OLD POINT FINANCIAL CORP
Form 10-Q
November 08, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

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. 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
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

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

4,959,009 shares of common stock ($5.00 par value) outstanding as of October 31, 2016

OLD POINT FINANCIAL CORPORATION

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PART I - FINANCIAL INFORMATION

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Balance Sheets

	September 30, 2016	December 31, 2015
	(dollars in thousands except per share data)	
	(unaudited)	
Assets		
Cash and due from banks	$59,551	$33,514
Interest-bearing due from banks	13,951	1,064
Federal funds sold	1,391	2,412
Cash and cash equivalents	74,893	36,990
Securities available-for-sale, at fair value	162,219	214,192
Restricted securities	1,820	2,016
Loans, net of allowance for loan losses of $7,780 and $7,738	586,140	560,737
Premises and equipment, net	39,834	41,282
Bank-owned life insurance	25,058	24,411
Other real estate owned, net of valuation allowance of $1,051 and $2,549	1,141	2,741
Other assets	14,651	14,418
Total assets	$905,756	$896,787
Liabilities & Stockholders' Equity		
Deposits:		
Noninterest-bearing deposits	$226,020	$215,090
Savings deposits	325,188	321,370
Time deposits	213,289	210,011
Total deposits	764,497	746,471
Overnight repurchase agreements	18,239	25,950
Federal Home Loan Bank advances	20,000	25,000
Accrued expenses and other liabilities	6,553	6,190
Total liabilities	809,289	803,611
Commitments and contingencies		
Stockholders' equity:		
Common stock, $5/share par value, 10,000,000 shares authorized; 4,959,009 shares issued and outstanding	24,795	24,795
Additional paid-in capital	16,392	16,392
Retained earnings	56,565	55,151
Accumulated other comprehensive loss, net	(1,285)	(3,162)
Total stockholders' equity	96,467	93,176
Total liabilities and stockholders' equity	$905,756	$896,787

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,	
	2016	2015	2016	2015
	(unaudited, dollars in thousands except per share data)			
Interest and Dividend Income:				
Interest and fees on loans	$6,646	$6,565	$19,619	$19,405
Interest on due from banks	25	1	30	11
Interest on federal funds sold	2	0	4	1
Interest on securities:				
Taxable	357	597	1,376	1,898
Tax-exempt	371	413	1,131	1,251
Dividends and interest on all other securities	35	33	76	97
Total interest and dividend income	7,436	7,609	22,236	22,663
Interest Expense:				
Interest on savings deposits	56	60	165	169
Interest on time deposits	538	539	1,572	1,611
Interest on federal funds purchased, securities sold under agreements to repurchase and other borrowings	6	7	20	23
Interest on Federal Home Loan Bank advances	33	309	177	923
Total interest expense	633	915	1,934	2,726
Net interest income	6,803	6,694	20,302	19,937
Provision for (recovery of) loan losses	(100)	(50)	1,300	250
Net interest income, after provision for (recovery of) loan losses	6,903	6,744	19,002	19,687
Noninterest Income:				
Income from fiduciary activities	858	846	2,636	2,740
Service charges on deposit accounts	1,039	1,032	3,035	3,008
Other service charges, commissions and fees	968	1,031	3,019	3,094
Income from bank-owned life insurance	215	221	647	664
Income from Old Point Mortgage	187	50	276	208
Gain on sale of available-for-sale securities, net	7	0	522	0
Other operating income	53	43	143	145
Total noninterest income	3,327	3,223	10,278	9,859
Noninterest Expense:				
Salaries and employee benefits	5,063	5,510	15,107	15,616
Occupancy and equipment	1,373	1,335	4,121	3,966
Data processing	419	421	1,276	1,186
FDIC insurance	66	154	387	454
Customer development	146	154	450	469
Legal and audit expenses	372	237	869	511
Other outside service fees	200	186	561	495
Employee professional development	147	146	474	439
Capital stock tax	128	113	390	338
ATM and check losses	131	101	301	380

Prepayment fee on Federal Home Loan Bank advance	0	0	391	0
Loss on other real estate owned	45	166	153	238
Other operating expenses	599	628	1,785	1,840
Total noninterest expense	8,689	9,151	26,265	25,932
Income before income taxes	1,541	816	3,015	3,614
Income tax expense (benefit)	212	(24)	113	290
Net income	$1,329	$840	$2,902	$3,324
Basic earnings per share				
Weighted average shares outstanding	4,959,009	4,959,009	4,959,009	4,959,009
Net income per share of common stock	$0.27	$0.17	$0.59	$0.67
Diluted earnings per share				
Weighted average shares outstanding	4,959,009	4,959,009	4,959,009	4,959,009
Net income per share of common stock	$0.27	$0.17	$0.59	$0.67

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(unaudited, dollars in thousands)			
Net income	$1,329	$840	$2,902	$3,324
Other comprehensive income (loss), net of tax				
Net unrealized gain (loss) on available-for-sale securities	(299)	702	1,877	(209)
Amortization of unrealized losses on securities transferred to held-to-maturity	0	160	0	471
Other comprehensive income (loss), net of tax	(299)	862	1,877	262
Comprehensive income	$1,030	$1,702	$4,779	$3,586

See Notes to Consolidated Financial Statements.

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

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	(unaudited, dollars in thousands except per share data)					
NINE MONTHS ENDED SEPTEMBER 30, 2016						
Balance at beginning of period	4,959,009	$ 24,795	$ 16,392	$ 55,151	$ (3,162)	$ 93,176
Net income	0	0	0	2,902	0	2,902
Other comprehensive income, net of tax	0	0	0	0	1,877	1,877
Cash dividends ($0.30 per share)	0	0	0	(1,488)	0	(1,488)
Balance at end of period	4,959,009	$ 24,795	$ 16,392	$ 56,565	$ (1,285)	$ 96,467
NINE MONTHS ENDED SEPTEMBER 30, 2015						
Balance at beginning of period	4,959,009	$ 24,795	$ 16,392	$ 53,203	$ (5,893)	$ 88,497
Net income	0	0	0	3,324	0	3,324
Other comprehensive income, net of tax	0	0	0	0	262	262
Cash dividends ($0.25 per share)	0	0	0	(1,239)	0	(1,239)
Balance at end of period	4,959,009	$ 24,795	$ 16,392	$ 55,288	$ (5,631)	$ 90,844

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2016	2015
	(unaudited, dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$2,902	$3,324
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,034	1,883
Provision for loan losses	1,300	250
Net gain on sale of available-for-sale securities	(522)	0
Net amortization of securities	1,595	1,667
Net (gain) loss on disposal of premises and equipment	(3)	2
Net loss on write-down/sale of other real estate owned	153	238
Income from bank owned life insurance	(647)	(664)
Deferred tax (benefit) expense	(256)	567
Increase in other assets	(942)	(4,618)
Increase in other liabilities	363	4,426
Net cash provided by operating activities	5,977	7,075
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(104,082)	(63,718)
Proceeds from redemption of restricted securities	196	277
Proceeds from maturities and calls of available-for-sale securities	42,330	60,690
Proceeds from maturities and calls of held-to-maturity securities	0	300
Proceeds from sales of available-for-sale securities	106,761	3,259
Paydowns on available-for-sale securities	8,734	7,503
Paydowns on held-to-maturity securities	0	6,202
Purchases of government-guaranteed student loans	0	(14,315)
Net increase in all other loans (including repayments on student loans)	(26,703)	(20,607)
Proceeds from sales of other real estate owned	1,625	1,382
Payments for improvements to other real estate owned	(52)	0
Net purchases of premises and equipment	(710)	(1,204)
Net cash provided by (used in) investing activities	28,099	(20,231)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in noninterest-bearing deposits	10,930	10,043
Increase in savings deposits	3,818	7,224
Increase (decrease) in time deposits	3,278	(4,794)
Decrease in federal funds purchased, repurchase agreements and other borrowings, net	(7,711)	(11,574)
Increase in Federal Home Loan Bank advances	55,000	20,000
Repayment of Federal Home Loan Bank advances	(60,000)	(25,000)
Cash dividends paid on common stock	(1,488)	(1,239)
Net cash provided by (used in) financing activities	3,827	(5,340)
Net increase (decrease) in cash and cash equivalents	37,903	(18,496)
Cash and cash equivalents at beginning of period	36,990	33,305

Cash and cash equivalents at end of period	$74,893	$14,809
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$1,948	$2,740
Income tax	$0	$200
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Unrealized gain (loss) on securities available-for-sale	$2,844	$(316)
Loans transferred to other real estate owned	$0	$553
Former bank building transferred from fixed assets to other real estate owned	$127	$0
Amortization of unrealized loss on securities transferred to held-to-maturity	$0	$714

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 position at September 30, 2016 and December 31, 2015, the statements of income and comprehensive income for the three and nine months ended September 30, 2016 and 2015, and the statements of changes in stockholders' equity and cash flows for the nine months ended September 30, 2016 and 2015. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2015 annual report on Form 10-K. Certain previously reported amounts have been reclassified to conform to current period presentation, none of which were material in nature.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, The Old Point National Bank of Phoebus (the Bank) and Old Point Trust & Financial Services N.A. (Trust). All significant intercompany balances and transactions have been eliminated in consolidation. The Company consolidates subsidiaries in which it holds, directly or indirectly, more than 50 percent of the voting rights or where it exercises control. Entities where the Company holds 20 to 50 percent of the voting rights, or has the ability to exercise significant influence, or both, are accounted for under the equity method. As discussed below, the Company consolidates entities deemed to be variable interest entities (VIEs) when it is determined to be the primary beneficiary.

NATURE OF OPERATIONS

Old Point Financial Corporation is a holding company that conducts substantially all of its operations through two subsidiaries, The Old Point National Bank of Phoebus and Old Point Trust & Financial Services, N.A. The Bank serves individual and commercial customers, the majority of which are in Hampton Roads, Virginia. As of September 30, 2016, the Bank had 18 branch offices. The Bank offers a full range of deposit and loan products to its retail and commercial customers. Trust offers a full range of services for individuals and businesses. Products and services include retirement planning, estate planning, financial planning, estate and trust administration, retirement plan administration, tax services and investment management services.

VARIABLE INTEREST ENTITIES

A legal entity is referred to as a VIE if any of the following conditions exist, which are outlined in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) variable interest accounting guidance (FASB ASC 810-10-15-14): (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

Note 2. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
September 30, 2016				
Obligations of U.S. Government agencies	$4,016	$ 1	$ (13)	$4,004
Obligations of state and political subdivisions	69,846	1,559	(4)	71,401
Mortgage-backed securities	82,124	429	(49)	82,504
Money market investments	564	0	0	564
Corporate bonds and other securities	3,598	17	(4)	3,611
Other marketable equity securities	100	35	0	135
Total	$160,248	$ 2,041	$ (70)	$162,219
December 31, 2015				
Obligations of U.S. Government agencies	$24,353	$ 1	$ (114)	$24,240
Obligations of state and political subdivisions	77,223	1,323	(113)	78,433
Mortgage-backed securities	109,360	0	(1,964)	107,396
Money market investments	631	0	0	631
Corporate bonds and other securities	3,397	4	(8)	3,393
Other marketable equity securities	100	0	(1)	99
Total	$215,064	$ 1,328	$ (2,200)	$214,192

The following table summarizes realized gains and losses on the sale of investment securities during the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Securities Available-for-sale				
Realized gains on sales of securities	$24	$ 0	$578	$ 0
Realized losses on sales of securities	(17)	0	(56)	0
Net realized gain	$7	$ 0	$522	$ 0

OTHER-THAN-TEMPORARILY IMPAIRED SECURITIES

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

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

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

The Company has not recorded impairment charges through income on securities for the three or nine months ended September 30, 2016 or 2015.

TEMPORARILY IMPAIRED SECURITIES

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

	September 30, 2016						
	Less Than Twelve Months		More Than Twelve Months		Total		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Number of Securities
	(dollars in thousands)						
Securities Available-for-Sale							
Obligations of U.S. Government agencies	$13	$3,703	$0	$0	$13	$3,703	3
Obligations of state and political subdivisions	4	1,314	0	0	4	1,314	3
Mortgage-backed securities	49	16,717	0	0	49	16,717	4
Corporate bonds	3	797	1	99	4	896	7
Total securities available-for-sale	$69	$22,531	$1	$99	$70	$22,630	17

	December 31, 2015						
	Less Than Twelve Months		More Than Twelve Months		Total		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Number of Securities
	(dollars in thousands)						
Securities Available-for-Sale							
Obligations of U.S. Government agencies	$0	$0	$114	$3,940	$114	$3,940	2
Obligations of state and political subdivisions	42	4,177	71	3,545	113	7,722	13
Mortgage-backed securities	848	62,698	1,116	44,698	1,964	107,396	13

Corporate bonds	6	2,091	2	198	8	2,289	16
Other marketable equity securities	1	99	0	0	1	99	1
Total securities available-for-sale	$897	$69,065	$1,303	$52,381	$2,200	$121,446	45

Certain investments within the Company's portfolio had unrealized losses at September 30, 2016 and December 31, 2015, as shown in the tables above. The unrealized losses were caused by increases in market interest rates. Because the Company does not intend to sell the investments and management believes it is unlikely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at September 30, 2016 or December 31, 2015.

Restricted Securities

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

Note 3. Loans and the Allowance for Loan Losses

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

	September 30, 2016	December 31, 2015
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$97,278	$96,997
Commercial	286,759	277,758
Construction	22,679	19,685
Second mortgages	16,895	15,148
Equity lines of credit	47,439	47,256
Total mortgage loans on real estate	471,050	456,844
Commercial loans	47,239	43,197
Consumer loans	49,628	50,427
Other	26,003	18,007
Total loans, net of deferred fees (1)	593,920	568,475
Less: Allowance for loan losses	(7,780)	(7,738)
Loans, net of allowance and deferred fees (1)	$586,140	$560,737

(1) Deferred loan fees totaled $480 thousand and $407 thousand at September 30, 2016 and December 31, 2015, respectively.

Overdrawn deposit accounts are reclassified as loans and included in the Other category in the table above. Overdrawn deposit accounts totaled $707 thousand and $648 thousand at September 30, 2016 and December 31, 2015, respectively.

CREDIT QUALITY INFORMATION

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

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

- Pass: Loans are of acceptable risk.

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

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

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

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

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

Credit Quality Information
As of September 30, 2016
(in thousands)

	Pass	OAEM	Substandard	Total
Mortgage loans on real estate:				
Residential 1-4 family	$94,209	$1,020	$ 2,049	$97,278
Commercial	267,661	6,834	12,264	286,759
Construction	21,776	162	741	22,679
Second mortgages	16,197	490	208	16,895
Equity lines of credit	47,083	213	143	47,439
Total mortgage loans on real estate	446,926	8,719	15,405	471,050
Commercial loans	43,230	2,611	1,398	47,239
Consumer loans	49,389	0	239	49,628
Other	26,003	0	0	26,003
Total	$565,548	$11,330	$ 17,042	$593,920

Credit Quality Information
As of December 31, 2015
(in thousands)

	Pass	OAEM	Substandard	Total
Mortgage loans on real estate:				
Residential 1-4 family	$94,576	$0	$ 2,421	$96,997
Commercial	261,749	7,394	8,615	277,758
Construction	18,931	0	754	19,685
Second mortgages	14,835	0	313	15,148
Equity lines of credit	47,161	0	95	47,256
Total mortgage loans on real estate	437,252	7,394	12,198	456,844
Commercial loans	40,268	467	2,462	43,197
Consumer loans	50,327	0	100	50,427
Other	18,007	0	0	18,007
Total	$545,854	$7,861	$ 14,760	$568,475

As of September 30, 2016 and December 31, 2015, the Company did not have any loans internally classified as Loss or Doubtful.

AGE ANALYSIS OF PAST DUE LOANS BY CLASS

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

Age Analysis of Past Due Loans as of September 30, 2016

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Total Current Loans [1]	Total Loans	Recorded Investment > 90 Days Past Due and Accruing
	(in thousands)						
Mortgage loans on real estate:							
Residential 1-4 family	$304	$562	$826	$1,692	$95,586	$97,278	$ 0
Commercial	795	124	108	1,027	285,732	286,759	0
Construction	0	456	0	456	22,223	22,679	0
Second mortgages	195	0	77	272	16,623	16,895	0
Equity lines of credit	359	0	50	409	47,030	47,439	50
Total mortgage loans on real estate	1,653	1,142	1,061	3,856	467,194	471,050	50
Commercial loans	0	6	86	92	47,147	47,239	0
Consumer loans	1,981	824	2,647	5,452	44,176	49,628	2,566
Other	48	7	4	59	25,944	26,003	4
Total	$3,682	$1,979	$3,798	$9,459	$584,461	$593,920	$ 2,620

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

In the table above, the consumer category includes student loans with principal and interest amounts that are 97 - 98% guaranteed by the federal government. The past due principal portion of these guaranteed loans totaled $4.3 million at September 30, 2016.

Age Analysis of Past Due Loans as of December 31, 2015

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Total Current Loans [1]	Total Loans	Recorded Investment > 90 Days Past Due and Accruing
	(in thousands)						
Mortgage loans on real estate:							
Residential 1-4 family	$309	$1,042	$275	$1,626	$95,371	$96,997	$ 0
Commercial	1,266	31	23	1,320	276,438	277,758	23
Construction	161	0	0	161	19,524	19,685	0
Second mortgages	21	39	165	225	14,923	15,148	0
Equity lines of credit	170	0	0	170	47,086	47,256	0
Total mortgage loans on real estate	1,927	1,112	463	3,502	453,342	456,844	23

Commercial loans	500	88	232	820	42,377	43,197	164
Consumer loans	1,673	1,350	3,163	6,186	44,241	50,427	3,163
Other	64	3	6	73	17,934	18,007	6
Total	$4,164	$2,553	$3,864	$10,581	$557,894	$568,475	$ 3,356

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

In the table above, the consumer category includes student loans with principal and interest amounts that are 97 - 98% guaranteed by the federal government. The past due principal portion of these guaranteed loans totaled $5.7 million at December 31, 2015.

Although the portion of the student loan portfolio that is 90 days or more past due would normally be considered impaired, the Company does not include these loans in its impairment analysis. Because the federal government has provided guarantees of repayment of these student loans in an amount ranging from 97% to 98% of the total principal and interest of the loans, management does not expect significant increases in past due student loans to have a material effect on the Company.

NONACCRUAL LOANS

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

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

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

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

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

Nonaccrual Loans by Class

	September 30, 2016	December 31, 2015
	(in thousands)	
Mortgage loans on real estate		
Residential 1-4 family	$1,587	$ 1,457
Commercial	6,366	2,623
Second mortgages	129	226
Equity lines of credit	93	0
Total mortgage loans on real estate	8,175	4,306
Commercial loans	196	276
Consumer loans	179	0
Total	$8,550	$ 4,582

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

	Nine Months Ended September 30,	
	2016	2015
	(in thousands)	
Interest income that would have been recorded under original loan terms	$232	$ 90
Actual interest income recorded for the period	182	65
Reduction in interest income on nonaccrual loans	$50	$ 25

TROUBLED DEBT RESTRUCTURINGS

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

When the Company modifies a loan, management evaluates any possible impairment as stated in the impaired loan section below.

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

Troubled Debt Restructurings by Class
For the Three Months Ended September 30, 2016
(dollars in thousands)

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on September 30, 2016
Mortgage loans on real estate:				
Residential 1-4 family	4	$ 1,002	$ 1,002	$ 1,002
Commercial	1	150	150	150
Second mortgages	1	53	53	53
Equity lines of credit	1	93	93	93
Total mortgage loans on real estate	7	1,298	1,298	1,298
Consumer loans	2	8	8	8
Total	9	$ 1,306	$ 1,306	$ 1,306

Troubled Debt Restructurings by Class
For the Three Months Ended September 30, 2015
(dollars in thousands)

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on September 30, 2015
Mortgage loans on real estate:				
Commercial	1	$ 194	$ 194	$ 0
Construction	1	435	435	410
Second mortgages	1	61	61	61
Total	3	$ 690	$ 690	$ 664

Troubled Debt Restructurings by Class
For the Nine Months Ended September 30, 2016
(dollars in thousands)

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on September 30, 2016
Mortgage loans on real estate:				
Residential 1-4 family	4	$ 1,002	$ 1,002	$ 1,002
Commercial	1	150	150	150
Second mortgages	1	53	53	53
Equity lines of credit	1	93	93	93
Total mortgage loans on real estate	7	1,298	1,298	1,298
Commercial loans	1	152	152	109
Consumer loans	2	8	8	8
Total	10	$ 1,458	$ 1,458	$ 1,415

Troubled Debt Restructurings by Class
For the Nine Months Ended September 30, 2015
(dollars in thousands)

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on September 30, 2015
Mortgage loans on real estate:				
Commercial	1	$ 194	$ 194	$ 193
Construction	1	435	435	410
Second mortgages	1	61	61	61
Total	3	$ 690	$ 690	$ 664

Two of the loans restructured in the first nine months of 2016 were given below-market rates for debt with similar risk characteristics. Eight of the loans, which were part of a single borrowing relationship, were given terms not otherwise offered to borrowers with similar risk characteristics. Two of the loans restructured in the first nine months of 2015 were given below-market rates for debt with similar risk characteristics, while one loan was granted terms that the Company would not otherwise extend to borrowers with similar risk characteristics. At September 30, 2016 and December 31, 2015, the Company had no outstanding commitments to disburse additional funds on any TDR. At December 31, 2015, the Company had $53 thousand in loans secured by residential 1 - 4 family real estate that were in the process of foreclosure. There were no loans secured by residential 1 - 4 family real estate in the process of foreclosure at September 30, 2016.

In the three and nine months ended September 30, 2016 and 2015, there were no defaulting TDRs where the default occurred within twelve months of restructuring. The Company considers a TDR in default when any of the following occurs: the loan, as restructured, becomes 90 days or more past due; the loan is moved to nonaccrual status following the restructure; the loan is restructured again under terms that would qualify it as a TDR if it were not already so classified; or any portion of the loan is charged off.

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

IMPAIRED LOANS

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

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

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

Impaired Loans by Class
(in thousands)

	As of September 30, 2016				For the nine months ended September 30, 2016	
		Recorded Investment				
	Unpaid Principal Balance	Without Valuation Allowance	With Valuation Allowance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
Mortgage loans on real estate:						
Residential 1-4 family	$3,351	$2,474	$ 762	$ 75	$2,833	$ 101
Commercial	13,992	9,409	3,756	304	10,645	418
Construction	623	533	96	34	454	32
Second mortgages	530	401	52	5	522	21
Equity lines of credit	93	93	0	0	31	2
Total mortgage loans on real estate	$18,589	$12,910	$ 4,666	$ 418	$14,485	$ 574
Commercial loans	1,061	196	777	180	772	57
Consumer loans	178	81	97	35	64	6
Total	$19,828	$13,187	$ 5,540	$ 633	$15,321	$ 637

Impaired Loans by Class
(in thousands)

	As of December 31, 2015				For the Year Ended December 31, 2015	
		Recorded Investment				
	Unpaid Principal Balance	Without Valuation Allowance	With Valuation Allowance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
Mortgage loans on real estate:						
Residential 1-4 family	$2,994	$1,530	$ 1,261	$ 146	$2,267	$ 132
Commercial	10,203	6,166	3,208	608	9,305	473
Construction	99	0	99	36	465	5
Second mortgages	535	499	0	0	571	21
Total mortgage loans on real estate	$13,831	$8,195	$ 4,568	$ 790	$12,608	$ 631
Commercial loans	330	207	68	8	952	28
Consumer loans	12	12	0	0	13	1
Total	$14,173	$8,414	$ 4,636	$ 798	$13,573	$ 660

MONITORING OF LOANS AND EFFECT OF MONITORING FOR THE ALLOWANCE FOR LOAN LOSSES

Loan officers are responsible for continual portfolio analysis and prompt identification and reporting of problem loans, which includes assigning a risk grade to each applicable loan at its origination and revising such grade as the situation dictates. Loan officers maintain frequent contact with borrowers, which should enable the loan officer to identify potential problems before other personnel. In addition, meetings with loan officers and upper management are held to discuss problem loans and review risk grades. Nonetheless, in order to avoid over-reliance upon loan officers for problem loan identification, the Company's loan review system provides for review of loans and risk grades by individuals who are independent of the loan approval process. Risk grades and historical loss rates (determined by migration analysis) by risk grades are used as a component of the calculation of the allowance for loan losses.

ALLOWANCE FOR LOAN LOSSES

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and probable losses inherent in the loan portfolio. The Company segments the loan portfolio into categories as defined by Schedule RC-C of the Federal Financial Institutions Examination Council Consolidated Reports of Condition and Income Form 041 (Call Report). Loans are segmented into the following pools: commercial, real estate-construction, real estate-mortgage, consumer and other loans. The Company also sub-segments the real estate-mortgage segment into four classes: residential 1-4 family, commercial real estate, second mortgages and equity lines of credit.

The Company uses an internally developed risk evaluation model in the estimation of the credit risk process. The model and assumptions used to determine the allowance are independently validated and reviewed to ensure that the theoretical foundation, assumptions, data integrity, computational processes and reporting practices are appropriate and properly documented.

Each portfolio segment has risk characteristics as follows:

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

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

- Real estate-mortgage: Residential mortgage loans and equity lines of credit carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral. Commercial real estate loans carry risks associated with the successful operation of a business if owner occupied. If non-owner occupied, the repayment of these loans may be dependent upon the profitability and cash flow from rent receipts.

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

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

Each segment of the portfolio is pooled by risk grade or by days past due. Consumer loans not secured by real estate and made to individuals for household, family and other personal expenditures are segmented into pools based on days past due, while all other loans, including loans to consumers that are secured by real estate, are segmented by risk grades. A historical loss percentage is then calculated by migration analysis and applied to each pool. The migration analysis applied to all pools is able to track the risk grading and historical performance of individual loans throughout a number of periods set by management, which provides management with information regarding trends (or migrations) in a particular loan segment. At December 31, 2015 and September 30, 2016, management used twelve-quarter migration periods.

Management also provides an allocated component of the allowance for loans that are specifically identified that may be impaired, and are individually analyzed for impairment. An allocated allowance is established when the discounted present value of expected future cash flows from the impaired loan (or the collateral value or observable market price of the impaired loan) is lower than the carrying value of that loan.

Based on credit risk assessments and management's analysis of qualitative factors, additional loss factors are applied to loan balances. These additional qualitative factors include: economic conditions, trends in growth, loan concentrations, changes in certain loans, changes in underwriting, changes in management and changes in the legal and regulatory environment.

ALLOWANCE FOR LOAN LOSSES BY SEGMENT

The total allowance reflects management's estimate of losses inherent in the loan portfolio at the balance sheet date. The Company considers the allowance for loan losses of $7.8 million adequate to cover loan losses inherent in the loan portfolio at September 30, 2016.

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

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

For the Nine Months Ended September 30, 2016	Commercial	Real Estate - Construction	Real Estate - Mortgage [(1)]	Consumer	Other	Total
Allowance for Loan Losses:						
Balance at the beginning of period	$ 633	$ 985	$ 5,628	$ 279	$ 213	$ 7,738
Charge-offs	(915)	0	(393)	(132)	(99)	(1,539)
Recoveries	33	3	192	23	30	281
Provision for loan losses	1,209	93	(305)	175	128	1,300
Ending balance	$ 960	$ 1,081	$ 5,122	$ 345	$ 272	$ 7,780
Ending balance individually evaluated for impairment	$ 180	$ 34	$ 384	$ 35	$ 0	$ 633
Ending balance collectively evaluated for impairment	780	1,047	4,738	310	272	7,147
Ending balance	$ 960	$ 1,081	$ 5,122	$ 345	$ 272	$ 7,780
Loan Balances:						
Ending balance individually evaluated for impairment	$ 973	$ 629	$ 16,947	$ 178	$ 0	$ 18,727
Ending balance collectively evaluated for impairment	46,266	22,050	431,424	49,450	26,003	575,193
Ending balance	$ 47,239	$ 22,679	$ 448,371	$ 49,628	$ 26,003	$ 593,920

For the Year Ended December 31, 2015	Commercial	Real Estate - Construction	Real Estate - Mortgage [(1)]	Consumer	Other	Total
Allowance for Loan Losses:						
Balance at the beginning of period	$ 595	$ 703	$ 5,347	$ 219	$ 211	$ 7,075
Charge-offs	(293)	0	(321)	(92)	(191)	(897)
Recoveries	50	1	393	39	52	535
Provision for loan losses	281	281	209	113	141	1,025
Ending balance	$ 633	$ 985	$ 5,628	$ 279	$ 213	$ 7,738
Ending balance individually evaluated for impairment	$ 8	$ 36	$ 754	$ 0	$ 0	$ 798
Ending balance collectively evaluated for impairment	625	949	4,874	279	213	6,940
Ending balance	$ 633	$ 985	$ 5,628	$ 279	$ 213	$ 7,738
Loan Balances:						
Ending balance individually evaluated for impairment	$ 275	$ 99	$ 12,664	$ 12	$ 0	$ 13,050
Ending balance collectively evaluated for impairment	42,922	19,586	424,495	50,415	18,007	555,425
Ending balance	$ 43,197	$ 19,685	$ 437,159	$ 50,427	$ 18,007	$ 568,475

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

CHANGES IN ACCOUNTING METHODOLOGY

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

In the third quarter of 2016, management made the following changes to its method for calculating the allowance:

- The number of migration periods was changed from one to four. Each migration period remains at twelve quarters, the length of the migration period used by the Company in prior periods. This change reduced the provision for loan losses by $293 thousand.

- The Company further sub-segmented its pool of consumer loans not secured by real estate to separate a pool of loans that share characteristics with each other that are not shared with other consumer loans. The new sub-segment is comprised of loans purchased from a single source for which management does not expect any charge-offs against the allowance. Accordingly, beginning with the third quarter of 2016, the historic loss factor does not apply to this group of loans. In addition, management determined that some of the qualitative factors that had previously been applied to these loans when they were grouped with all other consumer loans were no longer appropriate once these loans were separated into a new sub-segment. Creating this new sub-segment, which includes no anticipated losses, and applying the relevant qualitative factors to it reduced the provision for loan losses by $491 thousand.

- As part of the process to determine whether a new sub-segment was appropriate, management analyzed the qualitative factors applied to each segment of the portfolio. Based on this analysis, management changed its qualitative factor adjustments on the Company's student loan portfolio to better reflect those factors that could potentially have an impact on the portfolio. This change reduced the provision for loan losses by $63 thousand.

The following table represents the effect on the loan loss provision as a result of these changes in methodology. It compares the methodology actually used for the nine months ended September 30, 2016 to that used in prior periods.

	Calculated Provision Based on Current Quarter Methodology	Calculated Provision Based on Prior Quarter Methodology	Difference
	(in thousands)		
Portfolio Segment:			
Commercial	$1,209	$ 1,491	$ (282)
Real estate - construction	93	(5)	98
Real estate - mortgage	(305)	(195)	(110)
Consumer loans	175	729	(554)
Other	128	127	1
Total	$1,300	$ 2,147	$ (847)

The allowance for loan losses was 1.31% of total loans at September 30, 2016, compared to 1.33% at June 30, 2016 and 1.36% at December 31, 2015.

Note 4. Low-Income Housing Tax Credits

The Company was invested in 4 separate housing equity funds at both September 30, 2016 and December 31, 2015. The general purpose of these funds is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia; develop and implement strategies to maintain projects as low-income housing; deliver Federal Low Income Housing Credits to investors; allocate tax losses and other possible tax benefits to investors; and preserve and protect project assets.

The investments in these funds were recorded as other assets on the consolidated balance sheets and were $4.0 million and $4.2 million at September 30, 2016 and December 31, 2015, respectively. The expected terms of these investments and the related tax benefits run through 2032. Total projected tax credits to be received for 2016 are $398 thousand, which is based on the most recent quarterly estimates received from the funds. Additional capital calls expected for the funds totaled $3.0 million at both September 30, 2016 and December 31, 2015, and are recorded in accrued expenses and other liabilities on the corresponding consolidated balance sheet.

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

Three Months Ended September 30,		Nine Months Ended September 30,	
2016	2015	2016	2015
$126	$ 95	$348	$316

Note 5. Share-Based Compensation

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

Historically, the Company has only granted share-based compensation in the form of stock options. There were no options granted in the first nine months of 2016.

The Company's 1998 Stock Option Plan, pursuant to which stock options could be granted to key employees and non-employee directors, expired on March 9, 2008. Stock options that were outstanding on March 9, 2008 remained outstanding in accordance with their terms, but no new awards could be granted under the plan after March 9, 2008. Options to purchase 67,480 shares of common stock were outstanding under the Company's 1998 Stock Option Plan at September 30, 2016. 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, 2016 is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, January 1, 2016	74,960	$ 20.05		
Granted	0	0		
Exercised	0	0		
Canceled or expired	(7,480)	20.05		
Options outstanding, September 30, 2016	67,480	$ 20.05	1.04	$ 41
Options exercisable, September 30, 2016	67,480	$ 20.05	1.04	$ 41

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 fair 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, 2016. This amount changes based on changes in the fair value of the Company's common stock.

No options were exercised during the nine months ended September 30, 2016.

As of September 30, 2016, all outstanding stock options were fully vested and there was no unrecognized stock-based compensation expense.

At the Company's 2016 Annual Meeting of Stockholders held on May 24, 2016, stockholders approved the Old Point Financial Corporation 2016 Incentive Stock Plan (Incentive Stock Plan). The Incentive Stock Plan provides for the grant to key employees and non-employee directors of awards that may include one or more of the following: stock options, restricted stock, restricted stock units, stock appreciation rights, stock awards, and performance units (collectively, the awards). No awards may be granted under the Incentive Stock Plan after May 23, 2026. Complete details of the Incentive Stock Plan are contained in Appendix A of the Proxy Statement for the Company's 2016 Annual Meeting of Stockholders. As of September 30, 2016, there were no awards outstanding under the plan.

Also at the Company's 2016 Annual Meeting of Stockholders held on May 24, 2016, stockholders approved an Employee Stock Purchase Plan (ESPP). The ESPP provides a means for employees of the Company and employees of the Company's subsidiaries to authorize payroll deductions on a voluntary basis to be used for the periodic purchase of shares of the Company's common stock. Under the ESPP, eligible employees will be able to purchase shares of the Company's common stock at a price equal to at least 85% of the fair market value of the common stock at the end of the applicable offering period. The maximum number of shares that may be purchased under the ESPP is 250,000 shares. Complete details of the ESPP are contained in Appendix B of the Proxy Statement for the Company's 2016 Annual Meeting of Stockholders. The first offering period began on September 1, 2016 and will end on November 30, 2016; accordingly, as of September 30, 2016, no shares have been issued under the plan.

Note 6. Pension Plan

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

Three months ended September 30,	2016	2015
	(in thousands)	
Interest cost	$70	$65
Expected return on plan assets	(98)	(91)
Amortization of net loss	140	98
Net periodic pension plan cost	$112	$72

Nine months ended September 30,	2016	2015
	(in thousands)	
Interest cost	$210	$196
Expected return on plan assets	(294)	(270)
Amortization of net loss	420	295
Net periodic pension plan cost	$336	$221

At September 30, 2016, management had not yet determined the amount, if any, that the Company will contribute to the plan in the year ending December 31, 2016.

Note 7. Stockholders' Equity and Earnings per Share

STOCKHOLDERS' EQUITY – ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2016	2015	2016	2015	Affected Line Item on Consolidated Statements of Income
	(in thousands)				
Available-for-sale securities					
Realized gains (losses) on sales of securities	$$7	$$0	$$522	$$0	Gain on sale of available-for-sale securities, net
Tax effect	2	0	177	0	Income tax expense
	$$5	$$0	$$345	$$0	

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

	Unrealized Gains (Losses) on Securities	Unrealized Losses on Securities Transferred to Held-to-Maturity	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
	(in thousands)			
Nine Months Ended September 30, 2016				
Balance at beginning of period	$(576)	$ 0	$(2,586)	$ (3,162)
Net change for the period	1,877	0	0	1,877
Balance at end of period	$1,301	$ 0	$(2,586)	$ (1,285)
Nine Months Ended September 30, 2015				
Balance at beginning of period	$(78)	$ (3,386)	$(2,429)	$ (5,893)
Net change for the period	(209)	471	0	262
Balance at end of period	$(287)	$ (2,915)	$(2,429)	$ (5,631)

The following table presents the change in each component of accumulated other comprehensive Income (loss) on a pre-tax and after-tax basis for the periods indicated.

	Nine Months Ended September 30, 2016		
	Pretax	Tax	Net-of-Tax
	(in thousands)		
Unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	$3,366	$1,144	$ 2,222
Reclassification adjustment for gains recognized in income	(522)	(177)	(345)
Net unrealized gains on securities	2,844	967	1,877
Total change in accumulated other comprehensive loss	$2,844	$967	$ 1,877

	Nine Months Ended September 30, 2015		
	Pretax	Tax	Net-of-Tax
	(in thousands)		
Unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during the period	$(316)	$(107)	$ (209)
Unrealized losses on securities transferred from available-for-sale to held-to-maturity:			
Amortization	714	243	471
Net change	$398	$136	$ 262

EARNINGS PER COMMON SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period, including the effect of dilutive potential common shares attributable to outstanding stock options. The Company did not include an average of 69 thousand and 77 thousand potential common shares attributable to outstanding stock options in the diluted earnings per share calculation for the first nine months of 2016 and 2015, respectively, because they were antidilutive. Antidilutive shares were 67 thousand and 76 thousand for the third quarters of 2016 and 2015, respectively.

Note 8. Recent Accounting Pronouncements

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern". This update is intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management is required under the new guidance to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued when preparing financial statements for each interim and annual reporting period. If conditions or events are identified, the ASU specifies the process that must be followed by management and also clarifies the timing and content of going concern footnote disclosures in order to reduce diversity in practice. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the adoption of ASU 2014-15 to have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities". The amendments in ASU 2016-01, among other things: 1) Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 3) Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 4) Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently assessing the impact that ASU 2016-01 will have on its consolidated financial statements.

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

During March 2016, the FASB issued ASU No. 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships". The amendments in this ASU clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria remain intact. The amendments are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-05 to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, "Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting". The amendments in this ASU eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. In addition, the amendments in this ASU require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Early Adoption is permitted. The Company does not expect the adoption of ASU 2016-07 to have a material impact on its consolidated financial statements.

During March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Shares-Based Payment Accounting". The amendments in this ASU simplify several aspects of the accounting for share-based payment award transactions including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The amendments are effective for public companies for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently assessing the impact that ASU 2016-09 will have on its consolidated financial statements.

During June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For public companies that are not SEC filers, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements.

During August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments", to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments should be applied using a retrospective transition method to each period presented. If retrospective application is impractical for some of the issues addressed by the update, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

Note 9. Fair Value Measurements

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

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

In estimating the fair value of assets and liabilities, the Company relies mainly on two models. The first model, used by the Company's bond accounting service provider, determines the fair value of securities. Securities are priced based on an evaluation of observable market data, including benchmark yield curves, reported trades, broker/dealer quotes, and issuer spreads. Pricing is also impacted by credit information about the issuer, perceived market movements, and current news events impacting the individual sectors. For assets other than securities and for all liabilities, fair value is determined using the Company's asset/liability modeling software. The software uses current yields, anticipated yield changes, and estimated duration of assets and liabilities to calculate fair value.

In accordance with ASC 820, "Fair Value Measurements and Disclosures," the Company groups its financial assets and financial liabilities generally measured at fair value into three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

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

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

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

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

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

		Fair Value Measurements at September 30, 2016 Using		
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Available-for-sale securities				
Obligations of U.S. Government agencies	$4,004	$0	$4,004	$ 0
Obligations of state and political subdivisions	71,401	0	71,401	0
Mortgage-backed securities	82,504	0	82,504	0
Money market investments	564	0	564	0
Corporate bonds	3,611	0	3,611	0
Other marketable equity securities	135	0	135	0
Total available-for-sale securities	$162,219	$0	$162,219	$ 0

		Fair Value Measurements at December 31, 2015 Using		
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Available-for-sale securities				
Obligations of U.S. Government agencies	$24,240	$0	$24,240	$ 0
Obligations of state and political subdivisions	78,433	0	78,433	0
Mortgage-backed securities	107,396	0	107,396	0
Money market investments	631	0	631	0
Corporate bonds	3,393	0	3,393	0
Other marketable equity securities	99	0	99	0
Total available-for-sale securities	$214,192	$0	$214,192	$ 0

ASSETS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

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

Impaired loans

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

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

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

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

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

		Carrying Value at September 30, 2016 Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Impaired loans				
Mortgage loans on real estate:				
Residential 1-4 family	$540	$0	$ 0	$ 540
Commercial	1,030	0	0	1,030
Construction	62	0	0	62
Second mortgages	47	0	0	47

Total mortgage loans on real estate	1,679	0	0	1,679
Consumer loans	62	0	0	62
Commercial loans	597	0	0	597
Total	$2,338	$0	$ 0	$ 2,338
Other real estate owned				
Residential 1-4 family	$74	$0	$ 0	$ 74
Construction	940	0	0	940
Total	$1,014	$0	$ 0	$ 1,014

	Carrying Value at December 31, 2015 Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Impaired loans				
Mortgage loans on real estate:				
Residential 1-4 family	$952	$0	$ 0	$ 952
Commercial	267	0	0	267
Construction	62	0	0	62
Total	$1,281	$0	$ 0	$ 1,281
Other real estate owned				
Residential 1-4 family	$724	$0	$ 0	$ 724
Commercial	927	0	0	927
Construction	1,090	0	0	1,090
Total	$2,741	$0	$ 0	$ 2,741

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

	Fair Value at September 30, 2016 (dollars in thousands)	Quantitative Information About Level 3 Fair Value Measurements Valuation Techniques	Unobservable Input	Range (Weighted Average)	
Impaired loans					
Residential 1-4 family real estate	$ 540	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00	%
Commercial real estate	$ 1,030	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00	%
Construction	$ 62	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00	%
Second mortgages	$ 47	Market comparables	Selling costs	0.00	%
			Liquidation discount	0.00	%
Commercial not secured by real estate	$ 597	Market comparables	Liquidation discount	38.58	%
Consumer loans	62	Market comparables	Selling costs	10	%
			Liquidation discount	10	%
Other real estate owned					
Residential 1-4 family	$ 74	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00	%
Construction	$ 940	Market comparables	Selling costs	7.25	%
			Liquidation discount	0.00	%

	Fair Value at December 31, 2015 (dollars in thousands)	Quantitative Information About Level 3 Fair Value Measurements Valuation Techniques	Unobservable Input	Range (Weighted Average)	
Impaired loans					
Residential 1-4 family real estate	$ 952	Market comparables	Selling costs	7.25	%
			Liquidation discount	0.00% - 4.00% (3.75	%)
Commercial real estate	$ 267	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00	%
Construction	$ 62	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00	%
Other real estate owned					
Residential 1-4 family	$ 724	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00% - 7.17% (4.79	%)
Commercial	$ 927	Market comparables	Selling costs	7.25	%
			Liquidation discount	4.00% - 24.70% (11.77	%)

Construction	$ 1,090	Market comparables	Selling costs	6.72	%
			Liquidation discount	33.05	%

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

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

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

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

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

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

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

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

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

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

COMMITMENTS TO EXTEND CREDIT AND IRREVOCABLE LETTERS OF CREDIT

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit-worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At September 30, 2016 and December 31, 2015, the fair value of fees charged for loan commitments and irrevocable letters of credit was immaterial.

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

		Fair Value Measurements at September 30, 2016 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets				
Cash and cash equivalents	$74,893	$74,893	$ 0	$ 0
Securities available-for-sale	162,219	0	162,219	0
Restricted securities	1,820	0	1,820	0
Loans, net of allowances for loan losses	586,140	0	0	591,152
Bank-owned life insurance	25,058	0	25,058	0
Accrued interest receivable	2,856	0	2,856	0
Liabilities				
Deposits	$764,497	$0	$ 765,073	$ 0
Overnight repurchase agreements	18,239	0	18,239	0
Federal Home Loan Bank advances	20,000	0	20,008	0
Accrued interest payable	228	0	228	0

		Fair Value Measurements at December 31, 2015 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets				
Cash and cash equivalents	$36,990	$36,990	$ 0	$ 0
Securities available-for-sale	214,192	0	214,192	0
Restricted securities	2,016	0	2,016	0
Loans, net of allowances for loan losses	560,737	0	0	559,488
Bank-owned life insurance	24,411	0	24,411	0
Accrued interest receivable	3,059	0	3,059	0

Liabilities				
Deposits	$746,471	$0	$ 746,740	$ 0
Overnight repurchase agreements	25,950	0	25,950	0
Federal Home Loan Bank advances	25,000	0	25,501	0
Accrued interest payable	241	0	241	0

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 fees 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 as of and for the three and nine months ended September 30, 2016 and 2015 follows:

	Three Months Ended September 30, 2016				
	Bank	Trust	Parent	Eliminations	Consolidated
	(in thousands)				
Revenues					
Interest and dividend income	$7,420	$16	$1,572	$ (1,572)	$ 7,436
Income from fiduciary activities	0	858	0	0	858
Other income	2,277	207	50	(65)	2,469
Total operating income	9,697	1,081	1,622	(1,637)	10,763
Expenses					
Interest expense	633	0	0	0	633
Provision for (recovery of) loan losses	(100)	0	0	0	(100)
Salaries and employee benefits	4,296	665	102	0	5,063
Other expenses	3,114	262	315	(65)	3,626
Total operating expenses	7,943	927	417	(65)	9,222
Income before taxes	1,754	154	1,205	(1,572)	1,541
Income tax expense (benefit)	284	53	(125)	0	212
Net income	$1,470	$101	$1,330	$ (1,572)	$ 1,329
Capital expenditures	$234	$0	$0	$ 0	$ 234
Total assets	$900,160	$5,814	$96,467	$ (96,685)	$ 905,756

	Three Months Ended September 30, 2015				
	Bank	Trust	Parent	Eliminations	Consolidated
	(in thousands)				
Revenues					
Interest and dividend income	$7,596	$13	$947	$ (947)	$ 7,609
Income from fiduciary activities	0	846	0	0	846
Other income	2,125	267	50	(65)	2,377
Total operating income	9,721	1,126	997	(1,012)	10,832
Expenses					
Interest expense	915	0	0	0	915
Provision for (recovery of) loan losses	(50)	0	0	0	(50)
Salaries and employee benefits	4,680	716	114	0	5,510
Other expenses	3,328	279	99	(65)	3,641
Total operating expenses	8,873	995	213	(65)	10,016
Income before taxes	848	131	784	(947)	816
Income tax expense (benefit)	(13)	45	(56)	0	(24)
Net income	$861	$86	$840	$ (947)	$ 840

Capital expenditures	$154	$2	$0	$ 0	$ 156
Total assets	$873,986	$5,805	$90,866	$ (91,705)	$ 878,952

	Nine Months Ended September 30, 2016				
	Bank	Trust	Parent	Eliminations	Consolidated
	(in thousands)				
Revenues					
Interest and dividend income	$22,191	$45	$3,443	$ (3,443)	$ 22,236
Income from fiduciary activities	0	2,636	0	0	2,636
Other income	6,954	734	150	(196)	7,642
Total operating income	29,145	3,415	3,593	(3,639)	32,514
Expenses					
Interest expense	1,934	0	0	0	1,934
Provision for loan losses	1,300	0	0	0	1,300
Salaries and employee benefits	12,782	2,022	303	0	15,107
Other expenses	9,913	774	667	(196)	11,158
Total operating expenses	25,929	2,796	970	(196)	29,499
Income before taxes	3,216	619	2,623	(3,443)	3,015
Income tax expense (benefit)	181	211	(279)	0	113
Net income	$3,035	$408	$2,902	$ (3,443)	$ 2,902
Capital expenditures	$706	$4	$0	$ 0	$ 710
Total assets	$900,160	$5,814	$96,467	$ (96,685)	$ 905,756

	Nine Months Ended September 30, 2015				
	Bank	Trust	Parent	Eliminations	Consolidated
	(in thousands)				
Revenues					
Interest and dividend income	$22,624	$39	$3,590	$ (3,590)	$ 22,663
Income from fiduciary activities	0	2,740	0	0	2,740
Other income	6,387	778	150	(196)	7,119
Total operating income	29,011	3,557	3,740	(3,786)	32,522
Expenses					
Interest expense	2,726	0	0	0	2,726
Provision for loan losses	250	0	0	0	250
Salaries and employee benefits	13,263	2,014	339	0	15,616
Other expenses	9,526	771	215	(196)	10,316
Total operating expenses	25,765	2,785	554	(196)	28,908
Income before taxes	3,246	772	3,186	(3,590)	3,614
Income tax expense (benefit)	165	263	(138)	0	290
Net income	$3,081	$509	$3,324	$ (3,590)	$ 3,324
Capital expenditures	$1,183	$21	$0	$ 0	$ 1,204

Total assets	$873,986	$5,805	$90,866	$ (91,705)	$ 878,952

The accounting policies of the segments are the same as those described in the summary of significant accounting policies reported in the Company's 2015 annual report on Form 10-K. The Company evaluates performance based on profit or loss from operations before income taxes, not including nonrecurring gains or losses.

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

Note 11. Commitments and Contingencies

There have been no material changes in the Company's commitments and contingencies from those disclosed in the Company's 2015 annual report on Form 10-K.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 with or furnishes to the SEC 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.

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 deemed to be a forward-looking statement. These forward-looking statements may include, but are not limited to, statements regarding profitability and future financial performance; the Company's effective tax rate; the net interest margin; strategies for managing the net interest margin and the expected impact of such efforts; levels and sources of liquidity; the loan portfolio and expected trends in the quality of the loan portfolio; the allowance and provision for loan losses; the effect of a sustained increase in nonperforming assets; the securities portfolio; use of proceeds from the sale of securities; the effect of the performance of past due loans in the Company's purchased student loan portfolio; interest rate sensitivity; asset quality; levels of net loan charge-offs or recoveries and nonperforming assets; the sufficiency of collateral securing and/or cash flow of nonperforming loans to cover outstanding principal balances; levels of interest expense; levels and components of noninterest income and noninterest expense; levels of future deposit insurance assessments; income taxes; low-income housing tax credits and additional capital calls related to the Company's investment in housing equity funds; expected impact of efforts to restructure the balance sheet; expected yields on the loan and securities portfolios; expected monetary policy actions by the Federal Open Market Committee; expected rates on interest-bearing liabilities; expected interest savings resulting from the prepayment of the Company's FHLB advance; market risk; business and growth strategies; investment strategy; and financial and other goals. Forward-looking statements often use words such as "believes," "expects," "plans," "may," "will," "should," "projects," "contemplates," "anticipates," "forecasts," "intends" or other words of similar meaning. These statements can also be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, and actual results could differ materially from historical results or those anticipated by such statements.

There are many factors that could have a material adverse effect on the operations and future prospects of the Company including, but not limited to, changes in interest rates and yields; general economic and general business conditions, including unemployment levels; uncertainty over future federal spending or the effects of federal budget cuts, particularly to the Department of Defense, on the Company's service area; effects of the transfer of the securities portfolio from held-to-maturity securities to available-for-sale securities; the quality or composition of the loan or securities portfolios; changes in the volume and mix of interest-earning assets and interest-bearing liabilities; the effects of management's investment strategy and strategy to manage the net interest margin; the adequacy of the Company's credit quality review processes; the level of nonperforming assets and related charge-offs and recoveries; the federal government's guarantee of repayment of student loans purchased by the Company; the ability of the Company to diversify its sources of noninterest income; the effect of the Company's sales training efforts for branch staff; the local real estate market; volatility and disruption in national and international financial markets; government intervention in the U.S. financial system; application of the Basel III capital standards to the Company and its subsidiaries; FDIC premiums and/or assessments; demand for loan and other banking products and financial services in the Company's primary service area; levels of noninterest income and expense; deposit flows; competition; the use of inaccurate assumptions in management's modeling systems; technology; any interruption or breach of security in the Company's information systems or those of the Company's third party vendors or other service providers; reliance on third parties for key services; management's method of determining the adequacy of the allowance for loan losses; and changes in accounting principles, policies and guidelines. The Company could also be adversely affected by monetary and fiscal policies of the U.S. Government, as well as any regulations or programs implemented pursuant to the Dodd-Frank Act or other legislation and policies of the Office of the Comptroller of the Currency, U.S. Treasury and the Federal Reserve Board.

These risks and uncertainties, in addition to the risks and uncertainties identified in the Company's 2015 annual report on Form 10-K, 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 Chesapeake, Hampton, Isle of Wight County, Newport News, Norfolk, Virginia Beach, Williamsburg/James City County and York County. The Bank currently has 18 branch offices. Trust is a wealth management services provider.

Critical Accounting Policies and Estimates

During the third quarter of 2016, the Company changed its method for calculating the allowance for loan and lease losses. This change is discussed in detail in Note 3 of the Notes to the Consolidated Financial Statements included in this quarterly report on Form 10-Q. Other than this change, as of September 30, 2016, there have been no significant changes with regard to the critical accounting policies and estimates disclosed in the Company's 2015 annual report on Form 10-K. The accounting policy that required management's most difficult, subjective or complex judgments is the Company's allowance for loan losses. The Company's policies for calculating the allowance for loan losses are discussed in this Item 2 and in Note 3 of the Notes to the Consolidated Financial Statements included in this quarterly report on Form 10-Q, and are discussed in further detail in the Company's 2015 annual report on Form 10-K.

Earnings Summary

Beginning in the fourth quarter of 2015, the Company re-evaluated its strategy to ensure it was positioned for possible future interest rate changes. This strategy was implemented in the first quarter of 2016 and included restructuring the investment portfolio through the sale and purchase of certain investments. While implementing its strategy, the Company took advantage of the opportunity to recognize gains on certain investment securities. These gains offset both losses on other real estate owned incurred in the sale of the properties, as well as a fee paid to unwind one of the Company's FHLB advances (discussed in greater detail below).

Net income for the first nine months of 2016 was $2.9 million, or $0.59 per diluted share, compared to net income of $3.3 million, or $0.67 per diluted share, for the first nine months of 2015. This 12.70% decrease is primarily attributable to reduced interest income, primarily on the securities portfolio; a higher provision for loan losses due to a charge-off on a single borrowing relationship in the second quarter of 2016; and higher noninterest expense, in particular legal and audit expenses and the prepayment fee on the Company's FHLB advance. These factors were partially offset by lower interest expense and by net gains on the sales of investment securities.

In the third quarter of 2016, net income increased $489 thousand, or an increase of 58.21% when compared to the third quarter of 2015. Noninterest income increased, primarily due to increased income from Old Point Mortgage LLC, while declines in interest income were more than offset by declines in interest and noninterest expense, as well as a reversal in the provision for loan losses.

Net Interest Income

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

The Company experienced moderate loan growth, with average total loans increasing $19.8 million when comparing the first nine months of 2016 and 2015. While loan yields declined when comparing the same periods, the increase in average balances increased interest income on loans by $211 thousand when comparing the nine months ended September 30, 2016 to the same period in 2015. This growth in loans was funded through sales from the securities portfolio, with additional liquidity held in cash and due from banks. As seen in the table below, loans bear higher yields than securities. Shifting funds from investments to loans allowed the Company to maintain a return on average earning assets of 4.01% for the first nine months of 2016, essentially flat compared to 4.02% for the first nine months of 2015, despite overall declines in market rates. The marginal decline in the average yield is due to a $13.5 million decrease in average earning assets.

Beginning in the third quarter of 2016, the Company held more funds in cash and due from banks, as evidenced by the $25.2 million and $4.6 million increases, respectively, in average nonearning assets for the three and nine months ended September 30, 2016 when compared to the same periods in 2015. The Company is currently maintaining excess liquidity in cash and due from banks, rather than interest-bearing due from banks, as one of its correspondent banks offers an earnings credit rate higher than the interest income the Company could earn on either Federal funds sold or interest-bearing due from banks. This earnings credit is used to offset noninterest expense and so does not affect net interest income or the net interest margin. It does, however, contribute positively toward net income by reducing noninterest expense. See the section titled Noninterest Expense later in this Management's Discussion and Analysis.

In addition to funding growth in loans, excess liquidity and the sales of securities also funded the early payoff in February 2016 of an FHLB advance that the Company took out in June 2006, an advance which would have matured in June 2016. The rate on this advance was significantly higher than other available funding sources in the current rate environment and would have cost the Company $597 thousand in interest expense during 2016. By paying off the advance in February 2016, the Company paid only $141 thousand on this advance, thus saving $456 thousand in interest expense for 2016. As a result of this reduction in interest expense, the Company's weighted-average cost of total interest-bearing liabilities decreased from 0.61% in the first nine months of 2015 to 0.46% in the first nine months of 2016 and its net interest margin improved from 3.56% to 3.67% over the same periods.

Although the Company took out additional borrowings in June of 2016, these borrowings would have been necessary even had the Company not prepaid the $25.0 million advance in February, as the additional funding was needed at the end of the quarter, after the maturity date of the advance. In addition, the advances taken out in June of 2016 cost the Company only $3 thousand for that month, less than the amount saved by prepaying the advance.

Net interest income, on a fully tax-equivalent basis, was $21.0 million for the nine months ended September 30, 2016, compared to $20.7 million for the nine months ended September 30, 2015, an increase of $300 thousand or 1.45%. Tax-equivalent interest income decreased $492 thousand between these two periods due to a decrease in average earning assets and the marginal decrease in average yields discussed above. Tax-equivalent interest income on the securities portfolio decreased $704 thousand, or 18.56%, for the first nine months of 2016 compared to the first nine months of 2015, primarily as a result of the sale of investment securities during the first six months of 2016. Interest expense decreased $792 thousand, or 29.05%, when comparing those nine month periods as average interest-bearing liabilities and the rate paid on these liabilities both declined, due to the payoff of the FHLB advance discussed above.

For the third quarter of 2016, tax-equivalent net interest income was $7.0 million, an increase of $87 thousand, or 1.25%, from the third quarter of 2015, due to a decrease in interest expense of $282 thousand. Both the average balances on interest-bearing liabilities and the average rate paid on these liabilities decreased when comparing the third quarters of 2016 and 2015. The rates on average interest-bearing liabilities decreased primarily due to the payoff of the FHLB advance. As in the nine months ended September 30, 2016, average earning assets decreased when comparing the third quarter of 2016 to the same period in 2015. The yield on earning assets decreased 6 basis points between the three months ended September 30, 2016 and 2015 due to lower yields on both loans and investment securities.

Management expects that the Company's loan yields will continue to decline, due to intense competition for quality loans and rate reductions on loans currently held in the portfolio. Management also expects that the reduction in loan yields will likely continue in 2016 at approximately the same pace seen in 2015, depending on monetary policy actions taken by the Federal Open Market Committee (FOMC). Although the FOMC did raise the target range for the federal funds rate in December of 2015, predictions for future rate increases are varied. Barring additional rate increases by the FOMC in 2016, management expects continued declines in loan yields. To partially offset this anticipated decline, management has placed an increased focus on managing the Company's mix of liabilities in order to increase low cost funds and reduce high cost funds where possible. If the FOMC does increase the target rate in 2016, management expects that the decline in loan yields will slow or stop. Based on management's evaluation of current predictions of the FOMC's likely actions with regards to the target range, management does not expect loan yields to increase in 2016.

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

AVERAGE BALANCE SHEETS, NET INTEREST INCOME* AND RATES*

	For the quarter ended September 30,					
	2016			2015		
	Average Balance	Interest Income/ Expense	Yield/ Rate**	Average Balance	Interest Income/ Expense	Yield/ Rate**
	(dollars in thousands)					
ASSETS						
Loans*	$590,964	$6,678	4.52 %	$573,114	$6,599	4.61 %
Investment securities:						
Taxable	88,462	357	1.61 %	126,352	597	1.89 %
Tax-exempt*	64,389	563	3.50 %	71,482	625	3.50 %
Total investment securities	152,851	920	2.41 %	197,834	1,222	2.47 %
Interest-bearing due from banks	19,671	25	0.51 %	1,362	1	0.29 %
Federal funds sold	1,596	2	0.50 %	1,626	0	0.00 %
Other investments	1,935	35	7.24 %	2,285	33	5.78 %
Total earning assets	767,017	$7,660	3.99 %	776,221	$7,855	4.05 %
Allowance for loan losses	(8,048)			(7,522)		
Other non-earning assets	141,759			116,583		
Total assets	$900,728			$885,282		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Time and savings deposits:						
Interest-bearing transaction accounts	$27,404	$2	0.03 %	$10,870	$1	0.04 %
Money market deposit accounts	213,597	44	0.08 %	233,185	50	0.09 %
Savings accounts	78,997	10	0.05 %	74,835	9	0.05 %
Time deposits, $100,000 or more	113,293	301	1.06 %	116,668	275	0.94 %
Other time deposits	98,764	237	0.96 %	103,292	264	1.02 %
Total time and savings deposits	532,055	594	0.45 %	538,850	599	0.44 %
Federal funds purchased, repurchase agreements and other borrowings	26,506	6	0.09 %	28,158	7	0.10 %
Federal Home Loan Bank advances	22,717	33	0.58 %	25,217	309	4.90 %
Total interest-bearing liabilities	581,278	633	0.44 %	592,225	915	0.62 %
Demand deposits	217,020			194,541		
Other liabilities	6,294			7,885		
Stockholders' equity	96,136			90,631		
Total liabilities and stockholders' equity	$900,728			$885,282		
Net interest margin		$7,027	3.66 %		$6,940	3.58 %

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

AVERAGE BALANCE SHEETS, NET INTEREST INCOME* AND RATES*

	For the nine months ended September 30,					
	2016			2015		
	Average Balance	Interest Income/ Expense	Yield/ Rate**	Average Balance	Interest Income/ Expense	Yield/ Rate**
	(dollars in thousands)					
ASSETS						
Loans*	$580,900	$19,717	4.53 %	$561,125	$19,506	4.63 %
Investment securities:						
Taxable	104,631	1,376	1.75 %	132,095	1,898	1.92 %
Tax-exempt*	65,610	1,713	3.48 %	72,032	1,895	3.51 %
Total investment securities	170,241	3,089	2.42 %	204,127	3,793	2.48 %
Interest-bearing due from banks	7,867	30	0.51 %	5,996	11	0.24 %
Federal funds sold	1,549	4	0.34 %	1,853	1	0.07 %
Other investments	1,491	76	6.80 %	2,494	97	5.19 %
Total earning assets	762,048	$22,916	4.01 %	775,595	$23,408	4.02 %
Allowance for loan losses	(7,893)			(7,412)		
Other non-earning assets	120,346			115,737		
Total assets	$874,501			$883,920		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Time and savings deposits:						
Interest-bearing transaction accounts	$17,559	$7	0.05 %	$11,134	$3	0.04 %
Money market deposit accounts	219,907	129	0.08 %	229,052	138	0.08 %
Savings accounts	78,033	29	0.05 %	74,060	28	0.05 %
Time deposits, $100,000 or more	110,525	867	1.05 %	113,899	838	0.98 %
Other time deposits	99,129	705	0.95 %	109,082	773	0.94 %
Total time and savings deposits	525,153	1,737	0.44 %	537,227	1,780	0.44 %
Federal funds purchased, repurchase agreements and other borrowings	26,151	20	0.10 %	32,203	23	0.10 %
Federal Home Loan Bank advances	12,372	177	1.91 %	28,297	923	4.35 %
Total interest-bearing liabilities	563,676	1,934	0.46 %	597,727	2,726	0.61 %
Demand deposits	209,147			190,812		
Other liabilities	6,507			5,331		
Stockholders' equity	95,171			90,050		
Total liabilities and stockholders' equity	$874,501			$883,920		
Net interest margin		$20,982	3.67 %		$20,682	3.56 %

*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 probable credit losses inherent to 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. Based on its analysis of the adequacy of the allowance for loan losses, management concluded that the provision was appropriate.

The provision for loan losses was $1.3 million in the first nine months of 2016, compared to $250 thousand in the first nine months of 2015. In the third quarter, the Company reversed $100 thousand from its provision for loan losses in 2016 and reversed $50 thousand from its provision for loan losses in 2015.

Approximately $400 thousand of the increase in the provision for loan losses in the nine months ended September 30, 2016 was due to growth in loans, which required the Company to set aside additional funds. The remainder of the year-to-date increase was primarily due to a charge-off in the second quarter of 2016, on a single borrowing relationship whose condition deteriorated rapidly. None of the loans in this relationship had been more than sixty days past due until the second quarter of 2016, when the Company became aware of the potential impairment on these loans and, after assessing the loans' collateral, charged off uncollectible balances totaling $786 thousand. The Company was expecting a $50 thousand recovery on this relationship from the sale of collateral in the third quarter but was unable to collect sufficient funds from the sale. As a result, the Company charged off an additional $50 thousand on this borrowing relationship in the third quarter of 2016.

Net loans charged off as a percent of total loans on an annualized basis were 0.28% for the first nine months of 2016, or $1.3 million, compared to a negative 0.02%, or a net recovery of $94 thousand, in the first nine months of 2015 as loan recoveries exceeded charge-offs in that period. Management believes that the level of charge-offs seen in the first nine months of 2016 does not represent a long-term trend and that net charge-offs for the remainder of 2016 will be closer to pre-recession, long-term historical averages. Management believes that the charge-off from the single loan relationship discussed above was an isolated event and does not represent a trend.

Nonperforming assets consist of nonaccrual loans, loans past due 90 days or more and accruing interest, restructured loans that are accruing interest and not performing according to their modified terms, and OREO. See Note 3 of the Notes to the Consolidated Financial Statements included in this quarterly report on Form 10-Q for an explanation of the loan categories. OREO consists of real estate from foreclosures on loan collateral and one former Bank building.

The majority of the loans past due 90 days or more and accruing interest are student loans with principal and interest amounts that are 97 - 98% guaranteed by the federal government. When a loan changes from "past due 90 days or more and accruing interest" status to "nonaccrual" status, the loan is reviewed for impairment. In most cases, 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 or is in negotiations with the borrower or other parties that may affect the value of the collateral, management allocates funds to the allowance for loan losses to cover the deficiency, based on information available to management at that time.

In the case of TDRs, the restructuring may be to modify to an unsecured loan (e.g., a short sale) that the borrower can afford to repay. In these circumstances, the entire balance of the loan would be specifically allocated for, unless the present value of expected future cash flows was more than the current balance on the loan. It would not be charged off if the loan documentation supports the borrower's ability to repay the modified loan.

The following table presents information on nonperforming assets, as of the dates indicated:

NONPERFORMING ASSETS

	September 30, 2016	December 31, 2015	Increase (Decrease)
	(in thousands)		
Nonaccrual loans			
Commercial	$196	$276	$ (80)
Consumer loans	179	0	179
Real estate-mortgage (1)	8,175	4,306	3,869
Total nonaccrual loans	$8,550	$4,582	$ 3,968
Loans past due 90 days or more and accruing interest			
Commercial	$0	$164	$ (164)
Real estate-construction	0	0	0
Real estate-mortgage (1)	50	23	27
Consumer loans (2)	2,566	3,163	(597)
Other	4	6	(2)
Total loans past due 90 days or more and accruing interest	$2,620	$3,356	$ (736)
Restructured loans			
Commercial	$109	$0	$ 109
Real estate-construction	96	99	(3)
Real estate-mortgage (1)	12,031	11,077	954
Consumer loans	8	12	(4)
Total restructured loans	$12,244	$11,188	$ 1,056
Less nonaccrual restructured loans (included above)	2,940	2,497	443
Less restructured loans currently in compliance (3)	9,304	8,691	613
Net nonperforming, accruing restructured loans	$0	$0	$ 0
Nonperforming loans	$11,170	$7,938	$ 3,232
Other real estate owned			
Construction, land development, and other land	$940	$1,090	$ (150)
1-4 family residential properties	74	724	(650)
Nonfarm nonresidential properties	0	927	(927)
Former bank building	127	0	127
Total other real estate owned	$1,141	$2,741	$ (1,600)
Total nonperforming assets	$12,311	$10,679	$ 1,632

(1) The real estate-mortgage segment includes residential 1 – 4 family, commercial real estate, second mortgages and equity lines of credit.
(2) Amounts listed include student loans with principal and interest amounts that are 97 - 98% guaranteed by the federal government. The portion of these guaranteed loans that is past due 90 days or more totaled $2.6 million at September 30, 2016 and $3.1 million at December 31, 2015.
(3) As of September 30, 2016 and December 31, 2015, all of the Company's restructured accruing loans were performing in compliance with their modified terms.

Nonperforming assets as of September 30, 2016 were $12.3 million, $1.6 million higher than nonperforming assets as of December 31, 2015. Nonaccrual loans increased $4.0 million when comparing the balances as of September 30, 2016 to December 31, 2015. Three loan relationships totaling $4.5 million were placed on nonaccrual in the third quarter of 2016, based on declines in the borrowers' performance. The addition of these relationships to nonaccrual was partially offset by the payoff and/or charge-off of other loans that were on nonaccrual status at December 31, 2015. Although increases in nonaccrual loans would typically warrant an increase in the allowance, management believes that the collateral and/or cash flow on these loans will be sufficient to cover balances for which it has no specific allocation.

The majority of the balance of nonaccrual loans at September 30, 2016 was related to a few large credit relationships. Of the $8.6 million of nonaccrual loans at September 30, 2016, $6.0 million or approximately 70.18% was comprised of two credit relationships of $3.7 million and $2.3 million. All loans in both relationships have been analyzed to determine whether the cash flow of the borrower and the collateral pledged to secure the loans is sufficient to cover outstanding principal balances. The Company has set aside specific allocations for those loans without sufficient cash flow or collateral.

Loans past due 90 days or more and accruing interest decreased $736 thousand. As of September 30, 2016, substantially all of the $2.6 million of loans past due 90 days or more and accruing interest were student loans on which the Company expects to experience minimal losses. Because the federal government has provided guarantees of repayment of these student loans in an amount ranging from 97% to 98% of the total principal and interest of the loans, management does not expect even significant increases in past due student loans to have a material effect on the Company.

Total restructured loans increased by $1.1 million from December 31, 2015 to September 30, 2016 primarily due to the restructuring of one loan relationship, partially offset by paydowns and charge-offs on other restructured loans. The majority of this increase is due to a single loan relationship, whose loans were modified in the third quarter of 2016. Management expects the collateral on these loans to cover the outstanding principal on all loans in the relationship. All accruing TDRs are performing in accordance with their modified terms.

OREO decreased by $1.6 million during the first nine months of 2016 due to the sale of several properties, offset by the addition of a former Bank building to OREO, as the property is no longer in use by the Company and is listed for sale.

The loans that make up the nonaccrual balance have been written down to their net realizable value. 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. As shown in the table above, the majority of nonaccrual loans at September 30, 2016 and December 31, 2015 were collateralized by real estate.

Management believes the Company has excellent credit quality review processes in place to identify problem loans quickly. This allows management to work with problem loan relationships to identify any payment shortfall and assist these borrowers to improve performance or correct the problems.

As of September 30, 2016, the allowance for loan losses was 63.20% of nonperforming assets and 69.65% of nonperforming loans, compared to 72.46% and 97.48% as of December 31, 2015. As detailed in Note 3 of the Notes to the Consolidated Financial Statements included in this quarterly report on Form 10-Q, the Company saw an increase of $3.5 million in loans rated other assets especially mentioned and an increase of $2.2 million in loans rated substandard when comparing December 31, 2015 to September 30, 2016, based on internally assigned risk grades. The allowance for loan losses was 1.31% of total loans on September 30, 2016 and 1.36 % of total loans on December 31, 2015. Although an increase in loans rated substandard would typically warrant an increase in the allowance, management anticipates that the cash flow or collateral on the majority of these loans will be sufficient to cover the outstanding principal.

In addition, management made certain changes to its methodology for calculating the allowance. See the Allowance for Loan Losses section below for a discussion of this change.

Allowance for Loan Losses

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

The majority of the Company's TDRs and nonperforming loans are collateralized by real estate. When reviewing loans for impairment, the Company obtains current appraisals when applicable. If the Company is waiting on an appraisal to determine the collateral's value or is in negotiations with the borrower or other parties that may affect the value of the collateral, any loan balance that is in excess of the estimated appraised value is allocated in the allowance. As of September 30, 2016 and December 31, 2015, the impaired loan component of the allowance for loan losses amounted to $633 thousand and $798 thousand, respectively. The decrease in this component was mainly due to improvements in the condition of the borrowers on certain loans, as well as charge-offs on loans management considered uncollectible.

The second component of the allowance consists of qualitative factors and includes items such as economic conditions, growth trends, loan concentrations, changes in certain loans, changes in underwriting, changes in management and legal and regulatory changes. For the September 30, 2016 calculation, the qualitative factors which had the most significant impact on the allowance were those affected by changes in the economy, past due and nonaccrual loans, and changes in collateral-dependent loans. Continued incremental improvements in the economy allowed for a reduction in the allowance. At the same time, past due and nonaccrual loans increased in several categories when comparing September 30, 2016 to December 31, 2015, but improvements in other qualitative factors offset the effect and resulted in a net improvement in the qualitative factors.

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

Consumer loans not secured by real estate and made to individuals for household, family and other personal expenditures are segmented into pools based on whether the loan's payments are current (including loans 1 – 29 days past due), or are 30 – 59 days past due, 60 – 89 days past due, or 90 days or more past due. All other loans, including loans to consumers that are secured by real estate, are segmented by the Company's internally assigned risk grades: substandard, other assets especially mentioned (rated just above substandard), and pass (all other loans). The Company may also assign loans to the risk grades of doubtful or loss, but as of September 30, 2016 and December 31, 2015, the Company had no loans in these categories.

With the December 31, 2015 calculation, the historical loss was based on a migration period covering the past twelve quarters. The calculation for September 30, 2016 incorporated several changes, which are described in detail below. On a combined basis, the historical loss and qualitative factor components amounted to $7.1 million and $6.9 million as of September 30, 2016 and December 31, 2015, respectively. Growth in the loan portfolio is the major reason for the increase in these combined components when comparing the allowance calculation as of September 30, 2016 to the allowance calculation as of December 31, 2015.

For the September 30, 2016 calculation, management made the following changes to its methodology in order to ensure the allowance accurately reflects probable losses inherent in the loan portfolio.

<u>Change in Migration Periods</u>
Historical loss rates calculated by migration analysis are determined by the performance of a loan over a period of time (the migration period). Multiple migration periods can also be calculated, allowing the Company to assess the migration of loans based on more than one starting point. For example, the Company could run a migration analysis that begins on June 30, 2013 and follows the performance of the loans outstanding on that date through June 30, 2016, assessing changes in risk ratings and the amount of any charge-offs to determine the historical loss rate. The Company could then run a second migration analysis that begins on September 30, 2013 and follows those loans through September 30, 2016 to calculate a second historical loss rate. These two loss rates would then be averaged to determine the overall loss rate applied to the loan portfolio.

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

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

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

As part of the quarterly calculation, management reviews the length of the migration periods and the number of migration periods used. To better reflect the risks inherent in the loan portfolio, in the third quarter of 2016, the Company increased the number of migration periods from one to four. As with the methodology in prior quarters, one migration period continues to include the twelve most recent quarters. The three new migration periods that are now averaged with the original migration period also include twelve quarters. The migration periods used for the third quarter 2016 allowance calculation included the twelve quarters ended September 30, 2016, June 30, 2016, March 31, 2016 and December 31, 2015.

Change in Segments for Pooled Loans
In addition to this change in the number of migration periods, the Company also further sub-segmented its pool of consumer loans not secured by real estate. In prior quarters, the Company has segmented its consumer loans not secured by real estate into four pools: revolving loans, loans for the purchase of and secured by automobiles, student loans, and all other consumer loans. Beginning in the third quarter of 2016, the Company further divided the last category (all other consumer loans) by separating certain purchased loans into their own pool because this group of loans shares characteristics that are not shared with other consumer loans.

These loans were all purchased from a single source and, in addition to the collateral pledged by the borrower, are covered by an agreement between the Company and the note seller that requires the seller to maintain a reserve account with the Company. The balance in this reserve account, which exists to absorb future losses on these purchased loans, is between ten and fifteen percent of the outstanding balance of the purchased loans, with an average of twelve percent. Given the protection provided by this reserve, management does not anticipate any charge-offs against the allowance on these accounts. Accordingly, beginning with the third quarter of 2016, the historic loss factor does not apply to this group of loans.

Change in Qualitative Factors
Management periodically analyzes the qualitative factors applied to the segments of the loan portfolio. For the September 30, 2016 calculation, management determined that it was appropriate to modify the number of qualitative factors applied to its student loan portfolio and to the new segment discussed above. Applying the relevant qualitative factors to this new segment resulted in a lower allowance for this new sub-segment.

Overall Change in Allowance
As a result of management's analysis, the Company added, through the provision, $1.3 million to the allowance for loan losses for the nine months ended September 30, 2016 and reversed $100 thousand from its provision for loan losses for the third quarter of 2016. Management believes that the allowance has been appropriately funded for losses on existing loans, based on currently available information. The Company will continue to monitor the loan portfolio and levels of nonperforming assets closely and make changes to the allowance for loan losses when necessary.

See Note 3 of the Notes to the Consolidated Financial Statements included in this quarterly report on Form 10-Q for a discussion of the financial statement impact of these changes.

Noninterest Income
Noninterest income was $3.3 million and $10.3 million, respectively, in the three and nine months ended September 30, 2016, an increase of $104 thousand or 3.23% from the third quarter of 2015 and an increase of $419 thousand or 4.25% from the nine months ended September 30, 2015.

Beginning in the fourth quarter of 2015, the Company re-evaluated its strategy to ensure it was positioned for possible future interest rate changes. This strategy was implemented in the first quarter of 2016 and included restructuring the investment portfolio through the sale and purchase of certain investments. While implementing its strategy, the Company took advantage of the opportunity to recognize gains which would offset the fee to prepay its FHLB advance, as well as losses on other real estate owned incurred in the sale of the properties.

Noninterest income in the first nine months of 2016 was positively impacted by sales of securities in the first quarter of the year, sales that are congruent with management's current strategy for the Company's investment portfolio. These investment portfolio sales resulted in a net gain of $509 thousand in the first quarter of 2016. In the second quarter, sharp declines in market interest rates provided the Company with the opportunity to sell certain under-performing securities for a gain, which allowed the Company to fund loan growth and reduce the portfolio's susceptibility to interest rate risk. Smaller gains were recognized in the third quarter.

Year-to-Date Review

Unless otherwise noted, all comparisons in this section are between the nine months ended September 30, 2016 and the nine months ended September 30, 2015.

Other than the gains discussed above, noninterest income was positively affected by increases in service charges on deposit accounts and income from Old Point Mortgage, LLC (Old Point Mortgage), a joint venture between the Bank and Tidewater Mortgage Services, LLC. Service charges on deposit accounts increased by $27 thousand as a result of a new consumer product initiated in the third quarter of 2015. Growth in analysis fees as a result of sales efforts by the Company's Corporate Banking division also increased service charges on deposit accounts. Income from Old Point Mortgage increased $68 thousand due to improved sales processes and increased efficiencies.

The largest decrease in noninterest income was in the category income from fiduciary activities, which is heavily impacted by the market value of assets under management. Fluctuations in the stock market during the first half of 2016 reduced income in this category by $116 thousand when compared to the first half of 2015. As markets stabilized in the third quarter, income from fiduciary activities began to increase again, and as a result, income from fiduciary activities was down $104 thousand in the nine months ended September 30, 2016 when compared to the same period in 2015.

Two other categories of noninterest income also decreased: other service charges, commissions and fees was down $75 thousand, while income from bank-owned life insurance decreased $17 thousand. Other service charges, commissions and fees decreased mainly due to declines in securities brokerage income, although increases in income from retirement-plan recordkeeping helped to compensate. Income from bank-owned life insurance decreased due to lower yields on the underlying assets.

Third Quarter Review
Unless otherwise noted, all comparisons in this section are between the third quarter of 2016 and the third quarter of 2015.

Most categories of noninterest income increased, with income from Old Point Mortgage increasing the most at $137 thousand, due to the reasons discussed above. Income from fiduciary activities, which increased $12 thousand, reversed its declining trend from the first half of the year as markets became less volatile.

Decreases were seen mainly in other service charges, commissions and fees, with income from bank-owned life insurance decreasing slightly. Both changes were for the reasons discussed in the "Year-to-Date Review" section above.

Noninterest Expense
Noninterest expense increased $333 thousand or 1.28%, when comparing the nine months ended September 30, 2016 to the same period in 2015 and decreased $462 thousand or 5.05% when comparing the third quarters of 2015 and 2016.

Since 2014, the Company has maintained a portion of its excess liquidity in a noninterest-bearing account at a correspondent bank. Although balances held at the Federal Reserve earn 0.50% interest, balances held at the correspondent receive an earnings credit of 0.75%. Beginning in the third quarter of 2016, the Company has made more strategic use of this earnings credit, which can be used to offset the Company's courier and data processing expenses, in addition to normal service charges assessed by the correspondent. The reduction in noninterest expense (and thus the increase in net income) is higher than the reduction in interest income. Due to this strategy, the Company saved $39 thousand and $52 thousand in the three and nine months ended September 30, 2016.

Year-to-Date Review
Unless otherwise noted, all comparisons in this section are between the nine months ended September 30, 2016 and the nine months ended September 30, 2015.

The prepayment fee on the Company's FHLB advance was the single most significant cause of the overall increase in noninterest expense. Although this $391 thousand fee had a significant impact on noninterest expense, it was more than offset by reduced interest expense on FHLB advances in the first nine months of 2016 as compared to the first nine months of 2015.

Of the remaining categories of noninterest expense, the most significant increases were in legal and audit expenses ($358 thousand, or 70.06%), occupancy and equipment ($155 thousand, or 3.91%), data processing ($90 thousand, or 7.59%), and other outside service fees ($66 thousand, or 13.33%).

- Legal and audit expenses: The Company's 2016 proxy statement included numerous proposals, including changes to the Company's articles of incorporation, the addition of an employee stock purchase plan, and the addition of a new stock incentive plan, all of which required extensive review by outside legal counsel. The implementation of stockholder-approved proposals following the 2016 Annual Meeting of Stockholders also increased legal and audit expense during this period.

- Occupancy and equipment: The Company implemented a new, more sophisticated disaster recovery plan in the third quarter of 2015. This new plan increased both depreciation and service contract expenses.

- Data processing: The new disaster recovery plan was also partially responsible for the increase in data processing expense, as the Company established an offsite disaster recovery data center which is synchronized in real time with the Company's production systems. Data processing expense was also affected by expenses related to services offered to commercial customers.

- Other outside service fees: Beginning in the second quarter of 2015, the Company outsourced certain loan review functions. Also in the second quarter of 2015, the Company purchased as additional $14.0 million student loan portfolio, with servicing expenses increased accordingly.

These increases were offset by decreases in salaries and employee benefits ($509 thousand or 3.26%), loss on other real estate owned ($85 thousand or 35.71%), ATM and check losses ($79 thousand or 20.79%), and FDIC insurance ($67 thousand or 14.76%).

- Salaries and employee benefits: In the third quarter of 2015, the Company expensed the benefits package given to a retiring executive officer, thus elevating expenses in that quarter. The increased expense associated with the retirement package in the third quarter of 2015 accounted for substantially all of the difference in salaries and employee benefits expense.

- Loss on other real estate owned: The Company has made significant progress on reducing its holdings of other real estate owned, with the balance decreasing from $2.7 million at December 31, 2015 to $1.1 million at September 30, 2016. As these properties are sold, both write-downs and expenses related to these properties will decrease.

- ATM and check losses: Fraud losses in the first nine months of 2015 were elevated, without similar losses in 2016.

- FDIC insurance: Beginning in the third quarter of 2016, the FDIC made changes to the way that insurance premiums are calculated. Management expects the lower levels of expense to continue into the foreseeable future.

The Company's income tax expense decreased $177 thousand, due to both lower income before taxes and a lower effective tax rate. The Company's effective tax rate remains low due to its investments in tax-exempt securities and its receipt of federal income tax credits for its investment in certain housing projects. As the Company's income is lower in 2016 than in 2015 while the amount of credits received in 2016 is similar to what was received in 2015, the Company's effective tax rate is reduced, resulting in a decline in the effective tax rate from 8.02% to 3.75%.

Third Quarter Review
Unless otherwise noted, all comparisons in this section are between the third quarter of 2016 and the third quarter of 2015.

The most significant changes in quarterly noninterest expense were in four line items: salaries and employee benefits (down $447 thousand or 8.11%); FDIC insurance (down $88 thousand or 57.14%); legal and audit expenses (up $135 thousand or 56.96%); and losses on other real estate owned (down $121 thousand or 72.89%). All of these categories were affected by the same factors as discussed above for the year-to-date periods.

Income tax expense for the quarter was up from the comparable period last year, due to higher net income before taxes and a higher effective tax rate. The Company's effective tax rate was higher as taxable income increased at a faster rate than the Company's tax credits, while tax-exempt income declined. As in the year-to-date periods discussed above, the Company's investments in tax-exempt securities and low-income housing projects have generally helped to keep its effective tax rate low, which management expects will continue.

Balance Sheet Review
Unless otherwise noted, all comparisons in this section are between balances at December 31, 2015 and September 30, 2016.

Assets as of September 30, 2016 were $905.8 million, an increase of $9.0 million or 1.00%.This increase was driven mainly by the liabilities side of the balance sheet, with deposits increasing $18.0 million, or 2.41%, to $764.5 million at September 30, 2016. A portion of this increase offset declines in overnight repurchase agreements and the net $5.0 million decrease in Federal Home Loan Bank (FHLB) advances.

The net decrease in FHLB advances is actually made up of several transactions. In the first quarter of 2016, management made a strategic decision to prepay a $25.0 million advance, which would have matured in June of 2016. Although this prepayment required the Company to pay a fee of $391 thousand, it saved $456 thousand in interest expense during 2016, for a net increase to pre-tax income of $65 thousand. In the second quarter of 2016, the Company took out additional borrowings from the FHLB at significantly lower rates than that carried by the advance that was prepaid.

In addition, securities available-for-sale decreased $52.0 million. The Company sold certain securities in the first and second quarters to limit the portfolio's susceptibility to interest rate risk and help fund loan growth. With the volatility in market interest rates during 2016, the Company was able to sell for a gain certain under-performing securities. The securities sold were all mortgage-backed securities with rates that have been below market for some time. As management expects that rates will eventually begin to increase, and loan growth necessitated a need for additional funding, the Company sold these securities while the market value was above the Company's book value of the securities.

The liquidity generated by the growth in deposits and the sale of securities was used to fund net loan growth of $25.4 million. The largest increase in the loan portfolio was in the commercial loans secured by real estate segment, with moderate growth seen in the commercial loans not secured by real estate and the other loans segments.

The growth in commercial loans, both secured by real estate and not, is as a result of improvements in quality loan demand in the Company's market area. Management expects growth in these segments to continue during the remainder of 2016. Although total loans decreased between June 30, 2016 and September 30, 2016, commercial loans secured by real estate continued the increases seen in the first half of the year. Commercial loans not secured by real estate did decrease in the third quarter, mainly due to balance changes in revolving lines of credit.

The majority of the other loans segment is made up of draws on warehouse lines that provide funding to mortgage companies. The balances on these lines are typically low at year-end, as mortgage loan activity tends to peak during the summer months. Management expects the balances on these lines to approximate their December 31, 2015 levels at the end of 2016.

Liquidity remaining after loan growth funding was held in cash and cash equivalents to fund either loan growth or strategic purchases of securities to further management's goal of maintaining a securities portfolio that is well positioned for future interest rate changes. The majority of this liquidity was held in a noninterest-bearing account at a correspondent. Although this account does not pay interest, the earnings credit rate is higher than the interest rate that would be earned from any of the Company's interest-bearing due from banks. The earnings credit is available to offset certain noninterest expenses; for details, refer to the Noninterest Expense section of this Management's Discussion and Analysis.

Average assets for the first nine months of 2016 were $874.5 million compared to $883.9 million for the first nine months of 2015, a decrease of $9.4 million or 1.07%. Comparing the first nine months of 2016 to the first nine months of 2015, lower yielding balances held in investment securities and cash and cash equivalents moved to higher yielding loans. Average loans increased $19.8 million and average investment securities decreased $33.9 million when comparing the first nine months of 2016 to the same period in 2015. The remainder of the decrease in securities was used to offset the $15.9 million decrease in average FHLB advances (discussed above), as well as the $6.1 million decline in average federal funds purchased, repurchase agreements and other borrowings, which was mainly caused by decreases in customer balances in overnight repurchase accounts.

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, 2016.

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

Loans Secured by 1 - 4 Family
First Mortgages,
1 - 4 Family Open-end and 1 - 4
Family Junior Liens
As of September 30, 2016
(dollars in thousands)

	Amount	Percent
Subprime	$19,650	12.74 %
Non-subprime	134,585	87.26 %
	$154,235	100.00%
Total loans	$593,920	
Percentage of Real Estate-Secured Subprime Loans to Total Loans		3.31 %

In addition to the subprime loans secured by real estate discussed above, as of September 30, 2016, the Company had an additional $1.1 million in subprime consumer loans that were either not government guaranteed, were unsecured or were 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, 2016 were $20.8 million, amounting to 3.49% of the Company's total loans at September 30, 2016.

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

Capital Resources

Total stockholders' equity as of September 30, 2016 was $96.5 million, an increase of $3.3 million or 3.53% from $93.2 million at December 31, 2015.

For purposes of the Basel III Final Rules (i) common equity Tier 1 capital (CET1) consists principally of common stock (including surplus) and retained earnings; (ii) Tier 1 capital consists principally of CET1 plus non-cumulative preferred stock and related surplus, and certain grandfathered cumulative preferred stock and trust preferred securities; and (iii) Tier 2 capital consists principally of qualifying subordinated debt and preferred stock, and limited amounts of the allowance for loan losses. Total Capital is Tier 1 plus Tier 2 capital. Each regulatory capital classification is subject to certain adjustments and limitations, as implemented by the Basel III Final Rules. The Basel III Final Rules also implement a "countercyclical capital buffer," generally designed to absorb losses during periods of economic stress and to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk. The Basel III Final Rules are discussed in detail in the Company's 2015 annual report on Form 10-K.

The following is a summary of the Company's capital ratios at September 30, 2016. As shown below, these ratios were all well above the regulatory minimum levels, and demonstrate that the Company's capital position remains strong.

	2016 Regulatory Minimums	September 30, 2016
Common Equity Tier 1 Capital	5.125 %	13.55 %
Tier 1 Capital	6.625 %	13.55 %
Tier 1 Leverage	4.625 %	10.86 %
Total Capital	8.625 %	14.63 %

Book value per share was $19.45 at September 30, 2016 as compared to $18.32 at September 30, 2015. Cash dividends were $1.5 million or $0.30 per share in the first nine months of 2016 and $1.2 million or $0.25 per share in the first nine months of 2015.

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. The Company's internal sources of such liquidity are deposits, loan and investment repayments and securities available-for-sale. As of September 30, 2016, the Bank's unpledged, available-for-sale securities totaled $81.6 million. The Company's primary external source of liquidity is advances from the FHLB.

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. As of the end of the third quarter of 2016, the Company had $137.7 million in FHLB borrowing availability based on loans currently available for pledging. The Company believes that the availability at the FHLB is sufficient to meet future cash-flow needs. The Company also has available short-term, unsecured borrowed funds in the form of federal funds lines of credit with correspondent banks. As of the end of the third quarter of 2016, the Company had $50.0 million available in federal funds lines to address any short-term borrowing needs.

As disclosed in the Company's consolidated statements of cash flows, net cash provided by operating activities was $6.0 million, net cash provided by investing activities was $28.1 million and net cash provided by financing activities was $3.8 million for the nine months ended September 30, 2016. Combined, this contributed to a $37.9 million increase in cash and cash equivalents for the nine months ended September 30, 2016.

Management is not aware of any market or institutional trends, events or uncertainties that are expected to have a material effect on the liquidity, capital resources or operations of the Company. Nor is management aware of any current recommendations by regulatory authorities that would have a material effect on liquidity, capital resources or operations.

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

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

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.

As of September 30, 2016, there have been no material changes outside the ordinary course of business in the Company's contractual obligations disclosed in the Company's 2015 annual report on Form 10-K.

Off-Balance Sheet Arrangements
As of September 30, 2016, there were no material changes in the Company's off-balance sheet arrangements disclosed in the Company's 2015 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 re-pricing 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 at the one-year time frame as of September 30, 2016. It should be noted, however, that non-maturing deposit liabilities, which consist of money market, savings and interest-bearing and noninterest-bearing checking accounts, are less interest sensitive than other market driven deposits. At September 30, 2016, non-maturing deposit liabilities totaled $551.2 million or 72.10% 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 indicated by the static gap analysis. Income simulation analysis allows the Company to reflect the expected differences in re-pricing behavior among various assets and liabilities to more reliably measure the potential effects on income from changes in the interest rate environment. Utilizing this income simulation methodology, the model reveals that the Company is asset sensitive at the one-year time frame as of September 30, 2016.

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

The 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 on net interest income. This test assumes that management takes no steps to adjust the balance sheet to respond to the rate change by re-pricing assets/liabilities, as discussed in the first paragraph of this section.

Under the rate environment forecasted by management, rate changes in 50 to 100 basis point increments are applied to assess the impact on the Company's earnings at September 30, 2016. The rate change model assumes that these changes will occur gradually over the course of a year. The model reveals that a 50 basis point ramped decrease in rates would cause an approximate annual decrease of 0.46% in net interest income. The model reveals that a 50 basis point ramped rise in rates would cause an approximate annual increase of 0.40% in net interest income and that a 100 basis point ramped rise in rates would cause an approximate annual increase of 0.46% 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, 2016 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 2015 annual report on Form 10-K.

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

Pursuant to the Company's equity compensation plans, participants may pay the exercise price of certain awards or satisfy tax withholding requirements associated with awards 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 awards. During the quarter ended September 30, 2016, the Company did not repurchase any shares related to the exercise of awards or the satisfaction of tax withholding requirements associated with awards.

During the quarter ended September 30, 2016, the Company did not repurchase any shares pursuant to the Company's stock repurchase program.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

The Company has made no changes to the process by which security holders may recommend nominees to its board of directors, which is discussed in the Company's Proxy Statement for the Company's 2016 Annual Meeting of Stockholders.

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)
3.1.1	Articles of Amendment to Articles of Incorporation of Old Point Financial Corporation, effective May 26, 2016 (incorporated by reference to Exhibit 3.1.1 to Form 8-K filed May 31, 2016)
3.2	Bylaws of Old Point Financial Corporation, as amended and restated August 9, 2016 (incorporated by reference to Exhibit 3.2 to Form 10-Q filed August 10, 2016)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Old Point Financial Corporation's quarterly report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets (unaudited for September 30, 2016), (ii) Consolidated Statements of Income (unaudited), (iii) Consolidated Statements of Comprehensive Income (unaudited), (iv) Consolidated Statements of Changes in Stockholders' Equity (unaudited), (v) Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to Consolidated Financial Statements (unaudited)

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, 2016 /s/Robert F. Shuford, Sr.
Robert F. Shuford, Sr.
Chairman, President & Chief Executive Officer
(Principal Executive Officer)

November 8, 2016 /s/Laurie D. Grabow
Laurie D. Grabow
Chief Financial Officer & Senior Vice President/Finance
(Principal Financial & Accounting Officer)