

DEFINING A MODERN MUTUAL

2021 ANNUAL REPORT TO STAKEHOLDERS

EST. 1903

Piedmont
FEDERAL
SAVINGS BANK
633 N. Liberty Street



Downtown Winston-Salem Branch – circa 1950



Downtown Winston-Salem Branch – 2022

DEFINING A MODERN MUTUAL

defining VERB /di-'fīn -eng/

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

modern ADJECTIVE /mä-dərn/

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

mutual NOUN /myü-chə-wəl/

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:

As we share our 2021 Annual Report of Piedmont Federal Savings Bank with you, COVID-19's impact appears to be lifting, allowing some return to normalcy albeit with lingering and significant issues in its wake. Questions remain regarding supply chain and production issues, inflationary and cost-of-energy impacts, changes in the availability and ways the workforce operates, international unrest, and other megatrends. None of these challenges deters our progress; quite the opposite is true.

We are motivated and enthusiastic in our work to guide Piedmont Federal to points of ever-increasing relevance to customers and our communities. We have termed this process, *Defining a Modern Mutual*. The series of tasks in this process occupy us now and will do so moving forward as there is no end point to remaining relevant. Our Values will not change, but how our services, organization, and strategies are defined will.

Almost 120 years ago, a group of neighbors in Winston-Salem organized Piedmont Federal as a *mutual* with goals to help one another save for the future, build homes, and support their communities. Organizing as a mutual freed the bank from ties to stock investors, allowing the organization to think and act differently. Today, we must use our increasingly unique status as a mutual to pursue those founding goals, expand them to ensure our relevance to customers, and indeed, to think and act differently.

Our process of Defining a Modern Mutual has already taken us in exciting directions and many more are to come. Those efforts fall into one (or sometimes more) of the following development categories:

- Scope of Services
- Customer Experience
- Access and Reach
- Tech Foundation
- Teammate Development
- Local and Global Responsibility
- Strategic Relevance

We will discuss each of these development categories within the Annual Report both in terms of efforts currently underway and those soon to come. While we cannot touch on every initiative in each category, we hope to relay an overview and the excitement we have with each.

As we make efforts in Defining a Modern Mutual, we must also provide outstanding service for our customers along the way. After all, each interaction with a customer or stakeholder further defines us. We will touch on a number of the operational highlights within the Report.

We would be remiss in not thanking you for your support of and trust in Piedmont Federal. We understand the great value of that support and trust. Thank you. Join us as we venture into 2022 and our efforts in *Defining a Modern Mutual* together.

Handwritten signature of Scott E. Cawood in blue ink.

Scott E. Cawood
Chairman

Handwritten signature of David P. Barksdale in blue ink.

David P. Barksdale
Chief Executive Officer

DEFINING A MODERN MUTUAL

Piedmont Federal's proud history as a mutual provides a foundation for much of what we are doing today. We are accountable to our customers, not to stockholders, because we do not have stockholders. The first mutual banks were formed almost 200 years ago to provide banking services and credit access for ordinary citizens ignored by the established banking community. It's a heritage we are delighted to claim and one on which we are excited to build.

Defining a Modern Mutual involves extensive efforts, and they should be. Nothing is going unexamined, from our culture to product offerings, from locations to community responsibility, and much more. All aspects are being thoughtfully considered, enhancements made, and strategic plans initiated. Our efforts fall into one or more development categories we discuss now and illuminate with a look at a sampling of initiatives within each.

SCOPE OF SERVICES

The ways customers manage their finances, conduct transactions, and interact with financial services firms changed radically in recent years, and the changes will keep coming. Piedmont Federal made a number of moves in 2021, expanding our Scope of Services to enhance our relevance and relationships with customers. We must provide a diverse suite of services, meeting customers at their points of need, but also at their points of expansion, vision, and aspiration.

Business Banking grew in operational and geographic scope in 2021. Our Greensboro Loan Production Office opened its doors and relationships with business clients rapidly followed suit. In addition, we continued our analysis of the most promising cities in which to expand business banking, selecting the Lake Norman – Cornelius area where we have already hired an experienced banker and look to open the Loan Production Office in mid-2022. Outstanding growth defines this area with its strategic position allowing operations down the I-77 corridor through Huntersville and into Charlotte.

On the consumer-side of our banking operations, our **Construction-to-Permanent** loan program enjoyed its first full year of service with over \$10 million in new loan closings. This new loan product is representative of our focus on Scope of



Service expansions, meeting the needs of customers who would have gone elsewhere without the loan's existence. We cannot be all things to all people, but we must make strategic decisions to introduce products meeting pronounced customer needs leveraging our core set of competencies.

CUSTOMER EXPERIENCE

So much goes into defining Customer Experience. It's often the difference maker when gaining a new customer or delighting an existing one. We deliver outstanding Customer Experience in a number of ways. We are subject matter experts, providing information and insights when customers are making financial decisions. Our processes allow an efficient pathway for customer decision making with resources all along the way. We anticipate customer needs and fill in gaps so customers have seamless experiences.

Customers need an efficient loan process, an area in which we excel and continue to perfect. This year we further **Streamlined Consumer Loan Approval** and partnered with MeridianLink for a more efficient approval process launching in early 2022. This process will allow customers to move more quickly with home equity lines of credit and unsecured loans, while facilitating Piedmont Federal's approval process with the right information for those decisions.

The steps along the way define Customer Experience. In 2022, we will launch **1903 Title Insurance**, a joint venture to provide home and loan closing insurance services, further enhancing the loan process and its speed. In addition, we will begin offering home and auto coverage with **Community Insurance Services** through a consortium of banks as part of the NC Bankers Association. These may seem like new service offerings rather than Customer Experience enhancements and they are, but they are also components of integrated offerings. These components assist customers 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 everyone in the communities we serve. Doing so requires diligent and creative efforts to increase Access and Reach. We must have the products, accounts, and services they need. Those may be entry points for some customers welcoming them into the banking system, or they may be products and services to meet new and existing customers at their new points of need with housing, savings, business development, and so many other areas. We can't wait for them to find us or adapt to us. We must provide Access and Reach to our communities.

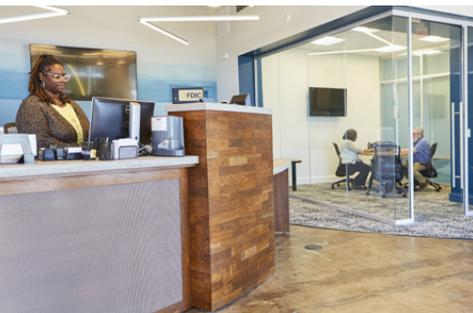


Piedmont Federal's First-Time Homebuyers Program has provided loan access to customers for many years, providing favorable terms and added assistance and support along the way. More was necessary – the **Homebuyer's Dream Program** expands



our Access and Reach to low-wealth families who have received approval for down payment assistance from an approved city or county program. The program incorporates loan terms, a process, closing cost assistance, and a credit review platform built to work better for new customers to home loans and home buying. The results are new home owners, 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 new Roar Building, positioning Piedmont Federal in an area with growing residential and business opportunities. This new office is certainly about its geography, but it is also a completely new physical design for banking. Barriers between our teammates and customers 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 customers who may not prefer traditional banking.



TECH FOUNDATION

Technology impacts everything we do, but it also provides strategic advantages. Some of those advantages go unseen to our customers, but they do experience them. Still other strategic advantages provided by our Tech Foundation are front and center for customers using that technology. Capital spending and organizational efforts with technology are clear priorities for Piedmont Federal.

In 2022, the new Piedmont Federal **Digital Platform** will go live, providing new and enhanced online and mobile banking features to customers. The new platform is a joint effort between our internal technology teams and an external financial tech firm. This technology step forward provides customers with improved financial planning and spending insights, captures receipts, and

organizes CardSwap. This innovative platform will open still other doors, allowing integration with other technologies, fintech firms, and web-based applications.

A number of important supporting technologies were recently rolled out including a **New Accounting System** with enhanced reporting capabilities. This system ushers in new efficiencies and tools to run the business of Piedmont Federal better. Our technology to assist with government and agency reporting has been enhanced, bringing efficiency to many required processes. The more efficient and effective our internal systems are, the better we are in every way for our customers. Much of Piedmont Federal is built on our Tech Foundation and the work in that area is continuous.



TEAMMATE DEVELOPMENT

Our most important initiative is Teammate Development, clearly recognizing that our teammates are even 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 customer. As such, investing in our teammates is time, effort, and funds well spent.

One of the most important things we can do is listen to our teammates, understanding their viewpoints and ideas. We developed and implemented an **Engagement Instrument** this year to survey our teammates – all of our teammates. This process helps us to learn from one another, share feedback, and further align in our way forward to develop ourselves and Piedmont Federal.

Pulse Surveys levered off of this kickoff effort, gathering insights around major rollouts and initiatives. Listening and understanding



informs our way forward and positively impacts our growth. Exciting new programs are also components of our Teammate Development efforts. Our **Leadership 360** program brings together a group of Piedmont Federal teammates each year for a series of training, teamwork, and strategy sessions and opportunities. Piedmont Federal's **GPS Banker Development Program** looks outside the organization, recruiting young people of color with outstanding talent, providing intensive training and



▲ **PICTURED ABOVE:** Carleward Russell and Isa Abdul-Rahman, recent graduates of UNC Charlotte and NC A&T State University, and members of Piedmont Federal's GPS Banker Development program.

mentoring. This program aligns our values-based goal to see greater diversity in our organization and the banking profession as a whole with our need to attract well-qualified teammates. As we move into 2022, the second cohorts for both the **Leadership 360** and **GPS Banker Development Programs** are in process. 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.

Simply having access to the banking system is a fundamental we felt could not be left behind. Many need a solid entry point to banking without which community success across our pillars is a nonstarter. This year we created **PFBoost**, a checking account with strong features, but without impediments which have held people back from getting the benefits of banking. The account met Cities for Financial Empowerment Fund's Bank On National Account Standards, receiving the organization's official certification. **PFBoost** is a fundamental for **Economic Mobility** in an area where the fundamentals are exactly what is missing and needed most.

We launched the **Zero Carbon Footprint Mortgage** in 2021 with the message, You Invest in Your Home, We Invest in Our Environment. Piedmont Federal funded carbon offsets for new mortgage customers, covering the carbon generated by their homes during their first year of occupancy. Offsets pay for programs to handle methane gas at farms and landfills, produce energy from greener sources, and improve forest management. The program is a strong step with our Sustainability pillar, aligning our customers' actions with environmentally positive steps taken together with us.



carbon
neutral

The Zero Carbon Mortgage. Inquire Inside.



Our efforts with **Accessible Housing** and **Economic Mobility** converge with our investment in **The Do School** and our financing with **S.G. Atkins Community Development Corporation (SGACDC)**. **The Do School** is an innovative, skills-development program, renovating distressed properties while training marginalized members of low-wealth neighborhoods. Our partnership with SGACDC involves financing the construction of houses within the East End Master Development Plan. Our work with **The Do School** and **SGACDC** aligns well with who we are and what we do, activating those competencies within our Local and Global Responsibility efforts.

STRATEGIC RELEVANCE

Customer 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 customer's needs in the moment, we are relevant. The scope and extent of our abilities to assist the customer 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 customer at their new point of need. 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 customers, and all of our stakeholders.

Planning began this year for the formation of a **Mutual Holding Company** which would be completely controlled by Piedmont Federal members, with that holding company having complete ownership of Piedmont Federal Savings Bank. The long-term benefits of this move are substantial, providing flexibility with raising capital and even structuring new lines of business and strategic partnerships with other financial institutions that align with our Values and Purpose. The Mutual Holding Company will provide these benefits without impact to the independence we enjoy as a mutual and better position us for many moves to enhance our relevance with customers and stakeholders in the future.

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





FINANCIAL REPORT

2021 – THE RESULTS

The year began with hopes the COVID-19 pandemic effects would soon end, transitioned into a complex series of freight and supply chain issues, and ended with the prevalent use of a word we had not used with any frequency in over a decade – inflation. It was not a year where *normal* would often be used in any of its descriptions.

Despite the challenges during 2021, our team was successful throughout the year, helping customers navigate financial issues and take advantage of still historically-low interest rates. Mortgage loan production exceeded 2020's level, which was already higher than in recent years, reflecting the impact of low rates and record refinancing levels. Assets, loans, deposits, net interest income, and net income experienced significant growth. Piedmont Federal adjusted to perform well during an arduous period many finally termed, a *new normal*.

Assets (\$'000)



**\$49.9 million (5.4%) increase
in Assets over 2020.**

**\$95.2 million (10.9%) increase
in Assets over 2019.**

**Core banking activities
fueled asset growth.**

New loans led asset growth drivers.

\$49.9 MILLION (5.4%) INCREASE IN ASSETS OVER 2020

Gross Loans (\$000)



Flat-line period of Gross Loans snapped with two years of strong growth.

\$52.0 million (9.2%) increase in Gross Loans over 2020.

\$99.9 million (19.3%) increase in Gross Loans over 2019.

\$1 million of new net loans added per week in 2021.

Total Deposits (\$000)



New deposits surged, providing funds for loan growth.

\$37.2 million (5.5%) increase in Total Deposits over 2020.

\$81.3 million (12.8%) increase in Total Deposits over 2019.

100% of new deposits flowed into new loans.

Net Core Revenue (\$000)



Period of declining revenue snapped with Net Core Revenue* of \$22.8 million.

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

\$2.0 million (9.5%) increase in Net Core Revenue over 2020.

Growth in Net Core Revenue positions the bank to fund its development plans (Defining a Modern Mutual).



Operations and Financial Highlights

DEFINING A MODERN MUTUAL SHOWS FINANCIAL EFFECTS

While many of our efforts discussed earlier to Define a Modern Mutual and our way forward were in the planning stages in 2021, we saw clear evidence of our actions taking shape in the 2021 financial statements. Expansions in our **Scope of Services** produced strong results. **Business Banking** contributed net new commercial loans accounting for all of the net increase in Gross Loans for the bank. In its first full year of service, the **Construction-to-Permanent Loan** product made up more than 9% of mortgage loan production. These two **Scope of Services** areas demonstrated their ability to meet customers at their points of need with outstanding relevance demonstrated by their financial results.

Mortgage Loan Production (\$000)



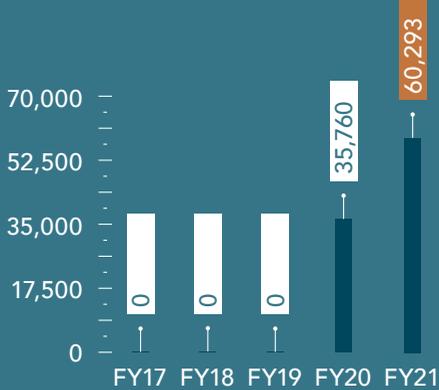
\$5.7 million (5.5%) increase in Mortgage Loan Production continued the unprecedented volume level from 2020.

Mortgage Loan Production of \$110.8 million topped 2020's level, which was 49.3% higher than 2019.

Overall Mortgage Loans Outstanding fell slightly by \$1.8 million (.35%) to \$517.6 million at 2021's year end.

COMMERCIAL LOAN TOTAL GREW BY \$53.8 MILLION

Commercial Loan Production (\$000)



\$24.5 million (68.6%) increase in Commercial Loan Production over 2020.

Overall commercial loan total grew by \$53.8 million (119.2%) over 2020's year end.

Commercial loans made up \$98.8 million (16.0%) of Gross Loans Outstanding at 2021's year end.

Non-Maturity Deposits (\$000)

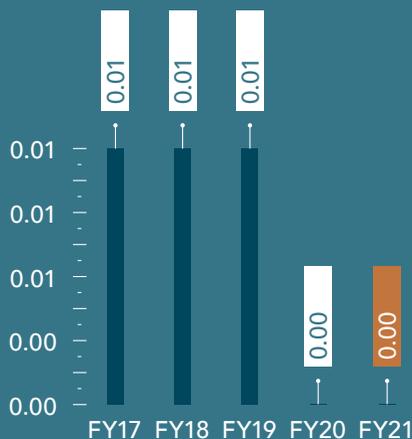


\$65.7 million (22.1%) increase in Non-Maturity Deposits over 2020 demonstrated pipeline of customers opening new accounts.

Non-Maturity Deposits moved from 43.8% of Total Deposits in 2020 to 50.7% in 2021.

Customer 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 second year of no charge-offs.

Thorough credit underwriting, meticulous portfolio management, and detailed third-party loan review help ensure continued asset quality.



PROFITS FOR A MODERN MUTUAL IMPROVE BANKING

The performance of Piedmont Federal's operations is in part measured by profitability and return on assets. As a mutual, our decision-making is not tied to quarterly earnings reports and a stock price, but profitability and strong asset returns do result in improved financial performance, better customer experiences, and continued contributions in our communities. Building out our Tech Foundation, engaging in Teammate Development, enhancing Customer Experience, expanding our Access and Reach, and so much more are linked to our financial performance.

Net Interest Margin (%)



Net Interest Margin rebounded in 2021 after three years of declines.

Net Interest Margin's measurement of net interest revenue's return against cost of deposits demonstrates the trajectory of earnings.

The ten basis point improvement in Net Interest Margin represents a 4.3% increase in performance from 2020.

ROAA (\$000)



Return on average assets improved from .15% in 2020 to .20% in 2021 – a 33.3% increase.

Profitability and return on assets gained ground in 2021 even as Noninterest Expense increased by \$1.4 million due to investments in technology, infrastructure, and teammate development.

Net income increased \$605,000 (46.2%) to \$1.9 million in 2021 from \$1.3 million in 2020.





OUR EFFORTS TO DEFINE A MODERN MUTUAL DEFINE OUR WAY FORWARD

This is an exciting time at Piedmont Federal. We have seized on the factors which differentiate us from the sameness of the banking industry, especially being organized as a mutual. As we provide products and services to our customers each day, we also continue to Define a Modern Mutual. This process is about looking forward to where we are heading and to the points in the future where our customers will be. We must be at those points with our customers, 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 customers now and in the future 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, 2021 and 2020

Assets (in Thousands)	2021	2020
Cash and due from banks	\$26,294	\$42,614
Securities and other investments	267,816	259,122
Gross loans	616,505	564,541
Less: allowance	(1,850)	(1,525)
Net loans	614,655	563,016
Other assets	58,515	52,659
Total assets	\$967,280	\$917,411

Liabilities and Capital (in Thousands)	2021	2020
Total deposits	\$714,550	\$677,315
Borrowed funds	10,251	265
Other liabilities	9,365	5,379
Total liabilities	734,166	682,959
Capital	233,114	234,452
Total liabilities and capital	\$967,280	\$917,411

Summary Income Statements

For the years ending December 31, 2021 and 2020

(in Thousands)	2021	2020
Interest income	\$26,010	\$26,516
Interest expense	4,672	7,069
Net interest income	21,338	19,447
Provision expense	335	490
Net interest income after provision	21,003	18,957
Noninterest income	1,503	1,528
Noninterest expense	20,378	19,000
Pretax profit	2,128	1,485
Income taxes	214	176
Net income	\$1,914	\$1,309

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

