OLD POINT FINANCIAL CORP
Form 10-Q
May 07, 2010

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

# FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2010

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to _______

Commission File Number: 000-12896

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

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

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

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

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

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

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

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

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

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

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

4,925,910 shares of common stock ($5.00 par value) outstanding as of April 30, 2010

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, 2010 (unaudited) | December 31, 2009 |
|---|---|---|
| Assets | | |
| | | |
| Cash and due from banks | $ 11,990,803 | $ 13,223,901 |
| Federal funds sold | 56,475,149 | 34,412,097 |
| Cash and cash equivalents | 68,465,952 | 47,635,998 |
| Securities available-for-sale, at fair value | 188,892,924 | 173,774,953 |
| Securities held-to-maturity (fair value approximates $3,131,568 and $2,233,133) | 3,112,000 | 2,212,000 |
| Restricted securities | 4,814,700 | 4,814,700 |
| Loans, net of allowance for loan losses of $11,143,532 and $7,864,451 | 620,763,756 | 627,378,089 |
| Premises and equipment, net | 30,272,703 | 30,397,444 |
| Bank owned life insurance | 16,495,861 | 16,290,838 |
| Foreclosed assets, net of valuation allowance of $745,000 and $860,000 | 7,570,500 | 7,623,500 |
| Other assets | 11,475,510 | 11,294,719 |
| | $ 951,863,906 | $ 921,422,241 |
| | | |
| Liabilities & Stockholders' Equity | | |
| | | |
| Deposits: | | |
| Noninterest-bearing deposits | $ 122,888,141 | $ 111,636,590 |
| Savings deposits | 206,752,693 | 205,647,611 |
| Time deposits | 356,834,253 | 345,216,588 |
| Total deposits | 686,475,087 | 662,500,789 |
| Federal funds purchased and other borrowings | 1,312,958 | 1,018,559 |
| Overnight repurchase agreements | 52,664,621 | 49,560,402 |
| Term repurchase agreements | 63,864,042 | 59,858,542 |
| Federal Home Loan Bank advances | 65,000,000 | 65,000,000 |
| Accrued expenses and other liabilities | 2,033,063 | 1,875,496 |
| Total liabilities | 871,349,771 | 839,813,788 |
| | | |
| Commitments and contingencies | | |
| | | |
| Stockholders' equity: | | |
| Common stock, $5 par value, 10,000,000 shares authorized; 4,925,910 and 4,916,535 shares issued | 24,629,550 | 24,582,675 |
| Additional paid-in capital | 15,886,726 | 15,768,840 |
| Retained earnings | 41,058,825 | 42,518,889 |
| Accumulated other comprehensive loss | (1,060,966) | (1,261,951) |

| | | |
|---|---|---|
| Total stockholders' equity | 80,514,135 | 81,608,453 |
| Total liabilities and equity | $ 951,863,906 | $ 921,422,241 |

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Operations

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (unaudited) | |
| Interest and Dividend Income: | | |
| Interest and fees on loans | $ 9,486,216 | $ 9,416,606 |
| Interest on federal funds sold | 20,346 | 13,257 |
| Interest on securities: | | |
| Taxable | 804,256 | 659,582 |
| Tax-exempt | 93,883 | 159,314 |
| Dividends and interest on all other securities | 10,786 | 146,883 |
| Total interest and dividend income | 10,415,487 | 10,395,642 |
| | | |
| Interest Expense: | | |
| Interest on savings deposits | 94,979 | 94,691 |
| Interest on time deposits | 1,860,927 | 2,828,072 |
| Interest on federal funds purchased, securities sold under agreements to repurchase and other borrowings | 178,325 | 97,363 |
| Interest on Federal Home Loan Bank advances | 829,625 | 895,375 |
| Total interest expense | 2,963,856 | 3,915,501 |
| Net interest income | 7,451,631 | 6,480,141 |
| Provision for loan losses | 4,700,000 | 1,000,000 |
| Net interest income, after provision for loan losses | 2,751,631 | 5,480,141 |
| | | |
| Noninterest Income: | | |
| Income from fiduciary activities | 820,885 | 764,738 |
| Service charges on deposit accounts | 1,314,677 | 1,336,939 |
| Other service charges, commissions and fees | 690,817 | 612,374 |
| Income from bank owned life insurance | 388,845 | 176,015 |
| Gain on available-for-sale securities, net | 76 | 0 |
| Other operating income | 82,548 | 74,660 |
| Total noninterest income | 3,297,848 | 2,964,726 |
| | | |
| Noninterest Expense: | | |
| Salaries and employee benefits | 4,531,082 | 4,466,012 |
| Occupancy and equipment | 1,099,383 | 1,034,903 |
| FDIC insurance | 329,276 | 102,165 |
| Data processing | 296,655 | 249,250 |
| Customer development | 222,299 | 198,347 |
| Advertising | 175,985 | 171,494 |
| Loan expenses | 122,290 | 134,172 |
| Postage and courier expense | 135,621 | 137,203 |
| Employee professional development | 142,900 | 141,713 |
| Loss (gain) on write-down/sale of foreclosed assets | (46,260) | 67,316 |
| Other | 725,382 | 701,512 |

| | | | | |
|---|---|---|---|---|
| Total noninterest expense | | 7,734,613 | | 7,404,087 |
| Income (loss) before income taxes | | (1,685,134) | | 1,040,780 |
| Income tax expense (benefit) | | (739,507) | | 271,076 |
| Net income (loss) | $ | (945,627) | $ | 769,704 |
| | | | | |
| Basic Earnings (Loss) per Share: | | | | |
| Average shares outstanding | | 4,920,108 | | 4,907,010 |
| Net income (loss) per share of common stock | $ | (0.19) | $ | 0.16 |
| | | | | |
| Diluted Earnings (Loss) per Share: | | | | |
| Average shares outstanding | | 4,933,582 | | 4,933,018 |
| Net income (loss) per share of common stock | $ | (0.19) | $ | 0.16 |

See Notes to Consolidated Financial Statements.

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

| (unaudited) | Shares of Common Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|---|
| FOR THE THREE MONTHS ENDED MARCH 31, 2010 | | | | | | |
| Balance at beginning of period | 4,916,535 | $ 24,582,675 | $ 15,768,840 | $ 42,518,889 | $ (1,261,951) | $ 81,608,453 |
| Comprehensive loss: | | | | | | |
| Net loss | 0 | 0 | 0 | (945,627) | 0 | (945,627) |
| Unrealized holding gains arising during the period (net of tax, $103,512) | 0 | 0 | 0 | 0 | 200,935 | 200,935 |
| Reclassification adjustment (net of tax, $26) | 0 | 0 | 0 | 0 | 50 | 50 |
| Total comprehensive loss | 0 | 0 | 0 | (945,627) | 200,985 | (744,642) |
| Exercise of stock options | 9,375 | 46,875 | 89,450 | (32,724) | 0 | 103,601 |
| Disqualification of stock options | 0 | 0 | 0 | 10,503 | 0 | 10,503 |
| Stock compensation expense | 0 | 0 | 28,436 | 0 | 0 | 28,436 |
| Cash dividends ($0.10 per share) | 0 | 0 | 0 | (492,216) | 0 | (492,216) |
| Balance at end of period | 4,925,910 | $ 24,629,550 | $ 15,886,726 | $ 41,058,825 | $ (1,060,966) | $ 80,514,135 |
| FOR THE THREE MONTHS ENDED MARCH 31, 2009 | | | | | | |
| Balance at beginning of period | 4,905,229 | $ 24,526,145 | $ 15,506,322 | $ 43,250,906 | $ (385,463) | $ 82,897,910 |
| Comprehensive income: | | | | | | |
| Net income | 0 | 0 | 0 | 769,704 | 0 | 769,704 |
| Unrealized holding losses arising during the period (net of tax benefit, $150,616) | 0 | 0 | 0 | 0 | (292,373) | (292,373) |
| | 0 | 0 | 0 | 769,704 | (292,373) | 477,331 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total comprehensive income | | | | | | |
| Exercise of stock options | 2,812 | 14,060 | 35,253 | (21,719) | 0 | 27,594 |
| Stock compensation expense | 0 | 0 | 27,569 | 0 | 0 | 27,569 |
| Cash dividends ($0.17 per share) | 0 | 0 | 0 | (834,367) | 0 | (834,367) |
| Balance at end of period | 4,908,041 | $ 24,540,205 | $ 15,569,144 | $ 43,164,524 | $ (677,836) | $ 82,596,037 |

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | $ (945,627) | $ 769,704 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 500,371 | 458,359 |
| Provision for loan losses | 4,700,000 | 1,000,000 |
| Net gain on sale of available-for-sale securities | (76) | 0 |
| Net accretion and amortization of securities | 4,625 | (1,792) |
| Net (gain) loss on disposal of premises and equipment | 207 | (648) |
| Net (gain) loss on write-down/sale of foreclosed assets | (46,260) | 67,316 |
| Income from bank owned life insurance | (388,845) | (176,015) |
| Stock compensation expense | 28,436 | 27,569 |
| Deferred tax (benefit) expense | 14,025 | (170,000) |
| Increase in other assets | (551,533) | (922,901) |
| Increase in other liabilities | 157,567 | 929,340 |
| Net cash provided by operating activities | 3,472,890 | 1,980,931 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of available-for-sale securities | (58,478,191) | (66,665,868) |
| Purchases of held-to-maturity securities | (1,200,000) | 0 |
| Purchases of restricted securities | 0 | (23,650) |
| Proceeds from maturities and calls of securities | 37,273,195 | 25,116,192 |
| Proceeds from sales of available-for-sale securities | 6,687,000 | 1,350,000 |
| Decrease in loans made to customers | 1,914,333 | 7,318,522 |
| Proceeds from sales of foreclosed assets | 536,260 | 540,591 |
| Purchases of premises and equipment | (375,837) | (1,573,015) |
| Net cash used in investing activities | (13,643,240) | (33,937,228) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in noninterest-bearing deposits | 11,251,551 | (8,286,689) |
| Increase (decrease) in savings deposits | 1,105,082 | (2,731,485) |
| Increase in time deposits | 11,617,665 | 9,866,759 |
| Increase in federal funds purchased, repurchase agreements and other borrowings | 7,404,118 | 46,402,099 |
| Proceeds from exercise of stock options | 103,601 | 27,595 |
| Disqualification of stock options | 10,503 | 0 |
| Cash dividends paid on common stock | (492,216) | (834,367) |
| Net cash provided by financing activities | 31,000,304 | 44,443,912 |
| | | |
| Net increase in cash and cash equivalents | 20,829,954 | 12,487,615 |
| Cash and cash equivalents at beginning of period | 47,635,998 | 47,324,713 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period | $ 68,465,952 | $ 59,812,328 |
| | | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash payments for: | | |
| Interest | $ 3,030,651 | $ 3,838,331 |
| | | |
| SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS | | |
| Unrealized gain (loss) on investment securities | $ 304,523 | $ (442,989) |
| Loans transferred to foreclosed assets | $ 437,000 | $ 1,012,445 |

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. General

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

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

Available Information

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

Note 2. Securities

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | (in thousands) | | | |
| March 31, 2010 | | | | |
| Obligations of U.S. Government agencies | $ 2,700 | $ 5 | $ (8) | $ 2,697 |
| Obligations of state and political subdivisions | 412 | 23 | 0 | 435 |
| Total | $ 3,112 | $ 28 | $ (8) | $ 3,132 |
| | | | | |
| December 31, 2009 | | | | |
| Obligations of U.S. Government agencies | $ 1,800 | $ 4 | $ (7) | $ 1,797 |
| Obligations of state and political subdivisions | 412 | 24 | 0 | 436 |
| Total | $ 2,212 | $ 28 | $ (7) | $ 2,233 |

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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, 2010 | | | | |
| U.S. Treasury securities | $ 400 | $ 0 | $ 0 | $ 400 |
| Obligations of U.S. Government agencies | 178,932 | 603 | (387) | 179,148 |
| Obligations of state and political subdivisions | 6,850 | 113 | 0 | 6,963 |
| Mortgage-backed securities | 1,161 | 24 | 0 | 1,185 |
| Money market investments | 1,197 | 0 | 0 | 1,197 |
| Total | $ 188,540 | $ 740 | $ (387) | $ 188,893 |
| | | | | |
| December 31, 2009 | | | | |
| U.S. Treasury securities | $ 400 | $ 0 | $ 0 | $ 400 |
| Obligations of U.S. Government agencies | 161,645 | 341 | (446) | 161,540 |
| Obligations of state and political subdivisions | 8,702 | 124 | (1) | 8,825 |
| Mortgage-backed securities | 1,273 | 31 | 0 | 1,304 |
| Money market investments | 1,706 | 0 | 0 | 1,706 |
| Total | $ 173,726 | $ 496 | $ (447) | $ 173,775 |

Temporarily Impaired Securities

The following tables show 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, 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 | | | | | | |
| Debt securities: | | | | | | |
| Obligations of U.S. Government agencies | $ 387 | $ 77,856 | $ 0 | $ 0 | $ 387 | $ 77,856 |
| | | | | | | |
| Securities Held-to-Maturity | | | | | | |
| Obligations of U.S. Government agencies | $ 8 | $ 1,492 | $ 0 | $ 0 | $ 8 | $ 1,492 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total | $ | 395 | $ | 79,348 | $ | 0 | $ | 0 | $ | 395 | $ | 79,348 |

| | December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than Twelve Months | | More Than Twelve Months | | Total | |
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| | (in thousands) | | | | | |
| Securities Available-for-Sale | | | | | | |
| Debt securities: | | | | | | |
| Obligations of U. S. Government agencies | $ 446 | $ 49,589 | $ 0 | $ 0 | $ 446 | $ 49,589 |
| Obligations of state and political subdivisions | 1 | 859 | 0 | 0 | 1 | 859 |
| Total securities available-for-sale | $ 447 | $ 50,448 | $ 0 | $ 0 | $ 447 | $ 50,448 |
| | | | | | | |
| Securities Held-to-Maturity | | | | | | |
| Obligations of U. S. Government agencies | $ 7 | $ 893 | $ 0 | $ 0 | $ 7 | $ 893 |
| | | | | | | |
| Total | $ 454 | $ 51,341 | $ 0 | $ 0 | $ 454 | $ 51,341 |

U.S. Government and federal agency obligations

The U.S. Government agencies portfolio had fifteen investments with unrealized losses at March 31, 2010 and ten investments with unrealized losses at December 31, 2009. These unrealized losses were caused by increases in market interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and 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, 2010 or December 31, 2009.

Obligations of state and political subdivisions

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

Other-than-Temporarily Impaired Securities

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

The 2009 and 2010 unrealized losses relate to obligations of U.S. Government agencies and state and political subdivisions. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. The unrealized losses are a result of changes in market interest rates and not credit issues. Since the

Company has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary.

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

The FHLB paid a quarterly dividend for the second, third and fourth quarters of 2009. The FHLB filed its annual report on Form 10-K in late March 2010. According to the annual report, the FHLB's net income for 2009 was $283.5 million, a $29.7 million, or 11.70%, increase from net income for 2008. On April 29, 2010 the FHLB issued a press release on its earnings for the first quarter of 2010. Net income for the quarter ended March 31, 2010 was approximately $48 million, compared to a loss of $2 million for the same period in 2009. As of May 5, 2010, the FHLB had not yet made a determination on whether it would issue a dividend for the first quarter of 2010. The FHLB reported that it was in compliance with all of its regulatory capital requirements as of December 31, 2009. Restricted stock, including FHLB stock, is viewed as a long-term investment and the Company has the ability and the intent to hold this stock until its value is recovered. Therefore, the Company determined the FHLB stock was not impaired as of March 31, 2010.

Note 3. Loans

Loans at March 31, 2010 and December 31, 2009 are summarized as follows:

| | | March 31, 2010 | | December 31, 2009 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Mortgage loans on real estate: | | | | |
| Residential 1-4 family | $ | 99,874 | $ | 100,788 |
| Commercial | | 355,764 | | 345,753 |
| Construction | | 25,591 | | 30,696 |
| Second mortgages | | 17,802 | | 19,997 |
| Equity lines of credit | | 39,355 | | 39,192 |
| Total mortgage loans on real estate | | 538,386 | | 536,426 |
| Commercial loans | | 57,765 | | 60,353 |
| Consumer installment loans | | 30,966 | | 33,371 |
| Other | | 4,321 | | 4,626 |
| Total loans | | 631,438 | | 634,776 |
| Net deferred loan costs * | | 470 | | 466 |
| Less: Allowance for loan losses | | (11,144) | | (7,864) |
| Loans, net | $ | 620,764 | $ | 627,378 |

* Net deferred loan costs are part of second mortgages and commercial real estate

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

| | | March 31, 2010 | | December 31, 2009 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Impaired loans without a valuation allowance | $ | 5,198 | $ | 0 |
| Impaired loans with a valuation allowance | | 10,971 | | 1,105 |
| Total impaired loans | $ | 16,169 | $ | 1,105 |
| Valuation allowance related to impaired loans | $ | 3,000 | $ | 387 |
| Total nonaccrual loans | $ | 17,534 | $ | 4,917 |
| Total loans past-due ninety days or more and still accruing interest | $ | 266 | $ | 389 |

Note 4. Allowance for Loan Losses

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

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Balance, beginning of year | $ 7,864 | $ 6,406 |
| Recoveries | 225 | 937 |
| Provision for loan losses | 4,700 | 6,875 |
| Loans charged off | (1,645) | (6,354) |
| Balance, end of period | $ 11,144 | $ 7,864 |

Note 5. Share-Based Compensation

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

There were no options granted in 2010, 2009 or 2008.

On March 9, 2008, the Company’s 1998 stock option plan expired. Options to purchase 259,400 shares of common stock were outstanding under the Company’s 1998 stock option plan at March 31, 2010. The exercise price of each option equals the market price of the Company’s common stock on the date of the grant and each option’s maximum term is ten years.

Stock option plan activity for the three months ended March 31, 2010 is summarized below:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Options outstanding, January 1, 2010 | 271,275 | $ 18.59 | | |
| Granted | 0 | 0 | | |
| Exercised | (9,375) | 11.05 | | |
| Canceled or expired | (2,500) | 21.94 | | |
| Options outstanding, March 31, 2010 | 259,400 | $ 18.83 | 4.71 | $ 205 |
| Options exercisable, March 31, 2010 | 195,674 | $ 18.43 | 3.79 | $ 205 |

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, 2010. This amount changes based on changes in the market value of the Company’s stock.

The total proceeds of the in-the-money options exercised during the three months ended March 31, 2010 were $103,601. The total intrinsic value of options exercised during the same period was $32,724.

As of March 31, 2010, there was $285 thousand of unrecognized compensation cost related to nonvested options. This cost is expected to be recognized over a weighted-average period of 30 months.

Note 6. Pension Plan

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

| Quarter ended March 31, | 2010 | 2009 |
|---|---|---|
| | Pension Benefits | |
| Interest cost | $ 78,431 | $ 71,058 |
| Expected return on plan assets | (97,295) | (82,667) |
| Amortization of net loss | 31,702 | 25,861 |
| Net periodic pension plan cost | $ 12,838 | $ 14,252 |

At March 31, 2010, management had not yet determined how much, if any, the Company will contribute to the plan in the year ending December 31, 2010.

Note 7. Earnings per Share

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

The Company did not include 183 thousand potential common shares attributable to outstanding stock options in the diluted earnings per share calculation at March 31, 2010 because they were antidilutive.

Note 8. Recent Accounting Pronouncements

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

In June 2009, the FASB issued new guidance relating to variable interest entities (VIEs). The new guidance, which was issued as SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167), was adopted into Codification in December 2009. The objective of the guidance is to improve financial reporting by enterprises involved with VIEs and to provide more relevant and reliable information to users of financial statements. SFAS 167 is effective as of January 1, 2010. The Company does not expect the adoption of the new guidance to have a material impact on its consolidated financial statements.

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

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

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company does not expect the adoption of ASU 2010-06 to have a material impact on its consolidated financial statements.

In February 2010, the FASB issued ASU 2010-08, Technical Corrections to Various Topics (ASU 2010-08). ASU 2010-08 clarifies guidance on embedded derivatives and hedging. ASU 2010-08 is effective for interim and annual periods beginning after December 15, 2009. The Company does not expect the adoption of ASU 2010-08 to have a material impact on its consolidated financial statements.

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

Note 9. Fair Value Measurements

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Certain financial instruments and all nonfinancial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company's financial instruments.

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

| | March 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (in thousands) | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 68,466 | $ 68,466 | $ 47,636 | $ 47,636 |
| Securities available-for-sale | 188,893 | 188,893 | 173,775 | 173,775 |
| Securities held-to-maturity | 3,112 | 3,132 | 2,212 | 2,233 |
| Restricted securities | 4,815 | 4,815 | 4,815 | 4,815 |
| Loans, net of allowances for loan losses | 620,764 | 621,041 | 627,378 | 627,354 |
| Accrued interest receivable | 2,891 | 2,891 | 2,873 | 2,873 |
| | | | | |
| Financial liabilities: | | | | |
| Deposits | 686,475 | 688,099 | 662,501 | 664,625 |
| Federal funds purchased and other borrowings | 1,313 | 1,313 | 1,019 | 1,019 |
| Overnight repurchase agreements | 52,665 | 52,665 | 49,560 | 49,560 |
| Term repurchase agreements | 63,864 | 63,838 | 59,859 | 59,878 |
| Federal Home Loan Bank advances | 65,000 | 69,157 | 65,000 | 74,043 |
| Accrued interest payable | 1,383 | 1,383 | 1,449 | 1,449 |

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

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

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

Securities available-for-sale

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

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

| | | Fair Value Measurements at March 31, 2010 Using (in thousands) | | |
|---|---|---|---|---|
| Description | Balance | Quoted Prices in Active Markets for Identical Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Available-for-sale securities | $ 188,893 | $ 0 | $ 188,893 | $ 0 |

| | | Fair Value Measurements at December 31, 2009 Using (in thousands) | | |
|---|---|---|---|---|
| Description | Balance | Quoted Prices in Active Markets for Identical Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Available-for-sale securities | $ 173,775 | $ 0 | $ 173,775 | $ 0 |

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

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

Impaired loans

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

Foreclosed assets

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

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

| | | Carrying Value at March 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 | $ 7,971 | $ 0 | $ 6,521 | $ 1,450 |
| Foreclosed assets | $ 7,571 | $ 234 | $ 7,337 | $ 0 |

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

Note 10. Segment Reporting

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

| | 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 |

| | Three Months Ended March 31, 2009 | | | | |
|---|---|---|---|---|---|
| | | | Unconsolidated | | |
| | Bank | Trust | Parent | Eliminations | Consolidated |
| Revenues | | | | | |
| Interest and dividend income | $ 10,370,639 | $ 23,593 | $ 849,499 | $ (848,089) | $ 10,395,642 |
| Income from fiduciary activities | 0 | 764,738 | 0 | 0 | 764,738 |
| Other income | 2,105,863 | 108,451 | 75,000 | (89,326) | 2,199,988 |
| Total operating income | 12,476,502 | 896,782 | 924,499 | (937,415) | 13,360,368 |
| | | | | | |
| Expenses | | | | | |
| Interest expense | 3,919,416 | 0 | 0 | (3,915) | 3,915,501 |
| Provision for loan losses | 1,000,000 | 0 | 0 | 0 | 1,000,000 |
| Salaries and employee benefits | 3,823,851 | 505,191 | 136,970 | 0 | 4,466,012 |
| Other expenses | 2,772,650 | 208,876 | 47,555 | (91,006) | 2,938,075 |
| Total operating expenses | 11,515,917 | 714,067 | 184,525 | (94,921) | 12,319,588 |
| | | | | | |
| Income (loss) before taxes | 960,585 | 182,715 | 739,974 | (842,494) | 1,040,780 |
| | | | | | |
| Income tax expense (benefit) | 238,683 | 62,123 | (29,730) | 0 | 271,076 |
| | | | | | |
| Net income (loss) | $ 721,902 | $ 120,592 | $ 769,704 | $ (842,494) | $ 769,704 |
| | | | | | |
| Total assets | $ 877,141,505 | $ 5,960,775 | $ 82,843,798 | $ (85,103,073) | $ 880,843,005 |

The Bank extends a line of credit to the Parent; this line of credit is used primarily to repurchase the Parent's publicly traded stock. Interest is charged at the Wall Street Journal Prime Rate minus 0.5%, with a floor of 5.0%. This loan is secured by a held-to-maturity security with a book value of $412 thousand and a market value of $435 thousand. Both the Parent and the Trust companies maintain deposit accounts with the Bank, on terms substantially similar to those available to other customers. These transactions are eliminated to reach consolidated totals.

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

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

Caution About Forward-Looking Statements

In addition to historical information, this report may contain forward-looking statements. For this purpose, any statement that is not a statement of historical fact may be a forward-looking statement. These forward-looking statements may include statements regarding profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk, growth strategy and financial and other goals. Forward-looking statements often use words such as "believes," "expects," "plans," "may," "will," "should," "projects," "contemplates," "anticipates," "forecasts," "intends" or similar meaning. Forward-looking statements can also be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, and actual results could differ materially from historical results or those anticipated by such statements.

There are many factors that could have a material adverse effect on the operations and future prospects of the Company including, but not limited to, changes in interest rates, general economic and business conditions, the quality or composition of the loan or investment portfolios, the size of the provision for loan losses, the adequacy of the allowance for loan losses, the level of nonperforming assets and charge-offs, the local real estate market, 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 products, deposit flows, competition, and accounting principles, policies and guidelines. Monetary and fiscal policies of the U.S. Government could also adversely affect the Company; such policies include the impact of any regulations or programs implemented pursuant to the Emergency Economic Stabilization Act of 2008 (EESA), the American Recovery and Reinvestment Act of 2009 (ARRA) and other policies of the Office of the Comptroller of the Currency, U.S. Treasury and the Federal Reserve Board.

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

On May 22, 2009, the FDIC approved a final rule to impose a special assessment of 5 basis points on each bank's total assets minus Tier 1 capital in order to replenish the Deposit Insurance Fund. This special assessment plus higher quarterly assessments have impacted and will continue to impact the Company's performance by directly increasing expenses.

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

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

General

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

offices.   Trust is a wealth management services provider.

Critical Accounting Policies and Estimates

As of March 31, 2010, there have been no significant changes with regard to the critical accounting policies and estimates disclosed in the Company's 2009 annual report on Form 10-K. That disclosure included a discussion of the accounting policy that requires management's most difficult, subjective or complex judgments: the allowance for loan losses. In the first quarter of 2010, there was a slight change to the critical accounting estimate for the allowance for loan losses in the period used to calculate the historic loss. See the Allowance for Loan Loss section in this Management's Discussion and Analysis for more details about this slight change.

Earnings Summary

Net loss for the first quarter of 2010 was $946 thousand as compared with net income of $770 thousand earned in the first quarter of 2009, a decrease of $1.7 million or 222.86%. During the first quarter of 2010, the Company increased its loan loss provision to $4.7 million compared to $1.0 million in the first quarter of 2009. The increase to the loan loss provision was made to ensure that the Company has adequately provided for potential loan losses due largely to ongoing difficulty in the commercial real estate sector. In addition, the cost of FDIC insurance increased by $227 thousand over the first quarter of 2009. Basic and diluted losses per share for the first quarter of 2010 were $0.19. Basic and diluted earnings per share for the first quarter of 2009 were $0.16.

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 $7.5 million in the first quarter of 2010, an increase of $936 thousand from the first quarter of 2009. The net interest yield was 3.51% in the first quarter of 2010 and 3.35% in the first quarter of 2009. The net interest yield was higher in the first quarter of 2010 as compared to the first quarter of 2009, because the cost of average interest-bearing liabilities decreased by 34 basis points more than the yield on average earning assets decreased.

Tax-equivalent interest income decreased by only $15 thousand, or 0.14%, in the first quarter of 2010 compared to the same period of 2009. Average earning assets grew $70.2 million, or 8.93%, compared to the first quarter of 2009. Interest expense decreased $951 thousand, or 24.29%, and average interest-bearing liabilities increased by $77.2 million, or 11.98% in the first quarter of 2010 compared to the same period of 2009.

The yield on average earning assets and cost of average interest-bearing liabilities both decreased due to the Federal Open Market Committee (FOMC) lowering the Federal Funds Target Rate during 2008 from 4.25% to a range of 0.00% to 0.25%. The FOMC has kept the Federal Funds Target Rate unchanged during 2009 and the first quarter of 2010. As higher yielding earning assets and higher-cost interest-bearing liabilities that were booked prior to 2008 mature, they are being replaced with lower yielding earning assets and lower cost interest-bearing liabilities.

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

AVERAGE BALANCE SHEETS, NET INTEREST INCOME* AND RATES*

| | For the quarter ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | | 2010 | | | 2009 | |
| | Average Balance (in thousands) (unaudited) | Interest Income/ Expense | Yield/ Rate** | Average Balance | Interest Income/ Expense | Yield/ Rate** |
| Loans* | $ 632,585 | $ 9,502 | 6.01% | $ 634,835 | $ 9,433 | 5.94% |
| Investment securities: | | | | | | |
| Taxable | 171,106 | 804 | 1.88% | 91,563 | 660 | 2.88% |
| Tax-exempt* | 7,902 | 142 | 7.19% | 13,901 | 241 | 6.93% |
| Total investment securities | 179,008 | 946 | 2.11% | 105,464 | 901 | 3.42% |
| Federal funds sold | 38,750 | 20 | 0.21% | 22,869 | 13 | 0.23% |
| Other investments | 6,366 | 11 | 0.69% | 23,331 | 147 | 2.52% |
| Total earning assets | 856,709 | $ 10,479 | 4.89% | 786,499 | $ 10,494 | 5.34% |
| Allowance for loan losses | (8,083) | | | (6,458) | | |
| Other nonearning assets | 77,467 | | | 64,446 | | |
| Total assets | $ 926,093 | | | $ 844,487 | | |
| | | | | | | |
| Time and savings deposits: | | | | | | |
| Interest-bearing transaction accounts | $ 10,611 | $ 2 | 0.08% | $ 9,308 | $ 2 | 0.09% |
| Money market deposit accounts | 150,439 | 81 | 0.22% | 131,124 | 79 | 0.24% |
| Savings accounts | 43,302 | 12 | 0.11% | 39,403 | 14 | 0.14% |
| Time deposits, $100,000 or more | 198,820 | 711 | 1.43% | 136,219 | 1,051 | 3.09% |
| Other time deposits | 147,555 | 1,150 | 3.12% | 203,879 | 1,777 | 3.49% |
| Total time and savings deposits | 550,727 | 1,956 | 1.42% | 519,933 | 2,923 | 2.25% |
| Federal funds purchased, repurchase agreements and other borrowings | 105,990 | 178 | 0.67% | 54,590 | 97 | 0.71% |
| Federal Home Loan Bank advances | 65,000 | 830 | 5.11% | 70,000 | 895 | 5.11% |
| Total interest-bearing liabilities | 721,717 | 2,964 | 1.64% | 644,523 | 3,915 | 2.43% |
| Demand deposits | 119,263 | | | 113,729 | | |
| Other liabilities | 2,721 | | | 3,118 | | |
| Stockholders' equity | 82,392 | | | 83,117 | | |
| Total liabilities and stockholders' equity | $ 926,093 | | | $ 844,487 | | |
| Net interest income/yield | | $ 7,515 | 3.51% | | $ 6,579 | 3.35% |

*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.

The provision for loan losses was $4.7 million in the first quarter of 2010, as compared to $1.0 million in the first quarter of 2009. This additional expense was 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 increase in the provision for loan losses was primarily due to two reasons. First, a lending relationship of $9.4 million was placed in nonaccrual. This loan is secured by commercial real estate and other collateral that have a combined value of $6.6 million, leaving an unsecured amount of $2.8 million. Second, management changed the historical loss calculation of the allowance for loan losses to focus on the more recent nine quarters to reflect the current economic environment. For more information regarding the change of the historical loss calculation, see the Allowance for Loan Losses section of this form 10Q. Management believes that the large increase in the provision for the first quarter will not continue and the provision should be lower in the future.

Net loans charged off were $1.4 million for the first quarter of 2010 as compared to $392 thousand for the first quarter of 2009. On an annualized basis, net loan charge-offs were 0.90% of total loans for the first three months of 2010 compared with 0.25% for the same period in 2009. Net loan charge-offs have increased reflecting ongoing difficulty in the commercial real estate sector. Management believes that net loans charged-off will remain at this historically high level until the economy is well into recovery.

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, 2010, the Company had one restructured loan that was still accruing interest. This loan is secured by commercial real estate. The customer entered into a forbearance agreement in 2009 and is currently in compliance with the terms of this agreement. Foreclosed assets is real estate from foreclosures of collateral of loans. $266 thousand of the Company’s nonperforming loans consist of loans 90 days past due but still accruing interest, with $68 thousand of such loans secured by real estate. 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 “90 days past due but still accruing interest” to “nonaccrual” status, the loan is reviewed for impairment. If the loan is considered impaired, then the difference between the value of the collateral and the principal amount outstanding on the loan is charged off. If the Company is waiting on an appraisal to determine the collateral’s value, management allocates funds to cover the deficiency to the allowance for loan losses based on information available to management at the time.

The following table presents information concerning nonperforming assets:

NONPERFORMING ASSETS

| | March 31, 2010 (unaudited) (in thousands) | December 31, 2009 | Increase (Decrease) |
|---|---|---|---|
| Nonaccrual loans | | | |
| Commercial | $ 178 | $ 255 | $ (77) |
| Real estate-construction | 524 | 524 | 0 |
| Real estate-mortgage | 16,817 | 4,109 | 12,708 |
| Installment loans to individuals | 15 | 29 | (14) |
| Total nonaccrual loans | $ 17,534 | $ 4,917 | $ 12,617 |
| Loans past due 90 days or more and accruing interest | | | |
| Commercial | $ 25 | $ 40 | $ (15) |
| Real estate-mortgage | 68 | 228 | (160) |
| Installment loans to individuals | 169 | 117 | 52 |
| Other | 4 | 4 | 0 |
| Total loans past due 90 days or more and accruing interest | $ 266 | $ 389 | $ (123) |
| Restructured loans (accrual) | | | |
| Real estate-mortgage | $ 2,480 | $ 0 | $ 2,480 |
| Total restructured loans (accrual) | $ 2,480 | $ 0 | $ 2,480 |
| Foreclosed assets | | | |
| Real estate-construction | $ 5,150 | $ 5,149 | $ 1 |
| Real estate-mortgage | 2,421 | 2,474 | (53) |
| Total foreclosed assets | $ 7,571 | $ 7,623 | $ (52) |
| Total nonperforming assets | $ 27,851 | $ 12,929 | $ 14,922 |

The large increase in the nonaccrual loan category is mainly due to one credit relationship of $9.4 million or 74.60% of the $12.6 million total increase in that category. This loan is secured by commercial real estate and other collateral that have a combined value of $6.6 million. The majority of the balance of nonaccrual loans is related to a few large credit relationships. Of the $17.5 million of nonaccrual loans at March 31, 2010, $16.5 million or 94.29% was comprised of six credit relationships: the $9.4 million relationship discussed above and five other relationships of $2.2 million, $2.1 million, $1.6 million, $688 thousand and $524 thousand.

Management believes that the increase in nonperforming assets could continue to have a negative effect on the Company's condition if current economic conditions do not improve. As was seen in the quarter ended March 31, 2010, the effect 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. Management will work with customers that are having difficulties meeting their loan payments, and considers foreclosure a last resort.

As reflected in the $14.9 million increase in nonperforming assets during the first three months of 2010, the quality of the Company's loan portfolio declined. Due to this decline, management has increased the allowance for loan losses to $11.1 million as of March 31, 2010 as compared to a balance of $7.9 million as of December 31, 2009. As of March 31, 2010, the allowance for loan losses was 40.01% of nonperforming assets and 54.95% of nonperforming loans. The definition of nonperforming loans is nonperforming assets less foreclosed assets. The allowance for loan losses was 1.76% of total loans on March 31, 2010 and 1.24% of total loans on December 31, 2009.

Allowance for Loan Losses

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

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

Historical loss rates, adjusted for the current environment, are applied to the above five pools of loans, except for doubtful and substandard loans which have losses specifically calculated on an individual loan basis. Historical loss is one of the components of the allowance. The historical loss for the first quarter of 2010 is based on the past nine quarters. In prior periods, the historical loss was based on the past four years. In management's opinion, this change more accurately reflects the loss potential of the loan portfolio in the current economic environment. The historical loss component of the allowance amounted to $3.8 million as of March 31, 2010. Under the original four-year historical loss method, this component would have been $680 thousand lower, or $3.1 million as of March 31, 2010.

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, increases in nonperforming loans are reflected as an increase in the allowance for loan losses.

The majority of the Company's nonperforming loans are collateralized by real estate. When reviewing loans for impairment or when the Company takes loan collateral due to loan default, it obtains current appraisals. Any loan balance that is in excess of the appraised value is allocated in the allowance. In the current real estate market, appraisers are having difficulty finding comparable sales, which is causing some appraisals to be very low and in some cases involving construction the properties cannot be completed for the amount at which they are being appraised. 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, 2010, the impaired loan component of the allowance amounted to $3.0 million and is reflected as a valuation allowance related to impaired loans in Note 3 of the Notes to Consolidated Financial Statements included in this Form 10-Q.

The final component of the allowance consists of qualitative factors and includes items such as the economy, growth trends, concentrations, and legal and regulatory changes. Due to the decline in the overall economy in 2008 and 2009, management increased the component of the allowance for loan losses related to the economy in each of the loan portfolios in 2009. This component remains at this level for the first quarter of 2010. The qualitative component of the allowance amounted to $4.3 million as of March 31, 2010.

As a result of these changes and the overall increase in nonperforming assets, the Company added $4.7 million to the allowance for loan losses in the first three months of 2010. Management is concerned about the changes in the 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 necessary.

Noninterest Income

For the first quarter of 2010, noninterest income increased $333 thousand, or 11.24%, as compared to the same period in 2009. This increase was due to several factors. $56 thousand of the increase was due to higher income from fiduciary activities. The majority of the $78 thousand increase in other service charges, commission and fees was related to higher income from debit card and ATM fees. Income from bank owned life insurance increased $213

thousand, due to the receipt of bank owned life insurance proceeds and additional insurance purchased in 2009.

Noninterest Expense

For the first quarter of 2010, noninterest expense increased $331 thousand, or 4.46%, over the first quarter of 2009. The largest portion of the increase in noninterest expense was related to FDIC insurance costs. In the first quarter of 2010, FDIC insurance expense was $227 thousand higher than the same period in 2009. Salaries and employee benefits increased only $65 thousand or 1.46%. Loss (gain) on write-down/sale of foreclosed assets was $114 thousand less in the first quarter of 2010 as compared to the first quarter of 2009. The Company does not anticipate that this trend will continue.

As in 2009, management is keenly aware of the need to improve net income and continues to monitor expenses.

Balance Sheet Review

At March 31, 2010, the Company had total assets of $951.9 million, an increase of 3.30% from $921.4 million at December 31, 2009. Net loans as of March 31, 2010 were $620.8 million, a decrease of 1.05% from $627.4 million at December 31, 2009. The decrease in loans was partly due to the net increase of $3.3 million of the allowance for loan losses. The Company has ample 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, 2010.

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

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

The following table details, as of March 31, 2010, the Company's loans with subprime characteristics that were secured by 1-4 family first mortgages, 1-4 family open-end and 1-4 family junior lien loans for which the Company has recorded a credit score in its system.

Loans Secured by 1 - 4 Family First Mortgages,
1 - 4 Family Open-end and 1 - 4 Family Junior Liens

| | | Amount | Percent |
|---|---|---|---|
| Subprime | $ | 26,049,942 | 20.4% |
| Non subprime | | 101,889,046 | 79.6% |
| | $ | 127,938,988 | 100.0% |
| | | | |
| Total loans | $ | 631,907,288 | |
| Percentage of Real-Estate Secured Subprime Loans to Total Loans | | | 4.12% |

In addition to the subprime loans secured by real estate discussed above, as of March 31, 2010, the Company had an additional $5.5 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, 2010 were $31.5 million, amounting to 4.99% of the Company's total loans at March 31, 2010. The Company's total subprime loans as of December 31, 2009 were $33.1 million or 5.20% of the Company's total loans. There has been a reduction of $1.6 million or 21 basis points in the first quarter of 2010 in subprime loans.

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

Average assets for the first three months of 2010 were $926.1 million compared to $844.5 million for the first three months of 2009. The growth in average assets in 2010 was due to the growth in average investment securities, which increased 69.73% as compared to the same period in 2009. A portion of this strong growth was due to the $17.6 million of funds that were in other investments as of March 31, 2009 maturing and being replaced with investment securities as of March 31, 2010.

Total available-for-sale and held-to-maturity securities at March 31, 2010 were $192.0 million, an increase of 9.10% from $176.0 million at December 31, 2009. Since loan demand has slowed this year, the Company has increased its security holdings. The Company's goal is to provide maximum return on the investment portfolio within the framework of its asset/liability objectives. The objectives include managing interest sensitivity, liquidity and pledging requirements.

At March 31, 2010, total deposits increased by $24.0 million or 3.62% from $662.5 million at December 31, 2009. In addition to strong deposit growth, the Company experienced strong growth in its repurchase agreements. Repurchase agreements and other borrowings increased $7.4 million, or 6.70% since December 31, 2009. The Bank's repurchase agreements are fully collateralized by government agencies, providing customers with protection for funds that might otherwise exceed the limit for FDIC insurance coverage.

Capital Resources

Under applicable banking regulations, Total Capital is comprised of core capital (Tier 1) and supplemental capital (Tier 2). Tier 1 capital consists of common stockholders' equity and retained earnings less goodwill. Tier 2 capital consists of certain qualifying debt and a qualifying portion of the allowance for loan losses. The following is a summary of the Company's capital ratios at March 31, 2010. As shown below, these ratios were all well above the regulatory minimum levels.

| | 2010 Regulatory Minimums | March 31, 2010 |
|---|---|---|
| Tier 1 | 4.00% | 11.67% |
| Total Capital | 8.00% | 12.93% |
| Tier 1 Leverage | 4.00% | 8.81% |

First quarter-end book value per share was $16.35 in 2010 and $16.83 in 2009. Cash dividends were $492 thousand or $0.10 per share in the first quarter of 2010 and $834 thousand or $0.17 per share for the first quarter of 2009. The common stock of the Company has not been extensively traded.

Liquidity

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

A major source of the Company's liquidity is its large stable deposit base. In addition, secondary 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 2010, the Company had $219.2 million in FHLB borrowing availability. The Company has available short-term unsecured borrowed funds in the form of federal funds with correspondent banks. As of the end of the first quarter of 2010, the Company had $27.6 million available in federal funds to handle any short-term borrowing needs.

Management is aware of the current market and institutional trends, events and uncertainties, including market disruptions and significant restrictions on availability of capital in the U.S. and global economies. However, management does not expect the trends, events and uncertainties to have a material effect on the liquidity or capital resources of the Company. Management is not aware of any current recommendations by regulatory authorities that would have a material effect on liquidity or capital resources. 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. The Company has not signed a contract with a general contractor for this project as of the filing of this Form 10-Q but anticipates that the project will likely cost between $6.0 and $8.0 million over the next three years.

As of March 31, 2010, there have been no material changes outside the ordinary course of business in the Company's contractual obligations disclosed in the Company's 2009 annual report on Form 10-K.

Off-Balance Sheet Arrangements
As of March 31, 2010, there were no material changes in the Company's off-balance sheet arrangements disclosed in the Company's 2009 annual report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

Based on scheduled maturities only, the Company was liability sensitive as of March 31, 2010. It should be noted, however, that non-maturing deposit liabilities, which consist of interest checking, money market, and savings accounts, are less interest sensitive than other market driven deposits. At March 31, 2010, non-maturing deposit liabilities totaled $329.6 million or 48.02% 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 see the impact on the Company's earnings at March 31, 2010. The rate shock model reveals that a 50 basis point decrease in rates would cause an approximate 0.81% annual decrease in net interest income. The rate shock model reveals that a 50 basis point rise in rates would cause an approximate 0.98% annual increase in net interest income and that a 100 basis point rise in rates would cause an approximate 2.45% increase in net interest income.

Item 4. Controls and Procedures.

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

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

Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). No changes in the Company's internal control over financial reporting occurred during the fiscal quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

There are no pending or threatened 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.

As of March 31, 2010, there have been no material changes in the risk factors faced by the Company from those disclosed in the Company's 2009 annual report on Form 10-K.

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

The Company did not repurchase any shares of the Company's common stock during the quarter ended March 31, 2010.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. [Removed and Reserved].

Item 5. Other Information.

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

Item 6. Exhibits.

| Exhibit No. | Description |
|---|---|
| 3.1 | Articles of Incorporation of Old Point Financial Corporation, as amended effective June 22, 2000 (incorporated by reference to Exhibit 3.1 to Form 10-K filed March 12, 2009) |
| 3.2 | Bylaws of Old Point Financial Corporation, as amended and restated September 11, 2007 (incorporated by reference to Exhibit 3.2 to Form 8-K/A filed September 20, 2007) |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

SIGNATURES

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

| | OLD POINT FINANCIAL CORPORATION |
|---|---|
| May 7, 2010 | /s/Robert F. Shuford, Sr.<br>Robert F. Shuford, Sr.<br>Chairman, President & Chief Executive Officer<br>(Principal Executive Officer) |
| May 7, 2010 | /s/Laurie D. Grabow<br>Laurie D. Grabow<br>Chief Financial Officer & Senior Vice President/<br>Finance<br>(Principal Financial & Accounting Officer) |