Oak Ridge Financial Services, Inc.

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2023 and 2022

Oak Ridge Financial Services, Inc.

Contents

elliott davis

Independent Auditor's Report

Audit Committee of the Board of Directors
Oak Ridge Financial Services, Inc.

Opinion

We have audited the consolidated financial statements of Oak Ridge Financial Services, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, 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").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Corporation elected to change its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, *Financial Instruments – Credit Losses (ASC* 326). The Corporation adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Elliott Davis, PLLC

Charlotte, North Carolina
April 25, 2024

Oak Ridge Financial Services, Inc.

Consolidated Balance Sheets

As of December 31, 2023 and 2022

(Dollars in thousands)

	2023	2022
Assets		
Cash and due from banks	$ 7,792	$ 12,467
Interest-bearing deposits with banks	12,633	37,889
Total cash and cash equivalents	20,425	50,356
Securities available-for-sale	91,849	80,939
Securities held-to-maturity, net of allowance for credit losses of $21 at December 31,2023	18,706	11,161
Restricted stock, at cost	2,404	2,626
Loans, net of allowance for credit losses of $4,920 and $4,851 at December 31, 2023 and 2022, respectively	461,876	421,444
Property and equipment, net	8,366	9,192
Accrued interest receivable	2,580	1,996
Bank owned life insurance	6,178	6,095
Right-of-use assets – operating leases	2,466	1,183
Other assets	4,544	4,289
Total assets	$ 619,394	$ 589,281
Liabilities and Stockholders’ Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 99,702	$ 120,263
Interest-bearing	393,442	360,722
Total deposits	493,144	480,985
Short-term FHLB advances and Federal Reserve Term Funding Program borrowings	40,000	30,000
Long-term other borrowings	-	418
Junior subordinated notes – trust preferred securities	8,248	8,248
Subordinated debentures, net of discount	9,943	9,903
Lease liabilities – operating leases	2,466	1,183
Accrued interest payable	1,154	226
Other liabilities	6,092	5,675
Total liabilities	561,047	536,638
Commitments and contingencies (Note 11)		
Stockholders’ Equity		
Common stock, no par value; 50,000,000 shares authorized; 2,732,720 and 2,702,020 issued and outstanding at December 31, 2023 and 2022, respectively	26,736	26,207
Retained earnings	33,364	28,642
Accumulated other comprehensive loss:		
Net unrealized loss on debt securities, net of tax	(1,580)	(2,206)
Net unrealized loss on hedging derivative instruments, net of tax	(173)	-
Total accumulated other comprehensive loss	(1,753)	(2,206)
Total stockholders’ equity	58,347	52,643
Total liabilities and stockholders’ equity	$ 619,394	$ 589,281

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.

Consolidated Statements of Income

For the years ended December 31, 2023 and 2022

(Dollars in thousands except per share data)

	2023	2022
Interest and dividend income		
Loans and fees on loans	$ 25,150	$ 21,223
Interest on deposits in banks	903	514
Restricted stock dividends	186	66
Interest on investment securities	5,214	2,234
Total interest and dividend income	31,453	24,037
Interest expense		
Deposits	6,242	1,269
Short-term and long-term debt	3,154	1,114
Total interest expense	9,396	2,383
Net interest income	22,057	21,654
Provision for (recovery of) credit losses	727	(41)
Net interest income after provision for credit losses	21,330	21,695
Noninterest income		
Service charges on deposit accounts	628	591
Gain (loss) on sale of securities	77	(131)
Brokerage commissions on mortgage loans	43	200
Insurance commissions	461	463
Gain on sale of Small Business Administration loans	475	1,074
Debit and credit card interchange income	1,225	1,163
Income from Small Business Investment Company	394	179
Income earned on bank owned life insurance	82	81
Other service charges and fees	524	450
Total noninterest income	3,909	4,070
Noninterest expense		
Salaries	8,777	8,870
Employee benefits	1,177	1,118
Occupancy	1,092	1,111
Equipment	873	962
Data and item processing	1,959	1,728
Professional and advertising	1,377	1,104
Stationary and supplies	130	106
Impairment loss on securities	-	22
Telecommunications	438	438
FDIC assessment	418	291
Other expense	1,609	1,647
Total noninterest expense	17,850	17,397
Income before income taxes	7,389	8,368
Income tax expense	1,647	1,706
Net income and income available to common stockholders	$ 5,742	$ 6,662
Basic income per common share	$ 2.10	$ 2.47
Diluted income per common share	$ 2.10	$ 2.47
Basic weighted average shares outstanding	2,728,094	2,697,538
Diluted weighted average shares outstanding	2,728,094	2,697,538

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2023 and 2022
(Dollars in thousands)

	2023	2022
Net income	$ 5,741	$ 6,662
Other comprehensive income (loss):		
Unrealized holding loss on hedging derivative instruments	(219)	-
Tax effect	46	-
Hedging derivative instruments, net of tax	(173)	-
Unrealized holding gain (loss) on securities available-for-sale	891	(6,866)
Tax effect	(206)	1,578
Unrealized holding gain (loss) on securities available-for-sale, net of tax	685	(5,288)
Reclassification adjustment for realized (gains) losses	(77)	131
Tax effect	18	(30)
Reclassification adjustment for realized (gains) losses, net of tax	(59)	101
Other comprehensive income (loss), net of tax	453	(5,187)
Total comprehensive income	$ 6,194	$ 1,475

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2023 and 2022

(In thousands except shares of common stock)

	Common Stock		Retained	Accumulated Other Comprehensive	
	Number	Amount	Earnings	(Loss)	Total
Balance December 31, 2021	2,672,620	25,532	22,815	2,981	51,328
Net income	-	-	6,662	-	6,662
Other comprehensive loss	-	-	-	(5,187)	(5,187)
Common stock dividends	-	-	(835)	-	(835)
Common stock issued pursuant to restricted stock awards, net of forfeitures	29,400	675	-	-	675
Balance December 31, 2022	2,702,020	$ 26,207	$ 28,642	$ (2,206)	$ 52,643
Cumulative-effect adjustment due to ASU 2016-13 adoption	-	-	18	-	18
Net income	-	-	5,741	-	5,741
Other comprehensive income	-	-	-	453	453
Common stock dividends	-	-	(1,037)	-	(1,037)
Common stock issued pursuant to restricted stock awards, net of forfeitures	30,700	529	-	-	529
Balance December 31, 2023	2,732,720	$ 26,736	$ 33,364	$ (1,753)	$ 58,347

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022

	2023	2022
Operating activities		
Net income	$ 5,741	$ 6,662
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,087	1,166
Amortization of operating lease right-of-use assets	333	411
Provision for (recovery of) provision for credit losses	727	(41)
(Gain) loss on sale of AFS securities	(77)	131
Gain on sale of property and equipment	(33)	-
Gain on sale of SBA loans	(475)	(1,074)
Stock compensation expense	529	675
Income earned on bank owned life insurance	(82)	(81)
Deferred income tax (benefit) expense	(91)	(6)
Originations of SBA loans	(4,824)	(12,472)
Proceeds from sale of SBA loans	5,299	13,545
Net amortization of securities	(429)	(189)
Net amortization of discounts and premiums on subordinated debentures	40	40
Changes in assets and liabilities:		
Accrued interest receivable	(584)	(154)
Other assets	(306)	2,186
Accrued interest payable	928	116
Lease liability	(333)	(411)
Other liabilities	(153)	(141)
Net cash provided by operating activities	7,297	10,364
Investing activities		
Activity in available-for-sale securities:		
Purchases	(42,108)	(64,120)
Sales	12,782	13,590
Maturities and repayments	19,725	9,838
Activity in held-to-maturity securities:		
Purchases	(7,600)	(10,850)
Maturities and repayments	45	78
Redemptions (purchases) of restricted stock, net	222	(1,302)
Net (increase) decrease in loans	(40,770)	4,497
Purchases of property and equipment	(228)	(451)
Net cash used in investing activities	(57,932)	(48,720)
Financing activities		
Net increase (decrease) in deposits	12,159	(28,294)
Proceeds from short-term borrowings	10,000	30,000
Repayment of long-term borrowings	(418)	(265)
Common stock dividends	(1,037)	(835)
Net cash provided by financing activities	20,704	606
Net decrease in cash and cash equivalents	(29,931)	(37,728)
Cash and cash equivalents, beginning of year	50,356	88,084
Cash and cash equivalents, end of year	$ 20,425	$ 50,356

See Notes to Consolidated Financial Statements

Oak Ridge Financial Services, Inc.

Consolidated Statement of Cash Flows

For the years ended December 31, 2023 and 2022

	2023	2022
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	$ 8,468	$ 2,267
Income taxes	$ 1,834	$ 1,449
Non-cash investing and financing activities		
Change in unrealized gain (loss) in securities available-for-sale, net of tax	$ 626	$ (5,187)
Change in unrealized gain (loss) in hedging derivative instruments, net of tax	$ (173)	$ -
Adoption of ASU 2016-13, net of tax	$ 18	$ -
Initial recognition of right-of-use lease asset and lease liabilities	$ 1,616	$ -

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 credit 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 credit 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 credit 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.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are generally amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. Discounts on callable debt securities are amortized to their maturity date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

The Company evaluates the portfolio to determine whether any declines in the fair value below the amortized cost basis (impairment) are due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized in the allowance for credit losses (“ACL”) on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the ACL and the adjustment to net income may be reversed if conditions change.

In evaluating available for sale securities in unrealized loss positions for impairment and the criteria regarding its intent or requirement to sell such securities, the Company considers the extent to which fair value is less than amortized cost, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers’ financial condition, among other factors.

Changes in the ACL are recorded as a provision for (or reversal of) credit loss expense. Losses are charged against the ACL when management believes the collectability of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable is excluded from the estimate of credit losses.

Note 1. Summary of Significant Accounting Policies, Continued

Loans:

Loans are generally stated at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for credit losses on loans, 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.

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 Credit Losses on Loans:

On January 1, 2023, the Company adopted Company ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). This new guidance replaces the incurred loss impairment methodology in current standards with the Current Expected Credit Loss ("CECL") methodology and requires consideration of a broader range of information to determine credit loss estimates. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. The ACL reflects management's estimate of losses that will result from the inability of its borrowers to make required loan payments. The adjustments recorded at adoption were a decrease to the allowance for credit losses on loans of $247 thousand, increase of $223 thousand to the reserve for unfunded loan commitments and $6 thousand to deferred tax assets. The adjustment to retained earnings was a increase of $18 thousand. Management records loans charged off against the ACL and subsequent recoveries, if any, increase the ACL when they are recognized.

Management uses a modified SCALE methodology to determine its ACL for loans. The ACL is a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the loan portfolio. Management considers the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the loan portfolio. The Company considers it's methodology a modified SCALE methodology due to it's reliance on in-house lifetime loss rates as opposed to proxy rates. The forecasting element of the methodology emphasizes future looking unemployment rate projections, which have a direct correlation to the bank's lifetime loss rates. The Company's estimate of its ACL involves a reasonable degree of judgment; therefore, management's process for determining expected credit losses may result in a range of expected credit losses. The Company's ACL recorded in the balance sheet reflects management's best estimate within the range of expected credit losses. The Company recognizes in net income the amount needed to adjust the ACL for management's current estimate of expected credit losses.

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for Credit Losses on Loans, continued:

The Company defines collateral dependent loans as loans that have a nonaccrual status or a past due greater than or equal to 90 days. These loans are individually assessed and evaluated using Fair Value of Collateral method to determine their value. Loans individually assessed are removed from the model's loan pools.

The Company collectively evaluates loans that share similar risk characteristics. In general, management has segmented loans by regulatory call code category. The Company has identified the following portfolio segments: Commercial and Industrial, Agricultural, Real Estate Residential, Consumer, Real Estate Multifamily, Construction, Owner Occupied Real Estate, Non-Owner-Occupied Real Estate, and the unguaranteed portion of SBA loans.

The qualitative factor analysis is based on the interagency policy statement concerning qualitative factors for ACL's with additional factors added for documentation and risk grading. Management considers available forward-looking information in estimating expected credit losses. Management has evaluated the appropriateness of the reasonable and supportable forecast for the current period along with the inputs used in the estimation of expected credit losses.

The Company uses a combination of internal and external sources of data for forecasting purposes. External data sources include unemployment data from FRED Natural Rate of Unemployment (Short-Term) (Discontinued) Management believes unemployment trends are most closely correlated with losses based on prior periods of elevated unemployment and it's direct relationship with historical charge-off activity. Internal data sources include loan past due history, risk grades, loan to value, loan policy and technical exception reports, loan concentration reports, and changes in experience of lending management and relevant staff.

The Company is also required to measure expected credit losses on all financial instruments measured at amortized cost. This would include unfunded commitments, investment securities, and any other qualifying assets.

The unfunded commitment liability is estimated from the Company's historical loan-level loss rates and utilization rates in comparison to its balance of unfunded commitments. The expected losses associated with these exposures within the unfunded portion of the expected credit loss will be recorded with other liabilities on the balance sheet with an offset to off-balance sheet provision expense.

Prior to January 1, 2023, the allowance for loan losses was established as losses were estimated to have occurred through a provision for loan losses charged to earnings. Loan losses were charged against the allowance for loan loss (ALL) when management believes the collectability of a loan balance is confirmed. Subsequent recoveries, if any, were credited to the allowance.

The ALL related to loans that were 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 ALL 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.

Note 1. Summary of Significant Accounting Policies, Continued

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.

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 $63.7 million and $156.2 million of advances from the FHLB at December 31, 2023 and 2022, respectively. At December 31, 2023, the Bank had $18.0 million in outstanding advances with the FHLB. The Bank had $30.0 million in outstanding advances with the FHLB on December 31, 2022.

As a requirement for membership, the Bank invests in stock of the FHLB in the amount of 1% of its outstanding residential loans or 4.75% of its outstanding advances from the FHLB, whichever is greater. Such stock is pledged as collateral for any FHLB advances drawn by the Bank. On December 31, 2023 and 2022, the Bank owned 13,119 and 15,664 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, the Bank Term Funding Program and short-term FHLB advances. Additionally, securities available-for-sale, carried at fair value, with a fair value of $26.5 million at December 31, 2023, were pledged to the FRB, primarily to provide contingent liquidity through the Bank Term Funding Program ("BTFP") of the Federal Reserve, with a current limit of $26.8 million and unused borrowing capacity of $4.8 million at that date.

Note 1. Summary of Significant Accounting Policies, Continued

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.

Derivative instruments and hedging activities:

FASB ASC 815, Derivatives and Hedging ("ASC 815"), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation.

Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply, or the Company elects not to apply hedge accounting.

In accordance with the FASB's fair value measurement guidance in ASU 2011-04, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

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 $178 thousand and $125 thousand for the years ended December 31, 2023 and 2022, 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.

In 2007, the Company 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, 2023 and 2022, there were no outstanding and exercisable stock options.

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, 2023		
(Amounts in thousands, except share data)	**Income (Numerator)**	**Shares (Denominator)**	**Per Share Amount**
Basic income per common share	$ 5,741	2,728,094	$ 2.10
Effect of dilutive securities	-	-	
Diluted income per common share	$ 5,741	2,728,094	$ 2.10

	Year ended December 31, 2022		
(Amounts in thousands, except share data)	**Income (Numerator)**	**Shares (Denominator)**	**Per Share Amount**
Basic income per common share	$ 6,662	2,697,538	$ 2.47
Effect of dilutive securities	-	-	
Diluted income per common share	$ 6,662	2,697,538	$ 2.47

Note 1. Summary of Significant Accounting Policies, Continued

Revenue recognition:

Substantially all of the Company's revenue from contracts with customers that is within the scope of ASC 606, "Revenue from Contracts with Customers" is reported within noninterest income. A limited amount of other in-scope items such as gains and losses on other real estate owned are recorded in noninterest expense. The recognition of interest income and certain sources of noninterest income (e.g. gains on securities transactions, bank owned life insurance income, etc.) are governed by other areas of U.S. GAAP. Significant revenue streams that are within the scope of ASC 606 and included in noninterest income are discussed in the following paragraphs.

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.

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.

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 earned daily and recognized monthly, concurrently with the transaction processing services provided to the cardholder.

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, 2023 and 2022. Items outside the scope of Topic 606 are noted as such.

	2023	2022
Service charges on deposit accounts	$ 628	$ 591
Gain (loss) on sale of securities[1]	77	(131)
Brokerage commissions on mortgage loans	43	200
Insurance commissions	461	463
Gain on sale of Small Business Administration loans[1]	475	1,074
Debit and credit card interchange income	1,225	1,163
Income from Small Business Investment Company[1]	394	179
Income earned from bank owned life insurance[1]	82	81
Other service charges and fees[1]	524	450
Total noninterest income	$ 3,909	$ 4,070

[1]Not within the scope of Topic 606

Lease accounting:

The Company has 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 5 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.

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:

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 estimated fair value of securities available-for-sale, with gross unrealized gains and losses are summarized as follows (dollars in thousands):

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 13,923	$ -	$ (441)	$ 13,482
Federal agency mortgage-backed securities	8,833	19	(197)	8,654
Other residential mortgage-backed securities	44,427	27	(999)	43,456
Issued by U.S. Government agencies	21,020	373	(185)	21,208
Securities issued by states and political subdivisions in the U.S.	3,197	-	(495)	2,702
Corporate debt securities	2,500	-	(153)	2,347
Total securities available-for-sale	$ 93,900	$ 419	$ (2,470)	$ 91,849

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 21,774	$ -	$ (757)	$ 21,017
Federal agency mortgage-backed securities	13,875	-	(417)	13,458
Other residential mortgage-backed securities	26,897	1	(1,005)	25,893
Issued by U.S. Government agencies	2,951	17	(4)	2,964
Securities issued by states and political subdivisions in the U.S.	15,805	335	(862)	15,278
Corporate debt securities	2,500	-	(173)	2,329
Total securities available-for-sale	$ 83,802	$ 353	$ (3,218)	$ 80,939

The amortized cost and estimated fair value of securities held-to-maturity along with gross unrealized gains and losses and allowance for credit losses are summarized as follows (dollars in thousands):

	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
Other residential mortgage-backed securities	$ 277	$ 85	$ (2)	$ 360	$ 21
Corporate debt securities	18,450	-	(1,803)	16,647	-
Total securities held-to-maturity	$ 18,727	$ 85	$ (1,805)	$ 17,007	$ 21

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Other residential mortgage-backed securities	$ 311	$ 84	$ (4)	$ 391
Corporate debt securities	10,850	-	(891)	9,959
Total securities held-to-maturity	$ 11,161	$ 84	$ (895)	$ 10,350

Note 2. Investment Securities, Continued

Sub-investment grade 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 objective of this analysis is to detect credit quality issues subject to ACL. During the years ended December 31, 2023 and 2022, the Bank recorded ACL on HTM securities of $21 thousand and $23 thousand, respectively, on Sub-investment grade securities.

The Company had approximately $1.3 million and $1.6 million at December 31, 2023 and 2022, 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 $26.8 million and $0.5 million at December 31, 2023 and 2022, 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, 2023 and 2022, the Bank had $1.1 million in FRB stock. For the years ended December 31, 2023 and 2022, the Bank received $65 thousand and $64 thousand, respectively, in dividends related to its investment in FRB stock.

Gross realized gain (loss) on sales of available-for-sale investment securities were $77 thousand for the year ended December 31, 2023, with gross realized losses on sales of available-for-sale investment securities of $131 thousand for the year ended December 31, 2022.

Note 2. Investment Securities, Continued

The following table shows the gross unrealized losses and estimated fair value of available sale securities for which an allowance for credit losses has not been recorded aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2023 (dollars in thousands):

December 31, 2023	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:						
U.S. Treasury Securities	$ -	$ -	$ 13,482	$ (441)	$ 13,482	$ (441)
Federal agency mortgage-backed securities	-	-	2,712	(197)	2,712	(197)
Other residential mortgage-backed securities	22,943	(136)	14,764	(863)	37,707	(999)
Issued by U.S. Government agencies	8,907	(110)	2,342	(75)	11,249	(185)
Securities issued by states and political subdivisions in the U.S.	-	-	2,702	(495)	2,702	(495)
Corporate debt securities	-	-	2,347	(153)	2,347	(153)
Total available-for-sale	$ 31,850	$ (246)	$ 38,349	$ (2,224)	$ 70,199	$ (2,470)

The following table shows the gross unrealized losses and estimated fair value of available sale securities and held-to-maturity securities aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2022 (dollars in thousands):

December 31, 2022	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:						
U.S. Treasury Securities	$ 15,571	$ (297)	$ 5,447	$ (460)	$ 21,018	$ (757)
Federal agency mortgage-backed securities	10,959	(324)	2,499	(93)	13,458	(417)
Other residential mortgage-backed securities	24,041	(976)	298	(29)	24,339	(1,005)
Issued by U.S. Government agencies	-	-	746	(4)	746	(4)
Securities issued by states and political subdivisions in the U.S.	5,438	(223)	2,533	(639)	7,971	(862)
Corporate debt securities	2,329	(171)	-	-	2,329	(171)
Total available-for-sale	$ 58,338	$ (1,991)	$ 11,523	$ (1,225)	$ 69,861	$ (3,216)
Held-to-Maturity:						
Other residential mortgage-backed securities	$ 123	$ (4)	$ -	$ -	$ 123	$ (4)
Corporate Debt	9,959	(891)	-	-	9,959	(891)
Total held-to-maturity	$ 10,082	$ (895)	$ -	$ -	$ 10,082	$ (895)
Total securities	$ 68,420	$ (2,886)	$ 11,523	$ (1,225)	$ 79,943	$ (4,111)

Note 2. Investment Securities, Continued

There were 61 securities in an unrealized loss position at December 31, 2023, 44 of which was in a continuous unrealized loss position for 12 months or more. There were 53 securities in an unrealized loss position at December 31, 2022, 17 of which was in a continuous unrealized loss position for 12 months or more. Management has considered industry analyst reports, whether downgrades by bond rating agencies have occurred, sector credit reports, the corporation's ability and intent to hold securities to maturity, and volatility in the bond market, in concluding that the unrealized losses as of December 31, 2023 were primarily the result of fluctuations in the bond market related primarily to changes in market interest rates. As a result, all security impairments as of December 31, 2023 are considered to be temporary with the exception of 5 held-to-maturity securities for which impairment charges were recorded in the fourth quarter of 2023.

The following table shows a rollforward of the allowance for credit losses on held-to-maturity securities for the year ended December 31, 2023 (dollars in thousands):

	Other residential mortgage-backed securities
Balance, December 31, 2022	$ -
Adjustment for adoption of ASU 2016-13	-
Provision for Credit Loss	21
Allowance on purchased financial assets with credit deterioration	-
Charge-offs of securities	-
Recoveries	-
Balance, December 31, 2023	$ 21

The Company monitors the credit quality of the debt securities held-to-maturity through the use of credit ratings. The Company monitors the credit ratings on a quarterly basis. The following table summarizes the amortized cost of debt securities held-to-maturity at December 31, 2023, aggregated by credit quality indicators (dollars in thousands):

	December 31, 2023
Aaa	$ -
Aa1/Aa2/Aa3	-
A1/A2	-
BBB	-
C-	112
DDD+	141
Not rated	18,474
Total	$ 18,727

At December 31, 2023, the Company had no securities held-to-maturity that were past due 30 days or more as to principal or interest payments. The Company had no securities held-to-maturity classified as nonaccrual for the year ended December 31, 2023.

Note 2. Investment Securities, Continued

The amortized cost and estimated fair value of investment securities at December 31, 2023, by contractual maturity, are shown in the following table. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Because other residential mortgage-backed securities have both known principal repayment terms as well as unknown principal repayments due to potential borrower pre-payments, it is difficult to accurately predict the final maturity of these investments. Other residential mortgage-backed securities are shown separately (dollars in thousands):

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Costs	Fair Value
Due in less than one year	$ 5,982	$ 5,933	$ -	$ -
Due after one year through five years	9,623	9,155	-	-
Due after five years through ten years	9,882	9,158	18,450	16,647
Due after ten years	23,986	24,148	-	-
Other residential mortgage-backed securities	44,427	43,456	277	360
	$ 93,900	$ 91,850	$ 18,727	$ 17,007

Note 3. Loans

The major components of loans on the balance sheet at December 31, 2023 and 2022, are as follows (dollars in thousands):

	December 31,	
	2023	2022
Commercial	$ 64,373	$ 55,563
Loans to nondepository financial institutions	1,666	1,171
Real estate:		
Real estate construction and development	26,660	24,480
Residential, one-to-four families	80,907	78,152
Residential, 5 or more families	19,745	20,453
Other commercial real estate	267,938	241,870
Agricultural	782	1,058
Total real estate	396,032	366,013
Consumer	4,743	4,001
Total loans	466,814	426,748
Deferred loan origination fees, net of costs	(18)	(453)
Allowance for credit losses	(4,920)	(4,851)
Total loans, net	$ 461,876	$ 421,444

Note 3. Loans, Continued

Commercial loans totaled $64.4 million and $55.6 million at December 31, 2023 and 2022, 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.

Loans to nondepository financial institutions totaled $1.7 million and $1.2 million on December 31, 2023, and 2022, respectively. These represent investments in Small Business Investment Companies that provide debt and equity financing to small businesses.

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 $26.7 million and $24.5 million at December 31, 2023 and 2022, respectively. The Bank originates one-to-four family residential construction loans for the construction of custom homes (where the home buyer is the borrower) and provides financing to builders and consumers for the construction of pre-sold homes. The Bank generally receives a pre-arranged permanent financing commitment from an outside banking entity prior to financing the construction of pre-sold homes. The Bank also makes commercial real estate construction loans, primarily for owner-occupied properties.

Residential one-to-four family loans amounted to $80.9 million and $78.2 million at December 31, 2023 and 2022, respectively. The Bank's residential mortgage loans are typically either construction loans that convert into permanent financing and are secured by properties located within the Bank's market areas, or refinances of existing one-to-four properties or financing of newly purchased one-to-four family properties.

Residential, 5 or more families' loans totaled $19.7 million and $20.5 million at December 31, 2023 and 2022, 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.

Other commercial real estate loans totaled $267.9 million and $241.9 million at December 31, 2023 and 2022, 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.

Note 3. Loans, Continued

Agricultural loans totaled $782 thousand and $1.1 million at December 31, 2023 and 2022, 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 $4.7 million and $4.0 million at December 31, 2023 and 2022, 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.

The Bank originates loans under the Small Business Administration (SBA) program to provide financing to small businesses for various purposes, including working capital, real estate acquisition, and equipment purchase. These loans are extended in accordance with regulations and guidelines established by the Small Business Administration.

SBA loans are subject to specific terms and conditions, including collateral requirements, interest rates, repayment terms, and eligibility criteria. The Bank assesses the creditworthiness of borrowers and evaluates the feasibility of projects before extending SBA loans. SBA loans are classified in the Commercial, Residential one-to-four families, or Other Commercial Real Estate loan components.

Loans of approximately $165.7 million at December 31, 2023 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.

Note 3. Loans, Continued

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. The bank's designated SBA market area is the southeastern United States, however the majority of SBA originations are in the Triad and Triangle regions of North Carolina.

Credit review and evaluation:

The Bank has a credit administration department that reports to the Bank's 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 credit 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.

Note 3. Loans, Continued

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

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

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

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

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

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

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

Note 3. Loans, Continued

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

The following table shows the Company's recorded investment in loans by credit quality indicators further disaggregated by year of origination as of December 31, 2023 (dollars in thousands):

	Term Loans by Year of Origination					
	2023	2022	2021	Prior	Revolving	Total
Commercial						
Pass	$ 22,357	$ 12,323	$ 7,554	$ 11,514	$ 9,630	$ 63,378
Special Mention	-	-	99	403	360	862
Substandard	10	38	24	47	14	133
Total Commercial	$ 22,367	$ 12,361	$ 7,677	$ 11,964	$ 10,004	$ 64,373
Current period gross write-off	$ -	$ -	$ -	$ (15)	$ (224)	$ (239)
Nondepository financial institutions						
Pass	$ 635	$ 190	$ 300	$ 542	$ -	$ 1,667
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total nondepository financial institutions	$ 635	$ 190	$ 300	$ 542	$ -	$ 1,667
Current period gross write-off	$ -	$ -	$ -	$ -	$ -	$ -
Real estate construction and development						
Pass	$ 8,027	$ 10,220	$ 2,232	$ 3,506	$ 75	$ 24,060
Special Mention	-	-	-	1,429	-	1,429
Substandard	-	-	-	1,171	-	1,171
Total Real estate construction and development	$ 8,027	$ 10,220	$ 2,232	$ 6,106	$ 75	$ 26,660
Current period gross write-off	$ -	$ -	$ -	$ -	$ -	$ -
Residential, one-to-four families						
Pass	$ 9,207	$ 7,966	$ 9,487	$ 32,522	$ 18,928	$ 78,111
Special Mention	-	148	-	821	-	969
Substandard	136	-	589	866	237	1,827
Total Residential, one-to-four families	$ 9,343	$ 8,114	$ 10,076	$ 34,209	$ 19,165	$ 80,907
Current period gross write-off	$ -	$ -	$ (1)	$ -	$ -	$ (1)
Residential, five or more families						
Pass	$ 3,143	$ 4,755	$ 6,455	$ 4,235	$ -	$ 18,588
Special Mention	-	-	-	638	-	638
Substandard	-	-	519	0	-	519
Total Residential, five or more families	$ 3,143	$ 4,755	$ 6,974	$ 4,873	$ -	$ 19,745
Current period gross write-off	$ -	$ -	$ -	$ -	$ -	$ -
Other commercial real estate						
Pass	$ 41,470	$ 51,677	$ 46,631	$ 119,646	$ 3,990	$ 263,415
Special Mention	232	134	206	2,392	38	3,003
Substandard	806	-	225	489	-	1,519
Total Other commercial real estate	$ 42,508	$ 51,811	$ 47,062	$ 122,527	$ 4,028	$ 267,937
Current period gross write-off	$ -	$ -	$ -	$ -	$ -	$ -
Agricultural						
Pass	$ -	$ -	$ -	$ 782	$ -	$ 782
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total Agricultural	$ -	$ -	$ -	$ 782	$ -	$ 782
Current period gross write-off	$ -	$ -	$ -	$ -	$ -	$ -
Consumer						
Pass	$ 2,021	$ 627	$ 494	$ 586	$ 1,013	$ 4,741
Special Mention	-	-	-	-	-	-
Substandard	-	-	2	-	-	2
Total Consumer	$ 2,021	$ 627	$ 496	$ 586	$ 1,013	$ 4,743
Current period gross write-off	$ -	$ -	$ -	$ (27)	$ (15)	$ (42)

Note 3. Loans, Continued

The following tables show the Company's loan portfolio broken down by internal risk grading as of December 31, 2022 (dollars in thousands):

December 31, 2022	Pass (Grades 1-4)	Special Mention (Grade 5)	Substandard and Lower (Grades 6-8)	Total
Commercial	$ 54,834	$ 583	$ 146	$ 55,563
Loans to nondepository financial institutions	1,171	-	-	1,171
Real estate construction and development	21,737	1,540	1,203	24,480
Residential, one-to-four families	75,496	636	2,020	78,152
Residential, 5 or more families	19,629	278	546	20,453
Other commercial real estate	235,337	5,607	926	241,870
Agricultural	1,058	-	-	1,058
Consumer	3,992	5	4	4,001
Total Loans	$ 413,254	$ 8,649	$ 4,845	$ 426,748

The following tables present the Bank's aged analysis of past due loans and nonaccrual loans as of December 31, 2023 and 2022 (dollars in thousands):

December 31, 2023	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	$ 142	$ 27	$ 169	$ 64,204	$ 64,373	$ -
Loans to nondepository financial institutions	-	-	-	1,666	1,666	-
Real estate construction and development	-	-	-	26,660	26,660	-
Residential, one-to-four families	198	236	434	80,473	80,907	-
Residential, 5 or more families	-	-	-	19,745	19,745	-
Other commercial real estate	1,520	151	1,671	266,267	267,938	-
Agricultural	-	-	-	782	782	-
Consumer	43	4	47	4,696	4,743	-
Total Loans	$ 1,903	$ 418	$ 2,321	$ 464,493	$ 466,814	$ -

Note 3. Loans, Continued

December 31, 2022	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	$ 41	$ 21	$ 62	$ 55,501	$ 55,563	$ -
Loans to nondepository financial institutions	-	-	-	1,171	1,171	-
Real estate construction and development	-	-	-	24,480	24,480	-
Residential, one-to-four families	29	202	231	77,921	78,152	-
Residential, 5 or more families	-	-	-	20,453	20,453	-
Other commercial real estate	-	151	151	241,719	241,870	-
Agricultural	-	-	-	1,058	1,058	-
Consumer	33	-	33	3,968	4,001	-
Total Loans	$ 103	$ 374	$ 477	$ 426,271	$ 426,748	$ -

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.

The following table is a summary of nonaccrual loans by major categories for the dates indicated (dollars in thousands). All payments received while on nonaccrual status are applied against the principal balance of the loan. The Company does not recognize interest income while loans are on nonaccrual status.

	CECL			Incurred Loss
	December 31, 2023			December 31, 2022
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	Nonaccrual Loans
Commercial	$ 27	$ -	$ 27	$ 66
Loans to nondepository financial institutions	-	-	-	-
Real-estate Construction and land development	-	-	-	-
Residential, one-to-four families	277	-	277	498
Residential, 5 or more families	-	-	-	-
Other Commercial Real Estate	-	151	151	151
Agricultural	-	-	-	-
Consumer	1	-	1	4
Total	$ 305	$ 151	$ 457	$ 719

Note 3. Loans, Continued

The following table represents the accrued interest receivables written off by reversing interest during the twelve months ended December 31, 2023 (dollars in thousands):

	Accrued Interest Reversed December 31, 2023
Commercial	$ -
Loans to nondepository financial institutions	-
Real-estate Construction and land development	-
Residential, one-to-four families	7
Residential, 5 or more families	-
Other Commercial Real Estate	-
Agricultural	-
Consumer	1
Total accrued interest reversed	$ 8

The bank has established policies and procedures to identify collateral dependent loans for individual assessment and allowance. Qualification for assessment is determined by a investment balance threshold and ability to cashflow. The following table presents a nonaccrual loan analysis of collateral dependent loans as of December 31, 2023(dollars in thousands).

	Residential Properties	Total Loans
Other Commercial Real Estate	$ 151	$ 151
Total collateral dependent loans	$ 151	$ 151

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a probability of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Note 3. Loans, Continued

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses. In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

There were no loans modified to borrowers experiencing financial difficulties during the year ended December 31, 2023.

The following table includes the recorded investment and number of modifications for TDR restructured loans for the year ended December 31, 2022 (dollars in thousands):

	December 31, 2022			
	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:				
Commercial real estate	1	$ 864	$ 864	$ -
	1	$ 864	$ 864	$ -

Note 3. Loans, Continued

The following table presents the Company's impaired loan balances by portfolio segment, excluding acquired impaired loans, at December 31, 2022 (dollars in thousands):

December 31, 2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 90	$ 92	$ -	$ 179	$ -
Real estate construction and development	-	-	-	22	-
Residential, one-to-four families	633	668	-	914	1
Other commercial real estate	846	846	-	499	4
Agricultural	-	-	-	700	-
Consumer	8	8	-	8	-
Total impaired loans with no related allowance recorded	1,577	1,614	-	2,322	5
With allowance recorded:					
Commercial	227	227	227	121	3
Real estate construction and development	1,204	1,204	555	669	11
Other commercial real estate	151	152	152	76	-
Residential, one-to-four families	-	-	-	50	-
Agricultural	-	-	-	60	-
Consumer	1	1	1	-	-
Total impaired loans with related related allowance recorded	1,583	1,584	935	976	14
Total impaired loans	$ 3,160	$ 3,198	$ 935	$ 3,298	$ 19

Note 4. Allowance for Credit Losses

The bank adopted ASU 2016-13 effective January 1, 2023. The following table presents the Company's allowance for credit losses by portfolio segment at and for the year ended December 31, 2023 (dollars in thousands):

December 31, 2023:

Allowance for Credit Losses	Commercial	Loans to nondepository financial institutions	Real estate Construction and Development	Residential, one-to-four families	Residential, 5 or more families	Other commercial real estate	Agricultural	Consumer	Total
Balance at December 31, 2022	$ 1,237	$ -	$ 1,223	$ 24	$ -	$ 2,341	$ -	$ 26	$ 4,851
Day 1 CECL adoption	(461)	-	(366)	566	164	(166)	13	3	(247)
Charge-offs	(239)	-	-	(1)	-	-	-	(42)	(282)
Recoveries	-	-	-	-	-	-	-	12	12
Provision/ (recovery)	184	-	(152)	83	-	405	6	59	585
Balance at December 31, 2023	$ 721	$ -	$ 705	$ 672	$ 164	$ 2,580	$ 19	$ 58	$ 4,919

December 31, 2022:

Allowance for Loan Losses	Commercial	Loans to nondepository financial institutions	Real estate Construction and Development	Residential, one-to-four families	Residential, 5 or more families	Other commercial real estate	Agricultural	Consumer	Total
Balance at December 31, 2021	$ 533	$ -	$ 618	$ 632	$ 49	$ 1,092	$ 812	$ 20	$ 3,756
Charge-offs	-	-	-	(141)	-	-	-	(15)	(156)
Recoveries	1,043	-	-	240	-	-	-	9	1,292
Provision/ (recovery)	(339)	-	605	(707)	(49)	1,249	(812)	12	(41)
Balance at December 31, 2022	$ 1,237	$ -	$ 1,223	$ 24	$ -	$ 2,341	$ -	$ 26	$ 4,851

The following tables summarize the allowance for loan losses and recorded investment in loans as of December 31, 2022 (dollars in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
December 31, 2022	**Individually evaluated for impairment**	**Collectively evaluated for impairment**	**Total**	**Individually evaluated for impairment**	**Collectively evaluated for impairment**	**Total**
Commercial	$ 227	$ 1,010	$ 1,237	$ 317	$ 55,246	$ 55,563
Loans to nondepository financial institutions	-	-	-	-	1,171	1,171
Real estate construction and development	555	668	1,223	1,204	23,276	24,480
Residential, one-to-four families	-	24	24	633	77,519	78,152
Residential, 5 or more families	-	-	-	-	20,453	20,453
Other commercial real estate	152	2,189	2,341	997	240,873	241,870
Agricultural	-	-	-	-	1,058	1,058
Consumer	1	25	26	9	3,992	4,001
	$ 935	$ 3,916	$ 4,851	$ 3,160	$ 423,588	$ 426,748

Note 5. Property and Equipment

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

	December 31,	
	2023	2022
Land, buildings, and improvements	$ 10,228	$ 10,298
Furniture and equipment	7,371	11,366
Property and equipment, total	17,599	21,664
Less accumulated depreciation	(9,233)	(12,472)
Property and equipment, net of depreciation	$ 8,366	$ 9,192

Depreciation expense for the years ended December 31, 2023 and 2022, was $1.1 million and $1.2 million, respectively.

<u>*Leases:*</u>

The Company has applied 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 following table summarizes the activity of the Company's operating ROU assets during the years ended December 31, 2023 and 2022 (dollars in thousands):

	December 31,	
	2023	2022
Beginning balance	$ 1,183	$ 1,594
Operating ROU assets recognized during the year	1,616	-
Amortization of operating ROU assets	(333)	(411)
Ending balance	$ 2,466	$ 1,183

Note 5. Property and Equipment, Continued

Leases, continued:

Total rent expense related to these leases was $448 thousand and $438 thousand for the years ended December 31, 2023 and 2022, respectively.

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

	December 31,	
	2023	**2022**
Total operating lease costs	$ 333	$ 410
Cash paid for amounts related to operating leases	$ 448	$ 438
Weighted-average remaining lease term – operating leases, in years	8.71	10.25
Weighted-average discount rate – operating leases	2.72%	1.95%

The following table summarizes the maturity of remaining operating lease liabilities as of December 31, 2023 (dollars in thousands):

2024	$ 377
2025	334
2026	297
2027	303
2028	319
Thereafter	1,002
Total lease payments	2,632
Less: imputed interest	(166)
Operating lease liability	$ 2,466

Note 6. Income Taxes

Current and deferred income tax components:

The components of income tax expense (benefit) for the years ended December 31, 2023 and 2022, are as follows (dollars in thousands):

	2023	2022
Current		
Federal	$ 1,542	$ 1,471
State	183	215
	1,725	1,686
Deferred		
Federal	(78)	13
State	(13)	(7)
Deferred tax asset valuation change	13	14
Deferred taxes	(78)	20
Net income tax expense	$ 1,647	$ 1,706

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, 2023 and 2022, is as follows (dollars in thousands):

	2023	2022
Tax at statutory federal rate	$ 1,551	$ 1,757
Income from bank owned life insurance	(17)	(17)
Tax-exempt income	(19)	(175)
State taxes, net of federal benefit	134	165
Deferred tax asset valuation allowance change	14	14
Other	(16)	(38)
	$ 1,647	$ 1,706

Note 6. Income Taxes, Continued

Deferred income tax analysis:

The significant components of the net deferred tax asset (liability) at December 31, 2023 and 2022, are reported in other assets and are summarized as follows (dollars in thousands):

	2023	2022
Deferred tax assets		
Allowance for loan losses	$ 804	$ 729
Accrued compensation	400	468
Other accrued liabilities	347	268
State carryforwards	142	128
Deferred loan fees	4	104
Unrealized loss on investment securities	98	94
Post-retirement benefit obligation	36	87
Investment in partnership	161	162
Derivatives	52	-
Unrealized loss on available-for-sale securities	471	658
Total deferred tax assets	2,515	2,698
Valuation allowance	(142)	(128)
Deferred tax asset	2,373	2,570
Deferred tax liabilities		
Stock compensation	(64)	(38)
Depreciation	(597)	(757)
Total deferred tax liabilities	(661)	(795)
Net deferred tax (liability) asset	$ 1,712	$ 1,775

At December 31, 2023 and 2022, the Company had net loss carryforwards for state income tax purposes of approximately $6.5 million and $6.4 million, respectively. The state net loss carryforwards begin to expire in 2023. 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, 2023 and 2022, the valuation allowance increased $14 thousand and $14 thousand, respectively.

Note 6. Income Taxes, Continued

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.

With few exceptions, years prior to December 31, 2020 are closed under the statute of limitations for federal, state and local income tax matters.

Note 7. Deposits

At December 31, 2023 and 2022, time deposits that met or exceeded the FDIC insurance limit of $250,000 amount to approximately $17.2 million and $6.0 million, respectively. At December 31, 2023, the scheduled maturities of time deposits are as follows: (dollars in thousands)

2024	$ 91,918
2025	15,368
2026	5,873
2027	5
2028	12,027
Thereafter	-
Total time deposits	$ 125,191

Brokered deposits were $34.8 million and $34.9 million as of December 31, 2023 and 2022, respectively.

Note 8. Borrowed Funds

Short-term FHLB Advances:

The Company's short-term borrowings consist of borrowings from the Federal Home Loan Bank (the "FHLB") and the FRB BTFP. The following table summarizes short-term borrowings at December 31, 2023 and 2022 (dollars in thousands):

	2023		2022	
	Total Principal	Weighted Average Rate	Total Principal	Weighted Average Rate
Federal Home Loan Bank Advances	$ 18,000	5.57%	$ 30,000	4.57%
FRB BTFP	$ 22,000	5.03%	$ -	-

The Federal Home Loan Bank Advances and FRB BTFP borrowings as of December 31, 2023 mature on November 29, 2024, and April 18, 2024, respectively.

Information concerning short-term Federal Home Loan Bank and FRB BTFP borrowings for 2023 and 2022, is summarized below (dollars in thousands):

	2023	2022
Average daily balance during the year	$ 35,995	$ 5,041
Maximum month-end balance during the year	$ 54,000	$ 30,000
Amount outstanding at end of year	$ 40,000	$ 30,000

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, home equity lines of credit, and commercial real estate loans. The eligible residential one-to-four family first mortgage, home equity lines of credit, and commercial real estate loans as of December 31, 2023, were $2.4 million, $3.8 million and $75.4 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 $869 thousand held in safekeeping that the Bank can provide as collateral for borrowings.

Securities with a carrying value of $26.8 million were pledged primarily to provide contingent liquidity through the BTFP at the FRB at December 31, 2023, with a current credit limit of $26.8 million and an outstanding balance of $22.0 million at December 31, 2023.

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 $53.0 million and are subject to cancellation without notice.

Note 8. Borrowed Funds, Continued

Other borrowings:

The Company had no long-term borrowings at December 31, 2023. The Company had long-term borrowings of $418 thousand outstanding at December 31, 2022.

The long-term borrowings outstanding as of December 31, 2022, were 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 could 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 called 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 carried 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, 2022, the rate on the index was 4.42%.

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 $8.2 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.

Subordinated debentures:

On June 29, 2016, $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 company prepaid the entire balance at par on June 30, 2021. The maturity date of the debentures was June 29, 2026.

Note 8. Borrowed Funds, Continued

Subordinated debentures, continued:

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 3-month LIBOR plus 587 basis points. The subordinated debenture agreement provides for an index other than 3-month LIBOR if that index is no longer published. The possible alternative rate indexes plus 587 basis points include either (1) Term Secured Overnight Financing Rate (SOFR); (2) Compounded SOFR; (3) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then current Benchmark for the applicable Corresponding Tenor; (4) the International Swaps and Derivatives Association, Inc. Fallback Rate; or (5) the alternate rate of interest that has been selected by the Issuer as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to any industry-accepted rate of interest as a replacement for the then current Benchmark for U.S. dollar denominated floating rate notes at such time. As of December 31, 2023, the alternative rate index being utilized by the servicer is SOFR.

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 $221 thousand and $195 thousand during the years ended December 31, 2023 and 2022, 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, 2023 and 2022, the Company expensed $242 thousand and $314 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.

Note 9. Retirement Plans and Other Postretirement Benefits, Continued

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 $508 thousand and $429 thousand for the years ended December 31, 2023 and 2022, 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 $6.2 million and $6.1 million at December 31, 2023 and 2022, respectively.

Supplemental executive retirement plan:

In January of 2006, the Company adopted a supplemental executive retirement plan to provide benefits for certain members of management. Under plan provisions, aggregate fixed annual payments of $153 thousand are payable for these members of management for their lifetime, beginning with their normal retirement ages of 65. In 2016, the Company adopted another supplemental executive retirement plan to provide a benefit to a member of the Company's management. Under this plan's provisions, aggregate fixed annual payments of $29 thousand begin at the time the member of management attains the age of 70 and cease at the time they are 80. In September of 2022, the Company adopted a supplemental executive retirement plan to provide benefits for certain members of management. Under plan provisions, aggregate fixed annual payments of $130 thousand are payable for these members of management for fifteen years, beginning with their normal retirement ages of 65. 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 $1.6 million and $1.5 million at December 31, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, were $6.2 million and $6.1 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.

Note 9. Retirement Plans and Other Postretirement Benefits, Continued

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, 2023 and 2022, was approximately $528 thousand and $676 thousand, respectively.

Stock options:
No options were granted in the years ended December 31, 2023 and 2022. All stock options were fully vested at December 31, 2019.

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

Restricted stock awards:

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

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

2024	$	399
2025		316
2026		224
2027		131
2028 and thereafter		19
	$	1,089

Restricted stock share grants of 30,700 and 29,750 shares were made during the years ended December 31, 2023 and 2022, respectively. The shares granted in both years have vesting periods of five years. There were no forfeitures of restricted stock share grants during the year ended December 31, 2023. There were forfeitures of restricted stock share grants of 350 shares during the year ended December 31, 2022. Nonvested restricted stock was $1.1 million and $1.0 million at December 31, 2023 and 2022, respectively.

Note 10. Reserve Requirements

To comply with banking regulations, the Company is required to maintain certain cash reserve balances. On December 1, 2022, the Federal Reserve kept the reserve requirement at zero percent for all of 2023.

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 $65.2 million and standby letters of credit of $1.9 million at December 31, 2023.

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.

An unfunded commitment liability is estimated from the Company's historical loan-level loss rates and utilization rates in comparison to its balance of unfunded commitments. The expected losses associated with these exposures within the unfunded portion of the expected credit loss will be recorded as a liability on the balance sheet with an offset to off balance-sheet provision. As of December 31, 2023, the unfunded commitment liability was $345 thousand.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the year ended December 31, 2023 (dollars in thousands).

	Total Allowance for Credit Losses - Unfunded Commitments
Balance, January 1, 2023	$ -
Day 1 impact of CECL adoption	223
Provision for unfunded commitments	122
Balance, December 31, 2023	$ 345

Note 11. Commitments and Contingencies, continued

A summary of the contract amount of the Company's exposure to off-balance sheet risk as of December 31, 2023 is as follows (in thousands):

Financial instruments whose contract amounts represent credit risk:

Undisbursed lines of credit	$	52,045
Commitments to extend credit		13,218
Letters of credit		1,869

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.

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

Note 12. Fair Value of Financial Instruments, continued

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, 2023.

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

Investment securities available-for-sale:

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

Loans:

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered collateral dependent and an allowance for credit 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 collateral dependent. Once a loan is identified as collateral dependent, management measures impairment using one of several methods, including collateral value, market price and discounted cash flows. Those collateral dependent 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, 2023, substantially all of the total collateral dependent loans were evaluated based on the fair value of the collateral. Collateral dependent 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 collateral dependent loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further collateral dependent below the appraised value and there is no observable market price, the Company records the collateral dependent loan as nonrecurring Level 3.

Note 12. Fair Value of Financial Instruments, Continued

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

	Total	Level 1	Level 2	Level 3
December 31, 2023				
Investment securities available for sale:				
U.S. Treasury securities	$ 13,482	$ 13,482	$ -	$ -
Federal agency mortgage-backed securities	8,654	-	8,654	-
Other residential mortgage-backed securities	43,456	-	43,456	-
Issued by U.S. Government agencies	21,208	-	21,208	-
Securities issued by states and political subdivisions in the U.S.	2,702	-	2,702	-
Corporate debt securities	2,347	-	2,347	-
Total assets at fair value	$ 91,849	$ 13,482	$ 78,367	$ -
December 31, 2022				
Investment securities available for sale:				
U.S. Treasury securities	$ 21,017	$ 21,017	$ -	$ -
Federal agency mortgage-backed securities	13,458	-	13,458	-
Other residential mortgage-backed securities	25,893	-	25,893	-
Issued by U.S. Government agencies	2,964	-	2,964	-
Securities issued by states and political subdivisions in the U.S.	15,278	-	15,278	-
Corporate debt securities	2,329	-	2,329	-
Total assets at fair value	$ 80,939	$ 21,017	$ 59,922	$ -

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

	Total	Level 1	Level 2	Level 3
December 31, 2023				
Collateral dependent loans receivable	$ 2,430	$ -	$ -	$ 2,430
Total assets at fair value	$ 2,430	$ -	$ -	$ 2,430
December 31, 2022				
Impaired loans receivable	$ 2,225	$ -	$ -	$ 2,225
Total assets at fair value	$ 2,225	$ -	$ -	$ 2,225

Note 12. Fair Value of Financial Instruments, Continued

There were no liabilities recorded at fair value on a recurring or nonrecurring basis at December 31, 2023 or 2022.

There were no assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2023 and 2022.

For Level 3 assets measured at fair value on a recurring or non-recurring basis as of December 31, 2023, the significant unobservable inputs used in the fair value measurements were as follows:

(Dollars in thousands)	Fair Value at December 31, 2023	Fair Value at December 31, 2022	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Collateral dependent loans	$ 2,430	$ 2,225	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. Derivatives and Hedging Activities

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates.

Fair Value Hedges of Interest Rate Risk

The Company is exposed to changes in the fair value of certain of its fixed-rate assets due to changes in benchmark interest rates. The Company uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate. Interest rate swaps designated as fair value hedges involve the payment of fixed-rate amounts to a counterparty in exchange for the Company receiving variable-rate payments over the life of the agreement without the exchange of the underlying notional amount.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income.

Note 13. Derivatives and Hedging Activities, Continued

At December 31, 2023, the following amounts were recorded on the balance sheet related to cumulative basis adjustment for fair value hedges. The Company had no fair value hedges at December 31, 2022.

	Carrying Amount of the Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets
(Dollars in thousands)		
Line item in the Statement of Income Where the hedged item is included:		
December 31, 2023:		
Interest on investment securities[1]	$ 24,026	$ (219)
Total	$ 24,026	$ (219)

(1) These amounts include the amortized cost basis of a closed portfolio of available-for-sale securities used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the designated hedged period. At December 31, 2023, the amortized cost basis of the closed portfolio used in this hedging relationship was $24.2 million, the cumulative negative basis adjustments associated with this hedging relationship was $219,000, and the amount of the designated hedged items was $23.7 million.

The following table summarizes the Company's derivative instruments at the date indicated. The Company has master netting agreements with derivative dealers with which it does business, but reflects gross assets and liabilities as "Other assets" and "Other liabilities," respectively, on the Consolidated Balance Sheets, as follows:

	Notional	Fair Value	
	Amount	Other Assets	Other Liabilities
(Dollars in thousands)			
December 31, 2023			
Fair value hedges			
Interest rate swaps - securities	$ 23,664	$ -	$ 219

Note 13. Derivatives and Hedging Activities, Continued

The following table summarizes the effect of fair value accounting on the Consolidated Statements of Income for the periods shown:

	Year Ended December 31,	
	2023	**2022**
(Dollars in thousands)		
Total amount recognized in interest on investment securities	$ 5,214	$ 2,234
Net gains (losses) on fair value hedging relationships included in the preceding total		
Interest rate swaps - securities		
Recognized on hedged items	674	-
Recognized on derivatives designated as hedging instruments	(469)	-
Net income recognized on fair value	$ 205	$ -

Credit Risk-related Contingent Features

The Company is exposed to credit-related losses in the event of nonperformance by counterparties to hedging instruments. The counterparties to all derivative transactions are major financial institutions with investment grade credit ratings. However, this does not eliminate the Company's exposure to credit risk with these institutions. This credit risk is limited to the unrealized gains in such contracts should any of these counterparties fail to perform as contracted.

The Company has an interest rate swap agreement with its derivative counterparty that contains a provision where if the Company either defaults or fails to maintain its status as a well or adequately capitalized institution, then the Company could be required to terminate the contract or post additional collateral. At December 31, 2023, the Company had $219,000 derivatives in a net liability position related to this agreement. The Company has minimum collateral posting thresholds with its derivative counterparty and has posted cash of $300,000 to secure the interest rate swap agreement at December 31, 2023. In certain cases, the Company will have posted excess collateral compared to total exposure due to initial margin requirements or day-to-day rate volatility.

As of December 31, 2023, the Company was in compliance with all credit risk-related contingent features. Given the considerations described above, the Company considers the impact of the risk of counterparty default to be immaterial.

Note 14. Regulatory Matters

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

Note 14. Regulatory Matters, Continued

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, 2023, 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 2022 and 9.0% for calendar years 2023 and beyond. The two-quarter grace period requirement for calendar year 2022 is 7.5% and 8% for calendar years 2023 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.

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.

Note 14. Regulatory Matters, Continued

The Bank's Tier 1 Capital (dollars in thousands) and Community Bank Leverage Ratio as of December 31, 2023 and 2022 is as follows:

	Actual		Minimum CBLR To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**
December 31, 2023				
Tier I Capital (to average total assets)	$ 68,962	11.18%	$ 55,506	9.0%
December 31, 2022				
Tier I Capital (to average total assets)	$ 64,363	11.27%	$ 51,400	9.0%

Note 15. Related Party Transactions

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

Loans at December 31, 2023 and 2022, include loans to officers and directors and their affiliates totaling approximately $887 thousand and $2.1 million, respectively. During 2023, no new loans were disbursed to officers, directors and their associates and principal repayments of approximately $1.3 million were received on such loans. During 2022, $1.7 million in new loans were disbursed to officers, directors and their associates and principal repayments of approximately $518 thousand were received on such loans. Deposits at December 31, 2023 and 2022, include deposits to officers and directors and their affiliates totaling approximately $287 thousand and $518 thousand, respectively.

Note 16. Privacy, Data Protection and Cyber Security

Various federal and state laws and regulations contain extensive data privacy and cybersecurity provisions, and the regulatory framework for data privacy and cybersecurity is in considerable flux and rapidly evolving. Current federal law requires financial institutions to periodically disclose their privacy policies and practices relating to sharing such information and enables retail customers to opt out of our ability to share information with unaffiliated third parties under certain circumstances. Other federal and state laws and regulations impact our ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. Current federal law also requires financial institutions to implement a comprehensive information security program that includes administrative, technical and physical safeguards to ensure the security and confidentiality of customer records and information. these security and privacy policies and procedures for the protection of personal and confidential information are in effect across all businesses and geographic locations. Federal law also makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

In November 2022, the Federal Reserve, OCC, and FDIC adopted a new regulation that, among other things, requires a banking organization to notify its primary federal regulators within 36 hours after identifying a "computer-security incident" that the banking organization believes in good faith could materially disrupt or degrade its business or operations in a manner that would, among other things, jeopardize the viability of its operations, result in customers being unable to access their deposit and other accounts, result in a material loss of revenue, profit or franchise value, or pose a threat to the financial stability of the U.S.. The bank has incorporated this regulation into it's Incident Response Plan.

Data privacy and data protection are also areas of increasing state legislative focus. For example, the California Consumer Privacy act of 2018 ("CCPA") gives consumers the right to request disclosure of information collected about them, and whether that information has been sold or shared with others, the right to request deletion of personal information (subject to certain exceptions), the right to opt out of the sale of the consumer's personal information, and the right not to be discriminated against for exercising these rights. the CCPA contains several exemptions, including that many, but not all, requirements of the CCPA are inapplicable to information that is collected, processed, sold, or disclosed pursuant to federal law. because our correspondent division has an office in California, we have complied with the CCPA. similar laws have been or may be adopted by other states where we do business, such as the Consumer Data Protection act, a privacy law adopted in Virginia in 2022 that grants consumers rights over their personal data. the federal government may also pass data privacy or data protection legislation.

Like other lenders, the Bank uses credit bureau data in their underwriting activities. Use of such data is regulated under the Fair Credit Reporting Act, which also regulates reporting information to credit bureaus, prescreening individuals for credit offers, sharing of information between affiliates, and using affiliate data for marketing purposes. similar state laws may impose additional requirements on us and our subsidiaries. the Bank is also subject to rules and regulations issued by the Federal Trade Commission, which regulates unfair or deceptive acts or practices, including with respect to data privacy and cybersecurity.

Note 16. Privacy, Data Protection and Cyber Security, Continued

We, our customers, regulators and other third parties have been subject to, and are likely to continue to be the target of, cyberattacks. Cyberattacks include computer viruses, malicious or destructive code, phishing attacks, denial of service or information or other security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of ours, our employees, our customers or of third parties, or otherwise materially disrupt our or our customers' or other third parties' network access or business operations.

Note 17. 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 25, 2024, 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 11, 2024 at 11:30 am at the World Headquarters for Oak Ridge Financial Services, Inc. located at 8050 Fogleman Road, Oak Ridge, NC 27310. In the event it is not possible or advisable to hold the annual meeting in person, we will announce alternative arrangements for the meeting at the Company's website at https://www.bankofoakridge.com/investor-relations/ under the heading "About Us—Investor Relations". 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, Chief Executive Officer and Chief Financial Officer, at Oak Ridge Financial Services Inc., P.O. Box 2, Oak Ridge, North Carolina, 27310; telephone (336) 644-9944.

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