OLD POINT FINANCIAL CORP
Form 10-K
March 16, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 000-12896

OLD POINT FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Virginia	54-1265373
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1 West Mellen Street, Hampton, Virginia 23663
(Address of principal executive offices) (Zip Code)

(757) 728-1200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $5 par value	The NASDAQ Stock Market LLC
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of voting and non-voting stock held by non-affiliates of the registrant as of June 30, 2017 was $116,156,427 based on the closing sales price on the NASDAQ Capital Market of $32.88.

There were 5,019,703 shares of common stock outstanding as of March 13, 2018.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Company's Annual Meeting of Stockholders to be held on May 22, 2018, are incorporated by reference in Part III of this report.

OLD POINT FINANCIAL CORPORATION

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Part I

Item 1. Business

GENERAL

Old Point Financial Corporation (the Company) was incorporated under the laws of Virginia on February 16, 1984, for the purpose of acquiring all the outstanding common stock of The Old Point National Bank of Phoebus (the Bank), in connection with the reorganization of the Bank into a one-bank holding company structure. At the annual meeting of the stockholders on March 27, 1984, the proposed reorganization was approved by the requisite stockholder vote. At the effective date of the reorganization on October 1, 1984, the Bank merged into a newly formed national bank as a wholly-owned subsidiary of the Company, with each outstanding share of common stock of the Bank being converted into five shares of common stock of the Company.

The Company completed a spin-off of its trust department as of April 1, 1999. The organization is chartered as Old Point Trust & Financial Services, N.A. (Trust). Trust is a nationally chartered trust company. The purpose of the spin-off was to have a corporate structure more ready to compete in the field of wealth management. Trust is a wholly-owned subsidiary of the Company.

The Bank is a national banking association that was founded in 1922. As of the end of 2017, the Bank had 18 branch offices serving the Hampton Roads localities of Hampton, Newport News, Norfolk, Virginia Beach, Chesapeake, Williamsburg/James City County, York County and Isle of Wight County. The Bank offers a complete line of consumer, mortgage and business banking services, including loan, deposit, and cash management services to individual and commercial customers.

The Company's primary activity is as a holding company for the common stock of the Bank and Trust. The principal business of the Company is conducted through its subsidiaries, which continue to conduct business in substantially the same manner as before the reorganization and spin-off.

As of December 31, 2017, the Company had assets of $981.8 million, gross loans of $738.5 million, deposits of $783.6 million, and stockholders' equity of $96.4 million. At year-end, the Company and its subsidiaries had a total of 301 employees, 15 of whom were part-time.

STRATEGIC ACQUISITION

On October 27, 2017, Citizens National Bank ("Citizens National") entered into an agreement and plan of reorganization (the merger agreement) with the Company and the Bank that provides for the merger of Citizens National into the Bank, with the Bank surviving, in a stock and cash transaction for total consideration valued at approximately $7.9 million. The shareholders of Citizens National approved the merger on March 13, 2018, and the transaction is expected to be completed in the second quarter of 2018, subject to customary regulatory approvals and other closing conditions. Under the terms of the merger agreement, Citizens National shareholders will receive 0.1041 shares of Old Point common stock and $2.19 in cash for each Citizens National common share outstanding.

MARKET AREA AND COMPETITION

The Company's market area is located in Hampton Roads, situated in the southeastern corner of Virginia and boasting the world's largest natural deepwater harbor. The Hampton Roads Metropolitan Statistical Area (MSA) is the 37th most populous MSA in the United States according to the U.S. Census Bureau's 2010 census and the third largest deposit market in Virginia, after Richmond and the Washington Metropolitan area, according to the Federal Deposit Insurance Corporation (FDIC). Hampton Roads includes the cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg, and the counties of Isle of Wight, Gloucester,

James City, Mathews, York and Surry. The market area is serviced by 60 banks, savings institutions and credit unions and, in addition, branches of virtually every major brokerage house serve the Company's market area.

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The banking business in Virginia, and in the Company's primary service areas in the Hampton Roads MSA, is highly competitive and dominated by a relatively small number of large banks with many offices operating over a wide geographic area. Among the advantages such large banks have over the Company is their ability to finance wide-ranging advertising campaigns, and by virtue of their greater total capitalization, to have substantially higher lending limits than the Company. Factors such as interest rates offered, the number and location of branches and the types of products offered, as well as the reputation of the institution affect competition for deposits and loans. The Company competes by emphasizing customer service and technology, establishing long-term customer relationships and building customer loyalty, and providing products and services to address the specific needs of the Company's customers. The Company targets individual and small-to-medium size business customers.

Since adding a corporate banking group and expanding its business product offerings in 2009, the Company continues to build a stronger presence in the business banking market, where greater opportunities for fee-based revenues and cross-selling exist. In 2017, the Company purchased full ownership of Old Point Mortgage and launched Old Point Insurance, LLC. Through these business banking capabilities and new lines of business, the Company is able to service a highly lucrative market that offers increased opportunities to identify new revenue streams and cross sell additional products.

Personal assets held by non-banks are difficult to track at a local level, so research relies on deposits reported by governmental agencies to measure market share. In 2017, the Company held tenth place with 2.58% market share of all Hampton Roads deposits, as compared to 2.60% market share in 2016. On the Peninsula, the Company retains first place in Hampton with 26.83% market share and saw an increase in deposits from 2016 of $17.2 million. The Company also saw deposit growth from 2016 for all other Peninsula markets, with an increase of $5.1 million in James City County, $4.4 million in Williamsburg, $1.8 million in Newport News, and $1.4 million in York County.

In Southside Hampton Roads, the Company increased deposit share in Virginia Beach by $14.5 million, in Chesapeake by $7.2 million, and in Norfolk by $4.9 million from 2016. In the Isle of Wight County market, however, deposits decreased from 2016 by $6.0 million. In late 2017, the Company announced an agreement to acquire Citizens National Bank, which has one location in the town of Windsor, Virginia. Upon its expected completion in 2018, this will expand the Company's footprint and market share in Isle of Wight County. Combined with heightened marketing efforts, the staff in the Company's newer locations continues to work diligently to increase the Company's name recognition in their respective regions of the Hampton Roads MSA.

The Company also faces competitive pressure from credit unions. The three largest credit unions headquartered in the Hampton Roads MSA are Langley Federal Credit Union, Chartway Federal Credit Union, and Newport News Shipbuilding Employees' Credit Union with deposits totaling approximately $2.0 billion, $2.0 billion and $1.3 billion respectively, all of which posted a positive growth rate for 2017.

AVAILABLE INFORMATION

The Company maintains a website on the Internet at www.oldpoint.com. The Company makes available free of charge, on or through its website, its proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (SEC). This reference to the Company's Internet address shall not, under any circumstances, be deemed to incorporate the information available at such Internet address into this Form 10-K or other SEC filings. The information available at the Company's Internet address is not part of this Form 10-K or any other report filed by the Company with the SEC. The public may read and copy any documents the Company files at the SEC's Public Reference Room at 100 F Street, N.E. Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company's SEC filings can also be obtained on the SEC's website on the Internet at www.sec.gov.

REGULATION AND SUPERVISION

Set forth below is a brief description of some of the material laws and regulations that affect the Company. The description of these statutes and regulations is only a summary and is not a complete discussion or analysis. This discussion is qualified in its entirety by reference to the statutes and regulations summarized below. No assurance can be given that these statutes or regulations will not change in the future.

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General. The Company continues to experience a period of rapidly changing regulations and an environment of constant regulatory reform. These regulatory changes have had and will continue to have a significant impact on how the Company conducts its business. The most significant of these laws is the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), adopted on July 21, 2010, to implement significant structural reforms to the financial services industry. The full extent of the Dodd-Frank Act and other potential regulatory reforms cannot yet be fully determined and will depend to a large extent on regulations that will be adopted in the future.

As a public company, the Company is subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), which include, but are not limited to, the filing of annual, quarterly and other reports with the SEC. The Company is also required to comply with other laws and regulations of the SEC applicable to public companies.

The Company is also a bank holding company within the meaning of the Bank Holding Company Act of 1956 (the BHCA) and is registered as such with, and subject to the supervision of, the Board of Governors of the Federal Reserve System (the FRB). Generally, a bank holding company is required to obtain the approval of the FRB before acquiring direct or indirect ownership or control of more than five percent of the voting shares of a bank or engaging in an activity considered to be a non-banking activity, either directly or through a subsidiary. Bank holding companies and their subsidiaries are also subject to restrictions on transactions with insiders and affiliates.

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As a national bank, the Bank is subject to regulation, supervision and regular examination by the Office of the Comptroller of the Currency (the Comptroller). The prior approval of the Comptroller or other appropriate bank regulatory authority is required for a national bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the constituent organizations and the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the Community Reinvestment Act (the CRA) and fair housing initiatives, the data security and cybersecurity infrastructure of the constituent organizations and the combined organization, and the effectiveness of the subject organizations in combating money laundering activities. Each depositor's account with the Bank is insured by the FDIC to the maximum amount permitted by law. The Bank is also subject to certain regulations promulgated by the FRB and applicable provisions of Virginia law, insofar as they do not conflict with or are not preempted by federal banking law.

As a non-depository national banking association, Trust is subject to regulation, supervision and regular examination by the Comptroller. Trust's exercise of fiduciary powers must comply with Regulation 9 promulgated by the Comptroller and with Virginia law.

The regulations of the FRB, the Comptroller and the FDIC govern most aspects of the Company's business, including deposit reserve requirements, investments, loans, certain check clearing activities, issuance of securities, payment of dividends, branching, and numerous other matters. Further, the federal bank regulatory agencies have adopted guidelines and released interpretive materials that establish operational and managerial standards to promote the safe and sound operation of banks and bank holding companies. These standards relate to the institution's key operating functions, including but not limited to internal controls, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, compensation of management, information systems, data security and cybersecurity, and risk management. As a consequence of the extensive regulation of commercial banking activities in the United States, the Company's business is particularly susceptible to changes in state and federal legislation and regulations, which may have the effect of increasing the cost of doing business, limiting permissible activities or increasing competition.

The Bank Holding Company Act. As a bank holding company, the Company is subject to the BHCA and regulation and supervision by the FRB. A bank holding company is required to obtain the approval of the FRB before making certain acquisitions or engaging in certain activities. Bank holding companies and their subsidiaries are also subject to restrictions on transactions with insiders and affiliates.

A bank holding company is required to obtain the approval of the FRB before it may acquire all or substantially all of the assets of any bank, and before it may acquire ownership or control of the voting shares of any bank if, after giving effect to the acquisition, the bank holding company would own or control more than 5 percent of the voting shares of such bank. The approval of the FRB is also required for the merger or consolidation of bank holding companies.

Pursuant to the BHCA, the FRB has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the FRB has reasonable grounds to believe that continuation of such activity or ownership constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

The Company is required to file periodic reports with the FRB and provide any additional information the FRB may require. The FRB also has the authority to examine the Company and its subsidiaries, as well as any arrangements between the Company and its subsidiaries, with the cost of any such examinations to be borne by the Company. Banking subsidiaries of bank holding companies are also subject to certain restrictions imposed by federal law in dealings with their holding companies and other affiliates.

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The Dodd-Frank Act. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including changes that will affect all bank holding companies and banks, including the Company and the Bank. Among other provisions, the Dodd-Frank Act:

- changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital. The Dodd-Frank Act also made permanent the $250,000 limit for federal deposit insurance and increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000;

- repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;

- created and centralized significant aspects of consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (CFPB), which is discussed in more detail below;

- imposed limits for debit card interchange fees for issuers that have assets greater than $10 billion, which also could affect the amount of interchange fees collected by financial institutions with less than $10 billion in assets;

- restricted the preemption of state law by federal law and disallowed subsidiaries and affiliates of national banks from availing themselves of such preemption;

- imposed comprehensive regulation of the over-the-counter derivatives market subject to significant rulemaking processes, to include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself;

- required loan originators to retain 5 percent of any loan sold or securitized, unless it is a "qualified residential mortgage", subject to certain restrictions;

- prohibited banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (the Volcker Rule); and

- implemented corporate governance revisions that apply to all public companies, not just financial institutions.

Some of the rules that have been adopted or proposed to comply with Dodd-Frank Act mandates are discussed in more detail below.

Capital Requirements and Prompt Corrective Action. The FRB, the Comptroller and the FDIC have adopted risk-based capital adequacy guidelines for bank holding companies and banks pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) and the Basel III Capital Accords. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources" in Item 7 of this report on Form 10-K.

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The federal banking agencies have broad powers to take prompt corrective action to resolve problems of insured depository institutions. Under the FDICIA, there are five capital categories applicable to bank holding companies and insured institutions, each with specific regulatory consequences. The extent of the agencies' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." These terms are defined under uniform regulations issued by each of the federal banking agencies. If the appropriate federal banking agency determines that an insured institution is in an unsafe or unsound condition, it may reclassify the institution to a lower capital category (other than critically undercapitalized) and require the submission of a plan to correct the unsafe or unsound condition.

Failure to meet statutorily mandated capital guidelines or more restrictive ratios separately established for a financial institution could subject the Company and its subsidiaries to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting or renewing brokered deposits, limitations on the rates of interest that the institution may pay on its deposits, and other restrictions on its business. In addition, an institution may not make a capital distribution, such as a dividend or other distribution that is in substance a distribution of capital to the owners of the institution if following such a distribution the institution would be undercapitalized. Thus, if the making of such dividend would cause the Bank to become undercapitalized, it could not pay a dividend to the Company.

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Basel III Capital Framework. The federal bank regulatory agencies have adopted rules to implement the Basel III capital framework as outlined by the Basel Committee on Banking Supervision and standards for calculating risk-weighted assets and risk-based capital measurements (collectively, the Basel III Final Rules). For purposes of these capital rules, (i) common equity Tier 1 capital (CET1) consists principally of common stock (including surplus) and retained earnings; (ii) Tier 1 capital consists principally of CET1 plus non-cumulative preferred stock and related surplus, and certain grandfathered cumulative preferred stock and trust preferred securities; and (iii) Tier 2 capital consists principally of Tier 1 capital plus qualifying subordinated debt and preferred stock, and limited amounts of an institution's allowance for loan losses. Each regulatory capital classification is subject to certain adjustments and limitations, as implemented by the Basel III Final Rules. The Basel III Final Rules also establish risk weightings that are applied to many classes of assets held by community banks, including, importantly, applying higher risk weightings to certain commercial real estate loans.

The Basel III Final Rules were effective on January 1, 2015, and the Basel III Final Rules' capital conservation buffer (as described below) is being phased in beginning January 1, 2016 through 2019. When fully phased in, the Basel III Final Rules require banks to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter).

The Basel III Final Rules provide deductions from and adjustments to regulatory capital measures, and primarily to CET1, including deductions and adjustments that were not applied to reduce CET1 under historical regulatory capital rules. For example, mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities must be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. These deductions from and adjustments to regulatory capital are generally subject to a phase in period, which began in 2015 and will continue through 2018.

The Basel III Final Rules also implement a "countercyclical capital buffer," generally designed to absorb losses during periods of economic stress and to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk. This buffer is a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented (potentially resulting in total buffers of between 2.5% and 5%).

Insurance of Accounts, Assessments and Regulation by the FDIC. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC. The basic limit on FDIC deposit insurance coverage is $250,000 per depositor.

Under the Federal Deposit Insurance Act (FDIA), the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations as an insured institution, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC, subject to administrative and potential judicial hearing and review processes.

The DIF is funded by assessments on banks and other depository institutions calculated based on average consolidated total assets minus average tangible equity (defined as Tier 1 capital). As required by the Dodd-Frank Act, the FDIC has adopted a large-bank pricing assessment scheme, set a target "designated reserve ratio" (described in more detail

below) of 2 percent for the DIF, and established a lower assessment rate schedule when the reserve ratio reaches 1.15 percent and, in lieu of dividends, provides for a lower assessment rate schedule, when the reserve ratio reaches 2 percent and 2.5 percent.

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An institution's assessment rate is based on a statistical analysis of financial ratios that estimates the likelihood of failure over a three year period, which considers the institution's weighted average CAMELS component rating, and is subject to further adjustments including related to levels of unsecured debt and brokered deposits (not applicable to banks with less than $10 billion in assets). At December 31, 2016, total base assessment rates institutions that have been insured for at least five years range from 1.5 to 40 basis points, with rates of 1.5 to 30 basis points applying to banks with less than $10 billion in assets.

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The Dodd-Frank Act transferred to the FDIC increased discretion with regard to managing the required amount of reserves for the DIF, or the "designated reserve ratio." Among other changes, the Dodd-Frank Act (i) raised the minimum designated reserve ratio to 1.35 percent and removed the upper limit on the designated reserve ratio, (ii) requires that the designated reserve ratio reach 1.35 percent by September 2020, and (iii) requires the FDIC to offset the effect on institutions with total consolidated assets of less than $10 billion of raising the designated reserve ratio from 1.15 percent to 1.35 percent – which requirement was met through rules adopted by the FDIC during 2016. On June 30, 2016, the designated reserve ratio rose to 1.17 percent, which triggered three major changes to deposit insurance assessments for the third quarter of 2016: (i) the range of initial assessment rates for all institutions declined from 5 to 35 basis points to 3 to 30 basis points (which are included in the total base assessment rates in the above paragraph); (ii) surcharges equal to an annual rate of 4.5 basis points began for insured depository institutions with total consolidated assets of $10 billion or more; and (iii) the revised assessment method described above was implemented. The FDIA requires that the FDIC consider the appropriate level for the designated reserve ratio on at least an annual basis. The FDIC has adopted a DIF restoration plan to ensure that the fund reserve ratio reaches 1.35 percent by September 30, 2020, as required by the Dodd-Frank Act.

Incentive Compensation. The FRB, the Comptroller and the FDIC have issued regulatory guidance intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The FRB will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." The findings will be included in reports of examination, and deficiencies will be incorporated into the organization's supervisory ratings. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In addition, in 2016, the SEC and the federal banking agencies proposed rules that prohibit covered financial institutions (including bank holding companies and banks) from establishing or maintaining incentive-based compensation arrangements that encourage inappropriate risk taking by providing covered persons (consisting of senior executive officers and significant risk takers, as defined in the rules) with excessive compensation, fees or benefits that could lead to material financial loss to the financial institution. The proposed rules outline factors to be considered when analyzing whether compensation is excessive and whether an incentive-based compensation arrangement encourages inappropriate risks that could lead to material loss to the covered financial institution, and establishes minimum requirements that incentive-based compensation arrangements must meet to be considered to not encourage inappropriate risks and to appropriately balance risk and reward. The proposed rules also impose additional corporate governance requirements on the boards of directors of covered financial institutions and impose additional record-keeping requirements. The comment period for these proposed rules has closed and a final rule has not yet been published.

Community Reinvestment Act. The Company is subject to the requirements of the CRA, which imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of their local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. A financial institution's efforts in meeting community credit needs are currently assessed based on specified factors. These factors also are considered in evaluating mergers, acquisitions and applications to open a branch or facility.

Confidentiality and Required Disclosures of Consumer Information. The Company is subject to various laws and regulations that address the privacy of nonpublic personal financial information of consumers. The Gramm-Leach-Bliley Act and certain regulations issued thereunder protect against the transfer and use by financial institutions of consumer nonpublic personal information. A financial institution must provide to its customers, at the beginning of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These privacy provisions generally prohibit a

financial institution from providing a customer's personal financial information to unaffiliated third parties unless the institution discloses to the customer that the information may be so provided and the customer is given the opportunity to opt out of such disclosure. In 2016, the CFPB proposed rules that provide an exception to the requirement to deliver an annual privacy notice if a financial institution only provides nonpublic personal information to unaffiliated third parties under limited exceptions under the Gramm-Leach-Bliley Act and related regulations, and has not changed its policies and practices regarding disclosure of nonpublic personal financial information from those disclosed in the most recent privacy notice provided to the customer.

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The Company is also subject to various laws and regulations that attempt to combat money laundering and terrorist financing. The Bank Secrecy Act requires all financial institutions to, among other things, create a system of controls designed to prevent money laundering and the financing of terrorism, and imposes recordkeeping and reporting requirements. The USA Patriot Act facilitates information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering, and requires financial institutions to establish anti-money laundering programs. The Office of Foreign Assets Control (OFAC), which is a division of the U.S. Department of the Treasury, is responsible for helping to ensure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. If the Bank finds a name of an "enemy" of the United States on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account or place transferred funds into a blocked account, file a suspicious activity report with the Treasury and notify the FBI.

Consumer Laws and Regulations. The Company is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act and the Fair Housing Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions transact business with customers. The Company must comply with the applicable provisions of these consumer protection laws and regulations as part of its ongoing customer relations.

The CFPB is the federal regulatory agency responsible for implementing, examining and enforcing compliance with federal consumer financial laws for institutions with more than $10 billion of assets and, to a lesser extent, smaller institutions. The CFPB supervises and regulates providers of consumer financial products and services and has rulemaking authority in connection with numerous federal consumer financial protection laws (for example, but not limited to, the Truth in Lending Act and the Real Estate Settlement Procedures Act). As a smaller institution (i.e., with assets of $10 billion or less), most consumer protection aspects of the Dodd-Frank Act will continue to be applied to the Company by the FRB and to the Bank and Trust by the Comptroller. However, the CFPB may include its own examiners in regulatory examinations by a smaller institution's prudential regulators and may require smaller institutions to comply with certain CFPB reporting requirements. In addition, regulatory positions taken by the CFPB and administrative and legal precedents established by CFPB enforcement activities, including in connection with supervision of larger bank holding companies and banks, could influence how the FRB and Comptroller apply consumer protection laws and regulations to financial institutions that are not directly supervised by the CFPB. The precise effect of the CFPB's consumer protection activities on the Company cannot be forecast.

Mortgage Banking Regulation. In connection with making mortgage loans, the Bank is subject to rules and regulations that, among other things, establish standards for loan origination, prohibit discrimination, provide for inspections and appraisals of property, require credit reports on prospective borrowers, in some cases, restrict certain loan features and fix maximum interest rates and fees, require the disclosure of certain basic information to mortgagors concerning credit and settlement costs, limit payment for settlement services to the reasonable value of the services rendered and require the maintenance and disclosure of information regarding the disposition of mortgage applications based on race, gender, geographical distribution and income level. The Bank's mortgage origination activities are subject to the Equal Credit Opportunity Act, Truth in Lending Act, Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, and Home Ownership Equity Protection Act, and the regulations promulgated under these acts, among other additional state and federal laws, regulations and rules.

The Bank's mortgage origination activities are also subject to Regulation Z, which implements the Truth in Lending Act. Certain provisions of Regulation Z require mortgage lenders to make a reasonable and good faith determination, based on verified and documented information, that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Alternatively, a mortgage lender can originate "qualified mortgages", which are generally defined as mortgage loans without negative amortization, interest-only payments, balloon

payments, terms exceeding 30 years, and points and fees paid by a consumer equal to or less than 3% of the total loan amount. Higher-priced qualified mortgages (e.g., subprime loans) receive a rebuttable presumption of compliance with ability-to-repay rules, and other qualified mortgages (e.g., prime loans) are deemed to comply with the ability-to-repay rules. The Bank does not originate first mortgage loans at this time, and the first mortgages it purchases comply with Regulation Z's "qualified mortgage" rules. The Bank does originate second mortgages, or equity loans, and these loans do not conform to the qualified mortgage criteria but comply with applicable ability-to-repay rules.

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Volcker Rule. The Dodd-Frank Act prohibits bank holding companies and their subsidiary banks from engaging in proprietary trading except in limited circumstances, and places limits on ownership of equity investments in private equity and hedge funds (the Volcker Rule). The Company believes that its financial condition and its operations are not and will not be significantly impacted by the Volcker Rule or its implementing regulations. Smaller banks, with total consolidated assets of $10 billion or less, engaged in modest proprietary trading activities for their own accounts are subject to a simplified compliance program under the final rules. Several portions of the Volcker Rule remain subject to regulatory rulemaking and legislative activity, including to further delay effectiveness of some provisions of the Volcker Rule. The Company does not expect that any delays in the effectiveness of a portion of the Volcker Rule will significantly impact its financial condition.

Item 1A. Risk Factors

U.S. and international economic conditions and credit markets pose challenges for the Company and could adversely affect the results of operations, liquidity and financial condition. In recent years, economic growth and business activity in the Company's local markets as well as in the broader national and international economies, has been modest. In addition, uncertainty regarding oil prices, ongoing federal budget negotiations, the implementation of the employer mandate under the Patient Protection and Affordable Care Act, and the level of U.S. debt may present challenges to businesses and have a destabilizing effect on financial markets. Unfavorable or uncertain economic conditions generally could cause a decline in the value of the Company's securities portfolio, and could increase the regulatory scrutiny of financial institutions. Another deterioration of local economic conditions could again lead to declines in real estate values and home sales and increases in the financial stress on borrowers and unemployment rates, all of which could lead to increases in loan delinquencies, problem assets and foreclosures and reductions in loan collateral value. Such a deterioration of local economic conditions could cause the level of loan losses to exceed the level the Company has provided in its allowance for loan losses which, in turn, would reduce the Company's earnings.

Global credit market conditions could return to being disrupted and volatile. Although the Company remains well capitalized and has not suffered any liquidity issues, the cost and availability of funds may be adversely affected by illiquid credit markets. Any future turbulence in the U.S. and international markets and economy may adversely affect the Company's liquidity, financial condition and profitability.

The Company is subject to interest rate risk and variations in interest rates may negatively affect its financial performance. The Company's profitability depends in substantial part on its net interest margin, which is the difference between the rates received on loans and investments and the rates paid for deposits and other sources of funds. The net interest margin depends on many factors that are partly or completely outside of the Company's control, including competition; federal economic, monetary and fiscal policies; and economic conditions. Because of the differences in the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect the Company's net interest margin and, in turn, its profitability.

The Company generally seeks to maintain a neutral position in terms of the volume of assets and liabilities that mature or re-price during any period so that it may reasonably maintain its net interest margin; however, interest rate fluctuations, loan prepayments, loan production, deposit flows, and competitive pressures are constantly changing and influence the ability to maintain a neutral position. Generally, the Company's earnings will be more sensitive to fluctuations in interest rates depending upon the variance in volume of assets and liabilities that mature and re-price in any period. The extent and duration of the sensitivity will depend on the cumulative variance over time, the velocity and direction of changes in interest rates, shape and slope of the yield curve, and whether the Company is more asset sensitive or liability sensitive. Accordingly, the Company may not be successful in maintaining a neutral position and, as a result, the Company's net interest margin may be affected. For additional details, See "Management's Discussion

and Analysis of Financial Condition and Results of Operations – Interest Sensitivity" in Item 7 of this report on Form 10-K.

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In addition, any substantial and prolonged increase in market interest rates could reduce the Company's customers' desire to borrow money or adversely affect their ability to repay their outstanding loans by increasing their credit costs. Interest rate changes could also affect the fair value of the Company's financial assets and liabilities. Accordingly, changes in levels of market interest rates could materially and adversely affect the Company's net interest margin, asset quality, loan origination volume, business, financial condition, results of operations and cash flows.

Integrating Citizens National into the Company's operations may be more difficult, costly or time-consuming than expected, and, if the Company does not successfully combine Citizens National's business into its business, the Company's results of operations would be adversely affected. The Company's future success will depend, in part, on its ability to realize the anticipated benefits and cost savings from combining the businesses of the Company and Citizens National and to combine those businesses in a manner that permits growth opportunities and cost savings to be realized without materially disrupting the legacy customer relationships of Citizens National or the Company or decreasing revenues due to loss of customers. However, to realize these anticipated benefits and cost savings, the Company must successfully combine the businesses of the Company and Citizens National. If the Company is not able to achieve these objectives, the anticipated benefits and cost savings of the merger of the Company and Citizens National may not be realized fully, or at all, or may take longer to realize than expected.

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System failures, interruptions, breaches of security, or the failure of a third-party provider to perform its obligations could adversely impact the Company's business operations and financial condition. Communications and information systems are essential to the conduct of the Company's businesses, as such systems are used to manage customer relationships, general ledger, deposits and loans. While the Company has established policies and procedures to prevent or limit the impact of systems failures, interruptions and security breaches, the Company's information, security, and other systems may stop operating properly or become disabled or damaged as a result of a number of factors, including events beyond the Company's control, such as sudden increases in customer transaction volume, electrical or telecommunications outages, natural disasters, and cyber-attacks. Information security risks have increased in recent years and hackers, activists and other external parties have become more technically sophisticated and well-resourced. These parties use a variety of methods to attempt to breach security systems and access the data of financial services institutions and their customers. The Company may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks. In addition, any compromise of the security systems could deter customers from using the Bank's website and online banking service, both of which involve the transmission of confidential information. The security and authentication precautions imposed by the Company and the Bank may not protect the systems from compromises or breaches of security, which would adversely affect the Company's results of operations and financial condition.

In addition, the Company outsources certain data processing to certain third-party providers. Accordingly, the Company's operations are exposed to risk that these third-party providers will not perform in accordance with the contracted arrangements under service agreements. If the third-party providers encounter difficulties, or if the Company has difficulty in communicating with them, the Company's ability to adequately process and account for customer transactions could be affected, and the Company's business operations could be adversely impacted. Further, a breach of a third-party provider's technology may cause loss to the Company's customers. Replacing these third-party providers could also create significant delay and expense. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any systems failure, interruption or breach of security, or the failure of a third-party provider to perform its obligations, could expose the Company to risks of data loss or data misuse, could result in violations of applicable privacy and other laws, could damage the Company's reputation and result in a loss of customers and business, could subject it to additional regulatory scrutiny or could expose it to civil litigation, possible financial liability and costly response measures. Any of these occurrences could have a material adverse effect on the Company's financial condition and results of operations.

The Company's accounting estimates and risk management processes rely on analytical and forecasting models. Processes that management uses to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on the Company's earnings performance and liquidity, depend upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are accurate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation.

If the models that management uses for interest rate risk and asset-liability management are inadequate, the Company may incur increased or unexpected losses upon changes in market interest rates or other market measures and may be unable to maintain sufficient liquidity. If the models that management uses to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what the Company could realize upon sale or settlement of such financial instruments. Any such failure in management's analytical or forecasting models could have a material adverse effect on the Company's business, financial condition and results of operations.

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Weaknesses in the commercial real estate markets could negatively affect the Company's financial performance due to the Company's concentration in commercial real estate loans. At December 31, 2017, the Company had $317.2 million, or 42.95%, of total loans concentrated in commercial real estate, which includes, for purposes of this concentration, all construction loans, loans secured by multifamily residential properties, loans secured by farmland and loans secured by nonfarm, nonresidential properties. Commercial real estate loans expose the Company to a greater risk of loss than residential real estate and consumer loans. Commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. Consequently, an adverse development with respect to one commercial real estate loan or credit relationship exposes the Company to a significantly greater risk of loss compared to an adverse development with respect to one residential real estate loan. Commercial real estate loans carry risks associated with the successful operation of a business if the properties are owner occupied. If the properties are non-owner occupied, the repayment of these loans may be dependent upon the profitability and cash flow from rent receipts. Repayment of commercial real estate loans may, to a greater extent than residential real estate loans, be subject to adverse conditions in the real estate market or economy. Weak economic or market conditions may impair a borrower's business operations, slow the execution of new leases and lead to turnover in existing leases. The combination of these factors could result in deterioration in value of some of the Company's loans. The deterioration of one or more of the Company's significant commercial real estate loans could cause a significant increase in nonaccrual loans. An increase in nonaccrual loans could result in a loss of interest income from those loans, an increase in the provision for loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial performance.

The Company's profitability depends significantly on local economic conditions and changes in the federal government's military or defense spending may negatively affect the local economy. The Company's success depends primarily on the general economic conditions of the markets in which the Company operates. Unlike larger financial institutions that are more geographically diversified, the Company provides banking and financial services to customers primarily in the Hampton Roads MSA. The local economic conditions in this area have a significant impact on the demand for loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, unemployment or other factors beyond the Company's control could impact these local economic conditions.

In addition, Hampton Roads is home to one of the largest military installations in the world and one of the largest concentrations of Department of Defense personnel in the United States. Some of the Company's customers may be particularly sensitive to the level of federal government spending on the military or on defense-related products. Federal spending is affected by numerous factors, including macroeconomic conditions, presidential administration priorities, and the ability of the federal government to enact relevant appropriations bills and other legislation. Any of these factors could result in future cuts to military or defense spending or increased uncertainty about federal spending, which could have a severe negative impact on individuals and businesses in the Company's primary service area. Any related increase in unemployment rates or reduction in business development activities in the Company's primary service area could lead to reductions in loan demand, increases in loan delinquencies, problem assets and foreclosures and reductions in loan collateral value, which could have a material adverse effect on the Company's operating results and financial condition.

The Company is subject to losses resulting from fraudulent and negligent acts on the part of loan applicants, correspondents or other third parties. The Company relies heavily upon information supplied by third parties, including the information contained in credit applications, employment and income documentation, property appraisals, title information, and equipment pricing and valuation, in deciding which loans to originate, as well as in establishing the terms of those loans. If any of the information upon which the Company relies during the loan approval process is misrepresented, either fraudulently or inadvertently, and the misrepresentation is not detected prior to asset funding, the value of the asset may be significantly lower than expected, the Company may fund a loan that it would not have otherwise funded or the Company may fund a loan on terms that it would not have otherwise

extended. Whether a misrepresentation is made by the applicant or by another third party, the Company generally bears the risk of loss associated with the misrepresentation. In addition, a loan subject to a material misrepresentation is typically unsellable or subject to repurchase if it is sold prior to detection of the misrepresentation. The sources of the misrepresentation are often difficult to locate, and it may be difficult to recover any monetary loss the Company may suffer.

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Declines in loans outstanding could have a material adverse impact on the Company's operating results and financial condition. Growing and diversifying the loan portfolio is part of the Company's strategic initiative. If quality loan demand does not continue to increase and the Company's loan portfolio begins to decline, the Company expects that excess liquidity will be invested in marketable securities. Because loans typically yield higher returns than the Company's securities portfolio, a shift towards investments in the Company's asset mix would likely result in an overall reduction in net interest income and the net interest margin. The principal source of earnings for the Company is net interest income, and as discussed above, the Company's net interest margin is a major determinant of the Company's profitability. The effects of a reduction in net interest income and the net interest margin may be exacerbated by the intense competition for quality loans in the Company's primary service area and by rate reductions on loans currently held in the portfolio. As a result, a reduction in loans could have a material adverse effect on the Company's operating results and financial condition.

The Company's substantial dependence on dividends from its subsidiaries may prevent it from paying dividends to its stockholders and adversely affect its business, results of operations or financial condition. The Company is a separate legal entity from its subsidiaries and does not have significant operations or revenues of its own. The Company substantially depends on dividends from its subsidiaries to pay dividends to stockholders and to pay its operating expenses. The availability of dividends from the subsidiaries is limited by various statutes and regulations. It is possible, depending upon the financial condition of the Company and other factors, that the Comptroller could assert that payment of dividends by the subsidiaries is an unsafe or unsound practice. In the event the subsidiaries are unable to pay dividends to the Company, the Company may not be able to pay dividends on the Company's common stock, service debt or pay operating expenses. Consequently, the inability to receive dividends from the subsidiaries could adversely affect the Company's financial condition, results of operations, cash flows and limit stockholders' return, if any, to capital appreciation.

The small-to-medium size businesses the Company targets may have fewer financial resources to weather a downturn in the economy, which could materially harm operating results. The Company targets individual and small-to-medium size business customers. Small-to-medium size businesses frequently have smaller market shares than their competitors, may be more vulnerable to economic downturns, often need substantial additional capital to expand and compete and may experience significant volatility in operating results. Any one or more of these factors may impair a borrower's ability to repay a loan. In addition, the success of a small-to-medium size business often depends on the management talents and efforts of one person or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns and other events that negatively impact businesses in the Company's primary service area could have a proportionately greater impact on small-to-medium-size businesses and accordingly could cause the Company to incur substantial credit losses that could negatively affect its results of operations and financial condition.

The ownership of foreclosed property exposes the Company to significant costs, some of which are uncertain. When the Company has to foreclose upon real property held as collateral, the Company is exposed to the risks inherent in the ownership of real estate. The amount that the Company may realize after a loan default is dependent upon factors outside of the Company's control, including environmental cleanup liability, especially with regard to non-residential real estate, neighborhood values, real estate tax rates, operating or maintenance expenses of the foreclosed properties, and supply of and demand for properties. Significant costs associated with the ownership of real estate may exceed the income earned from such real estate, and the Company may have to advance funds to protect its investment or dispose of the real estate at a loss. These factors may materially and adversely affect the Company's business, financial condition, cash flows and result of operations.

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The Company and its subsidiaries are subject to extensive regulation which could adversely affect them. The Company is subject to extensive regulation by federal, state and local governmental authorities and is subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of operations, including those referenced above. Regulations adopted by these agencies, which are generally intended to protect depositors and customers rather than to benefit stockholders, govern a comprehensive range of matters including, without limitation, ownership and control of the Company's shares, acquisition of other companies and businesses, permissible activities that the Company and its subsidiaries may engage in, maintenance of adequate capital levels and other aspects of operations. These regulations could limit the Company's growth by restricting certain of its activities. The laws, rules and regulations applicable to the Company are subject to regular modification and change. Regulatory changes could subject the Company to more demanding regulatory compliance requirements which could affect the Company in unpredictable and adverse ways. Such changes could subject the Company to additional costs, limit the types of financial services and products it may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or damage to the Company's reputation, which could have a material adverse effect on the Company's business, financial condition and results of operations. Legislation and regulatory initiatives containing wide-ranging proposals for altering the structure, regulation and competitive relationship of financial institutions are introduced regularly. The Company cannot predict in what form or whether a proposed statute or regulation will be adopted or the extent to which such adoption may affect its business.

Market risk affects the earnings of Trust. The fee structure of Trust is generally based upon the market value of accounts under administration. Most of these accounts are invested in equities of publicly traded companies and debt obligations of both government agencies and publicly traded companies. As such, fluctuations in the equity and debt markets in general have had a direct impact upon the earnings of Trust.

Compliance with the CFPB regulations aimed at the mortgage banking industry may require substantial changes to mortgage lending systems and processes that may adversely affect income from the Company's residential mortgage activities. The CFPB has finalized a number of significant rules that impact nearly every aspect of the lifecycle of a residential real estate loan. Among other things, the rules adopted by the CFPB require mortgage lenders either to make a reasonable and good faith determination, based on verified and documented information, that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms, or to originate "qualified mortgages." In June 2015, the CFPB issued rules that combined disclosures previously established by the Truth in Lending Act and the Real Estate Settlement Procedures Act into a single disclosure referred to as the TILA-RESPA Integrated Disclosure, or TRID. TRID applies to most closed-end mortgage loans and overhauls the manner in which mortgage loan origination disclosures are made.

Although the Company does not originate or sell first mortgage loans at this time, it may elect to do so in the future, and TRID does apply to the mortgages it purchases. TRID also applies to second mortgages originated by the Company (but not to equity lines of credit). During 2015, the Company made significant changes to its residential real estate business, including investments in technology and employee training. These CFPB rules, in addition to other previously-issued and to-be-issued CFPB regulations, could materially affect the Company's ability to originate and sell residential real estate loans or limit the terms on which the Company may offer products, which could adversely affect the Company's financial condition and results of operations.

The Basel III Final Rules require higher levels of capital and liquidity, which could adversely affect the Company's net income and return on equity. The capital adequacy and liquidity guidelines applicable to the Company and the Bank under the Basel III Final Rules began to be phased in beginning in 2015. The Basel III Final Rules, when fully phased in, will require the Company and the Bank to maintain substantially more capital as a result of higher minimum capital levels and more demanding regulatory capital risk-weightings and calculations. The changes to the standardized calculations of risk-weighted assets are complex and may create enormous compliance burdens for the

Company and the Bank. The Basel III Final Rules will require the Company and the Bank to substantially change the manner in which they collect and report information to calculate risk-weighted assets, and may increase dramatically risk-weighted assets as a result of applying higher risk weightings to many types of loans and securities. As a result, the Company and the Bank may be forced to limit originations of certain types of commercial and mortgage loans, thereby reducing the amount of credit available to borrowers and limiting opportunities to earn interest income from the loan portfolio, which may have a detrimental impact on the Company's net income.

If the Company were to require additional capital as a result of the Basel III Final Rules, it could be required to access the capital markets on short notice and in relatively weak economic conditions, which could result in raising capital that significantly dilutes existing stockholders. Additionally, the Company may be forced to limit banking operations and activities, and growth of loan portfolios and interest income, to focus on retention of earnings to improve capital levels. Higher capital levels may also lower the Company's return on equity.

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The Company is dependent on key personnel and the loss of one or more of those key personnel could harm its business. The banking business in Virginia, and in the Company's primary service area in the Hampton Roads MSA, is highly competitive and dominated by a relatively small number of large banks. Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of and experience in the Virginia community banking industry. The Company's success depends to a significant degree upon its ability to attract and retain qualified management, loan origination, administrative, marketing and technical personnel and upon the continued contributions of and customer relationships developed by management and personnel. In particular, the Company's success is highly dependent upon the capabilities of its senior executive management. The Company believes that its management team, comprised of individuals who have worked in the banking industry for many years, is integral to implementing the Company's business plan. The Company has not entered into employment agreements with any of its executive management employees, and the loss of the services of one or more of them could harm the Company's business.

The allowance for loan losses may not be adequate to cover actual losses. A significant source of risk arises from the possibility that losses could be sustained because borrowers, guarantors, and related parties may fail to perform in accordance with the terms of their loans and leases. There is no precise method to predict loan losses. Like all financial institutions, the Company maintains an allowance for loan losses to provide for loan defaults and non-performance. Accounting measurements related to impairment and the allowance for loan losses require significant estimates that are subject to uncertainty and changes relating to new information and changing circumstances. The allowance for loan losses may not be adequate to cover actual loan losses. In addition, future provisions for loan losses could materially and adversely affect, and have in recent years materially and adversely affected, the Company's operating results.

The allowance for loan losses is determined by analyzing historical loan losses, current trends in delinquencies and charge-offs, plans for problem loan resolutions, changes in the size and composition of the loan portfolio and industry information. Also included in management's estimates for loan losses are considerations with respect to the impact of economic events, the outcome of which are uncertain. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and judgment. The amount of future losses is susceptible to changes in economic and other conditions, including changes in interest rates, that may be beyond the Company's control and these future losses may exceed current estimates. If management's assumptions prove to be incorrect or if the Company experiences significant loan losses in future periods, the current level of the allowance for loan losses may not be adequate to cover actual loan losses and adjustments may be necessary. In addition, federal regulatory agencies, as an integral part of their examination process, review the Company's loans and allowance for loan losses and may require an increase in the allowance for loan losses or recognition of additional loan charge-offs, based on judgments different from those of management. While management believes that the Company's allowance is adequate to cover current losses, the Company cannot assure investors that it will not need to increase the allowance or that regulators will not require the allowance to be increased. Either of these occurrences could materially and adversely affect earnings and profitability.

The Company may be adversely affected by changes in government monetary policy. As a bank holding company, the Company's business is affected by the monetary policies established by the FRB, which regulates the national money supply in order to mitigate recessionary and inflationary pressures. In setting its policy, the FRB may utilize techniques such as the following:

·Engaging in open market transactions in U.S. Government securities;
·Setting the discount rate on member bank borrowings; and
·Determining reserve requirements.

These techniques determine, to a significant extent, the Company's cost of funds for lending and investing. These techniques, all of which are outside the Company's control, may have an adverse effect on deposit levels, net interest

margin, loan demand or the Company's business and operations.

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The Company's future success depends on its ability to compete effectively in the highly competitive financial services industry. The Company faces substantial competition in all phases of its operations from a variety of different competitors. Growth and success depends on the Company's ability to compete effectively in this highly competitive financial services environment. Many competitors offer products and services that are not offered by the Company, and many have substantially greater resources, name recognition and market presence that benefit them in attracting business. In addition, larger competitors may be able to price loans and deposits more aggressively and may have larger lending limits that would allow them to serve the credit needs of larger customers. In addition, financial technology start-ups are emerging in key areas of banking. Some of the financial services organizations with which the Company competes are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured national banks, and may have broader geographic services areas and lower cost structures. As a result, these non-bank competitors have certain advantages over the Company in accessing funding and in providing various services. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Failure to compete effectively to attract new and retain current customers in the Company's markets could cause it to lose market share, slow its growth rate and may have an adverse effect on its financial condition and results of operations.

The Company may not be able to compete effectively without the appropriate use of current technology. The use of technology in the financial services market, including the banking industry, evolves frequently. The Company may be unable to attract and maintain banking relationships with certain customers if it does not offer appropriate technology-driven products and services. In addition to better serving customers, the effective use of technology may increase efficiency and reduce costs. The Company may not be able to effectively implement new technology-driven products or services or be successful in marketing these products and services to its customers. As a result, the Company's ability to compete effectively may be impaired, which could lead to a material adverse effect on the Company's financial condition and results of operations.

Negative public opinion could damage the Company's reputation and adversely impact the Company's business, financial condition and results of operation. Reputation risk, or the risk to the Company's business, financial condition and results of operation from negative public opinion, is inherent in the financial services industry. Negative public opinion can result from actual or alleged conduct in any number of activities, including lending or foreclosure practices, regulatory compliance, corporate governance and sharing or inadequately protecting customer information, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion could adversely affect the Company's ability to keep and attract customers and employees, could expose it to litigation and regulatory action, and could adversely affect its access to the capital markets. Damage to the Company's reputation could adversely affect deposits and loans and otherwise negatively affect the Company's business, financial condition and results of operation.

Deposit insurance premiums could increase in the future, which may adversely affect future financial performance. The FDIC insures deposits at FDIC insured financial institutions, including the Bank. The FDIC charges insured financial institutions premiums to maintain the DIF at a certain level. Economic conditions from 2008 to 2011 increased the rate of bank failures and expectations for further bank failures, requiring the FDIC to make payments for insured deposits from the DIF. Although the DIF has since been replenished, a similar economic downturn in the future could require measures similar to those implemented during the last financial crisis, such as special assessments or required prepayments of insurance premiums. If the FDIC takes action to replenish the DIF, or if the Bank's asset size increases, the Bank's FDIC insurance premiums could increase, which could have an adverse effect on the Company's results of operations.

The Company may need to raise additional capital in the future and such capital may not be available when needed or at all. The Company may need to raise additional capital in the future to provide it with sufficient capital resources and liquidity to meet its commitments and business needs, particularly if its asset quality or earnings were to deteriorate significantly. Economic conditions and the loss of confidence in financial institutions may increase the

Company's cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the Federal Reserve Bank's discount window. The Company's ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of the Company's control, and the Company's financial performance.

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The Company cannot assure that such capital will be available on acceptable terms or at all. Any occurrence that may limit the Company's access to the capital markets, such as a decline in the confidence of debt purchasers, depositors of the Bank or counterparties participating in the capital markets, or a downgrade of the parent company or the Bank's ratings, may adversely affect the Company's capital costs and its ability to raise capital and, in turn, its liquidity. Moreover, if the Company needs to raise capital in the future, it may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on the Company's liquidity, business, financial condition and results of operations.

The Company and its subsidiaries are subject to operational risk, which could adversely affect business, financial condition and results of operation. The Company and its subsidiaries, like all businesses, are subject to operational risk, including the risk of loss resulting from human error, fraud or unauthorized transactions due to inadequate or failed internal processes and systems, and external events that are wholly or partially beyond the Company's control (including, for example, sudden increases in customer transaction volume, electrical or telecommunications outages, natural disasters, and cyber-attacks). Operational risk also encompasses compliance (legal) risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices or ethical standards. The Company and its subsidiaries have established a system of internal controls to address these risks, but there are inherent limitations to such risk management strategies as there may exist, or develop in the future, risks that are not anticipated, identified or monitored. Any losses resulting from operational risk could take the form of explicit charges, increased operational costs, litigation costs, harm to reputation or forgone opportunities, loss of customer business, or the unauthorized release, misuse, loss or destruction of proprietary information, any and all of which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's directors and executive officers own a significant portion of the Company's common stock and can exert significant influence over its business and corporate affairs. The Company's directors and executive officers, as a group, beneficially owned 29.12% of the Company's common stock as of June 30, 2017. Consequently, if they vote their shares in concert, they can significantly influence the outcome of matters submitted to the Company's stockholders for approval, including the election of directors. The interests of the Company's directors and executive officers may conflict with the interests of other holders of the Company's common stock, and the Company's directors and executive officers may take actions affecting the Company with which other holders of the Company's common stock disagree.

Future sales of the Company's common stock by stockholders or the perception that those sales could occur may cause the common stock price to decline. Although the Company's common stock is listed for trading on the NASDAQ stock market, the trading volume in the common stock may be lower than that of other larger financial institutions. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the potential for lower relative trading volume in the common stock, significant sales of the common stock in the public market, or the perception that those sales may occur, could cause the trading price of the Company's common stock to decline or to be lower than it otherwise might be in the absence of these sales or perceptions.

Future issuances of the Company's common stock could adversely affect the market price of the common stock and could be dilutive. The Company may issue additional shares of common stock or securities that are convertible into or exchangeable for, or that represent the right to receive, shares of the Company's common stock. Issuances of a substantial number of shares of common stock, or the expectation that such issuances might occur, could materially adversely affect the market price of the common stock and could be dilutive to stockholders. Any decision the Company makes to issue common stock in the future will depend on market conditions and other factors, and the Company cannot predict or estimate the amount, timing, or nature of possible future issuances of common stock.

Accordingly, holders of the Company's common stock bear the risk that future issuances of securities will reduce the market price of the common stock and dilute their stock holdings in the Company.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2017, the Company owned its main office, which includes a branch, located in Hampton, Virginia; the corporate headquarters, which includes a branch; six office buildings; and 12 branches. All of these are owned directly and free of any encumbrances.

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The land at the Fort Monroe branch is leased by the Company under an agreement that expires in July 2019. Two of the remaining three branches are leased from unrelated parties. The Crown Center branch is leased from Crown Center Associates, LLC, which is indirectly owned by Michael Glasser, a member of the Company's Board of Directors. These three branch leases have renewal options with expiration dates ranging from March 31, 2018 to December 31, 2024.

For more information concerning the commitments under current leasing agreements, see Note 6 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.

Item 3. Legal Proceedings

Neither the Company nor any of its subsidiaries is a party to any material pending legal proceedings before any court, administrative agency, or other tribunal.

Item 4. Mine Safety Disclosures

None.

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EXECUTIVE OFFICERS OF THE REGISTRANT

Name (Age) And Present Position	Served in Current Position Since	Principal Occupation During Past Five Years
Robert F. Shuford, Sr. (80) Chairman, President & Chief Executive Officer Old Point Financial Corporation	1965	Chairman of the Board, President & Chief Executive Officer of the Company Chairman of the Board of the Bank
Robert F. Shuford, Jr. (53) Executive Vice President/Bank Old Point Financial Corporation	2015	Executive Vice President/Bank of the Company since 2015; Chief Operating Officer & Senior Vice President/Operations of the Company from 2003 to 2015 President & Chief Executive Officer of the Bank since 2015; Senior Executive Vice President & Chief Operating Officer of the Bank from 2012 to 2015; Executive Vice President & Chief Operating Officer of the Bank from 2003 to 2012
Jeffrey W. Farrar (57) Chief Financial Officer & Senior Vice President/Finance Old Point Financial Corporation	2017	Chief Financial Officer & Senior Vice President/Finance of the Company; a Certified Public Accountant, Mr. Farrar previously spent the past three years as Executive Vice President and Director of Wealth Management, Mortgage and Insurance for Union Bankshares Corporation; and the previous 18 years as Chief Financial Officer for StellarOne Corporation and its predecessor companies. Chief Financial Officer & Executive Vice President of the Bank
Eugene M. Jordan, II (63) Secretary to the Board & Executive Vice President/Trust Old Point Financial Corporation	2003	Secretary to the Board & Executive Vice President/Trust of the Company since 2015; Executive Vice President/ Trust of the Company from 2003 to 2015 President and Chief Executive Officer of Trust since 2003

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Joseph R. Witt (57) Chief Business Development Officer & Senior Vice President Old Point Financial Corporation	2008	Chief Business Development Officer & Senior Vice President of the Company since 2015; Chief Administrative Officer & Senior Vice President/Administration of the Company from 2012 to 2015; Senior Vice President/ Corporate Banking/Human Resources of the Company from 2010 to 2012; Senior Vice President/Corporate Banking of the Company from 2008 to 2010 Senior Executive Vice President & Chief Business Development Officer of the Bank since 2015; Senior Executive Vice President & Chief Administrative Officer of the Bank from 2012 to 2015; Executive Vice President/ Corporate Banking & Human Resources Director of the Bank from 2010 to 2012
Donald S. Buckless (53) Chief Lending Officer & Senior Vice President Old Point Financial Corporation	2016	Chief Lending Officer & Senior Vice President of the Company since 2016 Chief Lending Officer & Executive Vice President of the Bank since 2016; Chief Lending Officer & Senior Vice President of the Bank from 2015 to 2016; Senior Vice President/Commercial Lending Officer of the Bank from May 2012 to 2015; Senior Vice President of SunTrust from December 2000 to May 2012

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Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The common stock of the Company is quoted on the NASDAQ Capital Market under the symbol "OPOF". The approximate number of stockholders of record as of March 13, 2018 was 1,192. On that date, the closing price of the Company's common stock on the NASDAQ Capital Market was $25.85. The range of high and low sale prices and dividends paid per share of the Company's common stock for each quarter during 2017 and 2016 is presented in Item 7 of this report on Form 10-K under "Capital Resources" and is incorporated herein by reference. Additional information related to restrictions on funds available for dividend declaration can be found in Note 17 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.

On January 12, 2010, the Company authorized a program to repurchase during any given calendar year up to an aggregate of 5 percent of the shares of the Company's common stock outstanding as of January 1 of that calendar year. The Company did not repurchase any shares of the Company's common stock under this plan during 2017. There is currently no stated expiration date for this program.

Pursuant to the Company's stock option plans, participants may exercise stock options by surrendering shares of the Company's common stock that the participants already own. Shares surrendered by participants of these plans are repurchased at current market value pursuant to the terms of the applicable stock options. No such repurchases occurred during 2017.

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Item 6. Selected Financial Data

The following table summarizes the Company's performance for the past five years.

SELECTED FINANCIAL HIGHLIGHTS

Years ended December 31, (dollars in thousands except per share data)	2017	2016	2015	2014	2013
RESULTS OF OPERATIONS					
Interest income	$32,934	$29,826	$30,295	$30,289	$29,823
Interest expense	3,012	2,574	3,632	3,849	4,680
Net interest income	29,922	27,252	26,663	26,440	25,143
Provision for loan losses	4,160	1,930	1,025	600	1,300
Net interest income after provision for loan losses	25,762	25,322	25,638	25,840	23,843
Noninterest income	14,058	13,466	13,136	12,644	12,773
Noninterest expenses	39,946	34,831	35,086	34,172	33,105
Income before income taxes	(126)	3,957	3,688	4,312	3,511
Income tax expense	(97)	160	54	196	348
Net income (loss)	$(29)	$3,797	$3,634	$4,116	$3,163
FINANCIAL CONDITION					
Total assets	$981,826	$902,966	$896,787	$876,280	$864,288
Securities available for sale, at fair value	$157,121	$199,365	$214,192	$139,346	$155,639
Loans held for investment, net of deferred fees and costs	$738,540	$603,882	$568,475	$535,994	$500,699
Allowance for loan losses	$9,448	$8,245	$7,738	$7,075	$6,831
Deposits	$783,594	$784,502	$746,471	$716,654	$725,405
Total borrowings	$98,193	$18,704	$50,950	$67,816	$56,586
Total liabilities	$885,438	$808,976	$803,611	$787,783	$783,527
Stockholders' equity	$96,388	$93,990	$93,176	$88,497	$80,761
PERTINENT RATIOS					
Return on average assets	0.00%	0.43%	0.41%	0.47%	0.36%
Return on average equity	(0.03%)	3.99%	4.02%	4.81%	3.73%
Net interest margin (FTE)	3.64%	3.66%	3.56%	3.57%	3.23%
Efficiency ratio	90.83%	85.54%	88.16%	87.43%	87.31%
Tier 1 capital to risk weighted assets	11.18%	13.39%	13.78%	14.36%	14.50%
Total capital to risk weighted assets	12.28%	14.51%	14.89%	15.44%	15.58%
Leverage ratio	9.98%	10.68%	10.93%	10.75%	10.37%
Tangible common equity / tangible assets	9.76%	10.41%	10.39%	10.10%	9.34%
Cash dividends declared	$0.44	$0.40	$0.34	$0.26	$0.22
Book value	$19.20	$18.94	$18.79	$17.85	$16.29
ASSET QUALITY					
Nonaccrual loans	$12,882	$7,159	$4,582	$5,570	$11,324
OREO	$-	$1,067	$2,741	$5,106	$6,415
ALLL / total outstanding loans	1.28%	1.37%	1.36%	1.32%	1.36%
Nonaccrual loans / total loans	1.74%	1.19%	0.81%	1.04%	2.26%
ALLL / nonaccrual loans	73.34%	115.17%	168.88%	127.02%	60.32%

NPAs / total outstanding loans	2.18	%	1.84	%	1.88	%	2.20	%	3.65	%
Net charge-offs / total average loans	0.44	%	0.24	%	0.06	%	0.07	%	0.38	%
Provision / total average loans	0.62	%	0.33	%	0.18	%	0.12	%	0.28	%
PER SHARE DATA										
Basic earnings (loss) per share	$(0.01)		$0.77		$0.73		$0.83		$0.64	
Diluted earnings (loss) per share	$(0.01)		$0.77		$0.73		$0.83		$0.64	
Cash dividends declared	$0.44		$0.40		$0.34		$0.26		$0.22	
Market value per share	$29.75		$25.00		$17.16		$15.00		$12.82	
Book value per share	$19.20		$18.94		$18.79		$17.85		$16.29	
Tangible book value per share	$19.20		$18.94		$18.79		$17.85		$16.29	
Price to earnings ratio, diluted	(2,975.00)		32.47		23.51		18.07		20.03	
Price to book value ratio	1.55		1.32		0.91		0.84		0.79	
Dividend payout ratio	(4,400.00)%		51.95	%	46.58	%	31.33	%	34.38	%
Weighted average shares outstanding, basic	4,991,060		4,959,173		4,959,009		4,959,009		4,959,009	
Weighted average shares outstanding, diluted	4,991,060		4,960,934		4,959,009		4,959,009		4,959,009	

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist readers in understanding and evaluating the financial condition, changes in financial condition and the results of operations of the Company, consisting of the parent company (the Parent) and its wholly-owned subsidiaries, the Bank and Trust. This discussion should be read in conjunction with the Consolidated Financial Statements and other financial information contained elsewhere in this report.

Caution About Forward-Looking Statements

In addition to historical information, this report may contain forward-looking statements. For this purpose, any statement that is not a statement of historical fact may be deemed to be a forward-looking statement. These forward-looking statements may include, but are not limited to, statements regarding profitability, including the focus on reducing time deposits; the net interest margin; strategies for managing the net interest margin and the expected impact of such efforts; levels and sources of liquidity; the loan portfolio and expected trends in the quality of the loan portfolio; the allowance and provision for loan losses; the effect of a sustained increase in nonperforming assets; the securities portfolio; monetary policy actions of the Federal Open Market Committee; changes in interest rates; interest rate sensitivity; asset quality; levels of net loan charge-offs and nonperforming assets; sales of OREO properties; levels of interest expense; levels and components of noninterest income and noninterest expense; lease expense; income taxes; expected impact of efforts to restructure the balance sheet; expected yields on the loan and securities portfolios; expected rates on interest-bearing liabilities; expected timing of and effect of the pending acquisition of Citizens National; market risk; future impacts of the Tax Cuts and Jobs Act (the Tax Act) on the Company's operations; business and growth strategies; investment strategy; and financial and other goals. Forward-looking statements often use words such as "believes," "expects," "plans," "may," "will," "should," "projects," "contemplates," "anticipates," "forecasts," "intends" or other words of similar meaning. These statements can also be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, and actual results could differ materially from historical results or those anticipated by such statements.

There are many factors that could have a material adverse effect on the operations and future prospects of the Company including, but not limited to the possibility that: any of the anticipated benefits of the pending acquisition of Citizens National will not be realized or will not be realized within the expected time period; Citizens National may not be integrated into the Company successfully or such integration may be more difficult, time-consuming, or costly than expected; or obtaining required regulatory approvals or completing the acquisition may be more difficult, time-consuming, or costly than expected. Other factors that could have a material adverse effect on the operations and future prospects of the Company include, but are not limited to, effects of or changes in interest rates and yields; general economic and general business conditions, including unemployment levels; uncertainty over future federal spending or the budget priorities of the current presidential administration, particularly in connection with the Department of Defense, on the Company's service area; the Tax Act, including, but not limited to, the effect of the lower corporate tax rate, including on the valuation of the Company's tax assets and liabilities; any future refinements to the Company's preliminary analysis of the impact of the Tax Act on the Company; changes in the effect of the Tax Act due to issuance of interpretive regulatory guidance or enactment of corrective or supplemental legislation; the transfer of the securities portfolio from held-to-maturity securities to available-for-sale securities; the quality or composition of the loan or securities portfolios; the volume and mix of interest-earning assets and interest-bearing liabilities; the effects of management's investment strategy and strategy to manage the net interest margin; the adequacy of the Company's credit quality review processes; the level of nonperforming assets and related charge-offs and recoveries; turnover times experienced by the mortgage companies to which the Company has extended warehouse lines of credit; the performance of the Company's re-opened indirect automobile dealer lending program; the federal government's guarantee of repayment of student loans purchased by the Company; the ability of the Company to diversify its sources of noninterest income; new incentive structure for securities brokerage activities; the local real estate market; volatility and disruption in national and international financial markets; government intervention in the U.S. financial system; application of the Basel III capital standards to the Company and its

subsidiaries; FDIC premiums and/or assessments; demand for loan and other banking products and financial services in the Company's primary service area; levels of noninterest income and expense; deposit flows; competition; the use of inaccurate assumptions in management's modeling systems; technological risks and developments and cyber-attacks and events; any interruption or breach of security in the Company's information systems or those of the Company's third party vendors or other service providers; reliance on third parties for key services; adequacy of the allowance for loan losses; and changes in accounting principles, policies and guidelines. The Company could also be adversely affected by monetary and fiscal policies of the U.S. Government, as well as any regulations or programs implemented pursuant to the Dodd-Frank Act or other legislation and policies of the Comptroller, U.S. Treasury and the Federal Reserve Board.

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These risks and uncertainties should be considered in evaluating the forward-looking statements contained herein, and readers are cautioned not to place undue reliance on such statements. Any forward-looking statement speaks only as of the date on which it is made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made. In addition, past results of operations are not necessarily indicative of future results.

Executive Overview

Description of Operations

Headquartered in Hampton, Virginia, the Company is the parent company of Trust and the Bank. Trust is a wealth management services provider. The Bank offers a complete line of consumer, mortgage and business banking services, including loan, deposit, and cash management services to individual and commercial customers. The Bank is an independent community bank and has 18 branches throughout the Hampton Roads localities of Chesapeake, Hampton, Isle of Wight County, Newport News, Norfolk, Virginia Beach, Williamsburg/James City County and York County.

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Management Initiatives in 2017

Management's two main 2017 initiatives were to grow and diversify the loan portfolio and to expand and increase noninterest revenues. Management believes substantial progress was made with respect to both initiatives. Net loans held for investment increased by $133.5 million when comparing December 31, 2017 to December 31, 2016. This was in large part due to an expansion of the Company's indirect automobile lending program, which began in late 2016. Noninterest income increased $592 thousand in 2017 from 2016 which was driven by the acquisition of Old Point Mortgage completed in the second quarter of 2017. The Company also established Old Point Insurance, LLC in 2017, in partnership with Morgan Marrow Company offering a full array of insurance products.

Primary Financial Data for 2017

In 2017, the Company's net income decreased $3.8 million to a net loss of $29 thousand, as compared to net income of $3.8 million in 2016, or a decrease of 100.76%. The decline was primarily the result of an increased provision for loan losses and three nonrecurring expenses in the fourth quarter. First, the Company completed the previously announced termination and settlement of its defined benefit pension plan which resulted in $2.2 million in after-tax compensation expense. Second, the Company incurred after-tax expenses associated with the planned merger with Citizens National Bank totaling $241 thousand. Third, the changes to the corporate income tax rate resulting from the passage of the Tax Cuts and Jobs Act (the "Tax Act") precipitated $1.2 million in tax expenses related to the reevaluation of the Company's net deferred tax asset.

Assets as of December 31, 2017 were $981.8 million, an increase of $78.9 million or 8.73% compared to assets as of December 31, 2016. During 2017, the Company experienced significant loan growth which was funded by cash flows from the securities portfolio and decreased cash and cash equivalents as well as borrowings from the Federal Home Loan Bank (FHLB). Net loans grew $133.5 million, or 22.41%, over the year, while securities available for sale declined $42.2 million, cash and cash equivalents decreased $11.4 million, and FHLB advances increased $67.5 million.

Critical Accounting Estimates

The accounting and reporting policies of the Company are in accordance with U.S. generally accepted accounting principles (GAAP) and conform to general practices within the banking industry. The Company's financial position and results of operations are affected by management's application of accounting policies, including estimates, assumptions and judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in the Company's consolidated financial position and/or results of operations. The accounting policy that required management's most difficult, subjective or complex judgments is the Company's allowance for loan losses, which is described below.

Allowance for Loan Losses

The allowance for loan losses is an estimate of probable losses inherent in the loan portfolio. The allowance is based on three basic principles of accounting which require: (i) that losses be accrued when they are probable of occurring and estimable, (ii) that losses be accrued based on the differences between the loan balances and the value of collateral, present value of expected future cash flows (discounted at the loan's effective interest rate) or values that are observable in the secondary market and (iii) that adequate documentation exist to support the allowance for loan losses estimate.

The Company's allowance for loan losses is the accumulation of various components that are calculated based on independent methodologies. Management's estimate is based on certain observable, historical data and other factors that management believes are most reflective of the underlying credit losses being estimated. This evaluation includes credit quality trends; collateral values; discounted cash flow analysis; loan volumes; geographic, borrower and industry concentrations; the findings of internal credit quality assessments; and results from external bank regulatory examinations. These factors, as well as identified impaired loans, historical losses and current economic and business

conditions, are used in developing estimated loss factors used in the calculations.

Authoritative accounting literature requires that the impairment of loans that have been separately identified for evaluation be measured based on the present value of expected future cash flows (discounted at the loan's effective interest rate) or, alternatively, the observable market price of the loans or the fair value of the collateral. However, for those loans that are collateral dependent (that is, if repayment of those loans is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable, the measure of impairment is to be based on the net realizable value of the collateral. Authoritative accounting literature, as amended, also requires certain disclosures about investments in impaired loans and the allowance for loan losses and interest income recognized on loans.

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For loans not individually evaluated for impairment, the loan portfolio is segmented into pools, based on the loan classifications as defined by Schedule RC-C of the Federal Financial Institutions Examination Council Consolidated Reports of Condition and Income Form 041 (Call Report) and collectively evaluated for impairment. Consumer loans not secured by real estate and made to individuals for household, family and other personal expenditures are segmented into pools based on whether the loan's payments are current (including loans 1-29 days past due), 30 – 59 days past due, 60 – 89 days past due, or 90 days or more past due. All other loans, including loans to consumers that are secured by real estate, are segmented by the Company's internally assigned risk grades: substandard, other assets especially mentioned (rated just above substandard), and pass (all other loans). The Company may also assign loans to the risk grades of doubtful or loss, but as of December 31, 2017 and December 31, 2016, the Company had no loans in these categories.

Specific reserves are determined on a loan-by-loan basis based on management's evaluation of the Company's exposure for each credit, given the current payment status of the loan and the net market value of any underlying collateral.

While management uses the best information available to establish the allowance for loan losses, future adjustment to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the valuations or if required by regulators, based upon information available to them at the time of their examinations. Such adjustments to original estimates, as necessary, are made in the period in which these factors and other relevant considerations indicate that loss levels may vary from previous estimates.

During the third quarter of 2017, the Company changed its method for calculating the allowance for loan and lease losses. This change is discussed in detail in Note 4 of the Notes to the Consolidated Financial Statements included in this annual report on Form 10-K.

Other Than Temporary Impairment of Securities

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (i) the Company intends to sell the security or (ii) it is more-likely-than-not that the Company will be required to sell the security before recovery of its amortized cost basis. If, however, the Company does not intend to sell the security and it is not more-likely-than-not that the Company will be required to sell the security before recovery, management must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost basis of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income. For equity securities, impairment is considered to be other-than-temporary based on the Company's ability and intent to hold the investment until a recovery of fair value. Other-than-temporary impairment of an equity security results in a write-down that must be included in net income. Management regularly reviews each investment security for other-than-temporary impairment based on criteria that includes the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, management's best estimate of the present value of cash flows expected to be collected from debt securities, management's intention with regard to holding the security to maturity and the likelihood that the Company would be required to sell the security before recovery.

Other Real Estate Owned (OREO)

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, management periodically performs valuations of the foreclosed assets based on updated appraisals, general market conditions, recent sales of similar properties, length of time the properties have been held, and management's ability and intention with regard to continued ownership of the properties. The Company may incur additional write-downs of foreclosed

assets to fair value less costs to sell if valuations indicate a further deterioration in market conditions.

Retirement Plan

The Company maintained a non-contributory, defined benefit pension plan for eligible full-time employees as specified by the plan. Plan assets, which consisted primarily of mutual funds invested in marketable equity securities and corporate and government fixed income securities, are valued using market quotations. The Company's actuary determined plan obligations and annual pension expense using a number of key assumptions including the discount rate, the interest crediting rate, the estimated future return on plan assets and the anticipated rate of future salary increases. This plan was terminated in the fourth quarter of 2017. The termination and settlement of this plan resulted in $2.2 million in after-tax compensation expense in 2017.

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Income Taxes

The Company recognizes expense for federal income and state bank franchise taxes payable as well as deferred federal income taxes for estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the Consolidated Financial Statements. Income and franchise tax returns are subject to audit by the Internal Revenue Service (IRS) and state taxing authorities. Income and franchise tax expense for current and prior periods is subject to adjustment based on the outcome of such audits. The Company believes it has adequately provided for all taxes payable.

The Tax Act was signed into law on December 22, 2017. This permanently reduced the corporate income tax rate from a maximum of 35% to 21%, effective for tax years including or commencing January 1, 2018. The Company recorded a charge to tax expense in the fourth quarter of 2017 of $1.2 million associated with an initial estimate of the reevaluation of its deferred tax assets and liabilities necessitated by the lower corporate income tax rate.

Earnings Summary

Net loss for 2017 was $29 thousand ($0.01 per diluted share) compared to net income of $3.8 million ($0.77 per diluted share) in 2016. The decrease in net income was due to higher noninterest expense, particularly nonrecurring charges related to the termination of the Company's defined benefit pension plan and the planned merger with Citizens National Bank. Personnel costs also increased due to the acquisition of Old Point Mortgage in the second quarter. Provision expense was also significantly higher in 2017. Partially offsetting the higher noninterest expense were increases in net interest income and noninterest income. Net interest income increased mainly due to significant growth in the loan portfolio, while the Old Point Mortgage acquisition was primarily responsible for the increase in noninterest income.

Net Interest Income

The principal source of earnings for the Company is net interest income. Net interest income is the difference between interest and fees generated by earning assets and interest expense paid to fund them. Changes in the volume and mix of interest-earning assets and interest-bearing liabilities, as well as their respective yields and rates, have a significant impact on the level of net interest income. The net interest margin is calculated by dividing tax-equivalent net interest income by average earning assets.

Net interest income, on a fully tax-equivalent basis, was $30.9 million in 2017, an increase of $2.7 million from 2016 and an increase of $3.2 million from 2015. Growth in the loan portfolio was primarily responsible for the increase in 2017 when compared to 2016. The net interest margin was 3.64% in 2017 as compared to 3.66% in 2016 and 3.56% in 2015. The decline in the net interest margin in 2017 relative to 2016 was primarily the result of a higher average rate on interest-bearing liabilities.

When comparing 2017 to 2016, the following changes occurred. Tax equivalent interest income increased $3.1 million, or 10.21%. Average earning assets increased $79.0 million, or 10.27%. Total average loans increased $87.8 million, or 15.00%, and average investment securities decreased $1.0 million, or 0.59%, as continued loan demand allowed the Company to shift its assets from securities to loans.

In 2017, the Company significantly expanded its indirect automobile lending program as part of a strategic initiative to grow and diversify the loan portfolio. This was largely responsible for the strong loan growth which was funded in part by excess liquidity that was previously held in a noninterest-bearing account at a correspondent bank. This contributed to the $21.4 million decline in average cash and due from banks. This also explains the decreases in interest-bearing due from banks and federal funds sold average balances. Interest income was enhanced by the loan growth and the shift in asset composition to loans from lower yielding and non-earnings assets. However, interest income was negatively impacted by continued declines in average loan yields, from 4.52% in 2016 to 4.36% in 2017, as yields on new loan originations were generally lower than on loan maturities and paydowns. Total average earning asset yield was unchanged in 2017 compared to 2016 at 4.00%. Management expects the recent trend in declining loan yields that the Company has experienced to stabilize. The Federal Open Market Committee (FOMC) raised the

target range for the federal funds rate three times in 2017, and additional rate increases are forecasted for 2018.

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Average interest-bearing liabilities increased $40.8 million, or 7.17%, due to increases in both interest-bearing non-maturity deposits and FHLB advances. Additional FHLB advances supplemented modest growth in average deposits and provided funding to support loan growth. Total interest expense increased $438 thousand, or 17.02%, when comparing 2017 to 2016. The increase was driven by increased deposit and borrowing costs. The average rate on interest-bearing liabilities in 2017 was 0.49%, an increase of 4 basis points from 2016.

The following table shows an analysis of average earning assets, interest-bearing liabilities and rates and yields. Nonaccrual loans are included in loans outstanding.

TABLE I
AVERAGE BALANCE SHEETS, NET INTEREST INCOME* AND RATES*

Years ended December 31,	2017			2016			2015		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(dollars in thousands)								
ASSETS									
Loans *	$673,015	$29,318	4.36 %	$585,206	$26,451	4.52 %	$563,534	$26,106	4.63 %
Investment securities:									
Taxable	102,644	1,964	1.91 %	104,549	1,802	1.72 %	130,541	2,510	1.92 %
Tax-exempt *	67,403	2,426	3.60 %	66,509	2,326	3.50 %	71,831	2,520	3.51 %
Total investment securities	170,047	4,390	2.58 %	171,058	4,128	2.41 %	202,372	5,030	2.49 %
Interest-bearing due from banks	1,343	15	1.12 %	9,226	48	0.52 %	5,848	15	0.26 %
Federal funds sold	921	8	0.87 %	1,667	6	0.36 %	1,860	2	0.11 %
Other investments	2,348	155	6.60 %	1,562	113	7.23 %	2,373	133	5.60 %
Total earning assets	847,674	33,886	4.00 %	768,719	30,746	4.00 %	775,987	31,286	4.03 %
Allowance for loan losses	(8,950)			(7,895)			(7,404)		
	838,724			760,824			768,583		
Cash and due from banks	20,723			42,111			31,858		
Bank premises and equipment, net	38,428			40,480			41,988		
Other assets	41,171			42,643			41,957		
Total assets	$939,046			$886,058			$884,386		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Time and savings deposits:									
Interest-bearing transaction accounts	$27,909	$10	0.04 %	$20,045	$9	0.04 %	$11,219	$4	0.04 %
Money market deposit accounts	233,295	291	0.12 %	221,339	179	0.08 %	228,627	186	0.08 %
Savings accounts	82,872	41	0.05 %	78,305	39	0.05 %	74,436	37	0.05 %

Time deposits	208,095	2,208	1.06 %	210,339	2,116	1.01 %	221,087	2,144	0.97 %
Total time and savings deposits	552,171	2,550	0.46 %	530,028	2,343	0.44 %	535,369	2,371	0.44 %
Federal funds purchased, repurchase agreements and other borrowings	25,743	38	0.15 %	25,348	25	0.10 %	30,777	30	0.10 %
Federal Home Loan Bank advances	32,301	424	1.31 %	14,016	206	1.47 %	27,466	1,231	4.48 %
Total interest-bearing liabilities	610,215	3,012	0.49 %	569,392	2,574	0.45 %	593,612	3,632	0.61 %
Demand deposits	226,951			214,876			194,677		
Other liabilities	5,359			6,510			5,664		
Total liabilities	842,525			790,778			793,953		
Stockholders' equity	96,521			95,280			90,433		
Total liabilities and stockholders' equity	$939,046			$886,058			$884,386		
Net interest margin *		$30,874	3.64 %		$28,172	3.66 %		$27,654	3.56 %

* Computed on a fully tax-equivalent basis using a 34% rate.

The tax-equivalent adjustment of income and yields will change in 2018 as a result of the passage of the Tax Act. The benefit of the tax-exemption for interest income from municipal bonds and loans to municipalities will decline due to the decrease in the corporate income tax rate to 21%.

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The following table summarizes changes in net interest income attributable to changes in the volume of interest-bearing assets and liabilities and changes in interest rates.

TABLE II
VOLUME AND RATE ANALYSIS*

	2017 vs. 2016 Increase (Decrease) Due to Changes in:			2016 vs. 2015 Increase (Decrease) Due to Changes in:			2015 vs. 2014 Increase (Decrease) Due to Changes in:		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
	(in thousands)								
EARNING ASSETS									
Loans *	$3,969	$(1,102)	$2,867	$1,004	$(659)	$345	$2,237	$(1,090)	$1,147
Investment securities:									
Taxable	(33)	195	162	(500)	(208)	(708)	(740)	(312)	(1,052)
Tax-exempt *	31	69	100	(187)	(7)	(194)	(79)	19	(60)
Total investment securities	(2)	264	262	(687)	(215)	(902)	(819)	(293)	(1,112)
Federal funds sold	(3)	5	2	-	4	4	(2)	(1)	(3)
Other investments	(106)	115	9	46	(33)	13	(1)	11	10
Total earning assets	3,858	(718)	3,140	363	(903)	(540)	1,415	(1,373)	42
INTEREST-BEARING LIABILITIES									
Interest-bearing transaction accounts	4	(3)	1	5	-	5	-	(1)	(1)
Money market deposit accounts	10	102	112	(7)	-	(7)	12	(5)	7
Savings accounts	2	-	2	2	-	2	1	(10)	(9)
Time deposits	(23)	115	92	(104)	76	(28)	(167)	(43)	(210)
Total time and savings deposits	(7)	214	207	(104)	76	(28)	(154)	(59)	(213)
Federal funds purchased, repurchase agreements and other borrowings	-	13	13	(5)	-	(5)	(2)	-	(2)
Federal Home Loan Bank advances	269	(51)	218	(603)	(422)	(1,025)	(45)	43	(2)
Total interest-bearing liabilities	262	176	438	(712)	(346)	(1,058)	(201)	(16)	(217)
Change in net interest income	$3,596	$(894)	$2,702	$1,075	$(557)	$518	$1,616	$(1,357)	$259

* Computed on a fully tax-equivalent basis using a 34% rate.

Market Risk

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. The Company's primary component of market risk is interest rate volatility. Fluctuations in interest rates will impact the amount of interest income and expense the Company receives or pays on a significant portion of its assets and liabilities and the market value of its interest-earning assets and interest-bearing liabilities, excluding those which have a very short-term until maturity. Management is responsible for reviewing the interest rate sensitivity position of the Company and establishing policies to monitor and limit exposure to this risk.

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Three complementary modeling techniques are utilized to measure and monitor the exposure to interest rate risk: static gap analysis, earnings simulation analysis, and economic value of equity (EVE) analysis. Static gap measures the aggregate dollar volume of rate-sensitive assets relative to rate-sensitive liabilities re-pricing over various time horizons. This metric does not effectively capture the re-pricing characteristics or embedded optionality of the Company's assets and liabilities, so it is not relied upon or addressed here. Earnings simulation measures the potential effect of changes in market interest rates on future net interest income. This analysis incorporates management's assumptions for product pricing and pre-payment expectations and is the Company's preferred tool to assess its interest rate sensitivity in the short- to medium-term. The simulation utilizes a "static" balance sheet approach, which assumes that management makes no changes to the composition of the balance sheet to mitigate the impact of interest rate changes. EVE modeling estimates the fair value of assets and liabilities in different interest rate environments using discounted cash flow analysis. The net economic value of equity is the economic value of all assets minus the economic value of all liabilities. This measure provides an indication of the future earnings capacity of the balance sheet, and the change in EVE over different rate scenarios is a measure of long-term interest rate risk. The Company places less emphasis on EVE results due to the inherent imprecision of cash flow estimations and the limited utility of a static balance sheet assumption over the long-term.

The Company determines the overall magnitude of interest sensitivity risk and then formulates policies governing asset generation and pricing, funding sources and pricing, and off-balance sheet commitments. These decisions are based on management's expectations regarding future interest rate movements, the state of the national and regional economy, and other financial and business risk factors.

When the Company is liability sensitive, net interest income should improve if interest rates fall since liabilities will reprice faster than assets (depending on the optionality or prepayment speeds of the assets). Conversely, if interest rates rise, net interest income should decline. When the Company is asset sensitive, net interest income should improve if interest rates rise and fall if rates fall. The rate change model assumes that these changes will occur gradually over the course of a year.

The table below shows the Company's interest rate sensitivity for the periods and rate scenarios presented (dollars in thousands):

TABLE III
CHANGE IN NET INTEREST INCOME
As of December 31,

	2017		2016	
	%	$	%	$
Change in Interest Rates:				
+300 basis points	(1.42)	(462)	1.35	380
+200 basis points	(1.02)	(332)	0.88	248
+100 basis points	(0.49)	(160)	0.42	117
Unchanged	-	0	-	-
-50 basis points	(0.28)	(90)	(0.63)	(177)
-100 basis points	(0.92)	(297)	(1.22)	(343)

Management cannot predict future interest rates or their exact effect on net interest income. Computations of future effects of hypothetical interest rate changes are based on numerous assumptions and should not be relied upon as indicative of actual results. Certain limitations are inherent in such computations. Assets and liabilities may react differently than projected to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while rates on other types of assets and liabilities may lag changes in market interest rates. Interest rate shifts may not be parallel.

Changes in interest rates can cause substantial changes in the amount of prepayments of loans and mortgage-backed securities, which may in turn affect the Company's interest rate sensitivity position. Additionally, credit risk may rise if an interest rate increase adversely affects the ability of borrowers to service their debt.

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Provision for Loan Losses

The provision for loan losses is a charge against earnings necessary to maintain the allowance for loan losses at a level consistent with management's evaluation of the portfolio. This expense is based on management's estimate of probable credit losses inherent in the loan portfolio. Management's evaluation included credit quality trends, collateral values, discounted cash flow analysis, loan volumes, geographic, borrower and industry concentrations, the findings of internal credit quality assessments and results from external regulatory examinations. These factors, as well as identified impaired loans, historical losses and current economic and business conditions, were used in developing estimated loss factors for determining the allowance for loan losses. Based on its analysis of the adequacy of the allowance for loan losses, management concluded that the provision was appropriate.

The provision for loan losses was $4.2 million for the year ended December 31, 2017 as compared to $1.9 million for 2016. A portion of the increase is due to loan growth during 2017, which required the Company to set aside additional reserves. The provision was also impacted by higher levels of charge offs in 2017 than in 2016. Charged-off loans totaled $3.3 million in 2017, compared to $1.8 million in 2016. Recoveries amounted to $330 thousand in 2017 and $347 thousand in 2016. The Company's net loans charged off to average loans were 0.44% in 2017 as compared to 0.24% in 2016.

Net loan charge-offs for 2017 were higher than in 2016 primarily due to charge-offs in the third and fourth quarters of 2017 on several borrowing relationships whose conditions had deteriorated.

The state of the local economy can have a significant impact on the level of loan charge-offs. If the economy begins to contract, nonperforming assets could increase as a result of declines in real estate values and home sales or increases in unemployment rates and financial stress on borrowers. Increased nonperforming assets would increase charge-offs and reduce earnings due to larger contributions to the loan loss provision. If current economic conditions remain stable and net loan charge-offs are consistent with management's forecast, management expects that the loan loss provision will be lower in 2018 than in 2017.

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Noninterest Income

Unless otherwise noted, all comparisons in this section are between the twelve months ended December 31, 2017 and the twelve months ended December 31, 2016.

Noninterest income increased $592 thousand or 4.40% for the year ended December 31, 2017 as compared to the year ended December 31, 2016. Noninterest income in 2017 was elevated in part by a nonrecurring gain recognized on the acquisition of Old Point Mortgage of $550 thousand. Mostly offsetting this was a significant reduction in gains on the sale of available-for-sale securities. There was significant securities sales activity in 2016 as part of a restructuring of the securities portfolio which resulted in considerable net gains. This did not reoccur in 2017.

Aside from the impact of nonrecurring gains, three other categories of noninterest income increased: fiduciary and asset management fees (up $226 thousand or 6.35%), other service charges, commissions and fees (up $242 thousand or 6.14%), and mortgage banking income (up $232 thousand or 56.17%). There was broad growth in the fiduciary and asset management category with significant gains in personal trust income, retirement services income, and investment management income. Other service charges, commissions and fees increased primarily due to growth in merchant processing and debit card fee income. Mortgage banking income increased as a result of the acquisition of Old Point Mortgage.

The increases from these changes were partially offset by declines in deposit service charges in 2017. Both overdraft fee income and service charges on personal and business deposits decreased year over year. Income from bank-owned life insurance was also down modestly, $21 thousand or 2.64%, in 2017 relative to 2016.

The Company continues to focus on diversifying noninterest income through efforts to expand Trust, insurance, and mortgage banking activities, and a continued focus on business checking and other corporate services.

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Noninterest Expense

Unless otherwise noted, all comparisons in this section are between the twelve months ended December 31, 2017 and the twelve months ended December 31, 2016.

The Company's noninterest expense increased $5.1 million or 14.69%. The largest contributing factor of this increase was higher salaries and employee benefits, which included a nonrecurring pre-tax charge associated with the termination and settlement of the defined benefit pension plan of $3.4 million. Salaries and employee benefits also increased due to higher personnel costs resulting from the addition of staff in connection with the Old Point Mortgage acquisition completed in April 2017. The Company also incurred $241 thousand in nonrecurring merger costs associated with the Citizens National acquisition during the fourth quarter of 2017.

Of the remaining categories of noninterest expense, the most significant changes when comparing 2017 to 2016 were in loan related expenses, occupancy and equipment, data processing, FHLB advance prepayment fees, and loss (gain) on other real estate owned.

- Loan related expenses (increased $424 thousand or 220.83%): The expansion of the Company's indirect automobile lending operations substantially increased costs related to credit reporting and application processing.

- Occupancy and equipment (increased $289 thousand or 5.18%): Building rental expenses increased with the addition of office space for Old Point Mortgage personnel. Building maintenance and repair expense was also elevated.

- Data processing fees (increased $163 thousand or 10.06%): The increase was due to higher expenses associated with enhancements to the Company's disaster recovery capabilities and increased debit card expense due to higher transaction volumes. Also, in 2016 the Company was able to use earnings credits from deposits with a correspondent bank to offset some processing related expenses. Due to the decline in cash and due from bank balances, this opportunity was not available in 2017.

- FHLB advance prepayment penalty (decreased $391 thousand or 100.00%): The Company incurred a prepayment penalty on the early payoff of an advance in the first quarter of 2016 that bore an interest rate considerably above market rates for alternative funding. There were no advance prepayments in 2017.

- Loss (gain) on other real estate owned (decreased $172 thousand or -111.69%): In 2016 and 2017, the Company worked diligently to sell the properties held in other real estate owned, with the last two sales closing in the second quarter of 2017. Prior to 2017, both properties had already been written down to the anticipated sales price (less costs to sell); the Company recorded a small gain on the final sales in 2017, as compared to a net loss in 2016.

The Company recorded an income tax benefit in 2017 compared to tax expense in 2016 due to lower income. The tax benefit would have been approximately $1.2 million higher had the passage of the Tax Act not required the reevaluation of the Company's net deferred tax asset. The Company's effective tax rate should benefit in the future from the lower statutory corporate income tax rate. Tax expense is positively impacted by the Company's investment in tax-exempt securities, low income housing investments, and BOLI income.

Balance Sheet Review

At December 31, 2017, the Company had total assets of $981.8 million, an increase of $78.9 million or 8.73% compared to assets as of December 31, 2016.

Asset growth in 2017 was driven by strong loan growth, particularly in the consumer automobile loan sector due to a renewed focus on indirect dealer lending. Net loans held for investment increased $133.5 million or 22.41%, from $595.6 million at December 31, 2016 to $729.1 million at December 31, 2017. Increases in consumer automobile loans accounted for $108.8 million of the net loan growth during 2017. This growth was funded in part by declines in

cash and cash equivalents and securities available for sale. Cash and cash equivalents decreased $11.4 million or 44.26% from December 31, 2016 to December 31, 2017, and securities available for sale decreased $42.2 million or 21.19% over the same period. Total deposits declined slightly ($908 thousand or 0.12%) in 2017. To compensate for the lack of deposit growth the Company obtained FHLB advances for various terms to provide additional liquidity to fund the loan growth. The Company also utilized its unsecured federal funds lines with correspondents to fulfill some short-term funding needs.

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The Company's holdings of Alternative A-paper, or "Alt-A", type mortgage loans such as adjustable rate and nontraditional type loans were inconsequential, amounting to less than 1.00% of the Company's loan portfolio as of December 31, 2017.

The Company does not have a formal program for subprime lending. The Company is, however, required by law to comply with the CRA, which imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of their local communities, including low- and moderate-income borrowers. In order to comply with the CRA and meet the credit needs of its local communities, the Company finds it necessary to make certain loans with subprime characteristics.

For the purposes of this discussion, a "subprime loan" is defined as a loan to a borrower having a credit score of 660 or below. The majority of the Company's subprime loans are to customers in the Company's primary service area.

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The following table details, as of December 31, 2017 and 2016, the Company's loans with subprime characteristics that were secured by 1-4 family first mortgages, 1-4 family open-end (i.e., equity lines of credit) and 1-4 family junior lien loans (i.e., second mortgages) for which the Company has recorded a credit score in its system.

Loans Secured by 1 - 4 Family First Mortgages,
1 - 4 Family Open-end and 1 - 4 Family Junior Liens
As of December 31,
(dollars in thousands)

	2017		2016	
	Amount	Percent	Amount	Percent
Subprime	$22,312	13.1 %	$21,675	13.9 %
Non-subprime	147,827	86.9 %	134,163	86.1 %
	$170,139	100.0 %	$155,838	100.0 %
Total loans	$738,540		$603,882	
Percentage of Real Estate-Secured Subprime Loans to Total Loans		3.02 %		3.59 %

In addition to the subprime loans secured by real estate discussed above, as of December 31, 2017, the Company had an additional $16.3 million in subprime consumer loans that were either unsecured or secured by collateral other than real estate. Together with the subprime loans secured by real estate, the Company's total subprime loans as of December 31, 2017 were $38.6 million, amounting to 5.23% of the Company's total loans at December 31, 2017.

The Company has no investments secured by "Alt-A" type mortgage loans such as adjustable rate and nontraditional type mortgages or subprime loans.

Securities Portfolio

When comparing December 31, 2017 to December 31, 2016, securities available-for-sale decreased $42.2 million, or 21.19%. The vast majority of the decline was due to principal curtailments on mortgage-backed securities and calls and maturities of other securities, principally tax-exempt municipal bonds. The Company also made some strategic sales of securities in the second quarter of 2017 to both realize gains as well as provide additional liquidity.

Restricted securities increased $2.9 million or 296.49% from December 31, 2016 to December 31, 2017 as a result of higher balances in FHLB stock. The Company is required to hold FHLB stock based on its borrowings; since outstanding FHLB advances increased by $67.5 million during 2017, the Company was required to increase its holdings of FHLB stock.

The Company's strategy for the securities portfolio is primarily intended to manage the portfolio's susceptibility to interest rate risk and to provide liquidity to fund loan growth. The securities portfolio is also adjusted to achieve other asset/liability objectives, including pledging requirements, and to manage tax exposure when necessary.

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The following table sets forth a summary of the securities portfolio:

TABLE IV
SECURITIES PORTFOLIO

As of December 31,	2017	2016	2015
	(in thousands)		
Available-for-sale securities, at fair value:			
U.S. Treasury securities	$-	$20,000	$-
Obligations of U.S. Government agencies	9,435	9,195	24,240
Obligations of state and political subdivisions	64,765	77,987	78,433
Mortgage-backed securities	74,296	83,694	107,396
Money market investments	1,194	647	631
Corporate bonds	7,234	7,678	3,393
Other marketable equity securities	197	164	99
	$157,121	$199,365	$214,192
Restricted securities:			
Federal Home Loan Bank stock	$3,677	$801	$1,847
Federal Reserve Bank stock	169	169	169
	$3,846	$970	$2,016
Total	$160,967	$200,335	$216,208

The following table summarizes the contractual maturity of the securities portfolio and their weighted average yields as of December 31, 2017:

	1 year or less	1-5 years	5-10 years	Over 10 years	Total
	(dollars in thousands)				
Obligations of U.S. Government Agencies	$996	$893	$-	$7,546	$9,435
Weighted average yield	1.28 %	1.37 %	-	2.00 %	1.86 %
Obligations of state and political subdivisions	$1,117	$12,869	$16,393	$34,386	$64,765
Weighted average yield	2.88 %	2.75 %	3.42 %	3.80 %	3.48 %
Mortgage-backed securities	$-	$8,971	$16,659	$48,666	$74,296
Weighted average yield	-	1.73 %	2.05 %	1.80 %	1.85 %
Money market investments	$1,194	$-	$-	$-	$1,194
Weighted average yield	1.10 %	-	-	-	1.10 %
Corporate bonds	$1,896	$393	$4,945	$-	$7,234
Weighted average yield	1.48 %	2.13 %	5.46 %	-	4.23 %
Federal Home Loan Bank stock - restricted	$-	$-	$-	$3,677	$3,677
Weighted average yield	-	-	-	5.01 %	5.01 %
Federal Reserve Bank stock - restricted	$-	$-	$-	$169	$169
Weighted average yield	-	-	-	6.00 %	6.00 %

Other marketable equity securities	$-	$-	$-	$197	$197
Weighted average yield	-	-	-	-	-
Total securities	$5,203	$23,126	$37,997	$94,641	$160,967
Weighted average yield	1.66 %	2.29 %	3.08 %	2.67 %	2.68 %

The table above is based on maturity. Therefore, it does not reflect cash flow from principal payments or prepayments prior to maturity. The weighted average life of the $74.3 million in mortgage-backed securities as of December 31, 2017 was 4.61 years. Yields are calculated on a fully tax-equivalent basis using a 34% rate.

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Loan Portfolio

The following table shows a breakdown of total loans by segment at December 31 for years 2013 through 2017:

TABLE V
LOAN PORTFOLIO

As of December 31,	2017	2016	2015	2014	2013
	(in thousands)				
Commercial	$60,398	$54,434	$43,197	$37,698	$30,702
Real estate-construction	27,489	23,116	19,685	9,082	14,505
Real estate-mortgage (1)	465,231	448,408	437,159	435,914	416,966
Consumer	174,225	58,907	50,427	30,493	19,791
Other	11,197	19,017	18,007	22,807	18,735
Total	$738,540	$603,882	$568,475	$535,994	$500,699

(1) The real estate-mortgage segment includes residential 1 – 4 family, commercial real estate, second mortgages and equity lines of credit.

Based on the North American Industry Classification System code, there are no categories of loans that exceed 10% of total loans other than the categories disclosed in the preceding table.

As of December 31, 2017, the total loan portfolio increased by $134.7 million or 22.30% from December 31, 2016. Although competition for quality loans remains fierce, the Company accelerated the growth of its loan portfolio in 2017, aided significantly by the focus on its indirect dealer lending division which was re-opened in September 2016. This contributed positively to interest income in 2017 and is expected to do so in the future as well. While there are risks inherent in any new loan program, the Company has hired knowledgeable staff and put in place programs and policies to mitigate those risks. Management is monitoring the allowance for loan losses carefully and will make changes as the portfolio ages.

In addition to the loan growth generated by the re-opening of the dealer department, the Company also experienced appreciable increases in commercial real estate loans, home equity loans, and home equity lines of credit.

The maturity distribution and rate sensitivity of certain categories of the Company's loan portfolio at December 31, 2017 is presented below:

TABLE VI
MATURITY SCHEDULE OF SELECTED LOANS

December 31, 2017	Within 1 year	1 to 5 years	After 5 years	Total
	(in thousands)			
Commercial	$15,969	$ 20,728	$23,701	$60,398
Real estate - construction	8,507	18,964	18	27,489
Total	$24,476	$ 39,692	$23,719	$87,887
Loans due after 1 year with:				
Fixed interest rate		$ 36,704	$14,979	$51,683
Variable interest rate		2,988	8,740	11,728

Total	$ 39,692	$23,719	$63,411

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Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, loans past due 90 days or more and accruing interest, nonperforming restructured loans, and other real estate owned (OREO). Restructured loans are loans with terms that were modified in a troubled debt restructuring (TDR) for borrowers experiencing financial difficulties. During the year ended December 31, 2017, the Company restructured four loans.

Nonperforming assets increased by $5.0 million or 44.59%, from $11.1 million at December 31, 2016 to $16.1 million at December 31, 2017. The 2017 total consisted of $3.2 million in loans still accruing interest but past due 90 days or more and $12.9 million in nonaccrual loans. Of the $12.9 million in nonaccrual loans, $12.0 million was secured by real estate. All of the nonaccrual loans are classified as impaired. Impaired loans are a component of the allowance for loan losses. When a loan changes from "90 days past due but still accruing interest" to "nonaccrual" status, the loan is normally reviewed for impairment. If impairment is identified, then the Company records a charge-off based on the value of the collateral or the present value of the loan's expected future cash flows, discounted at the loan's effective interest rate. If the Company is waiting on an appraisal to determine the collateral's value, management allocates funds to cover the deficiency to the allowance for loan losses based on information available to management at the time.

The recorded investment in impaired loans decreased to $18.5 million as of December 31, 2017 from $20.1 million as of December 31, 2016 as detailed in Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K. The majority of these loans were collateralized.

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The following table presents information concerning the aggregate amount of nonperforming assets, which includes nonaccrual loans, past due loans, TDRs and OREO:

TABLE VII
NONPERFORMING ASSETS

As of December 31,	2017	2016	2015	2014	2013
	(in thousands)				
Nonaccrual loans					
Commercial	$836	$231	$276	$-	$149
Real estate-construction	722	-	-	499	2,545
Real estate-mortgage (1)	11,324	6,847	4,306	5,071	8,630
Consumer	-	81	-	-	-
Total nonaccrual loans	$12,882	$7,159	$4,582	$5,570	$11,324
Loans past due 90 days or more and accruing interest					
Commercial	$471	$-	$164	$10	$-
Real estate-construction	-	-	-	-	-
Real estate-mortgage (1)	306	276	23	107	527
Consumer (2)	2,401	2,603	3,163	1,019	5
Other	4	5	6	5	14
Total loans past due 90 days or more and accruing interest	$3,182	$2,884	$3,356	$1,141	$546
Restructured loans					
Commercial	$98	$144	$-	$-	$-
Real estate-construction	92	96	99	102	-
Real estate-mortgage (1)	14,781	11,616	11,077	12,203	12,076
Consumer	-	-	12	13	15
Total restructured loans	$14,971	$11,856	$11,188	$12,318	$12,091
Less nonaccrual restructured loans (included above)	8,561	2,838	2,497	4,240	3,630
Less restructured loans in compliance (3)	6,410	9,018	8,691	8,078	8,461
Net nonperforming restructured loans	$-	$-	$-	$-	$-
Other real estate owned					
Construction, land development, and other land	$-	$940	$1,090	$2,138	$2,783
1-4 family residential properties	-	-	724	884	457
Multifamily (5 or more) residential properties	-	-	-	-	-
Former branch sites	-	127	-	886	886
Nonfarm nonresidential properties	-	-	927	1,198	2,289
	$-	$1,067	$2,741	$5,106	$6,415
Total nonperforming assets	$16,064	$11,110	$10,679	$11,817	$18,285
Interest income that would have been recorded under original loan terms on nonaccrual loans included above	$474	$318	$196	$301	$762
Interest income recorded for the period on nonaccrual loans included above	$281	$269	$141	$265	$251

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(1) The real estate-mortgage segment includes residential 1 – 4 family, commercial real estate, second mortgages and equity lines of credit.
(2) Amounts listed include student loans with principal and interest amounts that are 97 - 98% guaranteed by the federal government. The past due principal portion of these guaranteed loans totaled $4.2 million at December 31, 2017 and $4.8 million at December 31, 2016. For additional information, refer to Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.
(3) Amounts listed represent restructured loans that are in compliance with their modified terms as of the date presented.

As shown in the table above, as of December 31, 2017 compared to December 31, 2016, the nonaccrual loan category increased by $5.7 million or 79.94% and the 90-days past due and still accruing interest category increased by $298 thousand or 10.33%.

The majority of the balance of nonaccrual loans at December 31, 2017 was related to a few large credit relationships. Of the $12.9 million of nonaccrual loans at December 31, 2017, $9.0 million, or approximately 69.73%, was comprised of four credit relationships. All loans in these relationships have been analyzed to determine whether the cash flow of the borrower and the collateral pledged to secure the loans is sufficient to cover outstanding principal balances. The Company has set aside specific allocations for those loans without sufficient cash flow or collateral and charged off any balance that management does not expect to collect. Although increases in nonaccrual loans and loans rated substandard would typically warrant an increase in the allowance, management believes that the collateral and/or cash flow on these loans will be sufficient to cover balances for which it has no specific allocation.

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The majority of the loans past due 90 days or more and still accruing interest at December 31, 2017 ($2.3 million) were student loans. The federal government has provided guarantees of repayment of these student loans in an amount ranging from 97% to 98% of the total principal and interest of the loans; as such, management does not expect even a significant increase in past due student loans to have a material effect on the Company.

OREO decreased by $1.1 million or 100.00% when comparing December 31, 2017 to December 31, 2016, as the Company sold the remaining properties in 2017.

Management believes the Company has an excellent credit quality review process in place to identify problem loans quickly. For a detailed discussion of the Company's nonperforming assets, refer to Note 4 and Note 5 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.

Management is cautiously optimistic about the future and is well aware that if the economy begins to decline, nonperforming assets could increase in future periods. As the Company experienced in 2009, 2010 and 2011, the effect of a sustained increase in nonperforming assets would likely be lower earnings caused by larger contributions to the loan loss provision, which in turn would be driven by larger impairments in the loan portfolio and higher levels of loan charge-offs.

The Allowance for Loan Losses

The allowance for loan losses is based on several components. In evaluating the adequacy of the allowance, each segment of the loan portfolio is divided into several pools of loans:

1. Specific identification (regardless of risk rating)

2. Pool–substandard

3. Pool–other assets especially mentioned (OAEM) (rated just above substandard)

4. Pool–pass loans (all other rated loans)

The first component of the allowance for loan losses is determined based on specifically identified loans that are impaired. These loans are individually analyzed for impairment and include nonperforming loans and both performing and nonperforming TDRs. This component may also include loans considered impaired for other reasons, such as outdated financial information on the borrower or guarantors or financial problems of the borrower, including operating losses, marginal working capital, inadequate cash flow, or business interruptions. Changes in TDRs and nonperforming loans affect the dollar amount of the allowance. Increases in the impairment allowance for TDRs and nonperforming loans are reflected as an increase in the allowance for loan losses except in situations where the TDR or nonperforming loan does not require a specific allocation (i.e., the discounted present value of expected future cash flows or the collateral value is considered sufficient).

The majority of the Company's TDRs and nonperforming loans are collateralized by real estate. When reviewing loans for impairment, the Company obtains current appraisals when applicable. If the Company has not yet received a current appraisal on loans being reviewed for impairment, any loan balance that is in excess of the estimated appraised value is allocated in the allowance. As of December 31, 2017 and December 31, 2016, the impaired loan component of the allowance for loan losses amounted to $95 thousand and $800 thousand, respectively. The impaired loan component of the allowance for loan losses is reflected as a valuation allowance related to impaired loans in Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.

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The second component of the allowance consists of qualitative factors and includes items such as economic conditions, growth trends, loan concentrations, changes in certain loans, changes in underwriting, changes in management and legal and regulatory changes. For the December 31, 2017 calculation, the qualitative factors which had the most significant impact on the allowance were those affected by changes in the economy and past due and nonaccrual loans. Continued incremental improvements in the economy allowed for a reduction in the allowance. At the same time, past due and nonaccrual loans increased in several categories when comparing December 31, 2017 to December 31, 2016.

Historical loss is the final component of the allowance for loan losses. The calculation of the historical loss component is conducted on loans evaluated collectively for impairment and uses migration analysis on pooled segments. These segments are based on the loan classifications set by the Federal Financial Institutions Examination Council in the instructions for the Call Report applicable to the Bank.

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Consumer loans not secured by real estate and made to individuals for household, family and other personal expenditures are segmented into pools based on whether the loan's payments are current (including loans 1 – 29 days past due), 30 – 59 days past due, 60 – 89 days past due, or 90 days or more past due. All other loans, including loans to consumers that are secured by real estate, are segmented by the Company's internally assigned risk grades: substandard, other assets especially mentioned (rated just above substandard), and pass (all other loans). The Company may also assign loans to the risk grades of doubtful or loss, but as of December 31, 2017 and December 31, 2016, the Company had no loans in these categories.

With the December 31, 2016 calculation, the historical loss was based on a four migration periods covering the twelve quarters each. The calculation for December 31, 2017 had one significant change, which are described in detail below. On a combined basis, the historical loss and qualitative factor components amounted to $9.4 million and $7.4 million as of December 31, 2017 and December 31, 2016, respectively. Growth in the loan portfolio is the major reason for the increase in these combined components when comparing the allowance calculation as of December 31, 2017 to the allowance calculation as of December 31, 2016.

Beginning with the September 30, 2017 calculation, management made the following change to its methodology in order to ensure the allowance accurately reflects probable losses inherent in the loan portfolio.

Change in Migration Periods

Historical loss rates calculated by migration analysis are determined by the performance of a loan over a period of time (the migration period). Multiple migration periods can also be calculated, allowing the Company to assess the migration of loans based on more than one starting point. For example, the Company could run a migration analysis that begins on June 30, 2014 and follows the performance of the loans outstanding on that date through June 30, 2017, assessing changes in risk ratings and the amount of any charge-offs to determine the historical loss rate. The Company could then run a second migration analysis that begins on September 30, 2014 and follows those loans through September 30, 2017 to calculate a second historical loss rate. These two loss rates would then be averaged to determine the overall loss rate applied to the loan portfolio.

The length of a migration period can also be extended. Adding additional quarters to the migration analysis extends the period over which the loan could cease to perform, increasing the number of loans that default and thus also increasing the historical loss rates. While a longer migration period provides a more conservative estimate of expected future losses, extending the migration period too far can provide less accurate estimates if there have been changes in the economy or the Company's loan management processes.

Increasing the number of migration periods, as opposed to lengthening the individual migration periods, provides the Company with an average loss rate that is less affected by unusual balances in the segments of the portfolio. Because migration analysis follows only those loans outstanding at the beginning of the migration period, a significant change in the balance of a loan pool during the migration period can produce results that are not indicative of the performance of the pool.

For example, a migration period of twelve quarters (three years) may apply to a pool of loans that has a balance of $300 thousand at the beginning of the migration period. In a relatively small loan pool such as this, if a loan of $150 thousand is charged off during the migration period, the migration analysis would show a loss rate of 50%, based on the original outstanding balance of $300 thousand and a charge-off of $150 thousand. In this example, the 50% loss rate calculated for the migration period would result from the unique timing and loan balance factors within the period and would not necessarily provide an appropriate reflection of the performance of the loans in the pool. By using multiple migration periods, such unusual situations have less of an impact on the calculated historical loss rate, providing a more accurate representation of the losses expected to be incurred.

As part of the quarterly calculation, management reviews the length of the migration periods and the number of migration periods used. To better reflect the risks inherent in the loan portfolio, in the third quarter of 2017, the Company increased the number of migration periods from four to eight. As with the methodology in prior quarters, each migration period covers twelve quarters, with the most recent migration period ending with the most recent quarter. This same methodology was used in the December 31, 2017 calculation.

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Overall Change in Allowance

As a result of management's analysis, the Company added, through the provision, $4.2 million to the allowance for loan losses for the year ended December 31, 2017. The allowance for loan losses, as a percentage of year-end loans, was 1.28% in 2017 and 1.37% in 2016. Management believes that the allowance has been appropriately funded for losses on existing loans, based on currently available information. The Company will continue to monitor the loan portfolio and levels of nonperforming assets closely and make changes to the allowance for loan losses when necessary.

See Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K for a discussion of the financial statement impact of this change.

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The following table shows an analysis of the allowance for loan losses:

TABLE VIII
ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

As of December 31,	2017	2016	2015	2014	2013
	(dollars in thousands)				
Balance at the beginning of period	$8,245	$7,738	$7,075	$6,831	$7,324
Charge-offs:					
Commercial	807	915	293	286	200
Real estate-construction	0	0	0	51	501
Real estate-mortgage (1)	1,934	504	321	563	1,548
Consumer	279	204	92	163	141
Other	267	147	191	175	316
Total charge-offs	3,287	1,770	897	1,238	2,706
Recoveries:					
Commercial	37	79	50	55	76
Real estate-construction	104	3	1	173	6
Real estate-mortgage (1)	45	197	393	524	513
Consumer	56	28	39	64	111
Other	88	40	52	66	207
Total recoveries	330	347	535	882	913
Net charge-offs	2,957	1,423	362	356	1,793
Provision for loan losses	4,160	1,930	1,025	600	1,300
Balance at end of period	$9,448	$8,245	$7,738	$7,075	$6,831
Selected loan loss statistics					
Loans (net of unearned income):					
End of period balance	$738,540	$603,882	$568,475	$535,994	$500,699
Average balance	$673,015	$585,206	$563,534	$517,183	$471,203
Net charge-offs to average total loans	0.44 %	0.24 %	0.06 %	0.07 %	0.38 %
Provision for loan losses to average total loans	0.62 %	0.33 %	0.18 %	0.12 %	0.28 %
Provision for loan losses to net charge-offs	140.68 %	135.63 %	283.15 %	168.54 %	72.50 %
Allowance for loan losses to period end loans	1.28 %	1.37 %	1.36 %	1.32 %	1.36 %
Earnings to loan loss coverage (2)	1.36	4.14	13.02	13.80	2.68
Allowance for loan losses to nonperforming loans	58.81 %	82.10 %	97.48 %	105.42 %	57.55 %

(1) The real estate-mortgage segment includes residential 1 – 4 family, commercial real estate, second mortgages and equity lines of credit.
(2) Income before taxes plus provision for loan losses, divided by net charge-offs.

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The following table shows the amount of the allowance for loan losses allocated to each category at December 31 of the years presented.

TABLE IX
ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

As of December 31,	2017		2016		2015		2014		2013	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(dollars in thousands)									
Commercial	$1,889	8.18 %	$1,493	9.16 %	$633	7.60 %	$595	7.03 %	$350	6.13 %
Real estate-construction	541	3.72 %	846	3.83 %	985	3.46 %	703	1.69 %	662	2.90 %
Real estate-mortgage (1)	5,217	62.99 %	5,267	74.25 %	5,628	76.90 %	5,347	81.33 %	5,357	83.28 %
Consumer	1,644	23.59 %	455	9.61 %	279	8.87 %	219	5.69 %	294	3.95 %
Other	157	1.52 %	184	3.15 %	213	3.17 %	211	4.26 %	168	3.74 %
Total	$9,448	100.00%	$8,245	100.00%	$7,738	100.00%	$7,075	100.00%	$6,831	100.00%

(1) The real estate-mortgage segment includes residential 1 – 4 family, commercial real estate, second mortgages and equity lines of credit.

For the year ended December 31, 2017 as compared to the year ended December 31, 2016, there was an increase in the allowance for loan losses due to growth in the loan portfolio. The change in the allowance was distributed among the loan segments based on the composition of loans in each segment. See Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K for further information related to the effect of the change in the calculation method.

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Although the allowance for loan losses is allocated into these categories, the entire allowance for loan losses is available to cover loan losses in any category. For example, if real estate-construction loans experienced losses of $1.0 million, the allowance for loan losses could absorb these losses even though only $541 thousand is allocated to that category.

Deposits

The following table shows the average balances and average rates paid on deposits for the periods presented.

TABLE X
DEPOSITS

Years ended December 31,	2017		2016		2015	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)					
Interest-bearing transaction accounts	$27,909	0.04 %	$20,045	0.04 %	$11,219	0.04 %
Money market deposit accounts	233,295	0.12 %	221,339	0.08 %	228,627	0.08 %
Savings accounts	82,872	0.05 %	78,305	0.05 %	74,436	0.05 %
Other time deposits	208,095	1.06 %	210,339	1.01 %	221,087	0.97 %
Total interest-bearing deposits	552,171	0.46 %	530,028	0.44 %	535,369	0.44 %
Demand deposits	226,951		214,876		194,677	
Total deposits	$779,122		$744,904		$730,046	

The Company's average total deposits were $779.1 million for the year ended December 31, 2017, an increase of $34.2 million or 4.59% from average total deposits for the year ended December 31, 2016. The demand deposit and money market account categories had the largest increases, totaling $12.1 million and $12.0 million, respectively. Average time deposits, which is the Company's most expensive deposit category, decreased by a total of $2.2 million as seen in the table above. The average rate paid on interest-bearing deposits by the Company in 2017 was 0.46% compared to 0.44% in 2016.

As loan growth accelerated in 2017, the Company made strategic increases in the rates on time deposits in certain maturities to fund loan growth and manage its interest-rate risk. Selected money market deposit rates were also raised in 2017 to attract and retain desirable customers relationships as market and competitors' rates increased. The Company remains focused on increasing lower-cost deposits by actively targeting new noninterest-bearing deposits and savings deposits.

The following table shows time deposits in amounts of $100 thousand or more by time remaining until maturity at the dates presented.

TABLE XI
TIME DEPOSITS OF $100,000 OR MORE

As of December 31,	2017	2016	2015
	(in thousands)		
Maturing in:			
Within 3 months	$25,136	$15,074	$23,844
3 through 6 months	11,192	21,183	11,474
6 through 12 months	8,830	19,276	8,572
Greater than 12 months	76,418	59,501	65,207

$121,576 $115,034 $109,097

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Return on Equity and Assets

The return on average stockholders' equity and assets, the dividend pay-out ratio, and the average equity to average assets ratio for the past three years are presented below.

As of December 31,	2017		2016		2015	
Return on average assets	0.00	%	0.43	%	0.41	%
Return on average equity	-0.03	%	3.99	%	4.02	%
Dividend pay-out ratio	-7,575.86	%	52.23	%	46.40	%
Average equity to average assets	10.28	%	10.75	%	10.23	%

Capital Resources

Total stockholders' equity as of December 31, 2017 was $96.4 million, up 2.55% from $94.0 million on December 31, 2016 as the increase in other comprehensive income associated with the termination of the defined benefit pension plan exceeded the net loss for the period, dividends paid, and the mark-to-market adjustment on available-for-sale securities.

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The Company's capital position remains strong as evidenced by the regulatory capital measurements. Under the banking regulations, Total Capital is composed of core capital (Tier 1) and supplemental capital (Tier 2). Tier 1 capital consists of common stockholders' equity less goodwill. Tier 2 capital consists of certain qualifying debt and a qualifying portion of the allowance for loan losses.

In June 2013, the federal bank regulatory agencies adopted the Basel III Final Rules (i) to implement the Basel III capital framework and (ii) for calculating risk-weighted assets. These rules became effective January 1, 2015, subject to limited phase-in periods. For an overview of the Basel III Final Rules, refer to "Regulation and Supervision" included in Item 1, "Business" of this report on Form 10-K.

The following is a summary of the Company's capital ratios for the past three years. As shown below, these ratios were all well above the regulatory minimum levels.

	2017 Regulatory Minimums	2017	2016	2015
Common Equity Tier 1 Capital	4.50 %	11.18%	13.39%	13.78%
Tier 1 Capital	6.00 %	11.18%	13.39%	13.78%
Total Capital	8.00 %	12.28%	14.51%	14.89%
Tier 1 Leverage	4.00 %	9.98 %	10.68%	10.93%

Year-end book value per share was $19.20 in 2017, $18.94 in 2016, and $18.79 in 2015. Cash dividends were $2.2 million or $0.44 per share in 2017, $2.0 million or $0.40 per share in 2016, and $1.7 million or $0.34 per share in 2015. The common stock of the Company has not been extensively traded. The table below shows the high and low sales prices and dividends paid for each quarter of 2017 and 2016. The stock is quoted on the NASDAQ Capital Market under the symbol "OPOF" and the prices below are based on trade information as reported by The NASDAQ Stock Market, LLC. There were 1,192 stockholders of record of the Company as of March 13, 2018. This stockholder count does not include stockholders who hold their stock in a nominee registration.

The following is a summary of the quarterly dividends paid and high and low sales prices of Old Point Financial Corporation common stock for the previous two years.

	2017			2016		
		Sales Price			Sales Price	
	Dividend	High	Low	Dividend	High	Low
1st Quarter	$0.11	$30.43	$24.40	$0.10	$20.25	$17.38
2nd Quarter	$0.11	$33.88	$28.93	$0.10	$20.50	$18.50
3rd Quarter	$0.11	$34.82	$29.61	$0.10	$21.45	$18.30
4th Quarter	$0.11	$34.64	$26.03	$0.10	$26.00	$19.34

Five Year Stock Performance Graph

The following chart compares the yearly percentage change in the cumulative shareholder return on the Company's common stock during the five years ended December 31, 2017, with (1) the Total Return Index for the NASDAQ Composite, and (2) the Total Return Index for SNL U.S. Bank NASDAQ. This comparison assumes $100 was invested on December 31, 2012 in the Company's common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends.

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	Period Ending					
Index	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Old Point Financial Corporation	100.00	118.04	140.51	164.22	244.07	294.78
NASDAQ Composite Index	100.00	140.12	160.78	171.97	187.22	242.71
SNL U.S. Bank NASDAQ Index	100.00	143.73	148.86	160.70	222.81	234.58

Source: S&P Global Market Intelligence

Liquidity

Liquidity is the ability of the Company to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest-bearing deposits with banks, federal funds sold, investments in securities and loans maturing within one year.

In addition, secondary sources are available through the use of borrowed funds if the need should arise. The Company's sources of funds include a large stable deposit base and secured advances from the Federal Home Loan Bank of Atlanta (FHLB). As of December 31, 2017, the Company had $217.0 million in FHLB borrowing availability. The decrease in availability for FHLB advances is mainly due to the $67.5 million increase in outstanding advances during 2017. The Company also has available short-term unsecured borrowed funds in the form of federal funds with correspondent banks. As of year-end 2017 and 2016, the Company had $45.0 million and $55.0 million available in federal funds lines of credit to address any short-term borrowing needs.

As a result of the Company's management of liquid assets, the availability of borrowed funds and the ability to generate liquidity through liability funding, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors' requirements and to meet its customers' future borrowing needs.

Notwithstanding the foregoing, the Company's ability to maintain sufficient liquidity may be affected by numerous factors, including economic conditions nationally and in the Company's markets. Depending on its liquidity levels, its capital position, conditions in the capital markets and other factors, the Company may from time to time consider the issuance of debt, equity, other securities or other possible capital markets transactions, the proceeds of which could provide additional liquidity for the Company's operations.

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The following table sets forth information relating to the Company's sources of liquidity and the outstanding commitments for use of liquidity at December 31, 2017 and December 31, 2016. Dividing the total short-term sources of liquidity by the outstanding commitments for use of liquidity derives the liquidity coverage ratio.

LIQUIDITY SOURCES AND USES

	December 31, 2017			December 31, 2016		
	Total	In Use	Available	Total	In Use	Available
	(dollars in thousands)					
SOURCES						
Federal funds lines of credit	$55,000	$10,000	$45,000	$55,000	$ -	$55,000
Federal Home Loan Bank advances	284,513	67,500	217,013	270,048	-	270,048
Federal funds sold & balances at the Federal Reserve			586			3,718
Securities, available-for-sale and unpledged at fair value			90,536			126,457
Total short-term funding sources			353,135			455,223
USES						
Unfunded loan commitments and lending lines of credit			68,152			69,389
Letters of credit			999			1,079
Commitments to purchase assets			-			165
Total potential short-term funding uses			69,151			70,633
Liquidity coverage ratio			510.7 %			644.5 %

The fair value of unpledged available-for-sale securities decreased from December 31, 2016 to December 31, 2017 primarily due to declining balances in the securities portfolio. Unpledged available-for-sale securities also declined due to a $2.0 million increase in customer repurchase agreements. The increase in repurchase agreements from December 31, 2016 to December 31, 2017 was primarily a result of balance fluctuations in the account of a single customer.

Management is not aware of any market or institutional trends, events or uncertainties that are expected to have a material effect on the liquidity, capital resources or operations of the Company. Nor is management aware of any current recommendations by regulatory authorities that would have a material effect on liquidity or operations. The Company's internal sources of liquidity are deposits, loan and investment repayments and securities available-for-sale. The Company's primary external source of liquidity is advances from the FHLB.

The Company's operating activities provided $9.4 million of cash during the year ended December 31, 2017, compared to $8.7 million provided during 2016. Even though net income declined significantly, much of this resulted from noncash charges related to the pension termination and increased loan loss provision expense associated with loan growth. The Company's investing activities used $98.4 million of cash during 2017, compared to $23.6 million used during 2016, principally due to additional loan growth. The Company's financing activities provided $77.5 million of cash during 2017 compared to $3.8 million provided of cash during 2016. This change is principally due to increases in FHLB advances.

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Effects of Inflation

Management believes changes in interest rates affect the financial condition of the Company, and other financial institutions, to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond the control of the Company, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the U.S. government, its agencies and various other governmental regulatory authorities.

Management believes that the key to achieving satisfactory performance in an inflationary environment is the Company's ability to maintain or improve its net interest margin and to generate additional fee income. The Company's policy of investing in and funding with interest-sensitive assets and liabilities is intended to reduce the risks inherent in a volatile inflationary economy.

Off-Balance Sheet Lending Related Commitments

The Company had $144.1 million in consumer and commercial commitments at December 31, 2017. As of the same date, the Company also had $3.3 million in letters of credit that the Company will fund if certain future events occur. It is expected that only a portion of these commitments will ever actually be funded.

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Management believes that the Company has the liquidity and capital resources to handle these commitments in the normal course of business. See Note 15 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.

Contractual Obligations

In the normal course of business, there are various outstanding contractual obligations of the Company that will require future cash outflows. In addition, there are commitments and contingent liabilities, such as commitments to extend credit, that may or may not require future cash outflows. The following table provides the Company's contractual obligations as of December 31, 2017:

Payments due by period

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(in thousands)				
Contractual Obligations					
Short-Term Debt Obligations	$78,193	$78,193	$-	$-	$-
Long-Term Debt Obligations	20,000	-	20,000	-	-
Operating Lease Obligations	413	178	235	-	-
Total contractual cash obligations excluding deposits	98,606	78,371	20,235	-	-
Deposits	783,594	650,967	89,121	43,506	-
Total	$882,200	$729,338	$109,356	$43,506	$-

Short-term debt obligations include federal funds purchased, overnight repurchase agreements and Federal Home Loan Bank advances maturing within a year of origination. Long-term debt obligations consist of Federal Home Loan Bank advances with original maturities greater than one year.

Short-Term Borrowings

Certain short-term borrowings at December 31, 2017, 2016 and 2015 are presented below. Information is presented only on those categories whose average balance at December 31 exceeded 30 percent of total stockholders' equity at the same date.

TABLE XII
SHORT-TERM BORROWINGS

	2017		2016		2015	
	Balance	Rate	Balance	Rate	Balance	Rate
	(dollars in thousands)					
Balance at December 31,						
Federal funds purchased	$10,000	1.62%	$-	0.00%	$-	-
Repurchase agreements	20,693	0.10%	18,704	0.10%	25,950	0.09%
Federal Home Loan Bank advances	47,500	1.51%	-	0.00%	-	-
Average daily balance for the year ended December 31,						
Federal funds purchased	$854	1.52%	$204	0.75%	$-	-
Repurchase agreements	24,889	0.10%	25,144	0.10%	30,654	0.10%
Federal Home Loan Bank advances	27,589	1.24%	12,115	0.54%	-	-
Maximum month-end outstanding balance:						
Federal funds purchased	$10,000		$-		$-	

Repurchase agreements	36,809	34,519	44,614
Federal Home Loan Bank advances	47,500	20,000	-

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Quarterly Data

The table below contains a comparison of the Company's quarterly income and expenses for the periods indicated:

	Years Ended December 31,							
	2017				2016			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(in thousands, except per share data)							
Interest and dividend income	$8,580	$8,568	$8,061	$7,725	$7,590	$7,436	$7,435	$7,365
Interest expense	(914)	(837)	(673)	(588)	(640)	(633)	(582)	(719)
Net interest income	7,666	7,731	7,388	7,137	6,950	6,803	6,853	6,646
Provision for loan losses	(1,235)	(1,275)	(1,000)	(650)	(630)	100	(1,250)	(150)
Net interest income, after provision for loan losses	6,431	6,456	6,388	6,487	6,320	6,903	5,603	6,496
Noninterest income	3,443	3,361	4,091	3,163	3,188	3,327	3,286	3,665
Noninterest expenses	(12,854)	(9,116)	(9,270)	(8,706)	(8,566)	(8,689)	(8,485)	(9,091)
Income before income taxes	(2,980)	701	1,209	944	942	1,541	404	1,070
Provision for income taxes	91	56	(48)	(2)	(47)	(212)	148	(49)
Net income	$(2,889)	$757	$1,161	$942	$895	$1,329	$552	$1,021
Earnings per common share:								
Basic	$(0.58)	$0.15	$0.23	$0.19	$0.18	$0.27	$0.11	$0.21
Diluted	$(0.58)	$0.15	$0.23	$0.19	$0.18	$0.27	$0.11	$0.21

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

This information is incorporated herein by reference from Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", on pages 20 through 44 of this report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements and related footnotes of the Company are presented below followed by the financial statements of the Parent.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Old Point Financial Corporation
Hampton, Virginia

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Old Point Financial Corporation. and Subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of operation, comprehensive income, changes in stockholders' equity and cash flows for the three years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the three years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 15, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Yount, Hyde & Barbour, P.C.

We have served as the Company's auditor since 2004.

Winchester, Virginia
March 15, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Old Point Financial Corporation
Hampton, Virginia

Opinion on the Internal Control over Financial Reporting
We have audited Old Point Financial Corporation and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operation, comprehensive income, changes in stockholders’ equity and cash flows for the three years then ended of the Company and our report dated March 15, 2018 expressed an unqualified opinion.

Basis for Opinion
The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management’s Report of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 15, 2018
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Old Point Financial Corporation and Subsidiaries
Consolidated Balance Sheets

	December 31, 2017	December 31, 2016
	(dollars in thousands, except per share data)	
Assets		
Cash and due from banks	$13,420	$21,885
Interest-bearing due from banks	908	1,667
Federal funds sold	84	2,302
Cash and cash equivalents	14,412	25,854
Securities available-for-sale, at fair value	157,121	199,365
Restricted stock, at cost	3,846	970
Loans held for sale	779	-
Loans, net	729,092	595,637
Premises and equipment, net	37,197	39,324
Bank-owned life insurance	25,981	25,206
Other real estate owned, net of valuation allowance	-	1,067
Goodwill	621	-
Other assets	12,777	15,543
Total assets	$981,826	$902,966
Liabilities & Stockholders' Equity		
Deposits:		
Noninterest-bearing deposits	$225,716	$228,641
Savings deposits	345,053	344,452
Time deposits	212,825	211,409
Total deposits	783,594	784,502
Federal funds purchased	10,000	-
Overnight repurchase agreements	20,693	18,704
Federal Home Loan Bank advances	67,500	-
Accrued expenses and other liabilities	3,651	5,770
Total liabilities	885,438	808,976
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock, $5 par value, 10,000,000 shares authorized; 5,019,703 and 4,961,258 shares outstanding (includes 2,245 and 0 unvested restricted shares, respectively)	25,087	24,806
Additional paid-in capital	17,270	16,427
Retained earnings	54,738	56,965
Accumulated other comprehensive loss, net	(707)	(4,208)
Total stockholders' equity	96,388	93,990
Total liabilities and stockholders' equity	$981,826	$902,966

See Notes to Consolidated Financial Statements.

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Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Operations

	Years Ended December 31,		
	2017	2016	2015
	(dollars in thousands, except per share data)		
Interest and Dividend Income:			
Interest and fees on loans	$ 29,191	$ 26,322	$ 25,972
Interest on due from banks	15	48	15
Interest on federal funds sold	8	6	2
Interest on securities:			
Taxable	1,964	1,802	2,510
Tax-exempt	1,601	1,535	1,663
Dividends and interest on all other securities	155	113	133
Total interest and dividend income	32,934	29,826	30,295
Interest Expense:			
Interest on savings deposits	342	227	227
Interest on time deposits	2,208	2,116	2,144
Interest on federal funds purchased, securities sold under agreements to repurchase and other borrowings	38	25	30
Interest on Federal Home Loan Bank advances	424	206	1,231
Total interest expense	3,012	2,574	3,632
Net interest income	29,922	27,252	26,663
Provision for loan losses	4,160	1,930	1,025
Net interest income, after provision for loan losses	25,762	25,322	25,638
Noninterest Income:			
Fiduciary and asset management fees	3,786	3,560	3,617
Service charges on deposit accounts	3,874	4,052	4,021
Other service charges, commissions and fees	4,182	3,940	4,084
Bank-owned life insurance income	774	795	885
Mortgage banking income	645	413	259
Gain on sale of available-for-sale securities, net	96	522	76
Gain on acquisition of Old Point Mortgage	550	-	-
Other operating income	151	184	194
Total noninterest income	14,058	13,466	13,136
Noninterest Expense:			
Salaries and employee benefits	20,863	19,878	20,747
Pension termination settlement	3,350	-	-
Occupancy and equipment	5,864	5,575	5,330
Data processing	1,783	1,620	1,625
FDIC insurance	478	483	586
Customer development	575	612	584
Professional services	2,069	2,122	1,413
Employee professional development	794	659	591
Loan related expenses	616	192	146
Other taxes	563	505	439

Prepayment fee on Federal Home Loan Bank advance	-	391	-
Loss (gain) on other real estate owned	(18)	154	957
Merger expenses	241	-	-
Other operating expenses	2,768	2,640	2,668
Total noninterest expense	39,946	34,831	35,086
Income (loss) before income taxes	(126)	3,957	3,688
Income tax expense (benefit)	(97)	160	54
Net income (loss)	$ (29)	$ 3,797	$ 3,634
Basic earnings (loss) per share:			
Weighted average shares outstanding	4,991,060	4,959,173	4,959,009
Net income (loss) per share of common stock	$ (0.01)	$ 0.77	$ 0.73
Diluted earnings (loss) per share:			
Weighted average shares outstanding	4,991,060	4,960,934	4,959,009
Net income (loss) per share of common stock	$ (0.01)	$ 0.77	$ 0.73

See Notes to Consolidated Financial Statements.

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Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

	Years Ended December 31,		
	2017	2016	2015
	(dollars in thousands)		
Net income (loss)	$(29)	$3,797	$3,634
Other comprehensive income (loss), net of tax			
Net unrealized gain (loss) on available-for-sale securities	1,032	(1,163)	(498)
Amortization of unrealized losses on securities transferred to held-to-maturity	-	-	3,386
Changes in defined benefit plan assets and benefit obligations	2,469	117	(157)
Other comprehensive income (loss), net of tax	3,501	(1,046)	2,731
Comprehensive income	$3,472	$2,751	$6,365

See Notes to Consolidated Financial Statements.

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Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(dollars in thousands, except per share data)					
Balance at December 31, 2014	4,959,009	$ 24,795	$ 16,392	$ 53,203	$ (5,893)	$ 88,497
Net income	-	-	-	3,634	-	3,634
Other comprehensive income, net of tax	-	-	-	-	2,731	2,731
Cash dividends ($0.40 per share)	-	-	-	(1,686)	-	(1,686)
Balance at December 31, 2015	4,959,009	$ 24,795	$ 16,392	$ 55,151	$ (3,162)	$ 93,176
Net income	-	-	-	3,797	-	3,797
Other comprehensive loss, net of tax	-	-	-	-	(1,046)	(1,046)
Exercise of stock options	1,250	6	19	-	-	25
Employee Stock Purchase Plan share issuance	999	5	16	-	-	21
Cash dividends ($0.44 per share)	-	-	-	(1,983)	-	(1,983)
Balance at December 31, 2016	4,961,258	$ 24,806	$ 16,427	$ 56,965	$ (4,208)	$ 93,990
Net loss	-	-	-	(29)	-	(29)
Other comprehensive income, net of tax	-	-	-	-	3,501	3,501
Exercise of stock options	58,105	290	875	-	-	1,165
Employee Stock Purchase Plan share issuance	3,548	18	81	-	-	99
Repurchase of common stock related to stock option exercises	(5,453)	(27)	(130)	-	-	(157)
Stock-based compensation expense	-	-	17	-	-	17
Cash dividends ($0.44 per share)	-	-	-	(2,198)	-	(2,198)
Balance at December 31, 2017	5,017,458	$ 25,087	$ 17,270	$ 54,738	$ (707)	$ 96,388

See Notes to Consolidated Financial Statements.

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Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

Years Ended December 31,	2017	2016	2015
	(dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$(29)	$3,797	$3,634
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	2,742	2,725	2,543
Provision for loan losses	4,160	1,930	1,025
Net gain on sale of available-for-sale securities	(96)	(522)	(76)
Net amortization of securities	2,247	2,196	2,188
Increase in loans held for sale	(779)	-	-
Net (gain) loss on disposal of premises and equipment	4	(3)	6
Net (gain) loss on write-down/sale of other real estate owned	(18)	154	957
Income from bank owned life insurance	(774)	(795)	(885)
Stock compensation expense	17	-	-
Deferred tax benefit	(117)	(19)	(227)
Decrease (increase) in other assets	458	(567)	(3,969)
Decrease (Increase) in other liabilities	3,177	(243)	3,637
Pension plan contribution	(1,554)	-	(1,000)
Net cash provided by operating activities	9,438	8,653	7,833
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of available-for-sale securities	(23,095)	(151,204)	(104,103)
Proceeds from redemption of restricted securities, net	(2,876)	1,046	277
Proceeds from maturities and calls of available-for-sale securities	50,290	43,660	80,790
Proceeds from maturities and calls of held-to-maturity securities	-	-	300
Proceeds from sales of available-for-sale securities	4,480	107,647	23,005
Paydowns on available-for-sale securities	9,981	11,288	9,353
Paydowns on held-to-maturity securities	-	-	8,161
(Purchases) paydowns of consumer installment loans, net	(6,944)	(2,281)	(6,797)
Net increase in all other loans (including repayments on student loans)	(130,671)	(34,549)	(26,599)
Proceeds from sales of other real estate owned	1,084	1,699	1,956
Payments for improvements to other real estate owned	-	(52)	-
Purchases of premises and equipment	(619)	(891)	(1,756)
Net cash used in investing activities	(98,370)	(23,637)	(15,413)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Increase) decrease in noninterest-bearing deposits	(2,925)	13,551	28,810
Decrease in savings deposits	601	23,082	14,292
Decrease (increase) in time deposits	1,416	1,398	(13,285)
Decrease (increase) in federal funds purchased and repurchase agreements, net	11,989	(7,246)	(11,866)
Increase in Federal Home Loan Bank advances	167,500	55,000	20,000
Repayment of Federal Home Loan Bank advances	(100,000)	(80,000)	(25,000)
Proceeds from exercise of stock options and ESPP issuance	1,264	46	-
Repurchase and retirement of common stock	(157)	-	-
Cash dividends paid on common stock	(2,198)	(1,983)	(1,686)
Net cash provided by financing activities	77,490	3,848	11,265

Net (increase) decrease in cash and cash equivalents	(11,442)	(11,136)	3,685
Cash and cash equivalents at beginning of period	25,854	36,990	33,305
Cash and cash equivalents at end of period	$14,412	$25,854	$36,990
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	$2,880	$2,587	$3,646
Income tax	600	-	200
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS			
Unrealized gain (loss) on securities available-for-sale	$1,563	$(1,762)	$(755)
Loans transferred to other real estate owned	-	-	553
Former bank property transferred from fixed assets to foreclosed properties	-	127	-
(Increase) decrease in pension liability	3,741	177	(237)
Securities transferred from held-to-maturity to available-for-sale	-	-	85,555
Unamortized losses on transfer date on securities transferred from available-for-sale to held-to-maturity, eliminated upon transfer back to available-for-sale	-	-	4,197
Amortization of unrealized loss on securities transferred to held-to-maturity	-	-	934

See Notes to Consolidated Financial Statements.

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NOTE 1, Significant Accounting Policies

THE COMPANY

Headquartered in Hampton, Virginia, Old Point Financial Corporation is a holding company that conducts substantially all of its operations through two subsidiaries, The Old Point National Bank of Phoebus and Old Point Trust & Financial Services, N.A. The Bank serves individual and commercial customers, the majority of which are in Hampton Roads, Virginia. As of December 31, 2017, the Bank had 18 branch offices. The Bank offers a full range of deposit and loan products to its retail and commercial customers, including mortgage loan products offered through its Old Point Mortgage division. A full array of insurance products is also offered through Old Point Insurance, LLC in partnership with Morgan Marrow Company. Trust offers a full range of services for individuals and businesses. Products and services include retirement planning, estate planning, financial planning, estate and trust administration, retirement plan administration, tax services and investment management services.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Old Point Financial Corporation (the Company) and its wholly-owned subsidiaries, The Old Point National Bank of Phoebus (the Bank) and Old Point Trust & Financial Services N.A. (Trust). All significant intercompany balances and transactions have been eliminated in consolidation.

USE OF ESTIMATES

In preparing Consolidated Financial Statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, other-than-temporary impairment of securities, and the valuation allowance on other real estate owned.

VARIABLE INTEREST ENTITIES

Current accounting guidance states that if a business enterprise is the primary beneficiary of a variable interest entity, the assets, liabilities, and results of the activities of the variable interest entity should be included in the consolidated financial statements of the business enterprise. This interpretation explains how to identify variable interest entities and how an enterprise assesses its interest in a variable interest entity to decide whether to consolidate the entity. It also requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interests that effectively recombines risks that were previously dispersed. At this time, the Company has no VIEs that are consolidated.

ACQUISITIONS

The Bank had a joint venture agreement with Tidewater Mortgage Services, Inc. (TMSI) to provide mortgage origination services through Old Point Mortgage, LLC (OPM), a joint venture between the Bank and TMSI. Per the terms of the joint venture agreement, TMSI and the Bank owned 51% and 49%, respectively, of OPM, and TMSI was the managing member.

On April 20, 2017, the Bank completed its purchase of TMSI's interest in OPM, which terminated the joint venture agreement between TMSI and the Bank and made OPM a wholly-owned subsidiary of the Bank as of that date. OPM's fair value was based on an independent valuation performed as of March 31, 2017. Since OPNB had a 49% interest in OPM prior to acquisition of the remaining interest and obtains a controlling interest with the buy-out, this will transaction was accounted for as a business combination achieved in stages or a step acquisition. OPNB has through the aforementioned valuation estimated the fair value of its previously held equity interest in the target resulting in a gain for the excess of the acquisition-date fair value of its previously held equity interest in the target over its carrying value of $550 thousand which is included as a gain on acquisition of Old Point Mortgage in the Consolidated

Statements of Income.

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The table below summarizes the transaction and goodwill recognition (000's):

Consideration transferred	$1,534
Acquisition-date fair value of previously-held equity interest	2,002
Total	3,536
Net assets acquired	2,915
Goodwill	$621

SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Company's activities are with customers located within the Hampton Roads region. The types of securities that the Company invests in are included in Note 3. The types of lending that the Company engages in are included in Note 4. The Company has significant concentrations in the following industries: construction, lessors of real estate, activities related to real estate, ambulatory health care and religious organizations. The Company does not have any significant concentrations to any one customer.

At December 31, 2017 and 2016, there were $317.2 million and $308.5 million, or 42.95% and 51.09%, respectively, of total loans concentrated in commercial real estate. Commercial real estate for purposes of this note includes all construction loans, loans secured by multifamily residential properties, loans secured by farmland and loans secured by nonfarm, nonresidential properties.

CASH AND CASH EQUIVALENTS

For purposes of the consolidated statements of cash flows, cash and cash equivalents includes cash and balances due from banks and federal funds sold, all of which mature within 90 days.

INTEREST-BEARING DEPOSITS IN BANKS

Interest-bearing deposits in banks mature within one year and are carried at cost.

SECURITIES

Certain debt securities that management has the positive intent and ability to hold until maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities not classified as held-to-maturity, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company employs a systematic methodology that considers available evidence in evaluating potential impairment of its investments. In the event that the cost of an investment exceeds its fair value, the Company evaluates, among other factors, the magnitude and duration of the decline in fair value; the expected cash flows of the securities; the financial health of and business outlook for the issuer; the performance of the underlying assets for interests in securitized assets; and the Company's intent and ability to hold the investment. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in investment income and a new cost basis in the investment is established.

RESTRICTED STOCK, AT COST

The Company, as a member of the Federal Reserve Bank (FRB) and the Federal Home Loan Bank of Atlanta (FHLB), is required to maintain an investment in the capital stock of both the FRB and the FHLB. Based on the redemption provisions of these investments, the stocks have no quoted market value, are carried at cost and are listed as a restricted securities. The Company reviews its holdings for impairment based on the ultimate recoverability of the cost basis in the FRB and FHLB stock.

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LOANS HELD FOR SALE

The Company records loans held for sale using the lower of cost or market value. In addition, the Company requires a firm purchase commitment from a permanent investor before a loan can be closed, thus limiting interest rate risk. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. The change in fair value of loans held for sale is recorded as a component of "Mortgage banking income, net" within the Company's Consolidated Statements of Operations.

LOANS

The Company extends loans to individual consumers and commercial customers for various purposes. Most of the Company's loans are secured by real estate, including real estate construction loans and real estate mortgage loans (i.e., residential 1-4 family mortgages, commercial real estate loans, second mortgages and equity lines of credit). Other loans are secured by collateral that is not real estate, which may include inventory, accounts receivable, equipment or other personal property. A substantial portion of the loan portfolio is represented by real estate mortgage loans throughout Hampton Roads. The ability of the Company's debtors to honor their contracts is dependent in part upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for unearned income, the allowance for loan losses and any unamortized deferred fees or costs on originated loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

NONACCRUALS, PAST DUES AND CHARGE-OFFS

The accrual of interest on commercial loans (including construction loans and commercial loans secured and not secured by real estate) is generally discontinued at the time the loan is 90 days past due unless the credit is well-secured and in the process of collection. Consumer loans not secured by real estate and consumer real estate secured loans (i.e., residential 1-4 family mortgages, second mortgages and equity lines of credit) are generally placed on nonaccrual status when payments are 120 days past due. Past due status is based on the contractual terms of the loan, and loans are considered past due when a payment of principal and/or interest is due but not paid. Regular payments not received within the payment cycle are considered to be 30, 60, or 90 or more days past due accordingly. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual status 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 status or charged off. Loans are generally returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured, or when the borrower has resumed paying the full amount of the scheduled contractual interest and principal payments for at least six months.

Loans are generally fully charged off or partially charged down to the fair value of collateral securing the asset when:

·Management determines the asset to be uncollectible;

·Repayment is deemed to be protracted beyond reasonable time frames;

·The asset has been classified as a loss by either the internal loan review process or external examiners;

· The borrower has filed for bankruptcy protection and the loss becomes evident due to a lack of borrower assets; or

The loan is 120 days or more past due unless the loan is both well secured and in the process of collection.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired, such as a loan that is considered a TDR (discussed in detail below). These loans are excluded from pooled loss forecasts and a separate reserve is provided under the accounting guidance for loan impairment. All loans, including consumer loans, whose terms have been modified in a TDR are also individually analyzed for estimated impairment. Impairment is measured on a loan-by-loan basis for construction loans and commercial loans (i.e., commercial mortgage loans on real estate and commercial loans not secured by real estate) by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. For those loans that are classified as impaired, an allowance is established when the discounted value of expected future cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

The general component covers loans that are not classified as impaired. Loans collectively evaluated for impairment are pooled, with a historical loss rate, based on migration analysis, applied to each pool, segmented by risk grade or days past due, depending on the type of loan. Based on credit risk assessments and management's analysis of qualitative factors, additional loss factors are applied to loan balances. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and consumer loans secured by real estate (i.e., residential 1-4 family mortgages, second mortgages and equity lines of credit) for impairment disclosures, unless the terms of such loans have been modified in a TDR due to financial difficulties of the borrower.

Each portfolio segment has risk characteristics as follows:

- Commercial: Commercial loans carry risks associated with the successful operation of a business or project, in addition to other risks associated with the ownership of a business. The repayment of these loans may be dependent upon the profitability and cash flows of the business. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much precision.

- Real estate-construction: Construction loans carry risks that the project will not be finished according to schedule, the project will not be finished according to budget and the value of the collateral may at any point in time be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be the loan customer, may be unable to finish the construction project as planned because of financial pressure unrelated to the project.

- Real estate-mortgage: Residential mortgage loans and equity lines of credit carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral. Commercial real estate loans carry risks

associated with the successful operation of a business if owner occupied. If non-owner occupied, the repayment of these loans may be dependent upon the profitability and cash flow from rent receipts.

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- Consumer loans: Consumer loans carry risks associated with the continued credit-worthiness of the borrowers and the value of the collateral. Consumer loans are more likely than real estate loans to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy.

- Other loans: Other loans are loans to mortgage companies, loans for purchasing or carrying securities, and loans to insurance, investment and finance companies. These loans carry risks associated with the successful operation of a business. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time, depend on interest rates or fluctuate in active trading markets.

Each segment of the portfolio is pooled by risk grade or by days past due. Loans not secured by real estate and made to individuals for household, family and other personal expenditures are segmented into pools based on days past due, while all other loans, including loans to consumers that are secured by real estate, are segmented by risk grades. A historical loss percentage is then calculated by migration analysis and applied to each pool. The migration analysis applied to all pools is able to track the risk grading and historical performance of individual loans throughout a number of periods set by management, which provides management with information regarding trends (or migrations) in a particular loan segment. At December 31, 2017 management used four twelve-quarter migration periods, and at December 31, 2016, management used one twelve-quarter migration period.

TROUBLED DEBT RESTRUCTURINGS

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management grants a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a TDR. Management strives to identify borrowers in financial difficulty before their loans reach nonaccrual status and works with them to grant appropriate concessions, if necessary, and modify their loans to more affordable terms. These modified terms could include reduction in the interest rate below current market rates for borrowers with similar risk profiles, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

TRANSFERS OF FINANCIAL ASSETS

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company (i.e., put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership); (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

OTHER REAL ESTATE OWNED (OREO)

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance (direct write-downs) are included in loss (gain) on other real estate owned.

BANK-OWNED LIFE INSURANCE

The Company owns insurance on the lives of a certain group of key employees. The cash surrender value of these policies is included as an asset on the consolidated balance sheets, and the increase in cash surrender value is recorded as noninterest income on the consolidated statements of operations. In the event of the death of an insured individual under these policies, the Company would receive a death benefit payment. Any excess in the amount received over the recorded cash surrender value would be recorded as other operating income on the consolidated statements of

operations.

PREMISES AND EQUIPMENT

Land is carried at cost. Buildings and equipment are stated at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets. Buildings and equipment are depreciated over their estimated useful lives ranging from 3 to 39 years; leasehold improvements are amortized over the lives of the respective leases or the estimated useful life of the leasehold improvement, whichever is less. Software is amortized over its estimated useful life ranging from 3 to 5 years.

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OFF-BALANCE SHEET CREDIT RELATED FINANCIAL INSTRUMENTS

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under commercial letters of credit and lines of credit. Such financial instruments are recorded when they are funded.

PENSION PLAN

The Company has a non-contributory defined benefit pension plan, which was frozen by the Company in 2006 and terminated in 2017. This plan was terminated in the fourth quarter of 2017. Details regarding the impact of this can be found in Note 14.

STOCK COMPENSATION PLANS

Stock compensation accounting guidance (FASB ASC 718, "Compensation -- Stock Compensation") requires that the compensation cost related to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black Scholes model is used to estimate the fair value of the stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

INCOME TAXES

The Company accounts for income taxes in accordance with income tax accounting guidance (FASB ASC 740, "Income Taxes"). The Company adopted the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability or balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the difference between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more-likely-than-not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

No uncertain tax positions were recorded in 2017 or 2016.

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The results for the year ended December 31, 2017 include the effect of the Tax Cuts and Jobs Act (the Tax Act), which was signed into law on December 22, 2017. Among other things, the Tax Act permanently lowers the federal corporate income tax rate to 21% from the maximum rate prior to the passage of the Tax Act of 35%, effective January 1, 2018. As a result of the federal corporate income tax rate, U.S. GAAP requires companies to re-measure their deferred tax assets and deferred tax liabilities, including those accounted for in accumulated other comprehensive income (loss), as of the date of the Tax Act's enactment and record the corresponding effects in income tax expense in the fourth quarter of 2017. As a result of the permanent reduction in the corporate income tax rate, the Company recognized a $1.2 million reduction in the value of its net deferred tax asset and recorded a corresponding incremental income tax expense in the Company's consolidated statement of income for 2017. The Company's evaluation of the effect of the Tax Act is considered a preliminary estimate and is subject to refinement in 2018. No material adjustment is anticipated.

EARNINGS PER COMMON SHARE

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and shares to be issued as part of the employee stock purchase plan and are determined using the treasury stock method.

TRUST ASSETS AND INCOME

Securities and other property held by Trust in a fiduciary or agency capacity are not assets of the Company and are not included in the accompanying Consolidated Financial Statements.

ADVERTISING EXPENSES

Advertising expenses are expensed as incurred. Advertising expense for the years ended 2017, 2016 and 2015 was $249 thousand, $273 thousand, and $217 thousand, respectively.

COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income, net of tax. Other comprehensive income (loss), net of tax includes unrealized gains and losses on securities available-for-sale, unrealized losses on securities transferred from available-for-sale to held-to-maturity, and unrealized losses related to changes in the funded status of the pension plan which are also recognized as separate components of equity.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 16. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606." This ASU revised guidance for the recognition, measurement, and disclosure of revenue from contracts with customers. The original guidance has been amended through subsequent accounting standard updates that resulted in technical corrections, improvements, and a one-year deferral of the effective date to January 1, 2018. The guidance, as amended, is applicable to all entities and, once effective, will replace significant portions of existing industry and transaction-specific revenue recognition rules with a more principles-based recognition model. Most revenue associated with financial instruments, including interest income, loan origination fees, and credit card fees, is outside the scope of the guidance. Gains and losses on investment securities, derivatives, and sales of financial instruments are similarly excluded from the scope. Entities can elect to adopt the guidance either on a full or modified retrospective basis. Full retrospective adoption will require a cumulative effect adjustment to retained earnings as of the beginning

of the earliest comparative period presented. Modified retrospective adoption will require a cumulative effect adjustment to retained earnings as of the beginning of the reporting period in which the entity first applies the new guidance. The Company plans to adopt this guidance on the effective date, January 1, 2018 via the modified retrospective approach. The Company has completed its assessment of the adoption of this ASU, noting the standard will result in expanded disclosures related to non-interest income and enhance the qualitative disclosures on the revenues within the scope of the new guidance. The Company has concluded the adoption of ASU 2014-09 will not have a material impact on its consolidated financial statements.

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In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU requires an entity to, among other things: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in OCI the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; (v) assess a valuation allowance on deferred tax assets related to unrealized losses of AFS debt securities in combination with other deferred tax assets. The ASU provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The ASU also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is only permitted for the provision related to instrument-specific credit risk. The Company has completed its assessment of ASU No. 2016-01 and upon adoption there will be enhancements to the current financial instrument disclosures.

During February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements. As the Company owns the majority of its buildings, management does not anticipate that the ASU will have a material impact.

During June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require 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. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements and has formed a committee to oversee the adoption of the new standard. The ALLL model currently in use by the Company already provides it with the ability to archive prior period information and contains loan balance and charge-off information beginning with September 30, 2011. The committee has reviewed the data included in each monthly archive file and has added fields to enhance its data analysis capabilities under the new standard.

During August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are effective for public business entities for

fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments should be applied using a retrospective transition method to each period presented. If retrospective application is impractical for some of the issues addressed by the update, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

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During January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." The amendments in this ASU clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current implementation guidance in Topic 805, there are three elements of a business—inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a "set") that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. The amendments in this ASU provide a screen to determine when a set is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The ASU provides a framework to assist entities in evaluating whether both an input and a substantive process are present. The amendments in this ASU are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The amendments in this ASU should be applied prospectively on or after the effective date. No disclosures are required at transition. The Company does not expect the adoption of ASU 2017-01 to have a material impact on its consolidated financial statements. The Company's pending merger with Citizens National Bank will be accounted for under the acquisition accounting guidance.

During January 2017, the FASB issued ASU No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are SEC filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

During March 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendments in this ASU require an employer that offers defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715 to report the service cost component of net periodic benefit cost in the same line item(s) as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component. If the other components of net periodic benefit cost are not presented on a separate line or lines, the line item(s) used in the income statement must be disclosed. In addition, only the service cost component will be eligible for capitalization as part of an asset, when applicable. The amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted. The Company has concluded the adoption of ASU 2017-07 will not have a material impact on its consolidated financial statements.

During March 2017, the FASB issued ASU No. 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities." The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Upon transition, entities should apply the guidance on a modified

retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. The Company is currently assessing the impact that ASU 2017 08 will have on its consolidated financial statements.

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During May 2017, the FASB issued ASU 2017 09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting." The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The amendments are effective for all entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. The Company has concluded that ASU 2017 08 will not have a material impact on its consolidated financial statements.

During August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The amendments in this ASU modify the designation and measurement guidance for hedge accounting as well as provide for increased transparency regarding the presentation of economic results on both the financial statements and related footnotes. Certain aspects of hedge effectiveness assessments will also be simplified upon implementation of this update. The amendments are effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted, including adoption in any interim period. The Company has concluded that the adoption of ASU 2017-12 will not have a material impact on its consolidated financial statements.

During February 2018, the FASB issued ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The amendments provide financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The amendments are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company has elected to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act in the consolidated financial statements for the period ending December 31, 2018.

NOTE 2, Restrictions on Cash and Amounts Due from Banks

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2017 and 2016, the Company had no balance requirements on any of its accounts. The Company had approximately $0.5 million and $9.9 million in deposits in financial institutions in excess of amounts insured by the FDIC at December 31, 2017 and December 31, 2016, respectively.

NOTE 3, Securities Portfolio

The amortized cost and fair value, with gross unrealized gains and losses, of securities available-for-sale were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
December 31, 2017				
Obligations of U.S. Government agencies	$9,530	$ 27	$ (122)	$9,435
Obligations of state and political subdivisions	64,413	489	(137)	64,765
Mortgage-backed securities	75,906	-	(1,610)	74,296
Money market investments	1,194	-	-	1,194
Corporate bonds and other securities	7,049	195	(10)	7,234

Other marketable equity securities	100	97	-	197
Total	$158,192	$ 808	$ (1,879)	$157,121
December 31, 2016				
U.S. Treasury securities	$20,000	$ -	$ -	$20,000
Obligations of U.S. Government agencies	9,361	-	(166)	9,195
Obligations of state and political subdivisions	78,645	358	(1,016)	77,987
Mortgage-backed securities	85,649	18	(1,973)	83,694
Money market investments	647	-	-	647
Corporate bonds and other securities	7,598	92	(12)	7,678
Other marketable equity securities	100	64	-	164
Total	$202,000	$ 532	$ (3,167)	$199,365

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Securities with a fair value of $66.6 million and $72.9 million at December 31, 2017 and 2016, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase, FHLB advances and for other purposes required or permitted by law.

At December 31, 2017, the Company held no securities of any single issuer (excluding U.S. Government agencies) with a book value that exceeded 10 percent of stockholders' equity.

The amortized cost and fair value of securities by contractual maturity are shown below.

	December 31, 2017 Available-for-Sale	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$4,015	$4,009
Due after one year through five years	23,293	23,126
Due after five years through ten years	38,197	37,997
Due after ten years	91,393	90,598
Total debt securities	156,898	155,730
Other securities without stated maturities	1,294	1,391
Total securities	$158,192	$157,121

The following table provides information about securities sold in the years ended December 31:

	2017	2016	2015
	(in thousands)		
Proceeds from sales	$4,480	$107,647	$23,005
Gross realized gains	$96	$578	$76
Gross realized losses	$-	$56	$-

OTHER-THAN-TEMPORARILY IMPAIRED SECURITIES

Management assesses whether the Company intends to sell or it is more-likely-than-not that the Company will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that the Company does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the Company separates the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of expected future cash flows is due to factors that are not credit related and is recognized in other comprehensive income.

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The present value of expected future cash flows is determined using the best-estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The methodology and assumptions for establishing the best-estimate cash flows vary depending on the type of security. The asset-backed securities cash flow estimates are based on bond specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity and prepayment speeds, and structural support, including subordination and guarantees.

The Company has a process in place to identify debt securities that could potentially have a credit or interest-rate related impairment that is other than temporary. This process involves monitoring late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts, and cash flow projections as indicators of credit issues. On a quarterly basis, management reviews all securities to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. Management considers relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other-than-temporary. Relevant facts and circumstances considered include: (a) the extent and length of time the fair value has been below cost; (b) the reasons for the decline in value; (c) the financial position and access to capital of the issuer, including the current and future impact of any specific events and (d) for fixed maturity securities, the Company's intent to sell a security or whether it is more-likely-than-not the Company will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and for equity securities, the Company's ability and intent to hold the security for a period of time that allows for the recovery in value.

The Company has not recorded impairment charges on securities for the years ended December 31, 2017 and 2016.

The following table shows the number of securities with unrealized losses, the gross unrealized losses and fair value of the Company's investments with unrealized losses that are deemed to be temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of the dates indicated:

	December 31, 2017						
	Less Than Twelve Months		More Than Twelve Months		Total		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Number of Securities
	(dollars in thousands)						
Securities Available-for-Sale							
Obligations of U.S. Government agencies	$11	$3,189	$111	$3,089	$122	$6,278	13
Obligations of state and political subdivisions	32	11,141	105	10,999	137	22,140	29
Mortgage-backed securities	67	9,742	1,543	64,554	1,610	74,296	24
Corporate bonds and other securities	2	1,098	8	792	10	1,890	11
Total securities available-for-sale	$112	$25,170	$1,767	$79,434	$1,879	$104,604	77

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	December 31, 2016						
	Less Than Twelve Months		More Than Twelve Months		Total		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Number of Securities
	(dollars in thousands)						
Securities Available-for-Sale							
Obligations of U. S. Government agencies	$ 166	$9,195	$ -	$ -	$166	$9,195	6
Obligations of state and political subdivisions	1,016	38,020	-	-	1,016	38,020	56
Mortgage-backed securities	1,973	80,680	-	-	1,973	80,680	23
Corporate bonds and other securities	11	1,787	1	100	12	1,887	13
Total securities available-for-sale	$ 3,166	$129,682	$ 1	$ 100	$3,167	$129,782	98

Certain investments within the Company's portfolio had unrealized losses at December 31, 2017 and December 31, 2016, as shown in the tables above. The unrealized losses were caused by increases in market interest rates. The Company purchases only highly-rated securities, including U.S. government agencies and mortgage-backed securities guaranteed by government-sponsored entities. The municipal and corporate securities portfolios are reviewed regularly to ensure that ratings of individual securities have not deteriorated below the threshold established by the Company's policy.

Because the Company does not intend to sell the investments and management believes it is unlikely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at December 31, 2017 or December 31, 2016.

Restricted Stock

The restricted stock category is comprised of FHLB and Federal Reserve Bank stock. These stocks are classified as restricted securities because their ownership is restricted to certain types of entities and the securities lack a market. Therefore, FHLB and Federal Reserve Bank stock is carried at cost and evaluated for impairment. When evaluating these stocks for impairment, their value is determined based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. Restricted stock is viewed as a long-term investment and management believes that the Company has the ability and the intent to hold this stock until its value is recovered.

NOTE 4, Loans and Allowance for Loan Losses

The following is a summary of the balances in each class of the Company's loan portfolio as of the dates indicated:

	December 31, 2017	December 31, 2016
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$101,021	$94,827
Commercial	289,682	285,429
Construction	27,489	23,116
Second mortgages	17,918	17,128
Equity lines of credit	56,610	51,024

Total mortgage loans on real estate	492,720	471,524
Commercial and industrial loans	60,398	54,434
Consumer automobile loans	119,251	10,407
Other consumer loans	54,974	48,500
Other (1)	11,197	19,017
Total loans	738,540	603,882
Less: Allowance for loan losses	(9,448)	(8,245)
Loans, net of allowance and deferred fees (2)	$729,092	$595,637

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(1) Overdrawn deposit accounts are reclassified as loans and included in the Other category in the table above. Overdrawn deposit accounts totaled $594 thousand and $536 thousand at December 31, 2017 and December 31, 2016, respectively.

(2) Net deferred loan costs totaled $916 thousand and $522 thousand at December 31, 2017 and December 31, 2016, respectively.

CREDIT QUALITY INFORMATION

The Company uses internally-assigned risk grades to estimate the capability of borrowers to repay the contractual obligations of their loan agreements as scheduled or at all. The Company's internal risk grade system is based on experiences with similarly graded loans. Credit risk grades are updated at least quarterly as additional information becomes available, at which time management analyzes the resulting scores to track loan performance.

The Company's internally assigned risk grades are as follows:

- Pass: Loans are of acceptable risk.

- Other Assets Especially Mentioned (OAEM): Loans have potential weaknesses that deserve management's close attention.

- Substandard: Loans reflect significant deficiencies due to several adverse trends of a financial, economic or managerial nature.

- Doubtful: Loans have all the weaknesses inherent in a substandard loan with added characteristics that make collection or liquidation in full based on currently existing facts, conditions and values highly questionable or improbable.

- Loss: Loans have been charged off because they are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

The following table presents credit quality exposures by internally assigned risk ratings as of the dates indicated:

	Credit Quality Information As of December 31, 2017			
	Pass	OAEM	Substandard	Total
			(in thousands)	
Mortgage loans on real estate:				
Residential 1-4 family	$98,656	$-	$2,365	$101,021
Commercial	264,275	10,526	14,881	289,682
Construction	26,694	74	721	27,489
Second mortgages	17,211	431	276	17,918
Equity lines of credit	56,318	-	292	56,610
Total mortgage loans on real estate	463,154	11,031	18,535	492,720
Commercial and industrial loans	58,091	1,469	838	60,398
Consumer automobile loans	119,211	-	40	119,251
Other consumer loans	54,926	-	48	54,974
Other	11,197	-	-	11,197
Total	$706,579	$12,500	$19,461	$738,540

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	Credit Quality Information As of December 31, 2016			
	Pass	OAEM	Substandard	Total
	(in thousands)			
Mortgage loans on real estate:				
Residential 1-4 family	$92,458	$1,138	$1,231	$94,827
Commercial	260,948	10,014	14,467	285,429
Construction	22,219	162	735	23,116
Second mortgages	16,445	475	208	17,128
Equity lines of credit	50,387	500	137	51,024
Total mortgage loans on real estate	442,457	12,289	16,778	471,524
Commercial and industrial loans	49,979	2,278	2,177	54,434
Consumer automobile loans	10,407	-	-	10,407
Other consumer loans	48,334	-	166	48,500
Other	19,017	-	-	19,017
Total	$570,194	$14,567	$19,121	$603,882

As of December 31, 2017 and 2016 the Company did not have any loans internally classified as Loss or Doubtful.

AGE ANALYSIS OF PAST DUE LOANS BY CLASS

All classes of loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Interest and fees continue to accrue on past due loans until the date the loan is placed in nonaccrual status, if applicable. The following table includes an aging analysis of the recorded investment in past due loans as of the dates indicated. Also included in the table below are loans that are 90 days or more past due as to interest and principal and still accruing interest, because they are well-secured and in the process of collection. Loans in nonaccrual status that are also past due are included in the aging categories in the table below.

Age Analysis of Past Due Loans as of December 31, 2017

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Total Current Loans (1)	Total Loans	Recorded Investment > 90 Days Past Due and Accruing
	(in thousands)						
Mortgage loans on real estate:							
Residential 1-4 family	$229	$ 153	$ 1,278	$ 1,660	$99,361	$101,021	$ 261
Commercial	194	771	1,753	2,718	286,964	289,682	-
Construction	-	-	721	721	26,768	27,489	-
Second mortgages	15	-	163	178	17,740	17,918	45
Equity lines of credit	75	19	53	147	56,463	56,610	-
Total mortgage loans on real estate	513	943	3,968	5,424	487,296	492,720	306
Commercial and industrial loans	709	-	1,060	1,769	58,629	60,398	471
Consumer automobile loans	517	122	41	680	118,571	119,251	41
Other consumer loans	2,222	544	2,360	5,126	49,848	54,974	2,360
Other	84	9	4	97	11,100	11,197	4
Total	$4,045	$ 1,618	$ 7,433	$ 13,096	$725,444	$738,540	$ 3,182

(1) For purposes of this table, Total Current Loans includes loans that are 1 - 29 days past due.

In the table above, the other consumer category includes student loans with principal and interest amounts that are 97 - 98% guaranteed by the federal government. The past due principal portion of these guaranteed loans totaled $4.2 million at December 31, 2017.

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Age Analysis of Past Due Loans as of December 31, 2016

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Total Current Loans (1)	Total Loans	Recorded Investment > 90 Days Past Due and Accruing
	(in thousands)						
Mortgage loans on real estate:							
Residential 1-4 family	$564	$ -	$ 496	$ 1,060	$93,767	$94,827	$ 218
Commercial	2,280	1,625	227	4,132	281,297	285,429	-
Construction	162	-	-	162	22,954	23,116	-
Second mortgages	-	200	188	388	16,740	17,128	58
Equity lines of credit	394	9	86	489	50,535	51,024	-
Total mortgage loans on real estate	3,400	1,834	997	6,231	465,293	471,524	276
Commercial and industrial loans	5	-	86	91	54,343	54,434	-
Consumer automobile loans	-	11	-	11	10,396	10,407	-
Other consumer loans	1,876	702	2,684	5,262	43,238	48,500	2,603
Other	41	12	5	58	18,959	19,017	5
Total	$5,322	$ 2,559	$ 3,772	$ 11,653	$592,229	$603,882	$ 2,884

(1) For purposes of this table, Total Current Loans includes loans that are 1 - 29 days past due.

In the table above, the consumer category includes student loans with principal and interest amounts that are 97 - 98% guaranteed by the federal government. The past due principal portion of these guaranteed loans totaled $4.8 million at December 31, 2016.

NONACCRUAL LOANS

The Company generally places commercial loans (including construction loans and commercial loans secured and not secured by real estate) in nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred or the loan reaches 90 days past due, unless the credit is well-secured and in the process of collection.

Under regulatory rules, consumer loans, which are loans to individuals for household, family and other personal expenditures, and consumer loans secured by real estate (including residential 1 - 4 family mortgages, second mortgages, and equity lines of credit) are not required to be placed in nonaccrual status. Although consumer loans and consumer loans secured by real estate are not required to be placed in nonaccrual status, the Company may elect to place these loans in nonaccrual status, if necessary to avoid a material overstatement of interest income. Generally, consumer loans secured by real estate are placed in nonaccrual status only when payments are 120 days past due.

Generally, consumer loans not secured by real estate are placed in nonaccrual status only when part of the principal has been charged off. If a charge-off has not occurred sooner for other reasons, a consumer loan not secured by real estate will generally be placed in nonaccrual status when payments are 120 days past due. These loans are charged off or written down to the net realizable value of the collateral when deemed uncollectible, when classified as a "loss," when repayment is unreasonably protracted, when bankruptcy has been initiated, or when the loan is 120 days or more past due unless the credit is well-secured and in the process of collection.

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When management places a loan in nonaccrual status, the accrued unpaid interest receivable is reversed against interest income and the loan is accounted for by the cash basis or cost recovery method, until it qualifies for return to accrual status or is charged off. Generally, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured, or when the borrower has resumed paying the full amount of the scheduled contractual interest and principal payments for at least six months.

The following table presents loans in nonaccrual status by class of loan as of the dates indicated:

Nonaccrual Loans by Class

	December 31, 2017	December 31, 2016
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$1,447	$ 598
Commercial	9,468	6,033
Construction	721	-
Second mortgages	118	129
Equity lines of credit	292	87
Total mortgage loans on real estate	12,046	6,847
Commercial and industrial loans	836	231
Consumer loans	-	81
Total	$12,882	$ 7,159

The following table presents the interest income that the Company would have earned under the original terms of its nonaccrual loans and the actual interest recorded by the Company on nonaccrual loans for the periods presented:

	Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Interest income that would have been recorded under original loan terms	$ 474	$ 318	$ 196
Actual interest income recorded for the period	281	269	141
Reduction in interest income on nonaccrual loans	$ 193	$ 49	$ 55

TROUBLED DEBT RESTRUCTURINGS

The Company's loan portfolio includes certain loans classified as TDRs, where economic concessions have been granted to borrowers who are experiencing financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reduction in the interest rate below current market rates for borrowers with similar risk profiles, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. The Company defines a TDR as nonperforming if the TDR is in nonaccrual status or is 90 days or more past due and still accruing interest at the report date.

When the Company modifies a loan, management evaluates any possible impairment as discussed further under Impaired Loans below.

The following table presents TDRs during the period indicated, by class of loan:

Troubled Debt Restructurings by Class
For the Year Ended December 31, 2017

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on December 31, 2017
	(dollars in thousands)			
Mortgage loans on real estate:				
Residential 1-4 family	1	$ 142	$ 142	$ 140
Commercial	3	5,132	5,132	5,132
Total	4	$ 5,274	$ 5,274	$ 5,272

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Troubled Debt Restructurings by Class
For the Year Ended December 31, 2016

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on December 31, 2016
		(dollars in thousands)		
Mortgage loans on real estate:				
Residential 1-4 family	6	$ 1,061	$ 1,061	$ 992
Commercial	1	150	150	-
Second mortgages	1	53	53	53
Equity lines of credit	1	93	93	86
Total mortgage loans on real estate	9	1,357	1,357	1,131
Commercial and industrial loans	1	152	152	144
Consumer loans	2	8	8	-
Total	12	$ 1,517	$ 1,517	$ 1,275

Of the loans restructured in 2017 two were given a below-market rate for debt with similar risk characteristics and two were granted terms that the Company would not otherwise extend to borrowers with similar risk charateristics. All of the loans restructured in 2016 were given below-market rates for debt with similar risk characteristics.

At December 31, 2017 and 2016, the Company had no outstanding commitments to disburse additional funds on any TDR. Also at December 31, 2017 and 2016, the Company had $77 thousand and $10 thousand, respectively, in loans secured by residential 1 - 4 family real estate that were in the process of foreclosure.

In the years ended December 31, 2017 and 2016 there were no defaulting TDRs where the default occurred within twelve months of restructuring. The Company considers a TDR in default when any of the following occurs: the loan, as restructured, becomes 90 days or more past due; the loan is moved to nonaccrual status following the restructure; the loan is restructured again under terms that would qualify it as a TDR if it were not already so classified; or any portion of the loan is charged off.

All TDRs are factored into the determination of the allowance for loan losses and included in the impaired loan analysis, as discussed below.

IMPAIRED LOANS

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans include nonperforming loans and loans modified in a TDR. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole or remaining source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, when foreclosure is probable, instead of the discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is in nonaccrual status, all payments are applied to principal under the cost recovery method. For financial statement purposes, the

recorded investment in the loan is the actual principal balance reduced by payments that would otherwise have been applied to interest. When reporting information on these loans to the applicable customers, the unpaid principal balance is reported as if payments were applied to principal and interest under the original terms of the loan agreements. Therefore, the unpaid principal balance reported to the customer would be higher than the recorded investment in the loan for financial statement purposes. When the ultimate collectability of the total principal of the impaired loan is not in doubt and the loan is in nonaccrual status, contractual interest is credited to interest income when received under the cash basis method.

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The following table includes the recorded investment and unpaid principal balances (a portion of which may have been charged off) for impaired loans with the associated allowance amount, if applicable, as of the dates presented. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized for the periods presented. The average balances are calculated based on daily average balances.

Impaired Loans by Class

	As of December 31, 2017				For the Year Ended December 31, 2017	
		Recorded Investment				
	Unpaid Principal Balance	Without Valuation Allowance	With Valuation Allowance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
	(in thousands)					
Mortgage loans on real estate:						
Residential 1-4 family	$2,873	$ 2,499	$ 316	$ 52	$ 2,525	$ 90
Commercial	15,262	11,622	1,644	1	13,541	579
Construction	814	721	92	18	406	23
Second mortgages	473	318	135	14	464	20
Equity lines of credit	293	53	239	10	261	-
Total mortgage loans on real estate	$19,715	$ 15,213	$ 2,426	$ 95	$ 17,197	$ 712
Commercial and industrial loans	1,115	836	-	-	1,388	30
Consumer loans	-	-	-	-	41	-
Total	$20,830	$ 16,049	$ 2,426	$ 95	$ 18,626	$ 742

Impaired Loans by Class

	As of December 31, 2016				For the Year Ended December 31, 2016	
		Recorded Investment				
	Unpaid Principal Balance	Without Valuation Allowance	With Valuation Allowance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
	(in thousands)					
Mortgage loans on real estate:						
Residential 1-4 family	$2,496	$ 1,835	$ 622	$ 75	$ 2,741	$ 119
Commercial	16,193	11,095	4,274	415	11,885	727
Construction	619	528	96	22	496	43
Second mortgages	526	309	141	17	511	25
Equity lines of credit	87	86	-	-	46	3
Total mortgage loans on real estate	$19,921	$ 13,853	$ 5,133	$ 529	$ 15,679	$ 917
Commercial and industrial loans	1,077	-	989	271	827	74
Consumer loans	81	81	-	-	68	1
Total	$21,079	$ 13,934	$ 6,122	$ 800	$ $ 16,574	$ 992

ALLOWANCE FOR LOAN LOSSES

Loans are either individually evaluated for impairment or pooled with like loans and collectively evaluated for impairment. Also, various qualitative factors are applied to each segment of the loan portfolio. The allowance for loan losses is the accumulation of these components. Management's estimate is based on certain observable, historical data and other factors that management believes are most reflective of the underlying credit losses being estimated.

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Management provides an allocated component of the allowance for loans that are individually evaluated for impairment. An allocated allowance is established when the discounted value of expected future cash flows from the impaired loan (or the collateral value or observable market price of the impaired loan) is lower than the carrying value of that loan. This allocation represents the sum of management's estimated losses on each loan.

Loans collectively evaluated for impairment are pooled, with a historical loss rate, based on migration analysis, applied to each pool, segmented by risk grade or days past due, depending on the type of loan. Based on credit risk assessments and management's analysis of qualitative factors, additional loss factors are applied to loan balances. These additional qualitative factors include: economic conditions, trends in growth, loan concentrations, changes in certain loans, changes in underwriting, changes in management and changes in the legal and regulatory environment.

ALLOWANCE FOR LOAN LOSSES BY SEGMENT

The following table presents, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans for the periods presented. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

ALLOWANCE FOR LOAN LOSSES AND RECORDED INVESTMENT IN LOANS
(in thousands)

For the Year Ended December 31, 2017	Commercial	Real Estate - Construction	Real Estate - Mortgage	Consumer	Other	Total
Allowance for Loan Losses:						
Balance at the beginning of period	$ 1,493	$ 846	$5,267	$455	$184	$8,245
Charge-offs	(807)	-	(1,934)	(279)	(267)	(3,287)
Recoveries	37	104	45	56	88	330
Provision for loan losses	1,166	(409)	1,839	1,412	152	4,160
Ending balance	1,889	541	5,217	1,644	157	9,448
Ending balance individually evaluated for impairment	-	18	77	-	-	95
Ending balance collectively evaluated for impairment	1,889	523	5,140	1,644	157	9,353
Ending balance	1,889	541	5,217	1,644	157	9,448
Loan Balances:						
Ending balance individually evaluated for impairment	836	813	16,826	-	-	18,475
Ending balance collectively evaluated for impairment	59,562	26,676	448,405	174,225	11,197	720,065
Ending balance	$ 60,398	$ 27,489	$465,231	$174,225	$11,197	$738,540

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For the Year Ended December 31, 2016	Commercial	Real Estate - Construction	Real Estate - Mortgage	Consumer	Other	Total
Allowance for Loan Losses:						
Balance at the beginning of period	$ 633	$ 985	$5,628	$ 279	$213	$7,738
Charge-offs	(915)	-	(504)	(204)	(147)	(1,770)
Recoveries	79	3	197	28	40	347
Provision for loan losses	1,696	(142)	(54)	352	78	1,930
Ending balance	1,493	846	5,267	455	184	8,245
Ending balance individually evaluated for impairment	271	22	507	-	-	800
Ending balance collectively evaluated for impairment	1,222	824	4,760	455	184	7,445
Ending balance	1,493	846	5,267	455	184	8,245
Loan Balances:						
Ending balance individually evaluated for impairment	989	624	18,362	81	-	20,056
Ending balance collectively evaluated for impairment	53,445	22,492	430,046	58,826	19,017	583,826
Ending balance	$ 54,434	$ 23,116	$448,408	$ 58,907	$19,017	$603,882

CHANGES IN ACCOUNTING METHODOLOGY

Historical loss rates calculated by migration analysis are determined by the performance of a loan over a period of time (the migration period). This migration period can be lengthened or shortened based on management's assessment of the most appropriate length of time over which to analyze losses in the loan portfolio. The Company can also calculate multiple migration periods, allowing management to assess the migration of loans based on more than one starting point.

In the third quarter of 2017, management changed its migration approach for calculating the allowance to better match the length of the current credit cycle. The number of migration periods was changed from four to eight. Each migration period remains at twelve quarters, the length of the migration period used by the Company in prior periods. This change had the result of reducing the calculated provision by $1.2 million for the twelve months ended December 31, 2017. The prior methodology was resulting in distortion between required allocations by segment and the underlying credit metrics for those segments. By increasing the number of migration periods from four to eight, the migration is better able to capture the performance of the portfolio segment over a greater portion of the credit cycle.

The following table represents the effect on the loan loss provision as a result of these changes in methodology. It compares the methodology actually used for the year ended December 31, 2017 to that used in prior periods.

	Calculated Provision Based on Current Methodology	Calculated Provision Based on Prior Methodology	Difference
	(in thousands)		
Portfolio Segment:			
Commercial	$1,166	$ 1,653	$ (487)
Real estate - construction	(409)	(791)	382
Real estate - mortgage	1,839	2,397	(558)

Consumer loans	1,412	1,698	(286)
Other	152	361	(209)
Total	$4,160	$ 5,318	$ (1,158)

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NOTE 5, Other Real Estate Owned (OREO)

The Company holds certain parcels of real estate due to completed foreclosure proceedings on defaulted loans or the closing of former branches. An analysis of the balance in OREO is as follows:

	Years Ended December 31,	
	2017	2016
	(in thousands)	
Balance at beginning of year	$ 2,093	$ 5,290
Transfers to OREO due to foreclosure	-	-
Other additions to foreclosed properties	-	52
Closed branch locations transferred to OREO	-	127
Properties sold	(2,093)	(3,376)
Balance at end of year	$ -	$ 2,093

Other additions to foreclosed properties in the table above are for capital improvements on existing properties.

OREOs are presented net of a valuation allowance for losses. As the fair values of OREOs change, adjustments are made to the recorded investment in the properties through the valuation allowance to ensure that all properties are recorded at the lower of cost or fair value. Properties written down in previous periods can be written back up if a current property valuation warrants the change, though never above the original cost of the property. An analysis of the valuation allowance on OREOs is as follows:

	Years Ended December 31,	
	2017	2016
	(in thousands)	
Balance at beginning of year	$ 1,026	$ 2,549
Additions and write-downs	-	60
Reductions due to sales or increases in value	(1,026)	(1,583)
Balance at end of year	$ -	$ 1,026

Expenses applicable to OREOs include the following:

	Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Net loss (gain) on sales of real estate	$ (18)	$ 94	$ -54
Provision for losses (net write-downs)	-	60	1,011
Operating expenses, net of income (1)	10	160	219
Total Expenses	$ (8)	$ 314	$ 1,176

(1) Included in other operating income and other operating expense on the Consolidated Statements of Operations.

NOTE 6, Premises and Equipment

Premises and equipment consisted of the following at December 31:

	2017	2016
	(in thousands)	
Land	$7,663	$7,663

Buildings	37,944	37,890
Construction in process	137	43
Leasehold improvements	861	852
Furniture, fixtures and equipment	19,675	19,220
	66,280	65,668
Less accumulated depreciation and amortization	29,083	26,344
	$37,197	$39,324

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Depreciation expense for the years ended December 31, 2017, 2016, and 2015 amounted to $2.7 million, $2.7 million, and $2.5 million, respectively.

The Company has noncancellable leases on premises and equipment expiring at various dates, not including extensions, to the year 2020. Certain leases provide for increased annual payments based on increases in real estate taxes and the Consumer Price Index.

The total approximate minimum rental commitment at December 31, 2017 under noncancellable leases is $413 thousand which is due as follows (in thousands):

2018	$178
2019	156
2020	79
Total	$413

The aggregate rental expense of premises and equipment was $345 thousand,$239 thousand, and $270 thousand for December 31, 2017, 2016, and 2015, respectively.

NOTE 7, Low-Income Housing Tax Credits

The Company was invested in four separate housing equity funds at both December 31, 2017 and December 31, 2016. The general purpose of these funds is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia, develop and implement strategies to maintain projects as low-income housing, deliver Federal Low Income Housing Credits to investors, allocate tax losses and other possible tax benefits to investors, and preserve and protect project assets.

The investments in these funds were recorded as other assets on the consolidated balance sheets and were $3.5 million and $3.9 million at December 31, 2017 and December 31, 2016, respectively. The expected terms of these investments and the related tax benefits run through 2033. Additional committed capital calls expected for the funds totaled $1.1 million and $2.5 million at December 31, 2017 and December 31, 2016, respectively, and are recorded in accrued expenses and other liabilities on the corresponding consolidated balance sheets. During the years ended December 31, 2017, 2016, and 2015, the Company recognized amortization expense of $340 thousand, $300 thousand, and $219 thousand, respectively, which was included within noninterest expense on the consolidated statements of operations.

The table below summarizes the tax credits and other tax benefits recognized by the Company and related to these investments, as of the periods indicated:

	Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Tax credits received	$ 412	$ 384	$ (291)
Tax benefit from losses	116	102	74
Total tax benefit	$ 528	$ 486	$ 365

NOTE 8, Deposits

The aggregate amount of time deposits in denominations of $250 thousand or more at December 31, 2017 and 2016 was $39.9 million and $38.1 million, respectively. As of December 31, 2017, no single customer relationship exceeded 5 percent of total deposits.

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At December 31, 2017 the scheduled maturities of time deposits (in thousands) are as follows:

2018	$80,198
2019	36,737
2020	52,384
2021	24,485
2022	19,021
Total	$212,825

NOTE 9, Short Term and Long Term Borrowings

Short-Term Borrowings

The Company classifies all borrowings that will mature within a year from the date on which the Company enters into them as short-term borrowings. Short-term borrowings sources consist of federal funds purchased, overnight repurchase agreements (which are secured transactions with customers that generally mature within one to four days), and advances from the FHLB.

The Company maintains federal funds lines with several correspondent banks to address short-term borrowing needs. At December 31, 2017 and December 31, 2016 the remaining credit available from these lines totaled $45.0 million and $55.0 million, respectively. The Company has a collateral dependent line of credit with the FHLB with remaining credit availability of $217.0 million and $270.0 million as of December 31, 2017 and December 31, 2016, respectively.

The following table presents total short-term borrowings as of the dates indicated (dollars in thousands):

	December 31, 2017	December 31, 2016
Federal funds purchased	$ 10,000	$ -
Overnight repurchase agreements	20,693	18,704
Federal Home Loan Bank Advances	47,500	-
Total short-term borrowings	$ 78,193	$ 18,704
Maximum month-end outstanding balance	$ 79,819	$ 68,864
Average outstanding balance during the period	$ 53,165	$ 39,364
Average interest rate during the period	0.72 %	0.59 %
Average interest rate at end of period	1.27 %	0.10 %

Long-Term Borrowings

At December 31, 2017, the Company had the following long-term FHLB advances outstanding (dollars in thousands).

Long-term Type	Interest Rate	Maturity Date	Advance Amount
Fixed Rate Hybrid	1.54 %	2/28/2019	$ 10,000
Fixed Rate Hybrid	1.90 %	11/15/2019	10,000
			$ 20,000

There were no long-term borrowings at December 31, 2016.

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NOTE 10, Share-Based Compensation

The Company has adopted an employee stock purchase plan and offers share-based compensation through its equity compensation plan. Share-based compensation arrangements may include stock options, restricted and unrestricted stock awards, restricted stock units, performance units and stock appreciation rights. Accounting standards require all share-based payments to employees to be valued using a fair value method on the date of grant and to be expensed based on that fair value over the applicable vesting period. The Company accounts for forfeitures during the vesting period as they occur.

The Company's 1998 Stock Option Plan, pursuant to which stock options could be granted to key employees and non-employee directors, expired on March 9, 2008. Stock options that were outstanding on March 9, 2008 remained outstanding in accordance with their terms, but no new awards could be granted under the plan after March 9, 2008. At December 31, 2017, no options to purchase shares of common stock granted under the stock option plan remain outstanding.

Stock option activity for the year ended December 31, 2017 is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, January 1, 2017	60,605	$ 20.05		
Granted	-	-		
Exercised	(58,105)	20.05		
Canceled or expired	(2,500)	20.05		
Options outstanding, December 31, 2017	-	$ -	-	$ -
Options exercisable, December 31, 2017	-	$ -	-	$ -

During 2017 and 2016, the Company received $1.3 million and $25 thousand, respectively, from the exercise of stock options.

No options were granted during the years ended December 31, 2017 or December 31, 2016. As of December 31, 2017 and December 31, 2016, all outstanding stock options were fully vested and there was no unrecognized stock-based compensation expense.

The 2016 Incentive Stock Plan (the Incentive Stock Plan) permits the issuance of up to 300,000 shares of common stock for awards to key employees and non-employee directors of the Company and its subsidiaries in the form of stock options, restricted stock, restricted stock units, stock appreciation rights, stock awards and performance units. The Company did not award any equity compensation under the Incentive Stock Plan during 2016.

Restricted stock activity for the year ended December 31, 2017 is summarized below.

	Shares	Weighted Average Grant Date Fair Value
Nonvested, January 1, 2017	-	$ -

Issued	2,245	33.60
Vested	-	-
Forfeited	-	-
Nonvested, December 31, 2017	2,245	$ 33.60

The weighted average period over which nonvested awards are expected to be recognized in compensation expense is two years.

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The fair value of restricted stock granted during the year ended December 31, 2017 was $75 thousand.

The remaining unrecognized compensation expense for the shares granted during the year ended December 31, 2017 totaled $58 thousand as of December 31, 2017.

Stock-based compensation expense was $17 thousand for the year ended December 31, 2017. There was no stock compensation expense in 2016.

Under the Company's Employee Stock Purchase Plan (ESPP), substantially all employees of the Company and its subsidiaries can authorize a specific payroll deduction from their base compensation for the periodic purchase of the Company's common stock. Shares of stock are issued quarterly at a discount to the market price of the Company's stock on the day of purchase, which can range from 0-15% and for 2017 and 2016 was set at 5%.

Total stock purchases under the ESPP amounted to 3,548 shares during 2017 and 999 shares during 2016. At December 31, 2017, the Company had 245,453 remaining shares reserved for issuance under this plan.

NOTE 11, Stockholders' Equity and Earnings per Common Share

STOCKHOLDERS' EQUITY--OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents information on amounts reclassified out of accumulated other comprehensive Income (loss), by category, during the periods indicated:

	Years Ended December 31,			
	2017	2016	2015	Affected Line Item on Consolidated Statement of Income
	(in thousands)			
Available-for-sale securities				
Realized gains (losses) on sales of securities	$ 96	$ 522	$ 76	Gain (loss) on sale of available-for-sale securities, net
Tax effect	33	177	26	Income tax expense (benefit)
	$ 63	$ 345	$ 50	
Defined-benefit pension plan				
Amortization of actuarial loss (1)	$ (490)	$ (504)	$ (390)	Salaries and employee benefits
Tax effect	(167)	(171)	(133)	Income tax expense (benefit)
	$ (323)	$ (333)	$ (257)	
Total reclassifications for the period	$ (260)	$ 12	$ (207)	

(1) This accumulated other comprehensive loss component is included in the computation of net periodic pension cost (see Note 14. Pension Plan and 401(k) Plan for additional details).

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The following table presents the changes in accumulated other comprehensive Income (loss), by category, net of tax, for the periods indicated:

	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrealized Losses on Securities Transferred from Available-for-Sale to Held-to-Maturity (1)	Defined Benefit Pension Plans (2)	Accumulated Other Comprehensive Income (Loss)
	(in thousands)			
Balance at December 31, 2014	$(78)	$ (3,386)	$ (2,429)	$ (5,893)
Net change for the year ended December 31, 2015	(498)	3,386	(157)	2,731
Balance at December 31, 2015	(576)	-	(2,586)	(3,162)
Net change for the year ended December 31, 2016	(1,163)	-	117	(1,046)
Balance at December 31, 2016	$(1,739)	$ -	$ (2,469)	$ (4,208)
Net change for the year ended December 31, 2017	1,032	-	2,469	3,501
Balance at December 31, 2017	$(707)	$ -	$ -	$ (707)

(1) Net change for the year ended December 31, 2015 represents reclassification due to the transfer of securities held-to-maturity to available-for-sale.
(2) Net change reflects termination and settlement of the pension plan during year ended December 31, 2017.

The following table presents the change in each component of other comprehensive income, net of tax on a pre-tax and after-tax basis for the periods indicated.

	Year Ended December 31, 2017		
	Pretax	Tax Effect	Net-of-Tax
	(in thousands)		
Unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	$ 1,659	$ 564	$ 1,095
Reclassification adjustment for gains recognized in income	(96)	(33)	(63)
Net unrealized gains on securities	1,563	531	1,032
Defined benefit pension plans:			
Plan termination, settlement and net amortization	3,741	1,272	2,469
Total change in accumulated other comprehensive income	$ 5,304	$ 1,803	$ 3,501

	Year Ended December 31, 2016		
	Pretax	Tax Effect	Net-of-Tax
	(in thousands)		
Unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during the period	$ (1,240)	$ (422)	$ (818)

Reclassification adjustment for gains recognized in income	(522)	(177)	(345)
Net change	(1,762)	(599)	(1,163)
Defined benefit pension plans:			
Net actuarial loss for the period	(327)	(111)	(216)
Amortization of actuarial loss from prior period	504	171	333
Net change	177	60	117
Total change in accumulated other comprehensive loss	$ (1,585)	$ (539)	$ (1,046)

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	Year Ended December 31, 2015		
	Pretax	Tax Effect	Net-of-Tax
	(in thousands)		
Unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during the period	$ (679)	$ (231)	$ (448)
Reclassification adjustment for gains recognized in income	(76)	(26)	(50)
Net change	(755)	(257)	(498)
Unrealized losses on securities transferred from available-for-sale to held-to-maturity:			
Elimination upon transfer back to available-for-sale	4,197	1,427	2,770
Amortization	934	318	616
Net change	5,131	1,745	3,386
Defined benefit pension plans:			
Net actuarial loss for the period	(627)	(213)	(414)
Amortization of actuarial loss from prior period	390	133	257
Net change	(237)	(80)	(157)
Total change in accumulated other comprehensive loss	$ 4,139	$ 1,408	$ 2,731

EARNINGS PER COMMON SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period, including the effect of dilutive potential common shares attributable to outstanding stock options.

The following is a reconciliation of the denominators of the basic and diluted EPS computations for the years ended December 31, 2017, 2016, and 2015:

	Net Income Available to Common Shareholders (Numerator)	Weighted Average Common Shares (Denominator)	Per Share Amount
	(in thousands except per share data)		
Year Ended December 31, 2017			
Net income, basic	$ (29)	4,991	$ (0.01)
Potentially dilutive common shares - stock options	-	-	-
Potentially dilutive common shares - employee stock purchase program	-	-	-
Diluted	$ (29)	4,991	$ (0.01)
Year Ended December 31, 2016			
Net income, basic	$ 3,797	4,959	$ 0.77
Potentially dilutive common shares - stock options	-	2	-
Potentially dilutive common shares - employee stock purchase program	-	-	-
Diluted	$ 3,797	4,961	$ 0.77

Year Ended December 31, 2015			
Net income, basic	$ 3,634	4,959	$ 0.73
Potentially dilutive common shares - stock options	-	-	-
Potentially dilutive common shares - employee stock purchase program	-	-	-
Diluted	$ 3,634	4,959	$ 0.73

The Company had no antidilutive shares in 2017. The Company did not include an average of 52 thousand and 76 thousand potential common shares attributable to outstanding stock options in the diluted earnings per share calculation for 2016 and 2015, respectively, because they were antidilutive. Non-vested restricted common shares, which carry all rights and privileges of a common share with respect to the stock, including the right to vote, were included in the basic and diluted per common share calculations.

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NOTE 12, Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal stockholders, executive officers and directors and their affiliates. These loans were made on substantially the same terms and conditions, including interest rates, collateral and repayment terms, as those prevailing at the same time for comparable transactions with unrelated persons, and, in the opinion of management and the Company's board of directors, do not involve more than normal risk or present other unfavorable features. None of the principal stockholders, executive officers or directors had direct or indirect loans exceeding 10 percent of stockholders' equity at December 31, 2017.

Annual activity consisted of the following:

	2017	2016
	(in thousands)	
Balance, beginning of year	$4,354	$4,429
Additions	351	110
Reductions	(418)	(185)
Balance, end of year	$4,287	$4,354

Deposits from related parties held by the Company at December 31, 2017 and 2016 amounted to $12.5 million and $13.8 million, respectively.

NOTE 13, Income Taxes

On December 22, 2017, the Tax Act was signed into law. Among other things, the Tax Act permanently reduced the corporate tax rate to 21% from the prior maximum rate of 35%, effective for tax years including or commencing January 1, 2018. As a result of the reduction of the corporate tax rate to 21%, companies are required to revalue their deferred tax assets and liabilities as of the date of enactment, with resulting tax effects accounted for in the fourth quarter of 2017. The Company continues to evaluate the impact on its 2017 tax expense of the revaluation required by the lower corporate tax rate implemented by the Tax Act. During the fourth quarter of 2017, the Company recorded $1.2 million in additional tax expense based on the Company's preliminary analysis of the impact of the Tax Act. The Company's preliminary estimate of the impact of the Tax Act is based on currently available information and interpretation of its provisions. The actual results may differ from the current estimate due to, among other things, further guidance that may be issued by U.S. tax authorities or regulatory bodies and/or changes in interpretations and assumptions that the Company has preliminarily made. The Company's evaluation of the impact of the Tax Act is subject to refinement for up to one year after enactment per the guidance under ASC 740, Accounting for Uncertainty in Income Taxes, and the Securities and Exchange Commission's Staff Accounting Bulletin 118.

The components of income tax expense for the current and prior year-ends are as follows:

	2017	2016	2015
	(in thousands)		
Current income tax expense	$20	$179	$281
Deferred income tax benefit	(117)	(19)	(227)
Reported income tax expense (benefit)	$(97)	$160	$54

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A reconciliation of the expected federal income tax expense on income before income taxes with the reported income tax expense for the same periods follows:

	Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Expected tax expense (34%)	$ (43)	$ 1,345	$ 1,254
Interest expense on tax-exempt assets	23	15	22
Low-income housing tax credits	(412)	(384)	(274)
Tax-exempt interest	(628)	(608)	(654)
Bank-owned life insurance	(263)	(270)	(301)
Impact of Tax Act	1,221	-	-
Other, net	5	62	7
Reported income tax expense	$ (97)	$ 160	$ 54

The effective tax rates for 2017, 2016, and 2015 were -77.0%, 4.0%, and 1.5%, respectively.

The components of the net deferred tax asset, included in other assets, are as follows:

	December 31,	
	2017	2016
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 1,984	$ 2,803
Interest on nonaccrual loans	82	71
Other real estate owned	-	349
Pension - other comprehensive income	-	1,272
Bank owned life insurance benefit	55	94
Charitable contributions carried forward	2	1
Net unrealized loss on securities available-for-sale	225	896
Unexercised nonqualified options	-	36
Alternative minimum tax	1,344	1,019
Deferred benefits and compensation	139	256
Other	179	89
	$ 4,010	$ 6,886
Deferred tax liabilities:		
Depreciation	$ (404)	$ (822)
Accretion of discounts on securities	-	(1)
Deferred loan fees and costs	(295)	(325)
Pension	-	(740)
	(699)	(1,888)
Net deferred tax assets	$ 3,311	$ 4,998

The Company files income tax returns in the U.S. federal jurisdiction and the Commonwealth of Virginia. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2014.

NOTE 14, Pension Plan and 401(k) Plan

PENSION PLAN

The Company previously provided pension benefits for eligible participants through a non-contributory defined-benefit pension plan. The plan was frozen effective September 30, 2006; therefore no additional participants have been or will be added to the plan since such date.

On November 23, 2016 the Company's Board of Directors voted to terminate the pension plan, effective January 31, 2017. The Company completed the transfer of all liabilities and administrative responsibilities under the Plan in the fourth quarter of 2017 which resulted in a nonrecurring pretax termination charge of $3.4 million in 2017.

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Information pertaining to the activity in the plan, using a measurement date of December 31, is as follows:

	Years ended December 31,	
	2017	2016
	(in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$ 7,062	$ 7,039
Service cost	-	-
Interest cost	268	279
Benefits paid	(6,977)	(461)
Actuarial (gain) loss	(353)	205
Benefit obligation at end of year	$ -	$ 7,062
Change in plan assets		
Fair value of plan assets at beginning of year	$ 5,499	$ 5,691
Actual return on plan assets	(76)	269
Employer contribution	1,554	-
Benefits paid	(6,977)	(461)
Fair value of plan assets at end of year	$ -	$ 5,499
Funded Status at end of year	$ -	$ (1,563)

	December 31,	
	2017	2016
	(in thousands)	
Amounts recognized in the consolidated balance sheets		
Accrued pension liability	$ -	$ (1,563)
Amounts recognized in accumulated other comprehensive (income) loss		
Loss	$ -	$ 3,741
Deferred taxes	-	(1,272)
Net loss	$ -	$ 2,469
Accumulated benefit obligation	$ -	$ 7,062

Assumptions used to determine the benefit obligations at December 31,	2017	2016
Discount rate	0.00%	3.86%

	During the years ending December 31,			
Weighted-average assumptions used to determine net periodic pension cost	2017		2016	
Discount rate	3.86	%	4.03	%
Expected long-term rate of return on plan assets	7.00	%	7.00	%

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	Years ended December 31,		
	2017	2016	2015
Components of net periodic pension cost	(in thousands)		
Interest cost	$ 268	$ 279	$ 260
Expected return on plan assets	(376)	(391)	(376)
Amortization of unrecognized loss	490	504	390
Preliminary net periodic pension cost	382	392	274
Settlement/curtailment expense	3,350	-	-
Net periodic pension cost	$ 3,732	$ 392	$ 274
Components of other amounts recognized in other comprehensive income (loss)			
Net actuarial (gain) loss	$ 99	$ 327	$ 627
Settlement loss	(3,350)	-	
Amortization of actuarial loss	(490)	(504)	(390)
Total recognized in other comprehensive income (loss)	$ (3,741)	$ (177)	$ 237
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ (9)	$ 215	$ 511

Fair value is discussed in detail in Note 16. Upon termination of the Company's pension plan in the fourth quarter of 2017 all assets under the plan were liquidated. The fair value of the pension plan assets by asset category were as follows at December 31, 2016:

Assets at Fair Value as of December 31, 2016

Asset Category	Level 1	Level 2	Level 3	Total
	(in thousands)			
Money market funds	$ 2,839	$ -	$ -	$ 2,839
Mutual funds	-	-	-	-
Common stock	1,129	-	-	1,129
Corporate bonds	-	1,472	-	1,472
Partnerships	-	59	-	59
Total assets at fair value	$ 3,968	$ 1,531	$ -	$ 5,499

The Company made no contributions to the pension plan in 2016 or in 2017, until the plan was terminated.

401(K) PLAN

The Company has a 401(k) Plan in which substantially all employees are eligible to participate. Employees may contribute to the plan subject to certain limits based on federal tax laws. The Company makes matching contributions equal to 100 percent of the first 4 percent of an employee's compensation contributed to the plan. Matching contributions vest to the employee immediately. The Company may make profit sharing contributions to the plan as determined by the Board of Directors. Profit sharing contributions vest to the employee over a six-year period. For the years ended December 31, 2017, 2016, and 2015, expense attributable to the plan amounted to $536 thousand, $523 thousand, and $519 thousand, respectively.

NOTE 15, Commitments and Contingencies

CREDIT-RELATED FINANCIAL INSTRUMENTS

The Company is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying

degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making such commitments as it does for on-balance-sheet instruments.

The following financial instruments whose contract amounts represent credit risk were outstanding at December 31:

	2017	2016
	(in thousands)	
Commitments to extend credit:		
Home equity lines of credit	$56,486	$47,243
Commercial real estate, construction and development loans committed but not funded	19,526	15,948
Other lines of credit (principally commercial)	68,101	81,966
Total	$144,113	$145,157
Letters of credit	$3,331	$3,597

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Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extensions of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are not collateralized and usually do not contain a specified maturity date, and ultimately may or may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year, with the exception of one letter of credit which expires in 2020. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds various collateral supporting those commitments for which collateral is deemed necessary.

LEGAL CONTINGENCIES

Various legal claims arise from time to time in the normal course of business, which, in the opinion of management, will not have a material effect on the Company's Consolidated Financial Statements.

NOTE 16, Fair Value Measurements

DETERMINATION OF FAIR VALUE

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the "Fair Value Measurements and Disclosures" topics of FASB ASU 2010-06 and FASB ASU 2011-04, the fair value of a financial instrument is the price that would be received in the sale of an asset or transfer of a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimate of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value can be a reasonable point within a range that is most representative of fair value under current market conditions.

In estimating the fair value of assets and liabilities, the Company relies mainly on two models. The first model, used by the Company's bond accounting service provider, determines the fair value of securities. Securities are priced based on an evaluation of observable market data, including benchmark yield curves, reported trades, broker/dealer quotes, and issuer spreads. Pricing is also impacted by credit information about the issuer, perceived market movements, and

current news events impacting the individual sectors. For assets other than securities and for all liabilities, fair value is determined using the Company's asset/liability modeling software. The software uses current yields, anticipated yield changes, and estimated duration of assets and liabilities to calculate fair value.

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In accordance with ASC 820, "Fair Value Measurements and Disclosures," the Company groups its financial assets and financial liabilities generally measured at fair value into 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.

Level 1 –	Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
Level 2 –	Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
Level 3 –	Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

An instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

Debt and equity securities with readily determinable fair values that are classified as "available-for-sale" are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Company's available-for-sale securities are considered to be Level 2 securities.

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The following table presents the balances of certain assets measured at fair value on a recurring basis as of the dates indicated:

Description	Balance (in thousands)	Fair Value Measurements at December 31, 2017 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities				
Obligations of U.S. Government agencies	$9,435	$ -	$ 9,435	$ -
Obligations of state and political subdivisions	64,765	-	64,765	-
Mortgage-backed securities	74,296	-	74,296	-
Money market investments	1,194	-	1,194	-
Corporate bonds	7,234	-	7,234	-
Other marketable equity securities	197	-	197	-
Total available-for-sale securities	$157,121	$ -	$ 157,121	$ -

Description	Balance (in thousands)	Fair Value Measurements at December 31, 2016 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities				
U.S. Treasury securities	$20,000	$ -	$ 20,000	$ -
Obligations of U.S. Government agencies	9,195	-	9,195	-
Obligations of state and political subdivisions	77,987	-	77,987	-
Mortgage-backed securities	83,694	-	83,694	-
Money market investments	647	-	647	-
Corporate bonds	7,678	-	7,678	-
Other marketable equity securities	164	-	164	-
Total available-for-sale securities	$199,365	$ -	$ 199,365	$ -

ASSETS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

Under certain circumstances, adjustments are made to the fair value for assets and liabilities although they are not measured at fair value on an ongoing basis.

Impaired loans

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of fair value and loss associated with impaired loans can be based on the observable market price of the loan, the fair value of the collateral securing the loan, or the present value of the loan's expected future cash flows, discounted at the loan's effective interest rate. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable, with the vast majority of the collateral in real estate.

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The value of real estate collateral is determined utilizing an income, market, or cost valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company. In the case of loans with lower balances, the Company may obtain a real estate evaluation instead of an appraisal. Evaluations utilize many of the same techniques as appraisals, and are typically performed by independent appraisers. Once received, appraisals and evaluations are reviewed by trained staff independent of the lending function to verify consistency and reasonability. Appraisals and evaluations are based on significant unobservable inputs, including but not limited to: adjustments made to comparable properties, judgments about the condition of the subject property, the availability and suitability of comparable properties, capitalization rates, projected income of the subject or comparable properties, vacancy rates, projected depreciation rates, and the state of the local and regional economy. The Company may also elect to make additional reductions in the collateral value based on management's best judgment, which represents another source of unobservable inputs. Because of the subjective nature of collateral valuation, impaired loans are considered Level 3.

Impaired loans may be secured by collateral other than real estate. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level 3). If a loan is not collateral-dependent, its impairment may be measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate. Because the loan is discounted at its effective rate of interest, rather than at a market rate, the loan is not considered to be held at fair value and is not included in the tables below. Collateral-dependent impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as part of the provision for loan losses on the Consolidated Statements of Operations.

Other Real Estate Owned (OREO)

Loans are transferred to OREO when the collateral securing them is foreclosed on. The measurement of loss associated with OREOs is based on the fair value of the collateral compared to the unpaid loan balance and anticipated costs to sell the property. If there is a contract for the sale of a property, and management reasonably believes the transaction will be consummated in accordance with the terms of the contract, fair value is based on the sale price in that contract (Level 1). If management has recent information about the sale of identical properties, such as when selling multiple condominium units on the same property, the remaining units would be valued based on the observed market data (Level 2). Lacking either a contract or such recent data, management would obtain an appraisal or evaluation of the value of the collateral as discussed above under Impaired Loans (Level 3). After the asset has been booked, a new appraisal or evaluation is obtained when management has reason to believe the fair value of the property may have changed and no later than two years after the last appraisal or evaluation was received. Any fair value adjustments to OREOs below the original book value are recorded in the period incurred and expensed against current earnings.

Loans Held For Sale

Loans held for sale are carried at the lower of cost or fair value. These loans currently consist of residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). Gains and losses on the sale of loans are recorded within the mortgage segment and are reported on a separate line item on the Company's Consolidated Statements of Income.

The following table presents the assets carried on the consolidated balance sheets for which a nonrecurring change in fair value has been recorded. Assets are shown by class of loan and by level in the fair value hierarchy, as of the dates indicated. Certain impaired loans are valued by the present value of the loan's expected future cash flows, discounted at the loan's effective interest rate. These loans are not carried on the consolidated balance sheets at fair value and, as such, are not included in the table below. Former branch sites are carried at the lower of cost or market. Those carried at cost are not included in the table below.

	Carrying Value at December 31, 2017 Using			
Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Impaired loans				
Mortgage loans on real estate:				
Residential 1-4 family	$264	$ -	$ -	$ 264
Construction	74	-	-	74
Equity lines of credit	229	-	-	229
Total	$567	$ -	$ -	$ 567
Loans held for sale	$779	$ -	$ 779	$ -

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Description	Fair Value	Carrying Value at December 31, 2016 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Impaired loans				
Mortgage loans on real estate:				
Residential 1-4 family	$400	$ -	$ -	$ 400
Commercial	1,483	-	-	1,483
Construction	74	-	-	74
Total mortgage loans on real estate	1,957	-	-	1,957
Commercial loans	718	-	-	718
Total	$2,675	$ -	$ -	$ 1,957
Other real estate owned				
Construction	$940	$ -	$ -	$ 940
Total	$940	$ -	$ -	$ 940

The following table displays quantitative information about Level 3 Fair Value Measurements as of the dates indicated:

Quantitative Information About Level 3 Fair Value Measurements

Description	Fair Value at December 31, 2017 (dollars in thousands)	Valuation Techniques	Unobservable Input	Range (Average)	
Impaired loans					
Residential 1-4 family real estate	$ 264	Market comparables	Selling costs	7.25	%
			Liquidation discount	0.00% - 4.00% (2.91	%)
Construction	74	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00	%
Equity lines of credit	229	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00	%

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Quantitative Information About Level 3 Fair Value Measurements

Description	Fair Value at December 31, 2016 (dollars in thousands)	Valuation Techniques	Unobservable Input	Range (Average)
Impaired loans				
Residential 1-4 family real estate	$ 400	Market comparables	Selling costs	7.25 %
			Liquidation discount	4.00 %
Commercial real estate	1,483	Market comparables	Selling costs	7.25 %
			Liquidation discount	4.00 %
Construction	74	Market comparables	Selling costs	7.25 %
			Liquidation discount	4.00 %
Commercial loans	718	Market comparables	Selling costs	0.00 %
			Liquidation discount	0.00% - 38.58% (32.40 %)
Other real estate owned				
Construction	940	Market comparables	Selling costs	7.25 %
			Liquidation discount	0.00 %

FASB ASC 825, "Financial Instruments," requires disclosure about fair value of financial instruments and excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company's assets.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments not discussed above:

CASH AND CASH EQUIVALENTS

The carrying amounts of cash and short-term instruments, including interest-bearing due from banks, approximate fair values.

RESTRICTED SECURITIES

The restricted security category is comprised of FHLB and Federal Reserve Bank stock. These stocks are classified as restricted securities because their ownership is restricted to certain types of entities and they lack a market. When the FHLB or Federal Reserve Bank repurchases stock, they repurchase at the stock's book value. Therefore, the carrying amounts of restricted securities approximate fair value.

LOANS RECEIVABLE

The fair value of a loan is based on its interest rate in relation to its risk profile, in comparison to what an investor could earn on a different investment with a similar risk profile. Variations in risk tolerance between lenders, and thus in risk pricing, can result in the same loan being priced differently at different institutions. A bank's experience with the type of lending (such as commercial real estate) can also impact its assessment of the riskiness of a loan. A comprehensive picture of competitors' rates in relation to borrower risk profiles is not available. Since the rate and risk profile are the primary factors in determining the fair value of a loan, both of which are unobservable in the market, the Company classifies loans as Level 3 in the fair value hierarchy. The Company uses a model which estimates market value based on the loan's interest rate (regardless of its risk level) and rates for debt of similar maturities where market data is available. Fair values for non-performing loans are estimated as described above.

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BANK-OWNED LIFE INSURANCE

Bank-owned life insurance represents insurance policies on certain current and former officers of the Company. The cash value of the policies is estimated using information provided by the insurance carrier. The insurance carrier uses actuarial data to estimate the value of each policy, based on the age and health of the insured relative to other individuals about whom the carrier has information. Health information can be broken down into quantitative, observable inputs, such as smoking habits, blood pressure, and weight, which, along with the insured's age, can be compared to observable data the insurance carrier has available. The carrier can then estimate the cash value of each policy. Since the cash value represents the amount of cash the Company would receive when the policies are paid, the cash value closely approximates the fair value of the policies. Accordingly, bank-owned life insurance is classified as Level 2.

DEPOSIT LIABILITIES

The fair value of demand deposits, savings and certain money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. Information about the rates paid by other institutions for deposits of similar terms is readily available, and rates are mainly influenced by the term of the deposit itself. As a result, fair value calculations are based on observable inputs, and are classified as Level 2.

SHORT-TERM BORROWINGS

The carrying amounts of federal funds purchased, overnight repurchase agreements, and other short-term borrowings maturing within 90 days approximate their fair values. Since the contractual terms of these borrowings provide all information necessary to calculate the amounts that will be due at maturity, these liabilities are classified as Level 2.

LONG-TERM BORROWINGS

The fair values of the Company's long-term borrowings are estimated based on the current cost to repay the debt in full, discounted to current values and including any prepayment penalties that may apply. As the contractual terms of the borrowing provide all the necessary inputs for this calculation, long-term borrowings are classified as Level 2.

ACCRUED INTEREST

The calculation of accrued interest is based on readily observable information, such as the rate and term of the underlying asset or liability. Since these amounts are expected to be realized quickly (generally within 30 to 90 days), the carrying value approximates fair value and is classified as Level 2.

COMMITMENTS TO EXTEND CREDIT AND IRREVOCABLE LETTERS OF CREDIT

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit-worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At December 31, 2017 and December 31, 2016, the fair value of fees charged for loan commitments and irrevocable letters of credit was immaterial.

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The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments as of the dates indicated are as follows:

Description	Carrying Value	Fair Value Measurements at December 31, 2017 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets				
Cash and cash equivalents	$14,412	$14,412	$ -	$ -
Securities available-for-sale	157,121	-	157,121	-
Restricted securities	3,846	-	3,846	-
Loans held for sale	779	-	779	-
Loans, net of allowances for loan losses	729,092	-	-	722,464
Bank owned life insurance	25,981	-	25,981	-
Accrued interest receivable	3,254	-	3,254	-
Liabilities				
Deposits	$783,594	$-	$ 782,539	$ -
Federal funds purchased	10,000	-	10,000	-
Overnight repurchase agreements	20,693	-	20,693	-
Federal Home Loan Bank advances	67,500	-	67,329	-
Accrued interest payable	360	-	360	-

Description	Carrying Value	Fair Value Measurements at December 31, 2016 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets				
Cash and cash equivalents	$25,854	$ 25,854	$ -	$ -
Securities available-for-sale	199,365	-	199,365	-
Restricted securities	970	-	970	-
Loans, net of allowances for loan losses	595,637	-	-	594,190
Bank owned life insurance	25,206	-	25,206	-
Accrued interest receivable	3,189	-	3,189	-

Liabilities				
Deposits	$784,502	$ -	$ 783,450	$ -
Overnight repurchase agreements	18,704	-	18,704	-
Accrued interest payable	228	-	228	-

NOTE 17, Regulatory Matters

The Company (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 cause certain mandatory and possibly additional discretionary actions to be initiated by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification 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.

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Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1, and common equity tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. The terms Tier 1 and common equity tier 1 capital, risk-weighted assets and average assets, as used in this note, are as defined in the applicable regulations. Management believes, as of December 31, 2017 and 2016, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

In July 2013, the Federal Reserve issued final rules to include technical changes to its market risk capital rules to align them with the Basel III regulatory capital framework and meet certain requirements of the Dodd-Frank Act. Effective January 1, 2015, the final rules require the Bank to comply with the following minimum capital ratios: (i) a new common equity Tier 1 capital (CET1) ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets (increased from the prior requirement); (iii) a total capital ratio of 8.0% of risk-weighted assets (unchanged from the prior requirement); and (iv) a leverage ratio of 4.0% of total assets (unchanged from the prior requirement). The Basel III Final Rules establish a capital conservation buffer of 2.5%, which is added to the 4.5% CET1 to risk-weighted assets to increase the ratio to at least 7%. The Basel III Final Rules also establish risk weighting that applied to many classes of assets held by community banks, importantly including applying higher risk weightings to certain commercial real estate loans. The Basel III Final Rules became effective January 1, 2015 and the Basel III Final Rules capital conservation buffer will be phased in from 2015 to 2019.

When fully phased in, the Basel III Final Rules require banks to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%), (ii) a minimum ratio of Tier 1 captial to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total captial ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter).

As of December 31, 2017, the most recent notification from the Comptroller categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, common equity tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Company's and the Bank's actual capital amounts and ratios as of December 31, 2017 and 2016 are also presented in the table.

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	Capital		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
December 31, 2017:						
Total Capital to Risk Weighted Assets:						
Consolidated	$106,029	12.28%	$69,055	8.00%	N/A	N/A
Old Point National Bank	97,194	11.30%	68,803	8.00%	$86,004	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	96,474	11.18%	51,791	6.00%	N/A	N/A
Old Point National Bank	87,639	10.19%	51,602	6.00%	68,803	8.00%
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Consolidated	96,474	11.18%	38,843	4.50%	N/A	N/A
Old Point National Bank	87,639	10.19%	38,702	4.50%	55,902	6.50%
Tier 1 Capital to Average Assets:						
Consolidated	96,474	9.98%	38,686	4.00%	N/A	N/A
Old Point National Bank	87,639	9.09%	38,575	4.00%	48,218	5.00%
December 31, 2016:						
Total Capital to Risk Weighted Assets:						
Consolidated	$106,443	14.51%	$58,678	8.00%	N/A	N/A
Old Point National Bank	98,237	13.47%	58,350	8.00%	$72,938	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	98,198	13.39%	44,009	6.00%	N/A	N/A
Old Point National Bank	89,992	12.34%	43,763	6.00%	58,350	8.00%
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Consolidated	98,198	13.39%	33,007	4.50%	N/A	N/A
Old Point National Bank	89,992	12.34%	32,822	4.50%	47,410	6.50%
Tier 1 Capital to Average Assets:						
Consolidated	98,198	10.68%	36,768	4.00%	N/A	N/A
Old Point National Bank	89,992	9.85%	36,549	4.00%	45,686	5.00%

The approval of the Comptroller is required if the total of all dividends declared by a national bank in any calendar year exceeds the bank's net profits for that year combined with its retained net profits for the preceding two calendar years. Under this formula, the Bank and Trust can distribute as dividends to the Company in 2018, without approval of the Comptroller, $388 thousand (Trust only) plus an additional amount equal to the Bank's and Trust's retained net profits for 2018 up to the date of any dividend declaration.

NOTE 18, Segment Reporting

The Company operates in a decentralized fashion in three principal business segments: the Bank, the Trust, and the Parent. Revenues from the Bank's operations consist primarily of interest earned on loans and investment securities and service charges on deposit accounts. Trust's operating revenues consist principally of income from fiduciary and asset management fees. The Parent company's revenues are mainly interest and dividends received from the Bank and Trust companies.
The Company has no other segments.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each segment appeals to different markets and, accordingly, requires different technologies and marketing strategies.

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Information about reportable segments, and reconciliation of such information to the Consolidated Financial Statements as of and for the years ended December 31 follows:

2017	Bank	Trust	Unconsolidated Parent	Eliminations	Consolidated
	(in thousands)				
Revenues					
Interest and dividend income	$32,861	$71	$ 667	$ (665)	$ 32,934
Fiduciary and asset management fees	-	3,786	-	-	3,786
Other income	9,389	944	200	(261)	10,272
Total operating income	42,250	4,801	867	(926)	46,992
Expenses					
Interest expense	3,010	-	-	2	3,012
Provision for loan losses	4,160	-	-	-	4,160
Salaries and employee benefits	20,968	2,800	445	-	24,213
Other expenses	14,109	1,075	811	(262)	15,733
Total operating expenses	42,247	3,875	1,256	(260)	47,118
Income (loss) before taxes	3	926	(389)	(666)	(126)
Income tax expense (benefit)	(65)	328	(360)	-	(97)
Net income (loss)	$68	$598	$ (29)	$ (666)	$ (29)
Capital expenditures	$613	$6	$ -	$ -	$ 619
Total assets	$975,991	$6,126	$ 96,406	$ (96,697)	$ 981,826

2016	Bank	Trust	Unconsolidated Parent	Eliminations	Consolidated
	(in thousands)				
Revenues					
Interest and dividend income	$29,765	$61	$ 4,590	$ (4,590)	$ 29,826
Fiduciary and asset management fees	-	3,560	-	-	3,560
Other income	9,058	910	200	(262)	9,906
Total operating income	38,823	4,531	4,790	(4,852)	43,292
Expenses					
Interest expense	2,574	-	-	-	2,574
Provision for loan losses	1,930	-	-	-	1,930
Salaries and employee benefits	16,801	2,671	406	-	19,878
Other expenses	13,179	1,041	995	(262)	14,953
Total operating expenses	34,484	3,712	1,401	(262)	39,335
Income (loss) before taxes	4,339	819	3,389	(4,590)	3,957
Income tax expense (benefit)	288	280	(408)	-	160
Net income (loss)	$4,051	$539	$ 3,797	$ (4,590)	$ 3,797

Capital expenditures	$887	$4	$ -	$ -	$ 891
Total assets	$897,966	$5,761	$ 93,998	$ (94,759)	$ 902,966

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2015	Bank	Trust	Unconsolidated Parent	Eliminations	Consolidated
	(in thousands)				
Revenues					
Interest and dividend income	$30,242	$54	$ 4,009	$ (4,010)	$ 30,295
Fiduciary and asset management fees	-	3,617	-	-	3,617
Other income	8,548	1,032	200	(261)	9,519
Total operating income	38,790	4,703	4,209	(4,271)	43,431
Expenses					
Interest expense	3,633	-	-	(1)	3,632
Provision for loan losses	1,025	-	-	-	1,025
Salaries and employee benefits	17,630	2,685	432	-	20,747
Other expenses	13,254	1,010	336	(261)	14,339
Total operating expenses	35,542	3,695	768	(262)	39,743
Income (loss) before taxes	3,248	1,008	3,441	(4,009)	3,688
Income tax expense (benefit)	(96)	343	(193)	-	54
Net income (loss)	$3,344	$665	$ 3,634	$ (4,009)	$ 3,634
Capital expenditures	$1,682	$74	$ -	$ -	$ 1,756
Total assets	$891,877	$5,694	$ 93,191	$ (93,975)	$ 896,787

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from operations before income taxes not including nonrecurring gains or losses.

Both the Parent and the Trust companies maintain deposit accounts with the Bank, on terms substantially similar to those available to other customers. These transactions are eliminated to reach consolidated totals.

The Company operates in one geographical area and does not have a single external customer from which it derives 10 percent or more of its revenues.

NOTE 19, Condensed Financial Statements of Parent Company

Financial information pertaining to Old Point Financial Corporation (parent company only) is as follows:

Balance Sheets	December 31, 2017	2016
	(in thousands)	
Assets		
Cash and cash equivalents	$2,622	$2,366
Securities available-for-sale	197	164
Investment in common stock of subsidiaries	93,533	91,437
Other assets	54	31
Total assets	$96,406	$93,998

Liabilities and Stockholders' Equity		
Note payable - subsidiary	$18	$8
Common stock	25,087	24,806
Additional paid-in capital	17,270	16,427
Retained earnings	54,738	56,965
Accumulated other comprehensive loss	(707)	(4,208)
Total liabilities and stockholders' equity	$96,406	$93,998

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Statements of Income	Years Ended December 31, 2017	2016	2015
	(in thousands)		
Income:			
Dividends from subsidiaries	$2,050	$2,900	$2,900
Other income	200	200	200
Total income	2,250	3,100	3,100
Expenses:			
Salaries and benefits	445	406	432
Legal expenses	285	774	180
Service fees	210	166	137
Other operating expenses	316	55	19
Total expenses	1,256	1,401	768
Income before income taxes and equity in undistributed net income (loss) of subsidiaries	994	1,699	2,332
Income tax benefit	(360)	(408)	(193)
	1,354	2,107	2,525
Equity in undistributed net income (loss) of subsidiaries	(1,383)	1,690	1,109
Net income (loss)	$(29)	$3,797	$3,634

Statements of Cash Flows	Years Ended December 31, 2017	2016	2015
	(in thousands)		
Cash flows from operating activities:			
Net income (loss)	$(29)	$3,797	$3,634
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income (loss) of subsidiaries	1,383	(1,690)	(1,109)
Stock compensation expense	17	-	-
(Increase) decrease in other assets	(34)	5	(5)
Increase (decrease) in other liabilities	10	(7)	15
Net cash provided by operating activities	1,347	2,105	2,535
Cash flows from investing activities:	-	-	-
Cash flows from financing activities:			
Proceeds from sale of stock	1,107	46	-
Cash dividends paid on common stock	(2,198)	(1,983)	(1,686)
Net cash used in financing activities	(1,091)	(1,937)	(1,686)
Net increase in cash and cash equivalents	256	168	849
Cash and cash equivalents at beginning of year	2,366	2,198	1,349
Cash and cash equivalents at end of year	$2,622	$2,366	$2,198
Supplemental schedule of noncash transactions:			
Unrealized gain (loss) on securities available-for-sale	$33	$64	(1)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

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Disclosure Controls and Procedures. Management evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating its disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Management's Report on Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act.

Because of its inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In conducting this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework in 2013. Based on this evaluation, using those criteria, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2017 has been audited by Yount, Hyde & Barbour, PC, the independent registered public accounting firm which also audited the Company's consolidated financial statements included in this Annual Report on Form 10-K. Yount, Hyde & Barbour's attestation report on the Company's internal control over financial reporting is included in Item 8 "Financial Statements and Supplementary Data" of this Form 10-K.

Changes in Internal Control over Financial Reporting. There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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Item 9B. Other Information

None.

Part III

Except as otherwise indicated, information called for by the following items under Part III is contained in the Proxy Statement for the Company's 2018 Annual Meeting of Stockholders (the 2018 Proxy Statement) to be held on May 22, 2018.

Item 10. Directors, Executive Officers and Corporate Governance

The information with respect to the directors of the Company is set forth under the caption "Election of Directors" in the 2018 Proxy Statement and is incorporated herein by reference.

The information regarding the Section 16(a) reporting requirements of the directors and executive officers is set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2018 Proxy Statement and is incorporated herein by reference.

The information concerning the executive officers of the Company required by this item is included in Part I of this report on Form 10-K under the caption "Executive Officers of the Registrant."

The information regarding the Company's Audit Committee and its Audit Committee Financial Expert is set forth under the caption "Board Committees and Attendance" in the 2018 Proxy Statement and is incorporated herein by reference.

The Company has a Code of Ethics which details principles and responsibilities governing ethical conduct for all Company directors, officers, employees and principal stockholders.

A copy of the Code of Ethics will be provided free of charge, upon written request made to the Company's secretary at 1 West Mellen Street, Hampton, Virginia 23663 or by calling (757) 728-1200. The Code of Ethics is also posted on the Company's website at www.oldpoint.com in the "Community" section, under "Investor Relations" and then "Governance Documents." The Company intends to satisfy the disclosure requirements of Form 8-K with respect to waivers of or amendments to the Code of Ethics with respect to certain officers of the Company by posting such disclosures on its website under "Waivers of or amendments to the Code of Ethics." The Company may, however, elect to disclose any such amendment or waiver in a report on Form 8-K filed with the SEC either in addition to or in lieu of the website disclosure.

Item 11. Executive Compensation

The information set forth under the captions "Compensation and Benefits Committee Interlocks and Insider Participation" and "Executive Compensation" in the 2018 Proxy Statement is incorporated herein by reference.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth under the caption "Securities Authorized for Issuance Under Equity Compensation Plans" in the 2018 Proxy Statement is incorporated herein by reference.

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the 2018 Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information set forth under the caption "Interest of Management in Certain Transactions" in the 2018 Proxy Statement is incorporated herein by reference.

The information regarding director independence set forth under the caption "Board Committees and Attendance" in the 2018 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information set forth under the captions "Principal Accountant Fees" and "Audit Committee Pre-Approval Policy" in the 2018 Proxy Statement is incorporated herein by reference.

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Part IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Consolidated Financial Statements

The following Consolidated Financial Statements and reports are included in Part II, Item 8, of this report on Form 10-K.

Report of Independent Registered Public Accounting Firm (Yount, Hyde & Barbour, P.C.)
Consolidated Balance Sheets – December 31, 2017 and 2016
Consolidated Statements of Operations – Years Ended December 31, 2017 and 2016
Consolidated Statements of Comprehensive Income – Years Ended December 31, 2017 and 2016
Consolidated Statements of Changes in Stockholders' Equity – Years Ended December 31, 2017 and 2016
Consolidated Statements of Cash Flows – Years Ended December 31, 2017 and 2016
Notes to Consolidated Financial Statements

(a)(2) Consolidated Financial Statement Schedules

All schedules are omitted since they are not required, are not applicable, or the required information is shown in the Consolidated Financial Statements or notes thereto.

(a)(3) Exhibits

The following exhibits are filed as part of this Form 10-K and this list includes the Exhibit Index.

Exhibit No.	Description
2.1	Agreement and Plan of Reorganization, dated as of October 27, 2017, by and among Old Point Financial Corporation, The Old Point National Bank of Phoebus, and Citizens National Bank (incorporated by reference to Exhibit 2.1 to Form 8-K filed November 2, 2017)
3.1	Articles of Incorporation of Old Point Financial Corporation, as amended June 22, 2000 (incorporated by reference to Exhibit 3.1 to Form 10-K filed on March 12, 2009)
3.1.1	Articles of Amendment to Articles of Incorporation of Old Point Financial Corporation, effective May 26, 2016 (incorporated by reference to Exhibit 3.1.1 to Form 8-K filed May 31, 2016)
3.2	Bylaws of Old Point Financial Corporation, as amended and restated August 9, 2016 (incorporated by reference to Exhibit 3.2 to Form 10-Q filed August 10, 2016)
10.4*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with The Northwestern Mutual Life Insurance Company entered into with each of Robert F. Shuford, Sr., Laurie D. Grabow and Eugene M. Jordan, II (incorporated by reference to Exhibit 10.4 to Form 10-K filed March 30, 2005)
10.5*	Directors' Compensation
10.6*	Base Salaries of Executive Officers of the Registrant
10.7*	

	Summary of Old Point Financial Corporation Incentive Plan (incorporated by reference to Exhibit 10.7 to Form 10-K filed March 30, 2015)
10.8*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with Ohio National Life Assurance Corporation entered into with each of Laurie D. Grabow and Eugene M. Jordan, II (incorporated by reference to Exhibit 10.8 to Form 10-K filed March 14, 2008)

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10.9	Memorandum of Understanding between The Old Point National Bank of Phoebus and Tidewater Mortgage Services, Inc., dated September 10, 2007 (incorporated by reference to Exhibit 10.8 to Form 10-Q filed November 9, 2007)
10.10*	Form of 162 Insurance Plan (incorporated by reference to Exhibit 10.10 to Form 10-K filed March 12, 2009)
10.11*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with Ohio National Life Assurance Corporation entered into with Joseph R. Witt (incorporated by reference to Exhibit 10.11 to Form 10-K filed March 12, 2010)
10.12*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with New York Life Insurance and Annuity Corporation entered into with Eugene M. Jordan, II, Robert F. Shuford, Jr., and Joseph R. Witt (incorporated by reference to Exhibit 10.12 to Form 10-K filed March 30, 2012)
10.14	Settlement Agreement dated March 16, 2016 among Old Point Financial Corporation, Financial Edge Fund, L.P., Financial Edge-Strategic Fund, L.P., PL Capital/Focused Fund, L.P., PL Capital, LLC, PL Capital Advisors, LLC, Goodbody/PL Capital, L.P., Goodbody/PL Capital, LLC, Mr. John W. Palmer and Mr. Richard J. Lashley, as Managing Members of PL Capital, LLC, PL Capital Advisors, LLC and Goodbody/PL Capital, LLC and Mr. William F. Keefe (incorporated by reference to Exhibit 10.1 to Form 8-K filed March 17, 2016)
10.15*	Old Point Financial Corporation 2016 Incentive Stock Plan (incorporated by reference to Exhibit 10.15 to Form 8-K filed May 31, 2016)
10.16	Membership Interest Purchase Agreement dated January 13, 2017 between Tidewater Mortgage Services, Inc. and The Old Point National Bank of Phoebus (incorporated by reference to Exhibit 10.1 to Form 8-K filed January 20, 2017)
10.17*	Retirement Agreement, Waiver and General Release by and among Laurie D. Grabow and Old Point Financial Corporation, The Old Point National Bank of Phoebus and Old Point Trust & Financial Services, N.A., dated March 10, 2017 (incorporated by reference to Exhibit 10.17 to Form 10-K filed March 15, 2017)
10.18*	Additional Employment Arrangement by and among Laurie D. Grabow and Old Point Financial Corporation and The Old Point National Bank of Phoebus dated as of May 23, 2017 (incorporated by reference to Exhibit 10.18 to Form 8-K filed May 23, 2017)
10.19*	Time-Based Restricted Stock Agreement, dated July 11, 2017, between Old Point Financial Corporation and Jeffrey W. Farrar (incorporated by reference to Exhibit 10.19 to Form 8-K filed July 13, 2017)
10.20	Form of Support and Non-Competition Agreement, by and among Old Point Financial Corporation and certain shareholders of Citizens National Bank (incorporated by reference to Annex A to Appendix A to the proxy statement/prospectus included in Amendment No. 1 to Form S-4 filed January 26, 2018)
10.21	Form of Warrant Cancellation Agreement, by and among Old Point Financial Corporation, Citizens National Bank and holders of warrants to acquire shares of common stock of Citizens National Bank (incorporated by reference to Annex B to Appendix A to the proxy statement/prospectus included in Amendment No. 1 to Form S-4 filed January 26, 2018)
10.22*	Employment Agreement, dated as of February 22, 2018, by and between Old Point Financial Corporation and The Old Point National Bank of Phoebus and Robert F. Shuford, Jr. (incorporated by reference to Exhibit

10.22 to Form 8-K filed February 28, 2018)

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10.23*	Employment Agreement, dated as of February 22, 2018, by and between Old Point Financial Corporation and The Old Point National Bank of Phoebus and Jeffrey W. Farrar (incorporated by reference to Exhibit 10.23 to Form 8-K filed February 28, 2018)
10.24*	Employment Agreement, dated as of February 22, 2018, by and between Old Point Financial Corporation and The Old Point National Bank of Phoebus and Joseph R. Witt (incorporated by reference to Exhibit 10.24 to Form 8-K filed February 28, 2018)
10.25*	Employment Agreement, dated as of February 22, 2018, by and between Old Point Financial Corporation and Old Point Trust & Financial Services, N.A. and Eugene M. Jordan, II (incorporated by reference to Exhibit 10.25 to Form 8-K filed February 28, 2018)
10.26*	Change of Control Severance Agreement, dated as of February 22, 2018, by and between The Old Point National Bank of Phoebus and Donald S. Buckless
21	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21 to Form 10-K filed March 30, 2005)
23	Consent of Yount, Hyde & Barbour, P.C.
24	Powers of Attorney
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Old Point Financial Corporation's annual report on Form 10-K for the year ended December 31, 2017, formatted in XBRL (Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements

* Denotes management contract.

Item 16. Form 10-K Summary

Not applicable.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OLD POINT FINANCIAL CORPORATION

/s/Robert F. Shuford, Sr.
Robert F. Shuford, Sr.,
Chairman, President & Chief Executive Officer

Date: March 15, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/Robert F. Shuford, Sr. Robert F. Shuford, Sr.	Chairman, President & Chief Executive Officer and Director Principal Executive Officer

Date: March 15, 2018

/s/Jeffrey W. Farrar Jeffrey W. Farrar	Chief Financial Officer & Senior Vice President/Finance Principal Financial & Accounting Officer

Date: March 15, 2018

/s/Stephen C. Adams* Stephen C. Adams	Director
/s/James Reade Chisman* James Reade Chisman	Director
/s/Russell S. Evans, Jr.* Russell S. Evans, Jr.	Director
/s/Michael A. Glasser* Michael A. Glasser	Director
/s/Dr. Arthur D. Greene* Dr. Arthur D. Greene	Director
/s/John Cabot Ishon* John Cabot Ishon	Director
/s/William F. Keefe* William F. Keefe	Director
/s/Tom B. Langley* Tom B. Langley	Director

/s/Dr. H. Robert Schappert* Director
Dr. H. Robert Schappert

/s/Robert F. Shuford, Jr.* Director
Robert F. Shuford, Jr.

/s/Ellen Clark Thacker* Director
Ellen Clark Thacker

/s/Joseph R. Witt* Director
Joseph R. Witt

*By Robert F. Shuford, Sr., as Attorney in Fact

Date: March 15, 2018