Oak Ridge Financial Services, Inc.

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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
April 2, 2021

Oak Ridge Financial Services, Inc.

Consolidated Balance Sheets

As of December 31, 2020 and 2019

(Dollars in thousands)

	2020	2019
Assets		
Cash and due from banks	$ 9,354	$ 4,030
Interest-bearing deposits with banks	11,994	19,539
Total cash and cash equivalents	21,348	23,569
Securities available-for-sale	46,357	41,183
Securities held-to-maturity	564	730
Restricted stock, at cost	1,806	1,042
Loans, net of allowance for loan losses of $5,458 and $2,886 at December 31, 2020 and 2019, respectively	445,127	386,056
Property and equipment, net	10,632	10,491
Accrued interest receivable	2,412	1,478
Bank owned life insurance	5,930	5,837
Right-of-use assets – operating leases	1,990	1,336
Other assets	4,464	3,984
Total assets	$ 540,630	$ 475,706
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 94,227	$ 64,374
Interest-bearing	361,510	333,752
Total deposits	455,737	398,126
Short-term borrowings	8,000	15,000
Long-term borrowings	952	1,184
Junior subordinated notes related to trust preferred securities	8,248	8,248
Subordinated debentures	15,484	5,608
Lease liabilities – operating leases	1,990	1,336
Accrued interest payable	140	281
Other liabilities	5,604	5,608
Total liabilities	496,155	435,391
Stockholders' equity		
Common stock, no par value; 50,000,000 shares authorized; 2,639,345 and 2,621,315 issued and outstanding at December 31, 2020 and 2019, respectively	25,013	24,850
Retained earnings	15,771	13,146
Accumulated other comprehensive income	3,691	2,319
Total stockholders' equity	44,475	40,315
Total liabilities and stockholders' equity	$ 540,630	$ 475,706

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.

Consolidated Statements of Income

For the years ended December 31, 2020 and 2019

(Dollars in thousands)

	2020	2019
Interest and dividend income		
Loans and fees on loans	$ 20,649	$ 20,077
Interest on deposits in banks	58	371
Federal Home Loan Bank stock dividends	98	66
Interest on investment securities	1,329	1,346
Total interest and dividend income	22,134	21,860
Interest expense		
Deposits	3,213	4,398
Short-term and long-term debt	1,319	1,162
Total interest expense	4,532	5,560
Net interest income	17,602	16,300
Provision for loan losses	2,746	185
Net interest income after provision for loan losses	14,856	16,115
Noninterest income		
Service charges on deposit accounts	588	732
Gain on sale of securities	-	164
Loss on sale of property and equipment	(6)	-
Brokerage commissions on mortgage loans	381	306
Insurance commissions	362	349
Gain on sale of SBA loans	464	278
Debit and credit card interchange income	1,047	963
Income earned on bank owned life insurance	93	98
Other service charges and fees	227	280
Total noninterest income	3,156	3,170
Noninterest expense		
Salaries	6,138	6,678
Employee benefits	1,117	1,159
Occupancy	998	880
Equipment	1,003	915
Data and item processing	2,147	1,976
Professional and advertising	579	658
Stationary and supplies	132	141
Net cost of foreclosed assets	5	52
Impairment loss on securities	58	28
Telecommunications	351	403
FDIC assessment	266	48
Accounts receivable financing	-	3
Other expense	1,245	1,134
Total noninterest expense	14,039	14,075
Income before income taxes	3,973	5,210
Income tax expense	714	960
Net income and income available to common stockholders	$ 3,259	$ 4,250
Basic income per common share	$ 1.23	$ 1.62
Diluted income per common share	$ 1.23	$ 1.62
Basic weighted average shares outstanding	2,640,504	2,621,007
Diluted weighted average shares outstanding	2,640,504	2,630,244

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019

(Dollars in thousands)

	2020	2019
Net income	$ 3,259	$ 4,250
Other comprehensive income:		
Unrealized holding gains on securities available-for-sale	1,781	2,457
Tax effect	(409)	(567)
Unrealized holding gains on securities available-for-sale, net of tax	1,372	1,890
Reclassification adjustment for realized gains	-	(164)
Tax effect	-	39
Reclassification adjustment for realized gains, net of tax	-	(125)
Other comprehensive income, net of tax	1,372	1,765
Total comprehensive income	$ 4,631	$ 6,015

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.

Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2020 and 2019
(In thousands except shares of common stock)

	Common Stock				Accumulated Other Comprehensive	
	Number	Amount		Retained Earnings	Income	Total
Balance December 31, 2018	2,592,434	$ 24,353		$ 9,422	$ 554	$ 34,329
Net income	-	-		4,250	-	4,250
Other comprehensive income	-	-		-	1,765	1,765
Common stock repurchases	(3,500)	(55)		-	-	(55)
Common stock dividends	-	-		(526)	-	(526)
Restricted stock forfeitures	(2,519)	-		-	-	-
Common stock issued pursuant to restricted stock awards	34,900	552		-	-	552
Balance December 31, 2019	2,621,315	$ 24,850		$ 13,146	$ 2,319	$ 40,315
Net income	-	-		3,259	-	3,259
Other comprehensive income	-	-		-	1,372	1,372
Common stock repurchases	(22,000)	(364)		-	-	(364)
Common stock dividends	-	-		(634)	-	(634)
Common stock issued pursuant to stock option exercises	13,200	58		-	-	58
Common stock issued pursuant to restricted stock awards	26,830	469		-	-	469
Balance December 31, 2020	2,639,345	$ 25,013		$ 15,771	$ 3,691	$ 44,475

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

(In thousands)

	2020	2019
Operating activities		
Net income	$ 3,259	$ 4,250
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,028	914
Amortization of operating lease right-of-use assets	355	-
Provision for loan losses	2,746	185
Impairment loss on securities	58	28
Gain on sale of securities	-	(164)
Gain on sale of SBA loans	(464)	(278)
Loss on sale of foreclosed assets	-	32
Loss on sale of property and equipment	6	-
Stock compensation expense	469	552
Income earned on bank owned life insurance	(93)	(98)
Deferred income tax (benefit) expense	(890)	407
Originations of SBA loans	(4,714)	(3,555)
Proceeds from sale of SBA loans	5,178	3,833
Net amortization of discounts and premiums on securities	45	112
Net amortization of discounts and premiums on subordinated debentures	6	27
Changes in assets and liabilities:		
Accrued interest receivable	(934)	77
Other assets	1	(614)
Accrued interest payable	(141)	18
Lease liability	(355)	-
Other liabilities	(4)	(690)
Net cash provided by operating activities	5,556	5,036
Investing activities		
Activity in available-for-sale securities:		
Purchases	(5,117)	(6,827)
Sales	-	7,712
Maturities and repayments	1,628	1,685
Activity in held-to-maturity securities:		
Maturities and repayments	159	169
Purchases of restricted stock, net of redemptions	(764)	(19)
Net increase in loans	(61,817)	(17,679)
Purchases of property and equipment	(1,280)	(1,519)
Proceeds from sale of property and equipment	105	653
Net cash used in investing activities	(67,086)	(15,825)
Financing activities		
Net increase in deposits	57,611	15,808
Proceeds from borrowings	-	15,000
Repayment of borrowings	(7,232)	(15,120)
Proceeds from issuance of subordinated debentures	9,870	-
Repurchase of common stock	(364)	(55)
Common stock dividends	(634)	(526)
Proceeds from stock option exercises	58	-
Net cash provided by financing activities	59,309	15,107
Net (decrease) increase in cash and cash equivalents	(2,221)	4,318
Cash and cash equivalents, beginning of year	23,569	19,251
Cash and cash equivalents, end of year	$ 21,348	$ 23,569

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.

Consolidated Statements of Cash Flows (continued)

For the years ended December 31, 2020 and 2019

(In thousands)

	2020	2019
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	$ 4,673	$ 5,542
Income taxes	$ 202	$ 802
Non-cash investing and financing activities		
Change in unrealized gain in securities available-for-sale, net of tax	$ 1,372	$ 1,765
Initial recognition of operating lease right-of-use assets	$ 1,009	$ 1,651
Initial recognition of operating lease liabilities	$ 1,009	$ 1,651

See Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

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.

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.

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.

Note 1. Summary of Significant Accounting Policies, Continued

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.

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, including equity securities, are recorded at fair value with changes in fair value included in earnings. Debt securities not classified as held-to-maturity or trading 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.

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.

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.

Note 1. Summary of Significant Accounting Policies, Continued

Loans, continued:

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.

Allowance for loan losses:

The allowance for loan losses (ALLL) is established through provisions for losses charged against income. Loan amounts deemed to be uncollectible are charged against the ALLL, and subsequent recoveries, if any, are credited to the allowance. The ALLL 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 ALLL 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 ALLL. Such agencies may require the Company to recognize adjustments to the ALLL based on their judgments about information available to them at the time of their examination.

The ALLL 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 ALLL 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.

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.

Note 1. Summary of Significant Accounting Policies, Continued

Restricted 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 \$34.6 million and \$41.6 million of advances from the FHLB at December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, the Bank had \$8.0 million and \$15.0 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, 2020 and 2019, the Bank owned 7,648 and 10,424 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.

As a requirement for membership, the Bank invests in stock of the Federal Reserve Bank ("FRB"). No ready market exists for the stock so carrying value approximates its fair value based on the redemption provisions of the FRB.

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.

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.

Long-term debt and junior subordinated notes related to trust preferred:

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.

Note 1. Summary of Significant Accounting Policies, Continued

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.

Advertising costs:

Advertising costs are expensed as incurred and totaled $92 thousand and $104 thousand for the years end December 31, 2020 and 2019, respectively.

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.

Note 1. Summary of Significant Accounting Policies, Continued

Stock option plan, continued:

The Company has adopted the *2016 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.

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, 2020, there were no outstanding and exercisable stock options. At December 31, 2019, 13,200 exercisable options 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 235,616 shares issued in connection with the stock dividend as if the dividend had been declared on January 1, 2018.

Note 1. Summary of Significant Accounting Policies, Continued

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, 2020		
(Amounts in thousands, except share data)	**Income (Numerator)**	**Shares (Denominator)**	**Per Share Amount**
Basic income per common share	$ 3,259	2,640,504	$ 1.23
Effect of dilutive securities	-	-	
Diluted income per common share	$ 3,259	2,640,504	$ 1.23

	Year ended December 31, 2019		
(Amounts in thousands, except share data)	**Income (Numerator)**	**Shares (Denominator)**	**Per Share Amount**
Basic income per common share	$ 4,250	2,621,007	$ 1.62
Effect of dilutive securities	-	9,237	
Diluted income per common share	$ 4,250	2,630,244	$ 1.62

Revenue recognition:

The Company has applied Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, using a modified retrospective approach. The Company's revenue is comprised of net interest income and noninterest income. The scope of ASU 2014-09 explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, and securities. Accordingly, the majority of the Company's revenues are not affected.

Note 1. Summary of Significant Accounting Policies, Continued

Revenue recognition, continued:

The following table presents the Company's noninterest income by revenue stream (in thousands) for the years ended December 31, 2020 and 2019. Items outside the scope of ASU 2014-09 are noted as such.

	2020	2019
Service charges on deposit accounts	$ 588	$ 732
Gain on sale of securities[1]	-	164
Loss on sale of property and equipment	(6)	-
Brokerage commissions on mortgage loans	381	306
Insurance commissions	362	349
Gain on sale of SBA loans[1]	464	278
Debit and credit card interchange income	1,047	963
Income earned from bank owned life insurance[1]	93	98
Other service charges and fees[1]	227	280
Total noninterest income	$ 3,156	$ 3,170

[1]Not within the scope of ASU 2014-09

A description of the Company's revenue streams accounted for under ASU 2014-09 follows:

Service charges on deposit accounts – The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Gains (losses) on sales of property and equipment – The Company records a gain or loss from the sale of property and equipment when control of the property transfers to the buyer, which generally occurs at the time of an executed deed.

Brokerage commissions on mortgage loans – The Company is engaged in the business of originating and processing consumer residential mortgage loans as a mortgage broker. Loans brokered are originated in the name of the third-party lender. The fee the Company receives on mortgage loans originated by third-party lenders is recognized as income when the loans are funded.

Insurance commissions – The Company earns commissions on insurance product sales. The Company acts as an intermediary between the Company's customer and the insurance carrier. The Company's performance obligation is generally satisfied upon the issuance of the insurance policy. Shortly after the insurance policy is issued, the carrier remits the commission payment to the Company, and the Company recognizes the revenue.

Note 1. Summary of Significant Accounting Policies, Continued

Revenue recognition, continued:

Debit and credit card interchange income – The Company earns interchange fees from debit and credit cardholder transactions conducted through the VISA payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Lease accounting:

On January 1, 2019, the Company adopted Accounting Standards Update ("ASU") No. 2016-2, *Leases ("ASU Topic 842")*. The Company adopted the guidance using the modified retrospective method and practical expedients for transition. The practical expedients, including the option to account for lease and non-lease components as a single lease component, allow the Company to largely account for the existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. The Company has completed an initial evaluation of the leasing contracts and activities. The Company has also developed a methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of lease payments. See Note 6 for details of the Company's right-of-use assets and lease liabilities related to its operating leases.

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.

The 2019 novel coronavirus (COVID-19) has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. Following the COVID-19 outbreak in December 2019 and January 2020, market interest rates declined significantly. Such events also may adversely affect business and consumer confidence, generally, and the Company and its customers, and their respective suppliers, vendors and processors may be adversely affected. The full impact of COVID-19 is still uncertain and the effects of the COVID-19 outbreak may adversely affect the Company's financial condition and results of operations.

Note 1. Summary of Significant Accounting Policies, Continued

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.

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 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, 2020. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2019, the FASB issued guidance that clarifies and improves areas of guidance related to the recently issued standards on credit losses and recognition and measurement of financial instruments. The amendments related to credit losses will be effective for the Company for reporting periods beginning after December 15, 2022. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2019, the FASB issued guidance to provide entities with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. The amendments will be effective for the Company for reporting periods beginning after December 15, 2022. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies applying standards on current expected credit losses (CECL). The new effective dates for CECL will be fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

In October 2020, the FASB issued guidance to clarify the FASB's intent that an entity should reevaluate whether a callable debt security that has multiple call dates is within the scope of FASB Accounting Standards Codification (FASB ASC) 310-20-35-33 for each reporting period. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. 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.

Note 2. Investment Securities

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

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Federal agency mortgage-backed securities	$ 2,994	$ 350	$ -	$ 3,344
Other residential mortgage-backed securities	902	20	(12)	910
Issued by U.S. Government agencies	6,073	37	(11)	6,099
Securities issued by states and political subdivisions in the U.S.	29,095	4,326	-	33,421
Corporate debt securities	2,500	83	-	2,583
Total securities available-for-sale	$ 41,564	$ 4,816	$ (23)	$ 46,357
Held-to-maturity:				
Other residential mortgage-backed securities	$ 564	$ 152	$ -	$ 716
Total securities held-to-maturity	$ 564	$ 152	$ -	$ 716

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Federal agency mortgage-backed securities	$ 3,028	$ 68	$ -	$ 3,096
Other residential mortgage-backed securities	1,235	24	(20)	1,239
Issued by U.S. Government agencies	7,560	67	(8)	7,619
Securities issued by states and political subdivisions in the U.S.	26,348	2,881	-	29,229
Total securities available-for-sale	$ 38,171	$ 3,040	$ (28)	$ 41,183
Held-to-maturity:				
Other residential mortgage-backed securities	$ 730	$ 168	$ -	$ 898
Total securities held-to-maturity	$ 730	$ 168	$ -	$ 898

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. During the years ended December 31, 2020 and 2019, the Bank recorded impairment charges of $58 thousand and $28 thousand, respectively, on private label securities.

Note 2. Investment Securities, Continued

The Company had approximately $765 thousand and $1,042 thousand at December 31, 2020 and 2019, 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 $7.4 million and $4.4 million at December 31, 2020 and 2019, respectively, were pledged as collateral on public deposits or for other purposes as required or permitted by law.

As a member bank of the Federal Reserve, the Bank is required to maintain stock in the FRB. At December 31, 2020, the Bank had $1.0 million in FRB stock. For the year ended December 31, 2020, the Bank received $31 thousand in dividends related to its investment in FRB stock. As of and during the year ended December 31, 2019, the Bank did not own any investment in, or dividends related to, FRB stock.

There were no sales of available-for-sale investment securities during the year ended December 31, 2020. Proceeds from sales of available-for-sale investment securities were $7.7 million during the year ended December 31, 2019. Gross realized gains were $0 and $164 thousand for the years ended December 31, 2020 and 2019, respectively. There were no gross realized losses during the years ended December 31, 2020 and 2019.

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, 2020 and 2019. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2020 and 2019 (dollars in thousands).

	Less than 12 Months		12 Months or Greater		Total	
December 31, 2020	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Available for sale:						
Other residential mortgage-backed securities	$ 253	$ (6)	$ 146	$ (6)	$ 399	$ (12)
Issued by U.S. Government agencies	-	-	2,735	(11)	2,735	(11)
Total available-for-sale temporarily impaired securities	$ 253	$ (6)	$ 2,881	$ (17)	$ 3,134	$ (23)
Total temporarily impaired securities	$ 253	$ (6)	$ 2,881	$ (17)	$ 3,134	$ (23)

Note 2. Investment Securities, Continued

December 31, 2019	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses	Total Fair Value	Total Unrealized Losses
Available for sale:						
Other residential mortgage-backed securities	$ 49	$ (13)	$ 309	$ (7)	$ 358	$ (20)
Issued by U.S. Government agencies	1,276	(3)	1,263	(5)	2,539	(8)
Total available-for-sale temporarily impaired securities	$ 1,325	$ (16)	$ 1,572	$ (12)	$ 2,897	$ (28)
Total temporarily impaired securities	$ 1,325	$ (16)	$ 1,572	$ (12)	$ 2,897	$ (28)

At December 31, 2020, the unrealized losses in the available-for-sale portfolio relate to four other residential mortgage-backed securities and three securities issued by U.S. Government agencies. At December 31, 2019, the unrealized losses in the available-for-sale portfolio relate to four other residential mortgage-backed securities and two securities issued by U.S. Government agencies. 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.

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, 2020 were as follows (dollars in thousands):

	Available-for-Sale Amortized Cost	Available-for-Sale Fair Value	Held-to-Maturity Amortized Costs	Held-to-Maturity Fair Value
Due in less than one year	$ 42	$ 40	$ -	$ -
Due after one year through five years	1,281	1,474	-	-
Due after five years through ten years	20,784	22,983	-	-
Due after ten years	19,457	21,860	564	716
	$ 41,564	$ 46,357	$ 564	$ 716

Note 3. Loans

The major components of loans on the balance sheet at December 31, 2020 and 2019, are as follows (dollars in thousands):

	December 31,	
	2020	2019
Commercial	$ 112,599	$ 53,399
Real estate:		
Real estate construction and development	21,296	23,217
Residential, one-to-four families	98,362	110,011
Residential, 5 or more families	19,867	14,583
Other commercial real estate	192,684	179,707
Agricultural	2,856	4,022
Total real estate	335,065	384,939
Consumer	4,480	4,362
Total loans	452,144	389,301
Deferred loan origination fees, net of costs	(1,559)	(359)
Allowance for loan losses	(5,458)	(2,886)
Total loans, net	$ 445,127	$ 386,056

Commercial loans totaled $112.6 million and $53.4 million at December 31, 2020 and 2019, 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 Company 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.

Note 3. Loans, Continued

Also within the "commercial" loan category are loans originated under the Paycheck Protection Program (PPP). On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law, which established the PPP. Under the PPP, the Small Business Administration (SBA) will forgive loans, in whole or in part, made by approved lenders to eligible borrowers for paycheck and other permitted purposes in accordance with the requirements of the program. These loans carry a fixed rate of 1.00% and a term of two years if originated prior to June 5, 2020, or a term of five years if originated after June 5, 2020, if not forgiven, in whole or in part. The loans are 100% guaranteed by the SBA and as long as the borrower submits its loan forgiveness application within ten months of completion of the covered period, the borrower is not required to make any payments until the forgiveness amount is remitted to the lender by the SBA. The Company received a processing fee ranging from 1% to 5% based on the size of the loan from the SBA. The fees are deferred and amortized over the life of the loans in accordance with ASC 310-20. The Company received approximately $2.1 million of processing fees and has recognized approximately $541 thousand in fee income during the year ended December 31, 2020. The Company originated 612 PPP loans totaling approximately $50.1 million during the year ended December 31, 2020. Because these loans are 100% guaranteed by the SBA and did not undergo the Company's typical underwriting process, they are not graded and do not have an associated reserve. The SBA began accepting PPP Forgiveness Applications on August 10, 2020. Borrowers must submit the application within ten months of the completion of the covered period. Once the borrower has submitted the application, the Company has 60 days to review, issue a lender decision, and submit to the SBA. Once the application is submitted, the SBA has 90 days to review and remit the appropriate forgiveness amount to the Company plus any interest accrued through the date of payment. Outstanding PPP loan balances totaled approximately $47.1 million at December 31, 2020.

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

Construction and development loans totaled $21.3 million and $23.2 million at December 31, 2020 and 2019, 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.

Other commercial real estate loans totaled $192.7 million and $179.7 million at December 31, 2020 and 2019, 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.

Residential one-to-four family loans amounted to $98.4 million and $110.0 million at December 31, 2020 and 2019, 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.

Note 3. Loans, Continued

Residential, 5 or more families' loans totaled $19.9 million and $14.6 million at December 31, 2020 and 2019, 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.

Agricultural loans totaled $2.9 million and $4.0 million at December 31, 2020 and 2019, 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.

Loans to individuals (consumer loans) include automobile loans, boat and recreational vehicle financing, and miscellaneous secured and unsecured personal loans and totaled $4.5 million and $4.4 million at December 31, 2020 and 2019, 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 $31.5 million at December 31, 2020 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.

Note 3. Loans, Continued

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.

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.

Note 3. Loans, Continued

Credit review and evaluation, continued:

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.

Note 3. Loans, Continued

Credit review and evaluation, continued:

The following is a summary of credit quality indicators by class as of December 31, 2020 and 2019 (dollars in thousands):

December 31, 2020	Pass (Grades 1-4)	Special Mention (Grade 5)	Substandard and Lower (Grades 6-8)	Total
Commercial	$ 110,329	$ 1,747	$ 523	$ 112,599
Real estate construction and development	19,703	-	1,593	21,296
Residential, one-to-four families	95,060	1,714	1,588	98,362
Residential, 5 or more families	18,825	877	165	19,867
Other commercial real estate	190,285	1,445	954	192,684
Agricultural	1,163	-	1,693	2,856
Consumer	4,439	32	9	4,480
	$ 439,804	$ 5,815	$ 6,525	$ 452,144

December 31, 2019	Pass (Grades 1-4)	Special Mention (Grade 5)	Substandard and Lower (Grades 6-8)	Total
Commercial	$ 51,510	$ 1,340	$ 549	$ 53,399
Real estate construction and development	21,601	-	1,616	23,217
Residential, one-to-four families	106,477	1,713	1,821	110,011
Residential, 5 or more families	14,094	316	173	14,583
Other commercial real estate	177,027	1,440	1,240	179,707
Agricultural	2,222	-	1,800	4,022
Consumer	4,361	1	-	4,362
	$ 377,292	$ 4,810	$ 7,199	$ 389,301

Note 3. Loans, Continued

Credit review and evaluation, continued:

The following tables present the Bank's aged analysis of past due loans and nonaccrual loans as of December 31, 2020 and 2019 (dollars in thousands):

December 31, 2020	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	$ 222	$ 35	$ 257	$ 112,342	$ 112,599	$ -
Real estate construction and development	-	1,120	1,120	20,176	21,296	-
Residential, one-to-four families	160	371	531	97,831	98,362	-
Residential, 5 or more families	-	-	-	19,867	19,867	-
Other commercial real estate	266	228	494	192,190	192,684	-
Agricultural	-	1,693	1,693	1,163	2,856	-
Consumer	-	9	9	4,471	4,480	-
	$ 648	$ 3,456	$ 4,104	$ 448,040	$ 452,144	$ -

December 31, 2019	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	$ 19	$ 16	$ 35	$ 53,364	$ 53,399	$ -
Real estate construction and development	18	1,138	1,156	22,061	23,217	-
Residential, one-to-four families	580	420	1,000	109,011	110,011	-
Residential, 5 or more families	-	-	-	14,583	14,583	-
Other commercial real estate	-	495	495	179,212	179,707	-
Agricultural		1,800	1,800	2,222	4,022	-
Consumer	1	-	1	4,361	4,362	-
	$ 618	$ 3,869	$ 4,487	$ 384,814	$ 389,301	$ -

Past due loans reported in the preceding tables 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.

Note 3. Loans, Continued

Troubled debt restructurings:

In March 2020, the enactment of the CARES Act provided provisions to encourage financial institutions to practice prudent efforts to work with borrowers impacted by COVID-19. Under these provisions, which the Bank has applied, modifications deemed to be COVID-19 related are not considered a TDR if the loan was not more than 30 days past due as of December 31, 2019 and the deferral was executed between March 1, 2020 and the earlier of 60 days after the date of termination of the COVID-19 national emergency or December 31, 2020. The Consolidated Appropriations Act signed into law on December 27, 2020 extended the period established by the CARES Act under which consideration of TDR identification and accounting triggered by effects of COVID-19 are suspended. The period was extended to the earlier of January 1, 2022 or the date that is 60 days after the date of termination of the COVID-19 national emergency. Banking regulators issued similar guidance that also clarified that a COVID-19 related modification would not meet the requirements under accounting principles generally accepted in the United States of America to be a TDR if the borrower was current on payments at the time the loan modification program was implemented and if the modification was considered to be short term.

The Bank offered loan payment deferrals broadly to its borrowers and provided payment deferrals for 4 months. Some borrowers made second requests, and if granted, an additional payment deferral of 2 months was given. Approximately $127.8 million in loan balances were granted deferrals during the year. As of December 31, 2020, one loan with an outstanding loan balance of approximately $52 thousand was still in deferral.

The total amount of TDR loans outstanding as of December 31, 2020 was $2.4 million with no related reserves. Approximately $816 thousand of TDR loans were accruing interest as of December 31, 2020, 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, 2019 was $2.8 million with no related reserves. Approximately $665 thousand of TDR loans were accruing interest as of December 31, 2019, as these loans had sufficient evidence of paying according to the new restructured terms to warrant a return to accrual status.

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. The following table includes the recorded investment and number of modifications for TDR restructured loans for the years ended December 31, 2020 and 2019 (dollars in thousands):

	December 31, 2020			
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Adjustment to the Reserves as a Result of the Restructuring
Extended payment terms:				
Real estate construction and development	1	$ 53	$ 53	$ 6
Residential, one-to-four families	1	210	210	-
	2	$ 263	$ 263	$ 6

Note 3. Loans, Continued

Troubled debt restructurings, continued:

	December 31, 2019			
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Adjustment to the Reserves as a Result of the Restructuring
Extended payment terms:				
Residential,				
one-to-four families	2	$ 263	$ 263	$ -
	2	$ 263	$ 263	$ -

There were no TDRs that subsequently defaulted during the years ended December 31, 2020 and 2019. 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.

Impaired loans:

Management considers certain loans graded "substandard" (loans graded 6), "substandard impaired" (loans graded 7), or "loss" (loans graded 8) to be individually impaired. 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.

Note 3. Loans, Continued

Impaired 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, 2020 and 2019 (dollars in thousands):

December 31, 2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 294	$ 317	$ -	$ 298	$ 15
Real estate construction and development	975	975	-	975	-
Residential, one-to-four families	920	936	-	949	37
Other commercial real estate	228	228	-	361	-
Agricultural	1,548	1,615	-	1,598	-
Consumer	9	9	-	10	-
Total impaired loans with no related allowance recorded	3,974	4,080	-	4,191	52
With allowance recorded:					
Real estate construction and development	204	205	29	213	4
Residential, one-to-four families	9	9	9	9	-
Agricultural	144	297	4	148	2
Total impaired loans with related related allowance recorded	357	511	42	370	6
Total impaired loans	$ 4,331	$ 4,591	$ 42	$ 4,561	$ 58

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 283	$ 306	$ -	$ 300	$ 15
Real estate construction and development	1,138	1,138	-	1,143	-
Residential, one-to-four families	781	786	-	804	9
Other commercial real estate	532	760	-	668	2
Agricultural	1,800	2,079	-	1,943	-
Total impaired loans with no related allowance recorded	4,534	5,069	-	4,858	26
With allowance recorded	-	-	-	-	-
Total impaired loans	$ 4,534	$ 5,069	$ -	$ 4,858	$ 26

Note 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 provision for loan losses of approximately $2.7 million and $185 thousand for the years ended December 31, 2020 and 2019, respectively. 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.

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, 2020 and 2019 (dollars in thousands):

	December 31, 2020							
	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 loan losses:								
Beginning balance	$ 1,494	$ 127	$ 503	$ -	$ 671	$ 25	$ 66	$ 2,886
Charge-offs	(183)	-	-	-	-	-	(67)	(250)
Recoveries	-	-	-	-	-	69	7	76
Provision	746	276	(67)	129	1,577	1	84	2,746
Ending balance	$ 2,057	$ 403	$ 436	$ 129	$ 2,248	$ 95	$ 90	$ 5,458

Note 4. Allowance for Loan Losses, Continued

	December 31, 2019							
	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 loan losses:								
Beginning balance	$ 1,545	$ 152	$ 366	$ -	$ 1,236	$ -	$ 48	$ 3,347
Charge-offs	(34)	-	(35)	-	(459)	(279)	(15)	(822)
Recoveries	-	-	68	-	102	-	6	176
Provision	(17)	(25)	104	-	(208)	304	27	185
Ending balance	$ 1,494	$ 127	$ 503	$ -	$ 671	$ 25	$ 66	$ 2,886

The following tables summarize the allowance for loan losses and recorded investment in loans as of December 31, 2020 and 2019 (dollars in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
December 31, 2020	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Commercial	$ -	$ 2,057	$ 2,057	$ 294	$ 112,305	$ 112,599
Real estate construction and development	30	373	403	1,179	20,117	21,296
Residential, one-to-four families	4	432	436	928	97,434	98,362
Residential, 5 or more families	-	129	129	-	19,867	19,867
Other commercial real estate	-	2,248	2,248	228	192,456	192,684
Agricultural	8	87	95	1,693	1,163	2,856
Consumer	-	90	90	9	4,471	4,480
	$ 42	$ 5,416	$ 5,458	$ 4,331	$ 447,813	$ 452,144

	Allowance for Loan Losses			Recorded Investment in Loans		
December 31, 2019	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Commercial	$ -	$ 1,494	$ 1,494	$ 283	$ 53,116	$ 53,399
Real estate construction and development	-	127	127	1,138	22,079	23,217
Residential, one-to-four families	-	503	503	781	109,230	110,011
Residential, 5 or more families	-	-	-	-	14,583	14,583
Other commercial real estate	-	671	671	532	179,175	179,707
Agricultural	-	25	25	1,800	2,222	4,022
Consumer	-	66	66	-	4,362	4,362
	$ -	$ 2,886	$ 2,886	$ 4,534	$ 384,767	$ 389,301

Note 5. Property and Equipment

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

	December 31, 2020	December 31, 2019
Land, buildings and improvements	$ 9,712	$ 9,676
Furniture and equipment	11,202	10,969
Property and equipment, total	20,914	20,645
Less accumulated depreciation	(10,282)	(10,154)
Property and equipment, net of depreciation	$ 10,632	$ 10,491

Depreciation expense for the years ended December 31, 2020 and 2019, was $1.0 million and $914 thousand, respectively.

Leases:

On January 1, 2019, the Company adopted the requirements of ASU 2016-02, *Leases (Topic 842)* and all subsequent ASUs that modified Topic 842. The Company's lease agreements in which Topic 842 has been applied are primarily for retail branch real estate properties. The Company has non-cancelable operating leases for four branch locations, and these lease agreements have terms ranging from 5 to 20 years and will expire between 2023 and 2035. Most of them have options to terminate the lease without penalty at specific intervals ranging from 3 to 5 years. For operating leases, the lease liability is recorded at the present value of the unpaid lease payments discounted at the discount rate for the lease established at the commencement date. Regarding the discount rate, Topic 842 requires that the implicit rate within the lease agreement be used if readily determinable. If not readily determinable, the Company should use its incremental borrowing rate at the commencement date over a similar term. The Company utilized Federal Home Loan Bank (FHLB) Atlanta's Fixed Rate Credit rates for terms consistent with the Company's lease terms. Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term. ROU assets are measured at the commencement date as the amount of the initial lease liability, adjusted for lease payments made to the lessor at or before commencement date, minus incentives; and for any initial direct costs incurred by the lease. The Company recorded operating ROU assets and operating lease liabilities of $1.7 million and $1.7 million, respectively, upon adoption on January 1, 2019. The Company did not have a cumulative-effect adjustment to the opening balance of retained earnings.

The following table summarizes the activity of the Company's operating ROU assets during the years ended December 31, 2020 and 2019 (dollars in thousands):

	December 31, 2020	December 31, 2019
Beginning balance	$ 1,336	$ 1,651
Operating ROU assets recognized during the year	1,009	-
Amortization of operating ROU assets	(355)	(315)
Ending balance	$ 1,990	$ 1,336

Note 5. Property and Equipment, Continued

Leases, continued:

Pursuant to the terms of the non-cancelable lease agreements in effect at December 31, 2020, the schedule of future minimum rent payments is as follows: (dollars in thousands)

2021	$ 433
2022	438
2023	245
2024	150
2025	111
Thereafter	782
	$ 2,159

Total rent expense related to these leases was $399 thousand and $354 thousand for the years ended December 31, 2020 and 2019, respectively.

The following table summarizes other information related to the Company's operating leases (dollars in thousands):

	December 31,	
	2020	2019
Total operating lease costs	$ 355	$ 315
Cash paid for amounts related to operating leases	$ 399	$ 354
Weighted-average remaining lease term – operating leases, in years	8.74	4.01
Weighted-average discount rate – operating leases	2.07%	2.53%

The following table summarizes the maturity of remaining operating lease liabilities as of December 31, 2020 (dollars in thousands):

2021	$ 433
2022	438
2023	245
2024	150
2025	111
Thereafter	782
Total lease payments	2,159
Less: imputed interest	(169)
Operating lease liability	$ 1,990

Note 6. Income Taxes

Current and deferred income tax components:

The components of income tax expense (benefit) for the years ended December 31, 2020 and 2019, are as follows (dollars in thousands):

	2020	2019
Current		
Federal	$ 1,391	$ 432
State	213	121
	1,604	553
Deferred		
Federal	(793)	392
State	(117)	1
Deferred tax asset valuation change	20	14
Deferred taxes	(890)	407
Net income tax expense	$ 714	$ 960

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, 2020 and 2019, is as follows (dollars in thousands):

	2020	2019
Tax at statutory federal rate	$ 834	$ 1,094
Income from bank owned life insurance	(20)	(21)
Tax-exempt income	(178)	(163)
State taxes, net of federal benefit	76	97
Deferred tax asset valuation allowance change	20	14
Other	(18)	(61)
	$ 714	$ 960

Note 6. Income Taxes, Continued

Deferred income tax analysis:

The significant components of the net deferred tax asset (liability) at December 31, 2020 and 2019, are reported in other assets and are summarized as follows (dollars in thousands):

	2020	2019
Deferred tax assets		
Allowance for loan losses	$ 1,160	$ 546
Accrued compensation	517	540
State carryforwards	94	74
Deferred loan fees	358	83
Unrealized loss on investment securities	93	79
Post-retirement benefit obligation	83	81
Investment in partnership	73	83
Total deferred tax assets	2,378	1,486
Valuation allowance	(94)	(74)
Deferred tax asset	2,284	1,412
Deferred tax liabilities		
Stock compensation	(49)	(34)
Depreciation	(840)	(890)
Unrealized appreciation on available-for-sale securities	(1,101)	(692)
Total deferred tax liabilities	(1,990)	(1,616)
Net deferred tax (liability) asset	$ 294	$ (204)

At December 31, 2020 and 2019, the Company had net loss carryforwards for state income tax purposes of approximately $4.8 million and $3.7 million, respectively. The state net loss carryforwards begin to expire in 2022. Utilization of state net loss carryforwards 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 carryforwards. For the years ended December 31, 2020 and 2019, the valuation allowance increased $20 thousand and $14 thousand, 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.

Note 6. Income Taxes, Continued

Unrecognized tax benefits, continued:

With few exceptions, years prior to December 31, 2017 are closed under the statute of limitations for federal, state and local income tax matters.

Note 7. Deposits

At December 31, 2020 and 2019, time deposits that met or exceeded the FDIC insurance limit of $250,000 amount to approximately $10.8 million and $14.0 million, respectively. At December 31, 2020, the scheduled maturities of time deposits are as follows: (dollars in thousands)

2021	$ 66,588
2022	5,986
2023	12,062
2024	7,101
2025	7,195
Thereafter	10,497
Total time deposits	$ 109,429

Brokered deposits were $39.8 million and $31.3 million as of December 31, 2020 and 2019, respectively.

Note 8. 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, 2020 and 2019 (dollars in thousands):

	2020		2019	
	Total Principal	Weighted Average Weight	Total Principal	Weighted Average Weight
Federal Home Loan Bank Advances	$ 8,000	1.54%	$ 15,000	2.30%

Information concerning short-term Federal Home Loan Bank borrowings for 2020 and 2019, is summarized below (dollars in thousands):

	2020	2019
Average daily balance during the year	$ 11,436	$ 15,000
Maximum month-end balance during the year	$ 17,000	$ 15,000
Amount outstanding at end of year	$ 8,000	$ 15,000

Note 8. Borrowed Funds, Continued

Short-term borrowings, 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, 2020, were $11.5 million and $20.0 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 $617 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 $30.0 million and are subject to cancellation without notice.

Long-term borrowings:

The Company had long-term borrowings of $952 thousand and $1.2 million outstanding at December 31, 2020 and 2019, respectively.

The long-term borrowings outstanding as of December 31, 2020 and 2019, 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 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, 2020, the rate on the index was 1.65%.

Junior subordinated debentures:

In 2007, the Company issued $8.2 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 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 Oak Ridge.

Note 8. Borrowed Funds, Continued

Subordinated debentures:

On June 29, 2017, $5.5 million of subordinated debentures were issued by the Company. 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.

On June 4, 2020, $10.0 million of subordinated debentures were issued by the Company. Interest is payable semi-annually on the securities at a fixed rate of 6.25%, and the debentures may be prepaid at par by the Company at any time, without penalty, after June 4, 2025. Thereafter, interest is payable every three months on the securities at the floating rate equal to the three-month LIBOR plus 5.87% until June 4, 2030, the maturity date of the debentures.

Note 9. 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 $173 thousand and $153 thousand during the years ended December 31, 2020 and 2019, respectively.

Employee Stock Ownership Plan:

In 2010, the Company established an Employee Stock Ownership Plan ("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, 2020 and 2019, the Company expensed $354 thousand and $312 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 $479 thousand and $530 thousand for the years ended December 31, 2020 and 2019, respectively.

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 $5.9 million and $5.8 million at December 31, 2020 and 2019, respectively.

Note 9. Retirement Plans and Other Postretirement Benefits, Continued

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 $1.4 million and $1.3 million at December 31, 2020 and 2019, 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 both of the years ended December 31, 2020 and 2019, the Company paid $75 thousand 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, 2020 and 2019, were $5.9 million and $5.8 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 2016. 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 2016, the Company adopted the 2016 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, 2020 and 2019, was approximately $460 thousand and $551 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.

Note 9. Retirement Plans and Other Postretirement Benefits, Continued

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.

A summary of the status of stock options as of December 31, 2020 and 2019, and changes during the years then ended, is presented below:

	2020		2019	
	Number	Weighted Average Option Price	Number	Weighted Average Option Price
Options outstanding, beginning of year	13,200	$ 4.38	13,200	$ 4.38
Granted	-	-	-	-
Exercised	(13,200)	(4.38)	-	-
Expired	-	-	-	-
Forfeited	-	-	-	-
Options outstanding, end of year	-	$ -	13,200	$ 4.38

No options were granted in the years ended December 31, 2020 and 2019. All stock options were fully vested at December 31, 2019.

Anticipated total unrecognized compensation costs related restricted stock grants will be recognized over the following periods (dollars in thousands):

2021	$ 416
2022	376
2023	242
2024	108
2025 and thereafter	10
	$ 1,152

Restricted stock share grants of 28,675 and 34,900 shares were made during the years ended December 31, 2020 and 2019, respectively. The shares granted in both years have vesting periods of five years.

Note 10. Reserve Requirements

To comply with banking regulations, the Company is required to maintain certain cash reserve balances. On March 26, 2020, the Federal Reserve reduced the reserve requirement to zero percent and kept it at zero percent for the rest of 2020. The aggregate net reserve balances maintained under the requirements of the Federal Reserve were $3.3 million at December 31, 2019.

Note 11. 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 $51.0 million and standby letters of credit of $1.0 million at December 31, 2020.

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.

Note 12. 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.

Note 12. Fair Value of Financial Instruments, Continued

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 market.

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, 2020.

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.

Note 12. Fair Value of Financial Instruments, Continued

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, 2020, 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.

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 were as follows (dollars in thousands):

	Total	Level 1	Level 2	Level 3
December 31, 2020				
Investment securities available for sale:				
Federal agency mortgage-backed securities	$ 3,344	$ -	$ 3,344	$ -
Other residential mortgage-backed securities	910	-	910	-
Issued by U.S. Government agencies	6,099	-	6,099	-
Securities issued by states and political subdivisions in the U.S.	33,421	-	33,421	-
Corporate debt securities	2,583	-	2,583	-
Total assets at fair value	$ 46,357	$ -	$ 46,357	$ -

Note 12. Fair Value of Financial Instruments, Continued

	Total	Level 1	Level 2	Level 3
December 31, 2019				
Investment securities available for sale:				
Federal agency mortgage-backed securities	$ 3,096	$ -	$ 3,096	$ -
Other residential mortgage-backed securities	1,239	-	1,239	-
Issued by U.S. Government agencies	7,619	-	7,619	
Securities issued by states and political subdivisions in the U.S.	29,229	-	29,229	-
Total assets at fair value	$ 41,183	$ -	$ 41,183	$ -

Assets recorded at fair value on a nonrecurring basis were as follows (dollars in thousands):

	Total	Level 1	Level 2	Level 3
December 31, 2020				
Impaired loans receivable	$ 4,289	$ -	$ -	$ 4,289
Total assets at fair value	$ 4,289	$ -	$ -	$ 4,289
December 31, 2019				
Impaired loans receivable	$ 4,534	$ -	$ -	$ 4,534
Total assets at fair value	$ 4,534	$ -	$ -	$ 4,534

There were no liabilities recorded at fair value on a recurring or nonrecurring basis at December 31, 2020 or 2019.

There were no assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2020 and 2019.

For Level 3 assets measured at fair value on a recurring or non-recurring basis as of December 31, 2020, the significant unobservable inputs used in the fair value measurements were as follows:

(Dollars in thousands)	Fair Value at December 31, 2020	Fair Value at December 31, 2019	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Impaired loans	$ 4,289	$ 4,534	Appraised Value/Discounted Cash Flows/Market Value of Note	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0 – 18%

Note 13. 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, 2020, that the Bank and Oak Ridge meet all capital adequacy requirements to which they are subject.

On September 17, 2019, the federal banking agencies finalized a rule that introduces a simplified measure of capital adequacy for qualifying banking organizations, as directed by the Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA"). The community bank leverage ratio ("CBLR") framework removes the requirement to measure capital adequacy based on risk-based capital ratios for those qualifying banking organizations that opt into the CBLR framework. Qualifying banking organizations will have met the well-capitalized ratio requirement for purposes of section 38 of the Federal Deposit Insurance Act if the banking organization (1) has less than $10 billion in total consolidated assets and (2) maintains a tier 1 leverage ratio greater than 9.0%. The Bank opted into the CBLR framework, effective January 1, 2020.

On March 27, 2020, the CARES Act was passed into law. Section 4012 of the CARES Act provided direction to the federal banking agencies to issue an interim rule that modified the requirements under section 201 of the EGRRCPA. Under the interim rule, the required minimum CBLR ratio is 8.0%. For qualifying banking organizations whose CBLR ratios fall below the minimum requirement, but not below 7.0%, the interim rule allows for a two-quarter grace period to meet the minimum requirement of 8.0% as of December 31, 2020. Under the interim rule, the minimum requirement is 8.5% for calendar year 2021 and 9.0% for calendar years 2022 and beyond. The two-quarter grace period requirement for calendar year 2021 is 7.5% and 8% for calendar years 2022 and beyond.

Under the final rule, a qualifying banking organization may opt out of the CBLR framework at any time and revert back to measuring capital adequacy in accordance with the requirements set forth in the BASEL III regulatory capital framework.

Note 13. Regulatory Matters, Continued

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.

The Bank's Tier 1 Capital (dollars in thousands) and Community Bank Leverage Ratio as of December 31, 2020 is as follows:

	Actual		Minimum CBLR To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio
December 31, 2020				
Tier I Capital (to average total assets)	$ 50,953	9.37%	$ 43,484	8.0%

As of December 31, 2019, the Bank met the criteria to be considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios. These minimum requirements as well as the Bank's actual capital amounts (dollars 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, 2019						
Common equity tier 1 capital (to risk-weighted assets)	$ 48,573	12.5%	$ 17,500	4.50%	$ 25,278	6.50%
Total capital (to risk-weighted assets)	51,459	13.2%	29,371	8.00%	38,896	10.00%
Tier 1 capital (to risk-weighted assets)	48,573	12.5%	15,556	4.00%	23,334	6.00%
Tier 1 capital (to average assets)	48,573	10.3%	18,882	4.00%	23,602	5.00%

Note 14. 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, 2020 and 2019, include loans to officers and directors and their affiliates totaling approximately $811 thousand and $1.7 million, respectively. During 2020, no loans were disbursed to officers, directors and their associates and principal repayments of approximately $920 thousand were received on such loans. Deposits at December 31, 2020 and 2019, include deposits to officers and directors and their affiliates totaling approximately $401 thousand and $373 thousand, respectively.

Note 15. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date, but before 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 April 2, 2021, the date the financial statements were available to be issued, and no subsequent events occurred that would require recognition or disclosure in the financial statements.

Stockholder Information

Annual Meeting

The Annual Meeting of Shareholders will be held on June 15, 2021 at 6:00 PM at the World Headquarters for Oak Ridge Financial Services, Inc. located at 8050 Fogleman Road, Oak Ridge, NC 27310, however, we are actively monitoring the public health and travel concerns relating to the coronavirus (COVID-19) and the protocols that federal, state, and local governments may impose. In the event it is not possible or advisable to hold the annual meeting in person, we will announce alternative arrangements for the meeting, which may include a change in venue or holding the meeting by means of remote participation. Please monitor the Company's website at https://www.bankofoakridge.com/investor-relations/ under the heading "About Us—Investor Relations" for updated information. If you are planning to attend the meeting, please check the website one week prior to the meeting date. As always, we encourage you to vote your shares prior to the annual meeting.

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***
Elliott Davis, PLLC Certified Public Accountants 500 East Morehead Street, Suite 700 Charlotte, North Carolina 28202	Computershare 480 Washington Boulevard Jersey City, New Jersey 07310

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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