

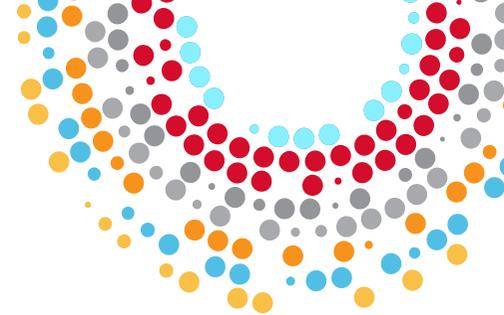


Simply Service[®]
since 1949

2022 ANNUAL REPORT

President & CEO

REMARKS



Dion Williams,
President & CEO

In recent years, our Annual Report has featured themes that get to the heart of what makes credit unions unique in general, and that is especially true for Piedmont Advantage. Looking back to the pandemic through the present, the following themes may ring a bell: Resilience, Perseverance, Stronger Together. These themes very much ring true as your Credit Union made it through the pandemic and is stronger today for it. Piedmont Advantage is stronger financially, more engaged with our members and communities we serve and poised for future opportunities to enhance the member experience. After all, we exist to serve you, our member-owners!

This is an especially exciting time as we look ahead to 2024, which represents the 75th Anniversary of Piedmont Advantage Credit Union. Let's look back over the past year and look ahead to an exciting future. Using our podcast, "Headlines and Fine Print," as an analogy, we will explore the headlines of the broader economy and break it down to the fine print for its application to Piedmont Advantage.

In an ongoing effort to tame inflation, the Federal Reserve increased interest rates numerous times with at least a couple more rate hikes projected over the remainder of this year. As a consumer, you saw higher prices at the gas pump and grocery store and higher borrowing costs. After years of low borrowing costs and low deposit rates, savers finally saw increases in deposit rates. Your Credit Union has featured certificate specials and the Simple+ Checking to give back even more to our member-owners in this higher rate environment.

Liquidity has also been in the headlines in recent months. With higher interest rates, competition is strong for depositors. Based on loan demand and consumer cash needs, there are times in which financial institutions borrow funds. The Silicon Valley Bank crisis is an example of an institution that was over leveraged in speculative businesses and lacked adequate liquidity sources to withstand a "run on the bank," so to speak, from its customers. This resulted in selling investments at significant losses and the ultimate undoing of the institution.

Your Credit Union is different. We invest in our member-owners, not crypto currency or other speculative ventures. Looking out for our member-owners is as successful today as it was in 1949. Of course, we'll invest in technology and infrastructure so you have the conveniences of the modern world, but we're not sacrificing the personal service that has worked so well for so long. In terms of liquidity, Piedmont Advantage has more than ample sources through the Federal Reserve and Federal Home Loan Bank such that selling investments at a loss is extremely far down the list of alternatives.

Piedmont Advantage weathered the storm of the pandemic. We are weathering the storm of the current economic climate. We remain safe and sound. Here are a few metrics to illustrate that point:

Even in a rising rate environment, net loan growth was positive in 2022 and on pace to increase by 5% in 2023. Loan quality also remains strong. Past due loans and loan losses remain below 1% as a combined ratio for all of 2022 and year-to-date in 2023. Another metric we evaluate in terms of member engagement is services per member. Piedmont Advantage has seen this metric increase to eclipse three services per member in the current year. Last but not least, our net worth ratio remains well above the regulatory requirement of 7.00% to be considered well capitalized.

Again, all of these metrics illustrate the safety and soundness of your Credit Union.

As we look ahead to the next 12 months, Piedmont Advantage is upgrading its core processing system. The live date for this new system is projected to be in early June 2024, so be on the lookout for detailed communications, especially as the calendar turns to the new year. This investment is significant for the long-term of the Credit Union as it facilitates continued growth, expands the capabilities for in-house offerings on services, such as real estate and commercial loans, and enhances the customization of the member experience with online and mobile banking platforms. The new system will serve Piedmont Advantage and its member-owners well for years to come.

During our last Annual Meeting, we reported that Davie County has been added to PACU's field of membership. Furthermore, property was purchased for a future branch and iTM (interactive teller machine) site. We remain excited about that expansion; however, we paused in 2023 on taking the next steps due to high construction costs and the overall economic climate. We will keep you informed when we move forward with our physical presence in Davie County.

These past 74 years would not have been possible if it were not for you, our member-owners. Even as we have grown, we remain committed to what got us to this point and what will sustain us in the future: We welcome the fact that every member is unique. We are here to serve our member-owners at every stage of their financial life. We are in the people business and only use technology to enhance your experience. We will not sell out to artificial intelligence. Branches may look different, but they remain the heart of our service delivery strategy. We put returning "profits" to our member owners ahead of naming tall buildings or stadiums. Piedmont Advantage has a winning formula; and we embrace it for future generations of members.

Again, your Credit Union is safe and sound, providing Simply Service® since 1949, and poised to serve our member-owners for the next 75 years.

Treasurer's REPORT



Mark Linville
Board Treasurer

Throughout 2022, your Credit Union has diligently focused on maintaining a strong financial position, ensuring its safety and soundness with a strong balance sheet and ample liquidity sources to meet the needs of our member-owners.

We ended the year with \$405,096,501 in assets. Net income for the year was \$145,456. Regulatory net worth was \$35,219,603, which equates to a net worth ratio of 8.69%. A credit union is considered well capitalized if its net worth ratio is greater than 7%; therefore, we are pleased to report that your Credit Union continues to be well capitalized during a rising interest rate environment and the recent unrest in the banking sector.

A credit union's net worth can also be thought of as a "rainy day fund." This "rainy day fund" has been beneficial in recent years from the pandemic to the current cycle of inflation and rising interest rates.

As we move forward, we will continue to prioritize the well-being of our members and the long-term sustainability of your Credit Union. For Financial Statements, contact Administration@pacu.com.

Supervisory Committee

As required by the bylaws, the Board of Directors appoints a Supervisory Committee each year to audit your Credit Union's financial statements and review its records and activities to promote safety and soundness.



Diana Santos-Johnson
Committee Chairperson

The committee retained Elliott Davis to perform the annual audit and review our

conformity with generally accepted accounting principles. The audit was for financials for year-end, December 31, 2022. A clean opinion was rendered. Elliott Davis also performed the annual verification of members' accounts, an analysis of our policies and procedures and an audit of our 401(k) plan.

During the year, the Credit Union Division of the North Carolina Department of Commerce examined your Credit Union to ensure our compliance with all applicable laws, rules and regulations.

Other engaged services included The Legge Groupe to review our internal controls, policies and procedures; FIRM Consulting to conduct the Bank Secrecy Act, wire transfer, loan operations and vendor management audits; Feather CU Services to audit ACHs; and SilverSky to perform an IT security and risk audit.

Committee members include Diana Santos-Johnson, Toni Douglas, A.J. Eaker and Mara O'Neil.



FINANCIAL STATEMENTS

Statements of Financial Condition

| | 2022 | 2021 |
|---|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 23,615,821 | \$ 73,282,231 |
| Investments: | | |
| Available-for-sale | 93,745,238 | 113,677,261 |
| Other | 2,988,271 | 2,576,533 |
| Federal Home Loan Bank (FHLB) stock | 225,400 | 203,600 |
| Loans receivable, net of allowance for loan losses of \$1,244,570 and \$1,374,233 at December 31, 2022 and 2021, respectively | 253,555,632 | 228,584,719 |
| Accrued interest receivable | 976,085 | 845,607 |
| Premises and equipment, net | 12,093,752 | 12,709,567 |
| National Credit Union Share Insurance Fund deposit | 3,796,384 | 3,768,785 |
| Assets acquired in liquidation | - | 92,047 |
| Right of use leasing asset | 1,522,014 | 1,736,023 |
| Goodwill | 96,214 | 178,667 |
| Other assets | <u>12,481,690</u> | <u>13,080,643</u> |
| Total assets | <u>\$405,096,501</u> | <u>\$450,735,683</u> |
| Liabilities and Members' Equity | | |
| Liabilities | | |
| Members' share and savings accounts | \$ 379,606,156 | \$ 414,519,035 |
| Accrued expenses and other liabilities | 2,674,465 | 1,365,703 |
| Lease liability | 1,547,046 | 1,747,676 |
| Total liabilities | <u>383,827,667</u> | <u>417,632,414</u> |
| Members' equity | | |
| Regular reserve | 5,561,337 | 5,561,337 |
| Undivided earnings | 28,570,109 | 28,424,653 |
| Accumulated other comprehensive loss | (13,950,769) | (1,970,878) |
| Equity acquired in merger | 1,088,157 | 1,088,157 |
| Total members' equity | <u>21,268,834</u> | <u>33,103,269</u> |
| Total liabilities and members' equity | <u>\$405,096,501</u> | <u>\$450,735,683</u> |

Statements of Operations

| | 2022 | 2021 |
|---|-------------------|--------------------|
| Interest income | | |
| Interest on loans receivable | \$ 9,714,755 | \$ 10,856,375 |
| Interest on investments | 2,100,691 | 851,606 |
| Total interest income | <u>11,815,446</u> | <u>11,707,981</u> |
| Interest expense | | |
| Dividends on members' share and savings accounts | 911,150 | 773,949 |
| Total interest expense | <u>911,150</u> | <u>773,949</u> |
| Net interest income | 10,904,296 | 10,934,032 |
| Provision for (recoveries from) loan losses | | |
| Net interest income after provision for loan losses | <u>254,650</u> | <u>(1,016,000)</u> |
| 10,649,646 | <u>10,649,646</u> | <u>11,950,032</u> |
| Noninterest income | | |
| Fees and service charges | 5,857,057 | 4,274,676 |
| Other noninterest income | 2,280,448 | 2,233,672 |
| Gains on sale of mortgage loans, net | 3,233 | 677 |
| Gains on disposition of premises and equipment, net | 445,314 | 317,739 |
| Total noninterest income | <u>8,586,052</u> | <u>6,826,764</u> |
| Noninterest expense | | |
| Compensation and employee benefits | 8,236,009 | 8,019,226 |
| Operations | 6,719,948 | 5,945,057 |
| Professional and outside services | 1,103,913 | 1,654,502 |
| Loan servicing | 1,055,768 | 1,208,537 |
| Occupancy | 1,330,937 | 1,175,679 |
| Education and promotion | 561,214 | 511,408 |
| Goodwill amortization | 82,453 | 82,453 |
| Total noninterest expense | <u>19,090,242</u> | <u>18,596,862</u> |
| Net income | <u>\$ 145,456</u> | <u>\$ 179,934</u> |

Chairman of the Board REMARKS



Tom Mekis
Board Chairman

During our previous Annual Meeting, we discussed the challenges faced by our organization over the past year, including inflation, rising interest rates, tight liquidity and unrest in the banking sector. Despite these obstacles, your Credit Union remains secure and stable, continuing to provide exceptional service to its member-owners, just as it has done since 1949. In fact, we are excited to announce that in 2024, your Credit Union will be celebrating its 75th Anniversary!

Surviving for 74 years is no coincidence for a business. While we acknowledge the recent and ongoing challenges, Piedmont Advantage Credit Union has successfully weathered numerous

storms since its establishment in 1949, along with its member-owners, and emerged even stronger. How did we achieve this?

First and foremost, we have always recognized that we are in the people business. While technology is convenient and we are committed to investing in it to enhance your member experience, we firmly believe in the value of human interaction. As a financial cooperative, our core principle of "people helping people" has been the foundation that has sustained your Credit Union throughout the years.

Additionally, as a cooperative, we understand that your Credit Union's profits should benefit its member-owners. This is achieved through favorable rates on deposits and loans, lower fees and investments in branches and technology to ensure convenience and responsible growth.

We recognize that the importance of affordable credit extends beyond the size of the loan. Whether it's a small loan to bridge the gap until the next payday or financing for a necessary appliance, we understand the significance of meeting the needs of all our members, regardless of the scale of their financial requirements. Your Credit Union is dedicated to serving all members at every stage of life, just as we have been doing since 1949.

While the world around us experiences uncertainty, Piedmont Advantage Credit Union remains focused on our members' needs rather than engaging in speculative ventures. This is how we maintain our safety and soundness, and how we continue to provide our Simply Service® promise. We understand that the formula that worked 74 years ago is still effective and relevant today. The heritage of your Credit Union is rich, and its future is promising. We appreciate the opportunity to serve you.

Board of Directors



Tom Mekis
Chairman



Steve Gilliland
Vice Chairman



Mark Saunders
Secretary



Mark Linville
Treasurer



Darren Cranfill
Director



Justine Lerch
Director



George Price
Director



Brian Myers
Director



Diana Santos-
Johnson
Director



John Reece
Director
Emeritus



Gene Sharp
Director
Emeritus



Ramon Hoots
Director
Emeritus



Jim Taylor
Chairman
Emeritus



COMMUNITY IMPACT

We have inspiring news about the positive impact

made possible by your Credit Union and its philanthropic arm, the PACU Foundation.

At Piedmont Advantage, we believe in the power of community and the importance of giving back. Through our unwavering commitment to be a difference in the communities we are privileged to serve, we have been able to touch the lives of countless individuals and numerous organizations, including area schools, educational programs and scholarships for member students.

Financial education is another area where we are making an impact. We understand that knowledge is the key to financial success, and through workshops, seminars and educational resources, we are equipping members with the tools they need to make informed financial decisions.

In 2022, we launched MoneyY-Zer, our Youth Program's financial learning series where children and teens in grades K-12 take a financial journey to learn how and why to save; budget; manage and invest money; and avoid frauds, scams and predatory lending practices in the future.

Through the PACU Foundation, we have been able to channel our Simply Service® culture toward helping residents to overcome financial hardship. None of this would be possible without the support and dedication of your Credit Union's employees, who volunteer and contribute regularly, and many other generous donors.

As we look ahead, we are excited about the opportunities that lie before us. We remain committed to expanding our reach, launching new engagement activities, and deepening our impact in the communities we serve. With your continued support, we are confident that we can achieve even greater things together.

The above cartoon image is Al Pacu, our Youth Program's official mascot.



PACU Foundation's Flying Colors Charity Run raised more than \$4,000.

