

Helping Hands *for Stronger Communities*



Transforming a challenging year into a year of opportunity

2020 ANNUAL REPORT

Dear Shareholders

Letter from the CEO



Robert E. Washburn, President & Chief Executive Officer

Each year certainly brings new challenges for all of us, and this past spring brought the Coronavirus. While we have a section in our Business Continuity Plan dealing with pandemics, I can't say it was one of the dangers that was top of mind as we moved into 2020.

This pandemic feels very different from other crises that have arisen, but I'm confident that our company and our country will persevere.

Approximately half of our employees have worked from home, ranging from a few days to many months. We have separated job families, and some employees continue to work remotely. Early in the pandemic, our organization took aggressive measures to make our facilities safe for both customers and employees. Our branch lobbies were closed for ten weeks from late March to early June and as of this writing, we have opened two of our four bank branch lobbies (all drive-thrus remained open) and reopened all the lobbies in our insurance offices.

Throughout the pandemic, I believe each step we took helped us to provide superior service in a safe environment, and I am so proud of the efforts all of our employees have made to continue to serve our customers.

LifeStore Bank and Insurance have reached out to assist our customers and communities in a number of ways:

- Our drive-thrus remained open and are handling significantly higher transaction activity
- We have seen large increases in online and mobile banking
- We have continued to expand electronic options, providing training and education about alternative ways to do business
- We have closed a significantly higher number of home mortgages, with almost no face-to-face interaction with customers
- We helped our customers in the initial phase of the pandemic by deferring loan payments and insurance premiums
- We participated in the Paycheck Protection Program assisting 296 small businesses with loans totaling \$13.3 million
- We are supporting multiple non-profits in our communities who are working to provide safety nets to families and individuals

As part of the celebration for the Bank's 80th anniversary, the conference and board rooms were named in honor of four individuals who have been important to the Bank over the years. In late January, at the ribbon cutting for our newly renovated Jefferson office, we named the Caddell Conference Room in recognition of the service Jan Caddell gave to our community, the Board of Directors and this organization where he served as a member of the Board of Directors for 34 years, including 12 years as Board Chair.

The remodel of the Elkin and West Jefferson Insurance facilities occurred during COVID-19, so we were not able to host official events in those buildings; but we are proud to highlight these buildings later in the report. At our West Jefferson Insurance office, we dedicated the conference room to Glenn Graybeal, who served as managing officer from the Bank's founding until his death in 1964.

We named our Mt. Jefferson conference room after Ann Morton who served as the initial Assistant Secretary in 1939 and retired from the Board in 1990 with 50 years of service. Her 42 years of board service is the longest tenure of any board member. Our corporate Board room was named and dedicated to Bill Ashley who led the Bank for 30 years as managing officer and President. Bill also served on the Board of Directors for 36 years.

In terms of the numbers, we had a good year with earnings crossing four million dollars for the first time (\$4,173,043). Through March of this year, the Bank had 6.2% growth in assets and the final quarter saw rapid additional growth and we finished the year up 15.4%. Across the industry, banks saw deposit levels explode as much of the CARES Act stimulus was saved by those who received it. How much of this stays on our balance sheet is a matter of conjecture. Net interest margins (NIM) collapsed with the rate cuts by the Federal Reserve in March and we saw a sharp reduction in net interest income. The corresponding drop in home mortgage rates created an opportunity for many to refinance their loans.

Since the rate cuts occurred, our mortgage folks have been very busy assisting customers and creating new customers by capturing a greater proportionate share of the refinances. As rates continued to drop, we decided to sell all of the home loans we were originating with the exception of construction loans.

LifeStore Bank services the loans that it sells to Fannie Mae, so customers have all their interactions with our folks and see no difference in service from the loans that we portfolio.

In fiscal 2020, we made \$88 million in home mortgage loans, up from \$49 million in fiscal 2019. We were having a nice increase in volume, up over 20%, thru February. However, beginning in March, it exploded, and we have funded more loans in the last four months than we had in the prior eight months. The resulting fee income during this period made up for the drop in NIM. Our servicing portfolio now exceeds \$200 million dollars. As a company, fee income made up 53.2% of income last year, while net interest income totaled 46.8%.

LifeStore Bank had 35% of its income in non-interest income for the year.

Eventually the refinancing bucket will slow down and the rules for having PPP loan forgiveness will become clear. Our non-interest income as well as the increasingly more efficient operations of LifeStore Bank and Insurance should position us well if the economy sputters and we stay in a low interest rate environment for an extended time. Our capital levels are significantly above all the cushions set by the regulators. Our total risk weighted capital is 18.03% and our leverage ratio is 10.75%.

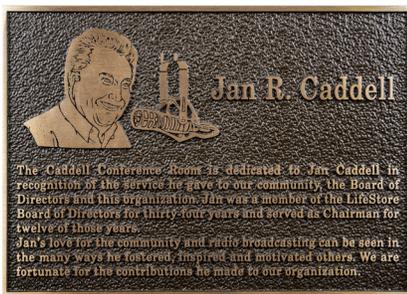
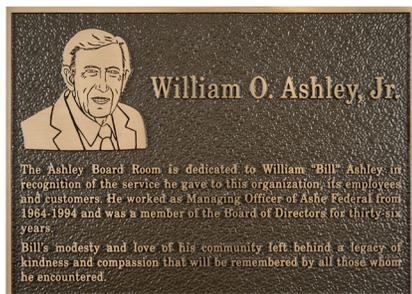
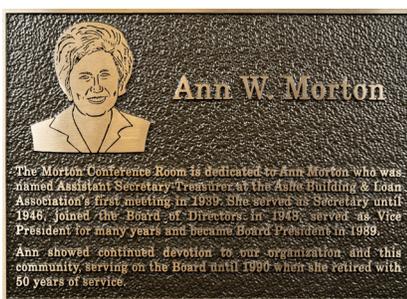
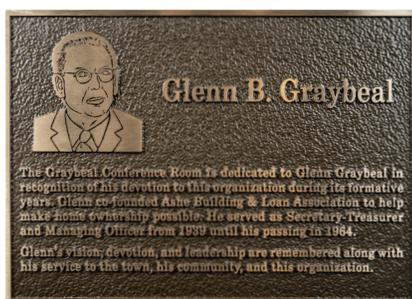
Through our LifeStore Community Fund, we have expanded our giving as we have made additional contributions to assist with food needs and childcare, in addition to education and other organizations that make our communities a good place to live and work.

Our hope and prayer is that an effective vaccine will be available and distributed in the coming year. We are delighted with the core growth that has occurred and our employees' ability to adjust and continue to provide a superior level of customer service. Finally, we are delighted to again increase our annual dividend to \$0.29 per share.

Thank you,



Robert Washburn



As part of the celebration for the Bank's 80th anniversary, the conference and board rooms were named in honor of four individuals who have been important to the Bank over the years.

Lending a Hand to Businesses

Freedom ElecTech



Seth Caviness and Dave Wood, Freedom ElecTech owners

“I like the idea of doing business with a local bank and don’t want to be held up by a larger bank’s approval process.”

—Seth Caviness, co-owner, Freedom ElecTech

The CARES Act included funding from a program called the Paycheck Protection Program, or PPP, which provided loans for small business owners. The loans were designed to help cover the costs a small business incurs for payroll, mortgage or rent, and utilities.

LifeStore worked tirelessly behind the scenes to secure a system and process to fund these loans. We have proven to be one of the most responsive banks in our markets in closing PPP loans and helping our customers and other local business owners who were not getting responsive turnarounds from larger institutions.

One such business is Freedom ElecTech in Boone, owned and operated by Seth Caviness and Dave Wood. Prior to starting Freedom ElecTech in 2011 the business partners worked together in the electrical industry. They provide residential and commercial electrical work, security systems, home automation and entertainment systems—including vintage audio. They employ 32 people and work primarily in the High Country.

Freedom ElecTech came to LifeStore in search of a local hometown connection.

Seth explains their relationship with LifeStore by saying, “We were trying to get the ball rolling with a PPP loan

and not having a lot of success with it.” He commented about the local connections to many of the employees at LifeStore, “I like the idea of doing business with a local bank and don’t want to be held up by a larger bank’s approval process.”

Banking is still about relationships and Dave validated this when he said, “Seth’s relationship with Brian Greer was instrumental in Freedom ElecTech coming to LifeStore.” Flo Hollingsworth, Freedom ElecTech’s office manager, has been working with LifeStore to determine the best way to handle the day-to-day needs of the business and added, “LifeStore has been great to work with,” she said.



Left to Right: Dave Wood, Ben Williams, Bill Hollingsworth, Scott Weston, Obe Woodard, and Flo Hollingsworth

Sweet and Savory



The lady's t-shirts show the spirit of small town local business owners like Sweet & Savory who were able to take advantage of the Paycheck Protection Program.

Misty Shatley, Velma Osborne, and Tiffany Shatley of Sweet and Savory

Stroll down the streets of West Jefferson around lunch time and you'll see locals and visitors crowding around the popular deli Sweet and Savory. This well-known lunch spot has woefully good roasted red pepper soup, homemade chicken salad, Rubeen sandwiches with just the right amount of sauerkraut and no-bake cookies you will want to stock up on for a later treat.

The deli is operated by Velma Osborne and her three daughters, Tiffany, Tabatha and Misty Shatley.

"We appreciate all the support LifeStore gave to us with orders," Tiffany said, recalling the weekly take-out meals LifeStore treated its employees to during the ten weeks the lobbies were closed.

Velma added, "Mike Johnson took care of us and helped us with our PPP loan. We have been blessed."

Velma Osborne says that in 2007 her daughters convinced her to go into the restaurant business. She had been working with wood and making cabinets, when her two daughters Tabatha and Tiffany convinced Velma to buy the restaurant that was operating in Sweet and Savory's spot. Velma bought it with the condition that her daughters would run it. Velma joined the restaurant full time and convinced her daughter Misty to join the team.

"We appreciate all the support LifeStore gave to us."

—Tiffany Shatley

Celebrating Renovated Space in Jefferson

In January of this year we hosted a ribbon cutting of the Jefferson facility where we enlarged the drive thru. The Financial Consultants use new “TCRs” or Teller Cash Recyclers, which have taken the place of traditional cash drawers and are quicker and more secure. We added a full-service ATM, which does all the typical transactions and takes deposits. We installed a new coin counter, available for our customers to use free of charge, redesigned the lobby to make it open and inviting for customers and we gave the entire location a facelift.



Grand Re-Opening and Ribbon Cutting

New Ways to Do Business

In this time of crisis, all forms of familiarity and routine were disrupted and the term “essential business” took on a new meaning that evolved each day as we transitioned from a high contact local institution to finding new ways to do business. Our goal each day was to take care of our customers, whether it was helping them with funds to make payroll or assisting them to remotely deposit into their account.

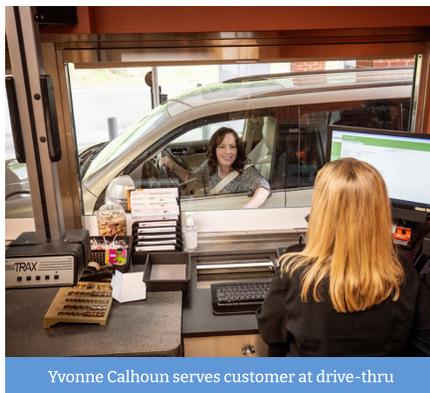
Social distancing measures and new ways of doing business to keep people safe have enabled us to continually streamline our processes as we work hard to offer the same friendly, personal experience LifeStore is known for in our communities.

We re-opened our lobbies after a ten-week closure, with a team of employees designated to implement additional precautions with the safety of employees, customers, and the communities as top priorities.

Employees wear face coverings and work behind shields. We have enhanced cleaning and disinfecting inside our lobbies and conduct daily health screenings, request customers to wear a face covering, disinfect their hands upon entering, and stay in socially distanced areas.

We have kept the drive-thrus open and appreciate how our customers have embraced technology to make deposits at the ATM and with their mobile phones. The use of online and mobile banking continues to rise as customers have found new ways to interact with LifeStore.

It’s a privilege to continue providing our communities with top-quality service in these ways even as we adjust to new challenges and opportunities.



Yvonne Calhoun serves customer at drive-thru



Tracy Howell taking care of customer with safety protocols in place

Purchasing a Home Can Be Easy

“Karen made everything so simple. She is so organized and made the process easy.”
—Reagan Breitenstein

—Reagan Breitenstein



Reagan, Eric, and Lily Breitenstein

All the pieces came together for Eric and Reagan Breitenstein when they moved to Boone earlier this year. Eric grew up in the mountains, and he and Reagan met while studying at Wofford College.

Excited to be back in the community where Eric grew up, they found a house near Eric's family so their daughter Lily can enjoy living near her grandparents.

Full of charm and interesting features that promise to create projects for years to come, the Breitensteins' house is the place they're excited to call home as they pursue exciting careers teaching in their fields.

Reagan is an ASU instructor in psychology, and Eric is at Watauga High School teaching biology and environmental science. Eric is also coaching football at Watauga where his accomplishments are remembered from his early years, before he went on to become a legendary player at Wofford College.

The couple came to LifeStore for their mortgage based on a recommendation from a friend who had worked with LifeStore on his mortgage as well. Reagan and Eric said they couldn't believe how easy the mortgage process was working with LifeStore lender, Karen Graham.

“Karen made everything so simple, it didn't even seem like we were buying a house,” Reagan said. “I didn't feel like we had all the steps or hoops to jump through, because Karen is so organized and made the process easy.”

The mortgage process involves so many steps and involves a lot of interconnected processes, each relying on the other for speed and accuracy. One of the advantages of being a local bank is our in-house underwriting where knowledge of real estate characteristics, often unique to rural areas, requires understanding and flexibility to achieve homeownership for our borrowers.

The mortgage volume increased in late March by 62% over the previous year and by 152% for the March to June timeframe when comparing 2019 with 2020. “It hasn't been easy, but our operations department and loan officers are an incredible group of people. They work hard day in and day out,” commented Brandon Smith, Mortgage Operations Manager.

LifeStore Financial Group, Inc.

(In thousands)

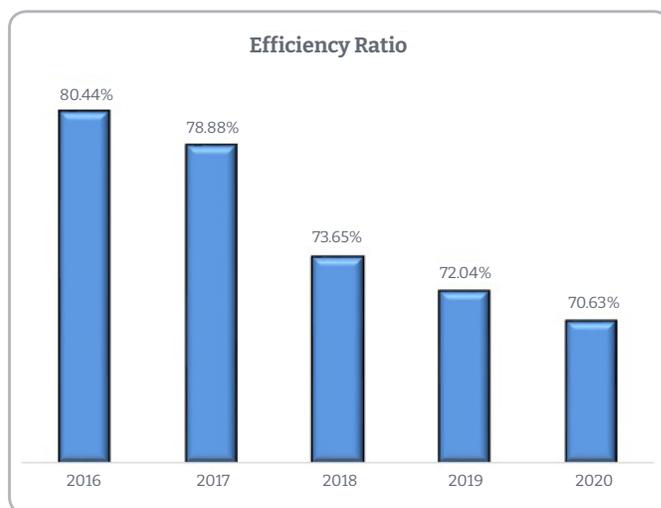
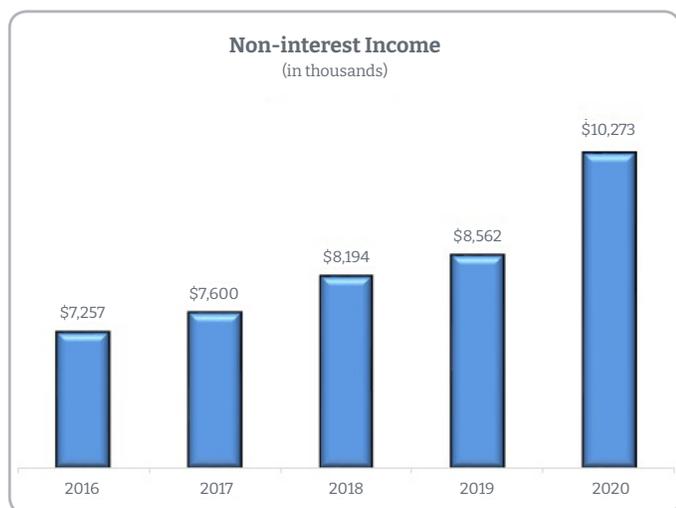
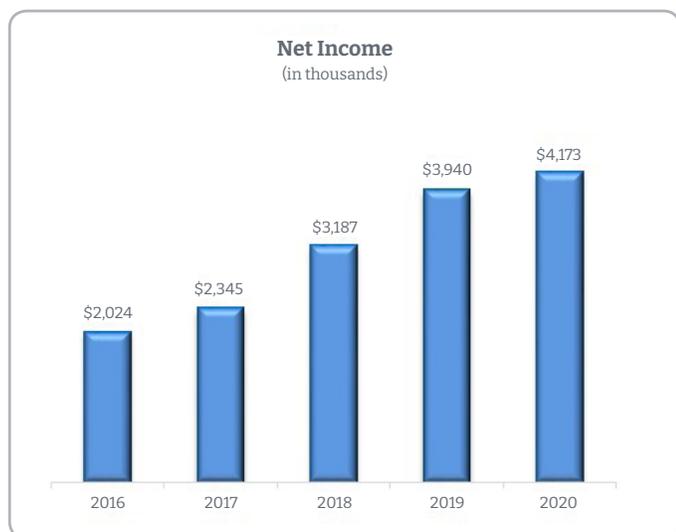
Year Ended	2020	2019	2018	2017	2016
Selected Financial Condition Data:					
Total assets	\$ 347,201	\$ 300,913	\$ 289,773	\$ 275,831	\$ 266,049
Loans receivable, net ¹	196,751	189,254	182,197	176,660	162,654
Investment securities ²	71,868	64,122	50,543	50,065	50,697
Cash and cash equivalents	44,805	18,492	29,999	20,752	27,232
Deposits	269,874	226,524	211,656	198,183	188,757
Borrowings	36,129	38,037	47,278	49,577	51,628
Equity	35,879	31,283	26,048	23,028	21,810
Book value per share	34.82	30.36	25.56	22.60	21.40
Selected Operating Data:					
Interest income and dividends	\$ 12,110	\$ 11,800	\$ 10,716	\$ 9,608	\$ 9,417
Interest expense	3,091	2,860	2,343	2,155	2,199
Net interest income	9,019	8,940	8,373	7,453	7,219
Provision for loan losses	736	180	186	196	160
Net interest income after provision for loan losses	8,283	8,760	8,187	7,257	7,059
Non-interest income	10,273	8,562	8,194	7,600	7,257
Non-interest expense	13,626	12,609	12,201	11,874	11,665
Income before income tax expense	4,930	4,713	4,180	2,983	2,651
Income tax expense	757	773	993	638	627
Net income	\$ 4,173	\$ 3,940	\$ 3,187	\$ 2,345	\$ 2,024
Year Ended June 30	2020	2019	2018	2017	2016
Selected Ratios:					
Basic earnings per share of common stock	\$ 4.05	\$ 3.86	\$ 3.13	\$ 2.30	\$ 1.99
Return on average assets	1.31%	1.36%	1.13%	0.87%	0.78%
Return on average equity	12.38%	14.06%	12.82%	10.63%	10.02%
Net interest margin ³	3.14%	3.41%	3.32%	3.10%	3.09%
Efficiency ratio ⁴	70.63%	72.04%	73.65%	78.88%	80.44%
Nonperforming loans to total loans	0.73%	0.72%	0.87%	1.96%	3.54%
Allowance for loan losses to total loans	1.54%	1.26%	1.35%	1.32%	1.43%

¹ Loans receivable, net is comprised of total loans less allowance for loan losses, loans sold, undisbursed loan funds and deferred loan fees.

² Includes equity securities and securities available for sale.

³ The net interest margin represents net interest income as a percentage of average interest-earning assets.

⁴ The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income and non-interest income.



Brian Greer, Commercial Lender, Meeting With Business Owner

Insurance Highlights



Jody Brown, President, LifeStore Insurance

“Our agency has doubled in size during the decade and is one of the largest insurance agencies in western North Carolina.”

Since the financial crisis of 2008, virtually nothing has impacted individuals and businesses more than the global pandemic of 2020. The world, nation, and our communities have changed dramatically. Daily routines, schools, churches, businesses, and most everything else has been impacted. None of us could have envisioned the changes we’ve seen in the past six months. Some of our clients have been positively affected, while others have suffered, depending on the nature of their businesses. Practically everyone has found themselves changing how they conduct business and live their daily lives.

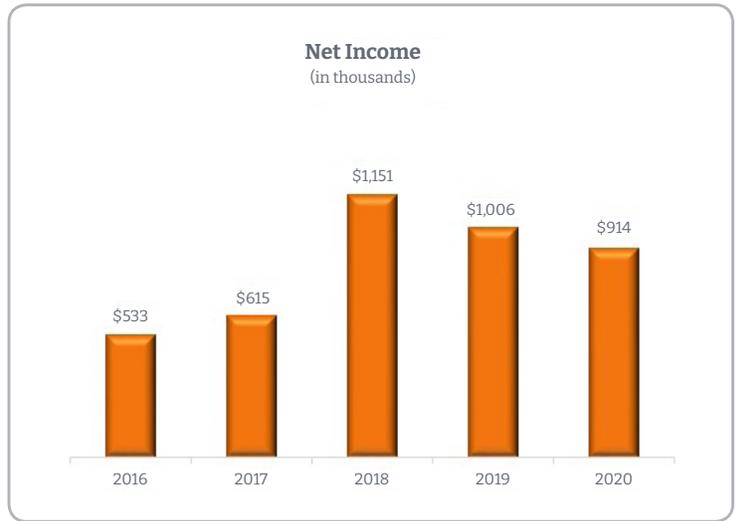
To meet these challenges, LifeStore has enacted protocols to protect our employees and clients. We have utilized online resources to meet with clients and companies replacing traditional in-person meetings. Our employees have adapted well to the new environment, understanding the importance of safety protocols, while still being available to our clients.

We increased revenues for the eighth consecutive year, finishing the fiscal year 2019–2020 with \$5,642,066 gross revenue, a 2% increase over 2019. Our net income, \$913,888, down \$92,467 from last year, was affected negatively by significantly less contingency income. However, our property/casualty and life/health commissions increased by 4.6% and 10.8%, respectively, over 2019.

Before the pandemic, we finished a complete interior and exterior remodel of the West Jefferson insurance office. Since the original purchase of the building in 1996, no updates or changes had been made before this remodel. We are pleased with the results and look forward to welcoming more clients to our office once the pandemic is over. Visitors will notice a fresh, modern interior to allow for a better client experience.

As we embark on a new decade, I reflect on our growth and success over the past ten years. During the 2010s, we purchased five agencies, gross revenue has grown nine of ten years and net income increased eight times during the span. Our agency has doubled in size during the decade and is one of the largest insurance agencies in western North Carolina.

Just as we have adapted to the ever-changing landscape through setbacks such as the financial crisis of 2008 and the pandemic of 2020, we must continue to find ways to better serve our clients and attract new ones. Finding and retaining employees who desire to serve our clients and utilizing the latest technology available are two ways we will differentiate our company from the competition. Our goal is to continue our growth over the next decade and be an integral part of the communities we serve.



We look forward to welcoming clients into the newly renovated West Jefferson building



Lending a Hand

Jeans For a Cause



David Cottrell, Hal Hood, Shelley Rollins, Deanna Clark, Denise Aldridge, Vernie Dove

Jeans for A Cause, created by LifeStore's Employee Council, is a fun and easy way for employees to support a variety of local charitable causes and enjoy a casual day at the office.

LifeStore employees can contribute toward an important cause and enjoy a day dressing casual with jeans and a LifeStore logo shirt. This gives employees the chance to work together and support a cause with a donation.



LifeStore's Charity O'Connell, Kristen Pruitt, and Kim Isaacs present Heather Samudio of Forest Ridge Assisted Living with treats for Seniors.

Participation is completely voluntary, and employees are invited to contribute toward the cause—jeans or no jeans! This past year employees contributed \$3,000 through this fundraiser to help with school supplies; student fees and expenses at local schools; local food pantries; the High Country Breast Cancer Coalition; the Wig Bank; and Christmas treats for senior citizens.

A Life-Saving Opportunity



LifeStore Kim Isaacs at a Red Cross Blood Drive shares her story of being a donor.

Kim Isaacs, Commercial Lines Account Manager for LifeStore Insurance, said when her mother was diagnosed with cancer she wanted to help by donating blood. It was then Kim learned that her blood was not a match for her mother's RH negative blood.

This is when she embarked on a journey dedicated to ensuring others didn't experience the same crisis of a blood type shortage—a crisis that can be a matter of life and death for cancer and trauma patients. That was 30 years ago, but Kim still gives blood, on average five times a year, and always has her Red Cross app handy—which tells her exactly when it's time to make her next donation.

Even after three decades, she still speaks with conviction about the importance of being a donor as she encourages others to join her in meeting this critical need. Through blood drives organized by our employee council, Kim has given LifeStore employees the opportunity to save lives. Kim herself is only three pints away from achieving her own personal donor milestone—her 11th donated gallon of lifesaving blood.

“She still speaks with conviction about the importance of being a donor as she encourages others to join her in meeting this critical need.”

Customers Partner With LifeStore to Help With Hunger Relief



In Ashe County LifeStore partnered with Ashe Sharing Center and, in Watauga, The Hunger and Health Coalition. Michael Sexton, Martin Little, and Judy Current

LifeStore appreciates the efforts of its customers to make the switch as the need has never been greater to help people in our communities.

Earlier this spring, LifeStore Bank challenged its customers to make the switch from traditional paper statements to online statements. While switching to online statements holds a variety of benefits for the customer, the financial institution provided yet another reason to make the switch—LifeStore pledged to donate to help with hunger relief for each statement switched.

Online statements make banking more convenient, take away the worry associated with social distancing or mail delivery, and of course, they're more environmentally friendly.

LifeStore appreciates the efforts of its customers to make the switch as the need has never been greater to help people in our communities as food banks report record demands.



LifeStore Denise Deitz and David Cottrell present Elizabeth Young of Hunger and Health Coalition with donation.

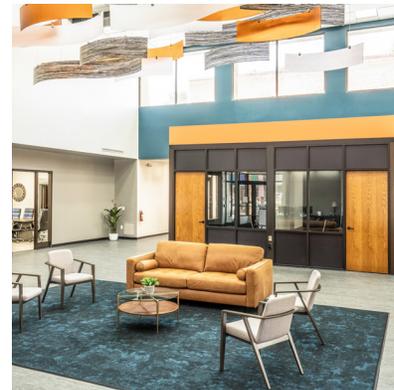
LifeStore Brings Renewed Excitement to a Historic Corner



Jeff Eidson, Laura Gaylord, Elkin LifeStore Insurance manager Jason Pike, and David Steelman



The clock is a recognized landmark in Elkin



The newly renovated customer lobby

Laura Gaylord, Main Street Manager for the Town of Elkin, says the corner of Main and Bridge Street has been an integral part of Elkin's historic downtown for more than a century. The town was founded in the late 1890s, and its first and only three-story building was constructed at that very intersection.

Earlier this year LifeStore Insurance had the privilege of completing a remodel of this landmark building before relocating there. The structure has a wonderful history of housing financial institutions, including Elkin National Bank, The Bank of Elkin (following the Depression), followed years later by Northwestern Bank, First Union who built this building, and most recently Wells Fargo.

“LifeStore occupies a very important spot in our town and thankfully Jason and LifeStore came to this building. LifeStore is the perfect match for this corner in our downtown. LifeStore is a wonderful partner supporting the efforts of downtown and being involved in the events we host,” said Gaylord. **“We are so thankful the clock has remained and is working. A lot of great things have happened since LifeStore came to the downtown. Everything looks so nice on this corner.”**

There are six businesses who have chosen to move downtown from other areas. The downtown has new excitement, and Gaylord reports, “In the past 18 months we have had 24 new businesses open downtown—including five new businesses that opened last month—and we’ve not lost any to COVID.”

Though a bit slower than normal, life and businesses are still thriving in Elkin, with new jobs, dozens of building improvements with more planned for next year. Apartments are being planned as residents express a renewed desire to live downtown. We have a lot of great things going on.

Along with all these new signs of life in the midst of the pandemic, downtown Elkin is excited to plan new signage, murals, facades, and decorations to continue beautifying an already-beautiful place—Downtown Elkin is listed as a historic district on the National Register of Historic Places.

“We hated to see this building vacant because of its location, but we were thrilled when LifeStore purchased the building. It’s a perfect use of the building and fits in perfectly downtown,” said Jeff Eidson, president of G&B Energy, an Elkin Town Commissioner and Chair of Explore Elkin, a business and economic development initiative. Jeff is directly engaged in downtown revitalization and in strengthening and supporting local businesses. “We are glad LifeStore has moved in and excited to see what they have done with the space.”

David Steelman, Interim President of Yadkin Valley Chamber of Commerce, said “It means so much to have this quality look indoors and outdoors,” Steelman said.

“It is very important to Downtown Elkin. It has been a real blessing to have this building and the quality of employees come to downtown.”

Board of Directors



Harry M. Davis, Ph.D.

Professor of Banking and Dean for the North Carolina School of Banking, former Chair and current Professor for Department of Finance, Banking, and Insurance at Appalachian State University, Economist for the North Carolina Bankers Association, began serving in 2017



Charles W. Jones, M.D.

General surgeon, joined Board in 2014. Operates private practice in Jefferson, NC as a fourth-generation surgeon



Claudia L. Kelley, Ph.D.

Professor of Accounting at Appalachian State University, joined Board in 2003



Donald R. Moore

Owner and manager of a McDonald's Restaurant in West Jefferson, NC, joined Board in 2001



Karen P. Powell

Public Relations Administrator for Skyline Membership Corporation in West Jefferson, NC, joined Board in 2006



Jerry L. Roten

Chairman of the Board of LifeStore, joined Board in 1992, Former Clerk of Superior Court of Ashe County



Michael M. Sherman

Vice Chairman of the Board of LifeStore, joined Board in 2001, President and Chief Executive Officer of Zibra, LLC, a consumer products company based in Mooresville, NC



James C. Walker

BGen, USMC (Ret.) former Deputy Director for International Projects including Operation Heal Our Patriots, Samaritans Purse Boone, NC, joined Board in 2016



Robert E. Washburn

President and Chief Executive Officer of LifeStore Financial Group and LifeStore Bank, joined Board in 2005

Executive Officers

Robert E. Washburn President & Chief Executive Officer

Melanie P. Miller Executive Vice President & Chief Financial Officer

Joseph E. Eller Executive Vice President & Chief Banking Officer

Ruth F. Johnson Executive Vice President & Chief Credit Officer

Joseph T. Brown, III. President of LifeStore Insurance Services, Inc.



LifeStore Bank Locations

1675 Blowing Rock Rd., Boone, NC 28607
840 E. Main St., Jefferson, NC 28640
205 S. Jefferson Ave., West Jefferson, NC 28694
1441 Mt. Jefferson Rd., West Jefferson, NC 28694

LifeStore Bank Loan Production Offices

102 W. Main St., Elkin, NC 28621
216 Collett St., Morganton, NC 28655

LifeStore Financial Group Support Center

21 E. Ashe St., West Jefferson, NC 28694

LifeStore Insurance Locations

1675 Blowing Rock Rd., Boone, NC 28607
148 Hwy 105 Ext., Suite 204 Boone, NC 28607
102 W. Main St., Elkin, NC 28621
840 E. Main St., Jefferson, NC 28640
151 Cranberry St., Newland, NC 28657
324 Morganton Blvd., SW Lenoir, NC 28645
112 S. Main St., Sparta, NC 28675
206 S. Jefferson Ave., West Jefferson, NC 28694