OLD POINT FINANCIAL CORP
Form 10-Q
May 13, 2011

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2011

or

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

Commission File Number: 000-12896

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

VIRGINIA	54-1265373
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o 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). o Yes oNo

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

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

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

4,955,259 shares of common stock ($5.00 par value) outstanding as of April 30, 2011

OLD POINT FINANCIAL CORPORATION

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Balance Sheets

	March 31, 2011 (unaudited)	December 31, 2010
Assets		
Cash and due from banks	$13,377,085	$15,603,331
Federal funds sold	20,511,724	12,827,818
Cash and cash equivalents	33,888,809	28,431,149
Securities available-for-sale, at fair value	195,509,022	206,091,712
Securities held-to-maturity (fair value approximates $2,450,506 and $1,956,720)	2,452,000	1,952,000
Restricted securities	4,319,600	4,319,600
Loans, net of allowance for loan losses of $10,284,063 and $13,227,791	554,028,929	573,390,522
Premises and equipment, net	29,545,481	29,615,688
Bank owned life insurance	18,221,447	18,019,727
Foreclosed assets, net of valuation allowance of $1,786,500 and $2,123,930	11,163,890	11,447,794
Other assets	13,115,041	13,573,303
	$862,244,219	$886,841,495
Liabilities & Stockholders' Equity		
Deposits:		
Noninterest-bearing deposits	$139,665,267	$129,207,887
Savings deposits	228,429,065	225,209,590
Time deposits	317,555,690	324,796,068
Total deposits	685,650,022	679,213,545
Federal funds purchased and other borrowings	713,913	731,332
Overnight repurchase agreements	37,420,811	50,757,247
Term repurchase agreements	20,699,546	38,959,359
Federal Home Loan Bank advances	35,000,000	35,000,000
Accrued expenses and other liabilities	1,338,611	1,228,363
Total liabilities	780,822,903	805,889,846
Commitments and contingencies		
Stockholders' equity:		
Common stock, $5 par value, 10,000,000 shares authorized; 4,953,384 and 4,936,989 shares issued and outstanding	24,766,920	24,684,945
Additional paid-in capital	16,183,359	16,026,062
Retained earnings	42,907,612	42,809,769
Accumulated other comprehensive loss, net	(2,436,575)	(2,569,127)
Total stockholders' equity	81,421,316	80,951,649
Total liabilities and stockholders' equity	$862,244,219	$886,841,495

See Notes to Consolidated Financial Statements.

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Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Operations

	Three Months Ended March 31,	
	2011	2010
	(unaudited)	
Interest and Dividend Income:		
Interest and fees on loans	$8,402,407	$9,486,216
Interest on federal funds sold	8,245	20,346
Interest on securities:		
Taxable	902,718	804,256
Tax-exempt	39,334	93,883
Dividends and interest on all other securities	12,211	10,786
Total interest and dividend income	9,364,915	10,415,487
Interest Expense:		
Interest on savings deposits	105,187	94,979
Interest on time deposits	1,265,965	1,860,927
Interest on federal funds purchased, securities sold under agreements to repurchase and other borrowings	53,112	178,325
Interest on Federal Home Loan Bank advances	420,375	829,625
Total interest expense	1,844,639	2,963,856
Net interest income	7,520,276	7,451,631
Provision for loan losses	1,800,000	4,700,000
Net interest income, after provision for loan losses	5,720,276	2,751,631
Noninterest Income:		
Income from fiduciary activities	770,972	820,885
Service charges on deposit accounts	1,011,578	1,314,677
Other service charges, commissions and fees	737,844	690,817
Income from bank owned life insurance	201,720	388,845
Gain on sale of available-for-sale securities, net	0	76
Other operating income	83,128	82,548
Total noninterest income	2,805,242	3,297,848
Noninterest Expense:		
Salaries and employee benefits	4,629,803	4,531,082
Occupancy and equipment	1,085,506	1,099,383
FDIC insurance	405,182	329,276
Data processing	327,603	296,655
Customer development	221,636	222,299
Advertising	144,159	175,985
Loan expenses	187,647	122,290
Other outside service fees	143,716	91,847
Employee professional development	133,311	142,900
Postage and courier expense	123,305	135,621
Legal and audit expenses	143,399	105,131
Loss (gain) on write-down/sale of foreclosed assets	188,955	(46,260)
Other operating expenses	432,847	528,404

Total noninterest expense	8,167,069	7,734,613
Income (loss) before income taxes	358,449	(1,685,134)
Income tax expense (benefit)	13,756	(739,507)
Net income (loss)	$344,693	$(945,627)
Basic Earnings (Loss) per Share:		
Average shares outstanding	4,937,353	4,920,108
Net income (loss) per share of common stock	$0.07	$(0.19)
Diluted Earnings (Loss) per Share:		
Average shares outstanding	4,937,353	4,933,582
Net income (loss) per share of common stock	$0.07	$(0.19)

See Notes to Consolidated Financial Statements.

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

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumul Other Comprehe Loss
			(unaudited)		
FOR THE THREE MONTHS ENDED MARCH 31, 2011					
Balance at beginning of period	4,936,989	$24,684,945	$16,026,062	$42,809,769	$(2,569,
Comprehensive income:					
Net income	0	0	0	344,693	0
Unrealized holding gains arising during the period (net of tax, $68,284, and reclassification adjustment)	0	0	0	0	132,552
Total comprehensive income	0	0	0	344,693	132,552
Exercise of stock options	16,395	81,975	129,630	0	0
Stock compensation expense	0	0	27,667	0	0
Cash dividends ($0.05 per share)	0	0	0	(246,850)	0
Balance at end of period	4,953,384	$24,766,920	$16,183,359	$42,907,612	$(2,436,
FOR THE THREE MONTHS ENDED MARCH 31, 2010					
Balance at beginning of period	4,916,535	$24,582,675	$15,768,840	$42,518,889	$(1,261,9
Comprehensive loss:					
Net loss	0	0	0	(945,627)	0
Unrealized holding gains arising during the period (net of tax, $103,538, and reclassification adjustment)	0	0	0	0	200,985
Total comprehensive loss	0	0	0	(945,627)	200,985
Tax benefit from disqualification of stock options	0	0	10,503	0	0
Exercise of stock options	9,375	46,875	56,725	0	0
Stock compensation expense	0	0	28,436	0	0
Cash dividends ($0.10 per share)	0	0	0	(492,215)	0
Balance at end of period	4,925,910	$24,629,550	$15,864,504	$41,081,047	$(1,060,9

See Notes to Consolidated Financial Statements.

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Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2011 (unaudited)	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$344,693	$(945,627)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	463,560	500,371
Provision for loan losses	1,800,000	4,700,000
Net gain on sale of available-for-sale securities	0	(76)
Net amortization of securities	47,419	4,625
Net loss on disposal of premises and equipment	0	207
Net (gain) loss on write-down/sale of foreclosed assets	188,955	(46,260)
Income from bank owned life insurance	(201,720)	(388,845)
Stock compensation expense	27,667	28,436
Deferred tax (benefit) expense	(371)	14,025
(Increase) decrease in other assets	155,684	(551,533)
Increase in other liabilities	110,248	157,567
Net cash provided by operating activities	2,936,135	3,472,890
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(11,167,549)	(58,478,191)
Purchases of held-to-maturity securities	(800,000)	(1,200,000)
Proceeds from maturities and calls of securities	20,583,655	37,273,195
Proceeds from sales of available-for-sale securities	1,620,000	6,687,000
Decrease in loans made to customers	17,561,593	1,914,333
Proceeds from sales of foreclosed assets	329,615	536,260
Purchases of premises and equipment	(393,353)	(375,837)
Net cash provided by (used in) investing activities	27,733,961	(13,643,240)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in noninterest-bearing deposits	10,457,380	11,251,551
Increase in savings deposits	3,219,475	1,105,082
Increase (decrease) in time deposits	(7,240,378)	11,617,665
Increase (decrease) in federal funds purchased, repurchase agreements and other borrowings	(31,613,668)	7,404,118
Proceeds from exercise of stock options	211,605	103,600
Tax benefit from disqualification of stock options	0	10,503
Cash dividends paid on common stock	(246,850)	(492,215)
Net cash provided by (used in) financing activities	(25,212,436)	31,000,304
Net increase in cash and cash equivalents	5,457,660	20,829,954
Cash and cash equivalents at beginning of period	28,431,149	47,635,998
Cash and cash equivalents at end of period	$33,888,809	$68,465,952
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		

Cash payments for:		
Interest	$1,947,945	$3,030,651
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Unrealized gain on investment securities	$200,836	$304,523
Loans transferred to foreclosed assets	$1,244,210	$437,000

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. General

The accompanying unaudited consolidated financial statements of Old Point Financial Corporation (the Company) and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. All significant intercompany balances and transactions have been eliminated. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications of a normal and recurring nature considered necessary to present fairly the financial positions at March 31, 2011 and December 31, 2010, and the results of operations, statement of cash flows and changes in stockholders' equity for the three months ended March 31, 2011 and 2010. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2010 annual report on Form 10-K. Certain previously reported amounts have been reclassified to conform to current period presentation.

AVAILABLE INFORMATION

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

Note 2. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
March 31, 2011				
Obligations of U.S. Government agencies	$ 2,170	$ 4	$ (11)	$ 2,163
Obligations of state and political subdivisions	282	6	0	288
Total	$ 2,452	$ 10	$ (11)	$ 2,451
December 31, 2010				
Obligations of U.S. Government agencies	$ 1,670	$ 4	$ (7)	$ 1,667
Obligations of state and political subdivisions	282	8	0	290
Total	$ 1,952	$ 12	$ (7)	$ 1,957

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
March 31, 2011				
U.S. Treasury securities	$ 600	$ 0	$ 0	$ 600
Obligations of U.S. Government agencies	191,554	377	(1,662)	190,269
Obligations of state and political subdivisions	2,909	76	0	2,985
Mortgage-backed securities	284	6	0	290
Money market investments	1,365	0	0	1,365
Total	$ 196,712	$ 459	$ (1,662)	$ 195,509
December 31, 2010				
U.S. Treasury securities	$ 600	$ 0	$ 0	$ 600
Obligations of U.S. Government agencies	201,601	513	(1,993)	200,121
Obligations of state and political subdivisions	3,103	69	0	3,172
Mortgage-backed securities	374	8	0	382
Money market investments	1,817	0	0	1,817
Total	$ 207,495	$ 590	$ (1,993)	$ 206,092

TEMPORARILY IMPAIRED SECURITIES

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

	March 31, 2011					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Securities Available-for-Sale						
Obligations of U.S. Government agencies	$1,662	$143,664	$0	$0	$1,662	$143,664
Securities Held-to-Maturity						
Obligations of U.S. Government agencies	$11	$1,558	$0	$0	$11	$1,558
Total	$1,673	$145,222	$0	$0	$1,673	$145,222

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	December 31, 2010					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Securities Available-for-Sale						
Obligations of U. S. Government agencies	$1,993	$128,362	$0	$0	$1,993	$128,362
Securities Held-to-Maturity						
Obligations of U. S. Government agencies	$7	$762	$0	$0	$7	$762
Total	$2,000	$129,124	$0	$0	$2,000	$129,124

Obligations of U.S. Government agencies
The U.S. Government agencies portfolio had nineteen and fifteen investments with unrealized losses at March 31, 2011 and December 31, 2010, respectively. These unrealized losses were caused by increases in market interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments, and management believes it is unlikely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2011 or December 31, 2010.

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 future expected 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 corporate bond cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or the disposition of assets using bond specific facts and circumstances including timing, security interests, and loss severity.

The Company has a process in place to identify debt securities that could potentially have a credit 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.

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The Company has not recorded impairment charges on securities for the quarter ended March 31, 2011 or the year ended December 31, 2010.

The 2011 and 2010 unrealized losses relate to obligations of U.S. Government agencies. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. The unrealized losses are a result of changes in market interest rates and not credit issues. Since the Company has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary.

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

The Company evaluated the positive and negative factors of FHLB stock for impairment and determined the stock not to be impaired at March 31, 2011 or December 31, 2010. This analysis is based on the following information. The FHLB reported net income of approximately $278 million for 2010, and paid a quarterly dividend for all four quarters of 2010. The FHLB reported net income of approximately $51 million for the first quarter of 2011. At the time these financial statements were finalized, the FHLB had not yet announced its dividend for the first quarter of 2011.

Note 3. Loans and the Allowance for Loan Losses

The following is a summary of the balances in each segment of the Company’s loan portfolio:

	March 31, 2011	December 31, 2010
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$ 85,843	$ 89,690
Commercial	330,352	344,347
Construction	21,118	19,206
Second mortgages	15,513	16,105
Equity lines of credit	38,265	39,048
Total mortgage loans on real estate	491,091	508,396
Commercial loans	35,642	36,053
Consumer loans	21,747	24,389
Other	15,833	17,781
Total loans	564,313	586,619
Less: Allowance for loan losses	(10,284)	(13,228)
Loans, net of allowance and deferred fees	$ 554,029	$ 573,391

Overdrawn deposit accounts are reclassified as loans and included in the Other category in the table above. Overdrawn deposit accounts totaled $528 thousand and $607 thousand at March 31, 2011 and December 31, 2010, respectively.

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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:

Credit Quality Information
As of March 31, 2011
(in thousands)

	Pass	OAEM	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	$71,669	$5,783	$8,391	$0	$85,843
Commercial	283,578	12,951	33,823	0	330,352
Construction	18,944	1,561	613	0	21,118
Second mortgages	14,662	0	851	0	15,513
Equity lines of credit	35,985	1,564	716	0	38,265
Total mortgage loans on real estate	424,838	21,859	44,394	0	491,091
Commercial loans	33,806	1,386	450	0	35,642
Consumer loans	21,557	1	189	0	21,747
Other	15,833	0	0	0	15,833
Total	$496,034	$23,246	$45,033	$0	$564,313

Credit Quality Information
As of December 31, 2010
(in thousands)

	Pass	OAEM	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential 1-4 family	$75,803	$2,383	$11,504	$0	$89,690
Commercial	287,551	23,969	30,000	2,827	344,347
Construction	18,052	0	1,154	0	19,206
Second mortgages	15,010	0	1,095	0	16,105
Equity lines of credit	37,206	1,109	733	0	39,048
Total mortgage loans on real estate	433,622	27,461	44,486	2,827	508,396
Commercial loans	33,275	2,179	599	0	36,053
Consumer loans	23,981	1	407	0	24,389

Other	17,693	87	1	0	17,781
Total	$508,571	$29,728	$45,493	$2,827	$586,619

As of March 31, 2011 and December 31, 2010 the Company did not have any loans internally classified as Loss.

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 of past due loans. 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, either because they are (1) well-secured and in the process of collection or (2) real estate loans or loans exempt under regulatory rules from being classified as nonaccrual. Loans in nonaccrual status that are also past due are included in the aging categories in the table below.

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Age Analysis of Past Due Loans at March 31, 2011

	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	$1,117	$361	$885	$2,363	$83,480	$85,843	$117
Commercial	982	5,828	7,673	14,483	315,869	330,352	0
Construction	0	0	0	0	21,118	21,118	0
Second mortgages	628	74	127	829	14,684	15,513	0
Equity lines of credit	940	0	0	940	37,325	38,265	0
Total mortgage loans on real estate	3,667	6,263	8,685	18,615	472,476	491,091	117
Commercial loans	255	0	0	255	35,387	35,642	0
Consumer loans	145	75	9	229	21,518	21,747	9
Other	33	0	3	36	15,797	15,833	3
Total	$4,100	$6,338	$8,697	$19,135	$545,178	$564,313	$129

Age Analysis of Past Due Loans at December 31, 2010

	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	$1,550	$85	$1,641	$3,276	$86,414	$89,690	$0
Commercial	240	617	10,555	11,412	332,935	344,347	0
Construction	0	0	16	16	19,190	19,206	16
Second mortgages	475	0	187	662	15,443	16,105	33
Equity lines of credit	597	0	22	619	38,429	39,048	0
Total mortgage loans on real estate	2,862	702	12,421	15,985	492,411	508,396	49
Commercial loans	78	11	0	89	35,964	36,053	0
Consumer loans	297	49	69	415	23,974	24,389	23
Other	79	0	1	80	17,701	17,781	1
Total	$3,316	$762	$12,491	$16,569	$570,050	$586,619	$73

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

NONACCRUAL LOANS

The Company generally places non-consumer loans 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. Under regulatory rules, consumer loans, which are loans to individuals for household, family and other personal expenditures, and loans secured by 1-4 family residential properties are not required to be placed in nonaccrual status. Although consumer loans and loans secured by 1-4 family residential property are not required to be placed in nonaccrual, the Company may place a consumer loan or loan secured by 1-4 family residential property in nonaccrual status, if necessary to avoid a material overstatement of interest income.

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Generally, consumer loans not secured by real estate or other collateral are placed in nonaccrual status only when part of the principal has been charged off. 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, or when they reach 90 days 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 or cost recovery method, until it qualifies for return to accrual status. Generally, management returns a loan to accrual status if (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

The following table presents loans in nonaccrual status by class of loan:

Nonaccrual Loans by Class
(in thousands)

	March 31, 2011	December 31, 2010
Mortgage loans on real estate:		
Residential 1-4 family	$ 5,320	$ 6,302
Commercial	15,681	13,281
Construction	0	37
Second mortgages	499	540
Equity lines of credit	404	427
Total mortgage loans on real estate	21,904	20,587
Commercial loans	138	178
Consumer loans	16	116
Other	0	0
Total	$ 22,058	$ 20,881

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:

	March 31, 2011 (in thousands)
Interest income that would have been recorded under original loan terms	$ 395
Actual interest income recorded for the period	80
Reduction in interest income on nonaccrual loans	$ 315

IMPAIRED LOANS

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans, but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate to a below-market rate, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. 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.

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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 for impaired loans with the associated allowance amount, if applicable. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during 2010 and the first quarter of 2011. The average balances are calculated based on the month-end balance of the loans for the year ended December 31, 2010 and on the daily average balance for the three months ended March 31, 2011.

Impaired Loans by Class
(in thousands)

	As of March 31, 2011				Quarter Ended March 31, 2011	
	Unpaid Principal Balance	Recorded Investment Without Valuation Allowance	Recorded Investment With Valuation Allowance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
Mortgage loans on real estate:						
Residential 1-4 family	$ 5,291	$ 4,091	$ 1,163	$ 155	$ 5,613	$ 39
Commercial	15,236	14,733	419	11	14,621	(5)
Construction	0	0	0	0	0	0
Second mortgages	504	98	401	58	502	6
Equity lines of credit	403	261	142	11	403	7
Total mortgage loans on real estate	$ 21,434	$ 19,183	$ 2,125	$ 235	$ 21,139	$ 47
Commercial loans	144	13	125	61	143	2
Total	$ 21,578	$ 19,196	$ 2,250	$ 296	$ 21,282	$ 49

Impaired Loans by Class
(in thousands)

	As of December 31, 2010				Year Ended December 31, 2010	
	Unpaid Principal Balance	Recorded Investment Without Valuation Allowance	Recorded Investment With Valuation Allowance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
Mortgage loans on real estate:						
Residential 1-4 family	$ 5,850	$ 5,008	$ 810	$ 70	$ 4,298	$ 320
Commercial	13,319	3,798	9,400	2,827	14,320	593
Construction	0	0	0	0	194	5

Second mortgages	508	100	404	62	377	33
Equity lines of credit	405	262	143	11	300	24
Total mortgage loans on real estate	$ 20,082	$ 9,168	$ 10,757	$ 2,970	$ 19,489	$ 975
Commercial loans	184	178	0	0	73	13
Total	$ 20,266	$ 9,346	$ 10,757	$ 2,970	$ 19,562	$ 988

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 them to identify potential problems before they become apparent to other personnel. In addition, meetings with loan officers and upper management are held to discuss problem loans and review their risk grades. Nonetheless, in order to avoid over-reliance upon loan officers for problem loan identification, the Bank's loan review system provides for review of loans and their risk grade by individuals who are independent of the loan approval process. Risk grades and historic loss rates by risk grades are used as a component of the calculation of the allowance for loan losses.

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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. For purposes of determining the allowance for loan losses, the Company has segmented certain loans in the portfolio by product type. 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 credit risk process. The model and assumptions used to determine the allowance are independently validated and reviewed to ensure that their 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, 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, may depend on interest rates or may fluctuate in active trading markets.

To determine the balance of the allowance account for each segment of the loan portfolio, management pools each segment by risk grade individually and applies a historical loss percentage. At March 31, 2011 and December 31, 2010, the historical loss percent was based on losses sustained in each segment of the portfolio over the previous 8 quarters.

Management also provides an allocated component of the allowance for loans that are classified as impaired. An allocated allowance is established when the discounted value of future cash flows from the impaired loan (or the collateral value or observable market price of the impaired loan) is lower than the carrying value of that loan.

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

THE COMPANY’S ESTIMATION PROCESS

The 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 that management believes are

most reflective of the underlying credit losses being estimated. In addition, impaired loans are separately identified for evaluation and are measured based on the present value of expected future cash flows, the observable market price of the loans or the fair value of the collateral. Also, various qualitative factors are applied to each segment of the loan portfolio.

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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 $10.3 million adequate to cover loan losses inherent in the loan portfolio at March 31, 2011. The following table presents, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans. 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)

March 31, 2011	Commercial	Real Estate - Construction	Real Estate - Mortgage	Consumer	Other	Total
Allowance for Loan Losses:						
Balance at the beginning of period	$ 799	$ 441	$ 11,498	$ 357	$ 133	$ 13,228
Charge-offs	(700)	0	(4,051)	(106)	(90)	(4,947)
Recoveries	7	0	135	54	7	203
Provision for loan losses	850	(70)	698	175	147	1,800
Ending balance	$ 956	$ 371	$ 8,280	$ 480	$ 197	$ 10,284
Ending balance individually evaluated for impairment	$ 61	$ 0	$ 235	$ 0	$ 0	$ 296
Ending balance collectively evaluated for impairment	895	371	8,045	480	197	9,988
Ending balance	$ 956	$ 371	$ 8,280	$ 480	$ 197	$ 10,284
Loan Balances:						
Ending balance individually evaluated for impairment	$ 138	$ 0	$ 21,308	$ 0	$ 0	$ 21,446
Ending balance collectively evaluated for impairment	35,504	21,118	448,665	21,747	15,833	542,867
Ending balance	$ 35,642	$ 21,118	$ 469,973	$ 21,747	$ 15,833	$ 564,313

December 31, 2010	Commercial	Real Estate - Construction	Real Estate - Mortgage	Consumer	Other	Total
Allowance for Loan Losses:						
Balance at the beginning of period	$ 935	$ 354	$ 5,552	$ 672	$ 351	$ 7,864
Charge-offs	(556)	(126)	(2,971)	(655)	(180)	(4,488)
Recoveries	192	0	636	155	69	1,052
Provision for loan losses	228	213	8,281	185	(107)	8,800
Ending balance	$ 799	$ 441	$ 11,498	$ 357	$ 133	$ 13,228
Ending balance individually evaluated for impairment	$ 0	$ 0	$ 2,970	$ 0	$ 0	$ 2,970
Ending balance collectively evaluated for impairment	799	441	8,528	357	133	10,258
Ending balance	$ 799	$ 441	$ 11,498	$ 357	$ 133	$ 13,228
Loan Balances:						
Ending balance individually evaluated for impairment	$ 178	$ 0	$ 19,925	$ 0	$ 0	$ 20,103
Ending balance collectively evaluated for impairment	35,875	19,206	469,265	24,389	17,781	566,516
Ending balance	$ 36,053	$ 19,206	$ 489,190	$ 24,389	$ 17,781	$ 586,619

CHANGES IN ACCOUNTING METHODOLOGY

There were no changes in the Company's accounting methodology for the allowance for loan losses during the quarter ended March 31, 2011.

Note 4. Share-Based Compensation

Share-based compensation arrangements include stock options, restricted stock awards, performance-based awards, stock appreciation rights and employee stock purchase plans. Accounting standards require all share-based payments to employees to be valued using a fair value method on the date of grant and to be expensed based on that fair value over the applicable vesting period.

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There were no options granted in the first three months of 2011 or in 2010.

On March 9, 2008, the Company's 1998 Stock Option Plan expired. Options to purchase 202,170 shares of common stock were outstanding under the Company's 1998 Stock Option Plan at March 31, 2011. The exercise price of each option equals the market price of the Company's common stock on the date of the grant and each option's maximum term is ten years.

Stock option activity for the three months ended March 31, 2011 is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, January 1, 2011	225,127	$ 19.62		
Granted	0	0		
Exercised	(16,395)	12.91		
Canceled or expired	(6,562)	18.07		
Options outstanding, March 31, 2011	202,170	$ 20.22	4.43	$ 0
Options exercisable, March 31, 2011	162,686	$ 20.26	3.92	$ 0

The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on March 31, 2011.This amount changes based on changes in the market value of the Company's common stock. As of March 31, 2011, the outstanding options had no intrinsic value because the exercise prices of all outstanding options were above the market value of a share of the Company's common stock.

No in-the-money options were exercised during the three months ended March 31, 2011. However, three option-holders chose to exercise options where the option price was greater than the current market value. Proceeds from these exercises were $212 thousand.

As of March 31, 2011, there was $165 thousand of unrecognized compensation cost related to nonvested options. This cost is expected to be recognized over a weighted-average period of 18 months.

Note 5. Pension Plan

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

Three months ended March 31,	2011	2010
	Pension Benefits	
Interest cost	$ 76,032	$ 78,431

Expected return on plan assets	(104,964)	(97,295)
Amortization of net loss	42,585	31,702
Net periodic pension plan cost	$ 13,653	$ 12,838

At March 31, 2011, management had not yet determined the amount, if any, that the Company will contribute to the plan in the year ending December 31, 2011.

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Note 6. Earnings per Share

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

The Company did not include an average of 214 thousand potential common shares attributable to outstanding stock options in the diluted earnings per share calculation for the first quarter of 2011 because they were antidilutive.

Note 7. Recent Accounting Pronouncements

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

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

In December 2010, the FASB issued ASU 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." The guidance requires pro forma disclosure for business combinations that occurred in the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma information should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. ASU 2010-29 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

The SEC has issued Final Rule No. 33-9002, "Interactive Data to Improve Financial Reporting", which requires companies to submit financial statements in XBRL (extensible business reporting language) format with their SEC filings on a phased-in schedule. Large accelerated filers and foreign large accelerated filers using U.S. GAAP were

required to provide interactive data reports starting with their first quarterly report for fiscal periods ending on or after June 15, 2010. All remaining filers are required to provide interactive data reports starting with their first quarterly report for fiscal periods ending on or after June 15, 2011.

In March 2011, the SEC issued Staff Accounting Bulletin (SAB) 114. This SAB revises or rescinds portions of the interpretive guidance included in the codification of the Staff Accounting Bulletin Series. This update is intended to make the relevant interpretive guidance consistent with current authoritative accounting guidance issued as a part of the FASB's Codification. The principal changes involve revision or removal of accounting guidance references and other conforming changes to ensure consistency of referencing through the SAB Series. The effective date for SAB 114 is March 28, 2011. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

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In April 2011, the FASB issued ASU 2011-02, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." The amendments in this ASU clarify the guidance on a creditor's evaluation of whether it has granted a concession to a debtor. The amendments also clarify the guidance on a creditor's evaluation of whether a debtor is experiencing financial difficulty. The amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011. Early adoption is permitted. Retrospective application to the beginning of the annual period of adoption for modifications occurring on or after the beginning of the annual adoption period is required. As a result of applying these amendments, an entity may identify receivables that are newly considered to be impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. The Company is currently assessing the impact that ASU 2011-02 will have on its consolidated financial statements.

Note 8. Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASU 2010-06, 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.

FAIR VALUE HIERARCHY

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in 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.

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

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

CASH AND CASH EQUIVALENTS
The carrying amounts of cash and short-term instruments approximate fair values.

INVESTMENT SECURITIES
Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Securities are classified as Level 2 if quoted market prices are not available. Fair value is estimated using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes and credit spreads. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified in Level 3.

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

LOANS RECEIVABLE
For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., 1-4 family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

BANK OWNED LIFE INSURANCE
Bank owned life insurance represents insurance policies on certain officers of the Company. The cash value of the policies is estimated using information provided by the insurance carrier. These policies are carried at their cash value, which approximates the fair value.

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 deposits is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

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. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

LONG-TERM BORROWINGS

The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

ACCRUED INTEREST

The carrying amounts of accrued interest approximate fair value.

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 March 31, 2011 and December 31, 2010, the fair value of fees charged for loan commitments and irrevocable letters of credit was immaterial.

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

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$ 33,889	$ 33,889	$ 28,431	$ 28,431
Securities available-for-sale	195,509	195,509	206,092	206,092
Securities held-to-maturity	2,452	2,451	1,952	1,957
Restricted securities	4,320	4,320	4,320	4,320
Loans, net of allowances for loan losses	554,029	552,370	573,391	571,906
Bank owned life insurance	18,221	18,221	18,020	18,020
Accrued interest receivable	2,618	2,618	2,652	2,652
Financial liabilities:				
Deposits	685,650	684,828	679,214	682,001
Federal funds purchased and other borrowings	714	714	731	731
Overnight repurchase agreements	37,421	37,421	50,757	50,757
Term repurchase agreements	20,700	20,699	38,959	38,955
Federal Home Loan Bank advances	35,000	38,814	35,000	39,260
Accrued interest payable	721	721	824	824

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

Debt and 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. 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 securities are considered to be Level 2 securities.

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

	Fair Value Measurements at March 31, 2011 Using (in thousands)			
Description	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities				
U.S. Treasury securities	$ 600	$ 0	$ 600	$ 0
Obligations of U.S. Government agencies	190,269	0	190,269	0
Obligations of state and political subdivisions	2,985	0	2,985	0
Mortgage-backed securities	290	0	290	0
Money market investments	1,365	0	1,365	0
Total available-for-sale securities	$ 195,509	$ 0	$ 195,509	$ 0

	Fair Value Measurements at December 31, 2010 Using (in thousands)			
Description	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities				
U.S. Treasury securities	$ 600	$ 0	$ 600	$ 0
Obligations of U.S. Government agencies	200,121	0	200,121	0
Obligations of state and political subdivisions	3,172	0	3,172	0
Mortgage-backed securities	382	0	382	0
Money market investments	1,817	0	1,817	0
Total available-for-sale securities	$ 206,092	$ 0	$ 206,092	$ 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

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as part of the provision for loan losses on the Consolidated Statements of Operations.

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Foreclosed assets

Loans are transferred to foreclosed assets when the collateral securing them is foreclosed on. The measurement of loss associated with foreclosed assets is based on the fair value of the collateral compared to the unpaid loan balance and anticipated costs to sell the property. If there is a contract for the sale of a property, and management reasonably believes the transaction will be consummated in accordance with the terms of the contract, fair value is based on the sale price in that contract (Level 1). Lacking such a contract, the value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level 3. Any fair value adjustments to foreclosed assets are recorded in the period incurred and expensed against current earnings.

The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy for which a nonrecurring change in fair value has been recorded:

	Carrying Value at March 31, 2011 (in thousands)			
Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	$ 1,954	$ 0	$ 978	$ 976
Foreclosed assets	$ 11,164	$ 0	$ 11,164	$ 0

	Carrying Value at December 31, 2010 (in thousands)			
Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	$ 7,787	$ 523	$ 6,182	$ 1,082
Foreclosed assets	$ 11,448	$ 0	$ 11,448	$ 0

Note 9. Segment Reporting

The Company operates in a decentralized fashion in three principal business segments: The Old Point National Bank of Phoebus (the Bank), Old Point Trust & Financial Services, N. A. (Trust), and the Company as a separate segment (for purposes of this Note, the Parent). Revenues from the Bank's operations consist primarily of interest earned on loans and investment securities and service charges on deposit accounts. Trust's operating revenues consist principally of income from fiduciary activities. The Parent's revenues are mainly interest and dividends received from the Bank and Trust companies. The Company has no other segments.

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

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Information about reportable segments, and reconciliation of such information to the consolidated financial statements as of and for the quarters ended March 31, 2011 and 2010 follows:

	Three Months Ended March 31, 2011				
	Unconsolidated Bank	Trust	Parent	Eliminations	Consolidated
Revenues					
Interest and dividend income	$ 9,354,297	$ 9,713	$ 415,558	$ (414,653)	$ 9,364,915
Income from fiduciary activities	0	770,972	0	0	770,972
Other income	1,948,297	101,349	75,000	(90,376)	2,034,270
Total operating income	11,302,594	882,034	490,558	(505,029)	12,170,157
Expenses					
Interest expense	1,844,909	0	3,055	(3,325)	1,844,639
Provision for loan losses	1,800,000	0	0	0	1,800,000
Salaries and employee benefits	4,016,154	481,331	132,318	0	4,629,803
Other expenses	3,365,315	226,765	35,562	(90,376)	3,537,266
Total operating expenses	11,026,378	708,096	170,935	(93,701)	11,811,708
Income before taxes	276,216	173,938	319,623	(411,328)	358,449
Income tax expense (benefit)	(20,313)	59,139	(25,070)	0	13,756
Net income	$ 296,529	$ 114,799	$ 344,693	$ (411,328)	$ 344,693
Total assets	$ 857,716,906	$ 4,916,680	$ 81,668,918	$ (82,058,285)	$ 862,244,219

	Three Months Ended March 31, 2010				
	Unconsolidated Bank	Trust	Parent	Eliminations	Consolidated
Revenues					
Interest and dividend income	$10,402,460	$13,108	$(875,669)	$875,588	$10,415,487
Income from fiduciary activities	0	820,885	0	0	820,885
Other income	2,370,784	117,517	78,038	(89,376)	2,476,963
Total operating income	12,773,244	951,510	(797,631)	786,212	13,713,335
Expenses					
Interest expense	2,967,062	0	3,055	(6,261)	2,963,856
Provision for loan losses	4,700,000	0	0	0	4,700,000
Salaries and employee benefits	3,894,078	502,448	134,556	0	4,531,082
Other expenses	3,035,572	222,730	34,605	(89,376)	3,203,531
Total operating expenses	14,596,712	725,178	172,216	(95,637)	15,398,469
Income (loss) before taxes	(1,823,468)	226,332	(969,847)	881,849	(1,685,134)

Income tax expense (benefit)	(792,240)	76,953	(24,220)	0	(739,507)
Net income (loss)	$(1,031,228)	$149,379	$(945,627)	$881,849	$(945,627)
Total assets	$947,254,649	$5,058,191	$80,762,362	$(81,211,296)	$951,863,906

The accounting policies of the segments are the same as those described in the summary of significant accounting policies reported in the Company's 2010 annual report on Form 10-K. The Company evaluates performance based on profit or loss from operations before income taxes, not including nonrecurring gains or losses.

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The Bank extends a line of credit to the Parent. This line of credit may be used, from time to time and among other purposes, to repurchase the Parent's publicly traded stock. As of March 31, 2011, $244 thousand was drawn under the line of credit and $6 thousand remained available. Interest is charged at the Wall Street Journal Prime Rate minus 0.5%, with a floor of 5.0%. This loan is secured by a held-to-maturity security with a book value of $282 thousand and a market value of $288 thousand at March 31, 2011. Both the Parent and the Trust companies maintain deposit accounts with the Bank, on terms substantially similar to those available to other customers. These transactions are eliminated to reach consolidated totals.

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

The following discussion is intended to assist readers in understanding and evaluating the financial condition, changes in financial condition and the results of operations of the Company. The Company consists of the parent company and its wholly-owned subsidiaries, The Old Point National Bank of Phoebus (the Bank) and Old Point Trust & Financial Services, N. A. (Trust), collectively referred to as the Company. This discussion should be read in conjunction with the consolidated financial statements and other financial information contained elsewhere in this report.

Caution About Forward-Looking Statements

In addition to historical information, this report may contain forward-looking statements. For this purpose, any statement that is not a statement of historical fact may be a forward-looking statement. These forward-looking statements may include, but are not limited to, statements regarding profitability, liquidity, the loan portfolio, allowance for loan losses, the security portfolio, interest rate sensitivity, levels of net loan charge-offs, noninterest expense, income taxes, expected impact of efforts to restructure the balance sheet, market risk, growth strategy, 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 wo meaning. Forward-looking statements can also be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, and actual results could differ materially from historical results or those anticipated by such statements.

There are many factors that could have a material adverse effect on the operations and future prospects of the Company including, but not limited to, changes in interest rates, general economic and business conditions, the quality or composition of the loan or investment portfolios, the size of the provision for loan losses, the adequacy of the allowance for loan losses, the level of nonperforming assets, impaired loans and charge-offs, the local real estate market, results of internal assessments and external bank regulatory examinations, the value of collateral securing loans, the value of and the Company's ability to sell foreclosed assets, the Company's ability to enter into an agreement with a general contractor to expand a current branch office on acceptable terms, volatility and disruption in national and international financial markets, government intervention in the U.S. financial system, Federal Deposit Insurance Corporation (FDIC) premiums and/or assessments, demand for loan and other products, deposit flows, competition, and accounting principles, policies and guidelines. Monetary and fiscal policies of the U.S. Government could also adversely affect the Company; such policies include the impact of any regulations or programs implemented pursuant to the Emergency Economic Stabilization Act of 2008 (EESA), the American Recovery and Reinvestment Act of 2009 (ARRA), the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and other policies of the Office of the Comptroller of the Currency (OCC), U.S. Treasury and the Federal Reserve Board.

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

In July 2010, the President signed into law the Dodd-Frank Act, which implements far-reaching changes across the financial regulatory landscape. It is not clear what other impacts the Dodd-Frank Act, regulations promulgated thereunder and other regulatory initiatives of the U.S. Treasury and other bank regulatory agencies will have on the financial markets and the financial services industry. The limited credit availability currently being experienced could continue to affect the U.S. banking industry and the broader U.S. and global economies, which would have an effect on all financial institutions, including the Company.

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These risks and uncertainties, in addition to the risks and uncertainties identified in the Company's annual report on Form 10-K for the year ended December 31, 2010, should be considered in evaluating the forward-looking statements contained herein, and readers are cautioned not to place undue reliance on such statements. Any forward-looking statement speaks only as of the date on which it is made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made. In addition, past results of operations are not necessarily indicative of future results.

General

The Company is the parent company of the Bank and Trust. The Bank is a locally managed community bank serving the Hampton Roads localities of Hampton, Newport News, Norfolk, Virginia Beach, Chesapeake, Williamsburg/James City County, York County and Isle of Wight County. The Bank currently has 21 branch offices. Trust is a wealth management services provider.

Critical Accounting Policies and Estimates

As of March 31, 2011, there have been no significant changes with regard to the critical accounting policies and estimates disclosed in the Company's 2010 annual report on Form 10-K. That disclosure included a discussion of the accounting policy that requires management's most difficult, subjective or complex judgments: the allowance for loan losses. For a discussion of the Company's policies for calculating the allowance for loan losses, see Note 3 to the Consolidated Financial Statements.

Earnings Summary

Net income for the first quarter of 2011 was $345 thousand as compared to a net loss of $946 thousand in the first quarter of 2010, an increase of $1.3 million. During the first quarter of 2011, the loan loss provision was $1.8 million, compared to $4.7 million in the first quarter of 2010. Interest and dividend income and interest expense both decreased by $1.1 million during the first quarter of 2011 as compared to the same period of 2010. Expenses for the first quarter of 2011 were negatively impacted by higher losses on write-down/sale of foreclosed assets, which increased $235 thousand compared to the first quarter of 2010. Basic and diluted earnings per share for the first quarter of 2011 were $0.07. Basic and diluted losses per share for the first quarter of 2010 were $0.19.

Net Interest Income

The principal source of earnings for the Company is net interest income. Net interest income is the difference between interest and fees generated by earning assets and interest expense paid to fund them. Changes in the volume and mix of interest-earning assets and interest-bearing liabilities, as well as their respective yields and rates, have a significant impact on the level of net interest income. The net interest yield is calculated by dividing tax-equivalent net interest income by average earning assets. Net interest income, on a fully tax equivalent basis, was $7.6 million in the first quarter of 2011, an increase of $41 thousand from the first quarter of 2010. The net interest yield was 3.76% in the first quarter of 2011, 25 basis points higher than the 3.51% net interest yield in the equivalent period in 2010. The higher net interest yield in 2011 was the result of the rate on interest-bearing liabilities decreasing 52 basis points, compared to a 22 basis-point decrease in the yield on earning assets.

Tax-equivalent interest income decreased by $1.1 million, or 10.29%, in the first quarter of 2011 compared to the same period of 2010. Average earning assets decreased $52.2 million, or 6.09%, compared to the first quarter of 2010. Interest expense decreased $1.1 million, or 37.75%, and average interest-bearing liabilities decreased by $62.2 million, or 8.62% in the first quarter of 2011 compared to the same period of 2010. The decrease in interest expense is a result of the decrease in average interest-bearing liabilities and the 52 basis-point decrease in the average rate on interest-bearing liabilities in the first quarter of 2011 compared to the first quarter of 2010.

The yield on average earning assets and cost of average interest-bearing liabilities both decreased due to the Federal Open Market Committee (FOMC) lowering the Federal Funds Target Rate during 2008 from 4.25% to a range of

0.00% to 0.25%. The FOMC has kept the Federal Funds Target Rate unchanged during 2009, 2010 and the first three months of 2011. As higher-yielding earning assets and higher-cost interest-bearing liabilities that were booked prior to 2008 mature, they are being replaced with lower-yielding earning assets and lower-cost interest-bearing liabilities. Assuming that the FOMC keeps interest rates at current levels, management believes that the average rate on interest-bearing liabilities will continue to decrease more rapidly than the average rate on earning assets, although the gap between the two is expected to narrow.

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

AVERAGE BALANCE SHEETS, NET INTEREST INCOME* AND RATES*

	For the three months ended March 31,					
	2011			2010		
	Average Balance	Interest Income/ Expense	Yield/ Rate**	Average Balance	Interest Income/ Expense	Yield/ Rate**
	(in thousands)					
ASSETS						
Loans*	$572,714	$8,418	5.88 %	$632,585	$9,502	6.01 %
Investment securities:						
Taxable	205,044	903	1.76 %	171,106	804	1.88 %
Tax-exempt*	3,350	60	7.16 %	7,902	142	7.19 %
Total investment securities	208,394	963	1.85 %	179,008	946	2.11 %
Federal funds sold	17,677	8	0.18 %	38,750	20	0.21 %
Other investments	5,747	12	0.84 %	6,366	11	0.69 %
Total earning assets	804,532	$9,401	4.67 %	856,709	$10,479	4.89 %
Allowance for loan losses	(11,883)			(8,083)		
Other nonearning assets	84,217			77,467		
Total assets	$876,866			$926,093		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Time and savings deposits:						
Interest-bearing transaction accounts	$12,215	$2	0.07 %	$10,611	$2	0.08 %
Money market deposit accounts	168,857	92	0.22 %	150,439	81	0.22 %
Savings accounts	46,535	11	0.09 %	43,302	12	0.11 %
Time deposits, $100,000 or more	134,581	534	1.59 %	198,820	711	1.43 %
Other time deposits	184,377	732	1.59 %	147,555	1,150	3.12 %
Total time and savings deposits	546,565	1,371	1.00 %	550,727	1,956	1.42 %
Federal funds purchased, repurchase agreements and other borrowings	77,915	53	0.27 %	105,990	178	0.67 %
Federal Home Loan Bank advances	35,000	421	4.81 %	65,000	830	5.11 %
Total interest-bearing liabilities	659,480	1,845	1.12 %	721,717	2,964	1.64 %
Demand deposits	134,857			119,263		
Other liabilities	1,622			2,721		
Stockholders' equity	80,907			82,392		
Total liabilities and stockholders' equity	$876,866			$926,093		

Net interest income/yield	$7,556	3.76	%	$7,515	3.51	%

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

Provision for Loan Losses
The provision for loan losses is a charge against earnings necessary to maintain the allowance for loan losses at a level consistent with management's evaluation of the portfolio. This expense is based on management's estimate of credit losses that may be sustained in the loan portfolio. Management's evaluation included credit quality trends, collateral values, the findings of internal credit quality assessments and results from external bank regulatory examinations. These factors, as well as identified impaired loans, historical losses and current economic and business conditions, were used in developing estimated loss factors for determining the loan loss provision.

The provision for loan losses was $1.8 million in the first quarter of 2011, as compared to $4.7 million in the first quarter of 2010. Management concluded that the lower provision was appropriate based on its analysis of the adequacy of the allowance of loan losses. $2.9 million of the net loans charged off in the first quarter of 2011 was related to one loan that had been previously provided for in the 2010 provision for loan losses.

Net loans charged off were $4.7 million for the first quarter of 2011 as compared to $1.4 million for the first quarter of 2010. On an annualized basis, net loan charge-offs were 3.36% of total loans for the first three months of 2011 compared with 0.90% for the same period in 2010. While net loans charged offs remain high and reflect ongoing difficulties in the commercial and consumer real estate sectors, management does not anticipate the significantly elevated level of charge-offs that occurred in the first quarter to continue during the remaining quarters of 2011. However, management believes that net loans charged off will remain relatively high until the economic recovery becomes more pronounced.

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Nonperforming assets consist of nonaccrual loans, loans past due 90 days or more and accruing interest, restructured loans, and foreclosed assets. Restructured loans are loans with terms that were modified in a troubled debt restructuring for borrowers experiencing financial difficulties. As of March 31, 2011, the Company had one restructured loan; this restructured loan is performing in accordance with the loan's new terms. It is generally the Company's policy that restructured loans that have continued to be in compliance with modified terms for six months and yield a market rate at the time of restructuring not be reported as restructured loans in years subsequent to the year in which the loan was first restructured. Foreclosed assets consist of real estate from foreclosures on loan collateral. The majority of the loans 90 days past due but still accruing interest are classified as substandard. As noted below, substandard loans are a component of the allowance for loan losses. When a loan changes from "past due 90 days or more and accruing interest" status to "nonaccrual" status, the loan is reviewed for impairment. If the loan is considered impaired, then the difference between the value of the collateral and the principal amount outstanding on the loan is charged off. If the Company is waiting on an appraisal to determine the collateral's value or is in negotiations with the borrower or other parties that may affect the value of the collateral, management allocates funds to cover the deficiency to the allowance for loan losses based on information available to management at that time.

The following table presents information on nonperforming assets:

NONPERFORMING ASSETS

	March 31, 2011 (unaudited)	December 31, 2010	Increase (Decrease)
		(in thousands)	
Nonaccrual loans			
Commercial	$138	$178	$(40)
Real estate-construction	0	37	(37)
Real estate-mortgage (1)	21,904	20,550	1,354
Consumer loans	16	116	(100)
Total nonaccrual loans	$22,058	$20,881	$1,177
Loans past due 90 days or more and accruing interest			
Real estate-construction	$0	$16	$(16)
Real estate-mortgage (1)	117	33	84
Consumer loans	9	23	(14)
Other	3	1	2
Total loans past due 90 days or more and accruing interest	$129	$73	$56
Restructured loans (in compliance with modified terms)			
Real estate-mortgage (1)	$259	$1,639	$(1,380)
Total restructured loans (in compliance with modified terms)	$259	$1,639	$(1,380)
Foreclosed assets			
Real estate-construction	$4,092	$4,074	$18
Real estate-mortgage (1)	7,072	7,374	(302)
Total foreclosed assets	$11,164	$11,448	$(284)
Total nonperforming assets	$33,610	$34,041	$(431)

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

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The nonaccrual loan balance as of March 31, 2011 increased by $1.2 million as compared to the nonaccrual loan balance on December 31, 2010. This increase was due to $6.7 million of loans moved to nonaccrual status during the first quarter, offset by a $5.5 million reduction in nonaccrual loans. The $6.7 million in loans moved to nonaccrual were reviewed for impairment and all but $11 thousand of this total was determined not to be impaired. Therefore, no additional provision for loan losses was deemed necessary. The $5.5 million decrease was divided as follows:

- $2.9 million: charge-off that had been provided for in 2010 on the impaired portion of a nonaccrual loan; the non-charged-off balance remained in nonaccrual
- $361 thousand: loan restructured during the first quarter; $102 thousand of that loan was charged off, with the remaining balance placed in restructured loans
- $741 thousand: converted to foreclosed or repossessed assets
- $793 thousand: moved from nonaccrual to performing status
- $731 thousand: removed from nonaccrual due to payoffs or paydowns

The majority of the balance of nonaccrual loans is related to a few large credit relationships. Of the $22.1 million of nonaccrual loans at March 31, 2011, $18.6 million or 84.16% was comprised of six credit relationships: $6.5 million, $3.6 million, $3.0 million, $2.9 million, $1.5 million and $1.1 million. The loans that make up the nonaccrual balance have been written down to their net realizable value. As shown in the table above, the majority of the nonaccrual loans are collateralized by real estate.

If current economic conditions, which have been showing some signs of improvement, do not in fact improve, management believes nonperforming assets could remain elevated compared to historic levels, which would have a negative effect on the Company's financial position. As was seen in the recent financial periods including the three months ended March 31, 2011, the effect of a sustained increase in nonperforming assets would be lower earnings caused by larger contributions to the loan loss provision arising from a larger impairment in the loan portfolio and a higher level of loan charge-offs. Management believes the Company has excellent credit quality review processes in place to identify problem loans quickly. Therefore, management believes that the current level of asset quality will improve, although the improvement may take some time. Management will work with customers that are having difficulties meeting their loan payments, with foreclosure considered a last resort.

As reflected in the $431 thousand decrease in nonperforming assets during the first three months of 2011, the quality of the Company's loan portfolio is remaining fairly constant. Management believes that the elevated levels of nonperforming assets was primarily due to the current economic conditions, depressed commercial and residential real estate markets and the effects of unemployment on borrowers. Due to charge-offs in the quarter ended March 31, 2011 and what management believes to be a stabilization in nonperforming assets, management decreased the allowance for loan losses to $10.3 million as of March 31, 2011 as compared to a balance of $13.2 million as of December 31, 2010. As mentioned previously, $2.9 million of the net loan charge-offs for the first quarter of 2011 was related to one loan and had been provided for in 2010.

As of March 31, 2011, the allowance for loan losses was 30.60% of nonperforming assets and 45.82% of nonperforming loans. The definition of nonperforming loans is nonperforming assets less foreclosed assets. The allowance for loan losses was 1.82% of total loans on March 31, 2011 and 2.25% of total loans on December 31, 2010.

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. Doubtful–specific identification
2. Substandard–specific identification

3. Pool–substandard
4. Pool–other assets especially mentioned (rated just above substandard)
5. Pool–pass loans (all other loans)

Historical loss rates, adjusted for the current economic environment, are applied to the above five pools of loans for each segment of the loan portfolio, except for doubtful and certain substandard loans which have losses specifically calculated on an individual loan basis. Historical loss is one of the components of the allowance. Historical loss is based on the Company's loss experience during the past eight quarters, which management believes better reflects the risk related to each segment of loans in the current economic environment. Prior to 2010, the historical loss calculation was based on the previous four years. The historical loss component of the allowance amounted to $6.4 million and $5.1 million as of March 31, 2011 and December 31, 2010, respectively. The increase in the historical loss component in the first quarter of 2011 is due to the previously discussed $2.9 million charge-off.

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

The majority of the Company's nonperforming loans are collateralized by real estate. When reviewing loans for impairment, the Company obtains current appraisals when applicable. Any loan balance that is in excess of the appraised value is allocated in the allowance. In the current real estate market, appraisers may have difficulty finding comparable sales, which is causing some appraisals to be very low. As a result, the Company is being conservative in its valuation of collateral which results in higher than normal charged off loans and higher than normal increases to the Company's allowance for loan losses. As of March 31, 2011 and December 31, 2010, the impaired loan component of the allowance amounted to $296 thousand and $3.0 million, respectively, and for each quarter is reflected as a valuation allowance related to impaired loans in Note 3 of the Notes to the Consolidated Financial Statements included in this Form 10-Q. The large reduction in the impaired loan component during the first quarter of 2011 was due to the $2.9 million charge-off discussed previously, which was included in impaired loans prior to charge-off.

The final component of the allowance consists of qualitative factors and includes items such as the economy, growth trends, loan concentrations, and legal and regulatory changes. The qualitative component of the allowance amounted to $3.6 million and $5.1 million as of March 31, 2011 and December 31, 2010, respectively.

As a result of these changes and the stabilization of nonperforming assets, the Company added, through the provision, $1.8 million to the allowance for loan losses in the first three months of 2011. Management is concerned about elevated levels of nonperforming assets, but believes that the allowance has been appropriately funded for additional losses on existing loans, based on currently available information. The Company will continue to monitor nonperforming assets closely and make changes to the allowance for loan losses when management concludes such changes are necessary.

Noninterest Income

For the first quarter of 2011, noninterest income decreased $493 thousand, or 14.94%, as compared to the same period in 2010. This majority of this decrease is located in the service charges on deposit accounts category and the income from bank owned life insurance category.

In the service charges on deposit accounts category, there was a decrease in overdraft fees of $328 thousand between the first quarter of 2010 and the first quarter of 2011. The majority of this decrease in overdraft fees is attributed to the changes in Regulation E requiring a customer to authorize in advance overdrafts caused by debit card and ATM transactions. The Company expects overdraft fees to continue to decrease and is compensating for the projected decrease in overdraft income by pursuing new product offerings, such as remote deposit capture and lockbox services, to help drive future noninterest income.

The income from bank owned life insurance noninterest income category decreased $187 thousand, or 48.12% during the first quarter of 2011 as compared to the same quarter in 2010. This decline is principally due to life insurance proceeds received by the Company during 2010 in the amount of $184 thousand.

Noninterest Expense

For the first quarter of 2011, noninterest expense increased $432 thousand, or 5.59%, over the first quarter of 2010. Increases occurred in the following categories; salaries and employee benefits, FDIC insurance, data

processing, loan expenses, outside service fees, legal and audit expenses and loss (gain) on write-down/sale of foreclosed assets.

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The largest increase between the first quarters of 2011 and 2010 was in losses on write-down/sale of foreclosed assets, which increased $235 thousand. The increase in this foreclosed asset expense account was mainly due to the sale of six properties during the quarter, which includes expenses incurred during the sales of foreclosed assets and sales prices that were below the assets' carrying values. FDIC insurance increased $76 thousand during the first quarter of 2011 as compared to the first quarter of 2010, caused by higher assessments. Loan expenses were $65 thousand higher and legal and audit expenses were $38 thousand higher in the first quarter of 2011 as compared to the first quarter of 2010. Both these categories increased as economic conditions and real estate markets increased the Company's need for new appraisals, forced placed insurance, restructured or revised loan documents and the need for additional legal advice on troubled loans. Other outside service fees increased $52 thousand during the first quarter of 2011 as compared to the same quarter in 2010. The majority of the increase in other outside service fees was related to the use of an independent contractor to provide coverage for two information technology positions. Management expects noninterest expenses to remain elevated until the economy is well into recovery.

On the positive side, reductions were seen in the following noninterest expense categories: occupancy and equipment, customer development, advertising, employee professional development and postage and courier expense. These reductions are the result of the Company's focus on improving operating efficiency and monitoring noninterest expenses items.

Balance Sheet Review

At March 31, 2011, the Company had total assets of $862.2 million, a decrease of 2.77% from $886.8 million at December 31, 2010. Net loans as of March 31, 2011 were $554.0 million, a decrease of 3.38% from $573.4 million at December 31, 2010. Loan balances have declined for several reasons, including: higher than normal amortization of residential loans due to an attractive refinance market; closer management of revolving credits; purposeful exiting of troubled credits; partial charge-offs of some larger troubled loans to properly account for reasonable collateral value; regularly scheduled payoffs exceeding loan demand from qualified borrowers and reduced quality loan demand in the Company's market. Management believes the Company has sufficient liquidity to fund new loans.

The Company's holdings of "Alt-A" type mortgage loans such as adjustable rate and nontraditional type loans were inconsequential, amounting to less than 1.00% of the Company's loan portfolio as of March 31, 2011.

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

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

The following table details, as of March 31, 2011, the Company's loans with subprime characteristics that were secured by 1-4 family first mortgages, 1-4 family open-end and 1-4 family junior lien loans for which the Company has recorded a credit score in its system.

Loans Secured by 1 - 4 Family First Mortgages,
1 - 4 Family Open-end and 1 - 4 Family Junior Liens
(in thousands)

	Amount	Percent
Subprime	$ 23,624	20.6 %

Non-subprime		91,059	79.4	%
	$	114,683	100.0	%
Total loans	$	564,313		

Percentage of Real Estate-Secured Subprime Loans to Total Loans	4.19	%

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In addition to the subprime loans secured by real estate discussed above, as of March 31, 2011, the Company had an additional $3.5 million in subprime consumer loans that were either unsecured or secured by collateral other than real estate. Together with the subprime loans secured by real estate, the Company's total subprime loans as of March 31, 2011 were $27.1 million, amounting to 4.80% of the Company's total loans at March 31, 2011.

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

Average assets for the first three months of 2011 were $876.9 million compared to $926.1 million for the first three months of 2010. The reduction in average assets as of March 31, 2011 as compared to average assets as of March 31, 2010 was due mainly to the decline in average loans of $59.9 million, due to the factors impacting the loan portfolio identified above.

Total available-for-sale and held-to-maturity securities at March 31, 2011 was $198.0 million, a decrease of 4.85% from $208.0 million at December 31, 2010. Since loan demand continues to be slow and yields on investment securities are low, the Company has allowed higher cost time deposits and term repurchase agreements to mature without renewal. Through these balance sheet decisions on how to allocate excess liquidity, management has improved the Company's net interest margin by reducing higher-cost funding. The Company's goal is to provide maximum return on the investment portfolio within the framework of its asset/liability objectives. The objectives include managing interest sensitivity, liquidity and pledging requirements.

At March 31, 2011, noninterest-bearing and savings deposits were $13.7 million higher than comparable deposits at December 31, 2010. This strong increase in lower cost deposits is a direct result of sales efforts within the Company's retail, commercial and corporate banking areas.

In addition, the Company reduced its higher cost time deposits and repurchase agreement balances by $38.8 million since December 31, 2010. The Bank's repurchase agreements are fully collateralized by government agencies, providing customers with protection for funds that might otherwise exceed the limit for FDIC insurance coverage. The decrease in the level of these higher cost liabilities was primarily due to successful sales efforts aimed at increasing low-cost deposits, allowing the Bank to focus on customer relationships and not higher-cost funding sources to meet liquidity needs. This focus on obtaining lower cost funds has enabled to Company to improve its net interest margin.

Capital Resources

Total stockholders' equity as of March 31, 2011 was $81.4 million, up 0.58% from $81.0 million at December 31, 2010. Under applicable banking regulations, Total Capital is comprised of core capital (Tier 1) and supplemental capital (Tier 2). Tier 1 capital consists of common stockholders' equity and retained earnings less goodwill. Tier 2 capital consists of certain qualifying debt and a qualifying portion of the allowance for loan losses. The following is a summary of the Company's capital ratios at March 31, 2011. As shown below, these ratios were all well above the regulatory minimum levels, and demonstrate that the Company's capital position remains strong.

	2011 Regulatory Minimums	March 31, 2011
Tier 1	4.00%	13.18%
Total Capital	8.00%	14.44%

Tier 1 Leverage	4.00%	9.56%

Book value per share was $16.44 at March 31, 2011 up from $16.35 at March 31, 2010. Cash dividends were $247 thousand or $0.05 per share in the first quarter of 2011 and $492 thousand or $0.10 per share in the first quarter of 2010. The common stock of the Company has not been extensively traded.

Liquidity

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

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A major source of the Company's liquidity is its large stable deposit base. In addition, secondary liquidity sources are available through the use of borrowed funds if the need should arise, including secured advances from the FHLB. As of the end of the first quarter of 2011, the Company had $222.3 million in FHLB borrowing availability. The Company has available short-term unsecured borrowed funds in the form of federal funds lines with correspondent banks. As of the end of the first quarter of 2011, the Company had $25.0 million available in federal funds lines to handle any short-term borrowing needs.

In the current economic climate, the Company's availability sources of additional liquidity have tightened. Although the Company remains very liquid, two secondary sources of liquidity have become more limited. Available federal funds lines of credit decreased during 2010 as a result of more stringent requirements from correspondent banks. The Company could have maintained these lines if it was willing to pledge collateral, such as investment securities. Since the Company rarely utilizes these lines, management chose to keep a reserve of unpledged securities and allow the lines to be reduced. In the first quarter of 2011, a federal funds line was reinstated which increased the Company's total federal funds line of credit to $25 million from $15 million as of December 31, 2010. Management anticipates that as the economy improves, the requirements will continue to be relaxed and the remaining federal funds lines that were reduced will be readily available once again.

Similarly, the FHLB instituted more stringent requirements for securing advances. The FHLB is applying a discount rate to loans used as collateral to simulate the falling value of the properties securing those loans. Even with these additional collateral requirements, the Company still has more than sufficient collateral to pledge against outstanding FHLB advances.

Other than the decrease in federal funds lines of credit and the more stringent requirements for the FHLB advances, 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 affect on liquidity, capital resources or operations. The Company's internal sources of such liquidity are deposits, loan and investment repayments and securities available-for-sale. The Company's primary external source of liquidity is advances from the FHLB.

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

Contractual Obligations

In the normal course of business there are various outstanding contractual obligations of the Company that will require future cash outflows. In addition, there are commitments and contingent liabilities, such as commitments to extend credit that may or may not require cash outflows.

The Company has plans to expand the building of a current branch office. On January 25, 2011 the Company signed a contract with a general contractor for construction of the building. The contract entitles the contractor to the cost of construction plus a fee of 2.50%. The Company anticipates that the project will likely cost between $8.0 million and $10.0 million over the next two to three years. $64 thousand has been disbursed as of March 31, 2011.

As of March 31, 2011, other than those disclosed above, there have been no material changes outside the ordinary course of business in the Company's contractual obligations disclosed in the Company's 2010 annual report on Form 10-K.

Off-Balance Sheet Arrangements

As of March 31, 2011, there were no material changes in the Company's off-balance sheet arrangements disclosed in the Company’s 2010 annual report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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The Company determines the overall magnitude of interest sensitivity risk and then formulates policies governing asset generation and pricing, funding sources and pricing, and off-balance sheet commitments. These decisions are based on management's expectations regarding future interest rate movements, the state of the national and regional economy, and other financial and business risk factors. The Company uses computer simulations to measure the effect of various interest rate scenarios on net interest income. This modeling reflects interest rate changes and the related impact on net interest income and net income over specified time horizons.

Based on scheduled maturities only, the Company was liability sensitive as of March 31, 2011. It should be noted, however, that non-maturing deposit liabilities, which consist of interest checking, money market, and savings accounts, are less interest sensitive than other market driven deposits. At March 31, 2011, non-maturing deposit liabilities totaled $368.1 million or 53.69% of total deposit liabilities.

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

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

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

Under the rate environment forecasted by management, rate shocks in 50 to 100 basis point increments are applied to assess the impact on the Company's earnings at March 31, 2011. The rate shock model reveals that a 50 basis point decrease in rates would cause an approximate 0.72% annual decrease in net interest income. The rate shock model reveals that a 50 basis point rise in rates would cause an approximate 0.84% annual increase in net interest income and that a 100 basis point rise in rates would cause an approximate 2.55% increase in net interest income.

Item 4. Controls and Procedures.

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

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

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Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). No changes in the Company's internal control over financial reporting occurred during the fiscal quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Because of its inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes in the risk factors faced by the Company from those disclosed in the Company's 2010 annual report on Form 10-K.

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

Pursuant to the Company's stock option plans, participants may exercise stock options by surrendering shares of the Company's common stock that the participants already own. Shares surrendered by participants of these plans are repurchased at current market value pursuant to the terms of the applicable stock options. During the three months ended March 31, 2011, the Company did not repurchase any shares related to the exercise of stock options.

During the three months ended March 31, 2011, the Company did not repurchase any shares pursuant to the Company's stock repurchase program.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. [Removed and Reserved].

Item 5. Other Information.

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

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Item 6. Exhibits.

Exhibit No.	Description
3.1	Articles of Incorporation of Old Point Financial Corporation, as amended effective June 22, 2000 (incorporated by reference to Exhibit 3.1 to Form 10-K filed March 12, 2009)
3.2	Bylaws of Old Point Financial Corporation, as amended and restated March 8, 2011 (incorporated by reference to Exhibit 3.2 to Form 8-K filed March 10, 2011)
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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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OLD POINT FINANCIAL CORPORATION

May 13, 2011	/s/Robert F. Shuford, Sr Robert F. Shuford, Sr. Chairman, President & Chief Executive Officer (Principal Executive Officer)
May 13, 2011	/s/Laurie D. Grabow Laurie D. Grabow Chief Financial Officer & Senior Vice President/Finance (Principal Financial & Accounting Officer)