

2023

ANNUAL REPORT

Since 1903



**We've been there.
We'll be here.**



**We've been there.
We'll be here.**

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Welcome



Scott E. Cawood
Chairman



David P. Barksdale
Chief Executive Officer

Stakeholders of Piedmont Federal Bank:

As we continue to Open Doors for our clients, communities, and teammates, we welcome you to the 2023 Annual Report and some of the highlights of a very interesting year in the banking sector. We look forward to sharing more with you as we continue to build the Modern Mutual and position ourselves to be the community bank of choice.

This past year saw a continued increase in short-term interest rates as the Federal Reserve fought to bring inflation under control and achieve the so-called “soft landing” for our economy. This increase in rates drove several trends that banks across the country, both large and small, witnessed.

First, housing and the mortgage banking market continued its slowdown from the previous year. More potential homeowners stayed on the sidelines as housing inventories shrank and the cost of borrowing (interest rates) climbed. As a mutual with a 120-year history in the mortgage business, this trend certainly affected our production and outstanding loan balances.

Second, consumers, who had endured very low interest rates on their deposits, now had options for investing excess funds. The US Treasury market competed for banking’s deposits for the first time in many years, and higher-paying certificates of deposits attracted funds from checking and savings accounts. This shift in deposits drove up interest costs and further depressed net interest margins across the banking industry.

We also witnessed the failure of three super-regional banks during 2023, as Silicon Valley Bank, Signature Bank, and First Republic Bank were taken over by regulators. These failures provided further stress to the banking system, a trend that settled, for the most part, by the end of 2023.

Our strong balance sheet and pristine credit quality positioned us well for these turbulent times. We not only grew our balance sheet organically but also announced the acquisition of Wake Forest Federal Savings & Loan Association, a \$120 million mutual located in the vibrant Triangle NC. This partnership closed in early 2024, with systems and product conversions scheduled for the fourth quarter of 2024. We are excited to partner with this strong and historic bank.

As we look to attract the next generation of Piedmont Federal Bank’s clients, we worked throughout 2023 on creating a new brand, complete with a new color palette and logo. We unveiled our new look in early 2024 and will follow up with a new webpage and a new product offering that is simpler and more competitive and attracts a new mix of clients to our Bank.

The following pages showcase our financial strength, balanced approach to growth, and positioning for the future. We thank you for your partnership with Piedmont Federal Bank and look forward to a great future. **We’ve been there. We’ll be here.**

Scott E. Cawood
Chairman

David P. Barksdale
Chief Executive Officer

Shifting Banking Landscape

As we reflect on the events that shaped the financial landscape in 2023, several key factors influenced the economy and banking sector.

Interest Rates:

The Federal Reserve continued their fight against inflation with a second year of increased short-term interest rates. The frequency and magnitude of rate increases has not been seen in our economy in over 40 years. The recession that many economists predicted as rates began to rise did not happen in 2023. Taming inflation without bringing about a recession is that soft landing the Fed is trying to achieve.

Housing:

Many consumers looking to buy a house or downsize/upsized did not want to trade their sub 4% mortgage rate for the higher 6% plus rates available in the market. In addition, new home construction did not keep up with the demand, resulting in less inventory on the market. Combine this shortfall with the higher mortgage interest rates, and the result is a dramatic slowdown in new mortgage originations and refinancing activity.

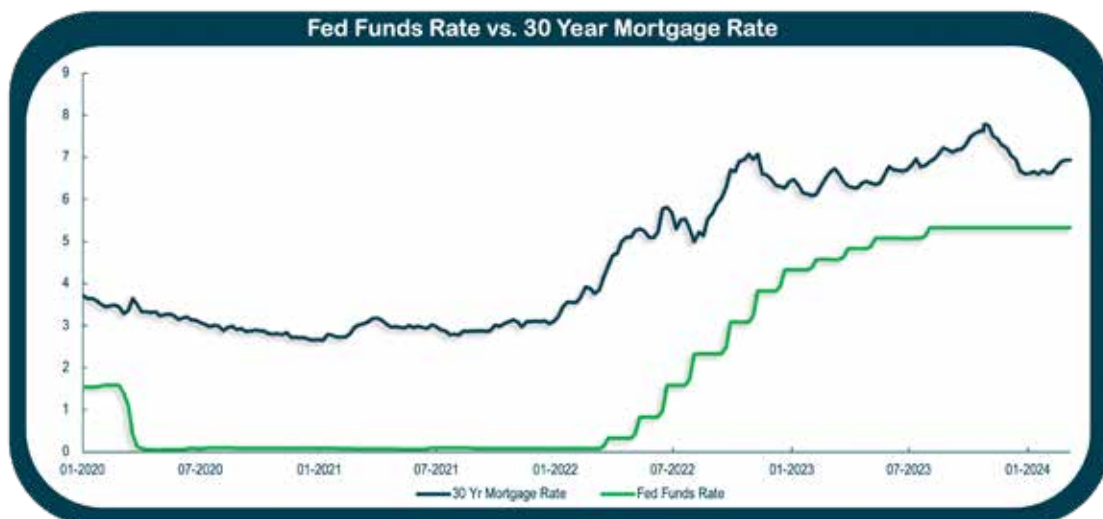
Deposit Migration:

A trend that began in 2022 continued in 2023—

the seeking of yield for deposit accounts. It is rare that banks compete with US Treasuries for consumers' funds, but that is what we found as the short-term Treasury rates rose rapidly. Consumers and businesses also moved funds to higher-yielding certificates of deposit, draining their excess cash from checking and savings accounts. This action was driven, not only because of higher yields, but also some of the fear caused with the bank failures in early 2023. Piedmont Federal Bank is a relationship-driven bank; as such, we helped our clients in their quest for higher yields and witnessed a shift in our deposit mix. This shift in turn drove up our interest expense, compressing an already low net interest margin.

Shocks in the banking sector:

In the Spring of 2023, we saw the failure of Silicon Valley Bank (California) and Signature Bank (New York), two super-regional banks with large concentrations of uninsured deposits. These were followed by the failure of First Republic Bank (California) in the late Spring of 2023. Some predicted that we had another banking crisis on our hands and that deposits would flow to the large, "too-big-to-fail" institutions. This crisis did not play out but



Operations and Financial Highlights

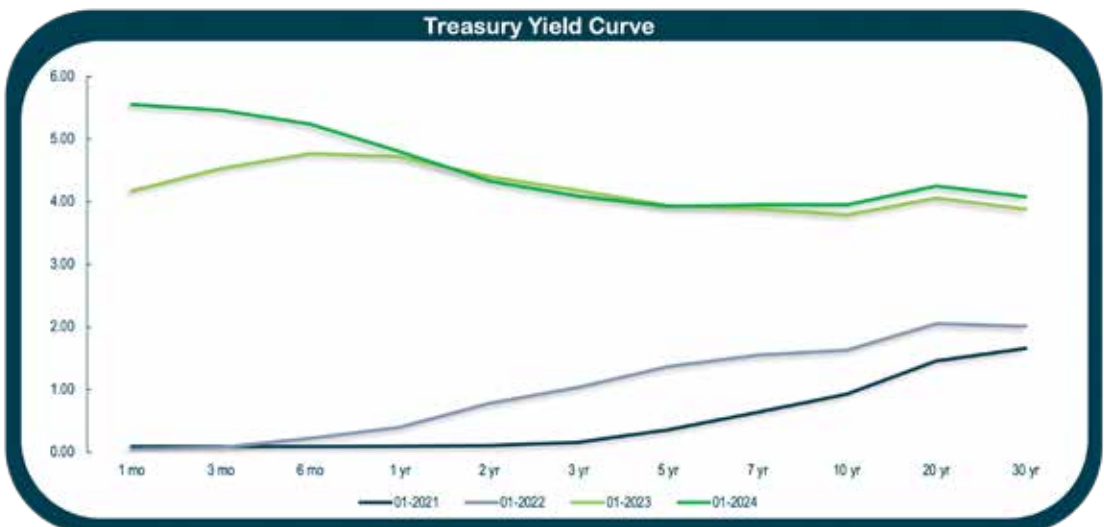
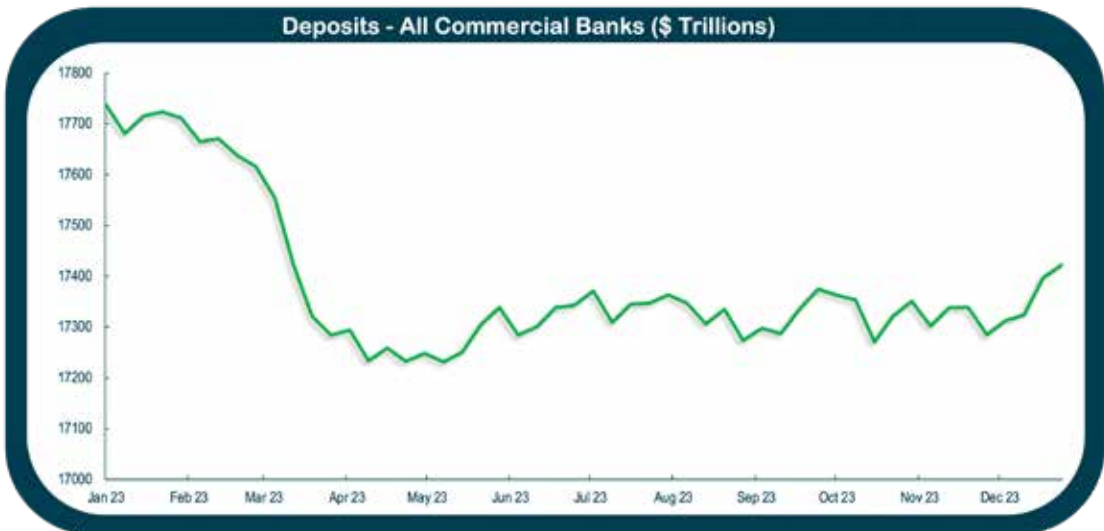


some of its effects on consumer behavior are still seen.

Resilience of Community Banks:

In the face of potential turbulence, Piedmont Federal Bank demonstrated resilience. Our ability to weather the challenges speaks to the strength and adaptability of our financial institution.

As we move forward, staying informed about these developments positions us for a clearer understanding of the financial landscape and equips us to navigate future uncertainties. At Piedmont Federal Bank, we remain committed to providing stability, reliability, and unwavering support to our valued clients.



We've been there

In 2023, we proudly reflected on Piedmont Federal Bank's rich 120 - year history, standing as a beacon of stability amidst a dynamic financial industry. Our robust balance sheet reaffirmed our commitment to weathering uncertainties and providing steadfast support to our clients and communities.

Foundation:

Piedmont Federal Bank has been serving our communities for 120 years. Our balance sheet and longevity provide the resources we need to combat the headwinds that the banking industry faced in 2023.

Culture:

We spend a lot of time talking about and reinforcing our Culture, which is best defined by our Values and Essentials. We believe that a strong Culture drives teammate engagement, which then drives client engagement and community impact. Culture truly is a difference maker.

Capital:

Our capital position continues to be one of our major strengths. Over the last several years, we have intentionally leveraged this capital to better position our balance sheet and drive earnings. These strategies are long-term in nature, with the full benefit coming in future years.

Asset Quality:

Piedmont Federal Bank continues our strong asset quality position, with virtually zero charge-offs in 2023 and very few non-performing loans.

Our Core Values

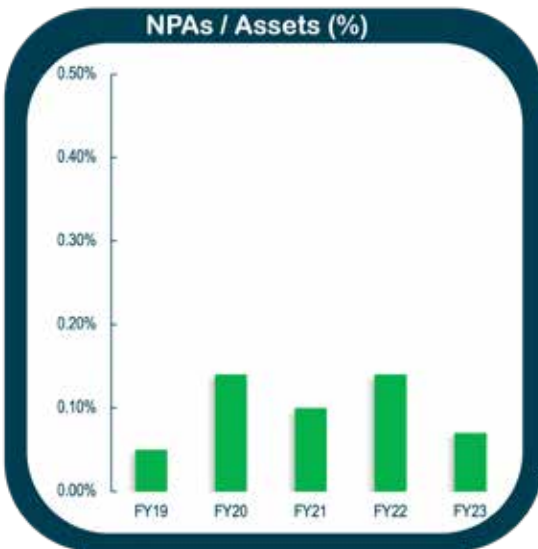
Our unwavering commitment to our core values defines the essence of who we are and how we operate.

- Be Authentic
- Build Caring Relationships



- **Do What's Right**
- **Go All In**
- **Move Forward**

Being authentic is more than a principle; it's a promise - we are transparent and true to our word. Building caring relationships is at the heart of our service, genuinely caring about the well-being of our clients, teammates, and communities. Doing what's right guides our actions, ensuring integrity in every interaction. We go all in, wholeheartedly dedicated to our cause, whether it's supporting our clients or advancing community initiatives. With a spirit to move forward, progress is not just a goal; it's embedded in our culture. These values are not just words; they are the foundation of our identity, shaping a purpose-driven approach in all that we do.



- Statistically no charge-offs over the past five years
- Minimum levels of delinquent loans
- Piedmont Federal Bank maintains high quality loan portfolio

Our Essentials

1. Build vulnerability-based trust
2. Nurture relationships
3. WOW our clients
4. Own it
5. Operate with urgency
6. Evolve
7. Practice transparency
8. Be prepared
9. Learn continuously
10. Be humble
11. Have fun
12. Listen with intent
13. Do your best work
14. Be passionate
15. Follow up purposefully
16. Value different opinions
17. Lift others up
18. Innovate
19. Presume good intent
20. Speak up and commit
21. Live inclusion
22. Collaborate...always
23. Pursue clarity
24. Celebrate wins
25. Recover well
26. Lead by example

Building the Community Bank of Choice

In the ever-evolving realm of banking, adaptation is key. Piedmont Federal Bank's path through 2022 and 2023 has been marked by strategic actions aimed at fortifying our position, enhancing earnings, and adeptly managing exposure to interest rates.

Taking Action:

Over the past few years, we have taken actions to diversify our revenue stream, grow our client base, and expand our technology. As a mutual owned by our depositors, we are able to take a long-term approach to these strategies. We continued these initiatives in 2023 and have several initiatives that will continue in 2024 and beyond.

Mortgage Banking:

With the increase in interest rates and lack of housing supply, our mortgage production was greatly reduced, and this portion of our loan portfolio shrank. Over our history, we have held our mortgage loans within the portfolio. This strategy does increase our risks around credit, liquidity, and interest rates. We will continue to offer these "in-house" mortgages and supplement our offering to include loans that we sell on the secondary market.

We partnered with M2, a subsidiary of a mutual holding company in Ohio, to be our fulfillment center for this new product offering. This partnership will allow us to offer a broader array of mortgage banking products, increase our non-interest income, and manage our exposure to swings in interest rates. Clients that still want us to hold their mortgage loan in our portfolio will continue to have this option. Our first loans entered the mortgage pipeline in early 2024.

Commercial Banking:

Our diversification into commercial banking in 2019/2020 has been very successful. We are excited that we are taking the next steps to further expand this segment of our business model. In late 2023, we hired a new Chief Commercial Banking Officer to further develop our expansion strategy, round out our product offerings, and ensure we are providing a friction-less client experience. Michelle Koster and her team are reviewing our current Treasury Services (business deposit) product lineup and expanding in areas that make the most sense.

We will also be adding new teammates and new markets over the course of the next three to five years. Coupled with mortgage banking and retail banking, this line of business will move us to a full service financial institution while remaining "the" community bank of choice.



Operations and Financial Highlights

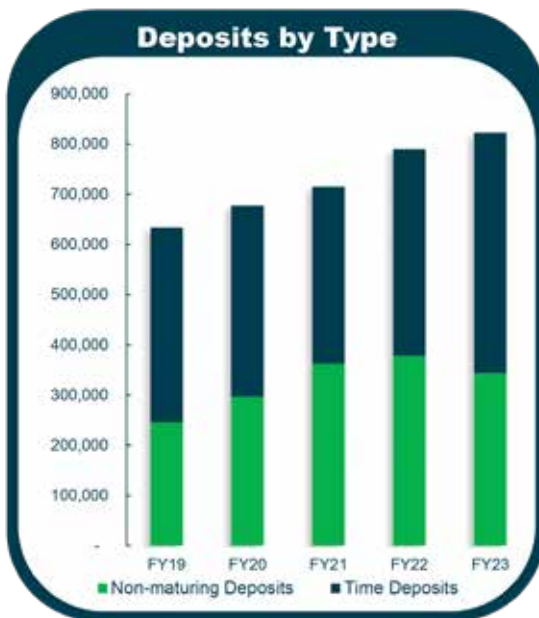


Deposit Mix:

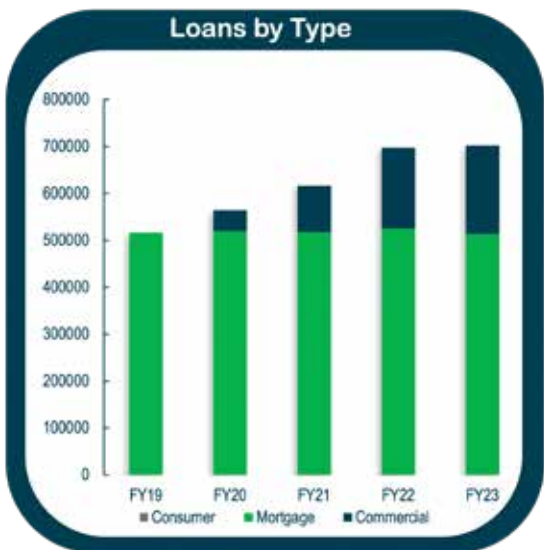
Our clients, like those across the country, began moving funds from checking and savings accounts into higher-yielding certificates of deposits. We approached this trend in a balanced approach—taking care of our clients while not trying to match every competitive offer in the marketplace. We did witness a dramatic increase in our interest expense and compressed margins as a result of this trend.

Balance Sheet Strategies:

Over the past two years, we have executed several strategies within our investment portfolio in order to diversify our earnings and better position the Bank for higher-for-longer interest rates. At the end of 2023, we took the step of selling some of our “under water” bonds, incurring a loss of just over \$1 million. These funds were reinvested into higher yielding bonds that will increase core earnings in 2024 and beyond.



- Total deposits increased \$33 million to \$823 million – a 4% increase
- Depositors responded to high rates by shifting dollars to time deposits



- Commercial loan balances grew 7%, or \$12 million, increasing to \$189 million
- Residential mortgage loans were \$514 at FY23, a decrease of \$11 million in a difficult interest rate environment
- Modest overall loan growth of \$5 million in 2023



Wake Forest Federal

A Division of Piedmont Federal Bank



▲ Pictured above:

From right - Kristina Keaton, Ann Watkins, Becky Winston, Carter Harrell, Millie Hale, Gwyn Bell. Sitting - Renee Shaw

Expanding our Footprint

In June 2023, we announced the acquisition of Wake Forest Federal Savings & Loan Association, a 100-year old mutual located in Wake Forest, NC. The Triangle market is one of the most vibrant in the Southeast, and this new partnership positions us well to take advantage of this robust growth. We will operate this branch as a division of Piedmont Federal Bank for the next few years.

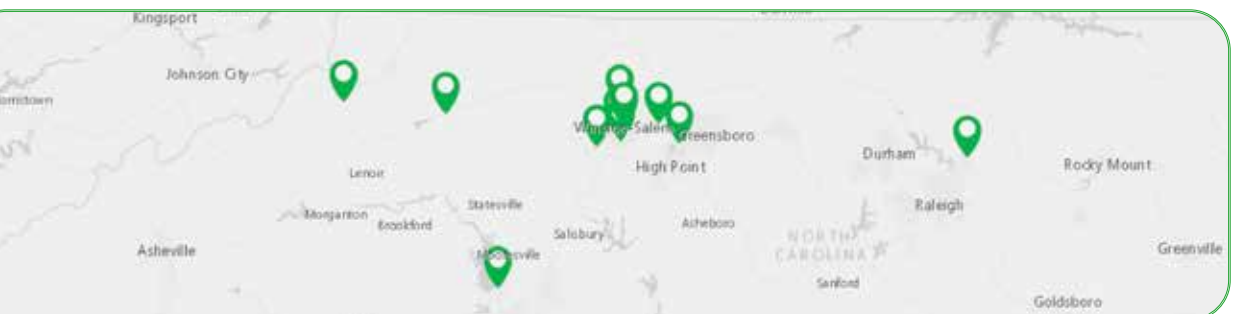
Regulatory approval was received in late 2023, and the closing occurred in early January 2024. Wake Forest Federal and Piedmont Federal Bank teams continue the work for operational conversion, which is scheduled for October 2024.

David P. Barksdale, President and CEO of Piedmont Federal Bank, expressed his pleasure, stating, “We are pleased to announce the completion of our merger with Wake Forest Bancshares and Wake Forest Federal. The management teams and teammates of both Piedmont Federal Bank and Wake Forest Federal have worked diligently to prepare for the integration of our two companies. We look forward to moving forward united with an experienced and respected board, leadership team, and teammates highly focused on supporting our clients.”

With this partnership, we will establish a foundation with an initial investment of \$500,000. This foundation will be for the benefit of the Wake Forest community, with the Board of Trustees made up of the board members from Wake Forest Federal.

Renee Shaw, Sr. Vice President, shared her excitement, stating, “We are thrilled to join the Piedmont Federal Bank team and work together to benefit all of our clients. The increased scale and resources resulting from this combination will enable us to provide clients with a robust suite of products and client service capabilities, that will continue to be delivered through a relationship-based community banking model.”

This partnership, bringing together two storied mutuals, will expand our client base, provide additional services to the clients in the Wake Forest market, and preserve mutuality.



Commitment to Mutuality

Piedmont Federal Bank is proud of its mutual history. The mutual model is unique—we are owned by our depositors instead of shareholders.

Mutuals began in the early 1800's, and many mutuals today have a history of over 100 years. Most mutuals began as a vehicle for the working class to save money and purchase homes. Over time, commercial banks entered these sectors; yet, mutuals still play an important role in the overall banking landscape.

Being a mutual, Piedmont Federal Bank can take a long-term view in how we manage the Bank. Yes, we do have the responsibility to make an adequate return (profitability) and to use our capital wisely. Unlike publicly-traded banks, we are not managing to a quarterly metric for an earnings call. Initiatives such as increasing our presence in the commercial line of business and investing in technology are ones that do not provide a short-term return. However, they are the right moves to position us for the future, and our mutual status affords us the opportunity to make these moves.

We are proud of our involvement in the following organizations which advocate for the mutual industry:

- American Bankers Association's Mutual Administrative Committee
- Independent Community Bankers Association's Mutual Council.
- Americas Mutual Banks—a trade organization devoted exclusively to mutuals
- Mutual Savings Association Advisory Committee—a committee chartered by the Office of the Comptroller of the Currency and made up of federal savings associations
- North Carolina Bankers Association's Mutual Peer Group

Piedmont Federal Bank is also involved in a

small consortium of mutuals that are working on a nationwide awareness campaign that touts the unique aspects of mutuality. The end products would include ads that we can use in our local markets and social media, as well as a unique identifier as a mutual bank.

Here are some statistics about mutuals from the FDIC's most recent analysis (December 31, 2022):



- 427 mutuals in the United States
- 37% have a mutual holding company (as does Piedmont Federal Bank)
- The largest concentration of mutuals is in the Northeast
- Piedmont Federal is the largest of the 14 NC-based mutuals
- The smallest mutual has assets of \$3.6 million, and the largest has assets of \$14.5 billion.
- The average asset base of all mutuals is \$783 million, and the median size is \$332 million.

We'll be here

While the banking landscape the past few years challenged all of us, it also provides Piedmont Federal Bank an opportunity to invest for our future. Building upon our 120-year history as a mutual (“We’ve been there”), we continue to make improvements to our technology, branding, and community impact as we position ourselves as the community bank of choice in our markets (“We’ll be here”).

Rebranding:

After more than a year of creative work and planning, we were excited to introduce our new brand in early 2024. This new look and shortened name positions us as a modern mutual for the next generation of clients. The colors represent trust and order (blue) and growth and opportunity (green). The crest reinforces this 120-year strength and pays homage to rolling hills and rivers of the Piedmont and our previous logo.

Why rebrand? Today’s ever-changing banking industry requires adaptability. Our previous brand and logo were developed in 2001. We wanted a brand to resonate not only with our long-standing clients, but also with the next generation of banking clients.

We will also be redesigning our webpage to make it simpler and more modern. A new deposit product suite will also accompany our brand. These products will be simpler and more competitive—again, aimed at conveying the modern mutual across all demographics.

Technology:

The Bank continues its push to modernize more features—both for client use and to manage our bank operations more efficiently. Some of these advances will not occur until after we convert the Wake Forest Federal system.

Many of our technology initiatives will complement our expansion of commercial banking. An enhanced mobile and online banking experience, faster and more efficient payment networks, and further cybersecurity tools will continue to move us toward the community bank of choice for small and midsize businesses.

Investment in technology will be an ongoing theme; our goal is to balance convenience, safety, and costs as we deliver an outstanding client experience.

Community Impact:

Supporting our communities has and will continue to be a major focus for our teammates. We’ve embraced the spirit of community engagement, dedicating our time, skills, and passion to various volunteer initiatives. From local charities and schools



to community events, our team actively participated in making a positive difference where it matters most.

Feeding the Hungry

Recognizing the importance of addressing local food insecurity, our teammates actively participated with the Second Harvest Food Bank, SHARE Cooperative, canned food drives, and supported initiatives aimed at ensuring that no one in our community goes hungry. Their efforts contributed to easing the burden for those facing food challenges.

Financial Literacy Initiatives

Empowering our communities with financial literacy is a key pillar of our mission. In 2023, our teammates participated in Books and a Bed, Read Winston-Salem, Piedmont Plus Bank@ Work seminars, and outreach programs to enhance financial education. By sharing their expertise, they helped individuals and families make informed decisions about their financial well-being.

Community Sponsorship Projects Include:

Salvation Army, Humane Society, AARF, Earth Day, Piedmont Land Conservancy, Beyond Sports, Crisis Control Ministry, Letters from Home, Bright Beginnings, Habitat for Humanity, Down Syndrome Association, Action for Equity, Love Out Load, Senior Services: Remember in December

Teammate Development:

Investing in our teammates' growth drives engagement and superior service for our clients. Leadership programs, management training programs, and outside educational experiences all play a role as we embrace our Essential of "Learn Continuously."

We recently launched a formal Mentor Program to accompany some of the more informal programs used in our leadership development initiatives. We know that working with a mentor allows our teammates to grow beyond their current roles and responsibilities.

Summary:

Our strong balance sheet, commitment to serving our clients, and agility served us well during the challenges of 2023. We are excited about the many initiatives that we will complete over the next several years to position us as the community bank of choice in our market. Thank you for your relationship with Piedmont Federal Bank. You are the reason that we have been serving for over 120 years. We've been there. We'll be here.





Financial Statements

Summary Balance Sheets As of December 31, 2023 and 2022

Assets (in Thousands)	2023	2022
Cash and due from banks	\$ 97,032	\$ 38,178
Securities and other investments	312,814	338,526
Gross loans	704,452	697,747
Less: allowance	(5,354)	(2,215)
Net loans	699,098	695,532
Other assets	80,966	79,891
Total assets	<u>\$ 1,189,910</u>	<u>\$ 1,152,127</u>
Liabilities and Capital (in Thousands)	2023	2022
Total deposits	\$ 822,685	\$ 789,575
Borrowed funds	145,220	145,236
Other liabilities	10,742	9,817
Total liabilities	978,647	944,628
Capital	211,263	207,499
Total liabilities and capital	<u>\$1,189,910</u>	<u>\$1,152,127</u>

Summary Income Statements For the years ending December 31, 2023 and 2022

(in Thousands)	2023	2022
Interest income	\$ 42,707	\$ 30,916
Interest expense	<u>21,975</u>	<u>7,185</u>
Net interest income	20,732	23,731
Provision expense	<u>40</u>	<u>368</u>
Net interest income after provision	20,692	23,363
Noninterest income	2,378	1,763
Noninterest expense	<u>22,839</u>	<u>22,719</u>
Pretax profit	231	2,407
Income taxes	<u>(90)</u>	<u>287</u>
Net income	<u><u>\$ 321</u></u>	<u><u>\$ 2,120</u></u>

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



piedmontfederal.bank
A TAXPAYING MUTUAL // MEMBER FDIC