OLD POINT FINANCIAL CORP
Form 10-Q
November 08, 2010

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2010
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) | (I.R.S. 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)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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. x 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 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” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| Large accelerated filer ¨ | Accelerated filer x |
| --- | --- |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company x |

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

4,936,989 shares of common stock ($5.00 par value) outstanding as of October 31, 2010

OLD POINT FINANCIAL CORPORATION

FORM 10-Q

INDEX


| | | Page |
|---|---|---|
| | PART I - FINANCIAL INFORMATION | |
| Item 1. | Financial Statements. | 1 |
| | Consolidated Balance Sheets<br>September 30, 2010 (unaudited) and December 31, 2009 | 1 |
| | Consolidated Statements of Income<br>Three months ended September 30, 2010 and 2009 (unaudited)<br>Nine months ended September 30, 2010 and 2009 (unaudited) | <br>2<br>2 |
| | Consolidated Statements of Changes in Stockholders' Equity<br>Nine months ended September 30, 2010 and 2009 (unaudited) | 3 |
| | Consolidated Statements of Cash Flows<br>Nine months ended September 30, 2010 and 2009 (unaudited) | 4 |
| | Notes to Consolidated Financial Statements (unaudited) | 5 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations. | 17 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk. | 29 |
| Item 4. | Controls and Procedures. | 30 |
| | PART II - OTHER INFORMATION | |
| Item 1. | Legal Proceedings. | 30 |
| Item 1A. | Risk Factors. | 30 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds. | 30 |
| Item 3. | Defaults Upon Senior Securities. | 31 |
| Item 4. | [Removed and Reserved] | 31 |
| Item 5. | Other Information. | 31 |
| Item 6. | Exhibits. | 31 |

(i)

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Balance Sheets

| | September 30, 2010 (unaudited) | December 31, 2009 |
|---|---|---|
| Assets | | |
| | | |
| Cash and due from banks | $ 12,106,481 | $ 13,223,901 |
| Federal funds sold | 31,127,858 | 34,412,097 |
| Cash and cash equivalents | 43,234,339 | 47,635,998 |
| Securities available-for-sale, at fair value | 194,610,074 | 173,774,953 |
| Securities held-to-maturity (fair value approximates $2,106,830 and $2,233,133) | 2,082,000 | 2,212,000 |
| Restricted securities | 4,481,800 | 4,814,700 |
| Loans, net of allowance for loan losses of $12,105,063 and $7,864,451 | 604,631,108 | 627,378,089 |
| Premises and equipment, net | 29,724,372 | 30,397,444 |
| Bank owned life insurance | 17,863,165 | 16,290,838 |
| Foreclosed assets, net of valuation allowance of $1,202,930 and $860,000 | 10,140,170 | 7,623,500 |
| Other assets | 11,949,586 | 11,294,719 |
| | $ 918,716,614 | $ 921,422,241 |
| | | |
| Liabilities & Stockholders' Equity | | |
| | | |
| Deposits: | | |
| Noninterest-bearing deposits | $ 129,201,973 | $ 111,636,590 |
| Savings deposits | 224,066,801 | 205,647,611 |
| Time deposits | 343,393,363 | 345,216,588 |
| Total deposits | 696,662,137 | 662,500,789 |
| Federal funds purchased and other borrowings | 1,076,711 | 1,018,559 |
| Overnight repurchase agreements | 51,146,620 | 49,560,402 |
| Term repurchase agreements | 50,203,772 | 59,858,542 |
| Federal Home Loan Bank advances | 35,000,000 | 65,000,000 |
| Accrued expenses and other liabilities | 1,498,932 | 1,875,496 |
| Total liabilities | 835,588,172 | 839,813,788 |
| | | |
| Commitments and contingencies | | |
| | | |
| Stockholders' equity: | | |
| Common stock, $5 par value, 10,000,000 shares authorized; 4,936,989 and 4,916,535 shares issued and outstanding | 24,684,945 | 24,582,675 |
| Additional paid-in capital | 15,997,076 | 15,768,840 |
| Retained earnings | 42,606,770 | 42,518,889 |
| Accumulated other comprehensive loss, net | (160,349) | (1,261,951) |
| Total stockholders' equity | 83,128,442 | 81,608,453 |
| Total liabilities and stockholders' equity | $ 918,716,614 | $ 921,422,241 |

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Income

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (unaudited) | | (unaudited) | |
| Interest and Dividend Income: | | | | |
| Interest and fees on loans | $ 9,237,260 | $ 9,649,472 | $ 27,982,311 | $ 28,466,848 |
| Interest on federal funds sold | 15,471 | 11,260 | 63,954 | 33,287 |
| Interest on securities: | | | | |
| Taxable | 854,323 | 583,535 | 2,507,614 | 1,953,319 |
| Tax-exempt | 53,104 | 120,796 | 220,630 | 434,429 |
| Dividends and interest on all other securities | 12,265 | 107,032 | 34,632 | 373,874 |
| Total interest and dividend income | 10,172,423 | 10,472,095 | 30,809,141 | 31,261,757 |
| | | | | |
| Interest Expense: | | | | |
| Interest on savings deposits | 108,701 | 85,732 | 302,159 | 278,798 |
| Interest on time deposits | 1,604,779 | 2,341,178 | 5,168,834 | 7,776,266 |
| Interest on federal funds purchased, securities sold under agreements to repurchase and other borrowings | 109,603 | 150,880 | 470,751 | 392,299 |
| Interest on Federal Home Loan Bank advances | 429,717 | 848,061 | 1,969,974 | 2,596,890 |
| Total interest expense | 2,252,800 | 3,425,851 | 7,911,718 | 11,044,253 |
| Net interest income | 7,919,623 | 7,046,244 | 22,897,423 | 20,217,504 |
| Provision for loan losses | 1,500,000 | 1,000,000 | 7,500,000 | 5,000,000 |
| Net interest income, after provision for loan losses | 6,419,623 | 6,046,244 | 15,397,423 | 15,217,504 |
| | | | | |
| Noninterest Income: | | | | |
| Income from fiduciary activities | 718,008 | 701,789 | 2,319,856 | 2,230,009 |
| Service charges on deposit accounts | 1,068,455 | 1,402,771 | 3,663,196 | 4,115,443 |
| Other service charges, commissions and fees | 719,193 | 629,979 | 2,163,999 | 1,898,241 |
| Income from bank owned life insurance | 216,218 | 198,831 | 815,541 | 550,860 |
| Gain on sale of available-for-sale securities, net | 541,241 | 0 | 541,317 | 0 |
| Other operating income | 130,072 | 69,531 | 311,119 | 273,541 |
| Total noninterest income | 3,393,187 | 3,002,901 | 9,815,028 | 9,068,094 |
| | | | | |
| Noninterest Expense: | | | | |
| Salaries and employee benefits | 4,539,062 | 4,462,648 | 13,691,812 | 13,277,101 |
| Occupancy and equipment | 1,084,972 | 1,026,532 | 3,235,289 | 3,073,035 |
| FDIC insurance | 404,093 | 264,013 | 1,050,274 | 1,117,075 |
| Data processing | 316,123 | 287,106 | 917,931 | 810,401 |
| Customer development | 215,414 | 227,878 | 655,644 | 610,038 |
| Advertising | 177,369 | 161,428 | 527,650 | 513,008 |
| Loan expenses | 117,658 | 173,183 | 481,531 | 474,157 |
| Other outside service fees | 157,932 | 96,260 | 357,518 | 264,587 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Legal and audit expenses | | 244,760 | | 139,434 | | 564,498 | | 338,857 |
| Loss (gain) on write-down/sale of foreclosed assets | | 480,801 | | (82,982) | | 429,754 | | 58,227 |
| Other | | 664,064 | | 686,843 | | 2,196,652 | | 2,200,637 |
| Total noninterest expense | | 8,402,248 | | 7,442,343 | | 24,108,553 | | 22,737,123 |
| Income before income taxes | | 1,410,562 | | 1,606,802 | | 1,103,898 | | 1,548,475 |
| Income tax expense | | 376,052 | | 449,132 | | 6,919 | | 242,867 |
| Net income | $ | 1,034,510 | $ | 1,157,670 | $ | 1,096,979 | $ | 1,305,608 |
| | | | | | | | | |
| Basic Earnings per Share: | | | | | | | | |
| Average shares outstanding | | 4,930,578 | | 4,909,035 | | 4,925,571 | | 4,908,094 |
| Net income per share of common stock | $ | 0.21 | $ | 0.24 | $ | 0.22 | $ | 0.27 |
| | | | | | | | | |
| Diluted Earnings per Share: | | | | | | | | |
| Average shares outstanding | | 4,932,731 | | 4,934,522 | | 4,931,977 | | 4,936,247 |
| Net income per share of common stock | $ | 0.21 | $ | 0.24 | $ | 0.22 | $ | 0.26 |

See Notes to Consolidated Financial Statements.

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

| (unaudited) | Shares of Common Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|---|
| FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 | | | | | | |
| Balance at beginning of period | 4,916,535 | $ 24,582,675 | $ 15,768,840 | $ 42,518,889 | $ (1,261,951) | $ 81,608,453 |
| Comprehensive income: | | | | | | |
| Net income | 0 | 0 | 0 | 1,096,979 | 0 | 1,096,979 |
| Unrealized holding gains arising during the period (net of tax, $751,541) | 0 | 0 | 0 | 0 | 1,458,871 | 1,458,871 |
| Reclassification adjustment (net of tax, $184,048) | 0 | 0 | 0 | 0 | (357,269) | (357,269) |
| Total comprehensive income | 0 | 0 | 0 | 1,096,979 | 1,101,602 | 2,198,581 |
| Exercise of stock options | 23,874 | 119,370 | 126,514 | (23,974) | 0 | 221,910 |
| Tax benefit from disqualification of stock options | 0 | 0 | 16,324 | 0 | 0 | 16,324 |
| Repurchase and retirement of common stock | (3,420) | (17,100) | 0 | 0 | 0 | (17,100) |
| Stock compensation expense | 0 | 0 | 85,398 | 0 | 0 | 85,398 |
| Cash dividends ($0.20 per share) | 0 | 0 | 0 | (985,124) | 0 | (985,124) |
| Balance at end of period | 4,936,989 | $ 24,684,945 | $ 15,997,076 | $ 42,606,770 | $ (160,349) | $ 83,128,442 |
| FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 | | | | | | |
| Balance at beginning of period | 4,905,229 | $ 24,526,145 | $ 15,506,322 | $ 43,250,906 | $ (385,463) | $ 82,897,910 |
| Comprehensive income: | | | | | | |
| Net income | 0 | 0 | 0 | 1,305,608 | 0 | 1,305,608 |
| Unrealized holding losses arising during the period (net of tax | 0 | 0 | 0 | 0 | (17,779) | (17,779) |

| | | | | | | |
|---|---|---|---|---|---|---|
| benefit, $9,159) | | | | | | |
| Total comprehensive income | 0 | 0 | 0 | 1,305,608 | (17,779) | 1,287,829 |
| Repurchase and retirement of common stock | (1,818) | (9,090) | 0 | (27,189) | 0 | (36,279) |
| Exercise of stock options | 5,624 | 28,120 | 77,308 | (41,541) | 0 | 63,887 |
| Stock compensation expense | 0 | 0 | 82,394 | 0 | 0 | 82,394 |
| Cash dividends ($0.37 per share) | 0 | 0 | 0 | (1,816,074) | 0 | (1,816,074) |
| Balance at end of period | 4,909,035 | $ 24,545,175 | $ 15,666,024 | $ 42,671,710 | $ (403,242) | $ 82,479,667 |

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2010 | 2009 |
| | (unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 1,096,979 | $ 1,305,608 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,476,008 | 1,371,772 |
| Provision for loan losses | 7,500,000 | 5,000,000 |
| Net gain on sale of available-for-sale securities | (541,317) | 0 |
| Net accretion of securities | 25,772 | 13,820 |
| Net loss on disposal of premises and equipment | 3,373 | 3,655 |
| Net loss on write-down/sale of foreclosed assets | 429,754 | 58,227 |
| Income from bank owned life insurance | (815,541) | (550,860) |
| Stock compensation expense | 85,398 | 82,394 |
| Deferred tax benefit | (2,038,791) | (297,243) |
| Increase in other assets | (3,268,956) | (10,413,938) |
| Increase (decrease) in other liabilities | (376,564) | 52,152 |
| Net cash provided by (used in) operating activities | 3,576,115 | (3,374,413) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of available-for-sale securities | (195,846,321) | (143,295,926) |
| Purchases of held-to-maturity securities | (1,370,000) | (1,500,000) |
| Purchases of restricted securities | 0 | (23,650) |
| Proceeds from maturities and calls of securities | 88,012,522 | 109,924,724 |
| Proceeds from sales of available-for-sale securities | 90,683,319 | 3,485,000 |
| Proceeds from sales of restricted securities | 332,900 | 0 |
| (Increase) decrease in loans made to customers | 15,246,981 | (1,325,989) |
| Proceeds from sales of foreclosed assets | 1,322,176 | 3,560,924 |
| Purchases of bank owned life insurance | (940,000) | 0 |
| Purchases of premises and equipment | (806,309) | (3,949,481) |
| Net cash used in investing activities | (3,364,732) | (33,124,398) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in noninterest-bearing deposits | 17,565,383 | (13,328,351) |
| Increase (decrease) in savings deposits | 18,419,190 | (663,864) |
| Decrease in time deposits | (1,823,225) | (6,914,035) |
| Increase (decrease) in federal funds purchased, repurchase agreements and other borrowings | (8,010,400) | 63,053,705 |
| Decrease in Federal Home Loan Bank advances | (30,000,000) | (5,000,000) |
| Proceeds from exercise of stock options | 221,910 | 63,887 |
| Repurchase and retirement of common stock | (17,100) | (36,279) |
| Tax benefit from disqualification of stock options | 16,324 | 0 |
| Cash dividends paid on common stock | (985,124) | (1,816,074) |
| Net cash provided by (used in) financing activities | (4,613,042) | 35,358,989 |

| | | | | |
|---|---|---|---|---|
| Net decrease in cash and cash equivalents | | (4,401,659) | | (1,139,822) |
| Cash and cash equivalents at beginning of period | | 47,635,998 | | 47,324,713 |
| Cash and cash equivalents at end of period | $ | 43,234,339 | $ | 46,184,891 |
| | | | | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | | | |
| Cash payments for: | | | | |
| Interest | $ | 8,435,557 | $ | 11,243,092 |
| Income tax | $ | 2,100,000 | $ | 650,000 |
| | | | | |
| SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS | | | | |
| Unrealized gain (loss) on investment securities | $ | 1,669,095 | $ | (26,938) |
| Loans transferred to foreclosed assets | $ | 4,277,600 | $ | 9,445,523 |

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. General

The accompanying unaudited consolidated financial statements of Old Point Financial Corporation (the Company) and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. All significant intercompany balances and transactions have been eliminated. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications of a normal and recurring nature considered necessary to present fairly the financial positions at September 30, 2010 and December 31, 2009, the results of operations for the three and nine months ended September 30, 2010 and 2009 and statements of cash flows and changes in stockholders' equity for the nine months ended September 30, 2010 and 2009. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2009 annual report on Form 10-K. Certain previously reported amounts have been reclassified to conform to current period presentation.

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). The information available on the Company's Internet website is not part of this Form 10-Q 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.

Note 2. Securities

Amortized costs and fair values of securities held-to-maturity are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| September 30, 2010 | | | | |
| Obligations of U.S. Government agencies | $ 1,670 | $ 8 | $ 0 | $ 1,678 |
| Obligations of state and political subdivisions | 412 | 17 | 0 | 429 |
| Total | $ 2,082 | $ 25 | $ 0 | $ 2,107 |
| | | | | |
| December 31, 2009 | | | | |
| Obligations of U.S. Government agencies | $ 1,800 | $ 4 | $ (7) | $ 1,797 |
| Obligations of state and political subdivisions | 412 | 24 | 0 | 436 |
| Total | $ 2,212 | $ 28 | $ (7) | $ 2,233 |

Amortized costs and fair values of securities available-for-sale are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| September 30, 2010 | | | | |
| U.S. Treasury securities | $ 600 | $ 0 | $ 0 | $ 600 |
| Obligations of U.S. Government agencies | 186,204 | 1,605 | 0 | 187,809 |
| Obligations of state and political subdivisions | 4,033 | 101 | 0 | 4,134 |
| Mortgage-backed securities | 456 | 12 | 0 | 468 |
| Money market investments | 1,599 | 0 | 0 | 1,599 |
| Total | $ 192,892 | $ 1,718 | $ 0 | $ 194,610 |
| | | | | |
| December 31, 2009 | | | | |
| U.S. Treasury securities | $ 400 | $ 0 | $ 0 | $ 400 |
| Obligations of U.S. Government agencies | 161,645 | 341 | (446) | 161,540 |
| Obligations of state and political subdivisions | 8,702 | 124 | (1) | 8,825 |
| Mortgage-backed securities | 1,273 | 31 | 0 | 1,304 |
| Money market investments | 1,706 | 0 | 0 | 1,706 |
| Total | $ 173,726 | $ 496 | $ (447) | $ 173,775 |

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value at December 31, 2009 of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position. The Company had no securities with unrealized losses as of September 30, 2010.

| | December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than Twelve Months | | More Than Twelve Months | | Total | |
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| | | | (in thousands) | | | |
| Securities Available-for-Sale | | | | | | |
| Debt securities: | | | | | | |
| Obligations of U. S. Government agencies | $ 446 | $ 49,589 | $ 0 | $ 0 | $ 446 | $ 49,589 |
| Obligations of state and political subdivisions | 1 | 859 | 0 | 0 | 1 | 859 |
| Total securities available-for-sale | $ 447 | $ 50,448 | $ 0 | $ 0 | $ 447 | $ 50,448 |
| | | | | | | |
| Securities Held-to-Maturity | | | | | | |
| | $ 7 | $ 893 | $ 0 | $ 0 | $ 7 | $ 893 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Obligations of U. S. Government agencies | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| Total | $ | 454 | $ | 51,341 | $ | 0 | $ | 0 | $ | 454 | $ | 51,341 |

Obligations of U.S. Government agencies

The U.S. Government agencies portfolio had ten investments with unrealized losses at December 31, 2009. These unrealized losses were caused by increases in market interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. 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 at maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2009.

Obligations of state and political subdivisions

The unrealized loss on one investment in obligations of state and political subdivisions at December 31, 2009 was caused by increases in market interest rates. Because the Company does not intend to sell the investment, and management believes it is unlikely that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be at maturity, the Company does not consider the investment to be other-than-temporarily impaired at December 31, 2009.

Other-than-Temporarily Impaired Securities

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The 2009 unrealized losses relate to obligations of U.S. Government agencies and state and political subdivisions. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. The unrealized losses are a result of changes in market interest rates and not credit issues. Since the Company has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary.

The restricted security category on the balance sheets is comprised of Federal Home Loan Bank of Atlanta (FHLB) and Federal Reserve Bank (FRB) stock. These stocks are classified as restricted securities because their ownership is restricted to certain types of entities and they lack a market. Therefore, this stock is carried at cost and evaluated for impairment. When evaluating this stock for impairment, its value is determined based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

The FHLB paid a quarterly dividend for the last three quarters of 2009 and the first and second quarters of 2010. On October 29, 2010, the FHLB declared a dividend for the third quarter of 2010. The FHLB filed its 2009 annual report on Form 10-K in late March 2010. According to the annual report, the FHLB’s net income for 2009 was $283.5 million, a $29.7 million, or 11.70%, increase from net income for 2008. In the first three quarters of 2010, earnings releases were generally favorable, with positive earnings in each of the three quarters. In an earnings release dated October 29, 2010, the FHLB reported net income of approximately $74.0 million, an increase of approximately $63.0 million from net income of approximately $11.0 million for the third quarter of 2009. The FHLB reported that it was in compliance with all of its regulatory capital requirements as of December 31, 2009.

Restricted stock, including FHLB stock, is viewed as a long-term investment. If the value of the restricted stock were to decline below its book value, the Company has the ability and the intent to hold the stock until its value recovers. Therefore, the Company determined the FHLB stock was not impaired as of September 30, 2010.

- 7 -

Note 3. Loans
The Company's loan portfolio is summarized as follows:

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Mortgage loans on real estate: | | |
| Residential 1-4 family | $ 97,149 | $ 100,788 |
| Commercial | 352,261 | 345,753 |
| Construction | 19,801 | 30,696 |
| Second mortgages | 16,905 | 19,997 |
| Equity lines of credit | 38,967 | 39,192 |
| Total mortgage loans on real estate | 525,083 | 536,426 |
| Commercial loans | 37,240 | 60,353 |
| Consumer installment loans | 26,702 | 33,371 |
| Other | 27,192 | 4,626 |
| Total loans | 616,217 | 634,776 |
| Net deferred loan costs * | 519 | 466 |
| Less: Allowance for loan losses | (12,105) | (7,864) |
| Loans, net | $ 604,631 | $ 627,378 |

* Net deferred loan costs are related to second mortgages and mortgages on commercial real estate

The following is a summary of information pertaining to impaired loans, nonaccrual loans and loans ninety days or more past due and still accruing interest:

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Impaired loans without a valuation allowance | $ 7,595 | $ 0 |
| Impaired loans with a valuation allowance | 15,260 | 1,105 |
| Total impaired loans | $ 22,855 | $ 1,105 |
| Valuation allowance related to impaired loans | $ 3,503 | $ 387 |
| Total nonaccrual loans | $ 23,636 | $ 4,917 |
| Total loans past-due ninety days or more and still accruing interest | $ 243 | $ 389 |

Note 4. Allowance for Loan Losses

The following summarizes activity in the allowance for loan losses for the nine months ended September 30, 2010 and the year ended December 31, 2009:

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Balance, beginning of year | $ 7,864 | $ 6,406 |
| Recoveries | 533 | 937 |
| Provision for loan losses | 7,500 | 6,875 |
| Loans charged off | (3,792) | (6,354) |
| Balance, end of period | $ 12,105 | $ 7,864 |

Note 5. Share-Based Compensation

Share-based compensation arrangements include stock options, restricted stock awards, performance-based awards, stock appreciation rights and employee stock purchase plans. 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.

There were no options granted in the first nine months of 2010 or in 2009.

On March 9, 2008, the Company's 1998 stock option plan expired. Options to purchase 234,502 shares of common stock were outstanding under the Company's 1998 stock option plan at September 30, 2010. The exercise price of each option equals the market price of the Company's common stock on the date of the grant and each option's maximum term is ten years.

Stock option activity for the nine months ended September 30, 2010 is summarized below:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Options outstanding, January 1, 2010 | 271,275 | $ 18.59 | | |
| Granted | 0 | 0 | | |
| Exercised | (23,874) | 10.30 | | |
| Canceled or expired | (12,899) | 14.96 | | |
| Options outstanding, September 30, 2010 | 234,502 | $ 19.63 | 4.60 | $ 0 |
| Options exercisable, September 30, 2010 | 171,526 | $ 19.48 | 3.70 | $ 0 |

The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on September 30, 2010. This amount changes based on changes in the market value of the Company's common stock. As of September 30, 2010, the outstanding options had no intrinsic value because the exercise prices of all outstanding options were below the market value of a share of the Company's common stock.

The total proceeds of the in-the-money options exercised during the nine months ended September 30, 2010 were $222 thousand. The total intrinsic value of options exercised during the same period was $65 thousand.

As of September 30, 2010, there was $232 thousand of unrecognized compensation cost related to nonvested options. This cost is expected to be recognized over a weighted-average period of 24 months.

Note 6. Pension Plan

The Company provides pension benefits for eligible participants through a non-contributory defined benefits pension plan. The plan was frozen effective September 30, 2006; therefore, no additional participants will be added to the plan. The components of net periodic pension plan cost are as follows:

| Three months ended September 30, | 2010 | 2009 |
|---|---|---|
| | Pension Benefits | |
| Interest cost | $ 78,430 | $ 71,058 |
| Expected return on plan assets | (97,295) | (82,667) |
| Amortization of net loss | 31,702 | 25,861 |
| Net periodic pension plan cost | $ 12,837 | $ 14,252 |

| Nine months ended September 30, | 2010 | 2009 |
|---|---|---|
| | Pension Benefits | |
| Interest cost | $ 235,292 | $ 213,174 |
| Expected return on plan assets | (291,886) | (248,000) |
| Amortization of net loss | 95,105 | 77,583 |
| Net periodic pension plan cost | $ 38,511 | $ 42,757 |

At September 30, 2010, management had not yet determined the amount, if any, that the Company will contribute to the plan in the year ending December 31, 2010.

Note 7. Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average number of 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 Company did not include 235 thousand and 181 thousand potential common shares attributable to outstanding stock options in the diluted earnings per share calculation for the three and nine months ended September 30, 2010, respectively, because they were antidilutive.

Note 8. Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued new guidance relating to the accounting for transfers of financial assets. The new guidance, which was issued as Statement of Financial Accounting Standards No. 166 (SFAS 166), Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140, was adopted into Codification in December 2009 through the issuance of Accounting Standards Update (ASU) 2009-16. The new standard provides guidance to improve the relevance, representational faithfulness and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The Company adopted the new guidance in 2010. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued new guidance relating to variable interest entities (VIEs). The new guidance, which was issued as SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167), was adopted into Codification in December 2009. The objective of the guidance is to improve financial reporting by enterprises

involved with VIEs and to provide more relevant and reliable information to users of financial statements. SFAS 167 is effective as of January 1, 2010. The Company does not expect the adoption of the new guidance to have a material impact on its consolidated financial statements.

In October 2009, the FASB issued ASU 2009-15, Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing (ASU 2009-15). ASU 2009-15 amends Subtopic 470-20 to expand accounting and reporting guidance for own-share lending arrangements issued in contemplation of a convertible debt issuance. ASU 2009-15 is effective for fiscal years beginning on or after December 15, 2009 and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The Company does not expect the adoption of ASU 2009-15 to have a material impact on its consolidated financial statements.

In January 2010, the FASB issued ASU 2010-04, Accounting for Various Topics – Technical Corrections to SEC Paragraphs (ASU 2010-04). ASU 2010-04 makes technical corrections to existing SEC guidance including the following topics: accounting for subsequent investments, termination of an interest rate swap, issuance of financial statements - subsequent events, use of the residual method to value acquired assets other than goodwill, adjustments in assets and liabilities for holding gains and losses, and selections of discount rate used for measuring defined benefit obligation. The Company does not expect the adoption of ASU 2010-04 to have a material impact on its consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures and require new disclosures, and includes conforming amendments to guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company does not expect the adoption of ASU 2010-06 to have a material impact on its consolidated financial statements.

In February 2010, the FASB issued ASU 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements (ASU 2010-09). ASU 2010-09 addresses both the interaction of the requirements of Topic 855 with the SEC's reporting requirements and the intended breadth of the reissuance disclosures provisions related to subsequent events. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. ASU 2010-09 is effective immediately. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The new disclosure guidance will significantly expand the existing requirements and will lead to greater transparency into a company's exposure to credit losses from lending arrangements. The extensive new disclosures of information as of the end of a reporting period will become effective for both interim and annual reporting periods ending after December 31, 2010. Specific items regarding activity that occurred before the issuance of the ASU, such as the allowance rollforward and modification disclosures, will be required for periods beginning after December 15, 2010. The Company is currently assessing the impact that ASU 2010-20 will have on its consolidated financial statements.

On September 15, 2010, the SEC issued Release No. 33-9142, Internal Control Over Financial Reporting In Exchange Act Periodic Reports of Non-Accelerated Filers. This release issued a final rule adopting amendments to its rules and forms to conform them to Section 404(c) of the Sarbanes-Oxley Act of 2002 (SOX), as added by Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). SOX Section 404(c) provides that SOX Section 404(b) shall not apply with respect to any audit report prepared for an issuer that is neither an accelerated filer nor a large accelerated filer as defined in Rule 12b-2 under the Securities Exchange Act of 1934. Release No. 33-9142 was effective September 21, 2010. Beginning with the Annual Report on Form 10-K that will be filed in March of 2011, the Company will no longer qualify as an accelerated filer, and therefore will not be subject to

the requirement of SOX Section 404(b) to include in that Annual Report on Form 10-K the auditor's attestation regarding the Company's internal control over financial reporting.

On September 17, 2010, the SEC issued Release No. 33-9144, Commission Guidance on Presentation of Liquidity and Capital Resources Disclosures in Management's Discussion and Analysis. This interpretive release is intended to improve discussion of liquidity and capital resources in Management's Discussion and Analysis of Financial Condition and Results of Operations in order to facilitate understanding by investors of the liquidity and funding risks facing public companies. This release was issued in conjunction with a proposed rule, Short-Term Borrowings Disclosure, which would require public companies to disclose additional information to investors about their short-term borrowing arrangements. Release No. 33-9144 was effective on September 28, 2010. The Company is currently assessing the impact that Release No. 33-9144 and the proposed Short-Term Borrowing Disclosure rule, if adopted, will have on its consolidated financial statements.

Note 9. Fair Value Measurements

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. 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 estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Certain financial instruments and all nonfinancial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company's financial instruments.

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

| | September 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (in thousands) | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 43,234 | $ 43,234 | $ 47,636 | $ 47,636 |
| Securities available-for-sale | 194,610 | 194,610 | 173,775 | 173,775 |
| Securities held-to-maturity | 2,082 | 2,107 | 2,212 | 2,233 |
| Restricted securities | 4,482 | 4,482 | 4,815 | 4,815 |
| Loans, net of allowances for loan losses | 604,631 | 604,287 | 627,378 | 627,354 |
| Bank owned life insurance | 17,863 | 17,863 | 16,291 | 16,291 |
| Accrued interest receivable | 2,605 | 2,605 | 2,873 | 2,873 |
| | | | | |
| Financial liabilities: | | | | |
| Deposits | 696,662 | 698,920 | 662,501 | 664,625 |
| Federal funds purchased and other borrowings | 1,077 | 1,077 | 1,019 | 1,019 |
| Overnight repurchase agreements | 51,147 | 51,147 | 49,560 | 49,560 |
| Term repurchase agreements | 50,204 | 50,181 | 59,859 | 59,878 |
| Federal Home Loan Bank advances | 35,000 | 40,198 | 65,000 | 74,043 |
| Accrued interest payable | 926 | 926 | 1,449 | 1,449 |

U.S. GAAP specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The three levels of the fair value hierarchy based on

these two types of inputs are as follows:

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.

The following describes the valuation techniques used by the Company to measure certain financial assets recorded at fair value on a recurring basis in the financial statements:

Securities available-for-sale
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 non-restricted securities are considered to be Level 2 securities.

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

| | | Fair Value Measurements at September 30, 2010 Using (in thousands) | | |
|---|---|---|---|---|
| Description | Balance | 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 | $ 600 | $ 0 | $ 600 | $ 0 |
| Obligations of U.S. Government agencies | 187,809 | 0 | 187,809 | 0 |
| Obligations of state and political subdivisions | 4,134 | 0 | 4,134 | 0 |
| Mortgage-backed securities | 468 | 0 | 468 | 0 |
| Money market investments | 1,599 | 0 | 1,599 | 0 |
| Total available-for-sale securities | $ 194,610 | $ 0 | $ 194,610 | $ 0 |

| Description | Balance | Fair Value Measurements at December 31, 2009 Using (in thousands) 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 | $ 400 | $ 0 | $ 400 | $ 0 |
| Obligations of U.S. Government agencies | 161,540 | 0 | 161,540 | 0 |
| Obligations of state and political subdivisions | 8,825 | 0 | 8,825 | 0 |
| Mortgage-backed securities | 1,304 | 0 | 1,304 | 0 |
| Money market investments | 1,706 | 0 | 1,706 | 0 |
| Total available-for-sale securities | $ 173,775 | $ 0 | $ 173,775 | $ 0 |

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with U.S. GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements:

Impaired loans
Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level 3. 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). 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 Income.

Foreclosed assets
Loans are transferred to foreclosed assets when the collateral securing them is foreclosed on. The measurement of loss associated with foreclosed assets 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). Lacking such a contract, the value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level 3. Any fair value adjustments to foreclosed assets are recorded in the period incurred and expensed against current earnings.

The following table summarizes the Company's financial assets that were measured at fair value on a nonrecurring basis:

| | | Carrying Value at September 30, 2010 (in thousands) | | |
|---|---|---|---|---|
| Description | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Impaired loans | $ 11,757 | $ 0 | $ 9,410 | $ 2,347 |
| Foreclosed assets | $ 10,140 | $ 0 | $ 10,140 | $ 0 |

| | | Carrying Value at December 31, 2009 (in thousands) | | |
|---|---|---|---|---|
| Description | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Impaired loans | $ 718 | $ 0 | $ 0 | $ 718 |
| Foreclosed assets | $ 7,623 | $ 0 | $ 7,373 | $ 250 |

Note 10. Segment Reporting

The Company operates in a decentralized fashion in three principal business segments: The Old Point National Bank of Phoebus (the Bank), Old Point Trust & Financial Services, N. A. (Trust), and the Company as a separate segment (for purposes of this Note, 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 activities. The Parent'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.

Information about reportable segments and reconciliation of such information to the consolidated financial statements follows:

| | Three Months Ended September 30, 2010 | | | | |
|---|---|---|---|---|---|
| | | | Unconsolidated | | |
| | Bank | Trust | Parent | Eliminations | Consolidated |
| Revenues | | | | | |
| Interest and dividend income | $ 10,159,276 | $ 12,515 | $ 1,127,461 | $ (1,126,829) | $ 10,172,423 |
| Income from fiduciary activities | 0 | 718,008 | 0 | 0 | 718,008 |
| Other income | 2,594,607 | 96,448 | 75,000 | (90,876) | 2,675,179 |
| Total operating income | 12,753,883 | 826,971 | 1,202,461 | (1,217,705) | 13,565,610 |
| | | | | | |
| Expenses | | | | | |
| Interest expense | 2,254,951 | 0 | 3,123 | (5,274) | 2,252,800 |
| Provision for loan losses | 1,500,000 | 0 | 0 | 0 | 1,500,000 |
| Salaries and employee benefits | 3,881,046 | 530,575 | 127,441 | 0 | 4,539,062 |
| Other expenses | 3,656,342 | 224,303 | 73,417 | (90,876) | 3,863,186 |
| Total operating expenses | 11,292,339 | 754,878 | 203,981 | (96,150) | 12,155,048 |
| | | | | | |
| Income before taxes | 1,461,544 | 72,093 | 998,480 | (1,121,555) | 1,410,562 |
| | | | | | |
| Income tax expense (benefit) | 387,571 | 24,511 | (36,030) | 0 | 376,052 |
| | | | | | |
| Net income | $ 1,073,973 | $ 47,582 | $ 1,034,510 | $ (1,121,555) | $ 1,034,510 |
| | | | | | |
| Total assets | $ 914,325,739 | $ 4,996,581 | $ 83,373,669 | $ (83,979,375) | $ 918,716,614 |

| | Three Months Ended September 30, 2009 | | | | |
|---|---|---|---|---|---|
| | | | Unconsolidated | | |
| | Bank | Trust | Parent | Eliminations | Consolidated |
| Revenues | | | | | |
| Interest and dividend income | $ 10,457,193 | $ 15,918 | $ 1,255,865 | $ (1,256,881) | $ 10,472,095 |
| Income from fiduciary activities | 0 | 701,789 | 0 | 0 | 701,789 |
| Other income | 2,220,944 | 93,944 | 75,000 | (88,776) | 2,301,112 |
| Total operating income | 12,678,137 | 811,651 | 1,330,865 | (1,345,657) | 13,474,996 |
| | | | | | |
| Expenses | | | | | |
| Interest expense | 3,430,783 | 0 | 6,487 | (11,419) | 3,425,851 |
| Provision for loan losses | 1,000,000 | 0 | 0 | 0 | 1,000,000 |
| Salaries and employee benefits | 3,814,298 | 517,309 | 131,041 | 0 | 4,462,648 |
| Other expenses | 2,782,108 | 208,340 | 74,625 | (85,378) | 2,979,695 |
| Total operating expenses | 11,027,189 | 725,649 | 212,153 | (96,797) | 11,868,194 |
| | | | | | |
| Income before taxes | 1,650,948 | 86,002 | 1,118,712 | (1,248,860) | 1,606,802 |
| | | | | | |
| Income tax expense (benefit) | 459,000 | 29,242 | (39,110) | 0 | 449,132 |
| | | | | | |
| Net income | $ 1,191,948 | $ 56,760 | $ 1,157,822 | $ (1,248,860) | $ 1,157,670 |
| | | | | | |
| Total assets | $ 867,259,003 | $ 6,070,045 | $ 82,726,263 | $ (84,309,093) | $ 871,746,218 |

| | Nine Months Ended September 30, 2010 | | | | |
|---|---|---|---|---|---|
| | | | Unconsolidated | | |
| | Bank | Trust | Parent | Eliminations | Consolidated |
| Revenues | | | | | |
| Interest and dividend income | $ 30,767,195 | $ 40,457 | $ 1,354,548 | $ (1,353,059) | $ 30,809,141 |
| Income from fiduciary activities | 0 | 2,319,856 | 0 | 0 | 2,319,856 |
| Other income | 7,191,614 | 346,248 | 228,038 | (270,728) | 7,495,172 |
| Total operating income | 37,958,809 | 2,706,561 | 1,582,586 | (1,623,787) | 40,624,169 |
| | | | | | |
| Expenses | | | | | |
| Interest expense | 7,919,228 | 0 | 9,267 | (16,777) | 7,911,718 |
| Provision for loan losses | 7,500,000 | 0 | 0 | 0 | 7,500,000 |
| Salaries and employee benefits | 11,745,806 | 1,557,484 | 388,522 | 0 | 13,691,812 |
| Other expenses | 9,792,181 | 710,300 | 184,988 | (270,728) | 10,416,741 |
| Total operating expenses | 36,957,215 | 2,267,784 | 582,777 | (287,505) | 39,520,271 |
| | | | | | |
| Income before taxes | 1,001,594 | 438,777 | 999,809 | (1,336,282) | 1,103,898 |
| | | | | | |
| Income tax expense (benefit) | (45,095) | 149,184 | (97,170) | 0 | 6,919 |
| | | | | | |
| Net income | $ 1,046,689 | $ 289,593 | $ 1,096,979 | $ (1,336,282) | $ 1,096,979 |
| | | | | | |
| Total assets | $ 914,325,739 | $ 4,996,581 | $ 83,373,669 | $ (83,979,375) | $ 918,716,614 |

| | Nine Months Ended September 30, 2009 | | | | |
|---|---|---|---|---|---|
| | | | Unconsolidated | | |
| | Bank | Trust | Parent | Eliminations | Consolidated |
| Revenues | | | | | |
| Interest and dividend income | $ 31,200,640 | $ 61,698 | $ 1,557,919 | $ (1,558,500) | $ 31,261,757 |
| Income from fiduciary activities | 0 | 2,230,009 | 0 | 0 | 2,230,009 |
| Other income | 6,558,815 | 321,248 | 225,000 | (266,978) | 6,838,085 |
| Total operating income | 37,759,455 | 2,612,955 | 1,782,919 | (1,825,478) | 40,329,851 |
| | | | | | |
| Expenses | | | | | |
| Interest expense | 11,059,362 | 0 | 6,487 | (21,596) | 11,044,253 |
| Provision for loan losses | 5,000,000 | 0 | 0 | 0 | 5,000,000 |
| Salaries and employee benefits | 11,346,914 | 1,534,113 | 396,074 | 0 | 13,277,101 |
| Other expenses | 8,930,906 | 625,334 | 170,760 | (266,978) | 9,460,022 |
| Total operating expenses | 36,337,182 | 2,159,447 | 573,321 | (288,574) | 38,781,376 |
| | | | | | |
| Income before taxes | 1,422,273 | 453,508 | 1,209,598 | (1,536,904) | 1,548,475 |
| | | | | | |
| Income tax expense (benefit) | 184,683 | 154,194 | (96,010) | 0 | 242,867 |
| | | | | | |
| Net income | $ 1,237,590 | $ 299,314 | $ 1,305,608 | $ (1,536,904) | $ 1,305,608 |
| | | | | | |
| Total assets | $ 867,259,003 | $ 6,070,045 | $ 82,726,263 | $ (84,309,093) | $ 871,746,218 |

The Bank extends a line of credit for $370 thousand to the Parent, of which $244 thousand was drawn at September 30, 2010. This line of credit is used primarily to repurchase the Parent's publicly traded stock, although it is also available to provide a source of liquidity for the Parent. Interest is charged at the Wall Street Journal Prime Rate minus 0.5%, with a floor of 5.0%. This loan is secured by a held-to-maturity security with a book value of $412 thousand and a market value of $429 thousand. 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.

Item 2. 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. The Company consists of the parent company and its wholly-owned subsidiaries, The Old Point National Bank of Phoebus (the Bank) and Old Point Trust & Financial Services, N. A. (Trust), collectively referred to as the Company. 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 a forward-looking statement. These forward-looking statements may include, but are not limited to, statements regarding profitability, liquidity, allowance for loan losses, trends regarding the provision for loan losses, trends regarding net loan charge-offs, trends regarding the future levels of nonperforming assets, levels of overdraft or other fee income, levels of noninterest expense, losses or gains in the write-down/sale of foreclosed assets, the costs of expanding a current branch office, interest rates and yields, interest rate sensitivity, market risk, growth strategy and financial and other goals. Forward-looking statements often use words such as "believes," "expects," "plans," "may," "will," "should," "projects," "contemplates," "anticipates," "forecast other words of similar meaning. Forward-looking 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, changes in interest rates, general economic and business conditions, the quality or composition of the loan or investment portfolios, the size of the provision for loan losses, the adequacy of the allowance for loan losses, the level of nonperforming assets, impaired loans and charge-offs, the local real estate market, results of internal assessments and external bank regulatory examinations, the value of collateral securing loans, the value of and the Company's ability to sell foreclosed assets, the Company's ability to enter into an agreement with a general contractor to expand a current branch office on acceptable terms, volatility and disruption in national and international financial markets, government intervention in the U.S. financial system, Federal Deposit Insurance Corporation (FDIC) premiums and/or assessments, demand for loan and other products, deposit flows, competition, and accounting principles, policies and guidelines. Monetary and fiscal policies of the U.S. Government could also adversely affect the Company; such policies include the impact of any regulations or programs implemented pursuant to the Emergency Economic Stabilization Act of 2008 (EESA), the American Recovery and Reinvestment Act of 2009 (ARRA) and other policies of the Office of the Comptroller of the Currency (OCC), U.S. Treasury and the Board of Governors of the Federal Reserve System. The requirements of the Dodd-Frank Act may also adversely affect the Company.

The Company has experienced reduced earnings due to the current economic climate. Dramatic declines in the residential and commercial real estate markets in recent years have resulted in increases in nonperforming assets and significant write-downs of asset values by the Company as well as by other financial institutions in the U.S. Concerns about the stability of the U.S. financial markets generally have reduced the availability of funding to certain financial institutions, leading to a tightening of credit, reduction of business activity and increased market volatility.

On May 22, 2009, the FDIC approved a final rule to impose a special assessment of 5 basis points on each bank's total assets minus Tier 1 capital in order to replenish the Deposit Insurance Fund (DIF). This special assessment plus higher quarterly assessments have impacted and will continue to impact the Company's performance by directly increasing expenses. Additionally, due to the current capitalization of the DIF and to reforms contained in the Dodd-Frank Act, the Company expects increased deposit insurance assessments to continue through future operating periods.

It is not clear what other impacts the liquidity and funding initiatives of the U.S. Treasury and other bank regulatory agencies will have on the financial markets and the financial services industry. It is also not clear what effects future regulatory reforms, including the implementation of the Dodd-Frank Act, may have on financial markets, the financial services industry and depository institutions. The extreme levels of volatility and limited credit availability currently being experienced could continue to affect the U.S. banking industry and the broader U.S. and global economies, which would have an effect on all financial institutions, including the Company.

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.

General

The Company is the parent company of the Bank and Trust. The Bank is a locally managed community bank 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 currently has 21 branch offices. Trust is a wealth management services provider.

Critical Accounting Policies and Estimates

As of September 30, 2010, there have been no significant changes with regard to the critical accounting policies and estimates disclosed in the Company's 2009 annual report on Form 10-K. That disclosure included a discussion of the accounting policy that requires management's most difficult, subjective or complex judgments: the allowance for loan losses. In 2010, there have been slight changes to the critical accounting estimate for the allowance for loan losses in the period used to calculate the historic loss. See the Allowance for Loan Losses section in the Management's Discussion and Analysis for more details about these slight changes.

Earnings Summary

Net income for the third quarter of 2010 was $1.0 million as compared with $1.2 million in the third quarter of 2009, a decrease of $123 thousand or 10.64%. Net income for the first nine months of 2010 was down 15.98% from the same period in 2009. During the third quarter of 2010, the loan loss provision was $1.5 million, compared to $1.0 million in the third quarter of 2009. The Company believes that the increase in the loan loss provision in the third quarter of 2010 is appropriate based on its analysis of the allowance for loan losses (see the Allowance for Loan Losses section below). Expenses for the third quarter of 2010 were negatively impacted by higher loss on write-down/sale of foreclosed assets, up $564 thousand compared to the third quarter of 2009. Basic and diluted earnings per share for the third quarter of 2010 were $0.21. Basic and diluted earnings per share for the third quarter of 2009 were $0.24. Basic and diluted earnings per share for the nine months ended September 30, 2010 were $0.22 and basic and diluted earnings per share were $0.27 and $0.26, respectively, for the nine months ended September 30, 2009.

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 yield is calculated by dividing tax-equivalent net interest income by average earning assets. Net interest income, on a fully tax equivalent basis, was $8.0 million in the third quarter of 2010, an increase of $835 thousand from the third quarter of 2009. The net interest yield was 3.77% in the third quarter of 2010, 19 basis points higher than the 3.58% net interest yield in the equivalent period in 2009. The higher net interest yield in 2010 was the result of the rate on interest-bearing liabilities decreasing 76 basis points, compared to a 47 basis-point decrease in the yield on earning assets.

Tax-equivalent interest income decreased by $338 thousand, or 3.20%, in the third quarter of 2010 compared to the same period of 2009. Average earning assets grew $49.5 million, or 6.22%, compared to the third quarter of 2009. Interest expense decreased $1.2 million, or 34.24%, and average interest-bearing liabilities increased by $33.0 million, or 4.94% in the third quarter of 2010 compared to the same period of 2009. The decrease in interest expense despite the increase in average interest-bearing liabilities is a result of the 76 basis-point decrease in the rate on interest-bearing liabilities in the third quarter of 2010 compared to the third quarter of 2009.

For the nine months ended September 30, 2010, tax-equivalent net interest income was $23.1 million, up 12.53% from the first nine months of 2009. The net interest yield of 3.57% in the first nine months of 2010 was 14 basis points higher than the yield for the same period of 2009, again due to the rate on interest-bearing liabilities decreasing faster than the yield on earning assets. Tax-equivalent interest income for the nine months ended September 30, 2010 decreased $565 thousand, or only 1.79%, from the first nine months of 2009, while interest expense fell $3.1 million, or 28.36% between the same periods. As in the three-month period ended September 30, 2010, the decrease in interest expense occurred even though average interest-bearing liabilities increased. This decline in interest expense was due to a 77-basis point decline in the rate on interest-bearing liabilities in the first nine months on 2010 as compared to the first nine months of 2009. Average earning assets grew 8.12% between September 30, 2010 and September 30, 2009; average interest-bearing liabilities grew even faster during that period at 9.45%.

The yield on average earning assets and cost of average interest-bearing liabilities both decreased due to the Federal Open Market Committee (FOMC) lowering the Federal Funds Target Rate during 2008 from 4.25% to a range of 0.00% to 0.25%. The FOMC has kept the Federal Funds Target Rate unchanged during 2009 and the first nine months of 2010. As higher-yielding earning assets and higher-cost interest-bearing liabilities that were booked prior to 2008 mature, they are being replaced with lower-yielding earning assets and lower-cost interest-bearing liabilities. Assuming that the FOMC keeps interest rates at current levels, management believes that the average rate on interest-bearing liabilities will continue to decrease more rapidly than the average rate on earning assets, although the gap between the two is expected to narrow.

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

AVERAGE BALANCE SHEETS, NET INTEREST INCOME* AND RATES*

| | For the quarter ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | Average Balance | Interest Income/ Expense | Yield/ Rate** | Average Balance | Interest Income/ Expense | Yield/ Rate** |
| | | | (in thousands) (unaudited) | | | |
| Loans* | $ 619,241 | $ 9,252 | 5.98% | $ 628,833 | $ 9,666 | 6.15% |
| Investment securities: | | | | | | |
| Taxable | 186,227 | 854 | 1.83% | 120,045 | 584 | 1.95% |
| Tax-exempt* | 4,517 | 80 | 7.08% | 10,051 | 183 | 7.28% |
| Total investment securities | 190,744 | 934 | 1.96% | 130,096 | 767 | 2.36% |
| Federal funds sold | 29,249 | 15 | 0.21% | 21,368 | 11 | 0.21% |
| Other investments | 6,109 | 12 | 0.79% | 15,532 | 107 | 2.76% |
| Total earning assets | 845,343 | $ 10,213 | 4.83% | 795,829 | $ 10,551 | 5.30% |
| Allowance for loan losses | (12,138) | | | (7,400) | | |
| Other nonearning assets | 82,090 | | | 73,261 | | |
| Total assets | $ 915,295 | | | $ 861,690 | | |
| | | | | | | |
| Time and savings deposits: | | | | | | |
| Interest-bearing transaction accounts | $ 10,663 | $ 1 | 0.04% | $ 9,569 | $ 1 | 0.04% |
| Money market deposit accounts | 164,714 | 95 | 0.23% | 138,209 | 74 | 0.21% |
| Savings accounts | 46,010 | 12 | 0.10% | 41,623 | 11 | 0.11% |
| Time deposits, $100,000 or more | 145,729 | 645 | 1.77% | 167,406 | 827 | 1.98% |
| Other time deposits | 199,196 | 960 | 1.93% | 160,691 | 1,514 | 3.77% |
| Total time and savings deposits | 566,312 | 1,713 | 1.21% | 517,498 | 2,427 | 1.88% |
| Federal funds purchased, repurchase agreements and other borrowings | 99,293 | 110 | 0.44% | 85,156 | 151 | 0.71% |
| Federal Home Loan Bank advances | 35,000 | 430 | 4.91% | 65,000 | 848 | 5.22% |
| Total interest-bearing liabilities | 700,605 | 2,253 | 1.29% | 667,654 | 3,426 | 2.05% |
| Demand deposits | 129,741 | | | 108,994 | | |
| Other liabilities | 2,233 | | | 2,780 | | |
| Stockholders' equity | 82,716 | | | 82,262 | | |
| Total liabilities and stockholders' equity | $ 915,295 | | | $ 861,690 | | |
| Net interest income/yield | | $ 7,960 | 3.77% | | $ 7,125 | 3.58% |

| For the nine months ended September 30, | |
|---|---|
| 2010 | 2009 |

| | Average Balance | Interest Income/ Expense | Yield/ Rate** (in thousands) (unaudited) | Average Balance | Interest Income/ Expense | Yield/ Rate** |
|---|---|---|---|---|---|---|
| Loans* | $ 627,677 | $ 28,028 | 5.95% | $ 632,636 | $ 28,516 | 6.01% |
| Investment securities: | | | | | | |
| Taxable | 179,912 | 2,508 | 1.86% | 111,693 | 1,953 | 2.33% |
| Tax-exempt* | 6,110 | 334 | 7.29% | 12,152 | 658 | 7.22% |
| Total investment securities | 186,022 | 2,842 | 2.04% | 123,845 | 2,611 | 2.81% |
| Federal funds sold | 40,807 | 64 | 0.21% | 20,214 | 33 | 0.22% |
| Other investments | 6,134 | 35 | 0.76% | 19,334 | 374 | 2.58% |
| Total earning assets | 860,640 | $ 30,969 | 4.80% | 796,029 | $ 31,534 | 5.28% |
| Allowance for loan losses | (10,563) | | | (6,947) | | |
| Other nonearning assets | 79,760 | | | 68,189 | | |
| Total assets | $ 929,837 | | | $ 857,271 | | |
| | | | | | | |
| Time and savings deposits: | | | | | | |
| Interest-bearing transaction accounts | $ 10,948 | $ 5 | 0.06% | $ 9,571 | $ 5 | 0.07% |
| Money market deposit accounts | 156,955 | 262 | 0.22% | 135,051 | 232 | 0.23% |
| Savings accounts | 44,998 | 35 | 0.10% | 40,961 | 42 | 0.14% |
| Time deposits, $100,000 or more | 164,020 | 2,072 | 1.68% | 152,428 | 2,859 | 2.50% |
| Other time deposits | 183,994 | 3,097 | 2.24% | 182,948 | 4,917 | 3.58% |
| Total time and savings deposits | 560,915 | 5,471 | 1.30% | 520,959 | 8,055 | 2.06% |
| Federal funds purchased, repurchase agreements and other borrowings | 108,559 | 471 | 0.58% | 71,057 | 392 | 0.74% |
| Federal Home Loan Bank advances | 51,827 | 1,970 | 5.07% | 67,037 | 2,597 | 5.17% |
| Total interest-bearing liabilities | 721,301 | 7,912 | 1.46% | 659,053 | 11,044 | 2.23% |
| Demand deposits | 123,946 | | | 112,432 | | |
| Other liabilities | 2,438 | | | 3,031 | | |
| Stockholders' equity | 82,152 | | | 82,755 | | |
| Total liabilities and stockholders' equity | $ 929,837 | | | $ 857,271 | | |
| Net interest income/yield | | $ 23,057 | 3.57% | | $ 20,490 | 3.43% |

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

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 credit losses that may be sustained in the loan portfolio. Management's evaluation included credit quality trends, collateral values, 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, were used in developing estimated loss factors for determining the loan loss provision.

The provision for loan losses was $1.5 million in the third quarter of 2010, as compared to $1.0 million in the third quarter of 2009. Management concluded that the higher provision was appropriate based on the increases in nonperforming loans during the third quarter of 2010 and on the Company's analysis of the credit quality of the loan portfolio. In the first nine months of 2010, the provision for loan losses was $7.5 million, compared to $5.0 million in the first nine months of 2009.

The increase in the provision for loan losses in the first nine months of 2010 was due to several factors. First, a lending relationship of $9.4 million was placed in nonaccrual during the first quarter of 2010. This loan is secured by commercial real estate and other collateral that have a combined value of $6.6 million, leaving an unsecured amount of $2.8 million. Second, management made changes to the historical loss calculation of the allowance for loan losses during the first nine months of 2010. For more information regarding the changes to the historical loss calculation, see the Allowance for Loan Losses section of this Form 10-Q. Also, nonperforming loans have increased $16.1 million since December 31, 2009. See below in this section for more details regarding this $16.1 million increase. Management believes that the large increase of $4.7 million in the provision for loan losses for the first quarter of 2010 should not continue and the provision should be lower in future periods, as evidenced by the reduced provision for the second and third quarters of 2010. The primary reason for the $4.7 million provision in the first quarter of 2010 was a $9.4 million relationship that was moved into nonaccrual status in that quarter. The Company's analysis of its loan portfolio since that time has not identified other significant relationships that are at risk of being placed in nonaccrual status.

Net loans charged off were $1.1 million for the third quarter of 2010 as compared to $521 thousand for the third quarter of 2009. For the first nine months of 2010 and 2009, net loans charged off were $3.3 million and $3.7 million respectively. Net charge-offs in 2009 were impacted by a $1.4 million write-down on a real estate construction project in the second quarter. On an annualized basis, net loan charge-offs were 0.70% of total loans for the first nine months of 2010 compared with 0.77% for the same period in 2009. While net loan charge-offs remain high and reflect ongoing difficulties in the commercial and consumer real estate sectors, the gradual improvement in the economy helped reduce charge-offs in the first nine months of 2010 as compared to the first nine months of 2009. However, management believes that net loans charged off will remain relatively high until the economic recovery becomes more pronounced.

Nonperforming assets consist of nonaccrual loans, loans past due 90 days or more and accruing interest, restructured loans, and foreclosed assets. Restructured loans are loans with terms that were modified in a troubled debt restructuring for borrowers experiencing financial difficulties. As of September 30, 2010, the Company did not have any restructured loans. It is generally the Company's policy that restructured loans that have continued to be in compliance with modified terms for six months and yield a market rate at the time of restructuring not be reported as restructured loans in years subsequent to the year in which the loan was first restructured. In September of 2009, the Company restructured a $2.5 million real estate mortgage loan. Since the restructuring, the loan has been in compliance with its modified terms and is yielding a market rate. Based on these factors, the loan was recategorized as a performing loan in the third quarter of 2010 and no longer considered either a restructured loan or a nonperforming asset. Foreclosed assets consist of real estate from foreclosures on loan collateral. The majority of the loans 90 days past due but still accruing interest are classified as substandard. As noted below, substandard loans are a component

of the allowance for loan losses. When a loan changes from "past due 90 days or more and accruing interest" status to "nonaccrual" status, the loan is reviewed for impairment. If the loan is considered impaired, then the difference between the value of the collateral and the principal amount outstanding on the loan is charged off. 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 following table presents information concerning nonperforming assets:

| | September 30, 2010 (unaudited) | December 31, 2009 | Increase (Decrease) |
|---|---|---|---|
| | | (in thousands) | |
| Nonaccrual loans | | | |
| Commercial | $ 248 | $ 255 | $ (7) |
| Real estate-construction | 27 | 524 | (497) |
| Real estate-mortgage | 23,226 | 4,109 | 19,117 |
| Installment loans to individuals | 135 | 29 | 106 |
| Total nonaccrual loans | $ 23,636 | $ 4,917 | $ 18,719 |
| Loans past due 90 days or more and accruing interest | | | |
| Commercial | $ 43 | $ 40 | $ 3 |
| Real estate-construction | 39 | 0 | 39 |
| Real estate-mortgage | 120 | 228 | (108) |
| Installment loans to individuals | 41 | 117 | (76) |
| Other | 0 | 4 | (4) |
| Total loans past due 90 days or more and accruing interest | $ 243 | $ 389 | $ (146) |
| Restructured loans (in compliance with modified terms) | | | |
| Real estate-mortgage | $ 0 | $ 2,480 | $ (2,480) |
| Total restructured loans (in compliance with modified terms) | $ 0 | $ 2,480 | $ (2,480) |
| Foreclosed assets | | | |
| Real estate-construction | $ 5,451 | $ 5,149 | $ 302 |
| Real estate-mortgage | 4,689 | 2,474 | 2,215 |
| Total foreclosed assets | $ 10,140 | $ 7,623 | $ 2,517 |
| Total nonperforming assets | $ 34,019 | $ 15,409 | $ 18,610 |

The large increase in the nonaccrual loan category during the nine months ended September 30, 2010 is mainly due to one credit relationship of $9.4 million or 50.22% of the $18.7 million total increase in that category. This loan is secured by commercial real estate and other collateral that have a combined value of $6.6 million. The majority of the balance of nonaccrual loans is related to a few large credit relationships. Of the $23.6 million of nonaccrual loans at September 30, 2010, $19.3 million or 81.71% was comprised of eight credit relationships: the $9.4 million relationship discussed above and seven other relationships of $3.6 million, $1.6 million, $1.2 million, $1.1 million, $1.0 million, $739 thousand and $674 thousand.

If current economic conditions, which have been showing some signs of improvement, do not in fact improve, management believes nonperforming assets could continue to increase, which would have a negative effect on the Company’s financial position. As was seen in the nine months ended September 30, 2010, the effect of a sustained increase in nonperforming assets would be lower earnings caused by larger contributions to the loan loss provision arising from a larger impairment in the loan portfolio and a higher level of loan charge-offs. Management believes the Company has excellent credit quality review processes in place to identify problem loans quickly. Therefore, management believes that the current trend of declining asset quality will improve, although the improvement may take some time. Management will work with customers that are having difficulties meeting their loan payments, with foreclosure considered a last resort.

As reflected in the $18.6 million increase in nonperforming assets during the first nine months of 2010, the quality of the Company’s loan portfolio declined during this period. Management believes the decline in the quality of the

Company's loan portfolio during this period was primarily due to the general decline of economic conditions, depressed commercial and residential real estate markets and the effects of unemployment on borrowers. Due to this decline, management has increased the allowance for loan losses to $12.1 million as of September 30, 2010 as compared to a balance of $7.9 million as of December 31, 2009. As of September 30, 2010, the allowance for loan losses was 35.58% of nonperforming assets and 50.69% of nonperforming loans. The definition of nonperforming loans is nonperforming assets less foreclosed assets. The allowance for loan losses was 1.96% of total loans on September 30, 2010 and 1.24% of total loans on December 31, 2009.

Allowance for Loan Losses

The allowance for loan losses is based on several components: historical loss rates, impairment analysis of nonperforming loans, including collateral valuation, and qualitative factors. In evaluating the adequacy of the allowance, the loan portfolio is divided into several pools of loans:

1. Doubtful–specific identification
2. Substandard–specific identification
3. Pool–substandard
4. Pool–other assets especially mentioned (rated just above substandard)
5. Pool–pass loans (all other loans)

Historical loss rates, adjusted for the current economic environment, are applied to the above five pools of loans, except for doubtful and substandard loans which have losses specifically calculated on an individual loan basis. Historical loss is one of the components of the allowance. Prior to 2010, the historical loss calculation was based on the previous four years. In the first quarter of 2010, the historical loss was based on the previous nine quarters, or all of 2008 and 2009 and the first quarter of 2010. The historical loss for the second quarter of 2010 was based on the most recent six quarters, or all of 2009 and the first two quarters of 2010. For the third quarter of 2010, the historical loss was based on the most recent seven quarters, or all of 2009 and the first three quarters of 2010. The seven-quarter loss history component of the allowance amounted to $3.8 million as of September 30, 2010. Management believes the shorter historical loss periods more accurately reflect the current economic environment.

During the first and second quarter of 2010, the historical loss was based on an annual calculation, rather than a quarterly one. During the third quarter of 2010, management converted the annual calculation to a quarterly calculation. In management’s opinion, the use of a quarterly loss history more accurately reflects the loss potential of the loan portfolio in the current economic environment.

In addition, nonperforming loans are analyzed for impairment under U.S. GAAP and are allocated based on this analysis. Increases in nonperforming loans affect this portion of the adequacy review. The Company’s nonperforming loans fall in the doubtful pool with specific identification, the substandard pool with specific identification or the pool-substandard pool of loans. Therefore, changes in nonperforming loans affect the dollar amount of the allowance. Unless the nonperforming loan is not impaired (i.e. the collateral value is considered sufficient), increases in nonperforming loans are reflected as an increase in the allowance for loan losses.

The majority of the Company’s nonperforming loans are collateralized by real estate. When reviewing loans for impairment or when the Company takes loan collateral due to loan default, it obtains current appraisals. Any loan balance that is in excess of the appraised value is allocated in the allowance. In the current real estate market, appraisers are having difficulty finding comparable sales, which is causing some appraisals to be very low. As a result, the Company is being conservative in its valuation of collateral which results in higher than normal charged off loans and higher than normal increases to the Company’s allowance for loan losses. As of September 30, 2010, the impaired loan component of the allowance amounted to $3.5 million and is reflected as a valuation allowance related to impaired loans in Note 3 of the Notes to Consolidated Financial Statements included in this Form 10-Q.

The final component of the allowance consists of qualitative factors and includes items such as the economy, growth trends, loan concentrations, and legal and regulatory changes. Due to the decline in the overall economy in 2008 and 2009, management increased the component of the allowance for loan losses related to the economy in each of the loan portfolios in 2009. This component remains at this level for the first three quarters of 2010. During the third quarter of 2010, management increased the component of the allowance for loan losses related to legal and regulatory changes due to the passing of the Dodd-Frank Act. The qualitative component of the allowance amounted to $4.3 million as of September 30, 2010.

As a result of these changes and the overall increase in nonperforming assets, the Company added $7.5 million to the allowance for loan losses in the first nine months of 2010, with $1.5 million added during the third quarter of 2010. Management is concerned about the increase in nonperforming assets during the first nine months of 2010 but believes that the allowance has been appropriately funded for additional losses on existing loans, based on currently available information. The Company will continue to monitor nonperforming assets closely and make changes to the allowance for loan losses when management concludes such changes are necessary.

Noninterest Income

Compared to the same period in 2009, total noninterest income was $390 thousand higher in the third quarter of 2010. In the service charges on deposit accounts category, there was a decrease in overdraft fees of $393 thousand between the third quarter of 2009 and the third quarter of 2010. The majority of this decrease in overdraft fees is attributed to the changes in Regulation E requiring a customer to authorize in advance overdrafts caused by debit card and ATM transactions. The Company expected overdraft fees to continue to decrease and is compensating for the projected decrease in overdraft income by pursuing new product offerings, such as remote deposit capture and lockbox services, to help drive future noninterest income.

The other service charges, commissions and fees noninterest income category increased $89 thousand, or 14.16% during the third quarter of 2010 as compared to the same quarter in 2009. The majority of this increase was attributed to increases in debit card and merchant processing income which increased $57 thousand and $28 thousand, respectively, mainly as a result of increased sales focus in these areas.

Income from bank owned life insurance increased $17 thousand, or 8.74%, due to the purchase of additional policies for newly-qualified employees. Also, other operating income increased $61 thousand when comparing the third quarter of 2010 to the third quarter of 2009. The majority of this increase, or $52 thousand, was due to increased income from Old Point Mortgage, LLC, which is the Company's joint venture with Tidewater Mortgage Services, Inc. to provide mortgage origination services.

In addition, in the third quarter of 2010 the Company recognized $541 thousand in gains on sales of available-for-sale securities. Management considered the effect on future yields prior to initiating the sale of these securities and believes that the selling of securities to recognize this gain presented the most advantageous option for the Company at the time the transactions occurred.

For the nine months ended September 30, 2010, noninterest income increased $747 thousand, or 8.24%, as compared to the same period in 2009. The overall increase in noninterest income occurred despite a decrease of $563 thousand in overdraft fee income. One significant component of this overall increase was a $541 thousand increase in gains on sales of available-for-sale securities. Other components of the increase included higher income from other service charges, commissions and fees of $266 thousand, mainly from debit card, merchant processing and ATM interchange fee income. Income from bank owned life insurance increased $265 thousand, due to the receipt of insurance proceeds and the purchase of additional policies. Also, income from fiduciary activities increased $90 thousand during the first nine months of 2010 as compared to the same period in 2009. The increase in fiduciary activities income is generated by increased sales efforts.

Noninterest Expense

For the third quarter of 2010, noninterest expense increased $960 thousand, or 12.90%, over the third quarter of 2009. The largest increase between the third quarters of 2009 and 2010 was in losses on write-down/sale of foreclosed assets, which increased $564 thousand. The increase in this foreclosed asset expense account was mainly due to the write-down of several properties, after obtaining current appraisals at lower market values. FDIC insurance increased $140 thousand during the third quarter of 2010 as compared to the third quarter of 2009, caused by higher assessments. Other outside service fees increased $62 thousand during the third quarter of 2010 as compared to the

same quarter in 2009. The majority of the increase in other outside service fees was related to an audit of the Company's computer network, including penetration testing, to ensure strong security in this area. Legal and audit expenses also increased significantly, rising 75.54% between the third quarter of 2009 and the same period in 2010. The majority of the difference was due to the need for additional legal advice on securities and regulatory issues, as well as advice on troubled loans. Management expects noninterest expenses to remain elevated until the economy is well into recovery.

Noninterest expense for the nine months ended September 30, 2010 was up $1.4 million, or 6.03%, over the first nine months of 2009. As in the third quarter, a portion of the change was driven by legal expenses, outside service fees and write-down of foreclosed assets. In addition, salaries and employee benefit costs for the first nine months of 2010 were $415 thousand, or 3.12% higher than the first nine months of 2009. The rise in salary expense was caused by several factors: merit increases resulting from annual reviews, additions to staff in the Corporate Banking department in the second half of 2009, and the filling of positions which had been vacant for some time.

On the positive side, FDIC insurance costs declined $67 thousand, or 5.98%, in the first nine months of 2010, compared to the first nine months of 2009. In the second quarter of 2009, the Company paid a $386 thousand special assessment based on asset size, which was assessed to all banks. FDIC insurance costs, however, were $87 thousand higher in the third quarter of 2010 than in the second quarter of 2010 and management expects increased deposit insurance assessments to continue through future operating periods as a result of the higher reserve requirements for the DIF established by the Dodd-Frank Act.

Balance Sheet Review

At September 30, 2010, the Company had total assets of $918.7 million, a decrease of 0.29% from $921.4 million at December 31, 2009. This minimal decrease occurred despite the payoff at maturity in the second quarter of 2010 of $30.0 million of advances from the FHLB, funded from available cash and equivalents. These fixed-rate FHLB advances, at market rates when the Company obtained them, became less favorable with the significant declines in market rates in recent years. As the Company had planned, these advances were paid off at maturity to improve the net interest margin. Net loans as of September 30, 2010 were $604.6 million, a decrease of 3.63% from $627.4 million at December 31, 2009. The decrease in loans was partly due to the net increase of $4.2 million in the allowance for loan losses. Loan balances have also declined for several reasons, including: higher than normal amortization of residential loans in this attractive refinance market; closer managing of revolving credits; purposeful exiting of troubled credits; partial charge-offs of some larger troubled loans to properly account for reasonable collateral value; and regularly scheduled payoffs exceeding loan demand from qualified borrowers. The Company believes it has sufficient liquidity to fund new loans.

The Company's holdings of "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 September 30, 2010.

The Company does not have a formal program for subprime lending. The Company is required by law to comply with the requirements of the Community Reinvestment Act (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 local market area.

The following table details, as of September 30, 2010, the Company’s loans with subprime characteristics that were secured by 1-4 family first mortgages, 1-4 family open-end and 1-4 family junior lien loans 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

| | | Amount | Percent |
|---|---|---|---|
| Subprime | $ | 25,466,056 | 20.9% |
| Non-subprime | | 96,305,750 | 79.1% |
| | $ | 121,771,806 | 100.0% |
| | | | |
| Total loans | $ | 616,736,171 | |
| Percentage of Real Estate-Secured Subprime Loans to Total Loans | | | 4.13% |

In addition to the subprime loans secured by real estate discussed above, as of September 30, 2010, the Company had an additional $4.5 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 September 30, 2010 were $30.0 million, amounting to 4.86% of the Company’s total loans at September 30, 2010. The Company’s total subprime loans as of December 31, 2009 were $33.1 million or 5.20% of the Company’s total loans. There has been a reduction of $3.1 million or 34 basis points in the first three quarters of 2010 in subprime loans.

Additionally, the Company has no investments secured by “Alt-A” type mortgage loans such as adjustable rate and nontraditional type mortgages or subprime loans.

Average assets for the first nine months of 2010 were $929.8 million compared to $857.3 million for the first nine months of 2009. The growth in average assets in 2010 was due mainly to the growth in average investment securities and federal funds sold, which increased 50.21% and 101.87%, respectively, as compared to the same period in 2009. A portion of the strong growth in investment securities resulted from $10.0 million of funds that were in other investments as of September 30, 2009 maturing and being replaced with investment securities by September 30, 2010. The increase in federal funds sold was a result of liquidity provided by significant growth in deposits since September 30, 2009.

Total available-for-sale and held-to-maturity securities at September 30, 2010 were $196.7 million, an increase of 11.77% from $176.0 million at December 31, 2009. Since low-cost deposits have increased and loan demand has slowed this year, the Company has increased its security holdings. The Company’s goal is to provide maximum return on the investment portfolio within the framework of its asset/liability objectives. The objectives include managing interest sensitivity, liquidity and pledging requirements.

At September 30, 2010, total deposits were $34.2 million, or 5.16%, higher than the balance of $662.5 million at December 31, 2009. Repurchase agreements decreased $8.1 million, or 7.37% since December 31, 2009. The Bank’s repurchase agreements are fully collateralized by government agencies, providing customers with protection for funds that might otherwise exceed the limit for FDIC insurance coverage. The decrease in the level of term repurchase agreements was primarily due to successful sales efforts aimed at increasing low-cost deposits, allowing the Bank to focus on customer relationships and not higher-cost funding sources to meet liquidity needs.

Capital Resources

Under applicable banking regulations, Total Capital is comprised of core capital (Tier 1) and supplemental capital (Tier 2). Tier 1 capital consists of common stockholders' equity and retained earnings less goodwill. Tier 2 capital consists of certain qualifying debt and a qualifying portion of the allowance for loan losses. The following is a summary of the Company's capital ratios at September 30, 2010. As shown below, these ratios were all well above the regulatory minimum levels.

| | 2010 Regulatory Minimums | September 30, 2010 |
|---|---|---|
| Tier 1 | 4.00% | 12.23% |
| Total Capital | 8.00% | 13.48% |
| Tier 1 Leverage | 4.00% | 9.10% |

Book value per share was $16.84 at September 30, 2010 and $16.80 at September 30, 2009. Cash dividends were $985 thousand or $0.20 per share in the first three quarters of 2010 and $1.8 million or $0.37 per share in the first three quarters of 2009. The common stock of the Company has not been extensively traded.

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.

A major source of the Company's liquidity is its large stable deposit base. In addition, secondary liquidity sources are available through the use of borrowed funds if the need should arise, including secured advances from the FHLB. During the first nine months of 2010, the Company paid off $30.0 million of advances from the FHLB. As of the end of the third quarter of 2010, the Company had $239.3 million in FHLB borrowing availability. The Company has available short-term unsecured borrowed funds in the form of federal funds lines with correspondent banks. As of the end of the third quarter of 2010, the Company had $28.0 million available in federal funds lines to handle any short-term borrowing needs.

Management is aware of the current market and institutional trends, events and uncertainties, including market disruptions and significant restrictions on availability of capital in the U.S. and global economies. However, management does not expect the trends, events and uncertainties to have a material effect on the liquidity or capital resources of the Company. Management is not aware of any current recommendations by regulatory authorities that would have a material effect on liquidity or capital resources, except those provisions contained in the recently-passed Dodd-Frank Act. While it is too early to fully assess the impact of the Dodd-Frank Act and subsequent regulatory rulemaking processes, the act increases regulatory supervision and examination of bank holding companies and their banking and non-banking subsidiaries and imposes more stringent capital requirements on bank holding companies, as discussed in the Risk Factors section of the Company's second quarter 2010 report on Form 10-Q. The Company's internal sources of such 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 liquidity position has improved during the nine months ended September 30, 2010, as reflected in the Consolidated Statements of Cash Flows. Growth in low-cost deposits, as discussed previously, allowed the Company to pay off $39.7 million of higher-cost funding in the form of FHLB advances and term repurchase agreements. This reduction in collateralized borrowings increased the amount of unpledged securities held by the Company. These unpledged available-for-sale securities provide an additional funding source that is immediately available should a need arise.

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.

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 cash outflows.

The Company has plans to expand the building of a current branch office.  The Company has not signed a contract with a general contractor for this project as of the filing of this Form 10-Q but anticipates that the project will likely cost between $8.0 million and $10.0 million over the next two to three years.

As of September 30, 2010, there have been no material changes outside the ordinary course of business in the Company's contractual obligations disclosed in the Company's 2009 annual report on Form 10-K.

Off-Balance Sheet Arrangements

As of September 30, 2010, there were no material changes in the Company's off-balance sheet arrangements disclosed in the Company's 2009 annual report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

An important element of earnings performance and the maintenance of sufficient liquidity is proper management of the interest sensitivity gap. The interest sensitivity gap is the difference between interest sensitive assets and interest sensitive liabilities in a specific time interval. This gap can be managed by repricing assets or liabilities, which are variable rate instruments, by replacing an asset or liability at maturity or by adjusting the interest rate during the life of the asset or liability. Matching the amounts of assets and liabilities maturing in the same time interval helps to offset interest rate risk and to minimize the impact of rising or falling interest rates on net interest income.

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. The Company uses computer simulations to measure the effect of various interest rate scenarios on net interest income. This modeling reflects interest rate changes and the related impact on net interest income and net income over specified time horizons.

Based on scheduled maturities only, the Company was liability sensitive as of September 30, 2010. It should be noted, however, that non-maturing deposit liabilities, which consist of interest checking, money market, and savings accounts, are less interest sensitive than other market driven deposits. At September 30, 2010, non-maturing deposit liabilities totaled $353.3 million or 50.71% of total deposit liabilities.

In a rising rate environment, changes in these deposit rates have historically lagged behind the changes in earning asset rates, thus mitigating the impact from the liability sensitivity position. The asset/liability model allows the Company to reflect the fact that non-maturing deposits are less rate sensitive than other deposits by using a decay rate. The decay rate is a type of artificial maturity that simulates maturities for non-maturing deposits over the number of months that more closely reflects historic data. Using the decay rate, the model reveals that the Company is asset sensitive.

When the Company is asset sensitive, net interest income should improve if interest rates rise since assets will reprice faster than liabilities. Conversely, if interest rates fall, net interest income should decline, depending on the optionality (prepayment speeds) of the assets. When the Company is liability sensitive, net interest income should fall if rates rise and rise if rates fall.

The most likely scenario represents the rate environment as management forecasts it to occur. Management uses a "static" test to measure the effects of changes in interest rates, or "shocks", on net interest income. This test assumes that management takes no steps to adjust the balance sheet to respond to the shock by repricing assets/liabilities, as discussed in the first paragraph of this section.

Under the rate environment forecasted by management, rate shocks in 50 to 100 basis point increments are applied to assess the impact on the Company's earnings at September 30, 2010. The rate shock model reveals that a 50 basis point decrease in rates would cause an approximate 0.70% annual decrease in net interest income. The rate shock model reveals that a 50 basis point rise in rates would cause an approximate 0.89% annual increase in net interest

income and that a 100 basis point rise in rates would cause an approximate 2.24% increase in net interest income.

Item 4. Controls and Procedures.

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.

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) under the Exchange Act). No changes in the Company's internal control over financial reporting occurred during the fiscal quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

There are no pending legal proceedings to which the Company, or any of its subsidiaries, is a party or to which the property of the Company or any of its subsidiaries is subject that, in the opinion of management, may materially impact the financial condition of the Company.

Item 1A. Risk Factors.

There have been no material changes in the risk factors faced by the Company from those disclosed in the Company's 2009 annual report on Form 10-K and quarterly report on Form 10-Q for the quarter ended June 30, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The table below gives information on a monthly basis regarding purchases made by the Company of its common stock during the three months ended September 30, 2010.

| Period | Total Number of Shares Purchased (1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| 7/1/2010-7/31/2010 | 0 | $ 0 | n/a | n/a |
| 8/1/2010-8/31/2010 | 3,187 | 12.01 | n/a | n/a |
| 9/1/2010-9/30/2010 | 233 | 12.11 | n/a | n/a |
| Total | 3,420 | | | |

(1) These shares were canceled in connection with exercises of stock options. 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. During the three months ended Spetember 30, 2010, the Company did not repurchase any shares pursuant to the Company's stock repurchase program.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. [Removed and Reserved].

Item 5. Other Information.

The Company has made no changes to the procedures by which security holders may recommend nominees to its board of directors.

Item 6. Exhibits.

| Exhibit No. | Description |
|---|---|
| 3.1 | Articles of Incorporation of Old Point Financial Corporation, as amended effective June 22, 2000 (incorporated by reference to Exhibit 3.1 to Form 10-K filed March 12, 2009) |
| 3.2 | Bylaws of Old Point Financial Corporation, as amended and restated September 11, 2007 (incorporated by reference to Exhibit 3.2 to Form 8-K/A filed September 20, 2007) |
| 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 |

SIGNATURES

Pursuant to the requirements 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 |
|---|---|
| November 8, 2010 | /s/Robert F. Shuford, Sr.<br>Robert F. Shuford, Sr.<br>Chairman, President & Chief Executive Officer<br>(Principal Executive Officer) |
| November 8, 2010 | /s/Laurie D. Grabow<br>Laurie D. Grabow<br>Chief Financial Officer & Senior Vice President/Finance<br>(Principal Financial & Accounting Officer) |