

The logo for Life Store Financial Group is positioned in the upper left corner. It features the word "Life" in a white, cursive font inside an orange oval, followed by the word "Store" in a grey, sans-serif font with a trademark symbol. Below "Store" are the words "FINANCIAL" and "GROUP" in a smaller, grey, sans-serif font, stacked vertically.

**Life** Store™  
FINANCIAL  
GROUP



2015  
ANNUAL REPORT

# To Our Shareholders

“It was the best of times, it was the worst of times.” So begins *A Tale of Two Cities* by Charles Dickens. This could be the tale of our national economy. We have moved past Dickens’ “winter of despair” and we certainly hope “we have everything before us.” Reviewing the past year and looking forward certainly feels like the future is filled with a great deal more promise and cause for optimism. LifeStore had strong earnings growth during the year ended June 30, 2015, with a 71.3% increase in net income to \$1,504,514. This was our fifth consecutive year with earnings growth in excess of 20%, and by the slimmest of totals, our most profitable year ever. In nearly every aspect this was the strongest year LifeStore had enjoyed in recent years. Our capital ratios increased across the board, with Total Risk Based Capital increasing from 15.16% to 16.31%. Classified assets fell from \$13.2 million (47.8% of Tier 1 Capital plus reserves) to \$10.4 million (36.2%) during the fiscal year.

We continued to add to our allowance as it increased from 1.54% of loans to 1.62%, while nonperforming loans fell from 3.63% of total loans to 2.75%. Core deposits increased from \$106.3 million to \$110.4 million, a 3.9% increase, and now represent 61.5% of our deposits. Loan demand continued to be soft in the North Carolina mountains, and we saw a reduction of net loans of \$6.0 million or 3.3%. A portion of this reduction came from selling a larger portion of our mortgage loan volume this year. For some time we have been concerned over the potential impact of a rising rate environment. To mitigate this we have placed a greater portion of this activity into the secondary market. Insurance had an outstanding year with revenue growth of 17.2% to \$3.9 million and net income growth of 19.1% to \$469,027. We saw a 44% increase in the number of people we were able to help obtain health insurance. The majority of these folks did not previously have coverage.

While LifeStore has enjoyed a very good year, the banking industry as a whole continues to exist in a mist of ambiguity. Hardly a day goes by without another merger being announced. The number of banks and thrifts in the US decreased to 6,348 at the end of June 2015. When I began my banking career in 1982 that figure was approximately 17,800. Many rural banks have seen depopulation as their young people relocate to urban markets for jobs and other opportunities; couple this with increased regulatory burden and many small banks have decided to pack it in and merge with a larger institution.

We are fortunate that our population is growing, even if it is not at the pace of urban areas in our state. Tourism is strong; we have solid second home and retirement markets, good medical care, a strong regional university and a good representation of traditional industry and retail. One of our company’s strengths is that we know our markets, we can be both responsive and flexible with what is occurring here in a way that a larger institution just cannot.

To that end we are passionate about providing a superior customer experience and developing strong relationships with our customers. In the past year we upgraded our core processing systems and have recently rolled out a mobile banking platform. Last year we talked about the process mapping project in our mortgage area. We are now consistently beating national averages by two weeks in the time it takes to go from application to funding. We have spent a great deal of time and energy getting up to speed on the new disclosure guidelines, meeting with realtors, attorneys, and title companies to ensure the Federal changes to the mortgage process are not a big event for our customers. Mortgage lending has and will remain a cornerstone of our business model. Additionally, we do see

opportunity to reach out with additional products and services for the small business customer that our larger competitors process remotely. Having insurance and investments specialists on hand makes us even more responsive to the needs of small business owners.

This year, we bid farewell to one of our longest serving Directors, Jan Caddell, who is retiring from the Board after 34 years of service. In 1981 former Bank President, Bill Ashley, asked Jan to join the Board of Directors of Ashe Savings and Loan. He owned the local radio station and was, as he is today, the voice of Ashe County. At the time we were operating out of a single location in downtown West Jefferson and the company had only hired five employees during its first 42 years of operation. That was all about to change and Jan was an integral part of the Board that would shape the company’s direction over the past 34 years. He has twice served terms as Chairman or President of the Board and in 12 years of service in that position has served as chair longer than anyone except for the first Board president, Lester Segraves. Over the past 11 years, I have seen Jan as an advocate of creating an organization that is progressive while being rooted in values that create an enduring great company.

His wisdom, vision, sense of humor and passion for our community are qualities that we will strive to emulate. We thank Jan for his service and wish him and his wife Lucy many more years of service to the community.

It can be difficult to put into words one’s appreciation of the past, feelings about the present and hopes for the future. Sometimes simplicity is better, and less is more. So let me end with these few thoughts. We value our past success and look forward to an even brighter future. We think big for our customers and the communities we serve. We genuinely care about all we come into contact with and want to create an enjoyable experience for all our constituencies. LifeStore is doing well, but we know the journey to be our best is constantly changing and never ending. We thank you for your continued support.



*Robert Washburn*

A handwritten signature in dark ink, appearing to read "Robert Washburn".

**Robert Washburn**

*President and Chief Executive Officer*

# Our Communities

We believe very strongly in giving back to our communities. Our employees volunteer hundreds of hours each year and to encourage this positive spirit LifeStore offers two paid hours per month to employees who wish to volunteer with local non-profits during working hours. LifeStore also contributes to many local charities and projects throughout the year with monetary donations.

This past year LifeStore received special recognition in both Ashe and Yadkin Counties. Our volunteer efforts and contributions were recognized by the Ashe County Board of Commissioners when they presented Judy Current, Marketing and Public Relations Director, with a Volunteer of the Year award in the Business/Industry category.

The Commissioners recognized a number of LifeStore's contributions such as sponsoring the annual student choral festival, and supporting educational events such as Westwood Elementary's Family Night and Ashe County Middle School's STEM Day and Career Day. LifeStore has also been active with the Ashe County Heart Auction and Heart Walk and the local Relay for Life.

LifeStore's own food drive, "Feeding Families for Christmas" has been a great success for three years now. Judy Current worked with Ashe Outreach Ministries and coordinated the food drive, while LifeStore promoted it by collecting food and donations at each of its locations. They sorted and packaged the food and delivered it to homes across Ashe County. "There is no greater feeling than to see the joy these boxes of food brought to our neighbors," commented Judy.

The Yadkin County Chamber of Commerce honored Ann Ashman, SVP and Branch Manager for LifeStore Insurance in Elkin, presenting her with the Johnsie Hudspeth Volunteer of the Year Award.

Ann's work in the community goes back many years and covers many areas of service. She currently serves as President of the Yadkin Valley United Fund. The United Fund will raise

\$150,000 this year and distribute it among 26 agencies and three scholarship winners. The board supports and advocates for these agencies, meeting with their leadership and assisting them in every way possible. Some of the agencies receiving support from the United Fund include the Elkin Rescue Squad, the Ark-Echo Ministry, Tri-County Christian Crisis Ministry, DARE and Surry Friends of Youth.

In addition to her work with the United Fund, Ann is a Charter Member of the Yadkin Valley Rotary Club and a former Rotary President. She served two terms as President of the Yadkin Valley Arts Council and continues to be active in supporting their work. Ann is also a member of the Yadkin Valley Chamber of Commerce and has served as Chairman.



Ann Ashman, left, and Judy Current

# Our Employees

During the spring of 2015 we launched an employee wellness program, LifeStore Wellness. The effort is led by a committee of "Wellness Warriors" that regularly meets to offer suggestions, bring ideas from other employees and plan wellness initiatives. "We welcome ideas and suggestions from employees. This is their program," commented Amy Price, the program's coordinator.

Since the program started in May, employees have received a monthly Wellness newsletter with healthy facts and tips. The committee has also orchestrated a program for gym and fitness center discounts and a health screening is being planned for the fall.

The first LifeStore Wellness fitness challenge started in July and was a huge success with about 65% of employees participating. The "Walk to Charleston" asked participants to record

the steps they walked each day, with the goal of walking 323 miles or 646,000 total steps in 62 days. This equals the distance from West Jefferson to Charleston, South Carolina. A number of prizes were offered throughout the challenge and the grand prize was a trip to Charleston.

"I feel like it was a huge success," says Amy. "The Challenge motivated us to get up and get moving and as soon as it ended employees were ready for the next challenge."

*"As soon as it ended employees were ready for the next challenge."*



Pictured: Some of those completing the walk to Charleston. Ali Williams, left, Amy Price, Jessica Miller, Stephanie Trivett, Tasha Rountree and Shelley Rollins.

# Our Customers

## ▶ Best Western

When Shannon Maness came to work as General Manager at Best Western of Banner Elk, she was charged with turning the property around. So for the past four years she has worked on making this property – perched between the area’s two largest ski slopes – a year round destination by working with local organizations who bring in out of area business, booking car clubs, church groups, college sports teams and family reunions.

Shannon holds the designation of Certified Hotel Administrator (CHA) and is no stranger to hotel property management. When she came on board she immediately began reducing overhead. “In six months, she had reduced the expenses by a significant amount,” said Robert Ratliff. Robert and his wife Rachel own the property and Robert will readily admit Rachel and Shannon work together on the decisions for improvements

and managing the business. “We have total confidence in Shannon’s abilities as the General Manager and partnered with Rachel who maintains the accounting, they make a great team! They make most decisions without me!”

Rachel and Shannon joke about the time they added refrigerators and microwave ovens to all the rooms and then told Robert about the new additions. They also mention the carpet they told him about replacing after the plans had been made to begin changing it out.

Upon entering the lobby you immediately feel like you are in a lodge with Scottish clan tartans, bagpipes and crests anchored by a gorgeous rock fireplace. The smell of fresh popped popcorn leads you to the meeting room hallway. If you’re expecting to see the standard hotel lobby furnishings there’s quite a surprise waiting – they have deer mounts flanking the hallway in the same way as George Vanderbilt did at Biltmore House.

Jim Marsh, LifeStore Commercial Lender, is their banker and describes it as a “total relationship.” “They are a great customer, easy to work with and very nice.” He appreciates their organization and timeliness and how they make his job easy and adds, “I value the friendship we have developed.”

Robert speaks highly of Jim as well, saying, “He’s great to work with.” They enjoy the service and level of satisfaction they have received from Jim and the rest of LifeStore Bank’s Boone location, where they are also a business checking account customer. “They take care of us,” added Robert.

*Jim Marsh, left, Commercial Lender with Shannon Maness, Rachel and Robert Ratliff of Best Western, Banner Elk.*



## ▶ Hound Ears Club

Since Hound Ears opened more than 50 years ago it has been a retreat where people come to enjoy the richness of the North Carolina Mountains. Grover and Harry Robbins purchased the rugged property with a vision to transform it into a world class private club featuring a golf course, ski slope, fine dining, home sites and a lodge. The property was purchased from Claude Shore, a local farmer who inspired the name of the club when he pointed at some of the rock formations on the property and said you can surely see the hound ear rocks today and the name stuck.

The ski slope remained opened until 1991 and Don Vance, Chief Operating Officer says today Hound Ears is more than a private club, it’s a wonderful community with a Club. Today, the award-winning golf course is described as the crown jewel of the Hound Ears Community. It is surrounded by mountains on just about every side and is ranked among the Top 100 in North Carolina. This spring, they opened a fly fishing park; they also offer many hiking trails, tennis, and a health and fitness program. Hound Ears has long been known as a prestigious member’s club. Mr. Vance and his staff want to expand the interest in their club. “I don’t think people realize that you don’t have to own a home to be a member.” He encourages local people interested in some great recreation to come out and look into a membership. “We’re just a laid back hound dog,” said Vance. “I tell people we are a thoroughbred, AKC registered, Hound Dog, not a Great Dane, not a Poodle or a Doberman. We’re proud to be a Hound Dog”

Tracey Moore, Director of Human Resources, explains how Hound Ears works to recruit the best employees. There are several

local resort communities that compete for those people looking for a mountain retreat and they all want to hire the right people to operate and maintain the grounds and facilities. “Attracting and retaining good employees is critical and a benefit package is very important to the employees. Sheila Sheppard, our controller, is a wonderful example of our great staff. She has been with the Club for thirty years and does a great job working with the managers on anything related to accounting and daily business details.”



*Sheila Sheppard, Don Vance and Tracey Moore of Hound Ears Club, Blowing Rock.*

Hound Ears worked with Jan Noffsinger, LifeStore’s Vice President of Health Insurance, to find a group health plan they can offer to their employees for an affordable monthly fee. “This plan has worked well. We are able to help employees cover expenses like doctor visits or prescriptions that occur before their deductibles are met. Jan commented, “Hound Ears takes care of their employees. Tracey goes to great lengths to help employees with claims and says their employees are like family.”

Hound Ears likes doing business locally and when Jan recognized the possibility to assist Hound Ears with their banking she made the introduction to Denise Deitz, Financial Consultant with LifeStore Bank. Denise worked with Hound Ears on some of their business banking needs. “She gets it,” says Don.

“Jan has been great. We like doing business with people we can talk to. It’s always great to deal with our local community,” Vance stated. “All of the technology is good, but there is nothing better than getting to talk face-to-face with real people who take great care of you.”

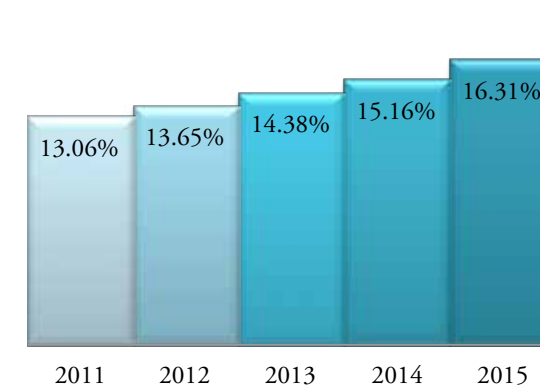
# Our Financial Highlights

(in thousands)

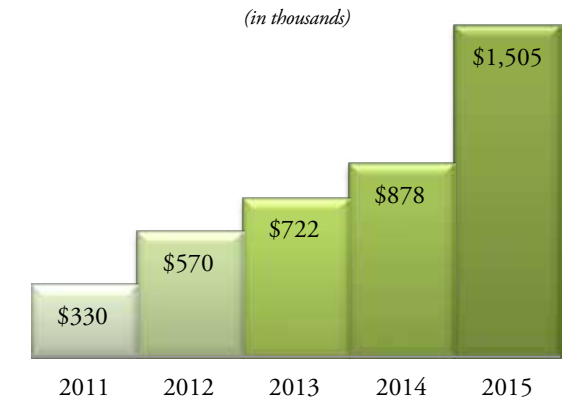
Year Ended June 30,	2015	2014	2013	2012	2011
<b>Selected Financial Condition Data:</b>					
Total assets	\$254,349	\$254,961	\$267,743	\$279,865	\$288,299
Loans receivable, net <sup>1</sup>	176,007	182,036	191,854	192,741	203,912
Investment securities <sup>2</sup>	25,377	32,033	32,933	35,464	33,820
Cash and cash equivalents	26,426	17,882	21,488	26,070	25,049
Deposits	179,654	175,741	189,176	202,609	212,658
Borrowings	51,676	57,721	57,763	57,804	57,841
Equity	19,014	17,906	16,941	16,553	15,222
Book value per share	18.66	17.57	16.62	16.24	14.94
<b>Selected Operating Data:</b>					
Interest income and dividends	\$10,347	\$10,693	\$11,351	\$12,959	\$13,550
Interest expense	2,316	2,407	2,786	3,504	4,378
Net interest income	8,032	8,286	8,565	9,455	9,172
Provision for loan losses	287	705	1,851	1,712	2,248
Net interest income after provision for loan losses	7,744	7,581	6,714	7,743	6,924
Non-interest income	6,576	5,330	5,841	5,293	4,987
Non-interest expense	12,345	11,872	11,899	12,578	11,906
Income before income tax expense	1,976	1,039	656	458	5
Income tax expense (benefit)	472	160	(66)	(112)	(325)
Net income	\$1,505	\$878	\$722	\$570	\$330
<b>Year Ended June 30,</b>					
<b>Selected Ratios:</b>					
Basic earnings per share of common stock	\$1.48	\$0.86	\$0.71	\$0.56	\$0.32
Return on average assets	0.58%	0.34%	0.27%	0.20%	0.11%
Return on average equity	8.05%	4.99%	4.17%	3.47%	2.10%
Net interest margin <sup>3</sup>	3.52%	3.47%	3.50%	3.63%	3.45%
Efficiency ratio <sup>4</sup>	84.50%	87.19%	82.60%	85.29%	84.09%
Nonperforming loans to total loans	2.75%	3.63%	3.80%	3.78%	5.20%
Allowance for loan losses to total loans	1.62%	1.54%	1.58%	1.65%	1.77%

<sup>1</sup> Loans receivable, net is comprised of total loans less allowance for loan losses, loans sold, undisbursed loan funds and deferred loan fees.  
<sup>2</sup> Includes FHLB stock and investment securities.  
<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.

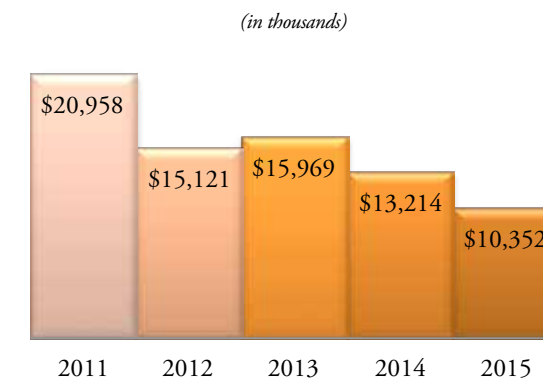
LifeStore Bank  
Total Risk-Weighted Capital Ratio



LifeStore Financial  
Group Net Income



LifeStore Bank Classified Assets



# Our Insurance Highlights

Our insurance division made the 2015 fiscal year its most profitable in our 18 year history. We had net income of \$469,027 for the year ended June 30, 2015, 19.1% over the 2014 fiscal year. Our gross revenue for the year was \$3.9 million, which was 17.2% greater than our revenue for the 2014 fiscal year.

We continue to see growth in our benefits department which includes individual and group health, dental, annuities and life insurance. We increased income in this area by more than \$320,000 and our benefits department generated 24.31% of our total revenue for the year.

Our Boone location has been recognized by Auto Owners for two consecutive years as one of North Carolina's 10 highest growth agencies in property and causality business. This award covers all the policies we write for all lines of business and is based on "premium increase for personal and commercial policies written with Auto-Owners." Our Boone location was second in North Carolina and outpaced competition from much larger areas such as Charlotte and Raleigh.

During the fall of 2015, we anticipate another surge of enrollment in health insurance and we are working on a number of marketing initiatives to increase enrollment in over 65 products. We have formed an alliance with Ashe Memorial Hospital to assist their uninsured clients in finding a health insurance plan through the Affordable Care Act.

This partnership has benefited our local community, helped our hospital reduce its number of non-paying clients and allowed these individuals to obtain health insurance. We are planning to extend these partnerships in other markets where we provide insurance. We are using our opportunities with health insurance to strengthen our agency and provide much needed services to customers in our communities.



Jody Brown

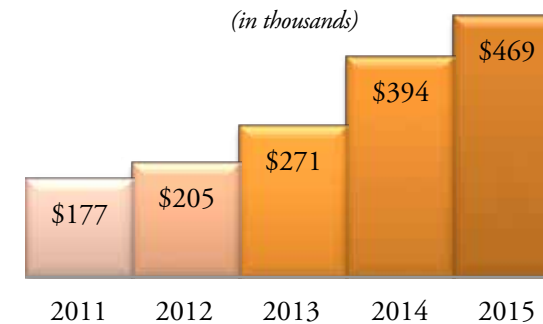
The North Carolina Insurance requirement for continuing education is 24 hours every two years. I am proud of the value we place on continuing education. We have averaged over 20 hours per employee during the past year. We also concentrate on earning certain designations in the industry. This goes beyond what many agencies are doing to maintain license requirements. Our employees focus on what their area of expertise is and on education that will help them to better serve their clients.

Our insurance division has 38 employees and 14 of those employees hold the designation of Certified Insurance Service Representative, and Kristen Pruitt recently completed the designation of CISR Elite. We have seven employees that are Cer-

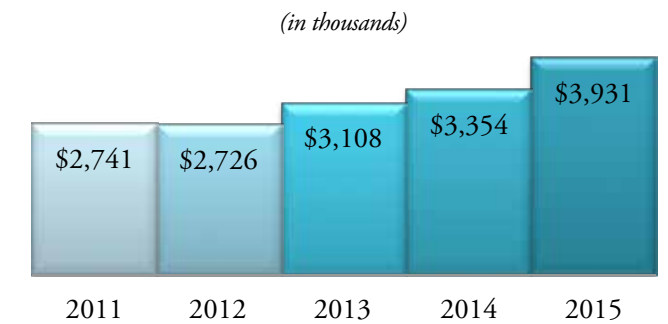
tified Insurance Counselors. In total about two-thirds of our agency holds professional designations in 14 different areas. Our emphasis on education improves the level of expertise our employees are able to offer to our clients and makes us a valuable advisor for their insurance needs.

**Jody Brown,**  
*President, LifeStore Insurance*

## LifeStore Insurance Net Income



## LifeStore Insurance Gross Revenue



# Our Tribute

“It was a lot different then, that’s for sure,” says Jan Caddell about the beginning of his tenure on the Board of Directors.

At the time Jan came on board in July 1981, LifeStore was Ashe Savings & Loan Association, primarily loaning money for people to purchase a home. There was only one location, on Jefferson Avenue in downtown West Jefferson. Jan recalls that during a board meeting before they became a bank there was a lot of discussion on adding checking accounts. With a chuckle he adds there was some concern about getting into this - after all they had only been loaning money based on depositors’ equity since the beginning in 1939.

The revolution of computers has greatly changed banking over the years and Jan has been a part of the bank board through many changes: becoming a federally-chartered institution, adding consumer lending, the addition of four bank branches, and the addition of insurance and investment services. Jan speaks of LifeStore with a great deal of pride. After all, during his tenure the bank has grown from a \$15 million savings and loan to a \$254 million institution.

Jan has the most recognized voice in Ashe County, coming here in 1968 as General Manager of WKSK, a local AM radio station. His enthusiasm for life draws people to him wherever



“ We are fortunate to have had Jan be a part of our organization.”

he goes and has created a strong local following of listeners that tune in every morning to his regular morning program, “The Happy Time Show.” This show features guests, from local officials to non-profits and community event organizers who share details of their events. This show has been a regular on-air program since 1968 on WKSK Radio which Jan and his son Graham own and operate today.

Jan’s love for his community can be seen in the many organizations he has contributed to through the years. He currently serves on the Board of Directors for Ashe Memorial Hospital and is an active member at West Jefferson United Methodist Church, where you’ll usually find him operating the sound booth. “I guess I want to feel like I contributed somewhere along the way,” remarks Jan.

Jan is retiring from LifeStore’s Board of Directors this year, after 34 years of service. “I will certainly miss Jan,” commented Bob Washburn, President & CEO. “He is such an icon in Ashe County; we are fortunate to have had Jan be a part of our organization for so many years.” Jan served as Chairman of the Board from 1992 until 2002 and again from 2012 until his retirement.



*Facing page: Jan’s “Happy Time Show” has been on the air since 1968.  
Right: Jan enjoying a “good game of golf.”*

# Our Leadership



## ▶ Board of Directors

Michael M. Sherman  
President & Chief Executive Officer of Zibra, LLC

Charles W. Jones, M.D.  
Surgeon, owner of Charles W. Jones M.D., P.A.

Karen P. Powell  
Public Relations Director, SkyLine Membership Corporation

Robert E. Washburn  
President & Chief Executive Officer of LifeStore

Claudia L. Kelley, Ph.D.  
Professor of Accounting at Appalachian State University

Jan R. Caddell  
Chairman of the Board of LifeStore, President & Manager of Caddell Broadcasting

Jerry L. Roten  
Vice Chairman of the Board of LifeStore, Retired, Former Clerk of Superior Court of Ashe County

Donald R. Moore  
Owner and Manager of McDonald's Restaurant of West Jefferson

## Jan Caddell

Jan Caddell, LifeStore's Chairman of the Board, joined what was then Ashe Savings and Loan in 1981. He is retiring this year after 34 years of service to LifeStore. Jan has over 50 years of experience in the radio industry and is the owner and manager of West Jefferson's local radio station WSKS 580 AM.

## Jerry Roten

Jerry Roten, Vice Chairman of LifeStore's Board of Directors, served as Ashe County's Clerk of Superior Court for 20 years and has been a member of LifeStore's Board of Directors since 1992.



Jan Caddell, left, and Jerry Roten

## Executive Officers

### Melanie Miller

Chief Financial Officer, directs Accounting, Compliance, HR, IT and 21 years' experience all with LifeStore.



Melanie Miller

### Ruth Johnson

Chief Credit Officer, directs Credit Risk Management, Loan Operations and 43 years' experience that includes 7 years with LifeStore.



Ruth Johnson

### Joedy Eller

Chief Banking Officer, directs retail banking, deposits, marketing, investments, commercial and mortgage lending and has 28 years' banking experience that includes 10 years with LifeStore.



Joedy Eller

### Jody Brown

President, LifeStore Insurance, directs all lines of insurance, 25 years' insurance experience that includes 18 years with LifeStore.



Jody Brown





### LifeStore Bank Locations

1675 Blowing Rock Rd, Boone, NC 28607  
840 E Main St, Jefferson, NC 28640  
4951 NC Hwy 88 W, Warrentonville, NC 28693  
205 S Jefferson Ave, West Jefferson, NC 28694  
1441 Mt Jefferson Rd, West Jefferson, NC 28694

### LifeStore Insurance Locations

1675 Blowing Rock Rd, Boone, NC 28607  
925 N Bridge St, Elkin, NC 28621  
840 E Main St, Jefferson, NC 28640  
324 Morganton Blvd SW, Lenoir, NC 28645  
315 Main St, North Wilkesboro, NC 28659  
112 S Main St, Sparta, NC 28675  
206 S Jefferson Ave, West Jefferson, NC 28694

### LifeStore Financial Group Corporate Office

21 E Ashe St, West Jefferson, NC 28694

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