

MEDIA ALERT

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Oak Ridge Financial Services, Inc. Announces Third Quarter 2014 Net Income

Oak Ridge, NC: October 20, 2014 – Oak Ridge Financial Services, Inc. (“Oak Ridge”; the “Company”) (OTCQB: BKOR), the parent company of Bank of Oak Ridge (the “Bank”), announced unaudited financial results for the third quarter of 2014 today.

The Company recorded quarterly net income for the third quarter of 2014 of \$539,000 compared to net income of \$445,000 for the third quarter of 2013, an increase of \$94,000. Net income available to common shareholders for the third quarter of 2014 was \$366,000 compared to income available to common shareholders of \$268,000 for the third quarter of 2013, an increase of \$98,000. Basic and diluted income per common share increased \$0.03 to \$0.18 for the third quarter of 2014 compared to diluted income per common share of \$0.15 in the third quarter of 2013.

The Company recorded net income for the nine months ended September 30, 2014 of \$1.52 million compared to net income of \$879,000 for the same period of 2013, an increase of \$643,000. Net income available to common shareholders for the nine months ended September 30, 2014 was \$1.08 million compared to income available to common shareholders of \$346,000 for the same period of 2013, an increase of \$734,000. Basic and diluted income per common share increased \$0.36 to \$0.55 for the nine months ended September 30, 2014 compared to basic and diluted income per common share of \$0.19 in the same period of 2013.

Ron Black, President and CEO of the Company and the Bank, commented, “During the third quarter, the Company continued to grow loans and deposits and improve our profitability, while decreasing nonperforming assets for the fourth consecutive quarter. I am thankful for the support and contributions of our clients, shareholders, employees and Board of Directors during 2014.”

Profitability as measured by the Company’s annualized return on average assets was 0.60% and 0.54% for the three months ended September 30, 2014 and 2013, respectively. For the nine months ended September 30, 2014 and 2013, the annualized return on average assets was 0.57% and 0.35%, respectively.

The Company produced net interest income of \$3.4 million during the third three months of 2014, which was lower than the \$3.6 million generated for the same time period of 2013. Net interest income for the three months ended September 30, 2013 was higher primarily due to nonaccrual interest that was collected as a result of the resolution of a loan relationship. Interest expense increased slightly to \$458,000 for the three months ended September 30, 2014 compared to \$403,000 for the same period in 2013.

The Company produced net interest income of \$10.2 million during the nine months ended September 30, 2014, which was \$104,000 higher than the \$10.1 million generated for the same time period of 2013. The increase was primarily caused by higher interest income, which increased \$146,000 or approximately 1.3% to \$11.5 million for the nine months ended September 30, 2014 as compared to the same time period of the prior year. Interest expense decreased slightly to \$1.4 million for the nine months ended September 30, 2014 compared to \$1.3 million for the same period in 2013.

Noninterest income increased \$17,000 or approximately 2.5% to \$708,000 during the three months ended September 30, 2014 as compared to the same time period of 2013. The majority of the net increase was associated with increases in gain on sale of securities and other service charges and fees, offset by decreases in gain on sale of mortgage loans and fee income from accounts receivable financing.

Noninterest income decreased \$78,000 or approximately 3.4% to \$2.2 million during the nine months ended September 30, 2014 as compared to the same time period of 2013. The majority of the net decrease was associated with decreases in gain on sale of mortgage loans and fee income from accounts receivable financing, offset by increases in service charges on deposit accounts, gain on sale of securities, and other service charges and fees.

Noninterest expense was unchanged at \$3.0 million for the three months ended September 30, 2014 compared to the same time period of 2013. There were small increases in a number of noninterest expense categories. Employee benefits increased \$94,000 to \$289,000 in the three months ended September 30, 2014 from \$195,000 during the same period in 2013. This was largely due to a \$60,000 ESOP accrual in 2014 and a \$30,000 accrual in 2013, along with increased benefit costs in 2014 compared to 2013.

Noninterest expense decreased \$596,000 or approximately 6.1% to \$9.2 million for the nine months ended September 30, 2014 compared to \$9.8 million for the same time period of 2013. This decrease is largely due to declines in salaries, professional and advertising, net cost of foreclosed assets, and other expense. Employee benefits increased \$256,000 to \$802,000 in the nine months ended September 30, 2014 from \$546,000 during the same period in 2013 largely due to an \$180,000 ESOP expense accrual in 2014 and a \$30,000 accrual in 2013, as well as increased benefit costs in 2014 compared to 2013.

Total assets as of September 30, 2014 were \$358.4 million, up approximately 2.8% or \$9.8 million from \$348.5 million as of December 31, 2013. The principal components of the Company's assets as of the end of the time period were \$271.3 million in net loans, \$17.4 million in cash and cash equivalents and \$50.7 million in available-for-sale and held-to-maturity investment securities. During the first nine months of 2014, net loans increased to \$271.3 million, up approximately 4.1% or \$10.6 million from \$260.7 million as of December 31, 2013. Cash and cash equivalents increased approximately 27.2% or \$3.7 million from \$13.7 million as of December 31, 2013, and available-for-sale and held-to-maturity investment securities decreased 6.3% or \$3.4 million from \$54.1 million.

The allowance for loan losses was \$4.4 million as of September 30, 2014, which represented 1.77% of total loans outstanding. The allowance for loan losses was \$5.1 million, or 1.90% of total loans outstanding, as of December 31, 2013. Material improvements in asset quality over the last year lowered the Company's nonperforming assets to total assets to 1.45% as of September 30, 2014 compared to 2.31% as of December 31, 2013. Nonperforming assets decreased to \$5.2 million as of September 30, 2014 from \$8.1 million as of December 31, 2013. This 35% decrease has been driven by significant efforts by the Bank to dispose of nonperforming assets.

Total liabilities as of September 30, 2014 were \$329.6 million, up approximately 2.0% or \$6.6 million from \$323.1 million as of December 31, 2013. Higher levels of deposits drove the increase as non-interest and interest-bearing deposits increased \$3.0 million or approximately 1.0% from December 31, 2013 to September 30, 2014. Short-term borrowings increased to \$2.5 million as of September 30, 2014 with no short-term borrowings as of December 31, 2013. Other liabilities also contributed to the overall increase in total liabilities, one of which was a \$775,000 increase from December 31, 2013 to September 30, 2014 in a commitment related to an SBIC investment.

Total stockholders' equity as of September 30, 2014 was \$28.7 million as compared to total stockholders' equity as of December 31, 2013 of \$25.5 million. Part of the increase in stockholders' equity was a result of the Bank's Employee Stock Ownership Plan purchasing 113,493 shares of newly issued common stock of Oak Ridge Financial Services, Inc. near the end of June 2014, which added approximately \$900,000 in new common equity to the Company's balance sheet. Accumulated other comprehensive income increased from \$105,000 as of December 31, 2013 to \$1.2 million as of September 30, 2014, driven by an increase in the market value of the Company's available-for-sale investment securities during that period of time. Net income of \$1.5 million offset by a \$442,000 preferred dividend also contributed to the overall increase in stockholders' equity.

About Oak Ridge Financial Services, Inc.

Oak Ridge Financial Services, Inc. (OTCQB:BKOR) is the holding company for Bank of Oak Ridge. Bank of Oak Ridge (<http://www.BankofOakRidge.com>) is a community bank with locations in Greensboro, Summerfield and Oak Ridge, North Carolina. The bank was established in 2000 with the goal of delivering Banking As It Should Be®. With a focus on providing personal attention and convenience for every client, we offer a complete range of banking services for individuals and businesses including Saturday and extended weekday hours at all locations, ATM usage world-wide, mobile banking, remote deposits for consumers and businesses, and a full line of checking accounts; savings accounts; mortgage services; insurance services; lending options; and wealth management services. Bank of Oak Ridge is a Member FDIC and Equal Housing Lender. For more information, call 336-644-9944 or visit the office location closest to you.

Forward-looking Information

This form contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Company. These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of management of the Company and on the information available to management at the time that these disclosures were prepared. These statements can be identified by the use of words like “expect,” “anticipate,” “estimate” and “believe,” variations of these words and other similar expressions. Readers should not place undue reliance on forward-looking statements as a number of important factors could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, (1) competition in the Company’s markets, (2) changes in the interest rate environment, (3) general national, regional or local economic conditions may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and the possible impairment of collectibility of loans, (4) legislative or regulatory changes, including changes in accounting standards, (5) significant changes in the federal and state legal and regulatory environment and tax laws, (6) the impact of changes in monetary and fiscal policies, laws, rules and regulations and (7) other risks and factors identified in the Company’s other filings with the Federal Deposit Insurance Corporation. The Company undertakes no obligation to update any forward-looking statements.

Oak Ridge Financial Services, Inc.
Consolidated Balance Sheets
September 30, 2014 and December 31, 2013
(Dollars in thousands)

	<u>(Unaudited)</u> <u>2014</u>	<u>(Audited)</u> <u>2013</u>
Assets		
Cash and due from banks	\$ 4,307	\$ 4,846
Interest-bearing deposits with banks	13,081	8,821
Total cash and cash equivalents	17,388	13,667
Securities available-for-sale	48,040	50,934
Securities held-to-maturity (fair values of \$2,874 in 2014 and \$3,244 in 2013)	2,625	3,119
Federal Home Loan Bank Stock, at cost	426	411
Loans held for sale	282	663
Loans, net of allowance for loan losses of \$4,402 in 2014 and \$5,049 in 2013.....	271,274	260,704
Property and equipment, net	8,064	8,332
Foreclosed assets.....	485	1,010
Accrued interest receivable.....	1,256	1,454
Bank owned life insurance.....	5,299	5,209
Other assets	3,226	3,039
Total assets	<u>\$ 358,365</u>	<u>\$ 348,542</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	\$ 39,682	\$ 38,073
Interest-bearing	275,312	273,897
Total deposits	314,994	311,970
Short-term borrowings	2,500	—
Junior subordinated notes related to trust preferred securities.....	8,248	8,248
Accrued interest payable	101	80
Other liabilities.....	3,797	2,784
Total liabilities.....	<u>329,640</u>	<u>323,082</u>
Stockholders' equity		
Preferred stock, Series A, 7,700 shares authorized and outstanding; no par value, \$1,000 per share liquidation preference.....	7,691	7,691
Common stock, no par value; 50,000,000 shares authorized; 2,075,304 and 1,913,996 issued and outstanding in 2014 and 2013, respectively	18,332	17,262
Retained earnings	1,482	402
Accumulated other comprehensive income.....	1,220	105
Total stockholders' equity	<u>28,725</u>	<u>25,460</u>
Total liabilities and stockholders' equity.....	<u>\$ 358,365</u>	<u>\$ 348,542</u>

Oak Ridge Financial Services, Inc.
Consolidated Statements of Operations (unaudited)
For the three and nine months ended September 30, 2014 and 2013
(Dollars in thousands except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Interest and dividend income				
Loans and fees on loans.....	\$ 3,381	\$ 3,524	\$ 9,961	\$ 9,922
Interest on deposits in banks.....	6	7	19	25
Federal Home Loan Bank stock dividends.....	3	3	10	9
Investment securities.....	497	495	1,539	1,427
Total interest and dividend income.....	<u>3,887</u>	<u>4,029</u>	<u>11,529</u>	<u>11,383</u>
Interest expense				
Deposits.....	417	402	1,237	1,235
Short-term and long-term debt.....	41	1	121	81
Total interest expense.....	<u>458</u>	<u>403</u>	<u>1,358</u>	<u>1,316</u>
Net interest income.....	3,429	3,626	10,171	10,067
Provision for loan losses	<u>350</u>	<u>567</u>	<u>1,160</u>	<u>1,279</u>
Net interest income after provision for loan losses.....	<u>3,079</u>	<u>3,059</u>	<u>9,011</u>	<u>8,788</u>
Noninterest income				
Service charges on deposit accounts.....	192	193	568	534
Gain on sale of securities.....	52	(25)	130	28
Gain (loss) on sale of property and equipment.....	(11)	3	4	-
Gain on sale of mortgage loans.....	18	68	90	315
Investment commissions.....	3	3	27	49
Insurance commissions.....	47	41	128	101
Fee income from accounts receivable financing.....	86	131	355	477
Debit card interchange income.....	220	221	642	648
Income earned on bank owned life insurance.....	30	33	89	102
Other service charges and fees.....	71	23	209	66
Total noninterest income.....	<u>708</u>	<u>691</u>	<u>2,242</u>	<u>2,320</u>
Noninterest expense				
Salaries.....	1,298	1,362	3,989	4,321
Employee benefits.....	289	195	802	546
Occupancy expense.....	181	173	604	552
Equipment expense.....	231	227	694	709
Data and item processing.....	321	251	917	732
Professional and advertising.....	208	243	658	970
Stationary and supplies.....	46	39	130	159
Net cost of foreclosed assets.....	9	31	24	240
Telecommunications expense.....	83	112	295	298
FDIC assessment.....	73	78	227	227
Accounts receivable financing expense.....	27	35	107	130
Other expense.....	266	265	759	918
Total noninterest expense.....	<u>3,032</u>	<u>3,011</u>	<u>9,206</u>	<u>9,802</u>
Income before income taxes.....	755	739	2,047	1,306
Income tax expense	<u>216</u>	<u>294</u>	<u>525</u>	<u>427</u>
Net income	<u>\$ 539</u>	<u>\$ 445</u>	<u>\$ 1,522</u>	<u>\$ 879</u>
Preferred stock dividends.....	(173)	(96)	(442)	(289)
Accretion of discount.....	—	(81)	—	(244)
Net income available to common stockholders	<u>\$ 366</u>	<u>\$ 268</u>	<u>\$ 1,080</u>	<u>\$ 346</u>
Basic net income per common share	<u>\$ 0.18</u>	<u>\$ 0.15</u>	<u>\$ 0.55</u>	<u>\$ 0.19</u>
Diluted income per common share	<u>\$ 0.18</u>	<u>\$ 0.15</u>	<u>\$ 0.55</u>	<u>\$ 0.19</u>
Basic weighted average common shares outstanding	<u>2,062,693</u>	<u>1,810,946</u>	<u>1,965,830</u>	<u>1,810,946</u>
Diluted weighted average common shares outstanding	<u>2,069,225</u>	<u>1,810,946</u>	<u>1,972,332</u>	<u>1,810,946</u>

Oak Ridge Financial Services, Inc.
Selected Financial Ratios (unaudited)

Selected Financial Ratios ¹	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
Return on average assets	0.60%	0.65%	0.47%	0.52%
Return on average common shareholders' equity	6.97%	8.70%	6.57%	6.19%
Net interest margin	4.02%	4.06%	4.06%	4.04%
Net interest income to average assets	3.83%	3.84%	3.85%	3.81%
Efficiency ratio	73.3%	73.3%	75.9%	76.5%
Nonperforming assets to total assets	1.45%	1.60%	2.04%	2.31%

¹Annualized

