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Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Thomas W. Wayne
Name of the Holding Company Director and Official

Chief Executive Officer and Chief Financial Officer
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Thomas W. Wayne
Signature of Holding Company Director and Official

3/29/2019
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID 3587427
C.I.

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2018
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Oak Ridge Financial Services, Inc.
Legal Title of Holding Company

PO Box 2
(Mailing Address of the Holding Company) Street / P.O. Box

Oak Ridge	NC	27310
City	State	Zip Code

8050 Fogleman Road, Oak Ridge, NC 27310
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Thomas W. Wayne	CEO and CFO
Name	Title

336-662-4815
Area Code / Phone Number / Extension

336-644-6644
Area Code / FAX Number

twayne@bankofoakridge.com
E-mail Address

www.bankofoakridge.com
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes **0**

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... [ ]
2. a letter justifying this request has been provided separately ... [ ]

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

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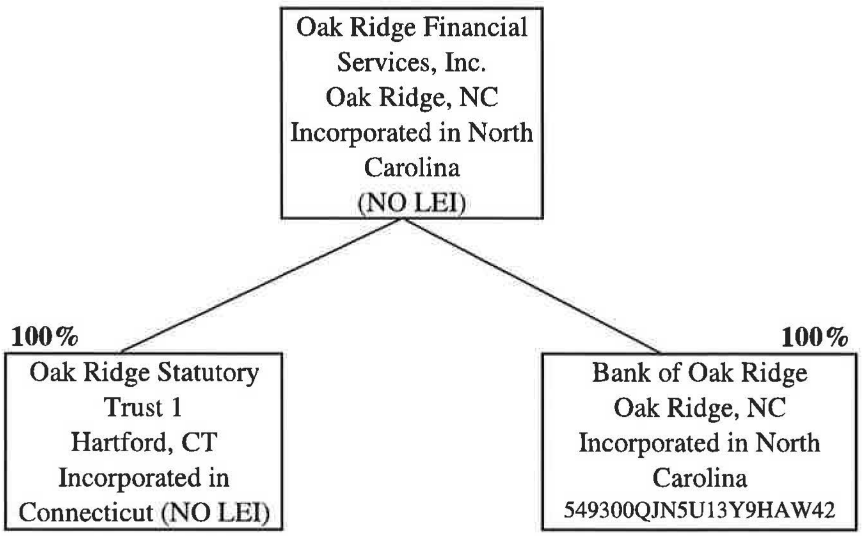
Physical Location (if different from mailing address)

Form FR Y-6
Oak Ridge Financial Services, Inc.
Oak Ridge, North Carolina
Fiscal Year Ending December 31, 2018

Report Item 1
The bank holding company deregistered from the SEC on November 8, 2013 and no longer prepares a full 10-K. The annual report sent to shareholders now consists of audited financial statements. Two copies of the audited financial statements as of December 31, 2018 and 2017 and the Years then ended are attached as Exhibit A.

Form FR Y-6
Oak Ridge Financial Services, Inc.
Oak Ridge, North Carolina
Fiscal Year Ending December 31, 2018

Report Item 2a
2: Organizational Chart



Results: A list of branches for your holding company: OAK RIDGE FINANCIAL SERVICES, INC. (3587427) of OAK RIDGE, NC.
The data are as of 12/31/2018. Data reflects information that was received and processed through 01/06/2019.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	2903123	BANK OF OAK RIDGE	2211 OAK RIDGE ROAD	OAK RIDGE	NC	27310	GUILFORD	UNITED STATES	Not Required	Not Required	BANK OF OAK RIDGE	2903123	
OK		Full Service	3924965	LAKE JEANETTE BRANCH	400 PISGAH CHURCH ROAD	GREENSBORO	NC	27455	GUILFORD	UNITED STATES	Not Required	Not Required	BANK OF OAK RIDGE	2903123	
OK		Full Service	3382882	NEW GARDEN CROSSING SHOPPING CENTER BRANCH	1597 NEW GARDEN ROAD	GREENSBORO	NC	27410	GUILFORD	UNITED STATES	Not Required	Not Required	BANK OF OAK RIDGE	2903123	
OK		Full Service	3304679	SUMMERFIELD BRANCH	4431 HIGHWAY 220 NORTH	SUMMERFIELD	NC	27358	GUILFORD	UNITED STATES	Not Required	Not Required	BANK OF OAK RIDGE	2903123	

Form FR Y-6
Oak Ridge Financial Services, Inc.
Oak Ridge, North Carolina
Fiscal Year Ending December 31, 2018

Report Item 3: Securities holders

(1)(a)(b)(c) and (2)(a)(b)(c)

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2018			Shareholders not listed in 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2018		
(1)(a) Name & Address (City, State, Country)	**(1)(b) Country of Citizenship or Incorporation**	**(1)(c) Number and Percentage of Each Class of Voting Securities**	**(2)(a) Name & Address (City, State, Country)**	**(2)(b) Country of Citizenship or Incorporation**	**(2)(c) Number and Percentage of Each Class of Voting Securities**
Banc Fund IX L.P. 20 North Wacker Drive, Suite 3300, Chicago, IL 60606, USA	USA	221,311/8.4% of common			
Bank of Oak Ridge Employee Stock Ownership Plan & Trust 8050 Fogleman Road, Oak Ridge, NC 27310, USA	USA	178,940/6.8% of common			
Since Oak Ridge Financial Services, Inc. deregistered from the SEC on November 8, 2013, it no longer has the ability to know shareholders in street name with holdings of 5% or more with power to vote as of 12-31-2017, except for those that voluntarily file a SC 13G/A with the Securities and Exchange Commission.			N/A - no insiders have 5% or more power to vote. Since Oak Ridge Financial Services, Inc. deregistered from the SEC on November 8, 2013, it no longer has the ability to know shareholders in street name with holdings of 5% or more with power to vote as of 12-31-2017.		

Form FR Y-6
Oak Ridge Financial Services, Inc.
Oak Ridge, North Carolina
Fiscal Year Ending December 31, 2018

Report Item 4
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of securities are held (List names of companies and percentage of voting securities held)
Douglas G. Boike, Oak Ridge, NC, USA		Director & Chairman	Director & Chairman (Bank of Oak Ridge)	President (Triad Consulting, Inc.)	3.48%	None	Triad Consulting, Inc. (100%)
L. William Vasaly, III, Clemmons, NC, USA	N/A	Chief Credit Officer	Chief Credit Officer (Bank of Oak Ridge)	N/A	3.01%	None	N/A
Thomas W. Wayne, Greensboro, NC, USA	N/A	Director, President & Chief Financial Officer	Director, President & Chief Financial Officer (Bank of Oak Ridge)	N/A	4.24%	None	N/A
Lynda J. Anderson, Oak Ridge, NC, USA	N/A	Director	Director	Realtor (Triad Real Estate Today)	1.38%	None	N/A
James W. Hall, Summerfield, NC, USA	N/A	Director	Director	President (Streetcars Carwash)	1.16%	None	Streetcars Carwash (100%)
Stephen S. Neal, Summerfield, NC, USA	N/A	Director	Director	President, Summerfield Feed and Seed	1.64%	None	Summerfield Feed and Seed (100%)
Stanley N.Tennant, Greensboro, NC, USA	N/A	Director	Director	Retired	2.54%	None	N/A
John S. Olmsted, Summerfield, NC, USA	N/A	Director	Director	Retired	3.04%	None	N/A

OAK RIDGE
FINANCIAL SERVICES

Audited Financial Statements

December 31, 2018 and 2017 and the Years Then Ended

(Together with Independent Auditor's Report)

CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

elliott davis

INDEPENDENT AUDITOR'S REPORT

To the Audit Committee
Oak Ridge Financial Services, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Oak Ridge Financial Services, Inc. and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oak Ridge Financial Services, Inc. and its subsidiary as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, PLLC

Charlotte, North Carolina
March 29, 2019

Oak Ridge Financial Services, Inc.
Consolidated Balance Sheets
December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
Assets		
Cash and due from banks	$ 7,167	$ 8,673
Interest-bearing deposits with banks	11,293	18,497
Federal Funds sold	791	2,298
Total cash and cash equivalents	19,251	29,468
Securities available-for-sale	41,443	43,375
Securities held-to-maturity (fair values of $1,030 in 2018 and $1,257 in 2017)	892	1,108
Federal Home Loan Bank Stock, at cost	1,023	1,133
Loans, net of allowance for loan losses of $3,347 in 2018 and $3,538 in 2017	368,562	337,105
Property and equipment, net	9,886	8,631
Foreclosed assets	-	4
Accrued interest receivable	1,555	1,388
Bank owned life insurance	5,739	5,635
Other assets	4,990	2,865
Total assets	$ 453,341	$ 430,712
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 58,672	$ 52,361
Interest-bearing	323,646	309,360
Total deposits	382,318	361,721
Short-term borrowings	15,000	18,500
Long-term borrowings	1,304	1,000
Junior subordinated notes related to trust preferred securities	8,248	8,248
Subordinated debentures	5,581	5,553
Accrued interest payable	263	145
Other liabilities	6,298	4,460
Total liabilities	419,012	399,627
Commitments and contingencies (Note 12)		
Stockholders' equity		
Common stock, no par value; 50,000,000 shares authorized; 2,592,434 and 2,596,296 issued and outstanding in 2018 and 2017, respectively	24,353	20,413
Retained earnings	9,422	9,330
Accumulated other comprehensive income	554	1,342
Total stockholders' equity	34,329	31,085
Total liabilities and stockholders' equity	$ 453,341	$ 430,712

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.
Consolidated Statements of Income
Years ended December 31, 2018 and 2017
(Dollars in thousands except per share data)

	2018	2017
Interest and dividend income		
Loans and fees on loans	$ 18,007	$ 15,787
Interest on deposits in banks	258	150
Federal Home Loan Bank stock dividends	58	51
Taxable investment securities	1,464	1,355
Total interest and dividend income	19,787	17,343
Interest expense		
Deposits	3,049	1,911
Short-term and long-term debt	1,061	898
Total interest expense	4,110	2,809
Net interest income	15,677	14,534
Provision for (recovery of) loan losses	(96)	(60)
Net interest income after provision for loan losses	15,773	14,594
Noninterest income		
Service charges on deposit accounts	664	640
Gain on sale of securities	10	39
Gain on sale of mortgage loans	-	14
Brokerage commissions on mortgage loans	198	147
Investment commissions	21	34
Insurance commissions	307	294
Gain on sale of SBA loans	345	194
Fee income from accounts receivable financing	199	195
Debit card interchange income	955	893
Income earned on bank owned life insurance	104	99
Other service charges and fees	263	280
Total noninterest income	3,066	2,829
Noninterest expense		
Salaries	6,805	6,347
Employee benefits	1,169	796
Occupancy	856	794
Equipment	709	623
Loss (gain) on sale of property and equipment	-	(5)
Data and item processing	1,654	1,721
Professional and advertising	667	926
Stationary and supplies	236	231
Net cost of foreclosed assets	2	6
Impairment loss on securities	28	22
Telecommunications	451	427
FDIC assessment	219	231
Accounts receivable financing	63	62
Other expense	1,104	934
Total noninterest expense	13,963	13,115
Income before income taxes	4,876	4,308
Income tax expense	896	1,415
Net income and income available to common stockholders	$ 3,980	$ 2,893
Basic income per common share	$ 1.52	$ 1.11
Diluted income per common share	$ 1.52	$ 1.11
Basic weighted average shares outstanding	2,614,414	2,603,780
Diluted weighted average shares outstanding	2,623,189	2,615,382

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
Net income	$ 3,980	$ 2,893
Other comprehensive income:		
Unrealized holding (losses) gains on securities available-for-sale	(1,027)	1,144
Tax effect	247	(412)
Unrealized holding gains (losses) on securities available-for-sale, net of tax amount	(780)	732
Reclassification adjustment for realized gains	(10)	(39)
Tax effect	2	14
Reclassification adjustment for realized gains, net of tax	(8)	(25)
Other comprehensive income (loss), net of tax	(788)	707
Comprehensive income	$ 3,192	$ 3,600

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.
Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2018 and 2017
(In thousands except shares of common stock)

	Common Stock			Accumulated other	
	Number	Amount	Retained earnings	comprehensive income	Total
Balance December 31, 2016	2,386,514	$ 20,064	$ 6,664	$ 408	$ 27,136
Net income	-	-	2,893	-	2,893
Other comprehensive income	-	-	-	707	707
AOCI reclass due to tax rate change	-	-	(227)	227	-
Common stock repurchases	(23,000)	(296)	-	-	(296)
Restricted stock forfeitures	(7,834)	(82)	-	-	(82)
Common stock issued pursuant to stock option exercises	5,000	24	-	-	24
Common stock issued pursuant to restricted stock awards	-	703	-	-	703
Balance December 31, 2017	2,360,680	$ 20,413	$ 9,330	$ 1,342	$ 31,085
Net income	-	-	3,980	-	3,980
Other comprehensive income	-	-	-	(788)	(788)
Common stock repurchases	(34,739)	(530)	-	-	(530)
Restricted stock forfeitures	(7,623)	-	-	-	-
Common stock issued pursuant to stock option exercises	4,500	22	-	-	22
Common stock issued pursuant to restricted stock awards	34,000	560	-	-	560
10% stock dividend	235,616	3,888	(3,888)	-	-
Balance December 31, 2018	2,592,434	$ 24,353	$ 9,422	$ 554	$ 34,329

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.
Consolidated Statements of Cash Flows
Years ended December 31, 2018 and 2017
(In thousands)

	2018	2017
Cash flows from operating activities		
Net income	$ 3,980	$ 2,893
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	647	627
Provision for (recovery of) loan losses	(96)	(60)
Impairment loss on securities	28	22
Gain on sale of securities	(10)	(39)
Gain on sale of mortgage loans held for sale	-	(14)
Gain on sale of SBA loans	(345)	
Gain on sale of property and equipment	-	(5)
Stock compensation expense	560	703
Income earned on bank owned life insurance	(104)	(99)
Deferred income tax benefit	102	177
Originations of mortgage loans held for sale	(4,933)	(1,295)
Proceeds from sale of mortgage loans held for sale	5,278	1,309
Net amortization of discounts and premiums on securities	68	217
Net amortization of discounts and premiums on subordinated debentures	28	27
Changes in assets and liabilities:		
Employee Stock Ownership Plan accrual	-	30
Income taxes payable	(124)	(325)
Accrued interest receivable	(167)	(116)
Other assets	(1,854)	(29)
Accrued interest payable	118	47
Other liabilities	1,838	203
Net cash provided by operating activities	5,014	4,273
Cash flows from investing activities		
Activity in available-for-sale securities:		
Purchases	(7,759)	(13,651)
Sales	6,970	12,297
Maturities and repayments	1,601	3,456
Activity in held-to-maturity securities:		
Maturities and repayments	213	280
Purchases of Federal Home Loan Bank stock	-	(322)
Redemptions of Federal Home Loan Bank stock	110	-
Net increase in loans	(31,361)	(34,247)
Purchases of property and equipment	(1,902)	(615)
Proceeds from sale of property and equipment	-	157
Proceeds from sale of foreclosed assets	4	-
Net cash used in investing activities	(32,124)	(32,645)
Cash flows from financing activities		
Net increase in deposits	20,597	32,147
Proceeds from borrowings	16,325	10,000
Repayment of borrowings	(19,521)	(3,500)
Repurchase of common stock	(530)	(296)
Restricted stock forfeitures	-	(82)
Proceeds from issuance of common stock	22	24
Net cash provided by financing activities	16,893	38,293
Net (decrease) increase in cash and cash equivalents	(10,217)	9,921
Cash and cash equivalents, beginning	29,468	19,547
Cash and cash equivalents, ending	$ 19,251	$ 29,468

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.
Consolidated Statements of Cash Flows, continued
Years ended December 31, 2018 and 2017
(In thousands)

	2018	2017
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	$ 3,992	$ 2,762
Income taxes	$ 342	$ 1,729
Non-cash investing and financing activities		
Change in unrealized (loss) gain in securities available-for-sale, net of tax	$ (788)	$ 707
Issuance of 10% Stock Dividend	$ 3,888	$ -

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Consolidation

The consolidated financial statements include the accounts of Oak Ridge Financial Services, Inc. ("Oak Ridge") and its wholly owned subsidiary, Bank of Oak Ridge (the "Bank") (collectively referred to hereafter as the "Company"). The Bank has one wholly-owned subsidiary, Oak Ridge Financial Corporation, which is currently inactive. All significant inter-company transactions and balances have been eliminated in consolidation.

(B) Basis of Financial Statement Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and the reported amounts of income and expenses for the periods presented. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and the valuation of the deferred tax asset.

Substantially all of Oak Ridge's loan portfolio consists of loans in its market area. Accordingly, the ultimate collectability of a substantial portion of the Company's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions. The regional economy is diverse and is influenced by the manufacturing and retail segment of the economy.

While management uses available information to recognize loan and foreclosed real estate losses, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as a part of their routine examination process, periodically review the Company's allowances for loan losses. Such agencies may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examinations. Because of these factors, it is reasonably possible that the allowances for loan losses may change materially in the near term.

Deferred income tax benefits and liabilities are valued using current federal and state income tax rates. Actual recognition of these deferred tax assets and liabilities will be affected by the actual future tax rates applicable to when the assets and liabilities become current tax items.

(C) Business

Oak Ridge is a bank holding company incorporated in North Carolina in April of 2007. The principal activity of Oak Ridge is ownership of the Bank. The Bank provides financial services through its branch network located in Guilford County, North Carolina. The Bank competes with other financial institutions and numerous other non-financial services commercial entities offering financial services products. The Bank is further subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. The Company has no foreign operations, and the Company's customers are principally located in Guilford County, North Carolina, and adjoining counties.

(D) Cash and Cash Equivalents

Cash and cash equivalents include demand and time deposits (with original maturities of 90 days or less) at other financial institutions and overnight investments. Overnight investments include federal funds sold which are generally outstanding for one day periods.

(E) Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated comprehensive income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(E) Securities, continued

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

(F) Loans

Loans are generally stated at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses and any deferred fees or costs. Loan origination fees net of certain direct loan origination costs are deferred and amortized as a yield adjustment over the contractual life of the related loans using the level-yield method.

Loans held-for-sale primarily consist of one-to-four family residential loans originated for sale in the secondary market and are carried at the lower of cost or market determined on an aggregate basis. Gains and losses on sales of loans held-for-sale are included in other non-interest income in the consolidated statements of income. Gains and losses on loan sales are determined by the difference between the selling price and the carrying value of the loans sold.

Impaired loans are defined as those which management believes it is probable the Bank will not collect all amounts due according to the contractual terms of the loan agreement, as well as those loans whose terms have been modified in a troubled debt restructuring.

Interest on loans is recorded based on the principal amount outstanding. The Company ceases accruing interest on loans (including impaired loans) when, in management's judgment, the collection of interest appears doubtful or the loan is past due 90 days or more. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Management may return a loan classified as nonaccrual to accrual status when the obligation has been brought current, has performed in accordance with its contractual terms over an extended period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

(G) Allowance for Loan Losses

The allowance for loan losses (AFLL) is established through provisions for losses charged against income. Loan amounts deemed to be uncollectible are charged against the AFLL, and subsequent recoveries, if any, are credited to the allowance. The AFLL represents management's estimate of the amount necessary to absorb estimated probable losses in the loan portfolio. Management's periodic evaluation of the adequacy of the allowance is based on individual loan reviews, past loan loss experience, economic conditions in the Company's market areas, the fair value and adequacy of underlying collateral, and the growth and loss attributes of the loan portfolio. This evaluation is inherently subjective as it requires material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Thus, future changes to the AFLL may be necessary based on the impact of changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's AFLL. Such agencies may require the Company to recognize adjustments to the AFLL based on their judgments about information available to them at the time of their examination.

The AFLL related to loans that are identified for evaluation and deemed impaired is based on discounted cash flows using the loan's initial effective interest rate, the loan's observable market price, or the fair value of the collateral for collateral dependent loans. Another component of the AFLL covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is also maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

(H) Foreclosed Assets

Real estate acquired in settlement of loans consists of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charged to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Costs related to the improvement of the property are capitalized, whereas those related to holding the property are expensed. Such properties are held for sale and, accordingly, no depreciation or amortization expense is recognized. Repossessions are recorded at the fair value less cost to sell.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(I) Membership/Investment in Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank of Atlanta ("FHLB"). Membership, along with a signed blanket collateral agreement, provided the Bank with the ability to draw up to $51.8 million and $36.1 million of advances from the FHLB at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the Bank had $15.0 million and $18.5 million in outstanding advances with the FHLB, respectively.

As a requirement for membership, the Bank invests in stock of the FHLB in the amount of 1% of its outstanding residential loans or 5% of its outstanding advances from the FHLB, whichever is greater. Such stock is pledged as collateral for any FHLB advances drawn by the Bank. At December 31, 2018 and 2017, the Bank owned 10,227 and 11,326 shares, respectively, of the FHLB's $100 par value capital stock. No ready market exists for such stock, which is carried at cost. Due to the redemption provisions of the FHLB, cost approximates market value.

(J) Property and Equipment

Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method and is charged to operations over the estimated useful lives of the assets which range from 25 to 50 years for bank premises and 3 to 10 years for furniture and equipment. Construction in progress includes buildings and equipment carried at cost and depreciated once placed into service.

Maintenance, repairs, renewals and minor improvements are charged to expense as incurred. Major improvements are capitalized and depreciated.

(K) Short-Term Debt

Short-term debt consists of securities sold under agreements to repurchase, overnight sweep accounts, federal funds purchased and short-term FHLB advances.

(L) Long-Term Debt and Junior Subordinated Notes Related to Trust Preferred Securities

Long-term debt consists of advances from FHLB and loans from other banks with maturities greater than one year. The Company formed Oak Ridge Statutory Trust I (the "Trust") during 2007 to facilitate the issuance of trust preferred securities. The Trust is a statutory business trust formed under the laws of the state of Connecticut, of which all common securities are owned by the Company. The Trust is not included in the Company's consolidated financial statements. The Company's equity interests for junior subordinated debentures issued by the Company to the Trust are included in other assets.

(M) Income Taxes

The Company uses the liability method in accounting for income taxes. Deferred taxes and liabilities are recognized for operating loss and tax credit carry-forwards and for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities on their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized. Current accounting standards prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return, as well as guidance on de-recognition, classification, interest and penalties, accounting in interim periods, and disclosures. The Company's policy is to classify any interest recognized as interest expense and to classify any penalties recognized as an expense other than income tax expense.

The Company has adopted Accounting Standards Update (ASU) 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income", which is considered a change in accounting principle. Because the required adjustment of deferred taxes is required to be included from continuing operations, the tax effects of items within accumulated other comprehensive income (commonly referred to as "stranded" or "dangling" tax effects) would not reflect the appropriate tax rate. Adoption of this ASU eliminates the "stranded" or "dangling" tax effects associated with the change in the federal corporate income tax rate in the Tax Cuts and Jobs Act of 2018. The Company has reclassified "stranded" or "dangling" tax effects totaling $226,504 from accumulated other comprehensive income to retained earnings and these reclassified amounts are reflected in the accompanying consolidated balance sheets, consolidated statements of comprehensive income, and consolidated statements of stockholders' equity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(N) Advertising Costs

Advertising costs are expensed as incurred and totaled $144 thousand and $207 thousand for the years end December 31, 2018 and 2017, respectively.

(O) Stock Option Plan

The Company recognizes compensation cost relating to share-based payment transactions in the financial statements in accordance with generally accepted accounting principles. The cost is measured based on the fair value of the equity or liability instruments issued. The expense measures the cost of employee services received in exchange for stock options based on the grant-date fair value of the award, and recognizes the cost over the period the employee is required to provide services for the award.

The Company has adopted the *Long-Term Incentive Plan*. Under this plan, up to 500,000 shares may be issued as either stock options, restricted stock, or performance units. The plan terminated on June 20, 2016, except with respect to awards then outstanding. The exercise price for awards under this plan shall be set by a committee of the Board of Directors at the date of grant, but shall not be less than 100 percent of fair market value at the date of the grant. Awards granted under this plan vest according to the terms of each particular grant. Restricted stock awards shall be in the form of restricted stock, subject to the terms and restrictions of the Long-Term Incentive Plan. The restricted stock awards are subject to forfeiture or cancellation under the plan and cannot be sold or transferred until the restrictions have lapsed.

The Company has adopted the *2017 Long-Term Incentive Plan*. Under this plan, up to 225,000 shares may be issued as either stock options, restricted stock, or performance units. The plan terminates on February 22, 2026, except with respect to awards then outstanding. The exercise price for awards under this plan shall be set by a committee of the Board of Directors at the date of grant, but shall not be less than 100 percent of fair market value at the date of the grant. Awards granted under this plan vest according to the terms of each particular grant. Restricted stock awards shall be in the form of restricted stock, subject to the terms and restrictions of the Long-Term Incentive Plan. The restricted stock awards are subject to forfeiture or cancellation under the plan and cannot be sold or transferred until the restrictions have lapsed.

(P) Net Income Per Share

The computation of diluted earnings per common share is similar to the computation of basic earnings per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. The numerator is adjusted for any changes in income or loss that would result from the assumed conversion of those potential common shares.

In computing diluted net income per common share, it is assumed that all dilutive stock options are exercised during the reporting period at their respective exercise prices, with the proceeds from the exercises used by the Company to buy back stock in the open market at the average market price in effect during the reporting period. The difference between the number of shares assumed to be exercised and the number of shares bought back is added to the number of weighted-average common shares outstanding during the period. The sum is used as the denominator to calculate diluted net income per common share for the Company. At December 31, 2018 and 2017, 13,200 and 18,150 exercisable options, respectively, had an exercise price less than the average market price for the year and were included in computing diluted earnings per common share.

On November 6, 2018, the Company's Board of Directors declared a ten percent stock dividend to our shareholders. The record date was November 15, 2018 and the distribution date was November 30, 2018. Earnings per common share and average shares outstanding have been adjusted to reflect the stock dividend in the consolidated financial statements. Retroactive effect has been given to the 235,852 shares issued in connection with the stock dividend as if the dividend had been declared on January 1, 2017.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(Q) Net Income Per Share, continued

The following is a reconciliation of the numerators and denominators used in computing basic and diluted net income per common share.

	Year Ended December 31, 2018		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(Amounts in thousands, except per share data)		
Basic income per common share	$ 3,980	2,614,414	$ 1.52
Effect of dilutive securities	-	8,775	
Diluted income per common share	$ 3,980	2,623,189	$ 1.52

	Year Ended December 31, 2017		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(Amounts in thousands, except per share data)		
Basic income per common share	$ 2,893	2,603,780	$ 1.11
Effect of dilutive securities	-	11,602	
Diluted income per common share	$ 2,893	2,615,382	$ 1.11

(R) Revenue Recognition

On January 1, 2018, the Company adopted the requirements of Accounting Standards Update ("ASU") 2014-9, Revenue from Contracts with Customers ("ASU Topic 606"). The Company completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU. Based on this assessment, the Company concluded that ASU 2014-09 did not materially change the method in which the Company currently recognizes revenue for its revenue streams. The Company also completed its evaluation of certain costs related to its revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross vs. net). Based on its evaluation, the Company determined that ASU 2014-09 did not materially change the method in which the Company currently classifies certain costs associated with the related revenue streams. The Company adopted ASU 2014-09 and its related amendments on its required effective date of January 1, 2018 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary.

(S) Risks and Uncertainties

In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different basis, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

The Company is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

(T) Reclassifications

Certain prior year amounts have been reclassified in the consolidated financial statements to conform with the current year presentation. The reclassifications had no effect on previously reported net income or stockholders' equity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(U) New Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that may affect accounting, reporting, and disclosure of financial information by the Company:

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Company for reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to require all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

The Company expects to adopt the guidance using the modified retrospective method and practical expedients for transition. The practical expedients allow the Company to largely account for their existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. The Company has started an initial evaluation of their leasing contracts and activities. The Company has also started developing their methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments. Management does not expect a material change to the timing of expense recognition, but they are early in the implementation process and will continue to evaluate the impact. The Company is evaluating their existing disclosures and may need to provide additional information as a result of adoption of the ASU.

In March 2016, the FASB amended several topics of the Accounting Standards Codification to make the guidance in all private Company accounting alternatives effective immediately by removing their effective dates. The amendments also include transition provisions that provide that private companies are able to forgo a preferability assessment the first time they elect the private Company accounting alternatives. The amendments were effective immediately. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendments will be effective for the Company for reporting periods beginning after December 15, 2018. The Company does not expect these amendments to have a material effect on its financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(U) New Accounting Pronouncements, continued

In May 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendments will be effective for the Company for reporting periods beginning after December 15, 2018. The Company does not expect these amendments to have a material effect on its financial statements. In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The guidance requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. The amendments will be effective for the Company for reporting periods beginning after December 15, 2021. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

In August 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments will be effective for the Company for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning December 15, 2019. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified in the statement of cash flows. The amendments will be effective for the Company for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2017, the FASB issued guidance to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendment to the Business Combinations Topic is intended to address concerns that the existing definition of a business has been applied too broadly and has resulted in many transactions being recorded as business acquisitions that in substance are more akin to asset acquisitions. The guidance will be effective for the Company for reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2017, the FASB amended the Goodwill and Other Topic of the Accounting Standards Codification to simplify the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private Company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for the Company for reporting periods beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2017, the FASB amended the Other Income Topic of the Accounting Standards Codification to clarify the scope of the guidance on nonfinancial asset derecognition as well as the accounting for partial sales of nonfinancial assets. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments will be effective for the Company for reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2018, the FASB Issued (2018-02), Income Statement (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which requires Companies to reclassify the stranded effects in other comprehensive income to retained earnings as a result of the change in the tax rates under the Tax Cuts and Jobs Act. The Company has opted to early adopt this pronouncement by retrospective application to each period (or periods) in which the effect of the change in the tax rate under the Tax Cuts and Jobs Act is recognized.

In May 2018, the FASB amended the Financial Services—Depository and Lending Topic of the Accounting Standards Codification to remove outdated guidance related to Circular 202. The amendments were effective upon issuance and did not have a material effect on the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(U) New Accounting Pronouncements, continued

In June 2018, the FASB amended the Compensation—Stock Compensation Topic of the Accounting Standards Codification. The amendments expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The Company does not expect these amendments to have a material effect on its financial statements.

In July 2018, the FASB amended the Leases Topic of the Accounting Standards Codification to make narrow amendments to clarify how to apply certain aspects of the new leases standard. The amendments are effective for annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020. The Company does not expect these amendments to have a material effect on its financial statements.

In July 2018, the FASB amended the Leases Topic of the Accounting Standards Codification to give entities another option for transition and to provide lessors with a practical expedient. The amendments are effective for annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2018, the FASB amended the Fair Value Measurement Topic of the Accounting Standards Codification. The amendments remove, modify, and add certain fair value disclosure requirements based on the concepts in the FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2018, the FASB amended the Compensation—Retirement Benefits—Defined Benefit Plans Topic of the Accounting Standards Codification. The amendments remove, modify, and add certain disclosure requirements for employers that sponsor defined benefit pension plans or other postretirement plans. The amendments are effective fiscal years ending after December 15, 2021. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2018, the FASB amended the Collaborative Arrangements Topic of the Accounting Standards Codification to clarify the interaction between the guidance for certain collaborative arrangements and the new revenue recognition financial accounting and reporting standard. The amendments will be effective for the Company for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

2. INVESTMENT SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows (dollars in thousands):

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
Federal agency mortgage-backed securities	$ 91	$ 3	$ -	$ 94
Other residential mortgage-backed securities	2,656	8	(11)	2,653
Issued by U.S. Government agencies	4,844	1	(29)	4,816
Securities issued by states and political subdivisions in the U.S.	33,133	1,025	(278)	33,880
Total securities available-for-sale	$ 40,724	$ 1,037	$ (318)	$ 41,443
Held-to-maturity				
Other residential mortgage-backed securities	$ 892	$ 141	$ (3)	$ 1,030
Total securities held-to-maturity	$ 892	$ 141	$ (3)	$ 1,030

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
Federal agency mortgage-backed securities	$ 220	$ 9	$ -	$ 229
Other residential mortgage-backed securities	3,935	14	(27)	3,922
Issued by U.S. Government agencies	4,050	25	-	4,075
Securities issued by states and political subdivisions in the U.S.	33,414	1,795	(60)	35,149
Total securities available-for-sale	$ 41,619	$ 1,843	$ (87)	$ 43,375
Held-to-maturity				
Other residential mortgage-backed securities	$ 1,108	$ 154	$ (5)	$ 1,257
Total securities held-to-maturity	$ 1,108	$ 154	$ (5)	$ 1,257

Subinvestment grade available-for-sale and held-to-maturity other residential mortgage-backed securities are analyzed on a quarterly basis for impairment by utilizing an independent third party that performs an analysis of the estimated principal the Bank is expected to collect in a number of different economic scenarios. The result of this analysis determines whether the Bank records an impairment loss on these securities. In 2018 and 2017, the Bank recorded impairment charges of $28 thousand and $22 thousand, respectively, on private label securities.

The Bank had approximately $1,023 thousand and $1,133 thousand at December 31, 2018 and 2017, respectively, of investments in stock of the FHLB, which is carried at cost. The following factors have been considered in determining the carrying amount of FHLB stock; 1) the recoverability of the par value, 2) the Company has sufficient liquidity to meet all operational needs in the foreseeable future and would not need to dispose of the stock below recorded amounts, 3) redemptions and purchases of the stock are at the discretion of the FHLB, 4) the Company feels the FHLB has the ability to absorb economic losses given the expectation that the various FHLBs have a high degree of government support and 5) the unrealized losses related to securities owned by the FHLB are manageable given the capital levels of the organization. The Company estimated that the fair value equaled or exceeded the cost of this investment (that is, the investment was not impaired) on the basis of the redemption provisions of the issuing entity. Investment securities with amortized costs of $4.3 million and $3.7 million at December 31, 2018 and 2017 were pledged as collateral on public deposits or for other purposes as required or permitted by law.

2. INVESTMENT SECURITIES, continued

Proceeds from sales of available-for-sale investment securities were $6.9 million and $4.9 million for the years ended December 31, 2018 and 2017, respectively. Gross realized gains and losses for the years ended December 31, 2018 and 2017 follows (dollars in thousands):

	December 31, 2018	December 31, 2017
Realized gains	$ 163	$ 220
Realized losses	153	181
	$ 10	$ 39

The following tables detail unrealized losses and related fair values in the Company's held-to-maturity and available-for-sale investment securities portfolios at December 31, 2018 and 2017. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2018 and 2017 (dollars in thousands).

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2018						
Available-for-sale						
Other residential mortgage-backed securities	$ 849	$ (1)	$ 302	$ (10)	$ 1,151	$ (11)
Issued by U.S. Government agencies	2,154	(17)	1,574	(12)	3,728	(29)
Securities issued by states and political subdivisions in the U.S.	1,324	(29)	14,391	(249)	15,715	(278)
Total available-for-sale temporarily impaired securities	$ 4,327	$ (47)	$ 16,267	$ (271)	$ 20,594	$ (318)
Held-to-maturity						
Other residential mortgage-backed securities	$ 295	$ (3)	$ -	$ -	$ 295	$ (3)
Total temporarily impaired securities	$ 4,622	$ (50)	$ 16,267	$ (271)	$ 20,889	$ (321)
2017						
Available-for-sale						
Other residential mortgage-backed securities	$ -	$ -	$ 3,471	$ (27)	$ 3,471	$ (27)
Securities issued by states and political subdivisions in the U.S.	3,450	(60)	-	-	3,450	(60)
Total available-for-sale temporarily impaired securities	$ 3,450	$ (60)	$ 3,471	$ (27)	$ 6,921	$ (87)
Held-to-maturity						
Other residential mortgage-backed securities	$ 349	$ (5)	$ -	$ -	$ 349	$ (5)
Total temporarily impaired securities	$ 3,799	$ (65)	$ 3,471	$ (27)	$ 7,270	$ (92)

At December 31, 2018, the unrealized losses in the available-for-sale portfolio relate to two securities issued by U.S. Government agencies, two other residential mortgage-backed securities and seventeen municipal securities, and the unrealized loss in the held-to-maturity portfolio relate to one other residential mortgage-backed security. At December 31, 2017, the unrealized losses in the available-for-sale portfolio relate to six other residential mortgage-backed securities and four municipal securities, and the unrealized loss in the held-to-maturity portfolio relate to one other residential mortgage-backed security. The key factors considered in evaluating the other residential mortgage-backed securities were cash flows of this investment and the assessment of other relative economic factors. The unrealized losses are largely due to increases in the market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or re-pricing date or if market yields for such securities decline.

2. INVESTMENT SECURITIES, continued

Maturities of mortgage-backed securities are presented based on contractual amounts. Actual maturities will vary as the underlying loans prepay. The scheduled maturities of securities at December 31, 2018 were as follows (dollars in thousands):

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due after one year through five years	$ 211	$ 219	$ -	$ -
Due after five years through ten years	11,273	11,606	-	-
Due after ten years	29,240	29,618	892	1,030
	$ 40,724	$ 41,443	$ 892	$ 1,030

3. LOANS

The major components of loans on the balance sheet at December 31, 2018 and 2017 are as follows (dollars in thousands):

	December 31,	
	2018	2017
Commercial	$ 54,548	$ 42,896
Real estate:		
Real estate construction and development	31,995	31,657
Residential, one-to-four families	103,834	106,993
Residential, 5 or more families	17,313	13,268
Other commercial real estate	156,089	139,186
Agricultural	5,003	4,156
Total real estate	314,234	295,260
Consumer	3,581	3,093
	372,363	341,249
Deferred loan origination fees, net of costs	(454)	(606)
Allowance for loan losses	(3,347)	(3,538)
	$ 368,562	$ 337,105

Real estate loans include construction and land development loans, one-to-four and 5 or more family loans, and commercial real estate loans.

Commercial real estate loans totaled $156.1 million and $139.2 million at December 31, 2018 and 2017, respectively. This lending has involved loans secured by owner-occupied commercial buildings for office, storage and warehouse space, as well as non-owner occupied commercial buildings. The Bank generally requires the personal guaranty of borrowers and a demonstrated cash flow capability sufficient to service the debt. Loans secured by commercial real estate may be larger in size and may involve a greater degree of risk than one-to-four family residential mortgage loans. Payments on such loans are often dependent on successful operation or management of the properties.

Construction and development lending totaled $32.0 million and $31.7 million at December 31, 2018 and 2017, respectively. The Bank originates one-to-four family residential construction loans for the construction of custom homes (where the home buyer is the borrower) and provides financing to builders and consumers for the construction of pre-sold homes. The Bank generally receives a pre-arranged permanent financing commitment from an outside banking entity prior to financing the construction of pre-sold homes. The Bank also makes commercial real estate construction loans, primarily for owner-occupied properties.

Residential one-to-four family loans amounted to $103.8 million and $107.0 million at December 31, 2018 and 2017, respectively. The Bank's residential mortgage loans are typically either construction loans that convert into permanent financing and are secured by properties located within the Bank's market areas, or refinances of existing one-to-four properties or financing of newly purchased one-to-four family properties.

Residential, 5 or more families' loans totaled $17.3 million and $13.3 million at December 31, 2018 and 2017, respectively. This lending has involved loans secured by residential properties with 5 or more properties. The Bank generally requires the personal guaranty of borrowers and a demonstrated cash flow capability sufficient to service the debt. Loans secured by these types of properties may be larger in size and may involve a greater degree of risk than one-to-four family residential mortgage loans. Payments on such loans are often dependent on successful operation or management of the properties.

3. LOANS, continued

Agricultural loans totaled $5.0 million and $4.2 million at December 31, 2018 and 2017, respectively. This lending has involved loans secured by agricultural properties. The Bank generally requires the personal guaranty of borrowers and a demonstrated cash flow capability sufficient to service the debt. Loans secured by these types of properties may be larger in size and may involve a greater degree of risk than one-to-four family residential mortgage loans. Payments on such loans are often dependent on successful operation or management of the properties.

Commercial Loans totaled $54.6 million and $42.9 million, respectively. Commercial loans include both secured and unsecured loans for working capital, expansion, and other business purposes.

Short-term working capital loans are secured by accounts receivable, inventory and/or equipment. The Bank also makes term commercial loans secured by equipment and real estate. Lending decisions are based on an evaluation of the financial strength, cash flow, management and credit history of the borrower, and the quality of the collateral securing the loan. With few exceptions, the Bank requires personal guarantees and secondary sources of repayment. Commercial loans generally provide greater yields and reprice more frequently than other types of loans, such as real estate loans.

Loans to individuals (consumer loans) include automobile loans, boat and recreational vehicle financing, and miscellaneous secured and unsecured personal loans and totaled $3.6 million and $3.1 million at December 31, 2018 and 2017, respectively. Consumer loans generally can carry significantly greater risks than other loans, even if secured, if the collateral consists of rapidly depreciating assets such as automobiles and equipment. Repossessed collateral securing a defaulted consumer loan may not provide an adequate source of repayment of the loan. Consumer loan collections are sensitive to job loss, illness and other personal factors. The Bank manages the risks inherent in consumer lending by following established credit guidelines and underwriting practices designed to minimize risk of loss.

Loans of approximately $73.4 million at December 31, 2018 are pledged as eligible collateral for FHLB advances.

Loan Approvals. The Bank's loan policies and procedures establish the basic guidelines governing its lending operations. The guidelines address the type of loans that the Bank seeks, target markets, underwriting and collateral requirements, terms, interest rate and yield considerations and compliance with laws and regulations. All loans or credit lines are subject to approval procedures and amount limitations. These limitations apply to the borrower's total outstanding indebtedness to the Bank, including any indebtedness as a guarantor. The policies are reviewed and approved at least annually by the Board of Directors of the Bank. The Bank supplements its own supervision of the loan underwriting and approval process with periodic loan reviews by independent, outside professionals experienced in loan review. Responsibility for loan review and loan underwriting resides with the Chief Credit Officer position. This position is responsible for loan underwriting and approval. On a periodic basis, the Board of Directors of the Bank determines officers lending authority. Authorities may include loans, letters of credit, overdrafts, uncollected funds and such other authorities as determined by the Board of Directors.

The Company, through its normal lending activity, originates and maintains loans receivable that are substantially concentrated in Guilford, Rockingham, Forsyth and Alamance counties in North Carolina.

Credit Review and Evaluation. The Bank has a credit administration department that reports to the Chief Credit Officer. In addition to underwriting and approval of larger credits, the focus of the department is on policy compliance and the proper grading of higher credit risk loans as well as new and existing loans on a sample basis. Additional reporting for problem/criticized assets has been developed along with an after-the-fact loan review.

The Bank uses a risk grading program to facilitate the evaluation of probable inherent loan losses and the adequacy of the allowance for loan losses for real estate, commercial and consumer loans. In this program, risk grades are initially assigned by loan officers, reviewed by credit officers, and reviewed by internal credit review analysts on a test basis. The Bank strives to maintain the loan portfolio in accordance with conservative loan underwriting policies that result in loans specifically tailored to the needs of the Bank's market area. Every effort is made to identify and minimize the credit risks associated with such lending strategies.

All loans are risk graded on a scale from 1 (highest quality) to 8 (loss). Acceptable loans at inception are grades 1 through 4, and these grades have underwriting requirements that at least meet the minimum requirements of a secondary market source. If borrowers do not meet credit history requirements, other mitigating criteria such as substantial liquidity, low loan-to-value ratios or satisfactory experience with the Bank could be considered and would generally have to be met in order to make the loan. The Bank's loan policy states that a guarantor may be necessary if reasonable doubt exists as to the borrower's ability to repay.

3. LOANS, continued

The risk grades, normally assigned by the loan officers when the loan is originated and reviewed by the credit officers, are based on several factors including historical data, current economic factors, composition of the portfolio, and evaluations of the total loan portfolio and assessments of credit quality within specific loan types. In some cases the risk grades can be assigned by credit executives, depending upon dollar exposure. Because these factors are dynamic, the provision for loan losses can fluctuate. Credit quality reviews are based primarily on an analysis of the borrowers' cash flows, with asset values considered only as a second source of payment. Credit officers work with lenders in underwriting, structuring and risk grading the Bank's credits. The credit administration department focuses on lending policy compliance, credit risk grading, and credit risk reviews on larger dollar exposures. Management uses the information developed from the procedures above in evaluating and grading the loan portfolio. This continual grading process is used to monitor the credit quality of the loan portfolio and to assist management in determining the appropriate levels of the allowance for loan losses.

The following is a summary of the credit risk grade definitions for all loan types.

"1" — Highest Quality - These loans represent a credit extension of the highest quality. The borrower's historic (at least five years) cash flows manifest extremely large and stable margins of coverage. Balance sheets are conservative, well capitalized, and liquid. After considering debt service for proposed and existing debt, projected cash flows continue to be strong and provide ample coverage. The borrower typically reflects broad geographic and product diversification and has access to alternative financial markets.

"2" — Good Quality - These loans have a sound primary and secondary source of repayment. The borrower may have access to alternative sources of financing, but sources are not as widely available as they are to a higher graded borrower. This loan carries a normal level of risk, with minimal loss exposure. The borrower has the ability to perform according to the terms of the credit facility. The margins of cash flow coverage are satisfactory but vulnerable to more rapid deterioration than the highest quality loans.

"3" — Satisfactory - The borrowers are a reasonable credit risk and demonstrate the ability to repay the debt from normal business operations. Risk factors may include reliability of margins and cash flows, liquidity, dependence on a single product or industry, cyclical trends, depth of management, or limited access to alternative financing sources. Historic financial information may indicate erratic performance, but current trends are positive. Quality of financial information is adequate, but is not as detailed and sophisticated as information found on higher graded loans. If adverse circumstances arise, the impact on the borrower may be significant.

"4" — Satisfactory - Merits Attention- These credit facilities have potential developing weaknesses that deserve extra attention from the account manager and other management personnel. If the developing weakness is not corrected or mitigated, there may be deterioration in the ability of the borrower to repay the bank's debt in the future.

"5" — Watch or Special Mention - These loans are typically existing loans, made using the passing grades outlined above, that have deteriorated to the point that cash flow is not consistently adequate to meet debt service or current debt service coverage is based on projections. Secondary sources of repayment may include specialized collateral or real estate that is not readily marketable or undeveloped, making timely collection in doubt.

"6" — Substandard - Loans and other credit extensions bearing this grade are considered inadequately protected by the current sound worth and debt service capacity of the borrower or of any pledged collateral. These obligations, even if apparently protected by collateral value, have well-defined weaknesses related to adverse financial, managerial, economic, market, or political conditions jeopardizing repayment of principal and interest as originally intended. Clear loss potential, however, does not have to exist in any individual assets classified as substandard.

"7" — Substandard Impaired (also includes any loans over 90 days past due, excluding sold mortgages) - Loans and other credit extensions graded "7" have all the weaknesses inherent in those graded "6," with the added characteristic that the severity of the weaknesses makes collection or liquidation in full highly questionable or improbable based upon currently existing facts, conditions, and values. The probability of some loss is extremely high.

"8" — Loss - Loans in this classification are considered uncollectible and cannot be justified as a viable asset of the bank. Such loans are to be charged-off or charged-down. This classification does not mean the loan has absolutely no recovery value, but that it is neither practical nor desirable to defer writing off this loan even though partial recovery may be obtained in the future.

3. LOANS, continued

The following is a summary of credit quality indicators by class at December 31, 2018 and 2017:

As of December 31, 2018 (dollars in thousands):

	Pass (Grades 1-4)	Special Mention (Grade 5)	Substandard and lower (Grades 6-8)	Total
Commercial	$ 53,324	$ 726	$ 498	$ 54,548
Real estate construction and development	30,467	119	1,409	31,995
Residential, one-to-four families	101,830	1,247	757	103,834
Residential, 5 or more families	16,791	334	188	17,313
Other commercial real estate	154,097	1,637	355	156,089
Agricultural	2,918	-	2,085	5,003
Consumer	3,563	3	15	3,581
Total	$ 362,990	$ 4,066	$ 5,307	$ 372,363

As of December 31, 2017 (dollars in thousands):

	Pass (Grades 1-4)	Special Mention (Grade 5)	Substandard and lower (Grades 6-8)	Total
Commercial	$ 41,756	$ 727	$ 413	$ 42,896
Real estate construction and development	29,970	127	1,560	31,657
Residential, one-to-four families	104,339	1,638	1,016	106,993
Residential, 5 or more families	12,717	351	200	13,268
Other commercial real estate	134,319	2,508	2,359	139,186
Agricultural	2,043	2,113	-	4,156
Consumer	3,083	10	-	3,093
Total	$ 328,227	$ 7,474	$ 5,548	$ 341,249

The following tables present the Bank's aged analysis of past due loans and nonaccrual loans:

As of December 31, 2018 (dollars in thousands):

	30-89 Days Past Due	Greater than 90 Days Past Due (Nonaccrual)	Total Past Due	Current	Total loans	Past due 90 days or more and still accruing
Commercial	$ -	$ -	$ -	$ 54,548	$ 54,548	$ -
Real estate construction and development	-	931	931	31,064	31,995	-
Residential, one-to-four families	434	140	574	103,260	103,834	-
Residential, 5 or more families	-	-	-	17,313	17,313	-
Other commercial real estate	-	1,659	1,659	154,430	156,089	-
Agricultural	-	-	-	5,003	5,003	-
Consumer	20	-	20	3,561	3,581	4
Total	$ 454	$ 2,730	$ 3,184	$ 369,179	$ 372,363	$ 4

3. LOANS, continued

As of December 31, 2017 (dollars in thousands):

	30-89 Days Past Due	Greater than 90 Days Past Due (Nonaccrual)	Total Past Due	Current	Total loans	Past due 90 days or more and still accruing
Commercial	$ 26	$ -	$ 26	$ 42,870	$ 42,896	$ -
Real estate construction and development	-	931	931	30,726	31,657	-
Residential, one-to-four families	217	163	380	106,613	106,993	-
Residential, 5 or more families	-	-	-	13,268	13,268	-
Other commercial real estate	-	1,718	1,718	137,468	139,186	-
Agricultural	-	-	-	4,156	4,156	-
Consumer	14	-	14	3,079	3,093	-
Total	$ 257	$ 2,812	$ 3,069	$ 338,180	$ 341,249	$ -

Past due loans reported in the following table do not include loans granted forbearance terms since payment terms have been modified or extended, although the loans are past due based on original contract terms. All loans with forbearance terms are included and reported as impaired loans.

Loans are considered past due if the required principal and interest income have not been received as of the date such payments were due.

Nonaccrual loans were $2.7 million and $2.8 million at December 31, 2018 and 2017, respectively. Loans of $4 thousand were past due 90 days or more and still accruing at December 31, 2018. There were no loans past due 90 days or more and still accruing at December 31, 2017.

Impaired Loans. Management considers certain loans graded "substandard impaired" (loans graded 7) or "loss" (loans graded 8) to be individually impaired and may consider "substandard" loans (loans graded 6) individually impaired depending on the borrower's payment history. The Bank measures impairment based upon probable cash flows or the value of the collateral. Collateral value is assessed based on collateral value trends, liquidation value trends, and other liquidation expenses to determine logical and credible discounts that may be needed. Updated appraisals are required for all impaired loans and typically at renewal or modification of larger loans if the appraisal is more than 12 months old.

Impaired loans for all classes of loans typically include nonaccrual loans, loans over 90 days past due and still accruing, troubled debt restructured loans and other potential problem loans considered impaired based on other underlying factors. TDR loans are those for which concessions, including the reduction of interest rates below a rate otherwise available to that borrower or the deferral of interest or principal have been granted due to the borrower's weakened financial condition. Interest on TDR loans is accrued at the restructured rates when it is anticipated that no loss of original principal will occur and a sustained payment performance period is obtained. Due to the borrowers' inability to make the payments required under the original loan terms, the Bank modifies the terms by granting a longer amortized repayment structure or reduced interest rates. Potential problem loans are loans which are currently performing and are not included in nonaccrual or restructured loans above, but about which we have concerns as to the borrower's ability to comply with present repayment terms. These loans are likely to be included later in nonaccrual, past due or troubled debt restructured loans, so they are considered by management in assessing the adequacy of the allowance for loan losses.

3. LOANS, continued

The following tables present the Bank's investment in loans considered to be impaired and related information on those impaired loans as of December 31, 2018 and 2017:

As of December 31, 2018 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate construction and development	$ 991	$ 991	$ -	$ 991	$ 3
Agricultural	2,085	2,085	-	2,102	126
Residential, one-to-four families	247	282	-	243	9
Other commercial real estate	1,700	2,000	-	1,931	3
Commercial	279	279	-	263	15
Total impaired loans with no related allowance recorded	5,302	5,637	-	5,530	156
With allowance recorded	-	-	-	-	-
Total impaired loans	$ 5,302	$ 5,637	$ -	$ 5,530	$ 156

As of December 31, 2017 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate construction and development	$ 1,561	$ 1,561	$ -	$ 1,562	$ 33
Agricultural	1,863	1,863	-	1,863	114
Residential, one-to-four families	952	986	-	967	47
Other commercial real estate	2,061	2,541	-	2,090	58
Commercial	408	408	-	421	23
Total impaired loans with no related allowance recorded	6,845	7,359	-	6,903	275
With allowance recorded	-	-	-	-	-
Total impaired loans	$ 6,845	$ 7,359	$ -	$ 6,903	$ 275

Not included in the above tables are impaired loans with an aggregate recorded investment of approximately $508 thousand and $690 thousand as of December 31, 2018 and 2017, respectively, which is comprised of loans that individually have a recorded investment of $250 thousand or less and are collectively evaluated for impairment.

4. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate for probable losses that have been incurred within the existing portfolio of loans. The primary risks inherent in the Bank's loan portfolio, including the adequacy of the allowance or reserve for loan losses, are based on management's assumptions regarding, among other factors, general and local economic conditions, which are difficult to predict and are beyond the Bank's control. In estimating these risks, and the related loss reserve levels, management also considers the financial conditions of specific borrowers and credit concentrations with specific borrowers, groups of borrowers, and industries.

The allowance for loan losses is adjusted by direct charges to provision expense. Losses on loans are charged against the allowance for loan losses in the accounting period in which they are determined by management to be uncollectible. Recoveries during the period are credited to the allowance for loan losses. The Company recorded a negative provision for loan losses of $96 thousand for the year ended December 31, 2018. During the year ended December 31, 2017 the Company recorded a negative provision for loan losses of $60 thousand. The provision expense is determined by the Bank's allowance for loan losses model. The components of the model are specific reserves for impaired loans and a general allocation for unimpaired loans. The general allocation has two components, an estimate based on historical loss experience and an additional estimate based on internal and external environmental factors due to the uncertainty of historical loss experience in predicting current embedded losses in the portfolio that will be realized in the future.

4. ALLOWANCE FOR LOAN LOSSES, continued

The portion of the general allocation on environmental factors includes estimates of losses related to interest rate trends, unemployment trends, past due and nonaccrual trends, watch list trends, charge-off trends, and monitoring assessments. The market served by the Bank continues to experience softening from the general economy and declines in real estate values.

The following table summarizes the balances by loan category of the allowance for loan losses with changes arising from charge-offs, recoveries and provision expense for the years ended December 31, 2018 and 2017:

For the year ended December 31, 2018 (dollars in thousands):

Allowance for Loan Losses	Commercial	Real estate Construction and Development	Residential, one-to-four families	Residential, 5 or more families	Other commercial real estate	Agricultural	Consumer	Total
Allowance for credit losses:								
Beginning balance	$ 1,427	$ 289	$ 701	$ -	$ 1,064	$ 13	$ 44	$ 3,538
Charge-offs	-	-	(13)	-	(97)	-	(23)	(133)
Recoveries	-	-	-	-	24	-	14	38
Provision	118	(137)	(322)	-	245	(13)	13	(96)
Ending balance	$ 1,545	$ 152	$ 366	$ -	$ 1,236	$ -	$ 48	$ 3,347

For the year ended December 31, 2017 (dollars in thousands):

Allowance for Loan Losses	Commercial	Real estate Construction and Development	Residential, one-to-four families	Residential, 5 or more families	Other commercial real estate	Agricultural	Consumer	Total
Allowance for credit losses:								
Beginning balance	$ 1,171	$ 593	$ 681	$ 108	$ 1,096	$ -	$ 29	$ 3,678
Charge-offs	(85)	-	(2)	-	-	-	(10)	(97)
Recoveries	2	-	-	-	-	1	14	17
Provision	339	(304)	22	(108)	(32)	12	11	(60)
Ending balance	$ 1,427	$ 289	$ 701	$ -	$ 1,064	$ 13	$ 44	$ 3,538

The following tables summarize the allowance for loan losses and recorded investment in loans:

December 31, 2018 (dollars in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Commercial	$ -	$ 1,545	$ 1,545	$ 279	$ 54,269	$ 54,548
Real estate construction and development	-	152	152	991	31,004	31,995
Residential, one-to-four families	-	366	366	247	103,587	103,834
Residential, 5 or more families	-	-	-	-	17,313	17,313
Other commercial real estate	-	1,236	1,236	1,700	154,389	156,089
Agricultural	-	-	-	2,085	2,918	5,003
Consumer	-	48	48	-	3,581	3,581
Total	$ -	$ 3,347	$ 3,347	$ 5,302	$ 367,061	$ 372,363

4. ALLOWANCE FOR LOAN LOSSES, continued

December 31, 2017 (dollars in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Commercial	$ -	$ 1,427	$ 1,427	$ 408	$ 42,488	$ 42,896
Real estate construction and development	-	289	289	1,561	30,096	31,657
Residential, one-to-four families	-	701	701	952	106,041	106,993
Residential, 5 or more families	-	-	-	-	13,268	13,268
Other commercial real estate	-	1,064	1,064	2,061	137,125	139,186
Agricultural	-	13	13	1,863	2,293	4,156
Consumer	-	44	44	-	3,093	3,093
Total	$ -	$ 3,538	$ 3,538	$ 6,845	$ 334,404	$ 341,249

5. TROUBLED DEBT RESTRUCTURINGS

The total amount of TDR loans outstanding as of December 31, 2018 was $2.7 million with no related reserves. Approximately $2.7 million TDR loans were accruing interest as of December 31, 2018, as these loans had sufficient evidence of paying according to the new restructured terms to warrant a return to accrual status. The total amount of TDR loans outstanding as of December 31, 2017 was $2.5 million with no related reserves. Approximately $2.5 million TDR loans were accruing interest as of December 31, 2017, as these loans had sufficient evidence of paying according to the new restructured terms to warrant a return to accrual status.

The following table includes the recorded investment and number of modifications for TDR restructured loans for the years ended December 31, 2018 and 2017. The Company reports the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured. Reductions in the recorded investment are primarily due to the partial charge-off of the principal balance prior to modification. There are no commitments to lend additional funds to debtors owing receivables whose terms have been modified.

	Year ended December 31, 2018			
	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Adjustment to Reserves as a Result of the Restructuring
Extended payment terms:				
Commercial	1	$ 249	$ 249	$ -
Residential, one-to-four families	4	65	65	-
Agricultural	1	235	235	-
	3	$ 549	$ 549	$ -

	Year ended December 31, 2017			
	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Adjustment to Reserves as a Result of the Restructuring
Extended payment terms:				
Commercial	1	$ 146	$ 146	$ -
Residential, one-to-four families	2	382	382	-
Construction	2	573	573	-
	5	$ 1,101	$ 1,101	$ -

5. TROUBLED DEBT RESTRUCTURINGS, continued

During the year ended December 31, 2018, there were no TDRs where the outstanding recorded investment of loans in default that had been previously restructured. Restructured loans are deemed to be in default if payments in accordance with the modified terms are not received within 90 days of the payment due date. During the year ended December 31, 2017, there were no loans in default that had been previously restructured. Restructured loans are deemed to be in default if payments in accordance with the modified terms are not received within 90 days of the payment due date.

6. PROPERTY AND EQUIPMENT

Components of property and equipment and total accumulated depreciation are as follows (dollars in thousands):

	December 31,	
	2018	2017
Land, buildings and improvements	$ 8,539	$ 8,552
Furniture and equipment	10,624	8,936
Property and equipment, total	19,163	17,488
Less accumulated depreciation	(9,277)	(8,857)
Property and equipment, net of depreciation	$ 9,886	$ 8,631

Depreciation expense for the years ended December 31, 2018 and 2017 was $647 thousand and $627 thousand, respectively.

Leases

The Company has non-cancelable operating leases for four branch locations and one administrative office. These lease agreements have terms ranging from 5 to 20 years and will expire between 2018 and 2025. Most of them have options to terminate the lease without penalty at specific intervals ranging from 3 to 5 years. Rent expense related to these leases was $336,000 and $332,000 for the years ended December 31, 2018 and 2017, respectively. Pursuant to the terms of the non-cancelable lease agreements in effect at December 31, 2018, the schedule of future minimum rent payments is as follows: (dollars in thousands)

2019	$ 353
2020	362
2021	371
2022	376
2023	181
Thereafter	125
	$ 1,768

7. INCOME TAXES

Current and Deferred Income Tax Components

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "2017 Tax Act"). The 2017 Tax Act includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate form 35 percent to 21 percent for tax years beginning after December 31, 2017.

The Company recognized the income tax effects of the 2017 Tax Act in its 2017 financial statements in accordance with Staff Accounting Bulletin No. 118, which provides guidance for the application of ASC Topic, Income Taxes, in the reporting period in which the 2017 Tax Act was signed into law. As such, the Company's financial results reflect the income tax effects of the 2017 Tax Act for which the accounting under ASC Topic 740 is complete and provisional amounts for those specific income tax effects of the 2017 Tax Act for which the accounting under ASC Topic 740 is incomplete but a reasonable estimate could be determined. The Company did not identify items for which the income tax effects of the 2017 Tax Act have not been completed and a reasonable estimate could not be determined as of December 31, 2018.

7. INCOME TAXES, continued

The components of income tax expense (benefit) for the years ended December 31, 2018 and 2017 are as follows (dollars in thousands):

	2018	2017
Current		
Federal	$ 650	$ 1,088
State	144	150
	794	1,238
Deferred		
Federal	92	165
State	(4)	(1)
Deferred tax asset valuation change	14	13
Deferred taxes	102	177
Net income tax expense	$ 896	$ 1,415

Rate Reconciliation

A reconciliation of income tax expense (benefit) computed at the statutory federal income tax rate included in the statement of operations for the years ended December 31, 2018 and 2017 is as follows (dollars in thousands):

	2018	2017
Tax at statutory federal rate	$ 1,024	$ 1,465
Income from bank owned life insurance	(22)	(34)
Tax-exempt income	(197)	(307)
Effect of federal rate change	-	246
State taxes, net of federal benefit	111	90
Deferred tax asset valuation allowance change	14	13
Other	(34)	(58)
Total	$ 896	$ 1,415

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2018 and 2017 are reported in other assets and are summarized as follows (dollars in thousands):

	2018	2017
Deferred tax assets		
Allowance for loan losses	$ 470	$ 449
Accrued compensation	591	686
State carryforwards	60	46
Other real estate owned	-	1
Deferred loan fees	104	139
Unrealized loss on investment securities	73	66
Post-retirement benefit obligation	76	87
Investment in partnership	50	22
Total deferred tax assets	1,424	1,496
Valuation allowance	(60)	(46)
Deferred tax asset	1,364	1,450
Deferred tax liabilities		
Stock compensation	(61)	(89)
Depreciation	(475)	(475)
Unrealized appreciation on available-for-sale securities	(165)	(400)
Total deferred tax liabilities	(701)	(964)
Net deferred tax asset	$ 663	$ 486

7. INCOME TAXES, continued

The Company measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Accordingly, the Company's deferred tax assets and liabilities were remeasured to reflect the reduction in the U.S. corporate income tax rate from 34 to 21 percent, resulting in a $246,000 increase in income tax expense for the year ended December 31, 2018 and a corresponding $246,000 decrease in net deferred tax assets as of December 31, 2018.

At December 31, 2018 and 2017 the Company had net loss carry-forwards for state income tax purposes of approximately $2.0 million and $2.3 million, respectively. The state net loss carry-forwards begin to expire in 2022. Utilization of state net loss carry-forwards to reduce future income taxes will depend on the Company's ability to generate sufficient taxable income of the appropriate type and character prior to expiration. Accordingly, the Company has established a deferred tax valuation allowance to offset state net loss carry-forwards. For the years ended December 31, 2018 and 2017 the valuation allowance increased $14,000 and $13,000, respectively.

Unrecognized Tax Benefits

Current accounting standards prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, as well as guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure.

There have been no gross amounts of unrecognized tax benefits, interest or penalties related to uncertain tax positions since adoption. There are no unrecognized tax benefits that would, if recognized, affect the effective tax rate. There are no positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

Years prior to December 31, 2015 are closed under the statute of limitations for federal, state and local income tax matters.

8. DEPOSITS

At December 31, 2018 and 2017, time deposits that met or exceeded the FDIC insurance limit of $250,000 amount to approximately $14.8 million and $8.3 million, respectively. At December 31, 2018, the scheduled maturities of time deposits are as follows: (dollars in thousands)

Three months or less	$ 20,629
Four months to one year	85,883
Two to three years	35,271
Three to four years	356
Four to five years	6,938
Thereafter	1,975
	$ 151,052

Brokered deposits were $14.2 million and $24.9 million as of December 31, 2018 and 2017, respectively.

9. BORROWED FUNDS

Short-term Borrowings

The Company's short-term borrowings consist of borrowings from the Federal Home Loan Bank (the "FHLB"). The following table summarizes short-term borrowings at December 31, 2018 and 2017 (dollars in thousands):

	2018		2017	
	Total Principal	Weighted Average Rate	Total Principal	Weighted Average Rate
Federal Home Loan Bank Advances	$ 15,000	2.66%	$ 18,500	1.41%

Information concerning short-term Federal Home Loan Bank borrowings for 2018 and 2017 is summarized below (dollars in thousands):

	2018	2017
Average daily balance during the year	$ 14,129	$ 19,264
Maximum month-end balance during the year	$ 18,500	$ 21,500
Amount outstanding at end of year	$ 15,000	$ 18,500

9. BORROWED FUNDS, continued

All short-term FHLB advances are floating-rate instruments. Pursuant to a collateral agreement with the FHLB, advances are collateralized by all of the Bank's FHLB stock and qualifying residential one-to-four family first mortgage loans and commercial real estate loans. The eligible residential one-to-four family first mortgage and commercial real estate loans as of December 31, 2018, were $21.7 million and $52.5 million, respectively. This agreement with the FHLB provides for a line of credit of up to 30% of the Bank's assets, subject to the Bank providing adequate collateral to secure the borrowings. In addition, the Bank had investments with a market value of $877 thousand held in safekeeping that the Bank can provide as collateral for borrowings.

The Company has established various credit facilities to provide additional liquidity if and as needed. These include unsecured lines of credit with correspondent banks totaling $25.0 million and are subject to cancellation without notice.

Long-term borrowings

The Company had long-term borrowings of $1.3 million and $1.0 million outstanding at December 31, 2018 and 2017, respectively.

The long-term borrowings outstanding as of December 31, 2018 and 2017 are secured by a pledge and assignment of a money market deposit account by the Company to the lender. If requested by the Company to the lender, the amount of the pledge and assignment of the money market account may be reduced to an amount not less than the current principal balance of the loan plus an amount equal to six months interest. The loan agreement calls for nineteen quarterly principal payments of $33,125 beginning on October 17, 2018 with one final principal payment of $714,779 due on July 17, 2023. The Company has been making quarterly principal payments of $125,000 since March 18, 2016. There are no penalties for early repayment of the loan. The loan carries a variable interest rate, with the index being the lender's rate on the money market deposit account plus 1.50%. As of December 31, 2018, the rate on the index was 2.35%.

Junior Subordinated Debentures

In 2007, the Company issued $8.3 million of junior subordinated debentures to the Trust in exchange for the proceeds of trust preferred securities issued by the Trust. The junior subordinated debentures are included in long-term debt and the Company's equity interest in the Trust is included in other assets.

The Trust was created by the Oak Ridge on June 28, 2007, at which time the Trust issued $8.0 million in aggregate liquidation amount of $1 par value preferred capital trust securities which mature on June 28, 2037. Distributions are payable on the securities at the floating rate equal to the three-month London Interbank Offered Rate ("LIBOR") plus 1.60%, and the securities may be prepaid at par by the Trust at any time after June 28, 2017. The principal assets of the Trust are $8.3 million of Oak Ridge's junior subordinated debentures which mature on June 28, 2037, and bear interest at the floating rate equal to the three-month LIBOR plus 1.60%, and which are callable by Oak Ridge after June 28, 2017. All $248,000 in the aggregate liquidation amount of the Trust's common securities are held by the Oak Ridge.

Subordinated Debentures

On June 29, 2017, $5.5 million of subordinated debentures were issued by the Company which are included in long-term debt. Interest is payable every three months on the securities at a fixed rate of 7%, and the debentures may be prepaid at par by the Company at any time, without penalty, after June 29, 2021. The maturity date of the debentures is June 29, 2026.

10. RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS

Defined Contribution Plan

The Company maintains a profit sharing plan pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"). The plan covers substantially all employees. Participants may contribute a percentage of compensation, subject to the maximum allowed under the Code. In addition, the Company may make additional contributions at the discretion of the Board of Directors. The Company paid $150 thousand and $132 thousand during the years ended December 31, 2018 and 2017, respectively.

Employee Stock Ownership Plan

In 2010, the Company established an Employee Stock Ownership Plan (the "ESOP") for the employees of the Bank. The ESOP is a qualifying plan under Internal Revenue Service guidelines. It covers all employees who work at least 1,000 hours per year, are at least 21 years of age, and have completed one year of service. In the years ended December 31, 2018 and 2017, the Company expensed $360 thousand and $270 thousand, respectively, to be contributed to the Plan. On June 25, 2016, the Company issued and sold 124,842 shares of its common stock to the ESOP for a total purchase price of $900 thousand. On July 17, 2018, the ESOP purchased 54,098 shares of the Company's common stock for a total purchase price of $750 thousand.

Flexible Benefits Plan

The Company maintains a Flexible Benefits Plan, which covers substantially all employees. Participants may set aside pre-tax dollars to provide for the future expenses such as insurance, dependent care or health care. Expenses of the plan were $502 thousand and $450 thousand for the years ended December 31, 2018 and 2017, respectively.

10. RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS, continued

Cash Value of Life Insurance

The Company is the owner and beneficiary of life insurance policies on certain current and former executive officers. Policy cash values on the balance sheet totaled $5.7 million and $5.6 million at December 31, 2018 and 2017, respectively.

Supplemental Executive Retirement Plan

In January of 2006, the Company adopted a supplemental executive retirement plan to provide benefits for certain members of management. Under plan provisions, aggregate fixed annual payments of $153 thousand are payable for these members of management for their lifetime, beginning with their normal retirement ages of 65. In 2016, the Company adopted another supplemental executive retirement plan to provide a benefit to a member of the Company's management. Under this plan's provisions, aggregate fixed annual payments of $29 thousand begin at the time the member of management attains the age of 70 and cease at the time they are 80. The liability for all of the agreements is calculated by discounting the anticipated future cash flows at 4.75%. The liability accrued for this obligation was $1.3 million at both December 31, 2018 and 2017, respectively. Charges to income and expense are based on changes in the cash value of insurance as well as any additional charges required to fund the liability, and in the years ended December 31, 2018 and 2017, the Company paid $75 thousand and $21 thousand, respectively, to members of management covered by the supplemental retirement plan. The Company funded the supplemental executive retirement plan through the purchase of bank-owned life insurance ("BOLI") during 2003 and 2004 with initial investments of $1.9 million and $1.8 million, respectively. The corresponding cash surrender values of the BOLI policies as of December 31, 2018 and 2017 were $5.7 million and $5.6 million, respectively.

Stock Plans

During 2007, the Company adopted the Stock Ownership and Long-Term Stock Incentive Plan (the "Omnibus Plan"). The Omnibus Plan provides for the issuance of up to an aggregate of 500,000 shares of common stock in the form of stock options, restricted stock awards and performance unit awards. The Omnibus Plan expired in June of 2017. An award that is outstanding when the Omnibus Plan expired will remain valid for the stated term of the award, but no additional awards may be made after plan expiration.

During 2017, the Company adopted the 2017 Long-Term Stock Incentive Plan (the "Stock Incentive Plan"). The Stock Incentive Plan provides for the issuance of up to an aggregate of 225,000 shares of common stock in the form of stock options, restricted stock awards and performance unit awards. The Stock Incentive Plan expires on February 22, 2026. An award that is outstanding when the Stock Incentive Plan expires will remain valid for the stated term of the award, but no additional awards may be made after plan expiration.

Compensation cost charged to income for the Employee Stock Option Plan, the Director Stock Option Plan, and the Long-Term Incentive Plan for the years ended December 31, 2018 and 2017 was approximately $561 thousand and $601 thousand, respectively.

Stock Options

Stock options may be issued as incentive stock options or as nonqualified stock options. The term of the option will be established at the time is it granted but shall not exceed ten years. Vesting will also be established at the time the option is granted. The exercise price may not be less than the fair market value of a share of common stock on the date the option is granted. It is the Company's policy to issue new shares of stock to satisfy option exercises.

Restricted Stock Awards

Restricted stock awards are subject to restrictions and the risk of forfeiture if conditions stated in the award agreement are not satisfied at the end of a restriction period. During the restriction period, restricted stock covered by the award will be held by the Company. If the conditions stated in the award agreement are satisfied at the end of the restriction period, the restricted stock will become unrestricted and the certificate evidencing the stock will be delivered to the employee.

10. RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS, continued

A summary of the status of stock options as of December 31, 2018 and 2017, and changes during the years then ended, is presented below:

	2018		2017	
	Number	Weighted Average Option Price	Number	Weighted Average Option Price
Options outstanding, beginning of year	18,150	$ 4.38	23,650	$ 4.38
Granted	-	-	-	-
Exercised	4,950	4.38	5,500	4.38
Expired	-	-	-	-
Forfeited	-	-	-	-
Options outstanding, end of year	13,200	$ 4.38	18,150	$ 4.38

Information regarding the stock options outstanding at December 31, 2018 is as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
$4.38	13,200	1.67 Years	$ 4.38	$ -

No options were granted in the years ended December 31, 2018 and 2017. All stock options were fully vested at December 31, 2018 and 2017.

Anticipated total unrecognized compensation costs related restricted stock grants will be recognized over the following periods:

	Restricted Stock Grants
	(Dollars in thousands)
2019	$ 534
2020	294
2021	225
2022	178
2023 and thereafter	51
Total	$ 1,282

Restricted stock share grants of 34,000 shares were made during the year ended December 31, 2018. The shares granted in 2018 have a vesting period of five years. There were no restricted stock grants issued during the year ended December 31, 2017.

11. RESERVE REQUIREMENTS

The aggregate net reserve balances maintained under the requirements of the Federal Reserve were $2.5 million and $4.3 million at December 31, 2018 and 2017, respectively.

12. COMMITMENTS AND CONTINGENCIES

The Company has various financial instruments (outstanding commitments) with off-balance sheet risk that are issued in the normal course of business to meet the financing needs of its customers. These financial instruments included commitments to extend credit of $46.9 million and standby letters of credit of $1.0 million at December 31, 2018.

The Company's exposure to credit loss for commitments to extend credit and standby letters of credit is the contractual amount of those financial instruments. The Company uses the same credit policies for making commitments and issuing standby letters of credit as it does for on-balance sheet financial instruments. Each customer's creditworthiness is evaluated on an individual case-by-case basis. The amount and type of collateral, if deemed necessary by management, is based upon this evaluation of creditworthiness. Collateral obtained varies, but may include marketable securities, deposits, property, plant and equipment, investment assets, real estate, inventories and accounts receivable. Management does not anticipate any significant losses as a result of these financial instruments and anticipates funding them from normal operations. The Company is not involved in any legal proceedings which, in management's opinion, could have a material effect on the consolidated financial position or results of operations of the Company.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates are made by management at a specific point in time, based on relevant information about the financial instrument and the market. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument nor are potential taxes and other expenses that would be incurred in an actual sale considered. Fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision.

Changes in assumptions and/or the methodology used could significantly affect the estimates disclosed. Similarly, the fair values disclosed could vary significantly from amounts realized in actual transactions.

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the markct.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

There were no changes to the techniques used to measure fair value during the period ended December 31, 2018.

Following is a description of valuation methodologies used for assets recorded at fair value.

Investment Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets. The sensitivity of fair value to unobservable inputs may result in a significantly higher or lower value.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using one of several methods, including collateral value, market price and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2018, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS, continued

Foreclosed Assets

Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charged to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

Assets recorded at fair value on a recurring basis

December 31, 2018 (Dollars in thousands)	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale				
Federal agency mortgage-backed securities	$ 94	$ -	$ 94	$ -
Other residential mortgage-backed securities	2,653	-	2,653	-
Issued by U.S. Government agencies	4,816	-	4,816	-
Securities issued by states and political subdivisions in the U.S.	33,880	-	33,880	-
Total assets at fair value	$ 41,443	$ -	$ 41,443	$ -

December 31, 2017 (Dollars in thousands)	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale				
Federal agency mortgage-backed securities	$ 229	$ -	$ 229	$ -
Other residential mortgage-backed securities	3,922	-	3,922	-
Issued by U.S. Government agencies	4,075	-	4,075	-
Securities issued by states and political subdivisions in the U.S.	35,149	-	35,149	-
Total assets at fair value	$ 43,375	$ -	$ 43,375	$ -

Assets recorded at fair value on a nonrecurring basis were as follows:

December 31, 2018 (Dollars in thousands)	Total	Level 1	Level 2	Level 3
Impaired loans receivable	$ 5,302	$ -	$ -	$ 5,302
Total assets at fair value	$ 5,302	$ -	$ -	$ 5,302
Total liabilities at fair value	$ -	$ -	$ -	$ -

December 31, 2017 (Dollars in thousands)	Total	Level 1	Level 2	Level 3
Impaired loans receivable	$ 6,845	$ -	$ -	$ 6,845
Foreclosed assets	4	-	-	4
Total assets at fair value	$ 6,849	$ -	$ -	$ 6,849
Total liabilities at fair value	$ -	$ -	$ -	$ -

There were no assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2018 and 2017.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS, continued

For Level 3 assets measured at fair value on a recurring or non-recurring basis as of December 31, 2018, the significant unobservable inputs used in the fair value measurements were as follows:

(Dollars in thousands)		Fair Value at December 31, 2018		Fair Value at December 31, 2017	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Impaired Loans	$	5,302	$	6,845	Appraised Value/Discounted Cash Flows/Market Value of Note	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0 – 18%
Other Real Estate Owned	$	-	$	4	Appraised Value/Comparable Sales/Other Estimates from Independent Sources	Discounts to reflect current market conditions and estimated costs to sell	0 – 10%

14. REGULATORY MATTERS

Oak Ridge (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Oak Ridge and the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Oak Ridge's dividends will be made from dividends received from the Bank. As a North Carolina corporation, our payment of cash dividends is also subject to restrictions under North Carolina law on the declaration of cash dividends. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such a limitation is in the public interest and is necessary to ensure the financial soundness of such bank.

Quantitative measures established by regulation to ensure capital adequacy require Oak Ridge and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and of Tier I capital to average assets (as defined in the regulations). Management believes, as of December 31, 2018, that the Bank and Oak Ridge meet all capital adequacy requirements to which they are subject.

In July 2013, the Board of Governors of the Federal Reserve System and the FDIC issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Act Requirements. The final rules revise minimum capital requirements and adjust prompt corrective action thresholds. The final rules revise the regulatory capital elements, add a new Common Equity Tier 1 capital ratio, and increase the minimum Tier 1 capital ratio requirement. The final rules also permit certain banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income and implement a new capital conservation buffer. The final rules took effect on January 1, 2018, subject to a transition period for certain parts of the rules.

Based on the most recent notification from the FDIC, the Bank is well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total common Tier 1, risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

14. REGULATORY MATTERS, continued

The Bank's required and actual capital amounts, in thousands, and ratios are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Common equity tier 1 capital (to risk-weighted assets)	$ 44,666	12.0%	$ 16,715	4.50%	$ 24,145	6.50%
Total capital (to risk-weighted assets)	48,013	12.9%	29,716	8.00%	37,146	10.00%
Tier 1 capital (to risk-weighted assets)	44,666	12.0%	22,287	4.00%	29,716	6.00%
Tier 1 capital (to average assets)	44,666	10.0%	17,965	4.00%	22,456	5.00%
December 31, 2017						
Common equity tier 1 capital (to risk-weighted assets)	$ 40,789	11.8%	$ 15,182	4.50%	$ 22,507	6.50%
Total capital (to risk-weighted assets)	44,327	12.8%	27,683	8.00%	34,603	10.00%
Tier 1 capital (to risk-weighted assets)	40,789	11.8%	13,850	4.00%	20,775	6.00%
Tier 1 capital (to average assets)	40,789	9.8%	16,734	4.00%	20,917	5.00%

15. RELATED PARTY TRANSACTIONS

Oak Ridge and the Bank have had, and expect to have in the future, banking transactions in the ordinary course of business with directors, officers and their affiliates ("Related Parties") on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Those transactions neither involve more than normal risk of collectability nor present any unfavorable features.

Loans at December 31, 2018 and 2017 include loans to officers and directors and their affiliates totaling approximately $2.3 million and $2.2 million, respectively. During 2018, approximately $263 thousand in loans were disbursed to officers, directors and their associates and principal repayments of approximately $248 thousand were received on such loans. Deposits at December 31, 2018 and 2017 include deposits to officers and directors and their affiliates totaling approximately $424 thousand and $437 thousand, respectively.

16. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 29, 2019, the date the financials statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure.

Stockholder Information

Annual Meeting

The Annual Meeting of Shareholders will be held on May 21, 2019 at 6:00 PM at the World Headquarters for Oak Ridge Financial Services, Inc. located at 8050 Fogleman Road, Oak Ridge, NC 27310.

Requests for Information

Requests for information should be directed to Mr. Thomas W. Wayne, President and Chief Financial Officer, at Oak Ridge Financial Services Inc., P.O. Box 2, Oak Ridge, North Carolina, 27310; telephone (336) 644-9944.

Independent Auditors	*Stock Transfer Agent*
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Federal Deposit Insurance Corporation

The Bank is a member of the FDIC. This statement has not been reviewed, or confirmed for accuracy or relevance by the FDIC.

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