



# Store FINANCIAL GROUP



*2021 Annual Report*

# To Our Shareholders

The headline for our second consecutive annual report is COVID-19. Unlike the previous year, this past year has been about resilience. As the pandemic continued to present us with unique opportunities to serve our customers, our employees have been nothing short of exceptional as they have adjusted in many ways to provide unparalleled service. Robert Frost wrote: “The best way out is always through,” and our employees, our customers, and our communities are getting through it. We provided 459 Payroll Protection Program (PPP) loans for just over twenty

Lifestore is a strong supporter of education helping fund improvements in facilities, student scholarships, and supporting local school initiatives.

million dollars to help small businesses stay in business. In the first half of the past year, we made three times the number of home mortgage loans than is typical. Our mortgage volume in the past fiscal year, (\$134 million), exceeded 2020 by 51% and 2019 by 169%. We extended more dollars for housing than any other bank or mortgage lender in Ashe and Watauga counties last year. Our mortgage servicing portfolio grew 24% to \$239 million.

We helped unprecedented numbers of customers learn about alternative ways to interact with the Bank, saw significant increases in online banking, mobile deposits and ATM usage, person-to-person payments through Zelle and online mortgage applications. Mobile activity increased by more than 30%. Drive-thru traffic exploded, at one point exceeding the volume of all branch activity pre-pandemic.

The pandemic also compelled us to review our business practices. We shifted employees to areas of need as our customer behaviors altered during the pandemic and approximately 60% of our employees worked remotely for some portion of the past year. We would not have been able to do the number of home mortgages or PPP loans without our employees embracing new challenges and the use of multiple technologies. The personal service LifeStore offers is what sets us apart from other institutions.



*Robert Washburn*  
President and Chief Executive Officer



Our numbers were excellent across the board. Net Income was \$6.7 million, an increase of 60.5% over the prior year's record earnings. Assets grew to \$390 million, an increase of 12.4%. Return On Average Assets (ROAA) increased to 1.76% and Return On Average Equity (ROAE) grew to 16.49%. We also increased our loan loss allowance in anticipation of future credit losses from the pandemic to 1.73% of total loans. At the same time, our level of classified assets fell to 6.5% of capital. The Bank had unprecedented deposit growth last year as we had significant increases in the number of new customers. We retired \$12 million in Federal Home Loan Bank (FHLB) advances and liquidated the remaining balance (\$1.8 million) on our Senior Debt. Even with a dividend distribution to liquidate this debt, all of our already healthy capital ratios improved this past year. Net interest margins did contract by 27 bases points, and we know that the income from the extraordinary mortgage volume and PPP loans will not repeat itself in the coming year. For the third consecutive year, we have been ranked in American Banker's top 200 publicly traded community banks. This year we were number 34 up from 46 the prior year.

We designed a new account to assist the unbanked and underbanked. The account, "Progress," is a certified

BankOn account, is checkless, and has no overdraft fees. It also offers online bill pay and uses alternative forms of identification to assist those just getting started. As a community bank, part of our mission is to serve and with Progress we can assist by helping those outside of the banking system to build a solid foundation.

Through our LifeStore Community Fund, we again expanded our giving, making additional contributions to disaster relief from the earthquake in Sparta, to repair flood damage in various areas, assist with food insecurities and shelter needs, improve childcare, expand education, support business development, protect our environment and improve recreation for this area.

While there are challenges ahead from COVID and what appears to be a season of low interest rates, we believe the future of LifeStore Bank and Insurance is bright. It is a joy and a privilege to serve our customers, shareholders, employees, and communities. Finally, we are delighted to again increase our annual dividend to \$0.40 per share.

Thank you,

Robert Washburn  
President and Chief Executive Officer

Home mortgage  
volume exceeded  
2020 by 51%

We provided 459 PPP  
loans for over \$20 million  
to help small businesses.

Mobile activity  
increased by  
more than 30%

# Revitalize

Lansing, North Carolina, nestled between Phoenix Mountain in North Carolina and White Top Mountain in Virginia, was founded in 1928 after the Virginia Creeper Railroad rode through Lansing transporting products from the rich forest, once mined rocks and crops until 1977 when the train made its last run. In the years after its departure Lansing operated as a small town to serve the local residents.

After revitalizing efforts from local individuals, the town developed Virginia Creeper Trail Park and LifeStore Bank helped them with a loan to secure the land purchase and construct the Park until grant funding was available. Interest in the downtown followed and LifeStore was there to work with entrepreneurs and local businesses. One such business is the newly renovated Old Orchard Creek General Store.

LifeStore continues to work with other businesses in Lansing to help them with new ventures or to continue a tradition. The rebuilding and rebirth of this community has renewed interests among locals and brought new people looking for a different pace.



Owners Walter Clark and Johnny Burselson restored the building that was once Ms. Hart's General Store.



A carefully crafted Barn Quilt logo is used to incorporate colors of apples, blueberries, and tobacco once produced at their farm.



The building is in the Lansing Historic District, constructed of "cinder" blocks made from cinders when the train came through the town.

*"We worked with LifeStore's Martin Little to make the building a working space and for start-up inventory. LifeStore has a great partnership with us. You don't find that with larger banks that don't have a tie to the community. Having that community connection is so important!"*  
Walter Clark

# Relocate to the Mountains

*“Enabling home ownership and assisting small businesses financially is the cornerstone of what we do, whether through technology or face-to-face. The customer chooses the most convenient method based on their preferences.”*

Joedy Eller, Chief Banking Officer

- The mountains of North Carolina that we call home experienced an increase in real estate sales and saw more traffic due to the migration from more populated areas. This was accelerated by the pandemic as there was an increased interest to move from urban to rural areas.
- The High Country Association of REALTORS® reported that more homes were sold in 2020 than during any other year on record.
- LifeStore Bank was a leader in mortgage loan originations in the High Country during the past year.



We are in the process of implementing an online and mobile mortgage platform to enable customers to apply anytime, anywhere. Trends show that up to 38% of borrowers prefer to start the process after traditional banking hours.

*“I had a great experience with LifeStore in 2020! I was interested in getting a cash-out refinance and the best rate I found anywhere was with LifeStore. I contacted Angelia Church and was able to complete the entire loan process without having to go into their*

*office. She was very responsive over email and phone calls, we signed all documentation digitally, and we received our funds quickly. It was a great experience and I highly recommend Angelia and her mortgage team at LifeStore!”*

Walt Stringer

# Relationship

The father and son team of Chuck and Chase Luddeke owns and operates the Mellow Mushroom pizza restaurants in Boone and Blowing Rock. Chuck was the first to open a Mellow Mushroom outside of Georgia when in 1995, he brought the restaurant to Boone. Reflecting on the brand they have built in the High Country, Chuck shares that the business today is so much about technology which Chase handles.

Chuck came to LifeStore Bank to form a banking relationship having known several local employees. *“Decisions are not only made because of your local business, but there is a personal relationship. There is more to it than the numbers when I sit down and talk to Hal Hood and Bob Washburn. To be able to work with the people at LifeStore has been spectacular,”* Chuck Luddeke.



Left to right: Chase Luddeke, Hal Hood, and Chuck Luddeke



Mellow Mushroom moved to this historical building in 2014, built by the same stonemasons who built the Blue Ridge Parkway.



*“For a father it’s great - Chase and I are best friends, we’re father, son; we’re business partners, and we have a huge respect for one another.”*  
Chuck Luddeke



The interior offers playful reminders of the filling station that once occupied the building.

*“LifeStore Bank takes into consideration the past 25 years, where we started, where we are, our track record, and our financial decisions. You don’t get that anywhere else.”* Chuck Luddeke

# Relationship

The Blue Ridge Mountains have a way of calling people in; if you've lived here for a while they hold you tight and if you are looking for a simpler way of life with clear skies and mountain peaks they draw you near. One business where location brings recreation and relaxation together is Mountain Aire Golf Club. Philip Shepherd, President of Mountain Aire, says the recent pandemic has brought more people to the sanctity of the mountains and ultimately to his golf course. Philip utilizes LifeStore Insurance for a variety of business insurance needs of the golf club and his construction projects.

Darrel Hamilton is a fourth-generation builder, entering the construction field in 2001. After visiting Western North Carolina, Darrel and his family felt drawn to the area and chose Ashe County to begin his construction business. His construction company builds high-end mountain homes where



Darrel Hamilton



Philip Shepherd

the view is everything. He shares that LifeStore Bank financed his first spec house 20 years ago and LifeStore Insurance has stood by him after insurance claims. Hamilton summed it up by saying "LifeStore has taken care of me." Relationships with local businesses such as these reflect our mission and supporting their purpose helps to create opportunities that build and strengthen our communities.



The pandemic drew people outdoors, increasing the demand for beautiful spots like Mountain Aire Golf course.

## LifeStore Financial Group, Inc.

(Dollars in Thousands, Except Per Share Amounts)

Year Ended June 30	2021	2020	2019	2018	2017
Selected Financial Condition Data:					
Total assets	\$ 390,245	\$ 347,201	\$ 300,913	\$ 289,773	\$ 275,831
Loans receivable, net <sup>1</sup>	198,189	196,751	189,254	182,197	176,660
Investment securities <sup>2</sup>	82,610	71,868	64,122	50,543	50,065
Cash and cash equivalents	81,242	44,805	18,492	29,999	20,752
Deposits	321,449	269,874	226,524	211,656	198,183
Borrowings	19,155	36,129	38,037	47,278	49,577
Equity	43,627	35,879	31,283	26,048	23,028
Book value per share	42.34	34.82	30.36	25.56	22.60
Selected Operating Data:					
Interest income and dividends	\$ 11,775	\$ 12,110	\$ 11,800	\$ 10,716	\$ 9,608
Interest expense	1,804	3,091	2,860	2,343	2,155
Net interest income	9,971	9,019	8,940	8,373	7,453
Provision for loan losses	365	736	180	186	196
Net interest income after provision for loan losses	9,606	8,283	8,760	8,187	7,257
Non-interest income	13,163	10,273	8,562	8,194	7,600
Non-interest expense	14,655	13,626	12,609	12,201	11,874
Income before income tax expense	8,114	4,930	4,713	4,180	2,983
Income tax expense	1,416	757	773	993	638
Net income	\$ 6,698	\$ 4,173	\$ 3,940	\$ 3,187	\$ 2,345
Year Ended June 30	2021	2020	2019	2018	2017
Selected Ratios:					
Basic earnings per share of common stock	\$ 6.50	\$ 4.05	\$ 3.86	\$ 3.13	\$ 2.30
Return on average assets	1.76%	1.31%	1.36%	1.13%	0.87%
Return on average equity	16.49%	12.38%	14.06%	12.82%	10.63%
Net interest margin <sup>3</sup>	2.87%	3.14%	3.41%	3.32%	3.10%
Efficiency ratio <sup>4</sup>	63.35%	70.63%	72.04%	73.65%	78.88%
Nonperforming loans to total loans	1.25%	0.73%	0.72%	0.87%	1.96%
Allowance for loan losses to total loans	1.74%	1.54%	1.26%	1.35%	1.32%

<sup>1</sup> Loans receivable, net is composed of total loans less allowance for loan losses, loans sold, undisbursed loan funds and deferred loan fees.

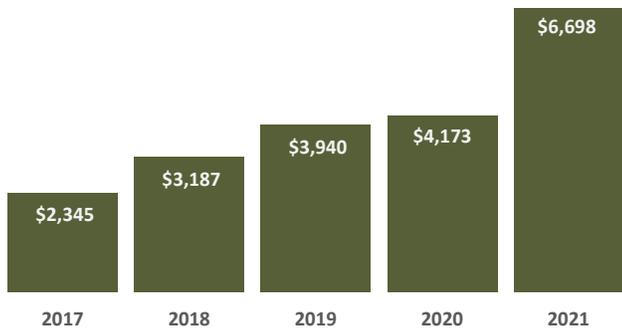
<sup>2</sup> Includes equity securities and securities available for sale.

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

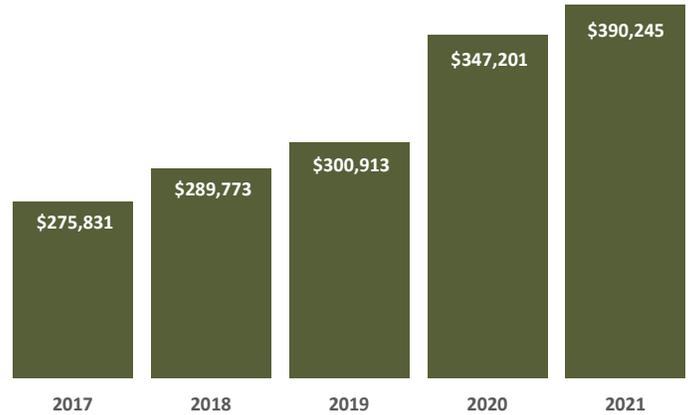
<sup>4</sup> The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income and non-interest income.



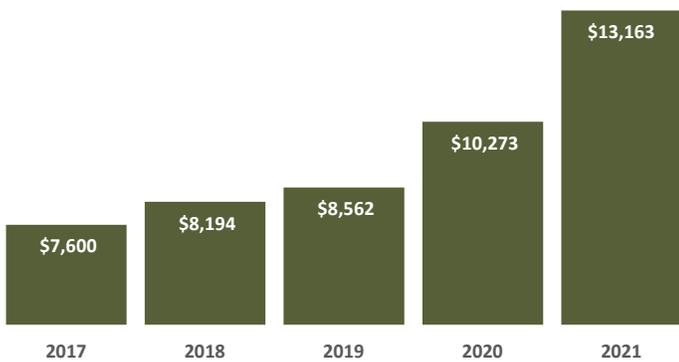
### Net Income (in thousands)



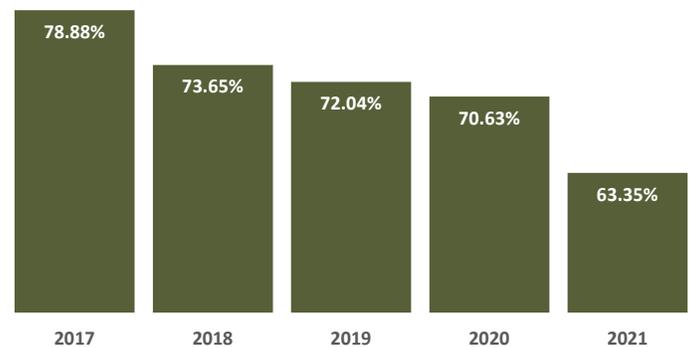
### Total Assets (in thousands)



### Non-interest Income (in thousands)



### Efficiency Ratio



# Insurance Year End Highlights

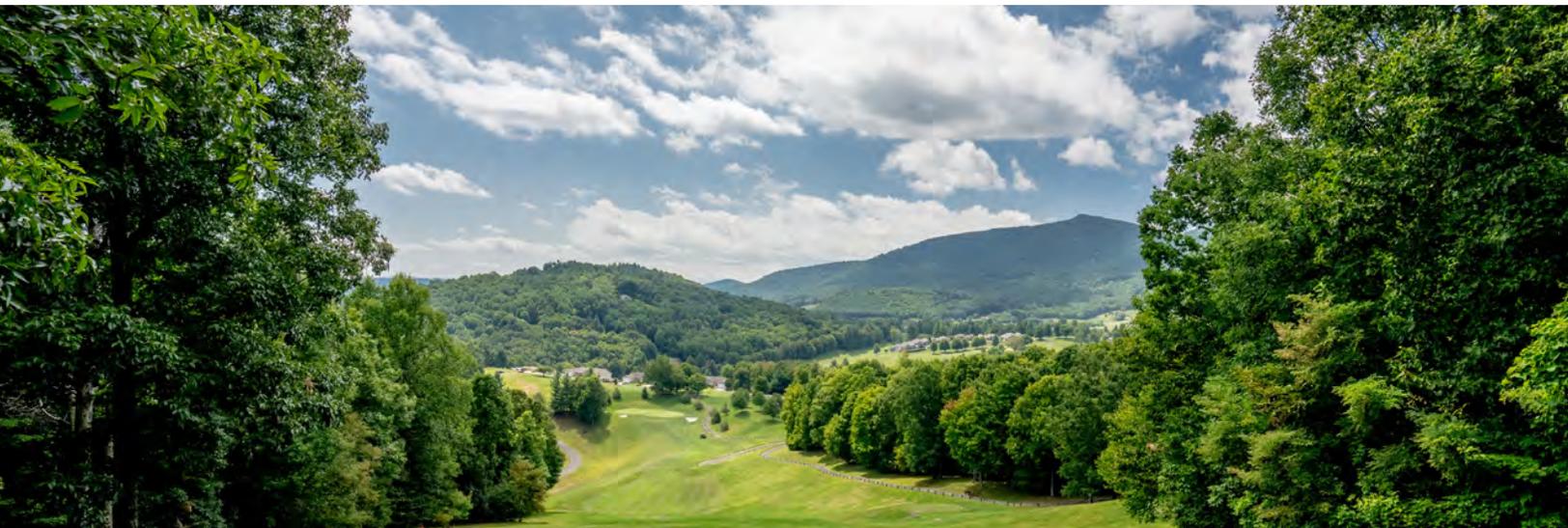


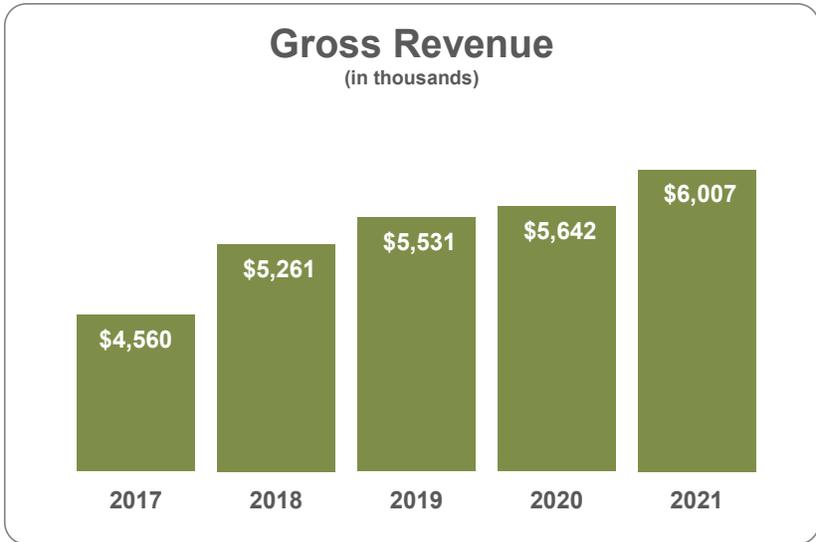
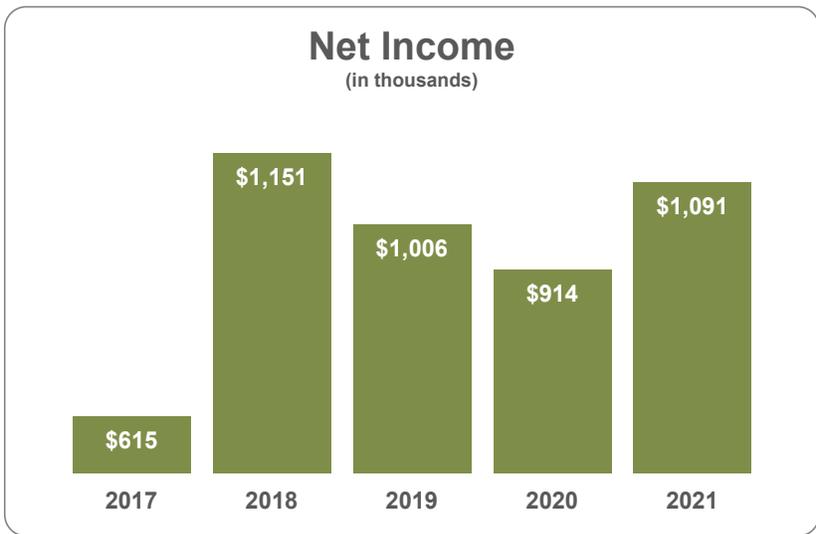
*Jody Brown*  
*President Lifestore Insurance*

In a year filled with unexpected events, LifeStore Insurance demonstrated adaptivity, versatility, and resolve. None of us could have anticipated the challenges all of us would face over the past year. Our employees have responded admirably working extra hours when needed, setting up offices in their homes, and utilizing the latest technology for meetings. “When we needed to rise to the challenge and when the largest obstacles occurred, our employees came through with an outstanding performance.”

- Eclipsed the \$6 million revenue mark for the first time in company history
- Increased revenue for the ninth consecutive year
- Increased net income from year end 2020 by 19.41%
- Year end net income over \$1 million for the third time in four years
- Increased our client and policy count for the sixth consecutive year
- All seven branch offices increased their revenues in 2021 over fiscal year end 2020

I’m proud of the way our company has responded to one of the greatest tests of our careers. During this time, we have adapted our workflows to be more technologically advanced in working with clients. Our versatility has shown through the many ways we can do business with clients ranging from in person encounters to online purchases. We are resolved to continue to be an important part of each of the communities we serve and will strive to continue to look for better ways to serve our clients in the future. It has taken the entire team to achieve such phenomenal results for our company.





Hope Johnson

Through the use of technology and the acceptance of online meetings, our employees regularly consult with clients on the best options and coverage for their unique needs.

# Serving The Community

LifeStore Bank was the first community bank in North Carolina and among the first 100 Banks to carry an account marking the Bank On certification. The goal of Bank On is to ensure everyone has access to safe and affordable financial products and services.

A team of LifeStore employees and community members, Yolanda Adams, Marta Pacheco, and Isauro Estrada worked alongside Bank On to design an account for local consumers to have a safe place for their money and easy access for check cashing and paying bills. The committee chose the name “Progress” to represent the significance for the consumer who can now have a bank account.



Left to right: Jorge Ramirez, Yolanda Adams, and Marta Pacheco

With no overdraft charges, a low monthly fee, and tools that help our customers manage their money, the Progress account provides High Country residents a truly useful mainstream banking product. This is especially important during the quarantines of COVID-19 when consumers need to manage paying their bills and have access to funds.



David Cottrell  
Retiring Market President

In 1999, when LifeStore Bank, then AF Financial Group, opened a loan production office in Boone, Margaret McGlamery, Loan Processor and David Cottrell, Market President were original employees. “We quickly became a full-service bank, adding employees with ties to the area and history in the financial services industry,” commented David Cottrell. Moving to the current location in 2004, today LifeStore Bank is well known among the business community and consumers. “The good word around town has grown our business,” commented David, adding “We have such a good group of employees - our success is our staff”

David began his career in banking while in college, learning retail banking and collections and spending most of his years assisting customers with loans for their business or homes. “I feel very fortunate and blessed to have had this opportunity.” David will be retiring at the end of 2021 and Brian Greer will assume the role of Market President. Joedy Eller, LifeStore Bank’s Chief Banking Officer, added, “David’s leadership has been so instrumental in growing from a small loan production office to a leading bank in the Watauga market. His contribution has positively impacted the bank, as well as many businesses, families, and individuals.”

Thank You David!

# Reinvest in Community



Dr. Harry Davis



Alex Edmisten

It has been our practice to support the communities we serve. Amid cancellations and postponements of the past year, organizations found fun and creative ways to support their causes and involve the community and we were pleased to assist with sponsoring and supporting the causes that make our communities a great place to live.

The Ashe Bash was an outdoor concert, free to the community to enjoy after COVID case numbers dropped. Ashe Chamber of Commerce held its first in person gathering in 15 months in the open spaces of The Barn On New River where our Director, Dr. Harry Davis, was the featured speaker.

Our employees got involved in many ways, The Lifestore team in Boone created “Beary Merry Christmas” for Western Youth Network’s Festival of Trees to help with mentoring, after school care, summer camps, and support for at-risk youth.

Alex Edmisten, LifeStore Insurance Account Executive and president of the Ashe Shrine club conducts multiple fundraisers for the Shriner’s Hospital for Children who provide specialized care for children.

*“I Do It All For The Kiddos.”*

Alex Edmisten

# Resilience

Over the years we have heard “LifeStore is a family” many times. Never has this been more evident than during the pandemic when employees worked together in so many ways to serve the customer. Joedy Eller, Chief Banking Officer commented, “To say that they were creative would be an understatement.” There have been times when staffing was a challenge. Rather than complain, everyone pitched in and did whatever was necessary to maintain levels of service. There wasn’t an attitude of “This isn’t my job.” Rather “How can I help?”

Resilience is defined as the capacity to recover quickly from difficulties. Jody Brown, President of LifeStore Insurance commented, “Our team epitomized the definition of resilience during the past year. We successfully navigated unexpected new encounters with internal and external communications, persevered and lent a hand in areas outside of our comfort zones, and found ways to positively impact many of our clients’ personal and business lives during an unprecedented time in history. I couldn’t be more pleased with the efforts of our extraordinary team.”



Left to right: Malinda Poe, Pam DeVall, Karen Graham, Margaret McGlamery, Shelley Bentley, and Ali Williams

Normal went out the window with the pandemic. Hours of operation changed, lobbies closed because of guidance from health officials, customers executed documents remotely, and we had loan volume greater than ever before with mortgages and PPP loans.

Employees worked early and late to take care of the customer. Through it all customers were given a positive experience. Our employees met the challenge head on.



Left to right: Lori Osborn, Karen Durham, Greg Ashley, Linda Gilleland, and Sandra Williams

*This page is  
to salute you,  
all LifeStore  
Employees!*

*Thank you!*

# LifeStore Board of Directors



Bottom Row Left - Mike Sherman, Don Moore, Bob Washburn, Charles Jones, and Jim Walker  
Top Row Left - Jerry Roten, Claudia Kelley, Karen Powell, and Harry Davis

## Board of Directors

### **Michael M. Sherman**

Vice Chairman of the Board of LifeStore, joined Board in 2001, President and Chief Executive Officer of Zibra, LLC, Mooresville, NC

### **Donald R. Moore**

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

### **Robert E. Washburn**

President and Chief Executive Officer of LifeStore Financial Group and LifeStore Bank since 2005

### **Charles W. Jones, M.D.**

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

### **James C. Walker**

BGen, USMC (Ret.), former Deputy Director for International Projects at Samaritans Purse Boone, NC joined Board in 2016

### **Jerry L. Roten**

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

### **Claudia L. Kelley, Ph.D.**

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

### **Karen P. Powell**

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

### **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

## Executive Officers

### **Melanie P. Miller**

### **Joseph E. Eller**

### **Ruth F. Johnson**

### **Joseph T. Brown III**

Executive Vice President & Chief Financial Officer

Executive Vice President & Chief Banking Officer

Executive Vice President & Chief Credit Officer

President of LifeStore Insurance Services, Inc.



Amy Lewis

## *Relationship*

### **LifeStore Bank Locations**

1675 Blowing Rock Rd., Boone, NC 28607

840 E. Main St., Jefferson, NC 28640

205 S. Jefferson Ave., West Jefferson, NC 28964

1441 Mt. Jefferson Rd., West Jefferson, NC 28964

### **LifeStore Bank Loan Production Office**

102 W. Main St., Elkin, NC 28621

### **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



Emily Williams

## *Responsive*



Hope Johnson

## *Resilient*

[www.GoLifeStore.com](http://www.GoLifeStore.com)