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*Banking made easy.  
 For the rest of your life.*

**SB Bancshares** Inc.



**Robert F. Lowe**  
*Chairman & Chief  
 Executive Officer*

**H. Franklin Sherron, Jr.**  
*President & Chief  
 Operating Officer*

**Monty J. Oliver**  
*Executive Vice President,  
 Chief Financial Officer  
 Cashier*

**Robert F. Lowe**  
*Chairman, President &  
 Chief Executive Officer*

**H. Franklin Sherron, Jr.**  
*Vice President*

**Monty J. Oliver**  
*Secretary & Treasurer*

**Robin A. Huneycutt**  
*Assistant Secretary*

## *Our Vision*

*To achieve excellence as a financial institution in the execution  
 of our commitment to the constituencies that we serve...our  
 shareholders, employees, customers and communities.*

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*Proxy statement and SEC Form 10-K enclosed separately.*

# Financial Highlights

<i>(Dollars in thousands, except per share data)</i>	<b>2004</b>	<b>2003</b>	<b>Percent Change</b>
<b>FOR THE YEAR</b>			
Interest income .....	\$ 49,319	\$ 50,790	(2.9)%
Interest expense .....	10,367	11,177	(7.2)
Net interest income .....	38,952	39,613	(1.7)
Provision for loan losses .....	3,017	5,215	(42.1)
Noninterest income .....	14,063	14,517	(3.1)
Noninterest expense .....	37,687	36,434	3.4
Income taxes .....	3,931	3,903	0.7
Net income .....	8,380	8,578	(2.3)
Net interest income, taxable equivalent .....	39,592	40,321	(1.8)
Cash dividends declared .....	5,490	5,454	0.7
<b>AVERAGE BALANCES</b>			
Assets .....	\$891,577	\$878,519	1.5%
Earning assets .....	834,133	824,236	1.2
Loans .....	689,034	664,155	3.7
Investment securities .....	124,126	132,597	(6.4)
Total deposits .....	717,209	721,723	(0.6)
Shareholders' equity .....	90,535	88,836	1.9
<b>YEAR END BALANCES</b>			
Assets .....	\$914,988	\$867,906	5.4%
Earning assets .....	857,740	812,690	5.5
Loans .....	712,185	663,446	7.3
Investment securities .....	129,194	121,091	6.7
Total deposits .....	722,275	702,502	2.8
Shareholders' equity .....	90,742	88,560	2.5
<b>PER COMMON SHARE</b>			
Earnings per share:			
Basic .....	\$ 0.98	\$ 1.01	
Diluted .....	0.97	1.00	
Cash dividends declared .....	0.64	0.64	
Book value .....	10.57	10.36	
Closing market price .....	16.89	17.38	
<b>FINANCIAL RATIOS</b>			
Return on average assets .....	0.94%	0.98%	
Return on average shareholders' equity .....	9.26	9.66	
Average equity to average assets .....	10.15	10.11	

# To our shareholders:

Two thousand and four was a significant year for LSB Bancshares, Inc., as we made investments, both financially and in terms of management's focus, in continuing to address the challenges that have confronted the Bank over the past few years. Those challenges included a soft economy that negatively affected our balance sheet growth and contributed to higher delinquencies, lower margins and competitive pressures that presented opportunities to improve efficiencies in order to enhance customer service and identify new markets for future growth. These investments centered on the achievement of three objectives: 1) to better position the Bank for accelerated balance sheet growth; 2) to increase efficiency by improving operations and processes, and 3) to strengthen our credit discipline. I am pleased to report that in 2004, progress was made in each of these areas. Before discussing some of 2004's initiatives in more detail, let me first discuss the year from a financial standpoint.

## Financial Results

Net income for 2004 was \$8,380,000 or \$0.97 per diluted share compared to \$8,578,000 or \$1.00 per diluted share in 2003, a decrease of 3% in earnings per diluted share. Net interest income decreased 1.7% compared with the year ago figure, reflecting compression of our net interest margin. Noninterest income decreased 3.1% in 2004 as mortgage financing income was off 61% relative to 2003. Noninterest expense increased 3.4% during the same period. The provision for loan losses was \$3,017,000 in 2004 compared to \$5,215,000 in 2003. Nonperforming assets (including nonaccrual loans, accruing loans more than 90 days past due, renegotiated troubled debt and other real estate owned) totaled \$4,111,000 at December 31, 2004, down 29.3% from \$5,815,000 at the year ago date. The allowance for loan losses at the end of 2004 was \$7,962,000 or 1.12% of loans compared to \$7,846,000 or 1.18% of loans at the end of 2003. In 2004, return on average assets was 0.94% and return on average shareholders' equity was 9.26%. As of December 31, 2004, assets increased 5.4%, deposits increased 2.8% and loans increased 7.3% compared to a year ago; shareholders' equity totaled \$90,742,000 and represents an equity-to-asset ratio of 9.9%.

## Laying a Foundation for the Future - Impact '05

One of the most significant achievements of 2004 was the development of Impact '05, which is a multi-year initiative to improve the Bank's performance in many areas, particularly in its retail delivery system, operations, technology, marketing and service. Many of the initiatives discussed in this letter are key elements of Impact '05, some of which have already been implemented. Impact

'05 lays the groundwork for efficiencies and performance improvements that will extend for many years and provides a platform for us that is applicable not only to existing and *de novo* branches but also to whole bank acquisitions.

## Growth Initiatives – Expand Our Geographic Footprint and the Services We Provide

### Building By Penetrating New Markets

While our dominant position in Davidson County is a decided strength and will always be a core market for the Bank, our growth strategy must focus on markets where we can economically build market share, which may involve markets that are not contiguous to the ones we currently serve. Such is the case with Raleigh, where we opened a mortgage production office in January 2004, as we believe that the Triangle Area will ultimately become an important component of our future growth. We also added to our presence in Guilford County through the opening of a full-service branch in Jamestown in April 2004. Guilford County, like Wake County, has strong demographics and enjoys a diverse economic base, as does Forsyth County which complements the strengths of markets we serve in Davidson, Randolph and Stokes Counties. From a geographic standpoint, we will continue to seek new market opportunities, both through *de novo* branching as well as through acquisition. We believe there are compelling opportunities in markets to our east, though our interest in identifying potential acquisition candidates is certainly broader geographically and not limited to that area.

### Established Indirect Lending Program

Another initiative to stimulate growth was the establishment of an indirect lending program in 2004, which allows the Bank to provide new and used automobile financing for customers while they are still at the dealership. The Bank has revitalized its dealer relationships through an active calling effort and has significantly increased the number of dealers in this program. While the program was only completed in September 2004, it is already contributing meaningfully to our growth.

### Added to Key Members of Our Banking Team

In banking, our most important asset is our people. Ultimately, banking is a people business, and it is the relationships that are forged in the communities that we serve that drive much of our long-term success. For that reason, we are constantly searching for experienced individuals with a strong desire to become a part of our bank's team, particularly in markets that we have targeted

for rapid growth. I am pleased to report that we recently hired a new Area Executive to lead our focus in Forsyth County who complements our existing staff, as well as a new executive to head our Raleigh Mortgage Production office.

### **Efficiency Improvement Through Process and Operational Enhancements**

#### *Installed New Online Teller System*

We continue to look for ways to provide our tellers with technology-based tools that allows them to serve our customers more effectively. As a result, we recently began the process of installing a new online teller system that will automate virtually all of their transactions. Just as important, this enhancement, which we call *Fast Teller*, will provide data to a teller management system that should improve efficiency and productivity and will serve as an important tool for product and employee evaluation. Simply by more accurately measuring transaction volume within specific time intervals, we can adjust work schedules and just as effectively serve our customers with fewer employees.

#### *Data Processing Conversion*

We also completed a major data processing conversion in 2004, a part of which was the installation of a new image item processing system. This system eliminated the manual process of proofing and encoding checks, resulting in improved efficiency, as well as enhancing our Internet banking services and adding convenience to customers wishing to view archived check images. The system also complies with the requirements of the Check Clearing for the 21st Century Act (also known as "Check 21"), which was effective on October 28, 2004. Among other things, Check 21 will increase the industry's check processing efficiency, as well as enhances the security of the overall banking system.

#### *Consolidated Facilities In Lexington*

Recognizing the increasing desire of customers for mobility and easy access to branches, we created Davidson County's first stand-alone, drive-through office. This branch, known as our Uptown Express office, was opened in the summer of 2004 and offers five lanes with an ATM. Establishing Uptown Express allowed us to close two offices while merging another; we also remodeled our Talbert office, which will allow us to better serve those customers. The result has been greater efficiency, as we have: 1) shifted transaction volume to a "high-throughput" branch; 2) reduced overall headcount; and 3) better addressed the changing needs of our customers.

### **Strengthened Our Credit Discipline**

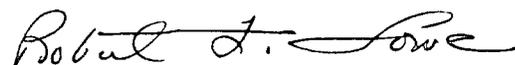
The economic environment has been extremely challenging over the past few years, contributing to increases in delinquencies at many community banks; we have not been immune to those pressures. As we reviewed our credit discipline, we strengthened our underwriting and collection process by reorganizing loan administration. Specifically, we divided credit administration into two groups: 1) Risk Management and 2) Commercial/Consumer Banking Services. Risk Management is principally focused on credit review and managing special assets, and should improve our loan pricing strategies, bank credit policies and problem loan resolution. The Commercial/Consumer Banking Services area primarily focuses on credit administration and loan operations, and will continue to develop ways to streamline the loan approval process and seek ways to enhance loan officer productivity.

### **Building Shareholder Value**

Ultimately, our efforts revolve around building shareholder value, which means prudently growing that value over time while maintaining the standards of good corporate governance and being a good corporate citizen. While much has been written about the issue of corporate governance and best practices of public companies, at LSB we will continue to do what we have always done which to us means doing the right thing. We also will continue to take a proactive approach to building shareholder value, on a long-term basis, by prudently growing earnings and, on a shorter-term basis, through opportune stock buybacks and our cash dividend program.

### **Long-Term Outlook Remains Positive**

Having managed through a very difficult period that included significant job losses and soft economic activity, we are very encouraged that the Piedmont Triad's economic outlook has improved, as well as our expanded markets, relative to the past several years. The entire Piedmont Triad Region should benefit from new businesses that have announced plans to locate major facilities here, such as Federal Express and Dell Computer, as well as the multiplier effect as suppliers and other businesses benefit from increased economic activity. We welcome the opportunities presented by an expanding and improving economic base and continue to build on the strategic initiatives that we believe will positively impact your company in the coming year and beyond. Thank you for your continued confidence and support and for the opportunity of serving your financial needs.



Chairman, President and Chief Executive Officer

# Board of Directors



**Michael S. Albert**  
*President, CEO and Director, Billings Transportation Group, Inc.; Treasurer, Cargo Carriers, Inc.; Vice President, Metro Motor Express, Inc., President, CEO and Director, Billings Express, Inc.*



**Leonard H. Beck**  
*Retired former President, Green Printing Company*



**Marvin D. Gentry**  
*Retired former President and CEO, The New Fortis Corporation, a wholly-owned subsidiary of K. Hovnanian Enterprises*



**Samuel R. Harris, M.D.**  
*Physician, The Women's Center of Lexington*



**Walter A. Hill, Sr.**  
*President, Hill Oil Company, Inc.; Vice President and Secretary, NorthCo, Inc. (construction development)*



**Sue H. Hunter**  
*President and Co-owner, Thomasville Emporium, Inc.; Vice President, Side Street Café; Co-owner, 2 Couples, LLC (banquet facility)*



**Robert F. Lowe**  
*Chairman, President and CEO, LSB Bancshares, Inc.; Chairman and CEO, Lexington State Bank; Chairman, President and CEO, Peoples Finance Company of Lexington, Inc., a subsidiary of the Bank; President and Director, LSB Investment Services, Inc., a subsidiary of the Bank*



**David A. Smith**  
*Owner and Manager, Red Acres Dairy Farm*



**Robert B. Smith, Jr.**  
*Attorney, Smith and Gamblin PLLC*



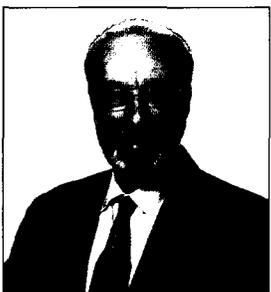
**Burr W. Sullivan**  
*President and Owner, Dorsett Printing and Lithograph Corporation*



**John W. Thomas III**  
*President, Riverwood Casual, Inc. (specialty furniture manufacturer) since January 2004; former President and CEO, Thomas Built Buses, Inc.*



**Roberts E. Timberlake**  
*Artist/Designer; Chairman, President and CEO, Bob Timberlake, Inc.*



**Lloyd G. Walter, Jr.**  
*Architect; sole proprietor d/b/a LGW Consulting; former CEO and Principal, Walter, Robbs, Callahan & Pierce Architects, P.A.*



**Julius S. Young, Jr.**  
*President, Jay Young Management, Inc., (asset management)*

## Directors Emeriti

- Peggy B. Barnhardt
- Margaret Lee W. Crowell
- A. Lonnie Davis
- Russell J. Gabrielson
- L. Ardell Lanier
- Dothan D. Reece
- Archie M. Sink

# Summary of Selected Financial Data

	Years Ended December 31				
<i>(In thousands, except per share data and ratios)</i>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>SUMMARY OF OPERATIONS</b>					
Interest income .....	\$ 49,319	\$ 50,790	\$ 52,932	\$ 58,607	\$ 60,943
Interest expense .....	<u>10,367</u>	<u>11,177</u>	<u>15,185</u>	<u>25,619</u>	<u>29,202</u>
Net interest income .....	<b>38,952</b>	<b>39,613</b>	<b>37,747</b>	<b>32,988</b>	<b>31,741</b>
Provision for loan losses .....	<u>3,017</u>	<u>5,215</u>	<u>2,480</u>	<u>1,862</u>	<u>2,550</u>
Net interest income after provision for loan losses.....	<b>35,935</b>	<b>34,398</b>	<b>35,267</b>	<b>31,126</b>	<b>29,191</b>
Noninterest income .....	<b>14,063</b>	<b>14,517</b>	<b>12,000</b>	<b>9,758</b>	<b>8,063</b>
Noninterest expense .....	<u>37,687</u>	<u>36,434</u>	<u>32,040</u>	<u>27,311</u>	<u>24,540</u>
Income before income taxes .....	<b>12,311</b>	<b>12,481</b>	<b>15,227</b>	<b>13,573</b>	<b>12,714</b>
Income taxes.....	<u>3,931</u>	<u>3,903</u>	<u>5,013</u>	<u>4,421</u>	<u>3,919</u>
Net income.....	<b>\$ 8,380</b>	<b>\$ 8,578</b>	<b>\$ 10,214</b>	<b>\$ 9,152</b>	<b>\$ 8,795</b>
Cash dividends declared .....	<b>\$ 5,490</b>	<b>\$ 5,454</b>	<b>\$ 5,080</b>	<b>\$ 4,727</b>	<b>\$ 4,729</b>
<b>SELECTED YEAR-END ASSETS AND LIABILITIES</b>					
Investment securities.....	\$ 129,194	\$ 121,091	\$ 128,402	\$ 155,337	\$ 125,332
Loans, net of unearned income.....	<b>712,185</b>	<b>663,446</b>	<b>645,548</b>	<b>588,364</b>	<b>549,065</b>
Assets .....	<b>914,988</b>	<b>867,906</b>	<b>851,793</b>	<b>833,327</b>	<b>795,570</b>
Deposits.....	<b>722,275</b>	<b>702,502</b>	<b>696,481</b>	<b>682,164</b>	<b>671,976</b>
Shareholders' equity .....	<b>90,742</b>	<b>88,560</b>	<b>85,507</b>	<b>79,343</b>	<b>74,243</b>
<b>RATIOS (AVERAGES)</b>					
Net income to total assets .....	<b>0.94%</b>	<b>0.98%</b>	<b>1.21%</b>	<b>1.13%</b>	<b>1.13%</b>
Net income to shareholders' equity .....	<b>9.26</b>	<b>9.66</b>	<b>12.28</b>	<b>11.84</b>	<b>12.04</b>
Dividend payout.....	<b>65.51</b>	<b>63.58</b>	<b>49.74</b>	<b>51.65</b>	<b>53.78</b>
Shareholders' equity to total assets .....	<b>10.15</b>	<b>10.11</b>	<b>9.87</b>	<b>9.56</b>	<b>9.41</b>
<b>PER SHARE DATA</b>					
Earnings per share:					
Basic .....	\$ 0.98	\$ 1.01	\$ 1.21	\$ 1.08	\$ 1.04
Diluted .....	<b>0.97</b>	<b>1.00</b>	<b>1.20</b>	<b>1.08</b>	<b>1.03</b>
Cash dividends declared .....	<b>0.64</b>	<b>0.64</b>	<b>0.60</b>	<b>0.56</b>	<b>0.56</b>
Book value at end of year .....	<b>10.57</b>	<b>10.36</b>	<b>10.09</b>	<b>9.40</b>	<b>8.80</b>

# Consolidated Balance Sheets

December 31

(In thousands, except for shares)

2004

2003

## ASSETS

Cash and Due from Banks .....	\$ 35,407	\$ 36,418
Interest-Bearing Bank Balances .....	2,115	2,267
Federal Funds Sold .....	14,246	25,886
Investment Securities:		
Held to Maturity, Market Value \$29,642 and \$30,711 .....	28,539	29,078
Available for Sale .....	100,655	92,013
Loans .....	712,185	663,446
Less, Allowance for Loan Losses.....	(7,962)	(7,846)
Net Loans .....	704,223	655,600
Premises and Equipment.....	17,390	14,951
Other Assets .....	12,413	11,693
Total Assets .....	<u>\$914,988</u>	<u>\$867,906</u>

## LIABILITIES

Deposits:		
Demand .....	\$ 88,805	\$ 82,588
Savings, N.O.W. and Money Market Accounts .....	417,584	411,322
Certificates of Deposit of less than \$100,000 .....	118,569	126,343
Certificates of Deposit of \$100,000 or more.....	97,317	82,249
Total Deposits .....	<u>722,275</u>	<u>702,502</u>
Securities Sold Under Agreements to Repurchase .....	1,536	2,032
Borrowings from the Federal Home Loan Bank.....	95,000	70,000
Other Liabilities.....	5,435	4,812
Total Liabilities .....	<u>824,246</u>	<u>779,346</u>

## SHAREHOLDERS' EQUITY

Preferred Stock, Par Value \$.01 Per Share:		
Authorized 10,000,000 shares; none issued .....	0	0
Common Stock, Par Value \$5 Per Share:		
Authorized 50,000,000 shares; Issued 8,590,184		
shares in 2004 and 8,548,942 shares in 2003.....	42,951	42,745
Paid-In Capital .....	10,482	10,205
Directors' Deferred Plan .....	(1,197)	(1,101)
Retained Earnings .....	38,592	35,702
Accumulated Other Comprehensive Income .....	(86)	1,009
Total Shareholders' Equity.....	<u>90,742</u>	<u>88,560</u>
Total Liabilities and Shareholders' Equity.....	<u>\$914,988</u>	<u>\$867,906</u>

# Consolidated Statements of Income

<i>(In thousands, except for shares and per share amounts)</i>	Years Ended December 31		
	2004	2003	2002
<b>INTEREST INCOME</b>			
Interest and Fees on Loans .....	\$ 44,137	\$ 44,837	\$ 45,137
Interest on Investment Securities:			
Taxable .....	3,285	3,960	5,385
Tax Exempt .....	1,480	1,581	1,652
Interest-Bearing Bank Balances .....	176	159	258
Federal Funds Sold .....	241	253	500
Total Interest Income .....	<u>49,319</u>	<u>50,790</u>	<u>52,932</u>
<b>INTEREST EXPENSE</b>			
Deposits .....	7,022	8,048	11,973
Securities Sold Under Agreements to Repurchase .....	10	13	42
Borrowings from the Federal Home Loan Bank .....	3,335	3,116	3,170
Total Interest Expense .....	<u>10,367</u>	<u>11,177</u>	<u>15,185</u>
Net Interest Income .....	38,952	39,613	37,747
Provision for Loan Losses .....	3,017	5,215	2,480
Net Interest Income after Provision for Loan Losses .....	<u>35,935</u>	<u>34,398</u>	<u>35,267</u>
<b>NONINTEREST INCOME</b>			
Service Charges on Deposit Accounts .....	6,925	6,981	6,525
Gains on Sales of Mortgages .....	530	1,346	737
Other Operating Income .....	6,608	6,190	4,738
Total Noninterest Income .....	<u>14,063</u>	<u>14,517</u>	<u>12,000</u>
<b>NONINTEREST EXPENSE</b>			
Personnel Expense .....	20,254	20,643	17,903
Occupancy Expense .....	1,779	1,654	1,480
Equipment Depreciation and Maintenance .....	2,296	2,069	1,797
Other Operating Expense .....	13,358	12,068	10,860
Total Noninterest Expense .....	<u>37,687</u>	<u>36,434</u>	<u>32,040</u>
Income Before Income Taxes .....	12,311	12,481	15,227
Income Taxes .....	3,931	3,903	5,013
Net Income .....	<u>\$ 8,380</u>	<u>\$ 8,578</u>	<u>\$ 10,214</u>
<b>Earnings Per Share:</b>			
Basic .....	\$ 0.98	\$ 1.01	\$ 1.21
Diluted .....	0.97	1.00	1.20
<b>Weighted Average Shares Outstanding:</b>			
Basic .....	8,576,109	8,515,711	8,461,818
Diluted .....	8,620,713	8,587,787	8,543,319

# LSB Business Development Boards

## CLEMMONS

C. Franklin Gamble, Chairman  
Ollie H. Cherry  
Jack H. Higgins  
George E. Wilson

## FORSYTH COUNTY

J. David Branch, M.D.  
Henry A. Brown III  
Robert C. Clark  
Nicholas A. Daves  
Eunice M. Dudley  
Glenn D. Hart  
Lewis E. Hubbard, Sr.  
Sandra K. Mitchell  
Dale R. Pinilis  
Steven L. Sexton  
B.H. Williams

## TYRO

Ronnie D. Griggs  
Larry W. Potts  
Danny L. Sink  
Clyde R. Snider, Jr.

## HIGH POINT

James C. Anderson IV, M.D.  
Robert A. Brinson  
H. Barrett Cheek, M.D.  
Ralph H. Duckett, M.D.  
H. Windley Dunbar  
Allison A. Forrester  
Robert E. Lineback, Jr.  
Richard L. Orr, Jr., M.D.  
William E. Price, Jr.  
William G. Ragsdale III  
Donald A. Scarborough, Ed.D.  
G. Alfred Webster

## NORTH DAVIDSON

Judy Z. Butler  
Thomas E. Hedrick, Jr.  
Thom C. Hege  
Barbara B. Leonard, Ed.D.  
David A. Marley  
Herbert A. Snyder

## STOKES COUNTY

W. Frank Fowler, Chairman  
J. Tyrone Browder  
James R. Burrow  
Lewis N. Carroll  
Timothy L. Hall  
Eugene A. Lyons  
Patsy R. Mabe  
Herschel A. Redding  
Richard E. Stover  
John F. Watts  
John H. Watts

## THOMASVILLE

Hubert M. Leonard, Chairman  
Rick T. Batten  
Hollis S. Blair  
Joseph R. Hedgpeth, M.D.  
Tamara L. Joyce  
Michael M. Lanning  
Robert C. Leonard  
Paul R. Mitchell  
Patricia S. Patterson  
Gregory S. Theiler  
Kevin C. Yates

# Senior Officers of Lexington State Bank

Robert F. Lowe  
*Chairman & Chief Executive Officer*

H. Franklin Sherron, Jr.  
*President & Chief Operating Officer*

Monty J. Oliver  
*Executive Vice President,  
Chief Financial Officer & Cashier*

David P. Barksdale  
*Senior Vice President & Area Executive*

Coretta J. Bigelow  
*Senior Vice President,  
Credit Administration*

Suzanne J. Bullotta  
*Senior Vice President, Commercial Loans*

Craig L. Call  
*Senior Vice President,  
Corporate Accounting*

Ronald E. Coleman  
*Senior Vice President,  
Credit Administration*

Nicholas A. Daves  
*Senior Vice President,  
Commercial Loans*

R. Clark Dillon  
*Senior Vice President & Trust Officer*

Philip G. Gibson  
*Senior Vice President, Mortgage Loans*

Donna G. Hench  
*Senior Vice President & Auditor*

Brenda M. Houser  
*Senior Vice President & Trust Officer*

Robin A. Huneycutt  
*Senior Vice President & Secretary*

P. Wayne Kimbrell, Jr.  
*Senior Vice President,  
Revolving & Consumer Credit*

Robert E. Lineback, Jr.  
*Senior Vice President & Area Executive*

E. Warren MacKinstry  
*Senior Vice President, Commercial Loans*

Andrew G. McDowell  
*Senior Vice President, Commercial Loans*

W. Steven Owen  
*Senior Vice President, Commercial Loans*

Charles N. Reynolds  
*Senior Vice President,  
Credit Administration*

Kathy V. Richardson  
*Senior Vice President, Banking Support*

D. Gerald Sink  
*Senior Vice President, Operations*

Ronald W. Sink  
*Senior Vice President, Human Resources*

M. Jack Smith  
*Senior Vice President, Commercial Loans*

Edward C. Sopp  
*Senior Vice President,  
Credit Administration*

Pamela J. Varela  
*Senior Vice President, Marketing*

Joseph T. Wallace  
*Senior Vice President, Security,  
Compliance & CRA Officer*

## About the Corporation

LSB Bancshares, Inc. ("Bancshares") is a bank holding company headquartered in Lexington, North Carolina, and is ranked by assets as the 9th largest state chartered bank in North Carolina.

LSB offers a complete array of retail and commercial banking services to individuals and businesses including deposit and loan services, corporate cash management, mortgages and trust services. LSB operates through twenty-five offices in Davidson, Forsyth, Stokes, Guilford and Randolph Counties in North Carolina and a mortgage origination office in Wake County, North Carolina.

LSB has two wholly-owned non-bank subsidiaries: Peoples Finance Company of Lexington, Inc. and LSB Investment Services, Inc. Peoples Finance is a finance company which offers secured and unsecured loans to individuals as well as dealer originated loans. LSB Investment Services offers a full range of uninsured non-deposit investment products through Uvest Investment Services.

## Dividend Reinvestment

Registered holders of LSB Bancshares, Inc. common stock are eligible to participate in the Corporation's Dividend Reinvestment and Stock Purchase Plan, a convenient and economical way to acquire additional shares of Bancshares common stock by reinvesting dividends without the payment of service charges or brokerage fees. For further information, contact Bancshares' Corporate Office.

## Investor Inquiries

Analysts and investors seeking financial information about LSB Bancshares, Inc. should contact Monty J. Oliver, Executive Vice President & Chief Financial Officer, at the address or telephone number listed on the back cover.

Additional copies of this report, the Form 10-K, the Proxy Statement, quarterly reports, Form 10-Q's and other filings with the Securities and Exchange Commission can be found on the Investor Relations page on LSB's website at [www.lsbnc.com](http://www.lsbnc.com).

Shareholders needing information concerning transfer requirements, lost certificates and changes of address should contact Bancshares' transfer agent, EquiServe Trust Company, N.A., P.O. Box 43012, Providence, Rhode Island, 02940-3010, 800-633-4236, [www.equiserve.com](http://www.equiserve.com), or Bancshares' Corporate Office.

## Equal Opportunity Employer

LSB Bancshares, Inc. is an equal opportunity employer. All matters regarding recruiting, hiring, training, compensation, benefits, promotions, transfers and all other personnel policies will remain free from discriminatory practices.

## Stock and Dividend Information

LSB Bancshares, Inc.'s common stock is traded on the NASDAQ National Market® under the symbol LXBK. The following table shows the high, low and closing sales prices reported on the NASDAQ National Market® and cash dividends declared per share for the indicated periods.

	Prices			Cash
	High	Low	Close	Dividends Declared
<b>2004</b>				
FOURTH QUARTER .....	\$17.60	\$15.95	\$16.89	.16
THIRD QUARTER .....	16.96	15.97	16.56	.16
SECOND QUARTER .....	18.46	14.70	16.15	.16
FIRST QUARTER .....	20.00	15.43	17.29	.16

	Prices			Cash
	High	Low	Close	Dividends Declared
<b>2003</b>				
FOURTH QUARTER .....	\$20.00	\$17.27	\$17.38	.16
THIRD QUARTER .....	19.79	16.57	18.40	.16
SECOND QUARTER .....	18.00	14.90	17.31	.16
FIRST QUARTER .....	18.20	14.77	15.60	.16

## Annual Disclosure Statement

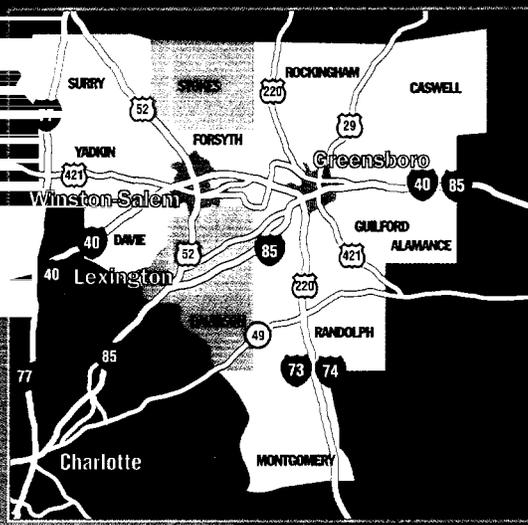
This statement has not been reviewed for accuracy or relevance by the Federal Deposit Insurance Corporation.

## Forward-Looking Statement

Information in this report contains forward-looking statements. These statements are identified by words such as "expects," "anticipates," "should," or other similar statements about future events. These forward-looking statements involve estimates, assumptions by management, risks, and uncertainties that could cause actual results to differ materially from current projections, including without limitations, the effects of future economic conditions, legislative and regulatory changes, and the effects of competition. Additional factors that could cause actual results to differ materially from those anticipated by forward-looking statements are discussed in LSB's filings with the Securities and Exchange Commission, including without limitation, its annual report on Form 10-K, its Quarterly Reports on Form 10-Q and its Current Reports on Form 8-K. LSB undertakes no obligation to revise these statements following the release of this annual report.

**LSB BANCSHARES, INC.  
& LSB CORPORATE OFFICE:**

One LSB Plaza  
 P.O. Box 867  
 Winston-Salem, NC 27293-0867  
 Phone: 778-6590  
 www.lsb.com  
 Fax: 778-6590



Member FDIC



**LSB OFFICES  
& SUBSIDIARIES:**

**DAVIDSON COUNTY**

**ARCADIA\***  
 550 Old Salisbury Road

**MIDWAY\***  
 1122 Old U.S. Highway 52

**NATIONAL HIGHWAY\***  
 12 National Highway, Thomasville

**PIDMONT RETIREMENT CENTER**  
 1177 Broad Drive, Thomasville

**RANDOLPH STREET\***  
 25 Randolph Street, Thomasville

**SOUTH LEXINGTON\***  
 226 Cotton Grove Road

**WILBER BOULEVARD\***  
 133 Wilber Boulevard

**WYOMING\***  
 104 Highway 150 South

**WYOMING EXPRESS DRIVE-THRU\***  
 506 South Main Street

**WALLBURG\***  
 1133 North N.C. Highway 109

**WELCOME\***  
 223 Old U.S. Highway 52

**WEST SIDE\***  
 222 New U.S. Highway 64 West

**FORSYTH COUNTY**

**CLEMMONS\***  
 1386 Lewisville-Clemmons Road

**KERNERSVILLE\***  
 131 East Mountain Street

**RAYNOLDA\***  
 2804 Fairlawn Drive  
 Winston-Salem

**RURAL HALL\***  
 8055 Broad Street

**SHERWOOD PLAZA\***  
 2284 Robinhood Road  
 Winston-Salem

**STRATFORD ROAD\***  
 161 South Stratford Road  
 Winston-Salem

**WALKERTOWN\***  
 3000 Old Hollow Road

**GUILFORD COUNTY**

**HIGH POINT\***  
 200 Westchester Drive

**JAMESTOWN**  
 120 East Main Street

**RANDOLPH COUNTY**

**ARCHDALE\***  
 11651-D North Main Street

**STOKES COUNTY**

**DANBURY\***  
 Highway 8 & 89  
 Walnut Cove Road

**KING\***  
 27 South Main Street

\* ATM available at this location

**WAKE COUNTY**

**RALEIGH**  
 LSB The Bank Mortgage,  
 805 Spring Forest Road, Suite 800

**LSB INVESTMENT  
SERVICES, INC.**

**DAVIDSON COUNTY**

**LEXINGTON**  
 29 West Center Street

**WALLBURG**  
 10335 North N.C. Highway 109

**WELCOME**  
 6123 Old U.S. Highway 52

**FORSYTH COUNTY**

**WINSTON SALEM**  
 161 South Stratford Road

**STOKES COUNTY**

**KING**  
 647 South Main Street

**PEOPLES FINANCE  
COMPANY OF  
LEXINGTON, INC.**

**ARCHDALE**  
 11246 North Main Street, Suite 306

**KING**  
 27 South Main Street

**LEXINGTON**  
 203 East Center Street