OLD POINT FINANCIAL CORP
Form 10-K
March 15, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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)	(IRS Employer Identification No.)

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

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," 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 Act). Yes No

The aggregate market value of voting and non-voting stock held by non-affiliates of the registrant as of June 30, 2016 was $66,676,665 based on the closing sales price on the NASDAQ Capital Market of $19.18.

There were 4,975,417 shares of common stock outstanding as of March 10, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Company's Annual Meeting of Stockholders to be held on May 23, 2017, are incorporated by reference in Part III of this report.

OLD POINT FINANCIAL CORPORATION

FORM 10-K

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Part I
Item 1. Business

GENERAL

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

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

The Bank is a national banking association that was founded in 1922. As of the end of 2016, the Bank had 18 branch offices serving the Hampton Roads localities of Hampton, Newport News, Norfolk, Virginia Beach, Chesapeake, Williamsburg/James City County, York County and Isle of Wight County. The Bank offers a complete line of consumer, mortgage and business banking services, including loan, deposit, and cash management services to individual and commercial customers.

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

As of December 31, 2016, the Company had assets of $903.0 million, loans of $603.9 million, deposits of $784.5 million, and stockholders' equity of $94.0 million. At year-end, the Company and its subsidiaries had a total of 286 employees, 20 of whom were part-time.

MARKET AREA AND COMPETITION

The Company's market area is located in Hampton Roads, situated in the southeastern corner of Virginia and boasting the world's largest natural deepwater harbor. The Hampton Roads Metropolitan Statistical Area (MSA) is the 37th most populous MSA in the United States according to the U.S. Census Bureau's 2010 census and the third largest deposit market in Virginia, after Richmond and the Washington Metropolitan area, according to the Federal Deposit Insurance Corporation (FDIC). Hampton Roads includes the cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg, and the counties of Isle of Wight, Gloucester, James City, Mathews, York and Surry. The market area is serviced by 63 banks, savings institutions and credit unions and, in addition, branches of virtually every major brokerage house serve the Company's market area.

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

Concurrently, the Company continues to build a stronger presence in the business banking market, where greater opportunities for fee-based revenues and cross-selling exist. In 2009, the Company expanded its treasury services offerings by adding a Corporate Banking group and expanding its product offerings to match those offered by larger institutions. This expansion has continued throughout 2016 with an aim towards growth and relationship development. Through these business banking capabilities, the Company is able to service a highly lucrative market that offers the opportunities to identify new revenue streams and cross sell additional products.

Personal assets held by non-banks are difficult to track at a local level, so research relies on deposits reported by governmental agencies to measure market share. In 2016, the Company held tenth place with 2.41% market share of all Hampton Roads deposits, as compared to 2.62% market share in 2015. On the Peninsula, the Company retains first place in Hampton with 28.31% market share, but saw a decline in deposits from 2015 of $10.5 million. The Company saw deposit growth from 2015 for all other Peninsula markets, with an increase of $2.2 million in James City County, $2.8 million in Williamsburg, $6.0 million in Newport News, and $937 thousand in York County.

In Southside Hampton Roads, the Company increased deposit share in Virginia Beach by $6.7 million and in Norfolk by $5.6 million from 2015. However, in the Chesapeake and Isle of Wight County markets, deposits decreased from 2015 by $7.8 million and $647 thousand, respectively. Combined with heightened marketing efforts, the staff in the Company's newer locations continues to work diligently to increase the Company's name recognition in their respective regions of the Hampton Roads MSA.

The Company also faces competitive pressure from credit unions. The three largest credit unions headquartered in the Hampton Roads MSA are Chartway Federal Credit Union, Langley Federal Credit Union, and Newport News Shipbuilding Employees' Credit Union with deposits totaling approximately $1.9 billion, $1.8 billion and $1.2 billion respectively, all of which posted a positive growth rate for 2016.

AVAILABLE INFORMATION

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

REGULATION AND SUPERVISION

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

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

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

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

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

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

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

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

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

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

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

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

- changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital. The Dodd-Frank Act also made permanent the $250,000 limit for federal deposit insurance and increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000;
- repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- created and centralized significant aspects of consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (CFPB), which is discussed in more detail below;
- imposed limits for debit card interchange fees for issuers that have assets greater than $10 billion, which also could affect the amount of interchange fees collected by financial institutions with less than $10 billion in assets;
- restricted the preemption of state law by federal law and disallowed subsidiaries and affiliates of national banks from availing themselves of such preemption;
- imposed comprehensive regulation of the over-the-counter derivatives market subject to significant rulemaking processes, to include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself;
- required loan originators to retain 5 percent of any loan sold or securitized, unless it is a "qualified residential mortgage", subject to certain restrictions;
- prohibited banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (the Volcker Rule); and
- implemented corporate governance revisions that apply to all public companies, not just financial institutions.

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

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

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

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

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

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

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

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

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

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

The DIF is funded by assessments on banks and other depository institutions calculated based on average consolidated total assets minus average tangible equity (defined as Tier 1 capital). As required by the Dodd-Frank Act, the FDIC has adopted a large-bank pricing assessment scheme, set a target "designated reserve ratio" (described in more detail below) of 2 percent for the DIF, and established a lower assessment rate schedule when the reserve ratio reaches 1.15 percent and, in lieu of dividends, provides for a lower assessment rate schedule, when the reserve ratio reaches 2 percent and 2.5 percent.

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

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

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

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

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

Confidentiality and Required Disclosures of Consumer Information. The Company is subject to various laws and regulations that address the privacy of nonpublic personal financial information of consumers. The Gramm-Leach-Bliley Act and certain regulations issued thereunder protect against the transfer and use by financial institutions of consumer nonpublic personal information. A financial institution must provide to its customers, at the beginning of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These privacy provisions generally prohibit a financial institution from providing a customer's personal financial information to unaffiliated third parties unless the institution discloses to the customer that the information may be so provided and the customer is given the opportunity to opt out of such disclosure. In 2016, the CFPB proposed rules that provide an exception to the requirement to deliver an annual privacy notice if a financial institution only provides nonpublic personal information to unaffiliated third parties under limited exceptions under the Gramm-Leach-Bliley Act and related regulations, and has not changed its policies and practices regarding disclosure of nonpublic personal financial information from those disclosed in the most recent privacy notice provided to the customer.

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

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

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

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

The Bank's mortgage origination activities are also subject to Regulation Z, which implements the Truth in Lending Act. Certain provisions of Regulation Z require mortgage lenders to make a reasonable and good faith determination, based on verified and documented information, that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Alternatively, a mortgage lender can originate "qualified mortgages", which are generally defined as mortgage loans without negative amortization, interest-only payments, balloon payments, terms exceeding 30 years, and points and fees paid by a consumer equal to or less than 3% of the total loan amount. Higher-priced qualified mortgages (e.g., subprime loans) receive a rebuttable presumption of compliance with ability-to-repay rules, and other qualified mortgages (e.g., prime loans) are deemed to comply with the ability-to-repay rules. The Bank does not originate first mortgage loans at this time, and the first mortgages it purchases comply with Regulation Z's "qualified mortgage" rules. The Bank does originate second mortgages, or equity loans, and these loans do not conform to the qualified mortgage criteria but comply with applicable ability-to-repay rules.

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

Item 1A. Risk Factors

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

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

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

In December 2015, the FRB's Federal Open Market Committee (FOMC) raised the target range for the federal funds rate, which is the interest rate at which depository institutions lend reserve balances to other depository institutions overnight, to 0.25%-0.50%, which was the first change since the target range was lowered to 0%-0.25% in 2008. In December 2016, the FOMC again raised its target range by 25 basis points, to 0.50%-0.75%. At the time of this writing, the FOMC is expected to raise rates three times in 2017. Despite these projected increases, the FOMC's monetary policy remains accommodative, and the overall low interest rate environment is expected to continue in 2017. Continued low interest rates could put further pressure on the yields generated by the Company's loan portfolio and on the Company's net interest margin. At December 31, 2016, based on scheduled maturities only, the Company's balance sheet was liability sensitive at the one-year time frame and, as a result, its net interest margin will tend to decrease in a rising interest rate environment and increase in a declining interest rate environment. However, when using decay rates to simulate maturities for non-maturing deposits, the Company's balance sheet as of December 31, 2016 is asset sensitive at the one-year time frame. When the Company is asset sensitive, the net interest margin should rise if rates rise and should fall if rates fall. For additional details, See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Sensitivity" in Item 7 of this report on Form 10-K.

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

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

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

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

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

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

Weaknesses in the commercial real estate markets could negatively affect the Company's financial performance due to the Company's concentration in commercial real estate loans. At December 31, 2016, the Company had $308.5 million, or 51.09%, of total loans concentrated in commercial real estate, which includes, for purposes of this concentration, all construction loans, loans secured by multifamily residential properties, loans secured by farmland and loans secured by nonfarm, nonresidential properties. Commercial real estate loans expose the Company to a greater risk of loss than residential real estate and consumer loans. Commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. Consequently, an adverse development with respect to one commercial real estate loan or credit relationship exposes the Company to a significantly greater risk of loss compared to an adverse development with respect to one residential real estate loan. Commercial real estate loans carry risks associated with the successful operation of a business if the properties are owner occupied. If the properties are non-owner occupied, the repayment of these loans may be dependent upon the profitability and cash flow from rent receipts. Repayment of commercial real estate loans may, to a greater extent than residential real estate loans, be subject to adverse conditions in the real estate market or economy. Weak economic or market conditions may impair a borrower's business operations, slow the execution of new leases and lead to turnover in existing leases. The combination of these factors could result in deterioration in value of some of the Company's loans. The deterioration of one or more of the Company's significant commercial real estate loans could cause a significant increase in nonaccrual loans. An increase in nonaccrual loans could result in a loss of interest income from those loans, an increase in the provision for loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial performance.

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

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

The Company is subject to losses resulting from fraudulent and negligent acts on the part of loan applicants, correspondents or other third parties. The Company relies heavily upon information supplied by third parties, including the information contained in credit applications, employment and income documentation, property appraisals, title information, and equipment pricing and valuation, in deciding which loans to originate, as well as in establishing the terms of those loans. If any of the information upon which the Company relies during the loan approval process is misrepresented, either fraudulently or inadvertently, and the misrepresentation is not detected prior to asset funding, the value of the asset may be significantly lower than expected, the Company may fund a loan that it would not have otherwise funded or the Company may fund a loan on terms that it would not have otherwise extended. Whether a misrepresentation is made by the applicant or by another third party, the Company generally bears the risk of loss associated with the misrepresentation. In addition, a loan subject to a material misrepresentation is typically unsellable or subject to repurchase if it is sold prior to detection of the misrepresentation. The sources of the misrepresentation are often difficult to locate, and it may be difficult to recover any monetary loss the Company may suffer.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company's directors and executive officers own a significant portion of the Company's common stock and can exert significant influence over its business and corporate affairs. The Company's directors and executive officers, as a group, beneficially owned 29.90% of the Company's common stock as of June 30, 2016. Consequently, if they vote their shares in concert, they can significantly influence the outcome of matters submitted to the Company's stockholders for approval, including the election of directors. The interests of the Company's directors and executive officers may conflict with the interests of other holders of the Company's common stock, and the Company's directors and executive officers may take actions affecting the Company with which other holders of the Company's common stock disagree.

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2016, the Company owned its main office, which includes a branch, located in Hampton, Virginia; the corporate headquarters, which includes a branch; six office buildings; and 12 branches. All of these are owned directly and free of any encumbrances. One of the office buildings is currently listed for sale and held in other real estate owned.

The land at the Fort Monroe branch is leased by the Company under an agreement that expires in June 2017. Two of the remaining three branches are leased from unrelated parties. The Crown Center branch is leased from Crown Center Associates, LLC, which is indirectly owned by Michael Glasser, a member of the Company's Board of Directors. These three branch leases have renewal options that expire anywhere within one to eight years from December 31, 2016.

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name (Age) And Present Position	Served in Current Position Since	Principal Occupation During Past Five Years
Robert F. Shuford, Sr. (79) Chairman, President & Chief Executive Officer Old Point Financial Corporation	1965	Chairman of the Board, President & Chief Executive Officer of the Company Chairman of the Board of the Bank
Robert F. Shuford, Jr. (52) Executive Vice President/Bank Old Point Financial Corporation	2015	Executive Vice President/Bank of the Company since 2015; Chief Operating Officer & Senior Vice President/Operations of the Company from 2003 to 2015 President & Chief Executive Officer of the Bank since 2015; Senior Executive Vice President & Chief Operating Officer of the Bank from 2012 to 2015; Executive Vice President & Chief Operating Officer of the Bank from 2003 to 2012
Laurie D. Grabow (59) Chief Financial Officer & Senior Vice President/Finance Old Point Financial Corporation	1999	Chief Financial Officer & Senior Vice President/Finance of the Company Chief Financial Officer & Executive Vice President of the Bank
Eugene M. Jordan, II (62) Secretary to the Board & Executive Vice President/Trust Old Point Financial Corporation	2003	Secretary to the Board & Executive Vice President/Trust of the Company since 2015; Executive Vice President/ Trust of the Company from 2003 to 2015 President and Chief Executive Officer of Trust since 2003
Joseph R. Witt (56) Chief Business Development Officer & Senior Vice President Old Point Financial Corporation	2008	Chief Business Development Officer & Senior Vice President of the Company since 2015; Chief Administrative Officer & Senior Vice President/Administration of the Company from 2012 to 2015; Senior Vice President/ Corporate Banking/Human Resources of the Company from 2010 to 2012; Senior Vice President/Corporate Banking of the Company from 2008 to 2010 Senior Executive Vice President & Chief Business Development Officer of the Bank since 2015; Senior Executive Vice President & Chief Administrative Officer of the Bank from 2012 to 2015; Executive Vice President/ Corporate Banking & Human Resources Director of the Bank from 2010 to 2012

Donald S. Buckless (52)		Chief Lending Officer & Senior Vice President of the Company since 2016
Chief Lending Officer & Senior Vice President Old Point Financial Corporation	2016	Chief Lending Officer & Executive Vice President of the Bank since 2016; Chief Lending Officer & Senior Vice President of the Bank from 2015 to 2016; Senior Vice President/Commercial Lending Officer of the Bank from May 2012 to 2015; Senior Vice President of SunTrust from December 2000 to May 2012

Part II

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

The common stock of the Company is quoted on the NASDAQ Capital Market under the symbol "OPOF". The approximate number of stockholders of record as of March 10, 2017 was 1,184. On that date, the closing price of the Company's common stock on the NASDAQ Capital Market was $28.32. The range of high and low sale prices and dividends paid per share of the Company's common stock for each quarter during 2016 and 2015 is presented in Item 7 of this report on Form 10-K under "Capital Resources" and is incorporated herein by reference. Additional information related to restrictions on funds available for dividend declaration can be found in Note 17 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.

On January 12, 2010, the Company authorized a program to repurchase during any given calendar year up to an aggregate of 5 percent of the shares of the Company's common stock outstanding as of January 1 of that calendar year. The Company did not repurchase any shares of the Company's common stock under this plan during 2016. There is currently no stated expiration date for this program.

Pursuant to the Company's stock option plans, participants may exercise stock options by surrendering shares of the Company's common stock that the participants already own. Shares surrendered by participants of these plans are repurchased at current market value pursuant to the terms of the applicable stock options. No such repurchases occurred during 2016.

Item 6. Selected Financial Data

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

SELECTED FINANCIAL HIGHLIGHTS

Years ended December 31,	2016	2015	2014	2013	2012
(dollars in thousands except per share data)					
RESULTS OF OPERATIONS					
Interest income	$29,826	$30,295	$30,289	$29,823	$32,580
Interest expense	2,574	3,632	3,849	4,680	5,774
Net interest income	27,252	26,663	26,440	25,143	26,806
Provision for loan losses	1,930	1,025	600	1,300	2,400
Net interest income after provision for loan losses	25,322	25,638	25,840	23,843	24,406
Net gains (losses) on available-for-sale securities	522	76	2	(26)	2,313
Noninterest income	12,944	13,060	12,642	12,799	12,646
Noninterest expenses	34,831	35,086	34,172	33,105	34,183
Income before income taxes	3,957	3,688	4,312	3,511	5,182
Income tax expense	160	54	196	348	995
Net income	$3,797	$3,634	$4,116	$3,163	$4,187
FINANCIAL CONDITION					
Total assets	$902,966	$896,787	$876,280	$864,288	$907,499
Total deposits	$784,502	$746,471	$716,654	$725,405	$753,816
Total loans	$603,882	$568,475	$535,994	$500,699	$471,133
Stockholders' equity	$93,990	$93,176	$88,497	$80,761	$89,300
Average assets	$886,058	$884,386	$869,965	$881,378	$869,436
Average equity	$95,280	$90,433	$85,550	$84,695	$87,912
PERTINENT RATIOS					
Return on average assets	0.43%	0.41%	0.47%	0.36%	0.48%
Return on average equity	3.99%	4.02%	4.81%	3.73%	4.76%
Dividends paid as a percent of net income	52.23%	46.40%	31.32%	34.49%	23.67%
Average equity as a percent of average assets	10.75%	10.23%	9.83%	9.61%	10.11%
PER SHARE DATA					
Basic earnings per share	$0.77	$0.73	$0.83	$0.64	$0.84
Diluted earnings per share	$0.77	$0.73	$0.83	$0.64	$0.84
Cash dividends declared	$0.40	$0.34	$0.26	$0.22	$0.20
Book value	$18.94	$18.79	$17.85	$16.29	$18.01
GROWTH RATES					
Year-end assets	0.69%	2.34%	1.39%	-4.76%	6.83%
Year-end deposits	5.09%	4.16%	-1.21%	-3.77%	9.11%
Year-end loans	6.23%	6.06%	7.05%	6.28%	-9.45%

Year-end equity	0.87	%	5.29	%	9.58	%	-9.56	%	4.00	%
Average assets	0.19	%	1.66	%	-1.29	%	1.37	%	1.83	%
Average equity	5.36	%	5.71	%	1.01	%	-3.66	%	5.51	%
Net income	4.49	%	-11.71	%	30.13	%	-24.46	%	27.26	%
Cash dividends declared	17.65	%	30.77	%	18.18	%	10.00	%	0.00	%
Book value	0.80	%	5.27	%	9.58	%	-9.55	%	4.04	%

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

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

Caution About Forward-Looking Statements
In addition to historical information, this report may contain forward-looking statements. For this purpose, any statement that is not a statement of historical fact may be deemed to be a forward-looking statement. These forward-looking statements may include, but are not limited to, statements regarding profitability, including the focus on reducing time deposits; the net interest margin; strategies for managing the net interest margin and the expected impact of such efforts; levels and sources of liquidity; the loan portfolio and expected trends in the quality of the loan portfolio; the allowance and provision for loan losses; the effect of a sustained increase in nonperforming assets; the securities portfolio; monetary policy actions of the Federal Open Market Committee; changes in interest rates; interest rate sensitivity; asset quality; levels of net loan charge-offs and nonperforming assets; sales of OREO properties; levels of interest expense; levels and components of noninterest income and noninterest expense; lease expense; income taxes; expected impact of efforts to restructure the balance sheet; expected yields on the loan and securities portfolios; expected rates on interest-bearing liabilities; expected timing of and expense in connection with the anticipated termination of the pension plan; expected timing of and effect of the purchase of the outstanding interest in Old Point Mortgage, LLC; 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 budget priorities of the new presidential administration, particularly in connection with 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; turnover times experienced by the mortgage companies to which the Company has extended warehouse lines of credit; the performance of the Company's re-opened dealer lending program; the federal government's guarantee of repayment of student loans purchased by the Company; the ability of the Company to diversify its sources of noninterest income; new incentive structure for securities brokerage activities; the local real estate market; volatility and disruption in national and international financial markets; government intervention in the U.S. financial system; application of the Basel III capital standards to the Company and its subsidiaries; FDIC premiums and/or assessments; demand for loan and other banking products and financial services in the Company's primary service area; levels of noninterest income and expense; deposit flows; competition; the use of inaccurate assumptions in management's modeling systems; 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; adequacy of the allowance for loan losses; and changes in accounting principles, policies and guidelines. The Company could also be adversely affected by monetary and fiscal policies of the U.S. Government, as well as any regulations or programs implemented pursuant to the Dodd-Frank Act or other legislation and policies of the Comptroller, U.S. Treasury and the Federal Reserve Board.

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

Executive Overview

Description of Operations

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

Management Initiatives in 2016
Management's two main 2016 initiatives were to grow the loan portfolio and reduce the Company's noninterest expense. Management believes substantial progress was made with respect to both initiatives. The loan portfolio grew by $34.9 million when comparing net loans on December 31, 2015 to December 31, 2016, while noninterest expense was $255 thousand lower in 2016 than in 2015. Noninterest expense declined despite a $391 thousand prepayment penalty for the early payoff of the Company's single most expensive source of funding. This early payoff is discussed in more detail below.

Primary Financial Data for 2016
In 2016, the Company's net income increased $163 thousand to $3.8 million, as compared to net income of $3.6 million in 2015, or an increase of 4.49%. The increase in net income was due to higher net interest income, higher noninterest income, and lower noninterest expense. Net interest income increased mainly due to reduced interest expense on Federal Home Loan Bank advances, while the increase in noninterest income was primarily the result of gains on sales of available-for-sale securities. Decreases in salaries and employee benefits and losses on other real estate owned, partially offset by increases in legal and audit expenses, were the main drivers of the decline in noninterest expense.

Assets as of December 31, 2016 were $903.0 million, an increase of $6.2 million or 0.69% compared to assets as of December 31, 2015. During 2016, the Company continued the loan growth seen in prior years, funding this growth mainly from increases in low-cost deposits and cash flows from the securities portfolio. Net loans grew $34.9 million, or 6.22%, over the year, while low-cost deposits increased $36.6 million, or 6.83%, and securities declined $14.8 million, or 6.92%. In years prior to 2013, the Company experienced a lack of quality loan demand in its market area and invested excess funds in securities that could be readily liquidated as the Company waited for loan demand to recover. This recovery began in the second half of 2013 and continued through 2016.

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

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

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

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

For loans not individually evaluated for impairment, the loan portfolio is segmented into pools, based on the loan classifications as defined by Schedule RC-C of the Federal Financial Institutions Examination Council Consolidated Reports of Condition and Income Form 041 (Call Report) and collectively evaluated for impairment. Consumer loans not secured by real estate and made to individuals for household, family and other personal expenditures are segmented into pools based on whether the loan's payments are current (including loans 1-29 days past due), 30 – 59 days past due, 60 – 89 days past due, or 90 days or more past due. All other loans, including loans to consumers that are secured by real estate, are segmented by the Company's internally assigned risk grades: substandard, other assets especially mentioned (rated just above substandard), and pass (all other loans). The Company may also assign loans to the risk grades of doubtful or loss, but as of December 31, 2016 and December 31, 2015, the Company had no loans in these categories.

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

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

During the third quarter of 2016, the Company changed its method for calculating the allowance for loan and lease losses. This change is discussed in detail in Note 4 of the Notes to the Consolidated Financial Statements included in this annual report on Form 10-K.

Impairment of Securities

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

Other Real Estate Owned (OREO)

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

Retirement Plan
The Company maintains a non-contributory, defined benefit pension plan for eligible full-time employees as specified by the plan. Plan assets, which consist primarily of mutual funds invested in marketable equity securities and corporate and government fixed income securities, are valued using market quotations. The Company's actuary determines plan obligations and annual pension expense using a number of key assumptions. Key assumptions may include the discount rate, the interest crediting rate, the estimated future return on plan assets and the anticipated rate of future salary increases. Changes in these assumptions in the future, if any, or in the method under which benefits are calculated may affect pension assets, liabilities or expense.

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

Earnings Summary
Net income was $3.8 million ($0.77 per diluted share) in 2016 compared to $3.6 million ($0.73 per diluted share) in 2015. The increase in net income was due to higher net interest income, higher noninterest income, and lower noninterest expense. Net interest income increased mainly due to reduced interest expense on Federal Home Loan Bank advances, while the increase in noninterest income was primarily the result of gains on sales of available-for-sale securities. Decreases in salaries and employee benefits and losses on other real estate owned, partially offset by increases in legal and audit expenses, were the main drivers of the decline in noninterest expense.

Net Interest Income
The principal source of earnings for the Company is net interest income. Net interest income is the difference between interest and fees generated by earning assets and interest expense paid to fund them. Changes in the volume and mix of interest-earning assets and interest-bearing liabilities, as well as their respective yields and rates, have a significant impact on the level of net interest income. The net interest margin is calculated by dividing tax-equivalent net interest income by average earning assets. Net interest income, on a fully tax-equivalent basis, was $28.2 million in 2016, an increase of $518 thousand from 2015 and an increase of $777 thousand from 2014. The net interest margin was 3.66% in 2016 as compared to 3.56% in 2015 and 3.57% in 2014, primarily as a result of lower interest expense.

When comparing 2016 to 2015, the following changes occurred. Tax equivalent interest income decreased $540 thousand, or 1.73%. Average earning assets decreased $7.3 million, or 0.94%. Total average loans increased $21.7 million, or 3.85%, and average investment securities decreased $31.3 million, or 15.47%, as continued loan demand allowed the Company to shift its assets from securities to loans. The Company's portfolio of mortgage-backed securities generates cash flows on a monthly basis, which are typically re-invested into loans.

In 2016, the Company began holding more of its excess liquidity in a noninterest-bearing account at a correspondent bank, as evidenced by the $10.3 million increase in average cash and due from banks. Although this account does not earn interest, the Company receives an earnings credit based on balances held in the account. The earnings credit rate is higher than the interest rate earned on accounts at other correspondent banks. For further discussion of this earnings credit, see the Noninterest Expense section below.

Interest income was also impacted by continued declines in average loan yields, from 4.63% in 2015 to 4.52% in 2016. 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. The Federal Open Market Committee (FOMC) raised the target range for the federal funds rate in December of both 2015 and 2016. Management currently expects the FOMC to raise rates three times in 2017, possibly beginning in March 2017. Despite these projected increases, management expects the FOMC's monetary policy to remain accommodative and the overall low interest rate environment to continue in 2017. Accordingly, management expects continued pressure on loan yields and the net interest margin and plans to continue to manage the mix of the Company's liabilities to increase low cost funds and reduce high cost funds when possible.

As part of its strategy to reduce interest expense, the Company prepaid a $25.0 million Federal Home Loan Bank (FHLB) advance. This advance, which would have matured in June of 2016, was instead paid off in February of 2016. In past years, the prepayment penalty on this advance made an early payoff prohibitively expensive, but in the first quarter of 2016, volatility in the markets simultaneously reduced the prepayment penalty on the advance and increased the value of the Company's securities portfolio. As a result, the Company was able to sell for a gain certain securities that management expected to perform poorly in a rising rate environment. The liquidity from these sales was used to prepay the FHLB advance. The prepayment penalty on the advance was $391 thousand, compared to $456 thousand in interest expense that would have been paid if the advance had been allowed to mature in June.

Average interest-bearing liabilities decreased $24.2 million, or 4.08%, partially due to the prepayment of the FHLB advance and partially due to decreases in interest-bearing deposits. As discussed above, management has focused on adjusting the composition of its interest-bearing liabilities, specifically by allowing high-cost time deposits to reduce. Management expects that the reduction of the Company's interest expense will slow or stop in 2017, as the majority of higher-cost time deposits have repriced to current, lower market rates and management anticipates increases in market rates in 2017. To mitigate the expected increase in market rates, management will continue to focus on the mix of deposits by actively targeting new noninterest-bearing deposits.

Overall, interest expense decreased $1.1 million, or 29.13% in 2016 as compared to 2015, and the cost of interest-bearing liabilities decreased 16 basis points.

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

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

Years ended December 31,	2016			2015			2014		
	Average Balance	Interest Income/ Expense	Yield/ Rate**	Average Balance	Interest Income/ Expense	Yield/ Rate**	Average Balance	Interest Income/ Expense	Yield/ Rate**
	(dollars in thousands)								
ASSETS									
Loans*	$585,206	$26,451	4.52 %	$563,534	$26,106	4.63 %	$517,183	$24,959	4.83 %
Investment securities:									
Taxable	104,549	1,802	1.72 %	130,541	2,510	1.92 %	164,755	3,562	2.16 %
Tax-exempt*	66,509	2,326	3.50 %	71,831	2,520	3.51 %	74,112	2,580	3.48 %
Total investment securities	171,058	4,128	2.41 %	202,372	5,030	2.49 %	238,867	6,142	2.57 %
Interest-bearing due from banks	9,226	48	0.52 %	5,848	15	0.26 %	5,356	13	0.24 %
Federal funds sold	1,667	6	0.36 %	1,860	2	0.11 %	3,515	5	0.14 %
Other investments	1,562	113	7.23 %	2,373	133	5.60 %	2,944	125	4.25 %
Total earning assets	768,719	30,746	4.00 %	775,987	31,286	4.03 %	767,865	31,244	4.07 %
Allowance for loan losses	(7,895)			(7,404)			(7,062)		
	760,824			768,583			760,803		
Cash and due from banks	42,111			31,858			25,700		
Bank premises and equipment, net	40,480			41,988			42,277		
Other assets	42,643			41,957			41,185		
Total assets	$886,058			$884,386			$869,965		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Time and savings deposits:									
Interest-bearing transaction accounts	$20,045	$9	0.04 %	$11,219	$4	0.04 %	$11,537	$5	0.04 %
Money market deposit accounts	221,339	179	0.08 %	228,627	186	0.08 %	213,918	179	0.08 %
Savings accounts	78,305	39	0.05 %	74,436	37	0.05 %	73,576	46	0.06 %
Time deposits, $100,000 or more	110,963	1,170	1.05 %	113,945	1,111	0.98 %	108,630	1,038	0.96 %

Other time deposits	99,376	946	0.95	%	107,142	1,033	0.96	%	128,383	1,316	1.03	%
Total time and savings deposits	530,028	2,343	0.44	%	535,369	2,371	0.44	%	536,044	2,584	0.48	%
Federal funds purchased, repurchase agreements and other borrowings	25,348	25	0.10	%	30,777	30	0.10	%	32,848	32	0.10	%
Federal Home Loan Bank advances	14,016	206	1.47	%	27,466	1,231	4.48	%	28,507	1,233	4.33	%
Total interest-bearing liabilities	569,392	2,574	0.45	%	593,612	3,632	0.61	%	597,399	3,849	0.64	%
Demand deposits	214,876				194,677				184,555			
Other liabilities	6,510				5,664				2,461			
Total liabilities	790,778				793,953				784,415			
Stockholders' equity	95,280				90,433				85,550			
Total liabilities and stockholders' equity	$886,058				$884,386				$869,965			
Net interest margin		$28,172	3.66	%		$27,654	3.56	%		$27,395	3.57	%

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

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

TABLE II
VOLUME AND RATE ANALYSIS*

	2016 vs. 2015 Increase (Decrease) Due to Changes in:			2015 vs. 2014 Increase (Decrease) Due to Changes in:			2014 vs. 2013 Increase (Decrease) Due to Changes in:		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
	(in thousands)								
EARNING ASSETS									
Loans	$1,004	$ (659)	$345	$2,237	$ (1,090)	$1,147	$2,319	$ (1,129)	$1,190
Investment securities:									
Taxable	(500)	(208)	(708)	(740)	(312)	(1,052)	(1,289)	304	(985)
Tax-exempt	(187)	(7)	(194)	(79)	19	(60)	673	(135)	538
Total investment securities	(687)	(215)	(902)	(819)	(293)	(1,112)	(616)	169	(447)
Federal funds sold	0	4	4	(2)	(1)	(3)	1	3	4
Other investments **	46	(33)	13	(1)	11	10	(153)	99	(54)
Total earning assets	363	(903)	(540)	1,415	(1,373)	42	1,551	(858)	693
INTEREST-BEARING LIABILITIES									
Interest-bearing transaction accounts	5	0	5	0	(1)	(1)	0	(1)	(1)
Money market deposit accounts	(7)	0	(7)	12	(5)	7	16	(71)	(55)
Savings accounts	2	0	2	1	(10)	(9)	11	(27)	(16)
Time deposits, $100,000 or more	(29)	88	59	51	22	73	(199)	(199)	(398)
Other time deposits	(75)	(12)	(87)	(218)	(65)	(283)	(308)	(59)	(367)
Total time and savings deposits	(104)	76	(28)	(154)	(59)	(213)	(480)	(357)	(837)
Federal funds purchased, repurchase agreements and other borrowings	(5)	0	(5)	(2)	0	(2)	2	(5)	(3)
Federal Home Loan Bank advances	(603)	(422)	(1,025)	(45)	43	(2)	172	(163)	9
Total interest-bearing liabilities	(712)	(346)	(1,058)	(201)	(16)	(217)	(306)	(525)	(831)
Change in net interest income	$1,075	$ (557)	$518	$1,616	$ (1,357)	$259	$1,857	$ (333)	$1,524

* Computed on a fully tax-equivalent basis using a 34% rate.
** Other investments include interest-bearing balances due from banks.

Interest Sensitivity

An important element of earnings performance and the maintenance of sufficient liquidity is proper management of the interest sensitivity gap. The interest sensitivity gap is the difference between interest-sensitive assets and interest-sensitive liabilities in a specific time interval. This gap can be managed by repricing assets or liabilities, which are variable rate instruments, by replacing an asset or liability at maturity or by adjusting the interest rate during the life of the asset or liability. Matching the amounts of assets and liabilities maturing in the same time interval helps to hedge 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 timeframe as of December 31, 2016. It should be noted, however, that non-maturing, interest-bearing deposit liabilities, which consist of interest checking, money market and savings accounts, are less interest sensitive than other market driven deposits. On December 31, 2016 non-maturing, interest-bearing deposit liabilities totaled $344.5 million, or 61.97%, of total interest-bearing deposits. 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 sensitive 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 timeframe as of December 31, 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 Company's interest rate sensitivity position is illustrated in the following table. The carrying amounts of assets and liabilities are presented in the periods they are expected to reprice or mature.

TABLE III
INTEREST SENSITIVITY ANALYSIS

As of December 31, 2016	Within 3 Months	4-12 Months	1-5 Years	Over 5 Years	Total
	(in thousands)				
USES OF FUNDS					
Interest-bearing due from banks	$1,667	$0	$0	$0	$1,667
Federal funds sold	2,302	0	0	0	2,302
Taxable investments	30,401	8,018	9,904	79,024	127,347
Tax-exempt investments	301	0	12,618	59,099	72,018
Total federal funds sold and investment securities	34,671	8,018	22,522	138,123	203,334
Loans					
Commercial	$15,649	$5,185	$21,197	$12,403	$54,434
Consumer	19,056	167	10,602	29,082	58,907
Real estate	70,065	41,310	239,918	120,231	471,524
Other	10,329	0	582	8,106	19,017
Total loans	115,099	46,662	272,299	169,822	603,882
Total earning assets	$149,770	$54,680	$294,821	$307,945	$807,216
SOURCES OF FUNDS					
Interest-bearing transaction accounts	$30,165	$0	$0	$0	$30,165
Money market deposit accounts	234,799	0	0	0	234,799
Savings accounts	79,488	0	0	0	79,488
Time deposits $100,000 or more	15,439	40,332	59,263	0	115,034
Other time deposits	14,893	29,262	52,220	0	96,375
Federal funds purchased and other borrowings	0	0	0	0	0
Overnight repurchase agreements	18,704	0	0	0	18,704
Term repurchase agreements	0	0	0	0	0
FHLB advances	0	0	0	0	0
Total interest bearing liabilities	$393,488	$69,594	$111,483	$0	$574,565

Rate sensitivity GAP	$(243,718)	$(14,914)	$183,338	$307,945	$232,651
Cumulative GAP	$(243,718)	$(258,632)	$(75,294)	$232,651	

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 shock by repricing assets/liabilities, as discussed in the first paragraph of this section.

Under the rate environment forecasted by management, rate shocks in 50 to 100 basis point increments are applied to estimate the impact on the Company's net interest income. The table below shows the estimated impact of changes in interest rates on net interest income as of December 31, 2016, assuming gradual and parallel changes in interest rates, and consistent levels of assets and liabilities. Net interest income for the following twelve months is projected to increase when interest rates are higher than current rates. Due to the current low interest rate environment, no measurement was considered necessary for a further decline in interest rates.

Estimated Changes in Net Interest Income
As of December 31, 2016

Changes in Net Interest Income		
Changes in Interest Rates	Amount (in thousands)	Percent
Up 4.00%	$ 499	1.78 %
Up 3.00%	$ 380	1.35 %
Up 2.00%	$ 248	0.88 %
Up 1.00%	$ 117	0.42 %
No change	$ 0	0.00 %

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

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

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, discounted cash flow analysis, loan volumes, geographic, borrower and industry concentrations, the findings of internal credit quality assessments and results from external regulatory examinations. These factors, as well as identified impaired loans, historical losses and current economic and business conditions, were used in developing estimated loss factors for determining the 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 $1.9 million for the year ended December 31, 2016 as compared to $1.0 million for 2015. A portion of the increase is due to loan growth during 2016, which required the Company to set aside additional funds. The provision was also impacted by higher levels of charge offs in 2016 than in 2015. Charged-off loans totaled $1.8 million in 2016, compared to $897 thousand in 2015. Recoveries amounted to $347 thousand in 2016 and $535 thousand in 2015. The Company's net loans charged off to year-end loans were 0.24% in 2016 as compared to 0.06% in 2015.

Net loan charge-offs for 2016 were higher than in 2015 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. Working through the assessment and collection process, the Company charged off a total of $876 thousand on this borrowing relationship in 2016.

Management believes that net loan charge-offs in subsequent years will be lower than what was experienced in 2016, as no similarly large charge off is expected in 2017. The state of the local economy also significantly impacts the level of loan charge-offs. If the economy begins to contract, nonperforming assets could increase as a result of declines in real estate values and home sales or increases in unemployment rates and financial stress on borrowers. Increased nonperforming assets would increase charge-offs and reduce earnings due to larger contributions to the loan loss provision. If current economic conditions remain stable and net loan charge-offs are consistent with management's forecast, management expects that the loan loss provision will be lower in 2017 than in 2016.

Noninterest Income
Unless otherwise noted, all comparisons in this section are between the twelve months ended December 31, 2016 and the twelve months ended December 31, 2015.

Noninterest income increased $330 thousand or 2.51% for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Noninterest income in 2016 was positively impacted by sales of securities during 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 of 2016.

In addition to these gains, two other categories of noninterest income increased: service charges on deposit accounts (up $31 thousand or 0.77%) and other operating income (up $144 thousand or 31.79%). Service charges on deposit accounts increased primarily due to deposit growth and new product offerings introduced in the third quarter of 2015. The increases from these changes were partially offset by continued declines in overdraft fee income. Regulatory changes in recent years have curtailed this income source for most banks, including the Company, and while management expects to see continued overall improvements in service charges on deposit accounts, overdraft fee income is expected to remain flat or decline in 2017.

The increase in other operating income was due to an additional $154 thousand in income from Old Point Mortgage LLC (Old Point Mortgage), a joint venture between the Bank and Tidewater Mortgage Services. Old Point Mortgage has been working to improve its efficiencies and re-define its incentive structure for its sales staff. Management believes that the success of these efforts is evident in the increased income seen in 2016, compared to 2015.

In addition to the increase in income from Old Point Mortgage, other operating income was also impacted by foreclosed property income and income from early withdrawal penalties on time deposits. Foreclosed property income decreased due to the sale of foreclosed properties. As the Bank no longer holds any tenant-occupied foreclosed properties, management does not expect to have any foreclosed property income in 2017. Income from early withdrawal penalties increased due to a change in the Bank's fee structure for early withdrawals. With this change, management hopes to better control its interest expense when rates rise.

The remaining categories of noninterest income decreased, with the largest decrease in other service charges, commissions and fees (down $144 thousand or 3.53%). Within this category, declines in securities brokerage income and ATM interchange fees were only partially offset by increases in merchant processing fee income. In 2017, management has instituted a new incentive structure and anticipates an increase in securities brokerage income. The 2016 trends for ATM interchange fees and merchant processing fee income are expected to continue in 2017.

Income from bank-owned life insurance was down $90 thousand or 10.17% as lower market rates reduced yields on the underlying assets. Management does not expect a similar decline in 2017 and expects 2017 income to match or be slightly above income for 2016.

Income from fiduciary activities decreased $57 thousand or 1.58%. This category is heavily impacted by the market value of assets under management. Fluctuations in the stock market during the first half of 2016 reduced income by $116 thousand when compared to the first half of 2015. As markets stabilized in the third and fourth quarters of 2016, income from fiduciary activities began to increase again, offsetting some of the declines from the first half of the year. Income from fiduciary activities was up $58 thousand for the second half of 2016 when compared to the second half of 2015. This category is difficult to project, due to the unpredictable nature of its primary source. However, management does expect that, in general, income from fiduciary activities will continue to trend upward in future years as a result of business development efforts.

The Company continues to focus on diversifying noninterest income through efforts to expand Trust relationships and a continued focus on business checking and other corporate services.

Noninterest Expense

Unless otherwise noted, all comparisons in this section are between the twelve months ended December 31, 2016 and the twelve months ended December 31, 2015.

The Company's noninterest expense decreased $255 thousand or 0.73% due to a number of factors. Since 2014, the Company has maintained a portion of its excess liquidity in a noninterest-bearing account at a correspondent bank. Balances held at the correspondent receive an earnings credit 25 basis points higher than the highest interest rate the Company can earn on its interest-bearing accounts. 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 $152 thousand in the year ended December 31, 2016.

Although noninterest expense decreased overall, certain categories did increase. The prepayment fee on the Company's $25.0 million FHLB advance was one of the largest increases 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 2016 as compared to 2015.

Of the remaining categories of noninterest expense, the most significant increases when comparing 2016 to 2015 were in legal and audit expenses, occupancy and equipment, other outside service fees, employee professional development, and capital stock tax.

- Legal and audit expenses ($595 thousand or 82.64%): 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 ($245 thousand or 4.60%): 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.
- Other outside service fees ($114 thousand or 16.45%): Beginning in the second quarter of 2015, the Company outsourced certain loan review functions. Also in the second quarter of 2015, the Company purchased an additional $14.0 million student loan portfolio, with servicing expenses increased accordingly.
- Employee professional development ($68 thousand or 11.51%): Higher recruitment expense was the main cause of the increase in this category. As part of management's ongoing effort to improve income, during 2016 the Company occasionally relied on the services of employment agencies and recruiters to fill certain positions, particularly those in the lending areas.
- Capital stock tax ($66 thousand or 15.03%): Increases in equity and decreases in other real estate owned both contributed to this increase. Capital stock tax is calculated based on the total equity, with tax credits for real estate taxes paid. As the Company has reduced its holdings of other real estate owned, it has paid less in real estate taxes, thus reducing credits available to offset capital stock tax.

These increased expenses were more than offset by decreases in other areas, primarily salaries and employee benefits, loss on other real estate owned, and FDIC insurance.

- Salaries and employee benefits ($869 thousand or 4.19%): Lower expenses for employee medical insurance accounted for the majority of the decrease in salaries and employee benefits expense. This category was also impacted by the benefits package for an executive officer who retired in the third quarter of 2015. Although the retirement package was paid in 2016, accounting rules required that the entire amount of $353 thousand be expensed in 2015. In 2017, management expects this category of noninterest expense to be higher than in 2016 due to four factors. As discussed in Item 9B of this Form 10-K, the Company's Chief Financial Officer will be retiring in 2017. As with the benefits package expensed in 2015, the retirement package provided to the CFO will be expensed in 2017. In addition to the retirement package, the Company expects employee benefits expenses to increase in 2017 due to higher medical insurance expense and the termination of the Company's pension plan (discussed in more detail below). The addition of Old Point Mortgage to the Company's consolidated financial statements (discussed in more detail under Loan Portfolio in this Item 7) will also increase salaries and employee benefits expenses.

- Loss on other real estate owned ($803 thousand or 83.91%): 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 December 31, 2016. As these properties are sold, both write-downs and expenses related to these properties will decrease.
- FDIC insurance ($103 thousand or 17.58%): 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 provides pension benefits for eligible participants through a non-contributory defined-benefit pension plan (the Plan). Benefits are based on years of service and average earnings during the highest average 60 month period during the final 120 months of employment. Effective September 30, 2006, the Plan was closed to new entrants and benefit accruals for existing participants were frozen. Under current rules, the Company had no funding obligation as of December 31, 2015 or 2016.

On November 23, 2016, the Company's Board of Directors (the Board) voted to terminate the Plan, effective January 31, 2017. In order to settle its liabilities under the Plan, the Company will offer participants the option to receive either an annuity purchased from an insurance carrier or a lump-sum cash payment. If the total value of the Plan's assets is insufficient to cover the lump-sum payouts and annuity purchases, the Company will contribute the necessary funds to complete the termination of the Plan. The exact amount that will be required is subject to a number of factors, including changes in interest rates and the exact proportion of participants electing a lump-sum distribution versus an annuity. The Company currently estimates that its before-tax expense will be between $3.1 million and $3.3 million, all of which would be recognized in 2017. Other expenses associated with terminating the Plan are currently estimated to be $20 thousand.

The Company anticipates completing the transfer of all liabilities and administrative responsibilities under the Plan by the end of the fourth quarter of 2017. Once this process is complete, the Company will no longer have any remaining pension obligations and thus no periodic pension expense. By comparison, annual pension expense for 2016 was $392 thousand and is currently estimated to be $529 thousand for 2017.

Income tax expense was higher in 2016 than in 2015 due to higher income and a higher effective tax rate. When comparing 2016 to 2015, tax-exempt income was a smaller percent of total income, increasing the effective tax rate from 1.46% to 4.04%. Despite the increase from 2015 to 2016, the Company's effective tax rate remains low, primarily due to its receipt of federal income tax credits for its investment in certain housing projects.

Balance Sheet Review
At December 31, 2016, the Company had total assets of $903.0 million, an increase of $6.2 million or 0.69% compared to assets as of December 31, 2015.

In 2016, the Company built on progress made in 2015 by continuing to move funds from lower-yielding to higher-yielding assets. Cash and cash equivalents decreased $11.1 million or 30.11% from December 31, 2015 to December 31, 2016 as funds were re-invested into loans in 2016. Net loans increased $34.9 million or 6.22%, from $560.7 million at December 31, 2015 to $595.6 million at December 31, 2016. Loan demand began to increase in 2013 and has continued at a moderate pace throughout 2014, 2015, and 2016, but until loan demand recovers significantly, the Company will likely continue to manage the interest margin by focusing deposit-gathering efforts on lower cost funds in the form of noninterest-bearing and savings deposits. These low-cost funds increased $36.6 million or 6.83% between December 31, 2015 and December 31, 2016, while in the same time period, high-cost time deposits increased $1.4 million or 0.67% .

The Company's holdings of Alternative A-paper, or "Alt-A", type mortgage loans such as adjustable rate and nontraditional type loans were inconsequential, amounting to less than 1.00% of the Company's loan portfolio as of December 31, 2016.

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

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

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

Loans Secured by 1 - 4 Family First Mortgages,
1 - 4 Family Open-end and 1 - 4 Family Junior Liens
As of December 31, 2016

	Amount (in thousands)	Percent
Subprime	$ 21,675	13.9 %
Non-subprime	134,163	86.1 %
	$ 155,838	100.0 %
Total loans	$ 603,882	
Percentage of Real Estate-Secured Subprime Loans to Total Loans		3.59 %

In addition to the subprime loans secured by real estate discussed above, as of December 31, 2016, the Company had an additional $2.8 million in subprime consumer loans that were either unsecured or secured by collateral other than real estate. Together with the subprime loans secured by real estate, the Company's total subprime loans as of December 31, 2016 were $24.5 million, amounting to 4.05% of the Company's total loans at December 31, 2016.

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

Securities Portfolio

When comparing December 31, 2016 to December 31, 2015, securities available-for-sale decreased $14.8 million, or 6.92%. The Company sold certain securities in the first and second quarters of 2016 to limit the portfolio's susceptibility to interest rate risk, help fund loan growth, and provide liquidity to prepay the $25.0 million FHLB advance in February 2016. 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 continue 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 Company also purchased securities in the third and fourth quarters of 2016 to further management's strategy and absorb temporary excess liquidity.

Restricted securities decreased $1.0 million or 51.88% from December 31, 2015 to December 31, 2016 as a result of lower balances in FHLB stock. The Company is required to hold FHLB stock based on its borrowings; with the repayment of the $25.0 million FHLB advance, the FHLB repurchased a portion of its stock held by the Company.

The Company routinely purchases short-term U.S. Treasury and government agency securities as part of a strategy to reduce its capital stock tax expense. While both of these types of securities have very low yields, the reduction in capital stock tax, a component of noninterest expense, more than offsets the reduction in interest income.

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

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

TABLE IV
SECURITIES PORTFOLIO

As of December 31,	2016	2015	2014
	(in thousands)		
Available-for-sale securities, at fair value:			
U.S. Treasury securities	$20,000	$0	$20,000
Obligations of U.S. Government agencies	9,195	24,240	4,618
Obligations of state and political subdivisions	77,987	78,433	50,246
Mortgage-backed securities	83,694	107,396	60,888
Money market investments	647	631	719
Corporate bonds	7,678	3,393	2,790
Other marketable equity securities	164	99	85
	$199,365	$214,192	$139,346
Held-to-maturity securities, at cost:			
Obligations of U.S. Government agencies	$0	$0	$100
Obligations of state and political subdivisions	0	0	29,529
Mortgage-backed securities	0	0	60,460
	$0	$0	$90,089
Restricted securities:			
Federal Home Loan Bank stock	$801	$1,847	$2,124
Federal Reserve Bank stock	169	169	169
	$970	$2,016	$2,293
Total	$200,335	$216,208	$231,728

The following table summarizes the contractual maturity of the securities portfolio and their weighted average yields as of December 31, 2016:

	1 year or less	1-5 years	5-10 years	Over 10 years	Total
	(dollars in thousands)				
U.S. Treasury securities	$20,000	$0	$0	$0	$20,000
Weighted average yield	0.35 %	0.00 %	0.00 %	0.00 %	0.35 %
Obligations of U.S. Government Agencies	$0	$297	$0	$8,898	$9,195
Weighted average yield	0.00 %	1.17 %	0.00 %	1.61 %	1.59 %
Obligations of state and political subdivisions	$301	$12,618	$21,850	$43,218	$77,987
Weighted average yield	2.07 %	2.64 %	3.15 %	3.79 %	3.42 %
Mortgage-backed securities	$0	$3,618	$22,090	$57,986	$83,694
Weighted average yield	0.00 %	1.64 %	1.98 %	1.48 %	1.62 %
Money market investments	$647	$0	$0	$0	$647
Weighted average yield	0.25 %	0.00 %	0.00 %	0.00 %	0.25 %
Corporate bonds	$1,499	$1,902	$4,277	$0	$7,678

Weighted average yield	1.23 %	1.53 %	5.26 %	0.00 %	3.55 %
Federal Home Loan Bank stock - restricted	$0	$0	$0	$801	$801
Weighted average yield	0.00 %	0.00 %	0.00 %	4.64 %	4.64 %
Federal Reserve Bank stock - restricted	$0	$0	$0	$169	$169
Weighted average yield	0.00 %	0.00 %	0.00 %	6.00 %	6.00 %
Other marketable equity securities	$0	$0	$0	$164	$164
Weighted average yield	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Total securities	$22,447	$18,435	$48,217	$111,236	$200,335
Weighted average yield	0.43 %	2.31 %	2.80 %	2.41 %	2.27 %

The table above is based on maturity. Therefore, it does not reflect cash flow from principal payments or prepayments prior to maturity. The weighted average life of the $83.7 million in mortgage-backed securities as of December 31, 2016 was 4.50 years. Yields are calculated on a fully tax-equivalent basis using a 34% rate.

Loan Portfolio

The following table shows a breakdown of total loans by segment at December 31 for years 2012 through 2016:

TABLE V
LOAN PORTFOLIO

As of December 31,	2016	2015	2014	2013	2012
	(in thousands)				
Commercial	$54,434	$43,197	$37,698	$30,702	$25,341
Real estate-construction	23,116	19,685	9,082	14,505	12,005
Real estate-mortgage (1)	448,408	437,159	435,914	416,966	398,522
Consumer	58,907	50,427	30,493	19,791	13,146
Other	19,017	18,007	22,807	18,735	22,119
Total	$603,882	$568,475	$535,994	$500,699	$471,133

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

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

As of December 31, 2016, the total loan portfolio increased by $35.4 million or 6.23% from December 31, 2015. Although competition for quality loans remains fierce, the Company continued to grow its loan portfolio in 2016. As part of management's strategy to grow the loan portfolio, the Company re-opened its dealer lending division in September 2016. Since that time, the consumer auto loan portfolio has grown $9.6 million, which management expects will contribute positively to interest income in 2017. While there are risks inherent in any new loan program, the Company has hired knowledgeable staff and put in place programs and policies to mitigate those risks. Management is monitoring the allowance for loan losses carefully and will make changes as the portfolio ages.

In addition to the loan growth generated by the re-opening of the dealer department, the Company worked with Old Point Mortgage to generate 1-4 family mortgage loans and continued to market the fixed-rate equity line product developed in 2013. Old Point Mortgage is a joint venture between the Bank and Tidewater Mortgage Services, Inc. (TMSI); the Bank owns 49% of Old Point Mortgage, while TMSI owns 51% and is the managing member.

In addition to the 1-4 family mortgage loans purchased from Old Point Mortgage, the Company purchased two other types of loans in 2016. The Company purchased $3.7 million in commercial loans; the entire principal balance of these purchased commercial loans is guaranteed by either the Small Business Administration (SBA) or the United States Department of Agriculture. Also, the Company purchased $3.8 million in consumer installment loans in 2016. The Company maintains a dedicated reserve account funded by the seller of the consumer installment loans. The balance in the reserve account averages 10 - 12% of the outstanding principal balance of these purchased consumer loans. Any loan losses in this portfolio are covered first by the reserve account; loans are charged against the allowance for loan losses only if the funds available in the reserve account are not sufficient.

As part of its strategy to grow the loan portfolio, in 2017, the Company entered into an agreement with TMSI to purchase TMSI's ownership interest in Old Point Mortgage. The purchase is expected to be completed on or before May 1, 2017, at which point the Bank will be the sole member of Old Point Mortgage. Once the purchase is complete, Old Point Mortgage will be included in the Company's consolidated financial statements. The purchase agreement was filed as Exhibit 10.1 to the report on Form 8-K filed by the Company on January 20, 2017.

The maturity distribution and rate sensitivity of certain categories of the Company's loan portfolio at December 31, 2016 is presented below:

TABLE VI
MATURITY SCHEDULE OF SELECTED LOANS

December 31, 2016	Within 1 year	1 to 5 years	After 5 years	Total
	(in thousands)			
Commercial	$15,782	$19,141	$19,511	$54,434
Real estate - construction	3,890	17,111	2,115	23,116
Total	$19,672	$36,252	$21,626	$77,550
Loans due after 1 year with:				
Fixed interest rate		$23,483	$12,290	$35,773
Variable interest rate		12,769	9,336	22,105
Total		$36,252	$21,626	$57,878

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, loans past due 90 days or more and accruing interest, nonperforming restructured loans, and other real estate owned (OREO). Restructured loans are loans with terms that were modified in a troubled debt restructuring (TDR) for borrowers experiencing financial difficulties. During the year ended December 31, 2016, the Company restructured twelve loans.

Nonperforming assets increased by $431 thousand or 4.04%, from $10.7 million at December 31, 2015 to $11.1 million at December 31, 2016. The 2016 total consisted of $1.1 million of OREO, $2.9 million in loans still accruing interest but past due 90 days or more and $7.2 million in nonaccrual loans. Of the $7.2 million in nonaccrual loans, $6.8 million was secured by real estate. All of the nonaccrual loans are classified as substandard. Substandard loans are a component of the allowance for loan losses. When a loan changes from "90 days past due but still accruing interest" to "nonaccrual" status, the loan is normally reviewed for impairment. If the loan is considered impaired, then the Company records a charge-off based on the value of the collateral or the present value of the loan's expected future cash flows, discounted at the loan's effective interest rate. If the Company is waiting on an appraisal to determine the collateral's value, management allocates funds to cover the deficiency to the allowance for loan losses based on information available to management at the time.

The recorded investment in impaired loans increased to $20.1 million as of December 31, 2016 from $13.1 million as of December 31, 2015 as detailed in Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K. The majority of these loans were collateralized.

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

TABLE VII
NONPERFORMING ASSETS

As of December 31,	2016	2015	2014	2013	2012
	(in thousands)				
Nonaccrual loans					
Commercial	$231	$276	$0	$149	$97
Real estate-construction	0	0	499	2,545	3,065
Real estate-mortgage (1)	6,847	4,306	5,071	8,630	7,470
Consumer	81	0	0	0	0
Total nonaccrual loans	$7,159	$4,582	$5,570	$11,324	$10,632
Loans past due 90 days or more and accruing interest					
Commercial	$0	$164	$10	$0	$25
Real estate-construction	0	0	0	0	0
Real estate-mortgage (1)	276	23	107	527	408
Consumer (2)	2,603	3,163	1,019	5	11
Other	5	6	5	14	3
Total loans past due 90 days or more and accruing interest	$2,884	$3,356	$1,141	$546	$447
Restructured loans					
Commercial	$144	$0	$0	$0	$0
Real estate-construction	96	99	102	0	0
Real estate-mortgage (1)	11,616	11,077	12,203	12,076	8,810
Consumer	0	12	13	15	16
Total restructured loans	$11,856	$11,188	$12,318	$12,091	$8,826
Less nonaccrual restructured loans (included above)	2,838	2,497	4,240	3,630	1,908
Less restructured loans in compliance (3)	9,018	8,691	8,078	8,461	6,918
Net nonperforming restructured loans	$0	$0	$0	$0	$0
Other real estate owned					
Construction, land development, and other land	$940	$1,090	$2,138	$2,783	$3,804
1-4 family residential properties	0	724	884	457	676
Multifamily (5 or more) residential properties	0	0	0	0	0
Former branch sites	127	0	886	886	0
Nonfarm nonresidential properties	0	927	1,198	2,289	2,094
	$1,067	$2,741	$5,106	$6,415	$6,574
Total nonperforming assets	$11,110	$10,679	$11,817	$18,285	$17,653
Interest income that would have been recorded under original loan terms on nonaccrual loans included above	$318	$196	$301	$762	$673
Interest income recorded for the period on nonaccrual loans included above	$269	$141	$265	$251	$121

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

(2) Amounts listed include student loans with principal and interest amounts that are 97 - 98% guaranteed by the federal government. The past due principal portion of these guaranteed loans totaled $4.8 million at December 31, 2016 and $5.7 million at December 31, 2015. For additional information, refer to Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.
(3) Amounts listed represent restructured loans that are in compliance with their modified terms as of the date presented.

As shown in the table above, as of December 31, 2016 compared to December 31, 2015, the nonaccrual loan category increased by $2.6 million or 56.24% and the 90-days past due and still accruing interest category decreased by $472 thousand or 14.06%.

Two loan relationships totaling $4.5 million were placed in nonaccrual status in the third quarter of 2016, based on declines in the borrowers' performance. In the fourth quarter, one relationship was paid down by $528 thousand, while balances on the other relationship remained stable. The addition of these relationships to nonaccrual was partially offset by $1.5 million in payoffs and/or charge-offs on other loans that were on nonaccrual status at December 31, 2015. These relationships are also responsible for the majority of the increase in loans rated substandard between December 31, 2015 and December 31, 2016. Although increases in nonaccrual loans and loans rated substandard would typically warrant an increase in the allowance, management believes that the collateral and/or cash flow on these loans will be sufficient to cover balances for which it has no specific allocation.

Loans past due 90 days or more and still accruing interest decreased primarily due to reductions in past dues in the Company's student loan portfolio. Although this category decreased between December 31, 2015 and December 31, 2016, it may increase in future periods. 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 charged off student loans to have a material effect on the Company.

OREO decreased by $1.7 million or 61.07% when comparing December 31, 2016 to December 31, 2015, as the Company worked to sell these properties in 2016, including the former bank property. Other than the former bank property, as of December 31, 2016, the balance in OREO was for a single property which is currently under contract. The sale is expected to close in the first quarter of 2017.

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

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

The Allowance for Loan Losses

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

1. Specific identification (regardless of risk rating)
2. Pool–substandard
3. Pool–other assets especially mentioned (OAEM) (rated just above substandard)
4. Pool–pass loans (all other rated loans)

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

The majority of the Company's TDRs and nonperforming loans are collateralized by real estate. When reviewing loans for impairment, the Company obtains current appraisals when applicable. If the Company has not yet received a current appraisal on loans being reviewed for impairment, any loan balance that is in excess of the estimated appraised value is allocated in the allowance. As of December 31, 2016 and December 31, 2015, the impaired loan component of the allowance for loan losses amounted to $800 thousand and $798 thousand, respectively. Improvements in the condition of certain borrowers were offset by additional allocations for loans that moved from the pool to specifically identified during 2016. The impaired loan component of the allowance for loan losses is reflected as a valuation allowance related to impaired loans in Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K.

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

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), 30 – 59 days past due, 60 – 89 days past due, or 90 days or more past due. All other loans, including loans to consumers that are secured by real estate, are segmented by the Company's internally assigned risk grades: substandard, other assets especially mentioned (rated just above substandard), and pass (all other loans). The Company may also assign loans to the risk grades of doubtful or loss, but as of December 31, 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 December 31, 2016 incorporated several changes, which are described in detail below. On a combined basis, the historical loss and qualitative factor components amounted to $7.4 million and $6.9 million as of December 31, 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 December 31, 2016 to the allowance calculation as of December 31, 2015.

For the December 31, 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.

Change in Migration Periods
Historical loss rates calculated by migration analysis are determined by the performance of a loan over a period of time (the migration period). Multiple migration periods can also be calculated, allowing the Company to assess the migration of loans based on more than one starting point. For example, the Company could run a migration analysis that begins on June 30, 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 had 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 fourth quarter 2016 allowance calculation included the twelve quarters ended December 31, 2016, September 30, 2016, June 30, 2016, and March 31, 2016.

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 quarters prior to September 30, 2016, the Company 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. Beginning with 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, $1.9 million to the allowance for loan losses for the year ended December 31, 2016. The allowance for loan losses, as a percentage of year-end loans, was 1.37% in 2016 and 1.36% in 2015. Management believes that the allowance has been appropriately funded for losses on existing loans, based on currently available information. The Company will continue to monitor the loan portfolio and levels of nonperforming assets closely and make changes to the allowance for loan losses when necessary.

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

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

TABLE VIII
ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

As of December 31,	2016	2015	2014	2013	2012
	(dollars in thousands)				
Balance at the beginning of period	$7,738	$7,075	$6,831	$7,324	$8,498
Charge-offs:					
Commercial	915	293	286	200	138
Real estate-construction	0	0	51	501	831
Real estate-mortgage (1)	504	321	563	1,548	2,554
Consumer	204	92	163	141	259
Other	147	191	175	316	187
Total charge-offs	1,770	897	1,238	2,706	3,969
Recoveries:					
Commercial	79	50	55	76	67
Real estate-construction	3	1	173	6	30
Real estate-mortgage (1)	197	393	524	513	162
Consumer	28	39	64	111	70
Other	40	52	66	207	66
Total recoveries	347	535	882	913	395
Net charge-offs	1,423	362	356	1,793	3,574
Provision for loan losses	1,930	1,025	600	1,300	2,400
Balance at end of period	$8,245	$7,738	$7,075	$6,831	$7,324
Selected loan loss statistics					
Loans (net of unearned income):					
End of period balance	$603,882	$568,475	$535,994	$500,699	$471,133
Average balance	$585,206	$563,534	$517,183	$471,203	$478,220
Net charge-offs to average total loans	0.24 %	0.06 %	0.07 %	0.38 %	0.75 %
Provision for loan losses to average total loans	0.33 %	0.18 %	0.12 %	0.28 %	0.50 %
Provision for loan losses to net charge-offs	135.63 %	283.15 %	168.54 %	72.50 %	67.15 %
Allowance for loan losses to period end loans	1.37 %	1.36 %	1.32 %	1.36 %	1.55 %
Earnings to loan loss coverage (2)	4.14	13.02	13.80	2.68	2.12
Allowance for loan losses to nonperforming loans	82.10 %	97.48 %	105.42 %	57.55 %	66.11 %

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

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

TABLE IX

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

As of December 31,	2016		2015		2014		2013		2012	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(dollars in thousands)									
Commercial	$1,493	9.16 %	$633	7.60 %	$595	7.03 %	$350	6.13 %	$677	5.38 %
Real estate-construction	846	3.83 %	985	3.46 %	703	1.69 %	662	2.90 %	187	2.55 %
Real estate-mortgage (1)	5,267	74.25 %	5,628	76.90 %	5,347	81.33 %	5,357	83.28 %	6,179	84.59 %
Consumer	455	9.61 %	279	8.87 %	219	5.69 %	294	3.95 %	204	2.79 %
Other	184	3.15 %	213	3.17 %	211	4.26 %	168	3.74 %	77	4.70 %
Total	$8,245	100.00 %	$7,738	100.00 %	$7,075	100.00 %	$6,831	100.00 %	$7,324	100.00 %

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

For the year ended December 31, 2016 as compared to the year ended December 31, 2015, there was an increase in the allowance for loan losses due to growth in the loan portfolio. The change in the allowance was distributed among the loan segments based on the composition of loans in each segment. See Note 4 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this report on Form 10-K for further information related to the effect of the change in the calculation method.

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Although the allowance for loan losses is allocated into these categories, the entire allowance for loan losses is available to cover loan losses in any category. For example, if real estate-construction loans experienced losses of $1.0 million, the allowance for loan losses could absorb these losses even though only $846 thousand is allocated to that category.

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

TABLE X
DEPOSITS

Years ended December 31,	2016		2015		2014	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)					
Interest-bearing transaction accounts	$20,045	0.04 %	$11,219	0.04 %	$11,537	0.04 %
Money market deposit accounts	221,339	0.08 %	228,627	0.08 %	213,918	0.08 %
Savings accounts	78,305	0.05 %	74,436	0.05 %	73,576	0.06 %
Time deposits, $100,000 or more	110,963	1.05 %	113,945	0.98 %	108,630	0.96 %
Other time deposits	99,376	0.95 %	107,142	0.96 %	128,383	1.03 %
Total interest-bearing deposits	530,028	0.44 %	535,369	0.44 %	536,044	0.48 %
Demand deposits	214,876		194,677		184,555	
Total deposits	$744,904		$730,046		$720,599	

The Company's average total deposits were $744.9 million for the year ended December 31, 2016, an increase of $14.9 million or 2.04% from average total deposits for the year ended December 31, 2015. The demand deposit accounts category had the largest increase, totaling $20.2 million. In addition, average time deposits, which are currently the Company's most expensive deposit categories, decreased by a total of $10.7 million, as seen in the table above. The rates paid on interest-bearing deposits by the Company remained at 0.44% for the year ended December 31, 2016 compared to the year ended December 31, 2015.

To manage its net interest margin, during 2015 and 2016 the Company focused on reducing higher-cost time deposits by lowering deposit rates and allowing time deposits to shrink through attrition. As loan growth continued in 2016, the Company made strategic increases in the rates on time deposits in certain maturities to fund loan growth and manage its interest-rate risk. The Company is also focused on increasing lower-cost deposits by actively targeting new noninterest-bearing deposits and savings deposits.

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

TABLE XI
TIME DEPOSITS OF $100,000 OR MORE

As of December 31,	2016	2015	2014
	(in thousands)		
Maturing in:			
Within 3 months	$15,074	$23,844	$32,995
3 through 6 months	21,183	11,474	12,212
6 through 12 months	19,276	8,572	12,628

Greater than 12 months	59,501	65,207	47,197
	$115,034	$109,097	$105,032

Return on Equity and Assets

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

As of December 31,	2016	2015	2014
Return on average assets	0.43 %	0.41 %	0.47 %
Return on average equity	3.99 %	4.02 %	4.81 %
Dividend pay-out ratio	52.23 %	46.40 %	31.32 %
Average equity to average assets	10.75 %	10.23 %	9.83 %

Capital Resources

Total stockholders' equity as of December 31, 2016 was $94.0 million, up 0.87% from $93.2 million on December 31, 2015 as net income exceeded dividends paid and the mark-to-market adjustment on available-for-sale securities.

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

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

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

	2016 Regulatory Minimums	2016	2015	2014
Common Equity Tier 1 Capital	5.125 %	13.39%	13.78%	N/A
Tier 1 Capital	6.625 %	13.39%	13.78%	14.36%
Total Capital	8.625 %	14.51%	14.89%	15.44%
Tier 1 Leverage	4.000 %	10.68%	10.93%	10.75%

Year-end book value per share was $18.94 in 2016, $18.79 in 2015, and $17.85 in 2014. Cash dividends were $2.0 million or $0.40 per share in 2016, $1.7 million or $0.34 per share in 2015, and $1.3 million or $0.26 per share in 2014. The common stock of the Company has not been extensively traded. The table below shows the high and low sales prices and dividends paid for each quarter of 2016 and 2015. The stock is quoted on the NASDAQ Capital Market under the symbol "OPOF" and the prices below are based on trade information as reported by The NASDAQ Stock Market, LLC. There were 1,184 stockholders of record of the Company as of March 10, 2017. This stockholder count does not include stockholders who hold their stock in a nominee registration.

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

	2016			2015		
		Sales Price			Sales Price	
	Dividend	High	Low	Dividend	High	Low
1st Quarter	$0.10	$20.25	$17.38	$0.08	$15.44	$14.85
2nd Quarter	$0.10	$20.50	$18.50	$0.08	$15.75	$14.83
3rd Quarter	$0.10	$21.45	$18.30	$0.09	$16.00	$14.71
4th Quarter	$0.10	$26.00	$19.34	$0.09	$19.00	$15.40

Liquidity

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

In addition, secondary sources are available through the use of borrowed funds if the need should arise. The Company's sources of funds include a large stable deposit base and secured advances from the Federal Home Loan Bank of Atlanta (FHLB). As of December 31, 2016, the Company had $270.0 million in FHLB borrowing availability. The increase in availability for FHLB advances is mainly due to the payoff of a $25.0 million advance in

February of 2016, discussed further below. The Company also has available short-term unsecured borrowed funds in the form of federal funds with correspondent banks. As of year-end 2016 and 2015, the Company had $55.0 million and $50.0 million available in federal funds lines of credit to address any short-term borrowing needs.

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

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

The following table sets forth information relating to the Company's sources of liquidity and the outstanding commitments for use of liquidity at December 31, 2016 and December 31, 2015. Dividing the total short-term sources of liquidity by the outstanding commitments for use of liquidity derives the liquidity coverage ratio.

LIQUIDITY SOURCES AND USES

	December 31, 2016			December 31, 2015		
	Total	In Use	Available	Total	In Use	Available
	(dollars in thousands)					
SOURCES						
Federal funds lines of credit	$55,000	$ 0	$55,000	$50,000	$0	$50,000
Federal Home Loan Bank advances	270,048	0	270,048	262,196	25,000	237,196
Federal funds sold & balances at the Federal Reserve			3,718			3,195
Securities, available-for-sale and unpledged at fair value			126,457			94,402
Total short-term funding sources			455,223			384,793
USES						
Unfunded loan commitments and lending lines of credit			69,389			63,039
Letters of credit			1,079			1,042
Commitments to purchase assets			165			165
Total potential short-term funding uses			70,633			64,246
Liquidity coverage ratio			644.5 %			598.9 %

The fair value of unpledged available-for-sale securities increased from December 31, 2015 to December 31, 2016 primarily due to changes in the Bank's pledging requirements for public deposits. Unpledged available-for-sale securities also increased due to a $7.2 million reduction in customer repurchase agreements. The 27.92% decrease in repurchase agreements from December 31, 2015 to December 31, 2016 was primarily a result of balance fluctuations in the account of a single customer.

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

The Company's operating activities provided $8.7 million of cash during the year ended December 31, 2016, compared to $7.8 million provided during 2015, primarily due to increases in net income before depreciation and amortization. The Company's investing activities used $23.6 million of cash during 2016, compared to $15.4 million used during 2015, principally due to additional loan growth. The Company's financing activities provided $3.8 million of cash during 2016 compared to $11.3 million provided of cash during 2015. This change is principally due to increases in deposits, partially offset by a net decrease in FHLB advances and overnight repurchase agreements.

In February of 2016, the Company elected to prepay a $25.0 million FHLB advance. This $25.0 million advance, which would have matured in June of 2016, bore an interest rate of 4.83%, significantly higher than other borrowing sources in the current rate environment. Although prepayment of the advance subjected the Company to a prepayment penalty equal to the cost to the FHLB to unwind its underlying hedge plus an administrative fee, the Company determined that the interest expense saved was more than the cost to prepay the advance.

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

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

Off-Balance Sheet Lending Related Commitments
The Company had $145.2 million in consumer and commercial commitments at December 31, 2016. As of the same date, the Company also had $3.6 million in letters of credit that the Company will fund if certain future events occur. It is expected that only a portion of these commitments will ever actually be funded.

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

Contractual Obligations

In the normal course of business, there are various outstanding contractual obligations of the Company that will require future cash outflows. In addition, there are commitments and contingent liabilities, such as commitments to extend credit, that may or may not require future cash outflows. The following table provides the Company's contractual obligations as of December 31, 2016:

Payments due by period					
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(in thousands)				
Contractual Obligations					
Short-Term Debt Obligations	$18,704	$18,704	$0	$0	$ 0
Long-Term Debt Obligations	0	0	0	0	0
Operating Lease Obligations	632	236	396	0	0
Commitment to purchase assets	165	165	0	0	0
Total contractual cash obligations excluding deposits	19,501	19,105	396	0	0
Deposits	784,502	672,221	52,805	59,476	0
Total	$804,003	$691,326	$53,201	$59,476	$ 0

Short-term debt obligations include federal funds purchased, overnight repurchase agreements and term repurchase agreements.

After December 31, 2016 but prior to the filing of this annual report on Form 10-K, the Company signed additional contracts for fixed asset purchases and professional services. These contracts will require payments of approximately $165 thousand in 2017.

Short-Term Borrowings

Certain short-term borrowings at December 31, 2016, 2015 and 2014 are presented below. Information is presented only on those categories whose average balance at December 31 exceeded 30 percent of total stockholders' equity at the same date.

TABLE XII
SHORT-TERM BORROWINGS

	2016		2015		2014	
	Balance	Rate	Balance	Rate	Balance	Rate
	(dollars in thousands)					
Balance at December 31,						
Repurchase agreements	$18,704	0.10%	$25,950	0.09%	$37,816	0.10%
Average daily balance for the year ended December 31,						
Repurchase agreements	$25,144	0.10%	$30,654	0.10%	$32,780	0.10%
Maximum month-end outstanding balance:						

Repurchase agreements	$34,519	$44,614	$42,429

Quarterly Data

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

	Years Ended December 31,							
	2016				2015			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(in thousands, except per share data)							
Interest and dividend income	$7,590	$7,436	$7,435	$7,365	$7,632	$7,609	$7,550	$7,504
Interest expense	(640)	(633)	(582)	(719)	(906)	(915)	(918)	(893)
Net interest income	6,950	6,803	6,853	6,646	6,726	6,694	6,632	6,611
Provision for loan losses	(630)	100	(1,250)	(150)	(775)	50	(25)	(275)
Net interest income, after provision for loan losses	6,320	6,903	5,603	6,496	5,951	6,744	6,607	6,336
Noninterest income	3,188	3,327	3,286	3,665	3,277	3,223	3,359	3,277
Noninterest expenses	(8,566)	(8,689)	(8,485)	(9,091)	(9,154)	(9,151)	(8,494)	(8,287)
Income before income taxes	942	1,541	404	1,070	74	816	1,472	1,326
Provision for income taxes	(47)	(212)	148	(49)	236	24	(193)	(121)
Net income	$895	$1,329	$552	$1,021	$310	$840	$1,279	$1,205
Earnings per common share:								
Basic	$0.18	$0.27	$0.11	$0.21	$0.06	$0.17	$0.26	$0.24
Diluted	$0.18	$0.27	$0.11	$0.21	$0.06	$0.17	$0.26	$0.24

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Old Point Financial Corporation and Subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Old Point Financial Corporation and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

Winchester, Virginia
March 15, 2017

Old Point Financial Corporation and Subsidiaries
Consolidated Balance Sheets

	December 31, 2016	December 31, 2015
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	$21,885	$33,514
Interest-bearing due from banks	1,667	1,064
Federal funds sold	2,302	2,412
Cash and cash equivalents	25,854	36,990
Securities available-for-sale, at fair value	199,365	214,192
Restricted securities	970	2,016
Loans, net of allowance for loan losses of $8,245 and $7,738	595,637	560,737
Premises and equipment, net	39,324	41,282
Bank-owned life insurance	25,206	24,411
Other real estate owned, net of valuation allowance of $1,026 and $2,549	1,067	2,741
Other assets	15,543	14,418
	$902,966	$896,787
Liabilities & Stockholders' Equity		
Deposits:		
Noninterest-bearing deposits	$228,641	$215,090
Savings deposits	344,452	321,370
Time deposits	211,409	210,011
Total deposits	784,502	746,471
Overnight repurchase agreements	18,704	25,950
Federal Home Loan Bank advances	0	25,000
Accrued expenses and other liabilities	5,770	6,190
Total liabilities	808,976	803,611
Stockholders' equity:		
Common stock, $5 par value, 10,000,000 shares authorized; 4,961,258 and 4,959,009 shares issued and outstanding	24,806	24,795
Additional paid-in capital	16,427	16,392
Retained earnings	56,965	55,151
Accumulated other comprehensive loss, net	(4,208)	(3,162)
Total stockholders' equity	93,990	93,176
Total liabilities and stockholders' equity	$902,966	$896,787

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Income

	Years Ended December 31,	
	2016	2015
	(dollars in thousands, except per share data)	
Interest and Dividend Income:		
Interest and fees on loans	$26,322	$25,972
Interest on due from banks	48	15
Interest on federal funds sold	6	2
Interest on securities:		
Taxable	1,802	2,510
Tax-exempt	1,535	1,663
Dividends and interest on all other securities	113	133
Total interest and dividend income	29,826	30,295
Interest Expense:		
Interest on savings deposits	227	227
Interest on time deposits	2,116	2,144
Interest on federal funds purchased, securities sold under agreements to repurchase and other borrowings	25	30
Interest on Federal Home Loan Bank advances	206	1,231
Total interest expense	2,574	3,632
Net interest income	27,252	26,663
Provision for loan losses	1,930	1,025
Net interest income, after provision for loan losses	25,322	25,638
Noninterest Income:		
Income from fiduciary activities	3,560	3,617
Service charges on deposit accounts	4,052	4,021
Other service charges, commissions and fees	3,940	4,084
Income from bank-owned life insurance	795	885
Gain on sale of available-for-sale securities, net	522	76
Other operating income	597	453
Total noninterest income	13,466	13,136
Noninterest Expense:		
Salaries and employee benefits	19,878	20,747
Occupancy and equipment	5,575	5,330
Data processing	1,620	1,625
FDIC insurance	483	586
Customer development	612	584
Legal and audit expenses	1,315	720
Other outside service fees	807	693
Employee professional development	659	591
Capital stock tax	505	439
ATM and other losses	477	452
Prepayment fee on Federal Home Loan Bank advance	391	0

Loss on other real estate owned	154	957
Other operating expenses	2,355	2,362
Total noninterest expense	34,831	35,086
Income before income taxes	3,957	3,688
Income tax expense	160	54
Net income	$3,797	$3,634
Basic earnings per share		
Weighted average shares outstanding	4,959,173	4,959,009
Net income per share of common stock	$$0.77	$$0.73
Diluted earnings per share		
Weighted average shares outstanding	4,960,934	4,959,009
Net income per share of common stock	$$0.77	$$0.73

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

	Years Ended December 31,	
	2016	2015
	(dollars in thousands)	
Net income	$3,797	$3,634
Other comprehensive income (loss), net of tax		
Net unrealized losses on available-for-sale securities	(1,163)	(498)
Net change in unrealized losses on securities transferred from available-for-sale to held-to-maturity	0	3,386
Net change in defined benefit plan assets and benefit obligations	117	(157)
Other comprehensive income (loss)	(1,046)	2,731
Comprehensive income	$2,751	$6,365

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 Loss	Total
	(dollars in thousands, except per share data)					
Balance at December 31, 2014	4,959,009	$ 24,795	$ 16,392	$ 53,203	$ (5,893)	$ 88,497
Net income	0	0	0	3,634	0	3,634
Other comprehensive income, net of tax	0	0	0	0	2,731	2,731
Cash dividends ($0.34 per share)	0	0	0	(1,686)	0	(1,686)
Balance at December 31, 2015	4,959,009	$ 24,795	$ 16,392	$ 55,151	$ (3,162)	$ 93,176
Net income	0	0	0	3,797	0	3,797
Other comprehensive loss, net of tax	0	0	0	0	(1,046)	(1,046)
Exercise of stock options	1,250	6	19	0	0	25
Employee Stock Purchase Plan share issuance	999	5	16	0	0	21
Cash dividends ($0.40 per share)	0	0	0	(1,983)	0	(1,983)
Balance at December 31, 2016	4,961,258	$ 24,806	$ 16,427	$ 56,965	$ (4,208)	$ 93,990

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

Years Ended December 31,	2016	2015
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,797	$ 3,634
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,725	2,543
Provision for loan losses	1,930	1,025
Net gain on sale of available-for-sale securities	(522)	(76)
Net amortization of securities	2,196	2,188
Net (gain) loss on disposal of premises and equipment	(3)	6
Net loss on write-down/sale of other real estate owned	154	957
Income from bank owned life insurance	(795)	(885)
Deferred tax benefit	(19)	(227)
Increase in other assets	(567)	(3,969)
Increase (decrease) in other liabilities	(243)	3,637
Pension plan contribution	0	(1,000)
Net cash provided by operating activities	8,653	7,833
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(151,204)	(104,103)
Proceeds from redemption of restricted securities	1,046	277
Proceeds from maturities and calls of available-for-sale securities	43,660	80,790
Proceeds from maturities and calls of held-to-maturity securities	0	300
Proceeds from sales of available-for-sale securities	107,647	23,005
Paydowns on available-for-sale securities	11,288	9,353
Paydowns on held-to-maturity securities	0	8,161
Purchases of government-guaranteed student loans	0	(14,315)
Net increase in all other loans (including repayments on student loans)	(36,830)	(19,081)
Proceeds from sales of other real estate owned	1,699	1,956
Payments for improvements to other real estate owned	(52)	0
Purchases of premises and equipment	(891)	(1,756)
Net cash used in investing activities	(23,637)	(15,413)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in noninterest-bearing deposits	13,551	28,810
Increase in savings deposits	23,082	14,292
Increase (decrease) in time deposits	1,398	(13,285)
Decrease in federal funds purchased, repurchase agreements and other borrowings, net	(7,246)	(11,866)
Increase in Federal Home Loan Bank advances	55,000	20,000
Repayment of Federal Home Loan Bank advances	(80,000)	(25,000)
Proceeds from sale of stock	46	0
Cash dividends paid on common stock	(1,983)	(1,686)
Net cash provided by financing activities	3,848	11,265
Net increase (decrease) in cash and cash equivalents	(11,136)	3,685
Cash and cash equivalents at beginning of period	36,990	33,305
Cash and cash equivalents at end of period	$ 25,854	$ 36,990

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 2,587	$ 3,646
Income tax	$ 0	$ 200
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Unrealized loss on securities available-for-sale	$ (1,762)	$ (755)
Loans transferred to other real estate owned	$ 0	$ 553
Former bank property transferred from fixed assets to foreclosed properties	$ 127	$ 0
(Increase) decrease in pension liability	$ 177	$ (237)
Securities transferred from held-to-maturity to available-for-sale	$ 0	$ 85,555
Unamortized losses on transfer date on securities transferred from available-for-sale to held-to-maturity, eliminated upon transfer back to available-for-sale	$ 0	$ 4,197
Amortization of unrealized loss on securities transferred to held-to-maturity	$ 0	$ 934

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION
The Consolidated Financial Statements include the accounts of Old Point Financial Corporation (the Company) and its wholly-owned subsidiaries, The Old Point National Bank of Phoebus (the Bank) and Old Point Trust & Financial Services N.A. (Trust). All significant intercompany balances and transactions have been eliminated in consolidation. 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 December 31, 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.

In addition, as specified in VIE accounting guidance (FASB ASC 810-10-25-38), a VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that will absorb a majority of the expected losses, receive a majority of the expected residual returns, or both. At this time, the Company has no VIEs that are consolidated. The Company does have an interest in one VIE, Old Point Mortgage, LLC (Old Point Mortgage), which is not consolidated because the Company has determined that it is not the primary beneficiary.

On January 13, 2017, the Bank entered into a membership interest purchase agreement (the Purchase Agreement) with TMSI to purchase TMSI's 51% interest in Old Point Mortgage. Upon completion of the purchase, the Bank will be the sole member of Old Point Mortgage. The purchase is expected to be completed on or before May 1, 2017.

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

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

At December 31, 2016 and 2015, there were $308.5 million and $297.4 million, or 51.09% and 52.32%, respectively, of total loans concentrated in commercial real estate. Commercial real estate for purposes of this note includes all construction loans, loans secured by multifamily residential properties, loans secured by farmland and loans secured by nonfarm, nonresidential properties.

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

INTEREST-BEARING DEPOSITS IN BANKS
Interest-bearing deposits in banks mature within one year and are carried at cost.

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

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

FEDERAL HOME LOAN BANK STOCK
The Company, as a member of the Federal Home Loan Bank of Atlanta (FHLB), is required to maintain an investment in the capital stock of the FHLB. Based on the redemption provisions of the FHLB, the stock has no quoted market value, is carried at cost and is listed as a restricted security. The Company reviews its holdings for impairment based on the ultimate recoverability of the cost basis in the FHLB stock.

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

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

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

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

All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual. Loans are generally returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured, or when the borrower has resumed paying the full amount of the scheduled contractual interest and principal payments for at least six months.

ALLOWANCE FOR LOAN LOSSES

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

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

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

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

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

LOAN CHARGE-OFF POLICIES

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

- Management determines the asset to be uncollectible;
- Repayment is deemed to be protracted beyond reasonable time frames;
- The asset has been classified as a loss by either the internal loan review process or external examiners;
- The borrower has filed for bankruptcy protection and the loss becomes evident due to a lack of borrower assets; or
- The loan is 120 days or more past due unless the loan is both well secured and in the process of collection.

TROUBLED DEBT RESTRUCTURINGS

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management grants a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a TDR. Management strives to identify borrowers in financial difficulty before their loans reach nonaccrual status and works with them to grant appropriate concessions, if necessary, and modify their loans to more affordable terms. These modified terms could include reduction in the interest rate below current market rates for borrowers with similar risk profiles, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. The Company had $11.9 million and $11.2 million in loans classified as TDRs as of December 31, 2016 and 2015, respectively.

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

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

BANK-OWNED LIFE INSURANCE
The Company owns insurance on the lives of a certain group of key employees. The policies were purchased to help offset the increase in the costs of various benefit plans. The cash surrender value of these policies is included as an asset on the consolidated balance sheets, and the increase in cash surrender value is recorded as noninterest income on the consolidated statements of income. In the event of the death of an insured individual under these policies, the Company would receive a death benefit payment. Any excess in the amount received over the recorded cash surrender value would be recorded as other income on the consolidated statements of income.

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

OFF-BALANCE SHEET CREDIT RELATED FINANCIAL INSTRUMENTS
In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under commercial letters of credit and lines of credit. Such financial instruments are recorded when they are funded.

PENSION PLAN
The Company has a non-contributory defined benefit pension plan, which was frozen by the Company in 2006. Benefits for participants will remain frozen in the plan until such time as further action occurs. No additional participants will be added to the plan.

The compensation cost of the pension plan is recognized on the projected unit credit method. The aggregate cost method is utilized for funding purposes.

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

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

INCOME TAXES

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

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

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

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

No uncertain tax positions were recorded in 2016 or 2015.

EARNINGS PER COMMON SHARE

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

TRUST ASSETS AND INCOME

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

ADVERTISING EXPENSES

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

COMPREHENSIVE INCOME

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

RECENT ACCOUNTING PRONOUNCEMENTS

In 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) Require 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) Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 3) Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 4) Eliminate 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.

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

During January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are SEC filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Public business entities that are not SEC filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

NOTE 2. Restrictions on Cash and Amounts Due from Banks

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2016 and 2015, the Company had no balance requirements on any of its accounts. The Company had approximately $9.9 million and $25.2 million in deposits in financial institutions in excess of amounts insured by the FDIC at December 31, 2016 and December 31, 2015, respectively.

NOTE 3. Securities Portfolio

The Company had no held-to-maturity-securities at December 31, 2016 or December 31, 2015 due to a decision in February of 2016 to transfer the portfolio to available-for-sale to allow for greater liquidity and flexibility in the future. Although the decision was made after December 31, 2015, the transfer was effective dated back to year-end as the primary difference between held-to-maturity and available-for-sale is management's intent to hold the securities to maturity. The transfer in 2016 demonstrated a change in management's intent as of year-end.

As a result of the decision to transfer securities from held-to-maturity to available-for-sale, management will not be able to classify any securities as held-to-maturity until 2018.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
December 31, 2016				
U.S. Treasury securities	$20,000	$ 0	$ 0	$20,000
Obligations of U.S. Government agencies	9,361	0	(166)	9,195
Obligations of state and political subdivisions	78,645	358	(1,016)	77,987
Mortgage-backed securities	85,649	18	(1,973)	83,694
Money market investments	647	0	0	647
Corporate bonds and other securities	7,598	92	(12)	7,678
Other marketable equity securities	100	64	0	164
Total	$202,000	$ 532	$ (3,167)	$199,365
December 31, 2015				
U.S. Treasury securities	$0	$ 0	$ 0	$0
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

Securities with a fair value of $72.9 million and $119.8 million at December 31, 2016 and 2015, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase, FHLB advances and for other purposes required or permitted by law.

At December 31, 2016, the Company held no securities of any single issuer (excluding U.S. Government agencies) with a book value that exceeded 10 percent of stockholders' equity.

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

	December 31, 2016	
	Available-for-Sale	
	Amortized	Fair

	Cost	Value
	(in thousands)	
Due in one year or less	$21,801	$21,800
Due after one year through five years	18,471	18,435
Due after five years through ten years	48,840	48,217
Due after ten years	112,141	110,102
Total debt securities	201,253	198,554
Other securities without stated maturities	747	811
Total securities	$202,000	$199,365

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

	2016	2015
	(in thousands)	
Proceeds from sales	$107,647	$23,005
Gross realized gains	$578	$76
Gross realized losses	$56	$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 and is 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 on securities for the years ended December 31, 2016 and 2015.

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

	December 31, 2016						
	Less Than Twelve Months		More Than Twelve Months		Total		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Number of Securities
	(dollars in thousands)						
Securities Available-for-Sale							
Obligations of U.S. Government agencies	$166	$9,195	$0	$0	$166	$9,195	6
Obligations of state and political subdivisions	1,016	38,020	0	0	1,016	38,020	56
Mortgage-backed securities	1,973	80,680	0	0	1,973	80,680	23
Corporate bonds and other securities	11	1,787	1	100	12	1,887	13
Total securities available-for-sale	$3,166	$129,682	$1	$100	$3,167	$129,782	98

	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 and other securities	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 December 31, 2016 and December 31, 2015, as shown in the tables above. The unrealized losses were caused by increases in market interest rates. The Company purchases only highly-rated securities, including U.S. government agencies and mortgage-backed securities guaranteed by government-sponsored entities. The municipal and corporate securities portfolios are reviewed regularly to ensure that ratings of individual securities have not deteriorated below the threshold established by the Company's policy.

Because the Company does not intend to sell the investments and management believes it is unlikely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at December 31, 2016 or December 31, 2015.

<u>Restricted Securities</u>
The restricted security category is comprised of FHLB and Federal Reserve Bank stock. These stocks are classified as restricted securities because their ownership is restricted to certain types of entities and the securities lack a market.

Therefore, FHLB and Federal Reserve Bank stock is carried at cost and evaluated for impairment. When evaluating these stocks for impairment, their value is determined based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. Restricted stock is viewed as a long-term investment and management believes that the Company has the ability and the intent to hold this stock until its value is recovered.

NOTE 4. Loans and 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:

	December 31, 2016	December 31, 2015
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$94,827	$96,997
Commercial	285,429	277,758
Construction	23,116	19,685
Second mortgages	17,128	15,148
Equity lines of credit	51,024	47,256
Total mortgage loans on real estate	471,524	456,844
Commercial loans	54,434	43,197
Consumer loans	58,907	50,427
Other	19,017	18,007
Total loans	603,882	568,475
Less: Allowance for loan losses	(8,245)	(7,738)
Loans, net of allowance and deferred fees (1)	$595,637	$560,737

(1) Net deferred loan fees totaled $522 thousand and $407 thousand at December 31, 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 $536 thousand and $648 thousand at December 31, 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.
- Loss: Loans have been charged off because they are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

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

Credit Quality Information
As of December 31, 2016

	Pass	OAEM	Substandard	Total
	(in thousands)			
Mortgage loans on real estate:				
Residential 1-4 family	$92,458	$1,138	$ 1,231	$94,827
Commercial	260,948	10,014	14,467	285,429
Construction	22,219	162	735	23,116
Second mortgages	16,445	475	208	17,128
Equity lines of credit	50,387	500	137	51,024
Total mortgage loans on real estate	442,457	12,289	16,778	471,524
Commercial loans	49,979	2,278	2,177	54,434
Consumer loans	58,741	0	166	58,907
Other	19,017	0	0	19,017
Total	$570,194	$14,567	$ 19,121	$603,882

Credit Quality Information
As of December 31, 2015

	Pass	OAEM	Substandard	Total
	(in thousands)			
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 December 31, 2016 and 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 December 31, 2016

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Total Current Loans (1)	Total Loans	Recorded Investment > 90 Days Past Due and Accruing
	(in thousands)						
Mortgage loans on real estate:							
Residential 1-4 family	$564	$0	$496	$1,060	$93,767	$94,827	$ 218
Commercial	2,280	1,625	227	4,132	281,297	285,429	0
Construction	162	0	0	162	22,954	23,116	0
Second mortgages	0	200	188	388	16,740	17,128	58
Equity lines of credit	394	9	86	489	50,535	51,024	0
Total mortgage loans on real estate	3,400	1,834	997	6,231	465,293	471,524	276
Commercial loans	5	0	86	91	54,343	54,434	0
Consumer loans	1,876	713	2,684	5,273	53,634	58,907	2,603
Other	41	12	5	58	18,959	19,017	5
Total	$5,322	$2,559	$3,772	$11,653	$592,229	$603,882	$ 2,884

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

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

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.

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, due to bankruptcy or other factors as discussed in the Loan Charge-Off Policies section of Note 1, or when they are past due based on loan product, industry practice, terms and other factors.

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

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

Nonaccrual Loans by Class

	December 31, 2016	December 31, 2015
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$598	$ 1,457
Commercial	6,033	2,623
Second mortgages	129	226
Equity lines of credit	87	0
Total mortgage loans on real estate	6,847	4,306
Commercial loans	231	276
Consumer loans	81	0
Total	$7,159	$ 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:

Years Ended December 31,

	2016	2015
	(in thousands)	
Interest income that would have been recorded under original loan terms	$318	$196
Actual interest income recorded for the period	269	141
Reduction in interest income on nonaccrual loans	$49	$55

TROUBLED DEBT RESTRUCTURINGS

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

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

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

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

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on December 31, 2016
	(dollars in thousands)			
Mortgage loans on real estate:				
Residential 1-4 family	6	$ 1,061	$ 1,061	$ 992
Commercial	1	150	150	0
Second mortgages	1	53	53	53
Equity lines of credit	1	93	93	86
Total mortgage loans on real estate	9	$ 1,357	$ 1,357	$ 1,131
Commercial loans	1	152	152	144
Consumer loans	2	8	8	0
Total	12	$ 1,517	$ 1,517	$ 1,275

Troubled Debt Restructurings by Class
For the Year Ended December 31, 2015

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on December 31, 2015
	(dollars in thousands)			
Mortgage loans on real estate:				
Commercial	5	$ 2,094	$ 2,594	$ 2,400
Construction	1	435	435	0
Second mortgages	1	61	61	61
Total	7	$ 2,590	$ 3,090	$ 2,461

All of the loans restructured in 2016 and 5 of the loans restructured in 2015 were given below-market rates for debt with similar risk characteristics. The remaining 2 loans restructured in 2015 were given terms not otherwise available to borrowers with similar risk characteristics.

At December 31, 2016 and 2015, the Company had no outstanding commitments to disburse additional funds on any TDR. Also at December 31, 2016 and 2015, the Company had $10 thousand and $53 thousand, respectively, in loans secured by residential 1 - 4 family real estate that were in the process of foreclosure.

In the years ended December 31, 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 the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans include nonperforming loans and loans modified in a TDR. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole or remaining source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, when foreclosure is probable, instead of the discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

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

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

Impaired Loans by Class

	As of December 31, 2016				For the Year Ended December 31, 2016	
		Recorded Investment				
	Unpaid Principal Balance	Without Valuation Allowance	With Valuation Allowance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
	(in thousands)					
Mortgage loans on real estate:						
Residential 1-4 family	$2,496	$1,835	$ 622	$ 75	$2,741	$ 119
Commercial	16,193	11,095	4,274	415	11,885	727
Construction	619	528	96	22	496	43
Second mortgages	526	309	141	17	511	25
Equity lines of credit	87	86	0	0	46	3
Total mortgage loans on real estate	$19,921	$13,853	$ 5,133	$ 529	$15,679	$ 917
Commercial loans	1,077	0	989	271	827	74
Consumer loans	81	81	0	0	68	1
Total	$21,079	$13,934	$ 6,122	$ 800	$16,574	$ 992

Impaired Loans by Class

	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
	(in thousands)					
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 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 losses inherent in the loan portfolio. The Company segments the loans in the portfolio by the categories 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. 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, 2016 management used four twelve-quarter migration periods, and at December 31, 2015, management used one twelve-quarter migration period. See Changes in Accounting Methodology below for details.

THE COMPANY'S ESTIMATION PROCESS

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

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

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

ALLOWANCE FOR LOAN LOSSES BY SEGMENT

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Company considers the allowance for loan losses of $8.2 million adequate to cover loan losses inherent in the loan portfolio at December 31, 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 Year Ended December 31, 2016	Commercial	Real Estate - Construction	Real Estate - Mortgage	Consumer	Other	Total
Allowance for Loan Losses:						
Balance at the beginning of period	$ 633	$ 985	$ 5,628	$ 279	$ 213	$ 7,738
Charge-offs	(915)	0	(504)	(204)	(147)	(1,770)
Recoveries	79	3	197	28	40	347
Provision for loan losses	1,696	(142)	(54)	352	78	1,930
Ending balance	1,493	846	5,267	455	184	8,245
Ending balance individually evaluated for impairment	271	22	507	0	0	800
Ending balance collectively evaluated for impairment	1,222	824	4,760	455	184	7,445
Ending balance	1,493	846	5,267	455	184	8,245
Loan Balances:						
Ending balance individually evaluated for impairment	989	624	18,362	81	0	20,056
Ending balance collectively evaluated for impairment	53,445	22,492	430,046	58,826	19,017	583,826
Ending balance	$ 54,434	$ 23,116	$ 448,408	$ 58,907	$ 19,017	$ 603,882

For the Year Ended December 31, 2015	Commercial	Real Estate - Construction	Real Estate - Mortgage	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	42,922	19,586	424,495	50,415	18,007	555,425

evaluated for impairment						
Ending balance	$ 43,197	$ 19,685	$437,159	$ 50,427	$18,007	$568,475

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 several changes to its method for calculating the allowance. These changes and the effects on the allowance for loan losses at December 31, 2016 are as follows:

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 decreased the provision for most categories of loans but increased it for construction loans. The net effect on the provision for loan losses as a result of this change was an increase of $77 thousand compared to the prior methodology.

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 decreased the provision for loan losses by $366 thousand compared to the prior methodology.

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 decreased the provision for loan losses by $38 thousand compared to the prior methodology.

The following table represents the effect on the loan loss provision as a result of these changes in methodology. It compares the methodology actually used for the year ended December 31, 2016 to that used in prior periods.

	Calculated Provision Based on Current Methodology	Calculated Provision Based on Prior Methodology	Difference
	(in thousands)		
Portfolio Segment:			
Commercial	$1,696	$ 2,054	$ (358)
Real estate - construction	(142)	(858)	716
Real estate - mortgage	(54)	73	(127)
Consumer loans	352	910	(558)
Other	78	78	0
Total	$1,930	$ 2,257	$ (327)

The allowance for loan losses was 1.37% of total loans at December 31, 2016, compared to 1.36% at December 31, 2015.

NOTE 5, Other Real Estate Owned (OREO)

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

	Years Ended December 31, 2016	2015
	(in thousands)	
Balance at beginning of year	$5,290	$8,014
Transfers to OREO due to foreclosure	0	553
Other additions to foreclosed properties	52	0
Closed branch locations transferred to OREO	127	0
Properties sold	(3,376)	(3,277)
Balance at end of year	$2,093	$5,290

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

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

	Years Ended December 31,	
	2016	2015
	(in thousands)	
Balance at beginning of year	$2,549	$2,908
Additions and write-downs	60	1,011
Reductions due to sales or increases in value	(1,583)	(1,370)
Balance at end of year	$1,026	$2,549

Expenses applicable to OREOs include the following:

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

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

NOTE 6. Premises and Equipment

Premises and equipment consisted of the following at December 31:

	2016	2015
	(in thousands)	
Land	$7,663	$7,688
Buildings	37,890	37,848
Construction in process	43	555
Leasehold improvements	852	852
Furniture, fixtures and equipment	19,220	18,303
	65,668	65,246
Less accumulated depreciation and amortization	26,344	23,964
	$39,324	$41,282

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

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

The total approximate minimum rental commitment at December 31, 2016 under noncancellable leases is $632 thousand which is due as follows (in thousands):

2017	$236
2018	169
2019	150
2020	77
Total	$632

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

NOTE 7. Low-Income Housing Tax Credits

The Company was invested in four separate housing equity funds at both December 31, 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 $3.9 million and $4.2 million at December 31, 2016 and December 31, 2015, respectively. The expected terms of these investments and the related tax benefits run through 2032. Additional committed capital calls expected for the funds totaled $2.5 million and $3.0 million at December 31, 2016 and December 31, 2015, respectively, and are recorded in accrued expenses and other liabilities on the corresponding consolidated balance sheets. During the years ended December 31, 2016 and 2015, the Company recognized amortization expense of $300,000 thousand and $219,000 thousand, respectively, which was included within noninterest expense on the consolidated statements of income.

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

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

NOTE 8. Deposits

The aggregate amount of time deposits in denominations of $250 thousand or more at December 31, 2016 and 2015 was $38.1 million and $36.4 million, respectively. As of December 31, 2016, no single customer relationship exceeded 5 percent of total deposits.

At December 31, 2016 the scheduled maturities of time deposits (in thousands) are as follows:

2017	$99,128
2018	23,173
2019	29,632
2020	40,737
2021	18,739
Total	$211,409

NOTE 9. Short Term and Long Term Borrowings

The Company's short-term borrowing sources include federal funds purchased and overnight repurchase agreements. The Company had no federal funds purchased on December 31, 2016 or 2015. At December 31, 2016, the Company had $55.0 million available in federal funds lines of credit to address any short-term borrowing needs.

Overnight repurchase agreements, which totaled $18.7 million and $26.0 million as of December 31, 2016 and 2015, respectively, are classified as secured borrowings that generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

As of December 31, 2016, four customer relationships exceeded 5 percent of total repurchase agreements, with a combined outstanding balance of $15.7 million, or 83.83% of total repurchase agreements.

The Company has a line of credit with the FHLB enabling it to borrow up to 30% of total assets, or $270.0 million as of December 31, 2016. FHLB advances are secured by a blanket lien on qualified 1 – 4 family residential real estate loans. These pledged loans totaled $90.3 million at December 31, 2016.

At December 31, 2016, the Company had no long-term FHLB advances outstanding.

Long-term debt as of December 31, 2015 was as follows:

	Fixed Rate	Total	Weighted Avg Rate	
	(in thousands)			
Due in 2016	$25,000	$25,000	4.83	%
Total long-term debt	$25,000	$25,000	4.83	%

NOTE 10. Share-Based Compensation

EQUITY COMPENSATION PLANS

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 can be granted under the plan after March 9, 2008. At December 31, 2016, options to purchase 60,605 shares of common stock granted under the stock option plan were outstanding. 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 plan activity for the year ended December 31, 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	0.00		
Exercised	(1,250)	20.05		
Canceled or expired	(13,105)	20.05		
Options outstanding, December 31, 2016	60,605	$ 20.05	0.79	$ 300
Options exercisable, December 31, 2016	60,605	$ 20.05	0.79	$ 300

The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on December 31, 2016.This amount changes based on changes in the market value of the Company's common stock.

During 2016, the Company received $25 thousand from the exercise of stock options. No options were exercised in 2015.

No options were granted during the years ended December 31, 2016 or December 31, 2015. As of December 31, 2016 and December 31, 2015, all outstanding stock options were fully vested and there was no unrecognized stock-based compensation expense.

Information pertaining to options outstanding at December 31, 2016 is as follows:

Options Outstanding	Options Exercisable

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 20.05	60,605	0.79	$ 20.05	60,605	$ 20.05

On May 24, 2016, the Company's stockholders approved the Old Point Financial Corporation 2016 Incentive Stock Plan. The Incentive Stock Plan permits the issuance of up to 300,000 shares of common stock for awards to key employees and non-employee directors of the Company and its subsidiaries in the form of stock options, restricted stock, restricted stock units, stock appreciation rights, stock awards and performance units. Although the Company did not award any equity compensation under the Incentive Stock Plan during 2016, management anticipates beginning to award equity compensation to key employees and non-employee directors in 2017. Accordingly, as of December 31, 2016, there were no awards outstanding under the Incentive Stock Plan. Complete details of the Incentive Stock Plan are contained in the plan itself, which is Appendix A of the Proxy Statement for the Company's 2016 Annual Meeting of Stockholders.

EMPLOYEE STOCK PURCHASE PLAN

On May 24, 2016, the Company's stockholders approved the Old Point Financial Corporation Employee Stock Purchase Plan (ESPP). Under the ESPP, substantially all employees of the Company can authorize a specific payroll deduction from their base compensation for the periodic purchase of the Company's common stock. Shares of stock are issued quarterly at a discount to the market price of the Company's stock on the day of purchase, which can range from 0-15% and for 2016 was set at 5 %.

Total stock purchases amounted to 999 shares during 2016. At December 31, 2016, the Company had 249,001 shares reserved for issuance under this plan.

Complete details of the ESPP are contained in the plan itself, which is Appendix B of the Proxy Statement for the Company's 2016 Annual Meeting of Stockholders.

NOTE 11. Stockholders' Equity and Earnings per Common Share

STOCKHOLDERS' EQUITY--OTHER COMPREHENSIVE INCOME (LOSS)

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

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

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

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

	Unrealized Gains (Losses) on Available-for-Sale Securities (in thousands)	Unrealized Losses on Securities Transferred from Available-for-Sale to Held-to-Maturity (1)	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss

Balance at December 31, 2014	$(78)	$ (3,386)	$(2,429)	$ (5,893)
Net change for the year ended December 31, 2015	(498)	3,386	(157)	2,731
Balance at December 31, 2015	(576)	0	(2,586)	(3,162)
Net change for the year ended December 31, 2016	(1,163)	0	117	(1,046)
Balance at December 31, 2016	$(1,739)	$ 0	$(2,469)	$ (4,208)

(1) Net change for the year ended December 31, 2015 represents reclassification due to the transfer of securities held-to-maturity to available-for-sale. See Note 3. Securities.

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

	Year Ended December 31, 2016		
	Pretax	Tax Effect	Net-of-Tax
	(in thousands)		
Unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during the period	$(1,240)	$(422)	$(818)
Reclassification adjustment for gains recognized in income	(522)	(177)	(345)
Net unrealized losses on securities	(1,762)	(599)	(1,163)
Defined benefit pension plans:			
Net actuarial loss for the period	(327)	(111)	(216)
Amortization of actuarial loss from prior period	504	171	333
Net change	177	60	117
Total change in accumulated other comprehensive loss	$(1,585)	$(539)	$(1,046)

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

EARNINGS PER COMMON SHARE

Earnings per common share has been computed based on the following:

	Years Ended December 31,	
	2016	2015
	(dollars in thousands)	
Net income (in thousands)	$3,797	$3,634

Average number of common shares outstanding	4,959,173	4,959,009
Effect of dilutive options	1,761	0
Average number of common shares outstanding used to calculate diluted earnings per common share	4,960,934	4,959,009

The Company did not include an average of 52 thousand and 76 thousand potential common shares attributable to outstanding stock options in the diluted earnings per share calculation for 2016 and 2015, respectively, because they were antidilutive.

NOTE 12, Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal stockholders, executive officers and directors and their affiliates. These loans were made on substantially the same terms and conditions, including interest rates, collateral and repayment terms, as those prevailing at the same time for comparable transactions with unrelated persons, and, in the opinion of management and the Company's board of directors, do not involve more than normal risk or present other unfavorable features. None of the principal stockholders, executive officers or directors had direct or indirect loans exceeding 10 percent of stockholders' equity at December 31, 2016.

Annual activity consisted of the following:

	2016	2015
	(in thousands)	
Balance, beginning of year	$4,429	$5,787
Additions	110	4
Reductions	(185)	(1,362)
Balance, end of year	$4,354	$4,429

Deposits from related parties held by the Company at December 31, 2016 and 2015 amounted to $13.8 million and $14.4 million, respectively.

NOTE 13, Income Taxes

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

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

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

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

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

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

	December 31, 2016	December 31, 2015
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	$2,803	$2,631
Interest on nonaccrual loans	71	67
Other real estate owned	349	867
Pension - other comprehensive income	1,272	1,332
Bank owned life insurance benefit	94	88
Charitable contributions carried forward	1	109
Net unrealized loss on securities available-for-sale	896	297
Unexercised nonqualified options	36	36
Alternative minimum tax	1,019	610
Deferred benefits and compensation	256	347
Other	89	78
	$6,886	$6,462
Deferred tax liabilities:		
Depreciation	$(822)	$(854)
Accretion of discounts on securities	(1)	(1)
Deferred loan fees and costs	(325)	(293)
Pension	(740)	(874)
	(1,888)	(2,022)
Net deferred tax assets	$4,998	$4,440

The Company files income tax returns in the U.S. federal jurisdiction and the Commonwealth of Virginia. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2013.

NOTE 14, Pension Plan and 401(k) Plan

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 have been or will be added to the plan since such date.

On November 23, 2016 the Company's Board of Directors voted to terminate the pension plan, effective January 31, 2017. The Company anticipates completing the transfer of all liabilities and administrative responsibilities under the Plan by the end of the fourth quarter of 2017.

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

	Years ended December 31, 2016	Years ended December 31, 2015
	(in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$7,039	$7,104

Service cost	0	0
Interest cost	279	260
Benefits paid	(461)	(294)
Actuarial (gain) loss	205	(31)
Benefit obligation at end of year	$7,062	$7,039
Change in plan assets		
Fair value of plan assets at beginning of year	$5,691	$5,268
Actual return on plan assets	269	(283)
Employer contribution	0	1,000
Benefits paid	(461)	(294)
Fair value of plan assets at end of year	$5,499	$5,691
Funded Status at end of year	$(1,563)	$(1,348)

	December 31, 2016	2015
	(in thousands)	
Amounts recognized in the consolidated balance sheets		
Accrued pension liability	$(1,563)	$(1,348)
Amounts recognized in other comprehensive income (loss)		
Loss	$3,741	$3,918
Deferred taxes	(1,272)	(1,332)
Net loss	$2,469	$2,586
Accumulated benefit obligation	$7,062	$7,039

Assumptions used to determine the benefit obligations at December 31,	2016	2015
Discount rate	3.86%	4.03%

	During the years ending December 31,	
Weighted-average assumptions used to determine net periodic pension cost	2016	2015
Discount rate	4.03%	3.73%
Expected long-term rate of return on plan assets	7.00%	7.00%

	Years ended December 31, 2016	2015
Components of net periodic pension cost	(in thousands)	
Interest cost	$279	$260
Expected return on plan assets	(391)	(376)
Amortization of unrecognized loss	504	390
Net periodic pension cost	$392	$274
Components of other amounts recognized in other comprehensive income (loss)		
Net actuarial (gain) loss	$327	$627
Settlement loss	0	0
Amortization of actuarial loss	(504)	(390)
Total recognized in other comprehensive income (loss)	$(177)	$237
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$215	$511

The estimated net loss for the pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year is $490 thousand.

The overall expected long-term rate of return on plan assets was determined based on the current asset allocation and the related volatility of those investments.

The Company's overall investment strategy is growth with income. The emphasis of the objective is on both capital appreciation and income. The portfolio contains a blend of securities expected to grow in value over the long term and those expected to produce income. Moderate market value volatility is expected.

The pension plan invests primarily in large and mid-cap equities and government and corporate bonds, with the following target allocations: equities 55 percent, fixed income 40 percent and cash 5 percent. The pension plan has small investments in precious metals and emerging markets equity mutual funds, each of which represents less than 1 percent of the total account value.

Fair value is discussed in detail in Note 16. The fair value of the Company's pension plan assets by asset category are as follows:

Assets at Fair Value as of December 31, 2016				
Asset Category	Level 1	Level 2	Level 3	Total
	(in thousands)			
Money market funds	$2,839	$0	$ 0	$2,839
Mutual funds	0	0	0	0
Common stock	1,129	0	0	1,129
Corporate bonds	0	1,472	0	1,472
Partnerships	0	59	0	59
Total assets at fair value	$3,968	$1,531	$ 0	$5,499

Assets at Fair Value as of December 31, 2015

Asset Category	Level 1	Level 2	Level 3	Total
	(in thousands)			
Money market funds	$654	$0	$ 0	$654
Mutual funds	74	0	0	74
Common stock	2,766	0	0	2,766
Corporate bonds	0	2,133	0	2,133
Partnerships	0	64	0	64
Total assets at fair value	$$3,494	$$2,197	$ $0	$$5,691

The Company made no contributions to the pension plan in 2016, and contributed $1.0 million in 2015. Management has not determined at this time the amount, if any, it will contribute to the plan for the year ending December 31, 2017.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows (in thousands):

2017	$256
2018	273
2019	288
2020	348
2021	351
Thereafter	2,106
Total	$3,622

401(K) PLAN

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

NOTE 15. Commitments and Contingencies

CREDIT-RELATED FINANCIAL INSTRUMENTS

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

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

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

	2016	2015
	(in thousands)	
Commitments to extend credit:		

Home equity lines of credit	$47,243	$41,995
Commercial real estate, construction and development loans committed but not funded	15,948	18,113
Other lines of credit (principally commercial)	81,966	73,213
Total	$145,157	$133,321
Letters of credit	$3,597	$3,473

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

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

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

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

NOTE 16, Fair Value Measurements

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

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

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

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 December 31, 2016 Using		
Description	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				
U.S. Treasury securities	$20,000	$0	$ 20,000	$ 0
Obligations of U.S. Government agencies	9,195	0	9,195	0
Obligations of state and political subdivisions	77,987	0	77,987	0
Mortgage-backed securities	83,694	0	83,694	0
Money market investments	647	0	647	0
Corporate bonds	7,678	0	7,678	0
Other marketable equity securities	164	0	164	0
Total available-for-sale securities	$199,365	$0	$ 199,365	$ 0

		Fair Value Measurements at December 31, 2015 Using		
Description	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 the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of fair value and loss associated with impaired loans can be based on the observable market price of the loan, the fair value of the collateral securing the loan, or the present value of the loan's expected future cash flows, discounted at the loan's effective interest rate. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable, with the vast majority of the collateral in real estate.

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 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. These loans are not carried on the consolidated balance sheets at fair value and, as such, are not included in the table below. Former branch sites are carried at the lower of cost or market. Those carried at cost are not included in the table below.

		Carrying Value at December 31, 2016 Using		
Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Impaired loans				
Mortgage loans on real estate:				
Residential 1-4 family	$400	$0	$ 0	$ 400
Commercial	1,483	0	0	1,483
Construction	74	0	0	74
Total mortgage loans on real estate	1,957	0	0	1,957
Commercial loans	718	0	0	718
Total	$2,675	$0	$ 0	$ 2,675
Other real estate owned				
Construction	$940	$0	$ 0	$ 940
Total	$940	$0	$ 0	$ 940

		Carrying Value at December 31, 2015 Using		
Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Impaired loans				
Mortgage loans on real estate:				
Residential 1-4 family	$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:

Quantitative Information About Level 3 Fair Value Measurements

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

Quantitative Information About Level 3 Fair Value Measurements

Description	Fair Value at December 31, 2015 (dollars in thousands)	Valuation Techniques	Unobservable Input	Range (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 %

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

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

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

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

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

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

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

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

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

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

COMMITMENTS TO EXTEND CREDIT AND IRREVOCABLE LETTERS OF CREDIT
The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit-worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At

December 31, 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 December 31, 2016 Using		
Description	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	$25,854	$25,854	$ 0	$ 0
Securities available-for-sale	199,365	0	199,365	0
Restricted securities	970	0	970	0
Loans, net of allowances for loan losses	595,637	0	0	594,190
Bank owned life insurance	25,206	0	25,206	0
Accrued interest receivable	3,189	0	3,189	0
Liabilities				
Deposits	$784,502	$0	$ 783,450	$ 0
Overnight repurchase agreements	18,704	0	18,704	0
Accrued interest payable	228	0	228	0

		Fair Value Measurements at December 31, 2015 Using		
Description	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 17, Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1, and common equity tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. The terms Tier 1 and common equity tier 1 capital, risk-weighted assets and average assets, as used in this note, are as defined in the applicable regulations. Management believes, as of December 31, 2016 and 2015, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2016, the most recent notification from the Comptroller categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, common equity tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Company's and the Bank's actual capital amounts and ratios as of December 31, 2016 and 2015 are also presented in the table.

	Capital		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
December 31, 2016:						
Total Capital to Risk Weighted Assets:						
Consolidated	$106,443	14.51%	$63,263	8.625%	N/A	N/A
Old Point National Bank	98,237	13.47%	62,909	8.625%	$72,938	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	98,198	13.39%	48,593	6.625%	N/A	N/A
Old Point National Bank	89,992	12.34%	48,321	6.625%	58,350	8.00 %
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Consolidated	98,198	13.39%	37,591	5.125%	N/A	N/A
Old Point National Bank	89,992	12.34%	37,381	5.125%	47,410	6.50 %
Tier 1 Capital to Average Assets:						
Consolidated	98,198	10.68%	36,768	4.000%	N/A	N/A
Old Point National Bank	89,992	9.85 %	36,549	4.000%	45,686	5.00 %
December 31, 2015:						
Total Capital to Risk Weighted Assets:						
Consolidated	$104,076	14.89%	$55,910	8.00 %	N/A	N/A
Old Point National Bank	96,079	13.83%	55,589	8.00 %	$69,486	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	96,338	13.78%	41,932	6.00 %	N/A	N/A
Old Point National Bank	88,341	12.71%	41,692	6.00 %	55,589	8.00 %
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Consolidated	96,338	13.78%	31,449	4.50 %	N/A	N/A
Old Point National Bank	88,341	12.71%	31,269	4.50 %	45,166	6.50 %
Tier 1 Capital to Average Assets:						
Consolidated	96,338	10.93%	35,260	4.00 %	N/A	N/A
Old Point National Bank	88,341	10.06%	35,124	4.00 %	43,905	5.00 %

The approval of the Comptroller is required if the total of all dividends declared by a national bank in any calendar year exceeds the bank's net profits for that year combined with its retained net profits for the preceding two calendar years. Under this formula, the Bank and Trust can distribute as dividends to the Company in 2017, without approval of the Comptroller, $2.8 million plus an additional amount equal to the Bank's and Trust's retained net profits for 2017 up to the date of any dividend declaration.

NOTE 18, Segment Reporting

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

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

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

2016	Bank	Trust	Unconsolidated Parent	Eliminations	Consolidated
	(in thousands)				
Revenues					
Interest and dividend income	$29,765	$61	$ 4,590	$ (4,590)	$ 29,826
Income from fiduciary activities	0	3,560	0	0	3,560
Other income	9,058	910	200	(262)	9,906
Total operating income	38,823	4,531	4,790	(4,852)	43,292
Expenses					
Interest expense	2,574	0	0	0	2,574
Provision for loan losses	1,930	0	0	0	1,930
Salaries and employee benefits	16,801	2,671	406	0	19,878
Other expenses	13,179	1,041	995	(262)	14,953
Total operating expenses	34,484	3,712	1,401	(262)	39,335
Income before taxes	4,339	819	3,389	(4,590)	3,957
Income tax expense (benefit)	288	280	(408)	0	160
Net income	$4,051	$539	$ 3,797	$ (4,590)	$ 3,797
Capital expenditures	$887	$4	$ 0	$ 0	$ 891
Total assets	$897,966	$5,761	$ 93,998	$ (94,759)	$ 902,966

2015	Bank	Trust	Unconsolidated Parent	Eliminations	Consolidated
	(in thousands)				
Revenues					
Interest and dividend income	$30,242	$54	$ 4,009	$ (4,010)	$ 30,295
Income from fiduciary activities	0	3,617	0	0	3,617
Other income	8,548	1,032	200	(261)	9,519
Total operating income	38,790	4,703	4,209	(4,271)	43,431
Expenses					
Interest expense	3,633	0	0	(1)	3,632
Provision for loan losses	1,025	0	0	0	1,025
Salaries and employee benefits	17,630	2,685	432	0	20,747
Other expenses	13,254	1,010	336	(261)	14,339
Total operating expenses	35,542	3,695	768	(262)	39,743
Income before taxes	3,248	1,008	3,441	(4,009)	3,688

Income tax expense (benefit)	(96)	343	(193)	0	54
Net income	$3,344	$665	$ 3,634	$ (4,009)	$ 3,634
Capital expenditures	$1,682	$74	$ 0	$ 0	$ 1,756
Total assets	$891,877	$5,694	$ 93,191	$ (93,975)	$ 896,787

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

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

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

NOTE 19, Condensed Financial Statements of Parent Company

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

	December 31,	
Balance Sheets	2016	2015
	(in thousands)	
Assets		
Cash and cash equivalents	$2,366	$2,198
Securities available-for-sale	164	99
Investment in common stock of subsidiaries	91,437	90,836
Other assets	31	58
Total assets	$93,998	$93,191
Liabilities and Stockholders' Equity		
Note payable - subsidiary	$8	$15
Common stock	24,806	24,795
Additional paid-in capital	16,427	16,392
Retained earnings	56,965	55,151
Accumulated other comprehensive loss	(4,208)	(3,162)
Total liabilities and stockholders' equity	$93,998	$93,191

	Years Ended December 31,	
Statements of Income	2016	2015
	(in thousands)	
Income:		
Dividends from subsidiaries	$2,900	$2,900
Other income	200	200
Total income	3,100	3,100
Expenses:		
Salaries and benefits	406	432
Legal expenses	774	180
Service fees	166	137
Other operating expenses	55	19
Total expenses	1,401	768
Income before income taxes and equity in undistributed net income of subsidiaries	1,699	2,332
Income tax benefit	(408)	(193)
	2,107	2,525

Equity in undistributed net income of subsidiaries	1,690	1,109
Net income	$3,797	$3,634

Statements of Cash Flows	Years Ended December 31, 2016	2015
	(in thousands)	
Cash flows from operating activities:		
Net income	$3,797	$3,634
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiaries	(1,690)	(1,109)
(Increase) decrease in other assets	5	(5)
Increase (decrease) in other liabilities	(7)	15
Net cash provided by operating activities	2,105	2,535
Cash flows from investing activities:	0	0
Cash flows from financing activities:		
Proceeds from sale of stock	46	0
Cash dividends paid on common stock	(1,983)	(1,686)
Net cash used in financing activities	(1,937)	(1,686)
Net increase in cash and cash equivalents	168	849
Cash and cash equivalents at beginning of year	2,198	1,349
Cash and cash equivalents at end of year	$2,366	$2,198
Supplemental schedule of noncash transactions:		
Unrealized gain (loss) on securities available-for-sale	$64	$(1)

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

None.

Item 9A. 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.

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

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

Management evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In conducting this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework in 2013. Based on this evaluation, using those criteria, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2016.

Changes in Internal Control over Financial Reporting. There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

As previously disclosed by the Company, on January 10, 2017, Laurie D. Grabow, Chief Financial Officer and Senior Vice President/Finance, notified the Chairman of the Board of Directors and President and Chief Executive Officer of the Company of her intent to retire from her positions with the Company and the Bank in mid-2017. On March 10, 2017, the Company and Mrs. Grabow entered into a Retirement Agreement, Waiver and General Release (the Agreement). The Agreement is effective March 18, 2017, if not revoked before then.

The Agreement sets the effective date for Mrs. Grabow's retirement as May 31, 2017, unless an earlier date is agreed upon between Mrs. Grabow and the Company. At that time, Mrs. Grabow will cease serving as the Company's Chief Financial Officer and will retire from all positions with the Company and the Bank. In connection with her retirement, Mrs. Grabow will receive 39 weeks' base salary compensation from the Company (based on an annual base salary of $204,000), less applicable withholdings and paid in installments in accordance with the Company's regular pay periods from June 1, 2017 through February 28, 2018. Under the Agreement, Mrs. Grabow will also be entitled to reimbursement for health insurance premiums for continuing coverage under the Company's health and dental insurance plans through February 28, 2018. In consideration of the payments and benefits under the Agreement, Mrs. Grabow will be subject to certain confidentiality covenants.

The foregoing description of the Agreement is only a summary and is qualified in its entirety by reference to the Agreement itself, a copy of which is attached as an exhibit to this Form 10-K as Exhibit 10.17 and is incorporated by reference herein.

Part III

Except as otherwise indicated, information called for by the following items under Part III is contained in the Proxy Statement for the Company's 2017 Annual Meeting of Stockholders (the 2017 Proxy Statement) to be held on May 23, 2017.

Item 10. Directors, Executive Officers and Corporate Governance

The information with respect to the directors of the Company is set forth under the caption "Election of Directors" in the 2017 Proxy Statement and is incorporated herein by reference.

The information regarding the Section 16(a) reporting requirements of the directors and executive officers is set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2017 Proxy Statement and is incorporated herein by reference.

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

The information regarding the Company's Audit Committee and its Audit Committee Financial Expert is set forth under the caption "Board Committees and Attendance" in the 2017 Proxy Statement and is incorporated herein by reference.

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

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

Item 11. Executive Compensation

The information set forth under the captions "Compensation and Benefits Committee Interlocks and Insider Participation" and "Executive Compensation" in the 2017 Proxy Statement is incorporated herein by reference.

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

The information set forth under the caption "Securities Authorized for Issuance Under Equity Compensation Plans" in the 2017 Proxy Statement is incorporated herein by reference.

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the 2017 Proxy Statement is incorporated herein by reference.

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

The information set forth under the caption "Interest of Management in Certain Transactions" in the 2017 Proxy Statement is incorporated herein by reference.

The information regarding director independence set forth under the caption "Board Committees and Attendance" in the 2017 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information set forth under the captions "Principal Accountant Fees" and "Audit Committee Pre-Approval Policy" in the 2017 Proxy Statement is incorporated herein by reference.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Consolidated Financial Statements

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

Report of Independent Registered Public Accounting Firm (Yount, Hyde & Barbour, P.C.)
Consolidated Balance Sheets – December 31, 2016 and 2015
Consolidated Statements of Income – Years Ended December 31, 2016 and 2015
Consolidated Statements of Comprehensive Income – Years Ended December 31, 2016 and 2015
Consolidated Statements of Changes in Stockholders' Equity – Years Ended December 31, 2016 and 2015
Consolidated Statements of Cash Flows – Years Ended December 31, 2016 and 2015
Notes to Consolidated Financial Statements

(a)(2) Consolidated Financial Statement Schedules
All schedules are omitted since they are not required, are not applicable, or the required information is shown in the Consolidated Financial Statements or notes thereto.

(a)(3) Exhibits
The following exhibits are filed as part of this Form 10-K and this list includes the Exhibit Index.

Exhibit No.	Description
3.1	Articles of Incorporation of Old Point Financial Corporation, as amended June 22, 2000 (incorporated by reference to Exhibit 3.1 to Form 10-K filed on March 12, 2009)
3.1.1	Articles of Amendment to Articles of Incorporation of Old Point Financial Corporation, effective May 26, 2016 (incorporated by reference to Exhibit 3.1.1 to Form 8-K filed May 31, 2016)
3.2	Bylaws of Old Point Financial Corporation, as amended and restated August 9, 2016 (incorporated by reference to Exhibit 3.2 to Form 10-Q filed August 10, 2016)
10.1*	Old Point Financial Corporation 1998 Stock Option Plan, as amended April 24, 2001 (incorporated by reference to Exhibit 4.4 to Form S-8 filed July 24, 2001)
10.2*	Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.2 to Form 10-K filed March 30, 2005)
10.3*	Form of Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.3 to Form 10-K filed March 30, 2005)
10.4*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with The Northwestern Mutual Life Insurance Company entered into with each of Robert F. Shuford, Sr., Laurie D. Grabow and Eugene M. Jordan, II (incorporated by reference to Exhibit 10.4 to Form 10-K filed March 30, 2005)
10.5*	Directors' Compensation

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

10.9	Memorandum of Understanding between The Old Point National Bank of Phoebus and Tidewater Mortgage Services, Inc., dated September 10, 2007 (incorporated by reference to Exhibit 10.8 to Form 10-Q filed November 9, 2007)
10.10*	Form of 162 Insurance Plan (incorporated by reference to Exhibit 10.10 to Form 10-K filed March 12, 2009)
10.11*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with Ohio National Life Assurance Corporation entered into with Joseph R. Witt (incorporated by reference to Exhibit 10.11 to Form 10-K filed March 12, 2010)
10.12*	Form of Life Insurance Endorsement Method Split Dollar Plan Agreement with New York Life Insurance and Annuity Corporation entered into with Eugene M. Jordan, II, Robert F. Shuford, Jr., and Joseph R. Witt (incorporated by reference to Exhibit 10.12 to Form 10-K filed March 30, 2012)
10.13*	Separation Agreement and General Release by and between Louis G. Morris and Old Point Financial Corporation and The Old Point National Bank of Phoebus, dated September 8, 2015 (incorporated by reference to Exhibit 10.13 to Form 10-Q filed November 9, 2015)
10.14	Settlement Agreement dated March 16, 2016 among Old Point Financial Corporation, Financial Edge Fund, L.P., Financial Edge-Strategic Fund, L.P., PL Capital/Focused Fund, L.P., PL Capital, LLC, PL Capital Advisors, LLC, Goodbody/PL Capital, L.P., Goodbody/PL Capital, LLC, Mr. John W. Palmer and Mr. Richard J. Lashley, as Managing Members of PL Capital, LLC, PL Capital Advisors, LLC and Goodbody/PL Capital, LLC and Mr. William F. Keefe (incorporated by reference to Exhibit 10.1 to Form 8-K filed March 17, 2016)
10.15*	Old Point Financial Corporation 2016 Incentive Stock Plan (incorporated by reference to Exhibit 10.15 to Form 8-K filed May 31, 2016)
10.16	Membership Interest Purchase Agreement dated January 13, 2017 between Tidewater Mortgage Services, Inc. and The Old Point National Bank of Phoebus (incorporated by reference to Exhibit 10.1 to Form 8-K filed January 20, 2017)
10.17*	Retirement Agreement, Waiver and General Release by and among Laurie D. Grabow and Old Point Financial Corporation, The Old Point National Bank of Phoebus and Old Point Trust & Financial Services, N.A., dated March 10, 2017
21	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21 to Form 10-K filed March 30, 2005)
23	Consent of Yount, Hyde & Barbour, P.C.
24	Powers of Attorney
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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The following materials from Old Point Financial Corporation's annual report on Form 10-K for the year ended December 31, 2016, formatted in XBRL (Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements

* Denotes management contract.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

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

OLD POINT FINANCIAL CORPORATION

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

Date: March 15, 2017

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

/s/Robert F. Shuford, Sr. Robert F. Shuford, Sr.	Chairman, President & Chief Executive Officer and Director Principal Executive Officer
Date: March 15, 2017	
/s/Laurie D. Grabow Laurie D. Grabow	Chief Financial Officer & Senior Vice President/Finance Principal Financial & Accounting Officer
Date: March 15, 2017	
/s/Stephen C. Adams* Stephen C. Adams	Director
/s/James Reade Chisman* James Reade Chisman	Director
/s/Russell S. Evans, Jr.* Russell S. Evans, Jr.	Director
/s/Michael A. Glasser* Michael A. Glasser	Director
/s/Dr. Arthur D. Greene* Dr. Arthur D. Greene	Director
/s/John Cabot Ishon* John Cabot Ishon	Director
/s/William F. Keefe William F. Keefe	Director
/s/Tom B. Langley* Tom B. Langley	Director

/s/Dr. H. Robert Schappert* Dr. H. Robert Schappert	Director
/s/Robert F. Shuford, Jr.* Robert F. Shuford, Jr.	Director
/s/Ellen Clark Thacker* Ellen Clark Thacker	Director
/s/Joseph R. Witt* Joseph R. Witt	Director

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

Date: March 15, 2017